



“Bajaj Finserv Q1 FY19 Earnings 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 FY19 Earnings Conference Call, hosted by JM Financial Institutional Securities Limited. 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 this conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am 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 Bajaj Finserv's Earnings Call to discuss the results of first quarter FY 19. 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. 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. It is our pleasure to host this conference call. Thank you, JM for arranging it. In this call, we will be discussing the consolidated results of Bajaj Finserv for the quarter ended 30th June 2018, the first quarter of FY19 as we call it. In this call we will largely be concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General Insurance Company (BAGIC), a Bajaj Allianz Life Insurance Company (BALIC). Bajaj Finance, which is another major subsidiary of ours has already had its conference call, however, if there are any high-level questions we will be glad to take that as well. We will not be taking any questions on the status of Allianz's stake in our insurance company, except to state that Allianz's stake remains the same as at the end of the previous quarter. Allianz has reiterated its commitment to remain in India and with Bajaj Allianz and we look forward to further continuation of this great partnership.

Any statements that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance results.

Just to highlight, one of the major changes in this quarter has been the adoption of the Indian Accounting Standards (IndAS) with effect from 1st April 2018. For the Q1 FY19, results that we have announced on the consolidated basis are as per IndAS. The insurance companies are not required to adopt IndAS, however, for the purpose of consolidation, their results are also on IndAS basis, and the corresponding figures for the previous years have also been restated on IndAS basis. Therefore, the quarter results for the current quarter and the corresponding quarter of the previous year are comparable.

Just to highlight – strong growth in consolidated revenue, 16% growth, 41% growth in consolidated profit after tax. The growth has been driven by all our three subsidiaries Bajaj Finance, Bajaj Allianz General and Life Insurance.

Bajaj Finance's total income increased by 39%, the AUM increased by 35% YoY. The profit after tax on IndAS basis has grown by 81% from Rs. 461 crore to Rs. 836 crores. The net NPA continues to be under control, one of the lowest in the market at 0.44%. The capital adequacy is very strong. Because of IndAS we have adopted the expected credit loss method, which means you not only recognize the losses that you know might happen, but also the losses that you expect would happen as the book runs out.

The General Insurance company recorded a 23% growth in gross written premium. This quarter we did not have any significant amount of crop insurance, the crop season actually begins in Q2. The earned premium grew at 21% but I think the real highlight was a combined ratio at 90.2% which is a further improvement on the already low combined ratio we reported last year. As a result, our underwriting profit is Rs. 128 crore for Q1 FY19 as against just Rs. 12 crore in the Q1 of FY18. The combined ratio has declined because of growth in earned premium and the claim ratio improving by about 3%. Our solvency in General Insurance company continues to be strong at 288%.

In the Life business the key highlight was the renewal premium. A lot of the efforts we put in over the last two to three years in building up a quality book, with growth, has resulted in the renewal premium starting to grow - BALIC recorded 36% YoY growth in renewal premium. Last year also we had about 15% growth, but the years before that we were actually having de-growth in renewal premium. In terms of the business mix, the unit linked portion was 61% as against 78% in Q1 of the previous year. I think I have mentioned about a year and half ago in the con-call that we wanted a sustainable product mix and we have been driving a balanced product mix where no one product contributes more than 55% or 60% of our top-line.

So, overall, a good result from the Life company. Obviously, the profit after tax has not grown for two reasons, A) as we are growing our new business and our GWP, we do see the new business strain accounting for about Rs. 26 crore of de-growth in profit. B) Secondly, last year in the first quarter we did have a one-time gain of Rs. 50 crore from sale of bonds, this year, because, there is a rise in interest rates we did not have the same opportunity. However, we do not think it is a recurring issue and over cycles it should get corrected over the next few quarters.

Overall, I would say we are very satisfied with the quarter's performance of the performance of all our three companies, and particularly on the consolidated numbers.

I will now open the floor for questions and answers.

Moderator:

Sure. Thank you very much. We will now begin the question and answer session. We have the first question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada:

Just two or three questions, first on BAGIC. Could you give some color as to what is the reason for lower loss ratios, I mean, how much is contributed by product mix, how much is because of improvement in experience? And any benefit that you have seen from GST coming through? The

second question on expense ratio in BAGIC, what is the benefit from MISP that we are seeing so far? And then I have questions on BALIC as well.

S. Sreenivasan:

I will just give a brief overview and then I will hand it over to Milind. We have seen loss ratio reductions in property, motor, retail health which pretty much account for a significant proportion of our portfolio. This has come across both by frequencies and severity of the claims and the claim management which we have undertaken over the last couple of years. As we have said we are very disciplined in the way we approach our business and our General insurance company is not hesitant to say no to business where they do not see visibility of profit. Nevertheless, being just one quarter, I would still wait and see how the next two quarters pan out before we can make a commitment. There is some benefit of GST, definitely on the OD side but we have also seen significant reduction in motor OD prices. So, that by itself is not a reason. Milind, any other attribute you can give for higher profits, better combined ratio?

Milind Choudhari:

As you rightly mentioned, the motor loss ratios are getting better. Also, because the overall loss ratios have come down as compared to last year almost by around 6% points, last year we were total around 72% which has dropped to around 66.8%. So, definitely, motor which is the biggest portfolio for us has shown improvement. Then the health portfolio has also shown improvement, particularly retail health and our property portfolio is also growing through our Banca business which has also shown good results. Also thanks to our last year treaty we got some additional reinsurance commission benefit. So, that is why fire, motor as well as health - all three major lines of businesses they have demonstrated reduction in loss ratios. And that is how the overall good result for this quarter has emerged.

As far as MISP is concerned, the impact is now being demonstrated in a full manner because what has happened is because of the reduction in commission across the motor-dealer sector, overall discounting has increased and prices have fallen, which is affecting in a way, in terms of the overall OD growth. So, overall, the commission ratios have improved, the GST impact is also playing because last year it was only around 9 months, so the full impact of GST is also being felt now in terms of passing on the overall input credit. This is more than compensated by increase in overall motor OD price discounting. So, it is offsetting. But as we go through a full year cycle, full impact of GST and further discounting will be known.

S. Sreenivasan:

Practically I think the pricing has got corrected because a lot of these benefits are passed on in the form of higher discounts to customers because of MISP, especially which are manufacturer driven and GST anyway gets passed on by way of higher discounts. So, that is where we stand. Ultimately it is all a business of selection, I think strong selection and a strong claims administration is what we could say.

Dhaval Gada:

Sreenivasan, just one follow-up on this. Broadly as earnings go through the year what is the kind of price correction on motor OD do you anticipate because of MISP and GST, I mean, broadly what could be the impact?

- S. Sreenivasan:** It is difficult to say that because it is not a linear function, one goes up the other goes down, because this is the business with almost all the companies competing intensely. And where we stand ahead is our distribution network - it is very large, while as many motor dealers and others do provide us with business, they also get a large amount in claims from us because we are a very large player in the market. In terms of discounts, it has always been a discounted market and our approach has been to be selective in choosing what we want to do. In that we expect this year we will be more aggressive in two wheelers, we want to improve our commercial vehicle portfolio in certain profitable segments of commercial vehicles, and we will also continue to drive private cars. We expect relatively commercial vehicles and two wheelers ought to grow better than private car this year because of the dedicated focus. Now we have three separate vertical heads for each of these businesses. I cannot say this quarter is representative because we have just started the monsoon season, so we will wait till December at least to know where we stand.
- Dhaval Gada:** Just one last thing on BAGIC, we have seen some chunkiness in group health business this quarter, and I remember last time you highlighted that the experience was slightly bad in the group health business, the loss ratios were slightly higher. Just if you could explain which state have you picked up and what is the rationale of going on this front?
- Milind Choudhari:** The first quarter of the year is dominated by all the corporate renewals, that is why generally this group health business will be quite high in the first quarter. Last year what we saw is that in Q4 the results were getting little better, normally towards the end of the year all the claims which need to be reported and all the reserve strengthening which need to be made, get completed. So, we are seeing better results in terms of group health, also to some extent this can be ascribed to some upward correction in the market in terms of group health pricing where due to listing of some companies as well as restrictions which have come on the PSUs, particularly the discussion about the merger of three PSUs and other things, I think there is a little improvement in terms of overall group health pricing also. So, we have good growth in group health insurance in this quarter.
- Dhaval Gada:** Which is the state we picked up and what is the kind of pricing improvement we saw in the segment?
- Milind Choudhari:** Dhaval, this is not about a particular state, these are all corporates.
- Dhaval Gada:** And broadly pricing would have improved by 5% to 15% for us?
- Milind Choudhari:** 5% to 7%.
- Dhaval Gada:** So, just last question on BALIC, here could you just breakdown the group premiums into group credit life, the protection business and the corporate protection business and any non-par group business that we would have done?

Ramandeep Singh Sahni: So, we did about Rs. 425 crore of group business, of which about Rs. 261 crore was the group credit protection and the balance is all group funds business.

Dhaval Gada: And here I think 30% - 35% would have been the growth in group protection?

Ramandeep Singh Sahni: Yes, about 34%.

Dhaval Gada: And are we seeing some improvement in the share from Bajaj Finance for us, I mean in their pool are we seeing improvement in the share or broadly it remains stable?

Ramandeep Singh Sahni: There is a significant improvement.

Dhaval Gada: And Sir, do you expect this business to see this momentum, like 35% kind of growth be sustainable for the full year?

Ramandeep Singh Sahni: See, this year actually there have been multiple changes, so one is the share of our business in the partner shops has gone up in some of the partner, especially Bajaj Finance, like you rightly highlighted. So, that is one reason it is going up. So, whether this momentum continues it is a difficult question to answer, but a good double-digit growth is likely.

Dhaval Gada: And because of strong renewal premiums margins would have seen some improvement intuitively?

Ramandeep Singh Sahni: We will disclose it at year end - it is too early.

Moderator: Thank you. We have the next question from the line of Nitesh Jain from Investec. Please go ahead.

Nitesh Jain: Sir, on Life Insurance the growth in this quarter is a bit slower on new business stream side. So, just wanted to get your sense, what is happening on the ground level, is it a quarterly phenomenon or do you think this financial year will be slower for life insurance? Secondly, on life insurance, the product mix that we are driving, do you think further increase in traditional products and what will be the implication for our full year margin because of this product mix?

S. Sreenivasan: I think as far as the market is concerned, if I am correct, in the private sector individual rated premium growth has not been very strong, it has been in single digits. For us it was a conscious decision taken, even before last year that we wanted to drive towards a balance product mix because we have seen in the past that any market correction could affect ULIP sales and it could affect even renewal premiums when people stop paying premiums even in the lock-in period. So, we wanted to create that balance and we have been investing in creating a traditional distribution channel, because the type of customer segment itself is different. So, growth to that extent will be lower because traditional ticket sizes are significantly lower than ULIP, for us it is around Rs. 40,000 as compared to about Rs. 75,000 for ULIP. Clearly in terms of the new business numbers

that we report there will be a correction because of that. We think 60:40 is a sustainable model. It could be +/- 5% or 10% depending on the market conditions, but we would be very happy with 60:40 for the time being. We think overall, we do not know yet because we will announce our margins at the end of the year, but we think this balance should help us cover our overruns and our margins after overruns we expect it should make growth of that.

Ramandeep Singh Sahni: So, I think what is also important to see is that while we are shifting the product mix we would have actually expected, like Sreeni rightly highlighted, the average ticket size would have fallen. But for us what we are seeing is that it has actually gone up a little compared to the same period last year, so it is actually up by about 17% to Rs.48,000 from Rs.41,000 last year. I think where this is coming from is, because of focus on affluent category of customers. We have traditionally been a mass market company and like we had highlighted in the last few quarters that we are shifting our focus also to penetrate into the affluent category of customers. So, I think this is where the growth in the average ticket size is coming from.

Nitesh Jain: So, at this point in time on ULIP the slowdown that we have seen is our conscious strategy or you are seeing ULIP difficult to be able to be sold at the ground level?

Ramandeep Singh Sahni: I think important is what we have seen with other companies also, when there is a lot of concentration on one product and if things go out of control like a market falling, the company really takes a hit, we have seen our company getting impacted by that in 2009. So, what we have also been highlighting is that we want to maintain a balance and a sustainable mix. So, it is not that we are finding a challenge to sell a particular product category and hence we are trying to balance it, but it is on the whole as a diversification strategy which we are trying to drive.

Nitesh Jain: And on non-life insurance the crop insurance seasonality that is visible for us, especially in Q1, actually is not the case with the other peers, there we have seen broadly similar sort of premiums across quarters. So, is it a function of some strategy or geographical concentration or product strategy that we have?

S. Sreenivasan: Let me put it in two aspects, one is that first quarter even last year we had only Rs. 36 Cr. of premium. What happens is the state that you write and the flow of information, because the Rabi season ends on 31st March, not all the information is available on 31st March. So, it is possible that some companies may have a spill over which goes into Q1, otherwise the actual Kharif season starts from 1st of July. That is the first part of the question. So, for us year-over-year from Rs. 36 crore to Rs. 10 crore it did not move the needle last year nor has it moved the needle in this year in Q1. Coming to Kharif season, this year we ourselves are expecting that we may not do as much business as last year, last year we did a little over Rs. 1800 crore of business and this year we think that Kharif season at least we are seeing that it may be lower. We are seeing two factors, a substantial reduction in reinsurance commission across the market. More importantly, I think many treaties, (we do not have that for crop insurance) have a loss corridor. For some companies' reinsurers were insisting that if the loss ratio exceeds 80% up to say 110% or 120%, 100% of that loss should be borne by the company. And this is a kind of business where one

should expect 80% to 90% anyway at the minimum. So, overall, tactically this year we may not be as strong as last year in the crop insurance business and we have always maintained that this is the business we look at year-on-year.

Milind Choudhari: I think in crop insurance, I just wanted to add one more dimension, as far as accounting of crop insurance is concerned some companies are following little divergent practices, because I think as we go with in-force and standard international accounting practices, as far as how to account for it, basically crop insurance accounting, technically the Rabi season gets over by 15th of April, so by that time, actually all the accounting is supposed to be over.

Nitesh Jain: And last question on sustainability of loss ratios, given that we have seen correction in motor OD share of corporate health going up and dynamics in crop insurance, is it reasonable to expect some increase in loss ratios from the current level that the company has reported?

S. Sreenivasan: In crop insurance?

Nitesh Jain: On overall basis.

S. Sreenivasan: Overall basis there are multiple factors because there are so many lines of business, it is difficult to say. And there is also the benignness of God which plays in the general insurance business quite a lot. But having said that, I think the way we look at BAGIC at least from BFS perspective, is that we have signed a number of bank assurance tie-ups in the last year and a half, some of them have started business last year while some of them are starting this year. And bancassurance is clearly, for the next three years is going to be an engine of growth and profitability for us. It is an engine of growth because we are starting from zero in many relationships and we will get good traction in many of them. We have Canara Bank, PNB, Union Bank, Vijaya Bank, HDFC Bank, they are all new banks we have tied up with apart from our traditional partners like J&K, Karur Vysya and others. Secondly, Bancassurance largely gives us access to property business, health business, some personal lines which are non-motor, so pretty much 75% - 80% of the banca business is not motor business. So, that should give us diversification of the portfolio, better risk management. And thirdly, by and large it is profitable because it does not come at a very high acquisition cost. So, putting all this together, if you see Bancassurance channel the growth has been about 102% YoY this quarter. It's contribution has grown from about a little over 7% of our total business to 11% in this quarter. And over the next few years we expect Bancassurance share of the total business should grow. The management of combined ratio involves managing the product mix, the channel mix, getting into profitable channels, profitable segments - it is such a complicated exercise with multiple moving parts that one cannot predict what will happen. But by and large if you do the right things we think we will be where we want to be and that is what has been our experience over the last 15 years.

Moderator: Thank you. Our next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

- HR Gala:** Sir, just wanted one clarification, we have always been counting a lot on health insurance. Now, recently some news item has come, I don't know whether this will be a focus, the NHPS, but many states are getting into the trust mode rather than giving premium to the insurance companies. Do you think that can impact health insurance or our focus area is not that at all?
- S. Sreenivasan:** See, we think at least in the foreseeable future that NHPS, based on the budget allocation, about half of the population would not be covered. Currently, these are not a target market today for private companies, because, they are not meeting socio economic criteria, health insurance is a basic need etc. The RSBY, the earlier scheme was quite tight on the criteria that only about the bottom 25% of the population was getting covered. We have had in the past, experience of other companies, like for example in Andhra Pradesh before it was broken into Telangana they had this Aarogyasri scheme which later became a trust model. But if you see the growth rate of insurance companies where there was a Government scheme which was successful and there was a trust model, I think Andhra and Telangana put together were one of the fastest growing in the country and among the top three-four states. So, we do not think that NHPS would seriously affect the middle class or the affluent class, it is not a scheme meant for them. It would probably go into people who need basic access to health insurance in the initial stages. So, as of now we are still waiting and seeing and at least at the prices at which they are going. One read in the newspaper is referring to one of the state that has given a scheme for Rs. 400 per family. Now clearly that is a kind of business we may not be able to afford. But as it evolves we will see, it is unlikely that a large proportion of our target markets. As of now we do not see salaried people and affluent people and HNIs getting covered under NHPS kind of scheme.
- Nitesh Jain:** Second question pertaining to BAGIC will be, the product committee recommends treating life insurance at par with general in health, so is there any movement on that or how will it impact the structure of the policies that we write?
- S. Sreenivasan:** We do not see impact on the traditional policies that we have. As far as I understand, there were recommendations of product committee, which included representatives from the industry, from IRDAI and others. They made recommendations to introduce more flexibility in variable products, in pension, in doing ease of business and to speed up the approval process so that companies can come out with the products at a faster rate. Now, IRDAI has not yet adopted that. Now, I have recently read that IRDAI is going to set up another committee to decide which of those they can implement with what kind of timeframe. So, we think it will expand the ability to launch products faster, there will be more flexibility in certain products in the non-par category. But it will not change the structure of the existing products, that is my point.
- Ramandeep Singh Sahni:** That is right, and the only point I would want to add is, at least the positive part is that the committee report has been accepted by IRDAI and now it has gone into execution mode. So, now they have set up a committee to draft the regulations to address whatever were the recommendations of the committee report. Our appointed actuary is also a part of that committee.

- Nitesh Jain:** So, will we be able to offer the health policies on a continuing basis rather than on one-year Medclaim type?
- S. Sreenivasan:** See, GI companies do that, they can do up to three years, but traditionally GI companies are trying to do one year, because medical inflation is high, and they are geared to do annual pricing. But life companies can do longer term products. The only hitch now is that life companies have not been allowed to do indemnity products, they can only give cash benefit products like critical illness, hospital cash and things like that. There you do not have cash less arrangement and hospitalization and treatment. I don't know if it is covered in the new product regulation or not, but we have the option of both, BAGIC and BALIC addressing all these segments.
- Nitesh Jain:** Sir, you explained one of the reasons why our accounting profit dropped by 25%. What was that Rs. 50 crore you referred in Q1 FY18?
- S. Sreenivasan:** That was the profit on sale of bonds, last year in the first quarter we had a high share of capital gains on the shareholder investments, because, interest rates went up we are holding onto the bonds, we are not selling, it is a non-recurring thing.
- Moderator:** Thank you. Our next question is from the line of Avinash Singh from SBICAP Securities. Please go ahead.
- Avinash Singh:** One question regarding IndAS for the Life Insurance that you have explained on Slide #5. So, if I do that math it appears as if in general insurance your GAAP profit or IndAS profit numbers look similar. But for the life insurance the IndAS profit looks higher, slightly higher. So, can you just explain what is exactly changing in that IndAS?
- S. Sreenivasan:** Major difference is the equity we hold under the shareholder funds, that now under IndAS will be through P&L. So, the mark-to-market gains which previously were routed through fair value change reserve now will be mark-to-market under P&L, because the trading volume of life companies is typically high, and you cannot justify that it does not held for trading. So, typically that is what it is and we expect other companies will follow soon as and when they adopt IndAS. So, that is a major reason. Then there are minor reasons also.
- Ramandeep Singh Sahni:** Yes, I think the biggest one on the positive side is for equity, just to explain, you have an option to follow FVTPL or FVOCI, but the challenges with FVOCI is that if you follow FVOCI even if the profits are realized the profits never go through P&L and it will always be a treatment through OCI. So, most of the companies hence will end up treating equity portfolio as FVTPL and that might bring about some volatility in the P&L going forward, that is as far as the equity investments are concerned.
- Avinash Singh:** Equity investments on the shareholders part, policy part will be separate anyways?

- Ramandeep Singh Sahni:** So, unit linked anyways does not impact us, but even in non-par if there is any it could bring some volatility in the P&L.
- Avinash Singh:** So, like Q1 this year and previous year it was positive, if markets are bad it can be negative?
- Ramandeep Singh Sahni:** Yes.
- Moderator:** Thank you. Our next question is from Kunal Shah from Edelweiss securities. Please go ahead.
- Kunal Shah:** A couple of questions on life and then on general. First, when I look at your ticket size that has increased by 17%, as Raman said, in Q1. That essentially means that there has been a decline in number of policies that we have sold, am I right in that sense?
- Ramandeep Singh Sahni:** That is right.
- Kunal Shah:** And in terms of agents' productivity, in terms of agent's individual ARP that revenue growth has also come down, any reason for the same?
- Ramandeep Singh Sahni:** So, I think what Sreeni highlighted earlier was that last year quarter one we had some new products being launched and we were really riding on the ULIP drive last year, obviously getting the tailwinds from the growth in the equity market. And with that, new product launch we had got some fire sale and that obviously not continuing in this year this quarter, and that is why you see a little slowdown in growth.
- S. Sreenivasan:** But we are quite confident and optimistic about the next three quarters. I think that one off effect, or the base effect as Raman mentioned, is behind us now. So, Q2 onwards we are hoping to see with the balance mix a reasonable growth.
- Kunal Shah:** And in terms of protection business, can I have a breakup in terms of group and retail?
- S. Sreenivasan:** Retail is currently very-very small for us. On the group side, however, we have done about, like I mentioned earlier, about Rs. 261 crore of credit protection business. Retail is a single-digit number in terms of percentage of our retail mix, so there's nothing to talk about as of now.
- Kunal Shah:** And on general insurance, as you highlighted that in terms of group health insurance we have seen some sort of price improvement happening through, can I have some sense in other segments as well wherein you are seeing some sort of pricing pressure or in general the pricing pressure is easing across the board?
- Milind Choudhari:** I think we are still feeling the pricing pressure as far as the motor segment is concerned, because I think as big companies continue to keep their stance tight as far as the new MISP regulations are concerned, I think there are some smaller companies which have started breaching it, which is pushing the discounts and other things to a higher limit. But we are facing pressure in motor

segment. What we have also seen is good growth coming in our liability lines of business where our new cover for cyber liability product is picking up very well and growth is also being driven in fire and property premium which is through the Banca side. I think other than that we do not see any pressure. Of course, as Sreeni has mentioned, we also experienced pressure in terms of crop insurance prices, so some of the tenders we actually let go, because, we did not want to go into that kind of a loss corridor situation wherein the pricing is below a certain threshold, the reinsurers might enforce some kind of loss participation. But that is much on the pricing side.

Kunal Shah: And in terms of reinsurance commissions there has been significant tightening, or it has been stagnating now, so overall are you seeing commission rates being dropped and that is why we are refraining from doing crop insurance or there is something else attached to it?

Milind Choudhari: No, I think as far as reinsurance commission the rates are concerned, I think pretty much it has reached the kind of low which it would be. Because it started with 15% commission, then actually we had 9% commission last year which has dropped to around 6% for us, but that is because our portfolio is better. But many of the companies are getting only a commission of around 3% to 4% only. So, as far as reinsurance commission is concerned that has already reached the kind of a level it should be from the viability point of reinsurance as such. But what we are seeing in terms of crop insurance is only about what kind of price to be quoted in the tender which is sustainable considering the loss ratios.

S. Sreenivasan: If I can add here, I think it is a tender driven business and we have always maintained that in the tender driven business we do not know what is going to happen next year. Which is why crop insurance will remain for us a tactical play, we see the market every year, see the terms that we get, the type of states that we want to operate in that year given the predictions of monsoon and the data that we get from the states. Because it is not a business that you can keep, you can only acquire and for us true market share is business that we can acquire and keep, which is the retail business, health business, extended warranty where we can cross sell, we can up-sell, there are so many other opportunities. While we are losing our relative share compared to some other competition in crop insurance earned premium share is actually superior than the gross premium.

Kunal Shah: So, in terms of crop are you seeing pricing still competitive ...

S. Sreenivasan: It is more competitive than last year. And despite the fact that there are loss corridor conditions we hear in the market for some companies where some of the losses have to be absorbed beyond a certain level by the companies themselves which can be very tricky. So, those kind of deals we have avoided, we do not have that in our treaties. But yes, this year we will be a bit more cautious on crop insurance than last year.

Moderator: Thank you. Our next question is from the line of Virendra Verma from Intesa Royal. Please go ahead.

- Virendra Verma:** Just one the general insurance business, there is a 23% growth, is it possible to get the breakup between the various verticals within the general insurance?
- S. Sreenivasan:** Broadly I can tell you. Motor business was around single-digit and I think in the market generally you see the top companies have grown about 8% to 10% is the market growth, we are at about a little under 8%. We have grown strongly on retail health at 18%. Our generally banca driven business have grown, this year because we lost one or two deals in property that is a bit muted for Q1, but I think it will pickup in the second quarter. Marine business is in double-digits. So, it is a sort of mixed bag I should say.
- Virendra Verma:** How much for motor?
- S. Sreenivasan:** Motor is a little under 8%, 7.7% growth.
- Moderator:** Thank you. Our next question is from Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Sir, first question on BAGIC, this quarter you have done phenomenally well on both the growth for net earned premium and the profitability. We have in our conversation mentioned that maybe in a long-term we might have to do a trade-off between the growth and strong combined ratio. So, do we still maintain that in the long-term the growth would be higher but the sustainability of this combined ratio will depend on how the other players in the market sort of behave?
- S. Sreenivasan :** So, let me put it in perspective- general insurance is a business of selection, it is a business of creating portfolios of risk and return. And while broadly we report motor, fire and all that, there are so many cuts under that which we look at. So, I think the combating pricing is not something new, I think last ten years now, since 2007 we have seen prices come down from the old tariff regime quite systematically and as and when new competitors come the first thing they will attack is price on motor insurance particularly. So, in that sense it is not anything new for us, we continue to seek newer and better ways of selecting customers. Number two, with greater customer experience and better analytics we hope to keep customers. Because ultimately price difference eventually does not translate into more than Rs. 500 or so for the customer, so the more discerning customers continue to deal with us, our renewal rates are pretty decent, they are growing year-on-year. So, we are not really concerned that price alone in the market determines the factor, we do command a slight premium over the market, but we will continue to improve with a sharper way of selecting business over the next three to five years, that is the journey we are undertaking. Secondly, we are innovative in a number of products, we have launched the first cybercrime retail product a couple of months ago, we have extended warranty which is a growing business. So, more on the personal lines we will be coming out with more products and we are expanding our distribution through banca, we are launching point-of-sales person channel which we think will help us penetrate and our virtual points of presence now almost 5% of our retail business, it will continue to grow. So, we have been able to manage this by geographical

expansion, diversification across products, diversification across channels. This strategy will continue and we will continue to push for that.

Ashish Sharma: So, the current trends of our very strong combined ratio and a strong growth of 20% to 25% we should take it as sort of a sustainable in the long-term also?

Milind Choudhari: That depends on what you define as a reasonable combined ratio. The market which is so competitive, and I think globally also if you see the number of companies operating below 100% are not that many. So, from 100% now we are in 90%, whether 90% is sustainable I am not sure. But our target is as long as we can get reasonable growth, continue to grow our market share, at about 95% - 96% combined ratio I think we will go for it. It depends on segment to segment, for example in group health it does not require too much manpower to handle the sales because it is a large chunky business, so even if we do business at about 80% to 85% loss ratio we should still make a good combined ratio there, because we do a lot of business directly so there is hardly any acquisition cost on clients of group health. So, it is a very complex question, but I tried to simplify the answer, I hope it does answer your question.

Ashish Sharma: Sir, the second question would be on the group franchisee, I mean I think one of the road show presentation you have highlighted about the overall customer franchise for Bajaj Group which was closer to 15 million - 16 million, I am assuming I think it was December data with an annual velocity of closer to 2 million - 2.2 million. In terms of cross selling how are we approaching this, because I am assuming there are customers in different entities, so us some color on that sir?

S. Sreenivasan: See, actually the only thing that has happened is that we have enriched the data from multiple sources like credit bureau and others and given it back to the companies. Clearly, intermediary-driven business, like insurance where there are already established intermediaries, clearly that part of the data we encourage intermediaries to do cross sell more, by giving them support, by tele-calling and things like that. Apart from that the business which is not aligned to any intermediaries, that is something the company has a clear focus, they have a separate cross sell team and now we want to build an analytics team because cross sell always works with deep analytics, so that investment has started. It is a three to five year walk for our analytics, we want to take it to a level because we already have significant positive experience from Bajaj Finance and we want to translate those learnings into the insurance side and this I think will be a good differentiator for us if we get it right.

Moderator: Thank you. Our next question is from the line Atul Mehra from Motilal Oswal Securities. Please go ahead.

Atul Mehra: Sir, just a couple of questions on BAGIC, once again. In terms of the MISP now that it is pretty much in force, so incrementally how do we see sustainability of profitability in this channel of motor dealer, because the knee-jerk has been very-very encouraging for all of us. But as we look at it maybe one year, two year down the line as we speak, so how are things in terms of sustainability or profitability for this channel?

- S. Sreenivasan:** See, as the acquisition cost comes down we would see that prices will have to correct. So, by and large if you see the motor insurance OD business we have been between 63% to 68% loss ratio. So, our approach has been to deal with discipline in this matter, we are continuously monitoring which intermediaries, which locations, which pin-codes, we can go to a lot of granular details in that as to identify the source of losses. And we continuously cut out those relationships which are doing adverse selection on us. So, this is a process - my feeling is as long as we continue to adhere to this process which are in good stead even when last ten years prices have crashed we may continue to do that. It is difficult to say because of MISP, MISP has been a gain, because there have been a losses on the pricing side, average tickets are falling. But at the same time the number of cars, the number of accidents is increasing every year. And because of that we give more business to the dealers also. So, incumbent company like us does have an advantage there. Clearly some small companies might be very aggressive in pricing and commissions, but we are not overly bothered with that. Secondly, with banca growing, as I said, as an engine of growth we will get a better balance to our portfolio. This year, for example, although motor overall growth has been 7% our two-wheeler business has grown 21%. So, we are focusing more on diversifying our motor portfolio away also from private cars because a lot of this MISP is on the private cars. So, we will be growing segments of commercial vehicles, two wheelers where we think there is opportunity for profit and since the prices have changed for a lot of things it is something we will evaluate every year.
- Atul Mehra:** And Sir just one more thing on motor, so one of the presumptions as we went into MISP was that given that now we have a level playing field with all the competitors and with a capped commission kind of environment, the larger players would largely see some level of market share gains. So, is that something which is playing out on the ground?
- S. Sreenivasan:** See, individual dealers have always movements, a lot of the car sales are also driven by manufacturers, some of the larger manufacturers are wanting us to pass on some of the benefits to the customers, which has already happened, in the last two quarters we have seen that.
- Milind Choudhari:** Actually, what we have seen is that there is some kind of restraint in terms of the overall discounting and pricing what is seen in the market. And that is why our OD growth is really muted. So, definitely the MISP part has played in terms of the overall market share. We have not seen any big increase or significant benefit coming out of it as a part of the market share as such. But I think eventually because it was just five months until the month of March, and in the new financial year again we have seen some discounts increasing. So, I think unless it completes a year we will not be able to really gauge the kind of impact it has. But I think slowly it is showing the results with the terms of increased access. Because one of the features of MISP is also that earlier there used to be a kind of panel of manufacturers, so those insurance companies which are part of the panel they used to get the business. But now the MISP states that there cannot be any such panel maintained by the manufacturers and all insurers have to be treated at par. So, all the insurers should get an opportunity to participate in the business. So, I think those panels are getting dismantled, although the process is slow. And as the process completes I think we will be able to see some uplift.

- S. Sreenivasan:** See, overall when I look at the business, the first quarter has been very muted for motor, overall growth for the market has been about 8.6%, we grew at 7.7%, within that we have grown faster in two wheelers and commercial vehicles. So, it is not really a trend, we will have to wait and see, times have not been that great for motor business than this quarter for the industry as a whole.
- Atul Mehra:** And secondly now that we are perhaps a month away from this health insurance launch, Aayushman Bharat, so how are the trends like in terms of as you guys see it and is this an opportunity...?
- S. Sreenivasan:** I already answered that question earlier. As of now it looks to be on the lower end of the mass market that will be covered by the Ayushman Bharat scheme given the budgets and the type of prices they are putting. We are not expecting that in the near future that middle class, affluent and mass affluent people will get covered under this scheme, and I don't think that is the intention of the scheme either. The previous scheme, obviously, was so tight on socio-economic criteria that many states had their own schemes, like Kerala, Andhra they had their own schemes. So, schemes like this and on trust model have been running for some time. And in all those markets the retail health insurance growth has been very strong. Secondly, the cost of health insurance is going up every day and most of our customers are people who want private healthcare, because of quality of Government healthcare many people still want private healthcare. And the relative difference between the cost of healthcare, premiums will continue to grow. So, while they announced Aayushman Bharat scheme they also increased 80D deduction last year. So, clearly the Government has its views there. We would think that the talk about 35% - 40% of the population, which is about 8 crore to 9 crore families would be the target market for insurance companies. As of now we would not have penetrated more than 10% to 12% of that market.
- Atul Mehra:** So, just one connected question here, so somebody like us would we be interested in this kind of business?
- S. Sreenivasan:** Once the scheme rolls out we will see, if there are terms like tendering in crop insurance we would evaluate, see the pricing. See, if it is at a low price there has to be a lower cost of treatment which is specified upfront, like in some states like Kerala and all have that where the cost of treatment which normally a private hospital would charge, the rate there are maybe 60% to 70% lower for the same treatment. With that kind of thing we will re-evaluate the pricing and see if it makes sense. Clearly because of our solvency position, our brand, our size, if it comes to that and we bid we should be in a good position.
- Moderator:** Thank you. Our next question is from Hitesh Gulati from Haitong Securities. Please go ahead.
- Hitesh Gulati:** Sir, my first question is, what is the current mix of four-wheeler, two-wheeler and CVs in motor?
- Milind Choudhari:** In terms of the overall line of business mix wise the motor four wheeler would be 22%, two wheeler would be around 5% and motor CV, which is comprehensive and TP together, that is contributing to almost around 16% of the total business.

- Hitesh Gulati:** CV is 16% and two-wheeler is 5%, is that correct?
- Milind Choudhari:** Yes.
- S. Sreenivasan:** In two-wheeler volumes are high and ticket size are very low.
- Hitesh Gulati:** And sir second question on this group health business, we have around 23% in Q1 FY19, can you give some more color on this. Is this business that is a standalone business, or it is just business that we acquired as a bouquet when we sold the fire, liability lines to a corporate and is this mainly being done through the banca channel? Some more color on that.
- Milind Choudhari:** See, as far as this group health business is concerned, this is completely corporate business. And I think long back this kind of accommodation or subsidization in terms of different lines of business has already stopped. So, whatever pricing happens is on a standalone basis for the health portfolio alone. Earlier what used to happen is that the fire business used to be a tariff business and health was a non-tariff business. That is why health used to actually subsidize for a good portfolio of fire insurance. But that has stopped now after de-tariffing and each portfolio is being evaluated on a standalone basis.
- Hitesh Gulati:** So, is this business being done mainly by banks or is this large corporate?
- Milind Choudhari:** That is completely a corporate business, corporate and SME.
- Hitesh Gulati:** So, is this being distributed by banks, the Bancassurance channel?
- Milind Choudhari:** No, there are few leads which we do get through banks, but most of the business is being done by our corporate team.
- Moderator:** Thank you. Our next question is from Ravi Mehta from Deep Financial. Please go ahead.
- Ravi Mehta:** One small clarification on the persistency ratio in Q1 2019 it is 73%, when I look at whole of FY18 it was 77%, so is there some one-off of this rate coming down sequentially?
- Ramandeep Singh Sahni:** The persistency rates actually go up quarter-over-quarter, so normally the quarter one is the lowest and it scales up by quarter four. So, what is important to see is how we stand versus the same period last year. So, last year was 68% which has moved up to 73%. The trend is important to see because if you compare the full year number with the quarterly numbers that will not be a right comparison.
- S. Sreenivasan:** Just to put it back, a couple of years ago we have been having this con-call, last two three years on this business, we said our focus is to reduce our dependence on group which at one point was almost 70%, by growing individual rated premium, I think we have been delivering on that. Along with that we wanted to improve our persistency and last year we ended up at 78% with a

9% improvement. And because of persistency improvement we should eventually see our renewal premium growth. And fourth is our sustainable product mix. What I want to emphasise is that levers are falling in place, our focus continues to be strong on all these levers. And when you put all these together you can draw the picture of where we are trying to get it. And it is playing out well so far and we hope as long as we continue to grow and we continue to maintain our persistency high, given the quality of business, I think we should be able to see a good traction on the life business, both on the top-line and the bottom-line.

Ravi Mehta: Sir, this 73% on a runrate basis will keep improving in the next few quarters and end the year at a better rate?

Ramandeep Singh Sahni: So, if you will see the last year number, 68% actually ended at 77%. So, what is important to see is the delta now, 68% has moved to 73%. And then that scales up every quarter.

S. Sreenivasan: Even this 73% itself will improve because some people pay late, instead of 13th month they may pay in 15th, 16th or 17th also.

Moderator: Thank you. Our next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Sir, just one follow-up. One slide #5 where we report on IndAS, just if you could explain. So, while the impact on the general insurance business looks low, if you could just explain what is on the positive side and what is on the negative side under IndAS? And similarly, if you could dissect for the life insurance business as well, just to understand it better.

S. Sreenivasan: I think in general insurance largely it is the equity portion held is through market and routed through P&L, FVTPL as we call it. Because if we put it in FVOCI and when you realize, the profit it does not get back to the P&L. So, that is a major difference. Otherwise, most of the other differences are very small, there is something on actuarial gains and losses on gratuity which has to go to OCI. There is an expected credit loss, but insurance companies hold most of their bonds in Government securities and AAA rated securities. So, impact of these are not expected to be major. On the OCI side, yes, because the bonds which you are held to maturity we used to report the market value as a note under our investment schedule, now it goes as a fair value change and through the OCI into the reserves. So, there will be some volatility in net worth because of that. Previously only equity was treated like that, now equity goes into P&L and bonds go into the OCI. These were the major changes. On the life side, some part of the premium will get knocked off because to the extent you are doing some group superannuation, gratuity, which has no insurance component, under IndAS that has to be knocked out from your top-line, it has no impact on profitability, it is only a reclassification. Secondly, we have this same issue in general that all equity will go under FVTPL which means volatility on our P&L will increase depending on how equity markets behave. This is for shareholder funds and the non-par category which is 100% shareholder. On the bonds, again, it will be again FVOCI, so that can cause volatility on your net worth, as the bond rates move. But typically, what happens is when bonds are losing money

nobody sells bonds, we hold it to maturity, so eventually that will get routed back to P&L as and when they get matured. Otherwise, in terms of actuarial reserving you cannot keep general provisions, but that is pretty much standard for everybody, they are not going to rock the boat either way. What is most critical for IndAS perspective for insurance is IndAS 117 which will come from 2021, still companies are evaluating the impact and globally also IFRS 17 is just being evaluated, it will again come into effect only two years from now. So, we will wait and see, that will substantially change the way life insurance companies present their accounts, because lot of the discounted value concepts will come into your P&L.

- Dhaval Gada:** Sir, just one follow-up on BALIC, so what is the impact of amortizing of expenses, wouldn't that also have a favorable impact?
- S. Sreenivasan:** No, we are not sure, it is allowed under IndAS for insurance contracts maybe for investment contracts, but all expenses are written off, there is no impact of amortization of expenses.
- Ramandeep Singh Sahni:** So, on the insurance side there is a bit of ambiguity on amortization. But given that IRDAI had very clearly mentioned in their draft regulation that they will not allow amortization, we have not taken that route. But on the investment contracts where it is allowed and even IRDAI has allowed it, the quantum of impact is very-very negligible for us.
- Moderator:** Thank you very much. We will take that as a last question. I would now like to hand the conference back to Mr. Karan Singh from JM Financial for closing comments.
- Karan Singh:** 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 goodbye.
- Moderator:** Thank you very much. On behalf of JM Financial, that concludes this conference. Thank you for joining us, ladies & gentlemen. You may now disconnect your lines.