



Samata Microfinance Bittiya Sanstha Limited - IPO analysis

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	94,800 units
Issue Price per share	Rs. 100
Issue Open Date	2017-01-03
Early Close Date	2017-01-06
Late Close Date	2017-01-17
Issue Manager	NIBL Capital Limited
ICRA Grading	-
Min. to apply:	50 units
Max. to apply:	500 units

Company Synopsis:

Company Category	D- class 1 District level Microfinance	
Ownership Structure	Public Limited	
Shareholdings pattern	Individual Promoters	100%
	General Public	-
	Total	100%

1. Company Overview:

Samata Microfinance Bittiya Sanstha Limited (SMBS) has been incorporated under Company Act 2063 and registered as a "D" class financial institution. Headquartered in Simara, Bara District started its formal micro finance operation from 9th Bhadra, 2070 B.S.

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

SMBS has outreached its services through its full fledged branches in Kaliya, Bariyapur, Kolhawai, Nijgad and Simara of Bara Distirct an successfully runs its operations from these branch locations. It will extend its branch network in various other districts in future as per the demand of targeted groups of customers.

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 SMBS plans to allocate 94,800 shares to general public & corporate houses.

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

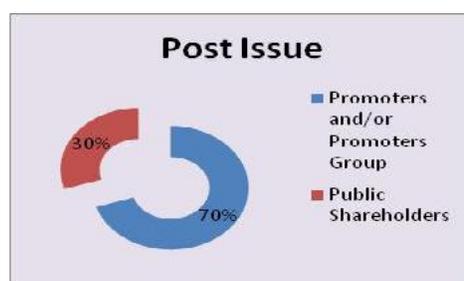
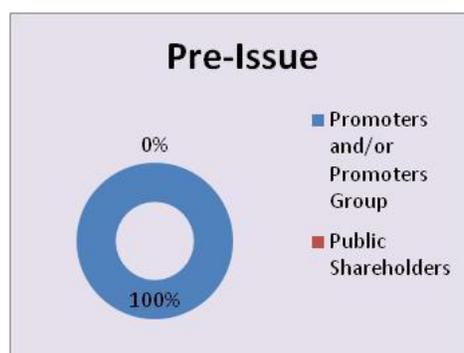
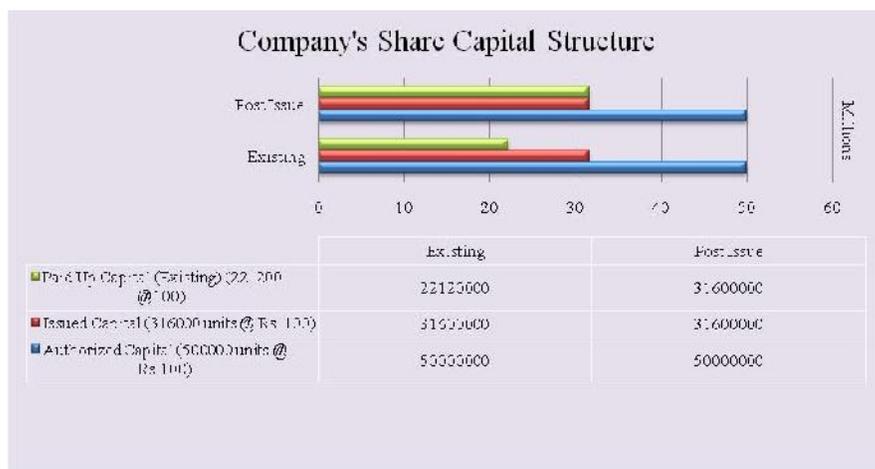
Further the bank intends to use technology to develop alternative distribution channel and enhance the economies of scale of business.

3. Company's Major Objectives:

Established with the mission to economically empower & develop rural poor communities, SMBS 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.
- To support in strengthening the confidence of general public in standard of banking and financial system of nation.

4. Shareholding Pattern/ Ownership Structure:



Shareholding Pattern	Pre-Issue	Post Issue
Promoters and/or Promoters Group	22120000	22120000
Public Shareholders	0	9480000

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 94,800 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. Dammer Mani Thebe Limbu	Chairman	55	Nepali	14,000	Masters	<ul style="list-style-type: none"> Commercial Manager – Surya Nepal Pvt. Ltd, Simara, Bara Account Committee Coordinator – Hatemaalo Saving and Credit Cooperatives, Simara, Bara
2	Dr. Madan Ghimire, Bara-4, Sunsari	Executive Director	51	Nepali	10,000	Phd	<ul style="list-style-type: none"> 9 years experience in CAP Nepal 15 years of experience in Social sector. 3 years of experience in Microfinance sector.
3	Tina Subedi, Kaliya-6, Bara	Director	46	Nepali	10,000	Bachelor	<ul style="list-style-type: none"> Internal Account Supervisor, District Development Committee, Bara
4	Rajeshwor Prasad Acharya, Kaliya-5, Bara	Director	60	Nepali	7000	Masters	<ul style="list-style-type: none"> Assistant Professor, Bharatpur Multiple Campus, 28 years of experience Proprietor- R Acharya & Company Ltd.
5	Bishwo Ram Khadka, Battisputali 9, Kathmandu	Director	51	Nepali	8000	Masters	<ul style="list-style-type: none"> Director- Maiti Nepal, 19 years of experience
6	Hari Bahadur Bhandari, Narayanpur- 4, Chitwan	Director	46	Nepali	18000	Masters	<ul style="list-style-type: none"> Chairperson- Valley Management Company, Putalisadak- 4 years of experience Chairperson- Saubhagya Housing & Company Ltd. -7 years of Experience

