Shine Resunga Development Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed Right Issue of Shine Resunga Development Bank Limited

ICRA Nepal has assigned an "**[ICRANP] IPO Grade 3**", indicating average fundamentals to the proposed rights issue amounting NPR 191.91 million of Shine Resunga Development Bank Limited (hereinafter referred to as SRDBL). 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. SRDBL is proposing to come out with a rights issue of 1,919,182 numbers of equity shares of face value NRs 100/- each to be issued to the existing shareholders in 2:1 ratio (1 right share for every 2 shares held).

The average fundamental grading factors in the SRDBL's steady business growth with healthy profitability indicators (PAT/ATA[1] and PAT/Net worth of 2.7% & 26% in H1 2013-14 and 2.6% & 19.7% respectively in 2012-13), good asset quality indicators demonstrated over 5 years of operation (Gross NPL[2] of 0.7% as on January 2014) and superior deposits profile (>75% of deposits in the form of CASA[3] deposits as on January 2014). The grading also factors in the synergies exhibited in the performance of SRDBL post-merger with Resunga Development Bank (RDB) in March 2013. However, the grading is constrained by limited track record (operations commenced in 2009), lack of diversity in earnings (fee based income of 0.3% of ATA in 2012-13) and lack of institutional promoters support. While SRDBL's track record and its experience in the region is an advantage, its ability to maintain the competitive positioning and asset quality indicators on enhanced scale of operations would have a bearing on the overall financial profile.

Growing steadily since inception and further aided by the merger with RDB, the credit portfolio of SRDBL stood at NPR 3,614 million and deposits base at NPR 4,499 million. The bank's credit portfolio comprised mainly of Trading Loan (24%), Overdraft Loan (21%), Hire Purchase Loans (21%), Home Loan (7%), Industrial Loan (7%), Service Business Loan (6%) and Real Estate Loan (3%) as on January 2014. SRDBL's Gross NPLs and Net NPLs were 0.7% and 0.1% as on January 2014, significantly better compared to peer Class 'B' financial institutions. Similarly, solvency profile of SRDBL fares significantly better compared to its peers; with Net NPA/Net Worth ratio of 2% as on January 2014. The bank's deposits profile remains significantly better than the industry average; benefiting from the strong liability franchise of erstwhile RDB. As of July 2013, the proportion of CASA deposits stood at 75% against industry average of around 46%; with top 20 depositors as on July 2013 accounting for 4% of total deposits. On the backdrop of high proportion of low cost deposit base, SRDBL's cost of funds compares favourably to peers which aids its competitive positioning.

Healthy mobilization of funds, adequate yield on advances coupled with falling cost of deposits has helped SRDBL maintain a healthy gross interest spread in the range of 4.5-5% in H1 2013-14 and 2012-13. The cost of fund was favourably impacted in 2012-13 and H1 2013-14; with increase in the proportion of low cost CASA deposits post-merger with RDB. As a result, SRDBL has been able to

[1] Profit after tax/Average total Assets
[2] Non-Performing Loans
[3] Current and Savings

Note: Mid-Jan-2014 the data are based on unaudited financial statements provided by SRDBL maintain steady Net Interest Margins (NIMs) (around 4-5%) over past 3-4 years. The bank reported net profit of NPR 87.08 million in 2012-13 (growth of 86% compared to a profit of NPR 46.77 million in 2011-12) supported by stable NIMs and increase in scale of operations translating into higher cost efficiencies. SRDBL has been able to generate return on net worth of around 15-20% for past 3-4 years, which appears sustainable considering the enhanced deposit franchise and demonstrated superior solvency profile post merger in March 2013. Nonetheless, over the long term, the ability of the bank to maintain the synergy of merger and build scale profitably would be a key monitorable.

Against the minimum regulatory CRAR requirement of 11% for Class B Banks, the CRAR of SRDBL stood at 11.7% as on January 2014. As per the management, the proposed rights issue[4] will be used to increase the scale of operation. As per ICRA estimates, the proposed rights issue is likely to meet the capital requirements to meet SRDBL's projected medium term (3 year) CAGR growth plans of 22%[5]; while maintaining overall capitalization in the range of 12-14%, with expectations of solvency remaining range bound at 2-4%. ICRA expects the liquidity profile of SRDBL to remain comfortable over the medium term, given the enhanced deposit franchise post-merger with RDB in Mar-13.

SRDBL provides banking services through its 14 branches and 2 extension counters across 4 districts. As regards branch expansion, SRDBL plans to set up 3 new branches (covering 2 new districts) thereby likely to bring the district coverage to 6 over the near term. SRDBL has a distinct advantage over Commercial banks operating in the region in terms of better understanding of the local area and business opportunities therein, access to retail clients service turnaround. Moreover, its strong deposit franchise leading to lower deposit cost has accorded SRDBL with a competitive edge over other regional Financial Institutions as well.

The shareholding of the bank is diversified across over 80 promoter shareholders comprising of local businesspersons, industrialist and professionals. The current Promoter: Public shareholding ratio stands at 63:37 and the proposed rights issue is expected to increase the capital base keeping the ratio intact. SRDBL has an 8 members- Board of Directors (BoD-5 from promoter group and 3 from public shareholders) and top level management with significant experience across Financial Institutions. There are 3 committees under the BoD (composed of Directors as well as Management representatives) for oversight in activities related to human resource management, credit control and audit and 4 committees at management level for regular banking functions. The bank has outsourced its internal audit functions with a provision of quarterly audit, which reflects positively on the overall systems and processes of SRDBL.

Company Profile

Shine Resunga Development Bank was established in February 2009 as Shine Development Bank (a 3-district Class B Bank operating in 3 districts of western Nepal). Following merger with Resunga Development Bank (a 1-district Class B bank working in Gulmi District of Western Nepal) in March 2013, Shine Development Bank has been rechristened Shine Resunga Development Bank Limited and has also acquired the status of 10-district development Bank from NRB. The corporate office of SRDBL is in Rupandehi District with its head office in Gulmi District (earlier the corporate office of Resunga Development Bank) which also acts as hub for its branches working in Gulmi District.

SRDBL is a regional player currently operating in 4 districts through its 14 branches and 2 extension counters. SRDBL has market share of about 0.3 % in terms of deposit base and 0.4% of total advances of banking industry in Nepal as on mid-October-2013. Its share in development banks total

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[4] 30% of the enhanced capital base of the bank as on Jan-14 (if fully subscribed)

[5] Moderate compared to CAGR of past 3 years; as a result of higher base post-merger in Mar-13

deposit and advances at the same time was 2.5% and 2.4% respectively. SRDBL reported a profit after tax of NPR 87.08 million over an asset base of NPR 4,490 million as on July 2013 against profit after tax of NPR 46.77 million over an asset base of NPR 2,200 million as on July 2012. In terms of technology platform, SRDBL has implemented Pumori IV in all of its branches.

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