

## IPO Issue Snapshot:

### Issue Details:

|                       |                         |
|-----------------------|-------------------------|
| Issue Type            | IPO                     |
| Issue Size            | 17,25,000units          |
| Issue Price per share | NPR. 100                |
| Issue Open Date       | 2017-03-02 (2073/11/19) |
| Early Close Date      | 2017-03-06 (2073/11/23) |
| Late Close Date       | 2017-03-16 (2073/12/03) |
| Issue Manager         | NIBL Capital Market Ltd |
| ICRA Grading          | 3                       |
| Min. to apply:        | 50 units                |
| Max. to apply:        | 15000 units             |

### Company Synopsis:

|                       |  |        |
|-----------------------|--|--------|
| Company Category      | Hydropower   |        |
| Ownership Structure   | Public Limited                                     |        |
| Current Shareholdings | Promoter Shares                                    | 88.00% |
|                       | General Public (locals from project affected area) | 12.00% |
|                       | General Public (including Employees)               | -      |

## 1. Company Overview:

United Modi Hydropower Ltd. was incorporated under Company Act 2063 as private limited company on 2064/08/05 B.S with the objective of promoting hydropower in Nepal through private investment. It was later converted into Public Limited Company on 2070/12/28 B.S.

Currently, the company has been working on 2 projects. The first one is the Lower Modi-1 Hydropower Project (10MW) and another is Lower Modi-2 Hydropower Project (10.5MW) which is cascade of the first project. Lower Modi-2 Hydropower is in its design phase. The energy generated from the project will be evacuated to the national grid by 3km, 132kv transmission line to the existing Lower Modi-1 switchyard and then on the common system to NEA Modi Substation at Dimuwa, Parbat.

The company has already issued and allotted 1150000 units of its public shares to project affected local residents through IPO on dated 2073/05/26 B.S. As of dated, it has paid up capital of amounting NPR. 977500000. After the IPO issuance of 1725000 units to general public, it will form shareholding pattern as 75:25 in ratio.

## 2. Objectives of Issue

The major object of the offer is to raise the fund to invest and run the under construction cascade project Lower Modi-II (10.5MW) situated in Dimuwa Parbat.

To dilute the promoter shareholding structure from existing 88% to 75% where 10% has been offered to project affected local inhabitants and remaining 15% shall be offered to General Public and employees through this IPO and increase their participation in hydroelectricity projects.

### 3. Company's Future Plans:

The core objective of the company for which it came into existence is to explore the potential of extensive water resources available in various region of Nepal to build and operate the small and large scale hydropower projects generating electricity to fulfill the demand of local consumers and mitigate the hydro energy crisis of the nation.

- To study and research on the possibility of building hydro energy project; and production and supply of electricity to local inhabitants and by selling to Nepal Electricity Authority.
- To explore further possibilities to enter into new ventures in hydropower sector.
- To promote the infrastructural development such as roads, transports, communication and installation of electricity transmission lines in align with the development of hydro electricity projects.
- To purchase/supply all the necessary resources for hydro energy production such as plants and machineries, equipments, vehicles, tools and other items.
- To generate the employment opportunities for the local and others and help in alleviating the poverty percentage of nation.
- To conduct research on other sources of generating electricity such as solar and wind in addition to water source.

### 4. Shareholding Pattern/ Ownership Structure:

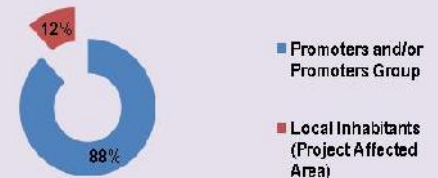
**Company's Share Capital Structure**



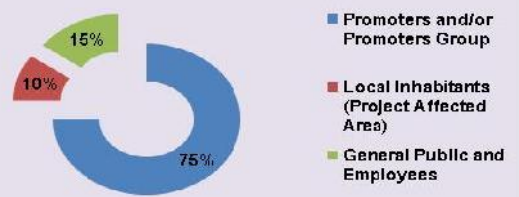
|  | Existing   | Post Issue |
|--|------------|------------|
| Paid Up Capital (Existing) (9775000 @100)    | 977500000  | 1150000000 |
| Issued Capital (11500000 units @ Rs. 100)    | 1150000000 | 1150000000 |
| Authorized Capital (12500000 units @ Rs 100) | 1250000000 | 1250000000 |

| Shareholding Pattern                      | Pre-Issue | Post Issue |
|---|-----------|------------|
| Promoters and/or Promoters Group          | 8625000   | 8625000    |
| Local Inhabitants (Project Affected Area) | 1150000   | 1150000    |
| General Public and Employees              |           | 1725000    |

**Pre-Issue**



**Post Issue**



The above charts enumerate the changes that will occur after IPO issue. The company's existing share capital structure is consisting Promoter shares which occupies 88 % and 12% of shares issued to local inhabitants of project affected area. As per the Company Memorandum, it has decided to offer 1725000 units of shares to General Public (including 34500 units for staffs) which will convert the existing share capital structure in 75:10:15 ratios representing Promoter, Local Inhabitants and General Public (including staffs) respectively.

## 5. Board of Directors Details

| S.n | Name & Address                | Designation       | Age | Nationality | No. of Shareholding | Qualification                    | Work Experience   |
|-----|-------------------------------|-------------------|-----|-------------|---------------------|----------------------------------|---|
| 1   | Mr. Sukuntalal Hirachan       | Chairperson       | 62  | Nepali      | 147,808             | I.E<br>Architecture              | -Executive Director: United Builders and Engineers Pvt.Ltd<br>- Member: Nepal Udhyog Banijya Mahasangh<br>- Past President: Nepal Nirman Byawasai Mahasangh and Nepal Purwadhar Bikash Company Ltd experience for more than 40 years. |
| 2   | Mr. Sudhir Pd. Timilsina      | Managing Director | 48  | Nepali      | 191,755             | B.I                              | -Past Member- NRN ICC,<br>-Promoter- Ambay Cement Pvt.Ltd<br>-30 years experience in industrial and business sector   |
| 3   | Mr. Krishna Prasad Acharya    | Director          | 64  | Nepali      | 280,784             | SLC                              | -Chairperson: People Hydro Cooperative Ltd<br>- 40 years experience in different industry, business and service sector.   |
| 4   | Mr. Mukunda Prasad Timalisina | Director          | 57  | Nepali      | 64,950              | B.Com                            | -Director: Subhashree Agni Cement Industry Pvt.Ltd<br>-More than 30 years of experience in business sector  |
| 5   | Mr. Sunil Bhakta Shrestha     | Director          | 55  | Nepali      | 310,751             | B.Com                            | - More than 30 years of experience in service sector.   |
| 6   | Mr. Ashish Thapa              | Director          | 36  | Nepali      | 310,751             | B.I Electrical                   | - 12 years of experience in education and management sector.  |
| 7   | Mr. Narayan Ballav Panth      | Director          | 65  | Nepali      | 5501                | M.A in Economics,<br>B.L , B.Com | -Chairperson- Dev Investment Company Pvt.Ltd<br>-Chairperson- Deva Bachat Tatha Rin Sahakari Sanstha Ltd<br>- 40 years of Experience in legal sector  |

