

MAKAR JITUMAYA SURI HYDROPOWER LIMITED

Issue Units: 13,37,302 units

Minimum Units: 10

Issue Open Date: 19/12/2079

Rating: CARE-NP BB (IS)

Issue Price: Rs.100

Maximum Units: 10,000

Issue Close Date: 22/12/2079

Issue Manager: Prabhu Capital Ltd.

Project Name: 1. Surikhola HPP (6.4 MW)
Project Name: 2. Upper Surikhola HPP (7 MW)

PROJECT PROFILE

Particulars	Surikhola	Upper Surikhola
Project Type	Run of River	Run of River
Project Model	BOOT	BOOT
Project Site	Dolakha	Dolakha
Status	In operation	In construction
COD	2079/01/18	2079/12/30
Annual Energy Gen.	32.850 GWh	41.36 GWh
Wet Season (8 mths)	27.56 GWh	28.41 GWh
Dry Season (4 mths)	5.28 GWh	12.62 GWh
Project cost (incl. IDC)	Rs. 1.3 billion	Rs. 1.2 billion
Per Megawatt Cost	Rs. 210 mill.	Rs. 185 mill.
Date of Gen. License	2072/02/24	2076/04/15
Validity of Gen. License	2107/02/23	2111/04/14
General/Disc. Payback Period	9.15yrs / 17.37yrs.	8.44yrs / 12.95yrs.
Internal Rate of Return	10.10%	13.78%

OWNERSHIP

Promoters ("A")	70%
Locals ("B")	10%
General ("B")	20%

UTILIZATION OF IPO PROCEEDS

Civil work	Rs. 20 Mill.
Hydro-mechanical Work	Rs. 20 Mill.
Supervision Work	Rs. 8 Mill.
Payment of loan	Rs. 180 Mill.
TOTAL	Rs. 228 Mill.

KEY FINANCIAL HIGHLIGHTS (in millions)

FY	78/79	79/80Q1	79/80E	80/81E	81/82E
Paid Up Cap.	532	532	760	760	760
R&S	(39)	(17)	(36)	78	211
LT Loan	1,249	1,593	1,843	1,767	1,683
Energy Sale	25	69	178	427	139
Op. Profit	0.5	48	112	299	310
Net Profits	(20)	22	3	114	133

RATIOS	78/79	79/80Q1	79/80E	80/81E	81/82E
BVPS	92.71	96.86	95.28	110.32	127.80
EPS	(3.80)	4.15	0.39	15.04	17.48
Int. Cov. Ratio (in x)	0.03	1.86	1.75	1.62	1.75

VALUATION / PRICING

As per P/E	247
As per P/B	394

6.4 MW Surikhola HPP has been in operation since Baisakh 2079, and the 7 MW Upper Surikhola HPP is expected to commercially operate from Chaitra 2079. The company plans to use proceeds from IPO to repay outstanding loan and finance the construction of Upper Surikhola project, with no anticipation of dividend or rights shares for three years.

Snapshots...

About the Issue: Out of the offered 22,80,000 units, 1,52,000 units for the Nepalese employed abroad, 6,78,600 units for project affected locals, 80,070 units for mutual funds, 32,028 units for employee and remaining 13,37,302 units are available for General Public.

About the Company: Makar Jitumaya Suri Hydropower Ltd. was formed through the merger of Surikhola Hydropower and Makar Jitumaya Hydropower Pvt.Ltd on 2078/03/31 and started their joint operations from 2078/04/01, Registered office at Tripureshwor, Kathmandu. Chairman: Himal Gurung, CEO: Bikash Khanal, Directors: Shabda Gyawali (Rep. from Dolma Impact Fund 1), Saraswati Rai, Basuna Karki, Chandra Bdr. Karki and Independent Director: Mitra Bdr. Shrestha.

Dividend and Capital Plan: The financial projections indicate no capital increments i.e.no anticipation of Bonus/Right shares in 3 forecasted years. Forecasted figures don't have scope for cash dividend within the upcoming three-year window.

Rationale of Credit Rating: CARE Ratings Nepal Ltd. assigns (CARE-NP BB (Is)' rating which indicates moderate risk of default regarding timely servicing of financial obligations. Rationale put are- strengths such as strong parentage and experienced management team, presence of PPA with sufficient period coverage and weaknesses such as operation stabilization risk, leveraged capital structure, hydrology risk, regulatory risk and exposure to volatile interest risk.

Utilization of IPO proceeds: The proceeds obtained from the IPO will be utilized to pay off the loan amount of Rs.180 million. The remaining proceeds will then be allocated towards the construction of the Upper Surikhola Hydropower Project, with Rs.20 million allocated towards civil work, Rs.20 million towards hydromechanical work, and Rs.8 million towards supervision work.

Financial Health: The company present a leveraged balance sheet. The company forecasts loan repayment from F.Y 80/81. Mainly, the payment is forecasted to be carried out from operating cash flow. Thus, D/E ratio of the company is forecasted to remain at 2 times along the years. Likewise, Interest coverage ratio (ICR) remains above 1 times along the forecasted years. The proper payment of debt and profitability hinges on better sales of electricity and timely completion of the Upper Suri Khola HPP. However, Suri Khola HPP produced electricity at 93% PLF of contracted energy on Q478/79.

Risk Factors: Only 64% of Physical progress of Upper Suri Khola HPP have been achieved while RCOD of the project is 30th Chaitra, 2079. Timely completion of the project is doubtful with potential fine payments.

Pricing & Assumptions: Our comparatives with similar HEP installed capacity finds that the peer stocks are currently trading at approx.3.54 times their BVPS and 22.52 times their EPS. Thus, we determine the pricing of Makar Jitumaya Suri Hydropower Company Limited scrip to be Rs. 247 and 394 in secondary market at current scenario. No DCF valuation due to lack of data.

IPO Listing Range: Rs 92.71 – Rs 278.13
Source: Prospectus, Offer letter and Care grading report.
Disclaimers: Not to be inferred as Investment recommendation.