

Royal Sundaram General Insurance Co. Limited

August 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Subordinate debt	176.00	CARE AA+; Stable	Reaffirmed

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 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 coupon/principal (as the case may be) 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.

Rationale and key rating drivers

The rating assigned to the subordinated debt of Royal Sundaram General Insurance Co. Limited (RSGI) continues to derive strength from its strong parentage of Sundaram Finance Limited (SFL). The company benefits from business and operational linkages given its access to Sundaram Group ecosystem, shared brand name, managerial support, and access to need-based capital support.

The rating continues to factor in experienced management team, long and demonstrated track record in the general insurance industry, and comfortable solvency position. However, these rating strengths are partially offset by the relatively moderate size of operations along with the limited presence in other product segments barring motor insurance, moderate return metrics, and intense competition in the general insurance industry.

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 size of operations and market share
- Sustained improvement in the profitability metrics with a diversification in the product portfolio.

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

- Moderation in the credit profile of the promoter, SFL
- Material dilution in the ownership by, expected support from, and strategic importance to the promoters
- Decline in the solvency margin below 1.70x on a sustained basis

Analytical approach:

Standalone; along with factoring in the linkage with the promoter Sundaram Finance Limited.

Outlook: Stable

The Stable outlook reflects CARE Ratings' view that the company will have a sustained growth momentum along with maintenance of prudent solvency levels.

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

Detailed description of the key rating drivers:**Key strengths****Strong parentage of SFL and benefits derived from being part of the Sundaram Finance group:**

RSGI is a joint venture (JV) company between Sundaram Finance (50%), Ageas Insurance International N.V. (40%), and other Indian shareholders (10%) which are part of the Sundaram Finance group. SFL has around seven decades of experience in lending business and is a prominent player in the business of commercial vehicle financing in India, with assets under management (AUM) of ₹43,987 crore as on March 31, 2024 [PY.: ₹34,552 crore].

By virtue of its shareholding, Royal Sundaram benefits from access to the group's established brand name 'Sundaram', branch infrastructure and lead generation from within group companies. The company derives benefits in the form of managerial, operational and financial support from the Sundaram Finance group. Besides insurance, the group has presence in asset management, investment advisory and portfolio management services through Sundaram Asset Management Company Limited and housing finance through Sundaram Home Finance Limited.

The foreign promoter of the company, Ageas, is a multinational insurance company headquartered in Brussels, Belgium, and it currently operates in 14 countries worldwide through subsidiaries/JV partnerships with an employee base of around 50,000. RSGI benefits from synergies with Ageas on knowledge sharing front in the areas of risk-based pricing, fraud analytics, distribution channels developments etc. given its vast experience in insurance across global markets.

Going forward, CARE Ratings expects Sundaram Finance to continue to provide need-based support to RSGI which shall remain our key rating sensitivity.

Established track record of operations and experienced management:

RSGI is one of the first private sector general insurance companies in India and has track record of more than two decades in the insurance business. As on March 31, 2024, RSGI serves around 30 lakh customers through its branch network of 161, spread across all states and Union Territories (UTs) of India, with an employee base of 2,348. Given that company's business has been traditionally driven by motor segment, broker is the predominant channel with 55% of the total premium sourced via brokers during FY24 [PY.: 53%] followed by direct sales (FY24: 20%, FY23: 20%), individual agents (FY24: 10%, FY23: 11%), corporate agents (FY24: 7%, FY23: 8%), web aggregators (FY24: 5%, FY23: 5%), bancassurance (FY24: 2%, FY23: 2%) and insurance marketing firm (FY24: 0.38%, FY23: 0.36%).

The company's board consists of 10 directors with experience in the financial services industry. The board includes three nominee directors from Sundaram Finance, two nominee directors from Ageas, four independent directors and one executive director. The board has further constituted six sub-committees, with board representations to focus on specific areas, namely, audit, nomination and remuneration, corporate social responsibility (CSR), risk management, investment and policyholders' protection. RSGI's key management team consists of professionals with relevant experience in the industry.

Comfortable solvency position:

Supported by moderate internal accruals (average 3-year return on net-worth [RONW]: 8.13%), the company's solvency margin improved to 2.42x as on March 31, 2024 [PY.: 2.27x] above the regulatory requirement of 1.5x, translating into excess capital of ₹643 crore. The improvement in solvency margin as of March 31, 2024, was partially supported by deceleration in gross direct premium (GDP) growth (company recorded a growth of 8% during FY24 against 18% during FY23).

As of June 30, 2024, solvency margin of the company stood at 2.38x [PY.: 2.62x]. Considering the company's demonstrated growth and track record, CARE Ratings expects RSGI's solvency ratio to be upwards of 1.9x in the medium to long term.

Key weaknesses

Moderate size of operations along with a limited presence in product segments; barring motor insurance: RSGI has a track record of more than two decades in general insurance space accompanied by pan-India presence with largest state contributing 22% to its GDP, however, the size of the company continues to remain moderate with ₹5,215 crore of claims outstanding as on March 31, 2024 [P.Y: ₹4,687 crore]. During FY24, the market share of Royal Sundaram in terms of GDP decreased to 2.4% [PY.: 2.6%] from 4.0% in FY20. The market share of the company in respective line of businesses (LOBs) of motor, health and fire during FY24 stood at 3.90% [PY.: 4.29%], 1.72% [PY.: 1.82%] and 1.83% [PY.: 1.96%] respectively. The decrease in market share of the company in motor segment was primarily led by conscious business curtailment by the management in certain risky cohorts due to which motor segment grew by 4% during FY24 as against the industry growth (private GI players) of 15%. The overall GDP growth of 8% for RSGI during FY24 [PY.: 22%] was driven by health insurance segment which grew by 42% during FY24 [PY.: 13%] against industry growth (within private players) of 36%.

The business operations of the company are concentrated in motor segment which accounted for 70% of total GDP during FY24 [PY.: 73%], with the rest being health and commercial segment. Within motor portfolio, commercial vehicle comprised 50% with private vehicles and 2-wheeler comprising 47% and 3% respectively.

Given SFL's strong presence in vehicle financing space and parent linkages, CARE expects motor segment to continue to be a key contributor to overall GDP (~65-70%).

Moderate profitability metrics:

RSGI's profitability continues to be moderate with a range bound RONW with average RONW for less three financial years being 8.13%. The RONW decreased to 7.23% during FY24 [PY.: 8.01%] as company reported a deacceleration in GDP growth primarily (led by conscious business curtailment by the management in certain risky motor cohorts while focusing on cohorts with low loss ratio) coupled with rise in claims from health and fire segment. Though cautious growth in motor segment led to improved loss ratio for the segment (loss ratios improved to 74.91% during FY24 vis a vis PY loss ratios of 79.29), this improvement was offset by higher loss ratio in retail health and fire segments. Overall loss ratio during FY24 showed marginal uptick at 77.62% [PY.: 77.00%]. The increased fire claims during Q3FY24 and Q4FY24 also led to lower reinsurance commission income thereby impacting the overall net commission expense for FY24. Company reported a marginal increase in expense of management (EOM) to GDP ratio of 33.00% during FY24 [PY.: 32.50%] while combined ratio marginally increased to 116.54% during FY24 [PY.: 115.09%]. The profitability was further supported by investment income of ₹621 crores for FY24 [PY.: ₹539 crores] with an investment yield (with treasury gain) of 7.66% [PY.: 7.30%].

During Q1FY25, company's premium grew by 23% against an industry growth of 18% while the RONW of the company stood at 14.47% [PY.: 13.71%].

Liquidity: Strong

The company has strong liquidity profile; total technical reserves (reserve for unexpired risk + claims outstanding) stood at ₹6,863 crores as on March 31, 2024, against which highly liquid investments/ cash equivalents (G-secs and AAA rated bonds) stood at ₹7,144 crores.

From liquidity inflows perspective, the company generally maintains 1% to 1.5% of its investment portfolio as TREPS on daily basis (amounting to roughly ₹108 crores as of June 30, 2024) while other liquid investments portfolio (G-secs and AAA rated bonds) stood at ₹7,149 crore. Against this company has claims monthly outflow of ₹180 to ₹200 crores. Additionally, inflows via incremental monthly premiums of ₹300 crores provides comfort.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

Not Applicable

Applicable criteria[Definition of Default](#)[Factoring Linkages Parent Sub JV Group](#)[Rating Outlook and Rating Watch](#)[Financial Ratios - Insurance Sector](#)[Insurance Sector](#)**About the company and industry****Industry classification**

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Insurance	General Insurance

Royal Sundaram General Insurance Co. Limited (RSGI) was incorporated on August 22, 2000, as a joint venture between Sundaram Finance Limited, Royal & Sun Alliance Insurance PLC UK and other Indian shareholders. RSGI was the first private general insurance company in India to receive licence from IRDA in October 2000.

During FY16, Royal's & Sun sold its entire stake of 26% in RSGI as the company wanted to exit Asian Market. In February 2019, Ageas Insurance International N.V. acquired 40% equity stake in RSGI. As on March 31, 2024, SFL and Ageas Insurance International hold 50% and 40% stake in the company respectively with Indian Motors Parts & Accessories Ltd (7.3%) and Sundharams Pvt Ltd (2.67%) holding the remaining stake.

As on March 31, 2024, RSGI has 2.19% [PY.: 2.56%] market share among the private general insurance players and it serves 27.92 Lakhs policies [PY.: 29.16 Lakhs]. RSGI offers entire bouquet of general insurance products which includes motor, fire, health, personal accident, liability, and travel. However, Motor segment is the major contributor (Mar-24.: 70% vs PY.: 73%) in the total gross direct premium mix. Company has pan India presence with 161 branches and 2,348 employees as of March 2024. Tamil Nadu and Maharashtra contributed 18.72% and 22.22% respectively to the gross direct premium during FY24.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Gross direct premium	2,867	3,380	3,637	1,005
Gross premium written	2,966	3,517	3,825	1,114
PAT	131	121	114	61
Claims Outstanding	4,434	4,687	5,215	5,462
Total assets*	8,109	8,713	9,508	9,832
Tangible net worth* (Including fair value changes)	1,523	1,507	1,651	1,716
Net NPA (%)	0	0	0	0
Solvency ratio (x)	2.10	2.27	2.42	2.38

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

*Adjusted to intangible assets and deferred tax assets

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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:** 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 - Proposed	NA	-	-	-	50.00	CARE AA+; Stable
Subordinate Debt	INE499S08039	27-Sep-2021	7.85%	27-Sep-1931	76.00	CARE AA+; Stable
Subordinate Debt	INE499S08047	15-Mar-2022	8.05%	15-Mar-1932	50.00	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 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	176.00	CARE AA+; Stable	-	1)CARE AA+; Stable (16-Aug-23)	1)CARE AA+; Stable (17-Aug-22)	1)CARE AA+; Stable (23-Aug-21)

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

Annexure-3: Detailed explanation of 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](#)

Annexure-6: List of all the entities consolidated

Not Applicable

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.

Contact us

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About us:

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