

## Jyoti Bikash Bank Limited: Rating downgraded and placed on Watch with Negative Implications

December 04, 2023

### Summary of rating action:

Facility	Rated Amount	Rating Action
Issuer Rating	NA	<b>[ICRANP-IR] BB@*</b> ; downgraded from [ICRANP-IR] BB+ and placed on watch with negative implications

\*The symbol '@' denotes rating on 'Watch with Negative Implications'. Please refer [here](#) for further details on rating watch and its implications.

### Rating action

ICRA Nepal has downgraded and revised the issuer rating of Jyoti Bikash Bank Limited (JBBL) to **[ICRANP-IR] BB@** (pronounced ICRA NP issuer rating double B) from [ICRANP-IR] BB+ (pronounced ICRA NP issuer rating double B plus). The rating has been placed on watch with negative implications. Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

### Rationale

The rating downgrade and 'Watch with Negative implications' mainly factors in the recent sharp deterioration in JBBL's assets quality profile with higher than industry average non-performing asset (NPA) levels (3.75% as of mid-October 2023 against 3.19% for the industry). Further, a major spike was also reported in the 0+ days delinquencies to ~32% as of mid-October 2023 (~12% as of mid-July 2022), and a sizeable share of delinquencies in 61-90 days bucket (~10% of portfolio). The slippages have resulted in a weak solvency profile (net NPA/ net worth at ~16%), which could weaken further, if the delinquencies in the higher buckets are not resolved. Rating concerns are exacerbated by the bank's modest tier-I capitalisation at 8.79% as of mid-October 2023 (regulatory minimum of 8.5%), thus leaving very limited room to absorb incremental slippages. Further, the rising credit costs and weakening deposit mix/cost have severely impacted the bank's profitability profile, despite a declining operating expense ratio. ICRA Nepal also takes note of the absence of strong institutional promoters in the bank, which could have provided support in case of exigencies. Furthermore, the regulatory restriction on the class-B development banks in areas such as hypothecation loans, foreign currency-based transactions (such as import letter of credits), etc coupled with relatively small scale of operations compared to the class-A commercial banks offering wider range of services, remains a long-term credit negative for class B banks.

However, the rating continues to derive comfort from the bank's adequate track record (since 2008) along with diversified presence across the country leading to good market positioning in the development bank industry (~11% market share). The bank's granular credit and deposit portfolio (~8% and ~16% among top-20 borrower group and depositors respectively, as of mid-October 2023) also remains a positive. Going forward, JBBL's ability to improve its asset quality, profitability and capitalisation profile will remain the key rating sensitivity.

### Key rating drivers

#### Credit Strengths

**Adequate track record with diversified presence** – Operating since 2008, JBBL has an adequate track record of operations in the Nepalese banking industry. The bank currently has 121 branches and three extension counters spread across the country, which has helped it in maintaining a market share of ~11% among the development banks (both in terms of credit and deposit) as on mid-October 2023.

**Granular credit portfolio, improved deposit granularity** – JBBL continues to maintain good portfolio granularity wherein the top-20 borrower groups accounted for ~8% of the total credit portfolio as of mid-October 2023 (largely comparable to last rating levels as of mid-April 2022). This provides some comfort amid deterioration in its asset quality profile. Further, the deposit concentration has also decreased to ~16% among top-20 depositors as of mid-October 2023 from ~28% as of mid-April 2022, which remains a comfort against the concerns on stability of the funding profile amid the bank's rising NPAs and the volatile banking sector interest rates.

## Credit Challenges

**Recent major deterioration in asset quality indicators** – With major spike reported during Q1FY2024, JBBL's gross NPAs of 3.75% as of mid-October 2023, remains much higher than the development bank industry average of 3.19%, despite booking a chunk of NPAs into non-banking assets (NBAs, including which the adjusted NPAs were 4.04% as of mid-October 2023). This was mainly on account of the pressure on large borrowers as well as retail/SME segment, amid the economic slowdown. The asset quality concerns are further exacerbated by the bank's high delinquency level, with 0+ days delinquencies of ~32% (including NPAs) as of mid-October 2023, which could potentially further weaken the solvency indicators. While the banking sector generally tends to witness increase in delinquencies during Q1 of every fiscal year, the extent of increase for JBBL during Q1FY2024 remains higher than its past trend, with major increase in 61-90 days delinquencies at ~9.7% of portfolio as of mid-October 2023 (~3.5% a year ago), thus remaining a major rating concern. The bank's ability to control incremental slippages and recover from existing NPAs will remain crucial for its future profitability and solvency.

**Moderate capitalisation profile with lowering cushion at tier-I level** – JBBL reported a moderate capital to risk weighted assets ratio (CRAR) of 12.99% as of mid-October 2023. However, the tier-I capital has sharply depleted from 10.30% when last rated to 8.79% as of mid-October 2023, remaining marginally above the regulatory minimum requirement of 8.5%. The decline was mainly amid the deductions for significant chunk of unrecovered interest income from tier-I calculations. A thin tier-I capital cushion amid the mounting asset quality pressures remain a major rating concern.

**Moderation in profitability profile** – The bank reported moderation in its profitability indicators due to the recent sharp increase in credit costs amid deterioration in its asset quality, coupled with a slight decline in net interest margins (NIMs). The bank's low-cost current and savings accounts (CASA) mix at ~23% as of mid-October 2023, remains slightly lower than the industry average of ~25%, thus leading to a marginally higher cost of deposits and impacting the profitability to an extent. JBBL's return on assets (RoA) and return on net worth (RoNW) reduced to 0.3% and 3.4% in Q1FY2024 (1.0% and 12.3% respectively in FY2022). Going forward, the bank's ability to maintain adequate NIMs while improving the CASA mix and manage the assets quality would have a strong bearing on its profitability profile.

**Intense competition from commercial banks with wider range of services** – As per the regulatory provisions, "Class-B" banks are restricted to undertake certain activities that are allowed only for "Class-A" commercial banks, viz. credit solely secured against hypothecation of stock and receivables, opening of foreign currency denominated letter of credit/guarantees, etc. These provisions erode the competitive positioning of the development banks (such as JBBL) vis-à-vis the commercial banks with higher capital, stronger brand, larger customer base, wider range of services and finer lending rates.

**Link to the previous rating rationale:**

[Rationale JBBL Issuer Rating Surveillance May-2022](#)

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

**Links to the applicable criteria:**

[Bank Rating Methodology](#)

[Issuer Rating Methodology](#)

## Bank Profile

Jyoti Bikash Bank Limited (JBBL), a national level class-B bank, licenced by the Nepal Rastra Bank (the central bank of Nepal), has been in commercial operation since July 24, 2008. The corporate office of the bank is located at Kamaladi, Kathmandu. The bank is promoted by a wide range of promoters with maximum shareholding by one promoter at 1.80% of total capital (as on mid-October 2023). The share capital of the bank is distributed among promoters and the public in the ratio of ~54:46.

JBBL has a diverse presence in Nepal through its 121 branches as of mid-October 2023. As on the same date, it had a market share of ~11% in the development banking industry and ~1% in the overall banking industry. JBBL reported a net profit of ~NPR 553 million during FY2023 (unaudited; ~17% YoY degrowth) over an asset base of NPR 73,042 million as of mid-July 2023. For Q1FY2024, the bank has reported a standalone net profit of NPR 51 million (~49% YoY degrowth) over an asset base of NPR 75,190 million as of mid-October 2023. As on the same date, the capitalisation profile (CRAR) of JBBL was at 12.99% and gross NPAs was at 3.75%.

## Key financial indicators (Standalone)

Year ending on	Mid-July 2021 (Audited)	Mid-July 2022 (Audited)	Mid-July 2023 (Provisional)	Mid-October 2023 (Provisional)
Net interest income - NPR million	1,583	2,026	2,369	574
Profit before tax - NPR million	950	955	790	73
Profit after tax - NPR million	664	670	553	51
Gross loan and advances - NPR million	46,007	51,263	54,840	54,424
Total assets - NPR million	59,879	70,842	73,042	75,190
<b>Operating ratios</b>				
Yield on average advances	10.61%	11.80%	14.84%	14.36%
Cost of deposits	6.41%	7.26%	9.85%	9.67%
Net interest margin/average total assets - ATA	3.10%	3.10%	3.29%	3.10%
Non-interest income/ATA	1.59%	0.47%	0.43%	0.51%
Operating expenses/ATA	2.00%	1.86%	1.86%	1.40%
Credit provisions/ATA	0.83%	0.25%	0.77%	1.82%
PAT/ATA	1.30%	1.03%	0.77%	0.27%
PAT/net worth	13.62%	12.31%	9.48%	3.37%
Gross NPAs	0.84%	1.47%	2.86%	3.75%
0+ days delinquencies	14%	12%	18%	32%
<b>Capitalisation ratios</b>				
Capital adequacy ratio	13.04%	12.74%	13.16%	12.99%
Tier I capital	11.61%	8.90%	9.24%	8.79%
Net NPAs/net worth	1.35%	6.53%	11.50%	15.70%
<b>Liquidity ratios</b>				
Total liquid assets/total liability	21.94%	25.87%	22.80%	25.37%
Total advances/total deposits	92.84%	95.30%	89.70%	88.06%

Source: Company Data

For further details please contact:

## Analyst Contacts

**Mr. Rajib Maharjan** (Tel No. +977-1-4519910/20)

[rajib@icranepal.com](mailto:rajib@icranepal.com)



**Mr. Pranil Dahal** (Tel No. +977-1-4519910/20)  
[pranil@icranepal.com](mailto:pranil@icranepal.com)

## Relationship Contacts

**Ms. Barsha Shrestha** (Tel No. +977-1-4519910/20)  
[barsha@icranepal.com](mailto:barsha@icranepal.com)

## About ICRA Nepal Limited

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit [www.icranepal.com](http://www.icranepal.com)

### ICRA Nepal Limited

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

**Phone:** +977 1 4519910/20

**Email:** [info@icranepal.com](mailto:info@icranepal.com)

**Web:** [www.icranepal.com](http://www.icranepal.com)

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website ([www.icranepal.com](http://www.icranepal.com)) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents