

SHIVA SHREE HYDROPOWER LTD.

Issue Units: 3,351,140 units

Minimum Units: 10

Issue Open Date: 16/06/2076

Rating: ICRANP IPO Grade 4

Issue Price: Rs.100

Maximum Units: 1,000,000

Issue Close Date: 24/06/2076

Issue Manager: Siddhartha Capital Ltd.

Of the Rs.1,476,400,000 Issued capital, 10% was initially issued to local people.. However, of the issue made to local people, only 23.02% was subscribed. The under subscription of IPO shares to local people combined with the IPO issue for general public is issued now. Out of which, 1,00,534 (3%) is issued to employees and 1,67,557 (5%) is issued to Mutual Funds. Remaining IPO 30,83,049 (92%) is issued to general public.

Project Name: Upper Chaku "A" Hydropower Project

Project Capacity: 22.2 MW

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
	Phulpingkatti and Marming
Project Site	VDC, Sindhupalchowk
Status	Under Construction
RCOD (revised)	2077/01/01
Net Present Value	(136,983)
Total Cost of Project	Rs. 4.99 arba
Per Megawatt Cost	Rs. 22.47 crores
Issue date of Gen. License	2068/11/12
Validity of Gen. License	2103/11/11
PPA date	2067/05/22
Payback Period	9.59 yrs
Disc. Payback Period	21.95 yrs

	Promoters	75.00%
Ownership (Post IPO)	Locals	2.31%
	General Public	22.69%

Financial Highlights (in Millions)

Financial Years	74/75	75/76E	76/77E	77/78E
Paid Up capital	1,107.30	1,476.40	1,476.40	1,476.40
Reserves and Surplus	-	13.12	(5.95)	(23.65)
LT Loan	3,269.55	3,518.00	3,469.55	3,407.84
Net Fixed Assets	4,511.55	5,092.52	5,025.00	4,945.59
Revenue from operation	-	135.00	531.84	547.67
Interest Expenses	-	96.80	384.98	379.10
Net Profits	-	13.38	(19.06)	(17.70)
Debt/Equity Mix (in %)	71.60%	75.46%	70.75%	70.74%

Ratios	75/76E	76/77E	77/78E	78/79E
EPS	-	0.89	(1.29)	(1.20)
BVPS	100	100.89	99.60	98.40

Projects Comparisons

Projects	Capacity (MW)	Dis. PBP	Cost / MW	Rating (ICRA)
Ghalemdi Hydro	5	20.70 yrs	230 mil.	5
Mountain Hydro	21.6	10.72 yrs	198.59 mil.	4
Panchthar	14.9	11.99 yrs	175.5 mil.	4

Valuation: We project the company to be worth at most Rs.152.77

Snapshots...

- Company Profile:** After the registration of the Company in the Office of Company Registrar on 18th of Chaitra, 2062 as a private limited company, it was later converted to public limited company on 29th of Mangsir, 2073. It obtained generation license on 12th of Falgun, 2068. The registered office is located at Anamnagar, Kathmandu.
- Utilization of IPO Proceeds:** Total IPO proceeds of Rs.335,114,000 is to be used for repaying the bank loan and bridge gap loan amounting to Rs. 306,014,000 and Rs. 29,100,000 respectively.
- Strengths of the Company:** One of the positive indicator of the project is its 98% completion status. With the full completion of the project, it is soon expected to generate income for the company. Furthermore, the strong back up from the institutional promoters of the company comprising approx. 43% of the share capital pre issuance of IPO continues to be a major strength. In addition to this, the company will be enjoying the capital subsidy of NPR 5 mil. per MW on the successful connection to national grid.
- Cost overrun of the Project:** Cost per MW of the project is comparatively higher. The RCOD of the Company was delayed for a number of times, which resulted in the cost escalation of approx.34%. This has in turn resulted to the lower tariff rates for the sale of electricity and impacted the return potential of the Company. Further delay in the project is subject to the risk of cost overrun, hydrology risk, interest rate, volatility risk, other systematic and idiosyncratic risk associated with the hydroelectric project.
- Financial health of the Company:** The Company projects to earn an average Rs. 50 crores income from the sale of electricity. Similarly, the interest expenses incurred against loans is projected to increase by a significant percentage of 297.7% in FY 77/78, followed by decrease of 1.5% in FY 78/79, thus reporting net losses on both years. The profit will be affected by the penalty charges due to late operation of the project beyond the required commercial operation date, totaling Rs. 8.50 crores from FY 76/77 to 78/79.
- Valuation and Assumption:** Our valuation of the company using the discounted cash flow approach with discount rates of 12% is Rs.152.77. The cash flow projected is over the entire commercial operation periods of the company.
- Market Expectations:** The hydropower sector as a whole has declined by 53% starting from 2017 till date due to which the recent public issue of Hydropower companies have become less interest to investors. The company projects a longer investment return pay back periods. Further, the company does not project to distribute any cash dividend in the projected years.

We find the financial information presented by the company less transparent.

Disclaimers: Not to be inferred as Investment recommendations.

Sources: Prospectus, Offer Letter, ICRA Ratings.