

Nepal Investment Mega Bank Limited: Ratings removed from Watch with Developing Implications and placed on Watch with Negative Implications

October 16, 2023

Summary of rating action

Facility/Instrument	Rated Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] A@¹ ; removed from 'Watch with Developing Implications' and placed on 'Watch with Negative Implications'
Subordinated Debentures*	NPR 6,000 million	[ICRANP] LA@ ; removed from 'Watch with Developing Implications' and placed on 'Watch with Negative Implications'

* Instrument details are attached as Annexure-1

Rating action

ICRA Nepal has removed the issuer rating assigned to Nepal Investment Mega Bank Limited (NIMB) from 'Watch with Developing Implications' and placed on 'Watch with Negative Implications'. The revised rating is **[ICRANP-IR] A@** (pronounced ICRA NP issuer rating A) indicating adequate degree of safety regarding the timely servicing of financial obligations. Such issuers carry low credit risk. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

ICRA Nepal has also removed the rating assigned to the bank's subordinated debentures from 'Watch with Developing Implications' and placed on 'Watch with Negative Implications'. The revised rating is **[ICRANP] LA@** (pronounced ICRA NP L A). Instruments with this rating are considered to have an adequate degree of safety regarding the timely servicing of financial obligations. Such instruments carry a low credit risk.

Rationale

The rating watch with negative implications is mainly on account on the deterioration in NIMB's asset quality profile in the recent periods with higher than industry average non-performing asset (NPA) levels (4.35% as of mid-July 2023 against 2.98% for the industry), along with the spike in 0+days delinquencies (~47% as of mid-July 2023). The recent slippages have impacted the bank's solvency profile (net NPA/net worth) which has slipped to ~9% as of mid-July 2023. While the spike in delinquencies can be partly attributed to post-merger integration of credit books acquired from Mega Bank Nepal Limited (Mega), the uptick in delinquencies coinciding with recent economic slowdown, end of Covid-19 related moratorium/relaxations in mid-July 2022, high interest rate environment amid slow credit growth remains a concern the bank's incremental asset quality. Rating concerns also arise from moderation in return indicators amid the stress in asset quality. Given the low provision cover, any sustained stress in asset quality could have a major impact on the bank's incremental profitability as well as capitalization indicators, which remains a major rating concern. Rating concerns also emanate from the moderation in the deposit profile as reflected in a declined in CASA deposits, uptick in cost of deposits and moderate deposit concentration.

Nonetheless, the ratings factor in the bank's strong capitalisation profile (capital to risk weighted assets ratio (CRAR) of 14.10% and tier-I capital of 11.58%). This coupled with the increasing granularity of credit portfolio after the merger with retail/SME heavy Mega Bank Nepal Limited remain positive (top-20 borrower/group accounted for ~20% of total loan as of mid-July 2023 vs. ~34% as of mid-April 2022, when last rated). The ratings also derive comfort from NIMB's long track record (since 1986), its experienced directors and seasoned management team. Diversified geographical presence and increased market share post-merger also remain rating positives. The rating also positively factors in the adequate liquidity position of the bank.

¹ The symbol '@' denotes rating on "Watch with Negative Implications".

Going forward, the bank's ability to control the incremental slippage, improve its asset quality and profitability, would remain the key rating sensitivities. Sustained deterioration in its asset quality indicators could exert downward pressure on the ratings.

Key rating drivers

Credit strengths

Long track record, healthy market share, experienced directors/management team – Operating since 1986, NIMB has a long track record in the Nepalese banking industry as one of the oldest private sector banks. Following the recent merger with Mega Bank Nepal Limited, NIMB's geographical presence has improved with 260 branches across the country as of mid-July 2023 (88 branches as of mid-April-2022). Similarly, its market share has improved to ~7.0% share in total deposits and ~7.4% share in total credits as of mid-July 2023 (from ~4.2% as of mid-April-2022). The banks experienced director and seasoned management team, also continue to remain a positive for controlled growth going forward.

