

Sana Kisan Bikas Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed initial public offering of Sana Kisan Bikas Bank Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed initial public offering (IPO) of Sana Kisan Bikas Bank Limited (SKBBL). 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 better position within the Grading categories concerned. SKBBL is proposing to come out with an Initial Public Offer of 582,000 numbers of equity shares of face value NRs 100/- each share and 18,000 numbers of equity shares of NRs 100/- each to be issued to the Public and Employees respectively.

The average fundamental grading factors in the SKBBL’s long track record in microfinance activities in Nepal, presence of institutional promoters, good management team and adequate loan underwriting as well as monitoring process. SKBBL has established relationship with various cooperatives, that are SKBBL’s shareholders also, engaged in microfinance business in Nepal and expected to help SKBBL to maintain good portfolio growth. Weak end borrowers of cooperatives, lack of information on the credit profile of SKBBL’s borrowers, it’s relatively higher cost of funds (excluding subsidised fund around 10-12% in last 2-3 years) and lack of diversity in earnings impact the grading negatively. The grading also factors Nepal’s unstable political environment, increasing trend of multiple financing in microfinance sector and SKBBL’s higher portfolio vulnerability given marginal profile of borrowers and unsecured nature of lending in microfinance business. Nevertheless, Nepal offers good growth potential for microfinance business given large below poverty line population.

SKBBL is registered as a Class D financial Institution and engaged primarily in providing wholesale lending to Small Farmers Agricultural cooperatives limited (SFCLs) & other cooperatives in Nepal. SKBBL has long track record of microfinance activities in Nepal and has established relationship with various entities engaged in microfinance business (as on mid-Jan-2013 SKBBL has 316 cooperatives partners of which 260 are active borrowers). Nepal offers good growth potential for MFI business given large below poverty line population and low penetration of MFI activities in hilly areas resulted rapid growth in SKBBL’s portfolio by 68% in 2010-11, 43% in 2011-12 and 13% in H1 2012-13. Going forward also SKBBL is projecting healthy portfolio growth of around 20-25% CAGR over next three years. Asset quality of SKBBL would be linked to the credit profile of its borrowers, the cooperatives.

SKBBL has healthy resources profile as around 43% of its resources are in the form of low cost funds from Government of Nepal at 1% interest rate per annum. In addition, lending to microfinance sector is classified as deprived sector lending in Nepal which ensures flow of banks’ credit to microfinance sector at lower interest rates. However, borrowings from commercial banks/ financial institutions, which accounted for around 57% of SKBBL’s total funding, are at relatively higher cost of funds vis-a-vis competitors. SKBBL’s capitalisation profile is adequate as reflected in CRAR of 14.63% and tier I capital of 13.74% as of mid-Jan-13.

As for profitability, with healthy growth in credit portfolio and improvement in lending spreads, SKBBL’s profitability improved in 2011-12 and H1 2012-13 and as of now is adequate as reflected in PAT/ATA of 1.9% and return on net worth of 14.3% in 2011-12 (2.1% and 15.3% in H1 2012-13), however the sustainability of improvement in profitability is yet to be seen.

SKBBL's profit after tax (PAT) increased by 118% in 2011-12 to NRs 63.39 million as against NRs 29.07 million during 2010-11; PAT was NRs 43.34 million in H1 2012-13. Over last 2-3 years, SKBBL has been able to maintain good assets quality (NPLs reduced to 0.82% in mid-Jan-2013 from 2.49% in 2010-11). It has reported moderate lending spreads (around 3-5%) controlled operating expenses and credit provisioning however income profile remains highly concentrated to fund based activities. Going forward, SKBBL's ability to maintain adequate portfolio growth, ability to reduce its cost of funds and maintain asset quality profile would have bearing on its profitability.

Company Profile

Sana Kisan Bikas Bank Limited (SKBBL) was promoted by institutional promoters-Agriculture Development Bank Nepal (31.47%), Nepal Bank Limited (8.67%), Nabil Bank limited (4.34%) and 231 Small Farmers Agricultural Cooperatives (55.52%). SKBBL was established in 2001 with a vision to provide wholesale credit along with the technical support services basically to the Small Farmers Cooperatives Ltd. (SFCLs) and similar types. The Bank was incorporated as D class bank and got licence from Nepal Rastra Bank (NRB) under BAFIA 2006 on March 11, 2002. SKBBL is engaged in the business of providing microfinance access to rural poor households, especially to women via wholesale lending to SFCLs and other cooperatives where SFCLs are not in presence. Apart from this, it provides institutional strengthening and capacity building supports to its partner cooperatives with a view to promote and develop microfinance sector in the country. During the year ended July 15, 2012 SKBBL reported a net profit of NRs. 63.39 million on an asset base of NRs. 4,004 million as against a profit of NRs. 29.07 million on an asset base of NRs. 2,745 million in the previous year with portfolio growth of 43% & 68 % respectively.

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