"Cholamandalam Financial Holdings Limited
Q4 FY2020 Earnings Conference Call"

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ANALYST:	**MR. PRAVEEN AGARWAL – AXIS CAPITAL LIMITED**
MANAGEMENT:	**MR. SRIDHARAN RANGARAJAN – DIRECTOR, CHOLAMANDALAM FINANCIAL HOLDINGS & GROUP CHIEF FINANCIAL OFFICER - MURUGAPPA GROUP** **MR. S. S. GOPALARATHNAM - MANAGING DIRECTOR – CHOLAMANDALAM MS GENERAL INSURANCE** **MR. S. VENUGOPALAN - CHIEF FINANCIAL OFFICER - CHOLAMANDALAM MS GENERAL INSURANCE** **MR. SURYANARAYANAN, - CHIEF OPERATING OFFICER CHOLAMANDALAM MS GENERAL INSURANCE** **MR. GANESH – CFO - CHOLAMANDALAM FINANCIAL HOLDINGS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Cholamandalam Financial Holdings Limited Q4 FY2020 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. Praveen Agarwal from Axis Capital Limited. Thank you, and over to you, Sir!

Praveen Agarwal: Thank you Steve. Good afternoon everyone and welcome to the earnings call. From the management side we have Mr. Sridharan Rangarajan, who is the Director of Cholamandalam Financial Holdings, and he is also the Group CFO of the Murugappa Group. We have Mr. Gopalarathnam, who is the MD of Chola MS General Insurance, we have Mr. Suryanarayanan, who is the Chief Operating Officer of Chola MS and Mr. Venugopalan, who is the CFO of Chola MS and we have Mr. Ganesh and who is the CFO of Cholamandalam Finance Holdings. I would request Mr. Sridharan to give us a brief introduction and the highlights of the results post which we will open the floor for Q&A. Over to you Mr. Sridharan?

Sridharan Rangarajan: Thank you Praveen. First of all thanks to all of you for participating in our earnings call and I wish all of you are safe and you're near and dear also are safe and I wish that you please keep safe and I think that is the most important thing that we should have in these times of COVID.

To start with, let me touch upon a few key things and then we will open up for question-and-answers. We have with us Mr. Gopalarathnam, our MD for Cholamandalam Insurance, and Suryanarayanan, our Chief Operating Officer and Venugopalan, who is our CFO for Cholamandalam MS General Insurance, Ganesh, who is our CFO for Cholamandalam Financial Holdings. I hope you had a chance to go through the presentation that we shared with you and we will now cover certain key highlights and open up for questions.

The company invested 300 Crores in Cholamandalam Investment and Finance Company when they raise their capital both through QIP and preferential model in March 2020 and this was done through a borrowing of 200 Crores and utilization of its own funds.

The company's NBFC subsidiary which is Cholamandalam Finance and the Services Joint Venture which is Chola MS Risk continue to report under IndAS as per the regulatory requirement. The insurance subsidiary which is Cholamandalam MS General Insurance has prepared the financial statement under the IGAAP however they have given the statement for us in IndAS for us to consolidate.

Even though the stake in Chola Finance is less than 50% it is treated as a subsidiary under IndAS based on the concept of control. However, it continues to be an associate under the companies act.

Now I come to the standalone financial performance, CFHL income consists of income by way dividend, interest and royalty for brand usage. For the year ended March 2020, the company has made a profit before tax of Rs.86.93 Crores. After providing for a tax for 3.6 Crores, the profit after tax is 83.33 Crores. Being a NBFC the statutory reserve of 20% of PAT has been created. The consolidated results of the company consist of the results of Cholamandalam Finance Company and Cholamandalam MS General Insurance Company Limited as subsidiaries and Cholamandalam MS Risk Services as a joint venture.

At a consolidated level the revenue from operations for the year ended March 31, 2020 is 13135 Crores and a profit after tax is 1165 Crores. For year ended March 2020, the disbursement of Cholamandalam Investment and Financial Company Limited declined by about 4% from 30450 Crores in the previous year to 29091 Crores in the current year due to the severe degrowth in auto industry across all product segments.

Profit after tax dropped by 11% from 1186 Crores to 1052 Crores. The drop is primarily due to onetime loan loss provision of 504 Crores towards the potential impact of Covid-19 and related macro economic factors. This aspect was well covered in the presentation of Cholamandalam Finance Company as well as in the call that they had with you.

The asset quality as on March 2020 which is stage III asset is at 3.8% with adequate provision coverage of 41.5% as against 2.7% in the previous year with the provision coverage of 38%.

