

## Nepal Investment Bank Limited

### ICRA Nepal assigns [ICRANP] LA+ to proposed subordinated debenture programme; reaffirms [ICRANP-IR] A+ and [ICRANP] LA+

Facility/Instrument	Amount	Rating Action (January 2019)
Subordinated Debenture Programme (fresh)	NPR 2,000 Million	[ICRANP] LA+ (Assigned)
Subordinated Debenture Programme (existing)	NPR 750 Million	[ICRANP] LA+ (Reaffirmed)
Issuer Rating	NA	[ICRANP-IR] A+ (Reaffirmed)

ICRA Nepal has assigned **[ICRANP] LA+** (pronounced ICRA NP L A Plus) to the proposed subordinated debenture programme of Nepal Investment Bank Limited (NIBL). Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

ICRA Nepal has reaffirmed the issuer rating for NIBL at **[ICRANP-IR] A+** (pronounced ICRA NP Issuer Rating A Plus). The rated entity carries average credit risk. The issuer rating is only an opinion on the general creditworthiness of the rated entity and not specific to a particular debt instrument. ICRA Nepal has also reaffirmed the rating on NIBL's existing NPR 750-million subordinated debentures at **[ICRANP] LA+**. The sign of + (plus) or – (minus) is appended to the rating symbols to indicate their relative position within the rating categories concerned. Thus, the rating of A+ is one notch higher than A, while A- is one notch lower than A.

The rating assignment/reaffirmation factors in NIBL's strong market positioning, it being one of the largest private sector commercial banks with ~5.6% share in industry credit and deposits. The bank's established track record (operating since 1986) and its moderate growth in recent periods also support to the rating action. NIBL's diversified network, along with the experienced management team and the comfortable capitalisation profile, is expected to provide adequate growth opportunities to the bank going forward. The rating also takes into consideration the bank's stable net interest margins (NIMs), healthy fee-based income and low operating costs, which have led to adequate earnings profile among peers. The ratings continue to be supported by the presence of institutional promoters—Rastriya Beema Company Limited, a state-owned insurance company, with ~12% stake, among others—with representation on the bank's board.

The ratings, however, remain constrained by the spike in the bank's non-performing loans (NPLs) in recent periods along with the expectation of further stress in asset quality, given the sharp increase in interest rates in last two years. The bank's 0+ days delinquency is higher than its peers (~14% as of mid-October 2018 including NPLs of 1.26%) and remains a rating concern. However, consolidation and moderate growth plans of the management over the near term could help maintain delinquency at a comfortable level. ICRA Nepal also takes note of the high customer concentration risks (~33% of credit and ~30% of deposits among top 20 customer groups as on mid-October 2018). The rating is also constrained by NIBL's deposits profile, which is relatively modest among top-tier banks of Nepal, leading to slightly higher cost of funds. The rating actions also factor in the probable systemic risks emanating from the mismatch in credit and deposit growth in the industry over the last few years. The bank's ability to improve the mix/cost of deposits, reduce the concentration risks and maintain healthy asset quality/profitability indicators would remain key rating drivers.

NIBL is one of the largest private sector commercial bank in Nepal with an asset base of ~NPR 175 billion as of mid-October 2018. The bank's credit portfolio of ~NPR 126 billion as of mid-October 2018 accounted for ~5.6% of the industry credit. Despite some decline in the market share in the interim on account of aggressive growth by some peers, NIBL's market share still remains strong among peers. NIBL grew its credit portfolio by compounded annual growth rate (CAGR) of ~21% during the last five years, ending mid-July 2018, remaining slightly lower than the industry growth of ~23%. The bank's spiked growth rate during the low interest rate environment of FY2015 and FY2016 (~28% growth compared to ~24% for industry) remains a concern. However, the pace of growth has been moderated thereafter to ~18% CAGR from mid-July 2016 to mid-October 2018 (against ~24% for industry). The current focus is on consolidation of portfolio which remains a positive from rating perspective. Yields on advances for the bank remains slightly

high among peers, at 11.44% in Q1FY2019 (9.24% for FY2017). The increased yields in recent periods was largely in line with the industry trend and was partly supported by the interest income booking on accrual basis as per revised financial reporting framework<sup>1</sup>. NIBL continues to remain a corporate heavy bank with large corporate loans comprising ~88% of portfolio as of mid-October 2018, followed by retail loans (~9%) and SME loans (~2%). The credit portfolio continues to remain concentrated with top 20 borrower groups accounting for ~33% of portfolio and 180% of Tier-I capital, hence posing asset quality related risks. Going forward, the management intends to grow cautiously, with focus on retail/SME sectors, which could ease out the concentration risks.

The bank's asset quality has witnessed increased stress in recent periods with NPLs increasing to 1.36% as of mid-July 2018 from 0.68% as of mid-July 2016. Though the NPLs slightly moderated to 1.26% as of mid-October 2018, high delinquency among peers, at ~14%, elevates the concerns in asset quality front. However, ~90% of delinquencies are within 30 days and remains comparable to earlier trends, which provides some comfort. With a low provision cover of ~50% as of mid-October 2018, net NPA and solvency indicator (net NPA/net-worth) have deteriorated to 0.64% and 3.02%, respectively. Going forward, the asset quality of banking sector, including NIBL, is expected to witness some moderation due to decline in repayment capability of borrowers over increased interest rates. However, the bank's overall profile is expected to remain comfortable. NIBL's ability to reduce the delinquency/NPLs would remain a key monitorable.

NIBL's cost of deposits continues to remain better compared to industry average despite largely comparable deposits profile, mainly on account of low rates in saving account products. Nonetheless, the share of low-cost CASA deposits is slightly lower in relation to other top-tier banks, which reflects in relatively high cost of deposits. During the past two years, the Nepalese banking industry has witnessed shortage of lendable deposits, leading to price wars for deposit at times. This has caused major shift from CASA deposits to term deposits for the industry as a whole, thereby pushing up the cost of deposits. CASA for NIBL also declined to ~41% as of mid-October 2018 from ~51% as of mid-July 2016 as against the decline in industry average CASA to ~42% from ~50% over the same period. However, the cost of deposits at 6.12% in Q1 FY2019 (5.71% for FY2018) remains lower to the industry average of 6.53% (6.10% for FY2018). Deposit growth has remained moderate (CAGR ~17% over past five years ending mid-July 2018 against 19% growth in industry). Lower growth compared to industry standards as well as mismatch in credit and deposits growth remains a concern. However, the external capital raising in FY2017 and the healthy internal accruals have provided comfort in CCD front<sup>2</sup>, which stood at ~77% as on mid-October 2018. NIBL's deposit concentration, despite recent moderation, remained high with the top-20 depositors accounting for ~30% of the total deposits as of mid-October 2018 (~35% as of mid-July 2017). Improving the deposits mix, concentration and cost would remain a key challenge for the bank over the medium term.

Regarding capitalisation, NIBL's reported capital to risk-weighted assets ratio (CRAR) of 13.02% and tier I capital of 11.88% (both as per Basel III) as of mid-October 2018 remains comfortable as against the minimum regulatory requirement of 11% and 8%, respectively (both including capital conservation buffer-CCB of 2%). The tier-I capital requirement is expected to increase to 8.5% by mid-July 2019 (including CCB of 2.5%) although the requirement for total capital would be stable at 11% (incl. CCB). The capitalisation profile was strongly supported by FPO (NPR 5.45 billion raised including premium of NPR 4.54 billion) floated by the bank in FY2016; the amount raised from FPO still comprises ~24% of capital funds as of mid-October 2018. Given NIBL's healthy internal accruals and profit retention as per business growth needs in the past, along with the proposed issue, capitalisation levels are expected to remain adequate to support the management's growth plans while maintaining comfortable solvency profile.

In the profitability front, NIBL's earnings profile remain healthy owing to its adequate NIMs (3.63% for FY2018), healthy fee-based income (1.32% of average total assets-ATA) and low operating expense ratio (1.46% of ATA). As a result, the bank was able to report largely stable return on assets (RoA) of ~2.2% in last three fiscals despite increased credit cost in last two fiscals (0.42% of ATA for FY2018). Return on net

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<sup>1</sup> Nepal Financial Reporting Standards, adopted from FY2018, requires accrual-based interest income booking on loans; earlier this used to be in cash basis as per regulations.

<sup>2</sup> Local currency (LCY) credit to core capital and LCY deposits ratio capped at 80% by regulations.



worth (RoNW) has moderated to an extent, after the sizeable FPO in FY2016, to ~17-18% (~22% for FY2015); however, it remained largely comparable to the industry average of ~16-17%. The NIMs and return indicators have reported slight improvement in FY2018, partly because of the effect of adoption of new financial reporting framework. Excluding the impact of changed accounting policies, the return indicators were largely comparable to FY2017. Going forward, the bank's ability to maintain adequate NIMs and manage asset quality would have strong bearing on its profitability profile.

**Analytical approach:** For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Bank Rating Methodology](#)

**Bank Profile**

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. In April 2002, the French partner, Credit Agricole Indosuez (holding 50%), sold its stake to a group of companies comprising of bankers, professionals, industrialists and businessmen of Nepal. The name of the bank was then changed to Nepal Investment Bank Limited. The bank is promoted by a large number of insurance companies, retirement fund and investment companies, the most prominent being Rastriya Beema Company Limited (12.42%). Shares of the bank are distributed among promoters and the public, in the ratio of ~69:31, and the shares are listed in Nepal Stock Exchange. The registered office of the bank is in Durbarmarg, Kathmandu.

NIBL had 77 branches and 107 ATMs spread throughout the country as of mid-October 2018. NIBL had market share of 5.57% in terms of deposit base and 5.58% of the total advances of commercial banking industry as on mid-October 2018. NIBL reported profit after tax (PAT) of NPR 3,659 million in FY2018 (YoY growth of ~18%) over an asset base of NPR 171,893 million as of mid-July 2018. In Q1FY2019, NIBL reported PAT of NPR 1,149 million over an assets base of NPR 174,922 million. As of mid-October 2018, NIBL's CRAR was 13.02% and gross NPLs were 1.26%. In terms of technology platform, NIBL has implemented Finacle in all its branches.

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**About ICRA Nepal Limited:**

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