

Laxmi Capital Market Limited

ICRA Nepal reaffirms [ICRANP] AMC Quality 3 (AMC 3) rating to Laxmi Capital Market Limited

	Amount (NPR million)	Rating Action (November 2016)
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 Laxmi Capital Market Limited (Laxmi 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 Laxmi Bank Limited, Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] BBB for issuer rating) and adequately established organisational structure. The FMQR also factors in satisfactory investor service practices of Laxmi Capital and the processes followed by it in generating moderate return (~37% growth in NAV within about one and half years of operation and 25% cash dividend for FY16; 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 Laxmi Capital as fund manager, evolving systems and processes with respect to risk management of fund, limited involvement of fund supervisor, absence of separate risk management committee, uncertain operating environment amidst volatility in the market with political instability, unavailability of hedging tools for investment in the market, nascent nature of mutual fund industry and low awareness about the mutual fund among general investor.

FMQR of Laxmi Capital factors experienced senior management and fund supervisors, moderate level of system and process in place for current level of operations. Laxmi Capital is currently managing one mutual fund scheme (Laxmi Value Fund-1) amounting to NPR 500 million launched in March 2015. The balanced scheme (Laxmi Value Fund-1) has registered healthy growth in NAV till mid-Oct-16 (NAV growth of ~37% with 25% cash dividend declared for FY16) compared to the growth in stock market index (~91% over the same period) while adhering to regulatory guidelines and investment policy (~60% of the fund invested in equity market); which reflects moderately on the investment strategy of Laxmi Capital. The company is in process of launching its second scheme (an equity oriented scheme named Laxmi Equity Fund amounting to NPR 1,000 million with ~80% allocation for equity market investment; rest being towards fixed income earning securities. The proposed fund is projected to register moderate growth in NAV while maintaining progressive dividend distribution strategy to the unit holders. The growth in Assets under Management (AUM) post proposed issue would mandate increased involvement of supervisor as well as strengthening of systems and processes including review of investment policies and procedure. Generating adequate returns to investors over longer time frame remains a challenge given 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 nine mutual fund schemes have been launched in Nepalese market with overall industry’s AUM less than NPR 13 billion as on mid-Oct-16. Schemes so far are mostly composed of equity investments through primary & secondary market, predominantly across banks and financial institutions. There is 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 general 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 (Laxmi Bank Limited, rated [ICRANP-IR] BBB for issuer rating) commitment in the subsidiary AMC as demonstrated by 100% shareholding in Laxmi Capital and 15% seed investment in the mutual fund schemes of Laxmi Capital. The adequate 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 2011, Laxmi Capital Market Limited (Laxmi Capital) is a wholly owned subsidiary of Laxmi Bank Limited. At present, Laxmi Capital is involved in Merchant Banking, Issue Management, Underwriting, Share Registration, Private Placement, Financial Advisory, Depository Participant, Mutual Fund and Asset Management Services. Laxmi 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 Laxmi Value Fund – 1 was launched in March 2015. Moreover, Laxmi Capital has also obtained Depository Participant's License from SEBON as well as membership from CDS and Clearing Limited (Central Depository Company).

Laxmi Capital is in process of launching its second close ended, equity oriented mutual fund scheme (named Laxmi Equity Fund) amounting NPR 1,000 million with seven years' tenure. Laxmi Capital reported profit of ~NPR 13 mn for FY16 over an asset base of NPR 126 mn as of mid-Jul-16 as against profit of ~NPR 9 mn for FY15 over an asset base of NPR 113 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 113 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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