

NIBL Capital Markets Limited

ICRA Nepal reaffirms [ICRANP] AMC Quality 3 (AMC 3) rating to NIBL Capital Markets Limited

| | Amount (NPR million) | Rating Action |
|---------------------------------------|----------------------|--|
| 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 NIBL Capital Markets Limited (NIBL 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 Nepal Investment Bank Limited, class ‘A’ commercial bank in Nepal (rated [ICRANP-IR] A@ for issuer rating), adequately established organisational structure, systems and processes. The FMQR also factors in satisfactory investor service practices of NIBL Capital and the processes followed by it in generating healthy return (~70% growth in NAV within one and half year of operation; benefitted by bullish market trend over this period), while adhering to regulatory guidelines and investment policies. The FMQR is nonetheless constrained by limited track record of NIBL Capital in Nepalese capital market (operating since 2011), uncertain operating environment amidst volatility in the market with political instability, absence of separate risk management committee and audit committee, unviability of hedging tools for investment in the market, developing systems and processes with respect to risk management of fund, evolving nature of mutual fund industry and low awareness about the mutual fund among general investor.

FMQR of NIBL Capital also factors adequacy of system and processes in place for the current level of operation, existence of investment & risk management committee (single committee) under board, experienced senior management and fund supervisor involved in the management and supervision of the current mutual fund scheme (NIBL Sambridhi fund-I) amounting NPR 1,000 million issued in December 2014. The equity oriented growth scheme of NIBL Capital registered healthy growth in NAV till mid-Aug-16 (NAV growth of ~70% with 15% cash dividend declared for FY16) compared to the growth in stock market index “NEPSE” (around 80% over the same period) adhering regulatory guidelines, risk and investment policy (~75% of the fund invested in equity market); which reflects positively on the Investment strategy of NIBL Capital. The company proposes to come up with its second equity oriented growth scheme (NIBL Pragati Fund amounting to NPR 600 million), which is projected to register moderate growth in NAV while focusing on a progressive dividend distribution strategy to the unit holders. 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 nascent stage, so far, only seven mutual fund schemes have been launched in Nepalese Market with overall industry’s Assets under Management (AUM) less than NPR 11 billion (total size of fund in face value NPR 5.5 billion) as on mid-Jul-16. 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. 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 MF industry are attracted to invest in it. Nevertheless, industry's ability to attract human as well as financial capital seems average.

ICRA Nepal also takes comfort from sponsor's (Nepal Investment Bank Limited, rated [ICRANP-IR] A@ for issuer rating) commitment in the subsidiary AMC as demonstrated by 100% shareholding in NIBL Capital and 14% seed investment in the Mutual Fund Scheme of NIBL 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 of the former 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 scheme or of volatility in its returns.

Company Profile

Established in 2011, NIBL Capital Markets Limited is a wholly owned subsidiary of Nepal Investment Bank Limited. At present, NIBL Capital is involved in Merchant Banking, Advisory Services, Depository Participant, Mutual Fund and Asset Management Services. NIBL 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 after its first fund, NIBL Samriddhi Fund I was issued in Dec-2014. Moreover, NIBL Capital has also obtained Depository participant's License from SEBON as well as membership from CDS and Clearing Limited (Central Depository Company).

NIBL Capital is planning to come with its second close ended mutual fund scheme (named NIBL Pragati Fund) amounting NPR 600 million with seven years tenure. NIBL Capital reported profit of NPR 52.40 mn for FY16 over net worth of NPR 170.58 mn as of mid-Jul-16 as against profit of NPR 9.54 mn for FY15 over net worth of NPR 118.18 mn as of mid-Jul-15. As on mid-Jul-16, capital of the company was NPR 101.50 million.

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.

September 2016

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