Credit Rating Report (Surveillance)

IPDC Finance Limited

Assigned Rating:

Long Term	:	**AA_1**
Short Term	:	**ST-1**
Outlook	:	**Stable**
Date of Rating	:	24 June 2021
Valid Till	:	30 June 2022

Methodology: CRAB's FIs Rating Methodology (www.crab.com.bd)

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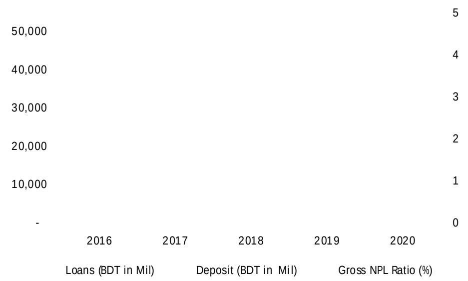
RATING BASED ON: Audited financial statements up to 31 December 2020, unaudited financial statements as of 31 March 2021 and other relevant quantitative as well as qualitative information up to the date of rating declaration.



■ PROFILE

IPDC Finance Limited was incorporated in 1981 and commenced its commercial operation in 1983 as the first private sector financial institution with a vision to be the most innovative financial institution of the country. It was formerly known as "Industrial Promotion and Development Company of Bangladesh Limited". IPDC went for public issue of its shares in 2006 and its shares are listed with both DSE and CSE. IPDC offers financing and investment services for corporate, retail as well as SME customers. The paid up capital of the Company reached BDT 3,710.9 million at the end of 2020. Presently, the Company is operating all over the country through its 12 branches with diversified product line. It has a customer base of more than 14,700 clientele. IPDC also has launched "Orjon" which is the first-ever block-chain based solution for SME credit, in collaboration with IBM.

■ RATING STRENGTH

- Strong ownership structure, strong business links and considerable brand image in FI sector
- Substantial customer base and ability to provide creating distinctive products and services for consumers
- Strong capitalization with high Tier 1 capital
- Very low large loan concentration
- Sound Asset quality
- Maintenance of excess provision for loans as a cushion
- Earning generation capacity

■ RATING CHALLENGES

- Moderate cost to income ratio
- Relatively high funding cost results in lower net interest margin. The Company's profitability in terms of risk return perspective was also low.

■ RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has affirmed **AA_1** (Pronounced Double A One) rating in the long term and **ST-1** rating in the short term of IPDC Finance Limited based on audited financials up to 31 December 2020, unaudited financial statements as of 31 March 2021 and other relevant information. The rating reflects the Company's sound capital adequacy with strong tier 1 capital, sound assets quality, maintenance of substantial additional provision, good earning generation capacity as well as relatively lower large loan concentration. The rating also emphasizes on the Company's strong ownership structure and strong business links. Besides, the Company's focus on IT development and creating distinctive products and services for consumers through block chain technology are also considered at the time of assigning rating. On the other hand, principal concerns of the Company are moderate cost to income ratio and relatively high funding cost result in lower net interest margin.

Initially IPDC was established by a distinguished group of shareholders. After going through many changes, presently IPDC is owned by BRAC (25% share), Government of Bangladesh (21.88%), Ayesha Abed Foundation (10% of total), Bluechip Securities Limited (8.04%) and RSA Capital Limited (5% of total). Therefore, the Company has strong business links and has considerable brand image in FI sector. These are reflected in IPDC's substantial customer base and its continuous efforts in creating distinctive products and services for consumers.

In spite of the uncertainties hovering around due to COVID-19, total asset of IPDC grew by 18.0% in 2020 and reached BDT 75,969.4 million. The Company's asset composition changed marginally as the Company was cautious due to ongoing pandemic and focused on liquidity rather than any aggressive loan growth. Therefore, IPDC's disbursement reduced by 37.1% in 2020 compared to that of its previous period, whereas substantial investment was made in government securities during the same period.

In 2020, loan portfolio of IPDC grew marginally (by 5.7%) and reached BDT 53,609.7 million. In 2020, total loan portfolio of IPDC was dominated by corporate loans (45.0% of total) followed by SME loans (30.7% of total) and retail loans (by 24.2% of total). SME clients as well as portfolio increased substantially in recent years. Therefore, IPDC enjoys very low large loan concentration in recent years. At the end of 2020, top 20 borrower accumulated to 11.9% of total loan portfolio (2019: 12.5%). It is observed that major portion of NPL came from corporate loans (in 2020, 50.1% of total classified loans). However, the Government declared loan moratorium up to December 2020 to support the financial institutions as well as borrowers due to pandemic. Therefore, there was no fresh NPL generation during 2020 is reported. Besides, IPDC remained cautious for new disbursement as well monitoring and supervision throughout the year. As a result gross NPL (in absolute amount) reduced to BDT 742.0 million at the end of 2020 from BDT 795.8 million in 2019. Therefore, gross NPL ratio reduced to 1.4% at the end of 2020. Gross NPL ratio of 0.95% at the end of Mar'21. IPDC maintained additional provision of BDT 528.2 million over regulatory requirement in 2020 as a cushion.

Total capital (tier 1+tier 2) of IPDC increased substantially to BDT 7,249.4 million in 2019 on the back of internal capital generation. Therefore, CRAR stood high at 18.5% having tier 1 ratio of 14.4 at the end of 2020.

IPDC has relatively less dependence on outside borrowing compared to other FIs in the industry on the back of its substantial customer base due to its diverse product portfolio. IPDC's asset was strongly funded by deposit (69.0% of total) followed by inter-bank borrowing & bonds (by 14.4% of total) and equity (by 8.0% of total). IPDC's total deposit grew by 13.1% in 2020 and reached BDT 63,402.8 million. Along with consistent deposit growth, there was a gradual shift to individual and retail deposit from institutional deposit in recent years. These shifting eventually helping IPDC to stabilize its funding position while reducing cost of deposit and borrowing. Average cost of deposit & borrowing of IPDC reduced to 8.4% in 2020 (2019: 9.9%). The Company's liquid asset to total deposit & borrowings was 28.6% in 2020 (2019: 18.3%).

Along with the impact of ongoing pandemic, the reduced lending rate in the banking industry affected from April 2020 resulted in significantly lower interest income in 2020. Therefore, contribution of net interest income decreased significantly, whereas contribution of non-funded income increased during 2020. Total operating income of IPDC reached BDT 22,829.8 million in 2020 registering growth of 30.7% on the back of substantial investment income. On the other hand, total operating expense of IPDC was BDT 1,150.2 million in 2020. Efficiency on terms of cost to income ratio was moderate. Provision expenses increased substantially during 2020 mainly resulted from increased general provision; major portion of which was kept as surplus as a cushion. As an overall effect, profit after tax reached BDT 705.6 million in 2020 from registering growth of 25.4%. NIM was 3.2% in 2020. Profitability of IPDC in respect of risk return perspective was low at 1.8% in 2020.

Besides the above, IPDC's owners are predominantly from well-known local and foreign institutions which ensure presence of good governance and compliance within the Company.

The Company's operations as well as revenue will be impacted by ongoing COVID-19 pandemic like any other enterprise. Besides, the withdrawal of loan moratorium will also hit the loan portfolio. However, IPDC's strong market presence, brand value and innovative and diversified product portfolio along with digitization compared to other market players will enable the Company to maintain better communication among distribution partners as well as clients, which will enable IPDC to maintain its market share in the long run.

CRAB RATING SCALES AND DEFINITIONS

LONG-TERM CREDIT RATING: FINANCIAL INSTITUTION

RATING	DEFINITION
AAA Triple A (Extremely Strong Capacity & Highest Quality)	Financial Institutions rated 'AAA' have extremely strong capacity to meet their financial commitments. 'AAA' is the highest issuer credit rating assigned by CRAB. AAA is judged to be of the highest quality, with minimal credit risk.
AA_1, AA_2, AA_3* Double A (Very Strong Capacity & Very High Quality)	Financial Institutions rated 'AA' have very strong capacity to meet their financial commitments. They differ from the highest-rated Financial Institutions only to a small degree. AA is judged to be of very high quality and is subject to very low credit risk.
A_1, A_2, A_3 Single A (Strong Capacity & High Quality)	Financial Institutions rated 'A' have strong capacity to meet their financial commitments but are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than Financial Institutions in higher-rated categories. A is judged to be of high quality and are subject to low credit risk.
BBB_1, BBB_2, BBB_3 Triple B (Adequate Capacity & Medium Quality)	Financial Institutions rated 'BBB' have adequate capacity to meet their financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the Financial Institutions to meet their financial commitments. BBB rated FIs are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
BB_1, BB_2, BB_3 Double B (Inadequate Capacity & Substantial Credit Risk)	Financial Institutions rated 'BB' are less vulnerable in the near term than other lower-rated Financial Institutions. However, they face major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which might lead to inadequate capacity to meet their financial commitments. BB is judged to have speculative elements and is subject to substantial credit risk.
B_1, B_2, B_3 Single B (Weak Capacity & High Credit Risk)	Financial Institutions rated 'B' are more vulnerable than the Financial Institutions rated 'BB', but the Financial Institutions currently have the capacity to meet their financial commitments. Adverse business, financial, or economic conditions are likely to impair the capacity or willingness to meet their financial commitments. B is considered speculative and weak capacity and is subject to high credit risk.
CCC_1, CCC_2, CCC_3 Triple C (Very Weak Capacity & Very High Credit Risk)	Financial Institutions rated 'CCC' are currently vulnerable, and are dependent upon favourable business, financial, and economic conditions to meet their financial commitments. CCC is judged to be of very weak standing and is subject to very high credit risk.
CC Double C (Extremely Weak Capacity & Extremely High Credit Risk)	Financial Institutions rated 'CC' are currently highly vulnerable. CC is highly speculative and is likely in, or very near, default, with some prospect of recovery of principal and interest.
C Single C (Near to Default)	A 'C' rating is assigned to Financial Institutions that are currently highly vulnerable to non-payment, having obligations with payment arrearages allowed by the terms of the documents, or obligations that are subject of a bankruptcy petition or similar action but have not experienced a payment default. C is typically in default, with little prospect for recovery of principal or interest.
D (Default)	'D' is in default. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Note: *CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through CCC. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*

SHORT-TERM CREDIT RATING: FINANCIAL INSTITUTION

RATING	DEFINITION
ST-1 Highest Grade	Financial Institutions rated in this category are considered to have the highest capacity for timely repayment of obligations. Financial Institutions rated in this category are characterised with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds.
ST-2 High Grade	Financial Institutions rated in this category are considered to have strong capacity for timely repayment. Financial Institutions rated in this category are characterised with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-3 Average Grade	Financial Institutions rated in this category are considered to average capacity for timely repayment of obligations, although such capacity may impair by adverse changes in business, economic, or financial conditions. Financial Institutions rated in this category are characterised with satisfactory level of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-4 Below Average Grade	Financial Institutions rated in this category are considered to have below average capacity for timely repayment of obligations. Such capacity is highly susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories. Financial Institutions rated in this category are characterised with average liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-5 Inadequate Grade	Financial Institutions rated in this category are considered to have inadequate capacity for timely repayment of obligations susceptible to adverse changes in business, economic, or financial conditions. Financial Institutions rated in this category are characterised with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-6 Lowest Grade	Financial Institutions rated in this category are considered to have obligations which have a high risk of default or which are currently in default. Financial Institutions rated in this category are characterised with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.

The rating committee of CRAB is the final authority to award a rating. The rating committee of CRAB is comprised of external independent persons who are not members of the board of the company and they ensure the independence of rating.