The capital adequacy ratio at the end of Q4, was at 20.68%, Tier I being 15.26% during the year. The company raised the equity through preferential allotments and under the qualified institutional placement of total 1200 Crores. Despite market constraints, CIFCL could raise the funds because of its balance sheet strength the asset quality and the group backing.

Further the company has not availed any moratorium for its borrowing and cash position is adequate to meet its fixed obligation and maturities till September 2020. In case of Cholamandalam MS General Insurance its topline largely remain flat at Rs. 4398 Crores as against the industry growth of 9.3%. Excluding the CROP insurance in which we have cautiously decided to exit, the topline grew by 9.7% as against the industry growth of 9.4%. In FY2020 Chola MS added few PSU banks and OEM partners, we have added Vijaya Bank, and Indian Bank, as Banca partners in the beginning of the year. Towards the end of the year Union Bank of India was added along with amalgamated banks like Andhra Bank and Corporation Bank. Indian Bank has confirmed extending the corporate agency agreement to amalgamated bank of Allahabad Bank.

In Punjab National Bank the regulator has permitted existing insurers to operate in the respective banks for one more year which is up to March 2021. Bank assurance agreements with Bank of Baroda renewed for three more years going up to March 2022. Post all the additions to PSU Bank Partners Chola MS is servicing, one of the biggest PSU Bank network of 37000 PSU Bank branches across India.

On OEM front, Chola MS has two-wheeler partners Yamaha and Royal Enfield. In LOBs wise the fire business grew by 28.1% largely aided by IIB rate corrections. During the year the long-term premium which is two-wheeler and private cars to the tune of 457 Crores was collected and these will get converted into GWP in the ensuring financial years. This long-term premium also adds to the investment base.

Strong growth in two-wheeler basically we crossed 2 million customer mark at this point in time. As of March achieved a GWP of 422 Crores contributing to almost 10% of the share of our motor GWP.

Captive channels mainly Chola Insurance Express and CIFCO contributes 34% of the total GWP leading to stability of the revenues. Based on the industry financial available until YTD December, Chola MS continues to be the industry leader in managing the motor OD loss ratio and compromise settlement in the motor third-party. Chola MS continues to follow prudent reserving norms for motor third-party and the loss ratio is about 90.6% in financial year 2019-20 . Chola MS has gross exposure to stressed investment of Rs.495 Crores of which 109 Crores have been written-off and 211 Crores have been provided for taking the cumulative one of provision and write-off together 65% as a gross exposure (under IND AS). Profit after tax reduced by 3% to 125 Crores due to the write off and the provisioning made on certain investment in the portfolio and remeasurement of deferred tax consequent to company choosing the option of reduction in corporate income tax rate.

Cholamandalam MS Risk Services, which is a small but niche service company reported a profit after tax of 4 Crores for the year.

I think with this brief background set, I think we will welcome your questions and I think we have our entire leadership from insurance to answer your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of SivaKumar K from Unifi Capital. Please go ahead.

SivaKumar K: The question is relating to Chola MS Insurance. The firm has done very well and has earned its reputation, but there is one aspect that threatens to destroy a lot of the good work and that relates to the manner in which we handling our investment book. It is not just the 500 Crores number, but the ability to pick five disasters in a reasonably short period of time makes one wonder about the processes we are following. Can you comment on what happened, what are you are doing about reexamining the processes, are you all satisfied, are you all doing something significant, and has this led to change in the staff who have been overseeing this function, how serious is it in your own estimation an incident, to be either not concerned, concerned extremely concerned.

Sridharan Rangarajan: Thank you Mr. SivaKumar for asking this question, I think it is a very important question and we respect your comments.

First of all, I think, as you know that these investments are on select companies which practically most of the insurance companies also have a similar exposure. We have implemented quite a lot of corrective actions since the first default of IL&FS in August 2018. Number one, I think we said that henceforth we will not go only by the rating agencies rating assessment and we will have our own assessment of the strength of each of the investing companies.

Number two we will participate actively in knowing the progress of each of the investing companies keenly following their financials, participating in their earnings call having a discussion with research analyst and come up with an update to the management every now and then.

Third, if needed, we would regularly meet companies officials and brokers and other stakeholders to understand the progress and any other important financial matters relevant in these companies.

Fourth we also felt that we should quickly churn the portfolio that we have and in fact in our presentation you might have noticed that we have changed the portfolio very quickly which is what our strength at this point in time and accordingly we have moved more towards the government securities. So what I would say is that these are the things that we have done at this point in time and obviously we are keeping a keen watch and the investment committee at the board level is also looking at this at a very detailed level to see that what best we can do with this. So we have taken enough action which we feel that I think to keep us in good stead going forward.

SivaKumar K: Thank you Sir, to have been following just ratings as the barometer for evaluating credit quality seems boyish it was not what we expected and to have got hurt in an insurance incidence that one could not have foreseen would have been understandable and acceptable, but this remains a disappointment, if you have nothing more to say I have nothing more to ask on this matter. Please proceed to the next question.

Moderator: Thank you. The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: I had a question on broadly the claims ratio the motor TP has witnessed a significant improvement this fiscal which is broadly driving the overall improvement. So how much better could we get on the TP claims and what is driving it, that is the first question and second question I had is that our business yet is driven only by motors, about 70% of the business we get from motors. Now what are we doing really to diversifying to health or personal accidents. So what is the broad strategy on business mix going ahead? Third question was just on the solvency ratio, any plans to raise capital. So these are three questions from my side?

Sridharan Rangarajan: I think, I will answer the last one and then I will ask Mr. Gopal to address the remaining two.

So as far as the solvency I think is improving from last year we have improved this year and as we see the recent two months it is still improving and we feel that it will come to a very good stage going forward end of this year and we will not hesitate raising capital as and when it is required both the partners are committed to raising the capital as and when it is required. I request Mr. Gopal to answer the remaining two questions.

Gopalarathnam: See the company has a lot of expertise in handling motor whether it is in the area of business sourcing or claims management therefore even though we have strong presence in motor we have build the skills of choosing the segments in motor so that our profitability in motor is much better than the peers. So in this particular aspect two things I would like to mention one is constantly looking at profitable areas in motor and then driving growth there. We have now moved two-wheeler from almost near insignificant level couple of years back to around 10% and the plan is to make it around 25% to 30% in the next three years. We have a huge footprint in terms of branches of the main company and the corporate agent about 600 locations we are present. So we will use that opportunity to drive growth in two-wheeler. Also looking at other profitable segments in motor within private car we decide for further to see what is profitable, we look at geographies to make it profitable. Therefore firstly we will always concentrate on profitable segments within motor, we cannot ignore the fact that 45% of the market is motor and if you remove crop which has grown only recently in the last three to five years, motor use to be much bigger chunk in the overall industry so that is first point. As far as the non-motor is concerned, the company has very significantly taken steps, so at last year growth in health is almost 21% whereas overall company grows at around excluding crop of around 9%. So therefore clearly the company is working on avenues to grow health and health particularly the two broad areas of growth are growing health through the agency model, and also brining new products. In fact the company has introduced lots of new products in the last six months, in fact our product on Covid-19 is very well accepted in the markets, we are second best priced in the country and then as of now we have sold more than 200000 lives in COVID. Therefore health will become a very major focus area for us in terms of growth and also property; in property of course we are very selective and our loss ratios are one of the best in the industry in property. So property and health and P are really the growth segments for the future and company has got a clear plan probably in the next five years we will find that property plus health and PA will occupy almost about 40% of the total and motor will become only about 60% of the total, So company is working on very clearly the clear growth plan on these areas.

Yash Agarwal: Just two follow-ups on that. So the claims ratio has more triggers to go down driven by the better mix of two-wheeler let us say…

Gopalarathnam: One point which I did not articulate is the strong control on third party compromise settlements. See the third-party becomes a problem only when you allow it to laps in the sense you allow time till to catch up on you where the inflation gets built in and then court awards go up and then things like that, but company has taken a very proactive policy in terms of compromise settlements and today we settle almost 80% plus cases in death and almost 85% to 90% in injury cases out of court, recently actually even in using the COVID times we requested the Chennai High Court to give all the approvals of NACTs, motor accident claim tribunals the High Court to control of almost 23 cases and gave clearance through a video conferencing and same request we made to Bombay High Court and Bombay High Court also has approved so company has always been proactively trying to see despite several hospitals how to improve the compromise settlement ratio so that the severity in claims in third party claims is brought down, the ratio between awards and compromises is crucial in terms of the severity and when you are settling 80% compromise on death and 85% to 90% on injury definitely that will bring down the loss ratios in motor third-party.

Yash Agarwal: Just finally one thing in case we go for a capital raising will the 60% holding be maintained or diluted or increased any thoughts upon that?

Gopalarathnam: Sirdhar can take that.

Sridharan Rangarajan: Sorry could you repeat, I could not hear you?

Yash Agarwal: Yes, in case you go for a capital raising this year or next year will you be maintaining your 60% holding in the Chola Insurance venture or would you be diluting or increasing it any thoughts upon that?

Sridharan Rangarajan: Sorry you mean this is the capital raising in Cholamandalam Financial?

