Global IME Bank Limited

ICRA Nepal reaffirms issuer rating of [ICRANP-IR] A- to Global IME Bank Limited, "rating watch with negative implications" removed

Facility	Amount	Rating Action (April 2018)
Issuer Rating	NA	[ICRANP-IR] A- (Reaffirmed), "rating watch with negative implications" removed

ICRA Nepal has reaffirmed the rating of **[ICRANP-IR] A-** (pronounced ICRA NP Issuer Rating A minus) to Global IME Bank Limited (GBIME). Instruments with [ICRANP-IR] A- rating are considered as adequate credit-quality rating assigned by ICRA Nepal. 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 has been removed from "rating watch with negative implications".

The removal of rating watch with negative implications is because of GBIME's ability to manage the asset quality despite general stress in Nepalese economy, especially during FY16 arising from Apr-15 earthquake and the subsequent elongated economic blockade. In ICRA Nepal's assessment, the bank's operational and financial profile is expected to remain consistent with the rating level going forward.

The rating reaffirmation factors in GBIME's healthy asset base relative to its moderate track record (since 2007), aided to an extent by series of mergers and acquisitions, leading to good market positioning with ~4.5% share in industry credit and deposits as of mid-Jan-18[1]. The bank's calibrated growth strategy so far (on a standalone basis) while ensuring adequate controls and similar plans for near future also remains a positive from rating perspective. The rating also derives comfort from gradually improving assets quality as well as increasing share of retail/SME loans in bank's credit portfolio leading to slight moderation in credit concentration risks. The rating action also takes into consideration bank's adequate earnings profile over increased assets base, notwithstanding some moderation in H1FY18 due to rising costs of deposits. Incremental growth prospects for the bank remain supported by bank's diversified franchise, comfortable CCD ratio[2] of ~75% as on mid-Apr-18 and experienced management team.

The rating is however constrained by bank's capitalisation profile (CRAR of 11.72% as of Apr-18) which is lower than peer rated banks and moderation in its deposits profile leading to spike in cost of funds that could pressurize NIMs (Net Interest Margins) going forward. Bank's high deposit concentration and the quality of credit portfolio emanating from acquired B Class financial institutions in FY17 also remains areas of concern. Further, the sharp spike in lending rates in last 6-12 months could impair the repayment capability of borrowers and hence could impact asset quality indicators for the banking sector as a whole over the medium term. Bank's ability to improve the capitalisation, reduce its cost of funds and hence improve the competitive positioning while attaining sustainable portfolio growth and healthy asset quality/profitability indicators would remain key rating drivers.

GBIME reported healthy portfolio growth of ~33% during FY17 vs. industry average growth of ~25%; however, this was supported to an extent by acquisitions during the year that contributed to ~14% portfolio growth. On a standalone basis, the growth of the bank has remained moderate so far with CAGR of ~23% (consolidated growth[3] ~31%) over last five years ending Jul-17 vs. similar growth (~23%) in the industry. The growth going forward could face some challenges given its relatively higher base rate (11.68% as of Apr-18) in the base rate plus premium based lending mandated by regulations. Bank's lending yields at 12.62% for H1FY18 (10.20% for FY17) remains higher among peers, supported by good proportion of retail/SME loans. GBIME's portfolio mix has gradually moved in favour of retail/SME loans at ~61% of portfolio as of Jan-18 (vs. 56% on Jul-15), rest being corporate loans. This has slightly moderated the credit concentration risks with top 20 borrower groups accounting for ~15% of

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[1] Mid-Jan-18/ H1FY18 data as well as Mid-Apr-18/ 9MFY18 are unaudited.

[2] LCY Credit to Core capital and LCY Deposits ratio.

[3] Consolidated including portfolio addition from acquired entities

portfolio as on mid-Jan-18 (vs. 16% as on mid-Jul-15). Going forward, given the capital constraints and high deposit costs, the management intends to adopt a calibrated approach for credit growth by focusing on retail and SME with selective corporate and infrastructure sector lending.

Bank's asset quality has improved over last few years with non-performing loans (NPLs) coming down from 2.23% as of mid-Jul-15 to 1.61% as of mid-Jan-18 (further improved to 1.29% as of mid-Apr-18). Despite the improvement, bank's NPLs still remains slightly higher among peers but fares better to industry average NPLs (1.74% on Jan-18). Bank's 30+ days delinquencies remains comfortable at ~2.4% as of mid-Jan-18 vs. ~3.7% as of Jul-15 while the overall delinquencies remain largely similar to earlier at ~5-7% range (~5.5% as of Jan-18[4]). Going forward, although asset quality of banking sector including GBIME could witness some moderation due to decline in repayment capability of borrowers over increased interest rates, the overall profile is expected to remain comfortable. With provision cover of ~68% as of mid-Jan-18, Net NPA and solvency indicator (Net NPA/Net-worth) remains slightly weaker among peers at 0.53% and 3.72% respectively. Going forward GBIME's ability to maintain asset quality indicators would be a key monitorable.

GBIME's deposit profile in terms of CASA (current and savings accounts) mix remains comparable to the industry (nonetheless relatively lower among top tier banks) as reflected by CASA of ~43% as of mid-Jan-18 vs ~45% for industry. Bank was able to improve CASA mix from 37% as of Jul-17 (vs. 51% as of Jul-16); stress over CASA was seen in FY17 owing to acquisition of bank with poor CASA mix[5] as well as overall stress in deposits mix of the banking sector during this period. Over last five years, supported by inorganic growth, the bank's deposits have grown at a healthy pace with CAGR ~31% vs. ~19% for industry. To improve utilisation and mix of deposits, GBIME had cautiously de-grown its deposits during H1FY18 (~3% annualised de-growth) leading to increase CCD ratio (from ~72% to ~78%). However, incremental deposits when required, were scarce and carried high costs leading to sharp spike in bank's deposit cost from 4.23% for FY17 to 7.26% for H1FY18 remaining much higher than peers and industry average cost of funds at 6.04% during H1FY18. GBIME's deposit concentration has further increased and hence remains high with top 20 depositors accounting for ~35% of total deposits as of mid-Jan-18 (vs. 29% in Jul-15). Improving the deposits mix, concentration and cost would remain key challenges for the bank over the medium term.

As regards capitalisation, bank reported CRAR of 11.43% and tier I capital of 10.32% (both as per Basel III) as of mid-Jan-18 which remains slightly higher to 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-Jul-19 (including CCB of 2.5%) although the requirement for total capital would be stable at 11% (incl. CCB). Though the reported capitalisation has improved marginally to 11.72% as of Apr-18, capital cushion remains low among peers and hence remains a rating concern. The capital cushion also remains slim vs. peers as the bank solely increased capital to NPR 8 billion through acquisitions and retention of internal accruals as opposed to sizeable rights/FPOs opted by most of the peers. Management's plans to raise tier-II capital shortly would have a key bearing on availability of adequate capital for targeted growth over medium term.

As for profitability, GBIME has maintained adequate profitability over increasing assets base as reflected by average RoNW and RoA[6] at ~18% and ~1.8% in last four years (~20% and 2% for FY17). This was supported by healthy NIMs (3.53% for FY17), modest fee-based income (1.21% of average total assets - ATA for FY17) and improving assets quality (provision write backs of 0.02% of ATA in FY17) while higher operating expenses (1.89% of ATA for FY17) acted a drag to better profitability. However, amid rising cost of funds and inability to pass on the entire increase in cost of funds to borrowers, NIMs of the bank has reported major decline in H1FY18 to 2.93% remaining lower among peers as well as industry average at 3.25%. This reflected into decreased return indicators with RoNW and RoA at ~16% and ~1.6% respectively vs. ~15% and ~1.8% for industry. The credit cost for GBIME could witness some increase on account of expected increase in stress over asset quality post the recent hardening of

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[4] Indicative data based on our calculations as the bank could not provide 1-30 days delinquencies data.

[5] Reliable Dev. Bank that contributed to ~8% deposit growth in FY17 had CASA ~25% prior to acquisition

[6] Return on Net Worth and Return on Assets

lending rates, hence impacting the profitability profile. However, the overall financial profile is expected to remain adequate. Going forward, bank's ability to improve its NIMs in a competitive landscape and improve its asset quality would have strong bearing on its earnings profile.

Bank Profile

Global IME Bank Limited (GBIME), previously Global Bank Limited, was incorporated in 2007 as Class A Commercial Bank. Following the merger with IME finance and Lord Buddha Finance in July 2012, the name of the Bank was changed to Global IME Bank Limited. The bank has since undergone through multiple large and small mergers and acquisitions viz. Social Development Bank (National level) and Gulmi Bikas Bank (one district level) in 2013, Commerz and Trust Bank Nepal Limited (commercial bank) on April 2014 and the recent acquisition of Pacific Development Bank (one district level) and Reliable Development Bank (National Level) in FY17. Supported by these mergers, bank has become one of the largest commercial bank of Nepal in terms of asset base, franchise and market share despite its moderate track record. GBIME has diversified presence across the country through its 114 branches, 60 branchless banking centres and 127 ATMs as of Jan-18. GBIME commands market share of 4.53% in terms of deposit base and 4.58% in terms of credit portfolio of commercial banks as of mid-Jan-18.

GBIME reported profit after tax (PAT) of NPR 2,006 million for FY17 over an asset base of NPR 116,592 million as of mid-Jul-17 as against PAT of NPR 1,382 million for FY16 over an asset base of NPR 87,701 million as of mid-Jul-16. For 9MFY18, bank has reported profit of NPR 1,445 million over an asset base of NPR 122,106 million as of mid-Apr-18. GBIME reported CRAR of 11.72% and gross NPLs of 1.29% as of mid-Apr-18. GBIME is using Finacle as core banking software across all its branches. Shareholding pattern of the Bank constitutes ~51% promoters holding and ~49% public holding. The shares of the bank are listed in Nepal Stock Exchange and being actively traded in. The registered and Corporate Office of the Bank is located at Kamaladi, Kathmandu. Mr. Janak Sharma Poudyal is the Chief Executive Officer of the bank.

April 2018

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