



RSDC Laghubitta Bittiya Sanstha Ltd. - IPO analysis

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	4,00,000 units
Issue Price per share	Rs. 100
Issue Open Date	2016-08-21
Early Close Date	2016-08-24
Late Close Date	2016-09-04
Issue Manager	NIBL Capital Limited
ICRA Grading	4
Min. to apply:	50 units
Max. to apply:	4,000 units

Company Synopsis:

Company Category	D- class national level Wholesale Microfinance	
Ownership Structure	Public Limited	
Shareholdings pattern	Commercial Bank	20%
	Rural Self-reliance Development Centre	40.9%
	Individual Promoter	-
	General Public	39.10%
	Total	100%

1. Company Overview:

RSDC Laghubitta Bittiya Sanstha Ltd. has been incorporated under Company Act 2063 and registered as a "D" class microfinance institution with Nepal Rastra Bank (NRB). Headquartered in Butwal, Rupendehi District, RSDC started its operation from September 11, 2013 as a wholesale microfinance lender to carry out the micro financing operations.

RSDC has authorized capital of Rs 20 crore with issued capital of Rs 10 crore and paid up capital of Rs 6 crore. Rural Self-reliance Development Centre (NGO; 40.90% shareholding) and Bank of Kathmandu Lumbini (a class A commercial bank; 20%) are the major promoters with Damodar Joshi handling the chief executive position at RSDC.

2. Objectives of Issue

The major object of the offer is to meet adequate paid up capital level as per the mandatory norms of NRB through upcoming IPO. RSDC plans to accomplish the target of Rs 10 crore paid up capital by 2072-73 and therefore seeks to raise additional amount of Rs 4 crore through IPO.

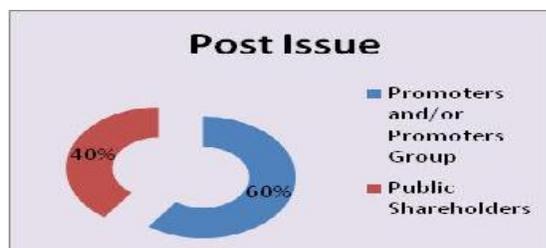
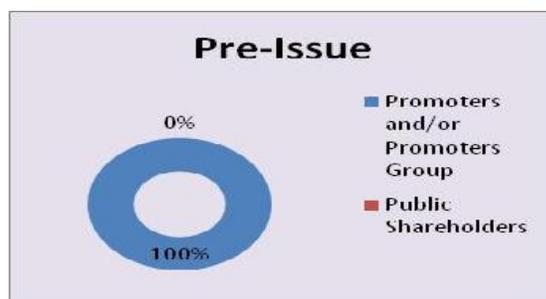
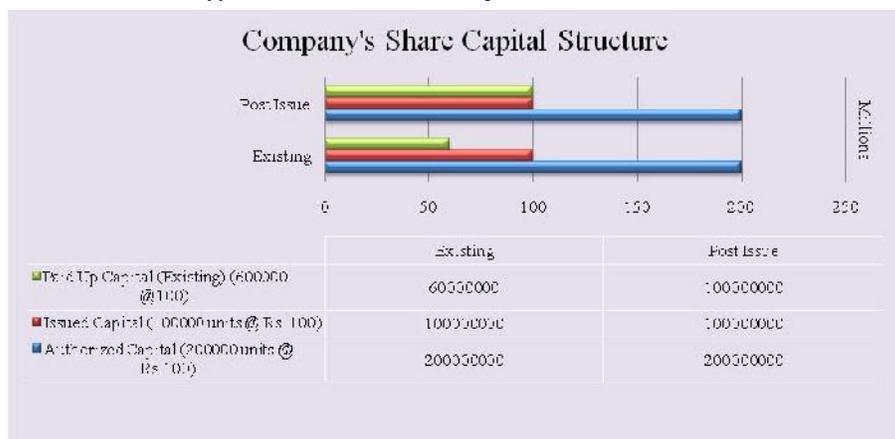
With 136 co-operative clients on board, RSDC is planning to expand the business, increase its client base & spread out its network and is seeking to fund the capital expenditure requirements through this IPO.

3. Company's Major Objectives:

Established with the mission to economically empower & develop rural poor communities, RSDC strives to improve the life of underprivileged & economically backward societies. In addition to this, as per the Nepal Rastra Bank Act 2058 and Company Act 2063, followings are the major objectives of Microfinance Company from the date of its operation:

- To assist rural communities & co-operatives in scaling up their capacities and help in creating employment opportunities & eliminating poverty.
- To create a conducive environment for operation and provide quality service to the customers.
- To equip all the sectors like agriculture, industry, service and business, having potential to prosper, with the necessary facilities to expand.
- To provide necessary trainings to optimally utilize the skills, resources & capital to build a self reliant society.

4. Shareholding Pattern/ Ownership Structure:



Shareholding Pattern	Pre-Issue	Post Issue
Promoters and/or Promoters Group	60000000	60000000
Public Shareholders	0	40000000

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 400,000 units of shares to General Public (including staffs) which will convert the existing share capital structure in 60:40 ratios.

5. Board of Directors Details

S.N	Name & Address	Designation	Age	Nationality	Share Holdings	Qualification	Work Experience
1	Mr. Durga Prashad Poudel	Chairman	61	Nepali	245,400	PhD	Over 25 years of experience in the field of rural development and cooperatives enhancement.
2	Mr. Indra Prashad Tiwari	Director	60	Nepali	4,000	PhD	Worked as a researcher in the field of rural development and have over 15 years of experience as a lecturer.
3	Mr. Ajaya Mani Dixit	Director	61	Nepali	4,000	Masters	Over 25 years of experience in the field of engineering, planning & development.
4	Mr. Shiva Prashad Bashyal Representatives- Gramin Swabhalamvan Bikas Kendra.	Director	42	Nepali	245,400	S.L.C	Over 22 years of experience in the operating co-operatives and micro finance companies.
5	Mr. Jeet Bahadur Sapkota	Director	40	Nepali	1000	Masters	15 years of experience as a lecturer.
6	Mr. Narendar Prasad Chhatkuli Representatives- Lumbini Bank Ltd	Director	47	Nepali	120,000	CA & Masters	Over 15 years of experience in the field of banking and microfinance.
7	Mr. Hari Prasad Bhattari	Director	46	Nepali	500	Masters	Over 20 years of experience in the co-operatives and microfinance sectors.

6. Financial Summary

amount in NPR

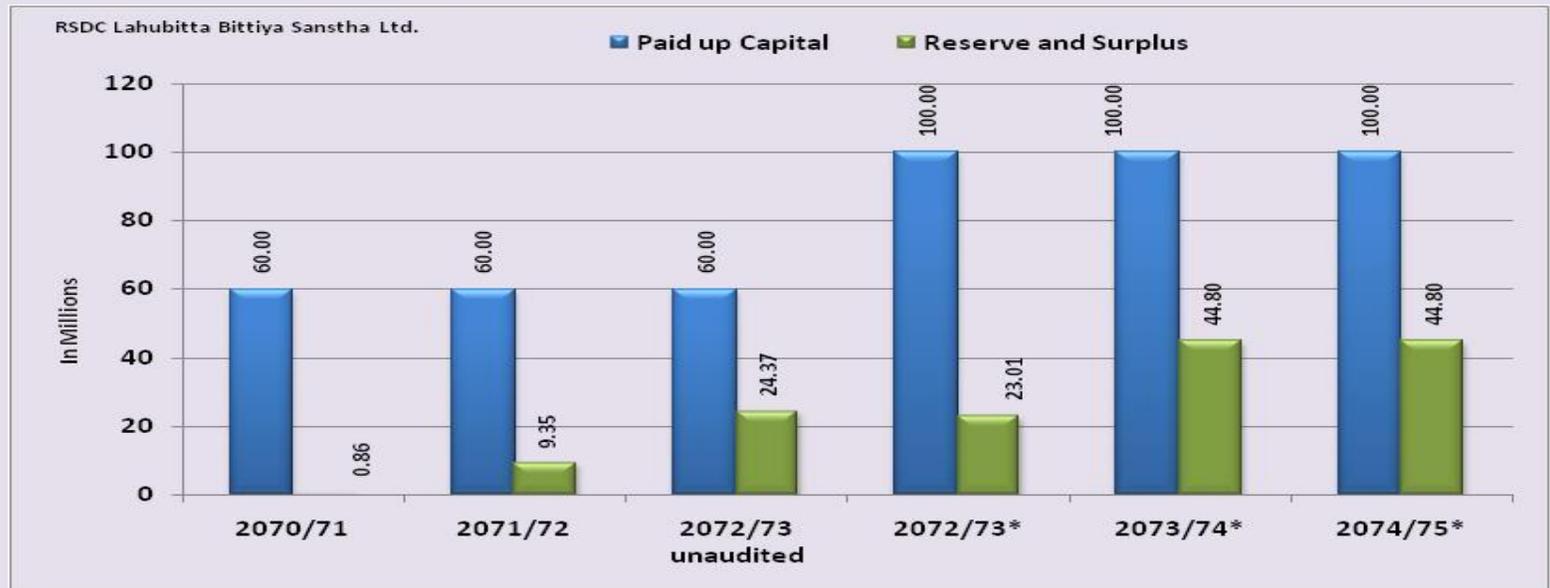
Particulars	Actual		Projected			
	2070/71	2071/72	2072/73 unaudited	2072/73*	2073/74*	2074/75*
Paid up Capital	60,000,000.00	60,000,000.00	60,000,000.00	100,000,000.00	100,000,000.00	100,000,000.00
Reserve and Surplus	863,000.00	9,345,000.00	24,366,000.00	23,010,000.00	44,804,000.00	44,804,000.00
Net Worth	60,863,000.00	69,345,000.00	84,366,000.00	123,010,000.00	144,804,000.00	144,804,000.00
No. of Shares	600,000.00	600,000.00	600,000.00	1,000,000.00	1,000,000.00	1,000,000.00
Total Liabilities	255,426,000.00	476,900,000.00	680,151,000.00	761,633,000.00	916,941,000.00	916,941,000.00
Total Assets	316,289,000.00	546,245,000.00	764,517,000.00	884,643,000.00	1,061,745,000.00	1,061,745,000.00
Borrowings	255,000,000.00	474,948,000.00	676,664,000.00	752,982,000.00	903,579,000.00	903,579,000.00
Deposits	0.00	0.00	0.00	0.00	0.00	0.00
Loans and Advances	225,466,000.00	505,282,000.00	710,490,000.00	699,080,000.00	908,804,000.00	908,804,000.00
Gross Income	10,875,000.00	39,850,000.00	59,834,000.00	58,461,000.00	75,910,000.00	98,683,000.00
Gross Expenses	7,241,000.00	23,623,000.00	34,147,000.00	35,031,000.00	39,545,000.00	45,820,000.00
Interest Income	8,347,000.00	35,181,000.00	53,744,000.00	53,261,000.00	69,025,000.00	89,733,000.00
Interest Expenses	2,169,000.00	15,126,000.00	24,886,000.00	24,736,000.00	27,672,000.00	32,303,000.00
Operating Expenses	5,072,000.00	8,497,000.00	9,261,000.00	10,295,000.00	11,873,000.00	13,517,000.00
Employee Expenses	2,709,000.00	4,132,000.00	4,903,000.00	5,169,000.00	6,559,000.00	7,228,000.00
Operating Profit	1,357,000.00	13,401,000.00	23,605,000.00	21,472,000.00	34,247,000.00	50,109,000.00
Net Profit	864,000.00	8,483,000.00	15,022,000.00	13,665,000.00	29,794,000.00	31,888,000.00
Cash Dividend	-	0.00	0.00	0.00	0.00	0.00
Stock Dividend	-	-	-	-	-	-
Increase in Reserve	-	8,482,000.00	15,021,000.00	-1,356,000.00	21,794,000.00	0.00
Retention	-	8,483,000.00	15,022,000.00	13,665,000.00	29,794,000.00	31,888,000.00

7. Financial Key Indicators:

S.N.	Financial Ratios	Actual		Projected			
		2070/71	2071/72	2072/73 unaudited	2072/73	2073/74	2074/75
1	Capital Adequacy Ratio (C)						
	Capital Fund To RWA (%)	25.39	14.18	12.54	13.65	12.8	12.4
2	Assets Quality/Efficiency Ratio (A)						
	NPL to Total Loan and Advances	0	0	0	-	-	-
	LLP to NPL	0	0	-	-	-	-
3	Management Efficiency Ratio						
	Employee Expenses/Operating Expenses	53.41	48.63	52.94	50.21	55.24	53.47
	Cost of Fund	4.35	4.2	4.22	4.25	4.25	4.3

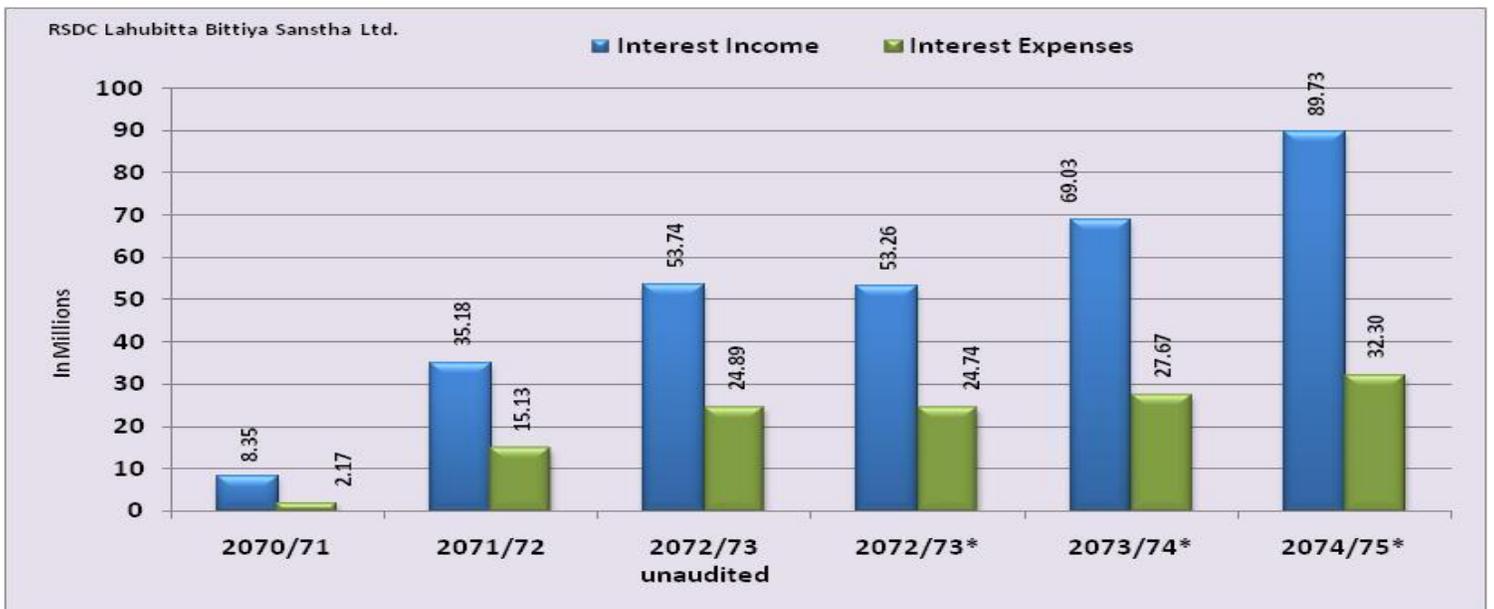
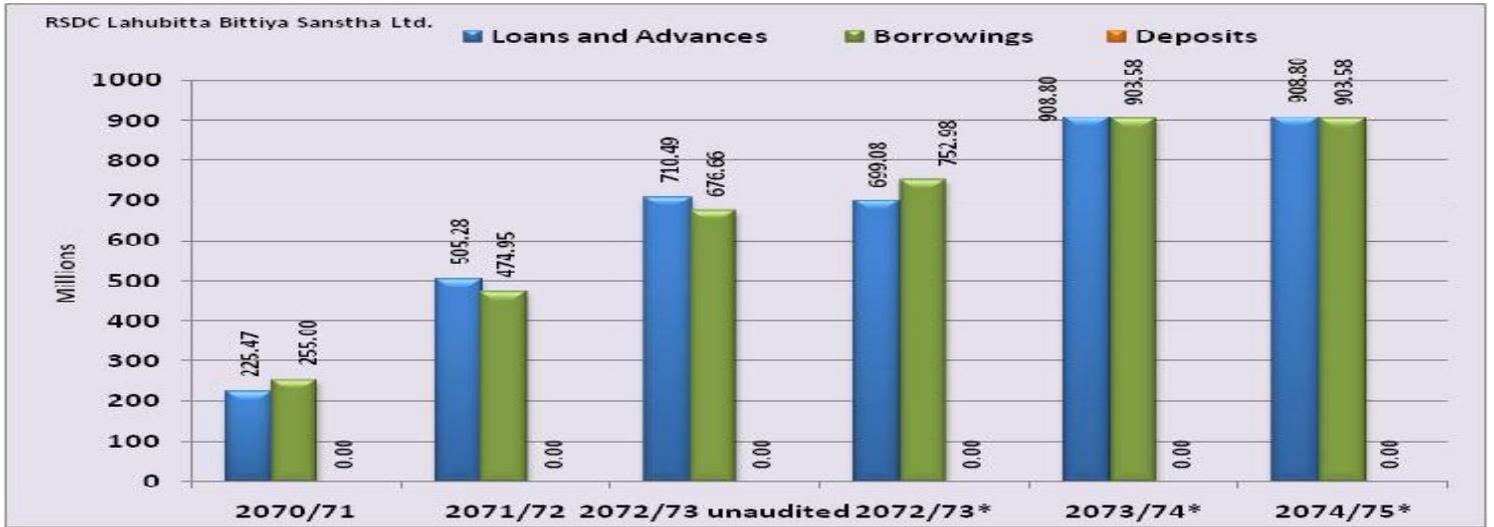
4 Profitability Ratio							
Net Profit Margin(Net Profit After Tax / Gross Income)%		7.94	21.29	25.11	23.37	39.25	32.31
ROE%		1.42	12.23	17.81	11.11	20.58	22.02
EPS		1.44	14.14	25.04	13.67	29.79	31.89
Net Profit / Total Assets		0.27	1.55	1.96	1.54	2.81	3.00
Net Profit / Loan and Advances		0.38	1.68	2.11	1.95	3.28	3.51
Interest income/ Loan and Advances (A)		3.70	6.96	7.56	7.62	7.60	9.87
Interest expenses/ Borrowings & Deposit (B)		0.85	3.18	3.68	3.29	3.06	3.58
Interest Rate Spread (A- B)		2.85	3.78	3.89	4.33	4.53	6.30
5 Liquidity Ratios (L)							
CRR		-	-	-	-	-	-
Loan and Advances / (Borrowings + Deposit)		88.42	106.39	105.00	92.84	100.58	100.58
Debt To Equity Ratio		4.20	6.88	8.06	6.19	6.33	6.33
6 Sensitive to Market Ratios (S)							
Net worth per share		101.44	115.58	140.61	123.01	144.80	144.80
Earnings per Share		1.44	14.14	25.04	13.67	29.79	31.89
EPS Growth			881.83	77.08	-3.35	118.03	7.03
Cash Dividend per share		0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout Ratio		-	-	0.00	0.00	0.00	0.00
Retention Ratio		-	-	100.00	100.00	100.00	100.00

9. Financial Charts

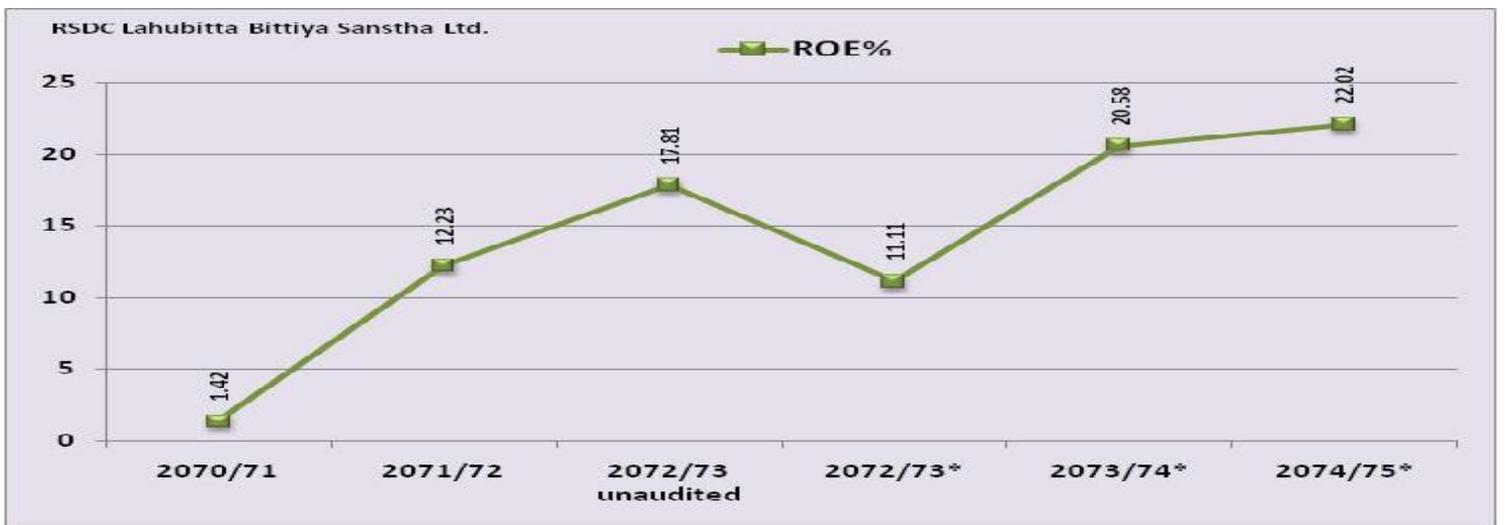
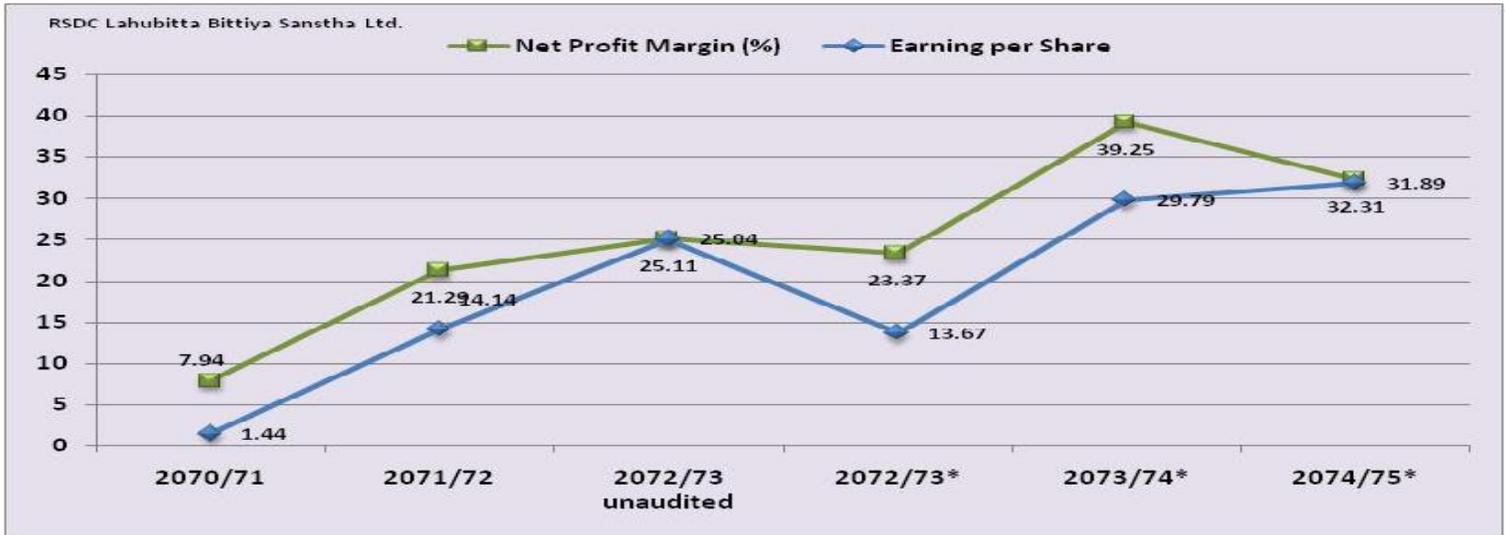


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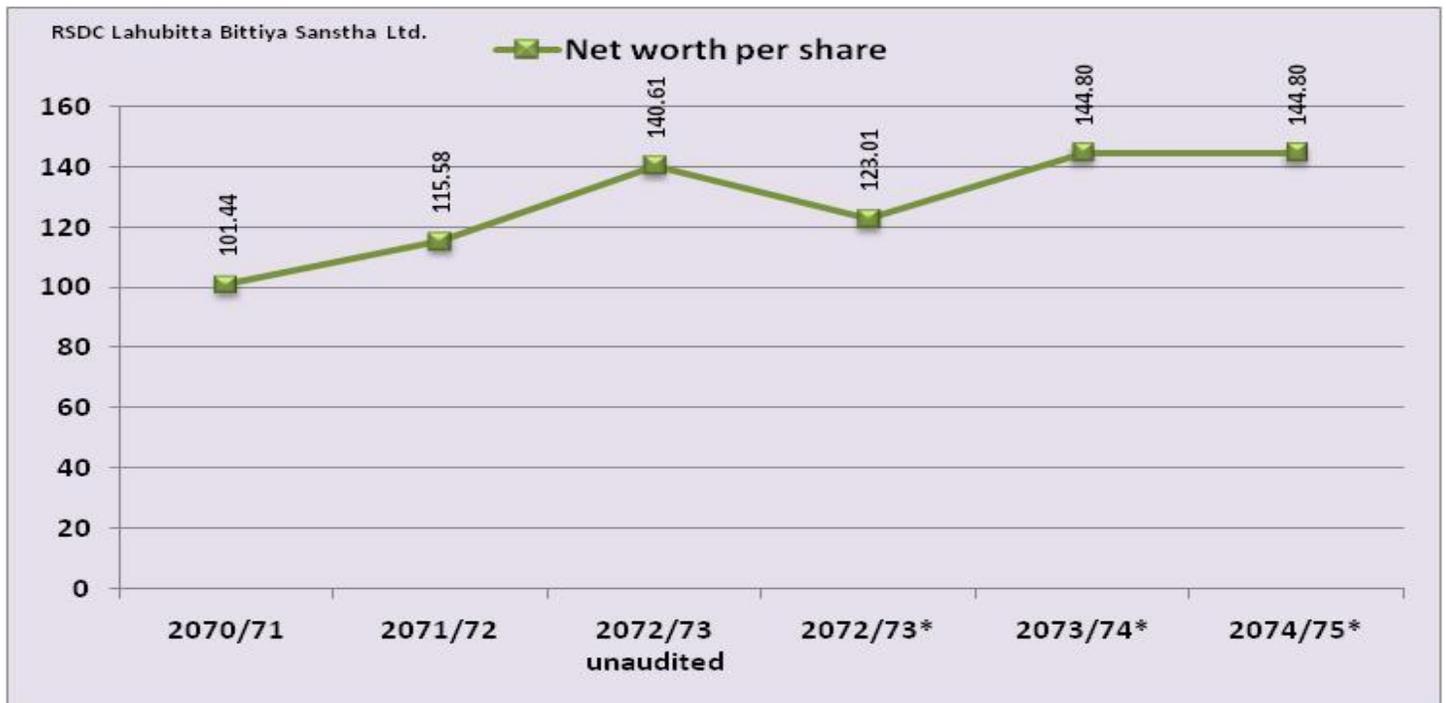
9. Financial Charts



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10. Overall Opinion:

Management & Governance:

- The company has been governed by highly affluent group of Board members having decade's long experience in Banking and Financial Institutions. 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.

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"> • RSDC enjoys the competitive advantage of being among the few wholesale microfinance lenders in the country. • Backed class “A” commercial bank (Bank of Kathmandu Lumbini) and NGO (Rural Self-reliance Development Centre) who are the major promoters of RSDC. • Managed by team of experts having over a decade of experience in social mobilization & carrying out microfinance operations. 	<ul style="list-style-type: none"> • Major partner organizations of RSDC are co-operative societies – an industry subjected to limited regulatory control & supervision with generally weak system. • Lack of diversity in earning stream may hinder the organic growth of the company. • Unsecured lending and marginal profile of the ultimate borrowers raises concern of high risk.
<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none"> • Recent regulatory changes have been favoring deprived sectors lending creating the opportunity to grow exponentially in the years to come. • Due to excess liquidity in the financial system RSDC can enjoy lower cost of borrowing from banks and financial institutions lowering its total operational cost. • RSDC, aided by deprived sector regulations - NRB making it mandatory for banking & financial institutions to allocate 4-5% of total loans outstanding towards deprived sector, enjoys enough of deposits to enhance smooth operation. 	<ul style="list-style-type: none"> • Ability to meet adequate paid up capital level as per the mandatory norms of NRB within a limited period of 2 years is a major concern. • Unfavourable operating environment rising due to political turmoil especially in the southern plains creates some uncertainties.

Financial Analysis:

- As per the recently published Monetary Policy FY 2073/74, the paid up capital bar for Microfinance companies those engaged in Wholesale lending, has been increased to NPR. 600 million. This has brought new challenge for such financial institution. In the initial year of operation, RSDC has maintained adequate Capital Adequacy Ratio (CAR) at 25.39% which indicates that bank was easy to absorb its risk assets. However, the ratio is found to be adjusting in consecutive years and remains at 12.54% at the end of FY 2072/73 which is well above the NRB requirement. Furthermore, the forecasted CAR is supposed to be consistent at above 12%.
- The loan portfolio of the bank exhibits remarkable growth in FY 2071/72 which has recorded the growth by approx. 2 times and the bank has observed to exceed its projected growth rate of 38% for FY 2072/73 to yield 40% growth. Furthermore, the bank has forecasted to expand its loan portfolio above 900 million in FY 2073/74 and FY 2074/75 indicating the future growth prospect. The bank loan portfolio comprises of high credit and geographical concentration which account top 20% borrowers occupying 38% of total loan and top 5 districts occupy 59% of total loan. As per the First quarterly report of FY 2072/73, the bank has total 136 partner cooperatives through which the bank has extended its credit growth. To scrutinize the asset quality bank, NPL/Total loan ratio found to be nil. As the bank lends through its partner cooperatives, the unsecured nature of loan to borrowers increases the probability of default loan on the other side.
- Employee Expenses covers approx. 50-55% of operating expenses and other division of operating expenses occupied by other expenses which drive the attention towards management focus in the deployment of adequate and skilled manpower in the sector. The average growth of employee expenses i.e. 22% found to be less than average growth of operating income by 43%. However, the bank should lower the ratio to maintain its operating efficiency in future.
- The profitability of the bank remains at consistent and fair as depicted by Net profit margin of 25.11% in Q4 financial report of FY 2072/73 and forecasted to be above 30% till FY 2074/75. The average growth of net profit of the bank accounts above 60% which indicates the bank is generating healthy profit. Besides, the bank has maintained the quality of loan portfolio and the percentage of loan loss provision is expected to remain at around 5%. The earnings profile of the bank has been aided by low operating expenses and less loan loss provisioning. However, the bank to maintain its healthy profitability condition has to diversify its credit portfolio concentration and nature of its credit portfolio clients. The cost of fund is well managed at 4.22% till Q4 of FY 2072/73.
- The bank's ROE remains at 17.81% which is considered as good as per industry average of 15%. The ROE is expected to boost in upcoming fiscal years to reach around 22% which is measured as excellent. The strong profitability position is further justified by EPS and its growth rate. In Q4 financial of FY 2072/73 represent the EPS remains suitable at Rs. 25.04 which is 83% greater than as projected and EPS is forecasted to go uptrend in upcoming fiscal years.
- The bank's liquidity has been well measured by credit to deposit ratio and debt to equity ratio. Since the bank provides wholesale lending to its partner clients and receives the interest income in return and borrows the loan from commercial banks and financial institutions for the payment of interest expense. Hence, the low cost borrowing and high interest bearing lending has made the bank to maintain its cost of fund as low as 4.22%. The credit to deposit/borrowing ratio shows that bank has utilized its borrowing fund at full capacity

- The debt to equity ratio indicates that the bank is having greater financial leverage with the greater exposure to financial risk.
- The forecasted EPS of bank for upcoming 3 years hover around 25-31% 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. 144.80 per share at the end of FY 2074/75.
- The stock is expected to list in between price range of Rs. 145-450 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: RSDC Laghubitta Bittiya Sanstha Ltd. IPO turns IDEAL on the ground of company healthy financial Performance and investor's likeliness to diversify their investment portfolio presuming greater risk for MFIs stocks to grab swift return.

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