

Rating Rationale

Sunrise Bank Limited

Ratings

Rating Facility	Amount (Rs. In Mn)	Rating	Rating Action
Subordinate Bond (10% Debenture 2080)	1000.00	CARE-NP A- [Single A Minus]	Assigned
Issuer Rating	NA	CARE-NP A- (Is) [Single A Minus (Issuer Rating)]	Reaffirmed

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

CRNL has assigned ‘CARE-NP A-’ to the proposed Subordinate Bond “10% Sunrise Debenture 2080” issue of Sunrise Bank Limited (SBL). CRNL has also reaffirmed Issuer Rating of ‘CARE-NP A- (Is)’ assigned to Sunrise Bank Limited. The instrument with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instrument carries low credit risk.

Detailed Rationale & Key Rating Drivers

The rating assigned to SBL derives strength from the long track record of operations, experienced promoters and management team, diversified and good geographical coverage through branches, considerable growth in total income and net profit over the last three years, stable profitability parameters and adequate capitalization of the bank.

The ratings also factor in stable growth in loans & advances and deposits; moderate proportion of Current Accounts Savings Account (CASA) ratio; diversified loan portfolio & low advance concentration and comfortable liquidity profile. The rating is constrained by increase on account of moderation in asset quality over the last two years leading to higher write-offs; moderate concentration of deposits; 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 over a decade of track and an established market presence in Nepal. The bank’s profile derives strength from its experienced and diverse promoters who have diversified experience in sectors like banking, insurance, manufacturing, import and export, trading etc.

SBL is a professionally managed bank under the overall guidance of the bank's Board of Directors (BoD) which includes eminent businessmen and 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 senior management team is highly experienced in their respective field of operations and is headed by Mr. Ratna Raj Bajracharya (Chief Executive Officer; CEO) who is a Chartered Accountant by qualification and had more than 40 years of industry experience.

Adequate capitalisation

The bank has maintained adequate capitalization levels. The bank reported Capital Adequacy Ratio (CAR) of 13.38% as on July 16, 2018 with Tier I CAR of 12.58% as compared to CAR of 14.47% and Tier I CAR of 13.39% as on July 15, 2017. As on October 17, 2018, the bank reported CAR of 12.99% with Tier I CAR of 11.77% as against minimum regulatory requirement of 11% and 8% respectively as stipulated by NRB in compliance with Basel III norms.

Diversified and high geographical coverage through branches

SBL has a diversified presence across seven provinces of Nepal through a network of 97 branches, 3 extension counter and 108 ATM Terminals as on October 15, 2018.

Stable growth in advances and deposits

Over the last 3 years the bank has shown healthy growth in the advances and deposits. The advances of the bank grown at CAGR of 31.09% over the last 3 years ended July 16, 2018 whereas the industry CAGR was 24.18%. During FY18 the advances of the bank grown by 17.02% to Rs.61 Bn as compared to industry growth of 22.76%.

The deposits increased by 13.88% to Rs. 69 Bn (P.Y Rs. 61 Bn) during FY18 as compared to FY17 against industry growth of 18.08%. The increase in the deposits was on back of increase in number of branches i.e. addition of 20 new branches during FY18 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 customer, cash back facilities etc.

Stable profitability parameters in spite of marginal decline

During FY18, SBL's total income increased by 41% to Rs.8,450 Mn majorly due to rise in both interest income by 42% on back of growth in advances as well as rise in yield on advances. The increase in income was also supported by a 27% increase in the non-interest income. The bank was able to increase its Net Interest Margin (NIM) to 3.62% in FY18 as compared to 3.37% in FY17, in spite of 179 bps increase in cost of deposits. The bank saw its average cost of deposits increase to 7.30% for FY18 as against 5.51% due to tightening of the overall liquidity in banking sector during the end of FY18 resulted

in increased cost of funds for banking sector in Nepal. However, the bank shifted its focus to higher yielding products like retail advances and SME loans which helped the bank increase its average yield on advances by 210 bps to 13.00% for FY18.

The bank witnessed growth of 42.40% in total income during FY18, against which the interest cost increased by 53.42% resulting in moderation in growth in Profit After Tax (PAT) at 12.63% for the year. As a result, the Return on Total Assets (ROTA) for FY18 was at 1.71% as compared to 1.81% for FY17. However, the profitability parameters continued to remain stable.

During Q1FY19, on the basis of NFRS reporting, the bank's total income has increased by 33.02% to Rs. 2486 Mn in comparison to Rs. 1869 Mn during Q1FY18. Similarly, the PAT of the bank also improved substantially by 62.25% to Rs. 331 Mn during Q1FY19 (Rs. 204 Mn during Q1FY18).

Diversified loan portfolio and low advances concentration

The bank's advances are diversified across segments. As on July 16, 2018, the corporate segment of advances comprised of 32.7% (33.8% as on July 15, 2017) of the total advances, while retail banking comprised 34.07% (36.28% as on July 15, 2017). SME loan book comprised 20.76% (21.26% as on July 15, 2017) and Agricultural and deprived sector comprise of remaining 12.47% (8.66% as on July 15, 2017).

SBL approved credit limit was 28.58% as on July 15, 2017 and 42.31% as on July 16, 2018 of the total loans towards productive sector; of gross loans and advances prior to 6 months. The bank has adequately lends to deprived sector; 5.71% as on July 15, 2017 and 5.75% as on July 16, 2018 complying with the NRB requirements of lending to (i.e. Productive sector, agriculture & energy sector (combined) and deprived sector). Further, the concentration on advances as top 20 individual borrowers was low at 8.32% of total loan portfolio as on October 17, 2018.

Moderate CASA ratio

CASA deposits proportion of the bank has increased from 30.68% as on July 15, 2017 to 34.26% as on July 16, 2018, (Industry avg. CASA was 42.93% as on July 16, 2018). Further, the Term deposit/Total deposits declined from 58.80% as on July 15, 2017 to 57.60% as on July 16, 2018 (Industry avg. term deposit/total deposit for July 16, 2018 was 43.33%).

Moderate liquidity profile

The liquidity profile of the bank was moderate with no cumulative negative mismatches upto 180 days tenor bucket as on October 17, 2018. Further, SBL has maintained SLR of 21.34% as on July 16, 2018 (against industry average of 22.78%); average CRR of 12.02% and 7.22% at the last reporting week as of FY17 and FY18 respectively; Net Liquidity of 25.83% as on July 16, 2018 (against industry average of 29.65%). Maintained SLR (minimum 12%), CRR (minimum 6%) and Net Liquidity (minimum 20%) are within the norms of NRB.

Key Rating Weaknesses**Moderate asset quality parameters and increase in write offs during last two years**

There was increase in absolute amount of Gross NPLs from Rs.709.24 Mn as on July 15, 2017 to Rs.749 Mn as on July 16, 2018. However, the Gross NPL ratio has decreased to 1.24% as on July 16, 2018 (PY 1.37%) on back of increase in loan portfolio. Net NPL to Tangible Net-worth ratio was 2.26% as on July 16, 2018 (2.24% as on July 15, 2017). Also, the asset quality is better than industry average GNPL% i.e. at 1.33% for commercial banks (A class) as on July 16, 2018. Further, at the end of Q1FY19, the GNPL% has declined further to 1.12%.

Moderate deposits concentration

Deposit concentration to top 20 depositors was 36.15% of total bank deposits as on July 15, 2017 and 35.03% of total bank deposits as on October 17, 2018.

Intense Competition

Currently there are 28 Commercial Banks operating with total 3093 branches all over Nepal (based on Monthly statistics published by NRB for Mid-September 2018). SBL has 97 branch as on Mid-October, 2018. Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs. 241,266 Mn during FY18 with Rs. 99,451 Mn net interest income as per NRB reporting for the same period. SBL's share in interest income was 3.13% and 2.80% share in net interest income. 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.

Exposure to regulatory risk related to industry

The banking industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. After the extensive capital increment pressure from Rs. 2 Bn to Rs. 8 Bn for Class "A" Commercial Banks, NRB has now decreased weighted average interest rate spread to 4.5% from earlier 5% via Monetary Policy issued by NRB, for the FY19 thereby impacting the absolute profitability of the banks. Also, to relax the liquidity crisis Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) has been reduced to 4% & 10% respectively from existing 6% & 12% respectively 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 16, 2018, 51% of the total shares of SBL were held by the promoter whereas remaining 49% is held by the 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 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. 82 Bn as on July 16, 2018, which witnessed 15.18% growth over July 15, 2017 (Rs. 71 Bn). The market share of SBL in terms of deposit base 2.81% as on Mid-July 2018; for the loan portfolio the market share is 2.88% as on Mid- July 2018 of industry (Class 'A' Commercial Banks as per NRB data).

As per NFRS, SBL achieved PAT of Rs.1477 million on an asset size of Rs. 82783 million as on July 16, 2018 (UA) as against PAT of Rs. 1113 million on an asset size of Rs.71859 million as on July 15, 2017.

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Annexure 1

CARE Ratings Nepal – Symbol for Debt Ratings

Symbols	Rating Definition
CARE-NP AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry lowest credit risk.
CARE-NP AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry very low credit risk
CARE-NP A	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
CARE-NP BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry moderate credit risk
CARE-NP BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal
CARE-NP B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Nepal.
CARE-NP C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Nepal.
CARE-NP D	Instruments 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.