



INITIAL PUBLIC OFFERING

REPORT DATE: 26th Shrawan 74

Nepal Hydro Developer Limited

Recommendation: Buy

SECTOR: HYDROPOWER

Listing Range: Rs. 89 - 267

Overview of the Company

Nepal Hydro Developer Limited (NHDL) was registered on 29th Bhadra, 2063 B.S. as a Private limited company under Companies Act, 2063 B.S. It was later converted to Public limited company on 31st Ashad, 2071. The registered office is situated in Dillibazar 33, Kathmandu, Nepal.

The company has developed the Charanawoti Hydroelectrical Project and has a Lower Charanawoti Hydroelectrical Project as a Cascade Project.

Area of Operation

The Charanawoti Hydroelectrical Project (CHP) is located in Bhimeshwor Municipality ward no 8, 9 & 11, Katakuti VDC Ward No. 06, and Magapauwa VDC Ward No. 05 of Dolakha District. This project is located 15 km East from Charikot city.

The power generated by the project is evacuated via 7 km, 33KVA transmission line to Makaibari substation at Dolakha.

Charanawati Hydroelectrical Project

NHDL has been operating 3.52 MW Charnawati HEP since June 2013 which was commissioned at a cost of NPR 672 million funded in a debt: equity mix of 77:23. The tariff rates for contract energy as per PPA are NPR 4 and NPR 7

Issue Details

Issue Size	3,90,000
Price per Share	100
Issue Open Date	27-04-2074
Issue Close Date	32-04-2074
Issue to General Public	3,62,700
Issue to Mutual Funds	19,500
Issue to Staff	7,800
Issue Manager	NMB Capital Limited
Application Process	ASBA
Min. Application (Kitta)	50
Max. Application (Kitta)	1,000
ICRA Rating	IPO Grade 4

Project Details – Charnawoti HEP

Type of Project	Run of River
Location	Dolakha
Status	Operational
Installed Capacity	3.52 MW
Total Annual Energy	20.383 GWh
Commercial operation date	2070-02-24
Total cost of Project	NPR. 67,24,87,935.84
Per megawatt cost	NPR.191,047,709.04
Pay back period	12.75 years

was

Projected Annual Generation and Sale (kWh) of electricity	2,03,83,468
Rainy Season (kWh) (8 months)	1,61,26,615
Dry Season (kWh) (4 months)	42,56,854

for wet and dry season respectively; subject to annual escalation after

Commercial Operation Date (COD) @ 3% on base tariff for 9 years.

The project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons; which shall remain effective for up to 6th year after COD with 5 times annual escalation of 3% on base tariff. The electricity sales revenue shall thereafter be based on the rates as per PPA.

Utilization of IPO Proceeds

The IPO amounts will be used for Lower Charnawoti Hydroelectrical Projects.

Lower Charanawoti HEP

Lower Charnawoti HEP is a 6.8MW Cascade project under full ownership of the company. The proposed project would utilize the water from tailrace of the current project along with addition of another stream emanating downstream from headwork of current project. The project is planned to be commissioned at a cost of NPR 1,190 million (cost per 1 MW NPR 175 million). Request has been made on 07/03/2073 for Power Purchase Agreement (PPA) between the Company and the Nepal Electricity Authority (NEA). Letter of Intent dated 20/06/2016 from Bank of Kathmandu Limited for Financial Closure has been made. Company expect to generate 4.97GWh and 31.20 GWh of energy in Dry and Wet season. The Payback period of the project is forecasted to be 12 years while IRR is 17%.

Note: Considering the limited developments in the planned cascade project, IPO proceeds are likely to be utilized towards downsizing bank loans as of now. ICRA Nepal

PPA Date	2067/01/13
Valid Upto	30 years from COD

Date of Acquisition of Generation License	2067/08/17
Valid upto	2102/08/16

Capital Structure('000)		
	Existing	Post Issue
Authorized	6,00,000	6,00,000
Issued	2,60,000	2,60,000
Paid-up	2,21,000	2,60,000
Shareholding Structure (%)		
Public	26,000 (11.76%)*	65,000 (25%)
Promoter	1,95,000 (88.24%)	195,000 (75%)
<i>*shares held by project affected public</i>		

Key Fundamentals (Provisional)	
Paid up Capital	22,10,00,000
Reserve and Surplus	(21,09,000)
Long Term Loan	39,73,87,000
Cash and bank	861,000
Income From Sale of Electricity	8,33,48,000
Generation expense	1,23,46,000
Net Profit	1,89,14,000
Book Value Per Share	99.04
Earnings Per Share	8.56
<i>* figures based on F.Y 2073/74 Q3 (pre-issue) FS</i>	

Note: NHDL has already issued 260,000 units shares (10%) through IPO to the locals of project affected people of Dolakha district (Bhimeswor Municipality ward no-8, 9 and 11, Magpauwa VDC ward no-5 and Katakuti VDC ward no-6) from 26th Mangsir, 2073 to 10th Poush, 2073. The issue amount has been capitalized.

Board of Directors

1. Mr. Gyanendra Lal Pradhan, *Executive Chairman*

He has a vast experience in Hydro sectors of the Country, serving as the key persons in several Hydro companies and projects. He is the Chairman at Hydro Solution Pvt. Ltd. since 2007. He has previously served as the Chairman of Nepal Hydro Electric Limited, Jhimruk Hydro Power Plant, Khudi Hydro Limited and Chaired the Executive Committee of Butwal Power Company. He is also the Treasury of Energy Committee at FNCCI.

2. Mr. Pashupati Murarka, *Director*

He is the Vice President (Associate) at FNCCI. He is also the Managing Director of Murarka Group and Director of NMB Capital Limited. Besides, he is the Chairman at Modi Energy Pvt. Ltd. and has served Director of Kumari Bank Limited.

3. Mr. Dev Kishan Mundara, *Director*

He is the Chairman at Debenara Group.

Technical Team

1. Mr. Raju Khadka, Project Engineer
2. Mr. Sujan Poudel, Plant Incharge
3. Naveen Ghising, Tech. Supervisor

Admin and Account Team

1. Pradeep Kumar Das, Finance Controller
2. Purusottam Thakuri, Admin/Account

Consultant Team

Nepal Hydro Solution P. Ltd.

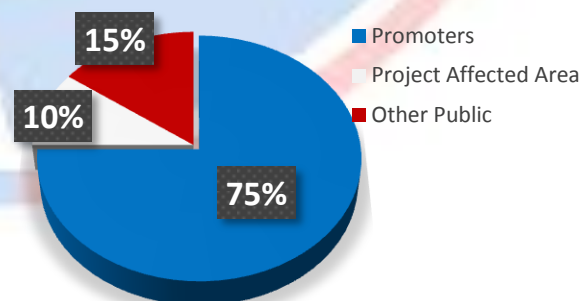
Salient Feature of Lower Charnawoti HEP

Type of Project	Run of River
Installed Capacity	6.8 MW
Dry Season Energy	4.97 GWh
Wet Season Energy	31.20 GWh
Pay back Period	12 years
IRR	17%

Shareholdings of 9 Promoters

S N	Name	Position	No. of Share hold
1	Mr. Gyanendra Lal Pradh	Chairman	4,38,750
2	Mr. Pashupati Murarka	Director	2,43,750
3	Mr. Dev Kishan Mundara	Director	2,43,750
4	Mr. Kumud Dugar	Promoter	2,43,752
5	Mr. Ananda Pokhrel	Promoter	1,35,000
6	Mr. Rajendra Mundara	Promoter	1,95,000
7	Mr. Bikash Dugar	Promoter	1,95,000
8	Mr. Sirish Murarka	Promoter	1,95,000
9	Gauri Renewable Energy Dev. Nepal (P) Ltd.	Promoter	60,000

