Magma HDI General Insurance Company Limited

February 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Debt-Subordinated Debt	75.00	CARE AA; Stable	Assigned
Debt-Subordinated Debt	100.00	CARE AA; Stable	Reaffirmed
Debt-Subordinated Debt	250.00	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

CARE Ratings Limited (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. 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.

Any delay in payment of interest / principal (as the case may be) following the invocation of covenants, would constitute an event of default as per CARE Ratings' definition of default and as such these instruments may exhibit sharper migration of the rating.

Rationale and key rating drivers

The rating assigned to the subordinated debt of Magma HDI General Insurance Company Limited (Magma HDI) continues to factor in its strong parentage, the strategic importance of Magma HDI to its parent, and the financial flexibility resulting from its association with the Poonawalla group as well as the expectations of support as and when needed. The rating also continues to factor in the experienced management team and the comfortable solvency position. That said, the rating is constrained by the moderate size of operations along with limited business diversification and the moderate profitability metrics.

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 size of operations and overall market share.
- Improvement in the profitability metrics with a diversification in the product portfolio.

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

- Any material changes in the shareholding pattern, leading to the expectation of diminished support from the Poonawalla group.
- Weakness in the capitalisation profile, with the solvency falling below 1.7x on a sustained basis.

Analytical approach:

Standalone, along with factoring in the linkage with the promoter of the Poonawalla group.

Outlook: Stable

The stable outlook reflects CARE Ratings' view that the company will continue to have need-based capital support from the Poonawalla group and the prudent solvency levels along with maintained growth momentum.

Detailed description of the key rating drivers:

Key strengths

Strong and resourceful promoter

Sanoti Properties LLP (Sanoti), held by Mr. Adar Poonawalla and Rising Sun Holdings Private Limited (RSPHL), holds 74.5% stake in Magma HDI as on January 31, 2024. RSHPL is the holding company of the group, having investments in insurance, retail, pharma, and the financial services segments. In FY23, Sanoti infused ₹734 crore of equity capital, and consequently, ₹181 crore in Q1FY24, post which its stake increased from 55.4% in June 2022 to 64.7% in June 2023. In November 2023, from the total stake of 11.9%, HDI Global SE sold 9.9% stake to Sanoti & ~2.0% to Mr. Keki Mistry. With this secondary transfer, Sanoti's stake has increased to 74.5%. By virtue of the strong parentage, the company benefits from the financial flexibility and the access to

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

corporate relationships, which is expected to enable the gradual diversification of the company's earnings profile from motor insurance to other segments such as health insurance and corporate businesses.
Considering that Magma HDI symbolises the group's foray into the insurance sector and the demonstrated track record of capital support, CARE Ratings expects the Poonawalla group to continue to maintain the majority shareholding in the company and provide need-based capital, going forward. The rebranding exercise of the company is expected to be concluded by H1FY25.

Experienced management team
The company's board of directors consists of eight directors with varied experience in their respective functional areas. The board includes two nominees from Celica Developers and one nominee from Sanoti. Mr. Vinesh Kriplani (Director – M&A & Taxation, Serum Institute) has been appointed as a nominee director by Sanoti with effect from November 01, 2023. Furthermore, the Poonawalla group has appointed Mr. Keki Mistry, Additional & Non-executive Director, HDFC Bank, as a strategic advisor to entities operating in the dc services businesses of the Poonawalla group.
Rajive Kumaraswami is the Managing Director & CEO of Magma HDI. Kumaraswami has more than two decades of experience in the insurance industry. Magma HDI's key management team consists of professionals with relevant experience in the industry.

Healthy solvency ratio
Supported by capital infusion of ₹915 crore by the Poonawalla group since FY23 (₹734 crore was infused during FY23 and another ₹181 crore during Q1FY24), the solvency margins of the company increased to 2.10x (PY.: 1.76x) as on March 31, 2023, and further to 2.11x as on December 31, 2023. This translates into a surplus capital of ₹339 crore as on December 31, 2023. The solvency ratio was further supported by ₹100 and ₹200 crore subordinated debt raised by the company during Q4FY22 and Q3FY24 from various institutional investors.

