

Kamana Sewa Bikas Bank Limited

Rating

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

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB+ (Is)' [Double B Plus (Issuer)] to Kamana Sewa Bikas Bank Limited (KSB). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations.

Detailed Rationale & Key Rating Drivers

The ratings assigned to KSB is constrained by moderate asset quality, modest liquidity profile, decline in investment portfolio and moderate concentration over top 20 depositors. The rating is also constrained by intense competition and exposure to regulatory risk related to Banking industry.

The rating, however, derives strength from the long track record of operations with experienced board and management team, adequate capitalization levels, diversified advances portfolio towards sector and borrowers, and geographical coverage. The ratings also derive strength from moderate financial performance during FY21 (Audited, refers to the 12 months period ended Mid-July 2021).

The ability of the bank 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 Weaknesses

Moderate assets quality

KSB's asset quality stood moderate as reflected from moderate GNPL which stood at 1.61% for FY21 (FY refers to 12 months' period ended mid-July). GNPL of the company, deteriorated to 1.79% in Q1FY22. Though deteriorated, it continued to remain at moderate levels.

Decline in investment portfolio and low liquidity profile

KSB's total investment decreased by 14% to Rs. 4,973 Mn in FY21. Total investments include investment in equity share of Rs 303 Mn. in FY21. Furthermore, out of KSB's total investment, investment in government bonds and treasury bills have been significantly increased to Rs 4,670 Mn in FY21 from Rs 1,568 Mn in FY20. During FY21, KSB has earned interest income from investment in Securities/Bonds of Rs 258 Mn (Rs.51 Mn during FY20); dividend income of Rs 14 Mn (Rs 13 Mn during FY20).

KSB has modest liquidity profile with negative cumulative balances as of mid-July 2021. KSB has maintained SLR of 15.88% as on July 15, 2021 and 11.34% as on July 15, 2020 vis-à-vis regulatory requirement of 8%; CRR of 3.26% and 3.68% at the last reporting week as of FY21 and FY20 vis-à-vis regulatory requirement of 3%.

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

Moderate concentration over top 20 depositors

KSB's deposit from top 20 depositors was moderate at 17.30% of total deposit in FY21 which decreased from 19.04% of total deposit in FY20. Top 20 depositors mainly consist of institutional depositors. Moderate concentration towards deposits normally results re-pricing risks at times of interest rate volatility.

Competition from other Finance Companies and Bank

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 KSB has 130 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; KSB's share on interest income and net interest income is ~9.03% (Rs. 4,090 Mn) and 5.68% (Rs 1,536 Mn) respectively for the same period. Despite being one of the established national development bank in the industry, it is challenging for KSB to maintain current market share and expand its business, due to high competition among bank and finance companies, existence of large number of development banks 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. In past, development banks faced pressure from NRB for capital increment to Rs. 2500 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%. 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 with growing branch network

KSB is a national level class "B" Development bank formed after merger of Kamana Bikas Bank and Sewa Bikas Bank in 2017 (Pre-merger, both entities operating since 2007). KSB is a professionally managed bank under the overall guidance of Board of Directors (BoD) led by Chairman Mr. Sudeep Acharya. The top and senior management team is highly experienced in their respective field of operations. The bank is led by CEO, Mr. Prabin Basnet who has more than 15 years of banking experience. All the management members have wide banking experience.

KSB is operating in 7 provinces having presence in 38 districts of Nepal (out of 7 provinces and 77 districts of Nepal) and has 130 branches including one extension center and 71 ATM terminals as on July 15, 2021. On account of wide geographical presence, the business is diversified towards variety of customer base and diversified portfolio.

Adequate level of capitalization and diversified credit portfolio

KSB's overall capital adequacy stood at 13.93% as on July 15, 2021 as against minimum regulatory requirement of 11%. KSB 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 11.75% as on mid- July, 2017 to 10.02% as on mid-July, 2021, however has sufficient cushion over the regulatory requirement of 6%.

KSB has a diversified portfolio distribution which consists of various types of loans disbursed over the period for various Industry/ sector with 22.25% share of lending in wholesale & retail sector as against 19.08% at the end of FY20. KSB advances stood around 18.90% 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 with decent market share

KSB 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 around 60% over last 4 years ending mid-July, 2021. It grew by 48.32% in FY21 and stood at Rs 40,070 Mn as on mid July 2021 as against Rs. 27,015 Mn on account of increase in business through addition of branches (36 new branches in FY18, 36 in FY19 and 29 in FY20 and 5 new branches in FY21).

KSB's deposit also grew at a CAGR of 58.62% over last 4 years ending mid-July, 2021 on back of effective marketing strategy. It grew by 38.53% in FY21 and stood at Rs 44,201 Mn in FY21 as against Rs 31,906 Mn in FY20. Furthermore, loans and advances grew by 39% to Rs 42,601 Mn in Q1FY22 and deposit during this period grew by 28.23% to Rs 47,090 Mn. As per monthly data published by NRB, KSB's market share in deposit and advances stood at 9.91% and 10.45% respectively as on mid July 2021.

Moderate growth in profitability in FY21

During FY21, KSB's interest income increased by 16% to Rs. 4,090 Mn majorly due to increase in both interest and non-interest income. Interest expense also increased from Rs. 2,384 Mn in FY20 to Rs. 2,554 Mn in FY21 on account of issue of debenture of Rs 993 Mn in FY21. KSB's Net Interest Margin (NIM) showed moderation during FY21 by 13 bps to 3.50% against 3.63% during FY20. Net interest income also decreased in FY21 over FY20 by around 100 bps due to lower lending rates led to competition. Accordingly, interest spread rate declined from 4.91 % in FY20 to 4.20% in FY21.

KSB's Non-interest income increased significantly by 164.05% to Rs 603 Mn during FY21, mainly due to sale of NRB bond and sale of shares. Accordingly, KSB's total income increased by 24.85% to Rs. 4,694 Mn. With improvement in interest income, net interest income also increased by 33.92% to Rs. 1,536 Mn during FY21 and operating expenses increased by 12.58% during FY21 on account of increase in employee cost and increase in number of branches. Its operating expenses/ average total assets decreased to 2.30% in FY21 as compared to 2.84% in FY20. Impairment charge for loans and other losses decreased to Rs. 272 Mn during FY21 as against Rs. 316 Mn during FY20. Accordingly, KSB reported increase in PAT by 399.65% to Rs.598 Mn during FY21 from Rs 120 Mn during FY20 leading to improvement in Return on Total Assets (ROTA) to 1.36% in FY21 (0.38% in FY20).

Further, interest income improved to Rs 1,235 Mn in Q1FY22 from Rs. 1,007 Mn in Q1FY21. Total income grew by 3.49% to Rs 1,350 Mn in Q1FY22 from Rs. 1,305 Mn in Q1FY21. NIM deteriorated to 0.80 in Q1FY22 as compared to 0.95 in Q1FY21.

Moderate CASA deposit ratio and low concentration over top 20 borrowers

KSB's low-cost deposits ratio to total deposits has been decreasing on y-o-y basis in the last 4 years. However, the same has improved from 29.27% at the end of FY20 to 31.33% at the end of FY21. KSB's CASA ratio is slightly lower than industry average of 34.50% during FY21. In absolute amount CASA deposits increased by 48.30% at the end of FY21 to Rs. 13,850 Mn over FY20. KSB continues to derive benefit from its approach of maintaining lower cost of funds (deposits & borrowings) which was 6.31% 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.

KSB's lending to top 20 group borrower was 1.97% of total loans and advances in FY21. Similarly, lending to top 20 individual borrower was 1.61% of total loans and advances in FY21. Due to low concentration over top borrowers there will not be significant impact on its assets quality, if any big borrower default on loan.

About the Company

Kamana Sewa Bikas Bank Limited (KSB) is a national level class "B" Development bank formed after merger of Kamana Bikas Bank Limited (established on FY07) (National level development bank) and Sewa Bikas Bank Limited (established on FY07) (10 district level development bank) on August 4, 2017. Major promoter of KSB is Mrs. Tulasha Pandey with shareholding of 2.09% as on Mid July 2021. The bank reported PAT of Rs. 598 Mn on an asset size of Rs. 51,305 Mn. as on July 15, 2021, it has Rs 2,652 Mn paid up capital which is distributed among promoter and public shareholders in the ratio of 51:49.

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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