"Cholamandalam Financial Holdings Limited Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2023 Earnings Conference Call of Cholamandalam Financial Holdings Limited hosted by DAM Capital Advisors 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 this 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. Pritesh Bumb from DAM Capital Advisors. Thank you and over to you, Sir!

Pritesh Bumb: Thank you, Roshan. Good afternoon, everyone. We on behalf of DAM Capital would like to welcome the management of Cholamandalam Financial Holdings Limited. Today, we have with us, Mr. Sridharan Rangarajan, Director and Mr. N. Ganesh, Manager and CFO of Cholamandalam Financial Holdings, along with Mr. V. Suryanarayanan, MD and Mr. S. Venugopalan, CFO of Chola MS. Now without further ado, we will hand over the call to Mr. Sridharan for his opening remarks. Thank you and over to you, Sir!

Sridharan Rangarajan: Thank you. Good morning to all of you and hopefully everyone is safe, your family is fine and kindly take care. So, just a few initial remarks. As you know that it is a consolidation of Chola Finance and Chola Insurance at the Chola Financial Holding level and to start with, I think the consolidated results consist of Cholamandalam Investment and Finance Company and Chola MS General Insurance as subsidiaries and Chola MS Risk as JV. The total income for the quarter ended June 2022 increased by 10% to Rs.3963 Crores while profit after tax increased by 63% to Rs.582 Crores, primarily due to reduction in impairment charges on loans. On a standalone basis, total income for the quarter ended June 2022 is Rs.2.10 Crores as against Rs.2.12 Crores in the corresponding quarter of the prior year. Loss for the quarter ended June 2022 is Rs.0.26 Crores as against Rs.0.93 Crores in the corresponding quarter of the previous year.

Cholamandalam Investment Finance Company is well covered, and you have all the required details in the presentation as well as in the earnings call.

I will move to Cholamandalam MS General Insurance. Q1 FY2023 witnessed an industry growth of 22.3% and the private sector grew by 33%. Chola MS registered a GWP of Rs.1292 Crores in Q1 FY2023 with an increase of 43.3% over the prior year driven by growth across products, channels, and partners.

The previous year slower growth was also due to the lock down situation in Q1 of last year. Motor representing 61% of the portfolio grew by 35%, commercial representing 17% of the portfolio grew by 44% and health accident travel representing 11% of the

portfolio grew by 67%. Within motor, two-wheeler and the passenger car share has gone up to 22% and 32% respectively compared to 20% and 29% last year, and commercial vehicle has come down from 51% to 46%. Volume from new channels, new verticals, OEM and financial channels had a very good growth.

The company is continuing to maintain its leadership position in Tamil Nadu and Chhattisgarh and bettering its performance in Andhra and Telangana. Chola MS is one of the leaders in the compromise settlement and can save more than 50% level in terms of average severity comparing court award cases. RBI has increased the repo rate continuously, which resulted in substantial improvement in the yield for the fresh investment deployment; however, the MTM value of the existing book is negative and hence there will less opportunity for profit booking from sale of debt securities in this year. The company's long-term policies' growth was more and as per the IRDA direction, the company needed to upfront expense the entire acquisition cost impacting the profitability. However, the earnings on such long-term policies comes over the long-term period creating an embedded value in the balance sheet as the costs are absorbed fully upfront. With this, I will open for Q&A and we will take your questions.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks for the opportunity. Sir, I just have a couple of questions. One is, again, when we look at our operating expenses as a percentage of net return premium, it continues to stay elevated, the run rate was around 41% of net return premium and when we compare it against Lombard that is around 32% to 33% against Alliance that is 28% and against Royal Sundaram that is 25%. So, I am just trying to understand even for us, two years before we used to do around 32% to 33% of net return premium as the operating expenses. So, this sharp jump even in Q1 when our prepaid expenses have been absorbed, this run rate is still at very elevated level. So, if you can just give a perspective of where we are doing these investments that would be really helpful?

Suryanarayanan V : First, let me explain in relation to the past, since you mentioned about our own past ratios, our past ratios of yesteryears were when we absorbed the cost spread over the period of the policies. As you are aware, last year IRDA directed us to absorb the costs upfront and we are following the revised method effective April 2022. So, our own numbers of the past that you are mentioning are not comparable to our rates of last year or the rates of this year. Secondly, as I have mentioned even in the earlier calls, strict comparison with the industry players may not be appropriate considering that many of

them have a larger proportion of crop business or employer/employee group health business and government health business. All these businesses are either on tender basis or because of the inherent high loss ratios that these businesses have, they have very low acquisition cost, as in the case of group health employer/employee. This proportion is high for many players in the competition. For us, our presence in all the segments that I have mentioned is very marginal and even in the group health employer/employee, our total volume in quarter one was only about Rs.36 Crores out of the Rs.1290 Crores of GWP volumes. So therefore, we do not have the advantage with respect to the cost to GWP or NWP as others may have.

Devansh Nigotia: Sir, but when we let us say if I look at even Lombard, for that if I look at the same notes it is very much similar because they have a small book of crop insurance and even within health insurance, which is 20% of their mix that is, let us say 7% to 8% of the return, so at least for Lombard it is very much comparable or probably it is not at such a regulation where we are spending at least 10% higher as a percentage of operating expenses as a percentage of net return premium and even when I look, let us say Bajaj Alliance even for that if we look at the mix is around 40% to 45% motor, 20% is health and within that some part is your group health and for crop, there is some portion that they have, but if I look at the difference from Alliance, the difference is around 13% to 14%. For Royal Sundaram also, even if I adjusted for the group policies and crop insurance, even then the difference is staggeringly high. So, I am not able to really understand that why there is such a big difference and even for us, if it is based on historical number required is just 10% of operating expenses and if I elevate it, then what is the ROE target that we have going forward, if we have to actually increase the operating expense by 10% as a percentage of NWP that increases the combined issue structurally by 10%, so if you can just share a perspective here.

V. Suryanarayanan: If we were to look at crop, some players have a much larger proportion, some players have a smaller proportion, and it is not my intent to name any player in this call as this is only about our financial results. To give a perspective, many players have a group health business, which are in the range of Rs.300 Crores to Rs.350 Crores. Our volumes are only about 10% of the size of other players in terms of the group health business that they have put out. Generally, as even commission expense structure is only at 7.5%. the inherent advantage will always be there, but which advantage is always squared up by a higher loss ratio on the claims front. We do not write group health business extensively business more as a board policy in view of the volatility as well as the adverse loss ratios, and therefore that advantage may not reflect in our cost structure, that is part A in relation to the broader competition comparison. The second is our own business profile which has a larger proportion of long-term business. Of course, the long-term business would also

get reflected in the net return premium, I don't deny that it is there, but that proportion has been growing fast and under the new dispensation of IRDA guideline directive, we are absorbing those costs upfront and as we grow faster, our growth rate is 43%, the absorption is higher. But we do not expect that growth rate to sustain at 40% or 43% as we go along. So as the full year growth stabilizes to a moderate level, we will find that the expense structure will also moderate.

Devansh Nigotia: Can you share the target for the combined ratio for next one to two years growth and ROE profile for the next one to two years?

V. Suryanarayanan: While we do not generally make forward looking statements for the company as such, but then we are looking at the end of the year ROE in the range of about 12.5% to 13% is what we will have for the year considering our own growth plans and the level of growth that we would have by the end of the year, this is our estimation that is being made by the management internally.

Devansh Nigotia: But, if you look at, let us say in the investment leverage currently it is around 6.5 times, which I think the solvency has decreased and if you are looking at 12% to 13% ROE, then to play the recovery of auto-cycle over the next two to three years, the investment leverage will keep expanding, because I think our ROE will be lower than the expected growth. So, how will this interplay, if you can just share a perspective considering all the issue around recovering auto-cycle and we have a large mix of auto insurance book in our own business, so how do you think this would play out?

V. Suryanarayanan: You are right about the investment leverage of Chola MS, which is one of the highest in the industry and therefore, a strong point in terms of the investment income and the related yield that it gets for us. but there are two to three factors that are developing. One is as you are aware, the motor vehicles act has been notified effective April 1, 2022, and there are both Supreme Court and a few High Courts judgements that have confirmed the applicability of many of the provisions that are favorable to insurers for accidents occurring on or after April 1, 2022. What this would mean is that the speed with which the claims get reported is poised to rise and in the revised procedure, the speed of settlement will also happen, so that is one development, which is both positive, because the uncertainty of motor TP loss ratios for the future is poised to reduce; one, and the other impact that it would have is that the cash flow, how the cash outflow will be faster as we proceed to settle those claims faster, so this is the effect on the leverage. The second dimension is our own ambitions to grow in motor. We are clear that while we will certainly grow strong in motor, we would continue to diversify across lines of business and keep continuously reducing the motor proportion. On the property side

where even as you can see in Q1, we have grown much faster and the trend is poised to continue, as also in our traditional businesses of personal accident, which has come back strongly and retail health, both in the attachment side as well as in the retail side, so the growth in these will be at a faster clip and which will keep reducing the proportion of motor business.

Devansh Nigotia: Okay, and in case of this has been notified long back, but this has actually not cleared out, so I think could you just help us understand on ground how this claim intimation and when is it actually going to start going, I think this has been six months or a year back?

V. Suryanarayanan: It got notified during March as effective from April 1, 2022. Amongst many provisions that are being notified, the single most important one, is the time limit for intimation of a motor accident claim, which is now placed clearly at six months from the date of the accident. motor third party accident claims, typically and historically has had a practice of getting reported even up to seven years which brought out a high level of uncertainty. more importantly in the amended provisions, the power of Courts even to condone delayed filing of petitions has been taken out. This has been confirmed categorically by Kerala High Court and in a veiled way has also been confirmed by Supreme Court in some of its recent decisions.

Devansh Nigotia: But Sir, like I said you mentioned April 1, 2022, it has been notified, right?

V. Suryanarayanan: Yes, for accidents on or occurring after April 1, 2022.

Devansh Nigotia: But the question is how it is actually playing out right now, because what I heard is that this is still not being playing out the six months' timeline and what is the response that we are seeing from the court and how it is actually playing our right now, we are in August 2022 already.

V. Suryanarayanan: These confirmations by both Kerala High Court and Supreme Court have happened sometime in July. So, I am sure the entire legal fraternity will take cognizance of this and anyway, even the first claim has time to be reported until October, so we will get to see, probably, we will clearly have an indication by October end or November, as to how this is happening in the market. What I meant to say is that these confirmations by apex courts is positive for the industry, and for any player who has a larger presence in the motor line of business.

Devansh Nigotia: Okay, and in case of when we look at the run rate of advertisement and sales promotion it used to be around Rs.60 Crores to Rs.80 Crores up until Q2 FY2022 that increased to Rs.130 Crores in Q3 FY2022 and it increased by almost Rs.100 Crores in Q4 FY2022 to

Rs.183 Crores. Now, when we look at all this increase is only because of the absorption in fixed cost, which is happening upfront or we have also structured and we increased some kind of ad sense, that is a target to some segments of the business because what I see these have largely increased on motor insurance only, so as a percent of net return premium it was I think around 17% so that has increased to 21% to 22%. So, is it only the change in accounting, which has got in subdelta or even we have setup our advertisement in some segments and if at all any benefits we are expecting from them, if you can just share your perspective.

V. Suryanarayanan: See, broadly this is a combination of multiple factors. One is the absolute increase in volume itself, so we have had a 43% growth, which in absolute terms is about a quarter-to-quarter a Rs.400 Crores accretion, so that strong growth going by the present industry structure on cost pulls in an element of cost structure in its multiple forms and within that, the proportion of the long-term business is even higher and traditionally, we have been strong in doing a good volume in niche segments, profitable segments of personal accident, dwellings and health benefits products etc. You can see in the page 49 as to the rate of growth that is there in the PA and health and dwellings will come under the fire segment, so the profile of business that we have been growing has also meant that costs are being pulled in. Besides, in Q1 Chola MS associated itself with RCB in the IPL, so there were some related advertising costs, which were expensed in Q1.

S Venugopalan: Yes, it is a combination as you rightly said, there are expenses incurred on advertisement like Delhi metro and in the FM, these are also part of that. Every segment that we concentrate for increasing the level of penetration of insurance business, require certain type of promotional spend to reach out and increase branding and awareness aspects which would provide foundation for growth of business.

Devansh Nigotia: Sure, I will join in the queue.

Moderator: Thank you very much. The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Thank you for the opportunity. Sir, if you can quantify out of the total GWP or NWP you have in the current quarter, how much would be in long-term benefit base health or dwelling business as a percentage of the total business, and how much different it is compared to last year and how it could potentially play out for full year of FY2023?

S Venugopalan : Sanketh, as you know the long-term policies, which are embedded into GWP is growing very fast for us. For example, in Q1 2022, the embedded GWP share was at 5% level and it has grown to 10.6% by Q1 2023. This clearly shows that the long-term premiums

embedded in the form of dwellings and health is growing for us, that growth will have an impact on the cost as you know that these all absorbed upfront in the P&L.

Sanketh Godha: But this pent up as a percentage could be seasonal and it has got up in the quarter one and this is expected for the full year this number to be around 10% or if it come back to 7% to 8% for the full year naturally you will see a better opportunity to play out in the subsequent quarter, so that is the idea why I am asking this question whether this number will remain as 10 or you can see this number to come off before you see an improvement in the opex business?

Suryanarayanan: Sanketh let me take this question, since these are by and large profitably lines of businesses as I mentioned a while ago in terms of dwelling and P&A and health benefit, our intent would be to try and maintain that high proportion because these are inherently and economically profitable businesses. Q1 is the leaner season for motor and that will be much larger as we go along in the rest of the nine months that would play out in terms of reducing the percentage, so I would tend to think that the 10.6 could come down to about 8.5 or so when we reach the end of the year position, but our intent would be to grow each our business.

Sanketh Godha: Got it, Sir, but as a seasonality factor as you said probably it could come back to 8.5 kind of a number that is the way I need to read it, right Sir?

Suryanarayanan: Yes.

Sanketh Godha: Perfect and if you can do the same exercise probably our opex of commission was almost 370 Crores, if you are comfortable of 370 Crores how much is towards this long-term business and how much is towards the annual policy expenditure if I rough cut number whether it is in line with 10.6 in the opex or it is on the higher side that will give a picture how opex ratios will evolve going ahead?

S Venugopalan: Sanketh, refer to slide #48 where we have explained on a note we have given the two cost separately, there is 33 Crores of the sourcing cost incrementally which is the long-term premium embedded cost that is already absorbed in P&L. In addition to that you know that 43% growth in Q1 23, there is an impact towards acquisition cost being absorbed fully upfront which was roughly around 59 Crores.

V Suryanarayanan: To add to what Venu has said the cost on annual portion will naturally be moderated because there it would start reflecting in the earnings as we go along and growth rate also will not continue at that same base, it was on a much smaller base, the base effect was there.

Sanketh Godha: Got it, Sir, but since you have touched upon the growth, quarter one growth was 43 I believe the growth to sustain for the full year might be tough, so just wanted to understand what is the growth rate we are looking for the full year compared to 43 what you have reported in Q1 and which segment in Q1 all products have fired very well whether there will be anything from queue towards some other products from your **perspective?**

V Suryanarayanan : See, rather than putting out a percentage I would see our growth in relation to industry growth. In Q1, it was 1.9X of industry growth excluding the SAHI players. I would tend to think that by end of the year, we would be at about 1.5 to 1.6X of GI growth, I think that is the kind of growth that we expect and as I said earlier, our own emphasis in property and the other lines will be larger given our conscious bid to diversify and de-risk from motor.

Sanketh Godha: Got it, Sir and just on the loss ratio, wanted to clarify on motor part for the 76% losses in motor seems to be a little elevated despite having mix in favor of better profitable products like CV and two-wheelers, which appear to the lower motor would be loss making product, still we have little elevated motor loss ration, just wanted to understand it more to do with it discounting or you see this number to improve going ahead or not, that is point number one on motor OD. On motor TP, the 78% loss ratio naturally has increased, but 78 somewhere we have baked in NDA benefit, or it is without NDA benefit in this 78% and as NDA benefit kicks in this number would potentially improve by the end of the year?

V Suryanarayanan: Sanketh, I think you are also reading from some page 53 of the presentation deck. For the benefit of others, you can see that the motor OD loss ratios are moderated from Q4 level of 82.8, but certainly is at an elevated level as compared to the past, but by and large in line with the industry in terms of what other players are experiencing in terms of OD loss ratios. Very clearly the pressure both on discounting of premium as well as rise in cost of claims is there. We are seeing many of the OEMs increasing the labour charges as well as the parts price which is between 4% to 6% by almost all OEM manufacturers with respect to material cost price. This inflationary effect has been there and will probably continue, but the question as to management of loss ratios would depend on how much more granular in terms of choices that we make in respect of geography and in subcategories. The other advantage that Chola MS will have going forward is that our commercial vehicle business especially with respect to the financier tie-ups is slowly restoring back and when that gets restored there will be some positive effect. On the TP side, yes, obviously we have not considered any motor vehicle act benefits that are there and this we would definitely want to wait and see as to how it actually gets adopted in the

marketplace while the reaction of courts initially has been very positive as I mentioned earlier, we would love to see it actually pan out and get implemented at which point I am sure our actuarial teams would take a relook in terms of advising us on what ratios that we should be providing for.

Sanketh Godha: Got it Sir, and last question, on health side if you can breakdown the health business, I think we did around 138 Crores in the current quarter, so if you can break it down into benefit basis and indemnity to what you have done?

V Suryanarayanan: See, 138 Crores our benefit business would be about 74 Crores.

Sanketh Godha: Sir, the contribution of benefit had has gone up in the current quarter compared to last two years, right?

Sridharan Rangarajan: Yes, it has.

Sanketh Godha: Perfect, thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from Dam Capital. Please go ahead.

Pritesh Bumb: Sir, just wanted to check on investment yield, we are still at about 6.2 and it is broadly unchanged from last quarter so do we see we investment book itself the yield picking up from here on and does the profitability start improving without increasing the leverage that was the first question?

S Venugopalan: Actually, the yield started increasing after RBI increased the repo rate recently, as you rightly said about that, there are two things that is happening, the incremental investments is also operationally growing, which started accruing to the investments and the same is getting deployed at the higher yield for Chola MS. We have been talking about 380 Crores of attrition in the Q1, which is the normalized one when compared to the previous year it is much, much higher. Our average duration is around 3.6 years which reduces our interest rate risk and also increases the opportunity for investment in higher yield when the same get matured. The incremental investments both maturing investments and operational accretions are getting deployed at higher yield and in fact in July after the interest rate revision the incremental investment were deployed at an average yield of 7.7%

Pritesh Bumb: So, the 3.6 duration means that we will have a large part of investments done in the cold period itself that is why the yield is lower because then make sense right because we only have invested at about 5.5% to 6% when the reach at that levels?

S Venugopalan: One advantage of lower duration is that it reduces the interest rate risk substantially and provide opportunity for higher yield when get matured like a situation like this. If you compare with other companies where the duration used to be higher, whenever they invested in longer duration it will take much longer period for redemption, and hence the lower yield would continue for longer period than Chola MS. Moreover, Chola MS during the last 2 years kept some portion of the investments (slightly more than 10% of the AUM) in Fixed deposit with the maturity of less than 1 year. This has helped Chola MS to invest the same in current increased interest rate scenario.

Pritesh Bumb: Sure, that is clear. Second question was you mentioned our mix change which can happen in the motor OD side just wanted to check does the opex also change when we do more of CVs compared to PVs?

Suryanarayanan: Opex will change as we take our foot off the OEM business and move towards more of financial business, so as volumes from financial tie-ups go up, then the pressure will reduce and also more importantly in terms of cars and two wheelers would have a larger pressure in terms of opex, CVs would have a lower pressure.

Pritesh Bumb: Sure, so can you just mention how many financial tie ups we have today and how much are looking for TO do it in the next financial year I mean FY2023?

V Suryanarayanan: See, some of our larger channels in the financier tie-ups include our own sister company, Chola Finance which is a large contributor. There is a natural rub off effect as they grow it means more business for us especially if they grow faster in commercial vehicle it is advantageous for us, we continue to operate in some of our leading relationships with IndusInd Bank with many small finance banks like AU, Equitas and also get volumes from other smaller financials, so these volumes are there, but these are some of our larger traditional and long time channels.

Pritesh Bumb: Sure, that means as banks growing, and we will also see the reflection of the same?

Suryanarayanan: Yes, and large vehicle finance players when they grow naturally there will be a volume growth for us.

Pritesh Bumb: Sure, and same question for when we look at motor and health mix I think you mentioned that health mix may go down back to that 8.5% to 9%, so again there also opex will change a little bit towards a better side or help us much more cost effective than motor?

Suryanarayanan: See it is all cost there are multiple drivers there, I mentioned that in that 8% is in terms of overall long term, which will also include dwellings business which is the overall the long term premium business, naturally the cost structure for benefit products are very different and it all depends on our own appetite and then it is pure economic benefits it may hurt this year's financials but the value that you are building in the balance sheet will be much stronger.

Pritesh Bumb: Sure, that is clear. Thank you so much. That is it from my side.

Moderator: Thank you very much. The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: So, just a few questions from my side, first is on your retail health business if you can quantify how much proportion of the business comes from renewal side especially on the indemnity part of the business, the second is this is not on a quarter perspective but from a long term or historical perspective how do you see the claims really change on the indemnity side as the book vintage increase we see across customers or across geography. My third question in on the wholesale businesses the B2B business excluding group health, so what are the key USP that you have in this business to dominate the segment over a longer term is it pricing or is it relationships that you have out there and last if you can quantify how much of your overall premium is originated from the Chola finance entity out there, those are my four questions?

V Suryanarayanan: The point is health indemnity will always be susceptible to medical inflation which can grow anywhere between 10% to 14%. Depending on geography, metros obviously will have a much higher inflationary tendency as against the tier two markets, therefore there will be the necessity to do periodic price correction for retail health indemnity. While this is so on one side, the other side is continuous addition of new customers to the portfolio is also essential because when the renewals get extend to the seventh or eighth cohort, it is more a matter of time that the claims emerge from such policies. So, the success of a good strong franchise in retail healthy indemnity especially would always be to the ability to add new policy holders and maintain it at a certain proportion to the overall. Benefit products, as to your specific question on what we are doing, emanates from many of the long-term relationships that we have. These went through a lull during the covid period when they had their own issues and problems, but now with business levels

restoring we are seeing an uptake in the volumes of the benefit business both in terms of the health as well as the personal accident lines. Overall premium from Chola Finance it is there in page 60, Together with our own insurance express outlets, we get about 31% of total premium and we expect this proportion to grow to about 35% at least by the end of the year. if I have left anything please bring it up, please?

Dipanjan Ghosh: Yes, two things, one is the right to win in the wholesale of the B2B businesses, all this B2B segments, how should one differentiate one from the other and what are the key USPs to dominate the segment?

V Suryanarayanan: Very clearly, we have continuously over a period of last two to three years, we have increased our capacities through reinsurance arrangements, we have provided the returns to the reinsurer in terms of the profitability which has made them enhance our reinsurance capacities. Today we are in a better position to compete in the market for larger businesses in property insurance space, which is also yielding results in terms of growth. Our other initiatives by way of setting up specific vertical to target SMEs across the country is also contributing to the growth which is fairly robust as compared to the industry growth.

Dipanjan Ghosh: Sure, just one question I think one followup and one question, one was on the retail renewal, how much of the business comes from renewal annual number or whichever works on the indemnity side and one followup, when we discussed the claims if you can highlight, do you get any favorable pricing agreement on your select hospital network and in case you get it, can you quantify your broad range for it?

V Suryanarayanan: Our health renewals of indemnity is at about 70%. We have our network of over 10500 hospitals, mentioned somewhere in the deck, and we have continuously engaging with the various hospitals based on the volumes traffic from our policies in the hospitals. We go back to the hospitals for better negotiation, benchmarking also is continuously done, so we are seeing some improvements over a quarter-to-quarter, we do track that meticulously month-on-month improvements that we get by way of discounts.

Dipanjan Ghosh: Sir, just one clarification when you mentioned the renewal ratio at 70% is it renewal premiums to overall premiums in a particular period or is it renewal of the proportion of overall premium pack was originated in the prior period?

V Suryanarayanan: Renewals, we always see in terms of number of policies.

Dipanjan Ghosh: Policy which were to be renewed and which got renewed?

V Suryanarayanan: Sum insured from policy to policy and in tandem with that the premium may differ, so the industry always tracks renewals in terms of number of policies.

Dipanjan Ghosh: But this will be the number of policies up for renewal and the policies which got renewed during the period, correct?

V Suryanarayanan: Absolutely.

Dipanjan Ghosh: Sure. That is all from my side and thanks and all the best.

Moderator: Thank you very much. Ladies and gentlemen, our last question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks a lot for the followup. Sir, can you tell me expected yield for the next one year and for the year after that once our revenue matures so expected investment yield for FY2023 and FY2024?

V Suryanarayanan : See, that would clearly be a function of while the investment corpus accretion that we will have, normal scenario we expect to have net accretion of about 2000 Crores very clearly so to put a number say March 2023 we could well see the corpus ending at about 14500 Crores and the incremental yield that will naturally be market linked, market related. We can also safely assume that we are under weighted in terms of equity, and we could very well see the growth in the equity book to about 4% to 5% of the corpus over the next two years. Thereafter I would leave you to do the math.

Devansh Nigotia: So, let us say if the interest rates which are there as of today and the interest rates stay for the next two years then what would be expected yield?

Sridharan Rangarajan: Sorry, can you repeat the question?

Devansh Nigotia: Just a directional number let us if the interest rates stay flat for the next two years based on the expected yield today what would be the investment yield on book for the next one or two years if the interest rate not change for the next two years, so just a direction number not looking for exact numbers?

S Venugopalan: We have provided the current yield as far as Q1 is concerned in the investor slides. The yield on investment for going forward depends on two factors, one the current yield on the existing investment book size of Rs. 13000 crs and second part is the incremental investments in the form of operational accretion and the redemption proceeds of existing investments. Roughly Rs. 2000 to Rs. 2500 would be the operational surplus accrued to

the existing investments and redemption size depends on the maturity of the existing book. The future yield is the reflection of both current yield and incremental yield which can be calculated based on the information that we have provided to you mathematically.

Devansh Nigotia: And what would be let us say the shuffle in the portfolio as a percentage for next one year or when you say some FDs mature so what would be the kind of churn that will happen?

S Venugopalan: Yes, Fixed deposit which is currently at 5% of overall book size will get matured within 1 year and the same would be deployed in higher interest rate which is really an opportunity for us as mentioned earlier. Also, our duration is low and hence the maturing investment and operational surplus also make opportunity to invest in higher current yield.

Devansh Nigotia: And what would be the reversal if you could just help us on that side, one is the reversal of the premium of Rs.9 Crores in this quarter what is that related to?

S Venugopalan: You are talking about the premium deficiency reversal?

Devansh Nigotia: Yes.

S Venugopalan: It was created in March 2022, not in the current Q1, the exposure towards covid specific product has become NIL and all connected claims were fully booked in the P&L and accordingly, as per actuarial model, there were no necessity to continue the premium deficiency reserve created in the earlier period and hence reversed as per the IRDA regulation. It is to be noted that the reversal is nothing to do with any management intension.

Devansh Nigotia: Got it, Sir, within our opex like I had the question, similar question for outsourcing and employee count there also the run rate of 7% to 8% has moved up to 11%, so even that increased structurally because of upfront increase in the operating expense for long term policy or there will be some step up with the employee count some salary increase that have happened some perspective if you can share?

S Venugopalan : As far as Chola MS is concerned the outsourcing expenses was reclassified as part of employee related expenses, and if you look at the financial accounts of March 2022, there is a clear note there, it is all the staff related, we have a two types of the employee cost, one is inhouse employee cost and another is the outsourcing part.

Devansh Nigotia: Basically, both employee cost and outsource expense cost both of them are employee cost, right?

Sridharan Rangarajan: That is right, that we have already moved in March 2022.

Devansh Nigotia: There is some addition of both was likes around 7% even that has moved to 11% to 12% so I am just trying to understand over a year also the change in accounting policy has led to this step up from 7% to 8% to 11% structurally or there has been a step up in the employee count that is the main question? If I go by the exact numbers before March 2020 if I add the employee cost and outsourcing expense as a percentage of net return premium is usually 6.5% to 7% over the last one to two years that has moved up to 11% to 12%, so that is where I am trying to understand what part this delta of 4% to 4.5% because of this accounting policy change and what portion is related to I think set up in the employee cost?

S Venugopalan: That will change as I mentioned in March 2022, we have reclassified the outsourcing expenses into staff expenses as combined so even earlier if you look at the two expenses employee related costs and outsourcing and compare it with March 2022, there will not be bigger change in that.

Devansh Nigotia: So, there is a bigger change I am actually going by the data?

S Venugopalan: Probably you can come off line on that point.

Devansh Nigotia: That is all from my side, thank you.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Sridharan Rangarajan: Thanks for all the participants who joined the call. As we have mentioned Chola MS is poised for strong growth through the year and we conclude the call. Thank you.

Moderator: Thank you very much members of the management team. Ladies and gentlemen, on behalf of DAM Capital Services, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.