

August 22, 2017

## Bharti AXA General Insurance Company Limited

### Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Subordinated debt programme	220	[ICRA]AA-(stable); assigned
<b>Total</b>	<b>220</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the rating of [ICRA]AA-(stable) for the proposed Rs. 220 crore subordinated debt programme of Bharti AXA General Insurance Company Limited (the company).

### Rationale

The rating takes into consideration the strong parentage of Bharti group (holding 51% stake as on May 31, 2017) (Bharti Airtel Ltd; rated [ICRA]AA+(stable)/A1+) and AXA (holding 49%) (AXA; Moody's Insurance Financial Strength Rating of Aa3 / Stable, and long term debt rating of A2). ICRA takes note of the strong capital support from the parent companies demonstrated through consistent equity infusion over the past 5 years, and expects the company to continue to receive operational, technical and capital support as and when required. The company's regulatory solvency ratio of 1.65 times as on March 31, 2017 is higher than the regulatory minimum of 1.50 times.

The rating also factors in the key features of the instrument in line with 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 payouts were to lead to a net loss or an increase in net loss, prior approval of the regulator would be required to service the debt

ICRA expects that the support from the parent companies will continue. Bharti AXA GI's foreign parent also provides support in the areas of reinsurance, product development, enhancement and actuarial functions. The rating also factors in the company's geographically diverse operations and the recent changes in the senior management team. ICRA, however, takes note of the moderate scale of operations and concentration of portfolio mix to the motor portfolio (Motor-TP and Motor-OD together comprising majority of gross direct premium written (GDPW) in FY2017). ICRA also takes note of the company's high dependence on intermediaries for product distribution (brokers and individual agents accounted for 68% of the premium mobilisation during FY2017). Ability of the company to diversify its product and sourcing mix, improve its underwriting and operating performance and manage overall regulatory risk in the insurance segment will be a key monitorable.

## Key rating drivers

### Credit strengths

- **Strong parentage of Bharti Group and AXA Group** – The company has a strong parentage of Bharti Group (Bharti) (ICRA long term debt rating of AA+(stable) and short term debt rating of A1+ for Bharti Airtel Ltd, its telecommunications venture) and AXA Group (AXA) (Moody's Insurance Financial Strength rating of Aa3 / Stable and long term debt rating of A2) who provide capital, technical, and actuarial support
- **Strong capital support from the parent companies** – In order to aid the company achieve its growth trajectory while maintaining its solvency ratio (1.65 as on March 31, 2017) above the regulatory threshold (1.50 times), the parent companies have consistently infused capital over the past few years, thus displaying their commitment towards the growth of the general insurance business; the last round of equity infusion was made in FY2017 wherein the company received Rs. 50 crore from its parent companies
- **Significant operational support available from AXA** – The company receives considerable operational support, actuarial oversight and engagements from AXA for the new and existing product lines of the company
- **Geographically diverse nature of operations** – The company has presence across 17 states with the largest share of premium coming from the state of Karnataka which accounts for about 13% of the business for FY2017; this limits the geographical concentration risk on the business and underwriting performance of the company

### Credit weaknesses

- **Short term operational execution risk** – The company's existing management team, while recently appointed, has a good industry experience (insurance and financial services) and plans to ramp up operations, in a profitable manner. ICRA will be actively tracking the financial performance of the company. In addition, the company has shifted its operations from Bengaluru to Mumbai. The shift has long term benefits, but may have short term operational risks arising from the geographical transition
- **Concentration of motor insurance premium in the business mix** – Relatively high dependence on the motor insurance segment (majority of total premium collections in FY2017 from this segment) imparts concentration risk to the company's premium profile; the concentration risk is likely to reduce going ahead as the company plans to expand its product suite
- **Weak underwriting performance with combined ratio above 100%** - The underwriting performance of the company has been weaker compared to select private insurers with similar vintage; the company reported underwriting losses of Rs 433.5 crore and Rs 380.1 crore in FY2016 and FY2017 respectively; the claims ratio and the expense ratio respectively stood at 87% and 43% in FY2017 as a result of which the company reported a combined ratio of 140% and 132% in FY2016 and FY2017 respectively, which is higher than the median combined ratio of select private insurers (106.0% in FY2016 and 105.9% in FY2017)
- **Weak operating efficiency as evidenced by relatively high expense ratio** – The company has displayed weak operating efficiency with a relatively high management expense ratio<sup>1</sup> of 37.8% (FY2017) against an average of 20.1% (9MFY2017) for comparable private insurers as the company's expenses increased at a faster pace (grew by 8% CAGR since FY2014 mainly due to increase in employee expenses and advertisement costs) compared with the growth in the business premiums (grew by 2% CAGR since FY2014). The company continues to calibrate its portfolio mix and business structure which would augment the future growth of its business segments; the operating efficiency for the company is likely to improve with a higher scale of operations.

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<sup>1</sup> Ratio of Management Expense to Gross Direct Premium Written (GDPW)

**Analytical approach:**

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Methodology for rating hybrid debt instruments issued by insurance companies](#)

**About the company**

Bharti AXA General Insurance Company Ltd. (the company) is a joint venture between Bharti group and AXA group. The company offers a wide range of products including Motor, Health, Fire, Marine, Engineering, Property, Travel and Accident insurance for individuals and corporate. During FY2016, the Foreign Direct Investment Rules were amended as per which foreign holding in Insurance company was increased to 49% of the insurer's share capital. Pursuant to this, AXA increased their shareholding in the company to 49% from 22% of the share capital by purchasing equity from Bharti Insurance Holdings Private Limited. The Bharti group has presence in telecom, agri-business, financial services, learning & development, and manufacturing; its telecom business, Bharti Airtel, being the largest telecom operator in India. The AXA group, headquartered in France, is a global conglomerate with significant track record in the insurance space.

**Key Financial Indicators (Audited)**

<b>Parameters</b>	<b>FY2016</b>	<b>FY2017</b>
Gross Direct Premium Written	1,274.4	1,314.1
Total Underwriting surplus/(shortfall)	(433.5)	(380.1)
Total Investment + trading income	228.6	249.2
PAT	(204.2)	(128.6)
Total Net worth	690.0	612.0
Total Technical Reserves	2047.3	2248.5
Total Investment portfolio	2,841.2	2,872.2
Total Assets	3,161.2	3,185.3
Return on Equity	-29.6%	-21.0%
Gearing	0.0	0.0
Combined ratio	140.0%	132.4%
Regulatory Solvency ratio	1.6	1.7

*Source: Company; Amount in Rs. crore*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

Sr. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	August 2017*	FY2017	FY2016	FY2015
1	Subordinated Debt Programme	Long Term	220	[ICRA]AA- (Stable); Assigned	-	-	-

*\*Initial Rating assigned*

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity date</b>	<b>Rated amount (Rs. crore)</b>	<b>Current rating and outlook</b>
Subordinated Debt Programme	*	*	*	220.00	[ICRA]AA- (stable)

*\*Yet to be placed*

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### About ICRA Limited:

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