

Sanima Bank Limited

ICRA Nepal assigns [ICRANP] LBBB+ rating to subordinated debentures of Sanima Bank Limited

Facility/Instrument	Amount (NRs million)	Rating Action (March 2015)
Subordinated Debentures	NPR 700 million	[ICRANP] LBBB+ (Assigned)

ICRA Nepal has assigned rating of [ICRANP] LBBB+ (pronounced ICRA NP L triple B Plus) to subordinated debentures of Sanima Bank Limited (hereinafter referred to as 'Sanima'). Instruments with [ICRANP] LBBB+ Rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

The rating of Sanima factors in the bank's franchise (37 branches in Nepal) leading to average market positioning in Nepal (around 2% market share in commercial banking Industry as on Jan-15), experienced senior management, healthy credit portfolio mix, adequate capitalisation level (CRAR of 12.54% as on mid-Jul-14 and 11.03% as on Jan-15¹ vs regulatory minimum requirements of 10%), control on asset quality profile (Gross NPL of 0.02% as on Jul-14 and 0.04% as on Jan-15), adequate earnings profile (PAT/ATA of 1.67% during FY14 and 1.71% during H1FY15) with lower operating expenses compared to peers. The rating is constraint by Sanima's limited track record as a commercial bank, inferior deposit profile compared to industry average (Sanima's CASA deposit of around 36% as on Jul-14 and 38% as on Jan-15 against the industry average of around 48% as on Jul-14), high concentration of deposits and credit (top 20 depositors accounting for 26% of total deposits and top 20 borrowers accounting 28% of total credit as on Jan-15), high pace of growth over last two and half years (credit book from NPR. 9,545 million as on Jul-12 to NPR. 26,201 million as on Jan-15) leading to lower seasoning of book. The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

Following the up gradation to Class A status in 2012, Sanima's portfolio has grown at higher pace over past two and half years (albeit on a smaller base) with a CAGR² of ~50% (July 2012 to Jan 2015). As of Jan-15, Sanima's credit portfolio was dominated by small ticket size retail³ around 39%, followed by large ticket size Corporate⁴ around 29%, SME⁵ around 15%, Project Financing around 13% and balance deprived sector loan. Sector wise, Sanima's portfolio is diversified across loans to manufacturing sector (around 22% of the credit portfolio), trading sector (21%), Construction sector (10%), Hospitality and service sector (7%), real estate sector (6.5%) and others as on Jan-15. Sanima's exposure to the real estate sector stood at par with Nepalese Commercial Banking Industry average of ~6.23% as on January 2015. Management intends to maintain higher growth (vs. industry average) of ~30% over next three years with focus on on Retail, SME and Project financing.

On Assets quality front, Sanima has been able to control on asset quality from its inception and its Gross NPL level remains much below than industry average (Gross NPLs and Net NPLs of Sanima remains around 0.02% & 0.01% as on Jul-14 against the industry average of Gross NPLs around 3%). Although some deterioration seen in the assets quality in H1 2014-15, its gross NPLs level remains only to 0.04% with Net NPLs of 0.02% as on Jan-15. The Gross NPA generation rate for H1 2014-15 stood at a low 0.05% only. Sanima's asset quality profile is also benefited by relatively low seasoning of loan book due to very high credit growth during last 2-3 years. Going forward, Sanima's ability to maintain assets quality indicators in the increased scale of operations would be a key monitorable.

¹ Jan-15 data are unaudited and all the calculations are based on the data provided by the bank management.

² Compounded annual growth rate

³ Retail loan includes secured loan to small business house less than 10 million and all individual retail loan

⁴ Large corporate includes loan more than 50 million to a single obligor group

⁵ SME loan includes secured loan to business house in between 10-50 million.



Sanima's capitalisation level is adequate with CRAR of 11.03% as of mid-Jan-2015 against minimum regulatory requirement of 10%⁶. In order to support the future growth plans, Sanima is coming out with its maiden tier II bonds⁷ issuance of NPR 700 million. Further, higher proportion of tier I capital (10.04% as of mid-Jan-2015 against minimum requirements of 6%) due to low penetration of tier II capital instruments in Nepal provides headroom to raise tier II capital to maintain overall capitalisation levels. Internal capital generation rate of Sanima has remained high due to stock dividend policy followed by the bank in past years to support capitalisation profile. Going forward, the ability of the bank to raise capital from existing promoters or external investors will have a bearing on Sanima's capitalisation profile.

Sanima has adequate earning profile as reflected in PAT/ATA of ~1.7% and return on net worth of ~15% during last 1-2 years. The profitability is supported by healthy NIMs (around 3-3.5%) and modest non-interest income (around 1.14% in 2013-14). It is also supported by relatively lower operating expense (around 1.6% of ATA) and controlled credit provisioning (around 0.37% in 2013-14). In March 2015, NRB prescribed provisioning norms for the 'watchlist account', which will increase provisioning requirement and would impact reported profitability levels. Although, the change in norms is expected to be positive for bank's loan monitoring and recovery over the long term. 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 on Jan-2015, promoters own 51% and public shareholding was 49%. Sanima has an 6 members Board of Director (3 representing promoter groups, 2 from among public shareholders and 1 independent director) & top level management with significant experience across Banking & Financial Institutions.

Bank Profile

Sanima Bank Limited (Sanima) started its commercial operation from 2004 as national level development bank (Class B) and upgraded as a commercial bank (Class A) in February 2012. Its head office is located at Alkapuri Building, Naxal, Kathmandu. The bank is promoted by a group of Non-Resident Nepalese (NRNs) businessman. Mr. Bhuvan Kumar Dahal is the Chief Executive Officer of the bank. The bank's equity share is listed in Nepal stock exchange.

Sanima has presence through its 37 branches and 25 ATMs spread across Nepal. Sanima is a medium sized bank with market share of about 1.92% in terms of deposit base and 2.05% in terms of credit portfolio in Nepal's banking system as on mid Jan-15. Sanima reported a profit after tax of NRs 427.6 million during 2013-14 over an asset base of NRs 29,377 million as on Jul-14 as against profit after tax of NRs 305.06 million during 2012-13 over an asset base of NRs 21,977 million as on Jul-13. In first 6 months of current year 2014-15 (mid-Jan-2015), Sanima reported profit after tax of NRs. 278.17 over an asset base of NRs. 35,621 million. Sanima's CRAR was 11.03% and gross NPLs were 0.04% as on mid-Jan-2015.

March 2015

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⁶ Minimum regulatory CRAR required for Cash dividend payment is 11%

⁷ 7 years debenture with 7% p.a. interest rate.



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