December 13, 2022

Royal Sundaram General Insurance Co. Limited: Rating reaffirmed

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Subordinated Debt Programme	50.00	00.00	[ICRA]AA+ (Stable); reaffirmed and withdrawn
Total	**176.00**	**126.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into consideration 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 the 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 strengthen ICRA's expectation 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. The rating also factors in RSGICL's strong solvency profile, which is likely to support growth in the medium term.

The rating remains constrained by the company's moderate profitability due to the weak underwriting performance, resulting in a net claims ratio of 84.2% and a combined ratio of 116.7% during FY2022. RSGICL has a high concentration in the motor segment, which accounted for 70.7% of total gross direct premium income (GDPI) in FY2022 (though lower than 77.2% in FY2018). RSGICL has been diversifying and increasing its presence in the health & personal accident (PA) segment, which typically has a lower claims ratio compared to motor.

The rise in the health segment share in the overall business and focus on retail channels in the motor segment is expected to improve the claims ratio, thereby resulting in improvement in the combined ratio, but this will be partly offset by higher management expenses. 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.

ICRA has withdrawn its rating on RSGICL's Rs. 50-crore subordinated debt programme as the same has been fully redeemed and there is no amount outstanding against the rated instrument. Hence, the rating on the subordinated debt programme has been reaffirmed and withdrawn as per ICRA's rating withdrawal policy.

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, 2022), 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. 31,980 crore as of September 2022. It is the flagship company of the T. S. Santhanam arm of the TVS Group. SFL primarily finances 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 45 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 is one of the major support partners in the CV segment with the business sourced from SFL accounting for 25.6% of total GDPI in the CV business in FY2022. RSGICL has adequate board representation from the sponsors with three directors from SFL and two from Ageas. 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.

Strong solvency levels – The company's solvency ratio was strong at 209% as on September 30, 2022 compared to 207% as on September 30, 2021. The company maintains adequate cushion above the minimum regulatory solvency requirement of 150% times. The last capital infusion was Rs. 295 crore in FY2018 to support its growth, of which Sundaram Finance Limited and India Motor Parts & Accessories Limited infused Rs. 223.9 crore and Rs. 29.4 crore, respectively among others. The company has the headroom to raise an additional sub-debt of ~Rs. 50 crore[1], which could boost the solvency to 218% on a pro forma basis as on September 30, 2022. ICRA does not expect incremental capital requirement, as the solvency ratio is expected to support growth in the medium term while maintaining a solvency ratio above 190%. ICRA draws comfort from the commitment of the shareholders to infuse equity, if required.

Credit challenges

Moderate profitability – RSGICL's profitability remained moderate with a return on equity (RoE) of 8.3% in FY2022 (11.3% in FY2021). While the company has been reporting underwriting losses, net profitability is supported by the investment income. The company reported lower profit after tax of Rs. 131.1 crore in FY2022 compared to Rs. 158.3 crore in FY2021 largely due higher underwriting losses. RSGICL reported underwriting loss of Rs. 370.1 crore or underwriting loss/net premium earned (NPE) of -17.0% in FY2022 compared to Rs. 222.4 crore or -10.5% in FY2021. The high underwriting loss was due to elevated claims in the health & personal accident and the motor segments and high management expenses to support future growth from the retail channels.

The company reported a net profit of Rs. 47.3 crore in H1 FY2023 compared to Rs. 95.2 crore in H1 FY2022. The improvement in the claims ratio to 83.5% of NPE in H1 FY2023 from 86.4% in H1 FY2022 was offset by a rise in management expenses to 29.9% of net premium written (H1 FY2023) from 25.4% (H1 FY2022).

RSGICL's specialised health focus agency 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, which is likely to result in elevated operating expenses. However, a rise in the share of the health segment is likely to improve the company's loss ratios, as health segment has relatively lower net loss ratio compared to the motor segment. Further, with better pricing and risk selection based on micro segmentation in the motor segment, the loss ratio is expected to improve gradually. Ability to control the operating costs while scaling up the share of retail business will be a key driver for improvement in the combined ratio.

RSGICL reported additional tax demand of Rs. 446 crore which has not been considered as a contingent liability on the basis of expert legal advice. The additional tax demand is mainly related to the incurred but not reported (IBNR) reserve and non-deduction of tax for premium paid to foreign reinsurers. The matter is currently pending before the tax authorities. ICRA takes cognizance of the relatively high level of additional tax demand (29.0% of net worth as of September 2022), which if crystallised would further constrain the profitability and solvency and would be a key rating monitorable.

High dependence on motor portfolio; however, plans to diversify - The company faces stiff competition from private as well as public sector general insurance companies in India. The company's market share stood at 1.4% in terms of GDPI in FY2022 largely contributed by the motor segment, while the presence in other segments remained limited. The motor segment remains the company's largest segment, though its share declined to 70.7% of the total GDPI in FY2022 from 77.2% in FY2018.

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[1] *The company can raise ~Rs. 352 crore sub-debt as per the revised regulation whereby the threshold limits has been increased to 50% from 25% of paid up capital & share premium, subject to 50% of Net worth of company*

This 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 and focus on the retail channel. The company has been incrementally focussing on improving its presence in the health & PA segment, which resulted in a rise in its share to 14.9% of total GDPI in FY2022 from 13.2% in FY2018. The balance portfolio comprises fire (10.1%), engineering (1.9%), marine (1.6%) and others (0.8%) in FY2022.

Liquidity position: Strong

The company's net premium was Rs. 2,192 crore in FY2022 in relation to the maximum net claims paid of Rs. 1,392 crore in the last few years. The company had investments in the Central/state government securities accounting for 41% of the total investments or Rs. 3,025 crore as on September 30, 2022, which further supports the liquidity to meet the claims of policyholders. The company's shareholders investments of Rs. 1,215 crore remains strong in relation to sub-debt outstanding of Rs. 126 crore as on September 30, 2022.

Rating sensitivities

Positive factors – The rating could be revised or outlook changed to positive if there is a sustained improvement in the company's profitability along with an improvement in its market share.

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 170% on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – General Insurance Impact of Parent or Group Support on an Issuer's Credit Rating Policy on Withdrawal of Credit Ratings
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, when required. Given the shared brand name, 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), incorporated on August 22, 2000 is a privately-owned general insurance company, offering general insurance services across a variety of segments. With its head office in Chennai, Tamil Nadu, RSGICL has 159 branches across India with an employee base of 2,922 as on September 30, 2022. During H1 FY2023, RSGICL witnessed a Gross Direct Premium of Rs. 1,550.4 crore, an underwriting loss of Rs. 213.0 crore and a net profit of Rs. 47.3 crore.

Key financial indicators (audited)

Royal Sundaram General Insurance Co. Limited	FY2021	FY2022	H1 FY2022	H1 FY2023
Gross direct premium	2,822.3	2,866.6	1,352.8	1,550.4
Total underwriting surplus/(shortfall)	(222.4)	(370.1)	(162.5)	(213.0)
Total investment + trading income	478.3	539.3	275.9	284.3
PAT	158.3	131.1	95.2	47.3
Total net worth	1,404.0	1578.5	1,589.9	1537.3
Total technical reserves	5,236.0	5693.2	5,490.4	5982.0
Total investment portfolio	6,484.3	7,104.6	6,982.9	7,444.7
Total assets	7,535.8	8,164.7	7,986.9	8,512.4
Return on equity^	11.3%	8.3%	12.0%	6.1%
Gearing (times)#	0.07	0.08	0.08	0.08
Combined ratio*	110.2%	116.7%	117.7%	117.1%
Regulatory solvency ratio %	187%	210%	207%	209%

Source: RSGICL, ICRA Research
Note: Amount in Rs. crore
^ Return on equity is annualised for H1 FY2022 and H1 FY2023
 # Equity in the gearing ratio excludes fair value change account
** Combined ratio – (net claims incurred/net premium earned) + (management 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 (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 05, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Dec 13, 2022	Dec 17, 2021	Nov 18, 2021	Nov 20, 2020	-
1	**Subordinated debt programme**	Long Term	76.0	76.0	[ICRA]AA+ (Stable); reaffirmed	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
2	**Subordinated debt programme**	Long Term	50.0	50.0	[ICRA]AA+ (Stable); reaffirmed	[ICRA]AA+ (Stable)	-	-	-
3	**Subordinated debt programme**	Long Term	50.0	-	[ICRA]AA+ (Stable); reaffirmed and withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
4	**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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE499S08039	**Subordinated debt**	27-Sep-2021	7.85%	27-Sep-2031#	76.00	[ICRA]AA+ (Stable)
INE499S08047	**Subordinated debt**	15-Mar-2022	8.05%	15-Mar-2032*	50.00	[ICRA]AA+ (Stable)
INE499S08021	**Subordinated debt**	27-Mar-2017	10.5%	27-Mar-2027^	50.00	[ICRA]AA+ (Stable); withdrawn

#Note: Call option on September 25, 2026

**Note: Call option on March 15, 2027; in case not exercised call options subsequently every year on 15th March till maturity*

^Note: The company exercised the call option on March 27, 2022

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[2]
- 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

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

[2] *As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%*

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