

Global IME Bank Limited: Ratings downgraded and placed on watch with negative implications

February 12, 2024

Summary of rating action

Facility/Instrument	Rated Amount (NPR million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] A-@*; downgraded from [ICRANP-IR] A&
Subordinated Debentures #	4,500	[ICRANP] LA-@; downgraded from [ICRANP] LA&
Subordinated Debentures #	1,600	[ICRANP] LA-@; upgraded from [ICRANP] LBBB+%

Instrument details are attached as [Annexure-1](#).

* The symbol '@', '&' and '+' respectively indicate Rating Watch with Negative Implications, Rating Watch with Developing Implications and Rating Watch with Positive Implications. Please refer [here](#) for further details on rating watch and its implications.

Rating action

ICRA Nepal has downgraded the issuer rating of Global IME Bank Limited (GBIME) to [ICRANP-IR] A-@ (pronounced ICRA NP Issuer Rating A Minus) from [ICRANP-IR] A& (pronounced ICRA NP Issuer Rating A), indicating adequate degree of safety regarding the timely servicing of financial obligations, with low credit risk. The rating has also been removed from 'Watch with developing implications' and placed on 'Watch with Negative Implications'. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument. The sign of + (plus) or – (minus) appended to the rating symbols indicates their relative position within the rating categories concerned.

ICRA Nepal has also downgraded the bank's subordinated debenture rating to [ICRANP] LA-@ (pronounced ICRA NP L A Minus) from [ICRANP] LA& (pronounced ICRA NP L A) and revised the rating watch to 'Watch with Negative Implications'. Further, the erstwhile subordinated debenture rating of Bank of Kathmandu has been upgraded to [ICRANP] LA-@ (pronounced ICRA NP L A Minus) from [ICRANP] LBBB+% (pronounced ICRA NP L triple B plus) and also revised the rating watch to 'Watch with Negative Implications'. Instruments with this rating are considered to have an adequate degree of safety, regarding the timely servicing of financial obligations. Such instruments carry low credit risk.

Rationale

The ratings action mainly factors in the sharp deterioration in the bank's assets quality with non-performing asset (NPAs) of 4.38% as of mid-October 2023 (further deteriorated to 4.68% as of mid-January 2024), remaining higher than the industry average of 3.61%. The rating concerns are further exacerbated by the steady spike in the 0+ delinquencies (DPD) to ~35% as of mid-January 2024 (albeit ~20% of these DPDs were the restructured loans as per the relaxation allowed by the central bank¹) with around one third of the DPDs being in the borderline NPA category i.e., 61-90 days' bucket (~40% of this being the restructured loans, which were yet to be regularised). The higher fresh slippage has lowered the provision coverage and has impacted the bank's solvency profile (net NPA to net worth) which has slipped to ~12% as of mid-October 2023, remaining on a higher side among peers. While the uptick in delinquencies can be attributed to the ongoing economic slowdown, high interest rate environment till recent past (in gradually declining trend) and the generally high leverage among large borrowers, the last merger with the erstwhile Bank of Kathmandu Limited (BoK) in January 2023, also added to the impact. Amid the backdrop of high credit costs and hence muted

¹ Nepal Rastra Bank, the central bank has extended the loan restructuring/rescheduling facility as relief measure to certain industries/segments affected by the economic slowdown, after recovering 10% of the outstanding interest (eligible for loans under performing category until mid-July 2023), while remaining 90% interest and principal can be paid as per agreed rescheduling terms.

internal accruals, the bank reported recent sharp moderation in capitalization profile, owing to the impact of taxes on bargain purchase gains and the recent cash dividend distribution. The capital to risk weighted assets ratio (CRAR) and tier-I stood at 12.37% and 9.85% respectively as of mid-January 2024 (13.27% and 10.86% as of mid-October 2023) against the minimum regulatory requirement of 11% and 8.5% respectively, thus elevating the concerns on ability to absorb incremental credit shocks. The rating concerns also emanate from the bank's declined proportion of stable/low-cost deposits², leading to relatively higher cost of funds in the industry. The resultant decline in net interest margins (NIMs) and increasing credit costs have also moderated the bank's profitability indicators for Q1FY2024.

Nonetheless, the ratings derive comfort from the bank's improved position in the industry (after the last merger with BoK) as the largest player (>8.5% market share), despite a relatively moderate track record. Further, the ratings continue to remain supported by GBIME's experienced directors/management team. The ratings also take into account the bank's balanced portfolio mix and relatively granular credit portfolio (~14% portfolio among top-20 borrower groups as of mid-October 2023; ~102% of tier-I capital).

Key rating drivers

Credit strengths

Affiliation to the IME Group with experienced directors/management team – Operating since 2007, GBIME has a fair track record of operations in the Nepalese banking industry. The bank has an experienced board and is led by a seasoned management team, which remains a positive. Further, the bank's affiliation with the IME Group (one of the largest and diversified business houses of Nepal) and shared brand name provides comfort. Post-merger with BoK in January 2023, GBIME has become Nepal's largest bank in terms of asset base, along with a wide network coverage of 350 branches across the country and market share of 8.74% in total deposits and 8.50% in total credit of commercial banks as of mid-October 2023 (improved from 6.30% and 6.51% respectively as of mid-July 2022).

Improved portfolio granularity – The bank has reported decline in credit portfolio concentration since the last rating exercise, aided mainly by the dilution effect of merger. The concentration among top-20 borrower groups has decreased to ~14% of total loan (~102% of tier-I capital) as of mid-October 2023 from ~18% (~144% of tier-I capital) as of mid-July 2022. The deposit concentration has also slightly improved, with the top-20 depositors contributing ~21% of total portfolio as of mid-October 2023 (~22% of total portfolio as of mid-April 2022). The bank's liquidity also remains satisfactory with credit to deposit ratio of ~80% and liquidity ratio of ~30% in recent quarters, which provides some comfort.

Credit challenges

Stress in asset quality amid unfavourable economic environment – GBIME reported major deterioration in its asset quality since the last rating, wherein NPAs have spiked to 4.38% as of mid-October 2023 (further increased to 4.68% as of mid-January 2024), from 1.28% as of mid-July 2022. Moreover, the 0+ days delinquency levels also increased to ~33% as of mid-October 2023 (around one third of this being in the 61-90 days' bucket with ~40% of the 61-90 DPDs being the restructured loans) from ~6% as of mid-July 2022. The delinquencies have further deteriorated to ~35% as of mid-January 2024 (albeit ~20% of these DPDs were the restructured loans for mid-October 2023 and mid-January 2024), which accentuates the concerns. The fresh incremental slippage has diluted the provision cover and stretched the solvency indicator to 12.29% as of mid-October 2023 (remaining among the highest in the industry), compared to 2.13% as of mid-July 2022. Although the rising delinquency can be partly attributed to the integration challenges for the credit book acquired from BoK, the unfavourable economic environment created by the economic slowdown, high interest

² Low-cost deposits include current, saving and call deposits.

rate and regulatory changes like introduction of stringent working capital guidelines etc, accentuated the impact. Sustained high NPAs could further increase the provisioning expenses and impact the incremental profitability and capitalisation for the bank and hence would have a bearing over the rating levels.

Recent deterioration in capitalisation – The bank reported recent sharp moderation in capitalisation ratios due to the cash dividend payouts along with sizeable tax payments for the historic bargain purchase gains. The tier-I capital of the bank hence moderated to 9.85% and overall CRAR to 12.37% as of mid-January 2024, from 10.86% and 13.27% respectively as of mid-October 2023. Further, the additional requirement of counter-cyclical buffer of 0.5% to be maintained by mid-July 2024 and the increasing stress in asset quality, elevates the concerns on low capital cushion of the bank. The bank's ability to improve its capital cushion, while absorbing any near-term asset quality shocks, would remain a key rating monitorable.

Moderation in return indicators – With the decline in NIMs coupled with high credit cost, GBIME's profitability indicators have moderated in Q1FY2024. The bank reported a return on average total assets (ATA) and return on net worth of 0.92% and 8.22%, respectively, for Q1FY2024 (1.41% and 13.93% respectively for FY2022). Further, the bank also had the relaxations of additional 1% interest spread cap until mid-January 2024 (i.e., one year from the commencement of combined operations after the last merger). Hence, the end of such relaxation period is likely to exert further pressure on the near-term profitability. Despite a sizeable portfolio base, the bank's non-funded income remains moderate among peers, while the operating expenses remain relatively higher. The bank's ability to report adequate profitability amid asset quality pressures will remain crucial for its incremental profitability profile.

Moderation in funding profile – GBIME's low-cost current and saving accounts (CASA) and call deposits have depleted in the last 18 months to ~40% as of mid-October 2023 (~46% as of mid-July 2022). While the deposit mix remains largely comparable to the industry average, the bank's cost of deposits has continued to remain slightly higher than the industry (8.05% for Q1FY2024 as against 7.83% for the industry). Declining low-cost deposits and relatively high cost of deposits among peers impacts GBIME's competitive position amid the base rate plus lending regime.

Regulatory risk and difficult operating environment – The banking industry as well as 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 introducing the requirement of borrower-wise provisioning (against facility-wise provisioning also in practice across major banks) and higher provisioning requirement for group units in case of stress reported in any group unit. The borrowing rates have remained elevated until now which coupled with the high debt burden, has reduced the repayment capability of the borrowers. This coupled with the ineligibility of many borrowers for fresh loans after the implementation of working capital guidelines, has exacerbated liquidity pressure across the spectrum, which is partly reflected in increased asset quality stress for banks and hence 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](#)

Links to the last rating rationales:

[Rationale GBIME Ratings Surveillance September 2021](#)

[Rationale GBIME and BOK merger update July 2022](#)

Bank profile

Incorporated in 2007, Global IME Bank Limited (GBIME) has since undergone multiple large and small mergers and now encompasses 19 different merged/acquired entities, the major one being the latest merger with Bank of Kathmandu in January 2023. Supported by the latest merger, the bank has become the largest commercial bank of Nepal in terms of asset base and market share despite its moderate track record. GBIME has presence across the country through its 350 branches, 322 branchless banking centers, 66 extension and revenue collection counters and 370 ATMs as of mid-October 2023. The bank had a market share of 8.74% in terms of deposit base and 8.50% in terms of credit portfolio of commercial banks as of mid-October 2023.

GBIME reported profit after tax (PAT) of NPR 6,694 million for FY2023 (YoY growth of ~35%) over an asset base of NPR 524,094 million as of mid-July 2023. For Q1FY2024, the bank has reported profit of NPR 1,226 million over an asset base of NPR 545,737 million as of mid-October 2023. As on the same date, reported CRAR of the bank was 13.27% and gross NPAs were 4.38%. The bank is using Finacle as core banking software across all its branches. The shares of the bank are listed in Nepal Stock Exchange. The registered and corporate office of the bank is located at Kamaladi, Kathmandu. Mr. Ratna Raj Bajracharya is the Chief Executive Officer of the bank.

Key financial indicators

Year Ended	Mid-July 2020 (Aud.)	Mid-July 2021 (Aud.)	Mid-July 2022 (Aud.)	Mid-July 2023 (Aud.)	Mid-October 2023 (Prov.)
Net interest income - NPR million	8,222	9,139	10,290	17,107	4,802
Profit before tax - NPR million	4,168	5,968	7,027	9,266	1,780
Profit after tax - NPR million	2,909	4,165	4,959	6,694	1,226
Loan and advances - NPR million	198,009	237,511	266,972	362,777	363,444
Total assets - NPR million	273,877	344,296	358,333	524,094	545,737
Operating ratios					
Yield on average advances	12.06%	9.20%	10.56%	13.85%	13.58%
Cost of deposits	7.15%	4.89%	6.17%	8.18%	8.05%
Net interest margin/ATA	3.86%	2.96%	2.93%	3.88%	3.59%
Non-interest income/ATA	0.91%	0.78%	0.75%	0.62%	0.68%
Operating expenses/ATA	1.89%	1.57%	1.58%	1.63%	1.61%
Credit provisions/ATA	0.92%	0.36%	0.13%	0.78%	1.33%
PAT/ATA	1.37%	1.35%	1.41%	1.52%	0.92%
PAT/net worth	12.88%	13.38%	13.93%	13.83%	8.22%
Gross NPAs	1.76%	1.41%	1.28%	3.15%	4.38%
0+ days delinquencies		4.63%	5.51%	24.93%	32.73%
Capitalisation ratios					
Capital adequacy ratio	12.48%	13.20%	12.67%	13.34%	13.27%
Tier-I Capital	10.81%	10.55%	10.17%	10.92%	10.86%
Net NPAs/net worth	4.60%	2.71%	2.13%	7.44%	12.29%
Liquidity ratios					
Total liquid assets/total liability	21%	26%	22%	26%	28%
Total advances/total deposits	93%	84%	93%	83%	80%

Annexure-1: Instrument details

Instrument	Amount (NPR Million)	Maturity	Rating Action
8.5% Global IME Bank Debenture 2086/87	3,000	March 14, 2031	[ICRANP] LA-@; downgraded from

Instrument	Amount (NPR Million)	Maturity	Rating Action
10.25% Global IME Bank Debenture 2080/81	1,500	April 11, 2024	[ICRANP] LA&
8.5% BOK Debenture 2086	1,600	December 22, 2030	[ICRANP] LA-@; upgraded from LBBB+%
Total	6,100		

For further details please contact:

Analyst Contacts

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

rajib@icranepal.com

Mr. Pranil Dahal (Tel No. +977-1-4519910/20)

pranil@icranepal.com

Relationship Contacts

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)

barsha@icranepal.com

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For more information, visit www.icranepal.com

ICRA Nepal Limited

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

Phone: +977-1-4519910/20

Email: info@icranepal.com

Web: www.icranepal.com

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