

Prabhu Insurance Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed rights issue (equity shares) of Prabhu Insurance Limited

INSTRUMENT/FACILITY	ISSUE SIZE	RATING ACTION (JANUARY 2017)
Rights issue (Equity)	NPR 192.5078805 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 192.5078805 million of Prabhu Insurance Limited (PRIN). 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. PRIN has proposed 50% rights issue of 1,925,078.805 numbers of equity shares of face value NPR 100, to be issued to the existing shareholders at par.

The grading considers long track record and shared brand name with ventures under Prabhu Group². The grading also factors in the institutional promoter support in the form of Employees Provident Fund, Nepal (with 15% shareholding). The promoter support was further strengthened after the acquisition of ~39% equity stake in PRIN by promoters associated with Prabhu Group during FY2013-14 & FY2014-15. The grading also considers improvement in underwriting performance, backed by higher premium retention (57% in FY2015-16) and decline in commission expense; leading to fair profitability indicators (RoNW³ of ~21% in FY2015-16).

However, the grading is constrained by the company’s modest business growth (Gross premium written (GPW) growth of CAGR 9% during FY2013-16 vs industry average of 21%) indicating weak competitive positioning among peers. The grading is also constrained by high reliance on institutional clients for premium earnings indicating weak retail presence (despite 19 branches as on mid-October 2016⁴). The impact of April/May 2015 earthquake on PRIN’s claims paying ability, solvency position and profitability was cushioned by adequate catastrophic reinsurance arrangements. However, delayed recovery of claims from reinsurers post-earthquake undermines the level of reinsurance support available with PRIN in case of similar catastrophe in future. The grading is also limited by declining yield on investment portfolio which could affect incremental returns and stiff competition from larger players in the Nepalese general insurance industry.

PRIN is a medium sized player in Nepalese general insurance industry, accounting for ~5% share in industry GPW in FY2015-16. Over past 3 years, PRIN’s net premium written (NPW) registered a modest growth of CAGR 5%. PRIN’s earning profile is highly concentrated towards Motor segment which remains a concern. Premium retention ratio of PRIN (past 3 years’ average of 54%) remains marginally higher to industry average, partly due to higher proportion of motor business and higher premium retention associated with the segment. Underwriting surplus of PRIN has improved in recent years registering a CAGR growth of 37% during FY2013-16; backed by growth in net premium earnings (due to higher premium retention), commensurate decline in net claims ratio and decline in commission expense ratio.

PRIN’s portfolio mix is dominated by the motor segment (82% of net premium earnings (NPE) over past 2 years) followed by Fire (9%), Miscellaneous (6%) and others. Proportion of motor portfolio has moderated (albeit at slow pace) over the years to the benefit of fire and miscellaneous segment. The ability of the company to diversify the portfolio going forward will have a bearing on growth as well as profitability profile.

PRIN’s underwriting surplus in FY2015-16 (NPR 160 million) has reported healthy growth over FY 2014-15 (NPR 13 million), supported by increased premium retention (from ~50% in FY2014-15 to ~57% in FY2015-16). Overall combined ratio in FY 2015-16 stood at 60%, improving from 96% in FY 2014-15,

¹ Includes rights and further public issue of equity shares

² Group led by Mr. Devi Prakash Bhattachan. The group started from inward remittance business under brand name “Prabhu Money Transfer”. In addition to the brand name PRIN and Prabhu Bank Limited also have common chairman of the board of directors.

³ Return on networth

⁴ Mid-Oct-16 data are unaudited

backed by sharp improvement in claims ratio and improvement in reinsurance commission income. However, falling investment performance of PRIN led to much slower growth in net profits during FY2015-16 (NPR 149 million, corresponding to RoNW of ~21%) vis-a-vis FY 2014-15 (NPR 96 million, corresponding to RoNW of ~17%).

Investment portfolio of PRIN stood at NPR 561 million as on mid-October 2016 (NPR 499 million as on mid-July 2016). The portfolio conforms to the broad guidelines prescribed by the regulator (Insurance Board of Nepal); with major concentration towards government securities and fixed deposits with banks. PRIN has been maintaining the mandatory technical reserves and restricted reserves⁵ as prescribed by the regulatory authority. As on mid-October 2016 the said reserves accounted for 85% of net worth of PRIN. PRIN's solvency margin on mid-July 2016, calculated as per regulatory directive, stood at ~3 times vis-a-vis a regulatory minimum requirement of 1.

Company Profile

Prabhu Insurance Limited (PRIN), erstwhile Alliance Insurance Company Limited, has been operating as a general insurance company since 1996. The name was changed to Prabhu Insurance Limited with effect from 9th April 2015, following the acquisition of majority stake in Alliance Insurance by individuals/private companies affiliated to Prabhu Management Group. Despite long track record in the non-life insurance industry⁶, PRIN is among the smaller player in the industry with ~5% of market share in terms of Gross Premium Written in FY 2015-16. As of mid-Oct 2016, PRIN is in operation with 19 branches spread across the nation for procuring business and extending after sales services.

PRIN has 51:49 promoter-public shareholding ratios with major shareholding from Prabhu Group at ~39% and Employees Provident Fund, Nepal at 15%. PRIN reported a profit after tax of NPR 149 million during FY2015-16 over an asset base of NPR 1,240 million as on mid-July-16 as compared to NPR 96 million during FY2014-15 over assets base of NPR 1,119 million as of mid-Jul-15. During Q1FY17, PRIN reported profit after tax of NPR 20 million over asset base of NPR 1,322 million as on mid-Oct-16. In terms of technology platform, PRIN has implemented "GapsGo" in its corporate office. The computerized information has been centralized across all the branches.

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⁵ Technical reserve includes (reserve towards unpaid claims & unexpired risk); restricted reserves include Insurance reserve and Insurance fund appropriated from annual profits.

⁶ Comprising of 17 players, including two branches of foreign insurers and one joint venture with foreign insurer.