

INDUSTRY ANALYSIS – COMMERCIAL BANKS

1st Quarter Report, 2076/77

1. Industry Outlook

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Particulars	Q1 2076/77	Q1 2075/76	Growth
Paid up capital	258,987,381.35	235,983,063.70	9.75%
Reserves and surplus	195,615,356.36	189,351,978.47	3.31%
Deposit	2,690,362,188.61	2,367,116,368.00	13.66%
Loans and advances	2,472,194,706.36	2,140,007,687.00	15.52%
Net interest income	31,375,973.77	29,005,683.00	8.17%
Operating profit	20,315,195.21	20,122,754.00	0.96%
Net profit	15,048,923.02	14,284,780.00	5.35%
Distributable profit	6,960,205.03	11,727,706.00	-40.65%
CCD Ratio (Average)	76.59%	77.72%	-1.46%
CAR (Average)	14.03%	14.62%	-4.08%
Spread Rate (Average)	4.81%	4.47%	7.76%
Base Rate (Average)	9.69%	10.36%	-6.50%
NPL (Average)	1.49%	1.37%	9.17%

Listed commercial banks in 1st quarter of FY 2076/77 extended its loans to Rs. 2.47 trillion from Rs. 2.14 trillion a year ago, an increase of 15.52%. Similarly, deposits increased by 13.66% to Rs. 2.69 trillion from Rs. 2.37 trillion a year ago. Even though the loan growth outweighs deposit growth the CCD ratio has marginally decreased from an industry average of 77.72% a year ago to 76.59%. Increase in paid up capital and reserves of banks can be factored for this decrease.

The growing competition among the banks and shortage of funds has led to interest rates skyrocketing, which has impacted the profitability in the banking sector. Out of the 27 listed banks the net profit of 9 commercial banks decreased in the 1st quarter of FY 2076/77. This resulted in net profit of the sector to grow by 5.35% only. However, even though the net profit increased by 5.35% the distributable profit decreased by staggering 40.65%. The introduction of NFRS has allowed interest income to be recognized in “*accrual basis*”, which was previously recognized in “*cash basis*”. However, unless cash has been realized the income should be transferred to regulatory reserves and can’t be distributed as dividends. This has led to significant decrease in distributable profit.

Recent monetary policy has made it mandatory for commercial banks to maintain CAR of 13%. The average CAR currently is 14.03%. However, there are many banks with CAR below 13%. NRB has also made it mandatory for commercial banks to issue debentures worth 25% of its paid up capital by the end of the current FY. However as of 1st quarter only 6 of them have met the requirement whereas 12 banks are yet to issue debentures. Issuance of debenture will ease the CAR. Another policy brought by NRB is to maintain the average interest rate spread within 4.4% by end of the current FY unless it goes into merger in which case the deadline has been extended

to Ashad end 2078 i.e. end of next FY. As of 1st quarter the industry average spread rate is at 4.81%, meaning commercial banks may have to cut their profit margins in order to meet the requirement.

OVERALL (TOP 5 RANK OF Q1)

Symbol	Bank
GBIME	Global IME Bank Limited
PCBL	Prime Commercial Bank Ltd.
NABIL	Nabil Bank Limited
SRBL	Sunrise Bank Limited
NICA	NIC Asia Bank Ltd.

The overall ranking has been derived based on various comparatives, ratios and growth rates of listed commercial banks.

2. Balance Sheet Snapshot

Symbol	Reserve and Surplus		Deposits		Loans		Borrowings	
	Q1 2076/77	Q1 2075/76	Q1 2076/77	Q1 2075/76	Q1 2076/77	Q1 2075/76	Q1 2076/77	Q1 2075/76
GBIME	6,856,310.13	5,735,850.00	128,990,233.00	111,469,063.00	122,264,271.20	99,509,791.00	8,219,199.36	1,629,650.00
PCBL	5,142,224.70	3,976,041.00	78,594,931.55	76,336,823.00	82,174,381.10	72,332,717.00	11,855,837.05	1,602,223.00
NABIL	15,337,858.00	13,795,439.00	172,994,871.00	143,301,948.00	141,890,122.00	128,078,862.00	712,217.00	766,200.00
SRBL	4,547,566.71	3,730,121.00	77,894,666.11	75,792,475.00	73,815,314.04	66,593,455.00	6,661,771.29	524,620.00
NICA	5,209,989.44	5,096,941.00	179,240,486.30	163,307,613.00	162,438,773.60	139,264,589.00	19,479,127.12	5,423,932.00

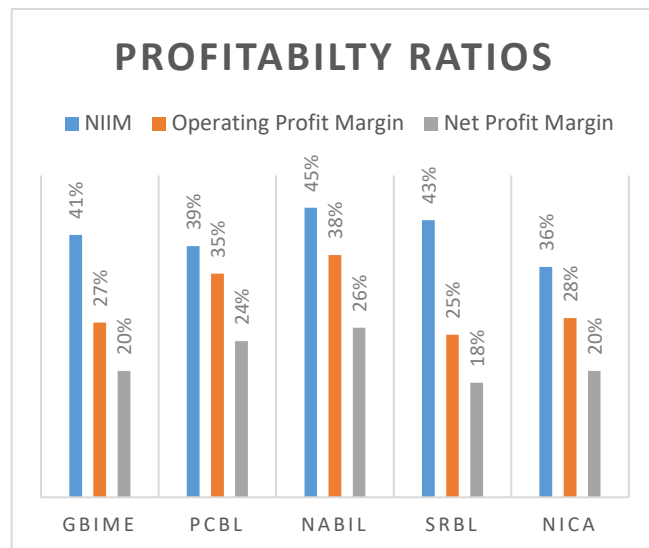
3. Profit and Loss Snapshot

Symbol	Net Interest Income		Operating Profit		Net Profit		Distributable Profit	
	Q1 2076/77	Q1 2075/76	Q1 2076/77	Q1 2075/76	Q1 2076/77	Q1 2075/76	Q1 2076/77	Q1 2075/76
GBIME	1,564,727.03	1,200,899.00	1,042,374.07	753,174.00	753,144.33	535,846.00	281,173.36	517,685.00
PCBL	1,060,505.11	970,289.00	944,497.60	831,216.00	659,767.82	581,930.00	228,843.77	428,262.00
NABIL	1,918,599.00	1,843,105.00	1,606,271.00	1,501,853.00	1,123,586.00	1,052,466.00	742,262.00	933,189.00
SRBL	1,100,514.17	821,811.00	645,795.77	476,962.00	454,367.04	331,495.00	158,362.77	272,005.00
NICA	1,840,014.68	1,862,787.00	1,429,513.32	1,061,606.00	1,009,605.23	752,696.00	448,451.70	582,217.00

4. Profitability Ratios

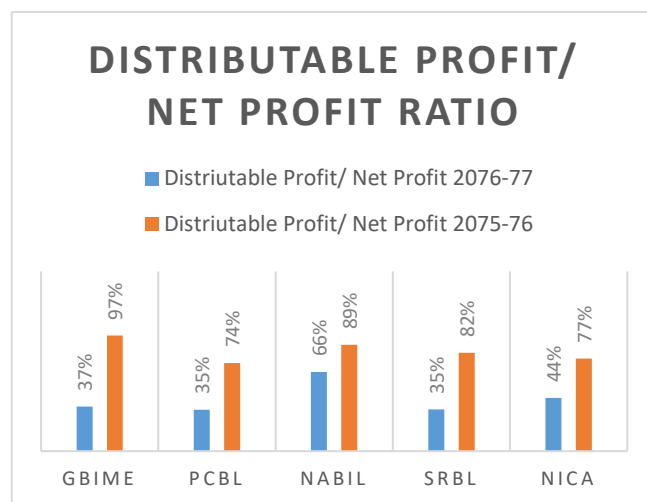
The industry average net interest income NIIM, OPM and NPM for 1st quarter is 39.57%, 25.49% and 18.82% respectively. From the selected companies, NICA has below average NIIM whereas SRBL is in par with industry average in terms of OPM and NPM.

SCB is the market leader in all three ratios with 52.64%, 51.88% and 36.32%. CZBIL has the lowest NIIM at 30.10%, NMB with lowest OPM at 10.65% and CBL with lowest NPM at 10.24%.



The distributable profit to net profit ratio has exceptionally declined for all the selected companies. The reason may be due to the requirement of banks to transfer the amount of interest income recognized but not received in cash to regulatory reserve as mentioned earlier. As of 1st quarter 2076/77, SCB seems most efficient with ability to distribute 76.15% of its net profit, whereas PRVU seems least efficient with only 8.87% distribution capacity.

