

**Rating Rationale**

**Muktinath Bikas Bank Limited**

**Rating**

Facility/Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	[CARE-NP] BBB (Is) [Triple B (Issuer)]	Assigned

CARE Ratings Nepal Limited (CRNL) has assigned the issuer rating of “CARE-NP BBB (Is) [Triple B (Issuer)]” to Muktinath Bikas Bank Limited (MNBBL). Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal.

**Detailed Rationale & Key Rating Drivers**

The rating assigned to MNBBL derives strength from its long track record of operations with experienced board of directors and management team, good asset quality, considerable growth in loans & advances and deposits over the period with moderate market share, moderate capitalization level, geographical and sectorial diversified loan portfolio, low concentration in top borrowers and significant increase in investment portfolio. The rating also derives strength from consistent growth in total income and moderate profitability and liquidity profile.

The ratings are constrained on account of low proportion of Current Account Savings Account (CASA) deposits, moderate concentration among top depositors, intense competition and exposure to regulatory risk related to banking industry.

The ability of the bank to continue its growth momentum while maintaining the asset quality and capital adequacy along with its ability to manage the impact of COVID-19 and 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 operations experienced management team and board of directors***

MNBBL started its commercial operation in 2007 and the Board of Directors (BoD) comprises of eminent bankers, retired government officials and professionals with wide experience in the financial and economic sector. The BOD of the bank is headed by Mr. Bharat Raj Dhakal, who was appointed as the Chairman of the bank in December, 2019. Mr. Dhakal has been associated with bank for more than a decade. The operations of the bank are headed by Mr. Pradyuman Pokharel (Chief Executive Officer; CEO) who has having around 3 decades of banking experience. He has been supported by the senior management team comprises of experienced bankers having considerable banking experience.

***Good asset quality***

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

MNBBL's Gross non-performing loan portfolio (GNPL) as percentage of total loans and advances stood low at 0.46% as on July 15, 2020 which increased from 0.07% over previous balance sheet date. GNPL increased by NPR 198 Mn and stood at Rs 225 Mn as on July 31, 2020. The increase in GNPL was on account of slow-down in the industry and economy due to COVID-19 pandemic which impact the loan and advances portfolio. However, GNPL improved to 0.21% in 9MFY21 due to recovery of loans during the period. Going forward, the ability of the bank to maintain its asset quality and reduce its credit costs especially in view of Covid-19 impact would be critical for the bank's earning profile and profitability.

***Moderate capital adequacy level***

MNBBL's overall Capital Adequacy Ratio (CAR) stood at 13.23% as on Mid July, 2020 (13.44% as on Mid July, 2019) as against regulatory requirement of 11%. Overall CAR is declining over the period as increase in loans and advances were higher than increase in capital during the period. MNBBL reported CET-I of 11.97% as on Mid July 2020 as against regulatory requirement of 6%. MNBBL maintained 9.89% Tier I CAR and 11.14% overall CAR during 9MFY21.

***Diversified sector wise loan portfolio***

MNBBL lent 17.38% in H1FY21 (Unaudited; refers to six months period ended on January 13, 2021) and 21.93% in FY20 towards productive sector (which includes agriculture sector, energy sector, tourism sector and cottage and small industries); of gross loans and advances outstanding prior to 6 months. Out of productive sector advances, in H1FY21 MNBBL lent 4.07% towards tourism sector, and 12.19% towards agricultural sector (4.44% towards tourism sector and 15.16% towards agricultural sector in FY20). In H1FY21, the proportion stood at 18.57% for construction, followed by 16.29% for wholesaler & retail sector, followed by 12.28% towards finance, insurance and real estate and 9.10% towards Agriculture.

***Consistent growth in total income and net profit over the period however with decline in PAT during FY20 owing to COVID-19***

During FY20, the bank's total income increased by 24.12% and stood at Rs.7,144 Mn majorly due to rise in interest income which was supported growth in advances on account of addition of 16 branches during the year. On back of these, net interest income had increased by 19.24% to Rs.2,259 Mn during FY20. Net Interest Margin (NIM) of the bank declined from 4.37% in FY19 to 3.82% in FY20. The same was due to increase in employee cost and other operating expenses on back of additions of branches leading to increase in the number of employees.

MNBBL's impairment charge for loans and other losses in FY20 was Rs.317 Mn as against Rs.146 Mn during previous year due to the increment of provision for loss on account of impact of COVID-19 as per the NRB regulations. MNBBL reported PAT of Rs.707 Mn in FY20 as compared to PAT of Rs.856 Mn reported in FY19. Return on Total Assets (RoTA) of the bank has deteriorated to 1.20% during FY20 (FY19: 1.97%) due to increase in Total Assets being more than increase in PAT during FY20 over FY19.

