

HDFC ERGO General Insurance Company Limited (Revised)

March 26, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Instrument - Subordinate Bonds	154.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Revised from CARE AA (Double AA) and removed from Credit Watch with Developing Implications; Stable outlook assigned
Total Long Term Instruments	154.00 (Rs. One Hundred Fifty-Four Crore Only)		

Details of instruments/facilities in Annexure-1

CARE 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 payment of interest/principal (as the case may be) following the invocation of aforementioned covenants, would constitute an event of default as per CARE's definition of default and as such these instruments may exhibit sharper migration of rating

Detailed Rationale & Key Rating Drivers

The assigning of rating of CARE AAA; Stable on long-term instrument-subordinate bonds of HDFC ERGO General Insurance Company Limited (HEGI) takes into account the completion of merger of HDFC ERGO Health Insurance (HEHI) into HEGI. On June 19, 2019, erstwhile Apollo Munich vide its press release on BSE announced that its Board of Directors have approved the "Share Purchase Agreement", for the acquisition by HDFC Ltd (promoter of HDFC Ergo, engaged in general insurance business) of up to 51.25% shareholding in Apollo Munich from the Apollo Group promoters (50.8% from Apollo Hospital Enterprises Ltd, Apollo Energy Company Ltd) for a consideration of Rs.1336 crore and 0.4% held by few employees. On January 9, 2020, HDFC Limited announced that it has acquired 51.16% paid up equity share capital of erstwhile Apollo Munich and subsequently the latter become a subsidiary of HDFC Limited on January 09, 2020 and the name changed to HDFC Ergo Health Insurance (HEHI). On February 17, 2020, HEHI and HEGI jointly submitted application with National Company Law Tribunal, Mumbai Bench (NCLT) seeking its sanction for merger of the company with HEGI. The appointed date is March 01, 2020 and the approval of NCLT came through in September 2020. Post that, the companies applied to IRDAI for approval and the final approval from IRDAI came on 13th November 2020. Following the approval, HEHI was merged with HEGI with Appointed Date as March 1, 2020. Pursuant to the said approvals, the entire undertaking of HEHI including but not limited to all assets, properties, liabilities, contracts, employees, legal and other proceedings have been transferred to and vested in HEGI on a going concern basis, with effect from the Appointed Date.

The ratings factor in the fact that post the merger, HEGI has further consolidated its position as second largest health insurance and third largest private general insurance companies in India. The company had a market share (merged entity) of about 6.2% end FY 20 and 6.0% end Dec 2020 among general insurers. Further the ratings take comfort from strategic importance of HEGI to, and expectation of support from its two largest shareholders namely HDFC Limited (50.56% shareholding as on December 31, 2020) and ERGO International AG (48.46%). 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

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

comfortable solvency ratio at 1.89 times end FY20 that further improved to 1.98 times end Dec 2020, well above the statutory minimum of 1.50 times 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 from HDFC group would be key rating sensitivities.

Rating Sensitivities

Going forward, the continued support of the shareholders, maintenance of solvency sufficiently above the regulatory requirement, the ability to increase premium written and profitability will be the key rating sensitivities.

Negative factors

- Any material change in the shareholding pattern resulting in expectation of reduced support
- Weakness in the capitalization profile with solvency going below 160%
- Moderation in premium written,

Key Rating Strengths Strong shareholder support and experienced management team

Following the merger of HEHI with HEGI, the majority stakes were held by HDFC Limited (50.56%) followed by another 48.46% stake is held by ERGO International AG (ERGO), which is a part of Munich Re. 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. Deepak S. Parekh who is also the chairman of HDFC Ltd. Also, the board of directors has representation from ERGO International AG with Dr Oliver Martin Willmes as the nonexecutive director of company. Given the fact that the insurance domain occupies strategic importance for HDFC Limited and ERGO International AG, CARE expects promoter support to be forthcoming, if needed

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 (merged entity) of about 6.2% end FY 20 and 6.0% end Dec 2020 and having close to 98,000 agents across the country. The company offers wide range of general insurance products ranging from Motor, Health, Travel, Home and Personal Accident in the retail space and customized products such as 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 HEHI with HEGI with an appointed date of March 1st, 2020. For the merged entity, the Gross Written Premium (GWP) stood at Rs 9,760 crore end FY 20, up 11.9% Y-o-Y and having a market share of 11.2% among private sector general insurers. On a segment wise basis, the company has a formidable market share of about 6% in health insurance segment and nearly 5% in motor insurance among all general insurance players as on December 31, 2020.

HEGI follows a multi-geography, multi-product and multi-channel distribution strategy. Consequent to the merger, the distribution network of HEGI has strengthened and the company had an agent network of 15,491 General Insurance Agents and 98,072 Health Insurance Agents as on March 31, 2020. Additionally, HEGI had 56 Bank/ Corporate Agent partners for distributing General Insurance products and another 30 Bank/ Corporate Agent partners for distributing Health Insurance products. The merger has also enabled HEGI an access to the 194 branch offices of HEHI. Being one of the largest general insurers, HEGI has a widespread distribution network with direct business forming largest source constituting 29% of GWP end Dec 2020, followed by brokers (28%) and individual and corporate agents-banks constituting 19% and 13% respectively.

Sound operations with strong business growth

Overall the general insurance industry grew by 11.7% in FY 20 against which HEGI's pre-merger GWP stood at Rs 9,439 crore, up 8.2% Y-o-Y end FY20 vs. 17.8% Y-o-Y growth registered in FY19. Post-merger, HEGI's GWP stood at Rs. 9,760 crores up 12% Y-o-Y. The deceleration in growth compared to previous fiscal was on account of slow economic growth that was further exacerbated by COVID induced stress. Due to pandemic and general restriction on movement especially in first half of fiscal 2021, the economic activity remained muted and a sharp de-growth was seen in primary vehicle sales which in term impacted motor insurance segment.

While HEGI offers a wide range of products, the health and personal accident continue to be its largest segment contributing to 32% of GWP end Dec 2020, up from 21% end FY 20 with the rise driven especially after the merger of HEHI with HEGI. The motor insurance (own damage and third party) constituted another 27% followed by weather/crop insurance at 22% fire at 11% and the remaining segments together forming 8% as on December 31, 2020

Adequate Solvency Ratio

The solvency position of HEGI remains strong with solvency at 1.98 times as on December 31, 2020, up from 1.89 times as on March 31, 2020 and well above the statutory minimum of 1.50 times as stipulated by IRDAI. End December 2020, the Available Solvency Margin (ASM) stood at Rs.3,573 crore as against the Required Solvency Margin (RSM) of 1,802 crore. HEGI's solvency ratio is also largely driven by the fact that the 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 expects timely and adequate support from promoters to be forthcoming as an when required.

Key rating weakness Modest profitability metrics with higher combined ratios

On a standalone basis, HEGI reported underwriting losses with combined ratio at 101.4% end FY 20 as against 98.7% for FY 19. However, after adjusting for the impact of merger of HEHI, the combined ratio stood at 105.3%. Although inspite of combined ratios exceeding 100%, the company reported positive profitability metrics driven by high investment income. End FY 20, HEGI's standalone profit after tax (PAT) stood at Rs 448 crore, up from Rs 383 crore driven by strong growth in its investment income. However, after accounting for the impact of merger, the PAT of merged entity stood at Rs 327 crore end FY 20. For nine months ending December 31, 2020, the company reported combined ratio for the merged entity stood at 103.70% as against 104.36% for the corresponding period previous fiscal. The PAT for 9M FY21 stood at Rs 510 crore as against Rs 294 crore for the corresponding period previous fiscal driven by near doubling of operating profit to Rs 623 crore coupled with stable investment income of Rs 148 crore (+21.7% Y-o-Y)

Liquidity: Strong

The company's investment philosophy gives due weightage to principles of regulatory compliance, prudent norms and principles of conservatism. 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 March 31, 2020, the investment assets of HEGI stood at Rs 11,502 crore (PY: Rs 9,104 crore). HEGI held Rs 4,922 crore (42.8%) in Government securities, Rs 3,552 crore (30.9%) in securities of the Infrastructure and Housing sector and remaining Rs 3,027 crores (26.3%) in approved and other investments. The company held 90% of its assets in Sovereign and AAA or equivalent rated assets. Further, the company held Rs 1,494 crore in assets maturing within one year. The total investment income for the year ended March 31, 2020 was Rs 867 crore. On a merged basis, as on March 31, 2020 the total investment assets of HEGI stood at Rs 13,577 crores of which Rs 5,587 crore (41.2%) in Government securities, Rs 4,100 crore (30.2%) in securities of the Infrastructure and Housing sector and remaining Rs 3,889 crores (28.6%) in approved and other investments. The total investment income for the year ended March 31, 2020 was Rs 881 crore.

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

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios – Insurance Sector](#)

[Rating Methodology - Insurance Sector](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

About the Company

HDFC ERGO General Insurance Company (HEGI) was incorporated in 2002 as a joint venture between HDFC Ltd and ERGO International AG, the primary insurance entity of Munich Re Group. The company offers complete range of general insurance products ranging from Motor, Health, Travel, Home and Personal Accident in the retail space and customized 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 March 30, 2020. The merged entity has an office network comprising 203 physical and 250+ digital offices, and a cashless network of 10,000+ hospitals spread across the country.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)*
Gross Premium written	8721.8	9760.0

Net premium income	4372.7	4866.8
PAT	382.9	326.9
Combined ratio (%)	98.74	102.63
Total Assets	1982.3	2542.9
GNPA	NA	NA
NNPA	NA	NA

A: Audited

*Merged entity

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

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-Sep-2017	8.40%	17-Sep-2027	80.00	CARE AAA; Stable
Bonds-Subordinated	INE092V08028	18-Sep-2018	10.25%	18-Sep-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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Subordinate	LT	154.00	CARE AAA; Stable	-	1)CARE AA (CWD) (31-Mar-20) 2)CARE AA (CWD) (28-Jun19)	1)CARE AA; Stable (29-Aug18)	1)CARE AA; Stable (07-Sep17)

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 the Instrument	Complexity Level
1.	Bonds- Subordinate	Complex

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no: +91-22-6837 4424

Email ID – mradul.mishra@careratings.com**Analyst Contact**

Group Head Name – Mr. Gaurav Dixit

Group Head Contact no.-011-45333235/ +91-9717070079

Group Head Email ID- gaurav.dixit@careratings.com**Relationship Contact**

Name: Ms. Swati Agrawal

Contact no: +91-11-4533 3200 / +91-98117 45677

Email ID: swati.agrawal@careratings.com**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.