General Finance Limited

ICRA Nepal assigns [ICRANP] IPO Grade 5 to the proposed Equity Shares (Rights Issue) of General Finance Limited

Facility/Instrument	Issue Size	Grading Action (June 2017)
Rights Share Issue	NPR 165.285	[ICRANP] IPO Grade 5 (Assigned)

ICRA Nepal has assigned "**[ICRANP] IPO Grade 5**", indicating poor fundamentals to the proposed rights issue amounting NPR 165.285 million of General Finance Limited (GFL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the grading categories 2, 3 and 4, the sign of + (plus) appended to the grading symbols indicate their relative position within the grading categories concerned. Thus, the grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively. GFL is proposing to come out with 1:1.25 rights issue of 1,652,850 numbers of equity shares of face value NPR 100/- each, to be issued to its existing shareholders at par. The proposed issue is being made to augment the capital base and is a step towards ensuring revised (higher) paid up capital requirement set by Nepal Rastra Bank (NRB), the banking sector regulator.

The lowest IPO grade reflects GFL's poor financial profile caused by weak assets quality (gross NPLs[1] of 93.5% on mid-April 2017). The grading also remains constrained by losses accumulated over the years leading to erosion of net worth[2] (accumulated loss of NPR 170 million as on mid-April 2017). The business of GFL was subjected to multiple restrictions after being classified as "problematic institution" by NRB between May 2013 and December 2016. Because of the restrictions[3], the credit and deposit portfolio declined leading to high customer concentration risks (61% of deposit among top 20 depositors and 33% of total credit among top 5 borrower accounts as on mid-April 2017). The recoveries from NPLs and Non-banking assets (NBA) remains weak so far. The grading also factors in weak competitive positioning of the company emanating from limited franchise (1 branch) leading to geographical concentration and dilution of company's reputation over the years. Although short term liquidity and capitalization profile has been comforted by the equity injection by new promoters[4] as calls in advance against the proposed right issue into the company; the company is short of minimum regulatory paid up capital of NPR 800 million to be maintained by mid-July 2017 (vs NPR 132 million as of now). Even upon completion of this right issue the company will not meet minimum capital requirements. The company plans to go into another round of rights issue to ensure the minimum paid up capital. Ensuring the same within the deadline remains a major challenge for the company, which otherwise will continue to impact the operations of the company.

The credit portfolio of GFL de-grew with compounded annual rate (CAGR) ~29% from mid-Jul-12 to mid-April-17 while the deposit base de-grew with CAGR 47% over the same period. As on mid-Apr-17, GFL's credit portfolio stood at NPR 190 million on a total deposit base of NPR 38 million, resulting in credit to deposit (CD) ratio of ~500%. ICRA Nepal takes note that, the company has been released from problematic category ending the restriction in business growth. However, achieving business growth in the competitive banking industry will be a major challenge for the company going forward.

GFL's profitability profile remains weak because of high NPLs and reduced scale of operations at present. The losses sustained over these years has eroded net worth base of the company (Net worth per share ~NPR 75[5] as of mid-Apr-17 compared to face value of NPR 100). Profitability profile over medium term will be largely determined by the ability of the management to recover from existing NPLs and maintain the quality of incremental credit portfolio.

GFL breached the minimum regulatory capital requirement in FY13 after additional credit provisioning was required on incremental slippages during the year resulting in huge loss and rendering the net worth negative thereby affecting the tier I capital (NPLs rose from 4% in mid-July 2012 to 69% in mid-July

[1] Non-performing loans
[2] Net worth per share of ~NPR 75 (including calls in advance of ~NPR 88 million) against face value of NPR 100.
[3] Including non-renewal of deposits and loans, restriction in accepting new deposits and underwriting new loans.
[4] New promoters own ~20% stake at present, with plans to increase their stake further by purchasing additional shares.
[5] Including calls in advance of NPR 88 million. Excluding the calls in advance networth per share is NPR 8 per share.

2013). Most of the NPLs resulted from aggressive lending in speculative real estate transactions signifying weak underwriting norms. After being declared problematic, business of GFL witnessed de-growth, negating subsequent writebacks of provisions by GFL in later years. Current capitalization profile of the company remains adequate vis-à-vis minimum regulatory requirement of 11% (CRAR of 36% in mid-April 2017) after equity injection (~NPR 88 million) by the promoters in the form of calls in advance during 9mFY17. Given the management plans to raise additional equity to ensure NPR 800 million paid up capital by mid-July 2017, incremental capitalization level of GFL is likely to remain well above the required minimum over the medium term. However, the ability of the company to raise relatively large capital within limited time span remains to be seen. Liquidity position of GFL also remains comfortable at present due to the equity injection by new promoters.

Company Profile

General Finance Limited (GFL) has been operating since February 1996 as a national level Class C Finance Company. Despite national level status, GFL's operation is limited to a head office and one branch office in Kathmandu. The company accounts for 0.12% share in deposits and 0.04% share in credit portfolio of the finance company industry as on mid-April 2017. GFL has ~60:40 promoter public shareholding as on mid-April 2017. Major shareholders of GFL includes Rajendra Kumar Sharma (6.56%), Sonam Tapke Gurung (6.31%), Robinda Prasad Shrestha (5.37%), Beribela Manandhar (4.09%), Bipin Timla (3.64%) among others.

GFL was declared problematic by NRB in May 2013 due to weak governance, internal control and deteriorating financial health. The company has been released from problematic status in December 2016. The company is short of the minimum paid up capital to be maintained by National Level Finance Company (paid up capital of NPR 132 million vs. minimum requirement of NPR 800 million by mid-July 2017). The company is planning to meet the revised paid up capital by raising fresh equity through rights issue.

GFL reported a net profit of NPR 1.47 million during FY16 over an asset base of NPR 82.53 million as on mid Jul-16 against net profit of NPR 61.25 million during FY15 over an asset base of NPR 106 million as on mid Jul-15. During 9mFY17, company has reported net loss of NPR 4.6 million over an asset base of NPR 152 million. GFL's CRAR stands at 36.36% and reported gross NPLs were 93.5% as on mid-Apr-2017. As on mid-April 2017, the company has an accumulated loss balance of ~NPR 170 million.

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