

### Company Background

NRB Commercial Bank Limited (NRBC) is a fourth-generation private commercial bank in Bangladesh. NRBC was incorporated in 2013 as a public limited company. The bank is focused on serving expatriates. Its corporate office is located in Motijheel, Dhaka. The bank has 77 branches and 582 agent banking outlets across the country. The bank employs 1,115 full-time professionals. NRBC has a subsidiary company—NRBC Bank Securities Ltd.

NRBC has 13 directors on its board. The directors are experienced professionals and most of them sit on the board of other private and public companies. Md Mukhter Hossain is the MD & CEO of NRBC. He has experience of 36 years. Previously, he was the deputy managing director of EXIM bank.

### IPO Details

NRB Commercial Bank will raise BDT 1,200 Mn as initial public offering (IPO) through the fixed price method. The fund will be used for investing in government securities and listed securities of A category.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	BDT mn	% of Proceed
Investment in Government Securities	1,100	91.7%
Investment in Secondary Market	61	5.0%
<b>Sub Total</b>	<b>1,161</b>	<b>96.7%</b>
IPO Expense	39	3.3%
<b>Total</b>	<b>1,200</b>	<b>100.0%</b>

### Key Points

- Bangladesh's banking industry is saturated with 60 players in the market. The industry has been suffering from asset quality issues for quite some time. The current industry loan size is BDT 11 trillion. After seven years of operation, NRBC has a loan portfolio of BDT 74 billion, which is 0.7% of the total industry loan. The total industry deposit amount is BDT 13 trillion. NRBC holds 0.7% deposit market share. In terms of loan and deposit market share, NRBC lags behind the older banks.
- The year started with the central bank imposing a lending rate cap on the banks. The central bank later went for an expansionary monetary policy in response to dealing with Covid-19. Moreover, the banks witnessed lower credit demand from the business community as well. All of this led to excess liquidity and lower spread scenario for the industry. The same can be witnessed for NRBC as well as the spread in 2020 deteriorated sharply for the bank.
- In terms of corporate governance, NRBC had a dark past but its trying to improve. The bank was faced with charges on sanctioning loans without following proper credit analysis procedure in 2017. The hike in NPL ratio in 2017 (2.4% in 2017 vs 0.5% in 2016) is evident of the wrongdoings of the bank's high ranking officials. As a result, the bank went through a restructuring of its board and removal of the then CEO as per the advice of the central bank. Recently, in 2020, the bank removed its then vice-chairman from the board, also a parliament member, who was arrested for his alleged involvement in money laundering and human trafficking. The most interesting point about the board of directors is that all the non-independent directors live abroad. This may result in a slow decision making process of the board.
- NRBC bank has been shifting its focus away from corporate to retail and SME. As of Dec'19, SME contributed 21% of the loan portfolio of the bank. A focus on SME is a commendable strategy for the bank as it offers the highest spread. However, the recent lending rate cap has poured water on this highly profitable segment of the industry. The bank has also been focusing on agent banking. It has the 5th highest agent banking outlets in the country. A gradual increase in CASA (42% in 9M'20 vs 29.3% in 2016) over the years shows the bank's efficiency in collecting low cost deposits. Both of these strategy resulted in a gradual improvement in spread for the bank. SME and agent banking both requires a high operating expenditure. This is witnessed in the bank's moderately high cost to income ratio (55.9% in 9M'20).
- The bank's profitability ratio showed an excellent performance. NRBC's ROE and ROA are high compared to the sector average of 4.9% and 0.3% respectively. However, the bank's capital adequacy ratio is on the decline and close to the minimum required rate of 12.5%.
- Although the bank is shifting its focus from corporate, its large loan concentration is high (45.9% in 2019) and also in an increasing trend which is a matter of concern.
- Although the bank's NPL ratio is comparatively low, its on the increasing trend which can be a cause of concern. However, the bank has been maintaining a strong NPL coverage ratio (83.2% in 9M'20).

### Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the Bank sector:

DSE Ticker	Market Cap (BDT mn)	TTM Earnings (BDT mn)	Latest NAV (BDT Mn)	P/B
CITYBANK	30,085	3,104	27,351	1.1x
BANKASIA	19,237	1,989	26,839	0.7x
BRACBANK	62,979	4,240	44,828	1.4x

### Company Summary

Post IPO No. of Shares (Mn)	702.52
Post IPO Paid up capital (BDT Mn)	7,025.17
Pre IPO Paid up capital (BDT Mn)	5,825.17
New Shares Issued (Mn)	120.00
IPO Proceeds (BDT Mn)	1,200.00
Face Value	10.00
Market Lot	500.00
Free Float	0.17
Accounting Year End	December
Auditor	K M Hasan & Co.
Issue Manager	Asian Tiger Capital Partners Investments Ltd.
	AFC Capital Ltd.

### Income Statement

MM BDT	2016	2017	2018	2019	9M'20
Interest Income	3,905	4,718	5,802	7,037	4,929
Interest Expense	2,868	3,147	3,644	4,487	4,120
<b>Net Interest Income</b>	<b>1,037</b>	<b>1,571</b>	<b>2,158</b>	<b>2,550</b>	<b>809</b>
Investment Income	1,489	1,259	887	1,340	2,673
Commission, Exchange, and Brokerage	345	548	539	796	578
Other Operating Income	140	148	160	206	169
<b>Non-Interest Income</b>	<b>1,975</b>	<b>1,955</b>	<b>1,586</b>	<b>2,342</b>	<b>3,419</b>
<b>Total Operating Income</b>	<b>3,012</b>	<b>3,526</b>	<b>3,744</b>	<b>4,892</b>	<b>4,229</b>
Operating Expense	1,474	1,684	1,840	2,289	2,365
<b>Profit Before Provision</b>	<b>1,538</b>	<b>1,842</b>	<b>1,904</b>	<b>2,603</b>	<b>1,864</b>
Provisions	230	444	334	551	221
<b>Net Profit before Tax</b>	<b>1,308</b>	<b>1,398</b>	<b>1,570</b>	<b>2,052</b>	<b>1,643</b>
Tax	439	469	632	898	234
<b>Net Profit after Tax</b>	<b>869</b>	<b>929</b>	<b>938</b>	<b>1,154</b>	<b>1,409</b>
EPS (Post-IPO)	1.24	1.32	1.33	1.64	2.01

### Balance Sheet

MM BDT	2016	2017	2018	2019	9M'20
Cash	3,094	3,942	4,088	5,880	4,821
Balance with Other Banks	4,005	1,559	2,569	2,040	3,082
Money at Call	0	0	1,297	857	247
Investments	7,528	6,864	8,277	15,626	25,425
Loans & Advances	37,408	43,000	48,152	62,060	73,730
Other Assets	1,584	2,163	2,761	3,765	5,144
<b>Total Assets</b>	<b>53,619</b>	<b>57,529</b>	<b>67,143</b>	<b>90,227</b>	<b>112,449</b>
Borrowings from Other FI	763	1,281	299	1,290	3,518
Deposits	44,143	45,236	54,086	71,880	89,014
Other Liabilities	2,984	4,601	5,664	8,815	10,549
<b>Total Liabilities</b>	<b>47,890</b>	<b>51,119</b>	<b>60,049</b>	<b>81,985</b>	<b>103,081</b>
Paid-up Capital	4,579	4,900	5,145	5,711	5,825
Statutory Reserve	463	738	1,050	1,459	1,781
Revaluation Reserve	18	0	11	5	236
Retained Earnings	628	731	847	1,026	1,482
Non-controlling Interest	41	42	41	41	44
<b>Total Equity</b>	<b>5,729</b>	<b>6,411</b>	<b>7,094</b>	<b>8,242</b>	<b>9,368</b>
<b>Total Liabilities &amp; Equity</b>	<b>53,619</b>	<b>57,529</b>	<b>67,143</b>	<b>90,227</b>	<b>112,449</b>
BVPS (Post IPO)	8.13	9.13	10.08	11.72	13.00

### Ratios

	2016	2017	2018	2019	9M'20
ROE	16.0%	15.3%	13.9%	15.0%	22.5%
Adjusted ROE	16.1%	15.3%	13.9%	15.1%	22.9%
ROA	1.9%	1.7%	1.5%	1.5%	1.9%
Dividend Payout Ratio	26.3%	26.4%	27.4%	59.4%	NA
Loan-Deposit Spread	3.8%	4.1%	5.0%	5.2%	2.9%
Net Interest Margin (NIM)	5.2%	4.8%	5.2%	5.2%	3.7%
Effective Tax Rate	33.6%	33.5%	40.3%	43.8%	14.2%
Cost to Income Ratio	49.0%	47.8%	49.1%	46.8%	55.9%
Gross NPL (% of L&A)	0.5%	2.4%	2.9%	3.2%	2.8%
NPL Coverage	222.3%	80.7%	80.1%	76.1%	83.2%
Capital Adequacy Ratio (CAR)	13.5%	13.6%	14.1%	13.5%	12.8%
AD Ratio	83.0%	93.0%	85.9%	82.5%	NA
Large Loan Concentration	33.1%	43.2%	45.7%	45.9%	NA
CASA	29.3%	29.1%	29.0%	35.2%	42.0%

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