"Bajaj Finserv Limited Q4 FY 2017 Earnings Conference Call"

May 19, 2017

MANAGEMENT:	**MR. S. SREENIVASAN -- CHIEF FINANCIAL OFFICER, BAJAJ FINSERV LIMITED**
	MR. SAISRINIVAS DHULIPALA -- APPOINTED ACTUARY OF BAJAJ ALLIANZ LIFE INSURANCE
	MR. MILIND CHOUDHARI -- CHIEF FINANCIAL OFFICER, BAJAJ ALLIANZ GENERAL INSURANCE
	MR. TAPAN SINGHEL -- MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, BAJAJ ALLIANZ GENERAL INSURANCE
MODERATORS:	**MR. KARAN SINGH -- JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Bajaj Finserv Q4 FY 2017 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. Should 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. Thank you and over to you, sir!

Karan Singh: Thank you. Good evening everybody and welcome to Bajaj Finserv's Earnings Call to discuss the Fourth Quarter FY 2017 results. To discuss the results, we have on the call Mr. S. Sreenivasan -- CFO, Bajaj Finserv; Mr. Saisrinivas Dhulipala -- Appointed Actuary of Bajaj Allianz Life Insurance; Mr. Milind Choudhari -- CFO, Bajaj Allianz General Insurance; and Mr. Tapan Singhel -- MD and CEO -- Bajaj Allianz General Insurance.

May I request Mr. Sreenivasan to take us through the results highlight post which we can open the floor for Q&A Session? Over to you, sir!

S. Sreenivasan: Thank you, Karan. Welcome, everybody. It is always a pleasure to address the group of investors who attend this concall. We are doing every quarter now. So, welcome to this conference call. We will be discussing the results for the quarter ended 31st March 2017 and the full year ended on that date.

In this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations through the two Bajaj Allianz companies. Bajaj Finance, which is major subsidiary of ours has already had its conference call. However, if there are any high level questions on Bajaj Finance we would be glad to take that as well. We will not be taking any questions on the status of Allianz's stake in our Insurance companies, the status has remained the same as of the end of the previous quarter and there is nothing further to report on that count.

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

Let me now get to the highlights of the results for the Q4 and for the year end.

- Bajaj Finserv has recorded its third highest successive annual high profit after tax on a consolidated basis.
- Bajaj Finance continuous its outstanding growth story over the last 10 years and has again, recorded its highest annual profit after tax.

- BAGIC too once again recorded its highest annual profit after tax by improving on the already high profitability recorded in the previous year.
- In the case of BALIC our focus, as you know, has been on rebuilding growth and the transformation of business continued into the quarter as it delivered 23% growth in individual rated premium.

Just to give you a flavour of the highlights:

The consolidated total revenue is up 12% for the quarter from Rs. 6,312 crore to Rs. 7,043 crore. The consolidated profit after tax is up 3% Rs. 518 crore to Rs. 535 crore. The consolidated aggregate revenue for the full year was Rs. 24,522 crore versus Rs. 20,530 crore, an impressive growth of 19% and the consolidated PAT was up 21% at Rs. 2,262 crore versus Rs. 1,863 crore.

The Board of Directors has recommended a dividend of Rs. 1.75 per share which is 35% of the paid-up capital of Rs. 5 per share. The total amount of dividend is Rs. 27.85 crore which is the same as the figure for the previous year.

In the case of Bajaj Finance Limited, the profit after tax for Q4 was up 43% at Rs. 449 crore and for the full year it was up 44% at Rs. 1,837 crore. The Board of Directors has recommended a dividend of 3.60 per share which is on the capital enhanced by the 1:5 stock split and the 1:1 bonus, they are all made last year. The dividend amount including the DDT for FY 2017 will therefore be Rs. 238 crore which is 47% higher than the FY 2016 payout of Rs. 162.10 crore, a part of which was paid as an interim dividend last year.

In the case of Bajaj Allianz General Insurance Company, the profit after tax for Q4 was Rs. 165 crore versus Rs. 208 crore. However, the underwriting profit increased impressively by 14% to Rs. 35 crore versus Rs. 30 crore, the combined ratio we feel has been excellent in Q4 at 92.7% as compared to 94.3% in Q4 FY 2016. The investment and other incomes stood at Rs. 212 crore versus Rs. 227 crore. The investment income for Q4 FY 2017 has dropped on account of lower profit on sale of investment of Rs. 20 crore as compared to the same quarter of the previous year.

Another reason for the lower PAT was also that last year we had tax credits of about Rs. 30 crore relating to previous years which did not recur this year. So, overall we think some of these effects are mostly one-time affecting the quarter. The underlying business is very strong in terms of the recurring profits from underwriting as well as regular investment income. The ROE was 23% and this is the fifth year running that BAGIC has posted a 20% plus ROE.

For the full year BAGIC recorded an impressive 29% growth in profits at Rs. 728 crore and based on the result declared so far this is expected to be the highest profit recorded by any leading private sector General Insurance company in India for FY 2017.

Coming to the Life Insurance Company, the rated individual new business was Rs. 386 crore in Q4 FY 2017 versus Rs. 315 crore, an increase of 23%. The shareholders profit after tax was Rs. 836 crore versus Rs. 879 crore for the previous year.

As has been mentioned in the previous calls we had embarked upon a transformation of BALIC two years ago which was built on several initiatives, some of which are: - strengthening the management team particularly on the sales side, focusing on individual rated premium, segmentation of geographies with varying product mix and profile of frontline sales force and improving persistency.

I am glad to report that BALIC has been able to deliver 41% growth in rated individual business for FY 2017. Other segments which performed well included financial inclusion segment, where BALIC is the largest private sector player and as we moved away from group into individual premium, we saw the individual rated premium grow by 93% Y-o-Y albeit on a smaller base.

Renewal premium, however, was subdued as the older book of business had a higher component of policy holders who had completed their premium paying terms and the effect of high surrenders which, as in the past, continues to affect our renewal premiums.

In BALIC, as we go forward, we will continue to focus on building top-line with better quality and over the next few years expect to build a renewal base that will be sustainable and growing.

Overall, we believe we have had a very satisfactory quarter and an exceptional year and it is in line with our expectations.

I now open the floor for questions and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with a Question and Answer Session. We have the first question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Firstly, sir on the General Insurance business, since the public disclosure is not available, if you could highlight what is the combined ratio on the crop insurance business right now for us and how has the re-insurance pricing moved post April on this business? Thanks.

S. Sreenivasan: I will give a brief introduction and then ask Milind to explain in greater detail. The crop insurance business was definitely a contributor to the profits last year. Milind will give you the exact numbers, on the loss ratios, which were somewhat high. As of now there is some pressure on re-insurance pricing for the next financial year. The major re-insurers across the country (not necessarily from our account) seem to have lost money and there will be a tightening of re-insurance commissions. There are negotiations going on, because the crop insurance season starts only in July, as to what the capacities would be available for different companies. If you look at the mix of business, majority of the business last year was driven by Agriculture Insurance Corporation, two public sector companies and about four private sector companies. Our market share in that business was roughly in line with our overall market share of about 7%. Obviously, this a business where you are going to select the type of states and clusters where you want to do business and we try to mix it up so that any one catastrophe cannot affect multiple segments of our crop insurance business. We will continue following the same strategy. Now, I will ask Milind to give you some of the numbers which you have asked.

Milind Choudhari: The loss ratio is not available for the Rabi season as such. As far as Kharif season is concerned more or less loss ratios are available, which are around 100%. We did very well in three states Bihar, Haryana, and Telangana. But Andhra Pradesh was not favorable where we offered the old weather based crop insurance scheme. So, there the loss ratio has been high. Overall the loss ratio will be around 102% and crop insurance has contributed around Rs. 56 crore in terms of the underwriting results for the current year. For the next year as Sreeni explained we are expecting a tightening of re-insurance commission and we are expecting that the retentions might increase as compared to the last year because the reinsurers are expecting a higher retention from the original insurance company. I think that is happening across the industry as such and we will continue to focus on this sector in terms of overall long-term strategy and in terms of the state selection. We have strengthened our force in terms of the crop monitoring which is required in the yield based schemes. So we have District-Level Coordinators in each of the districts where we are present, who regularly attend the meetings with the government and also oversee the crop cutting experiments to ensure that the experiments or the yield is correctly calculated. We are also planning to see the feasibility of using some technology in terms of using drones and also use government authority data. We have tied-up with some research agencies and technology providers for crop health reports. So, I think with all this together the crop portfolio, if monitored well, if flaws are taken care of, if the crop cutting experiments are monitored well - it is going to be a healthy addition to our portfolio going in future.

S. Sreenivasan: I think there are two issues here, one is crop insurance as we have said before is a long-term business, where due to exposures to catastrophes one has to look at a cycle of four - five years. Definitely in one of every four - five years you could expect to have one bad year. So, selection becomes very critical there. The other thing is this year the budget allocation for crop insurance has significantly increased and the Finance Minister has declared a target to cover more farmers in this. So, there is an expectation that the penetration of crop insurance this year ought to be a bit higher. Because of the tightening of the re-insurance terms, as Milind said, the retentions will go up. This might actually discourage some of the smaller players who may not have the capacity to retain that much, to not bid for as aggressively as they have done in the past.

Dhaval Gada: Sir, so, as of FY 2017 what was our retention ratio in the crop insurance business?

Milind Choudhari: FY 2017 it was 15%.

Dhaval Gada: Okay. And you expect this to be higher for us next year, is it?

Milind Choudhari: Yes, we expect it to be around 30% to 35%.

Dhaval Gada: Okay. And market share you mentioned it will around these levels?

Milind Choudhari: Yes, we will try to maintain our market share in the overall place as well. The market is likely to touch around Rs. 27,000 crore.

Dhaval Gada: Does the renewal of reinsurance treaty happen in 1st of April or 1st of July for us?

Milind Choudhari: No, re-insurance treaties start from 1st of April.

Dhaval Gada: Okay. And so, what was the rate increase, sir this time just to understand the market in the re-insurance space.

Milind Choudhari: It is not about rate increase, actually there is a likely reduction in commission that is going to affect our re-insurance income.

Dhaval Gada: Okay, got it. Fine. Secondly, sir on the Life Insurance business, so I just wanted to understand sir, our overall thought process on profitability on the new business from a next two years to three years perspective. So, as we speak for FY 2017 on a net basis, if we include the cost overruns we actually are losing money on the overall new portfolio. So, I just wanted to understand, how do you see this changing, given the portfolio mix, given the distribution mix over the next two years to three years? Thanks.

S. Sreenivasan: To answer your question, this year the NBV before over runs was a bit subdued. The primary reason for that was the lower yield and, as we follow the market consistent method, the forward rates have come down, so that affects the investment yield that you build into your NBV calculations. The other reason is obviously the product mix has shifted a bit more towards ULIP. On a margin before overrun basis ULIPs are pretty good. So, that is not the primary contributor to the NBV reduction. You are right in saying that if you remove the overruns from the new business value, the net result is negative. However, it is not a significant negative; it is about Rs. 55 crore. It is our expectation or rather a target next year that we should start reporting positive NBVs after over runs and over three years we would like to grow that much better. This would come from a variety of initiatives but fundamentally growth is very critical for us. For the last few years we have seen de-growth in the business by moving more towards individual rated premium by reducing even our corporate relationships. In most of them we are pushing individual rated premium. By consistently following that policy I think we will be able to build a profitable quality book over the next three years.

Dhaval Gada: Okay. So, you mentioned volume is critical for the business to be profitable. So, just to understand the economics here, the commission rate sir, what are we offering on the unit link product to the individual agents for the first-year commission what would it be?

S. Sreenivasan: We are giving as per the IRDA regulations, IRDA had relaxed the regulations recently, allowing commission and reward and we will be within that. So, we are just about to launch a new unit linked product which will balance the margins and commissions in a better manner, taking advantage of IRDA's new regulations. We think that should play out by the second quarter of this year onwards in a more meaningful manner. We think that will help us balance margins and over runs in a better manner while seeking to grow.

Dhaval Gada: Okay. And just lastly, sir, on the protection business what is the contribution of that business today and how do you see that business shaping up over the next three years? Thank you.

S. Sreenivasan: See, on the individual protection business it is not very significant. We do quite a bit of group protection both credit protection and group life business - those are profitable. However, they are not long-term businesses since these are annually renewable businesses predominantly or are tied to the terms of the loans. However, they are profitable and we continue to grow that business. But in certain relationships, largely with NBFCs and others, we are also trying to build a book of individual long-term business through their wealth management and other clients. So, individual protection business per se, as of now, is not a significant proportion and next year we do not expect it to be very high.

Moderator: Thank you. We have the next question from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Sir, my first question is on General Insurance, if I look at the Q4 combined ratio for both FY 2016 and FY 2017, it appears to be significantly lower than the nine-month combined ratio. So, I just wanted to understand is there some sort of seasonality that creeps in because Q4 this year is around 92% for nine months it was higher than that and similar trend was there last year.

