

Manaslu Bikas Bank Limited

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

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below-average fundamentals to the proposed initial public offerings (IPO) amounting NRs. 36 million of Manaslu Bikas Bank Limited (MBBL). 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. MBBL is proposing to come out with an initial public offer of 352,800 numbers of equity shares of face value NRs 100/- each and 7200 numbers of equity shares of Rs. 100/- each to be issued to the public and employees respectively.

The grading is constrained by MBBL’s limited track record, lack of diversity in earnings, unseasoned credit book, low profitability, 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 independent directors on the board; that could have a bearing on the long term performance of MBBL. Nonetheless, the grading factors in the bank being a prominent financial institution in the Gorkha district, its diversified borrower base and regulatory arbitrage available with ‘Schedule B’ Development Bank compared to ‘Schedule A’ Commercial Bank- in the form of lower absolute capital requirement and lower SLR/ CRR requirements. Going forward, MBBL’s ability to increase its client base/ presence judiciously would have a bearing on the overall financial profile.

MBBL started its operations in Dec-2010 and since then it has been able to grow its portfolio at rapid pace though portfolio size still remains moderate (credit portfolio was NRs 379 million as on mid-Apr-2013). Being a three-district development bank, MBBL 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, MBBL’s promoters’ reputation/knowledge of the local market and its focussed approach and reach in its geography of operations could help to achieve adequate growth. Over the longer term, scalability of business would remain a challenge given promoters’ knowledge/reputation limited to local market.

The bank’s credit portfolio comprised gold loans (around 31% of portfolio as of mid-Apr-2013), working capital loans to SMEs (22%), housing loans and personal loans (27%) and others. MBBL reported nil gross NPLs as of mid-Apr-2013 however its asset quality trend is yet to be established as large proportion of credit is originated over last 1-2 year and remains unseasoned. As for funding profile, the bank has been successful in garnering healthy proportion of low cost deposits which accounted for around 50% of its total deposits as against development banking industry average low cost deposit of 52% as on mid-Jan-2013.

Net interest income (NII) of MBBL stood at NRs.13.16 million in 9MFY13 (annualized increase of 21% compared to FY12 levels), driven by increase in scale of operations. Operating expenses of the bank stood at NRs 8.85 million in 9MFY13 (annualized increase of 15% compared to FY12 levels). Overall, the bank reported modest Net Profits at NRs.1.22 million in 9MFY13 (compared to a loss of NRs. 0.71 million in FY12). Over the near to medium term, as the bank builds scale, the overall financial performance could partly mirror the growth in business.

As on mid-July 2012, MBBL’s capitalization levels at 28.4% (Tier I: 27.6%) is much in excess of regulatory requirement. Going forward, with capital raising plan through IPO in FY13, management



intends to expand across two more branches and expects to maintain a steady state CRAR 18-20% over the medium term.

Company Profile

Established in December 2010, Manaslu Bikas Bank Limited (MBBL) is a new Development Bank licensed by Nepal Rastra Bank to conduct banking operations across three districts (Gorkha, Tanahu & Chitwan). The shareholding of the bank is diversified across over 100 individuals, representing prominent sections of the society. The registered office is in Gorkha District, which is also the Head Office of the Bank.

MBBL has presence in three districts of the country through its 4 branches and three extensions counters with one ATM at main branch Gorkha. MBBL has market share of about 0.27% in terms of deposit base and 0.27% of advances of Development Banks in Nepal as on mid Jan-2013. MBBL reported a profit after tax (loss) of NRs -0.71 million in FY12 over an asset base of NRs 364.09 million as on Jul-12 against profit after tax (loss) of NRs -0.68 million in FY11 on an asset base of NRs 179.47 million as on Jul-11.

May 2013

For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali (Tel No. +977-1-4169088)

Kishor@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (Tel. No. +977-1-4169088)

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) 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