

Siddhartha Capital Limited

ICRA Nepal upgrades Fund Management Quality Rating (FMQR) of Siddhartha Capital Limited to [ICRANP] AMC Quality 3+ (AMC 3+)

	Amount (NPR million)	Rating Action (July 2017)
Fund Management Quality Rating (FMQR)	NA	[ICRANP] AMC Quality 3+ (AMC 3+) (upgraded)

ICRA Nepal has upgraded fund management quality rating (FMQR) of Siddhartha Capital Limited (SCL) from “**[ICRANP] AMC Quality 3 (AMC3)**” (pronounced ICRA NP Asset Management Company Quality Three) to “**[ICRANP] AMC Quality 3+ (AMC3+)**” (pronounced ICRA NP Asset Management Company Quality Three plus), 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 rating upgradation factors in the healthy performance of the mutual fund schemes under SCL (~166% and ~51% growth in NAV for SIGS-I and SEOS respectively so far along with healthy dividend distribution; benefitted to an extent by spike in market index over this period) and adequately established organisational structure to manage the existing as well as upcoming fund. The upgradation is further supported by rating upgradation of its parent company viz. Siddhartha Bank Limited, Class ‘A’ commercial bank (ratings upgraded from [ICRANP-IR] BBB to [ICRANP-IR] BBB+ for issuer rating in Jul-2017) as well as SCL’s established presence in Nepalese capital market as fund manager and merchant banker along with other service related with capital market. The FMQR also factors in satisfactory investor service practices of SCL while adhering to regulatory guidelines and investment policies. The FMQR is nonetheless constrained by lower stake of the parent (51%) vs. other peers as well as the evolving nature of mutual fund industry, uncertain operating environment amidst volatility in the market with political instability, unavailability of hedging tools for investment in the market, evolving nature of mutual fund industry and low awareness about the mutual fund among general investors.

FMQR of SCL also factors adequacy of system and processes in place for the current level of operations, experienced senior management and fund supervisor involved in the management and supervision of the mutual fund schemes (Siddhartha Investment Growth Scheme-I and Siddhartha Equity Oriented Scheme) amounting to NPR 500 million and NPR 1,000 million issued in December 2012 and July 2014 respectively. These growth schemes of SCL have registered healthy growth in NAV till mid-Jun-17 (NAV growth of ~166% and ~51% since their inception with ~65% and 16% cash dividend so far) compared to the growth in stock market index (~195% and ~47% since their launch) while adhering to regulatory guidelines, risk and investment policy (~65-70% of the funds invested in equity market); which reflects positively on the Investment strategy of SCL. The company plans to launch its third scheme (an equity oriented scheme named Siddhartha Equity Fund amounting to NPR 1,200 million with 90% allocation for equity market investment; rest being towards bank deposits), which is projected to register high growth in NAV while maintaining progressive dividend distribution strategy based on available investment avenues. 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 developing stage, so far, eleven mutual fund schemes have been launched so far with overall industry’s Assets under Management (AUM) less than NPR 14 billion as of mid-June-17. Schemes so far are mostly composed of equity investments through primary & secondary market, predominantly across banks and financial institutions. None of these schemes have faced severe downturn in market index and hence the ability of these AMC’s in maintaining Net Assets



Value (NAV) in case of downfall in market remains to be seen. Additionally, there is 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 gradually increasing. 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 also takes comfort from sponsor's (Siddhartha Bank Limited, rated [ICRANP-IR] BBB+ for issuer rating) commitment in the subsidiary AMC as demonstrated by 51% shareholding in SCL and 15% seed investment in the mutual fund schemes of SCL. The long track record and experienced management of sponsor reflects positively on the operation of AMC, with the latter benefitting from the sponsor's support of the former in the form of technical assistance, 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

Established in 2012, Siddhartha Capital Limited (SCL) is a 51% subsidiary of Siddhartha Bank Limited; the balance being held largely by other individual shareholders associated as promoters of the bank. At present, SCL is involved in fund management, issue management, underwriting, share registration, private placement, mutual fund management, financial advisory services and depository participant. SCL has obtained mutual fund depository's license in addition to fund manager's license from SEBON (as per the Mutual Fund Regulation, 2010) & is currently acting in both capacities with respect to its two mutual fund schemes SIGS I and SEOS. Moreover, SCL has also obtained depository participant's license from SEBON as well as membership from CDS and Clearing Limited (proposed Central Depository Company). SCL plans to shortly launch its third close ended mutual fund scheme (named Siddhartha Equity Fund) amounting NPR 1,200 million with ten years' tenure.

SCL reported profit of ~NPR 31 mn for FY16 over an asset base of NPR 195 mn as of mid-Jul-16 as against profit of ~NPR 19 mn for FY15 over an asset base of NPR 142 mn as of mid-Jul-15. For 9MFY17, SCL reported profit of NPR 182 mn, primarily aided by huge interest income on managing funds raised through one large FPO. As on mid-Apr-17, capital of the company was NPR 100 million, while its net worth was NPR 302 million on same date.

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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