

# Garima Bikas Bank Limited GBBL [NEPSE]

Sector	Category	Market Cap	Style	Momentum	Latest Price	Fair value
Development Bank	National Level	Large	Growth Tilt	Up	Rs.214	Rs.266.23

Rank	Metric	Value
R	MKT. CAP.	3
A	N. PROFIT	2
N	DEPOSITS	2
K	L&A	2
I	ASSETS	2
N		
G		

Peers count 18

## Analyst say:

Our fair valuation of GBBL is Rs.266, which at current is undervalued. Best buy is Rs.171 with a target of Rs.313. Stock is good for investment purpose (3 years north), rather than trading. We expect bank to provide floor average 13% (bonus) dividend going forward, which we believe is above industry average.

## Stock Profile

LTP (7.01.20) (Rs.)	214
180D Avg. Price (Rs.)	189.97
52W High - Low (Rs.)	214-154.39
No. of Branches	90
ATM Outlets	51
O/s Shares (Nos.)	32,386,894
Market Cap (Rs.)	6,9307,95,316
Market Coverage	0.45%

## Market Profile

NEPSE Index	1216.92
Total Market Cap (Millions)	1,551,443.52

## Statistical Measure

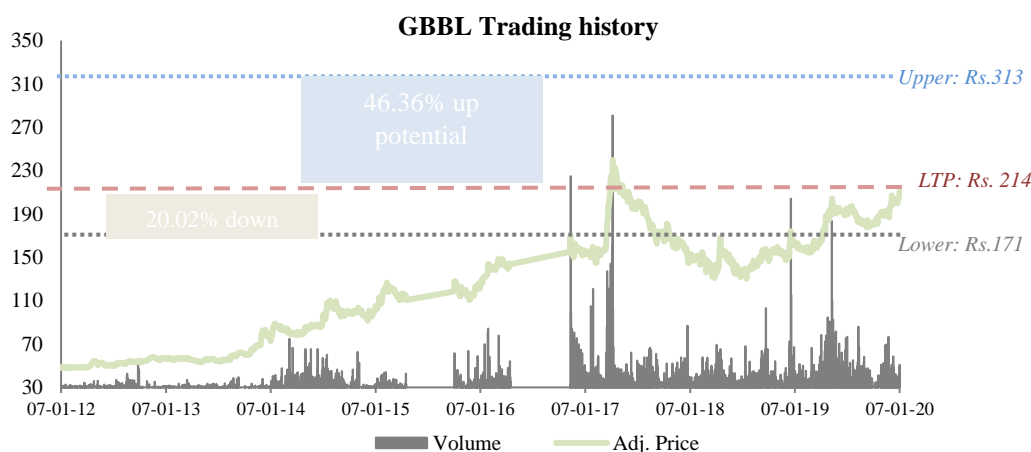
Statistical Measure	GBBL	NEPSE
Mean Return	20.96%	16.82%
Standard Deviation	25.16%	20.88%
Beta	0.60	
Correlation	0.50	

# Data taken from 18.07.2011 – 07.01.2020.

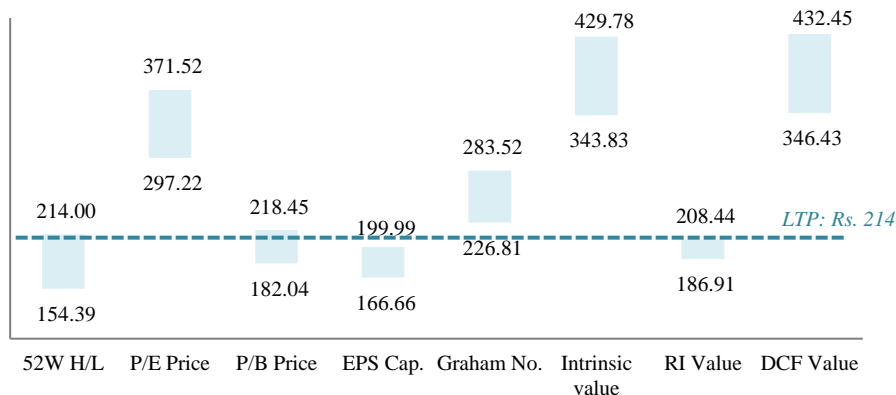
# 235 Trading days a year assumed for annualized.

## Quarterly unaudited reports highlights.....

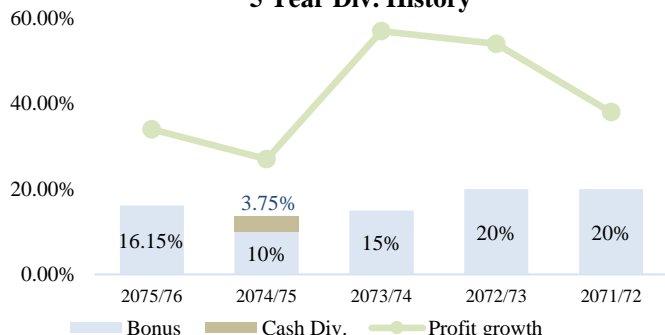
Ratios	Q1 76/77	Q4 75/76	Q1 75/76
EPS	25.12	22.05	13.18
BVPS	142.22	134.71	116.67
ROE	19.52%	16.80%	-
ROA	1.73%	1.64%	-
CAR	14.14%	17.81%	22.80%
CCD	77.13%	79.17%	77.45%
NPL	0.36%	0.84%	1.02%



