October 21, 2022

IndiaFirst Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	100.00	100.00	[ICRA]AA (Stable); reaffirmed
Subordinated debt programme	125.00	125.00	[ICRA]AA (Stable); reaffirmed
Total	**225.00**	**225.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers IndiaFirst Life Insurance Company Limited's (IFLI) strong promoter profile with Bank of Baroda (BoB; [ICRA]AAA (Stable)[1]) holding a majority stake. In line with regulatory requirements, Union Bank of India (UBI[2]; [ICRA]AA+ (Stable) divested its 21% stake in IFLI to BoB in FY2022. Post the said transaction, IFLI's shareholders are BoB (65%), Carmel Point Investments India Private Limited (an affiliate of Warburg Pincus LLC; 26%) and UBI (9%). BoB and Carmel Point Investments India Private Limited have a presence on IFLI's board. Following the change in the shareholding, the shareholders infused Rs. 500 crore of equity capital in July 2022 through a rights issue, which is expected to support the company's business growth and solvency profile. The rating takes into account the track record of capital support from the promoters and the operational support in terms of access to the extensive branch network of the shareholder banks and their wide geographical coverage across India. This helps IFLI leverage the bancassurance channel to source business at a relatively lower cost. The rating considers the company's adequate solvency profile, supported by the capital infusions by the promoters (reported solvency of 1.66 times as on June 30, 2022 is expected to improve beyond 2.0 times with the recent equity infusion).

The rating is partially offset by IFLI's moderate financial performance with net losses in FY2022 and Q1 FY2023 because of elevated death claims post the onset of the Covid-19 pandemic. ICRA expects the company's profitability to improve with lower Covid claims and the upward price revision in the loss-making Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) business. The rating remains constrained by IFLI's modest scale of operations with a market share of 0.84% in terms of new business premium in FY2022. The profitability and solvency may remain susceptible to changes in the actuarial assumptions, driving long-term changes in the reserving requirements. The company's ability to grow profitably while increasing the share of its protection and non-participating (non-par) businesses, amid the rising competition and the ever-evolving regulatory framework, would be a key monitorable.

As per the terms of the subordinated debt, IFLI will require the Insurance Regulatory and Development Authority of India's (IRDAI) approval for servicing the coupon due in January 2023, as it reported a net loss in FY2022. ICRA notes that the company had received a similar approval earlier as well, for servicing the coupon, after it reported a net loss in FY2020.

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[1] *Basel III Compliant Tier II Bonds*

[2] *UBI's stake was previously owned by Andhra Bank, which amalgamated into UBI w.e.f. April 1, 2020*

Key rating drivers and their description

Credit strengths

Strong parentage provides capital, strategic, and operational support – BoB, Carmel Point Investments India Private Limited (an affiliate of Warburg Pincus LLC) and UBI hold 65.0%, 26.0% and 9.0%, respectively, in IFLI. In line with IRDAI regulations, whereby a promoter cannot have a stake of more than 10% in two life insurance entities, UBI reduced its stake in IFLI from 30% to 9% in FY2022, which was bought by BoB. Further, in July 2022, the shareholders infused Rs. 500 crore of share capital through a rights issue. IFLI's importance to its sponsors is demonstrated by their track record of equity infusions over the last 7-8 years (~Rs. 828 crore including the recent Rs. 500-crore infusion). As a result of the change in the shareholding, BoB and Carmel Point Investments India Private Limited are classified as the promoters of IFLI with board member nominations from both, apart from independent directors. ICRA expects support from the promoters (BoB and Warburg) to be forthcoming if required.

BoB is the second largest public sector bank in India with a network of 8,168 branches as of March 2022, spread across the country. This enables IFLI to leverage the bancassurance channel to source business at a relatively lower cost. While UBI's shareholding has reduced, it continues as a bancassurance partner for the company. IFLI generated ~52% of its new business premium in FY2022 through the bancassurance channel with its sponsor banks.

Adequate solvency profile supported by capital infusions – IFLI's solvency ratio declined to 1.66 times as on June 30, 2022 from 1.76 times as on June 30, 2021, largely due to the losses resulting from the high Covid-19-related claims. Further, the gradual increase in the higher capital consuming protection business to 27% in FY2022 in terms of APE[3] from 18% in FY2019 also impacted the company's internal capital generation and solvency. However, the solvency is supported by the recent capital infusion, which is expected to add 96 basis points (bps) to the reported solvency ratio as on June 30, 2022. The capital infusion will help support the company's growth as the business growth will require capital to absorb the new business strain. ICRA believes that the company would remain adequately capitalised, going forward as well, and report a solvency ratio of 1.9-2.0 times as of March 2023.

Diversification in product mix to relatively higher-margin individual business – IFLI has been gradually shifting its focus to the relatively higher-margin individual retail business from the low-margin group funds business. This is witnessed in the rising share of the retail business in the new business premium to 54% in FY2022 from 35% in FY2019 while the share of the group funds business declined gradually to 3% of APE in FY2022 from 11% in FY2019. The company has diversified its product offering across the savings and protection businesses. Within savings, while the portfolio previously consisted primarily of par and unit linked insurance plans (ULIPs), the share of non-par (excluding individual protection business) has been increasing incrementally (34% of APE in FY2022 compared to 14% in FY2019).

As the retail protection business was recently impacted by the increase in reinsurance rates, IFLI has been increasing its group credit life (GCL) business within the protection business. The GCL business is granular and the company can largely retain the risk. IFLI's 13th month persistency ratio (premium basis) improved to 81.2% and 82.7% in FY2022 and Q1 FY2023, respectively, from 78.5% and 80.1% in FY2021 and Q1 FY2022, respectively. The improvement in IFLI's persistency levels supports the growth in gross premium written (GPW).

Credit challenges

Moderate financial performance; expected to improve in the medium term – IFLI's profitability was impacted in FY2022 with the company reporting a net loss of Rs. 281.6 crore compared to a net profit of Rs. 30.2 crore in FY2021, largely on account of the higher Covid-19-related claims. The company paid high net benefits of Rs. 4,009 crore in FY2022 compared to Rs. 3,327 crore in FY2021. This increase was mainly due to the rise in death claims to Rs. 1,120 crore in FY2022 from Rs. 533 crore in

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[3] *Annualised premium equivalent (APE) is the total value of regular premium plus 10% of new single premium written during the period*

FY2021 and Rs. 351 crore in FY2020. The profitability was also impacted by the increase in the share of the non-par business, which has a relatively higher reserving requirement in the first year.

While the death claims declined to Rs. 203 crore in Q1 FY2023 (Rs. 311 crore in Q1 FY2022), they remained elevated and are expected to normalise in the coming quarters. As a result, the company reported a net loss of Rs. 42 crore in Q1 FY2023 compared to a net loss of Rs. 144 crore in Q1 FY2022. Further, with the normalisation of economic activity, the operating expenses normalised in Q1 FY2023 compared to the previous year. The upward price revision in the PMJJBY scheme (GPW of Rs. 184 crore in FY2022 or 3.5% of total GPW) is also likely to support profitability. In the backdrop of the targeted growth in the higher capital consuming protection business segments, which could result in high new business strain, IFLI's ability to grow profitably would remain a monitorable.

Liquidity position: Adequate

The company had a liquidity buffer of Rs. 10,672 crore (calculated as liquid investments[4], adjusted for haircuts and stressed investments and cash & bank balance) as on June 30, 2022. In FY2022, it received net premium of Rs. 4,985 crore and its actual benefits/claims paid stood at Rs. 4,009 crore. The coupon payment for the subordinated debt programme, which is serviceable through the shareholders' funds is Rs. 19 crore for FY2023 and 90% of the shareholders' investments (Rs. 504 crore) has been deployed in liquid investments. The principal of the subordinated debt programme of Rs. 100 crore has a call option on January 3, 2023 and a maturity date on January 3, 2028. ICRA does not foresee any liquidity risk in the near term, either for servicing the debt or the policyholders' claims.

Rating sensitivities

Positive factors – The rating could be revised if there is a substantial and sustained improvement in the company's market share and profitability, leading to an improvement in its financial risk profile.

Negative factors – The outlook or the rating could be revised if there is a weakening in the credit profile of BoB, a change in the parentage or a decline in its linkages with the parent or expectation of support from the parent. Pressure could also arise if the company's solvency ratio deteriorates to less than 1.60 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for Life Insurance Companies Methodology for Rating Hybrid Debt Instruments Issued by Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Investor: BoB The rating factors in the track record of capital support from BoB (equity stake of 65.0%). The rating takes into account management support, given BoB's board representation, and the company's ability to leverage BoB's wide branch network for the distribution of its insurance policies.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

IFLI became a subsidiary of Bank of Baroda with effect from March 31, 2022. The shareholders of IFLI are Bank of Baroda (BoB, 65% shareholding), Union Bank of India – UBI (previously held by Andhra Bank, 9%) and Warburg Pincus (Carmel Point Investments India Private Limited, 26%) as on June 30, 2022. As on April 1, 2020, Andhra Bank and Corporation Bank

[4] *Excluding linked liabilities*

amalgamated with UBI. Carmel Point Investments India Private Limited is a special purpose vehicle incorporated in India by Carmel Point Investment Limited, owned by private equity funds managed by Warburg Pincus LLC.

The company was incorporated in June 2008 and commenced operations in FY2010. IFLI currently operates in 36 states and Union Territories. BoB and UBI are public sector banks with established track records. BoB has a network of 8,168 branches (March 2022) while UBI has a network of 8,873 branches (March 2022) across India. Warburg Pincus LLC is an American private equity firm with offices in the United States, Europe, Brazil, China and India. It has been a private equity investor since 1966. The firm currently has approximately $85 billion in assets under management and invests in a range of sectors including retail, industrial manufacturing, energy, financial services, health care, technology, media, and real estate.

Key financial indicators (audited)

IndiaFirst Life Insurance Company Limited	FY2021	FY2022	Q1 FY2022	Q1 FY2023
Gross direct premium	4,056	5,187	834	908
Income from investment and fees$	2,502	1,777	606	(192)
Total operating expenses*	733	958	174	251
PAT	30	(282)	(144)	(42)
Total net worth	776	493	631	451
Total policyholders' + shareholders' investments@	10,986	11,539	11,375	11,681
Total expense ratio (including commission expense)	18.1%	18.5%	20.9%	27.6%
Return on equity^	3.9%	-57.1%	-91.5%	-37.1%
13th month persistency ratio	78.5%	81.2%	80.1%	82.7%
61st month persistency ratio	44.5%	44.0%	47.2%	46.7%
Regulatory solvency ratio (times)	1.81	1.65	1.76	1.66

Source: Company, ICRA Research; Amount in Rs. crore; All calculations are as per ICRA Research
$ Includes shareholders investment income
** Total operating expense of policyholder includes commission expense*
@ Investments exclude linked investments
^ Return on equity is annualised for Q1 FY2022 and Q1 FY2023

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 Oct 13, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Oct 21, 2022	Oct 25, 2021	Jul 16, 2021	Jul 17, 2020	May 15, 2020	-
1	Subordinated debt programme	Long term	100.0	100.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	Subordinated debt programme	Long term	125.0	125.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-	-
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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE381Y08011	Subordinated debt programme	Jan-03-2018	8.57%	Jan-03-2028*	100.0	[ICRA]AA (Stable)
INE381Y08029	Subordinated debt programme	Mar-24-2022	8.40%	Mar-24-2032*	125.0	[ICRA]AA (Stable)

Source: Company, ICRA Research; Amount in Rs. crore

** The company has a call option, which is exercisable five years from the date of allotment*

Key features of rated debt instrument

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[5]
- If 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

[5] *As per IRDAI, insurers are required to maintain a minimum solvency ratio of 1.50 times*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Niraj Jalan
+91 33 7150 1146
niraj.jalan@icraindia.com

Harsh Mange
+91 22 6169 3300
harsh.mange@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches