

Press Release

HDFC ERGO General Insurance Company Limited

November 30, 2020



Rating Reaffirmed

Total facilities	Rs. 74.00 Cr.
Total Non-Convertible Debentures Rated	Rs. 74.00 Cr.
Long Term Rating	ACUITE AAA /Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of **ACUITE AAA (read as ACUITE triple A)** on the Rs. 74.00 crore Non-Convertible Debentures of HDFC ERGO General Insurance Company Limited (HEGIL) (Erstwhile HDFC ERGO Health Insurance Limited (HEHIL)). The outlook is '**Stable**'.

Reasons for Update

The merger of HDFC ERGO Health Insurance Limited (HEHIL) (formerly known as Apollo Munich Health Insurance Company Limited) with HDFC ERGO General Insurance Company Limited (HEGIL) has received final approval from the Insurance Regulatory and Development Authority of India (IRDAI). As per the amalgamation scheme, the merged entity is HEGIL and HEHIL gets dissolved. As a result of this, the aforesaid debt facility rated under HEHIL now gets transferred to HEGIL.

The rating factors in the strong support derived from the parentage of HDFC group considering HEGIC remains the strategic arm of the HDFC group. The rating also factors in the enhanced market share as merger makes HEGIL the second-largest private insurer in the accident and health insurance business. The merged entity had an overall market share of 6.2% and about 8% market share in the accident and health insurance segment. Acuité believes that the merger will help in expanding the distribution network and footprints and also strengthen the market position of the group in the Accident & Health Insurance.

About the company:

HDFC ERGO General Insurance Company Ltd. is a joint venture between HDFC Ltd., India's premier Housing Finance Institution and ERGO International AG, the primary insurance entity of Munich Re Group. The Company offers a 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. The company operates across 170+ cities with a network of 200+ branches.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of HEGIL and factored in the benefits to the credit profile emanating from majority ownership by HDFC Ltd. The continued ownership by HDFC Ltd. is central to the rating. As intimated by the company, the existing debt of HEHIL shall be transferred to the HEGIL.

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 ratio 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.

Key Rating Drivers

Strengths

- **Parentage of HDFC group**

HEGIL is a joint venture between HDFC Limited, India's leading housing finance company and Flagship Company of the HDFC Group and ERGO International AG, the primary insurance entity of Munich Re Group

in 51:49 ratio. HEGIL benefits from the presence of a shared brand name, parent and managerial support from both HDFC Limited & ERGO International Limited.

The HDFC Group has transitioned from a housing finance company in 1977 to a financial conglomerate with interests across banking (HDFC Bank Ltd.), asset management (HDFC Asset Management Company Ltd.), life insurance (HDFC Life Insurance Company Ltd.), equity broking (HDFC Securities Ltd) & general insurance (HDFC Ergo General Insurance Company Ltd.). Besides these businesses, the group also has allied interests in other financial services like education loans and realty services. HDFC Ltd. is the leading player in the domestic retail mortgage market, with Loans under Management of Rs. 5,16Tn. (USD 68 Bn) & Shareholder Funds of Rs.860 Bn. (USD 10.7Bn) (As on March 31, 2020).

HDFC has demonstrated the ability to attract equity and debt from a wide investor/ lender base, both in domestic as well as overseas markets consistently over its operating history. HDFC's market capitalisation as on November 25, 2020 was Rs.3.94 Tn. The stock is widely held by marquee domestic and overseas institutional investors. Besides HDFC Ltd., the other companies from the group also hold a dominant position in their respective segments. HDFC Bank Ltd. is the largest private sector bank in India with a loan book of Rs.10,38 Tn. (Position as on September 30, 2020). The market capitalisation of HDFC Bank Ltd was ~Rs.7.72Tn. as on November 25, 2020 HDFC Asset Management Company Ltd. is the currently the second largest Asset Management Company in the country (AUM Rs. 3.76 Tn as on September 30, 2020). HDFC Life Insurance Company Ltd. is India's leading private insurer (in life segment) with a total premium income of Rs. 327 Bn during FY2020. HDFC Ergo General Insurance Company Limited Ltd (HEGIC) is the third largest player in the private sector in general insurance segment with a presence across various categories like motor, health, travel, home insurance etc. The Gross Written Premium of the company for FY20 was Rs.93.1Bn.

The merger is expected to result in significant operational and financial synergies and strengthen HDFC's market position in the domestic insurance segment.

- **Favorable growth prospects in health insurance segment to support business profile further**

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 individuals' 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.

HEHIL has reported gross written premium income of Rs. 2522 Cr. in FY2020 as against Rs. 2194 Cr. in FY2019, registering a growth of ~15%. HEGIL reported a gross written premium of Rs. 9439 Cr.in FY2020 as against Rs. 8722 Cr in FY2019, reporting a growth of ~8%. The health insurance business is expected to grow at a strong trajectory over the medium term supported by the increased geographic penetration and launch of new products and innovative practices, well supported by the HDFC Group.

Acuité believes that the health insurance business under HEHIL and HEGIL (once merged) will sustain the pace of healthy business growth over the medium term, which will help to increase the scale of operations and lead to an improvement in the core profitability.

Acuite further is of the opinion that the insurance sector is poised for a period of growth along with consolidation and players like HEGIL will benefit significantly from their access to capital, wide distribution network, strong brand image and demonstrated ability to offer attractive financial products.

Weaknesses

- **Competitive landscape & regulatory environment may impact future growth trajectory**

The insurance sector in India is presently at the cusp of a growth trajectory. However, the non-life segment (comprising health and general segment) has witnessed intense competition with players from both public sector and private sector. As per the published data of IRDAI (Insurance Regulatory Authority of India), there are 38 players in the non-life segment alone as of January 2020.

The four public sector insurers in non-life segment led by New India Assurance Company Limited still account for 41 % of the market (in terms of Gross Underwritten Premium data of IRDA as on September 2020). The

private sector insurers in the health insurance segment, nonetheless have steadily increased their market share in line with the government's thrust on "Health for All" and an increasing focus on affordable health care. The sector may witness further growth and innovation if FDI norms in the sector are relaxed further and higher FDI in the sector is facilitated.

• **Modest profitability of HEHIL, partially offset by merger with HEGIL**

HEHIL has modest profitability with return on net worth of -27.9% in FY2020. The underwriting balance ratio has been volatile and stood at (0.07%) in FY2020. The underwriting operations are expected to be gradually accretive over the medium term with the increase in the scale of operations. The combined ratio stood at 112% for FY2020 as against 100% for FY2019. While HEGIL reported a return on net worth of 18.39% in FY2020. The underwriting balance ratio stood at (0.04%) in FY2020. The profit after tax of HEGIL increased from Rs. 382.99 Cr. in FY2019 to Rs.447.71 Cr. in FY2020.

Acuité believes that merger will help in expanding the distribution network and footprints of the health insurance business, which in turn will help in increasing the scale of operations and improving the profitability.

Rating Sensitivity

- Credit profile of HDFC Ltd
- Any unexpected regulatory developments

Liquidity Position: Strong

Liquidity of HEHIL is comfortable with 35% of the investment portfolio being constituted of highly liquid G-Secs as on March 31, 2020. The company also had a cash and bank balances of Rs. 248.6 Cr as on the same date. The ownership by HDFC Ltd. and association with HDFC group considerably adds to the financial flexibility of the company.

Similarly, HEGIL is comfortable with ~42% of the investment portfolio being constituted by highly liquid G-Secs as on March 31, 2020. The company also had a cash and bank balances of Rs. 732.3 Cr as on the same date.

Outlook: Stable

Acuité believes that HEGIL will maintain a stable credit risk profile over the medium term on the back of strong financial and managerial support from the HDFC group.

About the Rated Entity - Key Financials (HEGIL)

	Unit	FY20 (Actual)	FY19 (Actual)
Gross Written Premium Income	Rs. Cr.	9,438.91	8,721.80
Profit after tax	Rs. Cr.	447.71	382.99
Combined ratio	(%)	102.63%	98.74%
Solvency Ratio	Times	1.89	1.75
Return on Net Worth(RoNW)	(%)	18.39%	19.32%

About the Rated Entity - Key Financials (HEHIL)

	Unit	FY20 (Actual)	FY19 (Actual)
Gross Written Premium Income	Rs. Cr.	2,521.66	2194.44
Profit after tax	Rs. Cr.	(168.17)	11.20
Combined ratio	(%)	112%	100%
Solvency Ratio	Times	1.74	1.64

Return on Net Worth(RoNW)	(%)	(27.9%)	2.59%
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Insurance companies: <https://www.acuite.in/view-rating-criteria-66.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
February 24, 2020	Subordinated debt	Long Term	74.00	ACUITE AAA /Stable (Upgraded)
June 22, 2019	Subordinated debt	Long Term	74.00	ACUITE AA (Placed Under rating watch with Positive implications)
October 30, 2018	Subordinated debt	Long Term	74.00	ACUITE AA/Stable (Assigned)

*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 AAA/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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