

## ICFC Finance Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Issuer Rating	NA	[CARE-NP] BBB- (Is) [Triple B Minus (Issuer)]	Reaffirmed
Subordinated Bond (12% Debenture 2083)	200	CARE NP BBB- [Triple B Minus]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of “CARE-NP BBB- (Is) [Triple B Minus (Issuer)]” to ICFC Finance Limited (ICFC). 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 rating of ‘CARE-NP BBB- [Triple B Minus]’ to the Subordinated Debentures of ICFC. The instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry moderate credit risk.

### Detailed Rationale & Key Rating Drivers

*The rating assigned to ICFC derives strength from the long track record of operations, experienced management team, moderate capitalization level with satisfactory asset quality and diversified credit portfolio, considerable growth in loan & advances and deposits over the period and healthy growth in profitability in FY21 (Un-Audited, FY refer to 12 months’ period ended mid-July 2021). The rating also factors in, moderate CASA deposit ratio and moderate concentration over top 20 depositors, comfortable liquidity position and significant increase in investment portfolio.*

*The rating, however, is constrained on account of limited reach of business, high portfolio concentration among top borrowers, intense competition and exposure to regulatory risk related to Banking industry. The rating also takes cognizance of the significant decline in interest income of the bank thereby deteriorating the Net Interest Margin (NIM) in FY21.*

*The ability of the company to continue its growth momentum while maintaining asset quality and capital adequacy and 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

##### ***Experienced management team***

Established in the year 2004; ICFC has been operating for around 2 decades and as on mid-July 2021, the total number of branches of ICFC stood at 19. ICFC is a professionally managed company under the overall guidance of Board of Directors (BoD) led by Chairman Mr. Ram Babu Pant who is a retired Deputy Governor of Nepal Rastra Bank (NRB) with work experience of more than 19 years. The top and senior management team is experienced in their respective field of

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications  
\*Issuer did not cooperate; Based on best available information

operations. The company is led by CEO, Mr. Sunil Pant who has who has more than 25 years of banking experience. He is supported by an experienced management team.

***Moderate capitalization level with satisfactory asset quality and diversified credit portfolio***

ICFC's overall capital adequacy stood at 13.33% as on July 15, 2021 which increased from 12.86% as on July 15, 2020 as against minimum regulatory requirement of 11%. ICFC has seen aggressive growth in its advances book over the last five years resulting in moderation in its core capitalization levels. Tier I CAR has been declining from 14.12% as on mid- July, 2016 to 10.64% as on mid-July, 2021, however has sufficient cushion over the regulatory requirement of 6%.

ICFC's Gross Non performing Loan % (GNPL) was satisfactory at 1.65% in FY21 as against the industry average of 6.19% in FY21. GNPL also increased to Rs.191 Mn in FY21 from Rs.51 Mn in FY20 on account of slow- down in the recoveries due to covid-19 pandemic.

Out of total loans of Rs. 11,610 Mn as on mid-July 2021, the delinquencies (including restructured loan) of more than 30 days amounted to Rs.595 Mn (5.13% of total advances) in FY21 which improved from Rs. 1,258 Mn (13.05% of total advance) in FY20.

ICFC has a diversified portfolio distribution which consists of various types of loans disbursed over the period for various industry/ sector with higher lending of 25.34% at the end of FY21 and 25.15% at the end of FY20 for finance, insurance and real estate sector. Next major lending of 15.66% at the end of FY21 and 25.15% at the end of FY20 towards wholesalers & retailers sector (wholesale trade of durables, non-durables, automotive dealer/franchise, other retail trade, import-export trade etc.). ICFC lent 22.65% as on mid-July 2021 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. 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.

***Considerable growth in loans & advances and deposits***

ICFC has reported high growth in its loan portfolio and deposits over the period. Total loan portfolio grew at a compounded annual growth rate (CAGR) of 19.70% over last 4 years ending mid-July, 2021. It grew by 20.24% in FY21 and stood at Rs 11,610 Mn as on mid July 2021 as against Rs. 9,648 Mn on account of increasing its exposure in construction sector and hotel industry.

ICFC's deposits also grew at a CAGR of 22.31% over last 4 years ending mid-July, 2021 on back of increase in branches and effective marketing strategy. It grew by 20.39% in FY21 and stood at Rs 15,215 Mn in FY21 as against Rs 12,638 Mn in FY20. As per monthly data published by NRB, ICFC' market share in deposit and advances stood at 17.03% and 16.23% respectively as on mid July 2021.

***Healthy growth in profitability in FY21***

During FY21, ICFC's interest income decreased by 10.49% to Rs. 1,334 Mn majorly due to decline in banks average yield due to high liquidity in the banking sector which led to competition induced lower lending rates. Accordingly, interest spread of the bank reduced to 3.65% for FY21 from 4.91% in FY20. Interest expense also declined from Rs. 1,091 Mn in FY20 to Rs. 1,030 Mn in FY21 on account of significant decline in borrowings from Rs 1,410 Mn to Rs 129 Mn. ICFC's Net Interest Margin (NIM) showed moderation during FY21 by 93 bps to 1.77% against 2.70% during FY20 because of significant decrease in the net interest income as compared to increase in total assets.

However, ICFC's Non-interest income increased significantly to Rs 325 Mn during FY21, mainly due to sale of share investments and sale of certain portion of government bond. Despite decrease in interest income, ICFC's total income increased by 4.97% to Rs. 1,659 Mn. With decline in interest income, net interest income also decreased by 23.87% to Rs.304 Mn during FY21 and operating expenses increased by 0.64% during FY21. Its operating expenses/ average total assets decreased to 1.51% in FY21 as compared to 1.74% in FY20. Impairment charge for loans and other losses decreased to Rs. 67 Mn during FY21 as against Rs. 85 Mn during FY20. Accordingly, ICFC reported increase in PAT by 92.54% to Rs.201 Mn during FY21 from Rs 104 Mn during FY20. Return on Total Assets (ROTA) has increased to 1.17% in FY21 (0.71% in FY20), due to increase in PAT as compared to previous year.

#### ***Comfortable liquidity profile***

ICFC has maintained SLR of 25.67% as on July 15, 2021 and 21.89% as on July 15, 2020 vis-à-vis regulatory requirement of 7%; CRR of 4.45% and 3.68% at the last reporting week as of FY21 and FY20 vis-à-vis regulatory requirement of 3%. Maintained SLR, CRR are within the norms of NRB. Also, ICFC has comfortable liquidity profile with positive cumulative balances as of mid-July 2021.

#### ***Moderate CASA deposit ratio and moderate concentration over top 20 depositors***

ICFC's low-cost deposits ratio to total deposits has been increasing on y-o-y basis in the last 4 years. The same has improved from 27.16% at the end of FY20 to 30.78% at the end of FY21. ICFC's CASA ratio is slightly higher than industry average of 30.47% during FY21. In absolute amount CASA, deposits increased by 36.45% at the end of FY21 to Rs. 4,684 Mn over FY20. ICFC continues to derive benefit from its approach of maintaining lower cost of funds (deposits & borrowings) which was 6.56% in FY21 which is lower among the industry. This provides competitive advantage to the bank, especially in the recently implemented "base rate plus lending rate" regime.

ICFC's deposit from top 20 depositors was moderate at 18.49% of total deposit in FY21 which increased from 15.70% of total deposit in FY20. Top 20 depositors mainly consist of institutional depositors. Lower concentration towards deposits normally reduces re-pricing risks at times of interest rate volatility.

#### ***Significant increase in investment portfolio***

ICFC's total investment increased by 53% to Rs. 3,491 Mn in FY21. Total investments include investment in listed equity share of Rs 457 Mn. in FY21 as compared to Rs 273 Mn. in FY20. Further, out of ICFC's total investment, investment in government bond and Treasury bill has been significantly increased to Rs 3,011 Mn in FY21 from Rs 2,002 in FY20. During FY21, ICFC has earned interest income from investment in Securities/Bonds of Rs 92 Mn and dividend income of Rs 7 Mn.

### **Key Rating Weakness**

#### ***Limited reach of business***

ICFC is operating in 3 provinces (i.e. Bagmati, Lumbini and Gandaki) having presence in 9 districts of Nepal (out of 7 provinces and 77 districts of Nepal) and has only 19 branches, 1 extension counter and 18 ATM terminals as on October 10, 2021. On account of limited geographical presence, the business is concentrated towards limited customer base which increases the risk of volatility of a single economic region.

**High concentration over top 20 borrowers**

ICFC's lending to top 20 borrowers was 29.29% of total loans and advances in FY21 which was increased from 24.13% in FY20. Due to concentration over top borrowers there may be significant impact on its assets quality, if any big borrower default on loan.

**Competition from other Finance Companies and Bank**

Currently, there are 17 finance companies operating with total 222 branches all over Nepal (based on monthly statistics published by NRB for Mid-July, 2021) out of that ICFC has 19 branches. Industry (Class 'C' Banks-Finance Companies) has achieved total interest income of Rs. 8,379 Mn in FY21 with Rs. 2,474 Mn net interest incomes; ICFC's share on interest income and net interest income is ~15.90% (Rs. 1,334 Mn) and 12.29% (Rs 304Mn) respectively for the same period. Despite being one of the leading finance company in the industry, it is challenging for ICFC to maintain current market share and expand its business, due to high competition among bank and finance companies, existence of large number of finance companies along with Commercial and Development bank. Competition in the interest rates is the prominent challenge in the Nepalese banking sector.

**Exposure to regulatory risk related to industry**

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, finance companies faced pressure from NRB for capital increment to Rs. 800 Mn from Rs. 200 Mn. NRB via its Monetary Policy has increased CD (Credit to Deposit ratio) to 90% from existing CCD(Credit to Core Capital cum Deposit) ratio of 85%; discontinuance of countercyclical buffer at present. Also considering the impact of pandemic, NRB has increased repo rate to 3.5% from 3% and further provided extension for principal and interest due as on mid-July 2021 upto mid-January 2022.

**About the Company**

ICFC Finance Limited (ICFC) is a national level class "C" finance company incorporated September 22, 2003 as Investment and Credit Finance Company Limited which was changed to ICFC Finance Ltd. on March 1, 2010. It was Licensed by Nepal Rastra Bank (NRB) on July 14, 2004 and commenced operation on July 17, 2004. The company reported PAT of Rs. 201 Mn on an asset size of Rs. 18,550 Mn as on July 15, 2021. At the end of FY21, ICFC has Rs. 1,024 Mn paid up capital which is distributed among promoter and public shareholders in the ratio of 51:49.

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