

Bhrikutee Development Bank Limited

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

	Amount (NRs million)	Grading Action
Right Issue	NPR 141.27 million	IPO Grade 3 (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed rights issue amounting NPR 141.27 million of Bhrikutee Development Bank Limited (hereinafter referred to as BDBL). 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 33% rights issue of 1,412,700 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, steady business growth with healthy profitability indicators (PAT/ATA¹ and PAT/Net worth of 2.24% & 19.19% in 2013-14 and 1.69% & 14.25% respectively in 2012-13), good asset quality indicators (Gross NPL² of 0.10% as on mid-July-14), granular credit portfolio and healthy deposits profile (CASA³ deposits 56% as on July-14) with low deposit concentration risk (top-20 depositors’ accounting for 5.90% of total deposits on mid-July-14). The grading also factors in BDBL’s established track record and adequate franchise in the region providing scope for growth of the bank’s business, going forward. However, the grading is constrained by regional concentration of operations, higher portfolio vulnerability due to relatively inferior borrower profile vs. commercial banks and high proportion of loans with assessed income based appraisal which could lead to higher volatility in asset quality indicators, lack of diversity in earnings, lack of strong promoter base and lack of independent members on the BoD⁴. While BDBL’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 operations 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.

BDBL’s business has grown at a fast pace with credit growth of CAGR 32% in past 4 years, contributed by growth along all major credit segments. The credit portfolio stood at NPR 4,003 million as of July-14 on a deposits base of NPR 4,987 million. Moreover, recent trend in credit growth supported by adequate franchise of the bank in addition to proposed capital infusion is likely to enhance the scale of operations of the bank. BDBL’s portfolio comprised mainly of trading loan (26%), Hire Purchase Loan (17%), Personal Loan (16%), Industrial and Service Sector loan (16%), Housing Loan (13%), deprived sector loan (5%) and real estate loan (2%). The credit portfolio moderately concentrated with credit concentration of 17% among top-20 borrowers as on July-14. BDBL’s assets quality indicators remain comfortable with Gross NPL at 0.10% as on mid-July-14 compared to 0.31% on mid-July-13 with solvency indicator (Net NPA/Net worth) on July-14 at 0.28%. However higher portfolio vulnerability due to relatively inferior borrower profile vs.

¹ Profit after tax/Average total Assets

² Non-Performing Loans

³ Current & Savings Account

⁴ Board of Directors



commercial banks and high proportion of loans with assessed income based appraisal which could lead to higher volatility in asset quality indicators,

BDBL's deposit profile remains comparable to industry average; as of July-14, the portion of CASA deposits stood at around 56% against industry average (development bank) of around 55%, with less concentration on top 20 depositors (around 6% of total deposits). In light of fair deposit profile, BDBL's cost of funds compares favorably to peers which aids its competitive positioning.

Healthy yield on advances coupled with improvement in CD ratio has helped BDBL maintain fair interest spread of ~4% in FY14 after the regime of low interest spread in FY 13 and FY 12. However, the fund mobilisation rate still remains moderate (as evidenced by CD ratio⁵ of 71% as on mid-July-14) which coupled with relatively low return on investments remains a constraint to profitability indicators to some extent. 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. BDBL has been able to maintain steady NIMs⁶ of around 4-5% over past 4-5 years. The bank reported net profit of NPR 118 million in 2013-14 (66% growth over 2012-13) and return on net worth of around 17% in past 5 years, supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. Going forward, BDBL is likely to maintain its profitability profile aided by healthy NIMs provided it maintains strict control on assets quality profile.

As on July-14, CRAR of BDBL stood adequate at 13.6% against the minimum regulatory of 11%. BDBL is coming out with the rights issue in order to support the future growth plans. Moreover, BDBL has reported healthy internal capital generation in the past, the same is likely to support the expansion plans. As per ICRA estimates, current level of capital⁷ is likely to support the CAGR 25% growth plans of the management over next 3 years; maintaining overall capitalization in the range of around 12-13% with solvency indicators range bound at 3-5%. In the long run, the ability of BDBL to raise additional capital from its existing/ external investors will have a strong bearing on BDBL's growth prospects and overall capitalization profile.

The shareholding of the bank is diversified across 182 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 is expected to increase the capital base keeping the ratio intact. BDBL has a 8 members- Board of Directors (BoD-6 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 outsourced the internal audit functions with a provision of quarterly audit.

In the meantime BDBL has entered in to MOU⁸ with NMB Bank for the merger. Since the merger process is in nascent stage; share swap ratio, modality of employees' integration and other details are yet to be finalised. The proposed merger and the synergy gains arising from it (assuming the merger gets completed) will have a bearing on the financial strength and performance of the bank, going forward.

⁵ Adjusted for net worth

⁶ Net Interest Margin

⁷ Including the proposed rights issue

⁸ Memorandum of Understanding



Company Profile

Bhrikutee Development Bank Limited (BDBL) is a 10 district regional Development bank, based in Butwal, Rupandehi and currently having its operation on 7 districts. BDBL started its operation in September 2004. It was registered as a public company and it was the 12th Class B Bank to be licensed by NRB. The bank has 70:30 promoter-public shareholding ratios with highest individual holding of ~1.3%. There is no discernable group holding controlling interest in the company.

BDBL has market share of about 2.50% in terms of deposit base and total advances of Development Bank Industry as on mid-April-2014; at the same time its share in overall banking industry's deposits and advances were 0.33% and 0.36% respectively. BDBL reported a profit after tax of NPR 118 million during 2013-14 over an asset base of NPR 5,682 as on July 2014 against profit after tax of NPR 71 million during 2012-13 over an asset base of NPR 4,838 million as on, Jul-13. In terms of technology platform, BDBL has implemented Pumori Bank in all of its branches.

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