

**Grading Rationale**  
**United Insurance Company (Nepal) Limited**

**Grading**

Facility/ Instrument	Amount (Rs. In Million)	Grading	Rating Action
Rights Share Issue	725.76	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 [IPO Grade Four]’ to the proposed Rights Share Issue of United Insurance Company (Nepal) Limited (UIC). ‘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. UIC proposes 240% rights share issue of 7.2576 million equity shares of face value of Rs.100 each at par aggregating Rs.725.76 million.

**Detailed Rationale & Key Grading Drivers**

The grading assigned to the rights share issue of UIC is constrained by substantial decline in gross premium written (GPW); net premium written (NPW); net underwriting profit and PAT during FY18 and 9MFY19 impacting Combined Ratio, concentration in motor segment albeit diluting over the period and competition from other insurance companies and relatively small market share in the nonlife insurance industry. The grading also factors in healthy solvency ratio as per old regulations; however, low as per new capital requirements. The grading, however, derives strength from long track record and strong promoter group, experienced board and management team, good asset quality of investment book, improved reserves and surplus position and improved investment income. The grading also noted Supreme Court's interim verdict to hold the action taken by Insurance Board (IB) of Nepal to halt fire business.

**Detailed Description of the Key Grading Drivers**

**Key Grading Weaknesses**

*Substantial decline in Gross Premium Written, Net Premium Written, net underwriting profit and PAT during FY18 and 9MFY19 impacting Combined Ratio*

During FY18, the company’s GPW declined by ~23% from to Rs.477 Mn in FY18 while NPW decreased by ~27% to Rs.273 Mn in FY18. Further, the GPW and NPW of UIC declined by ~8%

and ~4% respectively during 9MFY19 vis-à-vis 9MFY18. Net Underwriting Profit of UIC declined to Rs.169 Mn during FY18 from Rs.224 Mn during FY17, owing to decline in NPW and high net claims incurred during FY18. UIC reported ~63% decline in net underwriting profit with Rs.35 Mn during 9MFY19 as compared to 9MFY18. UIC reported net profit of Rs.168 Mn during FY18 vis-à-vis PAT of Rs.257 Mn during FY17, which further declined by 18% to Rs.76 Mn during 9MFY19 as compared to Rs.92 Mn during 9MFY18. High competition on insurance sector, establishment of new company on the limited market size and changes in management team to some extent has led to decline in overall financial performance of the UIC during FY18 and 9MFY19. On the back of increase in the loss ratio (claim ratio) of UIC to 8.55%, decline in the commission ratio to 8.63% (FY17: 9.91%) and increase in the expense ratio to 49.39% (FY17: 44.22%) during FY18, the combined ratio moderated to 49.30% in FY18. Further, the combined ratio deteriorated sharply to 82.08% during H1FY19 due to high net claims incurred during the said period.

***Healthy solvency ratio as per old regulations; however, low as per new capital requirements***

UIC's solvency margin improved to 3.12x as on July 16, 2018 (UA), based on old capital requirements of Rs.250 Mn, as against the 2.20x as on July 15, 2017. However, as per Insurance Board (IB), every non-life insurer shall maintain paid up capital of Rs.1000 Mn by the end of FY18. Solvency Margin Directives 2071, issued by IB prescribes required solvency margin to be higher of minimum paid up capital or 20% of net premium during the year or 40% of average net outstanding claim for last three years. Accordingly, the solvency ratio of UIC will be 0.78x for FY18, which is below the minimum required ratio of 1.50x. With the increased capital (after right issue), it is expected that UIC's assets base will increase along with increased business volume, which ultimately will improve solvency ratio of the company at the end of FY19.

***Concentration in motor segment albeit diluting over the period***

Motor segment comprised 79.49% (51,460 policies) of total policies in force of 64,734, followed by fire segment (9.88%) as on July 16, 2018. Motor segment proportion reduced to 74.19% (36,823 policies) of total policies during 9MFY19; whereas, the proportion of fire segment increased to 11.95% (5,906 policies) during the same period. Further, motor segment contributed ~84% of Net Premium Earned (NPE) followed by fire (~9%) and other segments during FY18. Total NPE declined marginally by 1.34% during FY18 to Rs.333 Million from Rs.338 Million during FY17.

***Competition from other insurance companies and relatively small market share in the non-life insurance industry***

Currently there are 20 non-life insurance companies (including three newly licensed companies during 9MFY19) operating in Nepal sharing total Rs.24,417 Million of GPW during FY18; where UIC shares only 1.95% of total GPW and ranked 17th, reflecting very low market share in the industry. However, UIC has been able to increase its market share in terms of GPW to 2.82% with Rs.356 Mn during 9MFY19, out of industry total GPW of Rs.12,595 Mn over the same period. Further, due to increase in number of non-life insurance companies UIC is facing high competition to tap the new customer.

**Key Grading Strength**

***Long track record and strong promoter group***

UIC has been providing its service in non-life insurance sector from 25 years. As on July 16, 2018, 60% of shares are hold by promoter group and remaining 40% shares are hold by general public. The promoter group shares are mostly owned by Chaudhary Group and N.E. group. Chaudhary Group Pvt. Ltd. is a part of CG Group which is a multi-national conglomerate headquartered in Nepal. It has diversified business interests including financial services, FMCG, automobile dealerships, education, hospitality, energy, consumer electronics, real estate etc. Mr. Binod Chaudhary is the Chairman of CG Group, with networth of USD 1.60 Billion as per Forbes Magazine as on May 09, 2019. N.E. Group is an Industrial and Trading House with wide range of business activities.

***Experienced Board and Management team***

UIC has eight experienced members on its board lead by Mr. Uday Krishna Upadhyay, Chairman. Mr. Upadhyay has more than thirty years' of work experience in various Banks and Financial Institutions. The day to day operations of the company are headed by Acting CEO Mr. Ramesh Kumar Bhattarai, who have overall work experience of around two decades in Insurance sector. He is assisted by an experienced team across various functions.

***Supreme Court held the action taken by Insurance Board of Nepal to halt fire business***

IB via notice dt. March 12, 2018 directed UIC to stop its fire insurance business and the same was validated by Patan Appellate Court (now Patan High Court) dt. November 28, 2017. Against which UIC had made appeal at the Supreme Court of Nepal. The Court had issued interim verdict as on July 06, 2018 to hold the decision of IB and Patan High Court till the finalization of

the case from Supreme Court. Accordingly UIC had informed IB regarding decision of Supreme Court via letter dated July 10, 2018 and has resumed the fire insurance business.

#### ***Good assets quality of investment book***

UIC had an investment portfolio of around Rs.757 Mn during FY17 and the same was declined by ~12% during FY18 to Rs.668 Mn, mainly due to withdrawal from bank deposits, however the portfolio was increased by ~4% to Rs.693 Mn during 9MFY19. UIC has complied with guidelines prescribed by regulator out of the total investment portfolio, UIC has total investment of ~70% in fixed and interest bearing deposit at different Bank and Financial Institutions as on April 13, 2019, which are readily marketable in nature lends sufficient liquidity cushion to the company.

#### ***Improved reserves and surplus position***

UIC had negative reserve & surplus of Rs.50 Mn at the end of FY17. The same has improved to positive balance with Rs.33 Mn during FY18 with accretion of PAT of Rs.168 Mn. Reserve & surplus fund had further improved to Rs.82 Mn during H1FY19.

#### ***Improved Investment Income***

Investment income of UIC has been increased by ~63% during FY18 to Rs.66 Mn over FY17, majorly impacted by increased interest income from bank deposits due to increased interest rates and foreign exchange fluctuation gain during FY18. Average yield on Investment of UIC was improved to 9.21% during FY18 as compared to 6.66% during FY17. Investment income has further improved by ~95% to Rs.69 Mn during 9MFY19 as compared to 9MFY18.

#### **About the Company**

United Insurance Co. (Nepal) Limited (UIC) is a General (Non-life) insurance company. The company has started its operation from December 1, 1993. The company is promoted by leading industrialists and reputed trading and commercial houses of Nepal. The company has been offering a range of general insurance covers for businesses & individuals and has a comprehensive range of general insurance products for Fire, Marine, Motor, Engineering, Agriculture and Aviation etc. UIC has branch network of 30 (including head office) and 184 insurance agents as on Mid-April 2019.

**Analyst Contact**

Mr. Giri Raj Kandel

[giriraj.kandel@careratingsnepal.com](mailto:giriraj.kandel@careratingsnepal.com)

Tel No.: Tel No.: +977-01-4445473

**Relationship Contact**

Mr. Sajan Goyal

[sajan.goyal@careratingsnepal.com](mailto:sajan.goyal@careratingsnepal.com)

Tel No.: 9818832909/+977-01-4445472/3/4

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**Annexure 1**

**CARE Ratings Nepal – IPO Grading Scale**

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