

General Insurance Company Nepal Limited

Ratings

Facilities	Amount (Rs. Million)	Rating	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)] (Credit watch with Developing Implications)	Placed on credit watch with developing implications

CARE Ratings Nepal Limited (CRNL) has placed the issuer rating of 'CARE-NP BB+ (Is)' assigned to General Insurance Company Nepal Limited (GIC) on credit watch with developing implications. 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 has been placed on credit watch with developing implications factoring in the ongoing merger process of GIC with Sanima General Insurance Company Limited (SGI). CRNL will resolve the rating watch after completion of the merger process.

The rating continues to be constrained by GIC's short track record of operations along with relatively small market share in the non-life insurance industry amid competition from other insurance companies. The rating also factors in GIC's higher 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 GIC'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 GIC's solvency profile.

Going forward, the ability of the company to continue its growth momentum while diversifying the policy segments and maintaining quality of the investment portfolio and minimum regulatory solvency profile will be key rating sensitivities. The company's ability to timely complete the proposed merger, utilize the available relaxations provided by the regulatory body on merger and generate the post-merger synergy will be a key monitorable aspect.

Key Updates

Among 20 non-life insurance companies operating in Nepal (of which 3 were licensed and started operations in FY18), GIC shared 2.34% of total GPW in FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022), reflecting short track record of operation resulting in a modest market share in the industry. GIC continues to have high concentration in the motor segment, albeit broadly in line with the industry trend, with total policies sold by GIC towards the motor segment contributing around 68.84% in 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022). The higher concentration in the motor segment exposes the new business of company's towards the performance of the automobile segment.

The financial risk profile of GIC at the end of FY22 was marked by growth in premium and profitability, albeit offset to some extent by increasing combined ratio. During FY22, the company's gross premium written (GPW) increased by 27.44% over FY21 (Audited, refers to the twelve-month period ended mid-July 2021) to Rs. 916 backed by increasing network of the company. Despite reporting underwriting loss of Rs. 16.17 Mn in FY22, the company's Profit After Tax (PAT) increased to Rs. 112 Mn in FY22 from 59 Mn in FY21 supported by increase in investment income in FY22 backed by increase in investment portfolio. However, GIC's loss ratio (claim ratio) increased to 67.36% during FY22 from 63.77% in FY21, mainly on account of increase in motor insurance claims. Thus, the combined ratio stood high at 107.51 % in FY22.

GIC had an investment portfolio of around Rs. 1,365 Mn at the end of FY22 which increased from Rs. 1,245 Mn in FY21, recording a growth of 9.64%. GIC's solvency ratio improved to 2.18x during FY21 as compared to 1.46x during FY20 against

the minimum requirement of 1.50x 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.

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 share on sustainable basis in the light of competitive nature of industry to improve its business risk profile.

About the Company

General Insurance Company Nepal Limited (GIC) is a general (non-life) insurance company which started its operation from June 20, 2018. GIC is promoted by institutional and individual promoters from different background. The capital structure of the company comprises of paid up capital of Rs. 1,000 Mn out of which RS. 700 Mn is paid up capital from promoter group and the remaining has been raised from initial public issuance as on Mid-July 2022.

Brief financial performance of General Insurance Company Nepal Limited (GIC) during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Gross Premium Written (GPW)	333	563	719
Net Premium Written (NPW)	138	223	264
Retention ratio (NPW/GPW)(%)	41.48	39.58	36.73
Underwriting result	(86)	(30)	(16)
Income from investment	77	88	95
Profit after Tax(PAT)	(7)	41	59
Investments	830	893	1,245
Investment yield (%)	9.30	10.32	8.99
Return on total assets (%)	Negative	5.76	6.44
Return on Net Worth (%)	Negative	3.23	3.33
Solvency ratio (times)	1.48	1.46	2.18

A: Audited

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