

GLOBAL IME CAPITAL LIMITED

Investment Memorandum

INITIAL PUBLIC OFFERING

REPORT DATE: 2075/11/13

Panchthar Power Company Limited

SECTOR: HYDROPOWER

Listing Range: 86.62-259.86

Overview of the Company

Panchthar Power Company Limited was established in 2065/07/18. To increase the public participation, the company was converted into public limited in 2073/04/25. Registered office is situated in ward no. 15, Hattiban, Lalitpur. The operation of project started in the 2073 B.S. The company has one project with capacity of 14,900 K.W. Per Mega Watt cost of the project is approximately NRs. 17.58 crore. The payback period of the project is 8.94 Years and Discounted PBP stands at 11.99 years.

Projects

The company is currently operating one project:

*Issued to locals of Phidim Municipality, Hilihang and Phalelung Rural Municipal

Hewa Khola A Hydropower Project

The company has only one project with the capacity of 14,900 Kilowatts. The commercial operation of the project started from 2073 B.S. The total cost of the project as per estimate stands at 2.61 Arba NPR. The average energy production contracted to be sold is 82,095,742 KWH. The project for operation is licensed till 2104 B.S, which is till 29 years. The payback period of the project is 8.94 Years and discounted PBP is around 11.99 years. The commercial date of operation of project was 2073/10/22.

Details of Hewa Khola A Hydropower Project	
Type of Project:	Run Of River
Location:	Panchthar District
Status:	In operation
Installed Capacity:	14.9 M.W
Commercial Operation Date:	2073/10/22

Issue Details	
Issue Size	17,50,250
Price per Share (NRs.)	100
Issue Open Date	2075/11/13
Issue Close Date	2075/11/16
Issue to Locals* (units)	9,62,500 (787,750 unsubscribed)
Issue to Staff (units)	35,005
Issue to Mutual Funds (units)	87,512 (fully subscribed)
Issue to General Public (units)	16,27,733
Issue Manager	Sanima Capital
Collection Centers	Meroshare and C-ASBA
Min. Application	10
Max. Application	9,620
CARE Rating	CARE-NP IPO Grade 4

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Purpose of IPO Proceeds

The IPO proceeds will be generally used to pay loans which was taken to finance the project:

S.No	Particulars	Amount in NRs. 000'
1	Long Term Loan Payment	1,37,500
2	Short Term Loan Payment	50,000
3	Share Issue and other Liability Payment	5,000
Total IPO Proceeds		1,92,500

PPA Status and Rate for Hewa Khola A Hydropower Project

Annually, there is agreed sales of 82,095,742 KWH to Nepal Electricity Authority. Commercial Date of Operation (COD) year is regarded as base year.

PPA rate for the wet season and dry season is Rs.4.80 and Rs.8.40 respectively. There can be yearly increment of PPA rate of 3 percent from base year with yearly increment for 5 times only.

Board of Directors

The board of directors of company consists of 6 directors. The company in its Articles of Association provides provision for having 9 directors at Board, including 2(two) from general shareholders and 1(one) as independent director.

Promoter Shareholder	Number of Shares
U.V Investment Company Pvt. Ltd	1,755,304
Access Investment Company Pvt. Ltd.	1,579,500
Mega Venture Pvt. Ltd.	1,112,119
Mr. Basanta Kumar Nemwang	81,331

S.no	Name	Representation	Qualification	Current Profile	Experience
1	Mr. Umesh Shrestha	U.V Investment Company Pvt. Ltd,	MA, B.Ed.	Chairman	Vast experience in Education sector. Acted as promoter for Prime Commercial Bank , Century Commercial Bank and Mega bank Nepal Ltd.
2	Mr. Pushpa Jyoti Dhungana	Access Investment Company Pvt. Ltd.	B.Ed.	Managing Director	Experience in Education and Construction sector. Promoter at Lumbini Bikas Bank

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3	Mr. Raghunath Puri	Mega Venture Pvt. Ltd.	Bachelors (Management)	Director	Varied experience in Tourism (Travels Hotels), Director at foreign employment services firms.
4	Mr. Basanta Kumar Nemwang	-	Bachelors (Law)	Director	16 years of experience in hydropower sector at directorial level.
5	Mr. Rajesh Kumar Shrestha	U.V Investment Company Pvt. Ltd.	Masters (Economics)	Director	Vast level of experience in Education, publication, Tea estate, Banking sector as member of BoD.
6	Mr. Lal Prasad Sawa Limbu	Mega Venture Pvt. Ltd.	B.Sc.	Director	Director at Panchthar Power Company from 2065 B.S.

Key Person

S.no	Name	Current position	Education	Experience
1	Mr. Pushpa Jyoti Dhungana	Managing Director	B.Ed.	Experience in Education and Construction sector. Promoter at Lumbini Bikas Bank
2	Mr. Rajesh Kumar Shrestha	Finance Director	Masters (Economics)	Vast level of experience in Education, publication, Tea estate, Banking sector as member of BoD.
3	Mr. Sundar Mani Subedi	Manager (Finance and Administration)	Masters (Management)	Managerial experience at Agricultural research Council, 5 Years of experience at Khoranga Hydropower. And associated with PPCL from 2066 B.S.

Key Financials

Key Financials	Amount in NRs. 000'				
	2073/074	2074/75	2075/76 E	2076/77 E	2077/78 E
Share Capital	6,98,159	7,70,000	962,500	962,500	962,500
Reserve & Surplus	(45,767)	(1,03,064)	(71,418)	88,165	274,709
Long Term Loan	1,713,106	1,717,752	1,580,251	1,465,459	1,318,251
Sales from electricity	88,834	2,53,266	358,611	473,669	486,943
Net Income	(45,104)	(57,296)	31,646	1,59,583	1,86,544
EBITDA	80,484	223,973	321,563	434,990	446,681

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Gross Profit Margin (%)	97	94	95	96	96
EBITDA Margin (%)	97	88	90	92	92
Net Income Margin (%)	(51)	23	9	34	38
Book Value Per Share	93.44	86.62	92.58	109.16	128.54
Debt to Equity (Times)	2.78	2.71	1.77	1.39	1.07
Interest coverage ratio (Times)	0.49	0.70	1.16	1.89	2.13
Earnings Per Share	(6.46)	(7.44)	3.29	16.58	19.38
Return on Equity (%)	(7)	(9)	4	15	15

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	92.58	114
*industry PB is assumed to be same in F.Y 2075/76		

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 would move around ~114 in F.Y 2075/76 as per P/B based valuation.

Residual Income Valuation:

Residual Income Valuation	
Particulars	Amount Per share
Book Value per Share in 2074/75	86.62
Sum of Present Residual Value @10%	39.22
Discount Rate/Require rate of return on investment	10%
Value as per Residual Value	126

Residual Income Valuation states amount that is left in the company after distributing dividend or any incentives to shareholders. For proxy of incentives distribution we have used 10% as Cost of capital which would be required by shareholders of company. Thus, Valuation through residual income suggests value of scrip at NRs. 126.

Technical Analysis:



Trend Analysis

The trend of hydropower index as suggested by long term and short term moving averages is down. The benchmark index is well below its 200, 50, and 20 day's simple moving averages. The -DI of ADX is above the +DI indicating negative directional movement.

Momentum Analysis

As the relative strength index (RSI) has been constantly trending downwards, the bearish momentum seems to be strong. RSI is calculated using 14-day average gain and losses and is helpful in determining the strength of the trend.

Volatility Analysis

As the Bollinger bands have not contracted or expanded abnormally, the volatility of hydropower index as of now is at normal levels. Bollinger band consists of 20-day moving average in the middle and 2-standard deviations of the average on either direction. Expanding bands suggests increased volatility while the contraction of the band indicates decreasing volatility.

Volume Analysis

The volume in hydropower index has been consistently dropping since January 2019. Falling volume with falling stock prices indicate weaker bearish move which may be followed by some reversals.

Recommendation: Apply

The company has Book value per share at NRs.86. Company seeks to be stable by paying off loans. The company started its operation from F.Y 2073, but due to heavy loans and its interest payment company came into loss. Thus, IPO at this time would be helpful to mitigate this problem and drive company to profitability. The company can give dividend from F.Y 2076/77. But profitability of company in future should be judged with hydrology of Hema Khola. Also, better earning for company is subject to timely completion of 132 K.V of Kabeli Corridor as this mitigates power evacuation risk.

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