

**PERFORMANCE EVALUATION OF INDEPENDENT
POWER PRODUCERS OF NEPAL**

**(With Special Reference to Butwal Power Company Limited and Chilime
Hydropower Company Limited)**

A Thesis By

PRAKASH ARYAL

Makwanpur Multiple Campus

Hetauda, Makwanpur

T. U. Regd. No: - 7-1-242-203-99

Submitted To:

Office Of The Dean

Faculty Of Management

Tribhuvan University

Kathmandu, Nepal

*In the partial fulfillment of the requirement for the degree of
Master of Business Studies (M.B.S.)*

September, 2012

RECOMMENDATION

This is certify that the thesis

Submitted by :
Prakash Aryal

Entitled:

**PERFORMANCE EVALUATION OF INDEPENDENT POWER
PRODUCERS OF NEPAL**

has been prepared as approved by this department in the prescribed format of the Faculty of Management. This is forwarded for examination. We recommend this thesis for acceptance.

.....
Uddhab Prasad Sapkota
(Thesis Supervisor)

.....
Bachchuram Adhikari
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce sheet examination of the thesis

Submitted by:
Prakash Aryal

Entitled:

PERFORMANCE EVALUATION OF INDEPENDENT POWER PRODUCERS OF NEPAL

And found the thesis to be the original work of the student and written in according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master's in Business Studies (MBS)

Viva – Voce Committee:

Head Of Research Department:

Member (Thesis Supervisor):

Member (External Expert):

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled **PERFORMANCE EVALUATION OF INDEPENDENT POWER PRODUCERS OF NEPAL** submitted to office of the Dean, Faculty of management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's Degree in Business Study (M.B.S.) under the supervision of Mr. Uddhab Prasad Sapkota.

.....
Prakash Aryal
(Researcher)

Date:

ACKNOWLEDGEMENTS

Writing this thesis has been rewarding experience for me as I have been obliged to collect the materials required and have had rewarding and supportive suggestions from the individuals to whom I owe my enormous debt.

My sincere gratitude goes to my thesis Supervisor Mr. Uddhab Prasad Sapkota of Makawanpur Multiple campus, Hetauda for their encouragement, constructive suggestions and valuable guidance.

I would like to express my gratitude to Campus Chief Bachchuram Adhikari, Administrative staff and all the Library staff of Makawanpur Multiple Campus who were very supportive and helpful to me.

I also owe an indebtedness to all authors whose writings have provided me the necessary guidance and invaluable materials for enriching my research paper in all possible ways. I am also gratefully indebted to all the staff of Butwal Power Company and Chilime Hydropower Company Private Limited for providing required data and information. Likewise, all the respondents are thankful for their suggestions and responding my questionnaire.

I am beholden to my parents and all the family members, especially for my brother Prabin Aryal for his encouragement and providing me a very friendly environment for my study and their continuous supports.

Last but not the least I would also like to thanks Navaraj Luitel, Matribhumi Printing Service, Sangam Chowk, Hetauda entire computer work.

Prakash Aryal

TABLE OF CONTENTS

RECOMMENDATION
VIVA-VOCE SHEET
DECLARATION
ACKNOWLEDGEMENT
ABBREVIATIONS
TABLE OF CONTENTS
LIST OF TABLES
LIST OF FIGURES

CHAPTER I

	Page no.
INTRODUCTION	1-16
1.1 General Background	1
1.1.1 Investment Potentials of Hydropower Business in Nepal	2
1.1.2 Independent Power Producer (IPP)	3
1.1.3 Power Purchase Agreement (PPA)	4
1.1.4 Nepal Electricity Authority (NEA)	5
1.1.5 Nepal Electricity Authority and Power Purchase Agreement	6
1.2 Introduction of Independent Power Producers of Nepal	7
1.2.1 Butwal Power Company (BPC)	7
1.2.2 Chilime Hydropower Company Limited (CHPCL)	8
1.2.3 Himal Power Limited (HPL)	9
1.2.4 Bhote Koshi Power Company Private Limited (BKPC)	9
1.2.5 Arun Valley Hydropower Development Company (AVHPC)	10
1.2.6 Sanima Hydropower Private Limited (SHPL)	10
1.2.7 National Hydro Power Company Limited (NHPC)	11
1.2.8 Syange Bidyut Company (SBC)	11
1.2.9 Rairang Hydropower Development Company Pvt. Ltd. (RHPD)	11
1.2.10 Khudi Hydropower Limited (KHL)	12
1.2.11 Unique Hydel Company Private Limited (UHC)	12
1.2.12 Alliance Power Nepal Private Limited (APN)	12

1.3 Statement of the Problem	12
1.4 Objectives of the Study	13
1.5 Significance of the Study	14
1.6 Limitations of the Study	14
1.7 Organization of the Study	15

CHAPTER II

REVIEW OF LITERATURE	17-39
2.1 Introduction	17
2.2 Review of Related Books	17
2.2.1 Financial Analysis	17
2.2.2 Financial Statement Analysis	18
2.2.3 Objectives of Financial Statement Analysis	20
2.2.4 Significance of Financial Statement Analysis	21
2.2.5 Techniques of Financial Statement Analysis	22
2.2.6 Limitations of Financial Statement Analysis	27
2.3 Review of Related Articles	28
2.4 Review of Related Theses	33
2.5 Review of Related Acts and Plans	36

CHAPTER III

RESEARCH METHODOLOGY	40-53
3.1 Introduction	40
3.2 Research Design	40
3.3 Population and Sample	41
3.4 Types and Sources of Data	41
3.5 Research Variables	41
3.6 Data Processing	42
3.7 Tools for Analysis	42
3.7.1 Financial Tools	42
3.7.2 Statistical Tools	49

