September 30, 2024

HDFC Ergo General Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated debt programme	1,075.00	1,075.00	[ICRA]AAA (Stable); reaffirmed
Total	**1,075.00**	**1,075.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating continues to factor in HDFC Ergo General Insurance Company Limited's (HDFC ERGO) established market position with a market share[1] of 6.7% of gross direct premium income (GDPI) in FY2024 (5.2% in Q1 FY2025). It is the seventh largest general insurer in India and the fourth largest among private insurers. It has an established presence across the retail as well as corporate segments. This is supported by its diversified distribution mix, which has aided growth.

The rating also considers HDFC ERGO's strong parentage with HDFC Bank Limited (HDFC Bank; rated ICRA]AAA (Stable)/[ICRA]A1+) and ERGO International AG (ERGO) holding an equity share of 50.5% and 49.1%, respectively. Following the amalgamation of Housing Development Finance Corporation Limited (HDFC) with and into HDFC Bank, HDFC ERGO became a subsidiary of HDFC Bank with effect from July 1, 2023. The rating derives comfort from HDFC Bank's shareholding and its representation on HDFC ERGO's board of directors. Further, the presence of a shared brand name strengthens ICRA's expectation that the company will receive capital support from HDFC Bank as and when required as evidenced by the recent capital infusion in August 2024 in the form of a rights issue.

In the past, the company's capitalisation was supported by healthy internal accruals and lower risk retention, which helps in capital optimisation. However, the profitability was impacted in FY2024 by the higher reserving in the motor-third party (Motor-TP) segment and is likely to remain muted, given the elevated combined ratio in FY2025, and improve thereafter. With the higher net loss ratio in the Motor-TP segment and lower profitability, the solvency level declined to 1.56 times as on June 30, 2024, though it increased to 1.75 times as on August 31, 2024, supported by the capital infusion. ICRA notes the high share of Motor-TP (14.2% of GDPI in FY2024), which exposes HDFC ERGO to reserving risks as this segment is long tail in nature. ICRA also notes the high share of the crop segment (18.3% of GDPI in FY2024), which is driven by tenders and could be lumpy and volatile in nature.

The Stable outlook factors in the expectation that the company will continue to receive support from HDFC Bank, if required, and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong parentage – HDFC Bank is the largest shareholder in HDFC ERGO with a 50.5% stake as on June 30, 2024, followed by ERGO International AG (49.1%), while the balance is held by the employees of the company. Following the amalgamation of HDFC with and into HDFC Bank, HDFC Bank has become the promoter of the company. HDFC Bank is a systemically important as well as the largest private sector bank in India. With a presence in banking, insurance, and asset management, the HDFC Group is an important part of the Indian financial services sector.

[1] *Market share excludes Agriculture insurance of India and ECGC Ltd.*

HDFC ERGO's operations are handled by a team of senior managers with considerable experience in the general insurance (GI) industry. Its board has fourteen directors and has representation from both shareholders with two each from HDFC Bank and ERGO International AG and seven independent directors. The shared brand name with HDFC Bank strengthens ICRA's belief that HDFC ERGO will receive capital support from its parent company as witnessed by the recent capital infusion of Rs. 570 crore in August 2024 in the form of a rights issue.

The company's solvency declined to 1.68 times as on March 31, 2024, and further to 1.56 times as on June 30, 2024. This was largely on account of the higher net loss ratio in the Motor-TP segment, leading to an increase in the required solvency margin. The profitability, which was impacted in Q4 FY2024 and Q1 FY2025, is likely to remain muted in the near term and improve thereafter. With the equity infusion, HDFC ERGO's pro forma solvency stood at 1.75 times as on August 31, 2024. The solvency has also been partially supported by the sub-debt outstanding of Rs. 1,075 crore, which adds 0.34 times to the solvency ratio. The recent capital infusion has generated the capacity to raise additional sub-debt of Rs. 300 crore. HDFC ERGO also has the option to reduce the dividend payout (Rs. 250.2 crore in FY2024; average payout of 44.4% of the profit after tax (PAT) during FY2021-FY2024), which is relatively higher than peers.

In the past, the company's solvency was supported by healthy internal accruals, with an average return on equity (RoE) of 16.0% during FY2019-FY2023, and lower risk retention, wherein reinsurance helps better capital optimisation. Profitability was, however, impacted in FY2024 (RoE of 10.5%) by the higher net loss ratio in the Motor-TP segment due to the increased reserving with the change in the actuarial assumptions pertaining to frequency.

Established market position with diversified product portfolio and distribution network – HDFC ERGO is the fourth largest private GI company with a market share of 6.7% in FY2024 (5.2% in Q1 FY2025) in terms of GDPI. The health & personal accident segment continues to be the largest contributor, accounting for 35.2% of the total GDPI in FY2024. Within health, retail health drives a major share of the business, thereby sustaining steady premium growth. The motor segment, however, registered a lower growth of 13.6% in FY2024 against the healthy growth of 30.9% in FY2023, primarily due to the muted performance in the Motor-TP business in FY2024. Growth in the Motor-TP business is likely to decelerate, given the management's expectation of higher loss frequency in this segment along with the absence of price hikes. Apart from retail health and motor, the company has a strong presence in the crop and fire segments, which contributed 18.3% and 9.7%, respectively, to the GDPI in FY2024.

The business growth is supported by HDFC ERGO's diversified distribution network with brokers, direct business and individual agents contributing 33.8%, 27.3 and 19.2%, respectively, to the total GDPI in FY2024. Excluding the crop business, which is sourced directly, the share of bancassurance stood at 12.8% of the GDPI in FY2024. Although HDFC Bank operates under an open architecture and does not have an exclusive agreement with HDFC ERGO, there is closer alignment with the bank becoming the parent.

Credit challenges

Adequacy of reserves in long-tail business – A major risk faced by an insurance company is the underwriting of the business at adequate premium pricing in relation to the underwritten risk. The uncertainty regarding the extent of claims is relatively higher in the Motor-TP segment, which accounted for ~14-15% of HDFC ERGO's total GDPI in the last few years. The long-tail nature of the Motor-TP segment, given the legal process involved for claims 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 showed an unfavourable development in FY2024 due to the change in the actuarial assumptions, factoring in a higher road mortality rate and an increase in accident frequency. While the company creates or releases reserves, the eventual outcome for the risk-in-force or adequacy of current reserves against future claim payouts may be known with considerable lag, which could impact the future profitability and solvency as seen in the recent past. Further, the profitability of this segment could be affected as the pricing of Motor-TP rates is regulated. ICRA notes the decline in the company's presence in the Motor-TP segment in 4M FY2025, given the elevated net loss ratios.

Dependence on tender-driven business – HDFC ERGO has underwritten a high share of the crop business compared to peers. The crop segment had a share of 18.3% in the GDPI in FY2024 (20.2% in FY2023). It is driven by tenders and remains lumpy and volatile in nature. With most of the tenders coming with an 80-110 scheme[2], the extent of losses is likely to be capped. However, in a year of natural calamities, the business can lead to losses and volatility in the overall earnings, particularly from tenders that do not come under the purview of the 80-110 scheme. Other issues stemming from a high share in the crop business are potential delays in payments from state governments and fluctuations in reserves. Further, competition is expected to increase in these segments in the near term to manage the expenses of management (EoM) regulations implemented by the regulator.

The company remains selective in these tender-driven segments; however, this could result in a relatively higher net loss ratio if not priced suitably. To mitigate losses in the bulk business segment, reinsurance is high in these segments, leading to lower retention and net premium written in relation to the GDPI. HDFC ERGO's ability to consistently underwrite profitable business in the crop segment would have a bearing on its overall revenues and profitability.

Liquidity position: Strong

The company's net premium was Rs. 10,439 crore in FY2024 in relation to the maximum net claims paid of Rs. 6,270 crore in the last few years, reflecting strong ability to pay claims from the operating cash flow. Investments in Central/state government securities, accounting for 40% of the total investments or Rs. 10,446 crore as on June 30, 2024, further support its liquidity position to meet the claims of policyholders. HDFC ERGO's shareholders' investment of Rs. 4,700 crore also remains strong in relation to the sub-debt outstanding of Rs. 1,075 crore as on June 30, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A deterioration in HDFC Bank's credit profile or a decline in the strategic importance of HDFC ERGO to HDFC Bank or in the expectation of support from the promoter could impact the rating. Additionally, a decline in the company's solvency ratio below 1.70 times on a sustained basis would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – General Insurance Rating Approach – Implicit Support from Parent or Group
Parent/Group support	Parent/Investor: HDFC Bank Limited The rating factors in the high likelihood of financial support from HDFC Bank to HDFC Ergo driven by reputational and strategic considerations.
Consolidation/Standalone	Standalone

About the company

HDFC Ergo General Insurance Company Limited (HDFC ERGO) is a joint venture between HDFC (50.48% stake as on June 30, 2024) and ERGO International AG (49.08%), while the balance is held by the employees of HDFC ERGO. With the amalgamation of HDFC Limited with and into HDFC Bank, HDFC ERGO became a subsidiary of HDFC Bank from July 1, 2023. HDFC Bank is one of the three systemically important banks and the largest private sector bank in India.

