

**Rating Rationale**  
**Sanima General Insurance Limited**

**Rating**

Particulars	Amount	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	<b>CARE-NP BB+ (Is)</b> <b>[Double B Plus (Issuer)]</b>	Reaffirmed

CRNL has reaffirmed the rating of ‘CARE-NP BB+ (Is)’ assigned 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, concentration of premium in motor segment and moderate financial risk profile with high expense ratio leading to high combined ratio.

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. Further, the rating also takes into account sufficient reported solvency ratio vis-à-vis the regulatory requirement.

*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 has short track record of operations. Currently there are 20 non-life insurance companies operating in Nepal sharing total Gross Premium Written (GPW) of Rs. 27 Bn during FY20; where SGIC shares only 1.32% 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 customers while retaining the 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 is expected to have a negative impact on overall growth of industries in Nepal including construction, hospitality industry which may impact the business of non-life insurance companies.

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

***Moderate financial risk profile with high expense ratio leading to high combined ratio, however improved during 9MFY21***

SGIC started operating during FY18 (operated for 6 days only) and had its first full year of operation during FY19. During FY20 (Audited; refers to period ended on July 15, 2020), the company earned gross premium written (GPW) of Rs. 361 Mn. Net premium written (NPW) during FY20 was Rs. 136 Mn. with retention ratio of 37.64%. Furthermore, GPW and NPW of SGIC increased to Rs. 465 Mn (Rs. 263 Mn during 9MFY20) and to Rs. 138 Mn (Rs. 94 Mn during 9MFY20) respectively during 9MFY21 (Unaudited; refers to nine months' period ended on April 13, 2021) over 9MFY20. SGIC has been reporting underwriting loss from last two financial years which stood at Rs. 64 Mn during FY19 and Rs. 15.15 Mn during FY20. However, the same has improved in 9MFY21 with SGIC reporting underwriting profit of Rs. 20.07 Mn. SGIC reported net profit of Rs. 44 Mn during FY20 against net profit of Rs. 5 Mn during FY19, which has been further increased to Rs. 58 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 SGIC was 55.18% during FY20 due to low Net Premium Earned of Rs. 119.57 Mn and high claims during initial years of operation. Expense ratio of SGIC was 104.81% during FY20 due to high operating expenses and commission ratio at 47.32% during same period. SGIC had high overall combined ratio of 112.67% during FY20 which has been improved from 414.46% of FY19 and it has been further improved to 80.32% 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 and the same has been on increasing trend on y-o-y basis. Concentration of policies towards motor segment as % of total policies with the company increased from ~66.82% in FY19 to 74.15% in FY20 and further to 74.57% in 9MFY21. Similarly, concentration towards fire segment has increased from 9.97% in FY20 to 11.37% in 9MFY21. In terms of Gross Premium Written (GPW), Motor segment contributed ~48% followed by fire with ~22%. Whereas in terms of Net Premium Written (NPW), Motor segment contributed ~71% during FY20 due to higher retention in the segment followed by fire segment with ~9%. Further, during 9MFY21, motor segment contributed ~71% and fire segment ~14%.

**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 also 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. Sudyumna Prasad Upadhyaya, who has overall experience of more than 2 decades in general insurance business. He has been associated with Premier Insurance Company Limited, in past as CEO. 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. 873 Mn during FY20 which increased by ~16% 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 BFIs, which are readily marketable in nature which provides sufficient liquidity cushion to the company. Further, during FY20 company had comfortable liquidity position with Liquid Assets to Technical Reserve standing at 6.48x.

As majority of the investments of SGIC are in the form of deposits at different BFIs, investment income of SGIC comprises majorly of interest income from those deposits. Accordingly, investment income increased by ~6% during FY20 to Rs. 75.6 Mn over FY19. SGIC earned Rs. 60.84 Mn investment income during 9MFY21 reporting ~9% growth over 9MFY20. Average yield on investment of SGIC was 10.46% during FY19, 10.03% during FY20 and 7.66% during 9MFY21.

***Moderate solvency ratio***

As per actuary report for the FY20, SGIC has maintained solvency ratio of 1.52x which was 0.78x in FY19. Ratio was low in FY19, as the paid up capital of the company stood at Rs. 700 Mn 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 and accretion of profits, SGIC's asset base has increased. Further with increased business volume, solvency ratio of the company has improved.

***About the Company***

Sanima General Insurance Limited (SGIC) is a general (non-life) insurance company which 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).

SGIC has network of 19 branches (including head office), 3 sub branches supported by 133 employees and 208 insurance agents as on Mid-April 2021. SGIC's assets base stood at Rs. 999 Mn as on July 15, 2020 which witnessed 13.98% growth over FY19.

<b>Analyst Contact</b> Mr. Rishi Ram Poudel <a href="mailto:rishi.poudel@careratingsnepal.com">rishi.poudel@careratingsnepal.com</a> Tel No.: : +977-01-4012629	<b>Group Head</b> Ms. Shalini Sanghai <a href="mailto:shalini.sanghai@careratingsnepal.com">shalini.sanghai@careratingsnepal.com</a> Tel No.: +977-01-4012629	<b>Relationship Contact</b> Mr. Achin Nirwani <a href="mailto:achin.nirwani@careratingsnepal.com">achin.nirwani@careratingsnepal.com</a> Tel No.: 9818236069/+977-01-4012628/29/30
--	--	---

**Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments