

Rating Rationale
NIC Asia Bank Limited
Rating

Facility/Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Subordinated Debenture (NIC ASIA Debenture 2083/84)	1,944.00	CARE-NP A [Single A]	Reaffirmed
Subordinated Debenture (10% NIC ASIA Debenture 2085/86)	2,404.69	CARE-NP A [Single A]	Reaffirmed
Subordinated Debenture (11% NIC ASIA Debenture 2082/83)	1,830.00	CARE-NP A [Single A]	Reaffirmed
Issuer Rating	NA	[CARE-NP] A (Is) [Single A (Issuer)]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of “CARE-NP A (Is)” assigned to NIC Asia Bank Limited (NIC Asia). 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 reaffirmed rating of ‘CARE-NP A’ assigned to the Subordinated Debentures of NIC Asia. 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 ratings assigned to NIC Asia derive strength from the long track record of operations, experienced promoters and management team, Moderate capitalization; however low Common Equity Tier I (CET-I) ratio, good asset quality, diversified and geographical coverage through branches in Nepal, diversified loan portfolio with concentration towards retail and SME portfolio and improving Current Account Savings Account (CASA) ratio during FY20 (refers to the 12 month period ended mid-July 2020). The rating also factors in consistent growth in advances and deposits and considerable growth in total income and net profit over the period but deteriorated return on total assets (RoTA) during FY20, moderate liquidity profile, moderate deposits concentration and low advances concentration and diversified investment portfolio. The rating, however, is constrained on account of intense competition and exposure to regulatory risk related to industry. Ability of the bank to continue its growth momentum without compromising on asset quality, improve 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 operation, geographical coverage with experienced promoters and management team
Established in the year 1998; NIC Asia Bank has a strong presence in Nepal with 327 branches, 99 extension counters and 464 ATMs (as on October 16, 2020) covering all the Provinces in Nepal. The bank’s profile

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

derives strength from its strong promoters who are well experienced in the banking, insurance, manufacturing, import and export, trade sectors, etc. NIC Asia is managed bank under the overall guidance of the bank's Board of Directors (BoD) which includes eminent Businessmen/Industrialists with wide experience in the financial services. Mr. Tulsi Ram Agrawal is the Chairman of the bank, who has experience of more than three decades in import export, banking and business sectors. The senior management team is experienced in their respective field of operations and is headed by Mr. Roshan Kumar Neupane (Chief Executive Officer, CEO), who is a Chartered Accountant by qualification and has been working at NIC Asia Bank Limited since March 2008 at various managerial positions. He is supported by an experienced management team.

Moderate capitalization, however low CET-I during Q1FY21

NIC Asia had paid up capital of Rs.9,718 Mn. at the end of FY20. Common Equity Tier I (CET-I) of the bank stood at 8.35% against minimum requirement of 7% as on July 15, 2020 and overall capital adequacy stood at 13.50% as against the regulatory requirement of overall Capital Adequacy Ratio (CAR) of 11% for FY20. However, the CET-I capitalisation of the bank declined substantially and was low at 7.42% near to minimum regulatory norm and overall CAR also moderated to 12.31% during Q1FY21.

Good asset quality

There was significant increase in absolute amount of Gross Non Performing Loan (GNPL) from Rs.690 Mn at the end of FY19 to Rs.1,311 Mn. at the end of FY20, however decreased to 813 Mn. at the end of Q1FY21. Subsequently GNPL ratio increased from 0.46% during FY19 to 0.75% during FY20 and decreased back to 0.40% during Q1FY21. Despite of increase in GNPLs during FY20, the asset quality of the bank is good as the GNPL% to Gross advances is low as compared to peers and industry during the same period. Further, provision coverage for Q1FY21 was 365% for NPL. Out of total advances the delinquencies of more than 30 days amounted was 1.25% of total advances at the end of FY20; the same has decreased by 43 bps to 0.82% at the end of Q1FY21 compared to FY20.

Diversified loan portfolio, concentration towards Retail and SME portfolio

NIC Asia has diversified portfolio distribution with higher lending of 21.08% in Q1FY21 towards wholesalers & retailers sector. NIC Asia's advances portfolio is concentrated towards retail and SME portfolio rather than corporate sectors with a view of risk management. Retail portfolio, including small & medium enterprises (SME) sector lending proportion constitutes 75.73% of the advances as on July 15, 2020 which has marginally increased to 79.48% of the advances as on October 16, 2020. As on July 15, 2020 the corporate segment comprised of 13.92% of the advances which has further decreased to 11.44% of the advances as on October 16, 2020. Bank has been able to concentrate and focus on retail and SME lending as targeted.

Healthy CASA Ratio

NIC Asia has been improving CASA deposits in its total deposits mix with CASA deposits proportion of 45.03% during FY20 and 40.90% during Q1FY21 (Industry avg. CASA for FY20 & Q1FY21 was 41.32% &

40.77% respectively). CASA deposits in absolute amount increased by 29.74% to Rs. 94,024 Mn. during FY20 as compared to Rs. 72,469 Mn. during FY19 and further increased by 6.52% to Rs. 100,155 Mn. during Q1FY21 over FY20.

Consistent growth in Loans & Advances and Deposits

Over the last 3 to 4 years the bank has shown robust growth in the loans & advances and deposits. Total deposits of NIC Asia have reached to Rs. 208,814 Mn. in FY20 recording a three-year CAGR of 34.05% and reported growth of 15.67% over FY19. Further deposits of NIC Asia increased by 32.54% during Q1FY21 over Q1FY20. Bank's share of total industry deposits is at 6.04% as on July 15, 2020 and 6.73% as on October 16, 2020. NIC Asia also reported consistent growth in total advances. Total loans and advances stood at Rs. 173,742 Mn. in FY20 recording a three year CAGR of 33.78% and reported growth of 15.74% over FY19. Further, total loans and advances of NIC Asia increased by 24.97% during Q1FY20 over Q1FY19.

Good profitability however subdued growth during FY20 owing to COVID-19

During FY20, bank's total income increased by 8.76% to Rs. 23,981 Mn. due to rise in both interest income by 7.12% on back of growth in advances and increase in the non-interest income by 20.44%. However, growth in interest income and total income remained subdued as compared with previous years owing to COVID-19. The yield on advances declined by 235 bps to 11.20% and the cost of deposits decreased by 0.82 bps to 6.20% mainly due to interest discounts provided based on NRB guidelines and reduction in interest rates during last quarter of FY20. Net interest income increased by 9.26% to Rs. 7,605 Mn during FY20. However, Net Interest Margin (NIM) of the bank declined from 3.58% in FY19 to 3.25% in FY20.

On the operational efficiency front, operating expenses have been increasing y-o-y. In FY20, the operating expenses increased by 15.71% to Rs. 5,352 Mn. as compared to Rs. 4,625 Mn. in FY19. This is mainly due to increase in employee related expenses which grew by 17.50% from FY19. However, despite growth in operating expenses, operating expenses/ average total assets corrected to 2.29% in FY20 as compared to 2.38% in FY19 on account of growth in average total assets being more than the growth in operating expenses. NIC Asia's impairment charge for loans and other losses in FY20 increased substantially to Rs. 1,114 Mn. as against Rs. 599 Mn during previous year due to increase in the loans and advance, deterioration in advances quality and provisions made for COVID-19 induced delays. However, on back of the increase in the operations, which was offset by higher increase in operating expenses as compared to total income and substantial increase in impairment charges, NIC Asia was able to maintain its PAT at Rs. 3,099 Mn in FY20 as compared to PAT of Rs. 3,023 Mn reported in FY19. Return on Total Assets (RoTA) of the bank remained at 1.32% during FY20 reporting a decline from 1.56% during FY19.

During Q1FY21, bank's total income declined by 4.22% to Rs. 5,728 Mn in comparison to Rs. 5,981 Mn during Q1FY20 on back of decline in non-interest income by 28.82% due to decline in credit disbursements during last quarter of FY20 and due to interest income remaining at similar levels at Rs. 5,130 Mn as

compared to 5,140 Mn during FY19. PAT of bank increased by 1.13% to Rs. 1,021 Mn during Q1FY21 on back of reversal of impairment charge for loans.

Moderate liquidity profile

NIC Asia has maintained SLR of 21.27% as on October 16, 2020 vis-à-vis regulatory requirement of 10%; CRR of 7.6% as on October 16, 2020 vis-à-vis regulatory requirement of 3%; Net Liquidity of 25.09% as on October 14, 2020 vis-à-vis regulatory requirement of 20%. Maintained SLR, CRR and Net Liquidity are within the norms of NRB. Bank has moderate liquidity profile with positive cumulative mismatches as on October 16, 2020 due to well matched tenure of assets and liabilities. However, the assets and liabilities show mismatches for 91 to 180 days and 181 to 270 days (but has positive cumulative mismatches).

Moderate deposits concentration and low advances concentration

Deposit concentration to top 20 depositors has been moderate at 18.68% of total bank deposits as on October 16, 2020. The concentration on advances to top 20 individual borrowers was low at 5.36% during Q1FY21 and top 20 group borrowers accounts for 2.04% during same period of total loan portfolio.

Diversified investment portfolio

NIC Asia has investments of Rs. 33,788 Mn at the end of FY20, out of which 78.61% has been invested in treasury bills/ bonds of Nepal Government and Nepal Rastra Bank, 9.49% has been invested as local & foreign bank placements and 11.90 has been invested in equity securities of domestic corporate entities including investments towards subsidiaries. The investment portfolio of the bank has increased by 51.40% in FY20 over FY19 mainly due to additional investments made in treasury bills/ bonds of Nepal Government and Nepal Rastra Bank, which increased by 74.95%.

Key Rating Weaknesses

Intense competition

Currently there are 27 Commercial Banks, including three major state owned banks, operating with total 4,514 branches all over Nepal (based on Monthly statistics published by NRB for Mid-Oct 2020). Banking Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs.328,666 Mn during FY20 with Rs.108,480 Mn net interest income; NIC Asia's share on interest income is 6.31% and 7.01% share on net interest income for the same period. The market share of NIC Asia has slightly reduced to 6.20% and 5.30% in terms of interest income and net interest income during Q1FY21 respectively. Due to emergent competition in the interest rates is the prominent challenge. New technology based services and its growing demand among customers is fresh challenges 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. To relax the liquidity crisis in the banking sector, Cash Reserve Ratio (CRR) has been reduced to 4% (further reduced to 3% amid COVID-19) from 6%. Further, NRB through its notice dated April 28,

2020 has directed BFIs to provide rebate of 200bps in interest rate for quarter ending Mid July 2020 which made significant impact on profit of the banks in Nepal.

About the Bank

NIC ASIA Bank Limited (NIC Asia) is “A” Class Licensed Institutions from Nepal Rastra Bank (NRB) and is one of the top 3 “A” Class (Commercial) banks of Nepal in terms of Interest Income, Net Interest Income, Deposits and Advances as on October 16, 2020. The 93.97% of the total shareholding of the Bank is held by individual and 6.03% by corporate entities (other than GoN and Licensed Institutions) as on July 15, 2020; among which 51% belongs to promoter group shares and 49% belongs to general public. The bank reported PAT of Rs. 3,099 Mn on an asset size of Rs. 250 Bn as on July 15, 2020. Further, NIC Asia reported PAT of Rs. 1,021 Mn during Q1FY21. The Bank has three wholly owned subsidiary companies operating within the territory of Nepal. One of them is NIC ASIA Capital Limited (incorporated to undertake Merchant Banking activities), other is NIC ASIA Laghubitta Bittiya Sanstha Limited (Microfinance) and NIC Asia Securities.

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