

The Pulse

Market Growth, Risks and Outlook

Baisakh 2079

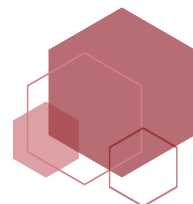
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Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited



Macroeconomic Overview



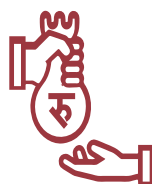
Inflation

7.14% ▲



Deposit Growth

13.95% ▲



Credit Growth

22.22% ▲



Import Growth

38.60% ▲



Export Growth

82.90% ▲



Remittance Growth

-1.73% ▼



FX Reserve Growth

-18.49% ▼

*Growth refers to the change between the eighth month of this FY and the eighth month of Last FY.

*Credit refers to claim on private sector

Monthly Trading Statistics



**Average
Turnover**

NPR 1.83 B

-38.25% ▼



**Average
Shares Traded**

4.25 M

-26.46% ▼



**Average
Transactions**

35.44 K

-18.04% ▼



**Average
Scrips Traded**

230

0.80% ▲

* For the period (Mar-28) - (Apr-26)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Falgun-77	Magh-78	Falgun-78	Baisakh-6	Baisakh-13	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	0.67	5.64	7.16	7.43	7.48	6.49	1.52	0.05
Wt.Avg 91 Days TB rate (%)	2.03	5.60	6.82	8.05	8.16	4.79	1.22	0.11
Wt.Avg 364 Days TB rate (%)	1.98	5.29	5.29	7.81	7.81	3.31	0.00	0.00
Wt. Avg Interbank Rate (%)	3.43	4.98	6.56	6.98	7.04	3.13	1.58	0.06
CapEx (In Billion NPR)	79.88	60.79	77.15	105.95	109.18	-2.73	16.36	3.24

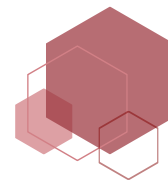
B. BFI Statistics

Description	Value As On					Change		
	Falgun-77	Magh-78	Falgun-78	Baisakh-6	Baisakh-13	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	4.76	6.49	6.93	6.93	6.93	2.17	0.44	0.00
Wt. Avg Lending Rate (%)	8.73	10.31	10.60	10.60	10.60	1.87	0.29	0.00
Base Rate (%)	6.84	8.53	8.98	8.98	8.98	2.14	0.45	0.00
CD Ratio (%)	89.12	90.35	90.40	90.43	90.92	1.28	0.05	0.49
Fixed Deposits/Total Deposits (%)	48.09	54.03	54.03	54.03	54.03	5.94	0.00	0.00
Total Liquid Assets/Total Deposits (%)	24.84	23.20	23.20	23.20	23.20	-1.64	0.00	0.00

Public Debt Subscription

Category	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Lowest	Highest	Average
28 Days	Baishak 13	500.00	0.00	22	88	3.22	500.00	7.15	7.49	7.48
91 Days	Baishak 13	1360.00	0.00	23	124	1.31	1360.00	7.40	8.39	8.16
182 Days	Baishak 6	500.00	0.00	19	73	2.29	500.00	7.78	8.13	8.03
364 Days	Chaitra 29	500.00	0.00	19	78	2.49	500.00	7.20	8.08	7.81

*Figures are in Millions NPR

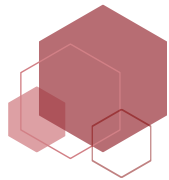


Sectoral Movement

Index	Chaitra 14	Baisakh-13	Change
NEPSE	2,415.25	2,325.45	-3.72%
Mutual Fund	15.20	15.00	-1.32%
Commercial Bank	1,604.35	1,568.95	-2.21%
Trading	2,228.53	2,176.93	-2.32%
Microfinance	4,840.58	4,726.06	-2.37%
Hotels & Tourism	3,121.47	3,002.21	-3.82%
Manufacturing & Processing	5,698.18	5,471.73	-3.97%
Life Insurance	13,152.06	12,612.57	-4.10%
Development Bank	4,169.16	3,995.97	-4.15%
Investment	79.61	76.12	-4.38%
Others	1,872.50	1,786.23	-4.61%
Non Life Insurance	11,183.17	10,527.56	-5.86%
HydroPower	2,758.52	2,583.43	-6.35%
Finance Company	1,847.15	1,671.04	-9.53%

Major Movers

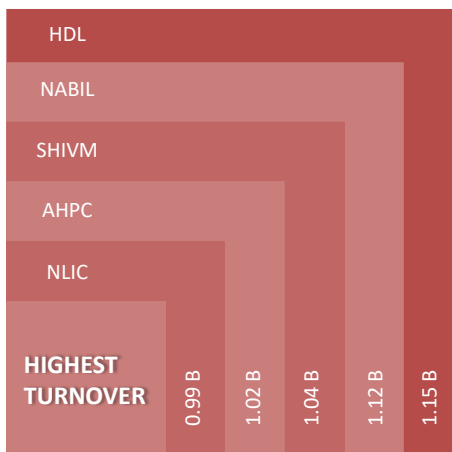
NESDO	236.58%	HURJA	-28.12%
JALPA	178.50%	NFS	-23.37%
GVL	43.86%	NABBC	-23.03%
RULB	20.32%	GUFL	-22.78%
SLBSL	6.59%	MBJC	-19.35%



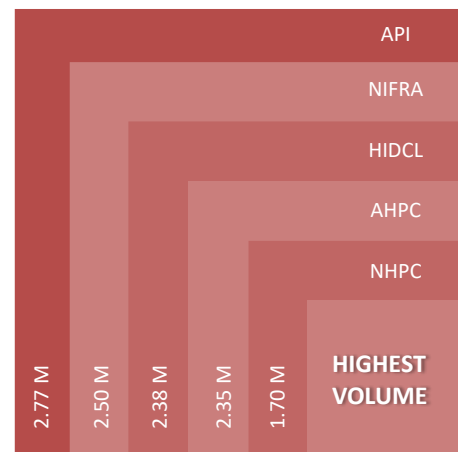
Sectoral Divergence-Turnover

Index	90 Days Avg	Month Avg	Divergence
NEPSE	2.96 B	1.83 B	-38.25%
Corporate Debenture	1.99 M	3.43 M	72.66%
Hotels	23.54 M	21.68 M	-7.89%
Life Insurance	315.71 M	243.32 M	-22.93%
Non Life Insurance	282.03 M	181.96 M	-35.48%
Mutual Fund	10.71 M	6.26 M	-41.50%
Commercial Banks	563.63 M	316.98 M	-43.76%
Microfinance	327.73 M	179.66 M	-45.18%
Manufacturing And Processing	201.30 M	107.76 M	-46.47%
Investment	241.89 M	127.19 M	-47.42%
Tradings	14.07 M	7.15 M	-49.16%
Development Banks	294.96 M	137.22 M	-53.48%
Hydro Power	1,112.27 M	434.44 M	-60.94%
Others	166.32 M	62.08 M	-62.67%
Finance	269.08 M	99.55 M	-63.00%
Preferred Stock	0.01 M	0.0 M	-93.17%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview

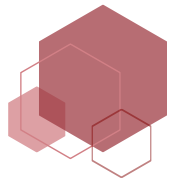


After a week-long fall, the flagship NEPSE index was able to breakout from the parallel channel by closing at 2420.96 points on 24th April 2022 with a daily turnover of NPR 2.53 billion. However, the market could not maintain the same level. On 25th April 2022, the index closed at 2,386.01 points after declining by 34.95 points (-1.44%) with a daily turnover of only NPR 2.04 billion. Comparing with the previous week, Nepse index is still near the same levels with higher daily turnover.

Exponential Moving Average (EMA) of the index still shows that the market is in a short-term bearish trend after the 50 Day EMA crossed over the 20-day EMA. Looking at the gap between these EMA, the market might still go downward.

Relative Strength Index (RSI) was hovering around 30 points indicating the market had entered the oversold region. But after a sharp rise of the market on Sunday (24th April 2022), the RSI went up with a rise in the price various stocks, before declining on the next day. Now, RSI is at 40.24 point. Thus, it indicates that the market still needs to outweigh sellers to increase the market.

The MACD line is below negative territory indicating weak momentum in the market, but the MACD line has touched the signal line from below which is bullish in nature. In the same way, the positive MACD histogram can be observed after fading negative histogram indicating positive sentiment in the market.



The immediate support levels of NEPSE index stands at: (S₁) 2,330, (S₂) 2,280 and (S₃) 2,100, whereas the resistance levels hold at: (R₁) 2,420, (R₂) 2,515 and (R₃) 2,670.

B. Long-Term Outlook



In the last two months, the flagship NEPSE index has been in a downward trend with small pullbacks in between after testing key support levels. Currently, the NEPSE index is at 2,386 points after taking a good support at around the 2,330 level. Liquidity issues among BFIs has led Since, the situation of liquidity tightness is still prevailing, there is no high buying pressure in the market. Thus, the index is moving downward with short upward pulls in between and can be expected to go further down.

As can be seen in the graph above, the NEPSE index had reached the recent top of 2,981 points on 18th January 2022 and then started a downward trend with high selling pressure and consequently broke below the Trend-Based Fibonacci Extension of 2,618 (2,633 points). The index has now settled in a range of movement between the 2,618 and 1,618 Fibonacci Extension region. Considering only the Trend-Based Fibonacci Extension, the new long term support levels of the index can be considered to stand around the 2,078 level (1.618).

If we observe the 50 days EMA and 200 days EMA crossover, there was a death crossover seen on 4th April, 2022; and the market has declined by around 7.34% from the crossover level Therefore, with all the applied indicators and economic factors, the market is still quite weak to observe a long rise.

The intermediate support levels of NEPSE index stand at: **(S₁) 2,281, (S₂) 2,176 and (S₃) 2,070**, whereas the resistance levels hold at: **(R₁) 2,466, (R₂) 2,575 and (R₃) 2,650**.



SCRIP ANALYSIS

Shine Resunga Development Bank Limited(SHINE)

A. Technical Analysis



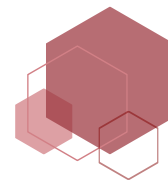
The stock price of SHINE is NPR 372.40 as on 25th April 2022. The stock price of the company has been moving in a downwards pattern for around 3 months after beginning its fall from its recent high of NPR 473 on 20th Jan 2022.

Recently the stock had observed a breakout above the upper line of a parallel channel pattern indicating certain bullish momentum on 24th April with a rise of 7.82% on the days opening price. However, the following trading day the stock price declined yet again by 3.52% indicating weak buying sentiment in the market.

Looking at the stock’s historical pattern movement pattern we can observe another such breakout which ultimately ended in a declining trend. Thus, the same pattern may be observable in the future with the stock.

Exponential Moving Average (EMA) 20 days and EMA 50 days are also indicating a downward trend after the occurrence of death cross over following which the price of the stock has declined by a further 9.33%.

The Relative Strength Index (RSI) of the stock is at 45, which indicates neutral momentum.



The MACD line is below negative territory indicating weak momentum in the market, but the MACD line has touched the signal line from below which is bullish in nature. In the same way, the positive MACD histogram can be observed after fading negative histogram indicating positive sentiment in the market.

The immediate support levels for this stock stand at: (S₁) NPR 360, (S₂) NPR 337 and (S₃) NPR 285, whereas the resistance levels hold at: (R₁) NPR 385, (R₂) NPR 405, and (R₃) NPR 420.

