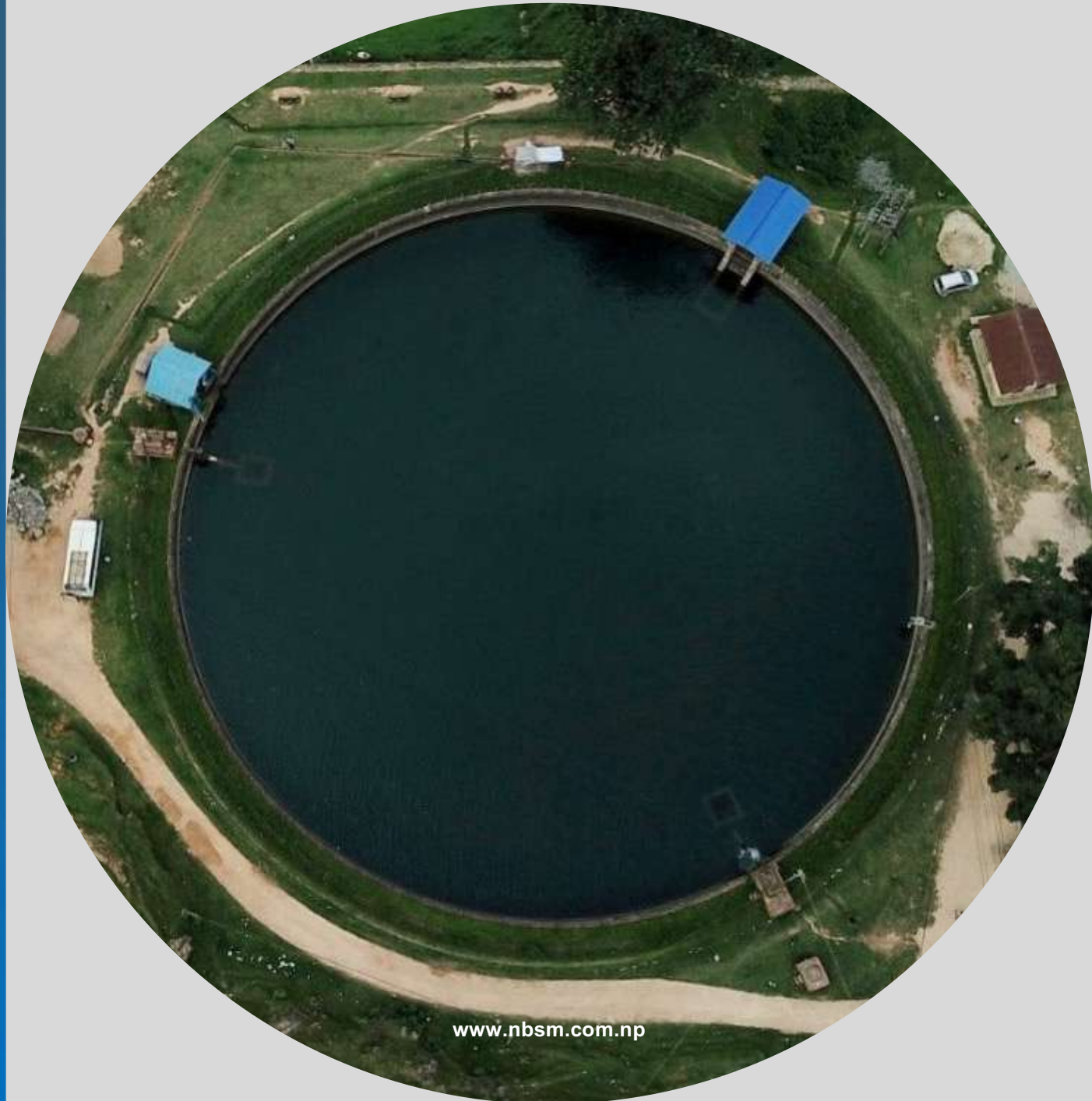
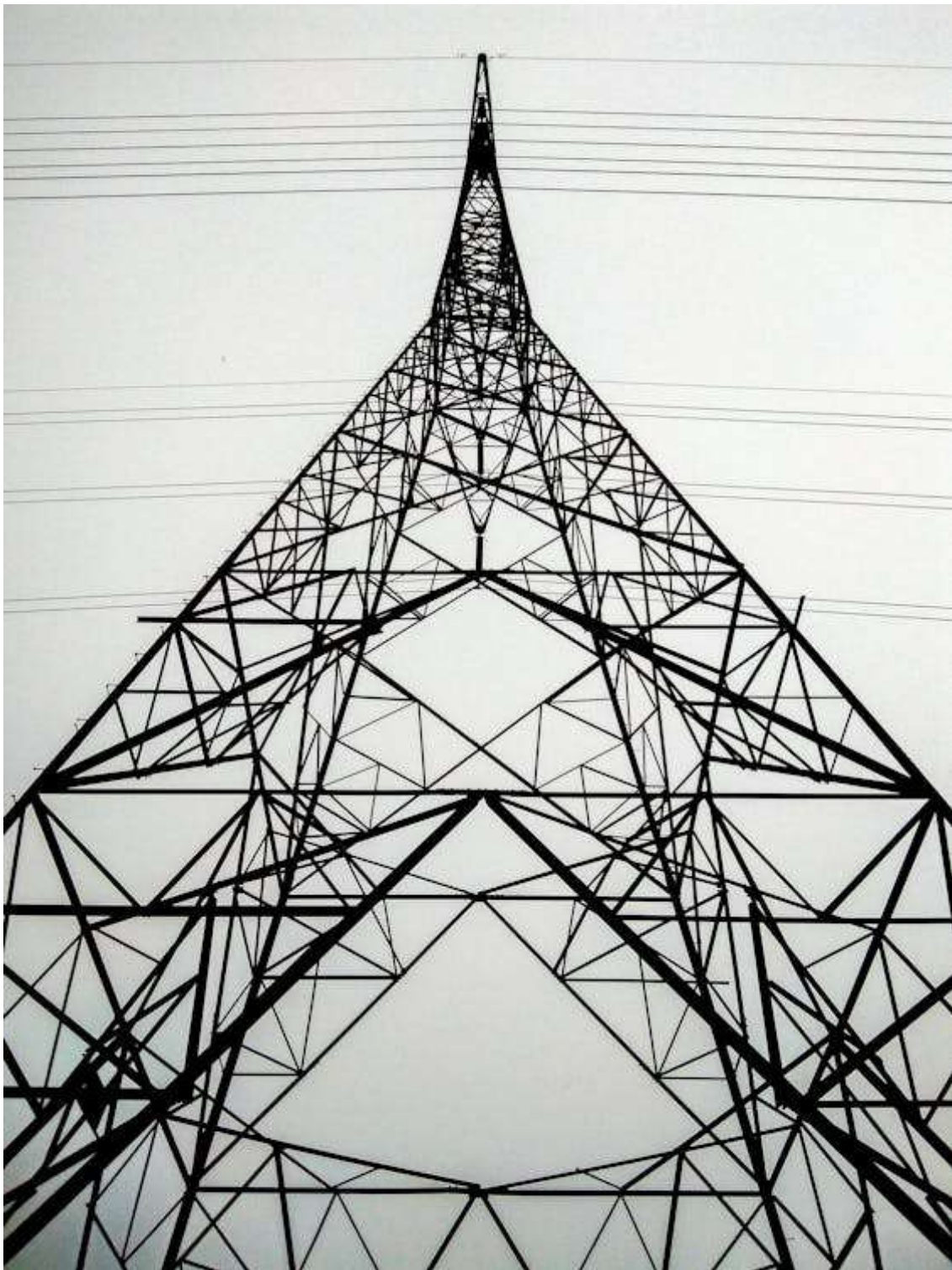


# ROLE OF CAPITAL MARKET

## Hydropower in Nepal





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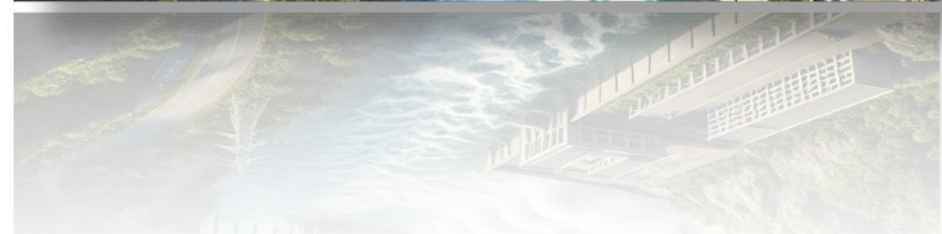
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## Introduction to Capital Market and Its Instruments in Hydropower Financing.

Nepal, blessed with plenty of water resources, has immense potential for the generation of hydropower. But for harnessing this potential, enormous investment is necessary, and that is where the capital market steps in. Capital market is a key financial supporting column of Nepal's hydropower growth, facilitating the mobilization of long-term financing by primary instruments such as Initial Public Offerings (IPOs), Further Public Offerings (FPOs), and Right Shares. As Nepal seeks to harness its enormous potential of hydropower, pegged at over 50,000 MW, the capital market provides an organized channel for companies to mobilize equity capital from institutional and public investors.

Years have witnessed a number of hydropower companies entering the market, raising funds through these instruments for project development, expansion, and maintenance. Participation by retail and institutional investors has not only facilitated the funding of projects but also infused the country's overall economy. This article analyzes the contribution of the capital market in Nepal's hydropower sector through an analysis of major IPOs, right issues, and FPOs issued so far.

IPOs allow hydropower companies to list shares for the first time, making public investment opportunities available while complying with guidelines from the Securities Board of Nepal (SEBON). After an IPO, companies will opt to undertake FPOs in order to raise additional funds for business expansion, while Right Issues give existing investors a chance to purchase new shares at preferential prices to fund continued funding of project development.



## Analysis of IPO-Issuing Hydropower Companies in Nepal (FY 2060/61 to 2080/81)

- The presented chart illustrates the trend of IPOs in the hydropower sector, with a cumulative total of 120 IPOs issued over the years.
- Total IPO Amount Raised
- Total IPO Amount: NPR 32,897,857,792 (~NPR 32.9 Billion)

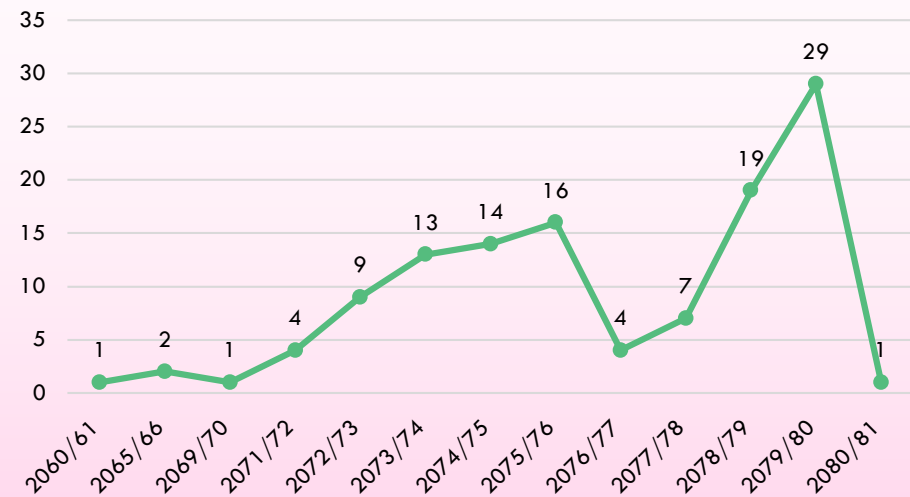
Average IPO Size: NPR 274.15 Million

- Largest IPO: Upper Tamakoshi Hydropower Limited (FY 2071/72) – NPR 3.6 Billion
- Rasuwagadhi Hydropower Co. Ltd. (FY 2074/75) – NPR 1.64 Billion
- Madhya Bhotekoshi Jalvidyut Co. Ltd. (FY 2077/78) – NPR 1.5 Billion.

