

## NB Insurance Company Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Equity Shares (Rights Issue) of NB Insurance Company Limited

Instrument/Facility	Issue Size	Rating Action (May 2016)
Rights shares issue	NPR 120 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 120 million of NB Insurance Company Limited (NBIL). 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. NBIL is proposing to come out with rights issue of 1,200,000 numbers of equity shares of face value NRs 100/- each to be issued to the general public at par. Although listed in Nepal Stock Exchange, the trading of NBIL shares remains halted since Dec-2013 on the request of Insurance Board of Nepal<sup>1</sup>. The proposed issue is being made to augment the capital base to meet the elevated regulatory capital requirements.

The grading factors in the significant erosion in NBIL’s market share/reputation following the charges of financial misappropriation levelled against the erstwhile promoters which lead to temporary closure of NBIL’s business operations (between December 2013 and June 2015). ICRA Nepal notes of the management’s plans to re-brand the company following the completion of the rights issue which will establish new promoter group (associated with IME group) as the major shareholder in the company.

The grading also remains constrained by the low possibility of equity holders receiving dividend payments in the medium term (4-5 years) due to the weak financial profile (sizeable losses of NPR 175 million as on Apr-16) and poor solvency indicators (mainly due to erosion in net worth over the years) of the company. Although the proposed equity injection will strengthen the capital base to some extent, the company is likely to require further capital injection in addition to the internal accruals in order to improve its capitalisation levels. These concerns stand partially mitigated by the strength of the new promoter group<sup>2</sup> (associated with IME group) and the company’s experienced Board of Directors<sup>3</sup> and its senior management team. The grading also factors in the existence of low insurance penetration in Nepal-providing enough space for future growth.

Before the business operations were suspended by the Insurance Board in Dec-13, NBIL was a small player with 2% share in industry GPW<sup>4</sup> during FY 2012-13. Due to the temporary suspension of NBIL’s business operations, NBIL took a sizeable hit and reported GPW of NPR 42.9 mn during ~4.5MFY14<sup>5</sup> from NPR 138mn during FY13. The suspension over the business operations was lifted on Jun-15 after new promoter group (associated with IME group) took over sizeable stake and a new board of directors was formed with major representation from new promoter group (associated with IME group). During 9MFY16, under its new management and ownership, NBIL has shown nascent signs of recovery by

<sup>1</sup> Last traded price of NBIL shares stood at NPR 80 per share (in Dec-2013) with face value of NPR 100.

<sup>2</sup> New promoter group consist of Hathway Investment (associated company of IME group) and other associated person with IME group. New promoter group took over the stake of NBIL by purchasing the shares of NBIL auctioned by NB Bank and NCC bank (both banks promoted by NB group). The groups holds ~41% stake in NBIL as on Apr-16 which is expected to increase to >50% post rights issue due to renouncement of rights by NB group (erstwhile major promoters) in favour of new promoter group (associated with IME group).

<sup>3</sup> New Board with major representation from new promoter group (associated with IME group) with significant experience in Nepalese financial system.

<sup>4</sup> Gross premium written

<sup>5</sup> NBIL was operated for ~4.5 months during FY14 and ~2 months during FY15 due to business suspension imposed by insurance board.



winning business (GPW during this period surpassing the same earned during each of past 5 years); although ~44% GPW concentrated in the aviation sector.

In terms of portfolio mix, NBIL reflects the broad industry trends with highest Net premium earnings from motor segment (~87% of NPE<sup>6</sup> during 9MFY16) followed by miscellaneous (5%) and fire (3%) segments. Going forward, over the short run, the management believes the business is likely to remain driven by motor and fire segments. To that end, NBIL is likely to leverage the market reputation and business network of new promoter groups as well as establish bank assurance relation with the players in banking industry to ensure higher continuity as well as growth in business volumes. However, the ability of NBIL management to achieve the same, remains to be seen.

During FY14 and FY15, the financial performance of NBIL remained dismal on account of business closure. Even in the years prior to the suspension of business the profitability profile of NBIL was weak leading to accumulation of losses over the years. As on Apr-16, NBIL's accumulated losses moderated to NPR 175 million from NPR 204 million as on Jul-14 owing to the improvement in profitability in FY15. NBIL has reported NPR 6 million in underwriting surplus (combined ratio of 74%) during 9MFY16, its best in the last 5 years, with net profits of NPR 22 million. Going forward, NBIL plans to adopt a cautious growth strategy by focussing on the retail segment and improving upon its claims and retention ratios. The company's ability to achieve targeted business growth, limit loss ratio and attain scale is likely to improve NBIL's internal accruals.

Due to its small asset base, NBIL's investment portfolio remains stunted at NPR 154 million as on Apr-16, more than 70%<sup>7</sup> of which is in the form of equity investments in Nepal Reinsurance Company (which has no established dividend track record). As a result, the prospect of dividend income from investments over the next 1-2 years remains weak. Therefore, NBIL's profit levels over next 1-2 years will be mainly driven by the underwriting surplus. The growth of its investment portfolio over the short term will depend on the ability and willingness of its promoters to inject fresh equity into the company. NBIL has been maintaining mandatory technical reserves and restricted reserves<sup>8</sup> as prescribed by the regulatory authority (Insurance Board of Nepal). As on mid-Apr-16 the technical reserves accounted for 101% of net worth of NBIL. NBIL's solvency margin as on mid-Apr-16 stood at ~0.13 times, well below the required minimum of 1 time, mainly due to low paid up capital vis-à-vis regulatory minimum and erosion in net worth over the years.

### **Company Profile**

Operating since January 2001, NBIL is among the younger players in the non-life insurance industry of Nepal (11th among the 17 non-life insurers<sup>9</sup>). 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 located in Naxal, Kathmandu and as on Apr-16, it has 12 operational branches<sup>10</sup> (out of total 17 registered branches) spread across the country for procuring business and providing aftersales services.

NBIL's business was suspended by the Insurance Board between December-13 and June-15, following the revelation of financial irregularities by 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. Before the malpractices were uncovered leading to business suspension and consequent downfall in business, NBIL accounted for ~2% market share in gross premium among the Nepalese general insurers (FY13). Under the new set of ownership and management, NBIL is looking for revival of business going forward.

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<sup>6</sup> Net premium earned

<sup>7</sup> As opposed to Insurance board's ceiling of 10%

<sup>8</sup> Technical reserve includes (reserve towards unpaid claims & unexpired risk); restricted reserves include Insurance reserve and Insurance fund maintained as per regulatory requirement.

<sup>9</sup> Including Rastriya Beema Company Limited, a government owned general insurer; spinned off from Rastriya Beema Sansthan a government owned insurer working in life as well as non-life domain.

<sup>10</sup> Remaining branches are in the process of revival after being dysfunctional during the period of suspension of business.



NBIL has 80:20 promoter-public shareholding ratios with major shareholding from new promoter group (associated with IME group<sup>11</sup>) ~43% and NB Bank ~10%. The Insurance board of Nepal has mandated renouncement of rights shares by the members of NB group in favour of new promoter group (associated with IME group). Therefore, following the rights issue, the shareholding of new promoter group (associated with IME group) in NBIL is likely to increase to >50%; at the expense of NB group's holding being diluted from current ~25% to ~13%. NBIL has already received the equity commitment of new promoter group (associated with IME group) towards the proposed rights issue as of mid-Apr-16. NBIL reported a profit after tax of NPR 22 million during 9MFY16<sup>12</sup> over assets base of NPR 497 million on Apr-16. During FY15, NBIL reported profit after tax of NPR 38 million (mainly backed by dividend income of NPR 64 million) over assets base of NPR 429 million on Jul-15. In terms of technology platform, NBIL has implemented "Insure" in its corporate office. The computerized information has been centralized across all the branches.

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<sup>11</sup> Mainly through Mr Chandra Prasad Dhakal (Executive chairman of the group as well as Chairman of Global IME bank Limited rated A- for issuer rating by ICRA Nepal), Hathaway Investment and other individual associated with the IME group. The group has stakes in banking, hospitality, energy and remittance sectors.

<sup>12</sup> Unaudited financial report