

## General Insurance Company Nepal Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating	Rating Action
<b>Issuer Rating</b>	NA	<b>CARE-NP BB+ (Is) [Double B Plus (Issuer)]</b>	Reaffirmed

CRNL has reaffirmed rating of 'CARE-NP BB+ (Is)' assigned to General Insurance Company Nepal Limited (GIC). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal.

### Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to GIC continues to be constrained by its short track record of operations with relatively small market share in the non-life insurance industry amid competition from other insurance companies. The rating also factors in GIC's concentration in the motor segment, moderate financial risk profile with high combined ratio and exposure to regulatory risk. The rating, however, continues to derive strength from GIC's association with strong promoter group, experienced board & management team and diversified investment profile with fair return on investment. Furthermore, the rating also takes cognizance of the improving trend in GIC's solvency profile.

*Going forward, the ability of the company to maintain growth in income while also maintaining quality of its investment portfolio and its ability to maintain minimum regulatory solvency ratio will be key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Short track record with relatively small market share in the non-life insurance industry coupled with competition from other insurance companies**

GIC started its operation during FY18 and has a relatively short track record of operations as compared with other established players. Currently, there are 20 non-life insurance companies operating in Nepal where GIC's market share of 1.51% in terms of Gross Premium Written in FY21 ranked at 19<sup>th</sup> position, reflecting modest market share in the industry. Market penetration of general insurance sector is still low in Nepal thus providing ample opportunities for future growth in the non-life insurance sector. However, due to presence of large number of non-life insurance companies and limited market potential, there is high share on sustainable basis in the light of competitive nature of industry to improve its business risk profile.

#### **Concentration in motor segment**

GIC continues to have high concentration in the motor segment, albeit broadly in line with the industry trend, with total policies sold by GIC towards the motor segment contributing around 64.39% of total policies sold in FY21 (Audited, refers to the twelve-month period ended mid-July 2021). The concentration further increased to 68.84% in 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022). Similarly, property segment contributed to 16.69% of total policies sold in FY21 and 16.58 % in 9MFY22. In terms of Gross Premium Written (GPW), motor segment contributed ~46% followed by property segment at 21%. However, in terms of Net Premium Written (NPW), Motor segment contributed ~77% during FY21 due to higher retention in the segment followed by micro insurance segment with ~11%. Further, during 9MFY22, motor segment contributed ~68% and property segment ~15%. The higher concentration in the motor segment exposes the new business of company's towards the performance of the automobile segment.

#### **Moderate financial risk profile with high combined ratio**

During FY21 the company's GPW increased by 28% to Rs. 719 Mn from Rs. 563 Mn during FY20. The growth is slightly better than the overall industry growth of 23% in terms of gross premium in FY21 for non-life insurance business, backed by

increasing network of the company. Similarly, GIC's NPW increased to Rs. 264 Mn with retention ratio of 36.73% during FY21 from Rs. 223 Mn in FY20 with retention ratio of 39.58%. Furthermore, NPW increased to Rs. 191 Mn during 9MFY22 (Rs. 164 Mn during 9MFY21). However, GIC has reported underwriting loss in the last two financials years which stood at Rs. 16 Mn during FY21 against Rs. 30 Mn in FY20. This has continued into FY22 with GIC booking underwriting loss of Rs. 14 Mn during 9MFY22 indicating the company is yet to achieve breakeven in its core insurance business. However, GIC's net profit increased to Rs. 59 Mn during FY21 from Rs. 41 Mn during FY20, and further to Rs. 82 Mn during 9MFY22 backed by increased investment income as a result of increased investment portfolio.

Furthermore, GIC's loss ratio (claim ratio) increased to 63.77% during FY21 from 58.46% in FY20, mainly on account of increase in motor insurance and micro insurance claims. However, commission ratio (net of commission income and commission expenses) decreased marginally to 36.85% during FY21 from 37.85% in FY20. Although Expense Ratio decreased to 79.67 % during FY21 from 94.93% in FY20 on account of economies of scale of operations, combined ratio stood at 106.59% during FY21. Although this improved from 115.55% during FY20, the combined ratio remains at the higher side. Combined ratio increased slightly to 107.82% in 9MFY22.

### **Exposure to Regulatory Risk**

Non-life insurance business faces challenges of frequent changes in the regulatory environment. The insurance Board determines the tariff rate of different segments of general insurance business and risk coverage under different issued policies, thus impacting financial profile of company. Besides, with motor segment being major revenue source of non-life insurance companies in Nepal, changes in regulations governing the automobiles sector could impact business prospects of non-life insurance companies. The GoN has announced cash margin for imports of automobiles to 50% from earlier 1% in December 2021 and imposed restriction in imports of several items, which included certain automobiles, till mid-July 2022, which has been further extended till August 30, 2022. Subsequently, the near term business prospects of the automobile industry is expected to be impacted by these measure, which in turn could impact general insurance companies, particularly those with higher exposure towards the motor segment. Furthermore, all non-life insurance companies shall maintain minimum paid up capital of Rs. 2.5 Bn by mid-April 2023 as per the mandatory requirement of Insurance Board.

### **Key Rating Strengths**

#### **Strong promoter group**

GIC is promoted by institutional and individual promoters from different background. The promoter group shares of the company are mostly held by Mrs. Babita Kumari Agrawal with 6.35% of total shares followed by Mega Bank Nepal Limited, "A" class financial institution (5.00%) and Kumari Bank Limited, "A" class financial institution (5.00%). Among top 10 shareholders, Mrs. Babita Kumari Agrwal, Mr. Anuj Keyal, Mr. Bikas Kumar Keyal and Mr. Nikit Keyal are associated with Keyal group of companies which has business across different sectors with main focus in manufacturing of construction materials.

#### **Experienced board and management team**

GIC has seven experienced members on its board led by Mr. Kunal Keyal. Mr. Keyal serves as Director of Keyal Group and has experience of over a decade across various organizations. The day to day operations of the company is headed by Mr. Ram Chandra Shrestha, CEO, who has overall experience of more than 2 decades in general insurance business. He has worked as DGM in Lumbini General Insurance Co. Ltd. for around 10 years in the past. He is assisted by an experienced team across various functions.

#### **Diversified investment book with fair return on investment**

GIC had an investment portfolio of around Rs. 1,245 Mn during FY21 which increased by ~39% over FY20, mainly due to additional investment in the form of fixed deposits at different Banks and Financial Institutions (BFIs), and the same has further

increased by ~15% over FY21 to Rs. 1,435 Mn during 9MFY22. Out of the total investment portfolio, GIC has invested 94% of the investments in the form of fixed and interest bearing deposits at different BFIs, which are readily marketable in nature thereby, providing sufficient liquidity cushion to the company. Furthermore, during FY21, company had comfortable liquidity position with Liquid Assets to Technical Reserve standing at 5.73x. As majority of the investments of GIC are in the form of deposits at different BFIs, investment income of GIC comprises majorly of interest income from those deposits. Accordingly, investment income has increased by ~8% during FY21 to Rs. 95 Mn over FY20. GIC earned Rs. 113 Mn investment income during 9MFY22. Average yield on Investment of GIC was 8.99% in FY21 (FY20:10.32%), mainly on account of decrease in interest rates of fixed deposits of BFIs in FY21.

### Improving solvency profile

GIC's solvency ratio stood at 2.18x during FY21 as compared to 1.46x during FY20 against the minimum requirement of 1.50x. The solvency ratio improved during FY21 on account of increased asset base of the company supported by growing business operations coupled with increased capital after initial public issuance of Rs. 300 Mn in FY21.

### About the Company

General Insurance Company Nepal Limited (GIC) is a general (non-life) insurance company which started its operation from June 20, 2018. GIC is promoted by institutional and individual promoters from different background. GIC has an asset base of Rs. 2, 110 Mn as on July 15, 2021 which witnessed 46.15% growth over FY20. The capital structure of the company comprises of paid up capital of Rs. 1000 Mn out of which RS. 700 Mn is paid up capital from promoter group and the remaining has been raised from initial public issuance as on Mid-April 2022

Brief financial performance of General Insurance Company Nepal Limited (GIC) during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Gross Premium Written (GPW)	333	563	719
Net Premium Written (NPW)	138	223	264
Retention ratio (NPW/GPW)(%)	41.48	39.58	36.73
Underwriting result	(86)	(30)	(16)
Income from investment	77	88	95
Profit after Tax(PAT)	(7)	41	59
Investments	830	893	1,245
Investment yield (%)	9.30	10.32	8.99
Return on total assets (%)	Negative	5.76	6.44
Return on Net Worth (%)	Negative	3.23	3.33
Solvency ratio (times)	1.48	1.46	2.18

A: Audited

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