

GLOBAL IME CAPITAL COMPENDIUM

INITIAL PUBLIC OFFERING

REPORT DATE: 4/18/2019

Rasuwagadhi Hydropower Company Limited

Recommendation: Apply

SECTOR: HYDROPOWER

Listing Price Band: NPR.97.29-291.87

Overview of the Company

Rasuwagadhi Hydropower Company Limited was established in 2068/04/17. The registered office of the company is at Maharajgunj, Kathmandu, Nepal. The company has one project named Rasuwagadhi Hydroelectricity Project (111 M.W). It is expected to complete the project by 2076/11/07. The IPO of the said company is included under government scheme: "Citizens' Hydropower Project"

Project:

The company currently is constructing one project:

Rasuwagadhi Hydroelectricity project (111 M.W)

Issue Details	
Issue Size	1,02,63,150
Price per Share (NPR.)	100
Issue Open Date	2076/01/06
Issue Close Date	2076/01/10
Issue to Staff (4%)	4,10,526
Issue to Mutual Funds (5%)	5,13,157
Issue to General Public (91%)	93,39,467
Lead Issue Manager	Siddhartha Capital
Collection Centers	Meroshare and C-ASBA registered FIs
Min. Application (units)	10
Max. Application (units)	5000
ICRA Rating	ICRANP IPO Grade 4+

This project will have an installed capacity of 111 M.W. The project is now in construction stage. The cost of the project is ~NPR 15.12 crore per M.W. The Pay Back Period of the project is 8.12 years. Similarly, discounted payback period is 13.86 years. The total annual sales units is determined as 613.87 GWH.

Details of Rasuwagadhi Hydropower Company Limited	
Type of Project:	Run of River
Location:	Gosainkunda Gaonpalika, Rasuwa, Bhotekoshi River, Nepal
Status:	Under-construction, ~65-75% work completed.
Installed Capacity:	111 M.W.
Expected Commercial Operation Date:	2076/11/07*
Electricity Generation permission Date:	2069/08/21
PPA Termination Date:	2104/08/20

*Overall ~65-70% physical progress was achieved in the project's execution as of mid-December 2018, with plans to complete construction by mid-February 2020 against the required commercial operation date (RCOD) of mid-January 2019 (revised from the initial RCOD of mid-June 2017) (ICRA, January 2019)

Purpose of IPO Proceeds

Utilization of IPO Proceed	
Particulars	Amount (NPR.)
Total IPO Proceeds	1,026,315,000
Civil and Mechanical Works	548,985,307
Hydroelectric Machine	431,617,839
132 K.V Transmission Line	7,417,796
Consultancy Fee	35,543,310
Administrative Expenses	2,750,748
Total	1,026,315,000

PPA Status and Rate for Rasuwagadhi Hydroelectricity project (111 M.W)

Annually there is agreed sales of 613.87 GWH for wet season comprising of 8 months, the PPA rate is NPR 4.80 per unit KWH. Then for 4 Dry months, the PPA rate is determined as NPR. 8.40. After a year of completion of Commercial Operation Date (C.O.D) of project, there can be increment in the PPA rate by 3 % for 8 times annually. In the excess energy clause, billing for sales will be done according to 50% of PPA rate.

PPA Rate (NPR. Per Unit)	
Rainy Season	4.80
Dry Season	8.40

Objectives and Future Strategies

- 1.) To establish itself as a vanguard among other power producers.
- 2.) To explore opportunities and probabilities for producing smaller to larger power projects.
- 3.) To sell these electricity to NEA and thus decreasing scarcity of electricity.

Board of Directors:

As per Articles of Company, there is provision of having 11 Board of Directors. As of now, the company has Six (6) BoDs.

Promoter Shareholder	No. of Shares	Type/Group	No. of Director
Chilime Jalbidhyut Company Limited	2,24,37,310	Promoter Group	5
Nepal Bidhyut Pardhikaran	1,23,15,780	Ordinary Group	4
Local levels of Rasuwa District	1,41,620	Independent Directors	2

S.no	Name	Representation or Group	Qualification	Current Profile	Experience
1	Mr. Jagdishwor Man Singh	Nepal Bidhyut Pradhikaran	Masters in Hydropower Management	Chairman	31 years of Experience at Nepal Bidhyut Pardhikaran

2	Mr. Ram Prasad Rimal	Chilime Jalbidhyut Company Limited	Bachelors (Economics)	Director	30 years of experience at Nepal Bidhyut Pradhikaran
3	Mr. Prabal Adhikari	Nepal Bidhyut Pradhikaran	Masters (Power Systems Engineering)	Director	21 years of experience at Nepal Bidhyut Pradhikaran
4	Mr. Bhim Prasad Timilsina	Chilime Jalbidhyut Company Limited	Bachelors (Management)	Director	13 years of experience in Banking and Capital Market.
5	Mr. Rochan Shrestha	Employee Provident Fund	Masters (Information Technology Engineering)	Director	24 years of experience in Employee Provident Fund.
6	Mr. Madhav Prasad Koirala	Chilime Jalbidhyut Company Limited.	Masters (Water Resources Engineering)	Director	27 years of experience in Nepal Bidhyut Pradhikaran

Key Persons:

S. N	Name	Post/Designation	Qualification	Experience
1	Mr. Chabilal Gaire	Chief Executive Officer	Masters in Water Resources Engineering	17 years of experience in Nepal Bidhyut Pradhikaran and Other Hydropower Companies
2	Mr. Dharmaraj Sharma	Finance Department Head	Chartered Accountant	13 years of experience in Finance, Accounting and Taxation
3	Mr. Narnath Neupane	Company Secretary	Masters (Financial Management)	15 years of experience in related field

General Introduction to Balance Sheet Figures:

The existing Paid up capital of the company is NPR. 5.31 Arba (F.Y 2074/75). After the IPO, the capital will reach NPR. 6.8 Arba. The company reported a negative reserve in unaudited financials of Q2 of F.Y 2075/76. The company has projected a positive reserve of NPR.24 Crore in FY 2076/77. This is projected to further increase in the subsequent years. The company has used NPR. 2.63 Arba in debt financing. It is expected to increase to 9 Arba.

Fixed Asset is forecasted to increase at 7.7% CAGR over 4 years, and Total Capital

Key Fundamentals F.Y 2074/75	
Paid up Capital('000)	51,31,575
Reserve and Surplus('000)	(1,39,206)
BV Per Share (NPR.)	97.29
Earnings Per Share (NPR.)	(0.24)
Long Term Loan('000)	24,95,568
Debt Equity Ratio (Times)	0.50

Excerpts from Balance Sheet (NRs.'000)					
	Audited		Unaudited		Projected
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78
Share Capital	51,31,575	51,31,575	68,42,100	68,42,100	68,42,100
Reserve	(1,39,206)	(1,24,253)	(1,46,458)	2,41,511	8,73,853

Employed is forecasted to increase at 8.35% CAGR over 4 years. The Net

Long Term Loan	24,95,568	26,34,324	42,48,204	90,95,454	72,75,407
Net Worth	49,92,369	50,07,322	66,95,642	70,83,611	77,15,953
Total Assets	77,13,244	78,54,347	1,14,21,954	1,69,53,890	1,64,56,084

Worth is in increasing trend and is forecasted to increase at 9% CAGR over 4 years.

Particulars	Rasuwagadhi	SHPC	CHCL	API*	Peer Average
Debt to Equity Ratio (Times)	0.50	0.92	0.05	1.35	0.77
Book Value per Share	97.29	129	225	105	153
Current ratio	10.54	4	23	0.24	9
EPS	(0.24)	14	23	5.04	14

Comparison with Peers (Annual Financial Report of 2074/75)

- The company has

financial leverage of 0.50 times for the fiscal year 2074/75. The peer average for the same period is 0.77 times.

- The company's current ratio is 10.54 times. The peer average for the same period is 9 times.
- The company's net worth per share is NPR. 97. The peer average for the same period is NPR. 153.
- The EPS of the company is NPR. (0.24). The peer average EPS for the same period was NPR.14.

Particulars	Ratios				
	Audited	Unaudited	Projected		
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78
Debt to Equity Ratio (Times)	0.50	0.53	0.64	1.28	0.94
Current Ratio (Times)	10.53	5.03	1.71	1.03	0.61
BVPS	97.28	97.58	97.86	103.53	112
EPS (NPR.)	(0.24)	0.29	(0.11)	5.67	9.24

General Introduction to Income Statement:

The income from sale of electricity is projected from F.Y 2076/77. Similarly, the operating profit is projected to be positive from F.Y 2076/77. Finance expenses are projected to occur from F.Y 2076/77.

Comparison with Peer's Figures (Q2,2075/76)		
	Peer Average	Rasuwagadhi
ROE (%)	8.12	0.30
ROA (%)	2.97	0.19
EPS (NPR.)	9.45	0.29
BVPS	109.91	97.58
Debt to Equity Ratio (Times)	1.09	0.53

*As Company has not started operations, evaluation of vital parameters are not possible.
CHCL is not included in Peer Average computation*

Excerpts from Income Statement (NRs. '000)						
Particulars	Audited		Unaudited		Projected	
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78	
Income from Sale of Electricity	-	-	-	12,28,425	32,83,260	
Finance Expenses	-	-	-	3,83,996	9,05,673	
Depreciation Expenses	2,372	2,229	7,354	2,58,093	5,97,551	
Net Profit	(12,113)	14,953	(7,252)	3,87,969	6,32,342	

Comparison with Peers (Annual Financial report of 2074/75)

Particulars	Rasuwegadhi	SHPC	CHCL	API	Peer Average
Operating Profit Margin	-	65%	84%	15%	55%
Net Profit Margin	-	35%	80%	45%	53%
Interest Coverage Ratio	-	1.67	-	1.53	1.60
Return on Equity	-0.24%	35%	10%	5%	17%
Return on Total Asset	-0.16%	5%	10%	2%	6%

- Operating Margin, Net Profit Margin and Interest Coverage Ratios cannot be computed and compared as company has not started its operation and interest payments.
- Return on Equity of the

company is in negative form, -0.24% whereas the peer average is 17%.

- Return on Total Asset is -0.16%, whereas the peer average is 6%

Particulars	Ratios				
	Audited	Unaudited		Projected	
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78
Net Profit Margin (%)	-	-	-	31.58	19.26
EBITDA Margin (%)	-	-	-	84	86
Debt Servicing Ratio	-	-	-	2	2.45
Return on Equity (%)	-0.24	0.30	-0.11	5.48	8.20
Return on Total Assets (%)	-0.16	0.19	-0.06	2.29	3.84

The fundamentals of the company are unfavorable compared to peer's average as company has not started its operations. It is expected that the company would be stable once project under it comes into operation and payoff loans. Thus, eventually coming in par

with peers after F.Y 2076/77.

*API Power Company (API)'s annual report was not available, thus Q4 figures of 2074/75 was used.

Valuation of Company

Assumptions	
Discount Rate	7%
Risk Free Rate	5.90%
Est. Market Return	8%
Estimated Beta	0.44
Growth Rate	2%

It is assumed that the company would be a major player in Hydropower sector. We believe the company would come with other cascade projects and capacity augmentation plans for the current project. Thus, we have used DCF as a valuation measure. We have discounted Free Cash Flow to Equity by 7% as discount rate. Growth rate is taken as 2% for the company as growth of the Hydropower firms are subject to regulatory conditions and fixed

income source.

Particulars	2075/76	2076/77	2077/78	2078/79	2079/80	Discounted Terminal Value
FCFE in 000'	(2,620,865.00)	(351,311.00)	73,602.00	625,771.00	1,368,331.00	2,00,23,079
Discounted FCFE @ 7%	(2,449,967.06)	(306,989.09)	60,122.41	477,834.84	976,717.88	
Sum of Present values of FCFE	1,87,80,797.52					
Number of Shares	68,421.00					
Value per Share in NPR.	275					

Thus, as per the valuation, the value of scrip would be around NPR. 260-280

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

STRENGTHS

- **Experienced promoters:** The Company has the experienced promoters and management personnel having years of experience in hydro sector and trade & business sector.
- **Time cushion for project completion:** The Expected completion of transmission line to be constructed by NEA is January, 2019. Compared to expected date of completion of project in August, 2019. This provides time cushion of the project.

WEAKNESSES

- **Incomplete Project and Cost Overrun:** The project is incomplete and currently the project is behind its initial COD schedule and company also forecasts increase of Project cost by 1.56 crore Per M.W
- **Hydrology Risk:** Hydrology risk for the project is high, as the revenues are directly linked to unit sales of single project, hence any loss of generation due to shortage of water or silting can negatively impact the project earnings and return indicators.

OPPORTUNITIES

- **Government Policy Initiation:** The government of Nepal has recently implemented Investment Summit in Kathmandu. Large power projects are expected to get foreign funding. This can also benefit small independent power producers.

THREATS

- **Forex Risk:** The Company has international contractors from India, Australia, and China. The payments are tied up in US Dollars. So, currency fluctuation can affect company negatively.

Performance of Previously Listed Hydropower Companies

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

Ticker	Trade Open Date	LDCP*	LTP as of April 17	Diff.	Capital Gain	52 Weeks High	52 Weeks Low
RRHP	21/06/2018	266	94	(172)	(64%)	266	86
KPCL	11/10/2018	121	90	(31)	(26%)	133	88
PMHPL	10/10/2018	144	110	(34)	(24%)	142	103
UPPER	13/01/2019	224	230	6	2.67%	342	219

*listing Day Closing Price

As shown by above table, hydropower stock have a tendency to rise sharply after it is listed for trading, and it starts plummeting once it gains certain height. The current book value of Rasuwagadhi Hydropower Company Limited is NPR. 97. Hence, expected listed price to be in between the current book value NPR. 97.29 to 3 times this figure, which amounts to NPR.291.87. For analyzing the price tendency of Rasuwagadhi Hydropower Company Limited, we have considered four previously listed companies to determine the stock price once it gets listed and the price trends are expected to be in a similar trend.

Tentative Allotment Schedule

Chapter 5, Article 30 of Securities Issue and Allotment Guidelines 2074 provides new process of allotment of securities under which every valid applicant shall be allotted 10 units of shares on the very first round of allotment and the round following then, provided the units 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 Upper Tamakoshi Hydropower Limited (UPPER) as per new process. The IPO was oversubscribed by 4.37 times where the average units applied by total applicants was 45.17 units. We examine allotment schedule of UPPER and infer for estimating allotment schedule for Rasuwagadhi Hydropower Company Limited.

We estimate the IPO of Rasuwagadhi Hydropower Company Limited will be subscribed by nearly 2,00,000 valid applicants and the average units applied is 93 units. So, oversubscription is likely to be 2 times.

Investors are found to be more attracted in the primary market like IPOs. Almost all the IPO shares have been oversubscribed in the past. The best example would be Trishuli Jal Vidyut Company Limited. We could see the same level of excitement from investors in this issue.

It is forecasted that though the issue would be oversubscribed by 2 times but as valid applicants would be around 2,00,000, we expect applicants would get 40 units each. Along with proportionate basis of allotment there can be lottery for remaining units of shares.

*The average units an applicant would get is calculated as 46.69 units. Thus, 40 units would be allotted to applicants proportionately and remaining units of 6.6 units per applicant would be allotted in lottery.

Upper Tamakoshi Hydropower Limited	
Total units issued	1,58,85,000
Units for public	1,50,90,750
Units for Mutual Fund	7,94,250
Allotment Date	27/11/2018
Valid Applied Units	6,46,18,843
Valid Applicants	3,34,075
Over Subscription	4.37 times
Units Allotted	1,50,90,750
Allotment Basis	
Equal Units Allotment	40 units to each valid applicants
Lottery	17,27,750 units

Rasuwagadhi Hydropower Company Limited	
Issue Units to Public	93,39,467
Estimated Number of Applicants	2,00,000
Estimated Applied Units	1,86,78,934
Over subscription	2 times
Allotment Basis	
Required Units	1,86,78,934
Available Units	93,39,467
Allotment Units	93,39,467
Number of Allotees	2,00,000
Probable Allotment of Units	40
Type of allotment:	Proportionate allotment and Lottery

Technical Analysis



Hydropower Index has recently largely underperformed the NEPSE Index. In fact Hydropower index has always underperformed the NEPSE index since 2015. From the beginning of the year 2019 Hydropower Index has dropped 5.1% while the NEPSE Index has risen 3.1%. Stock prices of hydropower sector has been in a sideways mode since this year. The Index has not indicated any signs of immediate upside movements but it seems to be stabilizing around 1100 region.

Hydropower Index is well below its 200-day Simple Moving Average. A stock or any Index is said to be bearish if it is below its 200-day Moving Average. The index is also below the 50-day Simple Moving Average. The Relative Strength Index (RSI) indicator is around the mid-levels of 50 indicating no momentum of price. Hydropower sector is relatively unattractive based on the past price trends.

Recommendation: Apply

BVPS of company stands at NPR. 97.25. It is to be noted that company has not started its operation and has forecasted sales on 100% of capacity utilization. The company is constructing a project and is expected to be in operation from F.Y 2076/77. Project's payback period is satisfactory and also per megawatt cost of the project is 15.12. The company can give fruitful returns in coming years if project is completed in time and projects run with optimal capacity without any probable power evacuation and hydrology risk

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