

Laxmi Bank Limited

ICRA Nepal assigns Issuer Rating of [ICRANP-IR] BBB to Laxmi Bank Limited

	Amount (NPR)	Rating Action
Issuer Rating	NA	[ICRANP-IR] BBB (Assigned)

ICRA Nepal has assigned rating of [ICRANP-IR] BBB (pronounced ICRA NP Issuer Rating triple B) to Laxmi Bank Limited (hereinafter referred to as LBL). Instruments with [ICRANP-IR] BBB Rating are considered as moderate-credit-quality Rating assigned by ICRA Nepal. The rated entity carries higher than average 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 ratings of LBL factors in the bank's long track record, experienced senior management, adequate capitalisation level (CRAR of 11.99% as on mid-Jul-14), control on asset quality profile (Gross NPL of 1.15% as on mid-Jul-14), adequate earnings profile (PAT/ATA of 1.5% during FY13 and 1.46% during FY14), established network in terms of geographical presence. These positives are however offset in part by inferior competitive positioning due to higher cost of deposit (average cost of deposit 5.68% as on Jul-14) compared to larger commercial bank in the industry, reliance on large corporate loan book with limited presence in retail and SME segment, inferior deposit profile compared to industry average (LBL's CASA deposit of around 26% as on mid-Jul-14 vs. banking industry average of 48%) and high deposit & credit concentration (top 20 depositors accounting for 38% of total deposits and top 20 borrowers accounting 36% of total credit as on Apr-14). The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

LBL has followed cautious approach during last three-four years in the light of deterioration in market environment due to political instability and correction in the real estate price; as a result its credit portfolio growth has been moderate with CAGR¹ of 13% over last three years which is lower than Nepal's banking industry average (CAGR around 17% over last three years). The management has healthy growth plans over the medium term. Although LBL Bank is predominantly focussed on corporate loans (around 64% of total book as on mid-Jul-14), the bank is progressively diversifying its product mix in favour of Retail and SME loans (retail & SME loan increased to around 36% of total credit portfolio as on mid-Jul-14 from 24% as on mid-Jul-12). Going forward management intends to increase loan in infrastructure & hydropower sector along with SME & Retail loan.

LBL's credit portfolio is dominated by large ticket size corporate loans which accounted for over 64% of total loans as on July 2014. As on April 2014, the portfolio was diversified across loans to trading sector (around 24%), manufacturing sector (around 20% of the credit portfolio), construction sector (16%), real estate sector (7%), and others. LBL's exposure to the real estate sector stood at par Nepalese Commercial Banking Industry average of 7% as on January 2014. Going forward, the management of LBL has projected a healthy growth rate of ~18-20% over the medium term (next 3 years) with focus on infrastructure and hydropower sector. Further, the management intends to increase the proportion of SME and retail loans in the overall portfolio. On Assets quality front, LBL has been able to control on asset quality with Gross NPL of 1.15% (Jul-14), recovering from deterioration in 9M 2013-14 (gross NPL 2.21% on Apr-14). Going forward LBL's ability to maintain asset quality indicators with growth in portfolio would be a key monitorable.

LBL's capitalisation level is adequate with CRAR of 11.99% as of mid-Jul-2014 against minimum regulatory requirement of 10%². In order to support the future growth plans, LBL is planning right shares

¹ Compounded Annual Growth Rate

² Minimum regulatory CRAR required for dividend payment is 11%



issue of 25% to the existing shareholders. The rate of internal capital generation (PAT/Net worth) has remained low despite healthy profitability (PAT/Net worth around 15% over past 1-2 years) owing to high rate of dividend pay-out to investors in past. As per ICRA Nepal estimate, current level of capital (including proposed right issue and internal capital generation) will support the modest growth plans of management (CAGR 20%) over medium term (next 2-3 years); maintaining overall capitalization in the range of around 12-13% with solvency indicators range bound at 4-8%, if the bank is able to maintain the NPLs at present levels. In the long run, the ability of LBL to raise additional capital from its existing/ external investors will have a strong bearing on LBL's growth prospects and overall capitalization profile.

LBL has adequate earning profile as reflected in PAT/ATA of ~1.5% and return on net worth of ~15% during last 1-2 years. The profitability is supported by moderate NIMs (around 2.5-3%), primarily a result of lower cost of deposits (less than 6% as on Apr-2014), adequate non-interest income (around 1.4% in 9M2013-14). It is also supported by relatively lower operating expense (around 1.8% of ATA) and control on credit provisioning (0.23% of ATA in 2013-14). Going forward, bank's ability to maintain its NIMs in a competitive landscape and maintaining asset quality profile would be critical for earnings profile.

As on Apr-2014, promoters holding in LBL stood at 64.44% (with around 35% institutional holding³) and general public holding is 35.56%. LBL has 7 members Board of Director (4 representing promoter groups, 2 from among public shareholders and 1 independent director) & top level management with significant experience across Banking & Financial Institutions. LBL has established in-house internal audit department for its internal audit function.

Bank Profile

Laxmi Bank Limited commenced its operations as an "A" Class Commercial Bank from 2002. Shareholding pattern of the Bank constitutes of Promoters Group⁴ holding 64.44% of the shares and General Public holding 35.56%.

Laxmi Bank has presence throughout the country through its 36 branches and 47 ATMs. Laxmi Bank has market share of about 2.08% in terms of deposit base and 2.05% of total advances in Nepal as on January 2014. Laxmi Bank has reported a profit after tax of NPR 419.84 million during 2012-13 over an asset base of NPR 29,816 million as on Jul-13 against profit after tax of NPR 356.4 million during 2011-12 over an assets base of NPR 26,029. In 2013-14, bank has reported profit after tax of NPR ~472 million over an asset base of NPR 34,713 million. Laxmi Bank Gross NPLs was 1.53% & 1.15% whereas return on net worth (PAT/Net worth) was around 15% as on Jul-13 & Jul-14 respectively. In terms of IT platforms Laxmi bank has recently migrated to FINACLE in all of its branches.

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³ Notably Citizen Investment Trust 10.37% with representation in board of director.

⁴ Mainly; Khetan Group, P.L. Shanghai Group and Sikaria Group.



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