

Laxmi Capital Market Limited

ICRA Nepal assigns [ICRANP] AMC Quality 3 (AMC 3) Rating to Laxmi Capital Market 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) fund management quality rating (FMQR) to Laxmi Capital Market Limited (LCML), 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 Laxmi Bank Limited, a well-established Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] BBB for issuer rating), adequately established organisational structure, systems and processes, presence in Nepalese Capital market as merchant banker. The FMQR is nonetheless constrained by the uncertain operating environment amidst volatility in the market with political instability, evolving nature of mutual fund industry, low awareness about the mutual fund among general investor, limited track record. The rating also takes note of the absence of track record of LCML as fund manager although it has an track record as merchant banker.

FMQR of LCML also factors adequacy of system and processes in place for the proposed level of operation (Laxmi Value Fund-I amounting NRs. 400 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 LCML (Laxmi Value Fund-I) is projected to registered moderate growth in NAV while focusing on a progressive dividend distribution strategy to the unit holders, which reflects positively on the Investment strategy of LCML. 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 three mutual fund schemes have been launched in Nepalese Market with overall industry’s Assets under Management (AUM) less than NPR 3.5 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 takes comfort from sponsor's (Laxmi Bank Limited) commitment in the subsidiary AMC as demonstrated by 100% shareholding in LCML. The long 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

Laxmi Capital Market Limited (LCML), established in 2011, is a wholly owned subsidiary of Laxmi Bank Limited. At present, LCML is involved in Merchant Banking, Advisory Services, portfolio management service, Depository Participant and also seeking expansion and coming with Mutual Fund and Asset Management Services. Constrained by low scale of operations in 2012-13, LCML reported net profit of NPR 2.46 mn on an asset base of NPR 107 mn in FY13 as compared to net profit of NPR 2.57 mn on an asset base of NPR 74 mn respectively in FY12. As on year end 2012-13, LCML capital remains NPR. 100 million while its net worth remains NPR. 106.44 million on same date.

Laxmi Capital Market Limited has obtained Mutual Fund Depository's License in addition to Fund Manager's License from SEBON (as per the Mutual Fund Regulation, 2010), however Laxmi Capital Market Limited has not started its fund management & fund depository service since its first fund Laxmi Value Fund – 1 is yet to be launched. Moreover, Laxmi Capital Market Limited has also obtained Depository participant's License from SEBON as well as membership from CDS and Clearing Limited (proposed 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 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.

Sep 2014

For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali, (+977-1-4419910/20)

kishor@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (+977-1-4419910/20)

drkafle@icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents