

## Sanima GIC Insurance Limited

### Rating

Facilities/Instrument	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BBB+ (Is) [Triple B Plus] (Issuer Rating)</b>	<b>Assigned</b>

CARE Ratings Nepal Limited (CRNL) has assigned the issuer rating of 'CARE-NP BBB+ (Is)' to Sanima GIC Insurance Limited (SGIC). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

### Detailed Rationale & Key Rating Drivers

The issuer rating assigned to SGIC derives strength from its experienced board and management team, substantial increase in scale of operations post-merger and steady improvement in financial performance during FY23-FY24 mainly driven by its underwriting performance. The rating factors in moderate track record of operations of the company and its adequate solvency ratio as on mid-July 2023. The rating also takes note of SGIC's diversified geographical coverage through branches, sub branches and agency network, adequate reinsurance arrangement to transfer the risk and diversified investment book with fair return on investment as on mid-July 2024. The rating, however is constrained by the company's concentration in motor segment and competition from other insurance companies; albeit moderate market share in the non-life insurance industry and exposure to regulatory risk, being a highly regulated industry.

*Going forward, the ability of the company to continue its growth momentum while diversifying the policy segments and remain profitable by increasing scale of operations and market share will be key rating sensitivities. Furthermore, its ability to maintain minimum capital as mandated by Nepal Insurance Authority (NIA) through timely completion of right issue and adequate reinsurance arrangement and solvency ratio above the regulatory requirement at all times will also be key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Strengths

##### Experienced board and management team

SGIC has seven experienced members on its board led by CA. Kunal Kayal, LLB & MBA. Mr. Kayal, has more than a decade of experience and serves as Director of Kayal Group. Mr. Dilip Shrestha, Director, has experience of more than two decades and has diversified investment in hydropower, banking, construction and hospitality industry. The day-to-day operations of the company is headed by Mr. Sudyumna Prasad Upadhyaya, who has overall experience of twenty-five years in general insurance business. He has been associated with Premier Insurance Company Limited, in past as CEO. He is assisted by an experienced team across various functions.

##### Substantial increase in scale of operations post-merger; improving financial performance during FY23-FY24

SGIC commenced joint operations post-merger between Sanima General Insurance Limited (SANIMA) and General Insurance Company Nepal Limited (GIC) on October 24, 2022. SANIMA and GIC had operational track record of around five years prior to the merger. As a result of merger, SGIC's Gross Premium Earned (GPE) grew by ~37% y-o-y during

<sup>1</sup>Complete definitions of the ratings assigned are available at <https://www.careratingsnepal.com/> and in other CRNL publications

FY23 (*Combined income of SANIMA and GIC for FY23 and FY22*) while the non-life insurance industry grew by ~3% (during FY23 in comparison with FY22). The trajectory of growth momentum continued during FY24 as the company's GPE increased by ~10% y-o-y to Rs. 2,512 Mn as compared to industry growth rate of ~2.5% during FY24. The increase in GPE of the company during FY24 was on account of the synergic benefits obtained post-merger coupled with increased SGIC's coverage in terms of branches that supported the business volume of company. Net Premium Earned (NPE) during FY24 was Rs. 759 Mn (FY23: Rs. 607 Mn) with retention ratio of ~30% (FY23: 26%). SGIC reported substantial increase in underwriting profit of Rs. 168 Mn at the end of FY24 (FY23: Rs. 28 Mn) on account of increase in retention ratio coupled with growing scale of operations and reduced claims and expense ratio. Claims ratio of the company improved to ~54% during FY24 as compared to ~69% during FY23. Although expense ratio of the company was relatively higher as compared to other peers during FY24, the ratio improved as compared to previous year. The relatively higher expense ratio (~71% in FY24 and ~83% in FY23) was mainly on account of elevated operating expenses which remained at higher side post-merger but the same is likely to moderate going forward. Supported by rise in underwriting profit and investment income, SGIC's net profit increased to Rs. 331 Mn during FY24 (FY23: Rs. 233 Mn). Return on Equity (ROE) of the company improved to ~12% in FY24 from ~9% in FY23. The improvement in underwriting performance by scaling up its operations coupled with controlling its claims and expense ratio resulting in steady improvement in overall financial performance of the company on a sustained basis will remain a key monitorable aspect.

#### **Diversified geographical coverage**

SGIC has geographical coverage through its 36 branches (including head office) and 30 sub branches as on mid-July, 2024. The branches are spread over all 7 Provinces of Nepal. As on Mid-July, 2024, SGIC have 185 insurance agents. Adequate number of branches provides advantage to business growth in terms of marketing, branding and reaching close to customers.

#### **Adequate reinsurance arrangement to transfer risk and diversified investment book with fair return on investments**

SGIC has entered into reinsurance agreement with Nepal Reinsurance Company Limited (NRIC) and Himalayan Reinsurance Limited (HRL) where it cedes 6% of claim amount to each domestic reinsurance company for FY25 as a direct cessation. For the remaining amount exceeding direct cessation, there is reinsurance arrangement led by Hannover Re AG, Malaysia for whole account quota share and surplus treaty. SGIC has entered into reinsurance agreement with 12 reinsurance companies for FY25. The adequate reinsurance arrangement supports the company for future growth and the solvency aspects. The investment portfolio of SGIC increased by 13.73% to Rs. 3,337 Mn at the end of FY24 (FY23: Rs. 2,934 Mn). Average yield on investment of SGIC however decreased to 8.24% during FY24, from 9.80% in FY23. Out of the total investment portfolio, SGIC has invested in the shares & debentures (4.77%) and in the form of fixed deposit at different BFIs (95.23%) at the end of FY24, which lends sufficient liquidity cushion to the company.

#### **Adequate solvency ratio**

SGIC has maintained solvency ratio of 2.17x at the end of FY23, against the minimum regulatory requirement of 1.50x. The licensing capital (minimum regulatory paid-up capital) is Rs. 2,500 Mn, 50% of which amounting to Rs. 1,250 Mn has been considered as Required Solvency Margin (RSM). The company's paid-up capital stood at Rs. 2,000 Mn as on mid-July, 2023 and is planning for right issue of Rs. 500 Mn for meeting mandatory regulatory capital. Post the issuance, the investment base and asset base are likely to increase resulting in improvement of Available Solvency Margin (ASM) to an extent, which is expected to further improve the solvency margin. The solvency reflects the availability of capital relative

to the quantum of risk underwritten to absorb any unforeseen losses and capacity to underwrite new business. Hence, an increasing trend in solvency profile bodes well from credit perspective.

### Key Rating Weaknesses

#### Concentrated in motor segment

Motor segment comprised 63.55% during FY24 (FY23: 69.73%) of total policies followed by property segment 21.62% in FY24 (FY23: 15.71%) of total policies. The demand in automobile sector is impacted by heavy import duty imposed on automobiles, which are still considered as luxury items in Nepal. GoN has in recent times introduced several measures to discourage purchase of premium luxury items. Nepal Rastra Bank has time and again introduced several counter measures such as decreasing cap on bank financing, imposing higher margin for opening letter of credit for import of automobiles and spare parts and increasing risk weights on personal hire purchase loans to discourage import of automobiles. Hence, with motor segment being major revenue source of non-life insurance companies in Nepal, changes in regulations governing the automobiles sector might impact growth of non-life insurance companies.

#### Competition from other insurance companies; albeit moderate market share in the non-life insurance industry

SGIC ranks 8th position in the industry in terms of GPE among 18 non-life insurance company (14 non-life insurance company and 4 micro non-life insurance company) having contribution of 6.31% in total non-life insurance industry business at the end of FY24 reflecting moderate market share in the industry. *(Also, ranks 8th position among the 14 non-life insurance company)*. The market share of the top five non-life insurers was ~53% of GPE as on mid-July, 2024. A relatively high number of non-life insurance companies present in Nepal is expected to result into high competition to tap new customers leading to a challenging market dynamic to increase material market share.

#### Exposure to regulatory risk

The insurance industry is regulated by NIA. Being a highly regulated industry, the government's rules for the insurance industry play a key role in the company's performance besides the demand and supply trend. Furthermore, the industry dynamics like the demand for products, per capita income levels, competitive pressure, interest rate dynamics, and investment opportunities in the industry determine the business and financial profile of insurers in the industry. Overall insurance penetration is low, thus reflecting less insurance reach in Nepal and high growth potential in upcoming years. SGIC has paid up capital of Rs. 2,000 Mn as on mid-July 2024 and is planning for right issue to increase its paid-up capital to Rs. 2,500 Mn to meet its mandatory capital requirement.

### About the Company

Sanima GIC Insurance Limited (SGIC) is a general insurance company that has its registered office in Tangalmarg, Kathmandu, Nepal. SGIC has been offering a range of general insurance covers for businesses & individuals such as Property, Marine, Motor, Engineering, Agriculture and Miscellaneous. SGIC had paid up capital of Rs. 2,000 Mn (Total shares held by the individuals of Sanima Group is 22.69%) and assets base of Rs. 7,156 Mn as on July 15, 2024.

### Financial performance

Particulars	(Rs. Million)	
	FY23 (A)*	FY24 (UA)
Total Gross Premium	2,290	2,512
Net Premium Earned	607	759
Income from Investment	284	258

Particulars	FY23 (A)*	FY24 (UA)
Profit before Tax (PBT)	347	459
Profit after Tax (PAT)	233	331
Investments	2,934	3,337
Return on Total Assets (%)	3.89	4.94
Solvency ratio (times)	2.17	NA#

A: Audited; UA: Unaudited

\*SGIC after merger (SANIMA throughout the year and GIC before the merger)

# Solvency ratio calculation for FY24 is pending on account of pending actuarial valuation.

## Contact Us

### Analyst Contact

Ms. Amrita Khadka

Contact No.: + 977-01-4012628/29/30

Email: [amrita.khadka@careratingsnepal.com](mailto:amrita.khadka@careratingsnepal.com)

Mr. Santosh Pudasaini

Contact No.: + 977 9802312855

Email: [pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

### Relationship Contact

Mr. Ananda Prakash Jha

Contact No.: +977 9818832909

Email: [anand.jha@careratingsnepal.com](mailto:anand.jha@careratingsnepal.com)

### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over three decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

#### Disclaimer:

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.