

NMB Bank Limited: Ratings downgraded to [ICRANP-IR] A-@ and [ICRANP] LA-@

April 9, 2024

Summary of rating action

Facility/Instrument	Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] A-@; downgraded from [ICRANP-IR] A@ with continuation of Watch with Negative Implications
Subordinated debentures ¹	NPR 1,684.505 million	[ICRANP] LA-@; downgraded from [ICRANP] LA@ with continuation of Watch with Negative Implications

**symbol '@' denotes Rating Watch with Negative Implications²*

Rating action

ICRA Nepal has downgraded the issuer rating of NMB Bank Limited (NMB) to [ICRANP-IR] A-@ (pronounced ICRA NP issuer rating A minus) from [ICRANP-IR] A@ (pronounced ICRA NP issuer rating A). Issuers with this rating are considered to have adequate degree of safety regarding the timely servicing of financial obligations. Such issuers carry low credit risk. The issuer rating is only an opinion on the general creditworthiness of the rated entity and is not specific to any debt instrument.

ICRA Nepal has also downgraded the rating assigned to the bank's subordinated debentures to [ICRANP] LA-@ (pronounced ICRA NP L A minus) from [ICRANP] LA@ (pronounced ICRA NP L A). Instruments with this rating are considered to have adequate degree of safety regarding the timely servicing of financial obligations. Such instruments carry low credit risk.

The ratings continue to remain on Watch with Negative Implications (denoted by @).

Rationale

The ratings downgrade and continuation of rating watch with negative implications factors the moderation in capitalisation profile and sustained stress on the asset quality. The tier-I capital of the bank has declined to 9.25% as of mid-January 2024 (compared to 10.14% as of mid-January 2023; last rating exercise) mainly due sizeable tax payment made by NMB towards premium on further public offering (FPO) of equity shares and bargain purchase gain related to past merger/acquisitions. The depletion in capital ratios has coincided with the continuation of asset quality pressure on the bank. NMB's gross non-performing loans (NPLs) increased to 2.86% as of mid-January 2024 (2.24% as of mid-January 2023 when last rated) while the proportion of stressed accounts continues to remain high (0+days overdue ~24% as of mid-January 2024, excluding the rescheduled/restructured loans of around 6.5% of its credit portfolio as on same date). The restructuring/rescheduling provision from the central bank (NRB) has benefitted NMB's profitability, NPLs and capitalization to some extent, by keeping the provisioning expense low. However, NMB's (and broader industry) financial indicators is likely to face strong headwinds stemming from asset quality pressure over the following quarters given the liquidity pressure on leveraged borrowers, reduced industry credit growth and general moderation in economic activities and demand. The rating also factors in the moderation in profitability which is likely to suppress the bank's ability to raise internal capital to withstand the aforesaid pressures. While NMB's liquidity ratios remain comfortable, its moderate proportion of low-cost CASA deposits (~32% as of mid-January 2024 vs industry average of ~35%) and resulting higher cost of fund among the similar rated peers also remains among the rating concern.

Nonetheless, the ratings continue to derive comfort from NMB's long track record, good ownership profile (including FMO as its largest shareholder with ~14% stake followed by Employees' Provident Fund Nepal with ~6% stake; each with representation in NMB's board of directors) and experienced management team. Further the adequately diversified geographical presence attained through past merger/acquisition and moderate credit concentration (~17%

¹ 10% NMB Debenture 2085

² Refer [here](#) for details on rating watch and its implications.



among top-20 borrowers/group) remain among the rating positives. The comfortable liquidity position (net liquid assets ~32% as of mid-January 2024 and credit to deposit ratio of ~76% as of mid-January 2024) has also been positively factored in the rating action.

Going forward, NMB's ability to control incremental slippage, improve asset quality and improve the rate of internal capital generation will remain key rating sensitivities. Further, the bank's ability to maintain adequate capital cushion on an ongoing basis will remain key monitorable.

Key rating drivers

Credit strengths

Good ownership profile and management team – ~14% of NMB's equity stake is held by FMO (Netherlands) and ~6% is held by the state-owned Employees' Provident Fund (EPF, Nepal). Both these institutions have representation in NMB's board of directors, which adds to its governance profile. NMB's senior management team comprise of seasoned bankers, which coupled with the bank's established risk management and credit underwriting practices, remains a rating positive.

Long track record, adequate scale and geographical coverage – NMB started its operations in 1996 and has been operating as a commercial bank since 2008. The long track record of the bank has been factored in as a positive in the rating exercise. The bank's scale of operation and its geographical presence have also increased significantly in the last 5-6 years, aided by the strategic acquisitions of the regional BFIs. The portfolio granularity also remains relatively better compared to the similar rated peers with top-20 borrowers/group accounting for ~17% of total credit portfolio (~15% as of mid-January 2023).

Comfortable liquidity position – The liquidity position of the bank remained comfortable, supported by the healthy deposit growth (annualised ~20% in H1FY2024 vs industry average growth ~14%) and low credit growth (~5% vs industry average growth ~8% in H1FY2024). The bank had net liquid assets (NLA) to deposit ratio of ~32% and credit to deposit ratio of ~76% as of mid-January 2024 against the regulatory floor of 20% and ceiling of 90% respectively. However, high buffer vis-à-vis regulatory minimum liquidity ratio has suppressed the bank's interest margins and profitability during H1FY2024.

Credit challenges

Moderation in capitalisation ratios – NMB has reported moderation in capitalisation profile with tier-I capital of 9.25% and overall CRAR of 12.73% as of mid-January 2024 compared to 10.15% and 13.33% respectively as of mid-July 2023 (10.14% and 12.74% respectively as of mid-January 2023; last rating exercise). Taxes paid on share premiums on FPO and bargain purchase relating to merger/acquisition (~NPR 1,843 million) in Q2FY2024 has majorly contributed to the dilution in capital cushion. Considering the proposed implementation of countercyclical buffer, over and above regulatory minimum threshold tier-I of 8.5% and CRAR of 11.0% (effectively 9.0% and 11.5% respectively), NMB's current capital position offers limited cushion to absorb incremental credit shocks and remain a rating concern.

Deterioration in asset quality – NMB has reported sustained deterioration in asset quality in last 12-18 months with rise in gross NPLs to 2.86% as of mid-January 2024 compared to 2.24% as of mid-January 2023, last rating exercise. The 0+days overdue portfolio decreased to ~24% as of mid-January 2024 (compared to ~28% as of mid-January 2023); however, the portfolio on the harder delinquency buckets have increased (31-90 days overdue loan stood at ~8.7% as of mid-January 2024 compared to ~5.2% as of mid-January 2023). As such, prolonged asset quality pressure could result in elevated NPLs in following quarters. Moreover, the 0+days overdue loan proportion as of mid-January 2024 remains subdued as it excludes rescheduled/ restructured credit book amounting to ~6.5% of total loans as of mid-January 2024. Though the relaxation has alleviated the immediate pressure on bank's profitability, capitalization and solvency ratios to some extent, the ability of the bank to manage a turnaround in asset quality profile amid the broader economic pressure is likely to remain a challenge.

Moderation in profitability indicators – The decline in net interest margins (NIMs) and rise in credit provision expenses have suppressed the profitability indicators of the bank. To some extent, this stems from the reduction in regulatory ceiling of interest spread. Moreover, NMB's low CD ratio, while remaining a positive from liquidity

standpoint, have impacted the interest margins. Further, the increased provisioning expense (credit cost) in FY2023 and H1FY2024 have diluted the return indicators; the bank reported return on assets (RoA) of 0.95% and return on net worth (RoNW) of 9.77% in H1FY2024 compared to 1.22% and 11.65% respectively in FY2023 (1.42% and 12.95% respectively in FY2022). While the bank's ability to improve its funding profile and improve its NIMs will also remain important, the near-term profitability is likely to remain largely driven by the bank's ability to improve its asset quality.

Regulatory risk and moderation in operating environment – The banking industry as well as banking sector borrowers have been reporting steady deterioration in credit profile following the roll-back of Covid-relaxations announced by central bank in H1FY2022, followed by import restrictions by the government for most part of 2022 in order to shore up foreign reserves and subsequent introduction of stringent regulations from the central bank (such as introduction of working capital guidelines, tighter norms on classification of loans and NPL recognition, etc). The recent regulations, especially the working capital guidelines, has reduced the eligibility of many borrowers for fresh credit and affected the pace of fresh credit creation by lender banks creating liquidity shortage across the businesses' supply chain which in turn has reduced the demand. As such, the credit profile of the borrowers is likely to weaken over the near to medium term which is likely to commensurately affect the asset quality of lender banks.

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

Links to applicable criteria:

[Bank Rating Methodology](#)

[Issuer Rating Methodology](#)

Link to the last rating rationale:

[Rationale - NMB Bank Limited – Ratings Surveillance – April 17, 2023](#)

Bank profile

NMB Bank Ltd started its operation on 26 December 1996 as a Class C Finance Company. The bank has been operating as a commercial bank following its up gradation from Class C to Class A in May 2008. It is a joint venture company with foreign promoters FMO (Netherlands) holding ~14% & M/s Young Leon Realty, Malaysia holding ~4% stake.

As of mid-January 2024, promoter public shareholding of NMB stood at ~51:49. The current major promoter group of the bank includes FMO Netherlands, Employees' Provident Fund, Young Leon Realty SDNBHD, Malaysia and other individual shareholders from business houses of Nepal. The bank is headquartered in Babar mahal, Kathmandu.

As of mid-January 2024, NMB has market share of about 4.3% in terms of deposit base and 4.5% of total advances of commercial banks (3.8% and 4.0% share respectively in the banking industry). NMB has presence throughout the country through its 201 branches and 12 extension counters as of mid-January 2024.

NMB reported profit after tax of NPR 3,223 million during FY2023 over an asset base of NPR 276,927 million as of mid-July 2023 against profit after tax of NPR 3,291 million during FY2022 over an asset base of NPR 249,857 million as of mid-July 2022. In H1FY2024 (period ending mid-January 2024), NMB has reported a net profit of NPR 1,376 million over an asset base of NPR 299,571 million. As of mid-January 2024, NMB's CRAR was 12.73% (tier I CRAR 9.25%) and gross NPLs were 2.86%.

Key financial indicators

KEY FINANCIAL RATIOS YEAR ENDED	Mid-July 2021 (Audited)	Mid-July 2022 (Audited)	Mid-July 2023 (Audited)	Mid-January 2024 ³ (Provisional)
Net Interest Income – NPR Million	5,661	6,388	8,342	3,740
Profit before tax – NPR Million	3,845	4,615	4,609	1,940
Profit after tax – NPR Million	2,711	3,291	3,223	1,376
Loans and advances – NPR Million	158,044	182,090	197,466	202,477

KEY FINANCIAL RATIOS YEAR ENDED	Mid-July 2021 (Audited)	Mid-July 2022 (Audited)	Mid-July 2023 (Audited)	Mid-January 2024 ³ (Provisional)
Total assets – NPR Million	214,420	249,857	276,927	299,571
OPERATING RATIOS				
Net Interest Margin/Avg. Tot Assets	2.95%	2.75%	3.17%	2.60%
Non-Interest Income/Avg. Tot Assets	0.80%	0.83%	0.73%	0.80%
Operating Expenses/Avg. Total Assets	1.68%	1.71%	1.62%	1.39%
Credit Provisions/Avg. Total Assets	0.20%	-0.02%	0.55%	0.66%
PAT/Average Total Assets	1.41%	1.42%	1.22%	0.95%
PAT/Net Worth	12.08%	12.95%	11.65%	9.77%
Gross NPLs	2.27%	1.45%	2.75%	2.86%
0+ days delinquencies	14.08%	15.77%	32.47%	23.92%
CAPITALISATION RATIOS				
Capital Adequacy Ratio	15.08%	13.59%	13.33%	12.73%
Tier I Capital	11.42%	10.36%	10.15%	9.25%
Net NPAs/Net Worth	6.54%	2.51%	8.33%	6.65%
COVERAGE & LIQUIDITY RATIOS				
Total Liquid Assets/Total Liability	24.89%	24.95%	26.06%	29.29%
Total Advances/Total Deposits	93.85%	97.03%	92.07%	85.89%

Source: Company Data

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About ICRA Nepal Limited

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