

Siddhartha Insurance Limited

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

INSTRUMENT/FACILITY	ISSUE SIZE	RATING ACTION (NOVEMBER 2016)
Rights issue (Equity)	NPR 86.2125 million	[ICRANP] IPO Grade 3+ (Assigned)

ICRA Nepal has assigned “**[ICRANP] IPO Grade 3+**”, indicating average fundamentals to the proposed rights issue (equity shares) amounting to NPR 86.2125 million of Siddhartha Insurance Limited (SIL). ICRA Nepal assigns IPO¹ 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 positioning within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4 respectively. SIL is proposing to come out with 25% rights issue of 862,125 numbers of equity shares of face value NRs 100/- each, to be issued to the existing shareholders at par.

The grading considers SIL’s institutional promoter strength and existence of a shared brand name with Siddhartha Bank Limited (rated BBB for issuer rating by ICRA Nepal which holds 15% stake in SIL). The grading also considers SIL’s sound franchisee network (21 branches as on mid-July-16) and healthy growth in premium earnings which has led to improving market share. The grading factors in SIL’s adequate reinsurance arrangements, experienced management team and sufficiently tested underwriting norms. ICRA Nepal also takes note that SIL’s claims paying ability, solvency position and profitability profile has not significantly deteriorated in the aftermath of the April 2015 earthquake owing to sufficient catastrophic reinsurance arrangements. The grading also takes into consideration SIL’s healthy underwriting profitability aided by low claims ratio which has helped SIL maintain sound profitability indicators despite recent decline in investment yields. However, the grading is constrained by the company’s limited track record (operating since April 2006), declining yields on its investment portfolio and stiff competition from larger players in the Nepalese general insurance industry.

SIL is one of the larger players in the Nepalese general insurance industry in terms of premium earnings. Over past 3 years, SIL’s growth in revenue from net premium written remained healthy with 28% CAGR growth. SIL reported premium growth across all major business segments of motor, fire etc. Premium retention ratio of SIL (~49% in past 2 years ending FY16) has increased in recent years along with growth in scale of operations and risk bearing capacity. Coupled with improvement in claims ratio, higher premium retention has helped boost the underwriting surplus position which has grown at a CAGR of 53% during FY2013-16.

SIL’s portfolio mix is dominated by the motor segment (78% of NPE during FY2013-16) followed by Fire (15%), Marine (3%) and Miscellaneous (3%) segments. The proportion of the motor portfolio has come down in recent years because of management’s focus towards more profitable segments especially fire portfolio. The reduced dependence on lower-margin motor insurance has aided the company to improve its overall underwriting performance.

Underwriting surplus in FY16 has reported healthy growth (NPR 199 million in FY16 vs 61 million in FY15), backed by healthy growth in premium earnings following earthquake. Combined ratio in FY16 stood at 62%, improving from 85% in FY15, backed by sharp improvement in claims ratio, better reinsurance commission income & nominal decline in management expense ratio. Owing to falling investment performance SIL’s net profits grew in FY2016 at a much slower pace to stand at NPR 186 million vis-a-vis NPR 170 million in FY2015.

Profitability is also supported by investment income of SIL (average yield of ~7% in FY16 over a portfolio of NPR 972 million in Jul-16). Investment portfolio is as per the guidelines prescribed by the regulator, with major concentration in Government securities and Banks fixed deposits. SIL has been maintaining the

¹ Includes rights and further public issue of equity shares

mandatory technical reserves and restricted reserves² as prescribed by the regulatory authority (Insurance Board of Nepal). As on mid-July-16 the said reserves accounted for 93% of net worth of SIL. SIL's solvency margin on mid-July-16, calculated as per regulatory directive, stood at ~3.19 times (3.33 times in mid-July-15) vis-a-vis a regulatory minimum of 1.0x times.

Company Profile

Established in 2006, Siddhartha Insurance Company Ltd (SIL) is among the youngest players in the non-life insurance industry² of Nepal. Despite short track record, SIL is among the larger players in the industry with ~9% of market share in terms of Gross Premium Written and ~8% in terms of net premium written in past 2 years. As of July-16, SIL has over 200 staffs posted over 21 networks spread across the nation for procuring business and extending after sales services.

SIL has 51:49 promoter-public shareholding ratios with major shareholding from Siddhartha Bank Limited at 15%, SIL reported a profit after tax of NPR 186 million during FY16 over an asset base of NPR 1,857 million as of July-16 as compared to NPR 170 million during FY15 over assets base of NPR 1,483 million as of mid-Jul-15. In terms of technology platform, SIL has implemented "Insure" in its corporate office. The computerized information has been centralized across all the branches.

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² Technical reserve includes (reserve towards unpaid claims & unexpired risk); restricted reserves include Insurance reserve and Insurance fund appropriated from annual profits.