

FPO Issue Snapshot:

Issue Details:

Issue Type	FPO
Issue Size	90,69,388 units
Issue Price per share	Rs. 601
Issue Open Date	2016-02-23
Early Close Date	2016-02-26
Late Close Date	2016-03-10
Issue Manager	Citizen Investment Trust (CIT)
ICRA Grading	3 +
Min. to apply:	10 units
Max. to apply:	200,000 units

Company Summary:

Company Category	A- grade national level Commercial Bank	
Ownership Structure	Public Limited	
Current Shareholdings	A group of Nepalese Companies	50%
	Rashtriya Banijya Bank	15%
	Rashtriya Beema Company	15%
	General Public	20%

1. Company Overview:

Nepal Investment Bank (NIB) is a well-established and renowned commercial bank of Nepal started its operation since 1986 as joint venture bank between Nepalese and French partners in the name of Nepal Indosuez Bank Ltd. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's

2. Objectives of Issue

- The major objects of the offer is to achieve the increment in the paid up capital to reach the paid up capital target to Rs. 8 billion set by Nepal Rastra Bank (NRB) within FY 2074/75.
- The bank will not require going for merger as the bank and maintaining its identity strong.
- The bank expects that the listing of shares in stock exchange will enhance its visibility and brand image among the existing and potential shareholders and also boost the liquidity in the existing market.

3. Company's Major Objectives:

As per the Nepal Rastra Bank Act 2058, BAFIA 2063 and Company Act 2063, followings are the major objectives of Bank from the date of its operation:

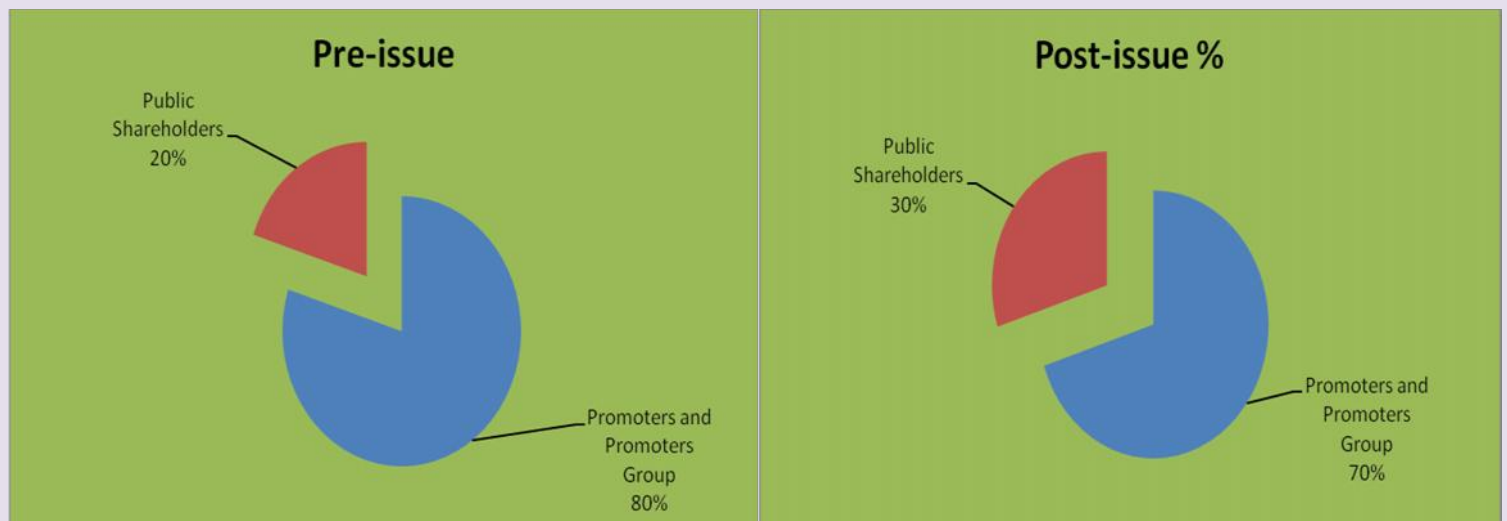
To provide and satisfy the banking facilities needs of the customers from every regions and sectors of the country and enhance the quality standard of its services to position reliable and sustainable bank within the healthy competition.

To meet the financial needs for the development and growth of real sectors of the economy such as agriculture, manufacturing & trade, industry, services, technology etc. and enhance their business and productivity by providing loans or credit facilities.

To develop innovative products and services that attracts the targeted customers and increases the market shares following the company's growth strategies.

To deliver world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staffs.

4. Shareholding Pattern/ Ownership Structure:



The above charts reflect that existing shareholding pattern of the bank includes 80 percent of promoters' shares and 20 percent with General Public. The promoters group includes Nepalese Companies (50%), Rastriya Banijya Bank (15%) and Rastriya Beema Company Ltd (15%).

After FPO issue, the promoter to ordinary shareholder share structure will be converted into 70:30 ratios.

5. Board of Directors Details

S.N	Name & Address	Designation	Age	Nationality	Shareholdings in Units	Qualification	Work Experience
1	Mr. Prithivi Bahadur Pande, Maharajgunj, Kathmandu Representative - Chaya Investment Pvt. Ltd.	Chairman (Group A)	62	Nepali	52,07,835	Chartered Accountant	More than 30 years of experience in various financial sector of Nepal. (Nepal Rastra Bank, Himalayan Bank Ltd. and Investment Bank Ltd.)
2	Mr. Deepak Man Sherchan, Baluwatar, Kathmandu. Representative- Mahalaxmi Investment Pvt. Ltd	Director (Group A)	67	Nepali	56,04,596	B.Tech, Architecture	Serve as a Managing Director and Chairman of C.B.C (P) Ltd. for more than 30 years. Serve as Chairman of Malpi International School, Tukuche VDC and also associated with many professional institutions at various capacities.
3	Mr. Prajanya Rajbhandary Representative- Sophiya Investment Pvt. Ltd	Director (Group A)	61	Nepali	47,11,840	B.Sc. , M. Engineering	Directorships at National Structures, Everest Poultry and Enviroplast.
4	Mr. Bir Bikram Rayamajhi Representative- Rastriya Beema Company Ltd.	Director (Group C)	57	Nepali	15,22,856	Chartered Accountant	More than 23 years of experience in Rastriya Beema Sansthan as Director
5	Mr. Bhuwaneshwar Prasad Shah	Public Director (Group D)	55	Nepali	2,337	M.B.A	More than 30 years of experience in Laxmi Bank and other Finance Company
6	Mr. Mohan Madan Budhathoki	Professional Director	63	Nepali		M.B.A	More than 32 years of Experience in Nepal Rastra Bank.

6. Financial Summary of the Bank

For Previous 5 years:

Financial Summary						Unaudited
Particular	2067/68	2068/69	2069/70	2070/71	2071/72	Q2-2072/73
Paid-up capital	3,011,372,125	3,766,155,250	4,144,808,470	4,768,713,625	6,345,700,655	6,345,701,000
Reserve and surplus	2,148,387,572	2,283,785,925	2,875,835,627	3,156,764,971	3,461,251,924	4,539,436,000
Net worth	5,159,759,697	6,049,941,175	7,020,644,097	7,925,478,596	9,806,952,579	10,885,137,000
No. of shares	30,113,721	37,661,553	41,448,085	47,687,136	63,457,007	63,457,010
Total Deposits	50,138,122,242	57,010,603,789	62,428,845,372	73,831,375,915	90,631,486,765	98,081,283,000
Total Loan and advances	41,095,514,519	41,636,998,817	46,400,053,693	52,019,765,103	66,219,232,015	77,482,671,000
Total Assets	58,356,827,501	65,756,231,954	73,152,154,761	86,173,927,574	104,345,436,413	114,332,879,000
Net profit	1,176,641,030	1,039,275,564	1,915,027,932	1,939,612,344	1,961,852,380	1,078,185,000
Gross Income	6,453,930,446	6,724,254,543	6,774,202,660	6,966,460,397	6,979,347,886	3,812,747,000
Gross Expenses	4,402,936,754	4,623,434,526	3,670,567,086	3,797,571,856	3,859,607,886	2,054,842,000
Interest Income	5,803,440,174	5,982,641,242	5,865,840,305	5,816,279,068	5,786,160,480	3,184,777,000
Interest Expenses	3,620,336,697	3,814,411,187	2,774,788,162	2,820,475,438	2,807,361,350	1,519,910,000
Operating Expenses	782,600,057	809,023,339	895,778,924	977,096,418	1,052,246,536	534,932,000
Employees Expenses	326,543,424	340,160,351	379,942,146	437,765,593	480,138,893	243,047,000
MPS	515	511	784	990	704	777
Total Branches	41	41	44	44	46	
Number Of Employee	877	883	910	942	969	

