

Sunrise Capital Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Fund Management Quality Rating (FMQR)	NA	CARE-NP AMC Quality 3+ (AMC 3+)	Revised from CARE-NP AMC Quality 3 (AMC 3)

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 revised the Fund Management Quality Rating (FMQR) assigned to Sunrise Capital Limited (SCL) to 'CARE-NP AMC Quality 3+ (AMC 3+)' from 'CARE-NP AMC Quality 3 (AMC 3)'. CARE-NP AMC Quality 3+ (AMC 3) indicates adequate assurance on management quality of Asset Management Company (AMC).

Detailed Rationale & Key Rating Drivers

The revision in FMQR rating assigned to SCL factors in the sustained growth in scale of operations and overall Assets Under Management (AUM) of SCL coupled with better returns of the schemes marked by the better alpha and relatively lower beta of the schemes over FY22-9MFY23 (FY refers to the twelve-month period ending mid-July). The rating continues to derive strength from its strong fund sponsor/ shareholders, experienced board of directors and management team in merchant banking and overall banking services and professional fund supervisors. The rating also factors in SCL's established track record of operations in merchant banking.

The FMQR, however, continues to remain constrained by evolving nature of Mutual Fund Industry, limited market diversification in the industry so far and volatile trend of Nepal Stock Exchange (NEPSE) index. The rating also takes cognizance of the decline in total operating income of capital during FY22 mainly due to unrealized losses in Held For Trade (HFT) financial instruments.,.

Detailed description of the key rating drivers

Key Rating Strengths

Satisfactory Fund Performance

There has been steady growth in scale of operations and Assets Under Management (AUM) of SCL over FY22-9MFY23. As on April 13, 2023, the company has three active mutual fund schemes viz Sunrise First Mutual Fund (SFMF), Sunrise Blue-chip Fund (SBCF) and Sunrise Focused Equity Fund (SFEF) with total fund size of Rs. 3,110 Mn. AUM increased to Rs. 3,179 Mn at the end of 9MFY23 (Unaudited; refers to nine months period ended mid-April 2023) from Rs. 2,371 Mn as on 9MFY22. The company's first mutual fund, NCM Mutual Fund 2059 under NCM Merchant Banking Limited matured in 2012 had average annual return of 45.12% till its maturity and had Net Assets Value (NAV) of Rs. 30.88 per unit at the time of its maturity. Also, SFMF, which is the first mutual fund scheme under the Mutual Fund Regulations 2010 has successfully completed its three year of operations and has reported better returns than the market during this period. SFMF has paid dividend of 7%, 50% and 12% in its first three years of operations and has still managed to report NAV of Rs. 12.04 as on April 13, 2023 and reflecting an alpha of 19% since its inception. SBCF was introduced on March 16, 2021 towards the end of a bullish cycle. The market has been bearish since then. Supported by relatively lower beta of the scheme, its degrowth was lower than the NEPSE degrowth for the same timeline and reflects an alpha of 2% since its inception. SFEF with fund Size of Rs. 1,000 Mn was introduced on February 12, 2023 with tenure of 10 years. The timing of the SFEF launch when the market is still bearish bodes well for the future performance of the scheme.

Diversifying investments and associated risk to ensure good returns, ploughing back of returns and enhancing NAV will be crucial from the analytical perspective.

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

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. The company is a wholly owned subsidiary of Sunrise Bank Limited (SBL; rated CARE NP BBB+ (Is)), an "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. SCL is managed under the overall guidance of its Board of Directors (BoD) who possess wide experience in the financial services. Mr. Apachh Kumar Yadav, Chairman, 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. Overall management of SCL is led by Mr. Bijaya Lal Shrestha, Chief Executive Office, with merchant banking experience of 18 years. He is supported by an experienced team of professionals.

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 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.

Key Rating Weakness**Decline in total operating income of capital during FY22, however improvement in merchant banking performance**

During FY22, SCL's total income decreased by 21.14% to Rs. 131 Mn (FY21: Rs. 166 Mn). Despite increase in income from merchant banking activity, income from mutual fund operations and interest income, the total income from operations decreased on account of losses in the fair market value of financial instruments- Held for Trading (HFT), which includes quoted equities. SCL reported the net losses on financial instruments- HFT amounting to Rs. 23 Mn (Rs. 6 Mn realised gain and Rs. 29 Mn unrealised losses during FY22) as compared to the net gain on financial instruments- HFT of Rs. 37 Mn during FY21 (Rs. 37 Mn realised gain during FY21). Sizeable investment in equity instruments coupled with the bearish share market in FY22 led to losses on financial investments. Consequently, SCL reported PAT of Rs. 51 Mn during FY22 as compared to Rs. 76 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-April, 2023, there are 32 close ended mutual funds and 7 open ended mutual funds with total AUM of Rs. 38,938 Mn. Further, ten mutual fund schemes are in the pipeline to be approved from SEBON with a total AUM of Rs. 8,750 Mn. The industry average NAV is Rs. 9.95 as on April 13, 2023. 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 schemes managed by SCL are equity-oriented scheme, and majority of funds collected will be invested in the primary and secondary market of Nepal Stock Exchange Limited (NEPSE). There is limited scope for the diversification of investments both industry wise and instrument wise amid developing market for fixed income securities in the economy. The overall schemes

launched so far in the market have their investments concentrated in banks, financial institutions, insurance and hydropower sectors. Thus, any changes in banking liquidations have adverse impact on the market and schemes performance.

Also, NEPSE index has shown volatile trend over the period. Introducing slew of contractionary monetary policies along with a sluggish deposit base amid muted national savings led to credit crunch in the banking sector during FY22 and FY23. Furthermore, with the country's economy yet to completely recover from the lingering impact of the pandemic, disruptions from global macroeconomic headwinds spilling into Nepal has led to tighter financing conditions and weakening in the country's macroeconomic indicators. This has created adverse effect in the overall operating environment of capital market. With some ups and down, NEPSE reached all time high of 3,198.60 as on August 18, 2021 (Previous all-time highest index was 1,888.36 as on July 27, 2016), which decreased to 1,934.47 as on April 13, 2023. However, 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 of scheme to minimize the risk of the volatile trend of NEPSE index and generate fair returns will remain key monitorable aspect.

About the company

Sunrise Capital Limited (SCL) is 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. 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 Mn paid-up capital which has been held by SBL, 'A' Class Commercial Bank of Nepal.

Contact us

Analyst

Ms. Monika Rawal
Contact No.: +977-01-4012628
Email: monika.rawal@careratingsnepal.com

Senior Analyst

Mr. Santosh Pudasaini
Contact No.: +977-01-4012629
Email: santosh.pudasaini@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

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

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and 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. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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.