

## Grading Rationale

### Sun Nepal Life Insurance Company Limited

#### Grading

Facility	Amount (Rs. In Million)	Grading	Grading Action
Initial Public Offer (IPO)	600	CARE-NP IPO Grade 4 [IPO Grade Four]	Assigned

*The explanatory notes regarding the Grading symbols of CARE Ratings Nepal Limited (CRNL) are attached as Annexure I*

CRNL has assigned grading of ‘CARE-NP IPO Grade 4’ to the proposed Initial Public Offer (IPO) of Sun Nepal Life Insurance Company Limited (SNLIC). ‘CARE-NP IPO Grade 4’ indicates Below Average Fundamentals. CRNL assigns IPO grades on a scale of Grade 1 to Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. CRNL’s IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the ‘fundamentals’ of the issuer. SNLIC proposes to issue 6 Mn shares of face value of Rs.100 each at par aggregating Rs. 600 Mn.

#### Detailed Rationale & Key Grading Drivers

The grading assigned to Sun Nepal Life Insurance Company Limited (SNLIC) is constrained by short track record of operations leading to small scale of operation; concentration in Endowment policies, competition from other insurance companies and relatively small market share in the life insurance industry during FY18 (UA, refers to financial year ended on July 16, 2018). The grading, however, derives strength from promoter support, experienced board and management team, adequate geographical coverage through branches, moderate level of Premium and Profit during first year of operation in FY18 (Unaudited), comfortable combined ratio, good asset quality of investment book and increase in investment income.

Continued promoter support, ability to remain profitable while achieving business growth and maintain adequate solvency position would be the key grading sensitivities.

## **Detailed Description of the Key Grading Drivers**

### **Key Grading Weaknesses**

*Short track record leading to small scale of operations and competition from other established life insurance companies*

SNLIC has obtained license from Insurance Board of Nepal on August 2017. Given the short track record, the scale of operations remains low with low policyholder fund. Currently there are 18 life insurance companies operating in Nepal (9 companies are licensed and started operation after FY17) sharing total Rs.51,008 Mn of Gross Premium Written (GPW) as on July 16, 2018; where SNLIC shares only 0.58% of total GPW and ranks 14th (out of 18) reflecting low market share in the industry in comparison to the established life insurance players. Further, due to increase in number of life insurance companies, SNLIC is expected to face high competition to tap the new customers.

### *Concentration in endowment policies*

SNLIC's business is focused towards endowment segment and its variation with almost 100% of business driven from these policies. SNLIC has not issued on 'Foreign Employment Term Policies' segment, in view of high risk associated with it.

### **Key Grading Strengths**

#### *Experienced board, management team and strong promoter group*

SNLIC has four experienced members on its board led by Mr. Anuj Keyal, who is the Chairperson of the company and is also one of the members and director of Keyal Group. Mr. Keyal, a MBA-Finance by qualification, has experience of directorship in Narayani Strips Pvt. Ltd., Narayani Steels Pvt. Ltd., Narayani Ispat Pvt. Ltd. and Gorkha Feeds Industries Pvt. Ltd. The day to day operations of the company are headed by Mr. Raj Kumar Aryal, Acting CEO since October 2017 having overall work experience of more than a decade as Head of Legal division of the Insurance Board of Nepal (IBN). Mr. Aryal holds Master of Laws (LLM) degree and was Deputy Director discharging functions as Head of the legal division of IBN. He is assisted by an experienced team across various functions.

As on July 16, 2018, 100% of shares are hold by promoter group with majority of the shares being held by. M/s Om Chao Biro Feed Industries Pvt. Ltd, Mr. Roshan K.C. and M/s Kalika Investment Pvt. Ltd. Institutional investors hold 36.07% of total shares and rest are held by

individuals. Mr. Roshan K.C. and Mr. Kiran K.C. are businessmen associated with the K.C. Group of companies in Nepal. Similarly, another leading industrial group of Nepal, Keyal group of companies, which has strong foothold in manufacturing, is also an investor in SNLIC through Chairman of the group Mr. Satyanarayan Keyal's direct investment and investment through their group company Narayani Rolling Mills Pvt. Ltd.

***Adequate geographical coverage through branches***

SNLIC has scattered all over the country through its 20 branches (including corporate office) as on July 16, 2018) along with 70 sub-branches. The branches are spread over all 7 provinces covering 56 districts (out of total 77 districts) of Nepal.

***Moderate level of Premium and Profit during first year of operation and comfortable combined ratio***

During FY18, the company's gross premium written (GPW) was Rs.297 Mn and the company achieved net profit of Rs.81.68 Mn. Further, SNLIC achieved Net Underwriting Profit (albeit low base) during FY18 amounting to Rs.137 Mn. The net premium written (NPW) of SNLIC was Rs.290.81 Mn and has high retention of the premium. The loss ratio (claim ratio) of SNLIC was 0.16% due to insignificant claims during FY18; the commission ratio was 23.69% resulting from high Agency Commission Expenses and Expense Ratio was 28.87% during FY18. On back of these the combined ratio was comfortable at 52.72% during FY18. As per the regulatory requirement, the life insurance companies are required to maintain minimum solvency ratio of 1.50 times and SNLIC is in process to finalize the solvency ratio as per requirement for FY18 through actuarial valuation.

***Good assets quality of investment book***

The company had an investment portfolio of around Rs.1,250 Mn in FY17 which increased by 26% to Rs.1,569 Mn in FY18. SNLIC has complied with guidelines prescribed by regulator. Out of the total investment portfolio, SNLIC has total investment of 99.56% in fixed and interest bearing deposit at different Bank and Financial Institutions as on July 16, 2018, which are readily marketable in nature lends sufficient liquidity cushion to the company.

***Increasing Investment Income***

The investment income of the company has increased over the period. Investment income increased to Rs.183 Mn in FY18 from Rs.9 Mn in FY17 mainly due to 26% increase in investment portfolio during FY18. Average yield on Investment of SNLIC was 13.01% in FY18.

### **About the Company**

Sun Nepal Life Insurance Company Limited (SNLIC) is a life insurance company, which obtained license from Insurance Board of Nepal on August 2, 2017. The company has been offering an extensive range of products as Money Back, Endowment, Whole Life, Term Assurance products etc. through its diversified sales network.

SNLIC had an asset base of Rs. 1650 Mn as on July 15, 2018. The capital structure of the company comprises of an authorized capital of Rs. 2 Bn out of which Rs. 1.40 Bn is paid up capital from the promoter group and the remaining is proposed to be issued to the public through IPO.

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### **DISCLAIMER**

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**Annexure II****CARE Ratings Nepal – IPO Grading Scale**

<b>CARE IPO grade</b>	<b>Definition</b>
CARE-NP IPO Grade 1	Strong fundamentals
CARE-NP IPO Grade 2	Above average fundamentals
CARE-NP IPO Grade 3	Average fundamentals
CARE-NP IPO Grade 4	Below average fundamentals
CARE-NP IPO Grade 5	Poor fundamentals

Note:

Modifiers {"+" (plus)} can be used with the grading symbols 2, 3 and 4. The modifiers reflect the comparative standing within the category.