

Century Commercial Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed Initial Public offering (IPO) of Century Commercial Bank Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4+”, indicating below-average fundamentals to the proposed initial public offerings (IPO) amounting NRs. 920 million of Century Commercial Bank Limited (CCBL). 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. CCBL is proposing to come out with an initial public offer of 9,200,000 numbers of equity shares of face value NRs 100/- each to be issued to the public, group investment fund and employees.

The grading is constrained by CCBL’s limited track record, lack of diversity in earnings, low seasoning of credit book and inferior deposit profile compared to class ‘A’ banking industry systemic average, low profitability, competition from other commercial banks and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of institutional promoter support. Nonetheless, the grading factors in the bank being a class ‘A’ commercial bank, lower exposure to real estate sector compared to systemic average and comfortable assets quality indicators so far. Going forward, CCBL’s ability to grow profitability, maintain its assets quality indicators, improve deposit profile and increase its client base/ presence judiciously would have a bearing on the overall financial profile.

CCBL started its operations in Mar-2011 and since then it has been able to grow its portfolio at rapid pace though portfolio size still remains moderate (credit portfolio was NRs 8,975 million as on mid-Jul-2013). The bank’s credit portfolio comprised corporate loan (ticket size > NR 10 mn for one corporate client: 49%), retail loan (20%), gold/silver loan (16%), SME loan (11%) and deprived sector & others loan (4%) as on mid-Jul-13. CCBL’s Gross NPLs & Net NPLs were 0.5% and 0.3% as on mid-Jul-13; however its asset quality trend is yet to be established as large proportion of credit is originated over last one year and remains unseasoned. The bank’s funding profile remains inferior than Nepalese banking industry average; as reflected in low proportion of low cost deposits¹ around 23% of total deposits as of mid-Jul-13 as against industry average of around 46% as on mid-Jul-2013. Moreover deposit concentration of top 20 depositors (around 41%) and high proportion of institutional deposit (around 68%) in total deposit mix compares moderately to systemic average. CCBL’s cost of funds is higher vis-a-vis other established commercial banks which impacts its competitive positioning.

Net interest income (NII) of CCBL stood at NRs.308 million in FY2012-13 (annualized increase of 165% compared to FY12 levels), driven by increase in scale of operations. Operating expenses of the bank stood at NRs 257 million in FY2012-13 (annualized increase of 111% compared to FY12 levels). In FY12-13, supported by the benign interest rate environment wherein the bank was able to garner significant call deposits at low rates that impacted the overall cost of funds of the bank favourably, the bank reported improved-yet-modest Net Profits at NRs.66 million (compared to a profit of NRs. 0.92 million in FY12). Over the medium term, the ability of the bank to build scale

¹ Current, Saving and Margin Deposits



profitably and garner significant low cost deposit base, given 2/3rd of the branches have been opened in FY12-13 and most of them are yet to achieve break even, would be key monitorable.

As on mid-July 2013, CCBL's capitalization levels stood at an adequate 12.7% (Tier I: 11.8%) against minimum regulatory requirement of 10%. As per the management, the proposed IPO issue will be used in the increase in scale of operations. Going forward, the bank intends to maintain CRAR of around 11-12% (1-2% buffer over minimum regulatory requirement) over the medium term.

Company Profile

Established in 2011, Century Commercial Bank Limited (CCBL) is a recent commercial bank licenced by Nepal Rastra Bank to conduct banking transactions within Nepal, operation of which was started from 10th March 2011. The shareholding of the bank diversified across 568 individuals representing prominent sections of the society. The registered office is in Kathmandu Metropolitan - 31, Kathmandu, District, which is also the Head Office of the Bank.

CCBL has presence through its 31 branches, 3 branchless banking centres and 12 ATMs. CCBL has market share of about 1.1% in terms of deposit base and 1.2% of total advances in Nepal as on Jul-13. CCBL reported a profit after tax of NPR 66.37 million during 2012-13 over an asset base of NPR 13,151 million as on Jul-13 against profit after tax of NPR 0.92 million during 2011-12 over an asset base of NPR 5,654 million as on Jul-12. In terms of technology platform, CCBL has implemented Pumari IV in all of its branches.

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