

Bajaj Allianz Life Insurance Company Limited

April 01, 2020

Ratings

| Facilities/Instruments | Ratings ¹ | Rating Action |
|--|--|---------------|
| Claims Paying Ability/Financial Strength | CARE AAA (In); Stable [Triple A (Insurance); Outlook: Stable] | Reaffirmed |

Details of instruments/facilities in Annexure-I
Detailed Rationale & Key Rating Drivers

The Claims Paying Ability rating of Bajaj Allianz Life Insurance Company Limited (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, good asset quality of its investment portfolio, comfortable liquidity and strong systems & processes, experienced management and improving persistency ratio. Continued strong parentage, business growth, solvency position and profitability are the key rating sensitivities.

Key Sensitivities
Negative Sensitivities:

- Solvency margin falling below 1.8x going forward
- Significant deterioration in underwriting performance and profitability going forward
- Significant deterioration in profitability going forward
- Significant loss of market share going forward

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 94 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, General insurance, Health insurance and Investment management 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 was Rs.9,875 crore excluding change in FV of investments in shareholders fund as on December 31, 2019 (March 31, 2019: Rs.9,590 crore).

Strong solvency position

The company has been reporting profits consistently since FY10 and has maintained a high solvency margin. BALIC reported very strong solvency ratio at 8.04 times computed as per IRDAI norms as on March 31, 2019 as compared to 5.92 times as on March 31, 2018. The solvency ratio was well above the minimum requirement of 1.5 times prescribed by IRDAI. The solvency ratio stood at 7.56 times as on December 31, 2019. The Embedded Value of the company 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 Company. The company has reported its embedded value at Rs.12,989 crore (P.Y.: Rs.11,858 crore) as on March 31, 2019. Considering high solvency margin, the company is not likely to require additional capital infusion for supporting business growth as per its long term plans.

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 24 years of experience in financial services space, including over 14 years of experience in Indian life insurance sector. He is supported with an experienced team handling various departments of the life insurance business. BALIC has strong representation on

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

its Board from the promoter groups with Mr. Sanjiv Bajaj, Managing Director of Bajaj Finserv Limited as the Chairman of the Company and Mr. Rahul Bajaj, Chairman of Bajaj Auto Limited being a Director of the Company. The Board of the Company also has representative Directors from Allianz SE and experienced Independent Directors.

Adequate profit margin

BALIC reported net profit of Rs.502 crore on Net Premium Earned (NPE) of Rs.8,804 crore in FY19 as against Rs.716 crore on NPE of Rs.7,517 crore in FY18. During 9MFY20 (refers to period from April 01 to December 31), the company reported net profit of Rs.412 crore on Net Premium Earned (NPE) of Rs.6,568 crore.

Good asset quality of the portfolio

The Company had an AUM portfolio of Rs.56,620 crore as on March 31,2019 (March 31, 2018: Rs.51,970 crore) out of which 40.3% were attributable to the linked portfolio while the remaining were attributable non-linked and shareholders' fund. Within the linked portfolio, 59.4% was invested in equity. 87.3% of non-linked funds are invested in debt instruments. 70.2% of the total equity portfolio is invested in Nifty 50 index stocks and 94.3% 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, with 94.2% of the fixed income portfolio held in highest credit rated securities (Sovereign/AAA or equivalent). 98.2% of the company's investments in fixed income portfolio is rated AA or above.

Comfortable liquidity

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), equity and money market which are readily marketable, thereby extending it ample liquidity support.

Strong systems and processes

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 13th Month Persistency ratio of the company has improved from 77.20% in FY18 to 79.00% in FY19 and from 79.10% for 9MFY19 to 79.80% for 9MFY20 (refers to period from April 01 to December 31).

Analytical approach

BALIC has been assessed on its standalone financials along with factoring in the linkages with its parents.

Liquidity: Strong

Substantial portion of BALIC's investment is readily marketable. Government securities and other approved securities continue to form the largest component of investments, accounting for 36.90% of the investment book. As on December 31, 2019, BALIC's cash and bank balance stood at Rs.77.32 crore, giving it sufficient liquidity to meet claims.

Applicable Criteria

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

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

[Financial Ratios-Financial Sector](#)

[Claims Paying Liability of Insurance Company](#)

[Factoring Linkages in Ratings](#)

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. The company works essentially through a diversified set of channels including agency, Proprietary channel, web sales, 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 582 branches across India as on December 31, 2019.

Brief Financials

(Rs. crore)

| | FY18 (A) | FY19 (A) |
|--------------------------|----------|----------|
| Net Premium Earned | 7,517 | 8,804 |
| PAT | 716 | 502 |
| Tangible Net Worth | 9,218 | 9,590 |
| Total Policyholders Fund | 41,722 | 46,400 |
| Solvency Ratio (times) | 5.92 | 8.04 |

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

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 |
|--|------------------|-------------|---------------|-------------------------------|---|
| Claims Paying Ability/Financial Strength | - | - | - | - | CARE AAA (In); 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Claims Paying Ability/Financial Strength | LT | - | CARE AAA (In); Stable | 1)CARE AAA (In); Stable (05-Apr-19) | 1)CARE AAA (In); Stable (02-Apr-18) | - | 1)CARE AAA (In) (19-Apr-16) 2)CARE AAA (In); Stable (14-Feb-17) |

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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