

Premier Insurance Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed rights issue of Premier Insurance Company Limited

	ISSUE SIZE	RATING ACTION
Rights Issue Grading	NPR 134.89 million	[ICRANP] IPO Grade 3 (Assigned)

ICRA Nepal has assigned “**[ICRANP] IPO Grade 3**”, indicating average fundamentals to the proposed rights issue amounting NPR 134.89 million of Premier Insurance Company Limited (PIC). 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. PIC is proposing to come out with 115% rights issue of 1,348,950 numbers of equity shares of face value NRs 100/- each to be issued to its existing shareholders at par.

The grading takes into account PIC’s long track record, strength of major promoter groups, experienced Board of Directors & management team, established underwriting norms, reputed reinsurance partners¹, sizeable retail business and fair claims paying ability. However, the grading is constrained by small market share of PIC, low retention of premium coupled with high claims & management expense ratio affecting underwriting profitability, declining yield on investment portfolio, stiff competition from other large players in the general insurance industry and low general insurance industry penetration in Nepal offering limited scope for product innovation/diversification. Although PIC’s overall performance in recent years continues to improve with better underwriting practices, further improvement and sustainability of the same on enhanced scale of operations, given the inherent limitations in insurance industry in Nepal, remains to be seen.

PIC’s growth in revenue from premium earnings remained above the industry average; with 46% CAGR² growth in gross premium written (GPW) and 23% CAGR growth in Net premium earnings³ (NPE) over past 3 years ending FY14. While premium growth has been reported across all the business segments, it remains more pronounced in motor and miscellaneous segment; the two largest business segments of PIC. However, premium retention ratio⁴ of PIC (~35%) remains well below the industry average (~45%), resulting in cession of larger portion of premium earnings to reinsurers; thereby damping the revenue and underwriting profitability to some extent. The profitability also remains subdued on account of underwriting deficit generated in miscellaneous segment especially due to high claims under medical insurance product. Despite that, PIC’s underwriting performance has improved in past 2 years due to surplus generated in motor and fire segments.

In terms of portfolio mix, motor segment dominates the business profile of PIC; in line with the overall industry trend. Motor segment accounted for 78% of NPE in past 2 years followed by Miscellaneous (12%), Fire (7%), Engineering (2%) and Marine (1%). The proportion of fire portfolio remains subdued as compared to industry average while that of miscellaneous remains higher. In past 3 years, miscellaneous portfolio (with lowest underwriting surplus per unit premium earnings) grew sharply at the expense of motor segment, thereby dragging the profitability profile. However,

¹ Including Tokyo Marine Global Re. as lead reinsurer (rated AA- by Standard & Poors for financial strength)

² Compounded Annual Growth Rate

³ Net premium written adjusted for unexpired risk reserves (URR)

⁴ Net premium written/Gross Premium Written



steady performance of motor segment and recent growth in profitable fire segment has aided the overall underwriting performance of PIC.

For FY14, PIC reported Profit after Tax (PAT) of NPR 48 million over NPE of NPR 128 million corresponding to PAT/Net worth of 17.5% and PAT/ATA of 7.8%. The corresponding return indicators in FY13 were 15.3% and 6% respectively. The overall profitability in FY14 was boosted by the underwriting surplus of NPR 26 million (combined ratio 80%) compared to NPR 10 million (Combined ratio 89%) in FY13. However, the underwriting surplus of PIC remains constrained by high management expense ratio (48% of NPE in FY14) compared to industry average (~35%).

Net investment income of PIC for FY14 stood at NPR 32 million (21% of net premium written in FY14 and corresponding to a yield of 6.8%), largely contributing to the overall profitability of PIC. However, the falling yield on investments could be a concern given modest underwriting profitability of PIC. The quality of investment portfolio of PIC remains adequate, with 86% of portfolio as on mid-July-14 composed of investments in Government securities & fixed deposits with Commercial banks and Development Banks compared to 87% in FY13. The investment portfolio remains by and large compliant to the investment guidelines prescribed by the regulator. PIC has been maintaining the mandatory technical reserves⁵ as prescribed by the regulatory authority (Insurance Board of Nepal). As on mid-July-14 the said reserves accounted for 48% of net worth of PIC.

Company Profile

Premier Insurance Company Ltd (PIC), a public limited company established in December 1993, is the 5th private sector general insurer in Nepal. PIC is relatively small company with ~5% of market share in terms of General Insurance Industry's Gross Premium Written in FY 14. PIC is in operation with 14 branches (as of October 2014) across the nation for procuring business and extending after sales services.

PIC's shareholding is divided among promoter & general public in the ratio of 60:40 as on mid-July-14. The major promoters of PIC includes ICTC group⁶ with ~30% holding, Hama Group⁷ with ~12% and Beltronix Group⁸ with ~8% holding. PIC reported a profit after tax of NPR 48 million during 2013-14 over total assets base of NPR 615 million as of mid-Jul-14 compared to the profit after tax of NPR 34 million during 2012-13 over total assets base of NPR 575 million as of mid-Jul-13. In terms of technology platform, PIC has implemented locally designed software "Ensure" in its corporate office. The computerized information has been centralized across all the branches.

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⁵ Reserves for unexpired risks & reserves for unpaid claims outstanding

⁶ Nepalese business group primarily involved in civil and electromechanical contracts related to hydropower projects

⁷ Nepalese Business group primarily involved in steel and iron industries

⁸ Nepalese business group involved in Information Technology sector.



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