

## PRESS RELEASE

### NATIONAL LAGHUBITTA BITTIYA SANSTHA LIMITED

March 2026

#### Rating

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

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has upgraded the issuer rating to IRN BBB- (Is) [Triple B Minus (Issuer)] from IRN BB+ (Is) [Double B Plus (Issuer)]. Issuers with this rating are considered to have the moderate degree of safety 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 sustained increase in overall scale of business with NMFBS recording ~9% and ~6% Y-On-Y growth in 7MFY25 over FY25 in deposits and advances respectively. The rating also factors in adequate capitalization level with CAR being 12.38% and Tier-I capital being 10.73% as of 7MFY26 end with sufficient cushion over the minimum regulatory requirement of 8% and 4% respectively. The rating also factors in steady improvement in its financial profile with interest income surging by annualized growth of ~3% and large sustained interest rate spread of 6.24%. The combination of increasing interest income and large interest spread coupled with reducing provisioning expenses has led to annualized Y-On-Y increase in PBT and PAT by ~29% and ~26% respectively in 7MFY26 over audited figures of FY25. 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 ~4.81% as on mid-February 2026 (~5.45% in FY25) and the increasing delinquencies of over 30 days with 30+ days delinquencies standing at ~19% as on Mid-February 2026 against ~13.54% of total portfolio in FY25. Amidst the strong economic downturns in recent years, the asset quality of NMFBS being better than industry average of retail MFI's (8.60% in FY25 and 8.55% in Q1FY26) provides some comfort. The rating is constrained further by large and increasing ticket size (~NPR 213,553 in 7MFY26 vis-à-vis NPR 207,000 in FY25), heavy reliance on costlier banks borrowings (~68% 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 ~12% of total loan portfolio is backed by collateral at the end of 7MFY26 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 1/3<sup>rd</sup> 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's financial performance demonstrates a positive trajectory in the latest period compared to the previous year, supported by steady growth in core banking operations. Deposits and advances increased by ~8.73% and ~5.51%, respectively, reflecting sustained business expansion. Interest income registered moderate growth of ~3.06%, while interest expenses rose at a slower pace of ~1.9%, resulting in a ~4% increase in net interest income. Additionally, non-interest income exhibited strong growth of ~19%, further supporting overall earnings. Despite a relatively moderated interest spread of ~6.24% in 7MFY26 (compared to ~6.99% in FY25), the company benefited from efficient asset utilization amid excess liquidity in the Nepalese economy. Consequently, profitability improved significantly, with Profit Before Tax increasing by an annualized ~29% to NPR 608 million in 7MFY26, and Profit After Tax growing by ~26% on an annualized basis. Overall, the financial indicators reflect a healthy and improving earnings profile. 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 and has improved, with the overall Capital Adequacy ratio (CAR) at 12.38% and the Core Equity Tier-I (CET-I) ratio at 10.15% as of Mid-February 2026, 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 mid-February 2026, the company has a paid-up capital base of ~NPR 1,521 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 5.45% at end of FY25 against the provisional figures of 4.11% for same period with the later improving to 5.19% as of Mid-February 2026. Likewise, the delinquent portion of portfolio (overdue by >30 days) stood at ~19.71% as of Mid-February 2026 against 13.54% of total portfolio in FY25. The provision coverage ratio was ~90% in Mid-February 2026 against ~86% in Mid-July 2025. Amid the economic slowdown in recent years and subsequent regulatory directive changes, certain loans previously classified under the restructured category have been reclassified as non-performing assets. This has led to an increase in Gross Non-Performing Assets (GNPA); however, as no additional provisioning requirement arose, the impact on profitability remained negligible. Likewise, the asset quality of NMFBS is further strained by its low and decreasing collateral backed loans (only ~12% of total loan portfolio is backed by collateral at the end of 7MFY26 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.

## **Heavy 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 remain on lower side with same reaching ~32% in 7MFY26 from ~25% in FY25, 28% in FY24, 31% in FY23 and 33% in FY22, indicating heavy 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 6.62% in 7MFY26 as compared to 7.04% in FY25, 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 4,942 branches all over Nepal (based on monthly statistics published by NRB for Mid-September, 2025) out of that NMFBS has 185 branches. Industry (Class 'D' Retail Microfinance Institutions) has total deposits of NPR 200,625 Mn and total loans and advances of NPR 448,830 Mn in Q1FY26; NMFBS's share on total deposits is ~3.23% (NPR 6,485 Mn) and on total loans and advances is 5.72% (NPR 25,688 Mn) for the same period. (As on Q3FY25, NMFBS's share on deposits and total loans and advances was ~3.37% and 5.53% 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 Revised](#)

**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-February 2026 is ~NPR 1,521 Mn and NPR 3,786 Mn respectively. The major shareholders as on mid-July 2025 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	1,580	1,666	2,714	3,272	1,967
Total Income	1,691	1,756	2,911	3,494	2,121
Net Interest Income	769	1,007	1,596	1,547	920
Profit After Tax	811	660	1,118	1,725	1,047
Deposits	335	227	201	580	425
Borrowings	3,128	4,524	5,245	6,465	7,029
Advances (Net Figure)	6,360	9,871	13,199	19,016	15,125
Total Assets	10,699	16,753	20,304	20,304	25,748
Total Number of Members	11,535	17,816	22,146	29,951	27,459
Ticket Size(NPR)	147,105	217,865	227,656	248,435	260,379
Interest Rate Spread (%)	137,931	150,300	193,843	207,200	213,553
Total CAR (%)	6.98	3.34	4.42	6.99	6.24
Tier-I Capital (%)	11.47	11.34	10.20	10.15	12.38
Gross NPL to Gross Advances (%)	10.21	10.19	8.55	8.71	10.73
Provision Coverage Ratio (%)	3.59	3.53	3.69	5.45	5.19
Cost of Funds (%)	88.94	83.74	102.05	86.12	89.49
Credit to Deposit Ratio (%)	8.35	8.43	9.73	7.05	6.62

\* Classification as per Infomerics Nepal Standard

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# Infomerics Credit Rating Nepal Limited

## **About Infomerics Credit Rating Nepal Limited:**

Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit <https://infomericsnepal.com/>

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