

April 02, 2024

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 factors in Bajaj Allianz General Insurance Company Limited's (BAGIC) strong market position. The company is the second largest private general insurer with a market share of 7.4%¹ in terms of gross direct premium income (GDPI) in 11M FY2024. The company's strong presence is supported by its diversified distribution mix, which has aided growth. The capitalisation remains strong with a reported solvency of 3.5 times as on December 31, 2023 (compared to the required regulatory level of 1.50 times), supported by healthy internal accruals and lower retention on larger risks. BAGIC's earnings profile has remained strong with a return on equity (RoE)² of 15.9% in the past four fiscals (FY2021 to 9M FY2024). Given the strong solvency and the expectation that internal accruals will remain healthy, ICRA does not expect any capital requirement for the company in the medium term. ICRA notes the high share of the company's crop and government health segments (28.2% in the GDPI for BAGIC in 9M FY2024 vs. 19.2% in FY2023), which is driven by tenders and could be lumpy and volatile in nature.

The rating also factors in BAGIC's strong parentage with Bajaj Finserv Limited {holding company of Bajaj Finance Limited³; rated [ICRA]AAA (Stable)} and Allianz SE⁴ (rated Aa2/Stable 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 if required.

The Stable outlook reflects BAGIC's strong distribution network, which will help it to 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, 2023. 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 of the Bajaj Group's financial services businesses such as lending, insurance and wealth management. BAGIC has access to the large distribution network of its promoter's (Bajaj Finserv Limited) group companies. BAGIC's foreign promoter, Allianz SE, has an operating history of more than 130 years in the insurance industry

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

² RoE = PAT / Net worth excluding FVCA

³ Rated [ICRA]AAA (Stable) for its non-convertible debentures and [ICRA] A1+ for its commercial paper programme

⁴ Rated Aa2 Stable based on Insurance Financial Strength

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 second largest private general insurer in India with a market share of 7.4% in 11M FY2024, in terms of GDPI. The company's market share increased in 11M FY2024 due to the significantly higher growth vis-à-vis the industry, driven by its exposure to the government health segment and further supported by the growth in other lines of business as well. Excluding the bulky businesses of the crop and government health segments, BAGIC's GDPI grew by 22.1% YoY in 11M FY2024 compared to the industry growth of 15.3% YoY.

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 FY2024 at 44.6% of GDPI (excluding crop and government health GDPI), followed by individual agents (20.0%), corporate agents {16.0%; including banca (11.4%)}, direct business (11.9%) and others (7.5%). The company has been deploying manpower at its distribution channels while expanding these channels, which is likely to drive growth.

Strong capitalisation – BAGIC's capitalisation remained strong with a solvency of 3.5 times as on December 31, 2023, significantly above the regulatory requirement of 1.50 times. The capitalisation has been supported by healthy internal accruals, with average RoE of 15.9% in the last four fiscals (FY2021 to 9M FY2024), 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 have historically remained prudent while the claim experiences have remained within the original estimates, providing comfort regarding the level of provisions created against the risk underwritten.

Strong profitability metrics – BAGIC's underwriting performance is among the best in the industry with an average combined ratio of 99.1% in the past four years (FY2021 to 9M FY2024). The underwriting performance was also supported by investment income, which led to strong profitability metrics with average RoE of 15.9% in the past four years.

The company reported an underwriting loss of Rs. 90 crore in 9M FY2024 (underwriting loss of Rs. 119 crore in 9M FY2023), mainly on account of the higher catastrophic losses in 9M FY2024. However, the loss ratio remained at 75.1% in 9M FY2024 compared to 75.1% in 9M FY2023 as the higher catastrophic losses were partly offset by the lower loss ratio in the motor segment, driven by the company's selective risk approach and the price increase in motor-own damage. The overall expenses ratio was lower in 9M FY2024 with the increase in the share of the government health business, which is directly sourced.

Despite the underwriting losses, BAGIC reported strong return ratios with a RoE of 14.9% in 9M FY2024 (14.1% in FY2023). The return ratios were mainly supported by the healthy net investment income on the float generated through advance premium income. The company's investment leverage stood at 2.88 times as on December 31, 2023. ICRA notes that BAGIC's investment leverage remains below peers, mainly driven by the strong capitalisation levels.

Credit challenges

Dependence on tender-driven business – BAGIC has underwritten a high share of crop and government health business compared to peers. The crop and government health segments had a share of 11.9% and 16.3%, respectively, in the GDPI in 9M FY2024 (18.0% and 1.3%, respectively, in FY2023). These businesses are driven by tenders and remain lumpy and volatile

in nature. With many of the crop tenders coming with an 80-110 scheme⁵, the extent of losses is likely to be capped. However, in a year of natural calamities, the business can lead to losses and volatility in the overall earnings, particularly from tenders that do not come under the purview of the 80-110 scheme. Other issues stemming from a high share in the crop business are potential delays in payments from state governments and fluctuations in reserves. Further, competition is expected to increase in these segments in the near term to manage the expenses of management (EoM) regulations implemented by the regulator. The company remains selective in these tender-driven segments; however, it could result in a relatively higher net loss ratio if not priced suitably. To mitigate losses in the bulk business segment, the reinsurance is high in these bulk segments, leading to lower retention and net premium written in relation to the GDPI. The company's ability to consistently underwrite profitable business in the crop and government health segments would have a bearing on its overall revenues and profitability.

High share of motor-TP segment exposes the company to 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 (declined to 14.8% in 9M FY2024). 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. 8,311 crore in FY2023 in relation to the maximum net claims paid of Rs. 4,757 crore in the last few years, reflecting strong ability to pay claims from the operating cash flow. It had investments in Central/state government securities of Rs. 18,472 crore, accounting for 62.7% of the total investments as on December 31, 2023, which further supports its liquidity to meet any unexpected rise in the claims of policyholders. BAGIC's shareholders' investment of Rs. 8,367 crore also remains strong in relation to the Nil sub-debt outstanding as on December 31, 2023.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating 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 high likelihood of support from the Bajaj Finserv Group, given the shared brand name and strong representation on the board.
Consolidation/Standalone	Standalone

⁵ Under the 80-110 plan, the insurer's potential losses are restricted to 110% of the gross premium with the state government bearing the cost of any claims above 110% of the premium. If the compensation is less than the premium collected, the insurer will refund the premium surplus (gross premium minus claims) exceeding 20% of the gross premium to the state government

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 management. 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 Aa2/Stable 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	FY2022	FY2023	9M FY2024*
Gross direct premium	13,689	15,337	15,540
PAT	1,339	1,348	1,171
Total net worth	8,822	9,806	11,057
Total investment portfolio	24,228	27,002	30,082
Combined ratio	99.6%	100.5%	99.3%
Return on equity	16.0%	14.1%	14.9%
Regulatory solvency ratio (times)	3.44	3.91	3.55

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 (FY2025)			Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 28, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Apr 02, 2024	Apr 4, 2023	Apr 8, 2022	Apr 13, 2021
1 Issuer Rating	Long term	-	-	[ICRA]AAA (Stable)	[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

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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.

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Branches



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