ICRA NEPAL

Metro Development Bank Limited

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

ICRA Nepal has assigned an "**[ICRANP] IPO Grade 4**", indicating below-average fundamentals to the proposed right issue amounting NRs. 37.1 million of Metro Development Bank Limited (MDBL). 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. MDBL is proposing to come out with a right offer of 371,000 numbers of equity shares of face value NRs 100/- each to be issued to its shareholder.

The grading is constrained by MDBL's limited track record, low seasoning of credit book, regional concentration of operations, lack of diversity in earnings, competition from commercial banks with wider product suite, relatively high proportion of Hire Purchase Loans relative to entities within the ICRA graded universe and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of strong promoter base. Nonetheless, the grading factors in the bank being a prominent financial institution in the Kaski district, its diversified borrower base, adequate proportion of low cost deposit base and regulatory advantage available with 'Schedule B' Development Bank compared to 'Schedule A' Commercial Bank- in the form of lower SLR/ CRR requirements. Going forward, MDBL's ability to grow profitability, maintain its assets quality indicators and increase its client base/ presence judiciously would have a bearing on the overall financial profile. The proposed rights issue would enable the bank augment its capital base in line with its plans to increase scale of operations at a rapid pace over the medium term.

MDBL started its operations in Dec-2009, and has a credit portfolio of NRs 992 million as on mid-Jul-2013. Being a three-district development bank, MDBL 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, MDBL'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. 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 loans to SMEs (around 36% of credit portfolio as on mid-July 2013), Hire Purchase Loan (27%), Housing Loan (16%), Real Estate Loan (9%), Personal Loan (secured against collateral-8%) and others Loans (4%) as on mid-Jul-13. Relatively higher proportion of HP loans within the ICRA graded universe; empirically default rate in HP loans is higher is key factor for grading. MDBL reported nil gross NPLs as of mid-Jul-2013, however the asset quality indicators partly benefit from the low seasoning of the credit book.

As for funding profile, the bank has been successful in garnering healthy proportion of low cost deposits which accounted for around 48% of its total deposits as against development banking industry average low cost deposit of 53% as on mid-April-2013. MDBL's cost of funds is higher vis-a-vis commercial banks which impacts its competitive positioning.

MDBL has been able to maintain healthy Net Interest Margins (NIMs) (around 4-5%), supported by adequate proportion of low cost deposits and lending largely to SMEs/ individuals wherein the bank is able to garner higher yield on advances. MDBL's Profit After Tax (PAT) increased by 91% in FY 2012-13 to NRs 214 million (unaudited) as against NRs 112 million during 2011-12; supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. Overall, MDBL's return on net worth stood at around 12-15% over last 3 years. Going forward, MDBL is expected to maintain steady profitability indicators, marked by stable NIMs and improvement in cost efficiencies.

As of mid-July 2013, MDBL reported Capital Risk Weighted Adequacy Ratio (CRAR) of 13.19% against minimum regulatory requirement of 11%. As per management, the proposed rights issue of NRs. 37.1 million will be used in the increase in scale of operations. Going forward, the bank expects to maintain CRAR of 13-14% over the medium term.

Company Profile
Metro Development Bank Limited (MDBL) is a regional development bank licenced by Nepal Rastra Bank to conduct banking transactions within three districts (Kaski, Myagdi & Lamjung) on 16th December 2009. The bank is promoted by persons involved in different professions Professor, Industrialist, Businessman, social worker and prominent persons of the society from different part of the country including Pokhara, Kathmandu, Myagdi, Baglung & Gorkha. The registered office is in Pokhara sub- metropolitan, Kaski district, which is also the Head Office of the Bank.

MDBL has presence in three districts of the country through its 5 branches with one ATM. MDBL has market share of about 0.8% in terms of deposit base and 0.8% of total advances of Development Banks in Nepal as on mid-April-2013. MDBL reported a profit after tax of NPR 21.42 million during 2012-13 on an asset base of NPR 1,323 million as on Jul-13 against profit after tax of NPR 11.22 million during 2011-12 on an asset base of NPR 884.25 million as on Jul-12. In terms of technology platform, MDBL has implemented Pumari (which has been adapted by some of the leading commercial Banks in Nepal also) in all of its branches.

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For further details please contact:

Analyst Contacts:
Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910,20)
Kishor@icranepal.com

Relationship Contacts:
Mr. Deepak Raj Kafle, (Tel. No. +977-1-4419910,20)
drkafle@icranepal.com