Century Commercial Bank Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Issuer Rating	NA	**CARE-NP BBB (Is) [Triple B (Issuer)]**	Reaffirmed
Subordinated Debenture	2,200.00	**CARE-NP BBB [Triple B]**	Reaffirmed

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB (Is)' assigned to Century Commercial Bank Limited (CCBL). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

CRNL has also reaffirmed the rating of 'CARE-NP BBB' assigned to the proposed Subordinated Debentures issue of CCBL. Instruments with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instruments carry moderate credit risk.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to CCBL continues to derive strength from its established track record of operations along with experienced management team, growth in loan and advance portfolio supported by geographical coverage, adequate capitalization level, albeit declining trend over FY21 (Audited, refers to the twelve-month period ended mid-July 2021) and H1FY22 (Unaudited, refers to the six-month period ended mid-January 2022). The rating also factors in CCBL's moderate liquidity profile and its diversified loan & investment portfolio.

The rating, however, is constrained by below average asset quality albeit on improving trend, moderation in financial performance profile, lower proportion of Current Account Savings Account (CASA) deposits leading to higher cost of funds vis-a-vis the industry (Class 'A' Commercial Banks). The ratings also factor in high portfolio concentration among top borrower groups and depositors, intense competition and exposure to regulatory risk related to industry.

Going Forward, ability of the bank to grow its assets while improving its asset quality and maintaining capital adequacy would be critical for the bank's earning profile and profitability. Also, its ability to manage the impact of any regulatory changes by Nepal Rastra Bank (NRB) would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strength

Established track record of operation with experienced promoters and management team

Established in the year 2010, CCBL has over a decade of operational history and an established market presence in Nepal. CCBL is a professionally managed bank under the overall guidance of its Board of Directors (BoD) which includes eminent businessmen and professionals with wide experience in the financial services industry. The management team is led by Mr. Manoj Neupane, Chief Executive Officer, who has over 17 years of experience in the banking sector. He is supported by an experienced management team.

[1]Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Growth in Loans & Advances and Deposits supported by moderate geographical coverage through branches

CCBL has presence in all 7 Provinces of Nepal with 126 branches and 108 ATMs terminals as on mid-January 2022. The branches are spread over 52 districts of Nepal. CCBL recorded 33.48% year on year (yoy) growth in its loans & advances during FY21 compared to the industry growth of 27.81%. Significant increase in loans & advances in a short span can put added stress to the asset quality, particularly amid the uncertainty regarding the residual impact of the pandemic on borrowers. However, the growth in loans & advances is backed by a similarly substantial growth in its deposits, which grew 48.56% yoy during FY21 (industry average was 21.18%). The growth trend has moderated during H1FY22 impacted by the liquidity issues in the country's economy amid lower remittance, increasing balance of payment deficit, and reduced government expenditure so far this year. The ability of the bank to manage sustained growth in business while improving its asset quality will remain critical from credit perspective.

Moderate capitalization level, albeit declining trend over FY21-H1FY22

CCBL's capitalization levels continue to remain adequate, although some moderation was observed during H1FY22 as compared to previous periods. Common Equity Tier I (CET I) ratio of the bank stood at 11.18% at the end of FY21 (FY20:14.18%) against minimum regulatory requirement of 7% and overall capital adequacy ratio (CAR) stood at 12.34% (FY20: 14.93%) as against the minimum regulatory requirement of 11%. The decline in CAR during FY21 was due to higher pace of credit growth compared to capital accretion. As on January 14, 2022, CET-I and overall CAR decreased further to 10.75% and 11.94% respectively amid continued credit growth leading to further thinning of the cushion over the minimum regulatory requirements. Lower capitalization levels could limit the bank's ability to absorb losses, should they materialize, especially given the uncertainty surrounding credit recovery amid the lingering impact of the covid-19 pandemic. The bank's ability to maintain adequate cushion in the capital adequacy ratios is critical for its solvency and will remain crucial for its growth perspective.

Moderate liquidity profile

CCBL has maintained moderate liquidity profile characterized by Statutory Liquidity Ratio (SLR) of 19.25%, average Cash Reserve Ratio (CRR) of 3.72%, and Net Liquidity of 21.06% as on January 14, 2022 against the minimum regulatory requirement of 10%, 3% and 20% respectively. Furthermore, the bank has comfortable liquidity position in terms of asset-liability matching with positive cumulative mismatch as of January 14, 2022.

Moderate financial performance profile

During FY21, bank's total income declined 0.85% yoy to Rs. 7,608 Mn majorly due to interest rebate of around Rs.250 Mn as per NRB guidelines to the pandemic impacted borrowers. Furthermore, market interest rate on all type of deposits had decreased during FY21 on back of excess liquidity in the market. Additionally, NRB had reduced the interest spread to 4.4% from earlier 5% impacting the interest income of banks. These led to lower interest income generated for the bank during FY21. Net Interest Margin of the bank decreased from 3.34% in FY20 to 2.50% in FY21. However, the bank's financial performance has rebounded to some extent during H1FY22 as total income increased by 14.51% yoy to Rs. 4,366 Mn amid higher interest rates. Furthermore, the bank reported 54.77 yoy growth in its PAT to Rs. 722 Mn (FY21: Rs. 629 Mn) during H1FY22 aided majorly by impairment reversal of Rs. 328 Mn.

Diversified loan portfolio

CCBL has a diversified loan portfolio distribution with higher lending of 16.85% towards wholesalers & retailers sector (wholesale trade of durables, non-durables, automotive dealer/franchise, other retail trade and so on) during FY21. Next major lending of 12.66% was towards non-food production sector which comprised majorly of metals-basic iron & steel plant and cement industries. Bank had advanced 28.97% towards priority sector in FY21 and 4.30% towards deprived sector. Diversified loan portfolio towards various sectors supports in maintaining the better quality advances during the time of stress in the sector or slowdown in the economy.

Key Rating Weaknesses

Below Average asset quality, albeit improving trend over FY21-H1FY22

CCBL's asset quality has been on an improving trend over FY21-H1FY22, however, it is still weaker than the industry average. CCBL had Gross Non-Performing Loans (GNPL) of 1.30% during H1FY22 which significantly improved from 1.95% as on mid-July 2021 (mid-July 2020: 2.11%). Though it has improved, it continued to remained high as compared to Class A financial institution. The improvement in GNPL level during FY21-H1FY22 was due to recovery of some big ticket loans coupled with increased loan and advance. The bank's gross NPLs in absolute amount declined to Rs. 1,143 Mn as on mid-January 2022 from Rs. 1,586 Mn as on mid-July 2021. However, CCBL's GNPL as a percentage of total advances still remains above the industry average figures (industry average GNPLs was 1.41% for FY21 and 1.18% for H1FY22).

Low CASA deposit proportion

CCBL has below industry average CASA ratio. CCBL maintained 32.48% CASA deposits in FY20 which has declined to 29.36% in FY21; which further declined to 26.80% in H1FY22 (industry avg. CASA for FY20, FY21 and H1FY22 was 41.32%, 43.94% and 40.01% respectively). Lower CASA proportion resulted higher cost of funds of CCBL against its peers imposing competitive disadvantage for the bank especially in the "base rate plus" lending rate regime. However, in absolute amount, CASA deposits increased by 34.26% during FY21 over FY20 but declined by 10.88% during H1FY22 over FY21.

High portfolio concentration among top borrowers and depositors

Deposit concentration for top 20 institutional depositors has been high at 33.91% of the total bank deposits as on July 15, 2021, which increased to 34.30% as on January 14, 2022. The bank has moderate concentration on single borrowers as top 20 single borrowers accounted for 16.92% of total advances during FY21 which decreased to 10.05% during H1FY22. Furthermore, the bank also has moderate concentration on group borrowers as top 20 group borrowers accounted for 15.79% of total advances during FY21 which slightly increased to 17.62% of total advances during H1FY22. High concentration towards advances and deposits normally increases re-pricing risks at times of interest rate volatility.

Intense competition

Currently there are 27 Commercial Banks, including three state owned banks, operating with total 4,930 branches all over Nepal (based on Monthly statistics published by NRB for mid-March 2022). CCBL had 126 branch along with head office as on same date. Industry (Class 'A' Commercial Banks) had achieved total interest income of Rs. 193,217 Mn during H1FY22 with Rs. 69,353 Mn net interest income; CCBL's share on interest income was 2.48% and 1.86% on net interest income for the same period. These market shares of CCBL have slightly increased from 2.39% for interest income and decreased from 1.98% for net interest income during FY21, respectively. Intense competition in the banking industry results in a highly dynamic market with volatile market shares. Competition in the interest rates remains a prominent challenge.

Exposure to regulatory risk related to industry

The banking industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. After the extensive capital increment pressure from Rs. 2 Bn to Rs. 8 Bn for Class "A" Commercial Banks, NRB has now decreased weighted average interest rate spread to 4.4% from earlier 4.5% via Monetary Policy issued by NRB, for the FY21. Due to increased capital, banks are facing investable amount deficit to grant new loans and advances. And decreased weighted average interest rate spread together with growing competition will be responsible for decreasing net interest margin thereby impacting profitability.

About the Bank

CCBL is an "A" Class Licensed Institution from Nepal Rastra Bank, listed in Nepal Stock Exchange. It was incorporated on April 23, 2010. CCBL acquired three 'B' Class Development Banks and two 'C' Class Finance Companies during FY17 and FY18. The bank has one subsidiary company operating within the territory of Nepal, namely Century Capital Markets Ltd., incorporated in FY16 and is licensed by the Securities Board of Nepal (SEBON) to undertake Merchant Banking activities. Out of the total shareholding of the Bank, 84.76% is held by general public, 15.17% by domestic entities as on January 14, 2022.

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