

Prabhu Bank Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Subordinated Debenture (Prabhu Bank Debenture 2084)	2,000.00	CARE-NP BBB [Triple B] (Credit watch with developing implications)	Placed on credit watch with developing implications

CARE Ratings Nepal Limited (CRNL) has placed the rating of 'CARE-NP BBB' assigned to the Subordinated Debentures issued by Prabhu Bank Limited (PBL) on credit watch with developing implications. Instruments with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry moderate credit risk.

Detailed Rationale & Key Rating Drivers

The rating assigned to the Subordinated Debentures of PBL have been placed on credit watch with developing implications factoring in the ongoing acquisition process of Century Commercial Bank Limited [CARE-NP BBB] by PBL. CRNL will resolve the rating watch once clarity emerges on PBL'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 rating continues to derive strength from PBL's long track record of operations, experienced promoters and management team, diversified and good geographical coverage through branches, comfortable proportion of low-cost deposits (Current Accounts Savings Account (CASA)) and diversified investment portfolio. The rating also factors in improving trend in PBL's asset quality and its moderate liquidity profile coupled with moderate financial risk profile. The rating, however, is constrained by moderate capitalization levels with thin cushion over regulatory requirement, concentration of advances and depositors, intense competition and exposure to regulatory risk related to industry.

Going forward, the ability of the bank to continue its growth momentum while maintaining its asset quality and improving its capital adequacy and ability to manage the impact of any regulatory changes by Nepal Rastra Bank (NRB) would be the 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 PBL at the end of FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022) was marked by sustained growth in income and profitability coupled with improvement in asset quality. However, PBL's capitalization level continues to remain moderate with thin cushion over the minimum regulatory requirement, albeit on an improving trend in FY22 over FY21 (Audited, refers to the twelve-month period ended mid-July 2021). Overall CAR stood at 13.16% at the end of FY22 (FY21: 13.07%) as against the minimum regulatory requirement of 11%. The bank's ability to maintain adequate cushion in the capital adequacy ratios is critical for its solvency and will remain crucial for its growth perspective.

During FY22, PBL's total income increased by 30.68% to Rs. 19,284 Mn supported by increase in interest income by 35.05% over FY21 owing to the sustained growth in loans & advances over FY20-FY21. Consequently, bank's net interest income increased by 23.03% to Rs. 6,180 Mn during FY22. PBL's loans and advances at the end of FY22 was Rs. 150,405 Mn, growing 5.73% over FY21. Growth in advances was outpaced by deposits growth of 8.37% to Rs. 178,652 Mn during the same period. Furthermore, PBL's GNPL (Gross Non Performing Loan) ratio improved to 1.20% at the end of FY22, from 1.68% at the end of FY21, albeit still on the higher side. The bank's ability to manage growth while improving its asset quality will remain a key monitorable aspect.

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

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

(in Rs. Mn)

Particulars	FY21 (Audited)	FY22 (Unaudited)
Interest Income	12,899	17,420
Total Income	14,757	19,284
Interest Expenses	7,876	11,240
Net interest Income	5,023	6,180
Net Profit	1,721	2,600
Deposits	164,851	178,652
Advances (Gross Figure)	142,257	150,405
Total Assets	215,514	231,970
Total CAR (%)	13.07	13.16
Gross NPL to Gross Advances (%)	1.68	1.2
Provision Coverage Ratio (%)	150.53	220.42
Cost of Funds (%)	4.70	6.44
Interest Rate Spread (%)	3.65	4.32
Credit to Deposit Ratio (%)	78.30	78.35

About the bank

Prabhu Bank Limited (PBL) is "A" Class Licensed Institutions from Nepal Rastra Bank (NRB). It was incorporated on July 21, 1998 as Kist Merchant Banking and Finance Ltd. and renamed as Kist Bank Ltd. dt. June 19, 2001. Later it was merged with three other bank and financial institutions (BFIs) namely Prabhu Bikash Bank Ltd., Zenith Finance Ltd. and Gaurishankar Development Bank Ltd. as on September 15, 2014 and the name of the bank was changed to Prabhu Bank Ltd. As on July 15, 2021, 51% of the total shares of PBL were held by the promoter whereas remaining 49% is held by the general public.

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

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About CARE Ratings:

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