Good capitalisation and liquidity profile – NIMB has maintained comfortable capitalisation profile with a CRAR of 14.10% and tier-I capital of 11.58% as of mid-July 2023 (industry average of 13.37% and 10.53% respectively) against the regulatory minimum of 11% and 8.5% respectively. The capital is adequate to accommodate the additional 0.5% cushion to be maintained towards counter cyclical buffer. NIMB has a comfortable liquidity position, with liquid asset/total asset ratio of ~26% and regulatory CD ratio of 85% as of mid-July 2023. The bank's ability to maintain adequate capital cushion at the tier-I level to enable the bank to withstand any near-term asset quality shocks, would remain a key rating monitorable.

Improved portfolio granularity – The portfolio concentration has declined since the last rating exercise aided by the merger with retail/SME heavy Mega Bank Nepal Limited as well as granularity of the incremental profile. The concentration on top-20 borrowers has decreased sharply to ~20% (~128% of tier-I capital) as of mid-July 2023 from ~34% (~213% of tier-I capital) as of mid-April-2022.

Credit challenges

Increased delinquency and NPLs amid unfavourable economic environment – NIMB reported major deterioration in its asset quality since last rating, wherein NPLs have spiked to 4.35% as of mid-July 2023 (industry average of 2.98%) from 1.49% as of mid-July 2022. Moreover, 0+ days delinquency levels increased to ~47% as of mid-July 2023 from ~13% as of mid-April 2022. Higher fresh slippages have also led to lower provisioning cover which has moderated the bank's solvency indicators (net NPL to net worth) to 8.65% as of mid-July 2023 compared to 1.20% as of mid-July 2023. Although, the rising delinquency can be partly attributed to the integration of credit books with Mega Bank Nepal Limited, it nonetheless creates risk of a sustained impact on asset quality, given the unfavourable economic environment. Although, a major portion of the overdue portfolio lies within 0-30 days; the bank's ability to control the further deterioration of delinquent portfolio will have a bearing on the profitability and capitalisation indicators and remains a key rating sensitivity.

Moderation in return indicators owing to increased credit cost – NIMB's profitability indicators in FY2023 were mainly impacted by the deterioration in asset quality and the subsequent rise in credit cost. Since the NIMs remain supported by the relaxations on interest spread cap until mid-Jan 2024, i.e., one year from the commencement of combined operations, the expiry of such relaxation is likely to further exert pressure on the profitability. The bank's ability to maintain incremental profitability amid the pressure on interest margins and asset quality remains to be seen.

Moderation in funding profile – NIMB has reported a decline in CASA deposits in the last 12 months to ~33% as of mid-July 2023 (vs. industry average of ~36%) from ~40% as of mid-July 2022. Declining low cost deposits have spiked the bank's cost of deposits in the recent periods. However, despite the moderation in cost of deposits, the bank has been able to maintain its competitive positioning in the base rate plus lending model because of low operating expense ratio. The deposit concentration among top-20 depositor remains moderate (~20% as of mid-July 2023).

Regulatory risk and difficult operating environment – The banking industry as well as banking sector borrowers have been facing stress from H1FY2022, following the roll-back of Covid-relaxations and introduction of stringent regulations affecting

fresh credit creation. The incremental regulatory changes have also remained stringent such as higher provisioning for group units in case of stress developed in any unit. The borrowing rates have remained sticky at higher level which has reduced the repayment capability of the borrowers, which along with the ineligibility of many borrowers for fresh loans after the implementation of working capital guidelines, could create asset quality stress and remains a rating concern across the industry.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Bank Rating Methodology](#)

[Issuer Rating Methodology](#)

Links to last detailed rating rationale:

[Rationale_NIBL_Ratings_Surveillance_July_2022](#)

Bank profile

Nepal Investment Mega Bank Limited (NIMB) is one of the largest class A commercial bank in Nepal formed after the merger between erstwhile Nepal Investment Bank Limited² and erstwhile Mega Bank Nepal Limited in January 2023. Major promoters of NIMB include Rastriya Beema Company Limited (largest stake of 6.73%) along with other insurance companies, retirement fund and private investment companies. The shares of the bank are listed in Nepal Stock Exchange. The registered office of the bank is in Durbarmarg, Kathmandu.

NIMB's 260 branches and 204 ATMs as of mid-July 2023, provide it with pan Nepal presence. NIMB had a market share of 6.97% in terms of deposit base and 7.43% of total advances of commercial banking industry as on mid-July-2023. NIMB's profit after tax (PAT) stood at NPR 4,297 million for FY2023 over an asset base of NPR 447,505 million as of mid-July 2023. As of mid-July-2023, NIMB's CRAR was 14.10% (tier I of 11.58%) and gross NPLs were 4.35%.

Key financial indicators - NIMB

Year Ended	Mid-July 2019 (Audited)	Mid-July 2020 (Audited)	Mid-July 2021 (Audited)	Mid-July 2022 (Audited)	Mid-July 2023 (Provisional)*
Net interest income - NPR million	6,174	5,778	5,593	5,819	12,276
Profit before tax - NPR million	4,487	3,512	5,059	5,388	6,163
Profit after tax - NPR million	3,324	2,423	3,559	3,798	4,297
Loan and advances - NPR million	131,561	144,482	166,926	168,160	320,596
Total assets - NPR million	185,842	203,024	227,930	244,449	447,505
Operating ratios					
Yield on average advances#	11.24%	10.53%	8.36%	9.23%	13.12%
Cost of deposits	5.95%	5.74%	4.47%	5.47%	7.86%
Net interest margin/ Average Total Assets (ATA)	3.45%	2.97%	2.60%	2.46%	3.55%
Non-interest income/ATA	1.41%	1.18%	1.27%	0.57%	0.75%
Operating expenses/ATA	1.46%	1.32%	1.32%	1.31%	1.81%
Credit provisions/ATA	0.89%	1.03%	0.20%	-0.55%	0.71%
PAT/ATA	1.86%	1.25%	1.65%	1.61%	1.24%
PAT/net worth	13.18%	9.19%	11.98%	11.47%	9.32%
Gross NPLs	2.77%	2.91%	2.46%	1.49%	4.35%
0+ days delinquencies		17.71%	10.71%	26.27%	46.89%

² Originally established in 1986 as Nepal Indosuez Bank Limited, a JV between Nepalese and French Investor Credit Agricole Indosuez, the latter exited the bank in 2002 by selling its stake to domestic investors.

Year Ended	Mid-July 2019 (Audited)	Mid-July 2020 (Audited)	Mid-July 2021 (Audited)	Mid-July 2022 (Audited)	Mid-July 2023 (Provisional)*
Capitalisation ratios					
Capital adequacy ratio	13.26%	13.54%	14.71%	15.96%	14.10%
Tier-I capital	11.39%	11.77%	11.11%	12.15%	11.58%
Net NPLs/net worth	4.17%	1.55%	1.22%	1.20%	8.65%
Liquidity ratios					
Total liquid assets/total liability	27%	28%	25%	29%	26%
Total advances/total deposits	85%	84%	93%	89%	88%

*For FY2023, the pre-merger performance of erstwhile Mega Bank Nepal Limited are directly adjusted in the retained earnings of merged entity.

#Calculation based on net advances

Annexure-1: Instrument details

Instrument	Amount (NPR million)	Expiry	Rating Action
10.5% NIBL Debenture 2083	2,000	June 17, 2026	[ICRANP] LA@; removed from 'Watch with Developing Implications' and placed on 'Watch with Negative Implications'
8.5% NIBL Debenture 2084	4,000	February 20, 2028	
Total	6,000		

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About ICRA Nepal Limited

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