नेपाल धितोपत्र बोर्डबाट मर्चेन्ट बैंकरको रूपमा कार्य गर्न अनुमतिपत्र प्राप्त संस्था

गरिमा क्यापिटल लिमिटेड
GARIMA CAPITAL LIMITED
(A Subsidiary of GARIMA BIKAS BANK LIMITED)
समृद्धिको सारथी

THE ANALYTICS

MONTHLY GARIMA INSIGHT

MAGH, 2079
(15 JAN. 2023 - 12 FEB. 2023)
VOL ; 1, ISSUE ; 2

MID-TERM MONETARY POLICY REVIEW

NEPSE STATISTICS

SECTORAL MOVEMENT

HEATING SCRIPS

MACROECONOMIC FACTORS

MARKET OUTLOOK

+977-014529149/50, 01-4516691
Kamalpokhari, Kathmandu, Nepal
www.garimacapital.com

TOPIC ONE

Key Note of Mid-Term Monetary Policy Review

Background:

1. NRB finds improvement in economic indicators due to its restrictive monetary policy stance
2. Positive BOP, descending inflation and ascending forex reserves.
3. Increasing remittance inflow have decreased the current account deficit and augmented Forex reserves.
4. Decrease in Deposit rate and Short-term rates due to ease in liquidity.
5. NRB cautious over domestic inflation rates caused by international inflation in essential commodities with international geopolitical pressure.

Major decisions:

NRB finds sustainability of positive BOP a crucial factor for way ahead. Increase in BOP amid still un-curtailed inflation compounded by scrapping of cash margin provision for the issuance of Letter of credit has made NRB to stick with previous guidance of Monetary policy changes to sustain positive BOP. Thus, there have not been much changes in interest rates but rate of Over Night liquidity facility has been shifted down.

1. NRB keeps policy rate and other rates of Interest Rate corridor unchanged i.e. SLF rate (upper limit) 7%, Policy Repo Rate 5.5% and Deposit Collection Rate at 4%.
2. Bank keeps Cash Reserve Ratio at 4% Statutory Liquidity Ratio (SLR) at 12%
3. NRB reduced Overnight Liquidity Facility Rate from 8.5% to 7%.
4. No levy of penalty interest on payment of principles/interest within one month of such dues till 2080, Jestha.
5. Facilities for MSME: MSME loans will be qualified for rescheduling and restructuring for upto 2 Crore of loans if it is classified "Performing Loan" at the end of Poush End, 2079.
6. NRB plans to improve loan classification, loss provisioning practices: Practices of classifying *Non performing Loan as performing loan when interest payment becomes regular and further classifying these loans as Performing loan under review* would be fine-tuned with international standards.
7. Interest Rate spread and Premium: NRB to make supervision of Interest rate spread and premium for loans more effective in coming days.

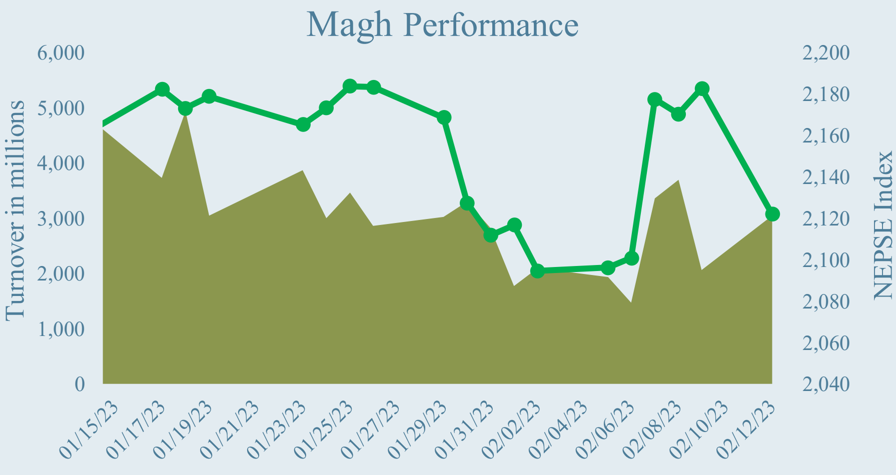
Monetary Policy Target and Present state:

