

July 25, 2024

## Star Union Dai-ichi 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	125.00	125.00	[ICRA]AA (Stable); reaffirmed
<b>Total</b>	<b>125.00</b>	<b>125.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating factors in Star Union Dai-ichi Life Insurance Company Limited's (SUD Life) strong promoter profile with Dai-ichi Life International Holdings LLC (Dai-ichi Life; key operating subsidiary – Dai-ichi Life Insurance Co. Ltd.<sup>1</sup> (rated A1/Stable by Moody's Investors Service), Bank of India<sup>2</sup> {BOI; [ICRA]AA+ (Stable)} and Union Bank of India<sup>3</sup> {Union Bank; rated [ICRA]AAA (Stable)} holding 45.94%, 28.96% and 25.10%, respectively, as on March 31, 2024. The rating considers the strategic importance of SUD Life to its promoters, as demonstrated by the regular capital infusions, the strong representation on the board and the shared brand name. These factors strengthen ICRA's expectation that the company will receive timely support from the promoters when required.

The rating also factors in the operational support in terms of access to the extensive branch network (~15,000 as on March 31, 2024) of the promoter banks. This enables SUD Life to leverage the bancassurance (banca) channel to source business at a relatively lower cost. Additionally, the company maintains a high share of life insurance policies sold by the promoter banks, remaining strategically important to them. The rating also considers SUD Life's strong solvency position with a solvency ratio of 2.03 times as on March 31, 2024, compared to the regulatory requirement of 1.50 times.

The rating is, however, constrained by SUD Life's modest scale of operations with a market share of 0.9% in terms of overall new business premium (NBP) and 1.4% in terms of individual annualised premium equivalent (APE). Further, the group business accounts for a higher share of the NBP (52.7% in FY2024), which could be lumpy and is volatile in nature. The company's ability to grow its individual business and diversify its business sourcing while improving its persistency levels will be a key driver for enhancing its market position and improving its profitability.

The Stable outlook considers the company's strong promoter profile and the track record of capital infusions as well as the operational and strategic support from the promoters. It also reflects ICRA's expectation that SUD Life will continue improving its customer franchise while maintaining the solvency level above ICRA's negative triggers.

### Key rating drivers and their description

#### Credit strengths

**Strong parentage ensures capital, strategic, and operational support** – SUD Life is a joint venture between Dai-ichi Life, BOI and Union Bank. The company's importance to the promoters is demonstrated by their track record of equity infusions and the shared brand name. The promoters infused Rs. 200 crore in FY2023 through a rights issue in the proportion of their shareholding. Further, they have strong representation on SUD Life's board with Dai-ichi Life having three representatives

<sup>1</sup> Rated A1 based on Insurance Financial Strength

<sup>2</sup> Rated [ICRA]AA+ (Stable) for its fixed deposit programme, which has been put on notice of withdrawal

<sup>3</sup> Rated [ICRA]AAA (Stable) for its Basel III Tier II bond

while Union Bank has two and BOI has one representative<sup>4</sup>. ICRA expects that capital support will be forthcoming from the promoters, as and when required.

SUD Life has access to the wide branch network of over 15,000 of the promoter banks as on March 31, 2024. Additionally, BOI and Union Bank are sponsors of a few regional rural banks (RRBs) with more than 2,700 branches, enabling the company to tap the rural markets. SUD Life sourced 98.0% of its individual NBP through the banca channel in FY2024 with its promoter banks and had a high counter share in the life insurance policies sold by these banks. Hence, it remains strategically important to these banks. Dai-ichi Life was established in 1902 and is one of the major life insurance companies in Japan. Its vast experience in the life insurance industry benefits SUD Life in product approval and reinsurance arrangements, among other.

**Solvency supported by internal accruals and capital infusion** – SUD Life’s solvency position remains strong with a solvency ratio of 2.03 times as on March 31, 2024 compared to the regulatory requirement of 1.50 times. The strong solvency position has been supported by internal accruals (average return on equity (RoE) of 9.4% during FY2020-FY2024) and the capital infusion of Rs. 200 crore in FY2023. It is also supported by the funds for future appropriation (FFA) related to par funds. FFA accounted for 18.8% of the available solvency margin as on March 31, 2024. The company has headroom for raising additional sub-debt of ~Rs. 239 crore as on March 31, 2024, which provides financial flexibility. ICRA expects SUD Life’s capitalisation to support the growth in the medium term.

