

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	450,000 units
Issue Price per share	Rs. 100
Issue Open Date	2016-06-05 (2073/02/23)
Early Close Date	2016-06-08 (2073/02/26)
Late Close Date	2016-06-19 (2073/03/05)
Issue Manager	NIBL Capital Markets Ltd
ICRA Grading	4 plus
Min. to apply:	50 units
Max. to apply:	10,000 units

Company Synopsis:

Company Category	Development Bank (3 District Level)	
Ownership Structure	Public Limited	
Current Shareholdings	Promoter Shares	55%
	General Public (locals from project affected area)	45%
	General Public (including Employees)	-

1. Company Overview:

Green Development Bank Ltd incorporated under Company Act 2063 being registered in the Office of Company Registrar in 2069/08/26 B.S and obtained the banking licence from Nepal Rastra Bank (NRB) in 2070/04/09 B.S to operate as 3 district level development bank. The bank is authorized to extend its business from 3 districts (Baglung, Myagdi and Kaski). The bank commenced its commercial operation from 2070/05/09 B.S. with the objective to provide full range of banking and financial services to public from every region and sector of the country. Currently the bank is functioning in 2 districts (Baglung and Myagdi) facilitating with its banking services to economically active group of the districts and its corporate office is located Harishankar Road, Baglung, Nepal.

The bank offers a diverse range of deposits and loan products to cater the specific requirements of its customers. It has plans to launch sms banking, ATM, internet banking, locker facility in near future. Currently, the bank is comprised of 8 active promoters who are several years of business acumen and expertise in the diverse fields such as Transportation, Hotels, Textile, Banks and Financial Institutions (BFIs) and other Business.

As of dated, it has paid up capital of amounting Rs. 5, 50, 00,000. After the IPO issuance of 450,000 units to general public, it will form shareholding pattern as 55:45 in ratio, total paid up capital to reach Rs. 10, 00, 00,000

2. Objectives of Issue

The bank proposed to utilize its proceeds from the fresh issue towards augmenting its capital base to meet future capital requirements of Rs. 500 million up to FY 2073/2074 as per the regulatory norms of NRB.

To dilute the promoter shareholding structure from existing 100% to 55% where 45% shall be offered to General Public and employees through this IPO.

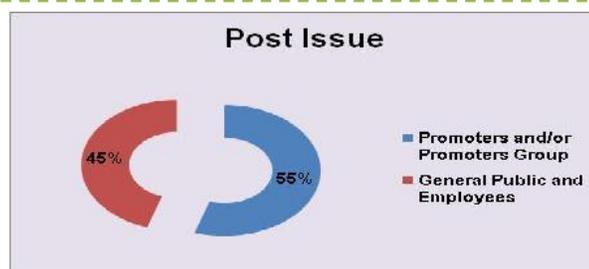
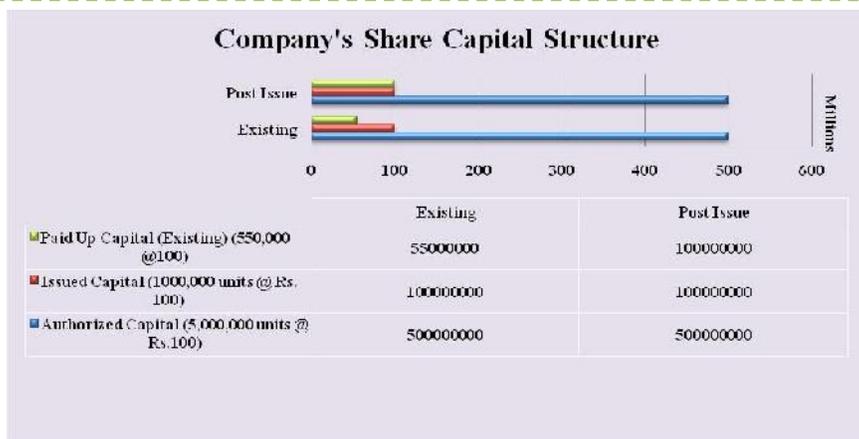
Listing of shares in stock exchange will further enhance its visibility and brand image among the existing and potential shareholders and helps to boost the liquidity in the existing market.

3. Company's Future Plans:

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 contribute in development of banking sectors of the nation by delivering quality services and building the confidence among the public and investors.

4. Shareholding Pattern/ Ownership Structure:



Shareholding Pattern	Pre-Issue	Post Issue
Promoters and/or Promoters Group	550000000	550000000
Local Inhabitants (Project Affected Area)	-	-
General Public and Employees	-	450000000

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 100 percent of total paid up Capital. As per the Company Memorandum, it has decided to offer 4, 50,000 units of shares to General Public (including 22,500 units for mutual funds & 9,000 units for staffs) which will convert the existing share capital structure in 55:45 ratios representing Promoter and General Public (including staffs) respectively.

5. Board of Directors Details

S.n	Name & Address	Designation	Age	Nationality	No. of Shareholding	Qualification	Work Experience
1	Mr. Ganesh kumar Shrestha Kalika-5, Baglung	Chairperson	66	Nepali	49,500	Bachelors	-Experiences in Transportation business for 40 years
2	Mr. Krishna Shankar Shrestha -Baglung	Director	60	Nepali	37,500	Masters	-Founder General Secretary of Baglung Jaycees in 2036 BS for one year. -General Secretary of Baglung chamber of Commerce and industry from 2048 to 2052 BS - Executive member of Nepal Red Cross Society from 2038 to 2042 BS -President of Nepal Family Planning Federation from 2053 to 2060 BS - President of Ekata Co-operative Ltd. from 2056 to 2069 BS - Has been engaged in garment and fancy business for more than 35 years.
3	Mr. Narendra Raman Tripathi Leknath-8, Kaski	Director	59	Nepali	1,000	B.Sc. (Agri)	- Working experiences in Agriculture Development Bank in various posts from 2034 to 2063 BS - Various Training related to management
4	Mr. Shiva Prasad Timilsina Pokhara-16, Kaski	Director	61	Nepali	2,000	B.A.	- Working experiences in Agriculture Development Bank in various posts from 2034 to 2063 BS - Various Training related to management
5	Mr. Manobigyan Shrestha Kalika-5, Baglung	Director	49	Nepali	5,000	Bachelors	-Involved in garment and retailer business for more than 22 years -Proprietor of Manobigyan stors

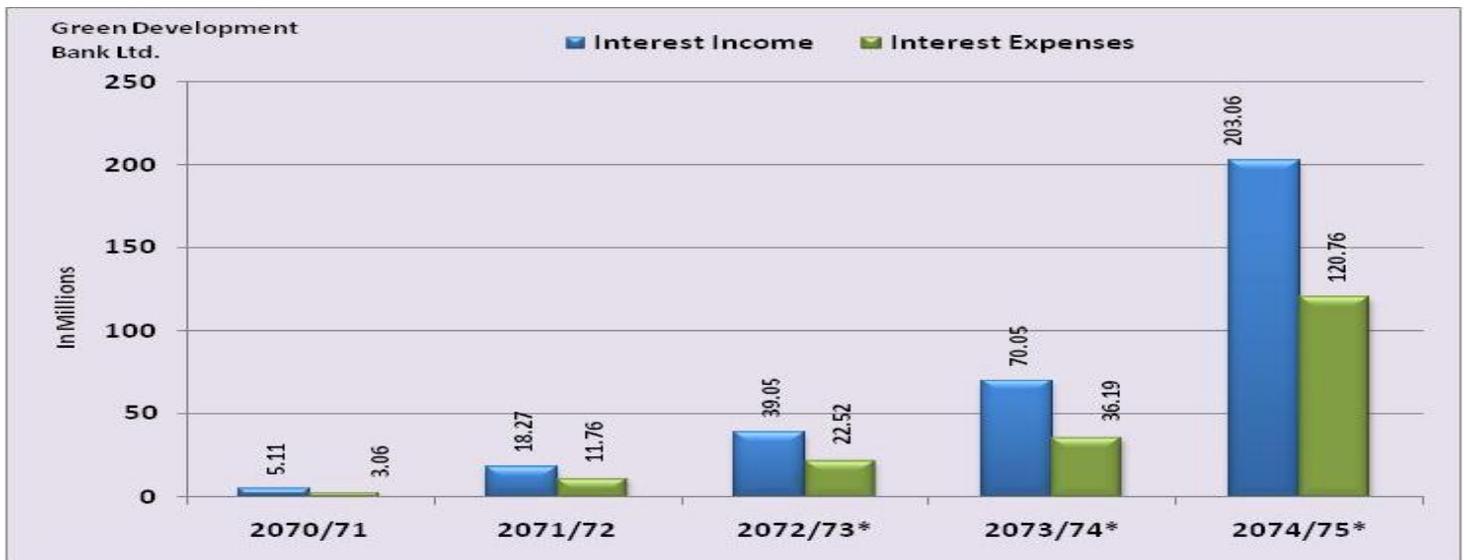
6. Financial Summary of the Bank

Particulars	Actual		Projected		
	2070/71	2071/72	2072/73*	2073/74*	2074/75*
Paid up Capital	55,000,000.00	55,000,000.00	100,000,000.00	500,000,000.00	500,000,000.00
Reserve and Surplus	(6,735,000.00)	(9,493,000.00)	(4,039,000.00)	12,464,000.00	49,647,000.00
Net Worth	48,265,000.00	45,507,000.00	95,961,000.00	512,464,000.00	549,647,000.00
No. of Shares	550,000.00	550,000.00	1,000,000.00	5,000,000.00	5,000,000.00
Total Liabilities	79,192,000.00	252,499,000.00	501,147,000.00	707,538,000.00	3,320,468,000.00
Total Assets	127,457,000.00	298,006,000.00	597,108,000.00	1,220,002,000.00	3,870,115,000.00
Borrowings	0.00	0.00	0.00	0.00	0.00
Deposits	78,166,000.00	250,500,000.00	500,018,000.00	706,296,000.00	3,319,102,000.00
Loans and Advances	76,847,000.00	204,273,000.00	418,332,000.00	711,164,000.00	2,631,306,000.00
Gross Income	6,206,000.00	20,500,000.00	44,479,000.00	77,050,000.00	211,390,000.00
Gross Expenses	12,022,000.00	21,984,000.00	33,731,000.00	48,160,000.00	133,563,000.00
Interest Income	5,108,000.00	18,268,000.00	39,045,000.00	70,050,000.00	203,056,000.00
Interest Expenses	3,059,000.00	11,755,000.00	22,516,000.00	36,189,000.00	120,762,000.00
Operating Expenses	8,963,000.00	10,229,000.00	11,215,000.00	11,971,000.00	12,801,000.00
Employee Expenses	4,491,000.00	5,318,000.00	5,105,000.00	5,871,000.00	6,164,000.00
Operating Profit	(6,589,000.00)	(2,756,000.00)	8,570,000.00	25,932,000.00	58,432,000.00
Net Profit	(6,732,000.00)	(2,756,000.00)	5,453,000.00	16,503,000.00	37,184,000.00
Cash Dividend	-	0.00	0.00	0.00	0.00
Stock Dividend	-	-	-	-	-
Increase/decrease in Reserve	-	(2,758,000.00)	5,454,000.00	16,503,000.00	37,183,000.00
Retention	-	(2,756,000.00)	5,453,000.00	16,503,000.00	37,184,000.00

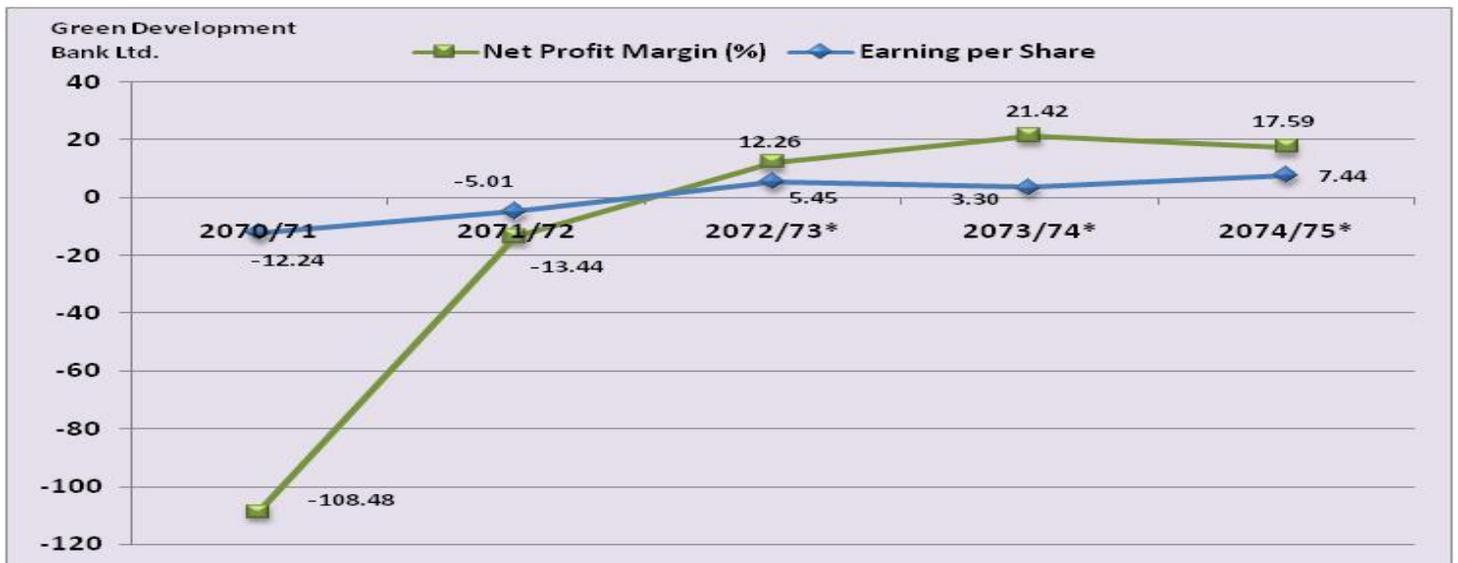
7. Financial Key Indicators:

S.N.	Particulars	Actual		Projected		
		2070/71	2071/72	2072/73	2073/74	2074/75
1	Capital Adequacy Ratio (C)					
	Capital Fund To RWA (%)	43.43	19.09	22.93	70.72	21.67
2	Assets Quality/Efficiency Ratio (A)					
	NPL to Total Loan and Advances	n/a	n/a	n/a	n/a	n/a
	LLP to NPL	n/a	n/a	n/a	n/a	n/a
3	Management Efficiency Ratio					
	Employee Expenses/Operating Expenses	50.11	51.99	45.52	49.04	48.15
	Cost of Fund	n/a	n/a	n/a	n/a	n/a
4	Profitability Ratio					
	Net Profit Margin(Net Profit After Tax / Gross Income)%	-108.48	-13.44	12.26	21.42	17.59
	ROE%	-13.95	-6.06	5.68	3.22	6.77
	EPS	-12.24	-5.01	5.45	3.30	7.44
	Net Profit / Total Assets	-5.28	-0.92	0.91	1.35	0.96
	Net Profit / Loan and Advances	-8.76	-1.35	1.30	2.32	1.41
	Interest income/ Loan and Advances (A)	6.65	8.94	9.33	9.85	7.72
	Interest expenses/ Deposit (B)	3.91	4.69	4.50	5.12	3.64
	Interest Rate Spread (A- B)	2.73	4.25	4.83	4.73	4.08
5	Liquidity Ratios (L)					
	CRR	4.50	5.50	7.21	5.83	8.78
	Loan and Advances / Deposit	98.31	81.55	83.66	100.69	79.28
	Debt To Equity Ratio	1.64	5.55	5.22	1.38	6.04
6	Sensitive to Market Ratios (S)					
	Net worth per share	87.75	82.74	95.96	102.49	109.93
	Earnings per Share	-12.24	-5.01	5.45	3.30	7.44
	EPS Growth		-59.06	-208.82	-39.47	125.32
	Cash Dividend per share	0.00	0.00	0.00	0.00	0.00
	Dividend payout Ratio	0.00	0.00	0.00	0.00	0.00
	Retention Ratio	100.00	100.00	100.00	100.00	100.00

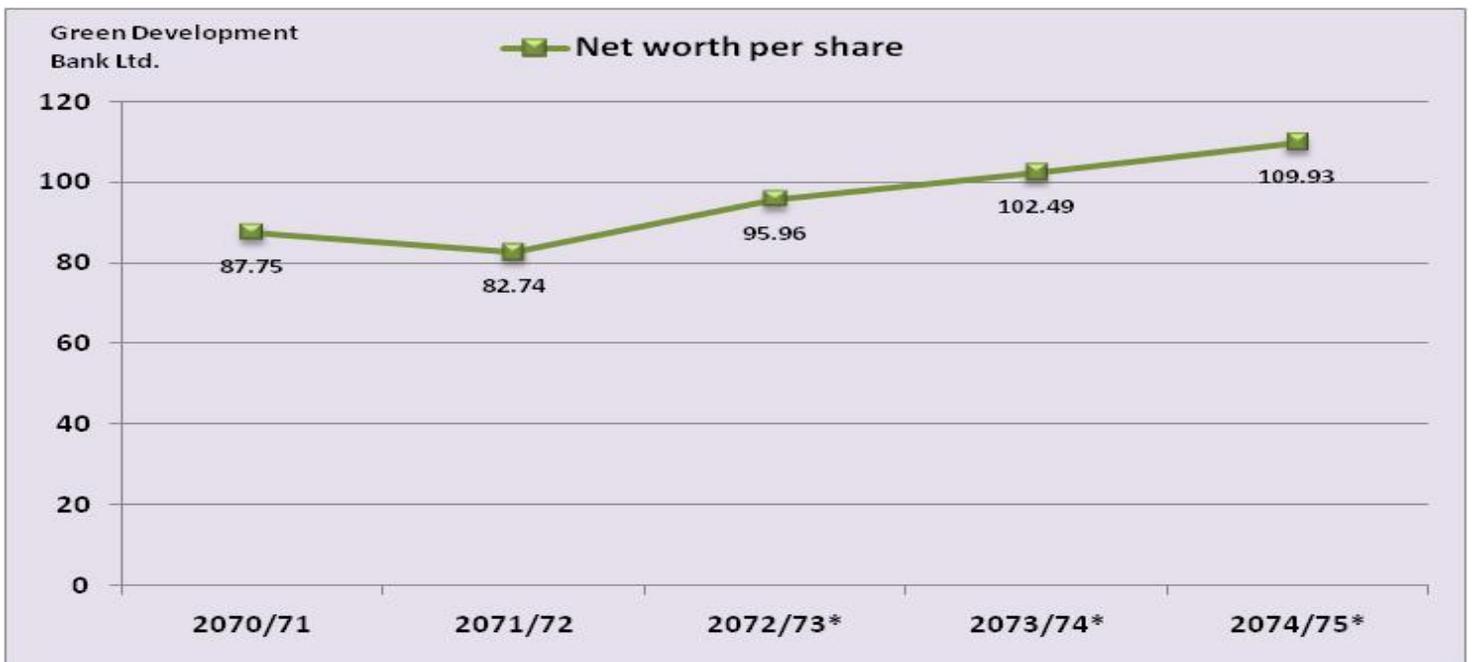
9. Financial Charts



9. Financial Charts



9. Financial Charts



10. Overall Opinion:

Management & Governance:

- The company has been run by group of Board members who have diversified track records in several industry and business sectors, and well equipped with immense business knowledge and expertise. Similarly, Management of the company has been experienced and qualified professional. Hence, considering their business acumens, experience and expertise in the sector or industry, it is expected that the company will be directed towards growth in future.

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none">• Adequate Paid up capital to intensify business growth.• Experienced senior management team and established position of local promoters.• NPL accounts below industry average.• Credit to Deposit ratio is favorable position with the sign of growth.	<ul style="list-style-type: none">• High cost of fund and Operating expenses are high impacting profitability.• Lower market share.• Limited branch networks• Business concentrated to limited geographical area.
<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none">• Bank has plans to issue rights share to meet the regulatory paid up capital requirement.• the growth of banking industry in Nepal collectively brings the technological and infrastructural development of the organization.• the bank is in growth phase and possibility of business expansion exist as the bank has not launched the full range of banking services yet.	<ul style="list-style-type: none">• The bank is exposed to the concentrated loan among the top 20 loan customers that accounts 43 percent of the portfolio, this lead the bank towards high degree of default risk.• Limited geographical coverage doesn't offer the bank to build with strong brand in the industry which might weaken the competitive position of the bank.• Political instability and ineffective governance.

Financial Analysis:

- Capital Adequacy Ratio is well above the NRB requirement that accounts for 19.09% at end of FY 2071/72. Furthermore, the forecasted CAR is supposed to surge in FY 2072/73 due added capital through IPO that adequate opportunity to expand its business. Similarly, in FY 2073/74 the bank has capital increment plan through rights offers of 400 million hence expects to hold tremendous capital where projected CAR for the year counts for 70.72%. However, the bank is supposed to decrease the CAR at the level of 21.67% in 2074/75 indicating that the bank is supposed to expand its core business utilizing its capital efficiently.
- The bank commences operation in Shrawan 2070 with the credit portfolio growing to Rs. 204 million at the end of FY 2071/72. Similarly, at the third quarter (Q3) of FY 2072/73, the loan portfolio stood at Rs. 269.87 million that mainly comprises personal/business overdraft loan (~54%), Term loan (~12.28%), real estate loan (~2.13%), and other types of loan (~29.01%). Furthermore, the bank has forecasted to expand its loan portfolio to 418million in FY 2072/73 to 2.631 billion in FY 2074/75 indicating the future growth prospect. The bank has not disclosed its non-performing to total loan ratio (NPL/TL) in its audited financial statements, however the third quarterly financial reports published on Chaitra 2072 depicts 1.02% and Total Loan Loss Provision to Total NPL (LLP/NPL) stood 144.55%.
- Employee Expenses covers about 50% of operating expenses, which drive the attention towards management inefficiency in relation to managing operating costs.
- The profitability of the bank remains weak as it shows two years losses from operations. Although the bank has generated net operating income at satisfactory level and low provision, the high operating expenses has affected the net profit. The bank has reported net loss of 2.75 million in FY 2071/72 that was decreased from 6.58 million in FY 2070/71. The bank however expected net profit to surge at 5.45 million in FY 2072/73 to 37.18 million in FY 2074/75 through expansion of its business with low provisioning expenses. The earnings profile will depend on the management efficiency utilizing of capital and assets along with proper diversification of loan portfolio whereas maintaining low cost of funds.
- Net Profit Margin at the end of FY 2071-72 has increased substantially due to utilization of fund and expansion of its core business although it is still negative. The projected Net profit margins for upcoming 3 years are respectively 12.26%, 21.42% and 17.59%, which unveil the management efficiency to convert operating income into actual profit.
- The bank's forecasted ROE for upcoming three fiscal years is suppose to remain between 5% to 9% (below industry average) that depicts the company is not expected to generated net profit proportionate to increased equity.
- The interest income to total loan & advances for the bank hovers around 7% - 10% where interest expenses to total loan float about 3% - 5% overall creating interest spread below 5% which as per NRB requirements.
- CRR is projected to be well above NRB mandatory hence low possibilities of liquidity crisis. However, Loan & Advances to Deposit Ratio depicts that the bank has comparatively high credit lending which makes bank vulnerable toward liquidity problem or the bank is expanding its credit lending through capital mobilization.

- The debt to equity ratio for FY 2071/72 was found 5.55 which will remain high in followings years as company will have negative reserve till FY 2072/73
- Although the bank projected increased Net profit, the EPS remains below Rs.10 for upcoming years as bank planned to increase its paid up till 500 million by 2074/75 as per the NRB requirements.
- The bank has net worth of Rs. 82.74 per share in FY 2071/72 and forecasted to remain below Rs. 100 in FY 2072/73 as bank is expected to have negative reserve until that year. However, with the 100% profit retention ratio the bank will suppose to have positive reserve by 2073/74 hence the net worth per share to remain at 109.93 at end of 2074/75.
- Bank has not disclosed its plan regarding the distribution of cash or stock dividend for upcoming years, however in its paid-up capital increment plan, the bank has mentioned to issue rights amounting 400 million in FY 2073/74.

Recommendation:

Considering the market share, growth prospect, business size and financial health of the bank, the company is more likely to classify into small-cap side, the characteristics of high volatility and riskiness in relation to market condition. The stock is expected to list between price ranges of Rs. 150- 200 considering the moderate growth of EPS and net worth per share. However, the price of the stock may trigger high depending upon the ability to scale up its operation with efficient utilization of capital, improving and diversification of loan portfolio along with business expansion to charter high market share.

Disclaimer: This document has been prepared by National Merchant Banker Ltd (NMBL) and is meant for sole use by the recipient and not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. The information contained herein is from sources believed reliable. We do not represent that it is accurate or complete and it should not be relied upon as such. The views, opinions, estimates, ratings, target price, entry prices and/or other parameters mentioned in this document may or may not match or may be contrary with those of the other Research teams (individual or Institutional). NMBL is public limited company registered under company ACT 2063 and licensed under Merchant Banker Regulations 2008 to run Investment Banking and Portfolio Management Service in Nepal. The company conducts independent research in market and economy to facilitate its clients and general public in making their investment decision by generating usual informative research reports.