

Global IME Capital Limited

ICRA Nepal assigns [ICRANP] AMC Quality 3 (AMC 3) Rating to Global IME Capital Limited

Facility/Instrument	Amount (NPR Million)	Rating Action (December 2015)
Fund Management Quality Rating (FMQR)	NA	[ICRANP] AMC Quality 3 (AMC 3) (Assigned)

ICRA Nepal has assigned an “[ICRANP] AMC Quality 3 (AMC 3)” (pronounced ICRA NP Asset Management Company Quality Three) fund management quality rating (FMQR) to Global IME Capital Limited (GICL), indicating adequate assurance on management quality. ICRA Nepal assigns FMQR on a scale of AMC1 through AMC5, with AMC1 indicating highest assurance on management quality and AMC5 indicating poor assurance on management quality. For the FMQR categories 2, 3 and 4, the sign of + (plus) appended to the symbols indicate their relative position within the FMQR categories concerned. Thus, the FMQR of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively.

The adequate assurance on management quality factors in the ownership and technical support of Global IME Bank Limited, a Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] A-@¹ for issuer rating), adequately established organisational structure, presence in Nepalese Capital market as merchant banker and the background of fund supervisors. The FMQR is nonetheless constrained by the uncertain operating environment amidst volatility in the market with political instability, developing systems and processes with respect to fund management, evolving nature of mutual fund industry and low awareness about the mutual fund among general investor. The rating also takes note of the absence of track record of GICL as fund manager although it has adequate track record in Nepalese Capital market as merchant banker.

FMQR of GICL also factors adequacy of system and processes being developed for the proposed level of operation (Global IME Samunnat Fund -1 amounting NPR 800 million), moderately experienced senior management and fund supervisor involved in the management and supervision of the proposed scheme. The proposed equity oriented growth scheme of GICL (Global IME Samunnat Fund -1) is projected to register moderate growth in NAV while focusing more on plough back of generated profits towards investment growth, which reflects positively on the Investment strategy of GICL. However, sustainability of the growth and return to investors over longer time frame remains to be seen considering the volatility of evolving Nepalese stock market and its effect on the underlying equity investments of the scheme.

The Mutual Fund industry in Nepal is in nascent stage, so far, only six mutual fund schemes have been launched in Nepalese Market with overall industry’s Assets under Management (AUM) less than NPR 6 billion. Schemes so far are mostly composed of equity investments through primary & secondary market, predominantly across Banks and Financial institutions. There is a limited scope for investment and risk diversification (both industry wise and instrument wise) as market is shallow for bond & other fixed income securities. As of now, the schemes are mostly subscribed by institutional investors like Banks, Insurance Companies, Retirement Funds, Investment companies, etc while the participation of retail investors is on the lower side. Although awareness among the investor is low, the institutional investors who are aware about the MF industry are attracted to invest in it. Nevertheless, industry’s ability to attract human as well as financial capital seems average.

ICRA Nepal takes comfort from sponsor’s (Global IME Bank Limited) support in the subsidiary Assets Management Company (AMC) as demonstrated by 60% shareholding in GICL, which

¹ @Rating under watch with negative implication

however remains lower to support of some of other sponsors in their respective AMCs. The adequate track record and experienced management of sponsor is expected to reflect positively on the operation of AMC, with the latter benefitting from the sponsor's support of the former in the form of technical support, human resource support and oversight related functions. The rating should, however, not be construed as an indication of the prospective performance of the Mutual Fund scheme or of volatility in its returns.

Company Profile

Incorporated in May 2008 and operating since August 2008, Global IME Capital Limited (GICL) (Erstwhile Elite Capital Limited) is a subsidiary of Global IME Bank Limited. The bank holds 60% shares of GICL and the rest is held by institutions and individuals from diverse backgrounds. Constrained by decline in scale of operations in 2014-15, GICL reported net profit of NPR 5.10 mn on an asset base of NPR 126 mn in FY15 as compared to net profit of NPR 20.15 mn on an asset base of NPR 140 mn respectively in FY14. As on year end 2014-15, GICL's capital remains NPR 100 million while its net worth remains NPR 104.22 million on same date.

GICL is licensed by Securities Board of Nepal as a Merchant Banker (Issue Management, Registrar to Shares, Underwriter and Portfolio Manager) and is seeking expansion through Mutual Fund and Asset Management Services. GICL has also obtained Mutual Fund Depository's License in addition to Fund Manager's License from SEBON (as per the Mutual Fund Regulation, 2010), however GICL has not started its fund management & fund depository service since its first fund "Global IME Samunnat Fund 1" is yet to be launched. Moreover, GICL has also obtained Depository participant's License from SEBON as well as membership from CDS and Clearing Limited (Central Depository Company).

ICRA Nepal - FUND MANAGEMENT QUALITY RATING METHODOLOGY

A Fund Management Quality Rating from ICRA Nepal provides investors with an independent opinion on the overall quality, governance process, and fund management expertise of the Asset Management Company (AMC) rated. For AMCs, ICRA Nepal ratings are a credible means that can be used to highlight their investment management characteristics. The ratings also provide investors with a useful benchmark to differentiate among AMCs. ICRA Nepal ratings however are not intended to comment on the future performance of the schemes or funds being managed by the AMCs rated.

ANALYTICAL FRAMEWORK

The methodology for rating Fund Management Quality emphasizes qualitative factors over quantitative factors and considers the following key parameters:

- Ownership
- Organizational Structure and Management Quality
- Governance Structure and Fiduciary Responsibility
- Transparency and Investor Service
- Investment Performance
- Financial Soundness

The weighting of the parameters would vary from case to case, given that every AMC has its own unique characteristics.

ICRA Nepal Fund Management Quality Ratings: Scale and Definitions

[ICRANP] AMC Quality 1 (AMC1): Entities rated AMC1 are adjudged to provide the highest assurance on management quality. ICRA Nepal's opinion is not a comment on statutory compliance, financial performance or future performance of schemes managed by the Asset Management Company.

[ICRANP] AMC Quality 2 (AMC2): Entities rated AMC2 are adjudged to provide high assurance on management quality. ICRA Nepal's opinion is not a comment on statutory compliance, financial performance or future performance of schemes managed by the Asset Management Company.

[ICRANP] AMC Quality 3 (AMC3): Entities rated AMC3 are adjudged to provide adequate assurance on management quality. ICRA Nepal's opinion is not a comment on statutory compliance, financial performance or future performance of schemes managed by the Asset Management Company.

[ICRANP] AMC Quality 4 (AMC4): Entities rated AMC4 are adjudged to provide inadequate assurance on management quality. ICRA Nepal's opinion is not a comment on statutory compliance, financial performance or future performance of schemes managed by the Asset Management Company.

[ICRANP] AMC Quality 5 (AMC5): Entities rated AMC5 are adjudged to provide poor assurance on management quality. ICRA Nepal's opinion is not a comment on statutory compliance, financial performance or future performance of schemes managed by the Asset Management Company.

Note:

For the Quality Rating categories 2, 3 and 4, the sign of + (plus) may be appended to the Rating symbols to indicate their relative better position within the Rating categories concerned.

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