

Ekata Bikas Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Initial Public offering of Ekata Bikas Bank Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below-average fundamentals to the proposed Initial Public Offering (IPO) amounting NRs. 80 million of Ekata Bikas Bank Limited (hereinafter referred to as EBBL). 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. EBBL is proposing to come out with an IPO of 800,000 numbers of equity shares of face value NRs 100/- each to be issued to general public at par.

The grading is constrained by EBBL’s limited track record and low seasoning of credit book (less than 3 years of operations), regional concentration of operations, high credit and deposits concentration, (top 10 depositors accounted for 32% of total deposit as on mid-Jan-14), lack of diversity in earnings, competition from Commercial Banks with wider product suite, higher portfolio vulnerability arising from exposure to hire purchase loan segment (around 26% as on mid-Jan-14) among ICRA Nepal graded entities and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of strong promoter base. Nonetheless, the grading factors in healthy profitability indicators (PAT/ATA 1.47% as on mid-Jan-14), control on asset quality indicators (Gross NPLs 0.32% as on mid-Jan-14) leading to good solvency profile (1.67% as on mid-Jan-14), adequate proportion of low cost deposit base (CASA¹ 52% as on mid-Jan-14) and regulatory advantage available with ‘Schedule B’ Development Bank compared to ‘Schedule A’ Commercial Bank in the form of lower SLR/ CRR² requirements. Going forward, EBBL’s ability to maintain asset quality indicators and increase its client base/ presence judiciously would have a bearing on the overall financial profile. The proposed IPO would enable the bank augment its capital base in line with its plans to increase scale of operations at a rapid pace over the medium term.

EBBL started its operations in October 2011 and as of mid-Jan-2014 the bank’s credit portfolio stood at NRs. 736 million with deposit base of NRs. 1,016 million. Being a three-district development bank, EBBL is allowed to operate in limited geographical area. At the same time, it faces competition from commercial banks with wider product suites and finer lending rates. However, EBBL’s promoters’ reputation/knowledge of the local market and its focused approach and reach in its geography of operations could help to achieve adequate growth. Over the long term, scalability of business would remain a challenge given promoters’ knowledge/reputation limited to local market.

EBBL’s portfolio of NRs. 736 million (as of January 2014) comprised mainly of Overdraft loan (39%), Hire purchase Loan (26%), Real estate loan (7%), Home Loan (7%), Agriculture Loan (5%) and others (13%). As of January 2014, the bank’s asset quality indicators remained comfortable with Gross NPL³ of 0.42% and Net NPL of 0.32%; partly benefitting from low seasoning of credit books. Going forward, EBBL’s ability to increase the credit portfolio while maintaining control on assets quality indicators would be a key monitorable.

As for funding profile, the bank has been successful in garnering healthy proportion of low cost deposits which accounted for around 52% of its total deposits as against development banking

¹ Current Account & Saving Deposit

² Statutory Liquidity Ratio/ Cash Reserve Ratio

³ Non-performing Loans



industry average low cost deposit of 54% as on mid-Jan-2014. However, high deposit concentration of EBL (32% to top 10 depositors as on mid-Jan-14) with high reliance on call deposit (30% of total deposit as on mid-Jan-14) is an area of concern for the bank. EBLs cost of funds is higher vis-a-vis commercial banks which impacts its competitive positioning. However, EBL cost of funds is comparable to other development bank of similar class.

Net interest income (NII) of EBL stood at NRs.18 million in H1 2013-14 (annualized increase of 28% compared to FY13 levels), primarily driven by increase in scale of operations. Operating expenses of the bank stood at NRs.11 million in H1 2013-14 (annualized increase of 10% compared to FY13 levels). Overall, the bank reported healthy Net Profits at NRs.8 million in H1 2013-14 (compared to NRs. 11 million in FY13). Over the near to medium term, as the bank builds scale, the overall financial performance could partly mirror the growth in business.

Against the minimum regulatory CRAR requirement of 11% for Class B Banks, the CRAR of EBL stood at 16.1% as on January 2014. As per ICRA Nepal estimates, the proposed IPO⁴ is likely to meet the capital requirements to meet EBL's projected medium term (3 year) CAGR growth plans of 46%; while maintaining overall capitalization in the range of 15-18%, with expectations of solvency remaining range bound at 2-3%. As regards medium term liquidity profile, KDB is comfortably placed, considering fair savings deposit franchise (52% as on January 2014) and > 50% of the overall credit in the form of short term loans as on January 2014.

EBL provides banking services through its 4 branches and 2 extension counters across 3 districts. As regards branch expansion, EBL plans to set up 3 new branches (within the current region of operation) with an aim to expand the customer base and achieve granularity in deposit base. EBL has an advantage over Commercial banks operating in the region in terms of better understanding of the local area and business opportunities therein, access to retail clients and service turnaround. However, it faces stiff competition from other regional banks operating in the same region.

The shareholding of the bank is diversified across over 186 individual promoter shareholders comprising of local businesspersons, industrialist and professionals. At present, promoters own 100% shareholding of the bank which is expected to come down to 60%, provided the proposed IPO is fully subscribed. EBL has a 5 members- Board of Directors (all representing promoter group with no independent director at present) and top level management with significant experience across Banking and Financial Institutions. There are 3 committees under the Board (composed of Directors as well as Management representatives) for oversight in activities related to human resource management, credit control and audit. The bank has outsourced its internal audit functions with a provision of quarterly audit, which reflects positively on the overall systems and processes of EBL.

Company Profile

Ekata Bikas Bank Limited was licensed by NRB in October 2011 to provide banking services in 3 districts of Western Nepal. The corporate office of EBL is in Rupandehi District.

EBL is a regional player currently operating in 3 districts through its 4 branches and 2 extension counters. EBL has market share of about 0.08% in terms of deposit base and 0.07% of total advances of banking industry in Nepal as on mid-January-2014. Its share in development banks total deposit and advances at the same time was 0.56% and 0.54% respectively. EBL reported a profit after tax of NRs. 7.6 million in H1 FY2013-14 over an asset base of NRs. 1,174 million as on January

⁴ 37% of the enhanced capital base of the bank as on Jan-14 (if fully subscribed)



2014 compared to profit after tax of NRs. 11.1 million in FY2012-13 over an asset base of NRs. 884 million as on July 2013. In terms of technology platform, EBL has implemented Pumori IV in all of its branches.

ICRA Nepal's IPO Grading Scale

ICRA Nepal's five-point IPO Grading scale is as follows:

[ICRANP] IPO Grade 1	:	Strong fundamentals
[ICRANP] IPO Grade 2	:	Above-average fundamentals
[ICRANP] IPO Grade 3	:	Average fundamentals
[ICRANP] IPO Grade 4	:	Below-average fundamentals
[ICRANP] IPO Grade 5	:	Poor fundamentals

Note:

For the Grading categories 2, 3 and 4, the sign of + (plus) may be appended to the Grading symbols to indicate their relative better position within the Grading categories concerned.

What an [ICRANP] IPO Grade Is Not:

- It is NOT a recommendation to buy, sell or hold the securities Graded
- It is NOT a comment on the valuation or pricing of the IPO Graded
- It is NOT an indication of the likely listing price of the securities Graded
- It is NOT a certificate of statutory compliance

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