



FORWARD Community Microfinance Bittiya Sanstha Limited
– IPO analysis

IPO Issue Snapshot:

Issue Details:

Issue Type	IPO
Issue Size	600,000 units
Issue Price per share	Rs. 100
Issue Open Date	2017-01-22
Early Close Date	2017-01-25
Late Close Date	2017-02-05
Issue Manager	NABIL Investment Banking Ltd
ICRA Grading	4+
Min. to apply:	50 units
Max. to apply:	3000 units

Company Synopsis:

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

1. Company Overview:

FORWARD Community Microfinance Bittiya Sanstha Limited (FCMBSL) has been incorporated under Company Act 2063 and registered as a "D" class financial institution. Headquartered in Duhabi, Sunsari District started its formal micro finance operation from 2070/02/03 B.S.

The company was conducting its microfinance business since 2052 BS in the name of NGO, Forum for Rural Women Ardency Development (FORWARD), mainly established with the objective to provide microfinance services to rural, deprived and marginalized community FORWARD has been empowering economically backward societies and working as a catalyst to eliminate poverty.

FCMBSL has outreached its services through its extensive 75 branches in 32 Districts and successfully runs its operations from these branch locations. It consists of 177,207 members as per the NRB progress report of Ashad end 2073.

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 FCMBL 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.

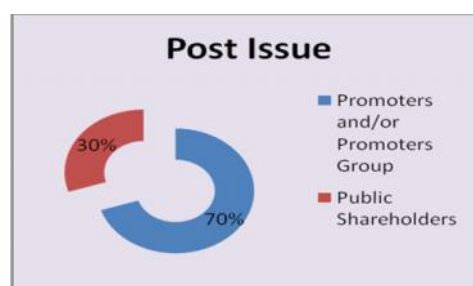
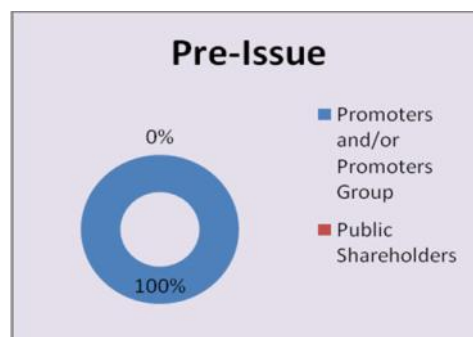
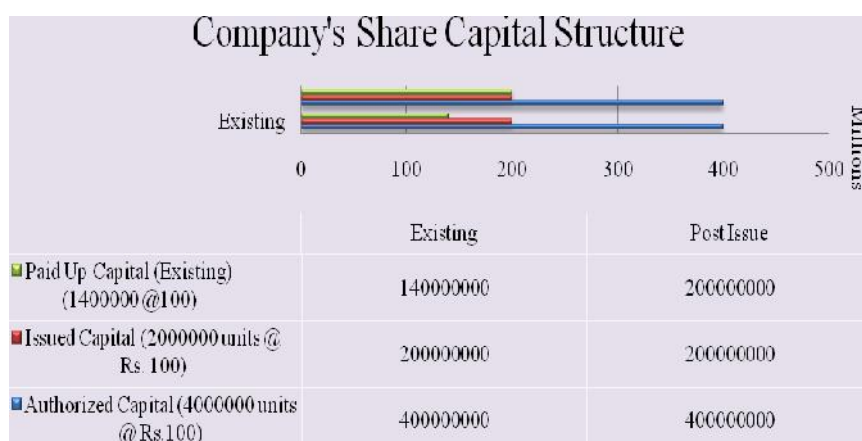
Further the bank intends to use technology to develop alternative distribution channel and enhance the economies of scale of business. Currently the bank uses software called "Synergy" for its banking operations.

3. Company's Major Objectives:

Established with the mission to economically empower & develop rural poor communities, FCMBSL 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	140000000	140000000
Public Shareholders	0	60000000

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 600,000 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	Ms. Bhagbati Chaudhary	Chairperson	44	Nepali	58,340	Masters	<ul style="list-style-type: none"> Worked in various Social Development Organization for more than 2 decades. Engaged with several Microfinance related activities for more than 12 years.
2	Ms. Sabita Kumari Dahal	Director	49	Nepali	6,500	MBS	<ul style="list-style-type: none"> 30 years experience in Teaching
3	Mr. Ashutosh Sharma (Representative from Everest Bank Ltd)	Director	45	Nepali	500,000	M.Sc., MBA	<ul style="list-style-type: none"> 20 years of experience in Everest Bank
4	Mr. Keshav Raj Poudel (Representative from Everest Bank Ltd)	Director	48	Nepali		MBA	<ul style="list-style-type: none"> 10 years of experience in Nabil Bank Ltd. 16 years of experience in Everest Bank Ltd.
5	Ms. Annapurna Shrestha	Director	46	Nepali	150,000	B.A	<ul style="list-style-type: none"> 6 years of experience in Sawalamban Bikash Kendra. 15 years of experience Rural Microfinance Development Centre Ltd.
6	Mr. Satya Narayan Chaudhary	Director	47	Nepali	10,000	B.A	<ul style="list-style-type: none"> 4 years of experience in National Trust for Nature Conservation. 12 years of experience in Manmohan Polyclinic.

6. Financial Summary

Particulars	Actual			Projected			
	2070/71	2071/72	2072/73	2073/74 Aswin End	2073/74*	2074/75*	2075/76*
Paid up Capital	105,000,000.00	105,000,000.00	140,000,000.00	140,000,000.00	200,000,000.00	280,000,000.00	364,000,000.00
Reserve and Surplus	50,263,450.00	175,625,680.00	350,833,360.00	418,622,000.00	553,980,000.00	680,836,000.00	801,621,000.00
Net Worth	155,263,450.00	280,625,680.00	490,833,360.00	558,622,000.00	753,980,000.00	960,836,000.00	1,165,621,000.00
No. of Shares	1,050,000.00	1,050,000.00	1,400,000.00	1,400,000.00	2,000,000.00	2,800,000.00	3,640,000.00
Total Liabilities	2,252,945,310.00	3,186,098,920.00	4,707,769,870.00	5,197,418,000.00	5,519,692,000.00	6,230,390,000.00	7,209,160,000.00
Total Assets	2,408,208,760.00	3,466,724,600.00	5,198,603,230.00	5,756,040,000.00	6,273,672,000.00	7,191,226,000.00	8,374,781,000.00
Borrowings	1,364,860,800.00	1,869,437,160.00	2,788,969,890.00	2,989,203,000.00	3,099,414,000.00	3,241,427,000.00	3,499,427,000.00
Deposits	875,464,080.00	1,275,871,320.00	1,684,268,740.00	1,996,252,000.00	2,353,950,000.00	2,890,525,000.00	3,577,032,000.00
Loans and Advances	1,717,110,860.00	2,851,275,180.00	4,230,542,260.00	4,852,077,000.00	5,368,554,000.00	6,506,699,000.00	7,348,968,000.00
Gross Income	318,547,910.00	529,299,610.00	748,113,460.00	236,500,000.00	937,901,000.00	1,111,545,000.00	1,255,096,000.00
Gross Expenses	220,122,580.00	316,544,060.00	422,064,130.00	129,413,000.00	624,002,000.00	747,775,000.00	893,515,000.00
Interest Income	310,645,400.00	517,606,680.00	732,929,930.00	231,656,000.00	920,439,000.00	1,092,337,000.00	1,233,967,000.00
Interest Expenses	132,374,280.00	165,563,350.00	240,171,430.00	83,636,000.00	344,248,000.00	391,805,000.00	458,934,000.00
Operating Expenses	87,748,300.00	150,980,710.00	181,892,700.00	45,777,000.00	279,754,000.00	355,970,000.00	434,581,000.00
Employee Expenses	61,618,710.00	103,393,480.00	120,020,390.00	33,765,000.00	193,511,000.00	259,215,000.00	321,718,000.00
Operating Profit	78,840,400.00	201,271,080.00	279,495,340.00	96,688,000.00	313,460,000.00	353,143,000.00	353,509,000.00
Net Profit	50,035,830.00	126,862,230.00	177,735,030.00	61,529,000.00	199,475,000.00	224,727,000.00	224,961,000.00
Cash Dividend	-	0.00	0.00	0.00	0.00	4,000,000.00	5,600,000.00
Stock Dividend	-	-	-	-	-	80,000,000.00	84,000,000.00
Increase in Reserve	-	125,362,230.00	175,207,680.00	67,788,640.00	135,358,000.00	126,856,000.00	120,785,000.00
Retention	-	126,862,230.00	177,735,030.00	61,529,000.00	199,475,000.00	220,727,000.00	219,361,000.00

The bank's financial summary depicts that the bank has been managing large scale of deposit and loan portfolio in MFIs Industry which has been possible mainly because of its more than 177 thousands members and 110 thousands borrowers.

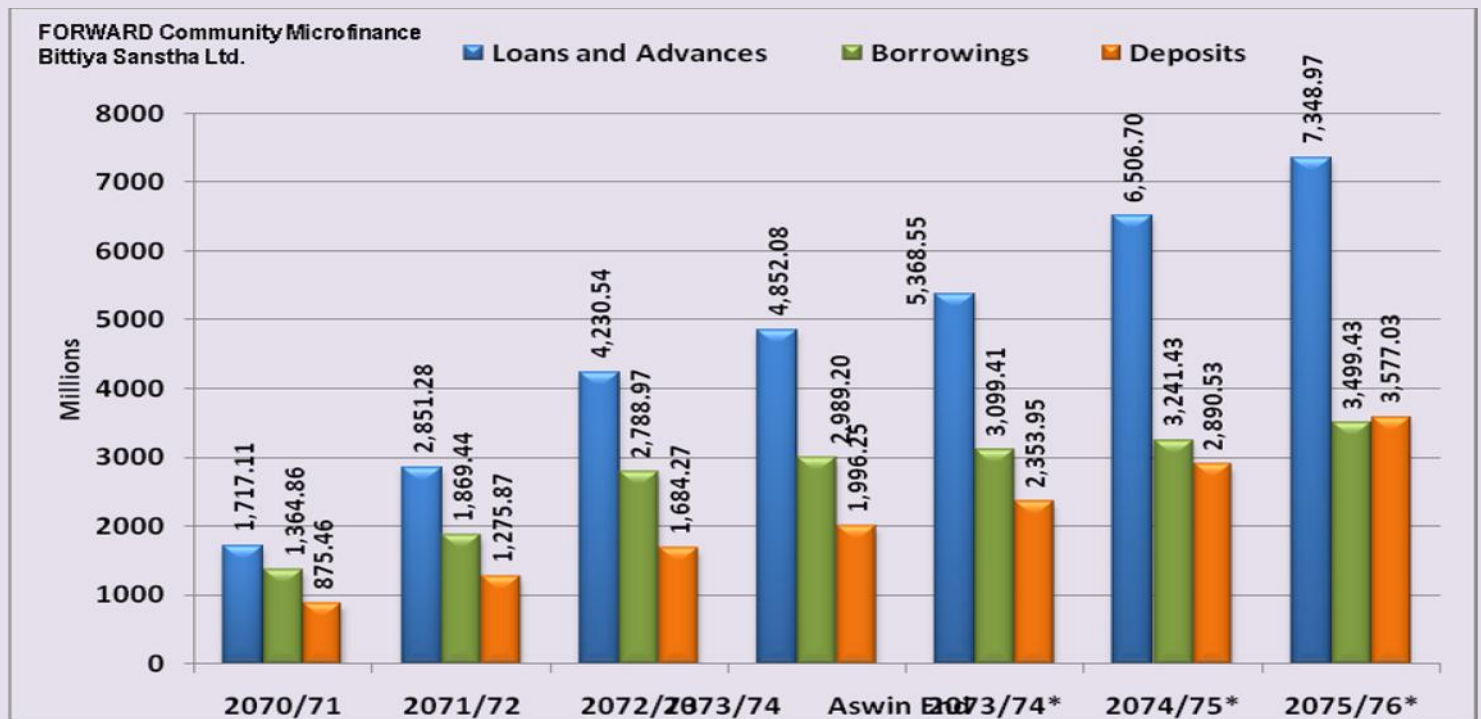
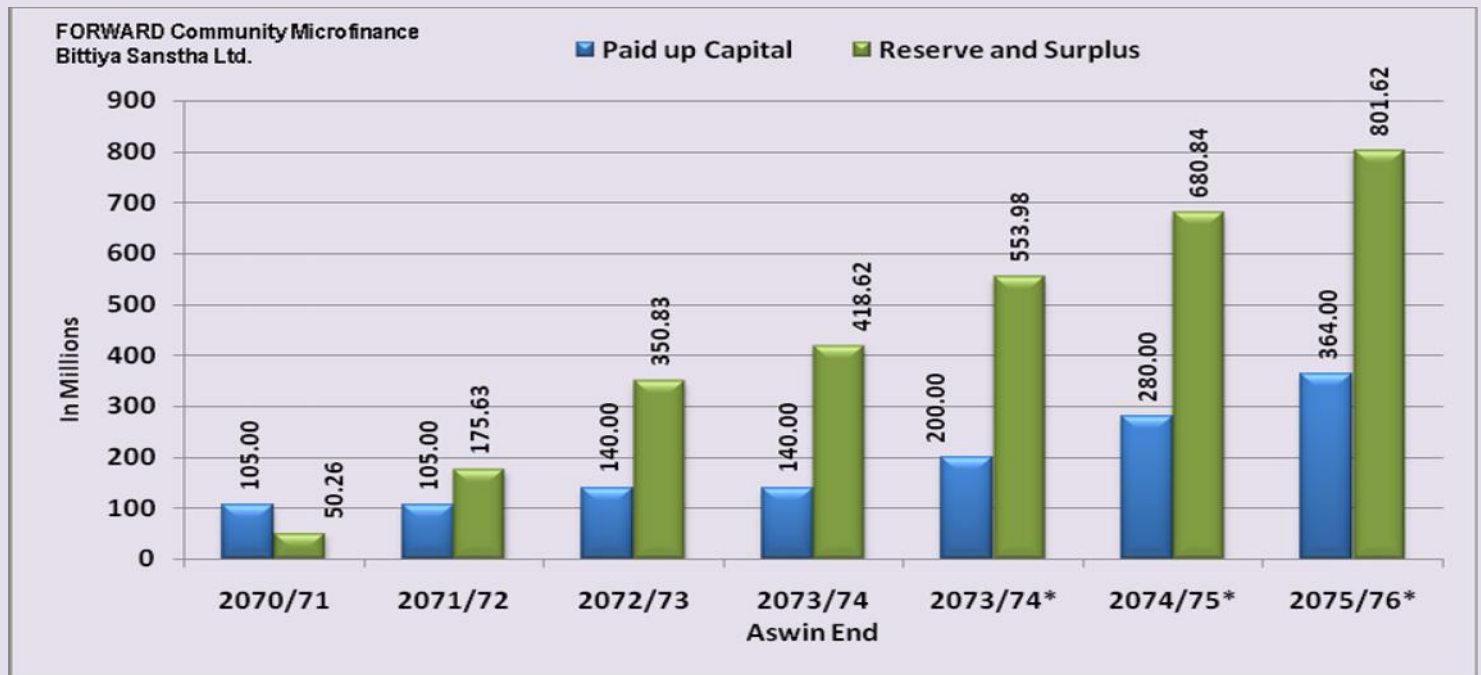
FCMBSL basically follows Grameen model for loan repayment for all members, according to which 5 members offers their personal guarantee to make repayment of loan in case of default of principal borrower.

7. Financial Key Indicators:

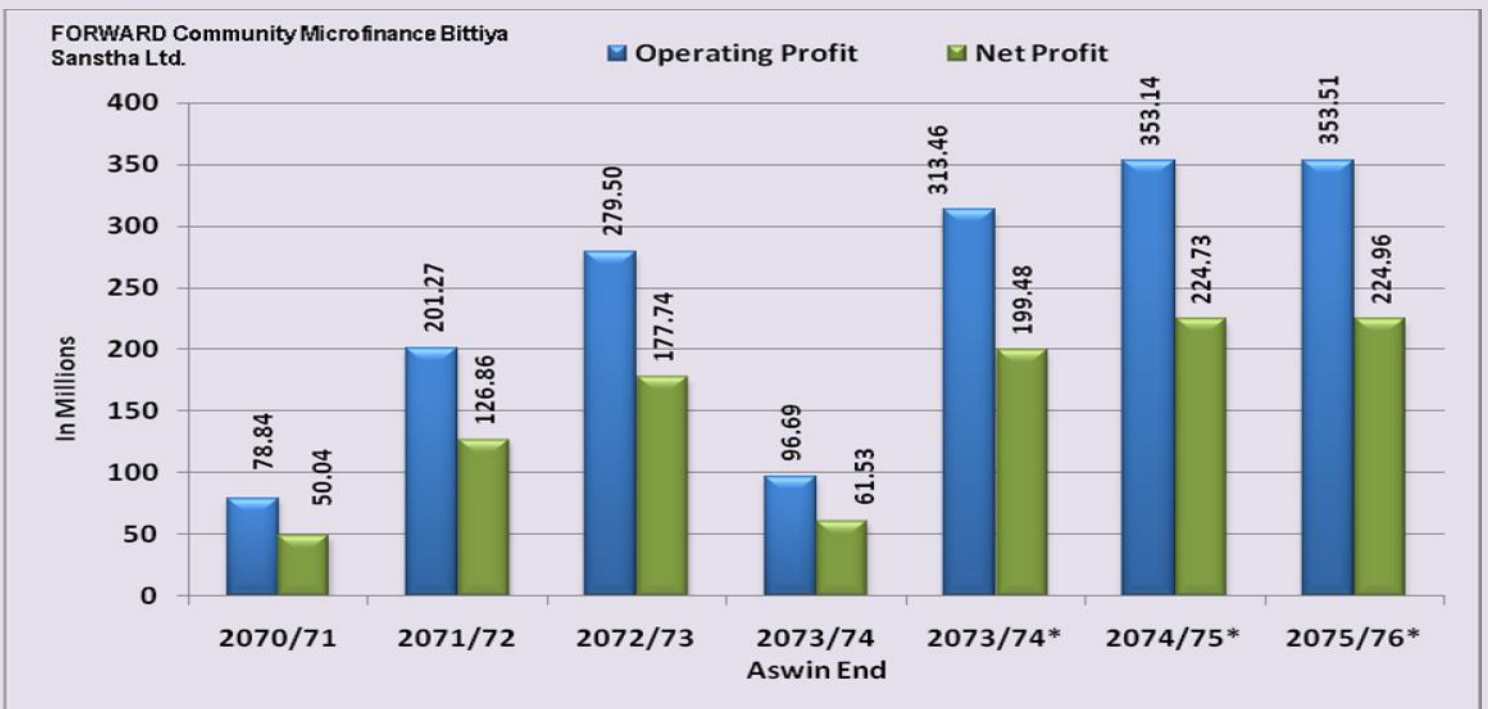
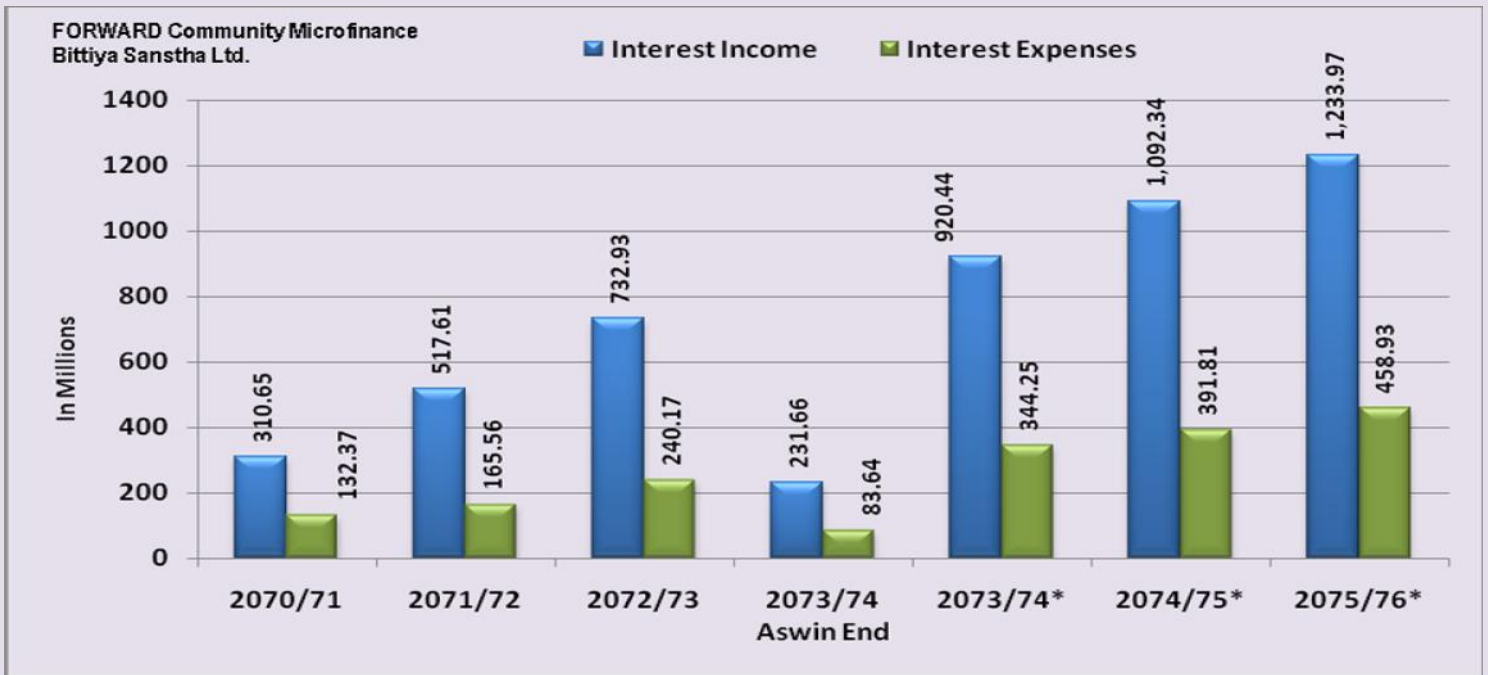
S.N.	Financial Ratios	Actual			Projected			
		2070/71	2071/72	2072/73	2073/74 Aswin End	2073/74	2074/75	2075/76
1	Capital Adequacy Ratio (C)							
	Capital Fund To RWA (%)	8.54	9.76	11.76	11.71	12.76	17.96	17.07
2	Assets Quality/Efficiency Ratio (A)							
	NPL to Total Loan and Advances (%)	0.27	0.13	0.38	0.28	-	-	-
	LLP to NPL (%)	472.93	853.77	356.04	439.89	-	-	-
3	Management Efficiency Ratio							
	Employee Expenses/Operating Expenses %	70.22	68.48	65.98	73.76	69.17	72.82	74.03
	Cost of Fund %	10.08	5.92	6.18	5.86	-	-	-
4	Profitability Ratio							
	Net Profit Margin(Net Profit After Tax / Gross Income)%	15.71	23.97	23.76	26.02	21.27	20.22	17.92
	ROE%	32.23	45.21	36.21	22.03	26.46	23.39	19.30
	EPS	47.65	120.82	126.95	43.95	99.74	80.26	61.80
	Net Profit / Total Assets	2.08	3.66	3.42	1.07	3.18	3.13	2.69
	Net Profit / Loan and Advances	2.91	4.45	4.20	1.27	3.72	3.45	3.06
	Interest income/ Loan and Advances (A)	18.09	18.15	17.32	4.77	17.15	16.79	16.79
	Interest expenses/ Borrowings & Deposit (B)	5.91	5.26	5.37	1.68	6.31	6.39	6.49
	Interest Rate Spread (A- B)	12.18	12.89	11.96	3.10	10.83	10.40	10.31
5	Liquidity Ratios (L)							
	CRR %	-	-	-	-	-	-	-
	Loan and Advances / (Borrowings + Deposit) %	76.65	90.65	94.57	94.57	98.44	106.11	103.85
	Debt To Equity Ratio	14.51	11.35	9.59	9.30	7.32	6.48	6.18
6	Sensitive to Market Ratios (S)							
	Net worth per share	147.87	267.26	350.60	399.02	376.99	343.16	320.23
	Earnings per Share	47.65	120.82	126.95	87.90	99.74	80.26	61.80
	EPS Growth		153.54	5.08	-27.25	-17.45	-19.53	-23.00
	Dividend per share	0.00	0.00	0.00	0.00	0.00	30.00	24.62
	Dividend payout Ratio	0.00	0.00	0.00	0.00	0.00	37.38	39.83
	Retention Ratio	100.00	100.00	100.00	100.00	100.00	62.62	60.17

The above financial ratio illustrates the financial position of the bank which shows the bank is functioning profitably since its operation as microfinance financial institutions.

9. Financial Charts

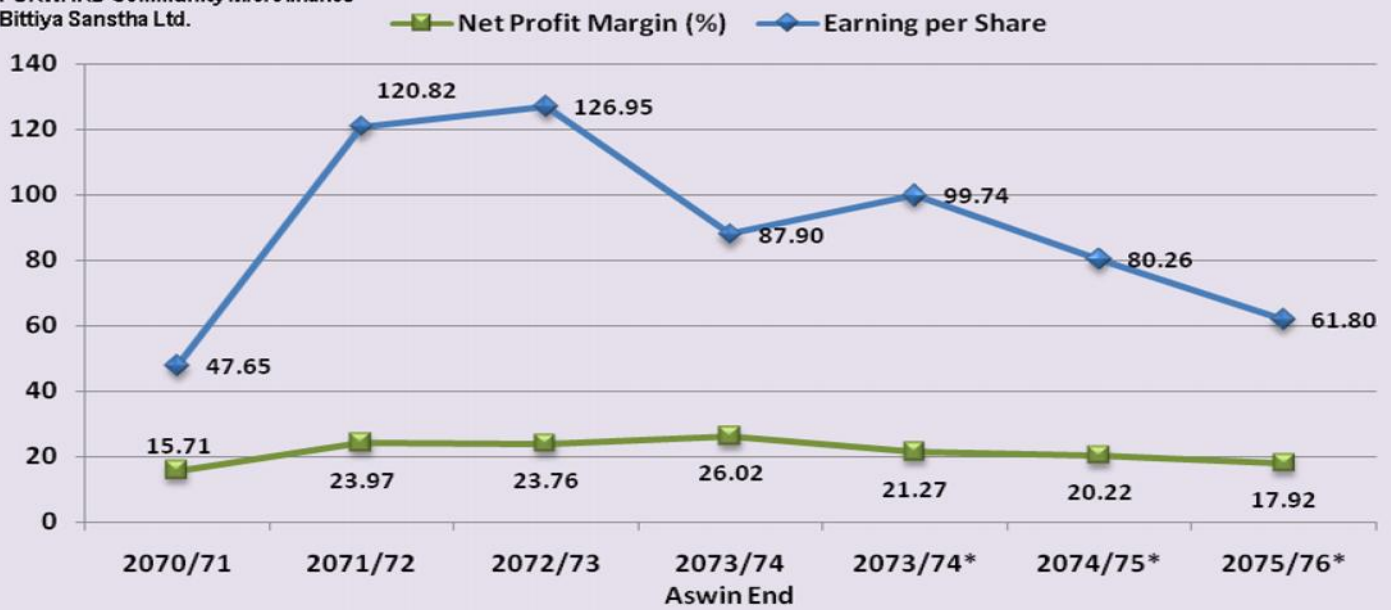


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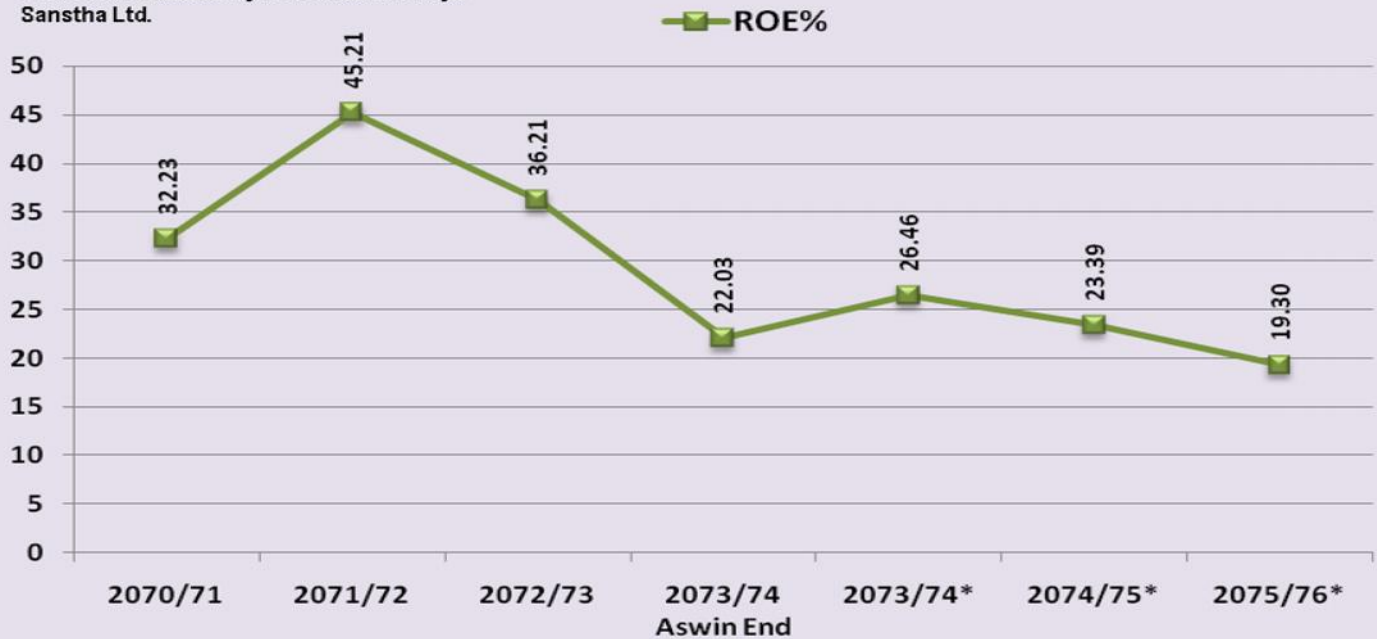


