October 16, 2023

IndiaFirst Life Insurance Company Limited: Rating reaffirmed; reaffirmed & withdrawn for Rs. 100-crore subordinated debt programme

Summary of rating action

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Subordinated debt programme	100.00	-	[ICRA]AA (Stable); reaffirmed & withdrawn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

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in IndiaFirst Life Insurance Company Limited's (IFLI) strong promoter profile with Bank of Baroda {BoB; [ICRA]AAA (Stable)[1]} and Carmel Point Investments India Private Limited (an affiliate of Warburg Pincus LLC) holding stakes of 65% and 26%, respectively, in the company. The rating derives comfort from BoB's shareholding, representation on IFLI's board of directors and the exclusive bancassurance tie up. Additionally, IFLI has bancassurance tie up with Union Bank of India {Union Bank; [ICRA]AA+ (Positive)[1]}, which holds a 9% shareholding in the company. While IFLI does not have a shared brand name with BoB, the company has entered into an agreement granting the use of BoB's name and logos for marketing and communication purpose. ILFI's distribution is supported by the access to the extensive branch network of BoB and Union Bank, enabling the company to leverage large branch network and customer base of bancassurance partners. The rating is also supported by the comfortable solvency position with solvency ratio of 2.25 times in June 2023, supported by the capital infusion by the shareholders and ICRA's expectations of adequate and timely capital support to the company from BoB. The company has received approval from the Securities and Exchange Board of India (SEBI) to raise funds through initial public offering (IPO), which includes a fresh issue of Rs. 500 crore, which will further strengthen the solvency profile. As a part of IPO, the existing shareholders also propose to sell part of their shareholding, and ICRA expects BoB will continue to maintain majority shareholding in the company.

While the reported profitability in terms of return on equity (RoE) for the company has been moderate, it has seen an improvement in its embedded value (EV) and value of new business (VNB) in the last two years. The VNB and VNB margins improved, supported by the shift in the new business mix with the increasing share of retail and higher-margin non-participatory (non-par) products. Though a shift in product mix has improved the VNB, the ability of the company to manage the interest rate risks in these products will remain monitorable in the long term. Additionally, the profitability and solvency may also remain susceptible to changes in the actuarial assumptions, leading to changes in the reserving requirements.

The rating is, however, constrained by IFLI's moderate scale of operations with a market share, in terms of individual annual equivalent premium (APE) of 1.6% and overall new business premium (NBP) of 0.7% in FY2023. The company's ability to grow its individual business and diversify its business sourcing, while improving its persistency levels will be a key driver for enhancing its market position and improving the profitability.

The Stable outlook factors in ICRA's expectations that the company will continue to improve its customer franchise, while receiving support from BoB and will maintain the solvency level above ICRA's negative triggers.

[1] *Basel III Tier II Bonds*

Key rating drivers and their description

Credit strengths

Strong parentage provides capital, strategic, and operational support – Bank of Baroda and Carmel Point Investment Ltd. (an affiliate of Warburg Pincus) and Union Bank of India held 65.0%, 26.0% and 9.0%, respectively, in IFLI as of September 30, 2023, with BoB and Carmel being the promoters. The rating factors in the strategic importance of IFLI to BoB, which is demonstrated by the regular capital infusions by BoB along with Carmel. BoB is the second-largest public sector bank in India with a network of 8,200 branches in March 2023, spread across the country. This enables IFLI to leverage the bancassurance channel to source business at a relatively lower cost. Further, IFLI has exclusive partnership with BoB, with BoB contributing to 65-70% of the individual NBP[2]. The promoters have representation on IFLI's board thereby providing strategic support.

IFLI has received approval from SEBI to raise funds through an IPO. The public issue consists of a fresh issue of equity shares worth up to Rs. 500 crore and an offer-for-sale (OFS) by existing shareholders. Post the IPO, BoB is expected to remain the largest shareholder with majority shareholding of above 51%. ICRA expects IFLI to receive timely support from BoB, if required.

Comfortable solvency profile supported by capital infusions – IFLI's solvency ratio improved substantially to 2.25 times as of June 30, 2023, from 1.66 times as on June 30, 2022, primarily supported by capital infusion of Rs. 500 crore by the existing shareholders in FY2023. While the company's internal accruals have been limited, the capitalisation has been supported by the regular capital infusions (~Rs. 678 crore infused in last four years including Rs. 500 crore in FY2023). Solvency was also partially supported by the funds for future appropriation (FFA) on the par products. The proposed IPO shall also boost the solvency. Further, IFLI has headroom for raising additional sub-debt of ~Rs. 409 crore, which provides financial flexibility. ICRA expects the company's capitalisation to support the growth in the medium term.

Improvement in profitability supported by the growth in higher-margin products - The company has reported a substantial increase in the EV to Rs. 3,079 crore as of March 31, 2023 (two-year CAGR of 35.3%). The growth in APE supported the VNB growth (Rs. 580 crore in FY2023 compared to Rs. 111 crore in FY2021) and was accompanied with the improvement in VNB margins (30.6% in FY2023 vis-à-vis 10.5% in FY2021). The growth in the retail business with change in product mix towards the high-margin non-par saving segments has helped improve the VNB margins.

The company's internal accruals have been limited due to low reported profitability with the company reporting PAT of Rs. 76.2 crore (ROE of 7.1%) in FY2023 and a net loss of Rs. 281.6 crore in FY2022. The profitability was impacted due to the Covid-19-related claims in FY2022 and higher initial reserving in the non-par segment, which has grown significantly in the last two years.

Diversified product mix – IFLI has shifted its focus to the granular individual retail business from the group funds business. The share of the individual business in the NBP increased to 59.9% in FY2023 from 33.8% in FY2019, while the share of the group funds business declined gradually to 2.2% of NBP in FY2023 from 51.5% in FY2019. Within individual savings, while the portfolio previously consisted primarily of par and unit linked insurance plans (ULIPs), the share of non-par increased in the last two years (50.7% of individual APE in FY2023) in line with the industry. The company has a diversified mix of products to mitigate dependence on any product. Further, within group, the company has a higher share of group credit life (~19% of group NBP in FY2023). The growth in the non-par segment has helped improved the VNB, however, the ability of the company to manage the interest rate risks in these products will remain monitorable in long term.

[2] *Individual NBP accounted for 59.9% of total NBP in FY2023*

Credit challenges

Moderate scale of operation; though on an improving trend – IFLI's operations remain moderate with a market share of 1.6% in FY2023 in terms of individual APE; though the same has been on an increasing trend (from 1.0% in FY2019) with a compound annual growth rate (CAGR) of 25.9% during FY2019-FY2023, higher than the industry growth of 10.7%. The non-par segment, which has been driving the APE growth for the company, is likely to be impacted by the change in the tax regulations in the last budget. The company's distribution is largely driven by bancassurance channel, which had a share of ~92% in the individual NBP in FY2023 (~70% from BoB and ~20% from Union Bank), thereby exposing the company to concentration risk. Further, within the group business which accounted for 40.1% of new business premium (NBP) in FY2023; 36% of group NBP was sourced from BoB and Union Bank. IFLI's ability to diversify and develop proprietary channels will be instrumental for improving its market position and profitability.

Persistency levels improving; though scope for further improvement - The company's persistency ratio improved over the last few years with a 13th month persistency of 81.5% in FY2023 (78.5% in FY2021). While the persistency ratios are satisfactory in the 13th month, it is lower in later cohorts at 44.2% in 61st month. The company's ability to improve its persistency across cohorts and product segments would remain crucial for incremental profitability in the individual business.

Liquidity position: Strong

The company's net premium (excluding ULIP) stood at Rs. 4,437 crore in FY2023 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 2,774 crore in the last few years. The company's operating cash flows were positive in FY2023, reflecting its ability to meet the expense and claims through premium inflows. In addition, investments in Central and state government securities stood at Rs. 9,448 crore, accounting for 65% of the total investments (excluding ULIP) as of June 30, 2023, which supports the liquidity to meet the claims of policyholders in an event of rise in policyholders' claims. The shareholders' investment of Rs. 800 crore also remains strong in relation to the sub-debt outstanding of Rs. 125 crore as of June 30, 2023.

Rating sensitivities

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

Negative factors – The rating or the outlook could be revised, if there is a deterioration in the credit profile of BoB or a decline in the strategic importance of IFLI to BoB or in the expectation of support from the parent. In addition, a decline in the company's solvency ratio to less than 1.60 times, on a sustained basis, could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for Life Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating Policy on withdrawal of credit rating
Parent/Group support	Parent/Investor: Bank of Baroda (BoB) The rating factors in the high likelihood of support from the BoB, given the past track record of past capital infusions and BoB's representation on the board.
Consolidation/Standalone	Standalone

About the company

IndiaFirst Life Insurance Company Limited (IFLI) was incorporated in June 2008 and commenced operations in FY2010. IFLI was a joint venture between Bank of Baroda (44%), Andhra Bank (30%) and Legal & General Group PLC (26%). In February 2019, Legal and General Group PLC sold its entire shareholding to Carmel Point Investments India Private Limited. After the merger of Andhra Bank with Union Bank in April 2020, Union Bank became the shareholder of IFLI. In March 2022, Union Bank divested its 21% stake in IFLI to Bank of Baroda to comply with the IRDAI's directive to reduce its stake below 10.0%. Post the acquisition, IFLI became a subsidiary of Bank of Baroda. The shareholders of IFLI are Bank of Baroda (65%), Warburg Pincus (Carmel Point Investments India Private Limited, 26%) and Union Bank of India as of September 30, 2023. 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. IFLI's product portfolio comprises retail and group products, which include participating, non-participating, unit linked and protection. The company had a network of 29 offices across India, as of March 31, 2023.

Key financial indicators (audited)

IndiaFirst Life Insurance Company Limited	FY2022	FY2023	Q1 FY2023	Q1 FY2024
Gross direct premium	5,187	6,075	908	1,338
Income from investment and fees$	1,777	1,306	(194)	856
PAT	(282)	76	(42)	3
Total net worth	493	1,069	438	1,068
Total policyholders + shareholders investments@	11,539	13,677	11,681	14,636
Return on equity^	-57.1%	7.1%	-38.2%	0.9%
13th month persistency ratio	81.2%	81.5%	82.7%	82.0%
61st month persistency ratio	44.0%	44.2%	46.7%	44.3%
Regulatory solvency ratio (times)	1.65	2.18	1.66	2.25

Source: Company, ICRA Research; Amount in Rs. Crore, All calculations are as per ICRA Research, $ Includes shareholders' investment income, @ Investments exclude linked investments, ^ Return on equity is annualised for Q1 FY2023 and Q1 FY2024

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	
					Oct 16, 2023	Oct 21, 2022	Oct 25, 2021	Jul 16, 2021	Jul 17, 2020	May 15, 2020
1	Subordinated debt programme	Long-term	100.0	-	[ICRA]AA (Stable); withdrawn	[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)	[ICRA]AA (Stable)	-	-	-
3	Subordinated debt programme	Long-term	-	-	-	-	-	[ICRA]AA (Stable); reaffirmed	[ICRA]AA (Stable)	-

	and withdrawn

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
INE381Y08011	Subordinated debt programme	Jan-03-2018	8.57%	Jan-03-2028#	100.0	[ICRA]AA (Stable); withdrawn
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, # Redeemed by exercise of call-option at the end of five years, * The company has a first call option, which is exercisable five years from the date of allotment; after first call option, the call-options fall due every year on coupon payment dates.*

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[3]
- 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

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

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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.

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