

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	3,000,000 units
Issue Price per share	NPR. 100
Issue Open Date	2016-10-25 (2073/07/09)
Early Close Date	2016-10-28 (2073/07/12)
Late Close Date	2016-11-08 (2073/07/23)
Issue Manager	Siddhartha Capital Ltd.
ICRA Grading	4 +
Min. to apply:	50 units
Max. to apply:	15000 units

Company Synopsis:

Company Category	Hydropower	
Ownership Structure	Public Limited	
Current Shareholdings	Promoter Shares	87 %
	General Public (locals from project affected area)	13 %
	General Public (including Employees)	-

1. Company Overview:

Arun Kabeli Power Ltd. was established under Company Act 2063 on 2011/01/17 B.S as a subsidiary of Arun Valley Hydropower and has been come into operation to construct and operate 25 MW Kabeli B1 project on Kabeli River. The project is located in between Panchthar and Taplejung district of Mechi Zone. The company has already signed grid connection agreement with Nepal Electricity Authority (NEA) on 29th May 2012 for power evacuation and also Power Purchase Agreement (PPA) with NEA on 13th July 2012. After the completion of the project, the power generated shall be evacuated from Mechi Koridor 132 KV transmission line from Damak to Amarpur in Panchthar District.

The project construction cost estimated to be Rs. 4000 million and completion period set to 48 months since the date of its construction and 25 percent of physical constructions have been achieved till Mid-march 2016 (as per ICRA report). The financial reports indicate the company has already incurred almost 50% of its total cost of the project. This has made the company to raise the demand for additional fund to finance it's under construction project.

2. Objectives of Issue

The major object of the offer is to raise the fund to invest and run the under construction 25 MW Kabeli B1 Project situated in between Pachthan and Taplejung District.

To dilute the promoter shareholding structure from existing 88% to 70%. Similarly, out of total paid up capital of Rs. 1500 Million, 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 maintain the project funding in debt-equity ratio of 70:30, in which the project has been financed through bank consortium loans of NPR 2800 million.

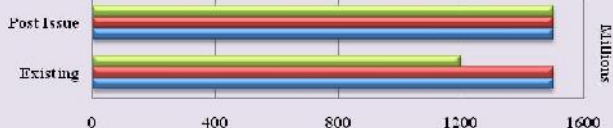
3. Company's Future Plans:

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:

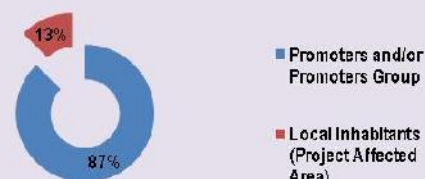
Company's Share Capital Structure



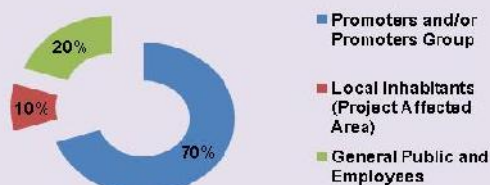
	Existing	Post Issue
Paid Up Capital (Existing) (12,000,000 @Rs.100)	1200000000	1500000000
Issued Capital (15,000,000 units @Rs.100)	1500000000	1500000000
Authorized Capital (15,000,000 units @Rs.100)	1500000000	1500000000

Shareholding Pattern	Pre-Issue	Post Issue
Promoters and/or Promoters Group	1050000000	1050000000
Local Inhabitants (Project Affected Area)	150000000	150000000
General Public and Employees		300000000

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 87 % and 13% of shares issued to local inhabitants of project affected area. As per the Company Memorandum, it has decided to offer 3,000,000 units of shares to General Public (including 150,000 units for mutual funds & 90,000 units for staffs) which will convert the existing share capital structure in 70:30 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. Guru Prasad Neupane	Chairperson	64	Nepali	1,95,042	M.A Economics	<ul style="list-style-type: none"> - Worked with Nepal Rastra Bank for 30 years in various capacities. - Served Rastriya Banijya Bank at the position of General Manager and Janata bank as Chairperson. - More than decades of experience in various hydropower companies such as Arun Valley Hydropower Development Company Ltd, Ridi Hydropower Development Company and Api power company Ltd.
2	Mr Bachchha Raj Tater	Director	65	Nepali	82,250	Civil Engineer	<ul style="list-style-type: none"> -Served Agriculture Development Bank Ltd for more than 25 years. -served as Chairman of HG Ent. Pvt. Ltd, Vishal Plastocab Ind. Pvt. Ltd., Ridi Hydropower Development Company Limited, Nepal College of Information Technology and Powergen Co. Pvt. Ltd. He is also the Promoter Director of Sunrise Bank Limited, a commercial bank in Nepal.
3	Mr. Jeevan Raj Shakya	Director	59	Nepali	88,629	B.A	<ul style="list-style-type: none"> -renowned figure in handicraft business. -General Secretary of Nepal Sri Lanka Friendship and Cultural Association, Managing Partner of Namaste BVBA Belgium and Managing Partner of People to People gmbh Germany. He is interested in hydropower project development and financially support for project development.
4	Mr. Bhej Prasad Timilsina	Director	37	Nepali	71000	B.Com	<ul style="list-style-type: none"> -Managing Director of Kasturi Publication House and Dynamic Sub-remit and Investment Company Pvt. Ltd. He also represents board of Bright Development Bank Limited, Blue Chip Investment and Research Company (P.) Ltd.

6. Financial Summary

Particular	Actual			Forecasted				
	FY 2070/71	FY 2071/72	FY 2072/73	FY 2073/74*	FY 2074/75*	FY 2075/76*	FY2076/77*	FY2077/78*
Paid-up capital	420,530,000.00	745,632,000.00	1,200,000,000.00	1,500,000,000.00	1,500,000,000.00	1,500,000,000.00	1,500,000,000.00	1,500,000,000.00
Reserve and Surplus	(8,236,000.00)	(5,704,000.00)	(11,080,000.00)	(19,885,000.00)	287,989,000.00	658,596,000.00	1,068,099,000.00	1,517,979,000.00
Net Worth	412,294,000.00	739,928,000.00	1,188,920,000.00	1,480,115,000.00	1,787,989,000.00	2,158,596,000.00	2,568,099,000.00	3,017,979,000.00
Long-term Loan	-	-	868,001,000.00	2,800,000,000.00	2,664,107,000.00	2,515,466,000.00	2,352,882,000.00	2,175,046,000.00
Total Debt	15,360,000.00	2,973,000.00	1,061,296,000.00	3,020,007,000.00	2,698,030,000.00	2,569,863,000.00	2,410,700,000.00	2,234,650,000.00
Current Liabilities	15,360,000.00	2,973,000.00	193,295,000.00	220,007,000.00	33,923,000.00	54,397,000.00	57,818,000.00	59,604,000.00
Current Assets	312,143,000.00	317,374,000.00	582,548,000.00	501,581,000.00	422,383,000.00	705,394,000.00	1,041,252,000.00	1,397,192,000.00
Net Current Assets	296,783,000.00	314,401,000.00	389,253,000.00	281,574,000.00	388,460,000.00	650,997,000.00	983,434,000.00	1,337,588,000.00
Total Assets	427,654,000.00	742,901,000.00	2,250,216,000.00	4,500,122,000.00	4,486,019,000.00	4,728,459,000.00	4,978,799,000.00	5,252,629,000.00
Operating Income	-	-	-	-	762,774,000.00	785,658,000.00	808,541,000.00	831,424,000.00
Gross profit	-	-	-	-	785,969,000.00	822,078,000.00	850,796,000.00	879,059,000.00
Operating Profit	(3,837,000.00)	2,532,000.00	(5,376,000.00)	(8,805,000.00)	576,397,000.00	610,324,000.00	635,512,000.00	660,880,000.00
Net Profit	(3,939,000.00)	2,532,000.00	(5,376,000.00)	(8,805,000.00)	307,874,000.00	370,608,000.00	409,503,000.00	449,882,000.00
Proposed Dividend								
Retained Earning	(8,237,000.00)	(5,704,000.00)	(11,080,000.00)	(19,885,000.00)	287,989,000.00	658,597,000.00	1,068,099,000.00	1,517,981,000.00

