Star Union Dai-ichi Life Insurance Company Limited

September 29, 2021

Rating

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Subordinated Debt	125.00 (Rs. One hundred twenty five crore only)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**

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' definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared to the Issuer rating.

Detailed Rationale & Key Rating Drivers

The rating assigned to Subordinated debt instrument of Star Union Dai-ichi Life Insurance Company Limited (SUD Life) derives strength from majority shareholding by public sector banks, which provides access to 15,000+ retail branch networks of its promoter banks under bancassurance tie-ups. The company is promoted by Bank of India (BOI) holding 28.96% and Union Bank of India (UBI, rated 'CARE AA+; Outlook: Negative') holding 25.10% and along with foreign partner Dai-ichi Life Holdings (Dai-ichi Life) owning 45.94%. CARE Ratings expects the promoters including Dai-ichi to support the entity in terms of capital requirement, as the entity is a strategically important investment for all the promoter entities. The rating further takes into account the experienced management team, good solvency ratio, improving persistency ratio and profitable operations since FY15 (refers to the period April 1 to March 31). The rating is constrained by relatively moderate size of operation amid highly competitive environment.

Rating sensitivities

Positive factors: Factors that could lead to positive rating action/upgrade:

- Significant improvement in market share of Life Insurance business along with sustained profitability

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

- Any material reduction in the shareholding pattern by promoter bank and impact on the bancassurance partnerships or weakness in credit profile of promoters
- Weakness in the capitalization profile with solvency going below 1.7x times on a sustained basis
- Moderation in profitability on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoters along with capital, operational and strategic linkages

SUD Life, a joint venture between UBI, BOI and Dai-ichi Life, started its operation in 2009. The company relies heavily on bancassurance tie ups with promoter banks, that is UBI and BOI, which provides it with large distribution base of more than 15,000 branches pan India, to generate 95%+ of its new business. Both UBI and BOI are also sponsor for few Regional rural banks (RRB's) which provides access to 1,950 branch networks in rural India. The promoter banks also earn commission fee and gains from increase in valuation of SUD Life, which is dependent on new business generated among other things. CARE Ratings expects the promoter banks to continue to own significant stake and SUD Life to continue to benefit from this bancassurance tie-ups in the foreseeable future. The company has recently built infrastructure for digital push and plans to increase pie of digital sourcing in the overall business.

Furthermore, as SUD Life is strategically important for all the promoters, CARE Ratings expects the company to receive capital support as and when required. The last capital infusion happened in FY17, when Dai-ichi Life infused around Rs.108 crore. Dai-ichi had further acquired 18% stake from Bank of India for Rs.540 crore during the same time.

Dai-ichi, established in 1902, is Japan's second-largest insurer and is one of the top ten life insurers in the world. SUD Life benefits from Dai-ichi's longstanding presence in Life insurance business. The Chief Risk Officer at SUD Life is usually from Dai-

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

ichi Life which helps in managing the risk and maintaining strong oversight over SUD Life's operations. Dai-ichi also helps with new product testing and brings with it best practises in the Insurance business. As per the current FDI norms, foreign partner is allowed to hold upto 74% of the shareholding in Insurance company, which provides scope for further capital investment by Dai-ichi in SUD Life, if required.
UBI, on account of amalgamation of Andhra Bank, also holds 30% stake in Indiafirst Life Insurance Company Limited, which it would have to bring below 10% during FY22 to comply with the IRDAI norms.

Strong Board of Directors and experienced management
The company has a strong Board of Directors and has representation from the promoter groups with Mr Rajkiran Rai G (MD & CEO of Union Bank of India) being the Chairman of SUD Life. Mr Abhay Tewari having nearly 20 years of experience in the insurance industry, is the MD & CEO of SUD Life. Furthermore, the management team includes experienced professionals which includes representatives from Dai-ichi in key roles (Deputy CEO & CFO and CRO).

Good Solvency Ratio
As on June 30, 2021, SUD Life reported solvency ratio of 2.06 times as against regulatory requirement of 1.50 times. The solvency margin is further expected to increase by 25 – 30 bps on account of expected Subordinated debt issuance of Rs.125 crore in near future. Even if the company does not raise subordinated debt, the Solvency is not expected to go below 1.8 times as per the business plan for next 3 years. The management estimate to grow new premium business at 23% compound annual growth rate (CAGR) over the next 3 years, for which current capital with internal accruals will be enough to maintain a good solvency ratio.
The company has been generating profits which is adding to solvency even as the growing business has increased the requirement for capital and led to moderation in solvency over past 3 years. Solvency as on March 31, 2018, was at 2.78 times. CARE Ratings expects the company to maintain good solvency ratio at all points of times.

Profitable operations since past 7 years
SUD Life started its operation in FY09 and reported first profits in FY15 on back of bancassurance model and conscious decision to have low protection business (on an average around 0.8% of APE since past 5 years) in Individual segment. Group segment, which is largely term protection, forms 16.7% of APE during FY21. The company has been consistently reporting profits since past seven years. The company has been selling more non-participating policies (on an average around 77.8% of APE since past 5 years) which has higher margins as compared to participating (average around 5.3% of APE since past 5 years) and ULIP business (average around 16.1% of APE since the past 5 years). This has led to overall high VNB margins of around 36.4% over the past 5 years. While PMJJBY remains small in terms of overall premium, it is not profitable for the company, and the company has reinsured 50% of the exposure. The company's expense ratios have reduced over the years with increase in the scale of operations with Gross premiums increasing at 18.69% CAGR since FY17. The commission ratio has reduced from 8.19% during FY17 to 6.31% in FY21, while the overall expense reduced from 28.0% during FY17 to 20.9% during FY21. The company benefits from low cost of acquisition as most of the business is generated from bancassurance partnerships.
During FY21, the company reported Profit after tax of Rs.65.45 crore on total Gross Premium of Rs.2,999 crore as compared with PAT of Rs.59.25 crore on Gross Premium of Rs.2,310 crore. During Q1FY22, the company reported a loss of Rs.107.36 crore (without considering surplus of Rs.58.56 crore under non-participating segment transferred to Balance sheet) as compared with profit after tax of Rs.21.56 crore during Q1FY21, impacted by higher claims incurred which was partially on account of deaths related to 2nd wave of the Covid 19 pandemic. The Covid-related death claims have started to normalise in Q2 and is expected to be back to pre-Covid levels by Q3FY22, if there is no further wave of Covid. While management has indicated that the company will report profit for FY22, any further major increase in claims will be a credit negative for the company.
Furthermore, the company has reported good asset quality on its investment with Gross NPA of Rs.118 crore (0.94%) from two exposures with Nil Net NPA as on date, as the company has provided 100% for both the exposures. Low NPA has further helped in limiting the expense ratio of company and led to sustained profitability over past few years.

Good Persistency Ratio
Healthy level of persistency not only indicates higher renewal premiums but also a strong consumer franchise. Furthermore, it also indicates longer tenure of policy in force which enables the company to recover costs and make profit over the life of the insurance contract. SUD Life has seen its persistency improving sequentially over past five years across all the cohorts with 13th month persistency on annualised premium basis (including single premium) increasing from 55% during FY16 to 78% during FY21. The management expects the persistency to further increase to 80% during FY22. The 49th month persistency has improved from 36% during FY16 to 53% in FY21. CARE Ratings expects healthy persistency to further improve profitability going forward.

Key Rating Weaknesses

Moderate scale of operations

The NBP market share of SUD Life stood at 0.42% during FY21 as compared with 0.3% during FY20. The company is relatively smaller player in highly competitive Life Insurance market in India. While the company's new business premium has increased by nearly 51% during FY21 as against overall industry growth rate of 7.5% of all players and 16.3% for private players, it still remains a smaller player with high reliance on bancassurance model. The major reason for increase in the market share is on account of addition of more than 6,000 branches to UBI on completion of the amalgamation of Corporation Bank and Andhra Bank with UBI during FY21, which led to significant increase in the distribution reach of SUD Life.

Analytical approach

SUD Life has been assessed on its standalone financials; however, the rating also factors in the strength of the promoters and operational and financial linkages of SUD Life with its promoters.

Liquidity position - Strong

The company has nearly 47% of its AUM of Rs.12,093 crore in securities of either Central Government (34%) or State Government (14%). Furthermore, nearly 26% of its AUM is invested in AAA and AA band rated corporate entities. This provides high liquidity to the portfolio. The total benefits paid by company to policyholders (including death claims) was Rs.1,137 crore for FY21. There is no Subordinated debt outstanding as on date.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Insurance Sector
Factor Linkages in Ratings
Insurance Sector

About the Company

Star Union Dai-ichi Life Insurance, founded in 2009, is a joint venture between Bank of India (28.96%), Union Bank of India (25.10%) and Dai-ichi Life Holdings (45.94%). The company has a network of around 15,000 promoter bank branches, catering to about 92 lakh customers across India. Furthermore, SUD Life also has access to about 1,950 branches of RRBs sponsored by BOI and UBI, which provides the company access to rural markets in India. The company has majority of the business from bancassurance model. The company's products consist of Participating (Individual Life), Non Participating Life, Annuity, Pension, Health. Furthermore, the company also has presence in Linked Non participating plans, which includes Life and Pension products.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Net Premium Earned	2,253	2,887
PAT	59	65
Tangible Net Worth	657	720
Total Policyholders Fund	8,655	11,186
Solvency Ratio (times)	2.40	2.06

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Annexure-1: Instrument Details

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
-	Subordinated Debt (proposed)	-	-	-	125.00	CARE AA; 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.	Debt-Subordinate Debt	LT	125.00	CARE AA; Stable	-	-	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

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

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

Annexure 5: Bank Lender Details – Not Applicable

Note on complexity levels of the rated instrument: *CARE Ratings 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.*

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