September 27, 2021

# ICICI Lombard General Insurance Company Limited: Issuer rating reaffirmed; [ICRA]AAA (Stable) assigned for subordinated debt programme

## 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 | - | 255.00 | [ICRA]AAA (Stable); assigned |
| **Total** | **-** | **255.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating takes into account the completion of the demerger of the general insurance business of Bharti AXA General Insurance Company Limited (BAXA-GI) to ICICI Lombard General Insurance Company Limited (ICICIL). ICICIL received final approval for the scheme of arrangement from Insurance Regulatory and Development Authority of India (IRDAI) on September 3, 2021. Subsequently, ICICIL announced the completion of the demerger with effect from September 8, 2021. As a part of the deal, BAXA-GI's subordinated debt would be transferred to ICICIL.

The deal results in the stake dilution of 7.3% to BAXA-GI shareholders (Bharati Group and AXA Group) with the share of ICICI Bank Limited (ICICI Bank; rated [ICRA]AAA (Stable)) reducing to 48.1% from 51.9%. Further, ICRA notes that IRDAI has approved the reduction in ICICI Bank's stake in ICICIL to 30%, subject to compliance with regulations. The rating considers ICICIL's shareholding pattern, given the presence of a strong parent – ICICI Bank. The presence of a shared brand name strengthens ICRA's expectation that ICICIL will receive capital support from its parent as and when required.

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.

The rating takes into account ICICIL's standing as India's leading private sector general insurer, its strong financial performance, prudent risk management practices and adequate reserve against claims. While a few segments of the industry have seen pricing pressure, ICRA notes the cautious call taken by the company to reduce its exposure to the crop segment. In the wake of the second wave of the Covid-19 pandemic, ICRA expects the industry's (including ICICIL) claims ratio to remain at an elevated level in FY2022, particularly the health & travel insurance segments. The company witnessed an elevation in the net loss ratio[1] in the health & personal accident segment of 153% in Q1 FY2022 from 75% in Q1 FY2021. The impact of the same on the company's premium growth and underwriting performance amid the changing industry dynamics would remain a key monitorable.

ICRA notes that the scheme of arrangement does not have material impact on solvency, debt paying ability or strategic importance of ICICIL to its promoter. ICICIL is expected to leverage incremental distribution channels, mainly the bancassurance channel, wherein BAXA-GI had access to two large private banks (Axis Bank and HDFC Bank). ICRA also factors

[1] *Net loss ratio is calculated as net claims incurred / net premium earned*

in the operational challenges associated with the deal, in terms of the company's ability to retain the employees and customers, which would remain a key point to monitor. ICICIL envisages that the transaction will become accretive in terms of profitability after a couple of years, given the improvement in productivity on the expense side and the realisation of synergies on the claims and revenue front.

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

## Key rating drivers and their description

### Credit strengths

**Strong financial strength of parent company** – The majority shareholder, ICICI Bank, is one of the largest private sector banks in India with a network of 5,268 branches spread across the country as on June 30, 2021. 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.

**Strong solvency level** – ICICIL reported a solvency ratio of 2.76 times as on June 30, 2021 (vis-à-vis 2.50 times as on June 30, 2020), which was partly supported by the issuance of subordinated debt in FY2017 and repaid in Q2 FY2022. Further, the company has been maintaining adequate reserves against the claims to be paid. ICRA also notes that the solvency levels are comfortable even after the average dividend payout ratio of ~22% in the last two years. Post the merger with BAXA-GI, the solvency ratio is expected to remain comfortable and above the regulatory minimum.

**Balanced portfolio across retail and corporate segments** – ICICIL's products are relatively well diversified with its key products including motor, health, fire, marine and engineering. ICICIL is the leading private sector general insurer in the country. Its gross direct premium income (GDPI) grew by 13.0% YoY in Q1 FY2022 compared to the industry's GDPI growth of 14.2%.

Motor insurance {including motor-own damage (motor-OD) and motor-third party (motor-TP)} continues to be the largest contributor, accounting for 31% of the total GDPI in Q1 FY2022 (35% in Q1 FY2021 and 50% in FY2021). On the corporate side, fire is the largest segment contributing 26% to the GDPI. The fire segment has seen robust growth aided by the rate hike that came in force on January 1, 2020. Going forward, the growth is expected to normalise, given the base impact.

The company also has a well-diversified distribution channel and is expected to benefit from BAXA-GI's bancassurance partners, namely Axis Bank and HDFC Bank. ICRA notes that ICICI Bank stopped selling credit linked health insurance policies in FY2021, which had a negative impact on the health segment's growth.

**Stable underwriting performance albeit lower in Q1 FY2022 due to health claims** – Although ICICIL is yet to report a sustained underwriting surplus, it reported an underwriting loss of Rs. 508 crore in Q1 FY2022 (underwriting profit of Rs. 38 crore in Q1 FY2021) mainly due to the rise in net claims incurred. The increase in net claims was primarily due to Covid-related health claims of Rs. 602 crore in Q1 FY2022 compared to Rs. 20 crore in Q1 FY2021 and Rs. 339 crore in FY2021. As a result, the net loss ratio of the health & personal accident segment increased to 153% in Q1 FY2022 from 75% in Q1 FY2021. ICRA notes the gradual improvement in the underwriting performance over time, as seen by the improvement in the combined ratio to 99.8% in FY2021 (103.9% in FY2017).
ICICIL's profitability was supported by the investment portfolio related income (total investment & trading income), which stood at Rs. 698 crore in Q1 FY2022 (Rs. 508 crore in Q1 FY2021). The net profit was Rs. 152 crore in Q1 FY2022 (62% YoY

degrowth over Rs. 398 crore in Q1 FY2021), translating into a return on equity[2] (RoE) of 7.3% in Q1 FY2022 (24.5% in Q1 FY2021). ICRA notes that BAXA-GI's expense ratio is higher, which would have an adverse short-term impact on the combined ratio of the merged entity.

### Credit challenges

**Intense competition in 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. ICICIL's ability to maintain its market share amid rising competition is to be seen. ICICIL had a market share of 7.5%[3] and will gain additional share of 1.4% as reported by BAXA-GI as on August 31, 2021.

**Integration challenges for BAXA-GI acquisition** – In August 2020, ICICIL's board of directors had approved a scheme of arrangement, which entailed the demerger of BAXA-GI's non-life insurance business along with all assets and liabilities forming a part thereof into ICICIL. The transaction does not include the immoveable property owned by BAXA-GI, brands used by and/or licensed to BAXA-GI and bonds issued by ICICI Bank and held by BAXA-GI. ICICIL received final IRDAI approval for the scheme of arrangement on September 3, 2021. Integration challenges such as retention of employees and customers would be a key point to monitor. Moreover, as BAXA-GI's expense ratio is higher, it would have a short-term impact on the combined ratio of the merged entity.

## Liquidity position: Strong

ICICIL had estimated liquid assets of Rs. 35,441 crore (sum of total investments less haircuts estimated by ICRA, plus cash and bank balances plus net due from insurance companies) as of June 30, 2021, against which it had a total liability of Rs. 26,405 crore (total technical reserve plus debt due in the next one year). Moreover, the business generated in FY2022 would provide liquidity cushion. The total claims paid in Q1 FY2022 were Rs. 2,468 crore (28% of liquid assets). As a large part of the investments are 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.

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[2] *Includes fair valuation change*

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

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Issuer Rating Methodology of General Insurance Companies<br>Impact of Parent or Group Support on an Issuer's Credit Rating<br>ICRA's Credit Rating Methodology for Rating Hybrid Debt Instruments Issued by Insurance Companies |
| **Parent/Group Support** | Parent/Investor: ICICI Bank Limited<br><br>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 48.1% 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 leading private sector general insurance company with a market share of 7.5% while BAXA-GI reported a market share of 1.4% as on August 31, 2021. For Q1 FY2022, ICICIL reported a net profit of Rs. 152 crore (Rs. 398 crore in Q1 FY2021) on GDPI of Rs. 3,733 crore (Rs. 3,302 crore in Q1 FY2021) with a reported total net worth of Rs. 8,364 crore.

## Key financial indicators (audited)

| ICICI Lombard General Insurance Company Limited | FY2020 | FY2021 | Q1 FY2021 | Q1 FY2022 |
|---|---|---|---|---|
| Gross Direct Premium | 13,313 | 14,003 | 3,302 | 3,733 |
| Total Underwriting Surplus/(Shortfall) | -105 | -192 | 38 | (508) |
| Total Investment & Trading Income | 2,007 | 2,169 | 508 | 698 |
| PAT | 1,194 | 1,473 | 398 | 152 |
| Total Net Worth@ | 5,705 | 8,116 | 6,496 | 8,364 |
| Total Technical Reserves | 23,846 | 24,794 | 23,800 | 25,920 |
| Total Investment Portfolio | 26,327 | 30,892 | 28,118 | 32,075 |
| Total Assets | 37,042 | 39,298 | 36,932 | 40,755 |
| Return on Equity@ | 20.92% | 18.15% | 24.51% | 7.25% |
| Gearing@ | 0.09 | 0.06 | 0.07 | 0.06 |
| Combined Ratio* | 100.42% | 99.83% | 99.71% | 121.31% |
| Regulatory Solvency Ratio | 2.17 | 2.90 | 2.50 | 2.76 |

***Source:*** *Company, ICRA Research; All ratios as per ICRA 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*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | | | Chronology of Rating History for the Past Three Years | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Sep-20-21 (Rs. crore) | Date & Rating in FY2022 | | | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | Sep-27-21 | Aug-26-21 | May-18-21 | Apr-23-20 Jul-31-20 Sep-01-20 | Apr-23-19 | Apr-13-18 |
| 1 | Subordinated Debt Programme | Long Term | 485.00 | - | - | [ICRA]AAA (Stable); reaffirmed and withdrawn | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 2 | Issuer Rating | Long Term | - | - | [ICRA]AAA (Stable); reaffirmed | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | - | - | - |
| 3 | Subordinated Debt Programme (transferred from BAXA-GI) | Long Term | 255.00 | 255.00 | [ICRA]AAA (Stable); assigned | - | - | - | - | - |

***Source:*** *Company, ICRA Research*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Subordinated Debt Programme | Moderately Complex |
| Issuer Rating | Very Simple |

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.ins](www.icra.ins)

## Annexure-1: Instrument details

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

## Annexure-2: List of entities considered for consolidated analysis

NA

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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

## ICRA Limited

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