

Rastriya Banijya Bank Limited

Rating

| Instrument | Amount (Rs. In Million) | Ratings ¹ | Rating Action |
|------------------------|----------------------------|--|---------------|
| Subordinated Debenture | 2,500.00 | CARE-NP A+ [A Plus] | Reaffirmed |
| Issuer Rating | NA | CARE-NP A+ (Is) [A Plus (Issuer)] | Reaffirmed |

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A+' assigned to the proposed Subordinated Debentures issue of Rastriya Banijya Bank Limited (RBB). Issuers with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry low credit risk.

CRNL has also reaffirmed the rating of 'CARE-NP A+ (Is)' assigned to Rastriya Banijya Bank Limited (RBB). Issuers with this rating are considered to offer 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 RBB continues to derive strength from the long track record of operations, ownership by Government of Nepal along with experienced management team, moderate capitalization level, diversified and wide geographical coverage through branch networks. The ratings also factor in growth in loans & advances and deposits, strong deposit profile with low-cost deposits and diversified loan & investment portfolio. RBB continues to maintain consistent growth in total income and net profit over the period in last 3 financial years (FY18-FY20; (FY refers to 12 months' period ended mid-July 2020)) along with moderate deposits concentration & low advances concentration and comfortable liquidity profile.

The ratings, however, are constrained on account of comparatively weak asset quality in the industry with high Gross Non-Performing Loan (GNPL) although improving. The ratings also factor in intense competition and exposure to regulatory risk related to industry.

Ability of the bank to grow its assets while improving its asset quality especially in view of COVID-19 impact and maintaining capital adequacy would be critical for the bank's earning profile and profitability. Also, ability to manage the impact of any regulatory changes by Nepal Rastra Bank would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Long track record, ownership by Government of Nepal and experienced management team supported by diversified and geographical coverage

Established in the year 1966 as the second commercial bank of Nepal; RBB has strong presence in Nepal with 247 branches and 198 ATMs (as on Mid-April 2020) covering all seven provinces and all 77 districts of Nepal. RBB was promoted by Government of Nepal (GoN) with 99.97% of its shares held by different Ministries of GoN. Furthermore, Bank is managed under the overall guidance of Board of Directors who are appointed by GoN. Mr. Ram Sharan Pudasaini is the Chairman of the bank and is currently serving as a Secretary (Revenue) in Ministry of Finance, GoN. The bank is

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

led by Chief Executive Officer (CEO), Mr. Kiran Kumar Shrestha, who has over 35 years long experience in various financial institutions. He is supported by an experienced management team.

Moderate capitalization level

RBB had paid up capital of Rs. 9,005 Mn at the end of FY20. Tier I (CET I) capital adequacy ratio (CAR) of the bank stood at 11.43% against minimum requirement of 7% as on July 15, 2020 and overall capital adequacy stood at 12.64% as against the regulatory requirement of overall CAR of 11%. Despite of increase in loans and advances during 9MFY21 (refers to 9 months' period ended mid-April 2021), RBB was able to increase CET-I and overall CAR increased to 11.71% and 12.88% respectively. The capitalization level was supported by healthy internal accruals over the years.

Growth in Loans & Advances and Deposits

RBB has been showing a regular growth in its total advances and deposits in the last 3 fiscal years (FY18-FY20). At the end of Mid April 2021, total deposits and advances stood at Rs 240,725 Mn and Rs 180,576 Mn respectively and has increased from Rs 230,903 Mn. and Rs. 156,519 Mn. respectively as on balance sheet date of FY20. RBB's share of total industry deposits is at 6.20% as on April 13, 2021.

Total loans and advances recorded three year CAGR of 13.72% at the mid of July 2020 and its share in the industry advances was at 5.04% as on April 13, 2021.

Comfortable liquidity profile and increasing investment portfolio

As on Mid April 2021, RBB has maintained SLR of 35.42%, average Cash Reserve Ratio (CRR) of 4.46% and Net Liquidity of 37.12%. The bank has maintained SLR, CRR and Net Liquidity as per the norms of NRB i.e. 10%, 3% and 20% respectively. Also, the bank has comfortable liquidity profile with positive cumulative mismatch as of April 13, 2021.

RBB has made investments of Rs. 74,769 Mn as on July 15, 2020, out of which 96% has been invested in Government securities and 4% has been invested in equity securities of domestic corporate entities. The investment portfolio of the bank has been significantly increased by 94% on the balance date of FY20 over previous fiscal balance sheet date.

Diversified loan portfolio with regulatory compliance

RBB has diversified portfolio distribution which consists of various types of loans disbursed over the period for various sectors with higher lending of 30.72% in FY20 and 26.29% in Q3FY21 towards Power, Gas and Water. Thereafter, the major lending was around 11% in FY20 and Q3FY21 towards agricultural and forest related funding. RBB lending stood at 30.29% as on April 13, 2021 towards priority sector; of gross loans and advances outstanding as on respective date.

Strong deposit profile with low cost deposits although in declining trend

RBB has comparatively higher proportionate of Current Account Saving Account (CASA) deposits to total deposits in the industry. RBB maintained around 80% CASA deposits at the end of FY19 which has reduced to around 74% at the end of FY20 and further declined to around 70% at the end of Q3FY21 (industry avg. CASA for FY19, FY20, Q3FY21 was 40.90%, 41.32% and 43.74% respectively). Though, the portion of CASA deposits has been reducing on y-o-y basis; however, it continued to remain above industry average and supported bank to maintain the lower cost of deposits among peers. Furthermore, high CASA proportion also provides competitive advantage to RBB in base rate plus regime.

Moderate Financial performance profile

During FY20, the bank's total operating income increased by 12.57% to Rs. 18,832 Mn which was supported by rise in interest income. The increase in interest income was mainly due to increase in total advances by 5.67% during the said period. Though the total revenue has increased in FY20, net interest margin (NIM) declined by 87 bps to 3.84% as against

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4.71% during FY19. The decline in NIM was on account of change in total deposit mix which led to increase in average cost of deposits by 90 bps to 3.63% in FY20; subsequently PAT margin declined by 13% and stood at Rs. 4,377 Mn in FY20. Return on Total Assets (RoTA) of the bank stood at 1.78% at the end of FY20; However, deteriorated to 1.65% at the end of 9MFY21 mainly due to increase in total assets.

Despite growth in advance portfolio of the Bank, bank's total income stood almost stagnant at Rs. 13,833 Mn in Q3FY21 on account of decline in yield on advances (decline in interest rate charged in 9MFY21). However, PAT of the Bank has increased by 7.70% during the same period on back of reversal of impairment charges of Rs. 255 Mn mainly due to recovery from bad loan.

Moderate deposits concentration and low advances concentration

Total deposits concentration by top 20 depositors has been moderate at 23.80% of total bank deposits as on July 15, 2020, however the same has increased to 27% of total bank deposits as on April 13, 2021. The concentration on advances to top 20 individual borrowers was low at 1.85% during 9MFY21 and top 20 group borrowers accounts for 11.36% during 9MFY21 of total loan portfolio. High concentration towards deposits normally increases repricing risks at times of interest rate volatility.

Key Rating Weaknesses

High GNPL Level

RBB's asset quality remains moderate despite improvement in GNPL. RBB's asset quality is marked by high GNPL and the same is well above the industry average. However, total GNPL declined Rs. 7,092 Mn at the end of FY19 to Rs. 6,381 Mn at the end of FY20. Though the industry average has shown deterioration in the GNPL ratio during the last fiscal ending mid-July 2020, the bank's GNPL ratio improved from 4.79% during FY19 to 4.08% during FY20 and further to 3.62% during Q3FY21.

Intense competition

Currently there are 27 Commercial Banks, including three major state owned banks, operating with total 4,702 branches all over Nepal (based on Monthly statistics published by NRB for Mid-April 2021). Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs.328,666 Mn during FY20 with Rs.128,669 Mn net interest income; RBB share on interest income is 5.22% and 7.34% share on net interest income for the same period. The market share of RBB has decreased to 5.11% in terms of interest income and 6.62% in terms of net interest income during Q3FY21. Competition in the 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 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

RBB is an "A" Class Licensed Institution from Nepal Rastra Bank (NRB). It was incorporated on January 23, 1966. RBB acquired three 'B' Class Development Banks promoted by Government of Nepal, NIDC Development Bank Limited during FY18. The bank has one subsidiary company operating within the territory of Nepal, namely RBB Merchant

Banking Limited, incorporated on January 29, 2016 and is licensed by the Securities Board of Nepal (SEBON) to undertake Merchant Banking activities. As on Mid-April 2021, 93.33% of its shares are held by Ministry of Finance and balance by other government institutions.

Contact Us

Analyst

Mr. Nibesh Manandhar
+977-01-4012629
nibesh.manandhar@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai
+977-01-4012629
shalini.sanghai@careratingsnepal.com

Relationship Contact

Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

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