

Everest Bank Limited

Ratings

Instrument	Amount	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP AA- (Is) [Double A Minus (Issuer)]	Reaffirmed
Subordinated Debenture	-	CARE-NP AA- [Double A Minus]	Rating Withdrawn

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP AA- (Is)' assigned to Everest Bank Limited (EBL). Issuers with this rating are considered to offer high degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry very low credit risk.

CRNL has withdrawn the rating assigned to the proposed Subordinated Debentures.

Detailed Rationale & Key Rating Drivers

The rating assigned to EBL continues to derive strength from the long track record of operations, strong promoter group backed by institutional promoters along with experienced directors and management team, adequate capitalization level, diversified and wide geographical coverage through branch network. The rating also factors in consistent growth in loans & advances and deposits, comfortable deposit profile (Current account saving account (CASA) ratio) with lowest cost of funds in the industry, diversified loan & investment portfolio. The rating of EBL also drives comfort from strong asset quality and satisfactory liquidity profile.

The rating, however, is constrained on account of high concentration in borrowers and depositors, intense competition and exposure to regulatory risk related to industry. The rating also takes cognizance of the subdued financial performance of the bank in FY20 (Audited, FY refer to 12 months' period ended mid-July 2020) and 9MFY21 (Unaudited, refer to 9 months' period mid-April 2021) with declining earnings and profitability profile on account of impact of Covid-19 pandemic.

Ability of the bank to grow its advances portfolio while maintaining its asset quality and maintaining capital adequacy would be critical for the bank's earning profile and profitability. Also, ability to maintain its deposit profile having low cost of funds and manage the impact of any regulatory changes by Nepal Rastra Bank would be critical from credit prospective.

Detailed Description of the Key Rating Drivers

Key Rating Strength

Long track record, strong promoter group backed by institutional promoter and experienced management team supported by diversified and geographical coverage

Operating since October 1994, EBL has strong presence in Nepal with 103 branches spread over 7 Province Offices, 135 ATMs, 3 extension counters, 31 revenue collection counters and more than 9000 payout agents as on mid-April 2021. EBL is promoted by Punjab National Bank (PNB) with 20.03% equity stake as on April 13, 2021. PNB is one of the largest nationalised bank in India having strong branch network of 10,769 branches and 13,781 ATMs spread across India with Global Business at INR.1,845,739 Mn as on March 31, 2021. Further, PNB has been providing top management support to EBL under Technical Service Agreement (TSA).

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

Mr. Bishnu Krishna Shrestha, is the Chairman of EBL for last 20 years and has more than 40 years of experience in diversified sectors viz trading, manufacturing, banking, finance and insurance sectors. The bank is led by acting Chief Executive Officer (CEO), Dr. Sandhir Kumar, deputed by PNB. Mr Kumar commenced his career in the year 2006 with PNB and has an experience of more than 15 years in banking sector. He is supported by an experienced management team.

Adequate capitalization level

EBL had paid up capital of Rs. 8,510 Mn at the end of FY20. Tier I (CET- I) capital of the bank stood at 11.86% against minimum requirement of 7% as on July 15, 2020 and overall capital adequacy stood at 13.32% as against the regulatory requirement of overall CAR of 11%. With the increase in loans and advances during Q3FY21, CET-I and overall CAR moderated to 11.59% and 12.82% respectively. Though moderated, it continued to remain at satisfactory levels and well above the regulatory requirements.

Consistent growth in Loans & Advances and Deposits

EBL 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 156,348 Mn and Rs 127,095 Mn respectively and has increased from Rs 144,761 Mn. and Rs. 118,712 Mn. respectively at the end of FY20. EBL's share of total industry deposits is at 3.92% as on April 13, 2021.

Total loans and advances recorded three year CAGR of 14.07% ending mid of July 2020 and its share in the industry advances is at 4.13% as on July 15, 2020. Its share reduced to 3.59% as on April 13, 2021 on account of cautious credit approach of the bank towards its growth in advances during the pandemic.

Moderate liquidity profile

EBL has maintained SLR of 28.95% as on April 13, 2021 and average Cash Reserve Ratio (CRR) of 5.88% at the last reporting week as of Mid-April 2021; Net Liquidity of 39.64% 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 balances as of April 13, 2021.

Diversified loan portfolio with regulatory compliance

EBL has diversified portfolio distribution which consists of various types of loans disbursed over the period for various industry/ sector with higher lending of 26.75% at the end of FY20 and 24.97% at the end of 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 18.81% at the end of FY20 and 18.12% at the end of Q3FY21 is towards construction sector. EBL lent 13.36% as on April 13, 2021 towards agriculture and energy sector (combined); of gross loans and advances outstanding prior to 6 months. Diversified loan portfolio towards various sectors supports in maintaining the better quality advances during the time of stress in the sector or slowdown in the economy.

Comfortable CASA ratio marked by improvement over the period

In the FY20 and 9MFY21, EBL's low-cost deposits ratio to total deposits has been increasing on q-o-q basis. The same has improved from 38.89% at the end of FY19 to 40.76% at the end of FY20 and again shown growth to 44.18% at the end of Q3FY21 (industry average CASA is 43.74% as on Mid-April 2021). In absolute amount CASA deposits increased by 16.13% at the end of FY20 over FY19, which further increased by 18.04% at the end of Q3FY21 over FY20.

EBL continues to drive benefit from its approach of maintaining lower cost of funds (deposits & borrowings) which was 6.11% in FY20 (ranked 9th among the industry) and 4.55% during 9MFY21 (ranked 5th among the industry). This provides competitive advantage to the bank, especially in the recently implemented “base rate plus lending rate” regime.

Diversified investment portfolio

EBL has made investments of Rs. 29,214 Mn as on July 15, 2020, out of which 95% has been invested in treasury bills & bond instruments issued by Nepal Government and 5% has been invested in corporates’ equity and others. The investment portfolio of the bank has increased by 34% FY20 over FY19.

Strong asset quality

EBL’s asset quality is marked by lowest Gross Non-Performing Loans (GNPL) in the industry. Also, Total GNPL declined to Rs. 157 Mn at the end of Q3FY21 from Rs. 266 Mn at the end of FY20. Bank is improving its GNPL ratio over the period which decreased from 0.22% at the end of FY20 to 0.12% at the end of Q3FY21 which is also the lowest among its peer (industry average GNPL ratio is 1.41% at the end of Q3FY21). Also, the delinquencies (including restructured loan) of more than 30 days decreased by 538 bps to 4.64% as on April 13, 2021 compare to July 15, 2020.

Key Rating Weaknesses

Moderate financial performance profile

During FY20, the bank’s total income increased by 7.17% to Rs. 15,487 Mn mainly due to rise in interest income by 7.19% on back of growth in advances and increase in the non-interest income by 6.91%. Though the total income has increased, the bank’s average yield on advances decreased by 45 bps to 12.03%. The same was mainly attributed to rebates provided by the bank on interest rate as per the NRB regulations. Furthermore, NIM (net interest margin) also showed moderation during FY20 by 63 bps to 2.99% against 3.62% during FY19 due to higher increase in interest expenses. The same was on account of increase in the average cost of deposits by 29 bps to 6.13% during the said period.

EBL's impairment charge for loans and other losses in FY20 was Rs.548 Mn as against Rs.137 Mn during previous year due to provision made for COVID-19 induced delays. Accordingly, PAT has decreased by 18% to Rs. 2,516 Mn in FY20 over FY19. Return on Total Assets (RoTA) of the bank stood at 1.42% at the end of FY20.

During 9MFY21, bank’s total income, PAT and ROTA stood at Rs. 8,608 Mn, Rs. 1,507 Mn and 1.04% respectively.

Higher portfolio concentration among top borrower groups and depositors

Deposit concentration by top 20 depositors has been moderately high at 29.69% of total bank deposits as on July 15, 2020, however the same has reduced to 27.61% of total bank deposits as on April 13, 2021. The concentration on advances to top 20 single borrowers was high at 23.65% and top 20 group borrowers accounts for 30.57% at the end of Q3FY21 of total loan portfolio. High concentration towards advances and deposits normally increases re-pricing 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). 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; EBL share on interest income is 3.69% and 3.66% share on net interest income for the same period. The market share of EBL has

decreased to 3.59% in terms of interest income and 2.93% 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

EBL is an "A" Class Licensed Institution from Nepal Rastra Bank (NRB) and listed on Nepal Stock Exchange. It was incorporated on October 16, 1994. EBL has a TSA with PNB which provides management support (three top level executives including CEO) from PNB on deputation. As on Mid-April 2021, 59.23% of the shares (including PNB's 20.03%) is held by the promoters and remaining 40.77% is held by the public.

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