1. Current forex reserve has capacity to finance 9.1 months import of goods and services on Poush end, 2079.
2. Consumer inflation on average 8.02 % (against the target of 7%) for first six months of current F.Y.
3. Increase in remittance income by 24.3 % on Poush end, 2079 in comparison to Poush end, 2078
4. Ordinary improvement in liquidity as Open Market Operations and Standing Liquidity Facility is used with the same enthusiasm compared to previous review period.

5. Overnight Liquidity facility introduced from 2079 poush 1. Till Poush end, 2079, total ~ 12.81 Arba have been used from this facility.
6. Massive increase in forex purchase; increases by ~ Rs. 305 billion at present compared to last half yearly figures of previous fiscal year amidst increase in remittance and decrease in imports.
7. Interbank rate increased to 7.53% in Poush 2079 from 4.77% a year ago. As on 28th Magh, the same is rate is 5.25%.
8. Base Rate increased to 10.91% in Poush 2079 from 8.42% a year ago.
9. Increase in weighted average deposit rate by 0.53% and lending rate by 1.74% compared to previous review period.
10. Till Poush end 2079, BFI's deposit collection increased 9.4% while the lending to private sector rose 4%. Pace of deposit growth is higher than credit since Ashoj 2079.
11. BOP has become positive (from Asoj, 2079) due to increase in remittance and lesser imports, resulting in better forex reserve and liquidity conditions. NRB acknowledges decrease in interest rates due to ease of liquidity conditions.
12. As Nepal is predominantly an import-based economy, increase in private sector credit would lead to increase in consumer demand in the economy. To satisfy the increased consumer demand, imports can increase in future leading negative BOP.

TOPIC TWO

WHAT'S NEPSE STATS SAY?



- In the review period, market traded at the range of 2200 and 2100, defining the strong resistance and support level respectively.
- Index peaked the high of 2214.78 and bottomed the low of 2087.20, witnessing a volatility of 127.58 points and losing a 1.28% monthly.

Metrics	12.02.23	12.01.23	Monthly Change
NEPSE	2,121.87	2,149.39	-1.28%
Sensitive	404.44	411.26	-1.66 %
Float	149.12	151.28	-1.43%
Sensitive Float	136.22	137.97	-1.27%
Turnover (Mill)	3,047,739.81	54,77,624.72	-44.36%
Shares Volumes	8,139,840	144,82,959	-43.80%
Total Transactions	51,226	83,113	-38.37%
Total Scrips Traded	253	252	0.40%
Market Cap (Rs.Mill)	3,061,962.03	31,03,156.95	-1.33%
Sensitive Mrkt Cap (Rs.Mill)	1,215,202.05	12,35,692.05	-1.66%
Float Mrkt Cap (Rs.Mill)	1,086,894.36	10,99,644.97	-1.16%
Sen. Float Mrkt Cap (Rs.Mill)	412,780.62	4,16,879.20	-0.98%
Average Return	19.43%	20.38%	
Standard Deviation	25.27%	25.40%	
10 Day 10% VAR	-6.55%	-6.58%	
Market Cap / GDP Ratio	63.11%	63.96%	

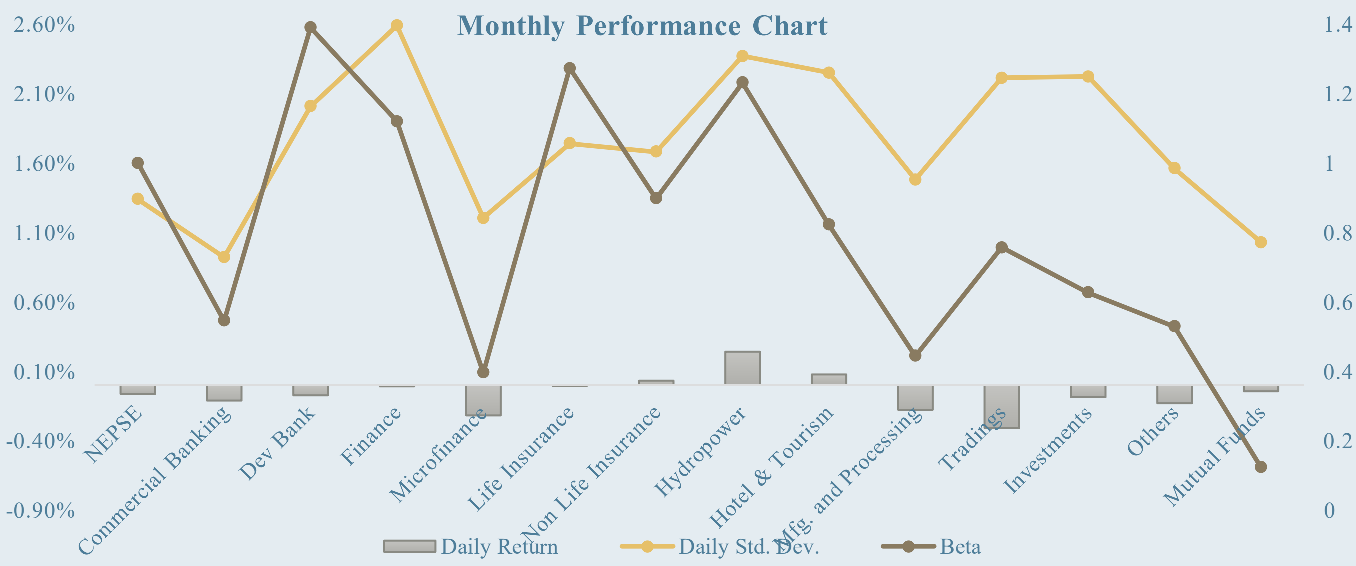
Note: For avg. return, std. dev.and VaR computation, data is considered since 1.1.20. Assumed annual 225 trading days.

- Sensitive, float, and sensitive float index simultaneously fell by 1.66%, 1.43%, and 1.27% respectively.
- Month end comparison detect an approx. 40% drop in volumes, turnover amount and transaction size while monthly average shows 82.29 lakhs (-7.5%), Rs.2.97 billion (-9.2%), and 51.24 thousand (-2.7%) respectively. Avg. of 256 stocks traded in the month.
- Market cap decreased 1.33% to Rs. 3.06 trillion, out of which approx. 35% are only floated. Sensitive market cap which covers A class stocks has suffered 1.66% loss and the size of Float and Sensitive float market cap has decreased by 1.16% and 0.98% respectively.
- Avg. market return has slumped to 19.43% from 20.38% while the risk level (standard deviation and 10 day 10% VaR) has both shrunk minutely.
- Market is under-valued as per Market capitalization to GDP ratio; hinting the presence of buying opportunities.

Average Turnover	Average Volume	Average Transaction Size	Average Market cap
NPR. 2.97 billion	***8.23 million***	***51.24K***	***NPR. 3.1 trillion***
- 9.18%	***- 7.46%***	***- 2.68%***	***+ 6.59%***

TOPIC THREE

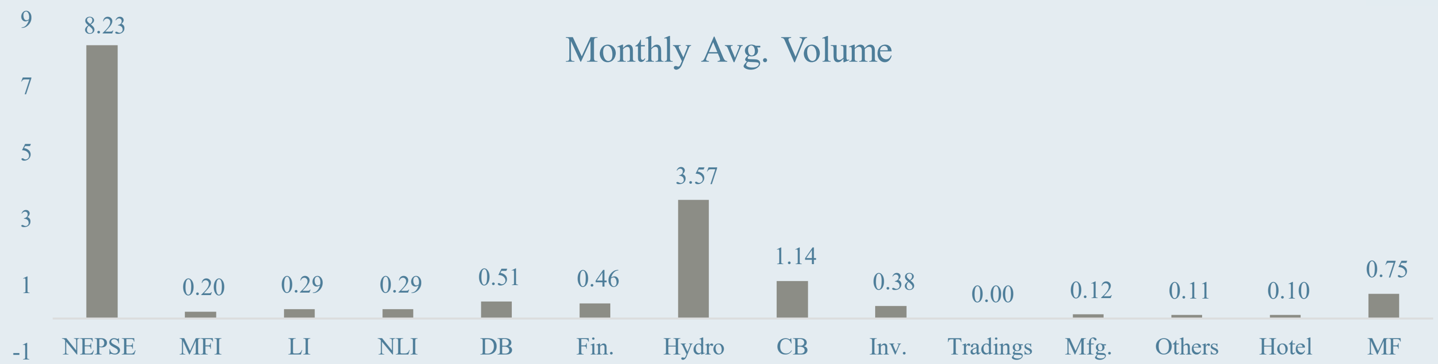
WHICH SECTOR'S ARE ON RALLY?



Note: From 12th Jan. to 12th Feb.

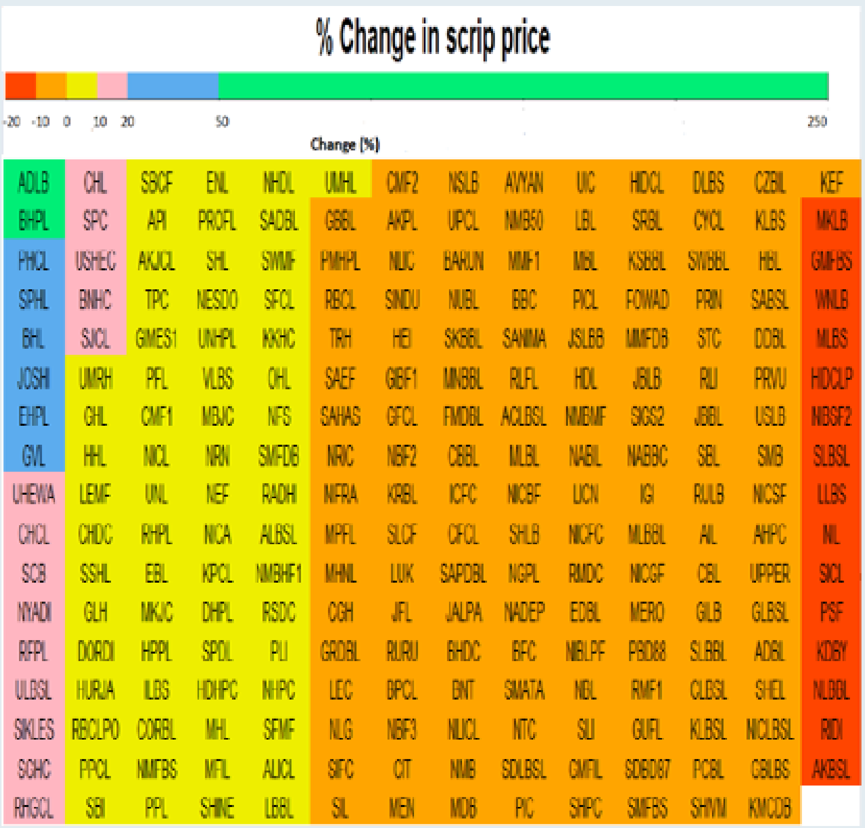
- Hydropower sector produced the notable positive mean return while Trading, Microfinance etc. yielded major negative return. Finance, Hydropower, Hotel & Tourism etc. remained more volatile while Commercial Banks, Mutual Funds, etc. saw least fluctuation. Development Banks, Life Insurance, Hydropower are more sensitive to index changes whilst Mutual Fund, Microfinance, Mfg. & Processing are least prompt to index changes.

