

**Rating Rationale**  
**Sanima Life Insurance Limited**

**Rating**

Particulars	Amount	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	<b>CARE-NP BBB- (Is)</b> <b>[Triple B minus (Issuer)]</b>	Assigned

CRNL has assigned ‘CARE-NP BBB- (Is)’ rating to Sanima Life Insurance Limited (SLIL). 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 rating assigned to SLIL derives strength from its strong promoter group, experienced board and management team, moderate financial risk profile and improving combined ratio during FY20 (unaudited, refers to the 12 months period ended Mid-July 2020) and H1FY21 (Provisional, refers to the 6 months period ended Mid-January 2021), good asset quality of investment book. 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 SLIL to continue its growth momentum, remain profitable by increasing market share and maintaining the minimum solvency position are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Strengths**

***Strong promoter group including institutional promoter***

SLIL has been providing its service in life insurance sector since December 8, 2017. As on July 15, 2020, 100% of shares are held by promoter group. SLIL is promoted by one institutional promoter (Sanima Bank Limited) and remaining by individual promoters from different background. The promoter group shares of the company are mostly owned by individuals belonging to Sanima Group. Sanima Group in Nepal is managed by prominent non-resident Nepalese residing in different parts of globe. The Group business expands across sectors like finance, banking, hydropower, education and tourism.

***Experienced board and management team***

SLIL has five experienced members on its board led by Mr. Kumar Koirala. Mr. Koirala has overall experience of around 3 decades with 27 years serving in Nepal Police in senior management position. He was also associated as advisory for United Nation in Bangladesh, Austria and Ukraine. Currently he is engaged with United Nations as Senior Police Adviser. The day-to-day operations of the company is headed by Mr. Agam Mukhia, CEO, who has overall experience of more than 2 decades in financial

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

sector. He had also served as deputy chief executive officer in another Life Insurance Company. Similarly, Mr. Mukhia had spent more than 10 years in another Life Insurance Company. He is assisted by an experienced team across various functions.

***Moderate financial risk profile and improving combined ratio***

During FY19, company's gross premium written (GPW) was Rs. 444 Mn which increased to Rs. 838 Mn during FY20. Net premium written (NPW) increased from Rs. 429 Mn during FY19 to Rs 829 Mn in FY20 with retention ratio of 98.88% (SLIL cedes to Nepal Reinsurance Company Limited 100% of the surplus over Rs. 0.4 Mn of sum assured per life as agreed in reinsurance treaty). Further, NPW increased to Rs. 956 Mn during H1FY21. SLIL reported significant growth in Net Underwriting result with Rs. 451 Mn during FY20 over Rs. 153 Mn during FY19. Further, underwriting result improved to Rs. 628 Mn during H1FY21. On back of improvement in underwriting result, SLIL reported increase in net profit during FY20 to Rs. 94 Mn from Rs. 55 Mn during FY19. Further, SLIL reported net profit of Rs. 55 Mn during H1FY21.

The loss ratio (claim ratio) of SLIL was at 0.90%, commission ratio was 18.21% and expense ratio was 27.65% in FY19. On back of these, the combined ratio of the company was at 46.76% during FY20, which improved from 62.23% during FY19. Further, the combined ratio improved to 34.62% during H1FY21 due to improvement in commission ratio and expense ratio.

***Moderate solvency profile***

Being in the initial years of operations, SLIL has maintained 1.44x solvency ratio during FY19 which is below minimum required ratio of 1.50x. The Insurance Board, has revised the solvency margin calculation norms through a directive issued in FY19. Only 50% of the paid-up capital is now considered for the calculation of solvency margins (which was 100% of paid-up capital earlier). Solvency ratio improved to 1.53x for FY20 based on provisional financials and pending actuarial report. With the increased capital (after proposed IPO issue) and accretion of profits, the solvency ratio is expected to improve.

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

The company had an investment portfolio of around Rs. 1,711 Mn at the end of FY19 which increased to Rs. 2,367 Mn at the end of FY20 recording a growth of 38%. Further, investment portfolio increased to Rs. 2,734 Mn at the end of H1FY21 recording a growth of 17% over FY20. SLIL has complied with guidelines prescribed by regulator. Out of the total investment portfolio, SLIL has total investment of 95.72% in fixed and interest-bearing deposit at different Bank and Financial Institutions as on July 15, 2020, which are readily marketable in nature which lends sufficient liquidity cushion to the company. As majority of investments of SLIL are in deposits at different BFIs, investment income of SLIL comprises of interest income from these investments. Investment income has increased by 5.86% during FY20 to Rs. 174 Million mainly due increase in investment portfolio during FY20. Average yield on Investment of SLIL was 8.55% in FY20.

***Adequate geographical coverage through branches***

SLIL has scattered all over the country through its 45 branches (including Head Office) as on Mid-January 2021 along with 51 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***

SLIL started its operation during FY18 and had its first full year of operation during FY19. Currently, there are 19 life insurance companies operating in Nepal (10 companies are licensed and started operation after FY17). SLIL shares 0.55% of total GPW (i.e. Rs. 972 Mn) and ranks 15<sup>th</sup> Position (out of 19) in terms of GPW as on H1FY21 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, SLIL is expected to face high competition to tap the new customers.

***Concentration in Endowment policies***

SLIL's business is focused towards endowment segment and its variation with ~66% of NPW contribution from these policies during FY20 which marginally decreased to ~64% during H1FY21. Followed by Money Back Policy which contributed ~24% during FY20 and increased to ~25% during H1FY20. Foreign Employment Policy contributes only ~1.68% during FY20 due to pooling and sharing of foreign employment policies among all insurance companies. The domination of endowment policies is positive from business growth prospects.

**About the Company**

Sanima Life Insurance Limited (SLIL) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on November 29, 2007 and has obtained license from Insurance Board on August 23, 2017. SLIL is promoted by Non-Resident Nepalese (NRNs). SLIL has been offering an extensive range of products as Money Back, Endowment, Whole Life, Term Assurance products etc. through its diversified sales network.

SLIL has assets base of Rs. 2,589.57 Mn as on July 15, 2020. As per regulatory requirement minimum capital must be 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.

Brief Financial Performance of last two years is as follows:

(Rs. Million)

Particulars	FY19 (A)	FY20 (UA)
Net Premium Earned	404.21	847.67
Income from Investment	164.71	174.37
Profit After Tax (PAT)	54.74	94.12
Investments	1,711.39	2,366.94

Particulars	FY19 (A)	FY20 (UA)
Investment Yield (%)	10.63	8.55
Return on Total Assets	3.15	4.17
Solvency Ratio (times)	1.44	1.53

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