

Prabhu Capital Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	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 the Fund Management Quality Rating "CARE-NP AMC Quality 3 (AMC 3)" to Prabhu Capital Limited (PCL). AMC 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 continues to derive strength from fund sponsor/ shareholders being a part of Prabhu Group 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, diversified investment portfolio.

The FMQR, however, is constrained by stagnant merchant banking performances over the period though improved in FY21 (FY refer to 12 months ended mid –July 2021), volatile investment income, short 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

Fund sponsor/ shareholders part of Prabhu Group and established track record of operations in merchant banking

PCL is a 51% subsidiary of Prabhu Bank Limited (PBL; rated CARE-NP BBB) and is deriving benefits by availing regular technical and management support from its parent company. PCL is channeling the branch network of PBL to provide the various merchant banking services; thereby increasing the reach to its customers. PBL is also the fund sponsor for the existing and upcoming mutual fund scheme to be managed by PCL and the parent support is also demonstrated by the common brand name.

PCL has been providing merchant banking services from last one decade by taking over the business of Growmore Merchant Banker Limited which commenced business operations in 2010.

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 and finance sector. There are seven members in the PCL's BoD. Mr. L.P. Bhanu Sharma is the Chairman of the Company, who is a qualified Chartered Accountant and has wide experience working in the banking services for more than 16 years. PCL is led by Managing Director, Dinesh Thakali and has been associated with PCL since July 2020. Mr. Thakali is qualified Chartered Accountant and has experience of around a decade in banking and merchant bank services.

Diversified investment portfolio

PCL had investment book of Rs. 719 Mn as on mid-July 2020, which increased by 128.56% in FY21 and stood at Rs. 1,643 Mn as on mid July 2021. Investments increased on account of increase in market value of investment in quoted equities and addition of fixed deposits. As on mid-October 2021, the existing mutual fund, Prabhu Select Fund had Net asset value of Rs 10.31 which improved to Rs. 10.82 as on mid-January 2022. As on Mid-January 2022, Fund had investment of Rs. 741 Mn with Rs. 545 Mn in listed equities Rs. 165 Mn in Fixed deposit, Rs. 16 Mn in Debenture and Bond and Rs. 14 Mn in public offerings/right/bonus shares. Additionally, fund had Cash Balance of Rs. 616 Mn.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Key Rating Weaknesses**Stagnant merchant banking performances over the period though improved in FY21**

During FY21, PCL's total income increased significantly and the company achieved Rs. 901 Mn (PY: Rs. 36 Mn). The increase in revenue was mainly attributed to increase in gain in investment securities of Rs. 747 Mn. PCL reported PAT of Rs. 488 Mn during FY21 over Rs. 22 Mn during FY20. However, the performance was impacted in Q1FY22 and company reported losses during the same period.

Short track record as fund manager under Mutual Fund Regulations, 2010

PCL and its management have nascent experience in handling the Mutual Fund Scheme earlier. Existing Mutual fund managed by PCL; Prabhu Select Fund was issued only during FY21 which was allotted to public in May 2021. However, management team consists of wide experience in management of portfolio and merchant banking services along with banking services also. PBL, on the capacity of Fund Sponsor, appointed five professionals as fund supervisors. Fund supervisors are well qualified professionals and have wide experience in their respective fields.

Evolving Mutual Fund Industry

Formal issuance of Mutual Fund Schemes started after the issuance of Mutual Fund Regulations, 2010 by SEBON. As on mid-December 2021, there are 25 close ended mutual funds and 4 open ended mutual fund with total AUM of Rs. 28,954 Mn. Further, ten mutual fund schemes are in the pipeline to be approved from SEBON with a total AUM of Rs. 11,450 Mn. Out of the existing schemes; Net Assets Value (NAV) of fifteen schemes are below industry average with industry average NAV of Rs. 11.31 as on Mid-December, 2021. Diversifying investments and associated risk to ensure good returns, ploughing back of returns and enhancing NAV will be crucial from the analytical perspective.

Volatile trend of NEPSE index

The "Prabhu Smart Fund", that will be managed by PCL is an equity-oriented scheme, and majority of funds collected will be invested in the primary and secondary market of Nepal Stock Exchange Limited (NEPSE). NEPSE index has shown volatile trend over the period. Despite economic activities remaining sluggish amid intermittent covid19 waves and lower government spending, the secondary market in Nepal remained bullish during FY21. Share trading was an attractive means of investment for investors during FY21 due to easy access to loans. However, with changes in monetary policy for FY22, ceiling for margin lending (loan against shares) and ongoing crisis of liquidity in the banking sector has adversely impacted the share market. Investment diversification to minimize the risk of the volatile trend of NEPSE index will remain key rating sensitivities.

About the Company

Prabhu Capital Limited (PCL) is subsidiary company of Prabhu Bank Limited with 51% holding in share capital of PCL. PCL is providing merchant banker depository services, portfolio management services, advisor services and other financial services. PCL has obtained Fund Manager and Depository license from SEBON as on December 22, 2020 after successful merger with Samriddhi Capital Limited and started their joint commercial operation from July 13, 2020. PCL has Rs.1000.00 Million as paid up capital as on mid-October, 2021 which is been held by 179 shareholders.

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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.