

Rating Rationale

Jyoti Life Insurance Company Limited

Rating			
Particulars	Amount	Rating¹	Rating Action
Issuer Rating	NA	CARE-NP BBB (Is) [Triple B (Issuer)]	Assigned

CARE Ratings Nepal Limited (CRNL) has assigned ‘CARE-NP BBB (Is)’ rating to Jyoti Life Insurance Company Limited (JLIC). 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 JLIC derives strength from its experienced board and management team, moderate financial risk profile and improving combined ratio, good asset quality of investment book with fair return on investment. The rating also factors in moderate solvency profile and adequate geographical coverage through branches. The rating, however, is constrained by the short track record and competition from other insurance companies coupled with relatively small market share in the life insurance industry and concentration in endowment policies. Ability of JLIC to continue its growth momentum, remain profitable by increasing market share and maintaining the minimum solvency position.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced board and management team

JLIC has four experienced members on its board led by Mr. Nanda Kishore Sharma. Mr. Sharma holds 2.69% shares of the company and has served as Director of ICFC Finance Limited [rated ‘CARENP BBB- (Is)’] for the period of 6 years and has served as Director of Surya Life Insurance Company Limited [rated ‘CARE-NP IPO Grade 4’] for the period of ~3years. The day to day operations of the company is headed by Chief Executive Officer (CEO), Mr. Prakash Bikram Khatri, who has overall experience of over 12 years. He has wide experience in various financial institutions before joining JLIC in August 2017. He is assisted by an experienced team across various functions.

Moderate financial risk profile and improving combined ratio

During FY18, the company’s gross premium written (GPW) was Rs. 285 Mn which increased to Rs. 1018 Mn during FY19 (Unaudited, refers to 12 months period ended Mid July 2019). Net premium written (NPW) increased from Rs. 274 Mn during FY18 with retention ratio of 96.21% to Rs. 986 Mn in FY19 with retention ratio of 96.91%. Further, NPW increased to Rs. 1,100 Mn during 9MFY20 (Rs. 567 Mn during 9MFY19). JLIC reported significant growth in Net Underwriting result (albeit low base) with Rs. 416 Mn during FY19 over Rs. 68 Mn during FY18. Further, underwriting result improved to Rs. 596 Mn during 9MFY20. JLIC’s life fund increased from Rs. 152 Mn at the end of FY18 to Rs. 719 Mn at the end

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

of FY19. JLIC reported net profit of Rs. 124 Mn at the end of FY18 which increased to Rs. 160 Mn during FY19. JLIC's policy continuation rate is at 84.29% till Mid-April 2020.

The loss ratio (claim ratio) of JLIC was at 0.32%, commission ratio was 20.65% and expense ratio was 36.23% in FY19. On back of these, the combined ratio of the company was at 57.20% during FY19, which improved from 75.19% during FY18. Further, the combined ratio improved to 44.15% during 9MFY20 due to improvement in commission ratio and expense ratio.

Moderate solvency profile

Being in the initial years of operations, JLIC has maintained 1.08x solvency ratio during FY18 which is below minimum required ratio of 1.50x. Based on draft Actuarial Report, solvency ratio is likely to improve to 1.83x and meet the regulatory requirement. Insurance Board revised capital requirement for solvency margin in FY19 requiring only 50% of paid up capital for calculation of solvency margin against 100% of paid up capital earlier. With the increased capital (after proposed IPO issue) and accretion of profits, it is expected that JLIC's assets base will increase along with increased business volume, which ultimately is expected to improve solvency ratio of the company to certain extent.

Good assets quality of investment book with fair return on investment

The company had an investment portfolio of Rs. 1,737 Mn at the end of FY18 which increased to Rs. 2,374 Mn at the end of FY19 recording a growth of 36.65%. Further, investment portfolio increased to Rs. 2,966 Mn at the end of 9MFY20 recording a growth of 24.91% over FY19. JLIC has invested majority of the investments in the form of fixed and interest bearing deposit at different BFIs, which are readily marketable in nature which lends sufficient liquidity cushion to the company. Further, during FY19, the company had comfortable liquidity position with Liquid Assets to Technical Reserve standing at 3.28x. Investment income has increased by 12.16% during FY19 to Rs. 230 Mn mainly due to increase in investment portfolio during FY19. Further, JLIC reported investment income of Rs. 201 Mn during 9MFY20 recording a growth of 20.92% over 9MFY19. Average yield on Investment of JLIC was 11.18% in FY19.

Adequate geographical coverage through branches

JLIC has scattered all over the country through its 44 branches (including Head Office) as on Mid-April 2020 along with 73 sub-branches. The branches are spread over all 7 Provinces of Nepal.

Key Rating Weaknesses

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

JLIC started its operation during FY18 and had its first full year of operation only during FY19. 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 JLIC shares only 1.32% of total GPW and ranks 13th Position (out of 19) reflecting low market share in the industry in comparison to the established life insurance players. However, fast

growing branch network with 117 branches and 10,905 agents as on Mid-April 2020 is likely to help JLIC in its growth profile.

Concentration in Endowment policies

JLIC’s business is concentrated towards endowment policies segment and its variation which is inline with industry trend with ~98% of NPW contribution from these policies during FY19 which declined to ~91% during 9MFY20. Term Policy contributed ~2% during FY19 which increased to ~8% during 9MFY20.

About the Company

Jyoti Life Insurance Company Limited (JLIC) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on May 17, 2017 and has obtained license from Insurance Board on September 4, 2017. JLIC has been offering an extensive range of products as Money Back, Endowment, Whole Life, Term Assurance products etc. through its diversified sales network.

JLIC has assets base of Rs. 2,663.97 Mn as on July 16, 2019 which witnessed 40.66% growth over FY18. The capital structure of the company comprises of Rs. 1,540 Mn as paid up capital from the promoter group and Rs. 660 Mn is proposed to be issued to the public through IPO. Currently all the shares of company are held by promoter shareholders. Major shareholders of the company are Mr. Nitesh Agrawal (18.18%), Ms. Usha Agrawal (18.18%) and NIC Asia Bank Limited (9.74%) [rated CARE-NP A (Is)].

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