



“Bajaj Finserv Limited
Q1 FY2020 Results Conference Call”

July 26, 2019



ANALYST: MR. KARAN SINGH – JM FINANCIAL SECURITIES LIMITED

MANAGEMENT: MR. S SREENIVASAN – CHIEF FINANCIAL OFFICER – BAJAJ FINSERV LIMITED
MR. TAPAN SINGHEL – CHIEF EXECUTIVE OFFICER – BAJAJ ALLIANZ GENERAL INSURANCE CO LTD.
MR. TARUN CHUGH – CHIEF EXECUTIVE OFFICER – BAJAJ ALLIANZ LIFE INSURANCE CO LTD.
MR. MILIND CHOUDHARI – CHIEF FINANCIAL OFFICER – BAJAJ ALLIANZ GENERAL INSURANCE CO LTD.
MR. RAMANDEEP SINGH SAHNI – CHIEF FINANCIAL OFFICER – BAJAJ ALLIANZ LIFE CO LTD.

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

Karan Singh: Thank you. Good morning everybody and welcome to Bajaj Finserv's earnings call to discuss results for the first quarter FY 2019-20. To discuss the results, we have on the call Mr. S Sreenivasan, CFO, Bajaj Finserv, Mr. Tapan Singhel, CEO, Bajaj Allianz General Insurance, Mr. Tarun Chugh, CEO, Bajaj Life Insurance, Mr. Milind Choudhari, CFO, Bajaj General Insurance, and Mr. Ramandeep Singh Sahni, CFO, Bajaj Allianz Life. May I request the management to take us through the financial highlights subsequent to which we can open the floor for Q&A session? Over to you Sir!

S Sreenivasan: Thank you. I am Sreeni here. Welcome everyone to the conference call. We will be discussing the results of Bajaj Finserv Limited for Q1 of FY 2019-20. As always it is a pleasure to have all of you on this call. In this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General Insurance and Bajaj Allianz Life Insurance companies. Bajaj Finance, which is another major subsidiary of ours, has already had its conference call. However, if there are any high-level questions, we would be glad to take that as well. We will not be taking any questions on the status of Allianz 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 statement that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance result. As required by regulation we had adopted Indian accounting standards in FY2019, so this year in the first quarter our consolidated results are as per Ind-AS and the comparable numbers are also as per Ind-AS. The insurance companies are not covered under Ind-AS so the standalone numbers of the insurance companies are as per the India GAAP.

Now to give you an update on the performance. During this quarter; the tight liquidity conditions witnessed in the aftermath of the default by IL&FS last year did not show any signs of abatement and companies with stronger balance sheets were favored by lending banks and investors. Towards the end of this quarter we saw a default by Dewan Housing Finance on a part of its commercial paper obligations. It is in this difficult environment that we have seen BFL deliver excellent results. While both BAGIC and BALIC have recorded strong growth in premiums, their profits were adversely affected by a provision that we desired to take for impairment of their holdings of DHFL fixed income securities.

To give you the highlights, our consolidated total income was up 40%, and profit after tax was up 2.4% at Rs.845 Crores; however, if we were to exclude the impairment provision on DHFL the consolidated profit after tax would have been higher by 16%.

Now to give you an update on the provision we made for our holdings in DHFL. Last year both BAGIC and BALIC had provided for 100% of their exposure to IL&FS as was reported in the financial statements as well as in the investor calls. As disclosed in the public disclosures of the insurance companies in March 2019, we had exposures to DHFL, which defaulted towards the end of the quarter. However, before they defaulted, we collected about Rs.350 Crores approximately between the two insurance companies on the commercial papers, which were due in the earlier part of June. The companies now have apart from this Rs.50 Crores of defaulted CP, NCDs falling due in Q2 in FY2020 and in FY2021. As a measure of abundant caution, we have decided to make provisions to the extent of 60% of the balance holding as of 30 June 2019. This resulted in a pretax provision of Rs.126 Crores BALIC, which is the impact on the shareholders account and Rs.76 Crores in BAGIC.

Now let me go to the results of our operating subsidiaries. Bajaj Finance has had another excellent quarter total income higher by 47%, AUM by 41% and profit after tax by 43%. The risk parameters are holding well with net NPA at 0.64%. BAGIC was able to grow its premium by 17% as against 11.7% recorded by the industry excluding specialized companies. Ex-crop, BAGIC recorded a growth of 13% in GWP. BAGIC recorded strong growth in fire up 58%, liability by 18% and retail held by 26%.

Overall motor premiums grew by 13.4%, which we consider as very good, given the low volume of auto sales for new cars and two wheelers. Of this growth the third-party premiums recorded 21.5% growth and the OD premiums with just a modest 4.5%. As a part of the company's plan to optimize profitability as we mentioned in the concalls of Q4 of last year, the loss making business of group health has been tightened through underwriting and pricing guidelines, as a result of which there is a de-growth 4.5% and there is degrowth in the government health scheme business as well.

The profit of BAGIC is at around Rs.200 Crores, which was affected by several factors. One is Rs.98 Crores of underwriting losses from crop insurance, mainly due to crop claims of rabi season of FY2018-2019, which was determined in this quarter. There was cyclone Fani, which resulted in losses of Rs.30 Crores after reinsurance. Overall the business is on a good wicket. We have seen an increase in motor OD loss ratios 63.5% as against 55.8% PY, which has impacted the underwriting profit by about Rs.30 Crores as well. Going forward it is our endeavour to continue to focus on profitability. We will do what BAGIC generally is good at doing, which is reviewing every relationship and moderating our business where required in terms of loss-making businesses.

Coming to BALIC, we had an excellent quarter in the business front, 17% growth in individual rated premium, 41% in total NB, 29% in renewals and 35% overall. More importantly product mix delivered with 22% par, 17% non-par and 61% ULIP in the

individual rated premium. However, the profit after tax was affected by the provision for DHFL as mentioned above; however, one good news is that excluding the impairment provision the profit of BALIC would have been higher than the previous year, which, for the last few years we have not been able to record.

Since IRDA has come out with draft expanded public disclosures including the reserve triangles for non-life insurers, we have chosen to publish the reserve triangle as of March 31, 2019 in our investor presentation, which was uploaded on the stock exchange and on our website yesterday evening. We hope you have had a chance to look at it and we do hope you find it useful. Let me now open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Bharat Shah from ASK Investment Managers Ltd. Please go ahead.

Bharat Shah: Sreeni, well, one broad question, while BAGIC continues to do very good job of the risk control and underwriting prudent insurance business and despite the bancassurance part of the life is not very strongly in favor of BALIC, the overall life insurance performance still continues to be pretty robust, but my concern is that lot of gains are getting wasted away by investment side of the business, ultimately investment income and the investment returns is a key for both the businesses given the fact that float is a key element of bottom line and earlier we saw gains being wasted away by investment into IL&FS, now some Rs.325 Crores of Dewan Housing, therefore, this kind of investment losses can undermine otherwise a very strong business performance, I would like to understand better as to the investment policies and whether investment side of the business is really kicking in as it should be doing?

S Sreenivasan: Thank you Bharat. Let me first say that in the hindsight we should not have invested in IL&FS or Dewan Housing. Having said that, I think one of the reasons why this investment was made, I believe, is that a number of insurance companies have exposures to these two because under IRDA guidelines you have to invest 15% of your corpus in housing and infrastructure debt. Unfortunately, because of the lack of available names of high quality and overdependence on credit ratings the investment was made. Having said that we have taken a full stock of the investment philosophy of both the groups and by the end of this quarter we would have redefined the entire investment philosophy for both the groups. In BALIC, it is a little bit more complex. We have the participating funds, 90% of which go back to policyholders and therefore our objective will be to see, what is the maximum return we can give over and above the guarantees. In terms of non-participating business, which is savings, it is guaranteed interest business, therefore, we have to manage the spread very carefully and we cannot afford any more such write offs and thirdly on the unit-linked business it is market business, so there we have to perform in line with at least be in the first quartile of all insurance companies if not mutual funds and then we have a large shareholder surplus, which

we need to now make it work a bit harder there is no doubt. If you ask me, to be very frank both IL&FS and DHFL have been eye openers for us and we have deeply engaged with the managements of both companies and we are in the process of completely redefining the investment philosophy. Other than that, I cannot say because what is already invested remains there. Some of what we feel is stressed exposures we would be winding down if we get an opportunity. Unfortunately, in both these cases we did not get an opportunity after the IL&FS event occurred. I think there was hardly any paper traded in DHFL although we tried our best, nobody was willing to buy. However, going forward, we are redefining the entire way we look at things including putting in place internal ratings as to whether we should invest or not.

Bharat Shah:

Right. Now that is useful Sreeni. I will just make a broad comment. Growth is a vital part as well as the risk control and especially we have seen in the case of Bajaj Finance over the long period of time that both sides of the coin have been always in a very careful manner with a great deal of agility managed, so that the growth has not been compromised as well as risk control remains very granular and tight and with good deal of agility all the time. In terms of the business risk on the insurance either of both life and the general, the business part of the risk management seem to be very prudent and strong. It is the risk management on the investment side, which gives the concerns and worry and unfortunately that happens to be the predominant part of the value addition especially in the general side of the insurance, given that underwriting profits may be marginal overall, the investment ratings are the key and therefore that is a source of significant concern that whether there is a tight review and whether the philosophy and the methods are strongly in place to ensure that the overall ratings are not derailed by investment performance?

S Sreenivasan:

I agree with you Bharat, that is why we said we are putting in place a completely detailed review mechanism and going forward we will be reviewing investments much the same way as we do our underwriting portfolios. Particularly in the case of BAGIC, I think our business model, which stood us apart in the market, was to underwrite prudently, retain well, generate cash flows and invest them prudently. Unfortunately, the last part has taken a bit of a beating over the last year and that has been, as I told you earlier, an eye opener for us and we will set it right in the next eight to 10 weeks and by the second quarter you should see that we have in place adequate mechanisms.

Bharat Shah:

I hope there are no more hopefully shockers lying around on the investment portfolio?

S Sreenivasan:

See we have if you look at our two public disclosures L-35 and NL-37, we are required to disclose any downgrade of any investment security every quarter. Now some of these have been downgraded as per the regulation and as per the credit rating agencies. There are some other names, which are being talked about in the market, but to the extent they have been

downgraded, we have disclosed that in the public disclosure, so that is available. We do have some exposures to Yes Bank. We think as a bank RBI would take appropriate action to safeguard the interest of the depositors. We do not consider that as exceptionally risky. We do have a couple of other names in that list, which we are watching very carefully and at the earliest chance we will exit those investments if we do get a chance.

Bharat Shah: One last suggestion. If we see Bajaj Finance output after the quarterly result, it is very, very detailed and absolutely completely illuminating in terms of the profile in the character of the business along different lines that it is run and it becomes almost a self-explanatory document. I would suggest that both for BALIC and BAGIC if relatively more sort of value added details is provided that will make it much more engaging and informative in terms of that output itself.

S Sreenivasan: We will take that input and we will discuss with the management to see how we can improve it. Because there are a lot of public disclosures required for insurance companies we thought we would not duplicate some of the stuff, but I think we will look into whether we can improve the presentation.

Bharat Shah: Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities Private Limited. Please go ahead.

Hitesh Gulati: Sir thank you for taking my questions. I have a couple of questions. Firstly, Sir what is the quantum of advanced premium from long term motor policies on our balance sheet as of the end of quarter?

Milind Choudhari: We have around Rs.463 Crores of advanced premium. End of March we had around Rs.319 Crores or so, so now that has improved in this quarter.

Hitesh Gulati: Sir I am assuming most of this is again TP only and OD traction in long term policies is relatively lower?

Milind Choudhari: Yes. Their traction is relatively lower, but what I find is that as compared to the whole of last year since the long-term policies were introduced, the offtake for long term particularly 3x3 in private cars has improved a bit while the offtake in terms of 5x5 in two wheelers have slightly gone down.

Hitesh Gulati: Sir, can you just for the sake of everyone, I believe, walk us through the reserving triangle first page that you have given, even a couple of pages, so I think it is Page 31 of the

presentation, because, what is exactly being conveyed there you could just walk us through that?

S Sreenivasan:

In the page 31, we have given for the last 10 years. We have clubbed the period up to March 31, 2009 and then we have given for every year. We provide on the basis of ultimate net loss cost after reinsurance that is expected to be paid when all the claims have been settled for that accident year. Predominantly third-party insurance is where it takes a very long time for the triangles to evolve. From that net ultimate loss cost we deduct what has already been paid and what is outstanding as at the end of the period to arrive at what is called the IBNR provision, so therefore if you look at the first column for the period prior to or I will take the second one, March 31, 2010. In March 31, 2010 we had provided Rs.11,525 million as the net loss cost expected from that accident year, out of which Rs.4,158 was outstanding as at the end of that period. Over the period since then, that loss cost keeps getting adjusted as we get claim experience. So as of now, nine years later that Rs.11,525 million has become Rs.10,496 million. The triangle is showing what is paid cumulatively at the end of first year, second year, and third year against that provision of Rs.11,525 million. Coming to the next page we are showing the same net loss cost and we are showing what is the revised net loss cost this includes not only what was paid, which was shown in the previous triangle, but also any change in the outstanding claims or readjustment of the net loss cost, so again, if I take the period March 31, 2010 the column, we estimated Rs.11,525 million. Nine years later that estimate of the net loss cost is Rs.11,006 million, which means as of today March 31, 2019 we have Rs.519 million of favorable development means out of Rs.11,525 million only Rs.11,006 million has so far crystallized. These estimates as of March 31, 2019 are based on the available information. It has been updated for all developments, which have happened between then and March 31, 2019, which means 5% of my Rs.11,525 million is still available for me as this develops. Like that for each of the accident year cohorts we have updated and given those numbers. I hope that clarifies your question.

Hitesh Gulati:

Yes Sir, so basically what you are saying is Rs.10,496 million for year 2010 has already been paid out?

S Sreenivasan:

We paid, Yes.

Hitesh Gulati:

Thank you Sir. That is it from my side.

Moderator:

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

HR Gala:

Since, I want a clarification on Bajaj Finance, I could not get a chance to ask the question, on their call. My question was that Bajaj Finance has always been saying that they have got a

very robust system of Big Data Analytics, etc. Now during this last few quarters the way in which the slowdown has slipped in, do our analyst data and the point of sale people who are present at the place where the loans are disbursed, do they get any feedback as to what is actually happening at the ground level, why people are spending less, like what has happened is that people did buy a lot of air conditioners because of the extended summer, but they did not buy TVs to watch the World Cup, so like that in some of the items spending has been there some of them it has been less, now what is happening is that just because now we have got a very stable government, which people have voted even then now why confidence level is not returning when people are resuming to the normal taking goods on the debt basis?

S Sreenivasan:

Let me clarify this. First of all, consumer discretionary spending as evidenced by auto sales for some months now and recently some other discretionary spending, (that is, which they do not have to spend or which they can delay)- that has come down in certain sectors. Having said that in Bajaj Finance, we have a very robust system. No disbursement happens at the stores where we operate. The entire credit rule engines are driven from the system using analytics. It is very closely and tightly reviewed across every bucket. If you see the type of portfolio performance that we disclosed in the investment presentation it is very detailed and it also indicates that we have that much more information. Every month we have risk decks, which go up to maybe 800 to 900 individual slides, which are reviewed thoroughly by the management team and a segment of that is even reviewed at our level. So therefore, the question of us not knowing does not arise. Now given the situation why confidence is dropping that we do not know. We can sit and debate, since it is a macro event. The banking sector first went through an NPA issue then it was followed by HFCs not getting adequate funding after IL&FS. There is a credit event in the market, both IL&FS and DHFL. Therefore, the capacity to lend in the market has shrunk. Within the NBFC sector, bankers and lenders are preferring the better quality names including Bajaj Finance, so we are not facing any difficulty in raising money. In such a situation where cash flows in the economy are down one would normally expect demand for money to increase, which is in a way correct, but as a prudent NBFC it is our responsibility to see that we lend it to the type of people who we think will repay. 65% of the loans that we give are to our existing customers where we know the credit record and therefore there is no issue there. In the remaining 34% is something where you have to acquire the business and within three to four months you know where they stand and then you keep pruning that business to make it better. So it is not our intention to not to grow. We will continue to grow; however, this is the time when the risk button needs to act with greater force and therefore that is what we will be doing. I think over the BFL concall as well as in the TV interviews, it has been very well clarified by the BFL management that we will be tightening some of the underwriting norms so that the borderline cases and the gray areas do not enter into our system. That does not necessarily mean that we will degrow because we are not consumer durable financiers now. We do digital finance. We were originally an auto finance company from that we have moved on to now 19 to 20

businesses. Geographically we are spread into 1800 odd locations and over 94,000 active points of sale. Our rural sector is doing well. We do everything from gold loans, SME funding, LAP, everything we are doing. So, we believe that our diversified model will help us withstand this much better than anyone else and we are hoping that the macro situation will improve soon.

HR Gala: That helps a lot. Now coming to BALIC Sir how much has been the new business margin because that is one important statistics we do not get in your presentation?

S Sreenivasan: We do not publish margins every quarter because in life business the business is highly skewed towards the last quarter. So therefore, things like expense overruns and all have a very volatile pattern across the year. We published it as of March 31, 2019. All I can tell you now is that we are on track to deliver growth in NBV and margins as we stand today.

HR Gala: Now Sir last year in FY2019, we had about six odd percentage as our new business margin do you think that will grow year-over-year?

S Sreenivasan: Let me give a flavor. If you look at the new business value, there are two aspects to it. The new business value before overruns actually increased by more than 50% and therefore the margins before overruns had actually increased to about 15% or so, which is about 4% to 5% higher than what we used to report three to four years ago, clearly our strategy for product mix is on track. The second aspect is the overruns. Over time we have been reducing it, which is why we entered positive territory in FY2019. Now, I will request Tarun or Raman to give a flavor..

Tarun Chugh: Sreeni, this is Tarun here. Pretty much you have given the direction that we are on, but let me just adds a little bit more. So largely, the NBM starts propping up particularly in the second, third, and fourth quarter mostly the fourth quarter, but yes our trajectory is positive. Coming to the mixing of various elements that you have first the product mix itself versus last year our par and non-par mix has gotten more diversified and has only just improved in such a way that the NBM is going to get better. We did not have much of non-par till last year first quarter. Adding non-par as you aware has a better NBV. That should help us more. The other bit that moves the needle in NBV is the mix of channels. The agency used to be the costliest channel in India. Now versus last year already we have a change in our mix now. Agency which till about three years back was as high as 90% odd and the rest was only 8%. So now a lot different. So, our non-agency channels are upwards of 40% now in our mix in which we have our institutional business, which is growing quite fast. The proprietary sales force, which is the upselling channels were not dependent on any payout of any commissions. It has also grown quite healthy. This is the channel we set up last year. That is really making and getting the channel mix also towards the lower cost and more variable channels if I may put it.

- HR Gala:** That helps a lot. Now sir the question in BALIC will be that we have got huge reserves of more than Rs.8,000 Crores, so how will you plan to utilize this?
- S Sreenivasan:** As of now, we have started paying a modest dividend. It is not our intention to take significant amount out at this stage, firstly, because the company is in a growth path and because of the product mix the more proportion of guaranteed business we think we could use some of it to support the business. Secondly, we are now working out obviously this investment thing as Bharat said earlier, we are doing a complete review. We want that money to work a bit harder for the company and for us because taking the money out unless we have a need for it, actually, has no meaning because it only ends up in paying an additional tax in terms of DDT and again we will do the same thing out here. We are CIC, so we can only invest in group companies and therefore our options are limited. As of now it seems the better option for us is to keep it in the life company itself.
- HR Gala:** Sir any M&A plan?
- S Sreenivasan:** No. As of now, no.
- HR Gala:** Sir, last question from my side the stressed assets either DHFL or any other group how much is still outstanding, which we have yet to collect and we have not provided can you give that number?
- S Sreenivasan:** I will refer you to our public disclosure on March 31, 2019 I think all the assets are given there.
- HR Gala:** No as on June 30, 2019?
- S Sreenivasan:** June 30, 2019 will be up as soon as the public disclosures come it will come up.
- HR Gala:** So there the details will be available?
- S Sreenivasan:** Yes. The latest position will be available. Obviously, DHFL, we have collected a lot of money, so the amount will be less than what it was on March 31, 2019.
- HR Gala:** Thank you very much. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Haresh Kapoor from IIFL Asset Management Company Limited. Please go ahead.
- Haresh Kapoor:** My first question is on BAGIC. We have obviously had some one-off this quarter and some one-off last year, but in terms of the overall combined ratio and the loss ratios, obviously it

is kind of inched up, could you just help me understand by the end of this year how do you see the combined ratio because for the last few years we have always been in the early 90s or the mid 90s? This quarter obviously is elevated, but do we still expect to close around mid 90s in terms of combined ratio or what is the overall outlook for this year?

Tapan Singhel: Yes. So, if you look at it right, I think our endeavour always has been that we write good business and I think we make an underwriting profit. Even this time if you look at, we have some underwriting profit as such, so in terms of what will it be it is not very fair from my side to predict, but we shall continue our endeavor of going over the market and having an underwriting is what we keep continuously working on. So, if you continuously work on that I think the results should reflect that and that is what I can say that.

Haresh Kapoor: Any particular range will be helpful, Sir.

Tapan Singhel: The range is always we want it below 100% and that is our ambition as a company, so we continue striving for that.

Haresh Kapoor: My second question is in terms of the DHFL bonds that you have provided for 60% right now and it kind of indicated that some of the instruments will be getting expired by 2020 or 2021, but what is going to be the thought in terms of recognition of the above policies, are we going to provide in Q2 or are we kind of comfortable under 60% level, how are you thinking about this one?

S Sreenivasan: See almost lot of insurance companies have exposure to DHFL because as per the regulation we have to invest 15% in infra and housing and therefore, this is one of the investments people had picked up because this was rated Triple A at the time. Having said that we have taken a fairly bold stand in providing 60% of our holding. At this stage we think that is sufficient. There is a lot of news flow coming. There is an inter-creditor agreement to be signed by the banks. We are waiting for the resolution plan and depending on that we will take appropriate action. If in the meantime, if we get an opportunity to recover what we have done we will obviously not overlook that possibility. So, at this stage we believe 60% is adequate. As developments happen, and a lot of this is media news, there are rumors, then some news comes today and then after two days you find completely opposite news, so we have to wait and see.

Haresh Kapoor: Just in terms of BALIC just two questions on that side. One is the mix has changed obviously this good quarter and we expect the saving space to move up second half of the year, but broadly if you could indicate anything in terms of the likely mix for this year, any other targets, etc., and second on BALIC side if you could talk about the 13 month persistency has obviously come down, in last year too you kind of had a kind of things that you started at

73% and ended at 79%, so what is the reason for persistency of being worse in Q1 and do you expect the same recovery by the end of this year?

S Sreenivasan: Let me just give a very brief comment to your first question as to the product mix. As of now we are very comfortable with the product mix that we have. Clearly one piece, which is missing in our, this thing is the individual risk product. We do have a product in the market, but the way the rates have moved in the last few years, even what you find two years ago seems to be outpriced in the market. That is something the management is looking at, but now I will hand it over to Tarun to handle the question on the product mix as well as the persistency.

Tarun Chugh: We have a very clear city based strategy based on the kind of customer segment we are in the city, we go about and put our product mix based on the kind of customers that are there. HNIs and mass affluent who are able to take a higher call on markets and can participate more in the growth story typically are the ones who buy ULIPs and that is where our focus is not just on top city, but also as you know we are a little blessed in terms of our spread. We have over 600 branches and more than 470 cities. So that is where we are able to manage this with the right selling approach that we have got, but broadly and strategically our product mix shall remain balanced and this year onwards a fair mix of non-par, this is non-par saving currently. It will move to non-par protection in the second half. Our existing product as Sreeni said the rate has come down, so that is a little of a blip there, plus the good thing is our entire mortality risk and all of those are looking quite strong. So, we are a lot better now placed to sell risk products. Your second question was on persistency. Yes. I am myself not happy with the 73% having come down to 72%, although I must say it is a blip, which is incidental at this point. We expect this to draw back up and we are focused very heavily on persistency. Just to give you a little bit more information. Our March persistency last March, which was reported at 79% up from 77% the year before that bucket is at about 80.5% now. So, what you see usually is the thirteenth month, but what really goes ahead, we have a little lopsided aging. Usually, 15 to 16 months onwards starts looking a lot better. So, I would wait before I pass any judgment on the 73% having come down to 72%. Our persistency bucket otherwise have improved on whether it is 25, 37, 49, 61, so all of this is looking a lot healthier and we shall very clearly endeavor to be in the top five to six in the persistency buckets in the industry.

Haresh Kapoor: No, so what is the reason you kind of said I understand it looks better over a larger timeframe 15 to 16 months, etc., but what could be the reason that there has been such an impact?

Tarun Chugh: I think it is a 1% drop, so 73% to 72%, so you are talking about that?

Haresh Kapoor: No, I was largely looking at even the year end numbers, so I am just want to understand is there is a consistency trend because if you look at other players they do report persistency in

terms of given the quarterly numbers as such for the thirteenth month persistency cohorts, so I am just trying to understand?

Tarun Chugh: Fair. I get that. So like I was answering, we have a little more lopsided on the way the 15th, 16th, 17th month comes. This is a culture change that we are bringing in. Usually if you have better autopay pickup where usually it happens with a very high banca focus, which is in the bank itself you can just hook up the autopay and there is no paperwork that is required to take signatures and all of that, so it is a lot more easier with banca companies. So, their thirteenth month by itself is usually higher while our 15th month, 17th month gets a lot better. The way to look at it not just from a metrics perspective is thirteenth month is just an indicator, ultimately the second premium that is coming in or not that is what the way I would like at it. Our second premium will be healthy and our thirteenth month bucket may be lower than the banca companies. So you will find it coming right back in the 14th, 15th, 16th month.

Haresh Kapoor: Thank you. That is it from me.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec Bank. Please go ahead.

Nidhesh Jain: Thanks for the opportunity. Sir the first question is on life insurance, Sir. There is a fair bit of increase in non-participating guaranteed products. So if you can give some color on what is the level of guarantees, tenure of these products and premium payment terms and how are we hedging this interest rate risks given sharp reduction in interest rates in the economy?

S Sreenivasan: Yes. The non-par largely is a POS product that we launched. It varies between 5.5% to a little over 6% depending on the age, provided that they hold it to maturity. This is largely sold through certain segments of agency as well as through the Institutional Business (IB) channels. It is a high-margin product, but the margin is volatile, because, it is dependent on interest rates. As of now our book size is not big enough as we have launched the product last year, therefore, we are able to completely hedge it through partly paid bonds of very high-quality, which are at a fixed coupon, the money is called over maybe five to seven years and the maturity is up to 15 years. Tarun would you like to add to that?

Tarun Chugh: I think you have answered it perfectly, Sreeni. So, it is fully hedged on not just a AAA set of papers, but name checks very clearly in place. This is our learning from whatever we have seen in IL&FS and DHFL. We have been very careful about where we are buying. The other is, this is the cost product, which is a very low ticket product, so that kind of keeps a check of the amount we sell. So, the maximum premium on this product is only Rs.1 lakh, unlike others that are in the market and this is not a long duration one. Our average duration as Sreeni

said will be in the range of five to seven years, but usually the maximum outstanding guarantee would not be beyond 10 to 12 years and that is perfectly hedged.

Nidhesh Jain: Sure, and just to confirm the premium payment term is on an average is five to seven years?

Tarun Chugh: Yes, if you do it on a duration basis.

Nidhesh Jain: And secondly, in general insurance, if you can share the segment wise loss ratio that would be very, very helpful and if not, at least a commentary on ex of crop and ex of this one-off cyclone event what is the combined ratio movement Y-o-Y?

Milind Choudhari: Regarding the claim ratio?

Nidhesh Jain: Yes, loss ratio segment wise.

Milind Choudhari: I think as far as segment wise loss ratios are concerned, we find some increase in the four - wheeler portfolio specifically and that has contributed also because of some increase in the discounting, so that is one area where the loss ratio was increased. We have also seen some increase in our retail health loss ratios. due to some additional claims particularly during the onset of monsoon and other things. So, we have seen some increase in retail health too. These are the two segments I think where we have seen some increase in loss ratios and we also have an impact of the Odisha cyclone, which is Fani, so the net impact on our books is around Rs.30 Crores.

Nidhesh Jain: And especially on the own damage side, we have seen a loss ratio , I think for entire industry inching up, so do you think incrementally it will worsen our players have started taking corrective action on pricing now?

Milind Choudhari: I have seen some action from the other companies also in this regard. We are also seeing some action being taken even from the OEM side as far as this issue is concerned. So we have seen some, I would say, freezing up in terms of the discounting levels what will be offered by OEMs, so I think there are some resemblance in the market coming up, so we do not expect it to rise very high.

Nidhesh Jain: Lastly on the expense ratio, on general insurance it is slightly on the higher side if you look at the last seven to eight quarters data, so is there any one-off there or any comments on that?

S Sreenivasan: Last quarter of last year we had said that expense ratio has gone up because we have signed up a large number of banca tie-ups. This includes public sector banks, private sector banks, big ones like HDFC Bank and now even Citibank has started kicking off from this year. These require a lot of manpower before it reaches a certain scale. So, in the initial part you will not

find productivities as high as a mature banca relationship. So that investment has already been made. We are already seeing good traction. I think the first quarter we have seen a 35% uptick in our bancassurance business and over the next three to four years we think bancassurance not only will it grow as a proportion of our total channel mix, but we think it can become a as profitability engine as well. It gives us high quality non-motor business. There are so many banca relationships some of them we are starting from scratch therefore the base effect itself should give us good growth. Apart from that, the downside is only that bancassurance typically is the most visible when you have a catastrophe because bancassurance tends to have barring some very large losses, which may come from corporates, a lot of the mid-sized losses usually happen through funding by banks and therefore you find that in catastrophes you will have the bancassurance channel getting hit, but net-net, I would say over the next three to five years we think that should power this company back to higher profitability and growth. Tapan?

Tapan Singhel: You are right, Sreeni. So if you look at the latest structure, we invested not less than what we already invested in banking channel. The investment, this will give return as time progresses.

Nidhesh Jain: Sure Sir. That is from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management Company Limited. Please go ahead.

Ashish Sharma: Thanks for the opportunity Sir. Just on the BAGIC in your motor what will be the mix between cars, two-wheeler and CV and in two-wheeler do we do only Bajaj or this is one clarification and the second would be on how do you see the behavior with this new norm kicking in where IRDA has sort of unbundled even the OD component. So I mean technically now the customer can have three different policies, so how do you think the behavior will pan out once those norms sort of come into effect from September 2019?

Milind Choudhari: Yes. As far as the mix in terms of the total motor business is concerned around 11% to 12% is coming from two wheelers and around 48% coming from four wheelers. Remaining around 40% comes from the commercial vehicles and other miscellaneous types of vehicle. So what we have seen is that as compared to last year there is a slight increase in terms of the contribution of the mix from two wheeler business. The motor four wheeler business is slightly lower as compared to last year down from 52% to 48% now, but the rest of the segments particularly commercial vehicles, I think they continue to grow in the same manner as per the last year, so in terms of mix I think the four wheeler portfolio dominates the entire motor business and movements in the four wheeler business also affects the overall performance favorably or unfavorably.

- Ashish Sharma:** Sure in terms of, is this two wheeler entirely Bajaj?
- Milind Choudhari:** No, it is not entirely Bajaj as such. Basically, we have a tie up with Bajaj, but I think as far as other OEMs are concerned, we do not have direct tie-ups. So, there is some insurance happening through the dealers and the financiers and other things and also through the multiline agency.
- Ashish Sharma:** Sir and on the unbundling of the OD component how do you see that, do we see that customers preferring an integrated plan or does the unbundling sort of creates further competition and further pricing power?
- Tapan Singhel:** So if you look at unbundling, it had to come. Last year when they allowed three year long-term policies and five year policies, they also allowed one year OD with three year policy, which means that from the second year you have to have a separate OD otherwise how would you know have a cover, so I think this unbundling is something, which is a direct fall out of the previous decision. If you look at unbundling, it just means that if you want to buy an OD cover you can buy from one. The company just gives you the TP cover or you can buy from any other company of your choice, which also means that now the ratio, which earlier was like OD plus TP being seen on motor will now probably also be OD to OD and TP to TP also will start coming to play in times to come from pure observation perspective, but broadly it will not have much impact in terms of how the pricing and how these are moving and my thinking is most customers would actually take the OD from the place where they have TP. Most customers would, some would take it differently, but that will be fine, so not so much as a big impact as such as you are thinking. The only problem can be that some people may not take an OD policy. So the percentage of people taking OD may decrease a bit, but that will be only marginal and not very huge.
- Ashish Sharma:** Perfect and just lastly if I can in terms of Bajaj Finserv Direct, I mean what is our roadmap and some color on that would be helpful, Sir and that will be all Sir?
- S Sreenivasan:** We will be making a proper announcement later in the year. It is an internal initiative. It will be a digital company. It will focus on selling products across the group. Beyond that at this stage we have nothing more to say. There is a lot of research and R&D work going on, a lot of background work going on in setting up that. So we will make a proper announcement once we are ready to launch that company's products.
- Ashish Sharma:** But this will be launched this year?
- S Sreenivasan:** We are hoping to.
- Ashish Sharma:** Perfect. Thank you and all the best Sir.

- Moderator:** Thank you. The next question is from the line of Anirban Sarkar from Principal Mutual Fund. Please go ahead.
- Anirban Sarkar:** Thank you for the opportunity. Most of my questions have been answered. Just one question I have on the net earned premium being higher than the net written premium in this quarter, so am I right in understanding that this would be because in the comparable quarter last year there would be a large chunk of premiums that were not earned and that came into this quarter and what segments would they be if that is the case?
- Milind Choudhari:** Yes. Actually the change, which has happened, is in the current quarter. It has nothing to do with the last year same quarter. Basically, we entered into long-term dwellings where we had increasing concentrations in certain areas, so where we entered into a new reinsurance arrangement and we have to see the long-term dwelling premium to the reinsurers. So that is why the net written premium in this quarter is lower because the sessions have been disproportionate in terms of what has been written in the GWP because the long-term premium was sitting on our books, which have been ceded to the reinsurers. That is why the ratio is a little skewed and it also has an impact in terms of the ratios, which are derived in terms of the net written premium. Even for example I would like to mention about the combined ratio, which is currently at 103% that is because the expenses and the commissions are being the denominator, which is being used is the net written premium and if we look at the complete net earned premium based combined ratio it is still less than 100.
- Anirban Sarkar:** Fair enough. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.
- Mayur Parkeria:** Good afternoon Sir. Just two small questions. One is on our consolidated basis apart from the insurance and finance companies there was a loss of Rs.10 Crores where others are there what is that?
- S Sreenivasan:** No, that is our expenses for setting up our Bajaj Finserv Direct. We have many of these new initiatives we call it incubation expenses. We are studying various things happening in the market that we will be spending this money going forward.
- Mayur Parkeria:** In BALIC, we have transferred money from the shareholders account to the policyholders account Rs.30 Crores for which pool that would be?
- S Sreenivasan:** It will be non-par.

- Ramandeep Singh S:** Yes. It is largely non-par because of the strain we are getting suddenly because we have never sold so much of non-par and because of that we are getting this strain and also the impairment part was setting in policyholders fund and that is what also appeared here.
- S Sreenivasan:** Actually, it is P&L neutral for shareholders because you transfer it back and then the profit goes up in policyholder fund and again you transfer it back to shareholders.
- Mayur Parkeria:** Sir, the last part I did not get can you please explain?
- S Sreenivasan:** No. It is an income in the policyholder account and an expense in the shareholder account. Then if the net account is positive then that will again get transferred back to shareholders on the non-par side. At the par side it would not happen.
- Mayur Parkeria:** Yes, but this figure must be net of it, right?
- Ramandeep Singh S:** What Sreeni said holds true only for the EOM funding we do, but otherwise this is largely coming from the new business strain, which is coming from the non-par.
- S Sreenivasan:** So, there is a loss on the non-par account, which is what it is.
- Mayur Parkeria:** How do we see this going ahead, will it continue for some more time?
- S Sreenivasan:** Until the time we have huge growth appearing in any segment. So for example, in non-par we believe that this trend will continue for some few quarters because this product has just picked up, so this trend will continue for the next few quarters until our scale is achieved in this line of business.
- Mayur Parkeria:** A little bit more on this, are we trying to cap this or will we have a policy that we cap these laws or is it based on the business growth, which will first want to achieve a decent scale and then look at this?
- S Sreenivasan:** I will take that question. I think we do have a very rigorous planning mechanism. We do a three-year plan and a one-year plan. Always when there is an opportunity in the market the question is how much you want to burn in terms of new business strain because it is a very profitable product, so that is the call we take looking at the entire business mix and all parameters of P&L. Clearly given the high solvency surplus and the excess capital sitting in the life company we can afford to invest a little bit more. Our focus is to grow the new business value and therefore P&L may be having a new business strain when we have a growth opportunity and we want to tap it. It is an annual number we just take. I mean you will have to see what the growth is and based on that we will take it.

- Mayur Parkeria:** Just a very small bookkeeping question. If you see the individual rated new business and group new business, the total does not add up to the breakup. So there is a small difference of only Rs.14 Crores, Rs.15 Crores and Rs.18 Crores every quarter, but I just was wondering if it is consistent there, so if you can just see into that?
- S Sreenivasan:** So sorry. Your question is individual rated, does it add up to what?
- Mayur Parkeria:** Individual rated plus group new business does not add up to the total new business.
- S Sreenivasan:** It will not because rated business is 10% for single premium, so the amount, which we write it, is the impact of that.
- Mayur Parkeria:** Rs.668 Crores plus Rs.332 Crores is Rs.1000 Crores, but in total, we say it as Rs.1014 Crores?
- S Sreenivasan:** Yes because one is on rated basis. So individual rated means where you have single premium, you have rated it at 10% so if you gross it up, it will be that small component because we write very small amount of premium.
- Mayur Parkeria:** It is a small component.
- S Sreenivasan:** Yes. It will be available in the public disclosure, in the revenue account and the premium schedule as to what the first year premium is, what the single premium is and what the renewal premiums are.
- Mayur Parkeria:** Sir regulatory disclosures for Q1 are uploaded?
- S Sreenivasan:** Not yet.
- Mayur Parkeria:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sanket Godha from Spark Capital. Please go ahead.
- Sanket Godha:** Thanks for the opportunity just on crop insurance, just wanted to understand that we had a loss of Rs.98 Crores, which you mentioned in the initial comments. With respect to FY2018 and FY2019 crop, we have underwritten, so it is like the ultimate loss has been crystallized or we still can see that loss to come up in subsequent quarters with respect to the products which we have returned in FY2018 and FY2019 on crop?

- Milind Choudhari:** I think whatever we have written this quarter, it was only a spillover of last rabi season, which was a little loss making particularly the Maharashtra and Karnataka states. This will not be carried forward going forward.
- Sanket Godha:** No because we said that in the quarter we provided for FY2018 also, so all the losses with respect to FY2019 also have been crystallized in that sense?
- Tapan Singhel:** No I think what actually happens if you look at the crop business there are two parts to it. One is kharif and the other is rabi. Now the rabi is over. Now the kharif season will start, so fundamentally whatever loss comes through we provide the product. We also have an actuarial understanding of that and a bit of deviation from that can happen. So last year, our rabi was back and that is why this quarter, the result looks a bit bad. If you remove crop losses and then Milind also mentioned including the crop losses also, our combined ratio on the earned basis is lower than 100%. It is because of when we remove the crop, it is much better, but having said that business is business we do have to really dissect to say what has turn up, so we had a bad rabi and it is reflected here in this quarter and next quarter with respect of that it will not be there.
- Sanket Godha:** Just I wanted to understand if you can repeat your loss corridors for the crop insurance may be you have said it in the previous quarters concall, but can you can tell how the loss corridors for our crop work and the second question is what is our crop strategy going ahead, how much is kharif and which states will be contributing to kharif in the current year and what will be our stance on rabi for the year?
- Tapan Singhel:** First and foremost our strategy on crop has always been that our market share of the total business let us say about 7% or so will be there. Our crop business is already a bit less and a bit more, but we are never trying to be very overrated on crop or underrate. Crop is a significant amount of business. It is about Rs.20,000 plus Crores kind of business, which is there, which means that there is a large player, you have to have some play into the crop, which we do and we keep it within the limit of our market share. So our strategy on crop has been clear from day one and we have delivered very good on that. When we do businesses like crop, there will be one off bad seasons because if you could predicate everything to be right is because volumes are large. If you look at our kharif here again diversified our selection of business is spread all across the country. We do that so that typically one off even a particular occasion it goes bad, we still are protected from that perspective and the monsoon it keeps on fluctuating. Earlier that is good then there will be a bit dampening. Now again this thing is going to be good in the places that it is there, so hopeful that things should come out well.

