

September 27, 2021

ICICI Lombard General Insurance Company Limited: Issuer rating reaffirmed; [ICRA]AAA (Stable) assigned for subordinated debt programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	-	255.00	[ICRA]AAA (Stable); assigned
Total	-	255.00	

*Instrument details are provided in Annexure-1

Rationale

The rating takes into account the completion of the demerger of the general insurance business of Bharti AXA General Insurance Company Limited (BAXA-GI) to ICICI Lombard General Insurance Company Limited (ICICIL). ICICIL received final approval for the scheme of arrangement from Insurance Regulatory and Development Authority of India (IRDAI) on September 3, 2021. Subsequently, ICICIL announced the completion of the demerger with effect from September 8, 2021. As a part of the deal, BAXA-GI's subordinated debt would be transferred to ICICIL.

The deal results in the stake dilution of 7.3% to BAXA-GI shareholders (Bharati Group and AXA Group) with the share of ICICI Bank Limited (ICICI Bank; rated [ICRA]AAA (Stable)) reducing to 48.1% from 51.9%. Further, ICRA notes that IRDAI has approved the reduction in ICICI Bank's stake in ICICIL to 30%, subject to compliance with regulations. The rating considers ICICIL's shareholding pattern, given the presence of a strong parent – ICICI Bank. The presence of a shared brand name strengthens ICRA's expectation that ICICIL will receive capital support from its parent as and when required.

While the subordinated debt instrument cannot be serviced if the regulatory solvency requirements are breached, ICRA takes note of the company's current solvency indicators and its policy as well as track record of maintaining adequate cushion in the solvency levels to take care of any exigencies. ICRA further expects that ICICI Bank's standing in the Indian capital markets places a strong onus on the parent to ensure that it meets all the regulatory requirements (on a continual basis) for the timely and adequate servicing of the debt obligations with respect to the rated instrument.

The rating takes into account ICICIL's standing as India's leading private sector general insurer, its strong financial performance, prudent risk management practices and adequate reserve against claims. While a few segments of the industry have seen pricing pressure, ICRA notes the cautious call taken by the company to reduce its exposure to the crop segment. In the wake of the second wave of the Covid-19 pandemic, ICRA expects the industry's (including ICICIL) claims ratio to remain at an elevated level in FY2022, particularly the health & travel insurance segments. The company witnessed an elevation in the net loss ratio¹ in the health & personal accident segment of 153% in Q1 FY2022 from 75% in Q1 FY2021. The impact of the same on the company's premium growth and underwriting performance amid the changing industry dynamics would remain a key monitorable.

ICRA notes that the scheme of arrangement does not have material impact on solvency, debt paying ability or strategic importance of ICICIL to its promoter. ICICIL is expected to leverage incremental distribution channels, mainly the bancassurance channel, wherein BAXA-GI had access to two large private banks (Axis Bank and HDFC Bank). ICRA also factors

¹ Net loss ratio is calculated as net claims incurred / net premium earned

in the operational challenges associated with the deal, in terms of the company's ability to retain the employees and customers, which would remain a key point to monitor. ICICIL envisages that the transaction will become accretive in terms of profitability after a couple of years, given the improvement in productivity on the expense side and the realisation of synergies on the claims and revenue front.

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, the prior approval of the regulator would be required to service the debt

Key rating drivers and their description

Credit strengths

Strong financial strength of parent company – The majority shareholder, ICICI Bank, is one of the largest private sector banks in India with a network of 5,268 branches spread across the country as on June 30, 2021. ICICI Bank also has a strong brand and standing in the capital market. This is leveraged by ICICIL in terms of a shared brand name. In addition, ICICIL benefits from a strong and experienced management team as well as board representation by senior executives of the parent company.

Strong solvency level – ICICIL reported a solvency ratio of 2.76 times as on June 30, 2021 (vis-à-vis 2.50 times as on June 30, 2020), which was partly supported by the issuance of subordinated debt in FY2017 and repaid in Q2 FY2022. Further, the company has been maintaining adequate reserves against the claims to be paid. ICRA also notes that the solvency levels are comfortable even after the average dividend payout ratio of ~22% in the last two years. Post the merger with BAXA-GI, the solvency ratio is expected to remain comfortable and above the regulatory minimum.

