Press Release

GLOBAL IME CAPITAL LIMITED

March 2025

Ratings

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

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the fund management quality rating of IRN AMC 3 (IRN AMC Three). Fund Managers with this rating are considered to have adequate ability to achieve fund objectives.

Detailed Rationale

The reaffirmation of rating assigned to Global IME Capital Limited (GICL) factors in the company's adequately established organizational structure for the management of its existing as well as proposed mutual fund (MF) schemes. The rating also factors in the company's improved profitability profile in the H1FY25, driven by a significant uptrend in the secondary market during this period. The rating also derives comfort from the growing investor interest in mutual funds, as evidenced by the oversubscription of the last few mutual fund offerings to the public. This trend enhances the prospects for successful subscription of GICL's proposed Global IME Sammunat Scheme-II (GIMES-II), ensuring access to the much-needed funds for its operations and investment activities. The rating draws further comfort from the majority ownership (~81.50%), franchise and continued technical support of Global IME Bank Limited, a Class 'A' commercial bank. The rating action also takes into account GICL's satisfactory investor service practices and adherence to regulatory guidelines and investment policies. The rating continues to derive comfort from presence of experienced board of directors, fund supervisors and well-experienced management team. Additionally, ongoing and proposed regulatory improvements are expected to enhance investment diversification opportunities and improve the depth and liquidity of the capital market.

Nonetheless, the rating remains constrained by the company's limited number of schemes i.e., only two schemes as of mid-February 2025 (being first scheme launched in FY16) and the operational challenges amid largely volatile levels of benchmark index (NEPSE) in the last 24 months. The potential initial performance of the proposed scheme could be negatively affected by the volatile secondary market, though the performance of earlier MF schemes would predominantly hinge on market trends, considering their restricted capacity for further diversification leading to a concentrated portfolio. Consequently, the company's ability to maintain prudent asset allocation (i.e., a balanced mix of equities, fixed-income investments, and cash) aligned with anticipated market movements will be pivotal in driving the performance of the proposed mutual fund scheme (GIMES-II). The rating also remains constrained due to highly fragmented and competitive MF industry. Going forward, GICL's ability to achieve fund objectives and subscription of proposed schemes while safeguarding the scheme's NAV in a volatile market, and balancing risk and reward, will remain a key sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Satisfactory fund performance so far

The company currently manage only one closed-ended MF schemes (viz. Global IME Balance Fund 1-GIBF1 launched on July 2022). GIBF1 has been able to report annualized NAV growth (including dividends) of ~11% since their launch till mid-March 2024 as compared to NEPSE's annualized growth

of ~9%. The company at present has AUM of ~NPR 1.2 Bn with significant investment in equity instruments at ~84% of its portfolio as on Mid-February 2025. GIMES1[1] matured during FY23 with refund NAV of NPR 10.16 per unit and annualized return of ~15% (including dividend of 104%) during 7-year tenure.

Strong ownership profile with experienced fund supervisors

GICL benefits from its affiliation with the IME Group, a diversified conglomerate with a strong presence across various sectors such as banking, insurance, remittance, and hospitality. Being an 81.5%-subsidiary of Global IME Bank Limited, one of Nepal's largest commercial banks, underscores the company's stability and support within the financial sector. The proven track record and expertise of the sponsor, along with the experienced management team overseeing GICL's operations, provide assurance regarding the efficacy of its fund management practices. Additionally, the presence of seasoned fund supervisors with diverse sector experience further strengthens GICL's ability to navigate the market effectively.

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. Moreover, the Budget for FY23 has made a provision that requires companies with capital of NPR 1 Bn or above, turnover of NPR 5 Bn or above, or those that mobilize natural resources to be listed in the stock exchange and entry of established companies from the non-financial sector especially through book building process or IPO with premium is likely to increase the scope of investment diversification for mutual funds beyond the banking, insurance, and hydropower sectors. Hence, any moderation in such regulatory support would impact incremental fund performance.

Key Rating Weaknesses

Limited Number of Schemes

GICL's scheme portfolio lags behind its peer, having introduced only two close-ended mutual fund schemes thus far. The launch of Global IME Samunnat Scheme 1 (GIMES1) in March 2016, which matured in March 2023, and Global IME Balance Fund 1 (GIBF1) in July 2022, indicate a cautious approach to scheme expansion. However, amidst this limited range, the proposed GIMES2 scheme, with a targeted size of NPR 1.2 billion, signals an intention to diversify and expand their offerings. The ability of GICL to garner full subscription for these proposed schemes remains pivotal.

Volatile Operating Environment

The income and profitability of GICL and the managed schemes are closely tied with the movement of the stock market, which has remained volatile over the years. This volatility is further aggravated by the stock market's tight interconnection with macroeconomic factors, liquidity, market sentiment, and interest rates on fixed-income securities, among other external variables that are subject to change. Moreover, the highly cyclical and seasonal nature of the stock market intensifies the already volatile operating environment for both GICL and its managed schemes. Notably, GICL demonstrates a higher risk appetite evidenced by its greater exposure to equity, exceeding 90% for GIMES1 at the time of maturity and ~84% for GIBF1 as of mid-February 2025. Additionally, the portfolio beta for GIMES1 at maturity stood at ~0.83, while for GIBF1 as of mid-February 2025, it was 0.80, both exceeding those of similarly aged schemes in comparison.

Limited Diversification avenues resulting in concentrated stock portfolio

[1] Global IME Sammunat Scheme-1

The mutual fund schemes launched so far mostly have made equity investments through the primary and secondary markets, predominantly in banks, financial institutions and hydro sector. Further, limited secondary transactions for bonds, debentures and other fixed income securities has created limitation in scope for investment and risk diversification. As a result, the equity investments of GICL's operational schemes have remained concentrated towards hydropower, insurance, commercial banks which represents ~59% of the stock holding for GIBF1 as on mid-February, 2025. Going forward, the ability of the fund manager to maintain adequate risk-reward ratios and moderation in sectoral concentration remains a key monitor-able.

Evolving mutual fund industry with intense competition

The mutual fund industry of Nepal is in its development phase with track record of just over a decade and represents ~1.28% of the Market Capitalization of NEPSE as on mid-February 2025. A total of 56 mutual fund schemes have been launched till date in Nepal, with 14 schemes having liquidated after maturity. Currently, there are 35 close ended mutual funds and 7 open ended mutual funds with total AUM of ~NPR 57.1 Bn (Face Value ~NPR 51.4 Bn). Furthermore, 10 other mutual fund schemes are schemes awaiting approval from the Securities Board of Nepal (SEBON) to raise ~NPR 8.25 bn. The introduction of these funds is significantly expected to increase the competition further. 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 GICL.

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

Applicable Criteria:

Fund Management Quality Review Methodology

Link to past rating rationale:

Global IME Capital Limited: Fund Management Quality Rating Reaffirmed

About the Company:

Incorporated in 2008, Global IME Capital Limited (GICL, formerly Elite Capital Limited) is an 81.50% subsidiary of Global IME Bank Limited. Global IME Bank Limited and Bank of Kathmandu Limited have commenced joint operation since November 14, 2022. GICL is licensed by SEBON to provide investment banking services like mutual fund management, private placement, portfolio management and merchant banking services like issue management, depository participant, registrar to share (RTS) and underwriting services. GICL is the fund manager and depository both for its only operational close-ended scheme, i.e., GIBF1. The company reported a net loss of ~NPR 64 Mn in FY2023 (Profit of NPR 147 Mn for H1FY25) on an asset base of ~NPR 1,920 Mn as of mid-July 2024.

Analyst Contacts

Mr. Raunak Mulmi
+977-1-4583304/4585906
raunak.mulmi@infomericsnepal.com

Mr. Saphal Maharjan
+977-1-4583304/4585906
saphal.maharjan@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini
+977-1-4583304/4585906

rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:
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Infomerics Credit Rating Nepal Limited
Tanka Prasad Marga, Baneshwor Height, Kathmandu
Phone: +977-1-4583304/4585906
Email: info@infomericsnepal.com
Web: www.infomericsnepal.com

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