

## Nepal Finance Limited: Rating withdrawn

November 6, 2023

### Summary of rating action

Instrument	Rated Amount (NPR Million)	Rating Action
Issuer Rating	NA	Rating withdrawn

### Rating action

ICRA Nepal has withdrawn the issuer rating of [ICRANP-IR] C+ (pronounced ICRA NP issuer rating C plus) assigned to Nepal Finance Limited (NFS). The rating action has been taken in accordance with the Credit Rating Regulations 2011, following the non-cooperation from NFS for rating information despite multiple follow-ups. Prior to this withdrawal, the rating was kept on notice of withdrawal for a period of six months, during which also there was no cooperation from the company for rating surveillance.

### Rationale

ICRA Nepal is withdrawing the rating as it has limited information to suggest whether the credit risk has changed since the time the rating was last reviewed. According to the data available on the company's website, NFS has raised equity to NPR 728 million as of mid-July 2023 and will meet the minimum regulatory capital requirement of NPR 800 million (for national level class-C finance companies) once the auction of unsubscribed rights issue is completed. The company's business portfolio is on an increasing trajectory while the gross NPLs continued to remain higher at 12.16% as of mid-July 2023.

ICRA Nepal assesses whether the information available about the entity is commensurate with its rating and reviews the same as per Credit Rating Regulations 2011 as well as ICRA Nepal's 'Withdrawal/Suspension Policy' available at [www.icranepal.com](http://www.icranepal.com). As a part of its process and in accordance with its rating agreement with NFS, ICRA Nepal has been trying to seek comprehensive information from the entity to monitor its performance, but despite repeated requests by ICRA Nepal, the entity's management has remained largely non-cooperative. In the absence of requisite information and in line with the aforesaid policy of ICRA Nepal, the rating has been withdrawn.

### Link to previous detailed rating rationale

[Rating moved to 'Issuer not cooperating' category with notice for rating withdrawal – April 2023](#)

[Rating rationale – September 2021](#)

**Analytical approach:** For arriving at the rating, ICRA Nepal has applied its rating methodology as indicated below.

### Links to applicable criteria

[Issuer Rating Methodology](#)

[Bank Rating Methodology](#)

[ICRA Nepal's Policy on Withdrawal of Credit Rating](#)

## About the company

Nepal Finance Limited (NFS) started its commercial operations in July 1992. It is the first finance company in Nepal's private sector. NFS is registered as a public limited company and is licensed by the NRB as a national-level class-C finance company.

NFS was declared problematic<sup>1</sup> by the NRB on December 3, 2014, citing inadequate governance and internal control, poor asset quality, negative capitalisation profile, low share capital compared with the regulatory requirement and breach of regulatory directions. The company was granted a conditional release from the problematic status on December 6, 2019, which now allows it to conduct its business such as accepting deposits, extending loans and opening new branches. As per the NRB's provision, NFS has to increase its paid-up capital to NPR 800 million within two years from the date of release from the problematic status; the company's equity capital stood at NPR 728 million as of mid-July 2023.

NFS acquired Lalitpur Finance Limited (LFC), another C-class financial institution at a swap ratio of 1:1 and commenced joint operation on July 11, 2021. LFC was also declared problematic on March 30, 2015, by the central bank and released from the problematic status on December 13, 2017, with terms of raising the minimum paid-up capital within two years, lowering the bad debt to regulatory requirement level, strengthening the corporate governance, and ensuring a robust internal control system and risk management.

As of mid-July 2023, NFS has a small scale of operation with nominal market share in the banking industry and is operating through a network of 12 branches (including head office) and two extension counters. NFS reported a profit after tax (PAT) of ~NPR 26 million in FY2023 (YoY growth of ~3%) over an asset base of ~NPR 3,144 million as of mid-July 2023. NFS's reported CRAR was 42.62% and gross NPLs were 12.16% as of mid-July 2023.

## Key financial indicators

KEY FINANCIAL NUMBERS (Amount in NPR million) YEAR ENDED	Jul 2020 (Audited)	Jul 2021 (Audited)	Jul 2022* (Audited)	Jul 2023* (Provisional)
Gross loans and advances	122	565	1,184	1,371#
Deposits	209	657	1,474	1,653
Paid-up capital	136	493	725	728
Net worth	232	695	964	997
Total asset base	473	1,472	2,785	3,144
<b>OPERATING RATIOS</b>				
Gross NPAs	68.63%	46.35%	14.07%	12.16%
<b>CAPITALISATION RATIOS</b>				
Capital adequacy ratio	56.75%	64.35%	44.69%	42.62%
<b>COVERAGE &amp; LIQUIDITY RATIOS</b>				
Total liquid assets/Total liability	82.42%	70.37%	46.65%	47.79%
Total advances/Total deposits	58.34%	85.91%	80.33%	82.95%

Source: Company Data

\*Data of Mid-July 2022 and Mid-Jan 2023 obtained from company's website.

#Net loans and advances

<sup>1</sup> NRB can declare a BFI a problematic one because of various reasons, including poor management, inadequate financial resources, absence of long-term sustainable business strategy, weak asset quality, poor internal control system, poor governance and so forth. A problem bank/BFI, at the initial stage, is principally subjected to the direct supervision of the NRB. If the deficiencies persist even after taking the necessary corrective steps under various modalities, the bank/BFI is subject to insolvency action and finally liquidated in accordance with the applicable laws.

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## About ICRA Nepal Limited

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Our parent company, 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.

For more information, visit [www.icranepal.com](http://www.icranepal.com)

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