

Premier Insurance Company (Nepal) Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3+ to the proposed further public offer (equity shares) of Premier Insurance Company (Nepal) Limited

Instrument/Facility	Issue Size	Rating Action
Further Public Offer (Equity shares)	NPR 526.99 million	[ICRANP] IPO Grade 3+ (Assigned on Feb 2017 and revalidated with FPO price update on Dec 2017)

ICRA Nepal has assigned “[ICRANP] IPO Grade 3+”, indicating average fundamentals to the proposed further public offer (FPO) amounting to ~NPR 527 million of Premier Insurance Company (Nepal) Limited (PIC). 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. PIC has proposed an FPO of 659,565 equity shares with a face value of NPR 100, each to be issued to the public at a premium of NPR 699² per share (issue price of NPR 799 per share). The proposed FPO will increase the public shareholding in PIC from current 40% to ~48% (assuming full subscription).

The average fundamental grading of PIC takes into consideration its long track record, sufficiently tested underwriting norms and good ownership & management profile. The grading also considers PIC’s strong branch network³, good retail base and healthy growth in premium earnings which has led to improvement in market share over past 2-3 years. The grading also factors adequate reinsurance arrangements, including catastrophic provisions, which helped PIC maintain its claims paying ability, solvency position and profitability profile in the aftermath of the April 2015 earthquake. The grading also takes into consideration improvement in PIC’s underwriting profitability; aided by increased premium retention, decline in claims ratio and moderation in expense ratio, leading to healthy return indicators. However, the grading is constrained by lack of institutional promoters, lack of avenues for diversification of investment, unstable interest rate regime affecting investment yield and stiff competition from other players in the general insurance industry of Nepal.

PIC is one of the medium sized players in the general insurance industry of Nepal, in terms of premium earnings with ~7% share in industry gross premium written (GPW) in FY2017⁴. PIC’s share in industry premium earnings has improved during FY2013-17 backed by CAGR 44% growth in GPW over the period. Recent growth in premium earnings of PIC is due to liberal stance taken by the management towards motor business, which has grown by CAGR 60% (GPW) during FY2013-16. Premium retention ratio has improved from 30% in FY2014 to 55% in FY2017, backed by growing proportion of motor business in overall portfolio mix. Coupled with improvement in claims ratio, higher premium retention has helped boost the underwriting surplus position which has grown at a CAGR of 106% during FY2013-17.

PIC’s portfolio mix is dominated by the motor segment (80% of NPE in FY2016⁵) followed by miscellaneous⁶ (11%), Fire (4%) and Engineering (4%) segments. Motor portfolio has witnessed sharp increase in recent period, with motor GPW registering more than 300% growth between mid-July 2013 and mid-July 2016. Underwriting performance of motor segment has also witnessed similar improvement during the period, backed by decline in claims ratio (from 61% in FY2013 to 40% in FY2016). Source wise, business from direct customers accounted for 53% of GPW in FY2016, the proportion increasing in recent years benefitting from increased footprint of PIC across the country. Similarly, 62% of gross premium in FY2016 was accounted for by retail (individual) clients, indicating strong retail base of PIC.

Underwriting surplus of PIC has reported healthy growth in recent years (NPR 181 million in FY2017 vs. NPR 140 million in FY2016 & NPR 45 million in FY2015), on the wake of healthy growth in premium earnings following the earthquake. Combined ratio of PIC in FY2017 stood at 70%, improving from past 3 years average of ~73%; backed by moderation in claims ratio and expense ratio on a larger premium base. With

¹ Includes rights and further public issue of equity shares

² Approved from Securities Board of Nepal (SEBON)

³ 40 branches as on mid-October 2017.

⁴ FY 2017 date are used where publicly available

⁵ Past 3 years’ average of ~75% of Net premium earned (NPE)

⁶ Includes personal accidents, group medical policies, bankers’ blanket indemnity, among others.

an improvement in underwriting performance, PIC has reported healthy return on net worth of ~20% in FY2017 (past 3 years' average of ~23%).

Profitability of PIC remains supported by its investment income (average yield of ~6% over past 12-18 months over an investment portfolio of NPR 1,284 million as at mid-July 2017 (NPR 1,394 million as at mid-Oct 2017). Investment yield significantly improved during FY2015 and FY 2016 due to a one-off dividend income from Nepal Reinsurance and realised gains on trading of securities. Following the regime of low interest rates during FY2014-FY2016, interest rates across banking industry has begun to harden which augurs well for incremental investment yield (average yield on PIC's investment stood at ~8% during Q1FY2018) and profitability of PIC. Investment portfolio of PIC is by and large in compliance with the guidelines prescribed by the regulator, with major concentration in Government securities and Banks fixed deposits. PIC has been maintaining the mandatory technical reserves and restricted reserves⁷ as prescribed by the regulatory authority (Insurance Board of Nepal). As on mid-July 2017 the said reserves accounted for 95% of net worth of PIC. PIC's solvency margin on mid-July 2017, calculated as per regulatory directive, stood at ~3.5 times vis-a-vis a regulatory minimum of 1.5x times.

Company Profile

Established in 1994, Premier Insurance Company Ltd (PIC) is one of the old players in the general insurance industry of Nepal. PIC is among the medium sized player in the industry with market share of ~7% in gross premium written (GPW) and ~8% in net premium written (NPW) for FY 2016-17. As of mid-October 2017, PIC has 40 branches across the nation for procuring business and extending after sales services.

PIC has 60% promoter shareholding which is likely to dilute to ~52% post FPO. The major shareholders of PIC include individuals related to ICTC group⁸ (~30% holding), Hama Group⁹ (~12%) and Beltronix Group¹⁰ (~12%) holding. PIC reported a profit after tax of NPR 181 million during FY2016-17 over an asset base of NPR 1,970 million as on mid-July 2017 as compared to NPR ~185 million during FY2015-16 over an asset base of ~NPR 1,547 million as of mid-July 2016. During Q1FY2017-18, PIC reported profit after tax of ~NPR 21 million over an asset base of ~NPR 2,075 million as of mid-October 2017. In terms of technology platform, PIC has implemented "Insure" in its corporate office. The computerized information has been centralized across all the branches.

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⁷ Technical reserve includes (reserve towards unpaid claims & unexpired risk); restricted reserves include Insurance reserve and Insurance fund appropriated from annual profits.

⁸ ICTC is primarily involved in hydropower consulting & Engineering projects.

⁹ HAMA group primarily involved in steel and iron industries.

¹⁰ Beltronix group deals in trading of electrical & electronics items and provides Information Technology services.