

Manjushree Finance Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B Issuer]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB (Is)' [Double B (Issuer)] to Manjushree Finance Limited (MFIL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations.

Detailed Rationale & Key Rating Drivers

The rating assigned to MFIL continues to be constrained by low share of CASA deposits, moderate concentration over borrowers and depositors, modest liquidity profile, exposure to regulatory risk related to banking industry and intense competition. The rating is also constrained by weak asset quality and sectorial concentration of advances. The rating also takes cognizance of the significant decline in interest income of the bank thereby deteriorating the Net Interest Margin (NIM) in FY21 (Unaudited, refers to 12 months' period ended Mid-July 2021).

The rating, however, continues to derive strength from the experienced board and management team, adequate capitalization levels, increase in investment portfolio, growth in loans and advances and moderate financial risk profile.

The ability of the bank to scale up its operations while improving its asset quality & net interest margins, maintaining the adequate regulatory ratios and ability to manage the impact of COVID-19 and any regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Low share of CASA deposits

Though MFIL's CASA deposit ratio to total deposits has been increasing on y-o-y basis in the last 4 years; however, it is still continued to be on lower side and stood at 23.66% in FY21 as against the industry average of 30.47%. CASA deposits increased by 48.30% at the end of FY21 to Rs. 13,850 Mn over FY20. Low percentage of low cost deposits leads to high cost of funds and MFIL's cost of fund stood at 7.42% as on mid-October 2021 which is higher among the industry.

Moderate concentration over top 20 depositors and top 20 borrowers with modest liquidity profile

MFIL's total deposits increased significantly in FY21 and increase in deposits was mainly from retail customers. This led to decline in concentration of deposits from top 20 institutional depositors to 13.62% of total deposit as on mid-July 2021 which from 36.92% of total deposit as on previous balance sheet date. Moderate concentration towards deposits normally results re-pricing risks at times of interest rate volatility which now argues favourably for the finance institution to an extent.

MFIL's concentration on its top 20 borrowers also reduced to 14.53% of total loans and advances as on mid-July 2021 which has decreased from 18.28% in FY20. Though it improved still continues to remain moderately high. Due to concentration over few large borrowers; there may be significant impact on its assets quality, if any big borrower default on loan.

MFIL has modest liquidity profile with negative cumulative balances till bracket of 271-365 days. However, MFIL has maintained SLR of 35.57% as on July 15, 2021 and 9.99% as on July 15, 2020 vis-à-vis regulatory requirement of 8%; CRR of 3.75% and 4.13% at the last reporting week as of FY21 and FY20 vis-à-vis regulatory requirement of 3%. Maintained SLR, CRR are within the norms of NRB.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Weak assets quality and high concentration of advances towards construction sector

MFIL's asset quality stood weak as reflected from high Gross Non Performing Loan (GNPL) which stood at 2.34% for FY21 and showing an improvement from 3.36% over previous financial year. GNPL ratio further improved to 1.91% in Q1FY22. The improvement in GNPL was on account of recovery with moderation of impact of Covid-19 during FY21.

The credit portfolio of the company is highly concentrated towards construction sector. In FY21, the advances towards construction sector stood at 27.19%. High concentration remains a concern amid Covid-19 induced stress which may affect assets quality. The recovery in the sector highly depends on various factors viz. government spending, execution of projects, availability of funding etc.

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. In past, finance companies faced pressure from NRB for capital increment to Rs. 800 Mn from Rs.200 Mn. NRB via its Monetary Policy has increased CD (Credit to Deposit ratio) to 90% from existing CCD (Credit to Core Capital cum Deposit) ratio of 85%. Also considering the impact of pandemic, NRB has increased repo rate to 3.5% from 3% and further provided extension for principal and interest due as on mid-July 2021 upto mid-January 2022.

Competition from other Finance Companies and Bank

Currently, there are 17 finance companies operating with total 222 branches all over Nepal (based on monthly statistics published by NRB for Mid-July, 2021) out of that MFIL has 11 branches. Industry (Class 'C' Banks-Finance Companies) has achieved total interest income of Rs. 8,379 Mn in FY21 with Rs. 2,474 Mn net interest incomes; MFIL's share on interest income and net interest income is ~11.77% (Rs. 987 Mn) and 12.86% (Rs 318 Mn) respectively for the same period. Despite being one of the leading finance company in the industry, it is challenging for MFIL 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.

Key Rating Strengths**Experienced board members and management team**

Established in the year 2007; MFIL has been operating for more than a decade and as on mid-July 2021, the total number of branches of MFIL stood at 11. MFIL is a professionally managed company under the overall guidance of Board of Directors (BoD) led by Chairman Mrs. Indira Pandit who has work experience in finance profession of around a decade. She has been associated with various educational institutions in different capacities. The top and senior management team is highly experienced in their respective field of operations. The company is led by CEO, Mr. Santosh Niraula who has who has more than 17 years of banking experience. He is supported by an experienced management team.

MFIL is operating in 6 provinces having presence in 8 districts of Nepal (out of 7 provinces and 77 districts of Nepal) and has 11 branches as on July 15, 2021. During Q1FY22, MFIL has already opened additional 11 branches with total 22 branches all over Nepal. On account of wide geographical presence, the business is diversified towards variety of customer base and diversified portfolio.

Adequate level of capitalization and increase in investment portfolio

MFIL's overall capital adequacy stood at 28.99% as on July 15, 2021 which improved from 16.83% as on July 15, 2020 as against minimum regulatory requirement of 11%. MFIL has seen aggressive growth in its advances book over the last three years resulting in moderation in its core capitalization levels upto FY20. Tier I CAR has been declining from 19.25% as on mid- July, 2017 to 15.89% as on mid-July, 2020, however improved to 21.37% as on mid-July 2021 providing sufficient cushion over the regulatory requirement of 6%.

MFIL's total investment increased significantly and stood at Rs. 4,702 Mn in FY21. The bank invested in bonds and treasury bills. During FY21, MFIL has earned interest income from investment in Securities/Bonds of Rs 23 Mn (Rs.48 Mn during FY20); dividend income of Rs 7 Mn (Rs 5 Mn during FY20).

Growth in loans & advances and deposits with decent market share

MFIL has reported high growth in its loan portfolio and deposits over the period. Total loan portfolio grew at a compounded annual growth rate (CAGR) of 21% over last 4 years ending mid-July, 2021. It grew by 16.53% in FY21 and stood at Rs 8,041 Mn as on mid-July 2021 as against Rs. 6,900 Mn as on mid-July 2020. MFIL's deposit also grew at a CAGR of 28.56% over last 4 years ending mid-July, 2021 on back of effective marketing strategy. It grew by 67.42% in FY21 and stood at Rs 9,791 Mn in FY21 as against Rs 5,848 Mn in FY20. Further, loans and advances grew by 26.10% to Rs 8,580 Mn in Q1FY22 and similarly deposit in this period grew by 25.77% to Rs 10,773 Mn. As per monthly data published by NRB, MFIL's market share in deposit and advances stood at 10.96% and 11.24% respectively as on mid July 2021. High credit growth on retail borrowers remains a concern amid the disruption in business environment created by Covid-19 induced externalities and its likely impact on the asset's quality.

Modest financial risk profile

During FY21, MFIL's interest income decreased by 11.40% to Rs. 987 Mn majorly due to decline in banks average yield. Interest expense also declined by 7.13% to Rs. 668 Mn in FY21 on account of change in borrowing mix and decline in average rate of deposits by 58 bps to 7.32% in FY21. MFIL's Net Interest Margin (NIM) showed moderation during FY21 by 88 bps to 3.50% against 2.62% during FY20.

MFIL's Non-interest income increased significantly by 240.28% to Rs 808 Mn during FY21, mainly due to sale of development bond and sale of shares. Due to increase in Non-interest income, MFIL's total income increased by 32.85% to Rs. 1,795 Mn. With decline in interest income, net interest income also decreased by 19.20% to Rs. 318 Mn during FY21 and operating expenses increased by 30.60% during FY21. Its operating expenses/ average total assets decreased to 1.39% in FY21 as compared to 2.54% in FY20. Impairment charge for loans and other losses decreased to Rs. 7 Mn during FY21 as against Rs. 10 Mn during FY20. Accordingly, MFIL reported increase in PAT by 54.14% to Rs.599 Mn during FY21 from Rs 263 Mn during FY20 leading to improvement in Return on Total Assets (ROTA) to 4.94% in FY21 (2.76% in FY20).

Interest income improved to Rs 293 Mn in Q1FY22 from Rs. 251 Mn in Q1FY21. Total income grew by 12.89% to Rs 315 Mn in Q1FY22.

About the Company

Manjushree Finance Limited (MFIL) is a national level class "C" finance company incorporated as on June 20, 2007 in the name of Manjushree Financial Institution Ltd which was changed to Manjushree Finance Ltd. on September 2, 2016. It commenced its operation on October 15, 2007. The bank reported PAT of Rs. 599 Mn on an asset size of Rs. 14,998 Mn. As on July 15, 2021, it has Rs 965 Mn paid up capital which is distributed among promoter and public shareholders in the ratio of 51:49.

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