

Civil Bank Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BBB- (Is) [Triple B Minus (Issuer)] (Credit watch with developing implications)	Continues to be on credit watch with developing implications

The rating assigned by CARE Ratings Nepal Limited (CRNL) of [CARE-NP BBB- (Is)] to Civil Bank Limited (CBL) continues to be on credit watch with developing implications. 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.

Detailed Rationale & Key Rating Drivers

The rating assigned to CBL continues to be on credit watch with developing implications following the announcement of acquisition of CBL by Himalayan Bank Limited [CARE-NP A- (Is)]. CRNL will resolve the rating watch after completion of the acquisition process. Previously, the rating was placed on the credit watch with developing implication factoring in ongoing litigation faced by one of the bank's current Directors/Promoters.

The rating continues to derive strength from CBL's established track record of operations along with experienced promoters and management team, moderate capitalization level, diversified and moderate geographical coverage, and improved asset quality. The rating also factors in CBL's growing trend in deposits and loans & advances albeit muted during FY22 (Unaudited, refers to the twelve-month period ended Mid-July 2022), moderately diversified sector-wise loan portfolio with regulatory compliance, moderate liquidity profile and healthy investment portfolio.

The rating, however, remains constrained by CBL's moderate scale of operations and below average low cost CASA mix compared to the other industry players leading to low profitability. The rating further factors in CBL's loan portfolio concentration towards corporate portfolio, moderate deposits and advances concentration, intense competition, and exposure to regulatory risk related to industry.

Going forward, ability of the bank to manage growth without compromising on asset quality and maintaining capital adequacy would be critical for the bank's earning profile and profitability remain a key rating sensitivity. Ability to timely complete the proposed acquisition and manage the impact of any regulatory changes by Nepal Rastra Bank would be key monitorable aspects.

Key updates

The financial risk profile of CBL at the end of FY22 was marked by substantial improvement in capitalization level supported by sustained growth in income and profitability coupled with new debenture issuance of Rs. 3,000 Mn during the year. Capitalization level was also aided by a more restrained growth in loans and advances portfolio vis-à-vis the industry. The bank's overall Capital Adequacy Ratio (CAR) and Core Equity Tier I (CET-I) stood at 16.05% and 11.76%, respectively, as on mid-July, 2022. Earlier, as on mid-July 2021, the bank's CAR and CET-I had declined to 11.93% and 10.75% due to

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

substantially high growth in loans & advances (53.85%) during FY21. The bank's ability to maintain capital adequacy would be critical from credit perspective.

CBL's total loans & advances at the end of FY22 was Rs. 87,707 Mn, growing only 5.62% over FY21 compared to 12.52% growth by the overall industry. Although the growth in asset size was muted in FY22, net interest income grew by 64.35% supported by the substantial growth in loans and advances portfolio over FY20-FY21. However, the growth was marked by a slight deterioration in GNPL (Gross Non Performing Loan) levels to 1.08% at the end of FY22 from 1.05% at the end of FY21. Deteriorating trend in asset quality could be a concern as the high credit expansion during the pandemic era has led to an increased proportion of unseasoned credit, increasing risk of further stress in asset quality going forward. The bank's ability to manage growth without compromising on asset quality will remain a key monitorable aspect.

The bank continues to have a low CASA mix in its total deposit with 21.40% CASA deposits at the end of FY22, which decreased from 25.40% at the end of FY21. CASA ratio of the bank has been well below industry average, which leads to higher cost of funds for CBL vis-à-vis peers and could lead to a competitive disadvantage to CBL in the "base rate plus" lending rate regime.

Key financial indicators of Civil Bank Limited in FY21 and FY22 are given below:

(in Rs. Mn)

Particulars	FY21 (Audited)	FY22 (Unaudited)
Interest Income	7,066	10,784
Total Income	7,900	11,964
Interest Expenses	4,850	7,142
Net interest Income	2,216	3,642
Net Profit	528	1,385
Deposits	90,345	96,039
Advances (Gross Figure)	83,038	87,707
Total Assets	109,963	117,046
Total CAR (%)	11.93	16.05
Gross NPL to Gross Advances (%)	1.05	1.08
Provision Coverage Ratio (%)	206.18	193.24
Cost of Funds (%)	6.46	7.59
Interest Rate Spread (%)	2.00	4.29
Credit to Deposit Ratio (%)	80.32	85.46

About the Bank

Civil Bank Limited is an 'A' Class Licensed Institution from Nepal Rastra Bank (NRB), incorporated on August 04, 2010. The bank has one subsidiary company operating within the territory of Nepal, namely Civil Capital Market Limited. Out of the total shareholding of the bank, 75.19% is held by individuals, 23.73% by domestic institutions and 1.08% by foreign institutions as on April 13, 2022.

Detailed rating rationale of the company is available at www.careratingsnepal.com

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