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA	54-96
4.1 Presentation of Data from Secondary Sources	54
4.1.1 Liquidity Ratio	54
4.1.2 Activity/ Efficiency/ Assets Management Ratio	58
4.1.3 Leverage/ Capital Structure Ratio	66
4.1.4 Profitability Ratio	67
4.1.5 Invisibility Ratio	74
4.1.6 Correlation Analysis	79
4.1.7 Least Square Linear Growth Trend Analysis	82
4.2 Presentation of Data from Primary Sources	86
4.2.1 ROE as a Measure of Performance	86
4.2.2 Performance Evaluation through Ratio Analysis	87
4.2.3 Adequacy of Government Assistance to the IPPs in Nepal	88
4.2.4 Comparison of Present Return and Expectation of Investors	90
4.2.5 Role of Whim and Rumors in Influencing Stock Prices of IPPs	91
4.3 Major Findings	92
4.3.1 Major Findings from Secondary Sources	92
4.3.2 Major Findings from Primary Sources	96

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

97-106

5.1 Summary	97
5.2 Conclusion	102
5.3 Recommendation	105

BIBILOGRPHY

APPENDICES

LIST OF TABLES

	Page No.
Table No. 4.1 Calculation of Current Ratio	55
Table No. 4.2 Calculation of Quick Ratio	57
Table No. 4.3 Calculation of FATOR	59
Table No. 4.4 Calculation of TATOR	60
Table No. 4.5 Calculation of ITR	62
Table No. 4.6 Calculation of DTR	63
Table No. 4.7 Calculation of ACP	65
Table No. 4.8 Calculation of Leverage Ratio	66
Table No. 4.9 Calculation of NPR	68
Table No. 4.10 Calculation of OER	70
Table No. 4.11 Calculation of ROE	71
Table No. 4.12 Calculation of ROTA	73
Table No. 4.13 Calculation of EPS	75
Table No. 4.14 Calculation of DPS	76
Table No. 4.15 Calculation of DPR	78

LIST OF FIGURES

	Page No.	
Figure No. 4.1	Graphical Presentation of Current Ratio	56
Figure No. 4.2	Graphical Presentation of Quick Ratio	58
Figure No. 4.3	Graphical Presentation of FATOR	60
Figure No. 4.4	Graphical Presentation of TATOR	61
Figure No. 4.5	Graphical Presentation of ITR	62
Figure No. 4.6	Graphical Presentation of DTR	64
Figure No. 4.7	Graphical Presentation of ACP	65
Figure No. 4.8	Graphical Presentation of Leverage Ratios	67
Figure No. 4.9	Graphical Presentation of NPR	69
Figure No. 4.10	Graphical Presentation of OER	70
Figure No. 4.11	Graphical Presentation of ROE	72
Figure No. 4.12	Graphical Presentation of ROTA	74
Figure No. 4.13	Graphical Presentation of EPS	75
Figure No. 4.14	Graphical Presentation of DPS	77
Figure No. 4.15	Graphical Presentation of DPR	78
Figure No. 4.16	Graphical Presentation of Total Sales and Net Profit After Tax	79
Figure No. 4.17	Graphical Presentation of Total Sales and Total Assets	80
Figure No. 4.18	Graphical Presentation of Total Assets and Net Profit After Tax	81
Figure No. 4.19	Graphical Presentation of Least Square Trend Analysis of Total Sales Growth	82
Figure No. 4.20	Graphical Presentation of Least Square Trend Analysis of Net Profit After Tax Growth	84
Figure No. 4.21	Graphical Presentation of Least Square Trend Analysis of Earning Per Share Growth	85

ABBREVIATIONS

ACP	-	Average Collection Period
APN	-	Alliance Power Nepal Private Limited
AVHPC	-	Arun Valley Hydropower Development Company Limited
BKPC	-	Bhote Koshi Power Company Private Limited
BPC	-	Butwal Power Company Limited
BOOT	-	Build-Operate-Own Transfer
CHPCL	-	Chilime Hydropower Company Limited
CR	-	Current Ratio
CV	-	Coefficient of Variation
D/E	-	Debt to Shareholders Equity
DPR	-	Dividend Payout Ratio
DPS	-	Dividend Per Share
DTAR	-	Debt to Total Assets Ratio
DTR	-	Debtors Turnover Ratio
EPS	-	Earning Per Share
FATOR	-	Fixed Assets Turnover Ratio
F/Y	-	Fiscal Year
HEP	-	Hydro Electricity Project
HPL	-	Himal Power Limited
IPP	-	Independent Power Producer
ITR	-	Inventory Turnover Ratio
KHL	-	Khudi Hydropower Limited
KWh	-	Kilowatt
LEDCO	-	Lamjung Electricity Development Company
Ltd.	-	Limited
MW	-	Megawatt
NEA	-	Nepal Electricity Authority
NEPSE	-	Nepal Stock Exchange
NHPC	-	National Hydro Power Company Limited
No.	-	Number
NPR	-	Net Profit Ratio

NRs.	-	Nepali Rupees
OER	-	Operating Expenses Ratio
PE	-	Probable Error of Correlation Coefficient
PPA	-	Power Purchase Agreement
Pvt.	-	Private
QR	-	Quick Ratio
RHPD	-	Rairang Hydropower Development Company Private Limited
ROE	-	Return on Shareholders Equity
ROTA	-	Return on Total Assets
SBC	-	Syange Bidyut Company
SHPL	-	Sanima Hydropower Private Limited
SWOT	-	Strengths, Weaknesses, Opportunities and Threats
TATOR	-	Total Assets Turnover Ratio
T.U.	-	Tribhuvan University
UHC	-	Unique Hydel Company Private Limited
VDCs	-	Village Development Communities