

The Pulse

Market Growth, Risks and Outlook

Bhadra 2081

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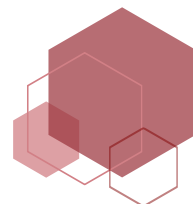
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Himalayan Capital





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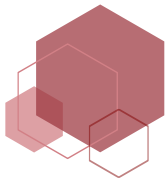
Global Markets Overview

€	1.11 \$ (2.26%)	S&P 500	5,648.40 (2.28%)
£	1.31 \$ (2.30%)	BSE SENSEX	82,365.77 (0.76%)
₹	83.9* (0.29%)	NIKKEI 225	38,647.75 (-1.16%)
¥	146.20* (-2.76%)	FTSE 100	8,379.64 (0.14%)
A\$	0.68 \$ (3.53%)	DAX	18,906.92 (2.15%)
C\$	0.74\$ (2.32%)	CAC 40	7,640.95 (1.45%)
		HANG SENG	17,989.07 (3.72%)
		SSE COMPOSITE	2,842.21 (-3.29%)

*Values Per 1 \$

	Gold(\$) Per Oz. 2,503.34 (2.35%)		Bitcoin(\$) 58,858.30 (-9.05%)
	Brent Crude(\$) Per Barrell 78.82 (0.38%)		Ethereum(\$) 2,499.29 (-22.81%)

#All Changes are in MoM basis.



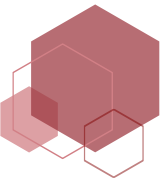
Currency Market Trends

In the past month, most major currencies have appreciated against a benchmark, likely the US dollar. The Euro and British Pound rose by 2.26% and 2.30%, respectively, reflecting strength in European economies. The Australian Dollar led with a 3.53% increase, likely due to strong economic performance. Meanwhile, the Japanese Yen fell by 2.76%, possibly due to domestic economic concerns. The Indian Rupee and Canadian Dollar showed modest increases of 0.29% and 2.32%, indicating relative stability.

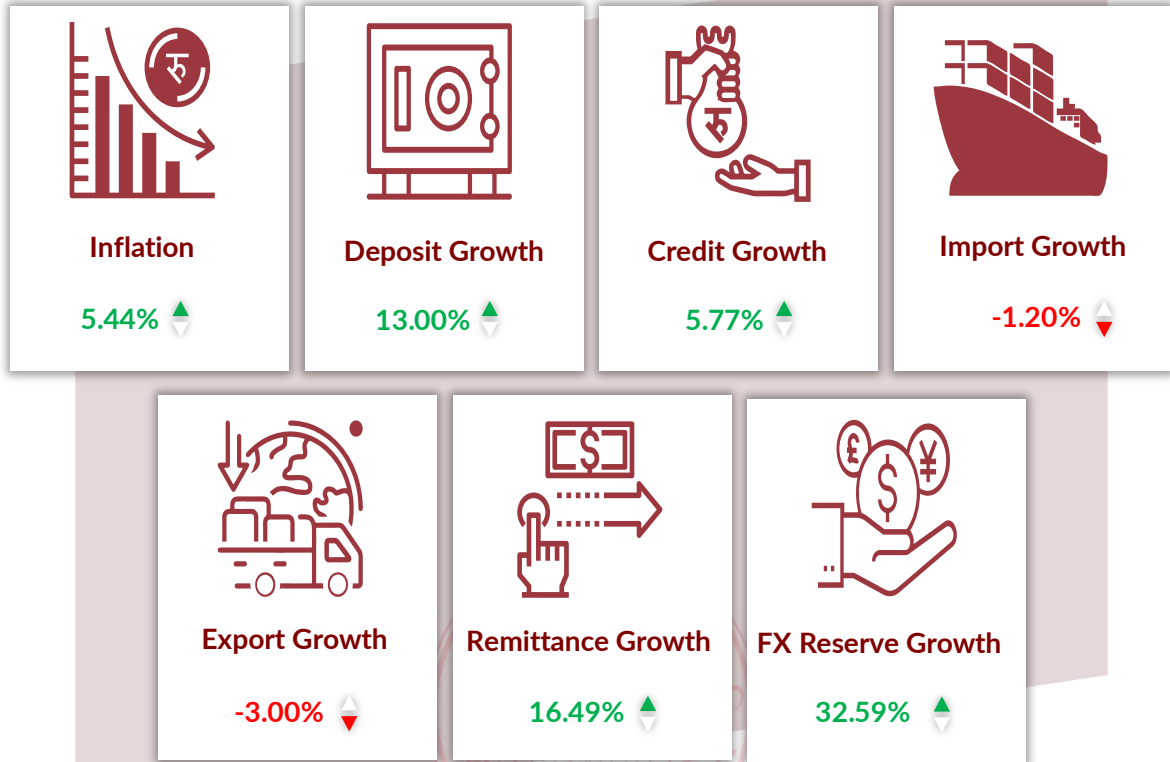
Global stock indices exhibited mixed performance over the last month. The S&P 500 and DAX showed healthy growth, increasing by 2.28% and 2.15%, respectively, likely driven by strong corporate earnings and positive economic indicators in the US and Germany. The Hang Seng index surged by 3.72%, suggesting optimism in the Hong Kong market, possibly due to easing regulatory concerns or better-than-expected economic data from China. In contrast, the NIKKEI 225 and SSE Composite declined by -1.16% and -3.29%, respectively, reflecting challenges in the Japanese and Chinese markets, potentially due to economic slowdown fears or geopolitical tensions. Other indices like the BSE SENSEX, FTSE 100, and CAC 40 saw modest gains, indicating stable but cautious investor sentiment.

The cryptocurrency market saw sharp declines, with Bitcoin dropping 9.05% and Ethereum plunging 22.81%, likely due to regulatory scrutiny, market corrections, or profit-taking. Ethereum's steep fall highlights increased volatility in the crypto market. In contrast, traditional commodities like Gold and Brent Crude remained stable, with Gold rising 2.35% as a safe-haven asset and Brent Crude inching up 0.38% amid steady demand.

The movements across currencies, stocks, and commodities suggest a complex and mixed market environment. While traditional financial markets like stocks and currencies are showing resilience with positive trends in many areas, the cryptocurrency market is experiencing significant volatility. This divergence indicates that while traditional assets continue to benefit from economic recovery and stable demand, cryptocurrencies are more vulnerable to regulatory pressures and market sentiment shifts. Overall, the economic landscape appears cautiously optimistic, with investors favoring traditional assets over more speculative ones like cryptocurrencies.



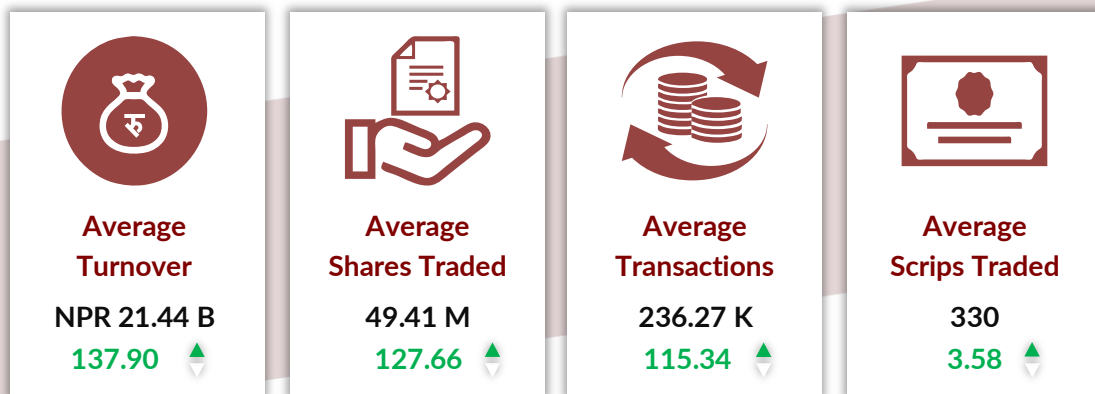
Macroeconomic Overview



* Growth refers to the change between FY 79/80 and FY 80/81.

* Credit refers to claim on private sector.

Monthly Trading Statistics



* For the period (August 1, 2024) - (August 29, 2024)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Ashad-80	Jes tha-81	Ashad-81	Bhadra 7	Bhadra 14	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	4.39	2.80	2.97	2.98	2.98	-1.42	0.17	0.00
Wt.Avg 91 Days TB rate (%)	6.35	2.99	3.00	2.93	2.83	-3.35	0.01	-0.10
Wt.Avg 364 Days TB rate (%)	8.55	3.20	3.19	3.04	3.04	-5.36	-0.01	0.00
Wt. Avg Interbank Rate (%)	2.98	2.95	2.99	3.00	3.00	0.01	0.04	0.00
CapEx (In Billion NPR)	233.70	133.81	191.72	9.82	11.05	-41.98	57.91	1.23

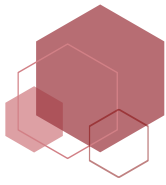
B. BFI Statistics

Description	Value As On					Change		
	Ashad-80	Jes tha-81	Ashad-81	Bhadra 7	Bhadra 14	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	7.86	6.17	5.77	5.77	5.77	-2.09	-0.40	0.00
Wt. Avg Lending Rate (%)	12.30	10.15	9.93	9.93	9.93	-2.37	-0.22	0.00
Base Rate (%)	10.03	8.17	8.00	8.00	8.00	-2.03	-0.17	0.00
CD Ratio (%)	81.63	79.90	79.09	78.80	78.95	-2.54	-0.81	0.15
Fixed Deposits/Total Deposits (%)	58.21	58.23	56.08	56.08	56.08	-2.13	-2.15	0.00
Total Liquid Assets/Total Deposits (%)	27.10	26.58	26.44	26.44	26.44	-0.66	-0.14	0.00

Public Debt Subscription

Category	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Lowest	Highest	Average
28 Days	Chaitra 6	500.00	0.00	19	68	5.08	500.00	2.45	2.49	2.49
91 Days	Falgun 22	604.50	0.00	24	91	5.30	604.50	2.74	2.83	2.79
182 Days	Chaitra 6	430.00	0.00	18	60	4.64	430.00	3.05	3.12	3.10
364 Days	Chaitra 6	900.00	0.00	20	80	2.59	900.00	3.15	3.39	3.32

*Figures are in Millions NPR

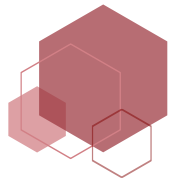


Sectoral Movement

Index	Shrawan 16	Bhadra 13	Change
NEPSE	2,760.90	2,749.57	-0.41%
Life Insurance	12,832.74	13,486.03	5.09%
Investment	106.93	111.35	4.13%
Mutual Fund	21.63	21.97	1.57%
Finance Company	3,506.67	3,559.94	1.52%
Hydropower	3,370.42	3,419.34	1.45%
Others	2,078.75	2,101.49	1.09%
Development Bank	5,443.89	5,436.27	-0.14%
Trading	3,779.78	3,772.09	-0.20%
Commercial Bank	1,577.93	1,559.76	-1.15%
Non Life Insurance	13,271.18	13,108.97	-1.22%
Hotels & Tourism	7,246.32	7,155.68	-1.25%
Microfinance	5,441.78	5,107.24	-6.15%
Manufacturing & Processing	7,961.35	7,295.83	-8.36%

Major Movers

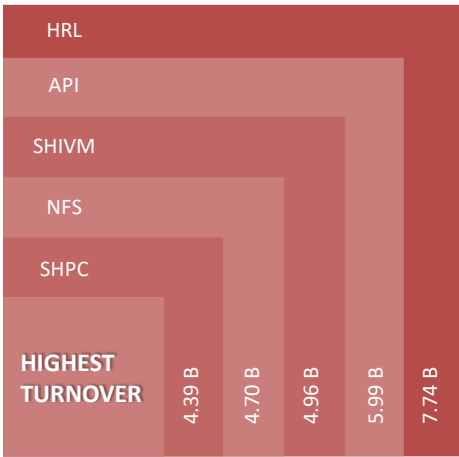
TSHL	61.06%	CGH	-23.07%
ANLB	46.12%	JFL	-21.64%
MSHL	43.05%	KDL	-20.01%
GFCL	38.83%	TPC	-19.49%
DOLTI	37.80%	HLBSL	-19.01%



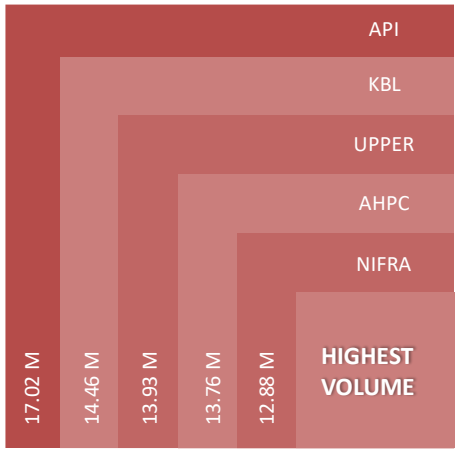
Sectoral Divergence-Turnover

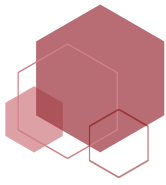
Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	9.01 B	21.44 B	137.90%
Others	0.47 B	1.54 B	225.78%
Life Insurance	0.50 B	1.49 B	196.12%
Commercial Banks	1.00 B	2.89 B	189.02%
Hydro Power	2.58 B	7.23 B	180.18%
Investment	0.63 B	1.73 B	175.85%
Manufacturing And Processing	0.47 B	1.28 B	172.74%
Mutual Fund	0.01 B	0.02 B	171.11%
Non Life Insurance	0.39 B	1.06 B	168.77%
Development Banks	0.62 B	1.64 B	163.51%
Hotels And Tourism	0.21 B	0.56 B	161.65%
Finance	1.05 B	2.47 B	135.69%
Tradings	0.03 B	0.07 B	115.20%
Microfinance	0.82 B	1.27 B	54.09%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview



On August end, 2024, the flagship NEPSE index concluded at 2,749.57 points, with a monthly average turnover reaching NPR 21.12 billion, a substantial increase compared to the previous month's average turnover of NPR 10.72 billion.

The Relative Strength Index (RSI) is currently at 51.93 points which is a neutral zone and the MACD indicator is signaling a bearish trend

Looking ahead, the NEPSE index's immediate support levels are identified as (S1) 2,660, (S2) 2,600, and (S3) 2,510 while immediate resistance levels are recognized at (R1) 2,800, (R2) 2,880, and (R3) 2,950. These support and resistance levels serve as valuable indicators for investors when formulating trading decisions.



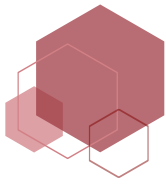
B. Long Term Overview



The NEPSE index has recently surged past the psychological barrier of 2200, a milestone not achieved in over two years. This upward momentum has been fueled by several key factors: the recent reduction in interest rates, the appointment of Mr. Bishnu Prasad Paudel as Finance Minister—a figure well-regarded by investors and the Nepal Rastra Bank's (NRB) rate cuts aimed at boosting the economy.

NRB has lowered the policy rates and introduced rate cuts, particularly benefiting the banking, financial institutions (BFI). Additionally, NRB's decision to lift the NPR 20 crore cap on margin lending for institutional investors is expected to further inject capital into the market. While these measures have generated optimism, it's crucial to remember that their full impact remains to be seen.

NEPSE has experienced a downward trend over the past two weeks, declining by 8.37% from its recent peak of 3,000.81. This movement is primarily attributed to profit-taking by traders, which has tempered the market's upward momentum. The current trading activity has also not generated the higher volumes needed to sustain the ongoing bullish trend.



SCRIP ANALYSIS

Hydroelectricity Investment and Development Company Limited Promoter (HIDCLP)

A. About the Company

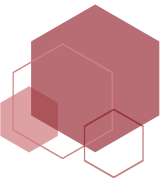
On July 11, 2011, the Government of Nepal established Hydroelectricity Investment and Development Company Ltd. (HIDCL) with the mission to mobilize funds from both domestic and international sources for substantial investments in hydroelectricity projects. HIDCL is dedicated to financing middle to large-scale hydroelectric power generation, transmission, and distribution projects. The company is committed to delivering timely, high-quality services to its customers and partners while adhering to the highest standards of integrity and professionalism. By creating significant value for its shareholders, HIDCL aims to become the leading hydropower investment company in Nepal.

As per its website, the company has invested in 13 equity projects and 21 debt financing projects, with another 8 pipeline projects. Currently, 21 of its projects are at various stages of development, including construction, pre-construction, the study phase, and the final stage of study. To align with its long-term strategic objectives, the company aims to structure its debt financing and investments so that debt financing investments do not exceed 75% of the total investment portfolio, while share investments remain capped at a maximum of 35%.

How HIDCL's Promoter Shares were eligible for trading in the secondary market?

HIDCL concluded its 1:1 right share issue on Bhadra 08, 2078, offering 1.1 billion units starting from Shrawan 05. The book closure date was set for Jestha 28, 2078, allowing eligible investors to apply for the shares. However, 33 million promoter right shares remained unclaimed by eligible promoters. The auction for these shares was initially postponed due to uncertainty about whether they would be classified as promoter or ordinary shares. Following clarification from SEBON, the company confirmed that these shares would trade as promoter shares under the HIDCLP category once allocated.

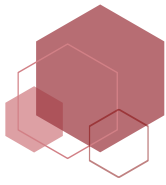
HIDCL then opened the auction for 33 million promoter shares from Ashad 05 to Ashad 19, 2079, but only 4.6 million shares were sold. The remaining 23.2 million



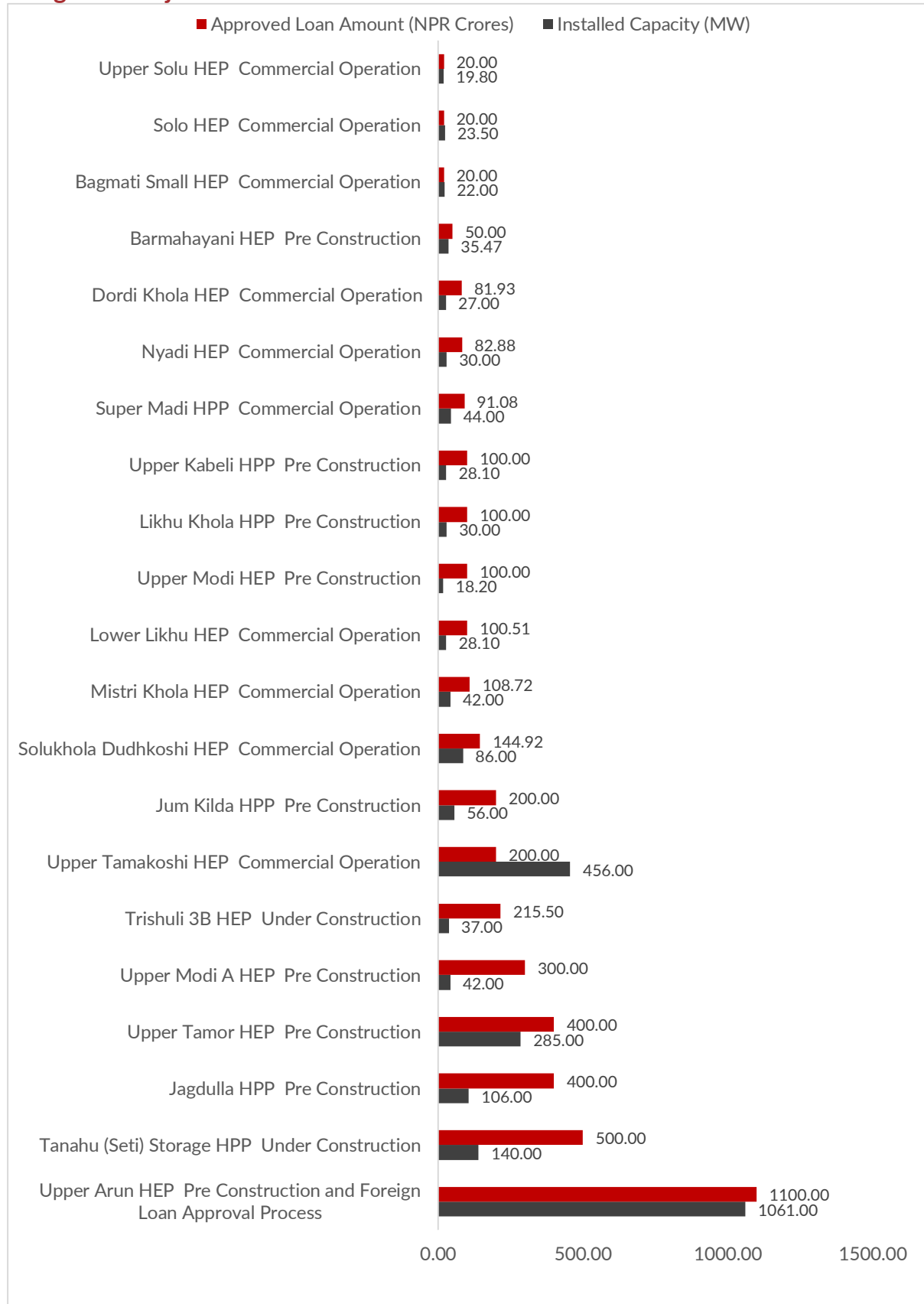
shares were re-auctioned from Bhadra 20 to Ashoj 04, 2079, with only 1 million units sold. A third auction was held from Magh 22 to Falgun 08, 2079, with 4.3 million units sold. The final auction for 17.8 million shares was held from Chaitra 25, 2080, to Baisakh 09, 2081, but only 981,090 units were sold. Eventually, in the next auction from Shrawan 29 to Bhadra 06, 2081, all remaining 16.8 million units were successfully sold.

In this report, we will be valuing HIDCLP instead of HIDCL, with the only adjustment being the beta, as the core analysis remains consistent for both. While there is no fundamental difference between ordinary and promoter shares, their separate tags and ticker symbols lead to differences in market pricing.



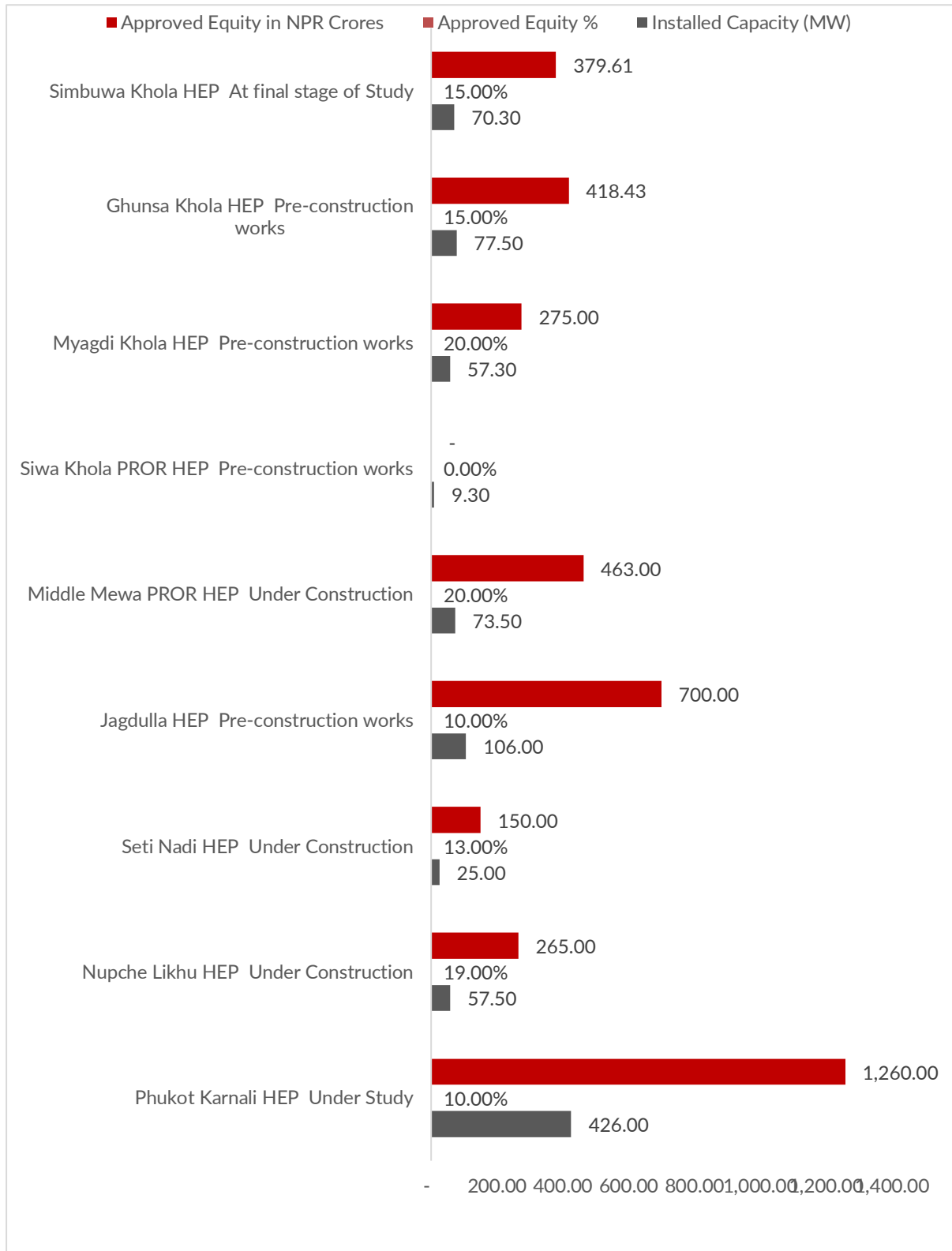


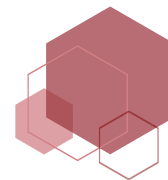
Debt Financing Projects of HIDCL as per its website dated FY 2080/81 Year End along with Project Status





Equity Investments of HIDCL as per its website dated FY 2080/81 Year End along with Project Status – IPP and Public Sector Projects



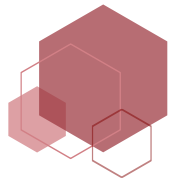


Equity Investments of HIDCL as per its website dated FY 2080/81 Year End along with Project Status – Hydroelectricity Related Companies

Name of Company	Name of Project	Equity %	Total Equity (NPR Crores)	Project Status
Power Transmission Co. Nepal Ltd.	Dhalkebar - Mujaffarpur Cross Border TL - Nepal Portion	14.00%	45.00	Operational
Vidhyut Utpadan Co. Ltd.	Generation	4.00%	2,000.00	Operational
Nepal Power Trading Co. Ltd.	Power Trading	15.00%	20.00	Study Phase
NEA Engineering Co. Ltd.	Engineering	15.00%	20.00	Operational

Pipeline Projects of HIDCL as per its website dated FY 2080/81 Year End long with Investment Type

Name of Company	Name of Project	Investment Type	Proposed Capacity	Approximate Investment In NPR Crore
Nepal Electricity Authority (NEA)	Chainpur Seti HEP	Loan	210	500
Crystal Power	Super Tamor HEP	Equity	166	124.5
Hydro Support Pvt. Ltd	Mid-Kaligandaki HEP	Equity	53.5	53.5
Hydro Support Pvt. Ltd	Titlyang Kaligandaki HEP	Equity	158	58
Ampik Energy Pvt. Ltd	Lower Barun HEP	Equity	132	99
Upper Myagdi Hydropower Pvt. Ltd	Upper Myagdi-1 HEP	Equity	53.5	53.5
Annapurna Bidhyut Bikash Company Ltd	Landruk Modi HEP	Equity	86.59	50
Pashupati Renewables Pvt. Ltd	Dharamnagar Solar Farm Project (I)	Equity	15	14.4
Sukarma Investment Pvt. Ltd	Dharamnagar Solar Farm Project (II)	Equity	10	-



B. Technical Analysis



HIDCLP reached an all-time high of NPR 212.00 on 18 August 2024, but by the end of August, the stock had pulled back 13.39% to NPR 183.60. After a sharp rally where the stock surged nearly 70% between 7 and 15 August 2024, it now appears to be in a consolidation phase.

Technical analysis suggests that support is around the NPR 170 level, while resistance points are positioned at NPR 190 and NPR 210 levels. The Relative Strength Index (RSI) stands at 70.09, signaling the stock is near overbought territory, though the MACD continues to indicate a bullish trend.

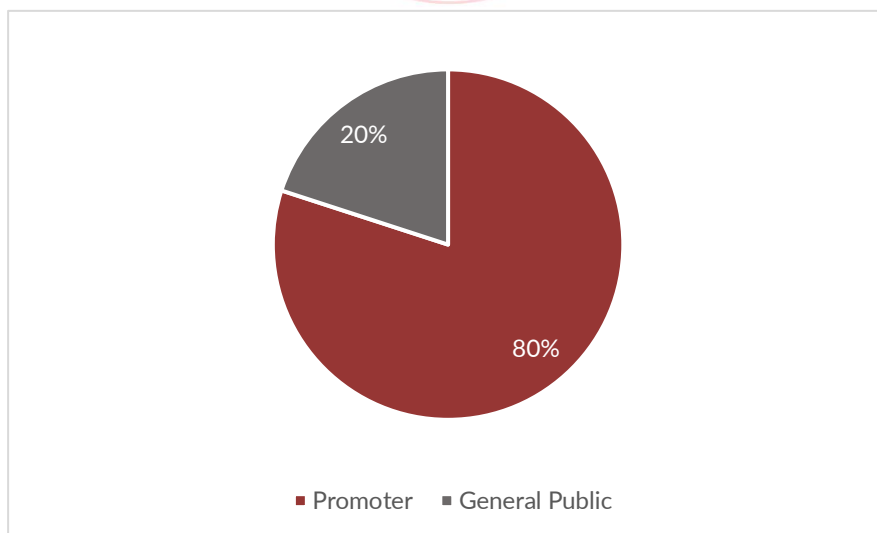
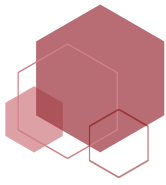


Figure: Shareholding Pattern (HIDCL)

Note: The shareholding Pattern of HIDCL is as per Nepalstock.com



C. SWOT Analysis

Strengths

- 1. Strategic Importance:** HIDCL plays a crucial role in developing power infrastructure in Nepal, with a majority ownership by the Government of Nepal (GoN). This strategic importance enhances its credibility and stability.
- 2. Comfortable Liquidity Profile:** The company maintains a strong liquidity profile with significant fixed deposits and no current long-term or short-term borrowings. This financial cushion supports its operational flexibility and ability to meet commitments.
- 3. Debt-Free Balance Sheet:** HIDCL's debt-free status and comfortable financial risk profile highlight its strong financial health and reduce financial risk.
- 4. Experienced Management:** The company benefits from the involvement of experienced officials and experts from government agencies, contributing to effective decision-making and management.
- 5. Positive Financial Performance:** Recent increases in operating income, PBILD, and interest income from fixed deposits indicate robust financial performance.
- 6. Corporate Governance:** Implementation of a strong Corporate Governance Framework and the presence of various committees ensure effective oversight and risk management.

Weaknesses

- 1. Project Implementation Risks:** HIDCL faces risks related to time and cost overruns in various under-construction projects. Delays and issues in project execution could affect overall performance.
- 2. Revenue Concentration:** The company's revenue is currently concentrated in interest income from bank deposits, with limited diversification. This reliance could be a risk if interest rates fluctuate or if the investment returns are lower than expected. However, it is in a decreasing trend.
- 3. Hydrology Risks:** Investments in run-of-the-river power projects expose HIDCL to hydrology risks. Variations in river water flow can impact power generation and revenue stability.
- 4. Moderate Revenue Profile:** The anticipated future concentration on dividend income and interest income from project financing may not fully mitigate the current reliance on bank deposit interest for revenue.
- 5. Dependence on Project Stabilization:** The future revenue prospects depend on the successful stabilization and operational efficiency of ongoing and upcoming hydro projects, which may face initial operational challenges.



Opportunities

- 1. Growing Hydropower Sector:** With ongoing and future investments in the hydropower sector, HIDCL has the opportunity to capitalize on the growing demand for energy infrastructure in Nepal.
- 2. Diversification of Investments:** The potential for diversifying investments into other energy sectors or projects could provide new revenue streams and reduce reliance on any single source.
- 3. Government Support:** Continued support from the government and the involvement of high-level officials can facilitate favorable policies and funding opportunities for the company.

Threats

- 1. External Economic Factors:** Economic instability or changes in interest rates could affect HIDCL's financial stability and revenue streams.
- 2. Regulatory Changes:** Changes in regulations or government policies related to the hydropower sector or investment environment could impact HIDCL's operations and profitability.
- 3. Market Risks:** Risks associated with the energy market, including fluctuations in energy prices and demand, could affect the financial performance of hydropower projects.
- 4. Environmental and Geological Risks:** Inherent risks related to the environmental and geological conditions of hydropower projects could lead to project delays or increased costs.

This SWOT analysis highlights HIDCL's robust position and strategic advantages while acknowledging the potential challenges and risks that need to be managed effectively.

Comparative Annual Performance Visualizations

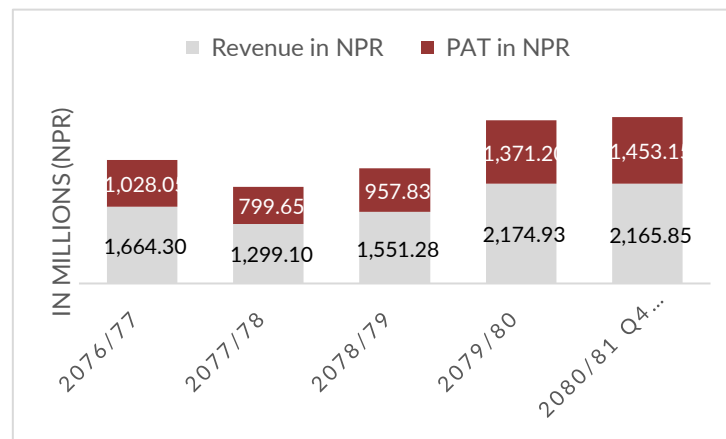


Figure: Annual Comparison of Revenue and Profit after Tax

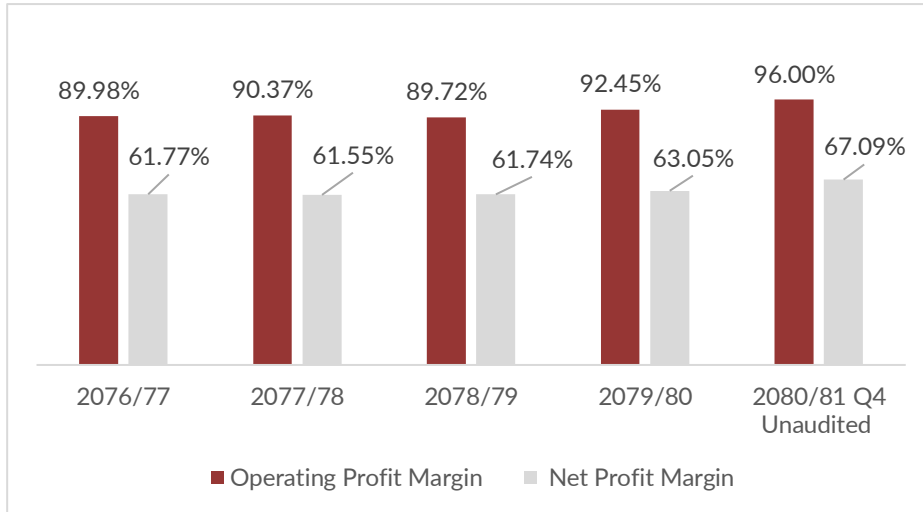


Figure: Annual comparison of Operating and Net Profit Margin

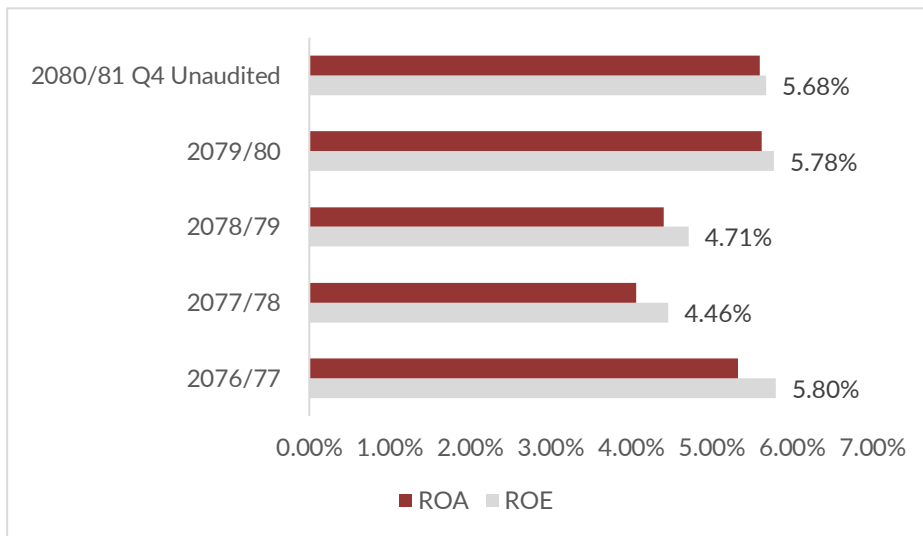


Figure: Comparison of Return on Asset and Return on Equity

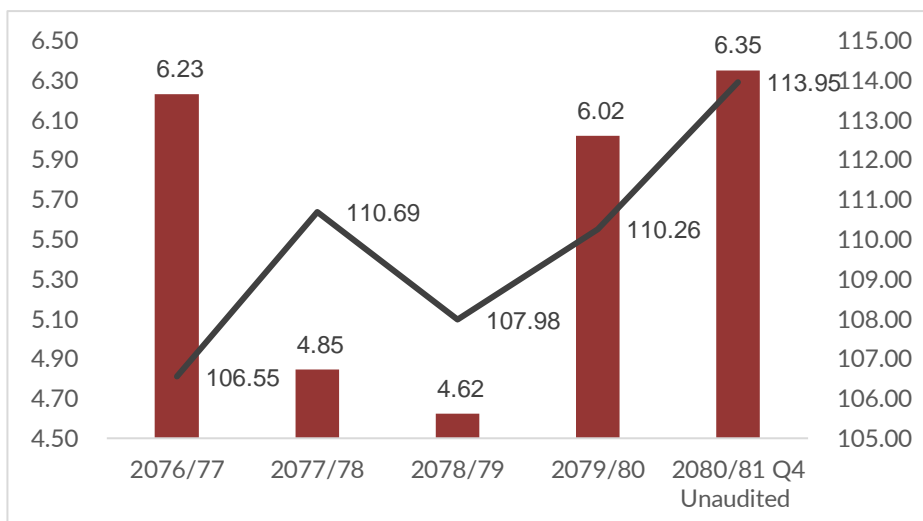
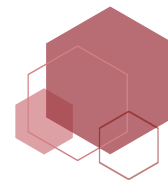


Figure: Comparison of Earnings Per Share (EPS) and Book Value Per Share (BVPS)



Summary of Fund Deployment of HIDCL

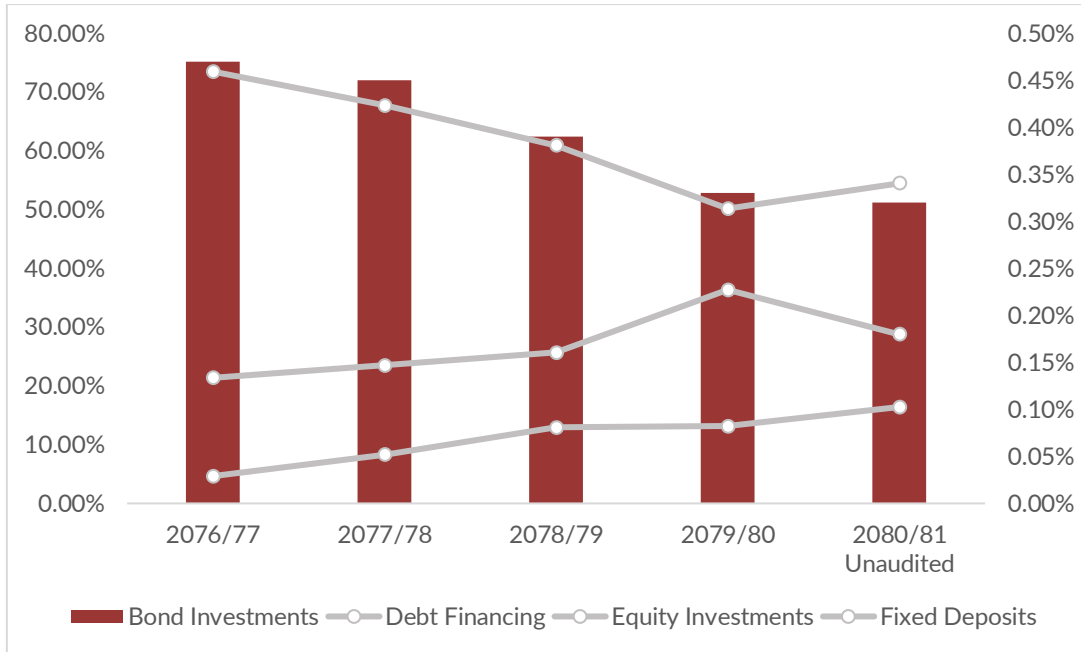
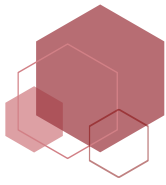
Asset Class	2076/77	2077/78	2078/79	2079/80	2080/81 (Q4) Unaudited
Debt Financing	21.38%	23.51%	25.71%	36.36%	28.77%
Bond Investments	0.47%	0.45%	0.39%	0.33%	0.32%
Equity Investments	4.65%	8.28%	12.95%	13.13%	16.41%
Fixed Deposits	73.50%	67.76%	60.95%	50.18%	54.51%

The summary of HIDCL's fund deployment provides a clear picture of how the company has allocated its assets across different classes over the past five years.

Analyst View:

HIDCL, as a relatively new player in the industry, initially adopted a cautious approach due to the challenges of identifying suitable projects for investment and facing stiff competition from banks and other hydropower companies. This slow deployment of funds, both in debt and equity, was a result of the competitive landscape and the need to ensure that investment opportunities aligned with the company's long-term vision.

Now, HIDCL is gradually shifting towards a more diversified and active investment strategy, reflecting growing confidence in its project pipeline. While the company's investment portfolio remains predominantly focused on debt (excluding fixed deposits) to ensure stable returns and manage risk, equity investments are on the rise. These equity investments are capped at 35% of the portfolio, illustrating a cautious yet optimistic approach to expected returns. By setting a 75% limit on debt investments, HIDCL strikes a balance between mitigating risk and capitalizing on growth opportunities from equity stakes, positioning itself for sustained growth and value creation.



Analytical Breakdown

1. Debt Financing

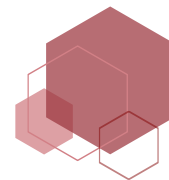
Trend: The percentage of funds deployed in debt financing has generally increased over the years, starting at 21.38% in 2076/77 and peaking at 36.36% in 2079/80 before dropping to 28.77% in 2080/81 (Q4 unaudited).

Analysis: The upward trend reflects HIDCL's increasing focus on debt financing, which may align with the company's strategy to invest more directly in projects that can generate returns through interest income. However, the dip in the most recent year suggests either a shift back to other asset classes, like equity or term deposits, or a natural reduction as loans matured and weren't fully replaced by new ones during this period.

2. Bond Investment

Trend: Bond investment have remained a very small portion of HIDCL's fund deployment, fluctuating slightly from 0.47% in 2076/77 to 0.32% in 2080/81.

Analysis: This minor allocation suggests that bonds do not play a significant role in HIDCL's investment strategy. The steady decline in bond investments also implies that the company prefers higher return options like debt financing and equity investments over the stability offered by bonds.



3. Equity Investment

Trend: Equity investment have shown consistent growth, rising from 4.65% in 2076/77 to 16.41% in 2080/81.

Analysis: This growing focus on equity investments indicates a strategic shift toward becoming more involved in the ownership and long-term value creation of its investee companies. The sharp increase in equity investments in the most recent periods aligns with HIDCL's focus on enhancing its stake in the ongoing hydropower projects, which are expected to yield substantial returns once completed.

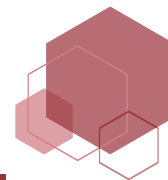
4. Fixed Deposit

Trend: Term deposits have consistently represented the largest portion of fund deployment, although they have declined from 73.50% in 2076/77 to 54.51% in 2080/81.

Analysis: While fixed deposits have historically been HIDCL's preferred investment vehicle, likely due to their stability and liquidity, the declining trend reflects a shift towards more active, higher-yielding investments like debt financing and equity. This reduction signifies the company's growing risk appetite and confidence in its ability to generate better returns from its core business activities. However, with over half of its assets still in term deposits, HIDCL continues to maintain a significant level of liquidity, possibly as a buffer to meet operational needs or take advantage of future investment opportunities.

Revenue Analysis of HIDCL as per its Annual Reports

Particulars	2076/77	2077/78	2078/79	2079/80	4-year Average
Management Fees	0.05%	0.03%	0.20%	0.32%	0.17%
Other Fee / LC Commission	0.13%	0.05%	0.04%	0.16%	0.10%
Interest from Fixed Deposits	79.62%	71.90%	68.47%	58.40%	68.73%
Interest in Call Deposits	0.90%	0.39%	0.19%	0.40%	0.48%
Interest from Bond	0.43%	0.55%	0.47%	0.34%	0.44%
Interest from Debt Financing	18.19%	26.23%	29.45%	39.73%	29.25%
Interest from Loan to staff under NFRS	0.00%	0.01%	0.01%	0.00%	0.01%



Particulars	2076/77	2077/78	2078/79	2079/80	4-year Average
Dividend Income	0.65%	0.83%	0.91%	0.63%	0.74%
Tender and Application Fees	0.00%	0.00%	0.00%	0.00%	0.00%
Miscellaneous Income	0.03%	0.00%	0.02%	0.01%	0.02%
Liabilities written off	0.00%	0.01%	0.24%	0.00%	0.08%

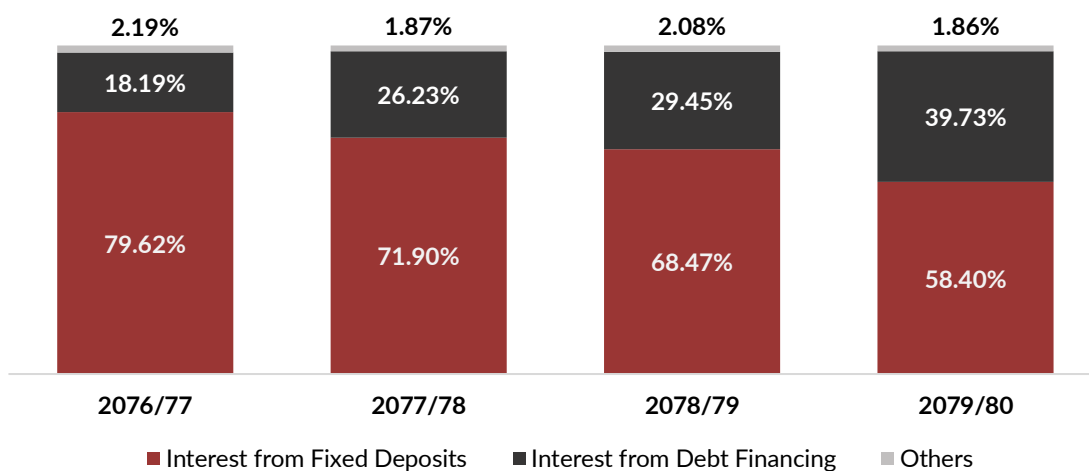
Given HIDCL's strategic shift towards a more diversified and active investment approach, the revenue trends depicted in the analysis of its income statement provide key insights into how this strategy is influencing the company's financial performance.

- 1. Decreasing Reliance on Fixed Deposits:** The reduction in revenue from fixed deposits, which fell from 79.62% in 2076/77 to 58.40% in 2079/80, reflects HIDCL's transition from its initial cautious stance driven by its newness in the market and competitive pressures. Initially, HIDCL prioritized fixed deposits to preserve liquidity while searching for suitable investment opportunities. As the company began identifying viable projects, it started reallocating funds from fixed deposits towards more active investments, such as debt financing and equity stakes. This shift indicates HIDCL's growing confidence in its project portfolio and its move towards a more growth-oriented strategy, which offers the potential for higher returns.
- 2. Increased Emphasis on Debt Financing:** The consistent rise in revenue from debt financing, which reached 29.45% in 2078/79 before slightly stabilizing at 29.33% in 2079/80, highlights HIDCL's increasing confidence in its hydropower project portfolio. Initially cautious due to competitive pressures and the need to carefully select projects, the company has now shifted towards more active debt financing. This trend aligns with HIDCL's strategic focus on supporting projects that are anticipated to deliver substantial long-term returns, thereby driving both revenue growth and diversification within its investment portfolio.
- 3. Stable yet Modest Income from Bonds and Call Deposits:** The relatively small but stable contributions from bonds (0.44% average) and call deposits (0.48% average) indicate that while HIDCL is diversifying its revenue sources, it maintains some conservative investments to manage risk. This cautious approach helps balance the portfolio, providing a steady income stream as the company explores higher-risk, higher-reward opportunities.
- 4. Rising Dividend Income:** The increase in dividend income, with a four-year average of 0.74%, suggests that HIDCL's equity investments are beginning to pay off.



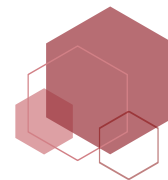
Although still a minor revenue stream, the upward trend indicates growing returns from its equity stakes, which are expected to increase as the company continues to invest in and support the completion of hydropower projects.

5. Diversification of Income Streams: The presence of various smaller revenue streams, such as management fees, LC commissions, and miscellaneous income, demonstrates HIDCL's efforts to diversify its income sources. While these categories contribute less to overall revenue, they reflect the company's active approach to generating income from different avenues, further supporting its long-term value-creation strategy.



In summary, the income statement analysis reflects HIDCL's evolving investment strategy as it moves beyond its initial conservative approach. The company is gradually reducing its reliance on low-risk, low-return fixed deposits in favor of more active investments in debt financing and equity stakes. This strategic shift underscores HIDCL's growing confidence in its hydropower projects and its focus on long-term growth. By maintaining a balanced risk profile while pursuing higher returns, HIDCL is positioning itself to capitalize on the potential of its expanding project portfolio.

The chart above highlights a clear trend in HIDCL's revenue generation over the past five years. Historically, the bulk of the company's revenue has come from interest on fixed deposits and debt financing, underscoring HIDCL's strategy of prioritizing secure, interest-bearing investments. However, there is a noticeable shift in the composition of these revenue streams. While the percentage of income derived from fixed deposits has been gradually decreasing, revenue from debt financing has been on the rise.



Relatively Similar Company Analysis as of FY 2080/81 Q4

Company	Market Cap (Billions in NPR)	EPS in NPR	BVPS in NPR	OPM%	NPM%	ROA%	ROE%
HIDCL	67.25	6.35	113.95	96.00%	67.09%	5.60%	5.68%
NIFRA	63.94	6.16	113.70	74.26%	51.97%	4.72%	5.49%
Average	65.59	6.26	113.83	85.13%	59.53%	5.16%	5.59%

Figure: Comparable Company Analysis

Comparable Company Summary

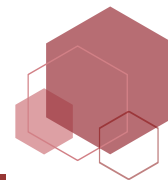
In comparing HIDCL and NIFRA, both of which operate under a similar business model of investing in equity and debt financing, several financial metrics highlight their relative performance. HIDCL and NIFRA show comparable earnings per share (EPS) and book value per share (BVPS), with HIDCL at NPR 6.35 for EPS and NPR 113.95 for BVPS, while NIFRA has an EPS of NPR 6.16 and a BVPS of NPR 113.70. These similar figures suggest that both companies are performing similarly in terms of generating earnings for their shareholders and maintaining equity value.

However, HIDCL shows stronger operational efficiency with an operating profit margin (OPM) of 96.00%, significantly higher than NIFRA's 74.26%, indicating more effective cost management relative to revenue. This advantage is also seen in their net profit margins (NPM), where HIDCL leads with 67.09% compared to NIFRA's 51.97%, suggesting HIDCL retains a larger share of revenue as profit. Additionally, HIDCL outperforms NIFRA in return on assets (ROA) and return on equity (ROE), with 5.60% and 5.68% respectively, versus NIFRA's 4.72% ROA and 5.49% ROE.

These metrics imply that HIDCL is utilizing its assets more effectively and providing slightly better returns to its equity investors. While both companies are closely matched in terms of earnings and equity, HIDCL's superior efficiency and profitability metrics suggest a stronger overall financial performance.

DuPont Analysis

Particulars	Specifics	2076/77	2077/78	2078/79	2079/80	2080/81 (Q4) Unaudited
Tax Burden	Net Profit / Pre-Tax Income	0.69	0.68	0.69	0.68	0.70
Asset Turnover	Revenue / Average Total Assets	0.09	0.07	0.07	0.09	0.08



Particulars	Specifics	2076/77	2077/78	2078/79	2079/80	2080/81 (Q4) Unaudited
Financial Leverage	Average Total Assets/ Average Equity	1.09	1.10	1.07	1.03	1.01
Interest Burden	Pretax Income / Operating Income	1.00	1.00	1.00	1.00	1.00
Operating Margin	Operating Income / Revenue	0.90	0.90	0.90	0.92	0.96
Final Return on Equity		5.805	4.46%	4.71%	5.78%	5.68%

Figure: DuPont Analysis

DuPont Summary

The DuPont analysis of HIDCL (Hydroelectric Investment Development Company Limited) has been provided in the table. This method breaks down the Return on Equity (ROE) into different components to understand the drivers behind the company's profitability. Let's break down the analysis:

Components of DuPont Analysis:

1. Tax Burden (Net Profit / Pre-Tax Income):

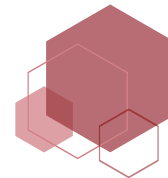
This ratio reflects how much of the company's pre-tax income is retained after taxes. A higher value indicates better tax efficiency.

Trend: The tax burden has remained relatively stable around 0.68 to 0.70, suggesting a consistent tax efficiency.

2. Asset Turnover (Revenue / Average Total Assets):

This ratio measures how efficiently the company is utilizing its assets to generate revenue.

Trend: The asset turnover remains relatively low, ranging between 0.07 and 0.09. This indicates that HIDCL may not be maximizing the revenue potential from its assets, suggesting there is significant room for improvement as the company works towards increasing its project completions and enhancing returns from its debt and equity investments.



3. Financial Leverage (Average Total Assets / Average Equity):

This ratio indicates the extent to which a company is using debt to finance its assets. A higher value implies higher financial leverage.

Trend: The financial leverage has slightly declined over the years from 1.09 to 1.01, which is due to HIDCL's stronger equity base. This increase in equity can be attributed to the company's announcement of 100% rights shares. Since HIDCL has no debt, this rights issue significantly boosted the company's equity, enhancing its financial position and providing it with greater flexibility to fund its investment operations without relying on external borrowing.

4. Interest Burden (Pre-tax Income / Operating Income):

This reflects the portion of operating income that remains after accounting for interest expenses. A value close to 1.0 suggests that the company is not significantly burdened by interest costs.

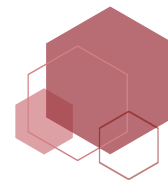
Trend: The interest burden remains consistently at 1.00, indicating that HIDCL faces minimal to no interest expenses. This is typical for an investment company like HIDCL, which primarily provides loans and equity investments rather than taking on significant debt. This absence of interest costs reflects its business model, where the company finances its operations through equity or internally generated funds, allowing it to avoid the burden of debt servicing and focus on its core investment activities.

5. Operating Margin (Operating Income / Revenue):

This ratio measures the proportion of revenue that remains after covering operating expenses, representing the company's core profitability.

Trend: The operating margin is high, hovering around 0.90 to 0.96, indicating strong operating efficiency.

HIDCL has shown a stable return on equity (ROE) close to 5.70% after recovering from a drop in 2077/78. The company operates efficiently, with a high operating margin indicating effective core operations. However, its low asset turnover suggests there is room for improvement in generating revenue from its assets. The performance of its investee projects, which are at various stages of development, will be crucial for enhancing asset utilization and overall revenue. Additionally, HIDCL has reduced its financial leverage due to a stronger equity base from a 100% rights issue, strengthening its capital structure and supporting its investments without relying on



debt. Overall, HIDCL's strong operational efficiency and financial management are evident, but improving asset utilization could further boost profitability and ROE.

Key Variables used for Valuation:

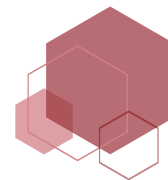
1. Sustainable Growth Rate for longer period projection to calculate terminal value (Average Last 12 years GDP growth rate and Projected GDP growth rate for this FY by the World Bank) = 3.63%
2. Other specifics are as follows:

Specifics	Value	Remarks
Adjusted Beta (β)	0.69	Assumption - The raw monthly beta of 0.53 for HIDCLP recorded since its listing date in August 2022, is expected to gradually converge the market beta of 1 over time.
Market Return (Rm)	11.04%	CAGR of closing prices of NEPSE from FY 2001/02 to FY 2023/24
Risk Free Rate (Rf)	5.15%	Latest Development Bond Rate adjusted for tax rate of 6.00%
Cost of Equity (Ke)	9.21%	As per CAPM Model

Other assumptions:

- ✓ Valuation has been done from FY 2080/81 (actual) to FY 2084/85
- ✓ For FY 2080/81, the Q4 report has been considered.
- ✓ Dividend income from its equity investments is also projected to increase gradually.
- ✓ The expenses of the company for all three scenarios have been projected based on different historical ratios.
- ✓ The valuation assumes a maximum of 75% of total investments in debt and 35% in equity, in accordance with the company's guidelines.

Scenario	Debt Financing Ratio			
	2081/82 P	2082/83 P	2083/84 P	2084/85 P
Base	67.43%	70.64%	72.78%	72.10%
Bull	65.04%	72.39%	72.77%	73.54%
Bear	65.72%	68.11%	69.03%	69.50%



Scenario	Equity Investment Ratio			
	2081/82 P	2082/83 P	2083/84 P	2084/85 P
Base	32.57%	29.36%	27.22%	27.90%
Bull	34.96%	27.61%	27.23%	26.46%
Bear	34.28%	31.89%	30.97%	30.50%

- ✓ Interest Income from bond investments has not been accounted for due to inadequate disclosures provided by the company.
- ✓ The dividend pay-out ratio of the company has been projected as 10% compared to the historic 12-year average of 59.01%, due to a possibility of negative valuation.
- ✓ The terminal growth rate has been projected as 3.63%, which is the average of the GDP growth rate of Nepal of the last 12 FY and the projection by the World Bank for Nepal for 2024.
- ✓ The company has a total outstanding share of 228,739,084.
- ✓ The company will gradually shift its revenue ratio from majority from interest income from fixed deposits to interest income from debt financing.

Term Deposits Ratio (including term deposits, equity, and debt financing)				
Scenario	2081/82 P	2082/83 P	2083/84 P	2084/85 P
Base	46.18%	37.64%	29.45%	24.86%
Bull	46.80%	32.77%	25.95%	19.89%
Bear	48.73%	42.20%	35.76%	29.66%

D. Stock Valuation

The final average valuation of HIDCLP based on the Residual Income Approach has been computed, which has been tabulated below.

Residual Income Valuation	Valuation Price (NPR)
Bear Case	70.40
Base Case	99.72
Bull Case	140.49
Average Valuation	103.54



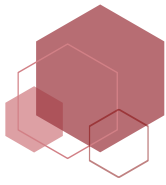
E. Conclusion

HIDCL's strategic evolution from a conservative, liquidity-focused approach to a more diversified and active investment model underscores its commitment to leveraging its hydropower project portfolio for long-term growth. The company's financial performance reflects this shift, with significant increases in equity and debt financing, and a corresponding decrease in fixed deposits. This strategic change is aimed at enhancing returns and capitalizing on the growing demand for energy infrastructure in Nepal.

The SWOT analysis reveals HIDCL's strengths, including its government backing, robust liquidity, and debt-free balance sheet, while also highlighting weaknesses such as project implementation risks and revenue concentration. The opportunities for growth in the hydropower sector and potential diversification are tempered by threats from economic instability and regulatory changes.

Financial metrics from the annual performance visualizations and comparable company analysis demonstrate HIDCL's strong operational efficiency and profitability, with superior metrics in operating profit margin and return on equity compared to peers. However, its asset turnover indicates room for improvement in utilizing its assets more effectively.

The DuPont analysis supports HIDCL's strong operational efficiency and effective management of financial leverage and interest burden. The low asset turnover suggests that future improvements in project completion could boost overall profitability. Thus, HIDCLP may be the good stock to invest.



ISSUE OF THE MONTH

How Self Enhancement/Attribution Affects Investment Decisions?

A. What is Self-Enhancement/ Attribution?

Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. Many people either tend to make decisions based on a set way of thinking or even more problematically based on feelings alone ignoring many relevant facts. This is a dangerous way to think and invest.

Self-enhancement is one such emotional bias in psychology. Also known as the self-enhancing bias, it is the propensity of people to only credit themselves for their achievements while discounting the role of other individuals or external circumstances in it.

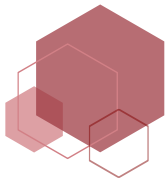
B. Effects of Self-Enhancement/Attribution

Self-Enhancement tends to lead to overconfidence, and we all know that overconfidence in any form always puts investors at a disadvantage in the market. This is because investors that self-attribute tend to credit prior success to their own talents and dismiss the role of timing or other factors in those results. This makes them vulnerable to mistakes.

Investors with this bias are never able to enhance their grasp of how the market truly works as they credit all of their losses to the volatile market and all of their profits to their abilities. While they start by discounting information that questions their abilities, they move on to discounting any sort of market data that contradicts their investing philosophy. This creates many information blind spots for these investors while also making them context deaf w.r.t macro and micro economic factors ultimately setting them up for long term failure.

C. Dealing with Self-Enhancement/Attribution

Self-Enhancement biases can drive investors to make poor judgments and tend to impede them from continuously learning and improving their abilities and tactics. In this context, Recognizing and overcoming ones self-serving and self-enhancement bias will help an investor in improving their investment abilities and approach. However, in



order to do so, an honest and objective examination of our previous decisions, performance, and external circumstances is required.

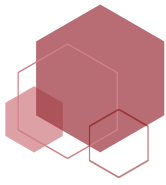
When we are mindful of our surroundings, we are better able to recognize our vulnerability to self-attribution bias. When a person becomes aware of typical cognitive biases, they may begin to recognize them in their daily life and rectify them.

Another approach to help reduce this prejudice is to develop self-compassion. When someone is self-compassionate, they are able to lower their defensiveness and take criticism more easily when trying to develop themselves. The capacity to notice and commit to reducing one's own pain is known as self-compassion. Self-compassion involves the following:

- ✓ An individual's ability to show self-kindness, particularly when confronted with a personal shortcoming.
- ✓ The ability of an individual to comprehend their shared humanity, or rather, the fact that they are human and that other individuals have similar experiences and failings, and
- ✓ An individual's awareness, or the ability to recognize unpleasant ideas without judging them.

Overall, the key to managing this bias is to understand that we are human after all and that the consequences of our decisions are driven by our own ability as well as external circumstances beyond our control. Understanding this can help us continue to learn and make more informed decisions.

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Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
AKJCL	RIGHT	12,000,000 (O)	2024/08/11 AD 2081/04/27 BS	2024/09/01 AD 2081/05/16 BS	Nabil Investment Banking
NRICP	AUCTION	700,000 (P)	2024/08/21 AD 2081/05/05 BS	2024/09/22 AD 2081/06/06 BS	NIC Asia Capital
NLCL	AUCTION	400,389 (O)	2024/07/23 AD 2081/04/08 BS	2024/09/08 AD 2081/05/25 BS	Nepal Life Capital

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