

**Rating Rationale**  
**NIC Asia Bank Limited**

**Rating**

Facility/Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Subordinated Debenture (NIC ASIA Debenture 2083/84)	1,944.00*	CARE-NP A [Single A]	Reaffirmed
Subordinated Debenture (10% NIC ASIA Debenture 2085/86)	2,404.69	CARE-NP A [Single A]	Reaffirmed
Subordinated Debenture (11% NIC ASIA Debenture 2082/83)	1,830.00	CARE-NP A [Single A]	Reaffirmed
Issuer Rating	NA	[CARE-NP] A (Is) [Single A (Issuer)]	Reaffirmed

\* Issued debenture amounting to Rs.4,400 million, subscribed for Rs.1,944 million

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of “CARE-NP A (Is)” assigned to NIC Asia Bank Limited (NIC Asia). Issuers with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry low credit risk. CRNL has also reaffirmed rating of ‘CARE-NP A’ to the Subordinated Debentures of NIC Asia. The instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry low credit risk.

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to NIC Asia derive strength from the long track record of operations, experienced promoters and management team, adequate capitalization, good asset quality; however increasing GNPLs during FY19 (refers to the 12 month period ended mid-July 2019) & H1FY20 (refers to the 6 month period ended mid-Jan 2020), diversified and geographical coverage through branches in Nepal, diversified loan portfolio with concentration towards retail and SME portfolio and improving Current Account Savings Account (CASA) ratio. The rating also factors in consistent growth in advances and deposits and considerable growth in total income and net profit over the period and improved return on total assets (RoTA) during FY19, moderate liquidity profile, moderate deposits concentration and low advances concentration and diversified investment portfolio. The rating, however, is constrained on account of intense competition and exposure to regulatory risk related to industry. Ability of the bank to continue its growth momentum without compromising on asset quality, 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 of operation, experienced promoters and management team***

Established in the year 1998; NIC Asia Bank has a strong presence in Nepal with 317 branches, 92 extension counters and 419 ATMs (as on January 14, 2020) covering all the Provinces in Nepal. The bank’s profile derives strength from its strong promoters who are well experienced in the banking, insurance, manufacturing,

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

import and export, trade sectors, etc. NIC Asia is professionally managed bank under the overall guidance of the bank's Board of Directors (BoD) which includes eminent Businessmen/Industrialists with wide experience in the financial services.

Mr. Tulsi Ram Agrawal is the Chairman of the bank, who has experience of more than three decades in import export, banking and business sectors. The senior management team is experienced in their respective field of operations and is headed by Mr. Roshan Kumar Neupane (Chief Executive Officer, CEO), who is a Chartered Accountant by qualification and has been working at NIC Asia Bank Limited since March 2008 at various managerial positions. He is supported by an experienced management team.

#### ***Adequate capitalization***

NIC Asia had paid up capital of Rs.8,834 Mn at the end of FY19. During FY19, NIC Asia issued and capitalized 10% bonus shares out of distributable profits up to FY18. Core Equity Tier I (CET-I) of the bank stood at 8.24% against minimum requirement of 7% as on July 16, 2019 and overall capital adequacy stood at 13.32% as against the regulatory requirement of overall Capital Adequacy Ratio (CAR) of 11% for FY19. However, capitalization ratios declined to 7.88% CET-I and 12.75% overall CAR during H1FY20.

#### ***Good asset quality; however increasing GNPLs during FY19 & H1FY20***

There was significant increase in absolute amount of Gross Non Performing Loan (GNPL) from Rs.84 Mn at the end of FY18 to Rs.690 Mn at the end of FY19 and Rs.761 Mn at the end of H1FY20. Subsequently GNPL ratio increased from 0.07% during FY18 to 0.46% during FY19 and remained at 0.46% during H1FY20. Despite of increase in GNPLs during FY19 and H1FY20, the asset quality of the bank is good as the GNPL% to Gross advances is low as compared to peers and industry during the same period. Out of total advances the delinquencies of more than 30 days amounted was 0.77% of total advances at the end of FY19; the same has increased by 64 bps to 1.41% at the end of H1FY20 compared to FY19.

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

NIC Asia Bank has a diversified presence all over the country through its 317 branches, 92 extension counters, 46 branchless banking and 419 ATM Terminals as January 14, 2020. The branches are spread over all 7 Provinces and cover 71 districts (out of total 77 districts) of Nepal.

#### ***Diversified loan portfolio, concentration towards Retail and SME portfolio***

NIC Asia has diversified portfolio distribution with higher lending of 23.88% in FY19 and 22.46% in H1FY20 towards wholesalers & retailers sector. NIC Asia's advances portfolio is concentrated towards retail and SME portfolio rather than corporate sectors with a view of risk management. Retail portfolio, including small & medium enterprises (SME) sector lending proportion constitutes 73.27% of the advances as on July 16, 2019 which has marginally decreased to 73.19% of the advances as on January 14, 2020. As on July 16, 2019 the corporate segment comprised of 17.58% of the advances which has further decreased to 14.97% of the advances as on January 14, 2020. Bank has been able to concentrate and focus on retail and SME lending as targeted. NIC Asia lent 26.64% as on July 16, 2019 and 26.59% as on January 14, 2020 towards priority sector; of gross loans and advances outstanding prior to 6 months. Out of priority sector advances NIC Asia

lent 10.90% as on July 16, 2019 & 11.23% as on January 14, 2020 towards Agriculture sector and 15.74% as on July 16, 2019 and 15.36% as on January 14, 2020 towards energy & tourism sector (combined). Bank adequately lends to deprived sector; 9.52% as on July 16, 2019 and 13.03% as on January 14, 2020. All these lending (i.e. priority sector, agriculture, energy & tourism sector (combined) and deprived sector) are within the NRB requirements.

#### ***Improving CASA Ratio***

NIC Asia has been improving CASA deposits in its total deposits mix with CASA deposits proportion of 40.14% during FY19 and 42.29% during H1FY20 (Industry avg. CASA for FY19 & H1FY20 was 41.77% & 39.96% respectively). CASA deposits in absolute amount increased by 22.21% to Rs. 72,469 Mn during FY19 as compared to Rs. 59,301 Mn during FY18 and further increased by 8.70% to Rs. 78,777 Mn during H1FY20 over FY19.

#### ***Consistent growth in business***

Over the last 3 to 4 years the bank has shown robust growth in the loans & advances and deposits. Total deposits of NIC Asia have reached to Rs.180,531 Mn in FY19 recording a three-year CAGR of 37.47% and reported growth of 19.40% over FY18. Further deposits of NIC Asia increased to Rs.186,272 Mn during H1FY20 reporting a growth of 5.98% over H1FY19. Bank's share of total industry deposits is at 6.28% as on July 16, 2019 and 6.08% as on January 14, 2020. NIC Asia also reported consistent growth in total advances. Total loans and advances stood at Rs.150,108 Mn in FY19 recording a three year CAGR of 36.13% and reported growth of 24.40% over FY18. Further, total loans and advances of NIC Asia increased by 10.91% to Rs.165,247 Mn during H1FY20 over H1FY19. NIC Asia holds 6.01% and 6.05% of the industry advances during FY19 & H1FY20 respectively. This increase in loans & advances and deposits was on back of leveraging the new branch additions, policies adopted by the bank to increase current & saving deposits by amending service & facilities in existing deposit accounts, new & innovative products offered and aggressive lending by the bank.

#### ***Considerable growth in total income and net profit over the period and improved RoTA during FY19***

During FY19, bank's total income increased by 49.06% to Rs.22,051 Mn majorly due to rise in both interest income by 42.82% on back of growth in advances, increased interest rates leading to improvement in yield on advances and increase in the non-interest income by 116.85%. On back of these, net interest income had increased by 65.33% to Rs.6,960 Mn during FY19. The yield on advances increased by 45 bps to 13.56% and the cost of deposits decreased by 17 bps to 7.02% mainly due to increased volume of CASA deposits over the period. Improved net interest income led to increase in Net Interest Margin (NIM) of the bank to 3.58% in FY19 from 3.07% in FY18.

On the operational efficiency front, operating expenses have been increasing y-o-y. In FY19, the operating expenses increased by 39.91% to Rs.4,521 Mn as compared to Rs.3,232 Mn in FY18. This is mainly due to increase in employee related expenses which grew by 38.98% from FY18 on back of supporting the aggressive branch expansion. However, despite growth in operating expenses, operating expenses/ average

total assets was marginally improved to 2.33% in FY19 as compared to 2.36% in FY18. NIC Asia's impairment charge for loans and other losses in FY19 was Rs.599 Mn as against Rs.305 Mn during previous year due to increase in advances and deteriorated assets quality during FY19. NIC Asia reported PAT of Rs.3,023 Mn in FY19 as compared to PAT of Rs.1,335 Mn reported in FY18. Return on Total Assets (RoTA) of the bank has improved to 1.56% during FY19.

During H1FY20, bank's total income has increased by 9.61% to Rs.11,785 Mn over H1FY19 on back of increase in interest income by 5.34% due to increased advances portfolio of the bank and increase in non-interest income by 47.18% over the same period. Further, net interest income of the bank increased by 1.10% to Rs. 3,646 Mn during H1FY20 vis-a-vis H1FY19. PAT of the Bank has increased by 33.40% to Rs. 2,016 Mn during H1FY20 and RoTA has further improved to 1.83% during H1FY20.

#### ***Moderate liquidity profile***

NIC Asia has maintained SLR of 15.16% as on July 16, 2019 and 15.03% as on January 14, 2020 vis-à-vis regulatory requirement of 10%; CRR of 7.94% as on July 16, 2019 and 4.26% as on January 14, 2020 vis-à-vis regulatory requirement of 4%; Net Liquidity of 26.05% as on July 16, 2019 and 21.97% as on January 14, 2020 vis-à-vis regulatory requirement of 20%. Bank has moderate liquidity profile with positive cumulative mismatches as on January 14, 2020 due to well matched tenure of assets and liabilities. However, the assets and liabilities show mismatches for 91 to 180 days and 271 to 365 days (but has positive cumulative mismatches).

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

Deposit concentration to top 20 depositors has been moderate at 13.49% of total bank deposits as on July 16, 2019, however the same has slightly increased to 15.22% of total bank deposits as on January 14, 2020. The concentration on advances to top 20 individual borrowers was low at 5.66% & 6.03% during FY19 & H1FY20 respectively and top 20 group borrowers accounts for 4.83% & 6.36% during FY19 & H1FY20 respectively of total loan portfolio.

#### ***Diversified investment portfolio***

NIC Asia has investments of Rs. 22,318 Mn as on July 16, 2019, out of which Rs. 15,183 Mn has been invested in treasury bills/ bonds of Nepal Government and Nepal Rastra Bank, Rs.3,120 Mn has been invested as local & foreign bank placements and Rs.4,015 Mn has been invested in equity securities of domestic corporate entities including investments towards subsidiaries. The investment portfolio of the bank has increased by 43.31% in FY19 over FY18 mainly due to additional investments made in treasury bills/ bonds of Nepal Government and Nepal Rastra Bank. NIC Asia reported 4.41% yield on investments during FY19.

#### **Key Rating Weaknesses**

##### ***Intense competition***

Currently there are 27 Commercial Banks, including three major state owned banks, operating with total 4,011 branches all over Nepal (based on Monthly statistics published by NRB for Mid-Jan 2020). NIC Asia

had 317 branches along with head office as on same date. Industry (Class ‘A’ Commercial Banks) has achieved total interest income of Rs.304 Bn during FY19 with Rs.127 Bn net interest income; NIC Asia’s share on interest income is 6.36% and 5.47% share on net interest income for the same period. The market share of NIC Asia has slightly reduced to 6.27% and 5.59% in terms of interest income and net interest income during H1FY20 respectively. Competition in the interest rates is the prominent challenge in the Nepalese 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 decreased weighted average interest rate spread to 4.5% from earlier 5% for the FY19 and again decreased to 4.4% for the FY20 and has also changed the calculation method of interest rate spread via Monetary Policy, 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. Further, NRB has introduced additional counter cyclical buffer of 2% which requires "A" class licensed institutions to maintain overall capital adequacy of 13% from Mid-July 2020.

**About the Bank**

NIC ASIA Bank Limited (NIC Asia) is “A” Class Licensed Institutions from Nepal Rastra Bank (NRB) and is one of the top 3 “A” Class (Commercial) banks of Nepal in terms of Interest Income, Net Interest Income, Deposits and Advances as on January 14, 2020. The 93.97% of the total shareholding of the Bank is held by individual and 6.03% by corporate entities (other than GoN and Licensed Institutions) as on July 16, 2019; among which 51% belongs to promoter group shares and 49% belongs to general public. The bank reported PAT of Rs. 3,023 Mn on an asset size of Rs. 218 Bn as on July 16, 2019. Further, NIC Asia reported PAT of Rs. 2,016 Mn during H1FY20. The Bank has two wholly owned subsidiary companies operating within the territory of Nepal. One of them is NIC ASIA Capital Limited (incorporated to undertake Merchant Banking activities) and NIC ASIA Laghubitta Bittiya Sanstha Limited (Microfinance).

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