## Football Field Valuation Chart



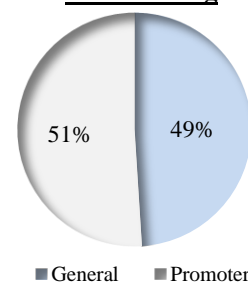
## 5 Year Div. History



## FY 2075/76 Audited Y-o-Y Growth with Peers

Particulars	GBBL	MNBBL	MLBL
Net Profits	26.53%	37.20%	26.28%
Op. Profit	31.61%	36.04%	29.05%
NII	36.89%	44.48%	30.55%
Deposits	50.86%	53.07%	14.35%
Loan & Adv.	51.04%	51.55%	27.95%
Op. cash flow	96.07%	(9.41%)	(86.43%)
Total Assets	53.24%	49.55%	17.81%

## Shareholding



# Profit growth as per NAS, since no reinstatement of financials of all previous FY as per NFRS.

# We expect the deviation of 5-10% from NFRS if reinstated.

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## Synopsis (B)

- Bank shifted the preparation of financial statements from Nepal Accounting Standard (NAS) to Nepal Financial Reporting Standard (NFRS) frameworks from FY 75/76.
- Bank has published its Quarter 1 Unaudited Interim financial reports of FY 76/77 with a 21% net profit growth.
- Bank has an Associates – ‘Nepal Clearing House Ltd.’ with 0.41% stake but has no Subsidiaries as of date.
- Bank has no share based compensation schemes to its employees like ESOP.
- Technically, index trend is down, supported by 1100 level. GBBL traded at high of Rs.515 (6.4.17) and low of Rs.106 (12.6.11). Technical shows the continuing upward channel from July 2018. The stock is a good pick for momentum investors.
- Market cap of stock exceeds Rs.6.9 billion and we categorize the scrip into Large cap within the development bank sector. We believe the stock is Growth-tilted, given high revenue and profit growth, high P/B, low dividend yield, Value supported by low P/E and beta factors.

## Synopsis (A)

- The bank convened its 13<sup>th</sup> AGM for FY 2075/76 on 27<sup>th</sup> of Mangshir 2076 at Hotel Pokhara Grande, Kaski.
- 13<sup>th</sup> AGM endorsed the resolution of 17% dividend for FY 75/76.
- Dividend includes 16.15% Bonus share and 0.85% Cash dividend for tax purpose.
- Trading price of bank in secondary market adjusted for 16.15% bonus share to Rs.192.85 on 13<sup>th</sup> Mangshir.
- Since the adjustment, GBBL price has gone up by 10.97% to Rs.214.
- Bonus issue will increase the paid up capital of bank to above Rs.3.23 billion.
- 13<sup>th</sup> AGM also endorsed the resolution to increase the Authorized capital of bank to Rs.5 billion from Rs.3 billion.
- AGM provided the attorney to Board in making any M&A decision during the year.
- AGM made major increment in allowances (meeting fees, telephone & newspaper etc.) of Directors.
- Auditor KB Chitracar & Co. issued an Unqualified Report on the audit of financial statements for the FY 75/76.
- 13<sup>th</sup> AGM also made appointment of G & G Associates as the (statutory) Auditor of bank for FY 76/77 to FY 78/79, after the tenure of KB Chitracar & Co. ended.

## 13<sup>th</sup> AGM – Plan and Strategies

- ❖ Branch expansion
- ❖ Extend Gold and Micro Loan services
- ❖ Extend Locker facility
- ❖ Reach ‘Garima Remit’ services to customers outside the country.

## School of Thought

- Economic growth is pleasant and outlook is positive. However, on a short note, slow government expenditure, rising inflation, falling remittances, change in political paradigm and contracting growth of neighboring countries put doubt on bullish market.
- Security market at present is going under stress of several regulatory changes particularly in respect of governance, transparency factors in business practice of companies, stimulating confusion and fears among the market participants.
- Development bank are likely to face difficulty in lending business given the check created in collateral loans.
- We expect GBBL to make average 30% profit growth and grow at declining rate from FY 78/79. Profits to be mainly contributed by increasing customers reach and other non-banking services including remittances. However, lowering interest rate spread is likely to contract the revenues.
- Fundamentals of bank are sound and among the top in the development bank sector. However, investors needs to be skeptical on few important metrics.
- Currently, stock is trading at Rs.214, which on adjusted price basis falls on to upper node of 52 weeks high/low. Price is still below 24% to our fair value estimation. PEG of bank is below 1 which is 0.61, giving attractive outlook on stock.
- Development bank sector is trading at underpriced zone at present in terms of both P/E (14.79) and P/B (1.28) metrics, as per Graham number. # Harmonic mean is used.
- Though the Q1 76/77 report present major profit growth, we opine the growth to be not a sustainable one since significantly low impairment charge inflated the figures.
- Q1 report does not show adjustment of 17% dividend of FY 75/76, adjustment of which will lower the distributable profits to Rs.7.11 crores only. Given the same figure earnings in Q2, dividend capacity of bank revolve around 4% (not annualized).
- Increasing portion of operating expense & cost of fund should be timely considered.

