June 24, 2024

IndiaFirst 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
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in IndiaFirst Life Insurance Company Limited's (IFLI) strong promoter profile with Bank of Baroda {BoB; [ICRA]AAA (Stable)[1]} and Carmel Point Investments India Private Limited (an affiliate of Warburg Pincus LLC) holding stakes of 65% and 26%, respectively. The rating derives comfort from BoB's shareholding, representation on IFLI's board of directors and the exclusive bancassurance tie-up. Additionally, IFLI has a bancassurance tie-up with Union Bank of India {Union Bank; [ICRA]AAA (Stable)[1]}, which holds a 9% stake in the company.

While IFLI does not have a shared brand name with BoB, the company has entered into an agreement granting the use of BoB's name and logos for marketing and communication purposes. IFLI's distribution is supported by access to the extensive branch networks of BoB and Union Bank, enabling the company to leverage large branch networks and customer base of bancassurance partners. The rating is also supported by the comfortable solvency position with a solvency ratio of 2.01 times as of March 2024, and ICRA's expectations of adequate and timely capital support to IFLI from BoB. Over the last few years, the company has received growth capital from its promoters in proportion to their shareholdings, with the last capital infusion of Rs. 500 crore in FY2023. ICRA expects BoB to remain the majority shareholder of the company even after the planned listing in the medium term.

While the company's reported profitability in terms of return on equity (RoE) has been moderate, it witnessed an improvement in its embedded value (EV) and the value of new business (VNB) in FY2022 and FY2023. This improvement is primarily supported by a shift in the new business mix, with an increasing share of retail and higher-margin non-participatory (non-par) products. However, VNB margins are expected to moderate due to increased commission expenses and a likely reduction in the share of high-margin non-par savings products.

The rating is, however, constrained by IFLI's moderate scale of operations, with a market share of 1.3% in terms of individual annual equivalent premium (APE) and 0.8% in overall new business premium (NBP) in FY2024. Further, IFLI reported muted NBP growth in FY2024 (0.5% YoY), largely due to recalibration efforts across all the process involving structural changes in the product in order to standardise commission structure across all intermediaries, particularly at the promoter bank. The company's ability to grow its individual business and diversify its business sourcing while improving its persistency levels will be key drivers for enhancing its market position and improving the profitability.

The Stable outlook factors in ICRA's expectations that the company will continue to improve its customer franchise, receive support from BoB and maintain its solvency level above ICRA's negative triggers.

[1] Basel III Tier II Bonds

Key rating drivers and their description

Credit strengths

Strong parentage provides capital, strategic, and operational support – As on March 31, 2024, BoB and Carmel Point Investments India Private Limited (an affiliate of Warburg Pincus) and Union Bank of India held 65.0%, 26.0% and 9.0% of IFLI, respectively, with BoB and Carmel being the promoters. The rating factors in IFLI's strategic importance to BoB, demonstrated by regular capital infusions by BoB along with Carmel. BoB, the second-largest public sector bank in India, has a network of 8,249 branches nationwide, enabling IFLI to leverage the bancassurance channel to source business at a relatively lower cost. Further, BoB has an exclusive partnership with IFLI, selling only IFLI products, with BoB contributing 67% of the individual NBP[2]. The promoters have representation on IFLI's board, providing strategic support.

The company has plans for public listing which includes fresh issue of equity shares worth up to Rs. 500 crore and an offer-for-sale (OFS) by existing shareholders. Although SEBI approved the IPO, its launch has been deferred. Even after the IPO, BoB is expected to remain the largest shareholder with majority shareholding of above 51%. ICRA expects IFLI to receive timely support from BoB if required.

Comfortable solvency profile supported by capital infusions – IFLI's solvency ratio stood healthy at 2.01 times as of March 2024. While the company's internal accruals have been limited, capitalisation has been supported by regular capital infusions (~Rs. 678 crore infused in last five years, including Rs. 500 crore in FY2023). Solvency is also partially supported by the funds for future appropriation (FFA) on the par products. IFLI has headroom for raising additional sub-debt of ~Rs. 466 crore, providing financial flexibility. ICRA expects the company's capitalisation to support the growth in the medium term.

Improvement in profitability supported by the growth in higher-margin products - The company has reported a substantial increase in the EV to Rs. 3,079 crore as on March 31, 2023 (two-year CAGR of 35.3%). The growth in APE is supported by the VNB growth (Rs. 580 crore in FY2023 compared to Rs. 111 crore in FY2021) along with the improvement in VNB margins (30.6% in FY2023 vis-à-vis 10.5% in FY2021). With slower growth in NBP and the expected decline in the VNB margins driven by the realignment of commission structures in FY2024, the VNB addition is expected to have moderated in FY2024 compared to FY2023. However, it is still expected to remain healthy. The growth in the retail business with the change in product mix towards the high-margin non-par saving segments has helped improve the VNB margins over the last few years. Further improvement in the VNB will be driven by higher productivity, enhancement in operating efficiency and growth in the APE, as the VNB margin could be impacted by the growth in segments other than non-par.

The company reported profit after tax (PAT) of Rs. 112.3 crore (RoE of 9.5%) in FY2024 and a PAT of Rs. 76.2 crore in FY2023 (RoE of 7.1%). The accounting profitability has been impacted by higher initial reserving in the non-par segment, which has remained high in the last few years. 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 achieving operating experience (such as persistency, mortality, operating costs, and interest rates) in line with the assumptions at time of policy underwriting will remain key drivers for long-term profitability and capital position.

Diversification in product mix – IFLI has been shifting its focus to the granular individual retail business from the group funds business. The share of the individual business in the NBP increased to 61.1% in FY2024 from 33.8% in FY2019, while the share of the group funds business declined gradually to 4.0% of NBP in FY2024 from 51.5% in FY2019. Within individual savings, while the portfolio previously consisted primarily of par and unit-linked insurance plans (ULIPs), the share of non-par increased in the last two years (57.6% of individual APE in FY2024). Further, within the group, the company has a higher share of group credit life (49% of group NBP in FY2024) and a large portion of the balance is accounted for by Government life insurance schemes. The growth in the non-par segment has helped improve the VNB. However, the ability of the company to manage the interest rate risks in these products will remain monitorable in the long term.

[2] *Individual NBP accounted for 61.1% of total NBP in FY2024*

Credit challenges

Moderate scale of operation; further impacted in FY2024 – IFLI's operations remain moderate with a market share of 1.3% in FY2024 in terms of individual APE. However, the same has been on an increasing trend (from 1.0% in FY2019) with a compound annual growth rate (CAGR) of 15.1% during FY2019-FY2024, higher than the industry growth of 9.5%. The NBP growth for the company was, however, muted in FY2024 (0.5% YoY compared to 2.0% for the industry) with the individual NBP growing by 2.6% (compared to 3.7% for the industry) while the group NBP declined by 2.5%. The growth was largely impacted by recalibration efforts which include structural changes in the products in order to ensure standardisation of commission across the intermediaries. The major impact of this was seen in the bancassurance channel which drives the company's distribution strategy. Bancassurance had a share of ~91% in the individual NBP in FY2024 (~67% from BoB and ~20% from Union Bank), thereby exposing the company to concentration risk. Furthermore, within the group business which accounted for 38.9% of new business premium (NBP) in FY2024; 49% of group NBP was sourced from BoB and Union Bank. IFLI's ability to diversify and develop proprietary channels will be instrumental in improving its market position.

Persistency levels improving with scope for further improvement - The company's persistency ratio improved over the last few years with a 13-month persistency of 81.3% in FY2024 (78.5% in FY2021). While the persistency ratios are satisfactory in the 13th month, it is lower in later cohorts at 46.0% in the 61st month compared to 58.5% among the industry leaders. The company's ability to improve its persistency across cohorts and product segments would remain crucial for incremental profitability in the 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 monitorable.

Liquidity position: Strong

In FY2024, the company's net premium (excluding ULIP) stood at Rs. 5,340 crore compared to the maximum net claims and benefits (excluding ULIP) paid of Rs. 2,775 crore in recent years. The company's operating cash flows remained positive, reflecting its ability to meet expenses and claims through premium inflows. In addition, investments in Central and state government securities stood at Rs. 11,651 crore, accounting for 68% of the total investments (excluding ULIP) as on March 31, 2024, which supports the liquidity to meet the claims of policyholders in an event of rise in policyholders' claims. The shareholders' investment of Rs. 860 crore remains strong relative to the sub-debt outstanding of Rs. 125 crore as on March 31, 2024.

Rating sensitivities

Positive factors – Substantial and sustained improvement in the company's market position and profitability, leading to an improvement in its financial risk profile.

Negative factors – Deterioration in the credit profile of BoB or a decline in the strategic importance of IFLI to BoB or in the expectation of support from the parent. In addition, weakening in the overall market position and profitability and a decline in the company's solvency ratio to less than 1.60 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Rating Approach - Implicit parent or group support
Parent/Group support	Parent/Investor: Bank of Baroda (BoB) The rating factors in the high likelihood of support from the BoB, given the past track record of past capital infusions and BoB's representation on the board.
Consolidation/Standalone	Standalone

About the company

IndiaFirst Life Insurance Company Limited (IFLI) was incorporated in June 2008 and commenced operations in FY2010. IFLI was a joint venture between Bank of Baroda (44%), Andhra Bank (30%) and Legal & General Group PLC (26%). In February 2019, Legal and General Group PLC sold its entire shareholding to Carmel Point Investments India Private Limited. After the merger of Andhra Bank with Union Bank in April 2020, Union Bank became the shareholder of IFLI. In March 2022, Union Bank divested its 21% stake in IFLI to Bank of Baroda to comply with the IRDAI's directive to reduce its stake below 10.0%. Following the acquisition, IFLI became a subsidiary of the Bank of Baroda. The shareholders of IFLI are Bank of Baroda (65%), Warburg Pincus (Carmel Point Investments India Private Limited, 26%) and Union Bank of India (9%) as on March 31, 2024. Carmel Point Investments India Private Limited is a special purpose vehicle incorporated in India by Carmel Point Investment Limited, owned by private equity funds managed by Warburg Pincus LLC. IFLI's product portfolio comprises retail and group products, which include participating, non-participating, unit-linked and protection. The company has a network of 29 offices across India, as on March 31, 2024.

Key financial indicators (audited)

IndiaFirst Life Insurance Company Limited	FY2023	FY2024
Gross direct premium	6,075	6,974
PAT	76	112
Net worth	1,069	1,181
Total investments*	13,677	17,223
Value of new business margin	30.6%	N A
13th month persistency	81.5%	81.3%
61st month persistency	44.2%	46.0%
Regulatory solvency ratio (times)	2.18	2.01

*Source: Company, ICRA Research; Amount in Rs. Crore, * Investments exclude linked investments.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					Jun 24, 2024	Oct 16, 2023	Oct 21, 2022	Oct 25, 2021	Jul 16, 2021
1	Subordinated debt programme	Long-term	125.0	125.0	[ICRA]AA (Stable)	[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
INE381Y08029	Subordinated debt programme	Mar 24, 2022	8.40%	Mar 24, 2032*	125.0	[ICRA]AA (Stable)

*Source: Company, ICRA Research; Amount in Rs. crore, * The company has a first call option, which is exercisable five years from the date of allotment; after first call option, the call options fall due every year on coupon payment dates.*

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 regulator[3]
- 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

[3] *As per IRDAI, insurers are required to maintain a minimum solvency ratio of 1.50 times*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124-4545314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Bharat Toplani
+91 22 6114 3428
bharat.toplani@icraindia.com

Abhilash Shrikant Rathi
+91 22 6114 3421
abhilash.rathi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

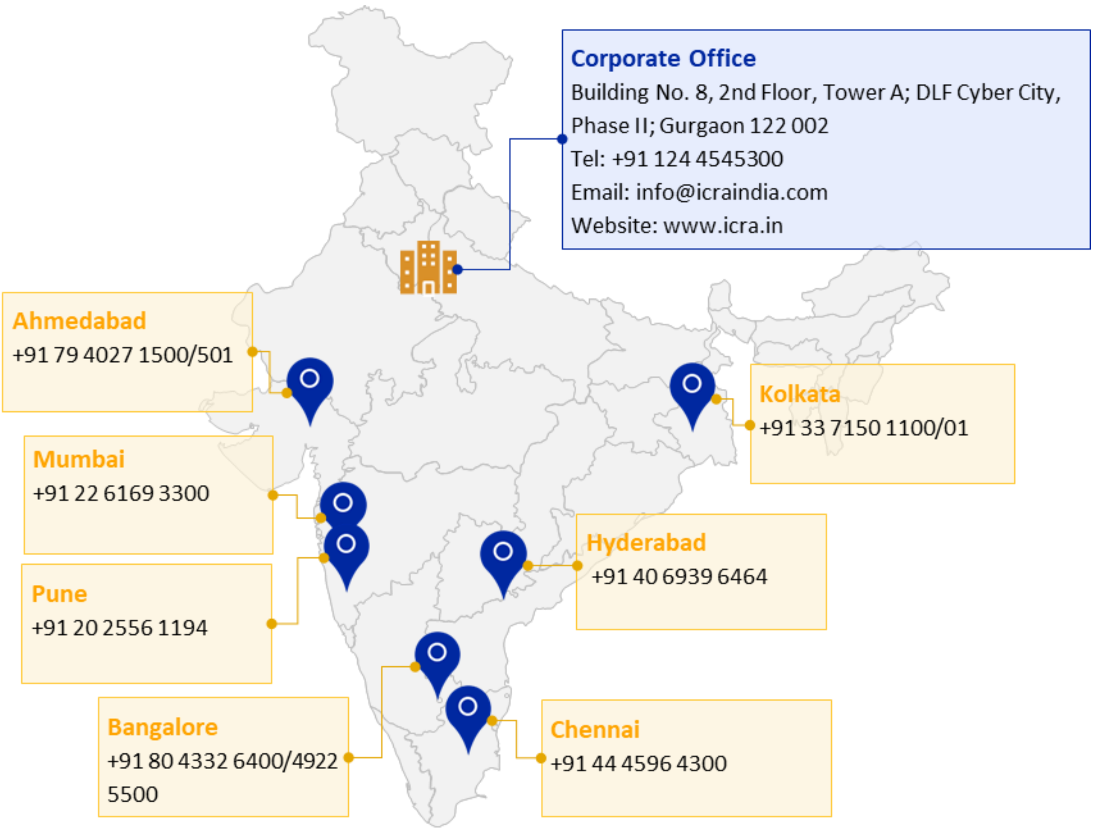
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.