Business Standard

Delay in getting strategic investor a concern for Rel Gen: **Brickworks**

RGICL faces competition from the private as well as public sector general insurance companies in India

Mumbai | Last Updated at November 5, 2021 23:17 IST

Uncertainty in getting a strategic investor is casting a shadow on the profile of Reliance General Insurance Company Ltd (RGICL), a subsidiary of Anil Ambani-controlled Reliance Capital. While its track record, experienced management team, and diversified product offers work as strengths, the weak credit profile of its parent and intense competition act as constraints.

Brickwork Rating, which had placed the debt of the company on watch since November 2020, has assigned a negative outlook on subordinated debt.

The negative outlook factors in its maintaining a cushion on the solvency ratio higher than the minimum regulatory norm as the current parent is not in a position to provide it financial support, if needed. According to Brickwork, Reliance Capital carries a “D” rating.

The solvency ratio is a measure of the risk an insurer faces of claims that it cannot absorb. The ratio gives an insight into the ability of an organisation to meet its financial obligations. Its solvency ratio was 1.65 times in FY21, up from 1.52 per cent in FY20.

The rating agency said the insurance company had shown steady growth in overall financial performance. RGICL reported an income of Rs 727 crore in FY21 (Rs 559 crore in FY20) and profit after tax of Rs 208 crore in FY21 (Rs 259 crore in FY20).

The insurance firm has adequate liquidity. Its cash and bank balance was Rs 169.97 crore at the end of September 2021. The nearest debt repayment is the coupon payment of Rs 21 crore towards the subordinate debt programme, falling due on August 16, 2022. The subordinated debt repayment of Rs 230 crore is due on August 17, 2026.

RGICL has more than 20 years in the insurance business and a 4.67 per cent market share in the sector as on September 30, 2021. The company has a diversified distribution network with 129 branches across India, with the support of around 30,000 agents.

Intense competition is one of the credit risks for the company because it has to continuously come up with different products. Acquiring new businesses with a lower premium ticket size is competitive. RGICL faces competition from the private as well as public sector general insurance companies in India.