"Cholamandalam Financial Holdings Limited

Q1 FY '25 Earnings Conference Call"

August 12, 2024

MANAGEMENT: **MR. SRIDHARAN RANGARAJAN – DIRECTOR – CHOLAMANDALAM FINANCIAL HOLDINGS LIMITED**
MR. N. GANESH – CHIEF FINANCIAL OFFICER – CHOLAMANDALAM FINANCIAL HOLDINGS LIMITED
MR. V. SURYANARAYANAN – MANAGING DIRECTOR – CHOLA MS GENERAL INSURANCE COMPANY LIMITED
MR. S. VENUGOPALAN – CHIEF FINANCIAL OFFICER – CHOLA MS GENERAL INSURANCE COMPANY LIMITED

MODERATOR: **MR. NISCHINT CHAWATHE – KOTAK SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Cholamandalam Financial Holdings Limited Q1 FY'25 Earnings Conference Call hosted by Kotak Securities 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you, and over to you, sir.

Nischint Chawathe: Thank you. Good morning, everyone. Welcome to the earnings conference call of Cholamandalam Financial Holdings Limited. To discuss the 1Q FY '25 performance of Chola Holdings and share industry and business updates we have with us the senior management today. The management is represented by Mr. Sridharan Rangarajan, Director, Cholamandalam Financial Holdings Limited; Mr. N. Ganesh, Chief Financial Officer, Cholamandalam Financial Holdings Limited; Mr. V. Suryanarayanan, Managing Director; Chola MS General Insurance Company Limited and Mr. S. Venugopalan, Chief Financial Officer; Chola MS General Insurance Company Limited.

I would now like to hand over the call to Mr. Sridharan for his opening comments after which we'll take Q&A.

Sridharan Rangarajan: Thank you. Good morning to all of you and welcome for our Q1 earnings call. I would request our Managing Director, V. Suryanarayanan to talk about the performance of the insurance to start with and then we will take up the question and answer. Since the NBFC is widely covered and you have already seen their financials as well as the investor calls and the presentation. So this would help us to understand the insurance side of the business and followed by Q&A from you. Thank you.

V. Suryanarayanan: Thanks, Sridhar. Good morning to all of you who joined the earnings conference call. Let me give you an overview of the performance of Chola MS for the quarter. In the quarter Chola MS recorded a gross direct premium of INR1,921 crores with a growth rate of 14.2% as against the multiline insurers growth of 12 4%. The company grew higher than industry in fire and other commercial lines of business. In retail health, the company grew by 9% as against multiline insurers growth of 11.4%.

In group health, the company grew its volume to about INR146 crores. With growth in commercial and HAT line, the composition of motor in the overall GDPI has reduced to 60% from 66% in the corresponding previous quarter. In Motor, the principal line of business the growth was at 3.2%. Within Motor, the company has a composition of 40.3% in cars, 43.8% in CVs and 15.9% in 2-wheelers. The company gets about 31% of its total motor premium from newer vehicles.

The expense of management for Chola MS for the quarter was at 33.35% as against 33.87% in the corresponding quarter a reduction of 0.52%. The claims ratio for the quarter was at 72% as against 74.5% in the corresponding quarter. The crop-related claims ratio for the Kharif and Rabi seasons of FY '23-'24 saw a reduction of about 8% from the levels provisioned earlier.

The NAT CAT event in the quarter, Cyclone Remal left us with an impact of INR6.3 crores as against INR15.7 crores from Cyclone Biparjoy in the corresponding previous quarter. The company continues to be prudent in its reserving for motor third-party claims. The combined ratio for the quarter was at 108.8% as against 112.9% in the corresponding previous quarter. The investment portfolio of corpus was at INR16,620 crores excluding the fair value change positive and the company had an investment income of INR309 crores.

With no exposure to stressed assets, recoveries from fully provided exposures will be recognized on a cash basis as and when it happens. The profit before tax in the quarter was INR179 crores as against INR88 crores in the corresponding quarter. Return on equity for the quarter progressed to 5.2% not annualized. The company has migrated its private car portfolio from the legacy ERP systems to cloud architecture ERP, enabling contemporary configuration capabilities and micro services-based APIs for channel partners and ease of transacting for our customers.

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

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

Sanketh Godha: Sir, the first question is on the SEBI's Board meeting outcome that if a holding company derives meaningful value, more than 70% value from the listed subsidiary, do you have a choice to delist the company?

Sridharan Rangarajan: Sanketh, you are not audible. Could you be...?

Sanketh Godha: Sir, my first question is on the holding company, that SEBI now given a provision that if the holding company derives more than 75% of the value from the listed entity of that holding company, they have a choice to delist themselves? So given we -- at the current market cap, we derive bulk of the value from one of the listed entities. Sir, just wondering whether the Board of holding company has thoughts on the SEBI circular to create value to yourself and minority shareholders in that sense.

Sridharan Rangarajan: Yes. So thank you, Sanketh. They are aware of this circular and the Board has no discussion on the circular at this point in time.

Sanketh Godha: Okay. But because out of curiosity I'm asking, whether at some point in time, we will be considering it or it's completely kind of a thing which you don't want to consider maybe in foreseeable future too?

Sridharan Rangarajan: Sanketh, honestly, as I said to you, the fact is that the Board has not considered this at all.

Sanketh Godha: Okay. Perfect. And on general insurance business, a couple of questions I had, is we have seen an improvement in the overall loss ratio from 74.5 to 72 corresponding quarter last year. So assuming if the crop reversal would have not happened, then the kind of loss ratio what we would have experienced is question number one.

And the second question is with respect to how should we think your motor strategy going ahead because that was always our mainstay, and we have grown meaningfully below the industry, at least in the current quarter at 3.2 percentage, how we should understand your outlook on this particular business going ahead, whether it's a tactical slowdown for EOM or you will come back when the market becomes a little more conducive compared to what you are believing it today to drive the growth? Yes, these are the two questions.

V. Suryanarayanan: Thanks, Sanketh. On the crop part, clearly, yes, but then you should understand that on crop, our retention levels are much lower. We retained 30%. And therefore, the impact, while it is there on the overall LR, it is not significant.

Second is on the motor business per se. One can say that at least for the first two months, it was a conscious tactical slowdown because in the month of June, the data is there with you, our growth rate in motor was 9.3% as against the industry growth rate of 5.9%. And I would tend to think that even in the month of July, we would have slightly higher than the industry because our numbers stand clear. So we grew by about 13%. So July was particularly very sedate one for the industry in terms of growth overall. So I won't know the exact numbers of motor growth in the month of July.

So one can say that after four months, two months, we have been growing much higher than the industry. But then the word that I would like to use is cautious optimism. So which is what we would want to do in the area of motor. Given the competitive conditions, plus the outlook on motor third-party pricing, we would want to be a little bit more careful in this area while approaching growth. As I said in my opening remarks, we are growing faster perhaps in the fire and other commercial lines. So it also gives us an opportunity to reorient our portfolio to an extent. But motor still remains our lifeline, and we will continue to grow.

Sanketh Godha: Any guidance you want to give that -- as you rightly said, in the month of June and July, you did well. So we can expect a double-digit growth from a full year point of view with respect to motor business given the first quarter looks a little muted?

V. Suryanarayanan: I would tend to think so because normally, see, even our -- your long-term premium that rolls in is quite strong in the second half of the year. So -- and therefore, double-digit growth in motor is very much possible.

Sanketh Godha: Got it, sir. And one more on growth, see our retail growth is a little muted. As you highlighted in the initial remarks, it's 9 percentage, but group health has done very well. Sir, if you can give a little bit of color on group health, which means where you're growing whether it is again banca led or a group employee cover and a long-term strategy on this piece and why it gives you comfort today to do that business if it is employee-employer compared to our previous strategy being very cautious on that particular space. And if you can, I'm assuming that the loss ratio, which has a little deteriorated compared to last year in health, around 69.7 is largely because of our strategy chasing the employee-employer or something with respect to incidence rates have played a role?

V. Suryanarayanan: Yes, while our group health volumes have risen, if one were to compare this with the industry, we are still probably somewhere number five from the bottom. So it is not that one has taken a very aggressive stance on this line because more balanced stance and we are focusing on the SME segments. And to begin with, much of our business is also from within the group. So leveraging on the synergies within the group. So while we will definitely see a growth given the small base, the percentages would look very large. But in relation to industry, one can still say that our overall market share in group health would continue to be low.

Sanketh Godha: Okay. And loss ratio, sir, if you can break it down between retail or is it largely because of an exposure to group health, which played the role, a bit of deterioration?

V. Suryanarayanan: I wouldn't tend to think so. So some of our business is from the public sector bancassurance side, which is where the loss ratios were a tad higher. But then we have secured some price increases in those businesses, which should roll out maybe 60 days down the line and should improve the loss ratios from that line of business. We will also be considering a price increase in our retail health in some of our flagship products, consequent to the product regulation changes and medical inflation. So I think that should help us bring the health loss ratios to contract.

Sanketh Godha: And lastly, on Motor OD, how much was impact because of cat event, I mean, basis points if you can tell because we are seeing an improving trend every quarter. But in this current quarter, there seems to be a bit of deterioration. And I think in the presentation, we have put an absolute dill. So I'm assuming it is because of cat event. If the cat event would have not happened, what the liking number would have been?

V. Suryanarayanan: Let me clarify. The cat event was more from the fire line of business. You will find that it was largely from the fire line of business.

Sanketh Godha: Okay. Nothing...

V. Suryanarayanan: You can -- I think it will be largely from the fire line of business. Largely from the fire line of business.

Sanketh Godha: Okay. Perfect, sir. That's it from my side. Thank you very much.

Moderator: Thank you. The next question is from Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Sir, just a clarification on the EOM. So what is the right path and by when we hope to be at 30%?

V. Suryanarayanan: See, the regulator had given us a 3 year time frame ending with fiscal year '25-'26 to align to the 30% mark. We have been progressing in that direction, and we are confident that we will attain that level by that time.

Ravi Mehta: So you could be attaining 30% at the Q4 of '26 is also okay or for the entire year it has to be like, just to get a sense here?

V. Suryanarayanan: No, it has to be for the year.

Ravi Mehta: Okay. For the year.

V. Suryanarayanan: For the full year.

Moderator: The next question is from Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Sir, just one question from my side. And if you could give some guidance in terms of how your financials could look like under IFRS?

S. Venugopalan: IFRS for Chola, we have not evaluated the impact. However, basically, there are a couple of major level of impact that it would create based on our analysis so far, which is yet to be completed in full. One of such benefit is in the form of deferred acquisition cost. Currently, we are upfront accounting the entire cost that are incurred as an acquisition cost now. IFRS would have a benefit on that, that's one benefit.

The second benefit on the discounting on the TP claims, which may have a positive impact again. Currently, we are not allowed to discount, whereas all the investments are going to earn on those liabilities on the TP claims. These are all the two positive changes which we are expecting. We are yet to evaluate the impact in terms of the current business on that. We'll be shortly going to finalise our financial impact on IND AS.

Moderator: The next question is from Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Thank you again for the opportunity. One small thing was see, that our solvency has improved to 192. Will we still be okay to raise sub-debt or given the profitability looks better and growth seems to be in line with the ROEs or it's an option you have? We just wanted to understand it will get triggered in the current year or you see that Solvency II be self-funded by your own profits? That's point number one. And the second question is largely to understand, discussion I typically ask, how much is our long-term business both in the entire GDPI right now compared to what it was previous quarter in the same time?

S. Venugopalan: Sanketh, the solvency currently at a comfortable level of 1.91 times against 1.5 times of minimum regulatory limit. So we have got the approval from the board for an amount of INR100 crores of the additional tier 2 as per the regulation. However, we are yet to take the call because we are currently in a comfortable solvency position. So, this is the first question that I'm answering. So on the second question we wish to state that our long term non motor GWP is around 9.3% of the total GWP which is more or less around the same percentage in the last year also.

Sanketh Godha: Got it. If you can break down your health within that health means excluding PA, how much is benefit based?

S. Venugopalan: Majority of the long term non motor comes from Health benefit products, Accident and home Dwelling.

Moderator: Thank you. Next question is from Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Sir, I was looking at data on channel wise mix and I was just curious what proportion of business that you kind of highlight from agencies actually come from some POSPs?

V. Suryanarayanan: Refer to the power point presentation, Chola Insurance Express, our own captive agency, is part of the corporate agent captive which is reflected there. It is part of the 27% and should be about 15.5% while the balance will be from chola Finance and other group entities. This is on Page 60 here.

Nischint Chawathe: That's right. No. But I'm just curious that within the industry, we can see probably a big change where the business from the agency is actually sort of moving more towards POSP and I guess that's a trend that we have seen in the motor business more prominently. So, are you kind of seeing a trend where a large part of the agency business is sort of now coming under the POSP umbrella?

V. Suryanarayanan: See, POSP operates both under broking as well as agents, so individual POSPs, we treat them as agents and POSPs operating under brokers they go into that 41.7% reflected there. So there, you can see that say, as compared to the full year of last year, 36.5 to 41.7.

So one does see the trend of POSPs operating under brokers going up. But of course, this 41.7% will also include the business from OEM brokers typically OEM tie up. But broadly, one can in the industry, one can see the volume of business going up from POSPs operating under the umbrella of broking entities.

Nischint Chawathe: On a Y-o-Y basis the POSPs would be like how much up for you? I mean, unless you just get a broad trend?

V. Suryanarayanan: So should be about 6.5% to 7%.

Nischint Chawathe: I'm saying how much would it be increasing on a year-on-year basis?

V. Suryanarayanan: So we can get back to you later, yes.

Moderator: Thank you. The next question is from Navin Vijay from MS Capital. Please go ahead.

Navin Vijay: I just wanted to get a feel of the work that we are doing in the digital ecosystem. Will it be encompassing any more features like payments, et cetera? Or it will be confined to insurance only?

V. Suryanarayanan: Today, under the regulations, we can do largely only the insurance business. Should the insurance amendment bill go through then we could get into allied areas linked to insurance, which should be the adjacencies that can operate.

Presently, what I talked about the digital ecosystem, we are working on a digital transformation within the company. One is the ERP transformation where we have made the first step in terms of the private car portfolio, which roughly is about 25% of the company's top line. So that progress, we will then make to the other parts of motor and sales and so on and so forth.

The other is the sales apps, once this is enabled, it helps us to open up a world of possibilities relating to micro services and offering of much more vibrant APIs to all our partners, regions, POSPs, bancassurance partners. So this is the journey that we are undertaking. And we believe that over the next 12 months, we should be completing this journey.

Navin Vijay: Great, sir. Great. That was helpful. And I thought I just throw up this question also, any plans for listing this insurance arm separately, sir? Is that under discussion or any time frame, long-term time frame that we are looking at?

Sridharan Rangarajan: The Board of the CFHL would take an appropriate call. There's no such discussion as of now.

Moderator: That was the last question in queue. I would now like to hand the conference back to Mr. Nischint Chawathe for closing comments.

Nischint Chawathe: Thank you, everyone, for joining us today. We thank the management for giving us an opportunity to host the call. Thank you very much, and have a nice day.

V. Suryanarayanan: Thank you.

Moderator: Thank you very much. On behalf of Kotak Securities Limited that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.