

Sadhana Laghubitta Bittiya Sanstha Ltd.
SECTOR: MICROCREDIT
Listing Range NPR. 130.12-390.36

Introduction of the Company

Sadhana Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The Company was registered at Company Registrar office on 2074/02/31. It was licensed by Nepal Rastra Bank on 2074/07/22. The company has been operating since 2076/03/30.

The registered office of the company is located at Harmatari, Gorkha, Nepal.

Area of Operation

The company is a National Level Microfinance Institution.

Branch Extension

The company is operating through 60 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized for:

- Animal Husbandry and Agricultural Sector: NPR. 3,53,90,000
- Retail Business & Services Sector: NPR. 1,76,95,000
- Small and domestic industry Sector: NPR. 1,76,95,000

Future Plan and Strategy

- To uplift the living standard of women in rural areas by helping them to get the seed capital for agricultural and other small-scale industries.
- To promote the financial literacy within the people living under poverty in rural areas.
- To encourage locals in productive sectors to attain self-employment.

Composition of Board of Directors

As per Article 27.2 of the Article of Association of Company, the Board shall constitute of 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. Minimum 100 units is required to be qualified as a director.

Issue Details

Issue Size (Units)	7,07,800
Price per Share (NPR)	100
Issue Open Date	21 Ashad 2077
Issue Close Date	24 Ashad 2077
Issue to Staff (Units)	10,890
Issue to Mutual Fund (Units)	35,390
Issue to General Public (Units)	6,61,520
Issue Manager	Global IME Capital Limited
Collection Centres	All BFIs with ASBA and Meroshare.
Min. Application (Units)	10
Max. Application (Units)	1,000
CARE Rating	“[ICRANP]IPOGRADE 4”

Operational Coverage

Numbers of Authorized Districts	22
Number of Branches	60

Board of Directors

S.no	Name	Holdings (units)	Qualification	Current Profile	Experience
1	Mr. Krishna Bahadur Thapa, Chairman	16,000	B Com	Chairman	Long experience in Accounting sector in various national and international organizations
2	Mr. Narhari Dhakal, Director	20,000	PHD in Economics	Director	35 years of Experience in BFI's of Nepal
3	Mr. Ramesh Sapkota, ODirector	2,00,000	M.B.A and M.A in Economics	Director	20 years of Experience at NCC bank and currently he is a Chief Operating Officer at NCC bank.
4	Mr.Radha Krishna Bhandari , Director	4,000	M.A and B.L	Director	Lawyer in Loyal Law Associates for 15 years
5	Mr. Arjun Kumar Singh	8000	B com.	Director	Managing Director at Merina Impex for 20 years.

Key Persons

S.N	Name	Current position
1	Mr. Resham Neupane	Chief Executive Officer
2	Mrs. Sarita Dhakal	Senior Manager
3	Mr. Rupes Kumar Jha	Senior Officer

General Introduction to Balance Sheet Figures

Paid-up capital of the company is forecasted to increase to **NPR. 21.84 crores** at the end of FY 78/79. The Reserve and Surplus is projected to increase to **NPR. 8.731 crores over 3 years**. Borrowing is anticipated to increase at **73.61% CAGR over 3 years** and Deposits at **121.52% CAGR over 3 years**. Loan and Advances is projected to increase at **87.38% CAGR over 3 years**.

Comparison with Industry Figures (Annual 2075/76 of Audited MFIs)

- BVPS of the company stands at **NPR.127.39**, whereas industry average BVPS is **NPR.161.98**.
- The average industry CD Deposit ratio is **207.26%** while the company CD Ratio is **395.06%**. The company is using significant external financing to satisfy its loan demand.
- Company's annualized **ROE is 12.98%**, whereas industry average is **22.64%**.

Extracts from Balance Sheet (NPR. In Thousands)

Particular	Audited		Projected		
	74/75	75/76	76/77 E	77/78 E	78/79 E
Paid-Up capital	49,000	73,500	2,50,447	4,32,021	2,18,425
Reserve/ Surplus	44	22,309	31,895	52,736	87,311
Net Worth	48,820	95,641	2,82,230	4,84,701	6,05,736
Borrowing	2,67,808	8,46,612	11,36,277	19,94,166	24,32,882
Deposits	55,315	2,80,022	449,710	9,57,953	13,31,555
Loans/ Advances	3,47,327	11,81,589	17,91,024	33,63,616	42,82,276
Total Assets	3,75,670	12,34,179	19,30,010	35,33,888	45,03,861
Net worth Per Share	99.63	130.12	129.59	129.02	140.21
Earnings Per Share	0.09	19.08	19.63	20.61	24.48

Industry average Comparison on 3rd Quarter 76/77

General Introduction to Income Statement

The company is operating in profits and it is projected to increase at **74.25% CAGR over 3 years**. Interest income is projected to grow at **57.81% CAGR over 3 years**, while interest expense is expected to grow at **49.74% CAGR over 3 years**. Operating expense is projected to increase at **35.40% CAGR over 3 years** but the CAGR of Net Profit is projected to increase at **68.76% CAGR over 3 years**.

Particulars	Industry Average	Sadhana Laghubitta
ROE (%)	22.64	12.98
EPS (Rs.)	20.77	12.98
BVPS	161.98	127.39
Capital Fund to RWA (%)	13.70%	10.29%
Credit To Deposit Ratio (%)	207.26%	395.06%
Debt To Equity Ratio(times)	7.61	10.12
*EPS & ROE is annualized		

Comparison with Industry Figures (Audited Financials of 2075/76)

Excerpts from Income Statement					
Audited		Unaudited Q3	Forecasted		
			76/77	77/78	78/79
Particulars	75/76	76/77	76/77	77/78	78/79
Interest Income	113,824	1,81,568.99	2,87,791	4,74,177	7,06,075
Interest Expenses	67,530	1,06,495.72	1,45,942	231,611	3,39,495
Net Interest Income	46,294	75,073.27	1,41,849	2,42,566	3,66,580
Operating Expenses	14,919	22,190.58	27,283	40,451	50,149
Provision for Losses	5,938	3,33,49.82	12,202	18,683	10,871
Operating Profit	25,270	12,011.22	87,137	1,57,059	2,33,014
Net Profit	18,281	19,091.70	55,434	99,930	1,48,265

Particulars	Audited	Unaudited		Projected	
		Q3			
Fiscal Year	75/76	76/77	76/77	77/78	78/79
BVPS	130.12	127.39	129.59	129.02	140.21
Average of Return on Net worth (%)	19.08	10.18	19.63	20.61	24.48

- The audited EPS of the company is **NPR 24.87** The industry average is **NPR 27.37**
- The ratio of Operating Expenses to Net Interest Income (NII) of the company is 54.59% which is above than the current industry average of **23.33%**.

GLOBAL IME CAPITAL COMPENDIUM

Valuation of Company

Relative Valuation Model

The idea of 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 stock 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.

P/B Based Valuation			
Projected Year	Industry P/B (As of 3 rd Qtr, 76/77)	BVPS (NPR)	Value of Shares (NPR)
76/77	4.59	127.39	584.72
77/78	4.59	129.02	592.20
78/79	4.59	140.21	643.56

P/E Based Valuation			
Projected Year	Industry P/E (As of 3 rd Qtr, 76/77)	EPS (NPR)	Value of Shares (NPR)
76/77	32.74	12.98	424.96
77/78	32.74	26.60	870.88
78/79	32.74	34.32	1123.63

The Industry P/E and P/B as of 3rd Quarter, 2076/77 has been used. We assume industry average to be same

Strength – Weakness – Opportunities – Threat (SWOT) Analysis

STRENGTHS

- Strong management team.
- Good reputation.
- Good corporate governance.
- Corporate social responsibility

WEAKNESSES

- The company has below average industry performance.

OPPORTUNITIES

- As it is a national level microcredit institution, it has potential to expand its business nationwide.

THREATS

- There is intense competition among MFIs to extend business.

GLOBAL IME CAPITAL COMPENDIUM

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, lottery system will be followed.

For the estimation of total applicants, average past applicants for the IPO of microfinance have been considered i.e. 3,00,000.

For estimating the average shares applied per applicant the number stands at 20 based on Sabaiko Laghubitta Bittiya Sanstha's IPO allotment.

Based on these estimations, the total estimated applied units is 69,00,000 units whereas the available units is only 6,61,520 units. Hence the IPO is estimated to be oversubscribed by 10.43 times.

Industry Overview and Recent Developments

The basic objective of Microfinance Institutions (MFIs) is to provide 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.

Listing of Shares of Sadhana Laghubitta Bittiya Sanstha Limited

The book value per share of the company as on FY 2075/76 was Rs.130.12. Therefore, the listing range of the share should be in the range of Rs.130.12 (lower range) and three times of lower range i.e. NRP. 390.36(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 of their Listing day.

Sabaiko Laghubitta Bittiya Sanstha Limited	
Issue Size (Units)	5,30,000
Staff (Units)	8250
Mutual Funds (Units)	26,500
Public (Units)	4,95,250
Allotment Date	July 26 2019
Number of Total Applicants	3,02,192
Number of Valid Applicants	3,01,738
Total Units Applied valid applicants	55,57,620
Oversubscription	11.25 times
Number of Allottees	49525
Units Allotted	495250
Allotment Basis	Lottery

Sadhana Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	6,61,520
Estimated Number of Applicants	3,00,000
Estimated Applied Units	69,00,000
Oversubscription	10.43 times



With the downfall in stock market due to COVID-19, microfinance sector also has seen sharp fall in stock prices. The 200-day average of microfinance index is far below the index level which indicates the sector is still in a long term up-trend. The index is at a minor support of 2000 at the moment. Stronger support lies at the 1600-1700 region where the past levels and moving average confluence occurs.

Conclusion

Based on the financials and the past trend of the microcredit companies post IPO, investment in IPO can be considered safe as the price trades well above the par value of 100. Due to the less share units available in the market, generally, microcredit stock prices are higher than the similar stocks of other sectors.

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