



**INITIAL PUBLIC OFFERING**

**Report Date:2075/07/29**

**Recommendation – Apply**

**SECTOR: Microcredit**

**Listing Range: NPR.122-366**

### Introduction of the Company

Samudayik Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The Company was registered at Company Registrar office on 2070/03/28. It was licensed by Nepal Rastra Bank on 2070/12/30. The company has been operating since 2071/04/01.

The registered office of the company is situated at kavrepalanchowk, Sanga, Nasikasathan-3.

### Area of Operation

The company has license to operate in 10 districts of Nepal.

### Branch Extension

The company is operating through 35 branches.

### Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Animal Husbandry and Agricultural Loan: NPR. 150,00,000
- Retail Business & Services Loan: NPR. 90,00,000
- Small and domestic Loan: NPR. 60,00,000

### Future Plan and Strategy

- To increase District wise operation area from 10 districts to 15 districts.
- To offer secured loans from 1<sup>st</sup> Magh, 2075
- To give priority for Corporate Governance and Internal Controls.
- To promote Rural Entrepreneurship.

### Issue Details

Issue Size (Kitta)	3,00,000
Price per Share (NPR)	100
Issue Open Date	2075/08/1
Issue Close Date	2075/08/
Issue to Staff (4%) (Kitta)	12,000
Issue to Mutual Fund (5%) (Kitta)	15,000
Issue to General Public (Kitta)	2,73,000
Issue Manager	Nepal SBI Merchant Banking Limited.
Collection Centers	Meroshare and C-ASB A Registered Financial Institutions.
Min. Application (Kitta)	50
Max. Application (Kitta)	1500
ICRA Rating	Not Required

### Operational Coverage

Numbers of Authorized Districts	10 districts
Number of Branches	35

## Board of Directors

- 1) Mr. Hira Lalbishwakarma, Chairman
- 2) Mr. Batukrishna Karki, Director
- 3) Mr. Rajir Shrestha, Director
- 4) Ms. Chandeshowri Shrestha Pradhan, Director
- 5) Mr. Achyut Rajananda Rajopadhyaya, Director
- 6) Mr. Rajeshwor Adhikari, Director
- 7) Mr. Keshav Bahadur Bista, Special Director

Key Fundamentals (FY 73/74) (NPR. In Thousands)	
Paid up Capital	70,000
Reserve and Surplus	15,654
Book Value Per Share (In NPR)	122
Earnings Per Share (In NPR)	10

## Management Team

- 1) **Dr. Shiva Hari Shrestha , CEO**
  - Over 52 years of experience at various organizations at directorial level post
  - CEO at Nepal Khadya Sanstha for 4 Years.
- 2) **Ms. Belumaya Magar, Executive Director**
  - Over 8 years of experience in Community Development Programs.
  - Over 14 years of experience in Microfinance Programs as an officer.
- 3) **Mr. Suman Maharjan, Director**
  - 8 years of experience at Mahila Utthan Kendra.
  - 14 years of experience at Samudayik laghubitta Bittiya Sanstha.
- 4) **Mr. Suman Danuwar, Departmental Manager**
  - 10 years of work experience in Nepal Mahila Utthan Kendra.
- 5) **Mr. Gokarna Parajuli, Assistant Deirector**
  - 33 years of collective work of experience in various fields of Micro Finance industry

Comparison with Industry average (Q4, 2074/74)		
Particulars	Market Average	Samudayik Laghubitta
Index	1424	
Market Cap (NPR '000)	1,449,733	N/A
EPS (NPR)	30	22.85
BVPS (NPR)	182	145
P/E Ratio	63	-
P/B Ratio	7	-
ROE	15.39%	15.74%
ROA	1.82%	1.93%
CAR	14.21%	-
Cost Of Funds	10.04%	-
NPL	1.35%	-
Credit Deposit Ratio	229%	108%

## Composition of Board of Directors

As per Article 27 of the Company Act, the Board shall constitute 9 members as follows:

Representing Promoters	6 members
Representing Ordinary Shareholders	2 members
Independent Director	1 member

The tenure of directors shall be 4 years.

## General Introduction to Balance Sheet Figures

Paid-up capital of the company is forecasted to increase to **NPR. 15.40 Crore** at the end of FY 76/77 as the company has planned to provide bonus share worth of **1 crore** post IPO. The company also forecasts **1.1 Crore** and **3 Crore** of bonus share in the forecasted years. The Reserve and Surplus projected to increase at **4 year CAGR of 39.33 %** ahead. Borrowing is projected to increase at **4 year CAGR of 48.37%** and Deposits at **4 year CAGR of 38.36%**. The 4 year CAGR of Loan and Advances is only **40.49%**. Similarly, Cash in Hand and at Bank is projected to grow at **48.72%**. Total Assets of the company are projected to grow at **CAGR 41.87%**.

### Excerpts from Balance Sheet (NPR. In Thousands)

Particular	Audited		Unaudited		Projected	
	73/74	74/75	75/76	76/77	77/78	78/79
Paid-Up capital	70,000	70,000	110,000	1,54,000	2,31,000	
Reserve/ Surplus	15,654	31,652	40,215	54,202	58,996	
Net Worth	85,654	1,01,652	1,50,215	2,08,202	2,89,996	
Borrowing	319,154	3,95,798	7,52,017	12,78,429	15,34,115	
Deposits	201,223	2,69,114	3,63,304	5,08,626	737,508	
Cash and Bank Bal.	3,015	3,775	7,269	10,172	14,750	
Loans/ Advances	530,031	7,17,167	10,10,341	15,68,770	20,41,453	
<b>Total Assets</b>	<b>650,039</b>	<b>8,26,720</b>	<b>13,27,546</b>	<b>20,60,627</b>	<b>26,33,562</b>	

### Comparison with Industry Figures (Annual 2073/74)

- BVPS of the company stands out at **NPR. 122.36**, whereas industry BVPS is at **NPR.158**. The company's BVPS is lower than industry average but at satisfactory level.
- The average industry CD Ratio is **169.75%**, while the company CD Ratio is **102%**. This shows that there is moderate level of utilization of funds to loans and advances from deposits and

- borrowings when compared to industry average.
- Company's annualised **ROE 8.27%**, whereas industry average is **24%**.
- The company's annualised **ROA is 1.08%**. Whereas industry average is **2.73%**.

### Ratios

Particulars	Audited		Unaudited		Projected	
	Fiscal Year	73/74	74/75	75/76	76/77	78/79
<b>BVPS</b>		122.36	145.22	136.56	135.20	125.54
<b>Return on Net worth</b>		8%	16%	13%	12%	13%
<b>CD Ratio</b>		102%	108%	91%	88%	90%
<b>Borrowings Growth</b>		24%	24%	90%	70%	20%
<b>Loans and Advances Growth</b>		41%	35%	41%	55%	30%
<b>Deposit Growth</b>		27%	34%	35%	40%	45%
<b>Capital Fund</b>		N/A	N/A	15%	14%	15%
<b>Total Capital Employed to Total Operating Asset</b>		105%	106%	103%	102%	102%
<b>Asset Coverage Ratio (Times)</b>		1.06	1.11	0.94	0.93	0.95

## General Introduction to Income Statement

The Company is operating in profits and has projected to increase it at **4 year CAGR of 51.41%** in the projected period. Interest income is projected to grow at **39.19%**, while interest expense grows at **60.11%** which is both at **4 year CAGR**. Operating expense is projected to increase at **4 year CAGR 14.42%** but the CAGR of operating income is **24.45%**. Company projects to maintain capital Fund ratio at an average of **14.40%** along the years.

## Comparison with Industry Figures

- The annualised EPS of the company is **NPR. 10.12**. The industry average is **NPR. 38.56**.

Excerpts from Income Statement					
Particulars	Audited	Unaudited		Forecasted	
	73/74	74/75	75/76	76/77	78/79
Interest Income	92,850	1,22,693	1,62,653	2,49,810	3,48,469
Interest Expenses	32,649	59,222	82,301	1,44,207	2,14,571
Net Interest Income	60,201	63,471	80,351	1,05,603	1,33,898
Operating Expenses	52,713	54,685	63,915	75,685	90,360
Provision for Losses	1,073	4,135	675	7,231	5,557
Operating Profit	10,579	25,176	29,997	40,174	58,481
Net Profit	7,082	15,998	19,089	25,566	37,215

- The ratio of Operating Expenses to Net Interest Income of the company is **87.56 %** which is higher than the current

industry average of **57.06%**. Top Line earnings of the company is absorbed by operating expenses.

- Net interest Margin of the company is **65%** whereas the industry average is **60.73%**

Ratios					
Particulars	Audited	Unaudited		Projected	
	73/74	74/75	75/76	76/77	78/79
Net Interest Margin	65%	52%	49%	42%	38%
Net Profit Margin	8%	13%	12%	10%	11%
Operating Profit Margin	11%	21%	18%	16%	17%
Operating Profit Growth	22%	138%	19%	34%	46%
Operating Expenses Growth	35%	4%	17%	18%	19%
Cost to income Ratio	82%	65%	68%	61%	59%
Interest Rate Spread			11%	11%	11%
ROE	8.27%	15.74%	12.71%	12.28%	12.83%
ROA	1.089%	1.935%	1.438%	1.241%	1.413%
EPS	10.12	22.85	17.35	16.60	16.11



**Valuation of Company**

**Relative Valuation Model**

The idea underlying relative valuation is that, similar assets should sell at similar prices. The application of relative valuation is called the method of comparable. It estimates an asset's value relative to that of another asset (benchmark). The model helps to check 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. Here, we value the company based on P/E and P/B based multiples.

**P/E Ratio** shows the amount investors are willing to pay for each rupee earnings of the company.

**P/B Ratio** shows the amount investors are willing to pay for each rupee of company tangible assets.

**Guideline Public Company Method**

The value is based on the multiples of comparable 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 NEPSE.
- Discount for risk – Nil; since the issue is an IPO and issued at par hence considered less risk

The values per share, derived under PE Valuation and GPCM Method, are near similar for all three years. Under GPCM, the value does not incorporate all the principles and using EBIT instead of EBITDA is the major constraint.

The values as computed are fair value while the market value after listing of scrip can significantly deviate. It has been observed that the market prices of the securities are trading at relatively higher P/E Multiples in the secondary market.

P/B Based Valuation			
Projected Year	Industry P/B (As of 4th Qtr,74/75)	BVPS (NPR)	Value of Shares (NPR)
75/76	5.86	136.56	800
76/77	5.86	135.20	792
77/78	5.86	125.45	735

P/E Based Valuation			
Projected Year	Industry P/E (As of 4th Qtr,74/75)	EPS (NPR)	Value of Shares (NPR)
75/76	38.45	17.35	660
76/77	38.45	16.60	638
77/78	38.45	16.11	619

The Industry P/E and P/B as of 4th Quarter, 2074/75 has been used.  
Harmonic Mean is used to nullify the effect of outliers.  
NADEP's PB is excluded.  
We assume Industry Average to be same.

GPCM Valuation ('000)			
	75/76	76/77	77/78
<b>EBITDA</b>	29,997	10,174	58,481
<b>Multipliers</b>	<b>12.60</b>		
<b>Enterprise value</b>	378,093	128,237	737,116
<b>Market value</b>	385,360	138,409	751,866
<b>Per share MV (Rs.)</b>	<b>350</b>	<b>90</b>	<b>325</b>
<b>Note: The industry multiple is the ratio of Enterprise Value and EBITDA as of 3rd Quarter 74/75.</b>			
<b>Market Price is as of the 4th Quarter End, 2074/75.</b>			
<b>Operating Profit is taken as EBITDA due to inadequate financial figures for exact computation.</b>			
<b>Debt is taken zero for all (no issuance of bond/debentures).</b>			

## Strength – Weakness – Opportunities – Threat (SWOT) Analysis

### STRENGTHS

- 1) The company has better promoter profile, Nepal Mahila Utthan Kendra, NMB Capital which contributes well on the governance as well as business profile of the Company.
- 2) Most of the senior management team and filed staffs are experienced in MFI sector.
- 3) The Company has better profitability record.

### WEAKNESSES

- 1) Through the observation of the financial statements of the company, the company's operating efficiency is not satisfactory based on industry average. Large amount of NII goes to finance the operating expenses.

### OPPORTUNITIES

- 1) There are always opportunities for the company to reach its services to the greater number of customers and members. The company is also planning to increase its operational area by increasing its branches from 10 to 15.

### THREATS

- 1) Problems in banking sectors like liquidity problems could affect the function of the company along with intense competition among MFIs to find the business.
- 2) In case there is a regulatory requirement of increment of paid up capital, the company may be forced to be a part of merger/acquisition with an established industry player trading below its own Trading Price (As generally perceived, Micro Finance Companies with recent IPO and lower paid up capital trades at a higher end than already established industry players) and at a unfavourable swap ratio.

## Tentative Allotment Module

Chapter 5, Article 30 of Securities Issue and Allotment Guidelines 2074 provides the new process of allotment of securities under which every valid applicant shall be allotted 10 kitta shares on the very first round of allotment and the round following then, provided the kittas available are sufficient for allotment to each eligible applicant. Otherwise, the lottery system will be followed.

On top right is the issue and applicants details of IPO of NADEP Laghubitta Bittiya Sanstha Limited as per new process. The IPO was oversubscribed by more than 16 times where the average kitta applied by total applicants was 34.68 units.

We estimate the IPO of Samudayik Laghubitta Bittiya Sanstha Limited will be subscribed by nearly 1,38,000 valid applicants and the average kitta applied is 37 units. So, the oversubscription is likely to be more than 19 times.

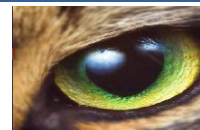
The implementation of C-ASBA has brought revolution in the allotment of IPO. Arambha Microfinance IPO has been allotted within 36 hours by CDSC and issue manager with the help of C-ASBA system.

Investors are found to be more attracted in the primary market like IPOs. Almost all the IPO shares have been oversubscribed in the past. The waiting for the IPO of Microfinance sector is forefront. This is because the Microfinances are able to make good returns and the average trading prices of the Microfinances scrips are comparatively higher than other sectors scrips.

For our forecast of 1,38,000 valid applicants, the number of kittas required to satisfy all with minimum 10 kittas is 13,80,000. However, the company can only satisfy 27,300 applicants with 10 kitta shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 20 out of 100 applicants will get the 10 kittas share.

NADEP Laghubitta Bittiya Sanstha Limited	
Issue Size (Kitta)	4,80,000
Staff (Kitta)	24,000
Mutual Funds (Kitta)	24,000
Public (Kitta)	4,32,000
Allotment Date	2018/07/04
Number of Total Applicants	2,19,091
Number of Valid Applicants	2,18,617
Application Range	N/A
Total Kitta Applied	76,00,000
Oversubscription	16 Times
Number of Allottees	43,200
Kittas Allotted	4,32,000
Allotment Basis	Lottery

Samudayik Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	2,73,000
Estimated Number of Applicants	1,38,000
Estimated Applied Kittas	51,87,000
Oversubscription	19 times
Allotment	
Required Kittas	13,80,000
Available Kittas	2,73,000
Allotment Basis	Lottery
Number of Allottees	27,300
% Allotment	19.78%
Estimated Allotment Date	1 Week
Estimated Listing Date	15 Days of allotment
Estimated Trading Date	7 Days of Trading

**Industry Overview and Competitiveness**

The basic objective of Microfinance Institutions (MFIs) is to provide the financial services like micro-credit, savings, micro-insurance, remittance etc. to the deprived section of the community and uplift the standard of living. MFIs have a huge role and potential in a country like Nepal where a high percentage of population are deprived socially and economically. Microfinance programmes are established and promoted in Nepal with diversified method and modalities like Grameen Banking Model, Deprived Sector Lending Model, Saving and Credit Co-operative Model, Wholesale Lending Model etc.

To carry out the objective, MFIs borrow the money from other BFIs at cheaper rates and lend it to the needed people. Nepal Rastra Bank has classified Microfinance as Class "D" Financial Institution.

MFIs have huge prospects in Nepal since it can serve and extend its services to the wide range of low income people. It has been making good profits which can be reflected in the higher trading prices of its shares. Although returns are contributed by the micro lending of the institutions, it has been able to extend services to remittances, insurances etc.

On the other hand, microfinance can be subject to many risk factors. Major can be the Interest rate change risk, credit risk, operational risk etc. Also, the state of overall Banking and Financial Industry also impact the performance and functioning of the Microfinance Institutions.

Despite the government appeal and direction, MFIs has not been able to reach its services to the weaker sections as it should have been, due to many obstacles like poor infrastructure, geographical difficulty, no financial awareness and ideas and initiatives among the people.

**Listing of Shares of Samudayik Laghubitta Bittiya Sanstha Limited**

The book value per share of the company as of FY 2073/74 is Rs.122. Therefore, the listing price of the share should be in the range of Rs.122 (lower range) and three times of lower range i.e. NRP. 366 (upper range).

**Trading Prices**

The share can be expected to trade at relatively higher prices. There will be 300,000 shares of the company floating in the market and the company has projected increment of share capital in coming year, which will increase supply of shares in the market. Looking at prices of previously listed Micro Credit Companies, we see an exponential increase in the share price, then attains a price and starts to trade sideways, though Last Traded Price of recently listed Micro-Credit institutions is higher than Last Traded Price of their Listing day.



## Technical Analysis

### Microfinance Sector Technical Analysis



Along with the overall market microfinance index has been in down trend since last 2 years. At the present context microfinance index is still in a bearish phase. There are no significant directional indications as of writing.

#### Trend Analysis

200-day moving average is well above the microfinance index suggesting that microfinance index is in a bearish trend. The index is also below the 50-SMA and 20-SMA indicating bearish market in short term and mid term as well. The formation of lower lows and lower highs has also shown downside bias.

#### Momentum Analysis

As relative strength index (RSI) is around 40 on daily time frame there seems to lacking momentum on either side. Market has not made any fresh records recently. A breakout on either direction will open doors to momentum.

#### Volatility Analysis

Bollinger bands have not contracted or expanded abnormally which means that the volatility is in normal condition. It's is obvious to see no volatility when the market does not have momentum in the first place.

#### Volume Analysis

On balance volume indicator, which tracks volume based on the price direction, is hovering around the bottom showing no significance at the present context.

## Recommendation: Apply

The Company seems to be a matured company where the BVPS is higher than 100. The company is expected to have better earnings in the future. The company has also forecasted to payout cash dividend with bonus in forecasted years. The company has forecasted a better Interest Rate Spread with high yield on advances. Also, the company is expected to come up with various strategies and other diversified products like secured loan in near future. Though there are moderate level of issues with operating efficiency of the company, other parameters of company are well in place and is expected to outperform or be in par with industry averages in this Fiscal Year.

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