

**Rating Rationale**  
**Sunrise Bank Limited**

**Ratings**

<b>Instrument</b>	<b>Amount (Rs. In Mn)</b>	<b>Rating<sup>1</sup></b>	<b>Rating Action</b>
Subordinate Debenture (10.25% Debenture 2083)	3,000.00	CARE-NP A- [Single A Minus]	Assigned
Subordinate Debenture (10% Debenture 2080)	1,000.00	CARE-NP A- [Single A Minus]	Reaffirmed
Issuer Rating	NA	CARE-NP A- (Is) [Single A Minus (Issuer Rating)]	Reaffirmed

CRNL has assigned ‘CARE-NP A-’ rating to the proposed Subordinate Debenture “10.25% Sunrise Debenture 2083” issue of Sunrise Bank Limited (SBL). CRNL has also reaffirmed rating of ‘CARE-NP A-’ assigned to Subordinate Debenture “10% Sunrise Debenture 2080” and Issuer Rating of ‘CARE-NP A- (Is)’ assigned to Sunrise Bank Limited. Instruments with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instrument carries low credit risk.

**Detailed Rationale & Key Rating Drivers**

The rating assigned to SBL derives strength from the long track record of operations, experienced promoters and management team, diversified geographical coverage through branches, growth in total income and net profit over the period ended mid-July 2019 and adequate capitalization of the bank with moderate liquidity profile.

The ratings also factor in growth in loans & advances and deposits, moderate proportion of Current Accounts Savings Account (CASA) ratio, diversified sector wise loan portfolio distribution with moderate deposit and advances concentration. The rating is constrained by moderate asset quality, intense competition and exposure to regulatory risk related to industry.

Ability of the bank to continue its growth momentum without compromising on asset quality and maintaining 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, experienced promoters and management team**

Established in the year 2007, SBL has over a decade of operational history and an established market presence in Nepal. The bank’s profile derives strength from its experienced and diverse promoters who have diversified experience in sectors like banking, insurance, manufacturing, import and export, trading etc. SBL is a professionally managed bank under the overall guidance of the bank’s Board of Directors (BoD) which includes eminent businessmen and industrialists with wide experience in the financial services. Mr. Moti Lal Dugar is the Chairman of the bank, who has been engaged in service and manufacturing industry, import export, insurance,

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

hydro power, banking and business sector for more than five decades. The senior management team is highly experienced in their respective field of operations and is headed by Mr. Janak Sharma Poudyal (Chief Executive Officer; CEO) who has more than 32 years of banking experience.

### **Adequate capitalisation**

The bank reported Capital Adequacy Ratio (CAR) of 13.22% as on July 16, 2019 with Tier I CAR of 11.37% as compared to CAR of 13.38% and Tier I CAR of 12.58% as on July 16, 2018. The bank has maintained adequate capital adequacy levels as against minimum regulatory requirement of overall CAR of 11% and Tier I CAR of 8.50% as stipulated by NRB in compliance with Basel III norms.

### **Diversified geographical coverage through branches**

SBL has a diversified presence across seven provinces of Nepal through a network of 112 branches, 6 extension counter and 130 ATM Terminals as on July 16, 2019.

### **Growth in loans & advances and deposits**

Over the last 3 years the bank has shown healthy growth in the advances and deposits. During FY19, the advances of the bank grew by 16.22% to Rs. 70,376 Mn (P.Y 60,554) as compared to industry growth of 16.39%. The deposits increased by 13.31% to Rs. 78,741 Mn (P.Y Rs. 69,493 Mn) during FY19 as compared to FY18 against industry growth of 14.82%. The increase in the deposits was on back of increase in number of branches i.e. addition of 23 new branches during FY19 and also due to popularization of the value added facilities introduced by the Bank to their customers.

### **Growth in total income and net profit over the period**

During FY19, SBL's total income increased by 21% to Rs. 10,319 Mn majorly due to rise in interest income by 20.39% on back of growth in advances as well as rise in yield on advances. The increase in income was also supported by 21.50% increase in the non-interest income. Interest expense of the bank increased by 17% in FY19 as compared to 53% increase in FY18 from FY17 and net interest income showed a growth of 25% to Rs. 3,585 Mn in FY19 from Rs. 2,871 Mn in FY18. The bank was able to increase its Net Interest Margin (NIM) to 4.05% in FY19 as compared to 3.72% in FY18. The bank saw its average cost of deposit increase only marginally by 16 bps to 7.46% in FY19 from 7.30% in FY18 mainly due to reduction in interest rate in fixed deposit which comprises of 55% of the total deposit of the bank. The yield on advances increased marginally by 25bps to 13.22% in FY19 from 12.97% in FY18 on back of increase in gross advances by 16.22%. PAT of the bank grew by 15.50% in FY19 to Rs. 1,706 Mn as compared to PAT of Rs. 1,477 Mn in FY18. ROTA of the bank has been comfortable at 1.80% as on July 16, 2019 which increased marginally from 1.78% in FY18.

### **Diversified loan portfolio with regulatory compliance**

The bank's advances are diversified across segments. As on July 16, 2019, the corporate segment of advances comprised of 37.25% (32.70% as on July 16, 2018) of the total advances, while retail banking comprised 35.45% (37.47% as on July 16, 2018). Small & medium enterprises (SME) loan book comprised 18.05% (20.76% as on July 16, 2018) and Agricultural and deprived sector comprise of remaining 9.26% (9.07% as on July 16, 2018).

SBL lent 42.31% as on July 16, 2018 and 42.66% as on July 16, 2019 of the total loans towards productive sector; of gross loans and advances prior to 6 months as per NRB guidelines. Bank has adequately lent to deprived sector; 5.75% as on July 16, 2018 and 5.17% as on July 15, 2019. All these lending (i.e. Productive sector, agriculture & energy sector (combined) and deprived sector) are within the NRB requirements

#### **Moderate CASA ratio**

CASA deposits proportion of the bank has remained around 36% for the last three years ending mid-July 2019. Further, Term deposit/Total deposits declined from 58.02% as on July 15, 2017 to 56.20% as on July 16, 2018 and further to 54.22% as on July 16, 2019.

#### **Moderate liquidity profile**

The liquidity profile of the bank was moderate with positive cumulative mismatches in buckets of all tenors as per ALM statement dated July 16, 2019 due to well matched tenure of assets and liabilities. However, the assets and liabilities of the bank show negative net financial assets from 91 to 180 days (but has positive cumulative mismatches) on back of high fixed deposit maturities for which the bank is expecting rollover of the deposits in the given period. The negative net financial assets for 91 to 180 days bucket is however within the limit of 20% of total liabilities prescribed by NRB. Further, SBL has maintained SLR of 17.99% as on July 16, 2019; average CRR of 7.83% and 4.48% at the last reporting week as of FY18 and FY19 respectively; Net Liquidity of 25.74% as on July 16, 2019. Maintained SLR (minimum 10%), CRR (minimum 4%) and Net Liquidity (minimum 20%) are within the norms of NRB.

#### **Moderate deposits and advances concentration**

Deposit concentration by top 20 institutional depositor accounts for 33.97% of total bank deposits as on July 16, 2018 which has reduced to 28.95% as on July 16, 2019. Concentration on advances of top 20 individual borrowers as % of total loan portfolio accounted for 15.24% as on July 16, 2018 which increased to 18.70% as on July 16, 2019. Top 20 group borrowers accounted for 20.46% as on July 16, 2018 which increased to 22.20% as on July 16, 2019.

#### **Key Rating Weaknesses**

##### **Moderate asset quality**

There was marginal decrease in absolute amount of Gross NPLs from Rs. 749 Mn at the end of FY18 to Rs. 722 Mn at the end of FY19. Gross NPL ratio of the bank remains at moderate level of 1.03% as on July 16, 2019 which was 1.24% as on July 16, 2018. This decrease was mainly on account of increase in the loans and advances and write-offs during the year.

##### **Intense Competition**

Currently there are 28 Commercial Banks operating with total 3585 branches all over Nepal (based on Monthly statistics published by NRB for Mid-July 2019). SBL has 112 branch as on Mid-July 2019. Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs. 296,202 Mn during mid-July 2019 with Rs.

122,604 Mn net interest income as per NRB reporting for the same period. SBL’s share in interest income was 3.11% (Rs. 9,206 Mn) and 2.92% share in net interest income (Rs. 3,585 Mn). Due to emergent competition it is challenge to recruit and retain skilled manpower. Also high competition in interest rates is the prominent challenge faced by the banking sector.

**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 again decreased weighted average interest rate spread to 4.4% from earlier 4.5% via Monetary Policy issued by NRB, for the FY20. In the Monetary policy issued by NRB for FY19, NRB had already reduced the weighted average interest rate spread from earlier 5% to 4.5%. 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 Company**

Sunrise Bank Limited (SBL) is “A” Class Licensed Institutions from Nepal Rastra Bank (NRB). It was incorporated on October 12, 2007 as 23rd Commercial Bank of Nepal. The bank is promoted by reputed entrepreneurs who are industrialist, businessman, engineers, and prominent person of Nepal. As on July 16, 2019, 51.10% of the total shares of SBL were held by the promoter whereas remaining 48.90% is held by the general public. The bank had acquired two “C” Class Financial Institution (Finance Company), Narayani National Finance Limited (started joint operation from July 14, 2016) and NIDC Capital Markets Limited (started joint operations from 10 February 2017). NCM Merchant Banking Limited (a Merchant Banker), a subsidiary of the erstwhile NIDC Capital Markets Ltd., has become a subsidiary of SBL after the acquisition, which is now operating under a new name Sunrise Capital Limited. The bank has an asset size of Rs. 94,611 Mn as on July 16, 2019, which witnessed 14.46% growth over July 15, 2018 (Rs. 82,653 Mn). The market share of SBL in terms of deposit base was 2.75% as on Mid-July 2019; for the loan portfolio the market share stood at 2.83% as on Mid- July 2019 of industry (Class ‘A’ Commercial Banks as per NRB data).

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