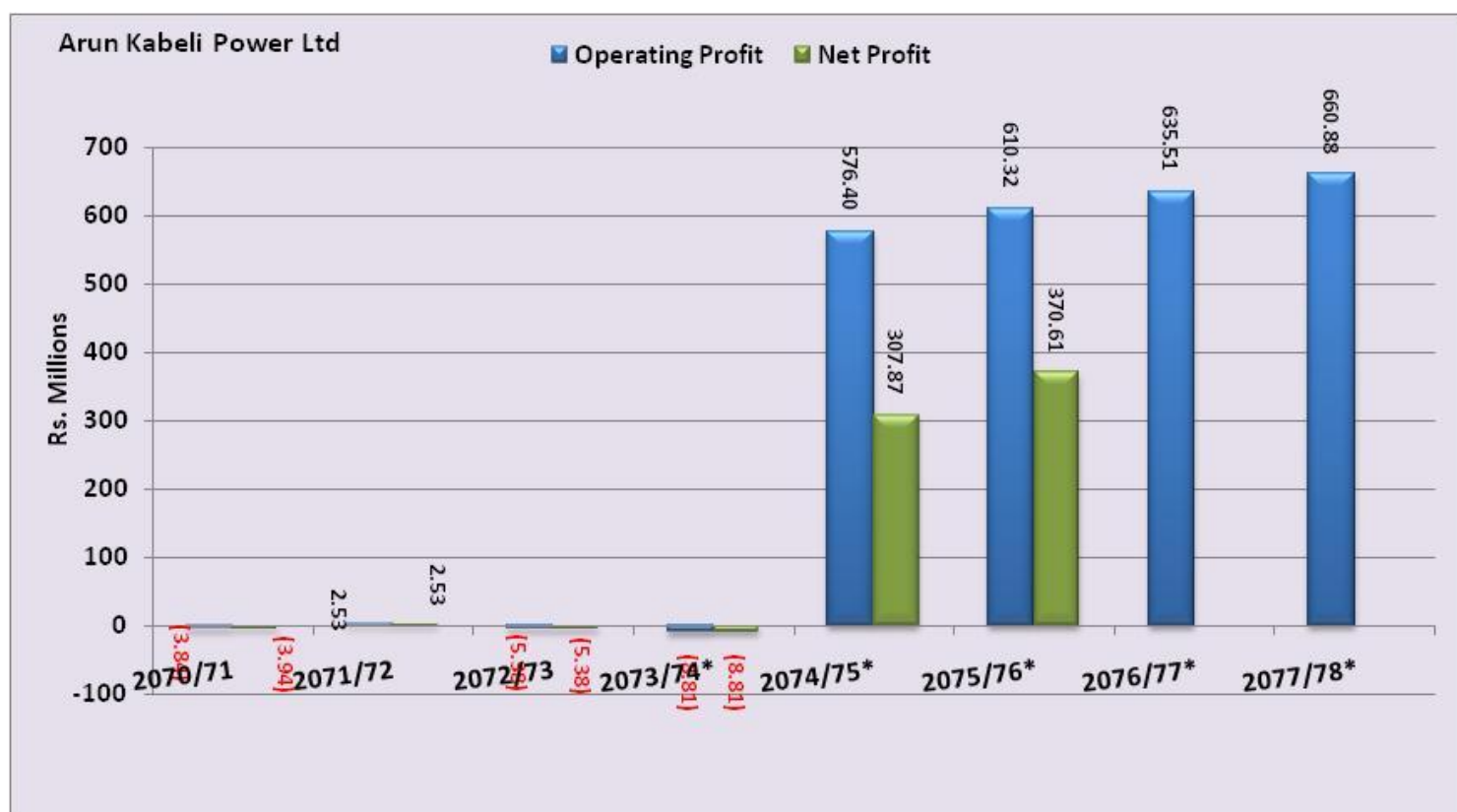
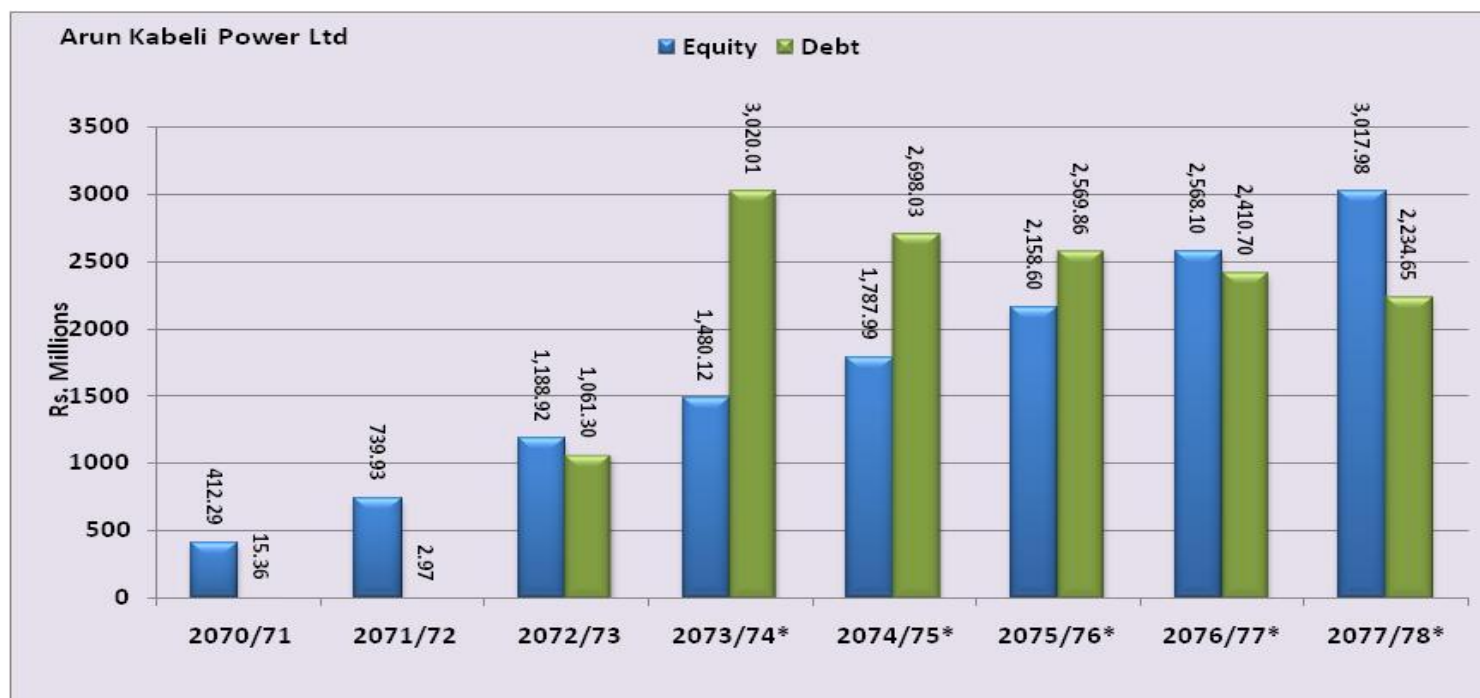
7. Financial Key Indicators:

