

## Mahila Sahayatra Microfinance Bittiya Sanstha Limited

**ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Initial Public Offering of Mahila Sahayatra Microfinance Bittiya Sanstha Limited**

	Issue Size	Rating Action
IPO Grading	NPR 33 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below-average fundamentals to the proposed Initial Public Offering (IPO) amounting NPR 33 million of Mahila Sahayatra Microfinance Bittiya Sanstha Limited (hereinafter referred to as MSMF). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively. MSMF is proposing to come out with an IPO of 330,000 numbers of equity shares of face value NRs 100/- each to be issued to general public at par. The proposed issue is being made in order to meet the regulations regarding public shareholding and minimum paid-up capital requirement.

The grading is constrained by MSMF’s limited track record (started operations in November 2012), small scale of operations, low seasoning of credit book, low profitability, lack of diversity in earnings, higher portfolio vulnerability arising from unsecured nature of loan book, inferior borrower profile, absence of centralized credit bureau in microfinance segment, comparably larger ticket size offered in first cycle (up to 100 thousand), limited experience of management team in microfinance sector, competition from other BFs<sup>1</sup> undertaking microcredit activities through larger franchise, reliance on outsourcing model (Group formation through assistance of NGOs/Companies on profit sharing basis) and uncertain operating environment that financial institutions in Nepal are currently facing. The grading factors in favorable regulation for microfinance entities wherein loans to microfinance entities by banks/other financial institutions classify for mandatory deprived sector lending norms thus help these entities to raise funds from banking channel at very low interest rates. Deprived sector norms remain a key regulatory risk for microfinance entities, withdrawal/moderation in this regulation could have significant impact on microfinance’s entities business profile. The grading also factors in the strong institutional promoter base (three commercial banks and one finance company holding around 33.77% of total share capital as of now), fair assets quality so far, high business growth across diverse geographic locations (albeit on a lower base), comfortable solvency profile (although portfolio seasoning is limited) and regulatory advantage available with ‘Class D’ Microfinance Companies compared to its counterparts in banking industries-in the form of lower SLR/ CRR<sup>2</sup> & capital adequacy requirements. As per the Central Bank’s regulation, Banks and Financial Institutions<sup>3</sup>(BFIs) are required to channel 3.5-4.5% percentage of their total loans towards deprived sector<sup>4</sup>, either directly or through microfinance companies. Going forward, MSMF’s ability to scale up its operations through geographical diversification and increase in member base for efficient use of capital base, improve its profitability profile and maintain its assets quality indicators would have a bearing on the overall financial profile.

MSMF is running microcredit activities following JLG (Joint Liability Group) model, wherein 5 individuals come together for the purpose of availing bank loans through group mechanism against mutual guarantee. MSMF’s credit portfolio as of October-14 is composed entirely of unsecured group guarantee backed loans. Members upon introduction to the groups can avail loan up to NPR 100 thousand at the beginning

<sup>1</sup> Banks and Financial Institutions, Class A, B & C

<sup>2</sup> Statutory Liquidity Ratio/ Cash Reserve Ratio

<sup>3</sup> Class A, B & C financial institutions.

<sup>4</sup> As defined by the central bank (NRB) covering marginal sections of the society



(though average ticket size is less than NPR. 50,000) and the amount can be provided again upon completion of each loan cycle i.e. repayment of each loan (i.e. 1 year). The credit portfolio of MSMF is broadly classified into regular General Loan (~100%) and negligible seasonal loans, average ticket size however being ~NPR 48,000. As of October-14, majority of the loans were provided to agriculture sector (~53%), followed closely by service sector (~42%) and then distantly by small and cottage industries (~3%). Portfolio growth of MSMF has been modest in initial years of operation, part of which has been achieved through recent collaborations with companies/NGOs working for welfare of target groups (such loans comprising 15.10% of total portfolio as of mid Oct-14). As such, assets quality of such disbursements remains to be tested. So far, the asset quality indicators of MSMF remain fair, despite some NPA generation within short period of commercial operation, benefitted partly by low seasoning of credit books and regulatory arbitrage provided to Microfinance Institutions in NPA recognition norms. The Gross NPL of MSMF stood at 0.50% and net NPL at 0.33% as on October-14 with NPR 6.25 lakhs in non-performing loans spread across ~15 accounts.

In funding profile front, favorable regulation for microfinance entities, wherein loans to microfinance entities by banks & financial institutions classify for mandatory deprived sector lending norms, help these entities to raise funds from banking channel at very low interest rates. Deprived sector norms remain a key regulatory risk for microfinance entities, withdrawal/moderation in this regulation could have significant impact on microfinance's entities business profile. The microcredit activities of MSMF are funded mainly through the bank borrowings; sourced from multiple BFIs, major portion of which is sourced from one of its promoters viz. Prime Commercial Bank (line of credit utilised from Promoter Company accounted for ~49% of total borrowings as on October-14). As of now, the savings collected from members (mostly non-withdraw able deposits) comprise of a lower proportion of overall funding profile due to limited track record so far (Member's deposits were ~6% of total credit portfolio as on October-14 vis a vis the industry average of 31% as on Jul-14). However, owing to the regulatory provisions, Microfinance institutions are likely to get steady flow of loans at subsidized interest rates from BFIs which augur well for the incremental business growth and liquidity support. Due to startup nature of business, small size of external borrowings and relatively fair level of capital fund, the gearing ratio<sup>5</sup> for MSMF remains moderate (2.23 times on Oct-14). MSMF remains comfortable on liquidity front due to short term lending, availability of line of credit from BFIs and generally non-withdrawable nature of members' deposits.

As for competitive scenario, MSMF faces moderate competition from other MFIs and cooperatives operating in the region as a result of lower penetration of financial institutions in the rural areas where MSMF operates. Further, being a national level institution, MSMF has scope for geographical expansion in coming years. Going forward, MSMF is planning to expand its operations into new districts (3 more districts within this fiscal year) to achieve further increase in scale of operations. The institutional promoter's expertise is likely to assist MSMF in achieving the adequate growth.

MSMF has been maintaining moderate NIMs<sup>6</sup> (around ~8%) compared to peers, supported by high lending spreads of ~13%. However, the profitability profile remains dismal due to low mobilisation of funds (Credit portfolio as a percentage of total available funds<sup>7</sup> stood at ~47% as on October-14), small scale of operations low yield on investments and high operating cost ratio despite low credit provisioning expense at present. MSMF's profit after tax (PAT) for FY 2013-14 stood at NPR 0.5 million, corresponding to return on assets of 0.34% and return on net worth of 0.63%. The indicators remain progressive coming into Q1FY14-15 (PAT/ATA<sup>8</sup> of 2.88% and PAT/Networth of 8.75% in Q1FY15), aided by continuous growth in business volume. Going forward, the profitability prospect of MSMF will depend on the ability of the company to achieve adequate growth in business size in order to ensure efficient utilisation of existing and additional capital. Also, high cost long term pension deposit scheme and any regulatory restrictions on

---

<sup>5</sup> Total external debt/Networth

<sup>6</sup> Net interest margin

<sup>7</sup> Networth plus deposits plus bank borrowings

<sup>8</sup> Average total assets



interest rate spread to the Microfinance sector would have strong bearing upon future profitability of MSMF as well.

MSMF CRAR at 37.45% as on October-14 remains much higher than regulatory minimum requirement of 8%. The proposed IPO would increase its capital levels further. While these levels of capital provide adequate headroom for growth, the company's ability to efficiently use the same would have bearing on profitability indicators.

### **Company Profile**

Established in March 2012, Mahila Sahayatra Microfinance (MSMF) is a public limited company and commenced its operations from November 2012. MSMF is the 25<sup>th</sup> microfinance institution to receive Class D status from Central Bank of Nepal. MSMF has 100% promoter holding at present which is expected to dilute to 70% post proposed IPO (assuming full subscription). MSMF is mainly promoted by 93 women entrepreneurs with support from institutional promoters viz. Prime Commercial Bank (18.18% holding), Nabil Bank (5.19% holding), Civil Bank (5.19% holding) and Kathmandu Finance (5.19% holding). The registered office of MSMF is in Chitlang, Makawanpur. MSMF currently has 8 branches (including head office) and 1 contact office overlooking 5 districts (Makawanpur, Lalitpur, Nuwakot, Rolpa and Kathmandu) with most of the operations concentrated in Makawanpur district from where it started its operations. As on Oct-14, MSMF had staff strength of 36 overlooking member base of 4,574 including 2,585 borrowers. At present, MSMF caters to the people and areas that are not served or underserved by other financial institutions.

MSMF reported a profit after tax of NPR 0.50 million during 2013-14 over an asset base of NPR 218 million as on Jul-14 against Net loss of NPR 0.46 million during 2012-13 over an asset base of NPR 80 million as on Jul-13. As of Q1 FY15, the profitability has been reported at NPR 1.76 million over an asset base of NPR 270 million. Its net worth as on mid-Oct 2014 was NPR 81.31 million, member's deposit base was NPR 7.89 million and total loan portfolio at NPR 123.87 million. In terms of technology platform, MSMF has implemented 'Empower' in all of its branches.

**January 2015**

*For further details please contact:*

#### Analyst Contacts:

**Mr. Kishor Prasad Bimali** (Tel No. +977-1-4419910/4419920)

[kishor@icranepal.com](mailto:kishor@icranepal.com)

#### Relationship Contacts:

**Mr. Deepak Raj Kafle**, (Tel. No. +977-1-4419910/4419920)

[drkafle@icranepal.com](mailto:drkafle@icranepal.com)

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website ([www.icranepal.com](http://www.icranepal.com)) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents