

Nepal Investment Bank Limited

ICRA Nepal assigns [ICRANP] LA rating to subordinated Debentures and reaffirms [ICRANP-IR] A rating assigned to Nepal Investment Bank Limited

	Amount Outstanding	Rating Action
Issuer Rating	NA	[ICRANP-IR]A (Reaffirmed)
Subordinated Debentures Programme	750 mn	[ICRANP] LA (Assigned)

ICRA Nepal has assigned rating of [ICRANP] LA (pronounced ICRA NP L A) to subordinated bonds of NRs 750 million of Nepal Investment Bank Limited. 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 also reaffirmed issuer rating of [ICRANP-IR] A (pronounced ICRA NP Issuer Rating A) assigned to Nepal Investment Bank Limited (NIBL). Instruments with [ICRANP-IR] A Rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. The issuer rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

The ratings of NIBL factor in the bank's good market position in Nepal, adequate capitalisation levels (CRAR of 11.52% as on mid-Jan-14) and earning profile (PAT/ ATA of 2.76% during FY13 and 2.38% during H1FY14), control on asset quality indicators (gross NPLs declining from 3.35% as of mid-Jul-12 to 1.74% as of mid-Jan-14) and its experienced management. Nevertheless, profitability is expected to moderate from current levels as NIMs are expected to decline due to change in regulation to maintain average interest spreads within 5% by Jul-2014.

These positives are however offset to an extent by the relatively high proportion of real estate exposures (11% of total credit portfolio as of mid-Jan-2014), higher concentration of top depositors in its deposit mix, and the limited Government support that ICRA Nepal believes would be available to the bank in case of need. ICRA's concern on the availability of Government support would have been higher had it not been for the presence of two state-owned entities in NIBL as shareholders: Rastriya Banijya Bank (RBB), and Rastriya Beema Sansthan (RBS), an insurance company. The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

NIBL followed a cautious approach in 2012-13 and as a result its credit portfolio growth was modest at 11% during the year. Further, credit portfolio grew by 13% in H1 2013-14. Going forward, the management intends to grow cautiously till political scenario stabilises. NIBL has relatively higher exposure to real estate sector which accounted for around 11% of NIBL's total credit portfolio as of mid-Jan-14, though declined from 19% as of mid-Jul-2012, against Nepalese banking sector average of 7% of total credit portfolio; higher exposure to real estate sector increases bank's portfolio vulnerability and could impact its asset quality profile in case property prices decline significantly. The risk of higher proportion of real estate portfolio is mitigated to some extent by adequate security coverage norms of the bank and management efforts to reduce the proportion of real estate portfolio. NIBL's asset quality profile improved during last 18 months (Gross NPL of the bank decreased from 3.35% as on Jul-12 to 1.74% as on Jan-14) after facing stress in the assets quality in 2011-12 (Gross NPL increased from 0.95% in Jul-11 to 3.35% in Jul-12). Going forward NIBL's ability to maintain asset quality indicators would be a key rating sensitivity. Further, NIBL's



adequate provisioning cover (80.5% as of mid-Jan-14) and adequate standard asset provisioning (1% of credit portfolio) in Nepalese banking system provides some cushion. As for deposits profile, NIBL has been able to improve the proportion of low cost deposits from 44% as of mid-Jul-12 to 50% as of mid-Jan-14; comparable to industry average of 48% as on same date.

NIBL's capitalisation levels are adequate with CRAR of 11.52% and tier I capital of 9.73% as of as on mid-Jan-2014 against minimum regulatory requirement of 10% and 6% respectively. Higher proportion of tier I capital (9.73% as of mid-Jan-2014) due to low penetration of tier II capital instruments in Nepal provides adequate headroom to raise tier II capital to maintain overall capitalisation levels. Given NIBL's healthy internal accruals, current capitalization levels are adequate to support NIBL's moderate growth plans over the medium term. The ability of the bank to raise capital from existing promoters or external investors will have a strong bearing on NIBL's capitalisation profile over the longer run. Further the bank is in the process of raising Tier II debt amounting Rs. 750¹ million which is expected to strengthen the capital adequacy by around 80-90 basis points. As per ICRA Nepal estimates, current level of capital will support the modest growth plans of management (CAGR 10%) over medium term (next 3 years); maintaining overall capitalization in the range of around 11.5%-12.5% with solvency indicators range bound at 2-3%, if the bank is able to maintain the NPLs at present level.

As for profitability, NIBL's profit after tax (PAT) increased by 91% in 2012-13 to NRs 1,989 million from NRs.1,039 million during 2011-12. The increase in profit was supported by expansion in NIMs (from 3.49% in 2011-12 to 4.47% in 2012-13) and decrease in credit provisioning as a result of recovery & upgradation of NPA accounts in 2012-13. In H1 2013-14, NIBL's PAT increased by around 5% to NRs 938 million from NRs 891 million in H1 2012-13. The increase in profit was primarily driven by increase fees based income of the bank. Going forward, bank's ability to maintain its NIMs (which is expected to decline due to regulatory limit to maintain interest spreads within 5% by Jul-2014) and control credit provisioning will have strong bearing on its profitability profile.

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. The French partner (holding 50%), Credit Agricole Indosuez, sold their stake to a group of companies comprising of bankers, professionals, industrialists and businessman of Nepal in April 2002. The name of the bank was changed to Nepal Investment Bank Limited. Mr. Pandey (Chairman and Chief Executive Director) controls, directly and indirectly, 50% of the voting rights of the bank. Two government institutions namely Rastriya Banijya Bank (RBB) and Rastriya Beema Sansthan (RBS) also hold 15% stake each in the bank.

NIBL has presence throughout the country through its 44 branches and 70 ATMs (including consortium member ATMs). NIBL has market share of about 6.5% in terms of deposit base and 6.3% of total advances in Nepal as on mid-Jan-14. NIBL reported a profit after tax of NRs 1,915 million during 2012-13 over an asset base of NRs 73,152 million as on Jul-13 against profit after tax of NRs 1,039 million during 2011-12 over an asset base of NRs 65,756 million as of mid-Jul-12. During H1 2013-14 NIBL reported PAT of NRs 939 million over an assets base of NRs. 84,514 million. As of mid-Jan-2014, NIBL's CRAR was 11.52% and gross NPLs were 1.74%.

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For further details please contact:

¹ 7 years debentures with coupon rate of 8% p.a.



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