



**“Bajaj Finserv Limited
Q4 FY ‘24 Earnings Conference Call”
April 26, 2024**



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MODERATOR: **MR. SAMEER BHISE – JM FINANCIAL**



Bajaj Finserv Limited
April 26, 2024

Moderator:

Ladies and gentlemen, good day, and welcome to Q4 FY'24 Bajaj Finserv Limited Earnings Conference Call hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Bhise from JM Financial. Thank you, and over to you, sir.

Sameer Bhise:

Thank you, Muskan. Good afternoon, everyone, and welcome to the Q4 FY'24 Earnings Conference Call for Bajaj Finserv Limited. First of all, I would like to thank the management of Bajaj Finserv for giving us this opportunity to host the call. As always, we will have opening comments from the management team, post which, we will open the floor for Q&A.

From the management side today, we have Mr. S. Sreenivasan, CFO, Bajaj Finserv; Mr. Tapan Singhel, CEO, Bajaj Allianz General Insurance; Mr. Tarun Chugh, CEO of Bajaj Allianz Life Insurance; Mr. Ramandeep Singh Sahni, CFO of the General Insurance business; Mr. Vipin Bansal, CFO of the Life Insurance business; Mr. Ashish Panchal, CEO of Bajaj Finserv Direct; and Mr. Devang Mody, CEO of Bajaj Finserv Health.

With that, I would like to hand over the floor to Mr. Sreenivasan for his opening comments. Over to you, sir. Thank you.

S. Sreenivasan:

Thank you, Sameer. Good afternoon, everyone. This is the conference call to discuss the results of Bajaj Finserv Limited for Q4 of FY'24 and for the financial year ended 31st March 2024. As usual, we will be concentrating largely on the results of our 2 insurance companies, Bajaj Allianz General Insurance, BAGIC, and Bajaj Allianz Life Insurance, BALIC, and some of the smaller companies of ours, predominantly Bajaj Finserv Direct and Bajaj Finserv Health.

Our Major Subsidiary Bajaj Finance has already had its call yesterday, but we would be glad to take any high-level questions on BFL. We will not be taking any questions on the status of Allianz's stake in our insurance company, except to state that it has remained the same and there is no change. Any statement that looks like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance results from our side.

As you know, while Bajaj Finserv prepares its financials in compliance with Indian Accounting Standards, the two insurance companies are not yet covered by Ind AS. And their stand-alone results are on the Indian GAAP, basically based on the IRDA's regulations governing preparation of financial statements. However, for the purpose of consolidation, they do provide us with Ind AS compliant financial statements.

Now, let me start with the key highlights for FY'24. FY'24 has been a great year for us in which we crossed many milestones mainly.

Bajaj Finserv consolidated total income for the year, crossed INR1 lakh crores, ending at INR 1,10,383 crores, which is a 34% year-on-year increase.

Our consolidated profit after tax for FY'24 were INR8,148 crores, which is 27% higher than the previous year. Even excluding the volatile mark-to-market unrealized gains of BAGIC and BALIC, the consolidated profit after tax was INR8,180 crores, which is up 21% year-on-year. Both the consolidated revenue and profit after tax were the highest ever for Bajaj Finserv.

BFL's consolidated AUM exceeded INR3,30,000 crores.

BAGIC became the third largest insurer, with premium exceeding INR20,000 crores, overtaking 3 public sector companies of long vintage in the process.

BALIC's AUM crossed INR1 lakh crores during the year.

Bajaj Finserv Health entered the hospitalization and insurance claim settlement space with the completion of its acquisition of Vidal Healthcare. This acquisition has been approved by the insurance regulator in Q4.

Bajaj Finserv AMC ended the year with an AUM of INR9,552 crores, just 9 months after the launch of its first fund.

Let me give a brief update on the Vidal acquisition. In the previous quarter, we said that Bajaj Finserv Health has entered in an agreement to acquire Vidal Healthcare Services. Vidal Healthcare Services in turn owns Vidal Healthcare TPA, a registered third-party administrator under the insurance regulations. This transaction has been completed, and the payment for the acquisition has been made in April 2024.

Bajaj Finserv Health shall now work from the next quarter over the integration of the business and utilization of the Vidal network and offerings for its customers. The acquisition of VHC significantly augment the capabilities of our healthcare venture in the digital healthcare space, empowering it to provide services to insurance companies, employers and governments and will also enable them to cover all customer segments through products, managed care offerings, outpatient services, inpatient hospitalization and claims management. BAGIC and Bajaj Finserv Health, now have the toolkits needed to become a meaningful player in the health care services space through its digital platform.

Devang, the CEO of Finserv Health is with us in this call to take any questions you may have on this acquisition on Finserv Health strategy.

Let me now start with the highlights of our consolidated financial results for Q4, which have been put up in our press release a while ago. Our consolidated total income for Q4, up 36% at INR32,042 crores as compared with INR23,625 crores in Q4 of FY'23, consolidated profit after tax, a 20% increase at INR2,119 crores versus INR1,769 crores in the same quarter of the previous year.

As mentioned earlier, the insurance companies account for unrealized gains or losses on the equity account as fair value to the profit and loss account, we tend to disclose the impact on profit of such volatile gains. If you were to exclude the impact of these MTM losses and gains, the core profit after tax would have been increased by 17% in Q4 FY'24.

During the quarter, BFL recorded the top line growth of 25% growing from INR7,781 crores to INR9,714 and a consolidated profit after tax growing by 21% from INR3,158 crores to at INR3,825 crores. The ROE was 20.5% versus 23.9%. ROE has decreased during the quarter, largely on account of additional capital raised in Q3 of FY'24 of around INR 9,000 Cr.

BAGIC recorded top line growth in gross written premium of 32%, growing from INR3,766 crores to INR4,962 crores. Profit after tax increased by 18% to INR380 crores versus INR322 crores, and the ROE was 3.6% versus 3.4%. The combined ratio, as measured as per the IRDA's master circular on financial statement, was 101.6% versus 97.3% the same quarter of the previous year.

BALIC recorded a top line growth of 27% with gross written premium increasing to INR8,183 crores in the quarter compared to INR6,434 crores in the previous quarter. Profit after tax increased by 321% from INR26 crores to INR106 crores. Most importantly, the NBV increased by 16% from INR415 crores to INR480.

Going to the business update on the performance for Q4 and FY'24.

The external environment was generally favorable for the insurance sector. Some of the challenges to growth during the post pandemic period also receded compared to the previous year. Positive regulatory development in the insurance sector aimed at attaining insurance for all by 2047 continued in FY'24. All this created a conducive market for both the life and general insurance sector. And we remain optimistic that the industry will continue to grow given the favorable macros, regulatory changes, low penetration and relatively positive consumer sentiments.

Coming to BAGIC. Before I get into performance details, I would like to mention that our claims reserving triangle and the claims' paid triangle has been included in our investor presentation. We have been doing that once a year as per the practice in the market. During the current year, we had a favorable development of about 8% of the total reserves. BAGIC continues to be well reserved.

BAGIC continues to balance growth with profitability and consistently deliver a superior combined ratio versus the industry. It continued its growth momentum, recording above-market growth in Q4 as well as all of FY'24.

Headline gross domestic premium income increased 32.3% during the quarter, well above the industry, which includes private and public multi-line players growth of 10.9%. And in FY'24, its growth of 33.5% was higher than the private sector, 17.5% and the industry 14.2%. The

market share increased to 8.3% in FY'24 from 7.1% in FY'23, which is more than 100 basis points improvement.

Excluding the tender-driven bulky government health and crop line, the growth for BAGIC is 13.34% which is lower as compared to the previous quarter, but it's in excess of the industry growth of 11.5%.

GDPI grew by 20.4% for FY'24, versus the private sector growth of 16.4% and the industry's growth of 13.3%. This market-leading growth was contributed mainly by commercial, 14%; group health, 46%; retail health, 11%; and miscellaneous 95%.

On the bottom line, the industry has been significantly impacted by NATCAT events this year. As you know, larger companies tend to have a greater exposure to NATCAT events, especially ones having a higher book of commercial and corporate businesses.

We experienced 8 events during the year, mainly North Indian flood, Sikkim flash flood, Tamil Nadu flood, cyclone events such as Cyclone Biparjoy and Michaung against only one flood event in the previous year.

The combined ratio for the quarter was higher at 101.6% against 97.3% in Q4 of FY'24. The higher ratio is on account of higher claims during the quarter. The combined ratio improved to 99.9% in FY'24 versus 100.5% in FY'23, despite a NATCAT claims of INR118 crores, net of reinsurance and reinstatement premiums.

The profit after tax for the quarter has grown at a healthy level of 18% from INR322 crores to INR380 crores, and it was higher by 15% for the full year from INR1,348 crores to INR1,550 crores. The higher PAT is attributable to better investment income. Excluding the impact of nat cat claims, the growth in profit would have exceeded 20%.

Growth in motor insurance during the quarter was muted. It was 9% for the year, partly because of BAGIC's tight focus on writing only preferred categories of business and in line with new auto sales growth of 10%. BAGIC continues to adopt a conservative stance on commercial vehicles underwriting. While motor still continues to dominate the business mix, other significant movements in FY'24 included (a) significant increase in government health mix by 13%, due to higher government health premium from Gujarat tender booking (b) decrease in crop insurance mix by 4.0% against PY attributable to more prudent selection.

In particular, BAGIC continues to be conservative in writing large volumes of commercial vehicle insurance where the growth is only 3% for the year.

The claim ratio was 70.3% in Q4 as against 66.4% in Q4 of FY'23. The claim ratio was higher than previous on account of higher claim ratio in health and motor TP segments, partly offset by lower commercial and crop claims.

Claim ratio for the full year, is at 73.8%, ex NATCAT claims is at 72.5% which was marginally better than last year claim ratio of 72.9%.

As we highlighted earlier, the earned premium takes time to catch up when the growth is strong, like we have seen with BAGIC. NEP growth for this quarter was 18% as against 13% in the previous quarter and 11% on a yearly basis.

BAGIC's AUM, including cash crossed INR30,000 crores during the year, growing by 12% to INR31,196 crores as of March 31 2024 versus INR27,809 crores as on 31st March '23.

The advanced premium from long-term policies was INR1,829 crores on 31st March 2024, which is higher by 26% over March 2023.

As we mentioned before, many of the new initiatives with BAGIC invested in over the last 18 to 24 months, including focus on smaller tier towns, distribution expansion, doing more with bank insurance partners and strong presence in large ticket corporate segment has resulted in this performance and will continue to contribute to the coming quarters.

BAGIC was further able to capitalize on a strong presence in smaller towns and rural areas during FY'24. In a market where asset insurance is intensely price competitive, this operating result, displays BAGIC's commitment to a balanced and profitable growth on the back of deep and broad distribution and prudent underwriting while focusing on best-in-class customer service.

In summary, an excellent quarter for BAGIC in terms of top line growth and satisfactory profitability. However, we reiterate that insurance is a long-term business, and we remain steadfast in our commitment to drive profitable growth with sustainable value and always prioritize the interest of our policyholders.

I will move to BALIC next. During the quarter, BALIC continued its strong market-leading growth trajectory and reported an individual rated premium growth of 17% against flat industry growth and private sector industry growth of 2%. If you recall the last year, we had the tax change where the high-ticket traditional policies were brought into the tax brackets, and which resulted in a significant amount of sale in the month of March.

Therefore, on the back of this high base, the growth achieved by BALIC, we believe, is quite commendable. In FY'24, IRNB grew by 21%, which is about 2.5x the private industry growth and about 4x the overall industry growth, including LIC.

Both in FY'24 and the current quarter, BALIC was the fastest-growing company among the top 10 private players on an IRNB basis. And the market share in individual rated new business or IRNB increased by 100 basis points from 7.6% in FY'23 to 8.6% in FY'24 among private players.

In FY'24, BALIC ranked 6th amongst private players on IRNB basis and 4th on new business policies under retail regular business.

Further, our newly launched participating product 'Life Ace' has been well received across all channels. This product was launched in Q2 of FY'24 and in a space of 9 months, it has contributed INR 1,357 crores in the new business.

The company's growth was secular and driven by all key channels with agency, institutional business and BALIC Direct growing at 10%, 14% and 63%, respectively, during the quarter. But more importantly, for the year, agency grew 20%, institutional business grew 17% and BALIC Direct grew 52%. This growth is despite significant one-time benefit in sales during the impact of the tax change in Q4 of FY'23.

On the back of strong renewal premium growth, BALIC GWP grew 17% during the quarter and 18% for the year. The consistent growth in renewal premium reflects improvement in persistency that BALIC has been driving over the last 5 years.

The total number of new policies for BALIC grew 22% in FY'24 to 7.4 lakhs. Again, one of the highest growth rates among the top 10 companies.

During the current quarter, BALIC's new business value (NBV) grew by 16% from INR415 crores to INR480 crores. Clearly, when they have grown better than market, they will get the benefit of operating leverage in Q4, and that is reflected in the higher growth of NBV. On a yearly basis, the NBV growth was 12%, growing from INR950 crores to INR1,061 crores. If you recall, the first quarter was a fairly weak quarter for NBV for BALIC. So, the last 3 quarters, we have substantially made up.

Overall, the business mix for FY'24 on individual weighted business was par 27%; non-par, 24%; term, 4%; annuity, 6%; and ULIP, 39%. This balance is a very strong benefit that BALIC continues to drive.

BALIC has continued to focus on scaling up agency and direct channel through investing in people, processes and also institutionalizing on the variabilization of agency costs through low-cost models. It has led to BALIC building up one of the largest agency channels in the private life insurance space with more than 1.5 lakh agents. BALIC is also building on the data and analytics for direct sales through upsell and cross-sell initiatives. It has led to BALIC's presence in 313 cities, which dedicated vertical for different segment of customers.

On the institutional business side, the company continues to expand its network of partners and grow existing partnerships. BALIC now has a reasonably large number of bancassurance tie-up which should help it to reduce concentration risk on Axis Bank. On the persistency front, there has been improvement across most cohorts with 13-month persistency ending at 84% and the 61st month persistency at 52%.

Profit after tax, as mentioned earlier grew from INR26 crores in Q4 2023 to INR106 crores in Q4 FY'24. BALIC had a PAT growth of 44% for the year growing from INR390 crores to INR563 crores. This was supported by higher-than-expected release from the past book and

better mortality experience, partly offset by higher new business strain on account of business growth.

BALIC ended the year with an AUM of INR1,09,829 crores. Overall, another good balanced quarter for BALIC.

Finally, as you know, both the insurance companies are among the most solvent, BALIC with 432% and BAGIC with 349% and hence are well poised to weather any external adversity.

Given the excess capital, we have been paying out dividends from BAGIC and BALIC for the last few years. And this year, the dividend has been increased from the previous year. BAGIC has declared INR661 crores of dividend with a BFS share of INR489 crores and BALIC has declared a dividend of INR497 crores with the BFS' own share of INR368 crores. BFL has announced a dividend of INR 2,228 crores, of which INR1,144 crores will be for BFS, subject to approval by shareholders.

Over the last 7 years, BAGIC has declared a total dividend of INR1,605 crores and BALIC has dividend of INR1,821 crores. And we have been reinvesting the dividends into our emerging businesses Bajaj Finserv Direct, Bajaj Finserv Health and the Bajaj Finserv AMC.

Let me move to the lending businesses, BFL and BHFL

I will only briefly touch upon the results of the Company. A good quarter for BFL on all the growth metrics mainly AUM, customer acquisition, portfolio metrics and operating efficiencies. The rural B2C business growth continues to be at muted rate of 6%, which was planned due to the elevated risk, and which has been called out by Rajeev Jain in his investor calls over the last 2 quarters.

Profit after tax grew 21% during the quarter and 26% during the year. During the quarter, BFL acquired 32.3 lakh new customers. In FY24, BFL dispersed INR3.6 crores loans and added a record 1.45 crores new customers the highest ever until date, as against 2,496 crores new loans in FY'23 recording a growth of 20%. The customer franchise is very strong at 8.36 crores, while cross-sell franchise itself has crossed the milestone of INR5 crores.

The Bajaj Finserv app now has 5.2 crores net users as against 3.55 crores users on 31st March '23. The Company's diversified business model has enabled it to record a strong AUM growth as seen from the total AUM standing at ₹ 3,30,615 crore as on 31 Mar 2024 (34% Y-o-Y growth as compared ₹2,47,379 crore on 31 Mar 2023).

The risk metrics continue to hold well. Gross NPA and net NPA stood at 0.85% and 0.37%, respectively as on 31 March 2024 as against 0.94% and 0.34% as on 31 Mar 2023.

BFL holds a management and macro-economic overlay of ₹ 300 Cr as of 31 March 2024. During the quarter, the Company utilized ₹ 127 Cr towards strengthening of its ECL model and released ₹ 163 Cr towards loan losses and provisions.

BFL ended the quarter with a consolidated PAT of ₹ 3,825 crore which was 25% more than the Q4 FY23 PAT of ₹ 3,158 crore. For FY 24, PAT has grown 26% from 11,508 Cr to 14,451 Cr. The capital adequacy ratio remained very strong at 22.52% with 21.5% in Tier-1 capital.

Our housing finance company, the 100% mortgage subsidiary of BFL, continues to do extremely well. AUM grew 32% to INR91,370 crores from Rs. 69,228 Cr as of 31 Mar 2023. Profit after tax (PAT) grew by 26% to ₹ 381 Cr in Q4 FY24 against ₹ 302 Cr in Q4 FY23 and by 38% for the year to ₹ 1,731 crore as against ₹ 1,258 crore in FY23. Capital adequacy ratio stood at 21.28% with 20.67% being Tier-1. GNPA and NNPA were again very strong, 0.27% and 0.1%, respectively, as of March '24. In summary, another very strong quarter for both BFL and BHFL.

Now to move on to our platform companies, Bajaj Finserv Direct,

During the Q4 of FY'24, Bajaj market attracted 72 lakh consumers on its digital platform, of which 1.6 lakh became customers (as against 84 lakh and 1.9 lakh customers in Q3 of FY'23). BFSF digital lending (unsecured and secured, both BFL and partnership) disbursement for the quarter stood at INR1,636 crores (against INR1,664 crores). The card sourcing was lower at 20,673 versus 36,603. As you are aware, and we had called out earlier, Bajaj market had voluntarily decided to stop sourcing EMI cards for the RBI order on BFL. After correction of the deficiencies pointed out, BFL has already applied to RBI for review. And as soon as RBI allows, Bajaj market will resume sale in due course.

During the quarter, Bajaj Finserv AMC launched 2 new passive equity funds and one large and Midcap fund. They attracted good investor interest. We ended the year at INR9,552 crores of AUM, of which INR3,438 crores were in equity or equity-oriented funds.

Bajaj Finserv Health carried out 9.36 lakh health transactions, having 2.48 lakh plus monthly active users. For the quarter, EBH had 18.98lakh plus paying users, which is almost double that of Q4 of FY'23 with 7.17 lakh users having renewable products.

Bajaj Finserv Health also expanded its provider network, which now includes 1,07,000-plus doctors, 5,400-plus lab touch points and 2,250 plus hospitals. Utilizing the network strength, EBH is able to offer, and service differentiated product plans for both retail as well to corporates for employee health benefits management.

With that, I come to end of my opening remarks. Before we open for questions, concerning the paucity of time, I would request the audience to kindly keep the questions brief so that we can cover more queries during this call.

With this, I invite questions from the audience and handover the conference call. Thank you.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: Firstly, I wanted to ask over the BAGIC segments business. When we look at the growth rates for the different segment, I think retail lines are looking slower. Much of the growth has come on the back of commercial lines and tender-driven businesses. So wanted to understand, what kind of challenges or enhanced cost of acquisition etc you're seeing in the industry in these retail lines, which is preventing you from accelerated growth.

For example, motor OD loss ratio for the full year is around 64%. So, would it be the range you'd like to operate at? Or can there be further headroom for growth in this? If you can give us some which areas, you want to focus on in FY'25 to drive growth in the GI business? That is the first question.

And also, I wanted to hear your comments on the higher expense ratio that we reported for this quarter in BAGIC. On BALIC, I wanted to understand that for FY'24, the 37th month persistency seems to have recorded a drop, what has led to the challenge in this cohort. And also, if you can give some idea about how should we think about VNB growth and margin for FY'25?

S. Sreenivasan: Thank you for that. I think, as you know, on the VNB margins or combined ratios, we shall not be able to give guidance, particularly in insurance where nobody can predict when catastrophes will happen or what kind of yield curve moments will happen. But if we were to summarize your question, the first one was the outlook on retail growth, whether it was a bit slower than what is anticipated in Q4, the expense ratio in BAGIC- why it was higher in Q4.

In BALIC, you wanted to know the outlook on VNB growth. And lastly, why there was a drop in the 37-month persistency. So, I now hand it over to Tapan first to take the question on the motor growth and Raman can support with the expense ratio. Followed by Tarun and Vipin for BALIC.

Tapan Singhel: So, thank you for the question. At Bajaj Allianz, our philosophy has been very clear from the start, wherever we see opportunity to grow we grow that. And if you look at the lines of business, we're still one of the large players in the Indian market. If the opportunity does not seem to be there as per our pricing, or as per our comfort of combined ratio, then we slow down. Because business is cyclic in nature. Business is really not something which has always been constant.

As opportunity again comes in, we take it and grow again. But would never be aggressive when the market is not conducive for high growth. If you look at most of the years, retail gets aggressive in Q4 because the way the dimension business is structured, a lot of commercial business happens in April, first April is the date and then is September, which will be there.

While if you look at towards Jan, Feb, March-it's mostly retail business where the aggression comes in. That is how the GI business gets structured. So typically, in Q4, in retail, the aggression of the market increases beyond our comfort level, and that's why you'll always see a bit of a slowdown in Q4, but again, the next quarter it gets much easier. So, it's a natural cyclic performance. So, there's nothing in terms of that, our strategies are slowing down we are looking at wherever opportunity comes. And currently, we saw opportunity like you rightly mentioned in commercial business.

Look at our Q4 growth, it's over 30%. It's much over the market growth. So, the company, I would say, has done very well in terms of Q4 growth. That's the answer on how it looks at it. Over to you, Raman, in terms of taking the other questions.

Ramandeep Sahni:

Yes. I'll take the question on the higher cost ratios. If we compare the cost ratio with the whole year, it looks a little higher. But if you compare it with the same period last year, quarter 4 on quarter 4, there's hardly any delta. It's 31.3% versus 30.9% last year. So structurally, actually nothing has changed. What has really just moved up is, a bit of higher commissions in quarter 4 as against no meaningful change in Opex.

And that is cyclical, because if you look at our growth in quarter 4, it's largely coming from some profitable lines where the commission rates are higher. So that's the only reason the, the cost ratio is higher. But, if you look at it on a totality basis for the full year, we're actually 1.5% lower compared to last year. I hope that answers your question.

Tapan Singhel:

In terms of the expense of management, that the regulator has come out, our company is basically within that. If you look at in the industry, we will be one of the most efficient companies in expense of management, which has come together. And when you compare that we would be among one of the best in the industry. Raman, if you want to please share to that.

Ramandeep Sahni:

Yes, you're right. The actual number is 22.7%, which gets reported to IRDAI. We are well within the regulatory norms.

Swarnabha Mukherjee:

Just a quick follow-up on the first one, sir. We were getting feedback that the competitive intensity in the motor OD side is possibly seeing some better trends, do you also see similar trends? Or in the micro markets which you are focusing on?

Tapan Singhel:

See, if you look at it, the worry for the industry is TP. There has not been a TP price hike for some years. And TP claims are affected by inflation. Motor TP is reasonable sum of business. So, if you go little granular you'll actually see where the volume lie. OD is fine. If you look at the accidents on highway there was a dip post COVID. But now if you look at the frequency, it has again moved up. If you study the 3-4 parameters, then you can figure out the answer that you've been asking for on a regular basis. So that is what we should be looking at. But now, the frequency has actually moved up.

Swarnabha Mukherjee:

Sure, sir. Understood.

Tarun Chugh:

Okay. On the Bajaj Allianz Life side, there were 2 specific questions, one of the 37th month bucket and the VNB growth. Let me answer the first one. In 37 months, you've correctly pointed out, it has been lower. It's a fact which is visible. This is a continuation of one specific bucket of one specific partner with a significant share in the business, where that bucket has not really performed as the way we would rather have it performed. And this will, of course, not study itself.

The 37 months will study itself going forward. But we do expect that maybe 49 months, see, every year, this moves on from one. So, 49 months could be impacted slightly. But of course, as a company, we are a lot larger in terms of size, dependencies on partners is getting lesser. So, this, we will be able to rectify as we go. And overall, our persistency, for all buckets has been up, and directionally that shall remain. 13th is at 84.3%, 25th is at 72%, 49th is up to 64% and the 61st is first time upwards of 52%. And these are all moving up only.

In terms of VNB margin you asked, and should be correctly answered, but we will not ever give a forward-looking statement. But directionally, to tell as you know about the history of the company. The company has had a turnaround in the last 5 to 6 years. And we've moved into positive territory or margin about 5, 6 years back. And the direction is only up as we now have a steady scale, steady product mix, cost efficiencies are now getting thrown up.

And for the last 2 to 3 years, there was a disproportionate amount of money getting invested in new partnerships. Hence, head on the story will remain positive. Of course, as Sreeni also pointed out, you can't be 100% sure about the way the yield curve is going to be. The non-par funds particularly get impacted by that. So largely, these are the reasons where we will see a trend going up, but of course, we shall not be able to give any forward-looking statement. Vipin, is there anything you'd like to add?

Vipin Bansal:

No. I think just on the persistency, to reemphasize, if you see previous year, 25th month was down by about 2% and it's a flow like Tarun mentioned. So last year, it was 25th month. This year, it was 37th and next year, probably 49th may have some impact. So, it's a book we acquired about 3 years back, and that's growing too. But otherwise, we don't see any steps on our persistency, it's continuously improving.

Moderator:

The next question is from the line of Madhukar Ladha from Nuvama Wealth. Please go ahead.

Madhukar Ladha:

Congratulations on a good set of numbers. So, 2 quick questions from me. One, on the motor side, I noticed that there have been some good reserve releases for BAGIC in the latter years. So, if you look at sort of FY'21 onwards, the reserve releases have been quite good. So, can you explain what's happening over there?

And second, on Life Insurance, there is some chatter that the regulator is reconsidering on their surrender charges regulation. So, they have floated a draft and then rolled back a large part of it. And now I think there is some talk again implementing maybe part of it or in overlap, I don't know. So, I'd like to get some color from you on that aspect as well. These would be my 2 questions.

S. Sreenivasan:

Yes. Tapan, would you like to take the question on motor?

Ramandeep Sahni:

Yes, I'll take that, Sreeni. You're absolutely right that the reserve releases are more in the recent years. And that's what naturally happens. If you look at the TP claims, the way it works, most of the claim's reporting happens in the 4-year period. And that's why if you see that the entire development is almost done in 4 to 5 years.

So, whenever you'll see releases happening, it tends to happen nearer which is less than 4-year period. And that's what you are seeing in our trends also. It all depends on how the development happens and our experience has been in 4 to 5 years, about 70% - 80% of the claims get reported. And that's how the release is happening more in the recent past.

S. Sreenivasan: If I were to add to Raman's statement, if you look at the cumulative paid to ultimate loss ratio, we probably have one of the lowest among the top companies, even after 5th or 6th year on the motor TP book. So, we are fairly comfortable there.

Madhukar Ladha: And on the Life Insurance space, that question?

S. Sreenivasan: As a matter of speculation, we'll wait to see more hard action from the regulator. We do not comment on that.

Madhukar Ladha: But is there some conversation...

S. Sreenivasan: It can change, they will keep discussing. If it's generally out in the public domain in terms of an exposure draft or regulation, then we will discuss that.

Madhukar Ladha: Right. I have one more follow-up. Can you split the loss ratios between Retail Health, Group Health and government? And can you comment a little bit on the recent government held performance because you've written a lot of business over there.

Tapan Singhel: We don't give micro breakups because that's part of our business strategy.

Madhukar Ladha: But some direction comments, what are you seeing in the government side?

Tapan Singhel: No comments on that.

Moderator: The next question is from the line of Supratim Datta from AMBIT Capital. Please go ahead.

Supratim Datta: So, the first question that I had was around the motor TP front, like we pointed out that we haven't had a price increase. However, this year, we have seen others loss ratios improving at an industry level there. So, what would be the trigger to get a price increase here? Do you see scope for price increase in this segment this year? Or that is also looking unlikely? If you could throw some color on that, that would be very helpful.

Tapan Singhel: For motor TP, the way you look at it is like Raman mentioned just previously. It takes about 3 to 4 years to develop. So, if you look at the current trend, how it's moving and the frequency, which is moving up in terms of number of road accidents, and the way court judgments are coming, I think when you start putting that together to see that if the same price would sustain in the future or not, because it's a long-tail business.

In a short-tail business, it's pretty more comfortable to look at pricing in a year's time. But in long-tail business, you have to put a lot of factors to see that in 3 years from now or 4 years from

now, whether this price will be sufficient or not or how this moves up. That is how it is calculated by the actuaries.

What you look at is, the book as of today. So previously, if I see COVID the frequency actually dropped and we all know what happened at that time, the motor cars were not driven. And then post-COVID, they started moving up. Now if there's a drop in frequency, again the roads have become better.

And now if I look at this year's results in terms of what is declared by national highway authorities, I see the frequency has moved up. These are the parameters in which all this takes place. But this is more complex than I told you. We just tried to simply tell you how it moves up. So, a lot of impact that you see is post-COVID, the drop in frequency which actually happened there more or less, impact of that is getting over now. And in the future, there would be a requirement of a price hike is what the industry feels that is represented also to the regulator.

Supratim Datta:

Got it. When is this discussion like going to come through? Ideally, it comes in June, right, where the price hike.

Tapan Singhel:

Yes. Actually, as of now the only tariffed premium which remains today is a motor TP price. And the procedure for hike is that the industry requests the regulator, recommends to the ministry and then it comes. I think that is our procedure. Difficult for me to say when this will happen now as this is the election year.

Moderator:

The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe:

On the motor insurance business, just trying to understand your view in terms of sustainability of the improvement in claims ratio on the OD side. Obviously, there was a big fall in the fourth quarter. But if I look at the full year basis, there has been a fair amount of improvement. So, do you see this sustaining, especially given the fact that you mentioned that you've seen the transportation activity picking up again?

Tapan Singhel:

So, the way you have to look at this, first is vis-a-vis the market, how it moves and only the short-term tail, which means that whatever the result, it's on your face. Immediately, you will see the impact of it. So, fall in OD, I think it shows that the company has been segmenting the customers' right.

It shows a reflection of good underwriting by the company and that the Company has been able to segment customers well. And that's why you see fall in terms of the OD ratio. Because as I mentioned, the short-term ratios, we will be able to see the impact in terms of what business you write. And TP is a long term, so you see the impact a bit later.

Now is it sustainable? Obviously, our ambition has always been to be a good underwriting company, and that has been reflecting in our combined ratio over the years now, I can say, it's not about 1 or 2 years, if you take it back to 10 - 15 years, we have had one of the best combined

ratios of the industry. That's the philosophy of the company. So, we keep on looking and underwriting writing very, very minutely to see how we can get better at it. And that would be our focus. But how does it play out? I can't give a forward-looking statement. But as a philosophy of the company, we'll continue focusing on that.

Nischint Chawathe:

But fair to say that you have seen competitive intensity being lower because of which I think we are able to achieve?

Tapan Singhel:

Intensity is not lower. I don't agree to that. Let me just redraft my answer. Whenever a new company comes into the market, what do they do? Which business do they get into? Let's start from here. The first business they get into is motor. So, there's more addition of companies, motor will always be competitive.

If I take you back about 8, 10 years. Then look at the motor portfolio of different companies, what was composition of motor that different companies had and fast forward today, look at the motor portfolio of each company, and maybe for 2-3 years, take a trend and see how motor portfolio has moved up and less than the top companies after the newer companies joined in.

If the motor portfolio is moving up in companies, then the competitive intensity cannot be lower. I think it's a simple database. So instead of taking into perceptions or feeling, just look at data. You'll likely see the motor portfolio in companies is moving up, which means that the companies are targeting motor more, which means that the competitive intensity is much higher.

Nischint Chawathe:

Sure. Got it. And just on the health side, I probably missed this, but you mentioned that the increase in claims ratio over here is largely a function of change in product mix. And at the product level, you have not really seen any changes. Is that what you mentioned?

Tapan Singhel:

Yes, that is how it is. So, let's look at how does it operate. GI business would have 3 components. One is claim ratio, other would be commission and third would be expense ratio. Now expense ratio would more or less be the same for most lines of business, but it would be more in retail lines of business, lower in, let's say, GMC.

Commission ratio, again, would be higher in retail lines of business because it's the individual agent's effort to get individual customers. In GMC, the commission ratio will be much lower. So, GMC would have a much higher claim ratio, but the overall combined ratio at a higher claim ratio may be lower or equivalent to, let's say, retail with a lower claim ratio because of the way these 3 things just stacked up.

So, if you have written a good portfolio of GMC, then your claim ratio would move up, which does not mean that the combined ratio has moved up. So typically, the way to look at it is, to look at the combined ratios. And that's what answers the previous questions also.

If you try to compare claim ratio, that's why in the previous case I said I don't want to answer that question on a micro level, simply because when you're doing that comparison, it does not provide clear understanding of how it flows. Combined ratio is the parameter in which you look

at balancing how things go. So, if you look at the overall combined ratio, you will find that the company is doing very good on that.

Nischint Chawathe: Some of your peers have reported higher claims because of higher infectious diseases rates.

Tapan Singhel: I don't comment on my peers.

Tapan Singhel: I can only tell you about the business. I can tell you about how it looks like and what are our results.

Nischint Chawathe: Fair point. So, from our business point of view, these kinds of factors have probably not affected our business, I think is it a fair reading? That's what I was coming to.

Tapan Singhel: Yes. I think how do you build in your business; how do you look at it? How do you look at spread? How would you look at distribution? It's more complex than this simple, that this is how it goes. Let's say to give you example, flood happens in one part of the country, let's say, Bangalore has flood, while, let's say, you had no Sikkim floods.

Now let's say, as a company, you are focused only on Sikkim, and you have a major stake there. It will rarely impact you very bad. If say spread is all across the country, and Sikkim is a small part of the portfolio. It will not affect you much. So that's why when you see a statement like this, I don't say my competitors or peers have made a mistake in saying what they are saying.

They must have got affected on the balance of book that they have, some company would be more affected than other companies, but it all depends on how your business gets stacked up and how do you spread the risk and how do you look at it. So that's why making a comment on a statement without knowing the details is not very fair to anybody, and that's why I don't do that.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: On Life Insurance, I have two simple questions. One is on Axis Bank, how much it has contributed to the current quarter and full year as compared to previous year. I believe the channel is becoming more and more open architecture. So, to counter that challenge, what we are trying? If I see in the fourth quarter, our direct channel has done phenomenally well. So, the answer to that could be direct channel or any other channel diversification will play a role. If you can give a bit of color on it, it would be useful.

On General Insurance, I have two questions and one data keeping. One is your crop has been flat year-on-year. We all know that every company will be chasing EOM as they're getting closer to FY'26. So, we have always been a very good underwriter with the crop. Just wanted to understand that as the pricing maybe further deteriorating, your view on that, do you see crop to come off compared to what it is today. That's one thing.

And the second is on reinsurance market. Means last year, we all know that commercial lines saw a reinsurance earning. How is the trend? How are your April renewals with respect to reinsurance market. And if it is softened, what is the likely benefit you will see through it?

And lastly if you can tell me NWP number for the quarter would be useful.

Tarun Chugh:

So, let me start with the Life Insurance question first. So, you asked about Axis Bank. It's been our stated policy. You heard me consistently and we are clear about the way we're going. When we started off, Axis used to be almost 35% to 40% of our business. Steadily it has been coming down. Last year, FY 2023, it was 25%. This year, it is 23%.

In Q4, we grew the company at 17%. Axis grew by 14%, so lower with the company. Intent is, of course it is going to be getting into multiple architecture. But I do feel that if you look at the customer acquisition and also the current space in Axis, there is a lot more yet to be done.

Despite the fact that they have their own subsidiary, we still have 28% of Axis share. Axis grew faster than its peer banks, if you look at the numbers in the bancassurance space. So overall, it has been very beneficial to Axis having an open architecture. And I guess that continues.

Sanketh Godha:

But our market in Axis has remained stable compared to last year.

Tarun Chugh:

Yes, it has been stable at the same level as last year. But I do not expect that it will. They are adding more players, and I guess that the pie is going to get bigger. And when we do our bancassurance tie-ups, that's really what we bring to the table, it's not that you do replacement business, but you also do additional business. That's the whole value prop and I think that's playing out, particularly in Axis bank's case.

And I'll just add, there is enough there to be done. So, Axis will remain a growth space. But having said that, as they don't want to have dependency on a smaller number of insurers. Similarly, we also don't want to have our dependency on one distribution business. So, the share of Axis in BALIC and contribution to BALIC will come down.

Lastly, because we are growing, and we will continue to grow our other businesses. BALIC Direct, from a low base did very well which is our fastest-growing business. There were a lot of things that we got right. We got our technology right, data slicing right, added a defence channel there. We've been able to look at the portfolio management channel, how we handle wealth, customers differently, all that which we'd invested in.

What we are additionally doing is that we are adding new business models and we are adding new branches, our Tier 2, Tier 3 and even in Tier 1. So traditionally, most companies got a significant percentage of their business from the top 10 metros or top 10 cities, BALIC's share was not so. That is now falling in place, but still even in Tier 1 there are a lot of new products to take. And now that we have more and more banks, Tier 2 and 3 as well we'll be adding more branches. And that is going to give us a footprint, more agency, more business direct, more servicing capability of branches of our bank partners.

Last year, we had added few bank partners as well. These are smaller banks. of course, not the size of an Axis or an IDFC or a Bandhan for that matter, but a lot many. All that is happening at a steady pace. Growth shall remain consistent and stronger than the rest of the industry, that we

are clear about and dependency of one channel shall be reduced, that's the stated policy of the company.

Sanketh Godha:

Perfect. And maybe on Life on group protection, just wanted to understand your view on it as growth has declined for the full year and we've muted growth for the quarter. So, whatever the course correction has to happen with respect to the product has happened, and we expect to see a revival going ahead? Or you see the competitive intensity is still there and pricing is not appropriate. So, you will be a little cautious in conducting that business?

Tarun Chugh:

Sanketh, so that's a good question. You're right. We did struggle last year on Group. That is more because we had dependency on only 2 or 3 partners which were disproportionate. It's the same issue we're trying to defray in retail. Group being a relatively smaller business for us, our dependency was very high.

1 or 2 of our partners haven't really performed well due to various reasons. During Q2 and Q3, as you know, we actually did degrow in Group. But we are back to growth numbers in Q4. And we expect this trajectory to go ahead. We're doing that by diversifying into more partners, more segments. We're already quite strong in MFI.

NBFC is something that we are certainly getting stronger. Mortgage, insurance, personal loans. There's a lot more to be done. A lot of these bank partners who are with us which will remain a growth engine for us. And yes, India is a competitive market. I presume more business in India is easy to do. So, you will keep seeing that competition growing in this space.

Sanketh Godha:

Perfect. On General Insurance, if you can help with the details?

Tapan Singhel:

Yes. So, on crop, I think when we're doing crop, most questions would come that a lot of our peers will say that they will not be entering crop business, and it doesn't make sense. But I think over years, we have proved that crop business makes sense, and we have been able to work hard, deliver on the ground and being able to do the business on a profitable basis and also on scale.

And as we mentioned as a philosophy, we are an underwriting company, and we do business at the price that we are comfortable with. If the price is not to our comfort, we are very happy to let go off business. So, we are never into this rush of acquiring business just for the sake of acquiring business. It has to be done sensibly.

Because in General Insurance business, it's a very long-term business. It is not about 1 or 2 years. If you run this business, the view you should have is for 100 years. And the stronger your balance sheet becomes, much better, as a company, you are able to move forward. Balance sheet underwriting competence skill sets and that's how it is.

So, if you write into businesses which doesn't make sense, then you spoil your balance sheet. I think that is something which one has to be very careful about. And as a company we see that. So, if you look at crop, though you say it's flat, but we are still a very large player in the crop insurance business.

But again, if the business does not make sense, we are very happy to have a smaller share. And when it makes sense, we'll again move up. We never have made any statement that we are walking out of any business or getting into business. You would never hear from that. We are into all lines of businesses, and we're into all channels of business, and we are across the country into every nook and corner of the country.

And as we said, we do business at a price that we just serve our customers well. And if you see the IRDAI's figure in terms of grievance ratio, we have one of the lowest in terms of grievance ratio, in the country in spite of having such a large amount of customer base, which should be there. So, on crop, this is our philosophy, and this is how it will also continue.

Sanketh Godha: But Tapan, will you be confident to achieve a similar number? Because I know as you rightly said, many people will be chasing that business now....

Tapan Singhel: If the price is not right, as I said, I'm very happy to let go of my market share in crop. If the price is right, I'll gain. It's a tender-to-tender business. So, the next tender, it depends on how the pricing goes, and that's how it will be. My confidence is only one thing that we will price the business right.

Sanketh Godha: Because of this tender-based business, means, on Government Health, just wanted to understand, you did very well in the current year. But looking at your experience, whether you will repeat that business in the next year? Or how is your outlook there?

Tapan Singhel: So, if you look at it, it's not new to us. That is the point I've been saying. Government Health, we have done in the past also. We have done for Jammu & Kashmir, Gujarat, West Bengal and Chhattisgarh also. It is not that it's new to us. And wherever the pricing is right, we'd do. If it's not right, will not do.

In the past also, at times, some years we have written good governmental business whereas some years we have not written good governmental business. It just depends on what price point do we get it. So, on tender business, for me to confidently say that, yes, we will write it would be wrong. Because, as I said that we'll write it at the price that we are comfortable with.

There are years when the business pricing is not right, those years you will not find us. But if you look in the past also you find us. Bajaj Allianz has been doing government, it's not that this is the first time we've written the governmental business.

Sanketh Godha: Got it. And on the reinsurance market, if you can comment?

Tapan Singhel: Yes. On the reinsurance market, if you look at it, our capacity now is the biggest in the Indian market amongst all companies, be it public sector or private. We have the biggest fire capacity. We've the biggest engineering capacity because we are a serious player in the commercial lines of business. And to the question you asked on April 1, it did go pretty decent for us in terms of 1st April also because of the capacity that we have.

Large risks require a good capacity, and our capacity is built by some of the top reinsurers of the world minus the Indian reinsurers, I think, which we have to write in order of preference, all our reinsurers are A and above rated. Typically, that is how we have one of the finest reinsurance capacities in the market, and that will obviously help us write commercial lines of businesses.

Sanketh Godha: Got it. And if you can give me that NWP number for the quarter, that will be useful?

Ramandeep Sahni: Yes. Sanketh, it's INR2,462 Cr.

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

Nidhesh: My question is on Life Insurance. How are the trends on segmental margins? And how are the trends on the competitive intensity in terms of commission payout or IRR or pricing on the protection side that we are seeing in the marketplace?

Tarun Chugh: I'll give it to Vipin for margins. On commissions, I'll just broadly take it. You'll see that the commission ratios for all players are looking higher. But largely, it was really truing up of all the marketing efforts that we were making. As commission marketers, we're paying it directly, we're not just doing vendors. We're directly giving it as all the marketing efforts are being done by the banks themselves.

So largely, while the number will look going up versus last year, the good thing is that the Life Insurance sector has been steady. And we do expect that while there will always remain pressure on commissions and payouts on wholesale distributors as we're getting scale and the brand is getting stronger and stronger, we will be able to keep a steady number there. Let me hand it over to Vipin to answer the margin question.

Vipin Bansal: So, on the margin, like we mentioned in the beginning, our NBV has had a healthy growth. We have seen efficiencies also kicking in. But what we have to understand and as you are also indicating, it's a competitive space where interest rates play a significant role in the way the products are priced, and the way customers look at it. So, it's a place which is competitive. I think we choose to play to our strength.

We don't necessarily compete with all players on the pricing. Margin that gets reported has a lot of noise because the Group business gets reflected there. But if you look at it in terms of NBV, I think that gives you a better picture, that our margins have been getting better and we're seeing the benefits of scale as we are growing.

Nidhesh Jain: But on a segmental basis, are the margins steady or they have reduced, for example, in the non-par savings protection?

Vipin Bansal: I think, I would generally say across segments, our margins have been largely getting better. We don't specifically talk about segmental margins. But on an overall basis, I would say across segments, we are seeing stable to improving margins.



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- Moderator:** As that was the last question from the participants. I now hand the conference over to Mr Sameer from JM Financial for closing comments. Over to you, sir.
- Agvesh:** Thank you to all the participants for joining on the call. And a special thanks to the management of Bajaj Finserv for allowing us to host the call. Thank you.
- S. Sreenivasan:** Thank you.
- Moderator:** Thank you. On behalf of JM Financial, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.