

Himalayan Bank Limited

Ratings

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

CARE Ratings Nepal Limited (CRNL) has placed the issuer rating of 'CARE-NP A- (Is)' assigned to Himalayan Bank Limited (HBL) on credit watch with developing implications. 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 placed the rating of 'CARE-NP A-' assigned to the Subordinated Bond issued by HBL on credit watch with developing implications. 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 HBL have been placed on credit watch with developing implications factoring in the ongoing acquisition process of Civil Bank Limited [CARE-NP BBB- (Is)] by HBL. CRNL will resolve the rating watch once clarity emerges on the bank's business and financial profile post-acquisition. 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.

The ratings continue to derive strength from HBL's established long track record of operations, experienced promoters and management team supported by moderate geographical coverage, moderate assets quality, consistent growth in loans and advances, diversified loan portfolio across industries and moderate liquidity profile. The ratings, however, remain constrained by the moderation in the capitalization levels of the bank following a growth phase where credit expansion outpaced capital accretion resulting in decreased cushion in its capital adequacy ratios at the end of FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022), subdued financial performance of the bank albeit marginal improvement during FY22, and declining portion of CASA mix at the end of FY22 leading to high cost of funds which could impact the overall profitability of the bank. The ratings also factor in higher concentration in corporate loan portfolio, moderate deposits and borrower concentration, intense competition, and HBL's exposure to regulatory risk related to the banking industry.

Going forward, the ability of the bank to manage growth in business without compromising on asset quality, maintain CD ratio and improve capital adequacy indicators with adequate cushion to the minimum regulatory requirement levels would remain key rating sensitivities. The bank's 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 HBL at the end of FY22 was marked by moderate capitalization with modest cushion against regulatory requirements, increase in asset size albeit with marginal deterioration in asset quality, and increase in cost of funds. HBL's overall Capital Adequacy Ratio (CAR) has been on a declining trend in FY22 due to relatively higher pace of credit growth vis-à-vis capital accretion. Overall CAR declined to 11.63% as on mid-July 2022 from 12.40% as on mid-April 2022. Lower capitalization levels could limit a bank's ability to absorb losses, should they materialize, especially given the vulnerability in credit recovery amid the lingering impact of the pandemic exacerbated further by the liquidity stress in the economy. Post-pandemic recovery, particularly

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

after the NRB relaxations are over, remains a concern and the bank's ability to maintain adequate cushion in the capital adequacy ratios will remain critical for its solvency and growth prospect. This will remain a key monitorable aspect.

HBL's loans and advances at the end of FY22 was Rs. 155,845 Mn, growing 17.30% over FY21 (Audited, refers to the twelve-month period ended mid-July 2021). Growth in advances was outpaced by deposits growth of 19.42% to Rs. 168,419 Mn during the same period. However, the growth was marked by a slight deterioration in the bank's GNPL (Gross Non Performing Loan) to 0.77% at the end of FY22, from 0.48% at the end of FY21. The slippages can be attributable to the lingering impact of COVID, which has been further impacted by the liquidity stress in the economy, impacting borrowers' repayment ability. Deteriorating 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 asset quality remains critical from credit perspective.

The bank's cost of funds increased to 8.00% in FY22 from 4.62% in FY21, partly owing to the declining trend of CASA mix during FY22 coupled with increasing interest rates amid liquidity challenges in the system. Consequently, the bank's total income increased by 31.22% in FY22 to Rs. 18,438 Mn boosted by increased yield in advances. However, amid high cost of funds leading to lower spreads, the bank's net profits declined by 17.23% in FY22 over FY21.

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

(in Rs. Mn)

Particulars	FY21 (Audited)	FY22 (Unaudited)
Interest Income	10,371	16,687
Total Income	14,051	18,438
Interest Expenses	6,582	11,563
Net interest Income	3,789	5,124
Net Profit	2,999	2,482
Deposits	141,021	168,419
Advances (Gross Figure)	132,858	155,845
Total Assets	178,491	216,292
Total CAR (%)	13.85	11.63
Gross NPL to Gross Advances (%)	0.48	0.77
Provision Coverage Ratio (%)	394.94	242.75
Cost of Funds (%)	4.61	8.00
Interest Rate Spread (%)	3.32	4.00
Credit to Deposit Ratio (%)	85.74	88.80

About the bank

Himalayan Bank Limited (HBL) is an "A" class licensed institutions from Nepal Rastra Bank (NRB) listed in the Nepal Stock Exchange. It was incorporated as a joint venture with Habib Bank Limited of Pakistan and obtained license to operate as a commercial bank from NRB on February 18, 1992. HBL has wholly owned subsidiary company namely HBL Capital Limited. Total shareholding of the bank is divided between promoter group and general public in the ratio of 85:15.

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

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About CARE Ratings:

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