August 30, 2022

Tata AIG General Insurance Company Limited: Ratings upgraded to [ICRA]AAA from [ICRA]AA+ for Subordinated Debt Programme; outlook revised to Stable from Positive; Issuer Rating reaffirmed

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	185.00	185.00	[ICRA]AAA; upgraded from [ICRA]AA+ and outlook revised to stable from positive
Subordinated Debt Programme	178.00	-	[ICRA]AAA; upgraded from [ICRA]AA+ and outlook revised to stable from positive; and withdrawn
Total	**363.00**	**185.00**	

**Instrument details are provided in Annexure I*

Rationale

The upgrade in the long-term rating of the subordinated debt programme reflects the Tata AIG General Insurance Company Limited's (Tata AIG) ability to successfully scale up the operations, the gradual improvement in the profitability (over the last five years) and ICRA's expectations of Tata AIG maintaining the comfortable solvency buffer over the regulatory requirement.

The ratings take into account the parentage of Tata AIG with Tata Sons Private Limited (Tata Sons, rated [ICRA]AAA(Stable)/[ICRA]A1+) holding a majority stake (74%) and American International Group, Inc. (AIG) holding 26%. The presence of a shared brand name strengthens ICRA's belief that Tata AIG will receive capital support from its parents, as and when the need arises. This is also supported by the track record of equity infusion received from the sponsors in the past (Rs. 960 crore raised over last 10 years). The ratings also take into consideration its healthy market share (4.9% in FY2022, 5.3% excluding the crop segment). Tata AIG has further strengthened its bancassurance tie-ups, which would aid its future growth plans in the retail segment. ICRA takes note of the company's current solvency indicators (2.02 times as on June 30, 2022, compared to the regulatory minimum of 1.50 times), and its policy and track record of adhering to the same. The rating also factors in the company's focus on the retail business, diversified product mix, adequate re-insurance treaties and low risk in the investment book.

The rating is, however, constrained by the moderate underwriting performance compared to the larger peers. ICRA notes the prudent management of the investment book, resulting in consistent income and gains, thereby supporting the overall profitability.

ICRA has withdrawn the rating assigned to the Rs. 178.00-crore Subordinated Debt programme of Tata AIG, as there is no amount outstanding against the rated instrument. The rating has been withdrawn as per ICRA's policy on the withdrawal and suspension of credit ratings.

The ratings also factor 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 level stipulated by the regulator (150%)

- In case the interest pay-outs 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 parentage; experienced senior management team - Tata AIG is owned by Tata Sons and AIG, holding a stake of 74% and 26%, respectively, as on June 30, 2022. Tata Sons is the principal holding company for the Tata Group and holds a stake in Tata Group companies operating in numerous sectors including information technology, power, steel, chemical, vehicle manufacturing, financial services, consumer goods, and jewellery, among others. AIG is a leading global insurance organisation serving customers in more than 100 countries and jurisdictions. The ratings factor in Tata AIG's strong parentage and its importance to its sponsors, with the importance underscored by the presence of a shared brand name, board-level supervision and track record of equity infusion.

Tata AIG's operations are handled by a team of senior managers with considerable experience in the general insurance industry in India and other developed markets. Going forward, the importance of the company to its parents and the continued capital and operational support to aid business growth would be a key rating sensitivity.

Adequately capitalised for current scale of operations - Tata AIG's capitalisation and solvency levels have been supported by internal capital generation (return on total assets of 2.2% in FY2022 and 2.6% in FY2021) and timely capital infusion from its sponsors. During FY2016 - FY2020, the company received Rs. 960 crore of capital from the parent entities (last round of infusion was of Rs. 200 crore in FY2020). The solvency ratio stood at 2.02 times as of June 30, 2022 and 1.97 times as of March 31, 2022 (2.22 times as of March 31, 2021). ICRA expects Tata AIG's profitability levels to remain adequately supported by healthy investment income and does not expect fresh capital requirement for the projected business growth in the medium term.

Balanced portfolio across retail and corporate segments – Tata AIG's gross direct premium written (GDPW) grew faster at a rate of 25% in FY2022 compared to the industry growth of 11%, leading to an increase in its market share[1] to 4.9% from 4.3% in FY2021. The company's market share has been growing steadily from 3.5% in FY2017 to 4.9% in FY2022 backed by continuous growth in the motor, commercial lines and health segments. Tata AIG's products are relatively well diversified with the motor insurance segment being the largest (51% of the total GDPW in FY2022 vis-à-vis 54% in FY2021). The share of health and personal accident increased to 19% in FY2022 from 16% in FY2021, while the share of fire and marine insurance stood at 16% (18% in FY2021) and 5% (4% in FY2021) respectively in FY2022. The company stopped underwriting any fresh crop business from FY2020 amid changes in the industry dynamics.

Expansion in distribution channels and partnerships to help improve retail presence - Tata AIG has a reasonable presence in the commercial business segment due to the expertise derived from its parent, AIG. The company is looking to increase its retail and small and medium enterprise (SME) business. Consequently, its distribution mix is largely dominated by brokers with a 43% share in the total distribution in FY2022. Over the years, the company has increased its sourcing from banks, which stood at 12% in FY2022 compared to 8% in FY2018. It has bancassurance tie-ups with Axis Bank, Canara Bank and Bank of Baroda. These tie-ups are likely to support the company's efforts to increase its retail presence.

Tata AIG is also expected to widen its distribution network by partnering with more automobile original equipment manufacturers (OEMs) and banks, and also expand its presence in tier 2 and tier 3 cities by empowering on-field staff to work from remote locations in the absence of any branches and making the entire onboarding process app-based for these

[1] *Excluding Agriculture Insurance Company of India (AIC) and Export Credit Guarantee Corporation of India (ECGC)*

empowered employees. All these efforts are expected to help Tata AIG maintain its pace of growth in its retail portfolio by expanding into new territories and hence diversify its premium mix further.

Credit challenges

Profitability constrained by moderate underwriting performance – During FY2022, the company reported an RoE of 13.2% compared to 15.0% in FY2021 due to higher underwriting losses and declining yields on its investments. During FY2022, Tata AIG reported higher underwriting losses of Rs. 811 crore (Rs. 500 crore in FY2021) with a combined ratio of 107.9% (103.1% in FY2021). The combined ratio deteriorated because of the higher claims ratio of 75.0% in FY2022 (68.7% in FY2021) on account of Covid claims and the severity in the non-Covid claims. ICRA does note the gradual improvement in the loss ratio and combined ratio over the last three years, apart from the pandemic. Tata AIG's expense ratio (29.7% in FY2022) remains elevated compared to the peers given the focus on the retail and the SME segment and faster growth than the peers.

Investment yields declined to 6.7% in FY2022 from 7.0% in FY2021 amid a declining interest rate cycle. Though, total investment income, including realised gains, grew 28% to Rs. 1,466 crore in FY2022 from Rs. 1,142 crore in FY2021 backed by higher realised gains (Rs. 282 crore in FY2022 compared to Rs. 143 crore in FY2021), the company has not reported any non-performing assets (NPAs) over the past five years and has not witnessed any material downgrades in its investment portfolio. This has led to stability in its investment income profile.

ICRA notes that due to higher underwriting losses, Tata AIG's RoE remains lower than its larger peers. ICRA also notes that Tata AIG has developed a detailed risk management framework, supported by separate underwriting teams for various business segments and the use of analytics for geographical and product-specific risk selection. The company also has various proportional, surplus and excess of loss reinsurance treaties for each line of business to either rationalise the risk or to conserve capital. It also has a company-wide excess of loss treaty, limiting the aggregate loss due to a single catastrophic event impacting multiple lines of business.

Liquidity position: Strong

TATA AIG's liquid investments were estimated at Rs. 18,146 crore as of June 30, 2022 (sum of total investments less haircuts estimated by ICRA, plus cash and bank balances plus net due from insurance companies), against which the company had a total liability build-up of Rs. 13,672 crore (total technical reserve plus debt due in the next one year). Further, the company paid gross claims amounting to Rs. 4,133 crore in FY2022 amounting to 28% of the liquid assets of Rs. 14,585 crore as on March 31, 2022. Moreover, the business expected to be generated in FY2023, would also provide for the liquidity cushion. 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 outlook could be revised if there is a downward revision in the rating for the promoter company (TATA Sons) or a decline in the strategic importance of TATA AIG to its promoter companies or decline in expectation of support from promoters. In addition, deterioration in the underwriting performance weakening the overall profitability and a decline in the company's solvency ratio to less than 1.7 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	General Insurance Rating Approach - Hybrid instruments issued by insurance companies Impact of Parent or Group Support on an Issuer's Credit Rating Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent/Investor: Tata Sons Private Limited ICRA factors in the implied support of the parent entities, Tata Sons and AIG, and takes comfort from the management team's experience in the insurance business.
Consolidation/Standalone	Standalone

About the company

Tata AIG General Insurance Company Limited (Tata AIG) is a joint venture between the Tata Group (76% stake) and American International Group (AIG; 26% stake). Tata AIG, which commenced operations in India on January 22, 2001, offers a range of general insurance covers for businesses and individuals. The company has a comprehensive range of general insurance products for liability, marine cargo, personal accident, travel, rural agriculture insurance, extended warranty, etc. Tata AIG has a presence in 200 locations across India.

Key financial indicators (audited)

	FY2020	FY2021	FY2022	Q1 FY2023
Gross Direct Premium	7,385	8,042	10,025	2,915
Total Underwriting Surplus / (Shortfall)	(423)	(500)	(811)	(195)
Total Investment + Trading Income	913	1,136	1,467	568
PAT	335	448	454	273
Total Net Worth[2]	2,537	2,984	3,439	3,711
Total Technical Reserves	7,930	10,468	13,091	13,672
Total Investments	11,893	16,177	19,881	20,357
Total Assets	13,518	17,822	22,008	22,388
Return on Equity (%)	13.2%	15.0%	13.2%	N.M.
Combined Ratio (%)	109.6%	103.1%	107.9%	111.3%
Regulatory Solvency Ratio (times)	1.84	2.22	1.97	2.02

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[2] *Excluding fair value change account*

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Aug 30, 2022	Date & Rating in FY2022 Aug 31, 2021	Date & Rating in FY2021 Sep 02, 2020	Date & Rating in FY2020 Nov 27, 2019
1	**Subordinated Debt Programme**	Long Term	185.00	185.00	**[ICRA]AAA (Stable)**	**[ICRA]AA+ (Positive)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**
2	**Subordinated Debt Programme**	Long Term	178.00	178.00	**[ICRA]AAA (stable); withdrawn**	**[ICRA]AA+ (Positive)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**
3	**Issuer Rating**	Long Term	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt Programme	Moderately Complex
Issuer Rating	Not Applicable

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE067X08018	**Subordinated Debt Programme**	Mar 21, 2017	8.52%	Mar 21, 2027	178.00	[ICRA]AAA(Stable); withdrawn
INE067X08026	**Subordinated Debt Programme**	Dec 19, 2019	8.85%	Dec 19, 2029	185.00	[ICRA]AAA(Stable)
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AAA(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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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.

For more information, visit www.icra.in

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