Bharti AXA Life Insurance Company Limited

January 25, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	80.00	80.00	[ICRA]AA-(Stable); reaffirmed
Total	**80.00**	**80.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in Bharti AXA Life Insurance Company Limited's (BAXA-LI) strong parentage with Bharti Group (ultimate holding company, Bharti Enterprises Holding Private Limited; BEHPL rated [ICRA]A1+) and the AXA Group (AXA; Moody's insurance financial strength rating of Aa3/Stable and long-term debt rating of A2) being the two joint venture (JV) partners holding 51% and 49%, respectively. The rating also notes the shared brand name, track record of capital support and the commitment of further capital and operational support from the sponsors, which, in ICRA's opinion, reiterates BAXA-LI's strategic importance to the sponsors. The rating is, however, constrained by the company's weak financial performance as it is yet to report net profits with a modest scale of operations leading to lower operating leverage, although the losses have narrowed in FY2018. ICRA also notes the revision in the rating of the key operating company of the Bharti Group, Bharti Airtel Limited (BAL, rated [ICRA]AA(Stable)/[ICRA]A1+, long-term rating downgraded from [ICRA]AA+(Negative)). However, considering the limited future capital requirements of the insurance business compared to the debt and capital raising ability of the Group and the improving cost efficiencies of BAXA-LI, ICRA does not expect this development to have a material impact on the operations of the life insurer. Going forward, continued support from the sponsors, an improvement in market share, its ability to tie up with a bancassurance partner and further diversify its product mix as it grows its operations would remain key rating sensitivities.

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
- 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

Outlook: Stable

ICRA believes that the company's performance will continue to improve. It would also benefit from the strong support from the parents and the shared brand name. The outlook may be revised to Positive in the event of a sustained improvement in underwriting profitability along with premium growth. The outlook may be revised to Negative in case of a change in parentage, or a change in the parents' credit rating, a material deterioration in their financials (impacting capital requirement of the insurance entities) or a decline in the importance of the entity to its parents. However, ICRA derives comfort from the promoters' commitment to support the capitalisation in the event of any shortfall in meeting the regulatory solvency requirements.

Key rating drivers

Credit strengths

Parentage of Bharti Group and AXA Group – BAXA-LI is owned by Bharti Life Private Limited (which is closely held by the Bharti Group) and AXA India Holdings through a 51:49 JV partnership. BAXA-LI remains strategically important to the sponsors given the significant potential in an underpenetrated market. The company's importance to its sponsors is demonstrated by the presence of a shared brand name and the track record of equity infusion over the last five years and continuing capital commitment. This supports ICRA's opinion that the company will remain adequately capitalised. BAXA-LI received capital infusion of Rs. 100 crore in FY2019 and subsequently the solvency ratio stood at 1.72 times as on November 30, 2018. Going forward, sponsors' support would be a key monitorable as the company would continue to require capital for its business growth plans and is yet to see internal capital accretion. ICRA notes the impact on the credit metrics of BAL, the flagship company of the Bharti Group, due to continued competitive pressure in the telecom industry. However, the upstreaming of cash flow in the form of dividend to the holding company, BEHPL, is limited. BAXA-LI has a strong senior management team with significant insurance industry experience. The rating factors in the managerial oversight in terms of board representation and operational support from the sponsors.

Improving product mix with focus on profitable segments – The company has increasingly been focusing on the non-participating (non-par) and protection businesses, which are more profitable compared to participating (par) products. The par:non-par:protection mix has changed to 37.0%:51.8%:6.6% of the annual premium equivalent (APE) in FY2018 and further to 29.2%:59.7%:6.2% in H1 FY2019 from 60.9%:30.8%:6.9% of APE in FY2017. The proportion of non-par is on the rise while par has been reducing and protection has remained stable. This has resulted in higher value of new business (VNB) with a similar new business strain, resulting in an improvement in the VNB margin[1], as well as other profitability levers like cost efficiency, persistency levels and premium growth. The VNB margin improved to 20% in FY2018 and 21% in H1 FY2019 from 12% in FY2017.

Credit challenges

Improvement in growth but market share remains low due to lack of bancassurance partners and low product diversity – BAXA-LI's scale of operations remains modest with a market share (calculated on individual weighted new business premium) of 1.6% in H1 FY2019. The gross written premium (GWP) grew 33.7% YoY to Rs. 851 crore in H1 FY2019 compared to 20.6% in FY2018 (Rs. 1,684 crore). The company's product diversification also remains relatively low given its focus on traditional business. However, with considerable opportunities available, including an underpenetrated market, BAXA-LI's focus on expanding the distribution reach of proprietary channels and its strong presence in the broking channels in the industry and other possible tie-ups are expected to support business volumes over the medium term. ICRA also notes the company's change in focus to more profitable product segments, and the non-participating and credit protection businesses.

Weak operating efficiency due to high operating expense – BAXA-LI's cost structure remains relatively elevated although there has been an improvement in operating efficiency in the last two years. The expense ratio, including commission, improved to 47.1% in FY2018 and 48.8% in H1 FY2019 from 52.0% in FY2017. However, with the company's expansion plan, ICRA expects it to grow at a faster pace and enjoy the benefits of economies of scale, which would lead to an improvement in its operating efficiency.

[1] *The VNB margin is calculated as the value of new business divided by the annual premium equivalent*

Weak financial performance – Given the modest growth in business, its low scale of operations and the resulting elevated cost structure, the company is yet to turn profitable since it started operations in 2006. However, the losses have narrowed and the company generated a surplus under its participating business for the first time in FY2018 due to improving cost efficiencies and top-line growth. BAXA-LI reported a loss of Rs. 32 crore in H1 FY2019 compared to a loss of Rs. 73 crore in FY2018 and Rs. 121 crore in FY2017. ICRA, however, notes the consistent profits based on IFRS accounting over the last four years. The company expects the migration to IndAS to be a positive development.

Liquidity position

The company had a liquidity buffer of Rs. 217 crore (calculated as 50% of the sum of total controlled funds, income accrued on investments and cash and bank balance less policy liabilities and net dues to other insurance entities) as of September 2018. The nearest debt repayment is the Rs. 5.4-crore coupon payment for its subordinated debt programme, which is due on August 23, 2019. The subordinated debt programme of Rs. 60 crore is due on August 23, 2027. ICRA does not foresee any liquidity risk in the near term. The company has paid its obligation for interest within the due date on August 23, 2018. It had received the RBI's approval for servicing the interest payment on the subordinated debt after posting a net loss in FY2018. The coupon payment on August 23, 2019 will also be subject to the receipt of similar approval as BAXA-LI is expected to post a net loss in the current fiscal as well.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for rating hybrid debt instruments issued by insurance companies
Parent/Group Support	Parent/Investor: BEHPL and AXA ICRA factors in the implied support of the parent entities, BEHPL and AXA, and takes comfort from the management team's experience in the insurance business
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer

About the company

Bharti AXA Life Insurance Company Limited is a joint venture between the Bharti Group and the AXA Group, with Bharti Life Ventures Private Limited holding 51% and AXA India Holdings 49% in the company. The company, which was incorporated in October 2005, commenced operations in 2006. BAXA-LI is currently present in 25 states/Union Territories and 120+ cities. The Bharti Group has a presence in telecom, agri-business, financial services, learning & development and manufacturing, with its telecom business, Bharti Airtel, being one of the largest telecom operators in India. The AXA Group, headquartered in France, is a global conglomerate with significant track record in the insurance space. In H1 FY2019, BAXA-LI reported a net loss of Rs. 32 crore compared to a loss of Rs. 73 crore in FY2018.

Key financial indicators (audited)

	FY2016	FY2017	FY2018	H1 FY2019
Gross Direct Premium	1,208	1,397	1,684	851
Income from Investment and Fees	81	474	480	216
Total Expense	700	727	793	415
PAT	-111	-121	-73	-32
Total Net Worth	234	237	160	175
Total Policy Holders + Shareholders Investments	1,639	2,450	3,395	3,892
Total Expense Ratio	57.9%	52.0%	47.1%	48.8%
Return on Equity	-47.7%	-51.1%	-45.3%	-37.0%
13^{th} Month Persistency Ratio	56.5%	62.0%	65.3%	63.6%
61^{st} Month Persistency Ratio	16.5%	28.7%	40.8%	44.1%
Regulatory Solvency Ratio	2.19	1.82	1.79	1.62

Amount in Rs. crore
Source: Company & ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jan-19	FY2019 Apr-18	FY2018 Aug-17	FY2017 -	FY2016 -
1	Subordinated debt programme	Long Term	80.0	60.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE089J08011	Subordinated debt programme	23-Aug-2017	8.98%	23-Aug-2027	60.0	[ICRA]AA-(Stable)
NA	Subordinated debt programme – proposed	NA	NA	NA	20.0	[ICRA]AA-(Stable)

Source: Company

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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