

## NMB Capital Limited

### ICRA Nepal assigns [ICRANP] AMC Quality 3 (AMC 3) Rating to NMB Capital 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 NMB Capital Limited (NMBCL), 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, a well-established Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] BBB for issuer rating), established presence in Nepalese Capital market as merchant banker (managed over 250 public issues since inception), adequately established organisational structure, systems and processes. 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 NMBCL as fund manager although it has an established track record as merchant banker.

FMQR of NMBCL also factors adequacy of system and processes in place for the proposed level of operation (NMB Sulav Growth Scheme-I amounting NRs. 600 million), experienced senior management and fund supervisor involved in the management and supervision of the proposed scheme. The proposed equity oriented growth scheme of NMB Capital (NMB Sulav Growth Scheme-I-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 of NMBCL. 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 two mutual fund schemes have been launched in Nepalese Market with overall industry’s Assets under Management (AUM) less than NPR 2 billion. Both these schemes are mostly composed of equity investments through primary & secondary market with dominance of 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. The ability of Nepalese AMC’s to cope up with market downturn remains to be seen. 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 (NMB Bank Limited) commitment in the subsidiary AMC as demonstrated by 100% shareholding in NMBCL. 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**

NMB Capital Limited, established in 2010, is a wholly owned subsidiary of NMB Bank Limited (earlier NMB Bank itself involved in the merchant banking activities). At present, NMB Capital is involved in merchant banking activities including Issue management, Underwriting, Depository to issue, Private placement and advisory services. NMBCL is now coming up with Mutual Fund and Asset Management Services. NMBCL is planning to come with close ended mutual fund scheme (named NMB Sulav Growth Scheme-I) amounting NRs. 600 million after approval from SEBON. NMBCL reported profit of NRs. 6.06 mn on an asset base of NRs. 345.8 mn in FY13. As on year end 2012-13, capital of NMBCL remains NPR. 100 million, while its net worth remains NPR. 102.25 million on same date.

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). NMB Capital is venturing into mutual fund business with its first scheme (NMB Sulav Growth Scheme-I) which is a NPR 600 million close ended fund. NMB Capital has also obtained Depository participant's License from SEBON.

### **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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