MUA Ltd

Brief Rationale

CRAF reaffirms CARE MAU AA-; Stable ratings to the existing Bond of Mur 500 million and assigns CARE MAU AA-; Stable to the Proposed Bond Issue of Mur 100 million of MUA Ltd

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	500	**CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]**	**Reaffirmed**
Proposed Bond Issue	100	**CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]**	**Assigned**

Rating Rationale

The rating assigned to the bond of MUR 500 million of MUA Ltd ("MUA" or "the Group") has been reaffirmed at CARE MAU AA-; Stable. CRAF has assigned a rating of CARE MAU AA-; Stable to the proposed Bond Issue of MUR 100 million.

The rating continues to derive strength from a successful track record of insurance activities which extend over the past 70 years and a highly qualified, professional, and experienced management team. The group is well established with a diversified revenue and product profile across different geographies and is one of the leading players in General Insurance (23% market share) & Life Insurance business (11% market share) in Mauritius. The Group maintains a sound investment portfolio, robust systems & processes and a strong solvency position vis-à-vis regulatory requirements. Improvement in profitability of the General Insurance business and stability in the Kenyan operation was also noted. The group maintains a satisfactory track record of meeting claims. In addition, investment in group companies is well within the concentration limits.

The rating is however constrained by a high level of competition and growth stagnation in the Mauritian insurance market and lower profitability in East African operations (particularly Kenya).

Rating Sensitivities:

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Achieving higher profitability in the Kenyan operation with the integration of the newly acquired Saham Assurance Kenya Limited with the existing Kenyan operations.

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

- Weakening of profitability, capitalisation, investment portfolio and solvency levels.
- Decline in the operational & financial performance of dividend paying subsidiaries - Mauritius Union Assurance Cy Ltd ("MUACL"; engaged in providing general insurance) and MUA Life Ltd ("MUA Life"; a wholly owned subsidiary of MUACL which provides life insurance).

BACKGROUND

MUACL was founded on 26 July 1948 with the objective of providing affordable insurance to the Mauritian population by introducing both general and life insurance. Since inception, MUACL has offered life insurance and pension products as well as general insurance such as motor, household and fire policies amongst others to Mauritians. It was the first company to provide loans to middle class Mauritians at affordable rates. Over the last 70 years, the Group has grown both organically and through acquisitions, expanding into other regions beyond Mauritius. In 2014, the Group expanded into East Africa (Kenya, Tanzania, Rwanda and Uganda) through the acquisition of a 100% stake in Phoenix Transafrica Holdings Limited ("PTHL"), a group of companies engaged in providing general insurance in the four aforementioned East African countries.

Until December 2018, MUACL was the holding company of the Group, with the major income generating subsidiaries being MUA Life and MUA Transafrica Holdings.

In January 2019, MUA Ltd was incorporated as a new legal entity to act as the ultimate holding company of the Group and was listed on the Official Market of the Stock Exchange of Mauritius ("SEM"). The Group also underwent a restructuring of the subsidiaries and associates of MUACL, relating to East Africa, with these subsidiaries now held under MUA Ltd instead of MUACL. In 2020 MUA through its subsidiary, MUA Insurance (Kenya) Ltd. acquired 100% of Saham Assurance Kenya Limited ("Saham Kenya") for a total consideration of USD 12.325 million.

As at December 31, 2020, at the MUACL level the ratio of Excess Capital Available over Capital required margin stood at 217% (220% in FY19) well above the statutory limit of 150%. Mauritius is the primary market for MUA (23% market share for general insurance and 11% market share for life insurance). MUA has a market capitalization of MUR 5.8 billion as at June 8, 2021. Financial and operational highlights as at Dec 31, 2020 and Dec 31, 2019 are as follows:

Particulars		**Market Share in terms of GPE***		**Position in Industry***		**Amount**	**% of GPE**	**Amount**	**% of GPE**
		2020	**2019**	**2020**	**2019**	**2020**		**2019**	
General Insurance Mauritius (Mauritius Union Assurance CY)	*Overall*	*23%*	*23%*	*No. 2*	*No. 2*	2,370	*45%*	2,291	*51%*
	Motor	*22%*	*22%*	*No.1*	*No.1*				
	Accident & Health	*20%*	*20%*	*No. 2*	*No. 2*				
	Property	*23%*	*23%*	*No. 2*	*No. 2*				
Life Insurance Mauritius (MUA Life)		*11%*	*11%*			1,311	*25%*	1,100	*24%*
General Insurance Africa (MUA Kenya)						1,597	*30%*	1,154	*25%*
PAT						365		444	
Gross Sum Insured (Life Insurance)						MUR 87.3 billion		MUR 69.6 billion	
Solvency ratio (Group)						217%		220%	
Total assets						19,203		16,770	
Life Insurance Fund						7,800		7,800	
Return on Equity						11.76%		14.80%	

**Latest available FSC Statistics*

Acquisition

On July 2020, MUA acquired Saham Assurance Company Kenya Limited (referred to as Saham Kenya), through its subsidiary MUA Kenya at an aggregate cost of USD 12.325 million (financed by funds raised from a bond issue in 2019 and rights issue in 2020). While Saham Kenya has both life and general insurance business, but MUA has acquired only the general insurance business.

Right Issue

In November 2020, MUA raised MUR 416 million through a rights issue and part of the proceeds from the rights issue was utilized for financing the acquisition of Saham Kenya.

Bond Issues

In June 2021, MUA Ltd proposes to issue a bond of MUR 100 million to repay its preference shares (MUR 100 million).

In September 2019, MUA Ltd issued a bond of MUR 500 million, partly (MUR 200 million) extended to MUACL to repay an existing bond in MUACL (MUR 200 million) and the balance (MUR 300 million) for part financing of the acquisition of Saham Assurance Kenya Limited in July 2020.

The interest and principal of the Bonds is to be repaid out of cash flow to be received as interest and dividend from MUACL, MUA Life and MUA Insurance (Kenya) Limited.

MUA is a professionally managed Insurance company. It is governed by a 10-member Board of Directors comprising of 2 Executive Directors, 5 Non-executive directors and 3 Independent Directors from different industries, under the chairmanship of Mr. Dominique Galea.

In FY20, MUA's Gross Premium Earned increased by 17% to Mur 5,237 million (Mur 4,480 million in FY19). However, the group's consolidated PAT declined by 18% - to Mur 365 million in FY20 from Mur 444 million in FY19. The main reason for the decline was the one-off costs related to the acquisition of Saham Kenya (Mur 24 million), foreign exchange loss (Mur 12 million) on loan from MUA Ltd to finance the acquisition of MUA Kenya and the changes in the accounting policy in Kenya and Tanzania resulted in a further negative impact of Mur 27 million (non-cash expenditure). This led to a significant increase in expense ratio for FY20 and hence lower PAT. Expenses related to the changes in accounting policies of Kenyan operations was the notional loss, thus, if excluded would have resulted in a PAT as projected during last year. Lower interest rates in FY20 also lead to lower investment income and hence lower PAT for the year. In FY20, MUACY's Gross Premium Earned increased by 6% from MUR 2,350 million in FY19 to MUR 2,497 million (increase of 4% in FY19). In FY20, PAT recorded an increase of 33% to MUR 256 million (FY19: 26% increase in PAT). Claims ratio improved from 59% in FY19 to 54% in FY20. Accordingly, Combined ratio also improved from 94% in FY19 to 87% in FY20. Performance of MUACY was driven by robust results in health and motor insurance and was sustained by lower claims. Travel restrictions and border closures had an inevitable impact on the travel insurance segment. Investment yield witnessed a dip in line with lower interest rate regime.

In FY20, MUA Life's Gross Premium Earned increased by 19% from MUR 1,100 million in FY19 to MUR 1,311 million (increase of 6% in FY19). In FY20, PAT recorded a decline of 55% to MUR 85 million (FY19: 7% increase in PAT). The good operating results were significantly impacted by an increase of MUR 108 million in reserves, mainly due to lower investment yields, linked to declining interest rates and equity values, in a volatile economic environment because of the COVID-19 pandemic. The company contributes 12% of the total GPE of the Life Insurance business in Mauritius. As per the calculation submitted to FSC, MUA Life's MCR as on December 31, 2020, was 2.27x (FY19: 2.34x) as against Regulatory requirement of 1x.

In FY20, MUA Kenya's Gross Premium Written increased by 56% from MUR 1,154 million in FY19 to MUR 1,796 million (increase of 12% in FY19). However, the group's consolidated PAT declined by 65% in FY20 from MUR 110 million in FY19 to MUR 39 million. Lower interest rates in FY20 also lead to lower investment income and hence lower PAT for the year.

Prospects

The prospects of MUA Limited depends on operational & financial performance of dividend paying subsidiaries (MUACY and MUA Life), turnaround in General Insurance business in Kenya and ability to maintain performance in other East African countries.

Annexure I

Rating Symbols

Long /Medium-term Instruments

Symbols	***Rating Definition***
CARE MAU AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
CARE MAU A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category.

Rating Outlook

The rating outlook can be ‘Positive’, ‘Stable’ or ‘Negative’.
A ‘Positive’ outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.
A ‘Negative’ outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.
A ‘Stable’ outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.