

Mahakali Bikas Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed equity shares (rights issue) of Mahakali Bikas Bank Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below-average fundamentals to the proposed right issue of Mahakali Bikas Bank Limited (MBBL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. MBBL is proposing to come out with rights issue of 800,000 number of equity shares of face value NRs 100/- each to be issued to its shareholders.

The grading is constrained by MBBL’s limited track record, lack of diversity in earnings, limited seasoning of credit book, low profitability, competition from commercial banks with wider product suite and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of independent directors on the board, absence of formal committees pertaining to investor grievance, monitoring of fraud cases, customer service, remuneration and nomination, etc.; that could have a bearing on the long term performance of MBBL. Nonetheless, the grading factors in the bank being a prominent financial institution in the Kanchanpur district, its diversified borrower base, high proportion of low cost deposit base and regulatory arbitrage available with ‘Schedule B’ Development Bank compared to ‘Schedule A’ Commercial Bank- in the form of lower absolute capital requirement and lower SLR/ CRR requirements. Going forward, MBBL’s ability to increase its client base/ presence judiciously would have a bearing on the overall financial profile.

MBBL started its operations in 2007 and registered as a single district development bank. Over last 2 years, MBBL’s credit portfolio has witnessed a sharp increase on a low base to NRs 242 million as on mid-Jan 2013. Being a single-district development bank, MBBL is allowed to operate in limited geographical area at the same time it faces competition from commercial banks with wider product suits and finer lending rates. However, MBBL’s promoters’ reputation/knowledge of the local market and it’s focussed approach and reach in its geography of operations could help to achieve adequate growth. The bank also intends to expand from single-district development bank to three-district development bank which would widen its geography of operations and would enable it grow at adequate pace over short-to-medium term. Over the longer term, scalability of business would remain a challenge given promoters’ knowledge/reputation limited to local market.

The bank’s credit portfolio comprised working capital loans to SMEs (around 34% of credit portfolio as of mid-Jan-2013), housing loans and personal loans (33%), hire purchase loans (14%) and others. MBBL’s gross NPLs were 1.03% as of mid-Jul-2012 and 2.13% as of mid-Jan-2013 partly benefited with limited seasoning of its loan book.

As for funding profile, the bank has been successful in garnering healthy proportion of low cost deposits which accounted for around 84% of its total deposits as against development banking industry average low cost deposit of 52% as on mid-Jan-2013.

MBBL has been able to maintain healthy Net Interest Margins (NIMs) (around 5-6%) supported by high proportion of low cost deposit. MBBL’s Profit After Tax (PAT) increased by 33% in FY12 to NRs 6.86 million as against NRs 5.17 million during 2010-11; supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. PAT stood at NRs 2.07 million in 6MFY13 (annualised decline of 39% compared to FY12), marked by subdued NIMs and higher credit provisioning during the period. Overall, MBBL’s return on net worth stood at around 12-15%



over last 2-3 years. Over the near to medium term, as the bank builds scale, the overall financial performance could partly mirror the growth in business.

Over the last few years MBBL has maintained a Capital Risk-Weighted Adequacy Ratio (CRAR) of around 17-23% against minimum regulatory requirement of 11%. As per management, the proposed rights issue of NRs. 80 million will be used in the expansion of its operation to three districts, if approved by the regulator. Otherwise, the capital raised will be utilized in expansion of branches within Kanchanpur district itself. Going forward, the bank expects to maintain a steady state CRAR of 14-15% over the medium term.

Company Profile

Established in 2007, Mahakali Bikas Bank Limited (MBBL) is a new Development Bank licensed by Nepal Rastra Bank to conduct banking operations in Kanchanpur District. The shareholding of the bank is diversified across 27 individual promoters (59.1%) and public (40.9%) as on mid-July 2012. The head office is located in Kanchanpur District. The shares of MBBL are listed on Nepal Stock exchange.

MBBL has presence in Kanchanpur district across 3 branches. The Bank has market share of about 0.20% in terms of deposit base and 0.22% of advances of Development Banks in Nepal as on mid-Jan-2013. MBBL reported a profit after tax of NRs 6.86 million in FY12 over an asset base of NPR 325 million as on Jul-12 against profit after tax of NRs 5.17 million in FY11 over an asset base of NRs 258 million as on mid-Jul-11.

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