

WHAT'S IN THE STOCK ?

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What the Numbers Say. What the Market Misses



Mountain Energy Nepal Limited
MEN

A research-driven look beyond the stock price to understand what truly drives the value.

What's in the Stock? goes beyond headlines and market sentiment to examine the fundamentals behind a listed company. We look at its business, financial performance, growth prospects, risks, valuation, and the expectations already reflected in its market price.

The objective is simple: **to understand what the numbers are telling us—and identify what the market may be overlooking.**



ज्योति क्यापिटल लि.
JYOTI CAPITAL LTD.
सम्पन्नताको सहयात्री

Jyoti Capital Limited,
Kamalpokhari, Kathmandu

WHAT'S IN THE STOCK

Mountain Energy Nepal

Mountain Energy Nepal Limited (MEN) was incorporated as a private limited company in 2064 B.S. (2007/08) with its registered office at Baluwatar, Kathmandu. It was converted into a public limited company on Bhadra 3, 2071 B.S. (August 19, 2014) under the Companies Act, 2063, and its registered office is now located at Dillibazar, Kathmandu. MEN owns and operates hydropower projects, and its shares have been listed on the Nepal Stock Exchange (NEPSE) since December 15, 2020.

Project Overview

MEN generate revenue from two operating hydropower plants: the 5 MW Tadi Khola Hydroelectric Project (TKHEP), commercially operational since Chaitra 14, 2069 (March 2013), and the 42 MW Mistri Khola Hydroelectric Project (MKHEP), commercially operational since Ashadh 3, 2078 (June 2021) with a third, 12 MW Mistri Khola-2 Hydroelectric Project (MK2HEP), in the under-construction stage.

PROJECT	INSTALLED CAPACITY	COMPLETION YEAR	LICENSE EXPIRY YEAR
Tadi Khola Hydroelectric Project (TKHEP)	5 MW	2069 B.S.	2103 B.S.
Mistri Khola Hydroelectric Project (MKHEP)	42 MW	2078 B.S.	2103 B.S.
Mistri Khola-2 Hydroelectric Project (MK2HEP)	12 MW	Under Development	N/A

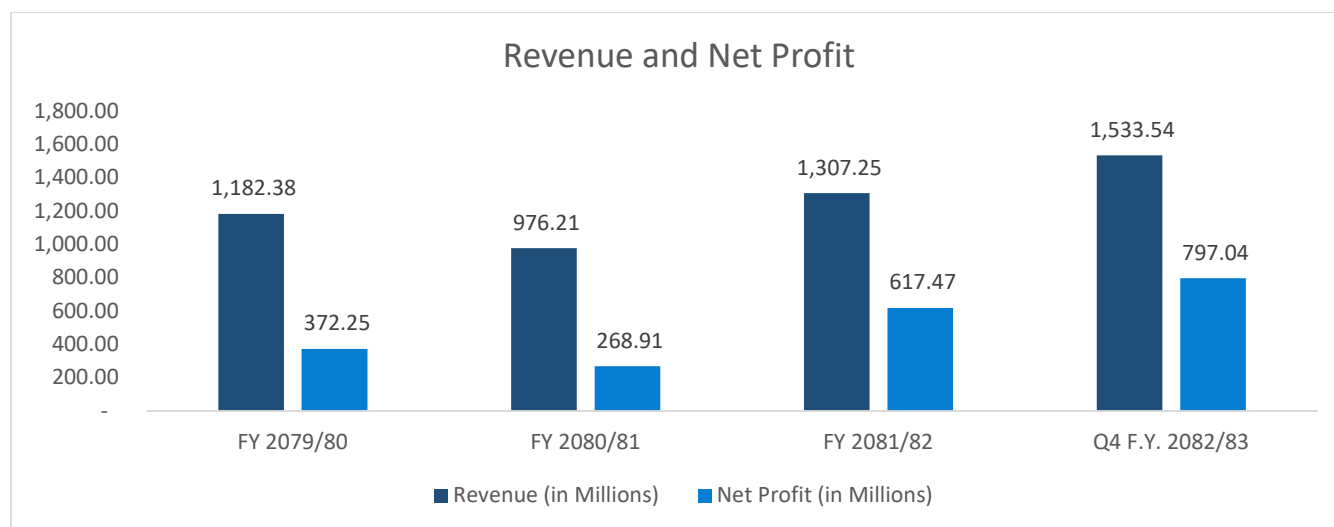
Features	
5 MW Tadi Khola Hydroelectric Project (TKHEP)	
Installed capacity	5 MW
Contracted Energy Generation in kWh	32,480,000 kWh
Phase	Operating
Energy Generation (79/80) in kWh	22,833,228.62 kWh
70% of contracted energy generated	
Energy Generation (80/81) in kWh	23,375,610.3 kWh
72% of contracted energy generated	
Energy Generation (81/82) in kWh	23,178,369.76 kWh
71% of contracted energy generated	
Energy Generation (82/83) in kWh (excluding last month)	23,752,658.29 kWh
73% of contracted energy generated	

