Nepal Investment Bank Limited

ICRA Nepal upgrades issuer rating of Nepal Investment Bank Limited to [ICRANP-IR] A+ and upgrades rating for existing subordinated debentures to [ICRANP] LA+; removed from "rating watch with negative implications"

Facility/Instrument	Amount	Rating Action* (June 2018)
Issuer Rating	NA	[ICRANP-IR] A+ (Upgraded)
Subordinated Debentures Program	NPR 750 Million	[ICRANP] LA+ (Upgraded)

** "rating watch with negative implications" removed for both the ratings*

ICRA Nepal has upgraded issuer rating of Nepal Investment Bank Limited (NIBL) from **[ICRANP-IR] A** (pronounced ICRA NP Issuer Rating A) to **[ICRANP-IR] A+** (pronounced ICRA NP Issuer Rating A Plus). The rating has been removed from "rating watch with negative Implications". Entities with [ICRANP-IR] A+ rating are considered as adequate-credit-quality rating assigned by ICRA Nepal. The rated entity carries average credit risk. The issuer rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

ICRA Nepal has also upgraded the rating of existing subordinated debentures of NPR 750 million of NIBL from **[ICRANP] LA** (pronounced ICRA NP L A) to **[ICRANP] LA+** (pronounced ICRA NP L A Plus). The rating has been removed from "rating watch with negative Implications". Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The sign of + (plus) or – (minus) may be appended to the rating symbols to indicate their relative position within the rating categories concerned. Thus, the rating of A+ is one notch higher than A, while A- is one notch lower than A.

Ratings for NIBL were put on watch with negative implications after April 2015 earthquake, pending assessment of the impact due to the earthquake on credit and financial profile of NIBL. The removal of rating watch and upgradation of ratings is because of NIBL's ability to maintain healthy financial indicators while managing the asset quality despite general stress in Nepalese economy, especially during FY16 arising from earthquake and subsequent elongated economic blockades. In ICRA Nepal's assessment, the bank's operational and financial profile is expected to remain consistent with the rating level going forward.

The rating action factors in the NIBL's strong market positioning with largest market share among private sector commercial banks at ~6% of industry credit and deposits. The ratings upgradation also takes into consideration bank's declining non-performing loans (NPLs), largely stable net interest margins (NIMs), healthy fee-based income, low credit and operating costs leading to adequate earnings profile among peers. NIBL's established track record (operating since 1986) and adequate network[1] along with bank's experienced management team and comfortable capitalisation profile is expected to provide adequate growth opportunities to the bank going forward. The ratings continue to be supported by presence of institutional promoters (Rastriya Beema Company Limited, state owned insurance company, with ~12% stake, among others) with representation on the board of the bank.

The ratings however remain constrained due to spike in credit growth during low interest rate environment of FY15-FY16 (~28% credit growth in these two years vs. ~12% growth in earlier two years). Though the pace of growth has been moderated thereafter to ~14-15%, high portfolio grown during low interest rate regime could face some stress given the recent increase in interest rates across the banking sector. Delinquencies for the bank remains slightly higher among peers (~11% as of mid-Apr-18[2] including NPLs[3] of 0.76%) and hence remains a rating concern. However, consolidation and moderate growth plans of management over near term could help maintain comfortable delinquencies levels. ICRA Nepal also takes note of high customer concentration risks (~32% of credit and deposits among top 20 customers as on mid-

[1] Distribution network includes 65 branches and 98 ATMs as of mid-April 2018.
[2] Mid-Apr-18 data are unaudited
[3] Non-Performing Loans

Apr-18) and NIBL's modest deposits profile leading to slightly higher cost of funds vs. some of the other top-tier banks of Nepal.

NIBL is currently the largest private sector commercial bank in Nepal with an asset base of ~NPR 159 billion as of mid-Apr-18. Bank's credit portfolio of ~NPR 119 billion on mid-Apr-18 accounted for ~6% of industry credit. NIBL grew its credit portfolio by CAGR[4] ~20% during last five years ending Jul-17 remaining comparable to industry growth. However, this was supported by high growth rate in FY15 and FY16 (~28% growth vs. ~24% for industry) while the growth rate remained lower to industry during other years. Bank reported portfolio growth of ~23% in FY17 (vs. ~25% for industry) which was partly aided by acquisition of Ace Development Bank in July 2017. Excluding the acquired portfolio, standalone growth was ~14% and similar growth has been seen during 9MFY18. Notwithstanding the ongoing scarcity of lendable funds across the banking sector, credit demand going forward is expected to remain healthy amid the expected improvement in economic activity after the recent formation of stable Government. Nonetheless, portfolio originated during FY15-FY16 could see impairment as the repayment ability of borrowers may get impacted because of recent upward movement of interest rates. Yields on advances for the bank remains moderately high among peers at 11.03% for 9MFY18 (9.24% for FY17), the increment in recent periods remaining in line with industry trend. NIBL continues to remain a corporate heavy bank with large corporate loans comprising ~90%[5] of portfolio as of Apr-18 followed by retail loans (~6%) and SME loans (~4%). The credit portfolio continues to remain concentrated with top 20 borrower groups accounting for ~32% of portfolio, hence posing the asset quality related risks. Going forward, the management intends to grow cautiously with focus towards retail/SME sectors which could ease out the concentration risks.

