

## NIBL Ace Capital Limited

### ICRA Nepal reaffirms [ICRANP] AMC Quality 3 (AMC 3) rating to NIBL Ace Capital Limited<sup>1</sup>

	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 NIBL Ace Capital Limited (NIBL Ace), 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 full ownership and continued support of Nepal Investment Banking Limited (NIBL), 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 NIBL Ace & the processes followed by it in generating moderate 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 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 and audit 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. The rating is further constrained by the sub-par performance of the schemes under the company, both of which are highly equity focused schemes and hence have been significantly impacted by the recent downturn in NEPSE (Nepal Stock Exchange). 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 scheme under the company i.e. NIBL Samriddhi Fund-I is a 7-year close-ended fund of NPR 1 billion issued in Jan 2015. The equity-oriented scheme has reported moderate growth in Net Assets Value (NAV) so far and the same was NPR 11.53 as of mid-Apr-18. NAV reported growth of ~15% since its launch (after average dividend distribution of ~16% in last two years) compared to 37% growth in stock market index over the same period. The fund has invested ~74% of its corpus in equity shares as of mid-Apr-18; followed by ~13% in fixed income securities; rest being held as cash. The scheme has been adhering to regulatory guidelines and investment policies which reflects positively on the investment strategy of NIBL Ace.

The second scheme i.e. NIBL Pragati Fund, a 7-year, close-ended scheme of NPR 750 million, was launched in Jan 2017. Since ~95% of the fund’s investment is in equity, the performance of the scheme has been significantly impacted by the recent decline in NEPSE (~14% decline since its launch till mid-April 2018). Reported NAV of the scheme was NPR 8.13 as of mid-Apr-18 (against face value of NPR 10). Higher decline in NAV (~19%) compared to NEPSE was followed by high concentration within equity towards commercial banks (~44% as of Apr-18) that has faced relatively severe downturn (~26% over

<sup>1</sup> Erstwhile NIBL Capital Markets Limited.



same period). 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 (Nepal Investment Bank Limited rated [ICRANP-IR] A+ for issuer rating) commitment in the subsidiary AMC as demonstrated by 100% shareholding in NIBL Ace and ~14% seed investment in its both mutual fund schemes. 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**

NIBL Capital Markets Limited was incorporated in 2011 as a wholly owned merchant banking subsidiary of Nepal Investment Bank Limited. The name of the company was changed to "NIBL Ace Capital Limited" post the merger with "Ace Capital Limited" in February 2018. Post-merger, the capital base of the company has increased to NPR 270 million (NPR 200 million pre-merger).

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 as issue management, depository participant, registrar to share (RTS) and underwriting services). NIBL Ace has obtained Depository Participant's license in addition to fund manager's license from SEBON and is currently acting in both capacities for its two close ended schemes viz. "NIBL Samriddhi Fund-I" launched in January 2015 and "NIBL Pragati Fund" launched in January 2017. The company also plans to launch first open-ended scheme in Nepal which is currently awaiting regulatory approval.

NIBL Ace reported net profit of ~NPR 101 million for FY17 (~93% growth over FY16 profit) over an asset base of NPR 279 million as of mid-Jul-17. For 9MFY18, the company has reported net profit of ~NPR 30 million over an asset base of NPR 358 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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