	Actual			Forecasted				
	FY 2070/71	FY 2071/72	FY 2072/73	FY 2073/74*	FY 2074/75*	FY 2075/76*	FY 2076/77*	FY 2077/78*
Profitability Ratio								
Net Profit Margin(Net Profit After Tax / Total Operating Income)%	-	-	-	-	40.36%	47.17%	50.65%	54.11%
ROE%	-0.96%	0.34%	-0.45%	-0.59%	17.22%	17.17%	15.95%	14.91%
ROA%	-0.92%	0.34%	-0.24%	-0.20%	6.86%	7.84%	8.22%	8.56%
Market Ratios								
EPS	-0.94	0.34	-0.45	-0.59	20.52	24.71	27.30	29.99
Networth per share	98.04	99.24	99.08	98.67	119.20	143.91	171.21	201.20
Dividend Payout Ratio (Dividend/Net profit)	0.00	0.00	0.00	0.00	0.00	0.00	1.00	2.00
Debt Ratio								
Debt/Equity Ratio	0.04	0.0040	0.89	2.04	1.51	1.19	0.94	0.74
Liquidity Ratio								
Current Ratio	20.32	106.75	3.01	2.28	12.45	12.97	18.01	23.44

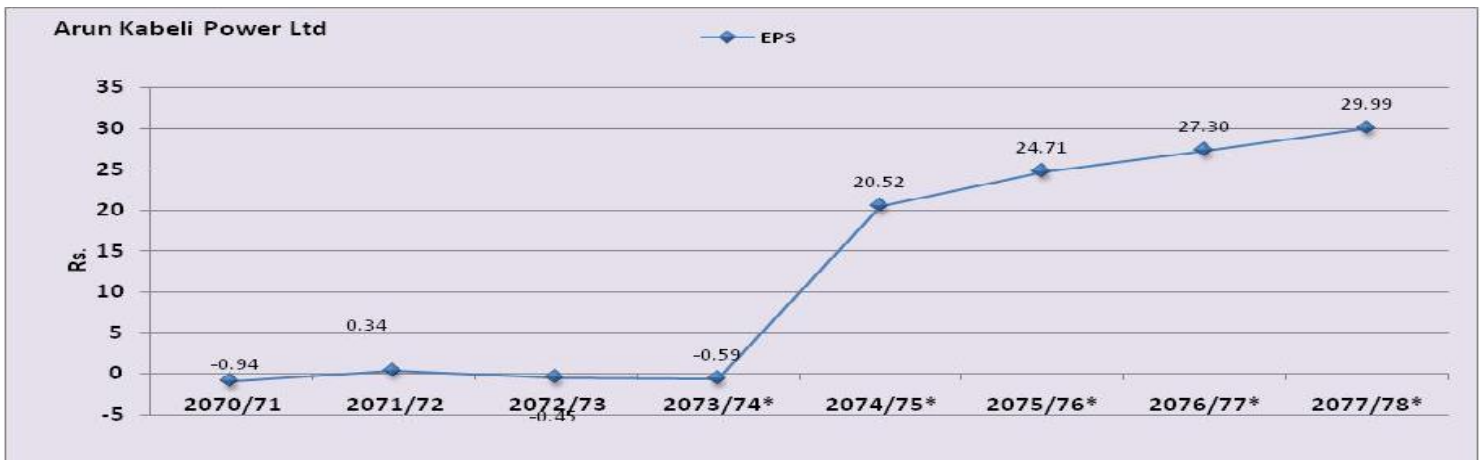
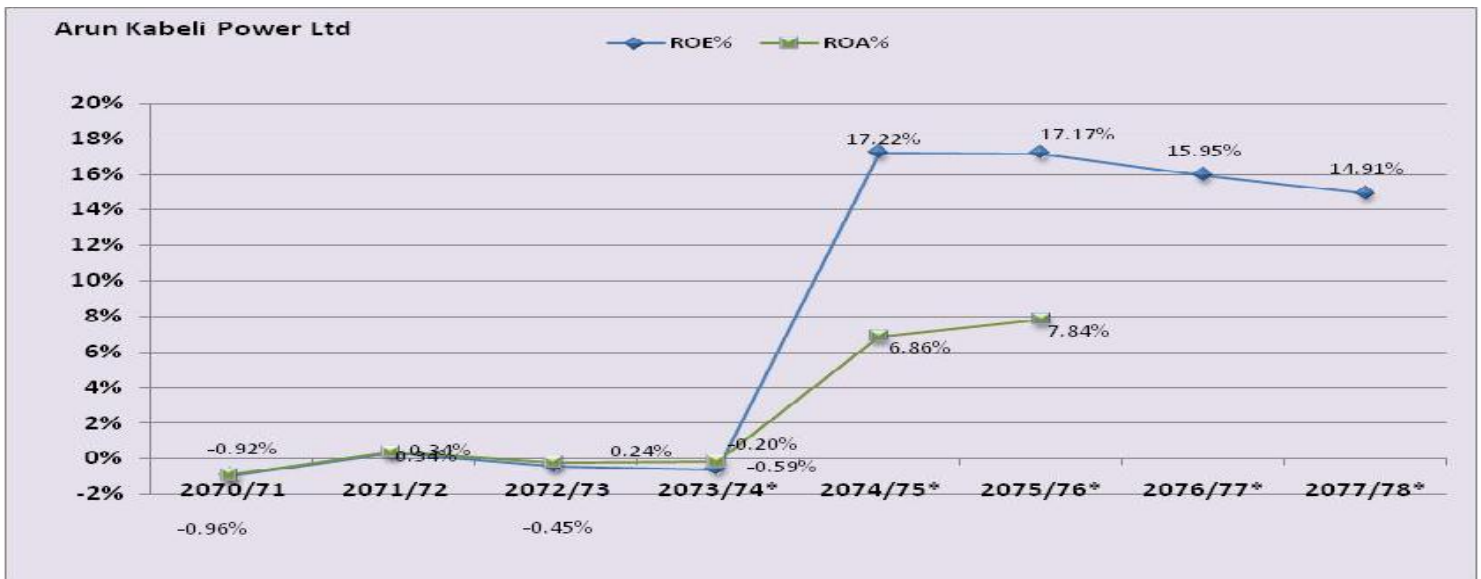
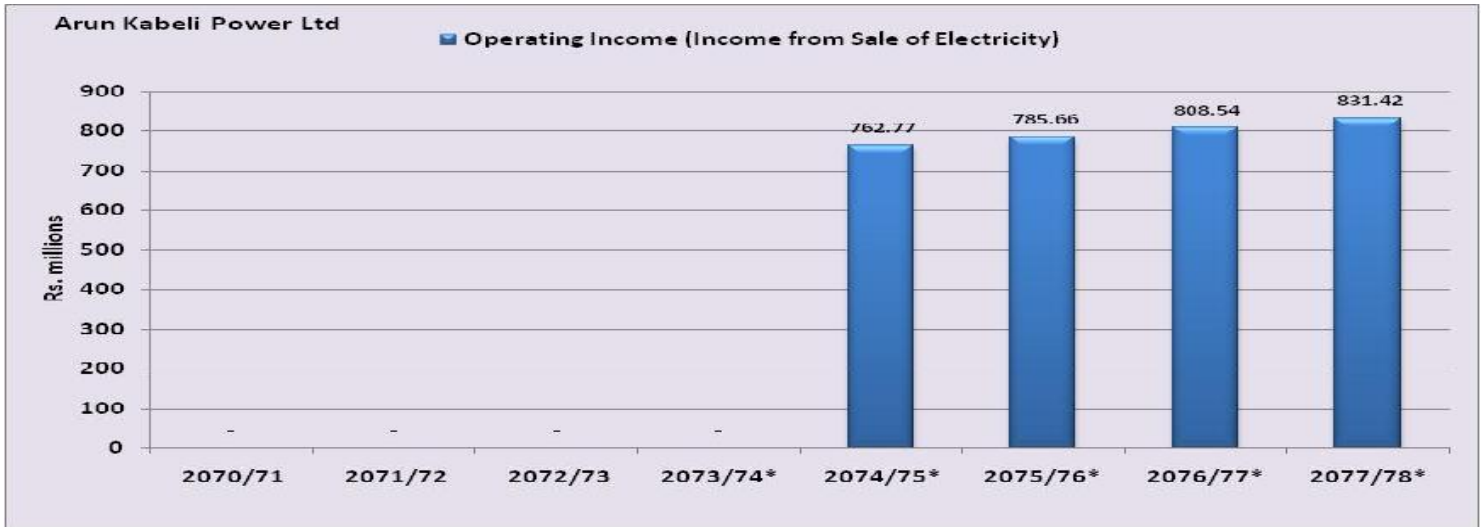
9. Financial Charts



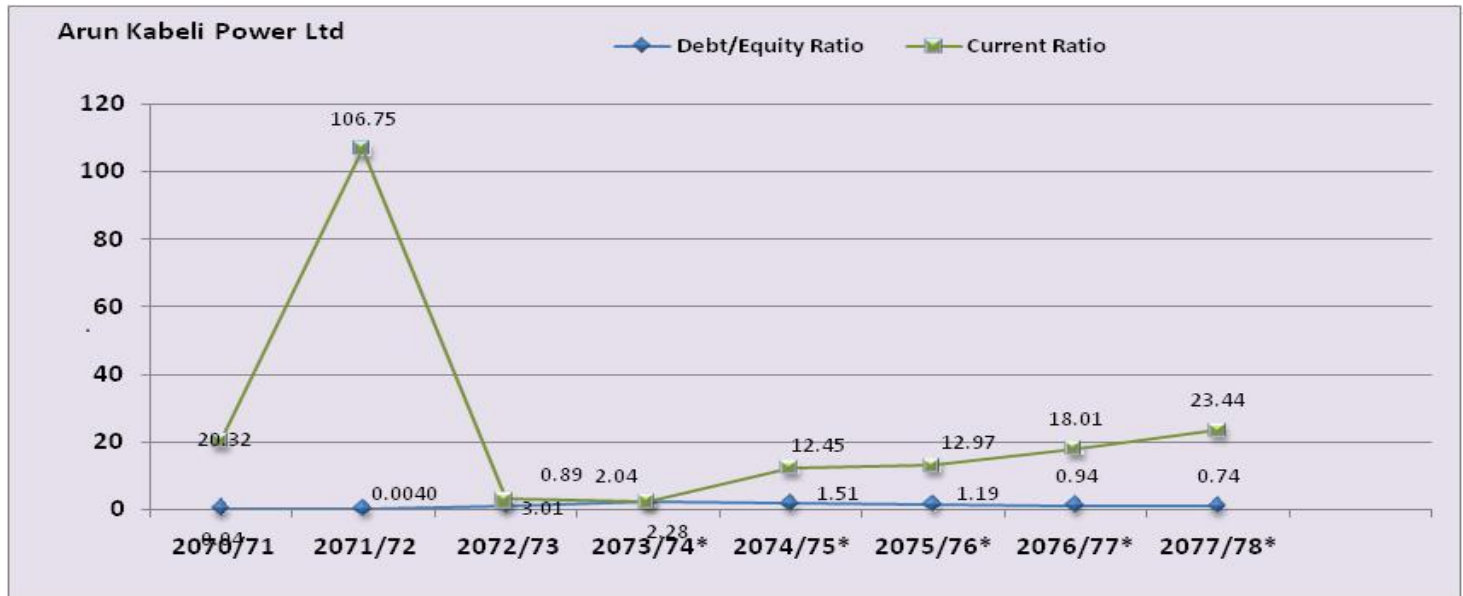
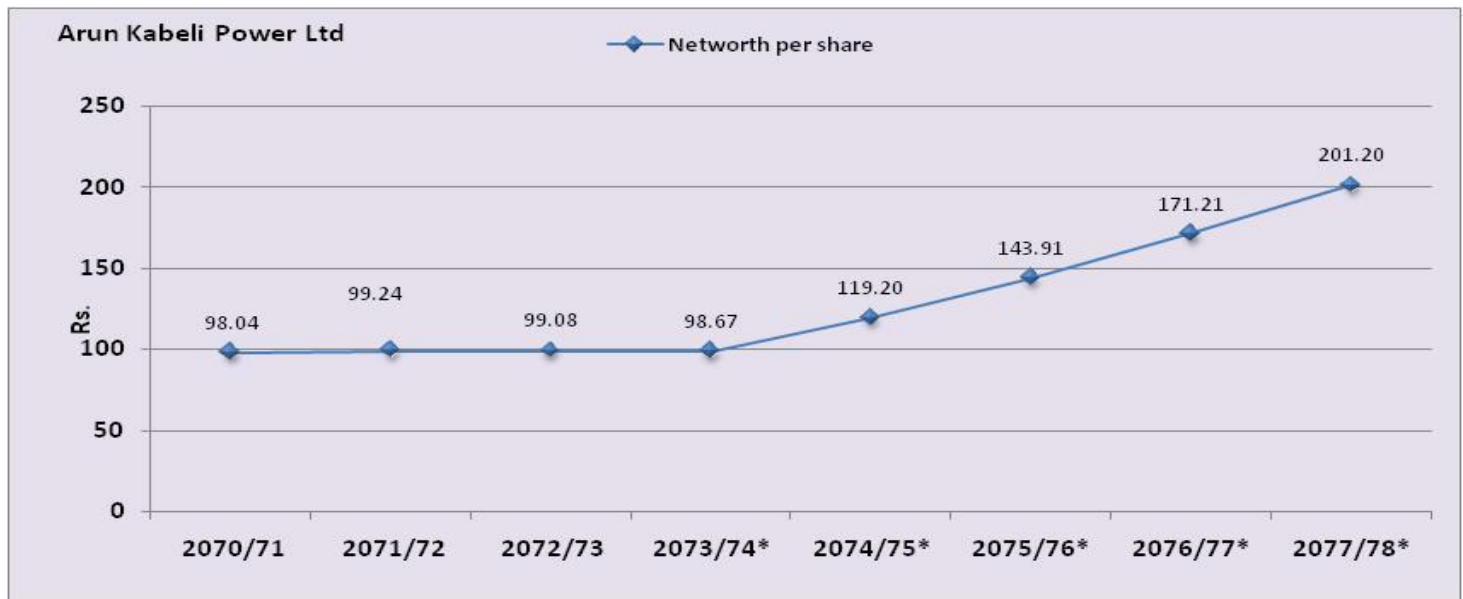
9. Financial Charts



9. Financial Charts



9. Financial Charts



10. Overall Opinion:

Management & Governance:

The company is operated and governed by highly experienced group of professionals who have showed their active involvement in diverse business sectors such as Hydropower and Energy, Trading and Banks and Financial Institutions.

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"> • Rich experience for the promoters and management personnel in the field of Hydropower and Energy sectors. • Skilled work force with local people participation. • PPA signed with Government and Grid connection agreement signed with NEA will reduce the tariff and off take risk of the project considerably. • Since the company has injected substantial portion of equity upfront and financial closure has been already been completed for debt financing. Funding risk is lowered. 	<ul style="list-style-type: none"> • High Project Cost amounting Rs. 4000 million • The project was supposed to start its operation in this fiscal year by September 2016 which has already resulted in cost accumulation due to delay in completion. However the project has applied for extension of COD to NEA due to delay in the construction of transmission line and which is estimated to be completed by July 2018. The project can be charged with penalties due to delay in commissioning. • Risk of cost accumulation and delay in its arising due to delay in construction of 132 KVA transmission line by NEA
<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 is expected to utilize over 50% of its total capacity to generate power sales resulting operating income in FY 2074/75. A positive profit margin of 40.36% and 47.17% is expected for the FY 2074/75 and 2075/76 which signals speedy implementation of overall business plan in a cost effective manner and efficient management operations currently.
- A positive return on equity of 17.22% is observed post FY 2074/75 where operating income is seen to be dominant in financing the operating expenses as well as non operating expenses indicating financial independency and better performance of the company.
- Until FY 2073/74 a negative ROA, of 0.20% is observed post which a positive ROA of 6.86% is expected which signals a greater economies of scale and maximum utilization of assets in generating earning with lesser investment. However higher ROA is more attractive.
- EPS is forecasted to be satisfactory. However, forecasted balance sheet shows negative reserve & surplus until 2073/74 after which healthy operating income is seen to support in maintaining good amount of reserve.
- Net worth per share of the company is below Rs 100 in FY 2073/24 due to huge amount of negative reserve. However, a positive reserve is forecasted in the future indicating a good performance of the company.
- The company is planning to raise more debt during the forecasted period. Heavy debt financing increases risk, however if it is used to finance the increased operations, the company could potentially generate more earnings than it would be without outside financing ultimately benefiting the shareholders.
- The company has not been able to use its current assets efficiently which is marked by higher current ratio in the previous as well as forecasted year. Excess working capital means idle funds which earns no profit for business.
- The forecasted balance sheet and income statement reveals that the company will be unable to distribute dividend cash or stock for upcoming three years as company plans to maintain reserve & surplus.

Recommendation:

The current financial position of the company is weak and it is incurring heavy cost of operation; but the forecasted financial indicates better condition- off setting its negative reserve in same year of its operation till 2018 by projecting over 50% utilization of its power generating capacity which seems improbable. Besides, this IPO issue has only secured ICRA grading of 4+ which remarks below average condition. Hydropower & energy development are considered to be prominent and real productive sectors of Nepal that also put the stocks of such companies in demand in stock market and pull the record-breaking subscriptions as justified by historical IPOs of such companies. However, the Investors are advised to be prudent in their investment allocation rather being impulsive and carried away by some news & publicity. The IPO issue is likely to enlist in the price range of Rs. 250-300 considering its net worth and volume of share to get enlisting.

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.