



गरिमा क्यापिटल लिमिटेड
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THE ANALYTICS



**MONTHLY GARIMA
INSIGHT**

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**DID THE BULL
RETURN ?**



**NEPSE
STATISTICS**



**SECTORAL
MOVEMENT**



**HEATING
SCRIPS**



**MACROECONOMIC
FACTORS**



**MARKET
OUTLOOK**

TOPIC ONE

DID THE BULL RETURN?

After the months of indecisive markets hovering at 1800 to 2000 levels, market finally build an upward momentum, reaching the high of 2277 before closing at 2149 by the end of the review month. Key metrics like volumes, and turnover soared by more than 8 times, transaction size and market capitalization mounted 5.38 and 1.19 folds respectively, while overall NEPSE Index shoot up by 22%.

The formation of new government, especially the comeback of Finance Minister (FM) Mr. Bishnu Prasad Poudel, and fortunately the time coinciding with the rising remittance, declining inflation, easing liquidity, etc. helped garner new hopes and excitement among the rather depressed investors.

"The four most dangerous words in investing are: 'this time it's different.'"

-Sir John Templeton



Despite the subpar dividend declaration by companies, lift on import items ban, no fundamental economic advancement, and no permanent liquidity solution, the overwhelming market participation soon after the appointment of Mr. Bishnu Poudel pictured bullish outlook. Of course, the outlook is not solely tied to sentiments towards single person, but his market favoring policies and decision ensuing market to reach new high twice in his previous tenure. So, why not to expect another bull even at the face of gloomy economic substance.

Market did rise more than 20% before the correction in the last two days of the reviewed period. It is too early to confirm the recent momentum as the bullish market, since we are yet to witness the continuation of the upward momentum following the healthy correction. However, it won't be surprising to find market technically on bullish zone at least into the medium time period, given the way things are developing at the moment.

Good rapport of FM and Governor is boosting investor confidence. FM extended facility to banks to count 80% of Local Govt. fund as deposits, NRB's revision to working capital loan guidelines, declining outstanding SLF, interbank rates, Treasury bill rate, deposit rates, etc. have fueled the recent rise. The supposedly liquidity stress in Poush end has been somehow eased.

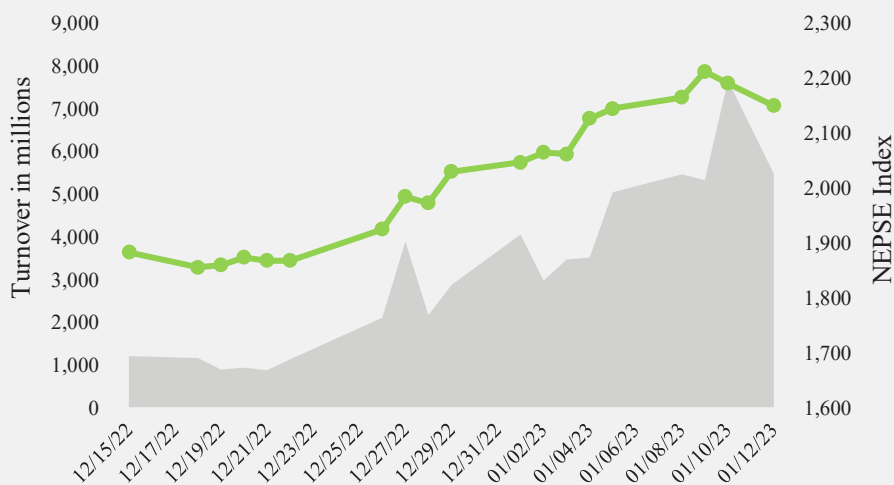
Further, the latest five months Current Macro-Economic and Financial Situation Report by NRB depicts the improving economic stats in respect to factors like remittance, inflation, BoP, Forex reserves, etc.

The other pressing call for investors are the cut off in lending rates, revision to margin lending and Rs.12 crores borrowing limit ceiling, issuance of broker license to BFI's, inception of another stock exchange etc. We can't expect all issues to be punctually addressed, but positive news on any part will be adequate to strengthen the bull. Mid-term review of Monetary Policy will be crucial despite their major focus on productive economic avenues. Lastly, we can't ignore the impact to our market from the odds-on the world to enter global recession in 2023.

TOPIC TWO

WHAT'S NEPSE STATS SAY?

Poush Performance



- The twist came after the formation of new government under the leadership of new PM Pushpa Kamal Dahal (Prachanda) on 25th Dec. and appointment of FM Bishnu Poudel on 26th.
- In the review period, market traded at high of 2277.61 and low of 1849.19; closing with 14% monthly gain, and 20% up from its 52 week low of 1815 level.

Metrics	12.01.23	15.12.22	Monthly Change
NEPSE	2,149.39	1,882.61	14.17%
Sensitive	411.26	368.05	11.74%
Float	151.28	132.09	14.53%
Sensitive Float	137.97	120.97	14.05%
Turnover (Mill)	54,77,624.72	11,92,616.19	359.29%
Shares Volumes	144,82,959	48,04,279	201.46%
Total Transactions	83,113	22,374	271.47%
Total Scrips Traded	252	254	-0.79%
Market Cap (Rs.Mill)	31,03,156.95	27,21,112.21	14.04%
Sensitive Mrkt Cap (Rs.Mill)	12,35,692.05	11,11,376.54	11.19%
Float Mrkt Cap (Rs.Mill)	10,99,644.97	11,54,151.50	-4.72%
Sen. Float Mrkt Cap (Rs.Mill)	4,16,879.20	4,25,401.05	-2.00%
Average Return	20.38%	16.38%	
Standard Deviation	25.40%	25.42%	
10 Day 10% VAR	-38.51%	-51.22%	
Market Cap / GDP Ratio	63.96%	56.09%	

Note: For avg. return, std. dev. and VaR computation, data is considered since 1.1.20. Assumed annual 225 trading days.

- Sensitive, float, and sensitive float index simultaneously rose by 11.74%, 14.53%, and 14% respectively.
- The upward momentum is well supported by the volumes, turnover amount and transaction size as well, whose monthly average stood as 88.93 lakhs, Rs.3.27 billion, and 52.65 thousand respectively. Avg. of 255 stocks traded in the month.
- Market cap has increased by 14% to Rs. 3.1 trillion, although only 35% are floated. Sensitive market cap which covers A class stocks has increased by 11% but the size of Float and Sensitive float market cap has decreased by 4.72% and 2% respectively.

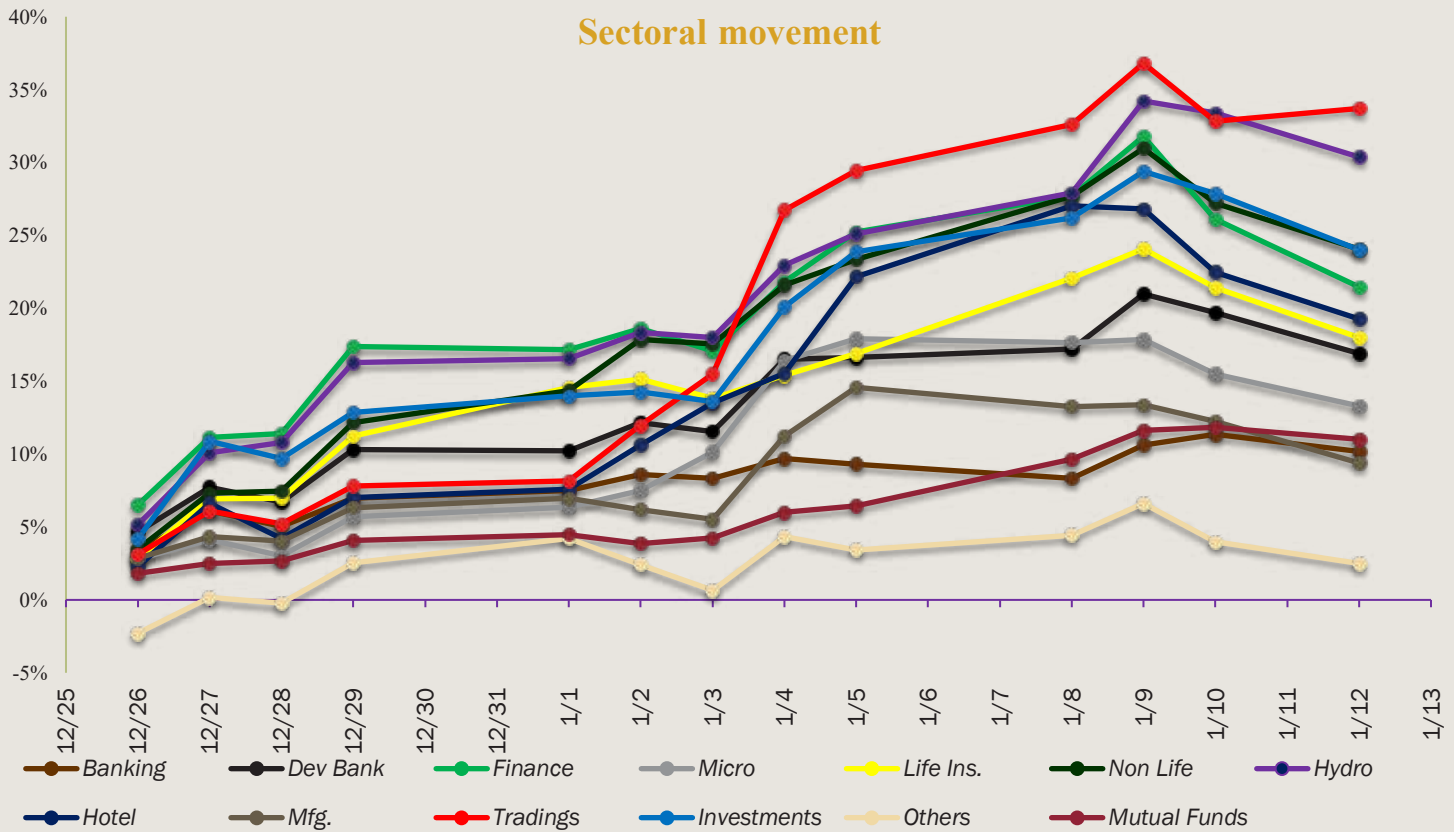
- Avg. market return has increased by 4% to 20.38% in the month while the risk level (standard deviation and 10 day 10% VaR) has decreased over the time.
- Market is under-valued as per Market capitalization to GDP ratio; hinting still the buying opportunities.

"The stock market is a no-called-strike game. You don't have to swing at everything - you can wait for your pitch"

-Warren Buffett

TOPIC THREE

WHICH SECTOR'S ARE ON RALLY?



Note: From 26th Dec to 12th Jan.

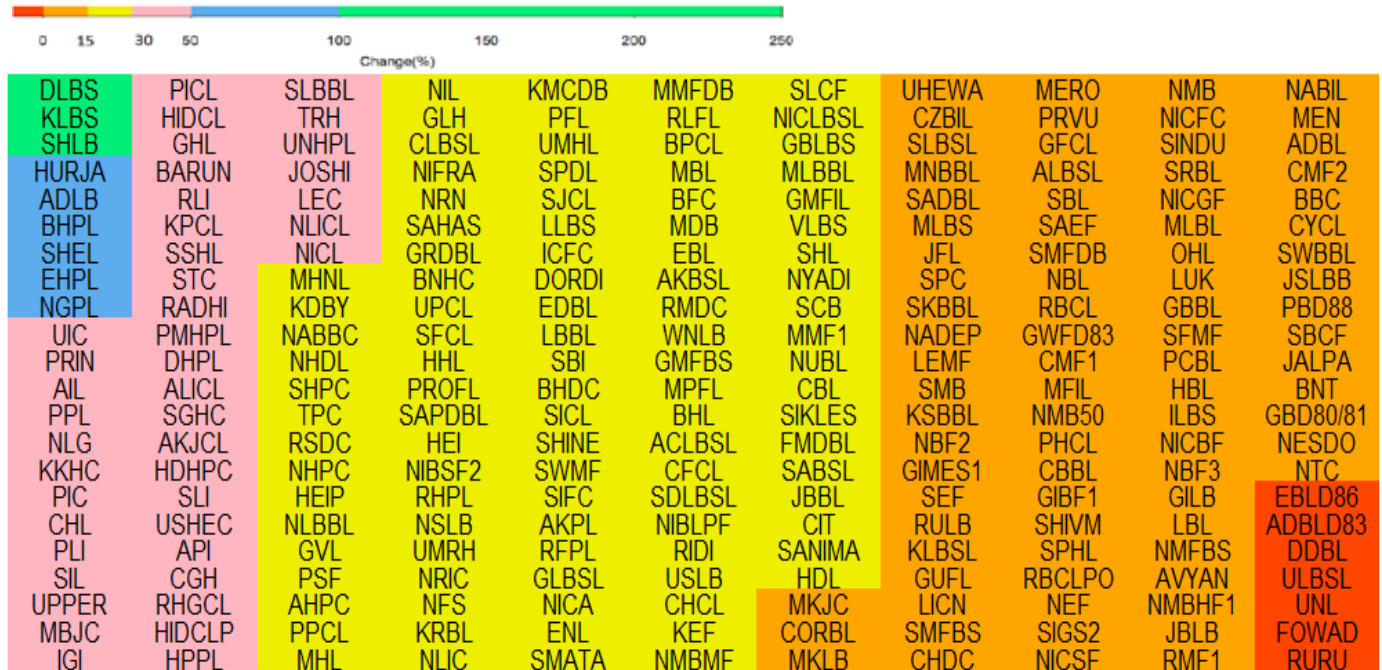
- As shown in chart above, Finance sector led the rally till 2nd Jan. followed by Hydropower. Then investors has shifted toward the Trading sector. Investors also added Investment and Non-life insurance to their portfolio over time.
- Investors are seen gradually shifting away from Finance, Life Insurance, and Development Banks, etc.
- Others sector remained the least preferred one followed by Commercial Banks, Mutual Funds and Manufacturing & Processing.
- Hydropower, Commercial Banks, and Microfinance remained the key contributors to market Turnover and Transaction Size while Trading and Hotel sectors had lowest share.
- In terms of Volumes, Hydropower, Commercial Banks, and Development Banks provided the most while Trading and Hotel had the least.

More on Sectoral view on Page 7/8

TOPIC FOUR

WHAT'S THE HEATING STOCK?

% Change in scrip price



- The above chart visualizes the performance of 242 scrips in the review period of trading.
- 3 Microfinance - DLBS, KLBS, and SHLB (highlighted with Green) earned the most with astounding rise of 201%, 188% and 156% respectively. All stocks were newly listed in the month and investors jumped for the limited supply until some selloff that took as market slide for correction.
- 6 scrips (Blue) (all Hydro's except ADLB) returned 50% to 77%. BHPL whose IPO was listed on 2nd Jan. has since hit positive circuit every trading day. The other Hydro followed the rally despite none public news.
- 42 scrips (Pink) provided return in range of 30% to 50%; 22 alone were from Hydro sector, 10 were Non-Life Insurance, 4 Life Insurance, 2 Hotel (CGH, TRH), and 1 Trading (STC), producing bullish momentum in the sector.
- Majority scrips i.e. 101 (Yellow) generated 15% to 30% return; includes 31 Hydro, 25 Microfinance, 11 Finance, 4 Investments.
- 83 scrips (Orange) yielded below 15% return; most in this category were Microfinance (24), Mutual Funds (21), and Commercial Bank (10). NTC just rose 0.3% while NESDO changed 1.40% only.
- Price fell in rest 7 scrips at bottom (Red); RURU (6.32%) and FOWAD (5.38%).

TOPIC FIVE

WHERE THE FACTORS STAND?

1) Banking Liquidity - CD: 86.65%

- CD Ratio have remained static at 86%; still not an abundant liquidity but the stable scenario for now.
- Banks deposit have meagre rise of 1.57% to Rs.5311 billion while credit rose 0.4% to Rs.4778.
- NRB has been injecting Liquidity in excess of Rs.4,000 billion in this fiscal year while no adoption of any absorption mechanisms.
- Lifting of import ban could likely put stress to liquidity going forward.

2) Interest Rate - IBR: 5.60%

- Inter-bank rate has been volatile, but trending down after toping 8.5% in the month.
- No major change in 91 days T-bill which stood 10.58% while 28 days and 182 days T-bill rate are sliding.
- BFI's wt. avg. base rate report 10.6% and expect to see the drop.
- NRB's circular to lower the interest rate spread to 4% (Commercial Bank) and 4.6% (Development) by Asadh 2080 could also reduce lending rate over time.

3) Govt. Revenue and Expenditure

- Government is able to collect 32.72% of its targeted revenues (i.e. Rs.1403 billion) till date.
- Government expenditure has reached 32.13% of its budgeted expenditure (i.e. 1793.8 billion) where 38.47% are recurrent and 14.05% are capital expenditure.
- Compared to corresponding previous period, current revenue collection is lagging while expenditure are in align.

4) BoP - Surplus

- In the five months of 2079/80, Balance of Payment is at surplus of Rs.45.87 billion.
- Current account is at deficit of Rs.37.91 billion against the deficit of Rs.298.51 billion previously.
- Merchandise import decreased 20.7% to Rs.664.75 billion while merchandise export decreased 34.6% to Rs.67.30 billion.
- Trade deficit has decreased by 18.8% to Rs.597.44 billion.

5) Inflation: CPI - 7.38%

- Consumer Price Inflation has finally fallen below 8% after several months, reporting at present 7.38%. However, the rate is still higher than the targeted 7% for the current fiscal year. Provided the oil prices don't find any upward jump, and global tension along with recession fear fades away, the inflation can be hoped to remain at targeted level.

7) Forex Reserve - Stable

- Gross foreign exchange reserve increased 6.3% to Rs.1292.56 billion. Equivalently, it is an increase of 3% to USD 9.82 billion.
- Such reserve is adequate to meet the prospective merchandise import of 10 months, and merchandise and service import of 8.7 months.

8) Global Concern - Recession Fear

- World Bank recently revised down its global economic growth projection to 1.7% in 2023, looming more the fear of global recession ahead.
- Year long tension between Russia and Ukraine shows no sign of settling anytime soon resulting disruption to production and supply chain industries.
- Oil price are on declining mode, trading at approx. \$79 (Crude) and \$84 (Brent) per barrel.
- Gold trading above \$1900, rising rate of global inflation, and US interest rates are other concern.

6) Remittances - 23% ↑

- The amount of remittance has increased by 23% to Rs.480.50 billion in the first five month of current fiscal year 2079/80. In terms of US Dollar, remittance has increased 13.1% to USD 3.71 billion. Such remittance inflows were over 6% negative in the corresponding previous periods.
- There is more than 80% rise in workers taking foreign employment approval till five months end of current fiscal year.
- Since most of their destination has been the middle-east nation where the anticipated impact of likely global recession is not significant, and Nepal Govt. strict rules to curb any sort of investment in cryptos and foreign assets, any major drops of remittances for now is unlikely to be observed.

TOPIC SEVEN

MORE ON SECTORAL DEVELOPMENT

As the Companies Act, 2063 requires the public companies to hold AGM within six months of financial year end (*extended deadline up to 3 months further*), listed entities are in hurry to honor the deadline. Till now, approx. 90 such companies have conducted AGM, out of which 74 entities held in the review period itself. Approx. 100 companies have so far proposed dividend for the FY 2078/79. In tendencies of our market where investors/traders are driven more by bonus/rights expectation, this year dividend are tentatively below the median level of 10%. BFI's (A, B, C) dividend capacity were tight to struggle in maintenance of CAR and pressure to produce performance efficiencies. Investors inflow to Hydropower scrips could better be justified with anticipation of Rights and lowering interest rates, since the sector has till now produced only 7.5% median bonus share. As the fear of COVID-19 is soothing, and tourism industry in the country is revamping, Hotels and Tourism sector is showing promising.

Microfinance sectors have however provided the median 20% bonus dividend despite NRB guideline to transfer 50% equivalent of dividend amount (in excess of 20% dividend) to reserve fund. Non-Life Insurance has also provided only 8% median bonus in this FY while Life Insurance has provided dividend for previous FY 2077/78 only. Mutual Funds which yielded lucrative cash dividends in last year have also failed to generate alphas in the bearish market as their median dividend this time stands only 9%. Investors seems fleeing from SHIVM.

As the deadline to meet the capital requirement of Rs.5 billion and Rs.2.5 billion for Life and Non-Life Insurance is approaching (Chaitra 2079), Insurance companies are in process of merger to fulfil the capital gap. Despite the M&A agreement, SLI/RLI and PLI (with Mahalaxmi Life) will lag to meet the capital, creating speculation for approx. 20% Rights. Surya Jyoti Life Insurance also find 9% capital gap. No M&A announcement yet by SLICL and NLICL despite ALICL significant capital gap of 42%. Similarly, most Non-Life Insurance finds deficit in meeting the capital gap; companies like NIL, IGI, NICL, NLG, and PRIN haven't produce any M&A agreement. Investors may anticipate the Rights/Bonus by such companies despite the Insurance business (Life/Non-Life) having the sluggish business performances lately.

The windows for NRB's discount & facilities to BFI's integrating joint transaction after M&A as provisioned in Monetary Policy, 2078/79 closes on mid-January 2023. As such, BFI's in M&A enjoys key benefits like one year waiver of 0.5% CRR and 1% SLR, waiver of 1% spread rate, excess CD ratio for one year etc. Int the review period, NCCB/KBL, PRVU/CCBL, GBIME/BOKL, and NIB/MEGA have started their joint transactions, while SRBL/LBL and HBL/CBL have already signed MoU for M&A deal. Following the M&A, the number of Commercial Banks shall reduce to 19. While the Microfinance Institutions have also adopted the M&A strategies, Development Banks and Finance companies have remained quiet in this matter.

TOPIC EIGHT

WHAT'S THE OUTLOOK AHEAD?

NEPSE closed with red candle in last two trading day of the review period. After the persistent rise for nearly three weeks without any noticeable correction, perhaps the red candle (formation of shooting star) with strong sell volume potentially hints the healthy correction in the coming (short-term) period. Traders could likely book their profits in their over-heated stocks and/or make sectoral switch. Momentum indicator (RSI, Bollinger Bands, MACD) reflect the market (including majority scrips) trading at higher level (possible overpriced) while index currently lies above 50D EMA (1987.65) and 200D EMA (2096.87) showing the bullish sentiment over medium to long term. We believe market is currently testing the 2200 level, breach of which will potentially push the market to 2320 and 2430. Our support levels are 2130 and 2060.

As of now, there are no notable negative stories in circulation to shadow the market. NRB release of 5 months CME comfort the investors towards the optimistic scenario. However, slow growth of domestic credit to private sector, households, etc. inks the sluggish credit formation. Banks have agreed to reduce the deposit rate (fixed/saving) by as much as 10% for Magh; which could oblige banks to reduce lending rate as well. As investors wait for the 2nd quarter unaudited reports, market excitement will still continue. Further, investors be likely waiting for address of any sectoral issues, *could be insurance, microfinance, or any*, which could boost investor flows into that sectors.

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