September 26, 2022

ICICI Lombard General Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	35.00	35.00	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	220.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Total	**255.00**	**35.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers the shareholding pattern of ICICI Lombard General Insurance Company Limited (ICICIL), given the presence of a strong parent – ICICI Bank Limited {ICICI Bank; rated [ICRA]AAA (Stable)}. The presence of a shared brand name strengthens ICRA's expectation that ICICIL will receive support from its parent as and when required. Further, ICRA notes that subsequent to the Reserve Bank of India's (RBI) directions, ICICI Bank had applied for a reduction in its stake to 30% by September 2023 from 48.03% as of June 2022. The Insurance Regulatory and Development Authority of India (IRDAI) has approved the same, subject to compliance with regulations. ICICI Bank's stake reduction plan remains monitorable.

The rating factors in ICICIL's standing as India's leading private sector general insurer, its prudent risk management practices and adequate reserve against claims. ICRA notes that the company is investing in expanding its distribution, claims services and technology, mainly to improve its market share in the retail health segment.

The company's strengths are partially offset by the relatively high underwriting losses in FY2022. Although ICRA expects an improvement in the net loss ratio (as claims arising during the Covid-19 pandemic subside), however the combined ratio is expected to remain at an elevated level in the near term. ICICIL's ability to improve its underwriting performance while maintaining premium growth, amid the changing industry dynamics, would remain a key monitorable.

While the subordinated debt instrument cannot be serviced if the regulatory solvency requirements are breached, ICRA takes note of the company's current solvency indicators and its policy as well as track record of maintaining adequate cushion in the solvency levels to take care of any exigencies. ICRA further expects that ICICI Bank's standing in the Indian capital markets places a strong onus on the parent to ensure that it meets all the regulatory requirements (on a continual basis) for the timely and adequate servicing of the debt obligations with respect to the rated instrument.

There is no amount outstanding against the Rs. 220-crore subordinated debt programme as the rated bonds were redeemed through the exercise of a call option. Hence, the rating on the subordinated debt programme has been reaffirmed and withdrawn at the request of the company and as per ICRA's rating withdrawal policy.

Key rating drivers and their description

Credit strengths

Strong parentage ensures financial flexibility and managerial support – The majority shareholder, ICICI Bank, is one of the largest private sector banks in India with a network of 5,534 branches spread across the country as on June 30, 2022. ICICI Bank also has a strong brand and standing in the capital market. This is leveraged by ICICIL in terms of a shared brand name. In addition, ICICIL benefits from a strong and experienced management team as well as board representation by senior executives of the parent company. The strong parentage ensures support as and when needed, which has been demonstrated in the past. ICRA notes that ICICI Bank is required to reduce its stake in ICICIL to 30% by September 2023 from 48.03% as of June 2022. However, it is yet to announce any plan for the stake reduction, which remains a key monitorable.

Solvency remains strong, mainly supported by internal accruals – ICICIL reported a solvency ratio of 2.61 times as on June 30, 2022 (vis-à-vis 2.76 times as on June 30, 2021), which was largely supported by its internal accruals with an average return on equity of 17.8% in the last four years. Despite a dividend payout ratio of 25.1% in the last four years, the company's solvency profile remained strong with a healthy cushion compared to the minimum regulatory requirement of 1.50 times. The company does not plan to raise any subordinated debt in the near term as the solvency remains comfortable. Further, it has been maintaining adequate reserves against the claims to be paid. ICRA expects ICICIL to maintain a strong solvency ratio with healthy buffers in the medium term.

Balanced portfolio across retail and corporate segments – ICICIL's products are relatively well diversified and its key segments include motor, health and fire. It is the leading private sector general insurer in the country. The motor segment continues to be the largest contributor, accounting for 46.1% of the total gross direct premium written (GDPI) in FY2022 compared to 44.3% in FY2019. Further, the health & personal accident segment accounted for 22.3% of the total GDPI in FY2022 compared to 20.5% in FY2019. ICRA notes that the health & personal accident segment is growing at a faster pace compared to the motor segment, which is in line with the general insurance industry. ICICIL plans to report higher growth in the retail health segment and has added retail health agency salesforce to source business in this segment. On the corporate side, fire is the largest segment contributing 15.3% to the GDPI in FY2022. ICICIL also has a well-diversified distribution channel with brokers and direct business accounting for 48.5% and 24.7%, respectively, of the business underwritten in Q1 FY2023.

Credit challenges

Profitability constrained by moderate underwriting performance – ICICIL reported a relatively higher underwriting loss of Rs. 1,303.8 crore or underwriting loss/net premium earned (NPE) of -10.0% in FY2022 (including the effect of the merged entity with Bharti AXA General Insurance Company Limited (BAXA-GI) from FY2022) compared to Rs. 191.9 crore or -1.9% in FY2021. The underwriting loss was mainly due to the elevated loss ratio in the health & personal accident segment and the high management expenses to support future growth. The high combined ratio was primarily due to the increase in the claims ratio to 75.1% in FY2022 (68.6% in FY2021). The claims ratio increased mainly due to the high claims ratio in the health & personal accident segment due to Covid-19-related net claims of Rs. 556 crore in FY2022 (Rs. 339 crore in FY2021). Despite the underwriting loss, the company reported a net profit of Rs. 1,271.0 crore, which was largely supported by its investment income (excluding realised gain) of Rs. 2,345.3 crore in FY2022.

ICRA expects the combined ratio to remain elevated and the company to report underwriting losses in FY2023. The high combined ratio is likely to be impacted due to ICICIL's investment in expanding its distribution, claims services and technology. These costs are upfront while revenue generation will be over a period of time. The combined ratio is expected to remain elevated in FY2023, however the health segment is expected to witness a normalised claims experience, given the receding Covid infections.

Liquidity position: Strong

The company had estimated liquid assets of ~Rs. 43,601 crore (sum of total investments less haircuts estimated by ICRA plus cash and bank balances plus net dues from insurance companies) as of June 30, 2022, against which it had a total liability of Rs. 33,780 crore (total technical reserve plus debt due in the next one year). Moreover, the business generated in Q1 FY2023 would provide liquidity cushion. The total claims paid in Q1 FY2023 was Rs. 1,832 crore (~17% of liquid assets). As a large part of the investments is in Government securities (G-Secs), ICRA does not foresee any liquidity risk for the company in the near to medium term.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or the outlook could be revised if there is a downward revision in the rating of the promoter (ICICI Bank) or a decline in the strategic importance of ICICIL to its promoter or a decline in the expectation of support from the promoter. In addition, a decline in the company's solvency ratio to less than 1.7 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Issuer Rating Methodology of General Insurance Companies ICRA's Credit Rating Methodology for Rating Hybrid Debt Instruments Issued by Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent: ICICI Bank Limited The rating considers the financial and management support received by ICICIL from its parent in the form of senior management deputation and board representation. The rating also factors in the company's strong ability to leverage ICICI Bank's wide branch network for the distribution of insurance policies. ICRA notes the shared brand name and past capital support provided by the promoter, indicating implicit support.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

ICICIL is a publicly listed general insurance company. ICICI Bank is a promoter and holds 48.03% of the outstanding shares. ICICIL offers a comprehensive and well-diversified range of products, including motor, health, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. ICICIL is the largest private sector general insurance company, and the second largest general insurer in India, with a GDPI market share of 8.7%[1] in FY2022.

Key financial indicators (audited)

ICICI Lombard General Insurance Company Limited	FY2021	FY2022^	Q1 FY2022	Q1 FY2023
Gross direct premium	14,003	17,977	4,188	5,370
Total underwriting surplus / (shortfall)	(192)	(1,304)	(625)	(193)
Total investment + Trading income	2,198	3,040	883	673
PAT	1,473	1,271	194	349
Total net worth*	8,116	9,469	9,147	9,575
Total technical reserves	24,794	32,978	31,093	33,780
Total investment portfolio	30,892	38,786	37,107	39,834
Total assets	39,298	50,848	48,650	52,006
Return on equity *	18.1%	13.4%	8.5%	14.6%
Gearing (times)*	0.06	0.03	0.08	0.03
Combined ratio@	99.8%	108.8%	123.5%	104.1%
Regulatory solvency ratio (times)	2.90	2.46	2.76	2.61

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
@Combined ratio: (net claims incurred/net premium earned) + (operating expenses + net commission expenses)/net premium written
** Includes fair valuation change*
^The financials for FY2022 represent numbers of the merged entity and the comparative numbers for the previous year in the financials pertain to standalone ICICI Lombard and are hence not comparable

[1] *Market share excluding specialised insurance companies (AIC and ECGC)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 20, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020
					Sep 26, 2022	Sep 27, 2021	Aug 26, 2021	May 18, 2021	Apr 23, 2020 Jul 31,2020 Sep 01, 2020	Apr 23, 2019
1	Subordinated Debt Programme	Long Term	-	-	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
3	Subordinated Debt Programme (transferred from BAXA-GI)	Long Term	35.00	35.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-
4	Subordinated Debt Programme (transferred from BAXA-GI)	Long Term	220.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	-	-	-	-

Source: Company, ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt Programme	Moderately Complex
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE513L08024^	**Subordinated Debt**	Apr-30-2019	10.50%	Apr-29-2029*	35.00	[ICRA]AAA (Stable)
INE513L08016^	**Subordinated Debt**	Apr-23-2017	8.98%	Apr-23-2027	220.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AAA (Stable)

**The company has a call option, which is exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date*
^ The instruments have been transferred to ICICIL from BAXA-GI
Source: Company

Key features of rated debt instrument

The credit rating also factors in the key features of the rated instrument, in line with the applicable guidelines for subordinated debt:

- Servicing of interest is contingent on the company maintaining a solvency ratio above the levels stipulated by the regulator
- In case the interest payouts lead to a net loss or an increase in the net loss, the prior approval of the regulator would be required to service the debt

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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