Features	
42 MW Mistri Khola Hydroelectric Project (MKHEP)	
Installed capacity	42 MW
Contracted Energy Generation in kWh	239,000,000 kWh
Phase	Operating
Energy Generation (79/80) in kWh	167,090,277 kWh
70% of contracted energy generated	
Energy Generation (80/81) in kWh	150,090,322.88 kWh
63% of contracted energy generated	
Energy Generation (81/82) in kWh	135,662,660 kWh
57% of contracted energy generated	
Energy Generation (82/83) in kWh (excluding last month)	165,339,210.18 kWh
69% of contracted energy generated	

Tadi Khola's power generation remained relatively stable over the three years, with changes mainly due to normal seasonal river flow. However, MKHEP's generation declined in F.Y. 2080/81 and F.Y. 2081/82 following flooding at the dam site, which stopped generation for ~68 days (from Jestha 15, 2081 to Shrawan 20, 2081). Of this, ~48 days fell in F.Y. 2080/81 and ~20 days in F.Y. 2081/82. This explains the drop in electricity generation in MKHEP.

Under the insurance policy, the first 30 days were subject to a deductible. The remaining ~ 38 days were eligible for a loss-of-profit claim, covering ~18 days in F.Y. 2080/81 and ~20 days in F.Y. 2081/82.

Sales and Operational Profitability



Revenue declined 17.4% to Rs 976.21 million in F.Y. 2080/81, mainly due to the ~68-day shutdown at MKHEP following flood damage between Jestha 15 and Shrawan 20, 2081. Revenue recovered by 33.9% to Rs 1,307.25 million in F.Y. 2081/82 as operations resumed. The increase in revenue in F.Y. 2081/82

cannot be attributed solely to the level of power generation, as power generation from both operating projects remained either subdued or relatively stable during the period. Notably, the Company reported a significant increase in power sales from MKHEP. However, this increase appears inconsistent with the project's actual generation performance, as only 57% of the annual contracted energy was generated and sold to NEA during the year. In particular, it may indicate the possibility that a portion of the reported revenue may have arisen from the recognition of receivables relating to prior-period adjustments, excess deductions, and/or arbitration-related claims, rather than from an equivalent increase in current-year power generation and sales. The same event may have also affected the Q4 earnings[#].

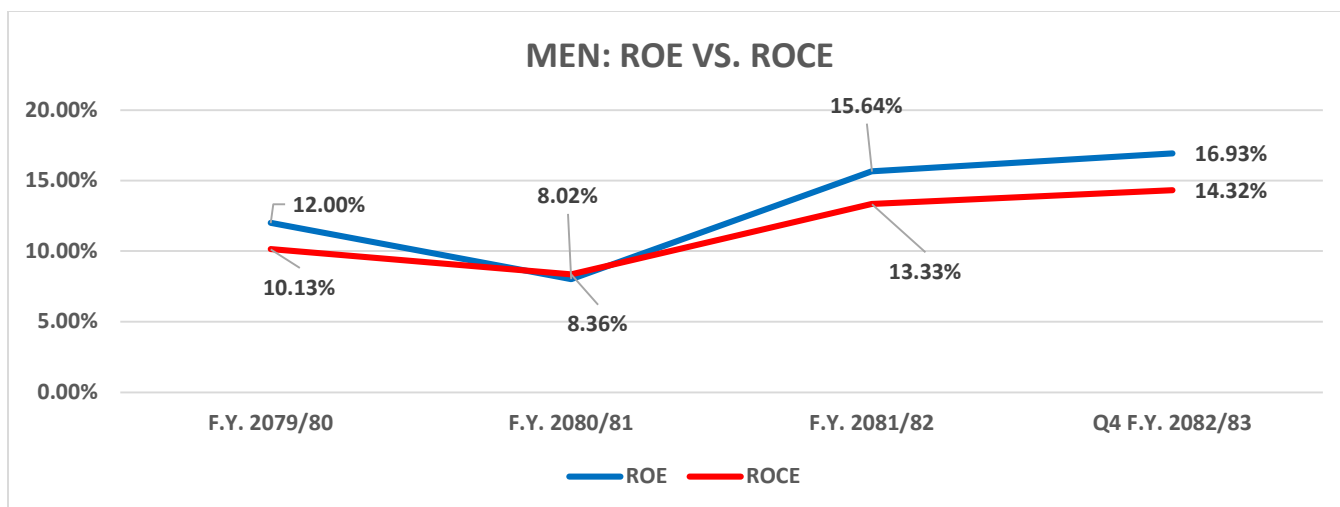
Returns, Margins and Leverages:

Particulars	F.Y. 2079/80	F.Y. 2080/81	F.Y. 2081/82	Q4 F.Y. 2082/83
Gross Profit Margin	59.57%	59.37%	71.81%	68.57%
Net Profit Margin	31.48%	27.55%	47.23%	51.97%
EBITDA Margin	78.40%	82.37%	88.40%	82.73%
EBIT Margin	56.67%	55.65%	68.22%	65.35%
EBT* Margin	31.94%	28.45%	48.27%	53.00%
ROE	12.00%	8.02%	15.64%	16.93%
ROCE	10.13%	8.36%	13.33%	14.32%
Debt-to-Equity (in times)	1.24	1.04	0.79	0.74
Interest Coverage (in times)	2.27	2.02	3.65	4.96
Cost of debt	7.38%	7.34%	7.41%	14.64%
Effective Tax rate	1.43%	3.17%	3.07%	1.94%

(*other income is not included in the EBT Margin calculation)

The effective tax rate increased from 1.43% in F.Y. 2079/80 to 3.17% in F.Y. 2080/81 before declining to 3.07% in F.Y. 2081/82. It again fell to 1.94% Q4 F.Y. 2082/83 (vs. 3.07% in F.Y. 2081/82), mainly due to a deferred tax credit of Rs 3.20 million. The low tax rate is mostly due to the income-tax holidays on both projects. Tadi Khola's full tax exemption ended on Chaitra 13, 2079, after which a concessional tax rate of 12.5% applies for five years, while Mistri Khola remains fully exempt until Ashadh 2, 2088. As MKHEP contributes around ~ 90% of revenue, the company's effective tax rate remains low during the exemption period.

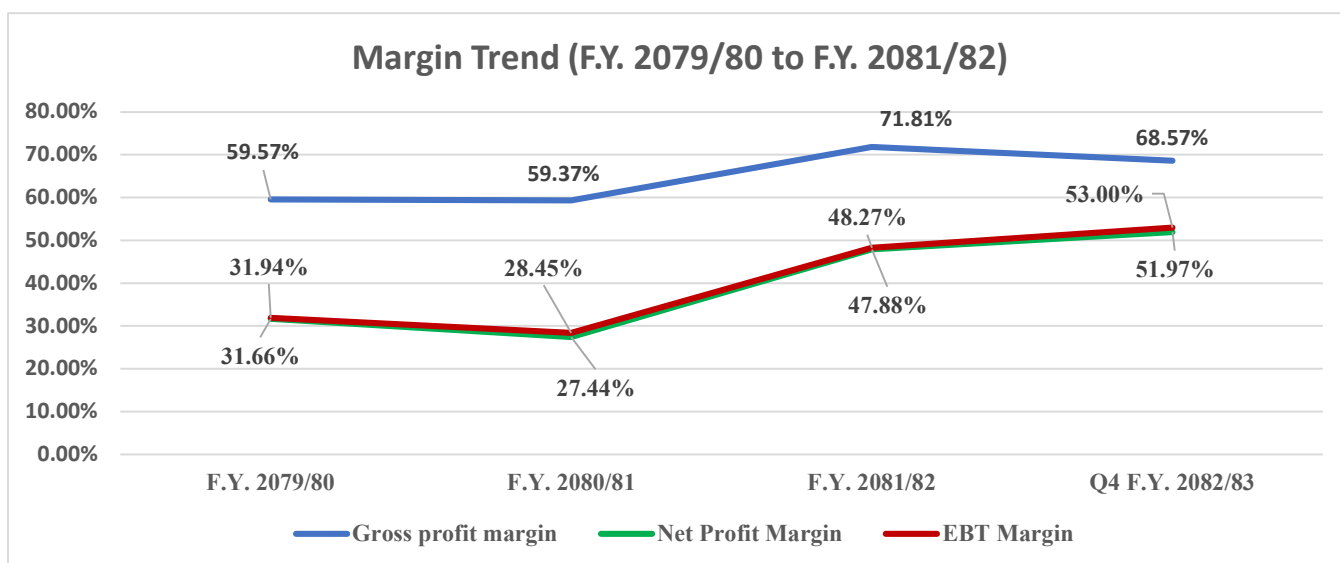
[#]To be read concurrently with paragraph named *Update on Disputes*



Gross profit margin stayed relatively stable in F.Y. 2080/81 at 59.37% (vs. 59.57% in F.Y. 2079/80), even though revenue fell 17.4%. This was mainly because cost of sales also declined following the MKHEP shutdown, which stopped generation for around ~68 days. Net profit margin and EBT margin fell sharply, to 27.44% in F.Y. 2080/81 (vs. 31.66% in F.Y. 2079/80) and to 28.45% in F.Y. 2080/81 (vs. 31.94% in F.Y. 2079/80) respectively.

All three margins recovered in F.Y. 2081/82 as MKHEP returned to normal operations. Furthermore, ROE rose to 16.93% in Q4 F.Y. 2082/83 (vs. 15.64% in F.Y. 2080/81) and ROCE to 14.32% Q4 F.Y. 2082/83 (vs. 13.33% in F.Y. 2080/81), as net profit grew 29.08%. In addition, the improvement in margins may have been supported by prior-period adjustments relating to receivables, excess deductions, and/or arbitration-related claims. *

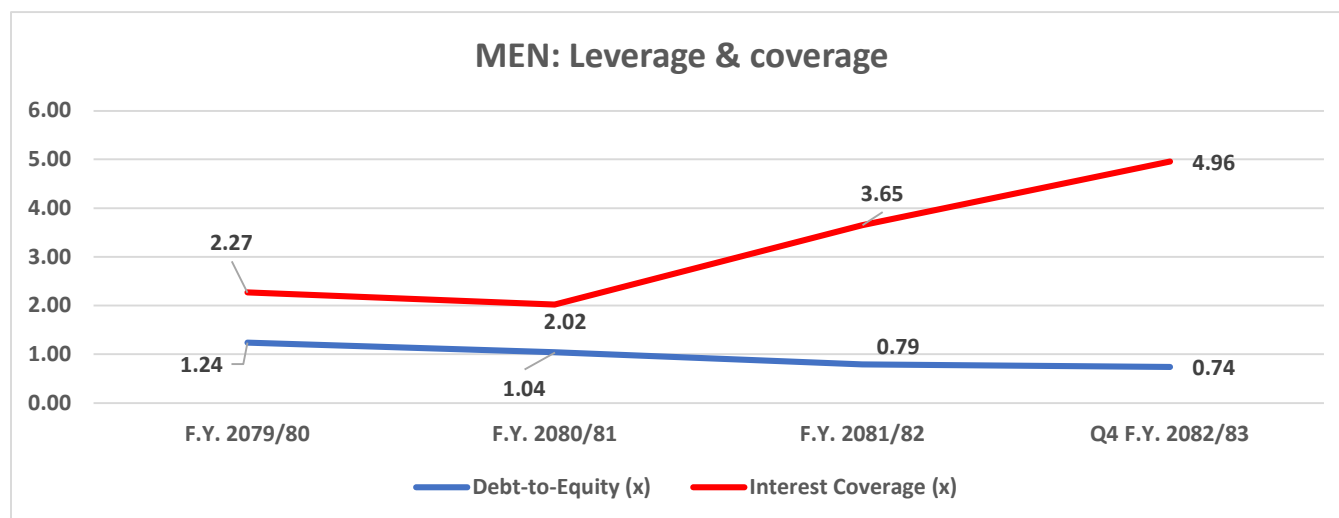
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The flood at Mistri Khola reduced revenue and profit while equity and capital employed remained relatively stable. As a result, the returns generated on the company's capital declined, with ROE falling to

8.02% in F.Y. 2080/81 (vs. 12% in F.Y. 2079/80) and ROCE to 8.36% in F.Y. 2080/81 (vs. 10.13% in F.Y. 2079/80).

In F.Y. 2081/82, operations at MKHEP returned to normal, supporting a recovery in profit and returns. ROE increased to 15.64%, while ROCE rose to 13.33%. Net profit margin rose to 51.97% in Q4 F.Y. 2082/83 (vs. 47.23% in F.Y. 2080/81), helped by lower finance costs and higher finance income. EBITDA and EBT margins fell slightly, as last year's figures included insurance income.



Debt-to-Equity fell to 0.79x in F.Y. 2081/82 (vs. 1.24x in F.Y. 2079/80) mainly due to active loan repayment. The total borrowings dropped from Rs 3,840.76 million in F.Y. 2079/80 to Rs 3,109.90 million in F.Y. 2081/82 while equity kept growing due to reinvestment.

Interest Coverage Ratio fell to 2.02x in F.Y. 2080/81 (vs. 2.27x in F.Y. 2079/80) as operating profit fell from Rs 670.08 million to Rs 543.30 million). Furthermore, Debt-to-equity improved to 0.59x in Q4 F.Y. 2082/83 (vs. 0.79x in F.Y. 2080/81) as borrowings fell 11.31%. Interest coverage rose to 4.96x in Q4 F.Y. 2082/83 (vs. 3.65x in F.Y. 2080/81) due to higher profits.

Cash Flow from Operations, Profitability

The company's net profit, as per the audited F.Y. 2081/82 financials, remains at ~610 million, while Cash Flow from Operations (CFO) remained at only ~180 million. The decrease in CFO compared to the previous year can primarily be attributed to adjustments in Current Assets adjustments: increase in current assets by ~600 million in F.Y. 2081/82 (compared to ~95 million in F.Y. 2080/81).

The Current Assets mainly comprise receivables from NEA and compensation receivables related to Tatopani SHEP. In total, the yearly increment in these receivables amounted to ~400 million. Comparing *Receivables from NEA* over the past years, the regular amount recorded has remained at levels of ~500 million. However, this receivable balance increased significantly to ~900 million in F.Y. 2081/82.

This significant increase in receivables may represent prior-period adjustments relating to receivables, excess deductions, and/or arbitration-related claims. Thus, from a profitability perspective, the reported profit in the audited F.Y. 2081/82 financials appear to originate primarily from receivables and, consequently, is not reflected in the Cash Flow from Operations.

Update on Disputes

MEN has two ongoing disputes, both decided in the company's favors. The first is PPA Tariff Rate (clause 12) dispute. This dispute relates to the applicable PPA tariff tier following the delay in MKHEP's commercial operation date. MEN bills NEA at the escalated rates based on the originally scheduled COD, while NEA pays at the lower rates based on the actual COD.

Similarly, the second is Tatopani Energy Deduction (clause 38.18) dispute. Power from Mistri Khola was transmitted through an arrangement that reduced generation at NEA's Tatopani small hydropower plant. NEA deducted compensation from its payments to MEN for this lost generation.

