

MOLUNG HYDROPOWER COMPANY LIMITED

Issue Units: 22,64,655 units

Minimum Units: 10

Issue Open Date: 04/11/2079

Rating: ICRANP-IR BB

Issue Price: Rs.100

Maximum Units: 8,000

Issue Close Date: 10/11/2079

Issue Manager: Sunrise Capital Ltd

Project Name: Molung Khola Hydropower Project
Project Capacity: 7MW

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Okhaldhunga
Status	In Operation
COD	2074/12/12
Annual Energy Generation	35.72 GWh
Wet Season (8 mths)	29.90 GWh
Dry Season (4 mths)	5.82 GWh
Total Cost of Project	Rs. 1.45 billion (With IDC)
Per Megawatt Cost	Rs. 208 million
Issue date of Gen. License	2071/06/12
Validity of Gen. License	-
General/Disc. Payback Period	8.1yrs / 19.5yrs.
Internal Rate of Return	12%

UTILIZATION OF IPO PROCEEDS

Proceeds to go for payment of loans taken up for project construction along with overdraft loan.

OWNERSHIP

Promoters ("A")	56%
Locals ("B")	10%
General ("B")	34%

KEY FINANCIAL HIGHLIGHTS (in millions)

FY	78/79	79/80Q1	79/80E	80/81E	81/82E
Paid Up Cap.	449	449	802	802	802
R&S	(177)	(151)	(119)	(45)	33
LT Loan	928	927	535	493	436
Electricity Sale	156	75	186	190	190
Op. Profit	154	55	113	116	116
Net Profits	48	27	58	74	78
RATIOS	78/79	79/80Q1	79/80E	80/81E	81/82E
BVPS	60.62	66.28	85.17	94.34	104.13
EPS	10.78	5.96	7.23	9.17	9.79
Int. Coverage Ratio (in times)	1.55	1.96	2.06	2.71	3.08
VALUATION / PRICING					
As per P/E	339.84				
As per P/B	357.68				

7 MW HEP operating commercially since Chaitra, 2074. As per 2078/79, company is in profit. Company forecasts to be in comfortable Interest Coverage Ratio (ICR) from 78/79 (~ 1.55 times) to be ~3.08 times on 81/82E. Moreover, company forecasts D/E of 0.57 times in 81/82E from 3.75 times in 78/79. The company forecasts no dividend along 3-year window period. Likewise, there is no scope for any rights issue in the forecasted figures.

Snapshots...

About the Issue: Out of the offered 27,28,500 units. 272,850 units (10%) for the Nepalese employed abroad, 136,425 units (5%) for mutual funds, 54,570 units (2%) are allocated to the employees and remaining 22,64,655 units are available for General Public.

About the Company: Incorporated as Pvt. Ltd. on 2067/10/31; converted to Public Ltd. on 2076/08/26. Registered office at Ravi Bhawan, Kathmandu. Chairman: Shreeram Maharjan. MD/CEO: Amrit Kumar Maharjan, Directors: Nabin Maharjan, Kabin Maharjan, Surya Maya Maharjan and Independent Director: Kabi Maharjan.

Dividend and Capital Plan: The projected reports indicate no capital increments i.e. no anticipation of Bonus/Right shares in 3 forecasted years. Forecasted figures don't have scope for cash dividend payout through the years.

Rationale of Credit Rating: ICRA Nepal Ltd. assigns ICRANP-IR BB rating. Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. Rationale put are- reduced evacuation constraints, good promoter profile, high project costs, modest operational performance, hydrological risks,

Utilization of IPO proceeds: Total outstanding debt of the company is ~975 Mill. Total IPO proceeds amounts to Rs. 353 Mill. The company plans to payoff the debt to the tune of IPO proceeds and remaining would be paid off from operating cash flow in coming years.

Financial Health: The company is in profitable situation. Debt-to-Equity ratio on F.Y 78/79 is at ~3.75 times. This is forecasted to be reduced to ~0.57 times till F.Y 81/82E. The company has previous experience of force outage along with generating subdued level of electricity due to lack of dedicated transmission line. However, after Magh, 2078, the company have started to produce electricity at 71% of contracted energy. On 2079/80E, company plans to offload ~ Rs. 410 Mill. of debt through IPO proceeds of ~ Rs. 353 Mill. and remaining from operating cash flow. Along the forecasted years, remaining loans are expected to be repaid through operating cash flow. So, in coming years, sales of electricity would be key driver of profitability and debt paying ability. Company is also yet to receive grants and compensation of Rs. 62.1 Mill. which would assist in debt payment capacity for company

Risk Factors: Frequent outages and tripping losses due to evacuation constraints and relatively modest generation of 71% at contract energy. Project's cost is relatively high, Moreover, high hydrology risk due to lack of deemed generation clause in the Power Purchase Agreement.

Pricing & Assumptions: Our comparatives with similar HEP installed capacity finds that the peer stocks are currently trading at approx. 4.35 times their BVPS and 39.58 times their EPS. Thus, we determine the pricing of Molung Hydropower scrip to be Rs. 357.68 and 339.84 in secondary market at current scenario. No DCF valuation due to lack of data.

Disclaimers: Not to be inferred as Investment recommendation.
Source: Prospectus, Offer letter and Care grading report.

IPO Listing Range: Rs 60.62 - Rs 181.86