

Siddhartha Capital Limited

ICRA Nepal assigns [ICRANP] AMC Quality 3 (AMC 3) Rating to Siddhartha Capital Limited

	Amount (NRs million)	Rating Action
Fund Management Quality Rating (FMQR)	NA	[ICRANP] AMC Quality 3 (AMC 3) (Assigned)

ICRA Nepal has assigned an “[ICRANP] AMC Quality 3 (AMC3)” (pronounced ICRA NP Asset Management Company Quality Three) fund management quality rating (FMQR) to Siddhartha Capital Limited (SCL), 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 Siddhartha Bank Limited, a well-established Class ‘A’ commercial bank in Nepal (rated at [ICRANP IR] BBB for issuer rating), adequately established organisational structure, systems and processes. The FMQR also factors in satisfactory investor service practices of SCL & the processes followed by SCL in generating superior return (60% growth in NAV within one year of operation), while adhering to regulatory guidelines. The FMQR is nonetheless constrained by the uncertain operating environment amidst volatility in the market with political instability, evolving nature of mutual fund industry, low awareness about the mutual fund among general investor. The rating also takes note of the limited track record of the AMC (just one year of operation) and low scale of operations; that also translate into modest financial indicators.

FMQR of SCL also factors adequacy of system and processes in place for the current level of operation, existence of five committees under board (including investment & risk management committee), experienced senior management and fund supervisor involved in the management and supervision of the current mutual fund scheme (Siddhartha Investment Growth Scheme-1) amounting Rs. 500 million issued in 2012-13. The equity oriented growth scheme of SCL (SIGS-1) registered higher growth in NAV (around 60% during Jan 2013 to Jan 2014) compared to the growth in stock market index (around 50% over the same period) & declared dividend (albeit nominal) in the first year of operation, which reflects positively on the Investment strategy of SCL. 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 two mutual fund schemes have been launched in Nepalese Market with overall industry’s Assets under Management (AUM) less than NPR 2 billion. Both these schemes are mostly composed of equity investments through primary & secondary market with dominance of Banks and Financial institutions. There is very limited scope for investment and risk diversification (both industry wise and instrument wise) as market is very shallow for bond & other fixed income securities. The ability of Nepalese AMCs to cope up with market downturn remains to be seen. 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 MF industry are attracted to invest in it. Nevertheless, industry’s ability to attract human as well as financial capital seems average.



ICRA also takes comfort from sponsor's (Siddhartha Bank Limited) commitment in the subsidiary AMC as demonstrated by 51% shareholding in SCL and 15% seed investment in the Mutual Fund Scheme of SCL. 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. However, financial strength of the sponsor seems moderate as reflected by Issuer rating of the sponsor (ICRANP-IR) BBB.

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

Siddhartha Capital Limited (SCL) is 51% subsidiary of Siddhartha Bank Limited, balance shares are held by individual shareholders associated with Siddhartha Bank's promoter. SCL is involved in mutual fund business; managing a close-ended NPR 500 million scheme "Siddhartha Investment Growth Scheme I" (SIGS I). Constrained by low scale of operations, SCL reported losses of NPR 1.69 mn on an asset base of NPR 102 mn in FY13 as compared to losses of NPR 1.09 mn on an asset base of NPR 101 mn respectively in FY12. As on year end 2012-13, SCL capital remains NPR. 100 million while its net worth remains NPR. 97.23 million on same date.

SCL has obtained Mutual Fund Depository's License in addition to Fund Manager's License from SEBON (as per the Mutual Fund Regulation, 2010) & is currently acting in both capacities with respect to the SIGS I. Moreover, SCL has also obtained Depository participant's License from SEBON as well as membership from CDS and Clearing Limited (proposed Central Depository Company). While SCL at present is only providing Mutual Fund related services, it plans to venture into Merchant banking functions in future.

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 emphasises qualitative factors over quantitative factors and considers the following key parameters:

- Ownership
- Organisational 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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