

#### Company Background

Desh General Insurance Company Limited (DGIC) is a non-life insurance company whose services include fire insurance, money insurance, marine insurance, motor insurance, and miscellaneous insurance. DGIC was incorporated in 2000 as a public limited company and now has 25 branches. 16 out of its 25 branches are situated in the capital city, Dhaka. DGIC has no subsidiary or associate company.

DGIC has 14 directors on its board. The chairman of DGIC is Md. Jashim Uddin who sits on the board of 25 companies, most of which are concerns of Bengal Group. Mr. Mohd. Abul Kashem is the CEO of DGIC. He has experience of 34 years. He used to work in Asia Insurance Co. Ltd before joining DGIC.

The Net Premium breakdown of DGIC is provided below:

Particulars	Net Premium in BDT Mn (2019)	Contribution
Fire Insurance	41	24.4%
Marine insurance	92	55.0%
Motor Insurance	28	16.4%
Misc Insurance	6	3.5%
Marine Hull Insurance	1	0.7%
<b>Total</b>	<b>168</b>	<b>100.0%</b>

#### IPO Details

DGIC will raise BDT 160 Mn as initial public offering (IPO) through the fixed price method.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	BDT mn	% of Proceed
Investment in FDR & Treasury Bond.	118	74.0%
Investment in Capital Market	32	20.0%
<b>Sub Total</b>	<b>150</b>	<b>94.0%</b>
IPO Expense	10	6.0%
<b>Total</b>	<b>160</b>	<b>100.0%</b>

#### Key Points

- Bangladesh's insurance industry is a supply-driven industry rather than a demand-driven one. The culture of Bangladesh is such that people prefer to go along with more risk rather than opting for insurance. The sentiment against insurance companies is also fueled by the possibility of unapproved claims and hidden charges. The bulk of the insurance policies sold by the general insurance companies are due to the insurance being a requirement for other services. Moreover, there are 46 general insurance companies in an industry of BDT 45.5 Bn gross premium (as of Dec'19) which makes the industry extremely competitive. Only 5 players have a market share of greater than 5%. Desh General Insurance has a market share of only 0.57% as of Dec'19.
- Among the company's 14 directors, three are independent directors. This is compatible with the rule for listed companies having one-fifth independent directors. Moreover, there is no family relationship among the directors. No director has any significant holding of the company.
- DGIC's management expense ratio and administrative expense ratio are on par with its peers that portray its efficiency in managing operating costs. But DGIC's much higher claims ratio has pulled the combined ratio 38% above its competitors in 2019. Inefficiency in predicting loss exposure and managing risk may have led to this higher claims ratio.
- DGIC has shown substantial progress in terms of growth in its profit. Its NPAT had a CAGR of 30.1% in the last 5 years. The peers of DGIC, on the other hand, did not show any improvement in premium or profit growth in 2019. DGIC's underwriting profit margin is in a similar range to its peers which shows that in terms of efficiency in its core business, it can provide a similar output. However, the return on investments of DGIC signals strong investment management compared to its peers.
- Based on the profitability ratios of 2019, DGIC has a positive and upward trend over its peers in terms of return on its asset and equity in the year 2019. DGIC's 11.9% ROE, signifies that although its peers are facing difficulty, it still has managed to dispense better return to its equity holders compared to the industry.
- DGIC has been consistent in disbursing dividends to its shareholders for the past three years. A continuation of such a trend will be positive for the investors.

#### Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks (having similar market share) in the Insurance sector are given below:

DSE Ticker	Market Share (2019)	Market Cap (BDT mn)	TTM Earnings (BDT mn)	P/E
KARNAPHULI	0.81%	1,292.4	52.2	24.8x
JANATAINS	0.68%	1,319.3	60.8	21.7x
DHAKAINS	0.82%	1,661.2	97.0	17.1x

#### Company Summary

Post IPO No. of Shares (Mn)	40.0
Post IPO Paid up capital (BDT Mn)	400.0
Pre IPO Paid up capital (BDT Mn)	240.0
New Shares Issued (Mn)	16.0
IPO Proceeds (BDT Mn)	160.0
Face Value	10.0
Market Lot	500.0
Free Float	40%
Accounting Year End	December
Auditor	Rahman Mostafa Alam & Co
Issue Manager	Prime Finance Capital Management Ltd.

#### Income Statement

MM BDT	2016	2017	2018	2019
Gross Premium Income	146	161	203	308
Net Premium Income	81	90	102	168
Commission on re-insurance Ceded	14	15	22	24
<b>Total Insurance Income</b>	<b>125</b>	<b>156</b>	<b>193</b>	<b>350</b>
Net Claim	(22)	(20)	(38)	(104)
Agency Commission	(15)	(17)	(20)	(35)
Expense of Management	(28)	(34)	(45)	(78)
<b>Total Cost of Service</b>	<b>(98)</b>	<b>(107)</b>	<b>(144)</b>	<b>(284)</b>
<b>Underwriting Profit</b>	<b>27</b>	<b>49</b>	<b>48</b>	<b>66</b>
Investment Income	6	11	17	19
General & Administrative Expense	(12)	(20)	(19)	(30)
<b>Profit before Tax</b>	<b>21</b>	<b>41</b>	<b>47</b>	<b>54</b>
Tax Provision	(9)	(20)	(23)	(22)
<b>Net Profit after Tax</b>	<b>12</b>	<b>21</b>	<b>24</b>	<b>33</b>
EPS (BDT)	1.20	0.87	1.00	1.36
Post-IPO EPS (BDT)	0.31	0.52	0.60	0.81

#### Balance Sheet

MM BDT	2016	2017	2018	2019
Investment (incl. Fixed Deposit)	97	240	246	246
Fixed Assets & ROU	78	108	122	140
Cash & Equivalents	14	18	18	18
Other Current Assets	133	160	188	289
<b>Total Assets</b>	<b>322</b>	<b>527</b>	<b>573</b>	<b>694</b>
Paid Up Capital	102	240	240	240
Reserves	10	5	5	5
Profit & Loss Appropriation A/C	13	26	26	34
<b>Shareholders' Equity</b>	<b>125</b>	<b>271</b>	<b>271</b>	<b>279</b>
Balance of Fund Accounts	33	36	41	68
Bank Loan & Lease Liabilities	21	49	76	92
Other Liabilities	143	171	185	255
<b>Total Liabilities &amp; Provisions</b>	<b>197</b>	<b>256</b>	<b>302</b>	<b>415</b>
<b>Total Equity &amp; Liabilities</b>	<b>322</b>	<b>527</b>	<b>573</b>	<b>694</b>
NAVPS (Post-IPO)	3.13	6.76	6.76	6.97

#### Cash Flow Statement

MM BDT	2016	2017	2018	2019
Operating Activities	29	47	26	37
Investing Activities	(48)	(182)	(28)	(21)
Financing Activities	15	139	3	(15)
<b>Net Cashflow</b>	<b>(4)</b>	<b>4</b>	<b>0</b>	<b>0</b>

#### Ratios

	2017	2018	2019	Peer Avg (2019)
Underwriting Profit Margin	30.7%	23.8%	21.4%	20.0%
Net Profit Margin	13.0%	11.8%	10.6%	16.5%
Return on Asset	4.9%	4.4%	5.1%	4.1%
Return on Equity	10.6%	8.9%	11.9%	7.2%
Return on Investments	9.1%	12.4%	11.9%	5.6%
Retention Ratio	55.6%	50.3%	54.5%	54.7%
Administrative Exp. Ratio	60.2%	62.5%	64.2%	62.3%
Management Exp. Ratio	61.9%	61.4%	70.5%	84.0%
Claims Ratio	22.1%	37.1%	61.8%	10.5%
Combined Ratio	84.0%	98.5%	132.3%	94.4%
Dividend Payout Ratio	114.3%	99.9%	88.5%	85.4%
Gross Premium Growth	10.5%	26.3%	51.5%	7.2%
Net Premium Growth	10.2%	14.1%	64.3%	3.0%
Underwriting Profit Growth	80.8%	-2.3%	36.4%	16.9%
NPAT Growth	71.1%	14.4%	35.6%	-0.4%

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