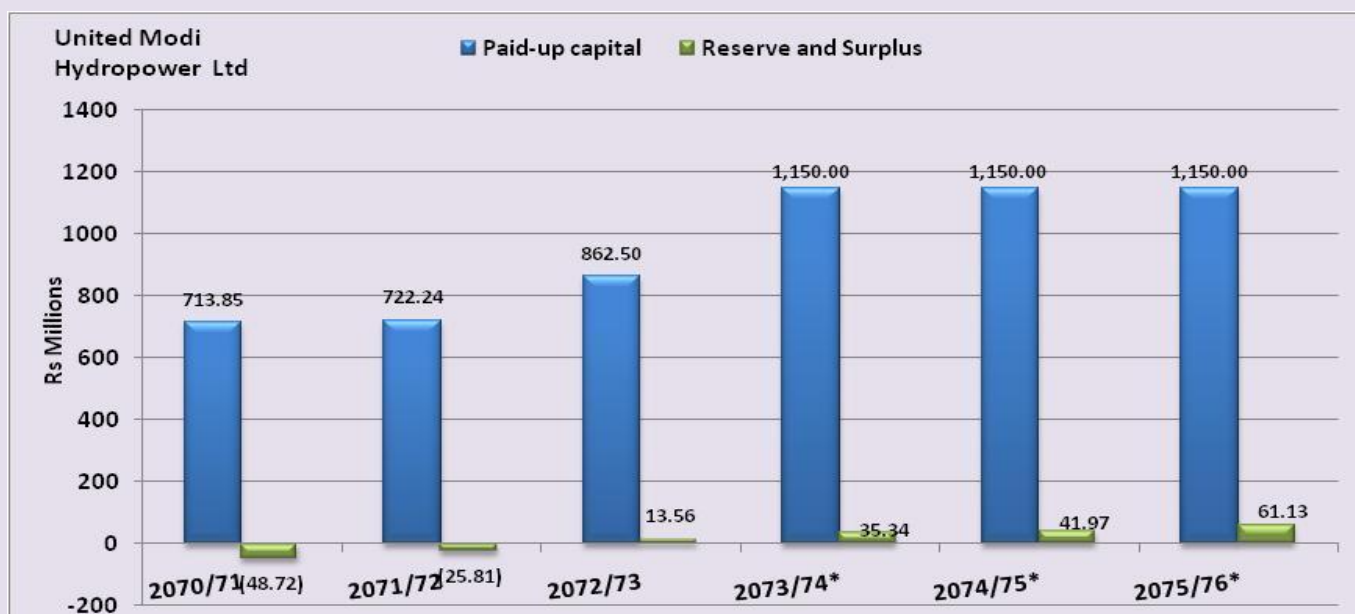
## 6. Financial Summary

| Particular          | Actual           |                  |                  | Forecasted       |                  |                  |
|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                     | FY 2070/71       | FY 2071/72       | FY 2072/73       | FY 2073/74*      | FY 2074/75*      | FY 2075/76*      |
| Paid-up capital     | 713,845,000.00   | 722,239,000.00   | 862,500,000.00   | 1,150,000,000.00 | 1,150,000,000.00 | 1,150,000,000.00 |
| Reserve and Surplus | (48,716,000.00)  | (25,809,000.00)  | 13,564,000.00    | 35,338,000.00    | 41,972,000.00    | 61,131,000.00    |
| Net Worth           | 665,129,000.00   | 696,430,000.00   | 876,064,000.00   | 1,185,338,000.00 | 1,191,972,000.00 | 1,211,131,000.00 |
| Long-term Loan      | 1,414,490,000.00 | 1,340,428,000.00 | 1,192,384,000.00 | 1,118,724,000.00 | 1,876,372,000.00 | 2,295,136,000.00 |
| Total Debt          | 1,444,901,000.00 | 1,368,986,000.00 | 1,245,169,000.00 | 1,160,342,000.00 | 1,918,853,000.00 | 2,337,874,000.00 |
| Current Liabilities | 30,413,000.00    | 28,557,000.00    | 52,785,000.00    | 41,618,000.00    | 42,482,000.00    | 42,738,000.00    |
| Current Assets      | 139,543,000.00   | 125,755,000.00   | 212,591,000.00   | 93,918,000.00    | 85,564,000.00    | 85,448,000.00    |
| Net Current Assets  | 109,130,000.00   | 97,198,000.00    | 159,806,000.00   | 52,300,000.00    | 43,082,000.00    | 42,710,000.00    |
| Total Assets        | 2,110,030,000.00 | 2,065,416,000.00 | 2,121,233,000.00 | 2,345,680,000.00 | 3,110,825,000.00 | 3,549,005,000.00 |
| Operating Income    | 277,333,000.00   | 271,274,000.00   | 147,188,000.00   | 297,930,000.00   | 336,857,000.00   | 342,705,000.00   |
| Gross profit        | 267,305,000.00   | 262,042,000.00   | 139,602,000.00   | 297,930,000.00   | 336,857,000.00   | 342,705,000.00   |
| Operating Profit    | 1,406,000.00     | 24,228,000.00    | 38,972,000.00    | 79,273,000.00    | 121,635,000.00   | 134,158,000.00   |
| Net Profit          | 1,406,000.00     | 24,228,000.00    | 38,972,000.00    | 79,273,000.00    | 120,051,000.00   | 132,328,000.00   |
| Proposed Dividend   | -                | -                | -                | 57,500,000.00    | 115,000,000.00   | 115,000,000.00   |
| Retained Earning    | 1,406,000.00     | 24,228,000.00    | 38,972,000.00    | 21,773,000.00    | 5,051,000.00     | 17,328,000.00    |

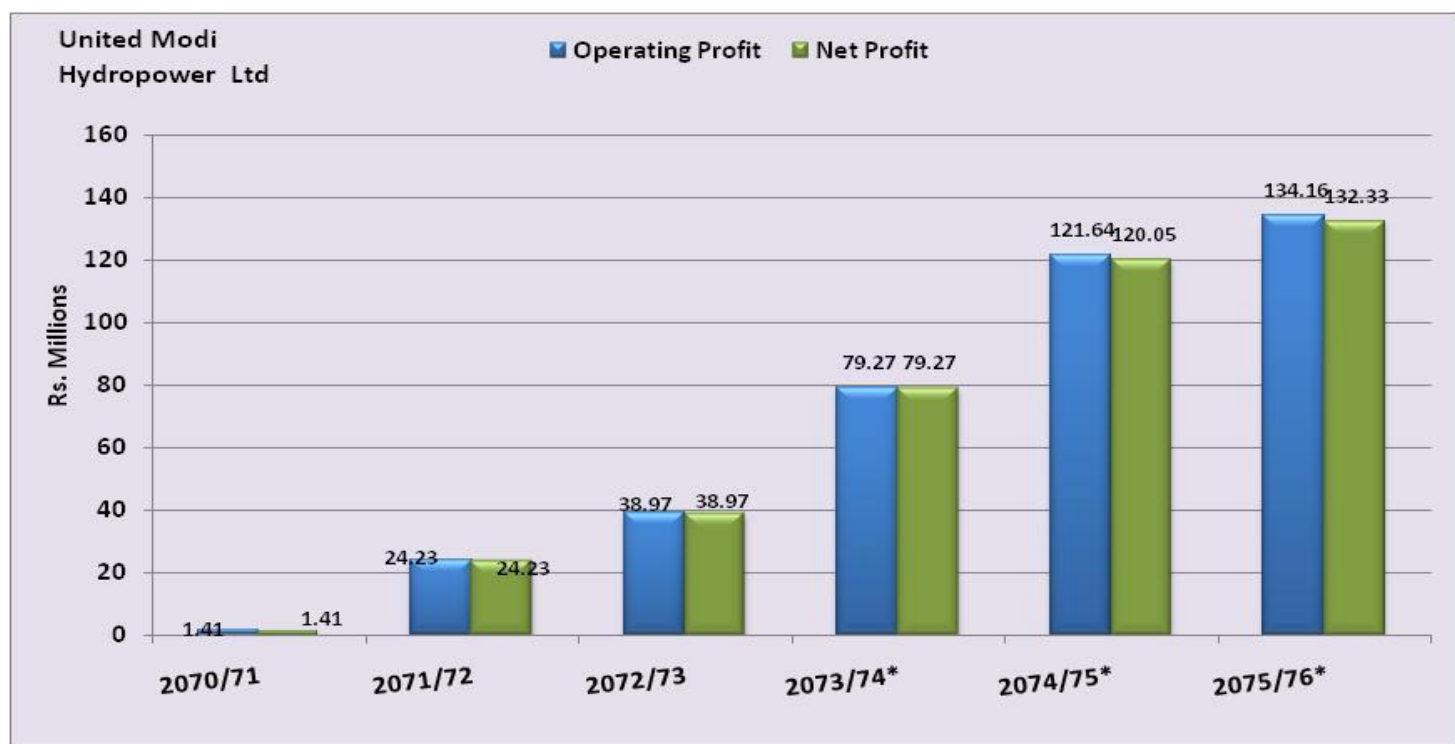
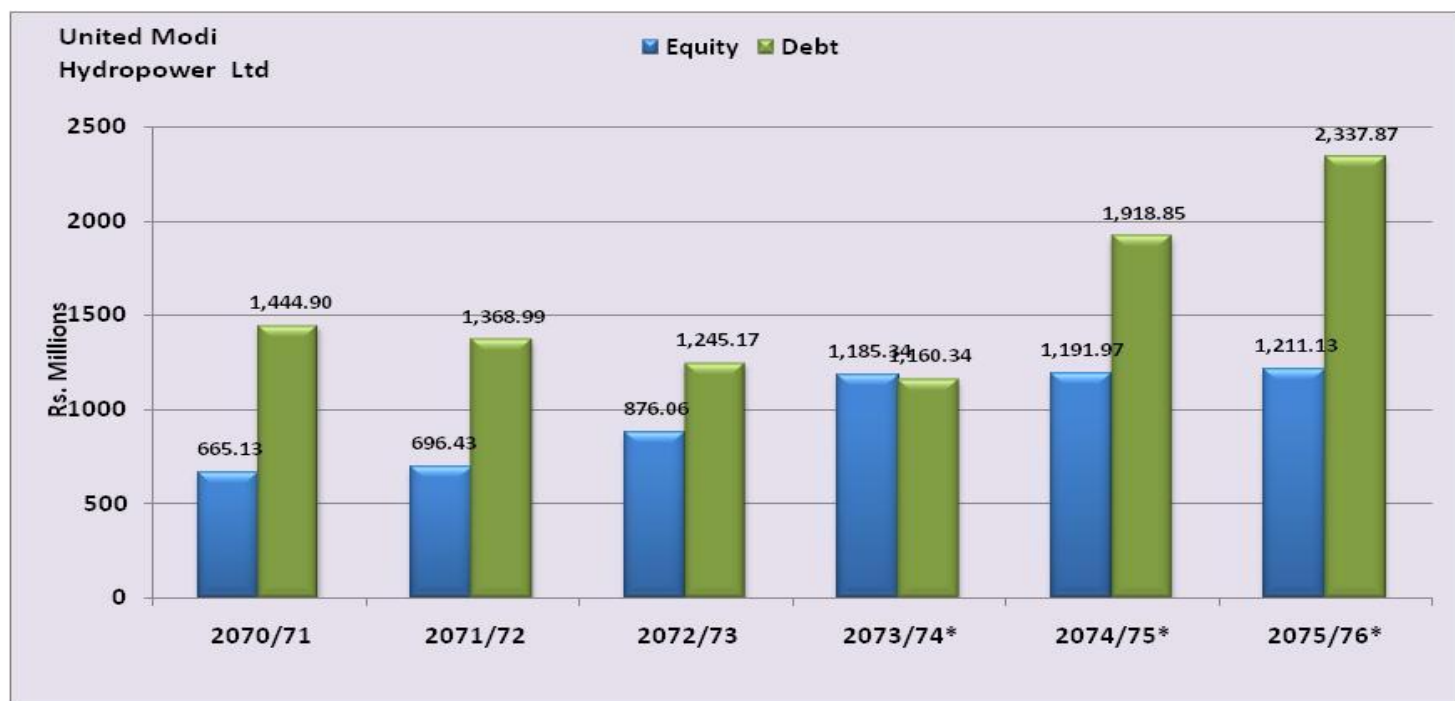
## 7. Financial Key Indicators:

