

Rating Rationale
General Insurance Company Nepal Limited

Rating

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

CRNL has assigned ‘CARE-NP BB+ (Is)’ rating 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 rating assigned to GIC 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 GIC’s association with strong promoter group, experienced board & management team and diversified investment book with fair return on investment. Ability of GIC 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

GIC started its commercial operation from June 20, 2018 and operated only for 27 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 GIC shares only 1.30% of total GPW and ranks 19th position reflecting very low market share in the industry. Due to large number of non-life insurance companies and limited market potential, there is high competition among the companies to 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 of such companies. Additionally, current outbreak of Covid-19 is expected to 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 as well.

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

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

During FY18, the company earned gross premium written (GPW) of Rs. 3 Mn which increased to Rs. 333 Mn during FY19. Net premium written (NPW) increased from Rs. 1.18 Mn during FY18 with retention ratio of 37.07% to Rs. 138 Mn during FY19 with retention ratio of 41.48%. Further the GPW and NPW of GIC increased to Rs. 291 Mn (Rs. 108 Mn during H1FY19) and Rs. 133 Mn (Rs. 52 Mn during H1FY19) respectively during H1FY20. GIC reported underwriting loss of Rs. 86 Mn during FY19 which improved during H1FY20 with GIC reporting underwriting loss of Rs. 23 Mn. GIC reported net loss of Rs. 7 Mn during FY19 against net profit of Rs. 22 Mn during FY18 due to substantial increase in operating expenses during FY19. However, the company reported net profit of Rs. 14 Mn during H1FY20.

The loss ratio (claim ratio) of GIC was 54.03% during FY19 due to low Net Premium Earned (NPE) of Rs. 56 Mn and high claims during initial year of operation. Expenses ratio in terms of NPE was 197% during FY19 due to high operating expenses and commission ratio at 29% during same period. Overall combined ratio improved from 253% during FY19 to 134% in H1FY20.

Concentration in motor segment

Motor segment compromised 68.84% (21,490 policies) of total policies of 31,217 followed by property segment 15.14% (4,726 policies) of total policies as on July 16, 2019. Motor segment has further concentrated to 70.95% (19,698 policies) out of total policies of 31,217 as during H1FY20; whereas the proportion of fire segment policies decreased to 13.28% (3,714 policies) as on same date.

In terms of Gross Premium Written (GPW), Motor segment contributed ~48% followed by property with ~18%. Whereas in terms of Net Premium Written (NPW), Motor segment contributed ~81% during FY19 due to higher retention in the segment followed by fire segment with ~6%.

Reported solvency ratio remains lower than the regulatory requirements

Being the initial years of operations, GIC has maintained 0.74x 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 GIC, to maintain the minimum required solvency ratio while approving the financial statements of the company for FY19. With the increased capital (after proposed Initial Public Offer (IPO) issue) and accretion of profits, it is expected that GIC assets base will increase along with increased business volume, which ultimately is expected to improve solvency ratio of the company to certain extent.

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 9.07% of total shares followed by Mega Bank Nepal Limited, “A” class financial institution (7.14%) and Deva Bikas Bank Limited, “B” class financial institution (7.14%). Among top 10 shareholders, Mrs. Babita Kumari Agrawal (9.07%), Mr. Anuj Keyal (2.39%), Mr. Bikas Kumar Keyal (2.32%) and Mr. Nikit Keyal (1.50%) 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 five 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. S.K. Tamot, General Manager, who has overall experience of more than 3 decades in general insurance business. 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. 846 Mn during FY19 which increased by ~28% over FY18, mainly due to additional investment in deposits in the form of fixed deposits at different Bank and Financial Institutions (BFIs), and the same has further increased by ~7% to Rs. 906 Mn during H1FY20 over FY19. Out of the total investment portfolio, GIC invested almost all 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 company had comfortable liquidity position with Liquid Assets to Technical Reserve standing at 4.25x. As majority of the investments of GIC are in deposits at different BFIs, investment income of GIC comprises interest income from those deposits. Investment income has been increased by ~82% during FY19 to Rs. 77.22 Mn over FY18 majorly due to increased interest income from fixed and other deposits led by increased bank deposits. GIC earned Rs. 43.47 Mn investment income during H1FY20 reporting ~14% growth over H1FY19. Average yield on investment of GIC was 10.35% during FY19.

About the Company

General Insurance Company Nepal Limited (GIC) is a general (non-life) insurance company. The company has started its operation from June 20, 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. 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 9.07% of total shares followed by Mega Bank Nepal Limited, “A” class financial institution (7.14%) and Deva Bikas Bank Limited, “B” class financial institution (7.14%).

GIC has network of 39 branches (including head office) supported by 178 employees and 171 insurance agents as on Mid-January 2020. GIC has assets base of Rs.963 Mn as on July 16, 2019 which witnessed 31.52% 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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