

Kamana Sewa Bikas Bank Limited

Rating

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer Rating)]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to Kamana Sewa Bikas Bank Limited (KSBBL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to KSBBL factors in sustained uptick, albeit relatively controlled vis-à-vis the industry, in the bank's Gross Non-Performing Loans (GNPL) in FY25 (FY refers to the twelve-month period ending mid-July). The banking industry of Nepal has been reporting sequentially higher GNPLs over the past three fiscals amid a myriad of factors notwithstanding the lingering impact of relaxations provided during the pandemic era coupled with the relatively sluggish pace of economic growth over this period. The persistence of a challenging macroeconomic and operating environment for the banking sector amid a turbulent political scenario further heightens concerns regarding the sector's incremental asset quality trajectory, exerting further pressure on profitability and capitalization levels. Nonetheless, KSBBL's performance over the past three years has been relatively steady and satisfactory factoring industry headwinds. Consequently, the bank's return indicators, albeit moderated as compared to historical trend, remain favorable as compared to industry peers. KSBBL's relatively higher operating expenses ratio also offsets the advantages of relatively low cost of funds to an extent. The rating is further inhibited by modest liquidity profile, and moderate concentration over top 20 depositors. The rating also factors in the bank's exposure to the regulatory risk. Subdued scope for credit growth over the near-term could add to the margin pressure of the bank over the near term, which remains a monitorable for the sector. The rating, however, continues to derive strength from KSBBL's long track record of operations with experienced board and management team, diversified and expanding advances portfolio, and a growing investment book, which collectively underpin its business stability and resilience. The rating also takes note of improvement in capitalization profile, despite the deteriorating asset quality, supported by increased profitability and also, in part, owing to rebalancing of portfolio towards lower risk segments. Furthermore, the rating also draws strength from the bank's moderate Current Account Saving Account (CASA) deposits level and relatively steady financial performance during FY25.

Going forward, the bank's ability to control incremental slippages while improving asset quality and capital adequacy ratio and its ability to manage the impact of any regulatory changes will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Declining trend in assets quality amid industry headwinds

KSBBL continues to maintain better asset quality indicators vis-à-vis the industry average. However, the asset quality indicators continue to moderate on a year-on-year basis amid challenging industry scenario. KSBBL's Gross Non-Performing Loan (GNPL) increased to 3.49% as on mid-July 2025, slightly up from 3.36% as on mid-July 2024. It nonetheless remained lower than the industry average of 5.03% at the end of FY25. GNPL levels of the Nepalese banking industry have observed sharp uptick from FY23 onwards following expiration of COVID related relaxations by the central bank from

¹Complete definitions of the ratings assigned are available at <https://www.careratingsnepal.com/> and in other CRNL publications

mid-July 2022. The surge in GNPL ratios since is also reflective, to some extent, of the aggressive credit growth during the pandemic era. Asset quality further deteriorated in FY25 amid lower-than-expected economic growth and government expenditure, despite sequential revival of economy as compared to previous periods. SME and retail sector continue to face major challenges in terms of repayment ability. Amid likely slowdown in economy in FY26 following the recent political upheaval in September 2025, the banking sector might continue to report further uptick in GNPLs over the near term.

Modest liquidity profile

KSBBL has a modest liquidity profile with negative cumulative balances over 1-90 days, 91-180 days, 181-270 days and 271-365 days bucket as of mid-July 2025. It has maintained SLR of 22.79% as on July 16, 2025 and 22.43% as on July 16, 2024 vis-à-vis regulatory requirement of 10%; CRR of 4.12% and 4.05% at the last reporting week of FY25 and FY24 vis-à-vis regulatory requirement of 4%. Likewise, its Net Liquidity Ratio stood at 24.29% at the end of FY25, as compared to 24.69% in FY24 vis-à-vis regulatory requirement of 20%.

Moderate CASA ratio

KSBBL's CASA mix as on mid-July 2025 remains moderate with increment to 36.43% (industry average: 42.43%) from 28.26% as on mid-July 2024 (industry average of 30.85%). Due to increase in CASA proportion coupled with declining trend in the overall interest rates in the industry in FY25, the average cost of deposit has decreased to 5.70% during FY25 as compared to 8.46% during FY24. The ability of the company to maintain lower cost of funds will be critical as it would continue to provide a competitive advantage in the "base rate plus" lending rate regime.

Competition from other banks and finance companies

Currently there are 17 Development Banks, operating with total 1,132 branches all over Nepal (based on monthly statistics published by NRB for mid-July 2025). KSBBL has 179 branches along with head office as on same date. Industry (Class B Development Banks) had achieved total interest income of Rs. 56,897 Mn during FY25 with Rs. 22,305 Mn net interest income; KSBBL's share on interest income is 10.46% and 10.49% share on net interest income for the same period. KSBBL's share on interest income and net interest income has increased from around 10% and 9.86%, respectively, in FY24. Despite being established national development bank in the industry, it is challenging for KSBBL to maintain current market share and expand its business, due to high competition among bank and finance companies, existence of large number of Development banks along with Commercial banks conducting similar kind of businesses and they lend at lower interest rate as well as they offer wider banking services than development banks.

Exposure to regulatory risk related to industry

The Banking and Finance industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. In past, finance companies faced pressure from NRB for capital increment to Rs. 800 Mn from Rs. 200 Mn. NRB had changed the minimum regulatory capital of national level development banks from FY24 end onwards. National level development banks are required to maintain tier 1 capital adequacy ratio of 8.5% and overall CAR of 11% from mid-July 2024 onwards, which is in line with the requirement for Class A commercial banks in Nepal. Furthermore, NRB had changed to CD ratio mechanism from existing Credit to Core Capital plus Deposit (CCD) ratio measures. CD ratio needs to maintain below 90% from mid-July 2022 from earlier provision of 85% for CCD. Risk weights of certain loans including personal overdrafts, TR loans, hire purchase loans for personal purpose, margin lending, etc. have been fluctuating between 100% to 150% via interim changes in monetary policies by the NRB. Unfavourable changes depending on the bank's exposures are likely to put downward pressure on capital adequacy ratios of the MFIs and limit their ability for significant credit expansion, at least over the near term. Furthermore, subdued growth in loans and advances, reduced

interest rate spread and increase in credit cost due to rising NPL levels and tightening of provisioning requirements by NRB is likely to put downward pressure on the bank's profitability indicators.

Key Rating Strengths

Experienced board members and management team supported by moderate geographical coverage

KSBBL is a national level class "B" Development bank formed after the merger of Kamana Bikas Bank and Sewa Bikas Bank on August 4, 2017 (Pre-merger, both entities operating since 2007). KSBBL has a reasonable geographic presence in Nepal with 130 branches, one extension counter and 72 ATMs covering all 7 provinces as on mid-July 2025. It is a professionally managed bank under the overall guidance of the Board of Directors (BoD) led by Chairman Mr. Sudeep Acharya, who has worked in the banking sector for four decades. The senior management team is also composed of seasoned bankers and is led by Mr. Dinesh Thakali, CEO, who has more than three decades of banking experience.

Moderate growth in loans & advances and deposits with decent market share and diversified credit portfolio

KSBBL's loan grew by 8.09% year-on-year in FY25 to Rs. 54,215 Mn (FY24: Rs. 50,160 Mn), whereas overall Class-B banks' loan portfolio grew by 5.02% year-on-year. Similarly, KSBBL's deposit grew by 7.51% y-o-y in FY25 as compared to industry's growth in deposits by 3.32% year-on-year in FY25.

KSBBL has 10.03% and 10.34% market share in terms of deposit base and loan portfolio respectively of Class-B financial industry at the end of FY25 (9.69% and 10.00% respectively in FY24), based on monthly data published by NRB. KSBBL has a diversified loans portfolio across various industries/ sectors with highest lending of 34.72% at the end of FY25 for Consumable Loans (PY: 31.65%) followed by 12.60% towards Wholesaler and Retailer category loan (PY: 15.54%). Diversification helps bank to maintain the bank's assets quality and mitigate volatility risk in case of unexpected swings in the economy.

Steady financial performance in FY25

During FY25, KSBBL's total income declined by 14.77% year-on-year to Rs. 6,361 Mn on account of decrease in interest income by 15.49% to Rs. 5,949 Mn as a result of decrease in interest rate this year amid excess liquidity in market. Its yield on advances decreased to 10.28% during FY25 from 12.98% during FY24, and cost of deposits also decreased to 5.70% from 8.46%. Lower cost of funds was in part on account of increase in proportion of CASA as compared to the previous year. However, the Net Interest Margin (NIM) of KSBBL slightly increased to 3.34% in FY25 from 3.29% in FY24. On the other hand, KSBBL's non-interest income declined marginally by 2.46% to Rs. 413 Mn during FY25. There was substantial growth in non-interest income in FY24 from gain on sale of investment securities and properties. Overall, PAT improved to Rs. 670 Mn in FY25 from Rs. 582 Mn in FY24. Consequently, KSBBL reported improvement in its Return on Total Assets (ROTA) to 0.97% in FY25 from 0.90% in FY24.

Moderate capitalization level

KSBBL's capital buffers improved slightly year-on-year in FY25. The overall Capital Adequacy Ratio (CAR) increased to 12.58% at the end of FY25 from 12.50% at the end of FY24, which was below the industry average of 13.34% (based on monthly report published by NRB). However, it was above the regulatory requirement of 11%. Likewise, CET I ratio stood at 9.91% at the end of FY25, up from 9.61% PY (minimum requirement of 7% for national level Class-B Banks and Financial Institutions). The bank's capitalization remains adequate, supported by internal capital generation and prudent management of risk-weighted assets. Additionally, its adequate loan loss provisioning has enhanced solvency metrics, with the Net NPL to Net Worth ratio stood below 3% at FY25 end, down from around 7% at FY24 end.

Likewise, KSBBL has maintained CD ratio of 86.30% in FY25 (FY24: 82.26%), which follows regulatory requirement of CD ratio of maximum 90%, providing sufficient cushion to the bank to further increase its loan portfolio. The bank's leverage (assets/equity) remains moderate and capital is expected to support its planned growth, but any significant expansion or shocks may necessitate further capital strengthening given the only moderate buffer over regulatory requirements.

Growing investment portfolio in FY25 and low portfolio concentration among top borrowers

KSBBL's total investment recorded a growth of 5.09% to Rs. 12,291 Mn at the end of mid-July FY25 from 11,696 Mn in FY24. Total investments include investment in government bills/ bonds of Rs. 151 Mn (PY: 2,347 Mn), NRB bonds of 10,891 Mn (PY: 8,261 Mn), and corporate shares of Rs. 1,248 Mn (PY: Rs. 1,089 Mn). KSBBL's lending to top 20 group and individual borrowers was 8.30% (PY: 4.99%) and 7.82% (PY: 7%), respectively. Low concentration over top borrowers helps banks to avoid significant impact on their asset quality if any big borrower defaults on their loan.

Industry Outlook

The major challenges currently faced by the banking sector in Nepal is centered around declining asset quality. High and rising GNPLs are leading to stressed profitability and adding downward pressure on banks' capitalization. Muted GDP growth in the country (real GDP growth of 2% and 3.67% in FY23 and FY24 as compared to 4.8% and 5.60% in FY21 and FY22 respectively) and lower than expected government expenditures has prolonged the difficult road to recovery for various sectors including construction, steel, cement, automobiles, retail and SME sectors. The revival in economic growth, with estimated GDP growth rate of 4.61% in FY25, coupled with softened interest rates, has supported borrowers' repayment capacity to some extent. However, the positive impact at the grassroots level, particularly among retail and SME segments is yet to fully materialize, as indicated by the rising Gross Non-Performing Loan (GNPL) ratio. Net Interest Margin (NIM) of the banking sector has contracted owing to credit check amid reduced cushion in capitalization levels and rise in interest suspense accounts. Additionally, deposit growth has outpaced credit growth, leading to excess liquidity being parked in lower-yielding Treasury bills and government securities. Credit costs have also trended upward, reflected in higher impairment charges and loan write-offs with a growing share of Non-Banking Assets. These factors have collectively dampened profitability and reduced distributable earnings, thereby constraining internal capital generation. Furthermore, the recent political upheaval in the country has likely cut short the revival trend observed in FY25. With likely slowdown in the economy, at least for FY26, the near-term outlook for the industry remains filled with caution.

Applicable Criteria

[Rating Methodology - Banks](#)

[Rating Methodology - Issuer Rating](#)

About the Company

Kamana Sewa Bikas Bank Limited (KSBBL) is a national level class "B" Development bank formed after the merger of Kamana Bikas Bank Limited (established in FY07) (National level development bank) and Sewa Bikas Bank Limited (established in FY07) (10 district level development bank) on August 04, 2017. At the end of FY25, KSBBL has Rs. 3,511 Mn paid up capital, which is distributed among promoters and public shareholders in the ratio of 51:49.

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