



“Bajaj Finserv Limited
Q2 FY2020 Earnings Conference Call”

October 25, 2019



ANALYST:

MS. BUNNY BABJEE – JM FINANCIAL LIMITED

MANAGEMENT:

**MR. S SREENIVASAN – CHIEF FINANCIAL OFFICER
– BAJAJ FINSERV LIMITED**

**MR. TAPAN SINGHEL – CHIEF EXECUTIVE
OFFICER – BAJAJ ALLIANZ GENERAL INSURANCE
CO. LTD.**

**MR. TARUN CHUGH – CHIEF EXECUTIVE OFFICER
– BAJAJ ALLIANZ LIFE INSURANCE CO. LTD.**

**MR. MILIND CHOUDHARI – CHIEF FINANCIAL
OFFICER – BAJAJ ALLIANZ GENERAL INSURANCE
CO. LTD.**

**MR. RAMANDEEP SINGH SAHNI – CHIEF
FINANCIAL OFFICER – BAJAJ ALLIANZ LIFE
INSURANCE CO. LTD.**

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

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2020 Earnings Conference Call hosted by JM Financial Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bunny Babjee from JM Financial Limited. Thank you and over to you!

Bunny Babjee: Thank you. Good morning everybody and welcome to Bajaj Finserv’s earnings call to discuss second quarter FY2020 results. To discuss the same, we have on the call Mr. Sreenivasan, CFO, Bajaj Finserv; Mr. Tapan Singhel, CEO, Bajaj Allianz General Insurance; Mr. Milind Choudhari, CFO, Bajaj Allianz General Insurance; Mr. Tarun Chugh, CEO, Bajaj Allianz Life Insurance; and Mr. Ramandeep Singh Sahni, CFO, Bajaj Allianz Life Insurance. May I request Mr. Sreenivasan to take us through the financial highlights, post which we can open the floor for Q&A session. Over to you Sir.

S. Sreenivasan: Good morning everybody. It is our pleasure to have you for discussing the results of Bajaj Finserv Limited, that is, the consolidated results for the quarter ended September 30, 2019 and the half year ended on the same date. Before we begin, let me wish all of you a very happy Diwali and I wish everyone to have a year of health, prosperity and happiness.

In this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General Insurance, Bajaj Allianz Life Insurance Companies. Bajaj Finance, which is another major subsidiary of ours, has already had its conference call. However, if there are any high-level questions, we would be glad to take that as well. We will not be taking any questions on the status of Allianz’ stake in our insurance company except to state that the status has remained the same as at the end of the previous quarter, and there is no change.

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

As you may be aware, as required by regulation, BFS has adopted Indian Accounting Standards from FY2019 and this quarter, our results consolidated as well as standalone results have been published on the basis of in compliance with Indian Accounting Standards and the previous year figures are comparable. The insurance companies are not covered under Ind-AS. They have prepared Ind-AS financials only for the purpose of consolidation. Accordingly, for BAGIC and BALIC, the standalone numbers reported below are based on non-Ind-AS accounting standards as applicable to insurance companies.

Now I will move on to give you an update on the performance. As you are aware, the market conditions continue to be tight. The GDP growth for Q1 came in much lower than expected. Auto sales are falling, and liquidity conditions continue to be tight, although the better rated companies are able to raise money. Under these circumstances, we believe we have performed extremely well with significant increases in consolidated revenue and profit after tax.

Coming to the three companies, BFL, BAGIC and BALIC, all three have recorded strong growth in revenues and premiums. BFL continued its stellar performance. It has recorded highest-ever quarterly consolidated profit once again boosted by strong growth and solid operating performance. BFL profit growth was also aided by the lower corporate tax rate.

Despite higher claim ratios, including losses from the floods in Kerala and Maharashtra affecting the underwriting results for the quarter, BAGIC's profit after tax has recorded strong growth aided by higher profit on sale of investments and a lower corporate tax rate.

BALIC too recorded growth in profit after tax. It was also aided by profit on sale of investments and some realignment of provision for impairment consequent to partial recovery against previously impaired investments. During the quarter, BALIC has signed a corporate agency agreement with Axis Bank Limited as their third life insurance partner.

Our overall consolidated total income was up 47% year-on-year for the quarter. The consolidated profit after tax for the quarter was up 71% at Rs.1204 Crores as against Rs.704 Crores. Bajaj Finance consolidated profit after tax was up 63% at Rs.1506 Crores versus Rs.923 Crores, and the General Insurance profit after tax was up 62% at Rs.294 Crores versus Rs.182 Crores. The Life Insurance shareholders' profit after tax was Rs.207 Crores versus Rs.132 Crores with an increase of 57%.

In the previous calls, people have requested for an update on the investments and we have provided in the investor presentation, which has been uploaded on the website on Wednesday, a summary of the downgraded investments. These cover investments which have been downgraded by external credit rating agencies since Q2 of FY2019, which will also include securities which still have a high investment-grade rating because the qualifying criteria is that it should have been downgraded after purchase.

Further actions taken to strengthen the investment management are being initiated as follows.

In the quarter, we have strengthened the internal credit appraisal to include proprietary appraisal models as well in addition to credit ratings; regular monitoring and interaction with fixed income investees in the corporate bond segment; we have redefined the fixed income universe with fewer qualifying securities in respect of new investments; we have redefined

exposure limits for each segment of policyholder funds and shareholder funds separately; we have increased the frequency of review of asset allocation, exposures and internal as well as external ratings; and we have a special weekly monitoring team across the group to set up to review all investments, which are being downgraded since purchase.

With these short comments, I would just like to add that we have uploaded these opening remarks on our website as well, so many of you may have gone through those. For those who have not, I request that they go through that.

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

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Hitesh Gulati from Haitong Securities Co. Ltd. Please go ahead.

Hitesh Gulati: Thank you for taking my question. I just have one question on the general insurance business. What is the quantum of advance premium from long-term motor policies for us as of September?

Milind Choudhari: Yes I have the exact figures. It is around Rs.600 Crores to be precise, Rs.575 Crores, which is by way of advance premiums.

Hitesh Gulati: We have seen good traction here, right, because from March to June, I think, it moved from Rs.300 Crores to Rs.400 Crores and now I think it has sort increased a little bit more so any positive trends that you are seeing on more people opting for longer-term OD as well, something like that?

Milind Choudhari: I would like to mention here that compared to last year, we are seeing some changes as far as overall trends in people opting for either 5 by 5 or 1 by 5 and then 3 by 3 or 1 by 3. we are seeing a lower percentage of people who are opting for a complete 5 by 5 or 3 by 3 in two wheelers and cars respectively.

Hitesh Gulati: Sir my question is, on the motor third-party piece, what is the split between cars, two-wheelers and CVs, some indicative numbers there?

Milind Choudhari: As far as the overall breakup is concerned, around 60% is coming from motor TP, while around 40% is coming from motor OD, and out of the overall TP component as such, more is coming from the CV portion so almost, I would say 60% is coming through the CV portion and the rest is coming from four wheelers and two wheelers.

Hitesh Gulati: Sir on the ODs, is the mix similar because I think what I recall is that.....

S.Sreenivasan: I think we are getting too granular into the operational numbers. Broadly if you can ask the question, it would be better.

Hitesh Gulati: Okay thank you Sir. That is it from my side.

Moderator: Thank you very much. The next question is from the line of Ravi Shrivastav from Bay Capital Investment Partners. Please go ahead.

Ravi Shrivastav: Congratulations on a great set of numbers. My question was also on BAGIC, why are we sort of pushing so much on the crop side, last time when we spoke about sort of maintaining your market share in crop, but this quarter and maybe in the last year, we have gone overboard and have written a lot more so what is the sort of thinking there, why are we taking so much exposure in crop?

Tapan Singhel: if you look at crop, we always has been close to our market share so when you made the statement that we have gone overboard, in a quarter, it looks overboard because then in the entire year if you look at, the total crop this year would be around Rs.28000 Crores and if you write about Rs.2000 Crores it is close to our market share, which is 8% or 9%, so we have not gone overboard

Ravi Shrivastav: But I would assume that this is the largest quarter...

Tapan Singhel: It will come in one quarter as crop is not like a retail business, which comes every month
Let us say, we write in this quarter and Q4 for the entire year, this is how it will get build up, total portfolio of crop, this is the percentage so it is equivalent to more or less close to our market share, so it is not overboard.

Ravi Shrivastav: The other thing, I just wanted to get a heads-up on is that we are writing crop insurance of such a significant size, we are also writing sort of combined ratios, which are higher claim ratios of over 100% so why are we sort of taking that exposure? How do we make money out of it just want to understand the segment.

Tapan Singhel: Yes so if you look at crop business, the way should you look at it is, pick up the crop business for, let us say, over 10 years time, so we want a significant number of years, you make money in some years and in some years you will lose money. So, if you look at our performance also in the past, let us say, 4 or 5 years, we have made good money in about 3, 4 years.. So that is the nature of this business. Crop business is not like a retail motor business in which you would know the margins as it progresses on a quarter-to-quarter basis. In the business of crop, there are years in which you will make good profit, there will be years where you will not

make good profit. But if you look at a 10-year period, there are more years in which you make profit compared to years in which you do not make profit. That is how the crop business is.

Ravi Shrivastav: Just Tapan asking you alluding to, it seems like there are some years where you make profit or some years which you do not, it seems like it is sort of a coin toss in a way. Why do we want to be in that space?

Tapan Singhel: See, it is driven largely by reinsurers so if you look at, let us say, GIC is the major reinsurer here and that is why when you write businesses like this, you have to have good reinsurance support, because then what happens is, you even out the losses so let us say what companies do is they take an excess of loss cover so let us say loss exceeds, let us say, 120%, 130%, then the companies would not bear the loss. It goes to a reinsurer, again, then they have a quota share, in which, let us say, the company has a loss, certain amount of loss is taken by reinsurer also. Across the world, when you write businesses like this - if you look at a P&C company and if you read about it- let us say in U.S., you have these hurricanes coming in, you have these cyclones coming in, so there are years in which there are huge cyclones in which the property loss goes up, there are years in which there are no cyclones and no property loss. Nature of P&C business is, when you are a big company, you are exposed to catastrophic losses, you are exposed to different kind of losses. This is why people insure - otherwise why would you take a cover. Let us say if you do not even out monsoon every year why would you take a cover. Even in the economic policy, the government also consider the monsoons, there are good monsoons and bad monsoons so if you look at it that is the nature of P&C catastrophe business. It is not a business in which you can predict every quarter how it goes that is the way reinsurers play that is why they are in these large segments. Does it answer your question? Does it give you clarity on how to look at this?

Ravi Shrivastav: Yes some understanding. Just sorry to harp on this, again, is that my only thing is that even though so when we speak to reinsurers, they are sort of also firming up their rates. On the other side, the major payment comes from government, which tends to be so sometimes it may have paid on the time, sometimes it may delay the payment?

Tapan Singhel: Good, that you asked questions on crop, because I think it should be very clear to you. . So just look at the crop business with Government delaying premium, now as the nature of the contract awarded by government it says that till you receive premium, you do not pay claims. Now let us say, the government delays the premium, the claim does not get paid for that so it is not that you are paying claims and you are not receiving money. The contractual nature of crop insurance defined by Government is such that till the Government pays money, you do not play claims.

- Ravi Shrivastav:** But how do you generate float then?
- Tapan Singhel:** See the float is not to be generated on businesses like crop. Let us look at the float of the Indian insurance business, most float is generated by the motor third-party business, in which float is always present because of the nature of claims settlement. It takes years to settle a claim because of the way it is constructed today. Now if you look at the new Motor Vehicle Act, in which they are looking to have 6 months cap on reporting claims, most of the floats on GI business could disappear. So float generation or creation happens only in businesses like motor third party, a, long-tail businesses. Our float will not get generated, let us say, in GMC, and float will not get generated, and also in crop. So fundamentally to understand float also, you have to look at long-tail businesses to get that. So crop is not the place where you generate float.
- Ravi Shrivastav:** So basically here what we are thinking is that there is a good chance that in some years, we will have 120% and there is a very good chance that in some years we will have 80% claim ratio.
- Tapan Singhel:** Yes, and then that is why you have reinsurance
- Ravi Shrivastav:** Are Reinsurers not hardening rates?.
- Tapan Singhel:** Reinsurers are hardening the rate does not mean that they are not covering, so most companies would have good reinsurance cover, which would be the quota share of a good 80%, 85% of the risk and there will be a stop-loss cover over on top of it . So fundamentally, the vagaries of nature can be controlled by these treaties and that is the nature of P&C business. This is for most businesses and let us say, property also, if you look at all the floods happening, the property losses would have moved up for the industry. There are years in which you will have floods, there are years in which you will not have floods so there are years in which the property loss ratio will be lower, there will be years in which property loss ratio will be higher, it is not only for crop. If you look at the car or automobile loss ratios also, , the places where you have floods, automobile loss ratios have moved up. The places where you do not have floods, automobile loss ratio is down. This impact is present for all lines of businesses and if you study it more at a minute level, you will find that it moves up and down depending on how the nature goes. That is why people insure. If you had 100% guarantee of no losses throughout, why would you insure?
- Ravi Shrivastav:** Got it that is very, very useful, Sir. One more question on the life side. This is regarding the recent news and not on the quarter is that, there was a trade that was done on BALIC on the Indiabulls with Deutsche. What really happened there?

S. Sreenivasan: I will take that question. We are not commenting on any individual security or any individual investments. We have given an update as of September 30, 2019 of all our investments. So we do not like to comment on this.

Ravi Shrivastav: They have dragged us into court, so that is the only reason I am asking?

S. Sreenivasan: No. As of this date, we have no further information to communicate on that.

Ravi Shrivastav: Okay all right. Thank you.

Moderator: Thank you very much. The next question is from the line of Pratik Kothari from Unique Investment Corporation. Please go ahead.

Pratik Kothari: Hi thanks for the opportunity Sir, as a long-term investor, I wanted to understand in this falling interest rate scenario, we being the insurance company, general and life, basically we also make money on float and long-term, that is also sustainable and regular so in this scenario, how normally insurance company behaves? What is your thought process on this?, During last three, five years, interest rates have fallen, so how it affects our overall earnings basically, if you can little bit in a simple language you can explain?

S. Sreenivasan: I will answer that. Firstly, our investment income comes from two sources. One is from how much of AUM you have – that is, how much float you generate, which will add to the AUM and the second is the yield you get on those investments. Clearly as interest rates are cyclical, there are times when interest rates will be low. There are times when it could be higher as well. As we position ourselves, as we have seen this quarter, we have taken profits on sale of investments. As the interest rates goes lower, the bonds do tend to give higher gain. There is also regulatory restriction on where you can invest in terms of the type of asset classes, there is a minimum amount to be invested in Government bonds in housing, in infrastructure and that a certain amount is allowed to be invested outside of all these. Given all these constraints, it will be our endeavour to work on both fronts. Firstly, to have a business, which generates float historically. In BAGIC, we now hold approximately Rs.19,000 Crores of float and we have invested only Rs.280 Crores as share capital and we have a net worth of about Rs.5,700 Crores so we have almost Rs.13,000 Crores of float we have generated in the business. The float continues to grow and we will continue to focus on growing the denominator. Clearly, our insurance business is full of risks, there are risks related to underwriting, there are risks related to reinsurance; therefore, we consciously monitor the sources of profit, what is sustainable, what is recurring and there will always be opportunities for you to take onetime gains so that mix is something we track regularly and historically, we have delivered. Our investment leverage, which we have mentioned in our investor presentation, is 3.2x, that means for every Rs.100 of net worth, we still continue to hold Rs.320 of investment float.

Obviously, if the yields are a bit lower, the investment income will be lower, but we have other levers. We have our underwriting business, we have our product mix, we have our expense management, and all these put together, we hope we will continue to deliver a superior ROE. Does that answer your question?

Pratik Kothari: Thanks a lot. Thank you very much.

Moderator: Thank you very much. The next question is from the line of Madhukar Laddha from HDFC Securities Ltd. Please go ahead.

Madhukar Laddha: Again on the on the agri business, can you explain a little but about how you are hedging that business, you mentioned that you have an excess of loss cover and you will have some knockouts so what can be the maximum kind of loss in this business if you can give some color on that?

S. Sreenivasan: I will speak first before I pass it on to Tapan. If you see in the last four years, majority of the large catastrophic losses have not come from agri insurance. They have come from J&K floods, they have come from Kerala floods, they have come from cyclones like Hudhud and Fani. They have come from floods in Chennai, Bombay so therefore, insurance is about managing the catastrophic risk. There are multiple layers of excess of loss cover for different lines of business. Agri business is a unique business because it is short term. It is for one season. The claims do get determined quite fast. Weather is one of the important factors, which determines claims ratio and because it is yield-based insurance, it may not be because of weather. The farmers are not required to prove why the yield was lower. However, given that, we have a separate program for agricultural insurance, which has a quota share that does not have loss limits where we have to bear losses beyond our retention. We have retention, which Milind can confirm the number. And in addition to that, we have got some excess of loss cover at 130% loss ratio. Milind, can you confirm that?

Milind Choudhari: Yes 20% is the retention.

S. Sreenivasan: 20% retention and 130% is our stop loss limit. We pay a premium to buy that cover. Obviously, that gets charged to our crop P&L.

Madhukar Laddha: Understood and so on the motor business, what are the early trends on the new motor vehicle act, how is our TP renewal looking like are people coming up and renewing or buying TP-only policies and also it has been a year since we sold 1 plus 3 and 1 plus 5 policies so how is the renewal of the OD-only portion on those policies?

Tapan Singhel: When the fines became steep initially, the premium for motor two-wheeler went up TP significantly for the industry. Now the point here is the most uninsured vehicle in the road is

two-wheelers. Over 70% two-wheelers are uninsured, while in case of four-wheelers about 20% is uninsured and about 30% of commercial vehicles are uninsured. This is founded by the IIB data and the RTO data and we are matching it together that is how the number pan out. Obviously, when the fines were announced, there was a steep increase in the two-wheeler insurance premiums, specifically the third-party part of it, which has happened. But then I think slowly the State Governments diluted the stand on that and then there was a dip, but still higher compared to what it was so about 15, 20 days, it moved up in the last month or so when the fines were announced. But my personal feeling has been, which I have said in a lot of forums is that, steep fines are good. We did see a huge change of driving behavior on the road and most of the road accidents happen because of irrational or speed driving and not I think crossing, jumping red lights so it is good for the citizens. I think quite a few forums also took it up and they mentioned that, it's fair enough. I think as it goes forward, I would be seeing a significant increase in two-wheelers premium increase in the third-party part as uninsured vehicles get covered. Four-wheeler, I think it is less uninsured, so the impact will not be much. On the renewal of pure OD, it is much lower compared to earlier because the regulators has said that you can take an OD cover separately and they allowed that in the regulations now. On balance, I would say it is too early to give this comment. I think when you have the next quarter review on, then we can give more conclusive numbers because so renewals also would have a play of a month or so.

Madhukar Laddha: Right so also in your health line, we have seen a very steep growth in retail health. What are we doing different now or what is the philosophy over there?

Tapan Singhel: If you look at retail health growth, it has always been on the number that you see today. It is a bit over, a bit down below this, but as you build up distribution, the retail health will keep on growing. In retail distribution, there are two or three major lines of products that get sold. One is motor, second is retail, third would be the smaller SMEs and mid package so if you see because of our growth in distribution, there is a natural increase in the business also.

Madhukar Laddha: All right and Sir finally any comments on the pricing of TP because given the Motor Vehicle Act should result in lower claims over a period of time, how do we see pricing to move, do you think....

Tapan Singhel: Right now, TP rates are governed by IRDAI. But at a personal level, I will always ask for free pricing. I always believe the market should determine the price.. But that is something that IRDAI has to decide. I think this question has been there for many years now. I think the first time we raised it, especially I raised it about four to five years back, if I remember I asked for free pricing of TP so after four to five years, still we do not have any conclusion, so I cannot give a future date in which it can happen.

- Madhukar Laddha:** All right I will join back in the queue. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Ajax Henri from B&K Securities Private Limited. Please go ahead.
- Ajax Henri:** Sir, my question is with respect to the life insurance, particularly on the Axis Bank tie-up. What proportion of business comes through Banca for us now and what is our outlook on this new relationship we have with Axis Bank?
- Tarun Chugh:** See, our third-party and bancassurance business till last year first half was just about 18%. And this year, it has gone up to 33% and this is without Axis because Axis has not started yet.
- Ajax Henri:** And like what is our outlook there, on the Banca we will be targeting something close to 40%, 45%?
- Tarun Chugh:** I do not think I can make a forward-looking statement on that as to how much we will be targeting. I think it is a healthy increase in individual premium. This year we have had a good run, good start with Bandhan and we are now working with Axis and working our various pilots with them and putting together a business plan with them and hopefully, it should be good for us in the coming years.
- S. Sreenivasan:** If I can just add to what Tarun says, if you look at the last four or five years, we have done a lot of work on individual distribution channels. We have rebuilt our agency. We have shown a lot of traction there. We have seen improvement in ticket size and persistency. We have also started building our proprietary sales force channels and we have reorganized our institutional business. We had very skewed exposure to the RRBs and MFIs but by getting some new relationships such as Bandhan Bank and IPPB, and IPPB has not yet started, but we have a lot of SFBs. We have started rebuilding the Banca channel. One of the drawbacks we had in our distribution, one of the gaps, I should say, was the fact that we did not have a very large pan-India commercial bank other than Bandhan, which is a new age bank. Axis will help us to fill that gap. As we work with them, we will figure out how much of the pie we can get. It is a fairly large size there. We are their third partner, but we think we have a fair shot at building a good quality individual rated premium business through Axis, which will be hopefully positive for us for growth as well as our NBV.
- Ajax Henri:** And do we have a different exposure on the retail terms side as of now because we do not have a Banca partner, is that affecting us in any way?
- Tarun Chugh:** We spent last few years to make our claim processes because we are quite strong on the group term side and that has given us a lot of experience on handling term claims, handling term

processes. We will be launching our term plan, retail term plan this quarter, which should help us take that up. But the way we will do it is we will take it gradually. If you do not have strong control mechanisms and support analytics, it can also backfire, so which is why we are starting off this quarter now with retail term.

Ajax Henri: Perfect Sir. Thank you very much for your time.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited. Please go ahead.

Mayur Parkeria: Just on the retail side, on the BALIC side, Institutional and other channels are contributing quite well on the growth side. Can you just add some color so is it because of this Bandhan tie-ups and other, which you just mentioned?

S. Sreenivasan: Before I pass it on to Tarun, I will just broadly make a statement. I think one of the major pillars of our transformation, which we started three, four years ago was to change the focus of our institutional business from an overweight group business perspective to individual rated premiums so many of our existing tie-ups, which we are doing only group also, we have managed to start individual business. We have started individual business with Bajaj Finance, we have started with Bandhan and even in our RRB, we have actually stopped group business and predominantly doing individual business now. This we believe will add to our NBV and create a sustainable model and that now is playing out in some ways. Bandhan is obviously contributing to that.

Tarun Chugh: The one strong pillar right there and just to add to that, last year same time, we used to have 73% business coming from agency, 18% coming from institutional clients and on the retail side and about 9% coming from proprietary sales force. Now this has incidentally moved quite well, so while agency has been quite steady, but has come down in market share because Banca and third-party business has really picked up well so agency is now under 60%. Institutional business is 33% now so the strategy has worked. We are not just trying to do only retail through RRBs now. Currently, we do have tie-up with Syndicate Bank. Of course, we have to see what happens with Syndicate post merger. We have Bandhan Bank. We are the biggest players in terms of number of partners in the FFB model. In the payment banks, we have India Post Payment Bank and that should start throwing up some numbers from next quarter, hopefully. There is a lot of work on tech integration happening and now that Axis, we now do have a large commercial bank, which has a pan-India presence and the right kind of customer segments.

Mayur Parkeria: Sir, while the premium growth is looking impressive, will it also mean that since our presence on the life insurance on the retail side has been a little late in that terms to say so, will it also

mean that it will be a while before we see profitability coming on this and a new business stream will be much larger here for a lot of time?

Tarun Chugh:

It is a very good question if you look at the agency channel, it is fundamentally a higher cost channel anyways because the lot of fixed cost that goes in there, we have like the largest bank branch presence among the big companies and we have sometimes presence in areas where even LIC does not have a presence so that has been our forte, but has therefore also had a cost at the end of it. When you tie this bancassurance, your variable costs may go up. You do, of course, make investments in tech and there is analytics, a lot of work happening on there, product development, which has to be done so net-net, ultimately, the NBV will only benefit and that has only been positive for us because overall, it is a less fixed cost channel.

Mayur Parkeria:

Okay Sir, while at a conceptual level, this is right but has the improved operational performance started flowing on, on the VNB and EV?

S. Sreenivasan:

We have published our EV once a year. We are seeing that margins are moving. Last year, for the first time, after a few years BALIC reported positive margins after overruns. Our overruns are partly because of growth and partly because of operational efficiencies, we have been able to control our overruns and as we go forward, we hope to continue this trajectory. I cannot give you a number what will happen in the future because a lot of it also depends on volume and the external market conditions. Having said that, when you get something large like the Axis Bank tie-up, there will be some new business strain on the reported PAT so if your measure is NBV, clearly we will do business which we believe is NBV positive and it will help us on the overruns. But temporarily, there could be some impact on the reported statutory profit, but the quality of the business and the long-term sustainability of the business is what drives our thought.

Mayur Parkeria:

But Sir, given the base business which we have, now that is turning a little positive, so we should build in this year from the last year where we left little marginal profits, right?

S. Sreenivasan:

We are already doing that you see our growth has been in the first half and in the last quarter much higher than the market. We have brought in product mix change, which we believe is a differentiator for us. Now our traditional to ULIP mix is higher and as Tarun pointed out, we did not have a competitive enough individual term life product. That should soon be launched as soon as the approvals and the internal process is over. We will start improving the share of protection on our business mix, hopefully and we think this fine act of balancing the product mix will deliver to us what we want. On the channel side, we have now a fairly deep and broad distribution network. We will continue to build on that.

- Mayur Parkeria:** Sir, last question from my side is, on the investment side on both BAGIC and BALIC, is there any impairment which you wrote back, but if you can give some color on this and is there any exceptional or should one look as to more nonrecurring or more lumpy number, anything which we have booked on this side?
- S. Sreenivasan:** Because yields are lower, there is obviously an element of capital gains. Over a cycle, capital gains are part of our yield that is why when we invest we cannot make all the money on interest income alone. We have reported something higher this quarter than last year. Apart from that, we have that reversal on one provision we made in Q1 because we received part of the money. We still continue to hold 100% provision on our exposure to IL&FS and 60% on the Dewan Housing and Finance Corporation on our outstanding amount. We believe we are reasonably conservative in both as, we know that there are many other companies have invested from their public disclosures and we are reasonably satisfied with the level of provisioning we have. We have given the details of all other downgraded investments in terms of what is performing and nonperforming, and you can see that our provisioning coverage ratio is fairly high.
- Mayur Parkeria:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Avinash Singh from SBICAP Securities Limited.
- Avinash Singh:** Two questions one each for BAGIC and BALIC. On BAGIC, again, on crop, you rightly said that, okay, crop business you have to look over the long term cycle and also you have to diversify, so if you can just help me on this and currently for the Kharif season, in which states you were there? And on that, I mean, particularly the post September 30, 2019 is still the odd season rain-related losses and that would have cost, so I mean are your currently reserved for occurrences for the quarter taking into account of this sort of unforeseen event or you see the chances of this claims ratio going up and on the pricing side, if I look the publicly available data, from last Kharif 2018 to Kharif 2019, we have seen kind of direct premium ratio going up and kind of implicating from 7%, 8% price hike this year so what has been your pricing experience? So these are the questions for BAGIC and on BALIC, again, continuing on your new tie-up with Axis and considering it is a pretty big tie-up and definitely plugging the hole that you had in your business model, having a large retail bank and a distribution partner, but it will also entail accelerated investment for some time so how do you see actual post-overrun margins for FY2020 and going forward, directionally, if no exact numbers, is it going to sort of bring further some pressure on margins this year and then accelerating from next year or do you see that gradual improvement in margin continuing, so these are my two questions?

S. Sreenivasan: I will just broadly take the BALIC question first. As I mentioned before, with such a large tie-up like this, it is our intention to drive the right kind of product mix combined with volume and we should be NBV positive, excluding the overrun. Yes, over the next 12 months, we will have to make significant investments because volumes are not going to come overnight. Therefore, there will be a bit of strain. But we will also understand that we are sitting on almost 800% solvency and therefore, we have the capacity to invest that money in a relationship we believe is long term, sustainable and margin positive. Obviously, you cannot say no to such a relationship and all such relationship always come at a cost and there is a cost of integration, there is a cost of manpower, and some of these costs are up-fronted. The business will come in due course now I will give it first to Tarun on that question and then later on to Tapan for the profit.

Tarun Chugh: I think Sreeni has addressed it, you have gotten this as well. Very clearly, we are intending to get our product mix right from day one with Axis and profitability is surely something we have on the top of our agenda but having said that, there will be investment and productivity. Both will be something we will have to account because we will start making investments in tech. We have already started this and we are still continuing and even training, we are getting that right, putting in the support mechanism in terms of people with Axis. All that will, of course, have an impact, particularly in the PAT. The way I am looking at NBV, so we have to become a meaningful size first. I mean looking at margins is one point, net margins. But I have to make these investments upfront. I would rather first look at even meaningful size. We already made the statement that ultimately this is variable cost, so it is low cost in agency in any case so that works well for the company also, as the number of policies increase, I can defray the cost over a larger base of customers. We normally write between 3 lakhs, 3.5 lakh policies, and that should go up that should help us get more availabilities. But yes, a lot of this will happen in due course and it will not start popping up in terms of significant NBV margin increase. But on a scale basis, we will be writing only net NBV positive products will tend to go up.

Avinash Singh: Quickly, if I can just follow up on like first one again, you are looking at Axis Bank that has got 4000-plus branches and it is almost 80% or many more branches having potential to give renewals, so what kind of manpower addition you will be doing just to manage over the next 12 to 24 months to manage this as a fix channel and also for persistency somehow we have been improving over year, but we are still a notch below the top peers so how do you see, again, this improving further or like we are sitting is sort of a feeling?

Tarun Chugh: Yes. I know I think that is a very good point you raised. On the first one, let me just say that, at this point it is difficult to say how many people we will put because we are currently starting off pilots at this point in time. And these pilots will tell us how many people we are going to be putting and where we are going to be putting for support. Having said that, Axis itself has

a very large base, one of the largest bases of SPs these are the specified persons who themselves sell insurance and understand insurance very well, one of the largest in the country. That should help. Axis itself if I would just account for Axis' top line, it would be the top six life insurance player already so that makes us more keen to, therefore, make the investment so whatever is required to be done from our side will be done. On your question of persistency, again, it is a very insightful point you raised so there is one thing that you need to understand a little bit about BALIC, the fact is that we have not had bancassurance as a big channel with us. The fact is that we are now moving more to the mass affluent segment. The movement is underway so those things do not improve overnight. If I take both these factors, one big impact of persistency for 13 month particularly, so that is good for these. I mean for people who are paying on the 12th and 13th month itself, the contractability has to be very strong. You have to have multiple communication addresses sometimes. So usually, if you have a bancassurance partner, it is a lot easier to get. The payment mode should be direct debits, so in our case, it is a little bit more hard work we have to do to reach out to the customer to pay the second premium as a result, what happens is when you just look at headline 13th month persistency, we will be a tad below the top quartile. But if you start looking at the 15th month and the 17th month and, therefore, the second premium, so if I look at the last year second premium, we are already close to 82% but the money does not always come on by 13th month because of the contactability being low, and therefore, it tends to drag on during the 14, 15, 17 months and by the 17th month, we start getting the cost, which is closer to 81%, 82% and I think at this point in time, given our product mix, 81%, 82% is a good one to go with and as we get more bancassurance partners coming in with payment mechanisms, of course, India is doing quite well as payment banks are coming in as well. This should help us increase our 13th month itself and then is how sort of persistency needle will move substantially because India Post payment bank in the mass market is doing a lot better because there are debit mechanism that one can put. On the last mile, it is pretty strong so we are very mindful whenever we are tying up with any relationship that the persistency does not suffer. Initially, RRB used to be a big part of it, and now, RRB as a percentage has dropped a lot so that is also now helping us grow, and we will see this. Directionally, we will only be in the top quartile among life insurance companies.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: A few questions firstly, for Tapan, could you please remind on the philosophy that we have adopted on the motor business, do we look at OD profitability and TP profitability separately or we look at customer profitability and in relation to that question is could you comment a little bit about motor OD pricing environment and the outlook that you see at this point for maybe the next 9, 12 months on that that is the first question. The second I had was on retail health business. Just wanted your thoughts, how do you see the ramp up of this business over

the last 12, 18 months I mean your thoughts. I think it is a little slower than what we anticipated, but just wanted to hear your thoughts on that and the third question I had was on the VSO bit. I think the ramp up has been quite substantial over the last three years, now accounts to 10% of premium just wanted to understand quantitative benefits of having this channel and how does the dynamics change if this number were to go to 15%, 20% and that was the third question?

Tapan Singhel:

Okay so let me start first with the motor. I think motor, health and the VSO, three of questions that you have. So first on motor, now if you look at motor, in the P&C business, one should look at profitability overall for any business. Trying to subsidize from the other does not play out in the long run. And in that also, there are a lot of subsections so some subsections which TP actually plays out good, there are some section in which TP is bad, and OD plays out well so to make a general comment on how it is done it would not be appropriate because motor is a very broad classification. You have so many subclassification in motor and each has a different play altogether, how it gets done but predominantly, the philosophy, we would like to look at profitability on an individual basis, OD separately and TP separately and depending on how it plays out, there would be some places in which if you have good TP, there would be some subsidy happening, but that will be a one-off or on a small segment of the basis. But overall, the philosophy, we would like to look at it separately does it answer your question on Motor?

Dhaval Gada:

Yes and just your thoughts on pricing since you look at it separately in most subsegments, I mean, the environment and how do you see that sort of changing over the next one year or so?

Tapan Singhel:

If you look at the pricing, for that, you should look at how the industry is behaving. And that would give you the answer on the pricing part. If you look at I think, well run companies would be a very small segment of the overall industry that is why the combined ratio of industries is being close to 120% for quite a long period of time so it has fluctuated between 115%, 120% for a long period of time, which means that overall, the industry pricing is not up to the level where it should be. It has not been good that is why most players have a combined ratio, which is way above 100% and that shows the pricing is not as it should be, and that is a fact. But there are companies that are well run also, and if we look at their combined ratios are very close to 100% so there would be doing pricing, which would be appropriate and they would be segmenting, which should be appropriate, and that is why their combined ratio is bit good, overall, the market pricing is not where it should be.

Dhaval Gada:

And do you think it will remain around these levels for the next foreseeable future?

Tapan Singhel: But if you look at historically, this is the longest run any country has had. Free pricing happened near 2007, this is 2019, 12 years. The market pricing has not corrected. Even, let us say, if we look at some examples, like Korea and all, in 7 years' time, they corrected the pricing. In fact, it was much better than when the free pricing started. In India, it has not happened, and that is why you see the stress on most companies in the general insurance business. Because it has been known for a very long time so very difficult to predict as to when would it be done, but I think the question is that we will have companies that are well run in terms of them getting the pricing right, close to where it should be. It will be a very welcome move. But I cannot predict now other companies' behavior, but there is definitely a stress.

S. Sreenivasan: Dhaval, I would like to add a point here. You see motor insurance is the most visible and the one, which any new company will start attracting. Therefore, there are times in the market when there is excessive or what I would call irrational exuberance in the market. It all depends on the availability of capital. If that capital tap gets shut for the smaller competitors, then you would find that prices will harden because they would find it difficult to continuously report losses on a segment by cutting prices. Our company has been one of the most solvent. We have sufficient net worth and capital. Smaller companies will find it difficult to get into lines like corporate, which requires a significant reinsurance support and reinsurance, again, is a function of capital. Therefore, we believe in times like this, people who hold their prudence or the right balance between growth and profitability and focus on various segments – and, as Tapan mentioned, within the motor segment, there are profit pools, there are loss pools, and they keep changing depending on the pricing – as long as you have a dynamic system of monitoring it, we think we should be ahead of the pack. Overall, we have disclosed our loss ratios. If you see they are pretty good even after all this price correction. In motor OD, it is still about 64%, 65%, and in TP also, we have a significantly good loss ratio so we will try to be better than the market, significantly better than the market if we can, and then we will see how it goes. But at some point, it has to correct. When does it occur, in one year or three years, it would be difficult to say, Tapan I will hand it back to you.

Tapan Singhel: Yes thank you so the next question you had was on health. Dhaval, you were saying that the growth is not up to a level where it should be now let us look at the retail health history to understand how this moves so I think the first health policy, if I remember right, was issued in the year 1986, from there till about 2005-2006, there was hardly any shift in the retail health portfolio overall if you look for the industry, 2005 or 2006, it started picking up, and I think the advent of stand-alone health companies also gave it a good boost along with the healthcare expenditure, which is happening now in the country so it also moved up significantly. Now to get treated in a good hospital is really costing some good money. I think combination of this awareness level, disposable income, stand-alone health companies, gave a boost to retail health segment as such and it did pick up very well and now government

intervention has come also in terms of what we see in the National Health Scheme. This has come in now covering quite a bit of the population,. So I think the health portfolio is moving in a scenario where you have this early good growth, but interest of all stakeholders is very high, and I think the ratios are all moving. It will even out at some time and then keep on moving as it progresses so if you look at the way it is moving, I would say it is in the right direction. But I think if we see the trend, it is not going much lower or much higher. The initial spurt of growth has happened because that is where the market really opened up to the health insurance. As you see in the government intervention, the hospitals that have come up and the private stand-alone companies also, so all that gave a good boost, growing at the level of the public at large so health would continue, In my view, for the next at least minimum 10, 15 years, there will be always a double-digit growth happening and I think the government also would have lot of keenness in terms of looking at health for the overall public at large.

Dhaval Gada: Do you think it can see 20% plus compounded growth for this 10- 15 year period?

Tapan Singhel: Not 20%, it will be double digit, it will come down, to highest like 17%, 18% that is where it will come in at best.

Dhaval Gada: Sure, yes third one on VSO.

Tapan Singhel: VSO, as such, it is just a distribution mechanism in Tier 2, Tier 3 cities. So If you look at VSO typically for us, it is like a small office setup, which we actually set up and we are the pioneers of this. We were the first to set this up. Now I think a lot of our competitors are doing it, which is a good sign because it improves penetration for the country, it is good for the customers at large and is without fixed cost of having brick & mortar office. The idea was that how can we set up operations at low cost without setting up physical offices, and so the distribution using technology where network connectivity is good and how we service the customer at door step, that was the VSO concept and we did set it up pretty well. We spread all across Tier 2, Tier 3 cities and so we are doing all lines of businesses and they are looking at all channels of businesses. So it is like any normal office. The growth from that segment is good to have. They are increasing penetration and they are moving to smaller locations and as time progresses, as we see more business opportunities, we will keep on expanding and looking at more expansions of place. So I did not get quite get your question, the worry on VSO. V is a good segment to penetrate insurance in areas which are not very penetrated earlier.

Dhaval Gada: Question was actually, what is the quantitative benefit of the channel let us say today, it is 10% if it goes to 15%, 20%, is there a cost benefit or a sort of renewal recurring so what is the economic benefit advantage?

- Tapan Singhel:** If you look at it, VSO typically is like an office so as you open offices all across, in VSO we do not have a physical office, that is the only difference. I think there is no other difference so it is just like any other office. We keep on opening office depending on where are the opportunities and if you look at India also, let us say you take India 20 years back, the accumulation of wealth in the urban Tier 1, Tier 2 was much more compared to Tier 3, 4 or lower below. Today, if we look at the purchasing behavior, if we look at the accumulation of wealth also, it is getting distributed across so that is how I think VSO is a very good move from the company to get into places in which we were not present earlier.
- S. Sreenivasan:** VSO is only a way to expand the footprint. The products we are selling are the same products - they will sell motor, they will sell health, they will sell property- personal lines will be more because the size of the market,. I mean the type of people who live in these locations are from rural and rural backgrounds. But otherwise, it is only an expansion of footprint and diversification of geographical mix.
- Dhaval Gada:** Understood. Just one more question for Tarun this time. So just on the product innovation, I just wanted to understand what is the sort of experience on return of mortality charges product that we launched last year and sort of the size of that product? And the second question I had was on the proprietary sales force that we sort of built. I think one of the sort of objective was to upsell to the customer base, database that we have within the groups. So just any metric around where we have sort of reached in that journey? So those are the two questions.
- Tarun Chugh:** I am really happy with the quality of questions, honestly. So to the ROMC as a segment has been the lead segment for the online unit linked plan particularly. So if you just go back in history, the online unit linked plan, there was competitors of ours who had three years back, four years, five year years back, introduced low charges, zero admin charges and low fund management charges as a mean of getting innovation and that is why the sector grew, if I remember, the number is 20%, 22% on the online space. Since we brought in the ROMC concept, we find that customers are finding it a lot easier to buy products online, a, because the mortality charges are not going to be a burden, it is difficult for customers to understand mortality charges. So something that they find difficult to understand, we return back to them. So there is life insurance particularly gets this stigma that they have a lot of, what should I say, nontransparent charges, so this increases the level of transparency. Since then, the online space has gone up by CAGR of 40% for the sector and it could be higher than that. But if I remember, the number is broadly upwards of 40% CAGR for the last two-and-a-half years since we bought. So that market has now become more a large market and this is one of the fastest-growing segments and ROMC, what I find is now, suddenly, three, four other companies have also come on the ROMC products. So what we have done is since then, widened our product space. We have come up with the product lifelong goals a product segment for the pensioners as well. As you realize, when somebody is roughly 40, 45, they

start worrying about underwriting charges and underwriting charges below that age are meaningless. So this is why, ULIP market was losing that customer segment to the mutual fund space. Now what we have done is that we have introduced this product online, we returned mortality charges to pensioners every 10 years. So we have got a 20-year policy, every 10 years, we return the mortality charges, so that feature is also a unique one. We focus on early retirement space, we have been able to open that space for us and I think more and more insurers getting and money getting putting into this space should help us take the pensioner space also into consideration and these are really long-term contracts. In a pension contract we are talking 30 or 40 year contracts including amortization. So that really works very well for us. The persistency in those ROMC contracts is doing better as well. So overall, we are quite happy with that strategy. It is growing quite well. On the process, it is already contributing upwards of 10% of our business. I think that is a metric to look at. Conversion ratios are good. ., We are currently operating pilots on our customer data and usually, these pilots require a lot of profiling and analytics, understanding of what to pitch, where, because it is not that we sell a lot of policies, unlike a general insurance companies, so therefore, even if I was able to do these 10000 policies through the group, I am kind of happy because these are very high ticket size usually. So that is underway. The channels today, we have expanded the number of cities we are present in and this is only going to increase as we go.

Dhaval Gada: Understood. One data point that I needed was on the group protection, premium of about Rs.427 Crores that we have. The split between the GPI and credit protect and related question is on BAF share now that we have versus maybe what we had last year.

Ramandeep S Sahni: I will tell you the H1 numbers. We have Rs.826 Crores of group credit protection all in put together, of which about Rs.450 Crores from the MFI space and the balance is from banks and NBFCs. Of this, about Rs.170 Crores odd is from the Bajaj Finance.

Dhaval Gada: And what was this last year?

Ramandeep S Sahni: So all the segments are growing at about 33%, 35% growth rate. So it is an equal amount of growth in all the segments, so whether it is MFI or banks and NBFC, they all are growing at a similar pace.

Dhaval Gada: Thanks.

Moderator: Thank you very much. Next question is from the line of Utsav Agarwal from Investec Capital. Please go ahead.

Utsav Agarwal: Thanks for the opportunity Sir. As you mentioned at the start of the call, the share of agency is high and under banca, the share of variable is high. Just want to understand what is the

incremental investments needed in both these channel? number one. Number two, if, say for example, Syndicate Bank moves out due to merger or any other reason, what will be the impact on the persistency and the cost because of any particular channel?

Tarun Chugh:

Yes. Very good questions. Let me take the second one first, and then I will come back to the first one. So we last year had a similar situation where Dena Bank merged into Bank of Baroda and at that time, the decision taken was Bank of Baroda had its own subsidiary to just work with one partner. Now here there are two banks merging with Canara, Syndicate is one of them. We are, of course, being cautious in terms of them therefore the amount of investments we are making in this channel. And Syndicate will do a set of numbers, which will be not very significant, the moment the merger goes through, people get so busy in their internal bits that are in the public sector banks that this momentum gets lost and we are very cautious in making investments in Syndicate Bank. So we will, of course await to hear more about what kind of plans are going to be. Does that open a channel for us or not? therefore we are hedging a bit. And having the experience of Dena, now we are a little bit better placed. We did make continuous investments and it is only at the end of March we really got to know what the Bank of Baroda decision was. So here, having gone through this, we have a little better placed in our decision. In terms of investments to be made in Axis, it is a question that has come earlier as well, so my answer does not change really because we are doing a lot of pilots still and some initiated, some yet to be initiated and it is a very interesting space for us now to get in because it gives us that footprint. Now what is that going to be is a little early to say, but needless to say that we will keep a hawk's eye on NBV. Having turned NBV positive last year, we are ensuring that all channels remain and get to NBV positive and as far as that is concerned, we separately are going to ensure that Axis is going to remain NBV positive. Of course, that could be a hit on PAT, Sreeni has already mentioned that, for the future. But I think the metric to look at for life insurance is more NBV, and that we will only grow in scale.

Utsav Agarwal:

Sir, and how would the persistency impact, if any channel like Syndicate or any other channel moves out of that?

Tarun Chugh:

Not much really, not much, because, it is good that you are all monitoring all this, it is almost like helping us that we have people who are monitoring for us externally. But having said that it is not going to be significant, Dena also happened last year, and we started the channel only in September, October, similarly same thing for Syndicate. So these are not very large nor our size is pretty huge, but of course, given the fact that they are bancassurance channels, communication address is in place, and so it becomes a little bit easier to contact the customer and with Dena, we had assured them and similarly Syndicate, no matter what happens later, in the short term, we will continue reaching out and servicing these customers and the banks have been quite supportive on this. Overall, given the fact that we have got experience of

working on non-contactable databases, which is what has been our strength for a long time because like I said we did not have banks. These are only better for us because the contractibilities at KYC with updated stuff is a lot easily available.

Utsav Agarwal: Sure. Sir, just a couple of questions on the general insurance side. If you look at the loss ratios under the fire segment that has been a little volatile and there has been price increase recently in the fire and other corporate segments. How do you see the loss ratios move up for the full year? And second question is with respect to the growth. As you mentioned at the start, crop is a seasonal business. But on a full year basis, how do you see the full year growth? And which are segments you expect to drive it? Because motor the sales are weaker. So just want to understand these two pieces.

S. Sreenivasan: We never predict loss ratios in the GI business. We are in the business of insuring other people risks, so we never know especially about catastrophes, property. Obviously, there are seasons, now it is a monsoon season. In Pune, where we are, now the monsoon has not stopped since July. It is still raining. We are in the end of October now. So that is something where we would like to see how it goes. The only thing is, we have is underwriting history. We have a track record of underwriting. We have a strong underwriting team. We have reinsurance arrangements in place. We have capital to support the business, and we are generating float from a variety of businesses. Does that answer your question?

Utsav Agarwal: Sure. And how was the guidance for growth this year?

S. Sreenivasan: We cannot predict growth, auto sales are down. There is heavy competition for existing auto sales. We have seen traction in certain segments like two-wheelers. Our retail health is growing at close to 20%. Property premiums, there have been some correction early on, but that is only in case of large risks. On bancassurance, we have a large number of relationships. They have all started producing results, and we have strong growth from that channel. Obviously, bancassurance also brings you more exposure to mid-sized catastrophe-type of widespread losses, but in the long-run, it is a profit and growth engine. So it is actually a combination of multiple levers. There is an external market, there is a certain amount of asset creation happening in the market, which currently is quite low. There are also new businesses, which we are tracking. We are building multiple channels, so the combination of all that, we are very hopeful that we will continue to deliver on or above industry growth for the next year.

Utsav Agarwal: Thank you Sir.

Moderator: Thank you very much. Next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

- Nischint Chawathe:** Just one clarification. Most of the questions are done for my side. You have given the breakup of your investment book, this is on September 30, 2019. Any material change that we should be thinking about in terms of addition of any more stressed loans or anything that you had sold off between then and now?
- S. Sreenivasan:** As of now there is nothing that we would think. We are not calling them stressed assets, they are called performing and non-performing assets. And the non-performing assets, DHFL, as you know, there is a resolution plan, which is yet to be signed. If that resolution plan goes ahead, we think our provision is more than adequate. IL&FS, we do not know because we are holding unsecured paper. The rest of them for us is business as usual. We are not adding to any more stressed assets. As I mentioned in my opening remarks that we have a shorter list of approved fixed-income investments that we will be going with. And we have increased our credit appraisal internally. We also have an internal stress forum where we discuss any stress in the market every week, mainly for information for people to take appropriate decision.
- Nischint Chawathe:** Sure and anything that you would have sold from this?
- S. Sreenivasan:** That would have happened in the normal course of business. I do not have the data as of now.
- Nischint Chawathe:** Thank you very much.
- Moderator:** Thank you very much. Next question is from the line of Avinash Singh from SBICAP Securities. Please go ahead.
- Avinash Singh:** So continuing, I got disconnected. So my question is on crop particularly. So what kind of a price increase your portfolio has seen from Kharif 2018 to Kharif 2019? And secondly, with regards to this late-season rain that you just mentioned, do you see a sort of an upside risk to what you have built into your crop place ratios results? So these are my two questions.
- Tapan Singhel:** Okay. First and foremost, if you look at, overall as rightly mentioned, the price increase happened for crop, and that is the point I said earlier also. The way GI business operates is as the loss ratio moves, the price correction keeps on happening. And I think as you listened to the call, quite a few have mentioned there is a correction in the fire prices, there is correction in the crop price, so which is a fact. So as the price inflation happens, it happens for us also because we are part of the larger segment. It is not that we would be a very different from the market,. Second, if you look at the crop cover mostly is yield based. Yield based means that if the crop comes up, it is good. Now you also read somewhere that quite a few times, there is a mention that the monsoon has been good for the crops in a lot of places,. A delayed rain necessarily did not mean into loss of yield. Flood compared to a drought is better for crops

that is how it is. Unless the flood is so significant that it completely destroys the crop. But we have to see how the pattern moves on going forward. So we still have to wait for results because it is based on the crop cutting . After that you decide on that basis. But to give you a flavor t, I think that drought is worse, flood is better in the crop business.

Avinash Singh: Okay. So just to follow up, how geographically you were distributed in this Kharif 2019?

Tapan Singhel: Again, if you look at the crop business, to think that we can do just a small business in crop does not play off because then it is gambling. If you just pick up one state and do a small figure of crop, then you are just gambling because then it is either good or bad. So to do crop like any other business in GI, you have to be widespread. So we are also widespread. We have a presence in the north, we have presence in central, a bit in the south. So that is how we have spread our risks. That is like all businesses, we do that, and that is why you have to have certain scale to do crop business. You just cannot pick up one state and think that you can do this.

Avinash Singh: And how was your experience in this season as far as the government subsidy is concerned, particularly of state? Have you received subsidy from all the state governments for this Kharif 2019? or not yet?

Tapan Singhel: I think I answered this question earlier. I think the way the crop business constructed is that till we receive the premium, we do not pay claims. That is how the product construct is from the government itself. So when it comes, we pay that claim. I think that is something how it is constructed.

Avinash Singh: Okay, thanks.

Moderator: Thank you very much. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Sorry, Tapan, I missed one question. I just want to understand the experience and the traction that you are seeing on the small-ticket insurance products that you had innovated and come out and so what is the traction and experience like? And the second was on Fintech partnerships again. Just what is the sort of experience out there?

Tapan Singhel: Yes. So again, a very interesting question. I can probably give you how it will move on as an industry. So if you look at it know, I think the Fintechs or the small ticket sizes sizable tickets as you call it, are a new combination coming in, which has built up speed in the past one year or so because the distribution of Fintech or e-commerce would be like this. I think I answered previously also to look at traditional businesses getting distributed on platforms like e-commerce or Fintech would not happen because, they are more complex in nature. If you

have a simple sachet based products, it gets sold. So let us say if I look at something like Indian Railways, so now we are doing a lot of business with IRCTC. There, we, again, have a very simple product are getting sold or you also look at, let us say, the mobile insurance over e-commerce platforms so that we have a large segment of business, which also gets sold through the e-commerce on a sachet-based products and a simple cover and easy to pay claims. My personal feeling is that in times to come, this would become a good chunk of business. Right now, it is at a very early stage, but speaking up people are seeing the value in this product, people are seeing the value in this partnership.

Dhaval Gada: Any number that you have in mind? Five years from now, what kind of size, absolute size that this channel or this product can give?

Tapan Singhel: I cannot give you exact numbers right now, but this channel will pick up and it will create a new segment for itself. So the point of what I am trying to say here is that to think that traditional lines of business will get sold on these lines significantly- I do not think that is going to happen. This segment is going to create its own products for itself. It will create its own niche customer and service parameters, this is the nature of business. So the e-commerce business is something which is sold over a platform. It is something which is sold over the net. You do not have distribution networks or physical offices all across. So obviously a distribution like this will create different products and different customer segments and this will also build up well because customers are showing traction for these products. They are showing and they are getting claims and they are getting serviced well. In fact, in one of my e-commerce partners the NPS was over 90%. Customer is really super delighted of the services that they are getting offered in these platforms. So as these starts moving, customers are seeing value in it, the traction should happen good, is what I feel.

Dhaval Gada: Thanks. All the best.

Moderator: Thank you very much. The next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited. Please go ahead.

Mayur Parkeria: Thank you for taking my question again. Just one understanding on the crop side. You said we have 130% loss. So how does this work? Like, so we have return Rs.1700 Crores worth of premium, so is it like to say that the maximum loss would be around Rs.2300 Crores. does it work like that?

S. Sreenivasan: No. There is a contractual agreement. We retain about 20%, 80% is re-insured under the quota share, and this 130% will apply on the net returns.

Mayur Parkeria: Okay, 130% will be apply on the 80% of the...

- S. Sreenivasan:** On 20%.
- Mayur Parkeria:** Yes. Okay.
- S. Sreenivasan:** Correct me if that is wrong.
- Milind Choudhari:** Yes. That is right.
- Mayur Parkeria:** Okay, fine Sir that is just I wanted to understand.
- Moderator:** Thank you. Next question is from the line of Pratik Poddar from Nippon India Mutual Fund. Please go ahead.
- Pratik Poddar:** Sir, just one question on Axis Bank. Could you just talk about when do we move from pilot stage to commercial stage? What is the time line for the movement? And what are your market share aspirations?
- S. Sreenivasan:** As of now, we have just signed a corporate agency agreement. Typically, in any large relationship like this, there is a period of 120 to 180 days of discussion on business plans, on the way forward. They already have existing partners, so we will be discussing all these issues as to what the plan is. There is a large element of deploying manpower as well as technology, which will also come out of this business plan. So at this stage, we would not know precisely. It should increase our market share because absolute size of Axis Premium is very significant and even if we get as a third partner a reasonable share of that, it should improve our market share. That is all we can say at this stage.
- Pratik Poddar:** Any time line for maturity, like generally? It is such a big relationship for you and such a significant one. What is the time line, generally? Should we look at three years, four years?
- S. Sreenivasan:** As we can see, a corporate agency agreement regulation is for three years but renewable. But obviously, you do not get a relationship like this and make investments upfront with the hope that with three years, they will go away. We want to exist in the relationship for longer term. We have partnerships in the past in respect of BAGIC, for example for the last 19 years, where some of them have very recently or till now, maybe not even have looked at second partners. So the way you nurture and handle the relationship is what it is and we think we have enough firepower and management bandwidth to be able to continue to meet the expectations of our partners.
- Pratik Poddar:** Thank you so much and all the best.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Ms. Bunny Babjee for closing comments.

Bunny Babjee: On behalf of JM Financial, I would like to thank Mr. Sreenivasan and the senior management team and all the participants for joining us on the call today. Thank you.

Tapan Singhel: Thank you.

S. Sreenivasan: Happy Diwali.

Moderator: Thank you very much. On behalf of JM Financial Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

End of the Transcript