

NRB COMMERCIAL BANK LIMITED

Company Overview

NRB Commercial Bank Limited (NRBC Bank) was established on February 20, 2013 by 53 (Fifty three) qualified NRBs from business persons, community leaders, scientists, educationist - living in across the globe which includes USA, Canada, UK, Russia, Italy, Germany, UAE and Kuwait. The Bank has commenced its operation on 02 April 2013. The principal activities of the Bank are to provide all kinds of conventional and Islamic commercial banking services to its customers through its branches, islamic windows, SME centers, and vibrant alternative delivery channels in Bangladesh. The Bank has 75 Branches, 42 sub-Branches and 145 land registration collection Booths in different locations of Bangladesh. The Bank is intended to expand operation in all over the country in spirit of Islami Shariah.

The Bank has one fully owned subsidiary: NRB Bank Securities Ltd., started its commercial operation on December 12, 2016.

Composition and growth of Consolidated Operating Income:

(BDT mn)	2016	2017	2018	2019	2020 (6M)
Interest Income	3,905	4,718	5,802	7,037	3,384
<i>Growth</i>	33.7%	20.8%	23.0%	21.3%	5.3%
Interest Expense	2,868	3,147	3,644	4,487	2,571
<i>Growth</i>	6.3%	9.7%	15.8%	23.2%	26.5%
Net Interest Margin	3.4%	3.9%	4.7%	4.6%	2.6%
Operating Income	3,012	3,526	3,744	4,892	2,284
<i>Growth*</i>	50.4%	17.1%	6.2%	30.6%	16.1%
As % of Operating Income					
Net interest income	34%	45%	58%	52%	36%
Non-interest income	66%	55%	42%	48%	64%
Investment income	49%	36%	24%	27%	42%
Commission and brokerage income	11%	16%	14%	16%	18%
Other ope. income	5%	4%	4%	4%	5%
Growth*					
Net interest income	365%	51%	37%	18%	-31%
Non-interest income	11%	-1%	-19%	48%	87%
Investment income	1%	-15%	-30%	51%	131%
Commission and brokerage income	49%	59%	-2%	48%	45%
Other ope. income	80%	5%	8%	29%	16%

*Growth for 2020 is calculated for 6 months over the same period of the last year.
 Net Interest Margin: Net interest income/2 years average of loans & advances

Historical Loans & Advances and Term Deposits:

(BDT bn)	2016	2017	2018	2019	2020 (Jun)	4-year CAGR
Loans & Adv.	37	43	48	62	64	--
% of Total Asset	70%	75%	72%	69%	66%	--
Growth (YoY)*	61%	15%	12%	29%	4%	28%
Term Deposits	44	45	54	72	74	--
% of Total Asset	82%	79%	81%	80%	76%	--
Growth (YoY)	53%	2%	20%	33%	3%	26%
Credit-Deposit	85%	95%	89%	86%	87%	--

*Growth for 2020 is calculated over December 2019.

IPO Details

No. of Shares (Post-IPO) in mn	702.52
Authorized Capital (BDT mn)	10,000.00
Pre-IPO Paid-up Capital (BDT mn)	5,825.17
Post-IPO Paid-up Capital (BDT mn)	7,025.17
IPO size in shares (mn)	120.00
IPO size at offer price (BDT mn)	1,200.00
Face value per share (BDT)	10.00
Offer price per share (BDT)	10.00
Year End	December
Security Trading Code	NRBCBANK
NAV per share (BDT) (Sep 2020)	14.98
EPS (BDT, Post-IPO, 9 month ann.)	2.67

	2017	2018	2019	2020 (6M Ann)
Financial Information (BDT mn):				
Operating Income	3,526	3,744	4,892	4,568
Operating Profit	1,842	1,904	2,603	1,829
Profit Before Tax	1,398	1,570	2,052	1,272
Profit After Tax	929	938	1,154	724
Shareholder's Equity	6,368	7,054	8,201	8,076
Deposit	45,236	54,086	71,880	74,183
Loans and Advances	43,000	48,152	62,060	64,336
Investment	6,864	8,277	15,626	18,815
Total Asset	57,529	67,143	90,227	98,064
Retained Earnings	731	847	1,026	633
Margin:				
Operating Profit	52.2%	50.9%	53.2%	40.0%
Pretax Profit	39.6%	41.9%	41.9%	27.8%
Net Profit	26.3%	25.0%	23.6%	15.9%
Growth:				
Loans & Advances	14.9%	12.0%	28.9%	3.7%
Deposits	2.5%	19.6%	32.9%	3.2%
Equity	12.0%	10.8%	16.3%	-1.5%
Operating Income	17.1%	6.2%	30.6%	-6.6%
Operating Profit	19.8%	3.4%	36.7%	-29.8%
Net Profit	6.9%	1.0%	23.0%	-37.2%
Financial Indicators:				
Credit/Deposit	95.1%	89.0%	86.3%	86.7%
Asset/Equity	9.0	9.5	11.0	12.1
CRAR	13.6%	14.1%	13.5%	13.4%
NPL	2.5%	2.9%	3.2%	3.2%
Cost to Income	47.8%	49.1%	46.8%	60.0%
Profitability:				
ROE	23.2%	23.4%	26.9%	15.6%
ROA	1.7%	1.5%	1.5%	1.5%
Valuation:				
Restated EPS (BDT)	1.3	1.3	1.6	1.0
Restated NAVPS (BDT)	9.1	10.0	11.7	11.5

IPO

The Company raised BDT 1,200.00 million through fixed price method of Initial Public Offering (IPO). Asian Tiger Capital Partners Investments Limited and AFC Capital Limited are the issue managers and K. M. Hasan & Co. is the auditor of the Company.

Utilization of the proceeds of IPO:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Investment in Govt. Securities	1,100.00	91.67%	W/i 6 months after receiving IPO Fund
Investment in Secondary Market	60.52	5.04%	
IPO Expenses	39.48	3.29%	As and when required
Total	1,200.00	100%	

Ownership of the Company

Name of the Directors	Position	% of Holdings
		Post-IPO
S M Parvez Tamal	Chairman	4.70%
Mr. Mohammed Adnan Imam, FCCA	Director	2.34%
Rafikul Islam Mia Arzoo	Director	4.34%
Abu Mohammad Saidur Rahman	Director	2.61%
Mr. Mohammed Oliur Rahman	Director	3.51%
Abu Bakr Chowdhury	Director	3.83%
Mr. Loquit Ullah	Director	3.80%
Mr. Mohammed Nazim	Director	3.80%
A K M Mostafizur Rahman	Director	2.82%
Total		31.75%

Category-wise shareholding structure

Shareholding Category	Shares Hold (Post-IPO)	% of Holding (Post-IPO)
Sponsor Directors	515,048,214	73.32%
Eligible Investors (EI)	36,000,000	5.12%
Mutual fund (MF)	12,000,000	1.71%
General Public (GP)	127,468,784	18.14%
NRBs	12,000,000	1.71%
Total	702,516,998	100.00%

The following directors of the Company are associated with the listed securities in the following manner:

Name of Director	Associated in the Organization	Position in the Company
Mohammed Adnan Imam, FCCA	Genex Infosys Ltd.	Managing Director

Industry Overview

The banking sector in Bangladesh comprises four categories of scheduled banks - state-owned commercial banks (SCBs), state-owned development financial institutions (DFIs), private commercial banks (PCBs) and foreign commercial banks (FCBs).

Number of Banks: At present, there are 61 scheduled banks that operate in Bangladesh under full control and supervision of Bangladesh Bank. There are 6 State Owned Commercial Banks (SOCB), 3 Specialized Banks, 35 Conventional Private Commercial Banks, 8 Islami Shariah based Private Commercial Banks and 9 Foreign Commercial Banks. As per the financial stability report of the Bangladesh Bank, at the end of December

2019, total number of bank branches increased to 10,578 from 10,286 in December 2018.

Loans and Advances: The asset structure of the banking industry continued to be dominated by loans and advances, which secured 66.51 percent share in 2018 while it was 66.49 percent in 2018. This increase was due to the growth in loans and advances by 11.9 percent in 2019 compared to 14.1 percent in 2018. Total loans and advances of the banking system stood at BDT 10,834 billion as of December 2019.

Deposits: Deposits served as the main sources of funds for the banking industry. According to the financial stability report 2019, total deposits of the bank sector was BDT 12,450 billion as of December 2019 which was BDT 11,186 billion in last year, registering 11.3% year over year (YoY) growth.

Advance-Deposit Ratio (ADR): The ADR of all banks has been re-fixed at 87 percent for conventional banks and at 92 percent for Shariah-based Islamic banks enabling banks to lend more during the coronavirus lockdown. The earlier ratios were 85 per cent and 90 per cent respectively. The revised limit of ADR came into effect from April 2020. The ADR of the banking industry increased to 77.3 percent at end-December 2019 from 77.6 percent at end- December 2018.

Private Sector Credit: Private sector credit growth hit 12-year low in June 2020 amid rising liquidity crisis in the country's banking sector due to soaring non-performing loans and poor deposit growth. As per the latest Bangladesh Bank data, the private sector credit growth slumped to 8.6 per cent in June 2020, well below the BB target to reach 14.5 per cent credit growth by the month. The growth rate in June was the lowest since December 2008.

CRR & SLR: Bangladesh Bank (BB) has re-fixed the Cash Reserve Ratio (CRR) at 4.0 per cent on bi-weekly average basis with a provision of minimum 3.5 per cent on a daily basis effective from April 15, 2020 against average total demand and time liabilities (ATDTL) of the second preceding month. The current rate of SLR (statutory liquidity reserve) for conventional banks is 13.0% and for islami shariah based banks is 5.5% of ATDTL.

Bangladesh Bank relaxed CRR for offshore banking units of the country's scheduled banks in an attempt to reduce cost of fund and make the OBU operations more attractive. The central bank issued a circular slashing bi-weekly average CRR rate to 2% from 4% and daily CRR rate to 1.5%. The banks are allowed to maintain the CRR and SLR only for the offshore banking operations (OBOs) using both local and foreign currencies.

Liquid Assets: As of December 2019, the market share of liquid assets of PCBs' increased substantially whereas the share was declined moderately for the SCBs and FCBs. PCBs' share increased by 7.9 percentage points, while the share of the SCBs reduced by 6.0 percentage points. Allowing higher proportion of institutional government funds to be deposited in PCBs might have caused the change as these deposits were shifted mostly from the SCBs to the PCBs. This recent stance improved the overall liquidity situation in the PCBs.

Non-Performing Loans (NPLs): Asset quality of the banking industry considerably improved as the gross NPL ratio declined from 10.3 percent in 2018 to 9.3 percent in 2019. It appears that the main driving force for decline in industry's overall NPL ratio was improvement of asset quality in SCBs and SDBs. However, gross NPL ratios still remained high for these two categories of banks. During the review year, net NPL ratio

dropped significantly to 1.0 percent from 2.2 percent of the preceding year. Banking sector maintained a higher level of loan-loss provision in CY19 compared to that of CY18, resulting in an increased provision maintenance ratio. Nonetheless, high volume of provision shortfall in SCBs still remained a concern for the banking industry. The amount of gross NPL increased by BDT 4.2 billion to reach BDT 943.3 billion in 2019.

Agent Banking: Agent banking, which takes banking services to the unbanked people, is going from strength to strength, with both deposit collection and loan disbursement on the rise. As of March 2020, accounts in the agent banking platform, where 22 banks now give banking services to people, stood at 6.5 million accounts, which is more than double that from a year earlier, according to data from the central bank.

Investment Positives

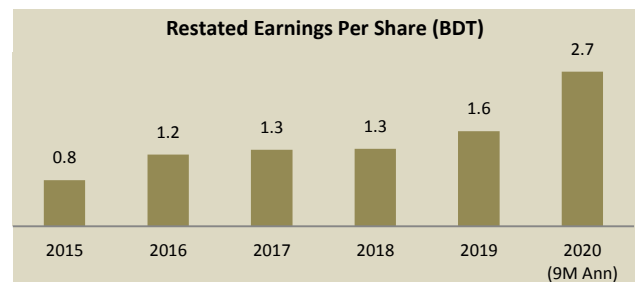
- The Company will utilize its IPO funds of **BDT 1,100.00 mn which is 92% of its IPO size for investment in Govt. securities** - one of the most secured sources of income. Hence, **investment income of the Company will increase.**
- As of June 2020, **the balance-sheet size of the Bank stood at BDT 98.06 billion increased by 8.69% over December 2019 and 4-year CAGR (Compound Annual Growth Rate) was 25.60%.** Loans and advances was 65.61% of the total assets of the Bank as of June 2020.
- As of December 2019, total **loan portfolio of the Bank stood at BDT 62.06 billion grew by 28.88%** over last year where 4-year CAGR was 27.85%. **Deposit portfolio was BDT 71.88 billion grew by 32.90%** over last year where 4-year CAGR was 25.60%.
- The Bank has designed its products basket to create a well-balanced and diversified portfolio. **As of December 31, 2019, Loan Diversification was ensured as SME sector got 35% of loan portfolio followed by RMG (12%) and Trade Industry (11%).**
- As of June 2020, **NPL (classified loan to total loan) of the Bank stood at 3.19%** which was one of the lowest in the industry. The Bank has given special emphasis to improve the asset quality. NPL was 3.20% in December 2019.

Investment Negatives

- **The Bank's lending portfolio has seen slow growth over the last two years** as the country's private sector credit growth followed a declining trend since 2019. The private sector credit growth declined to 8.32% in January 2021 which was 9.20% & 11.26% in January 2020 and July 2019 respectively. This was because of reluctance of the

entrepreneurs in making new investments to observe the revival efforts of the covid-19 pandemic.

- Implementation of ceiling of 9% interest rate on loan (except credit cards) and 6% deposit rate effective from April 2020 is squeezing the margin of the Banks as the banks have to adjust the deposit rates too.
- As of December 2019, **61% of its total deposits are sourced from costly fixed deposits.** As of December 2019, CASA ratio (CASA ratio of a bank is the ratio of deposits in current and saving accounts to total deposits) of the Bank stood at 39%.
- As of June 2020, **borrowings from other banks and financial institutions of the Bank increased** to BDT 5.51 bn which was 1.29 bn in December 2019 which is more costly source of financing.
- **Cost to income ratio has increased due to higher growth of operating expenses** than that of operating income. As of June 2020, cost to income ratio has increased to 60% which 47% in December 2019. Operating expenses is attributable to the expansion of banking network, increase in salaries and allowances, rent and taxes, legal expenses, postage, stamps and telecommunication expenses, and depreciation and repairs of the Bank's assets.



Latest Declaration: As per un-audited 3rd quarter (Jan-Sep, 2020) financial statements, the Company reported profit after tax of BDT 1,406.42 million registering 539% growth over the same period of last year. Annualized post-IPO EPS was BDT 2.67 for 2020 and NAVPS was BDT 14.98 as on September 30, 2020.

Valuation

Pricing Based on Relative Valuation

	Multiples	NRBC's Parameters	Value/Share
Sector Forward P/E	8.1	2.67 (9M Ann.)	21.71
NAVPS		14.98 (Sep, 2020)	14.98

Source: Prospectus of NRBC Bank Limited, newspaper news, Bangladesh Bank and ILSL Research.

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