“Bajaj Finserv Q1 FY2018 Earning Conference Call”

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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 Q1 FY2018 Earning 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 "*" 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: Thank you. Good morning everybody and welcome to the Bajaj Finserv Earnings call to discuss the first quarter FY2018 results. To discuss the results, we have on the call Mr. S. Sreenivasan, CFO, Bajaj Finserv, Mr. Ramandeep Singh Sahni, CFO, Bajaj Allianz Life, and Mr. Milind Choudhari, CFO, Bajaj Allianz General Insurance. 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: Good morning everybody. I am Sreenivasan here. As is the case, it is our pleasure to invite you for the conference call to discuss the consolidated results of Bajaj Finserv for the quarter ended June 30, 2017. I have with me, my colleagues Ramandeep and Milind and I welcome them as well to this call. In this call, we will be concentrating on the consolidated results as well as the results of our insurance operations of 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 relating to Bajaj Finance, we would be glad to take that as well. We will not be taking any questions on the status on Allianz's stake in our Insurance Companies except to state that the status has remained the same as at the end of the previous quarter and there is no change. Any statements that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance result.

Let me quickly take you through the highlights of Bajaj Finserv and the group companies. It has been a very satisfactory quarter for us in Bajaj Finserv. Our total revenue has increased by 26% YOY and the consolidated profit is up by 22%. Bajaj Finance continues its outstanding growth story over the last 10 years and again recorded its highest annual profit after tax. BAGIC our general insurance company, recorded another robust performance in this quarter both in terms of growth and in terms of profitability, and combined ratios. BALIC, our Life subsidiary's transformation of business continued into the quarter as it delivered a 120% growth in individual rated premium against an industry growth of just 29%. Our consolidated profit after tax for the quarter was Rs.655 crore as against Rs.538 crore. Consolidated total revenue was Rs.6,581 crore as against Rs.5,234 crore in the first quarter of last year. BFL delivered Rs.602 crore of profit, once again the highest ever quarterly profit for that company. It has shown robust growth in almost all the parameters, viz. new customer acquisition, AUM, total income and PAT. BAGIC recorded a growth of 29% on gross written premium. It recorded an underwriting profit, which is a rarity in the general insurance industry, of Rs.12 crore in the quarter. In the same quarter of last year, we actually had an underwriting loss of Rs.28 crore. The combined ratio improved to 95.8% as compared to 101.2%. Profit after tax therefore was higher by Rs.213 crore versus Rs.132 crore, which is an increase of 62% YOY. I must mention here that the profit after tax also includes profit on sale of investments of Rs.90 crore for the quarter as against Rs.26 crore in the same quarter of previous year and even if we were to exclude the effect of that the profit would have increased by a healthy 33%. In the life company, the new business premium, which includes groups, single, and regular premium, grew by 18%. A major feature of this quarter was that, after several years of fairly low or negative growth on the renewal premium side, we have been able to grow our renewal premiums by 11% YOY. The rated individual premium, as I mentioned before, grew by 120%. The shareholder profit after tax however was lower at Rs.196 crore versus Rs.244 crore for the same period of last year. There are two reasons for this. One, during the quarter, we had some extra death claims reported by some corporate accounts, which is we think is a one off and not to be repeated every quarter and secondly, as we are building the new business at a fairly high growth rate, the new business strain does eat into the current profits and until the renewals build over the next two to three years, we would still see some impact on the profits from the life company.

Overall, we think it has been a very good quarter for us and I will now open the floor for questions and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentleman, we will wait for a moment while the question queue assembles. We take the first question from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Hi Sir good morning and congratulations on a good set of numbers. Sir just on the general insurance business if you could throw some light in terms of segmental growth in terms of how would growth be between the retail lines and wholesale lines and secondly in terms of if you could talk about what led to this very strong improvement in combined ratio for us during the quarter?

S. Sreenivasan: I will first broadly explain. This quarter, we did not have any significant amount of crop insurance. We had just about Rs.36 crore booked in the quarter as against Rs.9 crore in the same quarter previous year largely because of late reporting of premiums from the government so lot of the growth this quarter has actually come from our core business, which is excluding crop business. I would now hand over to Milind to explain the other two things, which segments have grown faster and the reason for the improvement in combined ratio.

Milind Choudhari: As far as the growth, which has been reported, as Sreeni rightly mentioned there is little impact of crop insurance in this quarter because crop insurance booking will start only from Q2. So overall property as well as the other lines of business such as motor have contributed to growth. Motor has grown around 20% and the heartening fact as far as this motor growth is concerned is that this growth has mainly come from the agency channel. Normally the growth comes from motor dealers or OEMs which is loss making with over 100% combined ratio;, so, I think with agency growing in terms of the motor is a good feature for this quarter. Retail health also has grown around 24%, and this is also one of the focus areas for BAGIC. Another segment, I would say contributed to growth is the group health segment, which has grown at around 61%., Although group health business does not have a lot of margins as such, but we have been able to get good prices in this quarter. Overall we are seeing some kind of sanity or diligence coming into the market in respect of group health pricing with public sector insurance companies as well as ICICI Lombard coming into fray for the IPOs and government also tightening their controls with overall guidance from the Finance Ministry to the PSUs to tighten their underwriting. I think that is starting to play. Of course it will take sometime for the PSUs to really show some tightening in terms of their underwriting, I would say overall they may still not report the underwriting profits as such, but this is the beginning in terms of what I would say is a tighter underwriting cycle. During the quarter, we also booked a lot of corporate business, a lot of which gets booked on April 1st where all the corporate policies are aligned. So we registered a 39% growth in the property insurance also. The overall quarterly profit is flowing from growth as well as improvement in loss ratios.

Atul Mehra: Sorry to interrupt. In terms of motor if you could highlight how would be the growth between OD and TP, because TP would have seen large increase because of the price revision right?

Milind Choudhari: I think motor OD has grown around I would say 5% and motor TP is around 45%, so there is a contribution from the TP rate increase also.

Atul Mehra: Right. Sure.

Milind Choudhari: As far as the loss ratios are concerned, last year our overall loss ratios were around 72.4%, which has now reduced to 68.7%, so this reduction in loss ratio, is coming majorly from motor and health insurance Health insurance, particularly group health, was loss making or

I would say it was exceeding combined ratio of 100%, and we have been able to control that and it is now around healthier loss ratio of around 91%- 92% . Retail health loss ratios were also a little higher last in Q4, and that is also showing a good improvement.

S. Sreenivasan: Just to add to this. Overall if you see the growth has been broad based, our motor as a percentage of a portfolio is actually a little under 50% now, which is a good sign. We have seen strong growth in retail health and property as well. Last year in the first quarter we had highlighted there were some early signs of some strain on retail businesses particularly on motor own damage and group health and the company had started taking action on some of those and we are glad to report that year-on-year we have seen a good improvement in the loss ratios on both these segments.

Atul Mehra: So broadly what you are saying in terms of overall, it is on the group businesses side competitive environment is improving and perhaps we could renew with this performance?

Milind Choudhari: Retail health also I think there is also showing improvement.

Atul Mehra: Sure Sir and Sir secondly in terms of agency on the life side if you could highlight a bit in terms of how have the initiatives been because the new transition that you have had, so how has the experience been and how do we now look at moving to profitability post on NBAP so how do we look at those trends?

S. Sreenivasan: It is a little bit too early to take a call on NBAP and profitability, because our focus now as we have been consistently mentioning is to rebuild growth to a much higher level. This quarter growth was very strong. We have seen growth across various geographies. We have a fairly energized team, so a lot of the recruitments we did in the later half of last year has now stabilized and become productive. There is nothing special that we have done except continuing the momentum. Last year we had improved the ticket sizes; this year we have also improved the number of policies if I am not mistaken - Raman can correct me if I am wrong. Overall it has been basically delivering good quality business in a disciplined manner with focus - nothing spectacular in that. Going forward one of the areas we would like to tackle is to actually improve the traditional mix if we can in the portfolio for the rest of the year. ULIP this quarter was around 78%, we are looking to actually push with more traditional over the next two quarters given that we are sitting on a very high growth rate, we think we can build that over the next six months or so -. Raman?

Ramandeep Singh S: Just to add to the Sreeni I think the other thing, which you spoke about number of policies, is actually up by 64% compared to last year. If you look at the growth last year essentially it came from the increase in average ticket size, but this year its more balanced and significant chunk of growth has come actually from NOPs as well. Also just to add to what Sreeni said

I think on one side we are focussing a lot on improving productivities and hence the topline but on the other side we are also focusing a lot on improving the quality parameters. If you look at the persistency for Q1 it is up by 9.5%, last year it was at 57.2% and it is up to 66.7% for Q1. This is a 13-month persistency I am talking about. Even our grievances, which is other quality parameter we looked at; it is down by about 30%. So it is a well-balanced growth we are focusing on.

Atul Mehra: And any further initiatives on Banca, which is adding a lot of segment in PSUs.

S. Sreenivasan: We do not have any large Banca tie-ups announced in the quarter. We are continuing to focus on two things there. First is, redefining BFL as a bank. We are putting in place a completely seamless end-to-end backend experience for BFL customers and we have also started to push the individual premium on the banca side because a lot of the Banca business was coming through the group route for us and while it is profitable, the contribution to rated premium is not as high. When I look at individual rated NB, although the base is very low, Banca has grown by 207%, our institutional business which includes Banca, broker, BFL, financial inclusion have recorded growth. So in terms of growth rate we are there, yes the only gap in Banca as we see now is the absence of a very large external partner. We are continuing to pitch with Public Sector banks, but we understand that no RFPs of the banks er are dealing with as of now have been decided.

Atul Mehra: And sir one final question from my end on typically what we are seeing in Banca spaces, lot of PSU Banca, bank-based insurers are up in the market in terms of M&A. So are we seriously looking at any of these to get foothold ? **S. Sreenivasan:** It is not something we can comment on at this stage. There are some rumors in the market. We would look at it on a case-to-case basis and if there is a right opportunity we will see at that time.

Atul Mehra: Great Sir. Thanks and wish you all the best.

Moderator: Thank you. We will take the next question from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.

Prakash: Thanks for the opportunity. This is Prakash from Edelweiss. Sir just a couple of questions; First on general insurance business, we have seen a couple of cases wherein one of the private guys have been asked to make a higher reserve requirement and then there was a PSU who was grossly under reserved towards that extent and we have seen one of the competitors reporting reserving triangles as such. So how do we gauge our comfort in terms of reserving that we have done especially on our general insurance business?

S. Sreenivasan: From the beginning in Bajaj Allianz, we have focused on reserving as a significant initiative in the company. We have built considerable databases and triangulation across all lines for more than 12-13 years now. We monitor that very regularly, we not only monitor the reserving, but also the run off of the reserving and this is done on a regular basis by a committee of senior management which is independent of the people who are doing the reserving and hence we believe that our reserving is fairly conservative and prudent and in line with our claim experience. All our reserve ratios are based on ultimate loss ratios that are expected to be paid including for motor third party, which is fairly long tail and we do not discount those numbers to the present value. So in that sense that it is undiscounted ultimate loss ratio that will eventually be paid. So it has always been. Also, till about three years ago there was a requirement that IBNR reserves were to be submitted to the regulator before finalization.. So we do not see any problem for us. We are very conscious as a group and as a company in BAGIC, understanding risk and driving business with a close watch on risk is very critical for us and we have always driven the company like that.

Prakash: Any particular metrics that you track in terms of while gauging your reserving policy so something like reserves toward premium ratio or something like that…

S. Sreenivasan: IBNR Reserving requirement largely arises from claims which are likely to be reported with delays and which are likely to be under reserved in terms of individual claim reserves. We have a very robust system of automatic reserving for any claim, which is recorded on the system. We have a very close tracking of that. Broad ratios may at best give a rough indication, but they are not really very precise. We do a lot of granular analysis by our actuarial team. But you could always look at reserves if you want, IBNR reserves as a percentage of last 12 months net earned premium and I think they would be among the highest in the industry. I do not have the number with me but I presume it should be healthy.

Prakash: If I look at your numbers, just to add that point. If I look at your IBNR reserves to a net earned premium ratio for over last five years, your ratio comes to around 15% which is in line with what other PSUs are also holding, for Oriental it is somewhere close to 12% and if you look at other peers which is somebody like ICICI who is holding as high as 30%.

S. Sreenivasan: Is this on gross basis or net basis. Have you checked that out?

Prakash: Net premium Sir?

S. Sreenivasan: And if it is gross IBNR to net earned premium, that would be wrong. We report net IBNR in the financials. That is the correct way of reporting as per IRDA and you should take either gross to gross or net-to-net. So I suggest, you please check this out. Milind do you have anything to add to this?

Milind Choudhari: As far as IRDA public disclosures are concerned everybody is required to report actually the net IBNR. I understand that ICICI Lombard shows gross and hence comparing gross IBNR with net IBNR could give an incorrect picture.

Prakash: Second is in terms of your life insurance business, what is the current protection means that we have in our portfolio?

S. Sreenivasan: Raman do you have that number including group?

Ramandeep Singh S: See we look at in two parts, one is the retail part where the number as is the case of the entire industry not very significant. It will be small single digit number however if you look at our group business it is about half the portfolio which we write so the number is very small on retail, group is a significant number.

Prakash: What sort of margin contribution would come from a group protection business as such?

Ramandeep Singh S: So we do not disclose product level margins but it will be healthier than what other product segments we see, so you get upside from this business.

Prakash: Sir what is our thought process on this protection mix taking this higher, any guidance for taking to this?

Ramandeep Singh S: So the challenge there has been, we did not have product in the past which was as competitive as the others in the market, we have about two months back launched online protection product so we also intend to scale it up but as we know in industry this number is very minuscule for almost all the players so we want to drive it but can we really get scale from this is a big question one has to answer.

S. Sreenivasan: To add to what Raman is saying, overall, protection is a good thing to have - I think life insurance companies should eventually do more life insurance; however, the big market is the mass market where selling individual low ticket size policies poses significant challenges in terms of incentivising the distribution as well as in reaching out to the customers at low cost. So the purpose of doing protection has to be understood as well. My own feeling is the industry as a whole if it does more than 10% from individual protection that would be a great achievement but it is far from there. We know that some companies are talking about increasing protection, which is the good thing to do but we will have to wait and see. We are also having our focus within our agency channel and other channels to gradually increase protection; however, one also has to keep in mind that, for example, in the online channel prices have really crashed and being a long-term business only when the claims happen over time that you will know whether you have underpriced or overpriced. So we are very conscious of the fact that we would not really want to compete significantly on price and take this business.

Prakash: Will this affect your FY2017 margins and this is post cost overruns and probably you are earning at lower end of what other guys are reporting. So what will be our key drivers for margins maybe two years or three years what will be key drivers for our margin expansion?

S. Sreenivasan: I think it would depend largely on the business mix. For us, the main focus is on growing new business value. Last year there was a small growth in new business value but part of it is because we use MCEV and because interest rates have dropped, we have to assume a lower rate of investment returns in that. Having said that, our objective is to do a combination of volume and margin. I think if you look back even three or four years ago there were many companies reporting anywhere from 12% to 25% margin so logically that should have reflected in higher growth in the reported profit for some of the high-margin companies, but I am not seeing the trend in the market in the aggregate.

Ramandeep Singh S: Yes that is true, I think you have covered it Sreeni. Just to add - - on the product mix, out of total new business about 28% comes from the pure risk business, which comprises of retail risk as well as credit protection and group term life.

Prakash: Okay thank you so much.

Moderator: Thank you. The next question is from the line of H. R. Gala Advisors. Please go ahead.

H. R. Gala: So you did explain the recent why in life our profits are not growing now how long will it take before you get back to for this new trajectory of growth?

S. Sreenivasan: See I cannot put an exact timeframe but the way it will evolve is how fast our new business grows. If you look at the early years of life companies, everybody was losing money and as they lost more money they were building bigger businesses. The new business strain was quite high. Today the new business strain is much lower because the products are designed that way. Nevertheless, there is a new business strain in terms of acquisition cost and cost overruns for us. I would think that once our current individual rated premium at least doubles from the current size, we should be well in line to have an under run situation and we should start seeing significant growth in profit.

Ramandeep Singh S: Yes, just to add to that I think we are in phase where we are really expanding so that is why you are seeing new business strain. So, what is important to see rather than profit is the new business value which we are generating. So I think that is something, which we are also focusing on because that is the long-term value we are creating.

H. R. Gala: In terms of your renewal premium also it was really heartening to see that it has grown by 11%, do you think that going ahead also we will be able to keep some good trajectory of renewal premium growth?

Ramandeep Singh S: When we look at our renewals there are multiple things, which we see. One is we split this into group and regular retail business. There were certain group products on which we have been selling a lot of regular premium in the past and most of these products have got discontinued in the new product regime and quite a few of these partners have also severed. If I divide this between retail and group, our retail is actually growing at 17% and there is a small degrowth in the group renewals, so we are seeing a significant amount of growth coming back because of the new business, which we wrote last year and we believe that this trajectory will continue and the focus is not only on looking at persistency in the 13 month, but also at the other buckets. If you look at a persistency also year one has gone up by 9-1/2% so and so forth and in every bucket there is improvement. So we believe that growth is back and we saw good chunk of growth in NB last year as well. This year again we are seeing growth, this trajectory should hopefully continue.

S. Sreenivasan: Just to add to that, I think the transformation model we put in place should logically lead to higher persistency. As of now we have only finished 13 months and approaching the 25th month but we are seeing across-the-board significant improvements. So over the next two to three years as the new business builds on the new model that we are driving, we are very confident of having high persistency and therefore high renewals.

H. R. Gala: Sir just one clarification and one previous gentleman asked the question about ICICI Lombard prospectus which is the number we gave gross and they were comparing with net figures of other competitors?

S. Sreenivasan: See I cannot comment on that. I have not seen the prospectus but some of the figures, some companies do report on gross basis.

H. R. Gala: Which are those figures?

S. Sreenivasan: Our general company has always reported claims on net basis, which is what required by regulation, including IBNR. This means that, if you have 100 gross and 30 is recoverable then you can show 100 as a liability and 30 as an asset or you can show net 70 as liability and what we do is we show the net 70 so I think that is something we would leave for analysts to figure out. There are enough disclosures in the public disclosures to be able to make that otherwise one could ask specific questions and we could see if we could take it separately.

H. R. Gala: Sir last question as far the crop insurance is concerned, how has been your experience so far?

S. Sreenivasan: There are some challenges this year because the reinsurers have lowered the commission because, across the market, not all of them have made money. The retentions will go up and we are continuing to focus on what we think is better of the lot. We will have to wait and see because it is a tender-driven business. The way we look at crop insurance is basically more on the net earned premium and the profitability rather than gross premium because being a tender-driven business with a fairly low retention, gross premium actually does not mean anything much. If you get something this year does not mean you are going to get it next year. At the same time, it is a very important segment because you get access to a very important segment of the market which is growing so we are in it and we will take a call as we go along. We know that is the long-term business, it is cyclically very important over long periods. Agriculture Insurance corporation is the only company that has been around for some years and they have been making healthy profits in the long run although occasionally they do have bad years.

H. R. Gala: When it comes of the premium and claims how has been the going as far as the crop is concerned?

Milind Choudhari: I think as already mentioned it is a cyclical business and every year you are likely to get tenders awarded in different states. Again our strategy in terms of going with states is also a distributed one so that to avoid any concentration getting too much business from a single state which is a kind of an accumulation of business there. If that state goes bad then a lot of business and a lot of losses could come in. Certainly, we have a clear strategy but just because we have a strategy it is not necessary that we will be awarded tenders in those states - we could get more competitive quotations in such states. So on an overall basis I think for this year the monsoon looks good - I do not think except in Tamil Nadu there are too many issues as far as overall monsoon is concerned - and we are not getting into any of the Southern states right now so we do not have exposure to Tamil Nadu. We are looking forward to a good Kharif season because Kharif season is one of the major seasons of the overall crop insurance business. Around two-third of the business comes in Kharif season and around one-third in Rabi season. So considering that if Kharif goes good overall crop insurance portfolio, we hope, should do good.

H. R. Gala: Okay how has been our experience about the claim settlement vis-à-vis the net premium that we booked under crop.

Milind Choudhari: As far as claim settlement is concerned means you are asking in terms of timing or exactly loss….

H. R. Gala: I mean the claim settlements amounts.

Milind Choudhari: Claim settlement amounts.

H. R. Gala: Like how much claims are raised by the people and vis-à-vis the premium that we earn.

Milind Choudhari: Basically it will differ from state to state and based on what is the threshold yield decided in that state and to what extent, the actual yield is falling short of the threshold yield, so that ratio could vary widely between say even from 30%, 40% to even 120% or 150%. So as the losses develop we continue to get weather reports as well as the additional data from the government that we keep assessing what is the overall features and aspects.

H. R. Gala: In 2017 what has been the numbers?

Milind Choudhari: FY2017 our overall crop insurance ratio is around 100%, again it differs from state to state. Andhra Pradesh we had a bad experience.

H. R. Gala: Thank you very much, wish you all the best.

Moderator: Thank you. We take the next question from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nitesh Jain: Good morning Sir. Thanks for the opportunity. Sir my question is on this motor insurance, so as you mentioned that the share of agency has increased and share of OEMs and dealers has reduced, so is it reasonable to expect that the share of CV has increased in the overall mix of motor?

Milind Choudhari: Yes, overall what you are saying is right basically because generally the agency business which comes is not in terms of new vehicles it is only renewals and whatever old vehicles are already there, so there is a specific focus in terms of older two wheelers as well as four wheelers which we have put through our agency and of course commercial vehicle, which part of our overall obligation also because we are required to comply with TP obligation. Last year we have completed around 109% of our obligation, so I think this continues to be an effort in terms of continuing our compliance with obligation.

Nitesh Jain: Sir secondly how are you looking at the motor third party segment especially in line with Motor Vehicles Bill, so I was not able to understand whether the Motor Vehicle Bill is positive for the industry or negative for the industry, how are you taking that?

S. Sreenivasan: First of all, the Motor Vehicles Bill has been passed by the Lok Sabha. It is yet to be passed by the Rajya Sabha. There was extensive discussion with the industry, the GI council as well as various other stakeholders by the ministries before the bill was passed. There is now I think the death claims in the normal case would be capped according to a schedule - Milind will brief on the liability capping - we think that is a welcome move., There is always an open-ended provision that people could still file a civil suit under the motor vehicles bill and claim for extra compensation, but they have to then prove a lot of other things, - the situation that way has not changed. What is encouraging is that there are lot more defences now available to the insurance industry in terms of not having license, in terms of drunken driving and other things, which previously were left open, so overall we think the motor vehicles bill is a good move - it could have been better in terms of completely limiting the liability but then the premiums will also get limited.

Milind Choudhari: I think two more points which I want to add is that one of the good features of this bill from the insurance companies point of view is that earlier there was no time limit in terms of filing the claim for the third party claimant as such, so now they are proposing – they have already proposed time limit of six months, to inform to the insurance company in terms of claim to be lodged, so I think the long wait or the long tail nature of the business in that intimations for TP used to come after two years, three years sometimes even five years also, will be reduced a lot . The government is also planning to do a detailed accident report, which police will share with the insurance companies that will help us in terms of actually forming our defences as well as processing the claims a little faster.

Nitesh Jain: This amount of Rs.10 lakh will be floor or it is a cap on the claim?

Milind Choudhari: They have not put the cap as such because in terms of the deceased and whatever the level of income and based on his age, I think the gap on the compensation which was proposed that has been done away with but the minimum compensation which was there in terms of death or bodily injury that they proposed to raise, so for a death it will be Rs.5 lakh and for an injury or permanent disablement it will be around Rs.2.5 lakhs.

S. Sreenivasan: We do not think this is significant yet, - Milind?

Milind Choudhari: Correct, because our average I would say loss ratios or ticket size as far as third party death case it has been around the same, so I do not think it is going to affect very greatly.

S. Sreenivasan: The only thing is that claims will get reported faster, our long tail liabilities in our balance sheet may get reduced over time, but these things will take time to play out, there is a lot of existing book but we do not see that as a major challenge as of now.

Nitesh Jain: Secondly in the retail health insurance what is the share of indemnity and fixed payout sort of policies?

S. Sreenivasan: General companies, by and large, will be indemnity based, most of our flagship products are indemnity based - we do also sell quite a bit of hospital cash and other cash-based products, but predominantly I believe it will be indemnity based.

Nitesh Jain: Okay Sir. Thank you. That is it from my side.

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

Mayur Parkeria: Good morning and congratulations on a good set of numbers. I am sorry I just missed the opening remarks, are we represented by Mr. Tarun and Mr. Tapan on the call?

S. Sreenivasan: No we have only Ramandeep and Milind, the CFOs are present.

Mayur Parkeria: Just a small observation from the investors and suggestion. Bajaj Finance is always represented by the MD and CEO, given the scale of financial IPOs and the interest which is coming once a while if we have the MDs also, it will be not that any particular reason I am saying, but just as a suggestion sometimes…

S. Sreenivasan: We do that. In the last call Mr. Tapan Singhel was present. Tarun Chugh had just joined so we did not include him, so occasionally we do invite them.

Mayur Parkeria: I understand Sir, actually today if we look at the Business Line in the front page, there was an article on the crop insurance just wanted to have your views on the fact that at the end of the day the entire sector is sensitive from the political standpoint and the government standpoint being the farmer side, the basic outline of that article was that private insurers have ended up making profits, so from the government side do you see that as a risk that the pricing becomes more stringent and there are other collaterals which are attached to this business and may become difficult as we go ahead any thoughts on that?

S. Sreenivasan: As the schemes stands now, the pricing is tender driven, the subsidies are shared by central and state government and the farmers' contribution is fixed. The tendering is different for different states, a few states actually are still on weather based like Andhra Pradesh I think last year. They have not gone for Fasal Bima Yojana. If they change the terms of the Fasal Bima Yojana scheme, we will take a complete reevaluation. While from a gross premium it looks like a big thing, in terms of net earned premium or net written premium, also I think the contribution last year was less than 5% of our portfolio. We will keep watching the scheme. If the scheme continues and we think we can make money, we will continue to invest in it. We think over cycles there is money to be made, we will develop capability, we will select certain geographies where we would want to be strong at and we will keep evaluating this year on year. So while it is a good thing and we would want to be part of it, it depends on the scheme and the terms of that. If they change dramatically, we will take a complete review of how we want to approach this.

Mayur Parkeria: Last year also we had approximately as you said 100% loss so does the profitability is getting driven more by the reinsurance commission or is that more on the business side how is it?

S. Sreenivasan: See in the short-run yes, because it is a new business we are still learning but in the long run I think a combination of retention and reinsurance is what will drive this.

Mayur Parkeria: And how it will differ?

S. Sreenivasan: That is why you need to build capability, because if you look at all lines of business including corporate business, at least in our General Insurance Company we have always driven higher retention, supported by better quality underwriting, better quality of cash flow generation and high focus on combined ratio and ROE. We will continue that same thought process as far as agriculture is concerned but as of now we would need about three to five years' experience to actually evaluate that business.

Mayur Parkeria: So Sir, before bidding do we take the reinsurer into the picture and give them the terms and then only we go ahead with the bidding, how it is generally?

Milind Choudhari: Actually we do bounce off the rates with the reinsurer. Generally, there will be an understanding in terms of what extent we should be quoting for the rates, because below a particular threshold reinsurer will not accept those rates. So there is an informal, I would say, understanding with the reinsurers as to how low or how aggressive we would be in terms of pricing and that will drive. And as Sreeni was mentioning, for example for the year 2018-2019, you will see a higher retention, we are retaining around 32% or 33% of the crop insurance portfolio this year. As we are gaining confidence as well as overall portfolio experience, so we will be improving this and as we gain more and there is no reason to part profits with the re-insurer if we have confidence and we are able to make money.

Mayur Parkeria: On the reinsurance side Allianz is the only reinsurer or do we have any other for currently for crop?

S. Sreenivasan: Allianz has not been participating in crop insurance since last year, so last year we have had Berkshire and this year we have GIC and Swiss Re.

Mayur Parkeria: Thank you Sir. That is from my side and wish you all the best.

Moderator: Thank you. We take the next question from the line of Thomas Wang from Goldman Sachs. Please go ahead.

Thomas Wang: Thank you, Management. Congratulations on the result. Two questions I have on the life side, one on for the mix, you talked about you may reduce your dependence by some amount in linked products and how do you think about this decision, do you have a target n mind and how do you evaluate that? Secondly the first quarter strong growth to what extent the demonetisation helped that and how should we or how do you think about the growth momentum going forward? Thanks.

S. Sreenivasan: I will take the second question first. I think after demonetization, there is been a lot of liquidity in this system especially money lying in low yielding current savings and fixed deposits. Lower level of interest rates has also made alternative investments relatively less attractive because fixed deposits traditionally are competitors to life insurance business and in the unit linked business there is some competition from mutual funds as well, especially in the top 20 cities. As we look forward in the next five years we are estimating two trends to happen. First, this private liquidity at sometime will get invested. The risk environment as of now seems to be encouraging; people are willing to take more risk. Second, the financial savings rate, which had dropped has started moving up but it is still below the peak, which was recorded so we think it has a few more percentage points to move up. In the next three to five years, we think a lot more savings will move into financial savings. This is subject to overall growth continuing for a a reasonable time. As of now there is a lot of hope and people are willing to wait with changes like GST and demonetization - people are aware that things may take some time before the capex cycle starts to rollout, but once it starts to rollout may be in FY2019-2020 or so we should see that more and more money going into financial savings. This is what we are looking at in terms of life insurance going forward. Coming to your first question on product mix, I will let Raman take that question.

Ramandeep Singh S: So I think it is a very valid question. If you look at our product mix last year versus this year on ULIP itself we have moved from 58% last year to 78% this year; however, if you look at what happened in Q1 essentially this big chunk of ULIP business came from a new product, which we launched during the quarter and this gave us a lot of momentum, so will this momentum continue? - the answer is most likely not. To answer your question whether we have a plan in place to have a more balanced product mix? I think the way we look at it is that we have now divided entire country into different geographies and there are different segments of customers in these geographies, some in the bigger towns who prefer more of ULIPs and some in the smaller towns who prefer more of traditional products. So as we build up our plans what we are seeing in the smaller markets are mix of traditional is about

60% to 70% traditional and in the larger markets the tradition moved down to 20%-30% and given that focus on the emerging markets, which are the smaller market for us we believe that this product mix will get balanced in the coming months and in this month itself we are seeing a lot of traction on that front so our estimate is that 60%-40% mix or somewhere close to that is what we will emerge with and that is the decent mix to have, but it may take some time to get there.

Thomas Wang: Thank you.

Moderator: Thank you. We will take the next question from the line of Dhaval Gada from Sundaram Mutual Fund.

Dhaval Gada: Congratulations on a very strong set of results. Just one request Sir if you could post the public disclosures for the life and general insurance business before the call we could use it more fruitfully. Having said that Sir, just two questions, one on the motor insurance business Sir, could you just highlight how has the pricing moved in the last one year and I mean broadly you mentioned in your one of the remarks that we saw a very good business from the agency channel and if I understand correctly they are mainly we see business from that usually in the renewal side so have we sort of seen some bit of correction in prices on that front, if you could just help us understand on the pricing that would be very helpful on motor business?

S. Sreenivasan: Overall I will let Milind answer that specific question but broadly in general insurance particularly motor insurance, which is asset based, you will find that price competition will always be strong. New companies, which come in, will always try to first grab motor because you cannot really be a general insurance company without doing this line of business, which is a most visible and what we call a 'door opener to other lines of business'. Our focus has always been on selection and pricing will be determined by the market - being a premium brand and being well-established company with the strong track record of claims we could command a bit of premium in the market, but as we go along, our focus is on two things. We are now invested, going to invest over the next two years strongly into analytics. We have an analytics head already in place and analytics team is being built up, so through a combination of strong analytics, we hope to improve our ability to select customers better and thereby control claim frequencies and claim ratios. So pricing will be market dependent. We will keep changing our focus between two-wheelers, four-wheelers and commercial vehicles, between OD and TP and within that between mix and models and geographies but that would be driven by sharper and better analytics than what we have today, that is how we see this motor insurance for us playing next two to three years.

Milind, could you give some flavor on whether there has been a price.

Milind Choudhari: I just wanted to highlight only one fact is that since the major growth is being driven from agency, which I would say, is better in terms of pricing or the pressures are not as high as the motor dealer or the OEM channel in terms of discounting -that is why even the realization is better through agencies because the discounts are little lower as compared to the manufacturer channel.

Dhaval Gada: Sir what would be the weighted average price increase for our portfolio if I just look at, I mean so the bottom question that I want to understand is how much does our pricing benefit in the underwriting combined ratio in the motor insurance business so that is the bottom question that I want to get through?

S. Sreenivasan: How much of the combined ratio improvement is because of pricing and how much is due to the discounting or other factors, is that what you are trying to say?

Dhaval Gada: Yes Sir.

S. Sreenivasan: We do not have that specific numbers with us. It is a combination of both - on motor third party – there clearly has been an increase in price but that is not the only reason why it has grown, we have also grown significantly in terms of number of policies and customer reach. We have diversified our portfolio because we have also got better share of property - 39% growth- we are growing retail health and we are seeing some price stability in group health market so we are able to pick up account on our terms in greater number of accounts. So it is a combination of multiple lines and general insurance is not one company, multiple companies actually, the way motor, health and property operate are in completely different ways but we have good breadth of talents there who are able to understand each business and drive it.

Dhaval Gada: Sir second question was regarding the crop insurance, so how much has been the price increase in this Kharif season and second is you mentioned in an earlier answer that the commissions have come down so if you could just highlight what percentage have the commission come down and how much has been the price increase for the season specifically for crop insurance?

Milind Choudhari: I will not be able to answer exactly about the price increase in Kharif season as such, because there are no benchmark prices as such and for each cluster or each state wherever we actually compete, it is guided by that particular clusters or state's experience in terms of last ten years' data, on which we also do some actuarial analyses, based on which we consult our reinsurer. So it would not be possible to exactly say how much has been the increase per se because it is not comparable with something else as to our price and what was the price last year. What is your second point?

Dhaval Gada: Commission Sir, how much have reinsurance commissions come down?

Milind Choudhari: Last year our average reinsurance commission was around 14%, which is around now 8% which is likely to be around for 2018-2019 financial year, so I think reinsurers have also tightened in terms of the market capacities also had some issue because of the new reinsurance regulations coming in. We now have to go by the strict orders of priority in terms of reinsurance, so naturally first choice goes to GIC and then to the other reinsurers who have setup their offices in India and then it can go outside India. So accordingly the placement of reinsurance has also undergone change.

S. Sreenivasan: See overtime I think large companies with better capital strength who are able to retain more will survive in this business- others may occasionally come in one year and go out the next year because reinsurance capacity is a function of your financial strength as displayed by your networth. So eventually I would think that there would be four to five strong players in the market plus a couple of PSUs because AIC is already a market leader in this and they would continue as they are monoline insurance focused entity. We would like over time to keep our market share of our overall business in this business - that is our current thinking. So last year we did about 7% of the market from crop insurance, this year we would continue and it will grow whatever the growth rate is there we will try to seek it. But it is a tender driven business, so year-on-year comparisons can be volatile and as I said last year the contribution to net written premium was hardly 5% it is not something we have to do but it is a good thing to do if we can build the capabilities, the reinsurance capacity, the financial strength, which we think are the important drivers of this business.

Dhaval Gada: Sir just lastly on the reserving strength, I mean I think it is a sort of if you can give the disclosure on an annual basis at least would be very helpful, just on that if given that we do not have it at this point just wanted to know in the last ten years how many times has been the projected loss ratio versus the ultimate loss so how many times the ultimate loss ratio been adverse? Just wanted to get a sense, I mean like say ICICI Lombard like two years for them was negative for us how has the trend been in the last ten years, if you could give?

S. Sreenivasan: We have not had any significant impact on a P&L in the recent past because of the reserve strain; if that is the question you were asking. As far as we are concerned if the regulations require we will disclose it. As of now we do not see that adding any significant value to our disclosures. We do disclose our outstanding claims, the ageing of outstanding claims by line of business in our annual reports and the management report, - even our revenue account shows the outstanding claims by the line of business including motor third party and lot of reserving issues pertain only to long-tail claims in short-tail claims hardly any IBNR is required.

Dhaval Gada: Right Sir just one data point. In the Bajaj Finance fund raising will the parent company participate?

S. Sreenivasan: No it will be a QIP.

Dhaval: Thank you Sir and wish you all the best.

S. Sreenivasan: One more question was there you were asking about why the disclosures cannot be made before this concall. As you see about half the disclosures are not financial data which comes from the audited books, it is only 18 days since the close of the quarter so we need to actually verify and ensure the numbers we put up in terms of outstanding claims or geographical channel wise distribution various other data is accurate. IRDA has given, I think, 45 days time and we normally do it before that.

Dhaval Gada: Thank you so much for the explanation. Thank you.

Moderator: Thank you. We take the next question from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.

Roshan Chutkey: One question Sir, is the pricing in property engineering market cut throat now I understand there are 100% discount in the market only pricing which is mandatory is been charged?

S. Sreenivasan: 100% discount has been prevalent in the market for last two to three years now. It is not new, but it cannot get worse than that, right? The price stability is there but I think this time what has happened is that the reinsurer particularly GIC has tightened the rates for some of the sectors where they have been facing bigger underwriting strain and that has helped the prices from becoming, even on the terrorism and other add-ons, getting discounted . We think there is temporary stability in prices. There has been a slight improvement but from 100% discount, say, a 2% increase is not a big deal but as we go forward we think we have to wait and see how competition behaves. This is the nature of general insurance. If companies make money they cut prices, especially the smaller ones, and may be the top 20% of the companies end up making a double-digit ROE. Milind?

Milind Choudhari: IRDA have recently has come out with some guidelines so in terms of say 109 different types of occupancies or types of risks they have specified that the companies cannot quote below the burning cost, means the basic cost of claims, which represents their actual experience - so it cannot be below that burning cost - it may be either the industry burning cost or the insurer's own experience or your own burning cost, so you cannot go below that. If it goes below that then there is a requirement in terms of reporting to board that the quote has gone below the burning cost.

Roshan Chutkey: On the life insurance side, I missed your comment; you mentioned group protection is half of what exactly?

Ramandeep Singh S: It is half of the total group business. So the total group business which we do is about almost 400 crore half of that is business that is fund based.

Roshan Chutkey: Sir group protection is half of the total group business?

S. Sreenivasan: Right.

Roshan Chutkey: And how much of the agency business growth is due to productivity gain?

S. Sreenivasan: As we said before last year, it is a planned strategy. Actually last year we wanted to focus on improving ticket sizes, we saw significant part of the growth coming from improvement in ticket sizes, the volumes did not increase; however, this year we are seeing lot of the traction coming from higher number of policies sold. So it was a planned thing that first you improve the ticket sizes, improve the quality, work on various quality parameters and now we are going for volumes. Our frontline sales force has not increased. Raman correct me if I am wrong.

Ramandeep Singh S: Yes, it is in fact down compared to last year.

S. Sreenivasan: That is the 120% growth is with same or slightly lower number of frontline sales. There has been a significant increase in productivity.

Roshan Chutkey: And how of this 120% be and split their volume versus price ticket growth?

S. Sreenivasan: We said volume growth is 64%, rest would be ticket- Raman?

Ramandeep Singh S: That is right, Srini.

Roshan Chutkey: I understand. Thank you so much.

Moderator: Thank you. We take the next question from the line Vishal Goel from UBS securities. Please go ahead.

Vishal Goel: Sir I have two questions. One is what is the reserve on the motor pool, which we carry, which is part of liability right now, which is on undiscounted basis?

S. Sreenivasan: Milind, do, we still have a reserve on motor pool or is it closed now?

Milind Choudhari: It is there. The overall liability has already been frozen. Year-on-year actually we just keep paying for the claims, which have been there from 2007 to 2012 for that five years period, there was a one-time settlement, which was done by the erstwhile Indian Motor Third Party Pool. So, we just keep paying out of the money, which has been received in terms of the overall liability.

Vishal Goel: Yes, but that basically lies on an undiscounted basis, correct; like because the reserving is done on undiscounted while you know while what you pay?

S. Sreenivasan: We have done our reserve strengthening couple of years ago there as well because these were related to older years, so as of now whatever liability is there, Milind, I do not think that you expect any strain on that, right?

Vishal Goel: No, so I am not looking for strain actually, so I think that you know a portion of that can be kind of part of your networth because on more on that reserve rather than what you pay, I think what you need to pay may be 4% to 5%?

S. Sreenivasan: Eventually, as they run off you may have a surplus or a deficit, but as one reserves properly, one should not have a deficit.

Milind Choudhari: Actually we keep reviewing it on an overall portfolio basis whether it requires any strengthening. If any release is required, then that will be done only when the entire portfolio runs off. So, we will not be taking any credit for any release until the entire portfolio runs off.

Vishal Goel: Okay, so what is the number of outstanding reserve on third party?

Milind Choudhari: I do not have that information readily right now with me.

Vishal Goel: No worries, I will take it off line, no worries and the second question actually is more qualitative and especially for the life insurance, so we are seeing this opening up or open architecture leading to new partnerships for larger banks like HDFC Bank and Axis, etc., basically they are adding banks. I am sure we might also be you know trying to get into those relationships. What are the grounds on, which we are loosing out, I am just trying to figure that?

S. Sreenivasan: I will give an answer for HDFC Bank. I think we were one of the strongest players who bid for that account. Bancassurance today is dealt on three different bases. There are some banks, which have done international deals where money is paid abroad for a global sort of deal of which India may be a part, which has happened with say Standard Chartered Bank or Citi Bank. The second thing is there were banks, which used to demand upfront payments, which was a very high in relation to the amount of business. If you do not see visibility of profit that even on a 10-year basis, your NBM is not going to be positive. We do not get involved in those kinds of deals because ultimately you got to make a profit as well as being regulatorily compliant. There is no point in bringing topline for the sake of bringing in topline.

Thirdly, when a bank evaluates atleast this is our understanding they look at lot of other business, which that group has given in terms of loans, borrowings or other kinds of support, which for us is a very small proportion of our business. So we have still not seen any official announcement from say HDFC Bank or an Axis Bank. They have actually signed up. There have been rumors floating in the market that they have done so. We do not know if they have started business with others. Having said that, what we will be looking at is largely looking at players, which are not captive, which will mainly be public sector banks In the non-life side, which is something, which may have escaped your attention, we have signed up Canara Bank, Karnataka Bank, Punjab National Bank and Union Bank - all in the lasts six months or so.

So Bancassurance is becoming a bigger contributor in non-life and part of that is you are seeing in terms of the growth that we have reflected in quarter one as well. So going forward, as you may have seen in the BFL presentation we have been saying we are a non-bank, which is run like a bank. In BFL, now the retail deposits has also crossed Rs.5000 crore and is more than 10% of their borrowing. We have plans to redefine BFL as an in-house Banca partner. It may take us two to three years to build an individual long-term business, there. They are doing a lot of individual business on the non-life side already and they are building that in terms of life side again through their branches and various verticals. So as we go forward, we will build this up hopefully in a much bigger fashion.

Vishal Goel: If I may ask one more last question from my side, what we have seen is persistency improving across the board, correct like for almost everyone. So, if let us say, I mean as an industry player when you look for everyone else and what is actually happening on the ground, how much of this improvement is because of general factors, I would say one like good capital markets or you know like lot of liquidity, which is partly because of demonetisation and lastly because of structural changes, which may be companies have made to improve their persistency?

S. Sreenivasan: I think, predominantly it is structural changes made by various companies. I think the fact is that now there is no incentive for a person who takes a policy to lapse it early even in a unit linked policy because even if you lapse it after one or two years, the money goes into a discontinued fund. The money is not paid out till the expiry of the lock-in period. Secondly, higher unit linked improvement in ticket sizes could be another factor, which has held to higher persistency, but I think of that various reasons you mentioned predominant factors, the main reasons are a) the products are much more customer aligned, b) customer value is clearly visible in most of the products and c) Companies have made structural changes and have understood that you have to look to making smaller amounts of money over long periods of time in this business to be able to create a healthy sustainable business model. Raman?

Ramandeep Singh S: Yes, the other thing Sreeni, to look at is you know you see the correlation between persistency and your misselling. Over the years, misselling has really come down to with a kind of structural changes, people have made. So, I think there you know it is a clear reflection that because the quality of business is so much better, persistency essentially has been improving.

Vishal Goel: Great! Thanks Raman. All the best.

Moderator: Thank you. We take the next question from the line of Abhijit Saraf from Deutsche Bank. Please go ahead.

Abhijit Saraf: All my questions have been answered. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Lalitabh S from Sharekhan. Please go ahead.

Lalitabh S: Thanks for taking my question. Sorry I joined late so, you might have already commented on this. Just wanted to understand was there any one-half or seasonal or event specific factor effecting the general insurance earnings in this quarter?

S. Sreenivasan: Actually the general insurance profits come from three sources; the underwriting profit, the recurring investment income and profit on sale of investments, which could come from either equity or debt. To that extent, we did have higher realization on the profit on sale of investments as changes were made in the debt portfolio. We had Rs.90 crore as against Rs.26 crore for the same quarter last year. Net of that, we would still have grown our sustainable profit by about 33%.

Lalitabh S: Thanks and secondly, some of your peers are already on to it I do not know your plans on it, so any plans to offer bundled products with general and life together as an offering to customers?

S. Sreenivasan: As of now we do not have those plans. I do not know what kind of products will be suitable because lot of these ideas sound good and until you see that executed in the market, it would be difficult to assess. Already, for example personal accident is offered by both life and general, and in health insurance, indemnity products are offered by general, and benefit products as riders, offered by life company, but typically life companies have not made much headwinds in offering of health insurance. They are still a very small proportion of the total market, so I think there is a need for a regulatory enabling force, which I would think is more related to distribution sharing rather than product per se.

Lalitabh S: Thank you. Thanks a lot.

Moderator: Thank you. Well that was the last question. I now hand the floor over to Mr. Nikhil Walecha for his closing comments. Over to you Sir!

Nikhil Walecha: On behalf of JM Financial, I would like to thank management of Bajaj Finserv for this call. Thank you.

S. Sreenivasan: Thank you everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of JM Financial that concludes this conference. Thank you for joining. You may now disconnect your lines.