

Nepal Insurance Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed equity shares (rights issue) of Nepal Insurance Company Limited (NICL)

ICRA Nepal has assigned “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed rights issue of Nepal Insurance Company Limited (NICL). 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) appended to the Grading symbols indicate their relative position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively NICL is proposing to come out with a rights issue of 1,319,016 numbers (in the ratio 1:1) of equity shares of face value NRs 100/- each to be issued to its shareholders.

The grading takes into account NICL’s long track record and strong support from its major promoter - Nepal Bank Limited (an A class commercial bank), good claims paying ability and adequate presence/market share of NICL in the context of Nepalese Non-life insurance industry. However, these advantages are offset by modest performance indicators of NICL compared to the peers. Apart from modest profitability and underwriting performance, the grading is also constrained by limited product diversification for NICL and low penetration of the overall Non-life insurance industry in Nepal.

NICL has been achieving steady growth rate in recent years, its compounded annual growth rate for Net Premium Written being 31% for last 5 years driven by CAGR of 34% for motor portfolio which is the biggest segment for the company (76% of Net premium written in FY13). However, motor portfolio has remained a loss making portfolio; with underwriting deficit of NPR 36.23 million reported in FY13. As a result, the NICL continues to report modest performance indicators compared to peers over the last few years. Going forward, the company plans to limit exposure to motor portfolio and adopt stringent underwriting measures with an aim to make the portfolio profitable, at the same time focusing more on existing profitable segments.

For FY13, NICL reported Net Profit after Tax of NPR 57 million over Net Premium Earnings (NPE) of NPR 367 million compared to the Net profit after tax of NPR 40 million over NPE of NPR 266 million in FY12. The underwriting profit for FY13 stood at NPR 38 million with a combined ratio of 89.7% as compared to the underwriting profit of NPR 10.3 million with combined ratio of 96.1% in FY12. The return on Net worth and return on Average total assets for FY 13 were 17.7% and 5.4% respectively in FY13 as compared to 15.2% and 4.9% respectively in FY12.

The quality of investment portfolio of NICL is adequate with investments made in Government Securities, FDRs in Banks and Financial Institutions and one-off equity investment in a commercial bank which is listed in the stock exchange. Overall the investment portfolio has low credit risk and market risk. NICL has been maintaining the mandatory reserves as prescribed by the regulatory authority (Insurance Board of Nepal) and investing the amount representing those reserves in accordance with the standing investment guidelines prescribed by the regulator.

Company Profile

Nepal Insurance Company Ltd, established in 1947, is the first Insurance Company in Nepal. It was established under the leadership of Nepal Bank Ltd (First commercial bank of Nepal with 41% Government holding) which in turn holds 51% equity stake in NICL.



NICL holds a sizeable proportion of Nepalese non-life insurance industry with the industry share of around 10% in FY13 in terms of Net Premium Written across 17 branches. As of July 2013, the paid up capital stood at NPR 131.9 million and Net worth at NPR 319.3 million.

For FY13, NICL reported Net Profit after Tax of NPR 56.5 million over Net Premium Earnings (NPE) of NPR 366.6 million compared to the Net profit after tax of NPR 40 million over NPE of NPR 266 million in FY12.

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For further details please contact:

Analyst Contacts:

Mr. Sailesh Subedi (Tel No. +977-1-4419910/20)

saillesh@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (Tel. No. +977-1-4419910/20)

drkafle@icranepal.com

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