| Particulars  | Actual     |            |            | Forecasted  |             |             |
|--|------------|------------|------------|-------------|-------------|-------------|
|  | FY 2070/71 | FY 2071/72 | FY 2072/73 | FY 2073/74* | FY 2074/75* | FY 2075/76* |
| <b>Profitability Ratio</b>   |            |            |            |             |             |             |
| Net Profit Margin (Net Profit After Tax / Total Operating Income)% | 0.51%      | 8.93%      | 26.48%     | 26.61%      | 35.64%      | 38.61%      |
| ROE%   | 0.21%      | 3.48%      | 4.45%      | 6.69%       | 10.07%      | 10.93%      |
| ROA%   | 0.07%      | 1.17%      | 1.84%      | 3.38%       | 3.86%       | 3.73%       |
| <b>Market Ratios</b>   |            |            |            |             |             |             |
| EPS  | 0.20       | 3.35       | 4.52       | 6.89        | 10.44       | 11.51       |
| Net worth per share  | 93.18      | 96.43      | 101.57     | 103.07      | 103.65      | 105.32      |
| Dividend Payout Ratio ( Dividend/Net profit)                       | 0.00       | 0.00       | 0.00       | 72.53%      | 95.79%      | 86.91%      |
| <b>Debt Ratio</b>  |            |            |            |             |             |             |
| Debt/Equity Ratio  | 2.17       | 1.97       | 1.42       | 0.98        | 1.61        | 1.93        |
| <b>Liquidity Ratio</b>   |            |            |            |             |             |             |
| Current Ratio  | 4.59       | 4.40       | 4.03       | 2.26        | 2.01        | 2.00        |

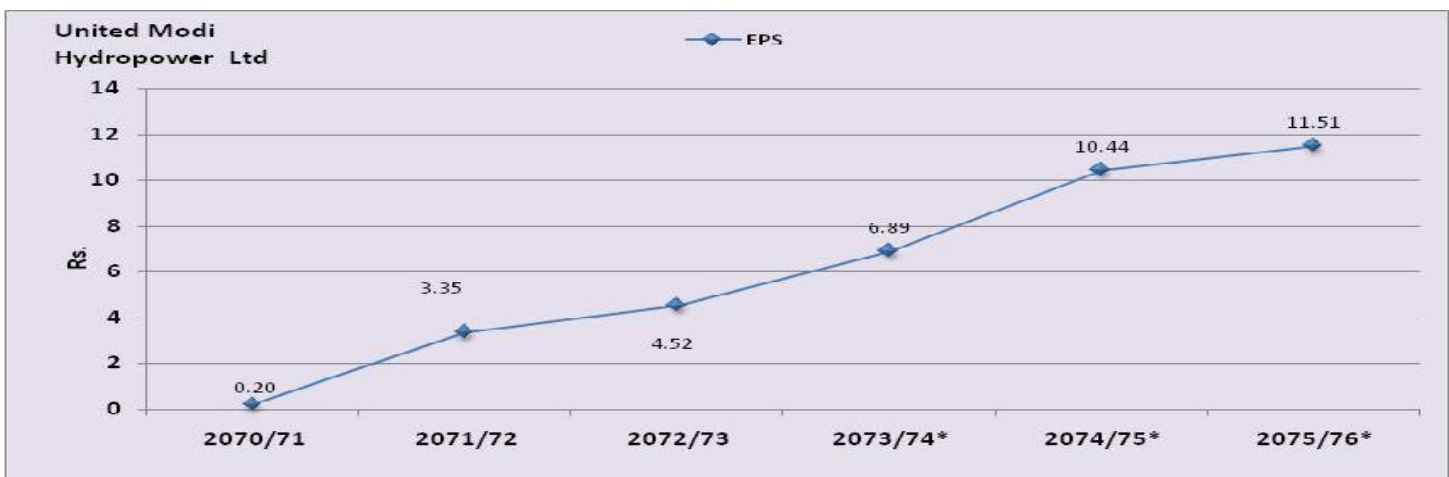
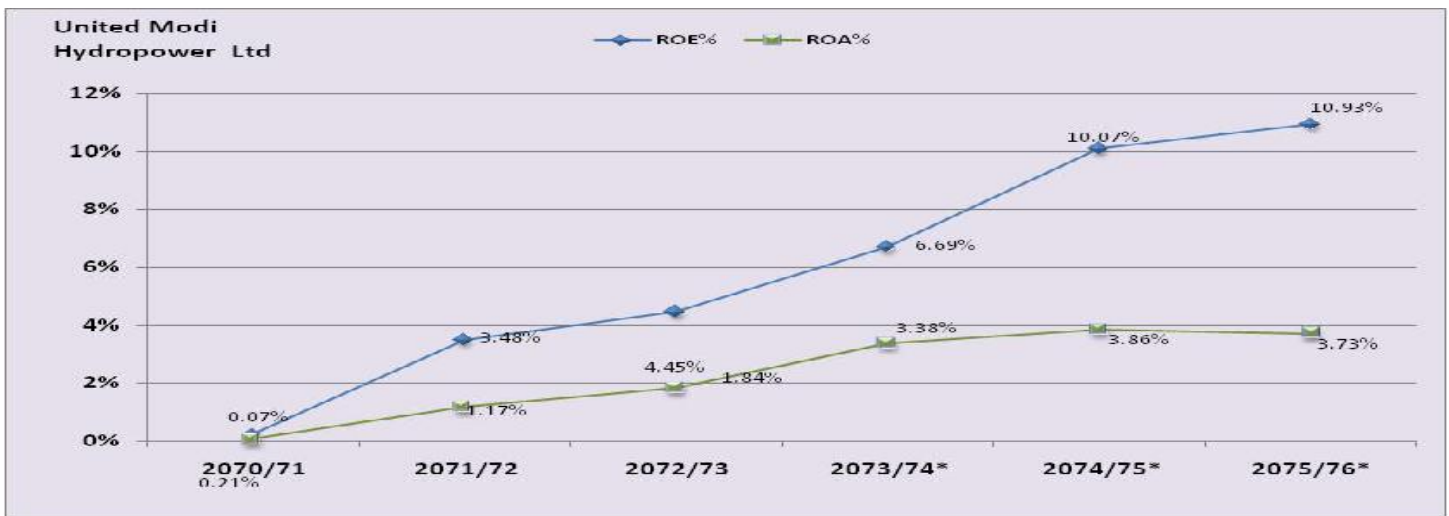
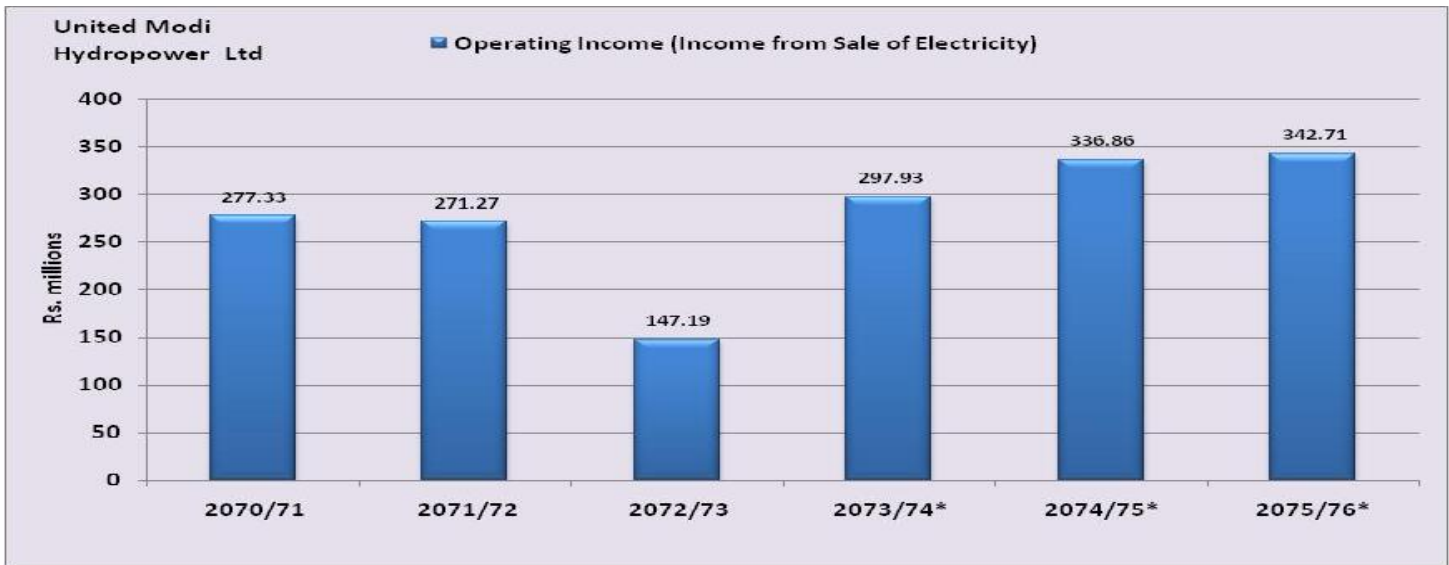
## 9. Financial Charts



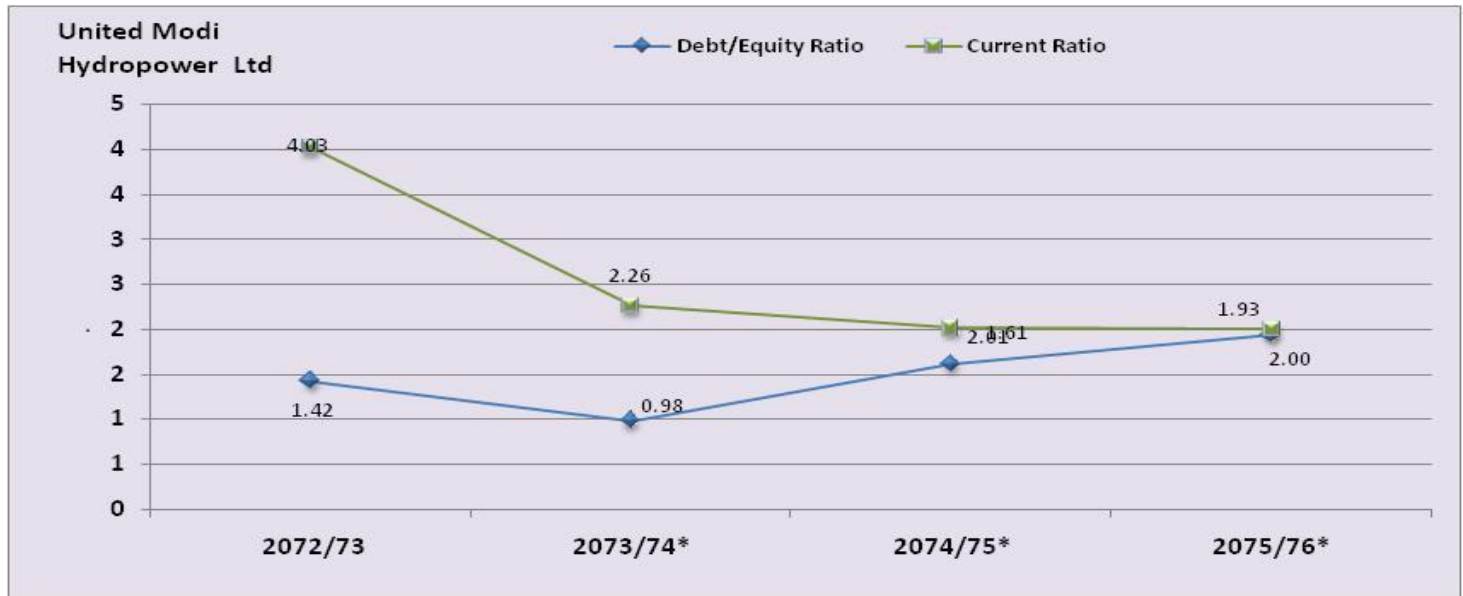
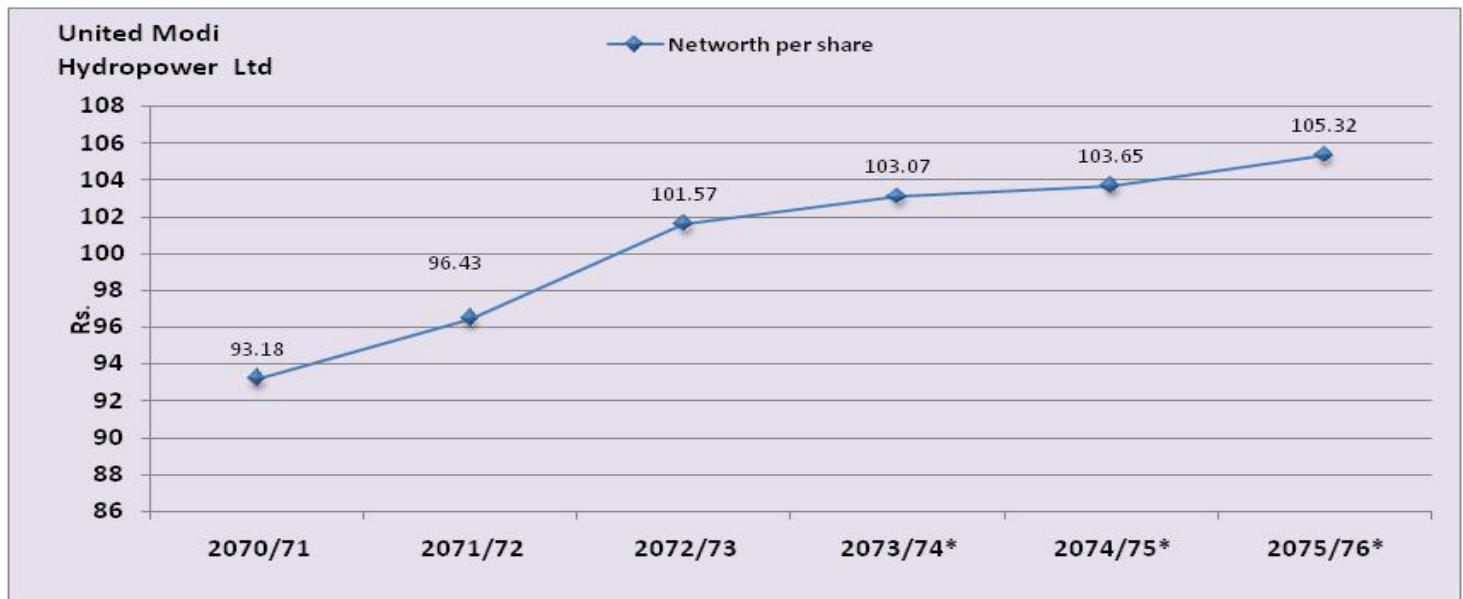
## 9. Financial Charts



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## 10. Overall Opinion:

### Management & Governance:

The company is run by experienced group of professionals who have showed their active involvement in diverse business sectors. Major promoters of the company include Fidelity Investment Pvt. Ltd. (~10% holding as of now), Prabhu Bank Limited (~10%), Himalayan Infrastructure Fund Ltd. (~8%), Peoples Hydro Cooperative Limited (~4%), among others. The promoter holding after proposed IPO is expected to dilute to 75%, assuming full subscription. The Management team constitutes experienced people from diverse sectors such as Co-operatives, financial institutions, Hydropower, Legal and Energy. The management team is committed to bring the transparency, quality and efficiency in project development process.



### Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

| <u>Strengths</u>  | <u>Weaknesses</u>   |
|---|---|
| <ul style="list-style-type: none"> <li>• The project is handled by experienced group of management</li> <li>• Availability of evacuation infrastructure and arrangement conducted between NEA and company in the form of PPA. Tariff and off take risks reduced substantially.</li> <li>• The Company is already running in profit and planned to distribute dividend in next fiscal year.</li> <li>• Funding risk is lowered as bankers are agreed to finance the project at lower interest rate.</li> </ul> | <ul style="list-style-type: none"> <li>• High Project Cost</li> <li>• The project is located at difficult geographical area which expose the project into risk of prospective damages which may result in cost overrun and delay in project completion which may result subject companies to penalties.</li> </ul>  |
| <u>Opportunities</u>  | <u>Threats</u>  |
| <ul style="list-style-type: none"> <li>• Geographical prospects to thrive and run new hydro projects.</li> <li>• Demand and Supply gap in power-energy sector in every region of country.</li> <li>• To explore further possibilities to enter into new ventures in hydropower sector.</li> <li>• Resource utilization of existing Lower Modi-I for its cascade project will minimize the construction cost.</li> </ul>   | <ul style="list-style-type: none"> <li>• Possibility of cost overrun due to delay in project completion on the given time frame.</li> <li>• Lack of clarity on the government's plans and programs for hydropower developments.</li> <li>• Supply is solely limited to NEA, absence of power trading company. Bargaining power of buyer seems influential in price determination.</li> <li>• Political instability and ineffective governance.</li> </ul> |

### Financial Analysis:

- The company fundamental indicators are found to be average indicating that the company has favorable growth prospect in future.
- The company has been earning nominal net profit in previous fiscal years and also projected to earn gradual net profit in upcoming years. The net profit seems to increase by 9.30% and 2.97% in FY 2074/75 and FY2075/76 respectively.
- ROE is also seem to be in increasing trend and also forecasted to increase in future. In FY 2072/2073 the ROE was 4.45% which predicted to be 6.69% in FY 2073/2074 and remains stable at around 10%.
- In comparison to ROE, ROA does not seem to have much growth and seems to remain stable in around 3% in future.
- The EPS of the company is Rs4.52 in FY 2072/2073 which is expected to rise up to Rs6.89, Rs10.44 and Rs11.51 in upcoming fiscal years 2073/74, FY2074/75 and FY2075/76 respectively.
- Net worth per share was around Rs. 101.57 per share for previous year, which will be increased to 103.07 in FY2073/74 as a result of newly invested share capital (IPO) and increment in the retain earning. The Net worth per share seems to have satisfying increment in future fiscal years too.
- The Company had Rs 1.19 billion of outstanding term loans payable to the consortium banks for FY 2072-73 which will be increasing as well decreasing in the upcoming fiscal years according to the financial requirement of the company.
- Debt to equity ratio shows to the financial leverage of the company. 1.5-2 ratio is considered to be a good debt to equity ratio. In case of this company we can see that the gearing ratio is found to be 2.17, 1.97 and 1.42 in FY 2070/71, FY 2071/72 and FY 2072/73 respectively. From this we can see that there had been a safe financial leverage for the company as the ratio of debt is not so high and the risk had been decreased. Later in FY 2073/74 we can see that the gearing ratio has been decreased to 0.98. This indicates the equity portion is greater than debt. The reason behind this is the issuance of IPO to the local and general public. Later the company planned again to maintain a safe debt to equity ratio to 1.61 and 1.93 in FY 2074/75 and FY 2075/2076 respectively.
- The trend of current ratio seems to be decreasing in previous fiscal years and planned to continue the trend in the upcoming fiscal years too. The company plans to maintain its current ratio to optimum level by reducing receivables and sundry stock in upcoming fiscal years.
- The forecasted balance sheet and income statement reveals that the company will be able to distribute dividend to its share holders in the upcoming fiscal years as the company seems to go in profit an also maintain higher reserve and surplus The company has planned to distribute 72.53%, 95.79% and 86.91% cash dividend in FY 2073/74, FY 2074/75 and FY2075/76 respectively.

Recommendation:

The overall financial position of the company is found to be sound exhibiting favorable growth of the business in forecasted years. The company is operating two small HEP with 9.9 MW and 10.5 MW which is comparatively of low capacity project in hydropower industry. The business size and the market share of the company classify it into small-cap companies' category. The total number of the IPO issue is 2875000 unites out of which 1150000units was issued to the local people of project affected area and 1725000unites are for the general public's. The quantity of the issue is considered to be less in the total market capitalization of hydropower sector which might result in greater volatility in share price in future. The share will be listed in the price range of Rs 101 to Rs 300. The IPO issue is considered to be suitable for the investment.

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