

July 10, 2023

HDFC ERGO General Insurance Company Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Issuer Rating	-	-	[ICRA]AAA (Stable); outstanding
Subordinated debt programme	300.00	300.00	[ICRA]AAA (Stable); outstanding
Subordinated debt programme	375.00	375.00	[ICRA]AAA (Stable); outstanding
Subordinated debt programme	80.00	80.00	[ICRA]AAA (Stable); outstanding
Subordinated debt programme	74.00	74.00	[ICRA]AAA (Stable); outstanding
Total	829.00	829.00	

*Instrument details are provided in Annexure I

Rationale

Material event

On June 30, 2023, Housing Development Finance Corporation Limited (HDFC) announced the completion of its amalgamation with and into HDFC Bank Limited (HDFC Bank; [\[ICRA\]AAA \(Stable\)/\[ICRA\]A1+](#)) with effect from July 1, 2023. Moreover, with requisite regulatory approvals for increasing its stake above 50% in HDFC ERGO, HDFC acquired an additional 0.51% stake in HDFC ERGO from ERGO International AG, the other promoter of the company, thereby increasing its stake to 50.50% as on June 30, 2023. Pursuant to the amalgamation, HDFC ERGO became a subsidiary of HDFC Bank with effect from July 1, 2023.

Impact of the material event

ICRA's rating for HDFC ERGO derived support from its parentage in the form of HDFC, which was the majority stakeholder. Post July 1, 2023, HDFC ERGO is now a subsidiary of HDFC Bank. Given the strong credit profile of HDFC Bank, the change in parentage has no impact on HDFC ERGO's credit rating. ICRA expects support from HDFC Bank to be forthcoming if required.

Currently, HDFC Bank contributes ~9.5% to HDFC ERGO's gross direct premium income. With the bank now becoming the parent, closer alignment, in terms of distribution, is likely. Although HDFC Bank operates under an open architecture and does not have an exclusive agreement with HDFC ERGO, the company's share in the general insurance business distributed by the bank could improve further.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description and the liquidity position: [Click here](#). The rating sensitivities have been revised as follows.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or the outlook could be revised if there is a deterioration in the credit profile of HDFC Bank or a decline in the strategic importance of HDFC ERGO to HDFC Bank or in the expectation of support from the promoter. 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 General Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Investor: HDFC Bank Limited The rating factors in the high likelihood of support from HDFC Bank, given the shared brand name and HDFC ERGO's position as a subsidiary of the bank.
Consolidation/Standalone	Standalone

About the company

HDFC ERGO General Insurance Company Limited (HDFC ERGO) is a joint venture between HDFC (50.50% stake as on June 30, 2023) and ERGO International AG (48.63%), while the balance is held by the employees of HDFC ERGO. With the amalgamation of HDFC Limited with and into HDFC Bank, HDFC ERGO became a subsidiary of HDFC Bank from July 1, 2023. HDFC Bank is one of the three systemically important banks and the largest private sector bank in India.

HDFC ERGO offers a complete range of general insurance products including crop, motor, health, travel, home and personal accident insurance in the retail space and customised products like property, marine and liability insurance in the corporate space. HDFC ERGO has a presence across the country with 215 branch offices as on March 31, 2023.

Key financial indicators (audited)

HDFC ERGO General Insurance Company Limited	FY2022	FY2023
Gross direct premium	13,498	16,636
Total underwriting surplus / (shortfall)	(568)	(462)
Total investment + Trading income	1,297	1,413
PAT	500	653
Total net worth*	3,577	3,946
Total technical reserves	11,536	13,542
Total investment portfolio	18,397	22,242
Total assets	21,290	25,065
Return on equity	14.0%	16.5%
Combined ratio	107.5%	103.3%
Regulatory solvency ratio (times)	1.64	1.81

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
						Jan 24, 2023	Sep 07, 2022	Oct 22, 2021	Feb 02, 2021
1	Issuer Rating	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Subordinated debt programme	Long term	74.00	74.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Subordinated debt programme	Long term	375.00	375.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
4	Subordinated debt programme	Long term	80.00	80.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
5	Subordinated debt programme	Long term	300.00	300.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
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
INE092V08028	Subordinated debt programme	Sep 18, 2018	10.25%	Sep 18, 2028*	74.00	[ICRA]AAA (Stable)
INE225R08022	Subordinated debt programme	Sep 19, 2022	7.72%	Sep 19, 2032*	80.00	[ICRA]AAA (Stable)
INE225R08014	Subordinated debt programme	Nov 09, 2021	7.10%	Nov 09, 2031*	375.00	[ICRA]AAA (Stable)
INE225R08030	Subordinated debt programme	Feb 20, 2023	8.15%	Feb 20, 2033*	300.00	[ICRA]AAA (Stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: Company, *The company has a call option exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date

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 regulator¹
- » 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

¹ As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%

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