"Cholamandalam Financial Holdings Q1 FY24 Investors Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Chola Financial Holdings Q1 FY24 Investors 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. Thank you and over to you, Mr. Agarwal.

Praveen Agarwal: Good evening, everyone and welcome to this Earnings Call.

From Cholamandalam Financial Holdings, we have Mr. Sridharan Rangarajan, he is the Director and Mr. N Ganesh, he is the CFO and from Chola MS General Insurance, we have Mr. V Suryanarayanan, he is the MD and Mr. S. Venugopalan, the CFO of the Company.

I will request to Mr. Sridharan to take us through the key highlights of the Result, post which we will open the floor for Q&A. Over to you, sir.

Sridharan Rangarajan: Good evening all. I have with me, my colleague Suryanarayanan - MD of Chola MS General Insurance, Venugopalan - CFO of Chola MS General Insurance and Ganesh - CFO for Chola Financial Holding.

I would like to have a very brief comment and I request Suryanarayanan to make the comment relating insurance.

Consolidated total income of Chola Financial Holding for the quarter increased by 44% to Rs. 5,715 crores, while the profit after tax increased by 36% to Rs. 792 crores. Chola General Insurance also has done fabulously well. Overall, I feel that both of the companies have done well, with that opening remark, I request Suryanarayanan to make a remark relating to Insurance and then we will open up for question answers.

V Suryanarayanan: Thank you, Sridharan, and good evening to each one of you. So I shall now proceed to give you a brief overview of the performance of Chola MS General Insurance for Q1.

In the quarter, Chola MS recorded a gross direct premium of Rs. 1,681 crores with a growth rate of 30.3% as against the multi-line insurer's growth of 16.5%. This growth has helped the Chola MS to enhance its market share to 2.95% amongst multi-line insurers. The growth was across all lines of business with growth rates of 15.4% in fire, 35.3% in motor, 31.4% in health and 17% in personal accident. The Company grew across all its channels in its captive channels business from the sister Company and the Insurance Express Outlets grew by over 27%.

Bancassurance business grew by over 15% and growth of 11% from other channels including new channel acquisition partners helped attain the strong growth.

The EOM, the much discussed subject in the general insurance industry these days, for Chola MS was 33.9% in Q1, as against 37.16% in corresponding quarter of previous year, implying a reduction of 3.27%. Chola MS has won a cluster in crop insurance in the state of Maharashtra with a premium potential of about Rs. 500 crores per annum. This business is a three-year tender when one can reasonably expect this to continue for the subsequent 2 years as well. As premium recognition happens in subsequent quarters, this should help lower the EOM for Chola MS and gradually help converge to the regulatory limits as defined in the glide path. The claims ratio for the quarter was at 74.5% as against 72% in corresponding quarter of previous year, an increase contributed by 1.34% from Cyclone, Nat Cat even claims. The combined ratio for the quarter was at 112.9 and without the effect of the cyclone and natural catastrophic event claims, it was at about 111.6% as against 114.9% in the corresponding quarter of the previous year. Chola MS Investment portfolio corpus as of June was at Rs. 15,150 crores plus and with an investment income of about Rs. 263 crores for the quarter. With no exposure to stressed assets, recoveries from the fully provided exposures in IL&FS and Reliance Capital would be recognized on cash basis as and when it happens. The PBT for the quarter was Rs. 88 crores as against Rs. 51 crores in the corresponding quarter. The return on equity for the quarter annualized has progressed to 11.76%. We will now be happy to take any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question comes from the line of Devansh Nigotia of SIMPL. Please go ahead sir.

Devansh Nigotia: So just couple of questions. Sir, one is if we look at our commission in OpEx on a combined basis with denominator of net written premium, so we see that it has been trending downwards for the last 3-4 quarters. So are we seeing some signs of competitive intensity moderating in motor or is it related to something else? And some thoughts if you can share here?

V Suryanarayanan: Good question, so very clearly the business has been taking a close look at the various portfolios across its various verticals and recalibrating the acquisition cost together with the underlying fundamentals of the business. So the business has taken drastic steps of curbing and reducing sourcing costs in some of channels, which has begun to show results. The business expects this to continue as we go along.

Devansh Nigotia: So we have you mentioned that we are again trying to build the CV book**, s**o is it the sourcing cost in two wheelers and passenger vehicles which were at an elevated level and now we are trying to change our business mix from there which will help us gain in terms of better operating expense ratio? Is that the understanding?

V Suryanarayanan: Yes, that is one of the factors to start with, this year TP premium price increase is not happening and on the backdrop of just a 4% percent increase last year. Locking oneself into a much longer term exposure for 5 years in 2 wheelers has its own implication, so business has taken a careful look at that.

