

Nabil Investment Banking Limited

ICRA Nepal reaffirms [ICRANP] AMC Quality 3+ (AMC 3+) rating to Nabil Investment Banking Limited

	Amount (NPR million)	Rating Action (April 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 Plus) fund management quality rating (FMQR) assigned to Nabil Investment Banking Limited (Nabil Invest), 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 continued technical support of Nabil Bank Limited, a Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] AA- for issuer rating) along with established organisational structure, system and processes for current level of operations. The FMQR also factors in satisfactory investor service practices of Nabil Invest & the processes followed by it in generating healthy returns for first scheme managed by it while the second scheme has remained impacted by significant downturn in market index since its launch. The rating action also derives comfort from experienced senior management and fund supervisors involved in the management and supervision of the current mutual fund schemes under the company. However, the requisite extent of involvement of supervisors in managing the schemes is not clearly mandated by strong legal framework and hence remains a rating concern.

The FMQR is nonetheless constrained by the divestment of a chunk of stake by Nabil Bank (from ~74% earlier to 52% as of now with concomitant increase in stake of CG Finco); however, extent of support from the sponsor has remained similar which provides some comfort. The rating is also constrained by the company’s moderate track record in Nepalese Capital market as merchant banker, portfolio manager and fund manager along with uncertain operating environment amidst volatility in the market, evolving risk management framework with respect to fund management, absence of separate risk management committee, unviability of hedging tools for investment in the market, evolving nature of mutual fund industry and low awareness about the mutual fund among general investor.

The first scheme under the company i.e. Nabil Balance Fund-I amounting NPR 750 million was issued in April 2013 and is set to mature in mid-Apr-18. The balance scheme of Nabil Invest registered healthy growth in Net Assets Value (NAV) till mid-Mar-18 (NAV of NPR 17.80 as of mid-Mar-18 i.e. growth of ~80% since its launch with an average of ~20% cash dividend during last five years) compared to the growth in stock market index (around 150% over the same period) while adhering to regulatory guidelines and investment policies which reflects positively on the investment strategy of Nabil Invest.

The second scheme under the company i.e. Nabil Equity Fund is an equity-oriented scheme amounting to NPR 1,250 million which was issued in November 2016 with timeline of 7 years. NAV of this scheme has however been impacted by significant decline in equity index since its launch (~26% decline till mid-Mar-18) with NAV of 8.66 as of mid-Mar-18 (against face value of NPR 10). Given the substantial correction in market index in recent periods and the room left for further equity investment



(~54% invested in equity as of mid-Jan-18 vs. ~86% cap as stated in prospectus). Considering the volatility of evolving Nepalese stock market and its effect on the underlying equity investments of the scheme, ability of the AMC in maintaining good growth trend in NAV after upside in equity index would remain a key rating driver.

The mutual fund industry in Nepal is in developing stage so far. Only fifteen mutual fund schemes have been launched in Nepalese market (one of these having matured already) with overall industry's Assets under Management (AUM) less than NPR 15 billion as of mid-Mar-18. Schemes so far are mostly composed of equity investments through primary & secondary market, predominantly across 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. However, recent regulatory changes are expected to facilitate the entry of real sector companies in secondary market hence providing increased diversification avenues 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 increasing. 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 compared to banking industry and hence remains a challenge for the industry as a whole.

ICRA also takes comfort from sponsor's (Nabil Bank Limited rated [ICRANP-IR] AA- for issuer rating) commitment in the subsidiary AMC as demonstrated by 52% shareholding in Nabil Invest and 14% seed investment in the mutual fund schemes of Nabil Invest. The long track record and experienced management of sponsor reflects positively on the operation of AMC, with the latter benefitting from the 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 schemes or of volatility in its returns.

Company Profile

Incorporated in February 2010, Nabil Investment Banking Limited (Nabil Invest) commenced its operations from April 2010. Nabil Invest is licensed by Securities Board of Nepal (SEBON) as a merchant banker (issue management, registrar to shares, underwriter, depository participants and portfolio manager). Nabil Invest is a subsidiary of Nabil Bank Limited with 52% stake of the bank; balance capital being held by CG Finco Pvt. Ltd. Nabil Invest has obtained mutual fund depository's license in addition to fund manager's license from SEBON (as per Mutual Fund Regulation, 2010), and is currently acting in both capacities for its two close ended schemes viz. "Nabil Balanced Fund-I" launched in April 2013 and "Nabil Equity Fund" launched in October 2016.

Nabil Invest reported net profit of ~NPR 92 million for FY17 over an asset base of NPR 364 million as of mid-Jul-17 as against profit of ~NPR 38 million for FY16 over an asset base of NPR 293 million as of mid-Jul-16. As on mid-Jan-2018, capital of the company was NPR 200 million, while its net worth was NPR 294 million on same date.

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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