Yash Agarwal: Yes, in insurance business if you go for it then will the holding company maintain its 60% shareholding.

Sridharan Rangarajan: Yes, that is what I said both the partners are willing to put up the capital required for the insurance business but we think that the solvency would also be in a very comfortable zone and we can assure you that both the shareholders would be contributing the required capital whenever there is a requirement of the same.

Gopalarathnam: I can add little bit on that the capital raising in my opinion particularly post COVID where the FY2020/2021 is lot better in terms of profitability because of lower claims the solvency ratios are far better compared to the year end March 2020 numbers but as of May we are running at 1.70 and therefore I do not think there is any need for a capital for the current fiscal maybe once we come out of the COVID and the next year's growth we will have to wait and see even next year may not be really required because the crop premiums which were there in the hangover that will go away therefore I do not think there is going to be too much pressure on solvency definitely in the current fiscal and to some extent next fiscal also.

Yash Agarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Kashyap Pujara from Axis Capital Limited. Please go ahead.

Kashyap Pujara: Just a couple of questions, first is related to the investments could you just tell the total quantum which is remaining to be written-off and when do you foresee that would it be done in the first quarter or how do you kind of see that?

Sridharan Rangarajan: I think we said in the opening remarks that we have already done up to 65% and probably by first quarter we would have been done with all we expect some realization in some of these assets so that we will be done with that.

Kashyap Pujara: And one more thing was pertaining to the combined ratio while I am sure that the current COVID would have opened up a opportunity where claims are lesser so underwriting profits could be coming in so could you just comment on what is the combined ratio we would be at, at a current point in time given that there would not have been much claims?

Gopalarathnam: See our aspiration is always to reach 100% CoR you know Kashyap.

Kashyap Pujara: Sure.

Gopalarathnam: The company's aspiration is always reach 100% and stay below 100% that is our aspiration though the market factors for example the level of pricing, discounts, level of acquisition cost the intermediation costs are not helping us we ended up last year an IRDA method of about 107 this year definitely we probably inch below 100 maybe anywhere between 98 to 100 if all goes well, first quarter is definitely very, very, attractive, then we have three more quarters and claims have started climbing up in particular in the month of June. Therefore this year is going to be good but our aspiration is essentially to say around 100% even in a difficult market of high discounting and low pricing and high acquisition cost, the management is doing the best possible will to contain the management expenses, we are going every mile to contain the expenses but then even in post COVID we are trying to see how to reduce the head office rent and so many things we are trying to do but then in management expenses, actually there is a limitation on the level of reduction as we also have to invest for the future, particularly in health and digital therefore in this market condition. However, definitely our aspiration is always remains to reach 100% and below that is our aspiration as far as COR is concerned.

Kashyap Pujara: Fair point. Thank you so much.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Sir Couple of questions from my side. One is just revisiting back sorry to the investments question. When you say in quarter one you must have written-off everything does it mean a 100% provision coverage ratio?

Sridharan Rangarajan: No we will be in the range of about 80% and we are seeing the balance portion is recoverable based on the current conditions and development in the individual companies.

Gopalarathnam: 83%, 85% around that.

Prateek Poddar: That is good to hear. Sir so then I can say that this overhang of the investments which we had gone through that is over and from now here on we should not foresee any more write-offs is that a fair understanding.

Sridharan Rangarajan: Absolutely.

Prateek Poddar: That is good to hear. Sir second question is in the month of April, May and June on the renewable.

Gopalarathnam: Yes, I just want to, on the investment I just want to supplement what Sridhar was mentioning when the IL&FS crisis happened our corporate debt as a percentage to total was 60% and we brought it down to 27% as of March and in all probability by June maybe September it will become 20% so that time itself we worked on to the strategy to ensure that our corporate debt is brought down significantly as a percentage of the total mix. So we will try in the September corporate debt will come down approximately it will be 20% of the total. Now there is a lesser risk at overall level, portfolio level lesser risk on corporates on the investment base, but there is always be one or two companies which will come up because particularly COVID has shaken up many industries therefore there will always be one or two things but then our business planning replanning for 2021 takes care of all the provisioning requirements.

Prateek Poddar: Sure, the second question was on cost in the light of COVID how much of these rental expenses on the branches side you have can be renegotiated how much of travel expenses can be cut and I am asking from a structural perspective and not from a temporary perspective whether it can be sustainable also?

Gopalarathnam: Yes I can tell you we saved about Rs.1 Crore in rentals and then secondly on the travel definitely there will be a significant drop, we expect anywhere between 3 to 4 Crores savings in travel expenses and as I mentioned earlier we are reworking our strategy on it and so all this will add to some extent at least in my opinion about 5 to 6 Crores production in the expense of management on a steady state for the future years.

