

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	612,000 units
Issue Price per share	Rs. 100
Issue Open Date	2016-03-10
Early Close Date	2016-03-14
Late Close Date	2016-03-24
Issue Manager	Global IME Capital Limited
ICRA Grading	4
Min. to apply:	50 units
Max. to apply:	10,000 units

Company Synopsis:

Company Category	D- grade national level Financial Institution	
Ownership Structure	Public Limited	
Current Shareholdings	8 Commercial Banks	55.4%
	2 Development Banks	14%
	General Public	30.60%

1. Company Overview:

Mero Microfinance Bittiya Sanstha Ltd has been incorporated under Company Act 2063 and registered as a 'D' class national level financial institution with the Nepal Rastra Bank (NRB) under BAFIA 2063 (2006) on Ashad 30, 2070 (14th July, 2013). It obtained its operating license from NRB on 14th July, 2013 and started formal microfinance operation from July 18, 2013 from its first branch office Battar located in Nuwakot District. It is the joint initiative of 10 financial institutions (8 commercial banks and 2 development banks).

The bank has strong and widely spread network strength through which it has been providing its banking services to its customers in different region. Altogether it has 31 branch offices and plan to extend its network base all over the nation as soon as with the fulfillment of Nepal Rastra Bank requirement.

2. Objectives of Issue

The major object of the offer is to meet the obligatory requirement of BAFIA 2063, to issue atleast 30 percent share capital to General Public and on this account the MOA of the company has stated to provide 30.69 percent of shares to public, for which the company is issuing 612,000 units of shares through upcoming IPO.

The bank will reach to its adequate paid up capital level as per the mandatory norms of NRB and MOA of the company. Further, it will strengthen the Capital Adequacy Ratio of the bank to operate and expand its business in future.

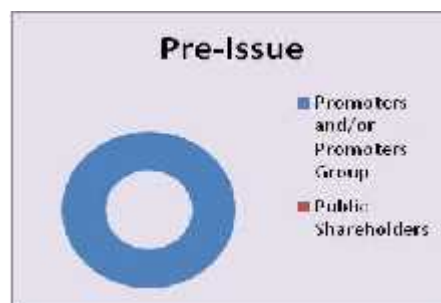
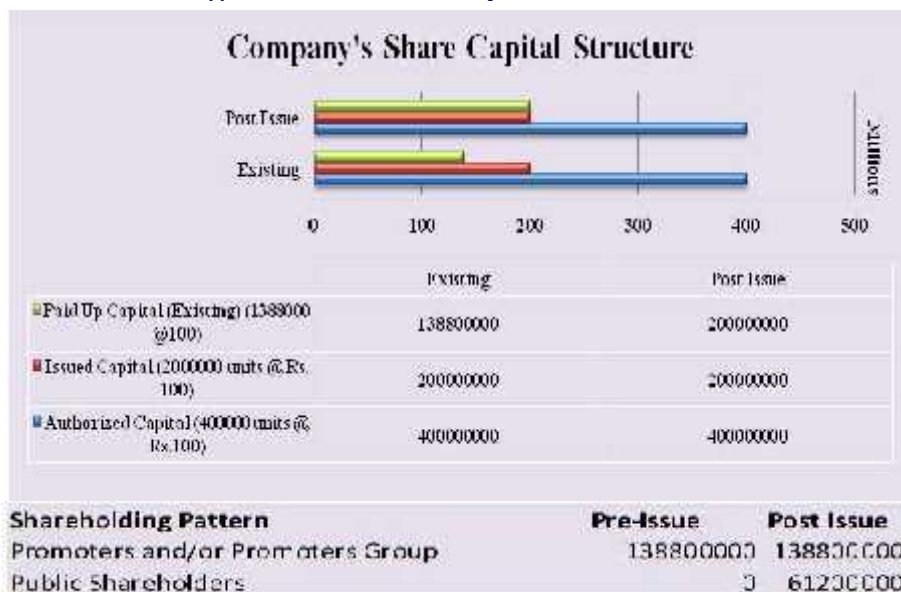
The bank will meet its capital expenditure for research and development, technological innovation and extension of branch networks.

3. Company's Major Objectives:

The core objective of the institution for which it came into existence is to deplete the poverty level of rural areas and improve the quality of life's of the people deprived from financial assistance. In addition to this, 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.
- To avail micro-entrepreneurs with credit facilities for the promotion or establishment of different types of micro enterprises that generates the income and self empowerment.
- To mobilize the savings of micro communities or group members and extend the micro-credit to micro-entrepreneurs for establishing enterprise.
- To deliver the remittance services to its customers and also offer micro-insurance services in co-ordination with appropriate agency.

