

March 12, 2024

Universal Sampo General Insurance Company Limited: [ICRA]AA (Stable) assigned to subordinated debt programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AA+ (Stable); outstanding
Subordinated debt programme	-	150.00	[ICRA]AA (Stable); assigned
Total	-	150.00	

*Instrument details are provided in Annexure I

Rationale

The rating action 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 expectation 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, which have a widespread network across the country. The rating also factors in the ongoing strengthening of the distribution channels, with increased focus on the agency, retail broking and original equipment manufacturers (OEMs) channels to increase new business in the private car as well as low-tonnage JCB/tractor businesses and the commercial lines of business, which is expected to improve product diversification. Universal Sampo's solvency has been supported by internal accruals and stood at 1.73 times as on December 31, 2023. The company is likely to raise sub-debt of Rs. 150 crore, which will support its near-term growth. Given its growth plans, Universal Sampo is likely to require further capital in the 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 34% of its gross direct premium income (GDPI) in 9MFY2024 though the same has been reducing, and its moderate scale of operations. 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 expectation that operational, managerial, and financial support from Sampo will be forthcoming, if required, and the company 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 December 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, it had a presence in 29 countries and regions through overseas subsidiaries, branches, 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, supporting 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

¹ Indian Bank, Indian Overseas Bank {rated [ICRA]AA- (Positive)} and Karnataka Bank Limited {rated [ICRA]A (Positive)}

Universal Sampo's rights issue of Rs. 100 crore in FY2018. Further, Sampo and DIC purchased the shares transferred by Karnataka Bank Limited (KBL) in FY2019, increasing 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 joint venture (JV) partner can increase its stake to 74% as per regulations and Sampo expects to raise its shareholding, if required, with prior approval from other shareholders. Universal Sampo 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 10.8% of the non-crop business in 9MFY2024. As on December 31, 2023, Universal Sampo's board consisted of 16 directors with extensive experience in the financial services industry, including two representatives from Sampo Japan and six from the promoter banks.

Strengthening of distribution channels and partnerships support growth – Universal Sampo's growth surpassed the industry growth in the last couple of years, primarily driven by the expansion in its distribution network in the motor and health segments and its strategic tie-ups with automobile OEMs, enabling it to expand its presence in tier 2 and 3 cities. The improvement in the company's product concentration is due to the ongoing diversification of the business segment in the last couple of years. As a result, the motor segment is now the largest business segment (44.1% of the total GDPI in 9M FY2024) followed by crop (34.4%).

Also, the company's investment in the agency channel and retail brokers, coupled with the increase in the pricing of health products to offset higher claims, is likely to lead to higher growth in the health segment. While Universal Sampo'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 brokers and direct business (crop business) with a 43% and 38% share, respectively, in the total distribution in 9MFY2024. Within 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 as well as KBL and 50% for Indian Bank. ICRA expects Universal Sampo 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 Sampo's capitalisation has been supported by internal accruals, with an average return on equity of 10.1% during FY2020-FY2023 and 15.7% in 9M FY2024. The last capital infusion was Rs. 100 crore in FY2018. With the growth in the business and the increase in the share of motor, which has 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. While the growth was strong in 9MFY2024, the retention levels were lower. This led to reported solvency of 1.73 times as on December 31, 2023, similar to March 31, 2023. The company is looking to raise Rs. 150-crore sub-debt, which will boost the solvency to 1.95 times on a proforma basis. Given its growth plans, Universal Sampo is likely to require additional capital in the medium term. ICRA expects capital support from the promoters to meet the growth plans, while maintaining the 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 has higher loss ratios and management expenses, Universal Sampo's overall loss ratio stood at ~78% in FY2023, supported by the sizeable release of prior period provisions in the crop segment and the out-of-court settlements in the motor-third party (TP) segment (~Rs. 128 crore in FY2023 compared to Rs. 25 crore in FY2022). The release of these provisions also supported the underwriting performance in FY2023. While the release of provisions was limited in 9MFY2024, the overall loss ratio was similar to FY2023 at ~78%, supported by the improvement in the loss ratio for the motor-own damage (OD) segment.

ICRA expects that profitability pressure could increase going forward, with the continued diversification of the business and the likely reduction in the profitability of the crop segment. The crop segment is seeing increased competition with participation from various players to reduce their expense ratio to the specified regulatory level of 30% in the next 3-year

period. Further, the profitability in the crop segment is likely to be affected by the 80-110² scheme, which limits the impact of high loss but restricts the underwriting profitability to 20%. Hence, the company's ability to grow its business profitably 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 Sampo has a strong presence in the crop insurance segment. The company's selection 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 the increasing competition. Given the high share of the crop business in the overall GDPI, the solvency may remain susceptible to delays in premium receipts from state governments in future.

As a 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 share of its crop segment declined to 34.4% of the total GDPI in 9MFY2024 from the high of 60.5% in FY2019. With the decline in its crop GDPI and the growth in the size of the crop insurance market, the company's market share in crop declined to 5.5% in 9M FY2024 from 6.1% in FY2019.

Moderate scale of operations – While the company's gross direct premium increased at a compound annual growth rate (CAGR) of 12.2% during FY2018-FY2023, surpassing the industry growth rate of 11.3%, its operations remained moderate with a market share of 1.6% and 1.7% in FY2023 and 9M FY2024, respectively. Universal Sampo faces stiff competition from private as well as public sector general insurance companies in India. While its market share in the crop segment remains strong, ICRA notes that the company's market share in the motor (2.5% in 9MFY2024) and health segments (0.5% in 9MFY2024) 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. 2,152 crore in FY2023 in relation to the maximum net claims paid of Rs. 1,688 crore in the last few years and it has reported positive operating cash flows. Universal Sampo had investments in Central/state government securities, accounting for 35% of the total investments of Rs. 3,898 crore as on December 31, 2023, further supporting the liquidity to meet the claims of policyholders. Shareholders' investments stood at Rs. 870 crore in relation to nil sub-debt outstanding as on December 31, 2023.

Rating sensitivities

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

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

² 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

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: Sampo Japan Insurance Inc. The rating factor in the high likelihood of support from Sampo Japan Insurance Inc., 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 Sampo is a JV of Sampo 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 December 31, 2023. In November 2007, the company commenced operations in India. It had 108 branches and 1,700+ employees as of March 31, 2023. Universal Sampo offers a range of general insurance products catering to the retail, rural, small, and medium-sized enterprise (SME) and corporate customer segments.

Key financial indicators – Standalone

Universal Sampo General Insurance Company Limited	Audited FY2022	Audited FY2023	Unaudited 9MFY2024
Gross direct premium	3,456	4,103	3,725
PAT	119	177	171
Net worth*	1,132	1,269	1,456
Total investment	3,741	4,386	3,898
Combined ratio	102.4%	99.7%	100.3%
Return on equity	10.5%	13.9%	15.7%^
Regulatory solvency ratio (times)	1.92	1.73	1.73

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

^ Annualised

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	Amount Outstanding as of Mar 12, 2024	Date & Rating in FY2024			Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
		(Rs. crore)	(Rs. crore)	12-Mar-24	5-Mar-24	28-Jul-23	12-Jul-22	-	-
1 Issuer Rating	Long term	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
2 Subordinated debt programme	Long Term	150.00	-	[ICRA]AA (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
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AA+ (Stable)
Yet to be issued	Subordinated debt programme	NA	NA	NA	150.00	[ICRA]AA (Stable)

Source: Universal Sompo, ICRA Research

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 regulator³
- » 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:

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Branches



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