"Bajaj Finserv Limited 2Q FY 2017 Earnings Conference Call"

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MODERATORS: **MR. KARAN SINGH -- JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Bajaj Finserv 2Q FY 2017 Earnings Conference Call hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you, Mr. Singh!

Karan Singh: Yes, thank you. Good morning everybody and welcome to Bajaj Finserv's Earnings Call to discuss the Second Quarter Results. To discuss the results, we have on the call Mr. S. Sreenivasan who is CFO -- Bajaj Finserv; Mr. Ramandeep Singh Sahni who is CFO -- Bajaj Allianz Life; and Mr. Milind Choudhari who is CFO -- Bajaj Allianz General.

May I request the management to take us through the financial highlights, subsequent to which we can open the floor for Q&A Session. Over to you, sir!

S. Sreenivasan: Good morning, everybody. As usual, it is a pleasure for us to have all of you attending this call. In this call, we will be covering the consolidated results of Bajaj Finserv for quarter ended 30th September, 2016 and the half-year ended the same date.

Before I get into the details of the results, I would like to qualify a couple of things.

Firstly, we will not be taking any questions related to the status of shareholding in the two insurance companies.

Secondly, we would be focusing more on the insurance side of the business because Bajaj Finance Limited has had its own independent call yesterday. Nevertheless, if anybody would like to ask any questions related to finance we would be more than glad to take it.

Lastly, we do not make statements which are in the nature of forward-looking statement and if at all there are some statements made, they would have been taken as being merely statements of expectation rather than promises.

With this, let me come to the results. We have had a very good quarter for Q2 of FY 2017. Our consolidated gross revenue increased by 33% from Rs. 6,185 crores to Rs. 6,912 crores. Our consolidated income from operations is up 35% and the profit after-tax on a consolidated basis is up 31% from Rs. 441 crores to Rs. 576 crores.

In respect of growth, all three businesses have done very well. Bajaj Finance grew its AUM by 38%; Bajaj Allianz General Insurance grew the gross written premium by 45% and Bajaj Allianz Life grew its new business premiums by 70% which includes a 64% growth on the rated individual business which reflects the long-term business from retail customers.

I am also pleased to report that Bajaj Allianz General Insurance Company has registered its highest ever quarterly gross written premium and profit after-tax in its history.

Overall, a very good quarter. I would now like to invite questions if any on the results.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Nitish Jain from Investec. Please go ahead.

Nitish Jain: So, the first quarter on agriculture insurance that the company has reported quite strong growth in this quarter. Just trying to understand, will this business be a lumpy business that we will see in one quarter it will be a very high number and then how the trends will pan out over the quarter? And secondly, what would be the economics of this business in respect to combine ratio that the company is targeting because the quarterly combined ratio for this quarter it looks unusually low. Is this because of agriculture business or is this sustainable trend?

S. Sreenivasan: The crop insurance business which has been reported as agriculture business is basically under the new "Fasal Bima Yojana Scheme" of the Government of India largely in the states that we have done this business. During Q2 we did Rs. 746 crores of this business as compared to Rs. 162 crores in the same quarter of the previous year. This is a specific scheme which has enlarged the scope of crop insurance largely because any farmer who has loan from a bank or a financial institution has to be compulsory insured - this ensures that large number of farmers get benefit under the scheme. Secondly, the share of the farmer in terms of premium rates has been fixed under the scheme, this could vary between food grains, oil seeds, horticulture etc.- higher premiums are always paid for cash crops. The premiums are subsidized by State and Central Government. The entire granting of insurance under the schemes is through a tendering process in which different companies participate. Based on that, in some states we have won the deal and that is reflected in the gross premium that we have reported in this quarter. Regarding your question as to what is the expected combined ratio? As you know, in the general insurance business we can never predict what the loss ratios would be but I can give you a flavor of this business. This business is basically divided into two seasons Kharif and Rabi. What we have booked so far is for the Kharif season. The Kharif season would end by 30th September or so - thereafter, the claims would be ascertained in the third quarter finally. In the meantime, actuarially we have provided what we expect would be the ultimate expected losses. To that extent we have provided already reflected in the Q2 results. We would know the exact picture by end of the third quarter. The way we have approached this business is that, because it is a business which is exposed to significant catastrophe risk, it must be backed by quality re-insurance. We have 85% re-insurance from GIC and Berkshire Group and based on capacity availability and our assessment of risk, we adopt the same scientific approach to underwriting and selection as to where we want to compete and at what price based on the actuarial data.. As a scheme, we think, the scheme will continue into the future. Compared to the previous schemes this looks to be more sustainable. So, in that sense we think it will be an essential component of our business. Clearly being tender driven every year you could see variances in what state we would complete in and what the amount of premium that would be generated out of these lines for us. But it is a line we are now committed to. Milind, you would like to add anything to this?

Milind Choudhari: Yes. In addition to what Sreeni mentioned, I think one of the important features of the scheme is that the rates are decided actuarially and they are not subsidized rates as mandated by the government which was in the earlier scheme. So, this has resulted into actually companies quoting their own viable premiums for this crop insurance and that is how even the market size which until the last year was around Rs. 5,000 crores for the entire industry is likely to grow to Rs. 15,000 crores plus this year. So, with this kind of growth in this crop insurance, any big insurance company cannot be away from this sector. Of course, as the query was raised there could be some quarter-to-quarter variations because the Kharif season booking happens during the second quarter and the Rabi season bookings happens in the last quarter so, there could be a little dip in the Q1 or Q3. In Q1 typically, we also have the new premiums or the first quarter where all the corporate premiums starting from 1st April are booked. One of the major differences in the earlier schemes and the current scheme is that the current scheme is yield based whereas the earlier schemes were more like weather based or weather derivate. So, now we will have to wait until the cost cutting exercises are completed and the exact yield is determined by government so as to arrive at the final loss ratio. But actuarially, based on the cost analysis of trends, we have already done that I think, this will remain a good line of business for our company.

Nitish Jain: The claims experience in this business specifically could also be volatile unlike our retail business, is that understanding right?

S.Sreenivasan: Also, just to add to that the premium varies significantly from region to region and by crop to crop and it is not one rate that is quoted or one claim experience that we expect. Clearly, weather has a big role to play eventually in the yield of the crop but the biggest advantage of farmer is that as long as his actual yield is less than the stated yield which is the average of the last ten years as determined by the governments, he would get paid irrespective of what caused the drop in the yield. So, this is the biggest reason why more and more farmers are enrolling for the scheme, they know the price upfront and they know what they have to pay and they also know that they will get paid as long as the crop is lost.

Nitish Jain: And re-insurance arrangement is on the weather part, right that is not on the yield?

S. Sreenivasan: It is a back to back separate re-insurance arrangement not mixed up with any of our re-insurance arrangements.

Milind Choudhari: The re-insurance arrangement is for the entire crop insurance so; it is not only limited to only weather insurance or something. So, it covers both yield as well as weather insurance. Another feature as far as our risk protection is concerned is to protect our bottom-line or to take care of the downside of this loss ratio going haywire we also have obtained one stop loss cover which will protect us in terms of going losses going very high. So, we are protected from both sides even on the higher side if it crosses certain boundary then that will also be taken care by the re-insurance.

Nitish Jain: And sir, so, if I look at the combine ratio movement in this quarter the bulk of the movement is on account of OPEX coming down, so which is broadly explained by the higher volumes because of agriculture insurance or?

Milind Choudhari: I do not think there is any moment in terms of our expenses of management, there will be movement in acquisition cost because of the re-insurance commission on the crop insurance.

S. Sreenivasan: Yes, it is because of the top-line. It depends on what denominator you are using for calculating your expenses on - if it is on gross written premium they would come down because gross written premium has increased but if we take on net written premium, it is roughly at the same level as the previous year that is about 31%.

Nitish Jain: And sir, lastly on the life insurance business so, we have seen two quarters very strong growth in the life insurance business. So, do you think this change is structural and we are continuing to see this sort of growth for the full year and then may be the decent the high teen sort of growth from next year onwards?

S. Sreenivasan: See, as we mentioned before, we started on this transformation of our agency business about two years and since the beginning of this year we are getting to see the results of the efforts that we put in, both in terms of the direction that we are taking strategically as well as the execution by the agency team. There have been significant changes in a lot of things in agency in terms of the quality of sales people that we have, segmentation of the markets, the geographies where we want to have different product mixes, ticket sizes that we are trying to drive and in terms of the overall management of the agency force. This has been largely instrumental in driving the growth in terms of individual rated business for the company. Having said that, the first-half is generally not that strong for the life industry, I would still be cautiously optimistic and we would say that we will still like to wait for another two - three quarters to see if the base effect has helped us. But if we continue to perform our next two - three quarters then yes, I would say that we are in a position to see good growth subject to the overall market supporting growth of savings. Raman?

Ramandeep Singh Sahni: Yes, I think Sreeni you have broadly covered everything. So, I think these are green shoots as we call them internally and we still have to wait and watch whether this is a sustainable growth though we are confident that whatever changes we have made in the last 18 months to 24 months will pay the results and these are the green shots from there. So, like Sreeni said we will have to wait and watch how this shapes up in the later part of the year because that is where 70% of the agency business usually is done.

Moderator: Thank you. We have the next question from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.

Nilesh Parekh: Sir, on the business mix obviously, we have started to see some inch up in the ULIP mix. So, is there a target that you are working with by the end of the year what is the ideal mix that you would want to kind of look at specifically taking into account you know large part of that is being driven by agency so, just wanted to hear your thoughts on that.

S. Sreenivasan: See, this half-year our ULIP is 64% of our individual business with about 36% coming from the traditional business. Last year it was close to 50%-50% for the same period. There has been an increase in ULIP. Our overall objective is to have a balanced product mix, the market over the last six months or may be more than that - may be from last year or so - has preferred unit liked products over traditional products as the stock market returns have started improving and the risk appetite of the people who save has also improved. We do not have a specific target but we would like to keep it balanced so that unit liked business is may be about not more than 60%-65% of our portfolio. Having said that, I must qualify that we will go with the market. Clearly, with the agency driven model which is more of a proprietary channel we have a little bit more flexibility to control the product mix, than something like a bank assurance or other types of companies which are driven by bank assurance and other institutional models. But we will go with the market subject to having a balanced product mix. Raman.

Ramandeep Singh Sahni: Yes, so, I think what we have said in the past also is that we do not want to dictate product mix for the customer, we believe customers understand the product and let them decide what is best suited for them having a concentration in any product line is obviously a risk and we might be cautious only when that starts happening otherwise we will go with the market as Sreeni highlighted earlier. One big change however, we have seen is that one side the ULIP mix has gone up but if you look at the proportion of single premium in that- in the last year our single premium used to be close to 30% which is now down to about 7% - so, that is one thing which we are consciously trying to control because that is not a sticky business and you do not see recurring streams from that and hence we try to only control that, rest we will flow with the market.

Nilesh Parekh: Sure. And some color in terms of the average ticket size and largely debt equity that you know some indications around that?.

S. Sreenivasan: See, average ticket size is something we are not publishing yet. I will say there has been a significant improvement in terms of average ticket size and that has been a very critical contributor to our growth. In terms of equity- debt mix, out of our total ULIP AUM of Rs. 20,300 crores about 66% is equity and 34% is debt, some (maybe about 10%-12%) would be asset allocation funds where we do a balanced fund. And out of the 66% equity roughly 50-50 would be the passive and active funds.

Nilesh Parekh: Okay. And just one final question on the general insurance side, so if I just assume that we have seen this lumpy crop insurance business that we have written during the quarter but if I just strip that off from the base from last year and this year in this business there seems to be some contraction in the other part of the business so, any thoughts on that?

S. Sreenivasan: Milind?

Milind Choudhari: I think even if we exclude agriculture, and try to see what kind of growth is there. I think as far as growth is concerned that is around the market. If you exclude agriculture from the entire market side because I think this entire thing has pulled the entire market growth also, we are in line with the industry growth and I think the overall performance continues to be good. We keep internally observing that if such a big premium is booked whether the core business is performing and what is the crop insurance business performance so, that we are in track in terms of where the industry is and where we want to be.

S.Sreenivasan To give an additional flavor to what Milind said, we are growing in the chosen segments which is our strategy if you see our presentation as well. We want to grow faster than the market in the segments of choice. We have grown retail, health by about 17% which is well above the market growth, we are growing our businesses like extended warranty business, liability business, - there has been a market de-growth continues or there is strain continuing in large ticket size projects insurances, such as engineering and other lines of business where we tend to go with the market and overseas travel has also de-grown a little bit. By and large, we are very comfortable with the composition of the growth that we are targeting.

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

Dhaval Gada: Firstly, sir, I do not have the public disclosure of the GI business but just wanted to get a sense what would be the loss ratios for this quarter in the crop insurance business, the one that we have provisionally made so, our estimate of the loss ratio?

Milind Choudhari: Actually, I may not be able to exactly state what the loss ratios are because it depends on the actuarial assumption and the past trend analysis and, because the monsoons season is not complete and exact loss ratios will be known only after the crop cutting experiments start.

Dhaval Gada: Okay. No, so the question I had was not the ultimate loss ratio but our estimate of the loss ratio what we have put in the P&L for this particular quarter. Just wanted to dissect between the crop insurance loss versus the rest of the business just trying to understand underlying what is the change in the loss ratio mix from last year to this year?

Milind Choudhari: Yes, of course crop loss ratios we have whatever estimates we have built that is around 100% and because of which the overall loss ratios will also be pushed up which is around 70% or so after adding these loss ratios. But I think if you look at overall loss ratios also there is slightly higher loss ratio in terms of our motor business. Overall, in terms of health as well as all other lines of business we have been doing well and the loss ratios are controlled so, every quarter we have that kind of a review and corrective action which needs to be taken in terms of loss making segments, a lot of detail segmentation, slicing and dicing is done in order to identify sources of losses and accordingly action is being taken.

S. Sreenivasan: To add to what Milind said, if you recall in the first quarter conference call, we had highlighted that we had seen worsening of loss ratios in motor business and group health business. I am glad to report that on quarter-on-quarter there has been a reduction in our motor loss ratios. We have taken some internal steps; the company has taken steps to get out of some loss-making relationships. Temporarily that has had some impact on premium but overall we have protected our loss ratios. So, on the areas where we found in the first quarter loss ratios were higher, we have some improvement, but on a half-year to half-year basis they still are higher partly because of the higher provisioning for agriculture at 100% and partly because the first quarter effect is not fully wiped out in one quarter by improvement in the motor loss ratio.

Dhaval Gada: Right. And sir, in terms of the re-insurance treaty on the crop side is it XOL the proportionate treaty?

S. Sreenivasan: That is a proportionate treaty, there is also a stop loss cover at a higher loss ratio we have kept our losses for which we have paid a premium which is reflected in the books.

Dhaval Gada: Okay. And secondly, on these Rs. 15,000 crores kind of market side which you highlighted for the crop side what would be the split between Rabi and Kharif so, how much of the premiums that could flow through in the Rabi season because I understand that it is a three-year contract that we get but annually it is reviewed and it is based on certain regions and multiple insurance are there so, I just wanted to understand what could be the chunkiness that in premiums that could come a quarter-to-quarter basis?

S. Sreenivasan: Milind, would you like to take this?

Milind Choudhari: Basically there are only couple of states which are getting into this kind of a three-year contract. Some of the states are not even following a yearly contract. For each season, they might actually do tendering separately, okay, so, it depends on state to state basically, what was the second part of your question?

Dhaval Gada: So the chunkiness that could come in the premium line between Kharif and Rabi.

Milind Choudhari: No, I think the first question what you had asked about was the estimate for Rabi premium.

Dhaval Gada: Correct.

Milind Choudhari: So, generally as compared to Kharif, Rabi premium will not be as high they may be in the range of around Rs. 3,000 crores to Rs. 4,000 crores.

S. Sreenivasan: Roughly it is 2:1

Milind Choudhari: Industry as a whole.

Dhaval Gada: Okay. And in terms of our chunkiness so, in our premiums basically what could be the spill over the in Rabi season so, how much more premium you expect to book?

S. Sreenivasan: Not yet known because it is tender driven. We would not know but it is our intention to do more business it will be less than what we did in the Kharif season but roughly we say, two is to one is what we would be happy with.

Milind Choudhari: We will also try to follow the industry two is to one.

S. Sreenivasan: That is what it comes to. Overall, if you ask me, we do not have a specific target, we would be quite satisfied if our market share of the agriculture business is better than our market share from our overall business.

Dhaval Gada: Okay. One last bit on the agri business, in terms of this particular quarter collection that we had, how many states would have or how many regions would have contributed just to get a ball park understanding.

Milind Choudhari: There are four states which is Andhra Pradesh, Telangana, Bihar and Haryana.

Dhaval Gada: Okay, fine sir. And moving to the life side, so, I could not see the margins so, could you highlight what is the new business margin for the first-half in the life business?

S. Sreenivasan: We do not publish the margins on a quarterly basis because effect of expenses gets evened out only by the end of the year. We will be publishing that at the end of the year.

Dhaval Gada: Okay. So, on a full year basis, if I have to ask given that we are driving ULIPs by agency channel, how do you expect the overall profitability on the portfolio to shape up of us on a new business margin pre-cost basis?

S. Sreenivasan: I think our focus is not just on the margins, our focus is on the new business value which is multiple of both the amount of business and the margins that you generate, we are hoping that with the kind of growth that we have generated -we will have to find out by end of the year what the margins are like - we are hopeful that we would show a growth in the new business value. Raman?

Ramandeep Singh Sahni: Yes, I think Sreeni, you are right, so, we will continue to focus on the NBV rather than the NBM - because of the volumes we will hopefully end up with a higher number.

Dhaval Gada: Right. And just final question on the listing sir, I understand that there is some uncertainty at this point in terms of shareholding but just from what we have been picking from the industry there has some bit of pressure from the regulator to list for the mature companies more than ten-year profit making companies, any plans on the general side or the life side that you are at least pressure that you are seeing from the regulator firstly?

S. Sreenivasan: No, there was a discussion paper, not a draft guideline on whether companies that have completed a certain number of years should be asked to list. However, our expectation is that it will not be made compulsory, it will be made optional. Since then we have had one life company listed already and no general company is listed till now but our expectation is that it will be left to the shareholders to decide when and how to list if at all.

Moderator: Thank you. Next question is from the line of Adarsh from Nomura. Please go ahead.

Adarsh P.: This is a question on the general insurance business underwriting profits, just wanted to understand what contribution came from say commissions on re-insurance for crop and what was actually underlying underwriting profits in that business?

S. Sreenivasan: Milind, do we disclose that information?

Milind Choudhari: No, we do not disclose that.

Adarsh P.: Okay. Just from a direction perspective because it was pretty strong and I know that part of it is OPEX driven as well but directionally will that be material at least or…

S. Sreenivasan: What I can tell you the OPEX for agriculture business is very low because it is a chunky business in the sense that ticket size is very large. We have provided what we think is reasonably high loss ratios.

Milind Choudhari: The acquisition cost is also very low.

S. Sreenivasan: So, overall on balance we hope it will be a positive combined ratio line of business this year.

Adarsh P.: Okay, understood. The two questions on the life businesses, can you talk about what is happening on your protection business, what part of premiums are from there because peers are growing that business pretty fast and when a lot of players do that is there anything on the pricing side happening or pricing is stable there?

S. Sreenivasan: I think there are two - three types of protection businesses. One is where people do a lot of protection business through banks and other financial institutions on a group basis to protect the credit of the bank. This is not a new product, everybody is doing it we also do with our partners such as Bajaj Finance and other NBFCs and with a few banks as well private and public. Then you have the group life business where you do for employees of companies mostly based on employer, employee relationship where large number of employees are covered under general group policy. Then to individual protection business which is much smaller portion of the market some of it is through Web aggregators some of it is through online channels. Raman, could you give some flavor on that?

Ramandeep Singh Sahni: Sreeni covered the group part, where we sell group term life in another employer employee kind of relation and credit protection so, that has been one of our areas of strength so, we have been seeing some growth for the H1 also we saw a growth of about 30% in that segment. If you look at the retail part which has not been a very significant proportion of the total premium collected by the industry but you know in the last few years we have seen that that is gaining popularity. However, the market is very competitive because every year you see every company re-price their products on the lower side and that becomes a very competitive market for us. Our product actually is not very competitive because we have largely sold in the mass segment in the niche part of the country and hence our experience was not very good and now that we have shifted our strategy to sell more in the top cities and to more affluent customer, we will soon be launching a new set of protection product so, you will see that hitting the market in a week - ten days' time. So, that is how we are going to approach that market. But it is too early to say what it leads to because for everybody else in the market if you see proportion of that premium to the total premium is not very significant as of now. So, you know people like us probably might look at those products but when you go to smaller towns, smaller cities there you know the attractiveness of that product is still not that great and people still prefer to have a savings-oriented product.

Adarsh P.: Last question, what is the business contribution or sourcing from Bajaj Finance network?

Ramandeep Singh Sahni: Bajaj Finance has traditionally been setting a lot of credit protection and they are our corporate agent so, with the lending they do they try to top it up with the protection which is what we do with the other NBFCs also, Sreeni spoke about earlier. Unfortunately, we have not done too much of retail business with them. However, in this year itself we have set up channel within Bajaj Finance to start selling retail to their customers. So, it is similar to wealth management kind of a setup, there are affluent set of customers they will try to up-sell and cross-sell insurance.

S. Sreenivasan: Yes, Adarsh to add to what Raman said, our approach to Bajaj Finance is to do less of the group credit protection product and to develop individual products. It will take a bit of time for an NBFC to develop their channel, the initial efforts have started we have set-up the infrastructure required for that and Bajaj Finance itself has the relationship management vertical which sells all kinds of savings products, including FD, distribution of mutual funds etc. and we want a bigger share of that pie from Bajaj Finance. This is the business that we are driving through Bajaj Finance because on the group business, although they were giving a lot of NB in the past, on a rated basis it was less than may be 4% of our business and we are not very keen to take a line share of that business.

Moderator: Thank you. We have the next question from the line of Ravi Shrivastav from Bay Capital. Please go ahead.

Ravi Shrivastav: I had a questions on the agriculture insurance part. So, wanted to understand how big is the opportunity in this space and how is the payment done so, I understand that there is a cap for the farmers but remaining is paid by the government so, how much is the portion of premium paid by the government and how long does it take for you to collect the money?

S. Sreenivasan: See, as far as the size of the opportunity is concerned clearly on a growth basis Y-o-Y it has been significant, it is almost 3x is what the expectation is by the end of the year, that is because the new scheme has enlarged the scope of the scheme. It has allowed actuarial rating of the pricing and it has made it compulsory for loanee farmers. So, in that sense that is one part of the question.

Ravi Shrivastav: Can you just mention the size if…

S. Sreenivasan: Milind has already mentioned, the expectation is to be Rs. 15,000 crores for this year, last year it was around Rs. 5,000 crores of so.

Ravi Shrivastav: And how many farmers are being covered in this scheme?

S. Sreenivasan: We would not have the market information as of now but it is substantial. The scheme has also increased in the number of farmers being covered.

Milind Choudhari: What I would like to add here is that you would have heard from our Prime Minister Mr. Modi that the current insurance coverage for crop insurance is around 27% to 30% and he would like to increase it to 50% in the next two years or three years.

S. Sreenivasan: What was your other question?

Ravi Shrivastav: Other question was on, so, what portion of the premium is paid as subsidy and…

S. Sreenivasan: How much premium is paid, it depends on different types of crops and it varies from Kharif and Rabi, it is lower for Rabi and higher for Kharif but roughly 1% to 2% is what he would pay.

Ravi Shrivastav: So, what is the actual price and…

S. Sreenivasan: That is subsidized equally by the state and central government whichever states have adopted this scheme.

Ravi Shrivastav: What I am trying to identify is suppose the premium is Rs. 10 and farmer pays Rs. 1, Rs. 9 is paid by the subsidy so, what is that number is that 90% paid by the government?

S. Sreenivasan: It would vary according to the state, some states have higher rates because they are catastrophe-oriented so, the rating is not common across, some have low rates. So, the farmer's share as a percentage of sum assured is fixed and the rest is divided difficult to estimate but it would the substantial portion maybe 75% to 90% would be subsidized equally by Central government and State Governments and in the payment cycle Milind, would you like to explain?

Milind Choudhari: Yes, I think there is an expected delay in terms of recovering this premium so, even the regulator allows us to recover this premium within a period of six months otherwise, if it is overdue to you more than that, it may have some solvency implications for the delay but I think as far as our past experience of crop insurance is concerned we have been able to recover the money quite fast means within three months to four months itself and I think that will have some impact in terms of the cash flows. So although on top-line we have booked as premium but it has not resulted in the required cash flows or the investments under management the overall investments. But I think that will get recouped in Q3 or Q4 as this money gets recovered so, there will be a cycle in terms of recovery there will always be some government money pending on the balance sheet date.

S.Sreenivasan: And the scheme says that if the premium is not paid you do not have to pay the claim part of the scheme….

Ravi Shrivastav: How do you avoid adverse selection on the space?

S. Sreenivasan: What the scheme has done is the coverage is divided by crop, by region. Region means they have defined clusters which are largely you can say districts or homogenous districts where similar crops are grown and you have to take the whole cluster.

Ravi Shrivastav: Region as so, you do not have a choice of selecting the farmers?

S. Sreenivasan: Yes, correct. Actually they come through the loanee farmer network so, their feeding agency would be largely the banks who have lent money to the farmers and for non-loanee farmer it is optional so, most of them would be the more affluent farmers.

Ravi Shrivastav: So, that is why you said the acquisition cost is very low and the OPEX is also low?

S. Sreenivasan: Yes, because it is a direct tendering process it is not through intermediation.

Milind Choudhari: We have to bear only some charges to the bank as bank charges. Almost around 95% to 96% of this business so far, as per the experience, has been coming through loanee farmer, there is a very small proportion which comes through non-loanee farmers which is kind of a voluntary insurance they are taking although they have not availed any loan from the banks. But I think it is a very small proportion and there we may have limited choice in terms of selection but that will be very miniscule so, it will not have any bearing as far as the overall portfolio is concerned.

Ravi Shrivastav: And sir, what can be the claim ratio size what is the risk?

S. Sreenivasan: One, the risk is it is a catastrophe oriented product. Number two, it is a yield based product which means that there need not be an event which cause the yield to drop. Now, if you ask me over a cycle when we looked at this business two years ago practically almost all the agriculture insurance business in India was done by the Agriculture Insurance Corporation of India. I would suggest that you look at their balance sheet for the last eight years - ten years. AIC has been a high ROE company but there have been occasional years when there have be catastrophes and loss ratios have been very high - that is the nature of the business.

Ravi Shrivastav: The quarter is sir, the kind of premiums that you have written on that what can be the liability just as an estimate you must have made some actual estimate on it, so what can be the….

S. Sreenivasan: We have done this (a) we have re-insured 85% with first class re-insurers and (b) we have put a stop loss on the aggregate losses on our net account that could arise from this.

Ravi Shrivastav: And what is that surplus number?

S. Sreenivasan: That we are not disclosing but we are comfortable with that, we have done a lot of scenarios and based on that we have arrived a number which we think we are comfortable with.

Ravi Shrivastav: Got it, sir, two more questions one on the extended warranty business quantum so, you do not put that business on the books but what is the book business that you have written because you use to mention that previously so, that is a question on general insurance side.

S. Sreenivasan: Milind, you have anything to add to that?

Milind Choudhari: I think currently we have written for the current year in this half-year we have written around Rs. 60 crores of extended warranty business. Last year we had written around Rs. 18 crores.

Ravi Shrivastav: Rs. 18 crores?

Milind Choudhari: Yes.

Ravi Shrivastav: And sir, just one question on life insurance side, last quarter you mentioned that the focus of the company is more on individual rated business and to move away sort of from the group insurance business. However, this quarter group insurance has grown 100% sort of….

S. Sreenivasan: No, that was not what I meant. I meant that we would like to grow the individual business more than the group business, we are not voluntarily reducing any group business. Our focus has been to improve the rated individual business in the sense that we have to reduce the proportion of single premium to the total from 32% to 7% as Raman mentioned earlier. Secondly, on the group business also we are acquiring business, however, that is not primarily the focus - there are different types of group product one is the fund based business second is the non-fund based business which includes your protection and savings product, we would like to continue to grow the protection and savings product anyway to the extent we feel there is enough money to be made there in terms of margins. As for the group fund business, we will continue to grow as and when deals come up we will do it, as it is not a high cost business. We have only small team working on it. But this quarter we had some chunky inflows from clients into that from a large corporate which has shown that growth but it is not that you will see this kind of growth quarter-on-quarter. So, we want to keep group fund business as a certain proportion of our total book and grow the AUM in that business – in the long run it can be highly AUM accumulative. Raman?

Ramandeep Singh Sahni: Yes. , Our objective is on the group side also is to maintain a balance. It is largely a fund management business. There is also our mix between group of funds and non-funds it ranges from 40% to 60% and that is the kind of balance we have as of now. But like Sreeni said, based on what opportunities we get on the fund side we will continue to grow that business but the focus will be more on the non-fund side and on the retail side obviously, moving to more of individual rated basis rather than single premium. I think a significant bit of this we have already achieved.

Moderator: Thank you. We have the next question from the line of Anand Lada from HDFC Mutual Fund. Please go ahead.

Anand Lada: Sir, just had a question on the crop insurance. Sir, just wanted to understand, the industry size has grown from Rs. 5,000 crores to Rs. 15,000 crores is it largely because of the premium increase because you said under now, premium has been much more determined by actuarially.

S. Sreenivasan: You see there are two or three reasons. One is the actuarially determined premium rate - they are widely varying according to region and type of crop but by and large they are higher. Secondly, the coverage of farmers has increased. I think the present government has a clear intention of seeking higher penetration of the scheme because of the compulsorily mandating that any loanee farmer shall have this insurance. So, it is a combination of both. Thirdly, the scheme is now pretty much standardized. Previously most of the insurance that private sector was selling was weather based insurance i.e. index based which was a derivative product and the trigger for claims was based on the index of the weather which was in a particular weather station which is closest to the farmer. However, that was purely covering only weather and not the yield which the farmers wanted because there could be multiple reasons why the crops fail. In terms of simplifying of the whole thing, we think the scheme has found larger acceptability across the country, I think that is one of the reasons.

Anand Lada: Sir, when you say one has to bid in tender for which state one has to go like the actuary decide the insurance amount and one bid depending how much discount one wanted to give on that or how is the bidding done sir?

S. Sreenivasan: It depends. We also work with the re-insurers in preparing our bids because they ultimately have to also share in significant proportion of the losses. Based on past data on weather and various other factors we decide which regions we want to compete more aggressively where we want to complete less aggressively and where we do not want to compete at all.

Anand Lada: So, generally there will be a base insurance and then you have to bid how much discount you wanted to give on the base insurance or how it is?

S. Sreenivasan: We quote a price, available RFP will give you the data of the types of crops, the regions and everything else that is relevant. Milind?

Milind Choudhari: Yes., correct. So, basically the state will provide in their RFP the information as far as the past losses are concerned and terms of each of the clusters and then based on the data, each company based on their risk appetite will determine what kind of rates they can afford. This pretty much basically again goes by the same standard principle that we analyze past trends of losses as far as that particular region is concerned then we arrive at a base price and then we add up in terms of our acquisition cost as well as expenses, and we try to arrive at fair rates what could be offered in terms of competition including our margin.

Anand Lada: Okay. And sir, you also mentioned that the cover today typically is round 30% of the farmer population is now covered under insurance and you expect it to go to 50% over time. So, is it fair to say as it go to 50% over time the market size which you expect currently may be around Rs. 15,000 crores could also increase to Rs. 20,000 crores to Rs. 25,000 crores?

Milind Choudhari: Yes, it could.

S. Sreenivasan: That is intention of the government.

Anand Lada: Okay. And sir, like while bearing is the subsidy amount being known to the company upfront like how much you have subsidized by the state government and the central government?

S. Sreenivasan: We have to collect the money from the government, so we know.

Milind Choudhari: Yes, so that is already known. See, basically what is fixed is that each crop wise how much farmer has to contribute. So that depending on the crop that is already fixed so, the rate may be between 1.5% to 2% depending on what kind of so cash crop generally carry a higher rate whereas staple crops like basic crops like paddy and wheat they will carry a lower rate. So, there are different rates in terms of different crops and based on that farmer share is already fixed and the rest needs to be contributed by Center and State.

Anand Lada: Okay. And sir, product distributed by banks like regional banks, or a public sector bank or a private sector present in that region, so, Bajaj has to just approach the bank and say that these are my forms available and that is it or how it works sir?

Milind Choudhari: See, what happens is that before the bidding is done there are clusters formed which as Sreeni mentioned, it is around particularly likely to be a district but it may be not exactly match with the definition of the district. Basically, they are trying to combine some profit and loss making areas. Some reasonably yield making areas and some good yield making areas also are mixed up. So, on an overall basis they try to balance that when the cluster is being awarded it is not excessively good or it is not excessively bad for any company which is bidding for it. So, based on this, the bidding is done and when the bidding is done, the loss ratios of each company will decide the actuarial rates and their risk appetite which could vary a lot. There have been cases when the tendering process happened and the government looked at the rates and after finding that they did not fit their budget, they have re-tendered.

Anand Lada: And sir, the question on collection how it happens like the bank approaches the farmer and submits the forms of Bajaj…

Milind Choudhari: As I mentioned, once a cluster is getting awarded to an insurance that notification goes to all the banks in that cluster that X or ABC Insurance Company has been awarded this particular crop insurance tender then it is for the company to approach these bankers to actually mobilize more and more premium or to cover I would say 100% of the loans what they have given.

Anand Lada: Okay. So, each of the branch is it fair to say that there will be one Bajaj person sitting during the period of the crop insurance.

Milind Choudhari: No, basically banks have multiple branches in a given area.

S. Sreenivasan: And has an insurable interest in the thing that if the crop fails or the yield is low they would have NPA so, it is in their interest to actually get all the farmers insured any way.

Moderator: Thank you. We have the next question from the line of Atul Mehra from Motial Oswal Securities. Please go ahead.

Atul Mehra: Yes, it is Atul Mehra here from Motial Oswal AMC. Sir, just one more on the crop insurance a bit so, what is the float likely to be here so, once there is a clear…

S. Sreenivasan: The growth in float this quarter is not as strong as it was in quarter one.

Atul Mehra: Sorry, no, I am just saying as a business as an ongoing business in crop insurance so, once the claim comes in and say…

S. Sreenivasan: Not a long tail business because the period of insurance is very short and the claims are determined pretty quickly within the same financial year – for the Kharif season by December we would know and the Rabi season starts through by first quarter of next year we know the Rabi results as well. So, in that sense the money comes in and goes out and if you make money the float will grow. We will have some differences in the term with the re-insurer where you pay on a bulk basis quarter to quarter.

Atul Mehra: So, having said that this is not likely to be a very profitable business, right because first, the business is coming in based tendering which is going to be more price based and then you have short tail and low float so, would not this just give us perhaps scale in terms of revenue rather than very high profitability?

S. Sreenivasan: It depends on the loss ratio and over sustainable basis how much money you make. As I suggested before, I think Agriculture Insurance Company has the longest history of being in this business and they claim to be generating superior ROEs from this business over a long periods of time and the rates were actually fixed, the rates are opened up so, irrespective of whether there is competition or not it is actuarially determined.

Atul Mehra: And who determines the actual loss that happens because farmer is…

S. Sreenivasan: There is procedure laid down there will be a crop cutting experiment which means that on a sampling basis from the cluster fields are chosen, the crop is actually measured, the insurance companies' representatives are also present at that time.

Atul Mehra: And who leads this exercise? State Government will lead this?

S. Sreenivasan: State Government leads, yes..

Atul Mehra: Right. And secondly, sir in terms of the life insurance business so, we have had higher growth so, with this growth how do we really look at next one year to two years of profitability at post overrun and NBAP level?

S. Sreenivasan: We do not have a view on that as yet, our first priority now is to rebuild growth and volumes which we have already started the journey this year on a much better scale than where we were before. As far as product mix is concerned, it is determined by the market as we said before, but largely we are saying it will be ULIP at least for the next two years and resultant will be that our focus will be to grow the new business values rather than the margin. But ULIP has an advantage that although as analyst you may not be looking at return on risk capital, we think it is the highest return on risk capital and, over long periods, can deliver superior ROEs.

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

Dhaval Gada: Sir, just had a couple of follow-ups. So, on allotment for the Rabi season when will that get crystallized I mean how many areas where we would have got allotment for Rabi?

Milind Choudhari: See, right now the tendering process is already on, tenders are still going on. So, right now I will not be able to comment on that. I think, only when the tendering process is over by end of Q3 we will come to know which all regions or this districts we have got.

Dhaval Gada: Okay. And for Kharif it happens in the end of Q1 we will get to know so just from a…

Milind Choudhari: Actually it extends a bit, it goes on almost until 15th of July this year actually there was problem in Bihar because Nitish Kumar was actually trying to resist the PM Scheme and then ultimately he accepted it very late so, it came in August. So, there could be situation but by and large it should get over by say I would say 15th July to 30th of July.

Dhaval Gada: Okay. And what would be the proportion loanee to non-loanee farmers I mean what is the broad mix here?

Milind Choudhari: Current it is about 95%-96% of loanee farmers.

Dhaval Gada: Okay. And finally, who takes the indemnity risk in this whole process, it is shared again between the re-insurer and the…

S. Sreenivasan: Yes, it is proportional treaty so, premiums and claims are shared proportionately

Moderator: Thank you. We have the next question from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.

Nilesh Parekh: Sorry, to come back to the crop insurance question again. So, do the banks contribute any portion of the premium on this?

Milind Choudhari: No, banks are not contributing anything. Basically they are deducting this farmer share by debiting their accounting and remitting to us so, once the farmer share comes the policy starts or the policies return to our system and the rest is recoverable from Center and States.

Nilesh Parekh: So which could be prone to some delays the recovery from the State Government and the Central Government in terms of payment.

Milind Choudhari: Yes, we have found that Center has been reasonably fast, States there could be some delay. And we are confident based on the past experience that we will recovery all the money. We have done it for two years now and we do not have to pay the claim unless the premium is paid. Before the claim is paid we expect most of these will be settled.

Nilesh Parekh: Okay. So, there are two things playing, right one is the coverage of farmers I mean potentially could be the growth in terms of as and when the coverage increases that obviously opens up the size, the second is you know this last year obviously two years - three years we have had a normal monsoon. Now would this entire dynamics change the intensity of bidding would change we kind of go back to in terms of outlook at the beginning of the year there is a outlook for a below average monsoon, would our intensity of bidding for this business kind of come off?

S. Sreenivasan: No, because this is not weather related this is yield based, so it could be monsoon one year, it will be drought another year, what matters is whether the farmer has an actual yield which is less than the stated average yield which is mentioned in advance and he has a deductible in that in the sense, yield has to be lower than the first 10% or 20% of that is borne by the farmer. So, in that sense, it is not related only to weather. However, individual companies' actual claim experience may alter their strategies as to which region which crops they want to bid for.

Nilesh Parekh: But in a way sir, this could actually also, if you want to remain profitable you would have to increase the pricing also to…

S. Sreenivasan: It depends because in pricing there are wide variances by region and by crop over time, this is the business you have to look at over a cycle of five years. There will be good years, bad years, drought years, monsoon years, everything will come in five years to seven years and over time, it can a profitable business if it is priced correctly. And as we learn more and more we will also keep refining our pricing- not only us the entire market will be doing that.

Moderator: Thank you. We have the next question from the line of Girish Raj from Quest. Please go ahead.

Girish Raj: We had Motor Third-Party Premium of approximately Rs. 950 crores in FY 2015. So, there was a revision in the month of April this year so, is there a profitability related to this?

S. Sreenivasan: Motor Third-Party loss ratios over time have been coming down, this year it is below 100% for us. Rate increases started after the pool was disbanded - in 2012 it was well in excess s of 200% for the market. BAGIC has typically been better than the market and as of now our combined Motor Third-Party loans ratios are below 100% and this year there is also the quota system where you have to write 95% of your last year's market share. So we hope to be able to do that. Milind?

Milind Choudhari: Yes, I think we are fairly on the target.

Moderator: Thank you. Next question is from the line of Roshan Chutkey from ICICI Prudential AMC. Please go ahead.

Roshan Chutkey: Sir, just wanted to understand on the crop insurance now, you said you would not pay the claim until the premium is paid. So, say you have say Bihar you get the premiums but you have casualty in Haryana how would you address that?

S. Sreenivasan: They are two different things because the State Government is involved they are independently tendered different policies.

Roshan Chutkey: Okay. So entire premium from a region has to come or how is it?

S. Sreenivasan: Yes, it is one region there are clusters they are allocated. Milind?

Milind Choudhari: Yes.. See basically, tendering is separate for each of the states so, one state will not have any connection with the other state…

Roshan Chutkey: Even within a state one region to another?

Milind Choudhari: No, see each state is independent so, losses in Haryana will not affect good crop in Bihar so, the rates are also completely different independent of each state then what happens is that, based on how the clusters are getting formed. So, for each cluster all insurance companies who are participating or who are being empaneled they have to bid. So, in some cases we may decide not to bid, in some cases we may decide actually that we want higher rates accordingly we will bid and in some states we may be very competitive where we have expectation of good loss ratios.

Roshan Chutkey: Okay, sure. And our GWP growth has been pretty strong at 45% whereas any our NEP growth has been a little subdued in comparison is it because of the re-insurance ceded?

S. Sreenivasan: Weighted basis because of the higher component of crop insurance in the business mix, the weighted average where the re-insurance portion is much higher could have an impact on the written premium and earned premium.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Karan Singh for his closing comments. Thank you and over to you, Mr. Singh.

Karan Singh: Yes, on behalf of JM Financial, I would like to thank Mr. S. Sreenivasan and the entire senior management team of Bajaj Finserv and all the participants for joining us on the call today. Thank you and good bye.

S. Sreenivasan: Thank you.

Ramandeep Singh Sahni: Thank you.

Moderator: Thank you very much.

S. Sreenivasan: Thank you, everybody.

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