

Rating Rationale

Manjushree Finance Limited

Rating/Grading

Facility/Instrument	Amount (Rs. In Million)	Rating/Grading	Rating Action
Rights Share Issue	36.219	CARE-NP IPO Grade 4 [IPO Grade Four]	Assigned

The explanatory notes regarding the Rating/Grading symbols of CARE Ratings Nepal Limited (CRNL) are attached as Annexure 1

CRNL has assigned grading of ‘CARE-NP IPO Grade 4’ to the proposed Rights Share Issue of Manjushree Finance Limited (MFL). ‘CARE-NP IPO Grade 4’ indicates Below Average Fundamentals. CRNL assigns IPO grades on a scale of Grade 1 to Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. CRNL’s IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the ‘fundamentals’ of the issuer. MFL proposes 5% rights share issue of 3,62,190 number of equity shares of face value of Rs.100 each at par aggregating Rs.36.219 million.

Detailed Rationale & Key Rating/Grading Drivers

The grading assigned to the rights share issue of Manjushree Finance Limited (MFL) is constrained by its moderate assets quality, modest liquidity profile, high deposit concentration, exposure to regulatory risk related to finance industry, competition from other finance companies and banks. However, the grading derives strength from long track of operation, experience of the directors and management team, growing operations (CAGR of loan portfolio and deposit were 43.71% and 31.04% over last 3 years ending July 15, 2017) and net profit over the period, comfortable capital adequacy ratio, adequate geographical reach in its area of operation, low borrower concentration, diversified product portfolio distribution, comfortable level of CASA; although declining over the period.

Ability of the company to continue its growth momentum without compromising on asset quality, maintaining the Capital Adequacy Ratio and ability to manage the impact of any regulatory changes by NRB would be the key sensitivities.

Detailed Description of the Key Rating/Grading Drivers

Key Rating/Grading Weakness

Moderate asset quality; however, improvement in Gross Non-Performing Loans % over the period

MFL’s asset quality marked by GNPL ratio was high at 3.57% on July 15, 2016 which over the period moderated to 3.10% on July 15, 2017 (lower than the industry average of 13.37%) and further improved to 2.38% as on Jan 14, 2018 (UA) which is mainly due to substantial increase in the loan portfolio.

Modest liquidity profile; along with high depositor concentration

MFL's liquidity profile as on July 15, 2017, shows positive mismatches between assets and liabilities upto 90 days. However, the assets and liability show negative mismatch over 90 days to 1-year bucket which is mainly due to fixed deposit scheduled to mature within 1 year and assumption of withdrawal of savings deposits within a year. However, the total deposits of the company increased to Rs.4840 million as on Jan 14, 2018 in comparison to Rs.3585 million as on July 15, 2017 reflecting growth in the deposits.

The concentration over the top 20 depositors was high at 42.28% of total deposits as on July 15, 2016, which increased to 45.52% of the total deposits as on July 15, 2017 and declined marginally to 38.92% of total deposits as on Oct 17, 2017.

Competition from other bank and financial institution and exposure to regulatory risk related to finance companies

The grading is also constrained by presence of large number of finance companies in the industry along with Commercial and Development bank conducting similar kind of businesses and they lend at lower interest rate than finance companies due to their ability to raise lower cost of funds leading to high competition in the Banking Industry. Further the Banking and Finance industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time.

Key Rating/Grading Strengths**Long track of operation with experienced board and management team**

MFL has been providing its service for more than one decade (since 2007). MFL has seven experienced members on its board lead by Mr. Damodar Prasad Gautam who is a chairperson of the company. Mr. Gautam was retired after being chief secretary of the Nepal government as well as he has been Nepal Ambassador for USA. The director of the company Mr. Kamal Kumar Begani is chairperson of Begani Group of companies. The day to day operations of the company are headed by Mr. Santosh Niraula (Chief Executive Officer of MFL), M.A (Economics)/C. A from ICAI. He has more than 14 years of experience in banking sector and CEO of MFL since last 3 years.

Growing operations & net profit over the period

The outstanding loans and advances grew by compounded annual growth rate (CAGR) of 43.71% over last 3 years ending July 15, 2017. The net loan portfolio of the company has grown by 71.82% to Rs. 3,575 million at the end of FY17 (Provisional) (refers to the period ending mid-July 2017) from Rs. 2080 million at the end of FY16 on back of increase in the operations due to increase in the number of branches. During H1FY18 (UA), the total loan portfolio of the company further grown by 18.63% in 6 months to Rs. 4391 million. CAGR of deposits over last 3 years ending July 15, 2017 was 31.04%. As on July 15, 2017, the deposits were increased by

44.27% to Rs 3585 million from Rs 2485 million as on July 15, 2016. Further, the deposits increased by 35% to Rs. 4840 million during H1FY18.

During FY17, MFL has demonstrated high growth in total income by 66.94% y-o-y to Rs.478 million from Rs.286 million in FY16. The growth in income was primarily due to increase in interest income with growth in the loan portfolio. The growth in income was also aided by other income of Rs.34 million which mainly include services charges/processing fees. On back of the increase in the total income and lower provision for possible losses, the net profit of the company increased by 55.44% during FY17 over FY16 to Rs. 51 million from Rs. 33 million respectively. However, the company's interest spread narrowed from 3.92% during FY16 to 3.52% during FY17 due to high increase in Interest cost/Average Borrowed Funds (i.e. 240 bps to 8.85% over FY16) as compared to Interest income/Avg. Interest earning assets (i.e. 200 bps to 12.37% over FY16). Tightening liquidity in banking sector during the end of FY17 resulted in increased cost of funds for banking sector in Nepal

Comfortable Capital Adequacy ratio (CAR)

MFL has maintained a comfortable CAR of 20.31% as on July 15, 2017 in comparison to the minimum regulatory requirement of 11% for 'C' class financial institution. The industry CAR as on July 15, 2017 was 21.19%. The CAR increased from 13.41% as on July 15, 2016 to 20.31% as on July 15, 2017 mainly due to substantial increase in capital in comparison to increase in risk weighted assets on back of issue of right shares during FY17 amounting to Rs.438 million. However, CAR has been declined to 18.06% at the end of H1FY18 due to higher increase in risk weighted assets (mainly on loans and advances) as compared to proportionate increase in capital funds.

Comfortable level of CASA, although declining over the period

MFL has maintained comfortable CASA over the period, which was higher than the industry average of 36% as on July 15, 2017 and 35% as on October 17, 2017. However, the same has witnessed declining trend where the CASA was declined to 60.61% as on July 15, 2017 from 67.09% as on July 15, 2016 and further decline to 53.10% as on October 17, 2017, which would increase the cost of fund and will impact profitability.

About the Company

Manjushree Finance Limited (MFL) is a National Level 'Class C' Finance Company, commenced its operation from June 20, 2007. MFL is promoted by individual promoters from diverse background with maximum shareholding by major shareholder ~10%. Its corporate office is located at New Baneshwor, Kathmandu Nepal. The share capital of the company is distributed among promoters and public (including staff) in the ratio of 51:49. The share capital of the company is listed in Nepal Stock Exchange. As on July 15, 2017, MFL has market share of 7.53% in terms of credit portfolio and 6.88% in terms of deposits of finance companies' industry.

MFL is operating with 11 branches (including head office) in 6 provinces out of 7 provinces of Nepal as on October 17, 2017. The branches adequately cover 9 districts out of total 77 districts of Nepal.

During FY17 (provisional), MFL has earned PAT of Rs.51 million (as against Rs. 33 million in FY16) with total outstanding loan portfolio of Rs.3701 million (as against Rs.2163 million as on mid-July 2016). Further, during H1FY18 (UA), MFL earned profit of Rs.41 Million (as against Rs.24 million during H1FY17)

Analyst Contact

Ms. Apsara Upreti

apsara.upreti@careratingsnepal.com

Tel No.: +977-1-4232610

Relationship Contact

Mr. Sajjan Goyal

sajan.goyal@careratingsnepal.com

Tel No.: 9818832909/+977-1-4233436

DISCLAIMER

CRNL's IPO grading is a onetime assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CRNL to be accurate and reliable. However, CRNL does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CRNL's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CRNL performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CRNL shall not be liable for any losses incurred by users from any use of the IPO grading.

Annexure 1

CARE Ratings Nepal – IPO Grading Scale

CARE IPO grade	Definition
CARE-NP IPO Grade 1	Strong fundamentals
CARE-NP IPO Grade 2	Above average fundamentals
CARE-NP IPO Grade 3	Average fundamentals
CARE-NP IPO Grade 4	Below average fundamentals
CARE-NP IPO Grade 5	Poor fundamentals

Note:

Modifiers {"+" (plus)} can be used with the grading symbols 2, 3 and 4. The modifiers reflect the comparative standing within the category.