

**Grading Rationale**

**IME Life Insurance Company Limited**

**Grading**

Particulars	Amount (Rs. In Million)	Grading	Grading Action
Initial Public Offer	600.00	CARE-NP IPO Grade 4 [IPO Grade Four]	Assigned

*The explanatory notes regarding the Grading symbols of CARE Ratings Nepal Limited (CRNL) are attached as Annexure 1.*

CRNL has assigned grading of ‘CARE-NP IPO Grade 4’ to the proposed Initial Public Offer (IPO) of IME Life Insurance Company Limited (ILIC). ‘CARE-NP IPO Grade 4’ indicates Below Average Fundamentals. CRNL assigns IPO grades on a scale of Grade 1 to Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. CRNL’s IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the ‘fundamentals’ of the issuer. ILIC proposes to issue 6 Mn shares of face value of Rs. 100 each at par aggregating Rs. 600 Mn.

**Detailed Rationale & Key Grading Drivers**

The grading assigned to ILIC is constrained by short track record of its operation, competition from other insurance companies coupled with relatively small market share in the industry. Further, the grading is constrained by lower solvency ratio vis-à-vis the regulatory requirement and concentration in endowment policies. The grading, however, derives strength from strong promoter group, experienced board and management team and moderate financial risk profile with improving combined ratio. Further, grading is supported by ILIC’s adequate geographical coverage through branches and good asset quality of investment book.

**Detailed Description of the Key Grading Drivers**

**Key Grading Weaknesses**

***Short track record and competition from other insurance companies coupled with relatively small market share in the life insurance industry***

ILIC started its operation during FY18 and had its first full year of operation only during FY19 (Unaudited, refers to 12 months period ended mid-July 2019). Currently, there are 19 life insurance companies operating in Nepal (10 companies are licensed and started operation after FY17 only) sharing total Rs. 77 Bn of Gross Premium Written (GPW) as on July 16, 2019; where ILIC shares only 1.19% of total GPW and ranks 14<sup>th</sup> Position (out of 19) reflecting low market share in the industry in comparison to

the established life insurance players. Further, due to increase in number of life insurance companies, ILIC is expected to face high competition to tap the new customers.

***Concentration in Endowment policies***

ILIC's business is focused towards endowment segment and its variation with ~73% of Net Premium Written (NPW) contribution from these policies during FY18 which further increased to ~90% during FY19. Foreign Employment Term Policy contributed ~27% during FY18 which decreased to ~10% during FY19 due to pooling and sharing of foreign employment policies among all insurance companies.

***Low solvency ratio against the regulatory requirement***

Being in the initial years of operations, ILIC has maintained 1.17x solvency ratio during FY18 which is below minimum required ratio of 1.50x. Solvency ratio for FY19 is not yet calculated due to pending actuarial report.

**Key Grading Strengths**

***Strong promoter group***

ILIC is promoted by institutional and individual promoters from different background. The promoter group shares of the company are mostly owned by individuals and institutions related to IME Group with total holdings of 51.61% as on Mid-Jan 2020. IME Group is an established group in Nepal with business across sectors like banking, remittance, hydropower, hospitality etc. Mr. Chandra Prasad Dhakal and Mr. Hem Raj Dhakal, co-founders of IME Group hold 16.16% each in ILIC whereas Global IME Bank Ltd and IME Limited hold 14.29% and 4.49% respectively as on Mid-Jan 2020.

***Experienced board and management team***

ILIC has five experienced members on its board led by Dr. Ram Hari Aryal. Dr. Aryal has overall experience of around 3 decades with 22 years as an employee of Government of Nepal. He has also served as Board of Director in Nepal Rastra Bank (Central Bank of Nepal) for 5 years. The day to day operations of the company is headed by Chief Executive Officer (CEO), Mr. Shreechandra Bhatta, who has overall experience of ~25 years. He is assisted by an experienced team across various functions.

***Adequate geographical coverage through branches***

ILIC has scattered all over the country through its 86 branches as on Mid-Jan 2020 along with 26 sub-branches. The branches are spread over all 7 Provinces of Nepal.

