

Rating Rationale

Reliance General Insurance Company Limited

16 May 2019

Brickwork Ratings reaffirms the rating of BWR AA for the subordinated NCDs aggregating to Rs 254 Crs of Reliance General Insurance Company Limited (“RGICL” or “Company”) and places the rating on Credit Watch with Developing Implications.

Particulars

Instruments#	Rated Amount (Rs in Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund Based					
Subordinated NCDs	230.00	230.00	Long Term	BWR AA (Pronounced as BWR Double A) Outlook: Stable	BWR AA (Pronounced as BWR Double A) Credit Watch with Developing Implications
Proposed Subordinated NCDs	24.00	24.00	Long Term		
Total	254.00	254.00	INR Two Hundred Fifty Four Crores Only		

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

#ISIN-wise details of NCDs are available in Annexure

The rating of the Subordinated Debt of an insurance company takes into consideration the company’s current solvency indicators and its policy to maintain adequate cushion in the solvency levels to take care of any exigencies. The credit rating also factors in the key features of the rated instrument, in line with the applicable guidelines for subordinated debt, which include the servicing of interest being contingent on the company’s ability to maintain a solvency ratio above the levels stipulated by the regulator, and the requirement of obtaining prior approval from the regulator for the servicing of debt, if interest payouts were to lead to a net loss or an increase in net loss.

Rationale/Description of Key Rating Drivers/Rating sensitivities:



BWR has principally relied upon the audited financials up to FY18, unaudited financial results up to Dec 2018, publicly available information and information/ clarifications provided by the company's management.

The rating factors steady improvement in Gross Direct Premium Income (GDPI), profitability and combined ratio. The rating also factors experienced management team, strong risk management practices, diversified product profile, multi channel distribution model and moderate solvency ratio. However the rating is constrained by intense competition and deterioration in credit profile of the parent (i.e. Reliance Capital Limited [Rcap] which currently hold 100%) to provide capital support to its subsidiaries. While RGICL has shown steady increase in profits and is currently adequately capitalised, going forward it would require capital, as the business grows to maintain or improve the solvency ratio.

The ratings have been placed on Credit Watch with Developing Implications, given the need for a stronger parent / shareholder to provide capital support to RGICL as and when required. RGICL has filed the draft red herring prospectus with SEBI for a stake sale up to 49% of the company through an IPO and the management is also assessing other options viz. bringing in a strategic partner. BWR will continue to monitor the developments in this regard. The rating watch will be resolved in the next three months based on the progress on the stake sale in RGICL.

Going forward the progress on the listing of shares or bringing in a strategic partner, ability of the company to steadily increase market share, improve profitability and solvency ratio, without increasing exposure to group entities will be the key rating sensitivities.

Analytical Approach

For arriving at its ratings, BWR has evaluated the risk profile of RGICL on a standalone basis and factoring linkages with the parent company, Rcap which currently holds 100% in RGICL. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Key Rating Drivers

Key Strengths

Experienced Management: The company is led by qualified and experienced management team having vast experience in the insurance sector. The company's board comprises of Mr. Rakesh Jain, who is the Executive Director and CEO and has an experience of over 20 years in corporate finance, risk management, underwriting, claims, broking and reinsurance functions. Prior to this, he was Director - Corporate Centre & CFO at ICICI Lombard GIC Ltd. Mr. Rajendra P. Chitale is the Chairman. He is the managing partner of M/s. M.P.Chitale & Co. and is on board of NSE and other reputed companies.

Steady increase in Gross Direct Premium Income: The company's Gross Direct Premium Income (GDPI) has increased from Rs 3935 Crs in FY17 to Rs 5069 Crs in FY18, an increase of ~29%. The



company has reported GDPI of Rs 4874 Crs during 9MFY19. The company's market share has improved to 3.64% in March 2019 as compared to 3.36% in March 2018. RGICL has a pan India presence with 131 branch offices in 111 cities, across 25 states and a union territory of India.

Diversified Product Profile: The company has a diversified product profile with Motor TP accounting for 24.6% of Gross Direct Premium Income (GDPI), followed by Weather & Crop (24.1%), Motor OD (20.8%), Health & PA (19.2%), Fire & Engineering (8.7%) and others (2.7%) during 9MFY19.

Multi Channel Distribution Model: The company has a Multi Channel Distribution Model where 40% of GDPI was through direct business followed by brokers (27%), Individual Agents (20%), Corporate Agents (9%) and other (4%) during 9MFY19. Further the company has 14 Bancassurance Partners and 28 Corporate agents as of Dec 2018. Corporate agents include Private Banks, Small Payment Banks, Co-operative Banks, HFCs, NBFCs and OEMs.

