

Nepal SBI Bank Limited

Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP AAA (Is) [Triple A (Issuer Rating)]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP AAA (Is)' assigned to Nepal SBI Bank Limited (NSBL). Issuers with this rating are considered to offer the highest degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry lowest credit risk.

Detailed Rationale & Key Rating Drivers

The reaffirmation of issuer rating assigned to NSBL factors in the bank's strong parentage with State Bank of India (SBI, rated CARE AAA; Stable²) holding majority stake (55%), strategic importance of the bank to SBI coupled with high operational linkages and the parent's demonstrated track record of providing technical and financial support to the subsidiary company. The parent's oversight over the practices, controls, performance and compliance aspects of subsidiary company can be seen by the way of representation of parent in board of NSBL (three out of six board of directors) and deputation of senior management personnel from SBI to NSBL.

The rating also continues to derive strength from NSBL's adequate capitalization levels and healthy internal capital generation through accruals of profit to meet the regulatory requirements and support its credit growth. The rating additionally factors in satisfactory financial performance of the bank during FY24 (Audited, FY refers to the twelve-month period ending mid-July) and 9MFY25 (Unaudited, refers to the nine-month period ended mid-April 2025) marked by improving profitability despite industry headwinds reflective in the industry-wide sharp moderation in Net Interest Margins (NIM) coupled with increase in credit associated with rising Gross Non-Performing Loans (GNPLs) and loan written offs resulting in muted profitability. The rating takes note of consistent growth in deposit and advances base of NSBL, with more prudent growth in advances, diversified advances portfolio with adherence to regulatory compliance regarding the exposure towards prescribed sector lending and comfortable liquidity profile of the bank.

The above rating strengths are, however, tempered by NSBL's declining asset quality reflective from its sharp increase in Gross Non-Performing Loans (GNPL) and surge in net NPL to net worth ratio as on mid- April 2025 due to fresh slippages in substandard and doubtful category with relatively low provision cover. However, comfort is taken from the stringent credit underwriting policies of the bank derived from the parent company. The rating also takes note of moderate low-cost deposit ratio, although comfort is taken from strong institutional depositors of the bank and proven track record to expand its loan portfolio without compromising interest rate spreads. The rating also factors in intense competition and exposure to regulatory risk related to industry.

Going forward, the ability of the bank to improve its asset quality while managing growth in operations, maintain adequate cushion in capital adequacy indicators from the minimum regulatory requirement levels, and manage the impact of any other regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities. Additionally, any substantial changes in shareholding pattern leading to material changes in linkages with major shareholder (SBI) will also remain key rating sensitivity.

¹Complete definitions of the ratings assigned are available at <https://www.careratingsnepal.com/> and in other CRNL publications.

²State Bank of India is rated AAA (for Tier II bonds) by Care Ratings Limited (CARE Ratings)

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Strong parentage and established track record of operations along with experienced management

NSBL's credit profile is backed by strong institutional promoters with SBI holding 55% and the Employee Provident Fund holding 15% stake in the bank. SBI, with more than 200 years of history, is the largest bank in India in terms of total business size (advances and deposits). SBI is designated as one of the domestic systemically important banks (D-SIB) in India. SBI's major shareholder is Government of India (GoI), which held 57.43% stake in the bank as on December 31, 2024. As on December 31, 2024, the bank had a network of over 22,740 domestic branches, 65,000 ATMs, and an international network of 245 offices across 29 countries.

