

## Everest Bank Limited

### ICRA Nepal assigns [ICRANP] LA- rating to subordinated bond programme of Everest Bank Limited

Facility/Instrument	Amount (NPR million)	Rating Action ( June 2015)
Subordinated Bond Program	600	[ICRANP] LA- (Assigned)

ICRA Nepal has assigned rating of **[ICRANP] LA-** (pronounced ICRA NP L A minus) to subordinated bond programme of NPR 600 million of Everest Bank Limited (EBL). Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk. ICRA Nepal assigns debenture rating on a scale of LAAA to LD, with LAAA indicating lowest credit risk and LD indicating default/ soon expected default. For the rating categories AA trough to C, the sign of + (plus)/ - (minus) appended to the rating symbols 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.

The rating factors in EBL's strong and experienced joint venture partner (Punjab National Bank (PNB) rated at [ICRA]AAA (Stable) by ICRA India Limited (PNB owns 20% equity stake in EBL), existence of Technical Support Service Agreement (TSSA) with PNB whereby PNB provides management support to EBL (three executives of PNB deputed at EBL out of which one shall be the CEO), EBL's established track record (operating since October 1994), adequate franchise<sup>1</sup> leading to good market positioning with ~4.25% share in Nepalese banking sector credit on mid-April-15, healthy deposit profile with sizeable depositor base and good CASA<sup>2</sup> deposit proportion (50% of total deposits on mid-April-15), good assets quality and earnings profile and experienced management team. ICRA Nepal expects moderate level of stress on EBL's asset quality and profitability profile over next 2-3 years due to damage caused by the earthquake in April 2015 and aftershocks. At this stage, exact quantum of damage is not ascertainable. Going forward, ICRA Nepal will closely monitor the extent of damages on EBL's financial and solvency profile; which could have a bearing on the rating assigned. The rating is also constrained by low non-interest income levels (~1% of ATA<sup>3</sup>) impacting diversity of earnings, relatively high deposit and credit concentration (top 20 depositors accounted for 32% of total deposits and top 20 borrower group accounted for 27% of total loans on April-15), unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

As for impact on EBL's operations, EBL's branches in the earthquake affected areas accounted for ~62% of the credit portfolio and ~75% of the deposits as on April-15 however several of these businesses (end users of loans) are situated outside the earthquake affected areas due to which extent of damage could be restricted to certain sectors/segments<sup>4</sup> accounting for ~1/3rd of EBL's loan book. Apart from stress in affected geographies/segments, exposures in unaffected geographies/segments could also witness some stress due to overall moderation in economic activity as well as linkage among businesses/borrowers. ICRA Nepal has also noted that earthquake has not caused stress on EBL's deposits/liquidity profile<sup>5</sup>. Furthermore, recent activity in the stock market suggests that banks' ability to raise capital to absorb damages caused by earthquake is not significantly deterred.

EBL's credit portfolio of NPR 56,494 million on mid-April-15 accounted for ~4.25% of Nepalese banking industry credit. EBL's credit portfolio grew by CAGR 16% in past 3 years (ending FY14), at a pace lower than commercial banking industry average. Credit portfolio grew by ~25% (annualised) in 9M, FY15. Moreover, the credit growth over next 1-2 years is likely to get stunted on account of lack of credit

<sup>1</sup> Franchise includes 53 branches, 24 revenue collection centres, 33 branchless banking units, 5 extension counters and 80 ATMs as on mid-April-15.

<sup>2</sup> Current & Savings accounts

<sup>3</sup> Average total assets

<sup>4</sup> Tourism, hydropower, real estate/construction, consumer loans, housing loans and loan book of micro finance entities

<sup>5</sup> EBL's deposits were NPR 78.47 billion as on mid-June, 2015 vs. NPR 71.056 billion as on mid-April, 2015



demand following recent earthquake and moderation in economic activity however reconstruction drive would support credit growth to some extent. As on mid-April-15, the credit portfolio of the bank was primarily composed of large corporate loans (~39%), Retail loans (~34%), Business/SME loans (~22%) and deprived sector loans (5%)<sup>6</sup>. EBL's exposure to retail and SME loan segment remained higher vs. peers. The proportion of corporate loans has been increasing in the recent years with EBL venturing into high ticket lending segment as opposed to SME focus lending in the past; the proportion of retail portfolio remaining fairly constant. EBL's growth in recent period is driven by trading/manufacturing loans in corporate segments and flexi loans, housing loans in retail segment. Due to gradual increase in high ticket corporate loans, credit portfolio remains concentrated among the top borrowers (27% of credit accounted for by top 20 borrowers on mid-April-15)

