



Life Insurance Corporation (Nepal) Limited

ICRA Nepal assigns [ICRANP] IPO Grade 2 to the proposed equity shares (rights issue) of Life Insurance Corporation (Nepal) Limited.

ICRA Nepal has assigned an “[ICRANP] IPO Grade 2”¹, indicating above-average fundamentals to the proposed rights issue of Life Insurance Corporation (Nepal) Limited (LIC Nepal). LIC Nepal is proposing to come out with an rights issue of 1,012,500 numbers (in the ratio 1:4) of equity shares of face value NRs 100/- each to be issued to its shareholders.

The above-average fundamental grading factors in support from parent LIC (India’s largest Life Insurance Company)- in terms of branding, management support, infrastructure and adaptation of systems/process. The grading also factors in the fact that LIC Nepal has consistently been among the top 3 Life Insurance players in Nepal in terms of market share over the last few years, comfortable solvency indicators and superior claims paying ability compared to peers. The grading is constrained by modest profitability, limited product diversification of LIC Nepal; and Life Insurance industry itself being in nascent stage in Nepal.

Established in 2001, the shareholding of LIC Nepal is LIC-55%, Vishal Group-25% and general public-20%. LIC Nepal derives its strength from LIC- in terms of management (top executives of LIC Nepal are expatriates from LIC), and systems/processes being adapted from LIC. The support of LIC is further demonstrated by the fact that LIC and LIC Nepal have a shared brand name and common chairperson. The other prominent shareholder, Vishal group is widely reckoned as a leading diversified business conglomerate (presence across BFSI, Manufacturing, Trading, Education sectors etc.) in Nepal.

During FY12, LIC Nepal reported Net Profit of NRs.171 mn on a Net Premium of NRs. 2,526 mn for FY12, as compared to Net loss of NRs. 24 mn on a Net Premium of NRs. 1,869 mn for FY11. Moderate overall profits of LIC Nepal over the years has been a result of limited transfers from policyholders’ funds (which is allowed only on completion of actuarial valuations, which is mandated only once in 3 years) to the P&L account. Further, focus only on low profitability traditional products, limited distribution channel and overall operating environment in Nepal has also resulted in modest net profits over the years. On the positive side, the solvency ratio of LIC Nepal stood at 2.1 times as on July 2012. Also, In terms of market share, LIC Nepal has maintained at ~20% of total premium over the last few years, and has consistently been among the top 3 players- along with Nepal Life Insurance Co. Ltd and National Life Insurance Co. Ltd. Further, the performance of LIC Nepal over the last few years is marked by superior claims ratios² compared to peers. Going forward, management and operational support from LIC would be critical to the performance of LIC Nepal, as would be favourable operating environment and evolving regulatory framework.

¹ ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) indicates their relative better position within the Grading categories concerned.

² Available for Claims/ Benefits Paid Ratio and Outstanding claim amount/Paid claim.



Company Profile

LIC Nepal was incorporated under the Companies Act 2053, in December 2000 and commenced its operations in September, 2001. LIC Nepal is a joint venture between Life Insurance Corporation of India (fully owned by Government of India) and Vishal Group of Nepal with paid up capital of NPR 405 m as on mid-April 2013. Its head office is located at Kathmandu, Nepal. ISO 9001:2008 certification was received by the Company since 2011. The shares of the LIC Nepal were first listed on NSE in the year 2002.

LIC Nepal is prominent player (consistently among top 3 players in terms of total premium market share) in the life insurance sector. Currently, LIC Nepal operates out of twenty five branches and has 26,801 agents (as of mid April 2013) across the nation for procuring new business and extending after sales services. LIC Nepal had market share of ~19% in terms of Net Premium in Nepal Life Insurance Industry during the first half of FY2013.

Recent Results

During 9MFY13, LIC Nepal reported Net Profits of Rs.23 mn on a Net Premium of Rs. 2,098 mn for FY13 as compared to Net Profit of Rs. 171 mn for FY12 on a Net Premium of Rs. 2,526 mn for FY12.

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