The capitalisation was further supported by the price increase as well as the reduction in the required solvency margin (RSM) under the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and the capital infusion of Rs. 200 crore in FY2023 from all the promoters as per their shareholding pattern.

The company reported a net profit of Rs. 165 crore in FY2024 with RoE<sup>5</sup> of 13.5% (Rs. 127 crore and 12.0% in FY2023). Its accounting profitability is supported by the non-participating segment while the linked business is in the initial growth phase. The ability to maintain prudent asset-liability management to mitigate the interest rate risk arising from the deployment of future policy premiums at remunerative rates and achieve operating experience (such as persistency, mortality, operating costs, and interest rates), in line with the assumptions at the time of policy underwriting, will remain key drivers of the long-term profitability and capital position.

## Credit challenges

**Modest scale of operations** – SUD Life’s operations remain modest with a marginal market share of 0.9% in FY2024 (0.8% in FY2023) in the overall NBP and 1.0% in individual NBP (1.0% in FY2023). However, given the lower share of single premium policies sold in the individual segment, the individual share in APE terms was higher at 1.4% in FY2024 (1.3% in FY2023).

The growth in the company’s NBP over the years was largely driven by the group business, with its share increasing to 52.7% of the total NBP in FY2024 from 10.0% in FY2019. While the group business is largely from the parent, it remains susceptible to renewal risks. ICRA notes that the group fund business (68.7% of the group NBP in FY2024) is chunky and typically witnesses a high churn rate as corporates remain sensitive to the rates offered, leading to volatility in premium income. The company’s sourcing mix in the individual segment remained dominated by banca, which accounted for 98.0% of the individual NBP and 60.6% of the overall NBP. Sourcing through banca is primarily driven by the promoter banks. SUD Life’s ability to diversify and develop proprietary channels will be instrumental for improving its market position.

**Persistency levels improving but remain lower than peers** – Despite improving over the last few years {13th month persistency of 78.9% in FY2024 (74.0% in FY2021)}, the company’s persistency ratio<sup>6</sup> remains lower than peers. Further, the persistency in later cohorts was lower at 31.0% in the 61st month in FY2024 compared to 58.5% among the industry leaders. SUD Life’s ability to improve its persistency across cohorts and product segments would remain crucial for incremental profitability in the

<sup>4</sup> The board is likely to have one more representative from BOI, subject to approval in the annual general meeting in 2024

<sup>5</sup> Return on equity (RoE) = Net profit/Net worth excluding fair value change account

<sup>6</sup> Regular premium/Limited premium payment under individual category

individual business. The impact of the recent regulatory changes, increasing the surrender values on life insurance policies, on the persistency ratios and the profitability will remain a monitorable.

### Liquidity position: Strong

The company's net premium (excluding unit linked insurance plan; ULIP) stood at Rs. 5,555 crore in FY2024 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 1,229 crore in the last few years. As a result, the operating cash flows have remained positive, leading to growth in the investment book. Additionally, investments in Central and state government securities stood at Rs. 14,253 crore, accounting for 69.8% of the total investments (excluding ULIP) as on March 31, 2024, further supporting the liquidity to meet the claims of policyholders. The shareholders' investment of Rs. 1,100 crore also remains strong in relation to the sub-debt outstanding of Rs. 125 crore as on March 31, 2024.

### Rating sensitivities

**Positive factors** – An improvement in the credit profile of the promoters or a substantial and sustained increase in the company's market share and profitability, leading to the enhancement of its financial risk profile would be a positive factor.

**Negative factors** – A deterioration in the credit profile of the promoters or a decline in the strategic importance of SUD Life to its promoters or in the expectation of support from the promoters would be a negative. Pressure could also arise if the company's solvency ratio deteriorates to less than 1.60 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology – Life Insurance</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group support	Parent/Investor: BOI, Union Bank and Dai-ichi Life International Holdings LLC The rating factors in the high likelihood of support from Dai-ichi Life, BOI and Union Bank, given the shared brand name and representation on the board.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

### About the company

SUD Life is a joint venture between Dai-ichi Life (45.94% as on March 31, 2024), BOI (28.96%), and Union Bank (25.10%). BOI and Union Bank are public sector banks with established track records. Set up in 1902, Dai-ichi Life is one of the major life insurance companies in Japan.

Established in 2007, SUD Life provides life insurance, savings, investment and annuity to individuals and groups. The products are offered under the protection, participating, non-participating and unit-linked lines of business. It operates through a wide network of over 15,000 promoter bank branches across India.

### Key financial indicators (audited)

Star Union Dai-ichi Life Insurance Company Limited	FY2023	FY2024
Gross direct premium income	5,746	6,718
PAT	127	165
Net worth	1,062	1,221
Total investment <sup>^</sup>	15,934	20,418
13th month persistency ratio	76.0%	78.9%
61st month persistency ratio	31.3%	31.0%
Solvency ratio (times)	2.20	2.03

Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; <sup>^</sup> Excluding linked investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
			Jul 25, 2024	Jul 28, 2023	Aug 01, 2022	Aug 03, 2021	
1 Subordinated debt programme	Long term	125.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	

### 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
INE503V08016	Subordinated debt programme	Nov-24-2021	7.75%	Nov-24-2031*	125.00	[ICRA]AA (Stable)

Source: Company, ICRA Research

\* The company has a call option, which is exercisable five years from the date of allotment on November 24, 2026 and at the end of every year thereafter before the redemption date

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 regulator<sup>7</sup>
- » 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

Not applicable

<sup>7</sup> As per the Insurance Regulatory and Development Authority of India (IRDAI), insurers are required to maintain a minimum solvency ratio of 1.50 times

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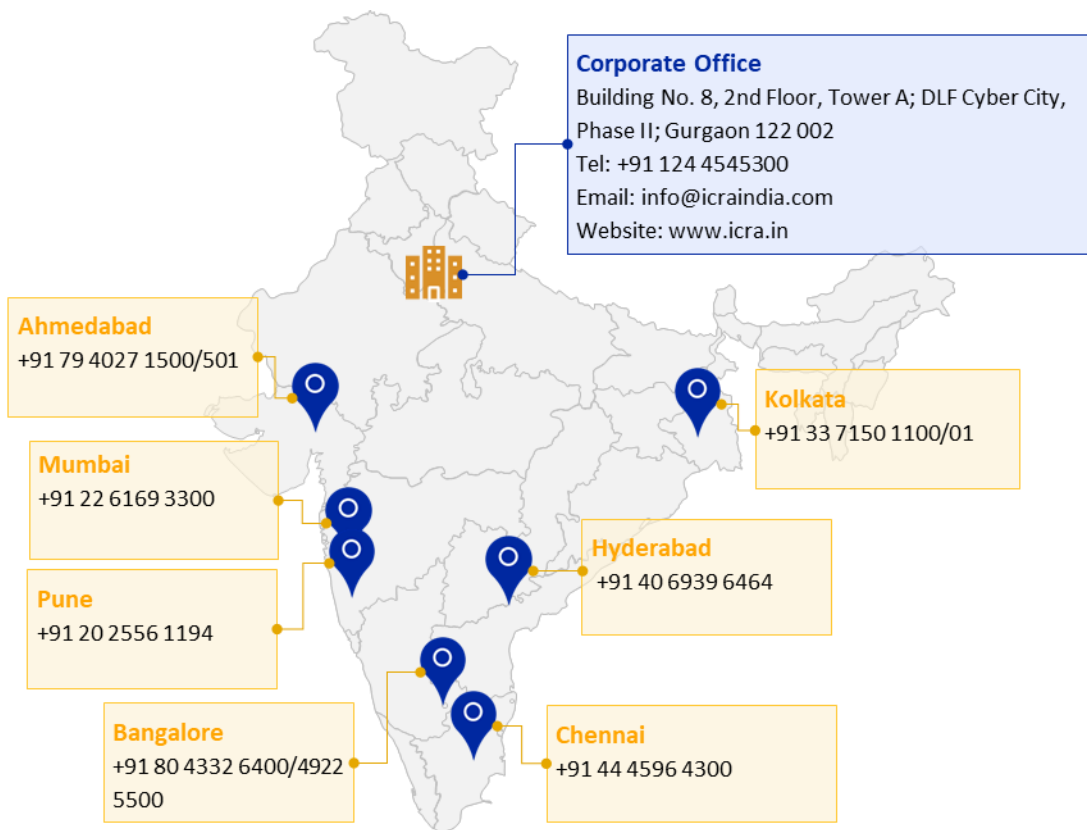
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### Branches



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