



INITIAL PUBLIC OFFERING

Report Date: 06-01-2074

MAHULI SAMUDAYIK LAGHUBITTA BITTIYA SANSTHA LTD.

Recommendation – Buy

SECTOR: RETAIL MICRO CREDIT

Overview of the Company

Mahuli Samudayik Laghubitta Bittiya Sanstha Limited (MSLBSL) was registered on 2nd Sep 2012 as microfinance public limited company. It is mainly promoted by an NGO Mahuli Community Development Centre and other 54 individuals. It started its formal operation on 16th May 2013 after taking license for 'D' class microfinance bank from NRB. The head office of the company is situated in Bakadhuwa-9, Mahuli, Saptari, Nepal.

Area of Operation

The major area of operation of the company is in Saptari District, Mahuli Bazar ward no. 9. Currently, it has license to operate in 10 districts – 3 in Terai region and 7 in Hilly region. It has made an application to NRB to operate in 5 additional districts. It has 28 branches in operation and aims to add 6 branches by the end of FY 2073/74.

Members Details

There are 50,123 members at present. The company plans to add 6,448 members from the existing branches and 5,000 more from the new branches that will be established, totalling a target of 61,571 members by the end of FY 2073/74. The company plans to have at least 1 to 3 percent male members in above total. It also plans to add 20,000 members by 2075/76, 20,000 more by 2078/79 and further 20,000 by 2082/83.

Future Plan and Strategy

- The issue amount of NPR. 12,000,000 will be utilized wholly as loan and advance for business purpose.
- Make paid up capital Rs.10 crores by 2075/76, Rs. 15 crores by 2078/79 and Rs. 20 crores by 2082/83.
- Maintain Progress Out of Poverty Index (PPI) of 250 members in each branch.
- Become wholesale MFI in 10 years.
- Increase members to one lakh by 10 years.
- Uplift at least 20% family of the members from the poverty line in 10 years.
- Uplift at least 20,000 households of its coverage area from the poverty line in 10 years.

Issue Details

Issue Size	120,000
Price per Share	100
Issue Open Date	07-01-2074
Issue Close Date	11-01-2074
Issue to Staff	4,800
Issue to Mutual Funds	6,000
Issue to General Public	109,200
Issue Manager	NCM Merchant Banking Limited
Collection Centers	Various
Min. Application (Kitta)	50
Max. Application (Kitta)	600
ICRA Rating	Not Applicable
<i>Note: As per regulation 3 (ka) of Credit Rating Regulation, 2068 the credit rating of this issue is not required since the issue is less than NPR Three Crores.</i>	

Key Fundamentals

Paid up Capital	280,00,000
Reserve and Surplus	95,062,000
Book Value Per Share	832.59
Earnings Per Share	312.81
Operating Profit Per Share	391.49
Non-Performing Loan (%)	0.52%

Adjusted Figures

Adjusted BVPS	439.31
Adjusted EPS	107.33

Note: The existing paid up capital is Rs.280,00,000 and the number of shares is 280,000.

Board of Directors

1) Mr. Prabhu Narayan Chaudhary, I.S.C.

Mr. Chaudhary was the founding member of Mahuli Samudayik Bikas Kendra and has handled different role and responsibilities since 2051 BS. He is now the executive secretary. **Chairman**

2) Mr. Harish Chandra Singh, B.S.C in Agriculture

Mr. Singh is the member of Mahuli Samudayik Bikas Kendra and founding member of Mahuli Samudayik Laghubitta Bittiya Sanstha Ltd. **Director**

3) Mr. Laxmi Prasad Chaudhary, B.S.C in Agriculture

Mr. Chaudhary has served at Agriculture Development Bank Ltd. in different rank from 2035 BS to 2065 BS. He is involved with Mahuli Samudayik Laghubitta Bittiya Sanstha since 2069 BS. **Director**

4) Mr. Bhanu Bhakta Niroula, LLM

Mr. Niroula is the Professor of Tribhuvan University. He is involved with Mahuli Samudayik Laghubitta Bittiya Sanstha since 2069 BS. **Director**

5) MR. Roshan Kumar Mandar, M.A.B.L

Mr. Mandar is involved with Mahuli Samudayik Laghubitta Bittiya Sanstha since 2070 BS. **Director**

6) Bijuli Prasad Chaudahry, M.L.C.G

Mr. Chaudhary is involved with Mahuli Samudayik Laghubitta Bittiya Sanstha since 2070 BS. **Director**

Details about Management Team

1) Shyam Kant Chaudhary, B.L

Mr. Chaudhary is with the Mahuli Samudayik Bikas Kendra since 2056 BS. He was the MCPW program co-ordinator, case worker of UNDP. **Chief Executive Officer**

2) Mr. Lalit Prasad Chaudhary, I.A.C.

Mr. Chaudhary is the head of Audit Department. **Manager**

3) Mr. Saroj Kumar Singh, B.C.S.

Mr. Singh is the head of General Admin Service and Finance Management Department. **Manager**

Operational Coverage	
Numbers of Authorized Districts	10
Number of District (Coverage)	8
Number of Branches	28

Capital Structure (%)		
	Existing	Post issue
Authorized	15,00,00,000	15,00,00,000
Issued	4,00,00,000	4,00,00,000
Paid Up	28,000,000	4,00,00,000
Shareholding Structure (%)		
	Existing	Post issue
Pubic	-	120,000 (30%)
Promoter	280,0000	280,000 (70%)

	Industry Average	MSLBSL
Market Cap (NPR)	89,805,621,640	-
P/E	30.77 x	-
P/B	8.33 x	-
ROE	28.57%	37.57%
ROA	2%	4.66%
EPS (NPR)	50.83	312.81
BVPS (NPR)	183.08	832.59
Cost of Funds	6.18%	6.62%
Net profit margin	26%	25.86%
CAR	16.61%	12.95%
NPL	1.28%	0.52%
Beta	1.05 (weekly)	-
Financial Leverage	8.09 x	9.16x

Note: Data based on published financials for 2nd quarter of 2016/17 and the LTP as of 13th Apr 2017. Team computation by Research Department of Global IME Capital Ltd.

General Introduction to Balance Sheet Figures

The existing paid up capital of the company is Rs. 28 millions and after the issue, it will be Rs.40 millions. The projected figures shows increased paid up capital which implies the company to issue the right shares. The **reserves are projected to increase at 30% CAGR**, while the **Net worth to grow at 38%**. The company has made Rs.1075.49 millions of loan and advance as on 2nd quarter 2073/74, an increase of 16.71%. The deposit has increased from Rs.481 to Rs.537.05 i.e. 11.65% as on the 2nd quarter 2073/74. Both the **loan and advance and deposits are projected to grow at 48% and 44% CAGR** respectively. The company's total borrowing as on 2nd quarter 2073/74 is Rs.550.70 millions, increase of 36.88%. The CAGR of the same is projected 50.52%. The total assets of the company is Rs. 1,306.52 millions as on 2nd quarter 2073/74, which has increased by 22.3%. **Total assets are projected to increase at CAGR of 46.32%**. The company has made Rs.1 million of investment between the FY 2072/73 and 2nd quarter 2073/74. Previously, there was no investment. This is expected to remain same in the projected periods.

Comparison with Industry Figures

- The company has a higher financial leverage than the current industry average of 8.09 times, which signifies company use of more borrowed money at the cost of lower net profits.
- CAR is at 12.95 % which is below the industry average of 16.61%. The company is expected to maintain this ratio above the NRB requirements of 8%.
- NPL 0.52% vs 1.28%, shows the better credit management by the company than the industry. This percentage is projected to be even lower.
- The deposit has increased by 11.66% from FY 2072/73 to 2nd quarter of 2073/74. The industry growth is 14% for the same period. This might limit the lending power of the company.
- Loan and advance made by the company has increased by 16.71% from FY 2072/73 to 2nd quarter of 2073/74, while the industry average is 18%. This could hurt the company to compete in the markets.

Excerpts from Balance Sheet (NRs. In Millions)

Particular	Audited		Projected		
	71/72	72/73	73/74	74/75	75/76
Paid-Up capital	21.32	21.50	60	80	100
Reserve/ Surplus	51.27	95.06	118.91	147.78	208.77
Net Worth	72.59	116.56	178.91	227.78	308.77
Borrowing	319.68	402.32	700.04	980.06	1372.1
Deposits	368.92	481	736.99	1031.79	1444.5
Loans/ Advances	735.88	921.51	1534.62	2148.48	3007.8
Total Assets	811.96	1068.3	1737.39	2398.14	3347.25

Ratios

Particular	Audited		Projected		
	71/72	72/73	73/74	74/75	75/76
CAR(%)	10.75	12.95	11.98	11.02	10.67
NPL (%)	0.41	0.52	0.50	0.40	0.30
Credit/ (Borrowing+ Deposit)	106.8	104.32	106.8	106.8	106.8
Loan Growth	35.50	25.22	66.53	40	40
Deposit Growth	35	30.38	53.22	40	40
Financial Leverage	11.18x	9.16x	9.71x	10.53x	10.84x
SLR	7.55	13.30	20.36	17.69	13.60
CRR	0.70	0.62	0.50	0.50	0.50
Net worth per share	518.50	832.59	447.28	379.63	385.97

Note: The paid up capital of Rs.280,00,000 consists Calls in Advance of Rs. 75,00,000.

General Introduction to Income Statement

The company has a 45.72% growth in **net profit** in the FY 2072/73 and this are **projected to increase at CAGR of 36.8%** in the period ahead. Similarly, the **net interest income and operating profits are projected to increase at 48% annually** during the projected periods. The **operating expenses and employee expenses** has increased by 16.06% and 12.1% in the FY 2072/73. These expenses are **projected to increase by 48.7% and 40.8% CAGR** respectively. The company has increased the provision amount for possible losses by 67.88% in FY 2072/73 and this percentage is expected to increase at CAGR 50.91%. There are no non-operating gain/losses, nor any extraordinary gain/losses. The company has provisioned a bonus of Rs. 5.48 millions to employees in FY 2072/73 and this is forecasted to increase at CAGR 48%.

Compare with Industry Figures

- The EPS and BVPS are expected to decrease in the future due to additional issues of shares. However, these are expected to be comparatively higher than the industry.
- The cost of funds 6.62% is higher than the industry 6.18% and is projected to be even higher, signifying a more expensive borrowing and deposits collection.
- Profit margin 25.86% vs 26% is the other negative indicator as these are again expected to decrease in the projected periods.
- The current and projected ROE and ROA of the company higher than the industry, indicate a positive factor of growth.
- The ratio of operating expenses to the net interest income for the 2nd quarter 2073/74 is 52.3%, while the industry average is 54%. This ratio can be expected to remain below the industry average on yearly basis too.
- IRS shows the profitability of the company, high IRS high profits. However, the NRB has put a cap of 7% on IRS which might affect the high profit projection of the company.
- The cash flow per share are lower than EPS in the projected periods which shows the low earning quality of the company.

Excerpts from Income Statement (in Millions)

Particulars	Audited		Projected		
	71/72	72/73	73/74	74/75	75/76
NII	97.51	117.29	222.02	275.06	384.75
Operating Expenses	52.17	60.55	121.52	158.73	199.11
Employee Expenses	42.33	47.45	76.26	106.16	132.49
Provision for losses	2.18	3.66	7.57	9.71	12.58
Operating Profit	44.28	54.81	95.35	110.05	177.95
Net Profit	30.05	43.79	60.07	69.33	112.11

Ratios

Particulars	Audited		Projected		
	71/72	72/73	73/74	74/75	75/76
NIIM (%)	15.25	14.15	18.07	14.94	14.92
Net Profit Margin	21.79	25.87	19.71	17.21	19.89
Opt. Exp/NII	53.50	51.62	54.73	57.71	51.75
Emp. Exp/ Operating Cost	81.14	78.36	62.75	66.88	66.54
Cost of Funds	5.86	6.62	9	10	10
IRS	12.51	8.80	9	7	
ROE % *	41.40	37.57	33.58	30.44	36.31
ROA % *	4.33	4.66	4.28	3.35	3.90
EPS	214.66	312.81	150.19	115.56	140.14
Cash flow per share	247.29	485	93.45	84.67	100

Note: *ROE is calculated matching the Du- Pont Analysis.

* ROA is calculated taking the average asset figures.

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

Strength

- 1) Capable group of Board of Directors/ Management teams, having better understanding of the company and its areas of activities due to long years of dedication in the company.
- 2) Run by the well renowned persons having special social contribution through the Mahuli Samudayik Bikas Kendra.
- 3) Greater cooperation and supports from the local residents.
- 4) Financial indicators are very strong compared to the other listed MFIs having long history.

Weakness

- 1) It has a very limited area of operation, limiting the expansion and diversification opportunities. Beside, the Mahuli Bazar has only 1638 households to serve at maximum, thus limiting the profit potential.
- 2) The Board and the management team have no much previous experience of running a publicly traded companies.
- 3) Corporate governance and ethical issue might present due to close and long periods bond of the founding members, boards and management teams and owner of major shares in the company.

SWOT

Opportunities

- 1) NRB recent monetary policy directed the commercial banks to at least grant 5% of total loan to deprived sectors, out of which 2% should be direct and 3% indirect. The indirect loan can be made through the MFIs.
- 2) Since its major mission is to uplift the economically backward community from poverty zone, this offer a greater opportunities to reach to the quarter of countries population who are in poverty line.
- 3) The application for incorporation of additional MFIs has been halted for now (except in 10 districts which lacks the financial services), which has enhanced the scope for existing MFIs

Threats

- 1) Intense competition due to high numbers of MFIs in the same operational areas, giving possibility of dual membership and loans.
- 2) NRB has limited the interest rate spread of MFIs to 7 percent, preventing the MFIs charging higher interest to its borrowers, thus limiting the interest earning capacity of MFIs.
- 3) Risks from volatile stocks markets and unsettled political and geographical disputes.
- 4) Threat from the Class "A" and Class "B" Banking and Financial Institutions aiming to reach to the economically backward customers through branch extension, branchless banking, mobile banking etc.

Valuation of Company

We have valued the company using the Relative valuation approach and the Discounted Cash Flow Approach.

Relative Valuation Model – The model helps to judge whether a particular stocks is overvalued, undervalued or fairly valued in terms of measures like earnings, book value, cash flow, sales per shares by comparing the industry multiples. We can also compute the intrinsic value of the shares of the company once it comes in the secondary market by using the industry multiples. Here, we have considered only the P/E and P/B based multiples, as we lack the data for the P/CF and P/S ratio.

The rationale for using P/E ratio in valuation is that the earning power, as measured by the EPS, is the primary determinant of investment value. Looking the table to the right and assuming the P/E model is appropriate and the EPS of the company at the FY end comes true, the share price of the company seems to surge very high right from the initial periods. The value looks to fall slightly in the FY 2074/75 amid the lower percentage net profits compared to higher percentage increase in numbers of shares. Following the year, however it looks to go higher than the previous high.

P/B multiple can typically be used when P/E is not possible. Using this multiple, the share price of the company is expected to float Rs.3300 around during the projected period. This multiples shows comparatively lower value than the P/E multiples because book value is the cumulative amount that is usually positive and more stable and higher than EPS.

Guideline Public Company Methods

The value is based on the multiples of comparables public companies, where multiples are adjusted to reflect differences in the relative risk and growth prospects.

We assume the following:

- Discount for lack of control – Nil; since the company is a public company.
- Discount for lack of marketability – Nil; since the issue will be publicly listed in index.
- Discount for risk – Nil; since the issue is IPO and issued at par hence it is considered riskless.

P/E Based Valuation

Projected Year	Industry P/E	EPS of Company	Value of Shares
2073/74	30.77	150.19	4621.35
2074/75	30.77	115.56	3555.78
2075/76	30.77	140.14	4312.11

Note: Industry P/E is assumed to remain the same

P/B Based Valuation

Projected Year	Industry P/B	BVPS of Company	Value of Shares
2073/74	8.33	447.28	3726
2074/75	8.33	379.63	3162.32
2075/76	8.33	385.97	3215

Note: Industry P/B is assumed to remain the same

Average MVIC/EBITDA(FY 2072/73)	34.15x
Normalized EBITDA of the Company (FY 2072/73) (NRs. In Millions)	56.14
Value of Company (NRs. In Millions)	1917.35
Value of Debt (NRs. In Millions)	-
Value of Equity (NRs. In Millions)	1917.35
Per Share value of equity (NRs)	6847

The industry average is computed based on the market price as on 19th April 2017 and available financials for 2nd quarter of 2073/74. We have ignored the depreciation figure as it was not possible to extract and for such industry this are negligible. Thus the value can be expected to be not more than the computed one.

Performance of previously listed Microfinance Institutions

We have shown below the performance of three Microfinance Institutions which are listed in the NEPSE Index in the recent times.

Ticker	Opening date of trade	Listing Price	Last Closing Price	Difference	Capital Gain %	Time	52 weeks High	52 weeks Low
SLBS	26-Magh-73	486	544	58	11.93%	2 months	544	486
RSDC	26-Magh-73	334	751	417	124.55%	2 months	763	334
NMFBS	26-Magh-73	506	660	154	30.43%	2 months	660	506

The above three MFIs shares trading in secondary market in a 2 months from listing date has given an average capital gain of 55.64%. However, this look biased towards the high return of RSDC. It can be fairly assumed that the return can be higher on a shares listing at lower price compared to the shares listing at an expensive price.

The performance of the shares of Mahuli Samudayik Laghubitta Bittiya Sanstha Ltd., once it gets listed in the index, can be expected to show similar features. As per the guidelines, the listing price of the company should be in between the BVPS – BVPS 3x (three times the book value of the company) before the issue of IPO. Accordingly, the listing price of the shares of Mahuli Samudayik Laghubitta Bittiya Sanstha Ltd. in the Nepse Index ranges current book value of Rs. 832 to Rs. 2498, which seems very expensive. However, the IPO can provide a profit of at least 707% on the very listing date at a minimum price of Rs. 832. The cost per share is expected to be Rs. 103, considering the 12% opportunity cost and 1% service charge. The company has a strong financial indicators and a limited number of shares which might support the trading volumes in secondary markets even at its expensive price.

Fundamental growth of the MFIs after the issue of IPO

The table on right presents the fundamental factors of the previously listed Microfinance Institutions before and after the issue of the IPO.

The prior to issue figures are as per the audited statements of the company. The percentage growths in the post issue period are calculated taking the audited figures as our basis.

We can see that the fundamental value of the two microfinance institutions, RSDC Laghubitta Bittiya Sanstha Ltd. and Suryodaya Laghubitta Bittiya Sanstha Ltd. have progressed after the issue of the IPO, even if the deposit and loan and advance growth has fallen comparatively. The lower net interest income of the 2nd quarter 2073/74 of RSDC is reasonable as we are comparing the quarterly performance with the annual period.

This actual fundamental data have supported the ratios we have calculated above as per the projection. Therefore, the fundamental growth of the Mahuli Samudayik Laghubitta Bittiya Sanstha Ltd. after the issue of IPO can be reasonably expected.

MFIs	RSDC		SLBS	
Particulars	Prior to issue (audited)	Post Issue (Q2 2073/74)	Prior to issue (audited)	Post Issue (Q2 2073/74)
Net Profits	6.48 mill	10.98 mill	5.62 mill	7.72 mill
NII	20.05 mill	17.75 mill	17.63 mill	28.79 mill
Operating Profits	13.40 mill	14.85 mill	7.25 mill	23.54
Deposit Growth	-	-	459.15%	252.39%
Loan and advance growth	124.10%	57%	205.13%	154%
BVPS	115.35	135.35	108.59	193.39
EPS	14.14	21.96	8.58	77.18
ROE	9.55%	19.21%	37.59%	54.39%
ROA	0.94%	2.48%	4.05%	3.49%

Tentative allotments schedule:

We have detailed the allotment modules of IPO (to general public) issued in a recent time of two Microfinance Institutions below:

MFIs	Forward		RSDC	
	Retail	Other	Retail	Other
Total Issue	216,000	324,000	148,800	223,200
Total Application (Units in Million)	23.64	36.40	21.312	60.156
Total Issued Amounts (NRs. In Million)	21.60	32.40	14.88	22.32
Oversubscribed	109.45 x	112.35 x	143.23 x	269.52x
Total Amounts (NRs. In Million)	2,364.12	3,640.14	2,131.26	6,015.68
Total valid applicant	107,697	17,028	154,580	
Allotment	<ul style="list-style-type: none"> • 30.47% applicant got shares • Lottery of each 10 shares who applied for 50 to 1030 units. • Pro-rata at 0.89% who applied for 1040 to 3000 units. 		<ul style="list-style-type: none"> • 21.39% i.e. 33,702 applicants got shares. • Lottery to 50 to 2550 units applied. • Pro-rata at 0.35% to 0.388% who applied for 2560 to 4000 units. 	

The recent 300,000 units of IPO of Swadeshi Laghubitta Bittiya Sanstha Ltd. was oversubscribed by 122.84 times. Though the banks are seen taking deposit as high as at 13%, questioning the liquidity crunch in the Banking and Financial Institutions, Nepal Rastra Bank on 9th April 2017 published the statements about the economic conditions of the country for 8 months of the current FY 2016/17 indicating the improving liquidity situations.

Observing the allotment modules as presented and the recent news and events, we have made a tentative allotment of the IPO of Mahuli Samudayik Laghubitta Bittiya Sanstha Ltd.

Since the issue is very small in size, we expect an oversubscription to be 175 times on average.

Issue Application	Rs. 10,920,000	Retail Rs.4,368,000	Other Rs.6,552,000
Oversubscription	175x		
Total Collections	Rs. 1,911,000,000		
Retail application (35%)	Rs. 668,850,000		
Other application (65%)	Rs. 1,242,150,000		

We assume the proportion of retail and other investors to be 35:65 ratios for total application amount, observing the same for Forward and RSDC. Taking the maximum application amount by retail investors Rs. 50,000 and other investors Rs. 60,000, the number of applicants will be 13,377 and 20,702 respectively. The percentage of allocation for retail and other investors will be 0.65 % and 0.53% respectively. Multiplying the percentage with maximum units that can be applied by retail and other investor i.e. 500 and 600, the number of shares that can be allotted to retail and other will be 3 and 3 respectively, which are less than the minimum allotment limit of 10 kittas. Therefore, in this assumption, both the retail and other category of shares are likely to be allotted on lottery basis. The total valid applicants, both retail and other category sums to 34,079 out of which only 10,920 are likely to be allotted shares on lottery system.

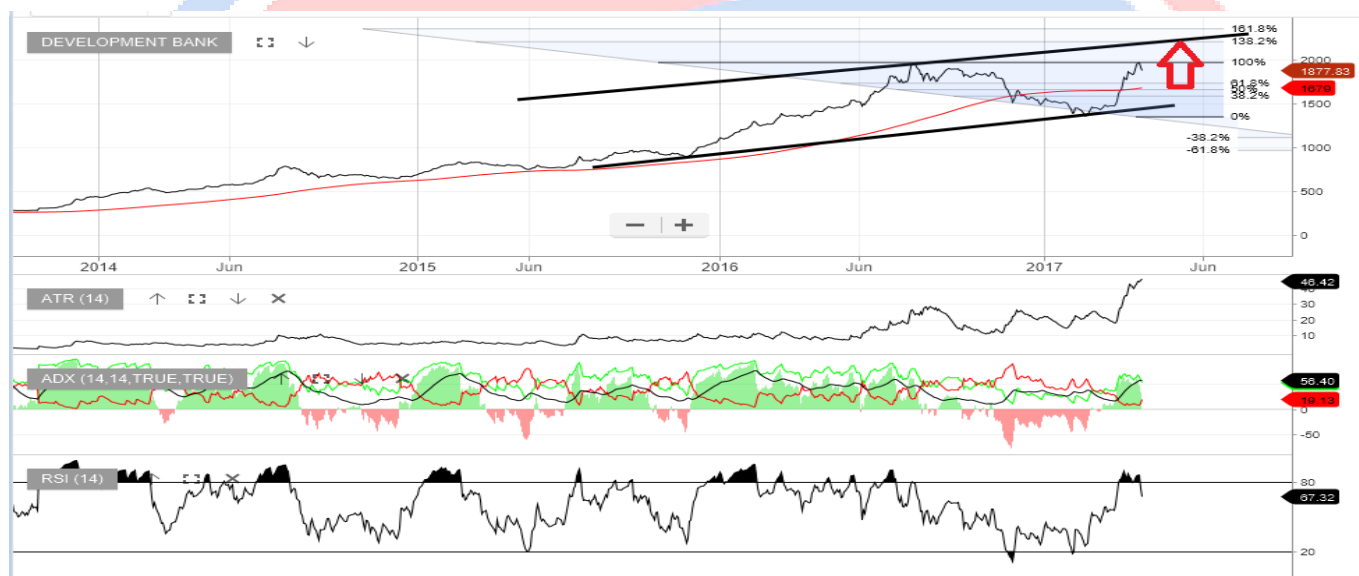
We expect the chances of invalid applicants to be lower as we expect more investors to apply the IPO through ASBA system.

Technical Analysis

Development bank sub index has been up trending since 2014. The development bank sub index recently found resistance around the all time high of 1980. The 200-day simple moving average is still well below the index which indicates that development bank sector is strongly bullish. As long as the index is above 200-day SMA this sector has the higher chances to move higher.

Recent upward swing supported by increased volume makes the bullish trend stronger. Average true range indicator is above 40 indicating high volatility. ADX histogram is positive and the bullish moving average crossover has signalled that the market is up trending with strong momentum. However, RSI above 80 warns the development bank sector is overbought at present so might face some corrections in the days to come.

Development bank sector is likely to move inside an up trending channel which started from November 2015. If the sector is to trend inside this channel, the development bank sub index is likely to reach 2210 (@Fibonacci extension 138.2%) in the coming days.



RECOMMENDATION: BUY

HOLDING PERIOD: 3 YEARS AND ABOVE

The IPO of Mahuli Samudayik Laghubitta Bittiya Sanstha Ltd. is recommended to apply for. Past and projected fundamentals of the company look very strong compared to the same of other MFIs. Though the fundamentals are likely to fall in the periods ahead due to increase in number of shares, but the profits are not expected to be compromised. The high reserve and surplus of the company are likely to make the net worth strong in the future periods too. The dedicated members in the board and management teams and their social contribution are expected to help the company in maintaining a strong hold in its area of operation, making the company able to compete for a long time. The present business expansion and the ambitious future plan and strategies are very attractive. All three valuation method adopted hints the comparatively higher value in the future which are likely to meet the wealth maximization objectives of the investors.

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