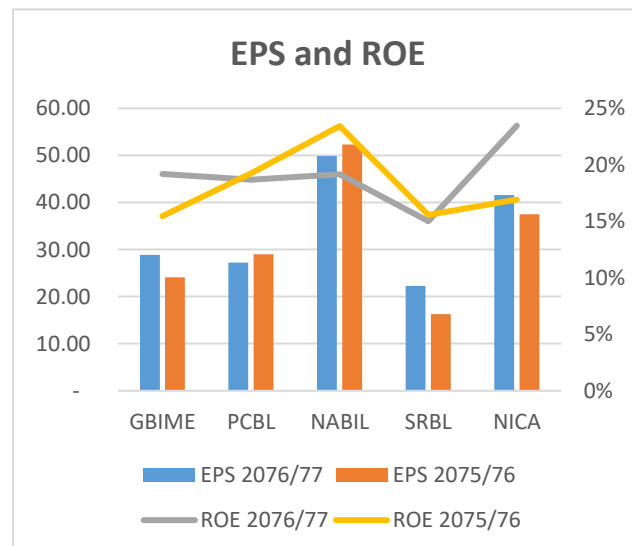
GBIME saw the most significant decline from among the selected companies with the ratio falling to 37% from 97%.



Industry average EPS for 1st quarter was Rs. 24.27 and ROE was 15%.

From the selected companies, EPS has seen marginal growth except for PCBL who's EPS diluted possibly due to the acquisition of Kankai Bikas Bank Ltd. and NABIL who's EPS diluted as profit growth isn't in line with capital growth. GBIME saw the highest growth rate in EPS with growth of 20%. SRBL was slightly below the industry average.

Despite increasing their capital base significantly GBIME and NICA have managed to increase their ROE by 24% and 39% respectively.

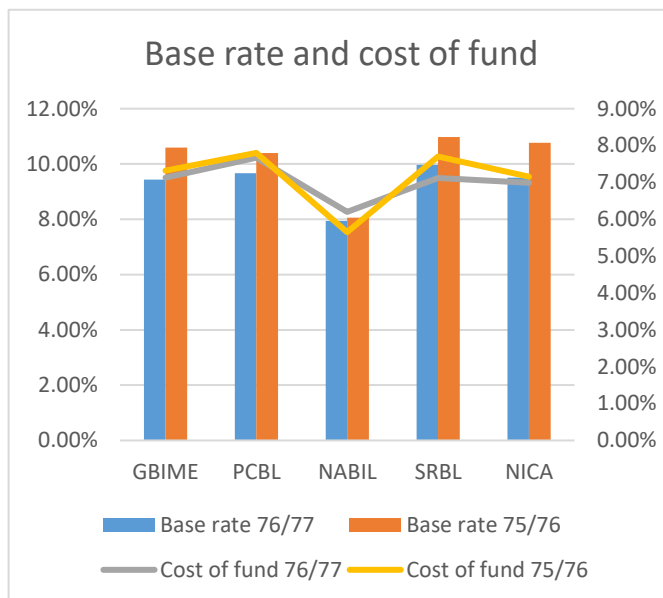


Remaining three companies saw slight decline which may be due to the undistributed dividends from previous fiscal year remaining in their reserves. Again SRBL was on par with the industry average ROE while others were well above.

5. Other Important Ratios

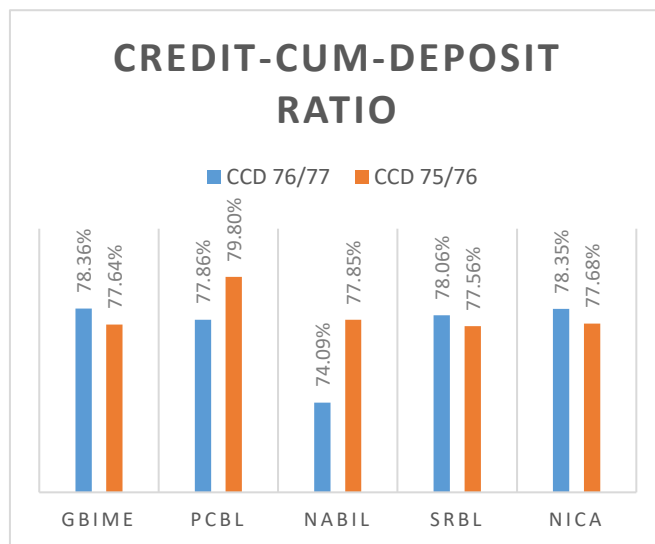
The industry average base rate for 1st quarter was 9.69%. NABIL has the lowest base rate at 7.94% from among the selected companies. Whereas GBIME and NICA has managed to decrease their base rate by 11% and 12% respectively.

