

BHUGOL ENERGY DEVELOPMENT COMPANY LIMITED

Issue Units: 13,46,993 units

Minimum Units: 10

Issue Open Date: 23/12/2079

Rating: (ICRANP-IR) B-

Issue Price: Rs.100

Maximum Units: 30,000

Issue Close Date: 27/12/2079

Issue Manager: NIC Asia Capital Ltd.

Project Name: Dwari Khola Small Hydropower Project

Project Capacity: 3.75MW

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Naumule, Dailekh
Status	In operation
COD	2074/01/23
Annual Energy Generation	20.73 GWh
Wet Season (8 mths)	16.79 GWh
Dry Season (4 mths)	3.94 GWh
Total Cost of Project	Rs. 732 million (With IDC)
Per Megawatt Cost	Rs. 195 million
Issue date of Gen. License	2071/02/26
Validity of Gen. License	2106/02/25
General/Disc. Payback Period	8.24yrs / 20.41yrs.
Internal Rate of Return	10.87%

UTILIZATION OF IPO PROCEEDS

Proceeds to go for payment of bank loan and other remaining liabilities.

OWNERSHIP

Promoters ("A")	70%
General ("B")	30%

KEY FINANCIAL HIGHLIGHTS (in millions)

FY	78/79	79/80Q2	79/80E	80/81E	81/82E
Paid Up Cap.	381	381	544	544	544
R&S	(102)	(137)	(62)	(19)	29
LT Loan	372	372	340	334	326
Energy Sale	43	6	118	118	118
Op. Profit	234	(0.3)	85	85	85
Net Profits	162	(31)	40	45	48

RATIOS	78/79	79/80Q2	79/80E	80/81E	81/82E
BVPS	67.63	63.97	84.75	92.95	101.77
EPS	42.58	(8.25)	7.40	8.20	8.82
Int. Cov. Ratio (in times)	3.42	(0.01)	1.94	2.16	2.37

VALUATION / PRICING

As per P/E	497.53
As per P/B	326.54

3.75MW HEP operating commercially since Baisakh 2074. The company plans to pay off ~25% of the bank loan through IPO proceeds. Company presents a leveraged balance sheet showing average operational profile. The company forecasts no dividend along 3-year window period. Likewise, there is no scope for any rights issue in the forecasted figures.

Snapshots...

- About the Issue:** Out of the offered 16,32,160 units, 1,08,811 units allotted to the Nepalese employed abroad, 85,020 units allotted to project affected locals, 71,916 units reserved for mutual funds, 19,420 units for employee and remaining 13,46,993 units are available for General Public
- About the Company:** Incorporated as Private Ltd. on 2065/11/05; converted to Public Ltd. on 2074/07/14; registered office at Baneshwor, Kathmandu. Chairman: Saurabh Arjyal, Directors: Rajendra Prasad Gautam, Sangita Sharma, Santan Kumar Arjyal and Ranjan Kumar Sharma.
- Dividend and Capital Plan:** Projected financial statement indicates no capital increment via bonus or right shares within the upcoming three-year window. Additionally, there is no provision for any cash dividends to be paid out during this time.
- Rationale of Credit Rating:** ICRA Nepal Ltd. assigns (ICRAN-IR) B-rating which indicates high risk of default regarding timely servicing of financial obligations. Rationale put are- strengths such as strong funding support from promoters, low offtake risks and signed PPA with the NEA and weaknesses such as weak operational performance leading to sizeable accumulated losses, high hydrological risk due to weak hydrology of Dwari River.
- Utilization of IPO proceeds:** The company has outstanding debt of around Rs. 645 Mill, and intends to utilize Rs. 163 Mill from its IPO proceeds to pay ~25% of the debt. The remaining debt will be paid off gradually using the company's operational cash flow in the future.
- Financial Health:** The company is in loss (on 2078/79Q2). However, company reported profit of 162 Mill on F.Y 78/79 due to increase in other income rather than sales of electricity. The company supplied ~37 % of contracted energy for F.Y 2078/79 due to outage caused by transmission line upgradation from 11 K.V to 33 K.V and landslide. However, after completion and operation of Kohalpur-Jumla 132 K.V and Surkhet - Dailekh transmission line, company expects considerable increase in contracted energy utilization leading to higher sales in the near future. Moreover, the company plans to pay out a considerable amount of loan from IPO proceeds; this declines the D/E equity ratio from 2.34 times in 79/80Q2 to 0.04 times in 81/82E. Thus, at present, company depicts average performance while better profitability in future is attributable to better contracted capacity utilization.
- Risk Factors:** High hydrological risks due to ungauged/rainfed river as well as the sub-optimal 33kV evacuation structures leading to weak operational performance and subdued financial revenue.
- Pricing & Assumptions:** Our comparatives with similar HEP installed capacity finds that the peer stocks are currently trading at approx. 8.14 times their BVPS and 93.16 times their EPS. Thus, we determine the pricing of Bhugol Energy Development Company Limited scrip to be Rs. 326.54 and 497.53 in secondary market at current scenario. No DCF valuation due to lack of data.

Disclaimers: Not to be inferred as Investment recommendation.

Source: Prospectus, Offer letter and Care grading report.

IPO Listing Range: Rs 67.63 – Rs 202.89