

## IndiaFirst Life Insurance Company Limited

February 28, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	100.00	100.00	[ICRA]AA(Stable); reaffirmed
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating takes into account IndiaFirst Life Insurance Company Limited's strong promoter profile with 44% of the equity being held by Bank of Baroda (BoB; [ICRA]AAA(hyb)(Stable)<sup>1</sup>), 30% by Andhra Bank and 26% by an affiliate of Warburg Pincus LLC. The rating factors in the track record of capital support from the promoters, the relevant experience of the senior management team in the life insurance industry, the stable asset quality of the investment portfolio, the effective use of technology and the strong operational efficiency demonstrated by the company. The company also leverages the extensive branch network of BoB and Andhra Bank to source business at a relatively lower cost through the bancassurance channel. While ICRA notes the public reports indicating a stake sale by Andhra Bank, the loss of branch reach would, however, be negated by the additional branches under the coverage of BoB's associate banks. IndiaFirst's importance to the parent banks is reflected by the presence of their management on the company's board. While IndiaFirst has displayed a profitable growth over the past three fiscals, the rating is constrained by its moderate financial performance, with the company yet to achieve a significant scale of operations, market share or geographical diversification.

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<sup>2</sup>
- 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

Going forward, continued financial and operational support from the parent companies, an improvement in market share and a demonstrated ability to scale up the business volume with a diversified and profitable product mix would remain key rating sensitivities.

<sup>1</sup> Basel III compliant Tier II Bonds

<sup>2</sup> As per IRDAI, insurers are required to maintain a minimum solvency ratio of 1.50 times

## Outlook: Stable

ICRA believes that IndiaFirst will continue to benefit from the capital support, operational expertise and the vast branch network of its bank sponsors. The outlook may be revised to Positive if there is a substantial and sustained improvement in the company's market share and profitability, leading to an improvement in its financial risk profile. The outlook may be revised to Negative if the parents' ability and commitment, in terms of capital support, reduces or if the company's solvency ratio deteriorates materially. The rating and outlook of the company are also sensitive to any material change in the sponsor's financial profile and external credit ratings.

## Key rating drivers

### Credit strengths

**Strong parentage; capital, technological, and operational support from parents** – IndiaFirst is owned by BoB, Andhra Bank and Warburg Pincus in a 44:30:26 joint venture partnership. Its importance to the sponsors is demonstrated by their track record of equity infusion over the last five years and their continued capital commitment. ICRA believes that the company would continue to remain adequately capitalised, going forward as well. The rating also factors in the vast branch network of the banking sponsors, which IndiaFirst has effectively leveraged to distribute its products. The company's senior management team includes seasoned professionals from the life insurance industry with significant experience across the insurance, sales and asset management industries and with considerable operational vintage in IndiaFirst.

**Adequate solvency and liquidity profile** – IndiaFirst's solvency profile is adequate with a solvency ratio of 1.68 times as on December 31, 2018 against the regulatory requirement of 1.50 times. The parent companies have regularly infused capital in the past, displaying a commitment towards the growth of the life insurance business. The company maintains a robust investment portfolio and adequate liquidity to cover any immediate claims, at any point in time, apart from ensuring a bucket-wise matching of asset liability maturity. Going forward, along with internal accruals, adequate and timely support from the sponsor to fund incremental growth would be key monitorables.

**Strong operational efficiency** – IndiaFirst has consistently displayed strong operational efficiency, supported by the strong and effective use of technology and efficient utilisation of the banking sponsors' vast branch network and its own sales force to distribute its products. The company reported an operating expense (related to insurance business) to gross written premium ratio of 11.8% in FY2018 compared to the industry ratio of ~13-14%, indicating a relatively better performance than most of its peers.

**Focus on product profitability and persistency** – The company has been gradually shifting its focus from the low margin and capital-intensive group funds business to the relatively higher margin and capital-efficient individual retail business. This is reflected in the increasing share of the retail business in the new business premiums to 41% in FY2018 and 32% in 9M FY2019 from 11% in FY2014. The company has made process improvements to improve its policy renewal rates, resulting in a slight improvement in the 13<sup>th</sup> and 61<sup>st</sup> month persistency to 76% and 37%, respectively, in FY2018 from 74% and 34%, respectively, in FY2017.

### Credit challenges

**Solvency position susceptible to investment write-off** – ICRA notes IndiaFirst's Rs. 81-crore exposure to IL&FS Group companies in its life fund as of December 2018. If the company had to write off the entire amount, the solvency ratio would reduce to ~1.50 times, verging on the regulatory minimum. ICRA also notes the exposure in the unit linked schemes of Rs. 36 crore. The company has indicated that this exposure would be passed on to the policy holders,

commensurate with the provisioning for IL&FS exposure, as per extant IRDAI norms. The company has advised that it has no investments rated below investment grade, apart from exposure to IL&FS group, as of December 2018.

**Moderate financial performance** – While the company has displayed a profitable growth over the last three fiscals, its profitability nevertheless remained moderate with a return on equity (RoE) of 8.5% in FY2018 (RoE of 6.4% in FY2017), given its limited scale of operations. Going ahead, IndiaFirst’s ability to scale up business volumes with a diversified and profitable product mix will be a key monitorable from a credit perspective.

**Geographically concentrated operations** – While the company has a presence in 36 states and Union Territories (UTs), its operations continue to be geographically concentrated with the top 10 states accounting for 91% of the gross written premiums for 9M FY2019 (vis-à-vis 91% for FY2017).

### Liquidity position

As of December 2018, the company had a liquidity buffer of Rs. 374.02 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). The nearest debt repayment is the coupon payment of its subordinated debt programme amounting to Rs. 8.5 crore falling due on January 02, 2020. The subordinated debt programme of Rs. 100 crore is due on January 02, 2028. ICRA does not foresee any liquidity risk in the near term, and the company has paid its obligation for interest within the due date on January 02, 2019.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA’s Credit Rating Methodology for rating hybrid debt instruments issued by insurance companies</a>
Parent/Group Support	Parent / Investor: BoB, Andhra Bank & Warburg Pincus LLC ICRA factors in the company’s strong promoter profile with 44% of the equity being held by BoB, 30% by Andhra Bank and 26% by an affiliate of Warburg Pincus LLC. The rating also factors in the track record of capital support from the promoters and operational support from the parent banks
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer

### About the company

IndiaFirst Life Insurance Company Limited is a joint venture between Bank of Baroda (BoB, 44% shareholding), Andhra Bank (30%) and Carmel Point Investments India Private Limited (an affiliate of Warburg Pincus LLC, 26%). The company was incorporated in June 2008 and commenced operations in FY2010. IndiaFirst currently operates in 36 states and UTs. BoB and Andhra Bank are public sector banks with established track records. While BoB has a domestic network of 5,434 branches, Andhra Bank has a network of 2,908 branches across India. Warburg Pincus, LLC is an American private equity firm with offices in the United States, Europe, Brazil, China and India. It has been a private equity investor since 1966. The firm currently has approximately \$40 billion in assets under management and invests in a range of sectors including retail, industrial manufacturing, energy, financial services, health care, technology, media, and real estate.

In FY2018, IndiaFirst reported a net profit of Rs. 51.2 crore (RoE of 8.5%) compared with a net profit of Rs. 35.17 crore (return on equity of 6.4%) in FY2017.

## Key financial indicators (audited)

Key Parameters	FY2017	FY2018	9M FY2018	9M FY2019
Gross Direct Premium	2,265.17	2,309.01	1,301.95	2,028.08
Income from Investment and Fees	1,052.46	945.73	851.97	778.12
Total Expense	321.05	401.00	273.97	377.69
PAT	35.17	51.21	2.78	-16.93
Total Net Worth	550.61	602.15	553.84	584.55
Total Policy Holders + Shareholders' Investments <sup>3</sup>	7,157.49	8,699.66	8,130.10	9,964.27
Total Expense Ratio	14.5%	17.8%	21.8%	19.1%
Return on Equity	6.4%	8.5%	0.7%*	-3.9%*
13th Month Persistency Ratio	74.1%	75.9%	74.5%	74.9%
61st Month Persistency Ratio	33.7%	37.2%	40.6%	32.7%
Regulatory Solvency Ratio	1.84	2.07	1.68	1.68

Amount in Rs. crore

Source: IndiaFirst & ICRA research

\*9M returns are annualised

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	FY2018	FY2017	FY2016
1 Subordinated debt programme	Long Term	100.0	100.0	Feb-19 [ICRA]AA (stable); reaffirmed	Nov-17 [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](http://www.icra.in)

<sup>3</sup> Does not include assets held to cover linked liabilities

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE381Y08011	Subordinated debt programme	03-Jan-2018	8.57%	03-Jan-2028	100.0	[ICRA]AA (stable)

Source: IFLI

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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