

June 02, 2021

Aditya Birla Sun Life Insurance Company Limited: [ICRA]AA+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	350.00	[ICRA]AA+ (Stable); Assigned
Total	350.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has used a consolidated approach to rate the subordinated debt programme of Aditya Birla Sun Life Insurance Company Limited (ABSLI). The consolidation is at Aditya Birla Capital Limited (ABCL), and the link for the detailed rationale can be found [here](#).

ICRA has assigned a long-term rating of [ICRA]AA+ (pronounced ICRA AA plus) to ABSLI's subordinated debt programme. The rating is driven by the strength of the promoter {ABCL (rated [ICRA]AAA with a Stable outlook) with ultimate parent, i.e. Grasim Industries Limited (Grasim; rated ICRA]AAA(Stable)/[ICRA]A1+)} and the expectation of support as and when required. The existence of a shared brand name strengthens ICRA's assumption that ABSLI is likely to receive timely and adequate support from promoter. ICRA also notes the diversified product portfolio, including the focus on building up the more profitable non-participating (non-par) and protection businesses.

ICRA has also noted the highly competitive nature of the life insurance industry, ABSLI's moderate but improving market position, and its moderate profit after tax (PAT) on account of higher operating and commission expenses during the high growth phase. ABSLI's ability to improve its cost efficiency while maintaining growth and improving profitability will remain a key monitorable. ICRA also notes the impact of the Covid-19 pandemic on the business growth during the lockdown period. In addition, the company is likely to experience higher claims due to the pandemic.

ABCL's rating factors in the strong ultimate parentage in the form of Grasim and the strategic fit and importance of the ABCL Group, which houses all the financial services entities (lending, asset management and insurance), to the Aditya Birla Group. Support from the promoter group is demonstrated by the strong capital and managerial support and the stated intent to ensure adequate capitalisation and liquidity of the ABCL Group. The rating also considers the improving diversity in ABCL's revenue profile and the management's vast experience in the financial services domain. The ABCL Group has a diversified presence in the financial services space with a presence in various segments such as lending, life insurance, health insurance, asset management, asset reconstruction and securities broking among others. The rating factors in the company's diversified funding profile and improving capitalisation for the current scale of operations. ABCL's capitalisation profile has been supported by internal capital generation and past capital infusions from the parent.

The credit rating also factors in the key features of the rated 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 lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt

Key rating drivers and their description

Credit strengths

Strong ultimate parentage of Grasim; key management personnel with vast experience in financial services domain – ABCL is a subsidiary of Grasim, which held 54.21% as of December 31, 2020 while the other promoters had a 16.23% stake. It is the holding company of all the financial services entities of the Aditya Birla Group and is a prominent growth driver for the Group. ABCL's strategic significance to the Aditya Birla Group is reflected in the regular capital support from the parent (latest being Rs. 1,000 crore in FY2020). The ABCL Group enjoys strong financial flexibility by virtue of being a part of the Aditya Birla Group. ICRA expects Grasim to maintain a shareholding of more than 51% in the company. ICRA also takes into consideration the vast experience of ABCL's key management personnel in the financial services domain.

Improving product mix with focus on profitable segments, non-participating and protection businesses – Over the last few years, ABSLI has increasingly been focusing on the non-par and protection businesses, which are more profitable compared to participating (par) and unit linked (ULIP) products. In terms of new business premium (NBP), the ULIP segment declined to 32% in FY2020 and further to 30% in 9M FY2021 from 39% in FY2018. The par segment declined to 20% in FY2020 (12% in 9M FY2021) from 23% in FY2018. The proportion of non-par in NBP is on the rise while protection has remained stable. With the revised strategy to improve the margins while managing the balance sheet risk, the company will increasingly focus on protection along with calibrated growth in the non-par business. ICRA notes the favourable change in the product mix though this will result in higher capital strain in the initial years.

Credit challenges

Intense competition in life insurance industry – ABSLI faces stiff competition from public as well as private players. There are 24 players in the Indian life insurance industry. For FY2021, Life Insurance Corporation of India (LIC) has a market share of ~66% of the NBP. The top 3 private insurers accounted for ~57% of the private players' NBP in FY2021. Given the strong resource profile of these top 3 players, they hold significant competitive advantage in terms of a strong distribution network (due to the presence of a captive bank or bank in the parent group), which reflects in their lower commission and operating expense ratios. ABSLI's ability to improve its operating efficiency as it scales up remains a key monitorable.

Moderate PAT on account of relatively high operating expenses and commission expenses – Owing to the current high business trajectory and the multi-distribution business model without a banking promoter, the company's operating expenses were comparatively high at 23% of the net premium in FY2020, though the same improved in 9M FY2021 to 20%. The company also drives a balanced portfolio mix with focus on protection and non-par savings policies; accordingly, the commission expense is higher compared to the other top players (as commission for protection product is front-loaded). ABSLI reported a net profit of Rs. 104 crore in FY2020, with a return on equity (RoE) of 4.7% in FY2020 (4.1%¹ in 9M FY2021). As the top line growth continues, the cost structure is expected to get leaner, improving the operating efficiency and the profitability. The high growth of the capital-intensive business has resulted in a continual capital requirement of capital.

Liquidity position: Strong

The ABCL Group had cash and liquid investments of Rs. 827 crore and unutilised bank lines of Rs. 8,714 crore as on December 31, 2020 against debt repayments of Rs. 7,735 crore due in the next six months. The liquidity profile is also supported by a board-approved discretionary inter-corporate deposit (ICD) line from Grasim.

¹ Basis annualised number

On a standalone basis, ABSLI had liquid assets² of Rs. 21,500 crore as of December 31, 2020. In 9M FY2021, net benefits paid were Rs. 3,018 crore, amounting to 19% of the policyholders' liabilities as on December 31, 2019. The company raised sub debt of Rs. 150 crore in January 2021 and will be raising another Rs. 350 crore in the next 2-3 months. ICRA does not foresee any liquidity risk in the near term.

Rating sensitivities

Positive factors – ICRA could revise the rating if there is a substantial and sustained improvement in ABSLI's market share, solvency and profitability, leading to an improvement in its financial risk profile.

Negative factors – A material change in the expected level of support or a material deterioration in the credit risk profile of ABCL's parent (i.e. Grasim) could warrant a rating downgrade. Pressure on the rating could also arise if there is a deterioration in ABCL group solvency levels (net stage 3 assets divided by net worth adjusted for net worth of insurance companies) to less than 20% on a sustained basis or if the adjusted gearing remains above 7.5 times on a sustained basis or if ABSLI's solvency ratio deteriorates to less than 1.70 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating ICRA's Credit Rating Methodology for Life Insurance companies ICRA Policy on Rating Hybrid Instruments Issued by Insurance Companies
Parent/Group Support	Ultimate Parent/Investor: Grasim Industries Limited (Grasim; rated [ICRA]AAA(Stable)/[ICRA]A1+) ICRA factors in the strategic fit and importance of ABCL to the Aditya Birla Group, which is demonstrated in the strong capital, operational and managerial support from the parent
Consolidation/Standalone	While arriving at the rating for ABCL, ICRA has considered the consolidated performance of ABCL; details are mentioned in Annexure 2

About the company

Aditya Birla Sun Life Insurance Company Limited (ABSLI) is the life insurance subsidiary of Aditya Birla Capital Limited (ABCL). ABSLI was incorporated on August 4, 2000 and commenced operations on January 17, 2001. It is a 51:49 joint venture between the Aditya Birla Group and Sun Life Financial Inc., a leading international financial services organisation in Canada.

ABSLI is one of India's leading life insurance companies offering a range of products across the customer's lifecycle, including children future plans, wealth protection plans, retirement and pension solutions, health plans, traditional term plans and unit linked insurance plans (ULIPs).

ABSLI reported a profit after tax (PAT) of Rs. 70 crore and gross premium of Rs. 6,582 crore in 9M FY2021 against a PAT of Rs. 82 crore and gross premium of Rs. 5,313 crore in 9M FY2020. For FY2020, the company reported a PAT of Rs. 104 crore and gross premium of Rs. 8,010 crore against a PAT of Rs. 126 crore and gross premium of Rs. 7,511 crore in FY2019.

Aditya Birla Capital Limited

² As per ICRA calculations

Aditya Birla Capital Limited (ABCL) is a non-deposit taking systemically important core investment company (CIC-ND-SI) registered with the Reserve Bank of India (RBI). It is the holding company of the financial services businesses of the Aditya Birla Group. Pursuant to the merger of Aditya Birla Nuvo Limited (ABNL) and Grasim, ABCL got listed on the Bombay Stock Exchange and the National Stock Exchange in September 2017. As on December 31, 2020, the promoter group held a stake of 70.45% (of which Grasim holds 54.21%) in ABCL.

On a consolidated basis, the company posted a net profit of Rs. 866 crore in FY2020 on an asset base of Rs. 1,13,769 crore against a net profit of Rs. 811 crore in FY2019 on an asset base of Rs. 1,09,703 crore. For 9M FY2021, it reported a net profit of Rs. 722 crore.

Grasim Industries Limited

Grasim Industries Limited, the flagship company of the Aditya Birla Group, is a ~\$10-billion conglomerate comprising businesses in VSF, chemicals, textiles and insulators on a standalone basis, and also includes cement and financial services at the consolidated level. It began as a textiles manufacturer in India in 1947. It is a leading global player in VSF, with a global market share of ~9% in terms of installed capacity, and the largest cement (through Ultratech Cement ; grey cement capacity of 114.8 million metric tonne per annum) and chlor-alkali producer in India.

