

July 28, 2023

Universal Sampo General Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AA+ (Stable); reaffirmed
Total	-	-	

*Instrument details are provided in Annexure I

Rationale

The rating factors in Universal Sampo General Insurance Company Limited's (Universal Sampo) strong promoter profile with Sampo Japan Insurance Inc. (Sampo; rated Moody's A1/ Stable) and Indian Bank holding equity stakes of 34.61% and 28.52%, respectively, and their demonstrated operational, managerial, and financial support. The rating considers Sampo's representation on Universal Sampo's board of directors and the shared brand name, which further strengthens ICRA's expectations of adequate and timely capital support to the company. Further, the company's distribution is supported by the bancassurance (banca) partnership with the three promoter banks¹ who have a widespread network across the country. The rating also considers the ongoing expansion in distribution channels and strategic tie-ups with original equipment manufacturers (OEMs) to increase new business in the private car as well as low-tonnage JCB/tractor businesses, which is expected to improve product diversification. The company's solvency has been supported by internal accruals. The solvency for the company stood at 1.73 times as on March 31, 2023. With the growth plans and profitability likely to remain subdued, the company is likely to require capital in the near to medium term. ICRA expects support from Sampo to be forthcoming, if required.

The rating remains constrained by Universal Sampo's sizeable concentration in the tender-driven bulky crop segment, which accounted for 39% of its gross direct premium income (GDPI) in FY2023, though the same has been reducing. Over the medium term, the company's ability to diversify its product mix and improve its underwriting performance and operating efficiency would be critical for improving its earnings profile.

The Stable outlook factors in ICRA's expectations that operational, managerial, and financial support from Sampo will be forthcoming, if required, and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong parentage with operational, managerial, and financial support from Sampo – Sampo's stake in Universal Sampo was 34.61% as on March 31, 2023. Sampo was established in October 1888 and is one of the largest domestic property and casualty (P&C) insurers in terms of the consolidated net premium written in Japan. As on March 31, 2023, Sampo had a presence in 29 countries and regions through overseas subsidiaries, branch, and representative offices. Universal Sampo leverages Sampo's experience in the insurance sector across many countries, particularly in the crop segment. This is evidenced by the presence of two board nominees from Sampo, which supports Universal Sampo's strategic decision-making process. In addition, Sampo has nominated a Deputy Chief Executive Officer (CEO) who shares responsibilities with the Indian CEO in the management of the company. In terms of capital support, Sampo and Dabur investment corporation (DIC) subscribed to Universal Sampo's rights issue of Rs. 100 crore in FY2018. Further, Sampo and DIC purchased the shares transferred by KBL in FY2019, which

¹ Indian Bank, Indian Overseas Bank (IOB) – Rated [ICRA]AA-(stable) and Karnataka Bank Limited (KBL) – Rated [ICRA]A (stable)

increased their shareholding to 34.61% and 12.81%, respectively, as on March 31, 2019, from 28.42% and 10.74%, respectively, as on March 31, 2018.

A foreign JV partner can increase its stake to 74% as per regulations and Sompo expects to increase its shareholding, if required, with the prior approval from other shareholders. Universal Sompo also gets support from the three promoter banks, in terms of business origination, through the banca channel. This is reflected in the high share of Banca in the overall GDPI (excluding crop), which stood at 11.8% of the non-crop business during FY2023. As on March 31, 2023, the board of Universal Sompo consisted of 13 directors with extensive experience in the financial services industry, including two representatives from Sompo Japan and six representatives from promoter banks.

Expansion in distribution channels and partnerships support growth - Universal Sompo's growth was higher than the industry growth in the last couple of years, primarily driven by the expansion in its distribution network in the motor segment and strategic tie-ups with automobile original equipment manufacturers (OEMs), enabling the company to expand its presence in tier 2 and 3 cities. Universal Sompo's improvement in product concentration can be witnessed with ongoing diversification of the business segment in the last couple of years, resulting in the motor segment becoming the largest business segment (44.3% of the total GDPI in FY2023) followed by the crop business (35.3% of total GDPI in FY2023). Also, the company's investment in the agency channel and retail brokers, coupled with the increase in pricing of health products to offset the higher claims, is likely to lead higher growth in the health segments. While the company's presence in the commercial business is limited, it is incrementally focusing on improving the same. The company's distribution mix is largely dominated by direct business (crop business) and brokers with a 42% and 39% share, respectively, in the total distribution in FY2023. In the banca channel, the company has tie-ups mainly with its promoter entities. The company's share in the overall general insurance business of these banks improved to 80% for Indian Overseas Bank and Karnataka Bank and 50% for Indian Bank. ICRA expects Universal Sompo to maintain its pace of growth in its retail portfolio by expanding into new territories and diversifying its premium mix further.

Solvency supported by internal accruals – Universal Sompo's capitalisation has been supported by internal accruals, with an average return on equity of 11.1% during FY2019-FY2023. The last capital infusion was Rs. 100 crore in FY2018. With the growth in the business and increase in the share of motor, which have higher retentions, the company's solvency stood at 1.73 times as on March 31, 2023, compared to 1.92 times as on March 31, 2022. To optimise the capital, the retention level in the motor segment was lower than its peers. The available solvency margin of the company has been impacted due to the disallowance of the crop receivable from the Government of Gujarat of Rs. 333 crore (disallowed in FY2021). However, partial amount of Rs. 216 crore has been received in July 2023, which has improved the solvency to ~1.85 times. The recovery of the remaining amount could further boost the solvency. Further, the company has headroom for raising additional sub-debt of ~Rs. 268 crore, which could boost the solvency to 2.14 times, on a proforma basis. Also, ICRA expects capital support from the promoters to meet the growth plans, while maintaining a solvency above ICRA's negative threshold of 1.70 times.

The company's profitability has been supported by lower loss ratios in the crop segment, resulting in an average overall combined ratio of ~102% in the last five years. Despite the diversification into the motor segment, which have higher loss ratios and management expenses, the overall loss ratio for the company stood at ~78% in FY2022-23, supported by the sizeable release of prior period provisions in the crop and out of court settlement in Motor-TP segments (~Rs. 25 crore in FY2022 and ~Rs.128 crore in FY2023). The release of these provisions also supported the overall underwriting performance in FY2023. ICRA expects the profitability pressure to increase going ahead, with the continued diversification of the business and the likely reduction in the profitability of the crop segment. The crop segment is seeing an increased competition with participation from various players to reduce their expense ratio to the specified regulatory level of 30% in the next three-year period. Further, the profitability in the crop segment is likely to be impacted by the 80/110 scheme which limits the impact of high loss, but also restricts underwriting profitability to 20%. Hence, ability of the company to profitably grow its business will remain a key monitorable.

Credit challenges

High dependence on tender-driven crop segment may lead to volatility in top line, although share is declining – Universal Sompo has a strong presence in the crop insurance segment. The company's better choice of crop clusters and the underwriting expertise have yielded profits in this segment in the past. However, the concentration in the crop segment leads to volatility in the GDPI, which is likely to be further impacted due to increase in competition.

As part of its strategy, the company has been reducing its concentration in the crop segment and increasing the share of business from non-crop segments, mainly motor and health. As a result, the company's crop segment share declined to 35.2% of the total GDPI in FY2023 from the high of 60.5% in FY2019. With decline in crop GDPI for universal and growth in size of the crop insurance market, the market share of Universal in crop declined to 4.5% from 6.1%. ICRA notes that the company's market share in the motor (2.2% as of March 31, 2023) and health segments (0.3% as of March 31, 2023) is modest. Profitable scale-up in these segments will be a key rating monitorable and could adversely impact future profitability and capital.

Liquidity position: Adequate

The company's net written premium was Rs. 2,151 crore in FY2023 in relation to the maximum net claims paid of Rs. 1,690 crore in the last few years. The company had investments in Central/state government securities, accounting for 39% of the total investments of Rs. 4,386 crore as on March 31, 2023, further supporting the liquidity to meet the claims of policyholders. The company's shareholders' investments stood at Rs. 841 crore in relation to nil sub-debt outstanding as on March 31, 2023.

Rating sensitivities

Positive factors – The outlook or the rating could be revised upwards, if there is any sustained improvement in Universal Sompo's profitability, along with an improvement in its market share and a further increase in importance to Sompo.

Negative factors – The outlook or the rating could be revised downwards, in case of any material deterioration in the credit risk profile of Sompo, or a decline in the strategic importance of Universal Sompo to Sompo, or in the expectation of support from Sompo. In addition, a sustained weakness in profitability, loss of market share and/or a decline in the solvency ratio below 1.70 times, on a sustained basis, could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for General Insurance Company Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Group Company: Sompo The rating factors in the high likelihood of support from the Sompo, given the shared brand name and representation on the board.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

Universal Sompo is a JV of Sompo holding a 34.61% stake, followed by Indian Bank (28.52%), Indian Overseas Bank (18.06%), Dabur Investment Corporation (12.81%) and Karnataka Bank Limited (6.00%), as on March 31, 2023. In November 2007, the company commenced operations in India. It has 108 branches and 1,700+ employees as of FY2023. Universal Sompo offers a range of general insurance products catering to the retail, rural, small, and medium-sized enterprises (SME) and corporate customer segments.

Key financial indicators (audited) – Standalone

Universal Sompo General Insurance Company Limited	FY2022	FY2023
Gross direct premium	3,456	4,103
Total underwriting surplus/(shortfall)	(95)	8
Total investment + trading income	266	253
PAT	119	177
Total net worth*	1,132	1,269
Total technical reserves	2,705	2,698
Total investment portfolio	3,741	4,386
Total assets	5,195	5,711
Return on equity	10.5%	13.9%
Combined ratio	102.4%	99.7%
Regulatory solvency ratio (times)	1.92	1.73

Source: Universal Sompo, ICRA Research; Note: Amount in Rs. crore; All calculations are as per ICRA Research, * Net worth includes fair value change account

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 as of June 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2021	Date & Rating in FY2020	
					July 28, 2023	July 12, 2022	-	-	
1	Issuer Rating	Long Term	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

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
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AA+ (Stable)

Source: Universal Sampo, ICRA Research

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

ANALYST CONTACTS

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

Anil Gupta
+91 124 4545314
anilg@icraindia.com

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

Bharat Toplani
+91 22 6114 3428
bharat.toplani@icraindia.com

Niraj Jalan
+91 33 7150 1146
niraj.jalan@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:

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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.