

Shikhar Insurance Company Limited: Rating upgraded to [ICRANP-IR] AA-

May 15, 2025

Facility	Rated Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] AA-; upgraded from [ICRANP-IR] A+

Rating action

ICRA Nepal has upgraded the issuer rating of Shikhar Insurance Company Limited (SICL) to [ICRANP-IR] AA- (pronounced ICRA NP Issuer Rating Double A Minus) from [ICRANP-IR] A+ (pronounced ICRA NP Issuer Rating A plus). Issuers with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such issuers carry very low credit risk. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument. The sign of + (plus) or – (minus) appended to the rating symbols indicate their relative position within the rating categories concerned.

Rationale

The rating upgrade mainly factors in the company's gradually increasing scalability, along with improvements in its claims ratio in recent years, thus leading to steady improvements in underwriting surplus and overall profitability. The rating continues to take comfort from the company's sustained leadership position (despite recent mergers in the industry) and strong competitive positioning as reflected in its highest share in gross premium earnings (GPE) of the industry (~12-13%), in addition to its long track record, wide network of branches, seasoned management team, strong risk management policy, strong reinsurance arrangement/catastrophic provision and good financial profile of the lead reinsurer (Hannover Re¹, Germany), which is likely to support its future growth and solvency aspects. The company continues to report strong solvency profile despite its risk averse philosophy of maintaining relatively low retention, resulting in moderate profitability as compared to peers. SICL's turnaround time for claims settlement has remained relatively better in general, which was also evidenced recently, by a relatively better claim settlement ratio as compared to peers, in respect of September 2024's flood related claims. ICRA Nepal also positively factors in the growth prospects of the company/industry given the low penetration of insurance business in Nepal.

However, the rating concerns arise from fragmented nature of the industry amid the moderation in pace of business growth in the last 12-18 months (albeit in line with the broad economic trends) and the likely impact on SICL's market leader positioning from large sized competitors formed through recent mergers in the industry. Further, exposure to interest rate volatility with majority of investments being short-term in nature amid lack of long-term investment avenues (including government securities) remains a concern at the industry level. This has also impacted SICL through significant degrowth in investment yield/income in recent years (despite a growing investment portfolio), following the softening of interest rates. Additionally, regulatory changes affecting the motor portfolio may impact the business profile as a major portion of its net premium earned is still being derived from this segment. Incrementally, the company's ability to continue its leadership position, sustain the improvements in claims ratio and solvency profile, while ensuring adequate profitability would remain the key rating sensitivities.

Key rating drivers

Credit strengths

Long track record, strong market position and seasoned management team – Operating since 2004, SICL has a long operational track record in the Nepalese general insurance industry. The company's market position continues to remain strong despite recent mergers in the industry, supported by one of the largest branch networks in the country, which is

¹ Hannover Re's issuer credit rating has been affirmed at AA during the latest exercise by AM Best. (Published December 2024)

likely to help in the long-term growth and diversification of business. Its management team comprises of seasoned professionals with long industry experience, which has been factored positively in the rating action.

Strong reinsurance arrangements – SICL’s lead reinsurer viz. ‘Hannover Re’², Germany (for FY2025) has a strong credit profile which comforts the company’s claims paying ability. Further, SICL’s reinsurance arrangement has remained among the strongest in the industry and continues to remain so. SICL’s adequate catastrophic reinsurance arrangement at the time of the April 2015 earthquake not only supported its claims-paying ability but also helped its branding, enabling it to become the largest player in the years following. This has been cemented further through the relatively higher trends in claims settlement relating to the major floods of September 2024. The company continues to maintain adequate reinsurance arrangements, including a strong catastrophic risk coverage for FY2025, which is likely to support the company’s solvency during similar catastrophic events. While ICRA Nepal continues to take note of the company’s/industry’s sizable pending claims relating to the Covid-insurance, amid the commensurate delayed receipt of the same from the counterparty viz. Government of Nepal (GoN), strong counterparty profile remains a major comforting factor.

Strong solvency and liquidity profile – On the solvency front, SICL’s solvency margin as of mid-July 2024 (actuarial valuation based) stood at 3.67 times, as per the new Risk Based Capital reporting regime (3.33 times as of mid-July 2023, as per the earlier reporting framework), versus a regulatory minimum of 1.3 times. Additionally, the solvency profile is expected to remain largely intact over the near term given the retention of profits through stock dividend. SICL’s liquidity position remains adequate as reflected in liquid assets to net insurance contract liabilities (*gross contract insurance liabilities less reinsurance assets*) ratio of 4.02 times as at mid-July 2024 as against 3.81 times as at mid-July 2023. Nonetheless, its net insurance contract liabilities to net premium earned ratio at ~93% remains moderate as compared to peers, which will remain a key rating sensitivity/monitorable.

