

Emerging Nepal Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed IPO of Emerging Nepal Limited

Instrument/Facility	Issue Size	Grading Action (January 2019)
IPO (equity) Grading	NPR 50 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned an **[ICRANP] IPO Grade 4** grading, indicating below-average fundamentals to the proposed initial public offering (IPO) of Emerging Nepal Limited (ENL). ICRA Nepal assigns an 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 better position within the grading categories concerned. ENL is proposing to come out with an IPO of 500,000 equity shares with a face value NPR 100 each, at par.

The assigned grading is mainly constrained by the low return potential of the company over the near to medium term as the entire investment book is focused on newly established companies, many of which may take long in starting to distribute dividends. Being an investment company, the return prospects of ENL largely depend upon the performance of its investee companies. Its concentrated investment portfolio (~68% of investment book towards its largest investment) also remains a concern. The entire investment of ENL so far comprises equity funds. Lack of clarity in raising further funds for investment, after exhausting the existing and proposed equity proceeds, also remains a concern. Availing long term debt funds could remain a challenge for the company in the absence of stable operating cash flows to service the debt. Hence, the company is expected to operate on zero leverage over the medium term which would further constrain the return potential to investors. The company’s limited track record of operations with significant gaps in organisation structure, developing capabilities and evolving systems and procedures as well as the lack of specific regulators constrain the grading. ENL’s ability to manage the long-term funds to invest in projects with good growth potential while diversifying the investment book would have a significant bearing on its return potential. Nonetheless, the grading factors in the company’s strong promoter and board profile, as it is promoted by reputed professionals and businessmen with major promoters being individuals and entities affiliated with the Vishal Group and IME Group (~54% joint stake in ENL). The experience and linkages of promoters and directors are likely to drive the business profile of ENL going forward.

ENL invests equity into a range of projects. So far, it has invested in five companies, mostly related to the financial sector. The company is also identifying new projects for long-term investment across various industries. Out of the five investments, three companies are yet to start operations, including the two largest investments accounting for ~88% the investment book as of mid-January 2019. Hence, the dividend prospects from these remain low over the medium term. The remaining investees have also started operations recently and these are relatively smaller than ENL’s current investment book. Hence, the dividends from these may not add significantly to the company’s profitability profile. It holds a nominal stake across most of these ventures with similar plans for most of the proposed investments. This remains another area of concern as this may result in limited control in the affair of these investee companies.

Apart from the existing and the proposed long-term investments, ENL would be investing in startups going forward. This could add volatility to the company’s profitability given the high failure rates in such projects. Hence, the returns over the longer tenure will also depend on the company’s ability to identify good projects, develop these businesses and eventually divest the same at good valuations. However, given the initial stages of the investment screening, divestments may take longer and hence continue to result in weak return indicators for the company.

The company has been operating since August 2015 and given the limited track record of its operations, the system and procedures are yet to be developed adequately. As the investments are proposed across multiple sectors, the lack of sector specific experts within the company may result in limited capabilities



for project appraisal. Moreover, ENL's organization structure has significant gaps to be fulfilled. All these might have a bearing on the future performance of the company.

ENL's investment book was NPR 367 million as of mid-January 2019, which was entirely funded from promoters' equity of NPR 450 million as on the same date. The limited clarity regarding the means to raise further investable funds after exhausting the promoter's equity and proposed IPO proceeds, which are also limited, remains a major concern. Raising debt funds for investment might remain a challenge given the expectation of volatile cash flow and return indicators. Hence, the resultant equity dominated operations are expected to result in subdued return indicators.

The company's profitability has remained weak so far with return on net-worth of ~5% for FY2018 and ~3% for H1FY2019. This has been mainly supported by interest income from deposits, out of unutilised promoters' equity. With the growing investment book, the quantum of deposit placement and interest income has declined in H1FY2019 resulting in a decline in return indicators. Hence, the return indicators are likely to remain weak over near term on possibility of low dividend income from the companies in which ENL invested in their initial years of operation.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[IPO Grading Methodology](#)

About the company

Emerging Nepal Limited (ENL) was established on August 2015 as a public private partnership (PPP) investment company with the motive to invest in projects from diverse sectors. ENL is promoted by the renowned business groups of Nepal, with the major holding by the Vishal Group and IME Group affiliated entities and individuals with joint stake of more than 50%. Other promoters include industrialists, bankers, and professionals from diverse backgrounds. The Government of Nepal, represented by the Ministry of Finance, also currently holds a nominal stake at 0.5%. As of mid-January 2019, the company had a capital of NPR 450 million, representing 90% of post-IPO capital, assuming full subscription. ENL reported a profit after tax (PAT) of ~NPR 15 million for FY2018 (NPR 0.2 million for FY2017) over an asset base of NPR 471 million as of mid-July 2018. For H1FY2018, the company has reported a PAT of ~NPR 7 million over an asset base of NPR 475 million.

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