

FINANCIAL RESOURCES MOBILIZATION POLICY

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FINANCIAL RESOURCES MOBILIZATION POLICY 1: RESOURCE MOBILIZATION GOAL

POLICY STATEMENT

Hydropower Investment and Development Company (HIDCL) shall mobilize resources of long-term nature to meet the funding requirement for the development of hydropower projects that are technically feasible and economically viable.

JUSTIFICATION

Hydropower projects are of long term nature. Therefore there is a need of arranging sources of funds which can be used for long term financing to the feasible and sustainable hydro-power projects.

OBJECTIVE

To arrange long term source of funds required by hydropower projects.

ACTION

HIDCL will raise long term funds from the domestic and international market in the form of various types of equity and debt instruments.

RESULT

HIDCL will be able to collect long term funds to support the financing requirements of hydropower projects.

FINANCIAL RESOURCES MOBILIZATION POLICY 2: RESOURCE MOBILIZATION STRATEGY

POLICY STATEMENT

HIDCL will have a clear picture of the investment projects and resource requirements at least for the next 5 year period broken down in an annual basis.

JUSTIFICATION

Mobilization of the long term nature of resources requires accurate identification of the investment projects and its funding requirements. As the requirements will be in large quantity, non availability of funds in time will adversely affect the progress of the project; whereas holding of the funds will entail huge cost burden to the company. Therefore HIDCL must have clear picture of investment projects and resource requirements for various stages of projects.

OBJECTIVE

To ensure that the required resources for disbursement at various stages of the project and to minimize the holding cost of fund.

ACTION

1. Prepare at least 5 year's investment projects with annual breakdown.
2. Based upon the investment projects, prepare annual resource requirements with detailed breakdown.
3. Raise funds from domestic and/or international sources in the form of equity or debt as per the projected resource requirements.

RESULT

HIDCL will have effective and cost efficient resource mobilization strategy.

FINANCIAL RESOURCES MOBILIZATION POLICY 3: RESOURCE MIX

POLICY STATEMENT

HIDCL will adopt a feasible, balanced and cost efficient capital structure.

JUSTIFICATION

A well-defined capital structure is necessary to address the financial leverage which is crucial to efficiently raise funds from the market and for the sustainability of HIDCL. This will also help to generate a reasonable return to the shareholders.

OBJECTIVE

To select a prudent mix of debt and equity.

ACTION

HIDCL will choose a desirable mix of debt and equity from the following sources of finance. HIDCL shall ideally work within a capital structure of equity vs debt of 1:5.

1. Share Capital

- Equity Share Capital
- Preference Share Capital

2. Debt

- Loan from BFIs
- Loan from Nepal Government
- Loan from Foreign Financial Institutions
- Loan from foreign development agencies like ADB, World Bank, IMF
- Loan from Bilateral and Multilateral Agencies
- Debentures/Bonds

HIDCL: Financial Resource Mobilization Policy

- Certificate of Deposits
- Short Term Borrowing

3. Grants

- Grants from Nepal Government
- Grants from Bilateral and Multilateral Agencies

4. Hybrid Instruments

- Convertible Preference Shares
- Convertible Debentures/Bonds

RESULT

Prudent leverage and sound capital structure provide stability and good risk tolerance capacity to HIDCL.

FINANCIAL RESOURCES MOBILIZATION POLICY 4: EQUITY SHARE CAPITAL

POLICY STATEMENT

HIDCL considers equity share capital as the primary and high quality source of funding and will not allow its leverage ratio to stress the sustainability and financial prudence.

JUSTIFICATION

Prudent level of equity is the essence of financial stability of HIDCL and is the most reliable source of funding which becomes crucial in contingent and adverse situation of the company.

The projects that HIDCL shall consider to finance are normally capital intensive. High reliance on debt financing may lead to unwillingness of other investors to invest in HIDCL whereas excessive equity may also restrict the company from capturing full business opportunities in short of adequate funding resources. Therefore, HIDCL should adopt appropriate level of equity capital for safety and smooth operations of the business.

OBJECTIVE

To maintain prudent and efficient capital structure.

ACTION

Initially the authorized capital of HIDCL is decided to be Rs. 50,000,000,000.00 (50 billion rupees) and issued share capital Rs. 10,000,000,000.00 (10 billion rupees). Promoters have subscribed 80 percentage of share and remaining 20 percent will be issued to general public.

