IME General Insurance Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed equity Shares (Rights Issue) of IME General Insurance Limited

Instrument/Facility	Issue Size	Rating Action (March 2018)
Rights shares issue	NPR 432 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned **"[ICRANP] IPO Grade 4"**, indicating below average fundamentals to the proposed rights issue (equity shares) amounting to NPR 432 million of IME General Insurance Limited (IGI). 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 positioning within the grading categories concerned. Thus, the grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4 respectively. IGI is proposing to come out with 80% rights issue of 4,320,000 numbers of equity shares of face value NPR 100 each, to be offered to for the existing shareholders at par. The proposed issue is being made to augment the capital base to meet new paid-up capital requirement[1] set by the regulator.

The grading takes into account steady improvement in the performance of IGI after resumption of business in June 2015, under new set of owners and management team. Premium growth of IGI has remained healthy in the past 2.5 years which has enabled the company to improve its market share (~4% share in industry GPW in FY2017). IGI's underwriting performance over the period has also remained good (combined ratio of 57% in FY2017), aiding overall profitability of the company (return on net worth of ~25% in FY2017). ICRA Nepal takes note of the rebranding efforts of IGI (formerly NB Insurance Company Limited-NBIL) which is likely to augur well for the marketing efforts of the company, given the eroded reputation of NBIL in the industry. The grading also factors in adequate reinsurance arrangement including catastrophic coverage and improvement in solvency position following recent equity injections (NPR 390 million fresh equity raised in past 12-18 months). The grading also factors in the existence of low insurance penetration in Nepal – providing enough space for future growth.

The grading remains constrained by small market share (despite recent improvement), relatively smaller branch network and limited track record of the company since the business resumption in late FY2015. The grading also remains constrained by the low possibility of equity holders receiving dividend payments in FY2018 due to the weak financial profile (accumulated loss of NPR 81 million as of mid-Jan 2018). The grading concerns also emanate from high reliance on motor segment for recent business growth (~92% of net premium written (NPW) in FY2017). Any adverse change in motor segment performance is likely to have a major impact on IGI's underwriting performance and overall profitability. The grading also remains constrained by stiff competition from larger and established players in the industry and uncertain operating environment that the financial institutions in Nepal are facing.

In terms of portfolio mix, motor segment (87% of NPW over past 12-18 months) towers over all other segments like aviation (4%), fire (4%), engineering (2%), marine (1%) and miscellaneous (1%). High premium growth of IGI in recent years (84% growth in FY2017 and 35% annualised growth in H1FY19) is mainly contributed by growth along motor segment. Incrementally, over the short run, the management expects the business to remain driven by motor and fire segments. However, given the slackness in banking sector credit growth, premium growth of IGI could get impacted as IGI derives sizeable business from banking agents (~15% of GPW in FY2017). Incremental growth of IGI is likely to come from leveraging the market reputation and business network of promoter groups as well as geographical expansion through addition of new branches.

Despite reporting profits during past 3 financial years, IGI is yet to recover the losses accumulated in the past, over the years of dismal performance. However, the quantum of loss has come down significantly (from ~NPR 186 million in FY2015 to NPR 105 million in FY2017 and NPR 81 million in H1FY2018). Nonetheless, the prospect of dividend to equity holders remains low for FY2018 which has been

[1] NPR 1 billion for general insurance companies to be met by mid-July 2018.

factored into the grading. During FY2017, IGI's underwriting surplus grew to NPR ~90 million (combined ratio of 57%) from ~NPR 28 million in FY2016 (combined ratio 49%), backed by high premium growth (84%) and low claims ratio (34%) in FY2017. Relatively steady combined ratio on an increased premium base augurs well for incremental underwriting performance of the company. Following repeated equity infusion and increased risk bearing capacity, IGI is gradually increasing the premium retention ratio (48% in FY2017 vs. 32% in FY2016) which is also likely to support the underwriting surplus going forward. During FY2017, IGI reported an improvement in profitability with PAT/ATA of 8.1% vs. 4.3% in FY2016. However, due to sizeable equity injection made in the interim, return on net worth diluted to ~25% in FY2017 from ~33% in FY2016 (net worth grew by ~270% in FY2017).

Supported by capital infusion and progressive internal accruals, IGI's investment portfolio has grown to NPR 852 million in mid-Jan 2018, ~80% of which is in the form of fixed deposits with banks and financial institutions (BFIs). Given the recent uptick in the interest rates across banking industry, incremental yield on investment has improved (from ~4% in FY2017 to ~7% in H1FY2018). This is likely to support the profitability profile of IGI going forward.

IGI has been maintaining mandatory technical reserves and restricted reserves[2] as prescribed by the regulatory authority (Insurance Board of Nepal). As on mid-Jan 2018, these reserves accounted for 58% of net worth (vs. 89% in FY2017). IGI's solvency margin as on mid-Jan 2018 stood at ~2.75 times, adequate vis-à-vis required minimum of 1.5 times. Solvency position of the company is likely to improve further after the proposed rights issue.

Company Profile

Operating since January 2001, IME General Insurance (erstwhile NB Insurance Company Limited) is among the younger players in the non-life insurance industry of Nepal (11th among the 17 non-life insurers[3]). The company has been providing the Non-Life Insurance Service in Fire, Motor, Marine, Aviation, Engineering and Miscellaneous segments. The company's registered office is in Naxal, Kathmandu and as on mid-Jan 2018, it has 26 branches spread across the country for procuring business and providing aftersales services.

IGI's business was suspended by the Insurance Board between December-2013 and June-2015, following the revelation of financial irregularities by the then major promoter group- NB group. The suspension of business resulted in closure of many branch offices, large scale turnover of staffs and loss of market share. Under the new set of ownership and management, IGI is gradually reviving its business and regaining the market share. As a part of rebranding effort, the name of the company has been changed to IME General Insurance (from erstwhile NB Insurance Company Limited) in November 2017.

IGI has 80:20 promoter-public shareholding ratios with major shareholding from promoters related to IME group (~45%), Laxmi Group (~7%), Lomus pharmaceutical group (~2%) in addition to institutional promoter holding by Nepal Bangladesh (NB) Bank ~10%. The shareholding of erstwhile NB group has diluted to ~7.5% as on mid-Jan 2018. During FY2017, IGI reported a profit after tax of NPR 83 million over asset base of NPR 1,034 million as against profit after tax of NPR 30 million over assets base of NPR 703 million in FY2016. During H1FY2018, IGI has reported profit after tax of NPR 48 million over assets base of NPR 1,297 million. In terms of technology platform, IGI has implemented "Insure" in its corporate office. The computerized information has been centralized across all the branches.

March 2018

For further details please contact:

[2] Technical reserve includes (reserve towards unpaid claims & unexpired risk); restricted reserves include Insurance reserve and Insurance fund maintained as per regulatory requirement.

[3] Including a government owned company, a foreign joint venture and two branches of Indian general insurer.

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