

Nabil Bank Limited

ICRA Nepal reaffirms [ICRANP-IR] AA- rating to Nabil Bank Limited

	Amount (NPR million)	Rating Action (September 2017)
Issuer Rating	NA	[ICRANP-IR] AA- (Reaffirmed)

ICRA Nepal has reaffirmed the rating of [ICRANP-IR] AA- (pronounced ICRA NP Issuer Rating Double A minus) to Nabil Bank Limited (Nabil). The entities with [ICRANP-IR] AA- rating are considered as high-credit-quality rating assigned by ICRA Nepal. The rated entity carries low credit risk. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

The rating reaffirmation factors in Nabil's ability to maintain its competitive positioning in the industry; as reflected in steady performance indicators of the bank. The bank's strong competitive positioning coupled with its established track record, adequate presence across the country and seasoned management team continues to support the business growth and profitability. Nabil's competitive strength originates from its deposit profile (comprising of healthy deposit mix-CASA proportion of 60%) which translates into lowest cost of fund in the industry. Deposit mix and cost of fund of the bank remained resilient, even during the recent deposit crunch across the industry; which remains a comfort. Competitive positioning of the bank is likely to be further aided by the recent implementation of "base rate plus" lending rate regime by Nepal Rastra Bank (NRB). The affirmation of assigned rating also takes into consideration the bank's moderate and steady rate of business growth, fair assets quality (with improvement in recent years), adequate capitalisation profile and comfortable solvency profile.

Nonetheless, the rating is constrained by relatively high deposit and credit concentration (~32% and ~25% among top 20 accounts on mid-April 2017). Relatively high 0+ days credit delinquency level also remains a concern; although partly mitigated by Nabil's ability to maintain low rate of incremental NPA slippages in the past. The rating also remains constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

Nabil's credit portfolio of NPR 91,491 million on mid-Jul-17 accounted for ~4.50% of Nepalese banking industry credit. Nabil's credit portfolio grew by CAGR 18% during FY15-FY17, at a pace lower than commercial banking industry average. The credit portfolio of the bank is divided into large corporate loans (~53%), Retail loans (~24%), SME loans (~18%) and deprived sector loans (5%)¹. Over the years, proportion of corporate loan segment is declining while that of retail segment is improving. This trend is likely to get a boost under "base rate plus" lending rate regime, where Nabil is likely to penetrate the retail segment through better pricing. Credit concentration among top borrower groups has increased during past 12-18 months (25% of total credit among top 20 borrower groups) which remains a concern. Concentration risk has grown as the bank has achieved sizeable organic credit growth during past 2-3 years without commensurate increase in geographical coverage or customer base.

Assets quality indicators of Nabil has shown improvement during past 12-18 months, partly aided by interim credit growth. As on mid-July 2017, Nabil's gross NPA stood at 0.79% declining from 1.14% as on mid-July 2016. Rate of fresh NPA generation has declined in recent years which coupled with improved recovery actions has led to moderation in gross NPA level. Despite the moderation in gross NPA level, credit provision cover remains healthy (~91% as on mid-July 2017), leading to comfortable solvency ratio (net NPA to net worth ratio of 0.42%). As on mid-April 2017, 0+ days delinquency of Nabil stood at ~9%, which although higher, remains within the previous trend.

In terms of deposit profile, Nabil continues to fare stronger to the industry players. As on mid-July 2017, Nabil deposit base of NPR 118,896 million was comprised of 60% CASA deposits (vs. commercial bank average of 43%). Healthy deposit mix translates into lowest cost of fund among the domestic players which aids the bank's competitive positioning. During past 2-3 years, the rate of credit growth has outpaced the rate of deposit growth pushing up the CCD ratio (~76% as on mid-July 2017 vis-à-vis regulatory ceiling of 80%). Improvement in CCD ratio has led to similar improvement in NIMs (4.14% during 9MFY17). Going forward, Nabil's liquidity position, Incremental credit growth and profitability will depend on the bank's ability to raise incremental deposits. Deposit concentration among top accounts remains on higher side (top 20 depositors accounted for ~32% of total deposits on mid-April 2017); due to the large institutional deposits.

¹ Corporate Loans: >100 million; SME loans: < 100million, towards a single borrower or related group of borrowers.

Nabil's profit levels have remained healthy in past 5 years (ending FY17) with average return on net worth (RoNW) of ~27% and return on assets (RoA) of 2.54%, on a fairly large scale of operations. Net interest margin ratio (NIMs) of Nabil has improved during past 12-18 months due to recent rise in lending rates and improvement in CCD ratio (indicating better mobilization of fund). During FY17, Nabil reported healthy NIMs of 4.08%, backed by low cost of deposits (2.23%) and optimum mobilisation of resources (CCD ratio ~80%). In addition, profitability remains adequately supported by healthy non-interest income level (~1.32% of ATA during FY17), low operating expense ratio and low credit cost.

Nabil has maintained thin capital cushion over the regulatory minimum in the past. Capitalisation level has increased marginally during past 2-3 years due to increased retention of profit accruals to ensure NPR 8 billion paid up capital. Nabil's capital to risk assets ratio (CRAR) stood at 13.34%, as on mid-July 2017; comfortable vis-à-vis regulatory minimum of 11% under prevailing Basel III norm. Nabil's tier I capital (12.14% as on mid-July 2017) remains well above 7.50% to be maintained by mid-July 2017 and 8.50% to be maintained by mid-July 2019 under the Basel III norms prescribed by NRB. Although the current capital cushion remains slim, Nabil has maintained healthy rate of internal accruals generation which can be retained in case of business growth requirement.

Bank Profile

Nabil Bank Limited (Nabil), the first private sector class A commercial bank in Nepal, started its commercial operation from 1984 as Nepal Arab Bank Limited. Nabil started off as a joint venture with Emirates Bank International. The latter divested its stake in Nabil which was ultimately taken over by NB International, an Ireland based special purpose vehicle associated with CG Group². Nabil's head office is located at Kathmandu. The major promoters of the bank are NB International, Ireland (50%) and Rastriya Beema Sansthan (9.67%). Including NB International, Chaudhary Group own majority (~53%) stake in the bank. Mr. Sashin Joshi is the Chief Executive Officer of the bank. The bank's equity share is listed in Nepal stock exchange.

Nabil has presence throughout the country through its 52 branches, 1 extension counters and 95 ATMs. Nabil has market share of 5.99% in terms of deposit base and 5.46% of total advances in Nepalese commercial banking industry as on mid-April 2017. Nabil reported a profit after tax of NPR 3,620 million during 2016-17 over an asset base of NPR 140,341 million as of mid-Jul-17 against profit after tax of NPR 2,819 million during 2015-16 over an asset base of NPR 127,300 million as of mid-Jul-16. As of mid-July 2017, Nabil's CRAR was 13.34% with tier I capital of 12.14% and gross NPLs were 0.79%. In terms of technology platform, Nabil has implemented Finacle across all of its branches.

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² Business conglomerate led by Mr. Binod Chaudhary (listed in Forbes magazine as Nepal's only billionaire); CG group has stakes in diversified sector mainly manufacturing, trading, hospitality and financial sector