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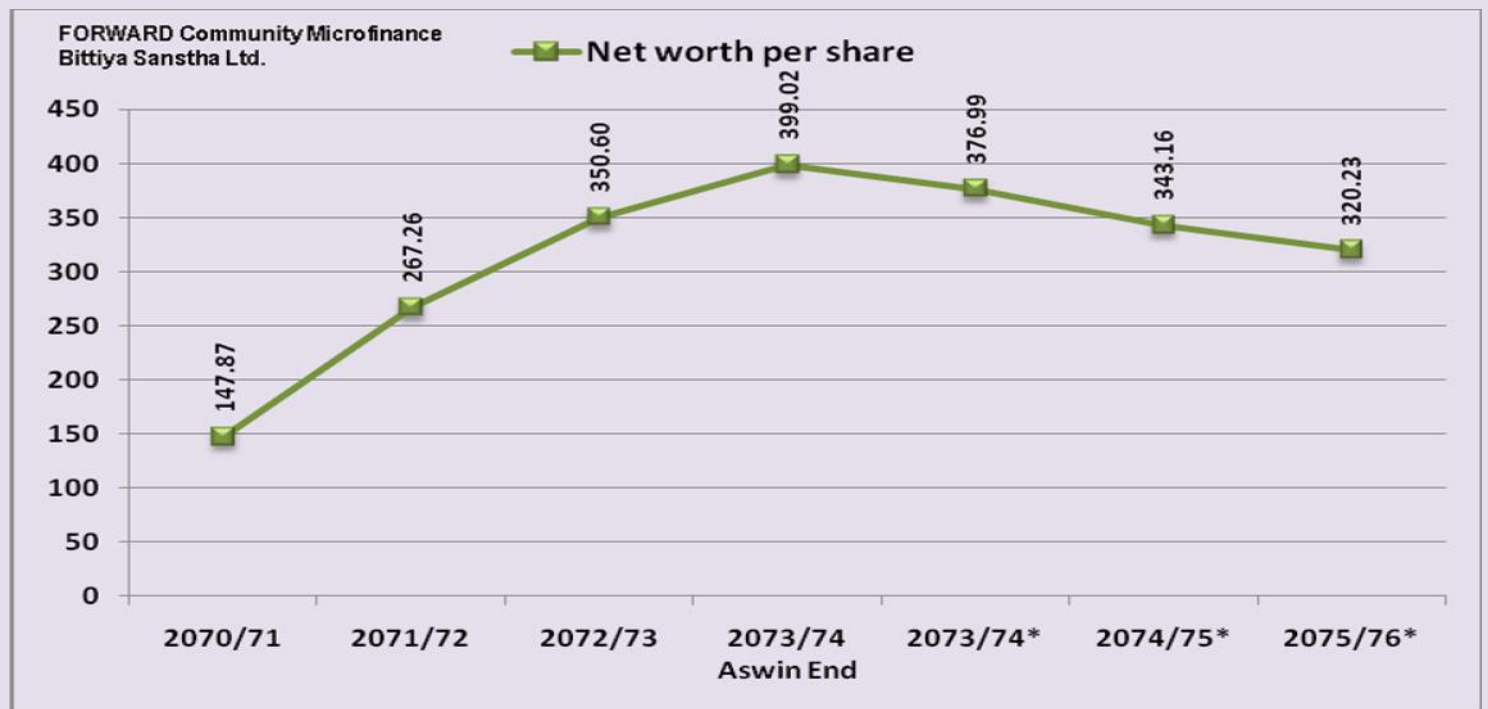
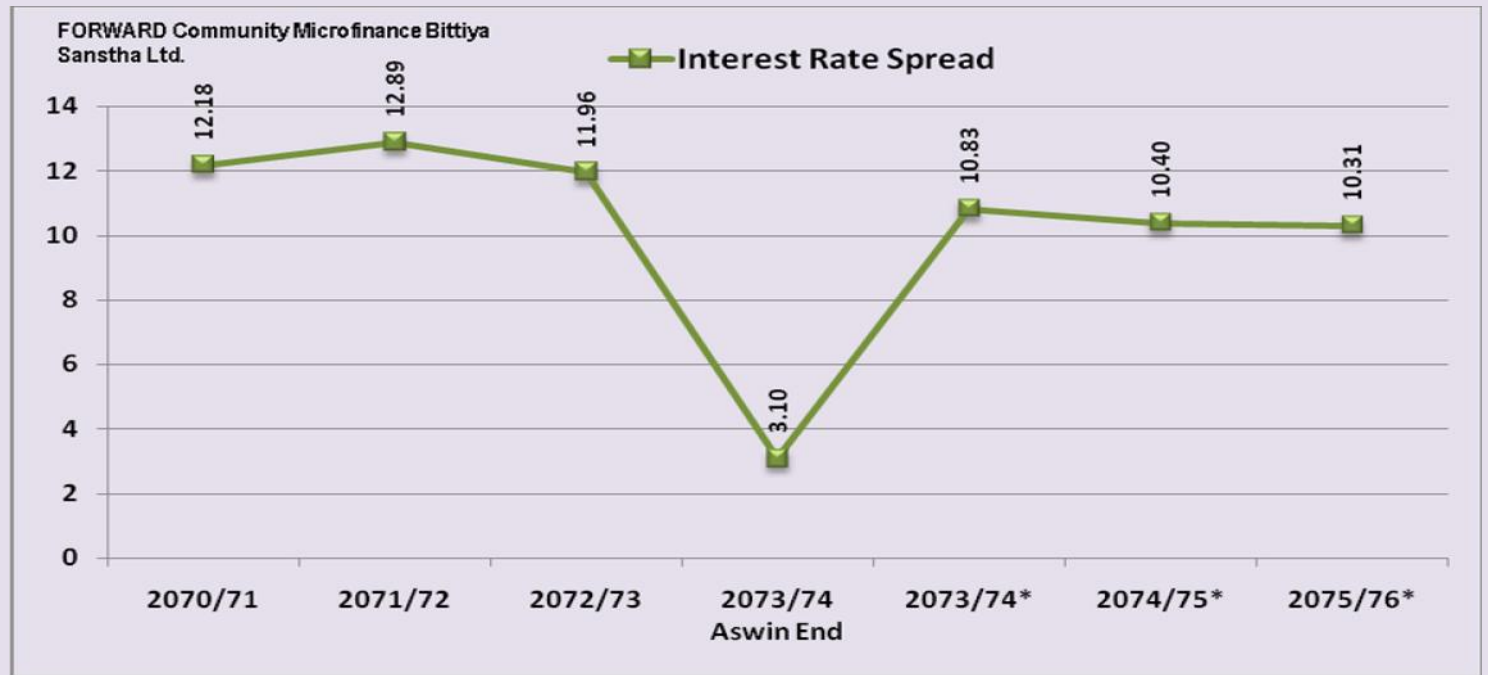
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9. Financial Charts



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">• Large numbers of branch networks and members in current scale of business operation.• Strong credit appraisal system and well articulated system of loan repayment from the borrowers. This has led the bank to control and manage its assets quality.• Huge deposit portfolio in MFIs Industry.	<ul style="list-style-type: none">• Earnings are highly dependent of Interest Based assets. Non-Interest based earning or fee based earning is negligible.• 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.• Since the company plans to raise Rs. 60 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.• Increasing competition in Microfinance Industry

Financial Analysis:

- Capital Adequacy Ratio till 1st quarter of FY 2073/74 is well maintained above the NRB requirement (8%) which accounts for 11.71%. The same is expected to increase in forthcoming years.
- The bank has decreased its NPL to Total loan to 0.28% and increased LLP to NPL% to 439.89% till Aswin End and the projected financial has not disclosed the NPL indicating the bank is planning to lower its NPL in future.
- The bank has more than 550 Employees working in various 75 branches and 70% of total operating expenses have been occupied by staff expenses. Total operating expenses charges 30% of the total operating income which is projected to raise in future upto 54%. This indicates that the bank is less likely to remain efficient in managing its operating cost.
- The bank earning is highly dependent on Interest Income and only about 2% earnings are non-interest based. This pose the bank to greater risk of profit uncertainty as the monetary policy of FY 2073/74 has set the cap in the interest spread rate up to 7%. The bank cost of fund is also considered to be high in relation to industry average of 5%.
- Net Interest Margin of the bank is till the first quarter FY 2073/74 is only 3% and projected to remain around 10%. Besides, Net Profit Margin of the bank is declining in projected financial mainly due to increasing rate of operating expenses.
- The gearing ratio of the bank has shown improvement throughout the projection indicating control in financial risk of the bank. ROE of the bank stood at 36% in last FY which is considered above industry average 15%. The projected RoE also seem healthy.
- EPS of the bank has found to be very attractive depicting sound profitability of the bank.

Notwithstanding the growth rate of EPS doesn't justify it as growth rate is diminishing in projection

- The Net worth per share is Rs. 399 as of Aswin end 2073/74 which is to be maintained in forthcoming years however there seems slight decline in it.
- The bank has forecasted to distribute dividend in projected FY 2074/75 and FY 5075/76 at the rate of 30% and 25 % respectively.
- The bank has secured one of the large client base in MFIs industry and successfully managing deposit portfolio of Rs. 1.99 billion and loan portfolio of Rs. 4.8 billion which is 2.44 times higher than deposit portfolio. The greater size of portfolio, limited sectors of earnings, high cost of funds, profit uncertainty due to interest spread rate cap and increasing operating cost leads the bank to bear greater challenges in future.
- 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: FORWARD 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. The stock is anticipated to list within the price range of Rs. 315-630.

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