

## Rating Rationale

### Himalayan Bank Limited

#### Rating

Facility/Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP A (Is) [Single A (Issuer)]	Assigned
Subordinated Debenture “10% Himalayan Bank Limited Bond 2083”	3000	CARE-NP A [Single A]	Assigned

CRNL has assigned the issuer rating of “CARE-NP A (Is)” to Himalayan Bank Limited (HBL). 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 assigned “CARE-NP A” rating to the proposed Subordinated Debenture “10% Himalayan Bank Limited Bond 2083” issue of HBL. The 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 rating assigned to HBL derives strength from the long track record of the bank backed by institutional promoters, experienced directors and management team, adequate capitalization level, diversified and geographical coverage through branches. The ratings also factor in consistent growth in deposits and advances, considerable growth in total income over the last 3 years, diversified loan portfolio with regulatory compliance, comfortable Current Account and Savings Account (CASA) ratio though declining over the period and comfortable liquidity profile. The ratings also factor in decline in net profit and RoTA during FY18 (refers to 12 months period ended Mid-July 2018); followed by improved during H1FY19 (refers to 6 months period ended mid-January 2019).

The rating, is constrained on account of moderate asset quality; however, better than industry average (Class ‘A’ Commercial Banks), concentration in corporate portfolio, moderate deposits concentration and increasing advances concentration on top 20 individual borrower accounts, intense competition and exposure to regulatory risk related to industry.

Ability of the bank to continue its growth momentum while maintaining asset quality and capital adequacy and ability to manage the impact of any regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

## **Detailed Description of the Key Rating Drivers**

### **Key Rating Strength**

#### ***Long track record backed by institutional promoters***

Operating since February 1992, HBL is providing banking services for more than 27 years. HBL was promoted by 'Employees Provident Fund (EPF)' and other investment companies as a joint venture with Habib Bank Limited (Habib) of Pakistan. Habib, which was the first commercial bank to be established in Pakistan in 1947 and is the largest private sector bank in Pakistan, holds 20% of paid up capital of HBL, while EPF, which is the state owned retirement fund of Nepal, established in 1934, under Ministry of Finance with principal objectives of managing Provident Fund in Nepal holds 14% of paid up capital of HBL. EPF managed provident fund with total fund of Rs.287 Bn as on October 17, 2018.

#### ***Experienced directors and management team***

HBL is a professionally managed bank under the overall guidance of the bank's Board of Directors (BoD) which includes eminent bankers, businesspersons, etc. with wide range experience in the financial services and other sectors. Mr. Manoj Bahadur Shrestha is the chairman of the bank since April 2004 and was vice chairman during 1999-2004, having about 2 decades of experience as director of HBL. The senior management team of the banks is highly experienced in their respective field of operations. The bank is led by Mr. Ashok SJB Rana who is the Chief Executive Officer (CEO), has 24 years of experience in HBL at different positions. Mr. Ejaz Qadeer Gill (deputed from Habib) is the Senior General Manager of HBL. Mr. Gill has 28 years of experience in different national and international banks at different positions. The senior management members have more than 2 decades of banking experience.

#### ***Adequate capitalisation level***

HBL had paid up capital of Rs.8,115 Mn at the end of FY18. HBL issued 25% bonus shares out of distributable profits up to FY17, which has been capitalized as paid up capital during FY18, to reach the regulatory paid up capital requirements of Rs.8 Bn. HBL has further issued and capitalized 5% bonus shares out of distributable profits up to FY18, during H1FY19. Tier I capital adequacy ratio (CAR) of the bank stood at 11.40% as on July 16, 2018 and overall CAR stood at 12.46% as against the regulatory requirement of overall CAR of 11% stipulated by NRB in compliance with Basel III norms. However, Tier I and overall CAR of the bank has declined to 10.33% and 11.36% during H1FY19. Further to strengthen supplementary capital HBL plans to raise subordinated debenture of Rs.3 Bn during Q4FY19.

***Consistent growth in deposits and advances***

Over the last 3 to 4 years the bank has shown consistent growth in the loans & advances and deposits. Total deposits of HBL has increased at CAGR of 10.69% to Rs.100 Bn during FY18 over deposits of FY15 and reported growth of 9.53% to Rs.109 Bn during H1FY19 over FY18.. HBL's share in total industry deposits was at 4.11% as on January 14, 2019 marginally improved from 4.04% as on July 16, 2018. HBL also reported consistent growth on total advances which increased at the CAGR of 16.15% Rs.87 Bn over FY15 and reported growth of 14.61% to Rs.100 Bn during H1FY19 over FY18. HBL holds 4.11% & 4.19 % of the industry advances as on July 16, 2018 and January 14, 2019 respectively. CCD ratio of HBL remains 77.02% at the end of FY18 which has increased to 78.45% at the end of H1FY19, which is close to maximum allowable CCD ratio (i.e. 80%), due to low growth in deposits as compared to growth in advances.

***Considerable growth in total income over the last 3 years, albeit decline in net profit and RoTA during FY18, however improved during H1FY19***

During FY18, bank's total income was increased by 31.86% to Rs.11,321 Mn majorly due to rise in both interest income by 36.84% on back of growth in advances and improvement in yield on advances and increase in the non-interest income. On back of these, net interest income had increased by 9.88% to Rs.4,322 Mn during FY18.

The yield on advances increased by 203bps to 11.13% and the cost of deposits increased by 211bps to 5.55% mainly due to increased volume of term deposits and decline in CASA deposits over the period and higher interest rate in the industry during FY18 due to tight liquidity in the industry. The Net Interest Margin (NIM) of the bank improved marginally to 3.85% in FY18 as compared to NIM of 3.77% in FY17. HBL's impairment charge for loans and other losses was high at Rs.680 Mn as against Rs.108 Mn reversal during previous year. Further, HBL booked non-operating expenses of Rs.500 Mn on dispute related with one of its remittance partner, Max Money SDN BHD Malaysia, in regards to the outstanding amount in the vostro account maintained with HBL. On back of the above, HBL reported decline of 17.80% in PAT Y-o-Y to Rs.1,876 Mn in FY18. Return on Total Assets (RoTA) of the bank decreased to 1.67% during FY18 (FY17: 2.19%).

During H1FY19, bank's total income increased by 21.86% to Rs.6,451 Mn as compared to H1FY18, on back of increase in interest income by 23.64% and increase in non-interest income by 11.68% over the same period. The Net interest income of the Bank increased by 33.37% to

Rs.2,493 Mn and PAT of the Bank has increased by 23.62% to Rs.1,367 Mn during H1FY19. Further, ROTA has been improved to 2.29% as on H1FY19 which was 1.67% for FY18.

#### ***Diversified loan portfolio with regulatory compliance***

HBL has diversified portfolio across sectors with 22.91% of the portfolio towards non-food production related sectors followed by lending towards wholesaler & retailer sectors with 17.03% as on July 16, 2018.

HBL's advances towards the productive sector were 45.43% as on July 16, 2018 and 37.77% as on January 14, 2019. Out of productive sector advances HBL lent 25.60% as on July 16, 2018 and 30.47% as on January 14, 2019 towards Agriculture and Energy sector (combined). Bank lent 5.13% as on July 16, 2018 and 5.10% as on January 14, 2019 towards deprived sectors. All these lending (i.e. Productive sector, agriculture & energy sector (combined) and deprived sector) are within the NRB requirements.

#### ***Comfortable CASA ratio although declining over the period***

HBL maintained comfortable CASA proportion of 49.12% during FY18, which is better than its peers and higher than the industry average of 42.93% as on July 16, 2018. CASA of HBL has decreased to 44.75% during H1FY19, against industry average of 40.89%. High increase in term deposits compared to increase in CASA deposits is the main reason for decreasing CASA proportion of HBL.

#### ***Comfortable liquidity profile***

Bank has comfortable liquidity profile with positive cumulative mismatches as of January 14, 2019 due to well matched tenure of assets and liabilities. Further, HBL maintained SLR and CRR at 15.71% and 4.25% respectively at the last reporting week H1FY19. Net Liquidity was 23.05% as on July 16, 2018 and 20.43% as on January 14, 2019. Maintained SLR, CRR and Net Liquidity are within the norms of NRB.

#### **Key Rating Weaknesses**

##### ***Moderate asset quality, although better than industry average***

There was significant increase in absolute amount of Gross Non Performing Loans (GNPL) from Rs.662 Mn at the end of FY17 to Rs.1,218 Mn as on July 16, 2018 resulting increased GNPLs ratio to 1.40% as on July 16, 2018 (industry average GNPLs for FY18 is 1.41%) as compared to 0.85% that of July 15, 2017 mainly due to NRB's direction to classify advances availed by some

borrowers in Loss category. Absolute amount of GNPL was further increased to Rs.1,240 Mn as on January 14, 2019, however, GNPLs ratio improved to 1.25% during same period as against industry average GNPLs for H1FY19 of 1.60%, as there was higher increase in loans as compared to increase in absolute amount of GNPLs.

#### ***Concentration towards corporate portfolio***

Over the period, HBL has concentrated towards corporate sector portfolio. HBL has continuously increasing its lending proportion towards corporate sectors. As on July 16, 2018, the corporate segment constituted 72.75% of the total advances, which further increased to 75.68% of the total advances as on January 14, 2019. Retail, including SME, sector lending was decreased from 25.70% as of July 15, 2017 to 22.48% as of July 16, 2018 and further decreased to 19.97% of advances as on January 14, 2019.

#### ***Moderate deposits concentration and increasing advances concentration***

Deposit concentration of the top 20 depositors has been moderate of 23.25% of total bank deposits during FY18 and increased to 24.58% of total bank deposits during H1FY19. The concentration of advances to top 20 borrowers are moderate however are in increasing trend. Top 20 individual borrowers accounts for 15.98% of total advances during FY17, which was increased to 16.86% of total advances during FY18 and further increased to 21.73% of total advances during H1FY19.

#### ***Intense competition***

Currently there are 28 Commercial Banks, including three major state owned banks, operating with total 3233 branches all over Nepal (based on Monthly statistics published by NRB for Mid-January 2019). HBL had 57 branch along with head office and 1 extension counters as on same date. Industry has achieved total interest income of Rs.244 Bn during FY18 with Rs.103 Bn net interest income; HBL's share on interest income was 3.98% and 4.22% share on net interest income for the same period, which reduced to 3.80% and 4.02% respectively during H1FY19. 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.

### **About the Bank**

Himalayan Bank Limited (HBL) is “A” class licensed institutions from Nepal Rastra Bank (NRB), listed in Nepal Stock Exchange is one of leading bank in Nepal. It was incorporated in joint venture with Habib Bank Limited of Pakistan and obtained license to operate "A" class commercial bank from NRB dated February 18, 1992. Total shareholding of the bank is divided between promoter group and general public in the ratio of 85:15. HBL has diversified presence all over the country through its 57 branches, 1 extension counter and 113 ATM Terminals as on April 13, 2019. The branches are spread over all 7 Provinces and cover 30 districts (out of total 77 districts) of Nepal.

HBL has wholly owned subsidiary company namely HBL Capital Limited. The bank reported PAT of Rs.1,876 Mn on an asset size of Rs.116,376 Mn as on July 16, 2018 as against PAT of Rs.2,282 Mn on an asset size of Rs.107,987 Mn as on July 15, 2017. Further, HBL reported PAT of Rs.1,367 Mn during H1FY19 (UA).

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