ALPHA CAPITAL
Fund for Contrarian Investors

NEWSLETTER

Fourth Quarter 2082/83

9861843299

info@alphacapitalnepal.com

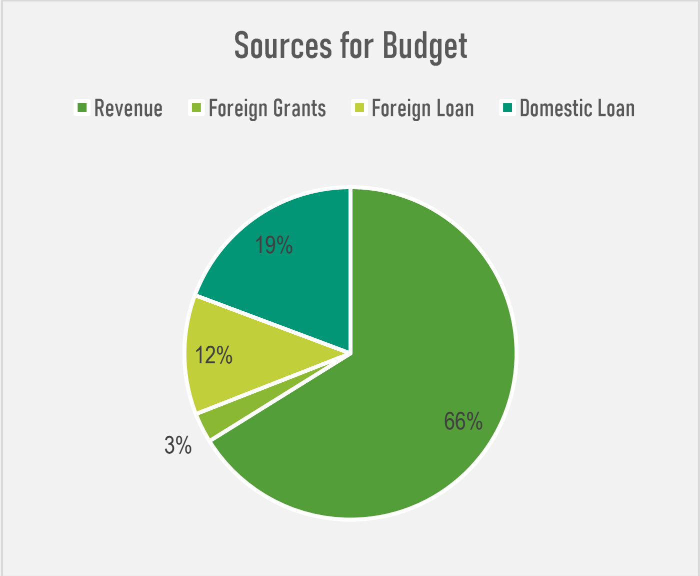
www.alphacapitalnepal.com

INSIDE

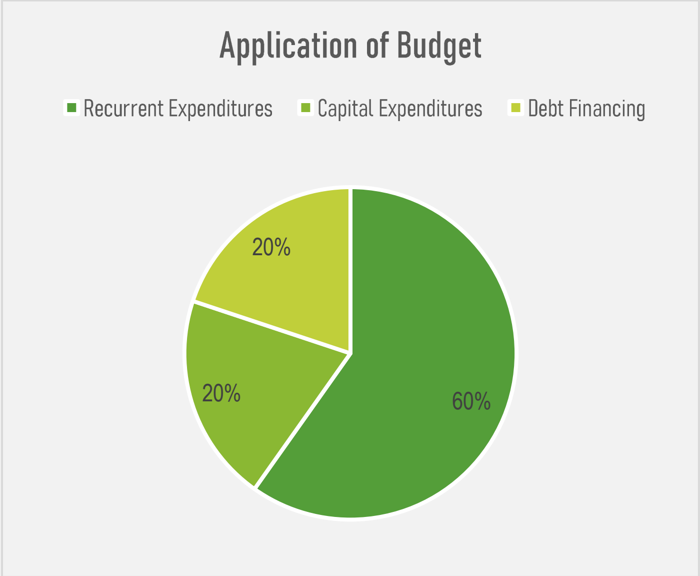
HOW WE VIEW

Budget 2083/84

The Government has unveiled a budget of NPR 2,124.34 billion for FY 2083/84 under the leadership of Finance Minister Dr. Swarnim Wagle. The budget targets NPR 1,405.31 billion in revenue collection, expects NPR 61.74 billion in foreign grants, and plans to finance the remaining NPR 657.29 billion through domestic and external borrowings. On the expenditure side, NPR 1,270.58 billion has been allocated for recurrent expenditure, NPR 431.11 billion for capital expenditure, and NPR 422.65 billion for debt servicing. Among ministries, the largest allocation has been made to the Ministry of Physical Infrastructure and Transport (14.26%), followed by the Ministry of Education, Science and Technology (10.28%), while allocations to other ministries remain below 6%.



The budget adopts a consumption-oriented approach aimed at boosting household spending and economic activity. Key measures include increasing the personal income tax exemption threshold from NPR 500,000 to NPR 1 million and allowing a tax deduction of 25% of annual education fees or NPR 25,000, whichever is lower. To offset the resulting revenue loss, the government has introduced several new taxes, including a 3% Health and Education Tax (*now revoked*), 5% VAT on electricity consumption exceeding 50 units, and a 20% Clean Infrastructure Fee on electric vehicles (EVs). It has also strengthened protection for domestic industries by imposing Protection Fees on selected imports such as dairy products, tea, and coffee.



On the development front, the budget prioritizes the completion of ongoing projects over the launch of new ones. Major areas of focus include irrigation schemes, road upgrades, and tunnel projects to improve national connectivity. The government has also introduced incentives for digital payments, including lottery-based reward systems, with the objective of encouraging formalization of the economy and improving tax compliance. Overall, the budget is expected to support private consumption, stimulate economic activity, and create favorable conditions for stronger credit demand and loan growth.

Monetary Policy 2083/84

The Nepal Rastra Bank (NRB) surprised markets with an unusually brief Monetary Policy that favors continuity over new measures. With liquidity already ample and interest rates relatively low, the central bank has limited space for further monetary easing. Consequently, NRB signals that accelerating economic growth will depend largely on fiscal policy led by the government.

Aligning with the government's budget, NRB seeks to support 7% growth while keeping inflation around 5.5%. Rather than changing its stance, the bank chose to preserve stability and provide greater policy certainty. Macroprudential tools will continue to be the primary means of protecting financial stability, and the policy stance and interest rate corridor will be reviewed only if economic conditions warrant intervention.

The Monetary Policy also focuses on improving financial system efficiency through regulatory reform. In the coming months NRB will introduce provisions covering loan guarantees, cheque-dishonor penalties, stressed-loan management, and electric-vehicle financing. It will also simplify banking rules and streamline foreign-exchange guidelines to lower compliance costs and improve service quality.

Overall, the policy is evolutionary rather than transformational: NRB prioritizes macroeconomic stability and regulatory certainty, leaving fiscal policy to take the lead in stimulating activity and supporting credit growth.

Fiscal Stance

(Amounts in Lakhs)

Topic	Target Budget (FY 2082/83)	Actual up to Q4 End FY 2082/83	Percentage (FY 2082/83)	Target Budget (FY 2081/82)	Actual up to Q4 End FY 2081/82	Percentage (FY 2081/82)
1. Revenue	14,800,000	12,413,185	83.87%	14,193,030	11,788,202	83.06%
a) Tax Revenue	13,255,839	11,210,821	84.57%	12,842,096	10,498,754	81.75%
b) Non-Tax Revenue	1,544,161	1,202,364	77.87%	1,350,934	1,289,448	95.45%
2. Grants	534,469	312,641	58.5%	523,265	235,287	44.97%
3. Other Receipts	-	80,710		-	173,697	
Total Receipts of GoN	15,334,469	12,806,536	83.51%	14,716,295	12,197,186	82.88%
Total Expenditure	19,641,100	15,821,682	80.55%	18,603,030	15,231,068	81.87%
a. Recurrent	11,809,800	10,439,962	88.44%	11,406,645	9,803,821	85.95%
b. Capital	4,078,880	1,908,414	46.79%	3,523,540	2,226,823	63.2%
c. Financing	3,752,420	3,473,306	92.56%	3,672,845	3,200,424	87.14%

Source: FCGO

Nepal's fiscal performance in FY 2082/83 remained broadly comparable to FY 2081/82 at the aggregate level, with revenue utilization at 83.87% versus 83.06% last year and total expenditure execution at 80.55% versus 81.87%. However, capital expenditure underperformed significantly, with only 46.79% of the budget utilized compared with 63.20% in the previous year. This suggests that while recurrent and financing expenditures were relatively better executed, development spending remained weak. The shortfall in capital spending may reflect implementation delays, weaker project execution or changing priorities with the change in government, and could improve in the next fiscal year if execution capacity strengthens.

Monetary Stance

Indicator	July 16, 2026	July 16, 2025	% Change Y-o-Y
Total Deposits (NPR billion)	8,307	7,292	13.66%
Total loan (NPR billion)	5,954	5,600	6.14%
CD Ratio (%)	71.06	75.78	-6.20%
Inte Bank Rate (%)	2.75	2.87	-4.18%
Treasury Bill (%)			
28 Days	2.1172	2.7736	-23.67%
91 Days	2.2502	2.9419	-23.51%
182 Days	2.2310	2.9577	-24.57%
364 Days	2.3600	2.9975	-21.27%

Source: NRB

Nepal's banking system remained in a state of excess liquidity during the period under review. Total deposits rose to NPR 8,307 billion as of Jul 16, 2026, up from NPR 7,292 billion a year earlier, reflecting growth of 13.73%. In contrast, total loans increased only to NPR 5,954 billion from NPR 5,600 billion, a rise of 6.49%.

This divergence between deposit growth and credit expansion pushed the CD ratio down to 71.06% from 75.78%, indicating that banks were holding relatively more idle liquidity. The interbank rate also eased to 2.75%, compared with 2.87% a year earlier, remaining near the lower bound of the interest rate corridor. Treasury bill yields declined sharply across all tenors, with the 91-day bill falling to 2.2502% from 2.9419% and the 364-day bill falling to 2.3600% from 2.9975%.

Sector-wise, consumable loans accounted for the largest share of lending (22.01%), followed by wholesale & retail (17.55%) and production (15.96%) as of Jestha 2083. By product, term loans (36.44%) remained the dominant category, followed by demand & working capital loans (14.69%) and cash credit loans (10.97%).

Macroeconomic Indicators

Indicator	As of Jestha FY 2082/83	As of Jestha FY 2081/82	Y-O-Y Change
Inflation	5.22	2.72	91.9%
Export (in billion)	277.97	247.57	12.3%
Import (in billion)	1894.1	1644.8	15.2%
Trade Deficit	1616.13	1397.23	15.7%
Export to Import	14.7	15.1	-2.6%
Travel Income (in billion)	82.22	82.2	0.0%
Travel Payment (in billion)	193.65	203.97	-5.1%
Remittance (in billion)	2120.8	1532.93	38.3%
Forex Reserve in USD ($)	24.68	18.65	32.3%
Forex Reserve Sufficiency (in Months)	22.5	17.6	27.8%

Source: NRB

Rising geopolitical tensions and supply bottlenecks have pushed up prices of goods and services, lifting Nepal's inflation to 5.22% from 2.72% a year ago. Exports and imports grew at broadly similar rates (12.3% and 15.2%, respectively), but the scale of the imbalance remains stark: imports reached NPR 1,894.1 billion while exports were only NPR 278.0 billion, roughly equivalent to one month of import cover.

Remittances surged 38.3% y-o-y to NPR 2,120.8 billion, providing the primary external buffer and financing a widening merchandise trade deficit of NPR 1,616.1 billion (up 15.7% from NPR 1,397.2 billion). Supported by strong remittance inflows, foreign exchange reserves increased 32.3% to USD 24.68 billion, improving import cover to 22.5 months for merchandise imports and 19.1 months for merchandise and services.

The external sector is therefore resilient but structurally unbalanced: strong remittance inflows and ample reserves conceal a weak export base and heavy reliance on imports. This leaves the economy exposed to shocks in remittance flows or global commodity prices. Another growing concern is the continued depreciation of the Nepalese rupee.

Nepalese Rupee Depreciation

Because the Nepalese rupee (NPR) is pegged to the Indian rupee (INR), the weakening of the INR against the US dollar was transmitted directly to the NPR. Consequently, the NPR–USD exchange rate increased from approximately NPR 137.30 per USD on July 16, 2025 to NPR 154.02 per USD on July 16, 2026, reflecting a notable weakening of the Nepalese rupee.

This depreciation has had mixed effects on the economy. As Nepal is heavily dependent on imports, a weaker rupee raises the cost of imported goods, fuel, machinery and raw materials, creating upward pressure on inflation. At the same time, remittance inflows converted into NPR increase in value, which can support household incomes and help maintain a balance-of-payments surplus.

A weaker currency can also improve the price competitiveness of Nepal's exports and make the country more affordable for foreign tourists. However, these benefits are partly offset by Nepal's dependence on imported raw materials and intermediate goods, which raises production costs for domestic exporters.

Currency depreciation also makes foreign-currency debt and other external financing obligations more expensive in NPR terms. Since Nepal's export earnings and travel income remain relatively small compared with its import requirements and external obligations, sustained depreciation is likely to have an overall negative impact on the economy. It can increase the government's debt-servicing burden and reduce the fiscal space available for infrastructure and development spending.

Conclusion

Overall, Nepal enters FY 2083/84 with a supportive policy environment characterized by an expansionary fiscal stance and an accommodative monetary framework. The government's consumption-led budget, together with NRB's commitment to policy stability, is expected to support domestic demand, improve credit growth, and sustain economic momentum. However, Nepal's efforts to strengthen anti-money laundering and counter-terrorist financing (AML/CFT) compliance following its placement on the FATF grey list have led to stricter regulatory enforcement and heightened scrutiny across businesses. Although these reforms are necessary to strengthen governance and improve Nepal's international standing, they have also contributed to cautious business sentiment in the near term. At the same time, the economy remains highly dependent on remittances, imports and external financing, while persistent currency weakness could intensify inflationary and fiscal pressures. Going forward, timely execution of development projects, more effective policy implementation, stronger export capacity and a recovery in private-sector confidence will be critical to converting supportive macroeconomic policies into broad-based and sustainable economic growth.

How We View | Capital Market

NEPSE remained under significant selling pressure throughout the quarter, declining by 8.32% (235.80 points) from the previous quarter's close of 2,833.60 to end at 2,597.80. During the period, the benchmark index reached a high of 2,866.87, accompanied by a turnover of NPR 10.53 billion, before falling to a low of 2,570.18. Although the market recovered slightly towards the end of the quarter, it closed with a substantially lower daily turnover of NPR 2.8 billion, reflecting weakening investor participation. Floated market capitalization dropped from NPR 1.61 trillion to NPR 1.51 trillion, erasing roughly NPR 100 billion in market value.

The quarter was also marked by significant regulatory and institutional developments. SEBON Chairman Santosh Narayan Shrestha resigned after just 17 months in office. His appointment had faced criticism from the outset over concerns regarding potential conflicts of interest. He was subsequently succeeded by Dr. Gopal Prasad Bhatta. Meanwhile, the Nepal Stock Exchange (NEPSE) was left without its top leadership following the resignations of both Chairman Hemanta Basyal and Chief Executive Officer Chudamani Chapagain. Later, Finance Minister Swarnim Wagle appointed Amrit Lamsal, Joint Secretary and Spokesperson, Ministry of Finance as the Chairman of NEPSE.

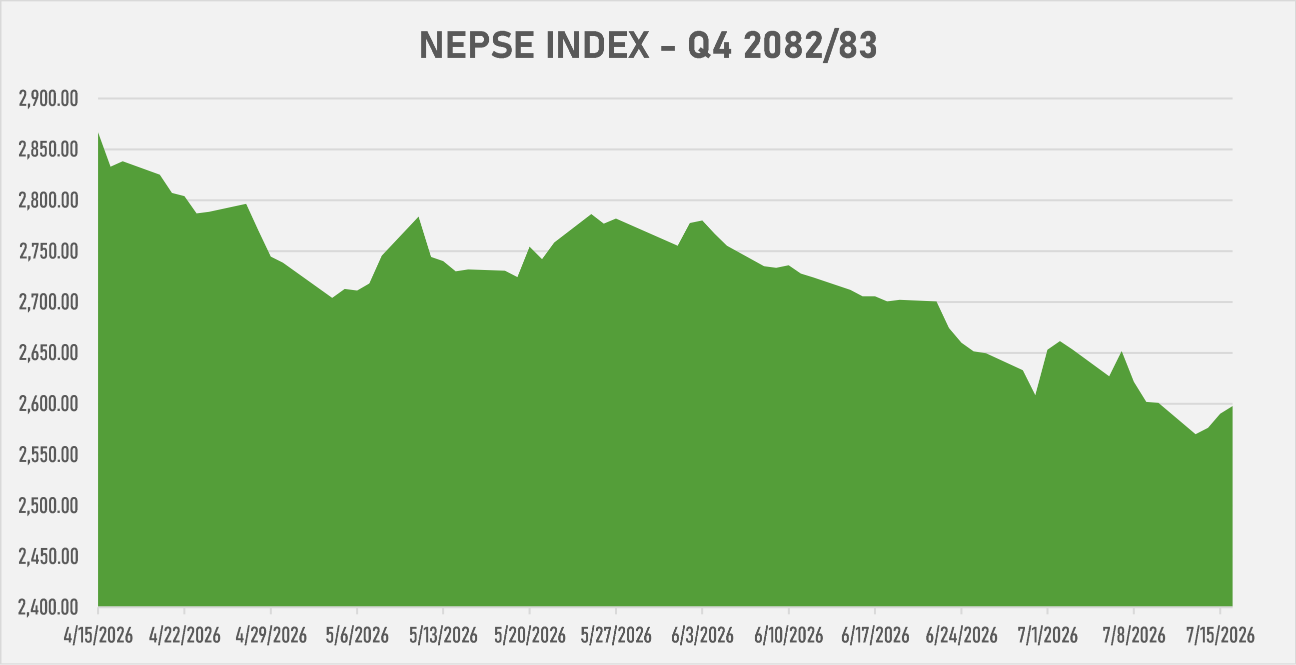
Despite the leadership transition, SEBON continued to introduce several key regulatory reforms. The daily price movement limit for listed securities was widened from 10% to 15%, allowing shares to appreciate or decline by up to 15% in a single trading session. The regulator also simplified the index-based circuit breaker mechanism from three tiers to two. Under the revised framework, trading is suspended for 15 minutes if the NEPSE index moves 5% within the first two hours of trading, while an 8% movement results in trading being halted for the remainder of the day.

