

*An Analysis on the
“Issue of Further Public
Offerings (FPO) of
Reliance Lotus Finance Co.
Ltd*



RELIANCE LOTUS FINANCE LIMITED

रिलायन्स लोटस फाइनेन्स लिमिटेड



National Merchant Bankers Limited

1 COMPANY PROFILE

Reliance Lotus Finance Limited (RLFL) is National Level 'C' class Financial institution which was formed after merger between Reliance Finance and Lotus Finance. Erstwhile Reliance Finance Limited started its commercial operation on July 2009. The name was changed following merger with Lotus Investment Finance in FY 2014, with merged entity commencing operations from 8th May 2014. The head office of RLFL is in Putalisadak, Kathmandu. RLFL is a National Level finance company and currently has presence in 4 districts viz: Kathmandu, Kaski, Chitwan, and Lamjung via 5 branches (including Head Office).

Exhibit 1: Company Summary

Name of Company:	Reliance Lotus Finance Company Ltd	
Date of Establishment:	Erstwhile Reliance Finance operation on July 2009/ Merger with Lotus Investment Finance in FY 2014 and commence operation on 8 th May 2014	
Ownership structure:	Public limited	81:19
Authorized Capital:	Rs. 650Million	
Issued Capital:	Rs. 371.4 million	
Current Paid up Capital:	Rs320 million	
Total FPO to be issued:	514, 2868units	
Offer Price:	Rs.100	
Opening Date:	20 th Dec 2015	
Closing Date:	23 rd Dec 2015 (earliest)	2 nd Jan 2016 (maximum Latest)
Issue Manager	NCM Merchant Banking Ltd	
ICRA Nepal Grading:	[ICRANP] IPO Grade 5	

The company will reach the paid- up capital of Rs. 371.4 Million from current Rs. 320 million after the adjustment of FPO shares.

1.2 COMPANY OBJECTIVES

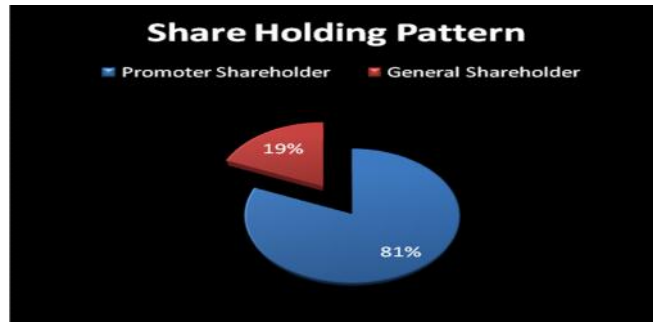
The main objective of the company is to be recognized for its Excellencies and Competency of providing financial solutions delivered through exquisite personalized service and sophisticated technology that would ultimately serve and safeguard the interest of its stakeholders. The following are the goals of Company:

- a. To provide fast, reliable and promising services in this competitive environment
- b. To cater to the changing needs of the customers by providing customized products and services
- c. To contribute to the economic and social welfare of the industries, business organizations and general public
- d. To persist for the perpetual existence and growth of the business

1.3 COMPANY'S OWNERSHIP STRUCTURE, COMPOSITION AND MANAGEMENT

i. Ownership Structure:

Chart 1: Present Share holding Pattern:



- The given chart reflects that 81 percent of the shareholdings are with company promoters and 19 percent with public and staffs. Hence, Existing ownership structure of the company stands at 80:20 ratio.
- After FPO, the promoter and ordinary shareholders share structure will be converted into 70:30 ratio.

