

Nabil Investment Banking Limited

ICRA Nepal assigns [ICRANP] AMC Quality 3+ (AMC 3+) Rating to Nabil Investment Banking Limited

	Amount (NRs million)	Rating Action
Fund Management Quality Rating (FMQR)	NA	[ICRANP] AMC Quality 3+ (AMC 3+) (Assigned)

ICRA Nepal has assigned an “[ICRANP] AMC Quality 3+ (AMC3+)” (pronounced ICRA NP Asset Management Company Quality Three plus) fund management quality rating (FMQR) to Nabil Investment Banking Limited (Nabil Invest), 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 Nabil Bank Limited, a Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] AA- for issuer rating), adequately established organisational structure, moderate track record in Nepalese Capital market as merchant banker, portfolio manager, fund manager & other advisory service. The FMQR also factors in satisfactory investor service practices of Nabil Invest & the processes followed by it in generating healthy return (>100% growth in NAV within three years of operation), while adhering to regulatory guidelines and investment policies. The FMQR is nonetheless constrained by the uncertain operating environment amidst volatility in the market with political instability, absence of separate risk management committee, unviability of hedging tools for investment in the market, developing systems and processes with respect to risk management of fund, evolving nature of mutual fund industry and low awareness about the mutual fund among general investor.

FMQR of Nabil Invest 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 (Nabil Balance Fund-I) amounting Rs. 750 million issued in April 2013. The balance scheme of Nabil Invest registered healthy growth in NAV till mid-Mar-16 (NAV growth of >100% with two 14% cash dividend during last three years) compared to the growth in stock market index (around 150% over the same period) adhering regulatory guidelines, risk and investment policy (less than 70% of the fund invested in equity market); which reflects positively on the Investment strategy of Nabil Invest. 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 8 billion as on mid-Mar-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 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 also takes comfort from sponsor's (Nabil Bank Limited rated [ICRANP-IR] AA- for issuer rating) commitment in the subsidiary AMC as demonstrated by 74.29% shareholding in Nabil Invest and 14% seed investment in the Mutual Fund Scheme of Nabil Invest. The long track record and experienced management of sponsor reflects positively on the operation of AMC, with the latter benefitting from the 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

Nabil Investment Banking Limited (Nabil Invest) was incorporated in February 2010 under the Nepalese Companies Act 2006. The Company has commenced its operations from April 2010. Nabil Invest is licensed by Securities Board of Nepal as a Merchant Banker (Issue Management, Registrar to Shares, Underwriter, Depository Participants and Portfolio Manager). Nabil Invest is a subsidiary of Nabil Bank Limited which holds 74.29 percent of the paid up capital of Nabil Invest, the balance paid up being held by the CG Finco Pvt. Ltd. Constrained by decline in gain on sale of securities in 2014-15, Nabil Invest reported net profit of NPR 26.85 mn on an asset base of ~NPR 171 mn in FY15 as compared to net profit of NPR 31.65 mn on an asset base of ~NPR 163 mn respectively in FY14. As on year end 2014-15, Nabil Invest's capital remains NPR 105 million while its net worth remains NPR 150.66 million on same date.

Nabil Invest 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 the Nabil Balance Fund-I amounting NPR 750 mn. Moreover, Nabil Invest has also obtained license for Merchant Banker (Issue Management, Registrar to Shares, Underwriter and Portfolio Manager), Depository participant's License from SEBON as well as membership from CDS and Clearing Limited.

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 emphasises qualitative factors over quantitative factors and considers the following key parameters:

- Ownership
- Organisational 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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