

Bajaj Allianz Life Insurance Company Limited
April 05, 2021

Ratings

Facilities/Instruments	Ratings ¹	Rating Action
Issuer Rating*	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Assigned

*The rating is subject to the company maintaining Solvency ratio above 1.8 times

Detailed Rationale & Key Rating Drivers

CARE has assigned an Issuer Rating of 'CARE AAA (Is); Stable' to Bajaj Allianz Life Insurance Company Limited (BALIC). The issuer rating of BALIC factors in the high degree of business synergies and brand linkages with the promoter groups (Bajaj group and Allianz group), strong solvency position of the company, experienced management, stable growth in business and profitability, comfortable liquidity, comfortable asset quality of its investment portfolio, established franchise, strong systems & processes and improving persistency ratio. Continued strong parentage, business growth, solvency position and profitability are the key rating sensitivities.

Key Sensitivities

Positive Sensitivities (Factors which individually or collectively may lead to an upgrade of rating or outlook): Not applicable

Negative Sensitivities (Factors which individually or collectively may lead to a downgrade of rating or change in outlook to negative):

- Solvency margin falling below 1.8 times
- Deterioration in persistency ratios on a sustained basis
- Significant deterioration in profitability

Detailed description of the key rating drivers**Key Rating Strengths**

Strong promoters with high degree of synergies & brand linkage of the parent groups with the company Bajaj Allianz Life Insurance Company Limited (BALIC) has strong promoter group viz. the Bajaj group and Allianz, SE (Germany) with a shareholding of 74% and 26% respectively. The Bajaj group is a 95-year old Indian conglomerate with major presence in the auto sector and financial services sector through Bajaj Auto Limited (BAL) and Bajaj Finserv Limited (BFS) respectively. BFS is the parent company of BALIC which has presence in Lending, Life insurance and General insurance through its various subsidiaries. Allianz SE is a leading insurance conglomerate globally with an established presence in general (property and casualty), life and reinsurance businesses. Allianz SE has over 125 years of financial experience and is present in over 70 countries around the world. Allianz SE is one of the largest insurance companies globally. The two promoter groups also have joined hands for a general insurance venture [Bajaj Allianz General Insurance Company Limited (BAGIC)] indicating the strategic importance of the insurance business for the promoters and the business synergies. The Promoters of BALIC have infused total capital of Rs.1,211 crore till now and the net worth of the company stood at Rs. 9,731 crore including change FV of investments in shareholders fund as on March 31, 2020 (March 31, 2019: Rs. 9,654 crore).

The promoters are actively involved in the business and extend financial, technological, and infrastructural support to the company. The company is strategically important for the promoter group as demonstrated by the high degree of brand and operational linkages and majority ownership. BALIC has strong representation on its Board from the promoter groups with Mr. Sanjiv Bajaj, Managing Director of Bajaj Finserv Limited as the Chairman of the company. The Board of the company also has representative Directors from Allianz SE and experienced Independent Directors. The company also benefits from the global branding and marketing initiatives of Allianz SE.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Strong solvency position

BALIC has been reporting profit consistently since FY10 (refers to period from April 01 to March 31) and has maintained a high solvency margin. The company continues to have a strong solvency position with one of the highest solvency ratio among the Indian life insurers of its scale. It reported a solvency ratio of 7.45 times as on March 31, 2020 as compared to 8.04 times as on March 31, 2019. The solvency ratio was well above the minimum requirement of 1.5 times prescribed by the Insurance Regulatory and Development Authority of India (IRDAI). The solvency ratio reported as on December 31, 2020 was 7.08 times. Although, the solvency margin has shown decline from FY20 onwards as BALIC has started offering term life insurance plans which cover relatively a long-term risk requiring higher solvency requirement. However, solvency ratio had significant cushion over the minimum regulatory requirement.

The company has reported its embedded value at Rs.13,438 crore (P.Y.: Rs.12,989 crore) as on March 31, 2020. Considering high solvency margin, the company is not likely to require additional capital infusion for supporting business growth. Embedded Value (EV) which is a measure of the present value of shareholders' interests in the earnings distributable from the assets allocated to the business after sufficient allowance for the aggregate risks in the business. Embedded Value reflects the value of in-force business along with the Shareholders' net worth. Embedded value is not a reflection of the market value of the company.

Experienced management

The management team comprises of experienced insurance professionals headed by Mr. Tarun Chugh as the Managing Director and Chief Executive Officer (MD & CEO) who joined BALIC in April 2017. Mr. Chugh has over 25 years of experience in financial services space, including over 15 years of experience in Indian life insurance sector. He is supported with an experienced team handling various departments of the life insurance business.

Stable growth in business with adequate profitability

The company reported Net Premium Earned (NPE) of Rs.9,679 crore in FY20 as compared to NPE of Rs.8,804 crore. While the new business premium (comprising majority of group business premium) increased by 5%; the renewal premium (which is largely retail) increased by 16% as a result of various initiatives taken by the company to improve persistency. The benefits paid / claims incurred increased to Rs.6,849 crore (P.Y.: Rs.5,423 crore) on account of higher mortality claims and surrenders in Group segment along with higher surrenders and maturities in Unit-linked segment, while the operating expenses for FY20 increased by 14.76% to Rs.1,812 crore (P.Y.: Rs.1,579 crore) on account of higher spends on increasing the retail business, which in line with the company's strategy to invest in people, technology and re-branding for the future. The company reported net profit of Rs.450 crore on Net Premium Earned (NPE) of Rs.9,679 crore in FY20 as against Rs.502 crore on NPE of Rs.8,804 crore in FY19. During 9MFY21 (refers to period from April 01 to December 31), the company reported net profit of Rs.346 crore on NPE of Rs.7,453 crore. The company is one of the top players in non-bank promoted life insurance companies.

Comfortable asset quality of the portfolio and strong liquidity

The company had an investment portfolio (excluding unclaimed portfolio) of Rs.55,728 crore as on March 31, 2020 which grew to Rs.69,945 crore as on December 31, 2020. As on March 31, 2020, of the total investment assets of the company, 34.6% of the assets are attributable to linked funds (including discontinued fund) and 65.4% to non-linked funds. 56.4% of the linked funds are invested in equities. 88.1% of non-linked funds are invested in debt instruments. 67.7% of the total equity portfolio is invested in Nifty 50 index stocks and 95.9% of the total equity portfolio is invested in stocks forming part of Nifty 500 index. About 98.7% of the fixed income portfolio is held in highest credit rated securities (Sovereign/AAA or equivalent). About 99.7% of the company's investments in fixed income portfolio is rated AA or above. During FY20, the company has made an impairment provision of Rs.390 crore, as per Impairment Policy (P.Y.: Rs.201 crore). The company reported Gross NPA ratio of 0.46% under Shareholder's Funds and 0.14% under Policyholder's Funds as on March 31, 2020 as against Gross NPA ratio of 1.38% under Shareholder's Fund and 0.11% under Policyholder's Fund as on March 31, 2019. As per the investment policy of the company, the company invests minimum 75% of the total debt investments in G-Sec, T-Bills and AAA rated debt instruments minimizing the risk associated with lower rated debt instruments. The investments of BALIC supporting both linked as well as non-linked products and shareholders' funds are largely

invested in fixed income securities (largely central government bonds), listed equity shares and money market instruments which are readily marketable, thereby extending it ample liquidity support.

Established franchise and strong systems and processes

BALIC's distribution has traditionally been agency dominated and had limited retail business contribution from non-agency channels. The company is focusing in increasing the proportion of its retail business through creation of own sales team which will help it upsell and cross sell products, tie-up with corporate distributors and partners. The company has tied-up with several corporate partners including private sector commercial banks, small finance banks and payment banks which have helped the company scale up its retail channels.

BALIC has IT systems capable of handling high customer and transaction volumes which have helped the company improve productivity and efficiency of operations. BALIC has a Board level Risk Management Committee which oversees the functioning of the overall risk management framework of the company and implementation of the risk management strategy. It has supervisory level Risk Committee comprising of a Chief Risk Officer and Heads of various departments/functions which establishes centralised risk monitoring and management.

Improvement in persistency ratios

Persistency ratio indicates the strength of the consumer franchise. The company has registered steady improvement in persistency, since FY16. The 13th month persistency ratio stood at 79.2% for FY20, as against 80.4% for FY19. On account of COVID-19 lockdown and market volatility, renewal collection for the month of March 2020 was impacted, which led to lower 13th month persistency by 1.2% point (absolute) for the policies issued during March 2018 to February 2019 period as compared to previous year corresponding period. The 13th month persistency ratio for 9MFY21 stood at 77.8%.

Analytical approach

BALIC has been assessed on its standalone financial risk profile along with factoring linkages with the promoter entities.

Liquidity: Strong

Substantial portion of BALIC's investment is readily marketable. Investments in Government securities continue to form the largest component of investments, accounting for 50.20% of the investment book which is highly liquid in nature. As on December 31, 2020, BALIC's cash and bank balance stood at Rs.145.32 crore, as against nil borrowings.

Applicable Criteria

[CARE's Issuer Ratings](#)

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Financial Ratios – Insurance Sector](#)

[Factoring Linkages in Ratings](#)

[Rating Methodology – Insurance Sector](#)

About the Company

Bajaj Allianz Life Insurance Company Ltd. (BALIC), incorporated on March 12, 2001 under the Companies Act, 1956, is a joint venture between Bajaj Finserv Limited (holding company for financial services of the Bajaj group) having 74% shareholding and Allianz SE, one of the world's largest insurance company headquartered in Munich, Germany having 26% shareholding. The company obtained a license from the Insurance Regulatory and Development Authority (IRDAI) for carrying on the business of life insurance on August 03, 2001. The company has a wide range of products in traditional and unit-linked insurance business and overall AUM stood at Rs.56,085 crore as on March 31, 2020. The company works essentially through a diversified set of channels including agency, corporate agents, banks, brokers, online through company website, web aggregators and through Company's direct sales channels across the country. The company has a pan India presence through a network of around 511 branches across India as on December 31, 2020.

Brief Financials

(Rs. crore)

	FY19 (A)	FY20 (A)
Net Premium Earned	8,804	9,678
PAT	502	450
Tangible Net Worth	9,654	9,731
Total Policyholders Fund (Technical Reserves)	46,400	46,158
Solvency Ratio (times)	8.04	7.45

A: Audited

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating	-	-	-	-	CARE AAA (Is); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Issuer Rating	LT	-	CARE AAA (Is); Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Issuer Rating	Not Applicable

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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