SEBON also strengthened the IPO approval process to improve the quality and credibility of new listings. Under the revised guidelines, companies meeting specified risk criteria will be required to have their financial statements independently reviewed before receiving approval to issue shares to the public. In addition, the regulator cautioned investors and companies against raising funds under the guise of pre-IPO offerings, stating that it would take strict action against such practices to safeguard investor interests and maintain market discipline.

Complementing these regulatory initiatives, the Nepal Rastra Bank (NRB) tightened disclosure requirements for promoter share transactions. Purchases or transfers resulting in ownership of 5% or more of a company's paid-up capital, or transactions valued at NPR 2.5 million or above, will now require detailed disclosure of the beneficial owner, thereby enhancing transparency in significant ownership changes.

In addition, SEBON also unveiled its annual plans and policies, outlining a comprehensive roadmap to modernize Nepal's capital market. Key priorities include aligning the market with international standards, expanding investment products such as derivatives, exchange-traded funds (ETFs), bonds, REITs, and commodities, strengthening investor protection and market transparency, accelerating digitalization and automation, attracting greater foreign and institutional investment, and promoting financing opportunities for SMEs and sustainable businesses. Collectively, these initiatives aim to transform Nepal's capital market from a predominantly retail-driven, equity-focused market into a broader, more diversified, institutional, and technology-enabled financial ecosystem.

Overall, the quarter reflected a contrast between improving market regulation and weakening investor sentiment. While SEBON and NRB introduced several structural reforms aimed at enhancing transparency, strengthening market integrity, and laying the foundation for a more diversified capital market, these positive developments were overshadowed by heightened regulatory scrutiny, leadership transitions, and subdued business confidence. Going forward, restoring investor confidence will depend not only on regulatory reforms but also on policy consistency, institutional stability, and a balanced enforcement approach that safeguards market integrity without discouraging legitimate investment activity.



Sector Wise Sub-Indices	This Quarter Close	Previous Quarter Close	Change %
Mutual Fund	21.79	21.95	-0.73%
Banking	1,426.16	1,468.90	-2.91%
Non-Life Insurance	10,814.22	11,245.96	-3.84%
Finance	2,365.50	2,478.96	-4.58%
Microfinance	4,612.21	4,945.92	-6.75%
Life Insurance	11,938.24	12,840.53	-7.03%
Development Bank	5,572.23	5,999.85	-7.13%
Others	1,898.24	2,112.45	-10.14%
Investment	95.14	106.77	-10.89%
Hotels And Tourism	7,073.09	7,953.24	-11.07%
Hydropower	3,537.30	4,042.84	-12.50%
Trading	3,301.50	3,792.16	-12.94%
Manufacturing And Processing	10,145.50	11,689.89	-13.21%
NEPSE	**2,597.80**	**2,833.60**	**-8.32%**

Source: NEPSE

Sectoral Dissection

Banking

NRB introduced stricter disclosure requirements for major investors, payment service providers, senior executives, and significant shareholders to enhance transparency and governance. It also allowed banks facing capital shortfalls to meet revised capital adequacy requirements in two phases in line with the IMF-backed reform plan.

NRB further introduced a new circular allowing interest capitalization to all long-term projects (at least two years old). Previously, the same facility was available to the productive sectors only. Additionally, commercial banks will be encouraged to invest in foreign government bonds to better manage excess foreign currency liquidity.

Insurance

As of mid-June 2026, active life insurance policies increased 7.46% to 16.65 million, while total insurance premiums grew 14.46% to NPR 223 billion. Life insurance contributed NPR 177 billion and non-life insurance NPR 45 billion in premiums.

Among life insurers, Nepal Life Insurance collected the highest premium, while Sun Nepal Life Insurance recorded the lowest. In the non-life segment, Shikhar Insurance led premium collection, whereas National Insurance Co. Ltd. recorded the lowest.

Hydropower

The quarter brought several positive policy developments for the hydropower sector. NEA abolished the hydrology penalty imposed on projects unable to meet contracted generation due to natural disasters, providing relief to developers. The government also extended the license period for reservoir-type hydropower projects to 50 years.

Electricity consumption (excluding losses) increased 11.49% year-on-year to 10,019 GWh by mid-March. Nepal and India also agreed to raise Nepal's electricity export capacity from 1,100 MW to 1,650 MW.

Despite these positives, the sector continues to face transmission bottlenecks. Around 900 MW of electricity is expected to go unutilized during the rainy season due to inadequate transmission infrastructure and grid constraints, forcing NEA to curtail generation from several private hydropower projects.

Tourism

Tourist arrivals continued to recover, with approximately 1.13 million visitors arriving by mid-June 2026, up from 1.07 million a year earlier. Separately, the latest available annual tourism statistics show that the average length of stay increased from 13 days in 2024 to 16 days in 2025. Average daily tourist spending, however, declined by 19%, from USD 40.84 to USD 33.08 over the same period, indicating weaker daily expenditure per visitor despite longer stays.

The first nationwide Domestic Tourism Survey highlighted the growing importance of local travel, with domestic tourism contributing 2.65% of GDP in FY 2024/25. Around 52.4% of Nepalese households undertook tourism activities during the year, spending NPR 459.5 billion on domestic and outbound travel. Visiting friends and relatives remained the primary purpose of overnight trips, accounting for 65.6% of total travel.

Microfinance

NRB has allowed merged wholesale and retail microfinance institutions to continue wholesale lending for up to five years after the merger. After the transition period, the merged entity must operate solely as a retail microfinance institution.

How We View | Real Estate

One of the most significant developments in Nepal's real estate sector during Q4 FY 2082/83 was the government's reform of the land administration system. The Land Revenue Act, 2034 was amended to allow local governments to provide key land-related services such as land registration, ownership transfers, inheritance registration, and the imposition or removal of land restrictions. This will reduce the need for people to visit district-level offices for routine land transactions, and more than 200 local governments have already shown interest in providing these services.

The government has also renamed Land Revenue Offices as Land Administration Offices and amended the Land Use Act, 2076, allowing a one-time change in land-use classification, such as converting agricultural land into residential or industrial use, subject to approval. These reforms are expected to simplify land transactions, reduce processing time, and improve the overall ease of doing property-related business.

However, capital expenditure continues to be one of the biggest factors influencing the real estate sector. Infrastructure projects such as roads, bridges, water supply, and urban development play an important role in increasing property demand and supporting land prices. Nepal has consistently struggled to fully utilize its capital budget, and FY 2082/83 followed the same trend. Against a capital budget of NPR 407.88 billion, the government spent only NPR 190.84 billion, representing 46.79% of the allocated budget. Capital spending during FY 2082/83 was the lowest recorded in the past decade, except for FY 2076/77, when economic activity was severely disrupted by the COVID-19 pandemic.

