

Hamro Bikas Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Right Issue of Hamro Bikas Bank Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below-average fundamentals to the proposed Initial Public Offering (IPO) amounting NPR 42.07 million of Hamro Bikas Bank Limited (hereinafter referred to as HBBL). 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. HBBL is proposing to come out with 70% rights issue of 420,700 numbers of equity shares of face value NRs 100/- each to be issued to existing shareholders at par.

The grading is constrained by HBBL's limited track record, low seasoning of credit book, concentration of business with operations limited to 1 district, lack of diversity in earnings, higher portfolio vulnerability among ICRA Nepal graded peers arising from exposure to margin funding business (around 16% as on mid-April-14), competition from commercial banks with wider product suite and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of strong promoter base and independent director on the board of HBBL. Nonetheless, the grading factors in the bank being a reputed financial institution in the district, its healthy profitability indicators, fair assets quality indicators, fair solvency profile, adequate proportion of low cost deposit base and regulatory advantage available with ‘Schedule B’ Development Bank compared to ‘Schedule A’ Commercial Bank- in the form of lower SLR/ CRR¹ requirements. However, HBBL's portfolio vulnerability remains high due to relatively inferior borrower profile vs. commercial banks, high proportion of loans with assessed income based appraisal which could lead to higher volatility in asset quality indicators. Going forward, HBBL's ability to grow profitability, maintain its assets quality indicators and increase its client base/ presence judiciously 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 over the medium term.

HBBL started its operations in April-2009, and has a credit portfolio of NPR 399 million as on mid-Apr-2014. Being a 1-district development bank, HBBL is allowed to operate in limited geographical area. At the same time, it faces competition from commercial banks with wider product suits and finer lending rates. However, HBBL's promoters' reputation/knowledge of the local market and its focused approach and reach in its geography of operations could help to maintain its operations. Going forward, HBBL is planning to achieve a 3-district development bank's status with a view to expand its operations; bank's ability to grow profitability in wide geographies given promoters' knowledge/reputation limited to local market would have significant impact on its financial profile.

The bank's credit portfolio of NPR 399 million as on mid-April-2014 (CAGR of 48% over the last 4 years) comprised mainly of Business Loan (22%), Personal Loan (18%), Loan against share (16%), SME Loan (15%), Agriculture Loan (11%) and Deprived Sector Loan (4%). HBBL's Gross NPLs & Net NPLs were 1.48% and 1.11% as on mid-Apr-14 against Nil NPL as on mid-July-13; partly benefitting from low seasoning of credit books.

¹ Statutory Liquidity Ratio/ Cash Reserve Ratio



As for funding profile, the bank has been successful in garnering adequate proportion of low cost deposits which accounted for around 60% of its total deposits; higher than development banking industry average low cost deposit of 55% as on mid-Apr-2014. HBBL's cost of funds is higher vis-a-vis commercial banks which impacts its competitive positioning.

HBBL has been able to maintain fair Net Interest Margins (NIMs) (around 3-3.5%) albeit on a low base, supported by adequate proportion of low cost deposits and lending largely to SMEs/ individuals wherein the bank is able to garner higher yield on advances. HBBL's Profit After Tax (PAT) increased by 73% in FY 2012-13 to NPR 7.2 million as against NPR 4.2 million during 2011-12; supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. Overall, HBBL's return on net worth stood at around 11-12% over last 3 years. Going forward, HBBL's ability to maintain adequate NIMs and control on asset quality profile would be critical for its profitability profile.

Over the last three years HBBL has maintained a Capital Risk Weighted Adequacy Ratio (CRAR) of around 15% against minimum regulatory requirement of 11%. The CRAR as on April-14 stood at 17.5%, on account of the IPO concluded at the start of 2013-14. As per ICRA Nepal estimate, current level of capital (including proposed right share and internal capital generation) will support the modest growth plans of management (CAGR² 25%) over medium term (next 2 years); with capitalization level expected to remain high in the range of around 21-23% with solvency indicators range bound at 2-4%, if the bank is able to maintain the NPLs at present levels. In the long run, the ability of HBBL to raise additional capital from its existing/ external investors will have a strong bearing on HBBL's growth prospects and overall capitalization profile.

Company Profile

Established in 2009, Hamro Bikas Bank Limited (HBBL) is a 1-District Class B Development Bank registered as a public company. It was the 58th Development Bank licensed by NRB and began its operation from 19 April 2009. The shareholding of the bank is diversified across 26 individual promoters (70%) and public (30%) as on mid-Apr-2014. The registered office of HBBL is in Battar, Nuwakot with 5 branches spread across the district.

HBBL has market share of about 0.03% in terms of deposit base and 0.04% of total advances in the banking sector in Nepal, as on April 2014. Its share in the deposits and advances of overall Development Banks is 0.25%. HBBL reported PAT of NPR 7.20 million during 2012-13 over an asset base of NPR 462 million as of July-13 compared to PAT of NPR 4.18 million during 2011-12 over an asset base of NPR 398 million as of July-12. The PAT at the end of 9M 2013-14 stood at 8.24 million over an asset base of NPR 551 million as of April-14. Bank has been able to maintain adequate capital adequacy (CRAR) of 17.4% and fair assets quality profile with gross NPLs of 1.48% as on mid-Apr-2014. In terms of technology platform, HBBL has implemented Pumori IV (which has been adapted by some of the leading commercial Banks in Nepal also) in all of its branches.

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² Compounded Annual Growth Rate



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