

Century Commercial Bank Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BBB (Is) [Triple B (Issuer)] (Credit watch with developing implications)	Placed on credit watch with developing implications
Subordinated debenture	2,200.00	CARE-NP BBB [Triple B] (Credit watch with developing implications)	Placed on credit watch with developing implications

CARE Ratings Nepal Limited (CRNL) has placed the issuer rating of 'CARE-NP BBB (Is)' assigned to Century Commercial Bank Limited (CCBL) on credit watch with developing implications. 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 placed the rating of 'CARE-NP BBB' assigned to the Subordinated Debentures issued by CCBL on credit watch with developing implications. Instruments with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry moderate credit risk.

Detailed Rationale & Key Rating Drivers

The ratings assigned to CCBL have been placed on credit watch with developing implications factoring in the ongoing acquisition process of CCBL by Prabhu Bank Limited [CARE-NP BBB]. CRNL will resolve the rating watch after completion of the acquisition process.

The ratings continue to derive strength from CCBL's established track record of operations along with experienced management team, growth in loan and advance portfolio supported by geographical coverage, adequate capitalization level and moderate financial risk profile. The ratings also factor in CCBL's moderate liquidity profile and its diversified loan & investment portfolio. The ratings, however, are constrained by below average asset quality, moderation in financial performance profile, lower proportion of Current Account Savings Account (CASA) deposits leading to higher cost of funds vis-a-vis the industry (Class 'A' Commercial Banks). The ratings also factor in high portfolio concentration among top borrower groups and depositors, intense competition and exposure to regulatory risk related to industry.

Going forward, ability of the bank to manage growth without compromising on asset quality and maintaining capital adequacy would be critical for the bank's earning profile and profitability, and remain a key rating sensitivity. The bank's ability to timely complete the proposed acquisition and manage the impact of any regulatory changes by Nepal Rastra Bank would be key monitorable aspects.

Key updates

The financial risk profile of CCBL at the end of FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022) was marked by moderate capitalization with growth in income and profitability. CCBL's overall Capital Adequacy Ratio (CAR) has been on improving trend in FY22 aided by debenture issuance of Rs. 2,200 Mn coupled with improved profitability. Overall CAR improved to 13.54% at the end of FY22 (PY: 12.34%) as against the minimum regulatory requirement of 11%. The bank's ability to maintain adequate cushion in the capital adequacy ratios is critical for its solvency and will remain crucial for its growth perspective.

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

During FY22, CCBL's total income increased by 30.83% to Rs. 10,883 Mn over FY21 (Audited, refers to the twelve-month period ended mid-July 2021) supported by increase in interest income by 32.67% owing to the sustained growth in loans & advances over FY21-FY22. Consequently, bank's net interest income increased by 31.65% to Rs. 3,202 Mn during FY22. CCBL's loans and advances at the end of FY22 was Rs. 91,466 Mn, growing 12.38% over FY21. However, deposits growth was only 4.54% to Rs. 101,401 Mn during the same period impacted by the liquidity challenges in the country's economy amid lower remittance, increasing balance of payment deficit, and reduced government expenditure during the year.

CCBL's asset quality has been on an improving trend over FY21-FY22, however, it is still weaker than the industry average. Gross Non-Performing Loans (GNPL) of the bank significantly improved to 1.59% as on mid-July 2022 from 1.98% as on mid-July 2021 aided by recovery of some big ticket loans during the year. The bank's ability to manage growth while improving its asset quality will remain a key monitorable aspect.

Key financial indicators of Century Commercial Bank Limited in FY21 and FY22 are given below:

(in Rs. Mn)

Particulars	FY21 (Audited)	FY22 (Unaudited)
Interest Income	7,608	10,094
Total Income	8,319	10,883
Interest Expenses	5,176	6,892
Net interest Income	2,432	3,202
Net Profit	629	1,357
Deposits	96,997	101,401
Advances (Gross Figure)	81,389	91,466
Total Assets	111,628	120,464
Total CAR (%)	12.34	13.54
Gross NPL to Gross Advances (%)	1.98	1.59
Provision Coverage Ratio (%)	148.41	155.11
Cost of Funds (%)	5.66	7.90
Interest Rate Spread	3.26	4.03
Credit to Deposit Ratio	79.38	87.98

About the Bank

Century Commercial Bank Limited (CCBL) is an "A" Class Licensed Institution from Nepal Rastra Bank, 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, 85% is held by general public, 15% by domestic entities as on January 14, 2022.

Detailed rating rationale of the company is available at www.careratingsnepal.com

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About CARE Ratings:

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Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

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