HIDCL will regularly review debt and equity position of the company and, if required, additional equity capital should be raised to maintain HIDCL's leverage ratio in a desirable level and within the set limits.

RESULT

HIDCL will be able to maintain prudent and sustainable capital structure which will foster faith and trust of all stakeholders.

FINANCIAL RESOURCES MOBILIZATION POLICY 5: PREFERENCE SHARE CAPITAL

POLICY STATEMENT

Preference shares will be considered as one of the option of resource mobilization to maintain desirable level of debt equity mix in the company.

JUSTIFICATION

Preference share is a special vehicle that has properties of both equity and debt and can be used as hybrid instrument. Having the features of equity and debt, preference share can be an advantageous tool to raise financial resources in various circumstances. It is also beneficial to the company from the point of view of control and the economic interest of shareholders.

OBJECTIVE

To provide the company an attractive alternative form of financing with or without call option at a reasonable cost.

ACTION

1. At the time of additional resources mobilization, HIDCL will evaluate the benefits of preference share capital option.
2. Redeemable/irredeemable preference shares with cumulative/non-cumulative fixed dividend and convertible/non-convertible options will be considered.
3. Preference shares can be listed at Nepal Stock Exchange and encourage trading in the secondary market.

RESULT

HIDCL will be able to raise resources to supplement the equity capital which keeps its capital structure sound without diluting the current shareholder's interest.

FINANCIAL RESOURCES MOBILIZATION POLICY 6: DEBENTURES

POLICY STATEMENT

HIDCL will consider raising fund through debenture as a long term debt instrument to the extent the leverage ratio remains acceptable.

JUSTIFICATION

The option of debenture as a long term debt instrument to raise resources becomes crucial when HIDCL may not have adequate or acceptable collateral to mobilize other sources of debt. Debenture can be issued with or without convertible option to make a tradeoff between risk and return.

Debenture creates financial leverage allowing deductible expenses from the income tax point of view and thus creates more value to the shareholders.

OBJECTIVE

To consider debenture as one of the possible source of resource mobilization in the form of long term debt after close evaluation of the company's capability and market scenario.

ACTION

1. HIDCL will evaluate the condition of the capital market at that point of time to be assured about the acceptability/subscription of the projected debenture issue.
2. HIDCL will evaluate the probability of other forms of debt instruments to find out the comparative advantage.

3. HIDCL will decide the convertible or nonconvertible option of the debenture based upon the tradeoff between risk and return.
4. HIDCL may issue project specific designated debenture or general debenture in the local market.
5. HIDCL will create debenture redemption fund for the redemption of the debenture at maturity.
6. Necessary approvals from regulatory authorities will be taken before issuing the debentures.
7. HIDCL will consider for listing of the debenture at stock market for trading.

RESULT

HIDCL will be able to raise long term funds on non-collateralized basis with a comfortable leverage improving the return to its shareholders.

FINANCIAL RESOURCES MOBILIZATION POLICY 7: BONDS

POLICY STATEMENT

HIDCL will consider bond as one of the instruments of long term resource mobilization with a relatively lower cost offering collateral security to the Bond holders.

JUSTIFICATION

Bond is a debt instrument with superior option than debenture, which will be issued with or without convertible option to make a tradeoff between risk and return.

Bond can be issued to raise long term fund at a lesser cost than debenture when the company is having sufficient collateral. Interest on bond is the deductible expenses from the income tax point of view and will create more value to the shareholders.

OBJECTIVE

To mobilize resources with a relatively lower cost offering.

ACTION

1. HIDCL will evaluate the condition of the capital market at that point of time to assure about the acceptability/subscription of the projected bond issue.
2. HIDCL will evaluate the probability of other forms of debt instruments to find out the comparative advantage.
3. HIDCL will decide the convertible or nonconvertible option of the bond based upon the tradeoff between risk and return.
4. HIDCL may issue project specific designated bond or general bond.

5. HIDCL will create bond redemption fund for the redemption of the bond at maturity.
6. HIDCL may also consider issuing bond in international market to attract the foreign investors taking in consideration of interest rate sensitivity and foreign currency risk. Appropriate hedging mechanism must be applied to protect the risks arising in foreign currency transactions, repatriation and redemption.
7. Necessary approvals from regulatory authorities will be taken before issuing the bonds.
8. HIDCL will consider for listing of the bond at stock market for trading.

RESULT

HIDCL will be able to raise long term funds on low cost with a comfortable leverage improving the return to its shareholders.

FINANCIAL RESOURCES MOBILIZATION POLICY 8: CERTIFICATE OF DEPOSIT

POLICY STATEMENT

HIDCL will consider issuing Certificate of Deposit as an instrument of long term resource mobilization to domestic investors and NRNs.

JUSTIFICATION

By Issuing Certificate of Deposits, HIDCL can easily raise funds in a short span of time at interest rates lesser than the interest rates on debentures.

Besides, interest on Certificate of Deposit is deductible expenses from the income tax point of view and will create more value to the shareholders.

OBJECTIVE

To raise long term fund at reasonable cost and within a short period of time.

ACTION

1. HIDCL shall assess the condition of the market to ensure acceptability/subscription of the projected certificate of deposit issue.
2. HIDCL shall evaluate the probability of other forms of resource mobilization instruments to find out the comparative advantage.
3. HIDCL shall issue certificate of deposit to domestic investors as well as NRNs and domestic as well as foreign institutions if such issues are found viable.
4. Certificate of deposit shall be issued for at least NPR 1 million to individuals and NPR 10 million to institutions.
5. The tenure of Certificate of Deposits shall be for a minimum period of 5 years.
6. Necessary approvals will be taken from regulatory authorities before issuing Certificate of Deposits.

7. The terms of Certificate of Deposits should be such that the probability of investors withdrawing their money before maturity is decreased. This helps to ensure that these instruments become reliable sources of long term funds to HIDCL.
7. It is desirable to insure the Certificate of Deposit with appropriate insurer.

RESULT

HIDCL will be able to raise long term funds at low cost thereby increasing the return to its shareholders.

FINANCIAL RESOURCES MOBILIZATION POLICY 9: BORROWINGS FROM DOMESTIC BANKS AND FINANCIAL INSTITUTIONS

POLICY STATEMENT

HIDCL will consider availing line of credit from domestic banks and financial institutions for short term as well as long term resource mobilization.

JUSTIFICATION

In the context of Nepal, banks and financial institutions hold the largest segment of financial resources. HIDCL can consider tapping this segment of resource for meeting funding requirement to hydropower projects. From the risk perspective, it is desirable that the resources of banks and financial institutions be used through the mechanism of consortium lending. However, there may come up circumstances when HIDCL needs to consider loans and borrowings from banks and financial institutions as one of the options to meet the immediate as well as long term need of the fund.

OBJECTIVE

To raise long term and short term funds from banks and financial institutions.

ACTION

1. HIDCL shall be in continuous contact and close interaction with various banks and financial institutions.
2. HIDCL shall evaluate the capability and interest of such banks and financial institutions and keep a ready profile of possible BFIs with whom resources can be borrowed at the time of requirement.

3. HIDCL shall negotiate the applicable interest rates and other terms and conditions for such borrowing keeping the pricing and terms at the best benefit and suitability of HIDCL.
4. HIDCL shall normally meet its long term commitments through long term borrowings and short term commitments through short term borrowings if there are any such liquidity gaps.
5. The borrowing may be collateralized or non-collateralized.
6. The borrowing may be project specific or general.

RESULT

HIDCL will be able to utilize the financial resources available with the banks and financial institutions through various short term and long term borrowings. HIDCL will benefit from financial leverage in its capital structure and helps to enhance its capability to lend to hydropower projects.

FINANCIAL RESOURCES MOBILIZATION POLICY 10: BORROWINGS FROM FOREIGN FINANCIAL INSTITUTIONS

POLICY STATEMENT

HIDCL will consider borrowing from foreign banks and financial institutions on collateralized or non-collateralized basis for long term resource mobilization.

JUSTIFICATION

Generation of hydropower requires huge funding. Such volume may not be met by domestic financial resources. Therefore, it is imperative that Nepal looks for reliable foreign investors. One of the options of such foreign investment will be foreign financial institutions. Hydropower project loans from foreign financial institutions can be available at lower cost and for longer period of time.

OBJECTIVES

To raise funds from foreign investors/financial institutions to meet the requirements of large hydropower projects.

ACTION

1. HIDCL shall be in continuous contact and close interaction with various foreign investors and financial institutions.
2. HIDCL shall evaluate the capability and interest of such banks and financial institutions and keep a ready profile of possible institutions from whom resources can be borrowed at the time of requirement.
3. HIDCL shall negotiate the applicable interest rates and other terms and conditions for such loan keeping the pricing and terms at the best benefit and suitability of HIDCL.
4. HIDCL shall normally meet its long term commitments through long term loans if there is any such liquidity gap.

5. HIDCL shall have in place an effective FX asset liability management framework to mitigate foreign exchange risks when loans are availed in foreign currency.
6. Proper foreign exchange risk mitigation mechanism will have to be at place and needful approval of NRB is mandatory.

RESULT

HIDCL will be able to substantially increase its lending capability for development of larger hydropower projects of Nepal by utilizing financial resources from foreign investors and financial institutions. HIDCL will benefit from financial leverage in its capital structure.

FINANCIAL RESOURCES MOBILIZATION POLICY 11: LOAN/GRANTS FROM GOVERNMENT OF NEPAL

POLICY STATEMENT

HIDCL may approach for loan/grants from Government of Nepal for priority projects.

JUSTIFICATION

There might arise a situation when the hydropower project to be developed is of utmost priority for the Government of Nepal and there is no immediate availability of resources to fund the project. Under such circumstances, HIDCL may approach Government of Nepal for loans/grants.

OBJECTIVES

To approach Government of Nepal for funding resources in case of unavailability of other options for national important projects.

ACTION

1. HIDCL will make its best efforts for arrangement of funds in domestic and international market to support national important projects.
2. In case projects could not wait due to national priority and funds could not be arranged from other domestic and international market; HIDCL may approach Government of Nepal for loans/grants.
3. Such loans/grants may be a part of the budgetary provision of Government of Nepal and HIDCL shall pursue with GON in timely manner.
4. HIDCL shall review the terms and conditions of such loans/grants to make sure that the same remains in congruence to HIDCL's objectives and sustainability.

RESULT

HIDCL will be able to move ahead on priority hydropower projects even in the difficult circumstances to mobilize resources from other options.

FINANCIAL RESOURCES MOBILIZATION POLICY 12: LOANS/GRANTS FROM BILATERAL AND MULTILATERAL AGENCIES

POLICY STATEMENT

HIDCL may avail loans/grants from bilateral and multilateral agencies which may be designated or undesignated for a particular project.

JUSTIFICATION

Taking consideration of Nepal's natural resources for hydropower development, many bilateral and multilateral agencies have expressed keen interest to assist for development of hydropower projects. HIDCL can explore possibilities of raising funds from international development institutions. This will require good investment climate which is expected to happen after the political stability in the country. HIDCL will have to work with the Government of Nepal in regard to raising any type of foreign exchange designated loans.

Mobilization of resources from bilateral and multilateral agencies carries a benefit of relatively low cost of interest and longer tenure to match hydropower projects' requirement.

OBJECTIVE

To mobilize resources from bilateral and multilateral agencies.

ACTION

1. HIDCL may approach bilateral and multilateral agencies for loans/grants with due approval of Government of Nepal (GON) and Nepal Rastra Bank.
2. Alternatively, HIDCL may request GON to be an intermediary. The lender will provide such loans/grants to the GON and it will disburse them to

HIDCL with some added costs for acting as an intermediary and buffer for undertaking the foreign exchange risk.

3. HIDCL shall have in place an effective foreign exchange asset liability management framework to mitigate foreign exchange risks when loans/grants are availed in foreign currency.
4. HIDCL will have to conduct in-depth evaluation of the pricing, terms and conditions and all associated risks.

RESULT

HIDCL will be able to mobilize financial resources in large quantities from bilateral and multilateral agencies.

FINANCIAL RESOURCES MOBILIZATION POLICY 13: COST OF FINANCIAL RESOURCES

POLICY STATEMENT

HIDCL shall endeavor to keep its cost of financial resources at lowest level.

JUSTIFICATION

HIDCL's cost of financial resources indicates the average cost at which it is able to mobilize funds including the cost of raising funds and foreign currency risks' hedging costs.

