December 28, 2023

SBI General Insurance Company Limited: [ICRA]AAA (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	700.00	[ICRA]AAA (Stable); assigned
Total	**700.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned rating factors in the strong parentage of SBI General Insurance Company Limited (SBI General) with State Bank of India {SBI; rated [ICRA]AAA (Stable)}[1] holding a 69.74% equity stake as on September 30, 2023. The rating considers the shared brand name, the strategic importance of SBI General to SBI, the demonstrated capital support since inception and the representation on SBI General's board of directors, which strengthens ICRA's expectation of adequate and timely capital support if required. The rating derives comfort from SBI General's comfortable capitalisation with a reported solvency of 1.98 times as on September 30, 2023 (compared to the required regulatory level of 1.50 times), supported by the capital infusion by the shareholders in Q1 FY2024. The rating also reflects SBI General's leading position in the general insurance space as the sixth largest private insurance company in India with a market share of 4.1%[2] in H1 FY2024 and its diversified distribution network and product portfolio.

SBI General's net profitability has declined since FY2022 with the company reporting underwriting losses, given the higher claims ratios in the health and motor segments and the increase in management expenses. The return on equity (RoE) remained moderate at 6.0% in FY2023 (3.0% (annualised) in H1 FY2024). Going forward, the company's ability to improve its underwriting performance would be critical for enhancing its profitability profile. The company has a high share in the crop segment (29.6% of gross direct premium income (GDPI) in H1 FY2024), which is driven by tenders and could be lumpy and volatile in nature.

The Stable outlook reflects SBI General's diversified product profile and the expectation that the company will continue to receive support from the promoter and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong parentage with capital, strategic, and operational support – SBI is the largest shareholder in SBI General with a 69.74% stake as on September 30, 2023, followed by Nepean Opportunities LLP (15.95%). SBI General is strategically important to its promoter, with the same underlined by the shared brand name, track record of equity infusions and board-level oversight. SBI is the largest public sector bank in India with a network of 22,405 branches in March 2023, spread across the country. This enables SBI General to leverage the bancassurance channel to source business at a relatively lower cost. Further, it has an exclusive partnership with SBI, which contributes 23.6% to the company's overall GDPI as of H1FY2024.

[1] *For Basel III Tier II Bonds*

[2] *Industry GDPI excludes specialised insurers, i.e., Agriculture Insurance Co of India Ltd. and ECGC Ltd.*

SBI General's board has eight directors and has representation from SBI with Chairman of SBI being the Chairman of SBI GIC; in addition, the Managing Director (MD) & Chief Executive Officer (CEO) is on deputation from SBI. SBI General thus benefits from the strong brand name of its promoter, operational support via the expansive nationwide network, vast customer base and robust brand equity. Going forward, the continued support of the promoter would be a key rating sensitivity.

Comfortable capitalisation supported by equity infusions – SBI General reported a solvency of 1.98 times as on September 30, 2023, compared to the minimum regulatory requirement of 1.50 times, supported by the equity capital infusion of Rs. 689 crore by the shareholders in April 2023. The capitalisation in the past has also been supported by healthy internal accruals (average RoE of 20.9% during FY2018-FY2021) and lower risk retention. However, the profitability was impacted in recent years. SBI General has also increased retention across various segments such as health and motor in the current fiscal, which is likely to lead to higher capital consumption. The company, however, has headroom for raising additional sub-debt of ~Rs. 1,144 crore, which could support its solvency levels despite higher risk retention. ICRA also expects capital support from the parent to meet the growth plans, while maintaining the solvency above ICRA's negative threshold of 1.70 times.

Diversified product portfolio and distribution network – SBI General is the sixth largest private general insurance company with a market share of 4.1% in H1 FY2024 (4.5% in FY2023) in terms of GDPI. The health & personal accident segment is the largest contributor with its share increasing consistently (29.7% in H1 FY2024 from 23.2% in FY2020). Within health, Group health accounts for a major share of the health business. The motor segment also holds a substantial share in the GDPI (20.4% in H1 FY2024). Apart from group health and motor, the company has a strong presence in the crop and fire segments, which contributed 29.6% and 15.7%, respectively, to the GDPI in H1 FY2024.

The business growth is supported by SBI General's diversified distribution network with brokers, direct business and bancassurance contributing 32.2%, 35.4% and 26.2%, respectively, to the total GDPI in H1 FY2024. Excluding the crop business, which is sourced directly, the share of bancassurance (largely SBI and its regional banks) stood at 37.3% of the GDPI in H1 FY2024. The company intends to maintain a balanced product and distribution mix.

Credit challenges

Moderate profitability – SBI General's underwriting performance has weakened over the last two years with the company reporting underwriting losses (combined ratio of 113.7% in FY2022, 106.7% in FY2023 and 111.0% in H1 FY2024) compared to underwriting profits in the previous years (average combined ratio of 95.2% in FY2018-FY2021). The underwriting losses were largely due to the rise in claims in the health and motor segments. The health segment was impacted in FY2022 due to the Covid-related claims. The health claims ratio is yet to reach the pre-Covid-19 pandemic level and remained elevated in H1 FY2024 with the growth of group health. The claims ratio in the motor segment has been elevated due to the higher claims experienced in the newer products and geographies entered by the company in FY2022. Incrementally, SBI General has stopped disbursements in these segments, which led to an improvement in the motor claims ratio in H1 FY2024.

Further, management expenses increased as the company has been diversifying its distribution channels from the low-cost bancassurance and higher retentions, leading to a rise in net commission expenses. SBI General's profitability remained moderate due to the underwriting losses, with a RoE of 6.0% in FY2023 and 3.0% (annualised) in H1 FY2024 (4.4% in FY2022) compared to the historical average of 20.9% during FY2018-FY2021. The company's ability to underwrite profitable sub-segments will have a bearing on its future profitability.

Dependence on tender-driven business – SBI General has underwritten a high share of the crop business compared to peers. The crop segment had a share of 29.6% in the GDPI in H1 FY2024 (25.7% in FY2023). This business is driven by tenders and remains lumpy and volatile in nature. With most of the tenders coming with an 80-110 scheme[3], the extent of losses is likely

[3] Under the 80-110 plan, the insurer's potential losses are restricted to 110% of the gross premium with the state government bearing the cost of any claims above 110% of the premium. If the compensation is less than the premium collected, the insurer will refund the premium surplus (gross premium minus claims) exceeding 20% of the gross premium to the state government

to be capped. However, in a year of natural calamities, the business can lead to losses and volatility in the overall earnings, particularly from the tenders which do not come under the purview of the 80-110 scheme. Other issues stemming from a high share in the crop business are potential delays in payments from state governments and fluctuations in reserves. Further, competition is expected to increase in this segment in the near term to manage the expenses of management (EoM) regulations implemented by the regulator. SBI General's ability to consistently underwrite profitable business in the crop segment would have a bearing on its overall revenues and profitability.

Liquidity position: Strong

The company's net written premium was Rs. 5,746 crore in FY2023 in relation to the maximum net claims paid of Rs. 2,868 crore[4] in the last few years, reflecting strong ability to pay claims from the operating cash flow. Investments in Central/state government securities accounted for 34% of the total investments or Rs. 4,973 crore as on September 30, 2023, further supporting its liquidity position to meet the claims of policyholders. SBI General's shareholders' investment of Rs. 3,775 crore also remains strong in relation to the Nil sub-debt outstanding as on September 30, 2023.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or the outlook could be revised if there is a deterioration in SBI's credit profile or a decline in the strategic importance of SBI General to SBI or in the expectation of support from the promoter. In addition, a decline in the company's solvency ratio to less than 1.70 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for General Insurance Company Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Investor: SBI The rating factors in the high likelihood of support from SBI, given the shared brand name, board representation and SBI General's position as a subsidiary of the bank
Consolidation/Standalone	Standalone

About the company

SBI General Insurance Company Limited was incorporated on February 24, 2009, as a public limited company under the Indian Companies Act, 1956. It was originally a joint venture (JV) between State Bank of India (SBI) and IAG International Pty Limited, a subsidiary of Insurance Australia Group Limited. SBI divested 4% of its 74% stake in the company, in mid-2018, to PI Opportunities Fund – I (2.35%) and Axis New Opportunities- AIF-I (1.65%). Further, IAG made a complete exit in March 2020, divesting its entire stake (26%) to Napean Opportunities LLP (16.01%) and Honey Wheat Investments Ltd (9.99%). Axis New Opportunities- AIF-I sold 1.27% of its overall stake (1.65%) to IIFL Special Opportunities Fund - Series 9 (1.04%) and IIFL India Private Equity Fund – Series 1A (0.23%) during FY2022-FY2023.

As on September 30, 2023, SBI held 69.74% in SBI General, followed by Napean Opportunities LLP (15.95%), Honey Wheat Investment Ltd. (9.99%), PI Opportunities Fund-1 (2.34%), 360 One Group (1.25%) and other shareholders (0.73%).

[4] *Pertains to FY2022*

SBI General offers a comprehensive and well-diversified range of products, including health, motor, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. It is the sixth largest private insurer with a market share of 4.5% in FY2023.

