

City Development Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed Right Issue of City Development Bank Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed rights issue amounting NPR 92.40 million of City Development Bank Limited (hereinafter referred to as CDBL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively. CDBL is proposing to come out with the 30% rights issue of 924,000 numbers of equity shares of face value NRs 100/- each to be issued to the existing shareholders at par.

The average fundamental grading factors in the CDBL’s steady business growth with healthy profitability indicators (PAT/ATA¹ and PAT/Net worth of 2.26% & 20.5% in 9M 2013-14 and 2.36% & 20.5% respectively in 2012-13), good asset quality indicators (Gross NPL² of 1.68% as on April-14), granular credit portfolio and healthy deposits profile (CASA³ deposits 60% as on April-14) with low large deposit concentration (top-20 depositors’ accounting for 9.5% of total deposits on April-14). However, the grading is constrained by lack of diversity in earnings, regional concentration of operations, lack of strong promoter base and lack of independent members on the BoD⁴. However, CDBL’s portfolio vulnerability remains high due to relatively inferior borrower profile vs. commercial banks, high proportion of loans with assessed income based appraisal which could lead to higher volatility in asset quality indicators. While CDBL’s track record and its experience in the region is an advantage, its ability to maintain the competitive positioning and asset quality indicators on enhanced scale of operation would have a bearing on the overall financial profile. The proposed rights issue would enable the bank augment its capital base in line with its plans to increase scale of operations.

CDBL’s credit portfolio has grown at a healthy pace of over 25% CAGR in past 4 years, contributed by the all major credit segments. The credit portfolio stood at NPR 2,725 million as of April-14. Moreover, recent trend in credit growth supported by adequate franchise of the bank in addition to proposed capital infusion provides room for better deployment of funds, going forward CDBL’s portfolio comprised mainly of Business Loan (28%), Hire Purchase Loan (21%), Housing Loan (15%), Personal Loan (9%), Real Estate Loan (8%) and Microcredit Loan (6%). CDBL’s assets quality indicators remained comfortable with Gross NPLs less than 0.4% and 0.2% as on mid-Jul-13 though deteriorated over 9M 2013-14 on account of incremental slippages with Gross NPLs and Net NPLs rising to 1.68%⁵ and 1.14% as on April-14 and solvency indicator (Net NPA/Net worth) to 7.55%.

CDBL’s deposits profile remains marginally better than the industry average; as of mid-Apr-14, the portion of CASA Deposit stood at around 60% against industry average (development bank) of around 55%, with less concentration on top 20 depositors (around 10% of total deposits). On the

¹ Profit after tax/Average total Assets

² Non-Performing Loans

³ Current & Savings Account

⁴ Board of Directors

⁵ Gross NPLs come down to 0.32% as on mid-Jul-14 as per recently published financial highlights for Q4 2010-11.



backdrop of high proportion of low cost deposit base, CDBL's cost of funds compares favourably to peers which aids its competitive positioning.

Healthy yield on advances and falling cost of funds due to high market liquidity has helped CDBL maintain gross interest spread of ~4%, despite moderate fund utilisation (as evidenced by low CD ratio⁶ of 68% as on Apr-14) and relatively low return on investments. The yields have been supported by sizeable retail portfolio of the bank which along with gradual improvement in deposits profile augurs well for future profitability of the bank. . CDBL has been able to maintain steady NIMs⁷ of around 4-5% over past 4-5 years. The bank reported net profit of NPR 72 million in 2012-13 (38% growth over 2011-12) and return on net worth of around 18-20% for past 2-3 years, supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. Going forward, CDBL is likely to maintain adequate profitability profile aided by healthy NIMs provided it maintains strict control on asset quality profile.

As on April-14, CRAR of CDBL stood adequate at 12.5% against the minimum regulatory of 11%. CDBL is coming out with the rights issue in order to support the future growth plans. Moreover, CDBL's has reported healthy internal capital generation in the past, same is likely to support the expansion plans. As per ICRA estimates, current level of capital⁸ is likely to support the CAGR 25% growth plans of the management over next 2 years; maintaining overall capitalization in the range of around 13-14% with solvency indicators expected to remain range bound at 2-6%. In the long run, the ability of CDBL to raise additional capital from its existing/ external investors will have a strong bearing on CDBL's growth prospects and overall capitalization profile.

The shareholding of the bank is diversified across ~50 individual promoter shareholders comprising of local businesspersons, industrialist and professionals. The current Promoter: Public shareholding ratio stands at 70:30 and the proposed rights issue likely to increase the capital base by 22%. CDBL has a 6 members- Board of Directors (BoD-4 from promoter group and 2 from public shareholders) and top level management with significant experience across Financial Institutions. There are 3 committees under the BoD (composed of Directors as well as Management representatives) for oversight in risk management, audit and human resource related policies. The bank has an in-house internal audit functions with a provision of quarterly audit.

Company Profile

City Development Bank Limited (CDBL) is a regional development bank licenced by Nepal Rastra Bank to conduct banking transactions within three districts on 19th October 2007. The bank has obtained approval to expand its activities up to ten districts from Nepal Rastra Bank on mid-2012. The registered office is in Pokhara Sub-Metropolitan city of Kaski district, which is also the Head Office of the Bank.

CDBL has now presence in six districts of the country through its 13 branches. CDBL has market share of about 1.94% in terms of deposit base and 1.81% of total advances of development banks in Nepal as on mid-April-2014. CDBL reported a profit after tax of NPR. 72 million during FY2012-13 over an asset base of NPR 3,444 million as of mid-July-13 against profit after tax of NPR 52 million during 2011-12 over an asset base of NPR 2,696 million as of mid-July-12. During 9M 2013-14, CDBL has reported profit after tax of NPR. 64 million over an assets base of NPR 4,122 million as of mid-April-14. In terms of technology platform, CDBL has implemented Pumori in all of its branches.

⁶ Adjusted for net worth

⁷ Net Interest Margin

⁸ Assuming full subscription to the proposed rights issue



July 2014

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