Rating Rationale

April 23, 2025 | Mumbai

Cholamandalam MS General Insurance Company Limited

Rating upgraded to 'Crisil AA+/Stable'

Rating Action

Rs.100 Crore Subordinated Debt	**Crisil AA+/Stable (Upgraded from 'Crisil AA/Positive')**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

Crisil Ratings has upgraded its rating on the subordinated debt issue (also known as hybrid instrument) of Cholamandalam MS General Insurance Company Limited (Chola MS) to **'Crisil AA+/Stable'** from 'Crisil AA/Positive'.

The upgrade takes into consideration expectation of continued support from the majority stakeholder, Cholamandalam Financial Holdings Ltd (part of Murugappa Group), to Chola MS on a continuous basis. With steady improvement in scale of operations and improved overall profitability, the strategic importance of Chola MS for the Murugappa group has increased over the years. Furthermore, the rating factors in the company's adequate capital position, as reflected in the high level of cushion maintained in the solvency margin over regulatory minimum.

The company has demonstrated its ability to maintain the solvency ratio at 1.8-2.2 times on a consistent basis for the last 14-15 quarters despite growing at a rate of above 20% during the last two fiscals (2024 and 2023). As on December 31, 2024, the solvency stood at 2.14 times. The capital and solvency position has primarily been supported by steady accretion generated from the business. The overall profitability in terms of profit after tax (PAT) has shown consistent improvement during the last 2-3 fiscals. The company reported a net profit of Rs 331 crore for fiscal 2024 against Rs 199 crore previous fiscal. The profitability further improved with a reported PAT of Rs 363 crore for the first nine months of fiscal 2025. This healthy level of absolute profitability has also enabled the company to maintain its growth rate without any need for capital infusion during the last 2-3 fiscals.

The rating continues to factor in the established presence in the motor segment, sound risk management practices, and healthy investment policies. These strengths are partially offset by limited product diversity leading to excessive dependency on single product segment.

Analytical Approach

Crisil Ratings has first assessed the financial strength of Chola MS, which indicates the ability to meet policyholder obligations. For arriving at the financial strength rating, Crisil Ratings has factored in the strong support from the Murugappa group, and the business, financial, and management risk profiles of Chola MS. The subordinated debt instrument is then tested for additional risk factors to determine whether the rating should be the same as, or lower than, the financial strength rating. The extent of cushion that the company intends to maintain in the solvency ratio over and above the regulatory stipulation on a steady-state basis is taken into consideration to arrive at the rating on the subordinated debt instrument. The stance of the Murugappa group on the level of cushion the company would maintain in the solvency ratio on a steady-state basis has also been factored in.

Key Rating Drivers & Detailed Description

Strengths:

Strong support from the Murugappa group and MSIG

The company receives significant funding, branding, managerial and technical support from the Murugappa group and MSIG. The Murugappa group (through Cholamandalam Financial Holdings Ltd) has two common members on board of Chola MS. Both parents are expected to continue to support the company's growth plan and contribute to any incremental capital requirement. Furthermore, with the steady improvement in scale of operations and improved overall profitability, the strategic importance of Chola MS for the Murugappa group has increased over the years. The Murugappa group is also likely to provide timely capital support in case of distress. Reduction in ownership by the group below a majority holding, or any change in Crisil Ratings view on the group or opinion on Chola MS's strategic importance to the group, will be rating sensitivity factors.

Established presence in the motor segment, with growing presence in other segments

Chola MS is the 13th largest private player in the general insurance sector of India with a market share of 2.65% as on December 31, 2024 (based on gross written premium). Chola MS registered growth of ~12%, from Rs 5,525 crore as of December 2023 to Rs 6,193 crore as of December 2024. The company is a sizeable player in the motor segment with a market share of 5.52%, based on motor gross premium written during the nine months through December 2024. Motor segment premium registered growth of 12% amounting to Rs 3,948 crore compared with industry growth of 8.38%. The

company benefits from its association with Chola Finance and is the preferred insurer for nearly 30% of commercial vehicles funded by the latter. Chola MS also benefits from its association with MSIG and has made robust inroads in garnering business from Japanese and Korean automobile companies established in India.

The health segment witnessed growth of 28.6% on account of continued traction in demand for health insurance products. The company has also witnessed growth in other niche segments such as marine and personal accidents except for the fire segment, which has seen a decline in premium income. The company has tie-ups with large private and public sector banks to expand its presence in the health and personal accident segments as well as commercial lines of business. The company is expected to continue its growth in the health segment over the medium term, though it is expected to remain largely focused on the retail segment. The company also resumed its crop segment, premium from which during the nine months ended December 31, 2024, stood at Rs 468 crore. Chola MS is expected to continue its growth in other segments, along with the motor segment, over the medium term. However, the portfolio mix is expected to remain dominated by the motor segment.

Adequate level of cushion maintained in solvency margin

Chola MS reported a networth of Rs 2,855 crore as on December 31, 2024 (Rs 2,492 crore as on March 31, 2024). As far as the solvency position is concerned, it has remained between 1.8 times and 2.2 times consistently for the last 14-15 quarters, which is over and above the regulatory stipulation. As on December 31, 2024, the company's solvency stood at 2.14 times (1.79 times as on December 31, 2023) and as on March 31, 2024, it stood at 1.79 times (2.01 times as on March 31, 2023). It is expected to be 1.8-2 times over the medium term. The solvency position continues to benefit from steady accretions generated by the business. Crisil Ratings believes that the capital position in the long run will be supported by sound risk management practices and timely, need-based capital infusion by the parent. The management has articulated that it will maintain a high level of cushion in the solvency ratio on a steady-state basis, and the Murugappa group is supportive of this. The ability to maintain solvency ratio at a similar level on a sustained basis remains a key rating sensitivity factor.

Sound risk management practices, but moderation in underwriting performance remains monitorable

The company has a comprehensive risk management policy. Its risk management committee discusses and reviews the risks on a quarterly basis and periodically reviews changes in risk categorisation both in terms of risk improvement and risk deterioration, as well as emerging risks. Combined ratio stood at 109.9% for fiscal 2024 and 110.5% for the nine months ended fiscal 2025; and has remained stable in comparison with the corresponding period previous fiscal. Resultantly, the underwriting deficit for fiscal 2024 increased to Rs 658.8 crore from Rs 600.7 crore for the prior fiscal. For the nine months through December 2024, the underwriting deficit was Rs 509.4 crore against Rs 462.5 crore for the corresponding period previous fiscal.

Healthy investment quality supported by stringent investment policy

The company follows stringent investment strategies and invests in sovereign securities or corporate debt instruments typically rated 'AA' or higher. Investments in equities are less than 5% of the total investments. Liquidity is also comfortable. Government securities accounted for ~52% of the debt investment portfolio based on market value as on December 31, 2024.

Weakness:

Limited diversity in product segments

The motor still dominates the portfolio, but the management is going to change the mix by increasing the business of other segments to reduce the share of motor. The motor segment accounts for around 64% of gross premium against an average of 50% for private insurers. Moreover, the motor third-party segment contributes around 58% to the total motor insurance premium, making the company susceptible to the associated underwriting risks given the long tail and unlimited exposure. However, the company has also focused on the crop business and, as of December 2024, the gross premium written stood at ~Rs 468 crore. The company has witnessed growth in each segment that it operates in. However, it has maintained a sound underwriting performance so far by being selective about asset segments and geographies. The company remains focused on improving product diversity and is gradually expanding its presence in the retail health, personal accident, and small and medium enterprise segments through the bancassurance channel. The ability to strengthen its distribution network and increase its scale in other retail segments, while keeping costs under control and report underwriting profits, remains monitorable.

Liquidity: Strong

The liquidity remains comfortable, supported by adequate investments in government securities and liquid mutual funds. Around 97% of the debt investments (including government securities) were in securities rated 'AA' or higher as on December 31, 2024. In addition, liquidity is comfortable, with large liquid investments of Rs 8751.5 crore (market value) as on December 31, 2024, including a cash and bank balance of Rs 16.5 crore. Government securities accounted for around 52% of the debt investment portfolio based on market value as on December 31, 2024.

Outlook: Stable

Crisil Ratings believes Chola MS will continue to maintain adequate cushion in its solvency margin while maintaining steady growth in its business risk profile. The company will also continue to derive strong financial, branding, and technical support from the parents, both on an ongoing basis and during distress. The company will also benefit from its established presence in the motor segment and maintain sound risk management practices and investment quality.

Rating Sensitivity Factors

Upward Factors

- Upward revision in view of Crisil Ratings on the credit risk profile of the Murugappa group
- Continuation of trend of maintaining adequate cushion in solvency ratio above regulatory minimum
- Improvement in product diversity and earnings with return on equity maintained at over 20% on consistent basis

Downward Factors

- Downward revision in view of Crisil Ratings on the credit risk profile of the Murugappa group
- Sizeable reduction in ownership by, or strategic importance to, the Murugappa group
- Solvency margin declining and remaining below 1.55 times on a sustained basis
- Moderation in underwriting performance leading to any adverse impact on overall profitability.

About the Company

Chola MS is a joint venture of the Murugappa group and MSIG. The company largely operates in the motor segment, with overall market share of 5.3% based on GWP during the nine months through December 2023. Chola MS had PAT of Rs 199 crore on GWP of Rs 6,157 crore in fiscal 2023, against Rs 77 crore on Rs 4,824 crore respectively in the previous fiscal. For the nine months ended December 2023, the company reported PAT of Rs 264 crore on GWP of Rs 5,525 crore.

Key Financial Indicators

As on / for the period,		Dec 2024 / 9M Fiscal 2025	Fiscal 2024	Fiscal 2023	Fiscal 2022
Gross premium written	Rs. Cr.	6193	7598	6157	4824
Networth	Rs. Cr.	2855	2492	2160	1962
PAT	Rs. Cr.	363	331	199	77
Combined ratio	%	110.5	109.9	109.3	111
Solvency margin	Times	2.14	1.79	2.01	1.95

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

Crisil Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
INE439H08020	Subordinated Debt	02-Jun-22	8.47	02-Jun-32	100.00	Complex	Crisil AA+/Stable

Annexure - Rating History for last 3 Years

	Current			2025 (History)		2024		2023		2022		Start of 2022
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Subordinated Debt	LT	100.0	Crisil AA+/Stable		--	25-04-24	Crisil AA/Positive	27-04-23	Crisil AA/Stable	06-05-22	Crisil AA/Stable	Crisil AA/Stable
			--		--		--		--	28-04-22	Crisil AA/Stable	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Criteria for Insurance companies (including approach for financial ratios)
Basics of Ratings (including default recognition, assessing information adequacy)
Criteria for factoring parent, group and government linkages

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