



# THE ANALYTICS

## MONTHLY GARIMA INSIGHT

JESTHA, 2080  
(15 MAY 2023 - 15 JUNE 2023)  
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**Budget Synoptic :**  
FY 2080/81



**Headwinds and Tailwinds**  
of Market Ahead



**Demonetization**  
in Nepal? Long Odds



**MACROECONOMIC**  
FACTORS



**MARKET**  
OUTLOOK



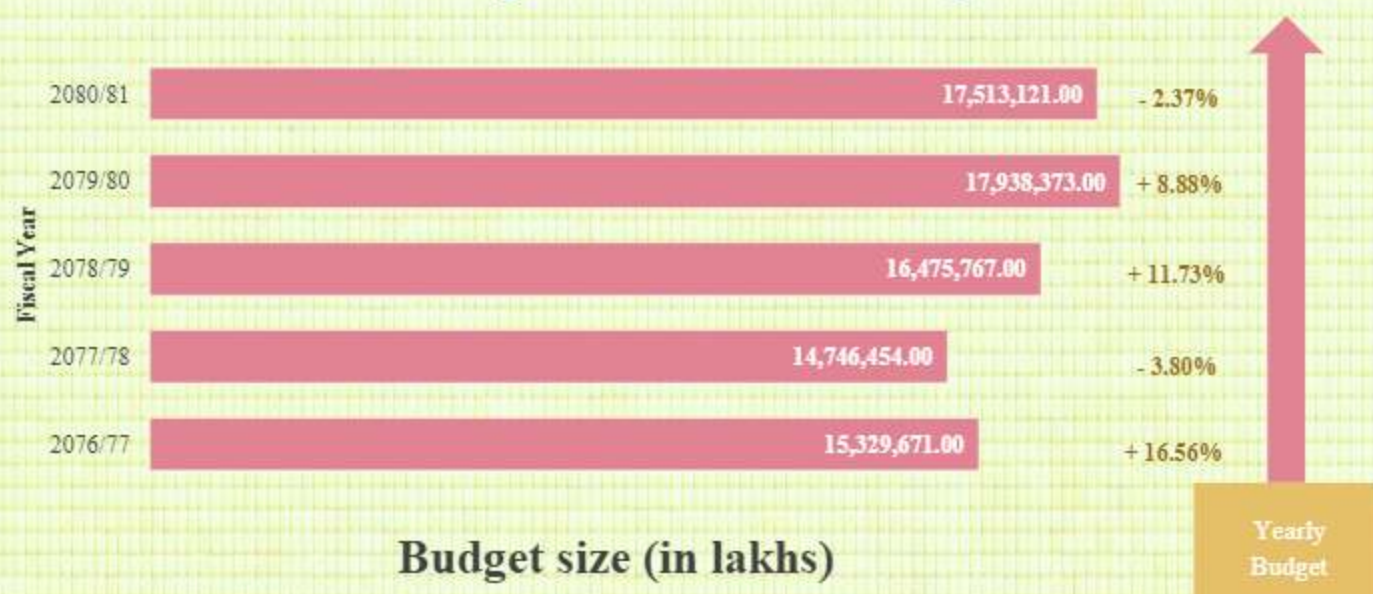
Market Note:

# BUDGET SYNOPSIS

## FISCAL YEAR 2080/81



### Five Year Comparative Fiscal Budget Outlook



#### BUDGET SIZE

**Rs.17,51,31 Crores**

(In words: Rs. Seventeen Kharba Fifty-One Arba Thirty-One Crores)

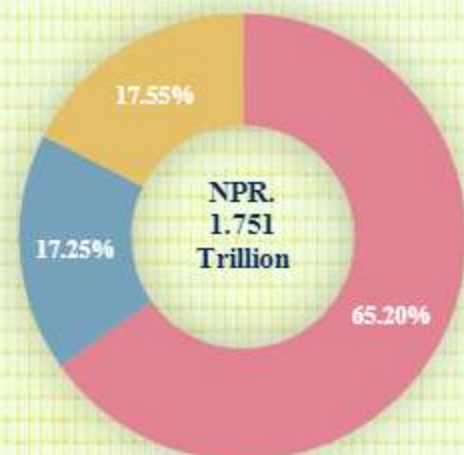
#### Allocation

Capital Expenditure	Rs. 3,02,07 crores
Re-current Expenditure	Rs. 11,41,78 crores
Financial Management	Rs. 3,07,45 crores

#### Sources

Revenues (Taxes)	Rs. 12,48,62 crores
Foreign Grants	Rs. 49,94 crores
Foreign Loan	Rs. 2,12,75 crores
Internal Loan	Rs. 2,40 arba

#### Budget Allocation



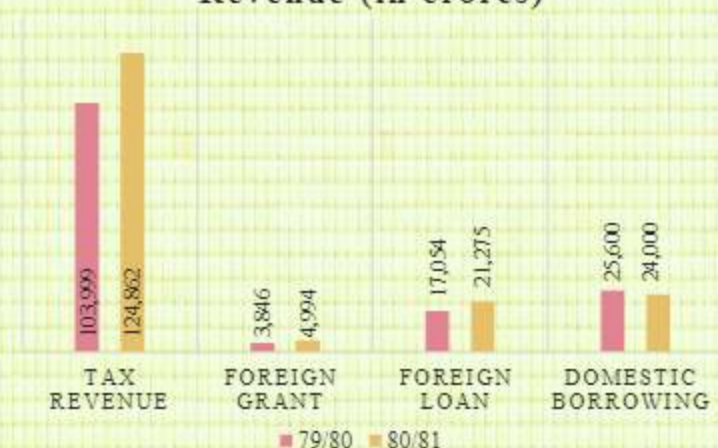
■ Recurrent ■ Capital ■ Financial Management



## Changes In The Expenditure



## Changes In The Sources Of Revenue (in crores)



\* The fiscal Budget of 2079/80 has been downsized by approx. 16% to NPR. 150,499 crores from the previously budgeted NPR. 179,383 crores.

**Target Economic Growth for FY 2080/81**

**6%**

**Target Inflation Rate for FY 2080/81**

**≤ 6.5%**

\* Despite the Targeted Economic Growth of 8% by Fiscal Budget 2079/80, the more likely Economic Growth now anticipated is 2.16%. Further, budgeted Inflation Target of 7% in FY 2079/80 is more unlikely to be achieved.

## COMPARATIVE FUNCTIONAL BUDGET ALLOCATIONS

Sector	FY 2080/81 (Rs. Lakhs)	FY 2079/80 (Rs. Lakhs)	% Difference
General Public Service	6,305,506.00	5,734,438.00	9.96%
Defence	573,043.00	554,738.00	3.30%
Public Order and Safety	712,023.00	654,002.00	8.87%
Economic Affairs	3,909,696.00	4,667,708.00	-16.24%
Environmental Protection	85,956.00	110,229.00	-22.02%
Housing and Community Amenities	660,286.00	886,088.00	-25.48%
Health	1,027,695.00	1,232,551.00	-16.62%
Recreation, Culture and Religion	66,619.00	96,292.00	-30.82%
Education	1,977,755.00	1,968,931.00	0.45%
Social Protection	2,194,542.00	2,033,396.00	7.92%
<b>Total</b>	<b>17,513,121.00</b>	<b>17,938,373.00</b>	<b>-2.37%</b>

- **Capital Gain Tax (for Natural Resident Person on Listed Securities): (no change)**
  - ✓ 5% (holding more than 365 days)
  - ✓ 7.5% (holding equal to or less than 365 days)
- **Bonus share equivalent amount issued by Company from the premium collected through the issuance of FPO to be counted as Taxable Income.**
- **Bargain purchase gain on M&A deal to be counted as Taxable Income.**



Market Comment:

# Headwinds and Tailwinds Of Market Ahead

**SYNOPSIS:**

Owing to the confusion surrounding the tax levy on stock transaction gains following the budget announcement, the stock market reacted negatively. The market went down by more than 90 points in quick succession after it was rumoured that CGT tax would not be the final tax and additional income tax would be levied on the capital gains. This caused a massive outrage amongst the fraternity of investors and the trading was also disrupted for a while. The Finance Minister including the Director General of Inland Revenue Department had to step forward to clear the air through circulation that the CGT paid will be the final one. This led the market to rebound in a resounding manner by breaking through the strong resistance zone of 1980. It may not be wrong or too early to say that. There is a compelling reason to believe that the market has officially entered the bull race after nearly two years of bearish trend.

However, investors have to be skeptical over the critical fundamental issues that still hold key to change the market sentiment and direction. Such as:

1. Whether the NPL of BFI's (A, B, C, D) get cool or get further heated in Q4 reports?
2. How BFI's structure its lending policies given the ease in banking liquidity?
3. What kinds of provision will be introduced in the upcoming Monetary Policy?
  - a. Will the NRB make adjustments to the Risk Weighted Assets (RWA), particularly on margin loan?
  - b. Will the NRB make changes in the Policy Rate?
  - c. Will there be tightening with regard to real estate sector and capital market in terms of funding by BFIs?
  - d. Will some relaxation be made in the ceiling of Rs. 12 crores share pledge loan?
  - e. Will the Countercyclical buffer be introduced owing to pressure from external sources ?

**Potential Tailwinds:**

- ❖ Our remittance inflow has climbed to the tune of Rs. 1 kharba per month with the cumulative remittance figure at the end of 10 months being 10 kharba. Needless to argue that the remittance has been one of the major source of healthy banking liquidity in our economy. In addition, our BOP situation and Forex reserve situation are at sound state.
- ❖ The entire Hotel sector is buoyed by the rising tourist number; in the first 5 months, more than 4 lakh tourists have entered Nepal and the gap in the monthly tourists arrival this year vis-à-vis tourists arrival in the pre COVID year has been closing in. Furthermore, occupancy across the Hotel sector has likely tantamount to the pre COVID level (approx. 60%).



- ❖ Interest rate on FD has come down to a single digit; this will lower the cost of fund of BFI's and the stimulate the demand for loan in the coming months.
- ❖ As per the new directive by NRB, Interest rate on loan is to be revised every month and this is likely to reduce the time taken for the reduced cost of fund to translate into lending reduced rate.
- ❖ As India is willing to import 10,000 MW electricity in the next ten years, (intention expressed by PM of India Narendra Modi), the prospect is looking very good for the Hydropower sector. Given the current state of infrastructure, we have the potential to export excess electricity that is likely to crop up in the coming year.
- ❖ CD ratio is well below 85% and with the decrease in the rate of T-bills, Banks no longer have the option to play it safe by investing their idle funds in Treasury securities. They may likely be looking to flood the market with new fresh round of funds after the end of this Fiscal Year.

### Potential Headwinds:

- ❖ Most of the banks have prioritized recovery as opposed to additional lending in Q4; the NPL level across the banking sector has risen sharply in Q3 and banks are having a difficult time in the recovery of NPLs. The sticky NPL coupled with the requirement to bring the spread under 4% will definitely regress BFI's profit.
- ❖ Much to the surprise of public, the size of the budget has not been downsized to a believable figure. Government has plans to fund more than 4.5 kharba worth of budget deficit by means of internal and external loans. On one hand, our recurring expenses has shot up significantly and will continue to increase in the coming year as well while our source of revenue has shrunk further. The tendency of government to source its expenses via public debt and foreign debt is ringing an alarm bell.
- ❖ The issue pertaining to Broker license distribution by SEBON to concerned applicants is still in limbo. Even though the companies have already put the necessary physical infrastructure in place, the Finance Committee has instructed that the process be halted.
- ❖ Not to mention, the issue such as imposition of tax on the share premium amount sold via FPO and imposition of tax on merged entities for merger transaction involving unequal swap ratio have brought about unforeseen consequences. A number of companies including NLIC and SCB are likely to be affected directly if such forementioned taxes are imposed.

### Concluding Remark:

From a fiscal standpoint, the government has tried to smother the public by putting extra tax burden on them. For instance: increase in customs duty on EVs and the introduction of luxury tax on customers availing facilities from high end Hotels. While this is understandable, imposing tax on visitors of foreign countries show that government is desperate to amass tax revenue. People were hoping that the government would go for course correction by downsizing the budget but it seems that the government keeps on repeating the same folly that it had committed in the past. The government has plans to collect 212 billion via foreign loans whereas 240 billion via internal loans. The excessive reliance on borrowing to fund the recurring expenses, which has increased drastically in the current fiscal year as well, is not a financially sustainable strategy. Nevertheless, the market has broken the strong resistance zone of 1980 with high volume and there is a high possibility of market going northwards until 2200 index point, at which the market will face a strong resistance zone.



# Free Writing: Demonetisation in Nepal? Long Odds...



If not earlier, at least every one of us must have heard the term “DEMONETIZATION” in 2016 when Indian Prime Minister Narendra Modi announced overnight that 1,000 and 500 currency notes, which constituted for 86% of the country’s circulating cash would no longer be a legal tender.

Demonetization is when a country discontinues its particular value denominated currency, making its face value to zero. It is used as a tool to combat corruption and crime that often happen in the form of counterfeiting or tax evasion and to direct country towards paperless financial system. Another reason to demonetize is to provide transparency to informal activities and push them away from the black or grey markets. It also helps to deal with problems like hyperinflation, as a solution for government to take back control and minimise the adverse situation. But if not prepared and implemented correctly, demonetization can cause chaos and serious downturn in an economy.

Corruption Perceptions Index (CPI) that ranks 180 countries and territories around the world by their

perceived levels of public sector corruption on the basis of scoring that it provides on a scale of 0 (highly corrupt) to 100 (very clean) has scored Nepal 34 and ranked it in 110th position among 180 countries in 2022. Since majority of the transactions are done in cash, the cash circulation in countries like Nepal is directly connected to corruption and black economy.

According to the reports of International Labour Organization (ILO), 60% of the world’s employed population ages 15 and older, spend at least part of their time in the informal sector and more than 70% of the economically active population in Nepal is part of the informal economy. An informal economy (informal sector or shadow economy) is the part of the economy that is neither officially taxed nor monitored. It consists of activities that have a market value but are not formally registered. The government exercises control over formal sectors by implementing acts and regulations but has no control over the informal sector. Informal sector represents 35% of



GDP in low and middle-income countries. It is difficult to precisely measure informal economy since it cannot be directly observed.

Although no confiscation of counterfeited Nepalese notes of colossal size are on records, but the issue of such counterfeit notes including Indian currency have often prevailed. Open border with India, weak checking system, lack of awareness among peoples, more cash basis of transactions, etc. have ease the circulation. Beside this, Nepal is recently listed in the 'Grey List' category by Financial Action Task Force (FATF) which means the strategic deficiencies in Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).

In order to control corruption, lessen cash transactions, control money laundering, bring funds from informal sector to formal, demonetization can be an efficient way. Withdrawing existing high denomination currency will pave a way to bring in all the cash in the banking network and eradicate black money from the economy. And replacing high denomination currency with low denomination currency, similar to developed economies like the US, China and Germany, which do not have currency notes above 100, will reduce hoarding of the black money and hence bring down corruption.

Demonitization will enhance the banking reach of the remote citizens and promote the digital economy as well by discouraging the cash transactions.

Despite the goods the demonization could come with, it also carries the costs including the risk of failure. The 2016 demonetization in India aimed to track black money but 99% of the demonetized currency was successfully returned by the public in exchange of the new currency, leading to conversion of black money to white. It gave rise to liquidity issue as people found difficult to get sufficient amount of cash to fulfil their basic needs and also reduced the growth rate of the economy. The country introduced Rs.2000 denominated currency after scrapping the use of Rs. 500 and Rs.1000 note. After 6 years of such steps, RBI on May, 2023 decided to withdraw Rs.2000 note from circulation.

Alike India, Nepal share various traits which challenges demonetization success; such as poor and informal economy, higher cash exchange, lower literacy rate, political instability, poor governance, etc. Banking services are disproportionately distributed with limited resources and infrastructures which will impede any such government initiatives.

Nevertheless, demonetization may not be argued as just in context of Nepal. It may jam the economic activity, wane the growth, financially burden the nation, systematically fail the government and governance, etc. Government should better work out on alternatives ways of checking the corruption, and black money.

*Note: Free writing out of curiosity about the demonetization in India and faint discussion in Nepal's context.*

***“While it might seem that anyone can be a value investor, the essential characteristics of this type of investor – patience, discipline, and risk aversion – may well be genetically determined.”***

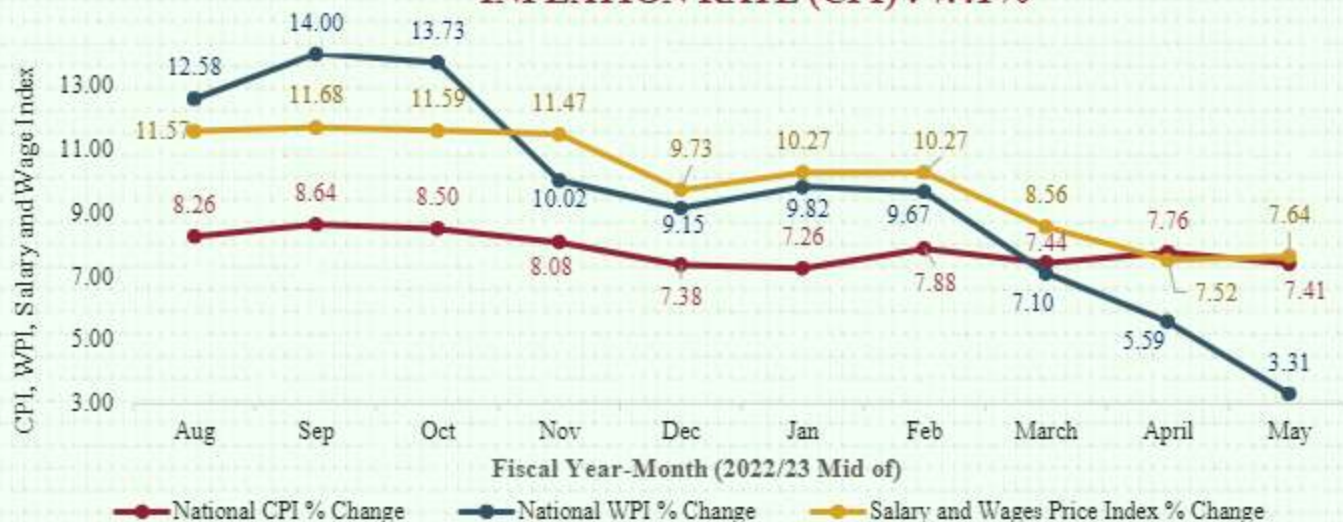
***– Seth Klarman***



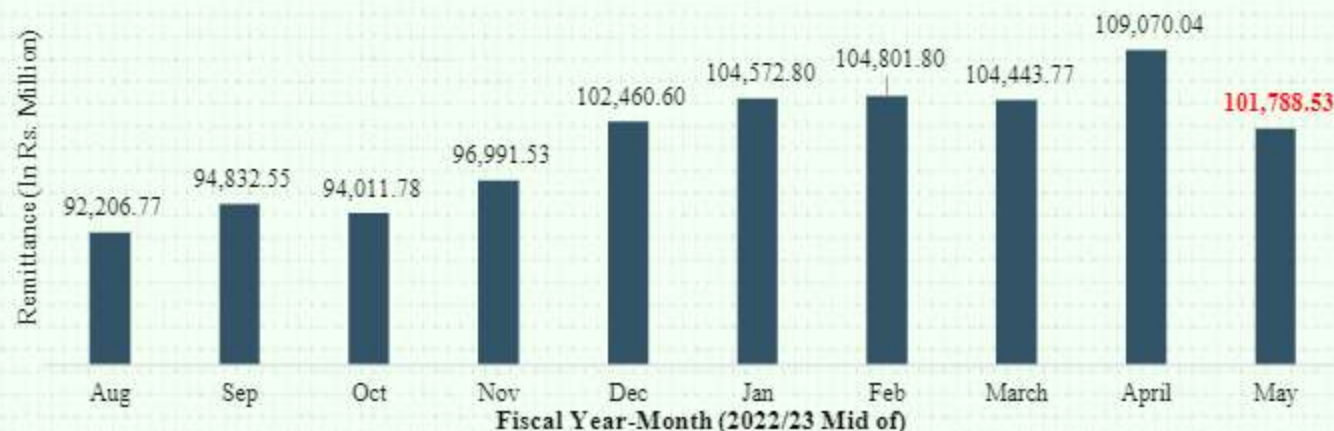
# WHERE DO THE FACTORS STAND?



## INFLATION RATE (CPI) : 7.41%



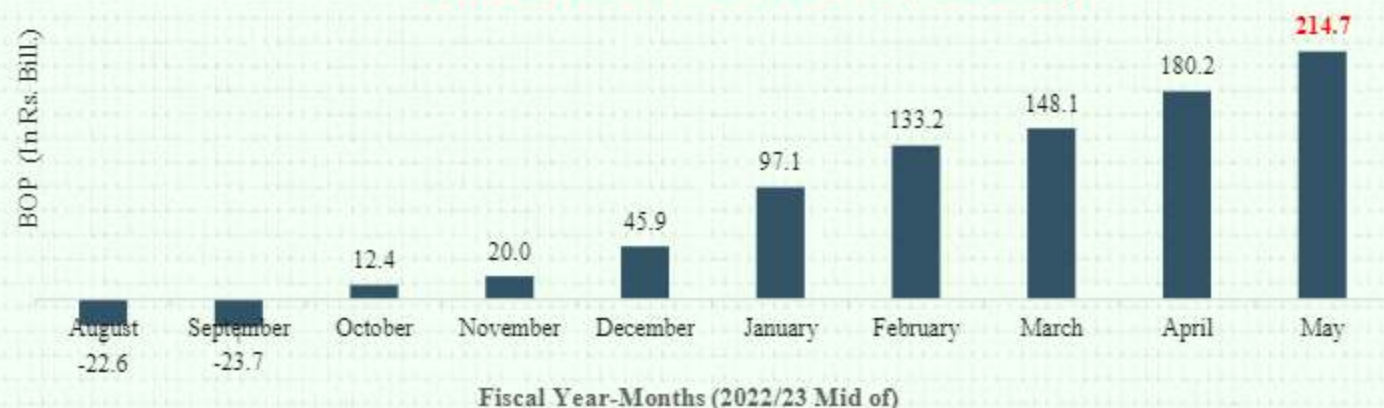
## MONTHLY REMITTANCE INFLOW (-23.4% Y-O-Y)



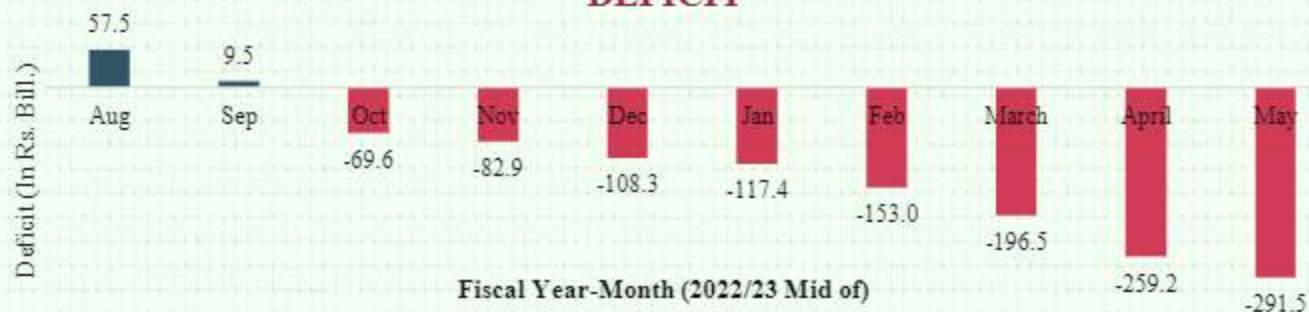
## Liquidity Indicator (As on 15<sup>th</sup> June 2023):

- ❖ BFI's Deposits: NPR. 5,547 billion
- ❖ BFI's Lending: NPR. 4,853 billion
- ❖ CD Ratio: 85.19%
- ❖ Inter-bank Interest Rate: 5.74%



**TOTAL IMPORT (-16.8% Y-O-Y)****TOTAL EXPORT (-24.5% Y-O-Y)****TRADE DEFICIT (-15.9% Y-O-Y)****BALANCE OF PAYMENTS (SURPLUS)****GROSS FOREX RESERVE (+ 20.9%)**



**Govt. Revenue****GOVT. EXPENDITURE****DEFICIT****DEPOSIT (+7.3% Y-O-Y)****CREDIT /LENDING(+3.1% Y-O-Y)****MARKET INTEREST RATES****Short-term Interest Rates:**

❖ 28 days: 7.36%

❖ 91 days: 8.86%

❖ 364 days: 8.33%



# Market Update: NEPSE SCANNER



## Jestha Performance



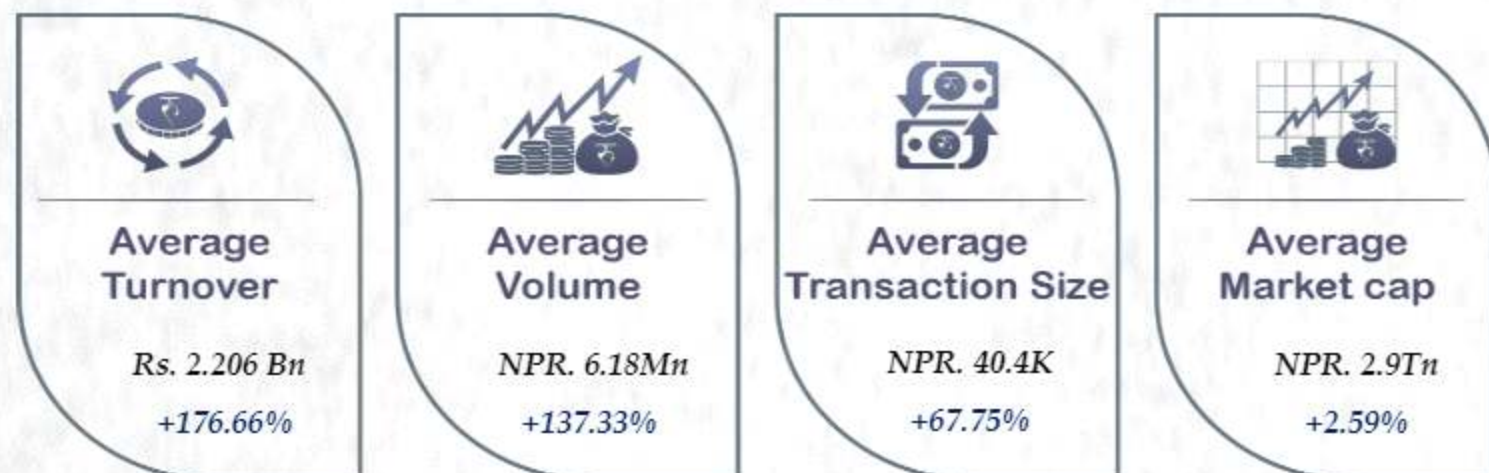
- NEPSE rose to 2042.07 level from 1821.64 (previous month end) making a notable gain of 220.43 pts (12.10%); it peaked the high of 2067.10 and bottomed the low of 1807.531 in the review month.
- Sensitive, float, and sensitive float index simultaneously rose by 9.67%, 11.41%, and 9.01% respectively.
- Month end comparison show a significant increment of 251%, 183%, and 132% in turnover amount, volumes, and transaction size while monthly average computes to Rs.2.20 billion (+177%), 2lakhs (12.36%), 6.18 million (+137%), and 40 thousand (+68%) respectively.
- Market cap increased 12.36% to Rs. 2.98 trillion, out of which approx. 36% are only floated. Sensitive market cap which covers A class stocks saw a 9.86% gain and the size of Float and Sensitive float market cap has risen by 11.95% & 9.39% respectively.

Metrics	15.06.2023	14.05.2023	Monthly Change
NEPSE	2042.07	1821.64	12.10%
Sensitive	383.39	349.58	9.67%
Float	142.02	127.47	11.41%
Sensitive Float	126.88	116.39	9.01%
Turnover (Mill)	3,162.81	900.56	251.20%
Shares Volumes	7,896,478	2,788,815	183.15%
Total Transactions	52,814	22,729	132.36%
Total Scrips Traded	270	263	2.66%
Market Cap (Rs.Mill)	2,986,195.89	2,657,757.12	12.36%
Sensitive Mrkt Cap (Rs.Mill)	1,194,345.01	1,087,116.05	9.86%
Float Mrkt Cap (Rs.Mill)	1,063,536.74	949,995.73	11.95%
Sen. Float Mrkt Cap (Rs.Mill)	414,864.05	379,242.91	9.39%
Average Return (Annualized)	16.29%	13.33%	2.96%
Std Deviation (Annualized)	24.68%	24.78%	-0.10%
10 Day 10% VAR	-6.44%	-6.51%	0.07%
Market Cap / GDP Ratio	55.49%	65.85%	6.10%

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 jumped to 16.29% from 13.33%, Standard Deviation has decreased to 24.68% (10 basis point drop) and 10-day 10% VAR gained stood 6.44%.
- Market is still under-valued as per Market capitalization to GDP ratio (Buffett Indicator).

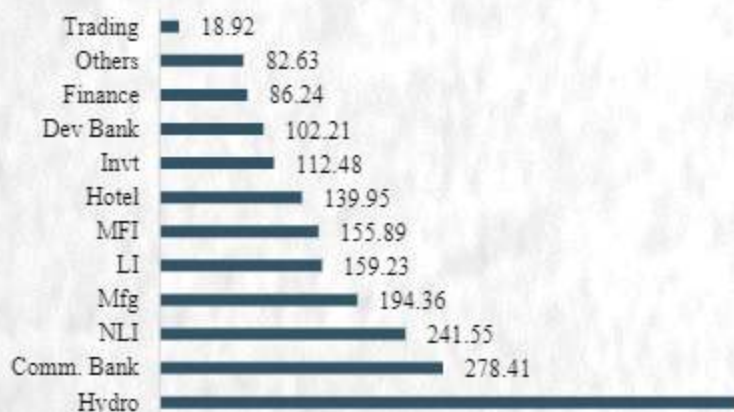


## SECTOR SCANNER

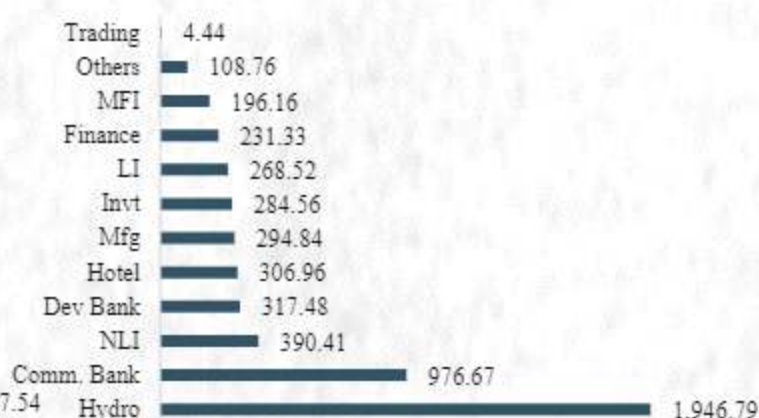
Monthly Sectoral Performance



Jestha Avg Turnover (Millions)



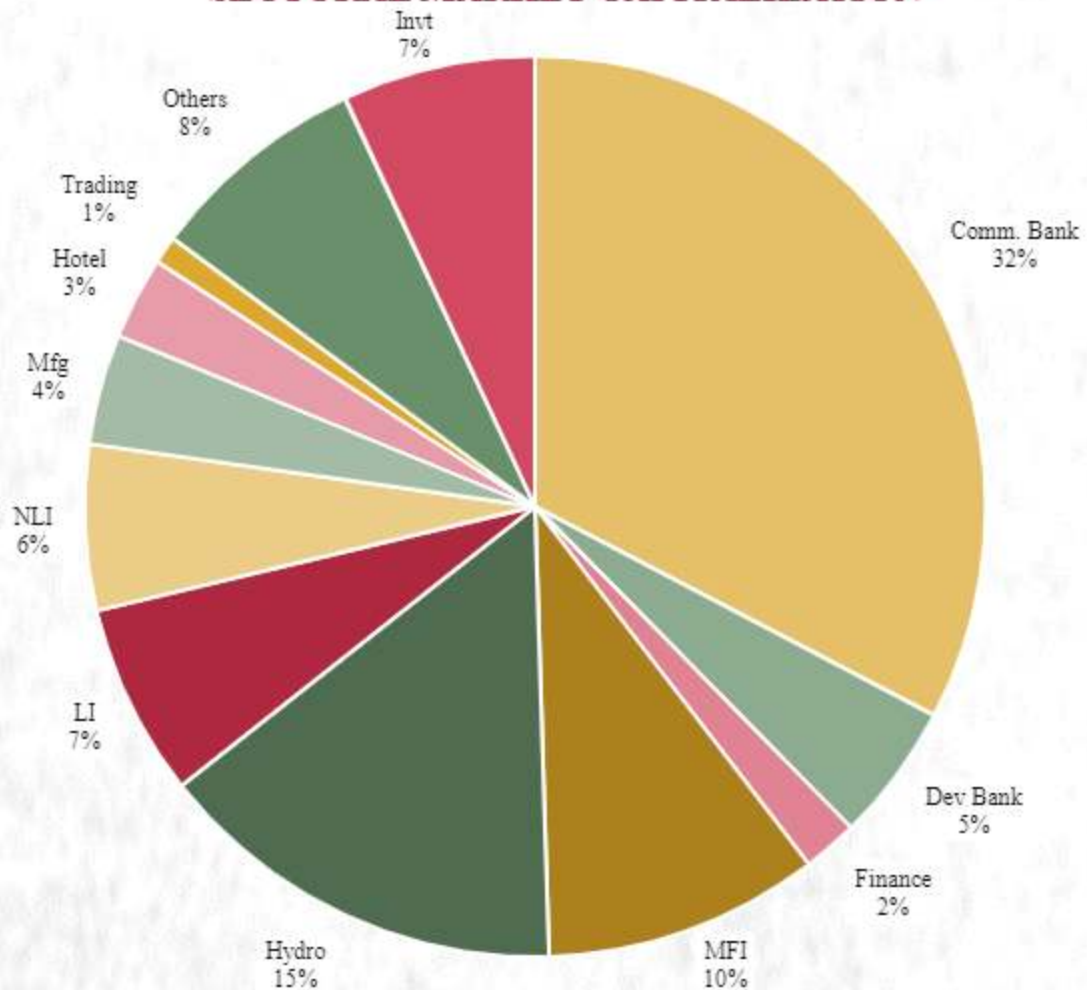
Jestha Avg. Volume ('000)





- All 13 sectors closed green in the review period; Hotel and Tourism (40%), Non-life Insurance (27%), Tradings (27%), Manufacturing and Processing (24%) were among the major winners; Commercial Banks (2%), Mutual Funds (4%) made insignificant rise.
- Sectors such as Hydropower, Commercial Banks, Non-life Insurance, etc. lead the market during the month of Jestha in terms of Turnover: 25.51%, 14.39%, and 10.52% respectively. Hydropower and Commercial Banks led in terms of Volumes (31.29% and 17.29% respectively) and Transaction size (41.79% and 12.94% respectively).
- Pie- chart below shows the approximate market capitalization of 12 sectors as on last trading day of Jestha i.e. Thursday, but excludes Promoter shares, Debentures, and Mutual Funds. BFI sector (A, B, C, D Class) covers approx. 50%, Commercial Bank alone 32%. Hydro and Microfinance has 15% and 10% coverage respectively. Insurance sector occupy 13% (Life – 7% and Non-Life – 6%). Trading sector has the least capitalization, amounting approx. Rs.14.7 billion.

### SECTORAL MARKET CAPITALIZATION



*“If you don’t follow stock market you are missing some amazing drama.”*

*- Mark Cuban*

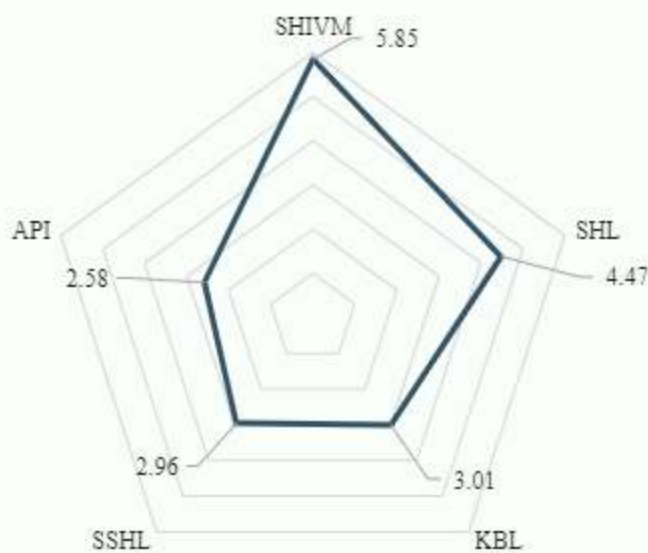


## TOP 5 GAINING AND LOSING STOCKS/SCRIPTS

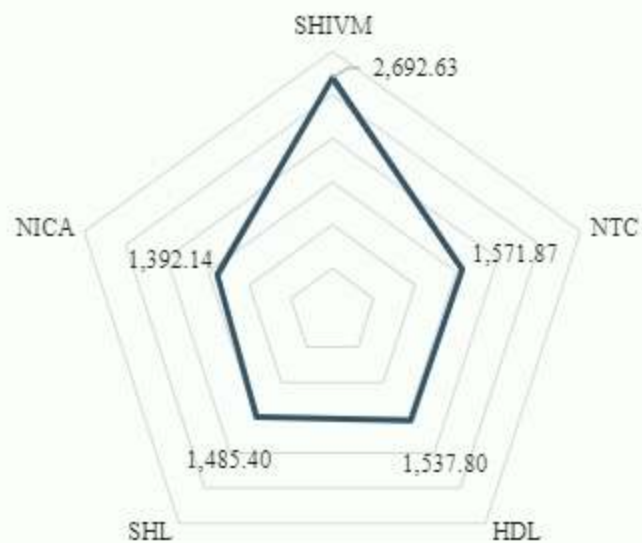
# STOCK SCANNER



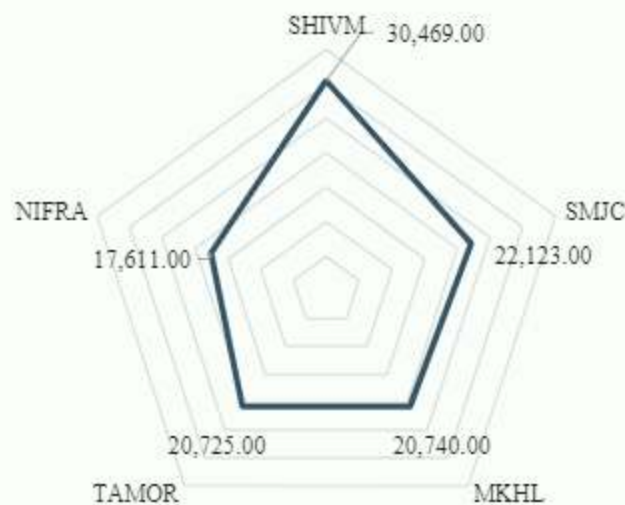
Stocks with Highest Volume (Millions)



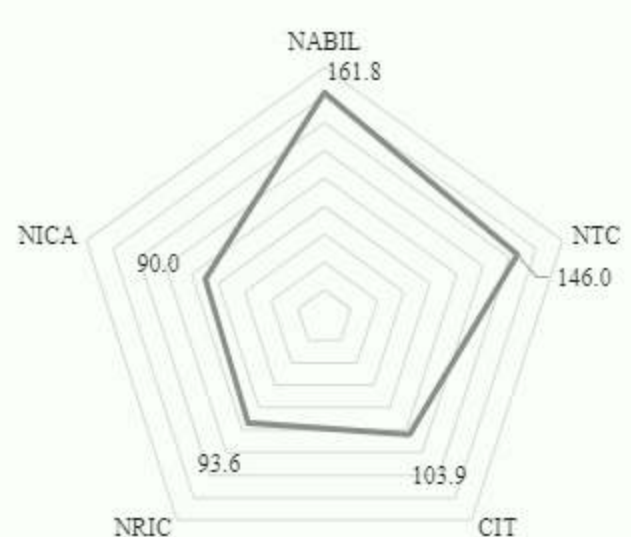
Stocks with Highest Turnover (Millions)



Stocks with Highest Transaction Size



Stocks with Highest Market Cap. (Billions)



❖ Key Sectoral Allocation of Mutual Funds

Commercial Banks, Hydropower, Non-Life Insurance, Life Insurance

❖ Holdings of Mutual Funds

NLICL, NIL, SANIMA, NICA, EBL



# TECHNICAL OUTLOOK...



Technical Indicator (15 <sup>th</sup> June)	Value	Technical Overview:
RSI	71.03	In the review period, market broke the months of tiresome sideways trend of 1820 to 1950 level and developed the upward momentum trading above the middle Bollinger bands for weeks. Despite RSI in the overbought zone and ADX indicator yet to confirm strength in bull, MACD still cue up potential. SMA 200D and 50D index has fallen below the current index (2042) picturing the bullish market. Up market is well supported by volumes, shooting up to Rs. 5 billion. Our take on market has gradually shifted to Bullish with our resistance and support level of 2280 to 1920 level for the coming month.
MACD line	36.50	
Signal line	21.05	
Bollinger Upper Band	2046.64	
Bollinger Middle Band	1931.69	
Bollinger Lower Band	1816.74	
ADX	23.41	
Simple Moving Average (50 Day)	1897.19	
Simple Moving Average (200 Day)	1962.74	



## *Key Bulletins of the Month*

1. Finance Minister Mr. Prakash Sharan Mahat, on 15<sup>th</sup> Jestha, unveiled the NPR. 1.751 trillion fiscal budget for FY 2080/81.
2. Market (NEPSE) has shown the indication of bull momentum as the liquidity improves; CD ratio and inter-bank rate has come below 85% and 6% respectively.
3. Nepal Bankers' Association (NBA) has decided to keep the deposit interest rate unchanged (i.e. 9.99% on FD rate for Individual and 7.99% for Institution) for the month of Ashad as well.
4. NRB seek suggestion and recommendation till Ashad 10 from various stakeholders for inclusion in Monetary Policy 2080/81.
5. SEBON issued license to 18 new broker houses; 16 can operate as limited securities broker services, Mega Stock Market Ltd. can run full operating securities broker services, and Nabil Securities Ltd. got dealer's license.
6. NRB has sold 69.77% of its shares in NEPSE to Rastriya Banijya Bank (RBB) at Rs. 676.52 per share.
7. NRB has subsidized refinance facilities for underperforming businesses in certain sectors and restructuring options for specific industries to address the economic recession.
8. Stock Investors has decided to form the Investors Federation to strengthen the unity and uniformity in the investor's common concerns/issues.
9. The Investment Board Nepal has approved the final agreement with India's SJVN to develop the 669 MW Lower Arun Hydroelectric Project.
10. NEA reports a record high electricity demand of 1950-2000 MW during peak hours while the NEA's supply capacity during the dry season is only 1000 MW.

## *Listing of IPO Shares in the Month of Review*

S.N.	Company Name	Ticker	Sector
1.	Dolti Power Company Limited	DOLTI	Hydropower
2.	Bhugol Energy Development Company Limited	BEDC	Hydropower
3.	City Hotel Limited	CITY	Hotels & Tourism
4.	Menchhiyam Hydropower Limited	MCHL	Hydropower

## *Monetary Policy 2080/81 B.S. :*

Central Bank, Nepal Rastra Bank, is likely to unveil the Monetary Policy for FY 2080/81 in the upcoming month Ashad or by first week of Shrawan. At times of higher inflation, lower credit growth, the Monetary Policy has the challenge to satisfy the Budget targeted 6.5% inflation rate along with creating the favorable environment for the government to achieve its targeted 6% economic growth. As both these budget objectives failed to materialize in FY 2079/80 where inflation exceeded the targeted 7% and economic growth slashed to below 3% against targeted 8%, investors need to



### Upcoming Investment Events (IPO to General Public)

S.N.	Company Name	Open Date	Close Date	Issue Units	Issue Price
1.	Three Star Hydropower Ltd.	2023-06-20	2023-06-23	613,162.00	Rs. 100
2.	IME Life Insurance Company Ltd.	2023-07-05	2023-07-09	9,600,000.00	Rs. 236.91

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

S.N.	Company Name	Issued To	Open Date	Issued To	Open Date
1.	IME Life Insurance Co. Ltd.			Migrant	2023-06-16
2.	Upper Lohore Hydropower Ltd.	Local	2023-06-22	Migrant	2023-06-22

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नेपाल फिनिक्स लिमिटेडको पूर्णतया स्वामित्वमा रहेको कम्पनी हो



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