

## Nepal Investment Bank Limited

### ICRA Nepal reaffirms issuer rating of [ICRANP-IR] A@<sup>1</sup> and [ICRANP] LA@ rating for existing subordinated bonds of Nepal Investment Bank Limited

Facility/Instrument	Amount	Rating Action (December 2015)
Issuer Rating	NA	[ICRANP-IR] A /rating under watch with negative implications (Reaffirmed)
Subordinated Bond Program	NPR 750 Million	[ICRANP] LA/ rating under watch with negative implications (Reaffirmed)

ICRA Nepal has reaffirmed issuer rating of **[ICRANP-IR] A@** (pronounced ICRA NP Issuer Rating A @) assigned to Nepal Investment Bank Limited (NIBL). The rating is under watch with negative Implications. Instruments with [ICRANP-IR] A Rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. The issuer rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

ICRA Nepal has also reaffirmed the rating of existing subordinated bonds of NPR 750 million at **[ICRANP] LA@** (pronounced ICRA NP L A @). The rating is under watch with negative Implications. Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The ratings under watch with developing implication is on account of build-up delinquencies in NIBL's books during last few months<sup>2</sup> on account of earthquake in Apr-15 and the ongoing political turmoil in the southern plains of the country impacting the overall economy and hence the repayment capacity of the borrowers. This is further aggravated by the bank's sizeable exposure towards sectors<sup>3</sup> (~27%) repayments from which could witness higher volatility. Impact of earthquake on projects/earnings of large borrowers resulting in restructuring of ~2.6% of the credit book. Although, NIBL has witnessed improvement in reported asset quality indicators during the past few years, going forward slippages from delinquent<sup>4</sup> and restructured accounts could impact the asset quality indicators and therefore the financial profile of the bank. Thus, managing delinquencies and maintaining asset quality would remain key rating sensitivities and any significant deterioration in the asset quality could lead to a downward pressure on the assigned ratings.

The assigned ratings factor in NIBL's established track record (operating since 1986) and adequate franchise<sup>5</sup> leading to healthy market share of ~5% in banking industry credit and deposits. The ratings also take into consideration bank's experienced management team, improving deposit profile (CASA of ~52% as on mid-Oct-15 from ~49% as on Jul-14), adequate NIMs<sup>6</sup>, healthy fee based income, and moderate portfolio growth over the years (CAGR<sup>7</sup> of ~11% over past 5 years vs. ~19% for industry and ~27% during FY15).

The ratings also remain constrained on account of customer concentration risks (top 20 comprised ~32% of credit book and ~35% of deposits as on mid-Oct-15), adequate though declining return indicators (PAT/ATA of 1.58% during Q1FY16 vs. 2.43% during FY14) due to cap on interest spreads by the regulator, and various relaxations in lower provisioning norms and NPL recognition supporting the financial performance during Q1FY16. ICRA Nepal also notes that although cost of funds for NIBL remain competitive compared to banking industry, the same remains slightly inferior to some of the other larger banks of Nepal.

<sup>1</sup> Rating under watch with negative implications

<sup>2</sup> Delinquencies (1-90 days) increased from ~6% as of mid-Apr-15 to ~11% as of mid-Jul-15 and further to ~22% of portfolio as of mid-Oct-15.

<sup>3</sup> Tourism, microfinance, real estate, consumption and hydropower sectors

