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

# THE ANALYTICS

## MONTHLY GARIMA INSIGHT

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NEPSE Alternatives Or Upgradation?

Dissecting the Performance of Mutual Funds: Past and Present.

NEPSE SCANNER

MACROECONOMIC FACTORS

SAME STORY, DIFFERENT ARTIST: FIRST REPUBLIC BANK FIASCO

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***Save the Red Panda. Nepal is a home for around 1000 Red Panda.***

## Market Note:

# NEPSE Alternatives *Or* Upgradation?

The process of issuance of new stock exchange license came to halt after the Prime Minister Pushpa Kamal Dahal direct instruction as the allegation of possible corruption in the process of license issuance surfaced in the parliament. Earlier, Supreme Court had given the green signal for issue of another stock exchange license, dismissing the petition against it. SEBON had received the application from private sector, namely Himalayan Stock Exchange, National Stock Exchange and Annapurna Stock Exchange, out of which one was supposed to be issued the license.

It has long been the demand of market participant for the need of another stock exchange. Nepal Stock Exchange (NEPSE), the only venue of secondary market with three decades history, is often questioned for its sundry flaws and poor tech savviness.

Investor believes the other stock exchange would bring competition in delivery of quality services and technologies, helping to boost the overall capital market.

While on the other hand, debate is on the rationality of the NEPSE upgradation or the real alternative avenue. Argument from both side holds strength in context of Nepal.

There‘s no denying that NEPSE needs massive overhaul in its offered services, especially in part of outmoded software. The TMS system keeps suffer technical glitches risking billions of funds, issue with NEPSE API is still unsolved, lack of integration between NEPSE and other parties like CDSC, DP, etc., NEPSE is sluggish in introducing modern tools and technologies in market.

The operation of multiple stock exchange definitely effect competition in the market in filling the various existing loopholes. In period of technological revolution with evolving concepts like decentralized finance, market participants are sure to experience robust, secured, swift, friendly investment venues at more competitive prices. Instant settlement of transaction, settlement guarantee, greater transparency etc. would help maintain trust factor. Exchange will be able to make greater supervision of its listed entities. Introduction to / revision to regulations enhances governance factor, check market manipulation, mitigates risks.

Company not able to meet listing requirement in one exchange may qualify in other, but the more stringent the requirement the better the market health would be. Same goes with the investors, as one not able to participate in one market may be welcomed by others. Dual listing provides more liquidity, more capital, more participation. Different market timing in both the exchanges would also make investment more liquid. Brokerage services would be extended to remote part as well and more dealers and market makers may be added. Market literacy program would be amplified. Competition will thrive exchanges for renovation and innovation, lifting the market integrity.

There are other school of thought that counter the goodness of competition and it holds water too. The regulatory body, SEBON has poor history of its action against market manipulator and private ownership of exchanges (majority owned by private groups) by selected individuals would add more regulatory challenges. Cyber-attack in one exchange will hurt the market trust factor. Introduction of different involved nature of techs/ software / trading guidelines would puzzle market participant. The already low number of active market participants would likely be divided across different platforms, compromising the investment liquidity and trading volumes and affecting the fair price discovery. Possibility of price discrepancies in the exchanges spur price manipulation and unfair arbitrage loot.

***"Mr. Market grades you on a daily basis."***

***- Chris Browne***

Argument may be of the kind of market impact NSE brought in presence of BSE in Indian capital market. Argument may be the rightness of time and market preparation for the launch of other exchange. The unknown probability of market boom after having the alternative. Reality is our market size is very small with limited products, limited coverage, limited participation, limited infrastructure and resources, etc. Regulatory body, SEBON, is still struggling to diligently manage one exchange. Brokerage services are concentrated on urban part only. Other than stock market, no other investment avenues are well developed. Despite the talk on technologies and infrastructures, challenges stand on transfer of such resources as central bank may pause the large capital outflow anytime.

Given that the new stock exchange is able to introduce new set of trading mechanisms, infrastructures, investment products, finer set of regulations and governance, make broader reach to investors, avoid any sort of unhealthy competition, maintains market integrity, etc. capital market may applaud the decision of having the alternatives. Otherwise, the infrastructure upgradation of existing NEPSE along with corrective actions of SEBON would just be fair.

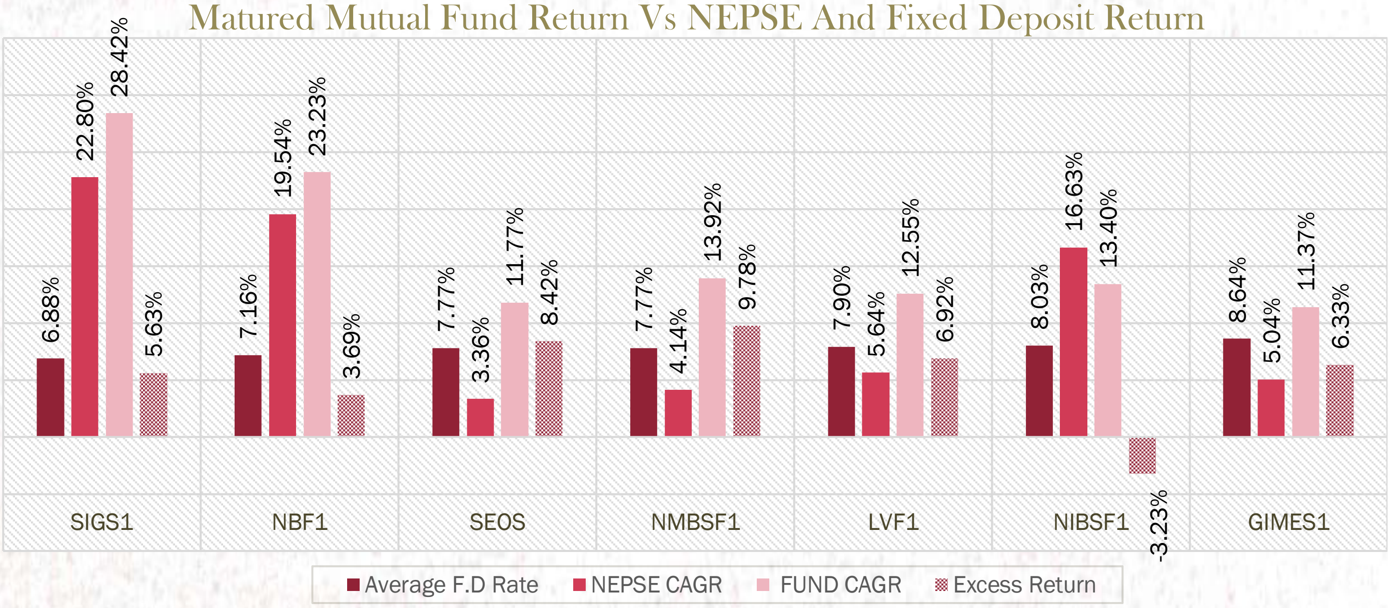
Regardless of all the arguments, even odds still lie on success and failure of having multiple exchanges.

# Dissecting the Performance of Mutual Funds: Past and Present

*This Article is featured in ShareSansar.*

Mutual funds are characterized as an important avenue for investment especially for the retail investors who want to partake in the stock market but have little knowledge about the same. In the Nepalese context, after the introduction of the Mutual Fund Regulation in 2067, numerous mutual fund schemes have been introduced. Mutual fund as an alternative for investment has now existed for more than a decade. With some mutual funds already matured and others currently in active status, this study aims toward dissecting the performance of matured mutual funds as well as existing mutual funds and provide evidence on whether the mutual funds can be considered an efficient vehicle of investment for potential investors. Fig 1. Shows the compounded annual return of various matured mutual funds and the respective return of NEPSE and fixed deposits in the same period.

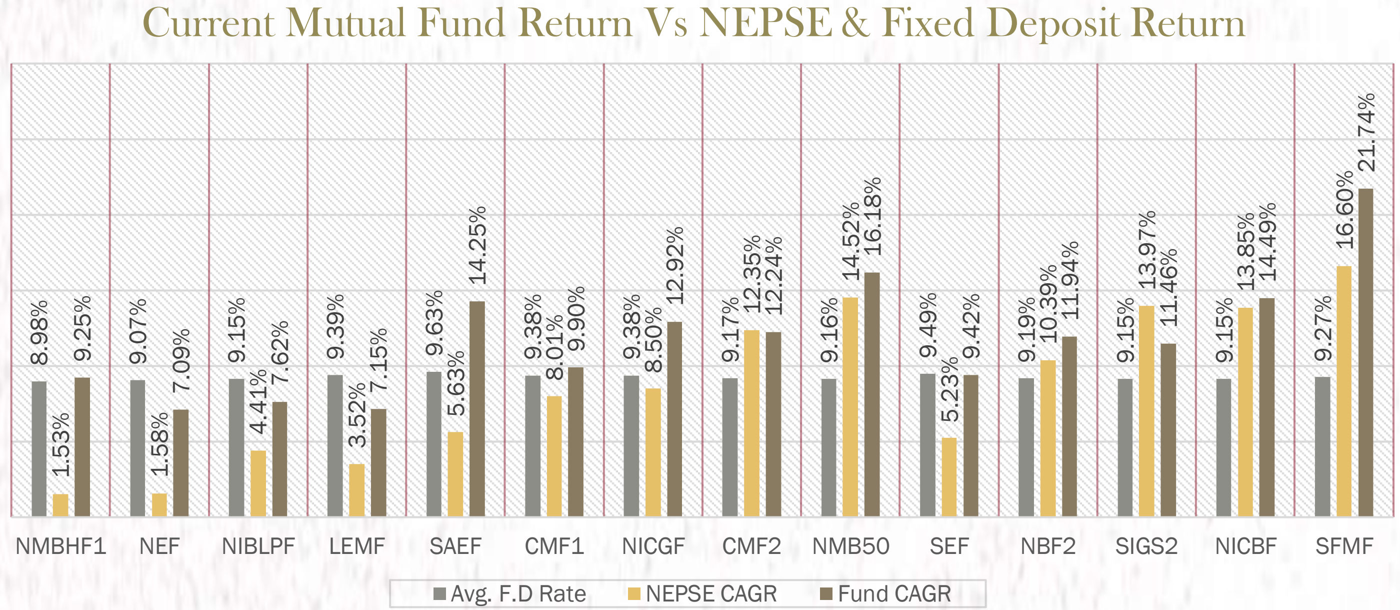
Matured Mutual Fund Return Vs NEPSE And Fixed Deposit Return




Of the total 7 mutual funds, all have comprehensively beaten the annual return on fixed deposits which is considered a prominent alternative of investment in Nepalese context. Furthermore, 6 out of 7 mutual funds that have matured were also able to beat NEPSE in a very convincing manner which further cements the position of mutual fund as a commendable investment alternative.

