



SHUVAM POWER LIMITED

Issue Units: 4,81,882 units

Minimum Units: 10

Issue Open Date: 18/10/2079

Rating: ICRANP-IR BB+

Issue Price: Rs.100

Maximum Units: 5,000

Issue Close Date: 22/10/2079

Issue Manager: Muktinath Capital Ltd

Project Name: Tallo Piluwa Khola SHEP

Project Capacity: 0.99MW

PROJECT PROFILE

Project Type	Run of River
Project Model	-
Project Site	Chainpur, Sankhuwasabha
Status	In Operation
COD	Shrawan, 2068
Annual Energy Generation	68,42,036 kWh
Wet Season (8 mths)	53,50,938 kWh
Dry Season (4 mths)	14,91,098 kWh
Total Cost of Project	Rs. 14,39,90,889 (with IDC)
Per Megawatt Cost	Rs. 14,54,45,342
Issue date of Gen. License	Chaitra, 2064
Validity of Gen. License	Not Determined
General/Disc. Payback Period	9.09 yrs. / 29.86 yrs.
Internal Rate of Return	12.36%

UTILIZATION OF IPO PROCEEDS

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

OWNERSHIP

Promoters ("A")	70%
Locals ("B")	0.97%
General ("B")	29.03%

KEY FINANCIAL HIGHLIGHTS (in millions)

FY	78/79	Q179/80	79/80E	80/81E	81/82E
Paid Up Cap.	142	142	200	200	200
R&S	(18)	(16)	(9)	3	7
LT Loan	95	93	32	28	23
Energy Sale	27	7.5	29	29	29
Op. Profit	11	5	17	17	19
Net Profits	2	2	9	12	14

RATIOS	78/79	Q179/80	79/80E	80/81E	81/82E
EPS	1.43	1.40	4.47	6.05	7.13
BVPS	88.48	89.88	95.44	101.50	103.63
Int. Coverage Ratio (in times)	1.28	1.78	2.50	5.00	6.50

VALUATION / PRICING

As per P/E	214.80
As per P/B	555.78
As per DCF	-

0.99MW HEP operating commercially since Shrawan, 2068. As the current project is less than 1 MW installed capacity, project's validity of generation license is not determined. Projected report presented moderately leveraged balance sheet. The company plans to pay off chunk of the loans through IPO proceeds. So, Profitability depends on efficiency in electricity production and cost control. Dividend anticipated on FY 81/82 but hardly any Bonus/Right in 3-year windows.

Snapshots...

About the Issue: Out of the offered 5,80,580 units, 58,058 units are for the Nepalese employed abroad, 29,030 units are for mutual funds, 11,610 units are allocated to the employees and remaining 4,81,882 units are available for General Public.

About the Company: Incorporated as Pvt. Ltd. on 2061/03/22; converted to Public Ltd. on 2072/09/14. Registered office at Kamaladi, Kathmandu. Chairman: Mr. Mitra Lal Shrestha and Directors: Subhash Amatya, Dinesh Gurung and Manju Singh.

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: Care Rating Nepal Ltd. has assigned the CARE-NP BB+ rating which indicates moderate risk of default regarding timely servicing of financial obligations. Rationale put are – strengths such as experienced board members and moderate operating performance, 73.75% avg. operational efficiency. Weaknesses such as small scale of operations, hydrology and outage risks, etc.

Financial Health: The company is in profitable situation. Debt-to-Equity ratio on F.Y 78/79 is at ~0.76 times. This is forecasted to be reduced to ~0.11 times till F.Y 81/82E. Through examining the forecasted cash flows, on F.Y 79/80E, the company plans to offload 65% of debt through IPO proceeds and operating cash flows. Due to small operation, efficiency in production against the contracted energy production remains main driver of generating cash flow and subsequently the profitability of company.

Utilization of IPO proceeds: The company has long term loan of ~Rs. 94 Mill at present. The term loan is of 12 years and interest rate is at 9.27%. The company forecasts to pay the loan to the extent of IPO proceeds it receives. In 2079/80E, the company would pay up ~ 62 Mill. jointly from IPO proceeds and Operating cash flows. Remaining loan would be paid along the forecasted years.

Risk Factors: Limited financial flexibility and economies of scale due to small scale of operations, hydrology risk from dependence on river flow for power generation, exposure to volatile interest rates from the banks, and regulatory risk from new policies by NEA.

Pricing & Assumptions: Our comparatives with similar HEP installed capacity finds that the peer stocks are currently trading at approx. 5.92 and 64.36 times their BVPS and EPS respectively. Thus, we determine the pricing of Shuvam Power Ltd. scrip to be Rs.214.80 in secondary market at current scenario. No DCF valuation due to lack of data.

Disclaimers: Not to be inferred as Investment recommendation.

Sources: Prospectus, Offer Letter, Grading report, etc.