

Introduction of the Company

Nepal Agro Laghubitta Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The company was registered at Company Registrar office on 2073/01/07. It was licensed by Nepal Rastra Bank on 2073/05/23. Also, formal operations of the institution started on 2073/06/04. The registered office of the company is situated at Pokhara-18, Bindhyabasini, Kaski.

Area of Operation

Its operation is based on 10 districts of Nepal.

Branch Extension

The company is operating through 26 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Animal Husbandry and Agricultural Sector: NPR. 97,06,680
- Retail Business & Services Sector: NPR. 48,53,340
- Small and Domestic Industry Sector: NPR. 16,17,780

Future Plan and Strategy

- To increase number of districts wise area and provide different facilities.
- To emphasise on Corporate Governance, Internal controls etc.
- To increase productivity of Members.
- To give better returns to shareholders.

Composition of Board of Directors

As per Article 27.2 of the Article of Association of Company, 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. The company as per Article of Association a person to be qualified as director, the minimum holding of the shares of the company would be 20 Units. This provision is not applicable to qualify as Independent Director.

Issue Details

Issue Size (Units)	161,778
Price per Share (NPR)	100
Issue Open Date	2076/01/08
Issue Close Date	2076/01/11
Issue to Staff (Units)	2,489
Issue to Mutual Fund (Units)	8,089
Issue to General Public (Units)	1,51,200
Issue Manager	Nepal SBI Merchant Banking Limited
Collection Centres	Meroshare and C-ASBA registered FIs
Min. Application (Units)	10
Max. Application (Units)	800
IPO Rating	Not required

Board of Directors and Key Persons: At present the company has 5 directors:

Key Fundamentals (FY 74/75) (NPR. In Thousands)

Paid up Capital :	33,600
Reserve and Surplus:	1,170
Book Value Per Share (In NPR):	103.48
Earnings Per Share (In NPR) :	5
Post IPO Promoter to Public :	67.50:32.50

S.no	Name	Holdings	Qualification	Current Profile	Experience
1.	Mr. Ramesh Kumar Karmacharya	25,000	B.Com	Director at Nepal Agro Microfinance from 2073/02/07. Also, in garment business	1 year tenure as Century commercial Bank's Director. Treasurer at Lions Club for a year.
2.	Mr. Nilkantha Sharma Lamsal	12,000	MA, BSc. (Ag.)	Director at Nepal Agro Microfinance from 2073/01/07.	23 years of experience at Ministry of Agriculture, Nepal. Collective 8 years of experience in USAID and BTL Trade Pvt. Ltd.
3.	Mr. Bivek Shrestha	29,150	C.A, B.Com	Director at Nepal Agro Microfinance from 2073/01/07	Four years of experience at G.B Rajbahak and Company. Proprietor at Bibek Shrestha and Associates. Director at V.S Management Pvt. Ltd.
4.	Mr. Sarita Adhikari	24,000	M.B.A	Director at Nepal Agro Microfinance from 2073/01/07	Lecturer for 1 year at Nepal Business College, Biratnagar. Vice President at Leo Club for 2 years.
5.	Mr. Binita Koirala	24,000	Ph.D.	Director at Nepal Agro Microfinance from 2073/01/07	Lecturer for 1 year at Nepal Business College, Biratnagar. Vice President at Leo Club for 2 years.

S.no	Key person	Current position	Education	Experience
1	Mr. Tejendra Sharma Lamsal	Chief Executive Officer	Masters in Economics	C.E.O at NMB Microfinance Limited. Executive Director at kalika Microcredit Development Bank Limited. 5 years of experience at NESDO Nepal and CYC Baglung.
2	Mr. Nayan Devkota	Senior Officer (Credit and Operations)	B.A	10 years of experience at Microfinance Sector.
3	Mr. Prem Prasad Acharya	Junior Officer (Human Resource and Surveillance)	B.B.S and Diploma in community Development	Experience at IME International Pvt. Ltd.

General Introduction to Balance Sheet Figures:

Paid-up capital of the company is forecasted to increase to **NPR. 5.9 Crore** at the end of FY 75/76. The Reserve and Surplus is projected to increase at **182 % CAGR over 3 years**. Borrowing is projected to increase at **37 % CAGR over 3 years** and Deposits at **82 % CAGR over 3 years**. Loan and Advances is projected to increase at **58 % CAGR over 3 years**. Similarly, Cash in Hand and at Bank is projected to grow at **51 % CAGR over 3 years**.

