Aditya

Chola MS
GENERAL INSURANCE

July 3, 2019

To
IDBI Trusteeship Services Limited,
Asian Building, Ground Floor, 17,
R. Kanmani Marg, Ballard Estate,
Mumbai -400001

Sub: Revision of Credit Rating of Non-Convertible Debentures

Dear Sir / Madam,

Pursuant to Regulation 56(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we, Cholamandalam MS General Insurance Company Limited (the Company), hereby inform that credit rating for the Non-Convertible Debentures issued by the Company has been revised by ICRA from AA (Stable) to AA (Negative) vide its letter issued on July 1, 2019. A copy of the letter is enclosed for your information and records.

The current credit rating stands as ICRA AA (Negative).

The credit rating from CRISIL has been renewed and the rating continues to be CRISIL AA (Stable).

Kindly take this information on record.

Thank you

For **Cholamandalam MS General Insurance Company Limited**

Suresh Krishnan
Company Secretary and Chief Compliance Officer

Encl: As above

IDBI TRUSTEESHIP SERVICES LTD.
Inward No. 1721
11 JUL 2019
ITSL
Mumbai

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ICRA

Cholamandalam MS General Insurance Company Limited

July 1, 2019

Cholamandalam MS General Insurance Company Limited: Rating reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debenture (subdebt)	100.00	100.00	[ICRA]AA(Negative); reaffirmed, Outlook revised to Negative from Stable
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in the key features of the rated instrument, in line with the applicable guidelines for sub 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 the debt, if interest pay-outs were to lead to a net loss or an increase in net loss.

The revision in the outlook factors in the weakening in Cholamandalam MS General Insurance Company Limited' (CMICL) capitalization and profitability and its exposure to stressed entities, which is likely to exert pressure on its overall risk profile over the near to medium term. The company' solvency stood at 1.55x as of March 2019 (1.61x as of March 2018), only marginally above the regulatory requirement (1.5x). Its profitability (profit after tax/ net worth) declined to 12.3% in FY2019 from 18.7% in FY2018 (19.4% in FY2017) due to weakening in claim performance and high credit provision towards IL&FS Group exposures (2.1%[1] of total investments as of March 2019); other stressed exposures is estimated at 3.3% of the total investments. Going forward, the company would need to raise sizeable equity in the immediate term, to maintain adequate cushion (about 15-20 bps) in solvency above the regulatory requirement to achieve the envisaged business plan (15-20% per annum growth during FY2020-2021). Servicing of the rated subordinated debt is dependent on the company meeting regulatory solvency and, the next coupon falls due in November 2019, it is therefore crucial for secure adequate capital in the next 3-6 months. The rating reaffirmation continues to factor in CMICL's parentage with Cholamandalam Financial Holdings Limited (CFHL; part of Murugappa Group) and Mitsui Sumitomo Insurance Company Limited (MSI; rated A1/A3[hyb]/Stable by Moody's) holding an equity stake of 60% and 40%, respectively, and their demonstrated operational, managerial and financial support to CMICL. The rating also considers the company' established position in the motor segment, which constitutes two-thirds of the gross direct premium written (GDPW) in FY2019. Over the medium term, the company's ability to improve underwriting performance and operating efficiency, and meet the required provisioning requirements on its stressed exposures, would be critical to improve its earnings profile.

Outlook: Negative

The negative outlook reflects the weakening in solvency and earnings and, its exposure to stressed entities which would inhibit the company' growth prospects and impact its financial profile. The outlook may be revised to stable if there is a substantial equity infusion leading to a considerable improvement in the solvency with adequate buffers and if there is a

[1] *Investments net of write-off*

steady improvement in underwriting performance. The rating may be downgraded in case there is a further deterioration in solvency level or earnings performance or if there is a lower than expected support from the parent entities.

Key rating drivers

Credit strengths

Strong operational, managerial and financial support from shareholders - CMICL has been operating for close to two decades in the general insurance segment. The company is owned by CFHL and MSI (rated A1/A3[hyb]/Stable by Moody's), holding 60% and 40% equity stakes, respectively. CFHL is a part of Murugappa Group, a large business conglomerate with business interests in engineering, fertilisers, abrasives, sugar and financial services among others. MSI, a subsidiary of Japan-based MS&AD Insurance Group Holdings Inc, has a strong presence globally in the life and non-life insurance segments. CMICL derives strong support from the shareholders in the areas of sourcing, underwriting, reinsurance, product development, claims processing and internal controls. The company also has adequate board representation with eight directors, of which three are from Murugappa Group companies and two from the foreign shareholder while the rest are independent directors. ICRA expects the company to continue to receive operational, managerial and capital support from the parent companies, when required.

Established market position in the motor segment aided by a wide distribution reach - CMICL benefits from the Group' presence in the dealer location through the captive distribution companies of the Group, which have more than 400 branches in India, mostly located in Tier-2/3 cities. The corporate agency channel (includes the captive distribution entities) contributed to 38% of Gross direct premium (GDPW) in FY2019, followed by bancassurance (28%) and direct business channels (22%) and others (12%). Aided by the recurring business sourced through these channels, motor segment, which constitutes more than two-thirds of CMICL's business, grew by 14% YoY in FY2019. The market share of CMICL has been in the range of 4-4.5% in the motor segment during FY2017-2019. Going forward, the company intends to grow its business at a compounded annual growth rate of 15-20% during FY2020-FY2021 with a focus on retail product segments such as motor, health, personal accident and mortgage insurance among others. While the share of the motor business is expected to come down on account of such diversification, it is likely to remain the dominant contributor in the medium term.

Credit challenges

Expected pressure on profitability – CMICL' net claims ratio (overall excluding crop) weakened to 75% in FY2019 from 72% in FY2018 (73% in FY2017) due to increasing pricing pressure in the motor segment. Further, the crop segment witnessed increase in net loss to 167% in FY2019 from 104% in FY2018 because of uneven spatial distribution of rainfall in certain geographies. Consequently, the company' underwriting loss widened to Rs. 225.2 crore in FY2019 from Rs. 126.0 crore in FY2018. This, along with the provisions and write-off to the extent of about Rs. 37 crore (Rs. 22 crore write off and Rs.15 crore provision) towards exposure in IL&FS Group entities, resulted in weakening in net profitability (PAT/ net worth) to 12.3% in FY2019 from 18.7% in FY2018. With provisions likely to increase with ageing IL&FS Group exposures, the company's profitability is likely to remain under pressure in the near to medium term. Further, the company has certain vulnerable exposures, to the extent of about Rs. 250 crore as of March 2019 (3.3% of total investments). While these are standard exposures currently, any slippage would necessitate higher provisioning requirement, further constraining CMICL' profitability.

Moderate capitalisation; critical to maintain adequate cushion in solvency over the regulatory requirement – CMICL's solvency ratio moderated to 1.55x as of March 2019 from 1.61x as of March 2018 (1.64x as of March 2017), due to modest internal generation and increase in net losses in the crop and motor segments. ICRA takes cognizance of the company' measures by entering into quota treaty arrangement with reinsurers across motor, health and property lines, and by reducing its exposure to the crop segment. CMICL intends to raise incremental funds via subdebt route, subjected to regulatory forbearance to go beyond the stipulated level[2]. While some of these measures are expected to result in a gradual improvement in solvency over a period, the company would need to raise sizeable capital in the immediate term, to maintain adequate buffer in solvency above the regulatory requirement and for its envisaged growth plan (15-20% over FY2020-2021). Given the strategic importance of CMICL, ICRA expects the parent entities to provide adequate capital support and in a timely manner.

ICRA also takes cognizance of the relatively high level of contingent liability in relation to net worth, which stood at 21% as of March 2019 (14% as of March 2018). This was primarily due to income tax demand pertaining to IBNR (incurred but not reported) reserve, non-deduction of tax for premium paid to foreign reinsurers and disallowance of payment made to motor dealers, which are currently pending before the tax authorities. Any crystallization of such liabilities would further constrain the profitability and solvency, and would be a key rating monitorable.

Intense competition in the industry – CMICL faces stiff competition from private as well as public sector general insurance companies in India. The industry has witnessed price wars across business segments resulting in high loss ratios and underwriting losses for most of the companies. 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 create a monopoly player, which will control around one-third of the market share, resulting in better bargaining and, thereby, higher pricing power. Therefore, CMICL's ability to grow market share and improve profitability amid rising competition is to be seen.

Liquidity position:

Bulk of CMICL's investment portfolio (Rs. 7,596 crore as on March 31, 2019) is towards Government securities, infrastructure and other approved securities, in line with IRDAI guidelines. About 74% of the investments were in AAA rated papers or sovereign bonds (against the minimum mandated limit of 65%). The company also maintains about 5% of its total debt investments in liquid instruments to meet near-term liquidity need. The next coupon payment on the subdebt is about Rs. 4.4 crore, falling due on November 25, 2019. The company does not have any subordinated debt redemption falling due over the next one year.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for rating hybrid debt instruments issued by insurance companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The rating assigned to CMICL factors in the high likelihood of support from the parent entities – CFHL and MSI. This is supported by the parent entities' consistent track record of extending timely financial help to CMICL, whenever required. ICRA also expects the parent entities' to be willing to extend financial support to CMICL to protect its reputation from the consequences of a group entity's distress.
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

[2] *Maximum fund raised via other forms of capital (including subordinated debt) cannot exceed 25% of total paid-up equity share capital and securities premium*

About the company:

Cholamandalam MS General Insurance Company Limited (CMICL) is a joint venture between CFHL (part of Murugappa Group) and MSI (rated A1/A3[hyb]/Stable by Moody's). MSI raised its stake in CMICL to 40% during FY2016 (from 26%) after the regulator allowed maximum foreign ownership in domestic insurance companies to be 49%. CMICL offers a wide range of products including motor, accident, engineering, health, liability, marine, property, travel and rural insurance and caters to individuals as well as corporates. The company has a network of over 90 branches across the country, with its head office in Chennai.

During FY2019, CMICL reported a net profit of Rs. 178.9 crore on a GDP of Rs. 4,428.2 crore compared to a net profit of Rs. 242.6 crore and GDP of Rs. 4,102.6 crore in FY2018.

Key financial indicators (Audited)

	FY2018	FY 2019
Gross Direct Premium	4,102.6	4,428.2
Total Underwriting Surplus/(Shortfall)	(126.0)	(225.2)
Total Investment + Trading Income	481.9	529.7
PAT	242.6	178.9
Total Net Worth	1,296.1	1,453.5
Total Technical Reserves	5,246.7	6,464.6
Total Investment Portfolio	6,362.7	7,596.1
Total Assets	7,771.5	9,094.3
Return on Equity	18.7%	12.3%
Gearing	0.08	0.07
Combined Ratio*	100.8%	104.6
Solvency level	1.61	1.55

Amount in Rs. Crore

** Combined ratio – (net claims incurred/net premium earned) + (management expenses + net commission expenses)/net premium written)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	July 2019	FY2019 May 2018	FY2018 March 2017	FY2017 -
1	Sub debt	Long Term	100.00	100.00	[ICRA]AA(Negative)	[ICRA]AA(Stable)	[ICRA]AA (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE439H08012	Sub debt	25-May-2017	8.75%	25-May-2027*	100.00	[ICRA]AA(Negative)

** Call option exercisable at the end of five years from deemed date of allotment subject to prior approval from IRDAI*

Source: CMICL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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

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