Prateek Poddar: Sir how has the renewal market been for motors in the month of May and June because there were a lot of deferrals are we in the renewal market are we back to pre COVID levels from an industry perspective I am asking is the industry back to pre COVID levels or where are we and how do you see the normalization path?

Gopalarathnam: See there has been a big stress on not only on the new business but also on the renewals for the industry and but for us I think probably Suri you can pitch in and then add some thoughts on this.

Suryanarayanan: Yes, definitely the volumes that we see from our tier II, tier III towns that has really picked up well in the month of June and most probably in the month of June we will almost have the volume at a pre COVID level from these offices which is actually good news. On the new vehicles front actually it is only the two-wheelers where we are seeing good traction and hopefully we should be at about 75% to 80% of the pre COVID levels when it comes to new vehicles in two-wheelers. In CVs of course it has been a very bad story and as also in cars where volumes have really turned quite seriously as far as the new vehicle sales is concerned. On renewals definitely we are doing better and for month-on-month we are seeing an improvement in the vehicle business volumes itself and also including renewals and actually our presence through these smart offices in bout 500 plus locations is what is helping us in this COVID scenario because many of the rural markets are affected as the metro and there we are able to really leverage and take advantage and grow volumes.

Prateek Poddar: So what levels would we have reached Sir Pre COVID level in this renewal market of motors?

Suryanarayanan: We should be at least about at this point in time about 5% to 8% higher than what we were in a pre COVID level in these markets.

Prateek Poddar: We are on the growth path okay that is really wonderful. If you could just talk a bit about on the health and digital side how do you, I mean, obviously on health you have been a bit aggressive in tem of new product launches but on the digital side what are we doing because incrementally we see some shift to the digital mode so how do we plan to have a mind share on the digital front in the minds of consumer that is question number one and second Sir just a small suggestion from our side is if in the press release some financial numbers can be given of our Chola MS General Insurance that would be really, really helpful because generally we wait for the public disclosure but in the press release I have a suggestion we are just suggesting if some broad numbers can be even shared that would be really helpful.

Sridharan: Sure we will take this an Important.

Prateek Poddar: Sir the question also digital and health?

Gopalarathnam: Yes, Suri you want to talk about health I spoke about already the focus on distribution build on agency and new products and I gave you a fair amount of spread maybe digitalization.

Suryanarayanan: Yes see in the last couple of months we have seen quite a bit of traction on the digitals especially on the renewals front and we have also been getting our technology development bring them in place the volumes in digital that we have started generating through digital mode have been increasing and now we are at a level of about 67 Crores from a level we use to be at around 1.5, 2 Crores so we have seen a threefold jump in the last couple of months. This year my own hunch is that we should be get in closer to the 100 Crores mark generation through the digital mode, we are seeing good level of renewals especially in cars and two-wheelers happening of course commercial vehicles renewal is on digital mode is still a far cry except when it is an enabled thing sales is doing pretty well on the renewal front both the COVID product as well as the renewals, more importantly we are using digital also as a mode to target the bank customers. We do now as it was mentioned in the beginning of the call, we are now present in 11 erstwhile state owned banks and Chola MS is now present in the second, fourth, fifth and sixth largest government owned banks and the banks are also now willing to look at digital mode of working and also providing access to their liability customers the savings bank customer and others to digital modes and that is the key area that we will be working on during the year. We are quite bullish and all necessary spends in building the technology and enabling the customer journeys we are working on them and we definitely hope to see bigger numbers through the year.

Prateek Poddar: And Sir if I may ask 100 Crores of digital revenue on say a monthly collection of around 400 Crores odd so I can assume 20% to 25% of your collections are now digital this is all through pull mode as would you spend anything on renewals or it is just that the agent would call and then the payment would be done digitally but the sourcing is not pull and it is not sourcing is more of physical just that the payment mechanism has converted to digital if that the way to think about it or it is the other way that even the sourcing is now digital the customer directly comes online and pay without you having to incur certain distribution cost?

Suryanarayanan: It is actually a combination of all three one is what you enable to your own customer for completely…

Gopalarathnam: See I think the data we have to set it right. It is not 25% is digital.

Suryanarayanan: No, no.

Gopalarathnam: He is saying 100 out of 400 that is not the scenario.

Suryanarayanan: No, that is not I said, for the year it is Rs. 100 crs to the digital insurance is about.

Prateek Poddar: This is for the year, okay.

Gopalarathnam: Digital business last year we did around 20 Crores 2019/2020 this year 2021 we planned 50 Crores but post COVID we are seeing lot of opportunity therefore that we have replanned at around 100 for the full year, so actually it is like moving from 20 Crores of 2019/2020 it was near 100 Crores in 2020/2021.

Prateek Poddar: Okay. No issue Sir, that thank you so much.

Gopalarathnam: And the combination as Suri was mentioned there is a combination of four strategies which is essentially D2C which is digital to customer I mean direct customers coming into digital, digital partnerships and digital Banca, bank assurance moving them more into digital when entering with the partnerships were essentially digital players and trying to bring this in a sense.

Prateek Poddar: Sure sir.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Aditya Birla. Please go ahead.

Jayesh Gandhi: Few months ago or probably in the early part of the year you said we had some meetings and some projections have made for next three years, I guess Covid-19 has disrupted some bit of those expectations at least in the short-run how are we seeing in the next 12, 18 months in terms of overall growth for the company was my first question?

Gopalarathnam: See the current year 2020/2021 is going to be a challenge because two months April and May the industry has degrown by -9%.

Jayesh Gandhi: Yes and we have actually degrown much more.

Gopalarathnam: We have degrown slightly more because we are lot more retail driven so those companies which are corporate oriented like Tata AIG or few other companies they are able to degrow less but then those companies which are highly retail we are almost 95%, 96% is retail and those companies who have the retail have got affected because people have stopped renewing and things like that, and therefore 2020/2021 is going to be very, very difficult year in terms of the market -9% of two months then probably we do not know maybe we may end up with anyway that the most optimistic growth for the industry could be 0 to 2.5% in my reading. So therefore this is going to be a very challenging year not only for industry particularly companies driven by retail. But having said that profitably is going to be lot better, solvency is going to be lot better etc., etc. So topline there is going to be a challenge and then profitability will be lot better for us as well as for the industry.

Sridharan Rangarajan: See just to reiterate to the overall strategy for the company remains the same we feel I think the digitization of the journeys, digitization of the Banca relationship then full focus on the health insurance having a digital vertical all these strategies remains the same and fully committed to, we are continuing to invest in all these things so there is going to be a blip but continued growth trajectory for the year after I think would be much higher than what we are looking at, at this point in time, your question of 18 months I think probably FY2021 is going to be a muted topline with little growth but good profitable growth but then year after is going to be a strong one.

Jayesh Gandhi: Fair enough and for next 12, 18 months again I know short-term is going to be challenge the industry ex agriculture should we be able to meet that growth or you think we will be there about?

Gopalarathnam: Yes minus crop definitely we should be able to do and then last year as Sridhar was mentioning we were 9.7% and we were 9% minus crop. See the three segments where we do not participate are crop, group health and government health so we always call this addressable market actually minus these three segments we will always be growing higher than the market.

Jayesh Gandhi: Wonderful that is good to hear. Other question is regarding the cost to income, of course currently they are less but if you look at the year as a whole or next 12, 18 months as I was listing earlier do we expect our cost to remain close to 100 or would it be closer to 104 which is what we did last year?

Gopalarathnam: You are talking about combined ratio?

Jayesh Gandhi: Yes combined ratio, yes that is right.

Gopalarathnam: Yes, as I did talk about it already. See the IRDA method combined ratio is about 107 I think for last year.

Jayesh Gandhi: Yes last year that is right.

Gopalarathnam: This year definitely we should, because of the first quarter being good in claims ratio definitely we should move between 98 to 100 that is my expectation we have to wait and see. General insurance is always a business where you keep your fingers crossed on claims you do not want major cyclones or earthquakes etc., to happen so I think we do not have major catastrophic claims we definitely hope that this year should be bordering closer to 100, 98 to 100 and also I have mentioned that, that is our aspiration in the market where pricing power we do not have and every new entrant is throwing pricing and intermediation cost to wind to stay closer to 100 itself is going to be a big challenge and that is our aspiration anywhere between 98 to 100 is our aspiration.

Jayesh Gandhi: Wonderful, now that is good to hear. I guess I was asking more on a medium-term will we be able to maintain this 100% or as in say 2022 and future years or you think that is going to be a bit of a challenge?

Gopalarathnam: See removing the COVID year the current year where there is a special relief on claims for the first quarter again we will operate in a band of let us say 100 to 102 and our 2025 vision talks about coming closer to around under 100%. the earlier plan around 96 to 98. Also one of the challenges that you have is when you grow because you also wanting to grow so under the current accounting we are writing off all the expense of management and acquisition cost in the books therefore the reserves been created, earned premiums come down and then your combined ratios will be higher so companies who do not grow have an inherent advantage of low combined ratio compared to companies who want to grow. So you would definitely keep the growth minimum at 10%. in the last year we did 9.7%. year 2020-21 being hit by COVID lockdown impact, we don't see growth beyond 5% level and the growth is expected to come to normal 20% level from 2021-22. So growing companies have an inherent problem of earned premium getting reduced and therefore the stress on the combined ratio that is what I wanted to mention.

Sridharan Rangarajan: And also further depend on how the motor third-party pricing moves in subsequent years so that is also a factor which has to be borne in mind.

Gopalarathnam: In industry there are a lot of external involvement also for example suddenly a regulator brings last week they say that you cannot have long-term policy issued for package policies like that some regulatory announcement suddenly make an impact to our strategies but you have to again go back to drawing board and rework your strategies therefore that is something which happens, but then our aspirations always to maintain even in the difficult circumstances when we were between 100 to 102 in the medium-term but then the long-term anyway are between 98 to 100 about five years from now.

Jayesh Gandhi: Wonderful that is good to hear final question on the yield on investment we have been projecting certain numbers again what would be the again next this year or next two years yield would it be closer to 6.5 now?

Sridharan Rangarajan: Venu will tell, what the latest we are running at is.

Venugopalan: So, we have projected 7.1 for the year 2020/2021 but this includes the possible monetization on the sale of securities. Base yield basically we are sticking on to the government securities and state government securities the average yield around 6.6 for the government security, some higher yield is possible in some of the corporate and housing and infra so all together it will be around 6.8 average yield with monetization it is projected to be around 7.1.

Jayesh Gandhi: Thanks.

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

Sanketh Godha: Just wanted to understand our health growth which is around 16% for the year if you breakdown that growth into benefit based and indemnity and that is one question which I wanted to check and given benefit based and CA which are bigger contributors to us excluding motor they have predominantly loan linked product so given the loan growth will significantly slowdown probably in the current year how do you see the growth shaping up in these products and these products are highly profitable for us since that thing so I just wanted to understand how the growth would be in this manner of business. The next question which I had is that in motor TPE the loss ratio is around 90% is it simply because of the CV contribution from 76%, 77% has fallen to 67%, 68% so the loss ratios have improved to 19 and our two-wheeler contribution going up or we have partially taking any motor vehicle at benefit in our numbers and finally just wanted to check on the Opex ratio which is around 32 excluding commission how do you see this trajectory to move up whether we can go below 30 or 27, 28 kind of a number in medium-term two to three times which will be the main kicker from the combined ratio improvement rather than loss ratio further improving from current 72% level.

Gopalarathnam: Yes, so Sanketh what is your first question.

Sanketh Godha: My first question is on the health part we are dig in benefit based which is a loan link product.

Gopalarathnam: See Covid-19 we have introduced largely a benefit product where I said that the volumes are stacking up therefore that is going to really add to the benefit products mix in the total but having said that we also launched this Chola Arogya Sanjeevani this is an indemnity product and then that is a standard product across the entire industry and then there again we are driving growth because the standard product is much easier to sell you do not have to explain too much it is across the entire spectrum therefore definitely COVID will add to the benefits ratio but then Arogya Sanjeevani drive also will add to the indemnity ratios so at the end of the day both are used to drive the growth there.

Sanketh Godha: Sir just a follow up on this. Sir have you seen any average ticket size going up for us or is it more of a volume gain which is driving the growth because just wanted to understand…

Gopalarathnam: sum insured is going up mostly on the indemnity product we are driving a higher sum insured. . See the second question is largely the mix and the drop in the frequency for example our mix of two-wheelers have gone up therefore inherently the loss ratios of third parties coming down as you rightly said commercial vehicle growth coming down and two-wheeler growth going up. Also we are seeing a frequency improvements with rate of accident in relation to a number of policies are coming down in our portfolio and therefore that is also giving us some benefit on the third-party.

Sanketh Godha: You mean to say this is happening in even in CV segment because of the geographic approach?

Sridharan Rangarajan: Across the both, yes even the national statistics say that. Tamil Nadu which use to run about 9000 deaths in a year is now running around 4000 to 5000 deaths in a year so many states which are high accidental death states, now ratios are coming down.

Sanketh Godha: Lastly on the Opex side which is relatively in the higher side as 32% as a percentage of NWP how do you see this ratio to play out to?

Gopalarathnam: I think it has got two components. definitely in the short-term particularly when the volumes are under stress Opex ratio will be higher and then as I mentioned when we are doing lot of initiatives on cost reduction during the COVID situation like work from home, reduce costs, reduce rentals, low travel cost, etc. so that now we get the advantage and that is the new normal that is happening and third important thing you must keep in mind is we have to invest in Opex and particularly in the emerging business area like health and digital. While we are able to reduce the numerator in controllable areas there are some strategic areas where we have to spend more and that we will continue to explore because we have to invest to reap the benefits later.

Sanketh Godha: Sir but just wanted to understand this when you said the combined ratio to improve into 102 so the lever would be more the claim ratio coming down from 75 current debt to almost like 70 or 72 or are the more lever will come from the economies of scales the cost ratio is improving and therefore your combined ratio from 107 right now will fall to 102 kind of a number?

Gopalarathnam: It will be more of the business spend because Opex there is limitation and the acquisition cost is always again the market driven because if intermediaries are paid more others have to follow otherwise we will lose business now and hence it is essentially on the claim edge.

Sanketh Godha: Finally sir how confident you are that IRDA will allow the price hike to happen in PP business in the current year?

Gopalarathnam: See we have raised this issue with CEO meeting the chairman called a more impact and right now in our planning we have not done any assumptions the industry is taking this with the regulator and chairman heard us. while the public accepts a petrol price and diesel price increase they will accept third-party price increase also. so probably in a month or two the IRDA will take a call on that.

Sanketh Godha: Thank you.

Moderator: Thank you. The next question is from the line of Keshav Binani from Axis Capital. Please go ahead.

Keshav Binani: Given we are seeing severe stress on the new sales could you share your renewal versus new sales ratio for motor business in F2020 how was it?

Gopalarathnam: I think Suri already covered about it. Suri you want to take this.

Suryanarayanan: Yes, in a normal year about close to about 1/3rd of our motor business comes from the premium on new vehicles. This year we are going to see a reduction there and all efforts will be to realize and maintain the growth one through renewals, the other is taking the business from the market which means eating into another company's renewal so it is what we should be working on, the new premium this year from a level of about 33 we expect that by end of the year it will be only half of what it was in the previous year largely driven by the drop in auto sales.

Keshav Binani: Second my question was on the investment side given we are seeing reduction in yield is there any plan to probably gradually increase share of equity in our book we are very low at about 3%, 4% as of now?

Sridharan Rangarajan: I think we are considering this but we also would weight and balance the rest of the objectives I think the point well taken.

Keshav Binani: Sure, thank you. That is it from my side.

Moderator: Thank you. Ladies and gentlemen I now hand the conference over to the management for closing comments.

Sridharan Rangarajan: So, I think I will just say a few words and I would request Mr. Gopal also to summarize. First I think we have in a two strong investment portfolio one is NBFC which is doing really good and we have as we seen in the last two months the trajectory is going in the right direction and insurance this is a portfolio we feel we have prepared a good strategic work for the next four years, we will have a far better investment portfolio within us in terms of the Chola MS General Insurance far more highly digitized framework, highly depend on the data analytics, highly process oriented within the organization you would see many shifting introducing to the market the new products these are the framework which we are working on that and we are working to change the product mix as Mr. Gopal said that the product mix is a combination of product and also the selection of the region and many combinations between that will help us to improve the combined ratio and we will have a very careful work done on the investment portfolio as well and I think we would see that next few years the insurance will have a far more better play to come. So that is what I would like to summaries and I would request Mr. Gopal to summarize.

Gopalarathnam: See actually Chola MS is in a very strong position even last fiscal we ended up with about 260 Crores of PBT after providing 270 Crores including the interest portion of the stressed assets. We almost close to 500 Crores of PBT and company is in a very strong financial position because of the clear strategy that it had adopted on sourcing, underwriting claims and expense management. Current year 2020/2021 is going to be a dampener because of the COVID situation particularly in growth on top line but I think on bottom line it is going to be better than last year and then which is a good news it also strengthens the solvency for the company. Going forward I think opportunity in insurance is huge and particularly COVID has presented lot of awareness, the industry was struggling to create awareness on health insurance and so many other type loss of job insurance and so many business interruption, etc. COVID has created lot of opportunities and Chola MS is rightly positioning itself to introduce and tap these opportunities, introduce products to these opportunities. It is widening its distribution reach therefore both from the industry perspective and the company perspective baring 2020/2021, the 2021/2022 onwards I think growth could be lot, we will be lot better and it is definitely a sector where it is going to be much better than any other sectors particularly in the current situation and then I am quite confident that Chola MS will do a lot better in the year 2021/2022 onwards. That is all I wanted to say as a summary.

Sridharan Rangarajan: Thank you all for participating in our call and showing interest. Thanks again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.