

Rural Microfinance Development Centre Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3+ to the proposed initial public offering of Rural Microfinance Development Centre Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3+”, indicating average fundamentals to the proposed initial public offering (IPO) of Rural Microfinance Development Centre Limited (RMDC). 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 better position within the Grading categories concerned. RMDC is proposing to come out with an Initial Public Offer of 1,528,800 numbers of equity shares of face value NRs 100/- each with a premium of NRs 80 per share and 31,200 numbers of equity shares of NRs 100/- each to be issued to the Public and Employees respectively.

The average fundamental grading factors in the RMDC’s long track record in microfinance activities in Nepal, established relationship with various entities engaged in microfinance business in Nepal, strong institutional promoters and management team, low funding cost and adequate loan underwriting and monitoring process. Nepal offers good growth potential for microfinance business given large below poverty line population however stiff competition from commercial banks over last 1-2 years has impacted RMDC’s credit portfolio growth. Going forward, RMDC’s ability to increase its client base/ presence and commercial banks’ strategy to provide funding to microfinance entities directly or routing through specialised agencies such as RMDC would have bearing on RMDC’s portfolio growth. Further, RMDC’s conservative capital structure (CRAR of 37.4% as of mid-Jan-2013 against minimum regulatory requirement of 8%), due to limited growth opportunities over last 1-2 years, could impact RMDC’s ability to generate return for shareholders to some extent. The grading also factors Nepal’s unstable political environment, RMDC’s relatively higher credit concentration (top-20 borrowers accounted for around 80% of its credit portfolio as of mid-Jan-2013), lack of diversity in earnings and higher portfolio openness given marginal profile of borrowers and unsecured nature of lending in microfinance business, however RMDC as a collateral substitute receive guarantee from the members of the Board of Directors and has right of lien on the assets of its borrower Microfinance Institutions (MFIs). So far RMDC has been able to maintain good asset quality profile with zero default.

RMDC is registered as a Class D financial Institution and engaged primarily in providing wholesale lending to MFIs in Nepal. RMDC has long track record of microfinance activities in Nepal and has established relationship with various entities engaged in microfinance business (as on mid-Jan-2013 RMDC has 112 MFI partners of which 75 are active borrowers). Nepal offers good growth potential for MFI business given large below poverty line population and low penetration of MFI activities in hilly areas however RMDC’s portfolio has declined by 15% in 2011-12 and 5% in H1 2012-13; the de-growth in 2011-12 and H1 2012-13 was led by stiff competition from commercial banks as some of the commercial banks started providing direct finance to MFIs rather than routing through specialised agencies such as RMDC. Going forward also RMDC is projecting relatively lower portfolio growth (around 10% CAGR over next three years) though have space to grow upto 18% in current FY 2012-13 to maintain stable growth. Further as a result of limited growth opportunities RMDC’s current capitalisation levels (CRAR of 37.4% and tier I capital of 36% as of mid-Jan-2013) are much in excess of minimum regulatory requirement (CRAR of 8% and tier I capital of 4%). As on mid-Jan-2013, around half of RMDC’s total assets were parked in investments due to limited growth opportunities; RMDC’s ability to deploy the same in a profitable manner would be critical for its ability to generate return for



shareholders. Further, RMDC has been able to maintain very good asset quality and recovery profile so far as reflected in nil gross NPLs as of mid-Jan-2013, however portfolio exposure remains high given marginal profile of borrowers despite of adequate loan underwriting and monitoring process and unsecured nature of lending in microfinance business though nature of microfinance business practise; RMDC's ability to maintain good asset quality in case of severe stress would be important for its profitability profile.

RMDC has healthy resources profile as around 60% of its resources are in the form of low cost funds from ADB¹/ GoNP². In addition, lending to microfinance sector is classified as deprived sector lending in Nepal which ensures flow of banks' credit to microfinance sector at lower interest rates. Borrowings from commercial banks/ financial institutions accounted for around 40% of RMDC's total funding. RMDC's profit after tax (PAT) increased by 10% in 2011-12 to NRs 125 million as against NRs 114 million during 2010-11; PAT was NRs 70 million in H1 2012-13. Over last 2-3 years, RMDC has been able to maintain healthy lending spreads (around 5-6%) supported by lower funding cost, control operating expenses and credit provisioning however income profile remains highly concentrated to fund based activities. RMDC's return on net worth was around 14-15% over last 2-3 years. Going forward, RMDC's ability to achieve adequate portfolio growth and maintaining good asset quality profile would have bearing on its profitability.

Company Profile

Rural Microfinance Development Centre Limited (RMDC) was promoted by institutional promoters Nepal Rastra Bank (NRB) - 6.58%, 13 Class A Commercial Banks - 90.57%, 5 Class D Microfinance Institution (MFI) - 2.42% and Deposit Insurance and Credit Guarantee Corporation (DICGC) - 0.43%. RMDC was incorporated on October 30th 1998 as a Public Limited Company with the mandate to operate as a wholesale lending organisation within the framework of the then 'Development Bank Act, 1995' and started its lending operations in January 2000 after being registered as a Class D 'financial Institution' under current unified banking law, "The Banking and Financial Institution Act, 2006". RMDC is engaged in the business of providing microfinance access to rural poor households, especially to women via wholesale lending to MFIs like rural development banks, microfinance development banks, rural cooperatives and NGO financial intermediaries and operates in all districts of Nepal. Apart from this, it provides institutional strengthening and capacity building supports to its partner MFIs with a view to promote and develop microfinance sector in the country. RMDC is the implementing agency for the Rural Microfinance project funded through an ADB loan. The paid up capital of RMDC was Rs 320 Million as on 15th July 2012 and reached to NRs 364 million by end of third quarter (15th April 2013) after injection of NRs 14 million (with premium of NRs 25.48 million) and NRs 30 million (with premium of NRs 24 million) by Siddhartha Bank Ltd and International Finance Corporation respectively. During the year ended July 15, 2012 RMDC reported a net profit of NRs. 125 million on an asset base of NRs. 3.30 billion as against a profit of NRs. 89.20 million on an asset base of NRs. 3.10 billion in the previous year. During H1 2012-13 RMDC reported PAT of NRs 70 million.

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¹ Asian Development Bank

² Government of Nepal



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