Devansh Nigotia: And when we look at we have been mentioning for some time that we are trying to build crop again, but even in this quarter there has not been any business from crop insurance, so some thoughts if you can share?

V Suryanarayanan: As I mentioned in my opening remarks, the Kharif season begins in July. This year we have entered the crop business. We have won a cluster and as I mentioned earlier, we should see the booking out for our business in Q2. And maybe largely it will be in Q2. Some volumes could come in Q3.

Devansh Nigotia: And what is the kind of business mix that you are targeting for crop over next 1-2 years?

V Suryanarayanan: We don't expect this to be anywhere beyond 7% to 8%.

Devansh Nigotia: Is it likely to comply with EOM or we are looking at high profitability over here and any expected combined ratio that you're expecting from this business?

V Suryanarayanan: In the current year, in most of the crop tenders, the states have adopted Loss Corridor model of 80 to 110, so which means that under the model any claim ratio in excess of 110, the state will step in and the insurers have taken their own reinsurance arrangements for covers beyond the loss ratio of a certain level, so we just sort of made the exposure, a little more predictable than it was a few years back.

Devansh Nigotia: And in case of group health and fire insurance, there have been step up in losses, underwriting losses, so how would you describe, what is that related to? Is it pricing or sourcing cost? If you can just help us understand?

V Suryanarayanan: The Chola MS continues to adopt a very cautious stance with respect to group health. Even if you notice from the industry numbers, or our own numbers while industry has grown in group health quite significantly, the multi-line players have grown group health, private sector have grown by about Rs. 2,350 crores. Our group health hasn’t grown as much. We have just grown very marginally, so we continue to adopt a cautious stance there.

Devansh Nigotia: CIFC is looking to raise funds, right, they mentioned and they are looking to do a QIP, so considering looking at our balance sheet, will we participate in it? But at the balance sheet level, we don't have that kind of cash, some thoughts if you can share whether we will be able to participate or not?

Sridharan Rangarajan: So the process is on, I think first of all CIFCO will get their shareholder’s approval and then we will take a call within that. I think last time we did participate and we are also thinking about that, I think we will take a call. The board will consider this soon and will take a call and decide about that.

Moderator: Thank you very much. Mr. Agarwal, would you like to ask few questions?

Praveen Agarwal: Sir we had two queries, one was regarding the price increase across products. Can you share some thoughts, how has been the price increase across various products that may have helped us during the quarter?

V Suryanarayanan: If you were to look at the first the commercial and property lines, when it comes to general premium price realization, Chola MS we have seen a decline in average premium realization of anywhere between 7% to 9% depending on the occupancy and the risk profiles, location and whether there was a claim in the previous year and so on and so forth. So while that is the story in the fire, actually we are now seeing the pricing improvement in the motor. There is a lot more responsible behavior I am seeing from many players and as a responsible insurer, Chola MS, has also enhanced its prices. And to the immediate effect that we see is that some volume drop is also seen. While our growth, as I mentioned in the start as motor is 35%, you will find that the growth in subsequent months within the quarter in June was much lower and as I see, even in the month of July, it is lower, which is the direct effect of the price corrections that we have reflected in the market. We are quite happy with that. And in health, again, of course, these are not prices that you change on a month-to-month basis, but the generic tendency that we are seeing is that claims ratios are on the increase across with medical inflation and also the general nature of health claim frauds that we see in the marketplace. Chola MS will also be evaluating one other price correction as a sequel to the one that we had last year.

Praveen Agarwal: In terms of new channel contribution, which product is more successful in the new channels that you have generated?

V Suryanarayanan: See I mentioned about the growth rates in various lines of business. So we are growing in fire. We are growing in motor insurance and again you will find that our mix of categories within motor is also present. So you will see that there is growth in cars that is largely because of we have tie up that we have got into.

Praveen Agarwal: And lastly from my side, sir, any progress or any thoughts that you have garnered from the regulator regarding the composite licenses?

Venugopalan: Composite license, requires the Insurance Act Amendment, which was there in the earlier draft version of the proposal. But I don't think that this is appearing in the new proposal and also with the monsoon session ending, it is not in the offing for clearing by parliament. Anyhow, composite license is not there in the final draft version of the insurance act amendment law.

Moderator: Thank you. We have a question from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: Sir when I see your motor mix, it seems to how drastically changed, not in favor of 2 wheelers, so in the last year for the full year, it was almost 20% of the business of 2 wheelers, now it is just 16, so when you said that in June and July, the growth has moderated or price correction has been done that should I assume is largely because of your change in stance with respect to 2-wheeler business?

V Suryanarayanan: I won't think of it that way, so we would like to stay in that business, but ultimately the economic result should make sense. That is what would drive the ultimate mix. Though we were seeing a reduction from 19.6 to 16.3, 19.6 was last year's full number, Q1 is 16.3, but a good amount of premium anyway will come up during the festive season, so the 2 wheeler sales itself has been down we all know in Q1 and that story continues in July. But in festive season it does go up and anyway the long term component of the premium that we had written in previous years will all start adding up in the subsequent quarters. So in my view I would tend to look at it as a more starting position of around 19 to 20 is what I would tend to think that it would settle ultimately.

Sanketh Godha: So, sir you are fairly confident that 2 wheeler will be more like 19% to 20% of the total mix even for the entire FY24? That is I need to understand right, Sir?

V Suryanarayanan: At this point in time, that is how I think of it in the current situation.

Sanketh Godha: Sir the reason why I was asking this question is that If you look at your loss ratio trajectory in motor OD business, it improved from 76% in first quarter FY23 to almost 72% and ended the year with 71.7, now it is back to 75 and if you again look at the mix, then the car contribution which was 35-36, it has increased to 42, so which means that the higher loss ratio product typically, which I believe is cars has increased and that led to increasing the motor OD loss ratio. So just wanted to understand that it is largely because of car? And the second reason I just wanted to check why you tend to choose to do more cars relatively? Is it more industrial led growth or you are consciously making an effort to grow the car piece?

V Suryanarayanan: A couple of points out here, see, even if you have to look at the last year's numbers, Q1 was 75.8% and then it improved as the year went along to 71.7. So in the industry we have always seen the trend where LR's are elevated in Q1 and then they taper down towards Q2, Q3 and then you will see some hardening again in Q4. This is a trend that even if you have to look at the numbers of competition and for the industry in general that is the trend that you would see. And that is something that we expect to happen even in the current year. And let me also say that we are seeing traces of it even as we go along. So we are now having this discussion in month two of the quarter. So I can say that that trend is quite visible even presently. The next question is that the cars growth, I have mentioned this even in some of the past calls, so we get our car business across all three segments, the new segment, which has its pluses and minuses, the financial segment, which again has its own advantage and third is the agency segment which is the older vehicle segment. Chola MS has a strong presence across all three. We have added 2 OEM partners to an extent that the Pan India has been opened up by Maruti for us, so these will bring in some new vehicle business. But Chola MS will be committed to looking at the inherent profitability per se. The price point pressure at the financier channel is much different and much better as compared to what you get in the agency business or perhaps in the new vehicle business. So these are several factors at play which ultimately shape the overall strategy in terms of getting stronger into any particular subcategory.

Sanketh Godha: Sir just asking the point, if I look your Banca contribution compared to the last year, **22:47** _____ Banca led to that car led growth, is it that we have taken a conscious decision to slow down our long term policies growth in Banca and that is the reason why the contribution is lower and it is compensated by car growth? Is the way I need to look it or how do I read the numbers basically?

V Suryanarayanan: We have presented our growth across the captive channels, Bancassurance and part of our growth in our own business, our own sister Company, you will find that there is a strong growth there, so which is where we get a good part of the motor business and that includes cars. And when I say cars, there is also the used car markets are there.

Moderator: We have a question from the line of Prateek Poddar of Nippon India Mutual Fund. Please go ahead, sir.

Prateek Poddar: Sir just one question, with the crop being 8% of your GWP as you decided for, how should we think about loss ratios from an overall Company's perspective, especially given the fact that even rules are there and you need to go towards 30%?

V Suryanarayanan: I mentioned that the scheme operates in a corridor of 80 to 110, just as most state governments have taken that stand, Loss ratio may not be an issue majorly.

Prateek Poddar: I understand that my question was on the overall loss ratios for the Company?

V Suryanarayanan: Therefore you will have a loss ratio of a minimum of 80, that is the best that one can look at and that is capped, so we would tend to believe that the crop can reasonably operate somewhere in the 90s, so 90 to 95 is what one can reasonably expect, and that is what we would probably start factoring in even when we start presenting the numbers.

Prateek Poddar: Sorry maybe I am wrong, but sequentially we have seen a sharp jump in the OpEx, so overall, how should we think about overall OpEx ratios in the next 1 year-2 years over the medium term?

V Suryanarayanan: See, I mentioned Prateek in the beginning of the call that actually on the EOM as compared to corresponding quarter, we have got 3.27% reduction. Our numbers EOM for the current quarter was 33.9. By EOM, we mean our total expenditure in relation to the premium, the topline. So this is as of now for the quarter was at 33.9 and I had also mentioned that as we start recognizing the crop premium and given the business mix, you will possibly start seeing this ratio going down?

Prateek Poddar: And this gets compensated in the sense by elevated loss ratios, right? Because you just mentioned that loss ratios in the crop will be closer to 90%-95%?

V Suryanarayanan: That is an expectation that we would like to carry, so yes, that if it turns out to be 80 at the lower end, yes, that can be a positive and on the other hand, if it turns out to the other end, yes, it can be adverse.

Prateek Poddar: And how should we think about combined ratios? What are your thoughts on how would you look to? What is the normal band in which you would look to operate this business in?

V Suryanarayanan: Even mentioned in the previous call that we would like to probably end to a level of about 107% though the two events, so what has happened in Q1, the cyclone and in Q2, July, whatever we had by way of the Northern floods, there will be a setback, but then we still hope that we will get somewhere closer to that by end of the year.

Moderator: Thank you. Sir, we have a question from the line of Devansh Nigotia from SIMPL. Please go ahead Sir.

Devansh Nigotia: Sir just wanted to understand in terms of motor TP, when we look at our historical claim ratios, before 2019 they were really elevated at that time and they used to be upwards of 95%, so now even after COVID, everything has normalized and still our claim ratios are at 73%-74%, so what is helping that the claim ratios to stay at such low levels and the pricing being almost flattish for the last 2 years?

V Suryanarayanan: While severity is definitely going up with minimum wage increase levels and medical inflation, what Chola MS as well as the industry is generally seeing, some frequency benefit pan out. The claims have developed over a period and apart from our own experience, we do have compared with the loss ratios of competition as well and still we find that our loss ratios compares in terms of thing, it is slightly higher and elevated than what we see in relation to the numbers of competition, so which only makes us feel comfortable that we are still on the right path when it comes to the loss ratios in TP.

Devansh Nigotia: Is it that there were benefits of that we had provided in during COVID in FY21-FY22 and the benefit of reversals we are seeing right now in our current claim ratios? Is that the understanding? So these claim ratios might step up further going forward?

V Suryanarayanan: We have maintained that price corrections in motor TP is essential for long-term survival of motor business in the country itself. It is really unfortunate that we have not got this increase and it has been rather sedate until now. It is required, so I think it will start casting pressures while 77 or what we have provided or what we are carrying, it is sustainable for this year, but if you were to look at a combined ratio of this, that it will come under pressure as we move along.

There is a sourcing cost now even for TP. There is an operating running expense for TP, so it will be difficult to run beyond this.

Devansh Nigotia: Sir my question was more specifically on reversals and the benefit of that, so is it that those benefits will stay only till this year? Is that what you are trying to say? I am still not able to understand.

V Suryanarayanan: The benefits will accrue only when the Motor Vehicle Act, which was made in into effective from April 22 that gets recognized. The industry together has filed a petition with the Supreme Court on appeal against several High Court orders and as that gets clarified by the Supreme Court, the industry itself will see some relief on this.

Devansh Nigotia: So basically there are some conflicts with few state decisions like Tamil Nadu on the decision which came from the Motor Vehicle Act? And any expected date when the outcome will come from Supreme Court on this?

V Suryanarayanan: No, we will have to wait. See the case is listed for hearing, but we don't know how when it will actually be taken up and how many hearings will happen before a final decision is out here? We are not too sure.

Moderator: Thank you. We have a question from the line of Prateek Poddar from Nippon India Mutual Fund.

Prateek Poddar: So you mentioned that you are planning for one more price correction this year on the health side, is it possible for you to quantify?

V Suryanarayanan: No, actually we are working at it, the business team, underwriting team are actually working at it. There are multiple ways of approaching the situation, whether you take one, the big increase once in three years and then live with it, or where you move along with the kind of inflation that you see. One would tend to believe that the latter is more palatable even to customers nobody likes to get a serious jolt of a sudden sharp jump. So that is the thinking. So let us see how it pans out. Maybe by the time that we have the next call, I should have some more details.

Moderator: Thank you. We have a question from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead, sir.

Ajox Frederick: Just one clarification on the 107% combined you are talking about, are you assuming a motor third party price hike?

V Suryanarayanan: The draft exposure was out about 6 to 8 weeks back. Industry has represented. You will have to wait to see if anything comes out of it. Actually industries asked both for upward and downward corrections for various categories.

Ajox Frederick: So basically you are expecting a price hike? That is how I should read it, right?

V Suryanarayanan: No, we will have to wait and see.

Ajox Frederick: But this 107% which we are targeting, we are not factoring that in, right?

V Suryanarayanan: At this point, no.

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

V Suryanarayanan: Thanks everyone. So it has been a quarter of good performance from Chola MS. We are certainly hopeful to carry this forward and carry this momentum as we go into the subsequent quarters. Thank you, everyone.

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