

Sabaiko Laghubitta Bittiya Sanstha Ltd.
SECTOR: MICROCREDIT
Listing Range NPR. 100.88-302.64

Introduction of the Company

Sabaiko Laghubitta Bittiya Sanstha Limited is a “D” class financial institution licensed by Nepal Rastra Bank. The Company was registered at Company Registrar office on 2074/01/25. It was licensed by Nepal Rastra Bank on 2074/03/25. The company has been operating since 2074/03/30.

The registered office of the company is situated at Bandipur-1, Dumre, Tanahun.

Area of Operation

The company is a National Level Microfinance Institution.

Branch Extension

The company is operating through 38 branches.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized as under;

- Animal Husbandry and Agricultural Sector: NPR. 25,000,000
- Retail Business & Services Sector: NPR. 180,00,000
- Small and domestic industry Sector: NPR. 10,000,000

Future Plan and Strategy

- To Increase the Paid-Up Capital of the Company in coming Fiscal Year.
- To increase the number of members.
- To add new branches in the near future.
- To provide loans based on expansion of business.

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)	530,000
Price per Share (NPR)	100
Issue Open Date	2076/04/01
Issue Close Date	2076/04/05
Issue to Staff (Units)	8,250
Issue to Mutual Fund (Units)	26,500
Issue to General Public (Units)	495,250
Issue Manager	NIBL ACE Capital Limited
Collection Centres	Meroshare and C-ASB A Registered Financial Institutions.
Min. Application (Units)	10
Max. Application (Units)	2,000
CARE Rating	“[ICRANP]IPOGRADE 4”
Operational Coverage	
Numbers of Authorized Districts	22
Number of Branches	38

Board of Directors

S.n	Name	Holdings	Qualification	Current Profile	Experience
1	Mrs. Shrijana Joshi, Chairman	19,000	M.B.S.	Chairman	Engagement in Blue Chips Investment Pvt. Ltd.
2	Mr. Narayan Prasad Joshi, Director	28,000	B.B.A.	Director	Engagement in Suvakamana Land & Housing Development Pvt. Ltd.
3	Mr. Jivmurti Panta, Director	10,000	B.A.	Director	30 years of Experience in Nepal Rastriya Bank Ltd.
4	Mr. Pradeep Sigdel Sharma, Director	2,000	M.B.S.	Director	Owner of RP Associates
5	Mr. Bhavnath Ghimire	-	B. Com.	Independent Director	30 years of experience in Nepal Rastriya Bank Ltd.

Key Persons

S.no	Name	Current position
1	Mr. Keshab Kumar Poudel	Chief Executive Officer
2	Mr. Gangapal Chaudhary	Account Manager
3	Mr. Prahalad Kunwar	Executive

General Introduction to Balance Sheet Figures

Paid-up capital of the company is forecasted to increase to **NPR. 16.50 crores** at the end of FY 75/76. The Reserve and Surplus is projected to **NPR. 13.07 crores over 3 years**. Borrowing is anticipated to increase at **69.88% CAGR over 3 years** and Deposits at **68.43% CAGR over 3 years**. Loan and Advances is projected to increase at **59.87% CAGR over 3 years**.

Extracts from Balance Sheet (NPR. In Thousands)					
Particular	Audited			Projected	
	74/75	75/76 Q3	75/76 E	76/77 E	77/78 E
Paid-Up capital	112,000	112,000	165,000	165,000	165,000
Reserve/ Surplus	987	23,069	29,260	76,543	130,753
Net Worth	112,987	135,069	194,260	241,543	295,753
Borrowing	452,438	1,009,657	1,312,554	1,706,320	2,218,216
Deposits	116,455	336,574	420,717	483,825	556,399
Loans/ Advances	650,474	1,415,670	1,704,214	2,045,062	2,657,834
Total Assets	684,958	1,502,350	1,954,958	2,470,323	3,117,483
Net worth Per Share	100.88	120.59	173.45	146.39	179.24
Earnings Per Share	0.78	0.78	25.24	28.66	32.85

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

- BVPS of the company stands out above **NPR.100.88**, whereas industry BVPS is at **NPR.175.79** The Company's BVPS is lower than industry average but it is at issue price.
- The average industry CD Deposit ratio is **124.99%** while the company CD Ratio is **564.15%**. The company is using significant external financing to satisfy its loan demand.
- Even though the company is using significant external financing for loan servicing, the company maintained its gearing level 4.02 times (D/E ratio) which is below Industry Average 5.09.
- Company's annualized **ROE is 21.68%**, whereas industry average is **18%**.

Industry average Comparison on 3rd Quarter 75/76		
Particulars	Industry Average	Sabaiko Laghubitta
ROE (%)	18	21.68
EPS (Rs.)	33.91	26.13
BVPS	175.79	120.59
Capital Fund To RWA(%)	14	10.13
Credit To Deposit Ratio (%)	232.79	425.15
Debt To Equity Ratio(times)	4.84	7.48
*EPS & ROE is annualized		

General Introduction to Income Statement

The company is operating in profits and has projected to increase it at **318% CAGR over 3 years**. Interest income is projected to grow at **107% CAGR over 3 years**, while interest expense grows at **119% CAGR over 3 years**. Operating expense is projected to increase at **52% CAGR over 3 years** but the CAGR of operating income is projected to increase at **73% CAGR over 3 years**.

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

Excerpts from Income Statement					
Particulars	Audited	Unaudited Q3		Forecasted	
	74/75	76/75	75/76	76/77	78/79
Interest Income	47,278	132,212	204,873	336,433	422,314
Interest Expenses	27,974	81,812	136,211	232,408	295,403
Net Interest Income	19,304	50,400	68,662	104,025	126,911
Operating Expenses	31,147	45,941	64,181	83,631	109,446
Provision for Losses	6,589	8,697	13,482	4,106	6,519
Operating Profit	1,175	34,492	44,430	74,301	85,703
Net Profit	870	21,950	28,274	47,282	54,210

Ratios					
Particulars	Audited	Unaudited Q3		Projected	
	74/75	75/76	75/76	76/77	78/79
BVPS	100.88	120.48	173.45	146.39	179.24
Return on Net worth	0.77%	16.27%	14.55%	19.57%	18.33%
Return On Capital Employed	0.21%	3.01%	2.95%	3.81%	3.41%
Borrowings Growth	-	123%	190%	30%	30%
Loans and Advances Growth	-	118%	162%	20%	30%
Deposit Growth	-	189%	261%	15%	15%
Average Cost of Funds	4.92%	8.54%	11.83%	11.85%	11.90%
Spread	-	9.5%	8.5%	8.5%	8.75%
Asset Coverage Ratio (Times)	1.25	1.13	1.15	1.14	1.13

- The at EPS of the company is **NPR 0.78** The industry average is **NPR 37.91**
- The ratio of Operating Expenses to Net Interest Income (NII) of the company is **65.88%** which is lower than the current industry average of **76.59%**. 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 **40.83%** whereas the industry average is **47.08%**.

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 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 3rd Qtr,75/76)	BVPS (NPR)	Value of Shares (NPR)
75/76	3.95	173.45	685
76/77	3.95	146.39	578
77/78	3.95	179.24	708

P/E Based Valuation

Projected Year	Industry P/E (As of 3 rd Qtr,75/76)	EPS (NPR)	Value of Shares (NPR)
75/76	26.99	25.24	681
76/77	26.99	28.66	774
77/78	26.99	32.85	887

The Industry P/E and P/B as of 3rd Quarter, 2075/76 has been used.

We assume Industry Average to be same.

Strength – Weakness – Opportunities – Threat (SWOT) Analysis

STRENGTHS

The company is a national level MFI operating in 22 districts with 38 branches, thus there is adequate geographical reach in its area of operation.

Company's overall CAR stood at 12.81. % at Q3 2075/76 2018 which is comfortable in comparison to the minimum regulatory requirement of 8%.

WEAKNESSES

The CD Ratio decreased from 564.22% at YE 2074/75 to 532.95% at Q3 2075/76, it remains substantial in comparison to Industry average of 124.99% at YE 2074/75 and 232.79% at Q3 2075/76, which signals that the bank may have liquidity issues to cover any unforeseen fund requirements.

The DE ratio stood at 4 times at YE 2074/75 and expected to be maintained at 7.50 at 2078/79 leading to decline of net interest margin from 40.83% at YE 2074/75 to 30.05% at ye 2078/79. This is likely, due to progressive debt capital injected to service its loan demands. Thus, a substantial financial risk needs to be noted.

OPPORTUNITIES

As a national level Microcredit Institution, the company plans to expand in new geographies can increase in deposits and loan portfolios which supports its profitability indicators and growth prospects.

Monetary policy has removed the 18% cap on interest rate for MFIs.

As directed by monetary policy, MFIs are to compulsorily obtain membership of Credit Information Bureau.

THREATS

There is intense competition among MFIs to extend business. 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 MFI.

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 Adhikhola Laghubitta Bittiya Sanstha Limited as per new process. The IPO was oversubscribed by 13.97 times

We estimate the IPO of Asha Laghubitta Bittiya Sanstha Limited will be subscribed by nearly 390,000 valid. Thus, the oversubscription is likely to be more than 20 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.

For our forecast of 390,000 valid applicants, the number of units required to satisfy all with minimum 10 units is 39,00,000. However, the company can only satisfy 49,525 applicants with 10 units shares. Therefore, the IPO of the company is most likely to be allotted on lottery basis where approx. 13 out of 100 applicants will get the 10 units share.

Adhikhola Laghubitta Bittiya Sanstha Limited	
Issue Size (Units)	400,000
Staff (Units)	5,000
Mutual Funds (Units)	20,000
Public (Units)	375,000
Allotment Date	2076/03/30
Number of Total Applicants	300,992
Number of Valid Applicants	300,413
Application Range	N/A
Total Units Applied valid applicants	5,241,660
Oversubscription	13.97 times
Number of Allottees	37,500
Unitss Allotted	375,000
Allotment Basis	Lottery

Sabaiko Laghubitta Bittiya Sanstha Limited	
Issue Units to Public	495,250
Estimated Number of Applicants	390,000
Estimated Applied Unitss	9,905,000
Oversubscription	20 times
Allotment	
Required Units	39,00,000
Available Units	495250
Allotment Basis	Lottery
Number of Allottee	49,525
% Allotment	13.00%
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 Recent Developments

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.

The new regulatory provision mandated MFIs to either merge all the operations to single province or upgradation to national status. post issue capital of the company will reach 16.5 crores, which is more than the minimum mandatory requirement for upgradation to national status of 10 crores. Nevertheless, the possibility that the company would seek merger and acquisition option in the future cannot be ignored as it may acquire other non-national level MFIs in the upcoming future. For Instance, Janasewi Laghubitta Bittiya Sanstha Limited went into merger and acquisition with Kalika Laghubitta Bittiya Sanstha Limited after IPO. There is also a possibility of the said MFI getting acquired by established players in the market.

Listing of Shares of Sabaiko Laghubitta Bittiya Sanstha Limited

The book value per share of the company as of FY 2074/75 is Rs.100.88. Therefore, the listing price of the share should be in the range of Rs.100.88 (lower range) and three times of lower range i.e. NRP. 302.64(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

Microfinance Sector Technical Analysis



Trend Analysis

At present, microfinance index is at deeper correction level from its recent high of 1590 level. The index has been moving inside an upward trending channel since December 2018. The microfinance index is around the short term, mid-term, and long-term moving averages. At present the index is struggling to breach above the 200-day moving average.

Momentum

RSI is around 40 and showing upward movement indicating improving momentum within the sector. At the time of writing Bollinger bands are contracting indicating lower volatility. Looking at the recent trend, current correction result in bounce back.

Recommendation: Apply

The Company seems to be new company where the BVPS is 100.88 FY 2074/75. In the 3rd quarter of FY 2075/76, the company has BVPS of 120.48 (not annualized). Also, reserve and surplus stands positive at 22937 in 000” in the 3rd quarter of FY 2075/76. All of these suggest better growth potential of the company in the future.

The company was successful to increase its loan and advances by 76.51 crores by the end of 3rd Quarter of FY 2075/76. Thus, the expected growth rate of 20.38% of loan and advances from 3rd quarter end to end of FY 2075/76 is deemed to be achievable. Furthermore, the average interest rate is forecasted to be maintained at 16.5%, hints better earnings compared to previous years could be achievable in the future.

As, the new regulatory provision mandated MFIs to either merge all the operations to single province or upgradation to national status, in the current market scenario the possibility of merger and acquisition cannot be ignored. For Instance, Janasewi Laghubitta Bittiya Sanstha Limited went into merger and acquisition with Kalika Laghubitta Bittiya Sanstha Limited after IPO. However, as there is better earnings capability with better return forecast for investors, it is recommended to apply.

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