

**Rating Rationale**  
**Everest Bank Limited**

**Rating**

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

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of “CARE-NP AA- (Is) [Double A Minus (Issuer)]” assigned to Everest Bank Limited (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.

CRNL has also reaffirmed rating of “CARE-NP AA- [Double A Minus]” assigned to the proposed Subordinated Debenture “10.25% Subordinate Debenture Program” issue of 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.

**Detailed Rationale & Key Rating Drivers**

*The ratings continue to derive strength from the long track record of the bank backed by institutional promoter, experience of directors and management team, comfortable capitalization level, diversified and geographical coverage through the branch network in Nepal, consistent growth in deposits and advances and considerable growth in total income and profitability over the period. 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 Current Account and Savings Account (CASA) ratio though declining over the period and diversified investment portfolio.*

*The ratings are constrained on account of high concentration in borrowers and depositors, intense competition and exposure to regulatory risk related to industry. The ability of the bank to maintain stable growth in business 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.*

**Impact of COVID-19**

The current situation of COVID-19 pandemic which has led to disruption on overall industry and travel restrictions is likely to impact quality of bank’s advances portfolio as well. Considering, current situation, NRB in March 2020, reduced Cash Reserve Ratio (CRR) from 4% to 3% providing additional liquidity to the Banks and also has reduced Bank Rate from 6% to 5%. Further, it has relaxed its asset classification guidelines till Mid-

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

July 2020 whereby defaults in payment of due amount or renewal of short-term limits since quarter ending Mid-April 2020 doesn't entail downgrade of such assets. However, NRB also has directed Banks to provide rebate of 2% in interest rate for a quarter which will have negative impact on the profitability of the Bank in Q4FY20 (refers to period mid-April 2019 to mid-July 2020). As a result, in CRNL's view the credit risk profile of bank is expected to deteriorate over the medium term. Liquidity profile, resource raising ability and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the banking sector. CRNL will continue to assess on the impact on the key business and financial parameters of banking sector and shall take appropriate rating actions if needed.

### **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 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 7,042 branches spread across India and with over 11 crore customers as on December 31, 2019. Further, as a joint-venture partner, PNB has been providing top management support to EBL under a Technical Service Agreement, whereby, bank is managed by three expatriates (including CEO) deputed from PNB to oversee the management of the bank's functioning.

##### ***Experience of directors and management team***

EBL is a professionally managed bank under the overall guidance of the Bank's Board of Directors (BoD) which includes bankers, administrators, businessmen etc. with wide experience in financial and other sectors. The bank is headed by Mr. Bishnu Krishna Shrestha (Chairman) for the last 20 years. Mr. Lingam Venkata Prabhakar is a PNB Nominee Director on the Board 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. Gajendra Kumar Negi, who has been deputed by PNB as Chief Executive Officer with effect 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) – Credit) who joined PNB in 1989, and has more than 29 years of banking experience. Dr. Sandhir Kumar is DGM Operations in EBL and has more than 14 years of banking experience in different capacities in PNB.

##### ***Comfortable capitalisation level***

EBL had paid up capital of Rs.8,107 Mn as on July 16, 2019 which increased to Rs. 8,510 Mn as on April 12, 2020 on account of 5% bonus share amounting to Rs.403 Mn issued during the year from retained earnings. 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 comfortable at 13.74% (As on July 16, 2018: 14.20%) as against the regulatory requirement of overall CAR of 11%. However, overall CAR has declined from 13.74 % as on July 16, 2020 to 12.62% as on April 12, 2020 on account of payment of cash dividend during the period.

***Diversified and geographical coverage through branches***

EBL has diversified presence in Nepal with 96 branches, 7 Province Offices, 123 ATMs, 30 Revenue Collection counters and more than 9000 payout agents (as on April 12, 2020) across the Country. EBL also currently provides Branchless Banking services in 69 districts via 488 Business Correspondents (BCs). The branches are spread over all 7 Provinces of Nepal.

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

Over the last 4 to 5 years the bank has shown consistent growth in the loans & advances and deposits. Total deposits of EBL has reached to Rs.130,177 Mn in FY19 (refers to 12 months period ended mid-July 2019) recording a three-year CAGR of 11.54% and reported growth of 11.81% over FY18 against industry growth of 16.53% over FY18. During 9MFY20 (refers to period from mid-July to mid-April 2020), deposits grew by 13.39% (y-o-y) to Rs 141,818 Mn. EBL's share of total industry deposits was at 4.50% as on July 16, 2019 and 4.45% as on April 12, 2020. EBL also reported consistent growth in total advances.

The bank's total advances stood at Rs.111,822 Mn as on July 16, 2019 recording a three year CAGR of 17.51% and reported growth of 18.97% (y-o-y) over FY18 against industry growth of 18.36% over FY18. Advances further grew by 9.93% in 9MFY20 as compared to 9MFY19. EBL held 4.48% and 4.16% of the industry advances as on July 16, 2019 and April 12, 2020. CCD ratio of EBL remained at 75.03% at the end of FY19 and 75.05% at the end of 9MFY20 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 16.01%. 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 and decline in CASA deposits over the period and higher interest rate in the industry during FY19. Net Interest Margin (NIM) of the bank 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.

On the operational efficiency front, operating expenses have been increasing y-o-y. In FY19, the operating expenses increased by 15.54% as compared to FY18. 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 assets. Return on Total Assets (RoTA) of the bank has slightly decreased to 1.95% during FY19 (FY18: 1.99%).

During 9MFY20, bank's total income has increased by 12.95% to Rs. 11,882 Mn in comparison to Rs. 10,520 Mn during 9MFY19. Net interest income of the Bank increased by 5.86% to Rs. 4,346 Mn during 9MFY20 vis-a-vis 9MFY19 due to increase in interest income. PAT of the Bank has increased by 6.17% to Rs. 2,353 Mn during 9MFY20 (Rs.2,216 Mn during 9MFY19), however ROTA declined to 1.81% during 9MFY20 which was 2.02% for 9MFY19.

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

EBL has maintained good asset quality with one of the lowest NPA 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.236 Mn as on 9MFY20 ending mid-April 2020. GNPLs ratio stood at 0.16% as on July 16, 2019 (industry average GNPLs for FY19 is 1.32%) and at 0.20% as on 9MFY20 (industry average GNPLs for 9MFY20 is 1.72%). The current situation of COVID-19 pandemic which has led to disruption on overall industry and economy is likely to impact the quality of bank's advances portfolio as well. Ability of bank to manage its asset quality would be key rating sensitivity.

#### ***Lower cost of fund in the industry***

EBL continues to have one of the lower cost of funds (deposits & borrowings) of 6.21% in FY19 and 6.39% during 9MFY20. 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 favour of term deposits at the expense of CASA proportion by offering high interest rates on 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 in FY19.

#### ***Moderate liquidity profile***

Bank has a moderate liquidity profile with mismatches from 91- 180 days buckets. However, cumulative mismatches as of April 12, 2020 are positive with matched overall tenure of assets and liabilities. EBL has maintained SLR of 27.08% as on July 16, 2019 and 37.36% as on April 12, 2020 (9MFY20); average CRR of 5.61% and 11.39% at the last reporting week as of FY19 and April 12, 2020; Net Liquidity of 40.10% as on July 16, 2019 and 42.30% as on April 12, 2020. Maintained SLR, CRR and Net Liquidity are compliant with the NRB norms.

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

EBL has diversified portfolio across sectors with 26.97% in 9MFY20 towards wholesalers & retailers sector. In this sector 8% lending in 9MFY20 is towards automotive dealer. Next major lending of 19.02% in 9MFY20 is towards construction sector which comprises housing sector. EBL lent 32.85% as on July 16, 2019 and 35.04% as on April 12, 2020 towards productive sector. Bank adequately lends to deprived sector; 7.90% as on July 16,

2019 and 6.42% as on April 12, 2020. All these lending (i.e. Productive sector, agriculture & energy sector (combined) and deprived sector) are complying with the NRB guidelines.

***Moderate CASA ratio although declining over the period***

EBL has maintained CASA proportion of 38.95% during FY19 which is close to industry average of 41.77% during same period. CASA of EBL has decreased from 41.48% in FY18 to 38.95% in FY19 and further to 38.37% during 9MFY20. 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 has increased by 5.01% during FY19 over FY18, which has further increased by 7.31% during 9MFY20 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.

**Key Rating Weaknesses**

***High portfolio concentration among top borrowers 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 31.68% of the total bank deposits as on April 12, 2020. The bank's concentration on loan portfolio of top 20 single borrower accounts has been on a declining trend from 23.91% of total advances during FY18 to 16.03% during FY19 and reduced further to 15.01% during 9MFY20. Top 20 group borrowers accounted for 29.15% of total advances during FY18 which decreased to 26.91% of total advances during FY19. However, the same increased to 30.42% during 9MFY20.

***Intense competition***

Currently there are 27 Commercial Banks, including three major state owned banks, operating with total 4,218 branches all over Nepal (based on Monthly statistics published by NRB for Mid-April 2020). EBL had 96 branches along with head office as on same date. Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs.304,264 Mn during FY19 with Rs.127,266 Mn net interest income; EBL's share on interest income is 4.28% and 4.54% share on net interest income for the same period which increased to 4.36% in terms of interest income and to 6.43% in terms of net interest income during 9MFY20. Competition in interest rates is the prominent challenge in the Nepalese banking sector.

**Exposure to regulatory risk related to industry**

The banking industry in Nepal is exposed to changes in the policies issued by NRB from time to time. After the extensive capital increment from Rs.2 Bn to Rs.8 Bn for Class “A” Commercial Banks, NRB reduced weighted average interest rate spread to 4.5% from earlier 5% for the FY19 and again reduced to 4.4% for the FY20 and has also changed the calculation method of interest rate spread, 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% (further reduced to 3% amid COVID-19) & 10% respectively from existing 6% & 12% respectively. Further, NRB through its notice dated April 28, 2020 has directed BFIs to provide rebate of 200bps in interest rate for Q4FY20, which is likely to have significant impact on profitability of the banks.

**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 of India. Current shareholding pattern of the Bank constitutes of promoters holding 69.22% of the shares (including PNB) 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. 2,353 Mn during 9MFY20 (UA).

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