

Rating Rationale
Everest Bank Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP AA- (Is) [Double A Minus (Issuer rating)]	Assigned

CRNL has assigned the issuer rating of “CARE-NP AA- (Is)” to Everest Bank Limited (EBL). Issuers with this rating are considered to offer high degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry very low credit risk.

Detailed Rationale & Key Rating Drivers

The rating assigned to EBL derives strength from the long track record of the bank backed by institutional promoter, experienced directors and management team, strong capitalization level, diversified and geographical coverage through branches, consistent growth in deposits and advances and considerable growth in total income and net profit. The rating also factors in strong asset quality, lower cost of deposit in the industry, moderate liquidity profile, diversified loan portfolio with regulatory compliance, comfortable CASA ratio though declining over the period, diversified investment portfolio and good policies and management information system in place. The rating is constrained on account of high concentration in borrowers and depositors, intense competition and exposure to regulatory risk related to industry. Ability of the bank to maintain stable growth along with maintaining asset quality and capital adequacy and ability to manage the impact of any regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strength

Long track record of the bank backed by institutional promoter

Operating since October 1994, EBL is providing banking services for more than 25 years. EBL was promoted by Punjab National Bank (PNB) [rated CARE AA; Negative (Double A; Outlook: Negative) holding 20.03% shareholding, along with few prominent businessmen in Nepal as a joint venture. PNB is one of the largest nationalised bank in India having strong franchise with a network of 7,001 branches spread across India and with over 10 crore customers as on December 31, 2018.

Experienced directors and management team

EBL is a professionally managed bank under the overall guidance of the Bank’s Board of Directors (BoD) which includes bankers, administrators, businessmen etc. with wide experience in financial and other sectors. Further, as a joint-venture partner, PNB has been providing top management support to EBL under a Technical Service

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Agreement, whereby, bank is managed by three expatriates (including CEO) deputed from PNB to oversee the management of the bank's functioning.

The bank is headed by Mr. Bishnu Krishna Shrestha (Chairman) for the last 20 years. Mr. Lingam Venkata Prabhakar is a PNB Nominee Director on the Board and has more than 30 years of banking experience. The senior management team of the bank is highly experienced in their respective field. The operations of the bank are led by Mr. Someshwar Seth (Chief Executive Officer) who commenced his career in 1985 with PNB and has experience of more than 33-years in banking sector. The management team includes Mr. Girish Kohli (Deputy General Manager (DGM)) who joined PNB in 1989, and has more than 29 years of banking experience. Mr. Rajeev Jain is also DGM in EBL who joined PNB in 1983, and has more than 34 years of banking experience.

Strong capitalisation level

EBL had paid up capital of Rs.8,107 Mn at the end of FY18 (refers to 12 months period ended mid July 2018). To reach the regulatory paid up capital requirement of Rs.8,000 Mn for 'A' Class Commercial Bank, EBL in FY18 issued right shares amounting to Rs.1,509 Mn and 33% bonus share amounting to Rs.1,992 Mn. Tier I Capital Adequacy Ratio (CAR) of the bank stood comfortable at 12.65% as on July 16, 2018 (As on July 15, 2017: 12.72%) and overall capital adequacy stood strong at 14.20% (As on July 15, 2017: 14.69%) as against the regulatory requirement of overall CAR of 11% as per Basel III norms of NRB for FY18. However, overall CAR has declined from 14.20 % in FY18 to 13.38% during 9MFY19 (UA, refers to 9 months period ended mid April 2019) due to increase in advances.

Diversified and geographical coverage through branches

EBL has diversified presence in Nepal with 94 branches, 7 Province Offices, 118 ATMs, 7 extension counters, 28 Revenue Collection counters and more than 9000 payout agents (as on April 13, 2019) across the Country. EBL also currently provides Branchless Banking services in 69 districts via 488 Business Correspondents (BCs).