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## Board and Management Team

Board consists 7 members that includes Chairman and two other Directors, three Directors from Public and one Independent Director. Mr. Chandra Kanta Baral chair the Board, elected on 10<sup>th</sup> AGM of the company (FY 2072/73). Mr. Govinda Prasad Dhakal heads the company as the Chief Executive Officer since Baisakh 2069 B.S.

The 13<sup>th</sup> AGM of the bank passed the M&A resolution, empowering the Board for any such activities in the FY. The bank is often the speculated one for M&A talks in the industry, however we don't foresee any such kind of event to take place anytime soon but given the financial stability of the company, any M&A event likely to provide better price to the company.

## Garima Bikas Bank Ltd. (GBBL)

GBBL is a "B" Class *National Level* Development Bank, rendering diverse banking and financial services, primarily Deposits and Lending and other non-banking services.

<b>Chairman</b>	Mr. Chandra Kanta Baral
<b>CEO</b>	Mr. Govinda Prasad Dhakal

The large parts of the growth and success story of GBBL can be attributed to Mr. Govinda Pd. Dhakal & his team and Board Members. Mr. Dhakal led the journey in taking a '4-10' District Level Development Bank to a 'National' Level Development Bank, successful acquisition of two Development Bank, increasing the paid up capital of Rs.22 crores (FY 2068/69) to Rs.3.24 billion, growing asset size of Rs.2.49 billion to Rs. 38.75 billion, Net profit of Rs.5 crore to Rs.59.44 crores. Mr. Dhakal is the current President of Development Bankers Association of Nepal, elected on 27<sup>th</sup> Baisakh 2076. He carries 20 years plus banking experience.

Employees of the company has increased to 719 in FY 2075/76, compared to only 31 in its initial phase. We expect the numbers to increase higher along with branch expansion and business growth strategy of the company.

## Geographic Presence

The Bank started its journey from Syangja and now has its presence in all 7 provinces of the country, with 90 branches and customer base of more than 345,000. However, the distribution of branches are uneven, highly concentrated in Province Gandaki, followed by Province 3 and Province 5. Province Karnali and Province 2 has least number of branches. Within the Provinces, the distribution is more uneven, branches more at urban site. The bank is not able to reach to the Himalayan region.

While the Bank competes with other BFIs for similar customers at same regional areas, the Bank falls behind to its counterparts in terms of number of Branches in the country. Its counterparts like MNBBL (135), MLBL (102), KSBBL (111) has significantly higher number of branches than GBBL. The bank has the major agenda of opening branches at potential areas in the upcoming periods.

## Company History

27.12.2073

*Shifting of Head Office to Lazimpat Kathmandu from Pokhara*

04.06.2073

*Acquisition of Subhechha Bikas Bank Ltd. at SR 1:1*

29.03.2072

*Operation as 'National Level' Development Bank*

29.03.2072

*Acquisition of Nilgiri Bikas Bank Ltd. at SR 1:1*

20.12.2068

*Licensed to operate as '4-10' District Level Development Bank*

18.07.2064

*Commence financial activities from Syangja*

24.06.2064

*Registered as '1-3' District Level Development Bank*

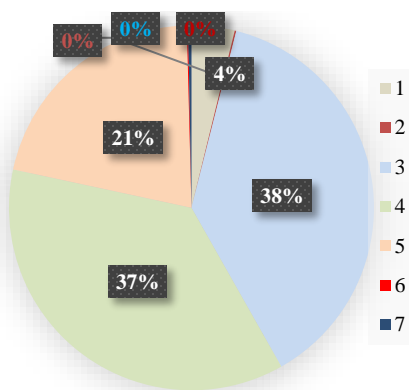
## Merger & Acquisition

GBBL successfully acquired two '1-3' District Level Development Bank namely, Nilgiri and Subhechha Bikas Bank Ltd. having foothold in Myagdi and Chitwan district respectively. The M&A strategy was particularly driven by the aggressive business growth of the company, requirement of capital increments and M&A encouragement by NRB. The acquisition is believed to be adding synergy to the company since every major factors like deposits, loan & advance and profitability of the company has increased over the time. However, Bank seems to be weak in M&A bargain since the Swap ratio was 1:1 in both agreement. Comparatively, GBBL stood with strong fundamentals than both target banks.

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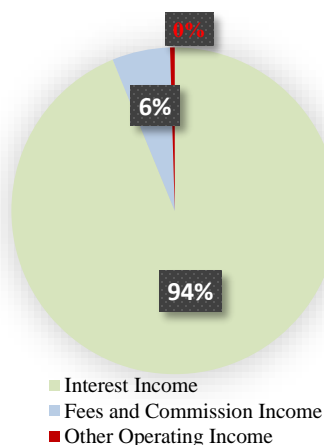
## Segmental Net Revenues (Q1 76/77)



The bank is generating its major revenues from Province 3, 4 (Gandaki) and 5 where it has higher customer base. Province 2, Karnali and 7 has below 1% revenues.

