

Introduction of the Company

Sparsha Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The company was registered at Company Registrar office on 2073/11/04. It was licensed by Nepal Rastra Bank on 2074/03/29. Also, formal operations of the institution started on 2074/03/29. The registered office of the company is situated at Pokhara-26, Bijaypur, Kaski.

Area of Operation

Its operation is based on 10 districts of Nepal.

Branch Extension

The company is operating through 20 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Agricultural Sector: NPR. 200,00,000
- Retail Business & Services Sector: NPR. 40,00,000
- Small and Domestic Industry Sector: NPR. 29,63,000

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)	2,69,630
Price per Share (NPR)	100
Issue Open Date	2075/11/26
Issue Close Date	2075/11/29
Issue to Staff (Units)	4,148
Issue to Mutual Fund (Units)	13,482
Issue to General Public (Units)	2,52,000
Issue Manager	Sanima Capital
Collection Centres	MeroShare and C-ASBA
Min. Application (Units)	10
Max. Application (Units)	1,340
IPO Rating	Not Required

Operational Status as per F.Y 2074/75

Numbers of Authorized Districts:	10
Number of Branches:	20
No. of Members:	8,600
No. of Loatee	5,504
Loatee Ratio	0.64
Average Loan per Loatee (NPR)	69,772
Loatee/Staff	70.56

Board of Directors: At present company has 5 directors:

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

Paid up Capital :	56,000
Reserve and Surplus:	218
Book Value Per Share (In NPR):	100.4
Earnings Per Share (In NPR) :	0.18
Post IPO Promoter to Public :	67.5:32.5

S.no	Name	Representation	Qualification	Current Profile	Experience
1.	Prof. Dr. Sushil Bhakta Mathema	Promoter Holdings: 6000 Shares	Ph.D.	Chairman	35 years of experience as professor. Currently, Principal at Nepal College of Management.
2.	Mr. Ajay Kumar Mishra	Janata Bank Limited Holdings: 136,000 shares	M.Phil.	Director	Vast level of experience for 12 years in Educational institutions, NGOs etc. Also 14 years of Managerial level experience in Media and Banking sector.
3.	Mr. Manoj Khadka	Mega Bank Limited. Holdings:136,000 shares	Masters	Director	Collective experience of 25 years at Nabil Bank Limited, Bank of Kathmandu, Prime commercial bank, Tourism Development Bank in Managerial and Assistant level. Currently at Mega Bank Limited.
4.	Dr. Surendra Neupane	Promoter Holdings: 6000 shares	Ph.D (Consumer Psychology)	Director	15 years of experience as professor of Management. Currently, serving as Head of Opinion Research and Development.
5.	Mr. Megh Raj Gajurel	Independent Director Holdings: NIL	Masters	Independent Director	23 years of collective experience at Bank in role of Branch Manager and Assistant Manager. 15 years of experience at RMDC as Senior Manager.

Key Persons:

S.no	Name	Current position	Education	Experience
1	Mr. Sajal Khadka	Chief Executive Officer	Masters	12 years of collective experience from level of Branch Manager to General Manager in Microfinance companies.
2	Mr. Sudip Acharya	Assistant Manager	Bachelors	13 years of experience as Branch Manager at Chimek Laghubitta Bikas Bank.
3	Mr. Pawan Baral	Officer	Masters	4 years of experience at NMB Microfinance Bittiya Sanstha Limited.

General Introduction to Balance Sheet Figures:

Paid-up capital of the company is forecasted to increase to **NPR. 9 Crore** at the end of FY 75/76. Eventually, through issue of bonus share, the company expects to increase capital base to **NPR. 13.5 Crore at the end of F.Y. 2077/78**. The company forecasts to pay bonus dividend of 8% at F.Y 75/76 then after F.Y 75/76, the company forecasts to pay out dividend of 20% to 25% along the forecasted years. The Reserve and Surplus is projected to increase at **67 % CAGR over 4 years**. Borrowing is projected to increase at **24 % CAGR over 4 years** and Deposits at **56 % CAGR over 4 years**. Loan and Advances is projected to increase at **34 % CAGR over 4 years**. Similarly, Cash in Hand and at Bank is projected to grow at **44% CAGR over 4 years**.

Comparison with Industry average (Q2, 2075/76)

Particulars	Sparsha	Market Average
EPS (NPR)	2.22	28
BVPS (NPR)	101	162
ROE (Annualized)	2.19%	17%
ROA (Annualized)	0.19%	2%
CAR	11.59%	14%
Cost Of Funds as per NRB	11.45%	10%
NPL	0.51%	2.20%
Credit Deposit Ratio as per NRB	513%	219%

Excerpts from Balance Sheet (NPR. In Thousands)

Particular	73/74	74/75	75/76 E	76/77 E	77/78 E
Paid-Up capital	56,000	56,000	90,000	1,08,000	1,35,000
Reserve/ Surplus	116	218	7,073	15,365	25,394
Net Worth	56,116	56,218	97,073	123,365	160,394
Borrowing	-	3,25,606	5,85,000	819,000	10,45,687
Deposits	1.82	57,407	1,95,000	3,51,000	5,63,062
Cash and Bank Bal.	50	82	1,09,472	1,64,208	2,46,311
Loans/ Advances	-	3,80,039	7,71,264	11,56,896	15,90,732
Total Assets	56,851	4,44,148	8,85,874	13,06,652	17,86,222

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

- BVPS of the company stands out at **NPR.100**, whereas industry BVPS is at **NPR.153**. The Company's 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 **99.2%**.
- Company's annualised

ROE is **0.18%**, whereas industry average is **20%**.

- The company's annualised ROA is **0.02%**. Whereas industry average is **2%**

General Introduction to Income Statement

The company is operating in profits and has projected to increase it at **51% CAGR over 4 years**. Interest income is projected to grow at **38% CAGR over 4 years**, while interest expense grows at **34% CAGR over 4 years**. Operating expense is projected to increase at **35% CAGR over 4 years** and CAGR of operating income is projected to increase at **40% CAGR over 4 years**. Company projects to maintain Total Capital Fund ratio at an average of **11%** along the years. Company projects to maintain Core Capital Fund ratio at an average of **10%** along the years. The company forecasts NPL to be over **0.50%** along forecasted years.

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

- The annualised EPS of the company is **NPR. 0.18**. The industry average is **NPR.30**.

Excerpts from Income Statement (in Thousands.)					
Particulars	73/74	74/75	75/76 E	76/77 E	78/79 E
Interest Income	1,216	29,695	1,04,881	1,67,700	2,31,075
Interest Expenses	-	16,857	45,528	68,292	93,901
Net Interest Income	1,216	12,838	59,354	99,408	137,173
Operating Expenses	1,051	21,027	44,668	70,505	96,713
Provision for Losses	-	3,988	4,747	4,368	4,914
Operating Profit	166	160	22,419	43,254	61,286
Net Profit	116	101	14,266	27,525	39,000

- The ratio of Operating Expenses to Net Interest Income (NII) of the company is **164%** 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 massive increase in other operating income rather than NII (**Commission and other income**)
- Net interest Margin of the company is **43%** whereas the industry average is **46%**.

Ratios						
Particulars	Audited	Audited	Projected			
Fiscal Year	73/74	74/75	75/76	76/77	77/78	
BVPS	100.2	100.4	117	137	149	
Return on Net worth (%)	0.207	0.18	14	19	19	
CCD Ratio (Incl. of Borrowings)*	100%	99%	99%	99%	99%	
Borrowings Growth	-	100%	80%	40%	28%	
Loans and Advances Growth	-	100%	103%	50%	38%	
Deposit Growth	-	N/A	240%	80%	60%	
Total Operating Asset to Total Capital Employed	93%	101%	100%	100%	101%	
Average Cost of Funds	-	9%	8%	7%	7%	
Average Return on Loan and Advances Spread	-	15%	17%	17%	17%	
Asset Coverage Ratio (Times)	-	1.35	1.50	1.58	1.83	

*CCD Ratio (Incl. Of Borrowings) is calculated same as CCD ratio as per NRB, along with it Borrowings is also taken in consideration.

Particulars	Ratios				
	Audited 73/74	Audited 74/75	Projected		
Fiscal Year	73/74	74/75	75/76	76/77	77/78
Net Interest Margin	100%	43%	56%	59%	59%
Net Profit Margin	9.5%	0.34%	14%	16%	18%
Operating Profit Margin	13%	0.54%	21%	26%	27%
Operating Profit Growth	-	(3%)	13,910%	93%	42%
Operating Expenses Growth	-	2,279%	98%	52%	36%
Cost to income Ratio	86%	84%	62%	60%	59%
ROE	0.207%	0.18%	14%	19%	19%
Return on Loans and Advances	-	0.03%	2%	2%	2%
EPS	0.21	0.18	16	25	29

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/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 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 value of stock at NRS. ~700 to 880.

P/E Based Valuation			
Projected Year	Industry P/E (As of 2nd Qtr,75/76)	EPS (NPR)	Value of Shares (NPR)
75/76	55	16	880

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 Valuation:

Residual Income is a part of income (Net Profit or EPS) which is left after charging a certain percentage of required rate of return on equity capital. We can see the valuation of company is done on the basis of residual income where required rate of return is 11 percent and valuation is done for 4.5 years as it was deemed fit to start valuation process by taking Book Value of company from published financial statement for 2nd Quarter, 2075/76.

