

Citizens Bank International Limited

ICRA Nepal reaffirms [ICRANP] LBBB rating to subordinated bonds of Citizens Bank International Limited

	Amount Outstanding	Rating Action
Subordinated Bond Programme	500 mn	[ICRANP] LBBB (Reaffirmed)

ICRA Nepal has reaffirmed rating of [ICRANP] LBBB (pronounced ICRA NP L triple B) to subordinated bonds of NRs 500 million of Citizens Bank International Limited (CBIL). Instruments with [ICRANP] LBBB Rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

The rating of CBIL factors in the bank's adequate franchise (48 branches spread across Nepal), adequate capitalization (CRAR of 12.49% as of mid-Oct-2014), adequate profitability profile (PAT/ATA of 1.71% and return on net worth of 18.09% for FY14) and experienced management team. The rating is however constrained by CBIL's limited track record (it started commercial operations in Apr-2007), relatively lower proportion of low cost deposits (CASA¹ deposit around 25% as on Jul-14), high deposit concentration on top 20 depositors around 47% as on Jul-14, relatively higher exposure to real estate sector (around 11% as on Jul-14) though remains within limit prescribed by Nepal Rastra Bank (NRB), deterioration in asset quality indicators (gross NPLs increased from 1.18% as of mid-Jul-11 to 3.4% as of mid-Jul-14 though reduced to 2.35% as of mid-Oct-14) and high credit concentration (top 20 borrower accounts around 28% of credit book as on Jul-14) vis-a-vis larger banks in Nepal. The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

CBIL is a medium sized bank with market share of around 2.5% in terms of credit portfolio and 2.3% in terms of deposit in Nepal's commercial banking system as on mid-Jul-14. CBIL's credit portfolio grew by CAGR 26% in last two years ending Jul-14 higher than Nepal's commercial banking industry average CAGR of 21% for the same period; earlier the bank grew at moderate pace in 2010-11 and 2011-12 due to tight liquidity conditions and lower deposits growth. CBIL has relatively higher exposure to real estate sector (around 11%) though remains within ceiling prescribed by NRB; higher exposure to real estate sector increases bank's portfolio vulnerability and could impact its asset quality profile in case property prices decline significantly. CBIL's asset quality profile deteriorated during last 2-3 years, gross NPL's increased from 1.18% as of mid-Jul-11 to 3.4% as of mid-Jul-2014, though declined to 2.35% as of mid-Oct-2014, primarily as a result of sharp increase in fresh slippages in real estate sector (around 1% NPLs in total credit book); going forward CBIL's ability to arrest fresh slippages and maintain asset quality indicators would be a key rating sensitivity. Further, CBIL's moderate provisioning cover (58% as of mid-Jul-14 & 60% as on mid-Oct-14) and adequate standard asset provisioning (1% of credit portfolio) in Nepalese banking system provides some cushion. CBIL, started its operations in April-2007, has limited track record and as a result its deposits profile remain inferior to larger banks in Nepal, consequently cost of deposits was also higher; it would be important for CBIL to reduce its cost of deposits to improve its competitiveness. CBIL's low cost deposits accounted for around 25% of total deposits as of mid-Jul-2014 as against Nepalese commercial banking industry average of around 48% as of same date.

CBIL's capitalisation levels are adequate with CRAR of 12.49% and tier I capital of 9.9% as of mid-Oct-2014 against minimum regulatory requirement of 10% and 6% respectively. Despite of adequate profitability profile, CBIL's internal capital generation has been low in past years cash dividend distribution strategy followed by bank. However, in year FY 2013-14, CBIL followed mixed strategy of

¹ Current & Saving account



profit distribution (13% of capital bonus share & 5.95% of capital cash dividend). The ability of the bank to raise capital from existing promoters or external investors will have a strong bearing on CBIL's capitalization profile. As for profitability, CBIL has adequate profitability profile as reflected in PAT/ATA of ~1.7% and return on net worth of ~ 17% in last 2 years. The profitability is supported by healthy NIMs (around 3.5-4%), primarily a result of lower cost of deposits (less than 5.5% as on July 2014), and adequate non-interest income (around 1.2% in 2013-14). It is also supported by relatively lower operating expense (around 1.72% of ATA as on Jul-14). Going forward, bank's ability to maintain its NIMs in a competitive landscape and strict control on asset quality profile would be critical for earnings profile.

Bank Profile

Citizens Bank International Ltd (CBIL) started its commercial operation from April 20, 2007 and is registered as "A" class Commercial Bank with Nepal Rastra Bank (NRB). Its head office is located at Sharada Sadan, Kamaladi, Kathmandu. The bank is promoted by individuals, retirement fund (Citizen Investment Trust), business and industrial houses and is managed by a team of experienced bankers and professionals. Mr. Rajan Singh Bhandari is the Chief Executive Officer of the bank. The bank's equity share is listed in Nepal stock exchange and being actively traded in with market capitalization of about NPR 12,802 million as of mid-July 2014.

CBIL has presence throughout the country through its 48 branches, 203 branchless banking network and 39 ATMs spread across Nepal. CBIL is a medium sized bank with market share of about 2.3% in terms of deposit base and 2.5% in terms of credit portfolio in Nepal's commercial banking system as on mid Jul-14. CBIL reported a profit after tax of NRs 498 million during 2013-14 over an asset base of NRs 32,222 million as on Jul-14 as against profit after tax of NRs 413 million during 2012-13 over an asset base of NRs 25,980 million as on Jul-13. CBIL's CRAR was 12.99% and gross NPLs were 3.40% as on mid-Jul-2014. During 3M 2014-15, CBIL reported profit after tax of NRs 110.35 million over assets base of NPR 34,453 as on Oct-14. CBIL's CRAR was 12.49% and gross NPLs were 2.35% as on mid-Oct-2014.

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