# "Cholamandalam Financial Holdings Q2 FY-24 Earnings Conference Call"

**November 16, 2023**

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**MODERATOR:** **MR. SANKET CHHEDA – DAM CAPITAL ADVISORS LIMTIED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Cholamandalam Financial Holdings earnings Call Q2 FY24 call 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 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 Mr. Sanket Chheda from DAM Capital. Thank you and over to you sir.

**Sanket Chheda:** Hello and very good morning to all of you. We have with us the entire Management Team of Cholamandalam Holdings today to discuss their Q2 FY24 Results. From the Management side we have Mr. Sridharan Rangarajan – who is Non-Executive Director, Mr. N. Ganesh – who is Manager and Chief Financial Officer, Mr. V. Suryanarayanan – who is a Managing Director of MS General Insurance and Mr. S. Venugopal – who is a Chief Financial Officer of MS General Insurance.

Without further ado I'll hand the call over to management for their opening remarks followed by Q&A that we can take. Over to you sir.

**Sridharan Rangarajan:** Thank you good morning to all of you. A very Happy Diwali and an advanced Happy New Year to all of you and Merry Christmas. I have today with me Mr. Suryanarayanan; our MD and Mr. Venugopalan; our CFO and Ganesh; CFO of the company with me to talk to you and address all your questions.

Chola Financial Holdings received the final dividend for FY23 in this quarter. The total income for the quarter was 29 crores against 28 crores in the corresponding quarter last year. The key highlights on Cholamandalam Finance were very well covered in the call hosted by them as well as the investor presentation they posted. I think one of the key highlights is CIFCL launched a composite QIP. They issued 2,000 crores at a price of Rs. 1,180 per share and a compulsory convertible debenture of 2,000 crores, overall aggregating to 4,000 crores. The funds from the investors were received on the first week of October 23 and the allotment was completed on 5th of October and thereby the capital adequacy which was at 16.62 as of 30th September '23 moved to 20% effective from 5th of October.

I would request Suryanarayanan to cover Chola Insurance Performance and then we'll open up for Q&A.

**V. Suryanarayanan:** Good morning and my festive greetings to all of you. I shall now proceed to give you a brief overview of the performance of Chola MS for the quarter and the half year.

In Quarter 2, Chola MS recorded a gross direct premium of 1,989 crores with a growth rate of 35% as against the multiline insurance growth of 25%. The gross direct premium includes Rs. 290 crores of crop insurance premium taking the organic growth from other lines of business at about 15.3%. The expenses of management for Chola MS were 29.6% in Q2 as against 35.7 in the corresponding quarter of the previous year, which is a reduction of 6.1%. The claims ratio for the quarter was 73.84 as against 72.5 in the corresponding quarter of the previous year. The Quarter 2 claims also includes the crop related claims provisioning and an increase contributed by about 1.1% from Cyclone and NATCAT event claims.

The combined ratio for the quarter was **108.27%** as against 112.39% in the corresponding quarter of the previous year. At the half-year level Chola MS has recorded a growth of 32.8% helping its market share to claim to 2.98% against multiline insurers. The company has grown across all its channels. In its captive channels business from the sister company and the insurance express outlets, our volumes grew by about 23.3%, bank assurance grew by about 6% and growth of 29.7% from other channels. Chola MS Investment portfolio corpus as of September was 15,649 crores and with an investment income of 538 crores for the half year. With no exposure to stressed assets, recoveries from the fully provided exposures in erstwhile stressed assets such as ILFS and Reliance would be recognized on a cash basis as and when it happens. The PBT for the half year was 219 crores as against 98 crores in the corresponding half year. The ROE for the half year annualized has progressed to 14.61%.

We'll now be happy to take any questions that you may have.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanketh Ghoda from Avendus Spark.

**Sanketh Ghoda:** I have a few questions basically. In the previous call you said that crop we would be expecting to doing around 500 crores but we have done 290 crores, and first half is typically very strong in crop insurance. So, the target of 500 crores could be achieved or this is the number what we are looking for the full year. That's my first question. Then maybe I can ask subsequent questions.

**V. Suryanarayanan:** So, in crop insurance of course you are right that the first half is much stronger in terms of volume. I would tend to peg the overall volumes for the year at somewhere around 450 crores.

**Sanketh Ghoda:** And the 103 combined what you reported maybe is largely provision. So, you expect it to come down below 100 or closer to 100 kind of a number. Because we just wanted to understand given, we have returned largely in that 80% to 110% corridor, can we expect it to improve or it to be on similar lines for the full year?

**V. Suryanarayanan:** One, we do have reinsurance protection in excess of 100 and 103 reflects the reinsurance protection cost. So, our estimate is that it cannot worsen from this level.

**Sanketh Ghoda:** Second question is on health insurance. Honestly for me these numbers are a little concerning because your health loss ratio if you see, it is still 85%. There was a time before COVID times we used to write this business at less than 60% loss ratio. But now though it has improved from COVID times but 85 seems to be still on the higher side. And given we have a decent exposure to benefit-based health which should pull down the entire loss ratio. Just wanted to understand why the numbers are still relatively elevated compared to ideally it should be. Related to it, if you can give the breakup of health broken down into benefit-based group indemnity and retail health.

**V. Suryanarayanan:** Yes, we have been saying Chola MS still is not so aggressive in the group health employer employee. While we have grown, I think in the industry we are probably the second lowest in terms of the group health employer-employee volumes. So, there is no fundamental shift in our standard towards employer-employee group health. Our health in retail health mix is about 58% indemnity now and 42% benefit which has been more or less the same. Maybe the benefit was slightly higher at about 50-52 earlier. Now it's come down to about 42%-43% currently. In the indemnity health, you are right in that some of the especially the public sector bank portfolios have behaved quite differently in this quarter. So, we have been pursuing another round of price change which is under discussion. So, we should hopefully be able to push them through in the current quarter.

**Sanketh Ghoda:** With this 42% as benefit base, ideally, we would like to have it below 70 as a loss ratio. Just wondering after price hike, can we expect maybe not current year, next year to have single kind of a loss ratio in health or it will remain—your comfort zone is 80 or you expect it to go—below 80?

**V. Suryanarayanan:** We would certainly expect the LR to come down to the combination of two factors, both arising out of the price correction in the indemnity side as well as volume increase in the benefit side. So together, we do expect that the overall blended LR should come down.

**Sanketh Ghoda:** Two more questions; on solvency now, it has come to 189%. Honestly the growth has been very strong, probably higher than your ROEs what you deliver, so it has consumed your capital. Just wondering given it is 189, any way to manage the solvency or you intend if you sustain the current growth ex of COP which is around 22 for the half, then any plans to infuse capital to sustain growth or how you are thinking on these lines?

**V. Suryanarayanan:** See, you are aware Sanket that when push comes to show, we do have the option of augmenting to Tier II capital. So, the revised norms give us some more headroom by which we can certainly rise without disturbing the equity capital structure. So, I think at an appropriate time, the board may consider relevant measures based on our own business plans.

**Sanketh Ghoda:** On EOM, you highlighted in your initial remarks that EoM came below 30% but largely it happened maybe because you did a decent amount of crop in the current quarter as a mix. But naturally crop contribution for the second half would be lower so that EoM of 30% can be still achieved for the full year or it's more on FY25 target to achieve an UIM below 50%.

**V. Suryanarayanan:** What I would like to say is that we are doing better compared to our commitment to the board as well as to the regulator. You are right in that the crop has given us advantage in terms of a lower EoM and with a lower government business in H2, we could see the EoM rise from the current level, but you will still see a reduction from the previous year's level. At this point I would only like to say that we are committed to converge to the guidance that we have given both to our board as well as to the regulator.

**Sanketh Ghoda:** You have combined these 110.5 for the half, just wanted to understand that if it is expected because I think you gave a guidance at the start of the year to be closer to 105-106 kind of a number. You delivered much better number in fourth quarter last year. Just wondering this number how do we see it will be driven by better loss ratio from the current levels or you expect the expense ratios to improve ultimately, and we can get closer to this thing? And honestly this question I'm asking because we don't have motor TP price hike there is a possibility that motor TP price hike might not be the next year for sure because it's an election year. Just your thoughts on how combined will move considering these points.

**V. Suryanarayanan:** You would have noticed that Chola MS reports a motor TP loss ratio which is fairly secular across the quarters. We do not have any volatility in motor TP provisioning between the quarters. We take the annual view and then keep providing for it through the period. So that's been our methodology over the years followed quite consistently. On the COR you will find that even at the half years level so about 1.2% or so is the impact of the NATCAT events while these are expected in the insurance business, but still you could consider it as an exceptional kind of a charge that has come in the current year. If I remember right, we had only given a guidance of somewhere around 107, not 105-106 as you mentioned, and I think we are probably still it's possible in the current year.

**Sanketh Ghoda:** Next year given the price hike might not be there for the next….

**V. Suryanarayanan:** This industry is such a fluid situation where things keep changing. I think we wouldn't hazard to give any indication of COR for next year and thereafter. But the point that you mentioned on motor third party is quite valid. The industry has received a very paltry correction over the last 4 years and it's perhaps a pressing need now for some correction to happen at the earliest.

**Moderator:** The next question is from the line of Nitesh, who's from Investec.

**Nitesh:** In the motor own damage segment our loss ratios are around 73%-74%. My belief is that the sort of loss ratio this will be a very low ROE or negative ROE business for us. So how are we thinking about this line of business and what are the desired level of loss ratio in this segment for us?

**V. Suryanarayanan:** If you look at page 54 of the presentation deck where we have shown the, you will see that the motor OD LR—I will answer it in two parts, first the motor own damage section and the motor TP section—the own damage section you will notice even the footnote that from a Q1 level of 74.9, it's come down to 72.7 in Q2. Even if you look at the previous years from a H1 level of 73 it came down to 71.7 by the end of the year. So generally, we have seen that the H2 motor OD LRs lower and we see that pattern going that way for the current year. So, motor OD loss ratios - one can say that on a steady state basis, one can reasonably expect it to be about 67-68 is what one can expect. On TP I just answered to the previous question of Sanketh explaining the situation, until we see the price increase really happening, we can't see a LR lower than current levels. It's going to be very difficult to manage the LR below that. On the ROE from motor, you will find that it is motor which gives the investment corpus accretion, and one will have to really look at it from that perspective on what kind of investment income is generated from the corpus coming from the motor business. The business model of motor depends on investment corpus and in terms of its overall economic cost should be determined.

**Nitesh:** There the investment book is largely coming from motor third party, so I was just referring to motor own damage segment where the LRs are reasonably high, and float is also much lower. And hence at the current level it may not be a very profitable business on a standalone basis. But yes, the point will be taken. And the second is if you can share the mix of motor business in terms of two-wheeler, cars and private cars and commercial vehicles.

**V. Suryanarayanan:** At this point in time, we have a private car mix which is running at about 41%-42% and then there in page #56. So, you will find that the cars is at about 41.5%, commercial vehicles is almost equisized at about similar percentage and two-wheelers is at about 17%. You will find that the festival season is largely its skew, and you will find the two-wheeler inching up perhaps to about 18%-18.5% by end of the year. But this is more likely to be the composition. So, what you will see is over a period of time now the weight on commercial vehicles has now come down to about around the mid-40s and the rest is cars and two-wheelers. But given our channel mix, our own sister company association and otherwise, we expect this mix to more or less stay at this level, maybe plus another two percentage points this way that way.

**Nitesh:** And lastly any comment on the competitive intensity in the private car segment? How the competitive environment in terms of pricing and payouts?

**V. Suryanarayanan:** Competitive intensity is always there in the Indian market. What we are seeing is that some players are behaving very sensibly given the higher loss ratios. Accordingly, the pricing and payout has been tweaked. We have also gone down that path and which is why you see some of the EoM costs coming down even bereft of crop we have seen a reduction in the UIM largely because we have toned down what we pay out in the market. So that much is there, and which has a direct effect on the growth. If you look at the growth rate in motor of different players and related to the industry, you will get an idea. For us the motor volume growth in Q2 was 13.5%.

The industry growth was 13.9%. So, we are just keeping pace with the industry growth. Not really wanting to be aggressive in a highly competitive environment.

**Moderator:** The next question is from the line of Anand from Whiteoak.

**Anand:** I just wish to understand of the vehicles that CIFC finances, what is our market share in the insurance that would be purchased by those vehicles and how has that number been trending over last few years?

**V. Suryanarayanan:** See, you would notice that in the motor space Chola MS has almost 5.4%-5.5% market share and it is well diversified while CIFCL is a large component. But our channels are really wide in terms of our agency's presence, our own Chola Insurance Express outlets, the OEM business, the other financial business. As we have disclosed somewhere, our overall volume from CIFCL is roughly about 10% of the overall top line and that's not just motor it's also across multiple lines of business.

**Anand:** I was just trying to understand whether we have first right of refusal of all the loans that Chola originates and the insurance that might be commensurately purchased in that entire transaction. Do we have first right of refusal and what is our market share in the business that Chola does on the general insurance particularly the motor vehicle side?

**V. Suryanarayanan:** I have addressed this question even in one of the earlier calls, where I've clarified that when it comes to the new vehicle financing by CIFCL even their say or their hold would be limited because that business would go through the dealer network which is part of the OEM program and their ability to offer multiple options including Chola MS would be higher in a used vehicle financing and I should say that our penetration level in used vehicle is fairly good and growing.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for the closing comments.

**V. Suryanarayanan:** Thanks everyone. I think Chola MS has been growing well, over the almost last ten quarters we have had a growth higher than industry. The various pieces of the jigsaw puzzle are now quite in place. We believe the team is quite confident and optimistic about carrying this further into subsequent quarters. Thanks everyone. Thank you.

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