

Press Release

Apollo Munich Health Insurance Company Limited

October 30, 2018

Rating Assigned



Total instruments Rated*	Rs. 74 Cr.
Long Term Rating	ACUITE AA/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its '**ACUITE AA**' (read as **ACUITE double A**) rating to the Rs. 74 Cr. subordinated debt of Apollo Munich Health Insurance Company Limited (AMHICL). The outlook is '**Stable**'.

Subordinated debt issued by insurance companies carry additional risks on account of the nature of the instrument. The instrument carries additional risks associated with the servicing of the instrument if i) the issuer's solvency level falls below the stipulated regulatory requirement and/or ii) prior regulatory approval is required for payment of coupon if such payment results in a loss or increases the loss.

Acuité believes that AMHICL will maintain its solvency ratio well above the regulatory threshold over the medium term supported by the expectation of strong support from the promoter, Apollo Hospitals Group. Any change in the stance of the promoter group or lower than expected support will remain a key rating sensitivity factor. The rating on these instruments are expected to have higher transition intensity as compared to the financial strength rating on the insurance company as the rating is highly sensitive to the solvency levels and the earnings.

About the company:

AMHICL, a leading standalone private health insurance company in India, was incorporated in 2006 and is licensed from Insurance Regulatory and Development Authority (IRDA) for undertaking health insurance business. The company is a joint venture between Apollo Hospitals Group and Munich Health Holding AG, a division of Germany based reinsurance company Munich Re.

AMHICL was originally known as Apollo DKV Insurance Company Limited, a joint venture between Apollo Hospitals Group and Deutsche Krankenversicherung AG (DKV AG), Europe based private health insurer and a subsidiary of ERGO Group, with ultimate ownership of Munich Re. Apollo DKV was renamed Apollo Munich Health Insurance Company Limited in December 2009 as a part of the rebranding strategy.

The company had a network of 158 branches as on March 31, 2018 with additional 39 branches being planned to be opened in near term. AMHICL is controlled by Apollo Hospitals Group with 50.97% (as on March 31, 2018) shareholding of which 40.99% is held by Apollo Energy Company Limited and 9.98 % is held by Apollo Hospitals Enterprise Limited and Munich Health Holding AG holds 48.61%.

Analytical Approach:

Acuité has taken a standalone view to evaluate the credit quality of AMHICL and subsequently factored in support from the Apollo Hospitals Group on account of the strong management, financial and operational linkages.

List of key rating drivers and their detailed description:**Strengths:****• Supported by operational and financial backing from promoter group**

AMHICL is promoted by Apollo Hospitals Group; the group's flagship company, Apollo Hospitals Enterprise Limited holds 9.98% and Apollo Energy Company Limited, a promoter group investment company, holds 40.99% stake as on March 31, 2018. Apollo Hospitals Group has a controlling stake in the company which is likely to be retained over the medium term. Additionally, AMHICL also benefits from the common branding with the group, which has a strong presence in the healthcare services industry.

The promoter group has demonstrated a strong track record of funding support by way of both equity and debt. Apollo Hospitals Group has infused Rs. 186.24 Cr. by way of equity and Rs. 40 Cr. in the form of debt till date. The promoter group is committed to provide future capital support to support the company's growth plans as well as to meet the regulatory requirements.

The company derives managerial support from the promoter group by way of board representation. AMHICL's board comprises of 3 directors from Apollo Hospitals Group who play a key role in strategy formulation and monitoring strategy implementation.

Acuité believes AMHICL is expected to benefit from the continued financial and managerial support from the promoter group over the medium term, both on an on-going basis as well as during times of need.

• Favorable growth prospects in health insurance segment to support business risk profile

India's health insurance penetration is among the lowest in the world with a predominant part of private expenditure on health care being incurred out of customers' savings. A large insurable population and increasing life expectancy coupled with increasing health expenditure (both on account of increasing awareness and affordability, and rising instances of lifestyle diseases) provides strong growth potential for the health insurance providers over the medium term. Further, several initiatives taken by the Government such as the National Health Protection Mission or Ayushman Bharat are expected to increase the penetration of health insurance among lower income groups.

AMHICL reported gross direct premium income of Rs. 1717.5 Cr. in FY2018 as against Rs. 1301.9 Cr. registering a growth of 32% in FY2018. This is mainly driven by strong growth in the health segment which contributed 91% to the total gross written premium income in FY2018. AMHICL held 21% (source: IRDAI) market share (based on GDPI in FY2018) among the standalone private health insurers. The company plans to grow at a healthy trajectory over the medium term supported by the increasing geographic penetration and launch of new products along with good customer satisfaction practices. AMHICL has a bouquet of innovative policies to address various customer needs. The company had a network of 158 branches with additional 39 branches being planned to be opened in near term. Around 69% of the company's business is sourced through individual agents and 6.1% from brokers, while direct business and bancassurance accounted for 13% and 9%, respectively during FY2018.

Acuité believes that AMHICL will sustain the pace of healthy business growth over the medium term, which will help to increase the scale of operations and support improvement in the core profitability.

• Adequate capitalization

AMHICL has adequate capitalization with networth of Rs. 423.9 Cr. (including Debenture redemption reserve of Rs. 1.07 Cr.) as on March 31, 2018 as against Rs. 407.3 Cr. a year ago. The company has received regular support from Apollo Hospitals Group and the joint venture partner, Munich Health Holding AG, thus supporting its growth plans while also meeting the regulatory requirements. AMHICL reported solvency ratio of 1.6 times as on September 30, 2018 as against 1.74 times as on March 31, 2018 (1.90 times as on March 31, 2017) as against the minimum regulatory requirement of 1.5 times. The company's solvency ratio is supported by the outstanding subordinated debt of Rs. 154 Cr. as on September 30, 2018. The company has also adopted a good reinsurance strategy which helps it to manage the underlying risks in the portfolio, while steadily growing the business.

Acuité believes that AMHICL is expected to receive continued financial support from Apollo Hospitals Group and Munich Health Holding AG in future, thus enabling the company to maintain adequate solvency position over the medium term.

• Good quality of investment portfolio

AMHICL benefits from the good quality of its investment book. The investment book (including fixed deposits) increased to Rs. 1327 Cr. as on March 31, 2018 from Rs. 1047 Cr. as on March 31, 2017. The investment book comprises of government securities or investment in high-investment grade debt instruments; while the company has a small exposure to the troubled financial services group, it is not expected to significantly impact the overall portfolio quality.

AMHICL maintains adequate liquidity in the investment book by way of short term investments to meet claims related requirements, which are highly uncertain given the inherent nature of the health insurance business. Short-term investments (comprising of bank deposits, etc.) comprised 28% of the investment book as on March 31, 2018.

Weaknesses:

• Modest profitability

AMHICL has modest profitability with return on net worth of 3.6% in FY2018 and remains lower than many of the standalone health insurance players. The underwriting balance ratio has been volatile over the past three years at (-) 0.7%, 10.9%, and (-) 8.0%, for FY 2018, FY 2017 and FY 2016, respectively. The company reported an underwriting deficit of Rs. 8.39 Cr. in FY2018 compared to an exceptional underwriting profit of Rs. 120.03 Cr. in FY2017. The underwriting profit in FY2017, however, was on account of adoption of unexpired risk reserve at 50% of the net written premium of preceding 12 months as against previously followed 1/365 method. The underwriting operations are expected to be gradually accretive over the medium term with the increase in scale of operations. However, it will remain sensitive to large claims in any financial year on account of any catastrophic event and will remain a key monitorable.

The combined ratio stood at 99% for FY2018 as against 97% in FY2017 due to an increase in the claims ratio to 62% from 55% FY2017. Investment and other income (including capital gains/losses) at Rs. 85.92 Cr. in FY2018 (Rs. 83.88 Cr. in FY2017) helped in mitigating the impact of adverse underwriting profitability.

Acuité believes that the company's ability to improve its underwriting and overall profitability will remain a key rating sensitivity factor.

• Susceptibility to risks associated with a competitive monoline business segment

AMHICL operates as a standalone health insurance player and hence is susceptible to the risks arising from operating in a competitive monoline business segment. The high concentration in the segment exposes the company's profitability to sudden catastrophe events in the absence of adequate reserves.

While the health insurance business has strong growth potential, the industry players are reporting underwriting losses and low overall profitability. This is primarily because of the aggressive pricing strategy, especially in the group health insurance segment which is reflected in the high claims ratio and the high underwriting loss for the particular segment. AMHICL is relatively less impacted given the lower exposure towards group segment.

Outlook: Stable

Acuité believes that AMHICL will maintain a stable credit risk profile over the medium term on the back of strong financial and managerial support from the promoter group, which will help maintain adequate capitalization, and favorable growth prospects for the health insurance segment. The outlook may be revised to 'Positive' in case of increase in scale of operations coupled with sustained improvement in underwriting performance and solvency position. The outlook may be revised to 'Negative' in case of significant deterioration in underwriting performance or lower than expected support from the promoter group/joint venture partner.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Gross Direct Premium Income	Rs. Cr.	1,717.51	1,301.93	1,022.18
Profit after tax	Rs. Cr.	15.24	132.29	7.46
Combined ratio	(%)	99%	97%	104%
Solvency Ratio	Times	1.74	1.9	1.51
Return on Net Worth(RoNW)	(%)	3.6%	32.5%	2.7%

Status of non-cooperation with previous CRA: None

Applicable Criteria

- General insurance companies: <https://www.acuite.in/view-rating-criteria-42.htm>
- Hybrid instruments: <https://www.acuite.in/view-rating-criteria-43.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating history (Upto Last three years):

Not applicable

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
INE092V08028	Subordinated debt	18-Sep-2018	10.25	18-Sep-2028	74.00	ACUITE AA / Stable (Assigned)

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About Acuité Ratings & Research:

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