

Rating Rationale
Prabhu Capital Limited

Rating

Particulars				Amount (Rs. In Million)	Rating ¹	Rating Action
Fund Management (FMQR)	Quality	Rating		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 the Fund Management Quality Rating “CARE-NP AMC Quality 3 (AMC 3)” to Prabhu Capital Limited (PCL). AMCs with this rating are adjudged to have adequate assurance on management quality of Asset Management Company (AMC).

Detailed Rationale & Key Rating Drivers

The rating assigned to PCL derives strength from strong fund sponsor/ shareholders with technical and management support from Prabhu Bank Limited (PBL, rated CARE-NP BBB), experienced board of directors and management team in merchant banking and banking services, established track record of operations in merchant banking, professional fund supervisors, diversified investment portfolio and corporate governance, policies & management information system in place. The FMQR, however, is constrained by stagnant merchant banking performances over the period, no track record as fund manager under Mutual Fund Regulations, 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

Prabhu Bank Limited is ‘A’ Class licensed institution from Nepal Rastra Bank, which holds 51% of PCL's paid up capital, who will also be the fund sponsor for the upcoming mutual fund scheme to be managed by PCL. PCL is availing technical and management support from its parent company PBL, since its incorporation. Through PBL branches, PCL has network opportunity to provide some of the merchant banking services like opening DMAT accounts, portfolio management and advisory services. As per Securities Board of Nepal (SEBON) regulations 15% of the fund size, for the first scheme of the fund, 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.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

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

PCL is managed under the overall guidance of Company's Board of Directors (BoD) who possesses wide experience in the banking services. There are seven members in the PCL's BoD. Mr. L.P. Bhanu Sharma is the Chairman of the Company, who holds Chartered Accountancy degree and has wide experience working in the banking services for more than 15 years. The top and senior management team is experienced in merchant banking sectors. PCL is led by Managing Director, Dinesh Thakali, who holds Chartered Accountancy degree, Bachelor of Law and Master in Business Study, having banking experience of 9 years at Shangrila Development Bank Limited in various senior positions including Acting Chief Executive Officer and working as Chief Operating Officer at Prabhu Bank Limited since July, 2018, has been deputed as Managing Director for PCL in July, 2020.

Established track record of operations in merchant banking

PCL has been providing merchant banking services from last one decade. Growmore Merchant Banker Limited was established on October 27, 2008 to carry on financial services and merchant banking activities within the territory of Nepal. Growmore has obtained merchant banker license dated September 09, 2010 from SEBON. PBL acquired Growmore Merchant Banker Limited and post-acquisition became subsidiary of PBL and its name was changed to Prabhu Capital Limited (PCL) with effective from June 27, 2016.

Professional fund supervisors with experience in their respective field

PBL, on the capacity of Fund Sponsor, appointed five professionals as fund supervisors, which has been duly approved by SEBON dated December 01, 2020 as per the eligibility criteria of Mutual Fund Regulations, 2010. Fund supervisors have wide experience in their respective fields. The fund supervisors' panel consists of ex-joint secretary for Department of commerce, experts at capital markets, ex-Executive director of Citizen Investment Trust, banker and professionals involved in Audit firms.

Diversified investment portfolio

PCL had investment book of Rs. 196 Mn during FY19, which increased by 280.22% to Rs. 744 Mn during FY20 which further increased to Rs. 1,180 Mn during Q1FY21. PCL has increased its total portfolio with ~64% portion of investment in Quoted Equities during Q1FY21 as compared to FY20 due to increment of capital after merger with Samriddhi Capital Limited.

Key Rating Weaknesses***Stagnant merchant banking performances over the period***

During FY20, PCL's total income decreased by 8.21% to Rs. 35.66 Mn from Rs. 38.84 Mn during FY19 majorly due to lockdown imposed by COVID 19 and non-issuance of securities during that period. However, same has increased by 88.94% to Rs. 67.37 Mn. during Q1FY21 as compared to FY20 due to the effect of merger along with investment of huge capital in the bullish share market. Overall, PCL reported PAT of Rs. 22.18 Mn during FY20 over Rs. 10.80 Mn during FY19 which has been further improved to Rs. 35.49 Mn during Q1FY21 (Provisional).

No track record as fund manager under Mutual Fund Regulations, 2010

PCL and its management has no prior experience in handling the Mutual Fund Scheme earlier. However management team consists of wide experience in management of portfolio and merchant banking services along with banking services also. Further, company gain synergy effect after succession merger with Samriddhi Capital Limited who used to provide service of portfolio management.

Evolving Mutual Fund Industry

Formal issuance of Mutual Fund Schemes started after the issuance of Mutual Fund Regulations, 2010 by SEBON. The first ever mutual fund scheme floated in the market in Nepal on November 27, 2012 under the mutual fund regulation. Currently, there are 17 close ended mutual funds and 1 open ended mutual fund with total AUM of Rs. 17,643 Mn. Further, seven mutual fund schemes are in the pipeline to be approved from SEBON with a total AUM of Rs. 6400 Mn. Diversifying investments and associated risk to ensure good returns, ploughing back of returns and enhancing Net Assets Value (NAV) will be critical for the new entrant in the mutual fund industry.

Volatile trend of NEPSE index

The “Prabhu Select Fund”, that will be managed by PCL is equity-oriented scheme, and majority of funds collected will be 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 has resulted in slowing down of the economic activities and impacted the secondary market as well. Further, during COVID-19 NEPSE was shut down due to which no trading took place for around 3 months. Additionally, NEPSE decreased from 1,888.36 as on July 27, 2016 (Previous all-time highest index) to 1,336.67 at the end of July 7, 2020 and again reached to new all-time high of 2286.55 as on January 13, 2021. Investment diversification to minimize the risk of volatile trend of NEPSE index will be the key rating sensitivities.

About the Company

Prabhu Capital Limited (PCL) is subsidiary company of Prabhu Bank Limited (PBL; rated CARE-NP BBB) with 51% holding in share capital of PCL. Company is formed to operate the Merchant Banking activities such as Issue Management, Registrar to the Share (RTS) Services, and Portfolio Management Services. Prabhu Bank Limited acquired Growmore Merchant Banker Limited(Growmore) and changed the name to Prabhu Capital Limited effective from June 27, 2016. Growmore has obtained merchant banker license as on September 09, 2010 from Securities Board of Nepal (SEBON). PCL has obtained Fund Manager and Depository license from SEBON as on December 22, 2020 after successful merger with Samriddhi Capital Limited. PCL has Rs.817.07 Million as paid up capital as on July 15, 2020 which is held by 179 shareholders.

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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

Symbols	Rating Definition
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.