ICICI Lombard General Insurance Company Limited

April 23, 2019

Summary of rating action

Instrument*	Previous Rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Claims Paying Ability	-	-	iAAA; reaffirmed
Subordinated Debt Programme	485	485	[ICRA]AAA (stable); reaffirmed
Total	**485**	**485**	

** Instrument details are provided in Annexure-1*

Rationale

The ratings take into account the shareholding pattern of ICICI Lombard General Insurance Company Limited (ICICIL) with the presence of a strong parent (55.9% stake held by ICICI Bank Limited ([ICRA]AAA(Stable)). The shared brand name strengthens ICRA's expectation that ICICIL will receive capital support from its parent company, as and when needed. While subordinated debt instruments 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 past 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 required regulatory requirements (on a continual basis) for the timely and adequate servicing of debt obligations, with respect to the rated instrument. The ratings take into account ICICIL's position as India's largest private sector general insurer, strong financial performance, prudent risk management practices and adequate reserve against claims to be incurred. However, a few segments of the industry have seen pricing pressure and the crop insurance market has grown significantly in a short time frame. ICICIL's ability to contain the loss ratios and maintain profitability amid the changing industry dynamics would remain a key monitorable.

The credit rating also factors in the key features of the rated instrument, in line with the applicable guidelines for subordinated debt, which include the servicing of interest being contingent on the company's ability to maintain a solvency ratio above the levels stipulated by the regulator, and the requirement of obtaining prior approval from the regulator for the servicing of debt, if interest payouts were to lead to a net loss or an increase in net loss.

Outlook: Stable

ICRA believes ICICIL 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 Negative in case of a change in the parentage or a change in the parent's credit rating or a decline in its importance to the parent or a deterioration in the profitability resulting in a sustained drop in the solvency levels.

Key rating drivers

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 4,867 branches across the country as on December 31, 2018. It is also ICICIL's exclusive bancassurance partner, which provides the company with a wide reach and cost efficiency. ICICI Bank also has a strong brand image and a position in the capital market, which is leveraged by ICICIL in terms of a shared brand name. In addition, ICICIL enjoys a strong and experienced management team and board representation in the form of senior executives of the parent company.

Strong capital and liquidity position – The company's investment portfolio continues to satisfactorily comply with all the regulatory requirements across the asset classes and instruments. ICICIL's equity portfolio stood at around Rs. 1,960 crore (10% of the total investment book) as on December 31, 2018. ICRA also derives comfort from ICICIL's sizeable investment book, which provides adequate liquidity, and its capitalisation levels, which remain above average with a solvency ratio of 2.12x as of December 31, 2019 (well above the regulatory minimum of 1.5x). The company's solvency ratio was supported by the issuance of subordinated debt of Rs. 485 crore in FY2017. Further, ICICIL has been maintaining adequate reserves against the claims to be paid.

Balanced portfolio across retail and corporate segments – ICICIL's products are relatively well diversified with the motor – own damage (OD) segment comprising the majority at 23% of the gross direct premium written (GDPW) in 9M FY2019. With a market share of 9.4%[1] in 9M FY2019, the company maintained its position as the leading private general insurer of the country. It saw a healthy growth of 17% YoY in the total GDPW in 9M FY2019. The motor insurance segment (including motor-OD and motor-third party (TP)) continues to be the largest (42% of the total GDPW in 9M FY2019) followed by crop insurance (19% of the total GDPW), where the market has expanded under the Pradhan Mantri Fasal Bima Yojana (PMFBY). Health insurance and personal accident insurance (18% of the total GDPW) and fire insurance (8% of the total GDPW) are the other large product segments.

Improving underwriting performance aided by strong investment performance – Although ICICIL is yet to report a sustained underwriting surplus, it reported a reduction in underwriting losses in 9M FY2019 (Rs. 120 crore vs Rs. 221 crore in 9M FY2018). The underwriting performance, which has been a focus area for the company, has seen a gradual but continuous improvement over the last couple of years. The primary reason for the improvement was a lower claims ratio and lower management expense ratio. Management is focused on tightening the expense ratio further, which, along with an improvement in the claims ratio, should improve the underwriting results for FY2020. The improvement in the underwriting performance is further bolstered by investment portfolio related income (net investment income + total realised gains) which grew 13.45% YoY to Rs. 1,372 crore in 9M FY2019. This led to an improvement in the net profit to Rs. 822 crore in 9M FY2019 (+26% YoY), translating into a return on equity (RoE) of 20.3% (16.5% in 9M FY2018).

Credit challenges

Ability to maintain profitability in crop insurance business, which is vulnerable to the vagaries of weather – Following the launch of the PMFBY, the crop insurance business has seen significant traction in the Indian general insurance sector. ICICIL has incrementally underwritten a significant portion of the crop business since FY2016. It wrote Rs. 2,119.92 crore of business in the crop segment in 9M FY2019, constituting 20% of its total gross premium written. The net loss ratio[2] for the portfolio was 76.6% in 9M FY2019 (76.3% in FY2018). While a significant portion of the business (~78%) is reinsured, the general insurance industry's limited experience in this segment is a key point to monitor.

Intense competition – 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

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[1] *Market share excluding specialised insurance companies (AIC and ECGC)*

[2] *Net loss ratio = Net Incurred Claims / Net Premium Earned*

losses for most of the companies. Further, the announcement by the Government of India to merge three large public sector general insurance companies (National Insurance, United India Insurance and Oriental India Insurance) will create a monopoly player, which will control around one-third of the market share and enjoy better bargaining and higher pricing power. Therefore, ICICIL's ability to maintain its market share amid the rising competition is to be seen.

Relatively high dues from other insurance companies and increasing contingent liabilities – ICICIL's net dues from other insurance entities has been relatively high, compared to peers over the past three years, and stood at 17% of the total assets as on December 31, 2018. Dues for less than 90 days are considered for solvency calculation, and higher aging of the dues will result in a capital strain. In addition, the company's contingent liabilities increased sharply to 7.9% of the net worth as on December 31, 2018 from 0.6% as on December 31, 2017. This was primarily due to a demand (including interest and penalty) of Rs. 402 crore from Service Tax authorities/Goods and Services Tax authorities. Appeals regarding the demand are pending before the appropriate authorities. The non-realisation of dues from reinsurance agencies and unfavourable judgements in regard to the appeals against contingent liabilities are a potential risk for the company's projected profitability and solvency.

Liquidity position

The company had a liquidity buffer of Rs. 2,247.75 crore (calculated as 50% of the sum of total investments and cash and bank balance less technical reserve and net dues to other insurance companies) as of December 31, 2018. The nearest debt repayment is the coupon payment of the subordinated debt programme, amounting to Rs. 40 crore, falling due on July 28, 2019. The subordinated debt repayment of Rs. 485 crore is due on July 28, 2026. The company has paid its interest obligation within the due date of July 28, 2019 and ICRA does not foresee any liquidity risk in the near term.

Analytical approach

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

About the company

ICICIL is a publicly listed general insurance company, with ICICI Bank as a promoter (holds 55.9% of the outstanding shares). The other shareholders are non-promoter public shareholders with significant stakes being held by Red Bloom Investments Ltd (5.86%; managed by Warburg Pincus) and FAL Corporation (9.91%; managed by Fairfax Holdings). 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. It is the largest private sector general insurance company and fourth-largest general insurer in India, with a market share of 9.4% in 9M FY2019.

ICICIL reported a net profit of Rs. 822 crore in 9M FY2019 (Rs. 650 crore in 9M FY2018) on a GDPW of Rs. 11,003 crore (Rs. 9,431 crore in 9M FY2018) with a reported net worth of Rs. 5,399 crore.

ICICI Bank

ICICI Bank Limited (IBL) is a systemically important private sector bank in India with a 6.5% market share of banking sector advances as on December 31, 2018. With a presence in banking, insurance, asset management, investment banking and private equity, the ICICI Group is a large player in the Indian financial system. As of December 31, 2018, the bank had 4,867 branches and 14,944 ATMs. IBL was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. In 1998, ICICI Limited's shareholding in IBL reduced to 46% following a public offering of shares. Further in 2002, ICICI Limited and IBL were merged, following which the ICICI Group's financing and banking operations, both wholesale and retail, were integrated into a single entity.

For FY2018, on a standalone basis, IBL reported a net profit of Rs. 6,777 crore on total assets of Rs. 8.76 lakh crore (RoA of 0.87%) and a regulatory capital adequacy ratio of 18.42% (Tier I of 15.92% and CET I of 14.43%) as on March 31, 2018. The bank reported a net profit of Rs. 9,801 crore on total assets of Rs. 7.69 lakh crore (RoA of 1.32%) and a regulatory capital adequacy ratio of 17.39% (Tier I of 14.36% and CET I of 13.74%) as on March 31, 2017. For 9M FY2019, IBL reported a net profit of Rs. 2,394 crore on total assets of Rs. 9.12 lakh crore (RoA of 0.36%) and a regulatory capital adequacy ratio of 17.15% (Tier I of 15.14% and CET I of 13.66%) as on December 31, 2018. It reported gross NPAs of 7.75% and net NPAs of 2.58% as on December 31, 2018.

Key financial indicators (audited)

Key Parameters	FY2017	FY2018	9M FY2018	9M FY2019
Gross Direct Premium	10,725.2	12,356.9	9,430.9	11,003.3
Total Underwriting Surplus/(Shortfall)	(338.6)	(230.9)	(221.2)	(120.0)
Net Investment + Trading Income	1,310.5	1,532.6	1,209.2	1,371.9
PAT	701.9	861.7	649.9	821.5
Total Net Worth (incl. change in fair value)	4,403.8	5,275.0	5,256.1	5,398.7
Total Technical Reserves	15,309.8	20,353.8	18,519.9	21,563.4
Total Investment Portfolio	14,950.5	18,192.7	17,318.0	20,445.5
Total Assets	23,350.9	29,749.6	27,971.4	32,157.0
Return on Equity (annualised)	15.9%	16.3%	16.5%	20.3%
Gearing	0.11	0.09	0.09	0.09
Combined Ratio*	103.9%	100.2%	100.4%	98.7%
Regulatory Solvency Ratio	2.10	2.05	2.21	2.12

Source: Company public disclosures; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Apr-19	FY2019	FY2018	FY2017
						Apr-18	-	Mar-17
1	Claims Paying Ability	Long Term	-	-	iAAA; reaffirmed	iAAA	-	iAAA
2	Subordinated debt	Long Term	485	485	[ICRA]AAA (stable); reaffirmed	[ICRA]AAA (stable)	-	[ICRA]AAA (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
INE765G08012	Subordinated debt	28-Jul-2016	8.25%	28-Jul-2026*	485.00	[ICRA]AAA(stable)
NA	Claims paying ability rating	NA	NA	NA	NA	iAAA

**ICICI Lombard has a call option exercisable 5 year after the date of allotment*
Source: ICICIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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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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