

## Global IME Bank Limited

### ICRA Nepal assigns [ICRANP-IR] A- rating to Global IME Bank Limited

	Amount (NRs million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] A- (Assigned)

ICRA Nepal has assigned rating of [ICRANP-IR] A- (pronounced ICRA NP Issuer Rating A minus) to Global IME Bank Limited (GIBL). Instruments with [ICRANP-IR] A- Rating are considered as adequate-credit-quality Rating assigned by ICRA Nepal. The rated entity carries average credit risk. The Rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

The rating of GIBL factors in the bank's good market positioning in Nepal, experienced senior management, adequate capitalisation level (CRAR of 11.5% as on mid-Jan-14), healthy earnings profile (PAT/ATA of 2.59% and return on net worth of 28% as on mid-Jan-14), healthy deposit profile with comfortable liquidity position and benefits of synergy expected from merger, particularly in terms of enhanced geographical coverage. These positives are however offset to an extent by absence of strong institutional promoter support which could impact the availability of capital (for growth or in case of stress) and liquidity support in case of need, deteriorating asset quality, and risks associated with frequent mergers. GIBL's ability to successfully complete the mergers and gain the envisaged benefits would have an important bearing on its credit profile. Although, ICRA takes comfort from ability of the management to manage the mergers in the past. The rating is also constrained by moderate asset quality (Gross NPA 3.2% as on mid-Jan-14), unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

Over last 2-3 years, GIBL has followed inorganic growth strategy whereby it merged number of financial institutions with itself; during 2011-12 it merged two financial institutions (namely IME Finance & Lord Buddha Financial) and in 2012-13 two development banks (namely Social Development Bank & Gulmi Bikas Bank) in 2012-13; however except IME Finance (which represented around 22% of GIBL's total assets at the time of merger) other entities were relatively small in terms of GIBL's scale of operations. The bank has initiated another merger, in current financial year, with Commerz & Trust Bank limited for which pre-approval from NRB has been received. As a result of inorganic growth strategy, the bank reported relatively higher credit growth during last 2 years (64% & 30% in 2011-12 & 2012-13 respectively). Going forward, GIBL's ability to successfully complete the mergers and gain the envisaged synergies would be a key monitorable.

GIBL's credit portfolio is diversified across manufacturing (around 23% of credit portfolio as of mid-Jul-2013), trading (21%), real estate (9%) and others. GIBL's assets quality indicator stood at moderate level as on Jan-14, with Gross NPLs at 3.2% and Net NPLs at 1.4%. Going forward GIBL's ability to maintain asset quality indicators would be a key rating sensitivity. GIBL has healthy deposits profile as reflected in high proportion of low cost deposits<sup>1</sup> (low cost deposits were 49% of total deposits as of mid-Jul-13 as against Nepalese banking industry average of around 46%). GIBL has been able to improve the proportion of low cost deposits from 33% as of mid-Jul-11 to 49% as of mid-Jul-13, primarily on account of merger in July 2012 with IME finance & Lord Buddha Finance.

GIBL's capitalisation levels are adequate with CRAR of 11.5% as of mid-Jan-2014 against the minimum regulatory requirement of 10%. However, high proportion of tier I capital (9.65% as of mid-Jan-2014) due

<sup>1</sup> Current, Saving and Margin Deposits



to low penetration of tier II capital instruments in Nepal provides headroom to raise tier II capital to maintain overall capitalisation levels. The ability of the bank to raise capital from existing promoters or external investors will have a bearing on GIBL's capitalisation profile, going forward. GIBL has healthy earning profile as reflected in PAT/ATA of 1.3-1.6% and return on net worth of 13-16% during last 2-3 years which has improved in Q2 of current financial year to around 2.6% and 28.3%. The profitability is supported by healthy NIMs, primarily a result of lower cost of deposits, and adequate non-interest income, offset in part by relatively higher operating expenses (2.-2.5% of ATA vis-a-vis peers of around 1.5-2%). Going forward, bank's ability to maintain its NIMs, asset quality profile and smooth integration process post the impending merger would be critical for the earnings profile of the bank. If the bank continues to grow at a high pace, it would need external equity to maintain a prudent capitalization.

### **Bank Profile**

Global IME Bank Limited (GIBL), previously Global Bank Limited., was incorporated in 2007 as 'A' class Commercial Bank. Following the merger with IME finance Ltd and Lord Buddha Finance Ltd (both 'C' class finance institutions) in July 2012, the name of the Bank was changed to Global IME Bank Limited. In the year 2013 also, 2 banks viz. Social Development Bank (National level development bank) & Gulmi Bikas Bank (regional –one district level development bank) merged with Global IME. Shareholding pattern of the Bank constitutes of the promoters holding 71 % of the shares while 29 % is held by public. Among the promoter's holding, 39 % shares are held by institutional promoters and 32% by individual promoters.

GIBL has presence throughout the country through its 72 branches and 70 ATMs making it the largest private sector bank in terms of geographical coverage. GIBL has market share of about 3.3% in terms of deposit base and 3.7% of total advances in Nepal as on October 2013. GIBL reported a profit after tax of NPR 449.2 million during 2012-13 over an asset base of NPR 39,018 million as on Jul-13 against profit after tax of NPR 265.3 million during 2011-12 over an asset base of NPR 30,664 million as on Jul-12. As of mid-Jul-2013, GIBL's CRAR was 11.14% and gross NPLs were 2.3%. In the technology frontier, GIBL is using FINACLE Banking software for the day to day operations which is linked to a Management Information System. A disaster recovery system (DRS) of the Bank has also been established in the Bhairahawa (Western Region of Nepal).

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