

PRESS RELEASE

NIC Asia Bank Limited

July 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BBB+(Is) @	Downgraded from IRN A-(Is) and placed on rating watch with negative implications
Total	NA		

* The symbol '@' indicates [Rating watch with negative implications](#)

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has downgraded the issuer rating of NIC Asia Bank Limited (NICA) to IRN BBB+(Is) [Pronounced as Triple B Plus (Issuer)] from IRN A-(Is) [Pronounced as Single A Minus (Issuer)]. Also, Infomerics Nepal has placed the rating on rating watch with negative implications. Issuers with this rating are considered to have the moderate degree of safety regarding timely servicing of financial obligations. Such issuers carry moderate credit risk.

Detailed Rationale

The rating assigned to NICA has been revised and placed on rating watch with negative implications factoring in the sharp deterioration in its assets quality evidenced by a significant increase in the non-performing asset (NPA) ratio, which surged to 3.08% as of mid-April 2024, up from 0.88% at the end of FY23 amid ongoing economic slowdown. The stress on NICA's asset quality is likely to sustain, leading to added pressure on the bank's earnings and distributable profits. Consequently, adverse effects on profitability metrics and provision coverage indicators have been observed. Despite the NPA ratio of NICA being below the industry average, the rapid escalation of NPA over the past year is alarming. The uptick in NPA has resulted in higher risk weighted exposure resulting in capitalization levels to fall below the statutory requirements (CET-I ratio ¹as of Mid-April 2024 stood at 8.25% as opposed to statutory requirements of 8.5%). Additionally, impending challenges loom as the implementation of a 0.5% countercyclical buffer from the end of FY24 is expected to further strain NICA's already stressed capitalization ratios. The rating also factors in deteriorating net interest income despite moderate increase in accruals as a result of increased cost of fund and modest liquidity profile and moderate depositor's concentration (~29% among top 20 depositors)

Nonetheless, the ratings continue to derive comfort from NICA's strong ownership profile, long track record of operations (since 1998) and experienced and qualified management team. The rating also factors in moderate uptick in scale of operations as characterized by growth in both deposits and advances by ~4% over the period alongside diversified investment and credit portfolio. The rating also takes comfort from NICA's widespread geographical presence (NICA has 360 branches and 118 extension counters as of Mid-April 2024 spread across 7 provinces) and moderate CASA mix.

Going forward, the bank's ability to improve its asset quality alongside financial profile, maintain adequate cushion in capitalization levels from the minimum regulatory requirement levels, maintain a stable liquidity profile and manage impact of other regulatory changes by NRB would be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Increasing scale of operations backed by consistent growth in deposits and stable growth in advances with diversified investment portfolio

The bank's deposits grew by 4.80% Q-on-Q basis during Q3FY24 (~NPR 332 Bn vis-à-vis ~NPR 317 Bn) with increase in concentration of top 20 depositors from 20.99% to 29.44% of total deposits as of Q3FY24 end. Similarly, loan and advances grew by 4.44% Q-on-Q basis during Q3FY24 (~NPR 296 Bn vis-à-vis ~NPR 283 Bn). Further, the bank's credit policy remains strong, as demonstrated

¹ Core Equity Tier I Ratio (also Tier-I Capital Ratio)

by the low levels of GNPL²s in comparison to industry average albeit increase in GNPL during latest periods. NICA has invested in treasury bills/ bonds of Nepal Government and Nepal Rastra Bank, energy bond and equity securities of domestic corporate entities including investments towards subsidiaries. The investment portfolio of the bank has swollen to NPR 58,413 Mn in Q3FY24 over FY23 (~NPR 38,244 Mn) mainly due to increased investments made in Government treasury bills.

Diversified sector wise credit portfolio distribution, concentration towards consumption Loans

NIC Asia has diversified portfolio distribution across sectors with higher lending of around 37.16% for consumption loan followed by 24.44% towards wholesaler & retailer, 10.35% towards others and 6.82% towards agriculture & forest related. NICA lent 22.75% in Q3FY24, 28.77% in FY23 and 23.66% in FY22 towards productive sector (which includes agriculture sector, energy sector and cottage and small industries); of gross loans and advances outstanding prior to 6 months. The bank's lending to the deprived sector stood at 5.04% as on Apr 12, 2024.

Moderate albeit declining level of CASA

NICA maintained CASA proportion of 27.88% in Q3FY24 (lower than industry average of 35.23%) which has deteriorated from 39.16% in FY23 and 39.78% in FY22 (higher than industry average during the years). Despite the decrease in CASA levels during latest period, NICA holds moderate level of CASA indicating lower funding costs and greater stability. With the improvement in market interest rate, NICA has seen improvement in base rate which decreased to 8.86% in Mid-April 2024 from 10.48% in Mid-April 2023.

Long track record of operation, diversified geographical coverage with experienced promoters and management team

Established in the year 1998, NIC Asia Bank has a strong presence in Nepal with 360 branches, 118 extension counters, 51 branchless banking and 671 ATMs as on April 12, 2024 covering all the Provinces in Nepal. The bank's profile derives strength from its strong promoters who are well experienced in the banking, insurance, manufacturing, import and export, trade sectors, etc. NIC Asia is managed bank under the overall guidance of the bank's board of directors which includes eminent Businessmen/Industrialists with wide experience in the financial services. Mr. Tulsi Ram Agrawal, Chairman, has experience of more than five decades in import export, banking and business sectors. The senior management team is experienced and is headed by Chief Executive Officer Mr. Roshan Kumar Neupane, who is a Chartered Accountant by qualification and has been working at NIC Asia Bank Limited since March 2008 at various managerial positions. He is aptly supported by an experienced management team.

Key Rating Weaknesses

Deteriorating capitalization levels

The capitalization levels of NIC Asia have significantly deteriorated as on mid-April 2024 with CAR³ falling to 11.29% from 12.64% as on mid-April 2023 and 13.36% at the end of FY23. The CET-I ratio deteriorated to 8.25% against minimum requirement of 8.5% as on mid-April 2024 (8.85% as on mid-April 2023) and supplementary capital ratio deteriorated to 3.04% against 3.79% as on as on mid-April 2023. Despite, the paid up capital increasing to NPR 14,917 Mn on account of bonus issue, deterioration in asset quality as reflected by increase in NPL to total assets ratio (3.08% as on mid-April 2024 vis-à-vis 0.85% as on mid-April 2023) has caused risk weighted exposure to substantially increase. As the subordinated debt approaches its maturity date, its reckoned value begins to decrease resulting decrease in Tier II capital. The BASEL III framework requires a bank to maintain CAR ratio at minimum of 11% at any given moment. Considering the proposed implementation of countercyclical buffer, over and above regulatory minimum threshold, effectively increasing requirement of Tier-I Capital to 9% and CAR to 11.5% as on FY24 end, any marginal increase in NPA or other risk weighted exposures can push CAR below statutory requirements further which attracts regulatory actions. Ability of management to manage CAR level as per the regulations is a key monitorable.

² Gross Non Performing loans

³ Capital Adequacy Ratios

Deteriorated profits amid increased NPL ratios

NICA reported major deterioration in its asset quality as NPL ratio to total assets deteriorated to 3.08% as of Q3FY24 end against 0.88% in FY23 end and 0.85% as of Q3FY23 end. The occurrence of increased new loan defaults has caused the bank's provision for potential losses to decrease to 89% as on mid-Apr 2024 as against 226.30% as on mid-Apr 2023 and 357% as on mid-July 2022, which in turn has reduced the solvency indicator (net NPL to net worth) to 16.73% as on mid-April 2024 from 2.71% as of mid-April 2023 and 0.76% as of mid-July 2022. The increased in loan losses and write offs have significantly impacted its profitability as well with PAT of Q3FY24 declining Q-On-Q basis by ~52.31% i.e. NPR 1,915 Mn in Q3FY24 vis-à-vis NPR 4,015 Mn in Q3FY23 despite increase in interest income by 2.24% (NPR 29,421 Mn in Q3FY24 vis-à-vis NPR 28,777 Mn in Q3FY23). With increase in fixed deposits coupled with deteriorating CASA level, the net interest income has declined by ~10.61% on Q-On-Q basis (NPR 8,239 vis-à-vis NPR 9,217 Mn). The factors above have negatively impacted its profitability ratios and management's ability to bolster the profitability ratios by managing its NPA ratios will remain key monitorable.