Assumptions	
Discount Rate or Required Rate of return	11%
Time Horizon for Valuation (B.V of Q2, 75/76 is taken) in Years	4.5

Particulars	Amount
(A) Sum of Present values of Residual Income of 4.5 Years per share	196
(B) Book Value per share at Q2 75/76	101
Residual Value of Scrip (A)+(B)	297

Thus, from residual Income Valuation we get value of stock at NRS. ~300.

Strength – Weakness – Opportunities – Threat (SWOT) Analysis

STRENGTHS

- 1) The company has better promoter profile comprising of Janata bank Ltd and Mega Bank Ltd. which contributes well on the governance as well as business profile of the Company.
- 2) Company's overall CAR and Tier I CAR stood at 14.88% and 13.93% as on F.Y 2074/75 which is comfortable in comparison to the minimum regulatory requirement of 8% and 4% respectively. Overall CAR in 2nd Qtr 75/76 is at 11.59%.

WEAKNESSES

1. Through the observation of the financial statements of the company, NPL is growing from 0.42 % in 1st Qtr., 2075/76 to 0.51 % in 2st Qtr., 2075/76.
2. The company does not have longer track record. The company started its operations from 2074/03/29.

OPPORTUNITIES

- 1) As a 10 district 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, the lottery system will be followed.

On top right is the issue and applicants details of IPO of Asha Laghubitta Bittiya Sanstha Limited as per new process. The IPO was oversubscribed by 18.25 times where the average units applied by total applicants was 37.36 units.

We estimate the IPO of Sparsha Laghubitta Bittiya Sanstha Limited will be subscribed by nearly 4,00,000 valid applicants and the average units applied is 25 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 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 400,000 valid applicants, the number of units required to satisfy all with minimum 10 units is 40, 00,000. However, the company can only satisfy 25,200 applicants with 10 units shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 6.3 out of 100 applicants will get the 10 units share.

Asha Laghubitta Bittiya Sanstha Limited	
Issue Size (Units)	6,74,000
Staff (Units)	10370
Mutual Funds (Units)	33,700
Public (Units)	629,930
Allotment Date	2075/10/25
Number of Total Applicants	3,09,782
Number of Valid Applicants	3,09,105
Total Units Applied	1,15,82,230
Total Valid Units	1,15,49,330
Oversubscription	18.25
Number of Allottees	62,993
Units Allotted	10
Allotment Basis	Lottery

Sparsha Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	2,52,000
Estimated Number of Applicants	400,000
Estimated Applied Units	1,00,80,000
Oversubscription	40 times
Allotment	
Required Units	40,00,000
Available Units	2,52,000
Allotment Basis	Lottery
Number of Allottees	25,200
% Allotment	6.3%
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 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 Sparsha 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 Rs.100.4 (lower range) and three times of lower range i.e. NRP. 301.2(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
NSEWA	311	312	889	571

Technical Analysis



Trend Analysis

Microfinance index is moving sideways as the trend in the graph shows. It has strong resistance in the 1450 region. Moving average of 20 days and 5 days shows that 5 days moving average is below the 20 days which shows short term bearish situation.

Momentum

The Relative Strength Index (RSI), is a momentum oscillator that measures the speed and change of price movements. The RSI oscillates between zero and 100. Traditionally the RSI is considered overbought when above 70 and oversold when below 30. Signals can be generated by looking for divergences and failure swings. RSI can also be used to identify the general trend.

RSI oscillator show that is in mid-55 which shows that it is neither in overbought position nor in the oversold position. Also there seems to be no divergence between the RSI oscillators

Recommendation: Apply

The company has Book value per share at NRs. 100. The company has a shorter track record in business which has shown its earnings below its peers. The company aims to be one of the National Level MFIs. Thus, company forecasted to pay handsome bonus shares in future which is needed for capital requirements to become a national level MFI. The company has to generate good returns on their loans and advances and also should keep cost of funds in check for providing Bonus share dividend to shareholders. Also diversification of source of income should be done. Rising level of NPLs and fully invested funds of Core Capital (Tier 1), Borrowings and Deposits into loans and advances can moderately affect company in future. Promoter profile also adds up to business profile of company.

Disclaimer: All of the content published on this Compendium is based on internal data, publicly published data and other available information believed to be reliable. The information contained in this document is meant for general purposes only without warranty of any kind. The information/data herein alone is not sufficient and shouldn't be used for the development, analysis or implementation of an investment strategy.

Investors should use this research as one input into formulating an investment opinion. Additional inputs should include, but are not limited to, the review of other. This is not an offer (or solicitation of an offer) to buy/sell the securities/ instruments mentioned or an official confirmation. Global IME Capital Limited is not responsible for any error or inaccuracy or for any losses suffered on account of information contained in this report. This report does not purport to be offer for purchase and sale of share/ units.

Investing in the stock market may have large potential risks involved in which you can lose some or all your money. You, the reader and not Global IME Capital Ltd, are solely responsible for any losses, financial or otherwise, as a result of your investment.



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