- Hydropower sector lead the market in all trading days of the month in terms of Turnover, Volumes, and Transaction size, making up approx. 40% of such total figures. Commercial Banks and Microfinance were the other sector contributing the most.

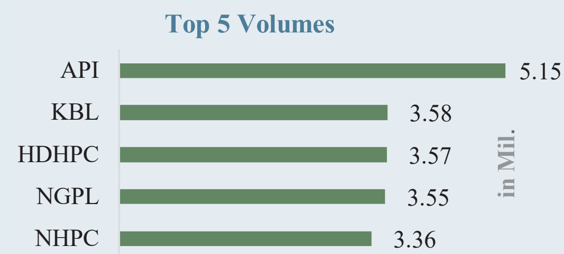


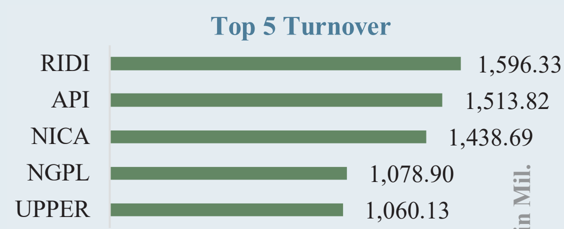
TOPIC FOUR

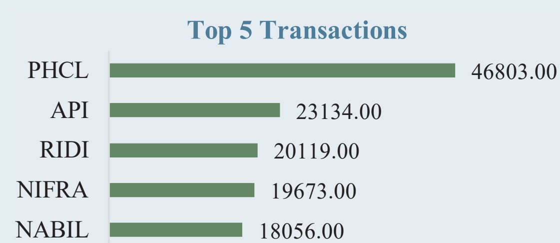
WHAT'S THE HEATING STOCK?



ADLB	CHL	SBCF	ENL	NHDL	UMHL	CMF2	NSLB	AVYAN	UIC	HDCL	DLBS	CZBIL	KEF
BHPL	SPC	API	PROFL	SADBL	GBBL	AKPL	UPCL	NMB50	LBL	SRBL	CYCL	KLBS	MKLB
PHCL	USHEC	AKJCL	SHL	SWMF	PMHPL	NLIC	BARUN	NMF1	MBL	KSBBL	SWBBL	HBL	GMFBS
SPHL	BNHC	TPC	NESDO	SFCL	RBCL	SINDU	NUBL	BBC	PICL	FOWAD	PRIN	SABSL	WNLB
BHL	SJCL	GIMES1	UNHPL	KKHC	TRH	HEI	SKBBL	SANIMA	JSLBB	NMFDB	STC	DDBL	MLBS
JOSHI	UMRH	PFL	VLBS	OHL	SAEF	GBF1	MNBBL	RLFL	HDL	JBLB	RLI	PRVU	HIDCLP
EHPL	GHL	CMF1	MBJC	NFS	SAHAS	GFCL	FMDBL	ACLBSL	NMBMF	SIGS2	JBBL	USLB	NBSF2
GVL	HHL	MCL	MRN	SMFDB	NRIC	NBF2	CBBL	MLBL	NABIL	NABBC	SBL	SMB	SLBSL
UHEWA	LEMF	UNL	NEF	RADHI	NIFRA	KRBL	ICFC	NICBF	LICN	IGI	RULB	NICSF	LLBS
CHCL	CHDC	RHPL	NICA	ALBSL	MPFL	SLCF	CFCL	SHLB	NICFC	MLBBL	AL	AHPC	NIL
SCB	SSHL	EBL	KPCL	NMBHF1	MHNL	LUK	SAPDBL	NGPL	RMDC	NICGF	CBL	UPPER	SICL
NYADI	GLH	MKJC	DHPL	RSDC	CGH	JFL	JALPA	NADEP	EDBL	MERO	GILB	GLBSL	PSF
RFPL	DORDI	HPPL	SPDL	PLI	GRDBL	RURU	BHDC	BFC	NBLPF	PBD88	SLBBL	ADBL	KDBY
ULBSL	HURJA	ILBS	HDHPC	NHPC	LEC	BPCL	BNT	SMATA	NBL	RMF1	CLBSL	SHEL	NLBBL
SIKLES	RBCLPO	CORBL	MHL	SFMF	NLG	NBF3	NLICL	NTC	SLI	GUFL	KLBSL	MCLBSL	RIDI
SGHC	PPCL	NMFBS	MFL	AUCL	SIFC	CIT	NMB	SDLBSL	CMFL	SDBD87	PCBL	CBLBS	AKBSL
RHGCL	SBI	PPL	SHINE	LBBL	SIL	MEN	MDB	PIC	SHPC	SMFBS	SHIVM	KMCDB	







- Our scrutiny of 237 scrips – includes equity shares, and mutual fund units, but excludes the promoter shares (except RBCLPO and HIDCLP), and bonds/debentures – detects ADLB (2300), and BHPL (641.50) (highlighted with Green) continued spiral up momentum, yielding 228%, and 86% respectively in the review month.
- 6 Hydropower scrips (Blue) returned 20% to 40%, while 14 other scrips (all Hydro except SCB) (Pink) produced 10% to 17% return. SCB (532) knocked into the investor's choice as the company's fundamental stood ahead of its peers on many spectrums.
- Other 65 scrips (Yellow) in our selection found negligible (even nil) to 10% increments; nearly half scrips are from Hydropower sector.
- 136 scrips (Orange) in our purview lost its price below10% while 15 scrips (Red) lost 10% to 33% in secondary market; AKBSL (1176), RIDI (370), NLBBL (760), KDBY (8.33) among major loser.
- PHPL whose IPO was listed not long ago transacted the most, while API topped volume wise and RIDI lead in turnover amount.

TOPIC FIVE

WHERE THE FACTORS STAND?

1) Banking Liquidity – CD: 86.56%

- Slight decrement in CD ratio from 86.65% on Falgun end was observed.
- Banking deposit till month end total approx. Rs. 5,363 billion against Rs. 5,311 billion on Poush end, *meagre 0.98% rise.* On other hand, banks loan has surged to Rs.4,826 billion from Rs. 4,778 billion last month, *reflecting 1% rise.*
- Any further decrement in deposit and lending rate in coming period could negatively affect the deposit growth but bring positive rise to lending, stressing the CD ratio again.

2) Interest Rate – IBR: 5.25%

- Nepal Banker's Association meeting made no change to Commercial Bank interest rate on fixed deposit (11%) for the month of Falgun while the meeting of Development Bankers Association reduced the interest rate by 0.25% to 11.75% for the month of Falgun.
- Inter-bank rate has been declining, reporting 5.25% at month end, against 5.6% previously. The rate though remains much volatile relates inversely to banking system liquidity supply.
- 91 day T-bill has decreased to 9.63% from 10.58%.

3) Govt. Revenue and Expenditure

- Government is able to collect 36.68% (i.e. Rs.514.68 billion) of its fiscal year 2079/80 targeted revenues till month end.
- Government expenditure has reached 37.22% of its budgeted expenditure (i.e. 1793.8 billion) where 44.92% are recurrent and 17.43% are capital expenditure.
- In corresponding previous period, revenue collection was 51.96% while the expenditure was 36.20%, recurrent being 44.65%.
- Although % of expenditure aligns to previous period, government fell short in its revenue collection by 15%.

4) BoP - Surplus

- *In the six months of 2079/80*, Balance of Payment is at surplus of Rs.97.10 billion, *rising more than twice in the review month alone*. BoP was at surplus of Rs.45.87 billion till fifth months.
- Current account is at deficit of Rs.29.47 billion against the deficit of Rs.352.16 billion previously.
- Merchandise import decreased 20.7% to Rs.792.67 billion while merchandise export decreased 32% to Rs.80.81 billion.
- Trade deficit has decreased by 19.2% to Rs.711.86 billion.

5) Inflation: CPI – 7.26%

- Consumer Price Inflation (CPI) and Wholesale Price Inflation (WPI) records 7.26% and 9.82% respectively in mid-January 2023. Corresponding previous period reports 5.65% and 8.08% resp. The global events esp. the Russia-Ukraine disputes, rising oil/fuel prices, strengthening US Dollar etc. resulted the higher inflation, although at present CPI is in its declining mode, approaching toward the targeted rate of 7% for the current fiscal year.

6) Remittances – 24.3%

- The amount of remittance has increased by 24.3% to Rs.585.08 billion in the first six month of current fiscal year 2079/80. In terms of US Dollar, remittance has increased 13.9% to USD 4.50 billion. Such remittance inflows were 5% negative in the corresponding previous periods.
- There is more than 64.6% rise in workers taking foreign employment approval till six months of current fiscal year.

7) Forex Reserve - Stable

- Gross foreign exchange reserve increased 10% to Rs.1337.29 billion. Equivalently, it is an increase of 8% to USD 10.30 billion.
- Such reserve is adequate to meet the prospective merchandise import of 10.4 months, and merchandise and service import of 9.1 months. This is higher than the current Monetary Policy target of maintenance of reserves sufficient to meet at least 7 months merchandise and service imports.

8) Global Concern – Difficult Geopolitics and Economic Downturns

- World Bank recently revised down its global economic growth projection to 1.7% in 2023, looming more the fear of global recession ahead.
- India's retail inflation above central bank's upper target, further interest rate hike expected.
- Oil price trading at approx. $79 (Crude) and $85 (Brent) per barrel.
- Recent Earthquake in Syria and Turkey may rattle economy of MENA region.
- Gold trading below $1900 from February, rising rate of global inflation, and US interest rates hike for taming inflation are other concern.

"Financial peace isn't the acquisition of stuff. It's learning to live on less than you make, so you can give money back and have money to invest. You can't win until you do this". – Dave Ramsey

"All intelligent investing is value investing. Acquiring more that you are paying for. You must value the business in order to value the stock." – Charlie Munger

TOPIC SEVEN

MORE ON SECTORAL DEVELOPMENT

Banks and Financial Institutions: Amid the signs of easing but skeptical liquidity in the economy and no notable changes to interest rates decision at mid-term review of monetary policy, “A” class banks (Commercial Banks) kept interest rates on deposits same for the month of Falgun i.e. capped interest rate to 11%. While Development banks decided to decrease interest rates on deposits by 0.25% to 11.75%. Downward revision of Overnight Liquidity Facility to 7% is expected to bring some positive changes in money market but would not majorly affect base rate and interest rate spread of banks. Moreover, NRB directives to bring interest rate spread to 4.2% for Commercial banks and 4.8% for Development banks and Finance by Chaitra, 2079 would decide interest on loans and deposits for coming months. As major banks and financial institutions have spread rate above the threshold, increasing NPL and compulsion to change interest rates to the tune of this directive can affect core business earnings of BFI’s in near future.

Further, Bank’s 2nd Quarter results reported high Non-Performing Loans (NPLs), further hampering the profitability. On the supervision side, nine commercial banks have been issued series of warnings and penalties under various issues like Corporate Governance, increase in premium, not maintaining capital adequacy, operational issues etc.

Insurance: Major Life and Non-Life insurance companies are in process of publication of their 2nd Quarter report. Based on Y-0-Y analysis, among Non-Life Insurers, RBCL, NIL, NICL and UIC had major increment in profit by 92.57%, 17.20%, 47.64% and 33.70%, whereas PICL experienced 43.24% decrease in profits. Other Non-life insurers have ordinary performance as Y-0-Y profit increment have been slow - ranging profit growth rate from 0.93% to 8%.

Insurance companies are in hurry to comply with regulators guideline to increase capital to Rs. 5 billion (for Life) and 2.5 billion (for Non-Life) by Chaitra end, 2079. So, spree of Mergers and Acquisitions with issuance of rights and bonus issues are major events taking place in this sector. In life insurance sector, apart from NLIC, all other insurers are in need for increasing capital. Rights, Bonus and Mergers and Acquisitions can be expected. In Non-Life insurance sector, apart from SICL, all other insurers need to increase their paid-up capital. RBCL (according to 2nd Qtr., 2079) is in need of approx. 2.23 Arba to increase their paid-up capital. Among the Non-life insurers, IGI/PICL, AIL/UIC, LGIL/SIC, SIL/PIC are in process of merger. While in life sector, SLI and RLI, PLI and Mahalaxmi Life insurance are in process of merger.

Recent inflow of investors' funds into **hydropower sector** brings positivity in the market. With advent of rights offering like of API's 40% rights, we see increase in turnover and transactions of individual stocks namely: PHCL, RIDI, API, HDHPC, NGPL etc.

Cements manufacturers in country are facing issues related to shortage of raw material, lack of demand, increased prices of raw materials leading to turning down the capacity of production. SHIVM have published unsatisfactory performance in the recent quarters. There has been considerable curtailment in sales by 27% and cost of sales by 22% on 2nd Qtr. 2079/80 (from 2nd Qtr. 2078/79). Hotels sector have major reason for investor's satisfaction for 2nd Qtr. 2079/80. It can be implied that COVID-19 effects on tourism sector have finally been over as listed hotels have become profitable. OHL and TRH have become profitable in 2nd Qtr. 2079/80 recording profit of 3.6 crore and 10.6 Crore respectively. With Covid-19 in check and better inflow of tourists, we expect better occupancy rate in coming quarters hinting at sustainable profitability.

TOPIC EIGHT

WHAT'S THE OUTLOOK AHEAD?

Investors were expecting monetary policy with bouquet of rates cuts in policy rate and interest rate corridor along with ease in levying risk weights on margin loan and scraping of 12 crore ceiling of margin loan

But monetary policy did not come as it was expected. Thus, market went on correction mode and have been reeling under it. Though, current six months CME data shows signs of improvement but wholesome improvement is yet be experienced. Positive BOP along with regular OMO intervention to manage liquidity have been successful to some extent but major changes in interest rates of banks are yet to be seen. We expect some comfortable situation for investors as Commercial banks and Development banks are directed to decrease Interest rate spread by Ashad End, 2080. Moreover, recent slashing of deposit rates by development banks can urge commercial banks to continue the momentum to bring base rates at a subdued level. This could create better liquidity position to flourish stock market and increase aggregate demand of economy at near future (though, risk of high imports amid increased demand can also put BOP on pressure).

Apart from looking at interest rate changes, investors are also looking at 2nd quarter results of the listed firms. We find increasing NPLs of BFIs shadowing banking sector along with major attraction towards insurance sector due to approaching of capital requirements deadlines for both life and non-life insurers. So, we expect major interest of investors to pour into hydropower and insurance sector. As of now, we don't expect any major interest rate cuts and any circular based directives which could affect market in this one-month window.

Important Disclaimer:

This report has been prepared by the Research and Product Department of Garima Capital Limited after the study and analysis of publicly available data and information and does not use any inside information. The data and information studied are believed to be proper and reliable. However, we do not guarantee the correctness and completeness of the same, neither any independent verifications of the same are made by third parties.

The opinion and views expressed in this report are the consensus understanding and comprehension of the Department and the Company. However, such opinion, views, and information expressed in this report are subject to change based on change in market information and circumstances.

The sole purpose of this report is to provide analytical insight of the market performance and the state of affairs to whoever interested market participants along with our valued clients and customers.

This report should not be construed as investment advice or recommendation and ultimate investment decision stays on investors own wisdom. Garima Capital Ltd. including the Research and Product Team shall not be liable for any loss or damages that investors incur from investment actions based on this report.