

NIC ASIA Capital Limited

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

	Amount (NPR million)	Rating Action (November 2018)
Fund Management Quality Rating (FMQR)	NA	[ICRANP] AMC Quality 3 (AMC 3) (Reaffirmed)

ICRA Nepal has reaffirmed the **[ICRANP] AMC Quality 3 (AMC3)** (pronounced ICRA NP asset management company quality three) fund management quality rating (FMQR) assigned to NIC ASIA Capital Limited (NICAC), indicating adequate assurance on the 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 the fund management quality. For the FMQR categories 2, 3 and 4, the sign of + (plus) appended to the symbols indicates 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 and management support of NIC ASIA Bank Limited, a Class 'A' commercial bank (rated [ICRANP-IR] A- for issuer rating) along with a well-established organisational structure. The rating also factors in the satisfactory investor service practices of NICAC and the processes followed by it. This has helped NICAC in maintaining the NAV of its first mutual fund (MF) scheme, despite a significant downturn in the market index (NEPSE), since its launch. The rating action also derives comfort from the experienced background of the fund supervisors involved in the supervision of the company's MF scheme. However, the requisite extent of involvement of the supervisors in managing the schemes is not clearly mandated through a strong legal framework and hence remains a rating concern. With regard to the operating environment, a stable government working towards increasing the pace of 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 markets as a fund manager and the evolving nature of the MF industry and risk management framework with respect to fund management. An uncertain operating environment created by high volatility in the NEPSE and the unavailability of hedging tools for investment in the market also accentuate the rating concerns. These factors have resulted in low attraction towards MFs among the general investors. Amid these, turnover in senior management of NICAC in recent periods also remains a concern. As of mid-October 2018, ~46% of the corpus has been invested in equity vs. a targeted ~85% (as per scheme document) and hence the recent correction in the secondary market offers good investment opportunities for newer schemes like that of NICAC. However, improving the NAV of the scheme over a longer timeframe would remain a key challenge given the volatile market index and its effect in underlying equity investments.

The first MF scheme under the company i.e. NIC ASIA Growth Fund is a seven-year close-ended scheme of NPR 835.20 million¹ issued in March 2018. The equity-oriented scheme reported a NAV of NPR 10.31 as of mid-October 2018, a growth of ~6% since its launch compared to a de-growth of ~6% in stock market index over the same period. Lower exposure towards equity scrips (~46% of the corpus invested so far) went in favour of the fund because of the recent downturn in the markets. The fund has a major portion of its corpus in bank deposits which are offering better rates at present. It has not distributed any dividend so far and has been adhering to regulatory guidelines and internal investment policies of NICAC. The AMC's ability in maintaining a good growth trend in the NAV would remain a key rating driver.

¹ Although the target was to raise NPR 1,000 million, the issue was undersubscribed leading to smaller corpus.



The MF industry in Nepal is developing. Only 16 MF schemes have been launched in the Nepalese market (three of these having matured already) with the overall industry's current assets under management (AUM), being at ~NPR 13 billion as of mid-Oct-18 (with an average NAV of NPR 9.86 in the industry). Likewise, six MFs with a total AUM of NPR 6.35 billion are in the pipeline for issue. The schemes launched so far mainly invest in equity through the primary and the secondary markets, predominantly across banks and financial institutions. There is a limited scope for risk diversification (both industry-wise and instrument-wise) as the market is shallow for bonds and other fixed income securities. However, recent regulatory changes are expected to facilitate the entry of non-financial sector companies² in the secondary market, which would help increase diversification, going forward. 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 on the rise. Though the awareness among the general investors is still lower, institutional investors find it attractive to invest in the MFs. 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 challenge.

ICRA also takes comfort from the sponsor (NIC ASIA Bank) support in the subsidiary AMC as demonstrated by 100% shareholding in NICAC and 17.96% seed investment in its MF scheme. The fair track record and experienced management of the sponsor reflects positively on the operation of the AMC. NIC ASIA Bank Limited helps NICAC through technical/legal support, human resources and oversight related functions.

The rating should, however, not be construed as an indication of the prospective performance of the MF 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 May 2016, NIC ASIA Capital Limited (NICAC) is a wholly-owned subsidiary of NIC ASIA Bank Limited. NICAC is licensed by SEBON to act as a merchant banker (including services like issue management, underwriting, share registrar etc) and investment banker (including services like asset management services, private placement, portfolio management, depository participant etc). NICAC started its fund management/ depository services by launching a seven-year close-ended MF scheme in March 2018. During FY2018, NICAC reported a net profit of ~NPR 16 million (~NPR 2 million for FY2017) over an asset base of NPR 262 million as of mid-July 2018.

November 2018

For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)

kishor@icranepal.com

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)

sailesh@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel. No. +977-1-4419910/20)

barsha@icranepal.com

² NEPSE is dominated by financial sector companies with ~81% share in market capitalization as of mid-October 2018.



About ICRA Nepal Limited:

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as the rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies. The international credit rating agency, Moody's Investors Service, is ICRA's largest shareholder.

For more information, visit www.icranepal.com

ICRA Nepal Limited,
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu-33, Nepal.
Phone: +977 1 4419910/20
Email: info@icranepal.com
Web: www.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