

Himalayan Bank Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating ^[1]	Rating Action
Issuer Rating	NA	CARE-NP A (Is) [Single A (Issuer)] (Credit watch with developing implications)	Reaffirmed and rating placed on credit watch with developing implications
Subordinated Bond "10% Himalayan Bank Limited Bond 2083"	2,569.10	CARE-NP A [Single A] (Credit watch with developing implications)	Reaffirmed and rating placed on credit watch with developing implications

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of "CARE-NP A (Is) [Single A (Issuer)]" assigned to Himalayan Bank Limited (HBL). 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 [Single A]" assigned to the Subordinated Bond "10% Himalayan Bank Limited Bond 2083" issued by HBL. 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.

The above ratings have been placed on 'credit watch with developing implications', following the on-going merger process. CRNL will resolve the rating watch once clarity emerges on the merged entity's business and financial profile post-merger completion. CRNL will take a view on the ratings once the exact implications of the above on the credit risk profile of the bank is clear.

Detailed Rationale & Key Rating Drivers

The rating assigned to HBL continues to derive strength from the long track record of operations of the bank backed by institutional promoters, experience of directors and management team, adequate capitalization level, improving asset quality, diversified and geographical coverage through the branch network in Nepal. The rating also factors in consistent growth in deposits and advances, diversified loan portfolio with regulatory compliance, satisfactory share of low-cost deposits (Current Account and Savings Account (CASA) ratio) and comfortable liquidity profile.

The rating is constrained on account of concentration in corporate loan portfolio, moderate deposits concentration and high borrower concentration, its presence in highly competitive industry and exposure to regulatory risk related to industry.

The ability of the bank to continue its growth in business while 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 Strengths

Long track record backed by institutional promoters

Operating since February 1992, HBL is providing banking services for around 3 decades in Nepal. HBL was promoted by 'Employees Provident Fund (EPF)' and other investment companies as a joint venture with Habib Bank Limited (Habib) of Pakistan. Habib, which was the first commercial bank to be established in Pakistan in 1947 and is the largest private sector bank in Pakistan, holds 20% of paid up capital of HBL, while EPF, which is the state owned retirement fund of

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

Nepal, established in 1934, under Ministry of Finance with principal objectives of managing Provident Fund in Nepal holds 14% of paid up capital of HBL.

Experience of directors and management team

HBL is a professionally managed bank under the overall guidance of the bank's Board of Directors (BoD) which includes eminent bankers, diversified experienced members having significant experience in the financial services and other sectors. Mr. Tulsi Prasad Gautam is the chairman of the bank since February 2020 and has more than 27 years of experience in different ministries /commissions of Government of Nepal and more than 5 years of experience in Nepalese banking sector. The senior management team of the bank is highly experienced in their respective field of operations. The bank is led by Mr. Ashok SJB Rana who is the Chief Executive Officer (CEO) and has been associated with bank for around 24 years. The senior management members have more than 2 decades of banking experience.

Adequate capitalisation level

HBL had paid up capital of Rs.9,372 Mn at the end of FY20 which was increased to Rs.10,684 Mn during 9MFY21 (refers to period from mid-July to mid-April 2021) by issuing bonus shares. The bank reported Capital Adequacy Ratio (CAR) of 14.89% and Core Equity Tier- I (CET-I) of 11.76% as on July 15, 2020 as against the minimum regulatory requirement of CET- I of 7% and overall CAR of 11%. However, CET-I and overall CAR of the bank moderated to 10.55% and 13.19% respectively during 9MFY21. Though moderated, the capitalisation levels continue at adequate levels.

Diversified and geographical coverage through branches

HBL has diversified presence all over the country through its 74 branches, 4 extension counter and 143 ATM Terminals as on April 13, 2021. The branches are spread over all 7 Provinces and cover 30 districts (out of total 77 districts) of Nepal.

Consistent growth in deposits and advances

As on mid-July 2020, total deposits of HBL have reached to Rs. 131,860 Mn recording a three-year CAGR of 12.39% and reported growth of 16.60% over FY19. Furthermore, total deposits of the bank increased to Rs.137,798 Mn as on April 13, 2021. Bank's share of total industry deposits stood 3.50% as on April 13, 2021.

Total loans and advances stood at Rs. 107,295 Mn in FY20 recording a three year CAGR of 11.39%. Loans and advances further increased to Rs.127,650 Mn as on April 13, 2021. HBL holds 3.57% of the industry advances during 9MFY21. Credit to Core Capital and Domestic Deposits (CCD) ratio stood at 78.99% at the end of 9MFY21 as against maximum allowable CCD ratio (i.e. 85%).

Improving asset quality

As on July 15, 2020, absolute amount of Gross Non Performing Loans (GNPL) of HBL reduced slightly to Rs.1,084 Mn and GNPL ratio stood at 1.01% (industry average GNPLs for FY20 is 1.73%). The same improved from 1.12% over previous fiscal balance sheet date. GNPL ratio further improved to 0.81% as on April 13, 2021. This improvement in GNPL was due to subsequent recovery being made coupled with increase in level of advances of the bank. The second wave of COVID-19 pandemic which has again led to disruption in overall industry and economic scenario is likely to impact quality of bank's advances portfolio in the near future. Ability of bank to manage its asset quality would be crucial from analytical prospective.

Loan portfolio diversified across industries with regulatory compliance

HBL has diversified portfolio across sectors with 25.50% of the loan portfolio towards non-food production related sectors followed by lending towards wholesaler & retailer sectors with 17.58% as on July 15, 2020. During 9MFY21, lending towards Non-food production related manufacturing stood at 24.58% and lending towards wholesaler & retailer sectors stood at 18.94%. Furthermore, all the lending towards various sectors (i.e. Productive sector, agriculture & energy sector (combined) and deprived sector) are within the regulatory requirements.

Satisfactory share of low-cost deposits and comfortable liquidity profile

HBL's CASA proportion has remained at ~ 45% during the last two financial years ending FY20 which improved to 46% in 9MFY21. CASA proportion of HBL is better than the industry average of 42.33% & 43.74% for FY20 & 9MFY21 respectively. The satisfactory share of CASA deposits has led to lower cost of deposit which stood at 4.60% as on April 13, 2021.

Bank has comfortable liquidity profile with positive cumulative mismatches as of April 13, 2021 due to well matched tenure of assets and liabilities. Further, HBL maintained SLR and CRR at 23.02% and 3.19% respectively at the last reporting week in mid-April 2021. Net Liquidity was 23.50% as on April 13, 2021. Maintained SLR, CRR and Net Liquidity are within the norms of NRB.

Key Rating Weaknesses***Subdued financial performance in FY20 and 9MFY21 owing to pandemic***

During FY20, HBL reported total operating income of Rs. 13,838 Mn and growth of 3.73% over previous fiscal year. Interest income of the bank increased by 4.76% in FY20 to Rs. 12,179 Mn. This growth in revenue profile was mainly impacted by rebates provided by the bank on interest rate as per the NRB regulations and challenges faced by bank in growing advances due to pandemic. Attributed to same, the yield on advances also got impacted and declined by 80 bps to 10.88% whereas the cost of deposits decreased by 24 bps. The higher decline in yield on advances than cost of deposits lead decline in NIM by 69 bps to 3.34% as against 4.03% during FY19.

On the operational efficiency front, operating expenses have shown a y-o-y increase of 3.71% in FY20. The operating expenses/ average total assets of the Bank has moderation to 1.87% from 2.09% in FY19. HBL reported 6% decline in PAT in FY20 to Rs. 2,587 Mn as compared to profit of Rs. 2,764 Mn in FY19. Return on Total Assets (RoTA) of the bank also declined to 1.79% from 2.22% during FY19 due to decline in profits during the year.

During 9MFY21, bank's total income has declined by 16.34% to Rs. 8,727 Mn as compared to 9MFY20. Interest expenses of the bank declined from Rs. 5,412 Mn in 9MFY20 to Rs. 4,938 Mn in 9MFY21 due to overall decline in the deposit rates in the banking sector due to high liquidity in the market. Accordingly, Net Interest Income stood at Rs. 2,710 Mn in 9MFY21 with NIM declining to 1.69%. Bank reported profit of Rs. 1,287 Mn in 9MFY21.

Concentration in corporate lending portfolio

Over the period, HBL has concentrated towards corporate sector portfolio. HBL has continuously increasing its lending proportion towards corporate sectors. As on July 15, 2020, the corporate segment constituted 74.04% of the total advances, which reduced slightly to 73.12% of the total advances as on April 13, 2021.

Moderate deposits concentration and increasing group advances concentration during FY20, however in declining trend in 9MFY21

Deposit concentration by top 20 corporate depositors has been moderate at 25.20% of the total bank deposits as on July 15, 2020, which decreased marginally to 23.80% of the total bank deposits as on April 13, 2021. Further, the bank has moderately high concentration on group borrowers as top 20 group borrowers accounted for 28.86% of total advances during FY20 which decreased to 24.26% of total advances during 9MFY21. High concentration towards advances and deposits normally increases re-pricing risks at times of interest rate volatility.

Intense competition

Currently there are 27 Commercial Banks, including three major state owned banks, operating with total 4,702 branches all over Nepal (based on Monthly statistics published by NRB for Mid-April 2021). HBL had 74 branches along with head office as on same date. Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs.328,183 Mn during FY20 with Rs.128,186 Mn net interest income; HBL's share on interest income is 3.71% and 3.76% share on net interest income for the same period which reduced to 3.19% and 2.83% respectively during 9MFY21. Competition in 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. To relax the liquidity crisis in the banking sector, 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 profit of the banks in Nepal. Also, NRB has been continuously decreasing weighted average interest rate spread from earlier 5% to 4.5% for FY20 and 4.4% for FY21.

About the Company

Himalayan Bank Limited (HBL) is "A" class licensed institutions from Nepal Rastra Bank (NRB), listed in Nepal Stock Exchange is one of leading bank in Nepal. It was incorporated in joint venture with Habib Bank Limited of Pakistan and obtained license to operate "A" class commercial bank from NRB dated February 18, 1992. Total shareholding of the bank is divided between promoter group and general public in the ratio of 85:15.

HBL has wholly owned subsidiary company namely HBL Capital Limited. The bank reported PAT of Rs.2,587 Mn on an asset size of Rs. 155,885 Mn as on July 15, 2020. Further, HBL reported PAT of Rs. 1,287 Mn as on 9MFY21 (UA).

Contact Us**Analyst**

Ms. Shalini Sanghai
Contact No.: +977-01-4012629
Email: shalini.sanghai@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

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