December 17, 2021

Royal Sundaram General Insurance Co. Limited: Rating reaffirmed/assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt Programme	126.00	126.00	[ICRA]AA+ (Stable); reaffirmed
Subordinated Debt Programme	0.00	50.00	[ICRA]AA+ (Stable); assigned
Total	**126.00**	**176.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating takes into account Royal Sundaram General Insurance Co. Limited's (RSGICL) strong promoter profile with Sundaram Finance Limited {SFL; rated [ICRA]AAA (Stable)} and Ageas Insurance International N.V. (Ageas) holding equity stakes of 50% and 40%, respectively. SFL's strong parentage support is reflected through its operational, managerial and financial support to RSGICL. SFL's representation on RSGICL's board of directors and the presence of a shared brand name along with Ageas' background strengthen ICRA's belief that the promoters will provide capital support to RSGICL, as and when required. In addition, Ageas contributes to new product development in terms of risk management, features and channel development. RSGICL's solvency ratio was adequate at 2.07 times as on September 30, 2021 compared to the regulatory requirement of 1.50 times.

The rating remains constrained by the company's weak underwriting performance with profitability mainly supported by investment income. RSGICL has high concentration in the motor segment, which increased to 70.1% of the total gross direct premium income (GDPI) in FY2021 from 56.8% in FY2020. The increase in the share of the motor segment was due to the company's exit from the crop segment in FY2021. The company may reconsider entering the crop segment subject to the internal assessment of the prospects of this segment.

RSGICL plans to diversify and increase the share of the health & personal accident (PA) segment, which typically has a low claims ratio. ICRA does note that the health & PA segment witnessed a rise in the net loss ratio to 97.6% in H1 FY2022. The company witnessed higher health claims due to the second wave of the Covid-19 pandemic with 4,408 claims of Rs. 30.5 crore in Q1 FY2022. Covid claims subsided to 1,984, amounting to net claims of Rs. 12.5 crore in Q2 FY2022. In addition to Covid claims, post-Covid medical inflation led to a high net loss ratio for the health segment in Q2 FY2022. ICRA expects the Covid claims to recede driven by the consistent rise in vaccinations. Going forward, RSGICL's ability to diversify its product mix and improve its underwriting performance and operating efficiency would be critical for improving its profitability profile.

The rating also factors in the key features of the 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
» If the interest payouts lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt

Key rating drivers and their description

Credit strengths

Strong parentage with operational, managerial and financial support from shareholders – RSGICL is owned by SFL (50.00% equity stake as on September 30, 2021), Ageas (40.00%), India Motor Parts & Accessories Limited (7.30%), Sundharams Private Limited (2.67%) and others (0.03%). SFL is one of the large non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 29,811 crore as of September 2021. It is the flagship company of the T. S. Santhanam arm of the TVS Group. SFL is primarily engaged in the financing of commercial vehicles (CVs) and cars. It has invested in various entities to provide a gamut of financial services like housing finance (Sundaram Home Finance Limited), insurance (RSGICL) and mutual funds (Sundaram Asset Management Company Limited). Ageas is one of Europe's top 20 insurance companies servicing around 39 million customers in 14 countries across Europe and Asia. It offers products and services across life, health and non-life businesses.

The rating factors in RSGICL's strong parentage and its importance to its sponsors, with the importance emphasised by the presence of a shared brand name, board-level supervision and a track record of equity infusions. Further, SFL and TVS are the major support partners in the CV segment, wherein around 65% of SFL's CV business insurance is done through RSGICL. RSGICL has adequate board representation with nine directors, including three from SFL, two from Ageas and three independent directors. Going forward, the importance of the company to its parents and continued capital and operational support to aid business growth would be key rating sensitivities.

Adequate solvency level for current scale of operations – The company's solvency profile remains adequate with a solvency ratio of 2.07 times as on September 30, 2021 compared to 1.87 times as on March 31, 2021, above the mandated regulatory requirement of 1.50 times. The solvency profile is supported by moderate internal capital generation with a return on assets of 2.4% (annualised) in H1 FY2022 and 2.1% in FY2021. RSGICL's last capital infusion was Rs. 295 crore in FY2018 to support its solvency profile. Further, it has the scope to raise additional subordinated debt of Rs. 50 crore, which will support its solvency ratio by 0.08 times, given the Insurance Regulatory and Development Authority of India's (IRDAI) regulation of lower of 25% of paid-up capital or 50% of net worth.

