January 24, 2025

Aditya Birla Sun Life 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	900.00	900.00	[ICRA]AA+ (Stable); reaffirmed
Total	**900.00**	**900.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers Aditya Birla Sun Life Insurance Company Limited's (ABSLI) strong promoter profile with Aditya Birla Capital Limited[1] (ABCL) holding a 51.0% stake and Sun Life Financial Inc. holding a 49.0% stake as on September 30, 2024 through its Indian subsidiary – Sun Life Financial (India) Insurance Investments Inc. (Sun Life India). The rating factors in ABSLI's strategic importance to ABCL, as demonstrated by regular equity infusions, the representation on ABSLI's board of directors and the shared brand name. This strengthens ICRA's belief that ABCL will provide capital support to the company as and when required. ABSLI's reported solvency stood at 1.88 times as on September 30, 2024, supported by regular capital infusions from the shareholders and the issuance of subordinated debt.

While the company's accounting profitability remained moderate, its return on embedded value (RoEV) was healthy at 18.8% in FY2024 (22.6% in FY2023). Moreover, the embedded value (EV) increased at a compound annual growth rate (CAGR) of 22.1% during FY2020-FY2024 to Rs. 11,539 crore as on March 31, 2024 (Rs. 12,368 crore as on September 30, 2024). The value of new business (VNB) increased to Rs. 697 crore in FY2024 from Rs. 126 crore in FY2020, though it declined on a sequential basis from Rs. 800 crore in FY2023, mainly due to the change in the product mix. While ABSLI recorded a healthy growth in individual business in H1 FY2025, its ability to continue growing this business will be a driver of its overall profitability as VNB growth will depend largely on annual premium equivalent (APE) growth and operating efficiency. The profitability and solvency may also remain susceptible to changes in the actuarial assumptions, leading to long-term changes in the reserving requirements.

The rating is constrained by the company's moderate market share of 3.1% in 8M FY2025 (2.8% in FY2024 and 2.3% in FY2020) on the basis of individual APE[2] and 2.5% on an overall new business premium (NBP) basis (2.1% and 1.4% in FY2024 and FY2020, respectively). Additionally, the non-participating (non-par) segment has the largest share of 74.7% in ABSLI's individual NBP in FY2024.

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

Key rating drivers and their description

Credit strengths

Strong promoter profile supports capitalisation – ABSLI is a subsidiary of ABCL, which had a 51.0% stake in the company, as on September 30, 2024, while Sun Life India held 49.0%. ABCL is the holding company of all the financial services entities of

[1] Rated [ICRA]AAA (Stable) for its non-convertible debentures and [ICRA] A1+ for its commercial paper programme
[2] APE = First year regular premium + 10% of single premium

the Aditya Birla Group and is a prominent growth driver for the Group. The ABCL Group enjoys strong financial flexibility by virtue of being a part of the Aditya Birla Group. The shared brand name, the representation on the board and the track record of consistent capital infusions strengthens ICRA's belief that ABSLI will receive capital support from its majority shareholder (ABCL) as and when required.

While the company's growth has been strong, leading to capital consumption, its solvency has been supported by capital infusions by the shareholders as well as subordinated debt issuances. The reported solvency was 1.88 times as on September 30, 2024 (1.88 times as on March 31, 2022), aided by the equity infusions of Rs. 260 crore in FY2023 and Rs. 350 crore in FY2024. The solvency was further supported by the subordinated debt issuance of Rs. 250 crore in FY2024 and Rs. 550 crore in H1 FY2025. After September 2024, the company received an equity infusion of Rs. 311 crore. Given its growth plans, ABSLI is likely to require capital in the medium term. It has headroom to raise Rs. 200-220 crore of subordinated debt, which provides financial flexibility. Further, ICRA expects support from the parent to be forthcoming if required.

Profitability supported by high share of higher-margin products – The company's absolute VNB increased at a CAGR of ~85% during FY2020-FY2023, driven by APE growth (CAGR of 24.0%) and value of new business margin (VNB margin) expansion (23.0% in FY2023 from 6.9% in FY2020). The VNB margin expansion was on account of ABSLI's conscious strategy of increasing the share of the non-par business. However, the VNB decreased to Rs. 697 crore in FY2024, mainly due to the decline in the VNB margin to 20.2% on account of the increase in the share of unit-linked insurance plans (ULIPs) as well as the reduction in the share of the higher-margin non-par segment in individual business. The EV increased at a CAGR of 22.1% during FY2020-FY2024 (average RoEV[3] of 16.7%) and stood at Rs. 11,539 crore as on March 31, 2024. It increased further to Rs. 12,368 crore as on September 30, 2024. A further increase will be driven by higher productivity, improvement in the operating efficiency and APE growth as the VNB margin could be impacted by the growth in segments other than non-par.

ABSLI's internal accruals have been limited due to the low accounting profitability, given the high initial reserving requirement for new business underwritten during the year. While the scale of operations remains moderate, operating expenses (including commissions) of 19.7% of net premium written (NPW) in FY2024 was partly supported by the high share of the group fund business, which typically has lower costs. The company reported an average return on equity[4] of 5.2% in the last few years. ABSLI's ability to improve its operating efficiency would be important for incremental profitability.

The company's ability to maintain prudent asset-liability management, mitigate the interest rate risk arising from the deployment of future policy premiums at remunerative yields, and achieve operating experience (such as persistency, mortality, operating costs, and interest rates) in line with the assumptions at the time of policy underwriting, will remain the key driver of its long-term profitability and capitalisation.

Deeper penetration in existing distribution network and improving persistency to support growth – ABSLI had a network of more than 380 own branches, tie-ups with 11 bancassurance (banca) partners and ~60,000 agents spread across India as on September 30, 2024. While banca remains the largest source (52% of individual NBP in FY2024), the company has been growing its proprietary channels. Banca partners mainly include HDFC Bank, Indian Bank, DBS, DCB, Karur Vysya Bank, Deutsche Bank, Ujjivan Small Finance Bank, Bharat Bank, IDFC First Bank, Bank of Maharashtra and Axis Bank, covering over 26,300 bank branches. Within banca, however, HDFC Bank is the key contributor with a share of 33-35% in the overall individual NBP. Apart from banca, it has access to the wide network of Group companies.

The company's persistency ratio improved over the last few years with a 13th month persistency of 87.6% in H1 FY2025 (84.3% in FY2022). The improvement was mainly driven by analytics and digital initiatives, which support the renewal premium growth.

[3] *Return on EV – EV operating profit/Opening EV*

[4] *Return on equity – Profit after tax/Average net worth excluding fair value change accounts*

Credit challenges

Moderate, albeit improving, scale of operations – ABSLI's operations remain moderate with a market share of 3.1% in 8M FY2025 (2.8% in FY2024 and 2.3% in FY2020) on the basis of individual APE and 2.5% on an overall NBP basis (2.1% and 1.4% in FY2024 and FY2020, respectively). The non-participating (non-par) segment has the largest share of 74.7% in ABSLI's individual NBP in FY2024. ABSLI's ability to penetrate and widen its distribution network further and develop newer products will be instrumental for improving its market position and building a diversified product portfolio. Additionally, the group business has a high share of fund management business (unlike the high-margin credit life and group term businesses for other large players). Given the high share of group premium in the overall NBP mix as well as better retention rates from the past group fund management business, the share of group fund assets under management (AUM) remains sizeable in the overall AUM. The ability to retain the business from this segment will also remain critical for the profitability and liquidity.

The regulatory landscape for the life insurance sector has been evolving and is expected to have a bearing on the overall growth and profitability of the sector. The impact of the recent regulatory changes, leading to an increase in the surrender values of life insurance policies, on the commission structure, persistency ratios and profitability will remain monitorable.

Liquidity position: Adequate

The company's net premium (excluding ULIPs) stood at Rs. 12,583 crore in FY2024 in relation to the maximum net claims and benefits (excluding ULIPs) paid of Rs. 3,159 crore in the last few years. The operating cash flow remained positive, reflecting ABSLI's ability to meet operating expenses and claims through premium inflows. Investments in Central and state government securities stood at Rs. 34,364 crore, accounting for 61% of the total investments (excluding ULIPs) as on September 30, 2024, further supporting the liquidity to meet the claims of policyholders. The shareholders' investment of Rs. 4,662 crore also remains adequate in relation to the sub-debt outstanding of Rs. 1,300 crore as on September 30, 2024.

Rating sensitivities

Positive factors – A substantial and sustained improvement in ABSLI's market share, solvency and profitability, leading to an improvement in its financial risk profile, will be a positive factor.

Negative factors – Deterioration in credit profile of ABCL or a decline in the strategic importance of ABSLI to ABCL or dilution in the expectation of support from ABCL. Additionally, a sustained decline in the company's solvency ratio to less than 1.70 times will be negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance
Parent/Group support	Parent/Investor: Aditya Birla Capital Limited The rating factors in the high likelihood of financial support from ABCL to ABSLI, driven by reputational and strategic considerations.
Consolidation/Standalone	For arriving at the rating, ICRA has used the standalone financials of ABSLI. However, in line with ICRA's consolidation approach, ICRA has factored in the capital requirement of ABSLI's subsidiaries, which are listed in Annexure II.

About the company

Aditya Birla Sun Life Insurance Company Limited (ABSLI) is the life insurance subsidiary of Aditya Birla Capital Limited (ABCL). ABSLI was incorporated on August 4, 2000 and commenced operations on January 17, 2001. It is a 51:49 joint venture between the Aditya Birla Group and Sun Life Financial Inc., a leading international financial services organisation in Canada.

Formerly known as Birla Sun Life Insurance Company Limited, ABSLI is one of India's leading life insurance companies offering a range of products across the customer's life cycle, including children future plans, wealth protection plans, retirement and pension solutions, traditional term plans and ULIPs.

Aditya Birla Capital Limited

Aditya Birla Capital Limited (ABCL) is a non-deposit taking systemically important core investment company (CIC-ND-SI) registered with the Reserve Bank of India (RBI). It is the holding company of the financial services businesses of the Aditya Birla Group. Pursuant to the merger of Aditya Birla Nuvo Limited (ABNL) and Grasim Industries Limited, ABCL got listed on the Bombay Stock Exchange and the National Stock Exchange in September 2017. As on September 30, 2024, the promoter group held a stake of 68.9% (of which Grasim Industries Limited holds 52.58%) in ABCL.

Key financial indicators (audited; standalone)

	FY2023	FY2024	H1 FY2025
Gross direct premium income	15,070	17,260	8,657
PAT	138	185	36
Net worth	2,926	3,475	3,560
Total investments	70,051	86,161	95,553
13th month persistency ratio	86.8%	87.7%	87.6%
61st month persistency ratio	53.6%	65.8%	67.7%
Regulatory solvency ratio (times)	1.73	1.78	1.88

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

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)**	**Jan 24, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Subordinated debt programme	Long term	350	[ICRA]AA+ (Stable)	25-Jan-24	[ICRA]AA+ (Stable)	3-Feb-23	[ICRA]AA+ (Stable)	2-Jun-21	[ICRA]AA+ (Stable)
				2-Feb-24	[ICRA]AA+ (Stable)			7-Feb-22	[ICRA]AA+ (Stable)
Subordinated debt programme	Long term	550	[ICRA]AA+ (Stable)	2-Feb-24	[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
INE951F08036^	**Subordinated debt programme**	Nov-30-2021	7.63%	Nov-30-2031*	155.00	[ICRA]AA+ (Stable)
INE951F08028^	**Subordinated debt programme**	Jul-26-2021	7.45%	Jul-25-2031*	195.00	[ICRA]AA+ (Stable)
INE951F08051^^	**Subordinated debt programme**	Jul-10-2024	8.20%	Jul-10-2034*	300.00	[ICRA]AA+ (Stable)
INE951F08069^^	**Subordinated debt programme**	Aug-12-2024	8.49%	Aug-12-2034*	250.00	[ICRA]AA+ (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*

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[5]
- ^^In case the solvency ratio is below the level stipulated by the regulator or the interest payouts lead to a decline in the solvency ratio below the regulatory requirement, prior approval of the regulator would be required to service the debt
- 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 for combined analysis with consolidated analysis

Company Name	Ownership	Consolidation
Aditya Birla Sun Life Pension Management Company Limited	100.0%	Full consolidation

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

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ABOUT ICRA LIMITED

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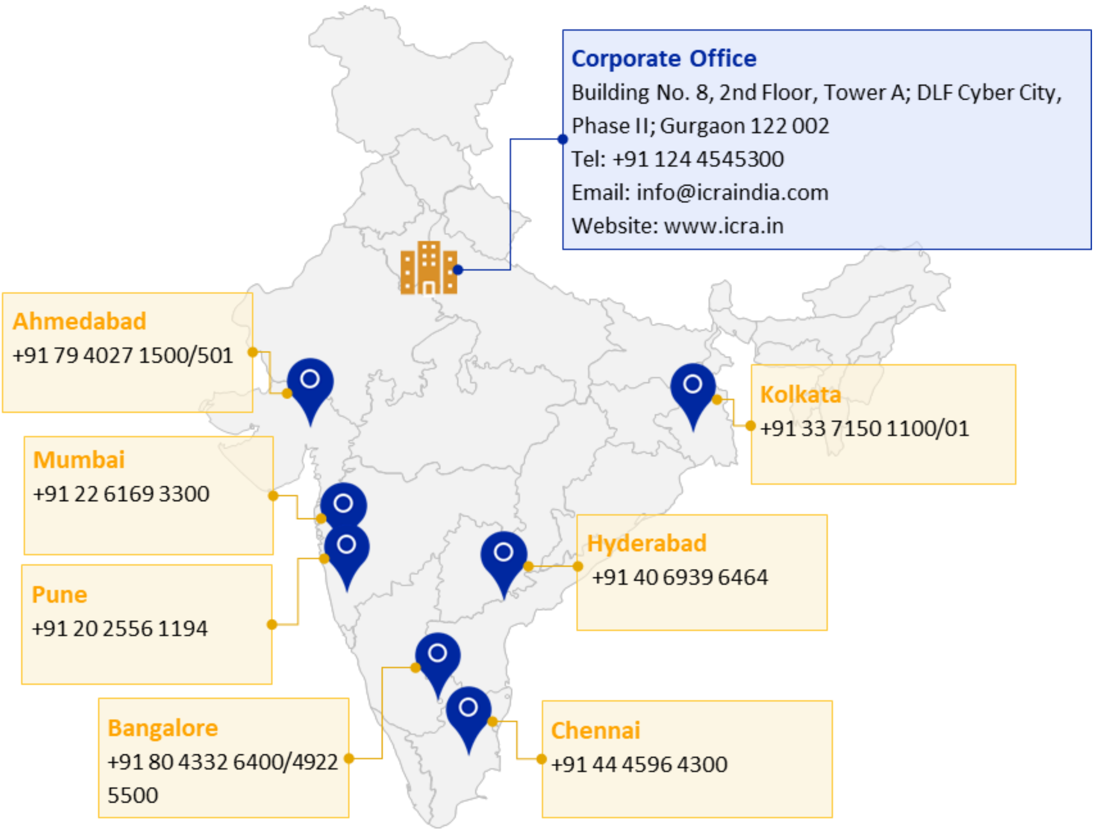

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