During 9MFY21 (Unaudited; refers to nine months period ended on April 13, 2021), bank's total income has increased by 14.91% to Rs.6,210 Mn in comparison to Rs.5,404 Mn during 9MFY20 on back of increase in interest income which was supported by growth in advances on account of addition of branches and increase in non-interest income on account of realization of profit from sale of bonds. On back of growth in advances, net interest income of the bank increased by 11.80% to Rs.1,895 Mn during 9MFY21 vis-a-vis 9MFY20. PAT of the bank has increased by 48.82% to Rs.1,006 Mn during 9MFY21 (Rs.676 Mn during 9MFY20) and ROTA improved to 1.26% during 9MFY21 which was 1.20% for FY20.

***Considerable growth in loans & advances and deposits over the period with decent market share and diversified branch network***

Over the last 4 years, the bank has shown growth in the loans & advances and deposits. Total deposits of MNBBL have reached to Rs.57,311 Mn in FY20 recording a three-year Compound Average Growth Rate (CAGR) of 55.53%. Further deposits of MNBBL increased to Rs.85,108 Mn during 9MFY21 reporting a growth of 58.73% over 9MFY20. MNBBL's share of total industry deposits stood at 16.15% as on July 15, 2020 in comparison to the 10.41% share of total industry deposits as on July 16, 2019.

MNBBL also reported consistent growth in total advances. Total loans and advances stood at Rs. 48,985 Mn in FY20 recording a three year CAGR of around 47%. Further, total loans and advances of MNBBL increased by 61.10% to Rs.72,832 Mn during 9MFY21 over 9MFY20. MNBBL holds 17.03% of the industry advances as on July 15, 2020.

Further, MNBBL currently has 158 branches spread across 48 districts of the country, making largest B class bank as on H1FY21.

***Moderate liquidity profile***

MNBBL has maintained CRR of 3.07%, SLR of 22.56% and overall liquidity ratio of 23.74% as on Mid-January, 2021 (3.14% and 17.31% respectively as on Mid-July, 2020) which is in compliance with NRB norms of 3%, 8% and 20% respectively. Maintained SLR, CRR and Net Liquidity are within the norms of NRB.

***Low concentration over top 20 borrowers***

MNBBL's lending to top 20 group borrower was 7.05% of total loans and advances in H1FY21. Similarly, lending to top 20 individual borrower was 6.40% of total loans and advances in H1FY21.

***Significant increment in investment portfolio***

MNBBL's total investment in H1FY21 increased to Rs. 13,177 Mn. from Rs. 6,593 Mn. of FY20. MNBBL has earned interest income from investment in Securities/Bonds of Rs 172 Mn (Rs.159 Mn during FY20); dividend income of Rs 8 Mn (Rs 10 Mn during FY20)

**Key Rating Weaknesses**

***Low CASA deposit ratio and Moderate concentration over top 20 depositors***

MNBBL maintained CASA proportion of 31.19% in 9MFY21 (lower than development industry average of 35.33% in H1FY21) which has declined from 32.78% in FY20 (lower than development industry average of 34.41% in FY20).

In the current regime of the base rate plus lending model, the bank's ability to offer competitive rates to its borrowers is limited, thereby affecting its credit profile. The cost structure mainly stems from the high proportion of term deposits (~59% as on mid-January, 2021 against ~55% for the industry).

MNBBL's deposit from top 20 depositors was moderate at 16.74% of total deposit in H1FY21 which increased from 13.58% of total deposit in FY20.

#### ***Competition from other banks and financial institutions***

Currently, there are 19 development banks operating with total 1,048 branches all over Nepal (based on monthly statistics published by NRB for Mid-January, 2021) out of that MNBBL has 138 branches. Industry (Class 'B' Banks-Development banks) has achieved total interest income of Rs. 19,027 Mn in H1FY21 with Rs. 6,783 Mn net interest incomes; MNBBL's share on interest income and net interest income is ~17.78% (Rs. 3,382 Mn) and 17.14% (Rs 1,162 Mn) respectively for the same period. Despite being established national development bank in the industry, it is challenging for MNBBL to maintain current market share and expand its business, due to high competition among bank and finance companies, existence of large number of Development bank along with Commercial and finance companies conducting similar kind of businesses and they lend at lower interest rate as well as they offer wider banking services than development banks.

#### ***Exposure to regulatory risk***

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, development bank faced pressure from NRB for capital increment to Rs. 2,500 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).

#### **About the Bank**

Muktinath Bikas Bank Limited (MNBBL) is a leading national level class "B" Development bank and started its commercial operation from January 07, 2007. MNBBL has upgraded into a national level development bank in July, 2015 after successful acquisition of Civic Development Bank.

Major promoter of MNBBL is Mr. Min Prasad Gurung with shareholding of 2.37% as on Mid July 2020. The bank is listed on Nepal stock exchange and promoter and public shareholders was in the ratio of 51:49 as on Mid-July, 2020.

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