



SARVODAYA DEVELOPMENT FINANCE LTD

IPO Price – LKR 22.00

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Company Profile

Sarvodaya Development Finance Limited (SDF) is a licensed finance company incorporated in 2010 as the economic arm of the Sarvodaya Movement which is one of the oldest NGOs in Sri Lanka uplifting and empowering rural masses for over six decades.

SDF's principal business activities include deposit mobilization, microcredit, PCBE and corporate and retail services mainly catering to the needs of Micro, Small and Medium Enterprises (MSMEs) sector. Besides, SDF has transformed into a tech-savvy financial services provider with a diverse product range to fulfil the financial needs of the customers. 80% of SDF branches are located outside the Western Province to provide financial services to low and mid-level income populations while focusing its primary customer segment SMEs. SDF also caters to the non-bankable community by delivering financial facilities to 135,093 citizens.

Future Outlook

The main purpose of SDF through IPO is to improve the core capital to LKR 2.5Bn by 1st Jan 2022 to comply with the minimum core capital requirement as required by the CBSL. Accordingly, if IPO is fully subscribed SDF expects to improve its core capital by LKR 1,000Mn to LKR 2.6Bn and thereby strengthen the equity base of the company.

The growth in SDF's loan portfolio is mainly contributed by micro and MSMEs which has grown significantly in recent past years and form an integral component of SDF's customer base. The funds raised through the Issue would also facilitate to part-finance the loan disbursements predominantly to product segments such as micro-loans, SME loans, and leasing which is mainly targeted at agro based machinery and equipment such as tractors, combined harvester machines and rice mills.

In terms of digital evolution, SDF is to develop an application "SDF Smart Village App" to share services and assets efficiently among peers in real-time through a highly responsive smart digital platform. Moreover, SDF targets to develop its micro-finance client base and planning to shift their portfolio mix towards a higher average ticket size which will generate greater returns to SDF.

SDF Valuation

P/E 31 March	FY17	FY18	FY19	FY20	FY21	5-Months ended 31-Aug-21
Earnings (LKR 'Mn)						
Total Income	1,096	1,321	1,575	1,802	1,744	670
Net Interest Income	603	763	827	932	961	420
Total Operating Profit	816	904	969	1,052	1,120	443
Profit/(Loss) before tax	(44)	114	69	124	267	41
Profit/(Loss) for the Year	(35)	92	41	102	183	35
Adjustes EPS (LKR)	(0.5)	1.4	0.6	1.5	1.8	0.3
YoY % Growth		360%	-55%	147%	17%	-81%
Valuations						
PER (x)	(43.0)	16.1	36.0	14.6	12.5	N/A
PBV (x)	1.42	1.31	1.35	1.24	1.05	N/A
DY (%)	0%	0%	2%	0%	0%	N/A

Peer Group Comparison

	Share Price 08.11.21 (LKR)	4 Quarter Trailing EPS (LKR)	NAVPS 31.03.2021 (LKR)	P/E (x)	P/BV (x)
AAF	7.7	0.36	17.89	21.4	0.4
AFSL	26.9	4.31	29.94	6.2	0.9
ALLI	70.6	17.31	175.00	4.1	0.4
AMF	13.8	-1.42	15.94	N/A	0.9
BFN	13.9	0.92	13.68	15.1	1.0
BLI	7.4	-0.52	6.38	N/A	1.2
CALF	80.0	-0.12	18.63	N/A	4.3
CRL	9.6	-6.01	11.26	N/A	0.9
CSF	1.0	-0.14	0.65	N/A	1.5
GSF	17.1	0.51	18.71	33.5	0.9
HNBF	8.3	-0.20	2.75	N/A	3.0
SFIN	15.0	2.03	21.37	7.4	0.7
SFL	19.9	-0.23	13.50	N/A	1.5
SDF - Pre IPO	22.0	1.76	20.95	12.5	1.1
Diversified Financial Sector				14.9	1.9
Market				12.4	1.3

Valuation outlook

Based on FY21 net asset, SDF's PBV is estimated 1.1x and is lower compared to Diversified Financial sector and market but slightly higher than some of its peers.

IPO Details

Issue Price	: LKR 22.00
Total Amount to be Raised	: LKR 1,000Mn
Initial Tranche	: LKR 500,000,006
Green shoe option	: LKR 500,000,006
No. of Shares Offered (Initial Tranche)	: 22,727,273 Ordinary Voting Shares
No. of Shares Offered (Green shoe option)	: 22,727,273 Ordinary Voting Shares
Issue Open Date	: November 23, 2021

Purpose of the issue

- To be in compliance with the minimum core capital required by the CBSL.
- Part finance the growth in the loan portfolio of the company.

Issue Allotment Structure

Applicant Category	Allocation of IPO (%)
Unit Trusts	10.0%
Retain Individual	40.0%
Non-Retail	50.0%
	100.0%



Appendix 1 Summarised Audited Statements of Financial Position

Statement of Financial Position Year ended 31st March (LKR 'Mn)	FY17	FY18	FY19	FY20	FY21
ASSETS					
Cash and Cash Equivalents	138	117	141	73	131
Loans and Receivables	3,477	4,697	5,114	5,231	4,954
Lease Rentals Receivables	284	611	1,103	1,703	2,952
Financial Investments	268	282	443	445	375
Other Financial Assets	283	207	189	165	1
Other Non Financial Assets	64	101	144	142	99
Income Tax Refund	-	-	-	-	-
Intangible Assets	37	35	27	15	5
Investment Property	-	-	119	126	216
Property, Plant and Equipment	321	309	171	146	161
Deferred Tax Assets	1	-	-	-	-
Right-of-use Lease Assets	-	-	-	169	143
Total Assets	4,873	6,360	7,450	8,215	9,037
LIABILITIES					
Due to Banks and Other Institutions	76	463	835	1,595	1,730
Due to Customers	3,564	4,625	5,385	5,102	4,552
Other Non Financial Liabilities	166	84	80	99	283
Post Employment Benefit Liability	21	26	27	34	56
Current Tax Liabilities	-	11	15	15	54
Lease Creditor	-	-	-	172	161
Deferred Tax Liabilities	-	20	8	2	20
Total Liabilities	3,826	5,229	6,351	7,020	6,855
EQUITY					
Stated Capital	890	890	890	890	1,694
Retained Earnings	91	161	119	195	327
Reserves	66	80	90	110	161
Total Equity	1,047	1,131	1,099	1,196	2,181
Total Equity & Liabilities	4,873	6,360	7,450	8,215	9,037

Appendix 2 Summarised Audited Income Statement

Income Statement Year ended 31st March (LKR 'Mn)	FY17	FY18	FY19	FY20	FY21
Income	1,096	1,321	1,575	1,802	1,744
Interest Income	884	1,180	1,433	1,682	1,585
Less: Interest expenses	(281)	(417)	(607)	(750)	(623)
Net Interest Income	603	763	827	932	961
Net Fee and Commission Income	29	31	25	30	36
Other Operating Income	183	110	117	91	123
Total Operating Profit/(Loss)	816	904	969	1,052	1,120
Impairment Charges for Loans and Other Losses	(172)	(89)	(94)	(119)	(60)
Net Operating Income	643	815	875	933	1,060
Less: Operating Expenses					
Personnel Costs	(361)	(323)	(357)	(357)	(374)
Depreciation and Amortization	(47)	(58)	(58)	(54)	(47)
Other Operating expenses	(230)	(249)	(303)	(290)	(283)
Operating Profit before Tax on Financial Services	4	185	157	232	356
Taxes on Financial Services	(48)	(71)	(88)	(108)	(89)
Profit/(Loss) before tax	(44)	114	69	124	267
Less: Income tax (expense)/Reversal	9	(22)	(28)	(22)	(83)
Profit/(Loss) for the Year	(35)	92	41	102	183



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