

GLOBAL IME CAPITAL LIMITED

Investment Memorandum

INITIAL PUBLIC OFFERING

REPORT DATE: 2075/11/22

Mountain Hydro Nepal Limited.

SECTOR: HYDROPOWER

Listing Range: 93.75-281.25

Overview of the Company

Mountain Hydro Nepal Pvt. Ltd. was established in July 12, 2005 (2062/03/28). To increase the public participation, the company was converted into public limited in June 14, 2016 (2073/02/32). Registered office of company is situated at Tahachal, Kathmandu, Nepal. The company has one project in construction phase with capacity of 22.1 M.W (earlier 21.6 M.W). Per Mega Watt cost of the project is approximately NRs. 20.50 crore. The payback period of the project is 8.27 Years and Discounted PBP stands at 10.72 years.

Projects

The company is currently constructing one project:

*The company issued 12,50,000 units of shares to locals of Phidim Municipality and Hillihang Rural Municipal, where only 6,83,890 kitta were subscribed. Thus, remaining unsubscribed shares are added up for General public issue.

Lower Hewa Khola Hydropower Project

The company has only one project with the capacity of 22.1 M.W. The total cost of the project as per estimate stands at 4.5 Arba NPR. The annual production capacity of the project stands at 119 GWh. The power generation license was obtained from the Ministry of Energy on August 25, 2013, valid for 35 years or 30 years from the date of the COD, whichever is earlier. The PPA was signed with the NEA on July 25, 2014 for an initial 21.6 MW capacity and for an additional 500 kW capacity, amendment to PPA was signed on January 30, 2019 however, permission for additional power generation has not been taken as of now. **For 21.6 MW, the RCOD has been revised to October 10, 2018 (earlier April 22, 2018) while for the incremental 500 kW, the agreed RCOD is February 12, 2019.**

Issue Details	
Issue Size	18,16,110
Price per Share (NRs.)	100
Issue Open Date	2075/11/23
Issue Close Date	2075/11/18
Issue to Locals* (units)	12,50,000
Issue to Staff (units)	36,322
Issue to Mutual Funds (units)	90,806
Issue to General Public (units)	16,88,982
Issue Manager	Siddhartha Capital Limited
Collection Centers	Meroshare and C-ASBA
Min. Application (units)	50
Max. Application (units)	80,000
ICRA Rating	[ICRANP] IPO Grade 4

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Details of Lower Hewa Khola HEP	
Type of Project:	Run Of River
Location:	Phidim Municipality, ward no. 4 and 11
Status:	98% work Completed
Installed Capacity:	22.1 M.W
Expected Commercial Date of Operation:	Mid-March 2019 or Chaitra 1 st 2076

Purpose of IPO Proceeds

The IPO proceeds will be generally used to repay Bridge Gap loan which was taken to finance the project.

PPA Status and Rate for Lower Hewa Khola Hydropower Project

The tariffs for the wet season and dry season are NRs. 4.8 and 8.4 with a 3% escalation on the base tariff for five times. For the incremental 500 kW capacity, there are eight escalations of 3% to these base tariffs.

Board of Directors

At present the board of directors of company consists of 7 directors. The company in its Articles of Association provides provision for having 7 directors at Board, including 2(two) from general shareholders and 1(one) as independent director.

Promoter Shareholder	Number of Shares
Mr. Sita Ram Timilsina	29,79,500
S R Power Investment Company Pvt. Ltd.	18,00,000
Mr. Rita Timilsina	9,50,000
Mr. Satish Timilsina	8,00,000

S.no	Name	Representation or Group	Qualification	Current Profile	Experience
1	Mr. Sita Ram Timilsina	Promoter	Literate	Chairperson	Collective 21.5 years of experience in petroleum and Gas industry. Director at Universal Medical College and 3 years of experience at Sita Products Pvt. Ltd as Chairman.
2	Mr. Satish Timilisna	Promoter	M.B.A	Director	Director at Sitashree Gas Pvt. Ltd. for 1.5 years and at Sita Products Pvt. Ltd. for 3 years.
3	Mr. Prahlad Timilsina	Promoter	I.A	Director	Collective experience of 4.5 years as Director at Sitashree

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					Gas Pvt. Ltd. and Sita Products Pvt. Ltd. Experience of 20 years at Sita Trade Center Pvt. Ltd.
4	Mr. Puspha Chitrakar	Promoter	M.Sc. and MBA	Director	Experience as Hydropower Engineer for 25 years. Director at Beni Hydropower Pvt. Ltd.
5	Mr. Kalu Gurung	Promoter	Literate	Director	14 years of experience as Director at Roadshow Investment Pvt. Ltd. and Roadshow Real State Pvt. Ltd.
6	Ms. Renuka Devi Pokhrel	Promoter	Masters	Director	House Wife
7	Mr. Dipendra Angbu Limbu	Singalila Energy Pvt. Ltd. (Promoter)	Literate	Director	Managing Director at Singalila Energy Pvt. Ltd.

Key Person

S.no	Name	Current position	Education	Experience
1.	Mr. Sanjeev Kumar Thakur	C.E.O	Msc. Hydropower	Managerial level of experience of 23 years in Himal Hydro and General Construction Company Limited.
2.	Mr. Ganesh Prasad Subba	Project Manager	M.E.	Managerial level experience of 20 years at Advance Engineering Consultancy Limited.

Forecasted Key Financials with Ratios:

Key Financials	Amount in NRs. 000'				
	2075/76 E	2076/77 E	2077/78 E	2078/79 E	2079/80 E
Share Capital	12,50,000	12,50,000	12,50,000	12,50,000	12,50,000
Reserve & Surplus	(110,635)	(82,140)	(36,738)	29,207	128,190
Long Term Loan	36,07,138	34,67,485	33,21,772	31,81,461	30,51,451
Sales from electricity	1,98,154	5,67,406	5,84,250	6,01,094	6,17,938
EBITDA	1,68,131	5,31,032	5,46,201	5,61,293	5,76,304
EBIT	11,773	3,75,303	3,90,973	4,06,465	4,21,797
EBT	(76,732)	29,076	46,329	67,291	1,01,003
Net Income	(76,732)	28,494	45,402	65,944	98,983
Gross Profit Margin (%)	94	96	96	96	96
EBITDA Margin (%)	85	94	93	93	93
EBIT Margin (%)	6	66	67	68	68
EBT Margin (%)	(39)	5	8	11	16
Net Income Margin (%)	(39)	5	8	11	16
Book Value Per Share (NRs.)	91	93	97	102	110
Debt to Equity (Times)	3.17	2.97	2.74	2.49	2.21
Interest coverage ratio (Times)	0.13	1.08	1.13	1.20	1.31
Earnings Per Share (NRs.)	(6.14)	2.28	3.63	5.28	7.92
Return on Equity (%)	(7)	2	4	5	7
Current Ratio	184	147	153	214	313

Valuation of Company

We have valued the company using the Relative Valuation Approach and Residual Income Valuation Approach.

P/B Valuation:

P/B Based Valuation		
Industry P/B as on 2 nd Qtr, 2075/76	Expected BVPS of Company at 2075/76	Value of Shares
1.24	91.14	113
*industry PB is assumed to be same in F.Y 2075/76		

***As per prospectus**

If we look at similar companies and their published Price to Equity and Price to Book value ratio, we can find relative price of scrip of company. Price to Earning ratio states how much investors in market is ready to spend to earn NRs.1 of EPS as dividend. Price to Book value ratio states how much investors in market is ready to spend for NRs.1 of total Book Value of company.

Thus, now by multiplying P/E and P/B with company's EPS and BVPS respectively, gives us the price of scrip of company if similar trend in investing patterns persists.

Similarly, the share price of the company's scrip would move around ~113 in F.Y 2075/76 as per P/B based valuation.

Technical Analysis



Trend Analysis

Hydropower sector is in a clear downtrend as suggested by short term and long term moving averages. Hydropower index is moving well below 20-day, 50-day and 200-day moving averages. Moving averages are simple and powerful indicator to identify the prevailing market trend. As a general rule of thumb, market is considered bullish when price or index is above the moving average and vice versa.

Volatility Analysis

As Bollinger bands have recently expanded it shows increased volatility within the hydro stocks. Bollinger bands are calculated as 2-standard deviation above and below the 20-day simple moving average. Expanding bands signals increased volatility and vice versa. Standard deviations of price has come below to 30 indicating relatively lower volatile than before.

Momentum Analysis

RSI has stalled around 30 which does not show any momentum significance.

Sources: Latest approved Prospectus of Issue, ICRA Grading Report of Mountain Hydro Nepal Limited dated on February, 2019.

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Global IME Capital Limited
3rd Floor, Rastriya NaachGhar
Jamal, Kathmandu, Nepal
Contact No.: +977-01-4222460, 4261178, 4223593
Fax No.: +977-01-4222534
Email: info@gicl.com.np
Website: www.globalimecapital.com