While investing in stock market, timing matters a lot and this is fairly evident from the fact that SIGS1 and NBF1 were able to generate very high compounded annual returns compared to the other 5 mutual funds. These two aforementioned mutual fund schemes were introduced right at the beginning of the bull rally in circa 2013 which allowed them to enjoy full momentum. Furthermore, the fund size of SIGS1 and NBF1 were NPR 500 million and 750 million respectively, which can be considered a sizable amount in that period of time given that the daily average turnover was around NPR 890 million at the peak of the bull market of 2016. The remaining 5 funds although had a lower CAGR, were still able to beat NEPSE (barring NIBSF1). Furthermore, SEBON's policy to allocate 5% of total IPO to mutual funds meant that during the initial years, SIGS1 and NBF1 were able to enjoy abnormal returns from these IPO allocations with additional returns contributed by the growing market. With very few mutual funds operating in the market, the IPO benefits were substantial. To put things into perspective, on an average, 24 IPO issues amounting NPR 15 billion were issued on an annual basis up until the bear market of 2019.

The attractive returns provided by the matured mutual funds have created a great platform for the new mutual funds to attract investors while issuing their schemes. In hindsight, investing in mutual fund would be the right decision rather than investing in random companies in the market without proper analysis. Whilst the past mutual funds' performance portrays a rosy picture, this study also focuses on the returns of prevailing mutual funds to see if such superior performance has continued to persist in the current market scenario.

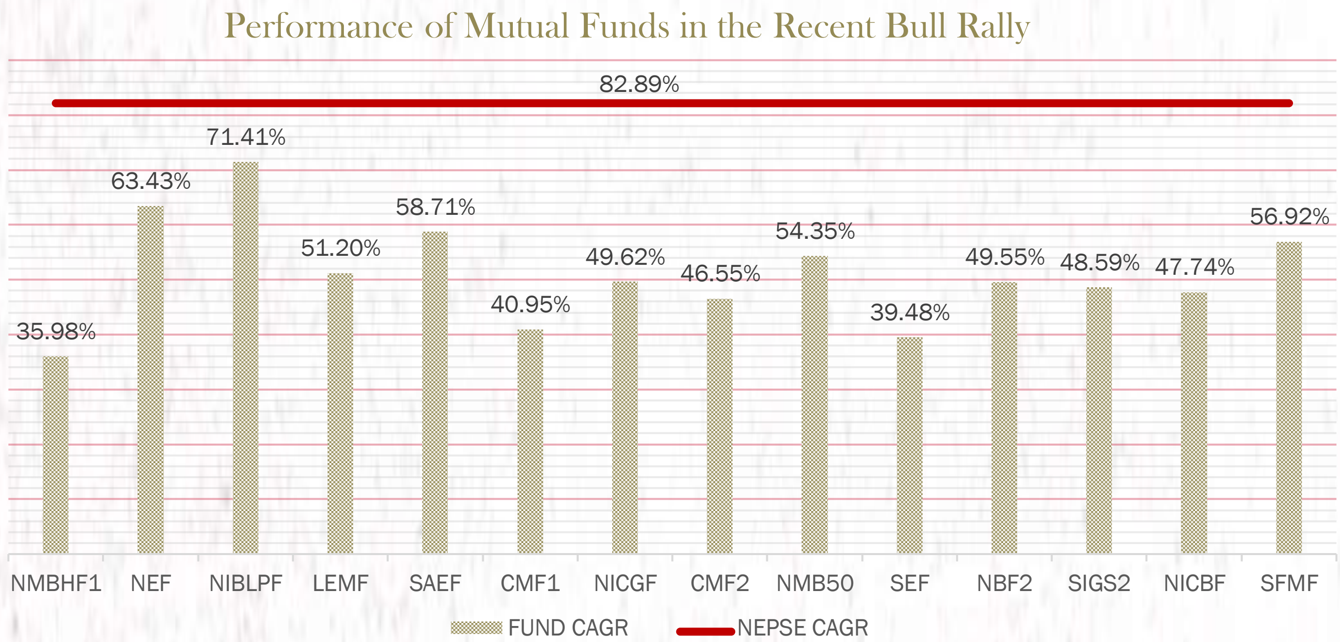



*Mutual Funds with more than 3 years of operation are taken for the study.

**Figure 1:Current Mutual Fund Return Vs NEPSE & Fixed Deposit Return**

In Fig.2, the returns of current mutual funds show a different picture compared to the returns of the past matured funds. The average return of these funds is around 11.83% which seems to be quite lower compared to the previous matured funds shown in Fig.1. It is to be noted that in Fig2. the mutual funds are presented in chronological order from left to right. One of the major reasons for such subdued performance seems to be the timing of issuing such funds. Majority of these funds seem to have entered the market while the bear market had only begun. Increasing average fixed deposit rates in Fig2. (from left to right), also suggests that the funds operated mostly during the bear market. However, these funds have nevertheless managed to generate returns almost on par to that of the fixed deposit. Some of these funds, namely, NMBHF1, NEF, NIBLPF and LEMF which are on the verge of maturing in approximately 1 years' time, have struggled to generate returns superior to that of fixed deposits. Similarly, the remaining funds have either superseded NEPSE return or are close to attaining NEPSE returns with SFMF and NMB50 being the funds that have returns above 15%.

Since the mutual funds presented in Fig.2 were all introduced in different time periods, it is quite difficult to compare their performance. For this purpose, the performance of all existing mutual funds is evaluated based on their performance in the recent bull rally i.e. between the period of Mangsir 2076 and Shrawan 2078.



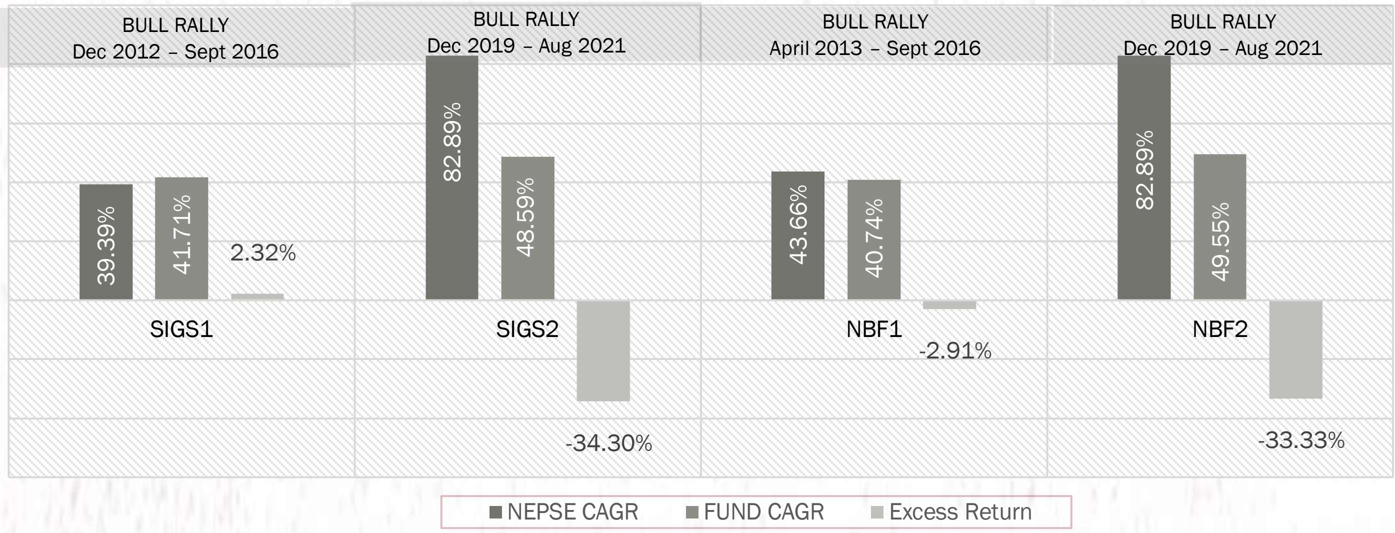

*NAV of Mangsir 2076 and Shrawan 2078 are considered for the calculation.

**Figure 2: Performance of Mutual Funds in the Recent Bull Rally**

Fig.3 shows that out of all the existing mutual funds, only two funds namely NEF and NIBLPF were close to beating the NEPSE Index. Not a single mutual fund has been able to generate returns superior to NEPSE. Apart from the aforementioned two mutual funds, the minimum and maximum deviation of the remaining mutual funds' returns are 24.18% and 46.91% respectively from the NEPSE's return. Given the fact that there are no derivatives instrument in the Nepalese stock market, the current form of the stock market can be considered a one-way market and in such a market, bullish run offers a great opportunity for these funds to generate returns. However, being unable to make the most out of such bullish run is a huge opportunity loss for the mutual funds.

