

NMB Capital Limited

ICRA Nepal upgrades Fund Management Quality Rating (FMQR) of NMB Capital Limited to [ICRANP] AMC Quality 3+ (AMC 3+)

	Amount (NPR million)	Rating Action (April 2018)
Fund Management Quality Rating (FMQR)	NA	[ICRANP] AMC Quality 3+ (AMC 3+) (upgraded)

ICRA Nepal has upgraded fund management quality rating (FMQR) of NMB Capital Limited (NMB Capital) from “[ICRANP] AMC Quality 3 (AMC3)” (pronounced ICRA NP Asset Management Company Quality Three) to “[ICRANP] AMC Quality 3+ (AMC3+)” (pronounced ICRA NP Asset Management Company Quality Three plus), 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 rating upgradation factors in the healthy performance of the mutual fund schemes managed by the company with established organisational structure in NMB Capital to manage the existing schemes. The upgradation is further supported by ownership and continued technical support of its parent company viz. NMB Bank Limited, a Class ‘A’ commercial bank whose ratings were also upgraded from [ICRANP-IR] BBB+ to [ICRANP-IR] A- (for issuer rating) in Jan-2018. The upgradation also derives comfort from the NMB Capital’s established track record in Nepalese capital market as merchant banker. The FMQR also factors in satisfactory investor service practices of NMB Capital while adhering to regulatory guidelines and investment policies. The FMQR is nonetheless constrained by the evolving nature of mutual fund industry, limited track record of NMB Capital as fund manager, developing risk management framework in respect to fund management, absence of separate board level risk management committee, uncertain operating environment amidst volatility in the market, unavailability of hedging tools for investment in the market and low awareness about the mutual fund among general investors.

FMQR of NMB Capital also factors in the experienced senior management and fund supervisors involved in the management and supervision of the mutual fund schemes under the company. However, the extent of involvement of fund supervisors in managing the schemes while ensuring the adequacy of research, risk analysis and decision-making process could not be adequately assured given the limited information support from the management in this front. Lack of strong legal framework for fund supervisors also remains a rating concern to this end.

The first scheme under the company was an equity-oriented growth scheme named NMB Sulav Investment Fund-1 amounting to NPR 750 million issued in October 2014. This scheme has reported ~30% growth in Net Assets Value (NAV) till mid-Mar-18 along with ~20% cash dividend distribution in last two years while adhering to regulatory guidelines, risk and investment policy. The growth rate in NAV remains only slightly lower to ~38% growth in stock market index over the same period despite having invested only ~60-70% of the corpus in equity market which reflects positively on the investment strategy of NMB Capital.

The second scheme under the company i.e. NMB Hybrid Fund L-I was a hybrid natured scheme amounting to NPR 1,000 million with equity investment allocated from 15-55%; rest being towards fixed income earning securities. This scheme has also been able to report NAV of 10.20 as of mid-Mar-18 (against face value of NPR 10) despite ~27% decline in market index since its launch in October 2016. Given the substantial correction in market index in recent periods and the room left for further equity investment (only ~28% invested in equity as of mid-Jan-18). 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. Ability of the AMC in maintaining NAV of the schemes in case of further downfall in market remains to be seen.

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 Nepal also takes comfort from sponsor's (NMB Bank Limited, rated [ICRANP-IR] A- for issuer rating) commitment in the subsidiary AMC as demonstrated by 100% shareholding in NMB Capital and 14% seed investment in the mutual fund schemes of NMB Capital. The long track record and experienced management of sponsor reflects positively on the operation of AMC, with the latter benefitting from the sponsor's support 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 schemes or of volatility in its returns.

Company Profile

Established in 2010, NMB Capital Limited is a wholly owned subsidiary of NMB Bank Limited. At present, NMB Capital is involved in issue management, underwriting, share registration, private placement, mutual fund, depository, financial advisory services, depository participant and asset management services. NMB 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 for its two close ended schemes NMB Sulav Investment Fund-1 issued in October 2014 and NMB Hybrid Fund L-I issued in October 2016. Moreover, NMB Capital has also obtained depository participant's license from SEBON as well as membership from CDS and Clearing Limited (Central Depository Company).

NMB Capital reported net profit of ~NPR 82 million for FY17 over an asset base of NPR 263 million as of mid-Jul-17 as against profit of ~NPR 27 million for FY16 over an asset base of NPR 220 million as of mid-Jul-16. As on mid-Jan-18, capital of the company was NPR 100 million, while its net worth was NPR 125 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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