

## Synergy Power Development Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Initial Public Offering (IPO) of Synergy Power Development Limited

Instrument/Facility	Issue Size	Grading Action (June 2016)
IPO (equity) Grading	NPR 280 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 Synergy Power Development Limited (SPDL). 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. SPDL is proposing to come out with an Initial Public Offer of 2,800,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 700,000 shares will be issued to project affected areas while remaining 2,100,000 shares will be issued to general public and staff. The IPO proceeds are likely to be utilised towards repayment of project loans.

The grading is constrained by weak financial profile of the company, emanating from poor operational performance of the only operational 9,658 KW Siprin HEP<sup>1</sup> (PLF<sup>2</sup> at net generation of ~33% in FY14 and 44% during 9MFY15<sup>3</sup> before April 2015 earthquake as opposed to contract energy PLF of ~62%), high financial leverage and limited experience of the promoters in hydropower project development and operation. The project suffered damages during April 2015 earthquake and its aftershock. The damage to the project infrastructure along with revenue loss was partly recovered from the insurance policy<sup>4</sup>. The project resumed operation after repairs from May 2016, after being shut down for more than a year. The risks arising due to landslide in future cannot be ruled out as power house and penstock alignment are situated in landslide prone area. The grading is also constrained by interest rate volatility in the market and the counterparty credit risks arising out of exposure to loss making NEA for the energy supplied, although the same is partly mitigated by the fact that NEA<sup>5</sup> is fully owned by the Government and has been making payments to IPPs (Independent Power Producers) in a timely manner in the past.

On positive side, with a firm PPA<sup>6</sup> in place and positive demand outlook, the tariff and off-take risks are reduced considerably for the project. Some improvement in the level of energy evacuated by the project is expected due to removal of constraint at receiving NEA substation<sup>7</sup> and up gradation of conductor in the 33 KVA transmission line being used for power evacuation by Siprin HEP.

Siprin HEP is the first hydropower project developed by SPDL, commissioned at a cost of NPR 1,455 million funded in a debt: equity mix of ~73:27. The tariff rates for contract energy as per PPA are NPR 4 and NPR 7 for wet and dry seasons respectively; subject to annual escalation after Commercial Operation Date (COD) @ 3% on base tariff for 9 years. Under the Government’s initiative of promoting private sector hydropower developers, the project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons; which shall remain effective for up to 7<sup>th</sup> year after COD<sup>8</sup> with 5 times annual escalation of 3% on base tariff. The electricity sales revenue shall thereafter be based on the rates as per PPA. The power generated by the project is being evacuated through a loop-in loop-out arrangement on 33KVA transmission line currently being used to supply electricity to the under construction Upper

<sup>1</sup> Hydroelectric project

<sup>2</sup> Plant Load Factor

<sup>3</sup> Immediately before April 2015 earthquake

<sup>4</sup> Against the company’s claim of ~NPR 210 million against material damage, the company is likely to receive ~70-80% of the claims based on final report from Insurance Surveyor. Moreover, the loss of profit claim has been decided at NPR 116 million towards loss of profit during project disruption (equivalent to 6 months revenue loss). Till date, the company has received ~NPR 107 million towards loss of profit and NPR 75 million towards material damage.

<sup>5</sup> Nepal Electricity Authority

<sup>6</sup> Power Purchase Agreement

<sup>7</sup> Transformer at Lamosangu substation was upgraded from 15MVA to 30 MVA in August 2014.

<sup>8</sup> Till May 2020



Tamakoshi Hydropower Project<sup>9</sup>. The project has operated at an average annual PLF (at net generation) of ~33% in FY 14 and 44% during 9MFY15; lower than design energy PLF of 62% and thus generated an average of ~62% of annual contract energy in past two years resulting in sizeable revenue loss to the company although no short supply penalty was payable due to the constraint in NEA's transmission line and substation.

The current IPO proceeds are likely to be used towards the repayment of long term bank borrowings of SPDL. The return to the shareholders of SPDL will accrue only from the revenue generated by Siprin Khola HEP.

SPDL has been operating 9,658 KW Siprin Khola HEP since January 2013. In FY2014-15, the project operated for ~9.5 months before being damaged by April 2015 earthquake and its aftershocks. During FY 2014-15, SPDL posted net profit of NPR 2.32 million over gross sales of NPR 195 million and OPBDITA of NPR 131 million; partly aided by receipt of NPR 40 million advance against insurance claims made by the company. SPDL reported net loss of NPR 68 million during FY13-14, its first full year of operation. The inability of the project to evacuate energy commensurate with the project capacity owing to the constraint in transmission line and substation of NEA resulted in poor financial position. SPDL had NPR 1,044<sup>10</sup> million of outstanding term loans payable to the consortium banks, as per the provisional financials for 9MFY16. SPDL's track record of debt servicing (which began from October 2014) remains in line with the loan repayment schedule; although nominal portion of principal amount has been repaid so far due to modest cash generation during initial years of operation amid evacuation constraint. This has led to high gearing ratio of 5.24 times as on April 2016 (as per provisional financials on 9MFY16). The principal repayments of SPDL's loan have been deferred from November 2015 till July 2016 by the consortium of banks, factoring in the project disruption and concomitant reduction in cash flow. Nonetheless, debt servicing ability of SPDL is comforted from the regime of low lending rates in banking system and ballooning repayment structure which entails small portion of principal repayment in initial years.

Going forward, the ability of the project to achieve its design operating parameters will be the most important driver for the project returns.

### **Company Profile**

Synergy Power Development Pvt. Ltd. (SPDL) was established on 12th January 2007 and later converted to public limited company in December 2013 to facilitate public participation. The company has been operating 9.7MW Siprin Khola HEP since 16th January 2013. SPDL has been promoted by 112 individual promoters currently holding 100% of paid up share capital. Mr. Bishnu Raj Adhikari (Chairman of SPDL) and Mr. Surendra Khadka (Managing Director) along with their relatives and associates are the major shareholders of SPDL with ~50% stake in the company at present. Post-IPO, the promoter shareholding will be diluted to 60% of the post-IPO paid up capital. Out of the proposed IPO issuance, 10% of post IPO paid up capital has been allocated for project affected population and remainder for general public including staffs of SPDL. The shares of the company are proposed to be listed in the stock exchange post IPO.

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<sup>9</sup> Siprin river is a tributary of Tamakoshi river. Upper Tamakoshi Hydropower Project is a 456 MW ROR project being developed upstream from the confluence of Siprin and Tamakoshi river

<sup>10</sup> Total term loan for the project was NPR 1,455 million



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