

Introduction of the Company

Ganapati Microfinance Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The company was registered at Company Registrar office on 2073/03/13. It was licensed by Nepal Rastra Bank on 2074/07/30. Also, formal operations of the institution started on 2073/08/24. The registered office of the company is situated at Dhulegauda, Tanahu, Nepal

Area of Operation

Its operation is based on 14 districts of Nepal.

Branch Extension

The company is operating through 24 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Animal Husbandry and Agricultural Sector: NPR. 13,50,00,000
- Retail Business & Services Sector: NPR. 1,00,00,000
- Small and Domestic Industry Sector: NPR. 1,00,00,000

Future Plan and Strategy

- To increase number of districts wise area and provide different facilities to members.
- To give better returns to shareholders.
- To provide various other facilities to members.
- To increase number of clients and members.

Composition of Board of Directors

As per Article 27.2 of the Article of Association of Company, the Board shall constitute 6 members as follows:

Representing Promoters	3 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. This provision is not applicable to qualify as Independent Director.

Issue Details

Issue Size (Units)	3,35,000
Price per Share (NPR)	100
Issue Open Date	2076/01/09
Issue Close Date	2076/01/12
Issue to Staff (Units)	5,157
Issue to Mutual Fund (Units)	16,750
Issue to General Public (Units)	3,13,075
Issue Manager	NIBL Ace Capital Limited
Collection Centres	Meroshare and C-ASBA Registered FIs
Min. Application (Units)	10
Max. Application (Units)	1,500
IPO Rating	CARE NP IPO Grade 4

Operational Status as per F.Y 75/76, Chaitra

Numbers of Authorized Districts:	15
Number of Branches:	28
No of Groups:	3,388
No. of Members:	14,613
No. of Loanee:	9,499
Loanee Ratio:	65
Average Loan per Loanee (NPR):	83,194
Loanee/Staff:	71

Key Fundamentals (FY 74/75) (NPR. In Thousands)	
Paid up Capital :	70,000
Reserve and Surplus:	(14,763)
Book Value Per Share (In NPR):	77.73
Earnings Per Share (In NPR) :	(3.69)
Post IPO Promoter to Public :	67.63:32.37

Major Shareholders/Promoters	
Name	Units
Guheshwori Merchant Banking and Finance Limited	2,25,000
Yubraj Bhandari	1,00,000
Dr. Reshma Shrestha	50,000

Board of Directors and key Person: At present company has 5 Directors:

S.no	Name	Holdings/ Representation	Qualification	Profile	Experience
1.	Mr. Yubraj Bhandari	1,00,000 units	B.L	Independent Law Practitioner	20 years of experience in Law
2.	Mr. Dinesh Lal Shrestha	Representing: Guheshwori Merchant Banking and Finance Limited	MBA	17 years and 10 years of experience in Banking and Insurance sector respectively	-
3.	Mr. Indra Bahadur Adhikari	10,000 units	B.L	Independent Law Practitioner	17 years of experience in Law
4.	Ms. Archana Pradhan	Representing: Guheshwori Merchant Banking and Finance Limited	MBA	23 years of experience in Financial sector	-
5.	Mr. Shivraj Bhandari	Representing: Guheshwori Merchant Banking and Finance Limited	MA and B.L	13 years of experience in Banking	-

S.no	Name	Current position	Education	Experience
1	Mr. Achuyt Raj Sapkota	CEO	MPA	Worked in senior management position in Finance companies. CEO at ILFCO Microfinance from 2068-2071
2	Mr. Bishnu Hari Dhakal	Senior Manager	Masters (Rural Development)	10 years of experience at Swabalambhan Laghubitta Bikas Bank and 3 years of experience at ILFCO Microfinance
3	Mr. Anit Jung Pandey	Senior Manager	MBA	Experience of Supervisor at ILFCO Microfinance

General Introduction to Balance Sheet Figures:

Paid-up capital of the company is forecasted to increase to **NPR. 10.3 Crore** at the end of FY 75/76. The Reserve and Surplus is projected to increase at **22% CAGR over 2 years**. Borrowing is projected

to increase at **18% CAGR over 2 years** and Deposits at **25% CAGR over 2 years**. Loan and Advances is projected to increase at **19% CAGR over 2 years**. Similarly, Cash in Hand and at Bank is projected to grow at **28% CAGR over 2 years**.

Comparison with Industry average (Q2, 2075/76)

Particulars	Ganapati	Market Average
EPS (NPR)	23	31
BVPS (NPR)	103	171
ROE (%)	22	27
Cost Of Funds as per NRB	11%	10%
NPL	1.10%	1.75%

Excerpts from Balance Sheet (NPR. In Thousands)

Particular	74/75	74/75 Q2	75/76 E	76/77 E	77/78 E
Paid-Up capital	70,000	70,000	103,500	103,500	103,500
Reserve/ Surplus	(14,763)	2,023	11,884	43,395	81,276
Net Worth	55,237	72,023	1,15,384	1,46,895	1,84,776
Borrowing	4,32,116	4,58,021	5,95,427	7,02,604	8,29,073
Deposits	1,24,979	1,73,909	1,87,468	216,605	2,92,677
Cash and Bank Bal.	260	139	5,382	7,938	8,811
Loans/ Advances	5,34,164	66,691	7,84,147	9,40,572	11,28,217
Total Assets	6,15,679	7,09,790	9,09,475	10,87,417	13,31,739

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

- BVPS of the company stands at **NPR.77.73**, whereas industry BVPS is at **NPR.161**. The Company's BVPS is lower than industry Average.
- The average industry CD Ratio (including borrowings) is **89%** while the company CD Ratio is **87.39%**.
- Company's annualised ROE is **(4.74%)**, whereas

industry average is **16%**.