<sup>4</sup> Delinquent up to 90 days

<sup>5</sup> 46 branches and 83 ATMs

<sup>6</sup> Net Interest Margins as a percentage of Average Total Assets

<sup>7</sup> Compounded Annual Growth Rate

NIBL's branches in the earthquake affected areas accounted for >80% of the credit portfolio as of mid-Oct-15, however several of these businesses (end users of loans) are situated outside the earthquake affected areas. Till mid-Oct-15, bank has restructured 11 accounts representing ~2.6% of portfolio due to the impact of earthquake. Additionally, large borrowers of NIBL are industrial units which are impacted by the ongoing political turmoil and unrest strikes. Amidst this backdrop, the bank witnessed increase in delinquencies from ~6% as of mid-Apr-15 to ~11% as of mid-Jul-15, which has further increased to ~22% as of mid-Oct-15. However the NPLs<sup>8</sup> have declined over past few years (Gross NPLs were 3.32% as on mid-Jul-12 to 1.07% as of mid-Oct-15). The reduction in NPLs during Q1FY16 has been supported by regulatory forbearance on NPL recognition extended by NRB. The bank's ability to sustain the improvement in asset quality in light of its exposure to sectors/segments impacted by earthquake and the expected stress in exposures in unaffected geographies/segments due to overall moderation in economic activity as well as linkage among businesses/borrowers remains to be seen. Going forward, ICRA Nepal expects pressure on NIBL's asset quality due to damages caused by earthquake and elongated strikes, impacting borrowers' ability to make repayments in a timely manner. However, the planned capital enhancement through FPO at a premium would strengthen its ability to absorb damages arising out of earthquake/strikes and hence maintain its solvency profile (Net NPA/Net worth of 0.70% on mid-Oct-15 compared to ~9.5% on mid-Jul-12). Also, high concentration among top borrowers (top 20 account for ~32% of credit as on mid Oct-15) remains a rating concern. Going forward, ICRA Nepal will closely monitor the extent of damages on NIBL's financial and solvency profile; which could have a bearing on the ratings assigned.

NIBL is one of the large players in the Nepalese Banking Industry with an asset base of NPR 110 billion as of mid-Oct-15. Bank's credit portfolio of ~NPR 74 billion on mid-Oct-15 accounted for ~5% of Nepalese banking industry credit. Bank reported portfolio growth of ~27% during FY15 significantly higher than growth of ~11% CAGR over past 5 years (ending mid Jul-15), although lower to industry average growth of ~19%. Higher portfolio growth was witnessed during Q1FY16 as well (~9.5% growth over yearend figure). Credit demand going forward is expected to remain healthy to support the reconstruction, although the same is subject to resolution of existing turmoil and hence a pickup in economic activity. However, higher growth in low interest rate regime could impair the repayment ability of borrowers in scenario of upward movement of interest rates. NIBL's portfolio mix primarily comprises large corporate loans (~86%) followed by retail loans (~8%) and SME loans (~6%). Due to this, credit portfolio remains fairly concentrated with top 20 borrower groups accounting for ~32% of portfolio, hence aggravating the asset quality related risks. Going forward, the management intends to grow cautiously until the political scenario stabilises.

The prevailing uncertain economic environment has not caused stress on NIBL's deposits/liquidity profile so far. Deposit growth has remained moderate (~13% CAGR over past five years compared to ~19% for industry) in line with credit growth pattern. With gradual improvement over the years, low cost CASA<sup>9</sup> deposits for NIBL at ~52% (as of mid-Oct-15) remains healthy (vs. ~43% as of mid-Jul-12) as against industry average of ~50% as on mid-Oct-15. This has resulted in competitive cost of funds for NIBL at 3.22% as of mid-Oct-15, although it remains slightly inferior to some of the other larger banks of Nepal. Furthermore, deposit concentration on top 20 depositors remains high at ~35% as of mid-Oct-15.

NIBL's reported CRAR<sup>10</sup> of 11.31% and tier I capital of 9.11% as of mid-Oct-2015 remains moderate as against the minimum regulatory requirement of 10% and 6% respectively. Given NIBL's healthy internal accruals and the proposed FPO, capitalization levels are expected to remain adequate to support growth plans and maintain comfortable solvency profile. Probable deterioration in profit levels over next 2-3 years following the earthquake and strikes remains a challenge in internal capital generation. Nonetheless, recent activity in the stock market suggests that bank's ability to raise capital is not significantly deterred. Post the upcoming FPO (assuming full subscription), NIBL would significantly increase its paid-up capital to NPR 7.25 bn (against NPR 6.35 bn as of now) and thus would remain comfortable in attaining capital of NPR 8 bn by FY17 as required by Monetary Policy of FY16/17.

As for profitability, NIBL's earnings profile remain healthy owing to its adequate NIMs (3.13% during FY15 and 2.41% during Q1FY16), healthy fee based income (1.21% of ATA<sup>11</sup> during Q1FY16), low operating

---

<sup>8</sup> Non-Performing Loans

<sup>9</sup> Current And Savings Accounts

<sup>10</sup> Capital to Risk-weighted Assets Ratio

<sup>11</sup> Average Total Assets



expense ratio (1.19% of ATA during Q1FY16) and low provisioning on account of improving asset quality reported by the bank. However, the bank has witnessed moderation in return indicators during the past few years with return on net worth (RoNW) at ~20% during FY15 (~27% during FY13) and return on assets (RoA) of 2.06% during FY15 (2.76% during FY13). The moderation has primarily been due to caps on interest spreads implemented by NRB since FY15. The RoNW and RoA further declined to ~17% and 1.58% respectively during Q1FY16, and were supported by relaxations provided by regulator in credit provisioning and NPL recognition norms. Disregarding these relaxations, the return indicators would have been further impacted. In the aftermath of April-2015 earthquake and the ongoing strikes, ICRA Nepal expects NIBL's profitability profile to remain under pressure over next 2-3 years owing to rise in provisioning expenses following incremental slippages. NIBL's profitability could also come under pressure as competition increases amongst banks for efficient utilisation of large capital to be raised by FY17 (as required by changed regulations). Going forward, bank's ability to maintain adequate NIMs and manage asset quality would have strong bearing on its profitability profile.

### **Bank Profile**

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50%), Credit Agricole Indosuez, sold their stake to a group of companies comprising of bankers, professionals, industrialists and businessman of Nepal in April 2002. The name of the bank was then changed to Nepal Investment Bank Limited. Mr. Prithivi B. Pande (Chairman) controls, directly and indirectly, ~50% of the voting rights of the bank. Rastriya Beema Company Ltd. (RBCL) holds 15% stake in the bank among other insurance companies, retirement fund and investment companies. After upcoming FPO, the bank will have 70:30 promoter: public holding ratio (against 80:20 as of now). The shares of the Bank are listed on the Nepal Stock Exchange. The registered office is in Durbarmarg, Kathmandu which is also the Head Office of the Bank.

NIBL has presence throughout the country through its 46 branches and 83 ATMs. NIBL has market share of 5.28% in terms of deposit base and 5.31% of total advances in Nepal as on mid-Oct-15. The Bank reported a profit after tax of NPR 1,962 million during 2014-15 over an asset base of NPR 104,345 million as of mid-Jul-15 against profit after tax (PAT) of NPR 1,940 million during 2013-14 over an asset base of NPR 86,174 million as of mid-Jul-14. During Q1FY16, NIBL reported PAT of NPR 423 million over an assets base of NPR 110,385 million. As of mid-Oct-2015, NIBL's CRAR was 11.31% and gross NPLs were 1.07%. In terms of technology platform, NIBL has implemented FINACLE in all of its branches.

**December 2015**

*For further details please contact:*

Analyst Contacts:

**Mr. Kishor Prasad Bimali**, (Tel No. +977-1-4419910/20)  
[kishor@icranepal.com](mailto:kishor@icranepal.com)

**Mr. Rajib Maharjan**, (Tel No. +977-1-4419910/20)  
[rajib@icranepal.com](mailto:rajib@icranepal.com)

Relationship Contacts:

**Mr. Deepak Raj Kafle**, (Tel. No. +977-1-4419910/20)  
[drkafle@icranepal.com](mailto:drkafle@icranepal.com)

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website ([www.icranepal.com](http://www.icranepal.com)) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents