



THE ANALYTICS

GARIMA MONTHLY INSIGHT

BHADRA 2081
(16 AUGUST 2024 - 16 SEPTEMBER 2024)
VOL: 3, ISSUE: 2



Macroeconomic
Factors



Market Ahead



NEPSE Scanner



Market Scanner

Market Update:

Market witnessed the major correction in the review month, falling from the high of 3048 to 2580, losing 467 points i.e. 15%. Market capitalization has eroded by nearly 14%. Turnover, which in previous month end of approx. Rs. 30 billion, has come down to Rs. 7.36 billion by month end, enormous plunge of 75%. Besides the share volumes and transaction size has nosedived by more than 70%. Except 2 trading days, market closed red on rest 17 trading days, showing the huge sellers pressure for profit booking or loss minimization and pessimistic outlooks.

Organic market that factors the rationale fundamentals grow on its own pace along with the corrections but no significant volatility. Despite the fundamentals being in favor of market, market was immobile. But the appointment of Mr. Bishnu Prasad Paudel as the Finance Minister brought an abrupt up market reaction. The factor was more psychologically driven, which tends to be short-lived unless fueled by fundamentals that keep alive such psychology.

NRB has not yet (at times of publishing this report) released the First Months (Shrawan 2081) CME Report but has published the Banking & Financial Statistics of Shrawan 2081. The other event to follow was the decision on interest rates for the month of Shrawan by the Nepal Banker's Association (NBA). The important outcomes of these fundamental events are outlined in points below:

1. Among the key changes brought in by the Monetary Policy 2081/82 is the removal of the margin lending ceiling of Rs. 20 crores that were applicable to the Institutional Investors. This changes can be regarded as the great fuel for the inflow of huge investment capital into the market. However, in regard to the Individual investors such single obligor limit of Rs. 15 crores is kept unchanged.
2. NRB has through the circular has removed the requirement of 0.50% counter-cyclical buffer to BFI's. Now, the Commercial Banks are required to maintain 11% CAR where Tier 1 CAR should be 8%. This provision is expected to boost the lending capacity of banks.
3. NRB has through the circular extended the loan repayment periods by three years (from one year) for Microfinance Institutions borrowers, provided the restructuring are carried out by end of Poush 2081. Loan loss provision of 5% will not apply to already classified non-performing loan and the provision as applied before restructuring will continue apply unless the loan has been regularly serviced for 1 year.
4. The Commission for the Investigation of Abuse of Authority (CIAA) has issued a directive which prohibits the use of Trade Management System (TMS) for trading in share markets to all the civil servants of government and public agencies.



5. On the external side of economy (based on previous month CME) remittance inflow increased 16.5% to Rs. 1445.32 billion in 2023/24; the inflow was approx. Rs. 117.8 billion in Ashadh alone. Given the festive season ahead, influx of remittance can be anticipated. Import, exports and trade deficits all fell 1.2%, 3%, and 1% respectively. BOP, current account balance, and gross forex reserves all increased to Rs. 502.49 billion, Rs. 221.34 billion, and \$15.27 billion respectively. Nepali workers taking first time approval for foreign employment stood 460,103 while approval for renew entry stood 262,705281,199.
6. Coming to 8 months of 2024, total tourists' arrival is 720,334. In month of August, 72,719 tourists visited Nepal which is 8.3% higher than the records of corresponding previous period.
7. Commercial banks FD interest rates for Shrawan, on average has fallen to 6.42% and 5.13% for Individual and Institution as compared to 6.49% and 5.25% respectively in previous month. Out of 20 Banks, 9 have lowered their interest rate, 9 made no change, while 2 have increased it. ADBL has the lowest institutional FD rate of 3.75% and SANIMA has lowest individual FD rate of 5.90%. NICA is offering the highest FD rate on both Institutional and Individual FD which is 6.18% and 7.18% respectively. This lowering interest rates signals the situation of excess liquidity in the banking channel.
8. The team of Fitch Rating Agency, one of the top credit rating institution of US, has initiated the process for the Sovereign Credit Rating of Nepal. The positive rating will enable the Government and Private Sectors to issue Bonds in international market along with attracting the foreign investors to invest in Nepal.
9. Per the Banking & Financial Statistics, the average CD Ratio of Banking sector (A, B, and C Class) is 78.80 which is lower than 79.09 of earlier month. No change is reported on NPL which is 3.86% while CAR has dropped to 12.80% from 12.92%. Weighted average interest rate has come down to 5.66% (saving 3.43%, fixed 7.93%) and weighted average rate on credit has fallen to 9.68%.
10. As the FY 2080/81 has squared, companies have started announcing the dividends for the year, which is comparatively better as compared to the past years.
11. The Banking Offenses and Punishment (Second Amendment) Bill, 2080 to punish the offenders with imprisonment from one month to two years and financial penalties of 5% of the cheque amounts for any dishonored cheques.



Coda: Political stability is one major fundamental factor for the market and the current stock market hinge more on the chair of Finance Minister. Therefore, the market has attracted more risks and volatility, which requires investors to be more prudent in their investment decisions. Market do offer the investable stocks which requires a little effort of fundamental scrutiny.



The South Sea Bubble: Less Told Story of Financial Fraud

Financial fraud refers to the intentional act of deceit or misrepresentation involving money, financial transactions, or financial assets with the purpose of gaining an unlawful or unfair advantage. It is often carried out by individuals, or companies and can range from simple schemes to highly complex operations. Financial fraud can occur in many forms such as embezzlement, insider trading, Ponzi schemes, accounting fraud, identity theft and more.

Financial scams impact investors' confidence and trust in financial institutions and markets, causes monetary losses and on a larger scale can trigger economic downturn including economic recessions, job losses, and decreased economic growth as happened during the 2008 global financial crisis.

In similar manner, there is another type of order called stop-loss order. Once the stock is purchased, the investor can place a stop-loss order based on their risk preferences. Hereon, at an adverse scenario, if the stock price declines to the stop-loss level, the order will be initiated to sell the stock and minimize losses.

The history of financial markets is filled with incidents of speculative bubbles and frauds, driven by human psychology and the chase of wealth. One of the earliest and most infamous financial frauds was the South Sea Bubble of 1720, which brought the British economy to its knees and ruined thousands of investors.

The South Sea Company was founded in 1711 in London during the War of Spanish Succession, primarily to manage the Britain's national debt of ~ GBP 10 million (a significant sum for the era) which the government was struggling to pay back. In exchange for assuming a portion of the national debt, in 1713, the company was granted exclusive trading rights to supply enslaved Africans to South America, which was then under Spanish control. The promise of substantial return from extensive trade lured investors. However, these trade rights were mostly illusory as Spain heavily restricted trade. Despite this, the company's stock attracted investors interest due to government backing and promises of future profits.

In 1720, the company proposed a scheme to take over a large portion of Britain's national debt in exchange of shares of the company. The proposal was accepted by Parliament, and the company was given more privileges. Investors became more fascinated for South Sea Company shares as they believed the company will be an enormous success. The stock price soared from around GBP 128 in January 1720 to over GBP 1,000 by August of the same year. The company's valuation turned to be completely disconnected from its fundamentals, profitability or trading operations.