- The company's annualised ROA is **(0.41%)** %. Whereas industry average is **2%**

Ratios

Particulars	Audited		Projected	
	74/75	75/76	76/77	77/78
BVPS	77.73	110.64	141.64	178.53
CCD Ratio	-	88.74%	89.64%	87.75%
Borrowings Growth	170%	38%	18%	18%
Loans and Advances Growth	245%	47%	20%	20%
Deposit Growth	625%	50%	15%	35%
Average Cost of Deposits	-	8%	8%	8%
Average Return on Loan and Advances	-	17.5%	17.5%	17.5%

General Introduction to Income Statement:

The company is operating in profits and has projected to increase it at **23% CAGR over 2 years**. Interest income is projected to grow at **25% CAGR over 2 years**, while interest expense grows at **23% CAGR over 2 years**. Operating expense is projected to increase at **21% CAGR over 2 years** and CAGR of operating profit is projected to increase at **35% CAGR over 2 years**. Company projects to maintain Total Capital Fund ratio at an average of **15%** along the years. The company forecasts NPL to be in decreasing trend.

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

- The annualised EPS of the company is **NPR.(3.69)** The industry average is **NPR.27**

Excerpts from Income Statement (in Thousands.)					
Particulars	74/75	75/76 Q2	75/76 E	76/77 E	78/79 E
Interest Income	66,803	31,119	122,317	159,952	192,437
Interest Expenses	43,138	34,391	70,297	89,177	106,528
Net Interest Income	23,666	26,727	52,020	70,774	85,909
Operating Expenses	36,094	22,290	45,561	54,080	65,820
Provision for Losses	6,058	5,038	5,388	2,426	2,863
Operating Profit	(2,835)	14,016	32,387	49,509	59,517
Net Profit	(2,582)	15,183	25,044	31,512	37,881

- The ratio of Operating Expenses to Net Interest Income (NII) of the company is **152%** which is higher than the current industry average of **73%**. Top Line earnings of the company is fully absorbed by operating expenses.
- Net interest Margin of the company is **35%** whereas the industry average is **47%**.

Ratios				
Particulars	Audited		Projected	
	74/75	75/76	76/77	77/78
Net Interest Margin	35%	43%	44%	45%
Net Profit Margin	(4%)	20%	20%	20%
Operating Profit Margin	(4%)	26%	31%	31%
ROE	(5%)	22%	21%	21%
EPS	(3.69)	24.20	30.45	36.60

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 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 NPR. ~600

P/B Based Valuation			
Projected Year	Industry P/B (As of 2nd Qtr,75/76)	BVPS (NPR)	Value of Shares (NPR)
75/76	6	111	666

The Industry P/E and P/B as of 2nd 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 Guheswari Merchant Banking and Finance Ltd (GMFIL) which contributes well on the governance as well as business profile of the Company.
- 2) Over the short period of operation (~2 years) GMBSL loan and advance and deposit grew substantially, mainly due to increase in client base and geographical expansion (CARE Ratings, January, 2019)

WEAKNESSES

1. The company does not have longer track record. The company started its operations from year 2017.
2. There is high dependence of resource profile on Banks and Financial institution borrowings: ~65% of total resources employed (inclusive of borrowings).

OPPORTUNITIES

- 1) Monetary policy has removed the 18% cap on interest rate for MFIs.
- 2) As directed by monetary policy, MFIs are to compulsorily obtain membership of Credit Information Bureau. This avoids loan duplication.

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.

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 Ganapati Microfinance Bittiya Sanstha Limited will be subscribed by nearly 3,00,000 valid applicants and the average units applied is 40 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 31,308 applicants with 10 units shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 10 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

Ganapati Microfinance Bittiya Sanstha Limited	
Issue Units to Public	3,13,075
Estimated Number of Applicants	3,00,000
Estimated Applied Units	1,25,23,000
Oversubscription	40
Allotment	
Required Units	30,00,000
Available Units	3,13,075
Allotment Basis	Lottery
Number of Allottees	31,308
% Allotment	10

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.

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 Ganapati Microfinance Bittiya Sanstha Limited

The book value per share of the company as of FY 2074/75 is NPR. 77.73. Therefore, the listing price of the share should be in the range of NPR.77.73 (lower range) and three times of lower range i.e. NPR.233.19 (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



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 at NRs. 77. The company has a shorter track record in business which has shown its earnings below its peers. But, company has been gradually expanding. In last fiscal year Loans and Advances, Deposits grew massively caused by increase in number of branches and operational area. The company has to generate optimal earnings on their loans and advances for providing better returns to shareholders. Promoter profile also adds up to business profile of company.

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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