The management plans to raise Rs. 50-crore subordinated debt by January 2022 subject to IRDAI approval. The company does not have an equity infusion plan and does not plan to increase the subordinated debt above Rs. 176 crore in the next 2-3 years. ICRA expects RSGICL's solvency level to remain adequate and above 1.90 times as on March 31, 2022 to support its current scale of operations. ICRA expects the promoters to provide adequate and timely capital support, if required.

Credit challenges

Weak underwriting performance with profitability largely supported by investment income – Despite reporting underwriting losses, RSGICL continues to report net profits, largely supported by investment income. The company reported a higher profit after tax of Rs. 158.3 crore in FY2021 compared to Rs. 24.5 crore in FY2020 largely supported by higher net investment income and realised gains, which were partially offset by underwriting losses. The net profit was also supported by a decline in the tax rate to 25.1% in FY2021 from 40.6% in FY2020. RSGICL continues to witness losses at the underwriting level mainly due to the high combined ratio of 110.2% in FY2021 (111.1% in FY2020), given the high net claims ratio of 80.4% in FY2021 (85.0% in FY2020).

However, the company's net profit declined to Rs. 95.2 crore in H1 FY2022 from Rs. 172.7 crore in H1 FY2021. This was mainly due to net claims incurred of Rs. 934.0 crore in H1 FY2022 compared to Rs. 763.3 crore in H1 FY2021. The net claims were lower in H1 FY2021 due to national / sporadic lockdown in the country. Also, the second wave of the pandemic resulted in net Covid claims of Rs. 43.0 crore in H1 FY2022. However, the number of Covid claims subsided in Q2 FY2022 to 1,984 from 4,408 in Q1 FY2022. With the consistent rise in vaccinations, the company expects the Covid claims to decline. Also, net claims were lower in Q1 FY2021 due to the lockdown. Moreover, the management witnessed an increase in non-Covid health claims per case due to a rise in hospitalisation expenses.

Further, the company reported net investment exposure of Rs. 60.0 crore to Dewan Housing Finance Limited (DHFL; rated [ICRA]D; withdrawn) as on June 30, 2021. RSGICL recovered Rs. 85.4 crore against its DHFL investment exposure in Q2 FY2022 as Piramal Capital and Housing Finance Ltd. acquired DHFL. This resulted in a provision reversal from the DHFL investment of Rs. 25.4 crore in Q2 FY2022, supporting RSGICL's profitability.

High dependence on motor portfolio; however, plans to diversify and increase share of health segment – The motor segment remains the company's largest segment, though its share declined to 70.1% of the total GDPI in FY2021 from 77.2% in FY2018. Within the motor segment, motor-own damage (Motor-OD) witnessed a degrowth at a compound annual growth rate (CAGR) of 7.0% during FY2018-FY2021 while the share of motor-third party (Motor-TP) increased at a CAGR of 7.7% during the same period. The decline in the motor segment's share is in line with the company's strategy to reduce its concentration in the bulk business of this segment. RSGICL wants to focus on the retail channel as it is easy to manage in terms of pricing, lower acquisition cost and high retention ratios. Overall, the management targets a segment mix of motor (65% share), health (15-20%) and commercial line (15-20%) in terms of the GDPI. In line with its strategy, the company's share of motor segment GDPI declined to 64.8% while the share of the health & PA segment increased to 16.6% in H1 FY2022.

In addition, RSGICL shifted its focus to the health & PA segment, which resulted in a CAGR of 4.6% during FY2018-FY2021. The growth in this segment resulted in a rise in its share in the GDPI to 14.0% in FY2021 from 13.2% in FY2018. The company plans to increase the share of the health segment, which is comparable to peers, by delivering better products and pricing in this segment. RSGICL created a specialised health focused agency a few months back. It is enhancing the manpower and infrastructure in the health segment and is working on creating market-relevant products to improve the business in this segment.

In terms of the GDPI, the retail and corporate segments accounted for 57% and 43%, respectively, of the health & PA segment in FY2021. The company's strategy is to focus more on the retail health segment given the sector growth, high renewal and profitability. Group health is a very competitive business and the company offers it to acquire other lines of businesses. RSGICL does not insure any mass market scheme due to the lower pricing of this product. A rise in the share of the health segment is also expected to improve the company's underwriting performance, given its relatively lower net loss ratio compared to the motor segment.

Liquidity position: Adequate

RSGICL's liquid investments were estimated at Rs. 6,639 crore as on September 30, 2021 (sum of total investments less haircuts estimated by ICRA, plus cash and bank balances plus net due from insurance companies), against which it had a total technical reserves of Rs. 5,490 crore and sub-debt due in one year of Rs. 50 crore. The net claims paid stood at Rs. 1,067 crore (18% of liquid assets) in FY2021 and Rs. 589 crore (19% annualised) in H1 FY2022.

The nearest debt repayment is the coupon payment of the subordinated debt programme, amounting to Rs. 5.25 crore, falling due on March 27, 2022. The subordinated debt repayment of Rs. 50 crore (10.5% p.a.) is due on March 27, 2022, in case the company exercises the call option. The maturity date of the subordinated debt is March 27, 2027. ICRA does not foresee any liquidity risk in the near term and the company will be able to pay its obligation in the near term.

Rating sensitivities

Positive factors – The rating or outlook could be revised if the company is able to report an underwriting surplus on a sustained basis, while improving its market share and solvency levels and continuing to be of strategic importance to SFL.

Negative factors – The rating or outlook could be revised if there is a downward revision in SFL's rating or a decline in the strategic importance of RSGICL to SFL or decline in the expectation of support from SFL. In addition, a decline in the company's solvency ratio below 1.70 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Hybrid Debt Instrument - Insurance Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Investor: SFL The rating factors in the high likelihood of support from the parent entity – SFL. This is witnessed by SFL's track record of providing capital support to RSGICL, whenever required. ICRA also expects SFL to be willing to extend financial support to RSGICL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

Royal Sundaram General Insurance Co. Limited (RSGICL) is a joint venture between SFL and Ageas. It was incorporated on August 22, 2000 as a privately-owned general insurance company, which offers general insurance services across a variety of segments to individuals as well as corporates. With its head office in Chennai (Tamil Nadu), the company has 159 branches across India and an employee base of 2,323 as on March 31, 2021. In H1 FY2022, RSGICL reported gross direct premium of Rs. 1,352.8 crore, an underwriting loss of Rs. 162.5 crore and a net profit of Rs. 95.2 crore.

Key financial indicators (audited)

Royal Sundaram General Insurance Co. Limited	FY2020	FY2021	H1 FY2021	H1 FY2022
Gross Direct Premium	3,667.0	2,822.3	1,219.9	1,352.8
Total Underwriting Surplus/(Shortfall)	(272.7)	(222.4)	18.9	(162.5)
Total Investment + Trading Income	419.1	478.3	237.4	275.9
PAT	24.5	158.3	172.7	95.2
Total Net Worth	1,062.8	1,404.0	1,338.9	1,589.9
Total Technical Reserves	4,579.4	5,236.0	4,757.4	5,490.4
Total Investment Portfolio	5,745.0	6,484.3	6,271.4	6,982.9
Total Assets	6,771.0	7,535.8	7,251.2	7,986.9
Return on Equity^	2.3%	11.3%	25.8%	12.0%
Gearing (times)#	0.09	0.08	0.07	0.09
Combined Ratio*	111.1%	110.2%	103.1%	117.7%
Regulatory Solvency Ratio (times)	1.69	1.87	2.31	2.07

Source: RSGICL, ICRA Research
Note: Amount in Rs. crore
^ Return on equity is annualised for H1 FY2021 and H1 FY2022
 # Equity in the gearing ratio excludes fair value change account
** 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 past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 14, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 17, 2021	Nov 18, 2021	Nov 20, 2020	-	-
1	Subordinated Debt Programme	Long Term	126.0	126.0	[ICRA]AA+ (Stable); reaffirmed	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
2	Subordinated Debt Programme	Long Term	50.0	-	[ICRA]AA+ (Stable); assigned				
3	Subordinated Debt Programme	Long Term	-	-	-	[ICRA]AA+ (Stable); reaffirmed and withdrawn	[ICRA]AA+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt Programme	Moderately Complex

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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE499S08021	Subordinated Debt Programme	Mar-27-2017	10.50%	Mar-27-2027^	50.00	[ICRA]AA+ (Stable)
INE499S08039	Subordinated Debt Programme	Sep-27-2021	7.85%	Sep-27-2031#	76.00	[ICRA]AA+ (Stable)
NA	Subordinated Debt Programme*	-	-	-	50.00	[ICRA]AA+ (Stable)

Source: *RSGICL, ICRA Research*

^Note: The company has a call option that is exercisable five years from the date of allotment on March 27, 2022

#Note: The company has a call option that is exercisable five years from the date of allotment on September 25, 2026

** Unutilised*

Annexure-2: 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.

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