

Muktinath Bikas Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3+ to the proposed Rights Issue of Muktinath Bikas Bank Limited

	Amount (NRs million)	Rating Action
Right Issue Grading	91.875 mn	[ICRANP] IPO Grade 3+ (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3+”, indicating average fundamentals to the proposed rights issue amounting NPR 91.88 million of Muktinath Bikas Bank Limited (hereinafter referred to as MNBBL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3 and 4 respectively. MNBBL is proposing to come out with the 25% rights issue of 918,750 numbers of equity shares of face value NRs 100/- each to be issued to the existing shareholders at par.

The average fundamental grading factors in the MNBBL’s track record of steady business growth while maintaining fair asset quality (Gross NPL¹ of 0.66% as on April-14) and healthy profitability indicators (PAT/ATA² and PAT/Net worth of 2.56% & 23.34% in 9M 2013-14 and 2.55% & 24.61% respectively in 2012-13), adequate franchise in its area of operations, granular credit portfolio with low concentration (top-20 borrowers accounting for ~5% of total loans as on April-14) and healthy deposits profile (CASA³ deposits 67% as on April-14) with low deposit concentration (top-20 depositors accounting for ~11% of total deposits on April-14). However, the grading is constrained by higher portfolio vulnerability arising from unsecured micro credit loans (around 27% of total credit book as on mid-Apr-2014), high proportion of loans with assessed income based appraisal and marginal borrower profile vis-à-vis commercial banks, lack of diversity in earnings, lack of institutional promoters’ support, lack of independent members on the BoD⁴ and uncertain operating environment that banks in Nepal are currently facing. While MNBBL’s track record and its experience in the region is an advantage, its ability to maintain the competitive positioning and asset quality indicators going forward would have a bearing on the overall financial profile. The proposed rights issue would enable the bank augment its capital base in line with its plans to increase scale of operations.

MNBBL’s credit portfolio has grown steadily with over 38% CAGR⁵ in past 3 years, contributed by the growth across all major credit segments. The credit portfolio stood at NPR 4,051 million as of April-14 on a deposits base of NPR 4,552 million. MNBBL’s portfolio comprised mainly of Deprived Sector Loan/Microfinance (27%), Personal Loans (19%), Hire Purchase Loan (18%), Housing Loan (16%) and Business Loan (14%). The Microfinance portfolio of MNBBL has grown with CAGR 31% in past 3 years and remains a major contributor to the overall profitability. On Assets quality front, MNBBL remains comfortable with Gross NPL of 0.66% and Net NPL of 0.15% as on April-14 with solvency indicator (Net NPA/Net worth) at 1.08%. Over the years of operation, the Gross NPL of MNBBL has remained within 1% level. Going forward, the management intends to continue the

¹ Non-Performing Loans

² Profit after tax/ Average Total Assets

³ Current and Savings Account

⁴ Board of Directors

⁵ Compounded Annual Growth Rate



portfolio growth along the retail segments including microfinance portfolio, the growth and performance of which is likely to have bearing on incremental credit growth and assets quality of the bank. The microfinance portfolio remains vulnerable to credit risk owing to unsecured nature of loans, unstable political conditions and marginal profile of borrowers and the bank's ability to maintain assets quality in the segment will remain critical.

MNBBL's deposits profile remains superior to the industry average; as of mid-Apr-14, the portion of CASA Deposit stood at ~67% against industry average (development bank) ~55%, with less concentration on top 20 depositors (~11% of total deposits). On the backdrop of high proportion of low cost deposit base, MNBBL's cost of funds compares favourably to peers which aids its competitive positioning.

MNBBL has maintained steady gross interest spread of over 5% in past 2-3 years owing to healthy yield on advances around 15% (supported by superior yield around 20% on microcredit loan) and declining cost of funds (due to high market liquidity). Healthy spreads coupled with operating efficiency and low level of credit provisioning, has helped MNBBL maintain good profitability profile. Moreover, recent trend in credit growth supported by adequate franchise of the bank in addition to proposed capital infusion provides room for better deployment of funds, going forward. MNBBL has been generating PAT/ATA of ~2.5% and PAT/Net worth of 23-25% over past 3 years backed by steady NIMs⁶ of over 5.5% and increase in scale of operations translating into higher cost efficiencies. Going forward, MNBBL is likely to maintain its profitability profile aided by healthy yield and steady NIMs. However, MNBBL's ability to maintain the assets quality indicators given high exposure to microfinance and personal loans portfolio will remain a key parameter for future profitability.

As on April-14, CRAR of MNBBL stood adequate at 12.4% against the minimum regulatory of 11%. MNBBL is coming out with the rights issue in order to support the future growth plans. Moreover, the rate of internal capital generation remains healthy and is also likely to support the expansion plans. As per ICRA estimates, current level of capital⁷ is likely to support the CAGR 25% growth plans of the management over next 2 years; maintaining overall capitalization in the range of around 12-14% with solvency indicators expected to remain range bound at 2-5%. In the long run, the ability of MNBBL to raise additional capital from its existing/ external investors will have a strong bearing on MNBBL's growth prospects and overall capitalization profile.

The shareholding of the bank is diversified across 132 individual promoter shareholders comprising of local businesspersons, industrialist and professionals. The current Promoter: Public shareholding ratio stands at 65:35 and the proposed rights issue likely to increase the capital base by 17%. MNBBL has seven members Board of Directors (BoD-5 from promoter group and 2 from public shareholders).The top level management of banking as well as microfinance division have significant experience across financial institutions in their respective areas. There are 3 committees under the BoD (composed of Directors as well as Management representatives) for oversight in risk management, audit and human resource related policies. The bank has an in-house internal audit functions with a provision of quarterly audit.

Bank Profile

Established in 2007, Muktinath Bikas Bank Limited (MNBBL), a 10 district regional Development bank based in Pokhara, started its operation in 7 January 2007 as 31st Class B Bank licensed by

⁶ Net Interest Margin

⁷ Assuming full subscription to the proposed rights issue



NRB. The bank has 65:35 promoter-public shareholding ratios with highest individual holding of ~3.5% by the current CEO. There is no discernable group holding controlling interest in the bank.

MNBBL has now presence in nine districts of the country through its 34 branches. As on April-14, MNBBL has market share of 2.45% and 2.67% in overall Development Banks' Deposit and Credit portfolio. Similarly, its share in overall banking industry's deposit and credit stood at 0.33% and 0.38%. MNBBL reported a profit after tax of NPR 98 million during 2012-13 over an asset base of NPR 4,423 million as on Jul-13 against profit after tax of NPR 71 million 2011-12 over an asset base of NPR 3,272 million as on Jul-12. Its profit after tax for 9M 2013-14 stood at NPR 96 million over an asset base of NPR 5,518 million as on April-14. In terms of technology platform, MNBBL has implemented Pumori for modern banking & M-Fin for microcredit in all of its branches.

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For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali (Tel No. +977-1-4419910)

kishor@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (Tel. No. +977-1-4419910)

drkafle@icranepal.com

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