6. Financial Summary

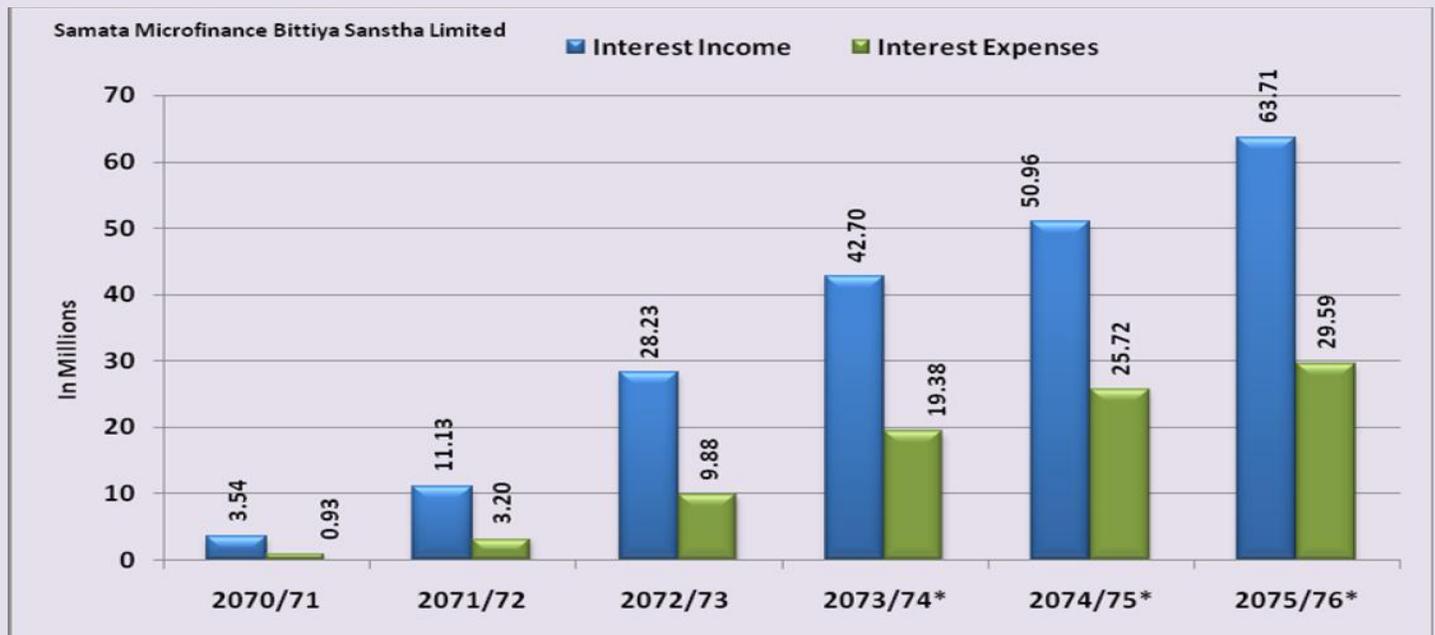
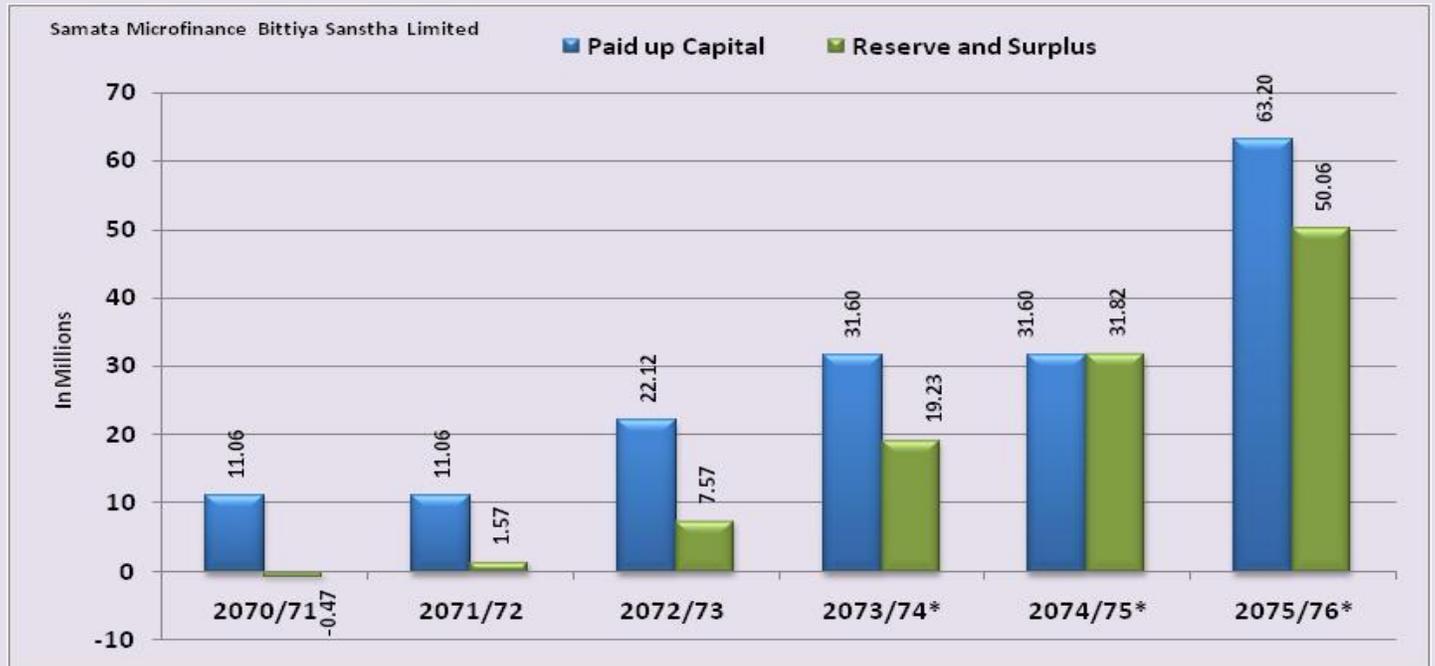
Particulars	Actual			Projected		
	2070/71	2071/72	2072/73	2072/73*	2073/74*	2074/75*
Paid up Capital	11,060,000.00	11,060,000.00	22,120,000.00	31,600,000.00	31,600,000.00	63,200,000.00
Reserve and Surplus	-470,000.00	1,569,000.00	7,571,000.00	19,228,000.00	31,816,000.00	50,059,000.00
Net Worth	10,590,000.00	12,629,000.00	29,691,000.00	50,828,000.00	63,416,000.00	113,259,000.00
No. of Shares	110,600.00	110,600.00	221,200.00	316,000.00	316,000.00	632,000.00
Total Liabilities	35,717,000.00	116,266,000.00	224,475,000.00	270,343,000.00	329,952,000.00	375,882,000.00
Total Assets	46,307,000.00	128,895,000.00	254,166,000.00	321,171,000.00	393,368,000.00	489,141,000.00
Borrowings	29,953,000.00	94,368,000.00	156,702,000.00	172,373,000.00	198,229,000.00	218,051,000.00
Deposits	5,277,000.00	19,802,000.00	63,884,000.00	95,826,000.00	129,365,000.00	155,237,000.00
Loans and Advances	42,820,000.00	104,601,000.00	228,731,000.00	297,298,000.00	371,469,000.00	464,168,000.00
Gross Income	4,346,000.00	12,999,000.00	32,084,000.00	46,942,000.00	56,474,000.00	70,333,000.00
Gross Expenses	4,379,000.00	8,794,000.00	20,549,000.00	31,249,000.00	39,459,000.00	44,596,000.00
Interest Income	3,539,000.00	11,133,000.00	28,225,000.00	42,697,000.00	50,956,000.00	63,711,000.00
Interest Expenses	930,000.00	3,200,000.00	9,878,000.00	19,380,000.00	25,722,000.00	29,586,000.00
Operating Expenses	3,449,000.00	5,594,000.00	10,671,000.00	11,869,000.00	13,737,000.00	15,010,000.00
Employee Expenses	1,595,000.00	2,586,000.00	5,471,000.00	6,018,000.00	6,920,000.00	7,959,000.00
Operating Profit	-466,000.00	3,072,000.00	6,378,000.00	14,891,000.00	16,181,000.00	24,708,000.00
Net Profit	-471,000.00	2,288,000.00	6,250,000.00	11,658,000.00	12,587,000.00	18,243,000.00
Cash Dividend	-	0.00	0.00	0.00	0.00	0.00
Stock Dividend	-	-	-	-	-	-
Increase in Reserve	-	2,039,000.00	6,002,000.00	11,657,000.00	12,588,000.00	18,243,000.00
Retention	-	2,288,000.00	6,250,000.00	11,658,000.00	12,587,000.00	18,243,000.00

7. Financial Key Indicators:

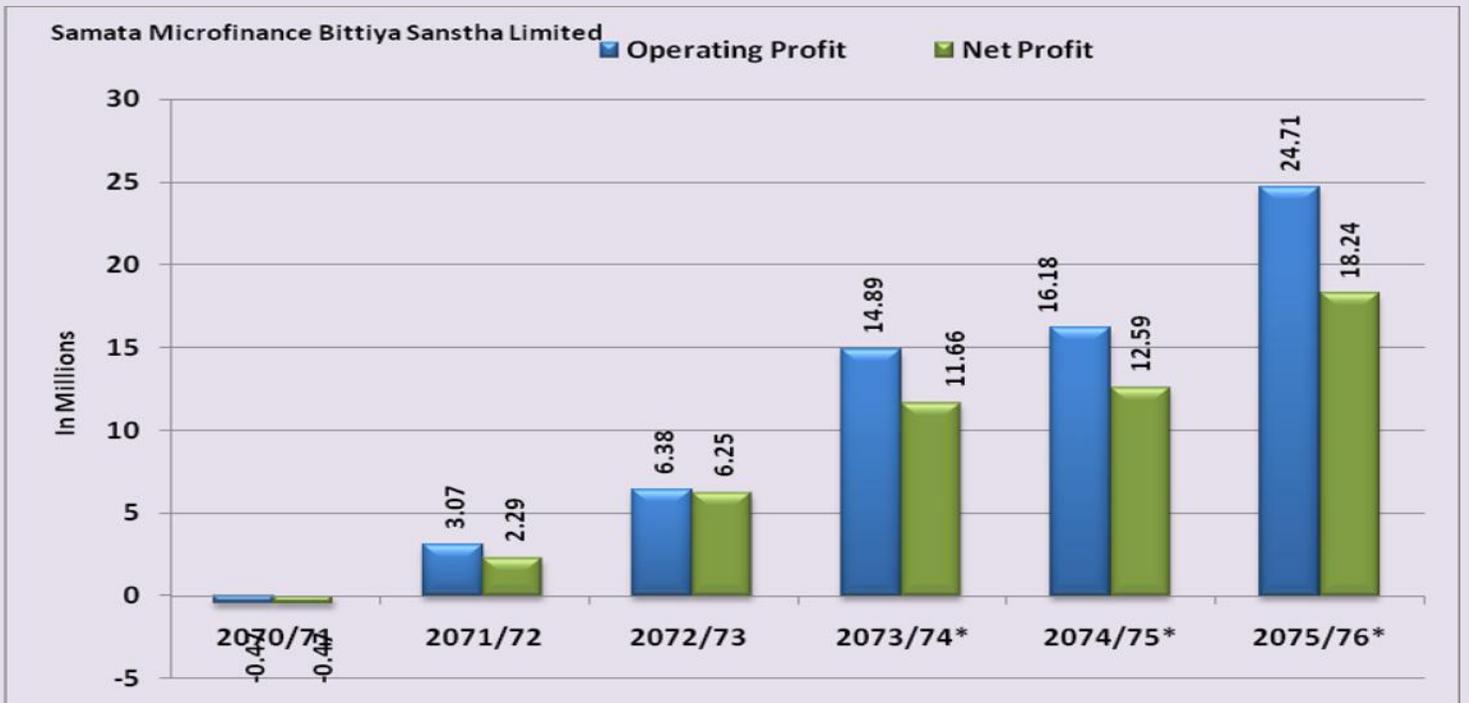
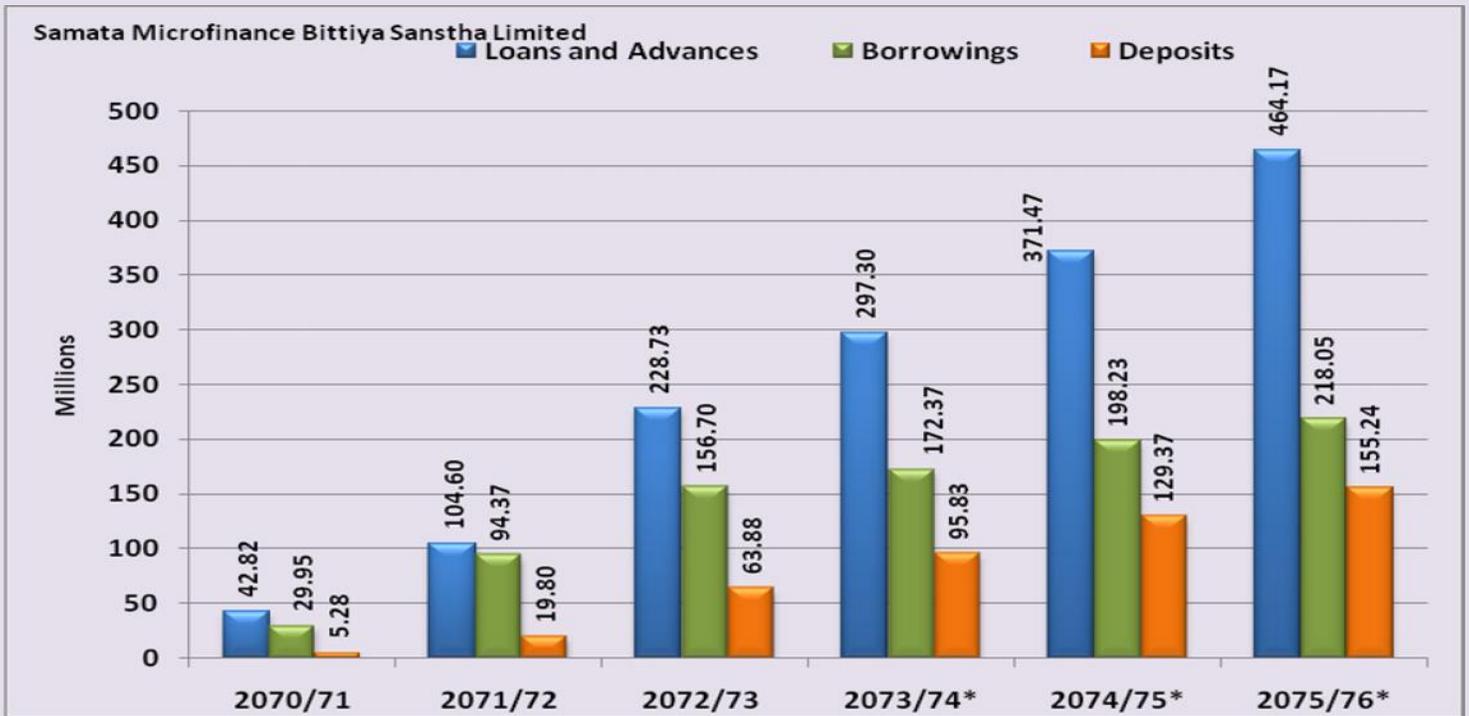
S.N.	Financial Ratios	Actual			Projected		
		2070/71	2071/72	2072/73	2073/74*	2074/75*	2075/76*
1	Capital Adequacy Ratio (C)						
	Capital Fund To RWA (%)	32.09	32.09	17.57	17.65	24.88	24.88
2	Assets Quality/Efficiency Ratio (A)						
	NPL to Total Loan and Advances	0	0	0	-	-	-
	LLP to NPL	0	0	0	-	-	-
3	Management Efficiency Ratio (M)						
	Employee Expenses/Operating Expenses %	46.25	46.23	51.27	50.70	50.37	53.02
	Cost of Fund %	-	-	-	-	-	-
4	Profitability/Earnings Ratio (E)						
	Net Profit Margin(Net Profit After Tax / Gross Income)%	-10.84	17.60	19.48	24.83	22.29	25.94
	ROE%	-4.45	18.12	21.05	22.94	19.85	16.11
	EPS	-4.26	20.69	28.25	36.89	39.83	28.87
	Net Profit / Total Assets	-1.02	1.78	2.46	3.63	3.20	3.73
	Net Profit / Loan and Advances	-1.10	2.19	2.73	3.92	3.39	3.93
	Interest income/ Loan and Advances (A)	8.26	10.64	12.34	14.36	13.72	13.73
	Interest expenses/ Borrowings & Deposit (B)	2.64	2.80	4.48	7.23	7.85	7.93
	Interest Rate Spread (A- B)	5.63	7.84	7.86	7.14	5.87	5.80
5	Liquidity Ratios (L)						
	CRR %	-	-	5.35	5.85	6.16	6.50
	Loan and Advances / (Borrowings + Deposit) %	121.54	91.62	103.69	110.85	113.39	124.35
	Debt To Equity Ratio	3.37	9.21	7.56	5.32	5.20	3.32
6	Sensitive to Market Ratios (S)						
	Net worth per share	95.75	114.19	134.23	160.85	200.68	179.21
	Earnings per Share	-4.26	20.69	28.25	36.89	39.83	28.87
	EPS Growth %		-585.77	36.58	78.33	7.98	-27.53
	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