***Moderate financial risk profile and improving combined ratio***

During FY18, company's gross premium written (GPW) was Rs. 537 Mn which increased to Rs. 919 Mn during FY19. Net premium written (NPW) increased from Rs. 499 Mn during FY18 with retention ratio of 92.95% to Rs. 898 Mn in FY19 with retention ratio of 97.70%. Further, NPW increased to Rs. 609 Mn (Rs. 277 Mn during H1FY19) during H1FY20. ILIC reported significant growth in Net Underwriting

result (albeit low base) with Rs. 369 Mn during FY19 over Rs. 124 Mn during FY18. Further, underwriting result improved to Rs. 276 Mn (Rs. 94 Mn during H1FY19) during H1FY20. ILIC reported increase in net profit during FY19 to Rs. 123 from Rs. 116 Mn during FY18. ILIC has reported increase in life insurance fund from Rs. 208 Mn in FY18 to Rs. 667 Mn in FY19. Further, ILIC reported net profit of Rs. 61 Mn during H1FY20 against net profit of Rs. 62 Mn during H1FY19. ILIC's policy continuation rate was at 83% till Mid-Jan 2020.

The loss ratio (claim ratio) of ILIC was at 0.98% during FY18 which increased to 2.73% during FY19. Loss ratio was on lower side due to insignificant claims due to initial year of operation. Further, commission ratio was 20.01% during FY18 which decreased marginally to 19.98% during FY19. Expense Ratio was 47.54% during FY18 which decreased to 34.52% in FY19. On back of these, combined ratio was 68.53% during FY18 which improved to 57.23% during FY19. Further, combined ratio improved to 51.78% during H1FY20 due to improvement in commissions ratio and expense ratio.

#### ***Goods assets quality of investment book***

The company had an investment portfolio of around Rs. 1,772 Mn at the end of FY18 which increased to Rs. 2,291 Mn at the end of FY19 recording a growth of 29.29%. Further, investment portfolio increased to Rs. 2,595 Mn at the end of H1FY20 recording a growth of 13.27% over FY19. Out of the total investment portfolio, ILIC has total investment of 97.81% in fixed and interest bearing deposit at different Bank and Financial Institutions as on July 16, 2019, which are readily marketable in nature which lends sufficient liquidity cushion to the company.

As majority of investments of ILIC are in deposits at different BFIs, investment income of ILIC comprises of interest income from these investments. Investment income has increased by 12.06% during FY19 to Rs. 200 Million mainly due increase in investment portfolio during FY19. Further, ILIC reported investment income of Rs. 120 Mn during H1FY20 recording a growth of 35% over H1FY19. Average yield on Investment of ILIC was 10.82% in FY19.

#### **About the Company**

IME Life Insurance Company Limited (ILIC) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on October 1, 2008 and has obtained license from Insurance Board on July 4, 2017. ILIC has been offering an extensive range of products as Money Back, Endowment, Whole Life, Term Assurance products etc. through its diversified sales network. ILIC is part of IME Group which has business across different sectors including banking, remittance, insurance, hydropower, hospitality etc.

ILIC has branch network of 86 branches, 26 sub-branches and 8,550 insurance agents as of Mid-Jan 2020. ILIC had an asset base of Rs. 2562 Million as on July 16, 2019. The capital structure of the company

comprises of Rs. 1400 Mn as paid up capital from the promoter group and the Rs. 600 Mn is proposed to be issued to the public through IPO.

<b>Analyst Contact</b> Mr. Bidhan Ojha <a href="mailto:bidhan.ojha@careratingsnepal.com">bidhan.ojha@careratingsnepal.com</a> Tel No.: +977-01-4445474	<b>Relationship Contact</b> Mr. Sajan Goyal <a href="mailto:sajan.goyal@careratingsnepal.com">sajan.goyal@careratingsnepal.com</a> Tel No.: 9818832909/+977-01-445472/3/4
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**ANNEXURE I**

**CARE Ratings Nepal – IPO Grading Scale**

<b>CARE IPO grade</b>	<b>Definition</b>
<b>CARE-NP IPO Grade 1</b>	Strong fundamentals
<b>CARE-NP IPO Grade 2</b>	Above average fundamentals
<b>CARE-NP IPO Grade 3</b>	Average fundamentals
<b>CARE-NP IPO Grade 4</b>	Below average fundamentals
<b>CARE-NP IPO Grade 5</b>	Poor fundamentals

*Note:*

Modifiers {"+" (plus)} can be used with the grading symbols 2, 3 and 4. The modifiers reflect the comparative standing within the category.