Post Issue Shareholders Structures



GLOBAL IME CAPITAL COMPENDIUM

Comparative Balance Sheet: Vertical Analysis

	Audited		2073/74		Projected		2075/76	
	2072/73		Rs.(‘000)	%	Rs.(‘000)	%	Rs.(‘000)	%
Capital and Liabilities	667,516	100	672877	100	673,847	100	675,294	100
Equity Capital	195,000	29.21	260,000	38.65	260,000	38.58	260,000	38.50
Retained Earnings	(21,023)	(3.15)	443	0.06	33,990	5.04	73,224	10.84
Borrowings	388,250	58.16	350,250	52.05	300,650	44.63	270,906	40.12
Bills Payables	24,633	3.69	20,934	3.11	17,951	2.66	15,447	2.28
Short term Borrowings	80,337	12.03	40,771	6.06	60,531	8.98	54,876	8.13
Provision for Bonus	319	0.047	479	0.07	725	0.11	840	0.13
Assets	667,516	100	672,877	100	673,847	100	675,294	100
Fixed Assets (WDV)	598,005	89.58	569,819	84.68	541,894	80.42	514,180	76.15
Investments	-	-	6,112	0.91	16,112	2.39	26,112	3.88
Capital WIP	1,112	0.17	-	-	-	-	-	-
Receivables	36,408	5.45	53,509	7.95	70,865	10.52	86,830	12.86
Loan & Ad.	31,056	4.65	29,846	4.44	29,846	4.43	29,846	4.43
Cash Bal.	936	0.14	13,591	2.02	15,131	2.24	18,327	2.72

Vertical analysis is one method of financial statements analysis which helps in measuring each item of the statements relative to a base item on a percentage basis. For balance sheet, the base item is usually the total assets, for income statements it is sales revenue and for cash flow statements it is cash and cash equivalents. Vertical analysis can be used to bring each item to a common size and compare the fundamentals across the companies or can be used to compare the company alone fundamentals across time periods.

From the above table of comparative analysis of balance sheet across the periods, company is seen to be levered as its debt proportion is higher than the paid up capital. However, repayment of borrowed money is expected to be made in the period ahead contributing to the net profit. This is expected to setoff the past losses and increase reserves of the company.

The percentage of fixed assets to total assets is reduced to 89.58% in FY 2072/73 from 92.26% in FY 2071/72 due to depreciation. This is further expected to fall to 76.15% by FY 2075/76. Cash and cash equivalents seems to be minimal of below 3%. Company has nil investment till date, however it propose to invest nearly 4 percent of total assets by FY 2075/76, i.e. Investment at CAGR 106.48% which could add other income source. Similarly, loan and advances are expected to maintain a constant proportion of total assets, while receivables proportion may bound to rise, suggesting effort needed for working capital management.

Comparative Income Statements: Vertical Analysis

	Audited		2073/74		Projected		2075/76	
	2072/73				2074/75			
	Rs.('000)	%	Rs.('000)	%	Rs.('000)	%	Rs.('000)	%
Revenue from sale of Electricity	103,959	100	107,774	100	117,309	100	121,222	100
Generation Expenses	13,105	12.60	14,221	13.19	15,463	13.18	16,885	13.93
Gross Profit	90,854	87.40	93,563	86.81	101,846	86.82	104,337	86.07
Other Income	457	0.44	503	0.47	-	-	-	-
Sales and Admin Exp.	5,521	5.31	6,496	6.03	5,048	4.30	5,105	4.21
Operating Profit/(Loss)	85,791	82.52	87,570	81.25	96,798	82.52	99,232	81.86
Interest Exp.	41,014	39.45	34,933	32.41	31,903	27.19	28,668	23.65
Dep. Exp.	28,502	27.42	28,185	26.15	27,925	23.80	27,714	22.86
Emp. Bonus	319	0.30	479	0.44	725	0.62	840	0.69
Provision for Electricity Royalty	2,148	2.10	2,507	2.33	2,698	2.30	2,776	2.29
Net Profit	13,807	13.25	21,466	19.92	33,547	28.61	39,234	32.37

Vertical analysis of Income Statement is carried out taking the Revenue from Sale of Electricity as base item. Such computation of percentage helps to easily identify the components of Income statement having a major impact on the profitability of the company. From this analysis, we can detect the Interest expenses consuming the major revenue amounts. The interest percentage has been decreasing over the period since the gradual repayment of borrowings are taking place. Generation expenses are considerable as compared to the revenue amount it is generating. Likewise, Sales and Administrative expenses are projected to be reduced in the coming periods. High depreciation proportion are also the major factors to decrease the company book profits.

Operating profits of the company are above 80% of Revenue while the current industry averages are nearly 257% due to significant Income other than from sale of Electricity. The projected statement of the company ignores the Other Income, opening the possibility of higher operating and net profit margin. Net profit of the company is projected to increase at CAGR 34.68% from FY 2072/73 to FY 2075/76. Depreciation being a non-cash items, free cash flow of the company can be expected to be higher. *However, significantly higher growth of projected net profit shows the too optimistic projections where the reality could be different.*

Note: The asset of the company has been charged against the Syndicate loan taken from 4 commercial banks for the project operation. These banks include Bank of Kathmandu Limited (Lead Bank), Siddhartha Bank Limited, Citizens Bank International Limited and Global IME Bank Limited.

Note: Income from the project shall be fully exempted from Income tax purpose for 7 years (upto FY 2075/76) and rebated at 50% for 3 years from thereafter.

Financial Ratio Analysis

- EPS and BVPS at present are below the current industry average ratios. However, EPS is projected to increase at CAGR 28.72%, while BVPS at CAGR 12.83%, thus aligning with the industry.
- ROE and ROA of the company are also expected follow the current industry averages of 8.25% and 5.67% respectively.
- Cash flow per share indicates the cash available with the company for every outstanding share. The higher cash flow per share than the earning per share, shows a better earning quality of the company.
- The higher operating profit margin of above 90% reflects efficient management of operating expenses. Net profit margin is expected to increase in the period ahead while at present it is below the current industry average. Comparatively lower net profit margin than the operating profit margin signifies higher effects of interest and depreciation on profitability.
- Working capital ratio/Current ratio and Cash ratio measures liquidity of the company which are below the industry norms of 1:2.
- Equity ratio shows the shareholders/owners stake on the company's total assets and rest outsiders. For eg. In FY 2072/73, 25% of the company assets are owned by the owners and 75% outsider i.e. lenders.
- Asset turnover ratio indicates the efficient use of assets in generating the revenues. For eg. In FY 72/73, company generated Rs. 0.15 for every Rupee of assets used.

Financial Ratio				
	FY 72/73	FY 73/74	FY 74/75	FY 75/76
EPS	7.08	8.30	12.90	15.10
BVPS (Rs.)	89.22	100.17	113.07	128.16
ROE	7.94%	8.24%	11.41%	11.77%
ROA	2%	3.63%	5.50%	6.34%
Cash Flow Per Shares	21.69	19.09	23.64	25.75
Operating Profit Margin	94.43%	93.60%	95.04%	95.11%
Net Profit Margin	15.20%	26.13%	32.30%	41.06%
Op. Cost/Project Cost*	8.87%	8.27%	7.80%	7.53%
Working Capital Ratio	0.65	1.56	1.19	1.90
Cash Ratio	0.01	0.22	0.19	0.26
Equity Ratio	0.25	0.39	0.44	0.49
Asset Turnover Ratio	0.15	0.16	0.17	0.18
*Project A				

Industry Data (As on 7 th August 2017)	
Number of Hydropower Companies	15
Number of Listed Shares	20,46,55,019
Market Capitalization	95,268,240,231
Nepse Index	1667.94
Hydro Power Index	1932.35
Volume	4,71,39,200
EPS (Average)	11.87
BVPS (Average)	120.18
P/E	41.72
P/BVPS	3.08
ROE	8.25%
ROA	5.67%
Beta (Weekly Average)	0.82
Net Profit Margin	33.75%
Gross Profit Margin	68.58%

GLOBAL IME CAPITAL COMPENDIUM

Valuation of Company

Relative Valuation Model:

The idea underlying relative valuation is that similar assets should sell at similar prices. The application of relative valuation is called the method of comparables. It estimates an asset's value relative to that of another asset (benchmark). The model helps to check 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. Here, we value the company based on P/E and P/B based multiples.

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.

P/B ratio helps to gauge what value it should have in the market based on its net worth.

Guideline Public Company Methods:

The value is based on the multiples of comparable public companies, where multiples are adjusted to reflect differences in the relative risk and growth prospects.

We assume the following:

- Discount for lack of control – Nil; since the company is a public company.
- Discount for lack of marketability – Nil; since the issue will be publicly listed in index.
- Discount for risk – Nil; since the issue is IPO and issued at par hence considered riskless

P/E Based Valuation

Projected Year	Industry P/E	EPS of Company	Value of Shares
2073/74	29.90	8.30	248.17
2074/75	29.90	12.90	385.71
2075/76	29.90	15.10	451.50

**Industry PE is the harmonic mean of PE of Hydro companies; EPS as on FY 2072/73 and Price as of 7th August 2017.*

**Industry PE is assumed to be same.*

PB Valuation

Projected Year	Industry average	BVPS	Value of Shares
2073/74	2.90	100.17	290.50
2074/75	2.90	113.07	327.90
2075/76	2.90	128.16	371.66

**Industry PB is the harmonic mean of PB of Hydro companies; BVPS as on FY 2072/73 and Price as of 7th August 2017.*

**Industry PB is assumed to be same.*

GPCM Valuation

	73/74	74/75	75/76
EBITDA	87,571,000	96,798,000	99,232,000
Multipliers	25.42		
Enterprise value	2,226,005,668.21	2,460,550,829.29	2,522,421,743.13
Equity value	1,889,347,668.21	2,175,031,829.29	2,269,842,743.13
Per share MV (Rs.)	726.67	836.55	986.89

**The industry average is computed based on the market price as on 7th August 2017 and available financials of 2072/73.*

Note: Going forward, the ability of the project to achieve its design operating parameters will be the most important driver for the project returns. ICRA Nepal

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

STRENGTHS

- Promoters and Management personnel consists of individuals having vast experience in construction and operation of hydro power projects in the country.
- Machinery breakdown Insurance, Fire Insurance and Revenue Insurance has been done with Sagarmatha Insurance Company Limited.

WEAKNESSES

- Moderate operational performance of the project (Plant Load Factor at net generation of 55% in past 2 years ending FY15 as opposed to contract energy PLF of 66% coupled with high financial leverage.
- ICRA Nepal, the only credit rating agency in Nepal assigned IPO Grade 4, which means below average fundamentals to the proposed IPO, reflecting high project costs, weak profitability.

OPPORTUNITIES

- Significant prospect of identifying new projects with minimal Porter Five Forces.
- Budget 2074/75 has prioritized the production, transmission and distribution of hydroelectricity projects in the country for the economic growth.
- The government has issued a white paper through “National Energy Crisis and Electricity Development Decade Plan” in February 2016 with the objective of ensuring energy security and develop 10,000 MW in 10 years.

THREATS

- The project is exposed to hydrology risk, interest rate volatility in the market and the counterparty credit risks arising out of exposure to loss-making NEA for the energy supplied, although the same is partly mitigated by the fact that NEA is fully owned by the Government and has been making timely payments to NHDL so far which provides some comfort.
- Unable to fulfil the contractual supply of energy will not only result in lower revenues but can also result in penalties if the shortfall is more than 80%.
- Uncertainty about the revenue stream from 6.8 MW Lower Charnawati HEP along with project execution and hydrology risks

**Source: ICRA Nepal IPO Grade to the IPO of NHDL.*

Comparative outlooks of NHDL with CHL

In our previous IPO Compendium regarding Himalayan Power Partner Limited, we highlighted the performance of Listed Hydropower Companies. We presented our opinion that the securities of the Hydro companies trading in the securities markets over relatively long period of times failed to appreciate in prices as compared to other sectors. Considering the sentiments that the securities will experience high movements in the exchange market in the initial period of trading before resting on a constant level, we make the comparison of the recently listed Chhyangdi Hydropower Company Limited with Nepal Hydro Developer Limited.

Name of Company	Chhyangdi Power Limited	Hydro Nepal Developer Limited
Ticker	CHL	NHDL
Projects and MW	(A) ChhandiKhola Small Hydropower Project, 2MW (B) Upper ChhandiKhola Small Hydropower project, 4 MW	(A) Charanawati Hydroelectrical Projects, 3.52 MW (B) Lower Charanawoti Hydroelectrical Project, 6.8 MW (Cascade Project)
Per MW Cost	(A) Rs. 221.41 Millions	(A) Rs. 191.05 Millions (B) Rs. 175.04 Millions
COD	(A) 2072/12/13 (B) Mid-2019 (Expected)	(A) 2070/02/24
Issue Size	540,000	390,000
EPS (72/73)	-1.88	7.08
BVPS (72/73)	98.12	89.22
Issue Date	14 th Jestha 2074	27 th Shrawan 2074
Allotment Date	17 th Ashad 2074	Expected 30 days
Listing Date	11 th Shrawan 2074	Expected 30 days
Listing Range	98 - 294	89 – 267
Trading Date	19 th Shrawan	1 week after Listing
LTP	260	
Highest Price	355	

As compared to CHL, NHDL carries a higher MW projects but with higher Per MW cost. The EPS of CHL is negative while NHDL has lower net worth per share as on 31st Ashad 2072/73. Allotment of issues of NHDL can be expected to be made in 30 days or less under the new allotment guidelines issued by SEBON. CHL opened with Rs.294 on 3rd August 2017 and closed at Rs.323, with 775 volumes. The other trading day saw a massive volume of 10,396 raising the price to Rs.355. The last trading price is Rs.260. We expect the stock to maintain this volatility in the short term. The shares of NHDL can be expected to be listed within 30 days after its allotment, while the trading could start after the weekend then. The initial weekend or a month can be a fest for the traders, taking advantages of the price fluctuation, however cost can be lost of future benefits. The prices and volumes can be depended on the 4th Quarter reports of the company as well as the audited report of FY 2073/74.

Sectoral Analysis

We highlight the comparative performances of different sectors/sub-indexes of the securities listed in the NEPSE Index.

S. N.	Metrics	NEPSE	Hydro-Power	Banking	Development Bank	Insurance	Finance	Hotels
1	Index	1665.05	1942.88	1450.05	2048.58	9402.13	811.20	2491.16
2	Mean	1550.02	1889.82	1417.27	1817.75	7975.88	721.15	2109.37
3	Geometric Mean	1544.42	1880.27	1414.02	1802.81	7862.78	718.10	2095.77
4	Median	1593.81	1956.76	1428.35	1936.03	8403.96	746.58	2204.53
5	Standard Deviation	128.61	184.02	95.63	223.87	1270.72	64.69	232.40
6	Beta	1	1.047	1.005	0.916	1.559	0.70	0.887
7	Market Return	23.44%	20.46%	11.84%	45.54%	61.89%	30.09%	44.24%
8	Excess Return over NEPSE	-	-2.98%	-11.60%	22.10%	38.45%	6.64%	20.78%
9	Expected Return (Relative to Sector)	23.44%	21.19%	11.87%	42.11%	93.77%	22.51%	39.78%
10	Expected Return (Relative to NEPSE)	-	24.31%	23.53%	21.87%	33.84%	17.86%	21.35%
11	Sharpe Ratio	0.1447%	0.0849%	0.0732%	0.1818%	0.0449%	0.3902%	0.1695%
12	Treynor Ratio	18.60%	14.92%	6.97%	44.46%	36.60%	36.06%	44.39%
13	Ex Post Alpha (Relative to Sector)	-	-0.73%	-0.03%	3.44%	-31.88%	7.57%	4.44%
14	Ex Post Alpha (Relative to Sector)	-	-3.85%	-3.07%	-1.41%	-13.38%	2.60%	-0.88%
15	VAR (90)	-1.31%	-0.51%	-1.34%	-0.83%	-1.40%	0.20%	-0.49%
16	VAR (95)	-1.61%	-1.29%	-1.44%	-1.44%	-3.10%	-1.25%	-2.63%
17	CVAR (90)	-1.91%	-2.14%	-2.02%	-1.43%	-2.71%	-1.14%	-1.13%
18	CVAR (95)	-2.38%	-2.54%	-2.44%	-1.74%	-3.80%	-1.23%	-1.57%

- VAR(90) is Value at Risk which indicates there is 10% probability of losing 0.51% or higher on any single day when investing in the hydro-power sectors. CVAR(90) is Conditional VAR which explains there is 10% probability of losing 2.14% on average on any single day in the hydro-sector.

Note: Method of VAR Computation: *Historical Method*

The above computation has been made based on the Indexes/Sub-Indexes as extracted from the NEPSE Portal. The Indexes/Sub-Indexes ranges from 6th February 2017 to 6th August 2017.

Risk Free Rate is determined to be 4.84%.

Tentative allotment Module

Chapter 5, Article 30 of Securities Issue and Allotment Guidelines 2074 provides the amended (new) process of allotment of securities. Accordingly, the allotment of Himalayan Hydro Power Limited IPO was made. The IPO of this company Nepal Hydro Developer Limited will be made following this new guideline.

As per the new guideline, every valid applicant shall be allotted 10 kitta shares on the very first round and the round following then, provided the kittas available are sufficient for allotment to each eligible applicant. Otherwise, the lottery system will be followed.

Implication of allotment of minimum kittas of 10 shares should result in higher number of applications (applicants) while application amount (subscription times) could be low. The applications could be further lessen by the IPO/FPO of other companies in pipelines. In Himalayan Power Partner, 163,737 applicants applied even after having the confusion of applicability of new system till the last opening date. Now there remains no doubt and we estimate nearly 180,000 applicants eyeing for the IPO with 30 times oversubscription.

In the given case, the number of shares required to be allotted at minimal for the 180,000 applicants is 18,00,000. The kittas are more than the available 362,700. The number of applicants who can get 10 kitta shares is only 36,270. Therefore, the IPO is highly to be distributed on a lottery basis, where only 36,270 applicants names be drafted from 180,000. That is 20.15% of total applicants are likely to get the shares.

Himalayan Power Partner Limited		
Project	Dordi Khola Hydropower	
Installed Capacity	27 MW	
Per MW Cost	NPR. 15,68,67,296	
COD	2074-03-01	
Issue Unit	21,30,834	
Issue to Public	19,81,675	
Issue Date	2074-03-01 to 2074-03-05	
Over-subscriptions	40.36 x	
No. of Applicants	163,737	
Allotted Kittas	10 kittas	1,29,302
	11 kittas	5 Lottery
	34,430 kittas	20

Nepal Hydro Developer Limited (NHDL)	
Issue Units	390,000
Staff	7,800
Mutual Fund	19,500
Public	362,700
Total valid application	NPR. 1,088,100,000
Oversubscription	30 times
Valid Applicants	180,000
Allotments	
Required Kittas	1800,000
Available Kittas	3,62,700
Allotment Basis	Lottery
Allotted Applicants	36,270
% allotment	20.15%

As per the new guideline, the allotment will have to be completed within 30 days if the number of applicants exceeds 2 lakhs.

Technical Analysis- Gains in Hydro Sector Has Not Been Impressive Yet



- **Hydropower Index Long Term Trend Analysis**

The time period from 2012-2014 had been a marvelous era for the hydro sector as this sector gained more than 550% over the two years. Returns got nasty thereafter. Hydro power index started to trend down eventually after the secular Bull Run. Exclusive recovery was made during June 2016 when hydropower index recovered about 80% of the losses made after the fall from Mid July 2014. In June 2016 hydropower index reached as high as 2769 just to fall back sharply to 1450. Thereafter, quick recovery was made along with the overall market.

- **Hydropower Index Short Term Trend Analysis**

At present Hydropower index has been hovering around the major multiyear support of 1900. It has been range bound between 1900-2100. This sector is biased downside more in the present context as it made fresh weekly lows. Any close below 1900 could become a really bad thing to happen for this sector. On the upside, only a stability maintained above 2100 will give hope to another secular bull trend

Technical Indicators Outlook

- **Moving Average**

As of writing, on the basis of daily chart, 200-day simple moving average and a 100-day simple moving average, hydropower sector is in downtrend. Although a golden cross (100-SMA crossed above 200-SMA) occurred a week before, both indicators are above the index indicating down trend.

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- **Average Directional Index (ADX)**
Average directional index (ADX) indicator, as of writing, is bearish signaling down trend in hydro sector.
- **Average True Range (ATR)**
Average true range indicator has been down trending since April which indicates deteriorating volatility within the sector.
- **Stochastics**
Stochastic oscillator is bearish suggesting bears ruling over bulls. It is approaching towards the oversold territory. Sometimes, extremely oversold conditions are the time to buy stocks at the cheapest price.

Conclusion

Hydropower sector is on the verge of testing major support of 1900. A break below the multiyear support of 1900, hydropower sector might face fierce selling pressure. Bounce back from the psychological support of 1900 will bring long opportunities but that will still not be a sure confirmation for the secular bull like we had one during 2012-2014. Stability above 2100 will be a very optimistic scenario for the Hydropower sector.

Recommendation: Buy

The IPO is an **IDEAL** to apply for. Though the ICRA Nepal rating indicate below average fundamentals at present, but the projected financial statements are commendable. The fundamental ratios are expected to align the industry averages. Net worth per share are projected to be above par in the period ahead and Cash flow per share are high. Market risk are minimal while operational and liquidity risk are some worries. Successful implementation of cascade project of Lower Charnawoti HEP could boost the revenue of the company, otherwise the small Charnawoti HEP revenue may become insufficient. The backgrounds of the promoters are positive factors to rely on their experiences and ability to overcome any hardship financially and operationally. The IPO usually bears no risk, so the investment can add value to the portfolio through price appreciation, bonus or right distribution in the future to the investors.

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