The above financial ratios illustrates the financial position of the bank which shows the bank is functioning profitability from its second year of operation and projected to increase profit on an average of 24% till FY 2075-76.

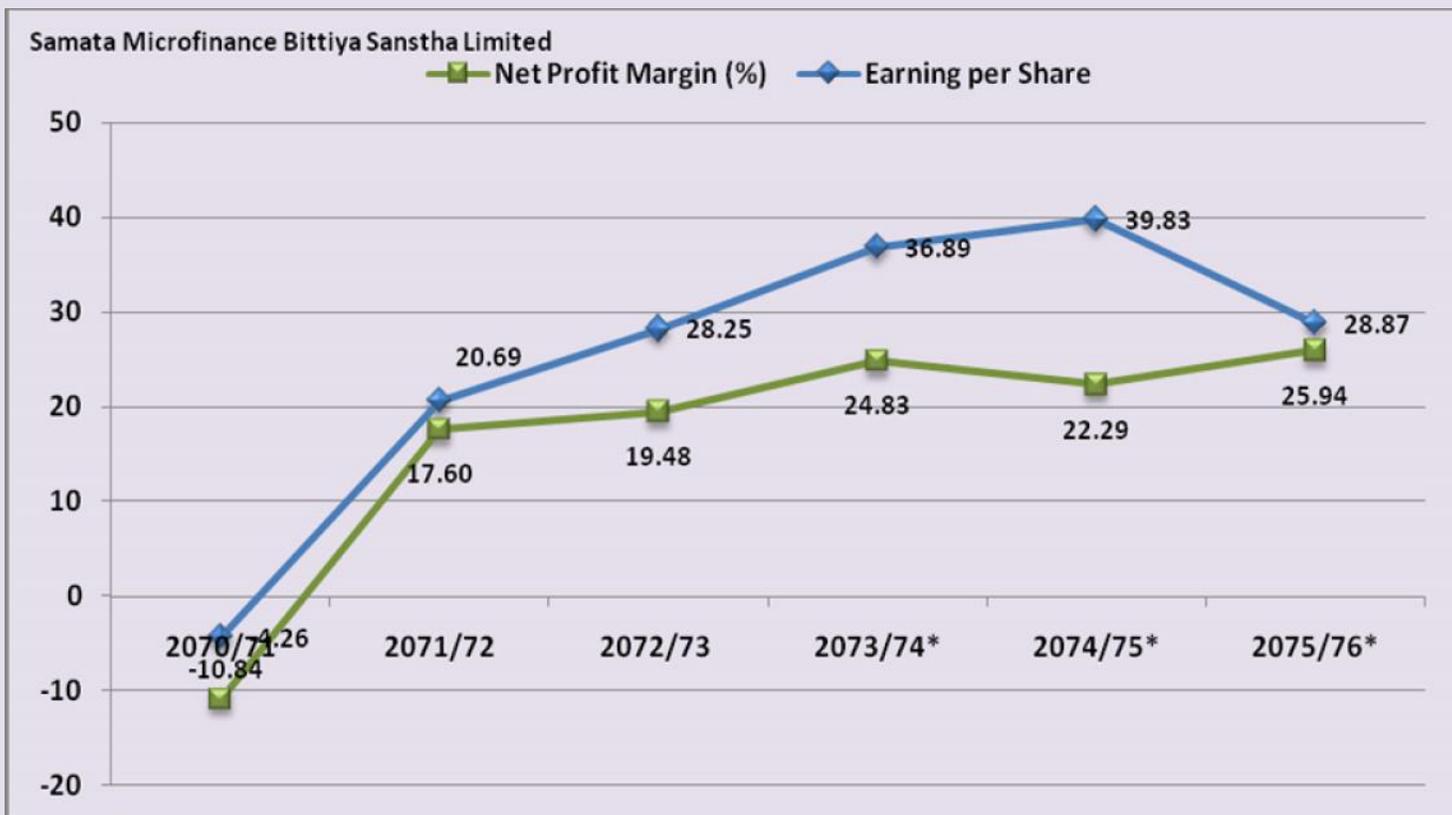
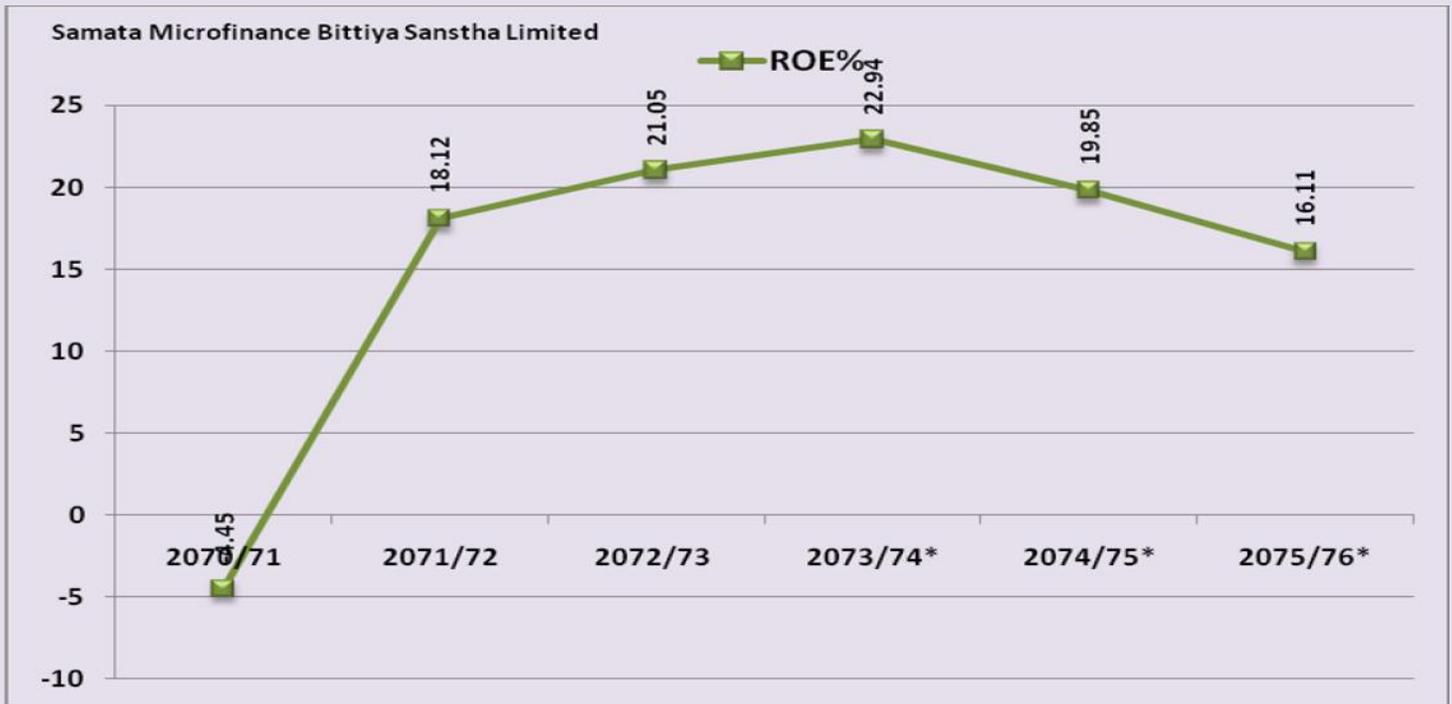
9. Financial Charts



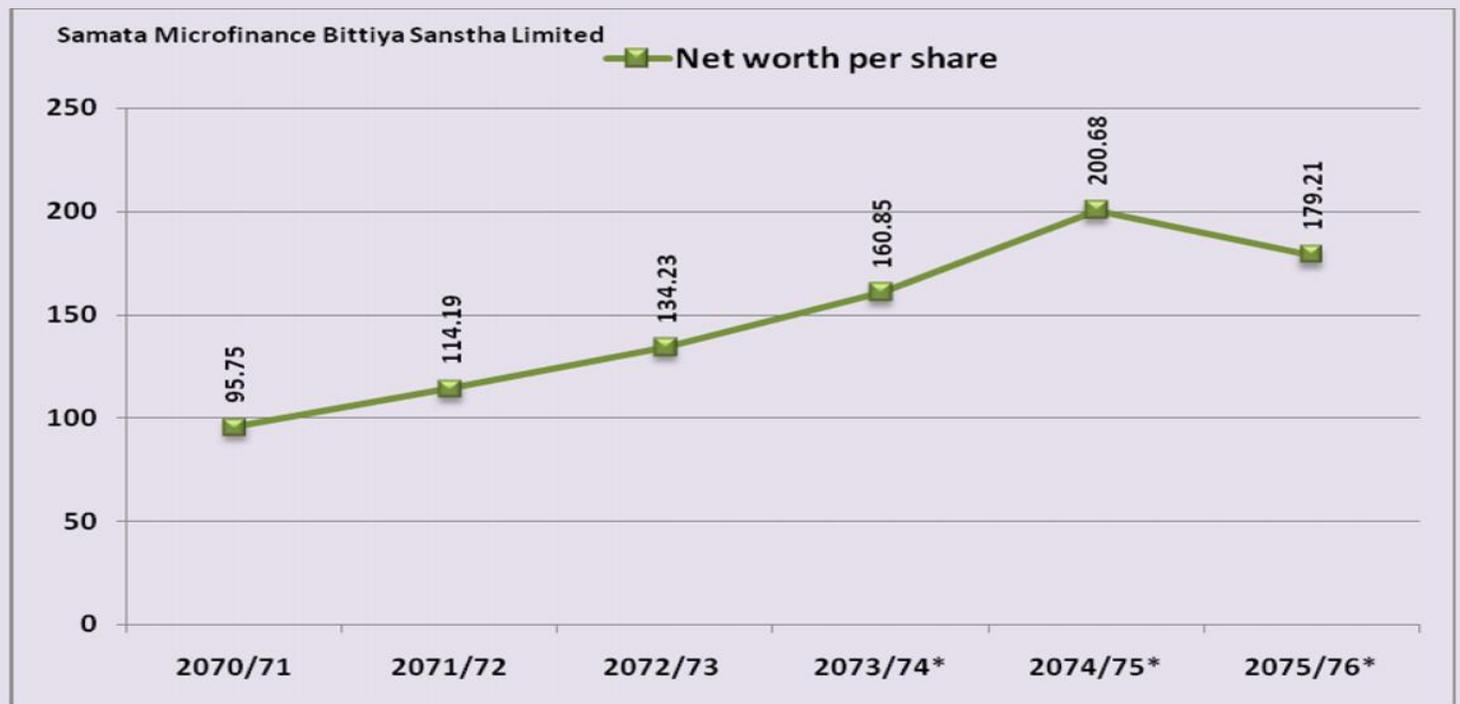
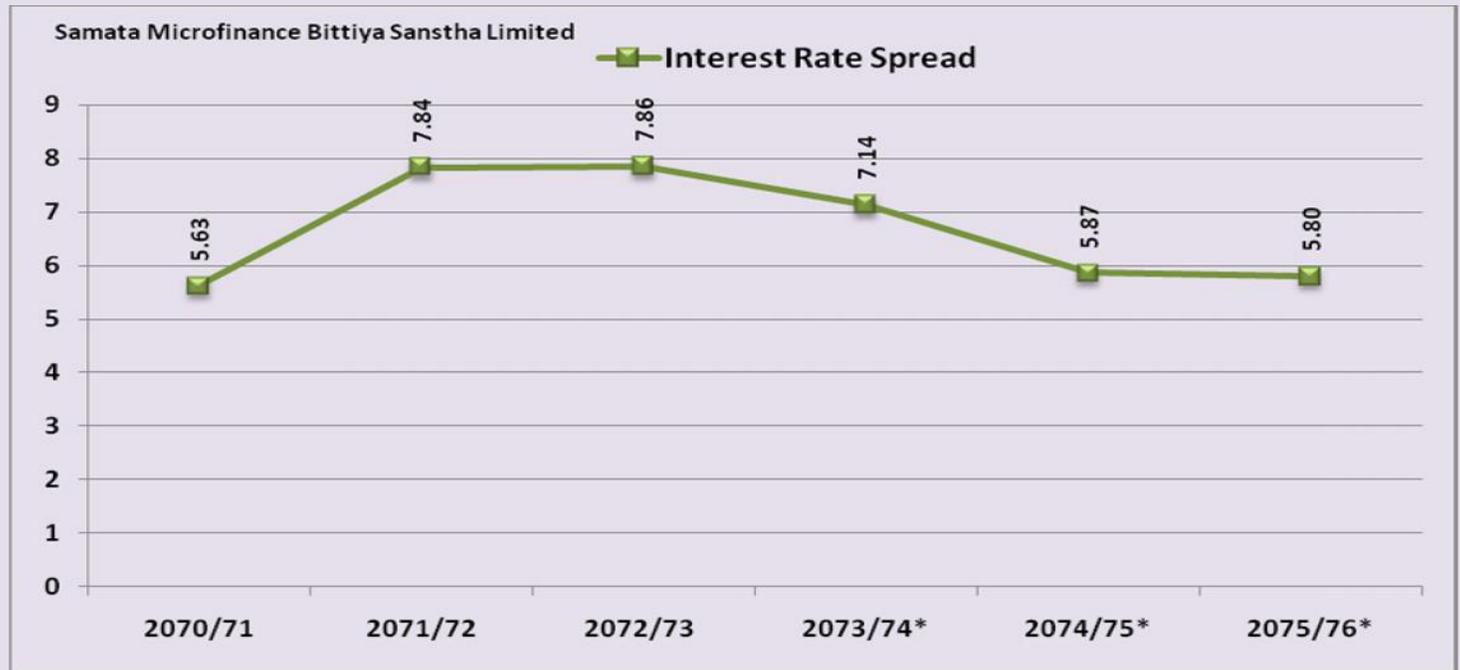
9. Financial Charts



9. Financial Charts



9. Financial Charts



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 has been from diverse field such as banking, trade & commerce, education and NGOs/INGOs and holds extensive years of experience in management and administration of organization.

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none">• Within a short period and having small scale of operation, the bank has able to create the business more than few multiple district level banks.• Has managed to diversify its earning streams thereby generating fair amount of profit from the operations.	<ul style="list-style-type: none">• Few branch networks in the initial phase might cause to limit their business.• 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 SMBS can enjoy lower cost of borrowing lowering its total operational cost.• Since the company plans to raise Rs. 9.48 million through the offer it provides a positive signal of further growth and expansion.	<ul style="list-style-type: none">• The recently published monetary policy has restricted the earnings growth potential of micro finance institutions by capping the interest spread rate.• Unfavorable operating environment rising due to unstable government policy.

Financial Analysis:

- Capital Adequacy Ratio (CAR) is at 17.57% that shows it is well maintained above the NRB requirement (8%). The financial projections for next 3 years also depict the healthy picture of the bank with respect to capital adequacy.
- Standing as 1 District level, the bank is holding small scale of business to the date as compared to industry's many other multiple district level financial institutions. However, the bank is found to improving its deposit and loan portfolio as soon as it commenced its operation in 2070/05/09 B.S. and achieved the deposit portfolio of Rs. 63.88 Million and the credit portfolio of Rs. 228.73 million at the end of FY 2072/73. The bank successfully recorded the growth of 122% in deposit and 146% in loans and advance till the end of FY 2072/73. Similarly, the future prospect of intensifying its business also exists and has been displayed in projected balance sheet.
- Asset quality of bank has been disclosed by its non-performing to total loan ratio which is negligible till the end of FY 2072-73. The projected financial also found to be silent in this context which indicate bank is committed to timely repayment of any loan and its interest from its customers. 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 above 50% of operating expenses is considered to be a bit high, which drive the attention of management towards controlling their operating costs at effective level.
- The profitability of the bank remains at satisfactory level as it generated profit of Rs. 2.288 Million & 6.25 million in its second and third year of operations respectively. The net interest income of the bank is also found to be satisfactory with the average growth of 81 percent. The bank has high operating cost about 50% which has reduced the profit level in FY 2072-73. However the projected financial shows the banks have been lowering its operating cost below 50%, this will help to boost its profit level in future. The bank however expected to grow net profit to 46% 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 of the bank is suitable at 19.48% at the end of FY 2072-73 and projected to increase on an average of 24-25 %.
- The bank's ROE has stood at 21.05 % at the end of FY 2072/73 and forecasted ROE for upcoming 3 fiscal years is suppose to around 19-20% 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 12.34% where interest expenses to total borrowing float around 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.
- The bank has been lowering its debt/equity ratio which indicates the bank is positive to control is financial risk as far as possible. The debt to equity ratio for FY 2072/73 was found 7.56, which will decrease to 3.32 in FY 2075/76 due to less borrowing.

- EPS of the bank stands at Rs 28.25 at the end of FY 2072-73 and the forecasted EPS will be above Rs 35 which is considered to be suitable as per industry average.
- The Net worth per share is Rs. 134.23 at the end of FY 2072-72 and found to be in increasing trend and is expected to grow and reach at Rs. 200 per share at the end of FY 2074/75 years.
- Considering its net worth and return on Investment percentage, The stock is expected to list in between price range of Rs. 134-402 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: Samata Microfinance Bittiya Sanstha Limited 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.

Disclaimer: This report has been prepared by National Merchant Banker Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.