

RATING RATIONALE

22 August 2022

Bharti AXA Life Insurance Company Limited

Brickwork Ratings reaffirms and assigns the ratings of the Non-Convertible Debentures amounting to Rs.180 Crs. of Bharti AXA Life Insurance Company Limited

Particulars:

Instruments **	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (May, 2021)	Present
Non-Convertible Debentures (NCDs) (Subordinated Debt)	80.00	80.00	Long Term	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable) Reaffirmed
Non-Convertible Debentures (NCDs) (Subordinated Debt) Proposed	-	100.00	Long Term	-	BWR AA+ (Stable) Assigned
Total	80.00	180.00	Rupees One Hundred Eighty Crores Only/-		

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

** Details of NCDs provided in Annexures-I & II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed and assigned the ratings of the Non-Convertible Debentures (NCDs) of Bharti AXA Life Insurance Limited (BALICL or the company). The rating reaffirmation/ assignment continues to factor in, inter alia, the strong parentage (Bharti group and AXA Group), financial support from sponsors, experienced board and management team, and the growth in premium and the investment book. The rating is, however, constrained by the relatively small scale of operations, higher management expense ratio, monitorable solvency ratio and the highly competitive nature of the industry.

The Stable outlook indicates a low likelihood of rating change over the medium term. BWR believes the company will continue to receive capital, managerial and technical support from its promoters.

KEY RATING DRIVERS

Credit Strengths:-

- **Strong parentage and financial support:** BALICL derives its strengths from its sponsors Bharti Enterprises and AXA India Holdings in the form of continual financial, management and technical support in the past and further commitment to support the scaling-up of operations as and when required. AXA also brings in strong operational and risk management expertise, thereby assisting in building/maintaining robust systems and processes. During FY19 to FY21, the promoters had infused equity capital of Rs. 680 Crs into the Company. Additionally, the company raised further capital of Rs. 340 Crs in FY22 and plans to raise ~Rs. 200 Crs in FY23. BWR believes the sponsors will continue to support the company's growth plans and contribute to incremental capital requirements whenever required.
- **Experienced board and management team:** BALICL has an experienced board of directors consisting of 11 members, including Mr. Rakesh Bharti Mittal, the non-executive director and chairman of the board; Mr. Parag Raja, the managing director and CEO; six non-executive directors, each representing the Bharti and AXA groups; and three independent directors. The company has a team of well-qualified and experienced professionals looking after the Finance, Insurance, Innovation, Marketing, Distribution, HR, Legal and Technology verticals, among others.
- **Growth in premium and assets under management:** BALICL's total premium growth of 14% to Rs. 2602 Crs during FY22, was well supported from both its business segments, 19% growth in new business premium and 11% growth in renewal premium. Further, the 13 month persistency ratio too improved to 67% in FY22 (FY21: 62%). The assets under management book grew by 18% to Rs. 11,025 Crs during FY22, indicating the gradual release of the impact of COVID pandemic and a continued growth expectation going forward. The company's ability to continue its growth streak on its premium from both its business segments and the AUM book in a competitive environment will assist achieve its targeted profitability over the medium term.

Credit Risks:-

- **Small scale of operations and high competition:** The company's scale of operations is relatively small, with a market share of less than 2% as of end-FY22. The limited scale of operations and higher expenses have resulted in the continuation of losses. The company reported a net loss of Rs. 342 Crs in FY22, compared with a Rs. 154 Crs net loss in FY21, on account of COVID-related claims made during FY22. The company's expense management ratio increased to 40% in FY22, compared with 38% in FY21, and the reduction of which shall be a monitorable over the near term. The new business premiums have increased from Rs. 783 Crs in FY21 to Rs. 935 Crs in FY22, indicating an incremental trend going forward, however will remain monitorable in a highly competitive environment. BWR expects the company's ability to provide the requisite funding support to support the business growth while reducing the management expense ratio as a key monitorable. Business performance in terms of new business, retention of



existing clients, lowering of management expenses, improving profitability and continued support from the promoters will be the other key monitorables.

- **Solvency ratio to be a monitorable:** While the subordinated debt instruments issued by the insurance company as per IRDA guidelines are characterized by restrictions on their servicing if regulatory solvency requirements are breached, BWR takes note of the company's current solvency indicators, and its policy and track record of adhering to the same. BALICL had consistently maintained the solvency ratio above the regulatory requirement of 1.50 times. The solvency ratio as on 31 March 2021 was 1.78 times, however the same was at 1.62x as on 31 March 2022. As of 30 June 2022; BWR expects the company to maintain the solvency ratio well above the regulatory requirement with adequate buffer. Any further decline in the solvency ratio below FY22 levels shall be a key rating monitorable. The solvency ratio as of 30 June 2022 stood improved to 1.64x.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at the ratings, BWR has taken into account the company's standalone financial performance and sponsorship of both the JV partners, namely, Bharti Enterprise Ltd and AXA Group. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Upward: A significant improvement in the financial risk profile, in terms of new business, retention of existing business, expense ratios, solvency, profitability and promoter support will be positive for the entity.

Downward: Decline in the solvency ratio to below 1.6 times and a deterioration in the other key indicators will be negative for the entity.

LIQUIDITY INDICATORS: ADEQUATE

As on 31 July 2022, the company had Rs. 26 Crs in fixed deposits (excluding lien marked), Rs 179 Crs in cash and cash equivalent, and a Rs. 681 Crs investment in liquid investments. The company has an interest payment due in August 2021, of around Rs 5 Crs, against which it has adequate liquidity.

COMPANY PROFILE

Bharti AXA Life Insurance Company Limited (BALICL) is a life insurance company in India, headquartered in Mumbai. It is a JV between Bharti, one of India's leading business groups with interests in telecom, the agri business, real estate, learning and development, and retail, and AXA, a world leader in financial protection and wealth management. The Bharti Group has a 51% stake in the company, and the AXA Group has the remaining 49%. Mr. Parag Raja is the company's MD and CEO, and Mr. Rakesh Bharti Mittal is the chairman of the board. The company has an experienced board of directors.



The company launched national operations in August 2006. It has over ~5500 employees across 28 states/union territories in the country and a national footprint of trained distributors. BALICL offers a variety of insurance products of different categories to its customers, including Term Insurance Plans, ULIPs (Unit Linked Plans), Money Back Plans, Endowment Plans and Saving Plans.

The company has been consciously trying to diversify its business mix and move towards more profitable businesses. The same is visible from the gradual change in the share of the higher margin Non-Participation products (including unit linked) from 53% of overall products sold at the end of FY19 to 67% at the end of FY 22. Concurrently, the share of Participation products has reduced from 26% at the end of FY 19 to 14% at the end of FY21. The share of Protection products has increased from 1% in FY19 to 3% in FY22

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY21	FY22
Result Type		Audited	Audited
Total Premium Income	Rs in Crs	2281	2602
PAT	Rs in Crs	(154)	(342)
Assets Under Management	Rs in Crs	9374	11025
Expense Ratio	%	38%	40%
Solvency Ratio	Times	1.78	1.62

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The subordinated debt (existing and proposed) has key features including the requirement of a prior approval from the Regulator for interest payout if the payment leads to an increase in losses or incurring losses. Interest payment is subject to maintaining the solvency ratio above the stipulated level, as prescribed by the regulator.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable				
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating August 2022	Date(s)& Rating(S) assigned in year T-1 (FY22)	Date(s) & Rating(s) assigned in Year T-2 (FY21)	Dates(s) Rating(s) assigned in in Year T-3 (FY20)		
1	NCDs (Sub Debt)	Long Term	60.00	BWR AA+ (Stable)	BWR AA+ (Stable) (31-May-21)	BWR AA+ (Stable) (30-May-20)	BWR AA+ (Stable) (30-Apr-19)		
2	NCDs (Sub Debt)	Long Term	20.00	BWR AA+ (Stable)	BWR AA+ (Stable) (31-May-21)	BWR AA+ (Stable) (30-May-20)	BWR AA+ (Stable) (30-Apr-19)		
3	NCDs (Sub Debt) Proposed	Long Term	100.00	BWR AA+ (Stable)	-	-	-		
	Total		180.00	Rupees One Hundred Eighty Crores Only					

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Instruments	Complexity Level
Subordinated Debt	Complex

Hyperlink/Reference to applicable Criteria

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

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Bharti AXA Life Insurance Company Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II

INSTRUMENT (NCDs) DETAILS

Instrument	Issue Date	Amount Rs. Crs.	Coupon Rate	Maturity Date	ISIN Particulars
NCD (Sub Debt)	23 Aug 17	60.00	8.98%	23 Aug 27	INE089J08011
NCD (Sub Debt)	-	20.00	8.98%	-	-
NCD (Sub Debt) - Proposed	-	100.00	-	-	-
Total		180.00	Rupees One Hundred Eighty Crores Only/-		

ANNEXURE III

List of entities consolidated: NA



For print and digital media

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