

Sunrise Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed equity shares (Rights Issue) of Sunrise Bank Limited

| | Amount (NRs million) | Grading Action |
|-------------|----------------------|------------------------|
| Right Issue | NRs 223.665 million | IPO Grade 3 (Assigned) |

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed rights issue amounting NPR 223.665 million of Sunrise Bank Limited (hereinafter referred to as SrBL). 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. SrBL is proposing to come out with the 10% rights issue of 2,236,650 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 SrBL’s track record, adequate franchise throughout the country (network of 51 branches), adequate deposit profile (low cost deposit around 41% of total deposits as on mid-Jul-14), relatively granular credit portfolio (concentration on top 20 borrower is around 20% of total portfolio), adequate capitalisation profile (CRAR 11.7% as on mid-Jul-14) and experienced management team. However, the grading is constrained by inferior asset quality profile vs. peers (Gross NPLs of 4.51% as on mid-Jul-14), higher exposure to real estate segment (around 11% as on mid-Jul-14), moderate earnings vs. peers (return on net worth around 11% in FY14), lack of diversity in earnings, lack of institutional promoter support and lack of independent members on the BoD. The grading is also constrained unstable political conditions and uncertain operating environment that banks in Nepal are currently facing. Going forward, SrBL’s ability to recover from existing NPAs and maintaining control on fresh slippages would have critical bearing on its profitability and financial profile. The proposed rights issue would enable the bank augment its capital base in line with its plans to increase scale of operations.

SrBL started its operations in Oct-2007 and since then it has been able to grow its portfolio to NRs 20,030 million as on mid-Jul-2014. The bank’s credit portfolio comprised corporate loan (ticket size > NR 60 mn for one corporate client: 65%), retail loan (17%) and SME loan (18%). SrBL has followed cautious approach during last year in light of growing NPLs and limited growth opportunities in the market and as a result its credit portfolio growth has been moderate of around 14% against the industry growth of 19% in last year. SrBL has higher exposure to real estate sector (around 11% as on Jul-14) but the same has been declining gradually (24% as of Jul-11).

SrBL’s Gross NPLs are higher, vs. peers, at 4.51% as on Jul-14, however the bank has created adequate provisions leading to relatively under control net NPAs of 1% as on mid-Jul-14 and comfortable solvency profile (net NPA./ net worth of 7.23% as on Jul-14). The deterioration in asset quality profile over last few years was led by deterioration primarily in real estate loan book. In addition to gross NPAs bank has NBAs (0.17% of advances as on Jul-14). Bank’s inferior asset quality profile had bearing on its profitability through higher credit provisioning as well as low income accruing assets. However, adequate provisioning on the NPLs account (around 79%) provides some caution for the future profitability.

SrBL has been able to maintain adequate Net Interest Margins (around 3.5-4%), and lending largely to small corporate, SMEs/ individuals wherein the bank is able to garner higher yield on advances (around 12.6% as on Jul-14). However, higher operating cost around 2-2.5% of average total assets offset the advantage of better yields to some extent. SrBL’s Profit After Tax (PAT) has been marginally decreased



by around 2% in 2013-14 to NPR. 305 million as against NPR. 312 million during 2012-13 due to significant increase in credit provisioning resultant from fresh slippage. Overall, SrBL's return on net worth has stood at around 10-12% over last 2 years. Going forward, SrBL's ability to control on assets quality profile, maintain adequate NIMs and control over operating expenses would be critical for its profitability profile.

As for funding profile, the bank's funding profile remains fair with CASA¹ deposit around 41% against the commercial bank industry average of around 48% as on Jul-14. However, high deposit concentration on top 20 depositors (around 32% of total deposit as on Jul-14) offset the strength of CASA deposit to some extent. SrBL's cost of funds (5.33% as on Jul-14) is higher vis-a-vis other established commercial banks which could impact its competitive positioning.

Over the last two years SrBL has maintained a Capital Risk Weighted Adequacy Ratio (CRAR) of 11.5-12% against minimum regulatory requirement of 10%. As per ICRA Nepal's estimate, current level of capital (including proposed right share and internal capital generation) will support the growth plans of management (CAGR² 20%) over short-medium term (next 1-2 years); maintaining overall capitalization in the range of around 10.5-11.5% with solvency indicators expected to remain range bound at 9-10%, if the bank is able to maintain the NPLs at present levels. In the long run, the ability of SrBL to raise additional capital from its existing/ external investors will have a strong bearing on SrBL's growth prospects and overall capitalization profile.

Company Profile

Established in 2007, Sunrise Bank Limited (SrBL) is a medium sized, relatively new generation commercial bank licenced by Nepal Rastra Bank to conduct banking transactions within Nepal. The bank was incorporated in October 2007 by a group of 52 promoters involved in different professions like Doctors, Industrialist, Businessman and prominent persons of the society. The shares of the Bank are listed in Nepal Stock Exchange and being actively traded in with current market capitalization of about NPR 11,362 million as on Jul-14. The registered office is in Gairidhara, Kathmandu which is also the Head Office of the Bank.

SrBL has presence through its 51 branches and 61 ATMs spread throughout Nepal. SrBL has market share of about 1.80% in terms of deposit base and 1.77% of total advances in Nepal as on July 2014. SrBL reported a profit after tax of NPR 305.46 million during 2013-14 over an asset base of NPR 29,728 million as on mid Jul-14 as against profit after tax of NPR 311.61 million during 2011-12 over an asset base of NPR 26,129 million as on mid Jul-13. As on mid July 2014, its CRAR was 11.70% and Gross NPAs was 4.51%. In terms of technology platform, SrBL has implemented Temenos T24 CBS in all of its branches. A disaster recovery system (DRS) of the Bank has also been established in the Gabahal branch within Kathmandu valley.

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For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel. No. +977-1-4419910/20)

Kishor@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (Tel. No. +977-1-4419910/20)

drkafle@icranepal.com

¹ Current and Saving account

² Compounded Annual Growth Rate



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