# Indiafirst Life Insurance Company Limited

March 08, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term instruments (subordinate debt) | 125.00 | CARE AA; Stable | Reaffirmed |
| Long-term instruments (subordinate debt) | - | - | Withdrawn# |

Details of instruments/facilities in Annexure-1.

The rating of the subordinated debt of an insurance company takes into consideration its increased sensitivity to the insurers' solvency position and profitability during the tenure of the instruments. The rating factors in the additional risk arising due to the following key features of the instrument.

- Servicing of interest is conditional on the company maintaining a solvency above the levels stipulated by the regulator
- In case of the insurance company reporting a net loss or if the payment of coupon on the subordinate debt is expected to result in a net loss, the company requires obtaining a prior approval of the regulator for coupon payment on such sub debt
- Any delay in payment of coupon/principal (as the case may be) would constitute an event of default as per CARE Ratings Limited's (CARE Ratings') definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared to the Claims Paying Ability rating.

#The management has exercised the call option and repaid the principal amount on January 6, 2023.

## Rationale and key rating drivers

The rating assigned to the subordinated debt of Indiafirst Life Insurance Co. Ltd. (IFLIC) continues to derive strength from its strong parentage and promoter support in the form of financial, managerial and operational support including access to large retail branch network which facilitates business growth. The ratings further take in account experienced management, healthy growth in APE & improvement in margins, comfortable solvency position and stable persistency ratios. The rating is however constrained by the company's modest size and market share in the life insurance industry. While CARE Ratings takes cognisance of the company's decline in losses during 9MFY23 with the ebbing of death claims due to COVID-19 and change in the product mix towards high-margin non-participating products, the company is yet to achieve profitability track record on sustained basis.

## Rating sensitivities: Factors likely to lead to rating actions.

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

- Ability to scale up operations along with improvement in market share
- Ability to generate profits at underwriting level on a sustained basis

**Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade**

- Any material change in the shareholding pattern and or weakness in credit profile of the promoters
- Solvency margin falling below 1.7x on a sustained basis
- Deterioration in profitability on a sustained basis

## Analytical approach: Standalone with parent linkages

IndiaFirst Life Insurance Co. Ltd. (IFLIC) has been assessed on its standalone financials; however, the rating also factors in the strength of the promoters and operational and financial linkages of IFLIC with its promoters.

## Outlook: Stable

The outlook is stable on account of the company's continued strong parentage and support along with business growth.

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

## Key strengths

**Strong promoters support**

IFLIC, incorporated in 2010, is a joint venture between Bank of Baroda (rated CARE AAA; Stable) having 65% shareholding, Union Bank (rated CARE AA+; Stable) having 9% shareholding and Carmel Points Investments India Private Limited (a body corporate owned by private equity funds managed by Warburg Pincus LLC) having 26% stake as on December 31, 2022. By the virtue of parentage, the company benefits from financial, managerial and operational support including access to large retail branch network which facilitates business growth. During July 2022, the promoters infused ₹ 500 cr in the ratio of shareholding. On the managerial front, the company has promoter nominees on the board. Sanjiv Chadha is the chairman on the boards of Bank of Baroda (UK) Ltd., IndiaFirst Life Insurance Co. Ltd., BOB Capital Markets Ltd. & BOB Financial Solutions Ltd. Narendra Ostawal, Non-executive Director (IFLIC), has been working with Warburg Pincus since 2007. Joydeep Dutta Roy is currently the Executive Director at Bank of Baroda. He is also a Director on the Boards of the bank's subsidiaries – India First Life Insurance Company Limited, Baroda BNP Paribas Asset Management India Private Limited, Bank of Baroda (Botswana) Limited and Bank of Baroda (UK) Limited.

IFLIC also has tie-ups with Bank of Baroda and Union Bank of India. For FY22, around 89% [P.Y.: 90%] of IFLIC's retail business was sourced from the bancassurance channels with BOB and UBI. This provides the company with a pan-India large customer base with BOB having a branch network of around 8,500-9,000 branches and UBI, which has a branch network of around 9,000 branches as on December 31, 2022.

Given IFLIC's strategic importance for its promoters, CARE Ratings expects the company to receive capital support as and when required. This, along with bancassurance tie-ups with the promoter banks is further expected to enable the company in scaling up its business and reach.

**Sound asset quality of investment portfolio**

The company had an investment portfolio of around ₹ 18,932 crore, as on March 31, 2022 [P.Y.: ₹ 17,109 crore], of which 38% [P.Y.: 35%] constituted the ULIP portfolio. The investment portfolio has further increased to ₹ 21,078 crore, as on December 31, 2022 [P.Y. ₹ 17,911.62 crore]. As on March 31, 2022, out of the investments attributable to the non-linked policyholders' fund and shareholders' fund, 62% were invested in government securities- [P.Y.: 58%], 20% in corporate bonds [P.Y.: 27%] with the remaining in equity and others. The company's exposure to corporate bonds has further reduced to 17%, as on December 31, 2022, as it increased its exposure to government bonds/ SDLs so as to capture higher yields over the past one year.

As on March 31, 2022, the net NPA stood nil. A substantial portion of ILICL's investments is readily marketable, thereby extending it good liquidity to support claim payments. The company's exposure to G-secs and AAA-rated debt securities stood at 70% of debt investments as on March 31, 2022, [94% as on March 31, 2021] and 71% as on December 31, 2022.

**Improving trend for Persistency ratio**

The level of persistency for IFLIC has been traditionally moderate due to a higher proportion of linked products, which typically see withdrawals post the completion of the lock-in period. The persistency for newer businesses has been steadily improving for 13, 25 and 37 months cohort on account of various concentrated measures. During FY22, the company reported 13$^{th}$ month persistency ratio of around 81% [P.Y.: 78%] which further improved to 83% during 9MFY23.

**Comfortable Solvency Position**

IFLIC's solvency ratio, computed as per IRDAI norms, declined from 1.81x as on March 31, 2021, to 1.65x as on March 31, 2022 on account of losses reported due to covid deaths. Post infusion of ₹500 crore from promoter shareholders during July 2022, the solvency ratio increased to 2.22x as on December 31, 2022 [P.Y.: 1.61x], which is above the prescribed limit of 1.50x by IRDAI.

## Key weaknesses

**Deterioration in profitability metrics**

IFLIC registered a 28% growth in GPW during FY22 to ₹ 5,187 crore [P.Y.: ₹ 4,056 crore] and a 19% growth during 9MFY22 to ₹4,200 crore [9MFY22: ₹ 3,530 crore].

The company is focusing on improving its product mix to improve the high margin business, like non-par and protection, as compared to higher contribution from the group and PAR funds a few years back. Pre-pandemic, ULIP was higher, but now the company has shifted its focus to better margin products by creating a balanced product mix, changing from Par – 41%, Non-Par – 30%, ULIP – 29% as of March 2021 to Par – 33%, Non-Par – 40%, ULIP – 27% as of March 2022.

During FY22, claims were 2.2x of the earlier year. The company reported high claims during Q1FY22 due to the death claims on account of impact of COVID-19, which were reported till as late as August 2022. There were no COVID-19-related death claims post September 2022. The claims were majorly from group segment and under PMJJBY scheme (Pradhan Mantri Jan Jeevan Bima

Yojna). The higher death claims of ₹ 783 crore during FY22 and ₹ 480 crore during 9MFY22 has affected the profitability of the company during these periods.
The ratio of expenses of management increased from 14.23% during FY19 to 18.47% during FY22 on account of branch additions via bancassurance tie-ups, rise in employee cost and the company's focus on marketing, leading to higher advertisement and promotional expenses.
Despite stable investment income and rise in APE to ₹1,479 crore during FY22 [P.Y.: ₹ 1,007 crore], the company reported losses on account of higher claims and rise in operating expenses.
Consequently, the company reported a loss of ₹282 crore on NPE of ₹4,985 crore during FY22 as against a PAT of ₹30 crore on NPE of ₹3,901 crore during FY21. During 9MFY23, the company reported loss of ₹ 25 crore [9MFY22: loss of ₹ 258 crore] on NPE of ₹4,106 crore.

**Liquidity:** Adequate
As on March 31, 2022, the company has ₹18,932 crore invested in different securities. The company's exposure to G-secs and AAA-rated debt securities stood at 70% of debt investments as on March 31, 2022, [94% as on March 31, 2021] and 71% as on December 31, 2022, as against the net claims incurred to the tune of ₹4,009 during FY22 [P.Y.: ₹3,327 crore] and ₹2,861 crore during 9MFY23 [9MFY22: ₹3,419 crore].
During July 2022, the promoters infused capital in the company to the tune of ₹500 crore. On January 06, 2023, the company exercised the call option via rights issue and repaid the ₹100 crore sub-debt, thereby bringing down the borrowings.

## Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Insurance Sector
Rating Outlook and Credit Watch
Insurance Sector
Policy on Withdrawal of Ratings

## About the company and industry

## Industry Classification

| Macro-Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Financial Services | Financial Services | Insurance | Life Insurance |

ILICL had commenced operations on November 16, 2009, after receiving the license to transact life insurance business in India from the Insurance Regulatory and Development Authority ('IRDA') on November 05, 2009. It is a joint venture between Bank of Baroda (rated CARE AAA; Stable) having 65% shareholding, Union Bank (rated CARE AA+; Positive) having 9% shareholding and Carmel Points Investments India Private Limited (a body corporate incorporated under the laws of Mauritius and owned by private equity funds managed by Warburg Pincus LLC) having 26% stake.
The stake sale by Union Bank of India was completed during Q4FY22, upon receiving approvals from the Board, wherein pursuant to a "Right of First Offer" made by Union Bank to the existing shareholders of Indiafirst Life, Bank of Baroda had acquired Union Bank's 21% stake in IndiaFirst Life Insurance Company (IFLIC) for more than ₹766 crore.

Consequent to the transaction, BoB's stake in IFLIC has increased from 44% to 65%, while Union Bank of India's share reduced from 30% to 9%. The remaining 26% is held by Carmel Point Investments India as on December 31, 2022.

The company carries on business in the areas of life Insurance, health insurance & pension. This business spans across individual and group products and covers participating, non-participating and unit linked lines of business. These products are distributed mainly through bancassurance via the branches of its promoter banks. It also has individual agents, corporate agents, brokers and other intermediaries for distribution. The company has a network of 29 offices across India as on December 31, 2022.

| Brief Financials (₹ crore) | FY20 (A) | FY21 (A) | FY22 (A) | 9MFY23 (UA) |
|---|---|---|---|---|
| Net Premium Earned | 3,245.30 | 3,900.94 | 4,985.20 | 4,106.15 |
| PAT | (97.43) | 30.20 | (281.64) | (25.36) |
| Tangible Net Worth | 707.28 | 775.53 | 493.27 | 931.73 |
| Total Policyholders' fund | 13,872.64 | 16,121.36 | 18,001.99 | 19,620.98 |
| Solvency Ratio (times) | 1.72 | 1.81 | 1.65 | 2.22 |

A: Audited

**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 the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

## 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 |
|---|---|---|---|---|---|---|
| Debt-Subordinate Debt | INE381Y08011 | 3rd January 2018 | 8.57% | 3rd January 2028 | 0 | Withdrawn |
| Debt-Subordinate Debt | INE381Y08029 | 24th March 2022 | 8.40% | 24th March 2032 | 125 | CARE AA; 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) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Debt-Subordinate Debt | LT | - | - | - | 1)CARE AA; Stable (17-Mar-22) | 1)CARE AA; Stable (26-Mar-21) | 1)CARE AA; Stable (27-Mar-20) |
| 2 | Debt-Subordinate Debt | LT | 125.00 | CARE AA; Stable | - | 1)CARE AA; Stable (17-Mar-22) | 1)CARE AA; Stable (26-Mar-21)<br><br>2)CARE AA; Stable (30-Jul-20) | - |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Debt-Subordinate Debt | Complex |

**Annexure-5: Lender details**

| |
|---|
| To view the lender wise details of bank facilities please click here |

**Note on the 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.

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**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.



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