Assets quality of EBL remains good with Gross NPLs of 0.63% on April-15 and 0.97% in July-14. The NPL level has remained below 1% level over past 5 years. EBL's solvency position was comfortable with Net NPA/Net worth of ~1.04% on April-15 and 1.63% on July-14. However, asset quality could come under pressure going forward due to damage caused by earthquake, impacting borrowers' ability to make repayments in a timely manner. ICRA has noted some build up of delinquencies (~3.5% of loan book on June-15) vs. 0.5% on April-15 as recovery performance dropped to ~84% in recent months (May-15 and Jun-15), due to damage caused by earthquake on business activities/cash flows. The recently introduced regulatory forbearance<sup>7</sup> aimed towards earthquake affected portfolio/borrowers is likely to lower the pressure on banks' reported asset quality profile in FY15; however if economic/business activity remain under pressure due to impact of earthquake, banks' reported asset quality could weaken in FY16.

EBL's reported CRAR was 12.04% on April-15 with tier I capital of 10.18% (vs.11.15% and 9.35% respectively in July-14). The bank is looking to raise capital through subordinated debt of NPR 600 million in FY15. Furthermore, recent activity in the stock market suggests that banks' ability to raise capital to absorb damages caused by earthquake is not significantly deterred. EBL's relatively healthy profitability and internal capital generation are also a support for its capitalisation profile.. However profitability and internal capital generation could also come under stress if asset quality weakens due to earthquake impact.

EBL's profit levels have remained good in past 5 years (ending FY14) with average PAT/Net worth of ~29% and PAT/ATA of 2.22%. In FY14, EBL reported PAT/ATA of 2.28% and PAT/Net worth of 28.40%. EBL's profitability remains supported by healthy NIMs (4-4.5%) benefitted by low cost of deposits despite low CD ratio (70-72% vs. regulatory ceiling of 80%), fair operating expense ratio (~1.75-2% of ATA) and lower credit provisioning expenses (~0.1-0.2% of ATA) despite modest non-interest income ratio (~1% of ATA). In the aftermath of April-2015 earthquake, ICRA Nepal expects MBL's profitability profile remains moderate over next 2-3 years owing to likely decline in credit demand affecting growth and rise in provisioning expenses following incremental slippages.

### **Bank Profile**

Everest Bank Limited is one of the oldest and largest private sector banks in Nepal. As on mid-April-15, EBL remains the 3rd largest private sector banks in the country in terms of credit and deposit portfolio. The Bank was promoted by Punjab National Bank along with few prominent businessmen in Nepal notably Mr. Bishnu Krishna Shrestha (current Chairman). EBL is a joint venture with PNB with the latter's 20% stake. EBL also has a Technical Support & Service Agreement (TSSA) with PNB which provides for management support (three top level executives including CEO deputed at EBL from PNB). Current shareholding pattern of the Bank constitutes of promoters holding 70% shares (including PNB's 20%) and general public shareholders holding remaining 30%. The shares of the EBL are listed in Nepal Stock Exchange and being actively traded in with current market capitalization of about NPR 41 billion based on mid-June-15 price level of NPR 2,050 per share.

<sup>6</sup> Corporate Loans: >30 million; SME loans: < 30million, towards a single borrower or related group of borrowers.

<sup>7</sup> Allowing banks to defer the due date for payments from July-15 to October-15 without having to classify such loans as NPL till Oct-15; among others relaxations.



EBL has presence throughout the country through its 53 branches, 24 revenue collection centres, 5 extension counters and 33 branchless banking units (total of 115 business place) coupled with 80 ATM machines spread across major centres in Nepal. EBL is one of the large private sector banks in Nepal with market share of about 4.25% in terms of credit portfolio and 4.40% of total banking sector credit in Nepal as on mid-April-15. EBL was also awarded “Bank of the Year-2006” by the UK based Banker’s magazine. EBL reported a profit after tax of NPR 1,549 million during 2013-14 over an asset base of NPR 70,455 million as on Mid Jul-14 against profit after tax of NPR 1,471 million during 2012-13 over an asset base of NPR 65,741 million as on Mid Jul-13. During 9M 2014-15, EBL has reported a PAT of NPR 1,193 million and has Gross NPL of 0.63% and CRAR of 12.04%. In terms of technology platform, EBL has implemented Finnacle in all of its branches.

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