When the cost of funds is low, HIDCL will enjoy greater flexibility in lending to hydropower projects in more cost effective manner. This will support to enhance the financial viability of hydropower projects and also will help to determine favorable pricing for HIDCL's loan portfolio; thus supporting improved profitability for sustainability of HIDCL.

OBJECTIVE

To mobilize financial resources at the lowest possible cost.

ACTION

1. HIDCL will evaluate every available and possible option (equity, borrowing, grants etc.) of resource mobilization to optimize the cost of resources maintaining its desired debt equity ratio.
2. HIDCL will calculate the effective cost of every available and possible resource option.
3. HIDCL will compare its marginal cost of fund with its marginal return from fund and this comparison will be one of the determinants for committing funds for investment.
4. HIDCL will consider exchange fluctuation risk on mobilization of financial resources from foreign market.

RESULT

Cost optimization on mobilization of resources will enable HIDCL to lend to hydropower projects making it financially viable and improve sustainability of HIDCL.

FINANCIAL RESOURCES MOBILIZATION POLICY 14: TENURE MATCHING

POLICY STATEMENT

HIDCL will ensure the tenure matching of sources and uses of funds.

JUSTIFICATION

The mismatch of sources and uses of funds creates a gap between Assets and Liabilities in HIDCL's books, which is a potential source of liquidity crisis. Failure on this will lead to loss of credibility, so this exercise is very crucial for treasury management of HIDCL.

OBJECTIVES

To ensure adequate repayment planning of its maturing liabilities and sources of funds for repayments.

ACTION

1. HIDCL's resource mobilization decisions will consciously focus on matching the tenure of funds with the tenure of its loan and investment portfolio.
2. Long-term commitments will be met by funds having longer maturity periods unless short term funding is necessitated for an interim period until long term funds invested in other projects are freed or long term funds are in the process of being mobilized and their mobilization is reasonably assured.
3. Senior Management should be aware of the tenure of funding source for proposed lending. It must review any gap in sources and application of funds on a monthly basis.
4. Board of directors must mandatorily review the Gap Analysis of sources and uses of funds in every three months.

5. No default is permitted and any mismatch in sources and application of funds in terms of tenure should be strictly controlled.

RESULT

HIDCL shall always be able to meet its maturing obligations with sound review system of sources of funds and their commitments.

FINANCIAL RESOURCES MOBILIZATION POLICY 15: RISK MANAGEMENT

POLICY STATEMENT

HIDCL shall apply due prudence to manage risks while mobilizing its financial resources.

JUSTIFICATION

Financial resources mobilization for hydropower projects has a wide diversity of risks. The primary and critical risk is the risk of default on repayment of the deposits, loans, debts or any other form of liabilities that HIDCL will be creating in its books. There will be loss of trust and credibility in the domestic and international market in the event that HIDCL fails to pay back the maturing obligations of principal and/or interest on the due dates. Other entailing risks are interest rate risk and exchange rate risk. HIDCL must take due care to protect the interest of the investors and lenders who have placed their funds in the form of equity, debt and/or invested in various debt instruments of HIDCL. HIDCL will require strong risk management mechanism so that it can fulfill its maturing commitments.

OBJECTIVE

To ensure that HIDCL can fulfill its maturing financial obligations towards various investors and lenders.

ACTION

1. HIDCL must strictly comply the policy of tenure matching.
2. HIDCL must follow the sound principles of lending as outlined in the “Lending Policy” so that the loan portfolio remains sound and of high quality.
3. The senior management and the Board of Directors are fully aware of maturing commitments and sources of funds for repayment on the maturity dates.

4. There is a sound system and procedures of asset liability management and Risk Management Committee reviews the gaps and forwards mitigating measures to senior management on a monthly basis and to the Board of Directors on quarterly basis.
5. Risk management committee will also review the risks associated with resource mobilization.
6. An independent and capable internal audit will review the risks in the asset liability and submit its findings about HIDCL's capability to meet its maturing financial obligations, interest rate risk, foreign exchange risk, etc. to Audit Committee and the Board.

RESULT

An effective risk management framework will minimize/mitigate the risks involved in resource mobilization.

FINANCIAL RESOURCES MOBILIZATION POLICY 16: DIVIDEND PAYOUT

POLICY STATEMENT

HIDCL should endeavor to declare and distribute a reasonable return to its shareholders.

