

**Rating Rationale**  
**Sunrise Capital Limited**

**Rating**

Particulars	Amount (Rs. In Million)	Rating	Rating Action
Fund Management Quality Rating (FMQR)	NA	CARE-NP AMC Quality 3 (AMC 3)	Assigned

*The explanatory notes regarding the scale and definitions for FMQR of CARE Ratings Nepal Limited (CRNL) are attached as Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned a Fund Management Quality Rating (FMQR) of ‘CARE-NP AMC Quality 3 (AMC 3)’ to Sunrise Capital Limited (SCL). CARE-NP AMC Quality 3 (AMC 3) indicates adequate assurance on management quality of Asset Management Company (AMC).

**Detailed Rationale & Key Rating Drivers**

FMQR assigned to SCL derives strength from strong fund sponsor/ shareholders with technical and management support from them, experienced board of directors and management team in merchant banking and banking services, established track record of operations in merchant banking, professional fund supervisors, past experience in handling the Mutual Fund Scheme and corporate governance, policies & management information system in place. The FMQR, however, is constrained by volatile merchant banking performances over the period, absence of track record as fund manager under Mutual Fund Regulations, 2010, evolving nature of Mutual Fund Industry and volatile trend of Nepal Stock Exchange (NEPSE) index.

**Detailed Description of the Key Rating Drivers**

**Key Rating Strengths**

***Strong fund sponsor/ shareholders; technical and management support from them***

Sunrise Bank Limited (SBL, rated CARE NP A- (Is)) is ‘A’ Class licensed institution from Nepal Rastra Bank, which holds 78.57% of SCL's paid up capital, who will also be the fund sponsor for the upcoming mutual fund scheme to be managed by SCL. SCL is availing technical and management support from its parent company SBL. Through SBL branches, SCL has opportunity to utilize the existing network of the bank and provide the merchant banking services like opening demat accounts, portfolio management and advisory services to the customers. As per Securities Board of Nepal (SEBON) regulations 15% of the fund size, for the first scheme of AMC, should be invested by Fund Sponsor and/or Fund Manager either single or collectively as

Seed Capital which will be finalized while conducting agreement between Fund Sponsor and Fund Manager.

***Experienced board of directors and management team in merchant and banking services***

SCL is managed under the overall guidance of company's Board of Directors (BoD) who possesses wide experience in the banking services. There are six members in the SCL's BoD. Mr. Apachh Kumar Yadav is the Chairman of the Company, who holds Chartered Accountancy degree, has around 17 years of experience in the banking services and currently working as Deputy General Manager at Sunrise Bank Limited.

The top and senior management team is highly experienced in merchant banking sectors. SCL is led by its present CEO, Mr. Bijaya Lal Shrestha since 2011. Mr. Shrestha holds Master's Degree in Business Studies, having merchant banking experience of 18 years. He is supported by a well experienced management team.

***Established track record of operations in merchant banking***

SCL have been providing merchant banking services from the last two decades. NIDC Capital Markets Limited (NCML; a class 'C' finance company licensed by NRB) was established on January 26, 1993 to carry on financial services and merchant banking services in Nepal. NCML had setup a subsidiary company named NCM Merchant Banking Limited on October 03, 2010 to carry on merchant banking services. After the acquisition of NCML by SBL as on February 10, 2017, NCM Merchant Banking Ltd. becomes subsidiary company of SBL and the name was changed to Sunrise Capital Limited.

***Professional fund supervisors with experience in their respective field***

SBL, on the capacity of Fund Sponsor, appointed five professionals as fund supervisors, which was duly approved by SEBON dated March 24, 2019 as per the eligibility criteria of Mutual Fund Regulations, 2010. Fund supervisors are renowned personalities and have wide experience in their respective fields. The fund supervisors' panel consists of ex-secretary for Home Ministry Government of Nepal, ex-deputy governor at Nepal Rastra Bank, ex-managing director of Nepal Doorsanchar Company Limited (Nepal Telecom), ex-senior advocate at Supreme Court of Nepal and professionals involved in Audit firms.

***Past experience in handling the Mutual Fund Scheme***

SCL and its management has experience in handling the Mutual Fund Scheme earlier. NIDC Capital Market had issued 'NCM first Mutual Fund 2050', the first ever Mutual Fund Scheme in

Nepalese Capital Market, with par value of Rs.10 per unit, with total Assets Under Management (AUM) of Rs.40 Mn and initially was open-end type. The company has decided to terminate open-ended scheme and issue new close-ended scheme (NCM Mutual Fund 2059) with AUM of Rs.100 Mn with 10 years maturity period. NAV of NCM Mutual Fund 2050 was Rs.17.43 at the time of termination. The units issued under new scheme were listed in NEPSE in accordance to Securities Exchange Act, 2040. NCM Mutual Fund 2059 generated fair return to its unitholders. Out of the management who handled earlier mutual fund, three personnel are still with SCL, currently designated as CEO, head merchant banking and head admin & finance respectively.

### ***Corporate governance, policies and management information system in place***

For effective monitoring and to increase transparency, SCL has formed five committees namely Audit Committee, Financial Administration Committee, Purchase Committee, Investment and Risk Management Committee and Human Resource & Recruitment Committee and has formed one subcommittee namely Investment Sub-Committee. SCL has defined and documented various policies and guidelines regarding operation of merchant banking services and to operate mutual fund scheme. SCL has IT policy that defines the objectives, accountability and applications of backup and recovery for data held in the company.

### **Key Rating Weaknesses**

#### ***Volatile merchant banking performances over the period; however improved during FY18***

SCL reported volatile investment income during last two years. SCL reported Rs.29.16 Mn income from investments during FY16, which was decreased to Rs.0.39 Mn during FY17, however was increased to Rs.34.06 Mn during FY18. With the implementation of Nepal Financial Reporting Standards (NFRS), requiring to book investment held for trading on Marked-to-Market basis, SCL reported loss during FY17 and FY18 as loss on financial investments- held for trading.

During FY17, SCL total income was decreased by 52% to Rs.29.95 Mn from Rs.62.85 Mn during FY16 majorly due to digitalization with introduction of demat account, C-ASBA etc. which reduce commission income significantly. Owing to significant decline in total income, PAT has been declined by 75% to Rs.8.53 Mn during FY17. However, the total income of SCL has increased by 59% Y-o-Y to Rs.47.58 Mn during FY18 supported by 46% increase in income from merchant banking activity and 65% increase in interest income over the same period leading to 105% increase in PAT during FY18 to Rs.17.45 Mn.

***Absence of track record as fund manager under Mutual Fund Regulations, 2010***

Though SCL has managed NCM First Mutual Fund 2050 and NCM Mutual Fund 2059, prior to implementation of Mutual Fund Regulations, 2010 by SEBON, it does not possess experience as Fund Manager according to the provisions mentioned in new regulations.

***Evolving Mutual Fund Industry***

Formal issuance of Mutual Fund Schemes started after the issuance of Mutual Fund Regulations, 2010 by SEBON. Till date 15 mutual fund schemes were issued to the public out of which two schemes are already matured. Further, three mutual fund schemes (including one open ended scheme) had obtained approval from SEBON with a total AUM of Rs.2700 Mn out of which two was already issued and five mutual fund schemes are in the pipeline to be approved from SEBON with a total AUM of Rs.5850 Mn. Out of the existing schemes with AUM of Rs.12955 Mn; Net Assets Value (NAV) of four schemes are below than face value per unit with industry average NAV of Rs.10.12 as on Mid-April 2019 mainly due to adverse movement in NEPSE and evolving mutual fund industry. Diversifying investments and associated risk to ensure fair returns, ploughing back of returns and enhancing NAV will be the key challenges.

***Volatile trend of NEPSE index***

The 'Sunrise First Mutual Fund Scheme', going to be managed by SCL, is equity oriented scheme, since majority of funds collected will be invested in primary and secondary market of NEPSE. NEPSE index shows volatile trend over the period. NEPSE decreased from 1,881.45 points as on July 27, 2016 (all time highest index) to 1,582.67 points at the end of FY17, which was further decreased to 1,212.36 points at the end of FY18 and has further deteriorated to 1,100.58 points as on March 03, 2019, resulting ~71% decline as compared to July 27 2016 peak. However, the index started improving after that and reached 1,302.96 points as on May 27, 2019. Investment diversification to minimize the risk of volatile trend of NEPSE index will be key challenge for SCL.

***About the Company***

Sunrise Capital Limited (SCL) is subsidiary company of Sunrise Bank Limited (SBL) with 78.57% holding in share capital of SCL. The parent company SBL acquired NIDC Capital Market Limited during February 2017. NCM Merchant Banking Limited, erstwhile subsidiary of NCML becomes subsidiary of SBL. SCL (in the name of former NCM Merchant Banking Limited) obtained merchant banker license dated October 12, 2010 and depository participant

license dated February 15, 2013 from SEBON. SCL has obtained fund manager and depository license from SEBON as on May 24, 2019. SCL has Rs.200 Million paid up capital which has been held by two 'A' Class Commercial Bank of Nepal.

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**Annexure 1**

**CARE Ratings Nepal Limited – Fund Management Quality Rating Scale and Definitions**

<b>Symbols</b>	<b>Rating Definition</b>
CARE-NP AMC Quality 1 (AMC1)	AMCs rated AMC 1 are adjudged to have the highest assurance on management quality of AMC.
CARE-NP AMC Quality 2 (AMC2)	AMCs rated AMC 2 are adjudged to have high assurance on management quality of AMC.
CARE-NP AMC Quality 3 (AMC3)	AMCs rated AMC 3 are adjudged to have adequate assurance on management quality of AMC.
CARE-NP AMC Quality 4 (AMC4)	AMCs rated AMC 4 are adjudged to have inadequate assurance on management quality of AMC.
CARE-NP AMC Quality 5 (AMC5)	AMCs rated AMC 5 are adjudged to have poor assurance on management quality of AMC.

*Note:*

- i. *CARE Ratings Nepal’s opinion as expressed by way of AMC quality ratings are not a comment on statutory compliance, financial performance or future performance of schemes managed by the Asset Management Company.*
- ii. *For the quality rating categories 2, 3 and 4, the sign of + (plus) may be appended to the Rating symbol to indicate its relative better position within the Rating categories concerned.*