



INITIAL PUBLIC OFFERING

REPORT DATE: 31-01-2075

Rairang Hydropower Development Company Limited

Recommendation: Apply

SECTOR: HYDROPOWER

Overview of the Company

Rairang Hydropower Development Company Limited was incorporated as a public limited on 2071/01/20. Before, Rairang was a private limited company registered on Baisakh 2, 2059. Company's first hydropower project is in Dhading. The second under construction Project is situated at the border of Taplejung and Panchthar district. Its registered office is in Ward no. 11, Thapathali Trade tower, Kathmandu.

Projects

The company currently has two projects. Its first project, Rairang Hydropower Project is situated at Dhading district and EwaKhola is situated in border of Taplejung and Panchthar Districts.

1. Rairang Hydropower Project

This project is of 500 K.W. The commercial date of operation was from 2061 B.S. The project is situated in Dhading district.

2. Ewa Khola Hydropower Project

This project is under construction. The project capacity is 9.9 Mega Watt. Around 90 % work has been completed. The project cost is allocated as NRS. 160 Crore. This amounts to 16.16 Crore per Megawatt. Pay Back Period is 7.06 Years. The company has done PPA agreement for 30 years which would be expiring on 2107/03/27. Every year 56,624,955 units is to be supplied were for one unit rate has been determined as Rs. 8.40 and 4.80 in winter and rainy season respectively. As per the PPA, 2075/02/01 is potent completion date.

Issue Details

Issue Size	8,40,000 units
Price per Share (Rs.)	100
Issue Open Date	31-01-2075
Issue Close Date	3-02-2075
Issue to Staff (4%)	33,600 units
Issue to Mutual Funds (5%)	42,000 units
Issue to General Public (91%)	764,400 units
Issue Manager	NIBL ACE Capital
Collection Centers	ASBA Approved BFIs
Min. Application (Kitta)	50
Max. Application (Kitta)	4,200
ICRA Rating	ICRANP IPO GRADE 4

(ICRA Rating shows "Below Average Fundamentals)

Details of Rairang Hydropower Project

Type of Project	Run of River
Location	Dhading
Status	Producing
Installed Capacity	500 K.W
Commercial operation date	2061 B.S

Details of Ewa Khola Hydropower Project

Type of Project	Run of River
Location	Border of Taplejung and Panchthar districts
Status	90% work completed
Installed Capacity	9900 K.W
Expected COD	2075/02/01

Purpose of IPO Proceeds

Utilization of IPO Proceed ('000)	
Particulars	Amount (Rs.)
Total IPO Proceeds	84,000
Civil Construction	40,000
Steel Construction Contract Payment	30,000
LC and Others	14,000
Total	84,000

PPA Status and Rate

NEA and the company have done Power Purchase Agreement for their Ewa Khola hydropower Project. The PPA will be lasting for 30 years. According to the PPA, the

PPA Rate (Rs. Per Unit)	
Rainy Season	4.8
Dry Season	8.4

company will be selling 56,624,955 units to NEA. The PPA rate will be according to the table shown.

Again according to PPA, for maximum of 5 times, there could be increment in the per unit rate by 3% yearly.

Moreover, if company cannot supply electricity or if NEA cannot purchase electricity, there will compensation for loss according to PPA agreement.

The meter reading will be done monthly at switchyard of Amarpur and Kabeli 1 and hence, bill will be ready. Then the Electricity will be merged to National Grid from Amarpur Sub-station. The First bill will be paid within the 45 days and subsequent bills will be paid monthly.

Future Plans and Strategies

- 1.) The main future plan of the company is to complete the ongoing construction of the project of Ewa Khola Hydropwer Project.
- 2.) After the completion of Ewa Khola Hydro power Project, the company will be focused on business development for other new hydropower projects.
- 3.) Company has already got license for 5 MW Solar power plants. Thus the company will be focused on its feasibility study.

Board of Directors

The board of directors of company consists of 8 directors. Out of 8 directors, 5 directors are from promoter group 2 are from public shareholders. The board consists of 1 independent director.

1. Shiv Ratan Sharda, Chairman
 - BA (Hons), Holdings: 145,000 Kitta
 - Well renowned personality in Nepal.
 - Chairman of Sharda Group. He has 40 years' experience in Manufacturing Business.

2. Mr. Guru Prasad Neupane, Managing Director
 - MA Economics, Holdings: 491,600 Kitta
 - Promoter of Arun Valley Hydropower Company.
 - Experience in Nepal Rastra Bank for 30 years and in hydropower for 18 Years.

3. Mr. Bacchram Taded, Director
 - B.E, Holdings: 100,000 Kitta
 - Director at HG Enterprises, Plastocab P. Ltd.
 - Chairman at Ridi Hydropower Company
 - Director at Sunrise Bank and 20 years' experience in business and Industry

4. Mr. Kuber Madi Nepal
 - Msc. Holdings: 190,550 Kitta
 - Mr. Nepal is director at Ridi Hydropower
 - Over 16 years' experience in Hydropower Projects

5. Ramesh Prasad Neupane
 - BBS, Holdings: 104,250 Kitta
 - Chairman at Arun Valley Hydropower Company
 - 16 years' experience in hydropower sector

Capital Structure('000)		
	Existing	Post Issue
Authorized	1,000,000	1,000,000
Issued	560,000	560,000
Paid-up	476,000	560,000
Shareholding Structure (%)		
Public*	11.76	25
Promoter	88.24	75
<i>*shares held by project affected public</i>		

Key Fundamentals	
Paid up Capital('000)	476,000
Reserve and Surplus('000)	(7,498)
BV Per Share(Rs.)	98.42
Earnings Per Share(Rs.)	1.36
Long Term Loan('000)	887,082
Debt Equity Ratio	1.89
<i>* figures based on F.Y 2074/75 Q2 (pre-issue) FS</i>	

Adjusted Figures (Post Issue)	
Adjusted BVPS	98.66
Adjusted EPS	1.15

General Introduction to Balance Sheet

The existing capital of the company is Rs. 47.6 crore. After the IPO, the capital will reach to 56 crore, including shares held by project affected people and general public. The company reported a negative reserve in FY 2073/74. The company has projected a positive reserve of 65 lakh in FY 2074/75. This is projected to further increase in the future years. The company has used 55 crore in debt financing. Moreover, the company had entered into loan financing through loan syndication worth of 104 crore. Asset (Fixed asset and Investment) is increasing at CAGR of 28%, whereas Total capital employed is increasing at 22%. The net worth and total assets of the company are also in increasing trend.

Comparison with Industry Figures (Annual 2073/74)

- The company has financial leverage of 1.35 times for the fiscal year 2073/74. The industry average for the same period is 0.8 times.
- The company's current ratio is 4.74 times. The industry average for the same period is 3.87 times.
- The company's net worth per share is 97.44. The industry average for the same period is Rs.108.48.
- The EPS of the company is Rs. 0.08, which decreased from previous year, where the EPS amounted to Rs. 0.24. The industry average EPS for the same period was Rs.11.83

Excerpts from Balance Sheet (NRs.'000)

	Audited		Projected	
	2073/74	2074/75	2075/76	2076/77
Share Capital	4,20,000	5,60,000	5,60,000	5,60,000
Reserve	(10,740)	6,500	1,28,750	2,60,623
Long Term Loan	5,53,018	10,54,742	9,99,457	9,38,841
Net Worth	409,259	566,500	688,750	820,623
Total Assets	1,010,193	1,778,321	1,922,133	2,042,660

Comparison with Industry Average (2nd Quarter 2074/75)*

	Industry Average	Rairang Hydropower
Market Cap**('000)	74,726,999	-
P/E	21.64	-
P/B	2.13	-
ROE (%)	7.63	1.38
ROA (%)	5.04	0.46
EPS(Rs.)	12.71	0.68
BVPS	105.23	98.42
Net Profit Margin (%)	39.87	113.71
Gross Profit Margin (%)	89.39	80.43
Beta	0.95	-
Debt Equity Ratio	0.821.89	

*figures are based on FY 2074/75 Q2 published data

*KKHC and RADHI has been excluded for average calculation due to unavailability of data

**Market Cap represents total industry cap as on 25-01-2075

Ratios

	Audited		Projected	
	2073/74	2074/75	2075/76	2076/77
Debt to Equity	1.35	1.86	1.45	1.14
Current Ratio	4.74	0.55	1.05	1.35
BVPS	97.44	101.16	122.29	146.54
EPS(Rs.)	0.08	3.08	21.86	23.55

General Introduction to Income Statement

The income from sale of electricity is projected to increase at CAGR 341%. Similarly, the operating profit is projected to increase at CAGR 353%. The big increase in the sales and operating profit is due to the commercial operation of Ewa Khola Hydropower Project. Also, finance expenses are projected to at CAGR of 300%. CAGR of depreciation expenses and Net Profit is projected as 189% and 618% respectively.

Excerpts from Income Statement (NRs. '000)				
	Audited		Projected	
	2073/74	2074/75	2075/76	2076/77
Income From Sale of Electricity	3,911	38,789	319,313	335,279
Finance Expenses	1,922	1,800	123,715	123,142
Depreciation Expenses	674	303	16,242	16,194
Net Profit	356	17,240	122,250	131,874

Comparison with Industry Figures

- The Net profit margin of the company is 9.10% for the FY 2073/74. The industry average for the same year is 44.08%.
- Gross profit margin of company is 38.99%. The industry average for the same FY is 81.28%.

