

October 04, 2024

## Qatar National Bank (Q.P.S.C), India Branch: Rating reaffirmed

### Summary of rating action

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

\*Instrument details are provided in Annexure I

### Rationale

The rating for Qatar National Bank (Q.P.S.C), India Branch draws comfort from the strength of Qatar National Bank (Q.P.S.C) (QNB; rated Aa3<sup>1</sup> (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 (MEA), in terms of assets, which stood at \$346.3 billion as on June 30, 2024. It has an international network in more than 28 countries across three continents, providing a range of products and services to its customers. 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. In addition, QNB infused equity capital of Rs. 165.9 crore in Q4 FY2024 in the Indian branch to support its growth.

QNB commenced operations in India in FY2018. The overall operations remain limited to a single branch and 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 deposit profiles remain concentrated. Nevertheless, the overall branch's capitalisation profile is comfortable, but on a relatively small book. The Indian branch primarily lends on a short-term basis to match the short tenure of its wholesale deposits, supporting its liquidity profile. In addition, it maintains excess holding of Government securities (G-Secs) and can avail liquidity support of up to 100% of the Tier I capital from the HO in case of urgent liquidity requirement.

QNB, as a whole, reported robust profitability, supported by its strong position in key markets, mainly Qatar as well as some countries in the MEA. Moreover, the overall capitalisation profile and asset quality remain comfortable. QNB is classified as a systemically important bank (SIB) by 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 with HO** – ICRA derives comfort from the high operational and financial linkage of QNB's Indian branch with the HO. The liquidity management and market risk management policies of the Indian branch are 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 as it is the largest bank in the country as well as one of the largest banks in the MEA region in terms of assets, advances and deposits. Its total assets stood at \$346.3 billion as on June 30, 2024 (\$330.2 billion as on June 30, 2023).

**Comfortable capitalisation** – Given the 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 core capital of Rs. 469 crore, the Indian branch reported a common equity tier I (CET-I) to risk-weighted assets ratio of 41.7% as on

<sup>1</sup> In the Moody's rationale dated September 10, 2024, long-term counterparty risk rating (CRR) assigned is Aa2

March 31, 2024 (51.8% as on March 31, 2023). The HO remains committed to support the growth of the Indian branch, which is also demonstrated by the infusion of Rs. 165.9 crore in Q4 FY2024. Going forward, stronger growth could potentially moderate the capital ratios from the current level as the branch's internal capital generation is likely to remain muted. Nevertheless, its capitalisation profile is expected to remain comfortable in the near to medium term and support from the HO will be extended if required.

QNB, as a whole, reported a comfortable capitalisation profile with the CET-I, Tier I and CRAR at 18.67%, 18.67% and 19.81%, respectively, as on March 31, 2024, against the regulatory requirement of 12%, 14% and 17%, respectively, including the additional SIB charge of 3.5%.

**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. 52 crore in FY2021. However, the same was technically written off in FY2024. As a result, the gross NPA (GNPA%) and net NPA (NNPA%) were nil as on March 31, 2024. Moreover, the standard restructured book and overdue loans continued to be nil as on March 31, 2024, which remains a source of comfort. Further, ICRA expects the overall asset quality of the branch to remain satisfactory as the borrower profile largely comprises high rated corporate exposures.

Globally, QNB reported a non-performing loan (NPL) ratio (NPLs as a proportion of gross loans) of 3.0% as of June 2024 and a loan loss coverage ratio of 100%. Over and above this, the bank held \$3.3 billion in additional risk reserves as on June 30, 2024.

### Credit challenges

**High concentration of deposits and advances in Indian branch** – The Indian branch largely depends 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 47% of the total deposits as on March 31, 2024, though the same declined from 74% as on March 31, 2023. Moreover, the share of the low-cost current and savings account (CASA) deposits remained negligible at 1.2% of total deposits as on March 31, 2024. Given the deposit concentration levels and the short duration, the branch deals in short-tenor advances to prevent any gaps in asset-liability maturities with a limited share of term loans. ICRA, however, notes that a sizeable portion of the deposits is non-callable before maturity (~24% of as March 31, 2024). This, along with access to the interbank market, excess holding of G-Secs and support from the HO, mitigates the liquidity risk to some extent.

Similar to the liabilities, the loan book concentration remains high with the share of the top 20 advances at 69% of the total advances and 206% of the total Tier I capital of the branch as on March 31, 2024. 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 borrower profile, mainly comprising high rated corporates, mitigates the same significantly.

Globally, QNB's liability profile remains strong with deposits accounting for ~71% of the total liabilities as on June 30, 2024.

**Despite improving, scale and profitability of Indian branch remain suboptimal** – The branch's overall scale of operations 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. 14.70 crore in FY2024 (Rs. 1.95 crore in FY2023), translating into core operating profitability of 1.05% of average total assets in FY2024 (0.14% in FY2023). 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 continue to be dependent on the branch's ability to grow the deposit base in a sustained manner.

Globally, QNB reported a net profit of \$4.26 billion in CY2023 (\$3.94 billion in CY2022), translating into a healthy return on assets (RoA) and return on equity (RoE) of 1.3% and 17.7%, respectively, for CY2023 (1.3% and 17.3%, respectively, in CY2022). Furthermore, the QNB Group reported a net profit of \$2.24 billion in H1 CY2024 (\$2.09 billion in H1 CY2023).

### Liquidity position: Adequate

The overall liquidity position of the Indian branch remains adequate with positive gaps across all the maturity buckets of up to one year as per the structural liquidity statement (SLS) as on June 30, 2024. The liquidity coverage ratio stood at 253.78% as on March 31, 2024, which was well above the regulatory requirement of 100%. However, given the high deposit concentration, 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 borrow from the interbank market as well.

## Rating sensitivities

**Positive factors** – NA

**Negative factors** – A material deterioration in QNB's credit profile will lead to a downgrade in the credit rating of its Indian branch.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Rating Methodology for Banks and Financial Institutions</a>
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 a ~50% stake through its investment arm – Qatar Investment Authority. The bank operates in more than 28 countries across three continents.

Given its dominant share, QNB is classified as a systemically important bank (SIB), which attracts a higher capital requirement; its ratios are comfortably above the minimum required levels. Globally, QNB provides wholesale and commercial banking and retail banking, including a wide range of financial services like wealth management, structured finance, transaction banking, etc. It offers a comprehensive range of advances, products and services to its customers through its subsidiaries and associates.

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

(QNB – India Branch)	FY2023	FY2024
Total operating income <sup>^</sup>	36.69	54.90
Profit after tax	0.09	-7.58
Total assets	1,169	1,637
Return on average total assets	0.01%	-0.54%
CET-I	51.85%	41.70%
CRAR	52.30%	42.06%
Gross NPA	7.91%	0.00%
Net NPA	0.00%	0.00%

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

All ratios as per ICRA's calculations

<sup>^</sup> Includes net interest income and non-interest income

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
		(Rs. crore)	Oct 04, 2024	Sep 18, 2023	Sep 19, 2022	-
Issuer Rating	Long term	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

Source: ICRA Research

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Issuer Rating	NA

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: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	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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