

February 3, 2023 ^(Revised)

Aditya Birla Sun Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	350.00	350.00	[ICRA]AA+ (Stable); reaffirmed
Total	350.00	350.00	

*Instrument details are provided in Annexure I

Rationale

The rating considers Aditya Birla Sun Life Insurance Company Limited's (ABSLI) strong promoter profile with Aditya Birla Capital Limited (ABCL; [ICRA]AAA (Stable)/[ICRA]A1+) holding a 51.0% stake and Sun Life Financial Inc. holding a 49.0% stake as on September 30, 2022. The rating factors in the strategic importance of ABSLI to ABCL, as demonstrated by regular equity infusions, its representation on ABSLI's board of directors and the presence of a shared brand name. This strengthens ICRA's belief that ABCL will provide capital support to ABSLI, as and when required. ICRA notes the latest capital infusion of Rs. 260 crore by the promoters in ABSLI to support its high growth, leading to proforma solvency of 188% (173% as on September 30, 2022). The above-mentioned factors are partially offset by the company's moderate scale of operations with a market share¹ of 1.9% in 8M FY2023 in terms of new business premium (NBP). ABSLI's operating expenses remain relatively higher than private peers, which mainly resulted in moderate return ratios.

Key rating drivers and their description

Credit strengths

Strong promoter profile supports capitalisation – ABSLI is a subsidiary of ABCL, which had a 51% stake as of September 30, 2022 while Sun Life Financial (India) Insurance Investments Inc. held 49%. ABCL is the holding company of all the financial services entities of the Aditya Birla Group and is a prominent growth driver for the Group. The ABCL Group enjoys strong financial flexibility by virtue of being a part of the Aditya Birla Group. The presence of a shared brand name and the track record of capital infusions strengthen ICRA's belief that ABSLI will receive capital support from its majority shareholder (ABCL) as and when required.

With the growth in the business, the company's solvency declined to 173% as on September 30, 2022 from 188% as on March 31, 2022. With the infusion of Rs. 260 crore in Q3 FY2023, the proforma solvency improved to 188%. The company's solvency has been supported by regular capital infusions by the promoters. Further, ABSLI has headroom for raising additional sub-debt of ~Rs. 551 crore², which could boost the solvency to ~221%³ on a proforma basis (including the recent equity infusion) and is likely to support the growth in the medium term.

Deeper penetration in existing distribution network and improving persistency to support growth – ABSLI operates with a network of 340+ own branches, tie-ups with 8 bancassurance (banca) partners and over 54,000 agents spread across India as of September 2022. The banca partners mainly include HDFC Bank, Indian Bank, DBS, DCB, Karur Vysya Bank, Deutsche Bank, and Ujjivan Small Finance Bank, covering over 14,500+ bank branches. Within banca, HDFC Bank is the key contributor with a

¹ Market share calculated as percentage of private insurers and LIC of India

² As per the revised regulation, whereby the threshold limit has been increased to 50% from 25% of paid-up capital & share premium, subject to 50% of the company's net worth

³ Considering required solvency margin (RSM) as on September 30, 2022

share of 52% in the overall individual NBP. The company has been improving its presence in the banca channels. Apart from banca, it has access to the wide network of Group companies. It has a presence in 90 one ABC branches. Business through ABCL Group entity upsell and cross-sell accounted for ~29% of individual new business premium. The improving distribution network has led to a much higher growth in the company's NBP in relation to the sector.

The company's persistency ratio improved over the last few years with a 13th month persistency of 85.6% in H1 FY2023 (83.4% in H1 FY2022). The improvement was mainly driven by analytics and digital initiatives, which support the renewal premium growth. Moreover, ABSLI plans to improve the productivity of its proprietary channels and invest in relatively low-cost banca channels to support growth.

Credit challenges

Moderate profitability – ABSLI's operating expenses were relatively high at 17.4% of the gross premium in FY2022 compared to the private insurers' average of 16.6% despite the relatively higher share of single premium/group business. The operating expenses ratio had improved gradually from 21.3% in FY2019 with the growth in scale. With the waning of Covid-19 infections and the healthy growth in net premium written (NPW), net benefit paid/NPW improved to 42.8% in H1 FY2023 from 70.3% in H1 FY2022. The company reported a return on equity of less than 5.0% in the last few years. With the growth in the non-participating (non-par) segment, the initial reserving has remained high, thereby impacting the profitability.

ABSLI's net VNB margin, however, improved to 15.0% in FY2022 (12.3% in H1 FY2023) from 10.6% in FY2021 due to operating leverage and the increase in the share of the non-par and group credit life segments. Further, the company's operating return on embedded value (EV) improved to 15.4% in FY2022 (13.7% in FY2021). Going forward, the growth in the profitability and the VNB margins will be driven by the improvement in the operating efficiency with the growth in the business.

Moderate scale of operations – ABSLI's NBP grew 41.8% YoY to Rs. 4,626 crore in 8M FY2023. It was higher than the life insurance industry and the private life insurers' growth, albeit on a lower base. This resulted in a rise in ABSLI's market share to 1.9% as of November 2022 from 1.8% as of November 2021. However, the company's operations remain moderate in terms of NBP.

Liquidity position: Strong

The company's net premium (excluding linked) stood at Rs. 7,849 crore in FY2022 in relation to the maximum net claims and benefits (excluding linked) paid of Rs. 2,416 crore (FY2022) in the last few years. ABSLI had investments in Central Government securities and state government securities (SGSs), which stood at 61% of the total investments (excluding linked investments) of Rs. 34,376 crore as on September 30, 2022. This further supports the liquidity to meet the claims of policyholders. The shareholders' investment stood at Rs. 3,015 crore, which remains strong in relation to the sub-debt outstanding of Rs. 500 crore as on September 30, 2022.

