



“Bajaj Finserv Q3 FY2017 Earnings Conference Call”

February 02, 2017



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MODERATOR: **MR. KARAN SINGH- JM FINANCIALS INSTITUTIONAL SECURITIES LIMITED**



*Bajaj Finserv Limited
February 02, 2017*

Please note that the transcript has been edited for the purpose of clarity and accuracy.

Moderator: Ladies and gentlemen good day and welcome to the Bajaj Finserv Q3 FY2017 Earnings Conference Call hosted by JM Financials Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference to Mr. Karan Singh of JM Financials. Thank you and over to you sir.

Karan Singh: Thank you. Good morning everybody and welcome to Bajaj Finserv's Earnings Call to discuss the Third Quarter FY 17 Results. To discuss the results, we have on the call Mr. S. Sreenivasan, who is CFO Bajaj Finserv, Mr. Ramandeep Singh Sahni who is CFO – Bajaj Allianz Life and Mr. Milind Choudhari who is CFO – Bajaj Allianz General. May I request the management to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you sir.

S. Sreenivasan: Thank you Karan. Welcome everyone to this Conference Call to discuss the Results of Bajaj Finserv Limited for the Quarter-Ended 31st of December 2016 and the nine months ended on the same date.

In this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General Insurance and Bajaj Allianz Life Insurance companies. Bajaj Finance, which is another major subsidiary of ours, has already had its Conference Call. However, if there are any high-level questions we would be glad to take that as well. As usual we will not be taking any questions on the foreign stake in our insurance companies. The status has remained the same as at the end of the previous quarter and there is no change there. Any statements that may look like forward looking statements are just estimates and do not constitute an assurance of any result.

Here are the highlights of the quarter ended 31st December 2016:-

On a consolidated basis, our gross revenue grew 27%, the profit after tax was up 41%. This was driven by robust profitability and growth from Bajaj Finance and Bajaj Allianz General and significant growth on the premium side from Bajaj Allianz Life Insurance company. Bajaj Finance recorded its highest ever quarterly profit after tax of 556 crores versus 408 crores in Q3 of FY 16 that's an increase of 36% and its nine-month profit of 1387 crores after tax is higher than the PAT of 1279 crores for the whole of the previous financial year.

In the case of General Insurance, we recorded 28% growth in gross written premium for the quarter ended 31st December and 30% growth for the nine months. The profit after tax for the quarter was up 190% over the previous year figure at 197 crores versus 68 crores. I must

mention here that, last year in Q3, we had significant losses arising out of the floods in Chennai in that quarter which had depressed the profits for Q3 of that year. In the case of Life Insurance one of the major highlights of Q3 FY 17, was the individual rated premium which has been our focus for growth since the beginning of the year. Individual Rated Premium grew by 62% in Q3 FY17, continuing the growth momentum which was shown in Q1 and Q2 as against the industry growth of 23%. This growth rate of 62% is the highest growth for any nine months' period since FY08 when we had the global financial crisis. We believe this is the result of the efforts taken by the company on the transformation journey. With that, I would now hand it over for questions and answers on the results.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Nidhesh Jain of Investec. Please go ahead.

Nidhesh Jain: My first question is on Life Insurance business, if I look at the growth, growth has been quite strong. But most of the growth is coming from unit linked products. So any comments on new business margins blended for the full-year, how do you think new business margin panning out on a YOY basis for FY17?

S. Sreenivasan: By and large, if you look at the market, for most of the top private companies, the share of unit linked is significantly higher than ours. Our share of unit linked is higher than the previous quarter because that is what is selling in the market. Secondly early this year we had segmented the markets between emerging markets, core markets and focused markets. We had already mentioned that in the larger cities our share was lower so we have put in special focused effort where predominantly the market is dominated by Banca and in product terms by unit linked insurance. In terms of margin we are not making any comment at this stage. We would normally announce the margins by the end of Q4 because the business is highly seasonal. So it would not be appropriate to make a comment on margin but till we announce that you can make your own assessment based on the product mix.

Nidhesh Jain: Secondly on the growth the nine months have been quite strong for us unlike the last few years, so can we now draw some conclusions that going forward we can grow in (+15%) sort of rate from maybe FY18 onwards?

S. Sreenivasan: Clearly, we had started around this transformation journey about a couple of years ago and this year whatever strategies we have adopted seem to have paid result. For the last three quarters where we are showing YOY growth. As of now we feel the momentum is reasonably strong. Clearly as the base grows maintaining the same rate of growth is going to be difficult. However, we are very confident that going forward we will be able to maintain a reasonably good growth rate, hopefully above the market.

- Nidhesh Jain:** And lastly on General Insurance, so this quarter also we have seen a healthy amount of premium coming from Crop Insurance and last quarter also decent amount of premium has come from Crop Insurance that has actually lowered our combined ratio because the cost is not there. But in this quarter, I noticed that expense ratio is quite in line with previous year trends, so despite having a decent premium coming from Crop Insurance, any color on that?
- S. Sreenivasan:** Crop insurance has picked up significantly after the new scheme was announced. If you noticed in yesterday's budget also the Government has increased its target rate for penetrating as well as the budget for the amount allocated towards subsidy for Crop Insurance. It is only two years since we entered this market as we were wanting to see what the market is like. But with the new scheme coming in with free pricing and with a clear focus that all loanee farmers must be covered under the scheme, we think it is going to be a regular part of our business. Clearly this year has turned out quite well so far. We still have the Rabi season where we will be pitching in for some more business. But overall, we would think that our market share of the Crop Insurance business will be by and large the same as our overall market share. So it is no more something that we would say is we would do every two years or three years, it is a regular part of our business. The quantum of business we do, however, would vary from year to year because it is tender driven and we would be picking and choosing the markets where we feel there is appropriate opportunity for making an economic profit. . We also look at each segment and wherever required we will take corrective actions. There has been some improvement in motor claim ratios as compared to Quarter 2 in Quarter 3. There has been some deterioration in Group Health claim ratios. So overall, they have balanced out each other and we have got this combined ratio of 99.6%. We believe it is still significantly lower than the combined ratios of the major private participants.
- Nidhesh Jain:** Last quarter our combined ratio was around 94%, a normal run rate of around 99%-100%. And last quarter we understood that a substantial amount of premium has come from Crop Insurance and that's why the OPEX ratio is low.
- S. Sreenivasan:** Right.
- Nidhesh Jain:** But this quarter also we have seen similar amount of business coming from Crop Insurance but our OPEX ratio has come back to the normal level of around 30%.
- S. Sreenivasan:** I think last time also we said that in the OPEX ratio nothing significant has changed. The Crop Insurance as a proportion of total business was much higher in Q2 then Q3. The amount of Crop Insurance business we have done in this quarter is much less.
- Milind Choudhari:** 240 crores in Q3 and it was around 746 crores in Q2. Because of this higher proportion which was written in Q2, the ratios were much lower in Q2.

- Moderator:** We will take the next question from the line of Mayur Parkeria of Wealth Managers India Private Limited. Please go ahead.
- Mayur Parkeria:** I had a similar question on the margin again. On the Life side, does it mean that the entire rise in that premium has actually come at no profit to us, right? So no angle of operating leverage or any kind of OPEX played out for us despite such a strong rise.
- S. Sreenivasan:** No that's not the way we look at our business. If you see last few years, the business has degrown significantly and proportionately part of the cost reduced but not in the same proportion as the business. As we go forward our main primary aim is to build rebuild the book of business principally on the individual side. We have started working on the agency side; it has done quite well for three quarters. This is not the business we are looking in the short-term as something to do with operating leverage. We have reduced our management expenses over the last two years. We continue to focus on management cost overruns and the business mix obviously is determined largely by the market as well. So we will go with the market, we will try to be more balanced than the top few peers wherever we can help it.
- Ramandeep Singh Sahni:** We continue to rationalize the expenses as we move on. So if you look at the numbers for nine months despite growth of above 60% our expenses have indeed come down by 4%. So what we're trying to balance is that despite having a skew towards ULIP we also try to address that as we all know that the allowances are lesser there. So we try to address that by rationalizing the expenses which will be an ongoing journey for us. So we have taken several strides on that but we will continue to drive this going forward.
- Mayur Parkeria:** Only small thing which I just wanted to understand more was that despite new business growing at 45% from a profitability standpoint it is still not adding to that. So when do we see the earnings momentum in terms of profitability kicking with the growth numbers.
- S. Sreenivasan:** Profitability as reflected in the P&L that would be different because lot of it has come from the renewal book. If you know the renewal book is not as big as it was before and our renewal premium has not grown as much. As this new business builds and we start collecting the third and fourth year renewal premium we will start making money on this. And in fact the product is superior, we believe it is geared for higher persistency we have to wait and see in the next year and eventually higher profitability in couple of years' time. Our goal post is now the new business value which is a function of both the margin and the volume of business we do, not just the margin of the business that we do.
- Mayur Parkeria:** This new strategy of focusing on retail growth how will it change the embedded value growth?
- S. Sreenivasan:** We believe, it should be positive for embedded of value growth because individual products have a higher margin than group products.

- Mayur Parkeria:** From the disclosures stand point we have the leaders now listed and we have the NBP margins and most other data points also quite regularly being published. Also from General Insurance and other standpoint we are large in that sense. So you should consider when some kind of data points if it can be increased because now most of them is trackable.
- S. Sreenivasan:** It would be misleading because the Life business is highly seasonal and expenses are fairly flat on the management side. The premiums are not uniform and expense overruns and various other figures on a quarterly basis do not make sense to us. We are making all the required disclosures under law under SEBI and IRDA; we will continue to make that. We will keep watching what others are doing. Obviously listed companies may have other reasons for making additional disclosures. We follow the requirement of law in terms of disclosures.
- Moderator:** Our next question is from the line of Hitesh Gulati of Haitong Securities. Please go ahead.
- Hitesh Gulati:** My question is on Crop Insurance. What I understand is if you look at the gross written premium growth that is around 30% for nine months but our net written premium growth will be around 18% to 20%. So I'm assuming that majority of Crop Insurance is getting reinsured.
- S. Sreenivasan:** Correct.
- Hitesh Gulati:** So the contribution to profitability is mainly on account of reinsurance commission that we are receiving.
- S. Sreenivasan:** That is not the correct way to look at it. Crop Insurance is a highly catastrophe prone business. Cyclically we see that over 3 to 5 years there will be years of big catastrophes. Reinsurance is an essential ingredient of this business. Further unless you have reinsurance capacity you cannot bid for major territories . Of the total Crop Insurance, approximately 70% would be written by three or four public sector companies and the top three or four private companies only because others do not have enough reinsurance capacity. So yes, we get a reinsurance commission but we look at it cyclically over a period of five years or so.
- Hitesh Gulati:** How profitable this business could be, is there any ballpark indication in terms of how we should look at it?
- S. Sreenivasan:** What I would suggest is you look at Agricultural Insurance Corporation; they have been in this business for almost 12 years. If you study their balance sheet you will get a feel of what is the long-term profitability of this business.
- Hitesh Gulati:** Because you said this is the business which can see a catastrophe once in 4-5 years, so are we provisioning something for that or creating any reserves for that?
- S. Sreenivasan:** We are heavily reinsured, we deal only with first-class reinsurers and there is no accounting policy or tax rule for making separate provision for future risk which we have not undertaken.

- Hitesh Gulati:** Approximately 80% will be reinsured in this segment?
- Milind Choudhari:** 85%.
- Hitesh Gulati:** On this Group Health business, you mentioned that some of the claim ratios have actually deteriorated slightly, so from what we see is that our Retail Health is 6% and Group Health is 7% and this has actually been if you look at last 3-4 years' Group Health has always been 6% to 8%. Are we like looking to do away with it or is there any reason why we are not completely eliminating the Group Health business given that we know the combined ratios here are always going to be worse than the segment?
- S. Sreenivasan:** The non-Life business is about mixing up various lines of business. Same customers have multiple requirements and if it is a corporate customer, Group Health is one of the requirements that they have. So the choice is not always with you if- you take some lines and don't take some other lines - you may lose the rest of the account. Secondly Group Health is more than 50% of the total health market. It is the single largest segment of the health market. If you are not in the Group Health segment, then your ability in terms of containing the loss ratios in retail segment could also be affected because in the retail segment again you need volumes with hospitals to be able to get better rates and contain your claims. Group Health is not something you can walk away from. In General Insurance, by and large the business mix is never static. Year-on-year it will change depending on how the market is, what pricing is available in the market, it's free pricing. So, it is a call that the management takes every year as to where they want to position and during the year again there will be course correction.
- Moderator:** Our next question is from the line of Roshan Chutkey of ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutkey:** On the Crop Insurance business, how are the claims ratio shaping up?
- Milind Choudhari:** Actually, this year seems to be a good season, so we are expecting that the claims ratio will be better. They will be below 100 because last year it was not a very good season. Even within the year compared to both the seasons, generally the Kharif season is a little worse as compared to the Rabi season which is going now. So I think the overall picture will emerge only after the Rabi season is over at the end of Quarter 4. But this year is a better year as compared to the last year.
- Roshan Chutkey:** Is the tendering for the Rabi season almost over, what is it like now?
- Milind Choudhari:** Yes tendering for Rabi season is already over.
- S. Sreenivasan:** The claim ratio for the market may be higher because there have been certain areas where there have been bigger claims. The pockets in which we quoted this year seem to be relatively better. So we think we should be slightly better than the market average in terms of claim ratios.

- Roshan Chutkey:** And the claim from the claimant is essentially dependent on the yield right, now yield can get affected because of weather conditions among other regions. Now prima facie is weather the key risk here in the Crop Insurance business or are there any more risks?
- S. Sreenivasan:** No it is only the difference in yield. That can happen to various factors, weather is the major factor.
- Roshan Chutkey:** Largely driven by weather only, right?
- S. Sreenivasan:** No, it could be crop disease or something like that but it doesn't matter to us. There is an average yield, there is an actual yield and if the actual yield is below the percentage fixed by the government then the difference you have to proportionately compensate. They give us 10 years claims data from each of those clusters where we are bidding. We will adjust prices based on past claim experience.
- Moderator:** The next question is from the line of Atul Mehra of Motilal Oswal Asset Management. Please go ahead.
- Atul Mehra:** In terms of pure protection what would be the mix like for us in total APE if we look at nine months or for the quarter?
- Ramandeep Singh Sahni:** We look at pure protection in two segments individual and group one. On the group side, we do a large amount of protection on the financial inclusion business. So there for nine months we would have written about 400 crores of protection. But on the individual segment, we really didn't have too much of business coming from protection because we didn't have a product as competitive as the market. In the market every year we have seen price reduction in Term life especially on the online side. So we didn't have a very competitive product and just few weeks ago we launched our product. Hence it's just the initial stage for us to get into that segment. And we are hopeful that our product now is as competitive as the bigger players who are more established in terms of protection business and we should see this business scale up going forward. But if you look at industry trends, it is in single digit percentage terms for all players. We are also trying to move into the segment but we don't believe that this segment will in the immediate future scale up to a very large proportion of our business.
- Atul Mehra:** And of 400 crores number you gave, this is in APE terms?
- Ramandeep Singh Sahni:** No this is group so this is all single premium.
- Atul Mehra:** In terms of the overall conversations on Banca so how have the conversations been and so would we say even if we get into a Banca relationship it will be in some of the niche areas or niche products to begin with or any update on that?

- S Sreenivasan:** We are in discussions with the few Banca partners. Those banks have not decided. We expect in the next 3 to 6 months some of them would reach a decision, some of them are new small finance banks and it is likely that with the new corporate agency guidelines many of them may go with more than one partner. And with each of the banks, depending on the type of bank, their reach and their requirements, we pitch in with what we think will work best with the bank. So it is not that we have a new strategy. We have expertise in all aspects of Banca business be it centralized tele-calling based or branch banking based or different verticals of the bank but ultimately how the bank wants to organize itself will determine what kind of products that we will sell there. As of now we do not have anything to report on that count. Hardly any announcements were made in the last three months in respect of any new tie-ups. We will wait and see over the next 3 to 6 months what happens to the partners with whom we are already engaged in discussions.
- Moderator:** Our next question is from the line of Nischint Chawathe of Kotak Securities. Please go ahead.
- Nischint Chawathe:** My question pertains to the product mix in the life business. I know the share of ULIP has been going up, any broad thought process plan or target that you would share at the end of this year or possibly at the end of next year where you want on the ULIP business to be?
- S. Sreenivasan:** We cannot fix a target. We think the current momentum will continue definitely in to Q4. For next year, we are still in the process of trying to figure out where we want to be. But ultimately, it's the resultant of the efforts that we put. Once we plan for a product mix we do some fine-tuning in terms of the way we adjust the rewards, recognitions and the whole sales process to drive it more towards the desired mix. However, it's the customer demand that will determine what products suits best. Couple of years ago, the banks were predominantly selling ULIP products but now I think even among the agency channels we are seeing more ULIP products being sold. Secondly, a lot of our growth has been driven because we also moved up the segment by increasing the minimum ticket sizes and focusing on the higher ticket size segments, where ULIP products tend to be more acceptable. We would think that ULIP will continue to be the biggest share in the pie - exact number we don't know . But Q4 would likely to be more like Q3.
- Nischint Chawathe:** I'm sure it has some implications on the new business, etc., so any kind of thought process out there, you don't mind letting it go down because I think broadly till now the impact has been very little maybe 25-30 crores a quarter. But after this I am sure at some point of time it will keep on increasing, so are you comfortable with that?
- S. Sreenivasan:** Near-term yes, we are comfortable that our new business value before overrun goes up. We may have some acquisition overruns. But next year we will probably come out with some different strategy to combat the overrun. We are already in the midst of thinking through that. I cannot make an announcement now but we are seized of the matter and we are taking appropriate action to see how we can contain the overrun.

- Moderator:** Thank you. Our next question is from the line of Priti RS of UTI Mutual Fund. Please go ahead.
- Priti RS:** I was looking at the investments in Bajaj Life Insurance. Although we have grown a ULIP even on a quarter-on-quarter basis our investments especially in ULIP, Unit Linked Investments, are negative 3% and just the equity investments are down nearly 8%, so could you help us understand how we should put this in perspective?
- S. Sreenivasan:** You are referring to that growth in the AUM, is it?
- Priti RS:** Yes sir.
- S. Sreenivasan:** We are running two books here, the old book and the new book. The new book is growing, however, in the older book the surrenders have been a bit higher than last year as the market went up. Especially in Q1 and Q2 we found the surrenders higher, Q3 was a bit better. Over the next few years, we would expect that maturity pressures will also be there on our book that is why our target is to build the book back by focusing on growing new business. So, we think this whole process of moving from the old book to the new book will take about 2 to 3 years' time.
- Moderator:** Thank you. I now hand the floor back to Mr. Karan Singh of JM Financials. Over to you sir.
- Karan Singh:** On behalf of JM Financials I would like to thank Mr. S. Sreenivasan and the Senior Management team of Bajaj Finserv and all the participants for joining us on the call today.
- S. Sreenivasan:** Thank you.
- Moderator:** Thank you. On behalf of JM Financials Institutional Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.