



“Bajaj Finserv Q4 FY 2016 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Bajaj Finserv Q4 FY16 Results 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. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you Mr. Singh!

Karan Singh: Thank you. Good morning everybody and welcome to Bajaj Finserv's earnings call to discuss the fourth quarter FY16 results. To discuss the results we have on the call Mr. S. Sreenivasan who is CFO - Bajaj Finserv, Mr. Tapan Singhel, who is the MD & CEO - Bajaj Allianz General Insurance, Mr. Milind Choudhari who is CFO - Bajaj Allianz General Insurance and Mr. Ramandeep Singh Sahni who is CFO - Bajaj Allianz Life, Mr. Milind Choudhari – CFO, Bajaj Allianz General Insurance. May I request Mr. Sreenivasan to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

S. Sreenivasan: Good morning everybody. I am S. Sreenivasan the CFO of Bajaj Finserv here. On behalf of Bajaj Finserv Limited, Bajaj Finance Limited, Bajaj Allianz General Insurance Company and Bajaj Allianz Life Insurance Company Limited let me first of all welcome you to the Bajaj Finserv's Investor Call for Q4 of financial year 2015-2016 and for the full year ended on March 31, 2016.

In this call we will be focusing on the consolidated results of Bajaj Finserv Limited for Q4 and FY2015-2016. We have uploaded our investor presentation on our website www.bajajfinserv.in and we hope you would have had an opportunity to go through the same. I also welcome Tapan Singhel – CEO, Bajaj Allianz General, Ramandeep - CFO of Bajaj Allianz Life and Milind Choudhari – CFO of Bajaj Allianz General to this call. I am sorry to report that Mr. Anuj Agarwal the CEO of Life was supposed to join the call but he is indisposed and he is not able to take the call.

Since Bajaj Finance has already had their investor call we will not be covering Bajaj Finance in detail in this call except for the impact on our consolidated results. Let me also clarify that we will not be covering any questions related to our JV agreement with Allianz. As is the normal case we will not be giving guidance for future and any statement that may seem like a forward looking statement is not a guarantee of future performance and is subject to uncertainties, risks, and developments external to the companies.

Let me now come to the financial results. First of all I am pleased to announce the highest ever annual profit on a consolidated basis for Bajaj Finserv Limited. In FY2015-2016 our consolidated revenue crossed 20,000 Crores and our consolidated assets exceeded Rs.100,000 Crores for the first time. Both Bajaj Finance and Bajaj Allianz General Insurance recorded their highest ever annual profits after tax.

To summarize, our consolidated gross revenue grew 13% in Q4 and 14% for the full year and stood at Rs.22,364 Crores in FY16. Our consolidated profit after tax grew 10% in the financial year 2015-2016 at Rs.1,863 Crores as against Rs.1,690 Crores reported in FY2014-2015.

Let me emphasize here that the consolidated results of Q4 as compared to Q4 of the previous year are not comparable since the transfer of policy holder profits to the shareholder accounts of BALIC was being done in Q4 for the full year in FY15 while we have been transferring the same every quarter in the current financial year FY16. This has been highlighted in the previous quarter's investor calls.

Let me just give you a snapshot of our subsidiary companies performances. Bajaj Finance Limited the AUM stood at 44229 Crores at March 31, 2016 which is an increase of 36% over March 2015. The Q4 profit after tax at 315 Crores was 36% higher than Q4 of FY15. For FY16 as a whole the PAT was Rs.1279 Crores, which was 42% higher than FY15. The net NPA at March 31, 2016 was 0.28% and the capital adequacy was 19.61%, which is well above the regulatory requirement of 15%.

Overall it was another strong quarter and year for BFL. Coming to Bajaj Allianz General BAGIC, BAGIC had a very strong quarter and record a premium growth of 18% in quarter four and a profit growth after tax of 44.4%. It may be recalled that due to the lower amount of crop insurance business in the first three quarters the growth was only about 8.3% in the nine month period ended 31st December 2015 and due to the unprecedented floods in Chennai in Q3 of FY16 the profit for the nine-month ended 31st December was also lower by 14.8%.

I am glad to report that with a strong performance in Q4 BAGIC has been able to record a growth of 11.3% for FY16 making up for a lower growth in the first nine months, similarly it has been able to marginally improve its tax for FY16 wiping out the drop of the first nine months.

For Q4 BAGIC had a loss ratio of 70.7% and a combined ratio of 94.3% the combined ratio was a 1.1% improvement over the Q4 FY15 figure of 95.4%. I am glad to report that

BAGIC continues to be among the best in terms of combined ratios not only in the private sector but among the public sector as well.

For FY16 BAGIC had a GWP of 5901 Crores a PAT of 564 Crores the combined ratio of 99.3%. BAGIC cash flow generation have been strong in FY16 as well. The total cash and investments at 31st March 2016 was 9211 Crores as against 7859 Crores at 31st March 2015 which was an increase of 1352 Crores. BAGIC's net worth at 31st March 2016 stood at 2790 Crores. Overall Q4 has been a strong quarter for BAGIC with growth momentum and profitability picking up.

Coming to BALIC, the Bajaj Allianz Life Insurance Company. Overall Market conditions were somewhat sluggish in Q4 especially for growth of individual business. In Q4 BALIC still managed to grow new business by 7.6% and GWP by 1.7%. The renewal premiums were lower by 4% due to the smaller base arising out of some limited pay products having completed their payment terms as per the policy conditions. The annualized new business also grew by 8% in Q4 at Rs.406 Crores as against 375 Crores reported in Q4 of FY15. For the full year FY16 BALIC reported NB of Rs.2885 Crores as against Rs.2702 Crores, which is a growth of 7%. GWP for FY16 at 5898 Crores was however 2% lower than FY15 mainly due to the effect of limited pay product in the renewal premium. BALIC retained its fourth position amongst private sector insurers in FY16 in terms of total new business. The surrenders and withdrawals excluding death claims was significantly lower in FY16 at Rs.3361 Crores as against 6737 Crores in FY16. For FY16 the profit after tax was a shade better than FY15 at Rs.879 Crores as against 876 Crores. BALIC continues to be the third largest agency force among private companies in terms of new business. The net worth of BALIC at 31st March 2016 was 7631 Crores and BALIC embedded value at 31st March 2016 calculated as per the Indian embedded value standards was 9876 Crores, the implied margins on annualized new business was 16.6.%. Overall BALIC's performance given the market conditions we consider as satisfactory and it showed a slow but steady recovery in the new business.

I will now hand over to Tapan for any overall comments before we take up the Q&A. Tapan.

Tapan Singhel:

I think the only point I want to make is that this year again has been pretty tough for general insurance business in terms of the Chennai floods being there, in terms of government policies on crop insurance which was there but still as a company I think the team was able to identify opportunities and keep our business good, Sreeni you covered most of the points I think you covered it well.

- Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Nidhesh Jain from Investec. Please go ahead.
- Nidhesh Jain:** My first question is on general insurance. If I look at operating expenses ratio there is a sharp fall on quarter-on-quarter basis and the last quarter I think we were stating that competitive intensity has increased which has led to dealer payouts increasing, so what has led to this decline in operating expense ratio in general insurance.
- S. Sreenivasan:** Just briefly I will give it to Tapan or Milind but before that let me just highlight it is a function of growth as well, if you see, the growth has been strong at 18% and expenses largely do not follow growth barring the acquisition cost which is maybe about half the expenses, that is one of the main reasons, but now I will give it over to Tapan.
- Tapan Singhel:** In our business we also do reinsurance in terms of some businesses which required more expenses reinsurers also share that so the combination of one like what Sreeni said in terms of growth, second is in terms of the reinsurance placement that we have and how it operates together will be a co sharing of expenses at some point of time.
- Nidhesh Jain:** So incrementally what will be the guidance on combined ratio?
- Tapan Singhel:** We do not give a guidance on combined ratio except that as a company as we have always said it is our objective and hope that we should make an underwriting profit and remain with a combined ratio below 100. However, given the nature of the business, the impact of catastrophes and the unpredictability of the largest segment of our expenses, which is claims, we try not to give guidance.
- Nidhesh Jain:** And sir lastly on the life insurance business there has been a positive operational variance of around 193 Crores so what exactly is this?
- S.Sreenivasan:** It is a function of mortality, lapsation and ...mainly mortality and lapsation.
- Nidhesh Jain:** Thank you, that is it from my side.
- Moderator:** Thank you. Our next question is from the line of Sameer Desai from Finco Capital. Please go ahead.
- Sameer Desai:** Sir are there any future plans to list general insurance and life insurance business going forward separately?

- S. Sreenivasan:** As of now we do not have any intention of listing both the companies, and as both the companies are sitting on very good solvency surpluses, the company themselves do not require any capital; so in the foreseeable future we have no plans of listing either general or life companies.
- Sameer Desai:** What would be the current year ROC and ROE for general insurance, life insurance separately?
- S. Sreenivasan:** I do not have the exact number for life, but it is around 12% or so - general insurance is about 22.6% .
- Sameer Desai:** ROC or is it ROE.
- S. Sreenivasan:** There is return on equity.
- Sameer Desai:** What would be your philosophy for ROE for general and life insurance going forward?
- S. Sreenivasan:** As we said we do not have a target for ROE and life insurance, it is a function of the business. We want to grow the business, do profitable insurance business, grow the AUM and thereby we expect that both businesses should be able to deliver superior ROEs.
- Sameer Desai:** As a group what will be the vision for a general insurance, life insurance, next five years?
- S. Sreenivasan:** We want to grow and we want to be profitable. In the case of general insurance, we are already one of the best companies in the market in terms of profitability and among the top two private companies in terms of GWP. We are one of the strongest in the retail segment and we think the market is severely underpenetrated and there is significant opportunity over the long-term in this business. In terms of life there has been over the last few years series of events which has affected the industry as a whole and BALIC in particular, we think we have done reasonably well in this last year but we still have some way to go, over the next two to three years we want to rebuild our growth that should be our primary target.
- Sameer Desai:** Again in banking license you want to apply Bajaj Finserv or Bajaj Finance going forward if Bajaj group is going to apply the banking license in which company it you will be applying for Bajaj finance or Bajaj Finserv?
- S. Sreenivasan:** Banking regulations have just come out just about ten days ago and we are still in the process of studying it and we have not reached any conclusion on that.
- Sameer Desai:** Thank you.

- Moderator:** Thank you. We have the next question from the line of Girish Raj from Quest Investment. Please go ahead.
- Girish Raj:** First question is on the motor third party rate that has increased so any benefit that may accrue or retain from this increase?
- Tapan Singhel:** The motor third party if you look at couple of years back ... was based on the claim ratio because the gap on the claim ratio and the premium is controlled by the government minus motor third party this has been freed, so company decides what the premium would be. Since the claim ratio is higher compared to the premium which is required what was agreed was that on year-on-year basis after regulator takes inputs from the motor bodies, transporter bodies and insurance companies that is decided on a rate increase to slowly bridge the gap between the right pricing and the pricing being put by the regulator on that basis. So every year this increase happens, now from our perspective we welcome that because it helps us the balance portfolio but still the price increase has not reached a level at which it should be there. They are still below the adequate pricing which would happen because also year-on-year basis the claim size starts moving up so yes it is a positive step but is it where we wanted as an industry, not yet.
- Girish Raj:** No, what I was trying to understand is whether we are able to retain it or is the market competitiveness?
- Tapan Singhel:** No the price is fixed, the motor third party price is fixed by the regulator, so nobody can change the price, that is only price is controlled by the regulator, the rest is free market price.
- Girish Raj:** Second question is on life any insight that you want to share on the group credit protection and group term life?
- Ramandeep S. Sahni:** I really did not understand your question but on GTL and GCPP - sorry go ahead.
- Girish Raj:** The group credit protection and group term life any insight how is it moving and any competitiveness that is impacted because we are very strong in this business?
- Ramandeep S. Sahni:** Yes, so I think we have been market leaders in this segment and we sell a lot of credit protection and GTL both, largely on the FI space so I think we continue to be market leaders, I do not think we have lost any market share to any of the new entrants, but what is happening with these small banks and the payment banks most of the players who we used to sell a big chunk of business to they might get into multi tie-ups and we might be exposed there but as of now I do not think we are seeing any threat for the year to come in the future.

- Girish Raj:** Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.
- Roshan Chutkey:** I have couple of questions sir, firstly what is our current status of your relationship with Allianz?
- S. Sreenivasan:** As I just mentioned before, we are not covering any questions on that... compared to the last quarter there is no change in the status.
- Roshan Chutkey:** And secondly I have joined the call a bit late so I am not sure this has been answered as well. Trying to understand the dip in the operating cost in the general insurance business specifically while the competition seems to be seeing a significant increase in the Opex increase the same is not true for this quarter specifically, wanted to understand?
- S. Sreenivasan:** We have covered that already, basically I think Bajaj Allianz has always been a market leader as far as the cost is concerned and this quarter particularly the growth has been strong so the cost as measured by GWP has actually come down and as Tapan mentioned previously some part of the reinsurance arrangements have also helped us in containing the cost. So overall it has been a good effort in terms of control of cost.
- Roshan Chutkey:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.
- Nilesh Parekh:** Sir on the general insurance side the Q4 was quite impressive on growth, if you can just dwell more in terms of this certain segments because maybe its not come from motor and how sustainable is the growth.
- Tapan Singhel:** If you look at Bajaj Allianz as a structure the company, we are a very strong retail based company and we have a big distribution across the geographies and if you also look at the last quarter the uptake on vehicles was better than the other quarters. It is a retail company and the sales of vehicles also moves up and you have a good distribution so the last quarter typically propels us to much good number, so historically also we see the last quarter has been good for us because that is how the company is structured and this year also that was the last quarter whatever little economic ... or whatever sale happens in terms of automobile or that also helped us to push it up, so this is the nature of the way the company is structured and this year again was good for us.

- S. Sreenivasan:** Just to add to what Tapan said I think one of the areas we have been focusing on the last few years, we have been growing significantly above market has been the retail health segment. Even in Q4 we had a 24% growth in retail health segment and it helps us to achieve a better mix of our product and line wise portfolio.
- Nilesh Parekh:** No sir, but when I look at the mix right what we put out on the presentation the motor segment probably is down in even if look at it on annualized basis 56 for the full year but Q4 it is 52 and last year it was 54 and the health segment maybe there is a change between the corporate and individual but as a segment per se it remains kind of stagnant but what has grown is the others so I just wanted to understand...
- Tapan Singhel:** The other also is a part of agriculture, which is there
- Nilesh Parekh:** I am sorry can you repeat that?
- Tapan Singhel:** Agriculture business which is there, part of it.
- Nilesh Parekh:** But isn't that more typical and depending on because somewhere two quarters back we had maybe not participated in some of these so I just wanted to understand.
- Tapan Singhel:** I will give you a bit of background on that, agriculture business we see the government has come out now with the norms. Earlier what was happening is that there were two, subsidies - a premium subsidy and a claim subsidy. On the claim subsidy policies the private companies could not participate that was there earlier and on the premium subsidy they could, so quite a few state governments had moved to the claim subsidy where the private companies could not participate and that was last year., This year the government has come out with the new agriculture insurance scheme in which these anomalies have been removed so the companies can participate and we have been looking to this business and we have been developing the book so yes last year we had the anomalies because of the government policies which is not there this year so that is why we had a bit of dip in some of the states where we had participated strongly the government went for the claim subsidy on that basis now.
- Nilesh Parekh:** So what you are saying Q4 we the recoup on business is largely because the change in policy.
- Tapan Singhel:** Q4 the government policy is not changed it is still there but some states which we had presence there they had maintained the premium subsidy so we had the entry there, but if you see overall like Sreeni was mentioning you are seeing a segment change like in terms of overall portfolio mix of 54 something but if you see a growth basis the last year in terms of

motor and health that also is significant so overall all lines of business are performed well but on a percentage basis because segment wise that is why this is coming so if you look at a pure growth basis of our lines of business be it motor, be it health, be it others they have all done significantly well compared to the last quarter.

Nilesh Parekh: So there is no one-off right.

Tapan Singhel: No, there is no one-off that is the point I was trying to make because you have seen the segment, this is why the perception is coming in, if you look at line wise growth compared to the last quarter you will actually see that all lines have done well.

Nilesh Parekh: So this, the agri business is more sustainable will be consistent over next year.

Tapan Singhel: Yes, as of now because new government policies coming in I think it is sustainable.

Nilesh Parekh: And the other question is on the life insurance side in terms of the we have seen a good growth on the fund business on the group side so just wanted to understand fund and nonfund largely the growth has been driven by, how sustainable is the growth and if you can just give some color on margins in this business.

S. Sreenivasan: I will give to Raman but before that let me tell you, majority I think more than half our AUM on the fund business actually comes from unit linked fund business where we make about on an average about 1% management fees. So it is not a loss making business however in terms of margins you cannot take actually the contribution to the fund as a premium and NB and to that extent it may when you look at the aggregate margins it will have an impact. I will just hand over to Raman about give a better flavor on the group business.

Ramandeep S. Sahni: I think Sreeni was right and saying when we look at funds business ourselves we do not really look at it from a margins perspective but what we ensure is that the business is profitable so more than half the business comes from ULIP and 15% comes from group term products, it is profitable business from margins perspective though the margins will be low but we have a very small team running it so we end up making decent amount of money on this business and the balance of the group really comes from the credit protection and the group term life which we sell which is very high on margins so the total contribution I think on the new business is about 30% of our business comes from this type of protection business which is a real insurance where we end up making good amount of money even from a margins perspective.

- Nilesh Parekh:** Raman, on slide #15 we have given this ANP that includes the group fund business right and there will be a new business value also to that so the 16.6% margin includes the 30% means basically the only the fund based basis.
- S. Sreenivasan:** No it includes the rated value of the fund business on the denominator; on the numerator the contribution to the new business value is not significant. To that extent it is already discounted in the margin.
- Nilesh Parekh:** Sir that is what something I just wanted to understand.
- Nilesh Parekh:** It is there in the denominator but maybe the contributions excluding that obviously the business margins would be on the individual side would be much higher.
- S. Sreenivasan:** There is a note in the slide as well which says that group fund businesses is included in the definition of ANP.
- Nilesh Parekh:** The blended margins comes to about 16.6% so is it fair to assume that may not be similar on the fund based business.
- S. Sreenivasan:** It won't but it covers all the business that the company writes
- Nilesh Parekh:** Just one final question on the expense overrun there is a 276 Crores just wanted to get a sense you also made a comment saying that you would have been 173 if the participating business only the share of the shareholders would have been taken, I know you don't give a guidance going forward but just wanted to understand when do we achieve the steady state number here.
- S. Sreenivasan:** You see I think the problem with the life business our life business and industry as a whole the last few years is that the growth has been a problem and when growth is a problem you will have an impact on the expenses, we have taken several initiatives over the last two years to restructure our expenses, nevertheless we need to grow more to be able to cover the expenses., It is not a overnight job and as we have mentioned before it takes us two to three years to reach there, this has two components- acquisition cost expenses including the direct selling expenses and the management expenses. Our immediate objective is over the next couple of years to bring the management expenses to an under run situation and thereafter we will look at acquisition cost. We have enough surplus to be able to cover that to bring that so it is like chicken and egg situation, if we grow 30% obviously everything will get covered but if you grow 10% part of it will get covered if you do not grow less will get covered so we will have to wait and see how it goes.

- Nilesh Parekh:** But wouldn't the growth in renewal premium because that is another area where that is something which is of concern that it has been declining and that also would help in defraying some of these costs
- S. Sreenivasan:** I will tell you why the renewal premiums have not been growing, it is because if you look at renewal premium they largely come from the book of business you wrote over the last four to five years and in that time we were doing a lot of par business and in that par business we had the opportunity to sell limited pay products which were actually good for a customer they pay premium for two or three years but their coverage extends for 15, 20 years depending on the term of the policy they have chosen. That portion of the book now is fully paid up, so the renewal base has shrunk now the base will start building based on the growth that we do over the last couple of years plus the next two, three years so it will take a couple of years before the renewal base starts building because it always lags the new business growth
- Ramandeep S. Sahni:** Just to add to what Sreeni said I think on renewals the most important point is the limited pay products which we have sold in the past few years, most of them have completed their premium paying term in the previous year, so we saw a dip this year largely because of that. If I exclude the impact of the limited premium paying terms which were actually sitting in last year's numbers, on persistency whether you look at it from 13 months, 26 months, 37 months or 65th month all the persistency numbers have actually shown improvement, so I think what is happening now is from the base whatever was the decay which was happening is already out, so despite the fact that majority of the book is on the ULIP side outside of the lock-in period but still the surrenders have got curtailed to a very large extent and so the decay actually come down drastically so what Sreeni also highlighted earlier our surrenders are down to almost half of what it used to be in the last year and what we are seeing is that the in-force book whatever was the decay happening month-on-month on that that has really got stabilized now and we believe from hereon we will only see an improvement in that.
- Moderator:** We have the next question from the line of Manish Shukla from Deutsche Bank, please go ahead.
- Manish Shukla:** Sir, continuing on life insurance the partial opening up of the Banca Channel, is anything in the works, discussion going on in the leading banks, are you hopeful of having some deal there this year?
- S. Sreenivasan:** The Banca guidelines were changed in October last year. However it's only in April this year the banks had to come out with a policy and some of the banks have already announced that they would like to go for multi tie-up. There are some banks have announced, not only banks, but also corporate agents like NBFC and others. Some have

announced that they do not wish to go for multiple corporate tie-up. In this context it is only in April that some banks, have announced multiple corporate tie-ups. We are in touch with all of them and the process will now take some more months to unfold because they will have to issue RFPs and invite certain companies... shortlisting and all that but we are in touch with about 10 to 12 such banks. Most of them are public sector, I must say and we hope we will get at least a couple of them. On the other hand, what this has opened up is in our financial inclusion business because of the one partner per bank rule we had some regional rural banks which were doing group business with us which had reduced their level of business over the last two, three years, now a few of them have started signing up as corporate agents with us, so that is a positive move.

Ramandeep S. Sahni: I think the other opportunity also comes from these NBFCs getting converted to small banks and payment banks, so most of these are also looking at multi tie-up and these largely used to do like Sreeni said more of group business and the big opportunity comes from penetrating in to the retail segment over there.

S. Sreenivasan: Many of them are our partners under the financial inclusion right.

Ramandeep S. Sahni: Yes. Most of them are our partners.

Manish Shukla: The other question was on business mix, individual versus group, would it be fair to assume that unless there is a decent Banca partnership the broad mix of 70:30 or 65:35 in favor of group that would probably continue given our existing distribution mix?

S. Sreenivasan: What I would say is that our focus clearly is to grow the individual business and within that our focus is to grow more of the regular premium business as far as BALIC is concerned. The group business is an add-on to it. It consists of two types. One is a margin bearing group business, which includes our financial inclusion products as well as group credit and life products. There is also the group fund business, that is always an add on. You can always do more or less of that on the group fund side. That will eventually affect the mix but it does not take away the focus from our basic goal of trying to grow individual business.

Ramandeep S. Sahni: There are lots of initiatives we are taking trying to increase our proportion of individual, so I do not think it will be fair to say that 65:75..is what we want to be in terms of group business. We want to reduce this and increase the proportion of individual, so we are doing an agency transformation project to enhance the growth in agency and we have also recently set up the direct channel, which is one of the channel, which we have seen in the industry growing at the fastest pace. I think these two will add to our proportion of individual business going forward.

- Manish Shukla:** One last question on expense overrun, last year fiscal 2015 was about 260 Crores, this year it is about 276 Crores, so actually if I look at it in absolute terms it has not really helped in any significant way this year versus last. I know you partially addressed that but just wanted to understand that if business momentum is in let us say single digit or low double digit kind of premium growth how do you address the expense overrun?
- S. Sreenivasan:** Last year we saw signs of market growth this year especially in the second half it has not been as strong as we thought it would be especially on the individual business. We still are hoping that over three to five years if the economy grows at 8% plus we should see a significant traction in the life insurance overall industry growth. In the short run we have taken some action in reducing expenses, nevertheless it is more about growth rather than cutting expenses significantly at this stage. We are looking at it continuously. If it does not happen in a year or two again we will have to revisit our assumptions and do more work on it.
- Moderator:** The next question is from the line of Jaideep Merchant from Janak Merchant Securities, please go ahead.
- Jaydeep Merchant:** Sir, there was an amendment in the Insurance Act where in October 2015, the management control had to be with the India joint venture partner, now in our case does that change anything how the business is run on the life insurance side Sir, if you could throw some light.
- S. Sreenivasan:** It does not change the way the business is run. The companies were required to certify to IRDA by the Board of Directors and the two promoters, we have already certified to IRDA that we are complying with all the conditions in that circular.
- Jaydeep Merchant:** So on the business strategy side, there is no change.
- S. Sreenivasan:** Business is run by the management there are CEO, CFO, KMPs who run the business and we engage with them as responsible shareholders, but there is no change as far as the business is concerned.
- Moderator:** The next question is from the line of Ravi Srivastav from Bay Capital, please go ahead.
- Ravi Srivastav:** Sir, on your presentation you have mentioned there is an intercompany adjustment of 111 Crores in the profit, what is that 111 Crores. Second question is the policy... that amount transferred from policy holder to shareholder account has fallen from 488 Crores to 311 Crores, why is there such a huge difference?

- S. Sreenivasan:** I will take both the questions one at a time. You are talking about intercompany adjustments, it is basically the additional dividend paid by BFL because there was an interim dividend declared in the month of March which was a major additional component which resulted in this intercompany adjustments increasing, if you see in Q4 also it is quite high. What was your second question?
- Ravi Srivastav:** Second question was on the policy holder transfer, last year you transferred 488 Crores, this year overall you have transferred 311 Crores.
- S. Sreenivasan:** Overall if you look at policy holder's profit, the par component of that business, 10% of the distributed profit goes to the shareholders and on the non-par and unit linked business, 100% goes to the shareholders. It is a function of the product mix. Number two, as you know the business has been under strain because of high surrender charges which were there and that has now practically become not a significant proportion of our profits. It is not only this year, it has been happening over the last couple of years, but we see that this trend is now coming to an area where in a couple of years time we should be able to start growing our policy holder's profits again.
- Ramandeep S. Sahni:** I think the biggest reason for the fall is, like Sreeni said, surrender charges. If you recall the earlier ULIPS used to have high amount of surrender penalties when a person exited the policy in the earlier years of the policy but that amount has significantly fallen compared to last, but just to give you some numbers last year on ULIP surrenders the charges were about 128 Crores, they are down to only about 25 Crores and this we are seeing will stabilize at this level now and if you look at it from a company's perspective these are actually, this is a good thing to happen, because the more withdrawals we will get from these policies in the future, the more money we make, so like I also mentioned earlier the surrenders are half of what they used to be last year and the years before that.
- Ravi Srivastav:** Is this going to stabilize; should the renewal premium start going up?
- Ramandeep S. Sahni:** It would and that is also because of the limited pay products being out of the kitty from FY 2015 onwards which I mentioned earlier also, so year on we are hoping that renewals will grow because if you look at persistency excluding the limited pay products for all the persistency buckets there is indeed an improvement this year versus last year.
- Moderator:** The next question is from the line of Vibha Batra from ICRA, please go ahead.
- Vibha Batra:** The question is on crop insurance, in terms of profitability, would it be profitable for the company to do that insurance as a scheme and when do you see this scheme taking traction?

- Tapan Singhel:** If you look at in our business, we are in the business of paying claims and there is something, which is not predictable, that is the basic of the system. Last two years we had bad monsoons, which was there, but we also had very strong reinsurance treaties. If you see in spite of bad monsoon, I think on our balance sheet the effect was very minimal and this year it will be good ... so to get an idea about traction and profitability of crop insurance business if you study the balance sheet of let us say AIC which is the primary insurer of crops in India for the past 10-12 years you will see actually it gives returns but yes like all businesses there are times which you have losses and times which is good, so we believe that it is a long term business and as of now we are keen that we should be in that business.
- Vibha Batra:** But it would not be compulsory for all insurance companies, the discretion will be with you?
- Tapan Singhel:** Minus third party business (inaudible) motor third party, there is no business which is mandatory for all companies to do.
- Vibha Batra:** When do you think, at an industry level, this will take off?
- Tapan Singhel:** It is already taking up, industry is keen, they are all participating, even now the current year if I see the way tenders are going everybody is participating ...the ones which are listed with the government... because you have to enlist yourself with the government for participating, I think I see all of them participating pretty actively at the counters.
- S. Sreenivasan:** The government expectation from this I think the industry of crop insurance was close to about 5000 Crores, majority of that under the old schemes were written by the Agricultural Insurance Corporation which was allowed to participate in more schemes than anybody else, however with this new scheme the government estimate is that it will be more than double because of the new structure of this scheme and in terms of the budget allocation they have made for this premium subsidies, so we think it is now the time to actually grow that business. We were looking at it tactically for couple of years, but I now think we have enough expertise and the reinsurance network to be able to look at it over a five or ten year horizon.
- Vibha Batra:** But in case this business is not profitable and most of the government companies end up doing it under compulsion.
- S. Sreenivasan:** See government companies cannot do this business because they are all shareholder of Agricultural Insurance Corporation. There is only one government company here. Secondly, it is like any other general insurance business, if the profitability turns out to be bad or the pricing is bad and we are not able to control it, I think as a company we have been one of

the strongest in the industry to be able to take the right calls at the right time to be able to walk out of businesses, that is the risk always but then you have to measure the profitability over a period because this is a business which is exposed to catastrophes and you have to look at it over a four, five year horizon.

Vibha Batra: Is there a threat of subsidy sharing like we have third party pool in case of motor insurance, can that still happen even in agri insurance?

S. Sreenivasan: As of now, there is no indication that is on the cards, because this scheme has to now run for a few years before the government takes a view on it.

Moderator: The next question is from the line of Vijay Lohia from Value Investment Principles, please go ahead.

Vijay Lohia: Are you focusing on any other business other than your conventional? (inaudible)

S. Sreenivasan: The voice was not very clear but you were asking in the general insurance business are there any new segments that we are tapping?

Tapen Singhel: If I look at as a company we also keep on seeing how the new segments are emerging liability as a business is emerging strong, so if you see the industry as a whole liability if I go back to let us say 7 to 10 years back it was a very small portfolio for our industry, but now in the India market also the liability insurance is moving up, that is one line of the business for the industry is going to move up much faster rate compared to the industry. The second line of business is obviously health which remains as the predominant growth story even now, good CAGR, which is happening. Third, if the economy takes off we should expect more projects coming up ... engineering line of business will start for the next three four years picking up if we see economic revival happening.

Vijay Lohia: Sir on the life insurance side in terms of product mix where would you want to be in terms of individual contribution more than (inaudible) now, let us say over next two to three years, I know you would like to increase it, what is the internal kind of strategy and plan?

S. Sreenivasan: We don't have a target. As we said our target is to grow individual business, group business particularly the fund based business is an add on to that, we can control that to what extent we want to do that, so the product mix effectively becomes a resultant of what we do, having said that we want to grow the individual business to the extent the market will permit us and that is what we are trying. We are in the process of revamping our agency business which is the largest contributor to our individual business. If you recall couple of years ago we started the journey, the first phase was to improve our persistency, we have

been held back a little bit by the two pay premium products getting fully paid up, but I think net of that we have been able to grow our persistency, last year we wanted to build the structure of agency right at the bottom in terms of better quality of agents, increasing the spans of control and reducing the overall superstructure that supports the sales force. That has been reasonably successful, however it did not bring in the big numbers that we expected because the large producers also need to be addressed. This year we are entering in to phase III of our agency transformation plan which is focusing on (a) the top 20-30 markets which are dominated by banks, where relatively we are weak in the agency as well and (b) an improvement in ticket sizes across the board. We will be looking to grow organically in our core outside of the top 30 or 40 cities and we will start looking at improving our market share in the top cities. This is basically what we plan to do over the next couple of years and we think it will yield the results, secondly if we do get couple of Banca tie-ups because we have no downside on that at all and we are fairly strong contenders for getting some tie-ups, we hope that will help us transform our overall business mix in favor of individual business and lastly as Raman said earlier we also set up an integrated direct channel through three, four segments of direct business which we will be pushing, it will take us a couple of years to get to the right volume that we are expecting but I think all these put together should help us improve our individual business as proportion of the total mix.

Moderator: The next question is from the line of Rajesh Ranganathan from Doric Capital, please go ahead.

Rajesh Ranganathan: With respect to your strategy on the life business which was very clearly explained by you, but just a couple of questions on that, as you know everybody is targeting Banca including yourself what strategy do you have in place to win the business ahead of your competition, what particular advantages do you think that you can bring to the table and given, I know you do not want to talk about it, that in terms of at least the news there seems to be some uncertainty around the JV partners for the business, would not that affect your bidding process within the Banca because your potential Banca partner would also be concerned about that and thirdly few years ago, you have indicated an interest in expanding in wealth management I was wondering whether that is still on the cards or do you think that is a business which is not going to fly in India for the time being?

S. Sreenivasan: Let me take the two questions. One question we would not be answering as I said earlier is the JV agreement with Allianz since we have nothing to report on that. Coming to Banca we have strengthened our Banca team. We have a new institutional business head who also covers Banca. We are clearly in touch with the 10-12 potential partners where we might have a chance. Clearly with this multiple tie-up there will be opportunity for more than one partner to join the bank's insurance manufacturer network and we hope we will be able to

get a couple of them. We do have lot of strengths. We are one of the few companies to have dealt with foreign banks, private banks and public sector banks in the past. We have significant scale. We have enough number of people who can support the relationship and we think we have a fairly strong value proposition to give to these banks. Having said that finally we will have to wait and see. This whole process will unfold the next nine to 12 months as they issue RFPs and invite people and everything else but largely we think it is the public sector banks, which will be going in for multiple tie-ups.

Rajesh Ranganathan: Regarding wealth management?

S. Sreenivasan: Wealth management was a business we tried in Bajaj Finserv as independent wealth management, it was done on pilot basis, then about three years ago we said that is not the way to go. Today within BFL there is a dedicated team which is focusing on wealth management in attracting customers through distribution of mutual funds, value added services, fixed deposits, financial fitness reports, giving e-wills and various gamut of activities and that is a business they've just started about year and a half ago and it will take some time but I think they will be building on that as we go along.

Rajesh Ranganathan: Reinsurance, is that a business which you are still exploring?

S. Sreenivasan: As of now we are not exploring reinsurance business. It requires significant amounts of capital.

Moderator: The next question is from the line of Sameer Desai from Finco Capital, please go ahead.

Sameer Desai: What will be the treasury or cash, cash equivalent as on March 31, 2016 in Bajaj Finserv balance sheet?

S. Sreenivasan: Bajaj Finserv balance sheet is around 800 Crores. I do not have the exact number with me. That is on Bajaj Finserv's balance sheet. We have an option to subscribe to the warrants of Bajaj Finance by December of about 300 Crores.

Moderator: The next question is from the line of Manish Shukla from Deutsche Bank, please go ahead.

Manish Shukla: Could you quantify approximately what was the limited pay contribution to renewal premium in FY 2015 and FY 2014?

Ramandeep S. Sahni: I don't have it handy but it should be about in FY 2014 it was around 300 Crores from limited pay products... 300 Crores was the new business, which we had done in 2014, so whatever comes in 2015 I do not have that number.

- Manish Shukla:** And all this bulk of this limited pay was just a two pay product right?
- Ramandeep S. Sahni:** Majority of it was two pay, the customer had a choice to select a premium paying term but most of them selected two pay.
- Moderator:** Ladies and gentlemen as there are no further questions, I now hand the conference over to Mr. Karan Singh for closing comments. Thank you and over to you Mr. Singh.
- Karan Singh:** On behalf of JM Financial I would like to thank Mr. Sreenivasan and the entire senior management team of Bajaj Finserv for joining us on the call today. Thank you and goodbye.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.