

Tinau Bikas Bank Limited

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

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below-average fundamentals to the proposed right issue amounting NRs. 32.2 million of Tinau Bikas Bank Limited (Tinau). 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. Tinau is proposing to come out with a right offer of 322,000 numbers of equity shares of face value NRs 100/- each to be issued to its shareholder.

The grading is constrained by Tinau’s regional concentration and modest scale of operations lack of diversity in earnings, low seasoning of credit book (increase in credit book from NPR. 489 million as on Jul-11 to NPR. 1,308 million as on Apr-14), 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 strong promoter base and independent directors on board of Tinau. Nonetheless, the grading factors in adequate profitability indicators (PAT/ATA 1.49% for 9M, FY2014 and return on net worth of 15.63%), control on asset quality indicators (Gross NPLs 0.46% as on mid-Apr-14) leading to good solvency profile (net NPA/net worth of 2.25% as on mid-Apr-14), adequate proportion of low cost deposit base (CASA¹ 52% as on mid-Apr-14) and regulatory advantage available with ‘Schedule B’ Development Bank compared to ‘Schedule A’ Commercial Bank in the form of lower SLR/ CRR² requirements. Going forward, Tinau’s ability to maintain asset quality indicators; grow profitability; manage capital and increase its client base/ presence judiciously 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 with geographical reach within 3 districts.

Tinau started its operations in Nov-2006, and has a credit portfolio of NRs 1,308 million as on mid-Apr-2014. Being a three-district development bank, Tinau is allowed to operate in limited geographical area (Chitwan, Rupandahi & Nawlparasi). At the same time, it faces competition from commercial banks with wider product suits and finer lending rates. However, Tinau’s promoters’ reputation/knowledge of the local market and it’s focused approach and reach in its geography of operations could help to achieve adequate growth. Over the long term, scalability of business would remain a challenge given promoters’ knowledge/reputation limited to local market.

The bank’s credit portfolio of NRs. 1,308 as on mid-April-2014 (CAGR of 42% over the last three years) comprised mainly overdraft to SMEs (around 30%), personal overdraft (15%), term loan (15%), Housing Loan (11%), Hire Purchase loan (10%), Agriculture & deprived sector loan (5%), Real estate (5%) and others Loans (5%). Tinau’s Gross NPLs & Net NPLs were 0.46% and 0.30% as on mid-Apr-14 against the 0.39% and 0.12% as on mid-Jul-12; partly benefitting from low seasoning of credit books.

¹ Current Account & Saving Deposit

² Statutory Liquidity Ratio/ Cash Reserve Ratio



Note: April-2014 data are unaudited

As for funding profile, the bank has been successful in garnering adequate proportion of low cost deposits which accounted for around 52% of its total deposits; although marginally lower than development banking industry average low cost deposit of 55% as on mid-Apr-2014. Tinau's cost of funds is higher vis-a-vis commercial banks and large size development banks which impacts its competitive positioning.

Tinau has been able to maintain moderate Net Interest Margins (NIMs) (around 3-3.5%), 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. Tinau's Profit After Tax (PAT) increased by 43% in FY 2012-13 to NRs 14.85 million as against NRs 10.38 million during 2011-12; supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. Overall, Tinau's return on net worth stood at around 8-10% over last 3 years. Going forward, Tinau is expected to maintain better profitability indicators, marked by stable NIMs and improvement in cost efficiencies with increase in scale of operation.

Over the last two years Tinau has maintained a Capital Risk Weighted Adequacy Ratio (CRAR) of around 12% against minimum regulatory requirement of 11%. As per ICRA Nepal estimate, current level of capital (including proposed right share and internal capital generation) will support the modest growth plans of management (CAGR³ 20%) over medium term (next 2 years); maintaining overall capitalization in the range of around 11-13% with solvency indicators range bound at 1-2%, if the bank is able to maintain the NPLs at present levels. In the long run, the ability of Tinau to raise additional capital from its existing/ external investors will have a strong bearing on Tinau's growth prospects and overall capitalization profile.

Company Profile

Established in 2006, Tinau Bikas Bank Limited (Tinau) is a regional development bank licenced by Nepal Rastra Bank to conduct banking transactions within three districts (Chitwan, Rupandahi & Nawlparasi). The shareholding of the bank is diversified across 29 individual promoters (70%) and public (30%) as on mid-Jul-2013. The registered office is in Butwal Municipality, Rupendehi district, which is also the Head Office of the Bank.

Tinau has now presence in three districts of the country through its 8 branches with four ATMs. Tinau has market share of about 0.89% in terms of deposit base and 0.84% of total advances of development banks in Nepal as on mid-Jan-2014. Tinau reported a profit after tax of NPR 14.85 million during 2012-13 over an asset base of NPR 1,732 million as on Jul-13 against profit after tax of NPR 10.38 million during 2011-12 over an asset base of NPR 1,433 million as on Jul-12. Bank has been able to maintain adequate capital adequacy (CRAR) of 11.79% and superior assets quality profile with gross NPLs of 0.46% as on mid-Apr-2014. In terms of technology platform, Tinau has implemented Pumari IV (which has been adapted by some of the leading commercial Banks in Nepal also) in all of its branches.

July 2014

For further details please contact:

³ Compounded Annual Growth Rate



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