

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	3,00,000 units
Issue Price per share	Rs. 100
Issue Open Date	2016-07-31
Early Close Date	2016-08-03
Late Close Date	2016-07-14
Issue Manager	NIBL Capital Limited
ICRA Grading	-
Min. to apply:	50 units
Max. to apply:	10,000 units

Company Synopsis:

Company Category	D- class national level Financial Institution	
Ownership Structure	Public Limited	
Shareholdings pattern	Commercial Bank	45%
	Development Bank and Finance Company	16%
	Individual Promoter	9%
	General Public	30%
	Total	100%

1. Company Overview:

National 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 31th October, 2013. It obtained its operating license from NRB on 11 June 2014 and started formal microfinance operation from July 2, 2014. It is the joint initiative of 7 financial institutions (2 commercial banks and 2 development banks and 3 Finance Company).

The bank has strong and widely spread network strength through which it has been providing its banking services to its customers in five-development region. Altogether, it has 24 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 at least 30 percent share capital to General Public and on this account the MOA of the company has stated to provide 30 percent of shares to public, for which the company is issuing 3,00,000 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 qualities of life 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.

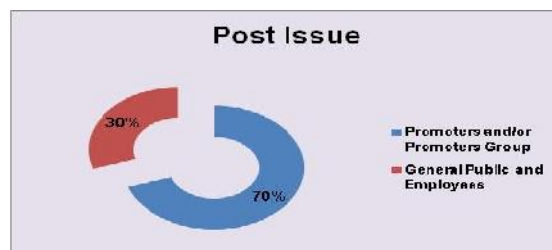
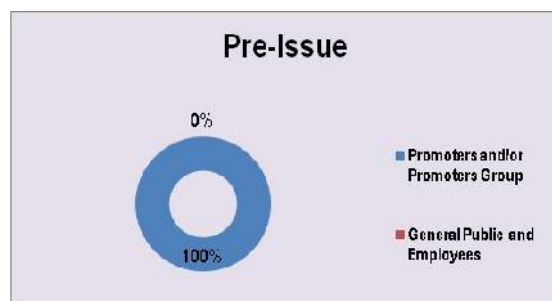
4. Shareholding Pattern/ Ownership Structure:

Company's Share Capital Structure



	Existing	Post Issue
Paid Up Capital (Existing) (7,00,000 @100)	70000000	100000000
Issued Capital (1,000,000 units @Rs. 100)	100000000	100000000
Authorized Capital (5,000,000 units @ Rs.100)	500000000	500000000

Shareholding Pattern	Pre-Issue	Post Issue
Promoters and/or Promoters Group	70000000	70000000
General Public and Employees	-	30000000



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 Issued Capital. As per the mandatory norms of NRB and Company policy, the bank will offer 300,000 units of shares to General Public (including staffs) which will convert the existing share capital structure in 70:30 ratios.

5. Board of Directors Details

<i>S.n.</i>	<i>Name & Address</i>	<i>Designation</i>	<i>Age</i>	<i>Nationality</i>	<i>Share Holdings</i>	<i>Qualification</i>	<i>Work Experience</i>
1	Mr. Keshav Pd. Acharya	Chairman	62	Nepali	6,000	Masters	Former Advisor (Finance Minister), Former Executive Director Nepal Rastra Bank
2	Mr. Ganga Pd. Uprety	Director	68	Nepali	6000	Masters	Chancellor (Nepal Pragya Pratisthan)
3	Mr. Rabin Sijapati Representatives- Nepal investment Bank Ltd	Director	46	Nepali	2,50,000 Promoter	Masters	Assistant General Manager-Nepal Investment Bank Ltd
4	Mr. Barun Shrestha Representatives- Nepal investment Bank Ltd	Director	44	Nepali	2,50,000	Masters	Senior Manager- Nepal Investment Bank Ltd
5	Mr. Rajib Giri Representatives- Kumari Bank Ltd	Director	52	Nepali	2,00,000	Masters	Acting Chief Executive Officer- Kumari Bank Ltd
6	Mr. Narendar Prasad Chhatkuli Representatives- Kumari Bank Ltd	Director	55	Nepali	2,00,000	Masters	Head-Legal, Compliance & Company Secretary – Kumari Bank Ltd

6. Financial Summary

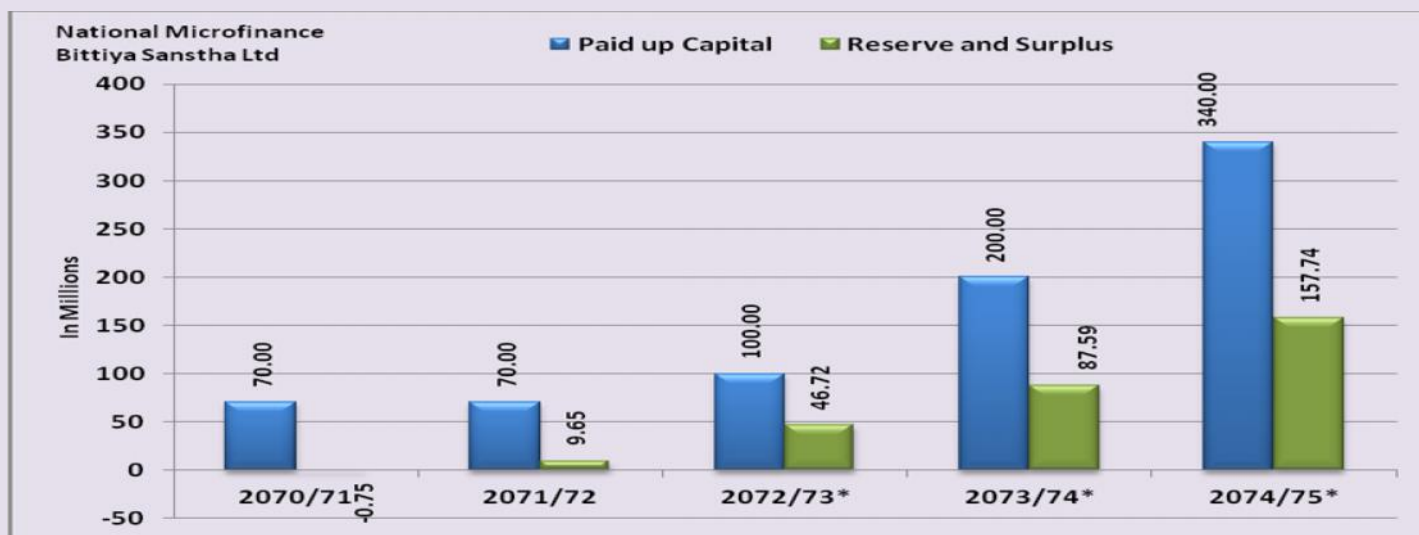
Particulars	Actual		Projected		
	2070/71	2071/72	2072/73*	2073/74*	2074/75*
Paid up Capital	70,000,000.00	70,000,000.00	100,000,000.00	200,000,000.00	340,000,000.00
Reserve and Surplus	(748,000.00)	9,650,000.00	46,722,000.00	87,585,000.00	157,736,000.00
Net Worth	69,252,000.00	79,650,000.00	146,722,000.00	287,585,000.00	497,736,000.00
No. of Shares	700,000.00	700,000.00	1,000,000.00	2,000,000.00	3,400,000.00
Total Liabilities	769,000.00	411,519,000.00	890,996,000.00	1,049,743,000.00	1,197,065,000.00
Total Assets	70,021,000.00	491,169,000.00	1,037,718,000.00	1,337,328,000.00	1,694,801,000.00
Borrowings	-	380,688,000.00	787,993,000.00	906,192,000.00	996,811,000.00
Deposits	6,000.00	24,836,000.00	100,825,000.00	141,155,000.00	197,617,000.00
Loans and Advances	613,000.00	463,804,000.00	847,765,000.00	1,179,141,000.00	1,527,215,000.00
Gross Income	1,454,000.00	49,123,000.00	158,644,000.00	214,979,000.00	279,480,000.00
Gross Expenses	2,515,000.00	28,633,000.00	117,758,000.00	146,476,000.00	164,688,000.00
Interest Income	1,448,000.00	36,018,000.00	132,207,000.00	180,611,000.00	238,238,000.00
Interest Expenses	-	9,413,000.00	68,529,000.00	90,027,000.00	101,570,000.00
Operating Expenses	2,515,000.00	19,220,000.00	49,229,000.00	56,449,000.00	63,118,000.00
Employee Expenses	377,000.00	10,217,000.00	38,338,000.00	44,089,000.00	50,702,000.00
Operating Profit	(1,067,000.00)	15,811,000.00	36,509,000.00	64,214,000.00	110,240,000.00
Net Profit	(747,000.00)	10,398,000.00	23,233,000.00	40,863,000.00	70,153,000.00
Cash Dividend	-	-	-	-	-
Stock Dividend	-	-	-	-	-
Increase in Reserve	-	10,398,000.00	37,072,000.00	40,863,000.00	70,151,000.00
Retention	-	10,398,000.00	23,233,000.00	40,863,000.00	70,153,000.00

7. Financial Key Indicators:

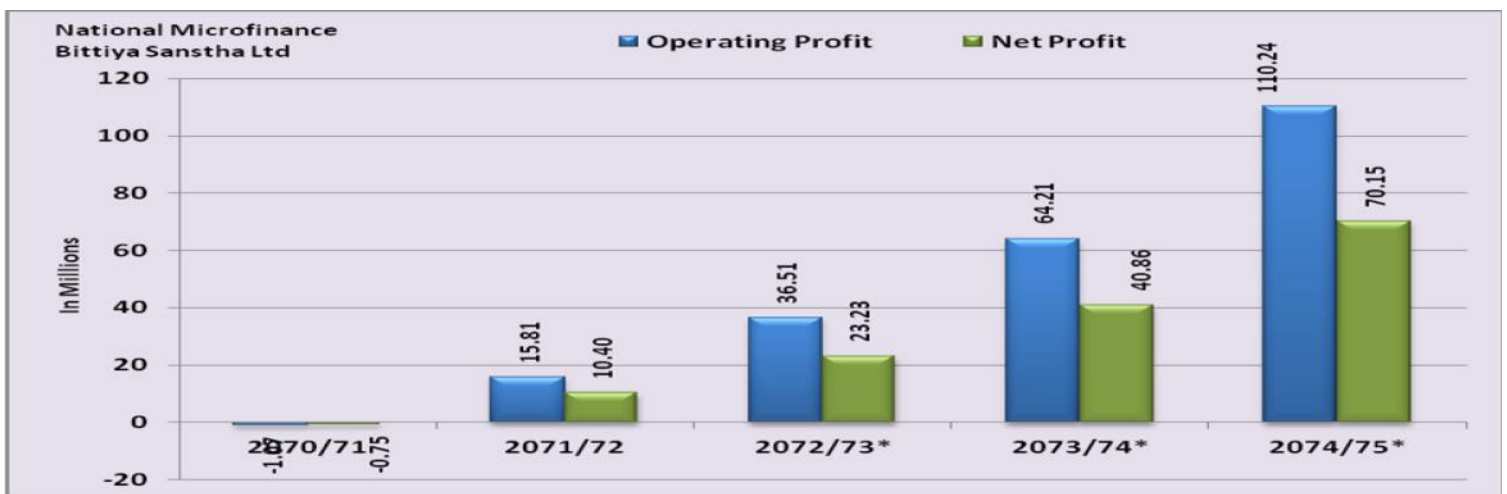
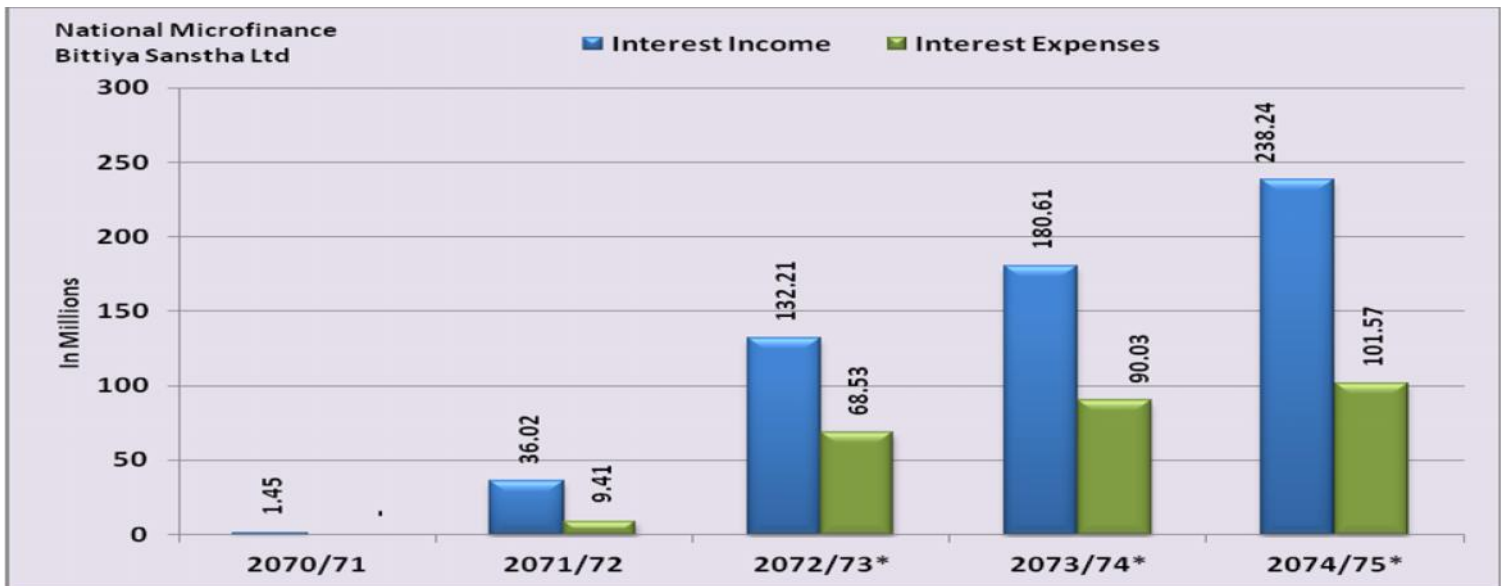
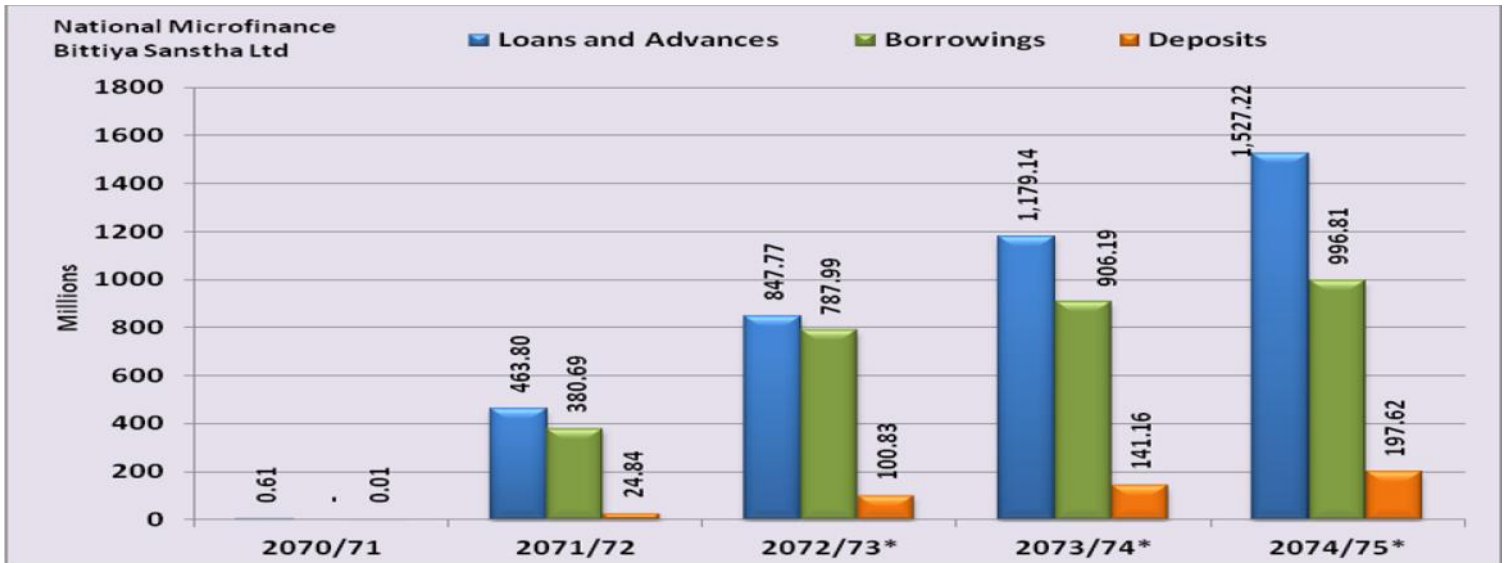
S.N.		Actual		Projected		
		2070/71	2071/72	2072/73	2073/74	2074/75
1	Capital Adequacy Ratio (C)					
	Capital Fund To RWA (%)	-	-	17.66%	24.69%	32.77%
2	Assets Quality/Efficiency Ratio (A)					
	NPL to Total Loan and Advances	-	-	-	-	-
	LLP to NPL	-	-	-	-	-
3	Management Efficiency Ratio					
	Employee Expenses/Operating Expenses	14.99	53.16	77.88	78.10	80.33
	Cost of Fund			-	-	-

4 Profitability Ratio						
Net Profit Margin(Net Profit After Tax / Gross Income)%	-51.38	21.17	14.64	19.01	25.10	
ROE%	-1.08	13.05	15.83	14.21	14.09	
EPS	-1.07	14.85	23.23	20.43	20.63	
Net Profit / Total Assets	-1.07	2.12	2.24	3.06	4.14	
Net Profit / Loan and Advances	-121.86	2.24	2.74	3.47	4.59	
Interest income/ Loan and Advances (A)	236.22	7.77	15.59	15.32	15.60	
Interest expenses/ Borrowings & Deposit (B)	0.00	2.32	7.71	8.60	8.50	
Interest Rate Spread (A- B)		5.44	7.88	6.72	7.10	
5 Liquidity Ratios (L)						
CRR	-	-	7.21	5.83	8.78	
Loan and Advances / (Borrowings + Deposit)		114.37	95.38	112.58	127.86	
Debt To Equity Ratio	0.01	5.17	6.07	3.65	2.41	
6 Sensitive to Market Ratios (S)						
Net worth per share	98.93	113.79	146.72	143.79	146.39	
Earnings per Share	-1.07	14.85	23.23	20.43	20.63	
EPS Growth		1291.97%	56.41%	12.06%	0.99%	
Cash Dividend per share	0.00	0.00	0.00	0.00	0.00	
Dividend payout Ratio	-	-	0.00	0.00	0.00	
Retention Ratio	-	-	100.00	100.00	100.00	

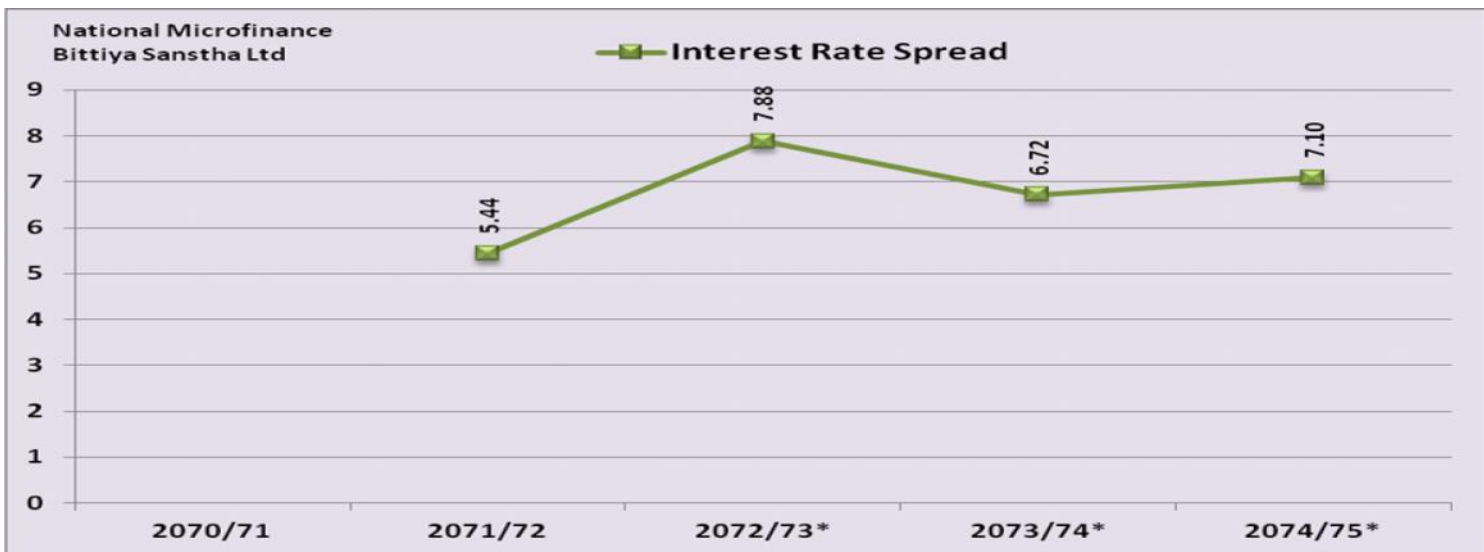
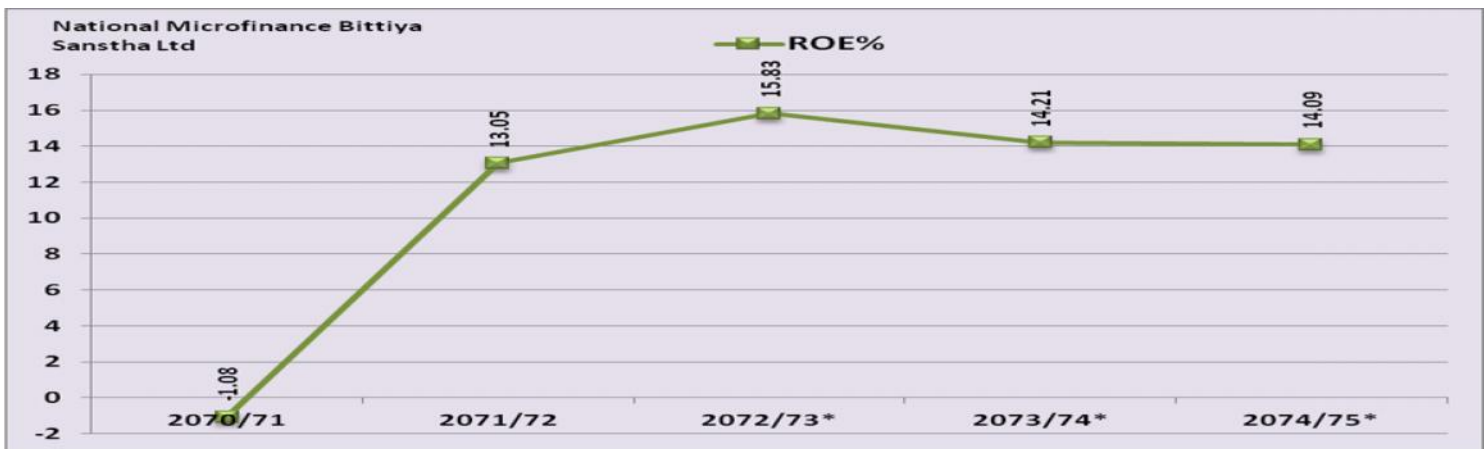
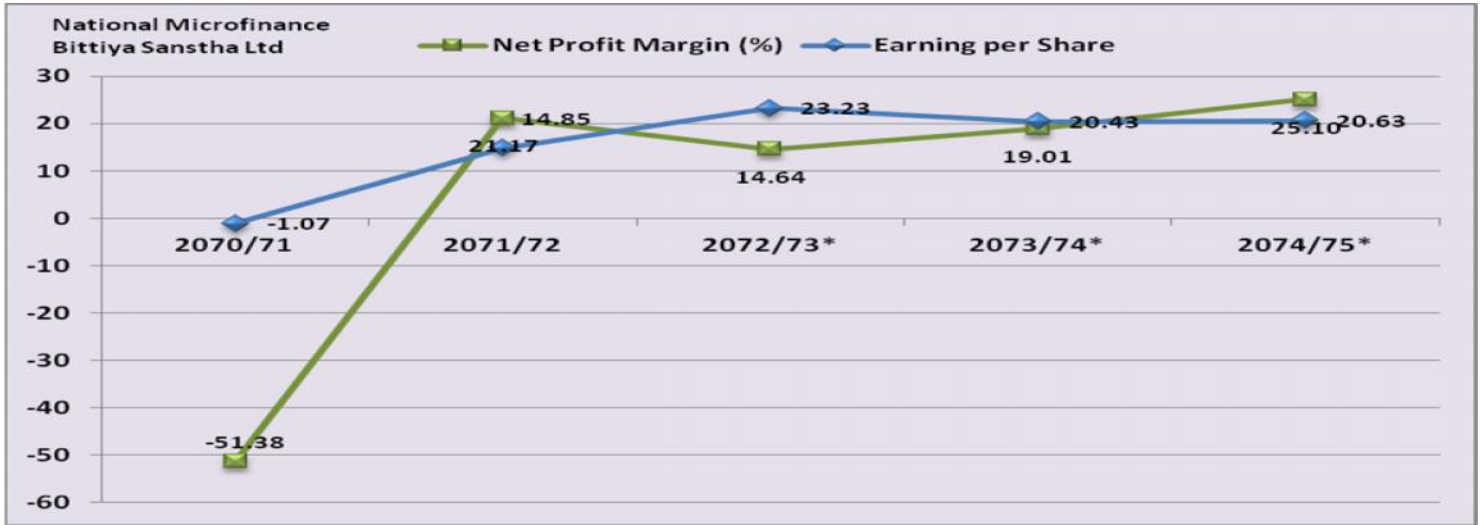
9. Financial Charts



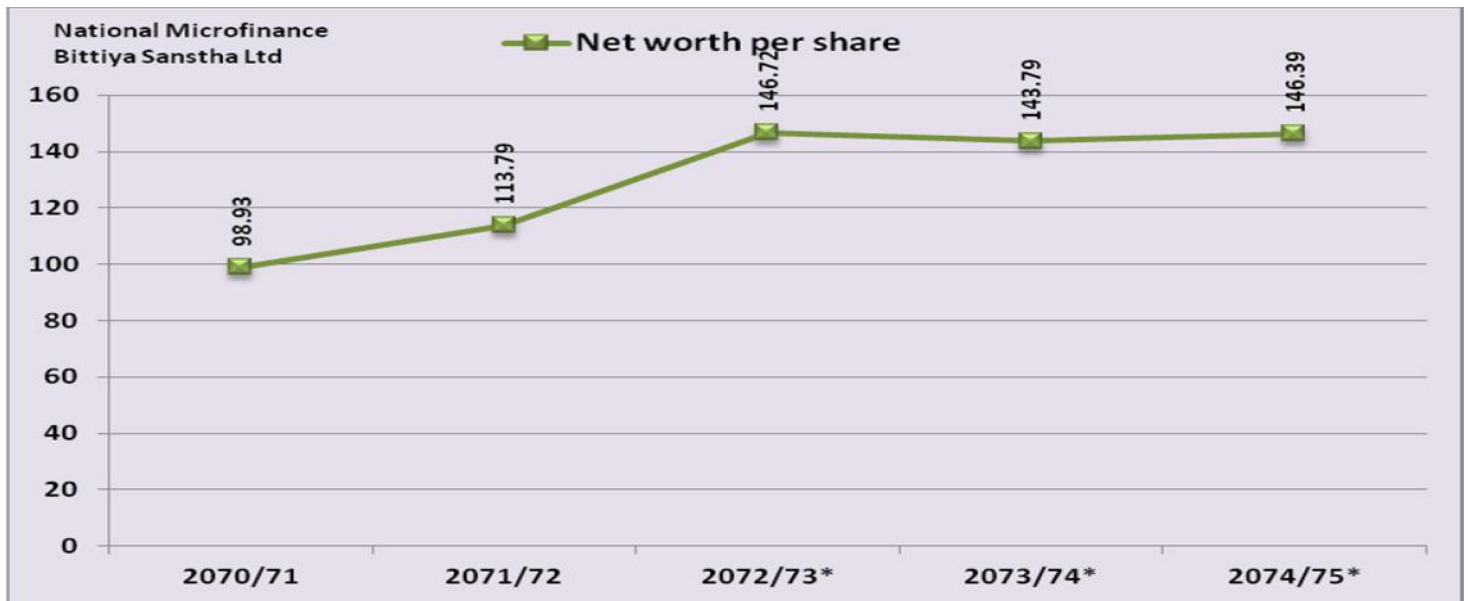
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10. Overall Opinion:

