**PRESS RELEASE**

**PRABHU INSURANCE LIMITED**

**August 2025**

**Rating**

| Instruments/ Facilities | Amount (NPR Mn) | Rating | Rating Action |
|---|---|---|---|
| Issuer Rating | NA | IRN BBB+ (Is) | Reaffirmed |

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the issuer rating of IRN BBB+ (Is) [Triple B Plus (Issuer)]. Issuers with this rating are considered to have the moderate degree of safety regarding timely servicing of financial obligations. Such issuers carry moderate credit risk.

## Detailed Rationale

The reaffirmation of rating assigned to Prabhu Insurance Limited (PRIN) continues to derive comfort from its long track record of operations (since 1995), strong promoter profile with major shareholder being government owned pension fund- Employee Provident Fund and Prabhu Bank Limited (an A-class commercial bank of Nepal). The rating also factors in the company's diversified investment portfolio that grew at a ~19% CAGR from FY21 to FY24, though FY24 saw a shift toward short-term deposits due to maturing FDs and receipt of reinsurance commissions, though already diversified across various instruments in FY25. Similarly, PRIN continues to maintain a robust solvency margin of 4.67x as on FY24 end significantly exceeding the regulatory minimum requirement of 1.30x[1], reflecting strong capital adequacy and financial stability. PRIN has demonstrated a stable claims performance, maintaining a low net claim ratio of 38% in FY24 and 34% in Q3FY25, compared to 35% in FY23. PRIN's Profit After Tax (PAT) and underwriting surplus have shown improvement in Q3FY25 compared to FY24, indicating a positive trend toward operational stability and sustainable business growth. This stability, despite adverse events such as severe floods, reflects the company's prudent risk selection strategy, supported by modest growth in gross premium written (GPW). The rating also continues to consider PRIN's adequate reinsurance arrangements including catastrophic provisions.

However, these rating strengths are partially offset by the company's moderate scale of operations, fluctuating financial profile with ebbs and flows in operating profit i.e. underwriting surplus across the FY21-24. The rating is also constrained due to deterioration of retentions ratios from 40% in FY23 into 36% in FY24 due to underwriting of insurance policy belonging to air flight segment which inherently has lower retention ratio. The reduction in commission income, resulting from the deferral of reinsurance commissions under revised accounting standards coupled with additional provisioning under new RBC framework[2], adversely impacted PRIN's underwriting surplus, which declined to ~NPR 111 Mn in FY24. However, the surplus showed signs of recovery, increasing to NPR 179 Mn in Q3FY25. The combined ratio deteriorated to 81% in FY24 from 65% in FY23 but improved to ~63% in Q3FY25, indicating signs of stabilization. The rating concerns also arise from intense competition within the industry and uncertainties surrounding changes in insurance laws and regulations mandated by the Nepal Insurance Authority (NIA), which could impact profitability. The rating also considers the low growth in GPW and NPE (~9% and ~0.44% respectively) in comparison to industry average growth (~14% and ~14% respectively) across the same period.

Going forward, the company's capability to upscale proportionally while upholding financial metrics and solvency standards will remain key rating sensitivities. Also, the timely completion of right issuance and utilization of the proceeds as envisaged will remain key monitorable.

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[1] With introduction of Risk-Based Capital and Solvency Directive, 2022 issued by the Nepal Insurance Authority, the minimum solvency requirement has been revised to 1.3x, effective from mid-July 2024, reduced from the earlier threshold of 1.5x

[2] Risk-Based Capital and Solvency Directive, 2022

**Detailed Description of Key Rating Drivers**

## Key Rating Strengths

**Long track record of operation and strong promoter profile with well-seasoned management team**

Incorporated in 1995 AD, PRIN boasts over seven decades of operational history, making it the oldest insurance company in Nepal. Over its long tenure, PRIN has navigated and adeptly responded to numerous shifts in the environmental, industrial, and political landscapes. Similarly, PRIN have strong promoter profile with Employee Provident Fund and Prabhu Bank Limited being top promoters of the company. Employee Provident Fund, a government sponsored pension fund brings large volume of experience with it and alongside other institutional and natural promoters provide strong backing in operations of PRIN. Alongside strong promoter group, PRIN have well- seasoned and experienced management team led by its board of directors. BOD is chaired by Mr. Rajendra Malla, who brings in decades' worth of experience in banking and insurance sectors. He is well supported by other directors and management personnel. The management team is led by Mr. Sanchit Bajracharya, CEO having more than 29 years of experience in insurance sectors and Mr. Samir Tamang, Assistant General Manager, having more than 27 years of professional experience in banking and insurance sectors. He is further supported by group of well experienced and qualified personnel.

