HDFC ERGO General Insurance

September 5, 2022

Ref No.: HDFCERGO/S&C/HB/2022-23/92

The Manager
Listing Department
Wholesale Debt Market
BSE Limited
PhirozeJeejeebhoy Tower,
Dalal Street, Mumbai - 400 001

Ref: 1.Scrip Code of Debt: 956906 Security ID: 840HEGICL27, ISIN: INE092V08010
2.Scrip Code of Debt: 958265 Security ID: 1025HEGIC28, ISIN: INE092VO8028
3. Scrip Code of Debt: 973567 Security ID: 710HDFCE31, ISIN: INE225R08014

Dear Sirs/Madam,

Sub: Intimation credit rating by Credit Rating Agencies

Pursuant to Regulation 51(2) and Regulation 55 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please be informed that CRISIL Ratings Limited (CRISIL) has reaffirmed credit rating of "**CRISIL AAA/Stable"** accorded to the Company in connection with the existing Non-Convertible Debentures (NCDs) aggregating to ₹ 529 crore and has assigned "**CRISIL AAA/Stable"** for the proposed issue of NCDs aggregating to Rs. 80.00 Crore. The details of the credit rating accorded and communicated to the Company by CRISIL are enclosed as Annexure A.

This intimation will also be available on the website of the Company and at www.crisil.com.

You are requested to kindly bring the above to the notice of all concerned.

Thanking You,

Yours faithfully,
For HDFC ERGO General Insurance Company Limited

DAYANANDA VITTAL SHETTY Digitally signed by DAYANANDA VITTAL SHETTY Date: 2022.09.05 13:14:47 +05'30'

Dayananda V. Shetty
Company Secretary
FCS: 4638

Cc:

IDBI Trusteeship Services Limited
Asian Building, Ground Floor, 17,
R. Kamani Marg, Ballard Estate,
Mumbai – 400 001

Axis Trustee Services Limited
2nd Floor, Axis Bank Limited,
Plot No. 25, Pusa Road,
Karol Bagh, New Delhi - 110 005

Rating Rationale

September 02, 2022 | Mumbai

HDFC ERGO General Insurance Company Limited

'CRISIL AAA / Stable' assigned to Subordinated Debt

Rating Action

Rs.80 Crore Subordinated Debt	**CRISIL AAA/Stable (Assigned)**
Rs.350 Crore Subordinated Debt	**CRISIL AAA/Stable (Withdrawn)**
Rs.375 Crore Subordinated Debt	**CRISIL AAA/Stable (Reaffirmed)**
Rs.154 Crore Subordinated Debt	**CRISIL AAA/Stable (Reaffirmed)**

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

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL AAA/Stable'** rating to Rs 80 crore proposed subordinated debt issuance of HDFC ERGO General Insurance Company Ltd (HDFC ERGO) and, has reaffirmed its 'CRISIL AAA/Stable' rating on existing debt instruments of the company.

CRISIL Ratings has also withdrawn its rating on Rs 350 crore (please refer Annexure - Detail of Rating withdrawn table) subordinated debt instrument of the company which has been fully redeemed by the company consequent to exercise of call option. This withdrawal is in line with CRISIL Ratings' withdrawal policy.

The rating continues to centrally factor in the strategic importance to, and continued strong support that HDFC ERGO receives from its majority owner, Housing Development Finance Corporation Ltd (HDFC, rated 'CRISIL AAA/FAAA/Stable/CRISIL A1+'), both on an ongoing basis and in the event of distress.

On April 4th, 2022, the Board of Directors of HDFC and HDFC Bank respectively approved a composite scheme of amalgamation ("Scheme") inter alia involving merger of HDFC with and into HDFC Bank subject to receipt of requisite approvals/ no objections including from Reserve Bank of India (RBI) and other statutory and regulatory authorities. Post the merger amalgamation becoming effective, HDFC Bank will hold the shares held by HDFC in the Company. The developments pertaining to this amalgamation and, the ultimate shareholding of HDFC Bank in HDFC ERGO subsequent to the scheme coming into effect, will remain a key monitorable.

The rating also reflects CRISIL Ratings' expectation and HDFC ERGO's intent and track record of maintaining a comfortable level of cushion in solvency ratio above regulatory minimum and in available solvency margin over economic capital requirement (capital requirement as per Pillar I of Solvency II global framework, as required to be computed by Indian insurers based on guidelines provided by the Insurance Regulatory Development Authority of India). This stance remains unchanged. The extent of surplus in solvency is a critical determinant of the insurer's ability to service subordinated debt and thus remains a key rating sensitivity factor. This is because these instruments carry additional risks owing to restrictions on their servicing if solvency ratio falls below the regulator-specified minimum, and the need to obtain the regulator's approval for servicing them in the event of loss or inadequate profit. The solvency ratio of HDFC ERGO has exhibited less volatility than that of its peers due to its policy of raising capital ahead of anticipated growth and a higher percentage of reinsurance.

The rating of 'CRISIL AAA/Stable' on the subordinated debt issue of HDFC ERGO also factors in HDFC ERGO's established market position with diversified distribution network, robust risk management practices, sound investment quality and modest underwriting performance with overall earnings profile remaining driven by investment income. In fiscal 2022, the company underwrote Rs 13,498 crore as gross direct premiums, marking an annual growth of 10% over the past year as against a growth of 11% in industry gross direct premium over the same period. For the first quarter of fiscal 2023, the company underwrote Rs 3,073 crore, registering a year-on-year growth of 28.8%.

In terms of underwriting performance, the company incurred a claims ratio of 84.0% as against a claims ratio of 75.7% for the previous fiscal. The elevation of loss ratio for the fiscal was attributed to heightened Covid-19 claims following the second pandemic wave. Correspondingly, the expense ratio corrected to 23.4% for fiscal 2022 from 27.5% for the previous fiscal when the company incurred one-time amalgamation related expenses. Overall combined ratio for fiscal 2022 was 107.5% (103.2% for fiscal 2021) which corresponded to an underwriting deficit of Rs 568 crore (Rs 235 crore for fiscal 2021). With reduction in Covid-19 instances, claims ratio has started to correct and for Q1 2023 – this metric stood at 80.1% whereas the combined ratio for the quarter was 107.1%

Analytical Approach

For arriving at the rating on the subordinated debt issue of HDFC ERGO, CRISIL Ratings has first assessed the corporate credit rating of the company. CRISIL Ratings has factored in HDFC ERGO's business, financial, and management risk profile and the company's strategic importance to, and expectation of strong support from, Housing Development Finance Corporation Ltd (HDFC; rated 'CRISIL AAA/FAAA/Stable/CRISIL A1+) - for arriving at the corporate credit rating. The extent of cushion that HDFC ERGO intends to maintain in the solvency ratio over and above the regulatory stipulation on a steady state basis is taken into consideration for arriving at the rating on the subordinated debt instrument. The stance of the HDFC on the level of cushion HDFC ERGO would maintain in the solvency ratio on a steady state basis, has also been factored in.

Key Rating Drivers & Detailed Description

Strengths:

*** Strategic importance to, and expectation of high quality support from the parent companies**

HDFC ERGO is strategically important to its parents, HDFC and ERGO International AG (the primary insurance entity of Munich Reinsurance group) and derives significant managerial and funding support from them. Strong managerial support from HDFC is reflected in its sizeable representation on HDFC ERGO's board, commonality of chairman and its strong involvement in HDFC ERGO's functioning. ERGO International AG also has two non-executive directors on HDFC ERGO's board and provides technical support, if needed. Both the parents have also demonstrated timely financial support, whenever needed. HDFC ERGO also benefits from common branding with HDFC, which is the largest housing finance company in India with a strong retail presence, solid brand image, established franchise, and large customer base. CRISIL Ratings believes that both parent companies will continue to support HDFC ERGO's growth plans and will contribute to any incremental capital requirement whenever needed.

HDFC ERGO's strategic importance to HDFC is underpinned by the former's strong market position and expectation of gradual improvement in its underwriting profitability over the medium term. Furthermore, HDFC ERGO being the general insurance arm of HDFC group makes it a key element of the latter's suit of financial service offerings. The strategic importance of HDFC ERGO to HDFC is also reflective in the support extended by the latter in the inorganic expansion of the subsidiary through acquisition of HDFC ERGO Health Insurance Company Ltd (HEHI; erstwhile Apollo Munich Health Insurance Company Ltd).

On April 4th, 2022, the Board of Directors of HDFC and HDFC Bank respectively approved a composite scheme of amalgamation (“Scheme”) inter alia involving merger of HDFC with and into HDFC Bank subject to receipt of requisite approvals/ no objections including from Reserve Bank of India (RBI) and other statutory and regulatory authorities. Post the merger amalgamation becoming effective, HDFC Bank will hold the shares held by HDFC Ltd in the Company. The developments pertaining to this amalgamation and, the ultimate shareholding of HDFC Bank in HDFC ERGO subsequent to the scheme coming into effect, will remain a key monitorable.

*** Established market position in the Indian general insurance sector**
HDFC ERGO, having been in operations for close to two decades now, has a strong market position with a market share of 6.11% based on the gross direct premium written during fiscal 2022 – which makes it the third largest private general insurer and, seventh largest at an overall level. The company’s gross direct premium for fiscal 2022 was Rs 13,498 crore which marks a rise of 10% over gross premiums written in the preceding fiscal. For Q1 2023, the year on year growth in gross premiums was 28.8%.

In the last 3-5 years, the company has expanded inorganically which has strengthened its market position within key insurance segments like motor and health. After its reverse merger with HDFC General (erstwhile L&T General Insurance Company Ltd), HDFC ERGO’s position in the motor segment was bolstered by the established distribution network of the former. And subsequently, post amalgamation of HEHI with HDFC ERGO, HDFC ERGO’s agency channel has widened which would benefit its market position in the health insurance segment in the long run. In terms of portfolio mix, health, motor, fire and crop have remained the key focus areas. Based on the gross direct premiums for Q1 2023, the share of health insurance stood at 41.8% as against its share of below 20% prior to amalgamation with HEHI. This increase in share of health portfolio is in line with CRISIL Ratings’ earlier expectations. Motor, as the second largest segment, formed 27.2% of the total premiums followed by fire, which accounted for 19.6% and has emerged as one of the key segments after a favourable revision in rates w.e.f January 2020 which has catalysed growth in this segment across the sector. The share of crop segment was 0.4% in the total premiums written during Q1 2023 however, since premium inflow within this segment happens in the latter half of the fiscal, its share is expected to remain at ~18% levels.

HDFC ERGO also has a strong distribution network supported by its association with HDFC group, and channel relations acquired through inorganic routes. Nearly 16% of business is sourced by corporate agents as against 10% for most other large players in the industry. This reduces dependency on brokers and direct mode of origination.

CRISIL Ratings believes that HDFC ERGO shall sustain its market position in due course supported by its diversified portfolio and distribution network. However, its ability to sustain the momentum in growth, apart from the inorganic expansion that it undertakes, amid intense competition will remain a key rating sensitivity factor.

*** Robust risk management practices and sound investment quality**
HDFC ERGO has institutionalized a comprehensive risk management framework to identify, assess and monitor risks. Apart from insurance risk, the risk management framework also addresses strategic risks, operational risks, investment risks and information and cyber security risks. The company undertakes only those businesses where risks can be measured quantitatively. Moreover, a large proportion of the exposure is reinsured, thereby limiting the risks on books. The company also has a diversified panel of reinsurers, all rated ‘BBB+’ or above on international rating scale. The company, on average, retains 50-55% of its business, which is significantly lower than peers.

These practices have enabled the company to maintain adequate level of cushion in available solvency margin over and above the economic capital requirement and, have also ensured lesser volatility in the solvency margin of the company over the years, as compared to that exhibited by its peers. Over the medium term, the company’s robust risk management practices are expected support the sustenance in its operating performance.

HDFC ERGO also has a sound investment portfolio quality supported by its prudent investment policy and stringent regulations. As on June 30, 2022, 99.7% of its debt investments are in securities rated ‘AA’ or higher or are sovereign securities. In addition, liquidity is comfortable, with a large proportion of liquid investments. Government securities (G-secs) accounted for 39% (central and state) of its investment portfolio based on market value on June 30, 2022. The company's conservative investment philosophy is also depicted by its low exposure of less than 6% to equity investments and, the steady state stance of maintaining equity exposure within 10%.

*** Adequate capitalization**
Capitalisation, in relation to the nature and scale of the company’s operations, remains comfortable. On June 30, 2022, the company had a reported networth of Rs 3,356 crore (excluding amalgamation reserves) and a solvency ratio of 1.68 times. Apart from its reported metrics, capital position of HDFC ERGO is backed by expectation of timely capital infusion from its parents, if needed, as demonstrated in the past.

CRISIL Ratings believes HDFC ERGO’s capital position will remain adequate, supported by opportune financial support from its parents and steady internal accruals. The company is also expected to sustain the cushion over and above regulatory solvency requirement at current levels, on an on-going basis.

Weakness:
*** Modest underwriting performance with overall earnings profile remaining supported by investment income.**
HDFC ERGO’s underwriting performance, despite gradual improvement over the years, remains modest. For fiscal 2022, the company reported a combined ratio of 107.5% as compared to 103.2% for the previous fiscal. Over this period, where the claims ratio increased to 84.0% from 75.7% due to surge in Covid-19 claims, expense ratio restored to 23.4% from 27.5% as last year the company incurred amalgamation related expenses which led to a rise in expenses. Underwriting deficit for fiscal 2022 was Rs 568 crore as compared to Rs 235 crore for the previous fiscal. For fiscal 2021 and 2022, Covid-19 claims were on the higher side which resulted in an elevated claims ratio especially after the second wave in fiscal 2022. However, as the Covid instances have tailed out – claims ratio is expected to correct in the near term. As prudence, the company is still carrying provisions to the tune of 3-5% of the indemnity portfolio which is expected to take care of any incremental Covid related claims that may be incurred. For Q1 2023, claims ratio stood at 80.1% as against 95.1% for the corresponding quarter of the previous fiscal. The correction was driven by decline in Covid-19 claims which drove the delta in the last period. Correspondingly, expense ratio also corrected from 29.9% to 27.0%.

Overall profitability remains supported by income from investments. For fiscal 2022, the impact of modest underwriting performance was offset by a gross investment income of Rs 1,239 crore, resulting in a net profit of Rs 500 crore. For Q1 2023 as well, a stable investment income of Rs 327 crore and a reduced underwriting deficit of Rs 115 crore, resulted in a net profit of Rs 144 crore for the quarter.

The adequacy of reserving done by the company against potential Covid-19 claims which are incurred but not reported or are partially reported, will remain a monitorable.

Liquidity: Superior
The company’s liquidity position is comfortable, with a base of highly liquid investments in the form of ' G-Secs (39%; both Central and State government securities) based on carrying value and liquid mutual funds (0.2%). Apart from these, the company has various other routes to avail short term funding if needed. Additionally, the company maintains adequate reserving for claims outstanding at all points in time. In terms of reserving against Covid claims liability, the company has maintained a buffer (surplus) of ~3-4% over claims incurred in lieu of underlying Covid liability.

Outlook Stable
CRISIL Ratings believes that HDFC ERGO will continue to derive strong financial and managerial support from its parents over the medium term, both on an ongoing basis and in the event of a financial distress, and that it will maintain comfortable level of cushion in its solvency ratio over and above regulatory minimum on a steady-state basis. HDFC ERGO will also remain a major player in the Indian general insurance industry and maintain its robust risk management practices, and sound investment quality. The company will also continue with its policy of raising capital ahead of anticipated growth through frequent infusions and, reinsuring a significant proportion of its business on an on-going basis, which should help maintain a comfortable cushion in its available solvency margin over economic capital requirement at all points in time.

Rating Sensitivity factors
Downside factors:
- A downward revision in CRISIL Ratings' view on HDFC or/and, a sizeable reduction in the extent of ownership by HDFC or decline in strategic importance of HDFC ERGO to it.
- Material reduction in cushion in the solvency ratio over economic capital requirement or, over regulatory stipulation - taking it below 1.6 times and remaining at that level for a prolonged period.
- Change in philosophy on capital raising or reinsurance, or substantial weakening in market position.

About the Company
Incorporated in 2002, HDFC ERGO is one of India's largest private sector general insurance companies (based on gross premiums written in fiscal 2022). It is a joint venture between HDFC (India's premier housing finance institution) and ERGO International AG. It offers a complete range of general insurance products ranging from motor, health, travel, home and personal accident on the retail side and property, marine and liability insurance on the corporate side. The company has been expanding its presence across the country and is today present across 90+ cities with 203 branch offices, with an employee base of 9170 (full time employees) as of June 2022.

Key Financial Indicators

As on / for the period		2022	2021	2020
		Merged with HEHI		
Gross direct premium	*Rs crore*	13498	12295	9630
Total investment income	*Rs crore*	1239	1140	878
Profit after tax	*Rs crore*	500	592	327
Networth	*Rs crore*	3212^	2927^	2543^
Solvency ratio	*Times*	1.64	1.90	1.78

^excluding amalgamation reserve

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. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Complexity Level	Rating Assigned with Outlook
INE225R08014	Subordinated Debt	9-Nov-21	7.10%	9-Nov-31	375	Complex	CRISIL AAA/Stable
INE092V08028	Subordinated Debt	18-Sep-18	10.25%	18-Sep-28*	74	Complex	CRISIL AAA/Stable
INE092V08010	Subordinated Debt	18-Sep-17	8.40%	17-Sep-27*	80	Complex	CRISIL AAA/Stable
NA^	Subordinated Debt	NA	NA	NA	80	Complex	CRISIL AAA/Stable

**HDFC ERGO has a call option exercisable 5 years after the date of allotment^Yet to be issued*

Annexure - Details of Rating withdrawn

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Complexity Level
INE392I08011	Subordinated Debt	9-Nov-16	7.6%	9-Nov-26*	350	Complex

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Subordinated Debt	LT	609.0	CRISIL AAA/Stable		--	20-10-21	CRISIL AAA/Stable	23-11-20	CRISIL AAA/Stable	30-10-19	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--	08-01-21	CRISIL AAA/Stable	29-05-20	CRISIL AAA/Stable		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for General Insurance Companies
CRISILs criteria for Hybrid Issuances of General Insurance Companies
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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Note for Media:

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html