Nabil Bank Limited

ICRA Nepal reaffirms [ICRANP-IR] AA- rating to Nabil Bank Limited

	Amount (NPR million)	Rating Action (January 2019)
Issuer Rating	NA	[ICRANP-IR] AA- (Reaffirmed)

ICRA Nepal has reaffirmed the rating of [ICRANP-IR] AA- (pronounced ICRA NP Issuer Rating Double A minus) to Nabil Bank Limited (Nabil). The entities with [ICRANP-IR] AA- rating are considered as high-credit-quality ratings assigned by ICRA Nepal. The rated entity carries a low 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 rating reaffirmation factors in Nabil's ability to maintain its competitive positioning in the industry; as reflected in the steady performance indicators of the bank. The bank's strong competitive positioning coupled with its established track record and adequate presence across the country continues to support business growth and profitability. Nabil's competitive strength arises from its ability to offer better lending rates, which arises from its cost of funds, which is among the lowest in the industry. This is likely to help the bank's incremental credit growth, in the 'Base Rate plus' lending model made mandatory by the Nepal Rastra Bank (NRB). The affirmation of assigned rating also takes into consideration the bank's moderate and steady rate of business growth, good assets quality and low delinquency level (with improvement in recent years). The rating also factors in Nabil's adequate capitalisation profile and comfortable solvency profile. Nabil's rating also derives comfort from the financial strength of major promoters, seasoned management team and established underwriting norms and control processes of the bank.

Nonetheless, the rating concerns arise from the recent liquidity challenges faced by the Nepalese banking industry, including Nabil, because of higher growth in banking sector credit vis-à-vis deposit during the past four to five years. As a result, Nabil's liquidity ratio has come down, with commensurate increase in the credit-to-deposit ratio. A higher credit-to-deposit ratio has helped Nabil offset the impact of the rising cost of fund, thereby stabilising net interest margin (NIMs) and supporting profitability. However, given the high deposit concentration of the bank (31% of total deposits among top 20 depositors), it has also lowered the liquidity cushion available to the bank. Rating concerns also take into consideration the sharp decline in CASA deposit proportions of the bank. So far, Nabil continues to maintain its competitive edge over most of the industry peers in terms of the low cost of fund (despite recent increase). Nonetheless, its ability to maintain the position, given the growing competition among players for limited deposit resources in the financial system, will be a key monitorable going forward. Nabil's rating also remains constrained by a relatively higher credit concentration among top borrowers (~28% of total credit among top 20 borrower groups vs. 25% in mid-April 2017). The rating also remains constrained by an uncertain operating environment that banks in Nepal are currently facing because of high credit growth, rise in interest rates on deposit and lending side, rising competition despite consolidation and tight liquidity, which may impact asset quality in coming periods.

Nabil's average credit growth during the past three years, ending FY2018 stood at 19%, lower than the industry average of 24% over the period. Nabil's credit growth has picked up during past 12-18 months (23% during FY2018 and 46% annualised during Q1 FY2019), leading to a marginal improvement in market share. Nabil's credit portfolio of ~NPR 125 billion as of mid-October 2018, accounted for ~4.8% of Nepalese banking industry credit (vs. ~4.5% in mid-April 2017, when last rated). As on mid-October 2018, its credit portfolio is divided into large corporate loans (~56%), retail and SME loans (~39%) and deprived sector loans (5%)[1]. Higher credit growth in the past 12-18 months is propelled by the corporate segment, resulting in increased share of corporate loans (vs. 53% in mid-April 2017 when last rated). Going forward, the low cost of fund and consequent pricing advantage under the 'Base Rate plus' regime is expected to support Nabil's plan to penetrate along the SME and the retail segment. However, its ability to achieve the targeted SME and retail segment growth with relatively moderate franchise network across the country remains to be seen. Nabil's credit concentration among top borrower groups has increased during the past 12-18 months, in line with the rise in corporate loan proportions (top 20 borrower groups

[1] Corporate Loans: >100 million; SME loans: < 100million, towards a single borrower or related group of borrowers.

accounting for 28% as on mid-October 2018 vs. 25% in mid-April 2017, when last rated). Concentration risk has grown as the bank has achieved sizeable organic credit growth during the past two to three years with moderate growth in geographical coverage and customer base.

Nabil's asset quality indicators have improved during the past 12-18 months, aided by interim credit growth, low fresh NPA generation rate and steady NPA recovery rate. As on mid-October 2018, Nabil's gross NPA stood at 0.58% as on mid-October 2018 (0.55% on mid-July 2018) improving from 0.95% in mid-April 2017 (when last rated). Nabil's 0+ days delinquency has also improved in recent years and stands at ~5% as on mid-October 2018 (~3% as on mid-July 2018) as compared to ~9% in mid-April 2017 when last rated. Healthy credit provision covers of ~80% in mid-Oct 2018 (~91% on mid-July 2018) resulted in a comfortable solvency indicator (net NPA/ net worth) of 0.70% on mid-Oct 2018 (0.33% on mid-July 2018).

