September 18, 2023

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 (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 $330.2 billion as on June 30, 2023. It has an international network in more than 28 countries across three continents, providing a comprehensive range of advances 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.

QNB commenced operations in India in FY2018 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 deposit profiles remain concentrated. Nevertheless, the overall branch's capitalisation profile is comfortable, but on a relatively small book.

QNB, as a whole, reported robust profitability, supported by its strong position in key markets, mainly 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 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 policy of 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 a SIB in Qatar as it is 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. Its total assets stood at $330.2 billion as on June 30, 2023 ($308.8 billion as on June 30, 2022).

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) to-risk weighted assets ratio of 51.8% as on March 31, 2023 (27.8% as on March 31, 2022). Going forward, stronger growth could potentially moderate the capital ratios from the current level as internal capital generation is likely to remain relatively muted for the branch. Nevertheless, the capitalisation profile of the branch 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 13.9%, 17.9% and 19.0%, respectively, as on March 31, 2023, 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 7.91% even though the branch had fully provided for the exposure in FY2022. As a result, the net NPA (NNPA%) was nil as on March 31, 2023. Moreover, the standard restructured book and overdue loans remained nil for the branch as on March 31, 2023, which remains a source of comfort. Further, ICRA expects the overall asset quality levels of the branch to remain satisfactory as the customer profile largely comprises high rated corporate exposures.

Likewise, QNB reported a non-performing loan (NPL) ratio (NPLs as a proportion of gross loans) of 3.0% as of June 2023 and loan loss coverage ratio of 99%. Over and above this the bank also holds ~$3.0 billion in additional risk reserves as on June 30, 2023.

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 73.70% of the total deposits as on March 31, 2023. Moreover, the share of the low-cost current and savings deposits (CASA) remained negligible at 1% of total deposits as on March 31, 2023. Given the deposit concentration levels and its 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 (~35% of as March 31, 2023). This, along with access to the interbank market, excess holding of Government securities 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 75% of the total advances and 285% of the total Tier I capital of the branch as on March 31, 2023. 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 ~76% of the total liabilities as on June 30, 2023

Weak profitability of India Branch partly due to limited scale – 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. 1.95 crore in FY2023 (Rs. 1.58 crore in FY2022), translating into core operating profitability of 0.14% of average total assets in FY2023 (0.13% in FY2022). 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 $ 3.94 billion in CY2022 ($ 3.6 billion in CY2021), translating into a healthy return on assets (RoA) and return on equity (RoE) of 1.3% and 17.3%, respectively, for CY2022 (1.3% and 16.4%, respectively, in CY2021). Furthermore, in H1CY2023, QNB Group reported a net profit of $ 2.09 billion ($1.93 billion in H1 CY2022).

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, 2023. The liquidity coverage ratio stood at 219.08% as on March 31, 2023, which was well above the regulatory requirement of 100%. However, given the 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 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	ICRA Rating Methodology for Banks and Financial Institutions
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 in the bank through its investment arm – Qatar Investment Authority. The bank operates in more than 28 countries across three continents, providing a comprehensive range of advances products and services to its customers through its subsidiaries and associates.

Moreover, given its dominant share, QNB is classified as a systemically important bank (SIB), which attracts a higher capital requirement, but the bank's ratios are comfortably above the minimum required level. 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.

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)

	FY2021	FY2022	FY2023
Net interest income	17.88	23.63	24.52
Profit before tax	-9.95	-40.04	3.48
Profit after tax	-7.47	-23.98	0.09
Net advances	598	839	608
Total assets	917	1,546	1,169
Net interest margin / Average total assets	1.74%	1.92%	1.81%
Return on assets	-0.73%	-1.95%	0.01%
Return on net worth	-2.38%	-8.13%	0.03%
CET-I	42.69%	27.84%	51.85%
Tier I	42.69%	27.84%	51.85%
CRAR	43.0%	28.2%	52.29%
Gross NPA	50	53	53
Net NPA	40	0	0
Provision coverage ratio (excl. technical write-offs)	20%	100%	100%
Net NPA/Core capital	12.72%	0.00%	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

	Name of Scheme	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 19, 2022 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Sep 18, 2023	Sep 19, 2022	-	-
1	**Issuer Rating**	Long Term	-	-	**[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 instruments 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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About ICRA Limited:

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 (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches