

## NIC Asia Bank Limited

### ICRA Nepal reaffirms [ICRANP] LA- rating to subordinated bonds of NIC Asia Bank Limited

	Amount (NRs million)	Rating Action
Subordinated Bonds	NRs 500 million	[ICRANP] LA- (Reaffirmed)

ICRA Nepal has reaffirmed rating of [ICRANP] LA- (pronounced ICRA NP L A minus) to the subordinated bonds of NRs 500 million of NIC Asia Bank Limited (NIC Asia). Instruments with [ICRANP] LA- Rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The rating of NIC Asia factors in the bank's established track record and good market positioning in Nepal, adequate franchise (67 branches and 61 ATM networks spread over the Nepal), experienced senior management, adequate capitalisation level (14.05% Jul-14gv only Jul-14), adequate earning profile (PAT/ATA 1.78% & 1.7% as on Jul-13 & Jul-14 respectively) and some synergy expected following successful merger of two commercial bank (i.e. NIC Bank & Bank of Asia). These positives are however offset to an extent by inferior deposit profile compared to industry (NIC Asia CASA<sup>1</sup> deposit is around 29% as on Jul-14 against the industry average of around 48% on same date), deterioration in asset quality indicators in past two years (gross NPLs increased from 0.74% as of mid-Jul-12 to 2.33% as of mid-Jul-14) although its remains comfortable against industry average of 2.92% as on Jul-14, high concentration on top 20 depositors (around 35% deposit), absence of institutional promoter support and international franchise. The competitive positioning of NIC Asia remains at par as its deposit & lending rates are comparable with peers with adequate network coverage. The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

Nepal Industrial & Commercial Bank (NIC) bank successfully completed merger with another class A commercial Bank named Bank of Asia and commenced joint operations from 30th June 2013. After the merger, market share of the merged bank (NIC ASIA) increased from 2.06% in mid July 2012 to 3.19% in mid July 2013 in terms of deposit and from 2.21% in mid July 2012 to 3.34% in mid-July 2013 in terms of credit in Nepal, likewise, branch network of the bank has increased to 67 from 33 branch before merger and bank has adopted advanced IT platform (Finacle) from then existing Pumori system.

NIC Asia's credit portfolio is diversified across corporate loan 52%, SME 13% and retail & consumer 35% as on mid-Jul-2014. Among the above segmental classification NIC Asia's portfolio is diversified across manufacturing (accounted for around 24% of credit portfolio as of mid-Jul-2014), trading (21%), constructions (19%), real estate (8%) and others. NIC's exposure to real estate sector, which is vulnerable is comparable to Nepalese banking industry of around 7% and is lower than many of the new banks in Nepal. Credit growth of NIC Asia is witnessed at moderate level of 15% in FY 2013-14 against the industry growth of 19% in the same period. Going forward, the management of NIC Asia has projected a moderate growth rate of around 15% in corporate segment & healthy growth of around 50% in SME & Retail segment over the medium term (next 2-3 years). In corporate segment bank is focusing to grow its portfolio on infrastructure and hydropower sector. On assets quality front, NIC Asia's asset quality profile witnessed a deterioration during 2012-13 & 2013-14 (Gross NPL's increased from 0.74% as of mid-Jul-12 to 2.32% as of mid-Jul-2013 and 2.33% as on mid-Jul-14) primarily on account of provisioning made on the assets of Bank of Asia at the time of merger; however fares better than banking industry systemic average of 2.92%. NIC Asia's deposit profile remains inferior to industry as reflected by CASA, which is around 29% as on Jul-14 against the industry average of around 48% on the same date.

<sup>1</sup> Current & Saving account deposit



NIC Asia's capitalisation levels are adequate with CRAR of 14.05% as of mid-Jul-2014 against minimum regulatory requirement of 10%. Further, higher proportion of tier I capital (11.85% as of mid-Jul-2014) due to low penetration of tier II capital instruments in Nepal provides headroom to raise tier II capital to maintain overall capitalisation levels. Internal capital generation of NIC Asia remains low in the past years despite of adequate profitability profile due to cash dividend distribution strategy followed by bank. However, in year FY 2013-14, NIC Asia followed mixed strategy of profit distribution (15% of capital bonus share & 15% of capital cash dividend). The ability of the bank to raise capital from existing promoters or external investors will have a bearing on NIC Asia's capitalisation profile, going forward. Although profitability profile of NIC Asia diluted to some extent post-merger, NIC Asia has adequate earning profile as reflected in PAT/ATA of 1.6-1.8% and return on net worth of 15-18% during last 2-3 years. The profitability is supported by adequate NIMs (around 3-3.5%), primarily a result of lower cost of deposits (around 5% as on Jul-2014), moderate non-interest income (around 1% in 2013-14). It is also supported by relatively lower operating expense (around 1.9% of ATA) and control on credit provisioning (0.36% of ATA in 2013-14). Going forward, bank's ability to maintain its NIMs, asset quality profile and smooth operation post-merger would be critical for the earnings profile of the bank.

### **Bank Profile**

NIC Asia Bank Limited is one of the large sized reputed private sector bank of Nepal. The Bank was incorporated in 1998 by a few some of the prominent business houses of the country, current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Asia Bank has over 86,000 shareholders. The Bank was in operation as Nepal Industrial & Commercial Bank Limited until the merger with Bank of Asia Nepal Limited in the first ever merger between two commercial Banks in the history of Nepal. Post the merger the name was changed to NIC Asia Bank Limited and commenced its merged operations from 30th June 2013. The shares of the NIC Asia Bank are listed in Nepal Stock Exchange and being actively traded.

NIC Asia has presence throughout the country through its 67 branches and 61 ATMs. NIC Asia has market share of about 3.04% in terms of deposit base and 3.25% of total advances in Nepal as on mid Jul-2014. NIC Asia reported a profit after tax of NPR 832.95 million during 2013-14 over an asset base of NPR 51,502 million as on Mid Jul-14 against profit after tax of NPR 642.14 million during 2012-13 over an asset base of NPR 45,822 million as on Mid Jul-13. In Q1 2014-15, NIC Asia reported profit after tax NPR 154 million over an assets base of NPR 56,104 million. Gross NPLs and CRAR of the bank remains at 2.62% & 13.88% respectively as on mid-Oct-14. In terms of technology platform, NIC Asia has implemented Finacle in all of its branches.

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*For further details please contact:*

Analyst Contacts:

**Mr. Kishor Prasad Bimali**, (+977-1-4169089)  
[kishor@icranepal.com](mailto:kishor@icranepal.com)

Relationship Contacts:

**Mr. Deepak Raj Kafle**, (+977-1-4169089)  
[drkafle@icranepal.com](mailto:drkafle@icranepal.com)

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