

Century Commercial Bank Limited

Rating

Instrument	Amount (Rs. In Million)	Ratings ¹	Rating Action
Subordinated Debenture	2,200.00	CARE-NP BBB [Triple B]	Reaffirmed
Issuer Rating	NA	CARE-NP BBB (Is) [Triple B (Issuer)]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB (Is)' assigned to Century Commercial Bank Limited (CCBL). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

CRNL has also reaffirmed the rating of 'CARE-NP BBB' assigned to the proposed Subordinated Debentures issue of CCBL. Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

Detailed Rationale & Key Rating Drivers

The ratings assigned to CCBL continues to derive strength from the established track record of operations along with experienced management team, adequate capitalization level, diversified and moderate geographical coverage. The ratings also factor in growth in loans & advances and deposits, diversified loan & investment portfolio, and comfortable liquidity profile.

The ratings, however, is constrained on account of moderate scale of operations in the banking sector of Nepal leading to low profitability along with declining assets quality. The ratings also factor in lower proportion of Current Account Savings Account (CASA) deposits which is below industry average leading to high cost of funds as compared to the other industry players, high portfolio concentration among top borrower groups and depositors, 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 sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strength

Established track record of the bank along with experienced promoters and management team

Established in the year 2010; CCBL has over a decade of operational history and an established market presence in Nepal. CCBL is a professionally managed bank under the overall guidance of bank's Board of Directors (BoD) which includes eminent businessmen and professionals with wide experience in the industry and financial services. Mr. Rajesh Kumar Shrestha is the chairman of the Bank since March 2015. The bank is led by acting Chief Executive Officer, Mr. Manoj Neupane, who has over 14 years' experience in various financial institutions. He is supported by an experienced management team.

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

Adequate capitalization level

CCBL had paid up capital of Rs. 8,415 Mn at the end of FY20. Tier I (CET I) capital adequacy ratio (CAR) of the bank stood at 14.18% against minimum requirement of 7% as on July 15, 2020 and overall capital adequacy stood at 14.93% as against the regulatory requirement of overall CAR of 11%. As on April 13, 2021, CET-I and overall CAR moderated to 11.34% and 12.33% respectively due to increase in loans and advances during current fiscal year. Maintaining the capital adequacy ratios by the bank are crucial from analytical perspective.

Growth in Loans & Advances and Deposits supported by moderate geographical coverage through branches

CCBL has presence in all the all 7 Provinces of Nepal with 126 branches and 91 ATMs terminals as on mid-April 2021. The branches are spread over 52 districts of Nepal.

CCBL has been showing a regular growth in its total advances in the last 3 fiscal years. At the end of Mid April 2021, total deposits and advances stood at Rs 89,199 Mn and Rs 77,005 Mn respectively and has increased from Rs 65,315 Mn. and Rs. 60,125 Mn. respectively at the end of FY20. CCBL's share of total industry deposits is at 1.87% as on July 15, 2020 which increased to 2.26% as on April 13, 2021. Total loans and advances recorded three-year CAGR of 15.56% at the mid of July 2020 and its share in the industry advances is at 2.16% as on April 13, 2021.

Comfortable liquidity profile

CCBL has maintained SLR of 23.28% as on April 13, 2021 and; average Cash Reserve Ratio (CRR) of 6.69% at the last reporting week as of Mid-April 2021; Net Liquidity of 26.55% as on April 13, 2021. 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 mismatches as of April 13, 2021.

Diversified loan portfolio with regulatory compliance

CCBL has diversified portfolio distribution which consists of various types of loans disbursed over the period for various industries/sectors with higher lending of 16.69% in FY20 and 17.09% in Q3FY21 towards wholesalers & retailers sector (wholesale trade of durables, non-durables, automotive dealer/franchise, other retail trade, import-export trade etc.). Next major lending of 15.02% in FY20 and 13.80% in Q3FY21 is towards non-food production sector which comprises majorly lending towards metals-basic iron & steel plant and lending to cement industries.

Diversified Investment Portfolio

CCBL has made investments of Rs. 7,020 Mn as on July 15, 2020, out of which 91% 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 increased by 32% in FY20 over FY19 mainly due to additional investments made in GoN and treasury bills which increased by 33% during FY20.

Moderate Financial performance profile

During FY20, the bank's total income stood stagnant at Rs.8,391 Mn mainly due to reduction in lending rates which led to deterioration in yield on advances. Also, there was decrease in non-interest income due to discount on other penal charges and commission given by the bank. The yield on advances decreased by 83 bps to 12.36% whereas cost of deposits decreased by 46 bps to 8.17% at the end of FY20 over FY19 resultant into decreased in Net Interest Margin (NIM) of the bank from 3.43% in FY19 to 3.34% in FY20. The reduction in NIM was also due to rebate provided on interest income as per NRB norms.

Due to better management of operating expenses and decrease in impairment charges, CCBL reported increment in PAT with Rs. 805 Mn in FY20 as compared to PAT of Rs. 676 Mn reported in FY19. Return on Total Assets (RoTA) of the bank remained at 1.00% during FY20.

During Q3FY21, bank's total income decreased by 4.09% to Rs.6,351 Mn over Q3FY20 on the back of decrease in interest income by 6.36%. Accordingly, Net interest income of the bank decreased by 14.82% to Rs.1,918 Mn during 9MFY21 vis-a-vis 9MFY20. Also, impairment charge of the bank increased to Rs. 758 Mn in 9MFY21 from Rs. 148 Mn. in 9MFY20 thereby impacting the profitability of the bank. PAT of the bank decreased significantly by 60.80% to Rs.359 Mn during 9MFY21 over 9MFY20. Accordingly, ROTA deteriorated to 0.51% during 9MFY21.

Key Rating Weaknesses

Deteriorating asset quality

Gross Non Performing Loans (GNPL) increased from Rs. 839 Mn during FY19 to Rs. 1,289 Mn during FY20 and further increased to Rs. 2,282 Mn during 9MFY21. Gross Non Performing Loans (GNPL) Ratio of the bank significantly deteriorated from 1.42% during FY19 to 2.11% during FY20 and further to 2.96% during 9MFY21 which is above the industry average GNPLs (1.41% for 9MFY21). GNPL ratio also increased in FY20 due to lower growth in the loan portfolio during the year. Also, NPL increased during FY20 & 9MFY21 on account of few large accounts classified as NPL and going forward, any further increase in ratios are key monitorable.

Low CASA deposit proportion

CCBL has low CASA deposits as compared to industry. CCBL maintained 31.32% CASA deposits in FY19 which has increased to 32.48% in FY20; however, again declined to 29.73% in Q3FY21 (industry average CASA for FY19, FY20, Q3FY21 was 40.90%, 41.32% and 43.74% respectively). Lower CASA proportion resulted higher cost of funds of CCBL against its peers imposing competitive disadvantage for the bank. In absolute amount CASA deposits increased by 12.40% during FY20 over FY19, which further increased by 24.98% during Q3FY21 over FY20.

High portfolio concentration among top borrowers and depositors

Deposit concentration by top 20 corporate depositors has been high at 30.21% of the total bank deposits as on July 15, 2020, which further increased to 31.91% of the total bank deposits as on April 13, 2021. The bank has also moderately high concentration on group borrowers as top 20 group borrowers accounted for 18.84% of total advances during FY20 which slightly decreased to 15.35% of total advances during 9MFY21. High concentration towards advances and deposits normally increases repricing risks at times of interest rate volatility.

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). CCBL had 114 branch along with head office as on same date. 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; CCBL share on interest income is 2.39% and 2.10% share on net interest income for the same period. The market share of CCBL has increased to 2.42% in terms of interest income, however, reduced to 2.01% 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

CCBL is an “A” Class Licensed Institution from Nepal Rastra Bank (NRB), listed in Nepal Stock Exchange. It was incorporated on April 23, 2010. CCBL acquired three ‘B’ Class Development Banks and two ‘C’ Class Finance Companies during FY17 and FY18. The bank has one subsidiary company operating within the territory of Nepal, namely Century Capital Markets Ltd., incorporated in FY16 and is licensed by the Securities Board of Nepal (SEBON) to undertake Merchant Banking activities. Out of the total shareholding of the Bank, 84.76% is held by general public, 15.17% by domestic entities and 0.06% by foreign institutions as on April 13, 2021.

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