

## Nepal SBI Bank Limited

### ICRA Nepal assigns [ICRANP] LAA rating to subordinated bonds of Nepal SBI Bank Limited

	Amount (NRs million)	Rating Action
Subordinated Bonds	NRs 200 million	[ICRANP] LAA (Assigned)

ICRA Nepal has assigned rating of [ICRANP] LAA (pronounced ICRA NP L Double A) to subordinated bonds of NRs 200 million of Nepal SBI Bank Limited (NSBL). Instruments with this Rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

The rating of NSBL factors in the bank's strong promoter profile (with State Bank of India (SBI) rated at [ICRA]AAA(hyb) (Stable) for Basel III compliant tier II bonds and [ICRA]AAA (Stable) for subordinated bonds programme by ICRA and Karamchari Sanchaya Kosh holding 55.3% and 15.1% respectively; together accounting for 70.4% shareholding in NSBL), existence of Technical Support Service Agreement (TSSA) with State Bank of India, established track record and good market positioning in Nepal, experienced senior management, strong assets quality and adequate earnings profile. NSBL's association with State Bank of India through TSSA provides access to management (MD&CEO and COO at NSBL are deputed from SBI) and technology support from SBI. Further, SBI has also extended line of credit support to NSBL to meet fund based/ non fund based requirements; which reflect well on the stance of SBI to provide need based liquidity and capital support to NSBL. Moreover, NSBL has followed systems and policies of State Bank of India compatible in Nepal as per NRB guidelines and is required to comply with the dual reporting procedures of NRB as well as that of RBI, by virtue of being a subsidiary of SBI. These positives are however offset to an extent by moderate deposit profile (CASA deposit around 30% and high deposit concentration around 55% on top 20 depositors). The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

NSBL has followed cautious approach during last three years and as a result its credit portfolio growth has been moderate and comparable to Nepal's banking industry average; going forward also management intends to grow cautiously amidst uncertain operating environment. NSBL's credit portfolio is diversified across trading (around 31% of total credit portfolio as on Jul-13), manufacturing (21%), construction (9%), real estate & finance (4%) and others. NSBL's exposure to the relatively vulnerable real estate sector and commercial hire purchase sector, compare favourably to Nepalese banking industry. NSBL's asset quality profile improved during H1 2013-14 (gross NPL's decreased from 0.4% as of mid-Jul-13 to 0.3% as of mid-Jan-2014). Going forward NSBL's ability to maintain asset quality indicators would be a key monitorable.

NSBL's capitalisation levels are comfortable with CRAR of 12.18% as of mid-Jan-2014 against minimum regulatory requirement of 10%<sup>1</sup>. However, higher proportion of tier I capital (9.76% as of mid-Jan-2014) due to low penetration of tier II capital instruments in Nepal provides headroom to raise tier II capital to maintain overall capitalisation levels. Given NSBL's healthy internal accruals, current capitalization levels are adequate to support NSBL'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 NSBL's capitalisation profile. NSBL has adequate earning profile as reflected in PAT/ATA of 1-1.-1.4% and return on net worth of 16-20% during last 2-3 years. The profitability is supported by healthy NIMs (around 3-4%

<sup>1</sup> Minimum regulatory CRAR required for dividend payment is 11%



over two three years excluding foreign deposit<sup>2</sup>), primarily a result of lower cost of deposits (less than 5%), and adequate non-interest income (around 1%), however part of the benefit is diluted by relatively higher operating expenses (2-2.5% of ATA excluding foreign deposit vis-a-vis peers of around 1.5-2%). Going forward, bank's ability to maintain its NIMs in a competitive landscape and maintaining asset quality profile would be critical for earnings profile.

### **Bank Profile**

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed in July 1992 and was incorporated in July 1993. NSBL is a subsidiary of State Bank of India which has 55.28 % ownership and rest is held by a local partner viz. Employee Provident Fund (15.08%) and general public (29.64%). In terms of the Technical Services Agreement between SBI and the NSBL, the former provides management support to the bank through its expatriate officers including MD & CEO and the Chief Operating Officer of the Bank. The bank started its commercial operation from July 1993 and is registered as "A" class Commercial Bank with Nepal Rastra Bank (NRB). Its head office is located at Kathmandu. The shares of the Bank are listed in Nepal stock exchange.

NSBL has presence throughout the country through its 56 branches, 6 extension counter, 3 regional office and 71 ATMs. NSBL has market share of about 5.7% in terms of deposit base and 3.8% in terms of credit portfolio in Nepal's banking system as on mid- Jul-13. NSBL reported a profit after tax of NRs 771.47 million during 2012-13 over an asset base of NPR 64,796 million as on Jul-13 against profit after tax of NRs 480.10 million during 2011-12 over an asset base of NRs 58,060 million as on mid-Jul-12. NSBL's CRAR was 12.4% and gross NPLs were 0.4% as on mid-Jul-13. In terms of technology platform, NSBL has implemented FINACLE in all of its branches.

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<sup>2</sup> NSBL has back to back arrangement for placing these deposits with certain foreign branches of SBI at a nominal spread.