

September 01, 2020

## **Bharti AXA General Insurance Company Limited: Rating placed under watch with developing implications**

### **Summary of rating action**

<b>Instrument*</b>	<b>Previous Rated Amount (Rs. crore)</b>	<b>Current Rated Amount (Rs. crore)</b>	<b>Rating Action</b>
Subordinated Debt Programme	255.00	255.00	[ICRA]AA-; placed under watch with developing implications
<b>Total</b>	<b>255.00</b>	<b>255.00</b>	

*\*Instrument details are provided in Annexure-1*

### **Material Event**

The Board of Directors of ICICI Lombard General Insurance Company Ltd. (“ICICIL – rated [ICRA]AAA(stable)”) and Bharti AXA General Insurance Company Ltd. (“BAXA-GI”) at their respective meetings held on August 21, 2020, approved entering into definitive agreements for demerger of BAXA-GI’s non-life insurance business into ICICIL through a Scheme of Arrangement. The scheme of arrangement does not include immovable property owned by BAXA-GI, brands used by and/or licensed to BAXA-GI and bonds issued by ICICI Bank Limited and held by BAXA-GI. As a consideration for the demerger, the shareholders of BAXA-GI shall be issued and allotted fresh equity shares of ICICIL basis the share swap ratio of 2 shares of ICICIL for 115 shares of BAXA-GI held. Post completion of the scheme of arrangement Bharati group and AXA group to be classified as public shareholders and will together hold 7.3% stake in ICICIL.

The completion of the proposed transaction is subject to various conditions precedent, including regulatory approvals from the Insurance Regulatory and Development Authority of India, Competition Commission of India, The Securities and Exchange Board of India, Stock Exchanges, Reserve Bank of India, NCLT and approval of shareholders of both ICICI Lombard and Bharti AXA, amongst others. Upon obtaining all approvals, when the scheme becomes effective, the non-life insurance business will be demerged from BAXA-GI into ICICIL.

### **Impact of the material event**

ICRA has taken note of the above-mentioned event and believes that the successful completion of the merger is contingent on the approvals from various regulatory authorities and government agencies including consent from the BAXA-GI’s subordinate debt holders as per the instrument terms. In addition, ICRA would monitor the transition period of aforesaid merger. Hence, ICRA has placed the BAXA-GI’s subordinated debt programme rating of [ICRA]AA- (pronounced ICRA double A minus) on ‘watch with developing implications’. Hence, ICRA will monitor the developments of the said arrangement and will continue to monitor BAXA GI’s business and financial performance in the interim period.

## Rationale

The rating continues to take into consideration (BAXA-GI's strong parentage with the Bharti Group holding a 51% stake and the AXA Group (AXA; Moody's insurance financial strength rating of Aa3/Stable and long-term debt rating of A2) holding a 49% stake as on March 31, 2020. ICRA also takes note of the shared brand name, strong capital support from the parent companies and the commitment of further capital, technical and operational support from the investors. BAXA-GI's foreign parent also provides support in the areas of reinsurance, product development, enhancement and actuarial functions. The rating is, however, constrained by the company's modest scale of operations and weak financial performance on account of provisioning for its debt investments in FY2020. The rating also factors in the company's geographically diverse operations and the recent changes in the senior management team. Going forward, continued support from the sponsors and the company's ability to diversify its product and sourcing mix, improve its underwriting and operating performance and manage the overall regulatory risk in the insurance segment will be key monitorables.

The previous detailed rating rationale is available on the following link: [Click here](#)

## Credit strengths

The previous detailed rating rationale is available on the following link: [Click here](#)

## Credit challenges

The previous detailed rating rationale is available on the following link: [Click here](#)

## Liquidity position: Adequate

The previous detailed rating rationale is available on the following link: [Click here](#)

## Rating sensitivities

The previous detailed rating rationale is available on the following link: [Click here](#)

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for rating hybrid debt instruments issued by insurance companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Parent/Investor: BEHPL & AXA; ICRA factors in the implied support of the parent entities and takes comfort from the management team's experience in the insurance business.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

## About the company

Bharti AXA General Insurance Company Limited is a joint venture between the Bharti Group and the AXA Group. The company offers a wide range of products including motor, health, fire, marine, engineering, property, travel and accident insurance for individuals and corporates. In FY2016, the Foreign Direct Investment Rules were amended, as per which foreign holding in insurance companies was increased to 49% of the insurer's share capital. Pursuant to this,

AXA increased its shareholding in the company to 49% from 22% by purchasing equity from Bharti Insurance Holdings Private Limited. The Bharti Group has a presence in telecom, agri-business, financial services, learning & development, and manufacturing. Its telecom business, Bharti Airtel Limited (BAL), one of the largest telecom operator in India. The AXA Group, headquartered in France, is a global conglomerate with a significant track record in the insurance space.

In FY2020, BAXA-GI reported a net loss of Rs. 244 crore on a total asset base of Rs. 5,803 crore compared to a net profit of Rs. 3 crore on a total asset base of Rs. 4,634 crore in FY2019.

### Key financial indicators (audited)

	FY2018	FY2019	FY2020	Q1 FY2021
Gross Direct Premium	1,754	2,258	3,134	509
Total Underwriting Surplus / (Shortfall)	(331)	(254)	(446)	(26)
Total Investment + Trading Income	268	292	392	95
PAT	(93)	3	(244)	39
Total Net Worth <sup>1</sup>	524	517	661	753
Total Technical Reserves	2,547	2,848	3,344	3,472
Total Investment Portfolio	3,211	3,884	4,765	5,152
Total Assets	3,877	4,634	5,803	5,974
Return on Equity (%)	-17.7%	0.6%	-41.3%	23.3%
Gearing (%)	0.42	0.43	0.39	0.34
Combined Ratio	125.3%	115.0%	120.4%	114.8%
Regulatory Solvency Ratio (times)	1.86	1.76	1.63	1.77

Amount in Rs. crore

Source: BAXA-GI & ICRA research

### Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2021)		Chronology of Rating History for the Past 3 Years			
				FY2021	FY2021	FY2020	FY2019	FY2018	FY2018
				01-Sep-20	30-Apr-20		26-Feb-19	30-Nov-18	22-Aug-17
1 Subordinated Debt Programme	Long Term	35.00	35.00	[ICRA]AA- &	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	-	-
2 Subordinated Debt Programme	Long Term	220.00	220.00	[ICRA]AA- &	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

<sup>1</sup> Excluding fair value change account

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE513L08016	NCD	23-Aug-17	8.98%	23-Aug-27	220.00	[ICRA]AA-(Stable)
INE513L08024	NCD	30-Apr-19	10.5%	29-Apr-29	35.00	[ICRA]AA-(Stable)

Source: BAXA-GI

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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## About ICRA Limited:

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