

Introduction of the Company

Gurans Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The company was registered at Company Registrar office on 2073/02/02. It was licensed by Nepal Rastra Bank on 2073/07/22. Also, formal operations of the institution started on 2073/08/13. The registered office of the company is situated at Dhankuta-7, Hulak Tole,

Area of Operation

Its operation is based on 10 districts of Nepal.

Branch Extension

The company is operating through 23 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Animal Husbandry and Agricultural Sector: NPR. 12,50,00,000
- Retail Business & Services Sector: NPR. 75,00,000
- Small and Domestic Industry Sector: NPR. 50,00,000

Future Plan and Strategy

- To give emphasis on Branch extension.
- To provide loans and collect deposits on the basis of increasing number of branches.
- To diversify the business of the company based on demand of customers.
- To increase operational area.

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 100 Units.

Issue Details	
Issue Size (Units)	2,50,000
Price per Share (NPR)	100
Issue Open Date	2076/01/16
Issue Close Date	2076/01/20
Issue to Staff (Units)	3,875
Issue to Mutual Fund (Units)	12,500
Issue to General Public (Units)	2,33,625
Issue Manager	NIBL ACE Capital
Collection Centres	Meroshare and C-ASBA registered FIs
Min. Application (Units)	10
Max. Application (Units)	500
IPO Rating	Not required

Board of Directors: At present company has 6 directors:

Key Fundamentals (FY 74/75) (NPR. In Thousands)	
Paid up Capital :	52,500
Reserve and Surplus:	(3,821)
Book Value Per Share (In NPR):	92.72
Earnings Per Share (In NPR) :	6.75
Post IPO Promoter to Public :	67.74:32.26

S.no	Name	Units	Qualification	Current Profile	Other Experience
1.	Mr. Uday Narayan Baral	41,250	M.A	Founding Chariman of Gurans Laghubitta Bittiya sanstha Limited	Proprietier at Trishakthi Suppliers, Biratnagar, Chairman at Gurans Herbaceuticals, 20 years of experience at Co-operative sector
2.	Mr. Krishna Prasad Gautam	18,750	B.A	Founding Director of Gurans Laghubitta Bittiya sanstha Limited	30 years of experience as Regional Assistant Manager for Agriculture Development Bank Limited
3.	Mr. Raju Prasad Adhikari	41,250	M.B.S	Founding Director of Gurans Laghubitta Bittiya sanstha Limited	Experience at a Pharmaceutical Company, 15 years of experience at Co-operatives, Director at Gurans Herbaceuticals Pvt. Ltd.
4.	Mr. Giriraj Pokherel	18,750	B.A	Founding Director of Gurans Laghubitta Bittiya sanstha Limited	15 years of experience at Macchapuchhere Bank Limited.
5.	Mr. Bijaya Kumar Dahal	18,750	B.A	Founding Director of Gurans Laghubitta Bittiya sanstha Limited	12 years of experience in Teaching.
6.	Mr. Parakash Chandra Gautam	-	B.A	Founding Director of Gurans Laghubitta Bittiya sanstha Limited	30 years of experience as Tax Officer.

Key Persons:

S.no	Name	Current position	Education	Experience
1	Mr. Nagendra Mishra	CEO	Bachelors	Worked for 18 years at Swabalamban Laghubitta as Manager
2	Mr. Jagannath Kuinkel	Manager	Masters (Management)	Worked for 11 years at Sahara Nepal
3	Mr. Tanka Prasad Adhikari	Officer	Masters (Management)	Worked for 7 years at Sahara Nepal

General Introduction to Balance Sheet Figures:

Paid-up capital of the company is forecasted to increase to **NPR. 7.7 Crore** at the end of FY 75/76. The company forecasts the capital to remain same, i.e. there is no provision for bonus or rights issue. The Reserve and Surplus is projected to increase at **153% CAGR over 2 years**. Borrowing is projected to increase at **39.66% CAGR over 3 years** and Deposits at **67.21% CAGR over 3 years**. Loan and Advances is projected to increase at **202% CAGR over 3 years**. Similarly, Cash in Hand and at Bank is projected to grow at **476% CAGR over 3 years**.

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

Comparison with industry average (Q3, 2075/76)		
Particulars	Gurans	Average
EPS (NPR)	13	27
BVPS (NPR)	109	169
CAR	9.22%	12%
Cost Of Funds as per NRB	11.41%	10%
NPL	3.49%	1%
Credit Deposit Ratio as per NRB	677.98%	103%

Comparison with peer average (Q2, 2075/76)		
Particulars	Gurans	Peer Average
EPS (NPR)	8	12
BVPS (NPR)	100.5	158
CAR	9.89%	15%
Cost Of Funds as per NRB	11.54%	10%
NPL	3.83%	2%
Credit Deposit Ratio as per NRB	659.17%	200%

- BVPS of the company stands out at **NPR. 92.71**, whereas industry BVPS is at **NPR.168**. The Company's BVPS is below 100, but at Q3, BVPS stands at **NPR.109**

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	52,500	52,500	77,500	77,500	77,500
Reserve/ Surplus	(3,821)	(102)	8,257	28,100	52,975
Net Worth	48,679	52,398	85,757	1,05,600	1,30,475
Borrowing	3,58,859	428,514	5,78,494	7,52,042	9,77,655
Deposits	56,848	78,746	1,18,119	1,77,179	2,65,769
Cash and Bank Bal.	55	1,702	2,603	6,744	10,511
Loans/ Advances	425,702	512,472	708,294	883,022	11,01,215
Total Assets	475,228	576,848	8,09,114	10,70,011	14,15,249

The average industry CD Ratio (including borrowings) is **87%** while the company CD Ratio is **91%**.

Company's annualised ROE is **7%**, whereas industry average is **10%**.

The company's annualised ROA is **0.74%**. Whereas industry average is **1.09%**

General Introduction to Income Statement

The company is operating in profits and has projected to increase it at **91.5% CAGR over 3 years**. Net interest income is projected to increase it at **38.39% CAGR over 3 years**. Operating expense is projected to increase at **12.07% CAGR over 3 years** and operating income is projected to increase at **117% CAGR over 3 years**. Company projects to maintain Total Capital Fund ratio at an average of **12%** along the years. The company forecasts NPL to be over **2.11%** along forecasted years.

Excerpts from Income Statement (in Thousands.)

Particulars	74/75	75/76 Q2	75/76 E	76/77 E	78/79 E
Net Interest Income	20,323	12,282	33,992	46,742	53,859
Operating Expenses	28,365	17,200	35,691	31,182	39,925
Provision for Losses	2,993	2,141	3,424	708	797
Operating Profit	3,796	4,091	17,177	31,218	39,128
Net Profit	3,542	3,719	12,077	19,843	24,876

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

- The annualised EPS of the company is **7 NPR**. The industry average is **NPR.16**
- The ratio of Operating Expenses to Net Interest Income (NII) of the company is **138%** which is higher than the current industry average of **103%**. Top Line earnings of the company is fully absorbed by operating expenses. But the company has earned profit because of massive increase in other operating income rather than NII (**Commission and other income**)
- Net interest Margin of the company is **37%** whereas the industry average is **45%**.

Ratios

Particulars	Audited		Projected	
	74/75	75/76	76/77	77/78
Net Interest Margin	37%	34%	35%	32%
Net Profit Margin	7%	12%	15%	15%
Operating Profit Margin	7%	17%	24%	23%
Average return on Loans and Advances	-	16%	16%	16%
EPS	7	16	26	31

Ratios

Particulars	Audited		Projected	
	74/75	75/76	76/77	77/78
BVPS	92.72	110.36	136.26	168.36
Return on Net worth	7%	14%	19%	18%
CCD Ratio (Incl. of Borrowings)*	92%	97%	95%	94%
Borrowings Growth	133%	61%	30%	30%
Loans and Advances Growth	193%	66%	25%	25%
Deposit Growth	657%	108%	50%	50%
Average Cost of Funds	12%	12%	10%	10%
Average Return on Earning Asset*	17%	16%	15%	14%

*CCD Ratio (Incl. Of Borrowings) is calculated as Total loans divided by sum of Shareholders Equity, Deposits and Borrowings

*Average Return on Earning Asset is measured by Interest Income divided by average earning asset (Loan and Advances & Balances with BFIs)

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/B and P/E, we get value of stock at NRS. ~555 and 421 respectively

P/B Based Valuation			
Projected Year	Industry P/B (As of 3 rd Qtr,75/76)	BVPS (NPR)	Value of Shares (NPR)
75/76	5	111	555

P/E Based Valuation			
Projected Year	Industry P/E (As of 3 rd Qtr,75/76)	EPS (NPR)	Value of Shares (NPR)
75/76	27	15.58	421

The Industry P/E and P/B as of 3rd Quarter, 2075/76 has been used.
We assume Industry Average to be same.

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 32 times where the average units applied by total applicants was 27 units.

We estimate the IPO of Gurans Laghubitta Bittiya Sanstha Limited will be subscribed by nearly 3,00,000 valid applicants and the average units applied is 23 units. So, the oversubscription is likely to be by 30 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 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 300,000 valid applicants, the number of units required to satisfy all with minimum 10 units is 30,00,000. However, the company can only satisfy 23,363 applicants with 10 unit shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 8 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

Gurans Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	2,33,625
Estimated Number of Applicants	300,000
Estimated Applied Units	70,08,750
Oversubscription	30 times
Allotment	
Required Units	70,08,750
Available Units	2,33,625
Allotment Basis	Lottery
Number of Allottees	23,363
% Allotment	8%
Estimated Allotment Date	1 week
Estimated Listing Date	15 Days of allotment
Estimated Trading Date	From the day 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.

Exposure of regulatory factors related to Microfinance Industry in Nepal

The sector is exposed to changes in the various regulatory measures issued by NRB from time to time. Monetary Policy of 2075/76 changed the guidelines related to interest rate setting. Earlier MFIs were allowed to determine interest rate on lending by adding up to 4% operating expenses above cost of fund plus maximum of 7% spread with the interest rate ceiling of 18%. However, monetary policy of 2075/76 changed this provision where MFIs are now allowed to determine interest rate on lending by adding up to 3% operating expenses above cost of fund plus maximum of 6% spread and the interest rate ceiling (18% earlier) is eliminated. As a result of this change, **MFIs can now pass increased cost of fund to the borrower which will improve their interest earning capacity.**

Listing of Shares of Gurans Laghubitta Bittiya Sanstha Limited

The book value per share of the company as of FY 2074/75 is Rs.100.4. Therefore, the listing price of the share should be in the range of NRP. 92.72(lower range) and three times of lower range i.e. NRP. 278.16 (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	490
SLBSL	505	505	1200	693
NADEP*	597	650	755	522
NSEWA	311	312	889	489

*NADEP is seen as exception and probable reason would be price adjustment of Bonus and Rights issue.

Technical Analysis



At the time of writing microfinance index is strongly bullish. In fact, the microfinance index rose 6.12% on Sunday alone. The microfinance index has crossed above 200-day simple moving average indicating bullish market but the too steep trend opens door for potential bearish reversal.

The RSI indicator has reached the level of 80, which is at overbought zone. RSI had reached the level of 80 a year back when the microfinance index was around 1800. As of now the microfinance index is around 1579.

The immediate resistance for microfinance index is at 1645 and the immediate support is 1550 followed by 1470.

Recommendation: Apply

The company is young MFI, which is growing its business. As per latest Q3 unaudited report the, NPL stands at 3% of Total Loans. It is higher than current industry average of 1%. But other parameters like BVPS and EPS are satisfactory which could prove its dividend paying capacity. Moreover, the company has forecasted to earn at an average of 16% from Loans and Advances in coming years whereas as 18% of interest Cap has been recently removed in monetary policy and increased cost of funds could be transferred to borrowers. So the said MFI has opportunities to expand and issue loans at higher interest rates. As company BVPS is slightly NPR. 100 and future prospects looks promising, so it is recommended to apply in the issue.

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Global IME Capital Limited
3rd Floor, Rastriya Naach Ghar
Jamal, Kathmandu, Nepal
Contact No.: +977-01-4222460, 4261178, 4223593
Fax No.: +977-01-4222534
Email: info@gicl.com.np
Website: www.globalimecapital.com