

INITIAL PUBLIC OFFERING

Report Date: 2075/10/16

Recommendation – Apply

SECTOR: Microcredit

Listing Range: NPR.100-300

Introduction of the Company

Asha Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The Company was registered at Company Registrar office on 2073/01/05. It was licensed by Nepal Rastra Bank on 2073/05/15. The company has been operating since 2073/05/15.

The registered office of the company is situated at Kakani-6, Nuwakot

Area of Operation

The company is a National Level Microfinance Institution.

Branch Extension

The company is operating through 43 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Agricultural Sector Loan: NPR. 1,94,00,000
- Business & Services Sector Loan: NPR. 2,40,00,000
- Small and domestic industry Loan: NPR. 60,00,000
- Micro, Small and Medium Enterprises Loan: NPR. 1,80,00,000

Future Plan and Strategy

- To Increase the Paid-Up Capital of the Company in coming F.Y through present IPO
- To organize Microcredit Programs on a National level.
- To mobilize deposits efficiently for more returns.
- To maintain the Loans and advances efficiently through diversification and effective monitoring.
- To take up proactive approaches to mitigate the changing business environment.

Issue Details

Issue Size (Units)	6,74,000
Price per Share (NPR)	100
Issue Open Date	2075/10/18
Issue Close Date	2075/10/22
Issue to Staff (Units)	10,370
Issue to Mutual Fund (Units)	33,700
Issue to General Public (Units)	6,29,930
Issue Manager	Prabhu Capital Limited
Collection Centres	Meroshare and C-ASBA Registered Financial Institutions.
Min. Application (Units)	10
Max. Application (Units)	3,370
CARE Rating	“CARE-NP IPO Grade 4”

Operational Coverage

Numbers of Authorized Districts	National Level
Number of Branches	43

Board of Directors

- 1) Mr. Nirgud Prasad Bhattachan, Chairman
- 2) Mr. Pradeep Kumar Khadka, Director
- 3) Mr. Hemanta Poudel, Director
- 4) Ms. Susan Sherchan, Director
- 5) Ms. Sunita Tuladhar, Independent Director

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

Paid up Capital	140,000
Reserve and Surplus	77
Book Value Per Share (In NPR)	100.05
Earnings Per Share (In NPR)	7.92

Management Team

- 1) Mr. Badri Prasad Dulal
 - Over 13 years of experience at various MFIs and Development Banks.
- 2) Mr. Pramod Bhattarai
 - Over 11 years of experience in various types of Financial Institution.
- 3) Mr. Rabin Khatiwada
 - 12 years of experience at various Microfinance Institutions
- 4) Mr. Nabin Thapa,
 - 5 years of work experience at various Microfinance Institutions
- 5) Mr. Dipendra Khanal
 - 5 years of collective work of experience at various Microfinance Institutions

Comparison with Industry average (Q1, 2075/76)

Particulars	Market Average	Asha Laghubitta
EPS (NPR)	32	8
BVPS (NPR)	184	102
ROE	16%	7%
ROA	1.78%	0.72%
CAR	14%	11%
Cost Of Funds	10%	11.20%
NPL	1.53%	1.27%
Credit Deposit Ratio as per NRB	191.5%	322.23%

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.

General Introduction to Balance Sheet Figures

Paid-up capital of the company is forecasted to increase to **NPR. 20.74 Crore** at the end of FY 75/76. The Reserve and Surplus is projected to increase at **111.28 % CAGR over 3 years**. Borrowing is projected to increase at **50.35% CAGR over 4 years** and Deposits at **135% CAGR over 4 years**. Loan and Advances is projected to increase at **68 % CAGR over 4 years**. Similarly, Cash in Hand and at Bank is projected to grow at **262% CAGR over 4 years**.

Excerpts from Balance Sheet (NPR. In Thousands)

Particular	Audited		Projected		
	73/74	74/75	75/76	76/77	77/78
Paid-Up capital	70,000	140,000	2,07,400	2,07,400	2,07,400
Reserve/ Surplus	(11,016)	77	10,850	32,152	48,435
Net Worth	58,984	1,40,077	2,18,250	2,39,552	2,88,835
Borrowing	365,250	897,235	13,48,100	16,59,200	18,66,600
Deposits	36,943	257,294	5,72,363	8,12,756	11,21,603
Cash and Bank Bal.	433	147	57,222	65,119	71,186
Loans/ Advances	387,258	1,275,369	20,62,264	26,22,934	31,38,282
Total Assets	467,633	1,316,549	21,96,027	28,51,537	34,13,589

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

- BVPS of the company stands at **NPR.100**, whereas industry BVPS is at **NPR.153**. As the Company has a short track record, BVPS is lower than industry average but it is at issue price.
- The average industry CD Ratio (including borrowings) is **102%** while the company CD Ratio is **105%**.
- Company's annualised **ROE** is **8%**, whereas industry average is

20%.

- The company's annualised **ROA** is **1%**. Whereas industry average is **2%**.

Ratios

Particulars	Audited		Projected		
	Fiscal Year 73/74	74/75	75/76	76/77	78/79
BVPS	84.26	100.05	105.23	115.50	123.35
Return on Net worth	(18%)	8%	13%	26%	27%
CD Ratio (Incl. of Borrowings)	96%	110%	107%	106%	105%
Borrowings Growth	-	146%	50%	23%	13%
Loans and Advances Growth	-	229%	62%	27%	20%
Deposit Growth	-	596%	122%	42%	38%
Total Capital Employed to Total Operating Asset	100%	101%	100%	102%	103%
Average Cost of Funds	-	11%	11%	9%	9%
Average Return on Earning Asset	-	17%	17%	16%	15%
Spread	-	6%	6%	7%	6%
Asset Coverage Ratio (Times)	1.13	1.11	1.13	1.12	1.11

General Introduction to Income Statement

The company is operating in profit and has projected to increase it at **83% CAGR over 3 years**. Interest income is projected to grow at **118% CAGR over 4 years**, while interest expense grows at **120% CAGR over 4 years**. Operating expense is projected to increase at **59% CAGR over 4 years** but the CAGR of operating income is projected to increase at **104% CAGR over 4 years**. Company projects to maintain Capital Fund ratio at an average of **9%** along the years.

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

- The annualised EPS of the company is **NPR.7.92**. The industry average is **NPR.30**
- The ratio of Operating Expenses to Net Interest Income (NII) of the company is **112 %** which is higher than the current industry average of **58%**. This can be described as one of the indicator of teething problems faced usually by a newly established company. 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
- Net interest Margin of the company is **41%** whereas the industry average is **46%**

Excerpts from Income Statement					
Particulars	Audited		Forecasted		
	73/74	74/75	75/76	76/77	78/79
Interest Income	19,465	150,364	2,94,993	3,84,970	4,45,555
Interest Expenses	9,955	89,445	1,76,275	1,98,844	2,35,506
Net Interest Income	9,510	60,918	1,18,718	1,86,126	2,10,049
Operating Expenses	25,743	68,343	1,16,777	1,39,761	1,67,404
Provision for Losses	4,117	14,262	10,027	6,380	5,809
Operating Profit	(13,875)	14,554	39,710	98,112	1,05,872
Net Profit	(10,482)	11,093	27,560	62,782	68,133

Ratios					
Particulars	Audited		Projected		
	73/74	74/75	75/76	76/77	78/79
Net Interest Margin	49%	41%	40%	48%	47%
Net Profit Margin	(54%)	7%	9%	16%	15%
Operating Profit Margin	(71%)	10%	13%	25%	24%
Operating Profit Growth	-	-	173%	147%	8%
Operating Expenses Growth	-	-	71%	20%	20%
Cost to income Ratio	1.61	0.70	0.70	0.57	0.60
ROE	(18%)	8%	13%	26%	27%
ROA	(2%)	1%	1%	2%	2%
EPS	(14.97)	7.92	13.29	30.27	32.85

GLOBAL IME CAPITAL COMPENDIUM

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.

P/B Based Valuation

Projected Year	Industry P/B (As of 1st Qtr,75/76)	BVPS (NPR)	Value of Shares (NPR)
75/76	6.03	105.23	635
76/77	6.03	115.50	696
77/78	6.03	123.35	743

P/E Based Valuation

Projected Year	Industry P/E (As of 1st Qtr,75/76)	EPS (NPR)	Value of Shares (NPR)
75/76	49	13.29	651
76/77	49	30.27	1470
77/78	49	32.85	1609

The Industry P/E and P/B as of 1st Quarter, 2075/76 has been used.

We assume Industry Average to be same.

Strength – Weakness – Opportunities – Threat (SWOT) Analysis

STRENGTHS

- 1) The company has better promoter profile comprising of Prabhu Investment Pvt. Ltd. which contributes well on the governance as well as business profile of the Company.
- 2) Most of the senior management team and field staffs are experienced in MFI sector.
- 3) Company's overall CAR and Tier I CAR stood at 11.55% and 10.58% as on July 16, 2018 which is comfortable in comparison to the minimum regulatory requirement of 8% and 4% respectively

WEAKNESSES

1. Through the observation of the financial statements of the company, NPL is growing from 0.03% in 1st Qtr, 2074/75 to 1.27% in 1st Qtr, 2075/76.
2. The company historically does not have good profitability, the company is earning profit from write backs of previous loan loss provisions.

OPPORTUNITIES

- 1) As a national level Microcredit Institution, the company can increase the number of operational area (districts), to increase Deposit and Loans and advances.
- 2) Monetary policy has removed the 18% cap on interest rate for MFIs.
- 3) As directed by monetary policy, MFIs are to compulsorily obtain membership of Credit Information Bureau.

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 MFIs.
3. As directed by monetary policy, Interest Rate spread of 6% vs. earlier 7%.

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.

On top right is the issue and applicants details of IPO of Chautari Laghubitta Bittiya Sanstha Limited as per new process. The IPO was oversubscribed by 30.59 times where the average units applied by total applicants was 62 units.

We estimate the IPO of Asha Laghubitta Bittiya Sanstha Limited will be subscribed by nearly 300,000 valid applicants and the average units applied is 83 units. So, the oversubscription is likely to be more than 40 times.

The implementation of C-ASBA has brought revolution in the allotment of IPO. Arambha Microfinance IPO was 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.

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 62,993 applicants with 10 unit shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 21 out of 100 applicants will get the 10 units share.

Chautari Laghubitta Bittiya Sanstha Limited	
Issue Size (Units)	600,000
Staff (Units)	9,300
Mutual Funds (Units)	30,000
Public (Units)	560,700
Allotment Date	2075/08/19
Number of Total Applicants	273,192
Number of Valid Applicants	272,717
Application Range	N/A
Total Units Applied	17,153,770
Oversubscription	30.59
Number of Allottees	56,070
Units Allotted	560,700
Allotment Basis	Lottery

Asha Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	6,29,930
Estimated Number of Applicants	300,000
Estimated Applied Units	251,197,200
Oversubscription	40 times
Allotment	
Required Units	30,00,000
Available Units	6,29,930
Allotment Basis	Lottery
Number of Allottees	62,993
% Allotment	21%
Estimated Allotment Date	1 week
Estimated Listing Date	15 Days of allotment
Estimated Trading Date	From the day of Listing

GLOBAL IME CAPITAL COMPENDIUM

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 Asha Laghubitta Bittiya Sanstha Limited

The book value per share of the company as of FY 2074/75 is Rs.100.05. Therefore, the listing price of the share should be in the range of Rs.100 (lower range) and three times of lower range i.e. NRP. 300(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.

Technical Analysis



Trend Analysis

Microfinance index is up trending as suggested by 20-day simple moving average while the index is in down trend according to 200-day simple moving average. This means that the short term trend is up while down trend is still down.

Momentum

RSI has indicated flat momentum in microfinance sector at the moment. RSI has been stalling around the level of 60.

Volume

On daily time frame, OBV has been declining non formation of uptrend by volume.

Recommendation: Apply

The Company seems to be a new company where the BVPS is 100. The company is expected to have better earnings in the future. The company has also forecasted to payout cash dividend in forecasted years. The company takes ambitious target to increase Loans and Advances, thus the success of company to generate profit is based on return on these loans. The company has forecasted a better Spread with yield on earning assets of 17%. Though there are issues with Non-Performing Loans of the company, economic and legal scenario for Micro-finance has changed relating to compulsory membership of MFIs in Credit Information Bureau and removal of Interest rate cap for MFIs which can increase efficiency and profitability in MFIs sector.

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