

## NMB Capital Limited

### ICRA Nepal reaffirms [ICRANP] AMC Quality 3 (AMC 3) rating to NMB Capital Limited

|                                       | Amount (NPR million) | Rating Action (October 2016)                   |
|---------------------------------------|----------------------|------------------------------------------------|
| Fund Management Quality Rating (FMQR) | NA                   | [ICRANP] AMC Quality 3 (AMC 3)<br>(Reaffirmed) |

ICRA Nepal has reaffirmed “[ICRANP] AMC Quality 3 (AMC3)” (pronounced ICRA NP Asset Management Company Quality Three) fund management quality rating (FMQR) assigned to NMB Capital Limited (NMB Capital), 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 NMB Bank Limited, Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] BBB+ for issuer rating), established presence in Nepalese Capital market as merchant banker, adequately established organisational structure. The FMQR also factors in satisfactory investor service practices of NMB Capital and the processes followed by it in generating healthy return (~79% growth in NAV within about two years of operation; benefitted to an extent by spike in market index over this period), while adhering to regulatory guidelines and investment policies. The FMQR is nonetheless constrained by limited track record of NMB Capital as fund manager, developing systems and processes with respect to risk management of fund, uncertain operating environment amidst volatility in the market with political instability, absence of separate board level risk management committee, unavailability of hedging tools for investment in the market, evolving nature of mutual fund industry and low awareness about the mutual fund among general investor.

FMQR of NMB Capital also factors adequacy of system and processes in place for the current level of operation, experienced senior management and fund supervisor involved in the management and supervision of the current mutual fund scheme (NMB Sulav Investment Fund-1) amounting to NPR 750 million issued in October 2014. The equity oriented growth scheme of NMB Capital registered healthy growth in NAV till mid-Oct-16 (NAV growth of ~79% with 20% cash dividend declared for FY16) compared to the growth in stock market index (~108% over the same period) adhering regulatory guidelines, risk and investment policy (~70% of the fund invested in equity market); which reflects positively on the Investment strategy of NMB Capital. The company has recently launched its second scheme (a hybrid natured scheme named NMB Hybrid Fund L– I amounting to NPR 1,000 million with maximum 55% allocation for equity market investment (minimum 15%); rest being towards fixed income earning securities), which is projected to register moderate growth in NAV while maintaining 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 nascent stage, so far, only seven mutual fund schemes have been launched in Nepalese Market with overall industry’s Assets under Management (AUM) less than NPR 11 billion as on mid-Jul-16. 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 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 (NMB Bank Limited, rated [ICRANP-IR] BBB+ for issuer rating) commitment in the subsidiary AMC as demonstrated by 100% shareholding in NMB Capital and 14% seed investment in the Mutual Fund Schemes of NMB Capital. 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 2010, NMB Capital Limited is a wholly owned subsidiary of NMB Bank Limited. At present, NMB Capital is involved in Issue Management, Underwriting, Share Registration, Private Placement and Financial Advisory Services. NMB Capital has obtained Mutual Fund Depository's License in addition to Fund Manager's License from SEBON (as per the Mutual Fund Regulation, 2010), and is currently acting in both capacities after its first fund, NMB Sulav Investment Fund-1 was issued in October 2014. Moreover, NMB Capital has also obtained Depository Participant's License from SEBON as well as membership from CDS and Clearing Limited (Central Depository Company).

NMB Capital recently launched its second close ended mutual fund scheme (named NMB Hybrid Fund L- I) amounting NPR 1,000 million with seven years' tenure. NMB Capital reported profit of ~NPR 28 mn for FY16 over an asset base of NPR 229 mn as of mid-Jul-16 as against profit of ~NPR 29 mn for FY15 over an asset base of NPR 249 mn as of mid-Jul-15. As on mid-Jul-16, capital of the company was NPR 100 million, while its net worth was NPR 153 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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