

PANCHTHAR POWER COMPANY LTD.

Issue Units (G.Public): 1,627,733 units Minimum Units: 10
 Issue Price: Rs.100 Maximum Units: 9,620

Issue Open Date: 13/11/2075
 Issue Close Date: 16/11/2075

Rating: CARENIP IPO Grade 4
 Issue Manager: Sanima Capital Ltd.

Of the Rs.962,500,000 Issued capital, 10% which is Rs. 96,250,000 is made for local people and 10% is made for general public. Out of the 10% made to general public, 2% is secured for employees of the institution and 5% for mutual fund. However, of the issued made to local people only, 18.16% is subscribed. The under subscription of IPO shares to local people combined with the IPO issue for general public is issued now. Out of which, Rs. 3,500,500 is issued for employees and Rs. 8,751,250 is made to Mutual Funds. Remaining IPO amounting to Rs. 162,773,300 is made to general people.

Project Name: Hewa Khola "A" Hydro Electric Project
 Project Capacity: 14.9 MW

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Phidim-10, Panchthar
Status	Completed
COD	2073/10/22
Annual Energy Generation	82,095,742 kWh
Wet Season (8 mths)	54,730,495 kWh
Dry Season (4 mths)	27,365,247 kWh
Total Cost of Project	Rs. 2.62 arba
Per Megawatt Cost	Rs. 17.55 crore
Issue date of Gen. License	2069/02/16(12mw)/ 69/11/16(2.9mw)
Validity of Gen. License	2104/8/20
PPA date	2068/05/30(12mw)/ 69/11/16(2.9mw)
Payback Period	8.94 yrs
Disc. Payback Period	11.99 yrs

Ownership	Promoters	80%
	Locals	10%
	General	10%

Financial Highlights (in millions)

Financial Years	74/75	75/76E	76/77E	77/78E
Paid Up Cap.	770	962.50	962.50	962.50
Reserve & Surplus	(103.06)	(71.42)	88.17	274.71
Rev. from Sale of Energy	253.27	358.61	473.67	486.94
Net Profits	(57.30)	31.65	159.58	186.54

Ratios	74/75	75/76E	76/77E	77/78E
EPS	(7.44)	3.29	16.58	19.38
BVPS	86.62	92.58	109.16	128.54

Peer Projects Comparisons

Projects	Capacity (MW)	Cost / MW	Rating (ICRA)
BPCL(Jhimruk)	12	88.30	3
SHPC	22	149.8	3
UMHL	10.5	169	3
BPCL(Andhi Khola)	9.4	182.5	3
RRHP	9.9	161.6	3

Valuation: We project the company to be worth at most Rs.184.57 over its entire valid periods using DCF method of valuation.

Snapshots...

- About the Company:** After the registration of Company on 18th Kartik, 2065 it was converted to public limited company on 25th Shrawan, 2073. It obtained generation license on 16th Jestha, 2069 and has been commercially starting its operations from 22nd Magh, 2073.
- Utilization of IPO proceeds:** Total IPO proceeds of Rs.192,500,000 is projected to be used for repaying the long term loan and short term loan amounting to Rs. 137,500,000 and Rs. 50,000,000 respectively. Furthermore, the remaining amount is to be used in the payment of share issue costs and repayment of liabilities.
- Increase in the project capacity:** The Company has signed a long term PPA with NEA as on Bhadra 30, 2068 for the sale of 12MW of power which was later upgraded to 14.9 MW on Asadh 27, 2069.
- High level of gearing:** The long term loan is 2.23 times of the share capital indicating high level of gearing. However, this is expected to decrease by the utilization of IPO proceeds. After the repayment, the Debt/ share capital ratio is estimated to be 1.64, 1.52 and 1.37 respectively over the projected years. The interest coverage ratio of the company stands at 0.71 times in FY 74/75 indicating high gearing and it is expected to be 1.16 times, 1.87 times and 2.11 times in the projected years.
- Risk Factors of the project:** The 132kV Kabeli Corridor Transmission Line is to be used in the evacuation of the power generated from the project. However, the power has not been transmitted to its full capacity due to the delay in construction of Godak Phidim section. At present, the power has been transmitted through an alternative line of Phidim-Tilkini 33kV transmission line. If the transmission is not completed timely, it will affect the returns from the project .Furthermore, the project also has other systematic risk related to its nature.
- Briefing Financial Statements with projections:** Company has a debt equity ratio of 72.03% in the FY 74/75 and this has been expected to reduce over the projected years .However, interest expenses is 61.45%, 59.13% and 56.73% of the total expenses respectively in the 75/76E, 76/77E, and 77/78E implying that the profitability is affected most by this regular expense. The delay in the construction of transmission line is likely to be a hindrance in the future income generation of the company. The retained loss is carry forwarded for 6 years and the company expects to convert this retained loss into retained earnings only by 2076/77 indicating weak position of the company. Furthermore, the projected financials has been constructed rather optimistically by reducing the expenses which appears rather unrealistic. The deemed energy generation of the project is estimated at 100% (ignoring the outage) and the projected income is calculated accordingly; indicating unrealistic assumptions. Moreover, the repairs and maintenance expenses is assumed to stand at 0.05% of the total assets and has not been increased in the projected years.

Disclaimers: Not to be inferred as Investment recommendations.

Sources: Prospectus, Offer Letter, CARE Ratings.