

## Snowball Capital Annual Letter 2025 (2081/82)

### To My Fellow Snowball Capital Shareholders,

The world and Nepal seem very uncertain right now. In other words, business as usual. It is an absolute pleasure and an honor to write this annual letter to you.

In the fiscal year 2081-82, your fund generated a return of 12.25% compared to NEPSE's 24.74% and a risk-free (fixed deposit) return of ~5%. The huge beat last year was no fun, but we aren't too disappointed for two reasons:

- We believe the index is significantly mispriced, with the gain largely driven by low cap/low float stocks of poor quality and further exaggerated by certain myopic capital market policies. Over time, the stock prices will reflect the underlying quality of the company – it always has.
- Returns over any one-year period does not mean anything. We believe that at least 5 years – a reasonable time frame for a full market cycle – is required to pass judgement.

Since inception, our record stands as follows:

	<b>Snowball</b>	<b>NEPSE</b>	<b>Fixed Deposit</b>	<b>Snowball vs NEPSE</b>
2076-77	14.88%	6.86%	9.00%	8.02%
2077-78	67.61%	111.65%	8.00%	-44.04%
2078-79	-9.45%	-30.31%	12.00%	20.86%
2079-80	7.52%	4.36%	10.50%	3.16%
2080-81	12.74%	6.83%	7.50%	5.91%
2081-82	12.25%	24.74%	5.00%	-12.50%
2082-83*	3.23%	-1.24%	4.00%	4.48%
<b>Overall Gain</b>	<b>144.89%</b>	<b>116.50%</b>	<b>71.03%</b>	<b>28.39%</b>
<b>Compounded Annual Gain</b>	<b>14.79%</b>	<b>12.63%</b>	<b>8.61%</b>	<b>2.16%</b>

Table 1: Snowball Returns Since Inception

	<b>Snowball</b>	<b>NEPSE</b>	<b>Fixed Deposit</b>	<b>Snowball vs NEPSE</b>
2078-79	-9.45%	-30.31%	12.00%	20.86%
2079-80	7.52%	4.36%	10.50%	3.16%
2080-81	12.74%	6.83%	7.50%	5.91%
2081-82	12.25%	24.74%	5.00%	-12.50%
2082-83*	3.23%	-1.24%	4.00%	4.48%
<b>Overall Gain (5 yrs)</b>	<b>27.18%</b>	<b>-4.28%</b>	<b>45.28%</b>	<b>31.46%</b>
<b>Compounded Annual Gain (5 yrs)</b>	<b>4.93%</b>	<b>-0.87%</b>	<b>7.76%</b>	<b>5.80%</b>

Table 2: Snowball Returns (5 years)

Our primary and only objective with Snowball is to allocate your capital wisely to generate excess returns to take advantage of the wonders of compounding over a lengthy



time horizon. To ensure that we don't interrupt the compounding engine, our focus on the downside will weigh heavier.

*"Rule No. 1: Never lose money. Rule No. 2: Never forget Rule No. 1." – W. Buffett.*

We will lag the index in certain years and beat it in others, but we will not be doing our jobs and deserve the stewardship of your capital if we aren't meaningfully outperforming the average over a complete market cycle and over a long enough duration.

In this letter, I have expressed our views on some of the excesses and anomalies we are currently seeing in the markets, our view on macro (take this with a pinch of salt), and reiterated our philosophy and some of our thoughts on our portfolio companies.

### **Wretched Excess in a Depressed Economy**

There is an odd phenomenon taking place currently in the Nepali markets. Munger and Buffet used to say, "You want to look where there's lots of fish and not too many fishermen." *The Nepali market has a slight problem of too little fish and too many fishermen.*

In other words, one should look at areas where opportunities are plentiful, and where competition for those opportunities are scarce. 'Fishing' in areas where attractive opportunities are *limited*, and the competition chasing the same opportunities is *plentiful*, will end up driving the price of the underlying assets too high, rendering them unattractive.

Add to that a historically low interest rate environment, and lack of other options to deploy capital, those opportunities get priced through the roof, inviting speculators, the public at large, and eventually predators ready to prey on their greed. That is Nepal's capital market — and the pre-IPO market is where its worst instincts face the least resistance.

In 2025, there were 16 companies that got listed. On average, each IPO was oversubscribed by 25 times! An even more astonishing statistic is that, within one month of listing, an average company's share price increased by 10-fold. An upstart distillery whose accounts receivable exceeded 100% of its sales saw a 1900% rise in share price post IPO listing. It is no wonder that the appetite for IPOs from investors as well as principal companies is at an all-time high.

*"First the idea, then the money, then the fraud." - Charlie Munger*

S.No.	Ticker	Industry	IPO Price	IPO Requirement	Subscription Amt	Subscription rate	Price after 1 month
1	SAIL	Manufacturing and	100	25,10,49,300	2,17,02,08,000	8.64	800.00
2	JHAPA	Others	100	4,73,33,600	2,24,91,08,000	47.52	1,259.80
3	SAGAR	Manufacturing and	100	11,90,64,000	2,65,01,15,000	22.26	1,951.80
4	BUNGAL	Hydropower	100	17,01,50,000	2,52,70,26,000	14.85	632.00
5	BANDIPUR	Hotel and Tourism	100	43,41,08,000	2,98,69,44,000	6.88	770.00
6	MABEL	Hydropower	100	12,48,90,400	2,11,25,79,000	16.92	774.00
7	SWASTIK	Microfinance	100	1,95,19,500	2,93,81,65,000	150.52	1,748.40
8	DHEL	Hydropower	100	24,23,18,500	2,82,52,15,000	11.66	622.30
9	CREST	Life Insurance	100	18,45,00,000	3,13,65,00,000	17	1,847.00
10	OMPL	Manufacturing and	100	14,76,00,000	2,36,91,51,000	16.05	1,499.50
11	PURE	Others	100	11,95,20,000	2,27,42,65,000	19.03	942.94
12	BHCL	Hydropower	100	29,42,76,000	2,56,53,00,000	8.72	416.00
13	SANVI	Hydropower	100	24,15,30,000	2,59,11,17,000	10.73	673.74
14	TTL	Others	100	32,96,50,519	2,57,92,77,000	7.82	938.61
15	HIMSTAR	Hydropower	100	7,73,97,500	2,12,95,73,000	27.51	688.00
16	NMIC	Non Life Insurance	100	18,45,00,000	3,32,10,00,000	18	1,387.40
		TOTAL		2,98,74,07,319	41,42,55,43,000		
		AVERAGE		18,67,12,957	2,58,90,96,438	25	1,059

Table 3: IPOs in 2025

The capital markets are a vital organ of any nation's economy, providing a large pool of risk capital, liquidity, and realization events. Due to certain structural issues (demand supply mismatch, archaic regulatory policies, short-sighted and populist '10 kitta type' policies), the Nepali capital market is more like a rigged lottery system rewarding the promoters and democratizing the risk to the public.

### The Macro View

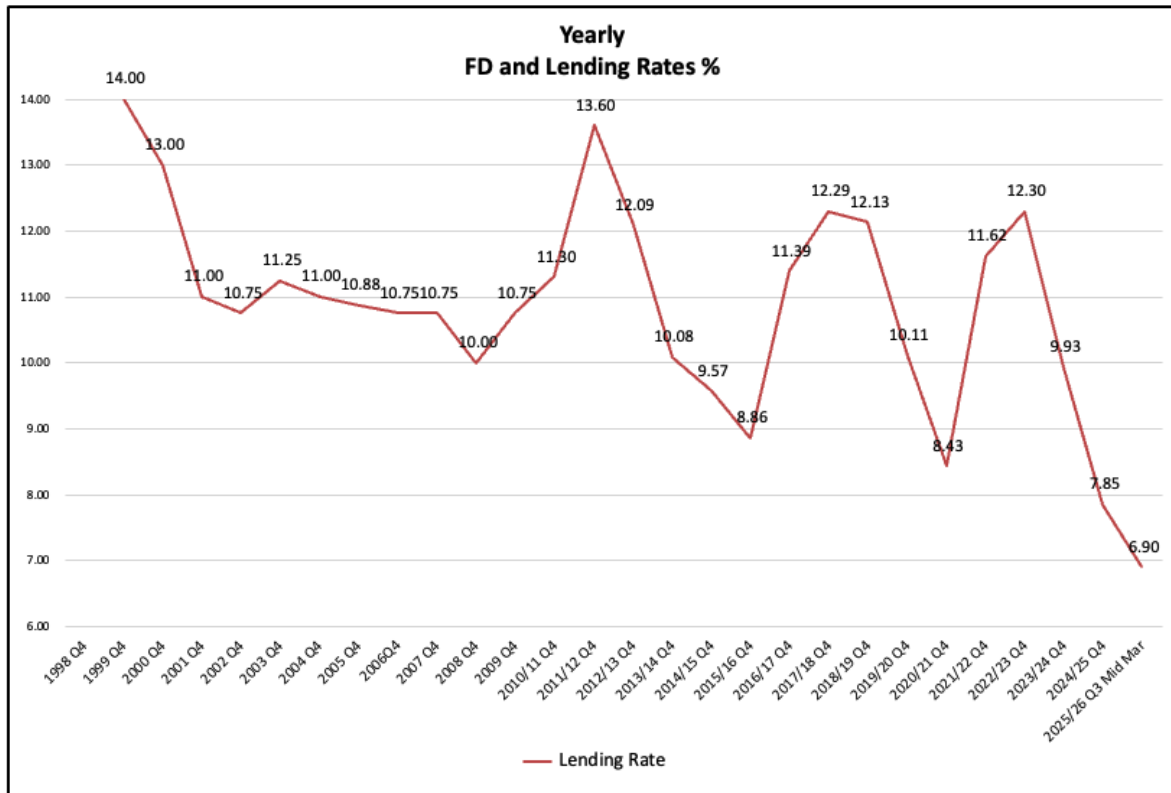
As analysts, we are fully cognizant of our inability to make macroeconomic predictions, and we try very hard not to let the macro narratives drive our decisions. We firmly believe that the macro future is unpredictable and unknowable. Instead, we prefer to invest in companies that will survive and thrive in most environments – a truly bottom-up approach. However, sometimes the external headwinds become so strong that it becomes hard to ignore.

