

September 19, 2022

Qatar National Bank (Q.P.S.C), India Branch: [ICRA]AAA (Stable) assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]AAA (Stable); Assigned
Total	-	

Rationale

The rating draws comfort from the strength of Qatar National Bank (Q.P.S.C) (QNB; rated Aa3 (Stable) for the long-term deposits by Moody's and baseline credit assessment (BCA) of baa1). QNB is the largest bank in Qatar and one of the largest banks in the Middle East and Africa in terms of assets, which stood at USD 308.8 billion as on June 30, 2022. Its international network is present in more than 30 countries with around 1,000 locations. ICRA draws comfort from the strong financial and operational linkages of the Indian branch with the head office (HO) in Qatar, which is reflected in their joint involvement in credit sanctions, risk management and liquidity policies.

QNB commenced operations in India in FY2018ⁱ and the overall operations remain limited to a single branch while the scale remains small on account of the relatively early stage of operations in the country. Given the limited scale of the branch, the profitability levels remain suboptimal, while the advances and deposits profiles remain concentrated. Nevertheless, the overall capitalisation profile of the branch is comfortable, albeit on a relatively small book.

QNB, as a whole, reported robust profitability, which was supported by its strong position in key markets, largely in Qatar as well as some countries in the Middle East and Africa. Moreover, the overall capitalisation profile and asset quality remain comfortable. QNB is classified as a systemically important bank (SIB) by the Qatar Central Bank. Going forward, ICRA will continue to closely monitor QNB's profile as this will remain a key driver of the credit profile of the Indian branch.

Key rating drivers and their description

Credit strengths

High operational and financial linkage of Indian branch with HO – ICRA derives comfort from the high operational and financial linkages of QNB's Indian branch with the HO. The liquidity management and market risk management policy for the Indian branch is in line with the policies followed by the HO. Moreover, the HO extends help to its Indian branch by way of liquidity support as well as by approving and carrying out due diligence at its level. QNB is classified as an SIB in Qatar by virtue of being the largest bank in the country as well as one of the largest banks in the Middle East and Africa (MEA) region in terms of assets, advances and deposits. It had total assets of USD 308.8 billion as on June 30, 2022 and a 46.8% share in the total deposits in Qatar's banking system as on December 31, 2021.

Comfortable capitalisation – Given the relatively limited presence of the branch in India with commercial operations commencing only in FY2018, the overall scale of operations remains small, leading to a relatively comfortable capitalisation profile with a common equity tier I (CET-I)/Tier I to-risk weighted assets ratio of 27.8% as on March 31, 2022 (42.7% as on March 31, 2021). Going forward, stronger growth could potentially drive down the capital ratios from the current level as internal capital generation is likely to remain relatively muted. Nevertheless, the capitalisation profile is expected to remain comfortable in the near to medium term and support from the HO will be extended if required.

QNB also reported a comfortable capitalisation profile with the CET-I, Tier I and CRAR at 13.7%, 17.7% and 18.9%, respectively, as on June 30, 2022 against the regulatory requirement of 11%, 13% and 16%, respectively, including the additional SIB charge of 2.5%.

Asset quality likely to remain satisfactory – The Indian branch reported one account as a non-performing advance (NPA) since the commencement of operations in India, amounting to Rs. 50 crore in FY2021. However, given the small size of the book, the gross NPAs (GNPAs) remained high at 5.96% even though the Indian branch provided fully for the same in FY2022. As a result, the net NPA (NNPA%) was nil as on March 31, 2022. Moreover, the standard restructured book and overdue loans remained nil for the branch as on March 31, 2022, which remains a source of comfort. Further, ICRA expects the overall asset quality levels of the branch to remain at satisfactory levels, given the customer profile, largely comprising high rated corporate exposures.

Likewise, QNB reported a non-performing loan (NPL) ratio (NPLs as a proportion of gross loans) of 2.4% as of June 2022 and loan loss coverage ratio of 123.0% (including provisions on standard loans).

Credit challenges

High concentration in deposits and advances in Indian branch – The Indian branch largely depend on wholesale deposits as the bank currently does not have retail operations in India. This has resulted in high deposit concentration levels, with the top 2 depositors accounting for ~71% of the total deposits as on June 30, 2022. Moreover, the share of the low-cost current and savings deposits (CASA) remains small at 1% of total deposits as on March 31, 2022. Given the deposit concentration levels and the short duration, the branch deals in short-tenor advances to prevent any gaps in asset and liability maturities with a limited share of term loans. ICRA, however, notes that a sizeable portion of the deposits is non-callable before maturity (~87% of as June 30, 2022). This, along with access to the interbank market, excess holding of Government securities and support from the HO, mitigates the liquidity risks to an extent.

Similar to the liabilities, the loan book concentration remains high with the share of the top 20 advances at 72% of the total advances and 384% of the total Tier I capital of the branch as on March 31, 2022. While the concentrated nature of advances poses a risk to the asset quality, profitability, and capitalisation metrics in case of even a single exposure slipping, the customer profile, mainly comprising high rated corporates, mitigates the same significantly.

Globally, QNB's liability profile remains strong with deposits accounting for ~78% of the total liabilities as on June 30, 2022. It had a market share of 46.8% in the deposits in Qatar as of December 31, 2021.

Weak profitability of India Branch partly due to limited scale – The overall scale of operations of the branch remains small. As a result, the operating leverage remains low, leading to weak operating and net profitability. The operating profit before provisions stood at Rs. 1.58 crore in FY2022 (-Rs. 0.58 crore in FY2021), translating into core operating profitability of 0.13% of average total assets in FY2022 (-0.06% in FY2021). Moreover, following a relatively large slippage in FY2021, the overall credit costs remained elevated as the branch chose to provide fully for the same. This led to a net loss Rs. 24.04 crore in FY2022 against a loss of Rs. 7.47 crore in FY2021. Going forward, the overall profitability and internal capital generation are expected to remain modest and will only improve gradually as the operations scale up, which will remain dependent on the branch's ability to grow the deposit base in a sustained manner.

Globally, QNB reported a net profit of USD 1.93 billion in H1 CY2022 and USD 3.63 billion in CY2021ⁱⁱ (USD 3.3 billion in CY2020), translating into a healthy return on assets (RoA) and return on equity (RoE) of 1.25% and 16.4%, respectively, for CY2021 (1.22% and 15.4%, respectively, in CY2020).

Liquidity position: Adequate

The overall liquidity position of the Indian branch remains adequate with positive gaps across all the <1-year maturity buckets as per the structural liquidity statement (SLS) as on June 30, 2022. The liquidity coverage ratio stood at 260.7% as on March 31, 2022, which was well above the regulatory requirement. However, given the very high deposit concentration for the branch, the overall liquidity may remain contingent on the ability to roll over these deposits. Nevertheless, the Indian

operations can avail liquidity support of up to 100% of the Tier I capital from the HO in case of urgent liquidity requirement and can also borrow from the interbank market.

Rating sensitivities

Positive factors – NA

Negative factors – A material deterioration in the credit profile of Qatar National Bank (Q.P.S.C) will lead to a downgrade in the credit rating of its Indian branch.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks
Parent/Group support	ICRA expects the Indian branch to be supported by the HO – Qatar National Bank (Q.P.S.C), which will extend financial support to the Indian branch, if needed
Consolidation/Standalone	Standalone of Indian branch

About the company

QNB was established in 1964. It is the largest bank in Qatar and one of the largest financial institutions in the Middle East and Africa (MEA) region in terms of assets, advances, and deposits. The Qatari government is the largest shareholder with ~50% ownership in the bank through its investment arm – Qatar Investment Authority. The bank operates more than 31 countries through its subsidiaries and associates and a network of more than 1,063 branches and had a share of 49.8% in the domestic market in terms of total assets as of December 2021.

Moreover, given its dominant share, QNB is classified as a systemically important bank (SIB), which attracts a higher capital requirement but are comfortably above the required minimum ratio. Globally, the bank provides wholesale and commercial banking and retail banking, including a wide range of financial services like wealth management, structured finance, transaction banking, etc.

QNB was granted a banking licence in India in October 2016 and commenced operations in June 2017 through its Mumbai branch. The Indian branch offers a wide range of services including wholesale commercial banking and trade finance.

Key financial indicators (India Branch)

	FY2020	FY2021	FY2022
Net interest income	24.67	17.88	23.63
Profit before tax	0.88	-9.95	-40.04
Profit after tax	-0.89	-7.47	-24.04
Loan book	717	598	839
Total assets	1,133	917	1,546
Net interest margin / Average total assets	3.00%	1.74%	1.92%
Return on assets	-0.11%	-0.73%	-1.95%
Return on net worth	-0.28%	-2.38%	-8.13%
CET-I / Tier I	317	314	267
CRAR	45.51%	43.0%	28.2%
Gross NPA	0.00	50	53
Net NPA	0	40	0
Net NPA/Core capital	0.00%	12.72%	0.00%

Source: QNB, ICRA Research; Amount in Rs. crore

All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Previously Assigned Rating
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2023	-
					Sep-19-2022	-
1	Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Issuer Rating	-	-	-	-	[ICRA]AAA (Stable)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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Branches



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ⁱ FY - Financial Year, period ending on March 31

ⁱⁱ CY- Calendar Year, period ending December 31