

SLI and RLI M&A Deal

Disclaimer: Not to be inferred as Investment Recommendation

12th Falgun, 2079 (24th Feb.)

❖ FOREWORD:

On 10th Chaitra 2078, Nepal Insurance Authority mandated the **Life insurance companies to increase their paid-up capital to Rs. 5 billion by 30 Chaitra 2079**. This Directives propelled Life insurance companies to adopt M&A practice since majority of them had paid-up capital below half of the requirement put.

❖ FACET OF M&A DEAL:

- 🌐 On the same premise stated above, SLI and RLI signed MoU to merge on 29th Asadh, 2079.
- 🌐 Subsequently, both company scrips were halted from trading in secondary market until resumption after 5 months.
- 🌐 Due diligence audit (DDA) of both companies was carried by U.K Associates, Chartered Accountant.
- 🌐 Based on DDA report, **Swap Ratio at 1:1** was determined and agreed by both parties.
- 🌐 Post-merger, joint transaction will be conducted under the name **"Sanima Reliance Life Insurance Company"**.

❖ 5TH AGM ON 12TH FALGUN:

- 🌐 Both company respective 5th AGM are scheduled to be held on 12th Falgun, 2079 (24th February).
- 🌐 Key AGM resolution are to endorse - the NFRS based annual report of FY 2077/78 and FY 2078/79, Merger agreement, scheme of arrangement, and the stated swap ratio, changing the name to ‘**Sanima Reliance Life Insurance Company**’, **changing the shareholding structure from 70:30 to 51:49 through Promoters conversion of 19% stake to Public**, etc.
- 🌐 The DDA of both the company were carried based on the audited report of FY 2077/78. Thus, any profitability of the company from the FY 2078/79 till the inception of joint transaction will be distributed post the merger to the shareholders of respective company existing till joint operation.
- ❖ After the merger resolutions are passed by the AGM of respective company, the company has to obtain final approval from Nepal Insurance Authority, Company Registrar and Securities Board of Nepal, following which the Company will initiate for Joint transaction where **shares will be halted for 15 days from trading**.

Particulars	SLI	RLI	Sanima Reliance Life Insurance Company (Post Merger)
Incorporation Date	13/08/2064	19/08/2064	-
Commercial Operation Date	22/08/2074	01/08/2074	-
Paid-up Capital	Rs.2.084 billion	Rs.2.1 billion	Rs.4.184 billion

❖ STOCK PRICE MOVEMENT:

- 🌐 Both scrips are at present trading at very similar price level, incorporating the swap ratio. Before the joint operation, prices of both scrips could be uniform, making it arbitrage free.
- 🌐 **LTP (23/02/23): SLI - Rs.410; RLI – Rs.402**
- 🌐 Given the above mentioned LTP, **RLI would be cheaper to get**.

❖ KEY TAKEAWAY:

- 🌐 Under present scenario post-merger Paid-up capital of Sanima Reliance Life Insurance Company will be Rs.4.184 billion, **still short by 19.5% to meet Rs.5 billion requirement**. However, the 'Directive on Merger, Merger & Acquisition of Insurers, 2076' provides **one-year windows to satisfy the capital gap**.
- 🌐 Following the inception of joint transaction, both the company most likely announce special dividend from their respective profitability figures (from FY 2078/79) to their respective shareholders and may likely fill the gap by then.
- 🌐 The promoter’s conversion of their holding would add nearly 7.9 million units shares in the secondary market, totaling the floating shares to approx. 20.5 million with likely increment to 24.5 million once the capital gap is filled.