

MAYA KHOLA HYDROPOWER COMPANY LIMITED

Issue Units: 19,92,000 units

Minimum Units: 10

Issue Open Date: 13/10/2079

Rating: ICRANP-IR BB-

Issue Price: Rs.100

Maximum Units: 1,00,000

Issue Close Date: 17/10/2079

Issue Manager: Prabhu Capital Ltd

Project Name: Maya Khola Hydroelectric Project
Project Capacity: 14.9MW

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Dharma Devi, Sankhuwasabha
Status	To operate by Magh, 2079
RCOD	Poush end, 2079
Annual Energy Generation	81,565,654 kWh
Wet Season (8 mths)	69,210,330 kWh
Dry Season (4 mths)	12,355,324 kWh
Total Cost of Project	Rs. 3 Bill. (Including IDC)
Per Megawatt Cost	Rs. 201 Mill.
Issue date of Gen. License	2071/02/06
Validity of Gen. License	2106/02/25
General/Disc. Payback Period	7.38 yrs. / 17.17 yrs.
Internal Rate of Return	13.11%

UTILIZATION OF IPO PROCEEDS

All Proceeds to go for payment of Loans taken up for Project construction

OWNERSHIP

Promoters ("A")	66%
Locals ("B")	10%
General ("B")	24%

KEY FINANCIAL HIGHLIGHTS (in millions)

FY	77/78	78/79*	79/80E	80/81E	81/82E
Paid Up Cap.	495	660	1,000	1,000	1,000
Acc.	(57)	(53)	33	14	38
Loss/profit					
LT Loan	1,548	1,666	1,961	1,876	1,780
Electricity Sale	-	-	250	450	463
Op. Profit	(14)	3	223	403	418
Net Profits	(57)	3	21	47	73

RATIOS	77/78	78/79*	79/80E	80/81E	81/82E
EPS	(3.25)	0.50	2.06	4.75	7.31
BVPS	88.53	91.90	96.71	101.46	103.77
Int. Coverage Ratio (in times)	-	-	1.17	1.20	1.32

*: Provisional Report

VALUATION / PRICING

As per P/E	-
As per P/B	Rs. 213.46
As per DCF	-

14.9MW HEP to commercially operate by Magh, 2079. Projected report presented leveraged balance sheet. Profitability depends on satisfactory sales of electricity, cost control and healthy Interest Coverage Ratio. Dividend anticipated on FY 81/82 but hardly any Bonus/Right in 3-year windows.

Snapshots...

About the Issue: Out of the offered 34,00,000 units, 10,00,000 units are reserved for the project affected locals. 2,40,000 units for the Nepalese employed abroad. 1,20,000 units for mutual funds, 48,000 units are allocated to the employees and remaining 19,92,000 units are available for General Public.

About the Company: Incorporated as Pvt. Ltd. on 2067/02/14; converted to Public Ltd. on 2073/08/17. Registered office at Dhumbarahi, Kathmandu. Chairman: Mr. Bijaya Man Sherchan and Directors: Dinesh Prasad Shrestha, Binod Thakali, Hem Nidhi Sharma and Dina Nath Dahal.

Dividend and Capital Plan: The projected reports indicate no capital increments i.e. no anticipation of Bonus/Right shares in 3 forecasted years. The company plans to distribute dividend of Rs. 5 per share on F.Y 81/82E

Rationale of Credit Rating: ICRA Nepal Ltd. assigned ICRANP-IR BB-rating. Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. Rationale put are – No compensation by NEA in case of adverse flows in the river, only 62% avg. operational efficiency, high project costs, hydrology and outage risks, etc.

Financial Health: As per unaudited report of F.Y 78/79, the company is in profit (due to onetime compensation (Rs. 21Mill.) received from Down Puluwa Khola SHEP). The company expects profit from core business from FY 79/80E. Debt-to-Equity ratio on F.Y 78/79 is at ~3.2 times. This is forecasted to be reduced to ~1.71 times till F.Y 81/82E. Through examining the forecasted cash flows, on F.Y 79/80E, the company plans to purchase fixed asset through receipts of loan, IPO proceeds and from operating cash flow, this leaves cash surplus of ~ Rs. 130 Mill. Company plans to actually payout loans from F.Y 80/81E from previous cash balances (including previous year's cash surplus) and from its operating cash flows. So, debt repayment capacity and subsequent profitability depends majorly on its operating cash flow which is generated through electricity sales.

Risk Factors: High hydrological risks in case of any adverse river flow scenarios without being eligible for any compensation for such losses as the PPA lacks deemed generation clause. Next, relatively lower contract Plant Load Factor (PLF) of the project (62%) is expected to pressurize the project's return. Penalties of 28% of unsupplied energy and loss of tariff escalations in the event of significant delay beyond the revised date of commercial operation.

Pricing & Assumptions: Our comparatives with similar HEP installed capacity finds that the peer stocks are currently trading at approx. 2.32 times their BVPS. Thus, we determine the pricing of Maya Khola Hydropower scrip to be Rs. 213 in secondary market at current scenario. No DCF valuation due to lack of data.

Disclaimers: Not to be inferred as Investment recommendation.

IPO Listing Range: Rs. 88.53 – 265.59