

Ajod Insurance Ltd.
SECTOR: Insurance
Listing Range NPR. 92-270

Introduction of the Company

Ajod Insurance Limited is a non-life insurance institution licensed by Beema Samiti. The Company was registered at Company Registrar office on 2064/12/20. It was licensed by Beema Samiti on 2075/03/15 as a non-life insurance Company. The company has been operating since 2075/03/21.

The registered office of the company is located at CTC Mall, Sundhara, Kathmandu, Nepal.

Area of Operation

The company is a non-life insurance institution operating at a national level.

Branch Extension

The company is operating through 38 branches across Nepal.

Utilization of IPO Proceeds

The IPO proceed is projected to be utilized for:

- Fixed Deposit: NPR. 25,00,00,000
- Debenture from Nepal Government Guarantee: NPR. 4,50,00,000
- Extension of Branches: NPR. 50,00,000

Future Plan and Strategy

- To prepare effective insurance planning.
- To extend non-life insurance services across wide sectors in the society.
- To develop information technology to enhance the capacity and security of company.
- To increase the paid-up capital up to 1 Arba in the future.
- To increase the number of customers and provide micro-insurance services.

Composition of Board of Directors

As per Article 24.2 of the Article of Association of Company, the Board shall constitute 7 members as follows:

Representing Promoters	4 members
Representing Ordinary Shareholders	2 members
Independent Director	1 member

The tenure of directors shall be 4 years. Minimum 100 units is required to be qualified as a director.

Issue Details

Issue Size (Units)	30,00,000
Price per Share (NPR)	100
Issue Open Date	25 Ashad 2077
Issue Close Date	29 Ashad 2077
Issue to Staff (Units)	1,20,000
Issue to Mutual Fund (Units)	1,50,000
Issue to General Public (Units)	27,30,000
Issue Manager	NIBL Ace Capital Ltd
Collection Centres	All BFIs with ASBA and Meroshare.
Min. Application (Units)	10
Max. Application (Units)	10,000
CARE Rating	CARE NP IPO GRADE 4

Operational Coverage

Numbers of Authorized Districts	26
Number of Branches	38

Board of Directors

S.N.	Name	Holdings (units)	Qualification	Current Profile	Experience
1	Mr. Aajad Shrestha, Chairman	1,10,000	Bachelors	Chairman	Long experience in various organizations
2	Mr. Sagar Gurung, Director	2,00,000	Masters	Director	Managing Director at RODSO UPVC Pvt since 2072/12/10
3	Mr. Ram Bahadur Gurung, Director	7,99,050	Bachelors	Director	Retired Employee of Nepal Army.
4	Mr. Chiranjibi Dwa, Director	35,450	Bachelors	Director	Board Member of several Banks.

Key Personnel

S.N	Name	Current position
1	Mr. Kumar Bahadur Khatri	Chief Executive Officer
2	Mr. Surendra Thapa	Deputy Chief Executive Officer
3	Mr. Anil Kumar Aryal	Assistant Manager
4	Mr. Mahesh Raj Kharel	Assistant Manager

General Introduction to Balance Sheet Figures

Paid-up capital of the company is forecasted to increase to **NPR. 1 Arab** at the end of FY 78/79. The Reserve and Surplus is projected to increase to **NPR. 11.014 crores over 3 years**. Insurance fund is anticipated to increase at **120.30% CAGR over 3 years and at 121.52% CAGR over 3 years**. Total Assets is projected to increase at **47.41% CAGR over 3 years**.

Comparison with Industry Figures (Annual 2075/76 of Audited Insurance)

- BVPS of the company stands at **NPR. 104.77**, whereas industry average BVPS is **NPR. 370.42**.
- The average industry Current Ratio is 5.12 times while the company Current Ratio is 2.42 indicating weaker position to pay its short-term liabilities compared to its industry peers.
- Company's annualized **ROI is 3.35%**, whereas industry average is **7.1%** suggesting that the company is less efficient when comparing to its industry.

	Extracts from Balance Sheet (NPR. In Thousands)				
	Audited		Projected		
Particular	74/75	75/76	76/77 E	77/78 E	78/79 E
Paid-Up capital	70,000	7,00,000	10,00,000	10,00,000	10,00,000
Reserve/ Surplus	8,968.314	19,388.739	(50,150.707)	16,471.784	1,10,146
Insurance Fund	9,964.793	30,562.623	61,183.623	1,34,346	2,34,746
Total Assets	7,19,929	7,52,105	20,46,172	26,68,434	33,99,504
Net worth Per Share	103	92	102	117	139
Earnings Per Share	2.79	4.42	6.12	14.63	20.08

General Introduction to Income Statement

The company's total income is projected to grow annually at 131.12% over 3 years, while total expenses is expected to grow annually at 162.59% over 3 years. Net Profit is projected to increase annually at 48.59% over 3 years.

Industry average Comparison on 3rd Quarter 76/77		
Particulars	Industry Average	Ajod Insurance Company
EPS (Rs.)	36.83	5.02
BVPS	370.42	104.77
ROI (%)	7.1%	3.35%
Current Ratio(times)	5.12	2.42
*EPS & ROI is annualized		

Comparison with Industry Figures (Audited Financials of 2075/76)

Excerpts from Income Statement					
Audited		Unaudited	Forecasted		
			Q3		
Particulars	75/76	76/77	76/77	77/78	78/79
Total income	7,56,95,311	6,82,81,000	55,76,49,814	74,22,26,932	93,46,23,787
Total expenses	3,44,99,652	3,31,36,000	45,47,46,751	52,16,30,755	62,46,43,592
Net Profit	4,11,95,659	3,51,45,000	6,12,42,007	14,63,24,721	20,08,00,931

Particulars	Audited	Unaudited		Projected	
		Q3			
Fiscal Year	75/76	76/77	76/77	77/78	78/79
BVPS	92	104.77	102	117	139
Average of Return on Net worth (%)	-4.78	4.8	6.01	12.47	14.47

- The audited EPS of the company is **NPR -4.42** The industry average is **NPR 42.184**

Valuation of Company

Relative Valuation Model

The idea of relative valuation is that, similar assets should sell at similar prices. The application of relative valuation is called the method of comparable. It estimates an asset's value relative to that of another asset (benchmark). The model helps to check whether a particular stock is overvalued, undervalued or fairly valued in terms of measures like earnings, book value,

cash flow, sales per shares by comparing the industry multiples. Here, we value the company based on P/E and P/B based multiples. **P/E Ratio** shows the amount investors are willing to pay for each rupee earnings of the company.

P/B Based Valuation			
Projected Year	Industry P/B (As of 3rd Qtr,76/77)	BVPS (NPR)	Value of Shares (NPR)
76/77	2.08	102	212.16
77/78	2.08	117	243.36
78/79	2.08	139	289.12

P/B Ratio shows the amount investors are willing to pay for each rupee of company's tangible assets.

The industry average PE ratio of the non-life insurance companies stands at 22.52 while the industry average price to book ratio stands at 2.08. Based on P/B valuation the company share value is expected to be 212.16, 243.36, and 289.12 in the FY 2076/77, 2077/78, and 2078/79 respectively.

P/E Based Valuation			
Projected Year	Industry P/E (As of 3 rd Qtr, 76/77)	EPS (NPR)	Value of Shares (NPR)
76/77	22.52	6.12	137.82
77/78	22.52	14.63	329.47
78/79	22.52	20.08	452.20

Based on price to book valuation, the company share price is expected to be 137.82, 329.47, and 452.20 in the FY 2076/77, 2077/78, and 2078/79 respectively. The book value per share of the company is expected to grow annually at 16.74% over the next two years while the EPS is forecasted to grow at the rate of 81% annually.

The Industry P/E and P/B as of 3rd Quarter, 2076/77 has been used. Median is used to nullify the effect of outliers. We assume industry average to be same

Strength – Weakness – Opportunities – Threat (SWOT) Analysis

STRENGTHS

- Strong management team.
- Good reputation.
- Good corporate governance.

WEAKNESSES

- The company has below average industry performance as it is new compared to its industry peers.

OPPORTUNITIES

- It has the opportunity to grow its business as a non-life insurance.

THREATS

- There is intense competition among non-life insurance company to extend business.

GLOBAL IME CAPITAL COMPENDIUM

Tentative Allotment Module

Chapter 5, Article 30 of Securities Issue and Allotment Guidelines 2074 provides the new process of allotment of securities under which every valid applicant shall be allotted 10 units shares on the very first round of allotment and the round following then, provided the units available are sufficient for allotment to each eligible applicant. Otherwise, lottery system will be followed.

For the estimation of total applicants, average past applicants for the IPO of non-life insurance have been considered i.e. 3,00,000.

As per the Nepal Reinsurance allotment, each valid applicant i.e. 3,90,638 applied for 5,24,14,710 units which means each valid applicant applied for 130 units on an average. As Ajod Insurance Limited is fundamentally weaker than Nepal Reinsurance Company Limited, each applicant is unlikely to apply for 130 units. The estimated units per application is 50.

Based on these estimations, the total estimated applied units are 1,50,00,000 units whereas the available units are only 27,30,000 units. Hence the IPO is estimated to be oversubscribed by 5.49 times.

Nepal Reinsurance Co. Ltd	
Issue Size (Units)	47,55,000
Staff (Units)	74,000
Mutual Funds (Units)	2,37,800
Public (Units)	44,43,200
Allotment Date	26 th Chaitra 2076
Number of Total Applicants	5,08,118
Number of Valid Applicants	3,90,638
Total Units Applied By valid applicants	5,24,14,710
Oversubscription	3.46 times
Allotment Basis	Lottery

Industry Overview and Recent Developments

The basic objectives of non-life insurance Institutions are to provide insurance services like micro insurance, property insurance, agriculture insurance, aviation insurance, marine/transit cargo insurance, Vehicle insurance, miscellaneous insurance, engineering insurance, etc. to manage the risk. Non-life insurance companies have a huge role and potential in a country like Nepal where a high percentage of population are deprived socially and economically. Insurance company have huge prospects in Nepal since it can serve and extend its services to the wide range of areas.

Ajod Insurance Limited	
Issue Units to Public	2730000
Estimated Number of Applicants	300000
Estimated Applied Units	1,50,00,000
Oversubscription	5.49 times

Listing of Shares of Non-life insurance company Limited

The book value per share of the company as on FY 2075/76 was Rs.92. Therefore, the listing range of the share should be in the range of Rs.92 (lower range) and three times of lower range i.e. NRP. 276 (upper range).

Trading Prices

The share price of the company can be expected to trade around the valuations indicated by the PE and P/B valuation as indicated above.

Technical Analysis



The Non-life insurance index has gone into a deep correction where its 200-day average supported the index. And the recent market movement has suggested that the non-life insurance companies' share prices have started to recover. Most often, buying shares at such deeply stressed levels gives significant capital gains.

Conclusion

Based on the financials and the industry trends, the company may trade between 130-200 (based on PE and P/B valuation) levels. Though the company may not give extraordinary trading returns, there still, is room for some capital gains within short time period.

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