One would think that we, as a nation, are used to crises and intense volatility, facing one in ever-increasing frequency. From the time we started our careers in the Nepali capital markets (2013-14), the list goes like this: A once-in-80 year-earthquake, a blockade, Covid, a once-in-50-year flood, and a revolution. *That is an average of a major crisis every 2 years.* Add in a protracted economic decline/slowdown of 4 years and 10 changes in government, and we have what is an extremely difficult environment – certainly not the plentiful waters suitable for fishing. Investing is simple but difficult, and in this climate, it is certainly not for the faint-hearted.

Without sounding too bearish, let's go through a bias-free and rational thought exercise about our current state of the economy.

*Liquidity, interest rates, and credit demand:*

We are sitting on a massive liquidity surplus to the tune of Rs. 1.24 trillion (Rs. One Lakh twenty-four thousand crores). Interest rates are at a historical low. The current weighted average lending rate of 6.9% is the lowest in the last 30 years. Despite this, credit demand is muted, demonstrated by a CD ratio of 74.75% (the lowest it has been in the last 13 years).



*Asset prices:*

The markets have stagnated, with the index hovering at 2600 for the past 2.5 years and is still down by 12% from a high of 3200, 4.5 years ago. Ironically, individual scrips are still generally overvalued. The index is being dragged down by the financial sector, whose NPL and subsequently its capital constraint woes remain problematic.

Real estate prices have been depressed. Nominally, prices are down by 10-15% depending on the location. Juxtapose this with real GDP gain of 16% over the last 4 years and nominal GDP gain of 32% (assuming inflation of 4% a year), the effective nominal decline of real estate price relative to GDP is close to 40%. Transaction volume and tax from real estate is inching upwards but is still a far cry from healthy market conditions witnessed in 2021.



### *Government and NRB*

The government has a serious fiscal problem with expenses far exceeding revenue and within the expense side of the equation, debt service dominates. Capex, the driver of the government-led growth remains muted. Major tax reform still seem distant.

On the other hand, the country's reserves are strong and are generating attractive interest rates from the US and other international treasuries. The NRB is headed by a sensible individual with a deep understanding of economic history, and the policies are beginning to reflect a clarity and level headedness not seen in decades. Monetary policy is a low hanging fruit currently available and if the current governor can retain his position, we are hopeful on this front too.

### *What next?*

A country beset with constant crisis is resting all its hopes on the new government. We'll see how the policies and reform agenda shape up but of this we are certain – the massive liquidity on the sidelines (which is continuously growing driven by remittance and GDP growth) will enter the market at some point or the other. And when it does, it will flow into one of three baskets: consumption, assets, and investments.

The first basket is already starting to see some of this liquidity surplus evidenced by meaningful growth almost back to pre-covid levels - in FMCG, automobiles, cell phones, domestic travel, etc. In Nepal, the assets where investors can have exposure to is primarily limited to stocks, real estate, insurance, and gold/silver. It is not far-fetched to think that a surge of liquidity flow into these assets will result in significant asset price appreciation – real estate and the stock market are both likely beneficiaries. The investments in businesses and industry, small and large, will be the basket that will be the last recipient of this liquidity, as the current negative sentiments gradually change.

