

## MOUNTAIN HYDRO NEPAL LIMITED.

Issue Units: 1,816,110 units  
Issue Price: Rs.100

Minimum Units: 50  
Maximum Units: 80,000

Issue Open Date: 23/11/2075  
Issue Close Date: 28/11/2075

Rating: ICRANP IPO Grade 4  
Issue Manager: Siddhartha Capital Ltd.

Of the Rs. 1,250,000,000 Issued capital, 10% i.e. 12,50,000 units was issued to the Locals of Project affected areas where only 54.71% was subscribed. Remaining unsubscribed 566,110 units are added to the Issue to the General Public. Out of total issue 1,816,110 units to the General Public, 36,322 units is separated for Employees of the Company, 40,000 to the Mutual Funds and rest 1,739,788 units to the Public.

Project Name: Lower Hewa Khola HEP

Project Capacity: 22.1 MW

## PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Panchthar District
Status	98% completed
COD (Est)	2075/12/15
Annual Energy Generation	119 GWh
Total Cost of Project	Rs. 4.53 arba (Est)
Per Megawatt Cost	Rs. 20.5 crore
Issue date of Gen. License	70/12/21(21.6mw) Till 2105/04/08 or 30 years from COD, whichever is earlier
Validity of Gen. License	
PPA date	71/04/09(21.6mw)/75/10/16(500kw)
Payback Period	8.27 yrs
Disc. Payback Period	10.72 yrs

Equity	Promoters	80%
Ownership (after allotment)	Locals	5.47%
	General	14.53%

Financial Highlights (in millions)

Financial Years	74/75	75/76E	76/77E	77/78E
Paid Up Cap.	1000	1250	1250	1250
Reserve & Surplus	-	-	-	-
Rev. from Sale of Energy	-	198.15	567.41	584.25
Net Profits	(13.08)	(76.73)	28.49	45.40

Ratios	74/75	75/76E	76/77E	77/78E
EPS	(1.308)	(6.139)	2.280	3.632
BVPS	93.75	95.97	96.98	97.98

Peer Projects Comparisons

Projects	Capacity (MW)	Cost / MW	Rating (ICRA)
SHPC	22	149.8	3
UMHL	10.5	169	3
Hewa Project A	14.9	175.50	4

Valuation:

Through the use of DCF Method, we value the company to be worth at least Rs.123.62, considering the cash flow potentials till its valid licensed periods, discount rate of 16.9%, which also includes company specific risk premium of 1%.

Snapshots...

- About the Company and Projects:** After the registration of Company on 28th Asadh, 2062 it was converted to public ltd. company on 32<sup>nd</sup> Jestha, 2073. The company has one large HEP called Lower Hewa Khola with the upgraded installed capacity of 22.1 MW. Project utilizes Hewa and PHEME Rivers of Bharapa, Nagin & Phidim VDCs. The company has one wholly owned Subsidiary company named Mountain Hydro Investment Pvt. Ltd.
- Installed capacity upgraded:** Originally, PPA with the NEA for 9.5MW installed capacity was signed on 2070/04/09 but it was later revised to 21.6MW Capacity with the PPA dated 2071/04/08. The increment in the energy generation of 500KW capacity was followed by addendum to the PPA on 2075/10/16, upgrading the capacity to 22.1MW.
- Evacuation of Power:** The Company plans to evacuate the power generated through a 5 km, 132-kV transmission line to the proposed Phidim substation of the Kabeli Corridor. In case of delays in corridor completion, power can be evacuated through the existing 33 kVA line during the first few months of operation.
- Rating of the IPO:** ICRA Nepal assigned Grade 4 to the proposed IPO on February 2019 which indicates below average fundamentals. The rating is specially factored by lower return potentials, low contract PLF and higher project costs.
- Utilization of IPO proceeds:** The proceeds of Rs.2500 million is projected to be used to repay the bridge gap loan taken from the BFLs.
- Financial brief:** Project is commissioned at the high costs of Rs.20.5 crore per MW. Debt covers more than 55% of total project costs and approx. 64% revenue is likely to go for interest payment. Though the IPO proceeds would be used for bridge loan payment, this does not seem to decrease the gearing level of the company. Profit is projected only after 76/77E and the company projects to have a positive reserves from 78/79. Major financial ratios like EPS, BVPS, ROE etc. does not seem to be industrially competitive in the projected periods as well. It shall be entitled for Rs.5 million Capital subsidy upon connection to the national grid.
- Return Prospect:** The Company has not projected any dividend distribution target in the coming years. Besides, the company is yet to come into commercial operation. Hydro project tends to have consistent revenue generation patterns over its licensed periods. As such the investment is likely to yields dividend returns rather than capital yield.
- Risk Factors:** If the project is not completed within the 5 months of RCOD, it can lead to heavy penalty being fined which would prove to be a major constraint to the income generation of the project. Delay would also mean interest cost of approx. 41.2 crores. The project also has hydrology risk involved with the run of the river projects.

Plant load factor of the project is 61%.

**Disclaimers: Not to be inferred as Investment recommendations.**

Sources: Prospectus, Offer Letter, ICRA Ratings.