**Investment across diverse instruments with increasing investment yield and investment income/NPW ratio**

The investment portfolio of PRIN is diversified across various sectors, with a significant focus on long-term investments. The portfolio has demonstrated robust growth, achieving a CAGR of ~19% from FY21 to FY24. However, in FY24, the share of long-term investments declined to ~49%, driven by the maturity of fixed deposits and receipt of reinsurance commissions, resulting in a temporary shift toward short-term call deposits to enhance liquidity. This strategy aligns with the need for financial flexibility in the insurance sector to manage volatile claim obligations. The overall investment yield declined from 6.24% in FY23 to 4.82% in FY24 due to excess liquidity and lower interest rates, leading to a slight moderation in the investment income to net premium written (NPW) ratio to 18.97% in FY24 from 18.33% in FY23.

**Lower claim ratio and healthy solvency ratio**

PRIN has demonstrated a stable claims performance, maintaining a low net claim ratio of 38% in FY24 and 34% in Q3FY25, compared to 35% in FY23. This stability, despite adverse events such as severe floods, reflects the company's prudent risk selection strategy, supported by modest growth in gross premium written (GPW), and is considered a credit positive. The solvency margin has strengthened significantly to 4.67x, well above the regulatory minimum of 1.30x, indicating strong capital adequacy. The retention ratio remained relatively stable at 36%, slightly down from 40%, primarily due to a lower retention of 2% in the high-risk Air-Flight segment. These practices reflect PRIN's strategic approach to maintaining financial stability and maximizing profitability within the reinsurance market through prudent underwriting and risk management strategies.

**Diversified portfolio**

The portfolio of PRIN is more diverse with no segment contributing more than 38% of total GPW with the highest concentration towards motor segments with 38% of GPW belonging to such segment. Despite such, due to higher retention ratio, motor segment contributes more than half towards NPW on its own. The next highest concentrated segment in terms of GPW is Air-Fight segment which contributes around 22% of GPW but have only 1% contribution to NPE on account of least retention ratio of 2%. PRIN have issued 65 types of policies spread across all segments which further signifies effort of PRIN to diversify its portfolio. Diversification of portfolio reduces the risk and is a rating strength.

## Key Rating Weaknesses

**Fluctuating financial profile characterized by deteriorated underwriting surplus**

PRIN has maintained a volatile fluctuating financial profile. The company's relatively low GPW and net premium written (NPW) have kept management expenses ratio elevated at ~63% of NPW in FY24, driven by increased rental, staffing, and regulatory costs. Commission expenses remained negative due to reinsurance income but declined to ~20% in FY24 from ~34% in FY23, as excess commission was deferred per accounting standards and changes in accounting estimates and is a rating concern. With lower retention at 36% in FY24 vis-à-vis 40% in FY23 owing to underwriting of air flight segment having least retention of 2% and excess provisioning required due to first time adoption of new "RBC" framework in FY24, the NPE have reduced further affecting underwriting surplus adversely. Consequently, PRIN's underwriting surplus fell to NPR 111 Mn in FY24, impacted by lower retention, reduced commission income and additional provision expenses further reducing the NPE figures. The combination of reduced commission income coupled with increase in management expense ratio have deteriorated the combined ratio to 81% in FY24 from 65% in FY23. Nonetheless, the underwriting surplus recovered to NPR 179 Mn in Q3FY25 with combined ratio at ~63% in Q3FY25, indicating stabilization and early signs of growth under the revised regulatory framework and provides some comfort.

**Low GPW accompanied by stagnant growth in GPW and moderate scale of operations**

PRIN's gross premium written (GPW) has shown only marginal growth, increasing to approximately NPR 1,778 Mn in FY24 from NPR 1,658 Mn in FY23, reflecting a modest ~7% annual growth. The growth trajectory has remained largely stagnant, with PRIN maintaining a limited market share of around 4–5% in the non-life insurance industry. For the first nine months of the current fiscal year, GPW stood at NPR 1,309 Mn, aligning with an annualized growth expectation of ~7%. Management attributes the subdued growth to the company's conservative underwriting approach, driven by the risk management committee's stringent risk selection criteria, and the relatively low paid-up capital, which may reduce investor appeal. The limited scale of operations continues to amplify the effects of even minor changes in retention and claim ratios, significantly influencing the combined ratio and Profit After Tax (PAT) margins.

**Fragmented market with intense competition**

In Nepal's non-life insurance sector, the competitive landscape presents significant challenges for companies, particularly in retaining customers and ensuring profitability. The market is crowded with numerous insurance companies with growth opportunities being limited, leading to intense competition. Companies are aggressively striving to retain their existing customer base, resulting in pricing pressures and difficulties in distinguishing their products. Moreover, since the motor segment serves as a primary revenue source for non-life insurers in Nepal, any slowdown in the automobile industry or changes in vehicle financing regulations could hinder growth prospects. Currently, there are 14 insurance companies in Nepal, down from 20. These companies collectively generated a Gross Premium Written (GPW) of ~NPR 38,355 Mn during FY24, with PRIN holding ~4% of the total GPW, indicative of a stable position in the industry.

**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. An increase in third-party motor insurance cover, starting FY2017, has led to an industry-wide rise in motor claims, pressurizing the segment's profitability. The new 'property insurance directive' introduced with effect from FY19 has increased the claims ratio for the companies because of the comprehensive risk coverage at relatively lower premium tariff. The Insurance Board mandated companies to waive off renewal fees in major segments for Q4 FY20 (during the period of Covid-19 lockdowns), impacting the overall profit margins. Further, with effect from January 2021, the regulator has subdued the prospects of third-party motor business by limiting the number of offices of Department of Transportation that can be catered to by a single player. While all these changes are likely to increase the insurance sector penetration and eventually aid in industry growth, these could impact the underwriting profits of all players over short to medium term, including PRIN.

**Analytical Approach**: Standalone

**Applicable Criteria:**
Issuer Rating Methodology & Insurance company Credit Rating Methodology

**Link to past rating rationale:**
Prabhu Insurance Limited: Issuer Rating Assigned

**About the Company:**
Established in 1995 AD, Prabhu Insurance Limited (PRIN) is one of the oldest general insurer in Nepal. PRIN is a medium-sized company with ~5% of the market share in terms of the general insurance industry's gross premium written in FY20-FY23. As of mid-July 2023, the company is in operation with 57 branches spread across the nation for procuring business and extending after-sales services. The paid-up capital and the net worth of the company as of mid-April 2024 is ~NPR 1,376 Mn and NPR 3,092 Mn respectively. PRIN has a 51:49 promoter–public shareholding ratio. The major shareholders as on mid-April 2024 include Employee Provident Fund (15.04%), Prabhu Bank Limited (14.97%) and Devi Prakash Bhattacharan (6.97%) among others.

**Financial Indicators (Standalone)**

| Amount in NPR Mn | FY21 | FY22 | FY23 | FY24 | Q3FY25 |
|---|---|---|---|---|---|
| | Audited | | | | Unaudited |
| Gross Premium Written (GPW) | 1,406 | 1,429 | 1,659 | 1,778 | 1,309 |
| Net Premium Written (NPW) | 433 | 531 | 661 | 645 | 619 |
| Retention | 31% | 37% | 40% | 36% | 47% |
| Net Premium Earned (NPE) | 509 | 517 | 571 | 573 | 476 |
| Underwriting Surplus | 209 | 136 | 202 | 111 | 179 |
| Net Claims Incurred / NPE (Claims Ratio) | 42% | 48% | 35% | 38% | 34% |
| Management Expenses / NPE (Expense Ratio) | 39% | 46% | 62% | 63% | 52% |
| Net Commission Expenses / NPE | -22% | -21% | -32% | -20% | -24% |
| Combined Ratio (A) | 59% | 74% | 65% | 81% | 63% |
| Investment Income / NPW | 16% | 13% | 16% | 17% | 16% |
| PAT/ Total Asset Base | 8% | 6% | 6% | 4% | 6% |
| PAT/ Reported Net Worth | 10% | 8% | 8% | 5% | 8% |
| Profit After Tax | 224 | 186 | 225 | 152 | 200 |

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**About Infomerics Credit Rating Nepal Limited:**
Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit https://infomericsnepal.com/

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