

NEPAL RE-INSURANCE COMPANY LIMITED.

2nd Chaitra, 2076

Issue Units: 1,60,00,000 units
Issue Price: Rs.100

Min. Units: 10
Max. Units: 10,000

Issue Open Date: 04/12/2076
Issue Close Date: 07/12/2076

Rating: ICRA NP IPO Grade 2
Issue Manager: RBB Merchant Banking Ltd.

Chairman: Mr. Mahesh Kumar Guragain

Chief Executive Officer: Mr. Shankar Kumar Rayamajhee

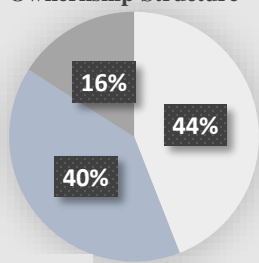
Valuation – Embedded Valuation Model

(A) NAV (as on FY 75/76)	Rs. 149.56
(B) Capitalized Earnings	Rs. 158.78
Value per share (A+B)	Rs. 308.34

Capital Structure (post IPO)

Authorized Capital	Rs. 15,00,00,00,000
Issued and Paid Up Capital	Rs. 10,00,00,00,000

Ownership Structure



■ Nepal Government
■ Insurance and Other Institutions
■ General Shareholders

Utilization of IPO Proceeds:

1. Goods and Services	8,00,00,000
2. Infrastructure and Skill Development	32,00,00,000
3. Investment and Risk Management	1,20,00,00,000

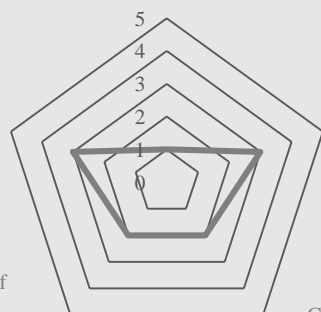
Financial Highlights (in millions)

FY	74/75A	Q475/76	76/77E	77/78E	78/79E
Cap.	7177.5	8400	10000	10500	11025
R. Earning	1076.45	1611.84	1882.40	1439.29	1114.76
Ins. fund	1113.64	1584.59	2090.87	2670.71	3309.93
Net worth	10152.9	12563.63	15358.4	16168.2	17151.97
N. Premium	3324.38	5527.41	6781.58	7798.83	8968.65
Net Profits	1007.64	1177.85	1194.84	1309.74	1508.76

Ratios	74/75A	Q4 75/76	76/77E	77/78E	78/79E
EPS	14.04	14.02	11.95	12.47	13.68
NWPS	141.45	149.56	153.58	153.98	155.57
Return on NW	9.93%	9.37%	7.77%	8.09%	8.79%
Combined ratio	96.62%	95.35%	98.40%	96.76%	95.16%
Solvency ratio	15.27	11.36	11.32	10.37	9.56
Op. leverage	0.33	0.44	0.44	0.48	0.52

Porter's 5 Forces Analysis

Threat of New Entrants "Low"



Threat of Substitute Products/Services "Moderate"

Bargaining power of Insurers "Moderate to Low"

Bargaining power of other Re-insurers "Moderate"

Competitive Rivalry "Moderate to Low"

With coverage of below a quarter country's population, the insurance industry is still an untapped one, fueled with both the prospects and challenges. Nepal Re-insurance Co., being the sole Reinsurer in the country, enjoys the throne privileged with policy like 20% mandatory reinsurance by local insurance businesses.

Snapshots...

- About the Issue:** Out of the offered 1,60,00,000 units, 0.46% i.e. 73,500 units have been allocated to the employees, 5% i.e. 8,00,000 units is reserved for Mutual Funds and remaining 1,51,26,500 units are available to General Public.
- About the Company:** Nepal Re-Insurance Co. Ltd. (Nepal Re.), an undertaking of GoN was incorporated on 7th Nov. 2014 and was formally inaugurated on 22nd Dec. 2014. The company is established in the PPP (Public Private Partnership) Model with an objective to provide re-insurance services to Companies operating Insurance (both Life and Non-life) and Re-insurance business, in and out of the country.
- Rationale of Credit Rating:** ICRA Nepal has assigned [ICRANP] IPO Grade 2, indicating above-average fundamentals. The grading factors in Nepal Re's strong solvency profile, adequate reinsurance (retrocession) arrangements, good underwriting performance, growing both treaty and facultative reinsurance business in & out of the country and likely regulatory supports, though grading is constrained by limited track records, significant business & geographical concentrations.
- Financial summary:** The Company has reported profitable financial statements since its initial FYs. Premium collection has soared by the end of FY 75/76 (unaudited), thanks to 20% direct cession policy and foreign business flow. Company has ceded near 20% of its assumed insurance risks while around 35% of premiums outflow for claim settlement. Higher combined ratio shows significant premiums consumed by expenses and claims payouts, implying investment incomes as other major revenue contributors. Similarly, more than 90% of premiums flows from Non-life sectors. Higher solvency ratio (calculated as ASM/RSM w/ 20% assumption) indicates company maintaining sufficient buffer against liabilities/claims. From FY 2074/75, Company has adopted NFRS in its preparation of FS.
- Dividend expectation:** The Reinsurance Management directives 2071 specify that the company cannot distribute dividend from its R&S for up-to 5 years of its operation. The company is operating in its 6th years, opening door for dividend distributions. Projection shows increment in share capital in FY 77/78 and FY 78/79 by 5% each, implying the Bonus possibility.
- Risk factors:** As noted by Rating Agency, 90% of company business is aided by the local insurers while 60% premium is accounted from ten clients, the company has huge concentration (both geographic and customers) risks. As it is the only Reinsurer in the country, doubt exist how the company with its limited capital adequacy will honor the claims especially at times of stress like the recent outbreak of Coronavirus.
- Valuation and assumptions:** We have borrowed the concept of Embedded valuation approach, but the probability remains for deviation from the correct application of methods. The projected profitability of the company is used and our actuarial assumed discount rate is 8%.

IPO Listing Range: Rs.149.56 – Rs.448.68

Disclaimers: Not to be inferred as Investment Recommendation.