

Nabil Bank Limited

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

	Amount (NPR million)	Rating Action (April 2016)
Issuer Rating	NA	[ICRANP-IR] AA- (Assigned)

ICRA Nepal has assigned 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 assigned rating takes into account Nabil's good market position (largest private sector commercial bank in Nepal as per assets base as on mid-Jan-16) emanating from its long track record (operating since 1984) and good franchise¹, its healthy profitability (RoNW² and RoA³ of 24.78% and 2.19% during H1FY16, notwithstanding some moderation during the last 18 months), adequate capitalization (Tier I capital of 11.64% as on mid Jan-16 as per Basel III norms) and comfortable solvency profile (Net NPA relative to Net worth of 2.17% as on mid Jan-16). The rating also factors in Nabil's diversified earnings profile (non-interest income of ~1.20% of ATA⁴ during the past 12-18 months), low cost of funds supported by healthy deposit profile (CASA⁵ deposit of 62% of total deposits on mid-Jan-16⁶), and experienced management team.

The rating however is constrained on account of high deposit and credit concentration (~32% and ~21% among top 20 accounts on mid Jan-16). Nabil also has large foreign currency deposits (~20% of total deposits as on mid Jan-16), a significant part is being held for single client (around 9% of total deposit) which is subject to outflows at a short notice. However, Nabil has placed foreign currency deposits with foreign banks (similar levels as foreign deposits garnered) to hedge itself from risk of fluctuations in foreign currency. ICRA Nepal also takes comfort from Nabil's comfortable liquidity position, arising from healthy deposit profile. Although the bank has reported fair asset quality (gross NPLs 1.7% as on mid-Jan-16), Nabil has restructured a number of loans (4.32% of credit) and also witnessed increase in delinquencies over last few months (0+ days ~10.1% including NPLs as on mid Jan-16) on account of earthquake and elongated political turmoil⁷ impacting the overall economy and repayment capacity of the borrowers. Hence the bank's asset quality could remain under pressure going forward, despite easing of event related stress on the borrowers with the strike ending recently. ICRA Nepal will closely monitor the impact on Nabil's financial and solvency profile. While assigning the rating, ICRA Nepal also takes note of management's focus on growing cautiously (especially in the corporate sector) to maintain its asset quality. ICRA Nepal also notes around 50% shareholding of the bank is currently held by foreign non-financial institutional promoter which needs to be entirely divested as per current norms. The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

Nabil's exposure towards the sectors⁸ with relatively high effect of earthquake accounted for ~25% of total loans as on mid Jul-15. The bank's asset quality therefore was impacted both due to earthquake and political turmoil as evident by increase in delinquencies⁹. Furthermore, the asset quality is supported by regulatory relaxations accorded by the regulator, allowing the banks to restructure/reschedule the repayments of borrower affected from recent events. As on mid Jan-16, rescheduled loans accounted for ~4.32% of total credit portfolio. Although the immediate impact of recent events in the financial profile of the bank remains low, fresh slippages could emanate from the rescheduled accounts as well as the currently delinquent accounts affecting the overall asset quality for Nabil. As on mid Jan-16, the bank

¹ 52 branches and 1 extension counters on Jan-16

² Return on network

³ Return on assets

⁴ Average total assets

⁵ Current & Savings accounts

⁶ Data of mid-Jan-16 are unaudited.

⁷ Nepalese economy faced ~5 months long custom blockade and strikes in terai region in FY16 that ended recently.

⁸ Mainly including real estate, housing, tourism, microfinance and consumption loans

⁹ 0+days delinquency stood at 8.22% of total loans on April-15 and 10.06% on Jan-16 (both including NPLs).

reported gross NPLs of 1.7% with adequate provisioning coverage (~79%) resulting in a comfortable solvency profile (Net NPA/Networth of 2.17%). Nabil's ability to manage its delinquency and recoveries from restructured accounts going forward will have a bearing on the overall financial profile of the bank.

Nabil's credit portfolio of NPR 65,007 million on mid-Jan-16 (growing at a CAGR of 15% during five years ending FY15) accounted for ~5.53% of Nepalese commercial banking industry credit. The management focus has been to retain performing clients, while growing cautiously to manage its asset quality, resulting in marginal decline in credit book during H1FY16. Healthy growth in deposits coupled with decline in credit book has resulted in the bank reporting a SLR ratio of 37% as on mid-Jan16 (against regulatory requirement of 12%). Going forward the credit demand is expected to improve to healthy levels owing to expected pickup in economic activity to support the reconstruction especially after the recent resolution of elongated turmoil and lifting of the economic blockade from major custom points. As on mid-Jan-16, the credit portfolio of the bank primarily composed of large corporate loans (~54%), retail loans (~23%), SME loans (~19%) and deprived sector loans (5%)¹⁰. The proportion of corporate loans has been declining in recent years with Nabil focussing on small tickets SME/Retail segment, and management plans to grow through higher share of non-corporate loans. Nabil's growth in recent period is driven by trading/manufacturing and infrastructure loans in business segment and flexi loans, housing loans in retail segment. Credit concentration among top borrowers remains a concern with top 20 borrowers' groups accounting for ~21% of total loans on mid Jan-16.

Nabil's deposits/liquidity profile remains healthy. The bank's deposits have grown at commercial bank average growth rate of CAGR 19% over past 5 years ending FY15, outpacing the growth in credit portfolio over the same period. As a result, CCD¹¹ ratio of Nabil has declined to ~55%¹² as on mid-Jan-16, putting pressure on NIMs although remains healthy so far. In terms of deposit mix, Nabil has a healthy proportion of low cost CASA deposits (62% on Jan-16) vs. commercial bank average of 50%. CASA proportion has increased over past years, supporting overall cost of deposits which stood at 1.95% during H1FY16 (2.46% in FY15) and improving Nabil's competitive positioning. Deposit concentration among top accounts remains on higher side (top 20 depositors accounted for ~32% of total deposits on Jan-16); due to the large institutional deposits and could pose liquidity challenges for the bank. However, it is partly mitigated by Nabil's healthy domestic deposit profile and large portion of its foreign currency deposits/placement are short term in nature.

Nabil's capitalisation levels remains adequate with CRAR¹³ of 12.99% and tier I capital of 11.64% as of mid-Jan-2016 (both under Basel III) against minimum regulatory requirement of 10% and 6% respectively (increasing to 11% and 7.25% respectively including capital conservation buffer under Basel III from mid-Jul-16). Going forward, the bank's capitalization profile is expected to benefit from the plans to retain its profit accruals generated during FY16 and FY17 in order to comply with the revised capital level for Nepalese BFs.

NB International (foreign non-financial promoter) currently holds 50% shares in Nabil and would need to entirely divest as per current regulations. The banking regulator has therefore restricted any payout of cash dividends to NB International (dividends cannot be repatriated), unless the shareholding norms are met. Although, the rate of internal capital generation could be impacted due to higher credit costs (on account of deterioration in asset quality) and competitive pressures, the same is expected to be adequate in ICRA Nepal's assessment. Over the medium term, promoters' (NB International) ability to divest their holding to meet the shareholding norms (NRB might not allow NB International to infuse further capital and raise holding), and bank's ability to raise capital from external investors will have a bearing on its capitalisation profile.

During H1FY16, Nabil reported RoA of 2.19% and RoNW 24.78% against RoA of 2.06% and RoNW of 22.07% for FY 2014-15. The bank witnessed some moderation in profitability post FY14, primarily on account of regulatory ceiling on interest spread coupled with declining lending rates amid lukewarm credit

¹⁰ Corporate Loans: >100 million; SME loans: < 100million, towards a single borrower or related group of borrowers.

¹¹ Capital adjusted credit to deposit ratio

¹² CCD ratio as per NRB norms was 65.17% as on mid-Jan-16 against maximum limit of 80%

¹³ Capital to risk weighted assets ratio

demand and surplus liquidity with Nepal's banking sector. Nonetheless, NIMs continues to remain healthy (~3-3.5% of ATA during the past 12-18 months) backed by low cost of deposits (~1.95% during H1FY16). In addition, profitability remains adequately supported by healthy non-interest income level (~1.20% of ATA during past 12-18 months), low operating expense ratio and low credit cost. Going forward, Nabil's profitability profile could be impacted due to increase in credit costs on account of pressure on asset quality and increasing competition.

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 Group¹⁴. Nabil's head office is located at Kathmandu. Nabil is the largest private sector commercial bank in terms of asset base, networth and market capitalization as on Jan-16. The major promoters of the bank are NB International, Ireland (50%) and Rastriya Beema Sansthan (9.67%). 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 89 ATMs. The bank had a market share of 6.99% in terms of deposit base and 5.53% of total advances in Nepalese commercial banking industry as on mid-Jan-16 (5.79% and 4.51% share in total Nepalese banking industry). Nabil reported a profit after tax of ~NPR 2,093 million during 2014-15 over an asset base of ~NPR 115,986 million as of mid-Jul-15 against profit after tax of ~NPR 2,320 million during 2013-14 over an asset base of ~NPR 87,275 million as of mid-Jul-14. During H1FY16, Nabil reported PAT of ~NPR 1,351 million over an asset base of ~NPR 130,554 million. As of mid-Jan-2016, Nabil's CRAR was 13% with tier I capital of 11.65% (CET-I¹⁵ was 11.64%, all as per Basel III norms) and gross NPLs were 1.71%. In terms of technology platform, Nabil has implemented Finacle across all of its branches.

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¹⁴ 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.

¹⁵ Common Equity Tier I Capital under Basel III norms. At present, BFI's in Nepal are reporting capitalization as per Basel II as well as Basel III norms; starting July-16, reporting will be done only under Basel III norms.