April 08, 2022

Bajaj Allianz General Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Total	**-**	**-**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has reaffirmed the Issuer Rating of Bajaj Allianz General Insurance Company Limited (BAGIC) at [ICRA]AAA. The outlook remains Stable. The rating reaffirmation considers BAGIC's strong parentage in the form of Bajaj Finserv Limited and Allianz SE (rated Aa3/Stable by Moody's Investors Service) holding equity stakes of 74% and 26%, respectively. The promoters provide operational, managerial and financial support to BAGIC. The rating considers the joint venture partners' representation on BAGIC's board of directors and the shared brand name, which further strengthens ICRA's expectations of adequate and timely capital support to BAGIC. The rating reflects BAGIC's leading position as the second-largest private general insurance company in India with a market share of 6.9%[1] in 9M FY2022. However, ICRA notes that BAGIC's market share declined marginally from 7.2% in 9M FY2021 mainly due to its relatively lower growth compared to the industry on account of lower business in the tender-driven crop segment.

The rating factors in BAGIC's strong solvency position at 3.33 times (required regulatory level is 1.50 times), translating into surplus capital of Rs. 4,075 crore as on December 31, 2021. The high solvency ratio is in line with the shareholders' plan to retain the capital in the business and supports inorganic growth opportunities. BAGIC does not require any capital infusion in the near term, given its strong solvency position driven by healthy internal accruals. Further, the company's combined ratio deteriorated marginally to 100.0% in 9M FY2022 (96.8% in 9M FY2021), mainly due to Covid claims, but remains among the best in the industry, resulting in a steady underwriting performance. This, along with healthy investment income, resulted in strong profitability metrics with a return on assets (RoA) and a return on equity (RoE) of 5.3%[2] and 17.0%, respectively, in 9M FY2022.

ICRA takes note of the high share of crop segment gross direct premium written in India (GDPI; 16.6% of GDPI) in 9M FY2022, which typically has high loss ratios and remains vulnerable to unpredictable climatic conditions, thereby exposing the company to risk. However, ICRA notes that the crop segment is a highly reinsured business through various treaties, thereby reducing the risk. ICRA also factors in, basis positive experience, BAGIC's ability to select risk appropriately in the crop segment. Hence, BAGIC's ability to underwrite the crop insurance business profitably over the long term remains a monitorable. General insurance is a highly regulated and competitive industry and any change in specific regulations can impact BAGIC's competitive positioning and profitability.

[1] The market share calculation excludes ECGC Ltd. and Agriculture Insurance Company of India Limited

2 RoA and RoE are annualised for 9M FY2022; RoA = PAT / Total assets excluding FVCA; RoE = PAT / Reported networth including FVCA

Key rating drivers and their description

Credit strengths

Strong parentage to provide operational, managerial and financial support – BAGIC's majority shareholder, Bajaj Finserv Limited, was demerged from Bajaj Auto Limited in April 2007. Bajaj Auto Limited is the largest manufacturer of two- and three-wheelers in India. Bajaj Finserv Limited, a core investment company (CIC) under Reserve Bank of India (RBI) Regulations, is the holding company for the Bajaj Group's financial services businesses such as lending, insurance and wealth advisory. BAGIC can leverage the large distribution network of its promoter's (Bajaj Finserv Limited) group companies as well as the promoter's financial strength to support its insurance business.

BAGIC's foreign promoter, Allianz SE, has an operating history of more than 110 years in the insurance industry and operates in more than 70 countries. The company receives operational support from Allianz SE on a need basis in terms of underwriting capabilities, reinsurance, new product lines, and adoption of new technology for improved services. BAGIC has adequate board representation with fourteen directors, including five from Bajaj Finserv Limited, three from Allianz SE and four independent directors. Although BAGIC does not need any capital infusion in the near term, ICRA expects the promoters to infuse capital as and when required.

Established market position in general insurance industry – BAGIC is the second-largest private general insurance company in India with a market share of 6.9% in 9M FY2022, in terms of GDPI. However, its market share declined marginally from 7.2% in 9M FY2021 due to its lower GDPI growth of 6.4% YoY in 9M FY2022 compared to the industry growth of 11.3% YoY during the same period. The lower growth was mainly due to the tender-driven crop segment, wherein BAGIC witnessed lower business in some states. Also, the motor segment, which typically accounts for 35-40% of the total industry GDPI, witnessed a slowdown in the last couple of years. The motor segment witnessed marginal growth of 3.6% YoY in 9M FY2022 (industry growth of 3.7% YoY) against a degrowth of 9.6% YoY in FY2021 (industry degrowth of 1.7% YoY), impacted mainly due to pandemic. New motor sales declined during the year mainly due to semiconductor issues, which adversely impacted the industry growth. The slowdown in demand in the passenger carrying commercial vehicle segment such as school bus among others, wherein the company has a relatively high presence, also affected the motor segment.

However, excluding the bulky business of the crop, government and group health segments, BAGIC's growth was largely in line with the industry growth at ~8% in 9M FY2022. Going forward, the company plans to diversify to rural areas through its Bharat model and the strategy is to focus on the two-wheeler and retail health businesses, which typically have lower net loss ratios.

Underwriting performance remains steady leading to strong profitability metrics – Despite a rise in the combined ratio to 100.0% in 9M FY2022 from 96.8% in 9M FY2021, BAGIC reported an underwriting surplus of Rs. 24.1 crore in 9M FY2022 compared to Rs. 230.3 crore in 9M FY2021. The combined ratio increased in 9M FY2022 mainly driven by the higher net claims ratio in the health (including personal accident) segment at 94% in 9M FY2022 compared to 80% in 9M FY2021, which was adversely impacted due to Covid claims in 9M FY2022. BAGIC's combined ratio was also supported by lower net commission expenses compared to peers, which is largely a function of the business mix and reinsurance ceded. A high share of government business (crop and government health), which is a tender-driven business and does not involve commissions, will result in lower commission expenses.

The company expects Covid-related claims to subside and expense ratios to be stable in FY2023. Overall, BAGIC's combined ratio remains among the best in the industry, indicating better underwriting capability and risk pricing. Further, the return ratios were also supported by healthy investment income with yield on investment of 6.2% in 9M FY2022. BAGIC reported strong profitability metrics with an RoA and RoE of 5.3% and 17.0%, respectively, resulting in a dividend payout ratio of 11.3% in 9M FY2022.

Strong capitalisation and solvency levels – BAGIC is well capitalised, supported by healthy internal accruals, with an average RoE of 17.8% in the last four fiscal years. The capitalisation profile has been strong without any capital infusion from the promoters. The promoters last infused equity in FY2008. Further, the solvency ratio remained strong at 3.33 times as on December 31, 2021, which is significantly above the regulatory requirement of 1.50 times. The company does not require capital infusions in the near term, given the surplus capital balance of ~Rs. 4,075 crore as on December 31, 2021. The higher solvency ratio also supports inorganic growth opportunities in the near-to-medium term. ICRA expects the parents to infuse capital, if required.

Fairly diversified distribution channel – BAGIC's distribution network is fairly diversified with a mix of agents, bancassurance (banca), brokers and alternate channels such as online, virtual sales office (VSO) and point of sale (POS). The broker channel contributed the highest share in 9M FY2022 at 35% followed by direct business (30%), individual agents (14%), corporate agents (11%) including banca (8%), crop & common service centres (7%) and others (2%).

BAGIC is focusing on the digitalisation or online distribution channel and has been investing for developing its infrastructure such as social media, website development and tie-ups with e-commerce companies. It tied up with 15 new corporate agents in FY2021. In 9M FY2022, BAGIC entered tie-ups with India Post Payments Bank, Bank of India, and Yamaha among others. BAGIC has tie ups with key banca partners in the industry such as HDFC Bank, Punjab National Bank, Canara Bank, J&K Bank, and Karnataka Bank among others and the share of the banca channel remains in the range of 8-12%. Going forward, the management expects higher growth from the alternate channels.

Credit challenges

Exposure to crop insurance business, which is exposed to uncertain weather and nature conditions – BAGIC has underwritten a high share of crop business compared to peers. However, the crop segment GDPI declined to Rs. 1,729.1 crore or 17% of GDPI in 9M FY2022 from Rs. 2,432.0 crore or 25% of GDPI in 9M FY2021 as the company did not get some tenders in the crop segment in 9M FY2022. ICRA notes that changes in the crop business guidelines w.e.f. April 2020, such as the scheme being made voluntary for loanee farmers, each district/cluster would be mandatorily allotted for three years and restriction in subsidies to states from the Centre, may adversely impact the business volumes in the crop segment at the industry level. BAGIC reported an underwriting profit in the crop segment, which remains contingent on climatic conditions that are unpredictable, thereby exposing it to risk. The management stated that the company's strategy is geographical diversification and it is currently underwriting crop in 6 states (Chhattisgarh, Haryana, Rajasthan, Karnataka, Maharashtra and Manipur). Also, the company avoids underwriting crop in the coastal states, which are vulnerable to hurricanes and storms. Moreover, the crop segment is typically highly reinsured at 80% (75% through crop quota share treaty and 5% through mandatory reinsurance to General Insurance Corporation of India Limited). Therefore, a key point to monitor would be the company's ability to underwrite the crop insurance business profitably over the long term.

Highly competitive and regulated industry – The general insurance industry is highly regulated. Any changes in regulations can have a lasting impact on the performance of a general insurance company. BAGIC faces high competition from private as well as public sector general insurance companies in India. The industry has witnessed price wars across business segments, resulting in high loss ratios and underwriting losses for most of the peer companies. BAGIC's ability to maintain and improve its market share amid rising competition is to be seen.

Liquidity position: Strong

BAGIC's liquid investments were estimated at Rs. 21,985 crore as on December 31, 2021 (sum of total investments less haircuts estimated by ICRA, plus cash and bank balances plus net due from insurance companies) against which it had total technical reserves (total liabilities) of Rs. 15,051 crore. The total net claims paid stood at Rs. 3,408 crore (17% of liquid assets) in FY2021 and Rs. 3,363 crore (20% annualised) in 9M FY2022. BAGIC did not have any debt outstanding as of December 2021. ICRA does not foresee any liquidity risk for the company in the near-to-medium term.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or outlook could be revised if there is a decline in the strategic importance of BAGIC to Bajaj Finserv Limited or in the expectation of support from the promoters. In addition, a decline in the company's solvency ratio below 1.70 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Issuer Rating Methodology of General Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Bajaj Finserv Limited ICRA factors in the implied support of the parent entity, Bajaj Finserv Limited, given the shared brand name, and takes comfort from the management's experience in the insurance business.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

Bajaj Allianz General Insurance Company Limited (BAGIC) is a joint venture between Bajaj Finserv Limited and Allianz SE, with the former holding 74% of the paid-up capital of Rs. 110 crore. While the Bajaj Group is a major player in the domestic two-wheeler industry and lending business, Bajaj Finserv Limited, a CIC under RBI Regulations, is the holding company for the Bajaj Group's financial services businesses such as lending, insurance and wealth advisory. The Allianz Group is a global insurance company with an established presence in the property and casualty, life and reinsurance businesses. Allianz SE has an outstanding Aa3/Stable rating from Moody's for insurance financial strength. Apart from the general insurance venture, Bajaj Finserv Limited and Allianz have a life insurance joint venture.

Key financial indicators (audited)

Bajaj Allianz General Insurance Company Limited	FY2020	FY2021	9M FY2021	9M FY2022
Gross Direct Premium	12,780	12,570	9,794	10,420
Total Underwriting Surplus/(Shortfall)	(11)	237	230	24
Total Investment + Trading Income	1,551	1,571	1,200	1,445
PAT	999	1,330	1,057	1,091
Total Net Worth	5,642	7,524	7,368	8,582
Total Technical Reserves	12,543	14,206	13,947	15,051
Total Investment Portfolio	18,305	22,477	21,394	23,721
Total Assets	21,866	25,972	25,819	27,824
Return on Equity	17.7%	17.7%	19.1%	17.0%
Gearing (times)	-	-	-	-
Combined Ratio	100.8%	96.9%	96.8%	100.0%
Regulatory Solvency Ratio (times)	2.54	3.45	3.30	3.33

Note: Amount in Rs. crore; All calculations are as per ICRA Research; Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 8, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 8, 2022	Apr 13, 2021	-	-
1	Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sahil Udani
+91 22 6114 3429
sahil.udani@icraindia.com

Niraj Jalan
+91 33 7150 1146
niraj.jalan@icraindia.com

Jui J. Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches