September 17, 2024

National 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	895.00	895.00	[ICRA]A+ (Stable); reaffirmed
Total	**895.00**	**895.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers National Insurance Company Limited's (NIC) sovereign ownership, as it is entirely held by the Government of India (GoI), with demonstrated capital support of Rs. 9,275 crore during FY2020-FY2022, and the expectation of support from the GoI in future. The rating also continues to reflect NIC's position as one of the leading insurers in the general insurance industry in India. The company has regulatory forbearance for servicing its subordinated debt for the entire tenure of the instrument, even if the solvency ratio is below the minimum regulatory requirement.

The rating remains constrained by the weak solvency and underwriting performance. NIC's solvency profile has deteriorated in the last few years and is unlikely to improve unless supported by a sizeable capital infusion from the GoI. The solvency was negative at 0.46 times (excluding fair value change account (FVCA)[1]) as on June 30, 2024, due to the weak underwriting performance. The company has been reporting losses since FY2018. The net loss reduced to Rs. 187 crore in FY2024 from Rs. 3,865 crore in FY2023 as the losses in FY2023 were driven by expenses incurred for wage revisions. Further, the gain on the sale of investments supported the reduction in losses for FY2024.

NIC has applied to the regulator to include 100% of the FVCA on its investments for solvency purposes for FY2024, though approval is still pending. If 100% FVCA is included, the solvency will turn positive to 1.42 times as on June 30, 2024, although will remain below the regulatory requirement of 1.50 times. The solvency, including FVCA, has increased to 1.42 times as on June 30, 2024 from 0.48 times as on March 31, 2023, driven by the high share of equity in the investment portfolio. However, the increase in FVCA will remain susceptible to market volatility. While NIC is working to improve its underwriting performance by rationalising its presence in unprofitable segments, reducing expenses, and enhancing its pricing, the ability to successfully implement these plans and receive the required equity from the GoI would be critical.

The Stable outlook largely factors in the expectation of support from the GoI in the form of capital infusions.

Key rating drivers and their description

Credit strengths

Sovereign ownership with entire equity owned by the GoI – NIC is wholly owned by the GoI, and ICRA expects the company to receive support from the sovereign entity. Considering the extremely low insurance penetration in India, the role of Government-owned insurers, such as NIC, becomes important. Further, the GoI's support is evidenced by the capital infusions of Rs. 2,500 crore (NIC received Rs. 2,400 crore), Rs. 9,950 crore (NIC received Rs. 3,175 crore) and Rs. 5,000 crore (NIC received Rs. 3,700 crore) in FY2020, FY2021 and FY2022, respectively, across three public sector general insurance companies.

[1] *Unrealised gains on equity investments*

Leading, albeit declining, market share; long operating history – NIC is among the leading general insurance companies in the country with a strong presence in eastern India and a long operating history. However, the company's market share in terms of gross direct premium income (GDPI) declined gradually to 5.4% in FY2024 (8.6% in FY2020). The company reported a marginal decline of 0.2% year-on-year (YoY) in terms of GDPI in FY2024, driven by its strategic decision to not renew loss-making motor and Government health schemes.

While the company has a presence in all major segments, the health and personal accident, and motor segments continued to account for a significant share of the GDPI at 49.1% and 33.2%, respectively, in FY2024 (48.7% and 33.5% respectively, in FY2023). The company has a strong presence with 882 branches and over 60,000 agents nationwide. As a result, individual agents accounted for 39.0% of the total GDPI while direct sourcing stood at 28.1% as of FY2024.

Credit challenges

Weak solvency ratio; largely dependent on the GoI for capital infusion – In the absence of equity infusions by the GoI in FY2023 and FY2024 and given its subdued profitability, NIC's solvency remains weak (negative 0.46 times as on June 30, 2024, compared to negative 0.29 times as on March 31, 2023). It has applied to the regulator to include 100% of the FVCA for solvency purposes. Following the approval and inclusion of 100% FVCA, the solvency will turn positive at 1.42 times as on June 30, 2024, although it will remain below the regulatory requirement.

Further, the company had a significant amount of 90+days receivables from its co-insurance and reinsurance arrangements as well as other disallowances, which are excluded from the solvency ratio calculation. The net loss reduced to Rs. 187 crore in FY2024 from Rs. 3,865 crore in FY2023, as the losses in FY2023 were driven by expenses incurred for wage revisions. Further, the gain on sale of investments supported the reduction in losses for FY2024. However, it had a negative net worth (excluding FVCA) of Rs. 1,298 crore as on June 30, 2024, due to the significant losses incurred in the previous fiscals.

As per ICRA's estimate, excluding FVCA inclusion, NIC would require a capital infusion of ~Rs. 8,300-8,400 crore to meet the regulatory solvency requirements of 1.50 times as on June 30, 2024[2]. ICRA expects the company's solvency to remain below the regulatory threshold over the medium term unless there is a sizeable equity infusion from the GoI. A weak profitability and capital position on a sustained basis could adversely impact the company's ability to grow business in the medium to long term, which may also adversely affect its market position.

Weak underwriting performance – The company's underwriting performance improved on a YoY basis in FY2024. It was adversely impacted in FY2023 on account of the retrospective wage revision (impact of Rs. 2,605 crore). NIC reported an underwriting loss of Rs. 3,686 crore in FY2024 compared to Rs. 6,033 crore in FY2023. Besides the impact of the wage revision, the strategic decision to discontinue some loss-making businesses also contributed to improved underwriting performance in FY2024. Although the combined ratio improved to 126.9% in FY2024 from 145.5% in FY2023, it remained elevated. The company has been reporting losses since FY2018. The net loss reduced to Rs. 187 crore in FY2024 from Rs. 3,865 crore in FY2023, as the losses in FY2023 were driven by provisions for wage revisions. Further, the gain on the sale of investments supported the reduction in losses for FY2024. The company's ability to improve the underwriting performance while growing the size and sizeable capital infusions by the GoI remain key rating sensitivity factors.

Liquidity position: Adequate

The company's net premium was Rs. 13,688 crore in FY2024, in relation to the maximum net claims paid of Rs. 12,443 crore in the last few years. NIC had investments in Central/state Government securities, accounting for 32.6% of the total investments or Rs. 35,687 crore as on June 30, 2024, supporting its liquidity to meet the claims of policyholders. However, it has completely

[2] Given the uptick in the FVCA due to the strong equity market, the capital requirements including 100% FVCA is ~Rs. 300-400 crore.

eroded its shareholders' investments, given the negative operating cash flows because of losses. At present, the company's ability to service its subordinated debt is reliant solely on regulatory forbearance.

Rating sensitivities

Positive factors – Consistent improvement in the underwriting performance and/or sizeable capital infusions by the GoI, resulting in a sustained improvement in the cushion above the regulatory solvency requirement.

Negative factors – Dilution in NIC's strategic role and importance to the GoI or on inadequate capital infusions by the GoI or further weakening of the capital position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	General Insurance Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Group Company: The Government of India (GoI) The rating factors in NIC's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support NIC with capital infusions.
Consolidation/Standalone	Standalone

About the company

NIC is India's oldest general insurance company. It was incorporated in Kolkata, West Bengal, on December 5, 1906. Following the enactment of the General Insurance Business Nationalisation Act in 1972, it was merged with 21 foreign and 11 Indian companies to form National Insurance Company Limited. It is fully owned by the GoI, and has offices all over India, with an office in Nepal as well. It has a strong presence with ~882 offices and over 60,000 agents nationwide. NIC's gross direct premium income was Rs. 15,180 crore in FY2024, and it reported an underwriting loss of Rs. 3,686 crore and a net loss of Rs. 187 crore.

Key financial indicators (audited)

NIC	FY2023	FY2024	Q1 FY2025
Gross direct premium	15,206	15,180	3,721
PAT	(3,865)	(187)	(293)
Net worth (including FVCA)	2,179	5,971	6,752
Net worth (excluding FVCA)	(949)	(995)	(1,301)
Total investments	31,617	34,225	35,687
Combined ratio	145.5%	126.9%	141.3%
Return on equity^	NM*	NM	NM
Solvency ratio (times)	(0.29)	(0.45)	(0.46)

Source: Company, ICRA Research; Amount in Rs. crore; All calculations are as per ICRA Research
^PAT/Net worth excluding fair value changes
** Not Meaningful*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2025)		Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Sep 17, 2024	Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	895.0	[ICRA]A+ (Stable)	19-Sep-23	[ICRA]A+ (Stable)	12-Oct-22	[ICRA]A+ (Stable)	14-Oct-21	[ICRA]A+ (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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE168X08014	Subordinated debt	Mar-27-2017	8.35% p.a.	Mar-27-2027	895.0	[ICRA]A+ (Stable)

*Source: Company; * The bond had a first call option after five years of issuance, which was not exercised by the company*

Key features of the rated instrument:

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[3]
- 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

NIC has, however, received approval from the regulator, which allows it to pay interest on its subordinated debt instrument even if its solvency ratio is below the minimum regulatory requirement of 150% and interest payouts lead to an increase in the net losses.

Annexure II: List of entities considered for consolidated analysis – Not Applicable

[3] *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.

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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