

## **Surya Life Insurance Company Limited**

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed equity shares (rights issue) of Surya Life Insurance Company Limited

INSTRUMENT/FACILITY	ISSUE SIZE	GRADING ACTION (MARCH 2016)
Rights Shares issue	NPR 125 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned "[ICRANP] IPO Grade 4" to the proposed equity shares (Rights issue) of Surya Life Insurance Company Limited (SLIC). The grading, at the current levels, indicates below average fundamentals to the proposed rights issue of the company. ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative better position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4 respectively. SLIC is proposing to come out with 25% rights issue of 1,250,000 of equity shares each with a face value of NPR 100/- each to be issued to existing shareholders at par.

The grading factors in the healthy growth in premium earnings (CAGR 65% growth in Gross premium earnings in past 3 years ending FY15) supported¹ largely by single premium mandatory foreign employment (FE) term policies², wide franchisee network, experienced management team and strong reinsurance support. However, the grading is constrained by SLIC's short track record (operating since March 2008), relatively small scale of business operations (industry share of 3% of net premium earnings in FY2014-15), low premium continuation rate, modest profitability indicators, limited product diversification and the nascent stage of the Nepalese Life Insurance industry. Nonetheless, the grading takes into consideration SLIC's comfortable solvency indicators and claims paying ability.

SLIC is among the new entrants in the Nepalese life insurance industry and remains a relatively small player in the industry. The growth in fresh premium earnings and total gross premium earnings (CAGR 88% and CAGR 65% respectively in past 3 years ending FY15) remains healthy albeit on a low base, strongly supported by single premium FE policies- a product made mandatory by the Nepalese government in 2007-08 and taken up actively by SLIC since 2013-14. However, low premium continuation rate of ~50-55% in the past two years for SLIC remains a drag to the earnings profile. In terms of its portfolio mix, endowment policies and its variants remain the major segments for SLIC despite the recent growth in the term segment. 72% of gross premium earnings in FY14-15 were contributed by endowment products while the balance was accounted for by term policies (mainly FE term policies).

Due to its limited track record, SLIC's benefits (claim) paid remains small with the Net claims/Net premium ratio standing at 6% in FY2014-15 vis-a-vis 3% in FY2013-14. Benefits paid during FY2014-15 were mostly for death claims (69% of gross claims). Death benefit was followed by policy surrender claims (18% of gross claims for FY 2014-15), claims made under partial money back life plans (12% of gross claims) while claims upon maturity remained low (2% of gross claims) given limited track record of SLIC and relatively longer duration of policies. SLIC's claims paying ability remains healthy, albeit on a relatively fresh portfolio.

Net investment income of SLIC for FY 2014-15 stood at NPR 111 million corresponding to average yield on investment of ~8%. The quality of investment portfolio of SLIC remains compliant with the regulatory guidelines, with 71% of portfolio, as on mid-July-15, comprising investments in Government securities, fixed deposits (with Commercial banks and Development Banks) and debentures of commercial banks compared to ~83% in mid-July-14. However, falling yield on investments (since ~71% of total investments were in domestic financial institutions FDRs) in softening interest rate environment continues to pose a risk to the company's earnings profile. On solvency front, SLIC remains comfortable with solvency ratio of 3.02x times on July 2014<sup>3</sup> vis-a-vis a regulatory minimum requirement of 1.0x times. Similarly, life

<sup>&</sup>lt;sup>1</sup> Disregarding foreign employment policies, the CAGR growth rate over the same period stood at 47%

<sup>&</sup>lt;sup>2</sup> Policies to cover the life of Nepalese migrant workers going abroad for employment.

<sup>&</sup>lt;sup>3</sup> Solvency ratio for July 2015 is yet to be determined pending actuarial evaluation



fund/total investment ratio stood comfortable at 66% on July-15. SLIC has reinsurance agreement (including catastrophic reinsurance agreement) with SCOR Re Singapore<sup>4</sup> since inception.

During FY 2014-15<sup>5</sup>, SLIC reported Net Profit of ~NPR 14<sup>6</sup> million on a Net Premium of NPR 623 million (corresponding to return on net worth of ~2.1%) as compared to Net profit of NPR 43 million on a net premium of NPR 382 million for FY14 (corresponding to return on net worth of ~7%). Moderate overall profits of SLIC over the years have been a result of limited transfers from policyholders' funds to profit and loss account, requirement for unexpired risk provision<sup>7</sup> on FE term policies' premium earnings, relatively small investment portfolio and yield thereon. Further, focus only on low profitability traditional products, limited distribution channel and overall operating environment in Nepal have also proved to be a drag on its net earnings. The RoE<sup>8</sup> for SLIC is likely to remain under pressure in the next few quarters as well since a much sharper growth expected in its networth (due to fresh capital injection).

## **Company Profile**

Surya Life Insurance Company Limited (SLIC) started its operations after receiving license to operate life insurance business in 19th March 2008. Its head office is located at Charter Tower, Gyaneshwor, Kathmandu. SLIC is a small player (market share of 3% in terms of net premium earned and 5% in terms of fresh premium earned till Q1FY15-16) in Nepalese life insurance sector. As of mid-Jul-15, it is in operation with 66 branches (including corporate office) and 15,578 agents across the nation for procuring new business and extending after sales services.

SLIC has 70:30 promoter-public shareholdings as on mid-Oct-15. SLIC reported a profit after tax of NPR 27.75 million during 2014-15 over total assets base of NPR 1,941 million on Jul-15 as compared to profit after tax of NPR 43.79 million during 2013-14 over total assets base of NPR 1,419 million as on mid-Jul-14. In terms of technology platform, SLIC has implemented Siddhi GL/Siddhi Life1 in its corporate office and all of its branches.

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For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20

Kishor@icranepal.com

Mr. Sailesh Subedi (Tel No. +977-1-4419910/20

sailesh@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (Tel. No. +977-1-4419910/20

drkafle@icranepal.com

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<sup>&</sup>lt;sup>4</sup> rated A1 with positive outlook for financial strength by Moody's in December 2015)

<sup>&</sup>lt;sup>5</sup> As per unaudited financials, pending actuarial evaluation of policyholder liabilities

<sup>&</sup>lt;sup>6</sup> Before transfer from life insurance fund due to pending actuary valuation

<sup>&</sup>lt;sup>7</sup> Unexpired risk reserve is to be maintained for FE term policies on month proportional basis for unexpired term of the policy.

<sup>&</sup>lt;sup>8</sup> Return on equity