Corporate Development Bank Limited

Rating

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

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+ (Is)' [Single B Plus (Issuer)] assigned 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 continues to be constrained by its weak asset quality marked by high Gross Non-Performing Loan (GNPL) ratio, relatively small scale of operations with limited reach of business resulting in modest market share, and higher concentration over top 20 depositors and borrowers. The rating also factors in intense competition and exposure to regulatory risks related to the banking industry. The rating, however, continues to derive strength from the bank's experienced management team, adequate level of capitalization, sustained growth in loans and advances leading to improved financial performance in FY23 (Unaudited, FY refers to the twelve-month period ending mid-July).

Going forward, the ability of the bank to maintain its growth momentum while improving asset quality and its ability to manage the impact of any regulatory changes will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak asset quality

CDBL's GNPL ratio continues to be high at 4.29% as on mid-July 2023. Despite a slight improvement from 4.74% as on mid-July 2022, these figures remain substantially higher than the industry average GNPL ratios of 2.49% and 1.36% at the end of FY23 and FY22, respectively. Challenges in recoveries amid slowdown in pace of economic growth, exacerbated by the muted demand scenario across industries has impacted borrowers' repayment ability leading to the higher GNPL levels. A relatively high GNPL ratio remains a key concern and the bank's ability to improve its asset quality without major slippages going forward continues to be a key monitorable aspect.

Small scale of operations with limited reach of business

CDBL is operating in only one province (Madhesh Province) and single district (Parsa) (out of 7 provinces and 77 districts in Nepal) through its 4 branches. The bank lacks any ATM terminals, extension counters, and branchless banking services as of mid-July 2023. On account of its limited geographical presence and size, the business is concentrated towards limited customer base along with less diversified portfolio, which exposes its business to volatility associated with a single economic region and limits the scope of growth in its scale of operations.

High concentration in loans and advances

CDBL continues to have high concentration of loans and advances towards few borrowers group with top 20 group borrowers accounting for 40.96% of its loans and advances at the end of FY23, up from 31.39% at the end of FY22. Higher concentration over top borrowers increases risk on the bank's asset quality due to increased impact of any big borrowers defaulting on their loan. CDBL's concentration on its top 20 depositors, however, decreased to 4.45% in FY23 from 16.15% in FY22. Decline in concentration over top depositors may help the bank's liquidity position since there is less risk of big depositors withdrawing their balances in a short span of time.

Competition from other banks and financial institutions

Currently, there are 17 development banks operating with a total of 1,128 branches all over Nepal (based on Monthly Statistics published by NRB for mid-July 2023), out of which CDBL has 4 branches. The company continues to face sharp competition from other banks in the country, although its shares in total interest income and net interest income of the industry (Class "B" Banks) in FY23 has slightly increased to 0.24% (from 0.19%) and 0.41% (from 0.31%), respectively. During this fiscal year, CDBL ranked 15th among 17 development banks in the country, in terms of both interest income and net interest income. It is challenging for the bank to grow from current market share and expand its business due to its limited reach of business and high competition among banks and finance companies conducting similar kind of businesses.

Exposure to regulatory risks related to banking industry

Banking industry is a highly regulated industry exposed to changes in the various regulatory measures issued by NRB from time to time. From FY22 end, NRB has changed to Credit to Deposit (CD) ratio mechanism from existing Credit to Core Capital plus Deposit (CCD) ratio measures. BFIs need to maintain their CD ratio below 90% from mid-July 2022 from earlier provision of 85% for CCD. Furthermore, risk weights of certain loans including personal overdrafts, TR loans, hire purchase loans for personal purpose, margin lending, etc. has been increased to 150% from existing 100% via the mid-term review of monetary policy issued by NRB for FY22. These changes are likely to put downward pressure on capital adequacy ratios of banks and limit their ability for significant credit expansion, at least over the near term.

Key Rating Strengths

Experienced board members and management team

CDBL, which started its commercial operation on October 14, 2007, is a professionally managed development bank under the overall guidance of the Board of Directors (BoD), including eminent bankers, doctors and professionals with wide-ranging experiences in the financial and medical sectors. Mr. Jainuddin Ansari, chairman of CDBL since last four years, is also the chairman of National Medical College for the last two decades and has been a medical officer/ practitioner for last four decades. The top and senior management team of CDBL is composed of seasoned bankers with long track record of banking experience. The bank is currently led by Officiating CEO, Mr. Bipin Raj Pokhrel, who has more than three decades of banking experience. The CEO is supported by other qualified management team members.

Adequate level of capitalization

CDBL's overall CAR decreased to 47.81% during FY23 from 59.10% in FY22, yet remained significantly higher than the industry average of 13.21% as on mid-July 2023. Likewise, its Tier I CAR declined to 46.86% from 57.82%. The decline in CAR was mainly on account of increase in loans and advances by 21.83% in FY23. CDBL has seen an aggressive growth in its loan and advances over the last five years with a CAGR of 33%. Nevertheless, it has maintained sufficient cushion over the regulatory requirement of 10% for overall CAR and 6% for Tier I CAR. Sufficient capital adequacy level supports business growth in terms of further loan disbursements and helps absorb unexpected business losses.

Sustained growth in loans & advances and deposits; albeit low market share

CDBL has consistently reported a growth in its loan and deposit portfolios over the years. The total loan portfolio grew by 21.83% y-o-y to Rs. 1,165 Mn at the end of FY23 from Rs. 956 Mn at the end of FY22 (whereas Development Banks' loan portfolio grew by 6.06%). Similarly, its deposits grew by 59.75% to Rs. 1,256 Mn at the end of FY23 from Rs. 786 Mn at the end of FY22 (whereas Development Banks' deposits grew by 12.19%). The CAGRs of CDBL's loan and deposit portfolios over the last five years are 33% and 61%, respectively. However, owing to its small scale of operations, the share of CDBL in total loans and deposits of development banks remained low at 0.25% and 0.22%, respectively at the end of FY23. In FY22, these figures stood at 0.22% and 0.15%, respectively.

Improved financial performance during FY23

During FY23, CDBL's total income increased by 57.79% to Rs. 184 Mn from Rs. 107 Mn in FY22, which can be largely attributed to its increase in interest income. Similarly, its yield on advances increased to 17.09% during FY23 from 13.49% during FY22, while the cost of deposits increased to 9.09% from 8.02%. This led to increase in net interest income by 9.73% during FY23 to Rs. 88 Mn from Rs. 56 Mn in FY22. Also, the core spread improved to 8% from 5.47%. With increase in income, the company has reported increase in its PAT to Rs. 19 Mn during FY23 compared to Rs. 4 Mn during FY22. Likewise, its Return on Total Assets (ROTA) has stood at 1.13% and Return on Net Worth (RONW) at 2.53% at the end of FY23 as compared to 0.30% and 0.58% in FY22, respectively.

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 its operation on October 14, 2007. At the end of FY23, it has Rs. 525 Mn paid up capital, which is distributed among promoters and public shareholders in the ratio of 70:30.

Contact Us

Analyst Contact
Ms. Ichchha Chauhan
+977-01-4012630
ichchha.chauhan@careratingsnepal.com

Mr. Santosh Pudasaini
+977-01-4012628
pudasaini.santosh@careratingsnepal.com

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

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

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).