“Bajaj Finserv Limited Q1 FY'17 Earnings Conference Call”

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MANAGEMENT: **MR. S. SREENIVASAN – CHIEF FINANCIAL OFFICER, BAJAJ FINSERV LIMITED**
MR. RAMANDEEP SINGH SAHNI – CHIEF FINANCIAL OFFICER, BAJAJ ALLIANZ LIFE INSURANCE COMPANY LIMITED
MR. MILIND CHOUDHARI – CHIEF FINANCIAL OFFICER, BAJAJ ALLIANZ GENERAL INSURANCE COMPANY LIMITED.

MODERATOR: **MR. KARAN SINGH – JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, good day and welcome to Bajaj Finserv Q1 FY'17 Results Conference Call hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, 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 over to Mr. Karan Singh from JM Financial. Thank you and over to you, Sir!

Karan Singh: Yes, thank you. Good morning everybody and welcome to Bajaj Fiserv's Earnings Call to discuss the First Quarter 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, Sreeni.

S. Sreenivasan: Good morning, everybody. I welcome all of you to the Investor Conference Call to cover the consolidated results of Bajaj Finserv Limited for quarter ended 30th June, 2016.

Our consolidated results as you know reflect our share of profits on the three businesses, three subsidiaries: Bajaj Finance Limited, in which we have 57.28% holding; Bajaj Allianz Life Insurance Limited and Bajaj Allianz General Insurance Company Limited, in both of which we have 74% shareholding.

As in the normal case, I would like to clear up some hygiene points, firstly, we will not be covering any questions on the current status of the joint venture with Allianz. We have issued a release to the Stock Exchange a couple of weeks ago, there is no further update on that. Secondly, whatever we say in the form of forward-looking statemenst are mere estimates and do not represent an actual number that we are projecting for the future.

I will now take you through the highlights of the results for the first quarter of FY'17 for our consolidated for Bajaj Finserv and for each our subsidiaries. We had another satisfactory quarter.

Our consolidated gross revenue grew 17% from Rs. 48 billion to Rs. 57 billion. Our consolidated profit after tax was up 15% from Rs. 467 Cr to Rs. 538 Cr.

The growth in the profit was largely driven by Bajaj Finance Limited which had another stellar quarter. It once again had its highest ever quarterly profit after tax. Its total income increased by 39%, its asset under management is a shade under Rs. 50,000 crores - there as an increase of 40% on the asset under management as compared with the same period of last year. And the profit after tax was up by 54% at Rs. 424 crores as against Rs. 276 crores for the first quarter of FY'16.

The risk metrics continue to hold very well. The net NPA as of 30th June, stood at 0.41% and the company adequately capitalized healthy 17.8% capital adequacy ratio.

In terms of Bajaj Allianz Life Insurance Company, as you may recall, we had been saying that we are on the work of transforming our business. While some of the things did not happen as fast as we would have liked, we think, in this quarter, we started to see some green shoots in our Life business. We had changed the focus of our company last year from new business to what we call individual regular premium new business so that our dependence on group business would reduce over time while more long-term individual business which is not single premium would get greater focus. I am glad to report the rated individual new business for the first quarter was up 30% Y-o-Y compared to the first quarter of last year and the biggest contributor to this growth was our agency channel on which we have been working on difference phases of transformation. We had a 28% Y-o-Y growth on the individual rated premium from our agency channel.

Our gross premium was marginally lower than last year at Rs. 1,004 crores versus Rs. 1,082 crores to a large extent, it is because of a fall in the group business. We did see a drop in our group fund business in Q1 of this year compared to the previous year. And as I mentioned before, this is not a primary focus area in our business and we do not think it is a serious problem for us.

The shareholders profit after tax for Q1 FY'17 was a shade better than the previous year at Rs. 244 crores versus Rs. 241 crores in the last year. Our solvency ratio continues to be very healthy at 817% and our AUM at Rs. 45,729 crores were 6% higher than the AUM at 30th June, 2015.

Coming to the results of the General Insurance Company BAGIC, we had a strong quarter in terms of growth, GWP increased by 16% to Rs. 1,527 crores versus Rs. 1,322 crores in Q1 of FY'16. However, our profit after-tax was lower by 11% at Rs. 132 crores versus Rs. 147 crores largely because of a slight deterioration on the underwriting results.

We had an underwriting loss of Rs. 28 crores as compared to a profit of Rs. 28 crores in the first quarter of the previous quarter. The reason for this underwriting loss largely is because in a couple of lines we have seen an increase in claim ratios - largely in group health we have seen an increase in claim ratio of approximately 5% and there is 4% increase in motor claim ratio. Apart from that we have seen fairly improved claim experience in lines such as retail health, engineering and property. Our combined ratio therefore for the quarter ended 30th June, 2016 was 101.2% as compared to 95.7% in the same quarter of the previous year. The solvency ratio continues to be healthy at 254% and our AUM for the first time crossed Rs. 10,000 crores, it is Rs. 10,053 crores as of 30th June, 2016.

Having given the summary, I would now invite Questions-and-Answers. And I have with me my colleagues Ramandeep Singh the CFO of Bajaj Allianz Life and Milind Choudhari the CFO of Bajaj Allianz General Insurance Company, who will also be taking some of the questions. Thank you, Karan.

Moderator: Thank you. We will now begin with the Question-and-Answer Session. We take the first question is from the line of Nitish Jain from Investek. Please go ahead.

Nitish Jain: First question is on Life Insurance so; first quarter was quite good at 30% growth in the individual APE. How do you see the rest of the year panning out so, this quarter will be structural or this is may be a quarterly phenomenon?

S. Sreenivasan: See, if you recall in the last couple of conference calls we have been saying that we have embarked on the agency transformation project which started in 2014,… we hired a new Agency Head and last year we did a lot of effort in building the distribution in terms of improving the quality of the sales managers, improving the recruitment of agents as well as restructuring the whole channel of agency in terms of increasing spans of control and making it more efficient. However, before the end of the year we realized that the numbers are not coming largely because we were not as strong in some to the top 20 markets, we also had needed to bring in some fresh talent from outside in certain pockets where our business was relatively weak and lastly, we found that we were underselling - . in the sense that if somebody wanted a Rs. 25,000 policy, we found that we were offering him a Rs. 15,000 policy so clearly there was a case for improving the ticket size. So we put together what we call Phase III of our transformation project in terms of a centralized team brought in a couple of people from outside, restructured our national distribution structure in terms of the management of the agency force. With a clear focus of improving ticket sizes with greater focus on top markets - in fact we have divided the geography into three markets one is what we call focused market which is top 20 markets; we have a very large core in the middle which is approximately 500 branches and we have what we call the emerging markets at the bottom where we think there is a lot of potential but relatively we could do a lot more. Obviously the product mix, the strategy, the type of people you recruit the type of SMs you recruit, the type of agents you have, all is different for each of these and we have different people looking after each of these segments. We think the result of this is many of the metrics that we track internally indicate that the agency is actually transforming itself. Having said that, the first quarter is relatively weak for the Life industry with hardly 10% of the business been done. We will still have to wait and see over the next two quarters to three quarters to see if the momentum is kept up. If the momentum continues over the next three quarters, we think we would be closer to our long-term objective of re-building agency to a significantly higher scale. At this stage, I would be cautiously optimistic.

Nitish Jain: Okay, sir, okay. And this growth is coming from one particular quarter or it is all the products?

S. Sreenivasan: It is across the board because in our larger markets we find there is a higher proportion of unit linked products being sold which is natural. In the emerging segment, we have higher proportion of traditional products being sold and in the core markets we have a greater balance between unit linked and traditional. So this is something new that we have now tracking… that different geographies will have different appetite for products and the overall product mix that you see is the result of all this.

Nitish Jain: And in the group business so, you have been saying that non-fund based business the decent margin business for us, what is the strategy going forward there, will we not focus on that business going forward or?

S. Sreenivasan: See there are two types or three types of non-fund based businesses; one is group savings product, which largely we sell through our micro and mass market channels; then we have group risk products which we sell to corporate as well through other banks. Then we have credit protection products, which are mainly sold through lending companies the NBFCs as well as banks. So the margin make-up of all these are different. We did have a problem with the micro and mass markets because the products which was our flagship product called SSS had to undergo significant changes after the new regulation but we have now come with the new suite of micro insurance products. New micro insurance guidelines are better than the previous ones and we still have strong partnerships with a lot of these MFIs, RRBs. We have got corporate agencies with a few of these RRBs where we use to sell group products. Having said that, the challenges remains that most of them are attuned to selling group products where the process of selling is very simple, individual products are a lot more difficult to sell and we would be watching that. On a rated premium basis we are doing exceptionally well in this channel.

Ramandeep Singh Sahni: Just to add to what Sreeni says, Ramandeep here. So, if you look at our group business though it appears that it is down by 18% for Q1 but if you split that really between group risk which is where the profits really come from and group funds which is mainly a fund management business so, funds business has actually gone down by 40% and group risk business has gone up by 37%. So what Sreeni rightly highlighted, we will continue focus on the risk business and not so much on the funds business but we do not want to be out of the funds business as well. So that shows the kind of concentration now we are getting towards more of risk than funds.

Nitish Jain: And sir, lastly, on GI so, this increase in claims ratio and in combined ratio, how do you see this panning out for the full year?

S. Sreenivasan: It is difficult to say what will happen in the full year but we have identified the pockets and this is not the first time that the GI industry has gone through cycles of volatile claim ratios. The first quarter is always very tricky because you have to pay the claim soon after you issue the policy . However, the premium gets earned over the entire period so the higher claims first quarter does not necessarily mean that it is going to recur every quarter. Having said that on the group health side, we have always been selective but our company is looking at some of the accounts - we may give up some renewals if they are not economic. On the motor side, we will watch more closely what is happening. As a continuous process we do tend to walk out of losing segments in motor - that has always been tactical thing which BAGIC has done over the years. Milind, would you like to add?

Milind Choudhari: Yes, I think the increased composition of the group health business also has added our claim ratio a little higher. So I think as we are watchful in terms of because there are some motor claims also where we see some higher frequency, so, keeping a watch on these two things, I think, in this quarter as Sreeni rightly said, the earnings are lower, if there are claims reported early in the first quarter itself it probably it shows some skewed picture - , but I think on an ongoing basis it should fall in line.

Moderator: Thank you. We take the next question from the line of Mayur Pakeria from Wealth Managers. Please go ahead.

Mayur Pakeria: You have highlighted on most of the questions which I had, just on a slightly broad, last year we have seen a lot of increase in the group business and what we are seeing now is that we are going to focus on the individual, we have been focusing on the individual and the fruits have started paying on the individual. So, is there means, from a slightly longer period is there a change in this strategy and why? Why did we earlier thought of focusing on group, and why did we increase the business so much and then again now we are reducing it? In terms of focus, I am not saying that, we are reducing that. So, what has been the change and why this change in the strategy?

S. Sreenivasan: The change is as I told you is not this year, it has been about a couple of years ago we have decided this. One of the reasons we did more group business was largely because, till October last year, the Bancassurance was tied to a single insurer. Even now many of the banks have not yet signed up for multiple partnerships. There were allowed only one partner, one bank could have only one insurance partner. However, the group products were allowed to be offered, and we had superior group products both on the credit side and the risk side. So there are many banks we dealt with on a group basis. So that was one of the reasons. Secondly, the group fund business while it does not make much money, is an asset accumulative business, it does give a fee and we had seen a lot more people moving into the unit linked group fund business. Where we get a fee it is not a losing business you do not require too many people to acquire that business, a lot of it is directly. However, as a proportion it was high because our efforts on individual business were taking more time then what we anticipated for it bear fruit. As I said, you have to making course corrections in your effort to build the individual business and early this year our move as I said earlier was on pushing up ticket sizes, segmenting the markets and strengthening the teams. It seems to have worked in the first quarter at least and we will have to wait and see how it goes. So the in the long run Life business has to have a significant proportion of individual regular premium business and group regular premium business is acceptable but there are not too many segments you can sell regular premium group products to, majority are single premium products but there are segments we are exploring where we will see as it goes by. But regular premium is really the one which we will be driving. Raman?

Ramandeep Singh Sahni: Yes, I think Sreeni you have answered most of it, but just to add to that - the sort of focus is not actually to move away from group, and also on the fund side you have to understand that this business is not predictable so, you might get a big deal and you might get a good chunk of money at one point of time. So that is why you might see some variation on the fund side but in the group risk which is more of sustainable business like I said earlier, we have seen a 37% growth in Q1. So I think to answer your question the focus on group still continues. The only thing we are trying to do is scale up individual more than what we have done in the past and faster than group.

Mayur Pakeria: Okay. Slightly on the fund management side when we looked at the Annual Report and we looked at the five year and ten year CAGR of your funds in terms of all the ULIP, there are barely any fund performance which are above 12% or 10% kind of, mostly they are in the range I mean, one or there may be possible but mostly they are in the region of 10% and when we look at comparable data for other investments avenues it becomes much higher and even the markets are performing much better in the last five years. So anything you would like to comment on the fund management side and does it impact…

S. Sreenivasan: I don't know what is the basis of this information. Because for the last couple of years at least we have independent agencies like Morningstar rating all insurance companies funds. And last year even our large cap funds have all done well. Mid cap funds for over a one-year period were slightly below the benchmark but having said that over two years - three years - five years our mid-cap funds among one of the top funds in the market. So I would suggest that, you look at Morningstar they give all data, one year - three year - five year since inception all data and that is an independent agency. Otherwise it is very difficult in a Life Insurance to actually do it on a excel sheet and re-calculate because there have been multiple funds which have been introduced over different periods. So, I would suggest you look at that and if you have any query you may please contact Raman or me we will respond to that.

Ramandeep Singh Sahni: Yes, in fact, in the Morningstar rating if you see most of our equity funds will be in the top most quartile of all the funds which are reflected there at least on the equity side.

S. Sreenivasan: But I think our Pure stock fund is probably number one over several periods.

Mayur Pakeria: Okay, I will get back to you on that. In the AGM you have mentioned that probably for Bancassurance by the year end we will some tie ups in place any color on that and anything you would like to add on it?

S. Sreenivasan: No, I did not say we will have some tie-ups…

Mayur Pakeria: Most likely.

S. Sreenivasan: We are in touch with several banks majority are public sector but there are few small private sector banks also in the fray and there is a long process there - RFPs and practically everybody is competing for that business. At this stage there is nothing for us to report. Nobody has decided which we are aware of. As things pan out we will let you know…

Mayur Pakeria: But if, I know I may be just pushing on that, but probabilistic term do you believe there is 50% change of you getting it through this year?

S. Sreenivasan: On merit I will say much more than 50% but there are multiple considerations for banks in terms of taking decision so, we will have to wait and see depending on the bank's own position what other partners they have, how many they want to have and what kind of other business etc….

Mayur Pakeria: Based on your assessment and experience where would BALIC fall short of not being able to tie-up I mean, in terms of why would the bank or I understand that bank sponsored they would give more preference on their own but then when it comes to other tie-ups there would we fall, sir?

S. Sreenivasan: Why did Citi Bank tie-up with say Tata AIA - because there was an international deal between AIA and Citibank. For the same reason Prudential tied-up with Standard Chartered Bank. So clearly India was included in those. Now, these are things we could not compete with and we are not interested in paying significant amounts where we do not make money out of business, it has to make economic sense and be compliant with regulation also. So in India also as I was saying there are multiple considerations for banks,- in most of the public sector banks if you see the penetration of Bancassurance is very poor. And we will have to wait and see what the considerations they have, they will look at their existing set-up who are the partners they have? What other business they have with the groups which are representing the insurance companies and various other factors. But clearly, on our ability competence etc, by and large we are getting invited to almost all the banks for their shortlist and presentations, we will wait and see how it goes. Raman?

Ramandeep Singh Sahni: Yes, I think you have covered most of it, I do not think I have anything to add.

Moderator: Thank you. We take the next question from the line of Shivang Mahajan from Asith Mehta Investment. Please go ahead.

Shivang Mahajan: So, my first question pertains to the Life Insurance business of yours. So from past one years or two years like having the transformation of the Life Insurance business so, if you can brief something about it, it will be of great help.

S. Sreenivasan: No, as we said, we are not a bank sponsored company. We do not have an in-house bank. We do have Bajaj Finance which is pretty much coming up like a bank, but we have a shortcoming that that they do not have a significant base of savings and current account which they are not allowed to take. So we are focused on agency, there was generally a feeling that agency is a channel which is dying but that is not correct, when we analyze the market, we found that the Bancassurance business of about Rs. 11,000 crores of individual premium 85% was basically contributed by the top six banks, five of which had their own in-house banks and one had a long-term equity tie-up with another insurer. So clearly, in terms of the size of banca only 15% was being contributed by the biggest segment of the banks which included the public sector banks and a lot of the fast growing private sector banks. So agency had a place to stay and the LIC continued continue to do well in agency but in patches depending on how the market was but it is still the largest segment in the market and that is why we decided to focus on agency., Secondly individual premiums are much easier to come through via agency channel and that was one of our focus because you need to build a solid base of not only new business but also long-term renewals and something which will add to the margins and that is why we entered this agency transformation project. Phase I was improving persistency, which was in 2013-2014, at that time we also had a lot of delays in getting our products approved because we had to file a considerable number of products with the regulator to get it approved. Phase II was building the foundation of the distribution channel, improving the efficiency of the superstructure that manages the agency force. And Phase III as I told you, now is actually pushing up the ticket sizes focusing on our weaker areas and consolidating our stronger areas. And this quarter the strategy seems to have worked but this is very dynamic market with 23 competitors so, you got to keep reviewing it on a very regular basis which we do and we keep making course corrections.

Shivang Mahajan: Correct. So for moving ahead, we would like to like it will be more of increase in ticket size on the policies on incremental policies and the increase in agency channels?

S. Sreenivasan: Better quality agents, better quality sales managers, so there are multiple activities involved in this I cannot detail all of them here. But basically the focus is to increase the per ticket sizes what we are doing now; as we go forward over the next few years, we will also start looking at higher volumes with higher ticket sizes.

Shivang Mahajan: Okay. And also we have some tie-ups with the public sector banks which do not have much of the **...**

S. Sreenivasan: We are hoping we will get, we will have to wait and see, because they are very slow in decision making and they have multiple parameters to decide.

Shivang Mahajan: Okay. And another question on the property casualty business. So, our total combined ratio has increased from 95.7 to 101.2, okay. And if I see correct, so much has been contributed by claims ratio?

S. Sreenivasan: That is right.

Shivang Mahajan: Right. So like from within the claims ratio point of view where are you seeing the losses coming up in…

S. Sreenivasan: I think I already answered that question in the previous question I do not whether you had logged in at that time or not. Largely we are seeing increase in claim ratios driven by group health which has increased as a proportion of the premium in this quarter. We also saw an increase in the motor own damage claim ratio which also contributed to higher claims ratio. Largely, motor is happening because of higher frequency of accidents and we continue to monitor it very closely to see what course correction is required.

Shivang Mahajan: Okay. So from group health point of view it is more like in line with the growth in that particular business?

S. Sreenivasan: Yes, to some extent and that has never been a profitable business for the industry. We still believe we are one of the lowest claim ratios in the industry. But corporate group health typically has loss ratios above 100% for the industry, we are a little bit below 100, last year we were close to 92 or 93.

Shivang Mahajan: And what is the loss ratio for motor insurance?

S. Sreenivasan: Motor there are multiple segments.

Shivang Mahajan: Overall.

S. Sreenivasan: Overall. Milind, would you like to give that number?

Milind Choudhari: Yes, I think as far as the overall motor OD loss ratios are concerned, it is in the range of around 60%, which has gone up because of these impact in terms of the frequency and also we are actually working in terms of reviewing our relationships in terms of course correction which are the pockets or the dealers where from losses are coming and what needs to be done in order to plug these losses, do some kind of underwriting and further course correction.

Shivang Mahajan: And sir, how much of this motor business is soucred through own individual agents or the direct business?

S. Sreenivasan: That information we are not disclosing but we have multiple-channels which give us motor business. We have brokers which mostly are manufacturer-sponsored or otherwise -, we are one of the strongest players in that segment. We have multi-line agents who bring us a lot of motor business - largely they do older cars but many do new cars as well. We have a direct online channel which is through our website. And we deal through some other corporate agents as well. So we are well-diversified and this multi-channel distribution is something BAGIC has been known for in the last 15 years.

Shivang Mahajan: Okay. So apart from 60% of loss ratio in this particular business, so how much the commissions we are paying roughly?

S. Sreenivasan: We are not disclosing any of that, it is there in our public disclosures, you can figure it out.

Moderator: Thank you. We take the next question from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Sir, if we just look at Life Insurance from here on and may be over the next three years to five years so, with current set of agency reorganization that we would have done and assuming there is a hypothetically speaking, there is no BANCA tie-up that we would have so, what is the kind of growth visibility that you tend to have for new business with the current structure in place?

S. Sreenivasan: See, as I said earlier we are not giving any forward-looking statements. This quarter we have done quite well. We think what we set out to do at the beginning of this quarter seems to have worked but we still need to wait for two quarters to three quarters and continue to keep making course corrections before we take a call that momentum is strongly on our side. Clearly agency is something we think can do a lot better over the next three years to five years. We have a stronger team now and we have more leaner, meaner team in place now. So we are hopeful that agency will do well.

Atul Mehra: Right. And if you can qualitatively talk a bit more about what exactly we have done in the transformation process in agency so, what would have exactly changed may be a year back and now?

S. Sreenivasan: A year back we were focusing on recruiting better quality sales managers, we restructured our agency super structure in terms of the number of branch managers or divisional managers and people who manage the large agency force, we are still one of the largest in terms of foot print in the private sector. And we put in a lot of measures to measure the quality of recruitment of the sales managers as well as the agents. We focused on getting more agents active in the market. However, we found that a lot of new agents will take a longer time to actually start producing business so, the case rates were not as strong as we thought it would be and secondly, the top 20 - 30 markets which predominantly are BANCA-dominated, we found that in agency also we were lagging behind because we have traditionally built our business outside the Tier-I cities. So we decided that we should focus more because there is lot more business here and we made appropriate structures in terms of dividing the country into three focus areas because product mixes are different, the demographics of customers are different, and the needs of customers are different. We basically wanted higher ticket size and when I say higher ticket size I don't necessarily mean we are going to the HNI segment, every segment we are in, we want to get more ticket size because this is nominal inflection product, today's money they are paying, so if they were paying Rs. 10,000 three years ago they should be paying Rs. 12,000 Rs. 13,000 today the same person. Raman, anything to add?

Ramandeep Singh Sahni: Yes, I think the two major changes, I think we have brought about is one is enhancing the quality of the entire agency force I think what Sreeni was trying to highlight earlier was that we have done transformation last year so, when I say the agency force it includes your front line the hierarchy above that, even the agents for that matter. So, I think what Sreeni was also highlighting earlier, we were largely focused on the C category and D category cities, even in those cities we were selling a lot of low ticket sized products and even cash was very high, so this was reflecting on the quality of the business we were writing. So I think we have gone a long way in enhancing all of that and the second big change we have done is the segmentation which Sreeni highlighted where we have broken the country into three parts and there are heads of each of these units who focus on them separately rather than treating agency as one company and running it as company. So I think there also we have got a long way and we are seeing the benefits of that paying off in at least this quarter.

Atul Mehra: Right. And secondly, if I look at the product mix that has played out this quarter there is obviously been this huge bump up in ULIP. So normally what we tend to understand is ULIP in itself is like a lower margin product and a lot of guys who have BANCA arrangements they prefer to sell traditional through the agency channel and ULIP primarily through BANCA. So as we grow this business where ULIP is sold through agency for us, is it profit accreting, where I am coming to is, is it really profitable in a large manner or it will be a modestly profitable?

S. Sreenivasan: First of all, ULIP fundamental margins are high because 100% of the profit comes to the shareholder. Problem is the way the ULIP products are structured because of various regulations including the cap on charges, the sales allowances built in are much lower, to meet the regulatory requirement of the minimum value to the customer. In that sense the companies do end up paying a higher acquisition cost largely on getting ULIP business. Secondly, in the long run, if you assume all companies are operating with the required amount of capital with no surplus capital, (this is a theoretical scenario), ULIP would provide a substantially higher return on capital because ULIP does not require much capital - very nominal amount of capital is required even under regulation because the risk is borne by the policy holder. Whether how much of ULIP to do is not really a choice of the company alone, it is a function of how the market is behaving. If you look at the last five years or last seven or eight years - till 2008 - ULIP was rocking because it is transparent, easy for the customer to understand, that time they had a three year lock in, thereafter the market went through downturn, the equity markets fell people's risk aversion increased, and we found that people who are preferring more of traditional products, a few companies sold some products like the Max NAV product which they were allowed to sell for some time and after the market started reviving from 2014 onwards we are again seeing a revival in the interest for ULIP because the risk appetite of the consumer has increased and saving rate has started picking up. So within this most of the banks sponsored companies till last year at least they had a very high proportion of ULIP, some had more than 80% but by and large the top three companies or four companies would have an average of between 70% and 80% from ULIP. Our objective is because of our wide presence outside of Tier-I cities, we are fairly balanced in terms of our product mix, while it has gone up in relation to last year…

Ramandeep Singh Sahni: So on the retail side we have about 60% ULIP.

S. Sreenivasan: That is right.

Ramandeep Singh Sahni: Yes, so I think just to add to what Sreeni said, though it is higher compared to last year by about 10% to 15% but I think over a period of time what product mix will emerge is I think somewhere in the range of 50-50 because like we said we have broken the country into three parts so, there will be some pockets where it could be as high as 70% ULIP which in larger cities like Mumbai or Delhi where the segment of population is as such ones which will prefer ULIPs. But given that a significant base also comes from C category town and D category town and that has been our strength traditionally, there the ratio is inverse actually so, there traditional sells more. So, I think overall at a country level we will end up maintaining a balanced product mix.

S. Sreenivasan: Right. And we will suspect the companies which have 70% or more of ULIP should be having a very high overrun… at least for a few years they may be willing to run it.

Atul Mehra: Right. And just one final thing, in terms of the profitability for Life Insurance business so over a more longer-term period so, where do we really look at targeting in terms of profitability for the business in terms of post overrun margins for us, may be over a three to five-year horizon?

S. Sreenivasan: We look at margins different perspective one is obviously margins as the market sees in terms of the premium. But we also look at it as return on risk capital. Having said that I think last year margins on ANP were a shade above 16%. It is a function of the product mix how much of PAR, non-PAR, how much of risk, and how much of ULIP all that you sell so it keeps varying according to the market. So we have no specific target for what should be the margin. Our focus is on the growing the new business value, which is a function of both volume and margin.

Atul Mehra: But sir, on a post-overrun basis how would that be?

S. Sreenivasan: See overruns have been a phenomenon because as the new business comes down across the market we have seen overruns over the last few years of varying degrees. We focused on it a couple of years ago. Firstly, on the management cost we are hopeful that by end of this year or early next year we should be out of the management cost overruns if our volumes reach a level that we want to which we do not think it is unreasonable. As far as acquisition cost is concerned given our very strong solvency surpluses, we may run it for a couple of years more till the scale reaches the level we would like to. Raman?

Ramandeep Singh Sahni: Yes, I think Sreeni, you have answered it rightly, so I think what Sreeni was trying to say is that when we look at margins we have are now targeting the margins somewhere close to what we have done in the past. But on the overrun side, management is where our effort is to zeroise that and we should do it in the immediate future. Acquisition we will continue to invest because we really believe that we can get far more scale than what we have done in the past because there are some channels which we have really not invested in the past. So leaving apart agency which is scaling up there also new channels where we will invest for example, direct channel being one where you put in your people to do upselling and cross-selling. So if you look at the top players in the industry about 15% to 20% of their business has now stated coming from this segment and this is a segment which we were away from so, we have started investing in that so, probably these are kind of things which we will continue to invest and so for next few years we might still have acquisition overrun.

Atul Mehra: Just one question on general if I may, so overall business has grown at 15% for us. But, how would the mix have been between various segments so, would something like Health have grown at a much faster pace?

S. Sreenivasan: Retail Health continues to grow - if I were to give you a flavor because within Health you have this Group Health and Retail health. We have consistently been growing our Retail Health above

20% over the last three years and this quarter again we have grown at 20%. Motor is a function of the market because of our overweight position in motor our focus is on balancing both growth and profitability and within motor there are multiple segments. There are commercial vehicle, there are two-wheelers, there are private cars and within that there are makes, models so, it is continuous exercise that the management keeps evaluating. And on the corporate side as you know pricing has crashed over the last eight years and we select businesses, we focus more on the medium and smaller enterprises, not very big on the very big banner names where you have a very high re-insurance risk. And we are in the crop insurance business. Year before last we said it is the first year we are doing it. We did about Rs. 500 odd crores - Rs. 400 odd crores of business, it was very profitable. Last year the rules changed. We did not find it economic to be in to the same extent and we had said that is a tactical move so, it actually came down. This year again the new "Prime Minister Fasal Bima Yojana" has been launched. It looks a lot more promising. We have not booked any significant amount of business in the first quarter. We would normally book it in this quarter. We still do not know exact numbers but it is going to be a reasonably good number in this business is what I believe. Milind?

Milind Choudhari: Yes, so I think you covered the majority lines. What I just wanted to add here is about the liability line which is more promising where there is more awareness and more interest due to Companies Act, due to awareness about the liabilities and overall litigation; that is promising line to go forward.

S. Sreenivasan: We are among the top two or three players in that segment already, right?

Atul Mehra: Right.

Moderator: Thank you. We take the next question from the line of Adarsh P. from Nomura. Please go ahead.

Adarsh P.: A lot of my question got answered, just one of them was on the Life piece on the protection business. If you can just talk about the individual pure protection business, where it is and we are seeing most of your competitors having a lot of emphasis on that to kind of improve margin so, what is our stance and what are we doing about it?

S. Sreenivasan: I will let Raman take it. But I will just briefly tell you there is Individual Protection business and Group Protection business, and within group protection business there is Credit and Life. I do not know how much of individual protection business actually is happening in the market. Raman do you have a flavor of that?

Ramandeep Singh Sahni: Last year I was told that for FY'15 the number was around Rs. 500 crores which is down compared to that in FY'16 so, I think it was somewhere around Rs. 400 crores to Rs. 450 crores. You do not get this number actually formally. So, informally what we understand that the number is actually down compare to the year before that and that is somewhere between Rs. 400 crores to Rs. 500 crores only. And just to add Sreeni what you were trying to say earlier, I think if you look at the segment divided into two parts the group risk and the individual risk; Individual

-most of the guys our competitors have got products being sold online. I am given to understand that their claims experience is very bad so, most of them seem to be bleeding on it. So we have to be really careful when we venture into this, so not that we will stay away from it we have already filed the product with IRDA and it is going to be a very competitive product compare to the top players in the market and we are hopeful to launch it next month or the month after that. So individual we have that constraint of managing the quality of the portfolio which I think we have to learn from what the others have done. On group like Sreeni said we have group credit protection and the group term life. These are businesses which we have been pioneers in for a very long time and I think we will continue to invest in that and just to give you the numbers again we have grown 37% in this line of business compared to the same quarter last year.

Adarsh P.: Perfect. Is there any reason why you think the online protection business is leading to any adverse selection as you said claims ratio is very high so, because any insurer would do the same checks?

S. Sreenivasan: That is what we understand by the market we are not one of the early birds in that market at all. Firstly, it was targeting high-end market. In high-end market largely savings products like unit linked are more attractive than risk products because people already are wealthy. So the relative importance of protection is not as high as the lower ticket sizes. Secondly, at the higher-end I think there have been reports of adverse selection, and complete fulfillment online today seems quite difficult. And thirdly, the premium rates have crashed because quite a number of players entered that market. So, clearly, if you are looking at protection purely as a business one has to go to lower ticket sizes on a mass market basis where the amount of under penetration is very high. And that is a different game all together, you cannot do it purely through direct or online channels, you need intermediation which increases the cost but it could be a profitable business. Lastly, you are fighting with LIC who already has an established presence in those markets in a very big way.

Adarsh P.: Just the numbers you gave of 500 going down that’s for the private industry I believe, right?

S. Sreenivasan: Yes. Raman.

Ramandeep Singh Sahni: Yes, correct. that is right.

Adarsh P.: And what would be approximately the pure protection business for LIC?

Ramandeep Singh Sahni: I have no idea.

S. Sreenivasan: It will be significantly higher.

Moderator: Thank you. We take the next question from the line of Jaideep Merchant from Janak Merchant. Please go ahead.

Jaideep Merchant: This question is for Ramandeep. Sir, can you talk a little bit about the trends in the persistency? That is my first question and compared that with the industry as well. If you can talk about the income from the surrender in ULIPs for this year I mean there was a big rush to surrender ULIP in the last few years, the regulator changed the rules. So, has that now subsided? And there was a time in 2012, 2013, 2014 where people would not buy Unit linked plans because of the cost were high has that perception changed because expense ratios are now fairly lower and are people looking at these products with open mind which they had stopped for some time?

Ramandeep Singh Sahni: So, let me start with the last question first, so I think the perception has largely changed and it was actually because of whatever media highlighted in the past there was a great perception that ULIPs are really there to cheat you and whatever charge structures were available in the past had also validated that fact to some extent. What has happened after the 2010 guideline the ULIPs have become more attractive than even some of the other fund management products available in the market and I think over the last two years at least people have realized that and we also see that happening on ground that perception has really indeed changed. And so if you look at even the products being bought by our employees so, our products were earlier not bought by even our employees, that has really changed. So when we do schemes internally to upsell to our employees, there also a big uptake on that which clearly reflects how the perception has changed over the period of time.

Moving to persistency, I think last year was a difficult year for us on persistency because in the past in the years before that we had sold a lot of two-pay products and two-pay products because they have limited premium paying the persistency is normally higher on that and we discontinued selling those products in 2014 and after that we saw a dip in persistency because what was left was larger longer term products.. But we took a lot of strides on making a lot of changes within the company to ensure that this does not get repeated so, we do not have any limited pay products any more, we have put persistency as a KRA for all the sales personnel, so whether it is the incentives or their contest whatever they earn, most of them are now linked to a minimum benchmark threshold of persistency. So I think these efforts will go a long way to see the persistency improvement which we are actually targeting to just give you the numbers for first few months of this year, last year we had a 13 months' persistency of 51%, which has gone up to 58% for the first two months measured with the lag of one month. So for the first three months we are seeing this benefit there. To compare ourselves with the industry which was your other question, I think, it is a very difficult comparison because what largely impacts us is that we do not have a bank partner, so if you have a bank partner most of the business comes on the ECS mode or an electronic debit mode. So the persistency we have seen traditionally for this kind of premium paying channel it is far higher than where you do not have direct debit mandate attached to it. That is one reason where you compare our persistency with the bank promoted companies we lag. However, what we are doing and what also we highlighted earlier at least on the agency front, when we are talking about enhancing the quality, a big chunk of our business used to come in cash. Now we have started giving incentives for attaching ECS to every case, some of the larger cities we have mandated that we will not do any business until it is on ECS mode and we have discontinued cash in some locations. So I think these are the things which will go a long way in enhancing our persistency but will we be comparable to a bank promoted company maybe we still lag a bit compare to them given that most of their business comes on the ECS mode.

Moving to the third point on surrenders – surrenders last year we really did a good job in curtailing surrenders. Our surrenders were down by about 65% if I am not wrong compare to the year before that and I think that was also true for some of the other players in the market most of us could curtail surrender. But our fall in surrenders was the highest in the industry last year. But this year we are seeing that there is again a spike in the surrenders in the first quarter at least, but it is still lower than what we saw in the last year same quarter. So, though we had seen a 65% reduction in the full of last year we have seen the reduction over that in this year also. But it is if you look at a run rate basis what we would have seen it in say H2 of last year there is increase in surrenders compared to that and I believe that's a direct correlation with the market. So, I am assuming this also be the trend for the other players in the market because we try to do some analysis internally to see the correlation with the market and for the last 15 years we see that there is a direct correlation with our surrenders and the market movement.

Jaideep Merchant: But sir, do we give, we give options, right to move between funds?

Ramandeep Singh Sahni: Yes, the switch options are available, but if you see across the industry I do not think it's taken up very well by most of the ULIP customers. It has taken up well I believe where the distributor acts like a fund manager for you or a wealth manager for you, if he drives it, it happens otherwise, I do not think too many customers actively do this.

Moderator: Thank you. That was the last question. I now hand the conference call over to Mr. Karan Singh for his closing comments.

Karan Singh: Yes, on behalf of JM Financial, 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. Thank you and good bye.

S. Sreenivasan: Thank you, everybody.

Ramandeep Singh Sahni: Thank you, everyone.

Moderator: Thank you. On behalf of JM Financial, that concludes this conference. Thank you for joining us and you may now disconnect your lines.