

## Laxmi Bank Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 3+ to the proposed equity shares (Rights Issue) of Laxmi Bank Limited

	Amount (NRs million)	Grading Action
Right Issue	NRs 701.3606 million	IPO Grade 3+ (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3+”, indicating average fundamentals to the proposed rights issue amounting NPR 701.3606 million of Laxmi Bank Limited (hereinafter referred to as LBL). 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. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively. LBL is proposing to come out with the 30% rights issue of 7,013,606 numbers of equity shares of face value NRs 100/- each to be issued to the existing shareholders at par.

The average fundamental grading factors in the LBL’s track record, experience senior management, ability to maintain fair assets quality profile (Gross NPLs around 1.15% as on Jul-14 and 1.69% as on Oct-14), adequate earnings profile (PAT/ATA of 1.47% and return on net worth of 14.96% during FY14). However, the grading is constrained by bank’s lower credit growth ( 14% CAGR over last three years as against system average of 17%), inferior deposits profile compared to larger commercial bank in the industry leading to relatively high cost of funds and could impact its competitive positioning (in terms of lending rates), higher reliance on large corporate loan book with limited presence in retail and SME segment, and high deposit & credit concentration (top 20 depositors accounting for 34% of total deposits and top 20 borrowers accounting 29% of total credit as on Jul-14). The grading is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing. Going forward, LBL’s ability to improve NIMs and control on fresh slippages would have critical bearing on its profitability and financial profile. The proposed rights issue would enable the bank augment its capital base in line with its plans to increase scale of operations.

LBL started its operations in April-2002 and since then it has been able to grow its portfolio to NRs 26,446 million as on mid-Oct-2014. LBL has followed cautious approach during last three-four years in the light of deterioration in market environment due to political instability and correction in the real estate price; as a result its credit portfolio growth has been moderate with CAGR<sup>1</sup> of 14% over last three years (up to mid-Jul-14) which is lower than Nepal’s banking industry average (CAGR around 17% over last three years). However, with some indication of stability in the financial market, the management plans to accelerate growth over the medium term (credit portfolio grew by 16% in Q1 2014-15). Although LBL Bank is predominantly focussed on corporate loans (around 64% of total book as on mid-Jul-14), the bank is progressively diversifying its product mix in favour of Retail and SME loans (retail & SME loan increased to around 36% of total credit portfolio as on mid-Jul-14 from 24% as on mid-Jul-12). ). Going forward, the management of LBL has projected a healthy growth rate of ~20-22% over the medium term (next 3 years) with focus on infrastructure, hydropower sector and SME sector.

LBL’s credit portfolio is dominated by large ticket size corporate loans which accounted for over 64% of total loans as on July 2014. As on Jul 2014, the portfolio was diversified across loans to trading sector (around 24%), manufacturing sector (around 21% of the credit portfolio), construction sector (16%), real estate sector (6%), and others. LBL’s exposure to the real estate sector stood marginally lower than Nepalese Commercial Banking Industry average of 6.7% as on mid July 2014. On Assets quality front, LBL has been able to control on asset quality with Gross NPL of 1.15% up to mid July 2014. However

<sup>1</sup> Compounded Annual Growth Rate

Note: Mid-Oct-2014 the data are based on unaudited financial statements provided by LBL.



some deterioration seen in Q1 2014-15 with gross NPLs increasing to 1.69%, although still fares better than industry average of 3.02% as on mid-Oct-14.

LBL has adequate earning profile as reflected in PAT/ATA of ~1.5% and return on net worth of ~15% during last 2 years. The profitability is supported by moderate NIMs although in decreasing trend from last two years (from around 3.31% to 2.55%), primarily a result of sharp decrease yield on advances compared to cost of deposits (Average yield on advances decrease by around 2.42% while average cost of deposit decrease by around 2.18% in last two years ending Jul-14), adequate non-interest income (around 1.5% in 2013-14). It is also supported by relatively lower operating expense (around 1.8% of ATA) and control on credit provisioning (0.23% of ATA in 2013-14). However, profitability profile of the bank seen deterioration in first three months of 2014-15 (Q1 2014-15) with PAT/ATA 0.59% and return on net worth 6.47%. The deterioration in the profitability profile is mainly due to decrease in NIMs over the period from 2.55% in Jul-14 to 2.16% in Oct-14 and increase in provisioning expenses from 0.23% in Jul-14 to 1.49% in Oct-14. Going forward, bank's ability to maintain its NIMs in a competitive landscape and maintaining asset quality profile would be critical for earnings profile.

As for funding profile, the bank's funding profile remains inferior to industry with CASA<sup>2</sup> deposit around 26% against the commercial bank industry average of around 48% as on Jul-14. High reliance in bulk corporate deposit (top 20 deposits consist around 34% of total deposit as on Jul-14) further deteriorates LBL deposit profile to some extent. LBL's cost of funds (5.77% as on Jul-14 and 4.68% as on Oct-14) is higher vis-a-vis other established commercial banks which could impact its competitive positioning.

LBL's capitalisation level is adequate with CRAR of 11.99% as of mid-Jul-2014 against minimum regulatory requirement of 10%<sup>3</sup>. However, with high growth in credit book during first three months of 2014-15, CRAR of the bank has been dropped to 10.86% in Oct-14. In order to support the future growth plans, LBL is planning right shares issue of 30% to the existing shareholders. As per ICRA Nepal estimate, current level of capital (including proposed right issue and internal capital generation) will support the modest growth plans of management (CAGR 20%) over medium term (next 2-3 years); maintaining overall capitalization in the range of around 11-12% with solvency indicators range bound at 4-7%, if the bank is able to maintain the NPLs at present levels. In the long run, the ability of LBL to raise additional capital from its existing/ external investors will have a strong bearing on LBL's growth prospects and overall capitalization profile.

As on Apr-2014, promoters holding in LBL stood at 64.44% (with around 35% institutional holding<sup>4</sup>) and general public holding is 35.56%. LBL has 7 members Board of Director (4 representing promoter groups, 2 from among public shareholders and 1 independent director) & top level management with significant experience across Banking & Financial Institutions. LBL has established in-house internal audit department for its internal audit function.

### **Bank Profile**

Laxmi Bank Limited commenced its operations as an "A" Class Commercial Bank from 2002. Shareholding pattern of the Bank constitutes of Promoters Group holding 55.42% of the shares, Citizens Investments Trust holding 9.02% and General Public holding 35.56%.

Laxmi Bank has presence throughout the country through its 37 branches and 50 ATMs. Laxmi Bank has market share of about 2.08% in terms of deposit base and 2.05% of total advances in Nepal as on January 2014. Laxmi Bank reported a profit after tax of NPR 4754.86 million during 2013-14 over an assets base of NPR 34,919 million as on Jul-14 against profit after tax of NPR 419.84 million during

---

<sup>2</sup> Current and Saving account

<sup>3</sup> Minimum regulatory CRAR required for dividend payment is 11%

<sup>4</sup> Notably Citizen Investment Trust 10.37% with representation in board of director.

Note: Mid-Oct-2014 the data are based on unaudited financial statements provided by LBL.



2012-13 over an asset base of NPR 29,816 million as on Jul-13. In 3M 2014-15, bank has reported profit after tax of NPR 52.19 million over an asset base of NPR 36,339 million. Laxmi Bank Gross NPLs was 1.15% and PAT/Net worth was around 15% as on Jul-14. In terms of IT platforms Laxmi bank has recently migrated to FINACLE in all of its branches.

**January 2015**

*For further details please contact:*

Analyst Contacts:

**Mr. Kishor Prasad Bimali**, (Tel No. +977-1-4419910/20)

[Kishor@icranepal.com](mailto:Kishor@icranepal.com)

Relationship Contacts:

**Mr. Deepak Raj Kafle**, (Tel. No. +977-1-4419910/20)

[drkafle@icranepal.com](mailto:drkafle@icranepal.com)

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website ([www.icranepal.com](http://www.icranepal.com)) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents