

Nepal Industrial & Commercial Bank Limited

ICRA Nepal assigns [ICRANP] LA- rating to subordinated bonds of Nepal Industrial & Commercial Bank Limited

	Amount (NRs million)	Rating Action
Subordinated Bonds	NRs 500 million	[ICRANP] LA- (Assigned)

ICRA Nepal has assigned rating of [ICRANP] LA- (pronounced ICRA NP L A minus) to subordinated bonds of NRs 500 million of Nepal Industrial & Commercial Bank Limited (NIC). Instruments with [ICRANP] LA- Rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The rating of NIC factors in the bank's established track record and good market positioning in Nepal, experienced senior management, adequate capitalisation level, comfortable assets quality, adequate earnings profile and benefits of synergy expected out of impending merger with Bank of Asia (BoA), particularly in terms of enhanced geographical coverage translating into higher scale of operations, advanced IT systems and higher retail franchise of BoA. The ratings also factors in expected smooth merger of BoA with NIC Bank over the near term, post the receipt of final approval for merger from NRB in April 2013, into a new entity, NIC Asia. These positives are however offset to an extent by absence of institutional promoter support and international franchise, moderate deposit profile and deterioration in asset quality indicators in recent past (gross NPLs increased from 0.74% as of mid-Jul-12 to 1.21% as of mid-Jan-13). The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

NIC is in the advanced stages of merger with another Class A commercial Bank - Bank of Asia, final approval for which has been already obtained from the NRB in April 2013. Post merger, market share of merged entity (NIC ASIA) will be 4.2% in terms of deposit and 4.7% (in July 2012) in terms of credit in Nepal, and will be the 6th largest private sector bank in terms of scale of operations. As per the NIC management, the major synergy from the merger will be in terms of geographical coverage of the bank, leveraging on the advanced IT systems and higher retail franchise of BoA. During FY14, the expected first year of the operations of the merged entity, the objective would be to achieve a modest asset growth with a focus on smooth integration of systems and processes.

NIC's credit portfolio is diversified across corporate loan 53%, SME 15% and retail & consumer 32% as on mid-Jan-2013. Among the above segmental classification NIC's portfolio is diversified across manufacturing (accounted for around 32% of credit portfolio as of mid-Jan-2013), trading (19%), real estate (13%) and others. NIC's exposure to real estate sector, which is vulnerable to decline in real estate prices, is comparable to Nepalese banking industry and is lower than many of the new banks in Nepal. NIC's asset quality profile witnessed a deterioration during H1 2012-13 (Gross NPL's increased from 0.74% as of mid-Jul-12 to 1.21% as of mid-Jan-2013) primarily on account of slippage in manufacturing and trading sector; however fares better than banking industry systemic average of 3.2%. NIC has moderate deposits profile as reflected in moderate proportion of low cost deposits¹ (low cost deposits were 32% of total deposits as of mid-Jul-12 as against Nepalese banking industry average of around 46% as on mid-Jul-2012).

NIC's capitalisation levels are adequate with CRAR of 11.75% as of mid-Jan-2013 which will further increase after merger with BOA (CRAR of merged entity as on mid-Jan-2013 stands at 15.9%) against minimum regulatory requirement of 10%. Further, higher proportion of tier I capital (10.67% as of mid-Jan-2013) due to low penetration of tier II capital instruments in Nepal provides headroom to raise tier II

¹ Current, Saving and Margin Deposits



capital to maintain overall capitalisation levels. The ability of the bank to raise capital from existing promoters or external investors will have a bearing on NIC's capitalisation profile, going forward. NIC has adequate earning profile as reflected in PAT/ATA of 1.6-2.4% and return on net worth of 18-25% during last 2-3 years; however these strengths could be offset in part in the post-merger scenario due to inferior assets quality indicators and deposit profile of BOA. Going forward, bank's ability to maintain its NIMs, asset quality profile and smooth integration process post merger would be critical for the earnings profile of the bank.

Bank Profile

Nepal Industrial & Commercial Bank Limited (NIC) is among the largest and reputed private sector banks of Nepal. The Bank was incorporated in 1998 by a few some of the prominent business person of the country, current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank has over 34,000 shareholders. The bank commenced its operations in 21st July 1998. The shares of the NIC Bank are listed in Nepal Stock Exchange and being actively traded in with current market capitalization of about NPR 10,493 million.

NIC has presence throughout the country through its 36 branches and 36 ATMs. NIC has a market share of about 2.4% in terms of deposit base and 2.6% of total advances in Nepal as on mid Jul-2012. NIC reported a profit after tax of NPR 392 million during 2011-12 over an asset base of NPR 25,580 million as on Jul-12 against profit after tax of NPR 496 million during 2010-11 over an asset base of NPR 22,090 million as on Jul-11. In terms of technology platform, NIC has implemented Pumari IV in all of its branches.

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