

Everest Bank Limited: Rating reaffirmed

September 7, 2020

Summary of rated instruments

INSTRUMENT/FACILITY	RATED AMOUNT	RATING ACTION
Subordinated Debenture Program	NPR 600 million	[ICRANP] LA+ (reaffirmed)

Rating action

ICRA Nepal has reaffirmed the rating of [ICRANP] LA+ (pronounced ICRA NP L A Plus) assigned to subordinated debentures of Everest Bank Limited (EBL). Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk. The sign of + (plus) or – (minus) appended to the rating symbol indicates the entity’s relative position within the rating category concerned.

Rationale

The rating reaffirmation continues to draw comfort from EBL’s long track record of operation (since 1994), strong ownership profile (including a 20% equity stake by its joint venture [JV] partner, Punjab National Bank)¹ and established system and processes of EBL, derived from its JV partner through technical support service agreement. The rating also factors in EBL’s strong assets quality and solvency indicators including moderate 0+ days delinquency despite the impact of the Covid-19 pandemic on the general borrower profile. This reflects EBL’s strong underwriting norms and a seasoned borrower’s profile, given EBL’s cautious and steady credit growth over the years (15% CAGR in the past ~3 years ending FY2020, lower than the commercial banks’ average of ~19%). The assigned rating also derives comfort from EBL’s adequate capital cushion with a CRAR of 13.3% as of mid-July 2020 with tier-I capital of ~11.9% against the regulatory minimum of 11% and 8.5%, respectively. EBL continues to maintain a good deposit profile with its CASA proportion in line with the industry average, albeit a recent rise in deposit cost due to higher proportion of term deposits. The bank’s profitability profile also remains good (average ROA and RONW of ~1.8% and ~16.9% in the last three years), supported by adequate NIMs (notwithstanding the moderation in FY2020 due to interest rebate allowed to borrowers in Q3 and Q4 FY2020), low credit cost and low operating expense ratio. EBL also maintains a comfortable liquidity position with liquid assets/total liability ratio of ~34% and low CCD ratio of ~69% as of mid-July 2020, which remains a comfort during the current difficult operating environment.

However, the rating is constrained by the relatively high portfolio concentration of the bank (with top 20 borrowers accounting for 25% of the credit exposure and 189% of Tier I capital, and top 20 depositors accounting for 30% of total deposits as of mid-July 2020). High credit concentration poses credit repricing risks and could raise asset quality concerns for the bank over the medium term, given the expected impact of the Covid-19 pandemic on EBL’s borrower profile. Similarly, high deposit concentration may lead to various repricing and liquidity risks at times of high interest rate volatility. EBL has reported a low proportion of non-interest income in FY2020 (~0.8% as of mid-July 2020), which indicates low diversification of income and could affect profitability and internal capital generation during the period of weak NIMs.

Going forward, EBL’s assets quality, amid uncertainty in the industry, and capital cushion will be monitored. The bank’s ability to maintain its competitive position with low cost of funds and improve its profitability amid moderate growth will remain key rating sensitivities.

¹ Rated AA- by ICRA Ltd, India for Tier II Bonds

Key rating drivers

Credit strengths

Long track record, seasoned management team and technical support from JV partner – Operating since 1994, EBL has an adequate track record of operations in the industry. The bank is led by an experienced management team and is supported by its JV partner, Punjab National Bank (which holds a ~20% stake in EBL) under a technical support service agreement (TSSA). The top three management team personnel at EBL have been deputed from PNB under the terms of TSSA, which enables transfer of knowhow from the larger PNB to EBL.

Strong asset quality reported over the years with low delinquency level and strong solvency profile – EBL has maintained strong asset quality over the years. The bank has reported low gross NPA levels in FY2020 as well despite the industry wide moderation of asset quality triggered by the Covid-19 pandemic. This partly reflects the strong underwriting norms, good borrowers' profile as well as seasoned credit portfolio given the bank's history of controlled growth over the years. The bank reported a gross NPA level of 0.22% as of mid-July 2020, much lower than the industry average of ~1.8% while the 0+ days delinquency also stood at ~6%² as of mid-July 2020, much lower than its peers. Low gross NPA level and adequate provisioning cover resulted in a strong solvency profile of the bank with Net NPA/net worth of ~0.63% as of mid-July 2020.

Strong capitalisation profile – EBL reported a CRAR of ~13.3% as of mid-July 2020 and a Tier-I capital of ~11.9%, well above the regulatory minimum of 11% and 8.5%, respectively. The bank maintained an adequate capital cushion over the years and plans to do the same in the future. The capitalisation level was supported by sizeable bonus issues till FY2017 and healthy internal capital generation and accruals over the years.

Comfortable profitability indicators, supported by low operating expenses and credit cost – EBL has maintained comfortable profitability indicators with average ROA and RONW of ~1.8% and ~16.9%, respectively in the last three years. Its profitability was supported by low operating expenses (due to relatively moderate presence across the country) and low credit cost (due to good asset quality). Its NIM moderated in FY2020 due to the interest rate rebate allowed to regular customers for payments made in Q3 FY2020 and Q4 FY2020 as per NRB's relief measures for affected borrowers. Nonetheless, EBL's profitability remains good with reported ROA of ~1.4% and RONW of ~13.8% in FY2020, better than the industry average of ~1.4% and ~12%, respectively. The NIM is expected to improve in FY2021 vis-à-vis FY2020 as the rebate provisions are no longer applicable in FY2021.

Comfortable liquidity position – EBL has a comfortable liquidity position with a low CCD ratio of ~69% as of mid-July 2020. Further, the liquid assets/total asset ratio stood at ~34% as of mid-July 2020, indicating availability of adequate liquid assets.

Credit challenges

Heavy portfolio concentration among top 20 accounts indicates repricing and liquidity risks – EBL's portfolio remains highly concentrated in terms of both deposits and credit. As of mid-July 2020, the top 20 borrower group accounted for ~25% of the total credit exposure and 189% of tier-I capital. High credit concentration poses credit repricing risks and asset quality concerns for the bank to some extent, despite comfort from good borrowers' profile. Similarly, as of mid-July 2020, top 20 depositors accounted for ~30% of total deposits. High deposit concentration increases repricing risks and raises concerns over the liquidity position of the bank at times of interest rate volatility.

Rising cost of deposits may erode competitive position over medium term – EBL has witnessed a steady decline in its CASA proportion to ~42% as of mid-July 2020 from ~48% as of mid-July 2017. Further, its term deposit proportion increased to ~50% as of mid-July 2020 from ~38% as of mid-July 2017. This led to a consistent rise in its cost of deposits in the recent years to ~6.2% as of mid-July 2020 from ~3.1% in FY2017. Increasing cost of deposits may erode the bank's competitive position with a concomitant impact on growth prospect, profitability, and asset quality.

² Based on the ratio of accrued interest receivable to total interest income.

Low non-interest income limits revenue diversification – EBL reported a non-interest income level of ~0.8% as of mid-July 2020, lower than the industry average (~1.2%) and most of its peers. Low non-interest income level of the bank limits revenue diversification and its ability to earn from alternative sources other than interest.

Company profile

Operating since October 1994, Everest Bank Limited (EBL) is one of the oldest and largest private sector banks in Nepal. EBL is a joint venture with Punjab National Bank (PNB), India which holds a 20% stake in EBL. The bank also has a technical service agreement with PNB through which the latter provides management support to EBL (three top-level executives, including the CEO, have been deputed from PNB). EBL has a promoter: public shareholding ratio of 70:30. Apart from PNB, all other promoters are Nepalese with controlling interest from Mr. B.K. Shrestha, the Chairman.

EBL has presence across the country through its 96 branches, as of mid-July 2020. EBL is among the largest banks with a market share of ~3.6% in credit portfolio and a 3.7% in deposit base of the Nepalese banking industry as of mid-July 2020 (~4.0% and 4.1%, respectively in the commercial bank industry). EBL reported a profit after tax (PAT) of NPR 2,500 million in FY2020 over an asset base of NPR 186,046 million as of mid-July 2020 against a PAT of NPR 3,054 million in FY2019 over an asset base of NPR 168,631 million as of mid-July 2019. As of mid-July 2020, EBL had a gross NPL of 0.22% and a CRAR of 13.32%.

Key financial indicators

KEY FINANCIAL RATIOS YEAR ENDED	Jul-17 (Audited)	Jul-18 (Audited)	Jul-19 (Audited)	Jul-20 (Provisional)
OPERATING RATIOS				
Net Interest Margin/Avg. Total Assets	3.25%	3.73%	3.64%	2.99%
Non-interest Income/Avg. Total Assets	0.88%	0.85%	0.83%	0.78%
Operating Expenses/Avg. Total Assets	1.60%	1.66%	1.60%	1.45%
Credit Provisions / Avg. Total Assets	0.07%	0.10%	0.09%	0.31%
PAT / Avg. Total Assets	1.72%	1.98%	1.95%	1.41%
PAT / Net Worth	19.76%	18.65%	18.09%	13.79%
Gross NPAs	0.25%	0.21%	0.17%	0.22%
CAPITALISATION RATIOS				
Capital Adequacy Ratio	14.95%	14.20%	13.74%	13.32%
Tier I capital	12.84%	12.65%	12.38%	11.86%
Net NPAs/Net Worth	0.02%	0.13%	0.31%	0.63%
COVERAGE & LIQUIDITY RATIOS				
Total Liquid Assets/Total Liability	28.62%	33.04%	31.66%	33.84%
Total Advances/Total Deposits	81.27%	81.53%	86.45%	82.35%

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About ICRA Nepal Limited

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