

**Rating Rationale**  
**ICFC Finance Limited**

**Rating**

Facility/Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	[CARE-NP] BBB- (Is) [Triple B Minus (Issuer)]	Reaffirmed
Subordinated Bond (12% Debenture 2083)	200	CARE NP BBB- [Triple B Minus]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of “CARE-NP BBB- (Is) [Triple B Minus (Issuer)]” to ICFC Finance Limited (ICFC). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

CRNL has also reaffirmed rating of ‘CARE-NP BBB- [Triple B Minus]’ to the Subordinated Debentures of ICFC. The instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry moderate credit risk.

**Detailed Rationale & Key Rating Drivers**

*The ratings assigned to ICFC continue to derive strength from the long track record of operation, experience of directors and management team, adequate capitalization, comfortable liquidity position and good asset quality. The ratings also factor in ICFC’s considerable growth in loan & advances and deposits over the period along with large market share, significant increase in investment portfolio, moderate deposit concentration and diversified loan portfolio and healthy financial performance albeit decline in net profit during FY20 (Unaudited, refers to the 12 months period ended Mid-July 2020). The rating, however, is constrained on account of geographical concentration of business, low proportion of Current Account Savings Account (CASA) deposits, high portfolio concentration among top borrowers, intense competition and exposure to regulatory risk related to Banking industry. The ability of the company to continue its growth momentum while maintaining asset quality and capital adequacy and ability to manage the impact of COVID-19 and any regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities.*

**Impact of COVID-19**

The current situation of COVID-19 pandemic which has led to disruption on overall industry and travel restrictions is likely to impact quality of company’s advances portfolio as well. Ability of company to manage its asset quality would be key rating sensitivity. Considering, current situation, NRB in March reduced Cash Reserve Ratio (CRR) from 4% to 3% providing additional liquidity to the Banks and also has reduced Bank Rate from 6% to 5%.

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

Further, it has relaxed its asset classification guidelines till Mid-July 2020 whereby delays in payment of due amount or renewal of short term limits since quarter ending Mid-April 2020 doesn't entail downgrade of such assets. Additionally, monetary policy published for the FY21 has provided additional moratorium ranging from 6 months to 2 years for different businesses according to the level of impact. As on Mid July 2020, the company has ~7% of its total loan portfolio in tourism sector with majority of it in Hotel industry which is one of the majorly impacted industry. As a result, in CRNL's view the credit risk profile of the company is expected to deteriorate over the medium term. Liquidity profile, resource raising ability and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the sector. CRNL will continue to assess on the impact on the key business and financial parameters of the sector and shall take appropriate rating actions if needed.

## **Detailed Description of the Key Rating Drivers**

### **Key Rating Strength**

#### ***Long Track record of operation with experienced board and management team***

Established in the year 2004; ICFC has more than a decade of operational history. ICFC is professionally managed company under the overall guidance of Board of Directors (BoD) led by Chairman Mr. Ram Babu Pant is retired Deputy Governor of Nepal Rastra Bank (NRB) with work experience of more than 19 years and retired as CEO of ICFC after serving the company for 12 years. The top and senior management team is highly experienced in their respective field of operations. The company is led by CEO, Mr. Sunil Pant who has who has more than 25 years of banking experience. All the management members have wide banking experience.

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

Core Equity Tier (CET-I) of the company stood at 10.51% (against minimum requirement of 6%) as on July 15, 2020 which declined from 11.21% as on July 16, 2019. Similarly, overall capital adequacy stood at 13.47% as on July 15, 2020 which increased from 12.01% as on July 16, 2019. Overall CAR has been improved after issuance of debenture during FY20, which has been included Tier II capital while calculating CAR.

#### ***Good Asset Quality however deteriorated in FY20***

Gross Non performing Loan % (GNPL) is low at 0.49% in FY20 although deteriorated from 0.08% in FY19 (industry average (finance companies) GNPL was 6.18% in FY20 and 8.8% in FY19). GNPL also increased in absolute amount to Rs 47 Mn in FY20 from Rs 7 Mn in FY19. ICFC has written off Rs. 5 Mn of loans and transferred Rs 58 Mn of loan to Non-Banking Assets (NBAs) since FY16 to FY20. The delinquencies of more than 30 days amounted to Rs.1,735 Mn (17.95% of total advances) which increased significantly from Rs. 144 Mn (1.65% of total advance) in FY19. As per the monetary policy for FY21 by NRB, advances which were categorized as pass loan as on Mid Jan 2020 and has overdue balance as on Mid July 2020 can be

classified as pass loan. However, 5% provision is required for such advances instead of 1% for pass loan. ICFC's delinquencies majorly increased in watchlist category from Rs. 95 Mn to Rs. 1,688 Mn during FY20. Out of which, Rs. 1,501 Mn. was due to special provision of NRB to make 5% provision of loan.

***Diversified sector wise credit portfolio distribution***

ICFC has been disbursing loans to various Industry/ Sector 25.15% towards finance, insurance and real estate followed by 15.12% towards wholesaler & retail sector, 7.26% towards hotel and restaurant and 7.09% towards consumption loan. ICFC lent 21.53% in FY20 and 17.01% in FY19 towards productive sector (which includes agriculture sector, energy sector, tourism sector and cottage and small industries); of gross loans and advances outstanding prior to 6 months. Out of productive sector advances, ICFC lent 7.38% towards tourism sector, 12.33% towards cottage and small industries and 1.82% towards agricultural sector. All these lending (i.e. priority sector, agriculture, energy & tourism sector (combined)) are within the NRB regulatory norms.

***Considerable growth in loans & advances and deposits over the period with large market share***

ICFC has demonstrated high growth in the loan portfolio and deposits over the period. Total loan portfolio grew by compounded annual growth rate (CAGR) of 20.01% over last 3 years ending Mid July, 2020 on back of increase in number of branches (one new branch in FY18 and FY20 each) and introduction of new loan products. It grew by Y-o-Y growth rate of 10.81% to Rs 9,656 Mn in FY20 from Rs. 8,713 Mn in FY19 (whereas finance industry loan portfolio grew by CAGR of 15.28% over last 3 years ending Mid July, 2020 and Y-o-Y growth of 9.52% in FY20). Similarly, ICFC's deposit grew by CAGR of 22.94% over last 3 years ending Mid July, 2020 on back of increase in branches and effective marketing strategy. It grew by Y-o-Y growth rate of 15.53% to Rs 12,631 Mn in FY20 from Rs 10,933 Mn in FY19 (whereas finance industry deposit grew by CAGR of 19.35% over last 3 years ending Mid July, 2020 and Y-o-Y growth of 16.93% in FY20). ICFC is one of the leading finance company in Nepal with 14.21% and 13.08% market share in terms of deposit base and loan portfolio respectively of finance industry at the end of FY20, based on monthly data published by NRB.

***Healthy financial performance however decline in PAT during FY20***

During FY20, ICFC's total income increased by 14.97% to Rs. 1,587 Mn due to increase in interest income. Interest income increased by 17.55% to Rs. 1,499 Mn during FY20 due to increase in advances and investment in securities. Non-interest income decreased by 16.24% during FY20, mainly due to decrease in fees and commission income. Net interest income increased by 12.09% to Rs.408 Mn during FY20 and operating expenses increased by 3.56% during FY20. Its operating expenses/ average total assets decreased marginally to 1.69% in FY20 as compared to 1.96% in FY19 due to increase in average total asset was higher than increase in operating expenses. Impairment charge for loans and other losses increased to Rs. 99 Mn during FY20 as against Rs. 19 Mn during FY19 mainly due to provision of 5% on loans which were categorized as pass loans as on Mid Jan 2020 however was overdue at the end of Mid July 2020 due to COVID-19. Due to huge increment in provisions and impairment charges as compared to previous year, the

PAT declined by 28.49% to Rs.103 Mn during FY20 from Rs 144 Mn during FY19. Yield on advances increased to 13.81% during FY20 from 13.75% during FY19. Similarly, cost of deposit increased marginally to 8.90% during FY20 from 8.75% during FY19 due to increase in proportion of fixed deposits. It's Net Interest Margin (NIM) deteriorated to 2.75% during FY20 from 2.95% during FY19 because of lower increase in the net interest income as compared to increase in total assets. The Return on Total Assets (ROTA) declined to 0.69% in FY20 (1.16% in FY19), due to decline in PAT.

#### ***Comfortable liquidity profile***

ICFC has maintained SLR of 21.89% as on July 15, 2020 and 12.81% as on July 19, 2019 vis-à-vis regulatory requirement of 7%; average CRR of 3.68% and 4.12% at the last reporting week as of FY20 and FY19 vis-à-vis regulatory requirement of 4% which has been reduced to 3% since March 29, 2020; Net Liquidity of the company was comfortable at 31.47% as on July 15, 2020 and 27% as on July 16, 2020 vis-à-vis regulatory requirement of 20%. Maintained SLR, CRR and Net Liquidity are within the norms of NRB.

#### ***Moderate concentration over top 20 depositors***

ICFC's deposit from top 20 depositors was moderate at 15.68% of total deposit in FY20 which increased from 15.11% of total deposit in FY19. Top 20 depositors mainly consist of institutional depositors.

#### ***Significant increase in investment portfolio***

ICFC's total investment in FY20 increased to Rs. 2,275 Mn. from Rs. 1,060 Mn. of FY19. Total investments includes, investment in listed equity share of Rs 273 Mn. in FY20 as compared to Rs 239 Mn. in FY19. Further, out of ICFC's total investment, investment in government bond and Treasury bill has been significantly increased to Rs 2,002 Mn in FY20 from Rs 822 Mn in FY19. During FY20, ICFC has earned interest income from investment in Securities/Bonds of Rs 69 Mn and dividend income of Rs 5 Mn.

#### **Key Rating Weakness**

##### ***Low CASA deposit ratio***

ICFC maintained low CASA deposit proportion of 27.12% of total deposits during FY20, lower than industry average of 29.29% during the same period and has been decreased from 28.66% during FY19. CASA deposits in absolute amount has increased by 20.71% during FY20 over FY19.

##### ***Geographical concentration of business***

Currently, ICFC is operating in 3 provinces and 8 districts of Nepal (out of 7 provinces and 77 districts of Nepal) through its 18 branches, 1 extension counter and 17 ATM terminals. As per monthly statistics published by NRB, 22 finance companies have total 243 branches, 51 ATM terminals as on Mid July, 2020.

##### ***High concentration over top 20 borrowers***

ICFC's lending to top 20 group borrower was 24.13% of total loans and advances in FY20 which was increased from 21.34% in FY19. However, lending to top 20 single borrower was 11.78% of total loan and advances in FY20.

**Competition from other Finance Companies and Bank**

Currently, there are 22 finance companies operating with total 243 branches all over Nepal (based on monthly statistics published by NRB for Mid-July, 2020) out of that ICFC has 18 branches. Industry (Class ‘C’ Banks-Finance Companies) has achieved total interest income of Rs. 10,138 Mn in FY20 with Rs. 2,793 Mn net interest incomes; ICFC’s share on interest income and net interest income is ~14.79% (Rs. 1499 Mn) and 14.62% (Rs 408 Mn) respectively for the same period. Despite being one of the leading finance company in the industry, it is challenging for ICFC to maintain current market share and expand its business, due to high competition among bank and finance companies, existence of large number of finance companies along with Commercial and Development bank. Competition in the interest rates is the prominent challenge in the Nepalese banking sector.

**Exposure to regulatory risk related to industry**

The Banking and Finance industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. In past, finance companies faced pressure from NRB for capital increment to Rs. 800 Mn. NRB via its Monetary Policy has reduced the Statutory Liquidity Ratio (SLR) to 7% from earlier 8%; reduced the overdraft including personal loan of revolving nature to Rs 5 Mn from Rs.7.5 Mn; increment of CCD ratio to 85% from 80%; increment of margin lending to 70% from 65%; reduction of bank rate to 5% from 6%. Also, to relax the liquidity crisis, Cash Reserve Ratio (CRR) has been reduced to 4% (further reduced to 3% amid COVID-19) from 6%. Further, NRB through its notice dated April 28, 2020 has directed BFIs to provide rebate of 200bps in interest rate for quarter ending Mid July 2020 which made significant impact on bank’s profit.

**About the Company**

ICFC Finance Limited (ICFC) is a national level class “C” finance company incorporated September 22, 2003 as Investment and Credit Finance Company Limited which was changed to ICFC Finance Ltd. on March 1, 2010. It was Licensed by Nepal Rastra Bank (NRB) on July 14, 2004 and commenced operation on July 17, 2004. Major promoter of ICFC are Mr.Purushottam Poudyal with shareholding of 6.53% followed by M/s United Distributors Nepal P. Ltd. with shareholding of 3.70% and Mr.Sushil Kumar Pant with shareholding of 3.56% as on Mid July 2020. The company reported PAT of Rs. 103 Mn on an asset size of Rs. 15,910 Mn as on July 15, 2020.

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