

**Rating Rationale  
Sunrise Capital Limited**

**Rating**

Facility/ Instrument	Amount	Rating	Rating Action
Fund Management Quality Rating (FMQR)	NA	CARE-NP AMC Quality 3 (AMC 3)	Reaffirmed

*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 reaffirmed a Fund Management Quality Rating (FMQR) of ‘CARE-NP AMC Quality 3 (AMC 3)’ assigned 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**

The rating assigned to SCL continues to derive 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, improving merchant banking performances over the period, professional fund supervisors, past experience in handling the Mutual Fund Scheme, however short track record as fund manager under Mutual Fund Regulations, 2010 and corporate governance, policies & management information system in place. The FMQR, however, is constrained by 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 is also the fund sponsor of the mutual fund scheme managed by SCL. SCL avails 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 SBL. The top and senior management team is highly experienced in merchant banking. 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. became 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 however short track record as fund manager under Mutual Fund Regulations, 2010***

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.

However, SCL has short track record of managing mutual fund under Mutual Fund Regulations, 2010 with SCL issuing first ever mutual fund; Sunrise First Mutual Fund during FY19 which was allotted to public in November 2019. As on mid-April 2020, Fund had investment of Rs. 481.25 Mn with Rs. 305.02

Mn in listed equities and Rs. 86 Mn in Fixed deposit. Fund reported NAV Rs. 10.21 at the end of mid-June 2020.

### ***Improving merchant banking performances over the period***

During FY19, SCL total income increased by 141% to Rs. 115 Mn from Rs. 48 Mn during FY19 majorly due to increase in income from merchant banking activity by 167%. Income from merchant banking activity increased mainly due to increase in commission income on the back of management of large size public issues. Overall, SCL reported PAT of Rs. 56.62 Mn during FY19 over Rs. 17.45 Mn during FY18.

### **Key Rating Weaknesses**

#### ***Evolving Mutual Fund Industry***

Formal issuance of Mutual Fund Schemes started after the issuance of Mutual Fund Regulations, 2010 by SEBON. Siddhartha Investment Growth Scheme-1 is the first ever scheme floated on the market on November 27, 2012 under the mutual fund regulation. Currently, there are 16 close ended mutual funds and 1 open ended mutual fund with total AUM of Rs. 16,990 Mn. Further, three mutual fund schemes (including one open ended scheme) are in the pipeline to be approved from SEBON with a total AUM of Rs. 2300 Mn. Out of the existing schemes; Net Assets Value (NAV) of four schemes are below than face value per unit with industry average NAV of Rs. 10.09 as on Mid-June 2020 mainly due to adverse movement in NEPSE and evolving mutual fund industry. Diversifying investments and associated risk to ensure good returns, ploughing back of returns and enhancing NAV will be the key rating sensitivities.

#### ***Volatile trend of NEPSE index***

The 'Sunrise First Mutual Fund Scheme', managed by SCL, is equity-oriented scheme, with majority of funds invested in primary and secondary market of Nepal Stock Exchange Limited (NEPSE). NEPSE index has shown volatile trend over the period. Further, outbreak of COVID-19 in Nepal has led to Government of Nepal (GoN) imposing travel restrictions and countrywide lockdown closing down most of the organizations which has resulted in slowing down of the economic activities and is likely to impact the secondary market as well. Further, with COVID-19, NEPSE was shut down due to which no trading took place for around 3 months. Additionally, NEPSE has decreased from 1,888.36 as on July 27, 2016 (all time highest index) to 1,336.67 at the end of July 7, 2020. With secondary market in a downtrend and likely impact of COVID expected in medium term, Investment diversification to minimize the risk of volatile trend of NEPSE index will be the key rating sensitivities.

### **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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The ratings are based on current information furnished to CRNL by the issuer or obtained by CRNL from sources it considers reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CRNL does not perform an audit in connection with any rating and may, on certain occasions, rely on. The ratings are kept under surveillance and may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances. Funds rated by CRNL have paid a rating fee.

**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.