B. Stock Valuation

The final average valuation of Shine Resunga Development Bank Limited (SHINE) is based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation, Excess Equity Return (ERM) and Discounted Cash Flow Method) as well as Relative Approach (viz. P/E Model and P/B Model) has been computed as NPR 346.79, which has been tabulated below:

Methodology	Valuation Price (NPR)
Capitalized Earnings	318.16
Earning Valuation	277.89
Discounted Cash Flow	418.88
P/E Model	358.04
P/B Model	413.01
Final Average Valuation	346.79

Assumptions

I. Perpetual Growth Rates

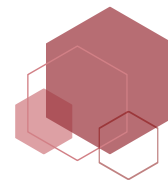
- Perpetual Growth Rate for longer period projection to calculate terminal value (Last 10 years average economy growth rate) = 4.20%

II. Stable Earnings Growth Rate

- Stable Earnings Growth Rate for calculating capitalization rate = 6% (Growth rate is determined by retention rate times ROE)

III. Discounted Rate Using CAPM Model

- $Ke = Rf + (Rm - Rf) * B$



Specifics	Value	Remarks
Weekly Beta (B)	0.87	
Market Return (Rm)	13.63%	
Risk Free Rate (Rf)	8.55%	Citizen Saving Bond, 2083
Cost of Equity (Ke)	12.03%	

IV. Industry Average P/E Ratio

- Industry average P/E Ratio = 20.95 and P/B Ratio = 2.96

C. Recommendation

The final average value of SHINE using varied valuation techniques is NPR 346.79. Looking from Absolute Valuation Method and Relative Valuation Method, the final average value was estimated at NPR 327.43 and NPR 385.52 respectively. Comparing it with the last trading price of SHINE, the company's stock price is overvalued by 7.38% based on the valuation.

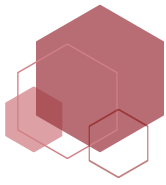
The stock price has been declining from its recent high of NPR 473 and can be bought at a discount of 21.30% from its recent high. The performance of the bank was in this quarter was satisfactory when compared with its historical financials, as the bank was able to increase its revenue from core operating activities.

SHINE is a national level development bank which was renamed after merging with Resunga Bikas Bank. It is a growing company whose year-on-year growth of operating income is good while being able to maintain a healthy portfolio of non-performing assets.

The last traded price of SHINE as on 25th April 2022 was NPR 372.40. Thus, it is trading above the industry average P/E ratio of 21.97 at a P/E of 22.58 with an EPS of NPR 17.09, signifying that the company can deliver higher returns in the future owing to its strong reserves.

Similarly, talking about the company's financial position, it has a moderate capital base compared to its peers which is supported by industry average reserves, the company also falls in the middle regarding its market capitalization, and has above average ROA and ROE compared to its industry. Adding to it, the company is performing well by maintaining an NPL% lower than 1 on average which shows good credit management among development banks. So, from fundamental aspects, SHINE is performing very well by maintaining its consistency in growth of its business.

Moreover, looking at the history of the company's dividend, the company has provided at least a 10% stock dividend over the past few years, so investors can expect a

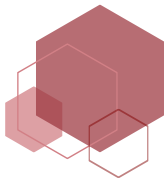


minimum of 10% stock dividend in the future as well. The company still has significant room for growth in terms of its capital base as any growth in business sourced will require a proportional growth in capital to maintain capital adequacy levels within regulator set levels. Fundamentally, the stock is trading at a premium of 7.38% compared to its intrinsic value of NPR 346.79, thus making it overvalued.

Considering a technical perspective, the major technical indicators such as RSI, and EMA are indicating a diminishing downtrend in the scrip. The scrip's price is closing in on its valuation price i.e. NPR 346.79. If the price of the company falls in or below this range, it could be good long investment for investors after due consideration of qualitative factors of the bank.

Disclaimer: Investment in equity shares has its own risks. The information contained herein is based on analysis and on sources that we consider reliable. This material is for personal information, and we are not responsible for any loss incurred due to it & take no responsibility whatsoever for any financial profits or loss which may arise from the recommendation above.





ISSUE OF THE MONTH

Making Sense of The Nepali Economy- An Analysis of its Constituents.

"Insanity is doing the same thing over and over again and expecting different results."

A. The concepts of surplus and deficit.

"A surplus occurs when one's income is greater than their spending while a deficit occurs when one's spending is greater than their income". Although, quite obvious, this concept is often forgotten as people are often misinformed as to what constitutes income, what make up expenses, and how this all ties directly to the liquidity position of an individual/institution.

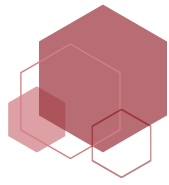
In liquidity terms, a surplus is when people have an excess cash position which can be used either to make more money through investments or can be used as an additional source of expenditure. A deficit on the other hand is when then inverse is true, i.e., when people have a cash shortfall wherein their income cannot sustain their expenses. This is pretty straight forward, but there is a third variable that comes into play which makes one's liquidity position more complicated and that is the concept of debt. The ability to borrow means that even when in a cash deficit a person can still finance their expenses by sourcing debt.

This is when things get tricky as the money sourced through debt is not income but interest payment and debt repayment both constitute expenditures. Also, debt servicing is non-optional meaning once a debt is incurred, the amount required to service it is a permanent expenditure unless the debt is repaid in full. Thus, an inability to service the debt might lead to default if the debt servicing amount is greater than the cashflow/liquidity position of the individual. Although, not the same, this is quite similar to what has happened in Srilanka wherein the countries foreign exchange reserves which is its liquidity position for servicing foreign debt was not enough to service and upcoming debt payment.

This is a scenario which can repeat in a developing country like ours as well if we source a large enough debt that cannot be serviced through of Foreign Exchange Reserves. However, we are quite far from such and event occurring as although remittance inflow to our country through formal channels has slowed down this year, the numbers are still good and should not deteriorate drastically in the short to medium term.

B. Foreign Exchange Reserves

The total amount of foreign currencies held by a country's central bank (Nepal Rastra Bank) are known as foreign exchange reserves. Although, foreign exchange reserves



have various uses, for a consumption driven economy such as Nepal, their primary use is to facilitate payment for the large number of imports the country makes for consumption. Similarly, the reserves are also used for the servicing of foreign debts and their improved strength also reflects well on the state of nation's economy. In the absence of a sustainable foreign reserve, a country cannot make imports or even service foreign debt obligations.

A country's foreign reserves tend to increase if remittance inflow, exports, and tourist numbers increase, while new foreign debt and foreign grants (such as the recently approved MCC) also act as a source of foreign currency (It must however be noted that foreign loans need repayment and will serve to reduce our reserves if they are not utilized properly due to their regular servicing requirement). Inversely, an increase in imports, remittance outflow (primarily to India), tourist outflow, and debt servicing of foreign debts leads to a reduction in the Foreign Exchange Reserves of the country.

The recent move by Nepal Rastra Bank to put a restriction on the issuance of Letter of Credit (LC) for the import of luxury materials is indicative of growing pressure on the foreign reserves of the country due to increasing imports compounded by an increase in global oil prices and exasperated by negative growth of remittance inflow into the country. However, the current increase in imports may not be entirely organic as some of the imports are due to the expression of pent-up demand due to large periods of economic stagnancy during the COVID-19 pandemic and things should stabilize once remittance numbers recover (Data Here-migrants)

C. Remittance

Remittance Inflow has been playing a major role in shaping the Nepalese economy since the start of economic liberalization in the early 1990s which has been aided by a continuous rise in the number of people migrating abroad for foreign employment opportunities which has only been slowing in the last five years as we seem to have reached the peak of migrant numbers exported annually.



Annual Immigration Numbers

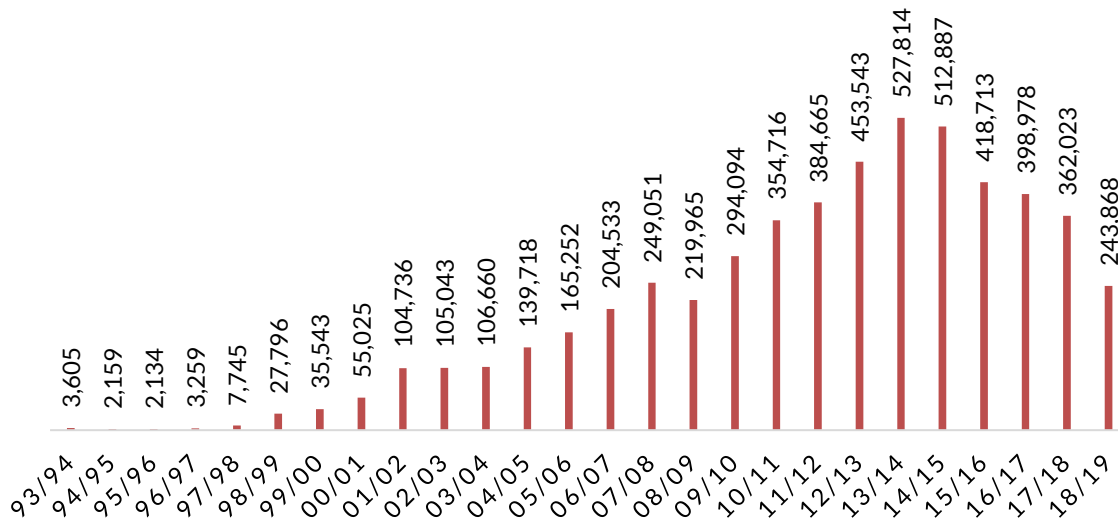


Figure 1: Annual Immigration Numbers

Annual Immigrant Numbers for Foreign Employment have increased constantly for the period between FY 97/98 and FY 13/14; going from below Ten Thousand annually to reach a peak of more than Five Lakh annually before steadily declining the last few years. This large stock of migrants has been remitting an increasing volume of money every year so much so that by FY 2011/12, 56% of households in the country were reported to have received remittance exhibiting our country's increasing reliance on remittance income in the absence of substantial manufacturing infrastructure within the country.

Annual Remittance (In Billions NPR)

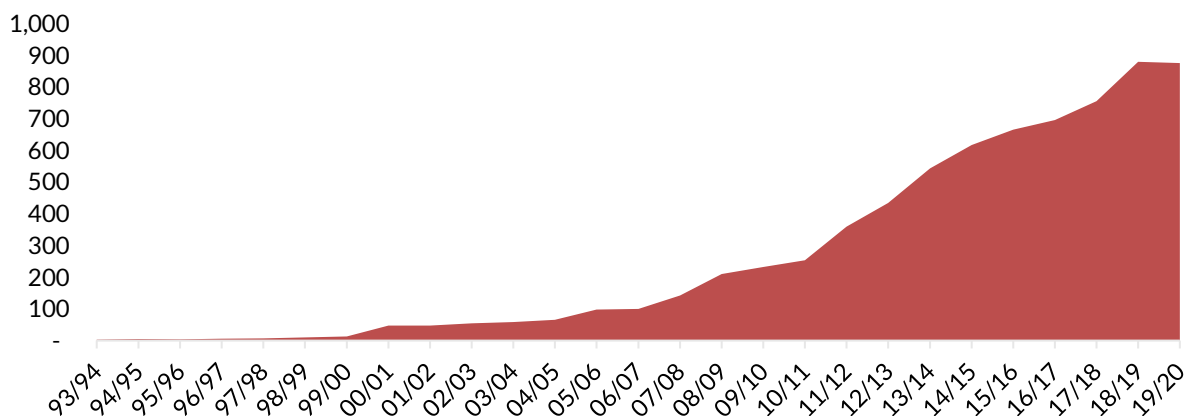
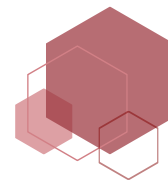


Figure 2: Annual Remittance (In Billions NPR)

With scores of young adults moving abroad for economic opportunities, this shift not only changed the economic working of the nation but also had a profound social impact with a move towards greater consumption and a rapid rate of urbanization. Private consumption in Nepal in the period between FY 1993/94 and FY 2018/19 increased



from NPR 170 Billion to NPR 2,754 Billion as increasing remittance numbers led to higher imports.