Consistent growth in advances and deposits

Over the last 3 to 4 years bank has shown consistent growth in loans & advances and deposits. Total deposits of EBL has reached to Rs.115,512 Mn in FY18 recording a three year CAGR of 11.61% and reported growth of 8.27% to Rs.125,069 Mn during 9MFY19 over FY18 against industry increase of 9.45% from FY18, on back of leveraging the new branch additions during the period. EBL's share of total industry deposits was at 4.56% as on April 13, 2019 in comparison to the 4.65% share as on July 16, 2018. EBL also reported consistent growth in total advances. Total loans and advances stood at Rs.93,992 Mn in FY18 recording a three year CAGR of 19.29% and reported growth of 14.86% to Rs.107,956 Mn during 9MFY19 as compared to FY18. EBL holds 4.45% & 4.43 % of the industry advances as on July 16, 2018 and January 14, 2019 respectively. Credit to core capital cum deposit (CCD) ratio of EBL remains 77.22% at the end of FY18 which has decreased to 76.69% at the end of 9MFY19 as against maximum allowable CCD ratio (i.e. 80%).

Considerable growth in total income and net profit over the period

During FY18, bank's total income increased by 43.19% to Rs.11,337 Mn majorly due to rise in both interest income by 48.23% on back of growth in advances, increased interest rates leading to improvement in yield on advances and increase in the non-interest income by 12%. On back of these, Net interest income had increased by 27.94% to Rs.4,870 Mn during FY18. The yield on advances increased by 214 bps to 10.79% and the cost of deposits increased by 182 bps to 4.91% mainly due to increased volume of term deposits and decline in volume of CASA deposits over the period and higher interest rate in the industry during FY18 due to tight liquidity in the banking sector. Net Interest Margin (NIM) improved to 3.75% in FY18 as compared to NIM of 3.31% in FY17. The bank saw increase in operating expenses by 24% to Rs.2,289 Mn for FY18 as compared to Rs.1,846 Mn for FY17 resulting in operating expenses / average total assets increasing to 1.76% in FY18 from 1.61% in FY17.

Thus operating expenses/ average total assets increased to 1.76% in FY18 as compared to 1.61% in FY17. EBL's impairment charge for loans and other losses in FY18 was Rs.132 Mn as against Rs.49 Mn during previous year. However, due to stable growth in net interest income and other operating income, EBL reported Profit After Tax (PAT) of Rs.2,582 Mn during FY18 (FY17 Rs. 2,118 Mn). The bank's Return on Total Assets (RoTA) of the bank also improved to 1.97% during FY18 (FY17: 1.84%).

During 9MFY19, bank's total income has increased substantially by 30.51% to Rs. 10,519 Mn in comparison to Rs.8,059 Mn during 9MFY18. The Net interest income of the Bank increased by 16.84% to Rs. 4,106 Mn during 9MFY19 vis-a-vis 9MFY18. PAT of the Bank has increased by 18.37% to Rs.2,216 Mn during 9MFY19 (Rs.1872 Mn during 9MFY18) and ROTA has improved to 2.02% as on 9MFY19.

Strong asset quality, better than industry average on a sizeable asset base

EBL has maintained good asset quality with one of the lowest NPA in the industry. In absolute amount Gross Non Performing Loans (GNPL) has been almost same over the last three years with decreasing GNPL ratio. GNPL at the end of FY18 was Rs.188 Mn (P.Y.:Rs.199 Mn) and Rs. 198 Mn as on April 13, 2019. GNPLs ratio stood at 0.20% as on July 16, 2018 (industry average GNPLs for FY18 is 1.41%) as compared to 0.25% on July 15, 2017. GNPL ratio further improved to 0.18% as on April 13, 2019. Out of total advances of Rs.93,992 Mn as of July 16 2018, the delinquencies (including restructured loan) of more than 30 days accounts for 0.40% of total advances; the same has increased to 0.56% as on April 13, 2019.

Lower cost of deposit in the industry

EBL continues to have one of the lower cost of deposits of 4.91% in FY18 which further reduced to 4.57% during 9MFY19. This is likely to be a competitive advantage for the bank, especially in the recently implemented "base rate plus lending rate" regime. EBL's deposit mix changed in favour of term deposits at the expense of CASA proportion by offering high interest rates on deposit. Fixed deposit comprised 46.80% of EBL's total deposit mix in FY18 as compared to 38.59% in FY17 in contrary to CASA falling to 41.50% in FY18 from 47.10% in FY17.

Moderate liquidity profile

Bank has a moderate liquidity profile with mismatches from 1-90 days. However, cumulative mismatches as of April 13, 2019 are positive with matched overall tenure of assets and liabilities. ALM mismatch is on account of advances given of longer tenure in contrast with short term fixed deposits. EBL has maintained SLR of 29.42% as on July 16, 2018 and 23.79% as on April 13, 2019 and average CRR of 17.18% and 8.19% at the last reporting week as of FY18 and 9MFY19. Net Liquidity of the bank was 38.33% as on July 16, 2018 against industry average of 27.89% and 34.92% as on April 13, 2019. Further, the bank maintains regulatory reserves like SLR, CRR and Net Liquidity with NRB as per the central bank's norms.

Diversified loan portfolio with regulatory compliance

EBL has diversified portfolio across sectors with 26.98% in FY18 towards wholesalers & retailers sector. In this sector 9.01% lending is towards automotive dealer. Next major lending of 14.75% is towards construction sector which comprises ~11% towards housing sector. EBL lent 32.22% as on July 16, 2018 and 32.53% as on April 13, 2019 towards productive sector. Out of productive sector advances EBL lent 19.34% as on July 16, 2018 and 24.43% as on April 13, 2019 towards Agriculture and Energy sector (combined). Bank adequately lends to deprived sector; 6.55% as on July 16, 2018 and 7.43% as on April 13, 2019. All these lending (i.e. Productive sector, agriculture & energy sector (combined) and deprived sector) are within the NRB requirements.

Comfortable CASA ratio although declining over the period

EBL has maintained CASA proportion of 41.50% during FY18 which is close to industry average of 42.93% during same period. CASA of EBL has decreased from 47.01% in FY17 to 41.50% in FY18 and further to 40.16% during 9MFY19.

Diversified investment portfolio

EBL has made investments of Rs. 18,843 Mn as on July 16, 2018, out of which Rs.14,483 Mn has been invested in treasury bills and bond instruments issued by Nepal Government, Rs.1,069 Mn has been invested in equity shares of corporate entities and Rs.3,291Mn has been invested as placement in foreign banks. The investment portfolio of the bank has increased by 18.65% to Rs.22,376.40 Mn during 9MFY19 over FY18.

Key Rating Weaknesses

High concentration in borrowers and depositors

The bank faces concentration risk with respect to its borrowers as well as depositors. The bank's top 20 individual borrowers constituted 25.13% of total advances as on FY17 and 23.91% of total advances as on FY18 and remained at same level at 23.51% during 9MFY19.

The bank's top 20 group borrowers accounted for 30.17% of total advances during FY17, which decreased to 29.15% of total advances during FY18 and further decreased to 27.56% of total advances during 9MFY19.

The bank's top 20 institutional depositors constituted 32.59% of total bank deposits as on July 16, 2018. The same was maintained at 32.25% of total bank deposits for top 20 institutional depositors as on 9MFY19.

Intense competition

Currently there are 28 Commercial Banks, including three major state owned banks, operating with total 3305 branches all over Nepal (based on Monthly statistics published by NRB for Mid-March 2019). EBL had 94 branch along with head office and 1 extension counters as on same date. Industry (Class ‘A’ Commercial Banks) has achieved total interest income of Rs.244 Bn during FY18 with Rs.103 Bn net interest income; EBL’s share on interest income is 3.98% and 4.11% share on net interest income for the same period. The market share of EBL has increased to 4.25% in terms of interest income, however reduced to 3.80% in terms of net interest income during 9MFY19. Competition in the interest rates is the prominent challenge.

Exposure to regulatory risk related to industry

The banking industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. After the extensive capital increment pressure from Rs.2 Bn to Rs.8 Bn for Class “A” Commercial Banks, NRB has now decreased weighted average interest rate spread to 4.5% from earlier 5% via Monetary Policy issued by NRB, for the FY19 thereby impacting the absolute profitability of the banks. Also, to relax the liquidity crisis, Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) has been reduced to 4% & 10% respectively from existing 6% & 12% respectively.

About the Bank

Everest Bank Limited (EBL) an “A” class licensed institution from Nepal Rastra Bank (NRB), listed in Nepal Stock Exchange is one of leading private sector bank in Nepal. It was incorporated on October 16, 1994, in joint venture with Punjab National Bank of India. Current shareholding pattern of the Bank constitutes of promoters holding 69.22% of the shares (including PNB’s 20.03%) while remaining 30.78% is held by the public. The bank reported PAT of Rs.2,582 Mn on an asset size of Rs.144 Bn as on July 16, 2018 as against PAT of Rs.2,118 Mn on an asset size of Rs.116 Bn as on July 15, 2017. Further, EBL reported PAT of Rs.1,872 Mn during 9MFY19.

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