Moderate Solvency Ratio: The company has a moderate solvency ratio which stood at 1.64 as of Dec 31, 2018. It is higher than IRDA recommended 1.50. The company has maintained solvency ratio of 1.68 during FY17 and FY18. The solvency ratio is supported by steady growth in profitability and is expected to further improve post the stake sale by promoter.

Key Weaknesses

Deterioration in credit profile of parent: The financial flexibility of the parent to support RGICL has come down due to deterioration in liquidity profile of the group and challenges faced by Rcap to raise funds through traditional bank lines and debt market instruments. However bringing in a strategic partner or listing the shares through IPO will help the company to get capital for growth of business and to maintain or improve solvency ratio going forward.

Intense Competition: RGICL faces stiff competition from private as well as public sector general insurance companies in India. Further, the announcement by the Government of India to merge three large public sector general insurance companies (National Insurance, United India Insurance and Oriental India Insurance) will give an edge to the merged entity in terms of better bargaining and higher pricing power.

Liquidity Position

The nearest debt repayment is the coupon payment of the subordinated debt programme, falling due on Aug 16, 2019. As on Dec 31, 2018, RGICL had cash & cash equivalent worth Rs 214 Crs. The subordinated debt repayment of Rs 230 Crs is due on Aug 17, 2026. RGICL has an exposure of ~ Rs 200 Crs to group entities, which is around 2.00% of its total investments.

About the Company

Reliance General Insurance Company Limited (RGICL) is a wholly owned subsidiary of Reliance Capital Ltd (Rcap) [rated BWR A / A2+ Credit watch with Negative Implications] which is part of Anil Ambani Group and which operates as a holding company for the Group's various entities in the financial services

sector. RGICL was incorporated on 17 Aug 2000 & subsequently in Oct 2000, it received regulatory approval to undertake General Insurance business from the Insurance Regulatory and Development Authority of India (“IRDAI”). The company has a pan India presence with 131 branch offices in 111 cities, across 25 states and a union territory of India.

Financial Performance

The company’s Gross Direct Premium Income (GDPI) has increased from Rs 3935 Crs in FY17 to Rs 5069 Crs in FY18, an increase of ~29%. The company net profit has increased from Rs 130 Crs in FY17 to Rs 165 Crs in FY18. The company’s net worth increased from Rs 1248 Crs as of March 31, 2017 to Rs 1405 Crs as of March 31, 2018. The company has reported GDPI of Rs 4874 Crs and net profit of Rs 147 Crs during 9MFY19.

Key Financials :

Key Financial Indicators	Unit	FY17 Audited	FY18 Audited
Gross Direct Premium	Rs in Crs	3935.35	5069.08
PAT	Rs in Crs	130.34	165.00
Net Worth	Rs in Crs	1247.8	1405.11
Total Investments	Rs in Crs	6724.27	7998.86
Combined Ratio	%	120%	111%
Solvency Ratio	In times	1.68	1.68

Rating History:

Sl. No.	Instrument / Facility	Current Rating (May 2019)			Rating History		
		Type	Amount (Rs Crs)	Rating	21 May 18	16 Mar 17	27 June 16, 4 Aug 16
1)	Proposed Subordinated NCD	Long Term	24.00	BWR AA (Pronounced as BWR Double A) Credit Watch with Developing Implications	BWR AA (Pronounced as BWR Double A) (Outlook: Stable)	BWR AA (Pronounced as BWR Double A) (Outlook: Stable)	NA
2)	Subordinated NCD	Long Term	230.00	BWR AA (Pronounced as BWR Double A) Credit Watch	BWR AA (Pronounced as BWR Double A)	BWR AA (Pronounced as BWR Double A)	BWR AA (Pronounced as BWR Double A)

				with Developing Implications	(Outlook: Stable)	(Outlook: Stable)	(Outlook: Stable)
	Total		254.00	INR Two Hundred Fifty Four Crores Only			

Status of non-cooperation with previous CRA : NA

Any Other Comments: NA

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Insurance Companies](#)

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Annexure - ISIN Details

Type of Instrument	ISIN	Issue Date	Redemption Date	O/s as on 30.4.2019 (Rs in Crs)	Coupon Rate
Subordinated NCD	INE124D08019	16-Aug-16	17-Aug-26	230.00	9.10%

For print and digital media



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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