S. Sreenivasan: See first of all, the January to March quarter typically is not a monsoon quarter. So, you do not have what we call, Act of God perils so much in this quarter. However, being the General Insurance business you could always have fires and similar losses. So, that is not predictable and that is why we are in this business. To answer your question if you remember our con-calls for Q1 and Q2 we had indicated that in certain lines we were experiencing higher loss ratios, particularly group health and some segments of our motor business and we had initiated a series of steps to actually cut out some of these relationships with a focus on improving profitability and we had also indicated that it may take some time for it to actually reflect in the results. So, the lower claim ratio has come largely from the efforts taken by the management to actually walk out of some unprofitable relationships. This is an exercise BAGIC does regularly - getting new business and at the same time looking at your existing portfolio and pruning what is not required, Milind?

Milind Choudhari: Yes.

Hitesh Gulati: So, on the group health side on the industry level are we seeing any improvement in pricing because from what we understand pricing in the last three years - four years for group health has deteriorated significantly and industry wide claim ratios are also at around 120%. So, is there any improvement that we see there?

S. Sreenivasan: See, first of all although the claim ratio for group industry wide is 120%, we are below 100%. Our approach has always been to be selective there. We have certain clients who have been with us for some years, where we offer better services, more value adds and various other factors which improve the services to the employees of the group. Having said that, there is a pressure on the market to improve the rates. Mostly the rate cutting is happening from the public sector but whether there is a change in April or not Milind would be able to answer that question. Milind?

Milind Choudhari: There is no such evidence yet in terms of getting better rates. But I think, overall there seems to be a feeling of a little tightening that should be done. This is typically because New India and, GIC, both are getting listed. So, I think people are watching them and the other three companies are also likely to be listed in the due course. So, I feel from this year we have an expectation that there will be better semblance and better underwriting balance in terms of what we write in group insurance. But I think the results are yet to be seen. The 1st April policies did not show any such significant impact.

Hitesh Gulati: Okay. And sir, just one last question, in continuation with the last question that Dhaval had asked. So, sir claim ratio you said in the crop insurance was around 102%. So, I misunderstood that because you mentioned on underwriting you are making profit. Is there some discord in the numbers that I noted?

S. Sreenivasan: It is on account of re-insurance commissions, where it is 85% re-insured.

Hitesh Gulati: So, mainly the profit is on re-insurance commissions but on underwriting we will not be making a profit in crop insurance.

S. Sreenivasan: On loss ratio, no. But here are hardly any other expenses associated with that, the team is very small and there are hardly any acquisition costs. So, largely it is loss ratio minus RI commission.

Hitesh Gulati: Okay. So, profit was around Rs. 52 crore from crop insurance not underwriting profit.

Milind Choudhari : Yes, correct Rs. 55 crore. But what happens, re-insurance commission is always adjusted against the acquisition cost, so it is part of the underwriting profits only.

Moderator: Thank you. We have the next question from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: I just wanted to know what the persistency ratio is for General Insurance.

S. Sreenivasan: Persistency ratio varies because in General Insurance, unlike Life Insurance, there are variety of products. Typically, in motor, say, four wheelers, there are quite a few who are not invited for renewals because we have got a lot of algorithms running at the back, which run the profitability metrics and typically I would think approximately 15% would not be invited for renewal. On the balance 85% persistency, Milind will give you the renewal ratio for motor?

Milind Choudhari: That is around 65%.

S. Sreenivasan: 65%, so that means we are retaining roughly about 78% - 79% of our book in terms of renewals. Coming to health, in individual health, the retention ratios are significantly higher. it would be in excess of 80%. There are some segments of the business which have no persistency, these are larger engineering project where insurance is taken for the period of the project, so they typically could exceed a year and as the project gets completed they go out of the book.

HR Gala: Okay. And as far as Life is concerned what has been the persistency?

S. Sreenivasan: Life we have had a 6% increase in persistency; 68.2% last year was 62.9%, so that is 5.3% increase on the 13th month. This is measured as of 30th April. We do get some spillovers in May. So, we expect this ratio would eventually stabilize above 70%.

HR Gala: How much?

S. Sreenivasan: 70%.

HR Gala: 70%.

S. Sreenivasan: One of these things we had done in the past is that we concentrated on 13th month because that is very critical but last year, we have seen increases in 25th month, 37th month, 49th month, and 61st month, In the 61st month persistency, actually we were pretty weak at about 16% but now it has gone up to 32%, almost doubled. So, we are on that journey. Next year we are targeting that we should get even higher persistency because some of the leading market players especially the bank sponsored companies have moved up to 80% or so and it is our aim to take it up there because our renewal base needs to be re-built.

HR Gala: Okay. And what was the combined ratio in General Insurance?

S. Sreenivasan: Combined ratio for General Insurance for the current quarter was 92.7% and for the last year it was 94.3%. For the full year it is 98.6% if I am not mistaken. Milind?

Milind Choudhari: 96.8%.

S. Sreenivasan: 96.8%, okay.

HR Gala: Versus?

Milind Choudhari: 99.3%.

HR Gala: 99.3%, okay. Now, just wanted to know that since there has been a very healthy growth in the new business premium, how do you see the overall profitability for BALIC shaping up in the years ahead?

S. Sreenivasan: In the case of BALIC, as I said, profitability comes only as your new business builds. It is only by third or fourth year that you start making money because in the first year there is a new business strain. In the second year again persistency will determine how much is coming in. There are restrictions on surrender charges now as you are aware. So, we would think that if we continue to grow the business for the next couple of years with the same momentum, as we have done in the current year, we should start seeing profit growth in about three years. Till such time the older book will continue to be under stress because many of them have completed their premium lock-in periods, some of them are coming up for maturities. Eventually, people put money to take it out at some time and that time, is may be over the next three years to five years. By that time we hope to re-build our business.

HR Gala: Right. And just last question from my side, initially you just mentioned that there is no change in the relationship between Allianz and Bajaj. But don't you think that this will be working out against the long-term interest of the company unless we decide one way or the other? I think the market is always watching and the investors are watching carefully because on one hand what is happening that other companies SBI Life, ICICI Prudential are already listed and I think that because these two partners are unable to reconcile, do you think that the business is suffering?

S. Sreenivasan: Firstly, that is an assumption that you are making that we are not able to reconcile. It is for each shareholder to decide when and how they increase their stake. There is no time limit for that. Secondly, this has nothing to do with the management of the companies, this is handled at the Finserv level and we have very cordial relationship between the two partners. We are both actively supporting the businesses and we have seen that in the results of both the General and Life companies. We are pushing growth now in Life, we are pushing profitability and growth in General. So, management is completely professional, independent, and that is how we built our businesses.

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

Nidhesh Jain: My first question is on Life Insurance, I see, some positive variance on operating front and assumption change variance. Can you throw some light on account of which metrics we got these variances?

S. Sreenivasan: Nidhesh, I will ask the Actuary of the Life Company to answer your question regarding the variances in the MCV statement.

Saisrinivas Dhulipala: Yes. Actually the positive variance is a reflection of the improved quality parameters, so that mainly is coming from the investment variances and in mortality. There is a significant improvement in the mortality from third year onwards and also the investment variances because of the better investment performance.

Nidhesh Jain: And the assumption change variance of around Rs. 33 crore, on which parameter we have changed our assumptions?

Saisrinivas Dhulipala: The mortality assumptions.

Nidhesh Jain: Mortality assumptions, okay. So, on account of persistency there is no positive variance in this year?

Saisrinivas Dhulipala: There is a small positive variance as Sreeni was mentioning earlier, there is an improvement in persistency across all durations till 5th year. So, there is a small positive variance because of that as well.

Nidhesh Jain: And secondly, sir, I note that you have segregated the solvency fund into two parts some Rs. 2,200 odd crore. So, what are the plans of utilizing these funds?

S. Sreenivasan: There is no particular plan. This is part of the shareholder funds except that if it is not treated as part of the solvency margin there are slightly lesser restrictions on where it can be invested. We would be looking to increase equity exposure in this segment. However, as per the rules you cannot count it as part of solvency that is why the solvency margin shows a bit lower at 582%. But this capital is available with the company and it is part of the shareholder net worth of that company.

Nidhesh Jain: So, it will be deployed in a slightly higher returning investment?

S. Sreenivasan: It is only a regulatory earmarking as far as we are concerned. Yes, it gives us a little bit more flexibility.

Nidhesh Jain: Lastly, on general insurance what would be our combined ratio ex of crop insurance combined ratio and claims ratio?

S. Sreenivasan: Milind?

Milind Choudhari: Excluding crop it is around 97.7%.

Moderator: Thank you. We have the next question from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: I would just like to know how much we are expecting to grow in FY 2018 and FY 2019 on all the fronts.

S. Sreenivasan: We normally do not project growth rates in investor calls because it creates expectations. Having said that, conditions are right for growth. I would ask Tapan to give his flavor on how we expect the General Insurance market to move over the next few years. Tapan?

Tapan Singhel: Yes, thank you, Sreeni. If you look at this year, the General Insurance market did well because of the increase of the agriculture business due to the Prime Minister's announcement. But typically, if I look at the past years, the General Insurance industry has been hovering between a 12% to 17% kind of growth. Since the base effect of agriculture would get nullified this year my expectation is hovering of the industry would be between these two parameters in 12% to 17% going forward.

Megha Hariramani: Okay. And do we see competition growing on the Insurance business side because like other players are also getting into the market getting listed. So, does it impact our growth in any way?

S. Sreenivasan: I think as far as Life Insurance is concerned, competition is not increasing, I do not think any new life companies are coming in the horizon. The listing of companies does not necessarily increase competition; it only puts more governance requirements on those companies which are listed. General Insurance there will be a few companies. Tapan?

Tapan Singhel: When you look at the General Insurance industry the way its cost structure is, for a new company to perform, it has to spread into multi-geography, multi-channels, multi-line of business which takes time to build. So, I do not see immediate impact of a new player coming and hitting the top three or four. But obviously, the industry has opportunity for much more players to come in and if there are a lot many players then there can be a long-term impact.

S. Sreenivasan: I would think it depends on the strategy of the company because the established companies have built a significant brand across the country. This will include, apart from ourselves, the top companies like us ICICI, HDFC, SBI and others. So, for a new company in General Insurance, since it is still under penetrated in many parts of India, especially in the Tier-IV towns, in rural segments, etc., I think they will have to make significantly more investments than we have done, to build the same quality of business. Secondly, I think the competitive intensity is a lot higher because we are already present in most of these locations. As you are aware our virtual point of presence model which we talked about a couple of years ago is now Rs. 750 locations and we will take it up to more than 1,000 by end of the year.

Megha Hariramani: Okay. So, what is the current market share that we have in both Life Insurance and General Insurance business? That will be my last question.

S. Sreenivasan: Milind, can you share the number?

Milind Choudhari: General Insurance we have a market share of 6.7%.

S. Sreenivasan: In Life Insurance, on rated market share it was 3.1% which is about 0.5% higher than the previous year which was 2.6% and on the individual rated premium which is our primary benchmark, it was up from 1.6% to 1.9%, this of course includes LIC. If you look at the private sector, our market share should be somewhere between 6.5% and 7% on the Life side.

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

Mayur Parkeria: Just one small question on the business mix on the GIC side. This year we saw the crop taking away the large part of the growth means the entire growth and in fact, Motor is down whereas from a net earned premium perspective whereas health is also flattish. How do we see that in the next year?

S. Sreenivasan: Health is not flattish; I will let Tapan take it later. But I make first comment. Motor, as we said in Q1 and Q2, we have taken a deliberate step of improving the loss ratios by cutting down some relationship. So, it was a conscious decision to improve the profitability of the portfolio. We will now come back to growth as once the portfolio has been streamlined. As far as health is concerned, on the group health side we had mentioned in the first two quarters, that we are seeing strain on the loss ratios. So, there again, we actually had to scale down and walk out of some renewals which has actually affected that. So, this is part of business as usual. Excluding crop, you said there is no growth which is not correct. We still grew 13% which is a fairly healthy growth given that capital formation in the economy has still not picked up to the extent that we think it should. Tapan?

Tapan Singhel: I think what Sreeni said beautifully sums it up. Growth has been there and as a company we have always been prudent about ensuring that we have a good mix of business and we go according to that. If you look at the retail health business it will be close to over 20%. So, we have growth in the right segment. Crop if you look at as I said, it has moved up, not once but as a permanent feature going forward. So, it becomes part of business plan, so we should not discount it. Going forward 20% of the industry would be coming from crop business, so companies have to be there and they have to position it the way. I think earlier Sreeni has explained in terms of market share in crop being the market share overall in the industry. So, it is not that we want to be over-aggressive. And when we put that together with a natural growth I think that is how you look at the growth perspective. So, I mentioned earlier the growth hovers between 12% to 17% so natural growth has been there for the industry in that range and it has been there in that range for us too on that perspective.

Mayur Parkeria: And what would be our strategy on the growing on the individual health side?

Tapan Singhel: Yes, so individual health side if you look at the CAGR in Bajaj Allianz for the past four years - five years, it has been higher than the General Insurance industry's rate of growth in health.

Stand-alone health companies have done better because they are at smaller base and they have picked it well and they have more focus on that business. So, we will also continue focusing on individual health business the market is standing here. So, I think for the next five years to ten years the entire industry would do well on the individual health business and obviously we would be part of that and we would also do good there.

S. Sreenivasan: Just to give an update, we have signed up two very significant relationships, Canara Bank and Karnataka Bank. Bancassurance is big contributor to the health business. So, over the next three years to five years we expect very important addition to our portfolio apart from the agency business where we have a lot of agents who sell health.

Mayur Parkeria: What would be the proportion of individual health currently in the entire health?

Tapan Singhel: It will be close to about 40%-odd in the overall picture and it is more or less in line with the way the market grows. I think group health has a significant presence in the market because most of the industries and companies go for group health. Individual health has been picking in the recent past years, the individuals are realizing importance of having health insurance other than the company providing the cover and it is moving up substantially. So, I think going forward individual health will start moving up but predominately right now it is about close to 40%-odd.

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

Dhaval Gada: I have a question for Tapan actually. So, just taking forward the retail health question, I just wanted to understand, can this line be about 10% of overall GWP in the next five years and if yes, how are we sort of looking to source the business and how is the sourcing done today and if you can elaborate a little bit on how you are trying to build up portfolio? Thanks.

Tapan Singhel: If you look at the emerging lines of the business in the industry, retail health is one of the major ones. It is one of the clear emerging lines of business in the industry and it will garner more and more share in the overall industry business. So, your observation is right. I cannot place exact number over four or five years but it will be significantly more than what you see today. Which means, for a company of our size we have to be in this business and do better than others in terms of looking how we do it. The advantage we have is, if you look at, as a company we are multi-channel company. That is to say that we have a strong agency, we have a strong bancassurance, we have a strong direct, we have strong broker presence and we are also multi geography. Which means we are present right from Baramulla in Kashmir to Northeast, further more to South, West, everywhere. So, when you have a company which has a strong multichannel and a multi-geography presence, retail policy selling is much more convenient. We will be using our distribution and like Sreeni mentioned earlier, if you look at the banks we are close to 100 + banks of all sizes, right from co-operatives to the major ones, tied up with us. So, we will be using all distribution channels because we strongly believe in the opportunity that retail presents. We believe not only is it good for the company, it is good for society also because if you look at people who are not insured in health, the kind of difficulty that they go through when there is a claim or when they have to go to hospital to pay the bills. So, this belief is there that we should be significant player in the health case and we will be using all our strengths to cover more and more customers for us within health.

Dhaval Gada: And today, how much do we retain of this business and how much do we reinsure?

Tapan Singhel: So, if you look at the retail business we mostly try and retain most of it. So our retention would be hovering between 80% to 85% for all our retail business, even health would be close to that number. So, fundamentally because we believe that we should be a strong underwriting company. So, we only reinsure the risks which are volatile or which has high exposure. Retail business as a philosophy, we retain as much as possible because that demonstrates underwriting capability for the company.

S. Sreenivasan: Plus the accumulation factor is low, so because of our geographical spread, the maximum loss we can suffer from one event on retail business is very low because per risk exposure is very low as compared to our capital.

Dhaval Gada: Right. And sir, just moving on to the risk question, so I just wanted to understand fundamentally apart from the top-line growth what is exciting in the crop insurance business given the model today in terms of you have to rebid the geography every season, so how do you build the franchise around crop insurance business. And also the fact that you have been sort of ceding a lot of business to the reinsurers, so just philosophically, how do you see this business over a five year period in your long-term strategy? Thanks.

Tapan Singhel: Let us understand crop insurance on a philosophical basis and why we are serious about it. India’s economy is predominately agriculture. If you are not in the predominant economy of the country, you are missing a big chunk. Now, the government’s focus is also now on agriculture, the farmers and crop insurance. Now, if you look at the timing, it is also very right. There are a lot of technological advancements happening in terms of how you look at claims and how you look at assessing the weather and looking at the claims perspective you have now drones coming in, you have Internet-of-Things coming in. You will have more expertise in satellite data coming in, you have much more expertise coming in terms of expert across the world who are able to assess it much better compared to earlier times when it was left to the decision of the local government official to decide how the losses would be. Technological advancements, predominant economy being agriculture, large population of farmers which has to be served and the wealth which is moving towards the rural side, are all long-term opportunities. If we combine all these thoughts together then you realize that why we are so focused on getting into crop business and understanding it. As I mentioned to you earlier, when the line of business is new and volatile in nature then it is good to have low retention. Going forward as we understand more, we keep on increasing the retention because, as I mentioned earlier and as Sreeni mentioned, with our geographical spreads and with our capital and solvency that we have, depending on that, we take a decision as to how much we retain and how do we look at the business. So, crop insurance is a very clear business which is emerging and with the changes happening in the technology front it is becoming more and more exciting and more and more predictable in terms of how we can drive that is precisely why we are into this business.

S. Sreenivasan: And just to add to what Tapan said; this is business that is going to big. Because it is catastrophe oriented your ability to retain and absorb risk is important and over time as we learn the business more, as the business gets mature, we would also be able to absorb more risk. So that will balance out where we want to reinsure the more volatile segments or the catastrophe type of exposures and things like that.

Dhaval Gada: Sir, just a follow-up on that one, I just wanted to understand basically on the sourcing front, since I mean unlike your retail health business where you retain 80% of the business. So, here how do you ensure the stickiness of the business that is what my fundamental question was?

Tapan Singhel: If you look at it initially and any business starts you first pick-up, like it is a tender based business right now, which is your point - every year either you get a tender or you do not get it. Now, after this the winners come in. As I mentioned to you earlier, first the group health was a significant portion of the health business and now the retail has been pushing up. This tender-driven business is typically loanee kind of farmers where you get business from the bank. Apart from a huge amount of loanee farmers, opportunities will increase in covering individual non-loanee farmers and we will be looking for it. Earlier the technology available was not to a level where you could do a farm level underwriting but now if I look at the way satellites are building up, the way the technology is advancing this would actually also start moving towards the retail base but it will take some time. So, thinking that will never be retail, it will only be volatile, only be tender based, is not the right judgment. We have a large number of non-loanee farmers who do not have coverage, and, over time, new technology will bring in ability to reach farm level underwriting. So, all that is building up. So, this is going to be very exciting space as we watch. I think to your point about five years to ten years this will be much more evolved and much more different from what you see today.

Dhaval Gada: Okay. And what are the steps that we are taking in order to ensure that we move towards having a better share in the retail crop if I may use the word non-loanee business. So, if you could just highlight the distribution initiatives there.

Tapan Singhel: So, right now the distribution for this is very critically the banks. As I mentioned to you earlier, in the non-life space have one of the largest Bancassurance tie-ups, which means that our reach and distribution would be much better because of this spread of that we have. Bank is the place from where the business actually gets sourced currently and that is where we are looking at. Now as to how do we look at non-loanee and how you take it forward. So we shall use first, the distribution channels that we already have - bankassurance being the main one. Second, the CSC segment which the government has set up is also very close to farmers. And third what

Sreeni was mentioning we are spreading on the virtual office network, we already will be crossing over 1,000 this year and as it builds up we will have direct touch also. So, a combination of these three right now will enable us to increase our retail penetration but yes, it is going to take some time it is not going to happen just next year.

Moderator: Thank you. We have a follow-up question from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Sir, just wanted to know is there any development in Bancassurance side on the Life?

S. Sreenivasan: Life side, no. We have revived Dhanalaxmi Bank, which for last couple of years was not producing much business because there was some disagreement. That has been revived, that is valid for another seven years. Otherwise no major private universal bank or any public sector bank actually have closed their deals yet, on the Life side. We are in touch with quite a few of them but there is a very long process, there are RFPs, sometimes there is a change of CMD and again they go back to the drawing board. But we are still pursuing some of the larger relationships.

HR Gala: Do you hope to zero in on any bank?

S. Sreenivasan: I cannot give you names of bank because we do not know how it will pan out. We are in touch with several of them. Some of them have their own insurance companies so they are not in the market. The rest of them we are in touch with and are in pole position in many of them. We will have to wait and see how it turns out.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Karan Singh from JM Financial for his closing remarks. Thank you and over to you, sir!

Karan Singh: I would to thank the senior management team and all the participants for joining us on the call today. Thank you and good bye.

S. Sreenivasan: Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of JM Financial, that concludes this conference. Thank you for joining us and you may now disconnect your lines.