Whilst the performance of the existing mutual funds in the bull rally seems to be quite underwhelming, this study further tries to evaluate the performance of the same fund manager in its past and present mutual funds having a similar schematic theme. Fig. 4 shows the performance of two fund manager and their respective matured and existing mutual funds in their respective bull rally. In case of Siddhartha Capital, it is quite evident that their first mutual fund scheme i.e., SIGS-1 was able to outperform the market even in the bull rally. However, the performance of its existing mutual fund SIGS-2 in the current bull rally seems quite underwhelming. There seems to be an unfavorable deviation of 34.30% between the market return and that of SIGS-2. Similarly, NBF1 also seems to have performed almost on par with the market return with an acceptable deviation. However, the gap in the return has widened when it comes to the existing mutual fund NBF2, with an unfavorable deviation of around 33.33%.

Comparison of SIGS1 Vs SIGS2 And NBF1 Vs NBF2 Across Two Different Bull Rally




* For SIGS2 and NBF2, NAV of Mangsir 2076 and Shrawan 2078 are considered for the calculation .

*For SIGS1 and NBF1, initial par value and NAV of Bhadra 2073 are considered for calculation as Bull rally had already started when they were issued.

**Fig. 4: Comparison of SIGS1 vs SIGS2 and NBF1 vs NBF2 across two different Bull rally**

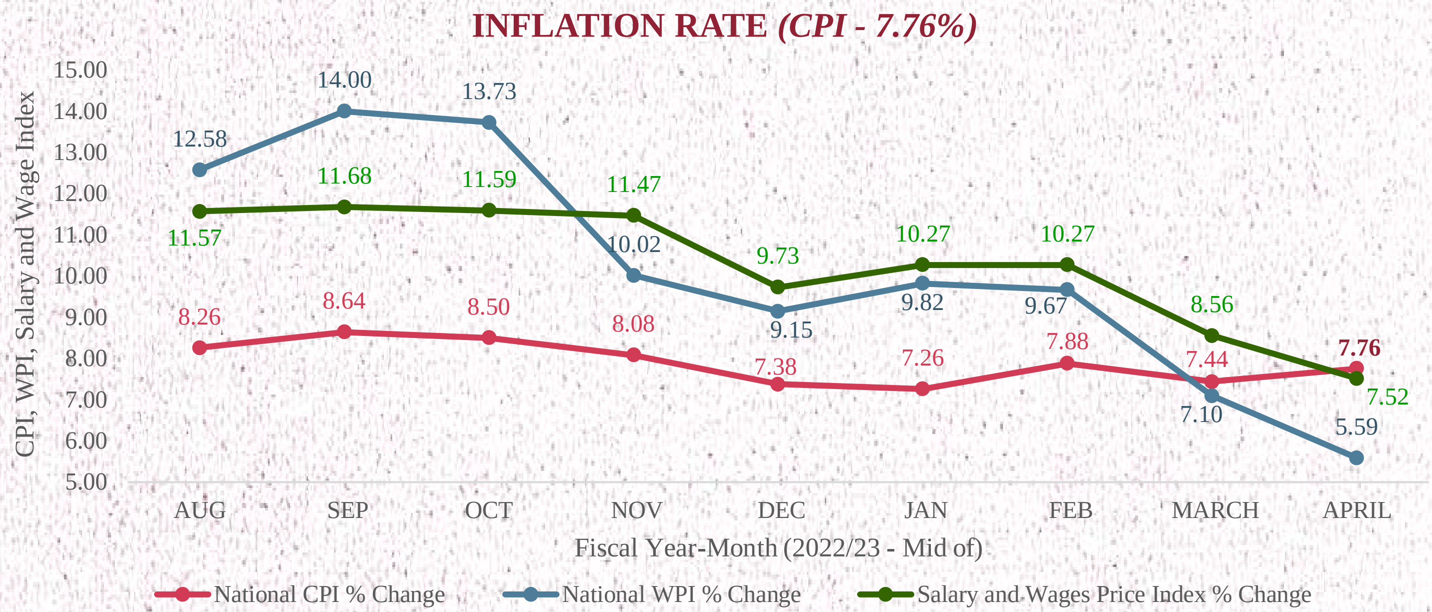
The deviation in terms of existing mutual fund's performance of the same fund manager compared to their matured funds provides interesting insights about the possible structural changes in the market. Firstly, as the number of mutual funds has increased, the IPO quota has also been divided amongst these larger number of mutual funds. As a result, the benefits that were once shared between a couple of mutual funds in the past have now been shared with many mutual funds. This has definitely diluted the returns of mutual funds as the number of units of each IPO allocated to a given mutual fund has dwindled.

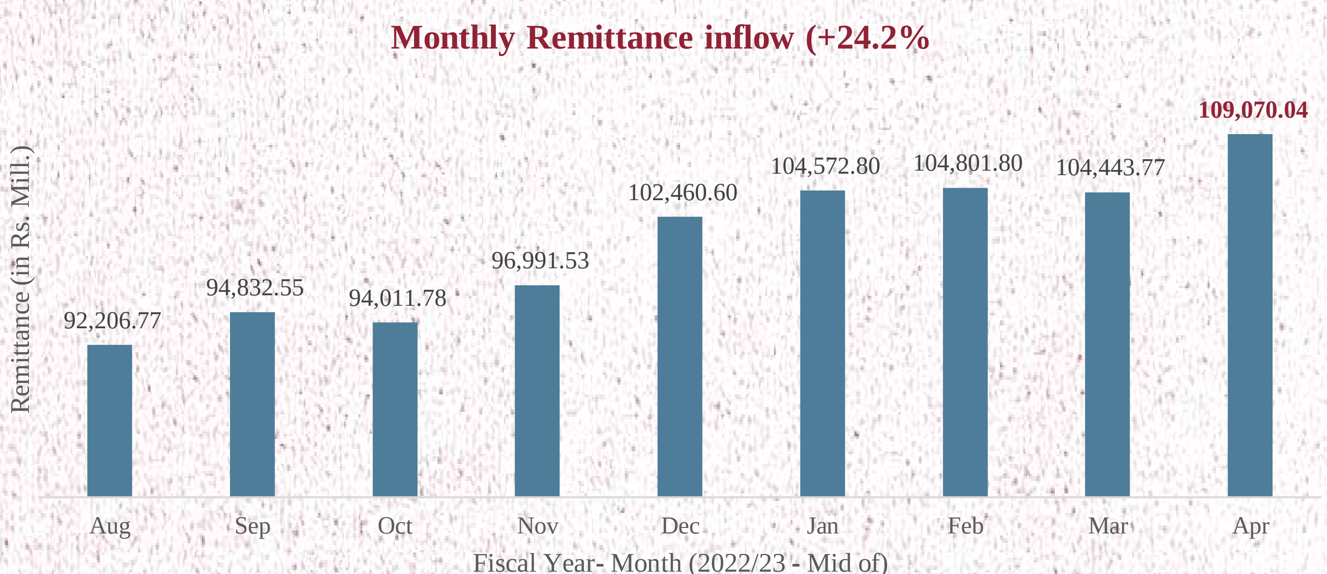
Similarly, many studies have shown that the Nepalese stock market have gradually moved from a weak form efficiency towards semi-strong form of efficiency. Therefore, the fund managers in the past might have been able to generate excess return based on analysis of public information available in the market. However, as such public information are now available through various online portals and most of the investors have access to such information in real time, and are also able to execute buy/sell decisions in real time basis (using TMS), making abnormal profits becomes highly unlikely based on public information. Which is quite in line with the proposition made by the Efficient Market Hypothesis with regards to semi-strong form markets. It seems that mutual funds need to focus on much more in depth research and analysis works that goes beyond public information in order to generate excess returns for their investors.

Furthermore, investigating the number of scrips in the existing mutual funds indicate that on an average, the mutual funds have around 64 stocks in their portfolio. Referring to numerous studies conducted in the Indian market as well as other Asian markets, it has been suggested that the ideal number of stocks in a given portfolio to eradicate unsystematic risk is around 25-30 stocks. It is to be noted that in these markets there are more than 10 times the number of stocks listed in NEPSE. Therefore, the current number of stocks in the mutual funds does seem to be quite high and therefore, mutual funds need to focus on downsizing the number of stocks and focus on specialization and a much more active management strategies in order to attain close to or even exceed the market returns.

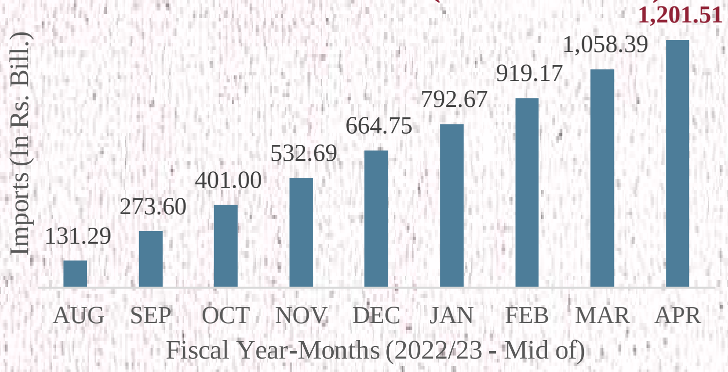
Resorting to passive strategies of matching the index and lack of consistency in performance over the entire period might result into subpar returns. A significantly higher number of existing funds struggling to even beat the average returns of Fixed Deposits might spell disaster for the new mutual funds that are on the verge of issuance. As the market is heading towards increasing participation of institutions through mutual funds, it is the moral responsibility of such fund managers to maintain superior performance to retain the confidence and increasing the reach to new retail investors.

# *WHERE DO THE FACTORS STAND?*

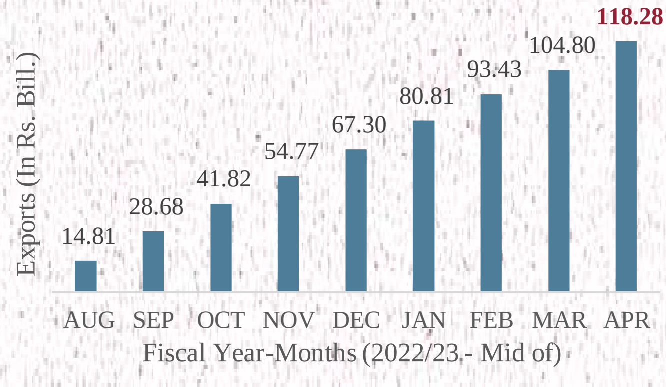


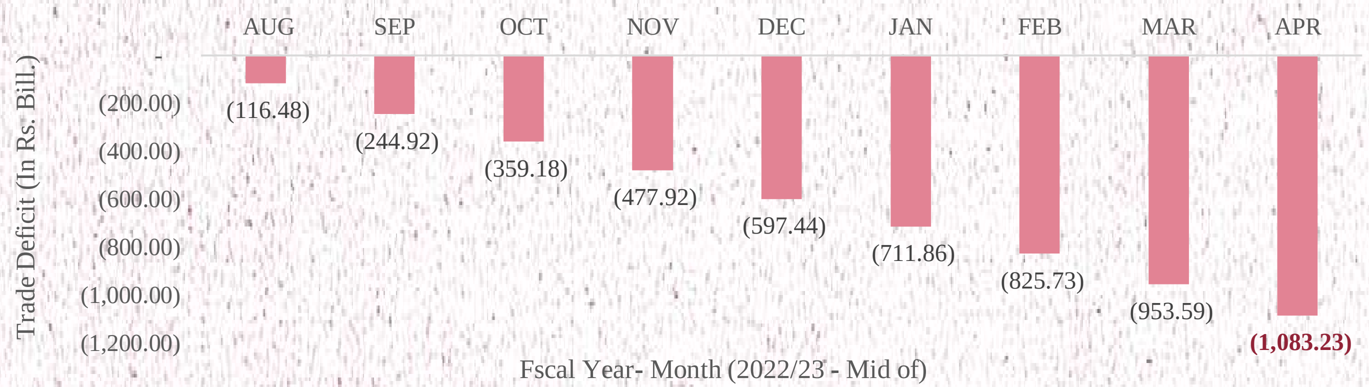
## TOTAL IMPORT (-18.1% Y-O-Y)



