

## Sanima General Insurance Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating	Rating Action
<b>Issuer Rating</b>	NA	<b>CARE-NP BB+ (Is) [Double B Plus (Issuer)]</b>	Reaffirmed

CRNL has reaffirmed rating of 'CARE-NP BB+ (Is)' assigned to Sanima General Insurance Limited (SGIC). 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 reaffirmation of the rating assigned to SGIC continues to be constrained by its short track record of operations with relatively small market share in the non-life insurance industry coupled with high competition from other insurance companies. The rating also factors in SGIC's concentration in the motor segment, moderate financial risk profile with high combined ratio and exposure to regulatory risk. The rating, however, continues to derive strength from SGIC's association with strong promoter group, experienced board & management team and diversified investment profile with fair return on investment. Furthermore, the rating also takes cognizance of the improving trend in SGIC's solvency profile.

*Going forward, the ability of the company to maintain growth in income while also maintaining quality of its investment portfolio and its 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 with relatively small market share in the non-life insurance industry coupled with competition from other insurance companies**

SGIC started operations during FY18 and has a relatively short track record of operations as compared with other established players. Currently, there are 20 non-life insurance companies operating in Nepal where SGIC's market share of 1.50% in terms of Gross Premium Written in FY21 ranked at 20<sup>th</sup> position, reflecting modest market share in the industry. Market penetration of general insurance sector is still low in Nepal thus providing ample opportunities for future growth in the non-life insurance sector. However, due to presence of large number of non-life insurance companies and limited market potential, there is high competition among the companies to add new or retain existing customers. It is crucial for the company to improve its market share on sustainable basis in the light of competitive nature of industry to improve its business risk profile.

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

SGIC continues to have high concentration in the motor segment, albeit broadly in line with the industry trend. The motor and property segment contributing around 85.19% of total policies sold in FY21 (Audited, refers to the twelve-month period ended mid-July 2021). The concentration of business towards motor and property segment; however, improved marginally and stood at 84.41% in 6MFY22 (Unaudited refers to the six-month period ended mid-January 2022). In terms of Gross Premium Written (GPW), motor segment contributed ~41% followed by property segment at 23%. The higher concentration in the motor segment exposes the new business of company's towards the performance of the automobile segment.

#### **Moderate financial risk profile with high combined ratio, albeit amid increasing scale of operations**

During FY21 the company's GPW increased by 89% to Rs. 683 Mn from Rs. 361 Mn during FY20. The growth of business was backed by increase in branches and manpower of the company. Similarly, SGIC's NPW increased to Rs. 194 Mn with retention ratio of 28.38% during FY21 from Rs. 136 Mn in FY20 with retention ratio of 37.64%. Furthermore, NPW increased to Rs. 222 Mn during 9MFY22 (Rs. 138 Mn during 9MFY21).

SGIC had reported underwriting loss in the last two financial years which stood at Rs. 7 Mn during FY21 against Rs. 15 Mn in FY20. In 9MFY22, the performance of the company has improved mainly attributed to economies of scale and SGIC reported underwriting profit of Rs. 68 Mn. SGIC's net profit increased to Rs. 56 Mn during FY21 from Rs. 44 Mn during FY20, and further to Rs. 105 Mn during 9MFY22 backed by improvement in underwriting result and increased investment income as a result of increased investment portfolio.

However, SGIC's loss ratio (claim ratio) increased to 75% during FY21 from 55.18% in FY20, mainly on account of increase in motor insurance claims and residual COVID claims during FY21. Commission ratio (net of reinsurance commission income and agent commission expenses) increased to 58.48% during FY21 from 47.82% in FY20. Although, Expense Ratio decreased to 87.85% during FY21 from 104.81% in FY20 on account of better business volumes, combined ratio stood high at 104.37% during FY21.

### **Exposure to Regulatory Risk**

Non-life insurance business faces challenges of frequent changes in the regulatory environment. The insurance Board determines the tariff rate of different segments of general insurance business and risk coverage under different issued policies, thus impacting financial profile of company. Besides, with motor segment being major revenue source of non-life insurance companies in Nepal, changes in regulations governing the automobiles sector could impact business prospects of non-life insurance companies. The GoN has announced cash margin for imports of automobiles to 50% from earlier 1% in December 2021 and imposed restriction in imports of several items, which included certain automobiles, till mid-July 2022, which has been further extended till August 30, 2022. Subsequently, the near term business prospects of the automobile industry is expected to be impacted by these measure, which in turn could impact general insurance companies, particularly those with higher exposure towards the motor segment. Furthermore, all non-life insurance companies shall maintain minimum paid up capital of Rs. 2.5 Bn by mid-April 2023 as per the mandatory requirement of Insurance Board.

### **Key Rating Strengths**

#### **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. during FY21.

#### **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. FY21.

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

SGIC had an investment portfolio of around Rs. 1,347 Mn during FY21 which increased by ~54% over FY20 and the same has further increased by ~9% over FY21 to Rs. 1,471 Mn during 9MFY22. Out of the total investment portfolio, SGIC has invested 95% of the investments in the form of fixed and interest bearing deposits at different BFIs, which are readily marketable in nature thereby, providing sufficient liquidity cushion to the company.

During FY21, company had comfortable liquidity position with Liquid Assets to Technical Reserve standing at 4.97x. 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 has increased by ~9% during FY21 to Rs. 83 Mn over

FY20. SGIC earned Rs. 81 Mn investment income during 9MFY22. Average yield on Investment of SGIC was 7.88% in FY21 (FY20:10.05%), mainly on account of decrease in interest rates of fixed deposits of BFIs in FY21.

### Improving solvency profile

SGIC's solvency ratio stood at 2.26x during FY21 as compared to 1.52x during FY20 against the minimum requirement of 1.50x. The solvency ratio improved during FY21 on account of increased asset base of the company supported by growing business operations coupled with increased capital after initial public issuance of Rs. 300 Mn in FY21.

### About the Company

Sanima General Insurance Limited (SGIC) is a general (non-life) insurance company which started its operation from July 11, 2018. SGIC is promoted by Sanima Group, which is promoted by a group of Non-Resident Nepalese (NRN). The capital structure of the company comprises of Rs. 700 Mn as paid up capital from the promoter group and Rs. 300 Mn from general public.

Brief financial performance of Sanima General Insurance Limited (SGIC) during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Gross Premium Written (GPW)	196.22	361.13	683.29
Net Premium Written (NPW)	74.74	135.92	193.92
Retention ratio (NPW/GPW)(%)	38.09	37.64	28.38
Underwriting result	(64.00)	(15.15)	(7.26)
Income from investment	71.05	75.6	83.05
Profit after Tax(PAT)	5.16	43.59	56.63
Investments	698.3	873.22	1,347.39
Investment yield (%)	10.17	10.05	7.88
Return on total assets (%)	3.88	5.96	6.16
Return on Net Worth (%)	3.15	4.1	3.53
Solvency ratio (times)	1.44	1.52	2.26

A: Audited

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