The Pulse

Market Growth, Risks and Outlook

Shrawan 2081

Inside This Edition

हिमालयन क्यापिटल लि.

Himalayan Capital

A Subsidiary of Himalayan Bank Limited

Global Markets Overview

€	1.08 $ (1.10%)
£	1.28 $ (1.53%)
₹	83.67* (0.38%)
¥	150.35* (-6.56%)
A$	0.65 $ (-1.99%)
C$	0.72$ (-0.91%)

S&P 500	5,522.30 (1.13%)
BSE SENSEX	81,741.34 (3.45%)
NIKKEI 225	39,101.82 (-1.21%)
FTSE 100	8,367.98 (2.30%)
DAX	18,508.65 (1.50%)
CAC 40	7,531.49 (0.70%)
HANG SENG	17,344.60 (-2.11%)
SSE COMPOSITE	2,938.75 (-1.02%)

*Values Per 1 $

Gold($) Per Oz.
2,445.76 (4.63%)

Bitcoin($)
64,716.90 (3.07%)

Brent Crude($)
Per Barrell
78.52 (-9.20%)

Ethereum($)
3,237.83 (-5.87%)

#All Changes are in MoM basis.

Currency Market Trends

The currency market has shown mixed results over the past month. The Euro and British Pound both appreciated, with the Euro rising by 1.10% and the British Pound by 1.53%, indicating a strengthening against other currencies. In contrast, the Japanese Yen saw a significant depreciation of 6.56%, reflecting weakening against major currencies, possibly due to economic policies or market sentiment. The Australian Dollar and Canadian Dollar also depreciated, with declines of 1.99% and 0.91%, respectively. The Indian Rupee had a minor increase of 0.38%, showing relative stability.

Global stock markets have exhibited varied performance. The BSE SENSEX led the gains with a significant 3.45% increase, suggesting strong investor confidence and economic growth in India. The FTSE 100 also performed well, rising by 2.30%, while the S&P 500 and DAX showed moderate gains of 1.13% and 1.50%, respectively, indicating positive market conditions in the US and Germany. However, the NIKKEI 225, HANG SENG, and SSE COMPOSITE experienced declines of 1.21%, 2.11%, and 1.02%, respectively, indicating weaker market conditions in Japan, Hong Kong, and China, possibly due to economic uncertainties or regional factors.

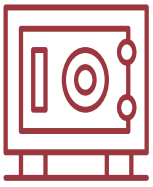
In the commodities market, Bitcoin saw a notable increase of 3.07%, reflecting strong investor interest and potential growth in the crypto currency sector. Gold prices also surged by 4.63%, indicating increased demand for safe-haven assets amid market uncertainties. Conversely, Ethereum experienced a significant decline of 5.87%, possibly due to market corrections or changes in investor sentiment. Brent Crude prices dropped sharply by 9.20%, reflecting potential oversupply issues, reduced demand, or geopolitical factors affecting the oil market.

Overall, the financial markets have shown diverse trends across different sectors. The currency market's mixed performance suggests varying economic conditions and investor sentiments globally. Stock markets, while generally positive in some regions, have faced challenges in Asia. The commodities market highlights significant movements in cryptocurrencies and safe-haven assets like gold, with a notable decline in oil prices. These trends underscore the dynamic and interconnected nature of global financial markets, influenced by a myriad of economic, political, and social factors

Macroeconomic Overview

Inflation

4.17% ▲



Deposit Growth

12.6% ▲

Credit Growth

5.6% ▲

Import Growth

-1.8% ▼

Export Growth

-3.0% ▼

Remittance Growth

19.3% ▲

FX Reserve Growth

32.84% ▲

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

* Credit refers to claim on private sector.

Monthly Trading Statistics

Average Turnover

NPR 7.92 B

42.59% ▲

Average Shares Traded

19.82 M

41.82% ▲

Average Transactions

97.73 K

28.88% ▲

Average Scrips Traded

317

0.71% ▲

* For the period (July 1, 2024) – (July-31, 2024)

Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Jestha-80	Baisakh-81	Jestha-81	Shrawan 4	Shrawan 11	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	7.56	2.87	2.80	2.91	2.91	-4.76	-0.07	0.00
Wt.Avg 91 Days TB rate (%)	9.07	3.02	2.99	2.93	2.91	-6.08	-0.03	-0.02
Wt.Avg 364 Days TB rate (%)	8.55	3.27	3.20	3.18	3.18	-5.35	-0.07	0.00
Wt. Avg Interbank Rate (%)	6.68	2.88	2.95	2.96	3.00	-3.73	0.07	0.04
CapEx (In Billion NPR)	153.08	111.88	133.81	0.00	0.00	-19.27	21.93	0.00

B. BFI Statistics

Description	Value As On					Change		
	Jestha-80	Baisakh-81	Jestha-81	Shrawan 4	Shrawan 11	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	7.99	6.35	6.17	6.17	6.17	-1.82	-0.18	0.00
Wt. Avg Lending Rate (%)	12.53	10.34	10.15	10.15	10.15	-2.38	-0.19	0.00
Base Rate (%)	10.18	8.34	8.17	8.17	8.17	-2.01	-0.17	0.00
CD Ratio (%)	83.96	80.10	79.90	77.67	78.44	-4.06	-0.20	0.77
Fixed Deposits/Total Deposits (%)	59.30	58.66	58.23	58.23	58.23	-1.07	-0.43	0.00
Total Liquid Assets/Total Deposits (%)	25.21	26.56	26.58	26.58	26.58	1.37	0.02	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	Ashad 16	Shrawan 16	Change
NEPSE	2,037.09	2,760.90	35.53%
Commercial Bank	1,066.91	1,577.93	47.90%
Finance Company	2,431.67	3,506.67	44.21%
Investment	75.26	106.93	42.08%
Hotels & Tourism	5,238.93	7,246.32	38.32%
Development Bank	3,997.45	5,443.89	36.18%
Trading	2,825.32	3,779.78	33.78%
Hydropower	2,555.88	3,370.42	31.87%
Life Insurance	9,773.22	12,832.74	31.31%
Others	1,587.62	2,078.75	30.93%
Non Life Insurance	10,391.84	13,271.18	27.71%
Manufacturing & Processing	6,354.32	7,961.35	25.29%
Microfinance	4,464.52	5,441.78	21.89%
Mutual Fund	18.92	21.63	14.32%

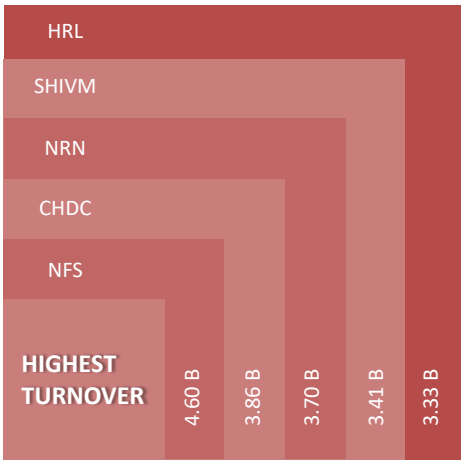
Major Movers

NFS	101.95%	MKJC	-13.32%
CHDC	79.31%	SBD87	-6.55%
HATHY	78.63%	NBLD85	-6.45%
NMB	68.98%	NICAD85/86	-6.42%
RHPL	65.11%	GBILD86/87	-5.97%

Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	5.55 B	7.92 B	42.59%
Mutual Fund	0.00 B	0.01 B	208.23%
Commercial Banks	0.54 B	1.44 B	165.23%
Tradings	0.02 B	0.05 B	138.10%
Non Life Insurance	0.23 B	0.53 B	126.92%
Development Banks	0.38 B	0.84 B	122.86%
Others	0.24 B	0.51 B	114.84%
Hydro Power	1.50 B	3.13 B	108.77%
Investment	0.35 B	0.71 B	105.10%
Hotels And Tourism	0.13 B	0.27 B	103.58%
Life Insurance	0.28 B	0.56 B	101.85%
Manufacturing And Processing	0.33 B	0.55 B	67.49%
Finance	0.70 B	1.15 B	64.63%
Microfinance	0.72 B	1.04 B	45.18%

Highest Turnover



Highest Volume

NEPSE Outlook

A. Current Overview

On July 31, 2024, the flagship NEPSE index concluded at 2,760.91 points, with a monthly average turnover reaching NPR 10.72 billion, a substantial increase compared to the previous month's average turnover of NPR 3.95 billion.

Presently, the Relative Strength Index (RSI) stands at 88.14 points, placing it within the overbought zone.

The Moving Average Convergence and Divergence (MACD) indicator suggests a bullish trend

Looking ahead, the NEPSE index's immediate support levels are identified as (S1) 2,660, (S2)2,600, and (S3) 2,500, while immediate resistance levels are recognized at (R1) 2,880, (R2) 2,980, and (R3) 3,000. 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) quantitative easing measures aimed at boosting the economy.

The NRB has lowered the policy rates and introduced a range of easing measures, particularly benefiting the banking, financial institutions (BFI), and construction sectors. Additionally, the NRB's decision to lift the NPR 20 crore cap on 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. Continued monitoring of the monetary policy review for fiscal year 2081/82 will provide deeper insights into the evolving economic landscape.

C. Hydropower Industry Analysis

Nepal is endowed with abundant water resources, positioning it as a potential hydropower powerhouse in South Asia. The country possesses an economic hydroelectric capacity of 42,000 MW and a theoretical capacity of 83,000 MW. Despite this significant potential, Nepal's current installed capacity is approximately 2,800 MW. Nonetheless, the country has begun exporting surplus energy to India and aims to extend its exports to Bangladesh. With ambitious plans for future hydroelectric development, Nepal is on a trajectory to enhance its role in regional energy markets while addressing the challenges posed by climate change.

Historical Context and Policy Development

Nepal's journey in hydroelectricity began with the establishment of its first power plant in 1911, which had a capacity of 500 KW. For decades, the sector remained stagnant until the introduction of the Hydropower Development Policy in 1992, which allowed private sector involvement. This policy shift catalyzed a rapid acceleration in hydropower development. The Nepal Electricity Authority (NEA), a government organization, oversees the generation, transmission, and distribution of electricity. As of August 2023, Nepal's total electricity generation capacity reached 2,684 MW, with the private sector contributing 1,477 MW.

Current Status and Future Plans

In the fiscal year 2022/23, Nepal's per capita annual energy consumption reached 380 units, with the government aiming to provide electricity access to the entire population within two years. Efforts are being made to increase internal energy consumption by expanding industries, promoting electric vehicles, supporting agriculture through irrigation, and encouraging electric cooking. The Ministry of Energy, Water Resources, and Irrigation has developed an Energy Development Road Map and Action Plan, targeting a generation of 28,713 MW by 2035, with plans to export 15,000 MW to neighboring countries.

Cross-border Power Trade

Nepal's strategic location between India and China, combined with the growing energy demands of these economies and Bangladesh, offers significant opportunities for power export. Nepal currently exports up to 632 MW of hydropower to India. However, the cross-border power trade faces challenges, including insufficient transmission line capacity and the need for approvals from Indian authorities. The Dhalkebar-Muzaffarpur transmission line has a capacity of 1,000 MW, and another line, New Butwal-Gorakhpur, with a capacity of 2,000 MW is under construction.

Climate Change Vulnerability

Despite minimal contributions to global warming, Nepal is highly vulnerable to climate change, experiencing rapid snow melt, flash floods, and landslides. These changes disrupt the hydrological patterns essential for hydroelectric projects. Large dam projects also have significant environmental and social impacts. Therefore, impact assessment tools, environmental monitoring, and management practices are crucial to minimize these effects.

Green Incentives and Regional Contribution

Hydropower is increasingly recognized for its potential to mitigate climate change. Nepal's hydroelectricity can contribute to de-carbonizing South Asia, particularly by replacing coal-fired plants in India. India aims to achieve 50% of its energy consumption from renewables by 2030 and has set a target of 500 GW of renewable energy capacity by then. Nepal's hydropower can significantly supplement this goal, thus deserving green incentives and climate justice from neighboring countries.

Challenges and Opportunities

Market Expansion and Development

The government has awarded construction licenses for 8,792 MW across 238 hydroelectric projects, with applications for an additional 11,651 MW under review. Realistically, achieving the 28,713 MW target by 2035 is feasible, though challenges such as local obstructions, environmental clearances, and corruption need to be addressed.

Domestic Market Growth

Increasing per capita electricity consumption to 1,500 units by 2035 is a priority, with strategies focusing on shifting from fossil fuels to electricity in kitchens and transportation. Reducing reliance on imported fossil fuels and promoting energy security are critical goals.

Regional Power Trade

India has promised to buy 10,000 MW of power from Nepal over the next decade, and there is potential for exporting power to Bangladesh through existing transmission infrastructure. However, long-term agreements and favorable conditions are essential to attract investment and develop Nepal's hydropower potential.

Conclusion

Nepal's hydropower sector holds immense promise for both domestic energy security and regional power trade. By addressing the challenges of climate change, infrastructure development, and market expansion, Nepal can significantly contribute to regional de-carbonization efforts and achieve national prosperity through its abundant water resources. The country's strategic planning and regional cooperation will be pivotal in realizing its hydropower potential.

SCRIP ANALYSIS

Sahas Urja Limited (SAHAS)

A. About the Company

Incorporated in February 2014 as a private limited company, Sahas Urja Limited (SAHAS) was converted to a public limited company in September 2014 to facilitate public participation. The company owns and operates 86MW Solu Khola (Dudh Koshi) HEP in Solukhumbu District, Province 1 of Nepal. The project commenced operations from March 2023 and has a contract energy of 520.20 GWh (Dry Season: 101.27 GWh and Wet Season: 418.93 GWh), as per the PPA with Nepal Electricity Authority (NEA).

Some salient features of the project are as follows:

Project Details	
Endowment	31.96%
Water Source	Solu Khola
Project Type	Run of River (ROR)
Design	Q40
Project Location	Solududhkunda Municipality and Thulung Dudh Koshi VDC, Solukhumbhu district
Capacity (MW)	86
COD	17 Falgun, 2079
RCOD	4 Magh, 2079
License Validity	1 Ashwin, 2106
Total Estimated Cost of Project (NPR)	15,050,000,000.00
Cost per MW (NPR)	175,000,000.00
Project Life Span (in years)	26.58
No. of escalations given	8
Escalation %	3.00%
Plant Load Factor (PLF)	69.05%
Contracted Energy (kwh)	520,200,000.00
Dry Mix	19.28%
Wet Mix	80.72%

B. Technical Analysis

Looking ahead, SAHAS' immediate support levels are identified as (S1) 615, (S2)570, and (S3) 520, while immediate resistance levels are recognized at (R1) 680, (R2) 730, and (R3) 780. These support and resistance levels serve as valuable indicators for investors when formulating trading decisions.

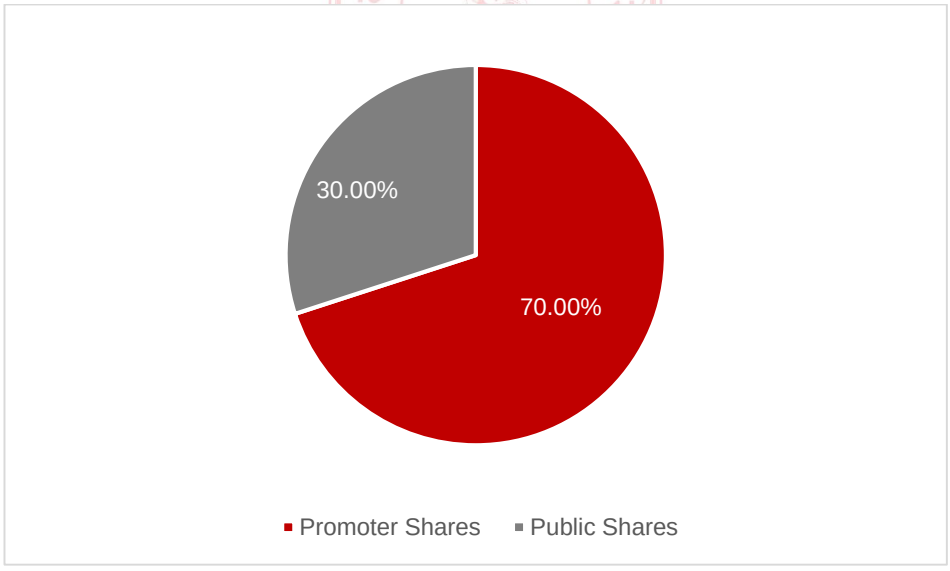


Figure: Shareholding Pattern (SAHAS)

Note: Shareholding Pattern of SAHAS is as per nepalstock.com

C. SWOT Analysis

Strengths

Successful Project Commissioning: The 86MW Solu Khola (Dudh Koshi) hydropower project has commenced commercial operations since March 2023, eliminating execution risk.

Long-term PPA with NEA: The long-term power purchase agreement with Nepal Electricity Authority (NEA) at predetermined tariffs with annual escalations ensures stable revenue.

Economic Capital Cost: The project was commissioned at a relatively low capital cost of ~NPR 175 million per MW, supporting better return and coverage indicators.

Experience of Promoters: The directors and promoters have prior experience in the hydropower sector, which aids in effective project management and maintenance.

Low Tariff and off take Risks: The fixed tariff rates and assured off take by NEA mitigate revenue fluctuation risks.

High Project Generation: The project has met ~88% of cumulative contract energy in the first ~9 months, indicating healthy operational performance.

Good Connectivity: The project is connected to the operational Tingla substation through a 132 KV transmission line, ensuring effective evacuation of generated energy.

Weaknesses

Single Project Dependency: The Company's financial health is highly dependent on the performance of a single project, making it vulnerable to any operational disruptions.

Hydrological Risks: Absence of a deemed generation clause in the PPA exposes the project to hydrological risks without compensation in case of adverse river flow.

Low Liquidity Cushion: During the initial stages, the company has low liquidity and debt service reserve account (DSRA) balance, making it susceptible to cash flow disruptions.

Interest Rate Volatility: The Company's financials are exposed to interest rate volatility, which can impact profitability given the relatively fixed revenue profile.

Opportunities

Tariff Escalations: The eligibility for eight annual tariff escalations on the base tariff can enhance long-term revenue and profitability.

Scaling Up Operations: With the experience and successful commissioning of the current project, there is potential for expanding to new projects or increasing capacity.

Energy Demand: Growing energy demand in Nepal can provide opportunities for increased power generation and higher revenues.

Government Support: Potential government incentives and policies supporting renewable energy projects can provide a favorable operating environment.

Threats

Natural Calamities: Geological risks and natural calamities pose significant threats to project operations and financial stability.

Hydrological Variability: Changes in river flow patterns due to climate change or other factors can affect energy generation.

Regulatory Changes: Any unfavorable changes in government policies or regulations can impact project viability and profitability.

Market Competition: Increasing competition from other hydropower projects can pressure margins and market share.

Comparative Annual Performance Visualizations

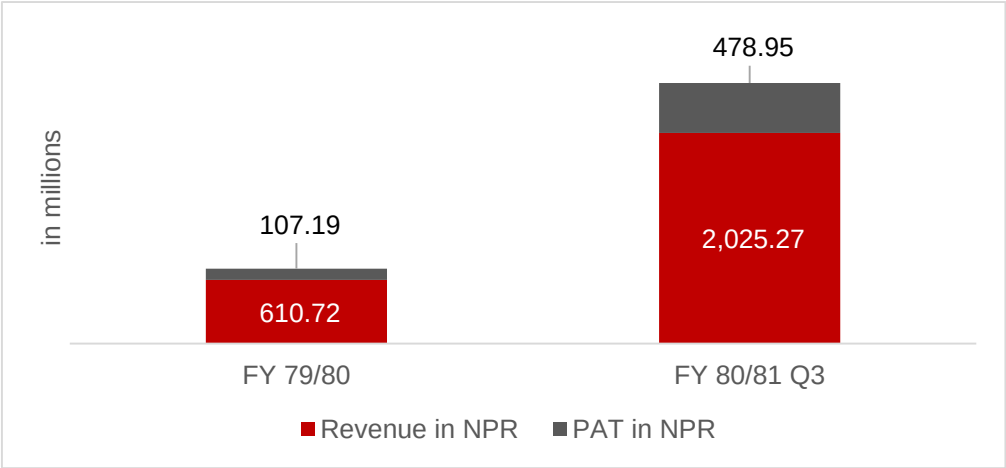


Figure: Annual Comparison of Revenue and Profit after Tax

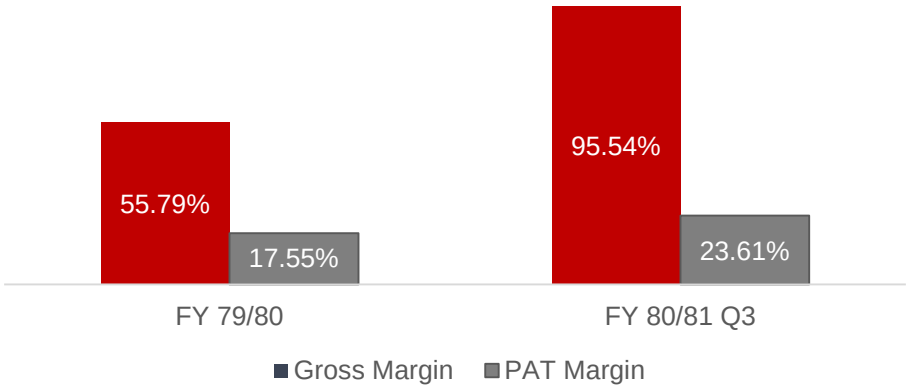


Figure: Annual comparison of Gross Margin and PAT margin Income

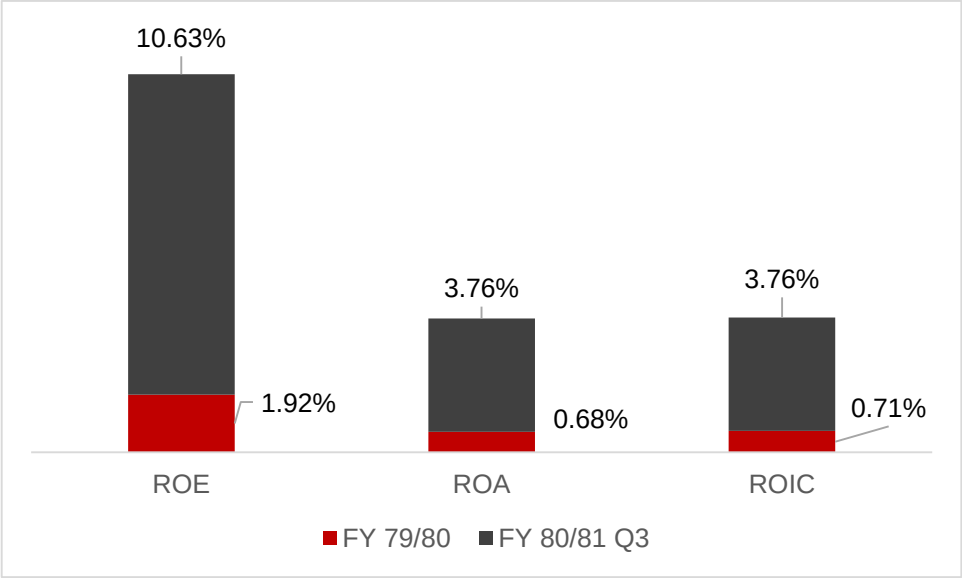


Figure: Comparison of Return on Invested Capital, Return on Asset, and Return on Equity since the start of electricity generation

Comparable Company Analysis as of Q3 for FY 2080/81

Company	CMP	Market Cap (Billions)	Debt / Equity	ICR	EPS	GPM%	NPM%	ROA%	ROE%
MBJC	409.00	22.54	2.50	N/A	(0.29)	N/A	N/A	-0.07	-0.24
SAHAS	636.00	22.26	1.77	2.53	18.22	95.54	23.61	3.76	10.63
TAMOR	542.00	18.06	3.12	N/A	(1.18)	N/A	N/A	-0.25	-0.91
		22.40	2.46	2.53	5.58	0.96	0.24	1.15	3.16

Figure: Comparable Company Analysis

Company	Capacity	PLF	Cost Per MW in 000'	Dry Energy Ratio	Revenue Generation Post 2080/81 Q3
MBJC	102.00	60.68%	N/A	15.44%	No
SAHAS	86.00	69.05%	175,000.00	19.28%	Yes
TAMOR	73.00	67.15%	130,686.27	15.12%	Yes
Average	87.00	65.63%	152,843.14	17.36%	

Note – Cost per MW data of MBJC not available

Figure: Comparable Company Analysis (Performance Metrics)

Company	Total Float in 000’	Total Listed Shares in 000’	Float / Listed Shares
MBJC	29,400.00	60,000.00	49.00%
SAHAS	10,500.00	35,000.00	30.00%
TAMOR	9,997.50	33,325.00	30.00%
Average	16,632.50	42,775.00	38.88%

Figure: Comparable Company Analysis (Float Metrics)

Comparable Company Summary

The comparable companies have been selected based on project sizes ranging from 70 MW to 105 MW. This approach ensures a more relevant analysis by aligning with the operational scale and challenges faced by similar hydropower projects. By focusing on this specific range, we can better assess performance metrics and strategic positioning within the sector, leading to more accurate benchmarking and insights for Sahas Urja Limited.

The comparable company analysis highlights the financial and operational metrics of Sahas Urja Limited in comparison to its peers, MBJC and TAMOR. SAHAS’ current market price (CMP) is NPR 636, with a market capitalization of NPR 22.26 billion, and a debt-to-equity ratio of 1.77. The company shows robust financial health with an interest coverage ratio (ICR) of 2.53, earnings per share (EPS) of NPR 18.22, a gross profit margin (GPM%) of 95.54%, and a net profit margin (NPM%) of 23.61%. Its return on assets (ROA%) is 3.76%, and return on equity (ROE%) is 10.63%.

Operationally, Sahas Urja has a capacity of 86 MW and a plant load factor (PLF) of 69.05%, which is higher than the average PLF of 65.63% among the compared companies. The cost per MW for Sahas Urja is NPR 175 million, higher than the average cost of NPR 152.84 million,

indicating substantial investment in quality infrastructure. The company's dry energy ratio stands at 19.28%, and it is generating revenue post the third quarter of fiscal year 2080/81.

In terms of shares, Sahas Urja has a total float of 10.5 million and a float-to-listed shares ratio of 30%. Compared to MBJC and TAMOR, SAHAS exhibits superior profitability margins, operational efficiency, and revenue assurance. Despite higher per MW costs, its strong financial metrics and operational performance position it favorably in the hydropower sector.

DuPont Analysis

Particulars	Specifics	FY 2079/80	FY 2080/81 (Q3)
Tax Burden	Net Profit / Pre Tax Income	1.00	1.00
Asset Turnover	Revenue / Average Total Assets	0.04	0.12
Financial Leverage	Average Total Assets / Average Equity	2.83	2.83
Interest Burden	Pretax Income / Operating Income	0.18	0.34
Operating Margin	Operating Income / Revenue	0.96	0.69
Final Return on Equity		**1.92%**	**7.97%**

Figure: DuPont Analysis

DuPont Summary

The DuPont analysis for SAHAS provides a detailed breakdown of the company's return on equity (ROE) for FY 2079/80 and FY 2080/81 Q3. The tax burden ratio remained constant at 1.00 in both periods, indicating that the company had no tax burden, with net profit equaling pre-tax income. The asset turnover ratio improved from 0.04 to 0.12, reflecting increased efficiency in using its assets to generate revenue. Financial leverage was stable at 2.83, showing consistent use of debt relative to equity. The interest burden, which is the pre-tax income to operating income ratio, increased from 0.18 to 0.34, indicating a higher proportion of operating income being retained after interest expenses. The operating margin decreased from 0.96 to 0.69, showing a reduction in operating income as a proportion of revenue. Overall, the final return on equity improved significantly from 1.92% in FY 2079/80 to 7.97% in FY 2080/81 Q3, driven by better asset utilization and higher retained earnings after interest and operating costs.