Forecasted for 3 years

Financial Summary	Forecasted		
Particular	2072/73 *	2073/74*	2074/75*
Paid-up capital	7,255,510,000	7,255,510,000	7,255,510,000
Reserve and surplus	10,202,436,000	12,734,176,000	15,599,445,000
Net worth	17,457,946,000	19,989,686,000	22,854,955,000
No. of shares	72,555,100	72,555,100	72,555,100
Total Deposits	93,074,023,000	102,381,425,000	112,619,568,000
Total Loan and advances	72,825,311,000	80,158,324,000	88,202,122,000
Total Assets	114,469,816,000	126,428,361,000	139,357,147,000
Net profit	2,197,420,000	2,531,740,000	2,865,269,000
Gross Income	8,117,422,000	8,925,755,000	9,959,267,000
Gross Expenses	4,520,882,000	4,858,760,000	5,340,439,000
Interest Income	6,791,099,000	7,490,866,000	8,406,159,000
Interest Expenses	3,350,846,000	3,556,470,000	3,889,517,000
Operating Expenses	1,170,036,000	1,302,290,000	1,450,922,000
Employees Expenses	552,160,000	634,984,000	730,231,000

7. Financial Key Indicators:

						Unaudited	Forecasted		
Ratio	2067/68	2068/69	2069/70	2070/71	2071/72	Q2- 2072/73	2072/73 *	2073/74*	2074/75*
Capital Adequacy Ratio (C)									
Capital Fund To RWA	10.91	11.1	11.49	11.27	11.9	11.69	17.6	17.9	18.3
Assets Quality/Efficiency Ratio (A)									
NPL To Total Loan	0.98	3.32	1.91	1.77	1.25	1.1	1.49	1.49	1.5
LLP To NPL	-	-	-	-	-	180.32	-	-	-
Management Efficiency Ratio (M)									
Employee Expenses/Operating Expenses	41.73	42.05	42.41	44.80	45.63	45.44	47.19	48.76	50.33
Cost Of Fund	-	-	-	-	-	3.16	3.5	3.5	3.5
Profitability (Earning) Ratio (E)									
Net Profit Margin	18.23	15.46	28.27	27.84	28.11	28.28	27.07	28.36	28.77
ROE	22.80	17.18	27.28	24.47	20.00	19.81	12.59	12.67	12.54
Net Profit/Total Assets	2.02	1.58	2.62	2.25	1.88	1.89	1.92	2.00	2.06
Net Profit/Loans & Advances	2.86	2.50	4.13	3.73	2.96	2.78	3.02	3.16	3.25
Interest Income/Loan And Advances (A)	14.12	14.37	12.64	11.18	8.74	8.22	9.33	9.35	9.53
Interest Expenses/Total Deposit (B)	7.22	6.69	4.44	3.82	3.10	3.10	3.60	3.47	3.45
Interest Spread (A-B)	6.90	7.68	8.20	7.36	5.64	5.12	5.72	5.87	6.08
Interest Rate Spread (As Per NRB)	4.1	4.5	5.5	4.7	4.6	4.43			
Liquidity Ratios (L)									
CRR	8	14.91	14.02	17.14	9.92	-	10.8	9.4	9.4
CD Ratio (As Per NRB)	81.2	71.8	74.8	71.9	72.8	76.67	74	73	72
Loan To Deposit	81.96	73.03	74.32	70.46	73.06	79.00	78.24	78.29	78.32
Liquidity Ratio	-	-	-	-	-	31.37	32.4	31.8	32.3
Sensitive to Market Ratios (S)									
Net worth Per Share (NPS)	171.34	160.64	169.38	166.20	154.54	171.54	240.62	275.51	315.00
Earnings Per Share (EPS)	39.07	27.60	46.20	40.67	30.92	33.98	30.29	34.89	39.49
PE Ratio (Price Earning)	13.18	18.52	16.97	24.34	22.77	22.87	0.00	0.00	0.00
PB Ratio (Market To Book Value)	3.01	3.18	4.63	5.96	4.56	4.53	0.00	0.00	0.00
Earning Yield	7.59	5.40	5.89	4.11	4.39	4.37			
EPS Growth	-25.64	-29.38	67.43	-11.97	-23.99		-2.04	15.21	13.17
DPS (Including Bonus Share)	50	30	35	40	34.74		14	0	0
Cash Dividend	25	5	25	25	1.74				
Dividend Payout Ratio	127.96	108.71	75.75	98.34	112.37				

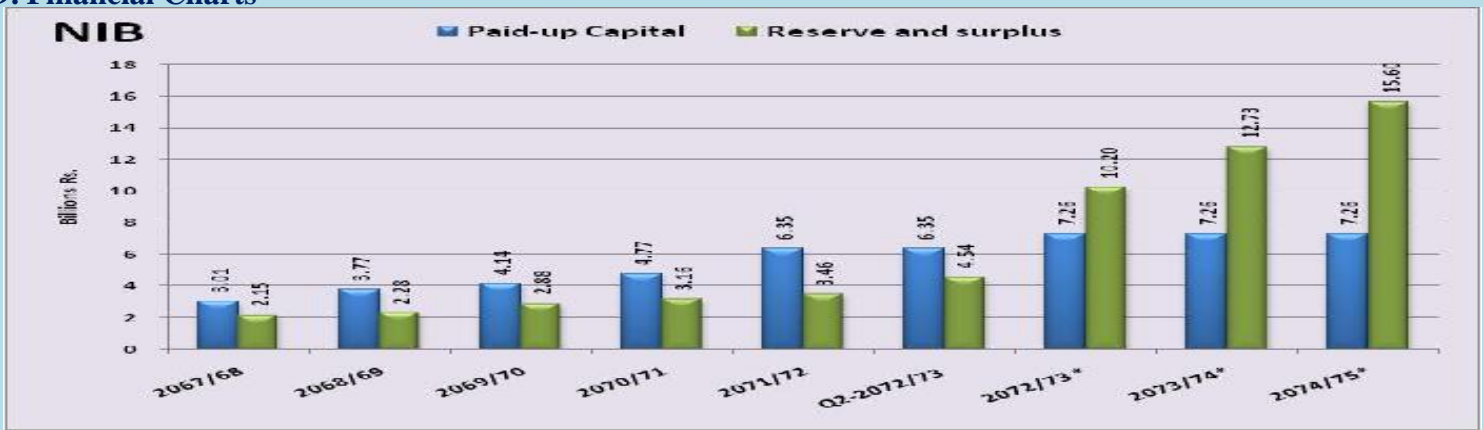
8. FPO Implication:

Particular	Befor FPO Q2-2072-73	FPO Contribution	After FPO				
			2072/73	2073/74	2074/75*	2075/76*	2076/77*
Paid-up Capital	6348971200	906538800	7255510000	7255510000	7255510000	7255510000	7255510000
Reserve and surplus	4539436000	4541759388	10202436000	12734176000	15599445000	18741796000	22222011000
Net worth	10888407200		17457946000	19989686000	22854955000	25997306000	29477521000
Expected Net Profit			2197420000	2531740000	2865269000	3142351000	3480215000
Dividend Distributable			1076179388	0	0	0	0
Retained Earning			1121240612	2531740000	2865269000	3142351000	3480215000
EPS			30.29	34.89	39.49	43.31	47.97
DPS			14.83	0.00	0.00	0.00	0.00

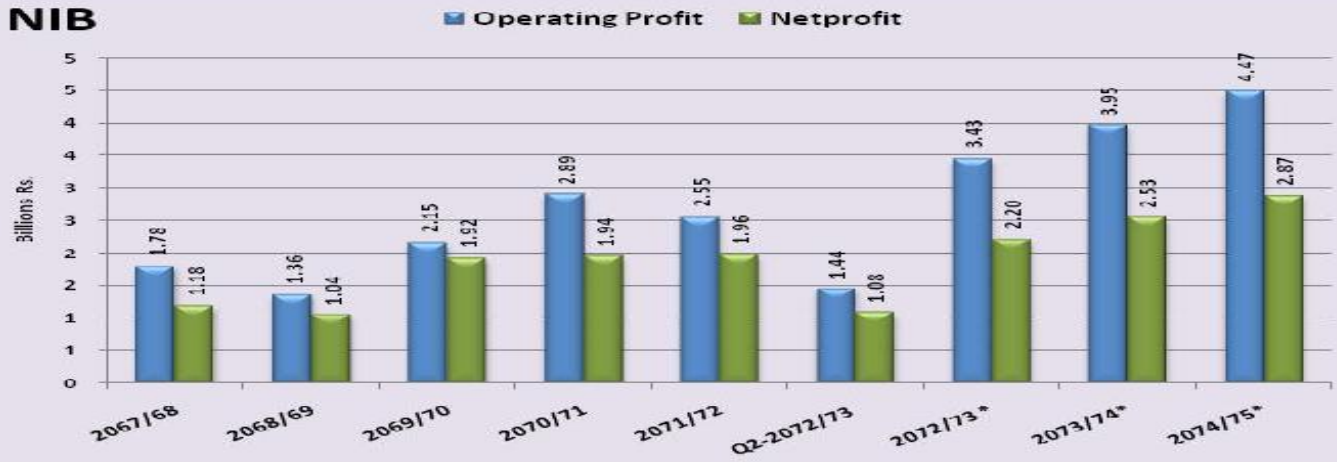
Interpretations:

- If Bank plans to maintain constant Paid-up capital of 8 billion for upcoming five years, investors are most likely be offered by cash dividend around 40% to 50%.
- As in past if bank follows to maintain paid-up capital above the NRB mandatory, the bank will be giving mixed of cash and share dividend. However the forecasted Balance sheet of the bank doesn't convey any Paid-up Increment plan in its FPO offer letter.
- To embrace BASEL-III and pro-active nature of NIB, the Bank may have hidden plan to boost its Paid-up Capital along with other fundamentals beyond the NRB requirement.
- The financial highlights indicates that bank will be enhancing its reserves and surplus for upcoming years adequately that will position it to tackle with any contingent scenarios.

9. Financial Charts



NIB



NIB



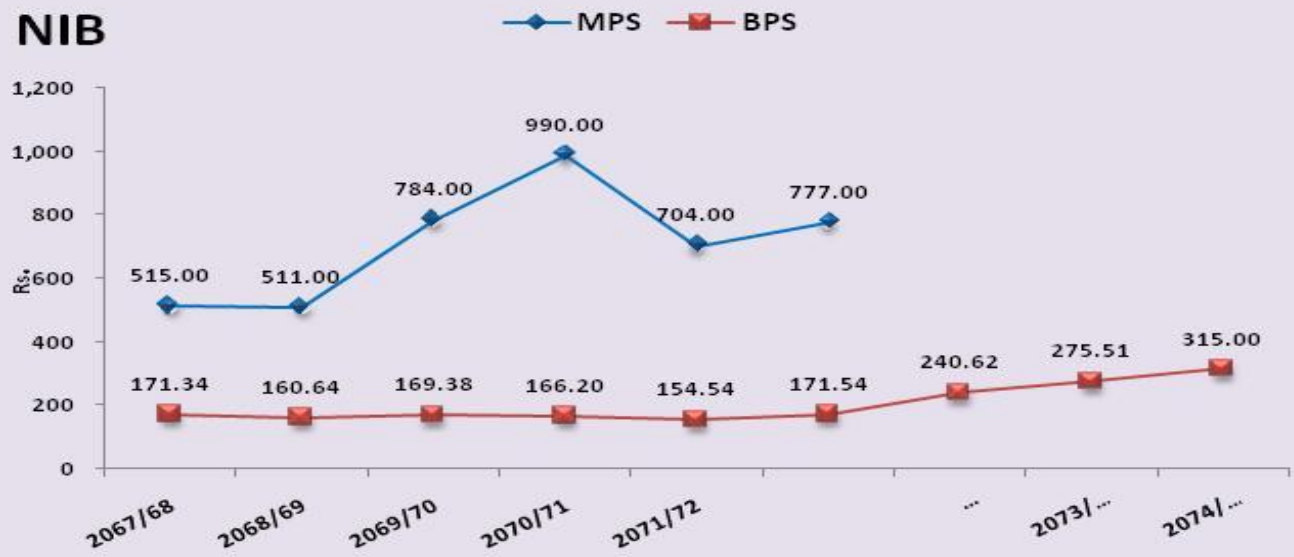
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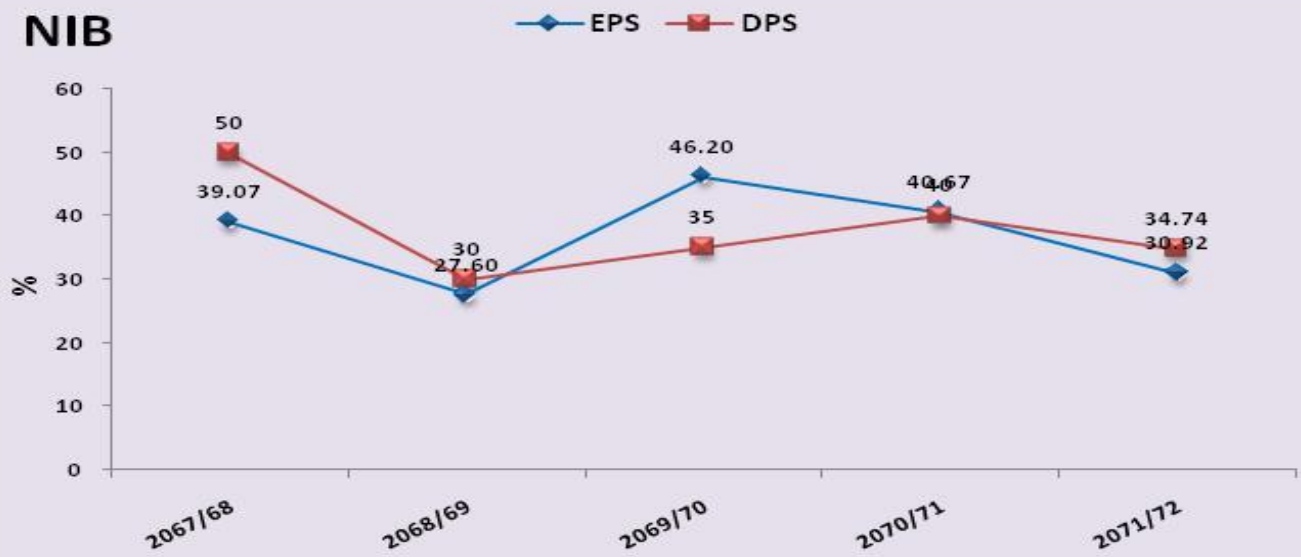
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10. Overall Opinion:

Capital Adequacy of the bank is maintained as per the NRB requirement and found to be increasing to the considerable level which depicts the bank's strong capital base.

NIBL's ability to scale up its operations ensuring efficient utilization of fresh capital, maintaining its profitability position.

Asset Quality of the bank shows the picture of healthy position of the loans which is reflected by NPL/Total Loan ratio which the bank has maintained at below 2 percent.

The bank's is being operated by experienced management team and lead by prominent Board of Directors who have decades of exposures in banking and financial sectors.

Employees to Operating Expenses depicts that the bank has maintained its staffs expenses at appropriate level as compared to industry average. Besides, the bank has healthy fee based income that helps to generate risk free income.

Net Profit Margin of the bank is in increasing trend that is due to less provisioning from operating profit.

Existing ROE level is around 20 percent but as per the financial indication the level of equity will be increased after FPO impacting ROE to reduce to certain extent.

Interest Spread Rate is above industry average which is around 3 to 4 percent. Hence, the bank is generating adequate Interest based income.

The bank has low credit to deposit ratio (~73%) that provides it with adequate growth opportunities in credit lending and investment.

The liquidity ratio indicates that the bank is highly liquid and has maintained well above NRB mandatory requirement.

Net worth per share (NPS) is found to be increasing trend and after FPO it is expected to be around Rs. 240.

EPS to be maintained around Rs. 30 to 40 per share but there is volatility in EPS growth rate.

DPS at the existing level is found to be satisfactory whereas the bank has not presented any further projection of dividend distribution especially in terms of stock dividend. The forecasted balance sheet prepared by bank enumerates 100 percent retention ratio. However, the bank may have undisclosed plan with respect to paid up capital increment plan that make it to issue bonus shares to investors in future.

Recommendation: NIBL is Value BUY for Investors in this FPO.