

Introduction of the Company

Jana Sewi Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The company was registered at Company Registrar office on 2071/12/23. It was licensed by Nepal Rastra Bank on 2072/06/12. Also, formal operations of the institution started on 2072/06/22. The registered office of the company is situated at Parbat District, Kusma-5, Kusma Bazar

Area of Operation

Its operation is based on 10 districts of Nepal.

Branch Extension

The company is operating through 25 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Animal Husbandry and Agricultural Sector: NPR. 2,15,00,000
- Retail Business & Services Sector: NPR. 1,65,00,000
- Small and Domestic Industry Sector: NPR. 83,30,000

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 number of Members.

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) | 4,63,300 |
| Price per Share (NPR) | 100 |
| Issue Open Date | 2076/01/27 |
| Issue Close Date | 2076/01/31 |
| Issue to Staff (Units) | 7,216 |
| Issue to Mutual Fund (Units) | 22,804 |
| Issue to General Public (Units) | 4,33,280 |
| Issue Manager | NMB Capital |
| Collection Centres | Meroshare and C-ASBA registered FIs |
| Min. Application (Units) | 10 |
| Max. Application (Units) | 1000 |
| IPO Rating | ICRANP IPO Grade 4 |

Board of Directors: At present company has 6 directors:

| Key Fundamentals (FY 74/75) (NPR. In Thousands) | |
|---|--------------------|
| Paid up Capital : | 98,000 |
| Reserve and Surplus: | 4,341 |
| Book Value Per Share (In NPR): | 104.30 |
| Earnings Per Share (In NPR) : | 3.95 |
| Post IPO Promoter to Public : | 67.90:32.10 |

| S.no | Name | Units | Qualification | Current Profile | Other Experience |
|------|-----------------------------------|--------|---------------|--|---|
| 1. | Mr. Bikas Gauchan | 18,000 | S.L.C | Director at Jana Sewi Laghubitta Bittiya Sanstha Limited | 20 years of experience in Tourism sector. Proprietor at Leisure World Tours and Travels |
| 2. | Mr. Padmaraj Regmi | 8,000 | Masters | Director at Jana Sewi Laghubitta Bittiya Sanstha Limited | Experience as a Bureaucrat of Government of Nepal |
| 3. | Mr. Kul Prasad Gurung | 10,000 | Masters | Director at Jana Sewi Laghubitta Bittiya Sanstha Limited | Collective 38 years of experience at in Teaching |
| 4. | Mr. Meghnath Subedi | 12,000 | SLC | Director at Jana Sewi Laghubitta Bittiya Sanstha Limited | Business holder of Stationeries and Books |
| 5. | Mr. Netra Prasad Parajuli | 16,000 | SLC | Director at Jana Sewi Laghubitta Bittiya Sanstha Limited | Retailer and other businesses |
| 6. | Ms. Shanta Kumari Pokherel Upreti | 15,600 | Bachelors | Director at Jana Sewi Laghubitta Bittiya Sanstha Limited | - |

Key Persons:

| S.no | Name | Current position | Education | Experience |
|------|----------------------------|------------------|-----------|--|
| 1 | Mr. Kamal Bahadur Kathri | CEO | Bachelors | 20 years of experience at various Microcredit Banks and Development Banks |
| 2 | Mr. Fadindra Pandey | D.CEO | Masters | 10 years of collective experience at Auditing and Co-operative organization. |
| 3 | Mr. Keshav Narayan Pradhan | Senior Manager | Bachelors | 30 years of experience at Rastriya Banijaya Bank Limited. |

General Introduction to Balance Sheet Figures:

Paid-up capital of the company is forecasted to increase to **NPR. 14 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 **195% CAGR over 3 years**. Borrowing is projected to increase at **47% CAGR over 3 years** and Deposits at **57 % CAGR over 3 years**. Loan and Advances is projected to increase at **52 % CAGR over 3 years**. Similarly, Cash in Hand and at Bank is projected to grow at **154 % CAGR over 3 years**.

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

| Comparison with industry average (Q3, 2075/76) | | |
|--|-----------|---------|
| Particulars | Jana Sewi | Average |
| EPS (NPR) | 8.93 | 27 |
| BVPS (NPR) | 113 | 169 |
| CAR | 20.62% | 12% |
| Cost Of Funds as per NRB (%) | 10.16% | 10% |
| NPL (%) | 1.79% | 1% |
| Credit Deposit Ratio as per NRB | 337.34% | 103% |

| Comparison with peer average (Q2, 2075/76) | | |
|--|-----------|--------------|
| Particulars | Jana Sewi | Peer Average |
| EPS (NPR) | 5.14 | 12 |
| BVPS (NPR) | 109.57 | 158 |
| CAR | 21.33% | 15% |
| Cost Of Funds as per NRB | 10.57% | 10% |
| NPL | 1.96% | 2% |
| Credit Deposit Ratio as per NRB | 331.20% | 200% |

- BVPS of the company stands out at **NPR. 104**, whereas industry BVPS is at **NPR.168**. The Company's BVPS is below 100, but at Q3, BVPS stands at **NPR.113**

| Excerpts from Balance Sheet (NPR. In Thousands) | | | | | |
|---|---------|----------|---------|-----------|-----------|
| Particular | 74/75 | 75/76 Q3 | 75/76 E | 76/77 E | 77/78 E |
| Paid-Up capital | 98,000 | 98,000 | 144,330 | 144,330 | 144,330 |
| Reserve/ Surplus | 4,341 | 13,100 | 24,291 | 56,304 | 111,457 |
| Net Worth | 102,341 | 111,100 | 168,621 | 200,634 | 255,787 |
| Borrowing | 251,377 | 307,577 | 427,340 | 641,011 | 801,263 |
| Deposits | 122,807 | 174,951 | 251,755 | 402,807 | 475,313 |
| Cash and Bank Bal. | 1,493 | 4,258 | 10,296 | 20,009 | 24,529 |
| Loans/ Advances | 410,624 | 572,690 | 775,528 | 1,163,293 | 1,454,116 |
| Total Assets | 484,687 | 622,091 | 866,164 | 1,271,185 | 1,573,987 |

• The average industry CD Ratio (including borrowings) is **87%** while the company CD Ratio is **110%**.

• Company's annualised ROE is **3.78%**, whereas industry average is **10%**.

• The company's annualised ROA is **0.80%**. Whereas industry average is **1.09%**

General Introduction to Income Statement

The company is operating in profits and has projected to increase it at **142% CAGR over 3 years**. Net interest income is projected to increase at **60% CAGR over 3 years**. Operating income is projected to increase at **142% CAGR over 3 years**. Company projects to maintain Total Capital Adequacy ratio at an average of **19.26%** along the years. The company forecasts NPL to be over **3.50%** along forecasted years.

| Excerpts from Income Statement (in Thousands.) | | | | | |
|--|--------|----------|---------|---------|---------|
| Particulars | 74/75 | 75/76 Q3 | 75/76 E | 76/77 E | 78/79 E |
| Net Interest Income | 26,322 | 33,076 | 60,479 | 73,990 | 107,020 |
| Provision for Losses | 5,433 | 6,272 | 11,735 | 9,800 | 7,350 |
| Operating Profit | 6,048 | 13,764 | 31,351 | 50,306 | 86,668 |
| Net Profit | 3,870 | 8,759 | 19,950 | 32,013 | 55,153 |

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

- The annualised EPS of the company is **NPR.3.95** The industry average is **NPR.16**
- The ratio of Operating Expenses to Net Interest Income (NII) of the company is **114%** 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 **44%** whereas the industry average is **45%**.

| Ratios | | | | |
|---|---------|--------|-----------|--------|
| Particulars | Audited | | Projected | |
| | 74/75 | 75/76 | 76/77 | 77/78 |
| Net Interest Margin | 44% | 50% | 47% | 54% |
| Operating Profit Margin | 10% | 26% | 32% | 44% |
| Cost to income Ratio | 85% | 60% | 49% | 37% |
| Average return on Loans and Advances | - | 20.11% | 15.99% | 14.81% |
| EPS | 3.95 | 13.82 | 22.18 | 38.21 |

| Ratios | | | | |
|---|---------|--------|-----------|--------|
| Particulars | Audited | | Projected | |
| | 74/75 | 75/76 | 76/77 | 77/78 |
| BVPS | 104.30 | 116.73 | 138.90 | 177.10 |
| Return on Net worth | 3.78% | 11.83% | 15.96% | 21.56% |
| CCD Ratio (Incl. of Borrowings)* | 186% | 189% | 198% | 204% |
| Borrowings Growth | 58% | 70% | 50% | 25% |
| Loans and Advances Growth | 93% | 90% | 50% | 25% |
| Deposit Growth | 200% | 105% | 60% | 18% |
| Asset Coverage Ratio (Times) | 1.27 | 1.25 | 1.19 | 1.20 |
| Average Cost of Funds | 12% | 12% | 10% | 8% |
| Average Return on Earning Asset* | 17% | 19% | 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, Balances with other banks and FIs)

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. ~584 and 373 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 | 116.73 | 584 |

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 | 13.82 | 373 |

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 Ganapati Laghubitta Bittiya Sanstha Limited as per new process. The IPO was oversubscribed by 21 times where the average units applied by total applicants was 20.3 units.

We estimate the IPO of Jana Sewi Laghubitta Bittiya Sanstha Limited will be subscribed by nearly 3,50,000 valid applicants and the average units applied is 25 units. So, the oversubscription is likely to be by 20 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 350,000 valid applicants, the number of units required to satisfy all with minimum 10 units is 30,50,000. However, the company can only satisfy 43,328 applicants with 10 unit shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 14 out of 100 applicants will get the 10 units share.

| Ganapati Laghubitta Bittiya Sanstha Limited | |
|---|-----------------------|
| Issue Size (Units) | 335,000 |
| Staff (Units) | 5,175 |
| Mutual Funds (Units) | 16,750 |
| Public (Units) | 313,080 |
| Allotment Date | 2076/01/20 |
| Number of Valid Applicants | 322,609 |
| Total Units Applied | 6,555,110 |
| Oversubscription | 21 times |
| Number of Allottees | 31,308 |
| Units Allotted | 10 |
| Allotment Basis | Lottery on full basis |

| Jana Sewi Laghubitta Bittiya Sanstha Limited | |
|--|-------------------------|
| Issue Units to Public | 433,280 |
| Estimated Number of Applicants | 350,000 |
| Estimated Applied Units | 8,665,600 |
| Oversubscription | 20 |
| Allotment | |
| Required Units | 30,50,000 |
| Available Units | 433,280 |
| Allotment Basis | Lottery |
| Number of Allottees | 43,328 |
| % Allotment | 14 |
| 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.

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 Jana Sewi Laghubitta Bittiya Sanstha Limited

The book value per share of the company as of FY 2074/75 is Rs.104.30 Therefore, the listing price of the share should be in the range of NRP.104.30 (lower range) and three times of lower range i.e. NRP.312.9 (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 | 484 |
| SLBSL | 505 | 505 | 1200 | 600 |
| NADEP* | 597 | 650 | 755 | 511 |
| NSEWA | 311 | 312 | 889 | 473 |

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

Strength – Weakness – Opportunities – Threat (SWOT) Analysis

STRENGTHS

1. Proceeds from equity issue can help to increase number of operational area (districts), to increase Deposit and Loans and advances
2. Trend of high credit growth in present days. Credit portfolio has reported high growth at a CAGR3 of ~164% over two years ending mid-July 2018, albeit on a very small starting base of ~NPR 60 million.

Source: ICRA Grading Rationale

WEAKNESSES

1. The company does not have longer track record. The company started its operations from 2072/06/22
2. The company mainly focuses on disbursing loan which is dominated by unsecured group guarantee.

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.
- 3) Growth opportunities for JLB remain adequate given the expansion in additional five districts to be done shortly and large below poverty line population in Nepal

THREATS

1. 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%.
4. Commercial banks have now started to follow “Base rate plus” lending to microfinance whereas earlier lending was done on subsidized rates.

Technical Analysis

Microfinance index, which gauges the performance of micro credit stocks has shown upward trend recently. The microfinance index broke the down trend line in December 2018 and indicated stronger uptrend. The index has also crossed above the 200-day simple moving average suggesting long term up trend. The short-term 50-day simple moving average has also showed upward trend in this sector.



The RSI indicator has retreated from the level of 80 indicating profit booking within the sector. The immediate major support is at 1465 which should work as a decisive zone. In case Microfinance index falls below this level, it may take longer time to return to the bullish trend. 1460 is also an important support because there is a golden Fibonacci ratio of 61.8%.

Microfinance vs. NEPSE

Since January of 2019 microfinance sector has moved along with the NEPSE index, which is the benchmark of the Nepali stock market performance. Since January NEPSE index has appreciated 9.3% while the microfinance index has also increased by the same rate.



Recommendation: Apply

The company is young MFI, which is growing its business. As per latest Q3 unaudited report the, NPL stands at 1.76% of Total Loans. It is higher than current industry average of 1%. It should be also noted that the company has forecasted NPL to be stagnant at 3% over the forecasted years. 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 16.97% 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.

Thus, there are teething problems in the company as it is new. We see delinquencies of loans in recently listed MFIs (NADEP, ALBSL). In this company, forecast of NPL generation is conservative and actual figures are expected to be in line with forecasted NPL levels.

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