

## Buddha Bhumi Nepal Hydropower Company Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed IPO of Buddha Bhumi Nepal Hydropower Company Limited

Instrument/Facility	Issue Size	Grading Action (May 2019)
IPO (equity) Grading	NPR 120 Million	[ICRANP] IPO Grade 4+ (Assigned)

ICRA Nepal has assigned an **[ICRANP] IPO Grade 4+** to the proposed initial public offering (IPO) of Buddha Bhumi Nepal Hydropower Company Limited (BNHCL), indicating below-average fundamentals. ICRA Nepal assigns IPO grading on a scale of 1 through 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. BNHCL is proposing to come out with an IPO of 1,200,000 equity shares with a face value of NPR 100 each, at par.

The assigned grading factors in the moderate return potential of the 4.993-MW Lower Tadi Khola Hydropower Project (HPP) being developed by BNHCL. The project is being developed at a relatively higher probability of exceedance (PoE) of ~54% with relatively better contract plant load factor (PLF) of ~73% and a relatively high mix of dry energy (~23%). This augurs well for the project’s return prospects as the estimated project cost (~NPR 197 million per MW) remains largely comparable to other projects. The project has also achieved significant construction progress (~60%) with major critical components at the intake approaching completion. The advanced stage of intake works will result in lesser impact of monsoon on the construction activities. With a firm PPA in place, pre-determined tariff rates and a positive demand outlook owing to the supply-demand gap in the power sector, the tariff and offtake risks for the project are minimal. Going forward, BNHCL’s ability to commission the project at the current cost and timeline estimates and also its ability to achieve its designed operating parameters will be the key driver for the project returns.

Nonetheless, the grading is constrained by the high evacuation risks led by delay in the construction of, the proposed Samundratar substation, from where power is to be evacuated. Given its early stage of construction, the hydroelectric project would miss its required commercial operation date (RCOD) of June 2019. Any unexpected delays in project execution could push forward the targeted COD of mid-October 2019 as well. This could result in cost overruns through hard cost escalations and incremental interest capitalisation and hence impact the overall project return metrics. Grading concerns also emanate from hydrological risks in the absence of a deemed generation clause in the power purchase agreement (PPA). However, the availability of long-term gauging data for the river provides some comfort. The project is also exposed to counterparty credit risks arising out of its exposure to the Nepal Electricity Authority (NEA), which has a weak financial profile. This is partly mitigated by the fact that the NEA is fully-owned by the Government and has been making timely payments to independent power producers (IPPs) so far. The interest rate volatility in the market could also have a bearing over the project return indicators. Additionally, the limited experience of the promoters in HPP development and operation has also been factored into the grading action.

The 4.993-MW Lower Tadi Khola HPP is a run-of-the-river (RoR) project located in the Nuwakot district of Province-3, Nepal. The project draws its hydrology from the Tadi river, which is partially snow fed with a catchment area of ~220 sq. km up to the intake of the project. This is expected to support the design discharge of 6.88 m<sup>3</sup>/sec at 53.8% exceedance flow with a gross head of ~100 metres. The power generated is to be evacuated through a three km, 33-kV transmission line to the proposed Samundratar Substation, which is to be ultimately connected to the Trishuli 3B Hub of NEA. Though the NEA plans to complete this transmission line project within 2018/19, the construction progress is at its nascent stages so far. Hence, any delays in completion of the same could defer the project’s commercial operation. The generation licence for the project was obtained from the Ministry of Energy on April 9, 2013, valid for 35 years from issue or 30 years from the date of the COD, whichever is earlier. The project is being developed on a build-own-operate-transfer (BOOT) basis.



The PPA was signed with the NEA on April 2014 for 4.993-MW capacity. The revised RCOD of the project is June 20, 2019 (earlier January 14, 2018). As per the terms of the PPA, the base tariff for the wet season<sup>1</sup> is NPR 4.8 per kWh and for the dry season, NPR 8.4 per kWh with a 3% annual escalation on the base tariff for five times. Thereafter, the escalated rates would be applicable to the life of the project. The contract PLF of the project is ~73% with an annual production capacity of ~32 GWh of energy.

The project is budgeted at a cost of ~NPR 983 million (~NPR 197 million per MW) which is being funded in a debt-to-equity mix of 65:35. Though the funding tie-up is adequate at the current cost estimates, there could be some funding gaps in case of cost escalations, especially considering the possible timeline delays. Also, increased project costs would result in lower return prospects, given the fixed tariff structure. As BNHCL's shareholding is concentrated across a few individual promoters, its ability to avail the funding support from promoters, if required, would remain critical.

As of April 2019, approximately 60% of the physical progress has been achieved, commensurate to a similar financial progress. Of the NPR 548 million costs incurred till April 2019 (including contractor advances of ~NPR 44 million), NPR 261 million has been funded through external bank borrowings and the balance largely from equity. Proceeds from the proposed IPO are to be utilised as a part of the equity for the project completion. The project is entitled for a capital subsidy of NPR 5 million per MW, upon connection to the national grid, which could be used to cover any contingencies.

**Analytical approach:** For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

**Links to applicable criteria:**

[IPO Grading Methodology](#)

**About the company**

Incorporated in October 2007 as a private limited company, Buddha Bhumi Nepal Hydropower Company Limited (BNHCL) was converted into a public limited company in August 2017 to facilitate public participation. The company's paid-up capital was ~NPR 277 million as of mid-April 2019 (including share application money of ~NPR 191 million). The company is promoted by 79 individual promoters. The major promoters include Mr. Pramod Khadka (~19%), Mr. Purna Lal Shrestha (~11%), Mr. Anil Kumar Thapa (~7%), Mr. Balram Khatiwada (~7%), among others. The promoter holding after the proposed IPO issue is expected to dilute to 70%, assuming full subscription. The shares of the company are proposed to be listed in the stock exchange post the proposed IPO. BNHCL is developing the 4.993-MW Lower Tadi Khola Hydropower project in the Nuwakot district of Province-3, Nepal.

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<sup>1</sup> Wet season corresponds to a period of eight months from mid-April to mid-December; rest being dry season.



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