	Ratios			
	Audited 2073/74	Projected 2074/75	2075/76	2076/77
Net Profit Margin (%)	9.10	44.45	38.29	39.33
Gross Profit Margin (%)	38.99	83.66	93.93	94.01
Return on Equity	0.17	3.04	17.75	16.07
Return on Total Assets	0.07	0.97	6.36	6.46

- The return on asset for the FY 2073/74 is 0.07%. The industry average for the same FY is 4.30%
- The return on equity is 0.17% for the FY 2073/74. The industry average for the same FY is 10%.

The fundamentals of the Rairang Hydropower are unfavorable compared to industry average. However, the company has projected to outperform the industry averages in fiscal year 2075/76. The successful operation of Ewa Khola Hydropower project is very crucial for the company to outperform the industry.

Valuation of Company

We have valued the company using the Relative valuation approach.

Relative Valuation Model: The model helps to judge whether a particular stocks is overvalued, undervalued or fairly valued in terms of measures like earnings, book value, cash flow, sales per shares by comparing the industry multiples. We can also compute the intrinsic value of the shares of the company once it comes in the secondary market by using the industry

PB Valuation			
	Industry P/B	BVPS	Value of Shares
2074/75	2.17	101.16	219.52
2075/76	2.17	122.99	266.89
2076/77	2.17	146.54	317.99
*Industry PE and PB is assumed to be same			
*Industry PE and PB is calculated based on 73/74 Q2 report and price as of 8 th May			
*RADHI, KKHC, AKPL, DHPL, HPPL and NHPC are not taken into consideration while calculating industry average PE			
*RADHI and KKHC are not taken into consideration while calculating industry average PB			

multiples. Here, we have considered only the P/E and P/B based multiples, as we lack the data for the P/CF and P/S ratio.

The rationale for using P/E ratio in valuation is that the earning power, as measured by the EPS, is the primary determinant of investment value.

PE Valuation			
	Industry P/E	EPS	Value of Shares
2074/75	23.37	3.08	71.98
2075/76	23.37	21.86	510.87
2076/77	23.37	23.55	550.36

Looking the above table and assuming the P/E model is appropriate and the EPS of the company at the FY end comes true, the share price of the company seems to increase.

P/B multiple can typically be used when P/E is not possible. Using this multiple, the share price of the company is expected to float 220-320 during the projected period. This multiples shows comparatively lower value than the P/E multiples because book value is the cumulative amount that is usually positive and more stable and higher than EPS.

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

STRENGTHS

- **Experienced Promoters:** The company has the experienced and financially adequate promoters and management personnel having years of exposure in hydro sector development
- **New Project:** Under construction EwaKhola HEP project will add revenue in near future.
- **Provision for compensation:** In case NEA is unable to build the transmission line on time there is provision in the PPA for the compensation. Also the company has insured its Civil and metal works under Contractors All Risk Policy which includes Transit Insurance and Erection All Risk.

WEAKNESSES

- **Implementation Risk:** The proposed project is in development stage exposing the project to typical implementation risks such as increase in time and cost estimates.
- **Power evacuation risk:** Power from the HEP will be evacuated through 132 KV transmission lines being developed by Nepal Electricity Authority (NEA). Transmission line projects of NEA have witnessed substantial delays in the past and this poses substantial risk towards timely start of operations of Ewa Khola HEP scheduled for July 2018.

OPPORTUNITIES

- **Untapped Market:** One fourth of the population still lacks access to electricity in Nepal, indicating that there is a solid market for electricity in Nepal.
- **Export Market:** Potential export market of electricity to India and Bangladesh.
- **Government Program:** The government of Nepal has implemented Electricity for all Households, Share for All People (Ghar Ghar Ma Bijuli Jan Janma Share) program from fiscal year 2016/17.

THREATS

- **Natural Calamities:** The chances of natural calamities like flood, landslide, and earthquake cannot be ruled out.
- **Lack of transmission line:** Government not been able to able to construct transmission line to cater private developers.
- **Local problems:** The developers often face resistance from local people, resettlement problem and issues for big reservoir project.
- **License Capturing:** Due to tendency of capturing development license by influential people true developers are deprived from development of projects.

Performance of previously Listed Hydropower Companies

We have shown below the performance of three Hydropower companies which are listed in the NSE Index in the recent times.

Ticker	Trade Open Date	Listing Price	LTP	Diff.	Capital Gain	Time	52 Weeks High	52 Weeks Low
RADHI	3/26/2018	139	209	70	50.36%	1.5 Month	226	158
NHDL	11/14/2017	267	186	(81)	-30.34%	6 Months	328	174
HPPL	8/20/2017	300	326	26	8.67%	9 Months	348	214

As shown by above table, the hydropower stock has the tendency to rise sharply after it is listed for trading, and it starts plummeting once it gains certain height. The current book value of Rairang Hydropower Limited is Rs. 97.44 hence, expected listed price to be in between the current book value Rs. 97.44 to 3 times this figure, which amounts to Rs. 292.32. For analyzing the price tendency of Rairang Hydropower, we have considered three previously listed companies to determine the stock price once it gets listed and the price trends are expected to be in a similar trend. If the investors are willing to sell their shares, selling them immediately after the listing can result a good short term profit.

Tentative Allotment Schedule

Chapter 5, Article 30 of Securities Issue and Allotment Guidelines 2074 provides the new process of allotment of securities under which every valid applicant shall be allotted 10 kitta shares on the very first round of allotment and the round following then, provided the kittas available are sufficient for allotment to each eligible applicant. Otherwise, the lottery system will be followed.

On top right is the issue and applicants details of IPO of Radhi Bidyut Company Limited as per new process. The IPO was oversubscribed by more than 18 times where the average kitta applied by total applicants was 76.95 units.

We estimate the IPO of Rairang Hydropower Development Company Limited will be subscribed by nearly 180,000 valid applicants and the average kitta applied is 93.33 units. So, the oversubscription is likely to be more than 20 times.

The Implementation of C-ASBA has brought revolution in the allotment of IPO. Arambha Microfinance IPO has been allotted within 36 hours by CDSC and issue manager with the help of C-ASBA system.

Investors are found to be more attracted in the primary market like IPOs. Almost all the IPO shares have been oversubscribed in the past. Besides, the recent uptrend of hydro sector scripts in secondary market, together with political development could excite the prospective investors.

For our forecast of 180,000 valid applicants, the number of kittas required to satisfy all with minimum 10 kittas is 1,800,000. However, the company can only satisfy 76,440 applicants with 10 kitta shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 42 out of 100 applicants will get the 10 kittas share.

Radhi Bidyut Company Limited	
Issue Size (Kitta)	764,550
Staff 2% (Kitta)	15,291
Mutual Funds 5% (Kitta)	38,227
Public (Kitta)	711,031
Allotment Date	1/16/2018
No. of Total Applicants	166,317
No. of Valid Applicants	164,990
Application Range	50 – 6,800 units
Total Kittas Applied	12,798,558
Oversubscription	18+ times
Number of Allottees	71,103
Kittas Allotted	711,031
Allotment Basis	Lottery

Rairang Hydropower Development Company Limited	
Issue Units to Public	764,400
Estimated Applicants	180,000
Est. Applied Kittas	15,288,000
Oversubscription	20 times
Allotment	
Required Kittas	15,288,000
Available Kittas	764,400
Allotment Basis	Lottery
Number of Allottees	76,440
% Allotment	42.46%
Estimated Allotment Date	1 Week
Estimated Listing Date	15 days of Allotment
Estimated Trading Date	7 days of Listing

Technical Analysis

Hydropower sector: Recovering Gradually

Hydropower Index Technical Levels



Trend Analysis

Hydropower sector has been in a down trend for four years which is clearly shown by formations of year after year lows. The hydropower index is well below a 180-day simple moving average indicating down trending market conditions. However the hydropower index is above the 20-day SMA and 50-day SMA indicating upward trend of the market in mid-term to short term horizon.

Price Action Analysis

Hydropower index is moving inside a multi-year down trending channel. Multi-year channel resistance is formed by joining high of July 2014 and July 2016. In short term view, hydro sub index is moving inside an up trending channel which started in early April 2018.

Momentum Analysis

Momentum is a short term approach of market analysis which is concerned with rate of change in price. Momentum in hydropower sector is up from February 2018 which is a positive thing for the bulls. RSI has settled at mid-levels following March's rise which means the bullish momentum has paused at the moment.

Volatility Analysis

Bollinger bands have expanded significantly since mid-April hinting increment in volatility. At the time of writing Hydro index is around middle band which may act as a support.

Volume Analysis

Volume analysis is also a short term indicator and it does not tell lot about the prevailing long term trend of the market. On balance volume (OBV) peaked during the last week of April indicating higher hydro sector prices backed by increased trading volume but the volume went down after that as prices began to fall.

Recommendation: Apply

The IPO of Rairang Hydropower Development Company Limited is recommended to apply as the future prospects seem promising. Since 9.9 MW project is yet to come into operation, the business is likely to grow after the full phase operation. Nevertheless, the forecasted financials are satisfactory and the company is expected to grow in the future. This company is also looking forward for feasible investments opportunities which have the potential to generate good returns. Both valuation method adopted hints the comparatively higher value in the future which are likely to meet the wealth maximization objectives of the investors.

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