ICICI Lombard General Insurance Company Limited

April 13, 2018

Summary of rated instruments

Instrument*	Rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Claims Paying Ability	-	-	iAAA; Reaffirmed
Subordinated debt programme	485	485	[ICRA]AAA (stable); reaffirmed
Total	**485**	**485**	

**instrument details provided in annexure*

Rating action

ICRA has reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 485-crore subordinated debt programme and the iAAA (pronounced i triple A) claims paying ability rating of ICICI Lombard General Insurance Company Limited (ICICIL)[1]. The outlook on the long-term rating is Stable.

Rationale

The rating takes into account the shareholding pattern of ICICIL with the presence of a strong parent (55.9% stake held by ICICI Bank Limited (ICICI Bank, [ICRA]AAA (Stable)). The presence of a shared brand name strengthens ICRA's expectation that ICICIL will receive capital support from its parent company as and when the need arises. While subordinated debt instruments 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 past track record of maintaining adequate cushion in solvency levels to take care of any exigencies. ICRA further expects that the standing of ICICI Bank, in the Indian capital markets, places a strong onus on the parent to ensure that it meets all required regulatory requirements (on a continual basis) for the timely and adequate servicing of debt obligations, with respect to the rated instrument. The rating takes into account ICICIL's market standing as India's largest private sector general insurer, strong financial performance, prudent risk management practices and adequate reserve against claims to be incurred. While a few segments of the industry have seen pricing pressure and the crop insurance market has grown significantly albeit recently, ICICIL's ability to contain loss ratios and maintain profitability amid the changing industry dynamics would remain a key monitorable.

The credit rating also factors in the key features of the rated instrument, in line with the applicable guidelines for subordinated debt, which include the servicing of interest being contingent on the company's ability to maintain a solvency ratio above the levels stipulated by the regulator, and the requirement of obtaining prior approval from the regulator for the servicing of debt, if interest pay-outs were to lead to a net loss or an increase in net loss.

Outlook: Stable

ICRA believes ICICIL would continue to benefit from its parentage in the form of a shared brand name and in terms of financial and technical support. ICICIL has a significant presence in the corporate and retail insurance segment and is incrementally focussing on the retail segment including the group health and retail health businesses. The outlook may be revised to Negative in case of a change in parentage, or a change in the parent's credit rating or a decline in the importance of the entity to its parent. In the absence of capital support, if the company were to incur losses, its solvency position would be weakened.

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[1] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications*

Key rating drivers

Credit strengths

Strong financial strength of the parent company - The majority shareholder, ICICI Bank Ltd, is one of the largest private sector banks in India with a network of 4,850 branches spread across the country. The bank is also ICICI Lombard's exclusive bancassurance partner, which enables wide reach to the company and provides cost efficiency, as well. ICICI Bank Ltd also has a strong brand image as well as a standing in the capital market ((rated [ICRA]AAA (Stable)), which is leveraged by ICICIL in terms of a shared brand name. In addition, ICICIL enjoys a strong and experienced management team as well as board representation by senior executives of the parent company.

Strong capital and liquidity position - The company's investment portfolio continues to satisfactorily comply with all regulatory requirements across asset classes and instruments. ICICIL's equity portfolio stood at around Rs. 2,777 crore (16% of the total investment book) as on December 31, 2017. ICRA derives comfort from ICICIL's sizeable investment book (62% of total assets as on December 31, 2017) and its solvency ratios that remain above the regulatory-mandated levels of 1.5 times. The company reported a solvency ratio of 2.21 times as on December 31, 2017 (vis-à-vis 2.1 times in March 31, 2017, which was supported by the issuance of subordinate debt during FY2017). Further, the company has been maintaining adequate reserves against the claims to be paid. Its claims settlement ratio within the 30-day period for the motor - own damage (OD) segment (91% as of December 31, 2017) is one of the best in the general insurance industry.

Balanced portfolio across retail and corporate segments - ICICIL's products are relatively well diversified with the Motor OD segment comprising the majority at 25% of GDPW in 9M FY2018. ICICIL, with a market share of 9.14% [2]for the 11 months ending February 2018, maintained its position as the leading private general insurer of the country. The company saw a healthy growth of 17% YoY in total gross direct premium written (GDPW) during 9M FY2018. The motor insurance segment (including motor - own damage and motor - third party) continues to be the largest (accounting for 42% of total GDPW in 9M FY2018) followed by crop insurance (accounting for 20% of total GDPW), where the market has expanded under the Pradhan Mantri Fasal Bima Yojana (PMFBY). Health insurance and personal accident insurance (accounting for 17% of total GDPW) and fire insurance (accounting for 8% of total GDPW) are the other large product segments.

Improving underwriting performance aided by strong investment performance - Although ICICIL has yet to report a sustained underwriting surplus, it has reported a reduction in underwriting losses in 9M FY2018 (Rs. 221 crore vs Rs. 384 crore in 9M FY2017). The underwriting performance, which has been a focus area for the company, has seen a gradual but continuous improvement over the last couple of years. The primary reason for the improvement is a lower claims ratio and lower management expense ratio. Management is focused on tightening the expense ratio further, which, along with an improvement in the claims ratio, should improve the underwriting results for FY2019. The improvement in the underwriting performance is further bolstered by investment portfolio related income (net investment income + total realised gains) which grew 16% YoY to Rs. 1,209 crore. This has resulted in an improvement in net profit to Rs. 650 crore in 9M FY2018 (+24% YoY).

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

Credit challenges

Ability to maintain profitability in the crop insurance business, which is vulnerable to the vagaries of the weather – Following the launch of the Pradhan Mantri Fasal Bima Yojana (PMFBY), the crop insurance business has seen significant traction in the Indian general insurance sector. ICICIL has incrementally underwritten a significant portion of the crop business since FY2016. During 9M FY2018, the company wrote Rs. 1,881 crore of business in the crop segment, constituting 20% of its total gross premium written. While a significant portion of the business (~78%) is reinsured, the general insurance industry's limited experience in this segment is a key point to monitor.

Intense competition in the industry – ICICIL faces stiff competition from private as well as public sector general insurance companies in India. The industry has witnessed price wars across business segments resulting in high loss ratios and underwriting losses for most of the companies. Further, the announcement by the Government of India to merge three large public sector general insurance companies (National Insurance, United India Insurance and Oriental India Insurance) will create a monopoly player, which will control around one-third of the market share resulting in better bargaining and, thereby, higher pricing power. Therefore, ICICIL's ability to maintain market share amid rising competition is to be seen.

Analytical approach: For arriving at the ratings, ICRA has taken a standalone view of the company and implicit support of the majority shareholder, ICICI Bank Limited.

Links to applicable criteria:

Methodology for claims paying ability rating for General Insurance companies

Rating hybrid debt instruments issued by insurance companies

About the company:

ICICIL is a publicly listed general insurance company, with ICICI Bank as a promoter, holding 55.9% of the outstanding shares. The remainder shareholders are non-promoter public shareholders with major holders including Red Bloom Investments Ltd (9% stake managed by Warburg Pincus) and FAL Corporation (9.9% stake managed by Fairfax Holdings). 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 fourth largest general insurer in India, with a market share of 9% as of February 28, 2018.

During 9M FY2018, ICICIL reported a net profit of Rs. 649.9 crore (Rs. 522.2 crore in 9M FY2017) on a GDPW of Rs. 9,430.9 crore (Rs. 8,059 crore in 9M FY2017) with a reported net worth of Rs. 5,256.1 crore.

Key financial indicators (audited)

Key Parameters	Mar-15	Mar-16	Mar-17	Dec-16	Dec-17
Gross Direct Premium	6,677.8	8,090.7	10,725.2	8,059.3	9,430.9
Total Underwriting Surplus/(Shortfall)	(220.6)	(489.8)	(338.6)	(383.9)	(221.2)
Net Investment + Trading Income	942.2	1,157.4	1,310.5	1,044.6	1,209.2
PAT	535.6	507.4	701.9	522.2	649.9
Total Net Worth	3,179.3	3,484.7	4,402.5	3,957.2	5,256.1
Total Technical Reserves	9,022.6	10,614.3	15,309.8	14,585.0	18,519.9
Total Investment Portfolio	10,199.7	11,562.5	15,078.9	14,293.7	17,318.0
Total Assets	13,548.4	15,541.6	23,350.9	21,988.4	27,971.4
Return on Equity	16.8%	14.6%	15.9%	17.6%	16.5%
Gearing	-	-	0.11	0.12	0.09
Combined Ratio*	104.2%	106.9%	103.9%	106.2%	100.4%
Regulatory Solvency Ratio	1.95	1.82	2.10	2.01	2.21

Source: Company public disclosures; Amount in Rs. Crore

*Combined ratio – (net claims incurred/net premium earned) + (mgmt expenses + net commission expenses)/ net premium written

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
					Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2016	Date & Rating in FY2015
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	April 2018	March 2017	April 2016	March 2016	January 2015
1	Claims Paying Ability	Long Term	-	-	**iAAA**	**iAAA**	**iAAA**	**iAAA**	**iAAA**
2	Subordinated debt	Long Term	485	485	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE765G08012	Subordinated debt	28-Jul-2016	8.25%	28-Jul-2026	485.00	[ICRA]AAA(stable)
NA	Claims paying ability rating	NA	NA	NA	NA	iAAA

Source: ICICI Lombard General Insurance Company Limited

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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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