

HIMALAYA URJA BIKAS COMPANY LTD.

Issue Units: 1,485,000 units
Issue Price: Rs.100

Minimum Units: 50
Maximum Units: 6,500

Issue Open Date: 20/12/2075
Issue Close Date: 25/12/2075

Rating: ICRANP IPO Grade 4
Issue Manager: Nabil Investment Banking Ltd.

Out of the Issued Capital Rs. 99 crores i.e. 9,900,000 units share at Rs.100 each, 10% i.e. 990,000 units shares was issued to the Locals of project affected areas of Ramechhap District in the 1st Phase of IPO issue. The issue was fully subscribed and allotted. Under its 2nd Phase of IPO issue, 15% i.e. 1,485,000 units is set to be allotted to the General Public, other than those covered under its 1st phase of issue. Out of the issue to Public, 44,550 unit shares are separated for the employees of the company and 74,250 units share are offered to the Mutual Funds. Therefore, Public other than the above can apply for only 1,366,200 units share.

Project I: Uppallo Khimti Hydropower Project (12MW)

Project II: Upper Khimti II Hydropower Project (7MW)

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Chuchure, Ramechhap
Status	Under Construction
RCOD (2 nd amendment)	2076/03/31
Annual Energy Generation (19 MW)	115,903,767 kWh
Project I Total cost	Rs. 1.91 arba (Rs.15.95 cr/MW)
Project II Total cost	Rs.1.23 arba (Rs.17.6 cr/MW)
Combined Project Cost	Rs. 3.14 arba (Rs.16.56cr/MW)
Issue date of Gen. License	2069/09/03 (12 mw)/ 071/12/13 (7 mw)
Validity of Gen. License	2104/09/02 (12 mw)/ 106/12/12 (7 mw)
PPA date	2067/09/09 (12 mw)/ 069/12/09 (7 mw)

Ownership (post IPO)	Promoters	75%
	Locals	10%
	General Public	15%

Financial Highlights (Fig. in million)

Financial Years	74/75	75/76E	76/77E	77/78E
Paid Up capital	742.50	990.00	990.00	990.00
Reserves and Surplus	(12.16)	(20.16)	132.97	313.43
LT Loan	970.36	2,359.00	2,255.00	2140.00
Net Fixed Assets	70.83	3041.50	2936.62	2831.74
Revenue from operation	-	-	563.53	580.43
Interest Expenses	-	-	255.20	243.31
Net Profits	(2.52)	(8.00)	153.13	180.47

Ratios	74/75	75/76E	76/77E	77/78E
EPS	(0.339)	(0.808)	15.468	18.229
BVPS	98.36	97.96	113.43	131.66
Int Coverage	-	-	45.29%	41.92%
Debt/ Equity	57.06%	70.87%	66.76%	62.15%

Projects Comparisons

Projects	Capacity (MW)	Dis. PBP	Cost / MW	Rating (ICRA)
Union Hydro	3	23.23 yrs 10.72 yrs	265 mil. 198.59mil	5
Mountain Hydro	21.6			4
Panchar Power	14.9	11.99 yrs	175.5 mil.	4

Valuation: We project the company to be worth at most Rs.380.83 per share.

Snapshots...

- About the Company:** The Company was registered on 13th Mangsir, 2056 and converted to public limited company on 17th Kartik, 2071. Registered office is located at Subidhanagar, Tinkune while Project site is at Ramechhap district.
- About the projects:** Company has 2 HEPs - Uppallo Khimti (UPK I), installed capacity of 12MW and semi cascade project Upper Khimti II (UPK II), installed capacity of 7MW. Deemed energy generation of 12 MW and 7MW HEP are 73.61 GWhr and 42.29 GWhr respectively. Total cost of UPK I is Rs. 1.91 arba (Cost per MW- NPR 15.95 crore) and that of UPK II is Rs. 1.23 arba (Cost per MW - NPR 17.60 crore). RCOD of both the projects is set on 31st of Asadh, 2076.
- Utilization of IPO proceeds:** Total IPO proceeds of Rs.148,500,000 is projected to be used for financing for project construction and working capital amounting to Rs. 114,300,000 and Rs. 34,200,000 respectively.
- Rationale of ICRA Rating:** The IPO is Graded 4 by ICRA Nepal on June 2018 which particularly rest on the moderate return potential from the projects, evacuation risk due to delay in construction of transmission line, cost overrun, interest rate risk, relatively moderate project costs etc. The grade indicate below average fundamentals.
- Risks factor:** Both the projects involves higher possibilities of incompleteness on timely manner since only 65% physical progress was registered till Ashwin, 2075. 132 kV Garjyang-Khimti Transmission line is yet to be finished. These raises questions over RCOD of the projects. As a result, there are risks of cost overrun, evacuation risk, loss of tariff escalation privileges, interest rate risk, foreign exchange risk, penalty by NEA etc.
- Return Potential:** We project revenue from sale of electricity averages to Rs.60 crores annually. Projects cost are relatively lower. Administrative expenses are negligible, averaging around Rs.3.9 crores. Net profit averages Rs.20.8 crores while cash flow approx. 40 crores. Major chunk of revenue shall be allocated for repayment of principle and interest on borrowed loan. These burden shall remain till FY 2087/88. Capex over the period are expected to significantly be put down. The basic indicators like EPS are expected to beat industry averages. PBP and Dis. PBP are comparatively lower i.e. 6.21 and 9.43 years respectively. However, the company has not projected any dividend distribution. We expect the company to provide handsome Cash dividend in the medium to long term period. (* average refers to harmonic mean. *)
- Valuation:** We have valued the company using embedded method where Net worth of company as of FY 74/75 (i.e. Rs.730.323 million) is added with the PV of future cash flow derived post IPO (i.e. Rs.3.039 billion), resulting the total amount of Rs.3.77 billion, giving our value Rs.380.83 per share. PV is calculated by projecting the free cash flow of 25 years. We assumed 10% outage and discount rate of 12%.

Disclaimers: Not to be inferred as Investment recommendations.

Sources: Prospectus, Offer Letter, ICRA Ratings.