



## Suryodaya Laghubitta Bittiya Sanstha Ltd. - IPO analysis

## IPO Issue Snapshot:

## Issue Details:

Issue Type	IPO
Issue Size	1,20,000 units
Issue Price per share	Rs. 100
Issue Open Date	2016-08-28
Early Close Date	2016-08-31
Late Close Date	2016-09-11
Issue Manager	Global IME Capital Limited
ICRA Grading	-
Min. to apply:	50 units
Max. to apply:	1,000 units

## Company Synopsis:

Company Category	D- class national Financial Institution	
Ownership Structure	Public Limited	
Shareholdings pattern	Individual Promoters	100%
	General Public	-
	Total	100%

## 1. Company Overview:

Suryodaya Laghubitta Bittiya Sanstha Ltd. (SLBS) has been incorporated under Company Act 2063 and registered as a "D" class financial institution. Headquartered in Putalibazar 1, Syangja, Suryodaya started its formal micro finance operation from 2070.

Established with the objective to provide microfinance services to rural, deprived and marginalized community, SLBS has been empowering economically backward societies and working as a catalyst to eliminate poverty.

SBLS successfully runs its operations in 10 districts with 24 branch offices and has the authority to work in areas like Baglung, Myagdi, Parbat, Syangja, Manang, Lamjung, Mustang, Gulmi, Pyuthan and Rolpa.

## 2. Objectives of Issue

The major object of the offer is to meet the regulatory requirement of Banking & Microfinance Institute Act 2063 -to distribute at least 30% share to general public, for which SBLS plans to allocate 1, 20,000 shares to general public & corporate houses.

Further, to meet the capital expenditure requirements as the institutes plans to expand its services and operations.

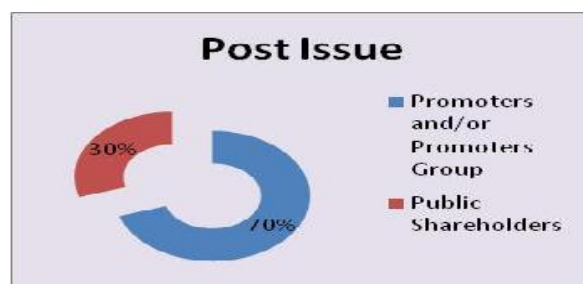
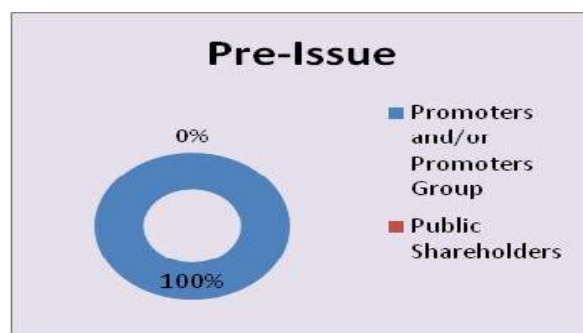
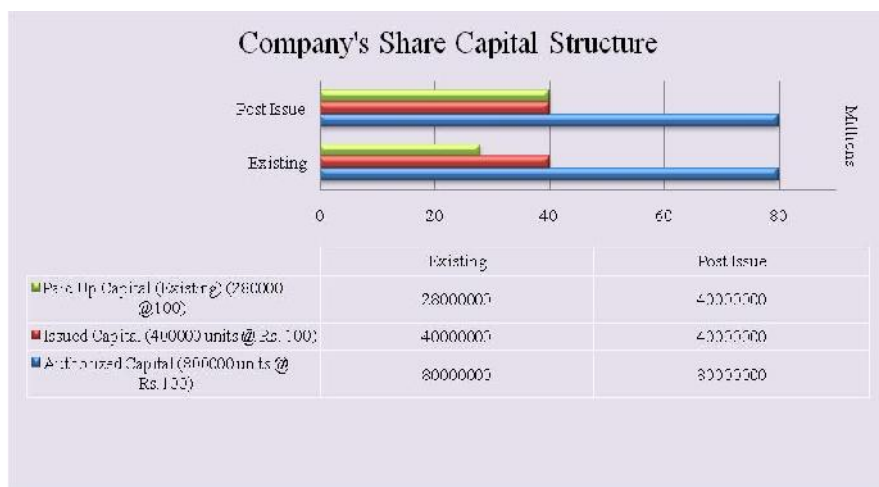
Further the bank intends to use technology to develop alternative distribution channel and enhance the economies of scale of business.

### 3. Company's Major Objectives:

Established with the mission to economically empower & develop rural poor communities, SLBS 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 micro financing 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	28000000	28000000
Public Shareholders	0	12000000

The above charts enumerate the changes that will occur after IPO issue. The bank's existing share capital structure 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 1,20,000 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

S.N	Name & Address	Designation	Age	Nationality	Share Holdings	Qualification	Work Experience
1	Mr. Ananta Kumar Shrestha	Chairman	39	Nepali	20,600	Masters	<ul style="list-style-type: none"> <li>Worked as Director at Golden Eye Academy Pvt. Ltd. for 5 years.</li> <li>Served as Chairman at Suryadoya Club for 16 years.</li> <li>Served as an advisor for Nepal Gharelu Tatha Sana Udhog Maha Shang for 8 years.</li> <li>Fonder of Yuva Ghair Sarkari Shanstha Mahasang Nepal- 4years.</li> </ul>
2	Mr. Gudakhar Sapkota	Director	48	Nepali	18,000	Masters	<ul style="list-style-type: none"> <li>Worked as Managing Director at Golden Eye Academy Pvt. Ltd. for 8 years.</li> <li>Worked in Golden Shahakari.</li> <li>Served as Chairman for Andha Andhi Samudhaik Bikas Kendra for 12 years.</li> <li>Ga.Bi.Sa Chairman at Chilaunebas Ga.Bi.Sa from (2049-2059).</li> </ul>
3	Mr. Govinda Prashad Sharma	Director	39	Nepali	9,000	B.ED	<ul style="list-style-type: none"> <li>Advisor at Suryodhaya Club.</li> <li>Served as Manager at Sisu Niketan Aa.Ma.Bi for 8 years.</li> </ul>
4	Mr. Ek Bahadur Godhar	Director	35	Nepali	8,000	Masters	<ul style="list-style-type: none"> <li>Station Manager at Syangja F.F &amp; Director at Shuvam shopping center.</li> <li>Secretary at Suryodhaya club.</li> </ul>
5	Mr. Hum Bahadur Kumal	Director	53	Nepali	4,000	Literate	<ul style="list-style-type: none"> <li>Businessman – Hardware.</li> <li>Vice President at Nepal Kumal Samaj Sudhar.</li> </ul>
6	Mr. Dev Narayan Sutihar	Special Director	59	Nepali	-	Masters	<ul style="list-style-type: none"> <li>Professor at Prithivi Narayan Campus, Pokhara since 35 years.</li> </ul>

## 6. Financial Summary

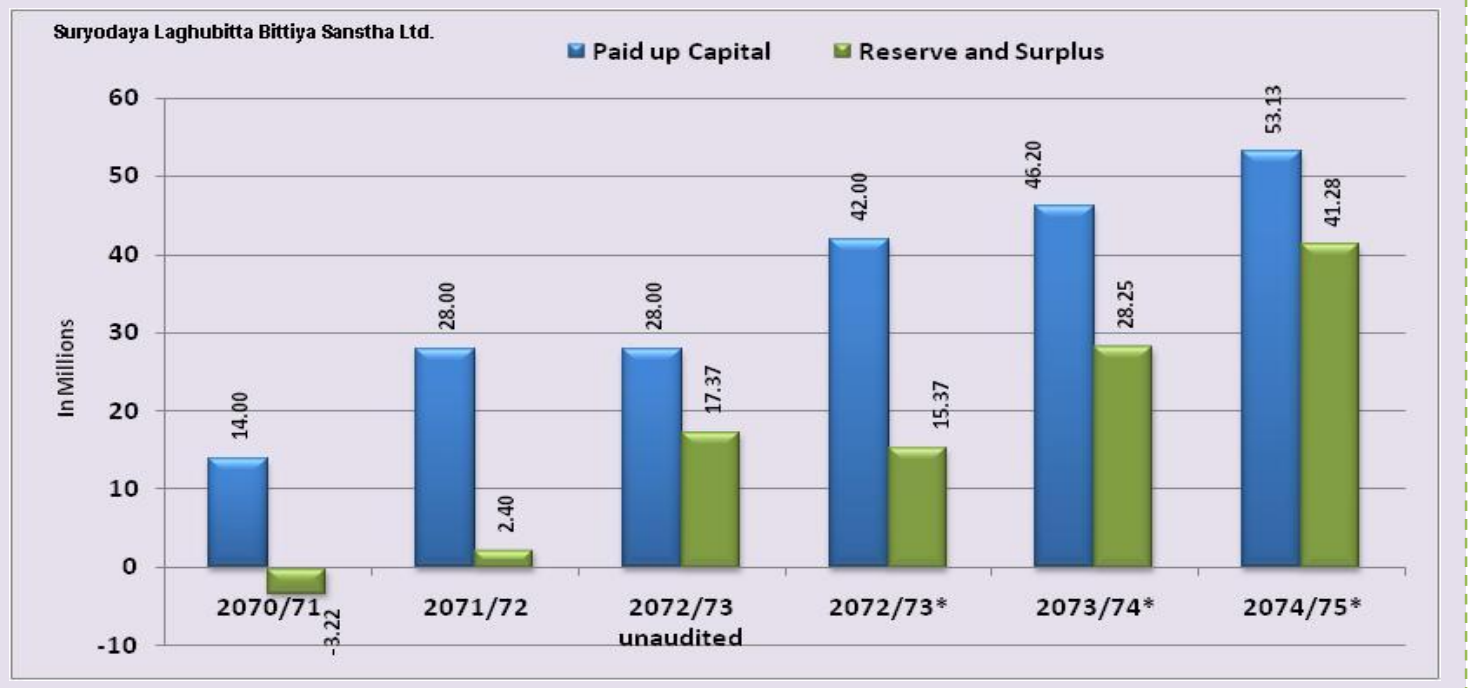
Particulars	Actual		Projected			
	2070/71	2071/72	2072/73 unaudited	2072/73*	2073/74*	2074/75*
Paid up Capital	14,000,000.00	28,000,000.00	28,000,000.00	42,000,000.00	46,200,000.00	53,130,000.00
Reserve and Surplus	-3,217,000.00	2,404,000.00	17,373,590.00	15,371,000.00	28,248,000.00	41,284,000.00
Net Worth	10,783,000.00	30,404,000.00	45,373,590.00	57,371,000.00	74,448,000.00	94,414,000.00
No. of Shares	140,000.00	280,000.00	280,000.00	420,000.00	462,000.00	531,300.00
Total Liabilities	99,077,000.00	252,062,000.00	478,123,840.00	450,855,000.00	570,918,000.00	719,361,000.00
Total Assets	109,860,000.00	282,466,000.00	523,497,430.00	508,226,000.00	645,366,000.00	813,775,000.00
Borrowings	89,333,000.00	197,993,000.00	324,855,030.00	346,888,000.00	433,610,000.00	542,013,000.00
Deposits	9,488,000.00	53,053,000.00	139,304,400.00	98,969,000.00	128,659,000.00	167,257,000.00
Loans and Advances	72,508,000.00	221,247,000.00	427,591,280.00	394,758,000.00	513,185,000.00	667,141,000.00
Gross Income	7,202,000.00	32,737,000.00	73,829,330.00	64,445,000.00	82,590,000.00	105,297,000.00
Gross Expenses	8,756,000.00	23,977,000.00	48,221,390.00	39,007,000.00	51,257,000.00	68,738,000.00
Interest Income	5,925,000.00	28,506,000.00	65,536,860.00	59,691,000.00	77,361,000.00	99,545,000.00
Interest Expenses	2,500,000.00	10,876,000.00	24,170,850.00	20,698,000.00	26,214,000.00	33,211,000.00
Operating Expenses	6,256,000.00	13,101,000.00	24,050,540.00	18,309,000.00	25,043,000.00	35,527,000.00
Employee Expenses	3,524,000.00	8,802,000.00	16,655,020.00	13,204,000.00	19,804,000.00	29,708,000.00
Operating Profit	-2,286,000.00	7,258,000.00	23,523,660.00	23,685,000.00	30,137,000.00	35,004,000.00
Net Profit	-2,286,000.00	5,622,000.00	14,969,610.00	15,072,000.00	19,178,000.00	22,275,000.00
Cash Dividend	-	0.00	0.00	105,000.00	2,110,000.00	2,310,000.00
Stock Dividend	-	-	-	-	-	-
Increase in Reserve	-	5,621,000.00	14,969,590.00	-2,002,590.00	12,877,000.00	13,036,000.00
Retention	-	5,622,000.00	14,969,610.00	14,967,000.00	17,068,000.00	19,965,000.00

## 7. Financial Key Indicators:

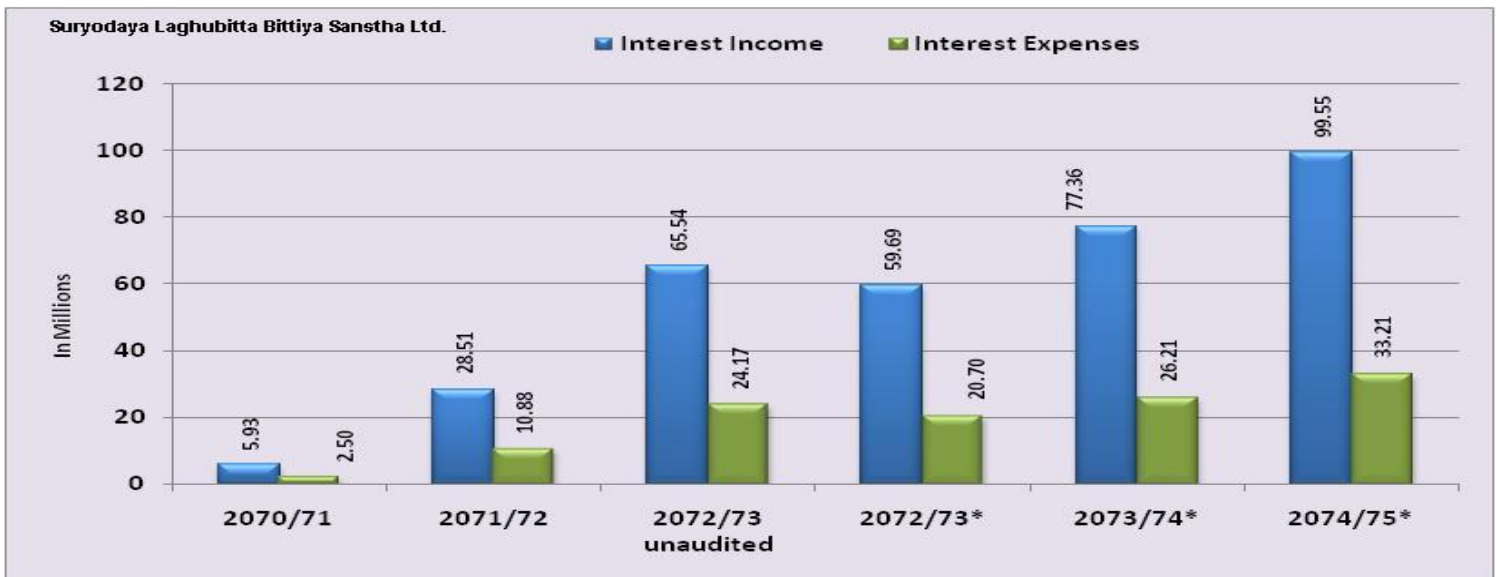
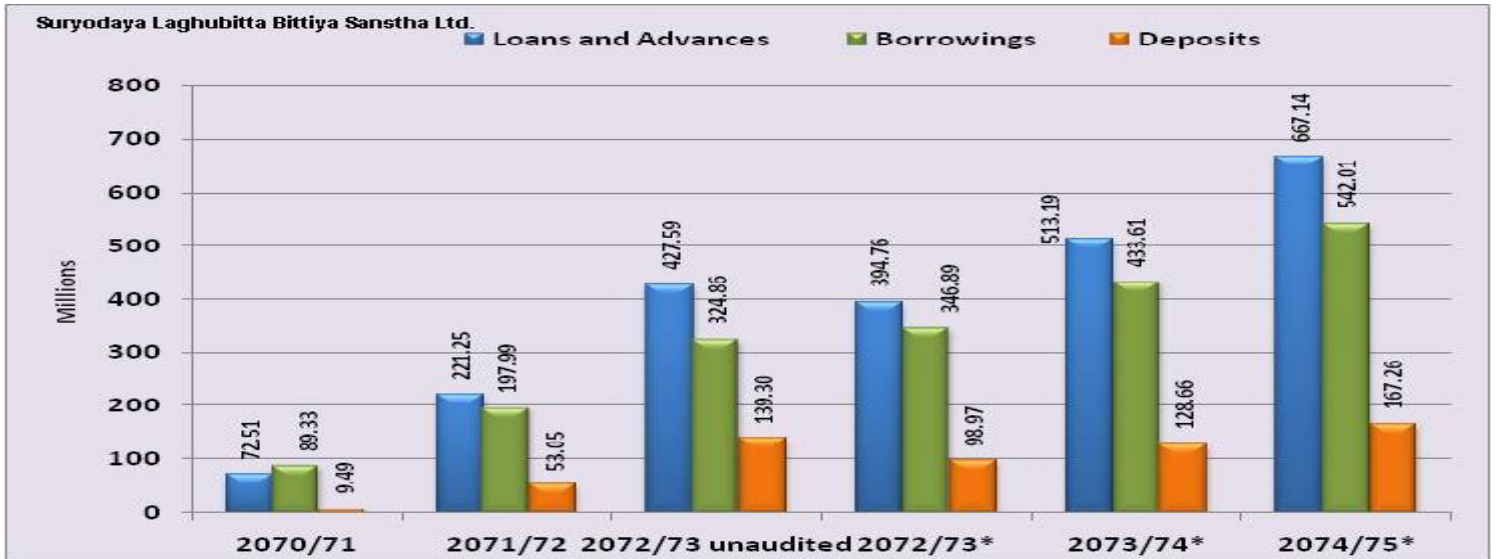
S.N.	Financial Ratios	Actual		Projected			
		2070/71	2071/72	2072/73 unaudited	2072/73	2073/74	2074/75
1	Capital Adequacy Ratio ( C )						
	Capital Fund To RWA (%)	13.75	13.52	10.96	8	8	8
2	Assets Quality/Efficiency Ratio (A)						
	NPL to Total Loan and Advances	0	0	0	-	-	-
	LLP to NPL	0	0	-	-	-	-
3	Management Efficiency Ratio						
	Employee Expenses/Operating Expenses %	56.33	67.19	69.25	72.12	79.08	83.62
	Cost of Fund %	7.01	7	6.15	8	8	8

4	Profitability Ratio						
	Net Profit Margin(Net Profit After Tax / Gross Income)%	-31.74	17.17	20.28	23.39	23.22	21.15
	ROE%	-21.20	18.49	32.99	26.27	25.76	23.59
	EPS	-16.33	20.08	53.46	35.89	41.51	41.93
	Net Profit / Total Assets	-2.08	1.99	2.86	2.97	2.97	2.74
	Net Profit / Loan and Advances	-3.15	2.54	3.50	3.82	3.74	3.34
	Interest income/ Loan and Advances (A)	8.17	12.88	15.33	15.12	15.07	14.92
	Interest expenses/ Borrowings & Deposit (B)	2.53	4.33	5.21	4.64	4.66	4.68
	Interest Rate Spread (A- B)	5.64	8.55	10.12	10.48	10.41	10.24
5	Liquidity Ratios (L)						
	CRR %	-	-	-	0.50	0.50	0.50
	Loan and Advances / (Borrowings + Deposit) %	73.37	88.13	92.12	88.54	91.27	94.06
	Debt To Equity Ratio	9.19	8.29	10.54	7.86	7.67	7.62
6	Sensitive to Market Ratios (S)						
	Net worth per share	77.02	108.59	162.05	136.60	161.14	177.70
	Earnings per Share	-16.33	20.08	53.46	35.89	41.51	41.93
	EPS Growth		-222.97	166.27	78.73	15.68	1.00
	Cash Dividend per share	0.00	0.00	0.00	0.25	4.57	4.35
	Dividend payout Ratio	-	-	0.00	0.70	11.00	10.37
	Retention Ratio	-	-	100.00	99.30	89.00	89.63

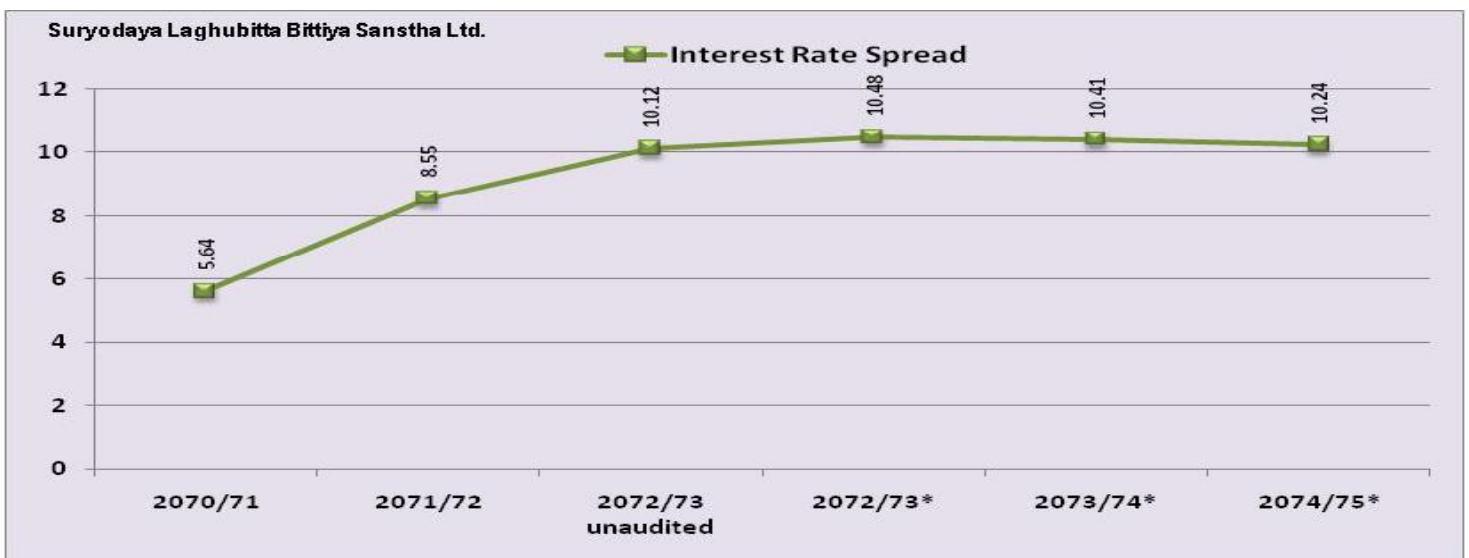
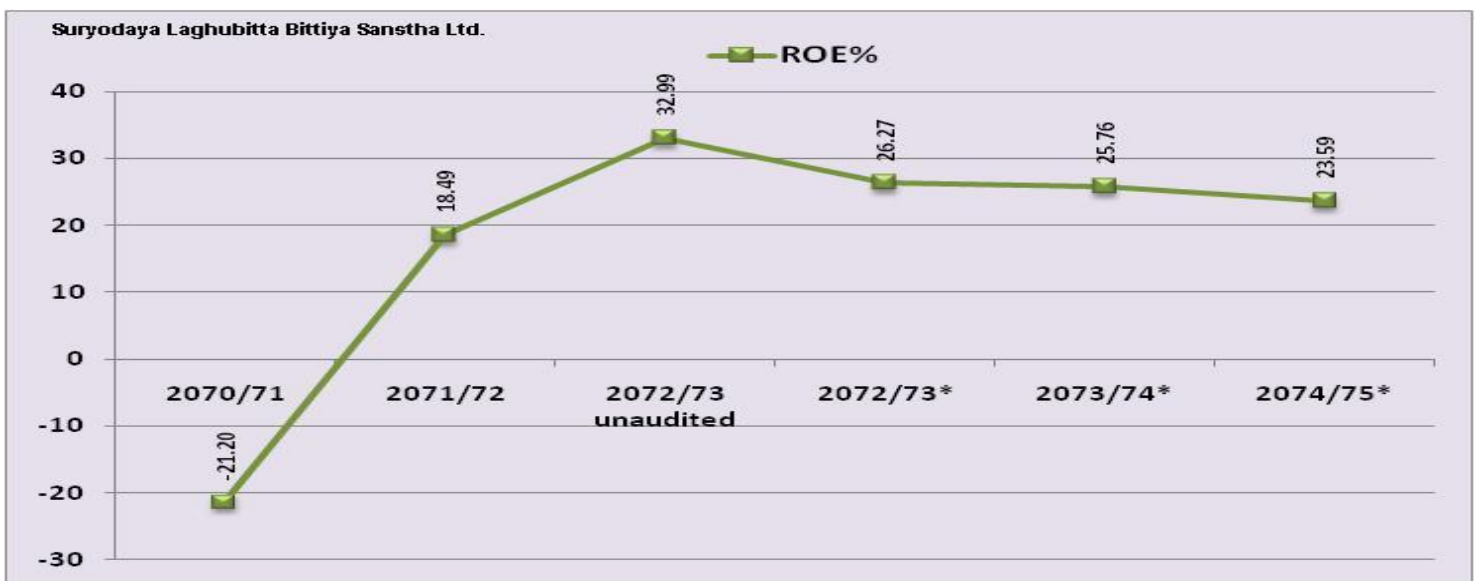
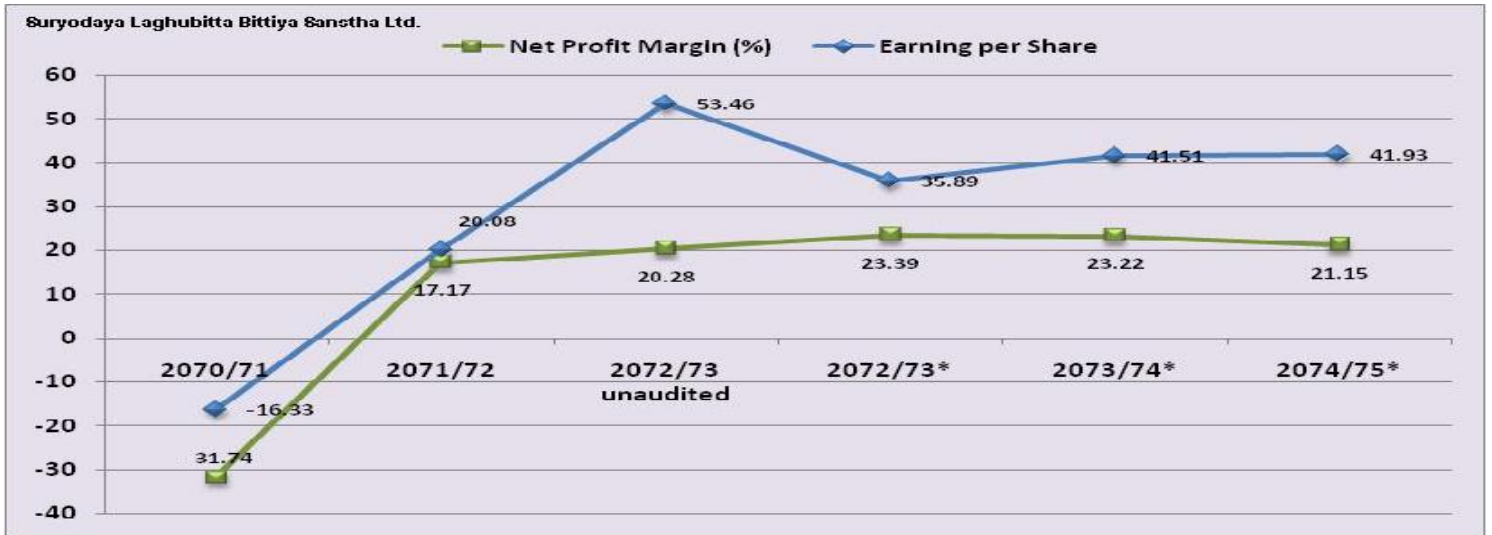
## 9. Financial Charts



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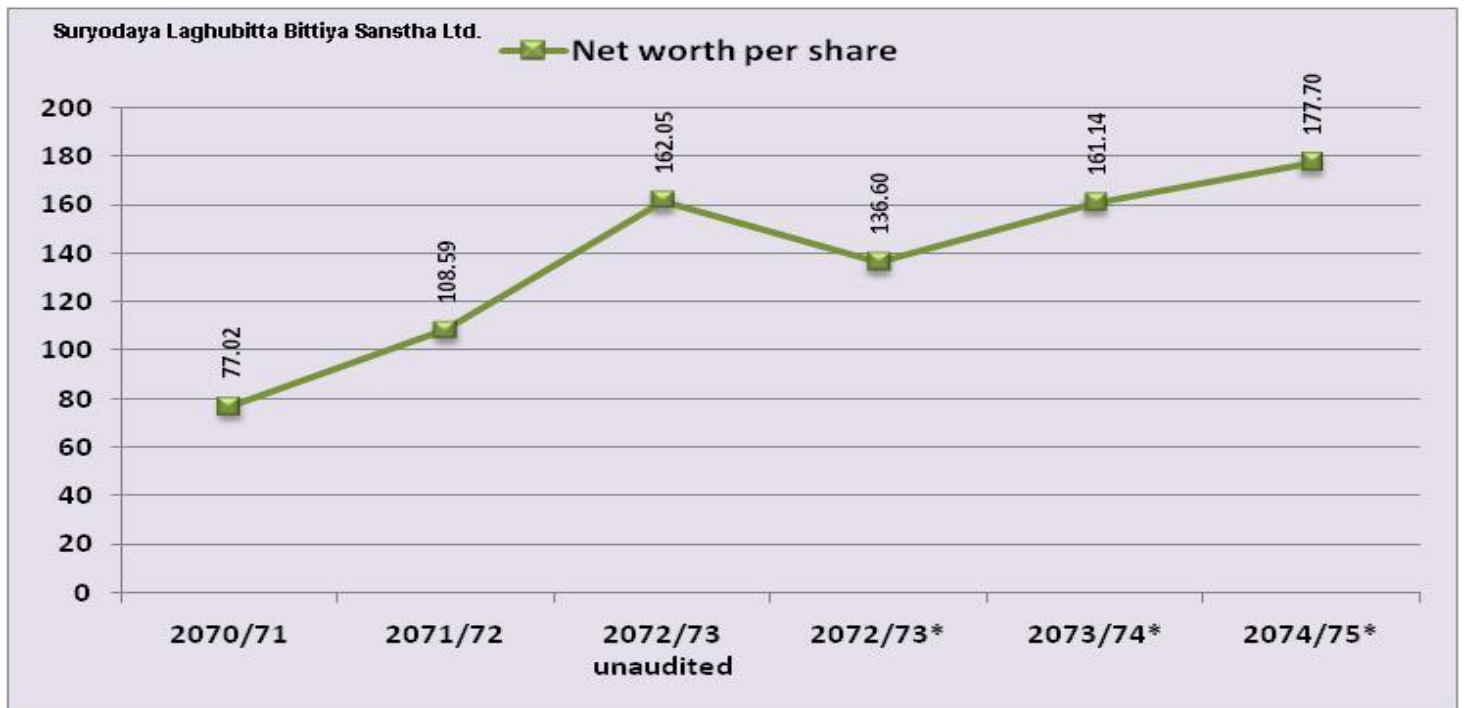


## 9. Financial Charts





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## 10. Overall Opinion:

### Management & Governance:

- The company has been governed by highly affluent group of Board members who are the elected representatives from well-established financial institutions 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 management team having good moral ground and relevant experience in the related sectors can help to establish the good corporate governance within the organization.
- The management has focused on developing the extensive financial access of the bank with 24 branches within 2 years of operations, more than 100 employees and 14000 plus members to have wider coverage.



Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"><li>• Within a very short period, SLBS has been able to expand its coverage in 10 districts with 24 branch offices.</li><li>• Enjoys the advantage of having the authority to work in areas like Baglung, Myagdi, Parbat, Syangja, Manang, Lamjung, Mustang, Gulmi, Pyuthan and Rolpa where majority of marginalized communities are based.</li><li>• Has managed to diversify its earning streams thereby generating fair amount of profit from the operations.</li></ul>	<ul style="list-style-type: none"><li>• Less experienced management team with barely relevant expertise in financial sector.</li><li>• Unsecured lending and marginal profile of the ultimate borrowers raises concern of high risk.</li></ul>
<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none"><li>• Recent regulatory changes have been favoring deprived sectors lending creating the opportunity to grow exponentially in the years to come.</li><li>• Due to excess liquidity in the financial system SLBS can enjoy lower cost of borrowing lowering its total operational cost.</li><li>• Since the company plans to raise 1.20 crore through the offer it provides a positive signal of further growth and expansion.</li><li>• NRB monetary policy has increased the limit of loan in agriculture sector from 12% to 15% effective from July 2016.</li></ul>	<ul style="list-style-type: none"><li>• The recently published monetary policy has restricted the earnings growth potential of micro finance institutions by capping the interest spread rate.</li><li>• Unfavorable operating environment rising due to unstable government policy.</li></ul>



### **Financial Analysis:**

- Capital Adequacy Ratio till 4th quarter of FY 2072/73 is well maintained above the NRB requirement (8%) which accounts for 10.96%. However the projected figures show decline due to increasing in risk assets and rest at standard 8%.
- The bank commences operation in 2070/04/01 B.S. and achieved the deposit portfolio of Rs. 9.488 million and the credit portfolio of Rs. 72.508 million at the end of FY 2070/71. The bank successfully recorded the growth of 162% in deposit and 93% in loans and advance till the end of FY 2071/72. Similarly, at the third quarter (Q4) of FY 2072/73, the loan portfolio stood at Rs. 427.59 million that 100% comprised of individual loans. Furthermore, the bank has forecasted to expand its loan portfolio by 30% indicating the future growth prospect.
- Asset quality of bank has been disclosed by its non-performing to total loan ratio which is negligible at the current status. However, the bank should perform continuous monitoring as the less diversification of the loan and the entire lending has been done to individual group of clients which increase the chances of default risk due to unsecured nature of loan.
- 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 5.62 million in its second year of operations. The unaudited financial of FY 2072/73 recorded the profit growth of 166.26 %. Although the bank has generated net operating income at satisfactory level, the high operating expenses and increasing cost of fund seem diluting the net profit. The bank however expected to grow net profit to 15-20% through expansion of its business. 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 appropriately due to rise in utilization of fund and expansion of its core business that accounts for 93%. The bank is expected to maintain its Net profit margins in between 21 to 24%.
- The bank's ROE has stood at 32.99 % at the end of FY 2072/73 and forecasted ROE for upcoming 2 fiscal years is suppose to rise above 20% that depicts the company is expected to generated adequate net profit proportionate to increased equity.
- CRR is projected to be at NRB mandatory indicating less exposure to 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 borrowing float about 5% overall creating interest spread below 10% which is as per NRB requirements. However, the current monetary policy has imposed the cap in spread rate to remain at 7% which might affect the profit profile of the bank.

- EPS of the bank stands at Rs 53.46 at present as per the Q4 financial report of the bank and the forecasted EPS will be above Rs 41 which is considered to be suitable as per industry average.
- The Net worth per share is in increasing trend and is expected to grow and reach at Rs. 177.70 per share at the end of FY 2074/75 years.
- The stock is expected to list in between price range of Rs. 243-486 considering its net worth per share and EPS growth.

Considering the business size, market share and financial position of the institution, the stock is more likely to fall into small-cap side, which exhibits the characteristics of high volatility and riskiness with respect 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: Suryodaya Laghubitta Bittiya Sanstha Ltd. IPO turns IDEAL for investors to invest in depending on average financial condition of the bank, its forecasted growth in business and investor's presumption to leverage greater benefit from MFIs stocks with higher risk tolerance.**

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