

Press Release

HDFC ERGO Health Insurance Limited (Erstwhile Apollo Munich Health Insurance Company Limited)

February 24, 2020

Rating Upgraded



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

* Refer Annexure for details

Rating Rationale

Acuite has upgraded its long-term rating on the Rs. 74.00 Cr. Non-Convertible Debentures of HDFC ERGO Health Insurance Limited (HEHIL) (Erstwhile. Apollo Munich Health Insurance Company Limited (AMHICL)) to **ACUITE AAA (read as ACUITE triple A)** from **ACUITE AA** (read as ACUITE double AA). The outlook is '**Stable**'.

Reasons for Upgrade

The upgrade in rating is primarily driven by the change in ownership of HEHIL (erstwhile AMHICL). HDFC Ltd., India's leading housing finance company has acquired majority stake of 51.16% in the company. The stake has been acquired from Apollo group, the original promoter of AMHICL. HDFC plans to merge the company with HDFC Ergo General Insurance Company Ltd (HEGIC), thereby strengthening the group's market position in the non-life and particularly the health insurance business. Acuite expects the merger to be completed by the first half of FY20. Acuite believes that HEHIL will maintain its solvency ratio well above the regulatory threshold in the near term with the expectation of strong support from the promoter, HDFC Ltd.

About the company:

HDFC ERGO Health Insurance Company Limited (HEHIL) (Erstwhile. Apollo Munich Health Insurance Company Limited (AMHICL)), is 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. Recently HDFC Ltd. acquired 51.16% stake in the Company from Apollo group, thereby becoming the majority shareholder in the Company. Going forward, HEHIL will be merged into HDFC ERGO General Insurance Company Limited (HEGIC).

Analytical Approach

Acuite has considered the standalone business and financial risk profile of HEHIL 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. Acuite believes that the existing debt of HEHIL shall be continued to be serviced in a timely manner till the impending merger with HEGIC is fully effected. Post-merger Acuite shall initiate appropriate rating action.

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**

HEHIL (erstwhile Apollo Munich Health Insurance Company Limited (AMHIC)) is a 51.16% subsidiary of HDFC Ltd., India's leading housing finance company and Flagship Company of the HDFC Group. Recently, HDFC Ltd acquired the majority stake in AMHICL from the Indian co-promoters and renamed the company as HEHIL. The balance 48.43% stake is held by Munich Health Holding AG.

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. 4.61Tn. (USD 64 Bn) & Shareholder Funds of Rs.770 Bn. (USD 10.7Bn) (As on March 31, 2019).

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 February 17, 2019 was Rs.4.07 Tn. (USD 56 Bn). 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 the largest private sector bank in India with loan book of Rs.8.19 Tn. (Position as on March 31, 2019). The market capitalisation of HDFC Bank Ltd was ~Rs.6.6 Tn. (~USD 92 Bn.) as on Feb 17, 2020. HDFC Asset Management Company Ltd. is the currently the second largest Asset Management Company in the country (AUM Rs. 3.44 Tn as on March 31, 2019). HDFC Life Insurance Company Ltd. is India's leading private insurer (in life segment) with a total premium income of Rs. 291 Bn during FY2019. 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 FY19 was Rs.87.22 Bn.

The new management has already announced plans to merge HEHIL with HEGIC, HEHIL has a presence currently in health insurance segment whereas HEGIC has a presence in health and general (non-health) insurance segments. The merger is expected to result in significant operational and financial synergies and strengthen HDFC's market position in the domestic health insurance segment. Till the merger is effected, HEHIL will benefit from the association with the HDFC group and their proven management expertise to scale up their operations. In the interim period, the integration of the operations of HEHIL with HEGIC is being overseen by the management team of the latter.

- **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 direct premium income of Rs. 2194 Cr. in FY2019 as against Rs. 1717.5 Cr. in FY2018, registering a growth of 28%. The company held 18% (source: IRDAI) market share (based on GDPI in FY2019) among the standalone private health insurers. 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.

Acuite believes that the health insurance business under HEHIL and HEGIC (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 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 HEHIL 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 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 as of January 2020.

The four public sector insurers in non-life segment led by New India Assurance Company Limited still account for 38% of the market (in terms of Gross Underwritten Premium data of IRDA as on January 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**

HEHL has modest profitability with return on net worth of 2.6% in FY2019. The underwriting balance ratio has been volatile and stood at 0.1% in FY2019. The company reported an underwriting profit of Rs. 23.13 Cr. in FY2019 compared to an underwriting loss of Rs. 8.39 Cr. in FY2018. 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 100% for FY2019 as against 99% In FY2018 due to an increase in the claims ratio to 63% from 55% in FY2017. Investment and other income (including capital gains/losses) at Rs. 108.9 Cr. in FY2019 (Rs. 85.92 Cr. in FY2018) helped in mitigating the impact of adverse underwriting profitability.

Acuite believes that HEHL or the health insurance business in the merged entity will witness a significant improvement in the underwriting performance and profitability with the integration with HEGIC and the increase in scale of operations.

Rating Sensitivity

- Credit profile of HDFC Ltd
- Any unexpected regulatory developments

Liquidity Position (HEHL): Strong

Liquidity is comfortable with 41% of the investment portfolio being constituted of highly liquid G-Secs as on March 31, 2019. The company also had a cash and bank balances of Rs. 302.5 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.

Outlook: Stable

Acuite believes that HEHL 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 (Standalone)

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Gross Direct Premium Income	Rs. Cr.	2194.44	1,717.51	1,301.93
Profit after tax	Rs. Cr.	11.20	15.24	132.29
Combined ratio	(%)	100%	99%	97%
Solvency Ratio	Times	1.64	1.74	1.9
Return on Net Worth (RoNW)	(%)	2.6%	3.6%	32.5%

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Material Covenants

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
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 (Upgraded from ACUITE AA/ Stable)

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President – Rating Operations Tel: 022- 4929 4071 suman.chowdhury@acuite.in</p> <p>Salome Farren Analyst - Rating Operations Tel: 022- 4929 4072 salome.farren@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-4929 4021 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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