

CBIL Capital Limited

ICRA Nepal assigns [ICRANP] AMC Quality 3 (AMC 3) rating to CBIL Capital Limited

| Facility/Instrument | Amount (NPR million) | Rating Action (July 2017) |
|---------------------------------------|----------------------|--|
| Fund Management Quality Rating (FMQR) | NA | [ICRANP] AMC Quality 3 (AMC 3) (Assigned) |

ICRA Nepal assigns “[ICRANP] AMC Quality 3 (AMC3)” (pronounced ICRA NP Asset Management Company Quality Three) fund management quality rating (FMQR) to CBIL Capital Limited (CBIL 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 Citizens Bank International Limited, class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] BBB+ for issuer rating) along with adequately established organisational structure and the background of fund supervisors. The FMQR is nonetheless constrained by the uncertain operating environment amidst volatility in the market with political instability, developing systems and processes with respect to fund management, evolving nature of mutual fund industry, unavailability of hedging tools for investment in the market and low awareness about the mutual fund among general investor. The rating also takes note of the absence of track record of CBIL Capital as fund manager and merchant banker.

FMQR of CBIL Capital also factors in the system and processes being developed for the proposed level of operation (Citizens Mutual Fund-I amounting to NPR 1,000 million). Moreover, CBIL Capital plans to further strengthen the human resources to facilitate the proposed mutual fund operation. Fund supervisors to be involved in the management and supervision of the proposed scheme is also expected to provide necessary guidance to CBIL Capital. The proposed equity oriented growth scheme of CBIL Capital is projected to register healthy growth in NAV while focusing more on plough back of generated profits towards investment growth, which reflects positively on the Investment strategy of CBIL Capital. 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 developing stage, so far, eleven mutual fund schemes have been launched in Nepalese market with overall industry’s Assets under Management (AUM) less than NPR 14 billion. Schemes so far are mostly composed of equity investments through primary & secondary market, predominantly across banks and financial institutions. None of these schemes have faced severe downturn in NEPSE (Nepal Stock Exchange) index and hence the ability of these AMCs in maintaining Net Assets Value (NAV) in case of downfall in market remains to be seen. Additionally, 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 on the lower side. Although awareness among the investor is low, the institutional investors who are aware about the mutual fund industry are attracted to invest in it. Nevertheless, industry’s ability to attract human as well as financial capital seems average.

ICRA Nepal takes comfort from sponsor’s (Citizens Bank International Limited) support in the subsidiary AMC as demonstrated by 67% shareholding in CBIL Capital, which however remains lower to support of some of other sponsors in their respective AMCs. The adequate 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

Established in 2006, National Investment and Capital Market Limited was renamed to CBIL Capital Limited after Citizens Bank injected additional equity in the company in FY16 that accounted for 67% of current capital of the company. At present, CBIL Capital is involved in issue management, underwriting, share registration, private placement, financial advisory and asset management services.

CBIL 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 has plans to start fund management & depository service by launching its first mutual fund viz. Citizens Mutual Fund – I shortly. The close ended mutual fund scheme amounting NPR 1,000 million will have tenure of seven years and plans to invest 60-85% (planned to be increased progressively) of scheme size in equity market. CBIL Capital has also obtained membership from CDS and Clearing Limited (Central Depository Company).

Primarily on account of reduced investment income and increased technical service fees (among others), CBIL Capital reported loss of NPR 6.77 mn for 9MFY17 over an asset base of NPR 131 mn as of mid-Apr-17 as against net profit of NPR 11.39 mn for FY16 over an asset base of NPR 125 mn as of mid-Jul-16. As on mid-Apr-17, capital of the company was NPR 100 million, while its net worth was ~NPR 95 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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