

Ghalemdi Hydro Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Initial Public Offering (IPO) of Ghalemdi Hydro Limited

Instrument/Facility	Issue Size	Grading Action (December 2017)
IPO (equity) Grading	NPR 165 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below average fundamentals to the proposed Initial Public Offering (IPO) of Ghalemdi Hydro Limited (GHL). 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. GHL is proposing to come out with an Initial Public Offer of 1,650,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 550,000 shares will be firstly issued to project affected areas while remaining 1,100,000 shares will be later issued to general public and staff of GHL.

The assigned grading takes into account the relatively weak return potential of the 5 MW¹ Ghalemdi Khola hydro-electric project (HEP) being developed by GHL. The project returns are expected to remain low on account of lower tariff escalations for initial capacity of 4 MW², relatively high project cost of NPR 188 million per MW and also over capitalization (debt equity of 41:59 post IPO). Evacuation risk also remains a concern given that the proposed Dana substation for the project is currently in initial stages of development; and the alternative evacuation arrangement through 33 kVA Gharap Substation could result in significant tripping losses especially in wet season and hence causing substantial revenue loss to GHL. Grading concerns also emanate from absence of deemed generation clause in PPA and interest rate volatility in the market which could impact the project earnings and returns. The project is also exposed to cost and time overrun risk (compared to current estimates), hydrology risk and the counterparty credit risks arising out of exposure to loss-making Nepal Electricity Authority (NEA) for the energy supplied, although the same is partly mitigated by the fact that NEA is fully owned by the Government and has been making timely payments to Independent Power Producers (IPPs) so far which provides some comfort.

Nonetheless, the grading takes into account the construction progress achieved in the project (~65% complete as of mid-Oct-17) which reduces execution risks to a large extent. The project is expected to be delayed by ~1 year compared to Required Commercial Operation Date (RCOD)³. Any further delays and cost escalations could result in lower tariff escalations, significant late COD penalties, reduced project life and hence could further impact the return indicators and project profile.

5 MW Ghalemdi Khola HEP is a run of river (RoR) project located in Ghalemdi River at Myagdi district of Western Nepal. The project has a catchment area of ~85 sq. km that is expected to support the design discharge of 3.50 cumecs at 41.40% exceedance flow. As per the terms of the PPA, the tariff for wet season is NPR 4.8 per kWhr and for dry season⁴ is NPR 8.4 per kWhr with 3% escalation on base tariff for five years for 4 MW capacity and for eight years for additional 1 MW capacity. Delay in project completion by more than 6 months compared to RCOD would result in one lower escalation for each 12-month successive delays. The contract Plant Load Factor (PLF) of the project is ~66% with annual production capacity of ~29 GWh energy. The power generated from this project is to be evacuated via 3.2 km, 33 kVA transmission line to proposed NEA Dana substation of Kaligandaki Corridor which however is in preliminary stages of development. Hence, for the time being, the power would be evacuated to 33 kVA Gharap substation and hence the project could face tripping problems in wet seasons causing significant loss of revenue.

Initially budgeted at a cost of NPR 714 million for 4 MW capacity (per MW cost of ~NPR 179 million), the cost has since escalated to NPR 940 million for upgraded capacity (NPR 188 million per MW) due to

¹ Earlier 4 MW; upgraded to 5 MW after powerhouse reallocation following the Apr-2015 earthquake; generation license of the incremental capacity is yet to be received.

² 5 escalations for 4 MW capacity against 8 escalations for additional 1 MW capacity.

³ 4 MW has RCOD of 16th November 2017 and additional 1 MW has RCOD of 19th August 2020.

⁴ Mid-December to mid-April are dry season period; rest being wet season.

delayed project completion on account of April 2015 earthquake and elongated border blockades impacting the project development in one way or other. Increase in project cost due to time overrun, lower tariff escalations for 4 MW capacity results in subdued revenues and hence lower return prospects. The project is being funded in debt: equity mix of ~41:59 vs. original planned funding mix of 65:35. Against sanctioned loan limit of NPR 550 million, GHL would only be utilising NPR 390 million owing to increased equity after IPO.

As of mid-Oct 2017, ~65% financial progress has been achieved commensurate to similar physical progress. Although, management plans to commission the project by mid-Jul-2018 as against the revised RCOD of 16th November 2017, there could be some delays (~3 months) in project commissioning as some critical components⁵ remains to be completed. Of the NPR 583 million cost incurred till mid-Oct 2017, ~NPR 290 million has been funded through external bank borrowings and balance from promoters' equity. The promoters have infused equity of NPR 385 million (representing 70% of post IPO capital) while remaining equity is to be raised through IPO. Management plans to utilise incoming equity towards project completion. The project is entitled for capital subsidy of NPR 5.5 million per MW provided that it is able to connect to national grid within FY 2017/18 (NPR 5 million per MW if connected thereafter).

Going forward, the ability of the company to commission the project at current cost and time estimates and also the ability to achieve its design operating parameters will be the key driver for the project returns.

Company Profile

Incorporated in 5th Jan 2014 as a public limited company, Ghalemdi Hydro Limited (GHL) has a large promoter base of 1,302 promoters accounting for entire paid up capital of the company as of mid-Jul-17. Major promoters of GHL include CEMAT Power P. Ltd. (2.60%), Mr. Narayan Babu Adhikari (2.60%), Mr. Kishor Subedi (2.40%), among others. The promoter holding after proposed IPO is expected to dilute to 70%, assuming full subscription. The shares of the company are proposed to be listed in the stock exchange post proposed IPO.

GHL has one under construction hydropower project- 5MW Ghalemdi Khola HEP, located in Narchyang VDC of Myagdi district. The project is ~65% complete as of mid-Oct-17 and the management expects to start commercial operations from mid-Jul-18. The management plans to use the IPO proceeds as a part of equity towards project completion.

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For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)

kishor@icranepal.com

Mr. Rajib Maharjan, (Tel No. +977-1-4419910/20)

rajib@icranepal.com

Relationship Contacts:

Mr. Tulasi R Gautam, (Tel. No. +977-1-4419910/20)

trgautam@icranepal.com

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⁵ Powerhouse construction, electromechanical equipment installation and penstock alignment remain critical components.