Sanima Bank Limited

ICRA Nepal assigns [ICRANP] LA to proposed subordinated debenture of Sanima Bank; upgrades existing subordinate debenture and existing issuer rating

Facility/Instrument	Amount	Rating Action (November 2019)
Subordinated Debenture Programme	NPR 4,000 million	[ICRANP] LA (assigned)
Issuer Rating	NA	[ICRANP-IR] A (upgraded)
Subordinated Debenture Programme	NPR 370 Million	[ICRANP] LA (upgraded)
Subordinated Debenture Programme	NPR 1,355 Million	[ICRANP] LA (upgraded)

ICRA Nepal has assigned **[ICRANP] LA** (pronounced ICRA NP Issuer Rating A) to the proposed subordinated[1] debentures of NPR 4,000 million of Sanima Bank Limited (Sanima). ICRA Nepal has also upgraded the rating of Sanima's existing subordinated debentures of ~NPR 1,725[2] million from [ICRANP] LA- (pronounced ICRA NP L A minus) to [ICRANP] LA (pronounced ICRA NP L A). Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

ICRA Nepal has also upgraded the issuer rating of Sanima to [ICRANP-IR] A (pronounced ICRA NP Issuer Rating A) from [ICRANP-IR] A- (pronounced ICRA NP Issuer Rating A minus). Issuers with this rating are considered to have adequate degree of safety regarding 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.

The sign of + (plus) or – (minus) appended to the rating symbols indicate their relative position within the rating categories concerned. Thus, the rating of A is one notch higher than A-.

The rating assigned/ upgraded factors in the bank's strong asset quality and low delinquency levels maintained on a sizeable scale of operations. This reflects on the bank's established underwriting norms and risk management practices. The rating action also factors in the improvement in Sanima's market positioning, supported by portfolio growth, driven by recent geographical expansion. Because of the focussed strategy towards retail deposits, Sanima maintains fair CASA proportion despite the recent deposit crunch. The strategy has also helped Sanima maintain a relatively low portfolio concentration among top accounts. The bank's capitalisation profile remains comfortable and the outlook remains supported by a healthy rate of internal capital generation. Sanima's profitability remains supported by its progressive NIMs and adequate non-interest income levels. Its incremental growth prospect remains supported by the bank's growing footprint, comfortable capitalisation and experienced management team.

The ratings are, however, constrained by Sanima's relatively short track record as a class A commercial bank. The bank's credit portfolio as on date has originated mostly during the moderate to comfortable liquidity situation. The moderately seasoned portfolio could come under stress with a rise in lending rates. This is also evident from the rise in 0+ days' delinquency levels as of mid-July 2019.

Sanima's cost of funds remains higher than the industry average and its larger peers, despite its current and savings account (CASA) deposits being higher than the industry average. This could affect competitive positioning, especially in the Base Rate Plus lending rate regime implemented by the Nepal Rastra Bank (NRB).

However, a strong retail credit book of the bank results in lower repricing risk, enabling the bank to pass on the increased cost to the borrowers, shielding the impact of the rising cost of fund on the bank's net interest margins (NIMs) and profitability. The rating is also constrained by an uncertain operating environment that the banks in Nepal are currently facing.

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[1] *Subordinated to the depositors in the event of liquidation.*
[2] *Includes NPR 370 million Sanima Debentures 2079 and ~NPR 1,355 million Sanima Debenture 2085.*

Sanima's credit portfolio has grown organically[3] at a high pace of CAGR ~32% during FY2014-FY2019, aided by a healthy growth of 34-36% CAGR in the retail and the SME segment. However, in the recent years, the growth rate in the project financing segment has remained high (CAGR 46% between FY2014-FY2019). Because of a relatively higher rate of growth in large ticket loans, Sanima's credit concentration among the top 20 borrowers has increased marginally to ~22% (as compared to ~18% as of mid-April 2018). As of mid-July 2019, Sanima's credit portfolio primarily comprise retail loans (40%), SME/Business loans[4] (21%), corporate loans (23%), project financing loans (11%) and deprived sector loans (5%). Given the tight liquidity scenario in the market, the incremental credit growth of the bank will be determined by the bank's ability to raise fresh funds. Sanima's tier II bond-raising programme is also expected to support the bank's growth, assuming full subscription. Sanima has reported superior assets quality over the years, with gross non-performing loans (NPLs) of 0.08% as on mid-July 2019. The prevailing high interest rate regime has been exerting pressure on the bank's assets quality, as is evident from a rise in 0+ days' delinquency level from ~2% as of mid-April 2019 to ~4% as of mid-July 2019. Although the bank's ability to maintain a good assets quality level remains a comfort, the assets quality is likely to be tested over the next 12-18 months by the prevailing high interest rates.

Sanima's CASA proportion softened during FY2019 after the bank continued on building up a term deposit base to stabilise the funding profile (term deposits grew from 27% to 49% between FY2016 and FY2019). This partly stabilises the relatively unseasoned deposit base of the bank. Liquidity shortage in the industry and a change in deposit mix in favour of the term deposits has resulted in a swift spike in the bank's cost of deposits (from ~5.2% in FY2017 to ~7.4% in FY2018 and FY2019). Cost of deposits of Sanima has remained ~100-125 bps higher than the commercial bank average during the past one to two years, despite the bank's CASA proportion (~41% as of mid-July 2019) being at par with the commercial bank average. However, the strong retail deposit proportion (~65% as of mid-July 2019) and the management's focussed approach towards boosting savings deposits augurs well for the long-term stability of the funding profile and the cost of fund. The CCD ratio of Sanima Bank remains at an optimum level as on mid-July 2019 (~78% vs. regulatory ceiling of 80%). Therefore, incremental credit growth is likely to remain driven by the bank's ability to raise incremental funds. The stability of the funding profile is comforted by a fair proportion of retail deposits and a relatively lower deposit concentration among the top accounts.

Growth in scale of operations with steady NIMs has helped Sanima report progressive profitability indicators. The NIMs have improved from ~3.5% in FY2017 to ~3.7% in FY2018 and ~4.2% in FY2019 and they remain benefitted by a strong yield on bank advances which helped offset a relatively high cost of deposits. The yield on advances remains benefitted by strong retail/SME portfolio. The NIMs remain supported by adequate non-interest income of ~1.2% of ATA in the last two years. The low credit cost of the bank also supports the profitability profile while an increase in the operating expense ratio (1.9% in FY2019 vs. 1.7% in FY2018 and 1.5% in FY2017) remains a drag to profitability. Sanima reported an ROA of ~2.25% and an RONW of ~20% in FY2019 vs. ~2.10% and ~17% in FY2018. Going forward, the bank's profitability will depend on its ability to achieve targeted growth by managing required funds. Profitability over the next one to two years will also depend on the bank's ability to maintain the assets quality on the current and incremental credit portfolio.

Sanima has operated with a buffer of 1-2% over regulatory minimum CRAR during the last two to three years. The bank's capital to risk assets ratio (CRAR) stood at 13.19%, as of mid-July 2019; comfortable vis-à-vis regulatory minimum of 11% under the prevailing Basel III norm. Capitalisation remains benefited by sizeable equity addition made in FY2017 and healthy retention of profit made by the bank in the last four to five years. Capitalisation is likely to get a further boost after proposed tier II debenture-raising programme, assuming full subscription. Sanima's tier I capital (10.63% as on mid-July 2019) remains well above 8.5% to be maintained by mid-July 2019 under the Basel III norms prescribed by the NRB. Therefore, capitalisation levels are expected to remain adequate to support Sanima's growth plans over the medium term.

[3] *Although Sanima acquired a 1-ditrict level Development bank in the interim, the portfolio addition was negligible.*

[4] *SME credit covers loan up to NPR 100 million; beyond that is corporate loans as per Sanima's internal classification.*

Bank Profile
Sanima Bank Limited (Sanima) started operations in 2004 as a national level development bank (Class B) and was upgraded into a commercial bank (Class A) in February 2012. The bank has ownership from a group of non-resident Nepalese (NRN) businessmen. Major promoters include Mr. Arun Kumar Ojha (~8% equity stake), Mr. Tekraj Niroula (~7%), Dr. Niraj Govinda Shrestha (~6%), Mr. Jibanath Lamichhane (~6%), Mr. Binay Kumar Shrestha (~5%), etc. Mr. Bhuvan Kumar Dahal is the Chief Executive Officer of the bank. Its equity share is listed on the Nepal Stock Exchange with a market capitalisation of about ~NPR 28 billion as of mid-October 2019.

Sanima has a pan-Nepal presence through its 86 branches (incl. head office and regional offices). The bank has a market share of about 2.75% in terms of deposit base and 2.86% of the total advances of the Nepalese banking industry as on mid-July 2019 (3.20% and 3.34% share among the commercial banks). Sanima reported a profit after tax (PAT) of NPR 2,258 million during FY2019 over an asset base of ~NPR 109 billion as of mid-July 2019 vis-à-vis PAT of NPR 1,698 million during FY2018 over an asset base of ~NPR 91 billion as of mid-July 2018. As of mid-July 2019, Sanima's CRAR[5] was 13.19% (tier I CRAR 10.63%) and gross NPLs[6] were 0.08%.

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For further details please contact:

Analyst Contacts:
Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)
Kishor@icranepal.com

Mr. Sailesh Subedi (Tel No. +977-1-4419910/20)
sailesh@icranepal.com

Relationship Contacts:
Ms. Barsha Shrestha, (Tel. No. +977-1-4419910/20)
barsha@icranepal.com

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For more information, visit www.icranepal.com

ICRA Nepal Limited,
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu-33, Nepal.
Phone: +977 1 4419910/20
Email: info@icranepal.com
Web: www.icranepal.com

5 Capital to risk-weighted-assets adjusted ratio
6 Non-performing loans

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