Financial Ratio Analysis

Particulars	FY 2079/80	FY 2080/81(Q3)
Return on Equity	1.92%	10.63%
Return on Assets	0.68%	3.76%
Debt Equity Ratio	1.77	1.77
Interest Coverage Ratio	1.23	2.53
Earnings Per Share (EPS)	3.06	18.22
Gross Profit Margin	55.79%	95.54%
Net Profit Margin	17.55%	23.61%

Figure: Financial Ratio Analysis

Analysis of Cash Flow Statement of SAHAS

Particulars	FY 2077/78	FY 2078/79	FY 2079/80
FCFE in 000'	(93,829,219.00)	(764,452,061.00)	30,821,815.00
Number of shares in 000'	24,500,000.00	35,000,000.00	35,000,000.00
FCFE per share	(3.83)	(21.84)	0.88
EPS	N/A	N/A	3.06
FCFE / EPS	N/A	N/A	0.29

Note: FCFE=Cash Flow from Operations (CFO) – Fixed Capital Investment (FCInv) + Net Borrowing

End of lock in period

The lock-in period for SAHAS will end on September 13, 2024. This will make an additional 10.50 million shares tradable, thereby increasing the supply of shares in NEPSE from that date onwards.

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)	1.14	Assumption - The raw daily beta of 1.20 since its listing date, will move towards 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)	5.48%	Latest Development Bond Rate adjusted for tax rate of 6.00%
Cost of Equity (Ke)	11.84%	As per CAPM Model
Cost of Debt (Kd)	10.77% / 9.70% / 8.62%	As per the average monthly lending rates of commercial banks since February 2014 (adjusted as per tax rate)
Tax Rate	0.00% /10.00% / 20.00%	As per annual report (Year 1 – 10, Year 11 – 15, and Year 16 onwards)
WACC	11.16% / 10.47% / 9.78%	Discount rate for the valuation (based on DE ratio of 1.77) as per change in tax rate (Year 1 – 10, Year 11 – 15, and Year 16 onwards)

Other assumptions:

We have assumed 3 different PLF (Plant load Factor) for both projects for each cases.

Scenario	Valuation Price
Base	69.05% (As per contracted PLF with NEA)
Bull	73.88% (7% premium from the contracted PLF)
Bear	58.69% (15% deficit from the contracted PLF)

- ✓ No CAPEX over the project life span.
- ✓ No net changes in working capital.
- ✓ Revenue projections have been outlined up to Ashwin 1, 2106, corresponding to the expiration dates of their respective license.
- ✓ Expenses margin have been taken as per the FY 2080/81 Q3 as the project has been in operation since the start of the fiscal year, whereas the project was only in operation for a few months in FY 2079/80.
- ✓ Depreciation has been projected through the following formula, **Total Cost of the Project / Project Life Span**
- ✓ Escalations has been taken as per prospectus. It is mentioned in the following table.

Year	Wet Season	Dry Season
0	4.80	8.40
1	4.94	8.65
2	5.09	8.91
3	5.25	9.18
4	5.40	9.45
5	5.56	9.74
6	5.73	10.03
7	5.90	10.33
8	6.08	10.64

Particulars	Value
Royalty on Capacity up 15 Years per KW in NPR	100
Royalty on Revenue up to 15 Years	2%
Royalty on capacity after 15 Years per KW in NPR	1000
Royalty on Revenue after 15 Years	10%

D. Stock Valuation

The final average valuation of SAHAS based on DCF Approach has been computed, which has been tabulated below.

DCF Valuation	Valuation Price
Bear Case	129.17
Base Case	201.23
Bull Case	224.21

E. Conclusion

Sahas Urja Limited's operational and financial performance since the commissioning of the 86 MW Solu Khola (Dudh Koshi) Hydropower Project in March 2023 showcases a promising

trajectory for growth and stability in Nepal's energy sector. The company's strategic transition to a public limited entity and its robust partnership with the Nepal Electricity Authority (NEA) through a long-term power purchase agreement (PPA) has positioned it favorably against revenue fluctuations, further supported by predictable tariff escalations.

Despite challenges such as single project dependency and hydrological risks, SAHAS has demonstrated resilience with a high Plant Load Factor (PLF) of 69.05%, significantly exceeding its peer's average. This operational efficiency has translated into a commendable net profit margin of 23.61% and a gross profit margin of 95.54%, underscoring the effectiveness of its management and operational strategies.

The DuPont analysis indicates substantial improvements in return on equity (ROE), soaring from 1.92% to 7.97%, attributed to enhanced asset utilization and a favorable interest burden. The increase in asset turnover from 0.04 to 0.12 reflects the company's commencement of its project

While SAHAS faces inherent risks, including natural calamities and regulatory uncertainties, its strong financial metrics, including a debt-to-equity ratio of 1.77 and an interest coverage ratio of 2.53, indicate a sound capital structure and capability to navigate financial obligations. Moreover, the opportunity to scale operations and expand further into the hydropower domain is ripe, especially with the growing energy demand in Nepal.

Overall, Sahas Urja Limited is well-positioned to leverage its operational strengths and market opportunities, paving the way for sustained growth and profitability in the evolving energy landscape of Nepal.

ISSUE OF THE MONTH

Effect of Mental Accounting on Treatment of Money

A. What is Mental Accounting

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. Mental accounting is one such cognitive bias wherein people treat money differently based on a subjective criterion, and it often leads people to make financially counterproductive investment decisions.

It is the tendency people have to treat money differently depending on where it came from or what we intend to do with it. A simple example of this can be when a person experiences a certain financial windfall such as winning the lottery. In this case the person is most likely to spend the money on luxurious things as they are of the idea that since the money has come from lottery winning it is additional income that can be splurged without financial ramifications. They treat the additional income differently due to its source and thus fail to properly mobilize the additional resources at their hands.

B. Why is mental accounting prevalent?

Since, normal people are not well versed with how money works and its proper application, they use mental accounts as a sort of self-control strategy to manage and keep track of their spending and resources. People tend budget money into mental accounts for specific expenses such as saving to purchase a home or expense categories such as maintenance costs for a car, or cost of vacation and generally tend to avoid spending money earmarked for specific purposes besides using it for the specific purpose.

This is because people are unaware of the fungible nature of money. Fungibility of money means that, regardless of where money originates or how we intend to use it, it is still the same money. It doesn't matter which account we spend money from, its value is the same and the reduction in value available to the person making the transaction is the same after making a transaction. However, people tend to not understand this and categorize money differently.

C. Mental Accounting in Investing

Mental accounting also exists in investing, as investors classify the securities in their portfolio as safe and speculative. In this case there is this assumption that safe investments need not be sold even on a good profit as they offer stable returns whereas speculative investments

need to be sold upon making small profits or even at a loss as it is better to sell a speculative portfolio than a safe portfolio. Investors even stand to reason that this is true even when both portfolios are making similar losses during a downward market. People would go so far as to even sell speculative portfolios with smaller losses than safer portfolios with larger losses as they are more afraid of losing money on a safe portfolio than on a speculative one even when the money lost on both is the same.

D. Pitfalls of Mental Accounting.

Like many other cognitive processes, mental accounting can prompt biases and systematic departures from rational, value-maximizing behavior leading to financially unsound decisions. These can take a number of forms such as:

- Impeding financial progress when people treat specific inflows such as tax refunds or discounts as windfalls and spend them haphazardly unlike cash flow from their remuneration/salary.
- Paying high interest on debt while making low interest on savings that are meant to go towards building a house.
- Paying off low interest loans faster than necessary when the money from the loan could be used to get higher returns on investment.

E. Mitigating the Effects of Mental Accounting:

The following steps can be taken to mitigate the effects of mental accounting:

- Understand that money is fungible (is the same no matter its intended purpose) and treat all cash inflows and outflows the same.
- Understand your financial position and review it periodically to gauge what to do in case of significant cash inflows or outflow.
- Maintain financial discipline when cash flow is good to keep a nest for when things might be tricky.
- Don’t make spur of the moment financial decisions based on a sudden windfall.

Overall, while mental accounting allows people to manage their cash flows in a systematic way, it also prevents people from truly being able to utilize the money they have. This is also true for investments wherein classifying an investment as safe or speculative affects an investor’s ability to manage it significantly. Thus, understanding this bias and not making simple mental accounting mistakes can help us get better returns on our assets.

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Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
SJLICP	AUCTION	92,349 (P)	2024/07/28 AD 2081/04/13 BS	2024/08/02 AD 2081/04/18 BS	NIC Asia Capital
NLCL	AUCTION	400,389 (P)	2024/07/23 AD 2081/04/08 BS	2024/08/06 AD 2081/04/22 BS	

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