

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	3,96,000 units
Issue Price per share	NPR. 100
Issue Open Date	2016-06-27 (2073/03/13)
Early Close Date	2016-06-30 (2073/03/16)
Late Close Date	2016-07-11 (2073/03/27)
Issue Manager	Ace Capital Limited
ICRA Grading	4
Min. to apply:	50 units
Max. to apply:	1000 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:

Dibyashwari Hydropower Ltd. was incorporated under Company Act 2063 as private limited company on 2063/10/25 B.S. Later on 2069/07/03 B.S. with the objective to bring mass participation of public and enhance the growth of hydro electricity generation in project affected province, the company converted into public limited company.

Currently, the company has completed 92% of the project work and as per the project completion report, it is expected to complete entire project within the month end of Ashad of current FY 2072/73 and come into full business operation from the very beginning month of Shrawan in next FY 2073/74.

The company has already issued and allotted 264,000 units of its public shares to project affected local residents through IPO on dated 2072/11/30 B.S. As of dated, it has paid up capital of amounting NPR. 224,400,000. After the IPO issuance of 396,000 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 4 MW Sabha Khola Hydro-electricity Project situated in Dhupu VDC of Sankhuwasabha District, in Eastern Nepal.

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.

To maintain the project funding in debt-equity ratio of 70:30, in which the project will be financed through bank loans of NPR 580 million

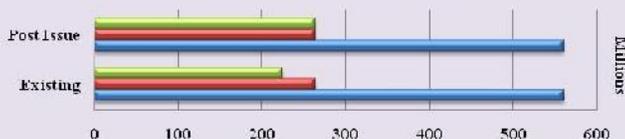
3. Company's Future Plans:

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.

4. Shareholding Pattern/ Ownership Structure:

Company's Share Capital Structure



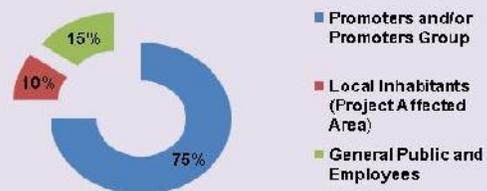
	Existing	Post Issue
Paid Up Capital (Existing) (2,244,000 @100)	224,400,000	264,000,000
Issued Capital (2,640,000 units @Rs. 100)	264,000,000	264,000,000
Authorized Capital (5,600,000 units @Rs. 100)	560,000,000	560,000,000

Shareholding Pattern	Pre-Issue	Post Issue
Promoters and/or Promoters Group	198,000,000	198,000,000
Local Inhabitants (Project Affected Area)	26,400,000	26,400,000
General Public and Employees		39,600,000

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 396,000 units of shares to General Public (including 19,800 units for mutual funds & 7,920 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. Dadhiram Niraula	Chairperson	66	Nepali	65,555	Pilot	-Achieved commercial pilot course in 1966 and worked as pilot
2	Mr Prasad Subedi (Representative One O One Company)	Director	45	Nepali	4,50,000	Bachelors	-Experienced in Co-operative institutions for 17 years
3	Mr. Buddha Krishna Manandhar (Representative One O One Company)	Director	61	Nepali	4,50,000	B. sc., Civil Engineer, M. Sc.	-Water resources Engineer.
4	Mr. Khadka Bdr. Raut	Director	55	Nepali	53,200	SLC	-General
6	Mr.Dal Bdr. Bista (B.G. Hydro Investment Co. Pvt. Ltd.)	Director	34	Nepali	1,50,000		-Experiences in Hydro power sector.

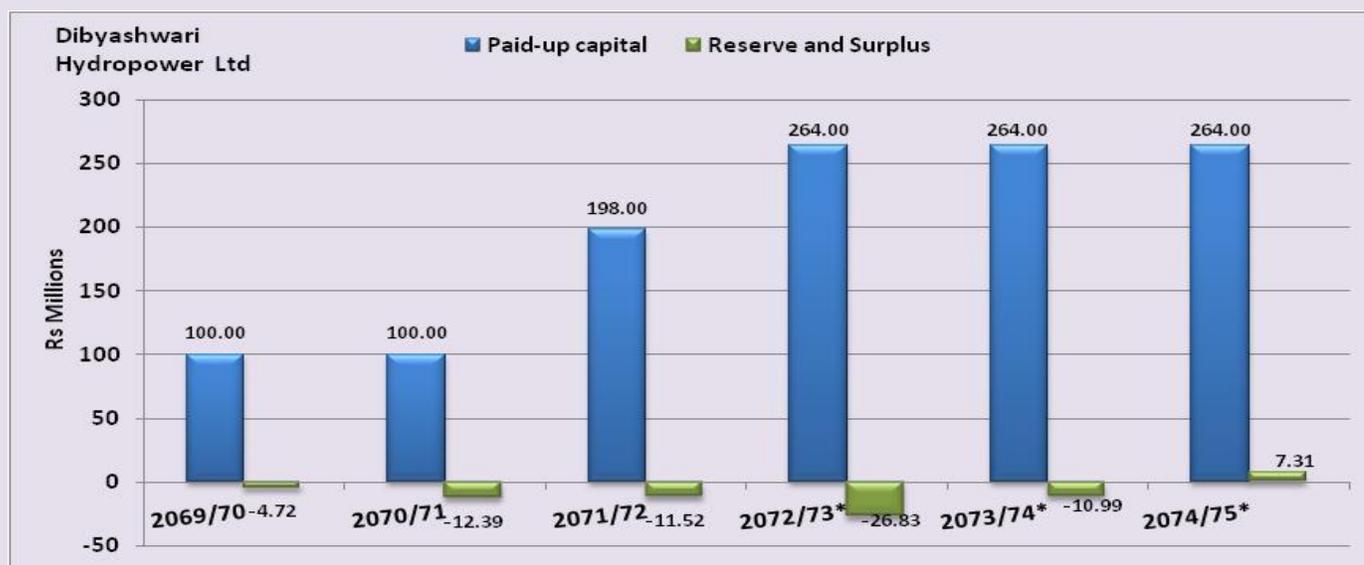
6. Financial Summary

Particular	Actual			Forecasted		
	FY 2069/70	FY 2070/71	FY 2071/72	FY 2072/73*	FY 2073/74*	FY 2074/75*
Paid-up capital	100,000,000.00	100,000,000.00	198,000,000.00	264,000,000.00	264,000,000.00	264,000,000.00
Reserve and Surplus	(4,723,000.00)	(12,391,000.00)	(11,516,000.00)	(26,832,000.00)	(10,989,000.00)	7,306,000.00
Net Worth	95,277,000.00	87,609,000.00	186,484,000.00	237,168,000.00	253,011,000.00	271,306,000.00
Long-term Loan	-	-	244,827,000.00	521,893,000.00	498,636,000.00	472,588,000.00
Total Debt	96,000.00	35,300,000.00	339,947,000.00	663,054,000.00	560,464,000.00	481,570,000.00
Current Liabilities	96,000.00	546,000.00	95,120,000.00	141,161,000.00	61,828,000.00	8,982,000.00
Current Assets	87,317,000.00	112,226,000.00	195,407,000.00	96,621,000.00	48,460,000.00	14,750,000.00
Net Current Assets	87,221,000.00	111,680,000.00	100,287,000.00	(44,540,000.00)	(13,368,000.00)	5,768,000.00
Total Assets	95,373,000.00	122,909,000.00	526,431,000.00	900,222,000.00	813,475,000.00	752,876,000.00
Operating Income	-	-	-	37,960,000.00	112,514,000.00	112,594,000.00
Gross profit	-	-	-	36,765,000.00	109,864,000.00	109,944,000.00
Operating Profit	(928,000.00)	(2,384,000.00)	(3,487,000.00)	29,818,000.00	101,960,000.00	101,947,000.00
Net Profit	(954,000.00)	(7,668,000.00)	(4,289,000.00)	(17,116,000.00)	15,843,000.00	18,375,000.00
Proposed Dividend	-	-	-	-	-	-
Retained Earning	(954,000.00)	(7,668,000.00)	(4,289,000.00)	(17,116,000.00)	15,843,000.00	18,375,000.00

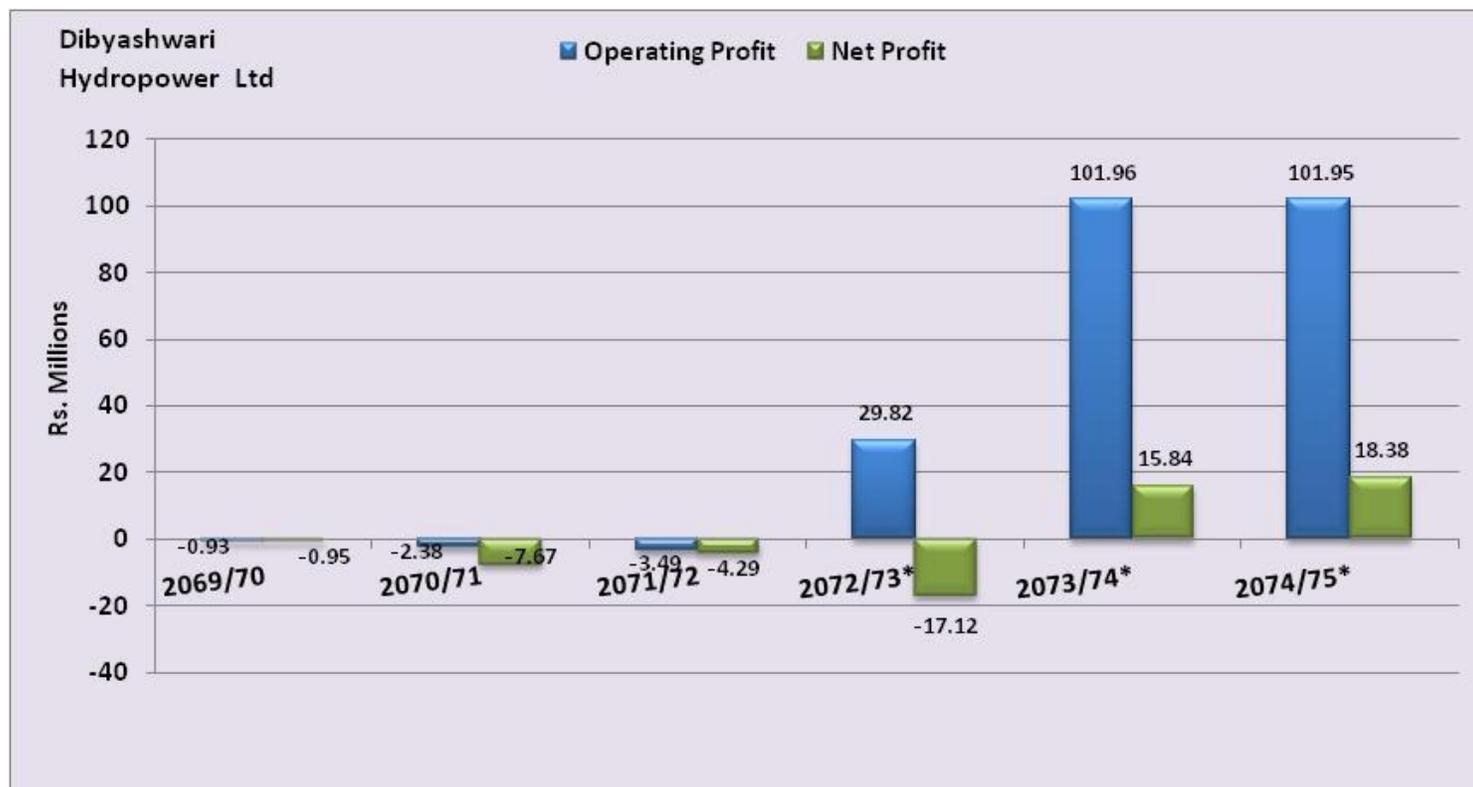
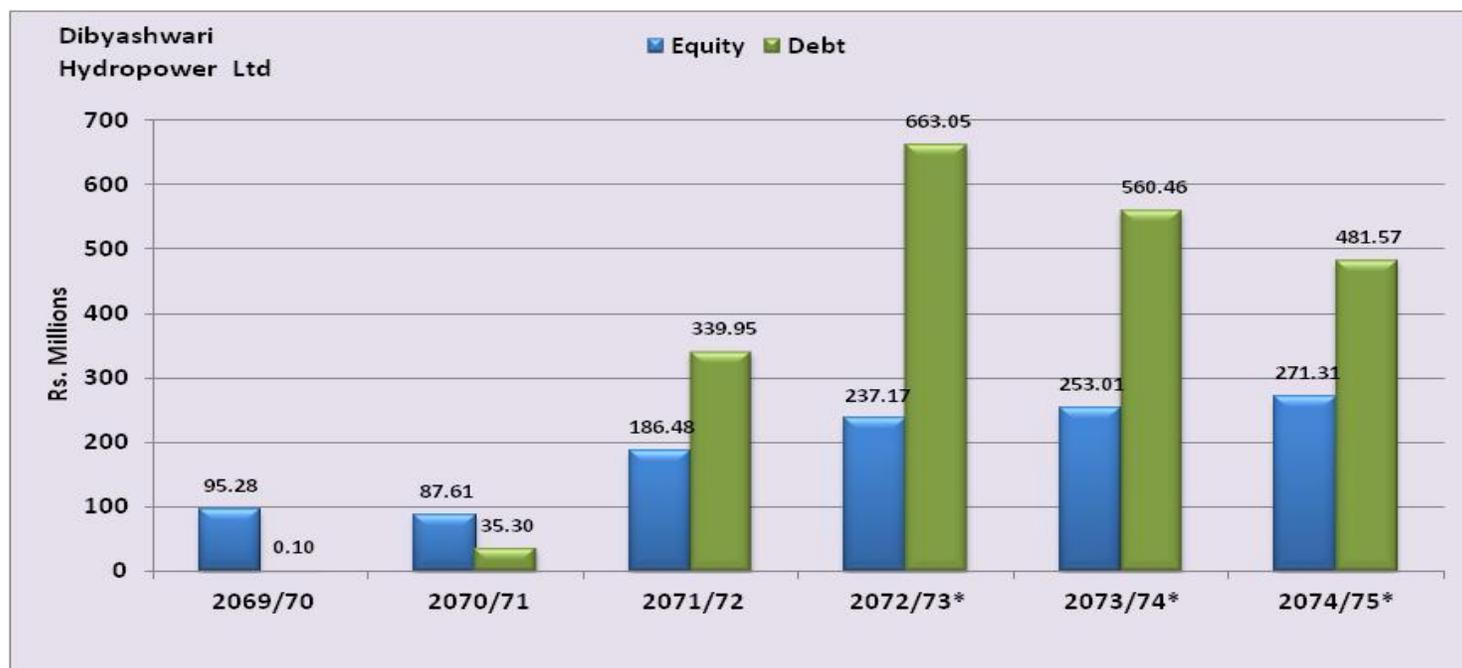
7. Financial Key Indicators:

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%	-45.09%	14.08%	16.32%
ROE%	-1.00%	-8.75%	-2.30%	-7.22%	6.26%	6.77%
ROA%	-1.00%	-6.24%	-0.81%	-1.90%	1.95%	2.44%
Market Ratios						
EPS	-0.95	-7.67	-2.17	-6.48	6.00	6.96
Net worth per share	95.28	87.61	94.18	89.84	95.84	102.77
Dividend Payout Ratio (Dividend/Net profit)	0.00	0.00	0.00	0.00	0.00	0.00
Debt Ratio						
Debt/Equity Ratio	-	0.40	1.82	2.80	2.22	1.78
Liquidity Ratio						
Current Ratio	-	-	2.05	0.68	0.78	1.64

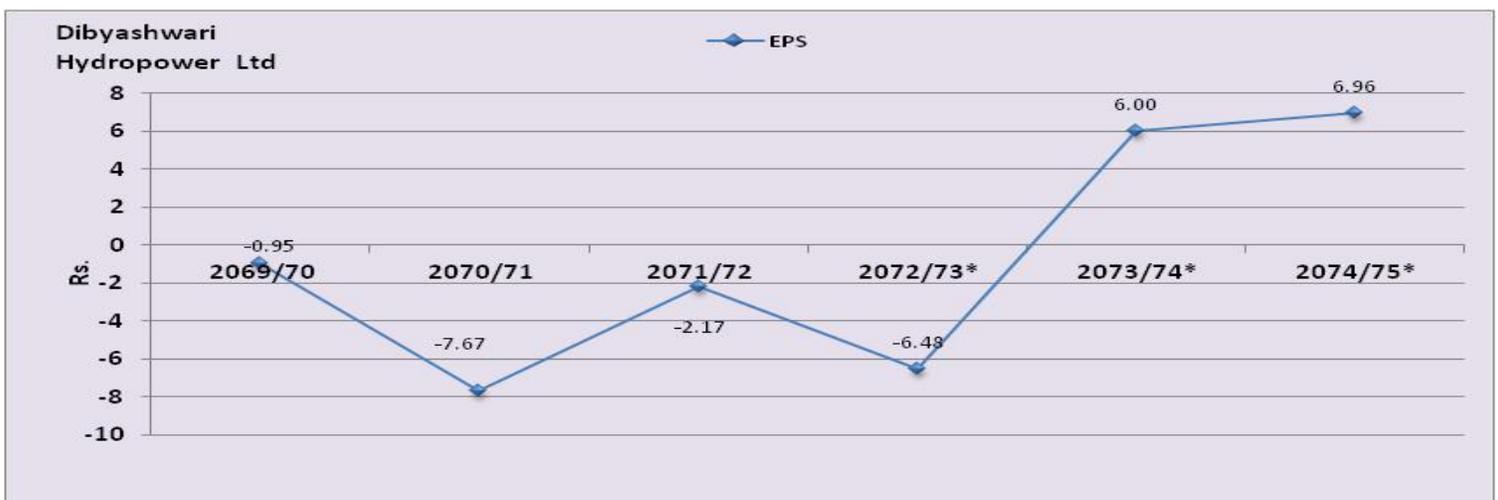
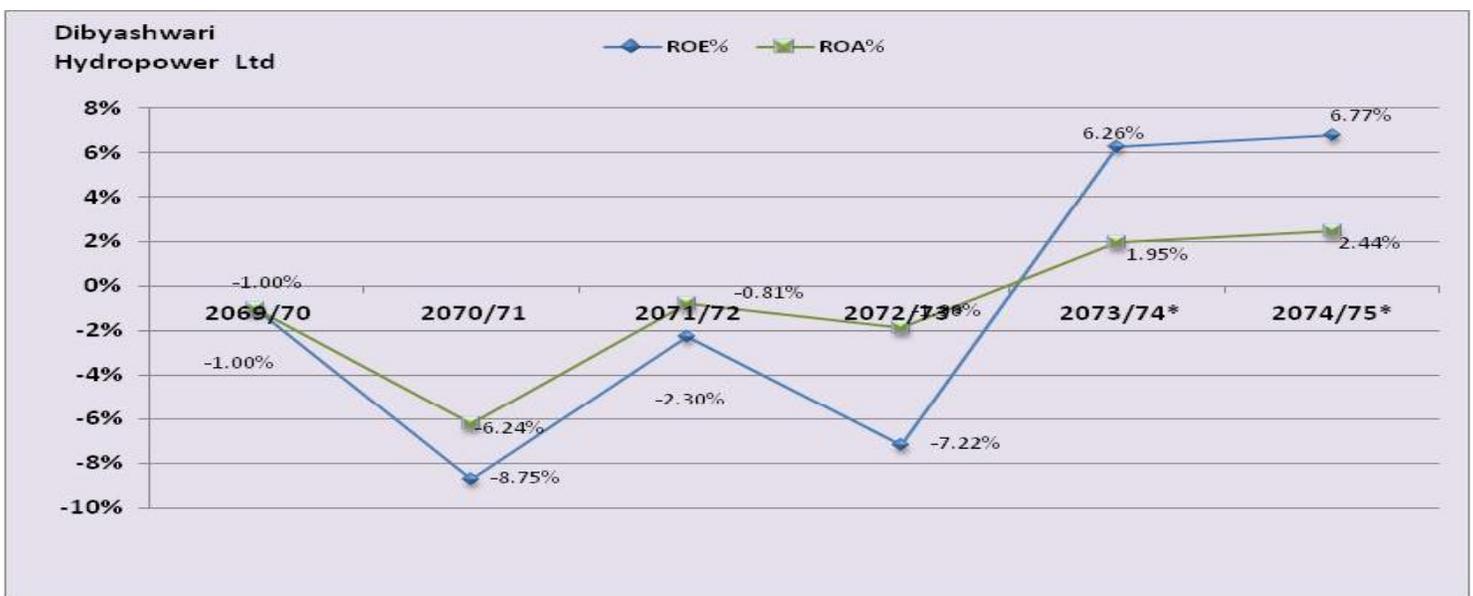
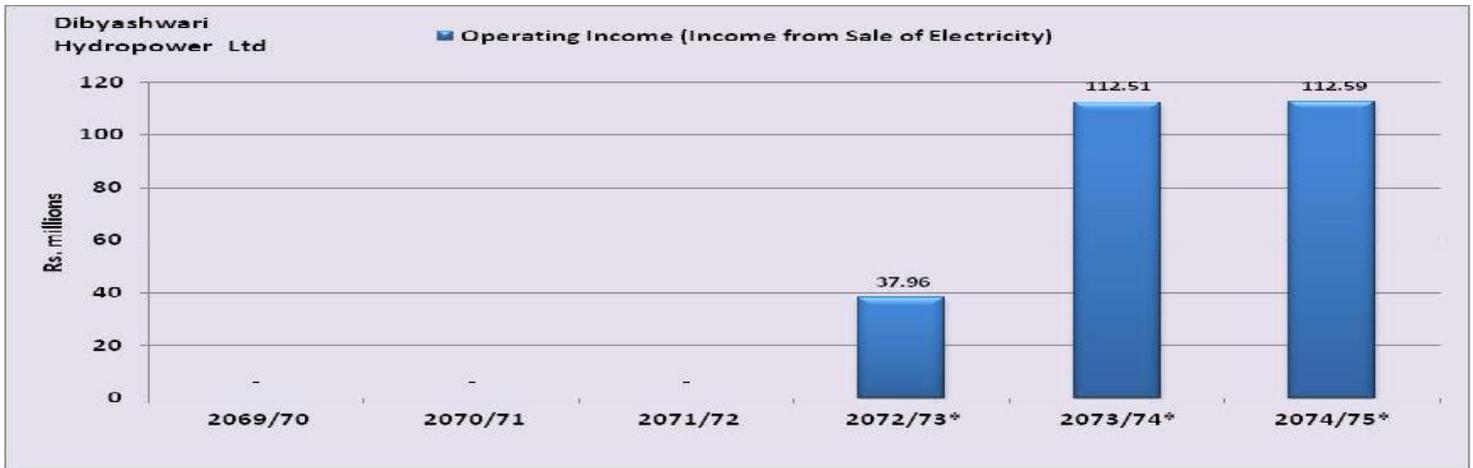
9. Financial Charts