JUSTIFICATION

HIDCL has been incorporated as a limited company with the equity injection from the GON, various financial institutions and 20% of the equity capital is proposed to raise from the public. All equity shareholders and specifically the public shareholders will have expectations of consistent and reasonable return on their investment.

Therefore, it is the obligation of HIDCL that it operates its business in a manner that investors can be provided a reasonable level of return of their investments. A consistent dividend policy enhances public trust and confidence towards HIDCL. Such market confidence will support HIDCL to raise further equity capital or any other type of public offerings to mobilize the required financial resources from the market in future.

OBJECTIVE

To provide return on shareholder's investment and to gain investor's confidence.

ACTION

1. HIDCL shall invest its resources in sustainable and financially viable hydropower projects.
2. As per IFRS and NAS, HIDCL will be allowed to book its interest income on accrual basis even during gestation period of projects.

3. 20% of the net profit will be retained as Specific Reserves for the purpose of future contingencies.
4. Appropriate amount for dividend equalization will be retained from the profits.
5. Appropriate cushion/reserve will be created for all unrealized interest and incomes recognized. Such reserve amount shall be transferred to distributable retained earning once it is realized after the project start generation of cash from sales proceeds of electricity.
6. HIDCL may give cash dividend and/or stock dividend.

RESULT

HIDCL's sound dividend policy will enhance its image in the capital market, build shareholders' confidence and also improve the soundness of the company.

FINANCIAL RESOURCES MOBILIZATION POLICY 17: MONITORING AND REPORTING

POLICY STATEMENT

HIDCL will establish sound Management Information System (MIS) for adequate oversight from the Board of Directors and Senior Management in regard to effective execution and risk management of financial resource mobilization.

JUSTIFICATION

Decisions in an organization are made on the basis of information provided to the Senior Management and the Board. Pertinent and prompt information provided to the management ensures quality in their decision-making. Thus, a sound Management Information System is a prerequisite for sustainability of HIDCL.

Continuous monitoring of financial resource mobilization processes on the basis of information received from MIS helps assure that all financial resource mobilization measures are taken in the best interests of HIDCL and ensure continuous improvement of fund mobilization processes.

An efficient monitoring and reporting process will provide an indication of the soundness of management of financial resources. Besides, it ensures formation of a timely opinion of the ongoing effectiveness of financial resource management and action upon the results of the monitoring on a timely basis for strategic decision-making.

OBJECTIVES

To receive information from established monitoring procedures and take necessary measures to improve financial resource mobilization.

ACTION

1. Appropriate MIS reporting and monitoring framework for HIDCL will be developed which shall be efficient and transmit pertinent information to the Senior Management and the Board.
2. Senior Management must continuously monitor the progress of financial resource mobilization from various avenues. Financial Analyst shall prepare a monthly report showing the status of mobilization of funds and the avenues of its utilization and submit the same to CEO. The CEO shall review the report to ensure that the resource mobilization programs are being undertaken as per acceptable time schedules and conditions. The CEO shall prepare a quarterly report on resource mobilization and utilization and forward it to the Board of Directors. The report will include:
 - Schedule of funds collected from different avenues with interest rate, repayment schedules.
 - Plans of fresh mobilization of resources for the next 3 months and progress on mobilization of resources as per existing plans.
 - Review of the market conditions with suggestions for other possible avenues for fund mobilization in the future.

The report shall be extensively reviewed by the Board of Directors and necessary actions shall be taken to ensure continued appropriateness and effectiveness of financial resources mobilization.

3. Senior Management shall continuously monitor the loan/investment portfolio such that all loan/investment decisions are made after applying due prudence and are in congruence with financial resource mobilization objectives. Any deviation from objectives of sound financial resource mobilization shall be immediately reported to the Board of Directors, which shall take corrective actions at the earliest.

4. Finance/Treasury Department must present Gap Analysis of sources and uses of funds to the Board of Directors every three months. Board of Directors shall evaluate the same to ensure that the policy of tenure matching is followed.
5. Board of Directors shall half-yearly monitor the progress of HIDCL in its implementation of projects laid down in its 5-year investment plan and report the same to the shareholders in the Annual General Meeting.

RESULT

A strong MIS will enable HIDCL to achieve efficient financial resource mobilization and facilitate for sound strategic decisions.