

## Himalayan Bank Limited

### ICRA Nepal assigns [ICRANP] LA rating to subordinated bonds of Himalayan Bank Limited

	Amount (NRs million)	Rating Action
Subordinated Bonds	NRs 750 million	[ICRANP] LA (Assigned)

ICRA Nepal has assigned rating of [ICRANP] LA (pronounced ICRA NP L A) to subordinated bonds of NRs 750 million of Himalayan Bank Limited (HBL). Instruments with [ICRANP] LA Rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The rating of HBL factors in the bank's established track record and good market positioning in Nepal, experienced senior management, healthy deposits profile and adequate earnings profile. These positives are however offset to an extent by deterioration in asset quality indicators in recent past (gross NPLs increased from 2.12% as of mid-Jul-12 to 3.20% as of mid-Jan-13), relatively higher operating expenses which dilutes part of the advantage of good Net Interest Margins (NIMs). The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing. HBL's association with Habib Bank Limited Pakistan (Habib), later being the 20% shareholder in HBL, provides access to management and technology support from Habib.

HBL followed a cautious approach during last three years and as a result its credit portfolio growth was moderate and was lower than Nepal's banking industry average; however credit portfolio grew by 11% in H1 2012-13, going forward also management intends to grow cautiously till political scenario stabilises. HBL's credit portfolio is diversified across manufacturing (accounted for around 32% of credit portfolio as of mid-Jan-2013), trading (19%), real estate (11%) and others. HBL's exposure to real estate sector, which is vulnerable to decline in real estate prices, is comparable to Nepalese banking industry and is lower than many of the new banks in Nepal, however deterioration in financial and operating profile of manufacturing entities due to unstable operating environment could impact its asset quality profile. HBL's asset quality profile deteriorated during H1 2012-13 (gross NPL's increased from 2.12% as of mid-Jul-12 to 3.20% as of mid-Jan-2013) after improving in 2011-12 from 4.27% gross NPLs as of mid-Jul-2011. Going forward HBL's ability to maintain asset quality indicators would be a key rating sensitivity. Nevertheless, HBL's adequate provisioning cover (64% as of mid-Jan-13) and adequate standard asset provisioning (1% of credit portfolio) in Nepalese banking system provides some cushion. HBL has healthy deposits profile as reflected in high proportion of low cost deposits<sup>1</sup> (low cost deposits were 58% of total deposits as of mid-Jul-12 as against Nepalese banking industry average of around 46% as on mid-Jul-2012) which results lower cost of deposits. HBL has been able to improve the proportion of low cost deposits from 48% as of mid-Jul-11 to 58% as of mid-Jul-12.

HBL's capitalisation levels are moderate with CRAR of 10.8% as of mid-Jan-2013 against minimum regulatory requirement of 10%. However, higher proportion of tier I capital (9.5% as of mid-Jan-2013) due to low penetration of tier II capital instruments in Nepal provides headroom to raise tier II capital to maintain overall capitalisation levels. The capitalisation may need strengthening if its asset quality were to deteriorate or if the pace of its expansion were to increase significantly though HBL had lower credit growth during last three years and intends to maintain lower growth in short to medium term. The ability of the bank to raise capital from existing promoters or external investors will have a strong bearing on HBL's capitalisation profile. HBL has adequate earning profile as reflected in PAT/ATA of 1.8-2% and return on net worth of 19-22% during last 2-3 years. The

<sup>1</sup> Current, Saving and Margin Deposits



profitability is supported by healthy NIMs, primarily a result of lower cost of deposits, and adequate non-interest income however part of the benefit is diluted by relatively higher operating expenses (2.5-3% of ATA vis-a-vis peers of around 1.5-2%). Going forward, bank's ability to maintain its NIMs and asset quality profile would be critical for earnings profile.

## Bank Profile

Himalayan Bank Limited (HBL) was incorporated in 1992 by a few individuals of Nepal in partnership with the Employees Provident Fund (14% share) and Habib Bank Limited of Pakistan (20% share). The bank started its commercial operation from January 1993 and is registered as "A" class Commercial Bank with Nepal Rastra Bank (NRB). Its head office is located at Kamaladi, Kathmandu. The shares of the Bank are listed in Nepal stock exchange.

HBL, one of the largest joint venture banks in Nepalese banking industry with long track record, has presence throughout the country through its 41 branches and 71 ATMs. HBL has market share of about 5.2% in terms of deposit base and 5.6% in terms of credit portfolio in Nepal's banking system as on mid-Jul-12. HBL reported a profit after tax of NRs 959 million during 2011-12 over an asset base of NPR 54,364 million as on Jul-12 against profit after tax of NRs 893 million during 2010-11 over an asset base of NRs 46,736 million as on mid-Jul-11. During H1 2012-13, HBL reported PAT of NRs 500 million. HBL's CRAR was 10.8% and gross NPLs were 3.2% as on mid-Jan-2013. In terms of technology platform, HBL has implemented Temenos Globus (T24) in all of its branches.

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*For further details please contact:*

Analyst Contacts:

**Mr. Kishor Prasad Bimali**, (+977-1-4169088)

[kishor@icranepal.com](mailto:kishor@icranepal.com)

Relationship Contacts:

**Mr. Deepak Raj Kafle**, (+977-1-4169088)

[drkafle@icranepal.com](mailto:drkafle@icranepal.com)

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