Private Consumption in Nepal (In Billions NPR)

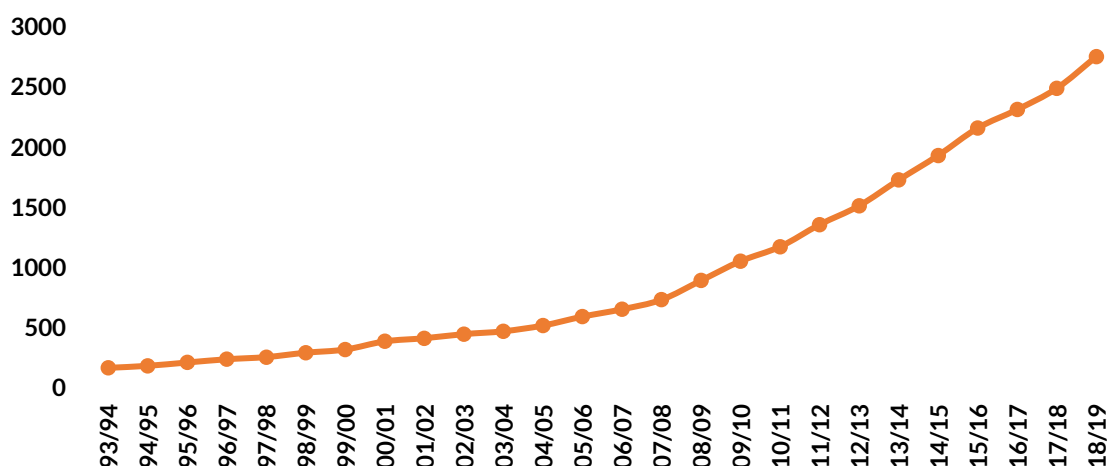


Figure 3: Private Consumption in Nepal (In Billions NPR)

This means that most of the Remittance inflow is used to fund ever increasing imports and does not add as much value to the national economy as it could. Similarly, remittance coming from informal sources such as hundi also do not add much value to the national economy but is increasing in number especially after opening up of restrictions being placed due to COVID-19. The use of informal channel for remitting is attributable to various factors, the first is a higher cost of remitting through banking channels: According to a NRB report in 2019; the cost of remitting ranges around 4.3 percent for small amounts up to USD 200 and 2.9 percent for amounts up to USD 500. Thus, even as this is well below the global average of around 7.1 percent, it is still well above the SDG target of 3 percent). Similarly, provisions made to increase AML/CFT related compliance in receipt of remittance income make remitting cumbersome for many Nepali households who do not have swift access to formal banking channels, and are not financially literate

These high transaction costs for remittances have been extremely regressive and have placed unnecessary costs on Nepali migrants who are among the world's most vulnerable workers. On average the cost of migration according to a study by ILO in 2016 is estimated to be US \$1,373. With an average monthly salary of US \$273 it takes approximately five months of earnings for migrants to recover that cost which has meant that the migrants are very wary of paying a 4% surcharge just for sending money. The use of informal channels along with carrying the money on own and through acquaintances/friends has been one of the preferred choices for Nepalese workers.

Even though there has been an expansion in banking services through the years, still a large majority of remittance-receiving households in Nepal remain unbanked, particularly so in rural areas. Where services are available, they are not varied enough to suit the wide-ranging needs of different households. The lack of financial inclusion is a lost opportunity for workers and the economy, as remittance-receiving households do show a commitment to investing when given the opportunity.



Since remittances sent through formal channels have several benefits over informal channel transfers such as the pooling of small amounts of savings from many individuals into one large amount that then can be invested by banks or loaned out. Nepal Government must be cautious not to over-regulate and impose onerous and unrealistic reporting requirements in order not to discourage smaller and emerging money transfer companies, as well as strive to further reduce remitting costs in order to ensure that the majority of remittances come in through formal channels, because when informal channels are used, Nepal receives no foreign currency, which remains in the host countries. This loss of foreign reserves reduces the country's profit from remittances.

Recognizing the importance of such a large quantity of cash flow for development, the government must devise a variety of innovative policies, programs, and instruments to maximize the potential of remittances. Aside from lowering remittance costs, expanding banking services and increasing financial education are critical, as is encouraging migrants to invest their remittance earnings in order to formalize remittances through subsidies, tax discounts and exclusive investment opportunities.

D. Tourism

While Nepal has a lot of potential for tourism, we have not been able to build the requisite infrastructure for facilitating huge tourist numbers. Whether it be lack of proper planning, or execution issues, there is no doubt that the last decade has not been highly conducive to the growth of Nepali Tourism sector. An example of this is a mere 49% increase in tourist number between FY 69/70 and 76/77 which signifies a cumulative annual growth rate of just 5.9% over the 7-year period.

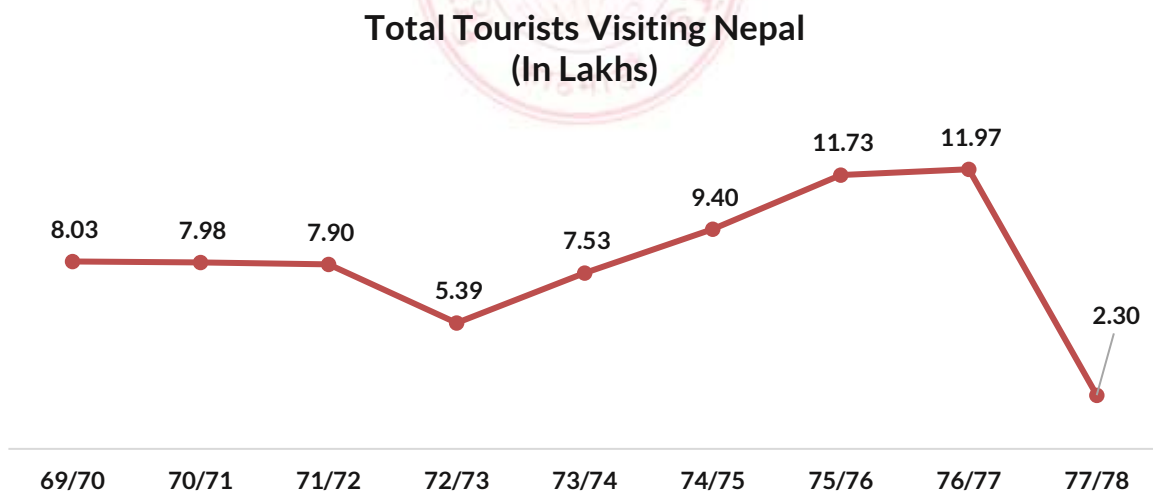
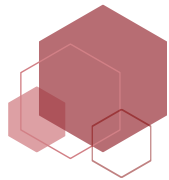


Figure 4: Total No of tourists Visiting Nepal (NRB)

Even more stark is our position compared to the top 10 tourist destinations of the world as the maximum number of tourists visiting a country annually is almost 90 Million in case of France whereas Nepal barely crossed the 1.17-million-mark in FY 2018.



Tourist Arrivals (In Millions)

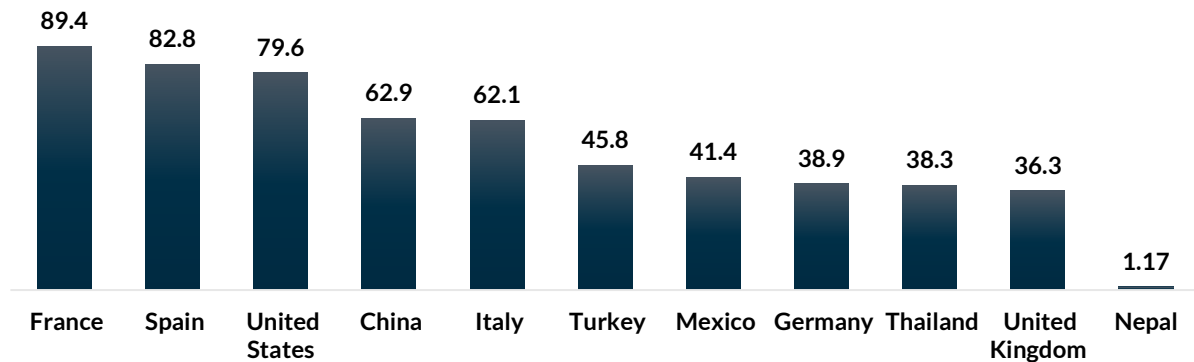


Figure 5: Tourist Arrivals In 2019

Discounting COVID-19 related numbers, it would take Nepal a cumulative growth rate above 24% for the next two decades to reach France's numbers while reaching UK numbers would require a growth rate above 19%. Even considering Nepal's Current Population of around 29.2 Million, reaching tourist saturation of just 25% of the current population would still require a growth of 9.5% every year for the next 20 years.

Forex Earnings (In Million USD)

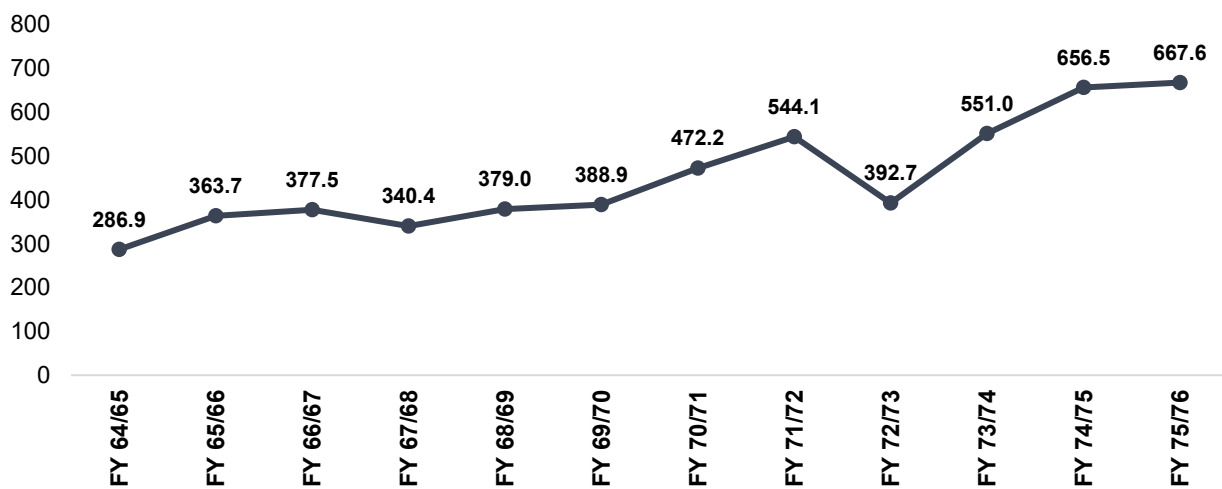
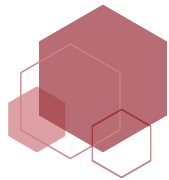


Figure 6: Forex Earning from Tourism

However, looking at our foreign exchange earning from 1.17 Million Tourists, the value stands at 667.6 Million USD which is around 9% of the income through remittance, thus we will need to improve tourist numbers substantially for it to add to our foreign exchange numbers significantly.

I think it is self evident that a significant gap that lies between where we want to be and our current position in terms of tourism numbers so that tourism makes a substantial impact on our national economy. This makes it clear that if we want to become a tourism hotspot, a lot of work needs to be done. Large infrastructure spending required to develop the nation as a prime tourist destination requires foremost the building of infrastructure such as roads and airports (TIA is reaching its saturation) and other



physical infrastructure that can satiate the needs of tourists visiting the country. The upcoming operation of Regional Airports in Pokhara and Bhairahwa should assist in this transition.

E. Trade Balance

Nepal has always been a net importer country due to its limited manufacturing infrastructure and owing to its neighboring countries being the worlds cheapest manufacturing destinations. This has meant that most Nepali industrial products find it difficult to compete with Indian and Chinese products due to their manufacturing concerns having economies of scale and scope which allows for production of same quality goods at a much cheaper price. Nonetheless, Nepal has been exporting certain goods such as Woolen Carpet, Polyester Yarn & Thread, Jute Goods, Juice, Cardamom, and Readymade Garments but their value is miniscule compared to the nation's top imports such as petroleum. For comparison in the 8 months of this Fiscal Year Nepal has imported 185.17 Billion NPR worth of Petroleum products while exporting just NPR 5.89 Billion worth of Woolen Carpet.

Major Imports and Exports (In Billions NPR)

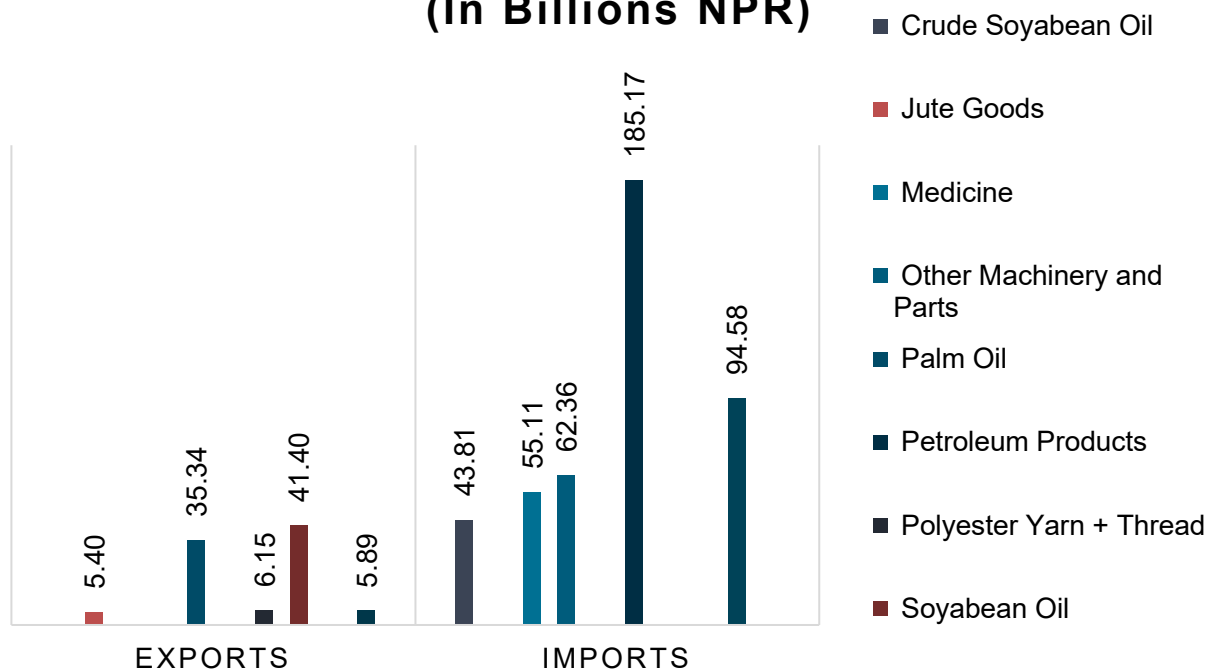
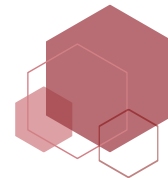


Figure 7: Major Imports and Exports of Nepal

Nepal does export Palm Oil and Soyabean Oil in large volumes valued at NPR 76.7 Billion making up more than half of the nation's exports of NPR 147.7 Billion as of 8 months of the current FY. However, these are not exports of byproducts of Nepali materials but almost zero value addition exports wherein the crude oil is imported from elsewhere and processed to be sold in the Indian market owing to tariff exemption privileges. It is this near zero-value addition nature that makes these exports infeasible in the long run if India decides to stop tariff exemption privileges for the aforementioned products or reduce tariffs for their imports from other countries.



Excluding these exports, Nepal's export outlook looks bleak in terms of products exported and the import to export ratio nearly doubles from around 9 times to around 17.5 times. This shows that money will keep on flowing out of the country to balance the 1,161 Billion Trade Deficit leading to issues in the deposit creation cycle which has been observable this Fiscal Year leading to credit disbursement slowdowns on the back of lower deposit creation as a slow down in remittance inflow has added to the woes, enabling the hampering of the deposit creation cycle severely.

F. Real Estate

Beside the trading sector which has benefitted greatly due to increasing consumption driven by imports within the nation, another sector has benefitted almost equally if not more by the ever-increasing remittance inflow into the country. The Real Estate Sector of Nepal has been growing non-stop for the last two decades with two periods of substantial growths in between first buoyed by unleashing of pent-up demand after the end of armed insurgency in the early 2060's and secondly following reconstruction and rehabilitation efforts following the Gorkha Earthquake in 2072 B.S.

Real Estate prices have been in a constant upwards trajectory with a recent survey by NRB showing the annual average inflation in real estate prices was 26.45% for FY 2076/77 based on data obtained from BFIs while inflation was found to be around 19.73% based on data obtained from land revenue office. While the constant increase in its price makes real estate a good avenue for investment, it has nonetheless helped stifle industrial growth in the country as people can simply invest in an asset such as real estate by borrowing money as the inflation rate of the asset is greater than the cost of borrowing money.

An even stranger phenomenon is the treatment of Real Estate as a liquid asset wherein a single plot of land is transferred between multiple individuals in a relatively short amount of time. This can be seen through data regarding tax collection in land revenue offices, wherein the total transaction volume of real estate dealings is estimated above NPR 800 Billion for this fiscal year alone. However, since real estate prices are understated to reduce tax implication for the parties involved, some report estimate the total transaction volume of real estate at NPR 2,500 Billion which is around 60% of Nepal's Total GDP. In contrast India's Real Estate Market is USD 200 Billion which is less than 8% of its GDP. This shows an overconcentration in real estate transaction within the country.

Similarly, as around 90% of the NPR 4,715 Billion of credit disbursed by BFIS is backed by real-estate, a large enough fluctuation in real estate prices can increase non-performing assets of BFIs substantially and can cause a major threat to the country's financial system as well. More concerning however, are the diminishing return prospects of real estate besides sales gain as the proportion of income that can be generated from the use of the real estate without engaging in its buying/selling is decreasing as well.

Finally, real estate prices are reaching levels wherein an entire generation might miss out from buying their own homes as even the cheapest piece of real estate (a 1 BHK Apartment) is sure to cost an individual at least NPR 5 Million to buy (according to research done on several real estate websites). Considering that the median salary of a

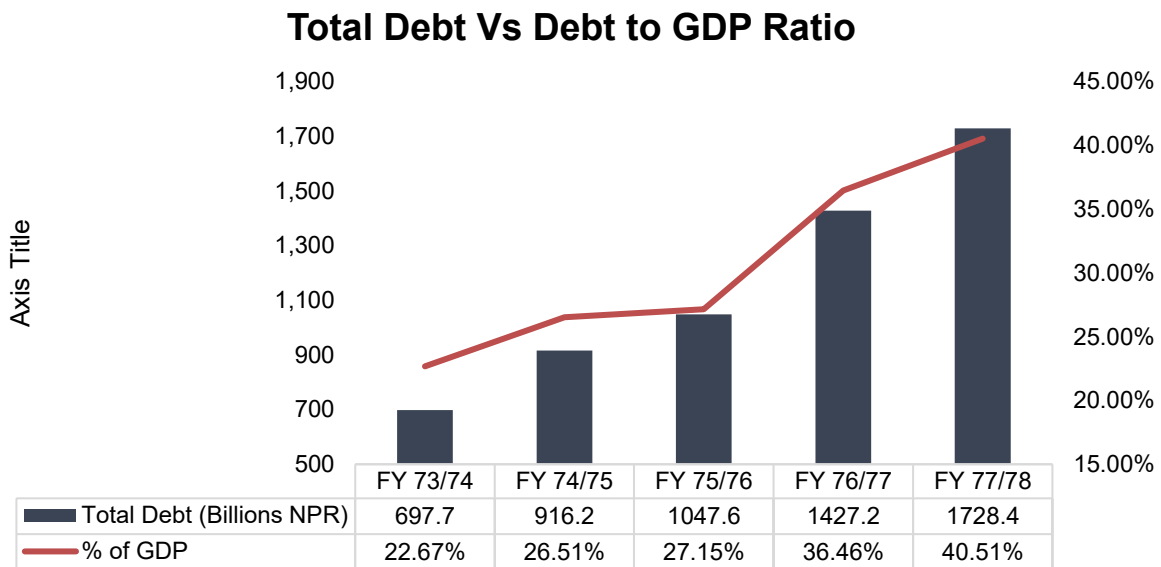


master’s graduate starts at around NPR 25,000 per month at best, it would require the person to save all his salary for 20 straight years just to be able to afford a home in Kathmandu valley which realistically speaking is highly improbable and the real tragedy.

G. Fiscal Policy and National Debt

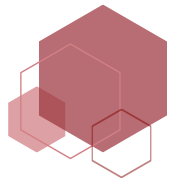
Elaborating on the concept of surplus and deficit as discussed at the beginning of this article, Nepal runs a deficit budget as its income sources are not enough to finance its expenditure which leads to it borrowing more and more money to finance its ever-growing expenses. With a tax regime focused on improving revenue only by taxing goods imported and produced, the country has been relying on its people propensity to consume to shore up its sources. However, this is a wrong approach, and the focus should be on facilitating the setup of industry and increasing income which will both boost the national economy and add to the government’s source.

Unfortunately, the growth in expenses is also primarily an increase in recurrent expenses which in simple terms are expenses the government would incur even if it stopped functioning. Capital Expenditure of the country has remained almost the same over the years and this has helped maintain an everlasting liquidity issue in the market. Thus, owing to overspending without the necessary sources to back it up, consecutive governments have started borrowing additional money from home and abroad which has caused the national debt to rise by around 250% in a span of just five years.



More concerning however, is the increase in the debt to GDP ratio of the country which has gone just above 40%. While it is not uncommon for countries to have debts Upto 50% of their GDP, the countries most have good exports so as to be able to service that debt regularly or risk default.

The increase in debt being attributable to the regularly ballooning recurrent expenditure of the country which in a few years time will surely be greater than the country’s revenue means that any new development spending will need to be funded by debt completely thus increasing the national debt even further. In order to manage this debt, the government needs to make a concentrated effort to buildup both the manufacturing and service sectors such that the country can source additional foreign



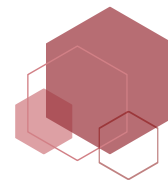
exchange for debt repayment and servicing. However, given the growing nature of the economy, certain debt can always be expected to be there. It is thus necessary to not add so much debt that we are unable to service it. If we maintain a good margin of safety, and not pursue high yield loans for building infrastructure with no guaranteed returns like Sri Lanka has, we should be just fine as long as remittance inflow remains good.

H. Finally

Nepal has been running a deficit budget for years now as consecutive governments have only striven to increase the recurrent expenditure without taking concrete steps to strengthen their resource pool and have shown a general apathy towards consistent capital expenditure which could help improve the economy's outlook. Economic stimulation in the country happens through remittance inflow while government policy always seems to be geared toward short term populism above long term sustainability as evidenced by the growing national debt. Internal production has been dismal and will continue to remain so unless we take drastic steps to enable industry and entrepreneurship as people are making very good money without needing to invest in industry.

This is inline with the quote of a prominent expert that that was published a few weeks ago which had simply stated: "Why would people take risks to establish an industry when they can easily make similar money importing and selling things or by investing in bank deposits with double digit returns or by buying and selling real estate whose passive income capacity is exponentially high". This has meant that while prices of assets and consumable have been increasing, economic output has been lagging behind. This is akin to a "stagflation" wherein we have high inflation (6.75% for the last 7 years) but stagnant economic growth.

For years, Remittance Inflow has helped mask the numerous flaws in Nepal's economic model as evidenced by the recent liquidity crunch which occurred in part due to a shortfall in remittance income. However, we have not been able to capitalize on this buffer provided by remittance income to enable better industry, we have actually doubled down in building a consumption-based economy with limited productivity and this will only hurt us in the long run.



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
DORDI	IPO	1,054,260(O)	2022/04/26 AD 2079/01/13 BS	2022/05/10 AD 2079/01/27 BS	Siddhartha Capital
BINDYABASINI	IPO	1,000,000(O)	2022/04/24 AD 2079/01/11 BS	2022/05/08 AD 2079/01/15 BS	Sanima Capital
API	Right	10,860,000(O)	2022/04/08 AD 2078/12/25 BS	2022/04/28 AD 2079/01/15 BS	Muktinath Capital
SHINEP	Auction	45,991(P)	2022/04/27 AD 2079/01/14 BS	2022/05/05 AD 2079/01/22 BS	NIC Asia Capital
IGIPO	Auction	2,261(P)	2022/04/25 AD 2079/01/12 BS	2022/05/03 AD 2079/01/20 BS	Global IME Capital
IGI	Auction	88,934(O)	2022/04/25 AD 2079/01/12 BS	2022/05/03 AD 2079/01/20 BS	Global IME Capital

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