Press Release

HDFC ERGO General Insurance Company Limited

December 01, 2021

Rating Reaffirmed

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	74.00	74.00	ACUITE AAA | Stable | Reaffirmed	
Total	74.00	74.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE AAA' (read as ACUITE t riple A)** to the Rs. 74.00 Cr Non-Convertible debentures of HDFC Ergo General Insurance Company Limited (HEGIL). The outlook is **'Stable'**.

The rating continues to take into account the strong parentage of HDFC Ergo General Insurance Company Limited (HEGIL) as HDFC Ltd holds 49.98 percent stake while ERGO International AG and Munich Health hold of the remaining 48.99 percent as on Sept 30, 2021. By virtue of HDFC group ownership, HEGIL holds strategic importance for the HDFC group and also derives support from its representation on HEGIL's board of directors, capital support and shared brand name. Post the merger of HDFC ERGO Health Insurance Limited (HEHIL) with HEGIL, HEGIL has emerged as second largest health insurance and third largest private general insurance player in India. The company had a market share (merged entity) of about 6.2 percent end FY2021. The rating further factors in HEGIL's experienced management team; multi-geography and diversified product portfolio with multi-channel distribution, strong business growth and healthy solvency ratio. As on March 2021, the company had solvency ratio of 1.90 times as against the minimum regulatory requirement of 1.50 times. Further, in FY2021, the company reported gross written premium of Rs 12,444 Cr. (P.Y Rs 9760 Cr.), recording annual growth of ~28% over the past year which was driven by its acquisition of HDFC ERGO Health Insurance Company Ltd (HEHI, erstwhile Apollo Munich Health Insurance Company Ltd).

Acuité notes the impact on financial performance amid higher Covid claims with H1FY22 PAT declining to Rs 152.77 Cr (H1FY2021: Rs 394.12 Cr). Going forward, maintenance of healthy solvency ratio, business growth and profitability and timely parent support from HDFC Group would remain key monitor able.

About the company

Incorporated in 2002, Mumbai based 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 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.

Key Rating Drivers

Strength

- **Strong parent support**

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. HEGIL benefits from the presence of a shared brand name, capital and managerial support from both HDFC Limited & ERGO International Limited. Post the completion of the merger of HEHI with HEGIL during FY2021, HDFC holds 49.48 percent stake as on Sept 30, 2021 followed by ERGO International AG (41.79 percent) and Munich Health Holding, AG (7.20 percent).

Apart from regular and timely capital support from both HDFC and ERGO International AG, HEGIL benefits from managerial support in the form of representation on the Board. 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 mortgage financing player with PAN India presence and strong brand name.

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. The stock is widely held by marquee domestic and overseas institutional investors. Besides HDFC Ltd., the other companies from the group also hold dominant position in their respective segments. HDFC Bank Ltd. is one of the largest private sector bank in India; HDFC Asset Management Company Ltd. is the currently the second largest Asset Management Company in the country; HDFC Life Insurance Company Ltd. is India's leading private insurer (in life segment); HDFC Ergo General Insurance Company Limited Ltd (HEGIL) 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 FY21 was Rs. 12443.9 Cr.
Further, HEGIL is headed by Mr Ritesh Kumar who has more than 25 years of experience in the financial service industry.

Acuité expects HDFC to continue to exercise management control and support the business operations of HEGIL as and when required.

- **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.

HEGIL reported a gross written premium of Rs. 12443.9 Cr.in FY2021 as against Rs. 9760.1 Cr in FY2020, reporting a growth of ~27 percent. 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 will sustain the pace of healthy business growth over the medium term, which will help to increase the scale of operations and lead to improvement in the core profitability.

Acuité 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.

- **Healthy solvency levels and Sound investment Portfolio Mix**

As on Sept 30, 2021 the company reported net worth of Rs 3490.60 Cr. with total debt of Rs 504 Cr. resulting in a low gearing of 0.14 times as on Sept 30, 2021 (Provisional). Despite high claim settlements, the solvency ratio stood at 1.90 times as on March 31, 2021. Acuité believes the company's capital position will remain adequate backed by expectation of timely capital infusion from its parents.

As on March 31, 2021, the Investment Assets of the Company stood at Rs 16,643 Cr (PY: Rs 13,577 Cr). The IRDAI (Investment) Regulations, 2016 requires Non- Life companies to invest 30 percent of their Investment Assets in Government and approved Securities, 15 percent in the Infrastructure sector and Housing sector. The Company held Rs. 6,789 Cr (40.8 percent) in Government securities, Rs 4,940 Cr (29.7 percent) in securities of the Infrastructure and Housing sector and remaining Rs 4,914 Cr (29.5 percent) in approved and other investments. Also, the Company held 94 percent of its assets in Sovereign and AAA or equivalent rated assets, reflecting a high degree of safety.

- **Modest profitability**

The underwriting operations are expected to be gradually accretive over the medium term with the increase in scale of operations. The combined ratio stood at 103.25 percent for FY2021 as against 105.26 percent for FY2020.The profit after tax of HEGIL increased from Rs. 592 Cr. in FY2021 to Rs. 327 Cr. in FY2020 while the company reported PAT of Rs 152.77 Cr for H1FY22. The decline in PAT for H1FY22 is on account of higher claims majority comprising of COVID claims (~45000 Covid claims).

Acuité believes the 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.

Weakness

- **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 the 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.

The four public sector insurers in non-life segment led by New India Assurance Company Limited still account for 41 percent 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.

ESG Factors Relevant for Rating

Corporate governance has a significant bearing on the insurance industry. Factors such as business ethics, regulatory compliance, management compensation, board diversity and independence are highly relevant factors. Likewise, practices such as delayed claim settlements, miss-selling of financial products and failures of control mechanisms are other material issues. Furthermore, shareholders' rights and audit quality play a crucial role. From the social perspective, data mining, artificial intelligence and digitization have brought significant efficiency gains to this sector but at the same time it has become vulnerable to the risk of system failures and cyber-attacks. Apart from data privacy, customer engagement, workforce diversity and adequate employee training are social issues with high materiality. Further, the quality of insurance products and its role in enhancing insurance coverage and promoting financial inclusion among the population is also a crucial factor. Environmental factors have a relatively lower significance to the insurance industry in comparison to social and governance issues; however, investments by insurers should include financing of sustainable projects and companies with a healthy ESG track record.
HEGIL has made adequate disclosures regarding its policies on related party transactions, vigil mechanism, policyholder protection, grievance redressal committee and whistle blowing. Additionally, the company has made disclosures regarding its policies with respect to enterprise-wide Risk Management Framework (RMF), which addresses all relevant risks including strategic risk, operational risks, investment risks, insurance risks and information & cyber security risks. The Company has a board approved policy on appointment of directors, senior management and other employees and a policy on their compensation structure as well. It has maintained transparency regarding fixed and variable compensation for its CEO and MD and commission to be paid to its independent directors. The company has a total of four independent directors and one female director out of fourteen directors. The Audit and Compliance Committee of HEGIL comprises of six members – four Independent Directors and two Non– Executive Directors with the Chairman of the Committee being an Independent Director. There are no penalties levied on the company during the FY2020-21 by various government authorities and regulator as per public sources. Acuite has noted that the company does not have any unallocated claims for the FY2020-21. In the social category, it has ISO certified processes for customer service, operations, information security management and quality management system for fraud investigation and control. In addition, HEGIL has a well laid out CSR policy and is actively engaged in programmes that contribute towards community development.

Rating Sensitivity

- Continued parent support
- Credit profile of HDFC Ltd
- Any unexpected regulatory developments
- Movement in Profitability & Solvency metrics

Material Covenants

None

Liquidity Position: Strong

The ownership by HDFC Ltd. and association with HDFC group considerably adds to the financial flexibility of the company. HEGIL is comfortable with 40.8 percent of the investment portfolio being constituted by highly liquid G-Secs as on March 31, 2021. Also, the Company held 94 percent of its assets in Sovereign and AAA or equivalent rated assets, reflecting a high degree of safety. The company also had a cash and bank balances of Rs. 180.93 Cr as on Sept 30, 2021 (provisional).

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.

Key Financials

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Gross Written Premium Income	Rs. Cr.	12443.90	9760.10
Profit after tax	Rs. Cr.	591.70	326.90
Combined ratio	(%)	103.20	105.30
Solvency Ratio	Times	1.90	1.78
Return on Net Worth(RoNW)	(%)	20.21	12.86

Status of non-cooperation with previous CRA (if applicable):
Not Applicable

Any other information
None

Applicable Criteria
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Insurance Companies: https://www.acuite.in/view-rating-criteria-66.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History

Date	Name of I st ruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Nov 2020	Non Convertible Debentures	Long Term	74.00	ACUITE AAA | Stable (Reaffirmed)
24 Feb 2020	Non Convertible Debentures	Long Term	74.00	ACUITE AAA | Stable (Upgraded from ACUITE AA)
22 Jun 2019	Non Convertible Debentures	Long Term	74.00	ACUITE AA (Ratings Under Watch)
30 Oct 2018	Non Convertible Debentures	Long Term	74.00	ACUITE AA | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Not Applicable	INE092V08028	Non-Covertible Debentures (NCD)	18-09-2018	10.25	18-09-2028	74.00	74.00	ACUITE AAA | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.