

## Garima Bikas Bank Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed Right Issue of Garima Bikas Bank Limited

	Amount (NRs million)	Grading Action
Right Issue	NPR 112.2 million	IPO Grade 3 (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed rights issue amounting NPR 112.2 million of Garima Bikas Bank Limited (hereinafter referred to as GBBL). 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. GBBL is proposing to come out with the 25% rights issue of 1,122,000 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 ability to maintain high portfolio growth (credit CAGR 40% over last four years compared to industry average of 25%) while maintaining healthy asset quality profile (Gross NPL<sup>1</sup> of 0.45% as on mid-Oct-14), stable and healthy profitability indicators (PAT/ATA<sup>2</sup> and PAT/Net worth of 2.25% & 19.44% in Q1 2014-15 and 2.6% & 19.9% respectively in 2013-14), granular credit portfolio and healthy deposits profile (CASA<sup>3</sup> deposits 66% as on Oct-14) with moderate deposit concentration risk (top-20 depositors’ accounting for 10.6% of total deposits on mid-Oct-14). The grading also factors in GBBL’s established track record and presence of independent director on the board of the bank and adequate franchise in the region providing scope for growth of the bank’s business, going forward. However, the grading is constrained by regional concentration of operations, higher portfolio vulnerability due to relatively inferior borrower profile vs. commercial banks and high proportion of loans with assessed income based appraisal which could lead to higher volatility in asset quality indicators, lack of diversity in earnings and lack of strong promoter base. While GBBL’s track record and its experience in the region is an advantage, its ability to maintain the competitive positioning and asset quality indicators on enhanced scale of operations and in newer geographies 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.

Started its operation in 2007, GBBL’s business has grown at a fast pace with credit growth of CAGR around 40% in past 4 years, contributed by growth along all major credit segments. The credit portfolio stood at NPR 3,742 million as of Oct-14 on a deposits base of NPR 4,197 million. The bank is expected to achieve healthy portfolio growth going forward as well supported by adequate franchise. GBBL’s portfolio comprised mainly of business loan including term loan (46%), Housing Loan (21%), Hire Purchase Loan (18%), deprived sector loan (6%) and others loan (10%). The credit concentration of GBBL remains low with top 20 credits around 8.5% of total credit book. GBBL’s assets quality indicators remain comfortable with Gross NPL at 0.45% as on mid-Oct-14 although increased from 0.12% on mid-July-14 with solvency indicator (Net NPA/Net worth) on July-14 at 0.12%. However higher portfolio vulnerability due to relatively inferior borrower profile vs.

<sup>1</sup> Non-Performing Loans

<sup>2</sup> Profit after tax/Average total Assets

<sup>3</sup> Current & Savings Account



commercial banks and high proportion of loans with assessed income based appraisal which could lead to higher volatility in asset quality indicators going forward.

As for funding profile, the bank has been successful in garnering healthy proportion of low cost deposits which accounted for around 66% of its total deposits; better than development banking industry average low cost deposit of 55%, with moderate concentration on top 20 depositors (around 10.5% of total deposits). In light of fair deposit profile, GBBL's cost of funds compares favorably to peers which aids its competitive positioning. However, cost of fund of GBBL's is higher than commercial bank's cost of fund by around 150-300 bps.

Healthy yield on advances coupled with improvement in CD ratio (CD ratio adjusted for net worth has improved from around 72% in Jul-13 to 76% in Jul-14 and further 78% in Oct-14) has helped GBBL maintain fair interest spread of ~4.8% in FY14 after the regime of low interest spread in FY 13 and FY 12. However, relatively low return on investments remains a constraint to profitability indicators to some extent. The yields have been supported by sizeable retail portfolio of the bank which, along with gradual improvement in deposits profile, augurs well for future profitability of the bank. GBBL has been able to maintain steady NIMs<sup>4</sup> of around 5% over past 4-5 years. The bank reported net profit of NPR 104.23 million in 2013-14 (70% growth over 2012-13) and return on net worth of around 18-20% in past 5 years, supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. Going forward, GBBL is likely to maintain its profitability profile aided by healthy NIMs provided it maintains strict control on assets quality profile.

Over the last two years GBBL has maintained a Capital Risk Weighted Adequacy Ratio (CRAR) of around 13.5% against minimum regulatory requirement of 11%. The bank has been able to raise capital through right issues (total amount NPR 110 million after IPO of NPR 94 million in 2011). As per ICRA Nepal's estimate, current level of capital (including proposed right share and internal capital generation after 25% dividend every year) will support the growth plans of management (CAGR<sup>5</sup> 25%) over medium term (next 2-3 years); maintaining overall capitalization in the range of around 12-13% with solvency indicators expected to remain range bound at 1-2%, if the bank is able to maintain the NPLs at present levels. In the long run, the ability of GBBL to raise additional capital from its existing/ external investors will have a strong bearing on GBBL's growth prospects and overall capitalization profile.

The shareholding of the bank is diversified across 61 individual promoter shareholders comprising of local businesspersons, industrialist and professionals. The current Promoter: Public shareholding ratio stands at 53:47 and the proposed rights issue is expected to increase the capital base keeping the ratio intact. GBBL has an 8 members- Board of Directors (BoD-4 from promoter group, 3 from public shareholders and 1 independent director) and top level management with moderate experience across Financial Institutions.

### **Company Profile**

Established in 2007, Garima Bikas Bank Ltd (GBBL) started its commercial operation as three district development bank. In April 2011, the bank has been upgraded to 10 district level. Its head office is located at Mahendrapul, Pokhara. The bank is promoted by 61 individual persons involved in different professions with maximum shareholding by one individual 3.21% of total capital. Share capital of the bank is distributed among promoter & public in the ratio of 53:47. Mr. Govinda Prasad Dhakal is the Chief Executive Officer of the bank. The bank's equity share is listed in Nepal stock

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<sup>4</sup> Net Interest Margin

<sup>5</sup> Compounded Annual Growth Rate



exchange and being actively traded in with market capitalization of about NPR 1,384 million as of mid-October 2014.

GBBL has presence in 9 districts of Nepal (*out of its working area of 10 districts*) through its 18 branches and 5 ATMs. GBBL has market share of about 2.16% in terms of deposit base and 2.35% in terms of credit portfolio of Development banks as on mid Oct-14. GBBL reported a profit after tax of NRs 104 million during 2013-14 over an asset base of NRs 4,612 million as on Jul-14 as against profit after tax of NRs 61 million during 2012-13 over an asset base of NRs 3,391 million as on Jul-13. As of Q1 FY 2014-15, Bank has reported a profit after tax of NRs 27 million over an asset base of NRs 4,943 million. GBBL's CRAR was 13.43% and gross NPLs were 0.45% as on mid-Oct-2014. In terms of technology platform, GBBL has implemented Pumori in all of its branches.

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