"Cholamandalam Financial Holdings Limited

Q4 FY25 Earnings Conference Call"

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MODERATOR: **MR. PARTH JARIWALA – DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to Cholamandalam Financial Holdings Limited Q4 FY '25 Earnings Conference Call hosted by DAM Capital Advisors. 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 the star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Parth Jariwala. Thank you, and over to you, sir.

Parth Jariwala: Thank you. Good evening, everyone. Welcome to Q4 FY '25 earnings call of Cholamandalam Financial Holdings Limited. From the management, we have Mr. Sridharan Rangarajan, Non-Executive Director, Cholamandalam Financial Holdings Limited; Mr. N. Ganesh, Manager and Chief Financial Officer, Cholamandalam Financial Holdings Limited; Mr. V. Suryanarayanan:, Managing Director, Cholamandalam MS General Insurance; Mr. S. Venugopalan, Chief Financial Officer, Cholamandalam MS General Insurance. We'll begin with the update on Q4 FY '25 from the management. And post that, we can open the floor for Q&A.

Without further ado, I'll hand over the call to the management for the opening remarks. Thank you, and over to you, sir.

V. Suryanarayanan: This is Suryanarayanan. Good evening to each one of you for joining the earnings conference call of Cholamandalam Financial Holdings for the quarter and year ended March '25. I shall now proceed to give an overview of the performance of Chola MS for the quarter and the year.

In Q4, in line with the 1/N method of accounting and reporting of gross direct premium, with respect to long-term non-motor business, the company recorded a gross direct premium of INR2,029 crores. The premium received in advance on long-term non-motor products was INR124 crores for the quarter.

Together with the reinsurance inward business, the GWP for the quarter was INR2,135 crores. The company ended the year with a gross direct premium of INR8,124 crores and gross written premium of INR8,328 crores, which meant that the company grew at about 1.5x of industry growth on 1/N GDPI basis and 1.6x on full GDPI basis.

The long-term non-motor PRA, premium received in advance was INR250 crores for the year, which really is for the half year, which is the second half year, which places the combined GWP at over INR8,578 crores on a comparable basis with the previous year. During the year, the company added to its distribution by entering into new OEM relationships, large financial relationships and stepping up on its agency.

The company recorded business in over 168,000 gram panchayats in the country out of the 2.68 lakh gram panchayats that exist in the country. The customer addition that happened in these gram panchayats was over 5.2 million.

In motor, the principal line of business, the market share stood at 5.5%. Within motor, the company has a composition of 42% in cars, 43% in commercial vehicles and 15% in 2-wheelers.

The company secured about 27% of its total motor premium from new vehicles. The expense of management of Chola MS for the year stood at 33.14, which measured without by 1/N works out to 32.18% and is lower than the glide path approved by the Board way back and presented to the regulator.

During the year, in pursuant to its direction on augmenting digital capabilities, the company spent INR117 crores towards technology spend as against INR91 crores in corresponding period. The claims ratio for the year stood at 73.3%, lower than the 73.7% in the previous year. The combined effect of catastrophic events on the claims ratio for the year was about 0.42%.

The company continues to be prudent in its reserving for motor third-party claims. The combined ratio for the quarter was 109.3 and which without the 1/N effect translates to 105.7. The full year combined ratio without by 1/N effect was at 107.85 as against 109.9 in the corresponding period.

The investment corpus crossed the INR18,000 crore mark. And in Q4, the company had the benefit of recoveries of INR54 crores from written-off investments in earlier years. The PBT in the quarter and full year were at INR195 crores and INR680 crores, respectively, which includes this onetime income of INR54 crores. The return on equity on average net worth progressed to 18.5%. The net worth of Chola MS nudged the INR3,000 crore mark. And as you are aware, 85% of this net worth is by way of earned profits over the years. The solvency ratio of the company at 2.18x as at March is comfortable.

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

Moderator: Thank you. The first question is from the line of Ravi Purohit from Securities Investment Management Private Limited. Please go ahead.

Ravi Purohit: Yeah, hi. Good evening, gentlemen. And congratulations for a fantastic year. Sir, just wanted a couple of things. In the past con calls, we have mentioned that our targeted ROE for this General Insurance business has been around -- is around 17%, 18%, and we hope to be there in a couple of years. So I think we are probably there this year. Would you think that we can sustain at these ROE levels going forward? And if you could just kind of share your thoughts on the same from the next 2 to 3-year perspective?

Second is on the listing of the general insurance companies. I think there was a nudge from the regulator to kind of get the insurance companies listed. So if you could just share on these 2 aspects?

V. Suryanarayanan: Thanks, Ravi. On the target ROE, I had mentioned in my opening remarks that we ended the year at about 18.9%. A word of caution is that this does include the effect of the onetime income of this INR54 crores. Even without that, I guess it would be somewhere at about 18% or so. I certainly feel that this level of ROE is quite sustainable as we go along.

The second is with respect to the listing of general insurers, in fact, to clarify, Chola MS was not one of the companies that the regulator had called for a discussion, which I suppose they are first looking at the even larger players at this point in time, and our turn would come in due course, perhaps when the new IRDA Chairman comes and later on as the case may be. The Board of the holding company will take an appropriate call.

Ravi Purohit: Okay. And sir, if you could just give the breakup of this 18% ROE, which we expect to kind of continue to be in this range over the next few years. And this is -- how much of is basically with our combined ratio coming down, how much is it likely to get contributed by, let's say, income on our investment book?

Last year was particularly good for investment book for a lot of general insurance companies, generally speaking, with markets being buoyant. So if you could just kind of give some idea as to what path are we following on the combined ratio and vis-a-vis, let's say, what our investment book gains will be?

V. Suryanarayanan: Yes. If you look at it on the combined ratio front, we have been fairly stable on the combined ratio. And the 1/N effect did aggravate and then accentuate the combined ratio part, which is why I said when measured without 1/N, it's actually come down to about 107.85, which is more or less the kind of indication that we had given earlier year or so. So I would tend to think that the combined ratio would remain elevated, but then we would possibly improve by 1% or so over a 12-month period is what I would tend to look at.

On the investment front, certainly, there is a possibility that all our debt portfolios, the mark-to-market gains will change for the positive significantly through the year. As at March '25, our surplus was rendered at about INR108 crores, which has already moved up given the current situation.

So while, of course, equity markets could be turbulent considering the geopolitical situation at this point in time, still, we feel that the investment income will be fairly robust during the year. So overall, therefore, I think for the profitability or the return on equity, we don't see great stress for FY 25-26 as it is.

Ravi Purohit: Okay. But sir, slightly medium term, I mean, our combined ratio is fairly elevated, right, in the sense would you think that we could be closer to 102%, 103% over a period of time, 2, 3-year period? Or where would you expect it to kind of settle down? I mean, because in the long run, sustainably keeping it at elevated levels is not a sustainable strategy, right? I mean..

V. Suryanarayanan: Yes, I fully agree with you. But there are many drivers in the industry, which should help in actually making this downward progression in the combined ratio. So as you would have heard even in the other calls possibly, Motor TP price revision is one element. And given the fact that Chola MS has a large composition in motor, so this is particularly a key element which can help in improvement of the combined ratio as we go along.

The industry hasn't seen this price erosion for almost last 3 to 4 years. And therefore, whatever correction that comes through, and there are indications that this year the government could look at a price correction, so we have no idea as to when it will happen, whether it will happen immediately or 2, 3 months down the line is not something that we are aware of at this point in time. That certainly can help in improving the combined ratio.

Besides, the expense of management reduction also will help in the overall combined ratio. See, last year, without 1/N, we had reduced it by 0.5%. And 0.5% on INR8,500 crores means that you've got that kind of a reduction in EOM there. Similar reductions as we go along, sure, it will help in bringing the combined ratio down. So we don't make forward-looking statements as to the kind of combined ratio that will be achieved, but we do have plans to reduce, but we are not stating them here.

Ravi Purohit: Sir, if one looks at, again, bird's eye view, there are things that are in our control, there are things which are not in our control, right? So historically, we -- I think you also alluded to this fact that there is a lot of commissions that are being paid out in the industry directly, indirectly, whatever way one looks at them. And there are certain things which are probably in our control in terms of tech usage, more smart underwriting.

Between these two, do you think we have done enough work or sufficient work to at least take benefit from the things which are under our control, and therefore, we could hopefully at least get 200, 300 basis point improvement over a period of time or that also looks like tough?

V. Suryanarayanan: See, the company has been working on its tech development program, so which is operating on multiple fronts. One is the transition from the legacy ERP system where there is progress. The second is the effort and tech spend that is happening on the digitization spend, which is more for modernizing and also to realize the efficiencies in transacting and also convenience in transacting for channel partners and the employees. I think these will play out and one could see the benefit of efficiencies kicking in as we go along.

Ravi Purohit: Okay. Thanks a lot, sir. I'll get back in the queue.

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

Sanketh Godha: Yeah. Thank you for the opportunity, sir. So in one 1/N accounting for the full year, we were at 110.2. If we don't do 1/N, it is 108.1. So just wondering, given that advance premium, which is not recognized in the current year, will ultimately get recognized in the current year and a year later. So is it fair to say that we are getting closer to 108 at least in FY '26?

Venugopalan S: So, you are right. Basically, the combined ratio will come down from 110 to around 107 from the point of 1/N effect. Your question is whether they're sustainable from the point of view of that to the next level. That's what you were asking?

Sanketh Godha: Yes. Basically, if the business environment remains broadly the same, then the glide path to 108.1 is given. And if things remain better relatively compared to last year on competition, pricing, all those things, then there is an additional delta in the combined to play out. That's the way I was just looking at it, sir.

Management: I think, our MD has pointed out clearly that there are 2 levers which may reduce the combined ratio going forward. One is the natural EOM reduction that we need to fulfill as per the glide path. That part definitely will play down in the part of the combined ratios to come down. And the second is the motor third-party price that he has clearly said that it is not under our control, but that will largely help from reducing the loss ratios in the Motor TP segment being a company which is having a higher exposure in the TP. That will definitely bring down from that level. We are not quantifying this, but we will definitely be able to say that there is a possibility of reduction of the CoR going forward.

Sanketh Godha: Got it, sir. Sir, one more thing. See, when I speak to some of the SAHIs, I get the impression that regulator has told that EOM compliance will be on N basis, not on 1/N basis. So when you said on 1/N, we are 33.1 and on N we are at 32.2 so basically, we -- I mean if I use 1/N, then we are just 70 basis points away, assuming a tech cost of 1.5% is allowed. That's a fair understanding, sir?

Venugopalan S : Yes. FY 25- 26 is the last year of the glide path. So where we need to achieve that 1.5%, which you are talking about, that all depends on the additional allowances towards insurtech and the rural obligation part. But we are on the path to achieve that glide path level for FY 25- 26.

V. Suryanarayanan: Sanketh, the other aspect is even this difference is only because of the products that the regulator wants us to focus, which would be namely dwellings and such other long-term products, which is a priority area even for the regulator. So that is the dialogue that we have been having with the regulator to take a favorable look at the scheme of things.

See, we are pursuing the call of the regulator in growing these businesses, which are also considered as the necessary rural and social obligations in terms of enhancing the coverage. And there, when you do long term, so you have these cost implications.

Sanketh Godha: Got it. But sir, just a small clarification. Expense of management will be based on GWP recognized on 1/N basis or it is on cash basis?

V. Suryanarayanan: This aspect, the industry has been pleading with the regulator to look at the nature of products and the cost structure accordingly. I think that's where I will stop.

Sanketh Godha: Okay, sir. And lastly, sir, you did not allude to this point, which I thought it will naturally help in improving your combined ratio. Is the price hike what industry is witnessing with respect to commercial lines because every player has spoken about that point. So we are at 2.7% market share today.

Just want to understand in a better pricing environment, would you intend to increase the contribution of that business and likelihood market share you want to achieve next year? And if at all, you grow a little strongly and because the pricing environment is better, would that add extra delta to your COR improvement or loss ratio improvement in that sense?

V. Suryanarayanan: Certainly, our fire business is poised to grow from the levels that it is currently in. And in the current year, the company has also secured additional reinsurance capacities. And therefore, we will be in a position to write larger shares. It's also a fact that our net worth has been growing, and therefore, the retention levels towards the property risk is also poised to go up. So we should be stepping up on that portfolio.

Sanketh Godha: Got it, sir. And finally, on motor business, see, especially on the OD side, our loss ratios, honestly, from our historical average seems to be on the higher side relatively. So sir, just wondering in the process of diversifying the product mix, are we compromising a bit on motor OD loss ratio? Or you think that we should go back to the previous product mix so that our overall OD loss ratios look better relatively? Or you are getting more benefit on TP because of the product diversification, net-net, your motor, you are still comfortable with in that sense?

V. Suryanarayanan: Yes, as you would have looked at the motor composition has been changing, and we are seeing a rise in the car proportion. If you are to look at even our OD-TP mix, actually, this year, it's almost -- it's moved to about 42.7% of OD. The previous year, it was 40.6%. So there is a 2.1% shift that has happened towards OD in the current year. And in that context, you read the claims ratio of our company in Q4, actually, you will find that it is 72.5% and come down from 75.4% in the previous year. In fact, even lower than the full year's number of 73.6%.

So that way, now we are seeing a reduction though we have looked at numbers of other larger players, they've all seen an increase in the motor OD LR in Q4. In our case, actually, we are seeing a reduction in the motor OD LR of Q4. So evidently, some of the corrections that we have made is working and is taking shape. I'm reasonably confident that this will be sustained and then brought down further.

Sanketh Godha: Got it, sir. Perfect, perfect. That answers my question. Thank you very much.

Moderator: Thank you. The next question is from the line of Ravi Purohit: from Securities Investment Management Private Limited. Please go ahead.

Ravi Purohit: Yeah, Hi**.** Thanks for giving me another opportunity. Sir, just one question on this write-back that we had in the investment book this quarter. Is this pertaining to the write-offs that we had taken during IL&FS or DHFL write-offs or...

V. Suryanarayanan: Yes. So this is largely from the Reliance Capital write-off that we had taken and ILFS, about INR31 crores from Reliance Capital and balance of INR23 crores from ILFS.

Ravi Purohit: Okay. So there was some settlement that happened during this quarter. So all of the guys who would have taken write-offs would have...

V. Suryanarayanan: Yes. The cash realization, plus what they gave as securities, yes.

Ravi Purohit: Okay. And sir, the other question, of course, this has been asked many times in the past also is about the fact that Chola Holding is the holding company, and therefore, the true value of its holdings in the 2 subs kind of does not get reflected. There is always a very, very large holding company discount that kind of stays. So anything -- I think we've always said that the Board is cognizant of this, and there will probably come a time in future. So anything that we want to kind of do or looking to do on this side, it will be helpful for -- from investors' point of view, I think it will actually release a lot of value in that sense.

Sridharan: Thanks, Ravi. I think you've asked the question, as well as you have answered that also. But I think we will definitely look at it. As Sury said, the Board is cognizant of this fact. And there is a path most of the companies have to travel towards listing. So we'll have to wait and see, and we'll come back to you at an appropriate time.

Ravi Purohit: Okay. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Purohit: from Securities Investment Management Private Limited. Please go ahead.

Ravi Purohit: Yeah. Thanks. I think it looks like a lucky day. I had a chance to ask a question. So, one suggestion, I think we are probably one of the fewer general insurance companies who are not at a triangle n the presentation -- investor presentation. Most of the companies have kind of come to now this table as part of their investor deck. I would greatly appreciate if you could include that in future.

Venugopalan S: Can you narrate which table?

Ravi Purohit: The reserve triangle.

V. Suryanarayanan: Reserve triangle. Okay.

Ravi Purohit: Yes, the reserve triangle table. Yes, yes.

V. Suryanarayanan: Yes, we take that suggestion, so we will work on it. Thank you.

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

V. Suryanarayanan: So thanks for joining in on the call. So it was a good year for us where we are able to record growth and with improved profitability. The industry is exciting as always. And I think the company -- both the industry and the company is poised for a decent year. So we will continue to interact with you on a quarterly basis. Thank you.

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