

**Rating Rationale**

**Sanima General Insurance Limited**

**Rating**

Facility/Instrument	Amount	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Assigned

CRNL has assigned ‘CARE-NP BB+ (Is)’ rating to Sanima General Insurance Limited (SGIC). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

**Detailed Rationale & Key Rating Drivers**

The rating assigned to SGIC is constrained by short track record of its operation, competition from other insurance companies coupled with relatively small market share in the non-life insurance industry and moderate financial risk profile with high expense ratio leading to high combined ratio. Further, the rating is constrained by lower reported solvency ratio vis-à-vis the regulatory requirement and concentration in motor segment. The rating, however, derives strength from SGIC’s association with strong promoter group, experienced board & management team and diversified investment book with fair return on investment. Ability of SGIC to maintain growth in income while maintaining quality of the portfolio and 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 and competition from other insurance companies coupled with relatively small market share in the non-life insurance industry***

SGIC started its commercial operation from July 11, 2018 and operated only for 6 days during FY18 as general insurer. Currently there are 20 non-life insurance companies operating in Nepal sharing total Rs. 25 Bn of Gross Premium Written (GPW) during FY19; where SGIC shares only 0.77% of total GPW and ranks 20th position reflecting low market share in the industry. Due to large number of non-life insurance companies and limited market, there is high competition among the companies to add new and retain existing customers. Further, with motor segment being major revenue source of non-life insurance companies in Nepal, slowdown in automobile industry and changes in regulations related to bank financing of vehicles could impact growth in this segment. Additionally, the current outbreak of Covid-19 could have a negative impact on overall growth of industries in Nepal including construction, automobile industry which could impact the business of non-life insurance companies.

***Moderate financial risk profile with high expense ratio leading to high combined ratio***

SGIC started operating during FY18 and had its first full year of operation during FY19. During FY19, the company earned gross premium written (GPW) of Rs. 196 Mn. Net premium written (NPW) during FY19 was Rs. 75 Mn with retention ratio of 38.10%. Further the GPW and NPW of SGIC improved to

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

Rs. 178 Mn (Rs. 44 Mn during H1FY19) and to Rs. 70 Mn (Rs. 11 Mn during H1FY19) respectively during H1FY20. SGIC reported underwriting loss of Rs. 64 Mn during FY19 which improved during H1FY20 with SGIC reporting underwriting loss of Rs. 11 Mn (Rs. 17 Mn during H1FY19). SGIC reported net profit of Rs. 5 Mn during FY19 against net profit of Rs. 23 Mn during FY18 due to substantial increase in operating expenses during FY19 being the first full year of commercial operation. The loss ratio (claim ratio) of SGIC was 59.29% during FY19 due to low Net Premium Earned (NPE) of Rs. 20 Mn and high claims during initial year of operation. Expense ratio in terms of NPE was 363% during FY19 due to high operating expenses and commission ratio at 89% during same period. SGIC had high overall combined ratio of 334% during FY19 which improved to 130% during H1FY20.

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

Motor segment comprised 66.82% (11,902 policies) of total policies of 17,811 followed by fire segment 13.20% (2,351 policies) of total policies as on July 16, 2019. Motor segment has further concentrated to 74.92% (16,326 policies) out of total policies of 21,792 as during H1FY20; whereas the proportion of fire segment policies decreased to 8.68% (1,891 policies) as on same date. In terms of Gross Premium Written (GPW), Motor segment contributed ~50% followed by fire with ~22%. Whereas in terms of Net Premium Written (NPW), Motor segment contributed ~82% during FY19 due to higher retention in the segment followed by fire segment with ~8%.

#### ***Reported solvency ratio remains lower than the regulatory requirements***

Being the initial years of operations, SGIC has maintained 0.78x solvency margin which is lower as compared to minimum required ratio of 1.50x. The company had low solvency margin mainly on account of high required solvency of Rs. 1,000 Mn, based on minimum capital requirement, as compared to low paid up capital of the company amounting Rs. 700 Mn in FY19. Insurance Board of Nepal, has drawn attention of the management of SGIC, to maintain the minimum required solvency ratio while approving the financial statements of the company for FY19. Further during H1FY20, company had solvency margin of 0.80x. With the increased capital (after proposed Initial Public Offer (IPO) issue) and accretion of profits, the solvency ratio of the company is expected to improve to certain extent.

#### **Key Rating Strengths**

##### ***Associated with strong promoter group***

SGIC is part of Sanima Group which is promoted by a group of Non-Resident Nepalese. Sanima Group has business across various sectors including banking, life insurance, merchant banking, hotels and hydropower. The promoter group shares of the company are mostly held by Sanima Private Limited with 11.00% of total shares followed by Sanima Bank Limited (10.00%) and Mr. Jibanath Lamichhane (9.50%) and Mr. Binay Kumar Shrestha (8.20%) who are associated with Sanima Group.

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

SGIC has five experienced members on its board led by Mr. Khem Raj Lamichhane. Mr. Lamichhane serves as a director in 27 MW operational Sanima Mai Hydropower Ltd. He has wide experience across

various sectors. The day to day operations of the company is headed by Mr. Subodh Lal Shrestha, Deputy General Manager, who has overall experience of more than 3 decades in general insurance business. He has been associated with multiple insurance companies in the past. He is assisted by an experienced team across various functions.

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

SGIC had an investment portfolio of around Rs. 756 Mn at the end of FY19 which increased by ~11% to Rs. 840 Mn during H1FY20 over FY19. Out of the total investment portfolio, SGIC has invested almost all the investments in the form of fixed and interest bearing deposit at different Banks and Financial Institutions (BFIs), which are readily marketable in nature which lends sufficient liquidity cushion to the company. Further, during FY19 company had comfortable liquidity position with Liquid Assets to Technical Reserve standing at 13.40x. As majority of the investments of SGIC are in the form of deposits at different BFIs, investment income of SGIC comprises interest income from those deposits. Investment income has increased by ~74% during FY19 to Rs. 71 Mn over FY18 majorly due to increased interest income from fixed and other deposits. SGIC earned Rs. 37 Mn investment income during H1FY20 reporting ~6% growth over H1FY19. Average yield on investment of SGIC was 10.46% during FY19.

**About the Company**

Sanima General Insurance Limited (SGIC) is a general (non-life) insurance company. The company has started its operation from July 11, 2018. The company has been offering a range of general insurance covers for businesses & individuals and has a comprehensive range of general insurance products for Fire, Marine, Motor, Engineering, Miscellaneous and Agriculture etc. SGIC is promoted by Sanima Group, which is promoted by a group of Non-Resident Nepalese (NRN). Sanima Group has investments across different sectors including Commercial Bank, Life Insurance Company, Merchant Banking and hydropower companies.

SGIC has network of 18 branches (including head office), 10 sub branches supported by 93 employees and 208 insurance agents as on Mid-January 2020. SGIC has assets base of Rs. 877 Mn as on July 16, 2019 which witnessed 20.65% growth over FY18. The capital structure of the company comprises of Rs. 700 Mn as paid up capital from the promoter group and the Rs. 300 Mn is proposed to be issued to the public through IPO.

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