## Revenue Drivers

### Revenues Break-down (Q1 76/77)



Key contributors of the bank revenue is interest income from loan & advance to customers, solely adding 93% plus earnings. Fee & commission income adds 6% plus. Within the category, Service fees has 65% contribution. Major consumers of the revenue includes Interest expense averaging 55% and Operating expense of 18% plus. 99% of interest expense is interest paid on customer deposits.

## Corporate Governance

The bank is consistent in compliance of directives and notices issued by the Regulatory bodies. Bank has formed several committees and sub-committees for better check and balance of governance factors. Cluster office has been set up in Pokhara, Narayangarh and Dharan to make internal control effective.

Board constitute 3 members (out of 7) representing ordinary shareholders. However, no members in the Board are women. Board members including the CEO are holding the posts for a long time threatening conflict of interests. Directorship of Dr. Bhupendra Bahadur Khadka stays doubtful following NRB set the age bar of BFIs Director(s).

We believe the bank is committed in protections of stakeholder rights including disclosure & transparency.

## Risks

Interest rate fluctuation is the major risk to the revenues since its core business is deposits & lending. Interest rate spread of the bank is rather contracting over the periods. Bank has no exchange fluctuation risk.

With the stringent policies being introduced by the Regulatory bodies in regard to disclosure & transparency, anti-money laundering, slowdown of real sectors, lowering of loan-to-value ratios, credit disbursement is a challenges to the bank. Bank seems to be good at credit risk management, evidenced by lowering NPL.

Another challenge to the bank is data and cyber-security risk. At recent, several hacking groups have been found operative in-and-outside the country, involving in theft of banks data & information including monies at bank. Digitization of banking business, though distant but can't be overlooked.

## Du-Pont Analysis

Year	75/76A	76/77E	77/78E	78/79E
Tax burden	68.15%	66.25%	66.25%	66.25%
Interest burden	27.73%	26.42%	26.30%	26.23%
EBIT margin	79.10%	76.08%	76.14%	76.11%
Asset t/o	12.42%	12.55%	12.64%	12.47%
Leverage	9.03	10.96	12.20	12.98
<b>ROE</b>	<b>16.76%</b>	<b>18.32%</b>	<b>20.47%</b>	<b>21.41%</b>
<b>ROA</b>	<b>1.86%</b>	<b>1.67%</b>	<b>1.68%</b>	<b>1.65%</b>

We view that ROE of GBBL as on FY 75/76 and projected periods are competitive and above average to industry. ROE of its peers MNBBL and MLBL stands 21.21% and 14.83% respectively. Our projected average ROE from FY 76/77 to FY 80/81 is 20.24%. Rising ROE is contributed by lessening effects of interest expense, tax and increasing financial leverage. However, we project the ROA to average 1.63% in the projected periods.

Market risk Credit risk Operational risk Other risk

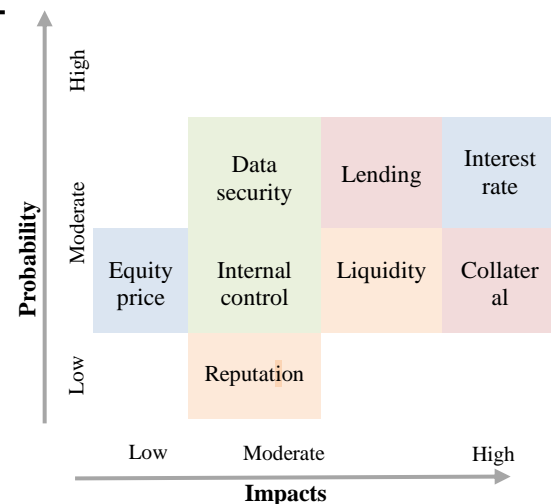


Fig. Risk Matrices

## 10 Day 99% VaR / CVaR

Ticker	VAR	CVaR
GBBL	11.81%	16.30%
NEPSE	9.81%	13.50%



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## Financial Highlights and Modellings (fig. in millions)

