Transcript

Conference Call of Cholamandalam Financial Holdings Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Bharathi, moderator for the conference call. Welcome to Q1FY22 earnings call of Cholamandalam Financial Holdings hosted by Axis Capital Limited. As a reminder, all participants 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 * and then 0 on your touchstone telephone. Please note this conference is recorded. I would now like to handover the floor to Mr. Praveen Agarwal of Axis Capital Limited. Thank you and over to you sir.

Praveen Agarwal: Thank you Bharathi, good morning everyone. Today we have with us Mr. Sridharan Rangarajan, Director Chola Financial Holdings; Mr. Ganesh Manager and CFO of Cholamandalam Financial Holdings; Mr. Suryanarayanan V., MD of Chola MS General insurance and Mr. Venugopalan S CFO of Chola MS General Insurance. I would request Mr. Sridharan to give his initial remarks on the results post which we will open the floor for Q&A. Over to you sir.

Sridharan Rangarajan: Thank you. Good morning to all of you. I thank you all for participating in our earnings call. Hope all of you are keeping good health and safe and your near and dear are also safe and healthy. To start with let me catch up on few key things, we have our colleagues Mr. Suryanarayanan, MD of Chola MS general insurance, Venugopalan, CFO of Chola MS General Insurance and Ganesh, our CFO is also on the call. I hope you had a chance to go through the presentation shared with you and I am sure you would have gone through the detailed presentation of Chola Finance as well. As you all know the company, NBFC subsidiary Chola Finance and Chola MS Risk Services, joint venture continue to report under IND AS as per the regulatory requirement. The insurance subsidiary Chola MS General Insurance has prepared the financial results as per iGaap and yet to adopt IND AS as per IRDAI guidance. However IND AS financial results were provided to the holding company for the purpose of consolidation.

Now I come to the standalone performance of Chola Financial Holdings. It consists of income by way of dividends, interests and royalty. For the quarter ended June 21, there is no dividend receipt. However, the interest expenses on borrowing continues to accrue and hence the loss before tax of 0.93 crores. Interest expense compared to the last quarter is substantially reduced because of the replacement of the term loan from financial institution with market borrowing. The consolidated results of the company consists of the results of Cholamandalam Investment and Finance Company and Chola MS General Insurance Company as subsidiaries and Chola MS Services as Joint Venture. At a consolidated level, the revenue from operations for the quarter ended

June 21, increased by 11% to 3,591 crores, as compared to the corresponding quarter of the previous year while the profit after tax reduced by 39% to 357 crores primarily due to the impact of second wave of COVID-19 on the operations of the subsidiaries companies as well as few IRDAI related communication.

Cholamandalam Investment and Finance Company Limited was adversely impacted by the second wave of COVID-19 pandemic leading shift of focus from business to well-being of the affected persons; both borrowers and staff. This resulted in a setback in the performance in the Q1 disbursements and collections front. Disbursements were up by 1% as compared to Q1 of FY21 as purchases of vehicles were predominantly deferred. Collections also suffered resulting in increase in stage three effects from 3.96% to 6.79%. CIFCL had management overly provision of 750 crores as on December 20 and created additional overlay provisions in March 21 to the tune of 350 crores to support possible uncertainties that could arise due to COVID second wave, taking the total to 1100 crores. Of this the management overlay of 400 crores was reversed during the quarter ended June 21. Post this reversal of 400 crores, CIFCL still maintains an overlay of Rs.700 crores in stage 2 and stage 3 to manage any future contingencies. PAT for the quarter ended June 30th 2021 is 327 crores compared to 431 crores in the corresponding quarter of the previous year registering a decline of 24% to increase in provisions.

Assets under management grew by 7% to 75,763 crores as on June 30th 2021 as compared to 7,826 crores as on June 20th 2020. CIFCL's asset quality as on the end of June 2021 represented by gross stage 3 assets stood at 6.79% with a provision coverage of 35.51% as against 3.34% as of June 30th 2021 with a provision coverage of 41.62%. The total provisions currently carried against the overall book is about 4.37% as against the normal overall provision level of 1.75%. The increase in stage 3 assets in Q1 FY22 is temporary and we expect the loan losses to get normal levels in subsequent quarters as it happened in Q3 and Q4 of FY 21 as the customers started paying once the lockdown was lifted and normalcy returned. The capital adequacy ratio at the end of Q1 was at 19.08% as against the regulatory requirement of 15%.

Now coming to Chola MS General Insurance: The company's performance was adversely impacted by the second wave of COVID-19 resulting in low volumes from financial channels due to low CV sales. It also affected the bundle attachment sale of health and PA. The company was still able to grow its GWP by 13% to 997 crores in Q1 FY22 on account of increased contribution from other channels and non-motor products. Please note that the growth of 13% is as per IND AS. Growth as per iGaap is about 4.7%. fire products grew by 9.1%, motor by 4.6% and health de-grew by 4.5% as in the last year the same quarter, the volumes were higher due to COVID product sales. Motor and fire growth were higher than the industry growth. However, COVID claims to the tune of 197 crores impacted the profitability. IRDAI has advised the company to absorb the acquisition cost of long-term policies and also absorb the carried for balance asset April 1st 2021 in FY22. This accelerated amortization of deferred acquisition cost to the tune of 81 crores also resulted in reduction of profit before tax by 82% to Rs.38 crores. There is no increase in provision for stressed investment during this quarter. The Company is of the view that the existing provision is adequate to cover potential losses. IRDAI has by itself have advised the insurers to reduce the tax remittance on the contested liabilities for solvency computation. Insurers in the jurisdiction of Chennai, income tax Commissionerate also have contested the taxation relating to the disallowance of IBNR provisioning and reinsurance remittances. The matters are commonly contested before ITAT or before the Madras High Court. IRDAI has also represented at the appellate forums in favor of the insurers. Insurers have represented to IRDAI both individually and collectively through the GI council. This reduction has the effect of reducing solvency by about 0.19 times which has brought the solvency to 1.79. That is 1.79 is after reduction of 0.19.

Cholamandalam MS Risk Service which is a small but niche company reported a profit after tax of 0.4 crores against the loss of 3.59 crores in the corresponding quarter of the last year. With these comments I would like to open up for questions and answers. Kindly form the queue and then we will be more than happy to clarify your questions. Thank you.

Question and Answer Session

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. We will wait for a moment while the question queue assembles.

The first question comes from Ravi Mehta from Deep Financials. Please go ahead.

Ravi Mehta: Thanks for your call. Just if you can clarify on the health piece of the business…so we did see a good amount of COVID claims coming in. So what kind of provisioning or reserves are we making and how you foresee the coming quarter impact?

Suryanarayanan: Good morning. On the COVID related claims, we had about 37,000 claims coming in during the quarter one. These were largely for us coming out of the group benefit products that we had sold last year between May and August. This count of 37,000 was higher than the count of claims that we suffered last year which was about 32,000 plus. This is a one-year product and as I had mentioned even in an earlier call, most of these policies are having their risk end date by August and almost 80% have ended by July. Accordingly, to this extent we do not foresee much of further impact on Chola MS in the months to come. These are benefit products, there is no element of IBNER meaning the value of the claim cannot go up subsequently, so it is only an event which is getting reported later. We are carrying a reasonable IBNR reserves to manage this for any further claims that could come in.

Ravi Mehta: Okay can you quantify? Is it possible?

Venugopalan: InQ1 21-22, the claims that have been incurred including the IBNR was Rs. 196 crores, which includes both COVID specific product as well as the non-COVID specific products.

Ravi Mehta: Also one question I had on solvency. I have been seeing for the last three years, we end up reinsuring the motor OD I think mostly to manage the solvency and we have been gradually inching to 1.76 you mentioned in the opening remarks. So will this trend continue or at some point you think this is behind and you can grow without doing this re-insurance of OD?

Suryanarayanan: As you have rightly pointed out the solvency has been going up steadily in the backdrop of higher profits accruing to the company. With our investment related provisioning behind us, so the profitability, overall profits is going to help in improving solvency and if you had noticed, we, over the next few years, may consider a reduction in the re-insurance of the motor OD part. We intend to maintain a healthy margin on solvency. So as Sridhar mentioned, the IRDAI stipulation has brought it down to 1.76 times, otherwise we were at 1.97. But even with the normal course of future profitability, we should get the solvency strengthened at which point the board will consider toning down the re-insurance on the Motor OD.

Ravi Mehta: So just a related question, actually, probably once we get to a healthy ROE, I think this problem will get corrected right?

Suryanarayanan: The solvency improved during the last year end and we ended at a healthy ratio. The challenge is coming largely because of the extraordinary situation of almost Rs 197 crores of COVID claims plus the change in the IRDAI's advice in terms of disallowing the tax remittances on contingent liabilities from the networth in the solvency computations. This is an industry issue and it is not unique to Chola MS alone. So I think we would get relief.

Ravi Mehta: Yeah, so one small observation what I saw is that even last year we had overall some investment provisions close to 100 crores. If I adjust that thinking that is behind, I think we are almost there heading 20% ROEs. So if we embark on this journey then probably I think this should be solved. Is that a right way to look at it?

Sridharan: Absolutely. You are right.

Ravi Mehta: Okay then probably this re-insuring of OD books should not be there much.

Sridharan: It will be there for the risk management purpose to that extent, yes.

Ravi Mehta: Okay but not this 40% what we do. I think it should be much lower compared to what we were doing a few years back.

Sridharan: Yes.

Ravi Mehta: Thank you. I will come back in the queue.

Sridharan: Thank you.

Moderator: Thank you sir. Ladies and gentlemen if you have a question, please press * and 1 on your telephone keypad.

The next question comes from Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Yeah hi sir. Firstly, thanks for holding this call. I think I had asked this in the last concall and you had said that you would start holding concalls so thanks very much for that. So two questions to start with, one is on your health portfolio if you can talk about how much of your composition would be from indemnity and how much would be defined benefit based or as a quarter one FY22 end for all mix?

Suryanarayanan: Our health business from agency grew by 57% and our business from the public sector banks all of which are indemnity products grew by about 44% in Q1 but we had a de-growth of 18% from the bundled health and personal accident business which largely comes in from the financial channels. To summarize actually the proportion of the retail to the bundled was 44:56 during quarter one and our intent as I had mentioned even earlier was to first reach the 50:50 mark which I think should be possible.

Prateek Poddar: Okay and just sir to get in that our retail book still as we speak today is slightly lower versus industry, let me put it that way, from an overall GWP mix perspective. For us the impact of COVID claim is even less….hypothetically the base 345 will be very limited right? Is that a fair understanding?

Suryanarayanan: Yeah, your understanding is right. Now that the COVID specific products are behind us, the impact out of a possible third wave would be in my opinion, fairly minimum.

Prateek Poddar: Okay great. And sir if you can also help me understand, you had called out about these deferred acquisition expenses which we had recognized. What is the nature of this? Is this a one off or is it recurring? I didn't understand this.

Suryanarayanan: Let me explain the background. Chola MS sells a fair bit of long-term policies. Long-term policies are those where the tenure of the policy is beyond one year. These essentially come in, in the bundled, credit linked personal accidents and some health policies which do not extend beyond the period of five years, which is the IRDAI norms. In the case of dwellings, until March 21, the dwelling loans of housing finance companies went even upto 15-20 years. Our average tenure of a policy that we issued is about 12-1/2 years. Of course from April 1, with the introduction of standard products the policy that we issue is for a maximum tenure of 10 years only. We were absorbing the sourcing cost over the policy period with the approval of IRDAI and this is the practice followed by the company since FY15-16. Now, IRDAI has advised the company to absorb this cost on incurrence, meaning as we write the policy even though they are for a period of 10 years or upto five years in the case of a PA, we are to absorb this on incurrence and also absorb the opening position in the current year. The Board has requested IRDAI for absorption over two years and the benefit of these products are essentially there to come in over the next few years. The effect of this absorption would mean that we are actually absorbing cost of the future which means the cost of the next three, four years is fully taken now and the smaller portion of dwellings where we would have taken it over a period of say the next 10 years is also getting absorbed now.

Prateek Poddar: And sir the number which you called out, I think it is around 60 odd crores if I am not wrong, that is the opening position which has been absorbed?

Venugopalan: The opening pre-paid element was 325 crores, one fourth of that we have absorbed in the Q1, that's what Mr. Sridharan also said in the opening remarks.

Prateek Poddar: Got it, this is really helpful. And lastly just to get to normalized level of profitability in this quarter because our COVID claims because of the COVID specific policy which we sold, like this IRDAI again saying that opening instruction has to be done, if I were to add those two numbers, that is the way I should think about sir, normalized level of profitability right? Is that the correct understanding?

Suryanarayanan: Prateek on the cost side it is fine but you should also consider the fact that the lockdown also brought in some benefits out of other lines. The Motor OD , the motor third party and in health to the extent of deferment in elective health treatments. The company has stayed conservative when it comes to the Motor third party related benefits of lockdown. These will get recognized over a period during the year.

Sridharan: And I want to add, this is also helpful in a sense because the future costs is absorbed up front which means the future profitability could be better because these costs have taken one-time hit here.

Prateek Poddar: That is why I was asking for the normalized level. And sir….

Sridharan: Normalized level as you know could be in the range of 600 to 650 crores of profit before tax.

Prateek Poddar: Got it, yeah and your action plan on this 325 crores one fourth has been absorbed in this quarter. Do you plan to absorb everything this financial year?

Sridharan: That is what is the current direction. As Suri said that we have appealed to IRDAI to consider over two years.

Prateek Poddar: Okay and what does this do to us (not clear) let's say if you were to absorb this incremental around 270, 260 odd crores in this financial year, do you think that this could further impact your solvency or solvency might remain where it is. I know it is a dynamic situation but…..

Sridharan: We did consider this and I think we believe could be 1.7 to 1.8 at the end of the year, even if we have to absorb for the full year considering all the pluses and minuses that we could look at it.

Prateek Poddar: Okay and I just wanted to ask you, your thoughts. Last three, four years we have had so many external events from crop to DHFL going out to investment in the provision book and then this COVID specific policies which we sold. Are we over it now? And this one off again comes up where IRDAI again tells you to absorb the 325 crores in a year, I am just trying to understand is this the last and from here on there should be no hiccup in terms of any run off events….? So we should analyze the level of profitability which inherently you are doing but obviously we cannot see because of these one offs.

Suryanarayanan: I think your observation is bang on. I think to the extent that we know of, all challenges that we faced in the last three years from investment to some of these specific challenges in long-term policies and of course COVID is common to all.

So all these elements are being dealt with and with normalcy getting restored we are behind all of this.

Okay, I have more questions but I will get back in the question queue. Thank you so much sir.

Moderator: Thank you sir. Ladies and gentlemen if you have a question, please press * and 1 on your telephone keypad.

Next we have a follow up question from Mr. Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: One small correction, I am from Nippon India Mutual Fund. Just a couple of things, one is if you can also help us understand, I mean you are doing this, but just on the diversification strategy within Motors and also your overall GWP where you wanted to get the share of Long term policies just some color over there and how are we proceeding over there?

Suryanarayanan: So on the motor part, It is also there in the presentation but let me take you through. As at the end of quarter one, we have taken the share of two-wheelers to about 20%, cars is about 29% and tractors and construction equipments are at about 9% which means that the share of commercial vehicles has come down to 42% at the end of quarter one. While with pick up in commercial vehicles, the balance may slightly change towards CVs, but then we are clearly looking at a surge in both cars and two wheelers. In two-wheelers in fact our market share in new two wheelers for the quarter was over 9% and now that the numbers for July are also in, we crossed the 10% mark. Two wheelers Quarter to corresponding quarter growth is at about 70%. The car portfolio is also grown by about 34% in this quarter over the corresponding quarter. So clearly the direction is in balancing and moving the portfolio to a more diversified nature. In the quarter we have also entered the OEM panels of Hero which as we all know is the largest two-wheeler manufacturer. We have also got into the panel of Nissan Renault where we are likely to replace Bharti AXA following their merger into ICICI Lombard. This is the position with respect to Motor. The fact about health is naturally this is a large area for growth. We would tend to think where our total volumes from health would be in the range of about 14% to 15% by the end of the year because Motor will continue to be a strong engine of growth. Please also understand that we are growing strongly in the commercial and the SME segments. While the rate of growth will be larger, the proportion in terms of the overall pie for health for this year we would expect it to land at around 14% to 15%.

Prateek Poddar: Got it. Just on combined ratio sir, there is no disclosure with as regards to loss ratio segment wise….maybe if you can help me with that? How much would the health, Motor OD, Motor TP, that would be helpful.

Venugopalan: We have provided this in the presentation part. If you look at it in comparison to the industry for the last year March 21 you can easily find the same. The LR for health segment includes the COVID losses which impacted heavily the health segment. If you look at the CoR position as at March 21 position, on LR side, we are best in the industry from the point of view of the Motor OD, we are still market leaders on that. But for the COVID losses we are again leaders in the health segment. You can find that we are leaders in the PA in terms of LR. But from the point of view of the Motor TP, this all depends on the level of reserving adequacy levels across the industry. We are comparable to many of the players. Our reserves are conservative compared to other players in the market. Health is impacted by the COVID losses in the last year. Fire, again comparing to FY21 March, we are best in the industry at 33%. Overall loss ratio was at 72.4%. It has got both plus and minus here. One is about the health, where the COVID losses impacted adversely which was around 5% impact. If you look at the CoR, it was at 109% in the last year, this includes 5% level of the COVID losses, otherwise it would have been 104. Our ambition for the next year would be around 103.

Prateek Poddar: This 103 is basis what? Is it basis on EDA guidelines or NEP?

Venugopalan: We are talking about NEP method.

Prateek Poddar: Okay if I were to see, you have talked about 120% COR, if I were to assume the two one offs that you have which is the COVID as well as the different acquisition. Your true COR this quarter would be roughly 97%, is that a fair understanding sir?

Venugopalan: Yes if you eliminate both COVID as well as on the element of acquisition cost it would come to that position mathematically.

Suryanarayanan: But Prateek you also have to consider that there were some benefits by way of lower claims which will come back in the ensuing quarters.

Prateek Poddar: Got it. And broadly sir from a COR perspective, given that the growth which we are envisaging and the mix diversification, how should I think about the combined ratios in the next two, three years will it drift downwards or it would remain stable?

Suryanarayanan: It depends on a few factors such as what kind of Motor third party pricing improvement the industry is able to secure from the government over the ensuing years. Let's recognize the fact that medical inflation is there. Therefore any injury arising out of a Motor accident means a higher pay out. Likewise, the minimum wage has been increased by most states, keeping pace with inflation and these are bound to increase the compensation provided for Motor accidents victims. While this is the cost push side, the industry badly needs a price correction which has not happened for the last two years. The last price correction happened in June 2019. It is unlikely that there will be any further increase in the current year. So April 22 is what we are looking at and that is absolutely essential to balance out any cost push. So that is factor one. Factor two obviously in Motor is the level of premium price discounts that is visible in the market, which has been going up. While there are some respites coming in because of lockdown to help claims ratios, but then they will again re-surface and go up. This is again an industry issue arising out of competition which is there. Factor three is, the health pricing itself. All players have lost heavily over the last one year not just on account of COVID products but also on the normal products. So this pricing correction is something which all insurers have taken up with the regulator and not stick to the mandatory once in a three-year revision. All these are critical for the shaping of the COR of the industry.

Prateek Poddar: Understood. So basis these three if they were to fall in line and I am assuming the level of price discounts on the Motor side or something which is industry specific, but the other two, there is a reasonable probability of going through, assuming how should I then think about COR, will it go downwards or you expect it to remain stable?

Suryanarayanan: And there is a fourth one Prateek, which is the Motor Vehicle Amendment Act itself. It was passed way back but has not been given effect until now. So that can also bring in and partly offset the price and inflation related impact on the Motor TP. So I think two, three items are with the govt / regulator and one is amongst us insurers which is the premium discounting. So, I suppose some sense will prevail and even as investors like you press for an acceptable COR, I think good sense will prevail on all of us.

Prateek Poddar: Great sir, I will jump back into the queue. Thanks.

Moderator: Thank you sir. The next question comes from Sanket Godha from Spark Capital Advisors. Please go ahead.

Sanket Godha: Thanks for the opportunity. Sir, you gave product wise claims for this full year but if you can provide the same for the first quarter, it would be great sir. If you can breakdown the Motor OD, Motor TP, Health, Fire loss ratios for the quarter it would be great. That's my first question. The second question was just to understand that in the PPT you mentioned the 146 crores was impact and in the (not clear) you said it is 197 crores. So I just wanted to understand the difference. Is it largely because of the IBNR what you have provided with respect to COVID, the difference is between these two numbers? I have a couple of more questions, after you answer this I will ask.

Venugopalan: Sanket, actually the public disclosure which I said will be published shortly, which will cover the segmental loss ratios, which you can see on the website itself once uploaded. With regard to Rs. 146 crores it includes only Covid specific product losses and what I mentioned of Rs.197 is COVID includes both specific product claims of Rs.146 crs plus another 50 crores in terms of the non-COVID product. So, this is the difference between 146 and 196.

Sanket Godha: Okay sir, 197 you have IBNR provision….?

Venugopalan: Yes it includes IBNR.

Sanket Godha: How much is that number sir? Just to analyze any impact if it is going to come how much can we absorb or (not clear) coming from?

Sridharan: I think this is overall Sanket, you will understand that complete disclosure may not be completely possible.

Venugopalan: One assurance is we have sufficient level of IBNR provided in the books towards the COVID claims.

Sanket Godha: Okay sir. Sir you had said that COVID policy till June covered 80% of the policy for the household, so 20% are left over till August month. So given we are in the first week of August, if you can give the experience of July and August with respect to COVID brings with this policy, is there any significant shift coming from those policies or we believe the last part is absorbed in the Q1 itself?

Suryanarayanan: Sanket, it's been trickling down very clearly. We are not seeing the counts that we saw in month of May and June and what we are seeing even in the month of July is not out of any fresh infections but largely out of delayed intimations arising from the lag in intimations. I mentioned earlier in the call that 80% of the exposures are getting over by August and July had about 65% exposures going down by end of July. Where we are coming from is that the policy itself is not live for any new intimations to come in. That is where we see the positivity there. We are fairly certain that we should not have a similar kind of shock in Q2.

Sanket Godha: Got it sir. Sir can you give me the number of advance premium what you have collected because the two-wheeler component has become very healthy right now around 60 odd percentage. So I just wanted to understand what is the kind of advance premium number to our total investment book or if you can (not clear)?

Suryanarayanan: In the quarter we collected about 110 crores of advance premium largely from the Motor and as at the quarter end what we are carrying is about 944 crores.

Sanket Godha: Okay sir, great. One more thing on distribution. I was finding it difficult to reconcile the number because you have given the distribution mix in two different ways in the presentation. In one slide you spoke about bank contributing 19, corporate agents contributing 6.8 and absolute corporate agents contributing 32.3, and in another thing you have given different set of numbers. It is difficult to reconcile both. If you can give a clarification there it will be helpful sir.

Suryanarayanan: The corporate agent captive refers to business from Chola Express outlets, Cholamandalam Finance and the retail stores of Coromandel Fertilizers. The corporate agents represent the other NBFC corporate agents and banks are shown separately - all the public sector banks are corporate agents; for the purpose of classification we have shown it as banks.

Sanket Godha: Sir if you look at the page number 32, you've said captive channel, that is Chola, Coromandel and CIE put together is 32.3%. In the previous slide we have mentioned that it is CA captive which also has Chola Finance, Coromandel and CIE put together as 18.2….sorry, my mistake. Can you just tell me what is Indus Ind Bank right now out of the total bank of 19% sir?

Sridharan: Sanket may I suggest that we will explain to you separately to understand because we are not able to get your point properly, but we will clarify to you.

Sanket Godha: I will take it offline sir. But if you can just mention Indus Ind Bank contribution, that will be helpful sir.

Suryanarayanan: Indus Ind Bank contribution for the quarter was lower , it is 11% to 12% as of now.

Sanket Godha: Okay thank you. That's it from me sir.

Management: Thank you.

Moderator: Thank you sir. The next question comes from Devansh Nigotia from Securities Investment Management. Please go ahead.

Devansh Nigotia: Sir thanks for the opportunity and thanks a lot for hosting the call. Sir just going ahead if we can host the call after public disclosure it will be really helpful, then we will have all the data and we can ask more accurate question. My first question is regarding the deferred acquisition the call that had been there in this quarter; just a re-clarification, so does that mean that the current balance is 270 crores and based on IRDAI's guideline this will be booked in the two years? This year and the next year?

Suryanarayanan: That direction as of now is to absorb it in the current year. The Board has represented to IRDAI to permit an absorption over two financial years. As it stands, it is for one year.

Devansh Nigotia: Okay and within Health and Fire insurance, if you can help us with the mix of the attachment products which are sold through home loans and if you can also elaborate on our current relationship with top housing finance banks or companies, and are we looking to increase the tie ups further or not? And in case of public sector branches, that is trending downwards from 42000 to 37000 to 32000. So what exactly is happening in our relationship with these banks in India because these are good source for these profitable Health and Fire products?

Suryanarayanan: Yeah, so let me take that portion first. All the banks consequent to the merger are also pruning down the count of branches. They are merging branches, so that is the driver. Union Bank has done it, Indian Bank has done it, Bank of Baroda has done it and Punjab National Bank has done it. This of course has no bearing on the business front because the business is still there because it just got combined into one outlet that is all. Coming to the second question on the housing finance part that you raised, presently we have channels such as Mahindra Rural Housing, Aptus which is coming with an IPO, we are the insurers. We do have business coming in from all the public sector banks perhaps on all their dwelling businesses and we are in discussion with a few more partners for increasing the business on the dwellings portfolio.

Devansh Nigotia: Okay and in case if we have to understand the strength of our relationship with these PSU banks or other private banks or NBFCs let's say in case of….if you can give a direction on the kind of wallet share we have with them, if there are any kind of exclusive relationship with any of them, so some direction there would really help.

Suryanarayanan: All these for example, the largest relationship is with the Bank of Baroda where on the non-life side we share space with TATA AIG and with the PSU. Our market share in BOB is about 58.

Devansh Nigotia: Okay.

Suryanarayanan: In Union Bank we share space with Bajaj and a PSU. So there we are trailing Bajaj but we are the number two. In PNB, of course P&B consequent to the merger of banks, presently they have four players. Then this will get converged to three by April 1, 2022. Suffice to say that there again we are doing well. There again the difference between us and Bajaj amongst the three private sector players, we are number two; trailing Bajaj by about 3% to 4%.

Devansh Nigotia: Okay and if you can share the mix of the attachment products in Health and Fire Insurance please? On TTN basis or what is there currently?

Suryanarayanan: This is on an overall basis you are saying….?

Devansh Nigotia: On Health I think you have just shared. You can share for Fire Insurance, what is the mix of the one which we sold through the agency network and the one which are bundled with the home loan.

Suryanarayanan: I mentioned earlier in the call that this proportion at the end of quarter one is 44:56.

Devansh Nigotia: But that was for only Health Insurance? Or is it for both of them?

Suryanarayanan: In retail agency's Health, it is all indemnity only. There is no benefit product that is getting sold in the agency side. It is all indemnity. The benefit products come in where it is bundled. It could be a critical illness benefit, it could be a hospital care related benefit, so these are the products, but they come in more where we bundle it with the financiers. In most of these public sector bank and others, it is all indemnity policies that are getting sold.

Devansh Nigotia: Okay and in case of Health Insurance, if you can elaborate on the type of the products that we are selling. In the Annual Report you have highlighted a lot of things on new product launches. You know what is the value propositions we are giving because now a lot of players find this segment very attractive, very profitable, sticky customer and this is also a very high focused segment so if you can just give some soft points on how we are doing this business, that will be really helpful.

Suryanarayanan: As I had mentioned even in the earlier calls, we are looking at promoting and selling Health out of the Chola Insurance Express outlets. We have over 58000 point of sales persons operating with respect to Motor business out of the Chola Insurance Express outlets. And then Health specific POSPs we have a base of now about 11500 plus POSPs. We added about 1800 POSPs who are focused only on Health during the quarter. On the product front, we are diversifying and a few product approvals have come. we have the main products now. The flank products also should be in place over the next couple of months.

Devansh Nigotia: Okay and in case of…when we are looking at our cost structure, in case of OPEX, there is this sudden publicity expense which used to be around 55, 56 crores five years back, then it scaled upto 225, 230 crores, and then it has been at that level. So if you can help us understand what is the channel mix of advertising that we are doing and which segment are these advertisements focused on and are there any promotion or commission expenses clubbed here? There has been many manifold increase in this expense, so if you can just throw some light on it?

Sridharan: I would suggest that these are things that the management takes appropriate call considering many factors. I think it will be difficult to discuss this in threadbare without proper data in front of you as well as us. I would stick to the broad financial performance of the company.

Devansh Nigotia: Sir these are data from public disclosures only which…

Sridharan: Whatever is available we will disclose but you are asking many mixes within that and it is going to be very difficult to disclose that.

Devansh Nigotia: Okay, in case of….there is also one item outsourcing expense which was 65 crores in March 18^{th} and has become 255 crores in March 21, so is it related to some specific channel that has cleaned up this expense? What is the nature of this expense and what are the benefits which you are seeing from this expense?

Venugopalan: Outsourcing is mainly a man power related consumption from the outsource agency, that's the main constitution of that. If you look at it three years back and now, the retail segment has grown widely and at each of the partners level we need frontline people to handle those things. It purely represents the growth in the man power consumption of our serving the frontend sales.

Devansh Nigotia: So this is the kiosk scale up that we have done in the last three years? Are these expense relating to that?

Venugopalan: It is not only related to the kiosk part of it, it is also for other partners. So over the years the retail growth, you will have to take into account the growth in the number of policies and retail business and to serve them you need local level frontline people.

Devansh Nigotia: Okay and then the investment book if you can just highlight what are the write backs that you are expecting this year or next year?

Venu Gopalan: We are not expecting any additional provision requirement. In respect of write back of provisions relating to DHFL, you know that their resolution plan is approved by the NCLT. Once Piramal started implementing the resolution plan, the write back is clearly there as a part of recovery. We have provided 76%, and recovery is expected around 41% and hence remaining 35% around on the exposure can be written back depending upon the resolution plan execution. We are waiting for the resolution plan execution. Even in Reliance Home also is a part of the resolution plan is on the way. So these two are the immediate level of the resolution plan that can be expected as a part in future.

Devansh Nigotia: Okay.

Moderator: Sorry to interrupt you Mr.Devansh. You can join back the queue for further questions. Next question comes from Keshav Binani from Axis Capital. Please go ahead.

Keshav Binani: Yeah, hi, most of my questions are answered. A couple of data keeping questions. Can you give me the net return premium number for the quarter?

Sridharan: The net return premium is also given which is Rs.663 crores.

Keshav Binani: Sure. Second is this 325 crores of activation cost upfronted, can you give me a break up across borders? How much for activation cost for Fire or property and other segments?

Venugopalan: Its all spreading across the long-term policies what Mr. Suryanarayanan mentioned earlier mainly on dwelling, health and PA.

Keshav Binani: Okay. Further harping on this question, as long as you are growing and you want to grow this business; next year also you will write policies for ten years, twelve years, won't it lead to a sustainable long-term increase in our OPEX ratio, specially on the Fire and how much you estimate on the whole book the impact of this if you have to upfront?

Venugopalan: Though not deferring would impact the revenue mismatch as it is regulatory direction, we need to comply. By absorbing the full cost, it would impact the OPEX ratio.

Keshav Binani: So this statement if I put it the other way to ask this question, if 325 crores bars off business that you wrote in the last three years, so yes, how many can you quantify so we get to know what is the impact of one year cost which you have to up front from next year onwards?

Venugopalan: So it may be that 80% of it would have been absorbed in the five years and the remaining 20% may be beyond 5 years.

Keshav Binani: Okay sir. So 80% is logged into initial five years and 20% you are saying (voice break). So probably 12 here. Is my understanding correct sir?

Venugopalan: Yeah, correct.

Keshav Binani: So last question is on solvency. You have articulated earlier that our threshold is sometime at 1.7, 1.8 and you know given this is where we are, any plans to raise capital?

Sridharan: I think we see what we have is adequate for the growth, growth is not constrained by this, but as and when we think it is required, I think both the investors are prepared to raise and should not have a constraint on that.

Keshav Binani: Okay. Lastly this 41.2%, can you give me a break up of commission and OPEX separately?

Management: The acquisition cost as per financial segment as I mentioned early, that is the part that will belong to that and the remaining goes to the OEM.

Management: That is for last year.

Keshav Binani: Exactly. On slide 72, so this 41.2%, that number is there. I was asking a break up of that, if that is available with you.

Management: I think right now it is not available I think we will work it out.

Keshav Binani: Sure thanks. That's it from my side.

Moderator: Thank you sir. The next question comes from Vipul Shah from Sumangal Investment. Please go ahead.

Vipul Shah: Hi sir, what is the average yield on our investments?

Venu Gopalan: 6.34 out of normal yield in the business and 25 basis points not annualized coming in out of the gains.

Vipul Shah: Okay and sir any demands during this, (not sure) General Insuarance…?

Management: Could you repeat your question please?

Vipul Shah: Any plan to list General Insurance business in the near future sir?

Sridharan: As of now we don't have a particular plan. We are not constrained by anything at this point in time but as and when appropriate, I think when we have the size and probably some guidance from the regulatory authorities, we will definitely take a call on that.

Vipul Shah: Thank you sir.

Moderator: Thank you sir. Next we have a follow up question from Mr. Prateek Poddar from ICICI comes from Prateek Poddara from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Correction, this is Prateek Poddar from Nippon India Mutual Funds. Sir the 325 crores which you take up front, what kind of benefits do you get? What's the average life over which the 325 crores had the regulation act come in were you to defer it or recognize it?

Venugopalan: We said in our earlier question actually that Rs. 325 crores consists of 80% of the cost would have been taken as amortization in five years and 20% above 5 years. This is what we said. So that is the constitution depending on the life of the policies in respective lines.

Prateek Poddar: That's like 52 crores a year right because 325 crores; 80% of 325 crores is 60, if I divide it by 5 years, it's like 50 crores per year.

Venugopalan: Yeah around that but I am saying overall basis maybe 50 to 60 crores.

Prateek Poddar: This will help you absorb the front ending which is now required by IRDAI. So incrementally if you ride this policy this 52 crores benefit which comes …..okay great.

Sridharan: It is kind of good start, because one way you are taking it up front. The benefit will come over the years and it only depends on the number of new policies going up to that extent there could be an impact. Otherwise mostly it should be a kind of setoff between the benefit and the fresh business cost.

Prateek Poddar: This would be a gain right in the coming years because you…

Venugopalan: It could be a gain depending on the kind of number policies that you will write going forward.

Prateek Poddar: Yeah, but I am assuming this stock of policies versus the incremental policies…the stock of policies will always be greater right? So versus that ratio, the incremental policies would be lower and hence the front end absorption cost can easily get absorbed in this 52 crores benefit which you are getting in the ensuing years.

Venugopalan: You are right, yes.

Prateek Poddar: Okay and sir if I see, given the mix of Motor GWT, in one of your slides others as a segment had substantially ramped up this quarter. This is slide 52, this slide about financial segment going down….what is this other segment sir? Slide 57 sorry. Volume sustained by stretch in financial partners, I see a substantial ramp up in others from FY21 to quarter one FY22.

Management: We are just trying to get slide…70?

Prateek Poddar: 57, the number is 57. The number of PPT slide is 57.

Management: Just a second we are taking it. This is "volume sustained despite…"

Prateek Poddar: Yeah. I see "others" as a segment over FY21 from 11-1/2 it has become 19. I just wanted to ask you what does the others constitute? What does this others mean basic?

Suryanarayanan: the others constitute the retail broking segment

Prateek Poddar: What is this segment, retail broking on the vehicle side? I didn't understand this….

Suryanarayanan: That is the direction that the business industry is taking with brokers who traditionally have focused on commercial lines, setting up teams to promote motor businesses on the POSP route. We are seeing a good level of business growth for these channels. The trend is for the volumes going up for all retail brokers.

Prateek Poddar: Got it. And sir slide 66, you mentioned on the tech enabler introduced Phoenix as a new micro service based platform for transaction, web scale and speed. Can you help me understand what is this new Phoenix platform?

Suryanarayanan: This is with our growth in our two-wheeler platforms where the volume ramp up is there. We have worked on this particular solution, which enables faster issuance of policies. It is totally on the cloud and is more a servicing feature from a point of policy issuance. It also enables many of our policy issuance and customer journeys. If you visit our website and want to buy a two-wheeler policy or a car policy, you will find the experience very different and this is all enabled through this platform.

Prateek Poddar: And (not sure) is the sale for health? Is that the way to think about it? For the health side also it is only the phoenix platform helps you?

Suryanarayanan: Exactly. Health of course is a different platform. It operates in a very similar fashion where the policy is issued on the fly and it has its own rule engines facilitating tele underwriting, medical underwriting.

Prateek Poddar: Got it.

Moderator: Thank you Prateek sir. Ladies and gentlemen that would be the last question for the day. Now, I handover the floor to the management for closing comments.

Sridharan Rangarajan: Thanks for your participation. I think we took note of some of your comments. We will improve upon in the next calls to come and share more details to the extent possible. I think one thing what we can tell, in summary is most of the challenging parts issues that the insurance is kind of coming to an end and we have kind of taken care of all the issues in our results and what we have considered and shared the details cover most of it. Hence, going forward we should look forward to a better performance on a normalized basis. This is what we stressed in today's call. We expect hopefully that the third wave either does not come or is milder. We can't predict those, but for that, we feel the outcome of the future quarters and perhaps the next year could be far better. So with that I think we thank all of you. Please be safe and be healthy. Thank you.

Moderator: Thank you sir. Ladies and gentlemen this concludes the conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good pleasant day.

Note:
1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.