

**Rating Rationale
City Express Finance Company Limited**

Rating/Grading

Facility/Instrument	Amount (Rs. In Million)	Rating/Grading	Rating Action
Rights Share Issue	250.00	CARE-NP IPO Grade 5 [IPO Grade Five]	Assigned

The explanatory notes regarding the Rating/Grading symbols of CARE Ratings Nepal Limited (CRNL) are attached as Annexure 1

CRNL has assigned grading of ‘CARE-NP IPO Grade 5’ to the proposed Rights Share Issue of City Express Finance Company Limited (CEFL). ‘CARE-NP IPO Grade 5’ indicates Poor Fundamentals. CRNL assigns IPO grades on a scale of Grade 1 to Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. CRNL’s IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the ‘fundamentals’ of the issuer. CEFL proposes 166.67% rights share issue of 2.5 Million number of equity shares of face value of Rs.100 each at par aggregating Rs. 250.00 million.

Detailed Rationale & Key Rating/Grading Drivers

The grading assigned to the rights share issue of CEFL is constrained by its Gross Non-performing Loan to Total loan is at 100%, negative net worth and Capital Adequacy Ratio (CAR) till July 15, 2017 (FY17), however, improved as on April 13, 2018 (9MFY18) after infusion of capital, declining deposits and credit Portfolio over the period, negligible income from operations and operating profit before provision for possible losses was volatile over the period, competition from other big finance companies and banks and lack of good corporate governance practices in past; which is expected to be improved by entry of new promoters, directors and management team . The grading, however, derives strength from experienced & reputed new promoter group and management team and status of the recovery of Non-Performing Loan and NBA being satisfactory.

Ability of the company to improve assets quality by recovery of non-performing loan and realization of NBA, ability to raise the share capital as projected and simultaneously grow business and ability to manage the impact of any regulatory changes by NRB would be the key sensitivities.

Detailed Description of the Key Rating/Grading Drivers

Key Rating/Grading Weakness

Gross Non Performing loan (GNPL) to Total Loan at 100%

CEFL has categorized 100% of its loan portfolio under loss loan category. GNPL% to total loan stood at 100% in 9MFY18 (UA), FY17, FY16 and 94.68% in FY15. However, GNPL in absolute terms has been decreasing over the period. CEFL's GNPL decreased to Rs 46.07 Mn in 9MFY18 from Rs 59.32 Mn in FY17 and Rs 159.16 Mn in FY16.

Negative Net worth and negative CAR till July 15, 2017, however, improved substantially as on April 13, 2018 (UA) after infusion of capital

CEFL has negative net worth of Rs (56) Mn at the end of FY17 because of net losses suffered by the company in past mainly due to high provisions made for loss loans. CEFL's net worth improved to Rs 57 Mn at the end of 9MFY18 due to the net profit earned during the last 3 years, on back of write back of provisions and infusion of additional capital during 9MFY18.

The CAR of CEFL was negative at the end of FY17 as against the regulatory requirement of 11%. However, the CAR of the company increased to 31.69% as on April 13, 2018 on back of decrease in risk weighted assets, on back of decrease in credit portfolio and Non-Banking Assets, and infusion of additional capital during 9MFY18 and accretion of net profit to reserve and surplus. CEFL's paid up capital is expected to reach at Rs 400 Mn after the issue of proposed right share (i.e. Rs 250 Mn) against the Rs.800 Mn minimum paid up capital requirement as per the regulatory requirements.

Decline in deposits and loan portfolio over the period; however, increase in CASA

CEFL has been declared as problematic financial institution by NRB from 2013 to 2017 due to violation of NRB direction. NRB impose restrictions on doing financial transactions (except recovery of loan and repayment of deposit) and required to focus on recovery of loans, improvement of corporate governance etc. Due to imposition of restrictions on doing financial transaction as well as loss of reputation of the company in the market, loan portfolio and deposit both has been decreased significantly over the period.

Deposit of CEFL declined to Rs 19.47 Mn in FY17 from Rs 205.61 Mn in FY16 (Rs 284.79 Mn in FY15). However, deposits have increased to Rs 32.98 Mn in 9MFY18. Although deposits

decreased substantially over the period, CASA proportion has substantially increased to 100% in 9MFY18 on back of negligible term deposits.

Similarly, gross loans and advances declined to Rs 46.07 Mn in 9MFY18 from Rs 59.32 Mn in FY17 (Rs 159.16 Mn in FY16) as the financial institution was not allowed to disburse new loans by NRB.

Presently, negligible income from operations and Operating profit before provision for possible losses was volatile over the period

After exiting the tag of problematic bank from NRB, CEFL is yet to re-establish operations and commence lending. The income from operations was very low during FY17 and 9MFY18 and the operational profit was volatile over the period. CEFL incurred operating loss of Rs.52.83 Mn in FY17 against the profit of Rs.8.4 million in FY16, mainly due to high interest expenses on matured fixed deposit of old depositors from mid-Jan FY13 to mid-July FY17. Also, CEFL incurred operating losses of Rs.16.7 Mn during 9MFY18.

Competition from other bigger Finance Companies and Banks

As on July 15, 2017, there are 28 finance companies operating with total 130 branches all over Nepal. CEFL has only 3 branch including head office. Industry (Class ‘C’ Banks-Finance Companies) has achieved total interest income of Rs. 6,206 Mn in FY17 with Rs. 2,649 Mn net interest income; however, CEFL’s share on interest income is only 0.03% (Rs. 2 Mn) and net interest income is negative by Rs 38 Mn for the same period. It is challenging for CEFL to expand its business, due to loss of reputation in the market in past, high competition among bank and finance companies on getting deposit, existence of large number of finance companies along with Commercial and Development bank conducting similar kind of businesses and they lend at lower interest rate than finance companies.

Key Rating/Grading Strengths

Highly experienced & reputed new promoter group and management team

CEFL is operating since March 2006 as Kuber Merchant Finance Ltd., however, its performance was not satisfactory and was declared as problematic institution by NRB in FY13. It has been released from Problematic institution by NRB during the current year and started its operation

with new name and with new directors and management team; however, the business expansion is yet to start. The promoter group includes individual promoters, who are associated with City Express Money Transfer Pvt Ltd. (CEMT).

Mr. Chandra Tandon, is the newly appointed Chairman of the company, is director of Nepal Electricity Authority since 2015, Managing Director of CEMT since 2007 and in past served as director of Citizen International Bank Ltd, Reliable Finance Ltd, IME Finance Ltd and Chairman of City Express Saving and Credit Co-operative Ltd. from 2007 to 2015. Mr. Dol Raj Sharma, another director of the company is Vice Chairman of CEMT and Mr. Mahesh Kumar Shrestha is the Director of CEMT.

Mr. Bhisim Raj Chalise, Master Degree, has been appointed as new CEO of the company from Jan 15, 2018 has more than two decades of experience in Merchant banking and Banking industry. He has been assisted by a team having experience in banking and finance sector.

Status of the recovery of Non-Performing Loan and Non-Banking Assets (NBA) is satisfactory

Non-performing loan has been decreased significantly over the period by recovery as well as transfer of some loan to Non-Banking Assets. At the beginning of FY15, CEFL had Rs 396.25 Mn of non-performing loans (out of Rs 471.77 Mn total loans disbursed) which decreased to Rs 46.07 Mn at the end of 9MFY18 through recovery of Rs 290.60 Mn, transfer of Rs 134.96 Mn to NBA and write off of Rs 0.37 Mn over the period. Further, at the beginning of FY15, CEFL had Rs. 0.95 Mn NBA which has been increased to Rs 79.06 Mn at the end of 9MFY18 on back of transfer of Rs 134.96 Mn loan to NBA and recovery of Rs 55.70 Mn over the period.

About the Company

City Express Finance Company Ltd (CEFL) is National Level “C” Class Financial institution incorporated as on August 5, 2005 based in Kathmandu as a Public Limited Company under the name of Kuber Merchant Finance Limited; later its name was changed to CEFL on February 27, 2018. CEFL has obtained the license for banking operation from Nepal Rastra Bank and commenced its operation from March 16, 2006. It is operating in 2 District (out of total 77 Districts) of Nepal and has 3 branches (including head office) as on April 13, 2018. The share capital of the company is distributed among promoters and public in the ratio of 55:45. The

company shares are listed in Nepal Stock Exchange. CEFL market share in terms of deposit base and loan portfolio as on July 15, 2017 is 0.04% and 0.12% respectively of finance company industry.

During FY17, CEFL earned PAT of Rs.18 million with total operating income of Rs. 4 million. Further, during 9MFY18, CEFL earned profit of Rs.32 Million (as against Rs.102 million during 9MFY17).

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Annexure 1

CARE Ratings Nepal – IPO Grading Scale

CARE IPO grade	Definition
CARE-NP IPO Grade 1	Strong fundamentals
CARE-NP IPO Grade 2	Above average fundamentals
CARE-NP IPO Grade 3	Average fundamentals
CARE-NP IPO Grade 4	Below average fundamentals
CARE-NP IPO Grade 5	Poor fundamentals

Note:

Modifiers {"+" (plus)} can be used with the grading symbols 2, 3 and 4. The modifiers reflect the comparative standing within the category.