

Sanima Capital Limited

ICRA Nepal reaffirms [ICRANP] AMC Quality 3 (AMC 3) rating

	Amount (NPR million)	Rating Action (October 2018)
Fund Management Quality Rating (FMQR)	NA	[ICRANP] AMC Quality 3 (AMC 3) (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 Sanima Capital Limited (SCL), indicating adequate assurance on fund management quality. ICRA Nepal assigns FMQR on a scale of AMC1 to AMC5, with AMC1 indicating the highest assurance on fund 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 category concerned. Thus, the FMQR of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively.

The adequate assurance on fund management quality factors in the full ownership and continued technical support of Sanima Bank Limited, a Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] A- for issuer rating) along with an established organisation structure and experienced background of fund supervisors. The rating also factors in SCL’s satisfactory investor service practices and the processes followed by it in generating moderate returns from its first mutual fund scheme. Despite a significant downturn in market index (NEPSE) since its launch, the fund was able to report a NAV of NPR 10.38 per unit¹ as of mid-September 2018, primarily benefitted by high interest rates in bank deposits. The rating action also derives comfort from the experience of the senior management and supervisors involved in the management and supervision of the mutual fund scheme of the company. However, the extent of involvement of supervisors in managing the schemes is not clearly mandated through a legal framework and hence remains a rating concern. However, a stable Government in Nepal with a target to increase the pace of the country’s economic growth along with ongoing improvements in the capital market and the regulatory framework remain positive factors.

Nonetheless, the rating is constrained by the company’s limited track record in the Nepalese capital market as a fund manager along with high volatility in the market index. The rating is further constrained by an evolving risk management framework with respect to fund management, absence of a separate risk management and audit committee, unavailability of hedging tools for investment in the market, evolving nature of the mutual fund industry and the retail investors’ lack of awareness about mutual funds. Going forward, improving the NAV of the scheme would remain a key challenge for SCL given the volatility in market. Moreover, investment in equity scrips have to be increased gradually (~30% of the corpus has been invested in equity so far against the target of 60% in the first year and more thereafter).

The first mutual fund scheme of the company, Sanima Equity Fund, is a 7-year close-ended fund of NPR 1,300 million, issued in December 2017. The equity-oriented scheme reported a NAV of NPR 10.38 as of mid-September 2018, a growth of ~4% since its launch compared to a fall of ~12% in the stock market index over the same period. Lower exposure towards equity scrips (30% of the corpus invested so far) went in favour of the fund because of the recent downturn in markets. The fund has parked a major portion of its corpus in bank deposits that are offering better rates at present. The scheme has not distributed any dividend so far and has been adhering to regulatory guidelines and its internal investment policies. Considering the volatility of evolving Nepalese stock market and its effect on the underlying equity investments of the scheme, the ability of the asset management company to maintain a healthy growth in NAV would remain a key rating driver.

The mutual fund industry in Nepal is in developing stage so far. Only 16 mutual fund schemes have been launched in the Nepalese market (three of these have matured already) and the industry’s total assets under management (AUM) stood at ~NPR 13 billion as of mid-July 2018 (with an average NAV of NPR 10.13 in the industry). The mutual fund schemes launched so far mainly make equity investments through

¹ Against a face value of NPR 10 per unit.



primary and secondary markets, predominantly across banks and financial institutions. There is a limited scope for investment and risk diversification (both industry wise and instrument wise) as the market is immature for bond and other fixed-income securities. However, recent regulatory changes are expected to facilitate the entry of non-financial sector² companies in the secondary market, which would help increase diversification avenues, going forward. As of now, the schemes are mainly subscribed by institutional investors like banks, insurance companies, retirement funds, investment companies among others, while participation of retail investors is gradually increasing. Though awareness among retail investors is still low, institutional investors are finding it attractive to invest in the mutual fund industry. Nevertheless, the industry's ability to attract human resources as well as financial capital seems average compared to the banking industry and hence remains a concern.

ICRA Nepal also takes comfort from the sponsor's (Sanima Bank Limited) support in the subsidiary AMC, as demonstrated by 100% shareholding in SCL and 13% seed investment in its mutual fund scheme. A good track record and experience of the sponsor reflect positively on the operations of the AMC. SCL benefits from Sanima Bank Limited in the form of technical/legal support, human resource support and oversight related functions.

The rating, however, should not be considered as an indication of the prospective performance of the mutual fund scheme or of volatility in its returns.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below:

Links to applicable criteria:

[Fund Management Quality Rating Methodology](#)

Company Profile

Established in December 2015, Sanima Capital Limited (SCL) is a wholly-owned subsidiary of Sanima Bank Limited (rated at [ICRANP-IR] A- for issuer rating). SCL has obtained licence from the Mutual Fund Depository in addition to fund manager's licence from SEBON (as per the Mutual Fund Regulation, 2010) and acts in both the capacities for its first mutual fund scheme, Sanima Equity Fund (SAEF), launched in December 2017. The company got licence from the Securities Board of Nepal to work as an investment banker (including services like asset management services, private placement, portfolio management and depository participant) and a merchant banker (including services like issue management, share registrar, underwriting etc). SCL reported a net profit of ~NPR 16 million in FY2018 (a de-growth of ~50% compared to FY2017 profit) over an asset base of NPR 300 million as of mid-July 2018.

² NEPSE is currently dominated by financial sector companies with ~80% share in market capitalization as of mid-September 2018.



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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About ICRA Nepal Limited:

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Companies. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder with a majority stake.

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