Cost of fund seems to be in decreasing trend indicating that the interest rates on deposits maybe decreasing. NABIL's cost of fund which was already low than most of the competitor has grown marginally.



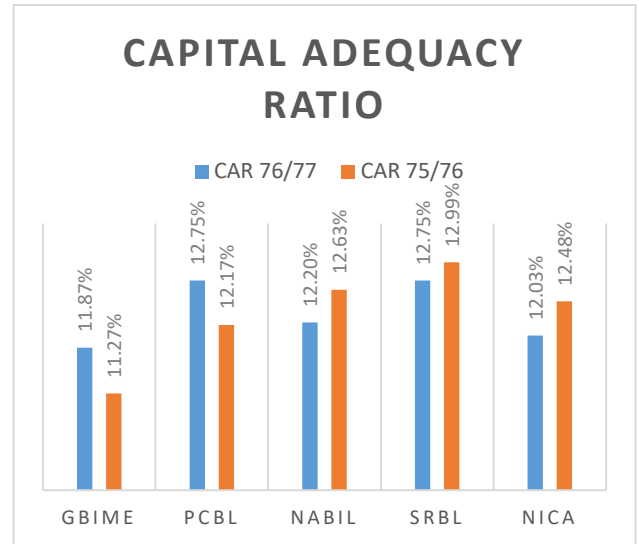
The CCD ratio requirement as per NRB of 80% has been met by all banks. From the selected banks, three of them are near that 80% threshold. So they need to either expand their deposit or their capital base to further expand their loans. NABIL has the lowest CCD ratio at 74.09%, hence, it has ample space to expand its credit. Provided that its base rate is also the lowest it can provide more credit at attractive rate than its competitors.

Industry wise NBL has the lowest CCD ratio at 68.63% whereas JBNL has the highest at 79.94%.



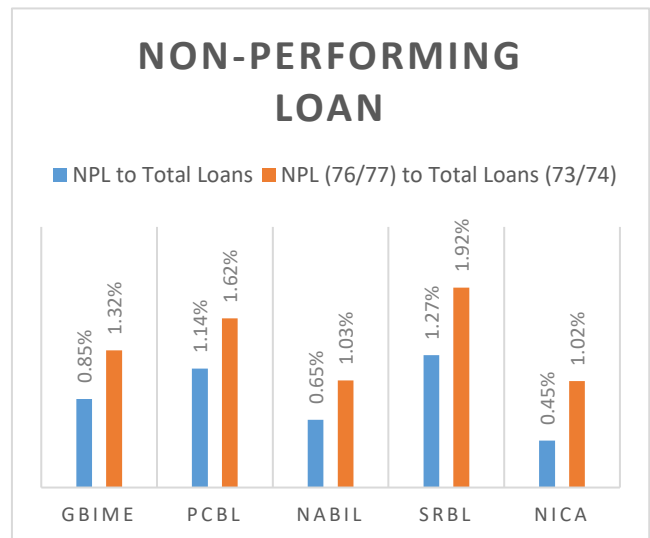
NRB in its recent Monetary Policy has made it mandatory for commercial banks to maintain CAR of 13% which previously was 11%. The industry average CAR is currently 14.03%.

From the selected companies none of them seems to have met the requirement as of 1st quarter. GBIMEs CAR may also increase after its proposed merger with JBNL is completed but it is yet to be seen. Others are well below the required threshold meaning they will be providing bonus shares in the future as dividends to maintain the CAR and will also be issuing debentures.



NPL usually indicates amount of borrowed money the borrower hasn't made the scheduled payment for a specific amount of time (3 months in our case). The industry average NPL for commercial banks for 1st quarter stands at 1.49%. All of the selected companies have NPL below the industry average.

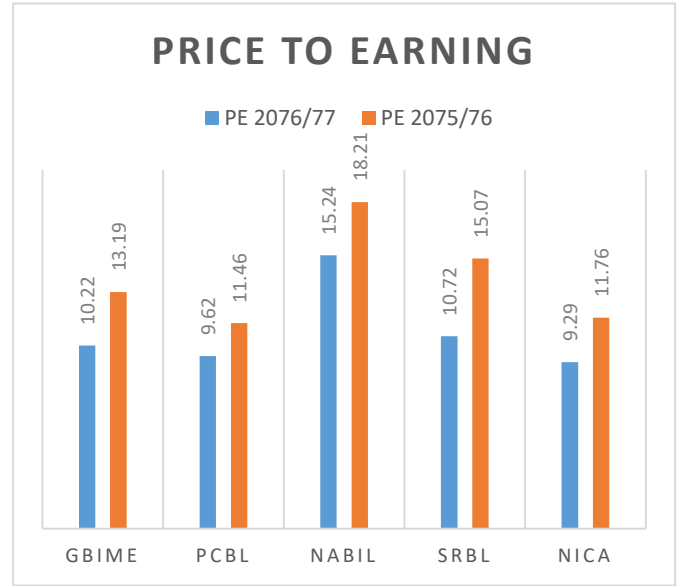
Comparing the current non-performing loans with total loans from FY 2073/74 we can see slight rise in the NPL to Total Loans ratio which is normal given the yearly growth of Loans. However, there doesn't seem to be a significant change in the NPL.



6. Valuation Ratios

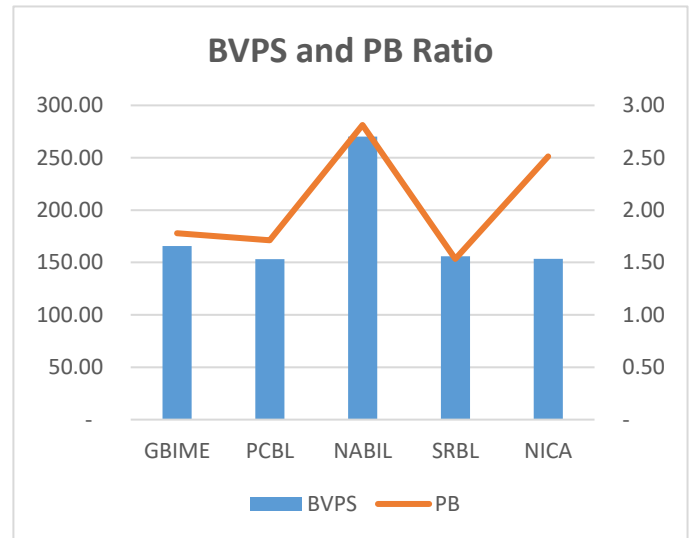
The PE ratio has declined significantly compared to same period previous year even though the EPS has only grown marginally in the same period. This indicates that the sentiments of the investors in secondary market are weak.

Generally stocks with PE lower than 15 is considered undervalued. From the selected companies only NABIL has PE ratio higher than 15 by slight margin. The industry average PE at the end of 1st quarter stands at 12.95 times.



The industry average PB ratio at the end of 1st quarter stands at 1.79 times. Except for PCBL and SRBL, the remaining companies have PB ratio higher than the industry average. It indicates that the market sees growth opportunity among these companies.

BVPS or Net worth is the amount of money shareholders will get incase a company goes into liquidation. NABIL seems to have the highest BVPS among the selected companies with BVPS of Rs. 270.20.



Abbreviations:

CAR – Capital Adequacy Ratio

CCD Ratio – Credit-Cum-Deposit Ratio

CZBIL – Citizens Bank International Ltd.

GBIME – Global IME Bank Ltd.

JBNL – Janata Bank Nepal Ltd.

NABIL – Nabil Bank Ltd.

NBL – Nepal Bank Ltd.

NICA – NIC Asia Bank Ltd.

NIIM – Net Interest Income Margin

NMB – NMB Bank Ltd.

NPL – Non Performing Loan

NPM – Net Profit Margin

OPM – Operating Profit Margin

PCBL – Prime Commercial Bank Ltd.

PRVU – Prabhu Bank Ltd.

SCB – Standard Chartered Bank Ltd.

SRBL – Sunrise Bank Ltd.