Rating sensitivities

Positive factors – ICRA could revise the rating if there is a substantial and sustained improvement in ABSLI's market share, solvency and profitability, leading to an improvement in its financial risk profile.

Negative factors – The outlook or the rating could be revised in case of a deterioration in the credit profile of the Aditya Birla Capital Limited, a significant change in the company's shareholding or in its linkages with the ABCL Group. Pressure could also arise if the company's solvency ratio deteriorates to less than 170% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Rating Approach – Implicit Parent or Group Support Rating Approach - Consolidation
Parent/Group support	Parent support: Aditya Birla Capital Limited ICRA notes the shared brand name and the majority shareholding of ABCL. The ratings consider the financial and management support expected to be received by ABSLI from the parent.
Consolidation/Standalone	Consolidated (refer Annexure II for details)

About the company

Aditya Birla Sun Life Insurance Company Limited (ABSLI) is a life insurance subsidiary of Aditya Birla Capital Limited (ABCL). ABSLI was incorporated on August 4, 2000 and commenced operations on January 17, 2001. It is a 51:49 joint venture between the Aditya Birla Group and Sun Life Financial Inc., a leading international financial services organisation in Canada.

ABSLI offers a range of products across the customer's life cycle, including children future plans, wealth protection plans, retirement and pension solutions, health plans, traditional term plans and unit linked insurance plans (ULIPs).

The company reported a profit after tax (PAT) of Rs. 62 crore and gross premium of Rs. 6,373 crore in H1 FY2023 against Rs. 58 crore and Rs. 4,921 crore, respectively, in H1 FY2022. For FY2022, the company reported a PAT of Rs. 127 crore and gross premium of Rs. 12,140 crore against Rs. 106 crore and Rs. 9,775 crore, respectively, for FY2021.

Aditya Birla Capital Limited

Aditya Birla Capital Limited (ABCL) is a non-deposit taking systemically important core investment company (CIC-ND-SI) registered with the Reserve Bank of India (RBI). It is the holding company of the financial services businesses of the Aditya Birla Group. Pursuant to the merger of Aditya Birla Nuvo Limited (ABNL) and Grasim Industries Limited and restructuring of group operations, ABCL got listed on the Bombay Stock Exchange and the National Stock Exchange in September 2017. As on September 30, 2022, the promoter group held a stake of 71.06% (of which Grasim holds 54.17%) in ABCL.

Sun Life Financial Inc.

Sun Life Financial Inc. is a leading international financial services organisation in Canada. It is one of the largest public companies in Canada with a market capitalisation of C\$38.4 billion as on January 20, 2023. Its offerings include insurance and investment products and services. Through its subsidiaries (or group companies), Sun Life has a presence in India, Canada, USA, the UK, Singapore, China, Hong Kong, Vietnam, Malaysia, Indonesia and Philippines. It is a market leader in insurance and wealth solutions in Canada. In USA, it is a leader in group benefits products. The company has offices in 27 markets, with 42,100 plus employees and 1,40,900 advisors. The company reported net income of C\$3.9 billion in 2021 on assets under management (AUM) of C\$1.4 trillion as of Q4 FY2021.

Key financial indicators (audited) – Standalone

Aditya Birla Sun Life Insurance Company Limited	FY2021	FY2022	H1 FY2022	H1 FY2023
Gross premium	9,775	12,140	4,921	6,373
Income from investment and fees	7,750	5,302	4,128	1,440
Total operating expenses*	1,864	2,117	904	1,195
PAT	106	127	58	62
Total net worth	2,398	2,549	2,455	2,597
Total policyholders' + shareholders' investments**	24,648	30,636	26,879	34,376
Total expense ratio (including commission expense)	19.1%	17.4%	18.4%	18.8%
Return on equity^	4.4%	5.0%	4.7%	4.7%
13 th month persistency ratio	81.9%	84.6%	83.4%	85.6%
61 st month persistency ratio	49.3%	51.7%	50.6%	52.3%
Regulatory solvency ratio (times)	1.80	1.88	1.89	1.73

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * Total operating expenses includes net commission expenses;

** Investments exclude linked investments; ^Return on equity is annualised for H1 FY2022 and H1 FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding as of Dec-31-22 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020
					Feb-07-22	Jun-02-21	-		
1 Subordinated debt programme	Long term	350.00	350.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	

Source: Company, ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE951F08036	Subordinated debt programme	Nov-30-2021	7.63%	Nov-30-2031	155.00	[ICRA]AA+ (Stable)
INE951F08028	Subordinated debt programme	Jul-26-2021	7.45%	Jul-25-2031	195.00	[ICRA]AA+ (Stable)

Source: Company

Key features of rated debt instrument

The rating also factors in the key features of the instrument, in line with the applicable guidelines for subordinated debt:

- » Servicing of interest is contingent on the company maintaining a solvency ratio above the levels stipulated by the regulator⁴
- » If the interest payouts lead to a net loss or an increase in the net loss, the prior approval of the regulator would be required to service the debt

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
Aditya Birla Sun Life Pension Management Company Limited	100%	Full Consolidation

Corrigendum

Updated the link for “Rating Approach-Consolidation” in the analytical approach section on page 3 on the document dated February 3, 2023.

⁴ As per IRDAI, insurers are required to maintain a minimum solvency ratio of 1.50 times

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