The merger of ABNL with Grasim, through a composite scheme of amalgamation, was made effective on July 01, 2017. It was followed by the demerger of the financial services business into a separate listed entity, ABCL. Post the scheme becoming effective, Grasim has emerged as a diversified conglomerate with a presence in growth sectors such as financial services (life insurance, asset management, non-banking financial company, Health insurance, private equity, broking, wealth management, housing finance and general insurance advisory) and a leadership position in various manufacturing businesses such as VSF, cement, chlor-alkali, linen, agri-business, rayon and insulators.

Key financial indicators (audited)

Aditya Birla Sun Life	FY2019	FY2020	9M FY2021
Gross premium	7,511	8,010	6,582
Income from investment and fees	3,366	625	6,877
Total expense incl. commissions	1,660	1,778	1,290
Benefits paid	5,252	5,550	3,018
Net change in valuation of liability in respect of life policies / Increase in reserves	3,478	780	8,743
PAT	126	104	70
Total net worth	2,100	2,200	2,297
Total Policyholders' + shareholders' investments [1]	15,278	18,301	22,923
Assets held to cover linked liabilities	25,164	22,825	27,755
Expense ratio (opex / NPW)	22.8%	22.9%	20.3%
Commissions ratio (commissions / NPW)	6.2%	6.2%	5.6%
Return on equity	6.0%	4.7%	4.1%*
13 th month persistency ratio	78.0%	83.0%	82.4%
61 st month persistency ratio	45.0%	49.0%	50.6%
Regulatory solvency ratio (times)	1.98	1.78	1.70

Source: Company, ICRA research; All ratios as per ICRA calculations; Amount in Rs. crore, *basis annualised numbers

Aditya Birla Capital Limited (consolidated; Rs. crore)	FY2019	FY2020	H1 FY2021
Total income	15,172	16,810	8,632
Profit after tax	811	866	439
Net worth (excluding minority interest)	9,512	12,576	13,057
Total portfolio	63,119	58,073	57,592
Total assets	1,09,703	1,13,769	1,15,516
Return on average assets	0.80%	0.82%	0.77%
Return on average equity	9.65%	8.33%	7.22%
Adjusted gearing (times)	6.7	4.9	4.3
Gross stage 3/ Gross advances	1.34%	3.12%	3.00%
Net stage 3 / Net advances	0.79%	2.10%	1.70%
Net stage 3/ Adjusted net worth	5.9%	10.9%	8.3%

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar-31-21 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jun-02-21	-	-	-
1	Subordinated debt programme	Long term	350.00	-	[ICRA]AA+ (Stable)	-	-	-

Source: Company, ICRA research

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: 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*	NA	NA	NA	350.00	[ICRA]AA+ (Stable)

Source: Company, *unutilised

Annexure-2: List of entities considered for consolidated analysis (ABCL)

Company Name	ABCL Ownership	Consolidation Approach
Aditya Birla PE Advisors Private Limited	100%	Full consolidation
Aditya Birla Capital Technology Services Limited	100%	Full consolidation
Aditya Birla Trustee Company Private Limited	100%	Full consolidation
ABCAP Trustee Company Private Limited	100%	Full consolidation
Aditya Birla Money Limited	73.80%	Full consolidation
Aditya Birla Financial Shared Services Limited	100%	Full consolidation
Aditya Birla Finance Limited	100%	Full consolidation
Aditya Birla Housing Finance Limited	100%	Full consolidation
Aditya Birla Health Insurance Co. Limited	51%	Full consolidation
Aditya Birla Sun Life Insurance Company Limited	51%	Full consolidation
Aditya Birla Sun Life Pension Management Limited	51%	Full consolidation
Aditya Birla Insurance Brokers Limited	50.002%	Full consolidation
Aditya Birla Money Mart Limited	100%	Full consolidation
Aditya Birla Money Insurance Advisory Services Limited	100%	Full consolidation
Aditya Birla ARC Limited	100%	Full consolidation
ABCSL – Employee Welfare Trust	100%	Full consolidation
Aditya Birla Stressed Asset AMC Private Limited	100%	Full consolidation
ABARC-ARC-001-Trust	100%	Full consolidation
Aditya Birla Sun Life Trustee Private Limited	50.85%	Equity method
Aditya Birla Wellness Private Limited	51%	Equity method
Aditya Birla Sun Life AMC Company Limited	51%	Equity method
Aditya Birla Sun Life AMC (Mauritius) Ltd.	51%	Equity method
Aditya Birla Sun Life Asset Management Company Ltd., Dubai	51%	Equity method
Aditya Birla Sun Life Asset Management Company Pte. Ltd., Singapore	51%	Equity method

Source: Company

ANALYST CONTACTS

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

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

Sudam Shingade
+91 22 6114 3425
sudam.shingade@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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