4. Shareholding Pattern/ Ownership Structure:



The above charts enumerate the changes that will occur after IPO issue. The bank's existing share capital structure is consisting only Promoter shares which occupies 69.40 percent of total Issued Capital. As per the mandatory norms of NRB and Company policy, the bank will offer 612,000 units of shares to General Public (including staffs) which will convert the existing share capital structure in 69.40:30.60 ratios.

5. Board of Directors Details

S. N	Name & Address	Designation	Age	Nationality		Qualification	Work Experience
1	Mr. Rajan Singh Bhandari Representative- Citizen's Bank International Ltd	Chairman	55	Nepali	No share holdings	Chartered Accountant	CEO of Citizen Bank International Ltd. for 8 years. Serve as a Managing Executive Director in NRB for more than 26 years and headed various departments.
2	Mr. Upendra Poudel Representative-NMB Bank Ltd	Director	57	Nepali		MBA (Economics)	CEO of NMB Bank Ltd for more than 14 years -Working experience as Chief Financial Manager in Standard Chartered Bank for 4 years & Served as internal audit in Soaltee crown Plaza for 4 years
3	Mr. Gyanu Krishna Adhikhari Representative- Society Dev. Bank	Director	53	Nepali		Masters	CEO of society Dev. Bank form 2071 and served in NRB as Deputy Director for 19 years
4	Mr. Laxman Risal Representative-NIC Asia	Director	50	Nepali		B. Sc.	26 years experiences in banking Sector. Acting CEO NIC Asia Bank Ltd
5	Mr. Sanjeev Manandhar Representative- Prime C. Bank Ltd.	Director	42	Nepali		C. A. , M Sc.	Working as General Manager for 8 years in Prime C. Bank Ltd Served Nepal Banijay Bank Ltd as chief operating officer for 4 years Worked as chief internal auditor in Nepal Investment Bank Ltd and Finance officer in Nepal Tele Com.
6	Mr. Prithivi Narayan Shrestha Representative- Janta Bank Ltd	Director	48	Nepali		M.B.A	Working as Deputy CEO in Janatta bank For 2 years Served as Deputy Chief manger in Century Bank Ltd for 3 years and Machhapuchhre Bank for 9 years
7	Mrs. Arati Laxmi Rana Representative Global IME Bank Ltd	Director	37	Nepali		Masters	Engaged in GBIME as Chief manager for 8 years .Experiences in Business Development Manager working in Everest Bank ltd for 4 years.

6. Financial Summary of the Bank

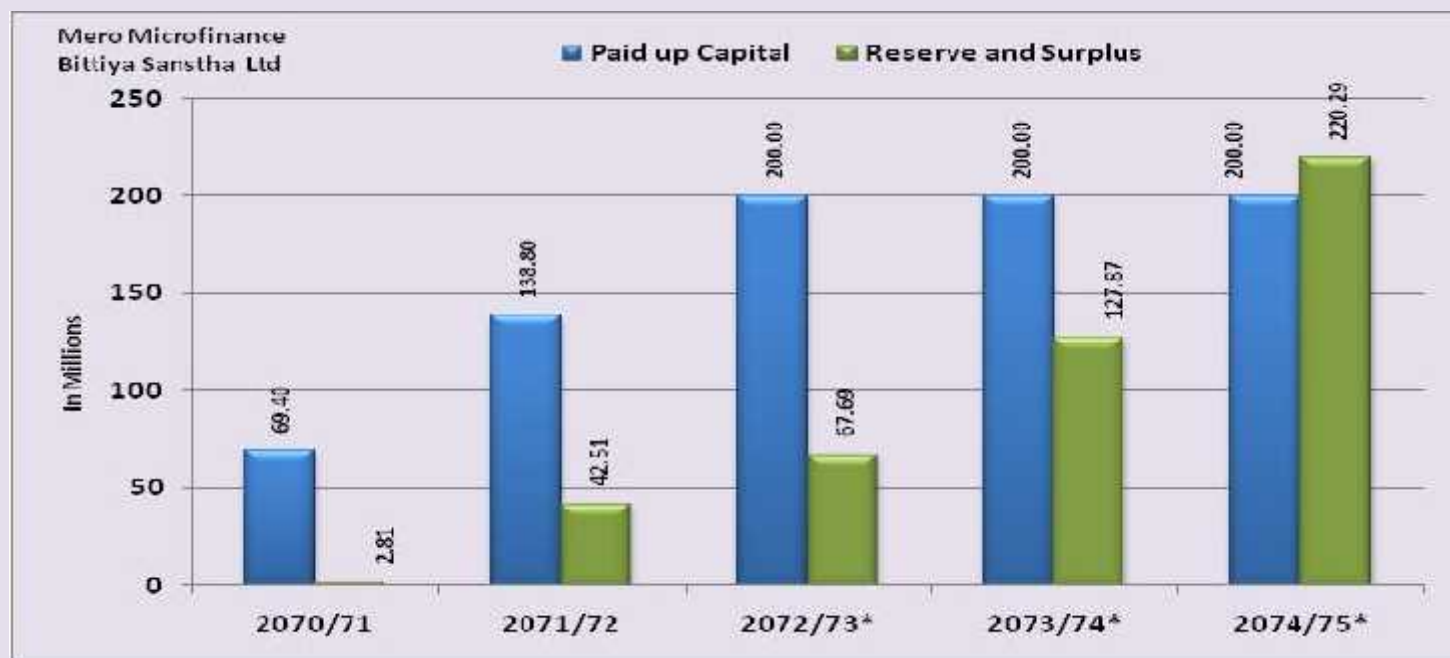
Particulars	Actual		2072/73*	Projected	
	2070/71	2071/72		2073/74*	2074/75*
Paid up Capital	69,400,000.00	138,800,000.00	200,000,000.00	200,000,000.00	200,000,000.00
Reserve and Surplus	2,809,000.00	42,507,000.00	67,685,000.00	127,871,000.00	220,291,000.00
Net Worth	72,209,000.00	181,307,000.00	267,685,000.00	327,871,000.00	420,291,000.00
No. of Shares	694,000.00	1,388,000.00	2,000,000.00	2,000,000.00	2,000,000.00
Total Liabilities	452,539,000.00	1,330,952,000.00	2,214,546,000.00	3,252,512,000.00	4,137,639,000.00
Total Assets	524,748,000.00	1,512,259,000.00	2,482,231,000.00	3,580,383,000.00	4,557,930,000.00
Borrowings	434,565,000.00	1,200,217,000.00	1,920,347,000.00	2,688,486,000.00	3,360,607,000.00
Deposits	15,792,000.00	101,921,000.00	223,630,000.00	463,005,000.00	644,600,000.00
Loans and Advances	403,097,000.00	1,171,822,000.00	2,051,858,000.00	3,079,191,000.00	3,850,393,000.00
Gross Income	28,934,000.00	161,503,000.00	296,816,000.00	468,026,000.00	654,366,000.00
Gross Expenses	20,449,000.00	88,108,000.00	200,615,000.00	315,020,000.00	453,296,000.00
Interest Income	18,638,000.00	129,242,000.00	259,472,000.00	408,460,000.00	573,322,000.00
Interest Expenses	5,044,000.00	35,818,000.00	79,334,000.00	131,164,000.00	195,532,000.00
Operating Expenses	15,405,000.00	52,290,000.00	121,281,000.00	183,856,000.00	257,764,000.00
Employee Expenses	8,821,000.00	27,948,000.00	81,158,000.00	131,943,000.00	196,169,000.00
Operating Profit	4,413,000.00	65,328,000.00	86,707,000.00	141,721,000.00	192,373,000.00
Net Profit	2,808,000.00	39,699,000.00	55,176,000.00	90,186,000.00	122,418,000.00
Cash Dividend	-	0.00	30,000,000.00	30,000,000.00	30,000,000.00
Stock Dividend	-	-	-	-	-
Increase in Reserve	-	39,698,000.00	25,178,000.00	60,186,000.00	92,420,000.00
Retention		39,699,000.00	25,176,000.00	60,186,000.00	92,418,000.00

7. Financial Key Indicators:

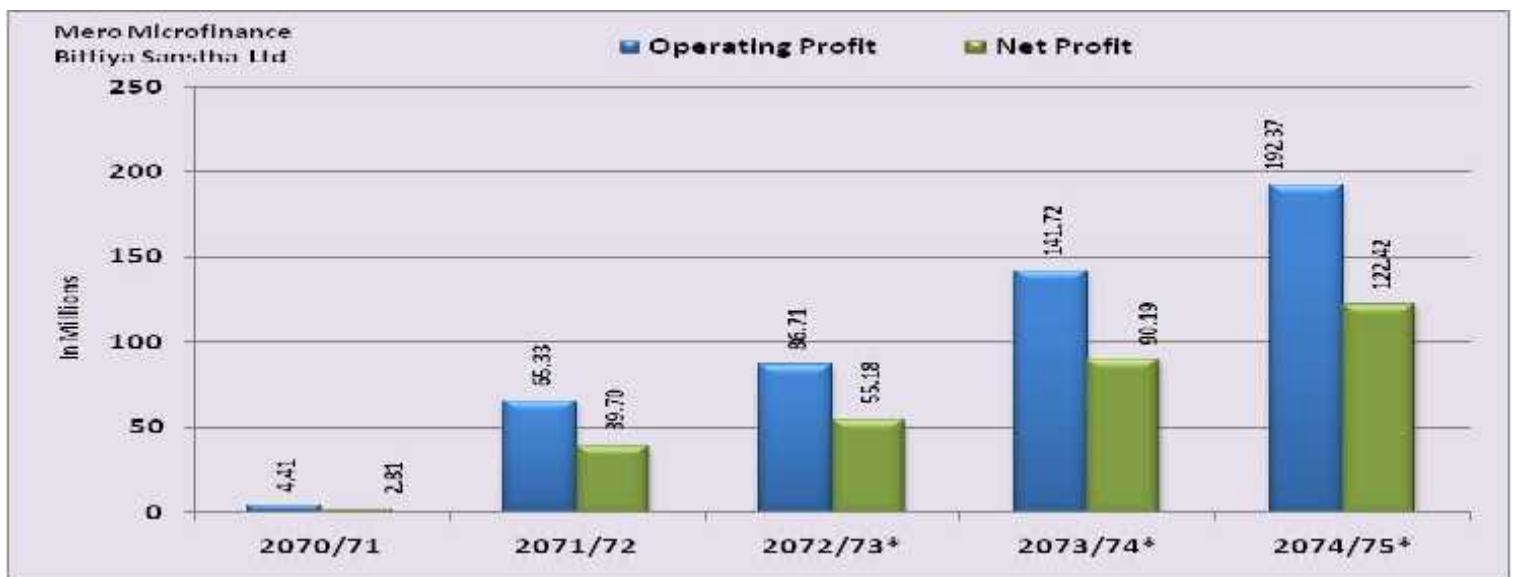
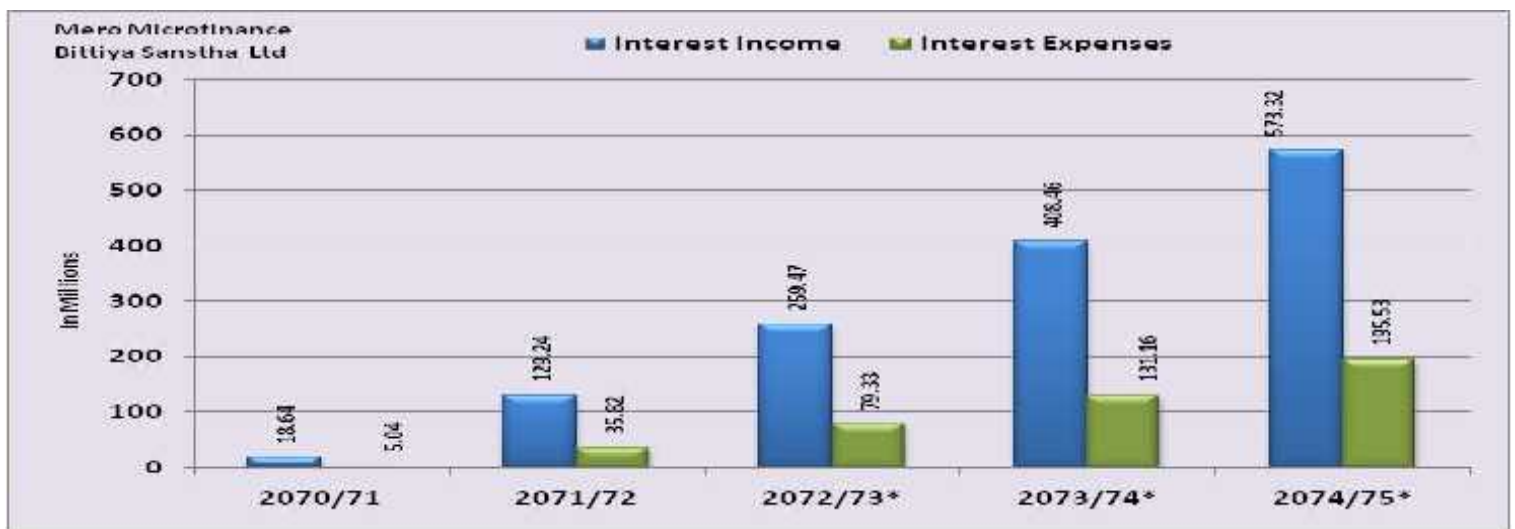
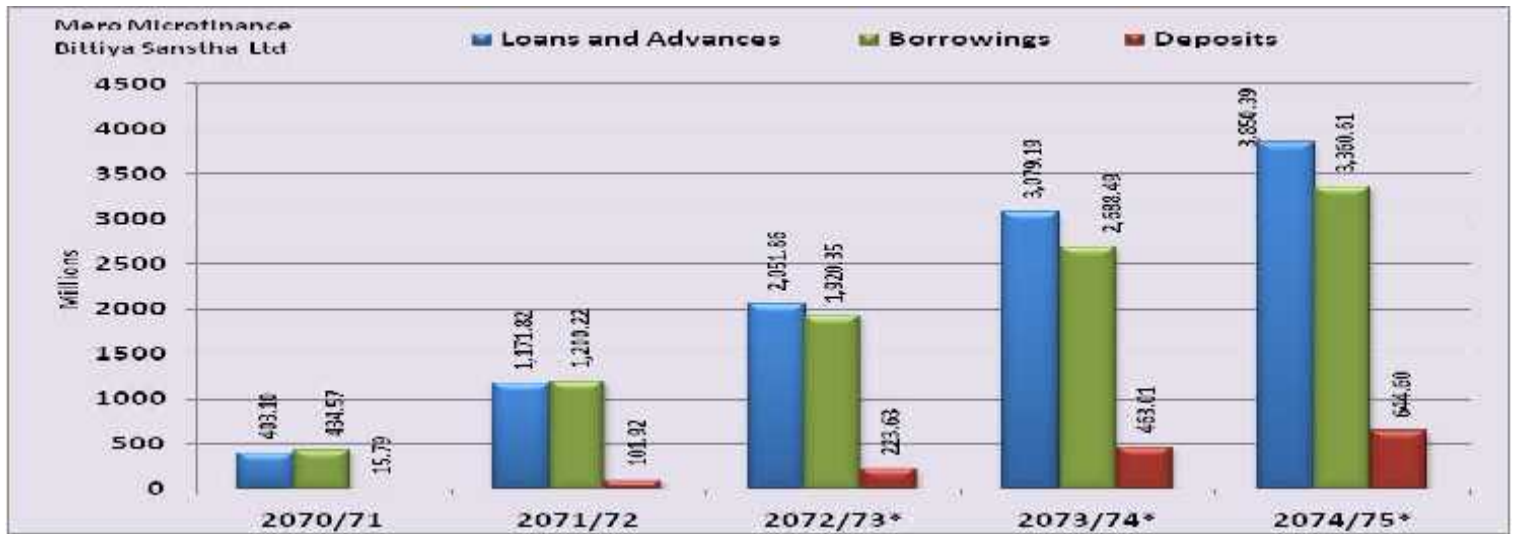
S.N.	Particulars	Actual		Projected		
		2070/71	2071/72	2072/73	2073/74	2074/75
1	Capital Adequacy Ratio (C)					
	Capital Fund To RWA (%)	17.38	15.12	13.07	10.98	11.2
2	Assets Quality/Efficiency Ratio (A)					
	NPL to Total Loan and Advances	0	0	0.92	-	-
	LLP to NPL	0	0	139.58	-	-
3	Management Efficiency Ratio					
	Employee Expenses/Operating Expenses	57.26	53.45	66.92	71.76	76.10
	Cost of Fund	2.84	5.06	-	-	-

