

## Bajaj Allianz Life Insurance Company Limited

March 25, 2022

### Rating

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Issuer Rating*	-	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed

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

### Detailed Rationale & Key Rating Drivers

The issuer rating assigned to Bajaj Allianz Life Insurance Company Limited (BALIC) continues to derive strengths from 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.

### Rating Sensitivities

#### Positive Factors – Factors that could lead to positive rating action/upgrade:

- Not Applicable.

#### Negative Factors – Factors that could lead to negative rating action/downgrade:

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

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Strong promoters with high degree of synergies and brand linkage of the parent groups with the company and experienced management

BALIC has a strong promoter group, viz., the Bajaj group and Allianz, SE (Germany), with a shareholding of 74% and 26%, respectively. The Bajaj group is a 96-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 130 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 a total capital of Rs.1,211 crore till December 2021 and the net worth of the company stood at Rs.10,735 crore, including change FV of investments in shareholders fund as on March 31, 2021 (December 31, 2021: Rs.10,986 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, Chairman & 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.

The company has a management team of experienced professionals handling various departments 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 26 years of experience in the financial services space, including over 16 years of experience in the Indian life insurance sector.

#### Strong solvency position

BALIC has been reporting profit consistently since FY10 (refers to the period 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 ratios among the Indian life insurers of its scale. It reported a solvency ratio of 6.04x as on December 31, 2021 (March 31, 2021: 6.66x) as compared with 7.45x as on March 31, 2020. The solvency ratio was well above the minimum requirement of 1.5x prescribed by the Insurance Regulatory and Development Authority of India (IRDAI). The solvency margin has shown decline from March 2020 onwards as BALIC has started offering term life insurance plans which cover relatively a long-term risk requiring higher solvency requirement.

The company has reported its embedded value at Rs.15,534 crore as on March 31, 2021 (March 31, 2020.: Rs.13,438 crore). Considering high solvency margin, the company is not likely to require additional capital infusion for supporting business growth. Embedded value (EV) 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. EV reflects the value of in-

<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

force business along with the shareholders' net worth. EV is not a reflection of the market value of the company. In addition, the company has taken re-insurance from multiple reinsurance companies.

#### ***Strong growth in business with adequate profitability***

The company reported net premium earned (NPE) of Rs.11,926 crore in FY21 up by 23% as compared with NPE of Rs.9,678 crore for FY20. While the new business premium (comprising majority of group business premium) increased by 22% for BALIC as compared with 16% for private life insurers; the renewal premium (which is largely retail) increased by 25% as a result of various initiatives taken by the company to improve persistency. Single premium increased by 18% in FY21. The benefits paid / claims incurred moderately reduced to Rs.6,213 crore during FY21 (FY20: Rs.6,766 crore) on account of lower surrenders / withdrawals and maturities in unit-linked segment and claims on maturity partially mitigated by higher mortality claims.

The operating expenses of the company were higher at Rs.1,981 crore for FY21 as compared with Rs.1,812 crore for previous year which is in line with the company's strategy to invest in people, technology and re-branding for the future partially offset by various cost-saving initiatives and lockdown. The company reported net profit of Rs.580 crore on NPE of Rs.11,926 crore in FY21 as against Rs.450 crore on NPE of Rs.9,678 crore in FY20. During 9MFY22 (refers to the period April 01 to December 31), the company reported net profit of Rs.276 crore on NPE of Rs.10,295 crore.

#### ***Comfortable asset quality of the portfolio and strong liquidity***

BALIC had an investment portfolio of Rs.73,478 crore as on March 31, 2021, out of which 38.87% (Rs.55,728 crore as on March 31, 2020, out of which 34.56%) were attributable to the linked portfolio while the remaining were attributable non-linked and shareholders' fund. The portfolio grew to Rs.82,942 crore as on December 31, 2021. Out of the total investment assets of the company as on December 31, 2021, 39.8% of the assets are attributable to linked funds (including discontinued fund) and 60.2% to the non-linked funds. 71.5% of the linked funds are invested in equities; 85.6% of non-linked funds are invested in debt instruments; 73.2% of the total equity portfolio is invested in Nifty 50 index stocks; and 98.0% of the total equity portfolio is invested in stocks forming part of Nifty 500 index. The company maintains a strong quality of fixed income portfolio at all point of time and reported no slippages. 99.5% of the fixed income portfolio is held in highest credit rated securities (Sovereign/AAA or equivalent) and 99.9% of the company's investments in fixed income portfolio is rated AA or above. 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. 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 minimising the risk associated with lower rated debt instruments

#### ***Established franchise and strong systems and processes***

BALIC's distribution has traditionally been agency dominated until few years back 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 diverse range of partners like small finance banks (SFBs), non-banking financial companies (NBFCs), large and mid-sized private banks, brokers and web aggregators.

BALIC has information technology (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 a Chief Risk Officer and Heads of various departments/functions, which establishes a centralised risk monitoring and management.

#### ***Improvement in persistency ratio***

Persistency ratio indicates the strength of the consumer franchise. The level of persistency for BALIC has been traditionally moderate due to higher proportion of linked products which typically see withdrawals post the completion of lock-in period. The company has registered steady improvement in persistency, since FY16 across all-time buckets. The 13th month persistency ratio stood at 79.8% for FY21, as against 79.2% for FY20. The 13th month persistency ratio for 9MFY22 stood at 80.5%. The renewal premium for BALIC for FY21 was Rs.5,712 crore as compared with Rs.4,574 crore for FY20 registering a growth of 25%.

#### **Key Rating Weaknesses**

Not Applicable

#### **Liquidity: Strong**

A large portion of investments of BALIC are invested in central government bonds, highly rated instruments (rated AA and above), money market instruments and equity shares, which can be readily liquidated if need arise. As on December 31, 2021, BALIC's cash and bank balance stood at Rs.132 crore, as against nil borrowings.

#### **Analytical approach:**

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

### Applicable Criteria

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Issuer Rating](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Insurance Sector](#)

[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 including Annuity and Guaranteed plans. Its overall assets under management (AUM) stood at Rs.83,194 crore as on December 31, 2021. 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 509 branches across India as on December 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (A)
Net Premium Earned	9,678	11,926	10,295
PAT	450	580	276
Net Worth	9,731	10,735	10,986
Total Policyholders Fund (Technical Reserves)	46,158	60,825	69,488
Solvency Ratio (times)	7.45	6.66	6.04

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

**Covenants of rated instrument/facility:** Not Applicable

**Complexity level of various instruments rated for this company:** Not Applicable

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AAA (Is); Stable

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA (Is); Stable	1)CARE AAA (Is); Stable (05-Apr-21)	-	-	-

\* Long Term / Short Term

**Annexure-3: Bank Lender Details for this Company –** Not Applicable

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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.

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