Adequate profitability profile with support from reduced claims ratio – SICL’s profitability has improved in FY2024 owing to support from reduced claims ratio. With improvement in underwriting surplus along with the continued support from investment income in FY2024 (despite some Y-o-Y moderations), SICL’s profitability remained adequate vis-à-vis the peers. Incrementally, the reducing investment yields amid the exposure to interest rate volatility and the ongoing softening of rates, might result in lower investment income over the near to medium term. However, the recent increase in retention ratio in H1FY2025 to ~31% (albeit still remaining below the industry average of ~40%) and improved claims ratio is expected to aid the company’s profitability profile. Nonetheless, sustainability of the same over a longer time frame, remains to be seen.

Credit challenges

Competitive landscape and industry fragmentation – The recent mergers in the general insurance industry have led to formation of larger players (which are now closer to SICL’s scalability), which could affect the industry dynamics and challenge the market leader position of SICL. At the same time, the industry continues to be fragmented due to the presence of 14 players (despite recent consolidation) and further licensing/addition of 4 micro insurance companies, which are likely to impact retail business segment to an extent. While the low penetration of insurance industry in Nepalese market offers growth potential for all players, the company’s ability to maintain its market leader position and compete with other large-scale players in the fragmented industry will determine its long-term growth and financial profile, especially amid the moderation in pace of business growth in the last 12-18 months in the industry. In line with the broad industry trends, motor portfolio continues to remain the major business segment for SICL (~25% in terms of GPE and ~73% in terms of NPE in FY2024). Hence, any regulatory/operational changes related to the segment could have a disproportionate impact on SICL’s business.

Changes in operating environment because of new regulations – The players in the general insurance industry have been facing frequent changes in regulatory environment, especially those related to tariff and risk cover. Additionally,

² Rated “Superior” by AM Best in terms of its Financial Strength Rating and Issuer Credit Rating.

the other provisions like mandatory cession, licensing of new players, etc also affects the operating environment. While the regulatory changes are likely to eventually result in the strengthening of overall sector over the long-term, these regulatory changes could potentially impact the financial profile of all players over short to medium term.

Analytical approach: For arriving at the rating, ICRA Nepal has applied its rating methodology as indicated below.

Link to the applicable criteria:

[Issuer Rating Methodology](#)

Link to the previous rating rationale:

[Rationale Shikhar Insurance Company Limited-Issuer Rating Surveillance May 2024](#)

Company Profile

Established in March 2004, Shikhar Insurance Company Limited (SICL) is the 13th private sector general insurer in Nepal. SICL is a large-sized company in the industry, with ~12-13% market share in terms of the general insurance industry's gross premium written in FY2021-FY2024. As of mid-July 2024, the company was in operation with 117 branches spread across the nation for procuring business and extending after-sales services. SICL has recently obtained ISO 27001:2022 certification on Information System Risk Management. The company's paid-up capital and net worth as of mid-July 2024 was NPR 2,655 million and NPR 5,360 million, respectively. SICL has a 51:49 promoter–public shareholding ratio. The major shareholders as on mid-July 2024 included Mr. Gaurav Agarwal (~12%), Mrs. Chanda Sherpa (~6%), Buddha Air Private Limited (~6%), Mr. Shashikant Agrawal (~4%), Mr. Kailash Prasad Sirohiya (~4%), Mr. Rajendra Prasad Shrestha (~4%), and Mr. Bikas J.B. Rana (~4%), among others. SICL reported a PAT of ~NPR 445 million in FY2024 (~97% Y-o-Y growth) over an asset base of NPR 11,595 million as of mid-July 2024 (NPR 11,044 million as of mid-July 2023).

Key Financial Indicators

Amounts in NPR Million	FY2020	FY2021	FY2022	FY2023	FY2024	H1FY2025
	Audited-NAS		Audited-NFRS			Unaudited
Gross premium written (GPW)	3,385	3,921	4,393	5,296	5,258	2,050
Net premium written (NPW)	1,144	1,174	1,235	1,378	1,298	638
Net premium earned (NPE)	1,208	1,155	1,235	1,378	1,298	638
Premium retention (NPW/GPW)	33.8%	29.9%	28.1%	26.0%	24.7%	31.1%
Claims ratio (Net claims incurred/NPE)- A	66.1%	78.7%	86.7%	76.4%	66.5%	60.0%
Management expense ratio (Management expense/NPE)-B	50.7%	52.8%	57.1%	58.2%	67.8%	59.1%
Commission expense ratio (Commission expense/NPE)-C	-42.1%	-44.6%	-51.8%	-44.8%	-52.8%	-48.4%
Combined ratio (A+B+C)	74.7%	87.0%	92.0%	89.9%	81.5%	70.6%
Underwriting surplus	305	151	99	140	240	187
Investment earnings	280	333	261	375	337	171
Average yield on investments	8.0%	9.3%	7.3%	9.5%	8.0%	7.7%
Profit after tax (PAT)	408	311	273	226	445	257
Return on equity	12.9%	8.4%	5.8%	4.6%	8.3%	9.1%
Return on assets	8.7%	6.2%	5.2%	3.8%	7.3%	7.7%

Source: Company data

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About ICRA Nepal Limited:

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