

Rating Rationale
Everest Bank Limited

Rating

Facility/Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Subordinated Debenture “10.25% Subordinated Debenture Program”	1,000.00	CARE-NP AA- [Double A Minus]	Assigned
Issuer Rating	NA	[CARE-NP] AA- (Is) [Double A Minus (Issuer)]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has assigned ‘CARE-NP AA-’ rating to the new proposed Subordinated Debenture “10.25% Subordinated Debenture Program” issue of Everest Bank Limited (EBL). The 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. CRNL has also reaffirmed the issuer rating of “CARE-NP AA- (Is)” assigned to EBL. 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.

Detailed Rationale & Key Rating Drivers

The rating assigned to EBL derives strength from the long track record of the bank backed by institutional promoters, experienced directors and management team, strong capitalization level, diversified and geographical coverage through branches, consistent growth in advances and deposits and considerable growth in total income and net profit. The rating also factors in strong asset quality, lower cost of funds in the industry, moderate liquidity profile, diversified loan portfolio with regulatory compliance, moderate CASA ratio though declining over the period and diversified investment portfolio. The rating, however, is constrained on account of high concentration in borrowers and depositors, intense competition and exposure to regulatory risk related to industry. Ability of the bank to continue its growth momentum without compromising on asset quality, 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 of the bank backed by institutional promoter

Operating since October 1994, EBL is providing banking services to customers for more than 25 years. EBL was promoted by Punjab National Bank (PNB) (rated CARE AA (Credit Watch with Developing Implications)) holding 20.03% shareholding, along with few prominent businessmen in Nepal as a joint venture. PNB is one of the largest nationalised bank in India having strong franchise with a network of 6,989 branches spread across India with over 10 crore customers as on March 31, 2019.

Experienced directors and management team

EBL is a professionally managed bank under the overall guidance of the Bank’s Board of Directors (BoD) which includes eminent bankers, administrators, businessmen etc. with wide experience in the financial and other

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

sectors. Further, as a joint-venture partner, PNB has been providing top management support to EBL under Technical Service Agreement, whereby, bank is managed by three expatriates (including CEO) deputed from PNB to oversee the management of the bank's functioning.

The bank is headed by Mr. Bishnu Krishna Shrestha (Chairman) for the last 20 years having more than 40 years of experience in trading, manufacturing and financial management. Mr. Lingam Venkata Prabhakar is a PNB Nominee Director on the BoD and has more than 30 years of banking experience. The senior management team of the bank is highly experienced in their respective field. The operations of the bank are led by Mr. Gajendar Kumar Negi, who has been deputed by PNB as Chief Executive Officer with effective from October 17, 2019. Mr. Negi, commenced his career in 1993 with Punjab National Bank and has experience of more than 25 years in banking sector. The management team includes Mr. Girish Kohli (Deputy General Manager (DGM)) who joined PNB in 1989 and has more than 29 years of banking experience. Mr. Rajeev Jain is also DGM in EBL, who joined PNB in 1983 and has more than 34 years of banking experience.

Strong capitalization level

EBL had paid up capital of Rs.8,107 Mn at the end of FY18 (refers to 12 months period ended mid July 2018) and the same was maintained in FY19 as well. To reach the regulatory paid up capital requirements of Rs.8,000 Mn for 'A' Class Commercial Bank, EBL in FY18 issued 15.09 lakh right shares at the rate of Rs.100 each amounting to Rs.1,509 Mn and 33% bonus share amounting to Rs.1,992 Mn. Tier I Capital Adequacy Ratio (CAR) of the bank stood comfortable at 12.38% as on July 16, 2019 (As on July 16, 2018: 12.65%) and overall capital adequacy stood strong at 13.74% (As on July 16, 2018: 14.20%) as against the regulatory requirement of overall CAR of 11% as per Basel III norms of NRB for FY19. Overall CAR of the bank was marginally improved to 13.79% during Q1FY20 (refers to 3 months period ended mid October 2019) with Tier I CAR of 12.46%.

Diversified and geographical coverage through branches

EBL has diversified presence in Nepal with 94 branches, 7 Province Offices, 120 ATMs, 31 Revenue Collection counters and more than 9000 payout agents as on October 17, 2019 across the Country. EBL also currently provides Branchless Banking services in 69 districts via 488 Business Correspondents.

Consistent growth in Loans & Advances and Deposits

Over the last 3 to 4 years the bank has shown consistent growth in the loans & advances and deposits. Total deposits of EBL have reached to Rs.130,177 Mn in FY19 recording a three-year CAGR of 11.54% and reported growth of 11.81% over FY18 against industry growth of 16.53% for the same period. Total deposits of EBL was further increased by 4.22% to Rs.135,665 Mn during Q1FY20 over FY19. EBL's share of total industry deposits was at 4.53% as on July 16, 2019 in comparison to the 4.65% share of total industry deposits as on July 16, 2018. EBL also reported consistent growth in total advances. Total loans and advances stood at Rs.111,822 Mn in FY19 recording a three year CAGR of 17.51% and reported growth of 18.97% over FY18 against industry growth of 18.36% over FY18. Further, total loans and advances of EBL increased by 3.42% to Rs.115,642 Mn during Q1FY20 over FY19. This increase in advances & deposits was on back of leveraging the 22 & 12 new branch additions during FY18 & FY19 respectively. EBL holds 4.48% of the industry advances as on July 16, 2019.

Credit to core capital cum deposit (CCD) ratio of EBL remains 75.03% at the end of FY19 which was decreased to 74.89% at the end of Q1FY20 as against maximum allowable CCD ratio (i.e. 80%).

Considerable growth in total income and net profit over the period

During FY19, the bank's total income increased by 27.98% to Rs.14,451 Mn majorly due to rise in both interest income by 29.45% on back of growth in advances, increased interest rates leading to improvement in yield on advances and increase in the non-interest income by 16%. On back of these, net interest income had increased by 17.02% to Rs.5,699 Mn during FY19. The yield on advances increased by 17 bps to 10.96% and the cost of deposits increased by 102 bps to 5.84% mainly due to increased volume of term deposits coupled with decline in CASA deposits over the period and higher interest rate in the industry during FY19 due to tight liquidity in the banking sector. Net Interest Margin (NIM) declined from 3.75% in FY18 to 3.64% in FY19 due to increase in the absolute amount of interest expense being more than increase in interest income.

The bank saw increase in operating expenses by 15.54% to Rs.2,641 Mn as compared to Rs.2,286 Mn in FY18. This is mainly due to increase in employee related expenses on back of supporting the branch expansion leading to increase in the number of employees. However, despite growth in operating expenses, operating expenses/ average total assets decreased to 1.69% in FY19 as compared to 1.76% in FY18 on account of significant growth in total asset. EBL reported PAT of Rs.3,054 Mn in FY19 (FY17: Rs.2,582 Mn). The bank's Return on Total Assets (RoTA) was slightly decreased to 1.95% during FY19 (FY18: 1.99%).

During Q1FY20, bank's total income has increased by 15.80% to Rs. 3,919 Mn in comparison to Rs.3,384 Mn during Q1FY19. The Net interest income of the Bank increased by 9.30% to Rs. 1,433 Mn during Q1FY20 vis-a-vis Q1FY19. PAT of the Bank has increased by 9.09% to Rs.691 Mn during Q1FY19 (Rs.633 Mn during Q1FY18), however ROTA declined to 1.80% as on Q1FY20.

Strong asset quality, better than industry average on a sizeable asset base

EBL has maintained good asset quality with lowest NPL in the industry. In absolute amount Gross Non-Performing Loans (GNPL) has been almost same over the last three years with decreasing GNPL ratio. GNPL at the end of FY19 was Rs.177 Mn (P.Y.:Rs.188 Mn) and Rs.201 Mn as on Q1FY20. GNPLs ratio stood at 0.16% as on July 16, 2019 (industry average GNPLs for FY19 is 2.41%) as compared to 0.20% on July 16, 2018. However, GNPL ratio was slightly increased to 0.17% during Q1FY20 (industry average GNPLs for Q1FY20 is 1.61%). Out of total advances of Rs.111,822 Mn as of July 16, 2019, the delinquencies (including restructured loan) of more than 30 days accounts for 0.40% of total advances; the same has increased to 0.85% compared as on October 17, 2019.

Lower cost of funds in the industry

EBL continues to have one of the lower cost of funds of 6.21% in FY19 and 6.38% during Q1FY20. This is likely to be a competitive advantage for the bank, especially in the recently implemented "base rate plus lending rate" regime. EBL's deposit mix changed in favor of term deposits at the expense of CASA proportion by offering high interest rates on term deposit. Fixed deposit comprised 49.50% of EBL's total deposit mix in FY19 as compared to 46.44% in FY18, in contrary to CASA falling to 38.95% in FY19 from 41.48% in FY18.

Moderate liquidity profile

Bank has moderate liquidity profile with mismatches from 91-180 days buckets. However, cumulative mismatches as of October 17, 2019 are positive with matched overall tenure of assets and liabilities. ALM mismatch is on account of advances given of longer tenure in contrast with short term fixed deposits. EBL has maintained SLR of 27.08% as on July 16, 2019 and 25.58% as on October 17, 2019 and average CRR of 5.61% and 5.22% at the last reporting week as of FY19 and Q1FY20. Net Liquidity of the bank was 40.10% as on July 16, 2019 and 29.59% as on October 17, 2019. Maintained SLR, CRR and Net Liquidity are within the norms of NRB.

Diversified loan portfolio with regulatory compliance

EBL has diversified portfolio across sectors with 25.73% in FY19 and 28.57% in Q1FY20 towards wholesalers & retailers sector. In this sector 8.15% lending in FY19 and 11% lending in Q1FY20 is towards automotive dealer. Next major lending of 17.11% in FY19 and 18% in Q1FY20 is towards construction sector which comprises majorly towards housing sector. EBL lent 32.85% as on July 16, 2019 and 30.25% as on October 17, 2019 towards productive sector. Out of productive sector advances EBL lent 29.52% as on July 16, 2019 and 27.11% as on October 17, 2019 towards Agriculture and Energy sector (combined). Bank adequately lends to deprived sector; 7.90% as on July 16, 2019 and 7.55% as on October 17, 2019. All these lending (i.e. Productive sector, agriculture & energy sector (combined) and deprived sector) are within the NRB requirements.

Moderate CASA ratio although declining over the period

EBL has maintained CASA proportion of 38.95% during FY19 against industry average CASA of 41.77% during same period. CASA of EBL has decreased from 41.48% in FY18 to 38.95% in FY19 and further decreased to 38.90% during Q1FY20. High increase in term deposits compared to increase in CASA deposits is the main reason for decreasing CASA proportion of EBL. However, in absolute amount CASA deposits is increased by 5.01% during FY19 over FY18, which was further increased by 4.08% during Q1FY20 over FY19.

Diversified investment portfolio

EBL has made investments of Rs.21,991 Mn as on July 16, 2019, out of which Rs.21,365 Mn has been invested in treasury bills and bond instruments issued by Nepal Government, Rs.78 Mn has been invested in equity securities of corporate entities and Rs.548 Mn has been invested as placement in foreign banks. The investment portfolio of the bank has increased by 17% in FY19 over FY18 mainly due to additional investments made in government securities which increased by 38.49% in FY19.

Key Rating Weaknesses***High portfolio concentration in top borrower groups and depositors***

Deposit concentration by top 20 institutional depositors has been moderately high at 32.34% of the total bank deposits as on July 16, 2018, however the same was slightly reduced to 31.18% of the total bank deposits as on July 16, 2019 and increased to 32.06% of the total bank deposits as on October 17, 2019. The bank has high concentration on loan portfolio as top 20 single borrower accounts for 23.91% of total advances during FY18, which was 16.03% of total advances during FY19 and 19.43% of total advances during Q1FY20. Likewise, top

20 group borrowers accounted for 29.15% of total advances during FY18 which was decreased to 26.91% of total advances during FY19. However, the same increased to 28.84% during Q1FY20.

Intense competition

Currently there are 28 Commercial Banks, including three major state owned banks, operating with total 3884 branches all over Nepal (based on Monthly statistics published by NRB for Mid-October 2019). EBL had 94 branch along with head office as on same date. Industry (Class ‘A’ Commercial Banks) has achieved total interest income of Rs.304 Bn during FY19 with Rs.127 Bn net interest income; EBL’s share on interest income is 4.28% and 4.47% share on net interest income for the same period. The market share of EBL has increased to 4.31% in terms of interest income, however reduced to 4.16% in terms of net interest income during Q1FY20. Competition in the interest rates is the prominent challenge for Nepalese 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 decreased weighted average interest rate spread to 4.5% from earlier 5% for the FY19 and again decreased to 4.4% for the FY20 via Monetary Policy, 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

Everest Bank Limited (EBL) an “A” class licensed institution from Nepal Rastra Bank (NRB), listed in Nepal Stock Exchange is one of leading private sector bank in Nepal. It was incorporated on October 16, 1994, in joint venture with Punjab National Bank (PNB) of India. Current shareholding pattern of the Bank constitutes of promoters holding 69.22% of the shares (including PNB’s 20.03%) while remaining 30.78% is held by the public. The bank reported PAT of Rs.3,054 Mn on an asset size of Rs.169 Bn as on July 16, 2019 as against PAT of Rs.2,582 Mn on an asset size of Rs.144 Bn as on July 16, 2018. Further, EBL reported PAT of Rs.691 Mn during Q1FY20.

<p>Analyst Contact Mr. Giriraj Kandel giriraj.kandel@careratingsnepal.com Tel No.: +977-01-4445473</p>	<p>Group Head Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4445474</p>	<p>Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4445472/3/4</p>
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