	Actual		Projected		
4 Profitability Ratio					
Net Profit Margin(Net Profit After Tax / Gross Income)%	9.70	24.58	18.59	19.27	18.71
ROE%	3.89	21.90	20.61	27.51	29.13
EPS	4.05	28.60	27.59	45.09	61.21
Net Profit / Total Assets	0.54	2.63	2.22	2.52	2.69
Net Profit / Loan and Advances	0.70	3.39	2.69	2.93	3.18
Interest income/ Loan and Advances (A)	4.62	11.03	12.65	13.27	14.89
Interest expenses/ Borrowings & Deposit (B)	1.12	2.75	3.70	4.16	4.88
5 Liquidity Ratios (L)					
CRR	-	-	7.21	5.83	8.78
Loan and Advances / (Borrowings + Deposit)	89.51	89.99	95.70	97.71	96.13
Debt To Equity Ratio	6.27	7.34	8.27	9.92	9.84
6 Sensitive to Market Ratios (S)					
Net worth per share	104.05	130.62	133.84	163.94	210.15
Earning per Share	4.05	28.60	27.59	45.09	61.21
EPS Growth		606.89	-3.54	63.45	35.74
Cash Dividend per share	0.00	0.00	15.00	15.00	15.00
Dividend payout Ratio	-	-	54.37	33.26	24.51
Retention Ratio	-	-	45.63	66.74	75.49

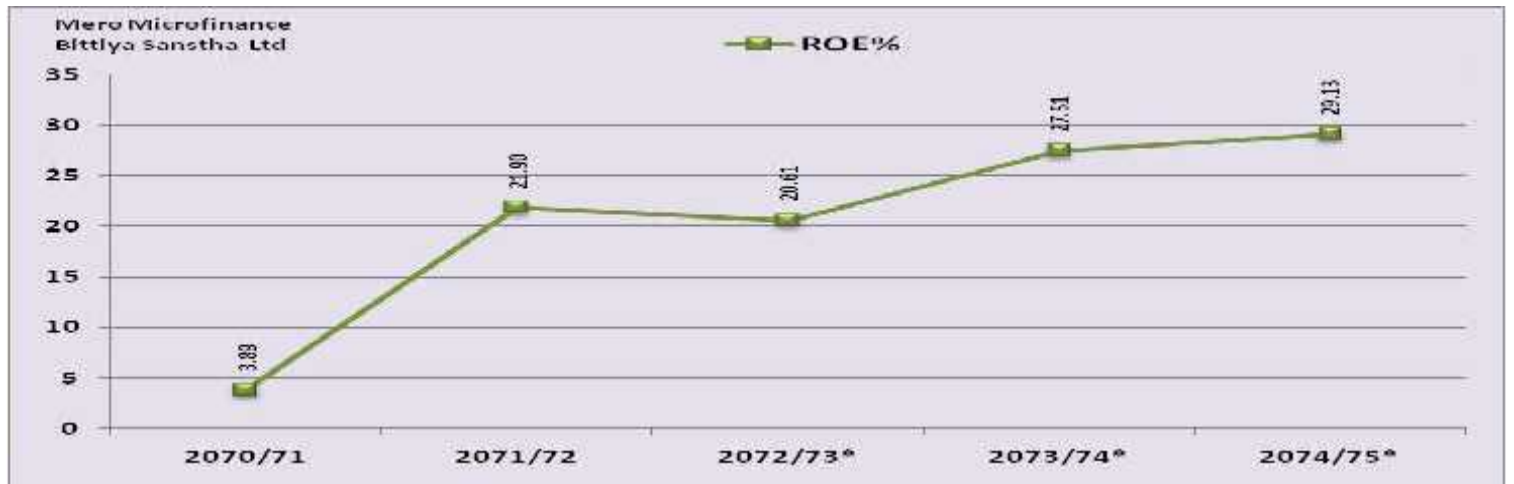
9. Financial Charts



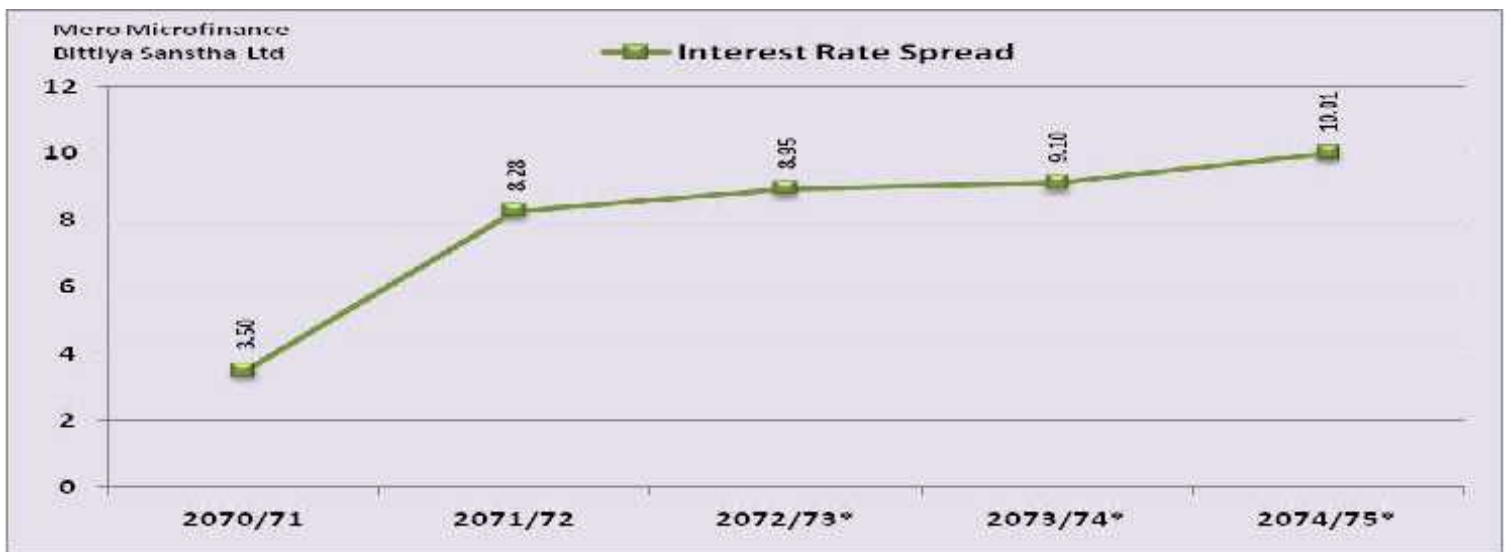
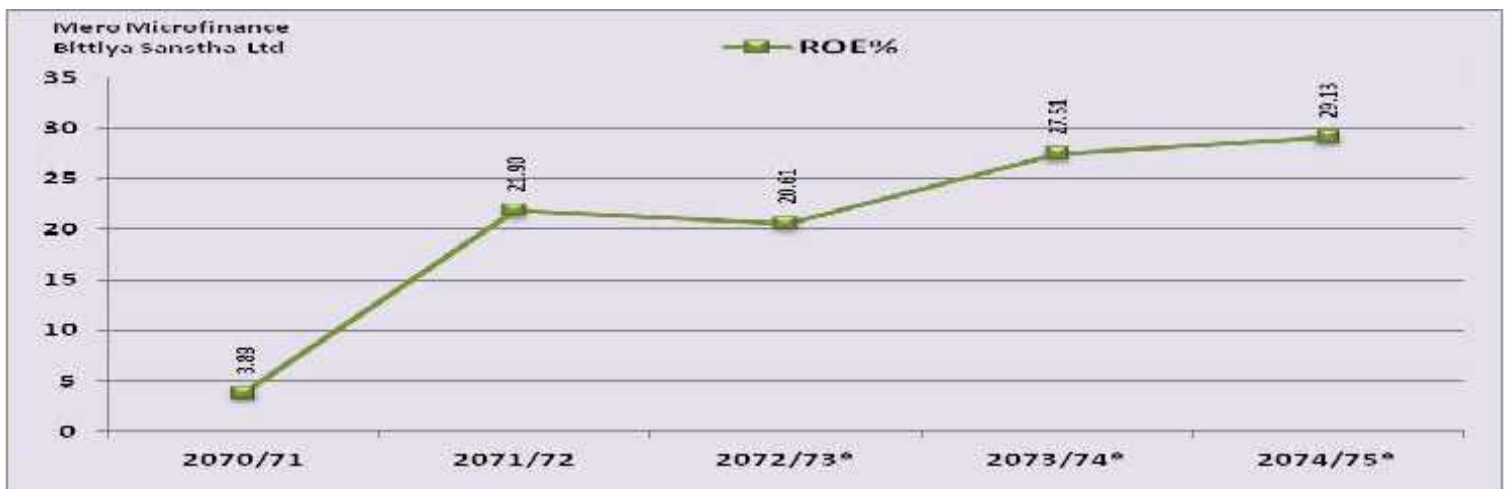
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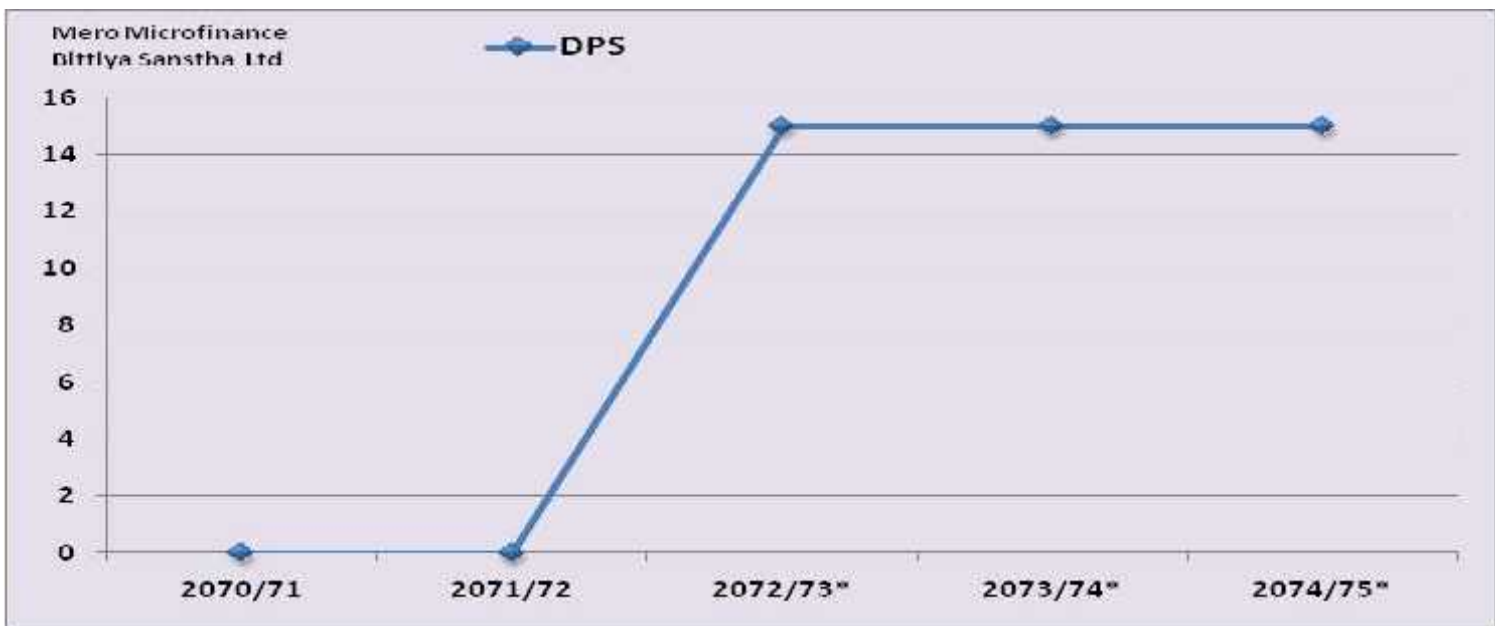
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10. Overall Opinion:

Management & Governance:

- The company has been governed by highly affluent group of Board members who are the elected representatives from well-established commercial and development banks of the nation. Similarly, senior management team of the company involves experienced and qualified professionals. Hence, considering their business acumens and expertise in the sector or industry, it is expected that the company will be directed to growth as soon as possible.

Financial Analysis:

- Capital Adequacy Ratio is well above the NRB requirement (8%) which accounts for 15.12% at end of FY 2071/72 however the projected figures show decline due to increasing in risk assets.
- NPL to Total loan at end of FY 2071-72 found to be nil but at the end of Q1 and Q2 of FY 2072-73 accounts for 0.92% and 0.77% respectively.
- Employee Expenses covers majority of operating expenses, which drive the attention towards management inefficiency in relation to managing operating costs.
- The Microfinance has maintained its cost of fund align to industry average.
- Net Profit Margin at the end of FY 2071-72 has increased substantially due to utilization of fund and expansion of its core business but the projected Net profit margin for upcoming 3 years remains stagnant, which unveil the bank's conservative business approach and management inefficient converting operating income into actual profit.
- There is gradual surge in ROE at end of FY 2071-72, and has forecasted at the level of around 20% for upcoming years which depicts that there is proportionate increase in both Net worth and Net profit.
- CRR is projected to be well above NRB mandatory.
- Loan & Advances to Borrowing & Deposit Ratio depicts that the bank has comparatively high credit lending which makes bank vulnerable toward liquidity problem.
- The Net worth per share is in increasing trend and is expected to grow and reach at Rs. 210 per share at the end of 3 years.
- The EPS for upcoming 3 years is projected to increase gradually as the bank has not show any capital increment plan and bonus share distribution.
- The bank has forecasted to distribute constant cash dividend of 15% for upcoming 3 years but bank didn't include the plan for bonus share. However, it has adequate reserve fund that shows its potential to attractive stock dividend in future days
- The stock is expected to list in between price range of Rs. 300-400 considering its net worth per share and high EPS growth.

Considering the business size, market share and financial position of the institution, the stock is more likely to classify into small-cap side, which exhibit the characteristics of high volatility and riskiness in relation to market condition. However, the micro finance institution's stock performance in NEPSE is trending outstanding and characteristics of inviting high demand and supply constraint in these types of stocks may push price higher.

Recommendation: Mero Microfinance IPO turns IDEAL depending on financial health of company and investor's objective of portfolio diversification with risk tolerance level.