Given the company's plans of ramping up its distribution network so as to increase the share of the health insurance and corporate businesses going forward, the healthy solvency levels provide comfort. The company is expected to raise further equity capital in the near term, which will provide further a fillip to the company's solvency levels. CARE Ratings expects the solvency margins to be above of 2.00x in the medium term.

Key weaknesses
Modest size of operations with limited business diversification
Magma HDI has been operating in the general insurance industry for more than a decade, however, the size of operations continues to remain modest with ₹2,523 crore of claims outstanding as of March 2023 (Dec-23: ₹3,072 crores). As on March 31, 2023, the company's gross written premium (GWP) grew at a five-year CAGR of 35% at ₹2,588 crore (GDP of ₹2,534 crore), thereby comprising market share based on a gross direct premium (GDP) of 1.9% (PY.: 1.6%) among private general insurance players. The company's market share based on the GDP within the motor segment increased to 3.2% (PY.: 2.7%) among private general insurance players.
While CARE Ratings notes the y-o-y increase in the company's size and market share complemented by its healthy solvency ratio, it continues to remain modest and is concentrated towards the motor segment. During FY23, the motor segment accounted for 71.9% of its total GWP (PY.: 72.5%) while the health and commercial segments contributed 9.7% and 18.4%, respectively, to the total GWP.
Within motor, the company has diversified its portfolio, with commercial vehicles (CVs) constituting 44.7% of the total GWP during FY23, private cars – 20.5%, two-wheelers – 23.8%, tractors – 6.9%, and standalone third party – 4.2%. The company has now focused on the health segment (grown by 123.24% to ₹251 crore in FY23) with special focus SME group health segment contributing 82.1% of the total health book [PY.: 70.2%]. Magma HDI sources 41.4% (PY.: 40.4%) of its premium from agencies, and over the past three years, it has worked towards increasing its original equipment manufacturer (OEM) network to source motor insurance, which led to 28.6% of the premium via OEMs during FY23 (FY20.: 18.7%).

Led by the gradual scaling up of its operations, the ramp-up in distribution channels and healthy solvency levels, CARE Ratings expects the company to diversify its product portfolio and reduce the concentration in the motor segment to around 60% of the total GWP in the medium term.

Moderate profitability metrics
During FY23, Magma HDI reported 42.6% growth in its GWP to ₹2,588 crore as against the 20% growth in GWP reported by private sector general insurance players. Despite the rise in GWP and NEP by 42.6% and 67.8%, respectively, the company's losses expanded to ₹287 crore during FY23 (P.Y. losses: ₹12 crore) due to a rise in the claims' ratio and operational expenses. The increase in operating expenses since FY22 has been on account of various reasons including investments in people, infrastructure and information technology and covid easing. Furthermore, while the company has been downsizing its branches, it has been ramping up its employee strength (increased to 1,853 in FY23 from 1,372 in FY22) and increasing its OEM and health channel tie-ups. Commission expenses ratio on net earned premium (NEP) increased to 4.9% in FY23 (P.Y.: -2.4%) due to reduction in reinsurance commission earning, as the retention ratio has increased at 75.1% (P.Y.: 61.8%). The investment income marginally increased to ₹300 crore (P.Y.: ₹232 crore) along with increased in investment book to ₹5,259 crore (PY.: ₹3,844 crores) with the yield-on-investments (with treasury gain) at 6.62% (PY.: 6.80%) and exit yield of 6.85% (PY.: 6.08%).
During 9MFY24 GPW grew by 16.8% YoY to Rs.2,190 crores. The combined ratio on NEP of the company reduced to 123.5% [PY.: 140.9%]. The total net commission and expense ratio has reduced for the company to 43.5% [PY.: 71.1%] and claims ratio of the company continues to remain high at 80.0% [PY.: 69.8%], as the company is expanding its distribution reach and changing its product mix.

The investment income during the 9MFY24 stood at Rs.293 crores [PY.: Rs. 212 crores] with yield on investment (with treasury gain) at 6.76% [PY.: 6.41%] and exit yield of 7.14% (PY.: 6.76%).
Supported by a gradual diversification in the product portfolio and an increase in the scale of operations, CARE Ratings' expects the company to turn profitable in the medium term.

Liquidity: Strong

The investments portfolio for Magma HDI stood at ₹6,389 crores as on December 31, 2023, out of which 32.4% of the total investments were in G-Secs, 14.9% in state development loans & other approved securities, and 44.4% in 'AAA' rated corporate bonds. Further, the cash and cash equivalents stood at ₹ 25 crore. As against this, the total claims outstanding stood at ₹3,072 crore and the interest payment for next 1 year stood at ₹28 crore as on December 31, 2023, due to which the liquidity is strong.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

Not Applicable

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Financial Ratios - Insurance Sector
Insurance Sector
Factoring Linkage Parent Sub JV Group

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Insurance	General Insurance

Magma HDI was incorporated in 2009 as a joint venture (JV) between Magma Fincorp Limited, Celica Developers Private Limited, Jaguar Advisory Services Private Limited, and HDI Global SE Germany. The company obtained the licence to undertake general insurance business on May 22, 2012, from the Insurance Regulatory and Development Authority of India (IRDAI).

As on March 31, 2023, the company offers both, retail and commercial general insurance products. Retail products consist of motor (car, two-wheeler, CVs, tractors), health, and individual personal accident covers, while commercial products consist of property, fire, marine cargo, and liability insurance. The company had a market share of 0.99% in the non-life insurance space in FY23. Magma HDI had 102 offices as of March 2023 and has sold ₹24.19 lakh of insurance policies during FY23.

In November 2023, HDI Global SE Germany sold its 9.9% stake to Sanoti taking the total stake of Sanoti to 74.5% and sold the remaining ~2.0% stake to Mr. Keki Mistry.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Gross direct premium	1,284	1,757	2,534	2,023
Gross written premium	1,349	1,815	2,588	2,190
PAT	19	-12	-287	-73
Claims Outstanding	1,650	2,009	2,523	3,073
Total assets*	3,206	4,064	5,853	6826
Tangible net worth*	387	368	817	913
Net NPA (%)	0	0	0	0
Solvency ratio (x)	1.79	1.76	2.10	2.11

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Adjusted to intangible assets and deferred tax assets.

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
Debt-Subordinate Debt	INE312X08018	30-03-2022	8.75	30-03-2032	100.00	CARE AA; Stable
Debt-Subordinate Debt	INE312X08026	28-12-2023	9.70	28-12-2033	200.00	CARE AA; Stable
Debt-Subordinate Debt	Proposed	-	-	-	50.00	CARE AA; Stable
Debt-Subordinate Debt	Proposed	-	-	-	75.00	CARE AA; 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	100.00	CARE AA; Stable	1)CARE AA; Stable (05-Sep-23)	1)CARE AA; Stable (12-Sep-22)	1)CARE AA-; Stable (30-Mar-22)	-
2	Debt-Subordinate Debt	LT	250.00	CARE AA; Stable	1)CARE AA; Stable (05-Sep-23)	-	-	-
3	Debt-Subordinate Debt	LT	75.00	CARE AA; Stable				

LT: Long ter006D.

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 for any clarifications.

Contact Us

Media Contact	Analytical Contacts
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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in

No. CARE/HO/RL/2023-24/4322

Mr. Rajive Kumaraswami
Managing Director and Chief Executive Officer
Magma HDI General Insurance Company Limited
Equinox Business Park, Tower-3, 2nd Floor,
LBS Road,
Mumbai
Maharashtra 400070

February 21, 2024

Confidential

Dear Sir,

Credit rating for Subordinated Debt issue

On the basis of recent developments including operational and financial performance of your Company for FY23 (Audited) and 9MFY24 (Unaudited), our Rating Committee has reviewed the following ratings:

Sr. No.	Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
1.	Subordinate Debt	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
2.	Subordinate Debt	250.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
	Total Instruments	350.00 (Rs. Three Hundred Fifty Crore Only)		

2. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly.

4. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the lifetime of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

7. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.

8. CARE Ratings Ltd. ratings are not recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Disha

Geeta C.

Disha Balkrishna Potagevan
Lead Analyst
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Geeta Chainani
Associate Director
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Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Ratings

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RL/MHGICL/337440/SUBDEBT/0224/79953/168549112
February 23, 2024

Mr. Rajive Kumaraswami
Managing Director & Chief Executive Officer
Magma HDI General Insurance Company Limited
Equinox Business Park,
Tower 3, 2nd Floor,
LBS Road, Kurla West,
Mumbai City - 400086

Dear Mr. Rajive Kumaraswami,

Re: CRISIL Rating on the Rs.75 Crore Subordinated Debt of Magma HDI General Insurance Company Limited

We refer to your request for a rating for the captioned Debt instrument.

CRISIL Ratings has, after due consideration, assigned a CRISIL AA/Stable (pronounced as CRISIL double A rating with Stable outlook) rating to the captioned Debt instrument. Securities with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such securities carry very low credit risk.

Further, in view of your decision to accept the CRISIL Ratings, we request you to apprise us of the instrument details (in the enclosed format) as soon as it has been placed. In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL Ratings will be necessary.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw, or revise the rating / outlook assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the rating. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

As per SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crisil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us at debtissue@crisil.com for any clarification you may need.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Subha Sri Narayanan
Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

CRISIL Ratings

Details of the Rs.75 Crore Subordinated Debt of
Magma HDI General Insurance Company Limited

	1st tranche		*2nd tranche*		*3rd tranche*	
Instrument Series:						
Amount Placed:						
Maturity Period:						
Put or Call Options (if any):						
Coupon Rate:						
Interest Payment Dates:						
Principal Repayment Details:	Date	Amount	Date	Amount	Date	Amount
Investors:						
Trustees:						

In case there is an offer document for the captioned Debt issue, please send us a copy of it.

CRISIL Ratings

CONFIDENTIAL

RL/MHGICL/337440/SUBDEBT/0224/79954/157370274
February 23, 2024

Mr. Rajive Kumaraswami
Managing Director & Chief Executive Officer
Magma HDI General Insurance Company Limited
Equinox Business Park,
Tower 3, 2nd Floor,
LBS Road, Kurla West,
Mumbai City - 400086

Dear Mr. Rajive Kumaraswami,

Re: Review of CRISIL Rating on the Rs.250 Crore Subordinated Debt of Magma HDI General Insurance Company Limited

All ratings assigned by CRISIL Ratings are kept under continuous surveillance and review.

CRISIL Ratings has, after due consideration, reaffirmed its CRISIL AA/Stable (pronounced as CRISIL double A rating with Stable outlook) rating to the captioned Debt instrument. Securities with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such securities carry very low credit risk.

In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL Ratings will be necessary.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw, or revise the rating / outlook assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the rating. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

As per SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crisil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us at debtissue@crisil.com for any clarification you may need.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Subha Sri Narayanan
Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

CRISIL Ratings

Rating Rationale

February 22, 2024 | Mumbai

Magma HDI General Insurance Company Limited

'CRISIL AA/Stable' assigned to Subordinated Debt

Rating Action

Rs.75 Crore Subordinated Debt	**CRISIL AA/Stable (Assigned)**
Rs.250 Crore Subordinated Debt	**CRISIL AA/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL AA/Stable'** rating to the Rs.75 crore subordinated debt instrument of Magma HDI General Insurance Company Ltd (Magma HDI) and reaffirmed its rating on existing subordinated debt.

The rating centrally factors in the strategic importance of Magma HDI to, and expectation of strong support from, its majority shareholder, Sanoti Properties LLP (Sanoti Properties). Sanoti Properties is significantly held by Mr. Adar Poonawalla (90%) and Rising Sun Holdings Private Limited (RSHPL) (10%). Mr. Adar Poonawalla is CEO of Cyrus Poonawalla group of companies. Furthermore, during the previous years, the group, including Serum Institute of India Pvt Ltd (SIIPL; 'CRISIL AAA/Stable/CRISIL A1+'), has invested substantial funds in RSHPL. This capital was used to infuse funds into financial services and various businesses of the group.

The rating also reflects the adequate capitalisation of Magma HDI and CRISIL Ratings' expectation that Magma HDI will maintain a comfortable level of cushion in its solvency ratio above the regulator-specified minimum on a steady-state basis. The extent of the solvency surplus is a critical determinant of the insurer's ability to service subordinated debt. This is because these instruments carry additional risks owing to restrictions on their servicing if the solvency ratio falls below the regulator-specified minimum, and regulatory approval is needed for their servicing in case of loss or inadequate profit. The parent company's stance to support Magma HDI in maintaining the solvency ratio comfortably above the regulatory requirement has also been factored into the rating. The business risk profile is also supported by the company's stable investment portfolio.

The rating strengths are partially offset by small scale of operations with limited, though increasing, diversity in the portfolio, and modest underwriting performance constraining the earnings.

The rating on the hybrid instrument is also centrally based on the approval by the Insurance Regulatory and Development Authority of India (IRDAI) to Magma HDI, as allowed under provision 5(iii) of the Insurance Regulatory and Development Authority of India (Other Forms of Capital) Regulations, 2022, for this specific proposed subordinated debt issue of Rs 75 crore and the previously rated instrument of Rs 250 crore. As and when received from the regulator, the approval allows the company to make interest or coupon payments to investors for the period for which it has been received, irrespective of reported losses. Previously, the company has sought similar regulatory approvals for interest payment on its existing hybrid debt of Rs 100 crore issued in March 2022.

Analytical Approach

CRISIL Ratings has first assessed the corporate credit rating of Magma HDI, which is an indication of the company's ability to meet obligations to policy holders. For arriving at the corporate credit rating, CRISIL Ratings has assessed the standalone business, financial and management risk profiles of Magma HDI, and then factored in the strategic importance of the company to, and expectation of strong support from, its majority shareholder, Sanoti Properties LLP (Sanoti Properties). Sanoti Properties is significantly held by Mr. Adar Poonawalla (90%) and Rising Sun Holdings Private Limited (RSHPL) (10%). Mr. Adar Poonawalla is CEO of Cyrus Poonawalla group of companies. Furthermore, during the previous years, the group, including Serum Institute of India Pvt Ltd (SIIPL; 'CRISIL AAA/Stable/CRISIL A1+') have invested substantial funds in RSHPL. This capital was used to infuse funds into financial services and various businesses of the group.

The subordinated debt instrument has then been assessed for additional risks to determine whether its rating should be the same as, or lower than, the corporate credit rating. The extent of cushion that Magma HDI intends to maintain over and above the regulatory stipulation on a steady state basis has been considered. The parent's stance to support Magma HDI in maintaining a solvency ratio comfortably above the regulatory requirement has also been factored into the rating.

Key Rating Drivers & Detailed Description

Strengths:

Expectation of continued strategic importance to, and strong support from, parent

As on December 31, 2023, Sanoti Properties held 74.5% stake in Magma HDI. Sanoti Properties is jointly held by Adar Poonawalla (90%) and Rising Sun Holdings Pvt Ltd (RSHPL; 10%).

Other key shareholders in Magma HDI are Celica Developers Pvt Ltd (Celica), Jaguar Advisory Services Pvt Ltd and (Jaguar). Before Sanoti Properties came in as a shareholder (fiscal 2023), Poonawalla Fincorp Ltd (PFL), the non-banking financial company (NBFC) promoted by the Poonawalla family, held a majority stake in Magma HDI. Magma HDI derives funding support and strategic oversight from the parent, as indicated by cumulative capital infusion of ~Rs 1,350 crore since inception. Sanoti Properties infused Rs 734 crore into Magma HDI in fiscal 2023 and Rs 181 crore in the first quarter of fiscal 2024. Resultantly, the stake of Sanoti Properties increased from 55.4% in June 2022 to 64.7% in June 2023. The shareholding of Sanoti Properties has further increased to ~74.5% by virtue of secondary acquisition of 9.9% stake from HDI Global SE. Incrementally, the company has also on-boarded Mr. Keki Mistry as an investor with ~2% stake in the company. Given the high strategic importance of Magma HDI and the parent's intent of maintaining majority shareholding on a steady state basis, the company will continue to receive strong financial and strategic support.

Adequate capitalisation and expectation of high level of cushion in solvency over regulatory stipulation

The capital position remains adequate as reflected in reported networth of Rs 969.16 crore as on December 31, 2023, supported by cumulative capital infusion of Rs 915 crore since fiscal 2023. The equity infusion improved the solvency ratio to 2.10 times as on March 31, 2023, and to 2.11 times as on December 31, 2023, from 1.76 times as on March 31, 2022. The solvency ratio was also supported by tranches of Rs 100 crore and Rs 200 crore raised as subordinated debt in fiscals 2023 and 2024, respectively.

The buffer in the solvency ratio will support the company's medium-term business strategy of scaling up the health insurance and corporate insurance portfolios by ramping up its distribution network. The company may raise more equity in the near term, which will enhance its solvency ratio. The solvency position has been above the regulatory stipulation of 1.5 times over the years, and will remain comfortably so over the medium term, with the parent being supportive of this stance. The cushion is crucial, given the likelihood of default in the subordinated debt instrument if the solvency ratio falls below the stipulated minimum.

Sound investment quality

100% of the company's debt investments as on December 31, 2023, were in sovereign securities or corporate debt instruments rated 'AA' or better. Moreover, a large proportion of liquid investments bolsters its liquidity profile. Government securities (G-secs), both state and central, accounted for 47.3% of the investment book as on December 31, 2023. Since inception, the company has seen two account exposures slip into non-performing assets (NPAs), but both were fully written off. Magma HDI will maintain its sound investment portfolio, given its prudent investment policy and stringent regulatory guidelines.

Weaknesses:

Small scale of operations with limited, though increasing, diversification

Magma HDI is a small player in the Indian general insurance sector with market share below 1% until fiscal 2023. The size of operations continues to remain modest with gross direct premium (GDP) of Rs 2534 crore for fiscal 2023 as against Rs 1757 crore in previous fiscal.

While the company has started diversifying gradually, its portfolio mix remains skewed towards motor insurance. Until March 2023, motor insurance constituted over 73% of the gross direct premiums, followed by health insurance (~10%). However, the concentration has started to reduce, with motor insurance forming 69% of the gross direct premiums in the nine months period of fiscal 2024, and the share of health and commercial segments rising to 18% and 13%, respectively. This was catalyzed by the company's initiatives to reduce concentration as well as favourable macro growth prospects in the health and commercial segments and receipt of fresh equity capital from the parent.

The scale of operations is expected to remain small over the medium term as growth and diversification will happen gradually and organically, along with the development of bancassurance and agency channels and improvement in in-house underwriting practices.

Modest underwriting performance resulting in weak profitability

The company's underwriting performance and profitability have remained modest. It reported an underwriting deficit of Rs 574 crore translating to a combined ratio of 123.8% for fiscal 2023, compared with an underwriting loss of Rs 262 crore and combined ratio of 117.5% for the previous fiscal. While the claims ratio remains at par with close peers, the elevated expense ratio of Magma HDI has been the key constraint for its operating performance. For fiscal 2023, the company reported a claims ratio of 72.6% (68.6% for fiscal 2022) alongside a high operating expense ratio of 47.3% (50.8%). In this regard, the negative commission ratio, resulting from low retention of risks on the book, has been of marginal benefit. With upward revision in reinsurance rates by global reinsurers post pandemic and less ceding in motor quota treaty, the retention ratio of Magma HDI has increased, leading to a corresponding increase in its commission ratio to 3.9% for fiscal 2023 from net negative in the past.

The loss ratio for the nine months period of fiscal 2024 increased to 80.0% from 69.8% for the corresponding of the previous fiscal, owing to steeper losses in the increased health insurance segment. The overall combined ratio, however, improved to 117.3% from 123.1%, driven by reduction in expense ratio. Underwriting loss for the nine months period was Rs 445 crore compared with Rs 376 crore for the corresponding period of fiscal 2023.

Earnings remain constrained due to upfronting of expenses resulting in weak underwriting performance and, largely comprise income from investments. The RoE has historically been below 5% and the company incurred losses for fiscals 2022 and 2023. The net loss of Rs 287 crore for fiscal 2023 factored in the investment income of Rs 301 crore (net loss of Rs 12 crore and investment income of Rs 233 crore for fiscal 2022). The company reported a net loss of Rs 73 crore for nine months ended December 31, 2023 as compared with Rs 238 crore of loss reported for the corresponding period of fiscal 2023. While the underwriting performance has started to stabilise, it will improve only gradually over the long term, thereby constraining profitability. Thus, the company will continue incurring losses over the medium term. In lieu of the expected losses, it intends to seek approval from IRDAI under clause 5 (iii) of the Insurance Regulatory and Development Authority of India (Other Forms of Capital) Regulations, 2022 for honouring obligation pertaining to its subordinated debt issuance.

Liquidity: Strong
The company's liquidity position is comfortable, backed by highly liquid investments in the form of G-Secs (49% of the total investment portfolio on book value). Additionally, the company maintains adequate reserve for claims outstanding at all points in time.

Outlook: Stable
Magma HDI will continue to derive strong financial and managerial support from its parent, both on an ongoing basis and during financial distress. The company will maintain comfortable cushion in its solvency ratio, backed by healthy capitalisation and sound investment portfolio. However, profitability will remain constrained by high underwriting losses.

Rating Sensitivity factors
Upward factors
- Significant increase in strategic importance, reflected in brand sharing of, Magma HDI to the parent and related entities, and substantial increase in ownership of the parent and related entities in Magma HDI
- Significant improvement in market position and sustained improvement in profitability, with combined ratio improving to and remaining below 105%

Downward factors
- Decline in steady state solvency ratio below 1.7 times.
- Substantial increase in underwriting losses, adversely impacting earnings Decline in support from, or in strategic importance to, the parent and related entities, or material change in shareholding in Magma HDI or in any downward revision in CRISIL Ratings' view on the parent and related entities.

About the Company
Magma HDI was incorporated in 2009 as a joint venture between PFL (erstwhile Magma Fincorp Ltd), HDI Global SE Germany, Celica Developers Private Limited (Celica) and Jaguar Advisory Services (Jaguar)

In fiscal 2023, Sanoti Properties bought the entire stake of PFL (23.2%) and SIIPL (9.9%). This change in shareholding was because of the Reserve Bank of India (RBI) and IRDAI stipulations, which cap the shareholding of NBFCs in an insurance company at 50% and state that the holding company of an insurance company cannot be a subsidiary.

As on December 31, 2023, Sanoti Properties held 74.5% stake in Magma HDI, with Celica, Jaguar and being the other key stakeholders.

Magma HDI offers a wide range of retail and commercial general insurance products and operates in three lines of business: motor insurance (69% of gross direct premiums), health insurance (18%) and commercial insurance (13%), which includes fire insurance (around 10%). The company has a pan-India presence with 97 branches in different cities.

Key Financial Indicators

As on / for the period ended March 31,	Unit	2023	2022
Gross direct premium	Rs crore	2534	1757
Total investment income	Rs crore	300	232
Profit after tax	Rs crore	-287	-12
Networth	Rs crore	861	412

Solvency ratio	**Times**	**2.10**	**1.76**

As on / for the period	**Unit**	**Dec-23**	**Dec-22**
Gross direct premium	**Rs crore**	**2023**	**1826**
Total investment income	**Rs crore**	**293**	**212**
Profit after tax	**Rs crore**	**-73**	**-238**
Networth	**Rs crore**	**969**	**861**
Solvency ratio	**Times**	**2.11**	**1.70**

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
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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	Rating assigned with outlook
NA	Subordinated debt*	NA	NA	NA	125	Complex	CRISIL AA/Stable
INE312X08026	Subordinated debt	28-Dec-2023	9.7	28-Dec-2033	200	Complex	CRISIL AA/Stable

**Yet to be issued*

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Subordinated Debt	LT	325.0	CRISIL AA/Stable		--	12-10-23	CRISIL AA/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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