Group	Share holders	Share units	Capital Structure	Paid-up Value	Payment
Ka	Promoters	2,600,000	70%	260,000,000	100%
Kha	Ordinary (Including Employees)	1,114,286	30%	111,428,600	100%
	Total	3,714,286	100%	371,428,600	100%

ii. Board of Directors Details

Names	Designation	Work Experiences	Qualification	Contact Details
Dharmendra Kaji Shrestha	President	<ul style="list-style-type: none"> Managing Director of Varieties Consulting Network and Innovative Pvt. Ltd 17 years experience in advertisement field 	I.A	<u>Aruchanout, Gorkha</u>
Shur Krishna Biadhya	Director	<ul style="list-style-type: none"> 22 years Experiences in the field of transportation/ associated with Biadhya aavas Automobiles General Secretary of Kavre Federation Industry andCommerce Association President of Minibus Association of Kavre 	I. A.	<u>Banepa, Kavre-3</u>
Deepak Kumar Acharya	Director	<ul style="list-style-type: none"> Experiences in Automobiles for more than 20 years Remained Director in Siddhartha Bank L Associated with Prime Nepal Investment Ltd 	M.A. Economics	<u>Haripur, Sunsari</u>
Kabindra Shrestha	Director	<ul style="list-style-type: none"> Concerned with Kabindra Store Professional business 	B. Com	Ktm-27
Ravi Krishna Shrestha	Director	<ul style="list-style-type: none"> Experienced personnel in field of Hydropower sector. Acting President of Gagryang Upatyaka Hydropower Ltd, Madhyamdeia Jal Bidhud Co., Equity power co. and Director of Yeti Development Co. 	S.L.C	Ktm-28
Bishnu Man Joshi	Director	<ul style="list-style-type: none"> Executive Director of Bini International Pvt Ltd Experiences in business Sector 	Masters	Ktm-10
Rajiv Bikram Shah	Director	<ul style="list-style-type: none"> Member of Constitutional Assembly, President of T.R. Real Estate, Kumari Trust, S.R. Agriculture Pvt. Ltd Experienced Personal in the field of Politics and real estate 	Bachelor	Ktm-11
Kusal Malli	Director	<ul style="list-style-type: none"> Engaged at Family Electronic Traders Representative From the same Family Electronic Traders as a director 	Bachelor	Butwal, Rupendahi

i. Management Details:

Names	Designation	Work experience	Qualification	Contact Details
Anil Shrestha	CEO	<ul style="list-style-type: none"> Working experience in United Finance Ltd from 1994 to 2007 Director of NLG Insurance Company 18 years of experiences in Financial Sector 	MBA (TU), International Business (University of California river side CA,USA), Honor from EIB and English program	<u>Ktm-12</u>