### **The portfolio**

We find ourselves in a paradoxical market – a general environment highly supportive of future price appreciations and individual stock valuations that are increasingly frothy. In due course, many of today's overvalued names are unlikely to meaningfully participate in a sustained rally, and in a prolonged flat or declining market, they could correct sharply. Our picks are based on the principles of quality, valuation, margin of safety, asymmetric probabilities, and growth.

Investing is part science and part art. Gauging the quality is largely the 'art'. We determine the quality of any company by the defensibility and predictability of its earnings through sustained competitive moats, their balance sheet strength, capital allocation track record, the quality of their business model, and the management's ability to steer the ship effectively through all environments. Eventually, we try and figure out how much cash the company will generate over the next few years and even decades.



Once we have a sense of the future earnings, valuation is the science part. Our criteria is simple: any investment must have a higher rate of return than the cost of capital, the risk-free rate, and the index, and should have the best asymmetric risk/return<sup>1</sup> profile amongst the universe of investments available. At times, a bad quality company can be a great investment if we can buy it at a deep discount to its intrinsic value. Arbitrage and quantitative strategies also largely fall in this bucket.

Growth is the eventual driver of returns for companies and the most difficult one to figure out. While historical figures give an indication of future performance, it is just that – an indication, and a not a strong one at that. Industry tailwinds/headwinds, runway for growth, subsequent reinvestment opportunities, business model, competitive dynamics, are all factors we study to determine the growth of any business.

Here are our views on some of our portfolio companies which will shed light on our thought process that goes behind our stock picks.

### **UNL (Unilever)**

Unilever, one of the few multinationals in Nepal, is generally a very well managed and highly profitable company. In the last few years, their growth has been satisfactory, evidenced in both their sales, which grew from *5.55 billion* in 2020 to *8.25 billion* in 2025, and their net profit, which grew from *355 million* to *1.96 billion* in the same period. They achieved this growth in a difficult time for Nepal's economy. At our average purchase price of 34,977, we had a 'growing' Unilever in our portfolio for 16.43 times (yield of 6.25%). This was one of the 'compounding machines' in our ranks that we hoped to hold on for a long time.

*"When the facts change, I change my mind - what do you do, sir?" – John Maynard Keynes*

Unfortunately, with the change in GST in India<sup>2</sup>, the thesis for Unilever changed for the worse. The 'low cost' moat disappeared overnight as 'imports' became meaningfully cheaper than locally manufactured goods - particularly, in the personal care product segment (Closeup, Pepsodent, Lifebuoy, LUX, Dove, Liril) which makes up 30% of UNL sales. Implications of this is already evident in the flattening of sales and margins over the last year. In the meanwhile, continued double digit growth is still being priced in at the current valuation of UNL. We are in the process of winding down this position for greener pastures.

### **BNT (Bottlers Nepal) – Exited**

Bottlers Nepal is another multinational that we have admired over the years. It wouldn't be unfair to accuse us of having a 'Buffett bias' towards BNT, the bottler for Coca-Cola. We were mistaken in our judgement of the quality and growth forecast for the company.

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<sup>1</sup> Snowball Capital Annual Letter 2079-80 (2022-23)

<sup>2</sup> India's GST rates on essential personal care items like shampoo and toothpaste was slashed from 12-18% to a flat 5% on September 2025



The 'moat' for a bottling business with exclusive rights for Coca-Cola is completely derivative from the moat of Coca-Cola. While Coca-Cola is a global powerhouse, it has not lived up to its name in Nepal in recent times.

We were also late to realize the lack of quality in its business model – growth required significant debt funded capex at low returns on capital employed. Furthermore, the growth wasn't guaranteed, and its competitors have been successful in dislodging its previously dominant market share. The likes of Nimbooz, Litchi juice, energy drinks (Red Bull, Xtreme), and other carbonated beverage players have made significant inroads and, in some cases, have exceeded the revenue of BNT.

The significant hit on margins due to input price increase (largely driven by sugar prices and syrup linked to the US dollar) further showed BNT's inability to pass on the prices to its customers. Its lack of ability to traverse the marketplace became more glaring in the face of competition against much nimbler local players who faced no baggage of a disconnected global parent and limited exposure to the US Dollar.

Management quality also seemed lacking, evidenced by large marketing budgets spent on traditional media forms yielding low impact. Launch of new products (specifically Charge) were utter disappointments too. Lime-based carbonated drinks (with a 'healthy' positioning) and carbonated energy drinks are huge market segments that BNT (Coke) has completely missed. We are not sure if the blame rests on the local management or its disinterested global parent, but for now, we will be on the sidelines.

### **SANIMA (Sanima Bank)**

You will notice that banking stocks – currently the most out-of-favor sector by 'market experts and speculators alike', make up a significant portion of our portfolio.

*"As is the case with unconventionality, one should not aim for contrarianism for its own sake, but only when the reasons are good, and the actions of the crowd look particularly foolish."*  
– Howard Marks

We believe that the banking sector is mispriced for various reasons.

- The large float of banks makes it unpopular amongst manipulators, leading brokers, and the following herds alike.
- The high Non-Performing Loans (NPLs) and the resulting flattening of profits over the past three years have led the market to believe that things will never change. While the deteriorating asset quality is a genuine negative, we believe the worst is over.
- The market hasn't accounted for the fact that the 'provisions' are ~40% of the operating profits, and they will come close to zero once the NPL ratios stop getting worse. The 'normalized' net profits are then going to be almost double compared to current levels. This will drastically change all the traditional ratios that investors look at – ROE, PE, PB, etc. We wouldn't be surprised if the resulting yield,



at current prices, are significantly higher than our minimum target annual return of 15%.

- Headline figures of some mismanaged banks have led the public to believe that all banks are similarly problematic.

We are generally optimistic regarding the banking turnaround thesis. However, we believe that Sanima Bank is an excellent business, with or without the 'turn around' play.

We have owned Sanima Bank since the inception of our firm (6+ years). It meets our criteria of competent management and ownership (Sanima Group), industry leading growth over a very long period of time, large runway for reinvestment at attractive returns on equity, a fair valuation, industry leading underwriting standards (among the top 3 for the past 10 years +) and an asymmetric risk/return profile (NPL reversal upside, decent profits even at current NPL levels). We foresee holding on to this position for a long time.

### **NLICLP (National Life Insurance Promoter)**

National Life Insurance (promoter shares) is the latest major addition to our portfolio this year. The company is growing its book of business at a rate of 14.66% per annum, one of the highest amongst life insurers with large bases. Its sizeable balance sheet (over Rs. 8000 cr in investments) will be a significant beneficiary once the interest rate cycle turns, as 90% of its investments are tied to fixed interest rate instruments.<sup>3</sup>

The problem with life insurance companies is in their accounting – it is extremely obscure, confounding even their own management. This makes it very difficult to determine the true value of its business. An average policy typically matures in 15 years, which is when the actual value and profitability of that business will be determined.

At Snowball's entry price of Rs. 210 per share (implying a market cap of ~ Rs. 1,000 crore), we believe that we are protected by a meaningful margin of safety against potential accounting risks, while also benefiting from an attractive current yield and the upside from business growth—particularly as returns improve with a turn in the interest rate cycle.

#### *A note on promoter shares*

We are strong advocates for promoter shares over public shares for the following reasons:

- We can buy the same shares for half the price
- What we give up in liquidity, we more than make up for it in price and consequently yield, margin of safety, while capturing the same levels of price appreciation
- Provides access to companies that would usually fall outside our valuation thresholds

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<sup>3</sup> Snowball Capital Quarterly Memo on Cycles



- Potential price arbitrage as the gap between promoter and public share price closes, providing a further boost in returns
- Advantage of time arbitrage as the lack of liquidity prevents us from taking rash decisions which may interrupt the compounding process. This further reinforces a long term mindset.

### **Change in Structure**

For the first 5 years, your company was structured as close to a 'hedge fund' as legally permissible – the general partners' (GP) shares were ordinary shares, and the limited partners' (LP) shares were preference shares redeemable in 5 years. For the shareholders who 'entered' Snowball in this structure, we have mimicked this structure in the form of 'put options' with the GP's as the counterparty – *basically, you can still get an 'exit' after 5 years at the NAV, if you so desire.*

In 2083-84, we will convert to a public company (not for the purpose of IPO), which will make your shares tradeable in the OTC. The liquidity event for the shareholders will now be in the form of cash dividends and secondary share sales. Since 100% of our assets will always be in marketable securities and/or cash equivalents, we believe that a potential seller should be able to find a buyer at a slight discount to the NAV – your managers will assist in this process.

Fees for the GP will remain the same – 0 % management fee, a 6% hurdle, and a 25% share of the profits beyond the hurdle. The reason for the change is administrative, legal, and tax efficiency. Please feel free to contact me or any of our team members at any time if you require any clarification at all.

This change in structure now enables your team to allocate more time on analysis and investing and less on administrative matters.

Happy Investing.

Sincerely,

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**Yurop M Shrestha**

**Chairman, Snowball Capital**