

## PRESS RELEASE

### MUKTINATH CAPITAL LIMITED

September 2023

#### Rating

Instruments	Amount (NPR. Mn)	Rating	Rating Action
Fund Management Quality Rating	NA	IRN AMC Quality 3	Assigned

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the fund management quality rating of IRN AMC Quality 3 [Asset Management Company Quality Three]. Fund managers with this rating are considered to have an adequate ability to achieve fund objectives.

#### Detailed Rationale

The fund management quality rating assigned to Muktinath Capital Limited (MCL) derives strength from its strong promoter profile. MCL is promoted by two National Level Class “B” Development Banks of Nepal, namely Muktinath Bikas Bank Limited (60.26%, the fund sponsor for the proposed scheme) and Lumbini Bikas Bank Limited (19.75%), while the remaining is held by various individual shareholders. The rating also benefits from the technical and management assistance from the fund sponsor, along with presence of an experienced board of directors, fund supervisors, and management team. Additionally, its fair track record in merchant/investment banking remains positive for the adoption of sound governance and fund management practices for the proposed mutual fund scheme. Moreover, the adequate performance of the managed funds so far, including MCL’s own fund and funds under Portfolio Management Services (PMS), also provides comfort to an extent. These rating strengths, however, are partially offset by MCL’s operations in a volatile environment and limited avenues for investment diversification, leading to a concentrated portfolio. The rating also recognizes the evolving nature of mutual fund industry and moderate level of interest from investors. Going forward, the MCL’s ability to successfully launch the proposed “Muktinath Mutual Fund 1” scheme and adequately mobilize the funds raised, as well as navigate the financial market amidst the volatile operating environment, will remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### Ownership profile and support from fund sponsor

MCL is a subsidiary of Muktinath Bikas Bank Limited (MNBBBL) with a stake of ~60% followed by Lumbini Bikas Bank Limited (LBBL) holding ~20% stake as of mid- July 2023. MNBBBL has assumed the role of fund sponsor for the proposed “Muktinath Mutual Fund 1” with a fund size of NPR 1,000 Mn. The fund sponsor’s commitment to its subsidiary is exemplified by sharing of the brand name and commitment for the seed capital<sup>1</sup> for the proposed mutual fund scheme. Furthermore, the adequate track record and experienced management of the fund sponsor is expected to support the operations of the proposed mutual fund scheme. MCL’s fair track record so far in the field of merchant banking and investment banking sector also remains a positive.

<sup>1</sup> 13% of proposed fund size has been committed by MNBBBL and 2% will be invested by MCL (fund manager)

## **Experienced Board of directors, fund supervisors and management team**

MCL is managed under the overall guidance of Company's Board of Directors (BoD), who possess wide experience in the fields of management, banking and finance. MCL's current board comprises six members and is led by Mr. Sitaram Kafle, Chairman, who has over two decades of experience in the banking sector. Furthermore, the Board of Directors includes representatives from Muktinath Bikas Bank Limited and Lumbini Bikas Bank Limited, the two major institutional shareholders of MCL. Recently, MNBBL, the fund sponsor, has recently appointed a group of fund supervisors with experience in diverse sectors to oversee the proposed mutual fund scheme. Hence, the pooling of such expert resources, along with the experienced management team of MCL, remains supportive of sound fund management practices.

## **Regulatory support for development of mutual fund industry and financial markets**

The regulatory body for capital markets have introduced new regulations and multiple reform measures in recent years that have supported the growth of the financial markets along with mutual fund industry. The planned reforms for the industry by regulatory bodies such as participation of Non-Resident Nepalese in secondary market is expected to further support the growth and maturity of financial markets. The mandatory regulatory allocation to mutual fund schemes in IPOs along with tax exemption on their income has supported the performance of these schemes. As of mid- July 2023, ~76% of the market capitalization was collectively attributed to the banking, development banking, finance, microfinance, life insurance, non-life insurance, and hydropower sectors highlighting the marked dominance of the financial and hydropower sectors which has historically constrained diversification opportunities within the financial market. Nevertheless, the recent amendment to the Securities Registration and Issue Regulation, 2016 is expected to streamline issuance of shares at premium using mechanisms such as book building or IPOs with premium pricing which is expected to attract companies from a wider spectrum. Consequently, the inclusion of companies from diverse sectors is expected to greatly expand the investment horizon for mutual funds over the long term. Hence, any moderation in such regulatory support would have significant impact on fund performance.

## **Key Rating Weaknesses**

### **Absence of track record as fund manager under Mutual Fund Regulations, 2010**

MCL proposes to shortly launch its first mutual fund scheme named 'Muktinath Mutual Fund-1' with a scheme size of NPR 1,000 Mn and tenure of 10 years. Despite MCL being a new player in the mutual fund industry the company has been managing its own funds and also provides Portfolio Management Services (PMS). As of mid-July 2023, the Asset under Management (AUM) of MCL was ~NPR 656 Mn. The performance of MCL's managed funds has remained comparable to the NEPSE Index over the past 3 years, which remains a positive. However, the performance of MCL's first mutual fund over its 10-year tenure with respect to its benchmark index remains to be seen. The benchmark index currently has an annualized lifetime return of ~11% and annual return of ~15% in the past decade. Additionally, the ability of the fund manager to navigate the financial market for a relatively larger scheme size of NPR 1,000 Mn with respect to its current AUM remains a key rating sensitivity.

## **Volatile operating environment**

The income and profitability of MCL and the managed funds are closely tied with the movement of the stock market, which has remained volatile over the years. Furthermore, the stock market is closely-linked with macroeconomic factors, liquidity, market sentiment, interest rates on fixed income securities along with various other external factors which are subject to change. Additionally, the stock market is highly cyclical and seasonal in nature, further aggravating the already volatile operating environment for MCL and its managed funds. As of mid-September 2023 the NEPSE Index stands at ~1,965 levels signifying a ~39% drop from the all-time high of the NEPSE Index at ~3200 levels. Given the current market scenario, the ability to make prudent investment decisions while effectively navigating the stock market's volatility remains a key challenge for AMCs like MCL.

## Limited investment diversification avenues so far

The mutual fund schemes launched so far mostly make equity investments through the primary and secondary markets, predominantly in banks, financial institutions and hydropower sector. Further, limited market and secondary transactions for bonds, debentures and other fixed income securities has created limitation in the scope for investment and risk diversification. In this context, the ability of MCL to diversify investment across asset classes and sectors within equity segment, safeguard its Net Asset Value (NAV) during significant market downtrends and ability to adapt strategy as per evolving market conditions remains a challenge.

## Evolving mutual fund industry with moderate attraction amongst investors

The mutual fund industry of Nepal is in its development phase with track record of just over a decade and represents ~1% of the Gross Domestic Products (GDP)<sup>2</sup> of Nepal. A total of 51 mutual fund schemes have been launched till date and 7 close ended schemes have been liquidated after completion of their tenure. Currently, there are 37 close ended mutual funds and 7 open ended mutual funds with total AUM of ~NPR 46 Billion. Furthermore, there are 7 mutual fund schemes awaiting approval from the Securities Board of Nepal (SEBON), with a proposed AUM of ~NPR 6 Billion. Despite the development of the mutual fund industry, the interest from investors in mutual fund schemes remains moderate as reflected in the recent subscription rates (comparatively lower) for mutual fund schemes. Additionally, the development and retention of skilled and qualified human resources considering the current status of the industry remains a challenge for investment/merchant bankers like MCL. Nonetheless, there is still room for growth and potential to attract more investors in mutual fund industry.

**Analytical Approach:** Infomerics Nepal has applied its fund management quality rating methodology as indicated below.

## Applicable Criteria:

[Fund Management Quality Rating Methodology](#)

## About the Company:

Muktinath Capital Limited (MCL, formerly Vibor Capital Limited) is a subsidiary of Muktinath Bikas Bank Limited and the company was established in February 2010. Lumbini Bikas Bank Limited is another major institutional investor of the company. MCL is licensed by SEBON to provide services like fund management, private placement, corporate advisory, portfolio management, issue management, depository participant, registrar to share (RTS) and underwriting services. MCL recently obtained the license to operate a mutual fund scheme and MCL plans to operate in the capacity of fund manager and depository participant for the proposed close ended scheme “Muktinath Mutual Fund 1”.

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<sup>2</sup> Figure based on NRB’s report (Nominal GDP of Nepal for FY23(P) is ~NPR 5,381 Billion)

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### About Infomerics Credit Rating Nepal Limited:

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