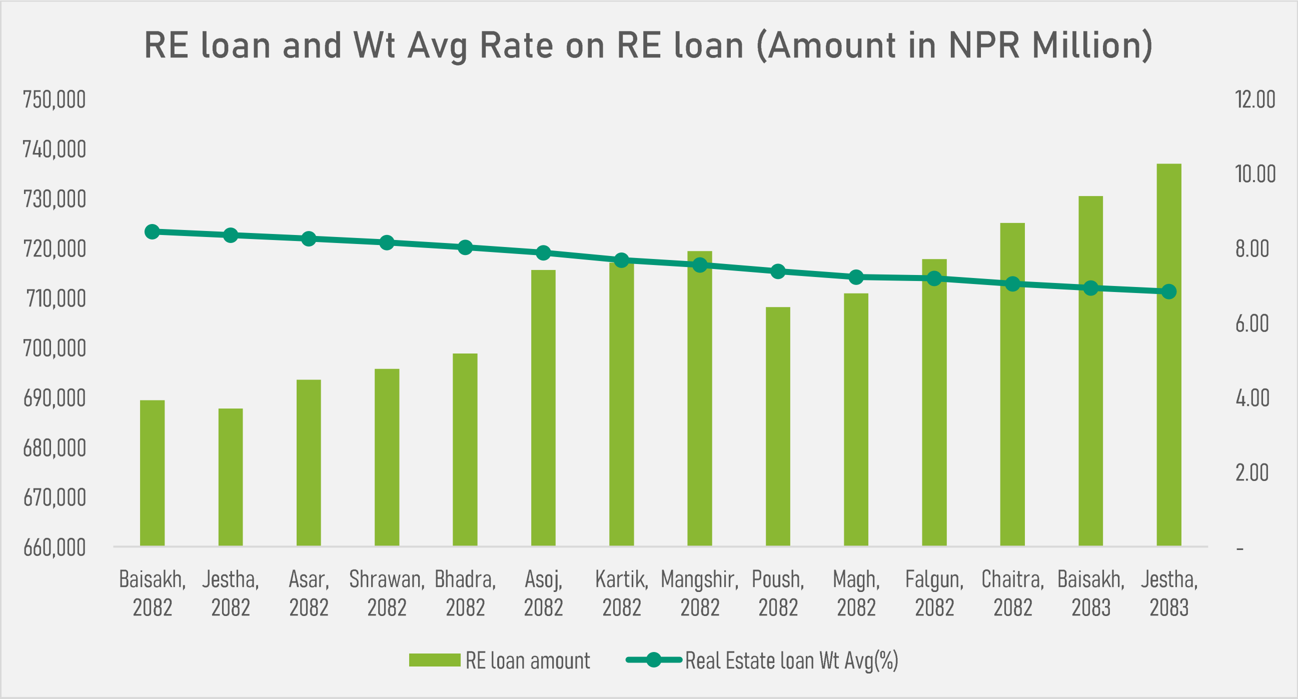
The low level of capital spending slowed the implementation of infrastructure projects and delayed improvements in connectivity and urban development. As a result, the positive impact on property demand and land values was also limited.

Infrastructure Development

The Suryabinayak–Dhulikhel (Arniko Highway) expansion project continued to make progress during the quarter. Physical progress reached 73% on the Sanga–Dhulikhel section and 59% on the Suryabinayak–Sanga section. The Sanga underpass, Nepal's first underpass designed and constructed entirely using Nepali technology and manpower, has been opened to traffic.

The eastern section (65 km) of the 113 km Narayanghat–Butwal Road Expansion Project has completed all main road blacktopping and concrete pavement works, achieving 92.38% overall physical progress. Only road safety and beautification works remain. The ADB-funded project, delayed by COVID-19, forest clearance, utility relocation, and material supply issues, is expected to improve road safety, reduce travel time, and enhance trade and tourism between Gandaki, Lumbini, and Bagmati provinces once fully completed.

Banking and Finance



Source: NRB

Nepal's real estate lending continued to grow steadily in Q4 FY 2082/83, supported by lower borrowing costs and accommodative monetary policy. Total outstanding real estate loans increased to approximately NPR 736 billion by Jestha 2083 from NPR 690 billion a year earlier, while the weighted average lending rate declined from around 9.7% to 7.0%, reflecting the full transmission of Nepal Rastra Bank's (NRB) monetary easing and abundant banking sector liquidity.

Growth remained retail-driven. Residential home loans continued to expand, supported by NRB's higher loan-to-value (LTV) limit for first-time homebuyers and the increase in the maximum home loan limit to NPR 30 million. In contrast, lending to developers and institutional borrowers remained weak due to cautious investment sentiment, regulatory oversight, and policy uncertainty.

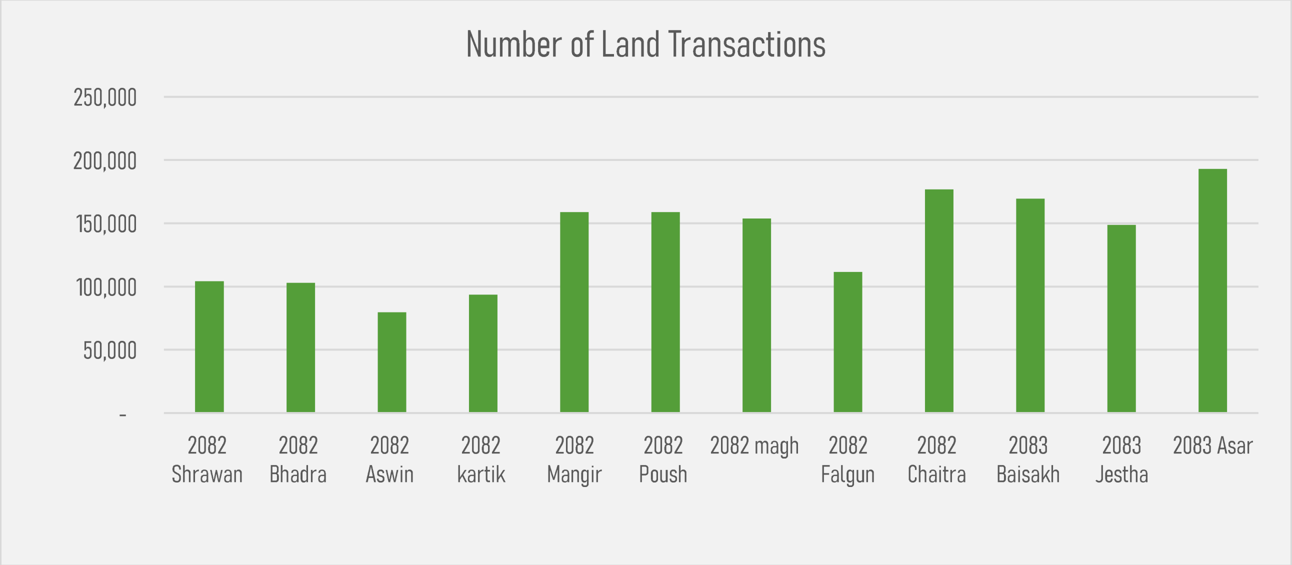
Overall, Q4 confirmed a gradual recovery in Nepal's real estate credit market rather than a speculative boom. Going forward, the sustainability of this growth will depend on continued remittance inflows, a revival in institutional lending, and sustained housing demand, as the scope for further interest rate reductions appears limited.

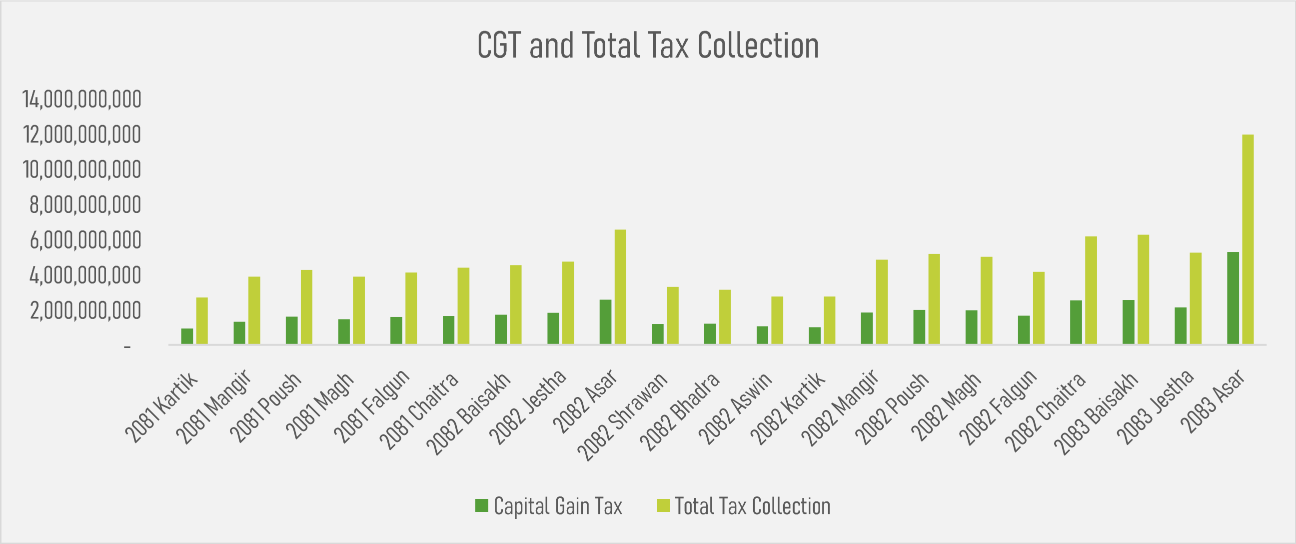
Transaction Records

Time	Number of Transactions	CGT	Total Tax collection
2083 Baisakh	169,538	2,552,464,022	6,263,829,873
2083 Jestha	148,763	2,123,142,644	5,244,251,101
2083 Asar	193,028	5,280,064,770	11,948,974,454
Average	*170,443*	*3,318,557,145*	*7,819,018,476*

Time	Number of Transactions	CGT	Total Tax collection
2082 Baisakh	144,024	1,714,341,788	4,542,265,555
2082 Jestha	156,752	1,819,763,985	4,727,125,645
2082 Asar	154,720	2,565,348,264	6,551,712,884
Average	*151,832*	*2,033,151,346*	*5,273,701,361*

Source: DOLMA





Source: DOLMA

In Asar 2083, the final month of FY 2082/83, Nepal recorded the highest real estate tax collection in the period under review. Total real estate tax collection reached approximately Rs. 11.95 billion, almost double the NPR 6.55 billion collected in Asar 2082, while Capital Gains Tax (CGT) reached a record NPR 5.28 billion. Although the number of property transactions increased by 24.8% year-on-year, from 154,720 to 193,028 transactions, CGT increased by 105.8% and total tax collection rose by 82.4%. Consequently, the tax collected per transaction in Asar increased from approximately NPR 42,300 to nearly NPR 61,900, indicating that the growth was driven not only by a higher number of transactions but also by larger taxable gains and higher-value property sales.

The surge in transactions was supported by several policy and market factors. First, many buyers and sellers accelerated property transactions before the end of the fiscal year, when transaction activity is typically highest. Second, the government's decision to increase the capital gains tax from 7.5% to 10% for properties held for up to five years, and from 5% to 7.5% for properties held for more than five years, encouraged property owners to complete sales before the higher tax rates became effective from FY 2083/84. At the same time, the weighted average real estate lending rate declined from around 9.6–9.7% at the beginning of the fiscal year to approximately 7.0–7.1% by Jestha 2083, improving borrowing affordability and supporting property market activity.

However, the sharp increase in tax collection was not accompanied by a similar rise in bank lending for real estate. Total outstanding real estate loans increased only modestly, from around NPR 690 billion to NPR 736 billion during the fiscal year (approximately 6.7% growth), suggesting that a significant portion of the year-end transactions were either cash-funded or simply brought forward to benefit from the lower tax regime and temporary policy relaxation rather than financed through new bank credit. Therefore, the record tax collection appears to reflect a combination of seasonal year-end activity, policy-driven incentives, and improved financing conditions, rather than a broad-based recovery in Nepal's real estate market. Whether this momentum is sustainable will become clearer from transaction and lending data in the early months of FY 2083/84.

THIS QUARTER
FOCUS

This Quarter Focus | The Lifecyle of Pill: What Nepal's pharmaceutical journey reveals about Challenges and Opportunities

A pill made in Nepal is not purely local. Its chemistry may come from India or China. Its price may be shaped by Nepali regulator, its availability may depend on a road or border crossing, and its final purchase often depends on a household's cash balance. The strategic question is therefore not whether Nepal can make medicines. It is which part of the pill's journey Nepal can control profitably and reliably. This article is an attempt to understand the issues in Business value chain of pharmaceutical sector of Nepal. It is deliberately not a slogan about self-sufficiency. It intends to uncover practicality of Nepal's near-term opportunities and challenges.

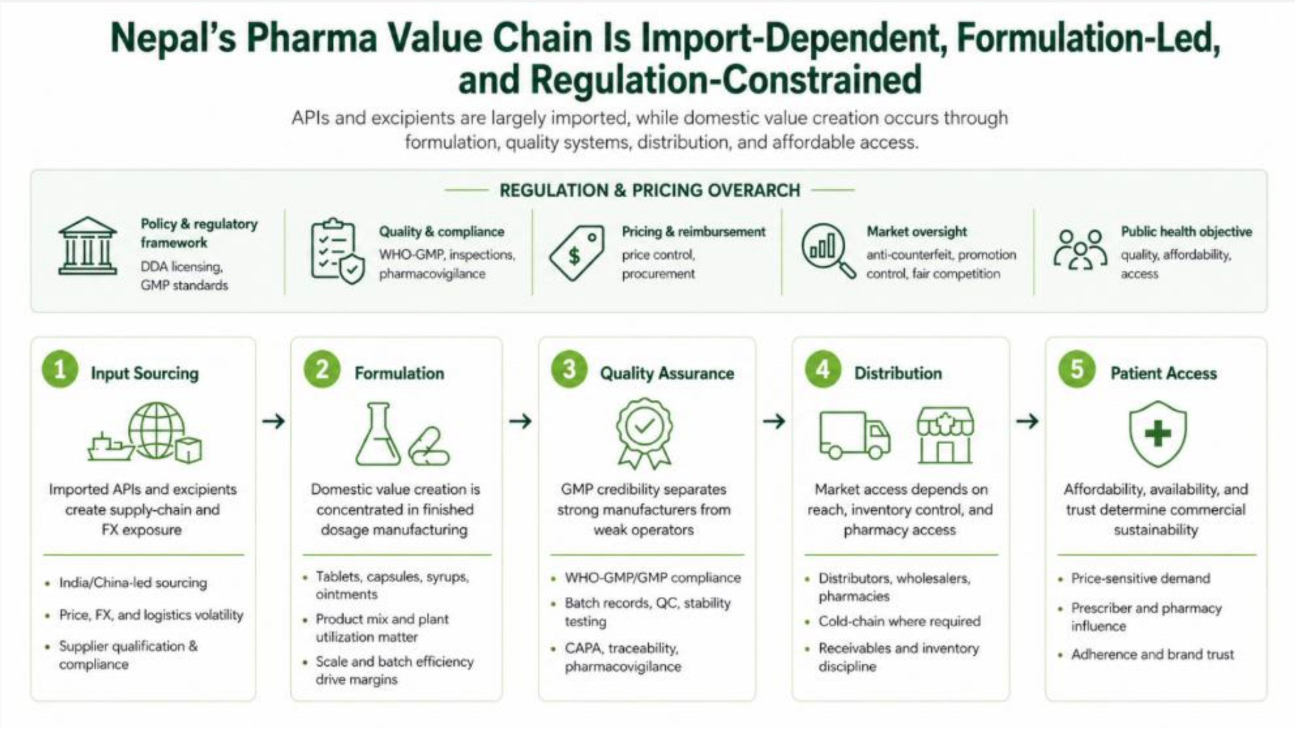


Figure 1. Value Chain Overview of Pharmaceutical Industry in Nepal

1. Imported Chemistry and National Bill: Import dominates the system

Every pill begins as an active pharmaceutical ingredient, or API, combined with excipients that give medicine stability, shape and shelf life. This is the first dependency of Nepal's pharmaceutical value chain. Nepal has built formulation capability, but it has not built a standalone API ecosystem. The distinction matters. A country that formulates medicine can build brands, employment and some supply resilience. But a country that does not produce APIs remains a price taker. When input price rises or the dollar strengthens or a border crossing slows, the cost of local manufacturing moves quickly.

