

## PRESS RELEASE

### Multipurpose Finance Limited

June 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN B	Reaffirmed
<b>Total</b>	<b>NA</b>		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the issuer rating of IRN B(Is) [Single B (Issuer)]. Issuers with this rating are considered to have a high risk of default regarding the timely servicing of financial obligations.

#### Detailed Rationale

The reaffirmation of issuer rating assigned to Multipurpose Finance Limited (MPFL) continue to derive strength from healthy growths in both deposits (Increase of ~82% in FY23 over FY22) and advances (Increase of ~66% in FY23 over FY22) albeit on a low asset base, improving and healthy CASA proportion, lowered cost of funds and diversified credit portfolio. The rating also factors in improvement in financial profile characterized by notable uptick in both interest and net interest income over past year (~98.35% and ~43.60% y-o-y growth in FY23) resulting in significant increase in PAT levels by ~266% in FY23 over FY22 despite increase in impairment charges.

These rating strengths however are constrained by a sharp deterioration in its assets quality evidenced by a significant increase in the non-performing asset (NPA) ratio, which surged to 3.44% as of mid-April 2024, up from 0.79% at the end of FY23 amid ongoing economic slowdown. The stress on MPFL's asset quality is likely to sustain, leading to added pressure on the company's earnings and distributable profits. Consequently, adverse effects on impairment charges and provision coverage indicators have been observed. Despite the NPA ratio of MPFL being below the industry average, the rapid escalation of NPA considering small asset base of MPFL is alarming. The rating also factors in modest liquidity profile with negative cumulative mismatches except over 1 year, limited geographical coverage accompanied by intense competition with low market share and high albeit declining institutional depositor's concentration (~35.44% among top 20 institutional depositors as of Mid-April 2024). The rating also takes note of high level of capitalization level with Capital Adequacy Ratio (CAR) being 40.63% as of mid-April 2024 indicating MPFL's inability to leverage capital to generate profits.

Going forward, the company's ability to improve its asset quality alongside financial profile, leverage its capital structure to generate profit, maintain a stable liquidity profile and manage impact of other regulatory changes by NRB would remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

#### Improving financial performance marked by increase in advances and deposits

During FY23, MPFL experienced significant growth in its total income, primarily driven by increase in both interest and non-interest income. Interest income surged by 98.35% to NPR 165 Mn due to rise in advances, which increased by ~66% year-on-year. Non-interest income also saw a notable uptick of 32.39%, mainly attributed to a surge in fee-based income. Despite a 45.5% increase in operating expenses, largely stemming from higher employee-related and office administration costs due to branch expansion, the operating expenses to average total assets ratio improved to 2.59% in FY23 from 2.73% in FY22. The company reported an increase in PAT to NPR 9 Mn, marking a substantial increase of 266% from FY22. The yield on advances increased to 13.73% in FY23 from 12.40% in FY22, while the cost of funds rose from 9.57% to 11.23% despite an increase in the proportion of current and savings account (CASA) deposits. Deposits increased by 82.08% y-o-y basis as on mid-July 2023. Similarly, return on total assets (ROTA) increased to 0.50% in FY23 from 0.21% in FY22, reflecting the enhanced profitability resulting from increased net interest income and scale of

operations. Similarly, the return on net worth (RONW) surged to 1.76% in FY23 from 0.49% in FY22, indicating improved efficiency in generating profits relative to equity. Overall, MPFL's strategic initiatives seem to be yielding positive results, as evidenced by the substantial growth across various financial metrics.

### **Increasing CASA level accompanied by lowered cost of funds**

MPFL maintained CASA proportion of 35.05% at the end of Q3FY24 (higher than finance industry average of 20.30%) which increased from 28.80% at the end of FY23 (higher than finance industry average of 18.66% in FY23) and 25.20% at the end of FY22. Higher level of CASA has led to lower cost of funds as characterized by decrease in cost of deposits to 8.91% in Q3FY24 from 11.23% in FY23 and 9.57% in FY22. The heightened CASA proportion has led to reduction in high interest bearing fixed deposits which has caused the cost of deposits to fall during the latest period.

### **Diversified sector wise credit portfolio**

MPFL has been disbursing loans to various Industry/ Sector such as agriculture, forestry & beverage production related; non-food production related; construction; retailer trade; finance, insurance and real estate; hotel or restaurant; consumption loan etc. In Q3FY24, the proportion stood at 34.99% for agricultural and forest related loan followed by 25.82% towards consumption loans, 22.19% towards retailer and 4.44% towards microfinance and real estate. Targeting multiple industries and sectors can increase the company's customer base and provide more opportunities for growth while maintaining asset quality.

## **Key Rating Weaknesses**

### **Deteriorated Asset Quality**

MPFL reported Gross Non Performing Loan (GNPL) ratio of 3.44% as on mid-April 2024 (industry average: 10.40%), which deteriorated from 0.79% at the end of mid-July 2023 (industry average: 7.60%) and 1.29% at the end of mid-July 2022. The total NPA have increased to NPR 49 Mn up from NPR 10 Mn at end of FY23 and NPR 9 Mn at end of FY22. Despite the NPA have increased significantly increased during the past 12 months, the same is also true for entire industry. Similarly, Provision Coverage Ratio has deteriorated to 87% as on Q3FY24 from 210% in FY23 and 158% in FY22.

### **Very high capital adequacy level**

MPFL's overall Capital Adequacy Ratio (CAR) stood at 40.63% as on Mid-April 2024, (40.15% as on Mid-January 2023) as against regulatory requirement of 11%. Furthermore, CAR remained high and have remained stable during H1FY23 to 40.15% due to increase in risk weighted exposures as well as increase in core capital due to issuance of 35% right shares. Having a high CAR compared to the industry average (14.90% as on Q3FY24) may also indicate that the bank is not effectively utilizing its capital. This can be a concern for rating because MPFL is not using its capital to generate higher returns.

### **Modest liquidity profile**

MPFL has maintained CRR of ~4.75% as on last week of mid-April 2024 and SLR of 41% as on Mid Jan, 2024 (~4.36% and 34% respectively as on mid-July 2023). CRR and SLR is in compliance with NRB norms of 4% and 10% respectively. Its liquidity coverage ratio stood at 40.10% as on mid-April, 2024 as opposed to 35.28% in FY23 end and 45.24% in FY22 end. However, MPFL's liquidity profile as on Mid-April, 2024 shows negative cumulative mismatches except over 1 year due to increased CASA proportion. If the bank is unable to meet its obligations in this bucket, it may have to borrow at a higher cost to meet its obligations, which can impact its profitability. It is the sign of potential liquidity risk for the bank, and it highlights the need for the bank to manage its assets and liabilities effectively to ensure that it has sufficient liquidity to meet its obligations.

### **High concentration on institutional depositors**

MPFL deposits from top 20 institution depositors have decreased to 35.44% as on April 14, 2024. Albeit slight moderation from ~49.21% of total deposit in H1FY23, the concentration of top 20 depositor is in higher echelon. Higher concentration towards deposits normally increases re-pricing risks at times of interest rate volatility.

### **Intense competition**

Currently, there are 17 finance companies operating with total 288 branches all over Nepal (based

on monthly statistics published by NRB for Mid-April, 2024) out of that MPFL has 6 branches. Industry (Class 'C' Banks-Finance Companies) has achieved total interest income of NPR 11,165 Mn and net interest income of NPR 2,662 Mn in Q3FY24; MPFL's share on interest income has increased to ~1.59% (NPR 177.87 Mn) and on net interest income to 2.33% (NPR 62.09 Mn) in contrast to MPFL's share on interest income and net interest income was ~1.22% and 0.84% respectively as on H1FY23). MPFL faces a significant challenge in maintaining its market share and expanding its geographical coverage given increased competition, as well as the presence of commercial and development banks that offer wider banking services and lend at lower interest rates.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Issuer Rating Methodology](#)

**Link to Past Rating Rationale:**

[Multipurpose Finance Limited: Issuer Rating Assigned](#)

**About the Company:**

Incorporated in January 1997, Multipurpose Finance Company Limited was later changed to Multipurpose Finance Limited (MPFL) on March 18, 2022. It is a 'C' class provincial level finance company licensed from Nepal Rastra Bank (NRB). As of mid-April 2024, MPFL has a small scale of operation and is a provincial level finance company operating in Madhesh Pradesh with six branches (including head office). The company's paid up capital was NPR 610.20 Mn as of mid- April 2024, distributed among promoter and public shareholders in the ratio of 51:49.

**Financial Indicators (Standalone)**

For the year ended* As on	(NPR Mn)			
	FY21 Audited	FY22 Audited	FY23 Audited	Q3FY24 Unaudited
Interest Income	62	92	182	173
Total Income	69	101	194	189
Interest Expenses	34	58	133	111
Net Interest Income	27	34	48	62
Profit After Tax	14	2	9	16
Deposits	370	841	1,531	1,786
Advances (Net Figure)	429	712	1,183	1,397
Total Assets	894	1,339	2,078	2,521
Interest Rate Spread (%)	4.90	4.19	6.24	7.48
CASA (%)	40.61	25.20	28.80	35.05
Total CAR (%)	78.94	43.32	28.61	40.63
Tier-I Capital (%)	74.36	40.41	26.30	38.11
Gross NPL to Gross Advances (%)	1.02	1.29	0.88	3.44
Provision Coverage Ratio (%)	167	158	210	87
Cost of Funds (%)	11.30	9.57	11.23	8.91
Credit to Deposit Ratio (%)	118.06	86.48	78.71	78.74
Net Liquid Assets to Total deposit (%)	100.79	45.24	35.28	40.10

\* Classification as per Infomerics Nepal Standards

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### About Infomerics Credit Rating Nepal Limited:

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