



“Cholamandalam Financial Holdings Limited
Q1 FY26 Earnings Conference Call”

August 08, 2025



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MODERATOR: **MR. PARTH JARIWALA -- DAM CAPITAL ADVISORS
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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '26 Earnings Conference Call of Cholamandalam Financial Holdings 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

Please note that this conference is being recorded. I now hand the conference over to Mr. Parth Jariwala from DAM Capital Advisors Limited. Thank you, and over to you, sir.

Parth Jariwala: Good evening, everyone, and welcome to the Q1 FY '26, Cholamandalam Financial Holdings Limited Earnings Call. From the management, we have; Mr. Sridharan Rangarajan, Non-Executive Director, Cholamandalam Financial Holdings Limited; Mr. N. Ganesh, Manager and CFO, Cholamandalam Financial Holdings Limited; Mr. V. Suryanarayanan, Managing Director, Cholamandalam MS General Insurance; Mr. S. Venugopalan, Chief Financial Officer, Cholamandalam MS General Insurance.

I'll now hand over the call to the management for the opening remarks, post which we can open the floor for Q&A. Over to you, sir.

V. Suryanarayanan: Good evening. This is Suryanarayanan. Thanks for joining the earnings conference call of Chola Financial Holdings for the quarter ended June '25. I'll now proceed with the overview of the performance for the quarter ended June. In Q1, in line with the 1/n method of accounting and reporting of gross domestic premium in India, with respect to long-term non-motor business, Chola MS recorded a premium of around INR1,812 crores.

The premium received in advance on long-term non-motor products was INR102 crores. Together with the reinsurance inward business, the GWP for Q1 was INR1,997 crores as against INR1,945 crores in the corresponding quarter of previous year. In motor, the principal line of business for the company, the market share stood at 5.2%. Within motor, the company now has a composition of 50% in cars, 38% in CVs and 12% in 2-wheelers.

The company secured about 25% of its total motor premium from new vehicles. The expense of management for Chola MS for the quarter stood at 32%, which measured without 1/n works out to 30.4% and is lower than the glide path, the plan approved by the Board and presented to the regulator way back in 2023. The EOM for the corresponding quarter of previous year was 33.3%. The claims ratio for the quarter at 81% is higher than the corresponding quarter of the previous year.

Recognizing the rising severity in court awards and third-party claims and the continued absence of increase in motor third-party premium for the last 3 to 4 years, Chola MS has stepped up its motor third-party reserving during the quarter, which had an impact on the overall claims ratio by about 3.53%.

The quarter's claim ratios in property lines was also impacted by a few large fire claims, which impacted the claims ratio by about 1.78%. This meant that the combined ratio for the quarter was 114.8% and without the 1/n effect at 111.5%. The combined ratio includes the impact of the motor third-party reserving augmentation and the large fire claims, which together is about 5.11% for the quarter.

The investment portfolio corpus at over INR18,140 crores, which is excluding the fair value change. The company had mark-to-market gains in both the debt and equity portfolios amounting to over INR690 crores. The profit before tax for the quarter was at INR145 crores and the return on equity not annualized at 3.45%, solvency ratio at 2.17x as at 30th June is comfortable.

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

Moderator: The first question is from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: Sir, 81% loss ratio, honestly, is significantly very high compared to what you historically reported and even in the COVID times, the number in the worst quarter was around 80 to 83 percentage. So just wanted to understand -- you highlighted that there are 2 things that is one big claims, 1.78 percentage and maybe motor TP reserving you enhance.

So even if I ignore those 2 numbers, you reporting maybe some 77%, 78% kind of a loss ratio seems to be very high compared to what you reported around 70 to 73 percentage in the past. So just wanted to understand whether things will be better in subsequent quarters? Or if any corrective actions you have taken to bring it back to 70 to 73 percentage in the loss ratio? That's my first question.

V. Suryanarayanan: Yes, Sanketh, as was remarked in the opening statement, the twin elements of stepping up the motor third-party and the fire losses that impact is about 5.11%. So what we are talking of is 81% minus 5.11%, which is at about 76%.

So this is about 2% to 3% higher than our normal average of anywhere between 72.5% or 73%. The contributing element is of course the elevated loss ratios in the motor OD segment. And of course, many of you have been part of the investor calls of listed and other entities as well.

The sector has seen even for the larger players, somewhere about 4% to 5% rise in the motor OD claims ratios, which is prevalent in many of the companies that we have seen. We have also had this impact which is there. Some corrective action has been taken. And generally, it is elevated in Q1 and then drops down through the other quarter.

So we only believe that as we move on to the rest of the quarters, we should see some relief coming in, in this space. But otherwise, I think it's fairly normal.

Sanketh Godha: Got it. Got it, sir. Sir, this motor TP reserve enhancement what you did 80.4% loss ratio. So you absorbed everything in the current quarter or you expect this 80.4% to remain as the new normal for a subsequent quarter or will go back to the 70, 72 percentage kind of number because whatever you wanted to provide you provided in the current quarter itself.

V. Suryanarayanan: It may not go back to that 72% level, but it can be lower than this number. But then, see, what we have to recognize is that the industry has not had any increase over a fairly long period. And the severity inflation is real. Sport awards are going on. So if any company manages to hold on to its TP reserves continuously at that same level for a long period, it only means 2 things.

Either there is a release from the earlier years, or quarterly deviation in loss ratios due to various reasons. Some quarterly fluctuation that they are reflecting in the reported numbers for the quarter. We would leave that to the respective companies. But it is in the context of absence of rise in premium, the right direction for the motor TP is actually to inch up from the earlier levels. And I guess we are doing the right thing in that perspective.

Sanketh Godha: Got it, sir. Sir, but suppose there is a lot of chatter that -- price hike will come and assume it comes, maybe I don't know what the number would be. Is it fair to assume that then there could be a meaningful improvement in the loss ratio because there could be some bit of price adequacy?

V. Suryanarayanan: One could expect that, yes. But then today, while there are press reports talking of the increase from a prospective date, we really have to wait and see as to whether it fructifies. But as and when the price increase happens, I'm sure this will get toned down.

Sanketh Godha: Got it. Got it, sir. And the second question which I want to ask is that, sir, last year when you did the reinsurance accepted business at overall company level, it was just 2 percentage of the total GWP.

In the current quarter, it is almost 9 percentage of current GWP. I don't know whether it's a new normal for the full year? That's the first question what I have, whether this is the new normal for the full year, 9 percentage, 10 percentage of the total GWP? Point number one.

And second is that in which segments you are seeing this business growing? And related to it, is it because of EOM pressure, maybe to some extent you are doing this business or otherwise, you're seeing a profit -- a very big profit opportunity and that's why you're doing it?

V. Suryanarayanan: See, actually, Sanketh, I guess, we can expect this number to be around this level, about 8% to 10% is something that we can expect it through the year. And it is actually a combination. So one, there are profitable opportunities that also come through. And then incidentally, it may also bring in the EOM advantage and support there, which is what the Board has taken a view and accordingly, we have stepped up the presence in this segment. So it's likely to be around that 8% to 10% range.

- Sanketh Godha:** And which segments are driving in reinsurance acceptance, basically...
- V. Suryanarayanan:** It can be across lines of business, not necessarily in a particular line. It will be across lines of businesses.
- Sanketh Godha:** Okay. But this is again asking more it will be commercial like property fire and crop predominantly, sir?
- V. Suryanarayanan:** It will be across lines. See, for instance, the number that you talked, last year, we had something in crop this year, it can be in other lines. It will be across lines of business.
- Moderator:** We have a next follow-up question from Sanketh Godha from Avendus Spark.
- Sanketh Godha:** Only 2 points what I have incrementally to ask. One is on health side, sir, again, hedging maybe I asked you this question last time also that loss ratios don't see a respite at all because we used to be 70-ish, now we are 80-ish. And we told in the past that we have taken corrective price action. Is it largely because PA contribution has come down? Or any other reason why this -- optically the ratios have gone up? That's one thing.
- And then the second thing, just wanted to understand on crop side, bulk of our business, if I remember right, was Maharashtra, and Maharashtra probably has gone to AIC this year. So any outlook you want to give on the growth either on a full n basis or 1/n basis, given crop won't be there in such a big way in the current year?
- V. Suryanarayanan:** Thanks, Sanketh. I'll first take the crop question. Yes, we are fairly aware that based on the retenders in 3 states, Maharashtra, Bengal and Odisha and the revised pricing at which the business has got concluded, the industry is likely to face almost a INR9,000 crore drop in the total premium in the crop insurance.
- And as business has shifted more from the private sector players to AIC to a larger extent, at least in Maharashtra, we are likely to see a drop in premium for multiline players generally and which is already manifested to an extent in the numbers reported by the industry for July.
- Chola MS also had last year about INR500 crores of premium from crop last year, which will not be there for the current year. So this drop annualized is about INR500 crores. We will see it unfold and as at June, it was about INR50 crores and maybe as at July, it's about INR145 crores. So this drop will definitely be there for Chola MS. We are looking at alternate avenues to step up and make good this shortfall. So this is on the crop side.
- Sanketh Godha:** But sir, related to that, your growth outlook for the company for the full year, if you are okay to share that number? Maybe because last year, GWP what we did was around INR8,300-odd crores, given INR500 crores -- you are starting with negative INR500 crores or INR7,800 crores kind of a number, whether we will be able to deliver INR8,300 crores kind of figure again in the current year?

- V. Suryanarayanan:** That's our intent. we'll have to see. Of course, the competitive intensity in the market is quite high with the kind of discounts and payouts. So we'll have to see that because we are very clear that we won't be chasing top line. So the inherent economic viability of the business is what will drive our appetite. But then, yes, nobody likes to have a drop, which is what we will want to work on. So this is on the crop side.
- And moving on to the health side question that you had. It is a fact that our volumes in PA have been toned down a bit given the EOM and other considerations, which is also a reason for the company had related loss ratios. But then we have written some group health in the quarter 1 though, still we continue to be fairly low, probably fourth from the bottom in terms of the group health volume of business.
- And there, I should say that perhaps we are also making provisions conservatively there. We will only wait for the time to tell as to how this pans out. So generally, I think we have been prudent when it comes to claims and claims provisioning, which is also reflected in the higher LR's. We will see it as the next quarter unfolds and perhaps at the half year stage, we will have a much clearer picture.
- Sanketh Godha:** Got it, sir. So basically, just again, simplifying the question that last year, you were at 110 combined. Honestly, first quarter was a little on the higher side. Is it fair to tell that will you be able to end up a couple of percentage higher than what you reported last year? Or you think you're confident to deliver a similar kind of combined for this year -- in the current year, I mean to say, closer to 110 kind of a number?
- V. Suryanarayanan:** See, there, you also have to see the change happening in the EOM number. So if you are to go to the slide in Page 46, and we have presented both the expense of management level on a full premium and on 1/n premium. You will see that from 33.3%, it has come down to about 30.4%. So there is a 2% reduction which has happened in the cost absorption. So our intent will also be to continue and maintain that trend. And when that happens, it can possibly start reflecting even on the COR.
- Moderator:** Ladies and gentlemen, as there are no further questions, I now hand the conference over to the management for closing comments. Over to you, sir.
- V. Suryanarayanan:** Yes. Thanks for -- thanks to everyone for joining in the call. Stay safe. Stay healthy. Thank you.
- Moderator:** Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.