

## Api Power Company Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed initial public offering of Api Power Company Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed initial public offering (IPO) of Api Power Company Limited (APCL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative better position within the Grading categories concerned. APCL is proposing to come out with an Initial Public Offer of 4,000,000 numbers of equity shares of face value NRs 100/- each share.

The assigned grading factors in rich experience of the promoters and management personnel in the field of hydropower, with the group companies having an operational hydropower capacity of 5.9 MW with the first project of the group getting operational in 2003. APCL’s under development 8.5 MW SHEP (Small Hydroelectric Project) in Darchula district has achieved significant progress in terms of civil works (almost 65% complete) which reduces the risks of geological surprises which are inherent in hydro power projects. With a firm PPA in place, the tariff and off-take risks are reduced considerably for the project. In addition, as the promoters have infused substantial equity upfront (NPR 600 million as against NPR 420 million requirement for the project) which is expected to help the company save on its IDC (Interest During Construction) costs. These strengths are however tempered by the counterparty credit risks arising out of exposure to NEA for the energy supplied, although the same is partly mitigated as the NEA is fully owned by the Government. Presence of an alternate 33 kV line at the Balanch substation where the project power will be feeded in to the grid is a source of comfort and buffers the project against any delay in commissioning of 132 kV line being developed by NEA. The project is also entitled to a higher tariff of NPR 4.8 per kWhr for wet season and NPR 8.4 per kWhr for dry season if the project is completed by Chaitra 2071 (mid-Apr-15). Grading concerns emanate from the typical implementation risks such as natural calamities, increase in time and cost estimates on account of difficult conditions which can potentially impact the project return indicators. Further, since the revenues are directly linked to unit sales, any loss of generation on account of shortage of water or silting can negatively impact the project earnings and return indicators. Going forward, ability of the company to commission within the budgeted time and cost estimates and also availability of sufficient hydrology will be the key parameters which can impact returns of the project.

APCL is constructing a 8.5 MW small hydropower run of the river project in Naugarh river (Naugarh HEP) in Dethala VDC of Darchula District in the Far Western Development Region of Nepal. This river originates from the Api Himalayan Range and is a tributary of Chameliya River. The electricity generated from this project shall be connected to newly constructed Balanch Substation of Nepal Electricity Authority. A Power Purchase Agreement (PPA) was signed on B.S 2067/01/19 (2<sup>nd</sup> May 2010) with the Nepal Electricity Authority (NEA). As per the terms of the PPA, the tariff for wet season is NPR 4 per kWhr and for dry season is NPR 7 per kWhr with 3% escalation for 9 years. The Power Generation License has been obtained from the Ministry of Energy on B.S 2068/12/10. Initial Environmental Examination (IEE) report has been approved by the Ministry of Energy.

The scheme of the project consists of a 30m long and 10 m high diversion wier, 2m dia open penstock pipe of length 4.5 m, settling basin, powerhouse and tail race canal. The electricity will be generated through 2 x 4.25 MW Horizontal Axis Francis turbine and the rated generation voltage will be 6.6 kV which will be stepped up to 132 kV for transmission over a 5 km transmission line from the switchyard of the project to the ‘Balanch’ substation being constructed by NEA. A 33 kV line already exists at the



substation; hence if the 132kV line is not available at the time of Project COD<sup>1</sup> (expected Mid-Apr-2015), power can be evacuated over the 33kV line.

The cost of the project is around NPR 1400 million which is being funded through bank loans of NPR 980 million and balance through equity of NPR 420 million. The promoters have already brought in NPR 600 million and intends to raise additional NPR 400 million through an IPO. The equity capital is in access of the project requirement and will be utilized to develop another 8 MW project (Upper Naugarh) on the same river. The construction will begin post completion of 8.5 MW Naugarh HEP. The group is also developing 25 MW Arun Kabeli project and 9.9 MW Iwa Khola project and has plans to develop 24.5 MW Upper Chameliya HEP. Additional funds raised will be infused in these projects (mainly upper Naugarh 8 MW).

The contract for civil works of the project has been awarded to Makalu Developers Limited (company promoted by same group), Hydro- mechanical contract has been awarded to Structo Udeco JV, Nepal, and Electro-mechanical works contract has been awarded to Andritz Hydro Pvt Ltd, India. Overall 65% progress achieved in Civil Works till date. Diversion wier and Cut off works have been completed, concreting works currently in progress in Desander Chamber (2 in number), to be completed by November 2014, power house foundation work has been completed and the tail race too has been completed. Of the NPR 820 million costs incurred (including advances & investment) till mid -October 2014, ~NPR 223 million has been funded through external bank borrowings and balance from promoters' equity.

## Company Profile

Api Power Company Ltd was established in B.S 2060 Ashad 5th (19th June 2003) as private limited company being subsidiary of South Asia Engineering Pvt. Ltd under Company Act 2053. Later on the company has been converted as public limited company with major restructuring in the shareholding pattern on Jul-2013. The basic objective of the company is to generate electricity through utilization of water and other natural resources abundantly available in the country. The company was established by the same promoters of Arun Hydropower Group<sup>2</sup>, one of the leading private sector hydropower group. The company is developing 8.5 MW Naugarh hydro electric project. The company has got a generation license for 35 years which includes the period of construction. The project is being developed on Build Own Operate Transfer (BOOT) basis. The total project cost is around NPR 1400 million to be funded in debt to equity ratio of 70:30. Expected COD for the project is Chaitra 2071 (min-Apr-2015).

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<sup>1</sup> Commercial Operation Date

<sup>2</sup> Arun Hydropower Group is one of the established Group in Nepal owned majority of the shareholding by Guru Prasad Neupane including his relatives.



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