By mid-1720, signs of trouble began to emerge. Many insiders, including directors, politicians and other influential individuals began selling off their shares because they recognized that the company's stock price had become dangerously inflated and the company's financial fundamentals did not justify such high valuations. Also, the company's financial model was unsustainable as it was using funds from new investors to pay high dividends to existing ones, tactic known as Ponzi scheme and the pool of new investors was drying up, hence the company would struggle to sustain its stock price and dividend payouts. This led to loss of confidence in the stock and as panic set in, shareholders rushed to sell their shares, but there were no buyers. The collapse began in August 1720, when the price of the stock that had reached over GBP 1,000 per share i.e., total market capitalization of around GBP 200 million plummeted to GBP 200 within few weeks. By the end of the year, the stock was trading at less than GBP 100, wiping out the savings of thousands of investors. The bursting of the bubble triggered a broader financial crisis in Britain causing widespread economic distress, bankruptcies and unemployment.

Report states the interesting story of famous mathematician Sir Isaac Newton being the victim of the South Sea Bubble. Newton first invested in South Sea Company shares in early 1720, before the bubble reached its peak and sold his shares in April 1720 making significant profit of GBP 7,000 (equivalent to over GBP 1 million today). However, as the company's stock continued to rise touching new heights, Newton re-entered the market in June 1720, buying shares at a much higher price and suffered a loss of GBP 20,000 (equivalent to GBP 3-4 million today) when bubble burst in August 1720.

Psychological Factors in Financial Bubbles

South Sea Bubble highlights several psychological factors that contribute to the formation of financial bubbles, many of which are still relevant today.

1. Herd Mentality: Investors tend to follow the crowd, believing that if everyone else is investing, it must be a good decision. In the case of the South Sea Bubble, the sight of friends, family, and even public figures profiting from the rising stock prices encouraged others to follow the trend.

2. Overconfidence: During financial bubbles, investors often become overconfident, believing that they can predict market movements or that the bubble will continue indefinitely. This leads them to ignore warning signs and invest recklessly.

3. Fear of Missing Out (FOMO): The fear of missing out on potential profits drives investors to buy into bubbles, even when they know the assets are overvalued. In the South Sea Bubble, many investors rushed to buy shares because they feared being left behind as others made easy money.

4. Greater Fool Theory: Many investors believe that even if they buy an overvalued asset, they can still sell it to someone else at a higher price. Such mentality contributed to the South Sea Bubble, as investors bought shares with the sole intention of selling them at a profit, rather than holding them for long-term value.

Preventing Financial Fraud

1. Regulation and Oversight: Governments have created numerous agencies, such as the Securities and Exchange Commission (SEC) in the U.S. or the Securities and Exchange Board of India (SEBI) in India or the Securities Board of Nepal (SEBON) in Nepal, to regulate financial markets and prevent fraud. These agencies enforce laws that require transparency and accountability in financial dealings.

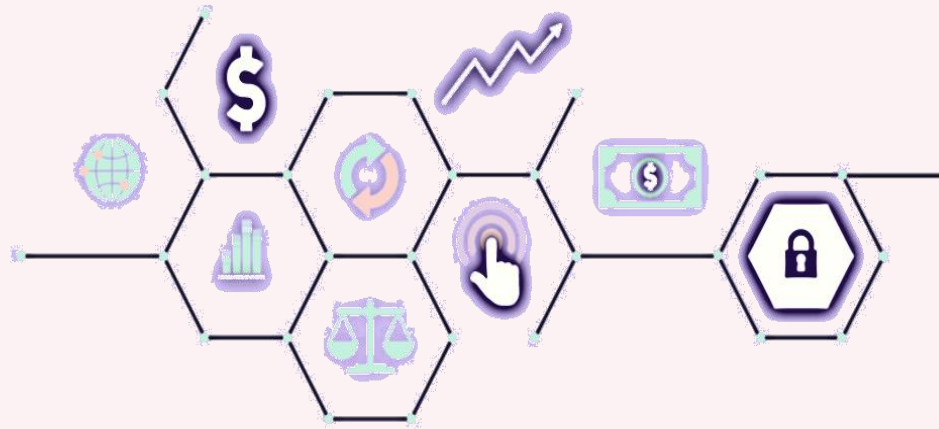
2. Audits and Internal Controls: Organizations can help prevent fraud by conducting regular audits of their financial statements, implementing strong internal controls, and establishing a culture of ethical behavior. Auditors play a key role in verifying the accuracy of financial information and ensuring compliance with laws.

3. Due Diligence: Investors can protect themselves from fraud by performing due diligence before making investments. This involves researching companies, analyzing financial statements, and understanding the risks involved. Avoiding "too good to be true" opportunities is a common guideline to avoid potential fraud.

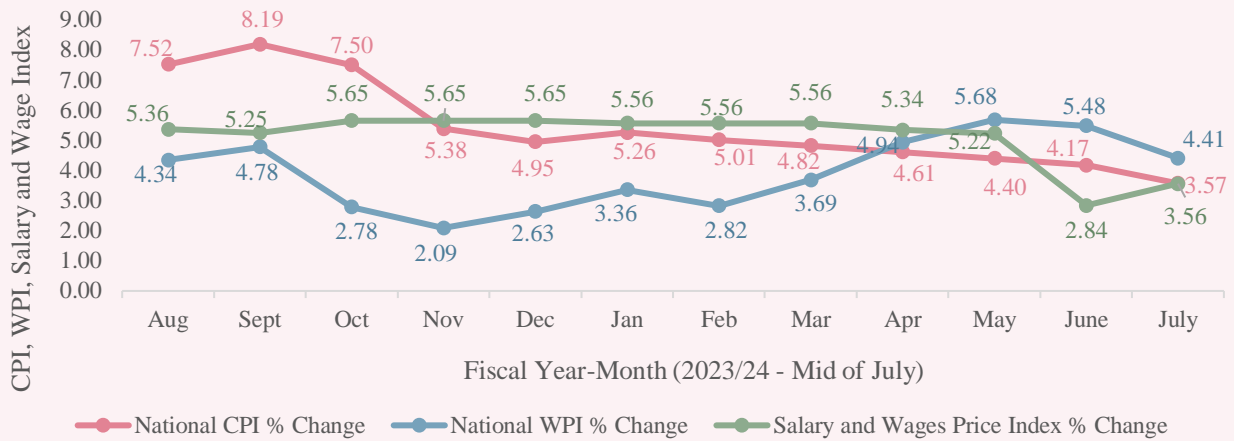
4. Education and Awareness: Public awareness campaigns and financial education can help individuals and businesses recognize the signs of fraud and understand how to protect themselves from financial fraud.

5. Diversification: Diversifying investments across different asset classes and industries can help protect against the risks of bubbles and market crashes. Many investors in the South Sea Bubble put all their savings into the company, believing it was a sure bet.

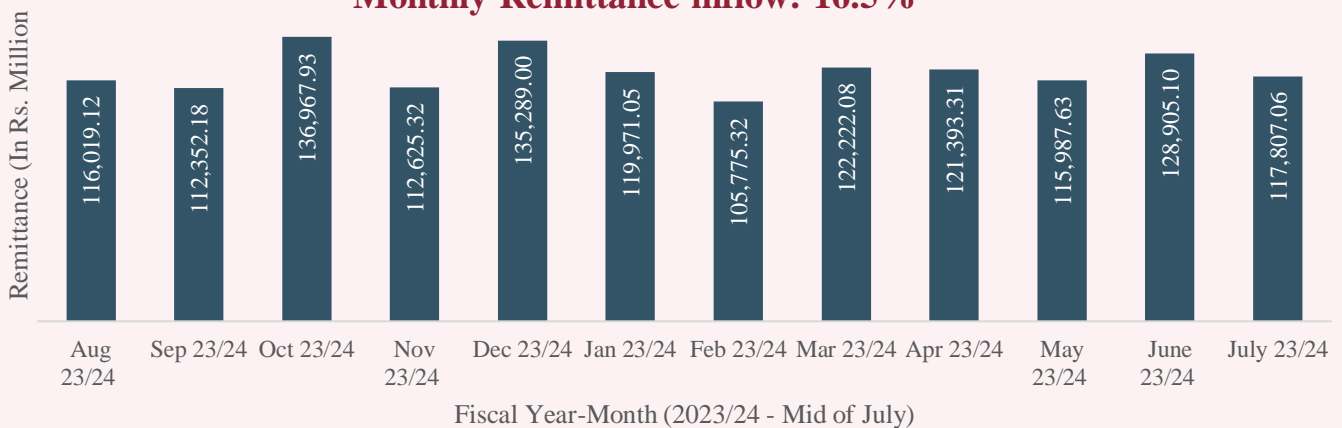
WHERE DO THE FACTORS STAND?



Inflation Rate (CPI): 3.57%



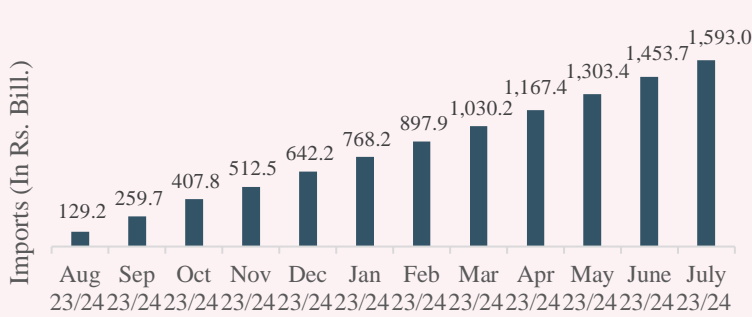
Monthly Remittance inflow: 16.5%



Liquidity Indicators (As on 14th September 2024):

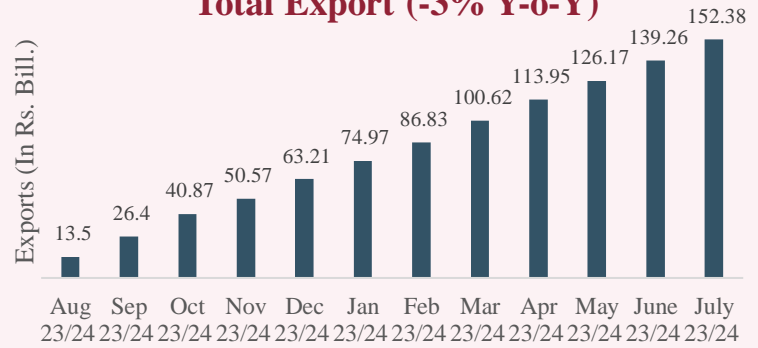
- ❖ BFI's Deposits: NPR. 6,505 billion
- ❖ BFI's Lending: NPR. 5,216 billion
- ❖ CD Ratio: 78.79%
- ❖ Inter-bank Interest Rate: 3%

Total Import (-1.2% Y-o-Y)



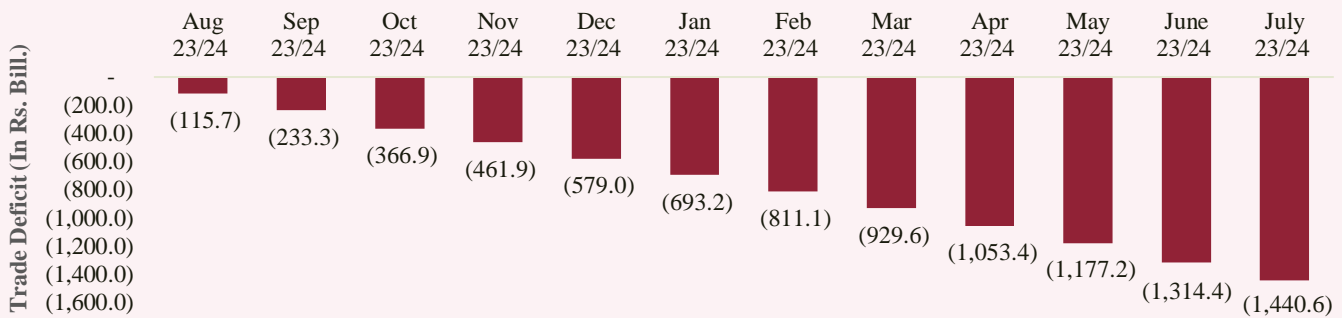
Fiscal Year-Month (2023/24 - Mid of July)

Total Export (-3% Y-o-Y)



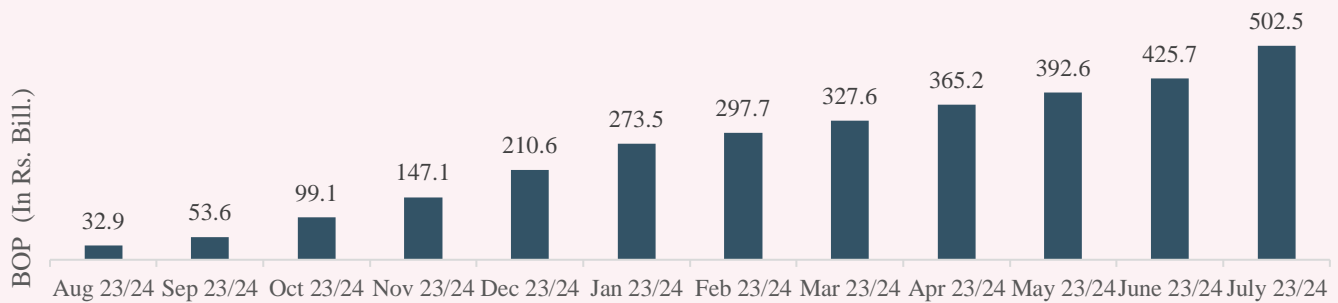
Fiscal Year-Month (2023/24 - Mid of July)

Trade Deficit



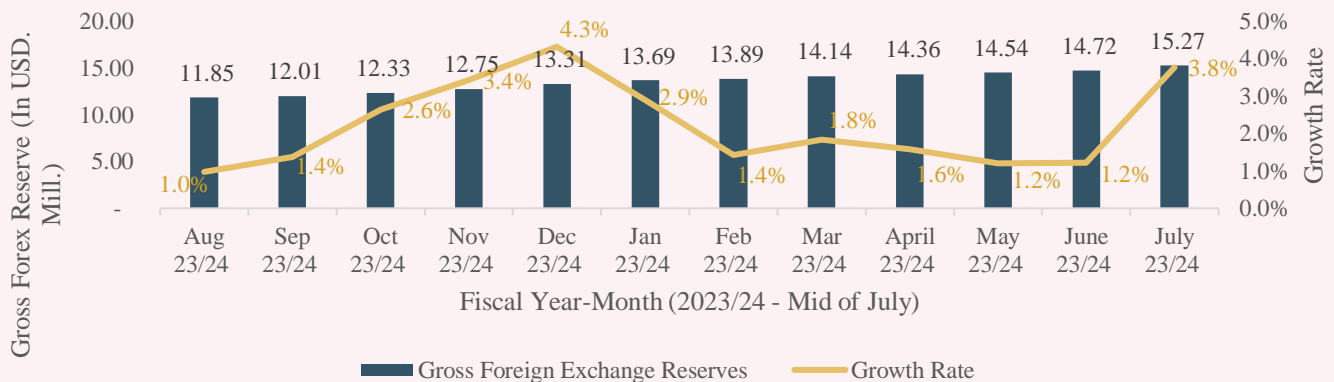
Fiscal Year-Month (2023/24 - Mid of July)

Balance of Payments (Surplus)

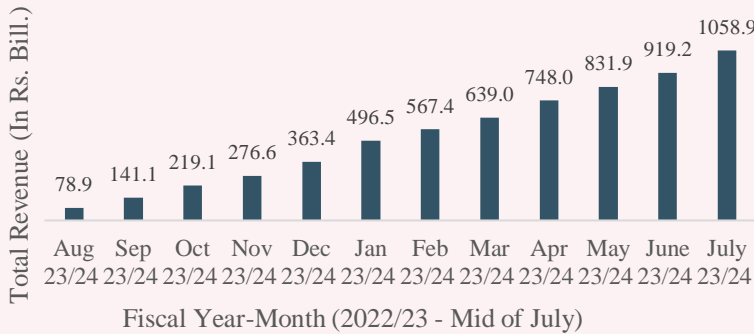


Fiscal Year-Month (2023/24 - Mid of July)

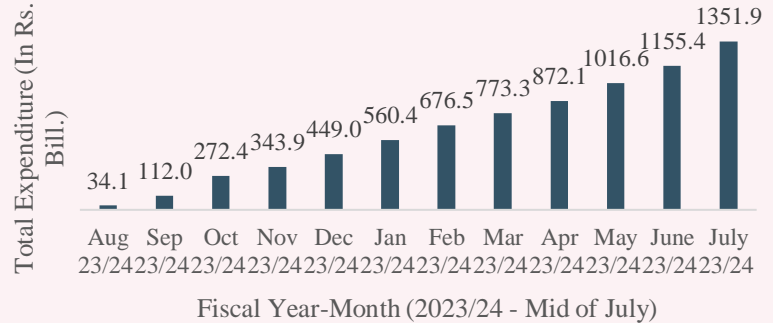
Gross Forex Reserve (+30.12%)



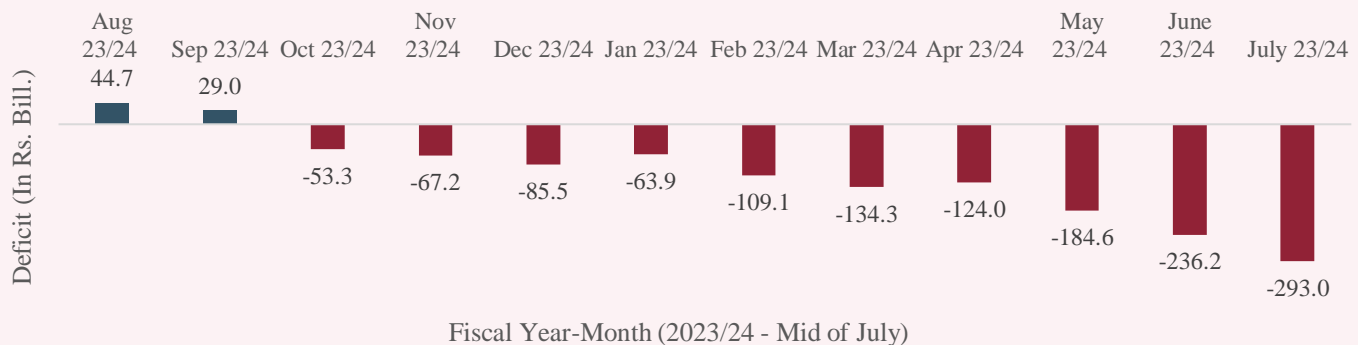
Govt. Revenue



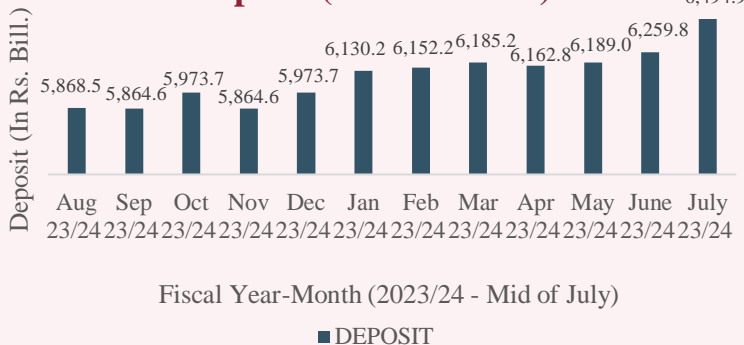
Govt. Expenditure



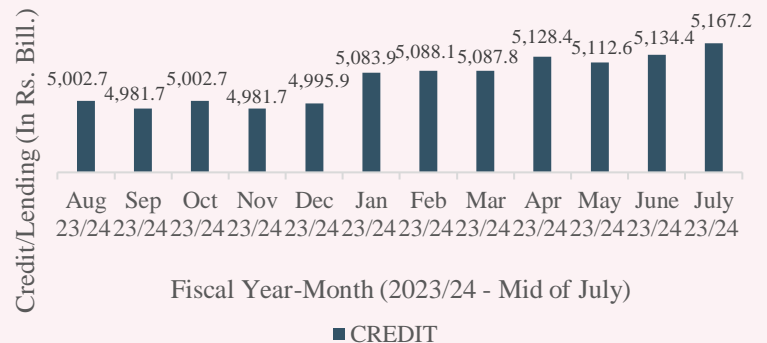
Fiscal Surplus/Deficit



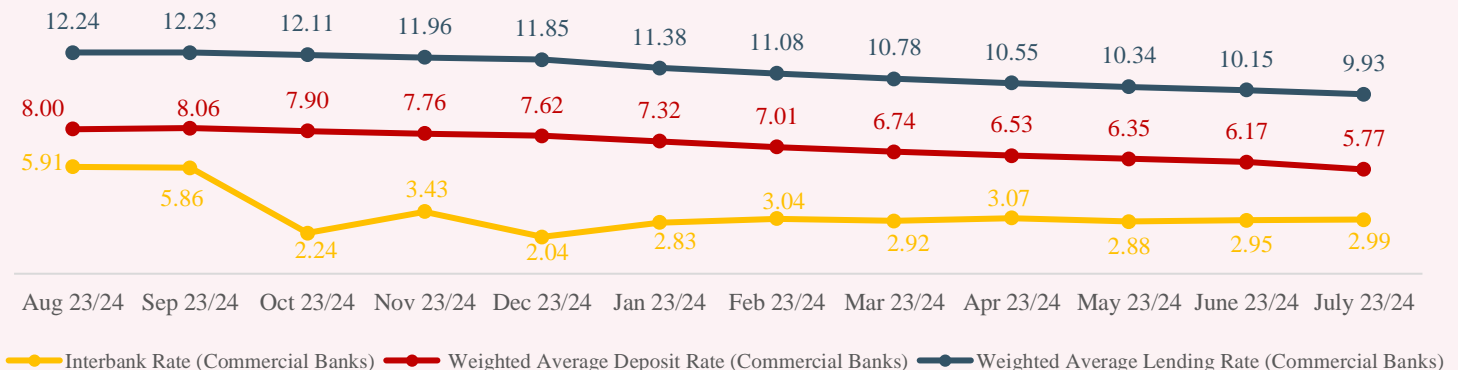
Deposit (+13% Y-O-Y)



Credit /Lending(+5.8% Y-O-Y)



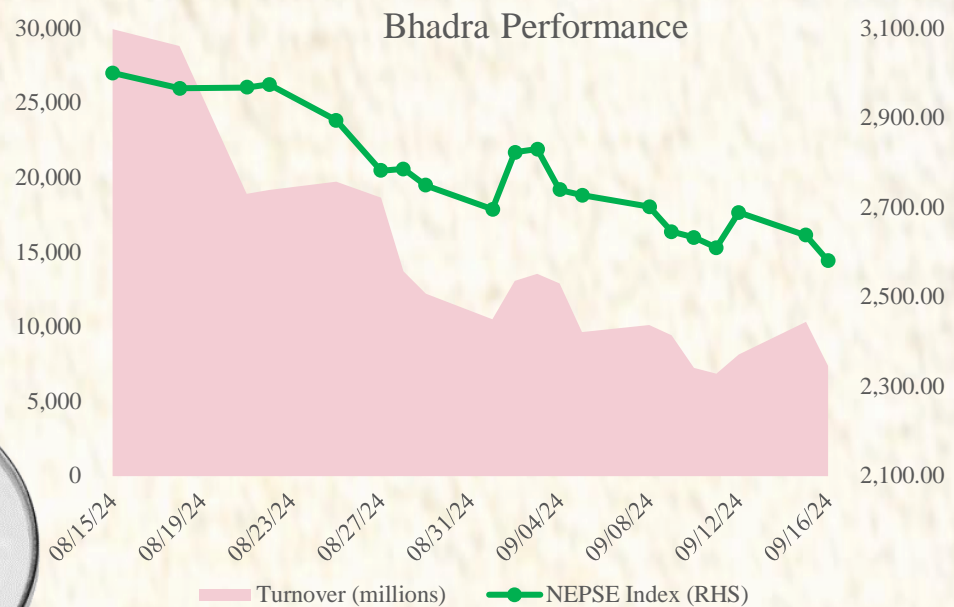
Market Interest Rates



Short-term Interest Rates (As on 13th August 2024):

- ❖ 28 days: 2.96%
- ❖ 91 days: 2.90%
- ❖ 364 days: 3.03%

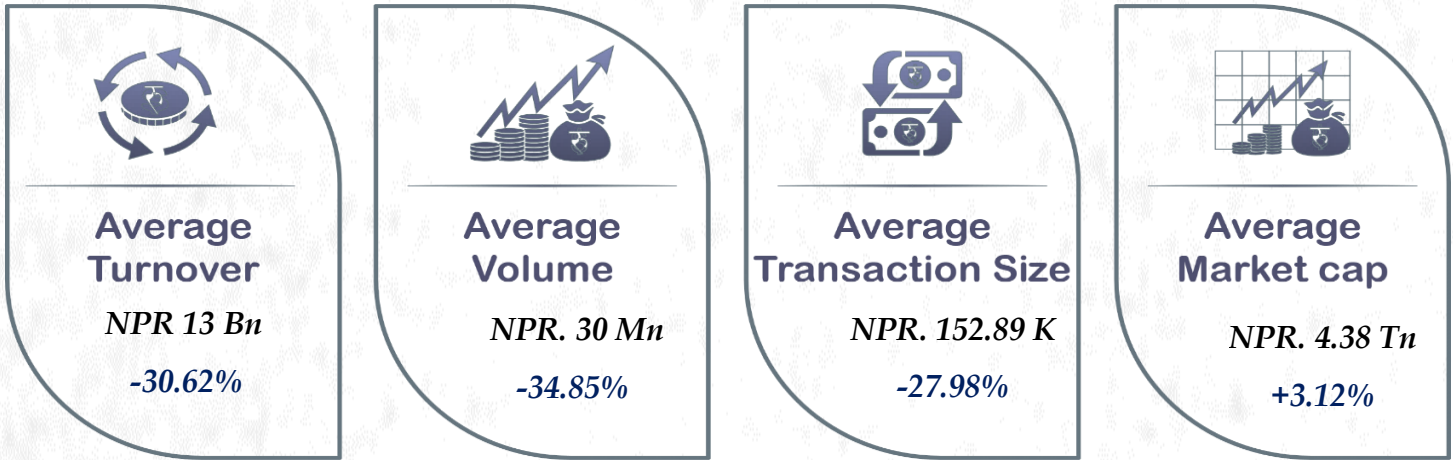
Market Update: NEPSE SCANNER



Metrics	16.9.24	15.8.24	Monthly Change
NEPSE	2,580.76	3,000.81	-14.00%
Sensitive	460.11	535.51	-14.08%
Float	177.48	206.88	-14.21%
Sensitive Float	151.43	176.73	-14.32%
Turnover (Million)	7,361,988,383.74	29,958,519,216.95	-75.43%
Shares Volumes	17,061,807	68,980,346	-75.27%
Total Transactions	92,815	311,536	-70.21%
Total Scrips Traded	312	334	-6.59%
Market Cap (Rs. Million)	4,103,619.21	4,765,909.89	-13.90%
Sensitive Mrkt. Cap (Rs. Mn)	2,052,169.86	1,641,407.15	25.025%
Float Market Cap (Rs. Mn)	1,441,169.90	1,680,161.97	-14.22%
Sens. Float Mrkt. Cap (Rs.M)	787,403.66	586,777.00	34.19%
Average Return	16.80%	20.37%	-3.57%
Std. Deviation	23.76%	23.57%	0.19%
10 Day 10% VAR	-6.18%	-6.08%	-0.10%
Market Cap / GDP Ratio	76.26%	88.56%	-12.31%

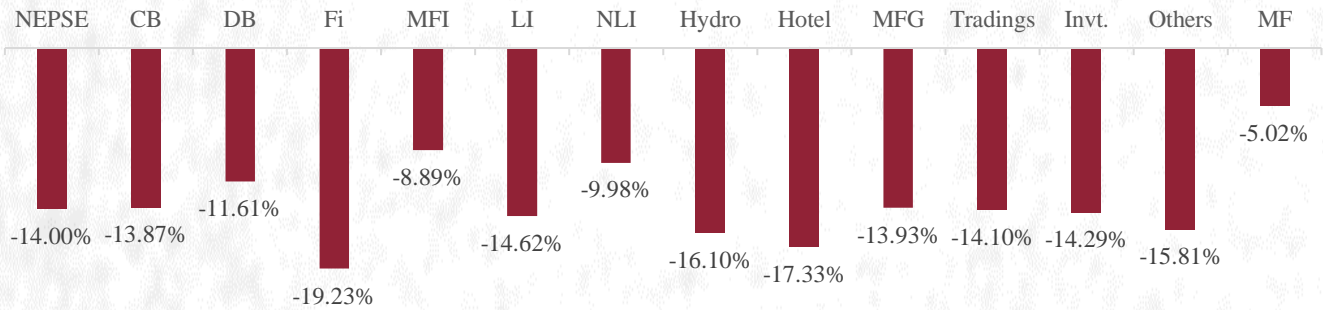
- NEPSE fell to 2580.76 level from 3,000.81 (previous month end), losing 420.05 points (-14%); high and low index remained 3,048.15 and 2,570.62 resp. in the review month.
- Sensitive, float and sensitive float index reduced by 14.08%, 14.21% and 14.32% respectively.
- By the Month end, the turnover witnessed the fall of 75.43% and volume by 75.27%. The transactions fell by 70.21% as compared to the previous month end.
- Monthly average of these metrics computes to Rs. 13.18 billion (-30.62%), Rs. 30.10 million (-34.85%), and Rs.152.89 thousand (-27.98%) respectively.
- Market cap decreased by 13.90% to Rs. 4.1 trillion, out of which approx. 35% are only floated. Sensitive market cap which covers A class stocks saw a 25.03% incline, Sensitive float market cap fell by 14.22% and the size of Float market cap rose 34.19%.

- Avg. market return decreased to 20.37% from 20.%, Standard Deviation slightly inclined to 23.57% and 10-day 10% VAR stood at 6.08%.
- Market is under-valued as per Market Capitalization to GDP ratio (Buffett Indicator) which is 88.56%.
- In the review period, market traded for 22 days. Last month also, number of trading days was 19.

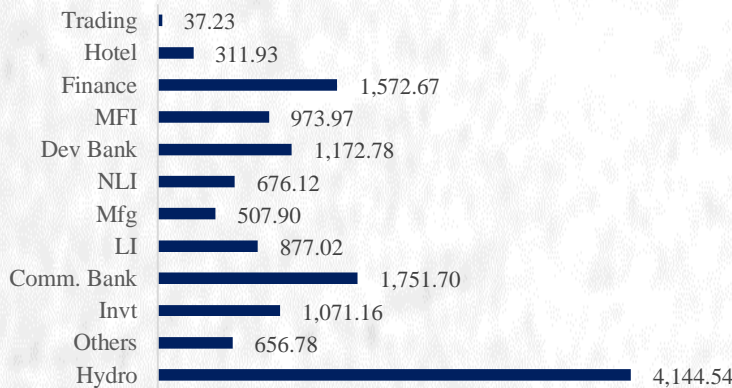


SECTOR SCANNER

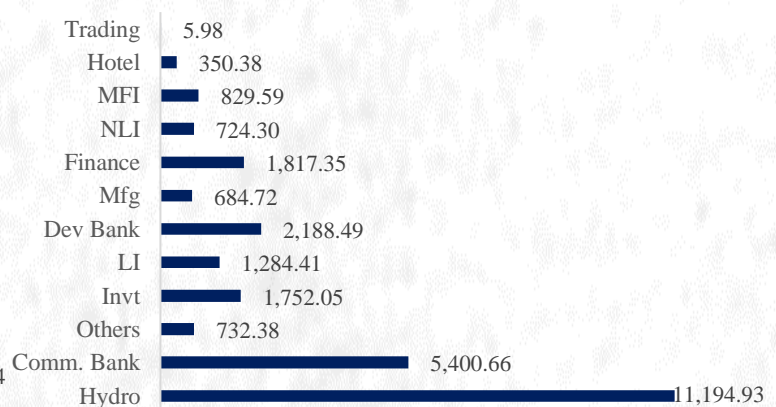
Monthly Sectoral Performance



Ashadh Avg. Turnover (Millions)

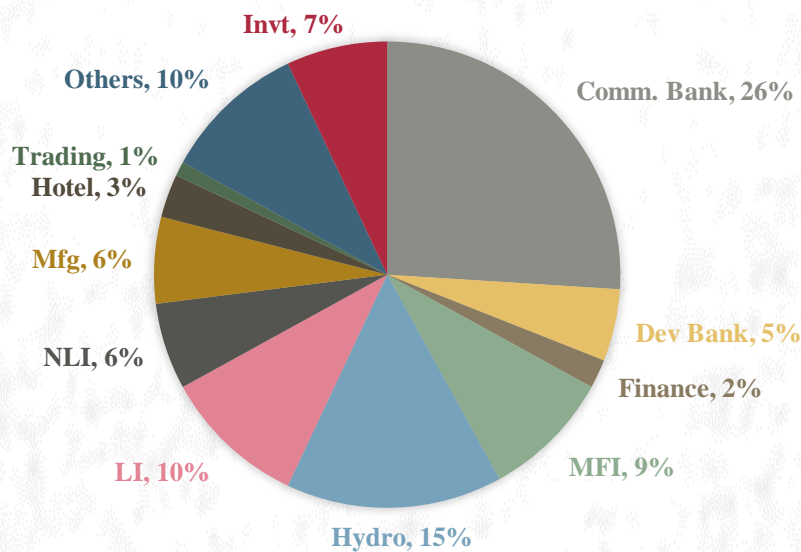


Ashadh Avg. Volume ('000)



- All the sectors saw a decline in this month. Finance, Hotel and Hydropower sectors saw a highest decline of 19.23%, 17.33% and 16.10% respectively followed by Others (-15.81%) and Life Insurance (-14.62%) in the review period. Sectors that witnessed lowest fall are Microfinance (-8.89%), Non-Life Insurance (-9.98%) and Development Banks (11.61%).
- Hydropower sector recorded the highest Turnover and Transactions size in all trading days of the month making an average of 28.84% and 35.05% respectively. In case of Turnover (volumes), Hydropower sector traded the highest with an average of 34.77%. Both Commercial Banks and Finance sector made the notable Turnover of average 11.21% and 11.46% respectively while their average Transaction size was 11.87% and 8.32% respectively.
- Pie- chart below shows the approximate market capitalization of 12 sectors as on last trading day of Ashadh i.e. Monday 31st Bhadra, but excludes Promoter shares, Debentures, and Mutual Funds. BFI sector (A, B, C, D Class) covers approx. 42%, Commercial Bank alone 26%. Hydro and Hotel has 15% and 3% coverage respectively. Insurance sector occupy 16% (Life – 10% and Non-Life – 6%). Trading sector has the least capitalization, amounting approx. Rs.21 billion.

SECTORAL MARKET CAPITALIZATION

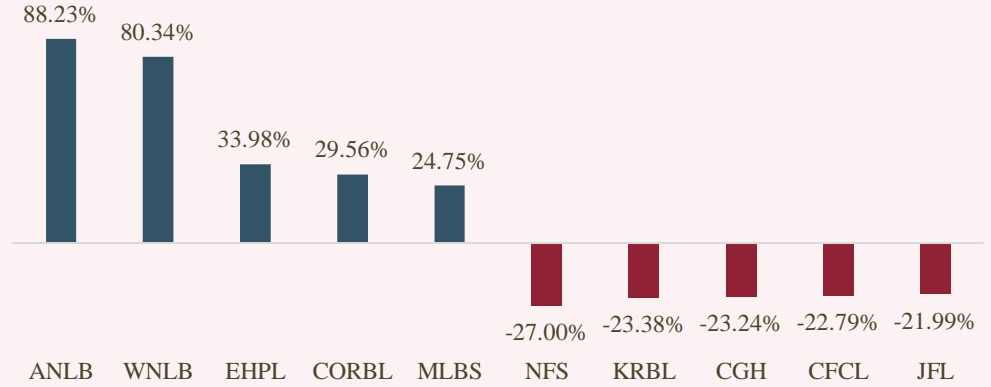


Monthly Terminology: Asset Price Bubble-

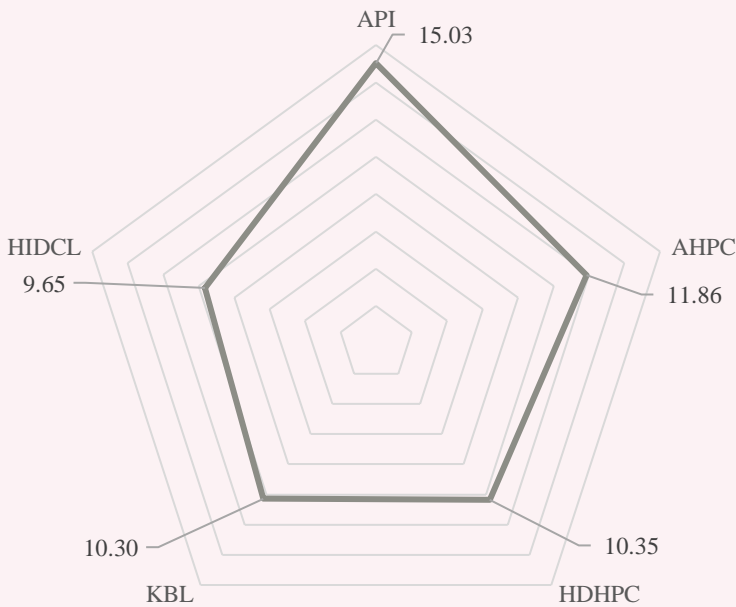
*“An **Asset Price Bubble** refers to a market phenomenon characterized by the substantial and often irrational increase in the prices of assets, far beyond their fundamental or intrinsic value. These assets can include stocks, real estate, commodities, or any other investment vehicles. Bubbles occur when market participants engage in speculative buying, often driven by the expectation of further price increases rather than the underlying asset's underlying economic value. This behavior can lead to a feedback loop where increasing demand drives prices higher, attracting more investors, further inflating prices.*”

STOCK SCANNER

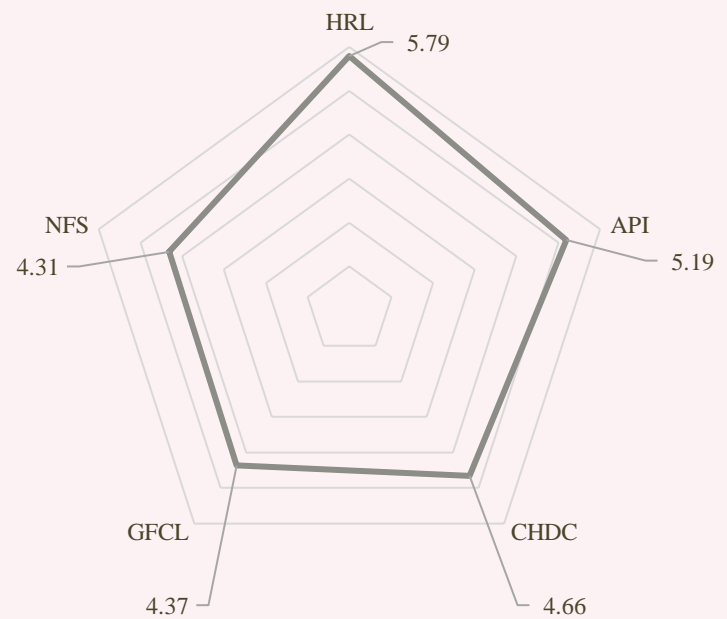
Top 5 Gaining and Losing Stocks/Scripts



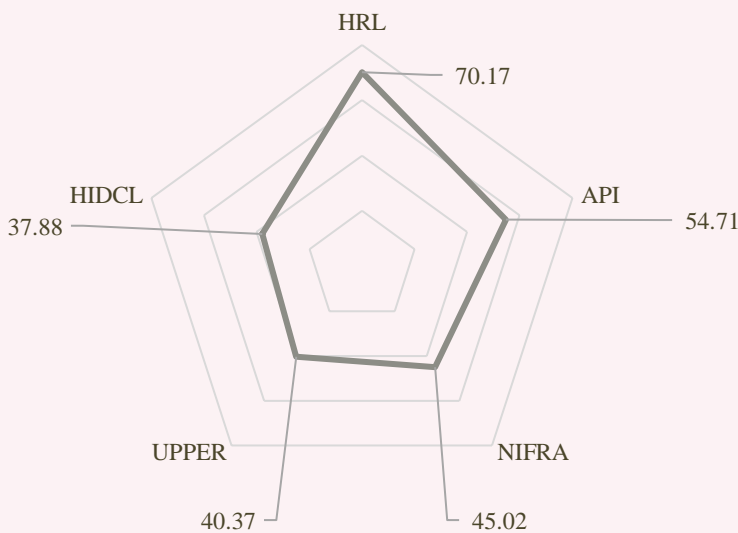
Stocks with Highest Volume (Millions)



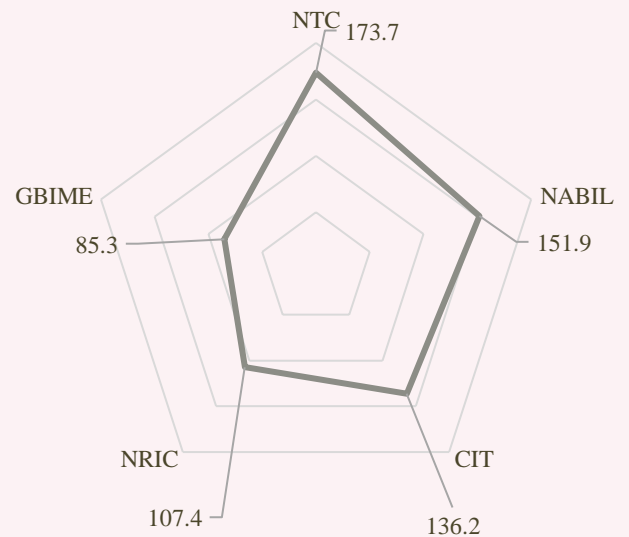
Stocks with Highest Turnover (Billions)



Stocks with Highest Transaction Size ('000)



Stocks with Highest Market Cap. (Billions)



TECHNICAL OUTLOOK...



TradingView

Technical Indicator (16 th Sept.)	Value
RSI	40.28
MACD line	-35.67
Signal line	-15.99
Bollinger Upper Band	3028.10
Bollinger Middle Band	2771.88
Bollinger Lower Band	2515.66
ADX	27.83
Exp. Moving Avg. (9 Days)	2664.99
Exp. Moving Avg. (26 Days)	2700.65
Exp. Moving Avg. (50 Days)	2608.85
Exp. Moving Avg. (200 Days)	2273.12

Technical Overview:

On a weekly chart analysis, Index has rested on support level of 2570, whose breach will give the next down target of 2430 level. Reversal from current level will pull the index up to resistance level of 2750. Weekly chart still shows market in bull phase since its EMA 50D (2266) and EMA 200D (2081) are below current index level but the bullish momentum has gradually gone down, signalling a potential bearish market as evidenced by a daily chart analysis where 50D EMA (2607) and 26D EMA (2691) are above the current the closing index level. Daily chart also depicts the potential formation of head and shoulders pattern, inkling the potential end of bull.

MACD line has crossed the signal line from above while Bollinger Bands show market floating on a lower band. RSI show still a selling pressure.

Key Bulletins of the Month

- 1) As per the data from Public Debt Management Office (PDMO), Nepal's public debt liability has soared by Rs. 41.1 billion in Shrawan 2081, bringing the total debt to Rs. 2.47 trillion, equal to 43.34% of the country's GDP.
- 2) The Inland Revenue Department (IRD) has decided to provide the 10% tax rebate on VAT payments made to Hotels, Restaurants, and Bars through electronic means like debit/credit cards, QR codes, mobile payment etc.
- 3) The government has spent only 3.73% of the total budget of Rs. 1,860.3 billion in one and half months of the current F.Y. 2081/82.
- 4) By the end of FY 2022/23, Nepal's FDI has reached Rs. 295.5 billion, an increment of 11.8% compared to last year. The investment was majorly in the form of paid-up capital (52.8%) and among the 58 countries that provided FDI to Nepal, India contributed the most (Rs. 103.45 billion).
- 5) NRB has extended the loan repayment period by 3 years for microfinance borrowers via restructuring the loan by the end of Poush. Previously, the rescheduling period of such loans was one year.
- 6) The government has introduced the Inland Revenue Mobilization Strategy, 2024, aiming to increase Nepal's revenue-GDP ratio from 18.9% to 23.5% by FY 2028/29 while reducing the budget deficit-GDP ratio from 7.2% to 6.5% through tax reforms and improved compliance.
- 7) The Inland Revenue Department will refund 10% VAT to consumers using electronic payments for services like bars, restaurants, and hotels, as part of a new incentive.
- 8) Nepal has exported electricity worth Rs. 2.2 billion to India in the month of Shrawan, 2081 at an average rate of Rs. 8.51 per unit.
- 9) Nepal Telecommunications Authority (NTA) has renewed Ncell's service license for the next five years after an initial Rs 5 billion payment, with Rs 15 billion due over three years at 10% interest, allowing operations for 25 years before eventual transfer to government ownership.
- 10) The Asian Development Bank (ADB) in collaboration with the World Bank is going to provide support to Nepal in infrastructure development, education, environment and other fields through the Development Partnership Strategy which will operate from 2025 to 2029.
- 11) Following the IMF requirement under the 'Extended Credit Facility', NRB appointed KPMG-India to carry out the Loan Portfolio Review of the 10 largest commercial banks of Nepal.
- 12) A grant of 454 million Japanese Yen (Rs. 423 million) is provided to Nepal by the Government of Japan to support the project for Human Resource Development for F.Y. 2081/82.
- 13) India has imposed an unannounced ban on the import of cement from Nepal made from Chinese clinker quoting quality standards as the reason.
- 14) After India imposed a 50% export tariff on molasses following sugarcane shortage, Nepal's export of molasses to Bangladesh increased to 3,555.6 tonnes in one and half months of the current FY vs 9,741.65 tonnes total export in FY 2023/24.

Dividend Announced for FY 2080/81 during the Month

Company	Ticker	FY	Bonus (%)	Cash (%)
1. Sahas Urja Limited	SAHAS	2080/81	8	0.421
2. Sanima Reliance Life Insurance	SRLI	2080/81	18.38	-
3. CEDB Hydropower Development Company	CHDC	2080/81	11	-
4. Oriental Hotel Limited	OHL	2080/81	5	0.2632
5. Kamana Sewa Bikas Bank Limited	KSBBL	2080/81	7	5
6. Gurans Laghubitta Bittiya Sanstha Limited	GLBSL	2080/81	14.25	0.75
7. Bhagawati Hydropower Development Company	BGWT	2080/81	4	10.7368
8. Mandu Hydropower Limited	MANDU	2080/81	-	12
9. Supermai Hydropower Limited	SMH	2080/81	7	5.63
10. Prabhu Mahalaxmi Life Insurance Company Limited	PMLI	2080/81	10	0.526
11. Everest Bank Limited	EBL	2080/81	10	5.53
12. API Power Company Limited	API	2080/81	9	0.4737

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नेपाल प्रज्ञावाचन बोर्डबाट भर्चिस्ट वैकुरको सारमा कायं गनं अनुमतिगान प्राप्त संस्था



गरिमा क्यापिटल लिमिटेड
GARIMA CAPITAL LIMITED

[A Subsidiary of GARIMA BIKAS BANK LIMITED]

समृद्धिको साक्षी

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