January 25, 2024

Aditya Birla Sun Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	350.00	350.00	[ICRA]AA+ (Stable); reaffirmed
Total	**350.00**	**350.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers Aditya Birla Sun Life Insurance Company Limited's (ABSLI) strong promoter profile with Aditya Birla Capital Limited[1] (ABCL; [ICRA]AAA (Stable)/[ICRA]A1+) holding a 51.0% stake and Sun Life Financial Inc. holding a 49.0% stake through its Indian subsidiary – Sun Life Financial (India) Insurance Investments Inc. (Sun Life India), as on September 30, 2023. The rating factors in the strategic importance of ABSLI to ABCL, as demonstrated by regular equity infusions, the representation on ABSLI's board of directors and the presence of a shared brand name. This strengthens ICRA's belief that ABCL will provide capital support to ABSLI as and when required. The company's reported solvency increased to 1.88 times as on September 30, 2023 from 1.73 times as on March 31, 2023, driven by the Rs. 250-crore equity capital infusion from the shareholders and the issuance of Rs. 250-crore subordinated debt in H1 FY2024.

While the reported profitability has remained moderate, the embedded value (EV) and the value of new business (VNB) improved in the last two years. The improvement in the profitability was partly supported by the growth in the high-margin non-participating (non-par) products {75.4% of the individual new business premium (NBP)} in FY2023. While the change in the product mix has improved the VNB, the company's ability to manage the interest rate risks in these products will remain a monitorable in the long term. Additionally, the profitability and solvency may remain susceptible to changes in the actuarial assumptions, leading to changes in the reserving requirements. The recent regulatory proposal to cap the surrender charges on the life insurance policies can also have an adverse impact on the profitability and solvency of insurance companies. Surrender charges remain a key deterrent for policyholders and one of the main protections against the unrealised mark-to-market (MTM) losses on long-term debt investments made by insurance companies.

The rating is constrained by the company's moderate scale of operations with a market share of 2.2% in 8M FY2024 (2.4% in FY2023 and 1.8% in FY2020), on the basis of individual NBP, and 2.1% (2.1% and 1.4%, respectively, in FY2023 and FY2020) on overall NBP basis. Additionally, the company's individual product mix is concentrated towards non-par, contributing 75.4% to individual NBP in FY2023. .

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

Key rating drivers and their description

Credit strengths

Strong promoter profile supports capitalisation – ABSLI is a subsidiary of ABCL, which had a 51% stake in the company, as of September 30, 2023, while Sun Life India held 49%. ABCL is the holding company of all the financial services entities of the Aditya Birla Group and is a prominent growth driver for the Group. The ABCL Group enjoys strong financial flexibility by virtue

[1] *Rated [ICRA]AAA (Stable) for its non-convertible debentures and [ICRA] A1+ for its commercial paper programme*

of being a part of the Aditya Birla Group. The presence of a shared brand name, the representation on the board and the track record of consistent capital infusions strengthens ICRA's belief that ABSLI will receive capital support from its majority shareholder (ABCL) as and when required.

While the company's growth has been strong, leading to capital consumption, its solvency has been supported by capital infusions by the shareholders. The reported solvency was 1.88 times as on September 30, 2023, as well as September 30, 2022, with the equity infusion of Rs. 260 crore in H2 FY2023 and Rs. 250 crore in H1 FY2024 along with the issuance of Rs. 250-crore subordinated debt in H1 FY2024. Given its growth plans, the company is likely to require capital in the medium term. ABSLI has headroom to raise Rs. 556 crore of subordinated debt as on September 30, 2023, which provides financial flexibility. Further, ICRA expects support from the parent to be forthcoming if required.

Improvement in profitability driven by share of higher-margin products – The company's absolute VNB increased at a compound annual growth rate (CAGR) of 85.5% during FY2020-FY2023, driven by the absolute annual premium equivalent (APE; CAGR of 24.0%) and VNB margin (23.0% in FY2023 from 6.9% in FY2020). The VNB margin expanded due to the company's conscious strategy of increasing the share of the non-par business. Subsequently, the EV increased at a CAGR of 20.2% during FY2020-FY2023 and stood at Rs. 9,014 crore in FY2023 with an average return on embedded value[2] (RoEV) of 16.2% during FY2020-FY2023. The EV increased further to Rs. 10,226 crore in H1 FY2024. Although the growth in the non-par segment has helped improve the VNB, the company's ability to manage the interest rate risks in these products will remain monitorable in the long term. Further, the improvement in the VNB will be driven by higher productivity, improvement in operating efficiency and growth in the APE as the VNB margin could be impacted by the growth in segments other than non-par. The profitability and solvency will, however, remain susceptible to changes in the actuarial assumptions, leading to changes in the reserving requirements.

ABSLI's internal accruals have been limited due to the low reported profitability, given the high initial reserving requirement on new business underwritten during the year. While the scale of operations remains relatively lower, the operating expenses (including commissions) of the entity of ~19.5% of NPW in FY2023 was partly supported by the high share of the group fund business which typically has lower cost. The company reported an average return on equity[3] of 5.0% in the last few years. ABSLI's ability to improve its operating efficiency would be important for incremental profitability.

Deeper penetration in existing distribution network and improving persistency to support growth – ABSLI operates with a network of more than 360 own branches, tie-ups with 10 bancassurance (banca) partners and over 54,000 agents spread across India as of March 31, 2023. The banca partners mainly include HDFC Bank, Indian Bank, DBS, DCB, Karur Vysya Bank, Deutsche Bank, Ujjivan Small Finance Bank, Bharat Bank, IDFC First Bank and Bank of Maharashtra, covering over 17,500 bank branches. Within banca, HDFC Bank is the key contributor with a share of 45-50% in the overall individual NBP in recent years. However, the company has been improving its presence in other banca channels while onboarding Bank of Maharashtra and IDFC First Bank in H1 FY2024. Apart from banca, it has access to the wide network of Group companies.

The company's persistency ratio improved over the last few years with a 13th month persistency of 87.2% in H1 FY2024 (84.3% in FY2022). The improvement was mainly driven by analytics and digital initiatives, which support the renewal premium growth. Moreover, ABSLI plans to improve the productivity of its proprietary channels and invest in relatively low-cost banca channels to support growth. The impact of the recent regulatory proposal, to cap the surrender charges on life insurance policies, on changes in the persistency ratios and the consequent effect on profitability and solvency will remain monitorable.

Credit challenges

Moderate, albeit improving, scale of operations – ABSLI's operations remain moderate with a market share of 2.2% in 8M FY2024 (2.4% in FY2023 and 1.8% in FY2020) on the basis of individual NBP and 2.1% on an overall NBP basis (2.1% and 1.4%

[2] Return on EV – EV operating profit / Opening EV

[3] Return on equity – Profit after tax / Average reported net worth

in FY2023 and FY2020 respectively). The company's individual product mix is concentrated towards non-par, contributing 75.4% to the individual NBP in FY2023. ABSLI's ability to penetrate and widen its distribution network further and develop newer products will be instrumental for improving its market position and building a diversified product portfolio. Additionally, the group business has high share of fund management business (unlike the high-margin credit life and group term businesses for other large players). Given the high share of group premium in the overall NBP mix as well as better retention rates from the past group fund management business, the share of group fund assets under management (AUM) remains sizeable in the overall AUM. The ability to retain the business from this segment will also remain critical for the profitability and liquidity.

Liquidity position: Strong

The company's net premium (excluding unit linked insurance plans; ULIP) stood at Rs. 10,772 crore in FY2023 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 2,405 crore in the last few years. In addition, investments in Central and state government securities stood at Rs. 26,117 crore, accounting for 59.5% of the total investments (excluding ULIP) as on September 30, 2023, further supporting the liquidity to meet the claims of policyholders. The shareholders' investment of Rs. 3,646 crore also remains strong in relation to the sub-debt outstanding of Rs. 750 crore as on September 30, 2023.

Rating sensitivities

Positive factors – ICRA could revise the rating if there is a substantial and sustained improvement in ABSLI's market share, solvency and profitability, leading to an improvement in its financial risk profile.

Negative factors – The outlook or the rating could be revised in case of a deterioration in the credit profile of ABCL, a significant change in the company's shareholding or in its linkages with the ABCL Group. Pressure could also arise if the company's solvency ratio deteriorates to less than 170% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Companies Rating Approach – Consolidation Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Investor: Aditya Birla Capital Limited The rating factors in the high likelihood of support from ABCL, given the shared brand name and ABCL's representation on the board.
Consolidation/Standalone	Consolidated

About the company

Aditya Birla Sun Life Insurance Company Limited (ABSLI) is the life insurance subsidiary of Aditya Birla Capital Limited (ABCL). ABSLI was incorporated on August 4, 2000 and commenced operations on January 17, 2001. ABSLI is a 51:49 a joint venture of the Aditya Birla Group and Sun Life Financial Inc. (SLFI), a leading international financial services organisation in Canada.

Formerly known as Birla Sun Life Insurance Company Limited, ABSLI is one of India's leading life insurance companies offering a range of products across the customer's life cycle, including children future plans, wealth protection plans, retirement and pension solutions, health plans, traditional term plans and ULIPs.

Aditya Birla Capital Limited

Aditya Birla Capital Limited (ABCL) is a non-deposit taking systemically important core investment company (CIC-ND-SI) registered with the Reserve Bank of India (RBI). It is the holding company of the financial services businesses of the Aditya Birla Group. Pursuant to the merger of Aditya Birla Nuvo Limited (ABNL) and Grasim Industries Limited, ABCL got listed on the

Bombay Stock Exchange and the National Stock Exchange in September 2017. As on September 30, 2023, the promoter group held a stake of 68.99% (of which Grasim Industries Limited holds 52.71%) in ABCL.

Key financial indicators (audited) – Standalone

	FY2022	FY2023	H1 FY2024
Gross direct premium income	12,140	15,070	6,827
PAT	127	138	71
Net worth	2,549	2,926	3,257
Total investments (including linked investments)	30,636	39,544	43,903
13th month persistency ratio	84.3%	86.8%	87.2%
61st month persistency ratio	50.5%	53.6%	61.3%
Regulatory solvency ratio (times)	1.88	1.73	1.88

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 25, 2024	Feb 3, 2023	Feb 7, 2022	Jun 2, 2021	-
1	**Subordinated debt programme**	Long term	350.00	350.00	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[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
INE951F08036	**Subordinated debt**	**Nov-30-2021**	**7.63%**	**Nov-30-2031***	**155.00**	**[ICRA]AA+ (Stable)**
INE951F08028	**Subordinated debt**	**Jul-26-2021**	**7.45%**	**Jul-25-2031***	**195.00**	**[ICRA]AA+ (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*

The rating factors in the key features of the subordinated debt instrument:

- Servicing of interest is contingent on the company maintaining a solvency ratio above the level stipulated by the regulator[4]
- In case 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 for combined analysis with consolidated analysis

Company Name	Ownership	Consolidation
Aditya Birla Sun Life Pension Management Company Limited	100.0%	Full Consolidation

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

ANALYST CONTACTS

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

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

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

Abhilash Rathi
+91 22 6114 3421
abhilash.rathi@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.

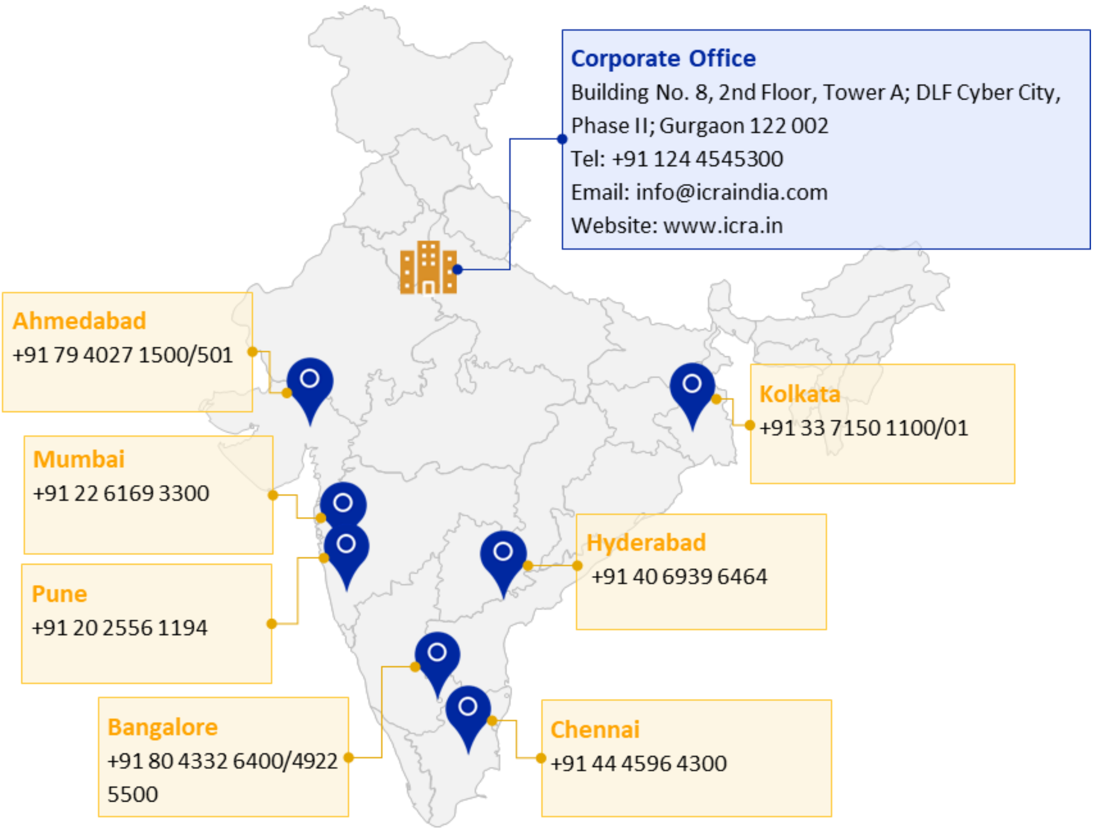
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2024 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.