Key financial indicators

	Audited		Unaudited	
SBI General Insurance Company Limited	**FY2022**	**FY2023**	**H1 FY2023**	**H1 FY2024**
Gross direct premium	9,166.2	10,828.4	4,987.1	5,691.0
Total underwriting surplus/(shortfall)	(621.7)	(570.4)	(251.4)	(457.5)
Total investment + Trading income	814.9	833.2	424.9	543.6
PAT	131.3	184.2	115.7	59.9
Total net worth*	2,973	3,073	3,007	4,020
Total technical reserves	7,293	9,205	8,100	10,608
Total investment portfolio	10,919	13,095	11,578	14,592
Total assets	12,721	15,280	13,938	17,136
Return on equity	4.4%	6.0%	7.7%	3.0%
Combined ratio	113.7%	106.7%	106.2%	111.0%
Regulatory solvency ratio (times)	1.85	1.72	1.91	1.98

*Source: Company, ICRA Research; Note: Amount in Rs. crore; *Net worth includes Fair Value change account (FVCA); All calculations are as per ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 28, 2023	-	-	Aug 07, 2020
1	**Subordinated debt programme**	Long term	700.0	-	**[ICRA]AAA (Stable)**	-	-	-
2	**Claims paying ability**	Long term	-	-	-	-	-	**iAAA; Withdrawn**

Source: Company

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
To be listed	**Subordinated debt programme**	NA	NA	NA	700.0	[ICRA]AAA (Stable)

Source: Company, ICRA Research

Annexure II: List of entities considered for consolidated analysis: Not applicable

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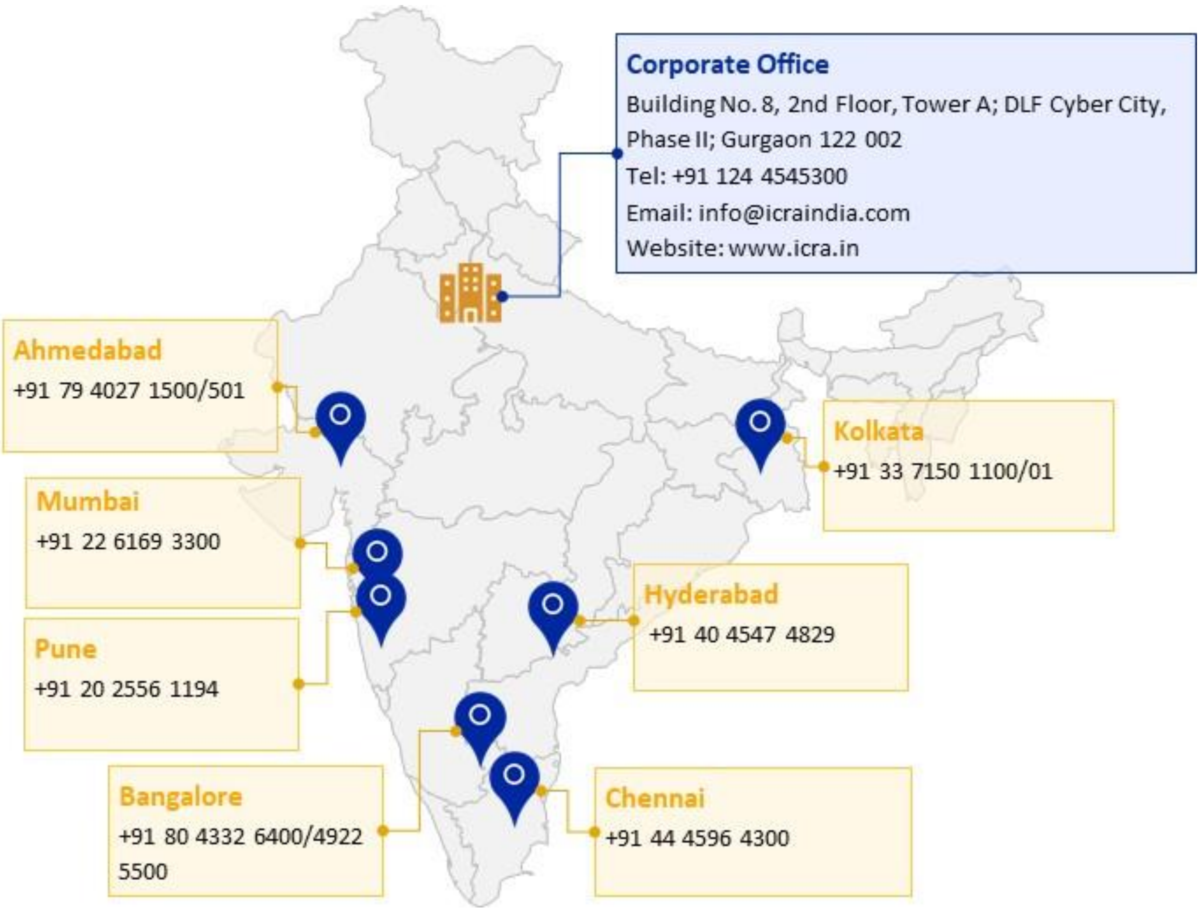

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