

August 09, 2024

The Oriental Insurance Company Ltd.: Rating downgraded to [ICRA]AA- from [ICRA]AA and outlook remains Negative; rating downgraded and withdrawn for Rs. 750-crore subordinated debt programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	750.00	0.00	[ICRA]AA- (Negative); downgraded from [ICRA]AA (Negative) and withdrawn
Issuer Rating	-	-	[ICRA]AA- (Negative); downgraded from [ICRA]AA (Negative)
Total	750.00	0.00	

*Instrument details are provided in Annexure I

Rationale

The rating downgrade reflects The Oriental Insurance Company Ltd.'s (OICL) persistently weak solvency profile due to its subdued profitability and the lack of clarity on the timing of capital infusions by the Government of India (GoI) despite the sustained weakness in the capital position. This could adversely impact the company's business volumes and market position in the medium to long term. While the underwriting performance improved in FY2024 compared to the previous fiscal, which was adversely impacted by wage revisions, it remains weak as reflected in the combined ratio of 121.4% in FY2024, thus constraining the profitability. OICL continued to report a negative net worth of Rs. 3,831 crore as of March 31, 2024, due to the substantial losses reported by the company in FY2022 and FY2023 and the small profit of Rs. 19 crore in FY2024.

The company's solvency is expected to remain weak unless the GoI makes a sizeable equity infusion. The solvency deteriorated sharply to negative 0.96 times {excluding fair value change account (FVCA)¹} in FY2023 as OICL provided Rs. 2,425 crore for the payment of employee wage arrears for the period of August 01, 2017, to July 31, 2022. The solvency deteriorated further to negative 1.06 times (excluding FVCA) as on March 31, 2024. The company has applied to the regulator for the inclusion of 100% FVCA for the calculation of solvency for FY2024, though approval is yet to be received. Even after including the entire FVCA, the solvency stood at 0.74 times as on March 31, 2024, lower than the regulatory requirement of 1.50 times.

The rating factors in OICL's position as one of the leading players in the domestic general insurance industry and the sovereign ownership (GoI holds 100%) with demonstrated capital support in the past and the expectation of support from the GoI in future. The GoI had infused Rs. 3,170 crore and Rs. 1,200 crore in FY2021 and FY2022, respectively, to help the company augment its solvency ratio.

OICL's statutory auditors continue to draw attention to its ability to continue as a going concern, given the negative net worth. As defined in its business and strategy plans, the company is exploring different avenues to turn around the situation such as focusing on profitable businesses, discontinuing loss-making policies and reducing controllable management expenses among others. Its ability to successfully implement these plans and receive the required equity from the GoI would be critical.

The outlook on the rating remains Negative, given ICRA's expectation of continued weak profitability and solvency over the medium term, unless supported by capital infusions from the GoI.

¹ Unrealised gains on equity investments

In accordance with its policy on the withdrawal of credit ratings, ICRA has downgraded and withdrawn the rating assigned to the Rs. 750.0-crore subordinated debt programme as no amount is outstanding against the same.

Key rating drivers and their description

Credit strengths

Sovereign ownership – OICL is wholly owned by the Gol. ICRA expects the company to receive support from the Gol. Considering the extremely low insurance penetration in India, the role of Government-owned insurers, such as OICL, becomes important. Further, Gol support is evidenced from the capital infusion of Rs. 9,950 crore (OICL received Rs. 3,170 crore) and Rs. 5,000 crore (OICL received Rs. 1,200 crore) in FY2021 and FY2022, respectively, across three public sector general insurance companies.

Established player with long operating history – OICL has a long operating history with a recognised brand value in North India. It is the fifth largest player in the general insurance industry with a market share of 6.6% in terms of gross direct premium written (GDPW) in FY2024 (6.5% in FY2023). While the company has a presence in all major segments, the health and motor segments continued to account for a significant share of the GDPW at 48% and 24%, respectively, in FY2024 (55% and 24%, respectively, in FY2023).

The company reported gross direct premium income (GDPI) growth of 17.2% in FY2024 against the industry growth of 12.8%. This was largely supported by OICL's re-entry in the crop segment (Rs. 1,752 crore in FY2024 and Rs. 6 crore in FY2023) and the underwriting of new policies in the personal accident (PA) segment (Rs. 1,130 crore in FY2024 and Rs. 535 crore in FY2023). While the motor segment also witnessed healthy growth of 17.2% in FY2024, the company's major segment, i.e. health, witnessed a decline of 5% in FY2024 due to the strategic decision to not renew loss-making government health schemes. In terms of distribution, OICL has a strong agency channel with individual agents sourcing 26% of its business. Further, direct sourcing accounts for 34% of the business with a wide presence across 1,452 branches.

Credit challenges

Weak solvency levels; largely dependent on Gol capital infusion – In the absence of equity infusions by the Gol in FY2023 and FY2024 and given its subdued profitability, OICL's solvency remains weak (negative 1.06 times as on March 31, 2024 compared to negative 0.96 times as on March 31, 2023). It has applied to the regulator for the inclusion of 100% of the FVCA for solvency purposes. Post approval, the solvency will turn positive at 0.74 times as on March 31, 2024, though 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 for the calculation of the solvency ratio. OICL reported a net profit of Rs. 19 crore in FY2024, primarily supported by realised gains from the sale of investments. However, it had a negative net worth of Rs. 3,831 crore as of March 2024 due to the significant losses incurred in the previous fiscals, which continue to have an impact.

As per ICRA's estimates, OICL requires an equity infusion of Rs. 3,800-4000 crore to meet the regulatory solvency requirements as on March 31, 2024, after 100% inclusion of the FVCA. Given the expectation of continued weak profitability, the equity capital required in the medium term is expected to increase further and remain sizeable. 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 year-on-year (YoY) basis in FY2024. It was adversely impacted in FY2023 on account of the retrospective wage revision (impact of Rs. 2,425 crore). OICL reported an underwriting loss of Rs. 3,468 crore in FY2024 compared to Rs. 7,693 crore in FY2023. Besides the impact of the wage revision, the strategic decision to discontinue some of the loss-making businesses also contributed to the improvement in the underwriting performance in FY2024. Although the combined ratio improved to 121.4% in FY2024 from 138.0% in

FY2023 (excluding impact of wage revision), it remains elevated. The company reported a net profit of Rs. 19 crore in FY2024, supported by the gain on the sale of investments. Consistent improvement in the underwriting performance and sizeable capital infusions by the GoI remain key rating sensitivity factors.

Liquidity position: Adequate

The company's net premium was Rs. 16,192 crore in FY2024 in relation to the maximum net claims paid of Rs. 14,217 crore in the last few years. However, its operating cash flow remained negative. OICL had investments in Central/state government securities, accounting for 43% of the total investments or Rs. 28,801 crore as on March 31, 2024, supporting the liquidity to meet the claims of policyholders. It does not have any subordinated debt outstanding.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if there is a consistent improvement in the underwriting performance and/or sizeable capital infusions by the GoI.

Negative factors – ICRA could downgrade the rating on a dilution in OICL'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 Policy on Withdrawal of Credit Ratings
Parent/Group support	The rating factors in OICL's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to continue supporting OICL with capital infusions.
Consolidation/Standalone	Standalone

About the company

The Oriental Insurance Company Ltd. (OICL), incorporated on September 12, 1947, is a general insurance company fully owned by the Government of India. It offers general insurance services across a variety of segments. With its head office in New Delhi, OICL has 29 regional offices and 1,500+ operating offices. OICL's gross direct premium written was Rs. 18,794 crore in FY2024 and it reported an underwriting loss of Rs. 3,468 crore and a net profit of Rs. 19 crore.

Key financial indicators (audited)

OICL	FY2023	FY2024
Gross direct premium	15,993	18,794
PAT	(4,968)	19
Net worth (including FVCA)	3,015	5,041
Net worth (excluding FVCA)	(4,147)	(3,831)
Total investment	28,017	28,801
Combined ratio	152.8%	121.4%
Solvency ratio (times)	(0.96)	(1.06)

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)	Aug 09, 2024	Date	Rating	Date	Rating	Date	Rating
Issuer Rating	Long Term	-	[ICRA]AA- (Negative)	14-Aug-23	[ICRA]AA (Negative)	14-Nov-22	[ICRA]AA+ (Negative)	17-Nov-21	[ICRA]AAA (Negative)
Subordinated debt programme	Long Term	750.0	[ICRA]AA- (Negative); withdrawn	14-Aug-23	[ICRA]AA (Negative)	14-Nov-22	[ICRA]AA+ (Negative)	17-Nov-21	[ICRA]AAA (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
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
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AA- (Negative)
INE06GZ08015*	Subordinated debt	Mar-18-2019	8.80%	Mar-18-2029	750.0	[ICRA]AA- (Negative); withdrawn

Source: Company; * OICL has exercised the call option and redeemed the debentures in full by paying the principal and final interest on March 18, 2024

Annexure II: List of entities considered for consolidated analysis

Not applicable

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Branches



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