

Global IME Capital Limited

ICRA Nepal reaffirms [ICRANP] AMC Quality 3 (AMC 3) rating to Global IME Capital Limited

Facility/Instrument	Amount (NPR million)	Rating Action (July 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) fund management quality rating (FMQR) assigned to Global IME Capital Limited (GICL), 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 support of Global IME Bank Limited, a Class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] A- 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 GICL while adhering to regulatory guidelines and investment policies. The rating action also derives comfort from experienced senior management and fund supervisors involved in the management and supervision of the current mutual fund scheme 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.

Nonetheless, the FMQR is constrained by the sub-par performance of the scheme under the company leading to NAV of NPR 8.79 as of mid-Apr-18 (vs. face value of NPR 10); the equity focused scheme has been significantly impacted by the recent downturn in NEPSE (Nepal Stock Exchange). The rating is further constrained by the company’s moderate track record in Nepalese capital market as fund manager along with uncertain operating environment amidst volatility in the market. The rating concern is accentuated by evolving risk management framework with respect to fund management, absence of separate risk management committee, unavailability of hedging tools for investment in the market, evolving nature of mutual fund industry and low awareness about the mutual fund among general investors. Ability of the company to improve the NAV would remain a key rating driver and any significant deterioration in the same could have a downward pressure on the rating assigned.

The first mutual fund scheme under the company i.e. “Global IME Samunnat Fund -I”, a 7-year close-ended fund of NPR 1 billion, was issued in March 2016. Reported NAV of the scheme was NPR 8.79/unit as of mid-Apr 2018 as against the face value of NPR 10/unit. So far, no dividend has been distributed by the scheme. NAV reported de-growth of ~12% since its launch till mid-Apr-18; the degree of decline remained higher compared to ~6% fall in stock market index over the same period and hence this remains a major concern. The fund has invested ~79% of its corpus in equity shares as of mid-Apr-18, followed by ~10% in fixed income securities; rest being held as cash. 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 (two of these having matured already) with overall industry’s current Assets Under Management (AUM) being at ~NPR 13 billion as of mid-Apr-18 (industry average NAV of NPR 10.03). 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 (Global IME Bank Limited rated [ICRANP-IR] A- for issuer rating) commitment in the subsidiary AMC as demonstrated by 75% shareholding in GICL and 13.5% seed investment in the mutual fund scheme being managed by the company. 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

Erstwhile Elite Capital Limited was incorporated in May 2008 and the name of the company was changed to Global IME Capital Limited (GICL) after Global IME Bank acquired 60% stake in the company in February 2014. The stake of the bank has increased to 75% post acquisition of GICL with another merchant banker viz. "Reliable Capital Limited (RCL)" in January 2018; RCL was 100% subsidiary of Reliable Development Bank which was acquired by Global IME Bank. Balance shares of GICL are held by other institutional and individual promoters.

The company is licensed by Securities Board of Nepal to work as an investment banker (including services as mutual fund, private placement, portfolio management) and as a merchant banker (including services of issue management, depository participant, registrar to share (RTS) and underwriting services). GICL has obtained Depository Participant's license in addition to fund manager's license from SEBON and is currently acting in both capacities for its close ended scheme viz. "Global IME Samunnat Fund-I" launched in March 2016.

GICL reported net profit of ~NPR 41 million for FY17 (~48% growth over FY16 profit) over an asset base of NPR 247 million as of mid-Jul-17. For 9MFY18, the company has reported net profit of ~NPR 20 million over an asset base of NPR 307 million as of mid-Apr-18. GICL had capital base of NPR 215 million as of mid-Apr-18.



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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