April 26, 2024

Cholamandalam MS General 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	100.00	100.00	[ICRA]AA (Stable); reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Cholamandalam MS General Insurance Company Limited's (CMICL) parentage, with Cholamandalam Financial Holdings Limited (CFHL; part of Murugappa Group) and Mitsui Sumitomo Insurance Company Limited (MSI; rated A1/A3[hyb]/Stable by Moody's) holding equity stakes of 60% and 40%, respectively, and the demonstrated operational, managerial and financial support to the company. The rating considers the joint venture partners' representation on CMICL's board of directors and the shared brand name, which further strengthens ICRA's expectation of adequate and timely capital support to the company. The rating also considers the company's established position in the motor segment with a market share of 5.4%[1] in terms of gross direct premium written (GDPI) in 11M FY2024 and the improving investment leverage[2] driven by increased growth, the high share of the long-tail business as well as multi-year policies. CMICL's solvency stood at 1.79 times as on December 31, 2023, with an adequate cushion over and above the regulatory requirement, even though it has declined since FY2023 because of premium growth.

The share of the motor segment in the overall GDPI declined in 11M FY2024 (~65%). However, this was due to the premium underwritten in the crop segment. Moreover, given the focus on reducing the expenses of management (EoM), the share of motor in the overall GDPI is expected to decline further. Despite this, the motor segment will continue to account for a major part of the GDPI in the medium term.

CMICL's profitability improved in 9M FY2024 with the better underwriting performance, further supported by investment income with the improving investment leverage. However, the sustainability of the same remains to be seen. Over the medium term, the company's ability to diversify its product mix and maintain the improvement its profitability and operating efficiency would be critical for enhancing its earnings profile.

The Stable outlook factors in ICRA's expectation that operational, managerial and financial support from CFHL and MSI will be forthcoming. It also considers CMICL's established position in the motor segment.

Key rating drivers and their description

Credit strengths

Strong operational, managerial and financial support from shareholders – CMICL is owned by CFHL and MSI, holding 60% and 40% equity stakes, respectively. CFHL is a part of Murugappa Group, a large business conglomerate with business interests in engineering, fertilisers, abrasives, sugar and financial services among others (key rated entities in the Group include

[1] The market share calculation excludes ECGC Ltd. and Agriculture Insurance Company of India Limited
[2] Investment leverage = (Total investment - Sub-debt)/Net worth excluding fair value changes)

Cholamandalam Investment and Finance Company Limited[3] and Tube Investments of India Limited[4]). MSI, a subsidiary of Japan-based MS&AD Insurance Group Holdings Inc, has a strong global presence in the life and non-life insurance segments. CMICL derives support from the shareholders in the areas of sourcing, underwriting, reinsurance, product development, claims processing and internal controls. It also has adequate board representation with eight directors, including three from Murugappa Group companies and two from the foreign shareholder while the rest are independent directors.

CMICL's reported solvency stood at 1.79 times as on December 31, 2023 (2.01 times as on March 31, 2023), staying above the regulatory requirement of 1.50 times and ICRA's negative trigger of 1.60 times on a sustained basis. The company has headroom for raising additional sub-debt of ~Rs. 121 crore as of December 31, 2023, which provides financial flexibility to meet its growth plans. Further, ICRA expects support from the parents to be forthcoming if required.

Established market position in motor segment, aided by wide distribution reach – CMICL benefits from Murugappa Group's presence in the dealer location through the Group's captive distribution company, which has ~550 branches in India, mostly in Tier-2/3 cities. The corporate agency channel (includes the captive distribution entities) contributed 33% to the GDPI in 9M FY2024. Other key distribution channels include brokers (36%) and bancassurance (15%). Aided by the recurring business sourced through these channels, the growth in the motor segment, which constituted 65% of CMICL's business in 11M FY2024, was higher than the industry average in the last two years with a market share of 5.4% in 11M FY2024 (4.9% in FY2022). While the share of motor in the product mix is expected to decline on account of diversification of the product lines, it is likely to remain the dominant contributor in the medium term.

Credit challenges

Moderate profitability – CMICL's profitability remained moderate with an average return on equity (RoE) of 10.4% and an average combined ratio of 109.1% during FY2020 to 9M FY2024. While the company has been reporting underwriting losses, the net profitability is supported by investment income, with investment leverage of 6.76 times as on December 31, 2023, which remained better than peers due to increased growth and the high share of the long-tail business as well as multi-year policies.

CMICL's combined ratio improved in 9M FY2024 compared to 9M FY2023 on account of the improvement in the expenses of management ratio (32.2% in 9M FY2024 compared to 36.3% in 9M FY2023), aided by the underwriting of the crop segment, which is sourced directly. The improvement in the total expense ratio was partly offset by the higher loss ratio (74.3% in 9M FY2024 vs. 71.4% in 9M FY2023) due to the increased natural catastrophic losses in the fire and engineering lines and the higher loss ratio in the crop segment. Despite the underwriting loss of Rs. 462 crore in 9M FY2024 (versus Rs. 475 crore in 9M FY2023), the company reported a net profit of Rs. 264 crore compared to Rs. 116 crore in 9M FY2023, driven by higher investment income, aided by the increase in the investment leverage (6.76 times vs. 6.40 times).

Given the new EoM guidelines, the company plans to reduce its expense ratio[5] to the specified regulatory level of 30% by FY2026. This will be supported by the changes in the product mix, with an increase in the share of the bulk business segments, like crop as well as government health, and the share of commercial business, which has a lower acquisition cost. The impact of this regulatory change on profitability will remain a key monitorable.

Product concentration towards motor segment – CMICL faces stiff competition from private as well as public sector general insurance companies in India. While its market share in the motor segment stood at 5.4% in 9M FY2024, its presence in other segments remained limited. CMICL is consciously looking to improve its presence in segments such as small and medium enterprises (through fire and property insurance products) and health and personal accident among others. Further, within motor, the company has diversified into two-wheelers and private cars (17% and 40%, respectively, of the motor segment

[3] Rated [ICRA]AA+ (Positive) for its non-convertible debentures and [ICRA] A1+ for its commercial paper programme
[4] Rated [ICRA]AA+ (Stable) for its non-convertible debentures and [ICRA] A1+ for its commercial paper programme
[5] Expense ratio: (Direct commission + Commission paid on reinsurance assumed + operating expenses)/(Gross Written Premium)

GDPI in 9M FY2024). CMICL's ability to grow its market share in other segments and improve its profitability amid rising competition is to be seen.

CMICL had contingent liabilities of Rs. 717 crore {of which it has deposited Rs. 80 crore under protest, which has been reduced from the available solvency margin (ASM)} as on December 31, 2023. ICRA takes cognisance of the relatively high level of contingent liability (29.6% of net worth as on December 31, 2023). This is due to the income tax demand pertaining to the incurred but not reported (IBNR) reserve as well as the non-payment of goods and services tax on co-insurance and reinsurance transactions. These matters are currently pending before the tax authorities. The crystallisation of such liabilities would constrain the profitability and solvency further and would be a key rating monitorable.

High share of Motor-TP business exposes CMICL to reserving risks – A major risk faced by an insurance company is the underwriting of business at adequate premium pricing. The uncertainty regarding the extent of claims is relatively higher in the Motor-third party (TP) segment, which is long-tail in nature and accounted for 43-47% of CMICL's total GDPI in the last few years (declined to 38.5% in 9M FY2024). The long-tail nature of the Motor-TP segment, given the legal process involved for claim settlement, could result in uncertainty regarding the level of future claims in relation to the past reserves made for this segment. The company's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves with favourable developments in recent years. However, the eventual outcome for the risk-in-force may be known with considerable lag, which could impact future profitability and solvency. Further, the profitability of this segment could be impacted as the pricing of Motor-TP rates is regulated.

Liquidity position: Strong

The company's net premium was Rs. 4,610 crore in FY2023 in relation to the maximum net claims paid of Rs. 1,927 crore in the last few years, reflecting strong ability to pay claims from the operating cash flow. The long-tail Motor-TP business also aids its liquidity profile. It had investments in Central/state government securities of Rs. 10,087 crore, accounting for 62.7% of the total investments as on December 31, 2023, further supporting its liquidity to meet any unexpected rise in the claims of policyholders. CMICL's shareholders' investment of Rs. 2,302 crore also remains strong in relation to the Rs. 100-crore sub-debt outstanding as on December 31, 2023.

Rating sensitivities

Positive factor – The rating could be revised if there is an improvement in Murugappa Group's credit profile and a sustained increase in CMICL's profitability along with market share expansion.

Negative factors – The rating could be revised in case of a material deterioration in the credit risk profile of the parents or a decline in the strategic importance of CMICL or in the expectation of support from the promoters or a change in the parentage. Additionally, a decline in the company's solvency ratio below 1.60 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	General Insurance Companies Rating approach – Implicit parent or group support
Parent/Group support	Parent/Investor: Murugappa Group and MSI The rating factors in the high likelihood of support from Murugappa Group and MSI, 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

Cholamandalam MS General Insurance Company Limited (CMICL) is a joint venture between Cholamandalam Financial Holdings Limited (part of Murugappa Group) and Mitsui Sumitomo Insurance Group of Japan (rated A1 on the long-term and insurance financial strength by Moody's). CMICL offers a wide range of products including accident, engineering, health, liability, marine, motor, property and travel insurance for individuals and corporates. The Foreign Direct Investment Rules were amended in FY2016, whereby foreign holding in an insurance company was increased to 49% of the insurer's share capital. Following this, MSI increased its shareholding in the company to 40% from 26% of the share capital by purchasing equity from the Murugappa Group company.

Key financial indicators

CMICL	FY2022	FY2023	9M FY2024*
Gross direct premium	4,824	6,156	5,525
PAT	77	199	264
Net worth	1,991	2,192	2,694
Total investments	12,534	14,715	16,086
Combined ratio	111.0%	109.3%	110.4%
Return on equity – PAT/Adjusted net worth	3.9%	9.2%	14.5%
Solvency ratio (times)	1.95	2.01	1.79

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Apr 19, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Apr 26, 2024	Apr 28, 2023	May 23, 2022	Sep 08, 2021
1	Subordinated debt programme	Long term	100.00	100.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	Subordinated debt programme	Long term	100.00	-	-	[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
INE439H08020	**Subordinated debt programme**	June 02, 2022	8.47%	June 02, 2032*	100.00	[ICRA]AA (Stable)

*Source: Company; *Call option exercisable at the end of five years from deemed date of allotment and every coupon payment thereafter*

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[6]
- 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

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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

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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.

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