NMB Bank Limited: Ratings reaffirmed with continuation of 'Watch with Negative Implications'

April 02, 2025

Summary of rating action

Facility/Instrument	Rated Amount (NPR million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] A-@*; reaffirmed with continuation of 'Watch with Negative Implications'
Subordinated debentures[1]	1,684.505	[ICRANP] LA-@; reaffirmed with continuation of 'Watch with Negative Implications'

**The symbol '@' denotes 'Rating Watch with Negative Implications'*

Rating action

ICRA Nepal has reaffirmed the issuer rating of NMB Bank Limited (NMB) at [ICRANP-IR] A-@ (pronounced ICRA NP Issuer Rating A minus) with continuation of 'Watch with Negative Implications'. 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 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 indicates their relative position within the rating categories concerned.

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

Rationale

The continuation of ratings 'Watch with Negative Implications' mainly factors in the sustained stress in the bank's asset quality as reflected in the elevated non-performing loans (NPLs of 3.96% as of mid-January 2025, compared to 2.86% as of mid-January 2024, last rating exercise) and continuation of high delinquencies (0+ days delinquent portfolio at ~22% as of mid-January 2025). Further, the bank's sizeable rescheduled/restructured portfolio under the regulatory forbearance (~7.0% of total credit portfolio as of mid-January 2025), coupled with the increasing proportion of delinquent loans in the harder buckets (~5.3% of credit portfolio in the 61-90 days overdue) also signifies the asset quality pressures and raises concern on the incremental asset quality. NMB's reported asset quality were also benefitted by the dilution effect of spiked credit growth during H1FY2025, in addition to the non-banking assets (NBAs) bookings in the interim. The recent increase in fresh slippages has also diluted the provision cover to ~55% of gross NPLs and stretched the solvency (net NPLs to net worth) to 13.08% as of mid-January 2025 (6.65% during last rating). The ratings also take note of the bank's spiked credit growth in H1FY2025 (annualised ~24%, compared to the industry average of ~11%) and sustained moderation in its capitalisation profile with reported tier-I capital of 9.46% and total capital to risk weighted assets ratio (CRAR) of 12.62% as of mid-January 2025. Although this remains moderate vis-à-vis the regulatory minimum required tier-I of 8.5% and CRAR of 11.0%, the declining capital buffer raises concerns regarding the bank's ability to absorb incremental credit shocks. The ratings also remain constrained by moderation in the bank's profitability profile due to the decline in net interest margins (NIMs) and rise in credit cost in FY2024. Although the profitability has improved in H1FY2025 aided by the decrease in credit cost, sustainability of the same remains to be seen, considering the rise in gross NPLs and diluted provision coverage.

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 bank's adequately diversified geographical presence attained through past merger/acquisition and moderate credit concentration (~18%

[1] *10% NMB Debenture 2085.*

among the top-20 borrower groups) remain among the rating positives. Given the excess market liquidity, the bank has been able to improve its deposit profile through higher growth in low-cost current account and saving account deposits (CASA of ~41% as of mid-January 2025, compared to the industry average of 40%). Also, the optimisation of the credit to deposit ratio (~87% as of mid-January 2025) has aided the improvement of NIMs in H1FY2025. Further, the bank's liquidity position remained satisfactory with net liquid assets (NLA) to total deposits ratio of ~25%, however its ability to maintain adequate liquidity position incrementally will remain a key monitorable. Going forward, the bank's ability to improve its capitalisation profile through internal accruals, issuance of the proposed perpetual non-cumulative preference shares will remain a key rating sensitivity. Further, the bank's ability to improve its asset quality, while controlling incremental slippages from delinquent portfolio and the bank's credit growth trajectory will also remain among the 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 bank's long track record has been factored in as a positive in the rating exercise as its scale of operation and geographical presence has increased significantly in the last 5-6 years, aided by the strategic acquisitions of the regional BFIs. NMB's portfolio granularity also remains relatively better compared to similar rated peers with top-20 borrower groups accounting for ~18% of total credit portfolio as of mid-January 2025 (~17% as of mid-January 2024).

Improved deposit profile and satisfactory liquidity position – The bank has been able to improve its deposit profile through higher growth in the low-cost CASA deposits, which has aided the bank's base rate. CASA deposits that used to remain below the industry average until the recent past, has now improved in FY2024 and is fairly comparable to the industry average (~41% for the bank, compared to the industry average of ~40% as of mid-January 2025; ~32% against ~35% for industry as of mid-January 2023). The bank's liquidity position also remained satisfactory with credit to deposit ratio of ~87% and NLA to total deposits ratio of ~25% as of mid-January 2025. However, the incremental position will remain monitorable, considering the higher credit growth achieved by the bank in H1FY2025.

Credit Challenges

Sustained stress in asset quality – NMB reported a rise in gross NPLs to 3.96% as of mid-January 2025 from 2.86% as of mid-January 2024. Moreover, the 0+ days delinquencies have also continued at higher level, despite marginal improvement (~22% as of mid-January 2025, compared to ~24% as of mid-January 2024). The rising chunk of delinquency in the harder buckets (~5.3% of loan in 61-90 days overdue bucket), sizeable rescheduled/restructured portfolio (~7.0% as of mid-January 2025) and weak asset quality outlook for the industry, raises concern on the bank's incremental asset quality outlook. The gradual uptick in NBAs (0.49% of total credit portfolio on an increased credit base of mid-January 2025 compared to 0.39% as of mid-January 2024) also indicates the asset quality pressures. Higher proportion of fresh slippage and low provision required thereon has stretched the bank's solvency indicator (net NPLs to net worth ratio of 13.08% as of mid-January 2025 as against 6.65% as of mid-January 2024). Any major incremental slippages from delinquent portfolio will have a bearing on NMB's capitalisation and profitability metrices. Further, the seasoning of the higher portfolio growth during H1FY2025 amid the low-interest rate regime could also have a bearing over the bank's medium term asset quality, once the interest rate scenario reverses.

Moderate capitalisation profile – The bank's capitalisation profile has remained moderate with tier-I capital of 9.46% and CRAR of 12.62% as of mid-January 2025. The capital position was partly impacted by the sizable taxes paid on share premiums of FPO and bargain purchase gains related to merger/acquisition (NPR 1,843 million) in FY2024 and the higher growth in risk-assets (mainly credit portfolio) achieved by the bank in in H1FY2025. Although the current position is adequate vis-à-vis the regulatory minimum required tier-I of 8.5% and CRAR of 11.0%, the current buffer offers limited cushion to absorb any major incremental credit shocks, especially considering the increasing NPLs, higher delinquency and stretched solvency profile. ICRA Nepal takes note of the bank's plan to recoup the capital through issue of proposed perpetual non-cumulative preference shares of NPR 3 billion. However, timeline of the proposed issue and the bank's incremental credit growth trajectory in the interim, will remain a key monitorable.

Moderation in profitability profile – NMB reported moderation in profitability profile in FY2024 with return on assets (RoA) of 1.15% and return on net worth (RoNW) of 7.82% in FY2024, compared to 1.75% and 11.65% in FY2023. The subdued credit demand leading to excess liquidity, resulted in moderation of NIMs to 2.56% in FY2024 (3.17% in FY2023), which along with the increased credit provision expenses (0.72% in FY2024 compared to 0.55% in FY2023) amid the asset quality pressures, diluted the bank's profitability indicators. Additionally, the adjustment of taxes paid on premiums/gain on bargain purchase resulted in negative distributable profit for the bank in FY2024. NMB has reported improved profitability in H1FY2025 (RoA of 1.34% and RoNW of 13.35%), supported by the improved fund mobilisation through increased credit to deposit ratio and hence better NIMs (2.84% in H1FY2025), along with increase in non-interest income and decline in credit provision expenses. However, the bank's ability to sustain the improvement remains to be seen considering the increasing NPLs and diluted provision coverage.

Regulatory risks and difficult operating environment – The banking industry as well as banking sector borrowers remain under continued stress from H1FY2022, following the withdrawal of Covid-relaxations and introduction of regulations (mainly working capital guidelines) affecting fresh credit creation across the banking industry. As most of the borrowers are yet to achieve the deleveraging envisaged by the working capital regulations, there remains a strong liquidity pressure across the borrower universe, which is partly reflected in increased asset quality stress for the banking industry as a whole (industry average gross NPLs of 4.73% as of mid-January 2025, as against 1.18% as of mid-January 2022) and hence remains a rating concern across the industry.

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

Links to the applicable criteria:
Bank Rating Methodology
Issuer Rating Methodology

Link to the last rating rationale:
Rationale - NMB Bank Limited - Ratings Surveillance – April 2024

Bank Profile:

NMB Bank Limited started its operation from December 26, 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 status in May 2008. NMB has a joint venture with foreign promoters viz. FMO (Netherlands) holding ~14% stake and M/s Young Leon Realty, Malaysia holding ~4% stake.

As of mid-January 2025, promoter public shareholding of NMB stood at ~51:49. The bank's current major promoter group 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 on mid-January 2025, NMB had market share of about 4.2% in terms of deposit base and 4.8% of total advances of commercial banks (3.7% and 4.2% share respectively in the banking industry). NMB had presence throughout the country through its 201 branches and 10 extension counters as of mid-January 2025.

Key financial indicators

	Mid-July 2022	Mid-July 2023	Mid-July 2024	Mid-January 2025
Year Ended	**(Audited)**	**(Audited)**	**(Audited)**	**(Provisional)**
Net interest income - NPR million	6,388	8,342	7,217	4,253
Profit before tax - NPR million	4,615	4,609	3,236	2,839

Year Ended	Mid-July 2022 (Audited)	Mid-July 2023 (Audited)	Mid-July 2024 (Audited)	Mid-January 2025 (Provisional)
Profit after tax - NPR million	3,291	3,223	2,244	2,004
Loan and advances - NPR million	182,090	197,466	204,608	229,479
Total assets - NPR million	249,857	276,927	287,284	311,463
Operating ratios				
Yield on average Advances	10.36%	12.70%	11.55%	9.75%
Cost of deposits	6.70%	8.08%	7.25%	5.36%
Net interest margin/average total assets (ATA)	2.75%	3.17%	2.56%	2.84%
Non-interest income/ATA	0.83%	0.73%	0.73%	0.96%
Operating expenses/ATA	1.71%	1.62%	1.46%	1.67%
Credit provisions/ATA	-0.02%	0.55%	0.72%	0.23%
PAT/ATA	1.42%	1.22%	0.80%	1.34%
PAT/net-worth	12.95%	11.65%	7.82%	13.35%
Gross NPLs	1.45%	2.75%	3.40%	3.96%
0+ days delinquencies	15.77%	32.47%	19.32%	22.46%
Capitalisation ratios				
Capital adequacy ratio	13.59%	13.33%	12.84%	12.62%
Tier-I Capital Ratio	10.36%	10.15%	9.72%	9.46%
Net NPLs/net worth	2.51%	8.33%	9.54%	13.08%
Liquidity ratios				
Total liquid assets/total liability	24.95%	26.06%	25.79%	23.72%
Total advances/total deposits	97.03%	92.07%	89.14%	91.34%

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About ICRA Nepal Limited

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit www.icranepal.com

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