Reliance General Insurance Company Ltd.

May 28, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Subordinated Debt issue	254 (Rs. Two hundred & Fifty Four crore only)	**CARE A+ (Single A Plus) (Credit watch with developing implications)**	**Revised from CARE AA-; Stable(Double A Minus; Outlook: Stable) and placed on credit watch with developing implications**

Details of instruments/facilities in Annexure-1

The rating of the Subordinated Debt of an insurance company takes into consideration its increased sensitivity to the insurers' solvency position and profitability during the tenure of the instrument. The rating factors in the additional risk arising due to the following key features of the instrument.

- Servicing of interest is conditional on company maintaining a solvency above the levels stipulated by the regulator
- In case of the insurance company reporting a net loss or if the payment of coupon on the subordinate debt is expected to result in a net loss, the company requires obtaining a prior approval of the regulator for coupon payment on such sub debt

Any delay in payment of coupon/principal (as the case may be) would constitute an event of default as per CARE Ratings' definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared to the Claims Paying Ability rating.

Detailed Rationale & Key Rating Drivers

The revision in the rating of subordinated debt of Reliance General Insurance Company Limited (RGIC) is primarily caused by moderation in the credit profile of its parent, Reliance Capital Limited (RCL), where ratings were revised from 'CARE A+; credit watch with developing implications' to 'CARE BBB; credit watch with developing implications'. The rating of RGIC factors in expected support from its parent RCL.

The rating is placed under credit watch with developing implications on account of RCL's plan of monetizing stake in RGIC through a strategic investor or through listing/IPO.

The rating continues to derive strength from RGIC's experienced management, diversified revenue and product profile, improved financial performance, sound investment portfolio, strong systems and processes as well as geographical diversification of business. The rating also takes into account moderate solvency ratio of the company. Continued support from parent, solvency ratio, achieving scale while maintaining quality of portfolio as well as improvement in financial performance are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating strengths

Parent Support

RGIC is a wholly owned subsidiary of Reliance Capital Ltd. (RCL). The credit profile of the company derives comfort from the capital and management support extended to it by RCL. The company has a demonstrated track record of capital support from its parent to fund its initial loss making general insurance operations. The company achieved full year profitability during FY14.

Experienced Management

The day to day operations of the company are headed by Mr. Rakesh Jain, Executive Director & CEO. Mr. Jain has work experience of over two decades in corporate finance, risk management, underwriting, claims, broking and reinsurance functions etc. Prior to his position in RGIC, he was Director - Corporate Centre & CFO at ICICI Lombard GIC Ltd. He is assisted by an experienced team across various functions. RGIC's Board comprises of professionals who have significant experience in their respective fields.

Diversified Revenue and Product Profile

RGIC has emerged as one of the leading players in non-life insurance space. As on March 31, 2018, the company had a network of 128 branches and has sold over 47 lakh policies in FY18. The company has a diversified revenue and product

[1] *Complete definition of the rating assigned are available at www.careratings.com and other CARE publications.*

profile. As on March 31, 2018, RGIC has total sum insured of Rs.14,42,163 crore, spread across 35 states and union territories. As on March 31, 2018, top 5 states account 95% of total sum assured. Maharashtra accounts 32%, Delhi 19% and West Bengal 16% of sum assured respectively. As on March 31, 2018, motor insurance constituted 49% of GDP, Crop-23%, and medical insurance 15% with the rest being miscellaneous.

Improved Financial position

The company achieved full year profitability during FY14. During 2015-2018, the company gross premium written (GPW) and net premium written (NPW) registered CAGR of 23% and 18% respectively. During FY18, RGIC's GPW grew by 29% as compared to 41% growth in FY17. Apart from the continuing contribution from the motor and crop insurance, there was higher growth in the medical insurance segment. The share of medical insurance segment, proportion GPW increased from 8.75% in FY17 to 14.55% in FY18. The operating expense ratio declined in FY18 to 31% as compared to 38% due to marginal reduction in share of crop insurance segment. Loss ratio also reduced to 85% in FY18 as compared to 92% in FY17 as a result overall combined ratio declined to 114% in FY18 as compared to 122% in FY17.
During 9MFY19, RGIC reported PAT of Rs.147 crore as compared to PAT of Rs.119 crore in 9MFY18.

Sound investment portfolio

The company had an investments portfolio of Rs.7999 crore as on March 31, 2018 [March 31, 2017: Rs.6724 crore]. As on March 31, 2018, 76% of investments portfolio was categorized as AAA/ G-secs [March 17: 74%], 21% as AA category [March 17: 24%], Nil in A category [March 17: 0.15%] with the rest being unrated (incl. FD, equity, AIF investments, REIT and Invits).

Key rating weaknesses

Moderate Solvency Position

The company has moderate solvency position. As on December 31, 2018, solvency margin stood at 1.64x [FY18.: 1.68x] as against IRDA mandated cap of 1.50x. As informed going forward, the company intends to maintain minimum solvency margin to 1.55x.

Analytical approach: RGIC has been assessed on a standalone basis along with factoring the support it derives from its parent, RCL

Applicable Criteria

CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Policy in respect of Non-cooperation by issuer
Financial ratios – Financial sector
Insurance Claim Paying Ability
Rating Methodology: Factoring Linkages in Ratings

Liquidity Profile

As on December 31, 2018, RGIC had cash & cash equivalent worth around Rs.214 crore. Further, the company has over 70% of its investment portfolio is in AAA/G-sec category, which is relatively liquid in nature.

About the Company

Reliance General Insurance Company Ltd. (RGIC), incorporated on 17th August 2000, is a wholly owned subsidiary of Reliance Capital Ltd (RCL), rated 'CARE BBB; credit watch with developing implications'. RGIC offers complete bouquet of general insurance products like fire, marine, crop, health, personal accident, liability, motor, weather etc. and has sold over 47 lakh policies in FY18. As on March 31, 2018, RGIC had branch network and employee strength of 128 and 2699 respectively. The company sources business largely through the network of agents who are associated with the sales managers. Motor, crop and medical insurance are major revenue contributing segments for RGIC. During FY18, these two segments collectively contributed 87% of the total gross direct premium (GDP).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Gross Direct Premium	3935	5069
PAT	130	165
Total Assets	7620	9301
ROTA (%)	1.88	1.95

A- Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Subordinated Debt issue	16-08-2016	9.10%	17-08-2026	230	CARE A+ (Credit watch with developing implications)
Subordinated Debt issue (Proposed)	-	-	-	24	CARE A+ (Credit watch with developing implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debt-Subordinate Debt	LT	230.00	CARE A+ (Credit watch with developing implications)	1)CARE AA-; Stable (05-Mar-19)	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (26-Mar-18) 2)CARE AA; Stable (06-Apr-17)	1)CARE AA (20-Jun-16) 2)CARE AA (26-May-16)
2.	Debt-Subordinate Debt	LT	24.00	CARE A+ (Credit watch with developing implications)	1)CARE AA-; Stable (05-Mar-19)	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (26-Mar-18) 2)CARE AA; Stable (06-Apr-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact

Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Mr. Ravi Kumar
Contact No: 022-6754 3421/9004607603
Email ID: ravi.kumar@careratings.com

Business Development Contact

Mr. Ankur Sachdeva
Contact no. : +91 9819698985
Email ID: Ankur.sachdeva@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**