

## **Triveni Bikas Bank Limited**

### **ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed equity shares (Rights Issue) of Triveni Bikas Bank Limited**

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4+”, indicating below-average fundamentals to the proposed right issue amounting NRs. 74.5 million of Triveni Bikas Bank Limited (TBBL). 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. TBBL is proposing to come out with a right offer of 745,181 numbers of equity shares of face value NRs 100/- each to be issued to its shareholder.

The grading is constrained by TBBL’s regional concentration of operations, lack of diversity in earnings, competition from commercial banks with wider product suite and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of independent directors on board of TBBL that could be negative from corporate governance perspective. Nonetheless, the grading factors in the bank being a prominent financial institution in the Chitwan district, its diversified borrower base, adequate proportion of low cost deposit base and regulatory advantage available with ‘Schedule B’ Development Bank compared to ‘Schedule A’ Commercial Bank- in the form of lower SLR/ CRR requirements. Going forward, TBBL’s ability to grow profitability, maintain its assets quality indicators and increase its client base/ presence judiciously would have a bearing on the overall financial profile. The proposed rights issue would enable the bank increase its geographical reach across 10 districts. This would improve TBBL’s business standing within the development banking industry space, given the fact that there are a few 10-district development banks operational in Nepal.

TBBL started its operations in Jul-2004, and has a credit portfolio of NRs 2,337 million as on mid-Jul-2013. Being a three-district development bank, TBBL is allowed to operate in limited geographical area. At the same time, it faces competition from commercial banks with wider product suits and finer lending rates. However, given that TBBL has obtained approval from the Nepal Rastra Bank (NRB) in July 2013 to expand its operations to 10 districts, it is possible for the bank to achieve adequate growth over the medium term.

The bank’s credit portfolio comprised working capital loans to SMEs (around 40% of credit portfolio as on mid-July 2013), Personal Loan (secured against collateral-15%), Housing Loan (15%), Hire Purchase loan(12%), Agriculture loan (8%), Real Estate Loan (5%) and others Loans (4%) as on mid-Jul-13. TBBL Gross NPLs & Net NPLs were 0.98% and 0.55% as on mid-Jul-13 against the 0.56% and 0.34% as on mid-Jul-12.

As for funding profile, the bank has been successful in garnering adequate proportion of low cost deposits which accounted for around 49% of its total deposits marginally lower than development banking industry average low cost deposit of 53% as on mid-Apr-2013. TBBL’s cost of funds is higher vis-a-vis commercial banks which impacts its competitive positioning.

TBBL has been able to maintain healthy Net Interest Margins (NIMs) (around 5-6%), supported by adequate proportion of low cost deposits and lending largely to SMEs/ individuals wherein the bank is able to garner higher yield on advances. TBBL’s Profit After Tax (PAT) increased by 67% in FY



2012-13 to NRs 63.28 million as against NRs 37.85 million during 2011-12; supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. Overall, TBBL's return on net worth stood at around 15-18% over last 3 years. Going forward, TBBL is expected to maintain steady profitability indicators, marked by stable NIMs and improvement in cost efficiencies; deterioration in asset quality indicators notwithstanding - as the bank builds scale with expansion in operations across 10 districts.

Over the last few years TBBL has maintained a Capital Risk Weighted Adequacy Ratio (CRAR) of around 13% against minimum regulatory requirement of 11%. As per management, the proposed rights issue of NRs. 74.5 million will be used in the expansion of its operation to ten districts. Going forward, the bank expects to maintain CRAR of 13-14% over the medium term.

### **Company Profile**

Established in 2004, Triveni Bikas Bank Limited (TBBL) is a regional development bank licenced by Nepal Rastra Bank to conduct banking operations across three districts (Chitwan, Rupandahi & Nawlparasi). The shareholding of the bank is diversified across 131 individual promoters (70%) and public (30%) as on mid-July 2013. The head office is located in Bharatpur Municipality, Chitwan district. The bank has obtained approval to expand its activities to ten districts from Nepal Rastra Bank in July 2013.

TBBL has presence in three districts of the country across 10 branches. TBBL has market share of about 1.91% in terms of deposit base and 1.89% of total advances of development banks in Nepal as on mid-April-2013. TBBL reported a profit after tax of NPR 63.28 million during FY 2012-13 on an asset base of NPR 3,307 million as on Jul-13 against profit after tax of NPR 37.85 million during FY 2011-12 on an asset base of NPR 2,657 million as on Jul-12.

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