

Introduction of the Company

NADEP Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. It was registered at company registrar office on 2070/10/15. Thus then, it was licensed by Nepal Rastra Bank on 2072/01/07.

The registered office of the company is situated at Gajuri 1, Dhading District.

Area of Operation

The company has license to operate in all the districts of Nepal.

Branch Extension

The company is operating through 13 branches, 7 Regional Offices and 49 Sub-Branches in the country.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized under;

- Animal Husbandry and Agricultural Loan: NPR. 2,50,00,000
- Retail Business & Services Loan: NPR. 90,00,000
- Alternative Energy Loan: NPR. 50,00,000
- Branch Extension: NPR. 90,00,000

Future Plan and Strategy

- Prioritize the branch extensions
- Increase the number of its members
- Offer diversified services and facilities as required by its members
- To provide services to various rural and deprived parts of the country

Issue Details

Issue Size (Kitta)	480,000
Price per Share (NPR)	100
Issue Open Date	2075/03/10
Issue Close Date	2075/03/13
Issue to Staff (5%) (Kitta)	24,000
Issue to Mutual Fund (5%) (Kitta)	24,000
Issue to General Public (Kitta)	432,000
Issue Manager	NABIL Investment
Collection Centers	ASBA Approved BFIs
Min. Application (Kitta)	20
Max. Application (Kitta)	2,400
ICRA Rating	[ICRAP] IPO Grade 4+

Capital Structure (NPR)

	Existing	Post Issue
Authorized	32,00,00,000	32,00,00,000
Issued	16,00,00,000	16,00,00,000
Paid Up	11,20,00,000	16,00,00,000
Shareholding Structure (%)		
Public	-	4,80,00,000 (30%)
Promoter	11,20,00,000 (100%)	11,20,00,000(70%)

Operational Coverage

Numbers of Authorized Districts	National Level
Number of Branches	62

Board of Directors

- 1) Mr. Pitambar Prasad Acharya, Chairman
- 2) Mr. Deepak Shrestha, Director
- 3) Mr. Bedh Prasad Siwakoti, Director
- 4) Mr. Hari Krishna Subedi, Director
- 5) Mr. Pravin Bhattarai, Director

Management Team

- 1) Mr. Sharada Prasad Kattel , CEO
 - Over 33 years of experience in Agricultural Development Bank Limited.
 - CEO at Deprosc Laghubitta from 2066 to 2074.
- 2) Mr. Amrit Prasad Rupakheti, Deputy CEO
 - Worked for numerous project of Deprosc Nepal.
 - Top level executive experience in NADEP Laghubitta from 2072 B.S
- 3) Mr. Shiva Prasad Acharya, Chief Manager
 - Worked under various projects of Deprosc Nepal.
 - Head of planning, inspection and supervision in NADEP Laghubitta from 2072 to present.
- 4) Mr. Sanjay Kumar Yadav, Chief Manager
 - Working in micro-finance industry for last 8 years.
- 5) Mr. Bisheshor Pokhrel, Chief Manager
 - Extensive experience in Deprosc Nepal and NADEP Laghubitta.
 - Head of finance department at NADEP Laghubitta.

Composition of Board of Directors

As per Article 27 of the Company Act, the Board shall constitute 7 members as follows:

Representing Promoters	4 members
Representing Ordinary Shareholders	2 members
Independent Director	1 member

The tenure of directors shall be 4 years.

Key Shareholder (Promoters)

Name	Shareholdings (Kitta)
Nabil Bank	400,000
Bikas Aayojana Sewa Kendra	400,000
Lumbini Bikas Bank	160,000

Market Average as per Q3 2074/75

Sector	Microfinance
Indexes	1,630.24 (as of 6/20/2018)
Listed Microfinance	37
Market Cap (NPR '000)	87,655,789.23
EPS (NPR)	15.64
BVPS (NPR)	167.97
P/E Ratio	33.03 times
P/B Ratio	5.73 times
ROE	9.81%
ROA	1.19%
CAR	12.54%
Cost Of Funds	9.50%
NPL	0.56%
Credit Deposit Ratio	136.68%

The above fundamentals are as per 3rd Quarter, 2074/75. Harmonic Mean is used as average to nullify the effect of outliers. AMFI & SMB scripts are excluded since AMFI Q3 financial is not published and SMB reported negative profit.

Key Fundamentals (FY 73/74) (NPR. In Millions)

Paid up Capital	112
Reserve and Surplus	111.06
Book Value Per Share (In NPR)	199.16
Earnings Per Share (In NPR)	62.76

General Introduction to Balance Sheet Figures

Paid-up capital of the company will increase to **NPR. 60 crore** at the end of FY 76/77 as the company planned to provide bonus share/right share worth of **44 crore** post IPO. The Reserve and Surplus of the company was saw a massive increase in 73/74 and projected to increase at **52.28 % CAGR** ahead. Borrowing is projected to increase at **CAGR 56.41%** and Deposits at **33.31%** but CAGR of Loan and Advances is only **47.49%**. Similarly, Cash in Hand and at Bank is projected to grow at **133.35%**. Total Assets of the company are projected to grow at **CAGR 48.16%**.

Comparison with Industry Figures

- BVPS of company stands out at **NPR. 239.00**, whereas industry BVPS is at **NPR. 167.97**. The company's BVPS is very high than industry average.
- The average industry CD Ratio is **136.68%**, while the company CD Ratio is **114.19%**. This shows that there is moderate level of utilization of funds to loans and advances from deposits and borrowings.
- Company annualised **ROE 22.22%**, whereas industry average is **9.81%**. Company is producing enough profit to the shareholders, where its peers are giving moderate returns.
- The company's annualised ROA is **1.94%**. When compared to industry average, it is better because industry average is **1.19%**.

(Harmonic mean is used to measure industry average. AMFI & SMB are excluded. Industry average is as of Q3 74/75).

Excerpts from Balance Sheet (NPR. In Millions)

Particular	Audited		Projected		
	72/73	73/74	74/75	75/76	76/77
Paid-Up capital	112	112	240	480	600
Reserve/ Surplus	40	111	119	227	392
Net Worth	136	199	150	147	165
Borrowing	916	1,106	2,530	3,285	4,232
Deposits	550	664	968	1,258	1,573
Cash and Bank Bal.	126	17	110	172	216
Loans/ Advances	1,452	2,072	3,805	5,121	6,648
Total Assets	1,852	2273	4,199	5,711	7,392

Ratios

Particular	Audited		Projected		
	72/73	73/74	74/75	75/76	76/77
BVPS (NPR)	136.23	199.16	149.65	147.34	165.37
Return on Net worth	22.45%	31.51%	24.53%	26.60%	28.72%
CD Ratio	99%	117%	109%	113%	115%
Borrowing Growth	3.18%	20.84%	128.60%	29.84%	28.84%
Advance Growth	28.38%	42.63%	83.67%	34.58%	29.82%
Deposit Growth	14.21%	20.85%	45.70%	30.00%	25.00%
Capital Fund			10.39%	13.08%	17.89%

General Introduction to Income Statement

Company is operating in profits and has projected to increase at **CAGR 59.49%** in the projected period. Interest income is projected to grow only at **41.78%** while interest expense grows at **59.19%**. Operating expense is projected to increase at **CAGR 18.74%** but the CAGR of operating income is **36.63%**. Company projects to maintain Non Performing Loans to Total Loans Ratio at **1.33%**. The effective tax rate of the company is **42%**.

Comparison with Industry Figures

- The annualised EPS of the company is **NPR. 53.11** Which is way better than the industry average of **NPR. 15.64**.
- The ratio of Operating Expenses to Net Interest Income of the company is **100.98%** which is higher than the current industry average of **68.31%**. Profit of the company is absorbed by operating expenses.
- Interest rate spread of the company is projected to be maintained at an average **6.02%**, whereas the average market IRS **5.45%**. Higher spread contributes higher revenues of the company.
- The Company need have policies to counter increasing operating expenses.

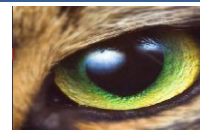
(Harmonic mean is used to measure industry average. AMFI & SMB are excluded. Industry average is as of Q3 74/75).

Excerpts from Income Statement (NPR in Millions)

Particulars	Audited			Projected	
	72/73	73/74	74/75	75/76	76/77
Interest Income	257	354	515	765	1,009
Interest Expenses	82	118	258	370	476
Net Int. Income	174	235	256	395	532
Operating Exp.	138	135	185	203	226
Provision for losses	2	17	17	16	16
Operating Profit	57	117	138	295	447
Net Profit	34	70	88	188	284

Ratios

Particulars	Audited			Projected	
	72/73	73/74	74/75	75/76	76/77
Net Int. Margin	68%	67%	50%	52%	53%
Net Profit Margin	13%	20%	17%	25%	28%
Op. Profit Margin	22%	33%	27%	39%	44%
Op. Profit Growth %	365.56	106.65%	17.32%	113.54%	51.51%
Op. Exp. Growth	583%	-2%	37%	10%	11%
Cost to income ratio	70.06%	49.93%	54.21%	39.53%	32.74%
IRS			5.33%	6.32%	6.41%
ROE %	22.45%	31.51	24.53%	26.60%	28.72%
		%			
ROA %	1.84%	3.04%	2.10%	3.29%	3.85%
EPS	30.58	62.76	36.70	39.19	47.50



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 index.
- Discount for risk – Nil; since the issue is IPO and issued at par hence considered riskless

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 values of the securities are trading at relatively higher prices in the secondary market.

The computed value of NADEP Laghubitta Bitty Sanstha Ltd. is competitively good and we expect the floor price of the script to be the like.

P/B Based Valuation

Projected Year	Industry P/B (As of 3rd Qtr)	BVPS (NPR)	Value of Shares (NPR)
2074/75	5.73	149.64	856.96
2075/76	5.73	147.34	843.79
2076/77	5.73	165.37	947.05

P/E Based Valuation

Projected Year	Industry P/E (As of 3rd Qtr)	EPS (NPR)	Value of Shares (NPR)
2074/75	33.03	36.70	1,212.37
2075/76	33.03	39.19	1,294.62
2076/77	33.03	47.50	1,569.14

The Industry P/E and P/B as of 3rd Quarter, 2074/75 has been used.

Harmonic Mean is used to nullify the effect of outliers.

AMFI (3rd quarter financials not yet published) & SMB (PE is in negative) scripts are excluded.

We assume Industry Average to be same.

GPCM Valuation (NPR in '000)

Particulars	74/75	75/76	76/77
EBITDA	138,420	295,580	447,841
Multipliers	20.07		
Enterprise Value	2,777,707	5,931,474	8,986,932
Market Value	2,904,241	6,129,962	9,235,910
Per Share MV (NPR)	1,210	1,277	1,539

Note: The industry multiple is the ratio of Enterprise Value and EBITDA as of 3rd Quarter 74/75.

Market Price is as of the 3rd Quarter End, 2074/75.

Operating Profit is taken as EBITDA due to inadequate financial figures for exact computation.

Debt is taken zero for all (no issuance of bond/debentures).

AMFI (3rd quarter financials not yet published) & SMB (EPS is in negative) scripts are excluded.

Strength – Weakness – Opportunities – Threat (SWOT) Analysis

STRENGTHS

- 1) The company has strong promoter profile, Nabil Bank, Deprosc NGO and Lumbini Bikas Bank, which contributes well on the governance as well as funding profile of NADEP.
- 2) Most of the senior management team and filed staffs are experienced in MFI sector.
- 3) NADEP has healthy profitability profile and comfortable capitalization profile.

Source: ICRA Grading Report

WEAKNESSES

- 1) NADEP has weak management information system (MIS) which limits the extent of management oversight and control.

Source: ICRA Grading Report

- 2) 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 is always an opportunities for the company to reach its services to the greater number of customers and members, since the services are targeted to the underprivileged and poor section of the community and Nepal has still quarter of its population under poverty zone.
- 2) Besides, the company can reach to the areas where banks cannot reach.
- 3) Since the poverty alleviation is the government major priority, the policies favouring the microfinance sectors can be expected always.

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) As the paid up capital is comparatively lower than the industry average, 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 Nepal Seva Laghubitta Bittiya Sanstha Limited as per new process. The IPO was oversubscribed by more than 80+ times where the average kitta applied by total applicants was 66.03 units.

We estimate the IPO of NADEP Seva Laghubitta Bittiya Sanstha Ltd. will be subscribed by nearly 210,000 valid applicants and the average kitta applied is 66.67 units. So, the oversubscription is likely to be more than 32.41 times.

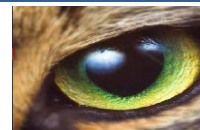
The implementation of C-ASBA has brought revolution in the allotment of IPO. Arambha Microfinance IPO has been allotted within 36 hours by CDSC and issue manager with the help of C-ASBA system.

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 210,000 valid applicants, the number of kittas required to satisfy all with minimum 10 kittas is 2,100,000. However, the company can only satisfy 43,200 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.

Nepal Seva Laghubitta Bittiya Sanstha Limited	
Issue Size (Kitta)	180,000
Staff (Kitta)	3,600
Mutual Funds (Kitta)	9,000
Public (Kitta)	1,67,400
Allotment Date	23/01/2075
Number of Total Applicants	205,386
Number of Valid Applicants	204,838
Application Range	50 – 900 units
Total Kitta Applied	13,525,590
Oversubscription	80.79 times
Number of Allottees	16,740
Kittas Allotted	1,67,400
Allotment Basis	Lottery

NADEP Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	432,000
Estimated Number of Applicants	210,000
Estimated Applied Kittas	14,000,000
Oversubscription	32.41 times
Allotment	
Required Kittas	2,100,000
Available Kittas	432,000
Allotment Basis	Lottery
Number of Allottees	43,200
% Allotment	20.57%
Estimated Allotment Date	1 Week
Estimated Listing Date	15 days of allotment
Estimated Trading Date	7 days of listing



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.

Current Situation of MFIs	
Listed MFIs	36
Registered MFIs	48
National Level	21
1 District	1
1-3 District	2
4-10 Districts	20
10+5 District	4

Listing of Shares of NADEP Laghubitta Bittiya Sanstha Limited

The book value per share of the company as of FY 2073/74 is Rs.199.16. Therefore, the listing price of the share should be in the range of Rs.199.16 (lower range) and three times of lower range i.e. Rs. 597.48 (upper range).

Trading Prices

The share can be expected to trade at relatively higher prices. The listed shares of the company are comparatively lower due to which, in initial days of trading, supply will be low and demand will be higher. There will be 480,000 shares of the company floating in the market and the company has projected increment of paid-up capital in coming year, which will increase supply of shares in the market. Also, the promoter's shares i.e. to the extent of 11,20,000 units can be expected to float in the market after 3 years from allotment date of the public issue. This could affect the pricing of the shares in the secondary market.

Technical Analysis

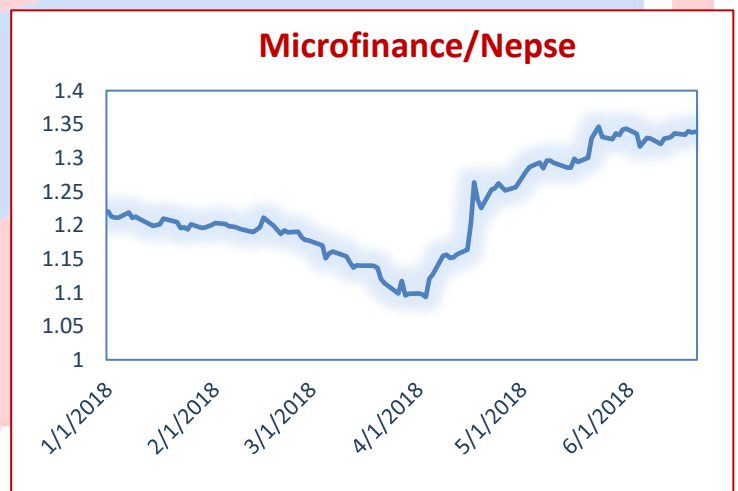
Microfinance Sector Trend and Relative Strength Analysis

Although microcredit sector has been highly volatile market return has not been impressive in last four months. In February 2018, microfinance was moving around 1700 region which is almost at the present. As of writing microfinance index resides at 1531.21. In the last two months this sector has been down trending and any bullish reversals have not been confirmed yet. On the basis of daily microfinance chart, index is below the 5-SMA and 21-SMA.



Volatility is in decreasing trend in last two months. Market is under oversold territory with stochastic residing below 20. OBV has not generated any divergence indicating no signs of confirmation on either direction.

Microfinance Vs Nepse chart demonstrates that the microfinance sector has clearly outperformed overall stock market (Nepse index) since April 2018. However, it has also fallen more aggressively than the Nepse index. During the decline of January to April, microfinance index fell around 27% while Nepse dropped only 19% in the same period. Microfinance sector has the beta of 1.40 which suggests that this sector outperforms the Nepse index in a rising market but it is also true that this sector falls more than the



Nepse index in a declining market. Hence, this sector is a volatile sector and can be considered risky.

RECOMMENDATION: APPLY

The IPO of NADEP Laghubitta Sanstha is ideal to **APPLY** by the investors. The company has been able to make healthy profit in the short period of operation. Also, the company projects further capital increment upto FY 2076/77 after the public issue. The company projects to provide good dividend in terms of bonus share. The valuation as performed provides the reasonable intrinsic values and the trading prices in the secondary markets can be expected to be well above these values. The company is managed by experienced personnel having years of contribution in the Microfinance industry. Beside the basic nature of functions of Microfinances, the company is also providing other services like remittance to the general public, adding revenue sources of the company. Nevertheless, the investment of NPR. 100 in the IPO of the Microfinance are certain to be of 'no regret' but best investment since they are providing benefits in the form of dividends (cash/bonus) and rights while the secondary market prices are very lucrative which are certain to cover any cost (implicit/explicit). *The investors are recommended to apply for a minimum kittas because the allotment is highly to be on lottery basis.*

Note: Kindly click the link below to read ICRA Nepal Grading Report of NADEP Laghubitta Bittiya Sanstha Limited:

http://icranepal.com/RecentReleases/56.%20Rationale_NADEP_Final.pdf

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