

## IPO Issue Snapshot:

### Issue Details:

Issue Type	IPO
Issue Size	931,429 units
Issue Price per share	Rs. 100
Issue Open Date	2016-05-29 (2073/02/16)
Early Close Date	2016-06-01 (2073/02/19)
Late Close Date	2016-06-12 (2073/02/30)
Issue Manager	Civil Capital Market Ltd
ICRA Grading	4 plus
Min. to apply:	10 units
Max. to apply:	1000 units

### Company Synopsis:

Company Category	Hydropower	
Ownership Structure	Public Limited	
Current Shareholdings	Promoter Shares	87.50%
	General Public (locals from project affected area)	12.50%
	General Public (including Employees)	-

## 1. Company Overview:

Khani Khola Hydropower Company Ltd incorporated under Company Act 2063 as private limited company on 2069/06/17 B.S. Later on 2069/12/14 B.S. with the objective to embrace mass participation of public and enhance the growth of hydro electricity generation in project affected province, the company converted into public limited company.

Currently, altogether 9 promoters (4 institutional and 5 individual) are actively engaged with the company. They belong to different sectors and profession such as Hydropower, Banks and Financial Institutions (BFIs) and Business.

The company has already issued and allotted 4, 65,714 units of its public shares to project affected local residents through IPO on dated 2072/08/09 B.S. As of dated, it has paid up capital of amounting Rs. 37, 25, 71,400. After the IPO issuance of 931,429 units to general public, it will form shareholding pattern as 70:30 in ratio.

## 2. Objectives of Issue

The major object of the offer is to raise the fund to invest and run the exiting 4.36 MW Tungun and Thosne river Hydropower project situated in southern area of Lalitpur District, and to construct 2 MW capacities of its cascade project located in Bhattedanda, Sankhu and Ikudol VDCs of Lalitpur District.

To dilute the promoter shareholding structure from existing 87.50% to 70% where 10% has been offered to project affected local inhabitants and remaining 20% shall be offered to General Public and employees through this IPO and increase their participation in hydroelectricity projects.

To utilize excess of proceeds from proposed IPO into the construction of another hydropower project 'Maya Khola Hydropower Project' with capacity of 14.9 Mw.

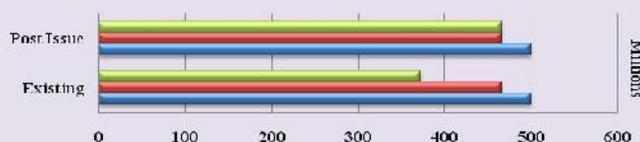
### 3. Company's Future Plans:

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 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.
- To construct and operate 14.90 Mw "Mayakhola Hydropower projects" located in Sankhuwasabha District.

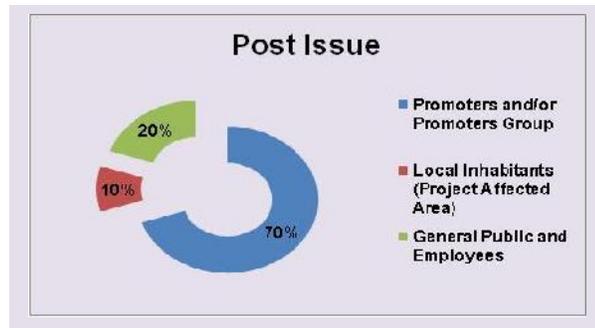
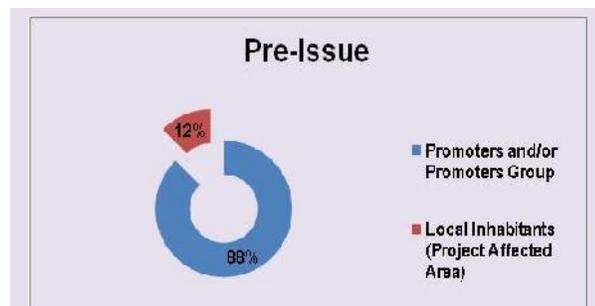
### 4. Shareholding Pattern/ Ownership Structure:

Company's Share Capital Structure



	Existing	Post Issue
Paid Up Capital (Existing) (3725714 @100)	372571400	465714300
Issued Capital (4657143 units @Rs. 100)	465714300	465714300
Authorized Capital (50,00,000 units @ Rs 100)	500000000	500000000

Shareholding Pattern	Pre-Issue	Post Issue
Promoters and/or Promoters Group	326000000	326000000
Local Inhabitants (Project Affected Area)	46571400	46571400
General Public and Employees		93142900



The above charts enumerate the changes that will occur after IPO issue. The bank's existing share capital structure is consisting only Promoter shares which occupies 88 percent of total paid up Capital. As per the Company Memorandum, it has decided to offer 4, 65,714 units to local inhabitants which it has already allotted on 2072/10/03 and issuing 9, 31,429 units of shares to General Public (including 46,571 units for mutual funds & 18,629 units for staffs) which will convert the existing share capital structure in 70:10:20 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. Bijaya Man Sherchan  (Representative from Pashupati Energy Development Co. Pvt. Ltd)	Chairperson	68	Nepali	-	Mechanical Engineer	- Executive director : Maya Khola hydropower Co. Pvt. Ltd, Director -President: Pashupati Energy Development Co. Pvt. Ltd -Director: NAVI Trade Link Pvt. Ltd. -Lifetime member: Nepal Hydro power association -Lifetime member: Nepal Engineering Association
2	Mr. Milan Bikram Shah  (Representative Pasupati Energy Developemnt Co. Pvt. Ltd.)	Director	63	Nepali	1,103	M.E (Chemical Engineer)	-Director: Pashupati Energy Development Co. Pvt. Ltd -Director: Nepal Electric Vehicle institute -Board Member: Malpi International School Pvt. Ltd. Director: NAVI Trade Link Pvt. Ltd.
3	Mr. Manohar Prasad Sherchan (Representative Pasupati Energy Developemnt Co. Pvt. Ltd.	Director	65	Nepali	1,103	M.E. (Civil)	-Director: Pasupati Energy developemnt Co. Pvt. Ltd - Director: NAVI Trade Link Pvt. Ltd. -Director: Malpi School/ and College
4	Mr. Dinesh Prasad Shrestha  (Representative Pasupati Energy Developemnt Co. Pvt. Ltd.	Director	55	Nepali	-	B.Com	-Director: Honey Enterprises Pvt. Ltd. -Director: Perennial Energy Nepal Pvt. Ltd. -Director: Pasupati Energy developemnt Co. Pvt. Ltd -President: Nepal –Thailand Trade association -President: MN International Pvt. Ltd
5	Batu Lamichhane  (Representatives Baidik Hydropower investment Pvt. Ltd.)	Director	50	Nepali	1,103	Bachelor	-Executive Director: Vaishno Devi Hydropower Co. Ltd -Director: Nyadi Group Pvt. Ltd. -Director: BG Group Pvt. Ltd. - Executive Director: Baivab Power Nepal Pvt. Ltd. -Director: Green life Energy Pvt. Ltd. (Hydro equipment supplier to various hydr Projects)
6	Mr. Binod Thakali (Sherchan)  (Swachha Investment Co. Pvt. Ltd.)	Director	53	Nepali	-	SLC	-President: Prabhu Hydro power Co. Ltd -Former British Army -Former president: Prabhu Finance Ltd

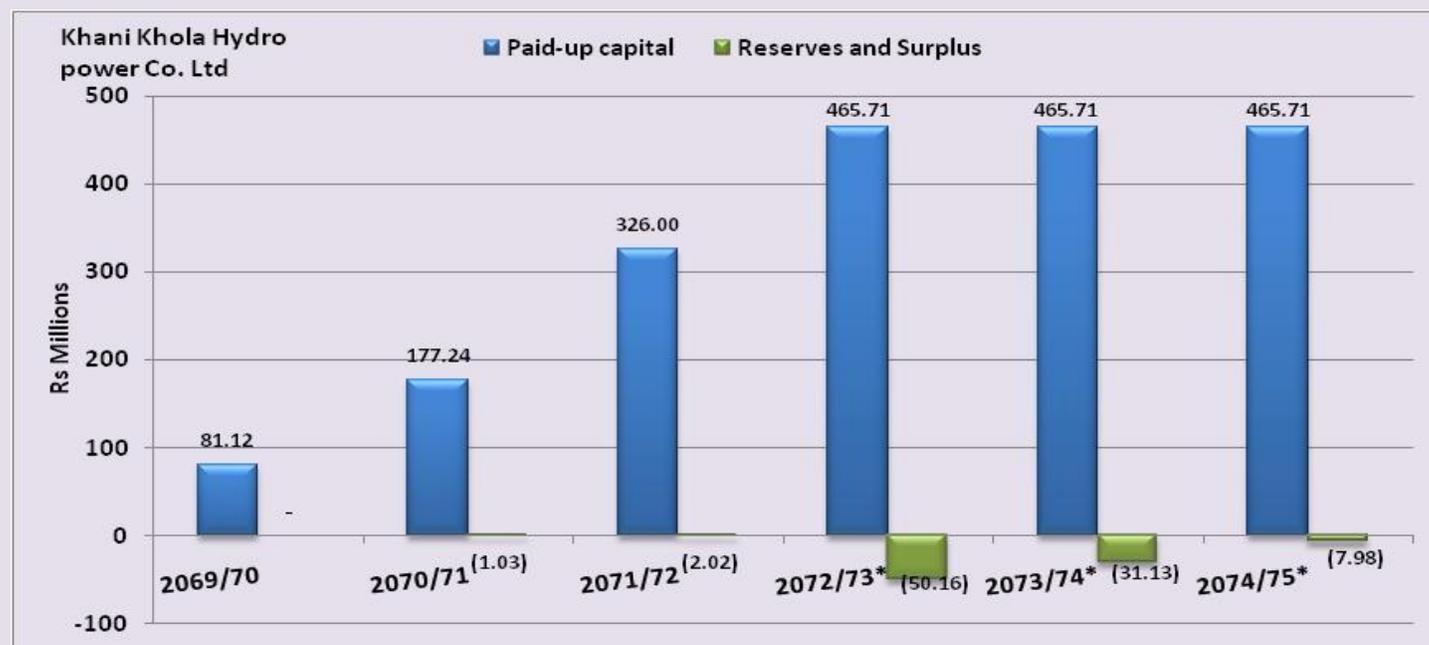
## 6. Financial Summary of the Bank

Particular	Actual			Forecasted		
	FY 2069/70	FY 2070/71	FY 2071/72	FY 2072/73*	FY 2073/74*	FY 2074/75*
Paid-up capital	81,120,000.00	177,240,000.00	326,000,000.00	465,714,000.00	465,714,000.00	465,714,000.00
Reserves & Surplus	-	(1,026,000.00)	(2,022,000.00)	(50,157,000.00)	(31,131,000.00)	(7,984,000.00)
Net Worth	81,120,000.00	176,214,000.00	323,978,000.00	415,557,000.00	434,583,000.00	457,730,000.00
Long-term Loan	-	198,187,000.00	541,149,000.00	658,631,000.00	563,930,000.00	502,398,000.00
Total Debt	1,422,000.00	200,380,000.00	610,042,000.00	684,356,000.00	583,484,000.00	518,071,000.00
Current Liabilities	1,422,000.00	2,193,000.00	68,893,000.00	25,725,000.00	19,554,000.00	15,673,000.00
Current Assets	30,914,000.00	172,859,000.00	55,693,000.00	106,877,000.00	119,172,000.00	159,837,000.00
Net Current Assets	29,492,000.00	170,666,000.00	(13,200,000.00)	81,152,000.00	99,618,000.00	144,164,000.00
Total Assets	82,542,000.00	376,594,000.00	934,020,000.00	1,099,913,000.00	1,018,067,000.00	975,801,000.00
Operating Income	-	-	-	69,043,000.00	175,143,000.00	180,244,000.00
Gross profit	(11,508,000.00)	(139,469,000.00)	-	69,043,000.00	171,004,000.00	176,003,000.00
Operating Profit	(12,429,000.00)	(149,879,000.00)	(995,000.00)	53,404,000.00	162,404,000.00	166,653,000.00
Net Profit	(13,000,000.00)	(151,024,000.00)	(995,000.00)	(48,134,000.00)	19,006,000.00	39,115,000.00
Proposed Dividend	-	-	-	-	-	-
Retained Earning	(13,000,000.00)	(151,024,000.00)	(995,000.00)	(48,134,000.00)	19,006,000.00	39,115,000.00