Bank's asset quality has improved over last few years with NPLs coming down from 1.25% as of mid-Jul-15 to 0.76% as of mid-Apr-18. However, the delinquencies remain slightly high among peers at 11.28% as of mid-Apr-18 (8.45% on Jul-17) which remains a concern. However, ~90% of delinquencies are within 30 days and remains comparable to earlier trends provides some comfort. Going forward, although asset quality of banking sector including NIBL could witness some moderation due to decline in repayment capability of borrowers over increased interest rates, the overall profile is expected to remain comfortable. With provision cover of ~78% as of mid-Apr-18, Net NPA and solvency indicator (Net NPA/Net-worth) remains comfortable at 0.17% and 0.90% respectively. Going forward NIBL's ability to improve the delinquencies would be a key monitorable.

Though NIBL has been able to maintain better cost of deposits vs. industry average over the years despite largely comparable deposits profile (because of low rates in saving account products), it is modest in relation to other top-tier banks leading to slightly higher cost of funds among these peers. During past 12-18 months, Nepalese banking industry has witnessed shortage of lendable deposits pushing up the cost of deposits. CASA for NIBL also declined from ~51% as of Jul-16 to ~42% as of Apr-18 as against decline in industry average CASA from ~51% to ~44% over the same period. However, cost of deposits at 5.71% for 9MFY18 (3.69% for FY17) remains lower to industry average 6.04% for H1FY18 (4.10% for FY17), nonetheless, the same is slightly higher to some of the other larger banks of Nepal. Deposit growth has remained moderate (CAGR ~17% over past five years ending Jul-17 vs. similar growth for industry). The pace of deposits growth has decreased to ~5%[6] during 9MFY18 vs. ~11% growth for industry and this remains a concern. Furthermore, deposit concentration on top 20 depositors continues to remain high at ~32% as of Apr-18 (vs. ~35% on Oct-15).

As for profitability, NIBL's earnings profile remain healthy owing to its largely stable NIMs (3.41% for FY17 and 3.54% for 9MFY18), healthy fee-based income (1.37% of ATA[7] for 9MFY18), low operating expense ratio (1.36% of ATA) and low credit cost because of improving asset quality reported by the bank. Hence, the bank has been reporting stable return on assets (RoA) of ~2.2% in last two years. Return on net worth (RoNW) has moderated after the FPO to ~18% for FY17 (~20% for FY16) however remaining comparable to industry average of ~18% for FY17. The RoNW and RoA has improved to ~19% and 2.44% respectively

[4] Compounded Annual Growth Rate

[5] Bank is in process of changing the classification norms for corporate loans, which will reduce the share of corporate loans in future

[6] ~8% growth in local currency deposits

[7] Average Total Assets

for 9MFY18. Going forward, bank's ability to maintain adequate NIMs and manage asset quality would have strong bearing on its profitability profile.

As regards capitalisation, NIBL's reported CRAR[8] of 13.25% and tier I capital of 12.00% (both as per Basel III) as of mid-Apr-2018 remains comfortable as against the minimum regulatory requirement of 11% and 8% respectively (both including capital conservation buffer-CCB of 2%). The tier-I capital requirement is expected to increase to 8.5% by mid-Jul-19 (including CCB of 2.5%) although the requirement for total capital would be stable at 11% (incl. CCB). The capitalisation profile was strongly supported by FPO (NPR 5.45 billion raised including premium of NPR 4.54 billion) floated by the bank in FY16; the amount raised by FPO still comprises ~24% of capital funds as of mid-Apr-18. Given NIBL's healthy internal accruals and retention of profits as per business growth needs in the past, capitalization levels are expected to remain adequate to support growth plans of management while maintaining comfortable solvency profile.

Bank Profile

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank, was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50%), Credit Agricole Indosuez, sold their stake to a group of companies comprising of bankers, professionals, industrialists and businessman of Nepal in April 2002. The name of the bank was then changed to Nepal Investment Bank Limited. The bank is promoted by large number of institutions including largest stake of Rastriya Beema Company Ltd. (12.42%) along with other insurance companies, retirement fund and investment companies. Shares of the bank are distributed among promoter and public in the ratio of ~69:31 and the shares are listed in Nepal Stock Exchange. Mr. Jyoti Prakash Pandey is chief executive officer of the bank. The registered office of the bank is in Durbarmarg, Kathmandu.

NIBL's 65 branches and 98 ATMs provide it with presence throughout the country as of mid-Apr-2018. NIBL has market share of 5.86% in terms of deposit base and 5.91% of total advances of commercial banking industry as on mid-Jan-18. NIBL reported profit after tax (PAT) of NPR 3,114 million during FY17 over an asset base of NPR 150,818 million as of mid-Jul-17 as against PAT of NPR 2,551 million during FY16 over an asset base of NPR 129,783 million as of mid-Jul-16. For 9MFY18, NIBL reported PAT of NPR 2,838 million over an assets base of NPR 159,339 million. As of mid-Apr-2018, NIBL's CRAR was 13.25% and gross NPLs were 0.76%. In terms of technology platform, NIBL has implemented Finacle across all its branches.

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For further details please contact:

Analyst Contacts:
Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)
kishor@icranepal.com

Mr. Rajib Maharjan, (Tel No. +977-1-4419910/20)
rajib@icranepal.com

[8] Capital to Risk-weighted Assets Ratio