- Sanket Godha:** Can you just give us the loss corridor details of crop insurance at what rate does stop loss work for us?
- Tapan Singhel:** You are asking our reinsurance detail is it?
- Sanket Godha:** Yes reinsurance detail.
- Tapan Singhel:** I think the stop loss would be working over at 130 or so. Milind, correct me if I am wrong.
- Milind Choudhari:** Yes.
- Sanket Godha:** It come backs to us at what level after means 180?
- S Sreenivasan:** You are asking too many technical details. I think that is all we can confirm now.
- Sanket Godha:** One more question on Bajaj Life just wanted to understand group protection business what we have written, what is the contribution of Bajaj Finance and non-Bajaj Finance and just wanted to understand whether Bajaj Finance has also started selling savings products for us because one of the other competitors has said that Bajaj Finance has got into selling saving products for them?
- S Sreenivasan:** Bajaj Finance has started last year itself selling savings products for us and group business, not only Bajaj Finance, we do group business with a lot of other partners as well.
- Sanket Godha:** If you can share the mix between Bajaj Finance?
- S Sreenivasan:** We cannot give partner wise details in this thing. That would not be right.
- Sanket Godha:** Thank you.
- Moderator:** Thank you. The next question is from the line of Niraj Toshniwal from Emkay Global Financial Service Limited. Please go ahead.
- Niraj Toshniwal:** Taking up from the last question on Bajaj Finance selling saving product for BALIC anything we are doing for the BAGIC side of it also in terms of challenge from the Bajaj Finance?
- S Sreenivasan:** Can you repeat the question please?
- Niraj Toshniwal:** So how much contribution is coming from Bajaj Finance in terms of BAGIC channel for BAGIC?

- S Sreenivasan:** We cannot provide partner wise information. We are one of their major partners and one of their largest partners on the insurance distribution side for BAGIC and BALIC.
- Niraj Toshniwal:** Sir, what is the roadmap ahead if at all we want to upscale that business for Bajaj Finance?
- S Sreenivasan:** Bajaj Finance has taken the route of going for multiple partners keeping in mind the different types of verticals they do and the need to provide choice to the customer. So our objective will be to grow the business that we are already doing with them and it is a plan that every year the company and Bajaj Finance like any other partner they will sit and work out what needs to be done.
- Niraj Toshniwal:** Are we paying market benchmark rates to them because I think HDFC Life is a bigger partner for them, so I just wanted to understand that context if you take the pie?
- S Sreenivasan:** Everything is at arm's length. You cannot really do business with any partner, which is not at arm's length.
- Niraj Toshniwal:** Got your point and on the second question is on the TP rate increase what would be our portfolio rate increase because we are CV heavy portfolio, I think it was a little lower on this side this year, so what would be the blended rate increase for us?
- Milind Choudhari:** Yes. I think the overall rate increase is coming around 6% to 7%.
- Niraj Toshniwal:** 6% to 7% and in terms of strategy, like we have already discussed in the call unbundling of the motor OD or increase of discount already, which is hampering your four wheeler loss ratio or let us say for the TP loss ratio has also inched up, so what is our strategy going ahead and how we are actually targeting to contain the combined ratio below 100% apart from the ex crop, if we talk about just, which is not in our hands, but definitely if we can have some color and also on the fire, which I think after GIC has increased the rates, a lot of interest has started coming into that, so any strategy and color will be very helpful?
- Tapan Singhel:** So I think the strategy for us is always very clear. In the market, we want to be servicing our customers well and we want to write the risk at the price that we see we are comfortable with be it fire and be it motor. If we look at the GIC rate increase in fire, it is an average increase based on the IIB loss ratio, which is there and GIC reinsurance has the right to underwrite what comes to it and that is how GIC is and this is very slower than the average rate of losses, which is there with IIB and I think they are writing their say when they say that and we again picked up what would be good from a company perspective and we will end up focusing, so strategy has always remained the same for our company, that we will be customer obsessed; two, we will pick up business at the price that we are comfortable with, three, customers who come to our fold we will service them very well; and we shall keep on looking for market

opportunities where we feel that growth can happen. So that is what we are doing and like say for business with crop, which are large-scale businesses, we understand that there is volatility in that business, but on a scale of five years it looks like good business and that is why again they you pick up a tender where it feels comfortable with the way it has to go and our strategy will always remain what strategy in the past.

Niraj Toshniwal: On the target towards combined ratio, I mean any color on that?

Tapan Singhel: We want to be and have been a good underwriting company and we shall continue to be that. We are not letting that go, so as somebody has rightly said in the call earlier that the entire industry's combined ratio is diluted. If you look at the combined duration from last year to this year, it is about 8% to 9% the combined ratio industry has now increased and compared to that, I think we have still done reasonably well. If we have not seen crop losses come up, it would have still been a pretty decent result and as Milind said that NEP basis our combined ratio is still below 100%, so we continue being a good underwriting company. That is what we want to do.

Niraj Toshniwal: The last question how has been our experience in terms of Ayushman Bharat scheme and any initial comments on that I mean the claims have been?

Tapan Singhel: Yes. We have always supported the government in all the initiatives that they have taken especially for the insurance sector so we also participate in Ayushman Bharat. We have two states with us and it is too early to comment on how the schemes will move, but yes, we want to be a part of the government scheme, which benefits the citizens at large.

Niraj Toshniwal: Thank you. That is it from my side.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint, that was the last question for today. I will now hand the conference over 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 Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

End of the Transcript