

Rating Rationale
General Insurance Company Nepal Limited

Rating

Particulars	Amount	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	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 rating assigned to GIC is constrained by short track record of its operations, competition from other insurance companies coupled with relatively small market share in the non-life insurance industry, concentration in motor segment and moderate financial risk profile with high expense ratio leading to high combined ratio.

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. Further, the rating is supported by adequate reported solvency ratio.

Ability of GIC to maintain growth in income while maintaining quality of its investment 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 operations 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 Gross Premium Written (GPW) of Rs. 27 Bn during FY20; where GIC shares only 1.97% of total GPW and ranks at 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 among others which may 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 FY20, the company earned gross premium written (GPW) of Rs. 563 Mn. Net premium written (NPW) during FY20 was Rs. 222 Mn. with retention ratio of 39.58%. Further the GPW and NPW of GIC increased to Rs. 523 Mn and to Rs. 164 Mn respectively during 9MFY21. GIC has been reporting underwriting loss in the last two financials years which stood at Rs. 86 Mn during FY19 and Rs. 30 Mn in FY20. In 9MFY21, GIC has booked underwriting profit of Rs. 6.02 Mn. GIC reported net profit of Rs. 38 Mn during FY20 against net loss of Rs. 7 Mn during FY19, which has been further improved to Rs. 64 Mn during 9MFY21 due to substantial increase in gross premium written as a result of increase in number of policies sold.

The loss ratio (claim ratio) of GIC was 58.45% during FY20 due to low Net Premium Earned of Rs. 190 Mn and high claims during initial years of operation. Expense ratio of GIC was 94.93% during FY20 due to high operating expenses and commission ratio at 37.85% during same period. GIC had high overall combined ratio of 115.53% during FY20 which has been improved from 222.11% of FY19 and it has been further improved to 95.70% during 9MFY21.

Concentration in motor segment

Out of the total policies with the company, the concentration is maximum towards motor segment followed by fire segment. Concentration of policies towards motor segment as % of total policies with the 71.80% in FY20 and 66.85% in 9MFY21. Similarly, concentration towards fire segment has increased from 11.22% in FY20 to 11.96% in 9MFY21. In terms of Gross Premium Written (GPW), Motor segment contributed ~48% followed by fire with ~21%. Whereas in terms of Net Premium Written (NPW), Motor segment contributed ~78% during FY20 due to higher retention in the segment followed by fire segment with ~6%. Further, during 9MFY21, motor segment contributed ~75% and fire segment ~15%.

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 Mrs. Babita Kumari Agrawal with 6.35% of total shares followed by Mega Bank Nepal Limited, “A” class financial institution (5.00%) and Deva Bikas Bank Limited, “B” 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 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. Ram Chandra Shrestha, Acting CEO, who has overall experience of more

than 2 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. 892 Mn during FY20 which increased by ~5% over FY19, mainly due to additional investment in the form of fixed deposits at different Bank and Financial Institutions (BFIs), and the same has further increased by ~34% to Rs. 1,199 Mn during 9MFY21 over FY20. Out of the total investment portfolio, GIC has invested almost all the investments in the form of fixed and interest bearing deposit at different BFIs, which are readily marketable in nature thereby, providing sufficient liquidity cushion to the company. Further, during FY20 company had comfortable liquidity position with Liquid Assets to Technical Reserve standing at 5.29x. 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 ~7% during FY20 to Rs. 82.65 Mn over FY19. GIC earned Rs. 84.96 Mn investment income during 9MFY21 reporting ~10% growth over 9MFY20. Average yield on investment of GIC was 10.35% during FY19, 9.71% during FY20 and 9.50% during 9MFY21. Yield on investment decreased drastically due to fall in interest rate on FD on account of ongoing impact of COVID 19.

Reported solvency ratio remains lower than the regulatory requirements

As per actuary report for the FY20, GIC has maintained solvency ratio of 1.46x which was 1.48x in FY19 which is less than minimum regulatory requirement of 1.50x. However, as per Management, Company will be able to achieve margin mark of 1.50x by the end of FY21. However, Ratio was low in FY18, as the paid up capital of the company stood at Rs. 700 Mn in FY18 as against high required solvency of Rs. 1,000 Mn, based on minimum capital requirement. With the increased capital after IPO issue of Rs. 300 Mn during FY21 and accretion of profits, GIC's asset base has increased. Further with increased business volume, solvency ratio of the company has further improved.

About the Company

General Insurance Company Nepal Limited (GIC) is a general (non-life) insurance company which 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.

GIC has network of 40 branches (including head office) supported by 193 employees and 107 insurance agents as on Mid-April 2021. GIC has an asset base of Rs.1,073 Mn as on July 15, 2020 which witnessed 11.39% growth over FY19. The capital structure of the company comprises of Rs. 700 Mn as paid up capital from the promoter group and the Rs. 300 Mn from general public.

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