

Corporate Development Bank Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP B+ (Is) [Single B Plus (Issuer)]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP B+ (Is)' [Single B Plus (Issuer)] to Corporate Development Bank Limited (CDBL). Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations in Nepal.

Detailed Rationale & Key Rating Drivers

The rating assigned to CDBL is constrained by weak asset quality leading to high Gross Performing Loan (GNPL), low market share, weak financial risk profile, high borrower and sectorial concentration of advances. The rating is also constrained by high depositor concentration, limited reach of business, intense competition and exposure to regulatory risk related to Banking industry.

The rating, however, derives strength from experienced management team, considerable growth in loans and advances and moderate capital adequacy level. The ratings also derive its strength from moderate CASA level and liquidity profile.

The ability of the bank to maintain its growth momentum while improving asset quality and capital adequacy and ability to manage any regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak assets quality leading to high Gross Non Performing Level (GNPL)

CDBL's asset quality stood weak reflected from high GNPL which stood at 4.70% for FY21 (unaudited; FY refers to 12 months' period ended on mid-July). Though GNPL of the company has shown marginal improvement from 4.94% in FY20; still continues to remain high. GNPL ratio further improved to 3.70% in Q1FY22 on account of speedy recovery backed by effective recovery strategies.

Weak financial risk profile with low market share

During FY21, interest income decreased by 22% to Rs. 51 Mn and increase in interest expense by 13% to 26 Mn as compared to previous year has led to moderation in CDBL's Net Interest Margin (NIM) by 288 bps. NIM stood at 2.71% during FY21. Net interest income decreased on account of decline in average yield to 9-10% in FY21 from 13-14% in FY20. This decline in yield was due to reduction in interest rates in the banking sector which led to competition induced lower lending rates. Accordingly, average interest spread rate declined from 8.90 % in FY20 to 6.61% in FY21.

During FY21, the company reported de-growth in total operating income by 6.27% to Rs. 63 Mn. However, CDBL's Non-interest income increased mainly due to increase in loan processing fees. The company reported Rs 12 Mn of non-interest income during FY21. Though the company's operating expenses/ average total assets decreased to 2.63% in FY21 as compared to 4.93% in FY20 on account of increase in advances; however, PAT decreased significantly to Rs.5 Mn during FY21 from Rs 127 Mn during FY20. The same was on account of impairment charge for loans and other losses. The company had reversal of the same in FY20 as against expenses of Rs. 4 Mn during FY21. The reduction in PAT led to decline in Return on Total Assets (ROTA) to 0.58% in FY21 (16.61% in FY20).

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

Furthermore, CDBL reported net profit of Rs 1 Mn during Q1FY22. Net Interest Margin (NIM) ratio declined to 0.67% in Q1FY22 from 1.33% in Q1FY21.

CDBL is one of the regional level development bank in Nepal with 1.28% and 1.41% market share in terms of deposit base and loan portfolio respectively amongst the regional development bank at the end of FY21 based on monthly data published by NRB.

High concentration over top 20 depositors and top 20 borrowers

CDBL's deposit from top 20 depositors was high at 42.02% of total deposit in FY21 and shown an increase from 41.62% in FY20. Top 20 depositors mainly consist of individual depositors. Furthermore, CDBL's lending to top 20 group borrower was 46.37% of total advances in FY21 and lending to top 20 individual borrower was 16.21% of total loans and advances in FY21. High concentration towards advances and deposits normally increases re-pricing risks at times of interest rate volatility. Furthermore, the asset quality is more vulnerable to single default due to high concentration towards advances.

High Concentration of advances towards construction sector

The credit portfolio of the company is highly concentrated towards construction sector. In FY21 the advances towards construction sector stood at 25.97%. The same reduced from 34.43%; however still remained high. The recovery in the sector highly depends on various factors viz. government spending, execution of projects, availability of funding etc.

Limited reach of business

CDBL is operating in only one province (Province 2) having presence in single district of Nepal (out of 7 provinces and 77 districts of Nepal) through its 4 branches. On account of limited geographical presence, the business is concentrated towards limited customer base along with less diversified portfolio which increases the risk of volatility of a single economic region.

Competition from other bank and financial institutions

Currently, there are 18 development banks operating with total 1,023 branches all over Nepal (based on monthly statistics published by NRB for Mid-July, 2021) out of that CDBL has 4 branches. Industry (Class 'B' Banks-Development banks) has achieved total interest income of Rs. 45,304 Mn in FY21 with Rs. 27,024 Mn net interest incomes; CDBL's share on interest income and net interest income is ~0.11% (Rs. 56 Mn) and 0.10% (Rs 26 Mn) respectively for the same period. It is challenging for CDBL to grow from 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 related to industry

The Banking industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. 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.

Key Rating Strengths

Experienced board members and management team

CDBL started its commercial operation since October 14, 2007. It is a professionally managed development bank under the overall guidance of the Board of Directors (BoD) which includes eminent bankers, doctors and professionals with wide experience in the medical and financial sector. Mr. Jainuddin Ansari (chairman of CDBL) is also chairman of National Medical College and has overall experience of more than 4 decades in diversified industries. The bank is led by CEO, Trilok Dhoj Joshi who has more than 29 years of banking experience. He has worked in Nabil Bank Ltd. in various positions. CEO has been supported by other experienced management team.

Adequate level of capitalization

CDBL's overall capital adequacy stood at 71.66% as on July 15, 2021 which increased from 40.09% as on July 15, 2020 as against minimum regulatory requirement of 11%. CDBL has seen growth in its advances book over the last five years. Tier I CAR has been increasing from 19.43% as on mid- July, 2017 to 70.78% as on mid-July, 2021 having sufficient cushion over the regulatory requirement of 6%.

Considerable growth in loans & advances and deposits

CDBL 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 76.90% over last 4 years ending mid-July, 2021. It grew by 27.81% in FY21 and stood at Rs 413 Mn as on mid July 2021. CDBL's deposit also grew at a CAGR of 53.60% over last 4 years ending mid-July, 2021 on back of effective marketing strategy. It grew by 49.20% in FY21 and stood at Rs 443 Mn in FY21 as against Rs 297 Mn in FY20. Furthermore, loans and advances grew by 31.70% to Rs 554 Mn in Q1FY22 from Rs 286 Mn in Q1FY21 and deposit in this period grew by 26.13% to Rs 559 Mn as compared to Rs 323 Mn.

Moderate CASA deposit ratio and liquidity profile

CDBL's low-cost deposits ratio to total deposits has been decreasing on y-o-y basis in the last 4 years and the same has stood at 40.70% at the end of FY21. CDBL's CASA ratio is higher than industry average of 34.50% during FY21.

CDBL has comfortable liquidity profile with positive cumulative balances as of mid-July 2021. CDBL has maintained SLR of 98.35% as on July 15, 2021 vis-à-vis regulatory requirement of 8%; CRR of 5.66% at the last reporting week as of FY21 vis-à-vis regulatory requirement of 3%. Maintained SLR, CRR are within the norms of NRB.

About the Company

Corporate Development Bank Limited (CDBL) is a regional level class "B" Development bank incorporated on August 07, 2007. It was licensed by Nepal Rastra Bank (NRB) on October 11, 2007 and commenced operation on October 14, 2007. At the end of FY21, it has Rs. 410 Mn paid up capital and asset size of Rs. 1,015 Mn.

Contact Us

Analyst

Ms. Anjali Bhandari
+977-01-4012629
anjali.bhandari@careratingsnepal.com

Senior Manager

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

Relationship Contact

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

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