

Citizens Bank International Limited: Ratings reaffirmed

February 12, 2024

Summary of rating action

Facility/Instrument	Rated Amount (NPR million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] BBB+@*; reaffirmed with continuation of Watch with Negative Implications
Subordinated Debenture **	2,500	[ICRANP] LBBB+@; reaffirmed with continuation of Watch with Negative Implications

*The symbol '@' indicates Rating Watch with Negative Implications. Please refer [here](#) for details on rating watch and its meaning/implications.

** Instrument details are provided in [Annexure-1](#)

Rating action

ICRA Nepal has reaffirmed the issuer rating of Citizens Bank International (CZBIL) at [ICRANP-IR] BBB+@ (pronounced ICRA NP issuer rating triple B plus) with continuation of "Watch with negative implications". Issuers with this rating are considered to be of moderate credit quality as they carry a moderate credit risk. The rating is only an opinion on the general credit worthiness of the rated entity and not specific to a particular debt instrument. The sign of + (plus) or – (minus) appended to the rating symbols indicate their relative position within the rating categories concerned.

ICRA Nepal has also reaffirmed the bank's subordinated bond rating at [ICRANP] LBBB+@ (pronounced ICRA NP L triple B plus) with continuation of "Watch with Negative Implications". Instruments with this rating are considered to have a moderate degree of safety regarding the timely servicing of financial obligations.

Rationale

The continuation of ratings Watch with Negative Implications is on account of the sustained deterioration in the bank's asset quality indicators with non-performing asset (NPA) of 4.07% as of mid-January 2024 as compared to 2.89% as of mid-October 2022 (when last rated). The bank's 0+ days delinquencies (DPD) also stood sizeable at ~31% as of mid-January 2024. While majority of the DPD i.e. ~24% of portfolio remains in less than 30 days bucket, the ability of bank to reduce these over dues will be critical for improvement in asset quality. Increasing slippages have also impacted the bank's solvency profile (net NPA to net worth), which was weak when compared to peers at ~14% as of mid-January 2024. The bank's capitalisation cushion at tier-I levels has also moderated sharply to 9.06% as of mid-January 2024 (10.19% as of mid-October 2022), offering little cushion over the regulatory minimum of 8.5%. Further, the increased credit costs have also moderated CZBIL's return indicators. Any major incremental stress in asset quality would significantly impact the bank's profitability and capitalisation indicators, and thus could have a downward pressure over the ratings. The rating concerns also emanate from the bank's relatively low proportion of low-cost deposits, resulting in relatively higher cost of funds.

The ratings continue to derive comfort from the bank's adequate operational track record (since 2007), its experienced board of directors, a stable management team and the bank's diverse presence across the nation. The ratings also positively factor in the bank's fairly balanced credit portfolio mix. Going forward, the bank's ability to maintain adequate capital cushion (in tier-I level) whilst improving its asset quality and solvency position would remain the key rating drivers. Further, the improvement in the bank's deposit mix and cost of fund would also remain among the key rating monitorable.

Key rating drivers

Credit Strengths

Experienced board/management – The bank's experienced board of directors remains a positive for steady and diversified growth of the bank. There is also an institutional investor viz. Citizen Investment Trust (state-owned retirement

fund), with 3.35% stake. The bank's management team also comprises seasoned bankers with long experience in the Nepalese banking industry.

Adequate track record and wide branch network – CZBIL has adequate track record of operations (since 2007) and has a network of 188 branches spread across the country as of mid-October 2023. The bank's focus on retail/SME segment has resulted in a diversified credit portfolio with ~53% share of such loans, the rest largely being corporate loans. The expansion of branches, aided by the past acquisitions of regional players, has enabled the bank to achieve diversified growth in terms of credit as well as deposit, which is reflected in the bank's largely steady reliance on top-20 customers.

Credit Challenges

Sustained stress in asset quality and solvency profile – The bank has reported steady deterioration in asset quality with the gross NPAs increasing to 4.07% as mid-January 2024 from 2.89% as of mid-October 2022. Further the 0+ DPD has also continued the upward trajectory to ~31% (including NPAs) as of mid-January 2024 from ~27% as of mid-October 2022. However, the portion of delinquent loans within the 30 days ageing bucket remains relatively high (~24% of portfolio as of mid-January 2024), which provides some comfort. Nonetheless, the rising slippage has further stretched the solvency profile to ~14% as of mid-January 2024 as compared to ~11% as of mid-October-2022. The slowdown in the economic activities amid high leverage prevailing across almost entire spectrum of banking sector's borrowers, raises concerns on the incremental debt recovery despite the moderating interest rate outlook and regulatory forbearances in the form of rescheduling/restructuring (~6% of total loans were rescheduled/restructured till mid-January, 2024).

Moderation in capitalisation profile – CZBIL has reported a steady decline in tier-I capital cushion over the years, because of the growth in risk assets and higher credit provisions/lower profitability amid elevated delinquency levels. The bank's tier-I capital of 9.06% (10.45% as of mid-July 2022) and CRAR of 13.00% as of mid-January 2024, though above the regulatory minimum requirement of 8.5% and 11% respectively, remain moderate amid the backdrop of the prevailing high delinquency level, and therefore, makes the bank's capitalisation profile vulnerable to any near-term credit shocks. The bank's ability to improve its asset quality and maintain an adequate capital cushion remains crucial for its incremental business profile and solvency. These concerns are accentuated by the regulatory requirement to maintain 0.5% of risk assets in the form of counter cyclical capital buffer (which will increase the tier-I increment to 9%) by mid-July 2024 and hence the bank's ability to ensure adequate cushion over the increasing tier-I norms, will remain a key rating monitorable.

Moderation in return indicators and continuation of moderate funding profile – The bank reported a decrease in non-interest income in FY2023 (0.56% as against 0.77% in FY2022), which largely offset the impact of improved interest margins (2.96% in FY2023 against 2.75% in FY2022), leading to fairly stable operating margins for FY2023. However, owing to the sharply increased credit costs, the bank reported moderation in return indicators with return on assets (RoA) of 0.95% and return on net worth (RoNW) of 9.03% in FY2023. (1.11% and 10.21% in FY2022). With incremental asset quality stress, the RoA and RoNW further slipped to 0.76% and 7.50% for H1FY2024. The bank's ability to control the asset quality will remain critical for its profitability profile. CZBIL's low-cost deposits (current, savings and call deposits) also continue to remain relatively lower (~35% as of mid-October-2023 against the industry average of ~41%), thereby impacting its cost of fund and base rate. The bank's ability to improve the deposit profile will have bearing on its competitive positioning, in the current base-rate plus lending regime.

Regulatory risks 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 the fresh credit creation. The incremental regulatory changes have also remained stringent such as higher provisioning requirement for interlinked group units in case of stress seen in any unit. While the borrowing rates have gradually started decreasing, the reduced repayment ability of borrowers amid the economic/demand slowdown, coupled with the ineligibility of many borrowers for fresh loans after the implementation of working capital guidelines, could create further asset quality stress and remains a rating concern across the industry. Further, the regulation to maintain interest rate differential at 2% among the same-category loans is likely to impact on the interest margins and profitability going forward.

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

Links to the applicable criteria:
[Bank Rating Methodology](#)
[Issuer Rating Methodology](#)
Link to the last rating rationale:
[Rationale- Citizens Bank- Ratings Surveillance January 2023](#)
Bank Profile:

Citizens Bank International Limited (CZBIL) started its commercial operations from April 20, 2007 as a “Class-A” commercial bank. The bank is promoted by individuals from different backgrounds along with a few institutions (including Citizen Investment Trust with a 3.35% stake). As of mid-July 2023, CZBIL’s promoter: public shareholding ratio stood at ~51:49. The bank’s equity shares are listed on the Nepal Stock Exchange.

CZBIL has presence throughout the country through its 188 branches, 3 extension counter and 148 ATMs as of mid-October 2023. CZBIL has market share of 3.34% in terms of deposit base and 3.30% of total advances of commercial bank industry as on mid-October 2023. CZBIL reported a profit after tax of NPR 1,864 million during FY2023 (~25% Y-o-Y growth) and NPR 783 million during H1FY2024 over an asset base of NPR 214,679 as of mid-January 2024. As on the same date, CZBIL’s CRAR was 13.00% and gross NPAs were 4.07%. In terms of technology platform, the bank has implemented Finacle across all its branches.

Key financial indicators

Year ending on	Mid-July 2021	Mid-July 2022	Mid-July 2023	Mid-Jan 2024
	(Audited)	(Audited)	(Audited)	(Unaudited)
Net interest income - NPR million	3,650	4,993	5,828	2,840
Profit before tax - NPR million	2,284	2,833	2,516	1,101
Profit after tax - NPR million	1,804	2,006	1,864	783
Loan and advances - NPR million	122,159	134,644	142,343	150,548
Total assets - NPR million	168,329	194,413	198,933	214,679
Operating ratios				
Yield on average Advances	9.49%	11.06%	13.15%	12.21%
Cost of deposits	5.91%	6.90%	8.54%	8.06%
Net interest margin/average total assets (ATA)	2.62%	2.75%	2.96%	2.75%
Non-interest income/ATA	1.04%	0.77%	0.56%	0.57%
Operating expenses/ATA	1.52%	1.66%	1.63%	1.47%
Credit provisions/ATA	0.28%	0.30%	0.62%	0.83%
PAT/ATA	1.29%	1.11%	0.95%	0.76%
PAT/net-worth	11.17%	10.21%	9.01%	7.50%
Gross NPAs	1.64%	2.22%	3.39%	4.07%
Capitalisation ratios				
Capital adequacy ratio	13.70%	12.69%	12.12%	13.00%
Tier-I Capital Ratio	11.02%	10.45%	10.01%	9.06%
Net NPAs/net worth	3.73%	7.33%	10.34%	14.11%
Liquidity ratios				
Total liquid assets/total liability	24.00%	26.62%	23.95%	24.78%
Total advances/total deposits	84.17%	88.12%	84.31%	84.73%

Annexure 1- Instrument details

Instrument	Amount	Maturity	Rating Action (February 2024)
10.25% Citizens Bank Bond– 2086	NPR 2,500 million	April 11, 2030	[ICRANP] LBBB+@; reaffirmed, remains on Watch with Negative Implications

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About ICRA Nepal Limited

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