Niva Bupa Health Insurance Company Limited

July 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Subordinate debt	150.00	CARE AA; Stable	Revised from CARE A+; Stable
Subordinate debt	100.00	CARE AA; Stable	Revised from CARE A+; Stable

Details of instruments/facilities in Annexure-1.

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 in the long tenure of the instrument. The interest payable on subordinate debt will be subject to the following:

- The solvency of the issuer remains 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.

Niva Bupa Health Insurance Company Limited (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 per CARE Ratings' definition of default and as such these instruments might exhibit sharper migration of the rating.

Rationale and key rating drivers

Revision in the rating for subordinate debt of NBHI considers acquisition of NBHI by Bupa Singapore Holdings Pte Ltd as it increased its stake from 41.4% as on December 2023 to 63.0% as on March 2024 through a secondary sale transaction, making NBHI subsidiary of Bupa Singapore Holdings Pte Ltd. Bupa is a UK-based international healthcare group. Going forward, Bupa has committed to retain majority stake in the company in the long run and will provide sufficient capital and operational support to the entity as and when required. Revision also factors in substantial improvement in the financial metrics of the company, as the company reported a profit after tax (PAT) of ₹82 crore for FY24, which led to improvement in return on equity ROE from 1.9% in FY23 to 5.7% in FY24 and improved solvency position of 2.55x as on March 31, 2024. The rating is further supported by higher than industry year-on-year (y-o-y) growth in gross written premium (GWP) at around 38% in FY24, leading to an increase in the market share. Apart from this, the rating is also supported by experienced management team, adequate controls / systems, and high financial flexibility owing to large portion of investments in AAA rated and central government issued debt securities (which covers 169% of technical reserves).

However, the rating is constrained by its modest market share and high expense ratio, although improving. Moreover, being a standalone health insurer, NBHI has dependency on the prospects of the health insurance segment.

Going forward, the continued support from Bupa, and the company's ability to sustain profitability while improving market share will be a key rating sensitivity.

Rating sensitivities: Factors likely to lead to rating actions

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

- Significant increase in the market share in the overall health insurance segment.
- Significant improvement in the profitability metrics.

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

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 support from Bupa.
- Weakness in the capitalisation profile, with solvency going below 1.8x.

Analytical approach: Standalone; factoring in support from Bupa, given the shared brand name and representation on board.

Outlook: Stable

The stable outlook factors in CARE Ratings' expectation that NBHI will remain a subsidiary of Bupa and will continue to get sufficient capital and operational support as and when required.

Detailed description of key rating drivers

Key strengths

Strong shareholder support and experienced management team

After the equity infusion of ₹800 crore by Temasek, Motilal Oswal, SBI Life, and Paragon in December 2023 and secondary sale in Q4FY24, in which Fettle Tone LLP sold some stake to Bupa Singapore Holdings Pte Ltd, majority shareholding is with Bupa Singapore Holdings Pte Ltd (63%) making NBHI subsidiary of Bupa Singapore Holdings Pte Ltd. Bupa is a UK-based international healthcare group . Going forward, Bupa has articulated its intent to retain majority stake in the company. It will provide sufficient capital and operational support to the entity as and when required. The investors have been supporting the company in the form of regular equity infusions as evident by an equity infusion of ₹145 crore in FY20, ₹281 crore in FY21, ₹127 crore in FY22, ₹311 crore in FY23, and ₹1,137 crore in FY24. The company's overall operations are governed by a nine-members Board of Directors, which includes three representative directors of Bupa Singapore Holdings Pte Ltd, two representative directors from Fettle Tone LLP, three independent directors, and one executive / managing director.

Healthy solvency ratio

NBHI's reported solvency was 2.55x as of March 2024, against 1.67x at the end of March 2023, and 1.72x at the end of March 2022, comfortably above the mandated regulatory requirement of 1.5x. Solvency has substantially improved in FY24 due to the equity infusion of ₹800 crore in December 2023. Going forward, the company has projected its solvency ratios to remain comfortable with more than 2x 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. Moreover, 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

The GWP grew at a two-year compounded annual growth rate (CAGR) of 41% to ₹5,608 crore in FY24 driven by group insurance business as GWP for group insurance grew at 63% y-o-y. The company witnessed faster-than-industry growth, leading to increase in the market share in health insurance to 5.06% in FY24 from 4.40% in FY23 and 3.74% in FY22. In the Standalone Health insurers segment, market share rose from 15.69% in FY23 to 17.05% for FY24. The business is sourced from well-diversified distribution channel, including individual agents (32.1%), brokers (27.0%), corporate agents – banks (19.6%), direct business (13.1%), corporate agents – others (7.7%), and others (0.6%) in FY24. Geographically diversified business generation provides support and stability to the business. GWP contribution in FY24 was driven by Maharashtra (15.9%), followed by Uttar Pradesh (12.2%), Delhi (8.9%), Karnataka (8.5%), Haryana (7.8%), Telangana (5.8%), and Gujarat (5.2%). As on March 31, 2024, the company has 210 offices compared to 201 as on March 31, 2023. 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 weaknesses

Modest profitability, though improving

NBHI reported net profit of ₹82 crore in FY24 compared to profit of ₹12.5 crore in FY23. The improvement in FY24 was driven by rise in GWP as it grew at 38% y-o-y to ₹5,608 crore. It was also due to the rise in investment income (growth of 60% y-o-y) as it increased from ₹190 crore in FY23 to ₹304 crore in FY24. The sum of net commission paid, and operating expenses related to insurance as percentage of net earned premium reduced to 46.10% in FY24 from 51.49% in FY23 and 55.76% in FY22. 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 increased to 59.02% in FY24 from 54.05% in FY23 due to rise in infections and increase in share of group business as its share in the GWP increased from 25% as of March 2023, to 30% as of March 2024. Going forward, this ratio is expected to improve as the company's focus will remain on retail segment.

The yield on investments improved to 7.13% in FY24 from 6.70% in FY23 and are 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 FY24, 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 FY24. NBHI has started travel insurance segment, but its contribution remains minimal.

Liquidity: Adequate

NBHI's liquidity profile is comfortable and 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 March 31, 2024, the investment assets of NBHI stood at ₹5,458 crore (₹3,336 crore as of March 2023). 90% of investments are in AAA-rated and sovereign securities, covering 187% of technical reserves. Moreover, 8.7% of investments is in state government securities and 6.0% of investments are in AA rated securities. The net non-performing assets (NNPA) was nil as on March 31, 2024.

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. The positive cash flows from operations given high growth in the premium written also support the liquidity.

Applicable criteria

Policy on default recognition
Rating Outlook and Credit Watch
Financial ratios- Insurance sector
Insurance Sector
Factoring Linkages- Parent

About the company and Industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Insurance	General insurance

NBHI 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 (JV) 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 was Fettle Tone LLP with 53.51% shareholding and Bupa Singapore Holdings Pte Ltd with 44.55% shareholding, at the end of September 2023.

Existing shareholders- Fettle Tone LLP and Bupa Singapore Holdings Pte Ltd infused capital of ₹334 crore in H1FY24. After the recent equity infusion of ₹800 crore by Temasek, Motilal Oswal, SBI Life, and Paragon in December 2023 and secondary sale in January, in which Fettle Tone LLP sold some stake to Bupa Singapore Holdings Pte Ltd, majority shareholding is with Bupa Singapore Holdings Pte Ltd (63%).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Net earned premium	1,753	2,663	3,811
PAT	-197	13	82
Total assets	2738	3877	6192
Solvency (x)	1.72	1.67	2.55
Investments	2401	3366	5458

A: Audited; Note: ‘these are latest available financial results’

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Subordinate debt	INE995S08010	15-Nov-2021	10.70%	15-Nov-2031	150.00	CARE AA; Stable
Subordinate debt	INE995S08028	15-Mar-2022	10.70%	15-Mar-2032	100.00	CARE AA; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debt-Subordinate debt	LT	150.00	CARE AA; Stable	-	1)CARE A+; Stable (03-Jan-24)	1)CARE A; Stable (04-Jan-23)	1)CARE A; Stable (02-Mar-22) 2)CARE A; Stable (30-Apr-21)
2	Debt-Subordinate debt	LT	100.00	CARE AA; Stable	-	1)CARE A+; Stable (03-Jan-24)	1)CARE A; Stable (04-Jan-23)	1)CARE A; Stable (02-Mar-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 complexity levels of 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	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3582 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 91 44 2850 1001 E-mail: pradeep.kumar@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: +91 -120–4452002 E-mail: gaurav.dixit@careedge.in Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: +91-120-4452022 E-mail: neha.kadiyan@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