Niva Bupa Health Insurance Company Limited (Revised)

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term instruments	150.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term instruments	100.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**250.00 (₹ Two hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating considers Niva Bupa Health Insurance Company Limited's (NBHI's) support from its promoters - Fettle Tone LLP and Bupa Singapore Holdings Pte Ltd's holdings of 54.51% and 44.42% as on September 30, 2022, respectively, demonstrated through regular equity infusions. The rating also factors-in the experienced management team, adequate controls / systems, adequate solvency position (1.77x as on September 30, 2022), and high financial flexibility owing to large portion of investments in AAA-rated and central government issued debt securities (which covers 138% of technical reserves).

The rating is further supported by higher-than-industry year-on-year growth in gross written premium (GWP) at around 61% in FY22 (refers to the period April 1 to March 31) and 40% in H1FY23, leading to increase in the market share. However, despite growth, the market share remains moderate.

The rating is constrained by the modest profitability levels owing to high expense ratio. High customer acquisitions cost in retail health insurance leads to high expense ratio. CARE Ratings Limited (CARE Ratings) notes that the company has improved its net profit to ₹5.7 crore in H1FY23 from loss of ₹196.5 crore in FY22 driven by improvement in expense ratio and normalisation of claim pay-out with easing impact of pandemic. Going forward, the ability of insurer to sustain profitability will be key rating sensitivity factor. Further, being a standalone health insurer, NBHI has dependency on the prospects of the health insurance segment

CARE Ratings Limited (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. The 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.

NBHI has received regulatory approval for interest payment in the past, despite reporting of losses, and is expected to continue to get the same. Any delay in the 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 might exhibit sharper migration of the rating.

Rating sensitivities

Going forward, the continued support of the shareholders in 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 the market share in the overall health insurance segment.
- Sustained improvement in the profitability metrics.

Negative factors – Factors that could individually or collectively 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

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

Strong shareholder support and experienced management team: NBHI is majority owned by Fettle Tone LLP, holding 54.51% shareholding, and the remaining 44.42% being held by Bupa Singapore Holdings Pte Ltd, as at the end of September 2022. The promoters have been supporting the company in the form of regular equity infusions as evident by an equity infusion of ₹145 crore in FY20, ₹280 crore in FY21, ₹120 crore in FY22, and ₹150 crore in H1FY23. The overall operations of the company are governed by a nine-members Board of Directors, which includes three representative directors of Fettle Tone LLP, two representative directors from Bupa Singapore Holdings Pte Ltd, three independent directors and one executive / managing director.

Adequate solvency ratio: The reported solvency of NBHI was 1.77x at the end of September 2022, against 1.72x at the end of March 2022, and 2.09x at the end of March 2021, above the mandated regulatory requirement of 1.5x. 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 an when required.

Growth in scale of operations with improving market share: GWP grew at a two-year compounded annual growth rate (CAGR) of 50.4% to ₹2,810 crore in FY22. It continued its growth momentum in 8MFY23 with year-on-year growth of 41.6% in GWP to ₹2,336 crore. The company witnessed faster-than-industry growth, leading to increase in the market share in non-life insurance segment to 1.41% in 8MFY22 from 1.27% in FY22 and 0.88% in FY21. The business is sourced from well-diversified distribution channel including individual agents (36.4% in H1FY23), brokers (20.1%), corporate agents – banks (17.8%), direct business (16.4%), corporate agents – others (8.5%) and others (0.9%). Furthermore, geographically diversified business generation provides support stability to the business. GWP contribution in 6MFY23 was driven by Maharashtra (16.4%), followed by Delhi (10.4%), Uttar Pradesh (10.3%), Haryana (6.6%), Karnataka (8.3%), Gujarat (6.1%) and Telangana (5.5%). As on September 30, 2022, the company has 201 offices compared with 161 as on March 31, 2022. 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, insurance risks, operational risks and investment market 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.

Key rating weaknesses

Achieved break even in H1FY23 but profitability remains weak: NBHI reported net profit of ₹5.7 crore in H1FY23 compared with loss of ₹196.5 crore in FY22. The improvement is driven by reduction in expenses of management. The sum of net commission paid, and operating expenses related to insurance as of percentage of net earned premium reduced to 48.8% in H1FY23 from 55.8% in FY22 and 53.3% in FY21. However, it remains higher than peers and regulatory threshold limit. High acquisition cost in retail health insurance segment is leading to high expense ratio. NBHI has applied for extension of forbearance on expense ratio higher than regulatory limit till FY26. The improvement in the expense ratio remains a key rating sensitivity factor.

The net incurred claims to net earned premium remains better than health insurance industry average owing to insurer's focus on retail insurance segment. The ratio has improved to pre-covid levels of 56.7% in H1FY23 from 62.1% in FY22 as the impact of pandemic has eased out.

The yield on investments was at 6.6% (annualised) in H1FY23 and is expected to remain high benefiting from high interest rate environment.

Single line of business: NBHI is a standalone health insurance player, and thereby, has dependency on the prospects of the health insurance segment. In FY22, the GWP from the health insurance segment was 98%, in line with past trend. The other major segment is personal accident with contribution of 2% to GWP in FY22. NBHI has started travel insurance segment, however, its contribution remains minimal.

Within health insurance, the retail health insurance (including personal accident offered as part of health products) is the largest segment, which contributed 78.8% in GWP in FY22. The other major segment is group health insurance – non-employer-employee, which contributed 13.5% in FY22. The segments are group health insurance – employer-employee and group personal accident with 5.4% and 2.3% contribution to GWP in FY22.

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 September 30, 2022, the investment assets of NBHI stood at ₹2,755 crore (₹2,401 crore as of March 2022). 79.2% of investments are in AAA rated and sovereign securities, which covers 138% of technical reserves. Furthermore, 7.8% of investments is in state government securities and 7.7% of investments are in AA rated securities. The net non-performing assets (NNPA) was nil as on September 30, 2022.

NBHI has increased its investment in longer tenure securities as it expects the interest cycle to be around peak. However, at least 2.5% of investments are kept in liquid funds. Positive cash flows from operations given high growth in the premium written also support the liquidity.

Analytical approach: Standalone; factoring capital support from shareholders.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios - Insurance Sector](#)
[Rating Outlook and Credit Watch](#)
[Insurance Sector](#)

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. It started as a joint venture between Max India Limited and Bupa (through Bupa Singapore Holdings Pte Ltd, Singapore), a UK-based health insurance services group. In December 2019, Max India Limited 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 02, 2019, and post the completion of transaction, the majority shareholder of NBHI is Fettle Tone LLP with 54.51% shareholding and Bupa Singapore Holdings Pte Ltd with 44.42% shareholding, at the end of September 2022

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1 FY23 (UA)
Net earned premium	1151	1753	1155
PAT	-50	-197	6
Total assets	1899	2738	3239
Solvency (x)	2.09	1.72	1.77
Investments	1622	2401	2755

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Subordinate debt	INE995S08010	15-Nov-2021	10.70%	15-Nov-2031	150.00	CARE A; Stable
Subordinate debt	INE995S08028	15-Mar-2022	10.70%	15-Mar-2032	100.00	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s)	Date(s) and Rating(s)	Date(s) and Rating(s)	Date(s) and Rating(s)

					assigned in 2022-2023	assigned in 2021-2022	assigned in 2020-2021	assigned in 2019-2020
1	Debt-Subordinate debt	LT	150.00	CARE A; Stable	-	1)CARE A; Stable (02-Mar-22) 2)CARE A; Stable (30-Apr-21)	-	-
2	Debt-Subordinate debt	LT	100.00	CARE A; Stable	-	1)CARE A; Stable (02-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 instruments: CARE Ratings 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Neha Kadiyan
Phone: 8130340369
E-mail: Neha.Kadiyan@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in