Smallest IPO:

- Kalika Power Company Ltd. (FY 2075/76, General Public) – NPR 1.2 Million
- Himalaya Urja Bikas Company Ltd. (FY 2075/76, Locals) – NPR 990,000

No of IPOs In Hydro Sector in Nepal



The growing number of companies engaging with the capital market rose from two in 2065/66 to thirty in 2079/80 as shown by the data.

The number of newly established companies issuing their initial public offerings progressively increased until 2079/80 and 2078/79 showcased an additional 19 companies entering the IPO market. One IPO was the only initial public offering conducted by a company in 2080/81.

# Initial Public Offerings (IPOs) of Hydropower Companies

- **Growth in IPO Activity:** The market has witnessed growing trends in the worth of IPOs as well as the frequency of new companies undertaking IPOs. In 2060/61 a single company released an IPO amounting to NPR 14 million but since fiscal year 2071/72 through present times there has been a remarkable expansion of the Nepalese IPO market.
- **Significant Peaks in IPO Value:** Among all examined years, 2079/80 registered the maximum total IPO value of NPR 734.31 million indicating remarkable growth in the IPO market. Large companies within the hydropower sector and other corporations generate the highest peaks of investment interest.
- **During 2076/77 and 2080/81 :** The IPO value experienced a decrease as compared to previous years; the smallest value of NPR 38.25 million was



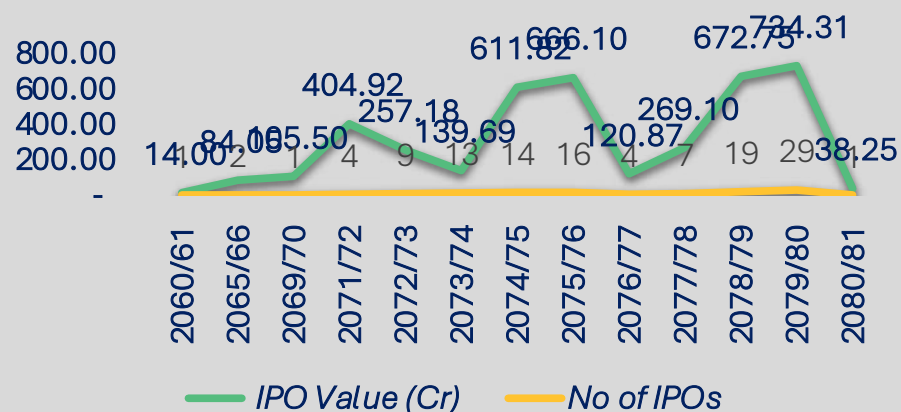
general decline in the number of IPOs or a reduced choice of companies going public because of market conditions or changes such as the pandemic.

## **The Hydropower Sector received no approved IPOs**

During the period of Year 2081/82, No approval has given to any Hydropower Companies to issue IPO till the date of the publication of this report.

## IPO Value vs. Number of Companies:

### Hydrosector Value vs Number



This chart presents a **comparison between the number of IPOs and their total value (in crore NPR)** in Nepal's hydropower sector over various fiscal years.

- The **green line (IPO Value in Cr.)** shows fluctuations, indicating that IPOs from different years had varying financial impacts.
- The **orange line (No. of IPOs)** remains relatively stable, with gradual increases over time.

#### Peak IPO Issuance:

- FY 2079/80 (2022/23) had the highest number of IPOs (28) and the second-highest total amount (NPR 6.44 Billion).
- FY 2074/75 (2017/18) saw the highest total IPO amount (NPR 6.63 Billion), driven by large issuances like Rasuwagadhi Hydropower (NPR 1.64B) and Sanjen Jalavidhyut (NPR 876M).

#### Decline in Recent Years:

- FY 2080/81 (2023/24) had only 1 IPO (NPR 382.5M), indicating a slowdown.

#### Top 5 Largest IPOs (by Amount)

- Upper Tamakoshi Hydropower Ltd. (FY 2071/72) – NPR 3.6B
- Rasuwagadhi Hydropower Co. Ltd. (FY 2074/75) – NPR 1.64B
- Madhya Bhotekoshi Jalvidyut Co. Ltd. (FY 2077/78) – NPR 1.5B
- Hydroelectricity Investment & Development Co. Ltd. (FY 2072/73) – NPR 2B
- Sanima Middle Tamor Hydropower Ltd. (FY 2079/80) – NPR 833M

## IPO Breakdown by Target Investors

- Most of the IPO's were issued for locals and the general public (44).
- General public IPOs raised the most funds ( NPR 12.5B).
- Local-only IPOs were smaller in size ( average – NPR 172m- 312M for general public).
- For General public: 40 IPOs have been issued, raising approximately NPR 12.5 billion. This category includes retail and institutional investors from nationwide, encouraging well- founded public investment in hydropower.
- For Local People: 36 IPOs have been reserved only for local people, raising approximately NPR 6.2 billion. These issues are issued with the aim of letting people who reside in project affected districts directly benefit from hydropower development.
- For both ( local and public): some IPOs have been structured to include both local and general public investors. There are have been 44 such IPOs floated, which have been mobilized approximately NPR 14.2 billion. The hybrid structure offers wider investor inclusion with a local community representation guarantee



## Right Issues

- Right shares are additional shares issued by a company to its existing shareholders in proportion to their current holdings.
- Right shares are among the sources of funds used by firms to finance expansion, debt repayment, or new businesses without relying on outside sources of finance.
- Hydropower companies have played a **crucial role in Nepal's capital market**, consistently raising funds through Right Issues.
- The right **share mechanism** has become more prevalent for businesses that need **significant funding** to undertake massive hydropower and infrastructure projects
- The right share scheme is now increasingly common for companies that need massive funding to undertake gigantic infrastructure and hydropower projects
- The first reported right share issue in Nepal's hydropower sector was that of Butwal of power

Company (BPC) in FY 2070/71, raising NPR 67.68 crore. Following closely behind were the right shares of Arun Valley Hydropower worth NPR 35.04 crore in the same fiscal year.

- The volume and frequency of right issues of rights have increased significantly over the past few years, especially from FY 2077/78 onwards.

### Possible Reasons for the Increase in Right Shares:

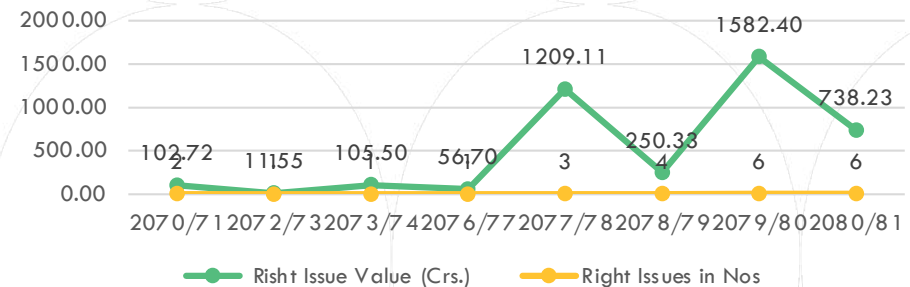
1. **Growing Hydropower Development** – More projects needed additional funding beyond IPOs.
2. **Regulatory Encouragement** – Nepal's securities regulations made right issues a viable fundraising tool.
3. **Existing Shareholder Preference** – Companies may have found it easier to raise funds from current investors rather than issuing fresh IPOs.



## Right Issues

- **Steady Growth:** From ₹102.72 Cr (2070/71) to ₹738.23 Cr (2080/81), Right Issues have become a key financing tool.
- **Major Surges:** The sector saw a remarkable rise in 2077/78 (₹1209.11 Cr) and peaked in 2079/80 (₹1582.40 Cr), reflecting investor confidence.
- **Sustained Momentum:** Even in 2080/81, ₹738.23 Cr. was raised across 6 issues, proving hydropower's continuous contribution to capital formation.
- The capital-raising activity escalated significantly during the 2077/78 financial year **when three companies attracted 1209.11 million NPR** which further surged during the 2079/80 period up to 1582.40 million NPR.
- Right share issue value and company participation transcended to high levels over the three year period spanning 2077/78 to 2080/81. **A total of six companies raised NPR 1582.40 million** through their right share issue in the 2079/80 period making it the year when the highest value was obtained and most companies participated.

Right Issues in Hydropower



- Throughout the two-year period from 2074/75 to 2075/76 no right share issues occurred. Starting from 2077/78 right share issuance gained substantial strength until 2079/80 when six companies issued rights shares for a total value of NPR 1582.40 million.
- The Right Share Drought: Why Nepal's Hydropower Sector Went Silent (FY 2074/75-2075/76 – 2080/81) ?
  - SEBON suspended approvals for 11 months to overhaul pricing guidelines.
  - Absence of Leadership in SEBON.
  - Regulatory Shutdown - SEBON halted approvals for 11 months to reform pricing guidelines
  - Public Outcry in increased number of Right Issues including the concerns of Parliamentary Committees.

## Industry Impact, Subscription and investor confidence:

- The right share issues in Nepal mainly target hydropower projects alongside infrastructure development because the country requires substantial investment for these sectors. The sectors require substantial capital from companies to execute new projects and development operations.
- During the period from 2077/78 to 2080/81 Nepal prioritized infrastructure development specifically involving hydropower projects which aligns with the increased number of right share issues.
- Hydropower Companies raised 4056.54 Crores alone from Right Issues.
- Hydropower Developers are encouraged to develop more hydropower projects with the capital raised through right issue.
- Some developers also raised capital through right issue in order to clear its loan obligations.



- Steady Subscription: Investor confidence in companies and particularly those in renewable energy remained substantial based on the success of right share issues in these years that conformed to industry standards.
- Increased Investor Interest: Right share issuance has been consistently increasing because investors actively support infrastructure projects which provide extended financial yields especially in nations like Nepal with multiple renewable energy possibilities.
- Right Issues has made Hydropower Companies like an Investment Companies surpassing its life over the life of the project.

## Further Public Offerings (FPO)

- A Follow-on Public Offering (FPO) is when an already listed company on a stock exchange releases additional shares to the public to raise capital. This is typically to expand operations, retire debt, or for enhanced liquidity. In hydropower, FPOs have played a significant role in raising funds for the expansion of sustainable energy.
- A fine instance of an FPO in the Nepali hydropower sector was issued by Butwal Power Company in the FY 2074/75. The company raised NPR 204.45 crore from the issue, consolidating the company's financial position and enabling further investment in its project. Such issuances enable hydropower companies to consolidate infrastructure, enhance operational capacity, and cater to the country's growing demand for energy.
- BPC alongside other hydropower companies depends on the capital market for financial

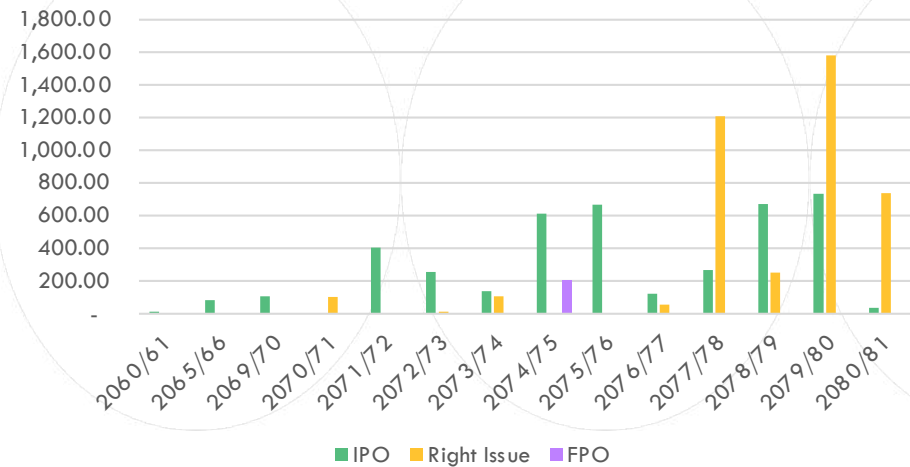


support of major projects while their FPO represented a strategic measure for business expansion together with financial stability enhancement and investor assurance.

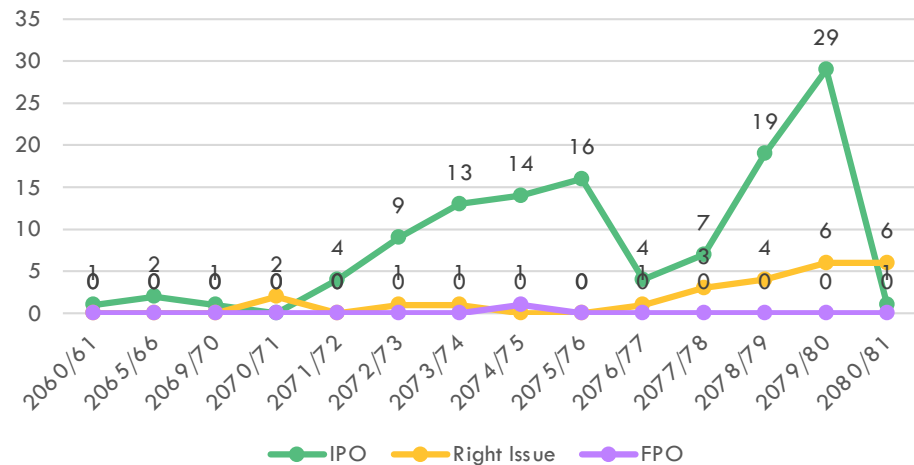
## Conclusion: Analysis Of Public Issues In Hydropower.

- The color-coded visualization effectively shows how Nepal's hydropower financing evolved from public offerings to shareholder-based funding as the sector matured.
- Here's the breakdown of total capital received through different public issuance methods for hydropower development in Nepal, presented against the 18,000 MW development threshold:
- Nepal's hydropower industry has been successful in raising ₹4,056 crore through right issues, ₹4023.59 crore through IPO and ₹204.45 through FPO which is 8284.58 in total.
- Considering Rs. 18 Crore as the cost for developing a megawatt hydropower project, so far Capital Market has helped to generate enough capital to develop more than 500 MW hydropower Project within a period of 10 years in Nepal. Further considering bank loan, Capital Market has been able to provide equity to generate more than 1600 MW Projects in Nepal.

Public Issue in Value (Cr₹)



No of Public Issues in Hydropower till Date



## Conclusion

- The Nepalese capital market has also been an important driver of hydropower development, as public issues have converted flowing water into real energy.
- The hydropower sector has transitioned from **IPO-dependent fundraising** to **right issue-driven growth**, reflecting **strong shareholder trust** and **efficient capital mobilization** for large-scale projects.
- This successful financial model has not only addressed energy needs but has also established a sustainable framework for future growth in renewable energy infrastructure.
- Large-scale investments by hydropower companies helped increase both initial public offerings numbers as well as the total capital obtained. The energy sector expansion in Nepal links to efforts for hydroelectric power capacity growth and renewable energy project development.
- Right share subscriptions demonstrate investor confidence in growth prospects of businesses that energy and hydropower projects that use funds for infrastructure expansions alongside.
- The successful mobilization of **₹4,056 crore through right issues, ₹4023.59 crore via IPOs, and ₹204.45 crore from FPOs** underscores the growing role of domestic investors in the sector. This financial momentum positions Nepal to achieve its ambitious targets, including **15,000 MW by 2030** and regional energy exports.
- This reflects:
  - Strong investor confidence in hydropower returns;
  - Successful recycling of capital for project expansion;
  - Policy stability for predictable financing.

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