"TI Financial Holdings Limited Q4 FY 2018 Earnings Conference Call"

May 11, 2018

MANAGEMENT: **MR. N. SRINIVASAN -- EXECUTIVE VICE CHAIRMAN AND MANAGING DIRECTOR OF CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED**
MR. S. S. GOPALARATHNAM -- MANAGING DIRECTOR, CHOLAMANDALAM MS GENERAL INSURANCE COMPANY LIMITED
MR. D. ARUL SELVAN -- EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED
MR. S. VENUGOPALAN -- CHIEF FINANCIAL OFFICER, CHOLAMANDALAM MS GENERAL INSURANCE COMPANY LIMITED
MR. N. GANESH -- CHIEF FINANCIAL OFFICER OF TI FINANCIAL HOLDINGS LIMITED

MODERATOR: **MR. KASHYAP PUJARA -- AXIS CAPITAL LIMITED**

Moderator: Good Morning, Ladies and Gentlemen, Welcome to the TI Financial Holdings Q4 FY 2018 Earnings Conference Call hosted by Axis Capital 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. Kashyap Pujara from Axis Capital. Thank you and over to you, Sir!

Kashyap Pujara: Thank you, Lizzane. Good Morning, Everyone. Thank you so much for standing by. It is a great pleasure to have with us the management of TI Financial Holdings.

From the management side, we are represented by Mr. N. Srinivasan – who is the Executive Vice Chairman and Managing Director of Cholamandalam Investment and Finance Company Limited. We have Mr. S. S. Gopalarathnam -- who is the Managing Director of Cholamandalam MS General Insurance Company Limited. We have Mr. D. Arul Selvan -- who is the Executive Vice President and CFO of Cholamandalam Investment and Finance Company Limited. We have Mr. S. Venugopalan -- who is the CFO of Cholamandalam MS General Insurance Company Limited. And we also have Mr. N. Ganesh -- who is the CFO of TI Financial Holdings Limited.

Without taking much time. I now hand over the floor to Mr. Srinivasan. Over to you, sir.

N. Srinivasan: Thank you, Kashyap and Good Morning, Everyone. I have great pleasure in presenting the financial performance of the company for the year ended 31st March, 2018. As this is the first earning call of the company I would like to start with some background information relating to the company.

TI Financial Holdings Limited formally referred as Tube Investments of India Limited came into existence consequent to the demerger of manufacturing businesses of Tube Investments of India Limited.

Tube Investments of India Limited as you know was a manufacturing company holding investments in financial services businesses. The manufacturing businesses of the company were demerged and transferred a growing concern to another company subsequently named as Tube Investments of India Limited and the company holding investments in financial services business was rechristened as TI Financial Holdings Limited.

TIFHL is a holding company, is a core investment company under which the following three key financial sector businesses operate:

Number one, Cholamandalam Investment and Finance Company Limited engaged in non-banking financial businesses. Your Company has a 46.3% holding in the company. As you know this company shares are listed.

Cholamandalam MS General Insurance Company Limited engaged in general insurance business. Your Company holds 60% of the equity; and 40% of the equity is held by MSI of Japan. MSI is Mitsui Sumitomo Insurance Company of Japan.

The third is Cholamandalam MS Risk Services Limited engaged in risk management and environmental solution businesses. Your Company holds 49%; and the Murugappa Group holds 50% and the remaining 50% is held by Inter Risk of Japan.

Now I come to the standalone financial performance. Your Company's income consists of income by way of dividends, income from investments and royalty for brand usage.

For the year ended 31st March, 2018 the Company has made a profit before tax of Rs. 61.41 crores, after providing for a tax of Rs. 2.05 crores. The profit after tax is Rs. 59.36 crores.

The Board of Directors of Company have declared a total dividend of Rs. 1.25 per share which works out to a payout of 40% of the profit after tax and 50% of profits eligible for distribution.

As you know, this company being an NBFC, statutory reserve of 20% of PAT has to be created.

Now come to the consolidated performance. The consolidated result of the company consists of result of Cholamandalam Investment and Finance Company Limited as an associate; Cholamandalam MS General Insurance Company Limited as a subsidiary; and Cholamandalam MS Risk Services Limited as a joint venture.

At a consolidated level revenue from operations for the year ended March 31st, 2018 is Rs. 3,345.82 crores and profit after tax is Rs. 599.02 crores.

For the year ended March 2018, disbursements and profit after tax of Cholamandalam Investment and Finance Company Limited grew by about 35% over the previous year. Disbursement increased from Rs. 18,591 crores in the previous year to Rs. 25,114 crores and the profit after tax likewise increased to Rs. 974 crores from Rs. 718 crores.

In the case of Cholamandalam MS General Insurance Company, for the year ended March 31st, 2018 the company achieved a gross return premium of Rs. 4,103 crores constituting a growth of about 31% over the previous year. Profit after tax grew by about 16.6% to Rs. 243 crores.

Cholamandalam MS Risk Services, it is a small, but niche company reported a profit after tax of Rs. 2.65 crores for the year.

Me and my colleagues will be happy to answer any questions. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Given that this is the first interaction amongst investors. Could you just be able to articulate the mix of the business in terms of the current gross written premium, what is the mix of retail and the industry side and what is the mix of the auto held crop insurance, if you can just basically articulate the overall business mix?

Gopalaratnam S S: You know at a company level, we are having a mix of around 95% retail and 5% commercial business. This is largely a retail-driven company. And for the industry, the mix is approximately 65% - 35%; 65% could be retail and 35% could be commercial. Within retail motor is a very large chunk. But at a company level, motor is around 64% to the total and the balance being contributed by crop, Health, Accident and travel. So, after motor, it is a crop, after crop, it is Health, Accident, travel, we call it is as a Health group. So that is broadly the mix that we have now.

Kashyap Pujara: Okay. And from a perspective the sourcing base from retail, I do notice that we do have Chola Insurance Express and we have and we have good agency force and we have bank assurance tie-up. So if you can just articulate you know which segments will be the most prominent in terms of sourcing business? And would there be any entity which is significantly larger in terms of procurement for us?

Gopalaratnam S S: See, Chola MS has wide partnership base because we believe in multichannel distribution, we do not believe in single channel concentration which is quite a high risk for the company. So the company has got in terms of geographical presence 90 offices and 395 digital smart offices as on date. We have a multichannel distribution with eight banks under tie-up two small finance bank, five NBFCs, three housing finance companies, 11 auto OEMs, and 30,000 plus agency force. We also participate in Government programs selectively more as a need to participate and be there understand nature of the business. At the same time help us in terms of meeting the rural, social sector obligation because most of the Government programs are oriented towards them. So we, therefore, believe in multi-channel distribution, it is a very wide distribution network. Having said that the new initiative which is digital smart office, in March it happened as much as almost close to 20% of March 2018 premiums came from the digital smart office. For the full year, it is approximately around 13% and this is done through Chola Insurance Distribution Services Private Limited which is distribution company they are the corporate agent of Chola MS. So that is an emerging channel. In this channel, we have 395 towns we are present and the plan to take it around to around 650 towns by end of this year.

This channel will really contribute approximately 19% of the total for the fiscal 2018 - 2019. We are planning approximately Rs. 1,000 crores from this channel in the year 2018 - 2019. So that is a new emerging and most dominant channel. It is our own channel with a agency as a base. So it is own agents and direct sales team who are working under this channel. Of course, the second dominant channel is IndusInd Bank among the banks, among the eight banks I mentioned, they have been with us for more than 10 years and another five-year agreement is on the anvil. And they contribute approximately Rs. 800 plus crores approximately again close to 20%. But this percentage will come down eventually down to around 15% in the next two years to three years once the other channels fairly take up broadly on the distribution.

Moderator: Thank you. The next question is from the line of Vipul Shah an Individual Investor. Please go ahead.

Vipul Shah: What is our market share in the general insurance market?

Gopalaratnam S S: See, we are approximately 3.1% of the total market share.

Vipul Shah: And in management structure means Cholamandalam Group is responsible for the management, what is the input from our Japanese joint venture partner?

Gopalaratnam S S: See, as you know under regulation, under a New Insurance Amendment Bill 2015 Indian Insurance companies are owned and controlled by Indians that is a requirement under the law. to the spirit of this, by in large the management is done by the Indian management. But of course, we have an expat team of about 10 peoples, 9 Japanese and 1 Korean, with one Whole Time Director in the Board of Chola MS. And this we call a J&K Division, not Jammu and Kashmir, it is Japan and Korea Division. They essentially contribute to business development in the Japan and Korea clients in India. So that is our key value addition. In addition, they also give us re-insurance support for the commercial business. And in addition, they also periodically give knowledge transfer from MSI Japan because MSI is a very large global organization. So every stage of the management, they keep giving us some knowledge transfer, we send people from here-there, they come here and knowledge transfer happens.

Vipul Shah: And sir, the difference between gross return premium and net premium is payment being made to the sales agents or third-party, how it works?

Gopalaratnam S S: Gross return premium minus net return premium is a re-insurance cession. We re-insure our risks and give it to re-insurers because we do not retain all the risk in our balance sheet.

Vipul Shah: Okay. So that is the charge you take for re-insurance.

Gopalaratnam S S: Okay.

Vipul Shah: Okay. My another question pertains to Cholamandalam Finance I think, in your Presentation slide number #19, your home loan portfolio is growing very slowly or rather it has become flat or last 12 months be it the disbursement or profit growth. What is the reason for the very slow growth in that segment?

N Srinivasan: Is this referring to home equity?

Vipul Shah: Yes, home equity.

N Srinivasan: As you know home equity business has been going under lot of stress ever since the demonetization and as an onset of GST. You know these businesses are given to mostly to MSMEs and then will be operating in a segment which are actually businesses owned and managed by self-employed non-professional category. So this business was impacted by this economic slowdown, demonetization, GST. Therefore, we consciously took a decision to be careful and slow. So it has taken some time for the business to make it come back. If you see from the last quarter I think the disbursements were as about around Rs. 800 crores, 47% actually has gone up actually. From this year onwards probably, it will be on track.

Vipul Shah: And within home equity what should be the split between mortgage and LAP?

N Srinivasan: The entire thing is LAP only. Home equity, home loans are separate. Home loans we have close to Rs. 1,000 crore book. The entire home equity is actually is loan.

Vipul Shah: It is LAP only?

N Srinivasan: LAP only, yes.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investment Advisors. Please go ahead.

Gagan Thareja: My questions pertain to the insurance piece. First is, can you give us any idea on when would you be expecting underwriting to turn profitable as in underwriting profits will be enabled?

Gopalaratanam S S: See, as per the current business plan, three-year strategy that we have by end of the third year that is 2021, we should reach around 98% COR. Right now, we are at 101 plus. So, we should improve in the next three years.

Gagan Thareja: And is it possible to give the investment book size in FY 2018 and the average yield there on and the expectation for FY 2019 on the same?

Gopalaratanam S S: The investment book as on March is around Rs. 6,300 crores and we ended up the year with investment yield of around 8.85% and we plan to have a yield of around 8% plus. Though the reversal has started happened only recently, but we had a low-interest rate regime till at least six months earlier. So that is impacting our book before, we expect the yield to be 8% plus in the next year. And current year 2017 - 2018 also have some monetization gain element.

Gagan Thareja: Could you point out the size for that

Gopalaratanam S S: Approximately say Rs. 40 crores plus is investment what came in monetization which could be around 0.4%

Gagan Thareja: Okay. Is it possible to get claim ratios and combined ratios for all your segments?

Gopalaratanam S S: Actually, it is too much of details. Thus, there are almost 28 lines of business which IRDAI prescribed segmental. At company level, our claim ratio is around 72.5, net incurred claim to net earned premium is around 72.5.

Gagan Thareja: Okay. Maybe if it is not possible to go into in elaborate details maybe you could simply point out the claim ratios for what you consider to be the top three significant segments and also combined ratios thereof.

Gopalaratanam S S: Yes. Maybe we will compile and give it to you at a later time.

Gagan Thareja: Okay. Finally, sir, just idea and your thoughts on growth expectations for FY 2019.

Gopalaratanam S S: We are targeting a growth of 20% in top-line from Rs. 4,100 crores, we are looking at around Rs. 5,000 crores.

Moderator: Thank you. The next question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar: Can you just help me to understand your views on the crop business? Under product mix how much business we do on the crop side and what is your strategy going forward?

Gopalaratanam S S: Yes, the market last year was around 25,000 crores on crop insurance. We did around Rs. 500 plus around 2% of the market. This is a highly volatile business and last year the Kharif season was supposed to be good in terms of rainfall, where good harvest was there. But still the industry loss ratio was quite high 100 plus, 105, 110 for the industry and therefore, we have a careful strategy of not having more than let us say 15% of the total mix that is the cap that we have kept on the crop insurance that is our strategy.

Utsav Gogirwar: 15% mean to say?

Gopalaratanam S S: Maximum 15% of the mix.

Utsav Gogirwar: Okay. And second question is we have seen the improvement in the combined ratio. So want to understand which segment has actually performed better, motor OD, third-party or….

Gopalaratanam S S: Actually, it is essentially motor OD and Health, Accident, Health and PA, these two have contributed to a better combined ratio.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Finance. Please go ahead.

Ravi Mehta: My question is on the insurance piece of business. You shared that motor is 64% of the mix, can you share what would be the third-party and the OD part of it?

Gopalaratanam S S: See, third-party could be close to 38% - 39%, balance will be the OD.

Ravi Mehta: And how is the claim ratios experience on the third-party side?

Gopalaratanam S S: See, third-party has got several segments, two-wheeler, private car, within private there are several categories for segments, low-end commercial vehicle, LCVs, M&HCVs, tractor and miscellaneous categories of vehicle and passenger carrying vehicles. So, the strategy of the company has been to essentially focus on profitable mixes within the overall motor on a retail level. But where we have a national tie-up, we have no choice because we have to accept as a basket particularly in bank assurance. So other than bank assurance the strategy of the company is essentially to look at only the profitable segment within the motor, so that we do not get in... Otherwise unprofitable segments are essentially from our point of view, medium and heavy commercial vehicles, to some extent tractors, buses, and two-wheelers.

Ravi Mehta: What would be CV part of our TP if you can?

Gopalaratanam S S: CV as you mentioned, CV we have a large exposure. Largely because of the tie-up in IndusInd Bank and Chola, etc. but we are countering through careful strategy on the LCV and high-end private car something's like that. So that is how we are trying to manage claim ratio in third-party. Addition, we also do almost 80% negotiated settlements in claims. Almost 80% of our claims re negotiated settle and not left to the court process. It takes five years to seven years. So as soon as we get an intimation we immediately scoop on the claim and try to close it. It is 80% debt and almost 85% - 86% for injuries. So our average claim cost is almost 40% - 45% lower than what would have gone, if it has gone to the court process.

Ravi Mehta: Correct, okay. And on the Health side, that is also one of the big segment you shared. So what would be the mix between the retail or corporate group or any mass

Gopalaratanam S S: We have zero exposure in Government Health programs as of now. We have very low exposure to group Health. Only where strong relationship we are forced to do, we will do because of the property business particularly Japan and Korea division we are forced to do certain areas. But otherwise, we do not prefer group Health. Our business is largely retail Health.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Asset Management. Please go ahead.

Dhaval Gada: I am sorry, I joined a little late. But just wanted to understand two questions on this one, first is on distribution. Could you talk a little bit about Chola Express and what is the sort of economic model for this distribution channel? And secondly, on our Bancassurance relationship with IndusInd? I mean, they have highlighted that they want to get into non-bank line including general insurance. Could you talk about our sourcing strategy for the next three years and how you want to sort of granularize and reduce the risk from anything the channel like IndusInd for example? Thanks.

Gopalaratanam S S: Yes. See, I think smart office is, I did mention earlier that it is essentially a strategy to foray into Tier-III and Tier-IV towns and it is basically using technology to give instant policy issuance at a local offices in every small low-cost format.

Dhaval Gada: Typically, what will be the cost of these offices, sir typically?

Gopalaratanam S S: See, initial setting up cost will be high. But then you know over a period of time it stabilizes as the volume picks up.

Dhaval Gada: You are talking like Rs. 5 lakh to Rs. 10 lakh set-up cost, is it or even higher?

Gopalaratanam S S: Do not you think that is too much of detail. Basically, it is also unique thing we have done therefore, I would rather like to give broader overview of this. Broader overview is Tier-III, Tier-IV strategy and then it is automated thing and then its costs are higher initially but then they stabilize over a period of time.

Dhaval Gada: And how much time do you expect it will take to breakeven in this model as per your business plan?

Gopalaratnam S S: It might take two years.

Dhaval Gada: Two years, okay. And we want to set-up 1000 of them over the next three years?

Gopalaratanam S S: Yes.

Dhaval Gada: Okay. And overall sourcing strategy and granulizing…

Gopalaratanam S S: As I said, that is why we have spread of eight banks now. Three years earlier we did not have so many banks, we had only three, now we have eight. We may acquire one or two more in this fiscal year. So eventually our strategy is to have 10 banks. One other unique thing that we have established through both relationship and performance is that all banks want to renew with us in a sense through high service levels, IndusInd Bank have twice renewal with us for five years, five years and the third renewal of five years is going on now. And Central Bank of India has two renewals of three years and third renewal hopefully will happen this year but of course, that is a Public-Sector bank. So basically, the company has developed the capabilities to enhance a relationship levels with the partners. Also, we do proper servicing so that they are happy and kept happy. They also have a sufficient earnings from us, that is also we monitor. So, we hope that all the Bancassurance partnership we will be able to retain.

Dhaval Gada: How much the IndusInd contribute currently?

Gopalaratanam S S: I mean earlier, it is around Rs. 800 crores. Another thing is we also have our own group company Chola Finance, so where we are looking at a very large tie-up. So, we hope that over the next five years it will become a very significant scale and we are currently working on it. Maybe next time we will share with you a little more.

Dhaval Gada: Sir, how much do they contribute currently, CIFC?

Gopalaratanam S S: Around 10%.

Dhaval Gada: Okay. And largely in motors? What is the reserve release this year for us?

Gopalaratanam S S: What do you mean by reserve release?

Dhaval Gada: The ultimate loss ratios for our past year, so we would have had some buffer in the earlier years which you would have released?

Gopalaratanam S S: We have been providing more and more, there is no reserve release.

Moderator: Thank you. The next question is from the line of Sudhir Kedia from Mirae Asset. Please go ahead.

Sudhir Kedia: Sir, just wanted to know is there any intention to list general insurance company separately?

N. Srinivasan: No, as of now there is no intention.

Sudhir Kedia: And sir second question in PPT you have mentioned a projected topline for FY19 is 5,500 crores and while in the call you have said 5,000 crores, so I am slightly confused in that sense?

Gopalaratanam S S: See, 5,500 is our real aim but it depends on the National Health Protection Scheme. Without the National Health Protection Scheme, we are looking at and the current level of market and volumes is around 5,000. In NHPS, we are targeting another 500 crores which expected to be around 12,000 crores. So, we are targeting around 500 crores there. Government has made an announcement, they are working on it. There is a news that they may announce it on October 2nd the Gandhi Jayanti day and all that or it can be even be earlier depending on the election. So, if that fructifies this year and all states adopt it there is a possibility we may even hit 500 crores on that.

Sudhir Kedia: And sir, are there any ROE targets for the company?

Gopalaratanam S S: Yes.

Sudhir Kedia: So, what kind of ROE?

Gopalaratanam S S: We are running currently at 20.5. We always want to maintain in a band of 20 to 22. Arithmetic is that even if you grow PAT but as your net worth goes up the ROE fluctuates. You can see this year itself there is a marginal drop. So, ROE one has to look at a range. Range that we are looking at is between 20 to 22.

Sudhir Kedia: And in terms of target for sector growth since we are almost two-third motor going forward also you want to give the segmental growth is in similar fashion or you want to grow Health towards slightly higher side?

Gopalaratanam S S: The Health and Property will go significantly. The new Bancassurance tie ups will give us more Property and Retail Health we are looking it growth in a big way.

Sudhir Kedia: And sir, the combined ratios for the Health and Property would be better than the company average?

Gopalaratanam S S: Health will be significantly better Property may not because suppose in a year you get a catastrophe or a single large loss that we are against the volatile business. Therefore, Property loss combined ratios will get affected in depending on the fire claims the CAT claims that coming in a year. But intrinsically the Health will be much better than the company average.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Reliance Mutual Fund. Please go ahead.

Bhavik Dave: Sir, just two questions. One on the Retail Health piece, so just wanted to understand how many customers do we have on this individual Retail Health side and can you give us some color on how, who are these customers? Are these customers the vehicle customers that we have, is there any overlap on them? Or what are the kind of customers that we service on the Retail Health side and what would be the combined claim ratios on this in this business?

Gopalaratanam S S: See, as I mentioned it is largely in overall Health portfolio, it is little group Health and majority Retail Health and the customer profile being retail will be retail. I do not have data on what age profile and all that. There is too much of details.

Bhavik Dave: Any color on overlaps with CV customers that we have?

Gopalaratanam S S: There will always be some CV customers. I cannot say no to some CV buyers who want to take a Health policy. So, they will always, customers will always be there.

Bhavik Dave: And claims ratio on Retail Health?

Gopalaratanam S S: It will be around 55%.

Bhavik Dave: And sir, secondly on the crop side it is a small proportion, but we have maximum exposure in Orissa, right and little in Bihar as well. So, in Orissa and Bihar how did you see the market shaping up the pricing and how is the experience been like have we just renewed the tender or is it like it is an old tender which will expire in the next year?

Gopalaratanam S S: Except few states most states are having tender on yearly basis. So, we keep our fingers crossed as to what we will win, what we will not win but our broad strategy is that we will never price our thing at a ULR of above 80%, whether we win it or not. So, suppose we do not win we do not bother.

Bhavik Dave: And Bihar has been good experience because we have been hearing that Bihar the claim ratio has been little higher and the payments are not on time?

Gopalaratanam S S: See, the point is in agricultural crop insurance, nobody can ever say that one state if it is good this year one cannot assure that it will be good next year. So, it is always given to the nature and God.

Bhavik Dave: And the crop insurance claim ratio for us would this year would be in FY18?

Gopalaratanam S S: Because of wide cover also is given on the crop insurance that is owing to post-harvest losses. So, therefore one has to be very lucky to have a low claim ratio.

Bhavik Dave: So, we will have a 100% this year.

Gopalaratanam S S We ended up last year with around 95% claim ratio.

Moderator: Thank you. The next question is from the line of Deepika Gupta from First Voyager. Please go ahead.

Deepika Gupta: I have two questions. The first one is on the combined ratio I want to understand how do you calculate it? Because if I look at your FY19 annual report also the expenses is close to 32% and claims ratios close to 73%. So, overall combined ratio works out to 104% whereas in the presentation for FY17 you have disclosed the combined ratio 101%. So, wanted to understand how do you put the two numbers together?

Gopalaratanam S S: No, actually it is expenses minus RI commission basically we take net expenses to net written premium plus the net incurred claims on net earned premium. That is the definition of combined ratio under IRDA method. Net expenses that is expense of management minus RI commission received is equal to net expenses that divided by net written premium. So, what is given is the financial disclosure is a gross expenses without RI commission. So, you have to take RI commission also and then so that is how it is constructed but globally everything is on earned premium. But in India the, Indian method and even globally one cannot say everything is earned premium but then many countries have the Indian method also like Japan has got Indian method and many countries have got.

Deepika Gupta: So, this is the reinsurance commission which is adjusted from the …

Gopalaratanam S S: Yes, net expenses they were at be net written premium plus net incurred claims divided by net earned premium that is combined ratio.

Deepika Gupta: The other question that I have is, I just wanted to understand the flow of the P&L because you have reported a 25% growth in the net earn premium. There is a reduction in the combined ratio. So, you are underwriting profits should have been increased at a higher pace and the investment income has also grown at 16%. But the PBT growth only seems to be 16%, ideally that have been higher than 16% is there any other line item that I am missing here because we do not have the entire flow of the P&L. So, I just wanted to reconcile those numbers as well.

Gopalaratanam S S: We can give you the balance sheet copy. I am sure we can once AGM clears the balance sheet will give you the balance sheet copy. But by and large the flow is from revenue account to P&L and the investment income is allocated between revenue and P&L. So, that is it, there is no major exceptional things. So, if you want, we can construct and give it to you.

Moderator: Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: If I have the numbers correctly you said around 800 crores odd coming from IndusInd bank and around 10% of overall, right?

Gopalaratanam S S: Yes.

Parag Jariwala: So, this put together is around 1,200-odd crores and if I assume that most of them is coming in motor then around 30%-35% of the premium is coming from of the motor OD plus TP is coming from these two companies? Is it a fair to say?

Gopalaratanam S S: No, there will be some Accident and Health also in both.

Parag Jariwala: And how the others have been sourced, is it mostly B2B kind of sourcing especially in motor?

Gopalaratanam S S: Motor, it is a wide channel mix we have. We have tie-up with dealers, Toyota, Hyundai. Auto dealer is a major channel for us plus the agency is a big channel for us, agents feet on street, direct sales. So, essentially it is auto dealers other than the Bancassurance it is auto dealers and agents to large sources of motor.

Parag Jariwala: And secondly, if you say outline around for the next 2-3 years where do you see overall profitability and which segment within this profitability will have let us say you have mind set of keeping combined ratio of 100%. Which of the segment will have a better ratios as compared to this overall combined ratios which you have a plan for next 2-3 years?

Gopalaratanam S S: It is a very difficult question to answer because the current, if you look at the current trends definitely the way we are managing the mix as well as active underwriting and claims management definitely motor OD will continue to be a very significantly managed line up business. And in the Health and Accident the way we are managing the channels more of retail and less of volatile channels then definitely that also will help. In Property again shying away from very careful underwriting and then going for Bancassurance again should give us good claim ratios there. But as I mentioned earlier crop insurance could be an issue because it is a volatile business by nature. Suppose next 2 years monsoons there is a failure and then crop insurance will be, therefore overall, we are limiting our crop exposure between 10% to 15% of the total. Challenging areas but by and large these are the areas where we will continue to be carefully managed.

Moderator: Thank you. The next question is from the line of Shiv Kumar from Unify Capital. Please go ahead.

Shiv Kumar: Sir, my question is regarding the solvency margin now it is 1.61 at what level in terms of net premium because obviously there is a reinsurance part to it. So, at what level of net premium do you need to again call for capital and so would you look at lifting the arm as and when that need arises?

Gopalaratanam S S: See, right now even for the next year business plan for 5,000 crores and the level of profits that we have planned our expected solvency is in the range of 1.65 to 1.68. So, next couple of years we may not need capital even if you grow between 15% to 20% our top-line, assuming we are able to manage our bottom-line Healthily well. That is one and secondly even as an industry we are working at few initiatives on the solvency with the regulator some anomaly areas, the new Chairman coming in if he blesses us well then, we should get some relief on the existing regulation itself. So, taking these 2 together I do not think for the next 1 or 2 years we may need any capital even if we have to grow 15% to 20%.

Shiv Kumar: Sir and you are making a remark with regards to the Central Government's Health plan but going by the experience of some of the private insurance companies with the Health Insurance Schemes rolled out by the state governments where they did not have a good experience. What is the reason for your optimism with regards to the Central Government's Health plan sir?

Gopalaratanam S S: Just for your information we were early participant in the RSBY scheme in 2008, started in 2007. So, Chola was participating in a big way. And then over a period of time because of more enrolments and more competition the pricing came down. The current Health Scheme that is being planned is an extended version of RSBY. RSBY had 3.5 crores families enrolled. Now they are targeting 10 crores. So, also now the Government is looking at more digitized way of doing it, using Aadhaar and Aadhaar infrastructure rather than going to the villages and enrolling which was a very tedious process. So, both on the cost front as well as the larger size of the target population there are expected benefits. But having said that low loss ratios can continue for 1 or 2 years because once the awareness builds and once infrastructure is ready then you will find claim is also rising. So, we will be careful, it is not that eternally we will do 500 crores. I did mention 500 is our target internally on this. We will be careful, even our RSBY we did at the peak around 300 crores but fully wound it down in year 2015-2016 when we found it was very uneconomical to do.

Shiv Kumar: Sir and if I squeeze in just one last question, what is your strategy with regards to the reinsurance?

Gopalaratanam S S: Reinsurance is largely driven by the commercial line of business. Therefore, our requirement of commercial is less therefore excessive requirement of reinsurance is not there. Having said that crop insurance requires reinsurance. We almost reinsure 85%, 15% only we retain. And Retail we have require reinsurance more for excess of loss that is any catastrophe and other areas. So, because we are all low commercial lines player, our requirement of reinsurance is largely on that limited commercial lines plus crop by enlarge and to cover the CAT exposure in retail.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Sir, in terms of your investment portfolio management, can you help us understand what is the broad returns that you target and how is the portfolio structured?

Gopalaratanam S S: See, the portfolio is approximately 98% debt and under 2% equity now. Depending on the market opportunities we can go up to 5 but then right now the markets are booming therefore we are little careful in terms of investing more in the equity.

Anand Bhavnani: And sir, with respect to allocation between shareholder and policy holder account, just wanted to understand are the portfolio segregated like at the beginning of the financial term or it just that the returns are allocated at the end of the financial term?

Gopalaratanam S S: Returns are allocated by end of the financial. There is only one CSGL account we maintained with the depository. There is no need for segregation under regulations for nonlife sector. Only for life you have to segregate because you have to declare bonus for the policy holders based on the revenue account. But nonlife you do not have to segregate in real terms we do only income segregation.

Anand Bhavnani: And sir, with respect to the impact of motor insurance service provider norms it is almost 6 months that it has come into effect. How much of the gains have been able to retain within the company?

Gopalaratanam S S: Very limited because we gained almost 10% to 15% in the acquisition cost, but we had to pass back in terms of the pricing because of the competitive pressure. Initial few months there was some retention but then the 4th quarter January, February, March we had to pass back everything because the brokers came back and told ask us to enhance the discount slabs. So, because of competitive pressure it has to be done.

Anand Bhavnani: And sir, one last question. Did government Health scheme since it targeting 10 crores family, do you think in general for the industry as a whole and for us as well, the Health Insurance segment growth will reduce?

Gopalaratanam S S: I do not think so. Because right now 130 crores population only 30 crores people have Healthy policy and even if you had another 50 crores due to the BPL, so you still have 50 left plus Indian population will hit 145 crores in the year 2030 and 165 crores by 2050. So, you can imagine the potential.

Anand Bhavnani: So in that sense you are telling that there is no overlap of customers, the customers would be largely….

Gopalaratanam S S: Because it is targeted on BPL population, below poverty line, the ration cards, what some unique colors all that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kashyap Pujara for his closing comments.

Kashyap Pujara: Thank you, everyone for being on the call and thank you to the management of TI Financial Holdings for patiently answering all the questions, thank you sir.

Moderator: Thank you, ladies and gentlemen, on behalf of Axis Capital Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines, thank you.