Global IME Bank Limited

ICRA Nepal assigns [ICRANP] LA- to proposed subordinated debentures; reaffirms issuer rating of [ICRANP-IR] A-

Facility	Amount	Rating Action (December 2018)
Subordinated Debenture Programme	NPR 1,500 million	[ICRANP] LA- (Assigned)
Issuer Rating	NA	[ICRANP-IR] A- (Reaffirmed)

ICRA Nepal has assigned a rating of **[ICRANP] LA-** (pronounced ICRA NP L A minus) to the proposed NPR 1,500-million subordinated debenture programme of Global IME Bank Limited (GBIME). The sign of + (plus) or – (minus) appended to the rating symbols indicates their relative position within the rating categories concerned. Instruments with this rating are considered to have adequate degree of safety regarding the timely servicing of financial obligations. Such instruments carry low credit risk.

ICRA Nepal has also reaffirmed the rating of **[ICRANP-IR] A-** (pronounced ICRA NP issuer rating A minus) to the bank, indicating adequate credit quality. The rated entity carries average 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 actions factor in the bank's adequate track record (operating since 2007) and healthy pace of growth (partly aided by a series of mergers and acquisitions). As a result, the bank has a good position in the market with a share of ~4.4% in industry credit and deposits as of mid-October 2018. The bank's standalone growth in the last three years (ending mid-July 2018) was slightly below that of the industry (~19% against ~21%), with a focus on following prudent risk management practices and ensuring adequate controls. This remains a positive from a rating perspective. However, the spike in credit growth in Q1 FY2019 to ~29% (similar growth for the industry) remains a concern. The rating also derives comfort from the gradually improving asset quality as well as the sizeable share of retail/SME loans (~58%) that auger well for the bank's credit concentration risks. The rating action also takes into consideration the bank's adequate earnings profile on an increased asset base, notwithstanding some moderation in recent periods due to the rising cost of deposits. GBIME's incremental growth prospects could be driven by its diversified franchise and experienced management team along with requisite support from the proposed capital enhancement.

The rating is, however, constrained by the increase in cost of funds compared to the industry with a sharp spike in recent periods. Though the overall industry witnessed stress, in terms of deposit mix and cost in the last two years, GBIME witnessed a relatively higher spike in deposit costs. The bank's high share of term deposits compared to the industry is reflected in its cost of deposits of 7.23% for Q1 FY2019 (6.53% for industry). This could impact the bank's competitive positioning, apart from pressurising its net interest margins (NIMs). GBIME's deposit concentration, despite some recent moderation, remains high and hence remains an area of concern given the current intense competitive pressure in the industry for deposits. 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 along with the aggressive growth strategy followed by some banks after the regulations induced sharp capital increment from FY2016 to FY2017. Further, the sharp spike in lending rates in the last two years could impair the repayment capability of borrowers and hence impact the asset quality indicators for the banking sector over the medium term. GBIME's current capitalisation profile (CRAR of 11.27% as of mid-October 2018) is just marginally above the regulatory minimum of 11%. This, however, would be supported after the proposed issue. The bank's ability to maintain adequate capitalisation, reduce the cost of funds and hence improve its competitive positioning while attaining sustainable portfolio growth and healthy asset quality/profitability indicators would remain a key rating driver.

GBIME reported portfolio growth of ~23% in the three years ending mid-July 2018, against the industry average of ~21%. However, this was partly supported by multiple acquisitions during this period. The standalone growth was slightly lower at ~19%. The pace of growth spiked in Q1 FY2019 at ~29% and remains an area of concern. The bank's lending yields, at 12.48% for Q1 FY2019 (12.34% for FY2018), remained largely comparable with peers. The yields remained supported by a good proportion of retail/SME loans (~58% as of mid-October 2018) with the rest being corporate loans. This resulted in relatively low credit concentration risks with the top 20 borrower groups accounting for ~16% of the portfolio as on mid-October 2018. Going forward, given the proposed capital enhancement, the management intends to increase the pace of credit growth with a focus on the retail and SME segment. This remains a challenge given the declining industry deposit growth rate in recent periods and the bank's tightening CCD ratio[1] of ~78% as on mid-October 2018.

GBIME's asset quality has improved over the last few years with non-performing loans (NPLs) declining to 0.88% as of mid-July 2018 from 2.23% as of mid-July 2015. The decline was partly aided by book write-offs in FY2018, excluding which NPLs would have been 1.04%. The NPLs increased slightly to 1.05% as of mid-October 2018 amid the festive season. Though the NPLs remained slightly high compared to peers, they were better than the industry average (1.48%). GBIME's overall delinquencies increased slightly to 7.42% as of mid-October 2018[2] from 5.11% as of mid-July 2018. Going forward, although the asset quality of the banking sector, including GBIME, could witness some moderation due to the weakening of the repayment capability of borrowers on account of increased interest rates, the overall profile is expected to remain comfortable. With a low provision cover of ~58% as of mid-October 2018, net NPA and the solvency indicator (net NPA/net worth) remained comfortable at 0.44% and 3.00%, respectively. Going forward, GBIME's ability to maintain its asset quality indicators would be a key monitorable.

GBIME's deposit profile, in terms of the current and savings accounts (CASA) mix, remained comparable to the industry (albeit relatively low among the top tier banks) at ~42% as of mid-October 2018. The share of term deposits remained slightly higher at 52% compared to ~45% for the industry, resulting in a relatively higher cost of funds of 7.23% for Q1 FY2019 (4.23% for FY2017). The spike in deposit costs in recent periods has been higher compared to the industry, thereby widening the gap between the bank and the industry's cost of funds (difference of 70 bps for Q1 FY2019 against 13 bps for FY2017). Over the last three years (ending mid-July 2018), the bank's deposits grew at a healthy pace of ~20% vs. ~19% for the industry. GBIME's deposit concentration, despite recent moderation, remained high with the top 20 depositors accounting for ~27% of the total deposits as of mid-October 2018 (~36% as of mid-July 2017). Improving the deposits mix, concentration and cost would remain key challenges for the bank over the medium term.

Where capitalisation is concerned, the bank reported CRAR of 11.27% and Tier I capital of 10.23% (both as per Basel III) as of mid-October 2018. Both remained marginally above 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% (including CCB). The capital cushion also remained thin compared to peers as the bank solely increased capital to NPR 8 billion through acquisitions and retention of internal accruals as opposed to sizeable rights/further public offerings opted by most of the peers. The thin capital cushion remains a major rating concern so far, but this is expected to be mitigated by proposed capital infusion plans. The timely infusion of requisite capital would have a key bearing on the bank's ability to attain targeted growth over the medium term.

As for profitability, GBIME has reported a slight decline in profitability in recent years over an increasing asset base. The RoNW and RoA[3] declined to ~15% and 1.66%, respectively, in Q1 FY2019 from ~20% and 1.96%, respectively, in FY2017. The RoNW remained largely comparable to the industry average while the RoA remained low compared to the industry (~14% and 1.78%, respectively, for Q1 FY2019). The decline was mainly on account of pressure on NIMs (3.20% for FY2018, declined by 33 bps YoY) amid rising cost of funds, reducing fee-based income (0.95% of average total assets (ATA) for FY2018) and increased operating expenses (2.04% of ATA for FY2018). Though these indicators improved

[1] Local currency (LCY) credit to core capital and LCY deposits ratio
[2] Indicative data based on our calculations as the bank could not provide 1-30 days delinquencies data
[3] Return on net worth and return on assets

slightly in Q1 FY2019 (mainly on account of high credit growth), sustainability of the same remains to be seen. Additionally, increased credit cost in Q1 FY2019 (0.63% provision expenses as a percentage of ATA against write backs of 0.29% for FY2018) led to a further decline in the overall return indicators. Moreover, GBIME's credit cost could witness some increase on account of expected stress on asset quality, post the recent hardening of lending rates. This will impact the profitability profile. However, the overall financial profile is expected to remain adequate. Going forward, the bank's ability to improve its NIMs in a competitive landscape and maintain its asset quality would have a strong bearing on its earnings 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

Global IME Bank Limited (GBIME), previously Global Bank Limited, was incorporated in 2007 as a Class A commercial bank. It has since completed several large and small mergers (seven banking and financial institutions of various classes). Supported to some extent by these mergers, GBIME has become one of the largest commercial banks of Nepal, in terms of asset base, net worth, franchise and market share, despite its moderate track record. It has a diversified presence across the country through 131 branches, 100 branchless banking centres and 133 ATMs as of mid-October 2018. The bank's market share was 4.39%, in terms of deposit base, and 4.42%, in terms of credit portfolio, of commercial banks as of mid-October 2018.

GBIME reported a profit after tax (PAT) of NPR 2,142 million for FY2018 on an asset base of NPR 126,094 million as of mid-July 2018 against PAT of NPR 2,006 million for FY2017. For Q1 FY2019, the bank reported PAT of NPR 535 million on an asset base of NPR 131,617 million as of mid-October 2018. The bank's reported CRAR was 11.27% and gross NPLs were 1.05% as of mid-October 2018. GBIME uses Finacle as its core banking software across all its branches. About 51% of the bank's shares are held by the promoters while the rest (~49%) is held by the public. The shares are listed on the Nepal Stock Exchange. GBIME's registered and corporate office is in Kamaladi, Kathmandu. Mr. Janak Sharma Poudyal is the Chief Executive Officer of the bank.

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About ICRA Nepal Limited:

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