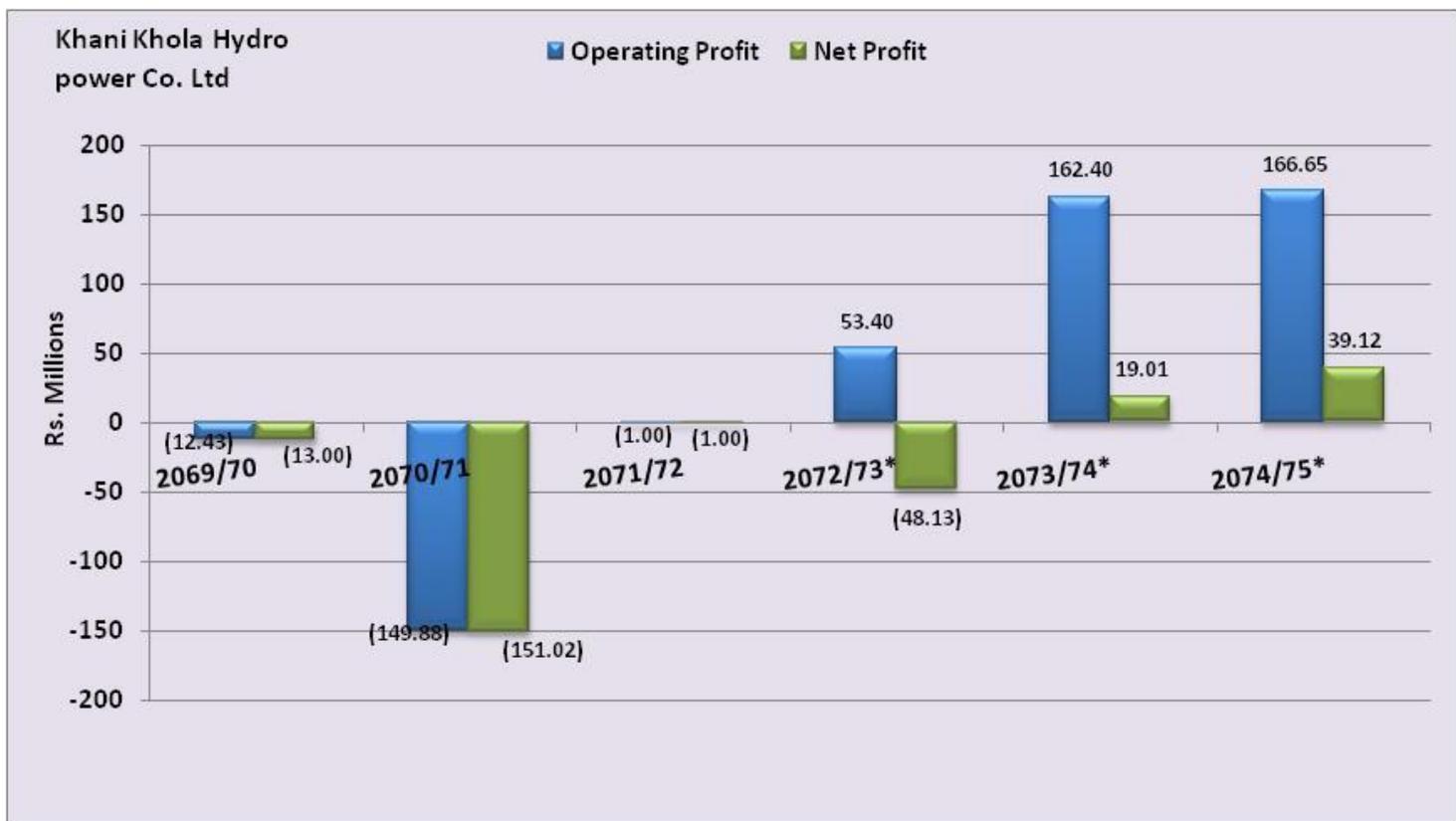
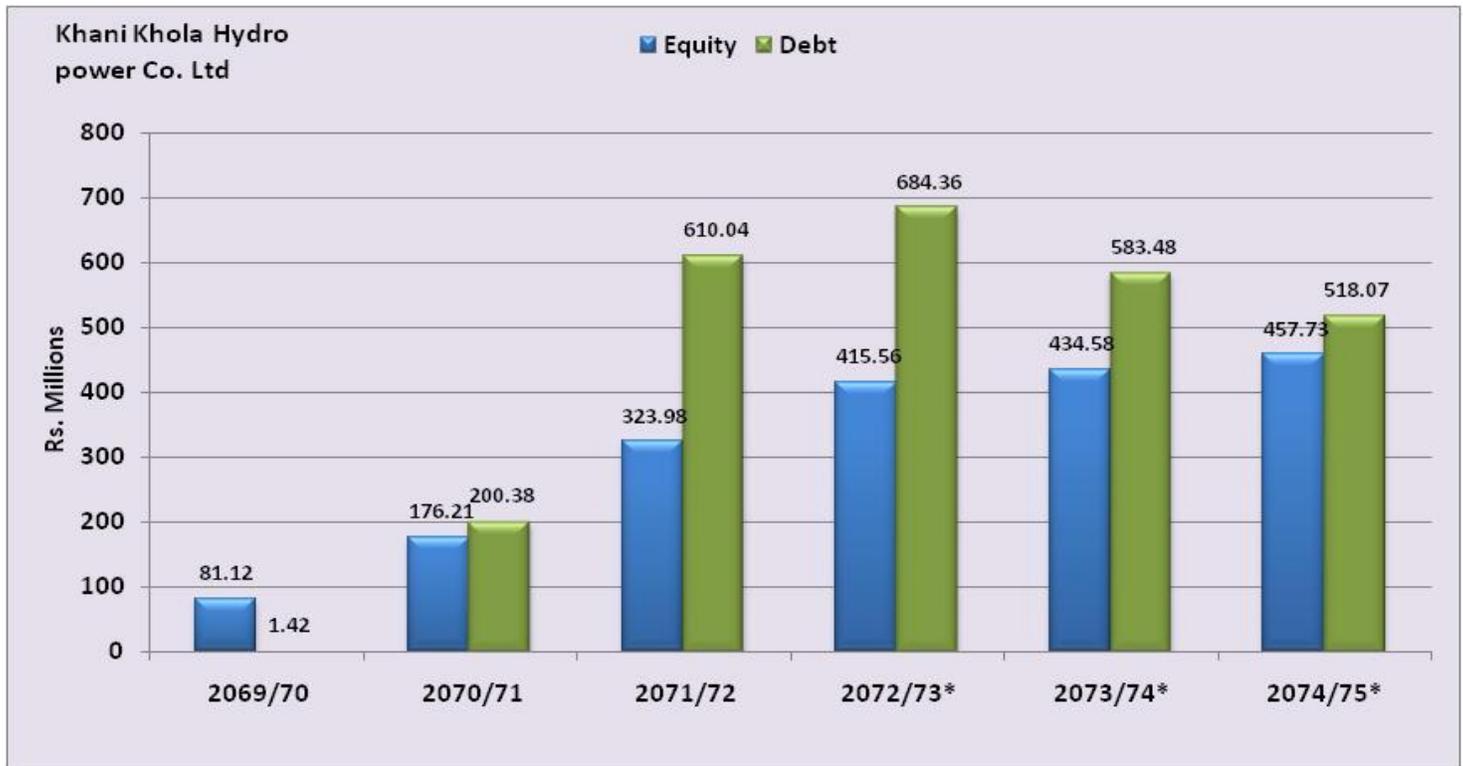
## 7. Financial Key Indicators:

Financial Ratios	Actual			Forecasted		
	FY 2069/70	FY 2070/71	FY 2071/72	FY 2072/73*	FY 2073/74*	FY 2074/75*
Profitability Ratio						
Net Profit Margin(Net Profit After Tax / Total Operating Income)%	0.00%	0.00%	0.00%	-69.72%	10.85%	21.70%
ROE%	-16.03%	-85.70%	-0.31%	-11.58%	4.37%	8.55%
ROA%	-15.75%	-40.10%	-0.11%	-4.38%	1.87%	4.01%
Market Ratios						
EPS	-16.03	-85.21	-0.31	-10.34	4.08	8.40
Net worth per share	100.00	99.42	99.38	89.23	93.32	98.29
Dividend Payout Ratio ( Dividend/Net profit)	0.00	0.00	0.00	0.00	0.00	0.00
Debt Ratio						
Debt/Equity Ratio	0.02	1.14	1.88	1.65	1.34	1.13
Liquidity Ratio						
Current Ratio	21.74	78.82	0.81	4.15	6.09	10.20

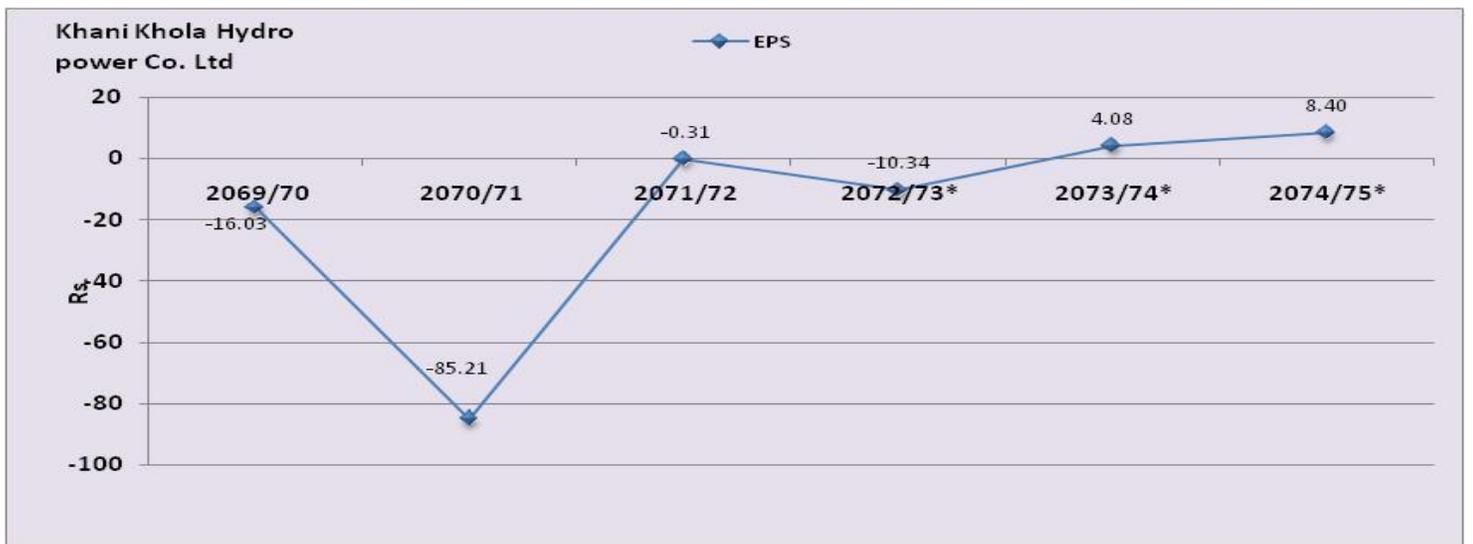
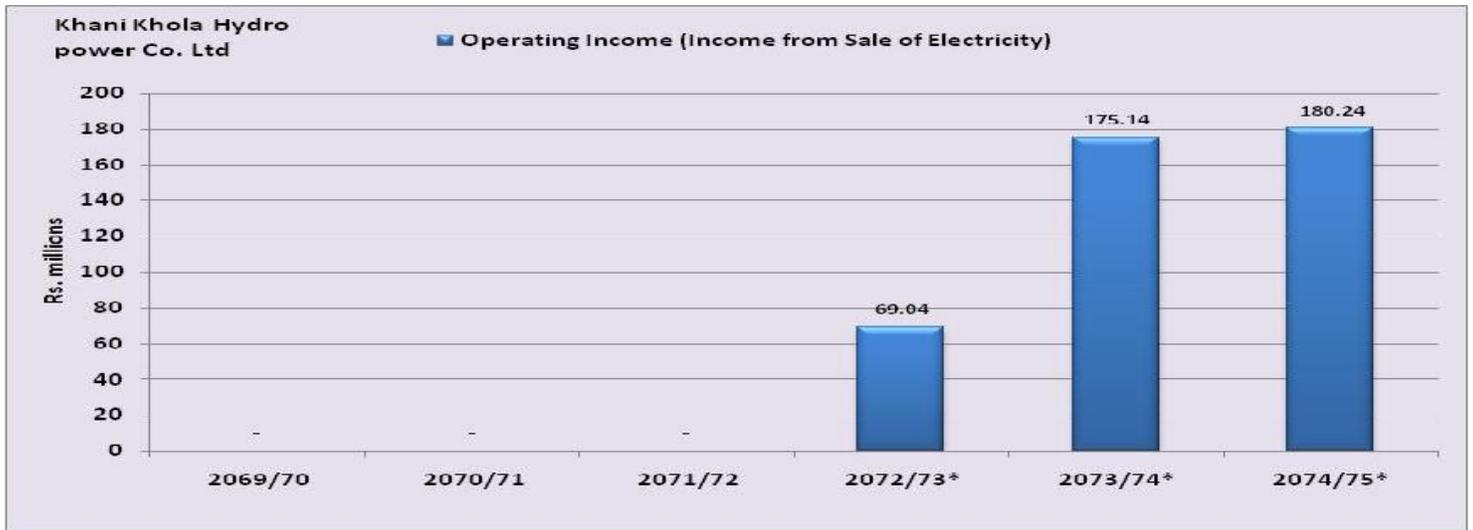
## 9. Financial Charts



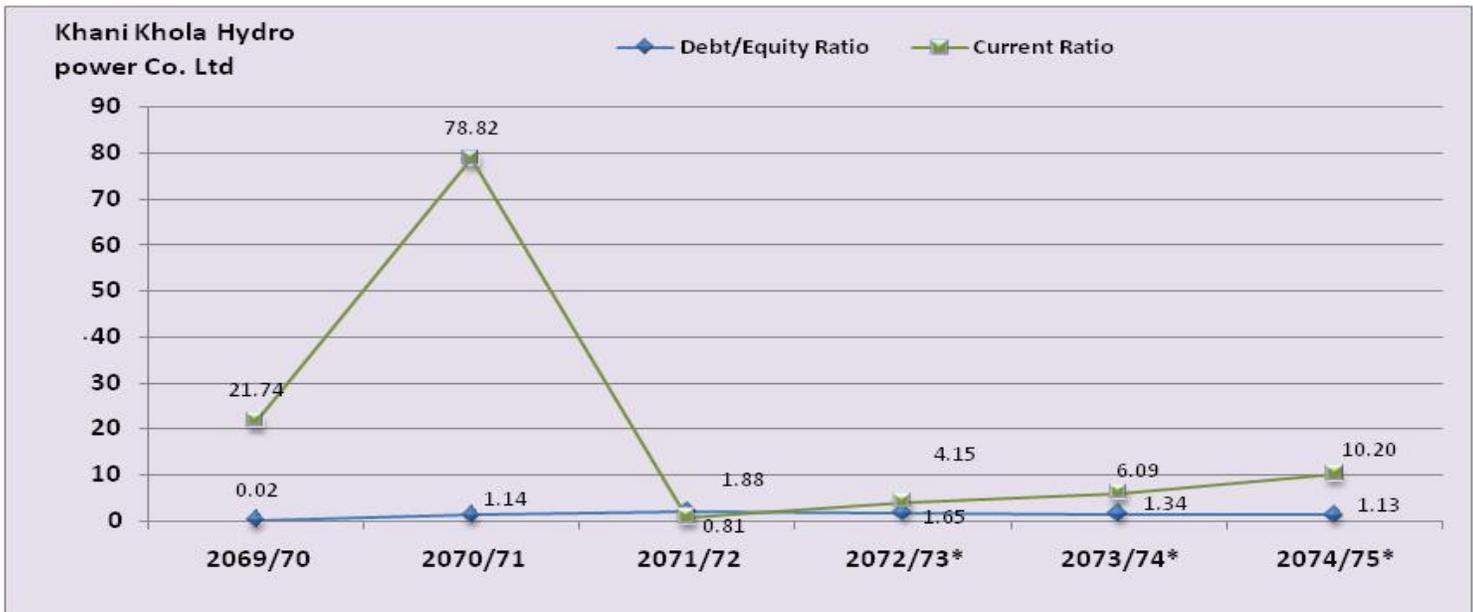
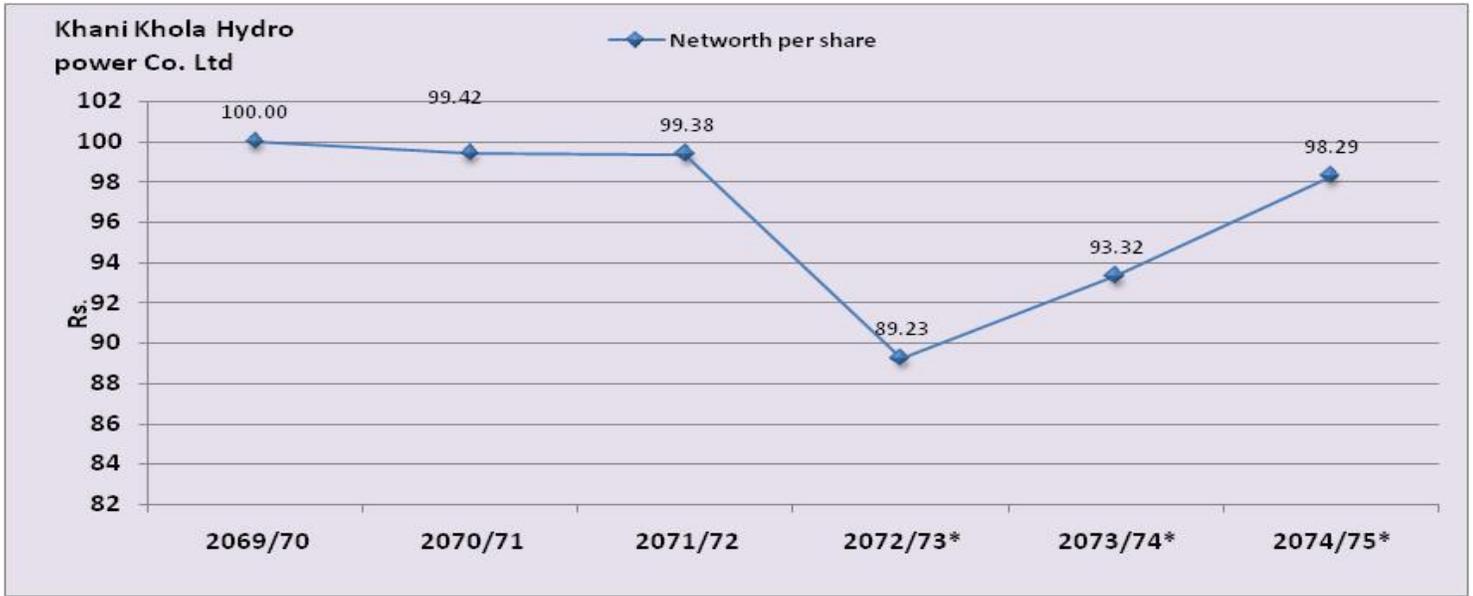
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## 10. Overall Opinion:

### Management & Governance:

- The company has been run by group of Board members who are also being engaged with hydropower, investment and banking sectors. Similarly, Management of the company has been experienced and qualified professional. Hence, considering their business acumens, experience and expertise in the sector or industry, it is expected that the company will be directed towards growth in future.

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

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"> <li>• Efficient production process of plants.</li> <li>• Experienced business units.</li> <li>• Skilled work force.</li> <li>• local people participation.</li> <li>• PPA signed with Government and entitlement of capital subsidy of NPR 5 million per MW and additional 10 % of same if it is able connect to national grid by FY 2017/18.</li> <li>• Efficient completion of projects</li> </ul>	<ul style="list-style-type: none"> <li>• Huge amount of financial obligation in term of borrowing/loan from bank to operate project.</li> <li>• Lack of availability of proper and sufficient power evacuation infrastructure and under construction of NEA transmission line, cause to employ 11k local grid which results losses in terms of power leakages, &amp; cost of operation.</li> <li>• First project to run by the promoter group, though they have extent of experience in the sector.</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>• Support of neighboring countries in India and China in terms of infrastructure development and commercialization.</li> <li>• New project "Mayakhola Hydropower Project" in Pipeline under financial disclosure phase.</li> </ul>	<ul style="list-style-type: none"> <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:

- Minor phase of construction of its hydro project still in progress due to that the fundamental indicators of the company are below satisfactory level as compared to other existing companies within the industry. However, the Performa financial statements indicate the favorable and improved results.
- The company had no sale of power till FY 2071/72 which resulted into loss burden. At the end of current FY 2072/73, the company projected the sales of NPR 69,043,000 (average monthly turnover of Rs. 1.15 crore) but still settled with loss of Rs. 4.81 crore mainly due to initial phase of its operation and capacity not being fully utilized. The company will break-even in its 5<sup>th</sup> year and projected to book net profit of Rs. 1.90 crore due to dramatic increment in sales by 154 %. However, the sales growth seems stagnant in FY 2074/75 only by 2.9 percent.
- Net profit margin found to be negative till the end of current FY 2072/73 but shows positive result in the upcoming years. Return on equity (ROE) was found to be negative till FY 2072/73. But, it surged to 4.37% in the FY 2073/74 and 8.55% in FY 2074/75. The forecasted ROE of company still found to be below 10%, which is below industry average.
- Return on Assets (ROA) till FY 2072-73 found to be negative and expected to reach 1.87% in FY 2073/74 and 4.01% in FY 2073/4. However, ROA of above 5% is generally considered as appropriate according to nature of company.
- Earnings per share (EPS) are expected to turn positive only in FY 2073/74 with Rs. 4.08 and Rs. 8.40 in FY 2074/75 which is still below industry average of Rs. 10.
- Net worth per share expects to remain below 100 due to huge amount of negative reserves. However, the company plans to reduce its negative reserve balance in future.

- The Company had Rs.541.149 million of outstanding term loans payable to the consortium banks for FY 2071-72; corresponding to a gearing ratio of 1.88 times, which is projected to decline in upcoming years. Debt servicing remains below 1 in FY 2072-73 which delineates financial risk exposure of the company is high due to extensive interest expenses and minimal level of operating profit. In the upcoming years, company expects to bring its interest coverage above 3 times.
- In FY 2071-72, the current ratio stood below 1 which question about financial soundness of the company. However, the expected improvement in upcoming years drives the company to favorable condition to meet its financial obligations and maintain liquidity.
- The company has not disclosed any cash and stock dividend plan as forecasted by balance sheet and income statement as the company has negative reserves.
- Considering the business size, market share and financial position of the institution, the stock is more likely to classify into small-cap side, which exhibit the characteristics of high volatility and riskiness in relation to market condition. The company has planned to operate its next 14.90 Mw hydro projects (Mayakhola Hydropower project) in Sankhuwasabha District which is under preliminary phase. Such Hydropower Company generates stagnant profit unless it advances to new project venture or enhance its capacity. However, IPO investment in Nepalese context is quite attractive in terms of long-term investment and participation of public in such projects also encourages accountability and growth of the sector.

#### Recommendation:

Khani Khola Hydropower Company Ltd's IPO turns **SUITABLE** for investors considering long-term investment return, its geographical prospect to thrive new projects, demand-supply gap in power sector and timely execution of company's next project. At present, current project is solely reliable to generate return to its shareholders. It is expected to list at price between Rs 150-270. The rise further depends on the ability to run its current and future hydro projects successfully.

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