

SADHANA LAGHUBITTA BITTIYA SANSTHA LIMITED

| | | | | | | | |
|--------------|----------------|----------------|-------|-------------------|------------|----------------|-------------------------|
| Issue Units: | 7,07,800 units | Minimum Units: | 10 | Issue Open Date: | 21/03/2077 | Rating: | [ICRANP] IPO Grade 4+ |
| Issue Price: | Rs.100 | Maximum Units: | 1,000 | Issue Close Date: | 24/03/2077 | Issue Manager: | Global IME Capital Ltd. |

Chairman: Mr. Krishna Bahadur Thapa

Chief Executive Officer: Mr. Resham Neupane

Pricing – Forward P/E Model

| FY End | EPS ₁ | Fair Price | FP @ 25% discount |
|--------|------------------|------------|-------------------|
| 76/77 | 25.45 | 890.65 | 667.99 |
| 77/78 | 26.60 | 930.75 | 698.06 |
| 78/79 | 34.32 | 1200.82 | 900.61 |

Utilization of IPO Proceeds

| | |
|-----------------------------------|----------------|
| Animal Husbandry and Agro Loan | Rs.3,53,90,000 |
| Retail Business and Services Loan | Rs.1,76,95,000 |
| Small and Domestic Industry Loan | Rs.1,76,95,000 |

Capital Structure

| | Pre-IPO | Post-IPO |
|-------------------------|-----------------|------------|
| Authorized Capital | Rs.300M | Rs.300M |
| Issued Capital. | Rs.217.78M | Rs.217.78M |
| Paid-up Capital | Rs.147M | Rs.217.78M |
| Promoter / Public Ratio | 67.50% / 32.50% | |

Financial Highlights (in millions)

| FY | 75/76 | Q3 76/77 | 76/77E | 77/78E | 78/79E |
|-------------|---------|----------|---------|---------|---------|
| Cap. | 73.5 | 147 | 250.45 | 432.02 | 518.42 |
| R & S | 22.31 | 40.27 | 31.89 | 52.74 | 87.31 |
| L & A | 1181.59 | 1705.2 | 1791.02 | 3363.61 | 4282.28 |
| Deposit | 280.02 | 431.63 | 449.71 | 957.95 | 1331.56 |
| Borrowing | 846.61 | 1172.48 | 1136.28 | 1994.17 | 2432.88 |
| Op. Profit | 25.27 | 12.011 | 87.14 | 157.06 | 233.01 |
| Net Profits | 18.28 | 19.092 | 55.43 | 99.93 | 148.26 |

Ratios

| | 75/76 | Q3 76/77 | 76/77E | 77/78E | 78/79E |
|------------------------|---------|----------|----------|---------|--------|
| EPS | 24.87 | 12.99 | 25.45 | 26.60 | 34.32 |
| BVPS | 130.12 | 127.34 | 129.59 | 129.02 | 140.21 |
| CAR | 8.08% | 10.92% | 15.56% | 14.57% | 14.47% |
| NPL | 0.16% | 1.67% | 1.38% | 1.28% | 1.26% |
| ROE | 19.11% | 10.20% | 19.64% | 20.62% | 24.48% |
| Net Int. Spr. | 6.43% | - | 12.26% | 10.91% | 10.81% |
| Deposit rise | 406.2% | 156.64% | 60.60% | 113.02% | 39% |
| L & A rise | 240.19% | 109.15% | 51.58% | 87.80% | 27.31% |
| L / D ratio | 4.22x | 3.95x | 3.98x | 3.51x | 3.22x |
| Loan to equity | 12.33x | 9.11x | 6.34x | 6.94x | 7.07x |
| Free Cash Flow (mill.) | (8.89) | - | (107.02) | (82.97) | 47.57 |