2 FINANCIAL ANALYSIS

post-merger

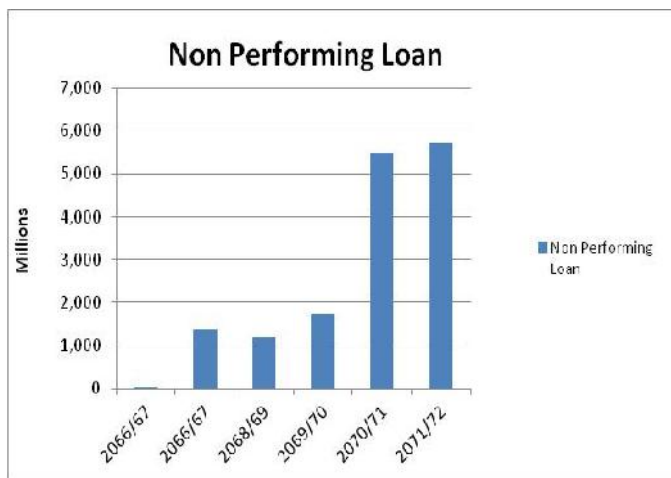
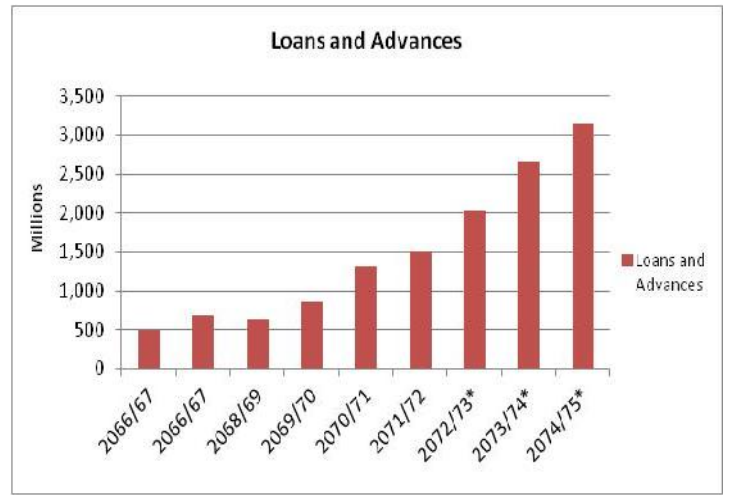
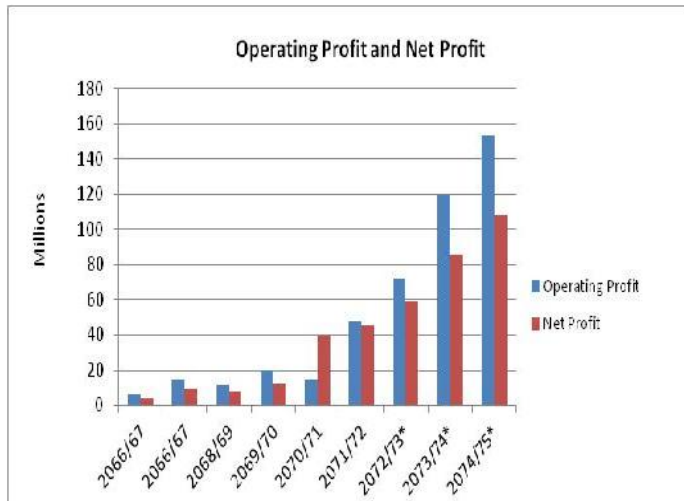
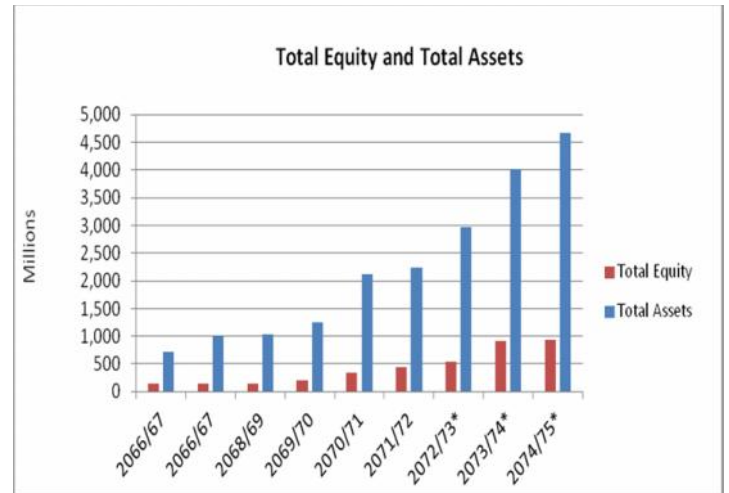
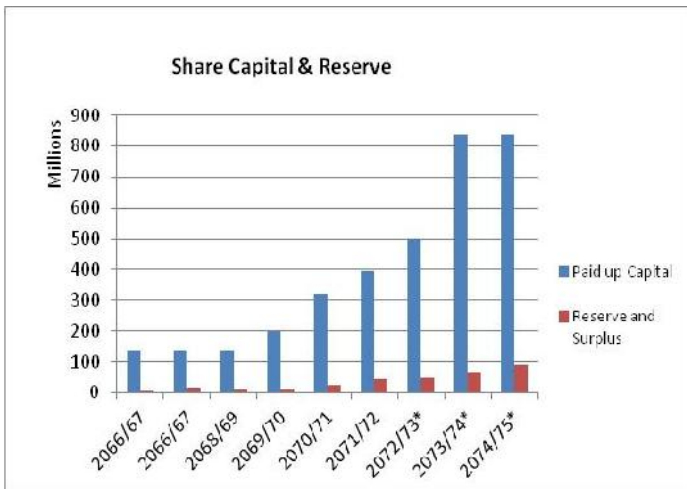
2.1 Financial Highlights

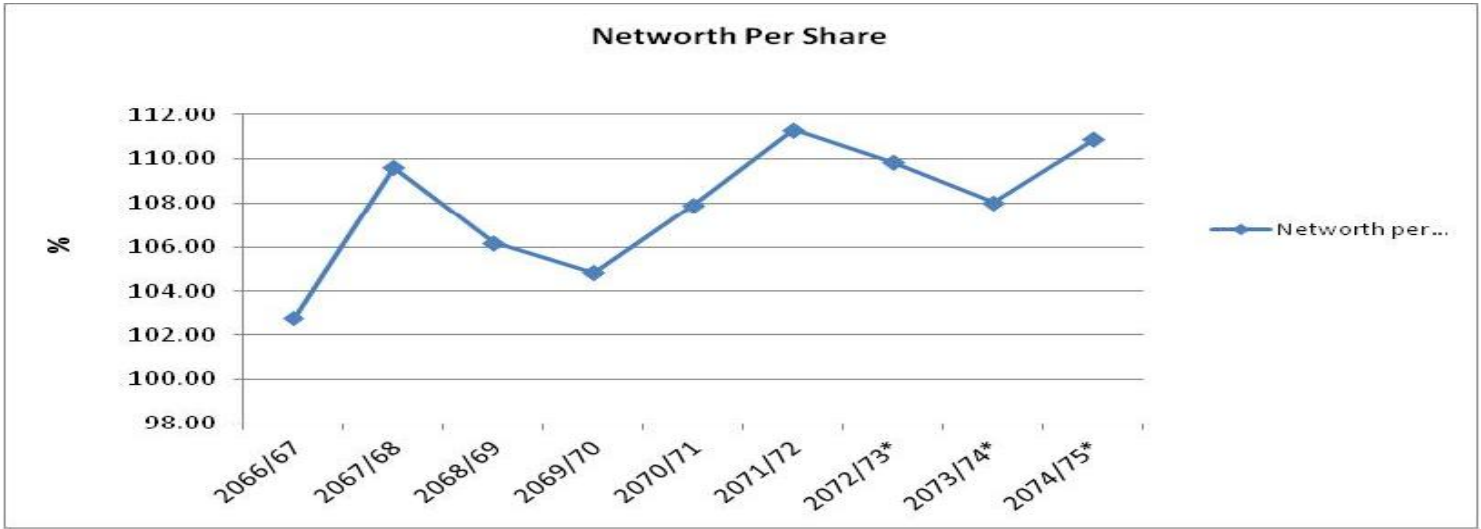
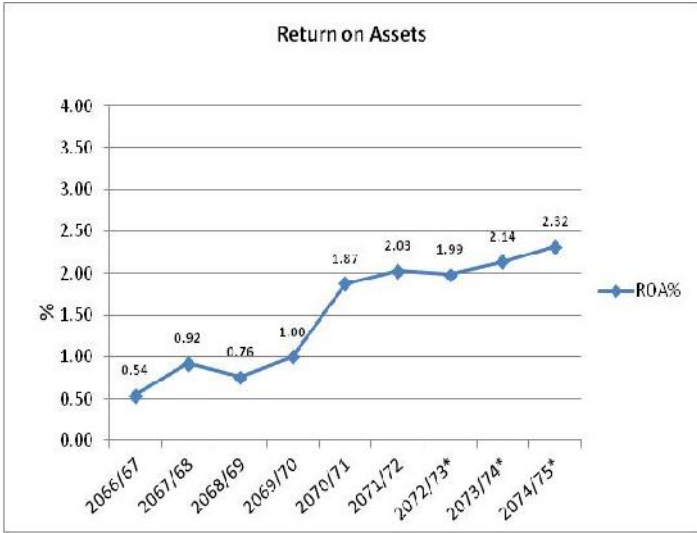
Particulars	Actual					Unaudited	Projected		
	2066/67	2066/67	2068/69	2069/70	2070/71	2071/72	2072/73*	2073/74*	2074/75*
Paid up Capital	140,000,000	140,000,000	140,000,000	200,000,000	320,000,000	394,286,000	499,200,000	839,040,000	839,040,000
Reserve and Surplus	3,872,000	13,452,000	8,678,000	9,680,000	25,280,000	44,579,000	49,171,000	67,436,000	91,201,000
Core Capital	143,872,000	153,452,000	148,678,000	209,680,000	345,280,000	438,865,000	548,371,000	906,476,000	930,241,000
Total Liabilities	572,548,000	854,026,000	876,835,000	1,043,885,000	1,766,493,000	1,803,582,000	2,428,659,000	3,105,553,000	3,731,734,000
Total Assets	716,420,000	1,007,478,000	1,025,513,000	1,253,565,000	2,111,773,000	2,242,447,000	2,977,030,000	4,012,029,000	4,661,975,000
Borrowings	15,000,000	77,000,000	0	0	0	0	0	0	0
Loans and Advances	502,741,000	690,775,000	635,167,000	862,457,000	1,312,659,000	1,509,043,000	2,034,957,000	2,665,794,000	3,145,637,000
Non Performing Loan	10,054,820	1,381,550,000	1,194,113,960	1,750,787,710	5,486,914,620	5,734,363,400	-	-	-
Fixed Assets	10,100,000	10,167,000	7,890,000	6,644,000	11,555,000	22,682,000	32,812,000	42,646,000	52,305,000
Operating Profit	6,100,000	15,085,000	11,900,000	19,685,000	14,532,000	47,567,000	72,344,000	119,553,000	153,582,000
Net Profit	3,872,000	9,305,000	7,829,000	12,576,000	39,584,000	45,587,000	59,098,000	85,808,000	108,090,000
Dividend (Cash +Bonus)			5,723,200	16,000,000	48,000,000	0	0	67,123,000	83,904,000
Market Value per share	-	-	-	-	-	183	-	-	-

2.2 Financial Ratios

	Actual					Unaudited	Projected		
	2066/67	2067/68	2068/69	2069/70	2070/71	2071/72	2072/73*	2073/74*	2074/75*
Profitability Ratio									
Net Profit Margin	16.53	20.34	22.01	24.87	61.50	43.97	47.49	42.92	44.91
ROE%	2.69	6.06	5.27	6.00	11.46	10.39	10.78	9.47	11.62
ROA%	0.54	0.92	0.76	1.00	1.87	2.03	1.99	2.14	2.32
Market Ratios									
EPS	2.77	6.65	5.59	6.29	12.37	11.56	11.84	10.23	12.88
EPS Growth	-	141.32	-14.86	13.44	97.72	-5.53	3.39	-12.61	26.97
P/E Ratios			0.00	-	-	15.83	-	-	-
P/B Ratios	-	-	-	-	-	1.64	-	-	-
Networth per share	102.77	109.61	106.20	104.84	107.90	111.31	109.85	108.04	110.87
Dividend Payout Ratio (Dividend/Net profit)	-	-	0.73	1.27	1.21	0.00	0.00	0.78	0.78
Debt Ratio									
Leverage Ratio (Total Assets/ Total Equity)	4.98	6.57	6.90	5.98	6.12	5.11	5.43	4.43	5.01
Total Liabilities/Equity Ratio	3.98	5.57	5.90	4.98	5.12	4.11	4.43	3.43	4.01
CD Ratio	0.91	0.91	0.75	0.85	0.79	0.86	0.86	0.91	0.89
Performance Ratio									
NPL/Total Loan Ratio (%)	0.02	2	1.88	2.03	4.18	3.8	-	-	-
Capital Adequacy Ratio (%)	26.35	21.14	22.59	22.26	23.85	23.68			
Total Loan Loss Provision to Total NPL (%)					100.61	110.03			
Cost of Fund (%)					8.61	7.37			

2.3 Financial Charts





Source: Nepal stock exchange

3. Interpretation:

- The fundamental analysis of the financial statements of the company depicts that the company has the below average financial performance with the sluggish growth in its net profit, equity capital, investments and total assets.
- ROA and ROE of the company has not grown considerably. However, the company has maintained around 10% for last 2 years.
- Net profit margin is found to be moderate.
- EPS stands at Rs11.56 in FY 2071/72, which have been decrease as compared to previous years. Furthermore, it is anticipated to remain around Rs. 10 for following three years after FPO.
- PE ratio is at 15.83 times at the end of FY 2071/72 but the PE ratio is anticipate to remain very high after FPO due to dilution of Earning resulting deteriorated EPS.
- Net worth per share is Rs. 111.31 at the end of FY 2071/72 that is higher than previous years. However, it will decrease to Rs109.85 after FPO issuance due to increase in new share, which is issued at par. (FPO without premium)
- NPL has grown in FY 2070/71 and FY 2071/72, which accounts for 4.18% and 3.8% of total loan.
- Although RLFL has maintain saving and current account the cost of deposit is relatively high which account for 8.61% and 7.37% in FY 2070/71 and FY 2071/72 as compare to industry average.
- The loan portfolio of RLFL lack diversity, the bank has maintained concentrated lending.
- Capital adequacy ratio (CRAR) of RLFL stood at around 23% compared to for past two years. Assuming full subscription of proposed FPO and probability of low credit growth over short term, RLFL' capitalization levels are expected to remain adequate against the minimum regulatory requirement.
- The shareholding of the company is diversified across over 249 individual promoters with no institutional promoter support.
- Present shareholding structure comprises ~82% promoter holding with ~18% holding by public. The shortfall in minimum shareholding requirement of 30% was because of the failure of the then Lotus Finance's IPO in FY12, before merger with the then Reliance Finance. RLFL is likely to meet the capital requirements of 70:30 promoter/public ratio post proposed FPO (assuming full subscription).

4. Emerging Challenges:

- Obtaining sustainable growth, maintaining low NPL and generating adequate returns to the shareholders in the post-earthquake scenario would remain key challenges for RLFL.
- RLFL has to spread its franchise network to wide geographical territory which was only concentrated to Kathmandu valley and need to operate in large scale to boost the market share.
- Diversification of loan portfolio which has been concentrated within few borrowers and geographical region should be maximizes to mitigate credit default risk and to compete with large-scale low interest bearing BFIs.
- Cost of Fund should be maintained to optimal level through branding and competitive positioning without affecting current and saving account and should increase clientele base.

5. Recommendation for investors

The FPO of RLFL whose price is set at Rs. 100 will increase paid up capital from 320 million to 371.42 million but dilutes its EPS and Net worth after FPO, as there is no any added amount in reserve and surplus (no share premium from FPO). Similarly, the company aims to distribute 20% stock from the profit of FY2071/72 that was mentioned in its capital increment plan but the company has earned distributable profit that accounts only for about 13% of its paid-up value. Likewise, obtaining sustainable growth, managing its assets quality, diversification loan portfolios, and generating considerable return remains RLFL major challenges. However, the company can perform better if its network is spread to other districts with new plan.