

GENERAL INSURANCE COMPANY NEPAL LIMITED

Issue Units: 30,00,000 units

Minimum Units: 10

Issue Open Date: 11/06/2077

Rating: CARE NP IPO GRADE 4

Issue Price: Rs.100

Maximum Units: 10,000

Issue Close Date: 14/06/2077

Issue Manager: NIBL Ace Capital Ltd.

Chairman: Mr. Kunal Kayal

General Manager: Mr. S. K. Tamot

Valuation – Embedded / Appraisal Valuation Model

(A)NAV (as on Q4 76/77) 114.68

(B)Capitalized Projected Earnings 319.59

Value per share (A+B) 434.27

Utilization of IPO Proceeds

Investment in F.D. of BFIs Rs.20,70,00,000

Inv. in Govt. Guaranteed Securities Rs.6,00,00,000

Branch expansion and Infrastructure Dev. Rs.30,00,000

Investment in Productive Sector Rs.3,00,00,000

Capital Structure

Pre IPO

Post IPO

Authorized Capital Rs.1000M Rs.1000M

Issued Capital. Rs.1000M Rs.1000M

Paid-up Capital Rs.700M Rs.1000M

Promoter / Public Ratio 70% / 30%

Financial Highlights (in millions) - As per NFRS

FY	Q476/77	77/78E	78/79E	79/80E	80/81E
Cap.	700	1000	1000	1000	1000
Ret. Earning	-	1.57	20.70	56.92	92.34
Ins. Fund	51	120.5	219.5	370.9	576.9
Net Worth	802.8	1151	1279	1482	1744
Ins Cont Liab.	104.8	618.29	1036.6	1367.9	1706.4
N. Premium	209.6	506.58	666.97	833.71	1042.14
Inv. Income	52.9	157.31	194.17	214.89	222.30
T. Revenues	94.3	737.49	952.62	1162.9	1407.3
N. Claim Paid	76.9	49.94	29.36	124.21	145.26
Op. Expenses	43.7	199.46	236.47	282.01	335.74
N. Profits	50.6	173.79	198.05	302.71	412.03

Ratios	Q476/77	77/78E	78/79E	79/80E	80/81E
EPS	7.23	17.38	19.81	30.27	41.20
BVPS	114.68	115.19	128.00	148.27	174.47
ROE	6.30%	15.09%	15.47%	20.42%	23.62%
N. Profit / N. Premium	24.14%	34.31%	29.69%	36.31%	39.54%
G. Premium Growth	-	-	24.30%	25.00%	25.00%
G.Claim / G.Premium	36.36%	10.92%	8.82%	13.30%	12.89%
Inv. Yields	-	12.61%	12.97%	11.78%	10.49%
Loss Ratio	-	9.86%	4.40%	14.90%	13.94%
Expense Ratio	-	81.27%	91.29%	66.96%	58.35%
Combined Ratio	-	91.13%	95.69%	81.86%	72.29%
Solvency Ratio	-	4.61	5.12	5.93	6.98
Net Leverage	-	1.39	1.77	1.96	2.08

* Computation is made as information on hand.

Although the Projected Reports entails no Bonus/Rights Issues, Projection states 5%, 7%, 10% and 15% Cash Dividends in FY 77/78, FY 78/79, FY 79/80 and FY 80/81 respectively. Last Audited Report of FY 75/76 (as per NFRS) reflects loss of Rs.7.23M while Q4 76/77 reported Net Profit of Rs.50.6M, showcasing the fundamental improvements over the period.

Snapshots...

■ **About the Issue:** Out of the offered 30,00,000 units, 4% i.e. 1,20,000 units is allocated to the employees, 5% i.e. 1,50,000 units is reserved for Mutual Funds and remaining 27,30,000 units are available for General Public.

■ **About the Company:** Incorporated on 10/08/2064; Licensed by Insurance Board on 29/02/2075 and carrying Non-Life Insurance Business from 06/03/2075. Head office located at Hattisar, Kathmandu and services offered through 40 Branches scaling to 14 Districts, reaching out to 57,803 insured by Q4 76/77.

■ **Rationale of Rating by Rating Agency:** Assigned CARE NP IPO GRADE 4 by CARE Ratings Nepal Ltd. indicates the company Below Average Fundamentals. The Rating Agency also assigned 'CARE-NP BB+ (Is)' rating to the Issuer, which indicates moderate risk of default regarding timely servicing of financial obligations. Rationale put are – lower solvency ratio, moderate financial risk profile with high combined ratio, concentrated business etc.

■ **Dividend and Capital Plan:** Company, in its past 2 years of operation, has not distributed any dividend. The Projected Reports indicates no capital increments i.e. no anticipation of Bonus/Right shares. However, Company projects to distribute Cash Dividends of 5%, 7%, 10% and 15% in FY 77/78, FY 78/79, FY 79/80 and FY 80/81 respectively.

■ **Financial Summary:** Audited Report of FY 75/76 detailed the Net Loss of Rs.7.23M while deficit Retained Earning of Rs.33.74M. Quarterly check of Q4 76/77 reports Net Profits of Rs.50.6M and maintains R&S of Rs. 46.6M, both subject to adjustments under NFRS. GPW and NPW stands Rs.536.9M and Rs.209.6M i.e. 61.47% and 27.34% yearly growth respectively. > ½ Net Profit is contributed by Interest on Deposits at BFI's and Govt. securities which also signal huge allocation of capital to such financial assets. Net claim paid is Rs.76.9M and 85% increment in no. of policyholders. Company is fully equity financed and after the IPO issue, the below 1.5 Solvency ratio is expected to uplift. Company however stands competitively behind covering < 3% market on premium basis. Metrics like EPS, BVPS, ROE etc. also lagged to Industry. Materiality of Projections made can put the company par to current Industry averages but stressing the current COVID scenario, the chances are dim.

■ **Risk Factors and Impact of COVID-19:** Business/Policies/Premiums are highly concentrated on Motor Insurance. Likely slowdown in sell of Motor Policies, fall in BFI's Fixed Deposits Interest Rates could add adversity to its revenues. Challenges in Premium collections on Policies do remain.

■ **Valuation & Assumptions:** We have borrowed the concept of Embedded / Appraisal valuation approach (commonly used in Life Insurance), but the probability remains for deviation from the correct application of methods given the data scarcity. The projected profitability of the company is used and our actuarial assumed discount rate is 8.5%.

Disclaimers: Not to be inferred as Investment recommendation

IPO Listing Range: Rs.114.68 – Rs.344.04