SBI has strong representation in board of NSBL as three of its six board members are nominated by SBI. The board of director of NSBL is chaired by Ms. Jayati Bansal, Deputy Managing Director of International Banking Group of State Bank of India (SBI) with over three decades of experience in SBI. Mr. Ram Kumar Tiwari, MD and CEO of NSBL, also has almost three decades experience in SBI. Furthermore, other various top management personnel of NSBL including the Chief Finance Officer and Chief Operating Officer are deputed by SBI as per the terms of Technical Service Agreement (TSA) entered between SBI and NSBL. NSBL has entered into TSA with SBI (renewed every five years) for providing technical and management skill support. The operational linkages between SBI and its subsidiary NSBL are clearly demonstrated by the full support provided by SBI to NSBL in terms of IT infrastructure. Additionally, parent's demonstrated track record of support to its subsidiary is evident through line of credit and financial support in the form of External Commercial Borrowings (ECB) provided by SBI to NSBL in the past. Strategic importance of subsidiary to parent is reflective from close oversight by SBI's management over the performance, risk management and compliance aspect of NSBL. As a subsidiary and part of SBI group, SBI extends its best practices to NSBL. NSBL's financials get consolidated in that of SBI and it also shares SBI's name, brand equity and logo, underpinning its strategic importance to the parent. Considering the majority shareholding and the strategic importance of the bank to SBI, CRNL expects continued support from parent company going forward as well.

Adequate capitalization level

The bank continues to maintain adequate levels of capitalization to meet the minimum regulatory requirement and support its credit growth. CET-I capitalization stood at 9.47% as on mid-April 2025 with adequate cushion over the regulatory requirement of 7%. CET- I ratio moderated from 10.10% at the end of FY23 amid ~8% y-o-y credit growth in FY24 and ~ 6.8% in 9MFY25 over FY24 level coupled with cash dividend payments during both the period. Similarly, overall Capital Adequacy Ratio (CAR) stood at 12.44% as on mid-April 2025 with buffer of 1.44% over the minimum regulatory requirement of 11% stipulated by NRB in compliance with Basel-III norms. The bank has been funding its credit growth through internal capital generation through accruals, which has been consistent over the years. Additionally, NSBL has also been providing cash dividend to its shareholders on a consistent basis. The capitalization levels of the bank have remained adequate over the years and are likely to be supported by steady internal accruals over the medium term.

Steady financial performance

The financial performance of the bank continues to remain steady marked by improving profitability levels. During FY24, total income remained steady at Rs. 19,393 Mn. With credit growth relatively lower vis-a- vis pace of deposits growth, the bank invested excess liquidity into lower-yielding instruments such as Treasury bills, government bonds, and NRB deposit instruments. As a result, Net Interest Margin (NIM) moderated to 2.57% in FY24 from 3.40% in FY23. Nonetheless, controlled operating cost and decline in impairment charges supported the profitability level of the bank in FY24. The net

profit increased by 1.65% y-o-y to Rs. 2,000 Mn during FY24. The profitability indicators indicative from its ROTA, moderated to 1.01% in FY24 from 1.16% in FY23.

NSBL's net profit increased by 3.35% y-o-y to Rs. 1,203 Mn backed by controlled operating cost and decline in impairment charges despite moderation in NIM. ROTA remained steady at 0.75% in 9MFY25 (9MFY24: 0.78%). The ability of the bank to manage sustained growth in business while improving its asset quality will remain critical from credit perspective.

Consistent growth in deposit base and advances along with diversified loan portfolio

Amid rising remittance inflows, overall industry deposits have grown by ~13% in FY24 and by ~6% in 9MFY25 over FY24 level. The deposit base of the bank itself expanded by ~16% y-o-y in FY24 and ~6% in 9MFY25 over FY24 levels. The pace of credit growth was lower vis-à-vis deposit base in FY24 growing by ~8% y-o-y in FY24 (industry average: ~6%). The credit growth stood at ~6% in 9MFY25 over FY24 levels (industry average of ~7.5%). Credit to Deposit (CD) ratio stood at 75.49% (below the regulatory requirement of less than 90%) compared to the industry average of 78.89% as on mid-April 2025.

NSBL has fairly diversified portfolio distribution which consists of various types of loan disbursed over the period for various industry. NSBL had higher lending of 21.67% towards wholesale & retail sector (includes wholesale trade -durables, wholesale non-durables, automotive dealers, other retail trade, import trade) followed by lending of 15.88% towards non-food production related sector (includes metals- basic iron and steel plant, cement, paper products etc.) at the end of 9MFY25. The next major lending is towards Agriculture, Forestry & Beverage Production sector. The bank has adequately lent towards the prescribed sectors, which was 35.23% of total advances at the end of 9MFY25 over the regulatory requirement of 28.50%. Bank's exposure towards agriculture sector was 21.05% (regulatory requirement: 11%). The deprived sector lending was above the norms of regulatory requirement as on mid-April, 2025. Diversified loan portfolio towards various sectors support in maintaining better quality of advances during the time of stress in the sector or slowdown in the economy.

