

## Prabhu Capital Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
<b>Fund Management Quality Rating (FMQR)</b>	<b>NA</b>	<b>CARE-NP AMC Quality 3 (AMC 3)</b>	<b>Reaffirmed</b>

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 strengths from fund sponsor/ shareholders being a part of Prabhu Group with technical and management support from them, experienced board of directors and management team and established track record of operations in merchant banking. The rating also factors in professional fund supervisors and moderate fund performance. The FMQR, however, is constrained by the short track record of the company in fund management and decline in total operating income of capital during FY22 (Audited; refers to twelve months period ended mid-July), although improvement in merchant banking performances. The rating also factors in evolving nature of Mutual Fund Industry, limited market diversification in the industry so far 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 coupled with Professional fund supervisors

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 more than a decade in banking and merchant bank services. The board is supported by experienced management team.

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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

### **Moderate Fund Performance**

Existing Mutual fund managed by PCL; Prabhu Select Fund was issued only during FY21 which was allotted to public in May 2021 with a fund size of NPR 1,000 Mn and tenure of 7 years. The fund was oversubscribed, and its size was extended to NPR 1,250 Mn. Since its launch, the fund performance has been moderate. Prabhu Select Fund is an equity-oriented scheme with sizeable investments of the schemes in equity instruments. The mutual fund has been introduced in May 2021 towards the end of last bullish cycle and the market has been bearish since then. PSF has reported NAV of Rs. 10.42 as on January 13, 2022 thus showing growth in NAV of 4.2% since its inception as compared to the decline of 23.66% in NEPSE returns around same timeline. PSF's NAV growth reflects an alpha of 6% since the inception of mutual fund. The fund has not distributed dividend to its unit holders yet. Diversifying investments and associated risk to ensure good returns, ploughing back of returns and enhancing NAV will be crucial from the analytical perspective.

### **Key Rating Weaknesses**

#### **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. PCL introduced its first mutual fund, Prabhu Select Fund in May 2021 and was listed in June, 2021. The total Assets Under Management (AUM) of PSF is Rs. 1,302.50 Mn as on January 13, 2022. However, the management team consisting of wide experience in management of portfolio and merchant banking services along with banking services provide cognizance in AMC's ability to diversify its investment portfolio with anticipated market movements. The company has also recently obtained approval from SEBON for the launch of its second close ended mutual fund, Prabhu Smart Fund.

#### **Decline in total operating income during FY22, however improvement in merchant banking performance**

During FY22, PCL's total income decreased by 98.78% to Rs. 11 Mn (FY21: Rs. 901 Mn) majorly due to net loss on financial investments - Held for Trading in FY22 amounting to Rs. 213 Mn (majority of these were unrealized losses) as compared to net gains of Rs. 747 Mn in FY21. Sizeable investment in equity instruments coupled with the bearish share market in FY22 led to losses on financial investments. However, PCL reported increase in income from merchant banking activity by 83.17% to Rs. 136 Mn during FY22 (FY21: Rs. 74 Mn), mainly on account of increase in income from issue management backed by large sized IPO's managed by capital during FY22. Consequently, PCL reported net loss of Rs. 91 Mn during FY22 as compared to profit of Rs. 489 Mn during FY21.

### **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 2022, there are 30 close-ended mutual funds and 6 open ended mutual funds with total AUM of Rs. 34,525 Mn. Furthermore, twelve mutual fund schemes are in the pipeline to be approved from SEBON with a total AUM of Rs. 12,300 Mn. Despite the regulatory support including mandatory allocation of 5% of primary market shares to mutual funds which are mostly issued at par and tax exemption on income of mutual funds, the mutual fund industry is still in developing phase with moderate attraction among the retail investors. The preference for subscription of mutual funds is still lower compared to Initial Public Offerings (IPO) from other sectors.

### **Limited market diversification and 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). The schemes launched so far in the nation mostly make equity investments through the primary and secondary markets, predominantly in banks, financial institutions and hydro sector. Thus, there is limited scope for the diversification of investments both industry wise and instrument wise amid developing market for fixed income securities. Any changes in banking liquidations impact on the market and schemes

performance. Besides, NEPSE index has shown a volatile trend over the period. The evolving COVID-19 pandemic's impact on the county's economic growth rate coupled with stretched liquidity situation in the banking sectors in FY22 led to bearish secondary market during FY22. With some ups and down, NEPSE reached all time high of 3,198.60 as on August 18, 2021, which decreased to 2,009.42 at the end of July 15, 2022, on account of tightened liquidity and monetary policy amid depleting foreign exchange reserves in FY22 and further decreased to 1,882.60 as on Mid December 2022.

Going forward, increasing participation by the non-financial sectors meeting the capital and turnover requirements, as required by the Finance Act FY23, in the capital market is likely to enhance scope for investment and risk diversification of the schemes. Investment diversifications scheme to minimize the risk of the volatile trend of NEPSE index and generate healthy NAV growth will remain key monitorable aspect.

### **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-July, 2022.

### **Contact Us**

#### **Analyst Contact**

Ms. Monika Rawal  
+977-01-4012628  
[monika.rawal@careratingsnepal.com](mailto:monika.rawal@careratingsnepal.com)

Mr. Santosh Pudasaini  
+977-01-4012629  
[santosh.pudasaini@careratingsnepal.com](mailto:santosh.pudasaini@careratingsnepal.com)

#### **Relationship Contact**

Mr. Achin Nirwani  
+977-9818832909  
[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

#### **About CARE Ratings:**

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### Annexure 1

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

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

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.