

September 04, 2023

HDFC Ergo General Insurance Company Limited: Rating assigned/reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated debt programme	829.00	829.00	[ICRA]AAA (Stable); reaffirmed
Subordinated debt programme	-	320.00	[ICRA]AAA (Stable); assigned
Total	829.00	1,149.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in HDFC ERGO General Insurance Company Limited's (HDFC ERGO) established market position with a market share of 6.5% of gross direct premium income (GDPI) in FY2023. The company is the fourth largest general insurer in India and the second largest among private insurers. Its strong growth has been supported by its robust distribution channel. Further, the company has a diversified presence across segments. The rating factors in HDFC ERGO's adequate solvency (1.85 times as on June 30, 2023). The solvency is supported by healthy internal accruals and lower risk retention, which helps in capital optimisation. The company's profitability remains healthy with an average return on equity of 16.0% during FY2019-FY2023. ICRA notes the high share of HDFC ERGO's crop segment (20.2% of GDPI in FY2023), which is driven by tenders and could be lumpy and volatile in nature.

The rating also considers HDFC ERGO's strong parentage with HDFC Bank Limited (HDFC Bank; rated [ICRA]AAA (Stable)/[ICRA]A1+) and ERGO International AG (ERGO) holding an equity share of 50.5% and 48.6%, respectively. Following the amalgamation of Housing Development Finance Corporation Limited (HDFC) with and into HDFC Bank, HDFC ERGO became a subsidiary of HDFC Bank with effect from July 1, 2023. The rating derives comfort from HDFC Bank's shareholding and its representation on HDFC ERGO's board of directors. Further, the presence of a shared brand name strengthens ICRA's expectation that HDFC ERGO will receive capital support from HDFC Bank as and when required.

The Stable outlook reflects HDFC ERGO's strong distribution network, which will help it maintain its market position, and the expectation that it will continue receiving support from HDFC Bank and will maintain the solvency level above the negative triggers.

Key rating drivers and their description

Credit strengths

Strong parentage – HDFC Bank is the largest shareholder in HDFC ERGO with a 50.5% stake as on July 1, 2023, followed by ERGO International AG (48.6%), while the balance is held by the employees of the company. Post the amalgamation of HDFC Limited with and into HDFC Bank Limited, HDFC Bank has become the promoter of the company. HDFC Bank is a systemically important as well as the largest private sector bank in India. With a presence in banking, insurance, and asset management, the HDFC Group is an important part of the Indian financial services sector. HDFC ERGO's operations are handled by a team of senior managers with considerable experience in the general insurance (GI) industry. Its board has fourteen directors and has representation from both shareholders with two from HDFC Bank, two from ERGO International AG and seven independent directors. The shared brand name with HDFC Bank strengthens ICRA's belief that HDFC ERGO will receive capital support from its parent company as and when required.

Established market position with diversified product portfolio and distribution network – HDFC ERGO is the second largest private GI company with a market share of 6.5% in FY2023 (6.1% in FY2022) in terms of GDPI. The health & personal accident segment continues to be the largest contributor, though its share declined to 34.4% of the total GDPI in FY2023 from 36.6% in FY2022. Within health, retail health drives a major share of the business, thereby sustaining steady premium growth. The motor segment registered a healthy growth of 30.9% in FY2023 with a share of 27.9% of the GDPI on the back of buoyant sales of primary vehicles in FY2023 coupled with the low base effect in FY2022 due to the Covid-19 pandemic. Apart from retail health and motor, the company has a strong presence in the crop and fire segments, which contributed 20.2% and 10.3%, respectively, to the GDPI in FY2023.

The growth in business is supported by HDFC ERGO's diversified distribution network with brokers, direct business and individual agents contributing 33.7%, 28.4% and 19.6%, respectively, to the total GDPI in FY2023. The share of brokers has increased with the growth in the motor segment. Excluding the crop business, which is sourced directly, the share of bancassurance stood at 11.1% of the GDPI in FY2023. 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 GI business distributed by the bank could improve further.

Adequate capitalisation supported by healthy profitability – HDFC ERGO reported solvency of 1.85 times as on June 30, 2023, compared to the minimum regulatory requirement of 1.50 times. The solvency profile has been supported by steady internal accruals with an average return on equity of 16.0% during FY2019-FY2023 and lower risk retention, wherein reinsurance helps better capital optimisation. The solvency has also been supported by the sub-debt outstanding of Rs. 829 crore, which adds 0.34 times to the solvency ratio. The company has headroom for raising additional sub-debt of ~Rs. 254 crore, which could boost the pro forma solvency to 1.96 times as on June 30, 2023. ICRA expects the company's capitalisation to be supported by healthy internal accruals in the medium term. HDFC ERGO also has the option to reduce the dividend payout (Rs. 249.5 crore in FY2023 or 38.2% of the profit after tax; PAT), which is relatively higher than peers.

While the company has been reporting underwriting losses (combined ratio of 103.3% in FY2023), it remains better than the industry average as well as the average for private players. These losses were offset by the investment income on the float generated through advance premium income, translating into a healthy return on equity of ~17% in FY2023 (~14% in FY2022). ICRA expects that the company could continue incurring underwriting losses in the medium term, though the overall profitability is expected to remain healthy.

Credit challenges

Dependence on tender-driven business – HDFC ERGO has underwritten a high share of the crop business compared to peers. The crop segment had a share of 20.2% in the GDPI for FY2023 (20.1% in FY2022). The crop business is driven by tenders and remains lumpy and volatile in nature. With most of the tenders coming with an 80-110 scheme¹, the extent of losses is likely to be capped. However, in a year of natural calamities, the business can lead to losses and volatility in the overall earnings. Further, competition is expected to increase in this segment in the near term to manage the expenses of management (EoM) regulations implemented by the regulator. HDFC ERGO's ability to consistently underwrite profitable business in the crop segment would have a bearing on its overall revenues and profitability.

Liquidity position: Strong

The company's net premium was Rs. 8,880 crore in FY2023 in relation to the maximum net claims paid of Rs. 5,263 crore in the last few years. It had investments in Central/state government securities, accounting for 36% of the total investments or

¹ Under the 80-110 plan, the insurer's potential losses are restricted to 110% of the gross premium with the state government bearing the cost of any claims above 110% of the premium. If the compensation is less than the premium collected, the insurer will refund the premium surplus (gross premium minus claims) exceeding 20% of the gross premium to the state government

Rs. 8,015 crore as on June 30, 2023, which further supports its liquidity position to meet the claims of policyholders. HDFC ERGO's shareholders' investment of Rs. 4,568 crore also remains strong in relation to sub-debt outstanding of Rs. 829 crore as on June 30, 2023.

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 to less than 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 224 branch offices as on June 30, 2023.

Key financial indicators

HDFC Ergo General Insurance Company Limited	FY2022	FY2023	Q1 FY2023	Q1 FY2024
Gross direct premium	13,498	16,636	3,073	3,422
Total underwriting surplus / (shortfall)	(568)	(462)	(115)	(123)
Total investment + Trading income	1,296	1,413	323	412
PAT	500	653	144	200
Total net worth*	3,577	3,946	3,634	4,397
Total technical reserves	11,536	13,542	12,229	14,227
Total investment portfolio	18,397	22,242	19,122	22,362
Total assets	21,290	25,065	21,358	24,977
Return on equity	14.0%	16.5%	15.9%	18.3%
Combined ratio	107.5%	103.3%	107.1%	108.2%
Regulatory solvency ratio (times)	1.64	1.81	1.68	1.85

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	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Sep 04, 2023	Jul 10, 2023	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)	[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)	[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)	[ICRA]AAA (Stable)	-
4 Subordinated debt programme	Long term	80.00	80.00	[ICRA]AAA (Stable)	[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)	[ICRA]AAA (Stable)	-	-	-
6 Subordinated debt programme	Long term	320.00	-	[ICRA]AAA (Stable)	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex
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 / Sanction	Coupon Rate	Maturity Date	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 22, 2023*	300.00	[ICRA]AAA (Stable)
To be placed	Subordinated debt programme	-	-	-	320.00	[ICRA]AAA (Stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: Company; *The company has a call option, which is 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 regulator²
- » 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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