Comfortable liquidity profile

NSBL continues to maintain a comfortable liquidity profile with SLR of 36.85% (regulatory requirement:12%) and average CRR of 4.13% (regulatory requirement: 4%) and net liquidity of 37.25% (regulatory requirement: 22%) as on July 15, 2024. As on April 13, 2025, SLR stood at 30.41%, CRR stood at 4.20% and net liquidity of 34.33% remaining comfortably above the minimum regulatory requirement of 12%,4% and 22% respectively.

Key Rating Weaknesses

Declining asset quality in recent quarters, albeit remain better than industry average

The bank had historically maintained better asset quality profile underpinned by its robust credit sanctioning and prudent risk management practices. Although GNPL ratio of the bank improved to 1.96% at the end of FY24 from 1.98% at the end of 9MFY24 (during last review), it has sharply increased to 4.06% as on mid-April 2025. It still remained below the industry average of 5.05%. The bank's solvency indicator indicative from its net NPL to net worth also increased to 13.41% as on mid-April 2025 from 2.18% as on mid-July 2024. Due to an increase in fresh slippages into the substandard (overdue between 90 and 180 days) and doubtful (overdue between 180 and 365 days) categories where the provision coverage is 25% and 50% of the overdue advances respectively, the overall provision coverage ratio for total non-performing advances declined in 9MFY25. This has consequently led to a rise in NNPL to Net Worth ratio as on mid-April 2025. However, 30+ days overdue advances stood relatively low at ~5% as on mid-April 2025. Comfort is taken from the controlled historical asset quality profile maintained by the bank indicative from the bank's relatively efficient risk management ability and robust recovery policy. This is further supported by its its strong track record, with no loan write-offs recorded over the

past four years. Going forward, the ability of the bank to limit slippages and improve its asset quality will be a key rating monitorable.

Moderate low-cost deposit ratio

NSBL's low-cost deposit ratio remain below the industry average. NSBL's low-cost deposit ratio was ~41% and ~46% at the end of FY24 (Industry average: ~45%) and 9MFY25 (Industry average: ~50%) respectively. NSBL's base rate ranked 6th highest among 20 commercial banks as on mid-April 2025. This leads to higher cost of funds and base rates for NSBL vis-à-vis peers. However, the comfort is taken from strong institutional depositors of the bank which include government enterprises and prominent businesses. Despite having higher cost of funds, the bank is able to consistently grow its loan portfolio and maintain its interest spread comparable to industry peers (which remains under regulatory threshold of 4% applicable to all commercial banks).

Intense competition and exposure to regulatory risk related to industry

Currently there are 20 Commercial Banks (as on mid-April 2025), including three major state-owned banks, operating with total 5,083 branches all over Nepal (based on monthly statistics published by NRB for mid-April 2025). NSBL had 100 branches along with head office as on same date. Industry (Class A Commercial Banks) had achieved net interest income of Rs. 139 Bn during 9MFY25, where NSBL's share on net interest income was 2.56%. NSBL is a mid-sized Class A bank. Compared to its peers, it is relatively smaller in scale, with a growth strategy focused on organic and consistent expansion of its deposit base and loans and advances, rather than aggressive growth. Intense competition in the banking industry results in a highly dynamic market with volatile market shares. Unhealthy competition in the interest rates remains a prominent challenge.

The banking industry of Nepal is exposed to changes in various regulatory measures issued by NRB from time to time. During last couple of years, NRB had changed to CD ratio mechanism from previous Credit to Core Capital plus Deposit (CCD) ratio measures, increased the minimum requirement of liquid assets that the BFIs must hold and implemented working capital guidelines. Cumulatively these led to muted credit growth in FY23 and FY24. NRB capped interest rate spread of commercial banks at 4% from 4.4%, which has also added to the lower profitability of banks in FY23, FY24 and 9MFY25 apart from increased impairment.

Industry Outlook

The major challenges currently faced by the banking sector in Nepal is centred around declining asset quality. High and rising GNPLs are leading to stressed profitability and adding downward pressure on banks' capitalization. CARs of Class A banks declined from 13.37% as on mid-July 2023 to 12.35% as on mid-April 2025 against the backdrop of deterioration in GNPL ratio from 2.98% to 5.05% over the same period. Credit expansion in Nepal took off substantially and in more aggressive manner during the pandemic era with loans & advances portfolio of Class A banks growing by a compounded annual growth rate of ~19% over FY19-FY22, leading to a higher proportion of unseasoned credit in their books. Introduction of contractionary policies helped check credit growth in FY23. The enforcement of stringent working capital guidelines, combined with a high-interest rate environment adversely affected the repayment capacity of borrowers across the credit spectrum. Also, muted GDP growth in the country (real GDP growth of 2% and 3.90% in FY23 and FY24 as compared to 4.8% and 5.60% in FY21 and FY22 respectively) and lower than expected government expenditures has prolonged the difficult road to recovery for various sectors including construction, steel, cement, automobiles, retail and SME sectors. Robust remittance inflows and revival of tourism has supported the growth in private consumption levels evident from credit growth of 8.42% during 9MFY25 compared to 4.53% during the comparative period. Capacity utilization of manufacturing units has shown a slight improvement compared to the corresponding period. This coupled

with softened interest rates has benefitted repayment ability among the borrowers, however the impact of the same at root level consumers particularly retail and SME sectors is yet to be seen as indicated by rising GPNL ratio.

Net Interest Margin (NIM) of the banking sector has contracted owing to credit check amid reduced cushion in capitalization levels and rise in interest suspense accounts due to increasing share of advances overdue by more than 365 days. Additionally, credit growth has outpaced deposit growth, leading to excess liquidity being parked in lower-yielding Treasury bills and government securities. Credit costs have also trended upward, reflected in higher impairment charges and loan write-offs with a growing share of Non-Banking Assets. These factors have collectively dampened profitability and reduced distributable earnings, thereby constraining internal capital generation. To partially mitigate these pressures, the central bank has introduced several regulatory relaxations under its FY25 Monetary Policy and subsequent reviews regarding 0% countercyclical buffer applicable for FY24 and FY25, inclusion of portion of accrued interest receivable on pass loan in Tier-II capital, reduction of loan loss provisioning on pass loan and approval for issuances of perpetual non-cumulative preference shares to support capitalization levels of bank to an extent.

About the Bank

Nepal SBI Bank Limited (NSBL), an "A" Class Licensed Financial Institution from Nepal Rastra Bank (NRB; central bank of Nepal) listed on Nepal Stock Exchange, is a subsidiary of State Bank of India (SBI) having 55 percent of ownership. It was incorporated on April 28, 1993 and is the only listed subsidiary of SBI. NSBL has entered into Technical Service Agreement (TSA) with SBI on May 25, 1993 for providing technical and management skills, knowledge and experience in banking activities and modern banking developments from SBI. SBI provides management support to NSBL through its expatriate officers. Central Management Committee (CENMAC) consisting of the Managing Director & CEO, Dy. CEO & Chief Financial Officer, Chief Operating Officer and two Vertical Heads as decided by Managing Director of the Bank, exercises overall control functions with the help of controlling offices, and oversees the overall operations of the Bank.

(Rs. In Mn)

Brief Financials	FY22 (A)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total Income	13,897	19,527	19,393	12,527
PAT	1,638	1,967	2,000	1,203
Total Assets	153,103	185,958	208,811	220,637
GNPL (%)	0.15	2.43	1.96	4.06
NNPL (%)	-	0.90	0.33	1.96
ROTA (%)	1.13	1.16	1.01	0.75

A: Audited; UA: Unaudited

Contact us

Analyst Contact

Ms. Monika Rawal

Contact No.: +977-01-4012630

Email: monika.rawal@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977 9802312855

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Ananda Prakash Jha

Contact No.: +977 9818832909

Email: anand.jha@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over three decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.