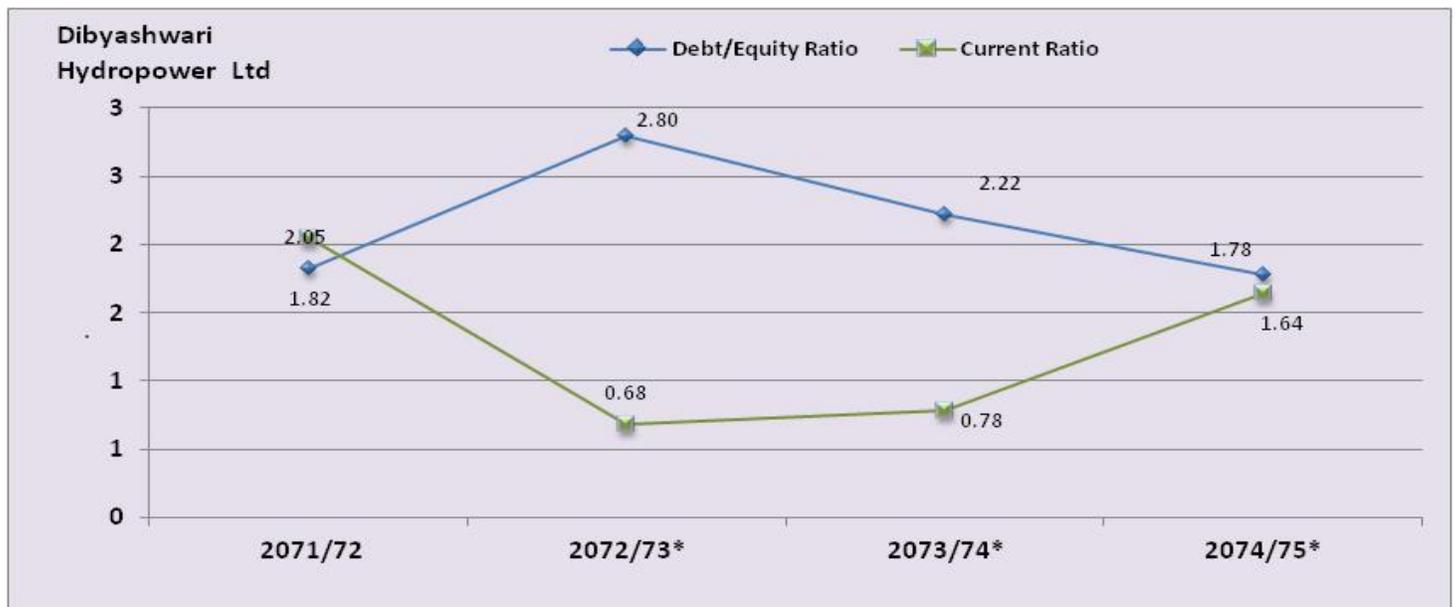
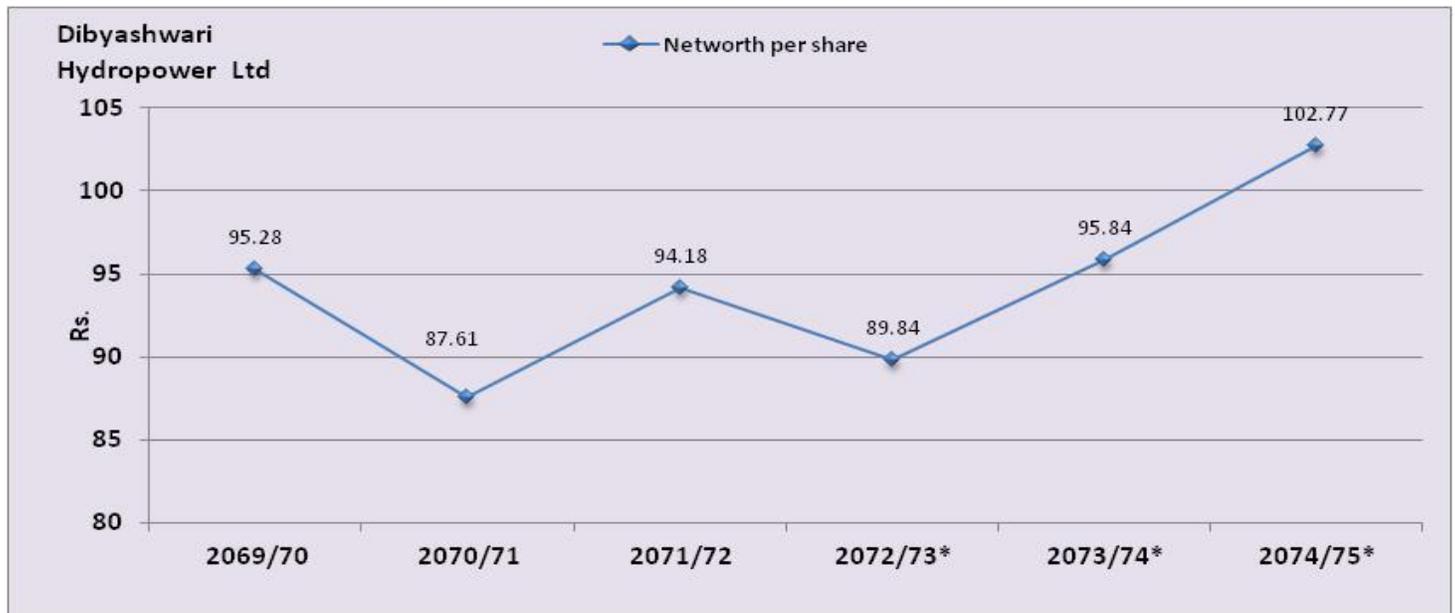
9. Financial Charts



9. Financial Charts



9. Financial Charts



10. Overall Opinion:

Management & Governance:

The company is run by experienced group of professionals who have showed their active involvement in diverse business sectors such as Airlines, Co-operatives financial institutions, Hydropower 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"> • Project is almost at the completion state and majority of infrastructural activities have already been accomplished. • Availability of evacuation infrastructure and arrangement conducted between NEA and company in the form of PPA. Tariff and off take risks reduced substantially. • Skilled work force with local people participation. • 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. • Funding risk is lowered as bankers are agreed to finance the project. 	<ul style="list-style-type: none"> • High Project Cost • The project was supposed to start its operation in March 2015 which has already resulted in cost accumulation due to delay in completion. The project can be charged with penalties due to delay in commissioning. • Limited experience of promoter and management group in development and operation of Hydro projects.
<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none"> • Geographical prospects to thrive and run new hydro projects. • Demand and Supply gap in power-energy sector in every region of country. • Support of neighboring countries in India and China in terms of infrastructure development and commercialization. 	<ul style="list-style-type: none"> • Possibility of cost overrun due to delay in project completion on the given time frame. • Lack of clarity on the government's plans and programs for hydropower developments. • Supply is solely limited to NEA, absence of power trading company. Bargaining power of buyer seems influential in price determination. • Political instability and ineffective governance.

Financial Analysis:

- The company still requires 8% of construction of its hydro to be completed due to that the fundamental indicators of the company are below satisfactory level as compared to other existing companies within the industry. However, the company shows modest growth prospects.
- 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 37,960,000 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 is expected to achieve its break-even in FY 2073/74 and net profit to reach at 1.58 crore due to remarkable increment in sales by 196 %. However, the sales seem stagnant in FY 2074/75 with negligible growth.
- 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 6.26% in the FY 2073/74 and 6.96% 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 1.95% in FY 2073/74 and 2.44% 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. 6 and Rs. 6.69 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 expects to possess positive reserve balance in FY2074/75.
- The Company had Rs.244.82 million of outstanding term loans payable to the consortium banks for FY 2071-72; corresponding to a gearing ratio of 1.82 times, which is projected to incline in FY2072/73 to 2.80 due to added debt financing. Hence the company possesses exposure towards financial risk due to extensive interest expenses characterized by interest rate volatility and minimal level of operating profit

- In FY 2071-72, the current ratio stood at 2.05 and is suppose to decline at 0.68 times 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.

Recommendation:

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. This type of Hydropower Company produces stagnant profit unless it advances to new project venture. However, IPO investment for small-cap companies in Nepalese context is quite attractive as demand-pull market may trigger the price to hike once the share has been listed. The share is expected to list between ranges of NPR. 240 – 270, which will go into further adjustment (increase or decrease) as per the company's financial performance.

Disclaimer: This document has been prepared by National Merchant Banker Ltd (NMBL) and is meant for sole use by the recipient and not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. The information contained herein is from sources believed reliable. We do not represent that it is accurate or complete and it should not be relied upon as such. The views, opinions, estimates, ratings, target price, entry prices and/or other parameters mentioned in this document may or may not match or may be contrary with those of the other Research teams (individual or Institutional). NMBL is public limited company registered under company ACT 2063 and licensed under Merchant Banker Regulations 2008 to run Investment Banking and Portfolio Management Service in Nepal. The company conducts independent research in market and economy to facilitate its clients and general public in making their investment decision by generating usual informative research reports.