Max Bupa Health Insurance Company Limited

April 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term instrument-Subordinate Debt	150.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total long term instruments	**150.00 (Rs. One hundred and Fifty 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 CARE A; Stable rating to the long-term subordinate bonds of Max Bupa Health Insurance Company Limited (MBHI) takes into consideration the experienced promoters with demonstrated support in the form of regular equity infusions, experienced management team, adequate solvency position with solvency margin at 2.09 times as on March-21 and comfortable liquidity position with liquid asset as a percentage of technical reserves at 101% end Dec-20.

The rating is further supported by consistent growth in the operations of the company with 31% annual increase in Gross Written Premium (GWP) to Rs.1,243 crore end FY20 and adequate controls and systems.

The ratings are however constrained by the moderate profitability profile of the company with company reporting net loss of Rs.48 crores during 9M FY21, single product line with concentration of risk in health segment and moderate asset quality with Gross NPA at 5.76% as on Dec-20, though on account of high provisioning net NPA stood at 0.89% end Dec-20.

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.

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

- Increase in market share in the overall health insurance segment
- Improvement in the profitability metrics with company achieving break even in near to medium term

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

- Any material change in the shareholding pattern leading to expectation of diminished shareholder support
- Weakness in the capitalization profile with solvency (adjusted for subordinate debt) going below 1.5 times

Detailed description of the key rating drivers
Key Rating Strengths

Strong shareholder support and experienced management team

MBHI was started as a joint venture between Max India Limited and Bupa (through Bupa Singapore Holding Pte, Singapore), UK based healthcare services group. However, in Dec 2019, Max India took an exit and sold off its entire 51% stake to Fettle Tone LLP (an affiliate of private equity firm True North). MBHI is now majority owned by Fettle tone LLP holding 55.58% shareholding and remaining 44.42% is held by Bupa Singapore Holdings Pte Limited end Dec-20. The promoters have been supporting company in the form of regular equity infusions as evident by an equity infusion of Rs.280 crores in FY20-21.

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

The overall operations of company are governed by a nine members Board of Directors which includes representatives of Fettle Tone LLP and Bupa. Post the shareholding change, Mr Maninder Singh Juneja (Nominee Director-Fettle tone LLP) joined the board of MBHI and the day to day operations of the company are headed by Mr. Krishnan Ramachandran, Managing Director and CEO who has over 23 years of experience across Health Insurance, Healthcare & Life Sciences industries. Mr Krishnan holds an MBA degree from IIM Kolkata and a B Tech degree in Electrical and Electronics Engineering from IIT Madras. Mr Vishwanath Mahendra is the appointed actuary for MBHI, who has over 25 years of rich professional experience in Analytics, Actuarial and Finance divisions. Mr Anil Kumar Chandrasekaran, is the Director and CFO for MBHI and has over 16 years of experience in the insurance sector. Further, the senior management is supported by an experienced second line of management.

Adequate Solvency Ratio
The reported solvency of MBHI improved to 2.09 times as on March-21, up from 1.77 times as on March-20 and 1.65 times as on Dec-20 and above the statutory minimum of 1.5 times as stipulated by IRDAI. The improvement in solvency ratio end March-21 is on account of equity infusion of Rs.178.48 crore from the existing shareholders in March 2021. End Dec 2020, the Available Solvency Margin (ASM) stood at Rs.395.33 crore as against the Required Solvency Margin (RSM) of Rs.240.30 crore. Overall, the company has projected its solvency ratios to remain in excess of 1.65 times on a sustained basis. In addition, the company has taken re-insurance for covering risk beyond a threshold limit and also to cover for catastrophic risks which not only helps in avoiding high claims but also help in conserving capital. Overall, the solvency ratio of MBHI has remained adequate driven by demonstration of timely support from the promoters. CARE expects timely and adequate support from promoters to be forthcoming as an when required.

Moderate scale of operations with close to 10.9% market share end Dec-20 in the private standalone health insurance sector
In the last four years end FY20, the Gross Written Premium (GWP) of MBHI has grown at a compounded annual growth rate (CAGR) of 28% to reach Rs.1,243 crore end FY20. During FY20, the GWP of the company increased 31% y-o-y to Rs.1,243 crore end FY20. The growth in GWP was at a faster pace in FY 20, growing at an annual rate of 31% Y-o-Y as against 26% Y-o-Y growth registered a year before that. For nine months ending Dec-20, the GWP stood at Rs.1,150 crore, up 38% y-o-y. The growth in GWP is backed by increasing network of agent and bancassurance tie-ups.

During FY20 health insurance constituted about 95% of GWP while the balance 5% was personal accident insurance and health Insurance has always been the major contributor for MBHI in terms of revenue.

Further, MBHI has presence across India with top-5 states accounted for around 59% of GWP in FY20 down from about 67% two years ago. The share of largest state Maharashtra has come down to 17% end Dec-20 from 19% in FY 20 and the share of second largest state Delhi has also come down to 13% of GWP end Dec-20 from 14% end FY20.

Also, in terms of market position, MBHI has emerged as one of the leading players in the private health insurance space. The company had market share of about 10.9% of GWP end Dec-20 in the standalone private health insurance sector (SAHI) end Dec-20, up from 8.6% end March-20.

Adequate systems and controls
The major risks for MBHI are strategic risks (product, people, channel and regulatory risks), Insurance risks (Claims incurred, expense risks), Operational Risks (Fraud, Business Continuity, Process/System failure risks) and Investment Market Risk (Credit, Liquidity, Currency Risk, Interest rate risk, Operational, Transaction/Systemic Risks and Concentration risk). In order to mitigate these risks, MBHI has put in place control mechanisms undertakes regular assessment of risk and scenario analysis/sensitivity for assessing 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 Rating Weaknesses

Modest profitability metrics, yet to achieve break even
Since MBHI is still in initial stages of operation, the company continues to be in losses and reported net loss of Rs.48 crore during 9M FY21 and net loss of Rs.62 crore during FY20.

The company reported claim ratio of 59.7% end Dec-20, up from 53.5% end March-20 and 53.9% end March-19, while the total expense ratio (commission expense + other operating expense) moderated to 52.5% end Dec-20, down from 55% end March-20 and 58.9% end March-19 as the company scales up its operations and are expected to further moderate.

As a result, the combined ratio of MBHI stood at 112.2% end Dec-20, up from 108.5% end March-20 (112.8% end March-19). However, the company is taking steps for automation and digitization of various processes that are expected to reduce the overhead expenses and the company is expected to be profitable in next 2-3 years as it scales up its business operations

Investment portfolio with high GNPA ratios though around 95% provisions are being made

As on Dec 31, 2020, the investment assets of MBHI stood at Rs 1,385 crore, up from Rs 1,067 crore end March-20. MBHI held majority investment of about 33% in Government and approved securities, followed by 28% in securities of the Infrastructure and Housing sector, 24% in rated corporate bonds and remaining 15% in mutual funds and other investments. As a policy MBHI does not invest in unlisted and unrated instruments.

The asset quality of MBHI remains moderate as reflected in Gross NPA ratio and Net NPA ratio at 8.21% and 2.08% respectively end March-20. However, with the increase in investment book during 9M FY21, the GNPA ratio reduced to 5.76% end Dec-20. As on March-21, against the total Gross NPA of Rs.95 crores, the company is maintaining healthy provision coverage ratio at 95%, leading to negligible net NPA end March-21.

Single line of business

During FY20, health insurance constituted about 95% of Gross Written Premium (GWP) while the balance 5% was personal accident insurance. Health Insurance has always been the major contributor for MBHI in terms of revenue, though the company has diversified into personal accident with newer products.

Liquidity: Adequate

MBHI’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.

As on Dec 31, 2020, the investment assets of MBHI stood at Rs 1,385 crore (PY: Rs 1,067 crore). MBHI held Rs 462 crore (33%) in Government and approved securities, Rs 387 crore (28%) in securities of the Infrastructure and Housing sector, Rs.327 crore (24%) in rated corporate bonds and remaining Rs 209 crores (15%) in mutual funds and other investments. Company’s liquidity profile is comfortable as reflected in liquid asset (cash and bank balance, current assets, short term investments and LT Investments in Govt. Securities) of Rs.879 crore end Dec-20 and Rs 633 crore end March 31, 2020. In this regard MBHI’s liquidity profile is comfortable as reflected in liquid asset (cash and bank balance, current assets, short term investments and LT Investments in Govt. Securities) to technical reserves ratio of around 1.01 times as on Dec-20 and 1.09 times as on March 31, 2020.

Analytical approach: Standalone; factoring capital support from shareholders

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

Max Bupa Health Insurance Company Limited (MBHI), incorporated on September 5, 2008 is one of the leading private sector standalone health insurance companies in India with a market share of about 11% of Gross Written Premium (GWP) among standalone private health insurers end Dec 20. The company obtained license from the Insurance Regulatory and Development Authority of India (IRDAI) for carrying on the business on February 15, 2010 and started selling policies from March 2010. MBHI was started as a joint venture between Max India Limited and Bupa (through Bupa Singapore Holding Pte, Singapore), UK based healthcare services group. In Dec 2019, Max India 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 16th December 2019 and post the completion of transaction, the majority shareholder of MBHI is Fettle Tone LLP holding 55.58% shareholding end Dec-20 and remaining 44.42% is held by Bupa.

End March 2021, the company has pan India presence through a network of 114 branches in 36 states/union territories. The company also has large network base of more than 68,000 agents end March 2021.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Net Earned Premium	659.4	841.0
PAT	-48.4	-61.6
Total Assets	999.5	1,237.3
ROTA (%)	-5.3	-5.5
Solvency Ratio	1.77	1.77
Assets under Management (AUM)	815.6	1,067.2

A: Audited

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debt-Subordinate Debt	Proposed			150.00	CARE A; 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	150.00	CARE A; 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 the Instrument	Complexity Level
1.	Debt-Subordinate Debt	Complex

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

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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.

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