

Niva Bupa Health Insurance Company Limited

March 02, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Instruments – Subordinate debt	150.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term Instruments – Subordinate debt	100.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total Long-term Instruments	250.00 (Rupees two hundred fifty crore only)		

¹Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating considers Niva Bupa Health Insurance Company Limited (NBHI)'s strong promoter profile, with Fettle Tone LLP and Bupa Singapore Holdings Pte Ltd holding 54.91% and 44.75%, respectively, with demonstrated support of regular equity infusions. The rating also factors-in the experienced management team, adequate solvency position at 1.78x as on December 31, 2021, and high financial flexibility owing to large portion of investments in AAA-rated debt securities (56%), which covers 98% of technical reserves.

The rating is further supported by higher-than-industry year-on-year growth in Gross Written Premium (GWP) at around 66.7% in 9MFY22, leading to increase in market share and adequate controls and systems.

The rating is however constrained by the modest profitability, given that the company is yet to break even (net loss of Rs.149 crore in 9MFY22 vs. loss of Rs.50 crore in FY21 owing to high claim pay-out triggered by pandemic-related stress on health insurance in 1QFY22). The rating is further constrained by concentration of risk in the health segment, contributing 97.9% of GWP in 9MFY22.

CARE Ratings has rated the aforesaid subordinate debt considering the regulatory conditions and in view of their sensitiveness to the company's solvency ratio and profitability due to the regulatory covenants during the long tenure of the instrument. Interest payable on subordinate debt will be subject to the following:

- The solvency of the issuer remains as per regulatory stipulation.
- Where the impact of such payment may result in net loss or increase the net loss, prior approval of the authority for such payment will be obtained.

Any delay in payment of interest/principal (as the case may be) following the invocation of covenants, would constitute an event of default as per CARE Ratings' definition of default and as such these instruments may exhibit sharper migration of the rating.

Rating Sensitivities

Going forward, the continued support of the shareholders, maintenance of solvency sufficiently above the regulatory requirement, the ability of the company to increase its market share, along with improvement in profitability, will be the key rating sensitivities.

Positive Factors - Factors that could individually or collectively lead to positive rating action/upgrade:

- Increase in market share in the overall health insurance segment.
- Improvement in the profitability metrics, with the company achieving break-even in the near- to medium-term.

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Any material changes in the shareholding pattern, leading to expectation of diminished shareholder support.
- Weakness in the capitalisation profile, with solvency going below 1.6x.

Detailed description of the key rating drivers

Key Rating Strengths

Strong shareholder support and experienced management team

NBHI is majority owned by Fettle tone LLP, holding 54.91% shareholding, and the remaining 44.75% being held by Bupa Singapore Holdings Pte Limited, as at the end of December 2021. The promoters have been supporting the company in the form of regular equity infusions as evident by an equity infusion of Rs.145 crore in FY2020, Rs.280 crore in FY2021, and Rs.125

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

crore in 9MFY22. The overall operations of the company are governed by a nine-members Board of Directors, which includes 3 representatives directors of Fettle Tone LLP, 2 representative directors from Bupa Singapore Holdings Pte Ltd, 3 independent directors and one executive director. Krishnan Ramachandran, Managing Director and CEO of the company has over 23 years of experience across the health insurance, healthcare, and life sciences industries.

Adequate solvency ratio

The reported solvency of NBHI was 1.78x at the end of December 2021, against 2.09x at the end of March 2021, and 1.65x at the end of December 2020, above the mandated regulatory requirement of 1.5x. Although the company is reporting net losses, the solvency profile is supported by regular capital infusion from the promoters. Overall, the company has projected its solvency ratios to remain more than 1.6x on a sustained basis. In addition, the company has taken re-insurance for covering risk beyond a threshold limit and for covering catastrophic risks, which not only help in avoiding high claims but also help in conserving capital. Overall, CARE Ratings expects timely and adequate support from the promoters to be forthcoming, as and when required.

Growth in scale of operations with improving market share

GWP grew at a two-year CAGR of 36% to Rs.1,751 crore in FY2021, which further grew to Rs.1,918 crore in 9MFY22. The growth is driven by the health insurance segment, which contributed 97.9% to GWP in 9MFY22, up from 94.9% in FY20. Within the health insurance segment, retail is a major contributor, having 78% share in GWP in 9MFY22. The company witnessed faster-than-industry growth, leading to increase in the market share in the SAHI (Standalone Health Insurers) retail market to 14.0% in 9MFY22, from 11.2% in FY2021. The growth is supported by business sourcing across channels, including individual agents, tie-up with banks/NBFCs, brokers, web-aggregators, and direct sales. Furthermore, geographically diversified business generation provides support stability to the business. GWP contribution in 9MFY22 was driven by Maharashtra (17.0%), followed by Delhi (10.8%), Uttar Pradesh (9.6%), Haryana (8.2%), Karnataka (8.0%), Gujarat (5.8%) and Telangana (5.5%). As of December 31, 2021, the company has 161 offices and expects to add 40+ offices in the near-term. CARE Ratings expects the company to witness healthy growth across different states, backed by diversified business sourcing channels.

Adequate systems and controls

The major risks for NBHI are strategic risks (product, people, channel and regulatory risks), insurance risks (claims incurred, expense risks), operational risks (fraud, business continuity, process/system failure risks) and investment market risk (credit, liquidity, currency risk, interest rate risk, operational, transaction/systemic risks and concentration risk). To mitigate these risks, NBHI has put in place control mechanisms that undertake regular assessment of risk and scenario analysis/sensitivity for assessing the impact of changes in key underlying variables. The company has an internal audit department to ensure that proper and adequate systems and procedures are in place and being followed. Policies have been framed, which are regularly reviewed in line with the market conditions. The various board-level committees also govern the management and operations of the insurer on a regular basis. The company has an investment portfolio of Rs.2,099 crore as on December 31, 2021. Asset quality remains moderate with GNPA of 3.23% as on December 31, 2021.

Key Rating Weaknesses

Modest profitability metrics, yet to achieve break-even

NBHI reported net loss of Rs.149 crore in 9MFY22, increased from loss of Rs.48 crore in 9MFY21 and loss of Rs.50 crore in FY21, owing to high claim pay-out triggered by pandemic-related stress on health insurance in 1QFY22. The loss ratio (claimed incurred/net premium earned) increased to 87% in 1QFY22, but subsequently improved to lower levels of 59% in 2QFY22 and 62% in 3QFY22 and is expected to remain at a similar level over the medium-term. Despite improvement in loss ratio, high operating level expenses will continue to result in underwriting losses over the medium-term. However, the company is taking steps for automation and digitisation of various processes that are expected to reduce the overhead expenses and the company is expected to be profitable as it scales-up its business operations.

Single line of business

NBHI is a standalone health insurance player, and thereby, has dependency on the prospects of the health insurance segment. In 9MFY22, the GWP from the health insurance segment was 97.9%, which increased from 95.4% in FY2021. The remaining business is from the personal accident insurance segment. The concentration impact was visible in 1QFY22, when the pandemic's impact on health insurance led to high claim pay-out, leading to significant increase in net losses.

Moderate asset quality with improvement in recent quarters

Gross NPAs declined to Rs. 70 crore (3.23%) as on December 31, 2021, as against Rs.95 crore as on March 31, 2021. The reduction in gross NPAs resulted from resolution of investments in bonds of Rs.25 crore issued by DHFL, against which, around Rs.12 crore has been recovered. The outstanding gross NPAs are investments in bonds of Rs.10 crore issued by Reliance Capital, bonds of Rs.30 crore issued by IFIN, and commercial paper of Rs.30 crore issued by ILFS Ltd. 100% provision against outstanding NPA has been made, as on December 31, 2021.

Liquidity: Adequate

NBHI's liquidity profile is comfortable and is governed by Insurance Regulatory and Development Authority of India (IRDAI) (Investment) Regulations, 2016, that require non-life companies to invest 30% of their investment assets in government securities. As on December 31, 2021, the investment assets of NBHI stood at Rs.2,099 crore (Rs.1,622 crore as on March 2021). NBHI held 32% in government and approved securities, 36% in securities of the infrastructure and housing sector, and

32% in other approved investments. Furthermore, AAA-rated debt securities, which is 56% of investments as on December 31, 2021, covers ~98% of technical reserves.

Analytical approach: Standalone; factoring capital support from shareholders.

Applicable Criteria

[CARE's Policy on Default Recognition](#)
[Factoring Linkages Parent Sub JV Group](#)
[Rating Methodology - Insurance Sector](#)
[Financial Ratios - Insurance Sector](#)
[Rating Outlook and Credit Watch](#)

About the Company

Niva Bupa Health Insurance Company Limited (NBHI, earlier known as Max Bupa Health Insurance Company Limited), incorporated on September 5, 2008, is one of the leading private sector standalone health insurance companies in India. The company obtained license from the IRDAI for carrying on the business, on February 15, 2010, and started selling policies from March 2010. It started as a joint venture between Max India Limited and Bupa (through Bupa Singapore Holding Pte Ltd, Singapore), a UK-based health insurance services group. In December 2019, Max India took an exit and sold off its entire 51% stake to Fettle Tone LLP (an affiliate of private equity firm True North). The transaction was approved by IRDAI on December 16, 2019, and post the completion of transaction, the majority shareholder of NBHI is Fettle Tone LLP with 54.91% shareholding and Bupa Singapore Holding Pte Ltd with 44.75% shareholding, at the end of December 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY2022 (UA)
Net Earned Premium	841	1151	1182
PAT	-62	-50	-149
Total Assets	1237	1899	2399
ROTA (% , annualized)	-5.5	-3.2	-10.0
Solvency Ratio	1.77	2.09	1.78
Investments	1067	1622	2099

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debt-Subordinate Debt	INE995S08010	November 15, 2021	10.7%	November 15, 2031	150.00	CARE A; Stable
Debt-Subordinate Debt		Proposed			100.00	CARE A; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debt-Subordinate Debt	LT	150.00	CARE A; Stable	1)CARE A; Stable (30-Apr-21)	-	-	-
2	Debt-Subordinate Debt	LT	100.00	CARE A; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Debt-Subordinate Debt	Complex

Annexure-5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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