Rating Rationale

Corporate Development Bank Limited

Rating

Facility/Instrument	Amount (Rs. In Million)	Rating[1]	Rating Action
Issuer Rating	NA	[CARE-NP] B+ (Is) [Single B Plus (Issuer)]	Assigned

CARE Ratings Nepal Limited (CRNL) has assigned the issuer rating of 'CARE-NP B+ (Is)' to Corporate Development Bank Limited (CDBL). Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The ratings assigned to CDBL is constrained on account of weak assets quality with high quantum of Non-Banking Asset, high concentration of advances on construction sector, high concentration over top 20 depositors and borrowers and geographical concentration of business with small market share. The ratings also constrained on account of weak financial performance, however increment in PAT during FY20 (Unaudited, refers to the 12 months period ended Mid-July 2020), exposure to regulatory risks related to industry and competition from other banks and financial institution. The rating, however, derives strength with removal from problematic institution with new promoters and experienced management team, growth in loans & advances and deposits after removal from problematic institution status by Nepal Rastra Bank (NRB), adequate capitalization level, adequate level of Current Accounts and Savings Accounts (CASA) and moderate liquidity profile. The ability of the company to grow its income and business while maintaining asset quality & capital adequacy and ability to manage the impact of COVID-19 along with 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 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. Considering, current situation, NRB in March 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-July 2020 whereby delays in payment of due amount since quarter ending Mid-April 2020 doesn't entail downgrade of such assets. Additionally, monetary policy published for the FY21, has provided additional moratorium ranging from 6 months to 2 years for different businesses according to the level of impact. As a result, in CRNL's view the credit risk profile of the 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

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

monitorable factors in the banking sector. CRNL will continue to assess on the impact on the key business and financial parameters of banking and finance sector and shall take appropriate rating actions if, needed.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak asset quality, with high quantum of Non-Banking Asset

CDBL's Gross Non performing Loan % (GNPL) is weak at 4.94% at the end of FY20 which however decreased from 29.51% in FY19 (industry average GNPL was 1.52% in FY20 and 0.92% in FY19). GNPL also decreased in absolute amount to Rs 16 Mn in FY20 from Rs 110 Mn in FY19 due to conversion of Non-Performing Assets (NPA) of Rs 71 Mn to Non-Banking Assets (NBAs) and recovery of NPA of Rs. 23 Mn during FY20. The delinquencies of more than 30 days decreased significantly to 6.04% of total advances at the end of FY20 from 31.56% of total advance at the end of FY19.

High concentration over top 20 depositors and borrowers

Deposit concentration of top 20 depositor was high at 41.79% of the total bank's deposits as on July 15, 2020. Further, CDBL's lending to top 20 group borrower was high at 37.82% of total loans and advances in FY20. Similarly, lending to top 20 individual borrower was 29.21% of total loans and advances in FY20.

High concentration of advances on construction sector

At the end of FY20, portfolio distribution proportion stood at 34.43% for construction followed by 10.93% towards transport, communication and public utilities wholesaler. CDBL lent 22.98% of gross loans and advances outstanding prior to 6 months in FY20 towards productive sector (which includes agriculture sector, energy sector, tourism sector and cottage and small industries). All the lending (i.e. priority sector, agriculture, energy & tourism sector (combined) are within the NRB regulatory norms.

Geographical concentration of business with small market share

CDBL has concentration over its business area with it currently operating in 2 provinces and 3 districts of Nepal (out of 7 provinces and 77 districts of Nepal) through its 4 branches. As per monthly statistics published by NRB, 20 development banks have total 1,029 branches, 296 ATM terminals as on Mid July, 2020. Further, CDBL has small market share with share on interest income and net interest income at 0.17% and 0.32% respectively for FY20 among development banks.

Weak financial performance, however increment in PAT during FY20

During FY20, CDBL's total income increased by 23.70% to Rs. 69 Mn due to increase in interest income. Interest income increased by 27.90% to Rs. 67 Mn during FY20 due to recovery of previous year income on cash basis during the year. Net interest income increased by 5.95% to Rs.44 Mn during FY20 and operating expenses decreased by 7.43% during FY20. Its yield on advances increased to 15.50% during FY20 from 14.03% during FY19. Similarly, cost of deposit increased marginally to 9.61% during FY20 from 8.53% during FY19 due to increase in fixed deposits in absolute amount. Its Net Interest Margin (NIM) deteriorated to 5.76% during FY20 from 7.60% of FY19 because of lower increase in the net interest income and increase in cost of deposit during FY20.

On the operational efficiency front, its operating expenses/ average total assets decreased to 4.39% in FY20 as compared to 6.62% in FY19 due to decrease in employee expenses. Impairment charge for loans and other losses reversed substantially by Rs. 59 Mn during FY20. Due to reversal in provisions and impairment charges and decrease in employee expenses as compared to previous year, it has reported increment in PAT by 36.03% to Rs.50 Mn during FY20.

Competition from other banks and financial institution

Currently, there are 20 development banks operating with total 1,029 branches all over Nepal (based on monthly statistics published by NRB for Mid-July, 2020) out of that CDBL has 4 branches. Industry (Class ‘B’ Banks-Development banks) has achieved total interest income of Rs. 39,332 Mn in FY20 with Rs. 13,724 Mn net interest incomes; CDBL’s share on interest income and net interest income is ~0.17% (Rs. 67 Mn) and 0.32% (Rs 44 Mn) respectively for the same period. It is challenging for CDBL to grow from current market share and expand its business, due to high competition among bank and finance companies, existence of large number of Development banks along with Commercial banks and finance companies conducting similar kind of businesses and lending at lower interest rate as well as offering wider banking services than development banks.

Exposure to regulatory risk related to industry

The Banking and Finance industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. In past, three district regional level development bank faced pressure from NRB for capital increment to Rs. 500 Mn. NRB via its Monetary Policy has reduced the Statutory Liquidity Ratio (SLR) to 8% from earlier 9%; reduced the overdraft including personal loan of revolving nature to Rs 5 Mn from Rs.7.5 Mn; increment of CCD ratio to 85% from 80%; increment of margin lending to 70% from 65%; reduction of bank rate to 5% from 6%. Also, to relax the liquidity crisis, Cash Reserve Ratio (CRR) has been reduced to 4% (further reduced to 3% amid COVID-19) from 6%.

Key Rating Strength

Removal from problematic institution with new promoters and experienced management team

CDBL started its commercial operation since October 14, 2007. It is managed under the overall guidance of the Board of Directors (BoD) led by Mr. Jainuddin Ansari, chairman of CDBL since last two year from new promoter group. CDBL had been declared problematic on December 19, 2014 and was declared non-problematic by NRB held February 01, 2018 after addition of new promoters. The top and senior management team is highly experienced in their respective field of operations. The bank is led by CEO, Mr. Trilok Dhoj Joshi who has more than 29 years of banking experience. All the management members have wide banking experience.

Adequate level of CASA

CDBL maintained adequate CASA proportion of 45.66% during FY20, which is higher than its peers and industry average of 34.41% during the same period, which has been increased from 36.42% of FY19. Further, CASA deposits in absolute amount has increased over the period.

Adequate capital adequacy level

CDBL's overall Capital Adequacy Ratio (CAR) stood at 46.47% as on Mid July, 2020 (47.12% as on Mid July, 2019) as against regulatory requirement of 11%. CDBL reported CET-I of 46.02% as on Mid July 2020 as against regulatory requirement of 6%. NRB require 3 district development bank to maintain minimum paid-up capital of Rs. 500 Mn by mid-July 2017. Currently, it has Rs. 410 Mn paid up capital which is expected to reach Rs 500 Mn after issuance of proposed right share.

Growth in loans & advances and deposits after removal from problematic institution status by NRB

CDBL after removal from problematic status, has reported good growth in loans and advances and deposits. Total loan portfolio grew by 43.86% on Y-o-Y growth rate to Rs. 374 Mn. during FY19 due to resumption of new loan disbursement after removal from problematic status. However, advances declined by 13.46% to Rs 323 Mn during FY20 due to recovery of old loans. Similarly, CDBL's deposit grew by Y-o-Y growth rate of 162.25% during FY19 to Rs.189 Mn. on the back of removal from problematic status. Further, it grew by Y-o-Y growth rate of 57.20% to Rs 296 Mn during FY20.

Moderate liquidity profile

CDBL has maintained CRR of 10.88%, SLR of 113.99% as on Mid July, 2020 (6.05% and 97.52% respectively as on July 16, 2019) which is in compliance with NRB norms of 3% and 8% respectively. Maintained SLR and CRR are within the norms of NRB.

About the Company

Corporate Development Bank Limited (CDBL) is a regional level class "B" Development bank incorporated on August 07, 2007 (3 district level development bank). It was Licensed by Nepal Rastra Bank (NRB) on October 11, 2007 and commenced operation on October 14, 2007. Major promoter of CDBL is Dr. Nikhat Yashmin with shareholding of 6.11% as on Mid July 2020. The bank reported PAT of Rs. 50 Mn on an asset size of Rs. 887 Mn. as on July 15, 2020. At the end of FY20, it has Rs. 410 Mn paid up capital. CDBL has further proposed to issue right share of Rs. 90 Mn. to the public.

Analyst Contact	**Group Head**	**Relationship Contact**
Mr. Rishi Ram Poudel	Mr. Bidhan Ojha	Mr. Sajan Goyal
rishi.poudel@careratingsnepal.com	bidhan.ojha@careratingsnepal.com	sajan.goyal@careratingsnepal.com
Tel No.: +977-01-4012628	Tel No.: +977-01-4012629	Tel No.: 9818832909/+977-01-4012628/29/30

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.