Peer Groups (Q3 76/77) (National Level MFIs)

| S.N. | Ticker | Net Profit (Rs.Mill) | EPS (Rs.) | BVPS | NPL | P/E (05/13) |
|----------------------------|--------|----------------------|-----------|--------|-------|-------------|
| 1 | GBLBS | 51,293 | 6.96 | 157.84 | 7.81% | 54.74 |
| 2 | NLBBL | 49,652.35 | 14.47 | 184.88 | 2.9% | 44.78 |
| 3 | SDESI | 53,968.73 | 26.07 | 155.52 | 2.16% | 29.15 |
| 4 | VLBS | 58,421.25 | 34.76 | 147.95 | 2.92% | 25.37 |
| Harmonic P/E Mean of Peers | | | | | | 34.99 |

Company projects to distribute 6.05% Cash dividend going 3 years north, added privilege of no dividend tax thanks to M&A with Arthik Sambriddhi Laghubitta. Further, Company plans to issue 15% Bonus, 50% Rights, 15% & 20% Bonus shares going forward. Challenges and Opportunities brought in by M&A deals and COVID_19 remains.

Snapshots...

📌 **About the Issue:** Out of the offered 7,07,800 units, 0.5% i.e. 10,890 units is allocated to the employees, 5% i.e. 35,390 units is reserved for Mutual Funds and remaining 6,61,520 units are available for General Public.

📌 **About the Company:** Incorporated on 31/02/2073; licensed as "D" Class – 10 Districts MFI on 13/07/2074 and in operation from 22/07/2074. The Company operated as National Level MFI after acquisition of 10 Districts Arthik Sambriddhi Laghubitta on 30/03/2076. Registered office is located at Haramtari-6, Gorkha, Gandaki Province, Western Nepal.

📌 **Area of Operation:** At present, company has presence in 22 districts with 60 branches, projects 80 branches by FY 77/78 and 100 branches by FY 78/79. Similarly, the company projects to reach 49,202, 71,402 and 98,282 members by end of FY 76/77, 77/78 and 78/79 respectively.

📌 **Rationale of Credit Rating:** ICRA Nepal assigned '[ICRANP] IPO Grade 4+' to the subject IPO which indicates 'Below Average Fundamentals.' Rationale put by the Rating Agency are – higher average ticket size, low share of deposits, regulatory changes impacting the funding sources etc. Rating report also states Institutional supports, scalability, comfortable capitalization, asset quality and profitability.

📌 **Dividend and Capital Plan:** Company projects to distribute 6.05% Cash dividend in each of FY 76/77, 77/78 and 78/79. Further, the Company plans to issue 15% Bonus Shares post the IPO for FY 76/77; 50% Right and 15% Bonus Shares in FY 77/78; 20% Bonus Shares in FY 78/79.

📌 **Financial Summary:** Company has reported a healthy FSS since its operation in FY 73/74, reporting Net profit of Rs.18M in FY 75/76. However, coming to Q3 76/77, profit stands only Rs.19M, which is 65% short of its target for the year, signaling the possible trouble in synergies realization. Company has though healthy growth in Borrowings, Deposits, L&A. On quarterly comparison, Company has marginal growths; Operating profit is down by 5% while 67% increment on Net profit, reasoned significant provision write back. Company reports and project sound Cash flow before adj. of WC, showing alignment to its reported profits, though CF from operating activities is considerably negative.

📌 **Risk Factors & Impact of COVID-19:** Credit risks (including counterparty, lending & collateral risks), liquidity & operational/governance risks, membership duplication etc., further fueled by COVID-19 escalating higher NPL prob. NRB directing Retail MFI's to cut their lending rate by 3% while easing borrowing at 2% down (in Q4) is against the Retail's favor.

📌 **Pricing & Assumptions:** We have used a P/E model to price the share of company, selecting 4 listed National-level MFI's as comparable and determine the harmonic P/E ratio 34.99 that market participants are willing to pay for every EPS. We determine the fair price of company share at 25% discount, collectively factoring the risks posed by COVID-19, projection errors etc.

IPO Listing Range: Rs.130.12 – Rs.390.36

Disclaimers: Not to be inferred as Investment recommendation.