

Arun Valley Hydropower Development Co. Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed Right Issue of Arun Valley Hydropower Development Co. Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed Right Issue of Arun Valley Hydropower Development Co. Limited (AHPC). 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. AHPC is proposing to come out with right issue of 3,504,930 numbers of equity shares of face value NRs 100/- each share.

The average fundamental grading factors in the rich experience of the promoters and management personnel in the field of hydropower, the group has over 10 years of experience in the power generation sector, the company has been operating 3000 kW Puluwa Khola project since 2003, in addition, other group companies are involved in providing consultancy to various domestic and international hydro power projects. The company now intends to develop 25000 kW Kabeli B1 project at an estimated cost of NPR 4000 million. For the development of this project the company has established Arun Kabeli Power Limited as special purpose vehicle. Arun Kabeli Hydropower has obtained Power Generation licence for 35 years, and has also acquired significant portion of required land (31.4 acres of land out of a total requirement for 43.9 acres for the project). The company has entered into a Power Purchase Agreement (PPA) with the Nepal Electricity Authority (NEA) for its entire generation capacity. With a firm PPA in place, the tariff and off-take risks are reduced considerably for the project. As per the PPA, the tariff for wet season is Rs 4.8 per unit and for dry season is Rs 8.4 per unit with 3% escalation for 5 years. Power is to be evacuated from the switchyard of Kabeli B1 project through a 5 km long, 132 kv transmission line to the Kabeli substation proposed by NEA. NEA has to construct 90 km long transmission line from Damak substation to Kabeli substation and also the substations at these locations as part of the connection agreement.

The required Commercial Operation Date (COD) for the project is September 2016 as per the PPA. The project is proposed to be funded in debt:equity ratio of 75:25. The parent AHPC has invested NPR 160 million in the project till date. The current rights issue will fund a portion of the equity requirement of the project, while for the balance equity portion; Arun Kabeli will be coming out with an IPO subsequent to which AHPC's stake in this company will be reduced to 51%. The financial closure for the debt portion is under progress. The project has received IEE (Initial Environment Examination) approval and has also signed the grid connection agreement with NEA for evacuation of the generated power. Preparation of tender documents for various contract packages and the Detailed Project Report (DPR) for the project is currently under progress.

With the project in its very initial stages timely completion within the budgeted time and cost estimates is a key sensitivity for determining the returns generated by the project. Typically, hydro-power projects entail significant project execution risks as they are located in difficult terrain and hence adverse climatic conditions during the construction period and also geological surprises can disrupt construction schedule of any project. Nevertheless, the promoters have substantial experience in construction and operation of hydro power projects as well as presence of experienced management personnel mitigates this risk to some extent.

The grading also factors in the counterparty credit risks in terms of delayed payments by NEA for the energy supplied. However, it is to be noted that the receivable days for the 3000 kW operational project have remained below 90 days in the last five years indicating that NEA in fact has been making timely

payments to the developer. The grading also factors in the risk arising out of delay in construction of transmission line by NEA for proposed Kabeli B1 project which can potentially delay the COD of the project despite the developer constructing the project in time, however, it is expected that NEA will complete construction of the transmission line within the next two years whereas the COD of Kabeli B1 project is September 2016. This provides some buffer for the project although it is a critical factor for grading.

AHPC is operating 3 MW piluwa Khola project since 10 years. The company has posted profit of Rs. 54.1 million on year ending July 2013. The company has distributed around 18% dividend in last five years from its operations and has repaid the entire project loan in last year as per the repayment schedule of the loan. The company has been able to achieve an annual plant load factor (PLF) of close to 70% in last 10 years.

Going forward, ability of the company to mobilize funds for the project, and achieve the required COD within the budgeted time and cost estimates and also timely commissioning of transmission line by NEA will be the key parameters which will have a bearing on the returns of the project

Company Profile

Founded in March 1998 by 78 promoters AHPC was converted in public limited company in August 2005 with the objective of facilitating public participation. The company has issued its 30% shares to the public on June 2009 @ Rs. 184 for Rs. 100 face value share and these shares are being traded in stock exchange from December 2009.

The company is operating 3000 kW Piluwakhola Hydropower Project in Sankhuwasabha district, Eastern Development Region of Nepal. Major promoter includes Mr. Guru Prasad Neupane and his family (17.86%), Mr. Jeevan Raj Shakya & his group (13.65%), Mr. Sugam Acharya & his family (7.04%), Mr. Sailendra Guragain & his family (5.43%) and Mr. Bachharaj Tater & his family (4.47%). After the completion of Piluwakhola project in 2003, management of the company has built 2400kW Ridikhola Small Hydropower Project (RSHP) in Western part of the country. The project is in operation since September 2009.

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