August 26, 2021

ICICI Lombard General Insurance Company Limited: Rating reaffirmed for Issuer Rating and rating reaffirmed and withdrawn for subordinated debt programme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Subordinated debt programme	485.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Total	**485.00**	**-**	

**Instrument details are provided in Annexure-1*

Rationale

The rating takes into account the shareholding pattern of ICICI Lombard General Insurance Company Limited (ICICIL), given the presence of a strong parent (51.87% stake held by ICICI Bank Limited (ICICI Bank; rated [ICRA]AAA (Stable)). 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 its track record of maintaining adequate cushion in the solvency levels to take care of any exigencies. ICRA further expects that the standing of ICICI Bank, 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 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 Covid-19 pandemic, ICRA expects the industry's (including ICICIL) claims ratio to remain at elevated level in FY2022, particularly for the health & travel insurance segments. As expected, the company witnessed elevation in the net loss ratio[1] in the health & personal accident segment of 153% (Q1 FY2022) from 75% (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 also notes the operational challenges associated with the proposed merger with Bharti AXA General Insurance Limited, the ability of the firm to retain the employees and customers would remain a key point to monitor. There is no amount outstanding against the Rs. 485-crore subordinated debt programme as the rated bonds were redeemed by the exercise of a call option. Hence, the rating on subordinated debt programme has been reaffirmed and withdrawn at the request of the company and as per ICRA's rating withdrawal policy.

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

Key rating drivers and their description

Credit strengths

Strong financial strength of the parent company – The majority shareholder, ICICI Bank Ltd, 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 a 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). 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 Bharti AXA General Insurance Company Limited, the solvency ratio is expected to remain comfortable above the regulatory minimum.

Balanced portfolio across retail and corporate segments – ICICIL's products are relatively well diversified, key products are Motor, Health, Fire, Marine and Engineering. ICICIL is the leading private general insurer in the country. The company's GDPI has grown by 13.0% YoY in Q1 FY2022, compared to a growth in the industry's GDPI[1] of 14.2%. The motor insurance (including motor – own damage (OD) and motor – third party (TP) segments) 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 GDPI, Fire segment has seen robust growth aided by the rate hike that came in force in January 1, 2020. Going forward the growth is expected to be normalised given the base impact. The company also has a well-diversified distribution channel. ICRA notes that ICICI Bank has stopped selling credit link health insurance policies in FY2021, which has negative impact on health segment 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 driven by rise in net claims incurred. The increase in net claims was mainly due to Covid related health claims of Rs. 602 crore (Q1 FY2022) compared to Rs. 20 crore (Q1 FY2021) and Rs. 339 crore in FY2021. As a result, the net loss ratio of health & personal accident segment increased to 153% (Q1 FY2022) from 75% (Q1 FY2021). ICRA does note on the gradual improvement in underwriting performance over time, as seen by an improvement in the combined ratio of 99.8% in FY2021 (103.9% in FY2017). ICRA expects the company's underwriting performance to improve from 2H FY2022 given rising vaccinations is likely to reduce claims in the health segment. Profitability of the company 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). Net profit of the company was Rs. 152 crore in Q1 FY2022 (62% YoY degrowth over Rs. 398 crore in Q1 FY2021), translating into a return on equity* (RoE) of 7.3% in Q1 FY2022 (24.5% in Q1 FY2021).

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. As on June 30, 2021, ICICIL had a market share of 8.5%[2].

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[2] excludes specialised insurance companies (AIC and ECGC)

** Includes fair valuation change*

Integration challenges for the Bharti AXA GI acquisition – In August 2020, Board of Directors of ICICIL approved scheme of arrangement which entails demerger of Non-Life Insurance business of Bharti AXA GI (rated [ICRA]AA-; rating watch with positive implications) along with all assets and liabilities forming part thereof into ICICIL. The transaction does not include the immoveable property owned by the BAXA GI, brands used by and/or licensed to the BAXA GI and bonds issued by ICICI Bank Limited and held by the BAXA GI. ICICIL received the NCLT approval for the scheme of arrangement with BAXA GI in Q1 FY2022 and is awaiting the IRDAI final approval. Integration challenges such as retention of employees and customers would be a key point to monitor, in addition as the expense ratio of BAXA GI is higher, this would have a short term impact on the combined ratio of the merged entity.

Liquidity position: Strong

The company 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 the company had a total liability of Rs. 25,920 crore (total technical reserve plus debt due in the next one year). Moreover, the business generated in FY2022, would also provide for liquidity cushion. The total claims paid in Q1 FY2022 was Rs. 2,468 crore (28% of liquid assets). As large part of the investments are in Gsec, 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 rating downgrade.

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 Policy on Withdrawal of Credit Ratings
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 51.87% 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 a leading private sector general insurance company with a market share[3] of 8.5% in Q1 FY2022.

For Q1 FY2022, ICICIL reported a net profit of Rs. 152 crore (Rs. 398 crore in Q1 FY2021) on a 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 (Rs. crore)	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

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

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul-28-21 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					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]AAA (Stable)	[ICRA]AAA (Stable)
2	Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	-	-	-

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 analyzing 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, is available on ICRA's website: Click Here

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); reaffirmed and withdrawn
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA(stable); reaffirmed

**ICICI Lombard has a call option, which is exercisable 5 years after the date of allotment*

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

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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.

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