### Excerpt from Statement of Financial Position

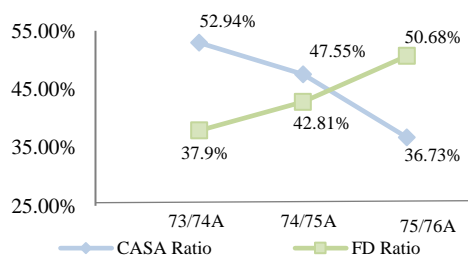
Particulars	(Annual)						(Quarter)			
	FY 75/76A	Vertical	Y-o-Y	FY 76/77E	FY 77/78E	FY 78/79E	Q1 76/77	Vertical	Y-o-Y	Q4 75/76
<b>Total Assets</b>	<b>38,749.11</b>	<b>100.00%</b>	<b>53.24%</b>	<b>52,457.95</b>	<b>70,374.29</b>	<b>90,234.85</b>	<b>41,166.51</b>	<b>100.00%</b>	<b>6.24%</b>	<b>38,749.11</b>
Cash & cash equivalent	6,452.85	16.65%	40.13%	7,244.55	9,468.99	12,062.25	6,988.54	16.98%	8.30%	6,452.85
Due from NRB	1,219.67	3.15%	13.14%	1,713.43	2,332.34	3,011.55	1,147.55	2.79%	-5.91%	1,219.67
L&A to BFIs	227.70	0.59%	666.67%	101.99	138.82	179.25	282	0.69%	23.91%	227.70
L&A to customers	28,210.99	72.80%	51.04%	40,360.71	54,939.43	70,938.38	30,003.59	72.88%	6.35%	28,210.99
Investment Securities	1,390.88	3.59%	176.05%	1,599.51	1,839.44	2,115.35	1,340.46	3.26%	-3.62%	1,390.88
Derivative Fls	667.14	1.72%		667.14	667.14	667.14	689.11	1.67%	3.29%	667.14
Other Assets	155.74	0.40%	43.13%	216.82	249.35	286.75	272.54	0.66%	74.99%	155.74
Property and Equipment	359.69	0.93%	62.01%	488.37	672.06	906.54	379.67	0.92%	5.56%	359.69
<b>Liabilities</b>	<b>34,958.59</b>	<b>90.22%</b>	<b>53.24%</b>	<b>47,929.03</b>	<b>64,837.48</b>	<b>83,398.82</b>	<b>37,200.88</b>	<b>90.37%</b>	<b>6.41%</b>	<b>34,958.59</b>
Due to BFIs	3,371.68	8.70%	125.89%	3,102.71	4,223.44	5,453.35	-			
Due to NRB	500.00	1.29%	128.83%	571.84	778.39	1,005.07	-			500.00
Deposits from customers	29,762.51	76.81%	50.86%	42,835.81	58,308.57	75,288.65	35,944.68	87.32%	8.48%	33,134.19
Derivative Fls	695.93	1.80%		695.93	695.93	695.93	695.93	1.69%	0.00%	695.93
Other Liabilities	628.48	1.62%	18.41%	722.75	831.16	955.83	485.87	1.18%	-22.69%	628.48
<b>Share-holders Equity</b>	<b>3,790.51</b>	<b>9.78%</b>	<b>14.75%</b>	<b>4,528.91</b>	<b>5,536.81</b>	<b>6,836.02</b>	<b>3,965.63</b>	<b>9.63%</b>	<b>4.62%</b>	<b>3,790.51</b>
Paid up capital	2,788.37	7.20%	10.00%	3,238.69	3,663.74	4,144.57	2,788.37	6.77%	0.00%	2,788.37
Retained Earnings	484.72	1.25%	51.47%	382.70	377.69	456.81	545	1.32%	12.45%	484.72
Reserves	517.32	1.34%	19.77%	907.53	1,495.37	2,234.64	632	1.54%	22.18%	517.32
Contingent liabilities & commitments	2,277.11									

### Excerpt from Statement of Profit or Loss

Particulars	FY 75/76A	Vertical	Y-o-Y	FY 76/77E	FY 77/78E	FY 78/79E	Q1 76/77	Vertical	Y-o-Y
Interest Income	3,675.57	92.42%	48.72%	5,297.73	7,187.26	9,270.43	1198.47	93.80%	41.55%
Interest Expense	2,273.63	57.17%	57.09%	3,203.74	4,357.25	5,623.28	(733.79)	(57.43%)	65.24%
<b>Net Interest Income</b>	<b>1,401.93</b>	<b>35.25%</b>	<b>36.89%</b>	<b>2,093.99</b>	<b>2,830.01</b>	<b>3,647.15</b>	<b>464.68</b>	<b>36.37%</b>	<b>15.42%</b>
Fees & Commission Income	298.98	7.52%	55.75%	422.34	574.89	742.30	73.32	5.47%	18.52%
Fees & Commission Expense	5.46	0.14%	210.40%	7.83	10.66	13.76	4.66	0.36%	43.04%
Other Operating Income	2.67	0.07%	-6.82%	2.81	2.95	3.10	5.91	0.46%	2311.27%
<b>Total Operating Income</b>	<b>1,698.13</b>	<b>42.70%</b>	<b>39.51%</b>	<b>2,511.30</b>	<b>3,397.19</b>	<b>4,378.78</b>	<b>539.25</b>	<b>42.20%</b>	<b>16.86%</b>
Impairment Charge	98.88	2.49%	29.99%	139.83	190.34	245.77	43.88	3.43%	(44.37%)
Net Operating Income	1,599.26	<b>40.21%</b>	40.15%	2,371.47	3,206.85	4,133.01	495.37	38.77%	<b>29.49%</b>
Staff Expenses	424.88	10.68%	47.23%	614.51	830.97	1,070.96	144.77	11.33%	40.02%
Other Operating Expenses	241.22	6.07%	57.74%	357.70	483.70	623.40	62.31	4.88%	36.57%
Depreciation & Amortization	68.53	1.72%	60.54%	105.14	142.67	189.47	19.20	1.50%	68.17%
<b>Operating Profit</b>	<b>864.62</b>	<b>21.74%</b>	<b>31.61%</b>	<b>1,294.14</b>	<b>1,749.51</b>	<b>2,249.19</b>	<b>269.10</b>	<b>21.06%</b>	<b>21.14%</b>
Non-Operating Income	6.60	0.17%	1535.66%	-	-	-	-	-	-
Return from Associates	0.98	0.02%	2077.79%	-	-	-	-	-	-
Profit before Tax	872.20	<b>21.93%</b>	32.67%	1,150.34	1,555.12	1,999.28	269.10	21.06%	21.14%
Income Tax	277.78	6.98%	48.07%	388.24	524.85	674.76	80.73	6.32%	21.14%
<b>Profit/Loss for the period</b>	<b>594.42</b>	<b>14.95%</b>	<b>26.53%</b>	<b>762.10</b>	<b>1,030.27</b>	<b>1,324.52</b>	<b>188.37</b>	<b>14.74%</b>	<b>21.14%</b>
Other comprehensive income	(11.12)	-					(13.25)		
<b>Total comprehensive income</b>	<b>583.30</b>		28.82%				<b>175.12</b>		
<b>Distributable Profits</b>	<b>319.33</b>			<b>563.96</b>	<b>762.40</b>	<b>980.15</b>			

\*Total (recurring) revenues: NPR. 3,977.22 (mil.)

\*Total (recurring) revenues: NPR. 1277.70 (mil.)



### Other Financial Metrics (Q1 76/77) GBBL Industry Avg.

Net Profit Margin	14.74%	10.26%
Net Interest Margin	2.51%	2.29%
Non-Performing Loan	0.36%	0.76%
Interest Rate Spread	5.31%	5.52%
Op. Expenses /Interest Income	17.67%	19.79%
Asset price per share	1,467.37	737.49
P/E to Growth	0.61	-

# Data of bank with abnormal figures are removed from average.

# Harmonic average is used.

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## Fundamental Analysis

### ✓ **Profitability Growth:**

Net profit of the bank has increased by 21.14% in Q1 76/77 v/s Q1 75/76. However, the proportion of net profit to total recurring income has fallen to 14.74% v/s 17.11%, reason being higher interest expense. Growth is comparatively higher than its counterparts MNBBL (5.23%) and MLBL (1.12%). Net profit in FY 75/76 has increased by 26.53% which is competitively better. Similarly, the bank leads its counterparts in Operating profits growth, which is 21.14% in Q1 76/77 v/s MNBBL (3.24%) and MLBL (-1.86%). NII growth is 15.42% v/s MNBBL (12.18%) and MLBL (60.06%).

### ✓ **Growth Rationality:**

Impairment charge in Q1 is significantly low (>44%) compared to previous periods, which is the major cause for reflection of higher profits. While the impairment charge of its counterparts has increased over the periods, GBBL decrement hints either better credit management or aggressive accountings. Better credit management is supported by falling NPL level and doubted by mild increment of loan size.

### ✓ **Expense Growth:**

Operating expense rose by 41% in Q1 76/77 v/s MNBBL (15%) and MLBL (18.37%). Ratio of operating expense to interest income of bank in Q1 is lower than industry average. On the other hand, interest expense of GBBL has increased by 65.24%, which is higher than that of MNBBL and MLBL.

### ✓ **Deposits & Loan Growth:**

In Q1 76/77 deposits from customer and loan & advance to customer has increased by 8.48% and 6.35% respectively from end of FY 75/76. Proportion of deposits to total assets has increased to 87.32% from 85.51% while loan & advance has remained constant. Deposit increment of MNBBL and MLBL is 6.96% and 9.73% respectively while Loan & advance has increased by 8.19% and 5.27% each. GBBL has 2<sup>nd</sup> highest deposits and loan & advance size. On y-o-y, growth of deposits and L&A of bank is better than MLBL and fall slightly behind to MNBBL. Term loan followed by overdraft constitute major chunk of L&A whereas Term deposits covers major Deposit size. Over the periods, Institutional loan has increased at the cost of Individual.

### ✓ **Stable net worth:**

Bank has 7<sup>th</sup> highest net worth level in Q1, falling behind to both its counterparts MNBBL (1) and MLBL (2). Net worth includes nominal share premium. NWPS ranks 8<sup>th</sup>. NW has increased by 3.47% CAGR (3yr). After the adjustment of 17% dividends (FY 75/76), paid up capital will increase by 16.15% while major fall in retained earnings/distributable profits is hoped to get boosted by Q2 earnings.

### ✓ **Commendable asset quality:**

NPL of bank in Q1 stood 0.36% (v/s 0.84% in Q1 75/76) while industry average 0.76%. MNBBL has the lowest NPL of 0.13% and MLBL NPL figures 2.85%. In FY 75/76, bank has 98.56% standard L&A and 0.06% bad. Loan loss provision to total NPL has increased, given the significant decrement in NPL level.

### ✓ **Capital Adequacy:**

CAR in Q1 is 14.14% v/s minimum requirement of 10%. Industry average CAR for same periods is 17.86%. Besides, the CAR of bank is declining over the periods, reason being increasing RWE particularly for Credit risk. Low CAR is likely to limit the bank to further its lending business and subsequently affect its cash dividend capacity.

### ✓ **Higher CCD level:**

Bank has reported higher CCD ratio in Q1 as well as in past, reflecting higher credit disbursement by bank which lowers its further credit capacity and threatens credit crunch. In Q1 76/77 bank CCD ratio is 77.13% (v/s 80% ceiling) while industry average is 74.42%. Tight CCD ratio likely to limit lending business of bank.

### ✓ **CASA Ratio:**

Another worrying aspect of bank is declining level of CASA ratio and growing portion of FD ratio. In FY 75/76, CASA ratio has fallen to 36.73% from 47.55% (FY 74/75) while FD ratio has increased to 50.68% from 42.81%. Cost of fund of bank in Q1 is 8.48% (v/s Ind. average 8.35%) and is in increasing trend. Falling CASA level can be one to argue for rising CoF. Lower CASA ratio have negative impact on both the NIM and profitability of the bank.

### ✓ **Interest rate spread:**

Further, the revenues of bank is constrained by reducing level of IRS over the periods. In FY 75/76, IRS was recorded 4.81. In Q1 76/77, IRS of bank is 5.31%, lower than Ind. average of 5.52%. IRS is expected to be at or below 5% in FY 76/77 onwards following NRB directives. Profitability of bank is directly affected by change in level of IRS.

### ✓ **EPS Growth:**

Key positive side of bank is the incremental level of EPS over the periods despite the increment in O/s shares count. EPS has grown by 34.68% since FY 73/74 while capital increment is 26.50%. This shows bank ability to satisfy the shareholders through better capital efficiency.

### ✓ **Return distribution:**

Dividend (cash) payout ratio of the bank is very low (avg. 7%) since bank policy seems to retain through Bonus.

# Garima Bikas Bank Limited GBBL [NEPSE]

Sector	Category	Market Cap	Style	Momentum	Latest Price	Fair Price
Development Bank	National Level	Large	Growth Tilt	Up	Rs.214	Rs.266.23

## Discounted Cash Flow Model (Fig. in millions)

Particulars	76/77E	77/78E	78/79E	79/80E	80/81E
Net profit for the period	762.10	1,030.27	1,324.52	1,613.53	1,853.06
(+) Dep. & Amortization	105.14	142.67	189.47	242.56	301.24
(-) Net WC change	33.19	75.89	87.27	100.36	115.42
(-) Capex	(374.55)	(458.16)	(610.82)	(787.80)	(1,024.84)
Free Cash Flow to Equity	525.88	790.67	990.44	1,168.65	1,244.88
Discount rate	15.17%				
Discounted cash flow	456.60	596.07	648.31	664.18	614.30
PV (1-5 Yrs)	2,979.47				
Perpetual growth rate	4.42%				
Terminal cash flow	1,299.93				
Terminal value	12,092.28				
PV (Terminal)	5,967.11				
Total PV	8,946.57				
(-) Minority interest	-				
(+) Cash & bank balance	6,452.85				
(+) Non-operating assets	32.11				
Equity value	15,431.54				
Market discount	20%				
Adj. Equity value	12,345.23				
O/s shares (existing)	27.88				
O/s shares (post bonus)	32.39				
Basic equity per share	442.74				
Diluted equity per share	<b>381.18</b>				
Current market price	214				
Price as % of Value	(43.86%)				

## Company Valuation

Models	Value
52W H/L	184.20
P/E Price	371.52
P/B Price	182.04
EPS Cap.	166.66
Graham No.	283.52
Intrinsic value	429.78
Residual Income	246.47
DCF Value	390.87

## Cost of Equity/Discount rate

Risk free rate	5.19%
Market Beta	0.60
Market Return	16.82%
Specific risk premium	2.00%
Size premium	1.00%
<b>Discount rate</b>	<b>15.17%</b>

## Relative Pricing

Basis	Q1 76/77	GBBL	Industry	Fair Price
P/E	EPS	25.12	8.16	<b>371.52</b>
	P/E	8.52	14.79	
P/B	BVPS	142.22	135.03	<b>182.04</b>
	P/B	1.50	1.28	

## Intrinsic value (fig. in millions)

Market cap	<b>6,930.79</b>
Cash	<b>6,988.54</b>
Debenture	-
Equity value	<b>13,919.33</b>
Value/share	<b>429.78</b>

## EPS Capitalization

FY	EPS
2075/76	21.32
2074/75	17.43
2073/74	15.83
<b>Harmonic average</b>	<b>17.92</b>

## Sensitivity Analysis

### DCF

		Perpetual Growth Rate				
		1.50%	3.00%	4.42%	5.50%	7.00%
Cost of Equity	10.00%	473.33	526.27	602.63	692.96	926.33
	12.50%	396.89	424.45	459.96	496.62	571.41
	<b>15.17%</b>	346.43	362.18	381.18	399.29	432.45
	17.50%	316.44	326.87	338.95	350.05	369.26
	20.00%	292.81	299.89	307.84	314.93	326.73

### Residual Model

		Perpetual Growth Rate				
		1.50%	3.00%	4.42%	5.50%	7.00%
Cost of Equity	10.00%	317.97	347.21	389.45	439.24	568.08
	12.50%	238.82	250.01	264.46	279.32	309.69
	<b>15.17%</b>	186.91	190.85	195.55	200.14	208.44
	17.50%	156.17	157.36	158.74	160.00	162.19
	20.00%	132.13	131.90	131.65	131.42	131.04

## Residual Income Model

Particulars	75/76A	76/77E	77/78E	78/79E	79/80E	80/81E
EPS	21.32	23.53	28.12	31.96	34.41	34.94
BVPS	135.94	139.84	151.12	164.94	179.61	193.10
Equity charge	15.17%					
Perpetual growth	4.42%					
Residual income		3.48	7.49	9.66	10.08	8.44
Discounted residual		2.52	5.20	5.91	5.34	3.79
PV (1-5 yrs)	22.77					
Current book value	135.94					
Terminal year Residual value	8.03					
Terminal value	74.67					
PV (Terminal)	36.85					
<b>Equity value per share</b>	<b>195.55</b>					

# Garima Bikas Bank Limited GBBL [NEPSE]

Sector	Category	Market Cap	Style	Momentum	Latest Price	Fair Price
Development Bank	National Level	Large	Growth Tilt	Up	Rs.214	Rs.266.23

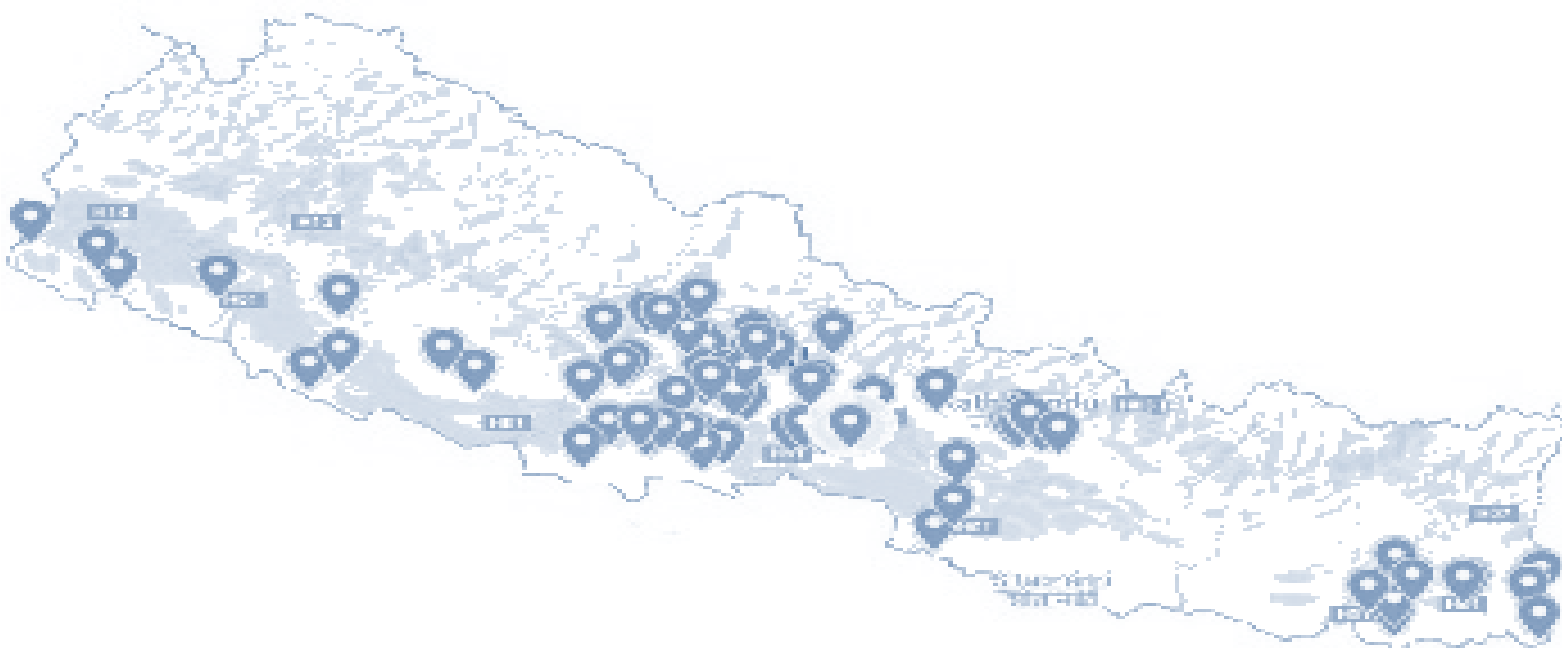


Fig. Branch Network of Garima Bikas Bank Ltd.

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