[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*

HDFC ERGO offers a complete range of general insurance products including crop, motor, health, travel, home and personal accident insurance in the retail space and customised products like property, marine and liability insurance in the corporate space. It has a presence across the country with 266 branch offices as on June 30, 2024.

Key financial indicators

HDFC Ergo General Insurance Company Limited	FY2023	FY2024	Q1 FY2025
Gross direct premium	16,636	18,568	3,752
PAT	653	438	133
Net worth*	3,916	4,152	4,285
Total investments	22,242	25,762	26,391
Combined ratio	103.3%	112.1%	128.8%
Return on equity^	16.7%	10.5%	12.4%
Solvency ratio (times)	1.81	1.68	1.56

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Net worth excluding fair value change account (FVCA)*
^ PAT/ Net worth

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 30, 2024	Date	Rating	Date	Rating	Date	Rating
Issuer Rating	Long term	-	[ICRA] AAA (Stable)	05-Oct- 2023	[ICRA] AAA (Stable)	24-Jan- 2023	[ICRA] AAA (Stable)	22-Oct-2021	[ICRA] AAA (Stable)
				04-Sep- 2023	[ICRA] AAA (Stable)	07-Sep-2022	[ICRA] AAA (Stable)	-	-
				10-Jul- 2023	[ICRA] AAA (Stable)	-	-	-	-
Subordinated debt programme	Long term	-	-	05-Oct- 2023	[ICRA] AAA (Stable); withdrawn	24-Jan- 2023	[ICRA] AAA (Stable)	22-Oct-2021	[ICRA] AAA (Stable)
				04-Sep- 2023	[ICRA] AAA (Stable)	07-Sep-2022	[ICRA] AAA (Stable)	-	-
				10-Jul- 2023	[ICRA] AAA (Stable)	-	-	-	-
Subordinated debt programme	Long term	375.00	[ICRA] AAA (Stable)	05-Oct- 2023	[ICRA] AAA (Stable)	24-Jan- 2023	[ICRA] AAA (Stable)	22-Oct-2021	[ICRA] AAA (Stable)
				04-Sep- 2023	[ICRA] AAA (Stable)	07-Sep-2022	[ICRA] AAA (Stable)	-	-
				10-Jul- 2023	[ICRA] AAA (Stable)	-	-	-	-
Subordinated debt programme	Long term	80.00	[ICRA] AAA (Stable)	05-Oct- 2023	[ICRA] AAA (Stable)	24-Jan- 2023	[ICRA] AAA (Stable)	-	-
				04-Sep- 2023	[ICRA] AAA (Stable)	07-Sep-2022	[ICRA] AAA (Stable)	-	-
				10-Jul- 2023	[ICRA] AAA (Stable)	-	-	-	-
Subordinated debt programme	Long term	300.00	[ICRA] AAA (Stable)	05-Oct- 2023	[ICRA] AAA (Stable)	24-Jan- 2023	[ICRA] AAA (Stable)	-	-
				04-Sep- 2023	[ICRA] AAA (Stable)	-	-	-	-
				10-Jul- 2023	[ICRA] AAA (Stable)	-	-	-	-
Subordinated debt programme	Long term	320.00	[ICRA] AAA (Stable)	05-Oct- 2023	[ICRA] AAA (Stable)	-	-	-	-
				04-Sep- 2023	[ICRA] AAA (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex
Issuer Rating	Not Applicable

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 Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE225R08022	**Subordinated debt programme**	Sep 19, 2022	7.72%	Sep 19, 2032*	80.00	[ICRA]AAA (Stable)
INE225R08014	**Subordinated debt programme**	Nov 09, 2021	7.10%	Nov 09, 2031*	375.00	[ICRA]AAA (Stable)
INE225R08030	**Subordinated debt programme**	Feb 20, 2023	8.15%	Feb 20, 2033*	300.00	[ICRA]AAA (Stable)
INE225R08048	**Subordinated debt programme**	Sep 26, 2023	8.15%	Sep 26, 2033*	320.00	[ICRA]AAA (Stable)
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AAA (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*

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, 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 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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