November 21, 2024

Royal Sundaram General Insurance Co. Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	126.00	126.00	[ICRA]AA+ (Stable); reaffirmed
Total	**126.00**	**126.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Royal Sundaram General Insurance Co. Limited's (Royal Sundaram) strong promoter profile with Sundaram Finance Limited[1] (SFL) and Ageas Insurance International N.V. (Ageas) holding equity stakes of 50%[2] and 40%, respectively, and the demonstrated operational, managerial and financial support to the company. SFL's representation on Royal Sundaram's board of directors and the presence of a shared brand name strengthen ICRA's expectation of adequate and timely capital support to the company. The rating reaffirmation also considers Royal Sundaram's strong solvency profile, which is likely to support the growth in the medium term. Given the moderate internal accruals, the solvency is aided by the moderate growth in the business.

The rating remains constrained by Royal Sundaram's modest scale of operations with a market share of 1.3%[3] in H1 FY2025 and FY2024 in terms of total gross direct premium income (GDPI). Further, the company has a high share of the long-tail motor-third party (Motor-TP) business (44% of GDPI in FY2024), which exposes its future profitability and solvency to reserving risks. While Royal Sundaram enjoys higher investment float and income due to the high share of the long-tail motor business, this is offset by the significant underwriting losses, which lead to moderate profitability. Further, the distribution network is dominated by the broker segment. Over the medium term, the company's ability to diversify its distribution channel and product mix and improve its underwriting performance and operating efficiency would be critical for enhancing its profitability profile.

The Stable outlook factors in the expectation that the company will continue to receive support from SFL, if required, and 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 shareholders – Royal Sundaram is owned by SFL (50.00% equity stake as on September 30, 2024) while Ageas (40.00%) is the other key shareholder. SFL is one of the large non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 48,058 crore as on September 30, 2024. It is the flagship company of the T S Santhanam Group. SFL primarily finances commercial vehicles (CVs) and cars and has invested in various entities to provide a gamut of financial services like housing finance (Sundaram Home Finance Limited), insurance (Royal Sundaram) and mutual funds (Sundaram Asset Management Company Limited). Ageas is one of Europe's largest insurance companies with around 47 million customers in 13 countries across Europe and Asia as on September 30, 2024. It offers products and services across the life, health and non-life businesses.

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

[2] SFL Group companies hold 60% in Royal Sundaram

[3] The market share calculation excludes ECGC Ltd. and Agriculture Insurance Company of India Limited

Royal Sundaram also has adequate board representation from the shareholders with three directors from SFL and two from Ageas as on September 30, 2024. The shared brand name with SFL, board representation and the track record of equity infusions strengthen ICRA's expectation that the company will receive timely support from SFL if required.

Strong solvency levels – The company's capitalisation remained strong with a solvency ratio of 2.35 times as on September 30, 2024 (2.42 times as on March 31, 2024 and 2.27 times as on March 31, 2023), which is significantly above the regulatory requirement of 1.50 times and ICRA's negative trigger of 1.70 times. Despite moderate profitability, the solvency was supported by the receipt of crop insurance premium of Rs. 212 crore in FY2024, which was overdue receivable from the Jharkhand Government and was excluded from the available solvency margin (ASM) as on March 31, 2023, as per regulatory directions.

The last capital infusion was Rs. 295 crore in FY2018 to support the company's growth plans. ICRA does not expect any capital requirement as the solvency ratio is strong for supporting the growth in the medium term. Further, the headroom of Rs. 226 crore, as on September 30, 2024, to raise sub-debt provides financial flexibility. ICRA also draws comfort from the commitment of the shareholders to infuse equity, if required.

Royal Sundaram reported an income tax demand of Rs. 446 crore as on March 31, 2024, which has not been considered as a contingent liability on the basis of internal assessments supported by expert legal advice. This is related to the disallowance of the payments made to the motor dealers based on the order passed by the Customs Excise and Service Tax Appellate Tribunal (CESTAT) reversing the input credit availed on these payments. The matter is currently pending before the direct tax authorities. ICRA takes cognisance of the relatively high level of this demand (24.5% of net worth as of September 2024 or 0.59 times of solvency as on September 30, 2024), which, if crystallised, would further constrain the profitability and solvency and would be a key rating monitorable.

Credit challenges

Moderate profitability – Royal Sundram's profitability remained moderate with an average return on equity (RoE) of 7.6% and an average combined ratio of 112.9% during FY2020 to FY2024. While the company has been reporting underwriting losses, the net profitability is supported by investment income, with investment leverage of 5.08 times as on September 30, 2024 (compared to 4.84 times as on March 31, 2023), which has been improving with the increase in the share of the long-tail Motor-TP business in the product mix.

The combined ratio deteriorated in FY2024 (114.9% compared to 111.4% in FY2023) with the weakening in the loss ratio as well as the expense ratio. Supported by investment income, the company reported a net profit of Rs. 114 crore (RoE of 7.0%) in FY2024 compared to Rs. 121 crore (RoE of 7.8%) in FY2023. The weak profitability was on account of the health segment where the combined ratio remains elevated at ~123% in FY2024. For the motor segment, while the underwriting performance remains weak, the net profitability is supported by the investment income. Royal Sundaram reported a net profit of Rs. 109 crore in H1 FY2025 and RoE (annualised) of 12.7% (Rs. 116 crore and 14.2%, respectively, in H1 FY2024).

Modest scale of operations and product concentration towards motor segment; distribution remains skewed towards broker channel – Royal Sundaram faces stiff competition from private as well as public sector general insurance companies in India. Its market share remained modest at 1.3%, in terms of the GDPI, in H1 FY2025. While its market share in the motor segment was 2.8% in H1 FY2025, its presence in other segments remained limited. Given the product concentration towards the motor segment (63.9% of the GDPI in H1 FY2025 and 70.7% in FY2024), the company's distribution network is dominated by the broker segment (55.0% of the GDPI in FY2024). Royal Sundaram is consciously looking to improve its presence in segments such as health. Its ability to grow its market share in other segments and improve its profitability will significantly depend on its ability to develop a diversified distribution network.

Rising share of long-tail business exposes the company to reserving risks – 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 35-44% of Royal Sundaram's total GDPI in the last few years (increased to 44.0% in FY2024 from 34.8% in FY2021). 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, which involves actuarial estimates, indicates the maintenance of adequate reserves in the past and the favourable claims experience in this segment vis-à-vis reserving during the last few years. As a prudent measure in recent years, Royal Sundaram restricted the release from reserves until the claims experience emerged, reflecting a prudent reserving philosophy. However, the eventual outcome for the risk-in-force may be known with considerable lag, which could impact its 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

Royal Sundaram's net premium was Rs. 2,949 crore in FY2024 in relation to the maximum net claims paid of Rs. 1,663 crore in the last few years. The company's operating cash flow remained positive, reflecting its ability to meet expenses and claims payments through premium inflows. The long-tail Motor-TP business also aids its liquidity profile. Further, it had investments in Central/state government securities of Rs. 4,289 crore, accounting for 48.5% of the total investments as on September 30, 2024, supporting the liquidity to meet any unexpected rise in the claims of policyholders. The company's shareholders' investments of Rs. 1,417 crore remained strong in relation to the Rs. 126-crore sub-debt outstanding as on September 30, 2024.

Rating sensitivities

Positive factors – A consistent improvement in the company's profitability along with diversification of product mix and an improvement in its market share.

Negative factors – A deterioration in SFL's credit profile or a decline in the strategic importance of Royal Sundaram to SFL or in the expectation of support from the promoter will be a negative factor. A decline in the company's solvency ratio to less than 1.70 times on a sustained basis will also be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	General Insurance Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Investor: Sundaram Finance Limited (SFL) The rating factors in the high likelihood of financial support from SFL to Royal Sundaram, driven by reputational and strategic considerations.
Consolidation/Standalone	Standalone

About the company

Incorporated on August 22, 2000, Royal Sundaram is a privately-owned general insurance company, offering general insurance services across a variety of segments. With its head office in Chennai (Tamil Nadu), Royal Sundaram has more than 157 branches across India with an employee base of over 2,388 as on September 30, 2024. It offers a wide range of products including motor, accident, engineering, health, liability, marine, property and travel insurance for individuals and corporates. Royal Sundaram reported a GDPI of Rs. 3,637 crore, an underwriting loss of Rs. 467 crore and a net profit of Rs. 114 crore in FY2024.

Key financial indicators (audited)

Royal Sundaram	FY2023	FY2024	H1 FY2025
Gross direct premium	3,380	3,637	1,943
PAT	121	114	109
Net worth*	1,568	1,722	1,820
Total investments	7,649	8,559	8,843
Combined ratio	111.4%	114.9%	113.2%
Return on equity^	7.8%	7.0%	12.7%&
Solvency ratio (times)	2.27	2.42	2.35

*Source: Company, ICRA Research; Amount in Rs. crore; All calculations are as per ICRA Research; * Net worth excluding fair value change account*
^ PAT/Adjusted net worth
& annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Nov 21, 2024	Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	76.0	[ICRA]AA+ (Stable)	08-Dec-2023	[ICRA]AA+ (Stable)	13-Dec-2022	[ICRA]AA+ (Stable)	18-Nov-2021	[ICRA]AA+ (Stable)
				-	-	-	-	17-Dec-2021	[ICRA]AA+ (Stable)
Subordinated debt programme	Long term	50.0	[ICRA]AA+ (Stable)	08-Dec-2023	[ICRA]AA+ (Stable)	13-Dec-2022	[ICRA]AA+ (Stable)	17-Dec-2021	[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
INE499S08039	**Subordinated debt**	Sep-27-2021	7.85%	Sep-27-2031#	76.00	[ICRA]AA+ (Stable)
INE499S08047	**Subordinated debt**	Mar-15-2022	8.05%	Mar-15-2032*	50.00	[ICRA]AA+ (Stable)

 # Call option on September 25, 2026

**Call option on March 15, 2027; if not exercised, call options subsequently every year on March 15 till maturity (March 15, 2032)*

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[4]

» 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

[4] *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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