

UNION HYDROPOWER COMPANY LTD.

Issue Units: 3,534,340 units Minimum Units: 50 Issue Open Date: 13/12/2075 Rating: ICRANP IPO Grade 5
 Issue Price: Rs.100 Maximum Units: 35,000 Issue Close Date: 17/12/2075 Issue Manager: Laxmi Capital Market Ltd.

Out of the Issued capital Rs.75crores i.e. 7500,000 shares of Rs.100 each, 10% i.e. 750,000 units shares was issued to the Locals of project affected areas of Lamjung and Kaski district in the 1st Phase of IPO issue. However, 621,790 units was undersubscribed and consequently added for public issuance under the 2nd Phase of IPO issue.. As a result, the issue units to the General Public totaled 3,534,340 units. The issue is further bifurcated into three parts i.e. 70,686 units to Staffs, 176,717 units to Mutual Funds and rest 3,286,937 units to Other Public.

Project Name: Midim Khola Small HEP

Project Capacity: 3 MW

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Karapu-08, Lamjung
Status	Completed
COD	2074/10/15
Annual Energy Generation	16,776,021 kWh
Wet Season (8 mths)	13,926,910 kWh
Dry Season (4 mths)	2,849,112 kWh
Total Cost of Project	Rs. 79.508 crores
Per Megawatt Cost	Rs. 26.50 crores
Issue date of Gen. License	2069/05/06
Validity of Gen. License	2104/05/05
PPA date	2069/10/28

Ownership	Promoters	51.166%
(post issue)	Locals	1.71%
	General Public	47.124%

Financial Highlights (Fig. in million)

Financial Years	74/75	75/76E	76/77E	77/78E
Paid up capital	383.74	750	750	750
Reserve and Surplus	-77.42	-86.69	-58.53	-23.31
LT Loan	398.52	142.22	120.22	92.42
Net Fixed Assets	794.80	753.28	727.06	700.84
Revenue from Operation	28.127	58.591	83.728	85.21
Interest Expenses	28.86	28.935	13.56	9.88
Net Profits	-42.63	-9.27	28.15	35.22

Ratios	74/75	75/76E	76/77E	77/78E
EPS	(11.11)	(1.24)	3.75	4.70
BVPS	79.82	88.44	92.20	96.89
EBITDA Margin	1.92%	78.32%	81.81%	84.53%
Int. Coverage	-	67.96%	311.8%	463.5%
Debt/Equity	56.54%	17.66%	14.81%	11.28%

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	198.59mil.	4
Panchtar	14.9	11.99 yrs	175.5 mil.	4

Valuation: We project the company to be worth at most Rs.138.36.

Snapshots...

- About the Company:** After the registration of Company on 14th Bhadra, 2063 it was converted to public limited company on 30th Falgun, 2072. It obtained generation license on 6th Bahdra, 2069 and has been commercially operating from 15th Magh, 2074.
- Utilization of IPO proceeds:** Total IPO proceeds of Rs.353,434,000 is projected to be used for repaying the bank loan and preliminary expenses which are estimated to be Rs. 250,525,972 and Rs. 102,908,028 respectively.
- Poor Grade by ICRA Nepal:** ICRA Nepal rated the IPO as Grade 5 which indicates poor fundamentals. The rating was particularly based on weak project profile, high project cost, lower leverage, all affecting the overall return potentials. Recently, SEBON had issued a notice to disallow the companies having credit rating of 5 or above from issuing IPO, unless the company improve its fundamentals or issued IPO to Locals before the notice.
- Project delay let depletion of revenues:** As per PPA, the tariff rate for dry and wet season are Rs.8.4 and Rs.4.8 respectively with escalation by 3% after 1 year of COD for next 5 years. However, the 34 months delay in timely completion of project at the original RCOD has resulted escalation of tariff rates for only 2 years, depleting its income generation. Due to the delay, a penalty of Rs. 1.31 crores was paid to NEA.
- Risks factor:** Since the project is already completed and PPA with NEA made, the execution, cost overrun and market risks remain nil. However, the company is vulnerable to interest rate risk, foreign exchange risk, operational failures and natural calamities.
- Return potentials:** More than capital yield, investors can expect dividend yield from the company. It is because the pricing of hydro scripts in the secondary market is comparatively low. As the company is already in operation and generating revenues, it is likely to provide consistent cash dividend after achieving breakeven. The prospectus does not project dividend anytime soon though. The PBP and DPBP of the project approx. 10.61 years and 23.23 years which is relatively longer. High project cost is one major factor for limited return potentials.
- Valuation:** We have valued the company using embedded method where NWPS as on FY 74/75 i.e. Rs.79.82 is added with per share of PV of future cash flow i.e. Rs.58.54, resulting the value of Rs.138.36. PV is calculated by projecting the free cash flow over 25 years of its electricity generation. We assume 10% outage and discount rate 12%.
- Financial Outlook:** We project the company to generate constant annual revenue of Rs.8.20 cr from sale of electricity. Though the falling debt level will have positive effect on net earnings but the tax effect at later phase would outweigh the benefits. Debt is projected to be paid off by FY 80/81 which shall nil interest liability then after. We project the cash flow to average Rs.5.50 cr annually. Major expenses is likely to be the Operating expenses, averaging Rs.1.93 cr annually.