Management & Governance:

- The company has been governed by highly affluent group of Board members who are the elected representatives from well-established commercial of the nation. 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.
- The expertise of the management team in the related sectors can help to establish the good corporate governance within the organization.

Financial Analysis:

- Capital Adequacy Ratio is well above the NRB requirement that accounts for 17.66% at end of FY 2072/73. Furthermore, the forecasted CAR is supposed to surge in FY 2073/74 due to capital added through IPO that adequate opportunity to expand its business. Similarly, in FY 2074/75 the bank has capital increment plan through rights/ bonus /FPO offers of 140 million hence expects to hold 3400 million capital where projected CAR for the year counts for 32.77%.
- The bank commences operation in June 11, 2014 with the credit portfolio growing to Rs. 463.8 million at the end of FY 2071/72. Similarly, at the third quarter (Q3) of FY 2072/73, the loan portfolio stood at Rs. 726.25 million that fully comprises individual loans. Furthermore, the bank has forecasted to expand its loan portfolio to 847.76 million in FY 2072/73 to 1.527 billion in FY 2074/75 indicating the future growth prospect. However, to gauge the asset quality bank has not disclosed its non-performing to total loan ratio in its financial statements.
- Employee Expenses covers majority of operating expenses, which drive the attention towards management inefficiency in relation to managing operating costs.
- The profitability of the bank remains at satisfactory level as it generated profit of 10.39 million in its second year of operations. Although the bank has generated net operating income at satisfactory level, the high operating expenses has affected the net profit. The bank however expected net profit to surge at 23.23 million in FY 2072/73 to 70.15 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 that accounts for 21.17%. The projected Net profit margins for upcoming 3 years are respectively 14.64%, 19.01% and 25.10%, 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 hover around 15% that depicts the company is expected to generated moderate net profit proportionate to increased equity.
- 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.
- The interest income to total loan & advances for the bank hovers around 15% where interest expenses to total loan float about 8% overall creating interest spread below 7% which is as per NRB requirements.
- The debt to equity ratio for FY 2071/72 was found 5.17, which will increase to 6.07 in FY 2072/73 due to more borrowings. However, the ratio will be 3.65 and 2.41 in FY 2073/74 and 2074/75 respectively due to surge in net worth.

- The forecasted EPS of bank for upcoming 3 years hover around 20% that reveals bank's capabilities to distribute dividend. However, the dividend distribution varies depending upon BOD decisions and company strategies.
- The Net worth per share is in increasing trend and is expected to grow and reach at Rs. 146.39 per share at the end of 3 years.
- The stock is expected to list in between price range of Rs. 147-440 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 trigger price high.

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