As per annual report of F.Y. 2081/82, the total compensation to be received under the clause 12 of PPA was only received on 2082/05/12 amounting to Rs 174.18 million. However, the Q4 report of F.Y. 2082/83 states that the total payment was done till Shrawan 2079 comprising both disputed amounts totaling to Rs 264.07 million. This represents payment with interest of both clause 12 and 38.18 of PPA. Thus, total payment made by NEA by Q4 of F.Y. 2082/83 was Rs 293.09 million which includes the interest.

Moreover, receivables from 2079 to Ashadh 2082 still remains to be received. That balance claim of both disputes amounts to Rs 932.57 million as of Q4 of F.Y. 2082/83.

Balance claimed from NEA

(In NPR Millions)

Particulars	As of Q1 F.Y 2082/83	As of Q2 F.Y 2082/83	As of Q3 F.Y 2082/83	As of Q4 F.Y 2082/83
NEA Balance	770.34	817.43	852.49	932.57

Trade receivables and Cash Balance

(In NPR Millions)

Particulars	As of Q4 F.Y. 2081/82	As of Q4 F.Y. 2082/83
Trade and other receivables	1,258.66	1,292.61
Cash and Cash equivalents	48.30	292.61

Over the course of the year, Trade and Other Receivables decreased across the quarters but subsequently surged back to a level comparable to that of a year earlier. This movement may signify those newer cumulative receivables, particularly balances related to payments from NEA, have been added during the period, resulting in the overall receivable balance returning to its previous level.

On the other hand, there has been surge in Cash and Cash equivalents (from NPR 48.30 million in Q4 F.Y. 2081/82 to NPR 292.61 million in Q4 F.Y. 2082/83). This may signify older balance of NEA's compensation has been actually received.

Thus, as a whole, the movement of Trade and other receivables and concurrently, movement of Cash and Cash equivalents from audited F.Y. 2081/82 to Q4 F.Y. 2082/83 signifies cash inflows of older claims and recognizing new claim receivables into Trade and other receivables.

On the other hand, the gap between Net Profit registered at Q4 F.Y 2082/83 and C.F.O at Q4 F.Y 2082/83 still persists. This further reiterates that Income from power sales includes newer batch of receivables.

Other Income and Investments

Insurance income relating to the Mistri Khola flood totaled Rs 85.63 million in F.Y. 2081/82 (Rs 80.63 million of loss-of-profit compensation and Rs 5 million of asset-damage recovery). As on Q4 F.Y. 2082/83, finance income stood at Rs 29.26 million (vs. Rs 1.45 million in F.Y. 2081/82). This increase may reflect interest received on the NEA arbitration settlement of clause 12 paid to the company during the year (though further information related to increase in finance income has not been disclosed in Q4 F.Y. 2082/83).

Through F.Y. 2081/82, MEN held no subsidiaries or associates and operated on a fully standalone basis. However, as of Q4 of F.Y. 2082/83, MEN has acquired 67% stake in Dudh Khola Hydro Power Company Pvt. Ltd. at Rs 457.47 million, which remains in pre-construction phase and generates no revenue. Also, MEN holds other investment amounting to Rs 11.87 million.

Update on the Projects

According to the telephonic inquiry done on 2083/06/08, no structural and material damages were recorded on TKHEP after the Rasuwa floods, except some minor disruptions that is preventing the plant from generating energy at full capacity. Whereas, MKHEP's generation was halted as damage was done to two towers on the Dana-Kushma section of the transmission line due to recent western Nepal flood. According to news, it would some time to resume generation from affected projects that includes MKHEP[&].

Conclusion

Mountain Energy Nepal Limited's F.Y. 2081/82 performance reflected a recovery in generation following the flood-related shutdown at Mistri Khola. Moreover, the company has received funds related to successful mitigation of disputes with NEA. The main concerns of the company are stagnant and low profit margins with generation of only ~ 70% of contracted energy, revenue concentration coming prominently from power sales from MKHEP.

Nevertheless, the company has improved in other areas. Debt has been reduced steadily, and Mistri Khola continues to enjoy a full tax holiday until Ashadh 2088, after which only a partial concession applies, so the tax burden will gradually rise over time.

& (News) : <https://myrepublica.nagariknetwork.com/news/900-mw-of-electricity-supply-disrupted-with-floods-and-rainfall-96-36.html>

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