

United Insurance Company Limited

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

	ISSUE SIZE	RATING ACTION
Rights Issue Grading	NPR 151.2 million	[ICRANP] IPO Grade 3 (Assigned)

ICRA Nepal has assigned “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed rights issue amounting NPR 151.2 million of United Insurance Company Limited (UIC). 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 UIC is proposing to come out with 150% rights issue of 1,512,000 numbers of equity shares of face value NRs 100/- each to be issued to its existing shareholders at par.

The grading takes into account UIC’s long track record, strength of major promoter groups (Chaudhary Group & NE group), strong BoD & management team, fair profitability profile backed by improvement in underwriting performance across major segments and good claims paying ability. However, the grading is constrained by small market share of UIC, stiff competition from other large players in the general insurance industry, greater dependence on corporate clients, low retention of premium affecting underwriting performance and low general insurance industry penetration in Nepal offering limited scope for product innovation/diversification. Viewed overall, UIC’s performance in recent years continues to improve under new set of experienced management team with greater focus towards better underwriting practices. However, sustainability of the same on enhanced scale of operations, given the inherent limitations in insurance industry in Nepal, remains to be seen.

UIC’s growth in revenue from premium earnings lagged behind the industry average; with only 4% CAGR¹ growth in Net premium earnings over past 3 years. The growth rate suffered from drive to restructure the portfolio mix following the introduction of new management team in 2011; which included curtailing the non-profitable segments, retaining more business along profitable segments like fire and marine and bringing down the dependence on motor segment. As a result, despite modest overall premium growth, the growth in net premium earnings (NPE) along profitable segments in past 3 years has remained healthy with Fire (23% CAGR) and Marine (77% CAGR) (albeit, on a low base). Over the same period, net premium earnings in motor portfolio saw a marginal decline of 1% CAGR. The focus towards profitable segments along with decline in claims ratio (from 72% of NPE² in FY12 to 38% in FY14) brought about by stringent underwriting measures reflected in notable underwriting surplus for UIC in FY13 and FY14, which was negligible or negative in preceding years.

In terms of portfolio mix, motor segment dominates the business profile of UIC; in line with the overall industry trend. Motor segment accounted for 76% of NPE in past 2 years followed by Marine (13%), Fire (6%), Miscellaneous (3%) & Engineering (2%). The proportion of fire portfolio remains subdued as compared to industry average while that of marine remains higher than industry average. In recent years, these two segments (with highest underwriting surplus per unit premium earnings) are growing at the expense of motor and other segments, thereby aiding the insurance profitability. Motor segment, the largest segment of UIC, has generated underwriting surplus in past 2 years; mostly due to fall in claims ratio for the segment (from 73% of NPE in FY 12 to 54% in FY14). Profitability indicator³ for UIC’s motor segment remains better than the industry average in past 2 years which along with the recent growth trend of fire and marine segments; augurs well for incremental profitability. However, sustainability of recent turnaround in the performance of UIC remains to be seen.

¹ Compounded Annual Growth Rate

² Net Premium Earning

³ Underwriting surplus/Net premium earnings

For FY14, UIC reported Profit after Tax (PAT) of NPR 56 million over NPE of NPR 172 million corresponding to PAT/Net worth of 23% and PAT/ATA of 6.4%. The corresponding return indicators in FY13 were 14.5% and 4.3% respectively. The overall profitability in FY14 was boosted by the underwriting surplus of NPR 35 million (combined ratio 80%) compared to NPR 8 million (Combined ratio 94%) in FY13. However, the underwriting surplus of UIC remains constrained by high management expense ratio (45% of NPE in FY14) compared to industry average (~35%).

Net investment income of UIC for FY14 stood at NPR 45 million (24% of net premium written in FY14 and corresponding to a healthy yield of 9.86%), largely contributing to the overall profitability of UIC. The quality of investment portfolio of UIC remains adequate, with 72% of portfolio as on mid-July-14 composed of investments in Government securities & fixed deposits with Commercial banks and Development Banks compared to 62% in FY13. The investment portfolio remains by and large compliant to the investment guidelines prescribed by the regulator. UIC has been maintaining the mandatory technical reserves⁴ as prescribed by the regulatory authority (Insurance Board of Nepal). As on mid-July-14 the said reserves accounted for 68% of net worth of UIC.

Company Profile

United Insurance Company Ltd (UIC), a public limited company established in September 1993, is the 5th private sector general insurer in Nepal. UIC is relatively small company with ~4% of market share in terms of General Insurance Industry's Gross Premium Written in 2013-14. Currently, UIC is in operation with 15 branches (as of July 2014) across the nation for procuring business and extending after sales services.

UIC has 60:40 promoter-public shareholding ratio as on mid-July-14. The major promoters of UIC includes Chaudhary Group (brand name CG- leading business house in Nepal headed by Mr. Binod Chaudhary⁵) with 17% holding and NE group (led by prominent business person and investor Mr. Rabi Bhakta Shrestha) with 24% holding. UIC reported a profit after tax of NPR 56 million during 2013-14 over policyholder fund base of NPR 865 million as of mid-Jul-14 compared to the profit after tax of NPR 27 million during 2012-13 over policyholder fund base of NPR 635 million as of mid-Jul-13. In terms of technology platform, UIC has implemented locally designed software "Ensure" in its corporate office. The computerized information has been centralized across all the branches.

December 2014

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⁴ Reserves for Unexpired risks & Reserves for unpaid claims outstanding

⁵ Chairman of CG group- a conglomerate of privately held companies; with stakes in manufacturing and service industry encompassing Banking & finance, real estate, food business, electronics, automobiles, hotels & hospitality, etc. With an estimated net worth of US \$1.2 billion, Mr Chaudhary remains the only Nepalese person to be enlisted in Forbes' list of world's billionaire.

