Risk management in Hire Purchase is fundamentally different



PRANANATH BHATTARAI
General Manager
M.A.W. Hire Purchase

Nepal's Hire Purchase sector is in transition. Most companies started as captive financing arms of automobile distributors. Several have expanded into multi-brand financing, but the market is fragmented rather than genuinely competitive. Hire Purchase companies operate under a separate licensing regime from banks. They cannot collect public deposits and rely on equity, retained earnings, and wholesale borrowing from banks, up to ten times their net worth under NRB rules. Their cost of funds is structurally higher than deposit-funded banks, so their lending rates are too. That spread stays manageable as long as Hire Purchase companies are not competing directly with banks for the same customers. Their real advantage is speed, flexibility and proximity to the point of sale. But that differentiation may not last. Several commercial banks have already built dedicated retail lending arms that are getting aggressive in auto finance.

Three or four years ago, financing a smartphone would have seemed unusual for this sector. Today it is a deliberate strategy. At M.A.W., we introduced zero percent EMI financing for premium smartphones above Rs 30,000, partnering with Xiaomi and Vivo.

The risk model differs from vehicle financing, though. A vehicle can be repossessed and resold since legal ownership stays with the Hire Purchase company. A smartphone is effectively unsecured and depreciates fast. The answer has been technology: security software that lets financiers remotely lock devices on default. Though this is not a perfect substitute for physical collateral, it is workable. Electric vehicle financing is the sector's most immediate growth opportunity. NRB's decision to tighten the loan-to-value ratio from 80 to 60% in April 2025 has made financing harder for buyers, which creates room for longer tenors, bundled insurance and fleet financing for commercial EV operators. Used vehicle financing is also quietly expanding alongside a deepening reconditioned car market. Rooftop solar financing is a longer-term play.

None of this potential will be fully realized without regulatory reform. The sector is, in a phrase, building the house while living in it. The Debt Recovery Tribunal helps banks recover non-performing loans within 150 days, but Hire Purchase companies are excluded. Banks have statutory authority under BAFIA to auction mortgaged assets on default. No equivalent exists here. The sector is also taxed at the same 30% corporate rate as banks, but without loan loss provision deductibility that BFIs enjoy, meaning companies pay tax on income already provisioned against loans that may never be recovered.

The regulatory environment recognizes Hire Purchase as legitimate. What it has not done is give Hire Purchase companies the legal tools banks have long taken for granted. Until it does, the sector's limits will not come from ambition or capital. They will come from the absence of the institutional scaffolding every mature financial industry needs. ■

Sipradi Hire Purchase operates as a wholly-owned subsidiary of Sipradi Trading, the authorized distributor for Tata Motors in Nepal. Jagdamba Hire Purchase sits within the Shanker Group, whose member concern, Jagdamba Motors, sells TVS and Proton vehicles. Venture Hire Purchase, a part of the IME Group, primarily finances Ashok Leyland trucks and Escorts construction equipment sold by companies under the group, while Agni Hire Purchase, backed by the Agni Group with more than 30 years in Mahindra vehicles, uses a network of over 35 dealership outlets to source business.

Rajendra Prasad Timilsina, CEO of Batas Hire Purchase, describes the current market as one in transition. "While historically many Hire Purchase companies were established as captive financing arms of automobile distributors, the industry is gradually transforming into a more competitive and independent financial services sector," Timilsina said. "The market can best be described as moderately competitive with substantial growth potential."

To adapt, several operators have introduced multi-brand financing, offering loans for assets outside their parent group's portfolio. It is a small but telling departure from the purely captive model.

The sector's competitive edge, Timilsina adds, is increasingly shifting from merely financing assets to providing faster approvals, superior customer experience and digital convenience.

Because these companies do not fall under the bank and financial institution (BFI) classification, they operate under a separate licensing regime. They are barred from collecting public deposits and must instead rely on equity, retained earnings, and wholesale borrowing from commercial banks. Under NRB rules, they can borrow up to 10 times their net worth.

While this setup keeps their balance sheets lean, it comes at a premium. Since

their funding relies almost entirely on bank credit lines at prevailing market rates, their cost of funds is structurally higher than deposit-funded banks. Consequently, their lending rates are higher too.

This spread remains viable as long as Hire Purchase companies are not competing directly with banks for the same customers. Their real advantage lies in speed, flexibility and proximity to the point of sale—whether at a dealership, mobile phone outlet or reconditioned vehicle showroom. However, that edge is facing pressure as several commercial banks launch dedicated retail lending arms targeting automobile finance. This top-down pressure is forcing Hire Purchase firms to look further down market.

Legacy Stress in Commercial Vehicles

The past three years have been brutal for lenders concentrated in trucks, construction equipment and heavy machinery. A prolonged economic slowdown, weaker construction activity, liquidity pressures, and declining borrower repayment capacity have highlighted the dangers of an over-concentrated portfolio.

Manokamana Hire Purchase, which is heavily exposed to construction equipment and high-value vehicles, saw its gross non-performing loan ratio climb to 37.61% in 2024/25. As a result, the company's net interest income, which had peaked at Rs 246 million in 2022/23, fell sharply as lending slowed and interest expenses rose. The company posted losses in both 2022/23 and 2023/24. Omni Hire Purchase also saw its portfolio contract from Rs 2.76 billion in 2019/20 to Rs 1.62 billion in 2024/25, with gross NPAs sitting around 27% despite some recovery efforts. Batas Hire Purchase faced the worst crisis of all, with nearly 38% of its portfolio overdue by more than 90 days. The resulting losses severely eroded its capital base, leading to a change in early 2025 when the Kedia Organization acquired the company to stabilize operations.