

## Sunrise Capital limited

### Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating <sup>[1]</sup>	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, 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 past experience in handling the Mutual Fund Scheme.

The FMQR, however, is constrained on account of declining merchant banking performances over the period, volatile investment income, evolving nature of industry and volatile trend of Nepal Stock Exchange (NEPSE) index.

### Detailed description of the key rating drivers

#### Key Rating Strength

#### ***Strong fund sponsor/ shareholders and established track record of operations in merchant banking***

SCL have been providing merchant banking services from the last two decades. The company was previously known as NIDC Capital Markets Limited (NCML) and was established on January 26, 1993 to carry on financial services and merchant banking services in Nepal. In past, the schemes generated fair return to its unitholders.

The company is wholly owned subsidiary of Sunrise Bank Limited (SBL, rated CARE NP A- (Is)), is "A" Class Licensed Institutions from Nepal Rastra Bank (NRB). SCL avails technical and management support from its parent company SBL. SCL is utilizing the existing branch network of SBL to provide the merchant banking services like opening demat accounts, portfolio management and advisory services to the customers; thereby increasing the reach to its customers.

#### ***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. Mr. Apachh Kumar Yadav is the Chairman of the company, who is a qualified Chartered Accountant and has around 17 years of experience in the banking sector and is associated with SBL in the capacity of Deputy General Manager. SCL is led by Mr. Bijaya Lal Shrestha since 2011 in the capacity of CEO. Mr. Shrestha is post graduate in Business Studies, having merchant banking experience of 18 years. He is supported by a well experienced management team.

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

As per the regulatory eligibility criteria, SBL, has appointed five professionals as fund supervisors. Fund supervisors have wide experience in their respective fields. The fund supervisors' panel consists of ex-secretary for Home Ministry

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

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.

#### ***Diversified investment portfolio***

The investment portfolio of the company has been continuously growing over the past two years (FY18-FY20). SCL had investment book of Rs. 216.86 Mn during FY19, which increased by 19.56% to Rs. 259.27 Mn during FY20, which further increased to Rs. 391.77 Mn during 9MFY21

#### **Key Rating Weaknesses**

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

During FY20, SCL's total income decreased by 41.79% to Rs. 67 Mn from Rs. 115 Mn during FY19 majorly due to decline in interest income by 44.17% to Rs 32 Mn coupled with losses incurred on financial investments as compared to profits in FY19. Income from merchant banking activity also declined by 20.25% to Rs. 20.03 Mn during FY20 due to decline in issue management of large size IPO and Right Shares. Further, SCL reported decrease in interest income on the back of decreased interest rate and also due to decline in investment in fixed maturity portfolio. Overall, SCL reported decline in PAT by 41.34% to Rs. 27.62 Mn during FY20.

Company reported total operating income of Rs. 106.03 Mn during 9MFY21. The income from the merchant banking activity improved to Rs. 32.66 Mn on account of increase in number of the issue management business and accordingly, company reported PAT of Rs. 56.26 Mn during 9MFY21.

##### ***Volatile investment income***

SCL's investment income has been continuously declining over the period despite increasing investment portfolio. SCL reported Rs. 85.71 Mn income from investments during FY19, which declined to Rs. 34.31 Mn during FY20. SCL reported investment income of Rs. 57.38 Mn during 9MFY21. SCL reported income from fixed deposit of Rs. 20.61 Mn during 9MFY21 whereas realized gain from financial investments was Rs. 36.68 Mn.

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

The Sunrise First Mutual Fund Scheme and Sunrise Blue Chip Fund scheme managed by SCL, is equity-oriented scheme, since majority of funds collected is 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. However, with the hope of availability of Vaccine in near future, NEPSE again started its bull run. With some ups and down, 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 3025.83 as on June 14, 2021. Investment diversification to minimize the risk of volatile trend of NEPSE index will be the key rating sensitivities

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

Formal issuance of Mutual Fund Schemes started after the issuance of Mutual Fund Regulations, 2010 by SEBON. Currently, there are 22 close ended mutual funds and 2 open ended mutual fund with total AUM of Rs. 23,814 Mn. Further, seven mutual fund schemes (including two open ended scheme) are in the pipeline to be approved from SEBON with a total AUM of Rs. 6,900 Mn. Out of the existing schemes; Net Assets Value (NAV) of only sunrise blue chip fund is

below face value per unit with industry average NAV of Rs. 15.72 as on May 14 2021 mainly due to limited fund investment in the market and increase in operational/ management expenses as the fund was launched in March 2021 and funds were yet to be deployed. Diversifying investments and associated risk to ensure good returns, ploughing back of returns and enhancing NAV will be crucial from the analytical perspective.

### **About the Company**

Sunrise Capital Limited (SCL) is a subsidiary company of Sunrise Bank Limited (SBL) with 100% holding in share capital of SCL. The parent company SBL acquired NIDC Capital Market Limited during February 2017. Accordingly, NCM Merchant Banking Limited, erstwhile subsidiary of NCML becomes subsidiary of SBL. SCL is providing merchant banker depository services, portfolio management services, advisor services and other financial services. SCL has Rs.200 Million paid up capital which has been held by one 'A' Class Commercial Bank of Nepal.

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#### **About CARE Ratings Nepal Limited:**

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Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

#### Disclaimer

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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.

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