Bharti AXA General Insurance Company Limited

February 26, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	-	35.00	[ICRA]AA-(Stable); assigned
Subordinated debt programme	220.00	220.00	[ICRA]AA-(Stable); outstanding
Total	**220.00**	**255.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating takes into consideration, Bharti AXA General Insurance Company Limited's (BAXA-GI), strong parentage of Bharti group (ultimate holding company, Bharti Enterprises Holding Private Limited; BEHPL rated [ICRA]A1+, holding 51% stake as on December 31, 2018) and AXA Group (AXA; Moody's Insurance Financial Strength Rating of Aa3 / Negative, and long-term debt rating of A2, holding 49% stake). ICRA also takes note of the shared brand name, strong capital support from the parent companies and the commitment of further capital, technical and operational support from the investors, which, in ICRA's opinion, reiterates BAXA-GI strategic importance to the sponsors. BAXA-GI's foreign parent also provides support in the areas of reinsurance, product development, enhancement and actuarial functions. The rating is, however, constrained by the company's modest scale of operations and weak financial performance, which after showing an improvement in H1 FY2019, has worsened in 9M FY2019, on account of provisioning for its debt investments in Q3 FY2019. The rating also factors in the company's geographically diverse operations and the recent changes in the senior management team. ICRA also takes note of the company's high dependence on intermediaries for product distribution (brokers and individual agents accounted for 57% of the premium mobilization during 9M FY2019). ICRA also takes note of the improvement in product diversification, with motor segment premium comprising 49% in the overall portfolio in 9M FY2019, in line with the industry, from over 80% in the earlier years till FY2017. ICRA 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 financial position of BAXA-GI, ICRA does not expect this development to have a material impact on the operations of the insurer. Going forward, continued support from the sponsors, 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.

The rating also factors in the key features of the instrument in line with applicable guidelines for sub-ordinated 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 BAXA-GI would continue to benefit from its parentage in the form of a shared brand name and in terms of financial and technical support. The outlook may be revised to Positive in case of sustained improvement in the company's underwriting profitability, along with premium growth. The outlook may be revised to Negative in case of decline in underwriting performance, a change in parentage, or a change in the credit rating of parent or key operating company, a material deterioration in their financials (impacting capital requirement of the insurance entities) or a decline in the importance of the entity to its parent. In the absence of capital support, if the company were to incur losses, its solvency position would be weakened, and company would be unable to support the current growth in business. However, ICRA derives comfort from the promoters' commitment to support the capitalization in the event of any shortfall in meeting the regulatory solvency requirements.

Key rating drivers

Credit strengths

Parentage of Bharti Group and AXA Group who provide capital, technical, and actuarial support – BAXA-GI is owned by Bharti General Ventures Private Limited (which is closely held by the Bharti Group) and AXA India Holdings through a 51:49 JV partnership. 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. The company receives considerable operational support, actuarial oversight and engagements from AXA for the new and existing product lines of the company. 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-GI 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.

Geographically diverse nature of operations – The company has presence across 23 states with the largest share of premium coming from the state of Gujarat which accounts for about 26% of the business for 9M FY2019; this limits the geographical concentration risk on the business and underwriting performance of the company.

Improving product diversification– Share of motor segment premium has reduced and comprised around 49% in the overall GDPW mix in 9M FY2019, which is in line with the industry, as compared to over 80% in the earlier years till FY2017. The improvement in product diversification will lead to reduction in concentration risk in the portfolio going forward. 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.

Credit challenges

Solvency position vulnerable to investment write-off, may hinder growth plans – In order to aid the company to achieve its growth trajectory while maintaining its solvency ratio (1.77 as on December 31, 2018) comfortable above the regulatory threshold (1.50 times), ICRA estimates that the company will need to raise further capital in the event of write-off of IL&FS exposure. BAXA-GI has an exposure of Rs. 68 crore in IL&FS group, of which about 50% is due for payment by March 2019. In Q3 FY2019, 10% provisioning was made on the group's exposure, which has dented the profitability of BAXA-GI during the quarter. The company raised Rs. 220 crore as subordinated debt in FY2018 and considering its net worth as of December 2018, it has a room of raising additional capital of about Rs. 39 crore (excluding fresh rated amount of Rs. 35 crore which is being raised for meeting growth requirements). As the scale of business and profitability improves, capital accretion is expected to support its solvency profile, going forward.

