

April 23, 2020

ICICI Lombard General Insurance Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Claims paying ability	-	-	iAAA; reaffirmed
Subordinated debt programme	485	485	[ICRA]AAA (stable); reaffirmed
Total	485	485	

*Instrument details are provided in Annexure-1

Rationale

The rating takes into account the shareholding pattern of ICICI Lombard General Insurance Company Limited (ICICIL) given the presence of a strong parent (55.86% stake held by ICICI Bank Limited (ICICI Bank, rated [ICRA]AAA (Stable))). The presence of a shared brand name strengthens ICRA's expectation that ICICIL will receive capital support from its parent company as and when the required. While the subordinated debt instruments cannot be serviced if the regulatory solvency requirements are breached, ICRA takes note of the company's current solvency indicators and its policy as well as its track record of maintaining adequate cushion in the solvency levels to take care of any exigencies. ICRA further expects that the standing of ICICI Bank, in the Indian capital markets, places a strong onus on the parent to ensure that it meets all the required regulatory requirements (on a continual basis) for the timely and adequate servicing of debt obligations, with respect to the rated instrument. The ratings take into account ICICIL's standing as India's leading private sector general insurer, strong financial performance, prudent risk management practices and adequate reserve against the claims. While a few segments of the industry have seen pricing pressure, ICRA notes the cautious call taken by the company to reduce its exposure to crop segment. In the wake of covid-19 break-out, ICRA expects claims ratio for the industry (including ICICIL) to rise in the first half of fiscal 2021 – particularly for health and travel insurance segments. The impact of it, on the company's premium growth, underwriting performance amid changing industry dynamics would remain a key monitorable.

The credit rating also factors in the key features of the rated 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
- » In case the interest pay-outs lead to a net loss or an increase in the net loss, the prior approval of the regulator would be required to service the debt

Key rating drivers and their description

Credit strengths

Strong financial strength of parent company – The majority shareholder, ICICI Bank Ltd, is one of the largest private sector banks in India with a network of 5,275 branches spread across the country as on December 31, 2019. The bank is also ICICIL's exclusive bancassurance partner, which provides the company with a wide reach as well as cost efficiency. ICICI Bank also has a strong brand and a standing in the capital market. This is leveraged by ICICIL in terms of a shared

brand name. In addition, ICICIL enjoys a strong and experienced management team as well as board representation by senior executives of the parent company.

Strong solvency level –The company reported a solvency ratio of 2.18 times as on December 31, 2019 (vis-à-vis 2.12 times as on December 31, 2018, which was partly supported by the issuance of subordinated debt in FY2017). Further, the company has been maintaining adequate reserves against the claims to be paid. ICRA also notes that the solvency levels are comfortable even after an average dividend pay-out ratio of ~20% in the last three years.

Balanced portfolio across retail and corporate segments – ICICIL’s products are relatively well diversified, with the Motor Owned Damage (OD) segment comprising the majority at 27% of GDPI in 9M FY2020. ICICIL is the leading private general insurer of the country. The company saw a decline of 8% YoY in total gross direct premium income (GDPI) during 9M FY2020 mainly on account on reduction in Crop insurance GDPI. Excluding the crop segment the company registered a GDPI growth of 13% YoY in 9MFY2020. The motor insurance segment (including motor - OD damage and motor - third party) continues to be the largest (accounting for 50% of total GDPI in 9M FY2020) followed by health & personal accident insurance (accounting for 25% of total GDPI). Due to reduction in crop insurance GDPI, the share of all other segments increased in 9M FY2020. The company also has a well-diversified distribution channel.

Improving underwriting performance aided by strong investment performance – Although ICICIL has yet to report a sustained underwriting surplus, it has reported a reduction in underwriting losses in 9M FY2020 (Rs. 76 crore vs Rs. 120 crore in 9M FY2019). The underwriting performance, which has been a focus area for the company, has seen a gradual but continuous improvement over the last couple of years. The primary reason for the improvement is lower claims ratio. Combined ratio stood at 100.5% in 9M FY2020 as against 98.7% in 9M FY2019. While claims ratio declined to 73.8% from 76.6%, expense ratio over this period has increased to 26.7% from 22.1% over the same period (on the back of higher marketing expenses and increased headcount). The improvement in the underwriting performance is further bolstered by investment portfolio related income (Total Investment & Trading Income) which is at Rs. 1,471 crore in 9M FY2020. This has resulted in an improvement in net profit to Rs. 912 crore in 9M FY2020 (11% YoY growth over Rs. 822 crore in 9M FY2019), translating into a Return on Equity* (ROE) of 20.1% in 9M FY2020 (20.3% in 9MFY2019).

Credit challenges

Intense competition in industry – ICICIL faces stiff competition from private as well as public sector general insurance companies in India. The industry has witnessed price wars across business segments resulting in high loss ratios and underwriting losses for most of the companies. Further, the announcement by the Government of India to merge three large public sector general insurance companies (National Insurance, United India Insurance and Oriental India Insurance) will create a monopoly player, which will control around one-third of the market share resulting in better bargaining and, thereby, higher pricing power. Therefore, ICICIL’s ability to maintain market share amid rising competition is to be seen. As on December 31, 2019, ICICIL and Bajaj Allianz had similar market share of 7.6%¹.

Liquidity position: Strong

ICRA has estimated liquid assets of Rs. 27,962 crore (sum of total investments less haircuts estimated by ICRA, plus cash and bank balances plus net due from insurance companies) as of December 31, 2019, against which the company had a

¹ Market share excluding specialised insurance companies (AIC and ECGC)

* Includes Fair valuation change

total liability of Rs. 23,415 crore (total technical reserve plus debt due in the next one year, if any). Moreover, the business generated in FY2020, would also provide for liquidity cushion. The total claims paid in FY2019 was Rs. 6,308 crore (24% of liquid assets), and total claims paid in 9MFY2020 was Rs. 5,212 crore (25% of liquid assets on annualised basis). The subordinated debt repayment is on July 28, 2026. ICRA does not foresee any liquidity risk for the company in the near to medium term.

Rating sensitivities

Negative triggers –

- » The rating or outlook could be revised if there is a downward revision in the rating for the promoter company (ICICI Bank) or a decline in the strategic importance of ICICIL to its promoter company or decline in expectation of support from promoter.
- » In addition, a decline in the company’s solvency ratio to less than 1.7 times on a sustained basis could lead to rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for rating hybrid debt instruments issued by insurance companies ICRA’s Credit Rating Methodology for claims paying ability ratings for general insurance companies Impact of Parent or Group Support on an Issuer’s Credit Rating
Parent/Group Support	Parent/Investor: ICICI Bank Limited The ratings consider the financial and management support received by ICICIL from its parent in the form of senior management deputation and board representation. The ratings also factor in the company’s strong ability to leverage ICICI Bank’s wide branch network for the distribution of the insurance policies. ICRA notes the shared brand name and past capital support provided by the promoter, indicating implicit support
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer

About the company

ICICIL is a publicly listed general insurance company, ICICI bank is a promoter and holds 55.86% of the outstanding shares. ICICIL offers a comprehensive and well-diversified range of products, including motor, health, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. ICICIL is a leading private sector general insurance company with a market share of 7.6%² for 9M FY2020.

In 9M FY2020, ICICIL reported a net profit of Rs. 912 crore (Rs. 822 crore in 9M FY2019) on a GDPI of Rs. 10,132 crore (Rs. 11,003 crore in 9M FY2019) with a reported total net worth[@] of Rs. 6045 crore.

² Market share excluding specialised insurance companies (AIC and ECGC)

Key financial indicators (audited)³

Key Parameters	Mar-18	Mar-19	Dec-18	Dec-19
Gross Direct Premium	12,356.9	14,488.2	11,003.3	10,132.3
Total Underwriting Surplus/(Shortfall)	(230.9)	(145.5)	(120.0)	(75.7)
Total Investment & Trading Income	1,532.6	1,795.5	1,371.9	1,470.9
PAT	861.8	1,049.3	821.5	911.8
Total Net Worth [@]	5,275.0	5,658.9	5,398.7	6,044.9
Total Technical Reserves	20,353.8	22,026.6	21,563.4	23,415.3
Total Investment Portfolio	18,192.7	22,230.8	20,445.5	24,845.3
Total Assets	29,749.6	33,402.6	32,157.0	36,547.9
Return on Equity [@]	16.3%	18.5%	20.3%	20.1%
Gearing [@]	0.09	0.09	0.09	0.08
Combined Ratio*	100.2%	98.5%	98.7%	100.5%
Regulatory Solvency Ratio	2.05	2.24	2.12	2.18

Amount in Rs. crore

Source: Company & ICRA research

*Combined ratio: (net claims incurred/net premium earned) + (Operating expenses + net commission expenses)/ net premium written

[@] includes fair valuation change

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	23-Apr-20	FY2020	FY2019	FY2018
						23-Apr-19	13-Apr-18	-
1	Claims Paying Ability	Long Term	-	-	iAAA; reaffirmed	iAAA	iAAA	-
2	Subordinated debt	Long Term	485	485	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

³ Standalone
www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE765G08012	Subordinated debt	28-Jul-2016	8.25%	28-Jul-2026*	485.00	[ICRA]AAA(stable)
NA	Claims paying ability rating	NA	NA	NA	NA	iAAA

*ICICI Lombard has a call option exercisable 5 year after the date of allotment

Source: ICICIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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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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