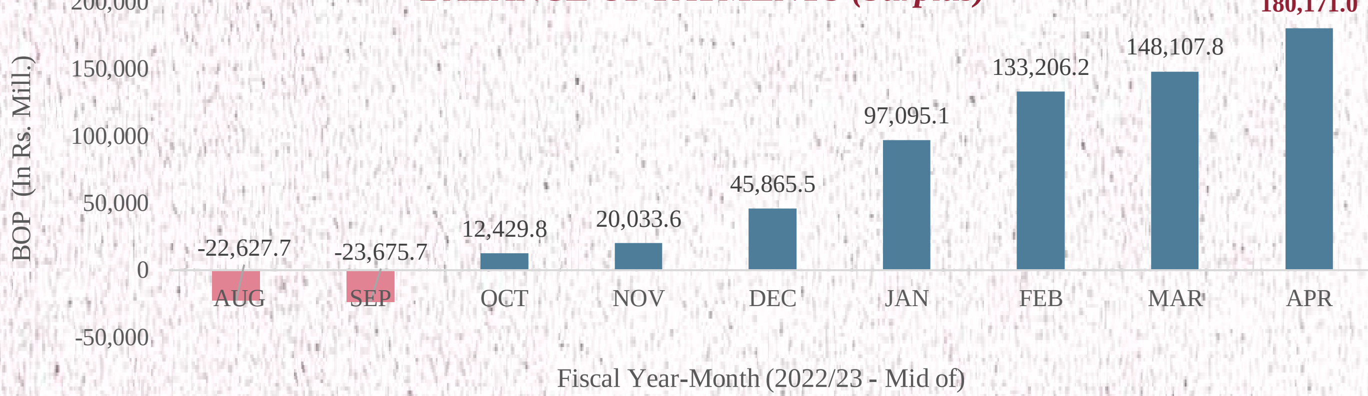

## TOTAL EXPORT (-26.3% Y-o-Y)



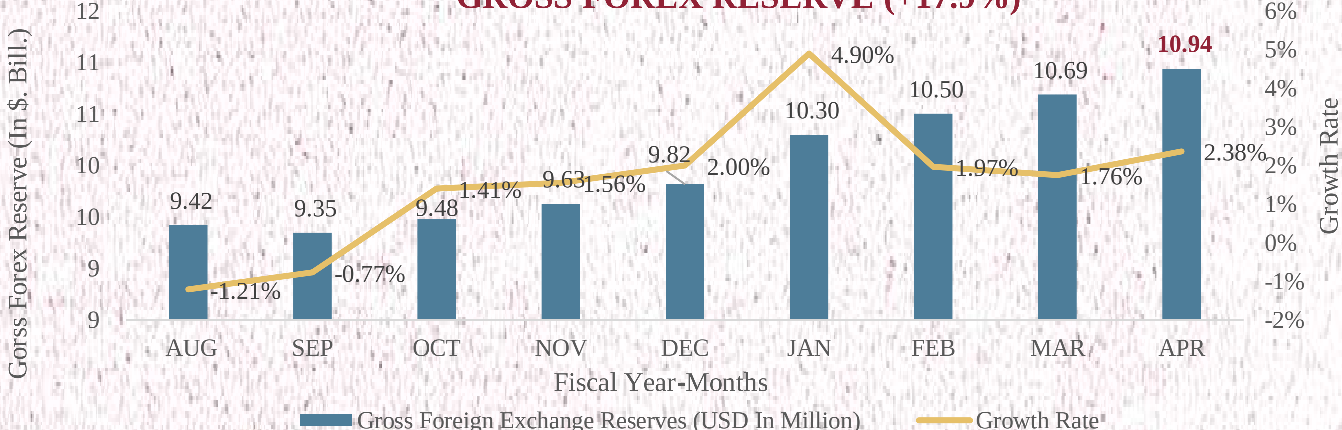

## TRADE DEFICIT (-17.1%)

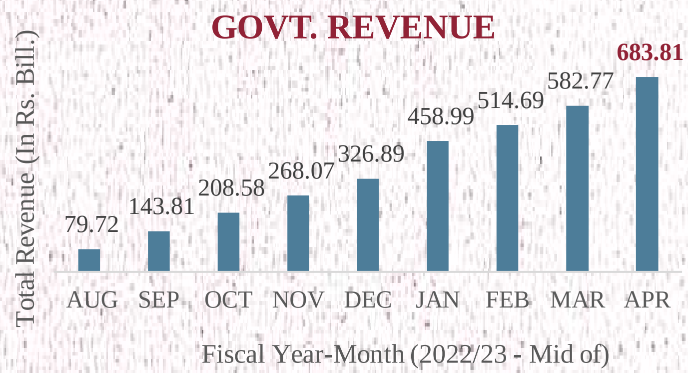


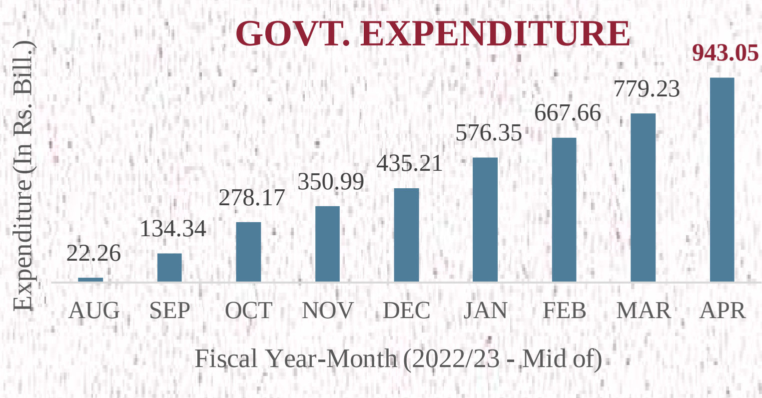

## BALANCE OF PAYMENTS *(Surplus)*

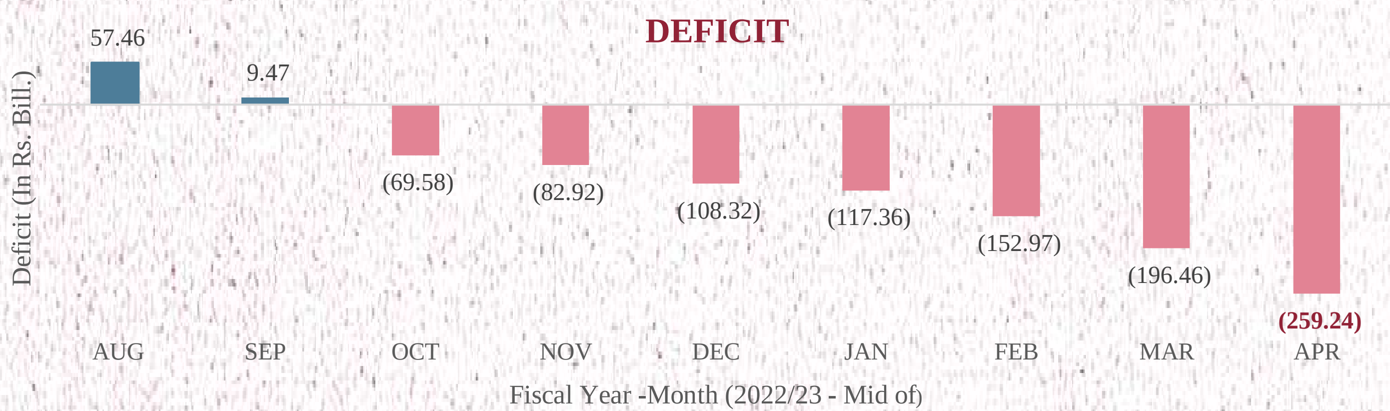


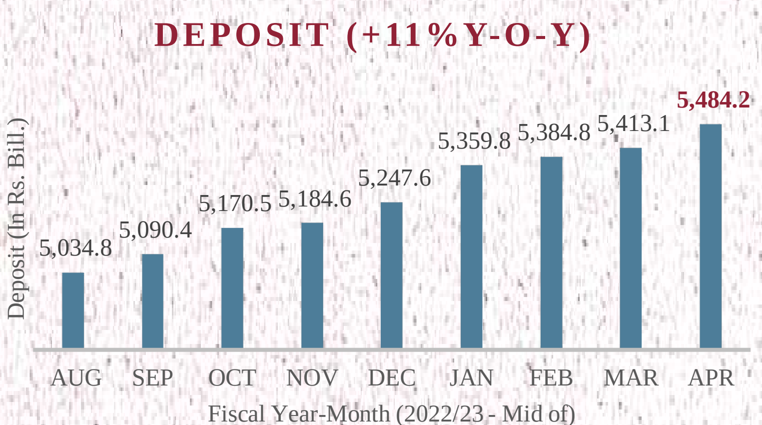

## GROSS FOREX RESERVE (+17.9%)

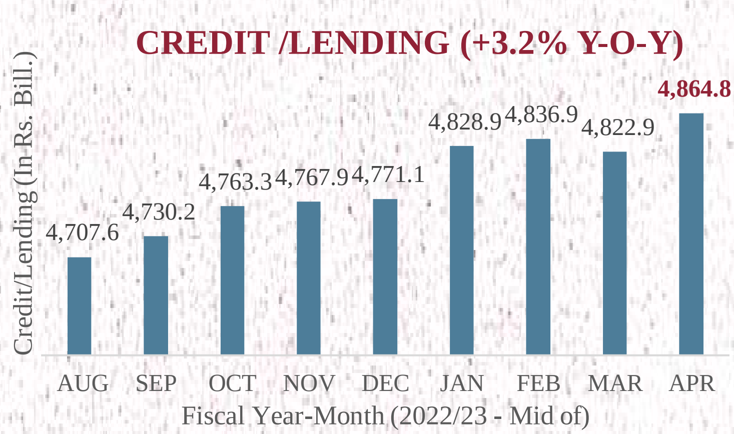


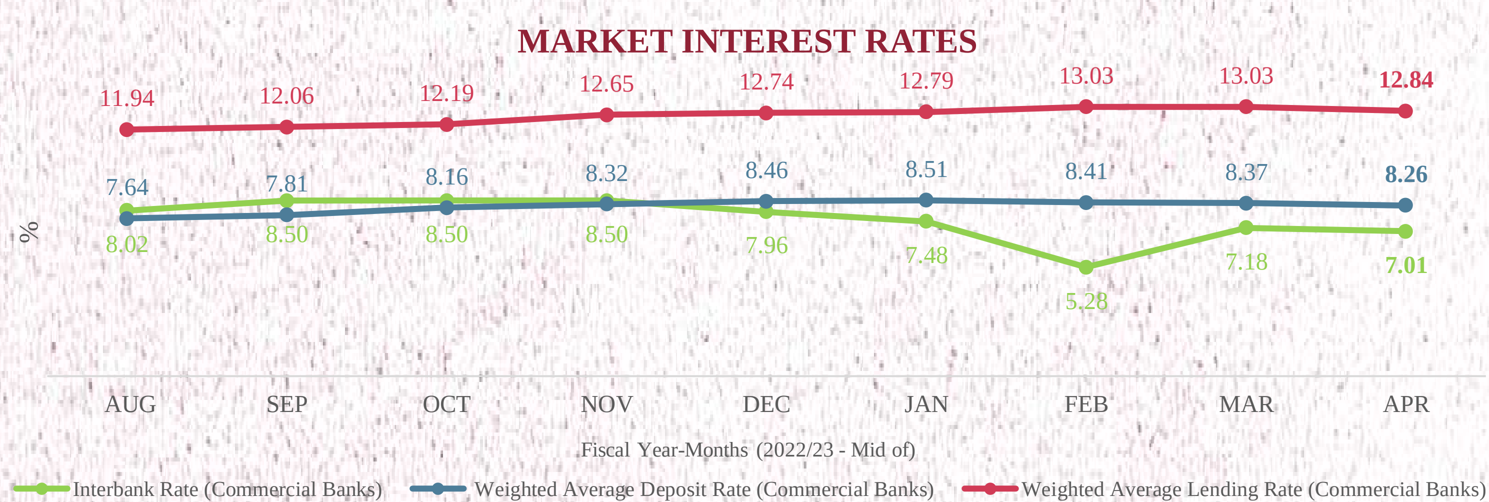

GOVT. REVENUE
Total Revenue (In Rs. Bill.)
79.72
143.81
208.58
268.07
326.89
458.99
514.69
582.77
683.81
AUG SEP OCT NOV DEC JAN FEB MAR APR
Fiscal Year-Month (2022/23 - Mid of)


GOVT. EXPENDITURE
Expenditure (In Rs. Bill.)
22.26
134.34
278.17
350.99
435.21
576.35
667.66
779.23
943.05
AUG SEP OCT NOV DEC JAN FEB MAR APR
Fiscal Year-Month (2022/23 - Mid of)

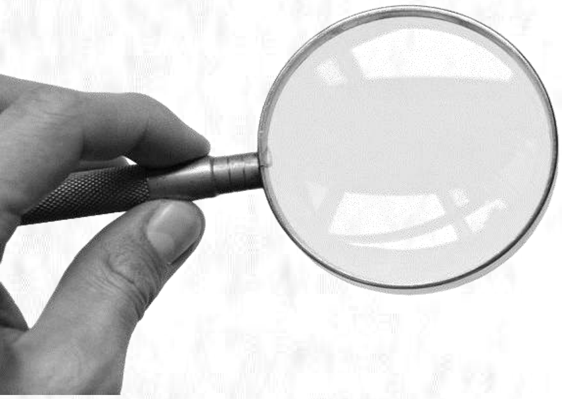

DEFICIT
Deficit (In Rs. Bill.)
57.46
9.47
(69.58)
(82.92)
(108.32)
(117.36)
(152.97)
(196.46)
(259.24)
AUG SEP OCT NOV DEC JAN FEB MAR APR
Fiscal Year -Month (2022/23 - Mid of)

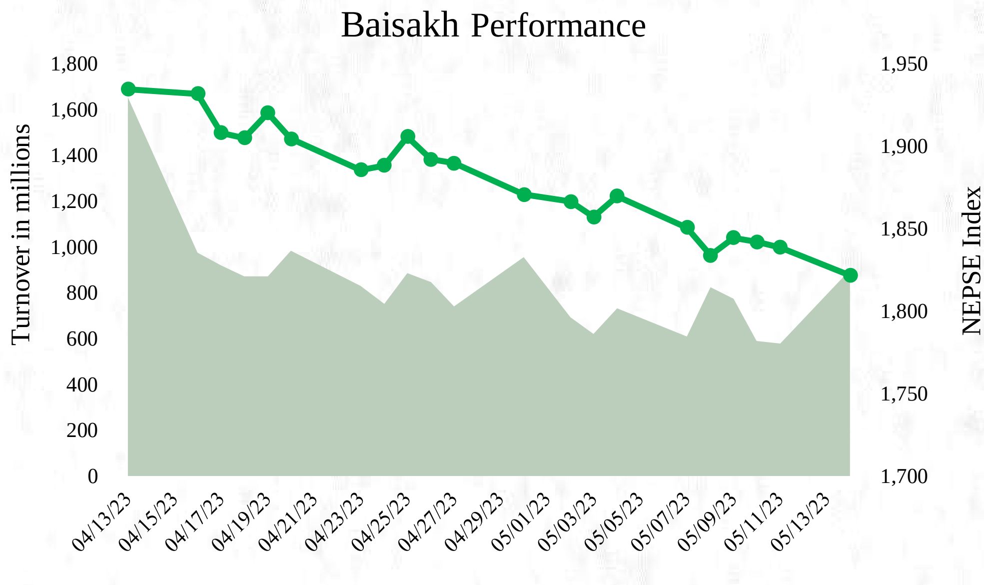

DEPOSIT (+11% Y-O-Y)
Deposit (In Rs. Bill.)
5,034.8
5,090.4
5,170.5
5,184.6
5,247.6
5,359.8
5,384.8
5,413.1
5,484.2
AUG SEP OCT NOV DEC JAN FEB MAR APR
Fiscal Year-Month (2022/23 - Mid of)


CREDIT /LENDING (+3.2% Y-O-Y)
Credit/Lending (In Rs. Bill.)
4,707.6
4,730.2
4,763.3
4,767.9
4,771.1
4,828.9
4,836.9
4,822.9
4,864.8
AUG SEP OCT NOV DEC JAN FEB MAR APR
Fiscal Year-Month (2022/23 - Mid of)


MARKET INTEREST RATES
11.94 12.06 12.19 12.65 12.74 12.79 13.03 13.03 12.84
7.64 7.81 8.16 8.32 8.46 8.51 8.41 8.37 8.26
8.02 8.50 8.50 8.50 7.96 7.48 5.28 7.18 7.01
%
AUG SEP OCT NOV DEC JAN FEB MAR APR
Fiscal Year-Months (2022/23 - Mid of)
Interbank Rate (Commercial Banks)
Weighted Average Deposit Rate (Commercial Banks)
Weighted Average Lending Rate (Commercial Banks)

# NEPSE SCANNER






- NEPSE sank to 1821.64 level from 1934.47 (previous month end), peaking the high of 1981.87 and bottoming 1818.08 in the review month, shedding 112.83 pts (5.83%).
- Sensitive, float, and sensitive float index simultaneously fell by 5%, 5.93%, and 5.04% respectively.
- Month end comparison detect an approx. 46% drop in volumes, turnover amount and transaction size while monthly average show 26 lakhs (-27.44%), Rs. 797.4 million (-30.56%), and 24 thousand (-20.38%) respectively.
- Market cap decreased 5.54% to Rs. 2.66 trillion, out of which approx. 35% are only floated. Sensitive market cap which covers A class stocks has suffered 5% loss and the size of Float and Sensitive float market cap has fell by 5.23% & 5.06% respectively.

| **Metrics** | **14.05.2023** | **13.04.2023** | **Monthly Change** |
|---|---|---|---|
| *NEPSE* | 1,821.64 | 1,934.47 | -5.83% |
| *Sensitive* | 349.58 | 367.98 | -5.00% |
| *Float* | 127.47 | 135.5 | -5.93% |
| *Sensitive Float* | 116.39 | 122.57 | -5.04% |
| *Turnover (Mill)* | 900.56 | 1,653.33 | -45.53% |
| *Shares Volumes* | 2,788,815 | 4,913,702 | -43.24% |
| *Total Transactions* | 22,729 | 44,708 | -49.16% |
| *Total Scrips Traded* | 263 | 270 | -2.59% |
| *Market Cap (Rs.Mill)* | 2,657,757.12 | 2,813,553.79 | -5.54% |
| *Sensitive Mrkt Cap (Rs.Mill)* | 1,087,116.05 | 1,144,313.24 | -5.00% |
| *Float Mrkt Cap (Rs.Mill)* | 949,995.73 | 1,002,418.76 | -5.23% |
| *Sen. Float Mrkt Cap (Rs.Mill)* | 379,242.91 | 399,443.17 | -5.06% |
| *Average Return (Annualized)* | 13.33% | 15.55% | -2.22% |
| *Std Deviation (Annualized)* | 24.78% | 25.05% | -0.27% |
| *10 Day 10% VAR* | -6.51% | -6.55% | 0.04% |
| *Market Cap / GDP Ratio* | 65.85% | 57.99% | 7.86% |

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

- Avg. market return has slumped to 13.33% from 15.55%, Standard Deviation has shrunk by 0.27% and 10-day 10% VAR gained minutely by 0.04%
- Market is under-valued as per Market capitalization to GDP ratio (Buffett Indicator).

**Average Turnover**

*Rs. 797.4 Mn*

*-30.56%*

**Average Volume**

*NPR. 2.6M*

*-27.44%*

**Average Transaction Size**

*NPR. 24K*

*-20.38%*

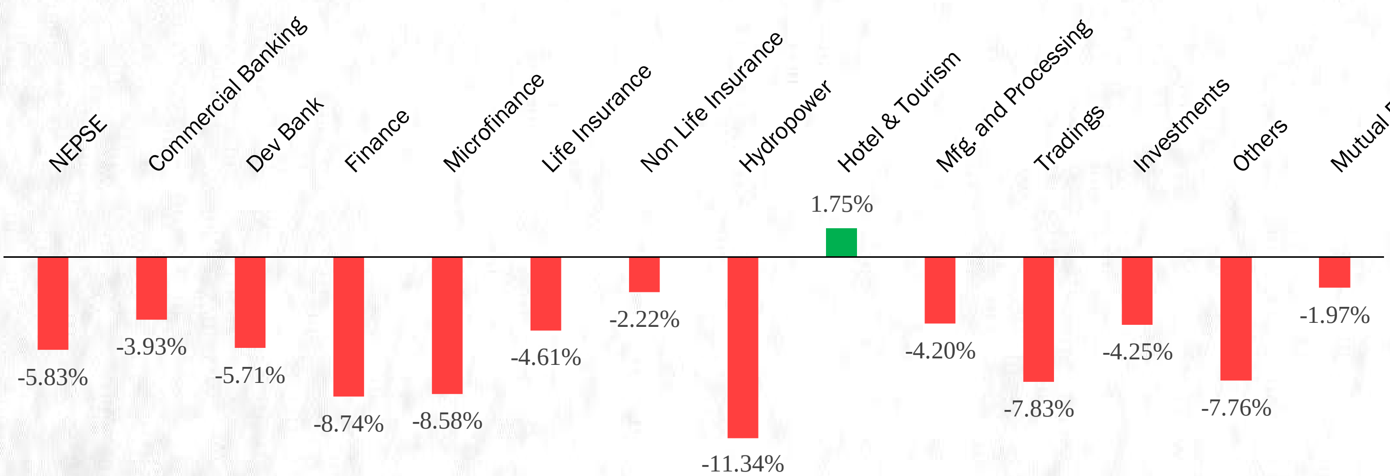
**Average Market cap**

*NPR. 2.73T*

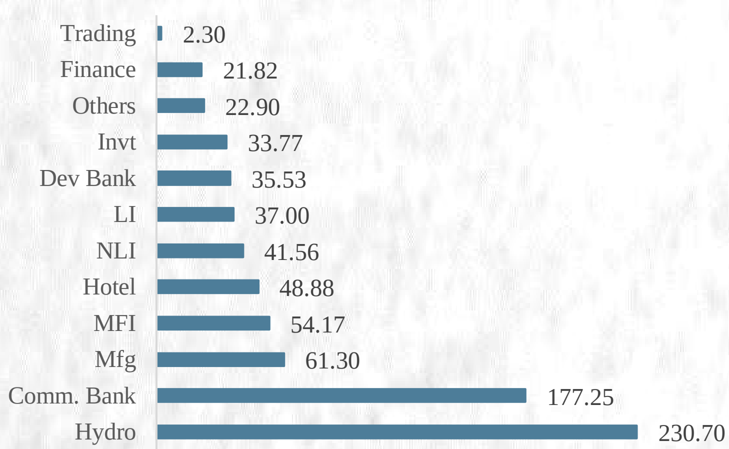
*-6.00%*

# SECTOR SCANNER

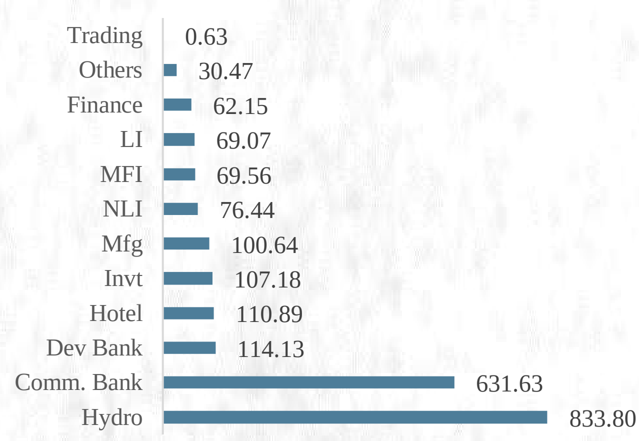
Monthly Sectoral Performance



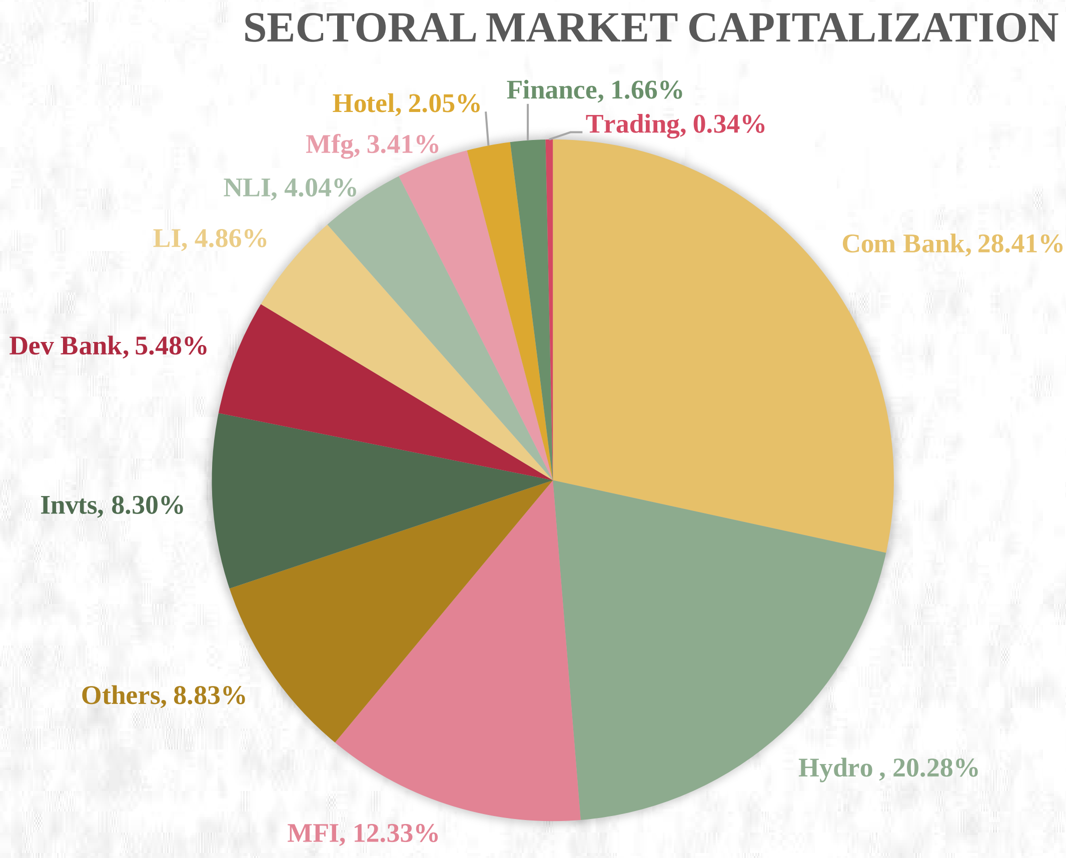

Baishakh Avg. Turnover (Millions)




Baishakh Avg. Volume ('000)



- Of the 13 sectors in NEPSE, only Hotel and Tourism witnessed growth in this month with a rise of 1.75%. Hydropower lost the most going down by 11.34% while finance and microfinance saw a decrease of approx. 9%.
- Sectors such as Hydropower, Commercial Banks, Microfinance, Manufacturing and Processing etc. lead the market during the month of Baishakh in terms of Turnover: 29.12%, 22.05%, 6.83% and 7.77% respectively. Hydropower and Commercial Banks led in terms of Volumes (32.27% and 24.16% respectively) and Transaction size (47.54% and 16.33% respectively).
- Pie- chart below shows the approximate market capitalization of 12 sectors as on last trading day of Baishakh i.e. Sunday, but excludes Promoter shares, Debentures, and Mutual Funds. BFI sector (A, B, C, D Class) covers approx. 50%, Commercial Bank alone 28%. Hydro and Microfinance has 20% and 12% coverage respectively. Insurance sector occupy 9% (Life – 5% and Non-Life – 4%). Trading sector has the least capitalization, *amounting approx. Rs.11.64 billion.*




***"It is remarkable how much long-term advantage people like [Warren Buffett and myself] have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."***

***- Charlie Munger***

# MORE ON SECTOR REVIEW

**Banks and Financial Institutions:** Total deposits collected by Banks and Financial Institutions amounted to Rs. 5,479 billion. Commercial banks alone collected Rs. 4,832 billion. Moreover, CD Ratio is at 85.04%. 3rd Quarter Monetary Policy Review bought some anticipated changes that would affect the banks' balance for coming quarters but the policy stance is still "cautiously optimistic and flexible". Policy rate (Overnight Repo Rate) has been unchanged at 7% but Bank rate has been decreased to 7.5% (previously 8.55%). On the qualitative side, NRB will allow BFIs to consider debentures as deposit or source while calculating Credit to Deposits (CD Ratio) till Poush, 2080. All Banks and Financial Institutions have published their Q3 financial reports. As expected, banks and financial institutions have been reeling under larger NPL pressure. Commercial Banks' industry average NPL increased from 2.33% (2022/23 Q2) to 2.99% (2022/23 Q3). Development Banks' industry average NPL increased from 4.07% (2022/23 Q2) to 4.85% (2022/23 Q3) and Finance companies' industry average NPL increased from 5.58% (2022/23 Q2) to 6.53% (2022/23 Q3). Likewise, we find high growth rate of impairment on Y-o-Y basis for all classes of BFIs. The Y-o-Y increment of impairment charge for Commercial Banks, Development Banks and Finance Companies were 353% and 380% and 406% respectively.

Looking at other metrics of Q3 financial results, among Commercial Banks, GBIME reports the highest net profit of NPR 33.6 billion and NICA has the highest EPS of Rs. 46.29, whereas KBL has the lowest EPS of Rs. 6.62 and HBL has the highest NPL of 4.56%. Among development banks, MNBBL reports the highest net profit of NPR 800 million and LBBL has the highest EPS of Rs. 18.45, whereas SAPDBL has the lowest EPS of Rs. -60.53 and also it has the highest NPL of 15.90% followed by EDBL at 8.92%. Among Finance Companies, MFIL reports the highest net profit of NPR 171 million and also it has the highest EPS of Rs. 16.94, whereas SFCL has the lowest EPS of Rs. -21.73. JFL has the highest NPL of 23.60% followed by 13.49% of SFCL.

**On the macroeconomic side**, based on Y-o-Y basis, BFIs', industry deposits increased by 10.15% whereas Credit/Lending increased by 2.81% only. This mismatch has created bulking up of deposits at BFIs. Nepal Bankers Association have decided to keep interest rates on saving deposits and loans unchanged amid new regulation regarding calculation of base rates. According to new guidelines, interest rates should be changed on monthly basis. Until now, banks have been adjusting interest rate on loans on quarterly basis. However, following the Central Bank's directive, banks will now adjust interest rates on loans based on the average base rate of the last three months. This new regulation would certainly trickle-down the effect of decreased cost of funds of BFIs to interest on loans at faster pace.

**Life and Non-Life Insurance:** Life and Non-Life insurance have been under the regulatory pressure to increase Paid-up capital. In this process, in past, some of the Life and Non-Life insurance companies have gone to Mergers. In this month, GLICL, PLIC and ULI have jointly commenced their business as Himalayan Life Insurance Limited (HLIL) on May 9. Likewise, LGIL and SIC merged to become SALICO. Number of Life Insurance Policies increased by 20.14% on Chaitra End, 2079 compared Chaitra End, 2078. But, within the same time frame, number of non-Life insurance policies experienced a negative growth of 0.42%. Likewise, Non-Life Insurance gross premium increased by 4.58% and Life-Insurance Gross Premium increased by 2.14%. However, Pratham Beema Sulka of Life Insurance Companies have experienced a negative growth by 27%. Among Life Insurers, top three gross premium earners were: NLIC (Rs.27.41 bill.), LICN (Rs. 12.94 bill.) and NLICL (Rs.11.37 bill.). Among Non-Life Insurers, SICL (Rs.4.1 bill.), SALICO (Rs.3.48bill.), SPIL (Rs. 3.35 bill.).

Microfinance: Microfinance at present is reeling under regulatory pressure related to dividend constraints. Recently, NESDO revised the dividend rate to 17.93% from 73.68%. Moreover, NRB cancelled 15% dividend proposal of RULB citing violations of NRB guidelines. Likewise, NSLB and VLBS has signed for final merger agreement.

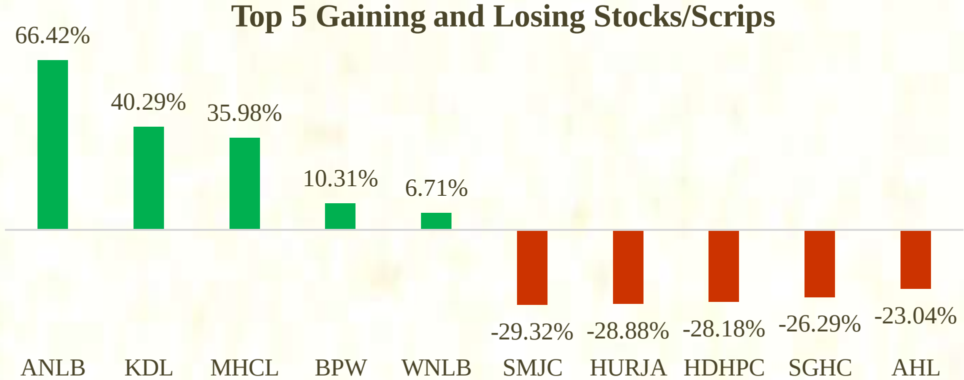
**Hydropower Companies:** For various purposes, Hydro power firms have been issuing rights shares. In recent times, right share of SPDL (50%), UPPER (100%), KPL (100%) and NHPC (50%) are in process of issuing rights shares and proposal are under review of SEBON. Moreover, RIDI (50%) received approval from Electricity Regulatory Commission (ERC) to issue right shares. On the other hand, GHL (200%), AHPC (100%), AKJCL (200%), BHPL (100%) are yet to receive approvals from ERC for rights issue.

## *Monthly Learn Post:*

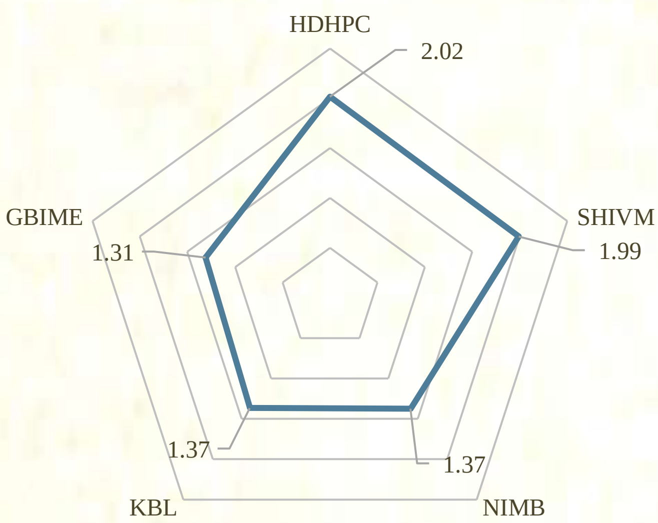
***Flash Crash:** A flash crash is a sudden and rapid decline in the prices of securities or financial instruments, which occurs over a very short period (minutes or even seconds). These events are often caused by a combination of technical glitches, high frequency trading algorithms, and human behavior such as panic selling.*

# STOCK SCANNER

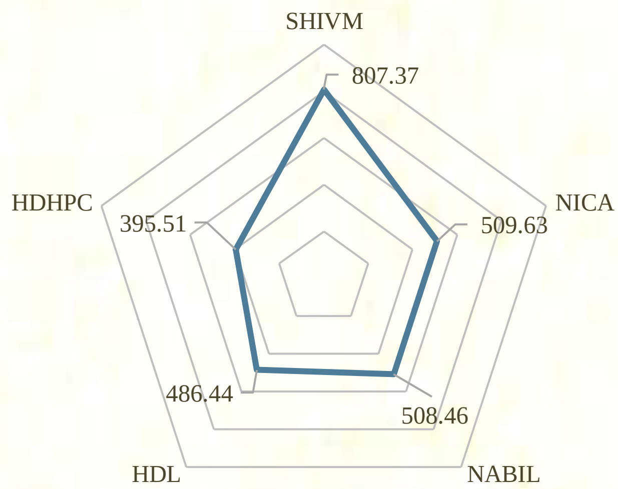
**Top 5 Gaining and Losing Stocks/Scrips**



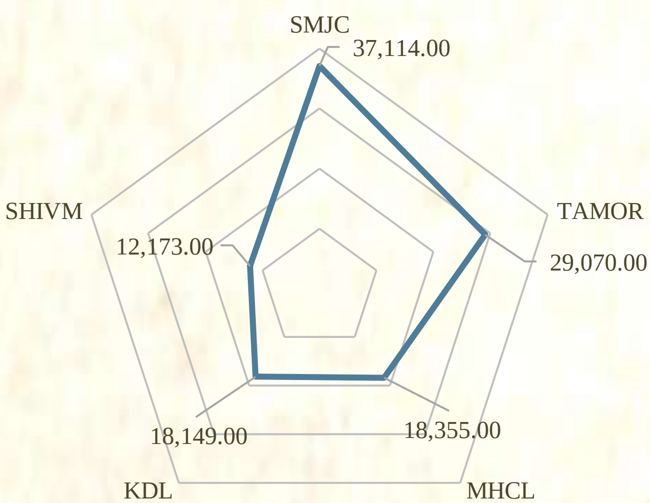

**Stocks with Highest Volume (Millions)**



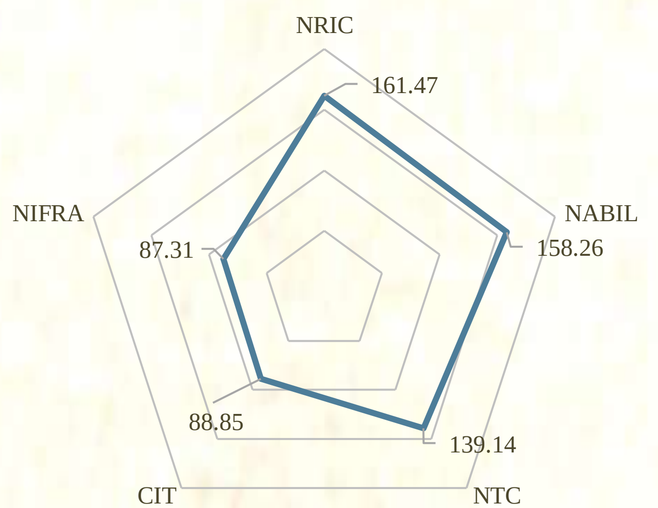

**Stocks with Highest Turnover (Millions)**




**Stocks with Highest Transaction Size**




**Stocks with Highest Market Cap. (Billions)**




- ❖ **Key Sectoral Allocation of Mutual Funds** — *Commercial Banks, Non-Life Insurance, Microfinance*
- ❖ **Key Holdings of Mutual Funds** — *NICA, NLICL, NIL, SANIMA, NBL*

# TECHNICAL OUTLOOK…


| Technical Indicator (14th May) | Value |
|---|---|
| RSI | 34.27 |
| MACD line | -22.97 |
| Signal line | -19.87 |
| Bollinger Upper Band | 1937.51 |
| Bollinger Middle Band | 1876.27 |
| Bollinger Lower Band | 1815.03 |
| ADX | 14.49 |
| Simple Moving Average (50 Day) | 1978.79 |
| Simple Moving Average (200 Day) | 1904.81 |

**Technical Overview:**

Market continued the bearish momentum in the review month with no sign of any major reversal anytime soon. MACD line has crossed the Signal line from above, indicating further fall ahead. However, RSI shows the oversold situation, giving possibility of buyers return. Market is trading at lower Bollinger band. SMA 200D and 50D lies above the current index (1821) picturing the bearish run. Volume has almost dried lately giving the outlook of both buyers and sellers in wait and watch situation or most likely market in accumulation phase. However, our take on market is still bearish with our support and resistance level of 1920 to 1750 level for the coming month, given that market still continue to ignore any good news.

# Key Bulletins of the Month:

1. SEBON in process to issue new Brokerage license despite disaffection from Brokers' Association of Nepal (SBAN). Issued Letter of Intent (LoI) to 43 applicants for Broker license.
2. SEBON process to issue new Stock Exchange license to private sector jeopardized after Government order to halt the process.
3. SEBON formed a committee to formulate the regulations within 3 months to induce NRN's investment into the Nepalese Capital Market.
4. NEPSE in process to bring the NEPSE 30 Index. Requested for feedback and suggestions.
5. Nepal's Bankers Association (NBA) decided to keep deposit interest rate unchanged for Jestha.
6. NRB through its amendment to the Directives directed BFI's to revise lending on monthly basis instead of quarterly now onwards.
7. Investigation on fake Bhutanese refugee scam case took note on link of several high profile personalities and politician including the former Deputy Prime Minister Top Bahadur Rayamajhi, Former Home Minister Bal Krishna Khand, etc.

## Listing of IPO Shares in the Month of Review

| S.N. | Company Name | Ticker | Sector |
|---|---|---|---|
| 1. | BPW laghubitta Bittiya Sanstha Ltd. | BPW | Microfinance |
| 2. | Aatmanirbhar Laghubitta Bittiya Sanstha Ltd. | ANLB | Microfinance |
| 3. | Makar Jitumaya Suri Hydropower Ltd. | MAKAR | Hydropower |
| 4. | Mai Khola Hydropower Ltd. | MKHL | Hydropower |

***Fiscal Budget 2080/81 B.S.:* Finance Minister, Ministry of Finance, is set to present the Budget for the fiscal year 2080/81 B.S. on Jestha 15, 2080. Budget is the chief macroeconomic records to shape and direct the investment market ahead. Market is likely to witness the volatility on or before the budget speech owing to rumors and speculations surrounding the budget. Therefore, investors need to be judicious in taking investment decision at such time period.**

## Upcoming Investment Events

| S.N. | Company Name | Open Date | Issue Units | Issue Type | Issued To |
|---|---|---|---|---|---|
| 1. | Nepal Republic Media Ltd. | 2023-06-09 | 4,353,000.00 | IPO | General Public |
| 2. | Unique Nepal Laghubitta Ltd. | 2023-05-25 | 379,425.00 | FPO | General Public |

## Upcoming Investment Events (IPO – Local/Migrant Workers)

| S.N. | Company Name | Issued To | Closes On | Issued To | Closes On |
|---|---|---|---|---|---|
| 1. | Upper Syange Hydropower Ltd. | Local | 2023-05-30 | Migrant | 2023-05-30 |
| 2. | Ghorahi Cement Industry Ltd. | Local | 2023-05-31 | | - |
| 3. | Three Star Hydropower Ltd. | Local | 2023-05-23 | | - |
| 4. | Nepal Republic Media Ltd. | - | - | Migrant | 2023-05-28 |

# Same Story, Different Artist: First Republic Bank Fiasco


## About First Republic Bank

Founded in February 1985 and headquartered in San Francisco, California, First Republic Bank (FRB) was a commercial bank and provided wealth management services to high-net-worth individuals. It operated 93 offices in 11 states, primarily in New York, California, Massachusetts, and Florida.

On May 1, 2023, California Department of Financial Protection and Innovation (DFPI) closed FRB and Federal Deposit Insurance Corporation (FDIC) seized assets of FRB and sold it to JP Morgan Chase, who won the bid for the bank assets. This marks the third major bank failure in US in less than 2 months, after Silicon Valley Bank (SVB) and Signature Bank and second largest bank to fail ever in the US history with first being Washington Mutual failure during 2008 financial crisis.

## What led to collapse?

FRB's business model was to attract high net-worth customers with preferential rates on mortgages and loans. **As Fed began hiking US interest rates to fight inflation** beginning last year, FRB loan and investment book became less valuable and it started accumulating paper losses.

Shares of FRB witnessed a steep decline beginning from 8th March owing to massive sell-off of SVB shares which finally led to SVB collapse. FRB stock price plunged 73% from 8th to 13th March 2023 despite measures by US regulators (such as full access to deposits by customers and availability of emergency loans for banks) to shore up confidence in the banking system following the failure of SVB. Though both these banks had different business models, they both had similar client base and quite similar risk and problems such that investors and customers started to lump the two together.

Due to drain in deposits, FRB borrowed heavily from Federal Reserve (Fed) facilities to maintain operations. The company borrowed up to USD 109bn from the Fed between March 10 and March 15, and USD 10 billion from the Federal Home Loan Bank on March 9. First Republic was given a lifeline in March 16 after 11 of the country's biggest banks, led by JPMorgan, deposited USD 30bn in it **in a bid to raise confidence but the move failed to convince the market and customers continued to withdraw their money.** The stock observed a fall of 65% between 16-20 March. S&P global ratings slashed its rating to junk in March 19, 2023.

On April 24, 2023, FRB revealed through its Q1 2023 report that clients withdrew more than USD 100bn, falling deposits by 41%. Owing to this, the company shares plunged by 78% by the close of the corresponding week and more than 97% down year to date. After these financial regulators seized the bank and arranged for the JPMorgan Chase takeover.

***The core reasons for FRB demise were its unpreparedness for increasing interest rates, credit rating downgrades and large proportion of its deposits exceeding the limit for coverage by FDIC.*** As of December 2022, 67.4% of First Republic's deposits were uninsured, which reduced to 19% and 9% in March 2023 and April 2023 respectively as customers were not comfortable with having more than the insured sum on deposit at a regional bank.

## A profitable deal for JP Morgan

JP Morgan won the bid as according to JP Morgan's CEO Jamie Dimon, the bank made its bid in a way it would minimize the costs to the FDIC's Insurance Fund. The FDIC estimates that the cost to the Deposit Insurance Fund will be about USD 13bn.

JP Morgan received USD 93.5bn in deposits which included USD 30bn that it and other large banks put into FRB in March 2023 and most of FRB assets. The bank took on USD 173bn in loans and USD 30bn in securities. As a part of the deal, from May 1, 2023, First Republic's 84 offices in 8 states reopened as branches of JPMorgan Chase Bank and FRB depositors now being depositors of JP Morgan have full access to their money. JP Morgan will pay USD 10.6bn to FDIC.

JPMorgan also entered into a loss-sharing deal with the FDIC on mortgage and commercial loans it bought, but it did not take First Republic's corporate debt or preferred stock. FDIC has also provided USD 50bn credit line.

Out of the entire deal, the bank will be booking a one-time gain of about USD 2.6bn and it expects to spend about USD 2bn on integration costs over the next 18 months. Besides, the acquisition will generate over USD 500mn of profit annually to JPMorgan, excluding the one-time costs.

The deal wipes out First Republic investors. The stock has stopped trading, and stockholders won't be given JPMorgan shares. Shareholders are "last in line" to get anything, an FDIC spokesperson told.

The banking crisis which began in March 2023 with the fall of SVB, is not over yet as several regional banks are facing the threat of rapid withdrawals and share prices crash.