HDFC ERGO General Insurance Company Limited

March 24, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Subordinated	154.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**154.00 (Rs. One hundred fifty-four crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating on the long-term instrument-subordinate bonds of HDFC ERGO General Insurance Company Limited (HEGI) continues to factor in its consolidated position as the second-largest health insurer and third-largest general insurer among the private insurance companies in India. The company had a market share by gross direct premium of about 6.2% in FY21 (refers to the period April 1 to March 31) and 5.9% for the period till December 2021 in FY22 among general insurers. Furthermore, the rating takes comfort from the strategic importance of HEGI, and expectation of support from two of its largest shareholders, namely, HDFC Limited (rated 'CARE AAA / Stable / CARE A1+', 49.98% shareholding as on December 31, 2021) and ERGO International AG (48.99%).

The rating further factors in HEGI's experienced management team, diversified product portfolio with formidable retail franchise, high geographical diversification of business, strong asset quality in its investment book, robust systems, and processes, along with comfortable solvency ratio at 1.70x end-December 2021, well above the statutory minimum of 1.50x as stipulated by Insurance Regulatory and Development Authority of India (IRDAI). Going forward, maintenance of healthy solvency ratio, adequate profitability, and availability of timely parent support would be the key rating sensitivities.
CARE Ratings Ltd has rated the aforesaid subordinated 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 subordinated debt shall 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 Authority for such payment shall be obtained.

Any delay in the payment of interest/principal (as the case may be) following the invocation of aforementioned covenants would constitute an event of default as per CARE Ratings Ltd's 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 to maintain growth in business and profitability will be the key rating sensitivities.

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

- Any material changes in the shareholding pattern resulting in expectation of reduced support.
- Weakness in the capitalisation profile with solvency going below 160%.
- Moderation in premium written on a sustainable basis.

Detailed description of the key rating drivers

Key Rating Strengths

Strong shareholder support and experienced management team

HEGI is majorly owned by HDFC Limited (49.98%) and ERGO International AG (ERGO) (48.99%), which is a part of the ERGO group owned by Munich Re. HDFC Limited is one of the major finance conglomerates in India. The ERGO group is Germany-based and one of the largest insurance groups in Europe, having presence in 30 countries worldwide.
HEGI receives strong managerial support from HDFC Ltd which is reflected in representation of its directors on HEGI's board. HEGI is headed by Mr Ritesh Kumar who has vast experience of more than three decades in banking and insurance sector and has also been its Managing Director and Chief Executive Director since January 2008. The board of HEGI is chaired by Mr Keki M. Mistry who is also the vice chairman and chief executive officer of HDFC Ltd. Also, the board of directors has representation from ERGO International AG with Dr Oliver Martin Willmes and Dr Clemens Matthias Muth as the non-executive director of company. Given the fact that the insurance domain occupies strategic importance for HDFC Limited and ERGO International AG, CARE Ratings Ltd expects the promoter support to be forthcoming, if needed.

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

Healthy market share and formidable retail franchise and robust distribution network
HEGI is one of the largest general insurers in the country with a market share by gross direct premium of around 5.9% for period up to December 2021 in FY22. The company offers a wide range of general insurance products ranging from motor, health, travel, home and personal accident in the retail space and customised products such as property, marine and liability insurance in the corporate space. On a segment-wise basis, the company has a formidable market share by gross direct premium of about 5.2% in health insurance segment and about 5.2% in motor insurance among all general insurance players for period up to December 2021 in FY22.

HEGI follows a multi-geography, multi-product and multi-channel distribution strategy. The largest contributing state to gross direct premium was Maharashtra (24% in 9MFY22) followed by Karnataka (9%), Gujarat (9%), Uttar Pradesh (7%) and Rajasthan (6%). The health insurance segment was a major contributor providing 29% to gross written premium in 9MFY22 followed by motor insurance (26%), weather / crop insurance (19%) and fire insurance (12%). Business sourcing is through diverse channels covering brokers (31% of gross direct premium in 9MFY22), direct business (29%), individual agents (20%), banks (11%), other corporate agents (5%) and others (4%).

Established operations with strong business growth
The general insurance industry grew y-o-y by 11.2% in 9MFY22, while the HEGI's gross direct premium grew 9.2% during the same period. The slower-than-industry growth was due to cautious approach to underwrite health insurance business by HEGI, due to its high loss ratio, which grew by 14.3% compared with industry growth of 28.8% during the same period. The growth in motor insurance remained muted in line with the industry trends due to COVID-induced restriction in movement. The management expects the gross written premium to grow annually by around 15% over the medium term. The growth will be driven by motor and health insurance segments in line with the industry trend, which continue to dominate the overall demand in the general insurance industry.