Nabil's deposit profile has been affected by the liquidity shortage seen in the banking system since January 2017. The deposit price-war among the industry players (especially in the term deposits) has led to the decline in the CASA deposits for Nabil (from ~60% in mid-July 2017 to ~48% in mid-July 2018) with a corresponding increase in higher priced term deposits. As a result, Nabil's cost of deposits has increased from ~2% in FY2017 to ~4% in FY2018 and ~5% in Q1 FY2019. As on mid-October 2018, Nabil's deposit base of NPR 143 billion comprised ~46% CASA deposits (vs. commercial bank average of 43%). Overall, Nabil continues to maintain its cost competitiveness because of a higher-than-industry average CASA proportion and lower-to-industry average cost of deposits (by ~150 bps during Q1 FY2019); despite an unfavourable liquidity scenario. However, the bank's ability to maintain its competitive edge over the longer term, given the increasingly competitive deposit landscape will be a key.

Nabil's liquidity position has moderated during the past one to two years because of the ongoing shortage of lendable funds. Nabil's liquid assets as a percentage of total liabilities stood at ~22% on mid-October 2018 vs. ~26% in mid-July 2018 and ~33% on mid-July 2017. Although, the current liquidity position remains adequate vis-à-vis the regulatory requirement, the liquidity buffer available in case of a large withdrawal has declined over the years. Nabil's ability to improve upon its deposit mix, liquidity buffer and lower the deposit concentration risk will have a bearing on its ability to withstand any incremental liquidity shocks.

Nabil's capitalisation level increased till FY2017 due to increased retention of profit accruals to ensure NPR 8 billion paid up capital and moderate pace of credit growth. Nabil's capital-to-risk assets ratio (CRAR) stood at 12.62% as on mid-October 2018 (vs. 13.17% on mid-July 2018[2]), comfortable vis-à-vis regulatory minimum of 11% under prevailing Basel III norm. Nabil's tier I capital (11.46% as on mid-October 2018) remains well above 8.50% to be maintained by mid-July 2019 under the Basel III norms prescribed by NRB. Although the current capital cushion remains slim, Nabil has maintained a healthy rate of profitability, which can be retained in case of business growth requirement.

Nabil's profitability indicators continue to remain strong because of healthy NIMs (~4% during past 12-18 months). The increase in credit to deposit ratio of the bank has helped maintain stable NIMs, offsetting the impact of rising cost of fund. Nabil's return on assets during FY2018 stood at ~2.7% (similar to FY2017) with a return on net worth of ~25% and ~28% during those periods. Nabil's profitability also remains supported by a healthy non-interest income level (~1.35% of ATA during FY2018), low operating expense ratio and low credit cost.

Links to applicable criteria:

[Bank Rating Methodology]

Company Profile

Nabil Bank Limited (Nabil), the first private sector class A commercial bank in Nepal, started its commercial operations from July 1984 as Nepal Arab Bank Limited. The name was changed to Nabil Bank, following the withdrawal of its joint venture partner Emirates Bank International in 1997.

[2] Unaudited and before cash dividend

Headquartered at Kathmandu, Nabil is the third largest commercial bank in terms of its assets base and the second largest in terms of its net worth as of mid-Oct-2018.

The major promoters of the bank are NB International, Ireland (50%) and Rastriya Beema Sansthan (9.67%). Including NB International, family members of Chaudhary Group own majority (~53%) stake in the bank. Mr. Anil Keshary Shah is the Chief Executive Officer of the bank. Its equity share is listed in the Nepal Stock Exchange with the second highest market capitalisation (among banking sector stocks) as on mid-December 2018.

Nabil has its presence throughout the country through its 74 branches, two extension counters and 126 ATMs. It has a market share of 5.65% in terms of deposit base and 5.54% of its total advances is in the Nepalese commercial banking industry, as on mid-Oct-2018. Nabil reported a profit after tax of ~NPR 4,055 million during 2017-18 over an asset base of NPR 157,486 million as of mid-July-2018. During Q1 FY2019, Nabil reported a PAT of ~NPR 976 million over an assets base of NPR 170,337 million. As of Q1 FY2019, Nabil's CRAR was 12.62% with CET 1[3] of 11.46% and gross NPAs was at 0.58%. In terms of technology platform, Nabil has implemented Finacle across all its branches.

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About ICRA Nepal Limited

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[3] Common Equity Tier I Capital under Basel III norms. Currently banks are reporting capital adequacy norms under Basel III in parallel with existing capital adequacy norms. Banks have been reporting capital adequacy norms under Basel III starting mid-July 2016 (FY16-17 onwards).