

Rating Rationale

Sunrise Bank Limited

Rating Facility	Amount (Rs. In Mn)	Rating	Rating Action
Issuer Rating	NA	CARE-NP A- (Is) [Single A Minus (Issuer Rating)]	Assigned

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

CRNL has assigned Issuer Rating of ‘CARE-NP A- (Is)’ to Sunrise Bank Limited (SBL). ‘CARE-NP A- (Is)’ indicates ‘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 assigns Issuer Rating on a scale of CARE-NP AAA (Is) to CARE-NP D (Is). CRNL’s Issuer Rating is an opinion on the issuer-specific credit risk. The rating is only an opinion on the general creditworthiness of the company and not specific to any particular debt instrument.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to SBL derives strength from long track of operations, experienced promoters and management team; comfortable capital adequacy and adequate capitalization level; diversified and good geographical coverage through branches; growth in loans & advances and deposits; considerable growth in total income and net profit over the period; comfortable RoTA; moderate CASA ratio; diversified loan portfolio; and comfortable liquidity profile. The rating, however, is constrained by increase in GNPLs and write offs during FY17 (refers to period ending July 15, 2017) and 9MFY18 (refers to nine months period ending April 13, 2018); high deposit and advance concentration; intense competition and exposure to regulatory risk related to industry.

Ability of the bank to continue its growth momentum without compromising on asset quality and maintaining capital adequacy and ability to manage the impact of any regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strength

Long track record, experienced Promoters and Management team

Established in the year 2007, SBL has a decade of market presence. The bank’s profile derives strength from its experienced and diverse promoters who have diversified experience in Banking, Insurance, Manufacturing, Import and Export, Trade sectors etc. SBL is professionally managed bank under the overall guidance of the bank’s Board of Directors (BoD) which includes eminent Businessmen/Industrialists with wide experience in the financial services. Mr. Moti Lal Dugar is the Chairman of the bank, who has been engaged in service and manufacturing industry, import export, insurance, hydro power, banking and business sector for more than 5 decades.

The top and senior management team is highly experienced in their respective field of operations. The bank is led by the professional CEO, Mr. Ratna Raj Bajracharya who is Chartered Accountant by qualification and had more than 40 years of experience in the industry.

Adequate capitalisation and sufficient capital adequacy

Tier I capital adequacy of the bank stood at 13.36% as on April 13, 2018 (As on July 15, 2017: 13.39%) and overall capital adequacy stood comfortable at 14.39% (As on July 15, 2017: 14.47%) inspite of the strong growth over the years as against the regulatory requirement of 8% and 11% respectively as per Basel III norms of NRB. During FY17, the bank has raised the capital by Rs. 1565 Mn through right share issue and Rs. 1063 Mn through proposed bonus shares issue.

Diversified and high geographical coverage through branches

SBL has scattered all over the country through its 80 branches, 3 extension counter and 92 ATM Terminals as on Mid- April, 2018 which increased from 70 Branches as on July 15, 2017. The branches are spread over all 7 Provinces and cover 33 districts (out of total 77 districts) of Nepal.

Consistent growth in loans & advances and deposits

Over the last 3 years the bank has shown healthy growth in the Loans & advances and Deposits. The total loans and advances increased by 18.26% to Rs.52 Bn (P.Y Rs.44 Bn) during FY17 as compared to FY16 against industry increase of 24.47% and further increased by 14.34% to Rs.58 Bn as on April 13, 2018.

The deposits increased by 18.13% to Rs.61 Bn (P.Y Rs.52 Bn) during FY17 as compared to FY16 against industry increase of 18.63%. The deposits further increased to Rs.65 Bn at the end of 9MFY18. The increase in the deposits was due to increase in number of branches i.e. addition of 3 new branches during FY17 and additional 10 branches during 9MFY18 and also due to value added facilities to their customers like Health & Accidental insurance policy in saving deposit, ties up with various hospital for providing additional discount to its customers, cash back facilities etc.

Considerable growth in total income and net profit over the period; comfortable RoTA, although declining over the period

During FY17, SBL's total income increased by 64% to Rs.6009 Mn majorly due to rise in both interest income by 71% on back of growth in advances and yield on advances and increase in the non-interest income by 25% on back of increase in investment income by 23% to Rs.32 Mn, which has contributed to increase in net profit by 23.62% to Rs. 1176 Mn in FY17 from Rs. 951 Mn in FY16. However, the net interest income shown a lower growth of 46% to Rs. 2193 Mn. in comparison to the increase in the total income mainly due to higher cost of deposits leading to increase in interest expenses by 96%.

The yield on advances increased by 229bps to 10.89% on back of increasing proportion of retail and sme loans in the loan portfolio as well as increasing interest rates in the market and the cost of deposits increased by 178bps to 5.52% mainly due to higher increase in the term deposits in comparison to CASA deposits. Increase in the yields on advances compared to lower increase in cost of deposits resulted into improvement in the Net Interest Margin (NIM) to 3.37% in FY17

as compared to NIM of 3.13% in FY16. On the operational efficiency front, operating expenses/average total assets holds efficient position i.e. 1.53% in FY17 as compared to 1.63% in FY16.

During 9MFY18, bank's total income has increased by 46% to Rs. 6016 Mn over 9MFY17. However, the PAT of the Bank increased by 9.81% to Rs. 942 Mn during 9MFY18 due to higher increase in the interest expenses on back of higher cost of funds and also due to increase in Provision for Possible Losses, write off of loans and operating expenses. Tightening liquidity in banking sector during the end of FY17 resulted in increased cost of funds for banking sector in Nepal. During FY17 total write off of Rs. 85 Mn belong to newly acquired bank (NIDC). ROTA of the bank has been comfortable at 1.59% as on April 13, 2018, although it has been declined from 1.81% at the end of FY17 and 1.68% at the end of 9MFY17.

Diversified loan portfolio

SBL has diversified loan portfolio distribution which consists of various types of loan disbursed over the period for various Industry/Sector such as agriculture, construction; metal products, machinery & electronic equipment, communication and public utilities; wholesaler & retailer trade; finance, insurance and real estate, hotel or restaurant, hospital, educational services with highest lending of 22.02% towards wholesaler & retailer sectors followed by 18.40% towards construction (residential, commercial and infrastructure) and lower lending of 0.04% on fishery related sectors as on April 13, 2018. Bank has its major portion contributed towards retail and corporate sector. As on July 15, 2017, the corporate segment comprised of 33.8% (36.8% as on July 15, 2016) of the advances, Retail banking comprised 39.53% (35.87% as on July 15, 2016) and Small & medium enterprises (SME) comprised 21.26% (23.06% as on July 15, 2016).

Moderate CASA ratio

CASA deposits proportion has decreased substantially from 38% as on July 15, 2016 to 31% as on July 15, 2017 (as increase in fixed deposit by 39% over FY16 in FY17), however, it has increased marginally and was at moderate level of 32.92% at the end of 9MFY18 (Industry avg. CASA for July 15, 2017 was 43.11% and 43.78% as on mid Feb 2018). Also the Term deposit/Total deposits has increased from 50.03% as on July 15, 2016 to 58.80% as on July 15, 2017 (Industry avg. term deposit/total deposit for July 15, 2017 was 42.00%), which resulted in higher cost of funds.

Comfortable liquidity profile

SBL has maintained SLR of 20.80% as on July 15, 2017 (against industry average of 23.34%) & 20.22% as on April 13, 2018; average CRR of 12.02% and 6.21% at the last reporting week as of FY17 and 9MFY18 respectively; Net Liquidity of 29.15% as on July 15, 2017 (against industry average of 29.65%) & 24.38% as on April 13, 2018. Maintained SLR (minimum 12%), CRR (minimum 6%) and Net Liquidity (minimum 20%) are within the norms of NRB.

Key Rating Weaknesses

Increase in GNPL and write off during last 2 years

There was increase in absolute amount of Gross NPLs from Rs. 533.85 Mn at the end of FY16 to Rs. 709.24 Mn as on July 15, 2017. However, the Gross NPL ratio was at moderate level of 1.37% as on July 15, 2017. Net NPL to Tangible Net-worth ratio was 2.24% as on July 15, 2017 (1.81% as on July 15, 2016). At the end of 9MFY18, the GNPL% has increased marginally to 1.45%. However, the assets quality is better than industry average GNPL% i.e. at 1.54% for commercial banks (A class) as on July 15, 2017 and 1.74% as on mid Feb 2018.

High deposits concentration and advances concentration

Deposit concentration to top 20 depositors is 36.15% of total bank deposits (i.e. Rs. 22 Bn) as on July 15, 2017 and 36.59% of total bank deposits (i.e. Rs. 24 Bn) as on April 13, 2018. Similarly, concentration on advances as top 20 individual borrowers accounts for 19.45% of total loan portfolio as on April 13, 2018.

Intense Competition

Currently there are 28 Commercial Banks operating with total 2535 branches all over Nepal (based on Monthly statistics published by NRB for Mid-Feb 2018). SBL has 80 branch as on Mid-April, 2018. Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs. 109,407 Mn during H1FY18 with Rs. 43118 Mn net interest income; SBL's share of interest income was 3.26% and 2.96% share of net interest income for the same period. Due to emergent competition it is challenge to recruit and retain skilled manpower. Also high competition in interest rates is the prominent challenge faced by the banking sector. New technology based services and its growing demand among customers is fresh challenges for Nepalese banking sector.

Exposure to regulatory risk related to industry

The banking sector is under capital increment pressure. Nepal Rastra Bank has extensively increased capital requirement for banking sector, i.e. from Rs. 2 Bn to Rs. 8 Bn for Class "A" Commercial Banks. It is a new challenge to the banking sector for financial performance as compared to capital increment in terms of Deposit, Credit, Profitability growth and payout to shareholders. As weighted average interest rate spread shouldn't be more than 5% since FY15 stated by NRB and together with growing competition it has been decreasing continuously over the period thereby impacting profitability. Further the banking industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time.

About the Company

Sunrise Bank Limited (SBL) is "A" Class Licensed Institutions from Nepal Rastra Bank (NRB). It was incorporated on October 12, 2007 as 23rd Commercial Bank of Nepal. The bank is promoted by reputed entrepreneurs who are industrialist, businessman, engineers, and prominent person of Nepal. As on July 15, 2017, 51% of the total shares of SBL hold by the promoter group whereas remaining 49% is held by general public. The bank had acquired two "C" Class

Financial Institution (Finance Company), Narayani National Finance Limited (started joint operation from July 14, 2016) and recently NIDC Capital Markets Limited (started joint operations from 10 February 2017). NCM Merchant Banking Limited (a Merchant Banker), a subsidiary of the erstwhile NIDC Capital Markets Ltd., has become a subsidiary of SBL after the acquisition, which is now operating under a new name Sunrise Capital Limited. The bank has an asset size of Rs. 71 Bn as on July 15, 2017, which witnessed 21.63% growth over July 15, 2016 (Rs. 59 Bn). The market share of SBL in terms of deposit base is 3.69% as on Mid-July 2017 and 2.87% as on Mid-April 2018; for the loan portfolio the market share is 3.89% as on Mid-July 2017 and 2.91% as on Mid-April 2018 of industry (Class 'A' Commercial Banks).

The bank has achieved PAT of Rs.1176 million on an asset size of Rs. 71426 million as on July 15, 2017 (A) as against PAT of Rs. 951 million on an asset size of Rs.58722 million as on July 15, 2016. Further, SBL earned PAT of Rs.942 million during 9MFY18.

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Annexure 1

CARE Ratings Nepal – Symbols for Issuer Rating in Nepal

Symbols	Rating Definition
CARE-NP AAA (Is)	Issuers with this rating are considered to offer the highest degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry lowest credit risk.
CARE-NP AA (Is)	Issuers with this rating are considered to offer high degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry very low credit risk.
CARE-NP A (Is)	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.
CARE-NP BBB (Is)	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.
CARE-NP BB (Is)	Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.
CARE-NP B (Is)	Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations, in Nepal.
CARE-NP C (Is)	Issuers with this rating are considered to offer very high risk of default regarding timely servicing of financial obligations, in Nepal.
CARE-NP D (Is)	Issuers with this rating are in default or are expected to be in default soon.

Note:

- i. Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE-NP AA (Is) to CARE-NP C (Is). The modifiers reflect the comparative standing within the category.
- ii. '(Is)' suffix will be added to indicates 'Issuer Rating'.