April 04, 2023

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 I*

Rationale

The rating reaffirmation considers Bajaj Allianz General Insurance Company Limited's (BAGIC) strong parentage with Bajaj Finserv Limited {holding company of Bajaj Finance Limited; rated [ICRA]AAA (Stable)} and Allianz SE (rated Aa3/Positive by Moody's Investors Service) holding equity stakes of 74% and 26%, respectively. The rating considers the shared brand name, the strategic importance of BAGIC to the Bajaj Finserv Group and the representation on BAGIC's board of directors, which strengthens ICRA's expectation of adequate and timely capital support to the company, if required. The rating factors in BAGIC's strong solvency position (3.73 times compared to the required regulatory level of 1.50 times), driven by healthy internal accruals. As a result, the company does not require any capital infusion in the near term.

The rating reflects BAGIC's leading position as the third-largest private general insurance company in India with a market share of 6.6%[1] in 9M FY2023 and a diversified distribution network. Further, BAGIC has been reporting underwriting surplus, translating into strong profitability (return on equity (RoE)[2] of 14.3% (annualised) in 9M FY2023 and 15.2% in FY2022).

ICRA notes that BAGIC's investment leverage[3] of 2.7 times, as on December 31, 2022, remains lower than peers mainly due to the strong capitalisation levels and the low share of multi-year policies (two-wheeler segment). However, the share of the two-wheeler business, and hence multi-year policies, is expected to improve. This is likely to improve the investment float and further support the profitability. ICRA notes the high share of the company's crop and government health segments (21.8% of gross direct premium income (GDPI) in 9M FY2023), which is driven by tenders and could be lumpy and volatile in nature.

The Stable outlook reflects BAGIC's strong distribution network, which will help it maintain its market position, and the expectation that the company will continue to receive support from the promoter and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong parentage – Bajaj Finserv Limited and Allianz SE held a stake of 74% and 26%, respectively, in BAGIC as on December 31, 2022. BAGIC's majority shareholder, Bajaj Finserv Limited, is a core investment company (CIC) under Reserve Bank of India (RBI) Regulations. It is the holding company for the Bajaj Group's financial services businesses such as lending, insurance and wealth advisory. BAGIC has access to the large distribution network of its promoter's (Bajaj Finserv Limited) group companies.

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

[2] RoE = PAT / Reported net worth including FVCA

[3] Investment leverage = ((Total investment – sub-debt)/Net worth)

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's board has fourteen directors and has representation from both shareholders with four from Bajaj Finserv Limited, three from Allianz SE and four independent directors. The strong parentage and shared brand name strengthen ICRA's expectation that the company will receive timely support if required.

Established market position; diversified distribution channel – BAGIC is the third-largest private general insurer in India with a market share of 6.6% in 9M FY2023, in terms of GDPI. The company's market share has declined recently due to its lower GDPI growth compared to the industry in the last couple of years. However, excluding the bulk businesses of the crop, government and group health segments, BAGIC's GDPI growth was only marginally lower at 11.7% YoY in 9M FY2023 compared to the industry growth of 15.7% YoY. The company remains selective in these tender-driven segments, which could result in a relatively higher net loss ratio if not priced suitably.

The growth in other segments has been supported by BAGIC's diversified distribution network 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 FY2023 at 48% of GDPI (excluding crop and government health GDPI) followed by individual agents (16%), corporate agents (15%) including banca (11%), direct business (10%), common service centres (8%) and others (3%). In 9M FY2023, BAGIC entered tie-ups with some two-wheeler original equipment manufacturers (OEMs), which are likely to drive growth in the two-wheeler segment.

Strong capitalisation – BAGIC's capitalisation remained strong with a solvency of 3.73 times as on December 31, 2022, which is significantly above the regulatory requirement of 1.50 times. The capitalisation has been supported by healthy internal accruals, with an average RoE of 16.4% in the last four fiscals (despite the impact of the Covid-19 pandemic). The capitalisation profile has been strong without any capital infusion from the promoters; the promoters last infused equity in FY2008. ICRA does not expect any capital requirement, as the solvency ratio is strong for supporting the growth in the medium term. The company's reserving levels for the long-tail business segments has historically remained prudent and typically the claim experiences have remained within the original estimates, which also provides comfort against the level of provisions created against the risk underwritten.

Strong profitability metrics – BAGIC's underwriting performance has remained strong and is among the best in the industry with the company largely reporting an underwriting surplus. It, however, reported an underwriting loss of Rs. 119 crore or underwriting loss/net premium earned (NPE) of -2.0% in 9M FY2023 compared to an underwriting surplus of Rs. 24 crore or underwriting surplus/NPE of 0.4% in 9M FY2022. The underwriting losses were largely due to the rise in claims in the crop and motor segments and the high management expense ratio, which was partially offset by negative net commission expenses. The crop segment witnessed higher claims mainly due to the farmer's litigation in the Osmanabad district of Maharashtra, wherein the Supreme Court ordered BAGIC to pay ~Rs. 200 crore as crop claims (net of reinsurance – Rs. 43 crore). BAGIC deposited Rs. 43 crore in the district collector's office and is still contesting the court case. Also, the motor segment reported higher claims in Q1 FY2023 mainly due to the first post-pandemic holiday season, which resulted in higher travel and claims.

Despite underwriting losses, BAGIC reported strong return ratios with a return on assets (RoA) and RoE of 4.6% and 14.3%, respectively, in 9M FY2023. The return ratios were mainly supported by healthy net investment income of Rs. 1,133 crore (+7.5% YoY) in 9M FY2023 with an yield on investment of 6.1%. BAGIC's investment leverage remains lower than peers, mainly driven by the premium receivable on government insurance schemes, the low share of multi-year policies (two-wheeler segment) and the strong capitalisation levels. BAGIC's recent OEM tie-ups in the two-wheeler segment are expected to improve the float and generate higher investment income, which is likely to further support its profitability.

Credit challenges

Dependence on tender-driven business – BAGIC has underwritten a high share of crop business compared to peers. The crop and government health segments have a share of 21.8% in the GDPI for BAGIC for 9M FY2023 (21.4% in FY2022). These businesses are driven by tenders and remain lumpy and volatile in nature. Hence, the company's ability to consistently underwrite profitable business in the crop and government health segments would have a bearing on its overall growth.

Ability to consistently underwrite business at adequate premium pricing; reinsurance and reserving risks – The major risk faced by an insurance company is the underwriting of the business at adequate premium pricing. The uncertainty regarding the extent of claims is relatively higher in the motor third-party (TP) segment, which accounted for 18-25% of BAGIC's total GDPI in the last few years. The long tail nature of the motor-TP segment, given the legal process involved for claim settlement, could result in uncertainty regarding the level of future claims in relation to the past reserves made for this segment. The company's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves as it has been releasing reserves in the last few years. However, the eventual outcome for the risk-in-force may be known with considerable lag, which could impact its future profitability and solvency.

Liquidity position: Superior

The company's net premium was Rs. 7,763 crore in FY2022 in relation to the maximum net claims paid of Rs. 4,757 crore in the last few years. For 9M FY2023, the net premium stood at Rs. 6,142 crore against net claims paid of Rs. 3,349 crore. The company had investments in Central/state government securities, accounting for 67% of the total investments or Rs. 17,050 crore as on December 31, 2022, further supporting the liquidity to meet the claims of policyholders. The company's shareholders' investments of Rs. 6,499 crore remains strong in relation to nil sub-debt outstanding as on December 31, 2022.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or outlook could be revised if there is a deterioration in the credit profile of Bajaj Finserv Group or a decline in the strategic importance of BAGIC to Bajaj Finserv Group or in the expectation of support from the promoter. 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	Rating Methodology - General Insurance Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Group Company: Bajaj Finserv Group ICRA factors in the implied support of the Bajaj Finserv Group, given the shared brand name and strong representation on the board.
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 a rating of Aa3/Positive outstanding 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	FY2021	FY2022	9M FY2022*	9M FY2023*
Gross direct premium	12,570	13,689	10,420	11,609
Total underwriting surplus/(shortfall)	237	33	24	(119)
Total investment + Trading income	1,571	1,795	1,445	1,564
PAT	1,330	1,339	1,091	1,026
Total net worth	7,524	8,822	8,582	9,564
Total technical reserves	14,206	15,109	15,051	16,399
Total investment portfolio	22,477	24,228	23,721	25,481
Total assets	25,972	27,482	27,824	30,340
Return on equity	17.7%	15.2%	17.0%	14.3%
Gearing (times)	-	-	-	-
Combined ratio	96.9%	99.6%	100.0%	101.5%
Regulatory solvency ratio (times)	3.45	3.44	3.33	3.73

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 4, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 4, 2023	Apr 8, 2022	Apr 13, 2021	-
1	Issuer Rating	Long term	-	-	[ICRA]AAA (Stable)	[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: Click Here

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

ANALYST CONTACTS

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

Anil Gupta
+91 124-4545314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@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