Century Commercial Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed equity shares (Rights Issue) of Century Commercial Bank Limited

INSTRUMENT/FACILITY	Issue Size	Grading Action (August 2015)
Rights Share Issue	NPR 530 Million	[ICRANP] IPO Grade 4+ (Assigned)

ICRA Nepal has assigned an "**[ICRANP] IPO Grade 4+**", indicating below-average fundamentals to the proposed rights issue amounting NPR 530 million of Century Commercial Bank Limited (CCBL). 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. CCBL is proposing to come out with 25% rights issue of 5,300,000 numbers of equity shares of face value NPR 100/- each to be issued to existing shareholders at par.

The grading is constrained by CCBL's limited track record, low seasoning of significant portion of credit book, inferior deposit profile compared to class 'A' banking industry systemic average (high concentration among top 20 depositors at ~36% and lower portion of CASA[1] deposits at ~33% Vs. 47% for industry) leading to high cost of funds among peers (5.49% as of Apr-15), low profitability profile (PAT/Net worth 4.03% and 9.38% as on Jul-14 and Apr-15 respectively), competition from other established commercial banks with finer interest rate, unstable political conditions and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of strong institutional promoter support and significantly low capital of the bank compared to the minimum capital levels as revised by Monetary Policy of FY 2015/16 (NPR 2.12 bn vs. elevated requirement of NPR 8 bn to be achieved by FY17). Nonetheless, the grading factors in the bank's comfortable assets quality indicators so far with good recovery profile post-earthquake (Gross NPLs[2] of 0.53% as of Apr-15 has declined to 0.26% as on Jul-15), ability to adequately grow its portfolio to ensure efficient utilisation of capital from IPO issued earlier (CRAR[3] was 10.87% as of mid-Apr 15 as IPO proceeds of NPR 920 million in Mar-14 were utilized to support 100% growth in balance sheet). Despite this growth, franchise[4] is limited leading to average market positioning with ~1.49% share in Nepalese banking sector credit on mid-April-15.

Assets quality of CCBL has remained comfortable so far with Gross NPLs & Net NPLs of 0.53%[5] and 0.15% as on Apr-15; however large proportion of credit is originated over last two years which remains unseasoned and thus its asset quality remains to be tested to that extent. Further, significant portion of loans (~60%) are revolving in nature where repayment ability of the borrowers has not been tested fully. Asset quality is expected to come under pressure going forward due to damage caused by earthquake, impacting borrowers' ability to make repayments in a timely manner. As for impact of earthquake on CCBL's operations, the bank's branches in the earthquake affected areas accounted for ~68% of the credit portfolio and ~85% of the deposits as on April-15. However,

[1] Current & Savings accounts
[2] Non-Performing Loans
[3] Capital to risk assets adjusted ratio
[4] Franchise includes 31 branches and 24 ATMs as on Apr-15.
[5] Gross NPLs has been reduced to 0.26% as per provisional financial highlight for Jul-15.

several of these businesses (end users of loans) are situated outside the earthquake affected areas due to which exact quantum of affected exposures and extent of damage could be restricted to certain sectors/segments[6] accounting for ~1/4th of CCBL's loan book. Out of this, CCBL has higher exposure to tourism sector (5.61% as of Apr-15), which along with other sectors perceived to be highly affected by earthquake is around 9.4%. Apart from stress in affected geographies/segments, exposures in unaffected geographies/segments could also witness some stress due to overall moderation in economic activity as well as linkage among businesses/borrowers. Accordingly, ICRA Nepal expects moderate level of stress on CCBL's asset quality and profitability profile over next 2-3 years due to damage caused by the earthquake in April 2015 and aftershocks. The banks' ability to raise planned capital in a timely manner would have critical bearing on its ability to absorb damages arising out of earthquake and maintain comfortable solvency profile.

CCBL started its operations in Mar-2011 and since then it has been able to grow its portfolio at rapid pace thereby increasing its market share (with a CAGR of 77% since Jul-13, credit portfolio was NPR 20,074 million as on Apr-15 reflecting into a market share of ~1.49% as against a market share of 0.94% as of Jul-13). However, the credit growth over next 1-2 years is likely to get stunted on account of lack of credit demand following recent earthquake and moderation in economic activity; however reconstruction drive would support credit growth to some extent. CCBL's credit portfolio remains concentrated towards corporate loan (ticket size >NPR 50 mn for one client: 57%), followed by retail loan (18%), SME loan (18%), deprived sector/others (4%) and gold/silver loan (3%) as on mid-Apr-15. Due to higher exposure to Corporate segment, credit portfolio remains concentrated among top borrowers (33% of credit accounted for by top 20 borrowers on mid-Apr-15).

ICRA Nepal has also noted that earthquake has not caused significant stress on CCBL's deposits/liquidity profile. The bank's funding profile remains inferior than Nepalese banking industry average; as reflected in low proportion of low cost deposits[7] around 33% of total deposits as of mid-Apr-15 as against industry average of around 47%. Moreover, deposit concentration of top 20 depositors remains high at around 36% as of Apr-15; however proportion of institutional deposits at ~61% in total deposit mix compares moderately to systemic average. CCBL's cost of funds at 5.49% as of Apr-15 is higher vis-a-vis other established commercial banks which impacts its competitive positioning.

Owing to higher cost of funds and concentration of portfolio towards low yielding corporate loan segment, CCBL has lower NIMs[8] among peers (2.71% as of Apr-15) which reflects into inferior profitability indicators, despite lower provisioning expenses as of now. CCBL reported PAT/ATA of 0.51% and PAT/Net worth of 4.03% for FY14 which has improved to 0.92% and 9.38% as of Apr-15 respectively. Improvement in profitability was benefitted from business volume growth and increasing CCD ratio (~79% as of Apr-15) coupled with moderate non-interest income (1.01% of ATA), lower credit provisioning expense (0.55% of ATA) and moderate operating expense ratio (1.85% of ATA). However, lower NIMs have restricted higher growth in profitability. ICRA Nepal expects CCBL's profitability profile to remain under pressure over next 2-3 years due to impact of devastating earthquake in 2015.

As for capitalisation profile, CCBL reported CRAR of 10.87% on mid-April-15 and 14.10% in July-14 vs. 10% regulatory minimum requirements. As such, ability to withstand large shocks in assets quality following the earthquake remains moderate. Recent activity in the stock market suggests that

[6] Tourism, hydropower, real estate/construction, consumer loans, housing loans and deprived sector lending
[7] Current, Saving and Margin Deposits
[8] Net Interest Margins as a % of Average Total Assets

banks' ability to raise capital to absorb damages caused by earthquake is not significantly deterred. In addition to the proposed issue, the bank might also need to raise additional capital over the medium term to maintain comfortable capitalisation profile given the marginal capital cushion as of now and slightly higher supervisory additions to risk weight by NRB. Also, modest profitability in past and likely pressure in profit levels following the earthquake remains a challenge in internal capital generation. Further, bank would need to raise its capital to NPR 8 bn by FY17 from existing capital of NPR 2.12 bn; accordingly finding adequate sources to fulfil this elevated regulatory requirement would remain a key challenge for the bank.

Company Profile

Established in 2011, Century Commercial Bank Limited (CCBL) is a recent commercial bank licenced by Nepal Rastra Bank to conduct banking transactions within Nepal. The shareholding of the bank is diversified across 568 individuals representing prominent sections of the society. Promoters of CCBL hold 54% of the shares while 46% is floated for the public. The shares of the Bank are listed in Nepal Stock Exchange and being actively traded. The registered office is in Kathmandu Metropolitan-31, Kathmandu, District, which is also the Head Office of the Bank.

CCBL has presence through its 31 branches, 9 branchless banking centres and 24 ATMs. CCBL has market share of about 1.45% in terms of deposit base and 1.49% of total advances in Nepal as on mid-Apr 2015. CCBL reported a profit after tax of NPR 86.93 million during 2013-14 over an asset base of NPR 20,812 million as on Jul-14 against profit after tax of NPR 66.37 million during 2012-13 over an asset base of NPR 13,151 million as on Jul-13. During 9MFY15 (ending Q3 FY 15), Bank has reported a net profit of NPR 163.09 million over an asset base of NPR 26,250 million. As of mid-Apr-2015, CCBL's CRAR was 10.87% and gross NPLs were 0.53%. In terms of technology platform, CCBL has implemented Pumari IV in all of its branches. A disaster recovery system (DRS) of the Bank has also been established in the Newroad branch within Kathmandu valley.

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