

## Niva Bupa Health Insurance Company Limited

January 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Subordinate debt	150.00	CARE A+; Stable	Revised from CARE A; Stable
Subordinate debt	100.00	CARE A+; Stable	Revised from CARE A; Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the rating assigned to sub-ordinate debt of Niva Bupa Health Insurance Company Limited (NBHI) is driven by substantial increase in the company's capital base as it has recently raised a fresh equity capital of ₹800 crore from a new set of investors- Temasek, Motilal Oswal, SBI Life and Paragon. The infusion will improve the net worth of the company to around ₹2,000 crore with solvency of around 2.5x. The rating continues to factor in the consistent support from its investors through regular equity infusions- ₹311 crore in FY23 and ₹334 crore in H1FY24. The rating is further supported by higher-than-industry year-on-year growth in gross written premium (GWP) at around 45% in FY23 (refers to the period April 1 to March 31) and 40% in H1FY24, leading to an increase in the market share. However, despite growth, the market share continues to remain moderate. Apart from this, experienced management team, adequate controls / systems, and high financial flexibility owing to large portion of investments in AAA-rated and central government issued debt securities (which covers 143% of technical reserves).

The rating is constrained by the modest profitability levels owing to high expense ratio although improving. High customer acquisitions cost in retail health insurance leads to high expense ratio. The company has improved its net profit to ₹12.5 crore in FY23 from loss of ₹196.5 crore in FY22 driven by improvement in expense ratio and normalisation of claim pay-out with easing impact of pandemic.

Going forward, the ability of the company to sustain profitability will be a key rating sensitivity. Furthermore, being a standalone health insurer, NBHI has dependency on the prospects of the health insurance segment.

CARE Ratings Limited (CARE Ratings) notes that there is a secondary sale of Fettle Tone LLP stake to Bupa Singapore Holdings Pte Ltd planned. After this transaction, Bupa Singapore Holdings Pte Ltd stake is expected to increase to 63%, making NBHI subsidiary of Bupa Singapore Holdings Pte Ltd. This will be a positive development from the credit profile perspective and Care Ratings will review the rating once the transaction is completed.

CARE Ratings has rated the aforesaid subordinate debt considering the regulatory conditions and in view of their sensitiveness to the company's solvency ratio and profitability due to the regulatory covenants during the long tenure of the instrument. The interest payable on subordinate debt will be subject to the following:

- The solvency of the issuer remains as per regulatory stipulation.
- Where the impact of such payment may result in net loss or increase the net loss, prior approval of the authority for such payment will be obtained.

NBHI has received regulatory approval for interest payment in the past, despite reporting of losses, and is expected to continue to get the same. Any delay in the payment of interest / principal (as the case may be) following the invocation of covenants,

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

would constitute an event of default as per CARE Ratings' definition of default and as such these instruments might exhibit sharper migration of the rating.

### **Rating sensitivities: Factors likely to lead to rating actions**

#### **Positive factors – Factors that could individually or collectively lead to positive rating action / upgrade:**

- Significant increase in the market share in the overall health insurance segment.
- Sustained improvement in the profitability metrics.

#### **Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:**

- Any material changes in the shareholding pattern, leading to expectation of diminished shareholder support.
- Weakness in the capitalisation profile, with solvency going below 1.8x.

**Analytical approach:** Standalone; factoring capital support from shareholders.

### **Outlook:** Stable

The stable outlook factors in CARE Ratings' expectation that NBHI will be able to grow its market share while maintaining good solvency ratio.

### **Detailed description of the key rating drivers**

#### **Key strengths**

##### **Strong shareholder support and experienced management team**

NBHI was majority owned by Fettle Tone LLP, holding 53.51% shareholding, and the remaining 44.55% was held by Bupa Singapore Holdings Pte Ltd, as at the end of September 2023.

After the equity infusion of ₹800 crore by Temasek, Motilal Oswal, SBI Life and Paragon in December 2023 and secondary sale which will happen in January, in which Fettle Tone LLP would be selling some stake to Bupa Singapore Holdings Pte Ltd, majority shareholding would be with Bupa Singapore Holdings Pte Ltd (63%) making NBHI subsidiary of Bupa Singapore Holdings Pte Ltd. This will be a positive development from the credit profile perspective and Care Ratings will review the rating once the transaction is completed. The investors have been supporting the company in the form of regular equity infusions as evident by an equity infusion of ₹145 crore in FY20, ₹281 crore in FY21, ₹127 crore in FY22, ₹311 crore in FY23 and ₹334 crore in H1FY24. The overall operations of the company are governed by a nine-members Board of Directors, which includes three representative directors of Fettle Tone LLP, two representative directors from Bupa Singapore Holdings Pte Ltd, three independent directors and one executive / managing director.

##### **Healthy solvency ratio**

The reported solvency of NBHI was 1.62x at the end of September 2023, against 1.67x at the end of March 2023, and 1.72x at the end of March 2022, above the mandated regulatory requirement of 1.5x. However, after the equity infusion of ₹800 crore in December, the solvency ratio would be around 2.5x as on December 2023. Overall, the company has projected its solvency ratios to remain more than 2x on a sustained basis. In addition, the company has taken re-insurance for covering risk beyond a threshold limit and for covering catastrophic risks, which not only help in avoiding high claims but also help in conserving capital. Overall, CARE Ratings expects timely and adequate support from the promoters to be forthcoming, as and when required.

**Growth in scale of operations with improving market share**

The GWP grew at a two-year compounded annual growth rate (CAGR) of 52.5% to ₹4.073 crore in FY23. It continued its growth momentum in H1FY24 with year-on-year growth of 40% in GWP to ₹2,436 crore. The company witnessed faster-than-industry growth, leading to increase in the market share in health insurance (including Personal accident and travel insurance) to 4.34% in 8MFY24 from 4.17% in FY23 and 3.49% in FY22. The business is sourced from well-diversified distribution channel including individual agents (31.9%), brokers (27.2%), corporate agents – banks (18.7%), direct business (13.5%), corporate agents – others (8.2%) and others (0.5%) in H1FY24. Furthermore, geographically diversified business generation provides support stability to the business. GWP contribution in 6MFY24 was driven by Maharashtra (15.6%), followed by Uttar Pradesh (10.9%), Delhi (9.5%), Karnataka (9.3%), Haryana (7.6%), Telangana (6.4%) and Gujarat (5.4%). As on September 30, 2023, the company has 201 offices compared with 161 as on March 31, 2022. CARE Ratings expects the company to witness healthy growth across different states, backed by diversified business sourcing channels.

**Adequate systems and controls**

The major risks for NBHI are strategic risks, insurance risks, operational risks and investment market risk. To mitigate these risks, NBHI has put in place control mechanisms that undertake regular assessment of risk and scenario analysis / sensitivity for assessing the impact of changes in key underlying variables. The company has an internal audit department to ensure that proper and adequate systems and procedures are in place and being followed. Policies have been framed, which are regularly reviewed in line with the market conditions. The various board-level committees also govern the management and operations of the insurer on a regular basis.

**Key weaknesses****Modest profitability profile although improving**

NBHI reported net profit of ₹12.5 crore in FY23 compared with loss of ₹196.5 crore in FY22. The improvement in FY23 was driven by reduction in the expenses of management. The sum of net commission paid, and operating expenses related to insurance as percentage of net earned premium reduced to 47.79% in H1FY24 from 51.49% in FY23 and 55.8% in FY22. However, it remains higher than peers and regulatory threshold limit. High acquisition cost in retail health insurance segment is leading to high expense ratio. However, it again reported loss of ₹80 crore for H1FY24. The bottom line was impacted because of seasonality in H1FY24 due to 50% unearned premium reserve (UPR) method. The management expects profit of ₹50-60 crore for FY24 as majority of premium growth happens in H2. NBHI has applied for extension of forbearance on expense ratio higher than regulatory limit till FY26. The improvement in the expense ratio remains a key rating sensitivity factor.

The net incurred claims to net earned premium remains better than health insurance industry average owing to insurer's focus on retail insurance segment in FY23 as it improved to 54.05% in FY23 from 62.10% in FY22, but again rose to 63.78% in H1FY24.

The yield on investments improved to 7.04% (annualised) in H1FY24 from 6.7% in FY23 and are expected to remain high benefiting from high interest rate environment.

**Single line of business**

NBHI is a standalone health insurance player, and thereby, has dependency on the prospects of the health insurance segment. In FY23, the GWP from the health insurance segment was 98%, in line with past trend. The other major segment is personal accident with contribution of 2% to GWP in FY23. NBHI has started travel insurance segment, however, its contribution remains minimal.

## Liquidity: Adequate

NBHI's liquidity profile is comfortable and is governed by Insurance Regulatory and Development Authority of India (IRDAI) (Investment) Regulations, 2016, that require non-life companies to invest 30% of their investment assets in government securities. As on September 30, 2023, the investment assets of NBHI stood at ₹4,083 crore (₹3,336 crore as of March 2023). 81% of investments are in AAA-rated and sovereign securities, which covers 143% of technical reserves. Furthermore, 7.4% of investments is in state government securities and 6.3% of investments are in AA rated securities. The net non-performing assets (NNPA) was nil as on September 30, 2023.

NBHI has increased its investment in longer tenure securities as it expects the interest cycle to be around peak. However, at least 2.5% of investments are kept in liquid funds. The positive cash flows from operations given high growth in the premium written also support the liquidity.

## Applicable criteria

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Financial ratios- Insurance sector](#)

[Insurance Sector](#)

## About the company and Industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Insurance	General insurance

NBHI incorporated on September 5, 2008, is one of the leading private sector standalone health insurance companies in India. The company obtained license from the IRDAI for carrying on the business, on February 15, 2010. It started as a joint venture (JV) between Max India Limited and Bupa (through Bupa Singapore Holdings Pte Ltd, Singapore), a UK-based health insurance services group. In December 2019, Max India Limited took an exit and sold off its entire 51% stake to Fettle Tone LLP (an affiliate of private equity firm True North). The transaction was approved by IRDAI on December 02, 2019, and post the completion of transaction, the majority shareholder of NBHI was Fettle Tone LLP with 53.51% shareholding and Bupa Singapore Holdings Pte Ltd with 44.55% shareholding, at the end of September 2023.

Existing shareholders- Fettle Tone LLP and Bupa Singapore Holdings Pte Ltd infused capital of ₹334 crore in H1FY24. After the recent equity infusion of ₹800 crore by Temasek, Motilal Oswal, SBI Life and Paragon in December 2023 and secondary sale which will happen in January, in which Fettle Tone LLP would be selling some stake to Bupa Singapore Holdings Pte Ltd, majority shareholding would be with Bupa Singapore Holdings Pte Ltd (63%).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1 FY24 (UA)
Net earned premium	1753	2663	1644
PAT	-197	13	-80
Total assets	2738	3877	4603
Solvency (x)	1.72	1.67	1.62
Investments	2401	3366	4083

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Subordinate debt	INE995S08010	15-Nov-2021	10.70%	15-Nov-2031	150.00	CARE A+; Stable
Subordinate debt	INE995S08028	15-Mar-2022	10.70%	15-Mar-2032	100.00	CARE A+; Stable

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debt-Subordinate debt	LT*	150.00	CARE A+; Stable	-	1)CARE A; Stable (04-Jan-23)	1)CARE A; Stable (02-Mar-22) 2)CARE A; Stable (30-Apr-21)	-
2	Debt-Subordinate debt	LT*	100.00	CARE A+; Stable	-	1)CARE A; Stable (04-Jan-23)	1)CARE A; Stable (02-Mar-22)	-

\*Long term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

#### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debt-Subordinate debt	Complex

## Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

### Contact us

Media Contact	Analytical Contacts
<p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Pradeep Kumar V Senior Director <b>CARE Ratings Limited</b> Phone: 91 44 2850 1001 E-mail: <a href="mailto:pradeep.kumar@careedge.in">pradeep.kumar@careedge.in</a></p>	<p>Gaurav Dixit Director <b>CARE Ratings Limited</b> Phone: +91 -120-4452002 E-mail: <a href="mailto:gaurav.dixit@careedge.in">gaurav.dixit@careedge.in</a></p> <p>Neha Kadiyan Associate Director <b>CARE Ratings Limited</b> Phone: +91-120-4452022 E-mail: <a href="mailto:Neha.Kadiyan@careedge.in">Neha.Kadiyan@careedge.in</a></p> <p>Anubhav Khatri Lead Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Anubhav.Khatri@careedge.in">Anubhav.Khatri@careedge.in</a></p>

### About us:

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