Adequate solvency ratio
The solvency position of HEGI remains adequate with solvency at 1.70 times as on December 31, 2021, above the statutory minimum of 1.50x as stipulated by IRDAI. End-December 2021, the available solvency margin (ASM) stood at Rs.3,414 crore as against the required solvency margin (RSM) of Rs.2,014 crore. HEGI's solvency ratio is also largely driven by the fact that the company has taken re-insurance for covering risk beyond a threshold limit especially in fire and weather/crop insurance segments that not only help avoiding high claims but also assist in conserving capital. Overall, the solvency levels of HEGI have remained comfortable driven by demonstration of timely parent support coupled with positive internal accruals. Subsequently, CARE Ratings Ltd expects timely and adequate support from the promoters to be forthcoming as and when required.

Key Rating Weaknesses
Modest profitability metrics with higher combined ratios
The combined ratio increased to 110% in 9MFY22 from 104% in FY21 driven by high claim pay-out in health insurance segment. The claim pay-out, as measured by the loss ratio, in health insurance sector increased from 85% to 115% during the same period impacted by the pandemic. The combined ratio is expected to moderate over the medium term driven by expected low claim pay-out in health insurance sector supported by the expected low impact of subsequent COVID waves owing to high vaccination rates. Furthermore, the combined ratio is expected to improve with lower management and operating expenses benefiting from economies of scale with expected increase in the premium written.

Liquidity: Strong
The company's investment philosophy gives due weightage to principles of regulatory compliance, prudent norms and principles of conservatism. The company's liquidity profile is comfortable and is governed by IRDAI (Investment) Regulations, 2016, that require non-life companies to invest 30% of their investment assets in government and approved securities. As on December 31, 2021, the investment assets of HEGI stood at Rs.17,797 crore (Rs.16,643 crore as on March 31, 2021). HEGI held 59% of investment asset in AAA rated securities and 37% of investment asset in the central and state government securities, which, on a combined basis, cover 147% of the total technical liabilities.

Analytical approach: Standalone; factoring in the continued capital support of the promoters, viz., HDFC Limited and ERGO International AG.

Applicable Criteria
CARE's Policy on Default Recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Insurance Sector
Rating Outlook and Credit Watch
Rating Methodology - Insurance Sector

About the Company
HDFC ERGO General Insurance Company Limited is promoted by Housing Development Finance Corporation Limited (HDFC Limited). Currently, HDFC Limited is the Indian Promoter and ERGO International AG is the Foreign Promoter of the Company. HDFC ERGO is registered with the Insurance Regulatory and Development Authority of India (IRDAI) as a general insurance company. The company offers complete range of general insurance products ranging from motor, health, travel, home and

personal accident in the retail space and customised products like property, marine and liability insurance in the corporate space. In November 2020, the company received approvals from NCLT and IRDAI and completed the merger of HFDC ERGO Health Insurance (HEHI) with HEGI with effect from April 1, 2020.

The ERGO group is Germany-based and one of the largest insurance groups in Europe. The group is represented in around 30 countries worldwide and focuses on the regions of Europe and Asia. ERGO offers a comprehensive range of insurance, pensions, and services.

HDFC Limited is one of the major financial conglomerates in India offering a whole gamut of products, such as loans to individuals, loans to corporates, construction finance, and lease rental discounting. It has subsidiaries and associates in insurance (general and life), asset management, education finance, venture funds and banking services. The company had presence through 651 outlets (including 206 offices of its distribution subsidiary – HDFC Sales Private Limited), as on December 31, 2021.

Brief Financials (Rs. crore)	31-03-2020* (A)	31-03-2021 (A)	9M_FY22 (UA)
Gross Written Premium	9,760	12,444	9,719
PAT	327	592	323
Total Assets	17060	19319	20565
Net NPA (%)	0.32	0.03	0.01
ROTA (%, annualised)	2.3	3.3	2.2

A: Audited; UA: Unaudited
*FY20 financials are based on 11 months of standalone HDFC ERGO General Insurance Company Limited and 1 months of merged entity comprising of HDFC ERGO General Insurance Company Limited and HDFC EGRO Health Insurance Company Limited

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 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
Bonds-Subordinated	INE092V08010	18-09-2017	8.40%	17-09-2027	80.00	CARE AAA; Stable
Bonds-Subordinated	INE092V08028	18-09-2018	10.25%	18-09-2028	74.00	CARE AAA; 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	Bonds-Subordinated	LT	154.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Mar-21)	1)CARE AA (CWD) (31-Mar-20) 2)CARE AA (CWD) (28-Jun-19)	1)CARE AA; Stable (29-Aug-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

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

Sr. No	Name of instrument	Complexity level
1	Bonds-Subordinated	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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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
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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