

PRESS RELEASE

NATIONAL LAGHUBITTA BITTIYA SANSTHA LIMITED

September 2025

Rating

Instruments/ Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB+ (Is)	Upgraded from IRN BB (Is)

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has upgraded the issuer rating to IRN BB+ (Is) [Double B Plus (Issuer)] from IRN BB (Is) [Double B (Issuer)]. Issuers with this rating are considered to have the moderate risk of default regarding timely servicing of financial obligations. Such issuers carry moderate credit risk.

Detailed Rationale

The upgradation of rating assigned to National Laghubitta Bittiya Sanstha Limited (NMFBS) derives comfort from increase in overall scale of business with NMFBS recording ~23% and ~19% Y-On-Y growth in FY25 over FY24 in deposits and advances respectively. The rating also factors in adequate capitalization level with CAR being 11.35% and Tier-I capital being 9.70% as of FY25 end with sufficient cushion over the minimum regulatory requirement of 8% and 4% respectively. The rating also factors in overall improvement in its financial profile with interest income surging by ~17%, non-interest income by ~22% and Total Operating Income (TOI) by ~17% in FY25 over FY24. Also, the interest spread rose to 6.63% in FY25 vis-à-vis 4.42% in FY24 resulting in rise of the operating profit before provisions by ~72% and PAT by ~136%. Likewise, the rating continues to derive strength from its long track record of operations, strong promoter profile with major shareholders being Nepal Investment Mega Bank Limited and Kumari Bank Limited. The rating also continues to factor in the synergistic effect observed from merger with Summit Laghubitta Bittiya Sanstha Limited characterized by post-merger increase observed in major financial metrics. Diversified credit portfolio coupled with granularity also remains a rating positive.

However, these rating strengths are constrained by its continuing asset slippages as indicated by high GNPL of ~4.11% as on mid-July 2025 (~3.69% in FY24) and the increasing delinquencies of over 30 days with 30+ days delinquencies standing at ~13.54% of total portfolio in FY25 vis-à-vis ~10.38% in FY24. Amidst the strong economic downturns in recent years, the asset quality of NMFBS being better than industry average of retail MFI's (9.07% in FY24 and 7.55% in Q3FY25) provides some comfort. The rating is constrained further by large and increasing ticket size (~NPR 207,000 in FY24) as against industry average of ~NPR 162,000, increased reliance on costlier banks borrowings (~75% of total portfolio constitutes bank borrowings in FY25) resulting in costlier source of funds and negative cumulative mismatches except over 1 year. The rating is further constrained by decreasing collateral based loans (only ~15% of total loan portfolio is backed by collateral at the end of FY25 vis-à-vis ~21% in FY24), however, the securing of majority of loans (~75% of entire portfolio) by government owned Deposit and Credit Guarantee Facility(DCGF) provides some comfort. Fragmented Microfinance Industry with stiff competition, capping of interest chargeable by MFIs at 15% with service fee capped off at 1.3% and limitation to provide collateral backed loans up to 1/3rd of loan portfolio makes the MFIs riskier and hinders further growth opportunity. Going forward, the ability of the company to upscale its size of businesses while improving the profitability metrics and reducing further slippages in asset quality will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record of operations coupled with strong promoter profile and experienced management team

Established in 2014 AD, NMFBS boasts over a decade of operational history. Similarly, NMFBS have strong promoter profile with presence of strong institutional promoters namely Nepal Investment Mega Bank Limited and Kumari Bank Limited. Alongside strong promoter group, NMFBS has experienced board of directors chaired by Mr. Keshav Prasad Acharya. Mr. Acharya brings in decades' of experience in central bank and related sectors. Additionally, the management team is led by Mr. Ram Bahadur Yadav, CEO having more than 27 years of experience. He is further supported by group of well experienced and qualified personnel.

Improving profitability indicators coupled with increasing scale of operations

The company has exhibited strong operational and financial performance, with consistent growth across FY24 and FY25, supported by efficient asset utilization and a favorable liquidity environment. In FY25, deposits and advances grew by 15.94% and 23.56%, respectively, contributing to ~16% growth in interest income, while interest expenses declined by ~3%, resulting in ~45% growth in net interest income. Non-interest income also increased by ~22% during the year, while profit before provisions rose by ~72%. Profit before tax more than doubled to NPR 677 Mn in FY25 from NPR 338 Mn in FY24, and profit after tax registered a robust increase of ~136%. Profitability was further strengthened by an improvement in margins, with the net interest spread widening to 6.63% in FY25 from 4.42% in FY24. Although asset quality pressures persist, the GNPA ratio stood at 4.11% in FY25 (against 3.69% in FY24), while the provision coverage ratio improved to ~114% in FY25 from ~102% in FY24, reflecting enhanced loss absorption capacity. Also, the synergy derived from the merger with Summit Laghubitta Bittiya Sanstha Limited in FY23 end remains a positive.

Adequate capitalization level

NMFBS's capitalization remained adequate, with the overall Capital Adequacy ratio (CAR) at 11.35% and the Core Equity Tier-I (CET-I) ratio at 9.70%, comfortably above the regulatory minimums of 8% and 4%, respectively. This underscores NMFBS's ability to maintain a healthy capital cushion against potential future shocks. As of FY25, the company has a paid-up capital base of ~NPR 1,332 Mn, significantly higher than NRB's minimum requirement of NPR 100 Mn for national-level retail microfinance institutions. Furthermore, NMFBS has plans to issue an FPO to the general public to support business expansion and debt repayment, which is expected to further strengthen its capital position. The company's ability to maintain compliance with regulatory capital requirements while ensuring productive utilization of funds will remain a key rating monitorable.

Key Rating Weaknesses

Weak asset quality further strained by decreasing collateral backed loans

NMFBS has continuing asset slippages with GNPL increasing to 4.11% at end of FY25 vis-à-vis 3.69% at the end of FY24 and the delinquent portion of portfolio (overdue by >30 days) stood at 13.54% of total portfolio in FY25 vis-à-vis 10.38% in FY24. The provision coverage ratio was 114.15% at the end of FY25. Amidst the strong economic downturns in recent years, the asset quality of NMFBS being better than industry average provides some comfort. However, the asset quality of NMFBS is further strained by its low and decreasing collateral backed loans (only ~15% of total loan portfolio is backed by collateral at the end of FY25 vis-à-vis ~21% in FY24). The absence of collateral backed loans significantly increases the credit risk and might ultimately lead to rising NPA's. However, the securing of majority of loans (~75% of entire portfolio) by government owned Deposit and Credit Guarantee Facility(DCGF) along with the mandatory requirement for borrowers of NMFBS to underwrite term insurance policies offers some comfort. The ability of management to improve its asset quality and reduce asset slippages while expanding its business is key monitorable.

Increase in reliance on costly bank borrowings constraining cost of funds and ultimately Net Interest Margins

NMFBS primarily sources its funding through two channels namely bank borrowings and members' deposits. Given that members' deposits typically carry a lower cost compared to bank borrowings, maintaining a higher proportion of deposits is financially advantageous for the institution. However, in FY25, the proportion of deposits continues to decrease with same reaching ~25% from 28% in FY24, 31% in FY23 and 33% in FY22, indicating an increasing reliance on bank borrowings. This shift suggests a growing dependence on higher-cost funding sources, which impacts the cost efficiency in long run. However, owing to backdrop of excess liquidity in Nepalese economy, the interest rate has fallen substantially with cost of deposits remaining at 7.04% in FY25 as compared to 9.73% in FY24, 8.43% in FY23 and 8.35% in FY22. Regardless once the liquidity issue resolves and interest rate rises across the banking sector, NMFBS is set to take a negative impact due to increased cost of funds owing to such heavy reliance on high cost external borrowings and is a key rating monitorable.

Regulatory risk

Microfinance Institutions (MFIs) operate in a highly regulated environment, with stringent limits and requirements set by the Nepal Rastra Bank (NRB). The cap on interest rates, which limits the interest chargeable on loans and advances to 15% and the service fee that MFIs can charge on loans has been reduced to 1.3% from 1.5%. These caps negatively impact both interest and non-interest income for MFIs. Furthermore, the regulation restricting collateral-backed loans to one-third of the total portfolio forces MFIs to extend credit to higher-risk individuals with minimal security, increasing pressure on asset quality. Banks are also discouraged from lending to MFIs due to the restriction that limits interest charges to a 2% premium over the base rate, making it more challenging for MFIs to access funds. Moreover, the lowered Capital Adequacy Ratio (CAR) requirement of 8% combined with a liberal loan ceiling of NPR 0.5 Mn per person for unsecured new borrowers increases the credit risk across the microfinance sector. These regulatory constraints collectively heighten the operational and financial challenges for MFIs.

Fragmented market with intense competition

Currently, there are 52 microfinance companies with 49 retail and 3 wholesale MFI's operating with total 4,958 branches all over Nepal (based on monthly statistics published by NRB for Mid-April, 2025) out of that NMFBS has 185 branches. Industry (Class 'D' Retail Microfinance Institutions) has total deposits of NPR 186,866 Mn and total advances of NPR 464,869 Mn as of mid-April 2025; NMFBS's share on total deposits was ~3.37% (NPR 6,304 Mn) and on advances is 5.53% (NPR 24,038 Mn) for the same period (As of mid-April 2025, NMFBS's share on savings and total loans and advances was ~3.23% and 4.96% respectively). It is challenging for NMFBS to maintain current market share and expand its business, due to high competition among bank and finance companies, existence of large number of micro finance companies along with Cooperatives conducting similar kind of businesses.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

[Bank Rating Methodology](#)

Link to past rating rationale:

[National Laghubitta Bittiya Sanstha Limited: Issuer Rating Assigned](#)

About the Company:

National Laghubitta Bittiya Sanstha Limited (NMFBS) is a retailer "D" class microfinance company incorporated in October 2013 in the name of National Microfinance Laghubitta Bittiya Sanstha Limited. It merged with Summit Laghubitta Bittiya Sanstha Limited to become National Laghubitta Bittiya

Sanstha Limited on July 15, 2023. It is one of the retail level microfinance companies in Nepal with 184 branches (including head office branch) covering all seven provinces of Nepal. The paid-up capital and the net worth of the company as of mid-July 2025 is ~NPR 1,332 Mn and NPR 3,236 Mn respectively. The major shareholders as on mid-July 2024 include Nepal Investment Mega Bank Limited (13.05%), Kumari Bank Limited (9.49%) among others.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24	FY25
	Audited	Audited	Audited	Audited	Unaudited
Interest Income	961	1,580	1,666	2,714	3,162
Total Income	1,110	1,691	1,756	2,911	3,401
Net Interest Income	627	811	660	1,118	1,566
Profit After Tax	316	335	227	201	474
Deposits	2,591	3,128	4,524	5,245	6,465
Borrowings	6,348	6,360	9,871	13,199	19,016
Advances (Net Figure)	9,261	10,699	16,753	20,304	23,977
Total Assets	10,493	11,535	17,816	22,146	29,835
Total Number of Members	138,363	147,105	217,865	227,656	248,435
Ticket Size(NPR)	119,450	137,931	150,300	193,843	207,200
Interest Rate Spread (%)	8.93	6.98	3.34	4.42	6.63
Total CAR (%)	9.16	11.47	11.34	10.20	11.33
Tier-I Capital (%)	8.51	10.21	10.19	8.55	9.68
Gross NPL to Gross Advances (%)	2.94	3.59	3.53	3.69	4.11
Provision Coverage Ratio (%)	108.37	88.94	83.74	102.05	114.15
Cost of Funds (%)	4.89	8.35	8.43	9.73	7.04
Credit to Deposit Ratio (%)	107.02	116.48	119.93	114.40	98.73

* Classification as per Infomerics Nepal Standard

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About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

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