The trade chart of Nepalese economy tells the story more sharply than any slogan. Imports dominate exports by wide margin. Even after the Covid-era spike, imports remained structurally high, while exports remained small. The situation is less likely to change anytime soon.

However, import dependence is not automatically a failure. For a small market, importing APIs may be economically rational. The strategic failure, however, would be pretending the risk does not exist. A serious domestic pharma platform needs dual sourcing, qualified suppliers, safety stock, FX monitoring and working-capital discipline.

2. The factory: Nepal formulates, but not manufacturing is all equal

Once imported materials clear customs, Nepal's industrial role begins. In this market, most of the pharmaceutical manufacturing means formulation: converting imported APIs and excipients into tablets, capsules, syrups, ointments and other finished forms. Although economically meaningful, this cannot be technically treated as deep pharmaceutical technology. For instance, a tablet line, an oral line and a sterile injectable plant are different businesses. The first is largely a scale-and-brand game; the second depends on formulation stability and distribution discipline; the third requires sterile infrastructure, validation systems, and far stricter quality assurance. Nepal's pharmaceutical opportunity is not defined by whether it can manufacture medicines, but by which dosage forms it can produce with consistent quality, commercial discipline, and regulatory credibility.

Pharmaceutical Product Categories: Manufacturing Complexity and Investment Interpretation

Alpha Capital | Sector Analysis Framework

Products are categorized by dosage form and technical complexity because categories carry different manufacturing, commercial, and investment implications.

Category	Examples	Domestic capability	Investment view
Tablets & capsules	Paracetamol, metformin	Strongest local base; high-volume core segment	Attractive only with brand strength, GMP, distribution and margins.
Oral liquids & syrups	Paracetamol syrup, cetirizine syrup	Meaningful local capability, especially pediatric/cough products	Useful base portfolio but exposed to price caps and seasonality.
Ointments / creams / gels	Clotrimazole cream, povidone-iodine ointment	Well-developed formulation segment	Moderate complexity; attractive with differentiated brands.
ORS & oral powders	ORS sachets	Visible in essential and pediatric medicine	Health-security relevant, but pricing economics matter.
Sterile injectables / SVP / LVP / ophthalmic drops	Saline, ceftriaxone injection, eye drops	Limited capability; high sterility and QA requirements	High-return / high-risk; technical diligence is essential.
Biologics & human vaccines	Vaccines, insulin analogues	No practical near-term domestic manufacturing base	Prefer import / cold-chain distribution or JV, not greenfield manufacturing.

Analytical takeaway

- Domestic capability is strongest in conventional formulations, not biologics.
- Higher technical complexity may improve returns, but it sharply raises QA and diligence requirements.

Figure 2. Pharmaceutical Product Categories for Investment Interpretation

Secondly, the table below explains how the headline count of manufacturers overstates the investable universe as only 10-11 companies are reported to be profitable. A license is not a platform. A plant is not a moat. A price list is not a brand. The relevant question is how manufacturers may sustain compliance, cash conversion and doctor/pharmacy trust at the same time. Even a functioning factory must answer a harder question: can every batch be trusted? The answer directly leads to Quality aspect of business.

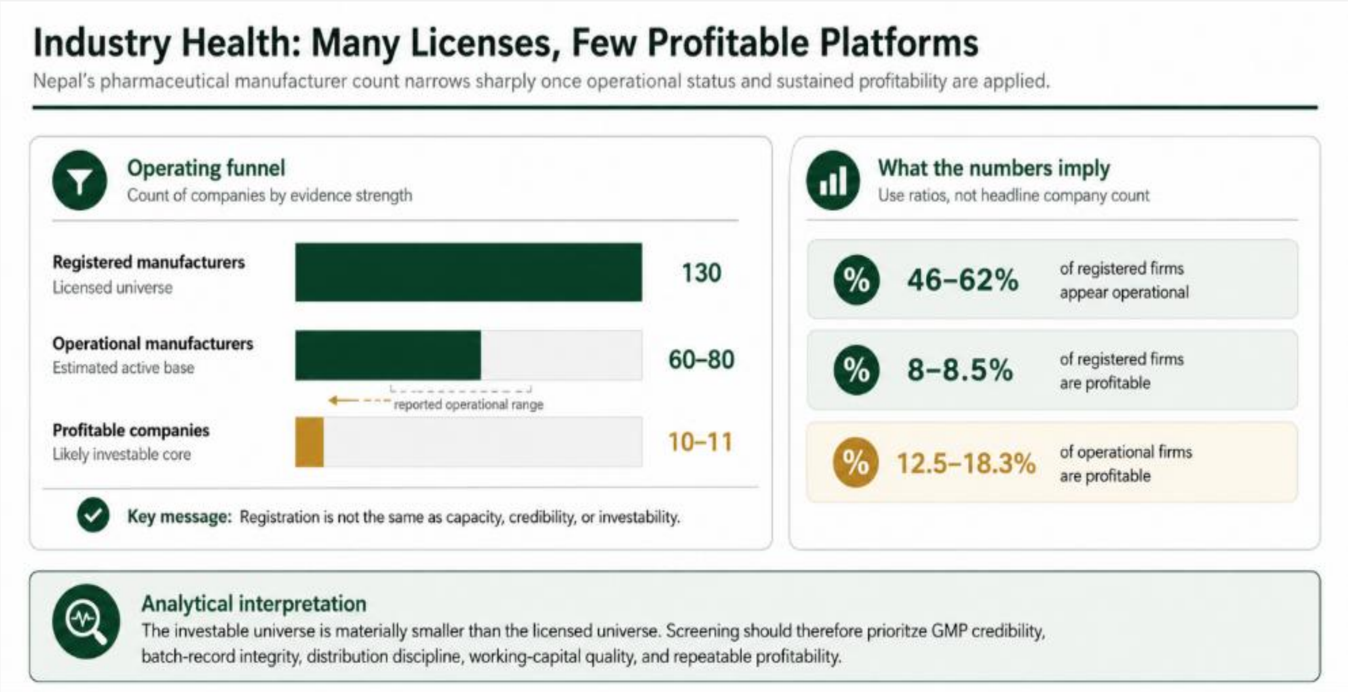


Figure 3. Industry health: many registered companies, far fewer profitable platforms.

3. The quality passport: GMP turns capacity into credibility

In pharmaceutical investing, quality is not a slogan. It is an operating system. WHO-GMP (Good Manufacturing Practice) certification, batch records, stability data, QC discipline and recall history determine whether a factory is scalable platform or merely a low-margin production site. The latest DDA WHO-GMP contains 76 facilities/entries, with 54 interpreted as currently holding valid WHO-GMP certification. Quality cycle rewards fewer, better companies.

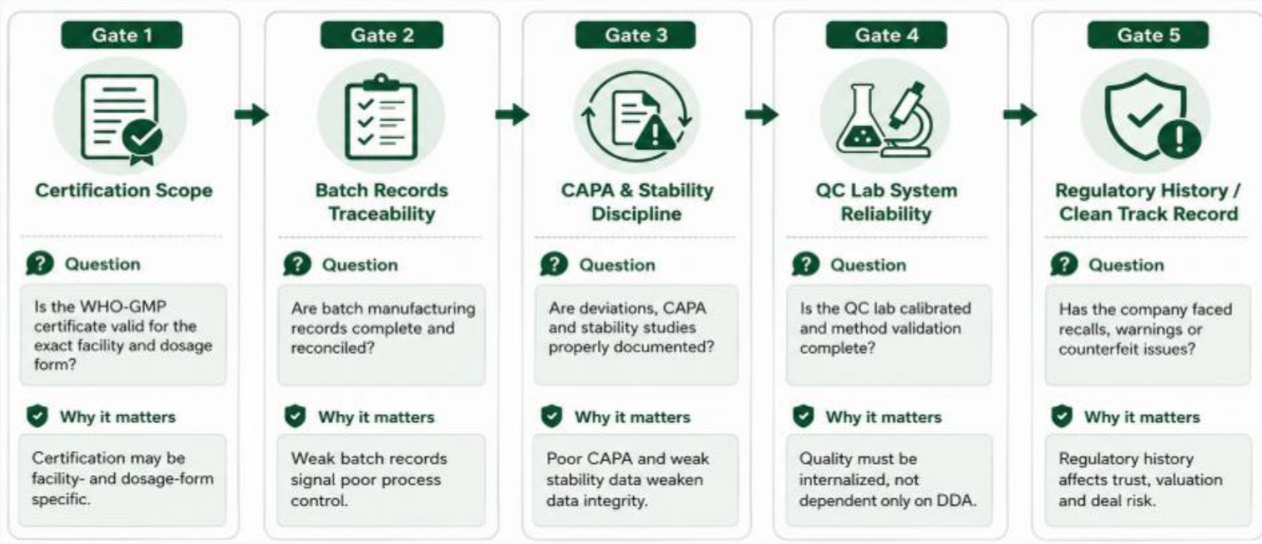


Figure 4. GMP Quality Diligence Framework

The outstanding manufacturer is not the one with the most SKUs. It is the one whose systems can survive an independent GMP audit and whose sales can be reconciled with collections, returns and channel inventory. Although, this does not prove investability, it creates the first filter for diligence for strategic screening.

4. The road: distribution decides whether medicine becomes access

A pill becomes a health product only when it reaches a patient before expiry, at a price the household can pay, and through a channel the patient trusts. The journey of manufactured good is not only commercial, but also geographic. Urban pharmacies and Terai trade corridors are relatively dense. Remote districts are much thinner. In such a system, landslides, border delays, fuel costs and cold-chain gaps can matter as much as factory capacity.

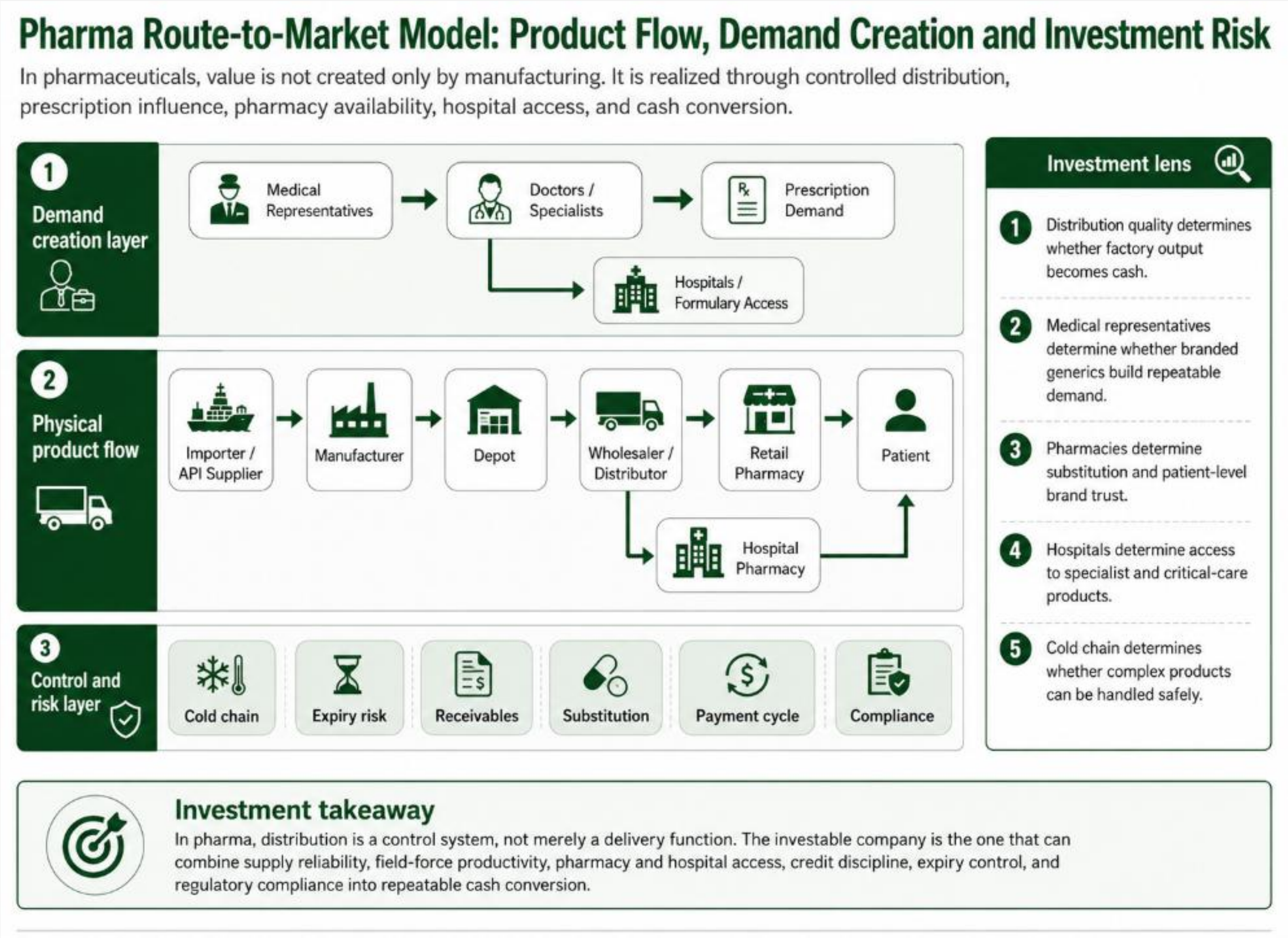


Figure 4. Pharma Route to Market

Investors may look for pharma companies that create value by turning distribution from a cost center into a control system, keep products available, limit expiry and returns, collect receivables faster, and protect brand trust at the pharmacy and hospital level.

5. The wallet: the patient is the final payer

In markets with deep insurance systems, reimbursement absorbs much of the purchase shock. Nepal is different. A large share of healthcare spending is out-of-pocket, and pharmaceuticals account for a high share of that household burden. A doctor may prescribe the brand, a pharmacy may substitute it, and a family may reduce the quantity if cash is short. The last mile is therefore not a logistics detail. It is where medical science meets household economics.

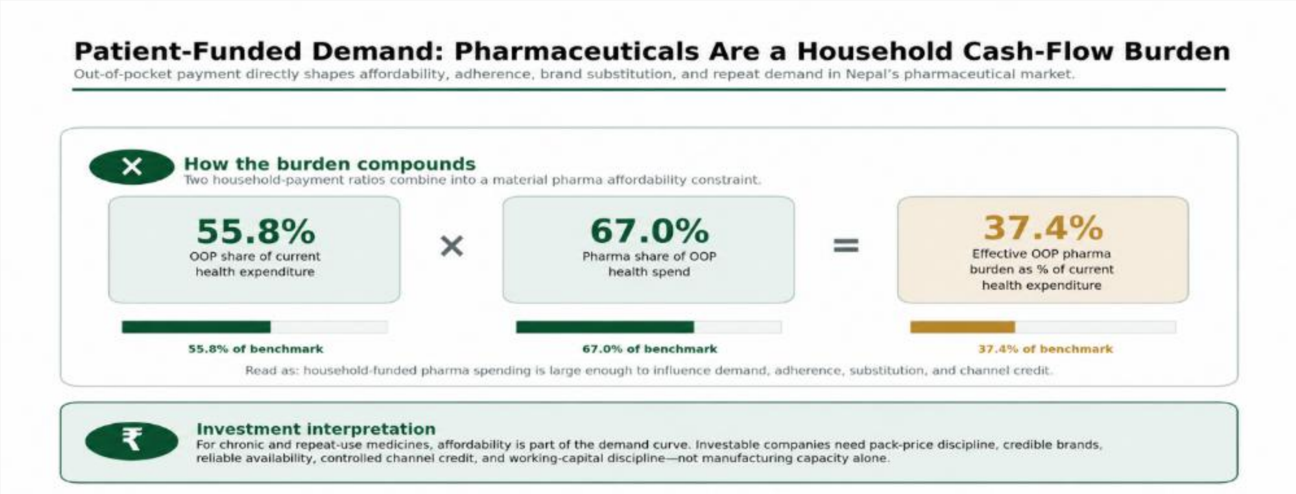


Figure 5. Patient-funded demand: pharmaceuticals are a major household cash-flow burden.

This explains why affordability is not a social footnote. It is the demand curve. For chronic therapies, patients must buy the product repeatedly. If the monthly cash burden becomes too high, adherence falls, brand switching rises and pharmacy substitution becomes more likely.

The nature and price of product, the likely behavior of the end user and the equilibrium match among these two factors determine the value generated by the business. Investors and manufacturers may investigate aspects below to imply the strength of the business.

Patient situation	Likely behavior	Implication for manufacturers/investors
Acute fever, pain or infection	Demand is urgent; availability matters most.	Stockouts quickly push patients toward imports or substitutes.
Chronic cardiac/diabetes therapy	Price sensitivity rises because treatment is repeated monthly.	Small pack sizes, trusted brands and repeat-prescription economics matter.
Cancer or critical care	Families seek cheaper alternatives, hospital guidance and sometimes informal routes.	Specialty distribution and hospital credibility are decisive.
Low-income rural patient	Purchases may be delayed, reduced or substituted.	Affordability and last-mile availability are core to market size.

This household-payment reality becomes even more important as Nepal approaches LDC graduation. Nepal's movement out of the least developed country category may gradually reduce the trade and intellectual-property flexibilities that have helped keep some medicines affordable, particularly under the TRIPS framework. If patented or newer-generation medicines become costlier due to royalties, licensing requirements or import dependence, the pressure will not remain only at the policy level; it will reach the pharmacy counter. Patients may delay treatment, shift to cheaper substitutes, buy incomplete doses, or depend more heavily on hospital guidance and informal channels.

For manufacturers and investors, LDC graduation therefore links directly with affordability strategy: companies with strong quality systems, licensed products, technology-transfer partnerships and disciplined pricing may benefit, while weak firms relying only on low-cost copy-generics may struggle to protect both margins and patient access.

6. The referee: regulation must protect the patient without starving the factory

The Department of Drug Administration sits in the hardest part of the system. It must protect patients from unsafe or overpriced medicine while ensuring that essential medicines remain commercially viable to produce. The tension is visible in price controls.

The prices for 117 medicines remain controlled and that paracetamol has been capped at Re 1 per tablet since 2007. That cap protects affordability. But if input costs, wages, utilities and FX move while the selling price does not, manufacturers may rationally reduce or stop production. Including this, we found some major issues that may possess Industrial risk relevant for investors.

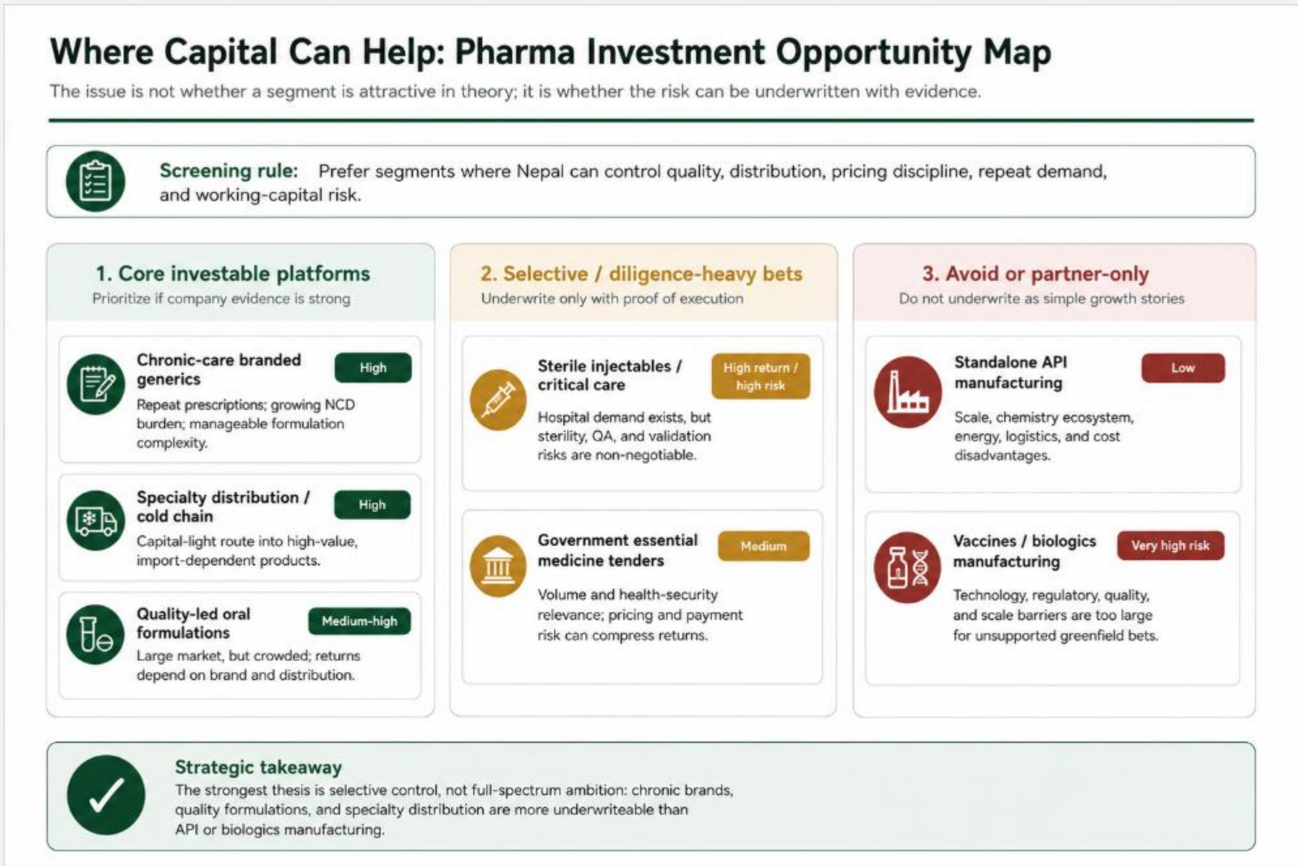
Regulatory issue	Patient objective	Industrial risk
Essential medicine price caps	Keep core medicines affordable.	Production becomes unattractive if costs rise faster than price.
WHO-GMP and GMP renewal	Ensure medicine quality.	Delays can exclude domestic companies from procurement or exports.
Import approvals	Maintain supply and product choice.	Unchecked imports can weaken local production and quality oversight.
Nutraceutical grey zone	Offer access to supplements and wellness products.	Food-category products may bypass pharma scrutiny while competing for patient cash.

The right policy question is not price control versus no price control. It is whether Nepal can design a system where essential medicines remain affordable, domestic production remains viable, and quality enforcement remains credible.

7. Where capital can help: the lifecycle investment map

The lifecycle analysis separates what Nepal can realistically control from what it should not underwrite without external technology, scale or guaranteed offtake. The best opportunity is selective control, not full-spectrum ambition. The future Nepali pharma winner is unlikely to be the company that promises to make everything. It will be the company that chooses where to be excellent: a tight product portfolio, clean GMP systems, disciplined working capital, credible prescriber access and supply-chain resilience while navigating the challenges of:

- Imported-input dependence
- Price-control stress
- Uneven quality standards
- Distribution and cash-cycle risk
- Affordability pressure



Conclusion: the pill is a mirror of the system

A Nepali pill begins as imported chemistry, becomes a domestic product on a formulation line, passes through a quality system, travels through fragile geography, meets a regulator's price ceiling, and ends as a cash purchase by a patient. Each stage adds value. Each stage also adds risk.

That is why the right pharmaceutical strategy for Nepal is not romantic self-sufficiency. It is disciplined control over the parts of the chain where Nepal can build advantage: quality formulation, reliable essential medicines, chronic-care brands, specialty distribution and investable GMP platforms.

The pill may be small. The lesson is not. A medicine that cannot be produced profitably will not be available. A medicine that is available but unaffordable will not be taken. A medicine that is affordable but poor quality will not build trust. The winner must solve all three.