Comparison with Industry average (Q2, 2075/76)

Particulars	Nepal Agro	Market Average
EPS (NPR)	21.5	28
BVPS (NPR)	107	162
ROE (%)	20	17
ROA (%)	1.25	2
CAR	8.69%	14%
Cost Of Funds as per NRB	10.72%	10%
NPL	0.56%	2.20%

Excerpts from Balance Sheet (NPR. In Thousands)

Particular	74/75	75/76 Q2	75/76 E	76/77 E	77/78 E
Paid-Up capital*	33,600	33,600	59,378	88,322	128,417
Reserve/ Surplus	1,170	9,833	99,35	16,580	26,308
Net Worth	34,770	43,433	69,313	1,04,902	1,54,725
Borrowing	2,15,516	3,77,995	3,44,402	4,71,098	5,53,871
Deposits	1,07,523	1,48,877	2,25,908	3,49,070	6,51,219
Cash and Bank Bal.	230	382	400	439	796
Loans/ Advances	3,28,191	4,92,817	5,99,290	8,82,921	1,302,104
Total Assets	3,62,206	5,84,006	6,44,551	9,31,533	13,69,352

Comparison with Industry Figures (Annual 2074/75 of Audited MFIs)

- BVPS of the company stands out at **NPR.103**, whereas industry BVPS is at **NPR.153**. The Company's BVPS is lower than industry average but it is slightly above issue price.
- The average industry CD Ratio (including borrowings) is **102%** while the company CD Ratio is **92%**.
- Company's annualised **ROE**

is **4.89%**, whereas industry average is **20%**.

- The company's annualised ROA is **0.26%**. Whereas industry average is **2%**.

Particulars in (000')	74-75	75-76	76-77	77-78
Beginning Capital	3,600	33,600	59,377	88,321
IPO Issue	-	16,177	-	-
Bonus issue	-	-	10,100	14,700
Further issues	-	9,600	18,844	25,395
Ending Capital	3,600	59,377	88,321	128,416

*As per information provided by company, capital plan of the company states that company would issue bonus shares along with further issues (probably rights or FPO) in coming years.

General Introduction to Income Statement:

The company is operating in profits and has projected to increase it at **140% CAGR over 3 years**. Interest income is projected to grow at **55% CAGR over 3 years**, while interest expense grows at **52 % CAGR over 3 years**. Company projects to maintain Total Capital Fund ratio at an average of **12%** along the years. Company projects to maintain Core Capital Fund ratio at an average of **11%** along the years. The company forecasts NPL to be over **0.26%** along forecasted years.

Comparison with Industry Figures (Annual 2074/75 of Audited MFIs)

Excerpts from Income Statement (in Thousands.)					
Particulars	74/75	75/76 Q2	75/76 E	76/77 E	78/79 E
Interest Income	50,880	48,120	80,767	1,27,958	1,87,737
Interest Expenses	30,773	37,627	46,366	75,823	107,792
Net Interest Income	20,107	10,493	34,401	52,135	79,944
Operating Expenses	26,398	15,524	31,811	40,229	60,279
Provision for Losses	1,576	1,854	3,236	2,923	4,312
Operating Profit	2,879	7,474	13,773	26,314	38,388
Net Profit	1,701	74,74	8,764	16,745	24,429

- The annualised EPS of the company is

NPR.5 The industry average is **NPR.30**

- The ratio of Operating Expenses to Net Interest Income (NII) of the company is **131%** which is higher than the current industry average of **58%**. Top Line earnings of the company is fully absorbed by operating expenses. But the company has earned profit because of increase in other operating income rather than NII (**Commission and other income**)
- Net interest Margin of the company is **40%** whereas the industry average is **46%**.

Ratios

Particulars Fiscal Year	Audited		Projected	
	74/75	75/76	76/77	77/78
BVPS	103	117	119	121
CCD Ratio (As per NRB)	-	204%	195%	161%
Borrowings Growth (%)	31	60	37	18
Loans and Advances Growth (%)	60	83	47	47
Deposit Growth (%)	187	110	55	87
Average Cost of Funds	11.73	10.38	10.91	10.64
Average Return on Loans and Advances	16.11	18.21	17.00	17.00
Spread	4.38	7.83	6.09	6.36

Ratios

Particulars Fiscal Year	Audited		Projected	
	74/75	75/76	76/77	77/78
Net Interest Margin	40%	43%	41%	43%
Net Profit Margin	3%	11%	13%	13%
Operating Profit Margin	5%	17%	21%	20%
Operating Profit Growth	-	394%	91%	46%
Operating Expenses Growth	46%	21%	26%	50%
Cost to income Ratio	86%	65%	58%	59%
ROE	5%	13%	16%	16%
EPS	5	15	19	19

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.

Thus, from P/E and P/B, we get price of stock at NRS. ~700-800

P/B Based Valuation			
Projected Year	Industry P/B (As of 2nd Qtr,75/76)	BVPS (NPR)	Value of Shares (NPR)
75/76	6	117	702

P/E Based Valuation			
Projected Year	Industry P/E (As of 2nd Qtr,75/76)	EPS (NPR)	Value of Shares (NPR)
75/76	55	15	825

The Industry P/E and P/B as of 2nd Quarter, 2075/76 has been used.
We assume Industry Average to be same.

Residual Income Method:

Particulars	75/76	76/77	76/77	Discounted Terminal Value
Residual Income in 000'	8,191.56	8,427.59	11,840.90	
Present value of Residual income in 000'	7,740.30	7,110.11	8,919.48	133,792.27

Assumptions	
Required Rate of Return /Discount Rate	12%
Growth rate	5%

Residual Income Method of valuation states about excess net profit the company generates after charging for Required Rate of Return the shareholders demand on their investment in the company.

Particulars	Amount
Sum of Residual Income	157,562
Number of Shares in 000'	594
Value per Share	265

The value per share is NPR. 265. Thus, the intrinsic valuation is NPR. 260-270.

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 units shares on the very first round of allotment and the round following then, provided the units 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 Sparsha Laghubitta Bittiya Sanstha Limited as per new process. The IPO was oversubscribed by more than 32 times where the average units applied by total applicants was 27 units.

We estimate the IPO of Nepal Agro Laghubitta Bittiya Sanstha Limited will be subscribed by nearly 3,00,000 valid applicants and the average units applied is 20 units. So, the oversubscription is likely to be around 40 times.

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 average trading prices of the Microfinances scrips are comparatively higher than LTP of Listing day (signifying capital returns, with bonus shares issue).

For our forecast of 3,00,000 valid applicants, the number of units required to satisfy all with minimum 10 units is 30, 00,000. However, the company can only satisfy 15,120 applicants with 10 units shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 5.04 out of 100 applicants will get the 10 units share.

Sparsha Laghubitta Bittiya Sanstha Limited	
Issue Size (Units)	2,69,630
Staff (Units)	4,148
Mutual Funds (Units)	13,482
Public (Units)	2,52,000
Allotment Date	2075/12/10
Number of Valid Applicants	2,98,938
Total Units Applied	81,22,940
Oversubscription	32 Times
Number of Allottees	25,200
Units Allotted	2,52,000
Allotment Basis	Lottery

Nepal Agro Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	1,51,200
Estimated Number of Applicants	3,00,000
Estimated Applied Units	60,48,000
Oversubscription	40
Allotment	
Required Units	60,48,000
Available Units	1,51,200
Allotment Basis	Lottery
Number of Allottees	15,120
% Allotment	5.04
Estimated Allotment Date	1 week
Estimated Listing Date	15 Days of allotment
Estimated Trading Date	From Listing Day

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 borrows 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 extends 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 Nepal Agro Laghubitta Bittiya Sanstha Limited

The book value per share of the company as of FY 2074/75 is Rs.103.48 Therefore, the listing price of the share should be in the range of Rs.103.48 (lower range) and three times of lower range i.e. NRP. 310.44(upper range).

Trading Prices

The share can be expected to trade at relatively higher prices. 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 on listing day. This can be seen from table below. We see historically prices of these recently listed scrips have gone up far from upper limit of listing range and also from closing price of scrip on their trading/Listing day. It is shown by the relationship between 52 Week Highest price and Last Traded Price on listing day. Again the market corrects itself and price of share is brought down at a certain point. However, we have to notice that current prices of stocks have not dipped below LTP on their trading/Listing day or neither below Upper Limit of Listing Price.

Scrip	Upper Limit of Listing Price	LTP on Listing Day	52 week Highest Price	Current Closing Price
CHLBS	335	238	610	566
SLBSL	505	505	861	777
NADEP	597	650	1639	692

Technical Analysis



Microfinance Sector is one of the most happening sectors in terms of volatility and momentum. In terms of return this sector is quite correlated with the benchmark index, NEPSE. At times microfinance index has outperformed the NEPSE Index while at other times it has underperformed. If we look at one year's return microfinance sector has underperformed the NEPSE index.

Trend Analysis

Microfinance index has crossed above the 200-day simple moving average indicating long term bullish trend. Negative directional index (-DI) is above the positive (+DI) indicating bullish scenario. The ADX indicator has started rising signalling the potential trending environment.

Volatility Analysis

At the time of writing Bollinger bands have expanded suggesting increased volatility. In fact the index has breached above the higher band indicating extreme optimism within the sector.

Momentum Indicator

The RSI indicator which tracks the momentum is almost near to 80 which means market is gaining upward momentum.

Recommendation: Apply

The company has Book value per share slightly over NRs. 100. The company has a shorter track record in business which has shown its earnings below its peers. The company forecasts 17% bonus shares and also opportunities of further capital investments as the company aims issue further shares (FPO or Rights). The return is judged lucrative as 60% payout ratio is forecasted after F.Y 2076/77. As BVPS of company is NPR. 103.48 at present, shareholders are in profit as by paying NPR. 100 per share, they are getting a share worth of NPR. 103

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