Modest liquidity profile

NICA has maintained CRR⁴ of ~4.57% as on Apr 21, 2023 and SLR⁵ of 23.43% as on Mid-Apr 2024 (~4.64% and 19.18% respectively as on mid-April 2023). CRR and SLR are in compliance with NRB norms of 4% and 12% respectively. Liquidity coverage ratio stood at 20.47% as on mid-Apr, 2024 (~20.51% as on mid-April 2023). However, NICA's liquidity profile as on Mid Apr, 2024 shows negative cumulative mismatches within a year. 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 could impact its profitability. Therefore, it is crucial for the bank to effectively manage its assets and liabilities to ensure that it has enough liquidity to fulfill its obligations.

Intense competition

Currently there are 20 Commercial Banks, including three major state owned banks, operating with total 5,042 branches all over Nepal (based on Monthly statistics published by NRB for Mid-Apr 2024). NIC Asia had 360 branches along with head office as on same date. Industry (Class 'A' Commercial Banks) has achieved total interest income of ~NPR 447 Bn during Q3FY24 with ~NPR 144 Mn net interest income; NICA's share on interest income is 6.58% (NPR 29 Bn) and 5.74% share on net interest income (NPR 8 Bn) for the same period. The market share of NIC Asia has reduced from 7.04% and 6.69% in Q3FY23 in terms of interest income and net interest income during Q3FY24 respectively. Due to emergent competition it is challenging to recruit and retain skilled manpower. Unhealthy competition in the interest rates is the prominent challenge. New technology based services and its growing demand among customers is fresh challenges for Nepalese banking sector.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

Link to Past Rating Rationale:

[NIC Asia Bank Limited: Issuer Rating Assigned](#)

About the Company:

Incorporated in May 1997 as Nepal Industrial & Commercial Bank Ltd., NICA was later merged with Bank of Asia Nepal Ltd. on June 30, 2013 and was renamed as NIC Asia Bank Limited. It is a 'A' class Commercial Bank licensed from Nepal Rastra Bank (NRB). As of July 16, 2023, 93.07% of the bank's stake is held by individual shareholders and 6.93% by corporate entities with the promoter: public stake of 51:49. The bank has been certified by the International Organization for Standardization (ISO) and is accredited with ISO 27001: 2013 (Information Security Management System).

NICA has reported profit of NPR 4,445 Mn over the asset base of NPR 363,953 Mn in FY23 against profit of NPR 4,215 Mn over the asset base of NPR 358,437 Mn in FY22. In Q3FY24, NICA has reported profit of NPR 1,915 Mn over the asset base of NPR 398,615 Mn. As of mid-April 2024, NICA's CAR was 11.29% (CET-I ratio of 8.25%) and gross NPA was 3.08%.

⁴ Cash Reserve Ratio

⁵ Statutory Liquidity Ratio

Financial Indicators (Standalone)

For the year ended* As on	In NPR Mn			
	FY21	FY22	FY23	Q3FY24
	Audited	Audited	Audited	Unaudited
Interest Income	23,562	32,772	38,373	29,421
Total Income	25,912	35,709	41,540	31,789
Interest Expenses	14,335	21,482	26,114	21,181
Net Interest Income	9,228	11,290	12,259	8,239
Profit After Tax	3,259	4,215	4,445	1,915
Deposits	287,025	289,904	311,368	331,754
Advances (Gross Figure)	267,279	271,632	271,739	295,791
Total Assets	346,056	358,437	363,953	398,615
Ratios				
Interest Rate Spread (%)	3.73	4.40	3.40	3.20
CASA (%)	39.49	40.27	39.16	27.88
Total CAR (%)	12.47	13.38	13.36	11.29
Tier-I Capital (%)	7.36	8.80	9.46	8.25
Gross NPL to Gross Advances (%)	0.5	0.53	0.88	3.08
Provision Coverage Ratio (%)	321	357	237.85	89.40
Cost of Funds (%)	5.3	7.39	8.11	7.85
Credit to Deposit Ratio (%)	87.58	89.85	87.27	89.16
Net Liquid Assets to Total Deposit (%)	20.65	20.30	22.23	20.47

* Classification as per Infomerics Nepal Standards

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About Infomerics Credit Rating Nepal Limited:

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