Balanced portfolio across retail and corporate segments – ICICIL's products are relatively well diversified with its key products including motor, health, fire, marine and engineering. ICICIL is the leading private sector general insurer in the country. Its gross direct premium income (GDPI) grew by 13.0% YoY in Q1 FY2022 compared to the industry's GDPI growth of 14.2%.

Motor insurance {including motor-own damage (motor-OD) and motor-third party (motor-TP)} continues to be the largest contributor, accounting for 31% of the total GDPI in Q1 FY2022 (35% in Q1 FY2021 and 50% in FY2021). On the corporate side, fire is the largest segment contributing 26% to the GDPI. The fire segment has seen robust growth aided by the rate hike that came in force on January 1, 2020. Going forward, the growth is expected to normalise, given the base impact.

The company also has a well-diversified distribution channel and is expected to benefit from BAXA-GI's bancassurance partners, namely Axis Bank and HDFC Bank. ICRA notes that ICICI Bank stopped selling credit linked health insurance policies in FY2021, which had a negative impact on the health segment's growth.

Stable underwriting performance albeit lower in Q1 FY2022 due to health claims – Although ICICIL is yet to report a sustained underwriting surplus, it reported an underwriting loss of Rs. 508 crore in Q1 FY2022 (underwriting profit of Rs. 38 crore in Q1 FY2021) mainly due to the rise in net claims incurred. The increase in net claims was primarily due to Covid-related health claims of Rs. 602 crore in Q1 FY2022 compared to Rs. 20 crore in Q1 FY2021 and Rs. 339 crore in FY2021. As a result, the net loss ratio of the health & personal accident segment increased to 153% in Q1 FY2022 from 75% in Q1 FY2021. ICRA notes the gradual improvement in the underwriting performance over time, as seen by the improvement in the combined ratio to 99.8% in FY2021 (103.9% in FY2017).

ICICIL's profitability was supported by the investment portfolio related income (total investment & trading income), which stood at Rs. 698 crore in Q1 FY2022 (Rs. 508 crore in Q1 FY2021). The net profit was Rs. 152 crore in Q1 FY2022 (62% YoY

degrowth over Rs. 398 crore in Q1 FY2021), translating into a return on equity² (RoE) of 7.3% in Q1 FY2022 (24.5% in Q1 FY2021). ICRA notes that BAXA-GI's expense ratio is higher, which would have an adverse short-term impact on the combined ratio of the merged entity.

Credit challenges

Intense competition in industry – ICICIL faces stiff competition from private as well as public sector general insurance companies in India. The industry has witnessed price wars across business segments, resulting in high loss ratios and underwriting losses for most of the companies. ICICIL's ability to maintain its market share amid rising competition is to be seen. ICICIL had a market share of 7.5%³ and will gain additional share of 1.4% as reported by BAXA-GI as on August 31, 2021.

Integration challenges for BAXA-GI acquisition – In August 2020, ICICIL's board of directors had approved a scheme of arrangement, which entailed the demerger of BAXA-GI's non-life insurance business along with all assets and liabilities forming a part thereof into ICICIL. The transaction does not include the immoveable property owned by BAXA-GI, brands used by and/or licensed to BAXA-GI and bonds issued by ICICI Bank and held by BAXA-GI. ICICIL received final IRDAI approval for the scheme of arrangement on September 3, 2021. Integration challenges such as retention of employees and customers would be a key point to monitor. Moreover, as BAXA-GI's expense ratio is higher, it would have a short-term impact on the combined ratio of the merged entity.

Liquidity position: Strong

ICICIL had estimated liquid assets of Rs. 35,441 crore (sum of total investments less haircuts estimated by ICRA, plus cash and bank balances plus net due from insurance companies) as of June 30, 2021, against which it had a total liability of Rs. 26,405 crore (total technical reserve plus debt due in the next one year). Moreover, the business generated in FY2022 would provide liquidity cushion. The total claims paid in Q1 FY2022 were Rs. 2,468 crore (28% of liquid assets). As a large part of the investments are in Government securities (G-Secs), ICRA does not foresee any liquidity risk for the company in the near to medium term.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or the outlook could be revised if there is a downward revision in the rating of the promoter (ICICI Bank) or a decline in the strategic importance of ICICIL to its promoter or a decline in the expectation of support from the promoter. In addition, a decline in the company's solvency ratio to less than 1.7 times on a sustained basis could lead to a rating downgrade.

² Includes fair valuation change

³ Market share excluding specialised insurance companies (AIC and ECGC)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Issuer Rating Methodology of General Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating ICRA's Credit Rating Methodology for Rating Hybrid Debt Instruments Issued by Insurance Companies
Parent/Group Support	Parent/Investor: ICICI Bank Limited The rating considers the financial and management support received by ICICIL from its parent in the form of senior management deputation and board representation. The rating also factors in the company's strong ability to leverage ICICI Bank's wide branch network for the distribution of insurance policies. ICRA notes the shared brand name and past capital support provided by the promoter, indicating implicit support.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

ICICIL is a publicly listed general insurance company. ICICI Bank is a promoter and holds 48.1% of the outstanding shares. ICICIL offers a comprehensive and well-diversified range of products, including motor, health, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. ICICIL is the leading private sector general insurance company with a market share of 7.5% while BAXA-GI reported a market share of 1.4% as on August 31, 2021. For Q1 FY2022, ICICIL reported a net profit of Rs. 152 crore (Rs. 398 crore in Q1 FY2021) on GDPI of Rs. 3,733 crore (Rs. 3,302 crore in Q1 FY2021) with a reported total net worth of Rs. 8,364 crore.

Key financial indicators (audited)

ICICI Lombard General Insurance Company Limited	FY2020	FY2021	Q1 FY2021	Q1 FY2022
Gross Direct Premium	13,313	14,003	3,302	3,733
Total Underwriting Surplus/(Shortfall)	-105	-192	38	(508)
Total Investment & Trading Income	2,007	2,169	508	698
PAT	1,194	1,473	398	152
Total Net Worth [@]	5,705	8,116	6,496	8,364
Total Technical Reserves	23,846	24,794	23,800	25,920
Total Investment Portfolio	26,327	30,892	28,118	32,075
Total Assets	37,042	39,298	36,932	40,755
Return on Equity [@]	20.92%	18.15%	24.51%	7.25%
Gearing [@]	0.09	0.06	0.07	0.06
Combined Ratio [*]	100.42%	99.83%	99.71%	121.31%
Regulatory Solvency Ratio	2.17	2.90	2.50	2.76

Source: Company, ICRA Research; All ratios as per ICRA calculations; Amount in Rs. crore

*Combined ratio: (net claims incurred/net premium earned) + (Operating expenses + net commission expenses)/net premium written

@ Includes fair valuation change

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 Three Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep-20-21 (Rs. crore)	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep-27-21	Aug-26-21	May-18-21	Apr-23-20 Jul-31-20 Sep-01-20	Apr-23-19	Apr-13-18
1	Subordinated Debt Programme	Long Term	485.00	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)
2	Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
3	Subordinated Debt Programme (transferred from BAXA-GI)	Long Term	255.00	255.00	[ICRA]AAA (Stable); assigned	-	-	-	-	-

Source: Company, ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt Programme	Moderately Complex
Issuer Rating	Very Simple

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.ins

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE513L08016^	Subordinated Debt	Aug-23-2017	8.98%	Aug-23-2027*	220.00	[ICRA]AAA (Stable)
INE513L08024^	Subordinated Debt	Apr-30-2019	10.50%	Apr-29-2029*	35.00	[ICRA]AAA (Stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA (Stable)

* The company has a call option, which is exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date

^ The instruments have been transferred to ICICIL from BAXA-GI

Source: Company

Annexure-2: List of entities considered for consolidated analysis

NA

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