Weak albeit improving underwriting performance with combined ratio above 100% - The underwriting performance of the company has been weaker compared to peer private insurers with similar vintage; the company reported underwriting losses of Rs. 380 crore and Rs 219 crore in FY2017 and FY2018 respectively; the claims ratio and the expense ratio respectively stood at 83.1% and 28.6% in FY2018 as a result of which the company reported a combined ratio of 132% and 117% in FY2017 and FY2018 respectively. Although underwriting losses have widened in Q3 FY2019 on quarter-on-quarter basis, underwriting performance has improved with marginally lower combined ratio of 116.1% in 9M FY2019 as compared to 116.4% in H1 FY2019, due to lower commission and expense ratios but partially offset by higher claims ratio. ICRA also notes the improvement in operating efficiency as evidenced by a reduction of total management expense ratio to 33% in 9M FY2019 (~42-45% in the periods prior to FY2018). BAXA-GI has identified control of operating expenses as a priority to improve profitability in FY2019.

Significant increase in exposure to crop insurance business, which is vulnerable to the vagaries of climate change – Following the launch of the Pradhan Mantri Fasal Bima Yojana (PMFBY), the crop insurance business has seen significant traction in the Indian general insurance sector. The company has been incrementally doing a significant proportion of the crop business. During 9M FY2019, the GDP in the crop business grew to 24% of the overall GDP from 20% in 9M FY2019 (22% in FY2018 and Nil in FY2017). While a significant portion of the business is reinsured, the general insurance industry's limited experience in this segment is a key monitorable. ICRA notes that the claims in the segment remain contingent on the climatic conditions, which are unpredictable, thus posing higher risk.

Liquidity Position:

The company had a liquidity buffer of Rs. 396.3 crore (calculated as 50% of the sum of total investments, cash and bank balance, dues from other insurance companies and income accrued on investments less technical reserves[1] and net dues to other insurance entities) as of December 2018 (1.8 times of subordinated debt). The nearest debt repayment is the Rs. 19.8-crore coupon payment for its subordinated debt programme, which is due on August 23, 2019. The subordinated debt programme of Rs. 220 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 21, 2018.

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 & AXA ICRA factors in the implied support of the parent entities, BEHPLL & AXA, and takes comfort from the management team's experience in the insurance business.
Consolidation / Standalone	The ratings are based on standalone financial statements of the issuer.

[1] *Calculated as sum of reserve for unexpired risk and claims outstanding*

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.

During 9M FY2019, the company reported a net profit of Rs. 0.5 crore on a total asset base of Rs. 4,566 crore as compared to a net loss of Rs. 93 crore on a total asset size of Rs. 3,872 crore in FY2018 (net loss of Rs. 129 crore on a total asset size of Rs. 3,185 crore in FY2017).

Key financial indicators (audited)

Key Parameters	FY2017	FY2018	9M FY2018	9M FY2019
Gross Direct Premium	1,314	1,754	1,251	1,641
Total Underwriting Surplus/(Shortfall)	-380	-219	-265	-193
Total Investment + Trading Income	249	268	200	214
PAT	-129	-93	-71	1
Total Net Worth[2]	610	518	540	518
Total Technical Reserves	2,249	2,544	2,493	2,803
Total Investment Portfolio	2,872	3,211	3,277	3,952
Total Assets	3,185	3,872	3,883	4,566
Return on Equity[3]	-21.0%	-17.7%	-12.9%	0.1%
Gearing (Sub-debt/Net Worth[2])	0	0.42	0.41	0.42
Combined Ratio	123.6%	116.5%	128.1%	116.1%
Regulatory Solvency Ratio	1.65	1.86	1.98	1.77

Amount in Rs. crore
Source: BAXA-GI & ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[2] *Excluding Fair Value Change Account*

[3] *PAT/Closing Net worth (including Fair Value Change Account)*

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	FY2019	FY2018	FY2017	FY2016
					Feb-19	Nov-18	Aug-17	-	-
1	Subordinated debt programme	Long Term	35.0	-	[ICRA]AA- (stable)	-	-	-	-
2	Subordinated debt programme	Long Term	220.0	220.0	[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
NA	Subordinated debt programme – Proposed	NA	NA	NA	NA	[ICRA]AA-(stable)
INE513L08016	Subordinated debt programme	23-Aug-2017	8.98%	23-Aug-2027	220.0	[ICRA]AA-(stable)

Source: BAXA-GI

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sahil Udani
+91 22 6114 3429
sahil.udani@icraindia.com

Rohan Rustagi
+91 22 6114 3414
rohan.rustagi@icraindia.com

Parvathy S
+91 22 6114 3428
parvathy.s@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents