



“Bajaj Finserv Limited
Q4 FY '23 Earnings Conference Call”
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MODERATOR: **MR. SAMEER BHISE – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to Bajaj Finserv Limited Earnings Conference Call hosted by JM Financial. 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Bhise from JM Financial. Thank you and over to you, sir.

Sameer Bhise: Thank you, Zico. Good morning, everyone, and thank you for joining this call today. First, I would like to thank the management of Bajaj Finserv Limited for giving us the opportunity to host this call. From the management team, we have Mr. S Sreenivasan (CFO of Bajaj Finserv Limited), Mr. Tarun Chugh (CEO of Bajaj Allianz Life Insurance), Mr. Bharat Kalsi (CFO of Bajaj Allianz Life Insurance), Mr. Ramandeep Singh Sahni (CFO of Bajaj Allianz General Insurance), and we are also being joined by leadership from Bajaj Finserv Direct, Mr. Ashish Panchal, the CEO; and Bajaj Finserv Health, Mr. Devang Mody, the CEO of the company. Without much ado, I would want to hand over the floor to Mr. Sreenivasan for his opening comments, and then we open for Q&A. Over to you, sir. Thank you.

S Sreenivasan: Thank you, Sameer. Good morning, everybody. I welcome everyone to this conference call to discuss the results of Bajaj Finserv Limited for Q4 of FY23 and the full year FY23. Let me welcome my colleagues from our newer ventures, Ashish Panchal (CEO of Bajaj Finserv Direct), and Devang Mody (CEO of Bajaj Finserv Health).

As before, let me first clear up some hygiene points. In this call, we will largely be concentrating on the consolidated results, as well as the results of our insurance operations through Bajaj Allianz General Insurance (BAGIC), and Bajaj Allianz Life Insurance (BALIC), and where material, the standalone results of our company, BFS. Bajaj Finance (BFL) which is another major subsidiary of ours, has already had its conference call. However, if there are any high-level questions on BFL, we would be glad to take that as well.

We will not be taking any questions on the status of Allianz's stake in our insurance companies, except to state that the status has remained the same as at the end of the previous quarter, and there is no change.

Any statements that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance result.

Remarks on Ind AS

As required by regulation, BFS prepares its financials in accordance with Indian accounting standards or Ind AS. The insurance companies, however, are not yet covered under Ind AS. They have prepared Ind AS compliant financials only for the purpose of consolidation. Accordingly, for BAGIC and BALIC, any standalone numbers reported are based on the non-Ind AS accounting standards, Indian GAAP, as applicable to insurance companies.

Our results, the press release accompanying the results, and our investor deck have been uploaded on our website yesterday evening.

Let me now get to the main briefing on the results for the quarter and the year.

I will start with the disclosures on our investor presentation. Being the end of the year, we have enhanced the disclosures of EV, including the EV walk for BALIC and the claims reserving triangle for BAGIC. We have also increased the disclosures in respect of Bajaj Finserv Direct and Bajaj Finserv Health. As mentioned in earlier calls, we have indicated that when the new businesses have reached some level of maturity and the path is clear, we would invite the respective CEOs to attend this call.

Bajaj Finserv Direct has started its digital technology services business, under the brand of SKALEUP. My colleague Ashish and I will be pleased to take any questions, you may have on Bajaj Markets or Bajaj Finserv Direct.

In Bajaj Finserv Health, we have added slides indicating their business model and how their network and wellness stacks are building up. My colleague Devang and I will be pleased to take any questions you may have on these.

I must caution, however, that these companies are still in startup mode, and you may see more frequent changes in business models, when scaling up as we go forward.

During this quarter, our AMC received the final approval for starting their mutual fund business. The Bajaj Finserv AMC is expected to launch their first suite of products during Q2 of FY24.

Now, coming to the update for the performance for the quarter and the year.

Q4 of FY23 has been a very good quarter, with all our businesses performing very well. Robust discretionary spending, strong auto sales and very positive uptake of long-term savings, combined to result in our businesses doing exceptionally well.

Let me start with BAGIC.

For the quarter, BAGIC reported a growth of 14% in gross domestic premium income as against the private sector growth of 16.5% and the industry growth of 16.2%. Excluding the tender-driven businesses, which are crop insurance and government health schemes, GDPI growth for the quarter was 16.4% and for the full year was 15.1%.

During the quarter, BAGIC signed up with Axis Bank as a bancassurance partner, thereby further strengthening their bancassurance channel. BAGIC also launched Surety Bonds in the quarter, the first company to do so in the Indian market.

Looking back at the year gone by, you may recall that we had a spike earlier in the year, in the frequency and severity of claims in motor, due to post-COVID increase in traffic density; and in health claims, as customers chose to undergo elective treatments, which were postponed due to COVID. BAGIC, with its focus on strong underwriting, had reviewed these businesses in detail and taken corrective action, the results of which have started showing up in Q4. As a result of these actions, we saw sequential quarter-on-quarter reduction in claim ratios. This approach of balancing growth with profitability is at the heart of what BAGIC does.

In Q4, BAGIC saw strong growth in both motor and retail health businesses. Growth in GDPI in Q4 was driven by motor (13.3%), retail and group health (16.4% and 29.8% respectively), commercial lines (fire, engineering, marine and liability – 15.2%) and travel or overseas mediclaim (54.5%).

Overall, in Q4 FY23, Bajaj's motor growth of 13% was driven by two-wheeler segment, growing at 26%, the private car segment growing at 18% and the CV segment growing by 1%.

The growth in commercial lines was aided by BAGIC's strong bancassurance network and multi-line agency channels, supported by strong underwriting and excellent reinsurance capacity for covering large risks. BAGIC continues its robust performance across retail, commercial and industrial risk categories. Fire, marine and liability segments continued their growth momentum from the previous quarter. Overall commercial lines continue to do well with Q4 and FY23 growth of 15% and 15.2% respectively, against the industry growth of 12.3% and 13.9% respectively.

Health insurance performance has improved in Q4 as compared to the previous quarters of FY23. Overseas medical or travel insurance continued its momentum ending the year with a 54.5% growth in Q4, while BAGIC growth in retail health at 16.4% was better than the private and PSU players' growth of 11%. Similarly, in group health, BAGIC witnessed a growth of 29.8% in Q4 versus private and PSU players' growth of 23.8%. For the overall industry, including standalone health insurers or SAHIs, in Q4 FY23 retail health growth was 16%, while group health growth stood at 28.1%. So, BAGIC has grown a bit faster than that.

In Q4 of FY '22, that's about a year ago, BAGIC had launched the Health Prime Rider, which is an OPD attachment to its health policies. I'm glad to report that during FY23, Bajaj sold 8.8 Lakh riders. Much of this is serviced by Bajaj Finserv health.

For Q4 FY23, the loss ratio was 66.4%, as against 68.8% in Q4 FY22. The decrease was attributable to lower claims in motor, health, and some commercial lines. The combined ratio for Q4 was a healthy 97.3% and for the full year, BAGIC ended with a combined ratio of 100.5%. We expect this will be among the best, among the composite general insurance companies of comparable size. In a market which is intensely price competitive, this result, we believe, displays BAGIC's commitment to a balanced and profitable growth, on the back of strong sourcing and claims management.

As a result, profit after tax of BAGIC grew 30% Y-o-Y and stood at ₹ 322 crores in Q4 FY23. For the full year, BAGIC reported a slightly higher profit than FY22 at ₹ 1,348 crores.

BAGIC AUM grew by 13% to ₹ 27,809 crores as of 31st March 2023. The float generated, represented by increase in AUM, was ₹ 3,176 crores, which includes advance premium of ₹ 1,448 crores. The increase in advance premium was 30% Y-o-Y.

One point I would like to highlight is that BAGIC continues to contribute a significant proportion of the industry's profit. I would also like to mention that, in respect of the claims triangles, which we have uploaded like we do every year, we have seen that the revised ultimate expected losses

for BAGIC is higher than the original expected ultimate losses by a reasonable margin of about 7.6%. This is higher than the 6.8%, buffer that we had at the end of last year. Therefore, BAGIC continues to remain well-reserved in terms of its IBNR and IBNER.

In summary, it was a quarter with intense competition and BAGIC has chosen to hold its own with a very good combined ratio, not only for the quarter but also for the full year.

Let me go to BALIC next.

During the quarter, BALIC continued its month-on-month growth trajectory, reporting an industry-beating Individual Rated New Business (IRNB) premium growth of 48% against industry and private players' growth of 24% and 35% respectively. Similarly, in FY '23, BALIC's IRNB grew 41% against industry growth of 19% and private players' growth of 24%. In fact, in FY '23, BALIC was the 2nd fastest growing life insurer among the top 10 private players. BALIC's three-year CAGR of 39% in FY23 is the highest in the industry.

BALIC improved its market share of IRNB from 6.7% to 7.6% among the private players in FY23. The total number of policies for BALIC grew a healthy 24% to 2.05 Lakhs in Q4 FY23.

The overall IRNB mix stood at PAR 15%, non-PAR savings 52%, Term 3%, Annuity 5% and ULIP 25%. So predominantly it was non-PAR savings, followed by ULIP, PAR, and then Annuity and Term. Most lines have shown growth in absolute terms. The business mix changes reflect only relative differences in growth, and hence are not a matter of concern for us in the short term. During the quarter, growth was driven by all our main channels with Agency, Institutional Business and BALIC Direct growing at 65%, 39% and 38% respectively.

Another point I would like to highlight is the various initiatives undertaken by BALIC to improve persistency across most cohorts, especially in the later buckets. 13-month persistency has now increased to 83% and the 49th month and 61st month persistency have improved to 64% and 50% respectively. The increase in persistency helped deliver a strong growth of 26% in renewal premium in Q4 FY23.

The new business value (NBV), net of expense overrun, the key metric of profitability, increased by 35% from ₹308 crores in Q4 FY22 to ₹415 crores in Q4 FY23. For the year ended 31st March 2023, the NBV was ₹950 crores, which is a growth of 53%.

Overall, a good balanced quarter for BALIC with a strong focus on growth with profitability.

Another point I want to talk about is the introduction of IRDA's revised regulations on the Expense of Management and Commission. We believe this is a welcome change for the industry. With the increased flexibility and long-term focus of these regulations, it will help improve the insurance penetration as well as improve the ease of doing business in the country. Both BAGIC and BALIC are operating well within the prescribed guidelines as of the FY23 numbers, and together with our partners, we shall continue to seek a strong balanced growth in accordance with the framework that the IRDAI has provided.

Finally, both insurance companies are financially among the most solvent, BALIC with 516% solvency and BAGIC with 319%, and hence are well poised to weather any external adversity. Needless to say, both BAGIC and BALIC are dividend-paying companies, and both have increased their dividend payout in this year from the previous year.

All our insurance businesses have further augmented their digital capabilities, which along with greater digital acceptance by the customers, should, we hope, help create the foundation to deliver a strong performance in the coming year. Both BAGIC and BALIC have seen an increase in the utilization of the digital properties by customers and intermediaries. Further details of BAGIC and BALIC's digital capability are covered in the investor deck uploaded on the website.

A short word on our lending businesses, BFL and BHFL.

BFL, as mentioned in the conference call, had an excellent Q4 and the full year FY23 too was very good, as the company delivered on all its long-term financial guidance metrics - AUM, profit growth, return on assets, return on equity, and gross and net NPAs.

Continuing its growth story, BFL acquired 31 Lakh new customers in Q4 and 1.16 Crore new customers in FY23, which is the highest ever customer franchise addition in a year for BFL. Building on this customer franchise, the number of new loans booked in Q4 FY23 increased 20%, from 62.8 Lakhs to 75.6 Lakhs. The company's diversified business model has enabled it to record a strong AUM growth, as seen from the total AUM standing at ₹ 2,47,379 crores as on 31st March 2023 versus ₹ 1,92,087 crores on 31st March 2022.

It continues to maintain a management overlay provision of ₹960 crores at a consolidated level as of 31st March 2023.

The gross and net NPAs have shown further improvement - the gross NPA being below 1% (at 0.94%) as against 1.6% last year and the net NPA is 0.34% as against 0.68% in the previous year.

Consequently, BFL ended the quarter with a profit after tax of ₹ 3,158 crores, which is 30% higher than the same quarter of the previous year. The capital adequacy remains strong with a 25% overall capital adequacy.

Bajaj Housing Finance, the 100% mortgage subsidiary of BFL, continues to do well. The AUM grew 30% to ₹ 69,228 crores. The profit after tax grew 52% to ₹ 407 crores in Q4. For the full year, the PAT grew 77% to ₹ 1,258 crores. So, welcome to the thousand crores club to Bajaj Housing Finance Limited. The capital adequacy ratio continues to be strong at 22.97%, ensuring a very good quarter for both BFL and BHFL.

Now, to give an update on our newer companies, Bajaj Finserv Direct or Bajaj Markets and Bajaj Finserv Health.

During Q4 of FY23, Bajaj Markets attracted 1.06 crore consumers on its digital platform. These are people who visit our digital property, of which 2 lakhs became customers. This is a growth against last quarter's numbers of 84 lakhs and 1.9 lakhs respectively.

BFSD's lending operation (Unsecured and Secured, both BFL as well as outside partnerships) disbursement stood at ₹ 1,313 crores as against ₹ 1,175 crores in Q3 FY23. It sold 65,167 cards in Q4, as against 61,027 credit cards in Q3 FY23. As of 31st March 2023, BFSD has attracted 3.4 crore consumers on its digital platform, of which 7.5 lakhs have become customers. The total revenue for FY23 stood at ₹391 crores, which grew 89% Y-o-Y over FY22.

Coming to Bajaj Finserv Health Ltd - it carried out 11.5 lakh health transactions, having 3.34 lakh+ monthly active users. For the quarter, Bajaj Finserv Health had 9.67 lakh paying users, with 3.52 lakh users having renewable products.

Bajaj Finserv Health is also expanding its provider network, which includes 1.2 lakh+ doctors, 6,000+ lab touch points and 1,800 plus hospitals and clinics. Utilizing the network's strength, Bajaj Finserv Health is powering OPD services for BAGIC as well and recorded a gross premium of ₹82 crores for BAGIC in FY23.

I would like to point out that owing to the strong performance of most of our major subsidies throughout the year, BFS has recorded its highest ever consolidated PAT of ₹6,417 crores in FY23, with a growth of 41% as compared to FY22.

To summarize, consolidated total income for Q4 increased 25% to ₹ 23,625 crores and consolidated profit after tax increased 31% to ₹ 1,769 crores. For the full year, the consolidated total income was up 20% to ₹ 82,072 crores, and the consolidated profit after tax was 41% higher at ₹ 6,417 crores.

Just to highlight, the consolidated profit is after absorbing mark-to-market gains and losses on the equity securities portfolio held by the insurance companies, which is required to be mark-to-market under Ind-AS to the extent they are held through profit and loss account. The total impact was a loss of ₹ 328 crores in FY23 and a gain of ₹ 2 crores in FY22. Excluding the volatile impact of MTM losses, the profit after tax would have increased by 28% in Q4 FY23 and 48% for the full year.

Before we open for questions, considering the limited amount of time, I would request the audience to kindly keep their questions brief. And I would also request, please do not ask questions which have already been covered by an earlier participant. With this, I invite questions from the audience. And we have the full management team here to take any questions you might have. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. Dhaval from DSP. Please go ahead.

Dhaval:

Yes. Hi Sreeni. Hi everyone. Thanks for the opportunity. So, three quick questions. One is on BAGIC. So, overall, we have seen, combination ratio now settled between 99.5% to 100.5%.

And, historically, when the environment was more favorable, it was about 95% to 97%. So, when do you think we are at the peak, and maybe in the next couple of years, do we move back in that direction? So, some sense around the landscape, and what do you think about the combined ratio?

The second question is on Finserv Direct. Last time I remember you said 80-20 is the broad split between lending and non-lending revenues. For the full year, if you could just provide a broad breakup between lending, cards, and others, that would be very useful. Also, what I observed was our visits and transacting customer base has been flattening over the last few quarters now. So, are there any changes that we are doing in the operating model?

And the final question was on the Bajaj Health side. Basically, the growth rates have started to taper down in terms of active user engagement. So, the MAU (Monthly Active Users) has come down and even the prime retention seems to be tapering. So, any comments around that would be useful, especially on the transacting user part.

S Sreenivasan:

Thank you, Dhaval. I will take the first question first, and hand it over to Raman briefly. You had a question about combined ratio and where do you think it will settle. I think the combined ratio that you see is a weighted average of multiple lines of business, done across multiple channels. The company, as you know, works on a very granular basis, and there is a continuous activity of managing combined ratio by weeding out losing relationships and looking at profit pools, etc. If you recall the first quarter, we had a pretty high combined ratio of around 105%. Then quarter-on-quarter, we went into correction mode, and we have brought it back to about 100%. Raman will add on.

Ramandeep Sahni:

Yes. Thanks, Sreeni. Hi, Dhaval. So, I will just add to what Sreeni said. I think what is important here, Dhaval, is to understand there are too many moving parts at this stage. As we know, there is a big impact expected from the Motor Vehicle Act. If you're on the TP side, if we end up getting early reporting as we envisage, then things could look very different from where we stand today.

The second one is the impact of the new EoM regulation. Given that 55% to 60% of the players are above the 30% limit, and the commercials are also expected to come down. Both of these could play a big impact on how the CoR is expected to emerge going forward. So, to your point, at this stage, maybe it will be very difficult to predict, because if both of these work in the direction as we feel - early reporting starts and people start getting more rational about commercials - then maybe going back to, levels of 97% - 98% may not be a big challenge.

But if things continue the way they are, then, obviously, closer to 100% is where things could emerge. But like Sreeni rightly said, our endeavor is to always be below 100%. And in the worst of the scenarios, maybe this year could be one of them, we've been able to close that close to 100%. Whereas for the entire industry for nine months it was at 122%. It's moved up in fact compared to last year. So, our endeavor will be to be less than 100%, is where we stand today.

S Sreenivasan:

Now, I'll ask Ashish to take the next question. Your question was on whether the number of visiting consumers and active customers are slowing down. And you mentioned that has a 80-

20 split of revenue. I think I would like to make a small correction. What we mentioned last time is between the Bajaj Finance business and the open access business, the split was about 80-20 across cards and loans. I'll now pass it on to Ashish.

Ashish Panchal:

Thank you for the question. For Bajaj Finserv Direct, there are two lines of businesses. One is our open architecture marketplace and the other is we also are technology services provider both to some of the group companies and non-group companies. So, let's call it as technology services business. The revenue split between the marketplace and the technology services businesses was 76-24. So, out of ₹357 crores of total revenue, ₹273 crores came from marketplace businesses which are lending, cards, insurance, and investments. And ₹85 crores came from technology services business. Further splitting the marketplace revenue, out of the 76% of the total revenue that came from marketplace, 66% came from lending, 8% from cards, and 2% from insurance and investments.

Avinash Singh:

Now, I'll give it to Devang for your question on Bajaj Finserv Health.

Devang Mody:

Thank you, Dhaval, for the question. And you are right that our MAU has started flattening. I'll give you the rationale of that. We set up a network of providers, which is doctors, laboratories as well as hospitals. As we set up the network, it's imperative for us to give them transactions. Our product sales, either through BAGIC's Health Prime Rider, or other product sales, catches up after our network is well equipped to service the transaction. And hence, if you see in quarter 4 of last financial year, quarter 1 and quarter 2 of this year, we had significantly higher traffic, primarily driven by paid traffic. That we have started waning off. Rather, we are now not spending any money in getting paid traffic. What we are focused on as far as the growth metrics are concerned, which is the very important attribute for us to build the ecosystem around OPD, is how many transactions we are doing.

And if you see most of the category of transactions which we have started publishing now, doctor transactions have become 6x, while diagnostic transactions have become 5x in last one year. So, as we go forward, our focus is to get more transactions done, rather than getting more traffic done. Most of these transactions happen from customers which are our paying users. Our level of paying user was significantly less last year, so we had to complement it with paid traffic to drive some relevance with network which we enroll. And hence, there is a drop in the MAU. I hope I have been able to answer your question, Dhaval.

S Sreenivasan:

Dhaval, just to add to this - for both these companies, I think there are two aspects to it. One is we continue to build capabilities, both on tech side, on people side, and network and partner side. So, that is going on. And as they grow, I think we expect more and more consumers will come to us. What is very heartening for us to see is the number of consumers who are coming and spending time in our ecosystem, which is a sort of vision that we had when we set up this open architecture business and the healthcare business. And all these are potential customers for any of our products and solutions, whether it's insurance or lending or maybe in future, the mutual fund as well.

Dhaval:

Got it. Thanks, and I'll come back in the queue. Thanks.

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

Sanketh Godha: Yes. Thank you for the opportunity. Sir, I have a few questions on BALIC and BAGIC. So, the first one is on BALIC. Basically, if you look at high margin products, including non-par protection and annuity, which was last year 41% of the total individual AP, today it is 52%. But the margin expansion seems to be very limited from 14.2% to 15.5%. Just wanted to understand, is it that the spread in the non-par business has come up meaningfully, or has the acquisition cost been on the higher side, leading to that margin compression?

And the other question which I had was with respect to BALIC, is that if you can quantify the way you have quantified when the budget announcement came, how much high ticket non-ULIP contributed for FY23, Q4 FY23 and March 2023? If you can give the figures, it will be very useful.

And last one, there seems to be some weakness in annuity and group protection business. Despite very strong growth, these two businesses seem to be a little weak in FY23 and the fourth quarter. I just wanted to understand how you see these businesses to do going ahead. That's on BALIC.

S Sreenivasan: I will let Tarun and the team take the questions. Largely, your questions were on the non-par savings segment being significantly higher than last year and being a high margin product, why have the margins not grown in proportion to business. And the second question was on why group protection and annuity you think could have done better based on what you see in the market in terms of loan growth and demand growth.

Sanketh Godha: Yes. And last one is for ₹5 lakh plus ticket size, what was the contribution?

S Sreenivasan: I don't know whether we want to disclose that or not, but I leave it to Tarun and team to take that question. Thank you, Sanketh.

Tarun Chugh: I'll ask Bharat to answer the margin question and then I'll take the rest.

Bharat Kalsi: Yes. Thank you, Tarun. See, Sanket, there are 2-3 things. We always said that we look at NBV growth rather than the margin growth. And we have a very strong growth of NBV of 53%. Margin is a factor of multiple things. NBV has actually reflected the change in the product mix. Specific to your question on the high ticket size in the non-par saving - if you look at ₹5 lakh and above ticket size, the customer gets anything between 10 to 20 basis point higher IRR, which in turn means the margin on a higher ticket size per unit is lower for the insurer.

In this year, our higher ticket size has actually gone up significantly, resulting in a relatively little lower margin. That is reflecting in the NBM. but as I said, NBV is still up by 53% for the year. That's the first answer.

Secondly, if you look at our group protection - that has not grown in the quarter 4, or it has only grown 4% in the full year - what has happened is we have two, three large partners whom we work with, like banks. Their disbursements have not been growing as fast as compared to the

other industry players. And because group protection is an attachment product, when their disbursement or credit uptake doesn't go up, as a result our business also doesn't go up. And further, group protection is typically a higher margin because of the 1/10th of ANP logic. In absolute term, it may be a 6%, 7%, 8% margin. But when it comes to NBM, it goes into 60%, 70%, 80%. So, if that doesn't grow, it also gets reflected in the NBM. That was the broad insight on the overall margins. If you still have any question, I'm happy to answer.

Sanketh Godha:

Maybe if you can touch upon annuity.

Bharat Kalsi:

I'll touch on that also. And just to add on to my previous thing, one, I'll further update you. What has happened in that in the non-par saving in the higher ticket size. See, typically, our average PPT on a non-par saving could be range of 8 to 10 years. But in this period, people have gone for smaller tickets, smaller PPTs like five-year, six-year and seven-year. And as you know, the longer the product, the higher the margin. And because in this year, people have gone for a shorter PPT, that also reflects in the margins. Again, it is all value accretive. 53% NBV growth is what it reflects in. That's on the margin side. Can you just repeat your question on the annuity? What is exactly that you wanted to know?

Sanketh Godha:

There seems to be some weakness maybe because of the competition because the regular paid deferred annuity now is launched by every insurance company. We were first to introduce it. But since then, when the competition has launched, we have seen a weakness in that particular product.

Tarun Chugh:

Thanks Bharat. Bharat answered your questions on margins. Let me give you the data. I'm okay with sharing the data with you on the high ticket and the impact that goes into your Excel sheets. And Sanketh, we really value the way you look at life insurance. So just to let you know that till the last year January, our high ticket above ₹5 lakhs was about 9%. February and March for those two months, it went up to 24%. For a normal year, unlike last year, our dynamic equilibrium is in the range of 8% to 9%. Of course, we all know that last two months of the year were more because of the tax benefits and hence that's not going to be repeated. We expect this to remain in the 8% to 9% range. So, I think the abnormal growth that we had because of high ticket is something which the sector should not really be expecting any further.

So that is just on the data itself. And just to answer that we'll be in the 8% to 9%, which is what we are comfortable with. In any case, Bharat has told you that we very clearly that when we go for high value, the margins also get to be lower because this is totally a customer who's really looking at investments more than the insurance cover. So that is stabilized. Group protection, Bharat has already answered, from the past that yes, we basically have two to three very large carriers. And because of them not growing much, their asset business kind of came down and didn't really grow; 4% is hardly any growth I would say.

I think we are back in expanding that business. We want to be sure on whatever is coming out in the EoM guidelines and based on that, maybe take a call for this year. And going forward, we've always been strong in the group protection. We shall go back and wrestle our market share back and that remains.

On annuities too, you're right. We've been a leader. The first Deferred Annuity plan was ours, the GPG, and it still has a lot of traction in the market. What had happened last year was that given the ₹5 lakh and above benefit that was coming through in February and March, our share of annuities particularly has come down to near single digits during the last quarter.

We remain very bullish on the annuities. In fact, now with the ₹5 lakh and above market and particularly the 45 years and above customer, we expect to start getting back into the Deferred Annuity space. It's a very good space to be in. The product also is beneficial in various ways. It is the only product in the entire financial services business, which handles the risk of longevity. That is what India doesn't have. I think there's a natural market for it. You will see the share grow and our focus grow in that as well.

Sanketh Godha:

Got it, sir. Thanks for answering. Probably if I can ask two questions on Bajaj General Insurance. Sir on Bajaj General, the question which I had was that if you look at the exit loss ratios of Motor OD and Motor TP, which is 64% and 61% respectively, seems to be very good compared to the kind of competition that is there in the market. So do you believe that you have already made all those kind of corrective measures and expect these kinds of loss ratios to be demonstrated going ahead? Because full year numbers are very different from the fourth quarter., I just wanted to understand that part a little better, how we see FY24 with respect to Motor business.

Last one on BAGIC is that the expense of management, it is believed to have a material impact on commercial lines because many companies, as you highlighted, 60%-65% of the companies are not compliant with 30 percentage. They might try to chase commercial businesses to improve their expense ratios. And this business was the most profitable business probably in FY23. I just wanted to understand that given the EOM guidelines and reinsurance hardening, do you think commercial lines will see a huge pressure in FY24?

S Sreenivasan:

I will briefly take the first question and allow Raman to expand on it and answer the second question. The loss ratio is a function of sourcing as well as pricing. Pricing is decided by the market, sourcing is controllable by the company. Now, when you do an experience-based pricing or a selection through underwriting as we see in insurance, you write a lot of business, you do it through partners. And when you write new cars, you are tied up with dealers and whatever car they write, you try to take a share out of it, depending on whether they are exclusive or not.

Now, later, as you gain experience, you find out where you weed out and where you focus on. The same applies to all other channels like multiline agency or Bancassurance, which also do motor business. So, this is the factor. In Q1, we saw there was a spike in frequency and severity, which led to high claim ratio, high combined ratio and then we announced at the time that, we are now going into correction mode. And this is not the first time, we have done it. If you go back three-four years, you will find the same commentary in our investor calls that Q1 was not good, so we have repaired it. Commercial lines are different. Commercial lines' loss ratios come from catastrophe and various other events also. But I will now let Raman expand on this as well as take the second question, which you had on the EOM.

Ramandeep Sahni:

Thanks, Sanketh. So, on the loss ratios, like Sreenivasan rightly articulated, this year has been a unique year because quarter 1, we had a big spike coming because of the reemergence of travel, as everybody called it. And so, that really took up the loss ratios to upwards of 85% for us and similar ratios for the industry. And we know that quarter 4 is normally an aberration because a lot of changes are done in quarter 4, assumption changes and so on and so forth. So, maybe to answer your question, the levels of 63% and 61% obviously are not sustainable. But I think in the long term, OD, as we believe, 65% to 67% is what we have experienced and that's where we will probably end up.

One change, however, what we're seeing is, that our mix of two-wheeler used to be low earlier and then we are scaling up. So, the impact of that on the overall motor loss ratio, we'll have to wait and figure out. But as we stand between 65% to 67% on OD is something which is, what we can expect. On TP, like I mentioned earlier, it's a big take from what happened in the outcome of the Motor Vehicle Act. As we all know, we are expecting early reporting to start. There are some green shoots which we have seen, but nothing significant at this stage to start taking benefit of that. If that was to really come, then anywhere between 70 to 75 would be a decent number to expect. Otherwise, as an industry, we will struggle because of the impact of inflation, which we've seen in the past. That's where, I believe the loss ratios will pan out to be.

On the EOM - again, like I mentioned earlier and like you rightly articulated, 60% of the industry seems to be higher than 30%. So, obviously, there will be a lot of plays on how the commercial starts playing out year on. At this stage, maybe it's too early to predict. Maybe after the end of first quarter, there'll be more clarity. But I personally believe that, given the way the industry has been operating at 122% combined ratio and 60% of the industry being upwards of 30% of GWP on cost, it has to get normalized. So, I personally believe that the commercials will start coming down going forward. But like I said, let's wait for quarter 1 to end, and maybe we can then discuss in more detail.

S Sreenivasan:

Just to add to what Raman said on the EOM, see, basically regulator has given a budget of 30% of Gross premium. Each company has to decide, how do I play 70%-30% and reach 100% combined ratio, 70% loss ratio or expected loss ratio. You never know what the actual loss ratio is until you've actually experienced it. Or somebody might say that I will go for 40% expense ratio. They can't do that. So, they will have to either then, look at selecting customers with a higher loss ratio and say, I will run with a higher combined ratio. I think that math will play out over the next few months and let us see how it goes.

Sanketh Godha:

Got it, sir. Thanks for answering my questions.

Moderator:

Thank you. Our next question is from the line of Mr. Uday Pai with Investec. Please go ahead.

Uday Pai:

Hello. Thank you for taking my question. Just one question from my side. What was the share of Axis Bank channel in BALIC?

Tarun Chugh:

Axis share has been at 25% for us, of the entire business. And with the growth rate in other businesses growing faster, we expect this to remain in this broad range and not really go beyond that. And that's the way we were always comfortable. I've maintained for the last three years that

unlike our peers, we are very clear that, there's not one bank or one distributor, who should have more than a certain percentage. And it feels healthy for the banks, honestly, if that's the way, the insurance providers are. Good thing is, we've added a lot many banks last year, and we expect them to prop up our business in the coming year.

Uday Pai: Okay, thank you.

Moderator: Thank you. Our next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Hi, thank you for giving me the opportunity. So, I have a basic question on BAGIC. I was trying to understand, while you've given us the growth in the private car, two-wheeler and CV segment, if you can help us understand, what is the mix of your motor book across these segments? And how has it moved over the years? And are you targeting one particular segment, or how are you looking at this business segment wise?

S Sreenivasan: Shreya, thank you for your question. In motor, from outside it looks like one line of business, but it is many lines of businesses. There are private cars, there is own damage, TP, combination of the two. There is the two-wheeler segment, which are new two-wheelers, the older two-wheelers, which have a higher proportion of TP premium, because OD premiums are very low in two-wheelers. And there are many types of commercial vehicles. Where in some areas, BAGIC does not compete, some of them, they compete more aggressively. So, it's very difficult to put a target. If you have seen the commercial vehicle growth has been low, because we have been focused only on segments which historically have been profitable for us. Raman, would you like to expand on that?

Ramandeep Sahni: Yes, thanks. Shreya, I'll just try to summarize - see why we don't share so much of granular information, because like Sreeni said, there are too many breakdowns which are available. So, what I can summarize is, if you look at the overall motor segment, there are three large parts, two-wheeler, four-wheeler, and CV. I'll just try to give you a flavor where we stand.

So, in two-wheeler, as you know, we used to have a handicap earlier and our market share on new two-wheeler sales used to be sub 4%. As we highlighted in the recent calls, we have started tying up with the OEMs, the issue of the brand conflict seems to be behind us, except for Hero. Almost all other tie-ups like Suzuki, TVS, Royal Enfield, Yamaha, we've been able to break the ice there. And our market share has now moved up to close to 9%. Similarly, in four-wheeler, our market share on new sales is close to 9%. And these are two segments, where we really focus a lot, except Maruti, where we know that, there is this issue of open market and high amount of discounting going up. So, our endeavor is to focus more on the new two-wheeler sales, barring Maruti, where the issue is there, and try to garner a good share of the profitable business.

Just to give you a flavor, we've grown 26% on two-wheeler, which is after a very long time, we've seen, this kind of growth. And four-wheeler also, the growth is pretty healthy at about 18% for the quarter. CV is something, which we are less focused on this year. I don't know, if you've been tracking us as a company, but last few years, we've been kind of leaders on the CV space because of one of the profit pools we had identified for ourselves. And we had garnered a great share of the school bus business especially because it is highly profitable. But after seeing

the profit pools being exploited by us, now the market has got over-crowded and that's why we are diversifying away from that. And hence, our growth on CV this year has been marginal for last quarter. So, that's where we stand. Any more details, maybe we can take it off-line.

Shreya Shivani: No, this is quite useful. Thank you for answer patiently.

Moderator: Thank you. Ladies and gentlemen, to ask a question, please press star and one. Our next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Hi. This pertains to the claims ratio in the health business. Because there has been a fair amount of quality sale and a significant increase on a sequential basis. So, if you could help us, in understanding this jump, sir?

S Sreenivasan: One point I'd like to make is on group health. We are doing exceptionally well. We have always been saying that group health is not a business where we are either aggressive or conservative, but we do business on our own terms where we see possibility of profit. And BAGIC has a combined ratio below 100% in group health, which is maybe a multi-year best performance, despite growing at close to 30%. Raman, would you like to add on the volatility in claim ratios on health?

Ramandeep Sahni: Yes. So, this year has been a little stressful as far as the health loss ratios are concerned. Especially the first half of the year, we see a lot of increase on the severity of health claims. And a lot of these were coming because of the impact of inflation.

Now, I think it's trying to taper down. Also, we saw some amount of fraud getting reported, especially in pockets of some states in the country and that is something, which we've addressed very significantly in second half of the year. While I must admit that, while our anti-fraud controls were very good as far as motor was concerned, but we were less focused on the other lines of business, because the frauds were not as prevalent there. But recently after the pandemic, we've seen that the number of frauds now getting reported on the health lines of business - and not only retail health, even on the GMC side, have gone up significantly. Fortunately, we caught it early and we've invested a lot in that team. So, that is one reason that our loss ratios were higher for some part of the year. But year on, they will start tapering down at least for retail health.

Overall, they're looking a little higher this year also because our proportion of group health has gone up, as you would have seen (this is GMC I'm talking about) there the growth is significantly higher compared to retail health. So, that's why, overall, you're seeing that the loss ratios are looking on the higher side. But I must admit that overall GMC is looking profitable after a very long time. And you would have heard from us in the past that, we had slowed down on GMC significantly because of the impact on profitability. But now, whatever we are writing is only the profitable ones and hence the growth is pretty decent there. So, that's where we are on health. So, like this year, I believe is the aberration. Maybe quarter one onwards you'll start seeing the real loss ratios emerge for retail health, is where I will commit.

S Sreenivasan: I'll just add to what Raman said, Nischint, is that health is a very high level of engagement business and very service oriented. It's not a business, where people change insurers every year. And one of the things I will urge everybody to look at is the repudiation ratio, which is published every quarter in the public disclosures. For the market, this year has been varying from 5% to 20%. And we are at the lower end of that. And probably in claims servicing, we continue to take pride that, we are among the best.

There is some news that, in the industry, they have collaborated, and the indications are that the incidence of frauds could be in double digits for the industry. These are suspected frauds and through the Information Bureau, further work will be done. But one of the downsides of the pandemic was that suddenly the fraudsters have also realized that this is one more area where we can now make a bit of money through reimbursement claims. Various types of frauds have been noticed there, across the industry. You can check with many other participants also, they will also confirm this. But the industry is very seriously addressing this. The regulator is very much on top of it. And we think that within a year or two, this will get sorted out.

Nischint Chawathe: Someone mentioned that inflation is controlled now. So, does it mean that the cost is going down, or does it mean that you're being balanced?

Ramandeep Singh: I think the impact of inflation was that as you know, during the pandemic, everybody was charging much higher for not only the COVID related treatments, but otherwise also. And that sustained for a period of time after the pandemic also. But we've gone back to the hospitals, renegotiated quite a few of the rates, and put pressure on them to rationalize the rates. And because of that, we've seen that the severity has started coming down a little compared to what we had seen in the earlier part of the year.

One more thing I didn't mention earlier, is the other reason for volatility in our retail health loss ratio also, is the fact of the proportion of fresh health business. As we know that in the first half of the year, we were not doing that well. And specifically, we had a discussion, and I told you that we will focus a lot more on retail health. And you would have seen that now, for the last quarter, our retail health growth is higher than the rest of the industry. So, with the proportion of retail health also going up, you will start seeing that the loss ratios will normalize further, compared to some of the other players in the market.

Nischint Chawathe: Have you taken a tariff hike on the retail side?

Ramandeep Singh: So, we did it immediately before the pandemic, as you would remember. And normally, our experience has been that once in three years is what is largely acceptable to the public at large. And hence, we end up following that rate. So, maybe sometime during the year or towards the end of the year is what we expect the next round of hikes to happen.

Nischint Chawathe: Thank you.

Moderator: Thank you. Our next question is from the line of Mr. Dhaval from DSP. Please go ahead.

Dhaval: Yes. Thanks for the opportunity again. Just quickly on the return ratios for BAGIC. So, maybe question for Raman. Overall, when do you see the business move back to 17%, 18% full-year ROE? And is that a sustainable level of return that, we are targeting, or is there a possibility we move back to 19%, 20%, ROE as well? Any thoughts and broad sort of timeline that would be very useful.

S Sreenivasan: Okay. I will take that Dhaval. I think, it used to be 20%+ for several years. Thereafter, what we have seen is because of focus on profitability, we are generating capital over the last few years. Although we are paying dividends, our solvency margin is increasing quarter-on-quarter. So, to that extent, the equity is somewhat high. And therefore, the ROEs have come down. Secondly, the business mix has also changed, more commercial business, expensive price discounting in motor, the real float generators are only from motor third party. To that extent, the investment leverage has come down a little bit.

So, if you ask me today, we would be more comfortable with the 15% to 18% ROE range as compared to, say, the earlier range of maybe 18% to 22%. The other point is, the way we do accounting here on standalone Indian GAAP, is we do not defer acquisition costs. So, there is a big impact of that, as your premium gets earned over time, but your costs are written off upfront. And secondly, we also have seen that, we are somewhat conservative on reserving.

If you look at our ULR triangles, it's pretty clear that our original ULR is about 7.5% higher than our revised ultimate loss ratios. So, overall, these are some hidden things if you want to compare this to another company internationally. If you adjust for these, ROE will probably be closer to 20%, I presume. I have not done the math, but it will be higher than where it is anyway.

Dhaval: Sure. And, Sreenivasan, you expect this business to move to higher ROEs, let's say, 16%, 17%, 18%, from here upon?

S Sreenivasan: See we have to make investments in business also. There are a lot of regulatory changes happening. There is BIMA Sugam, BIMA Vistar - all these require investments. We're also investing into what we call our GEO framework. And we are investing in a lot of tier 3, tier 4 towns, because we see that we have the brand strength, we have the expense allowance, and we have the capability to deliver.

We started that last year, and this year, we expect that to grow very well as well. So, there are investments required. We need to continue to invest in capability on the health side, whereas on the commercial and other lines, we have been doing very well, but there is an element of the catastrophes and other sources of volatility in those businesses. Having said that, the reinsurance market is a bit hard this year. We still have come out with pretty good terms for the rest of the year. So FY24 at least looks reasonable for the commercial side, in terms of opportunity.

Dhaval: Got it. Thanks, and all the best.

Moderator: Thank you. Our next question is from the line of Mr. Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. On Finserv health, I see losses widened, in this year, to ₹188 crores versus ₹129 crores. So, if you can give us a broad sense, three years to five years out, how we are thinking of this business? What's the potential here, and is there a thought process on breakeven here?

S Sreenivasan: You see, last time, I think I mentioned that we had invested about ₹450 crores by end of the year. Because this is a new business, and we will have to continue to invest, we will make an equal investment over the next 3-4 years. Devang, would you like to add to that?

Devang Mody: See, at this point of time, our focus is to get more health transactions done. So, as you are seeing, what we have started publishing is cohort-wise transactions. Priority for the company, at this point of time is to build out more and more service. Like we are investing deeply in technology as well as network as far as dental network is concerned. And that's where, you will see transactions going up in coming years and to create a product framework. And after that, we have lined up more services, to be covered.

So, at this point of time, our priority is to get more and more health transactions done and to play a larger role in consumers' health care management. That is how, we define success at this point of time. Obviously, we will refine the spend as one of the participants asked in their question. Now, we are not spending in getting traffic. We are just servicing our customers and getting transaction done. So, we believe we will invest where it is required, which is to build out network and to build out technology services.

S Sreenivasan: Let me give you one view from BFS side. If you see our record profit is after absorbing 100% of these losses because they are wholly owned subsidiary. Therefore, we have businesses, which have multiple levers. They behave differently under, say, high inflation. Inflation is bad for BAGIC. With a bit of lag, it is generally good for BFL. And it's pretty good for BALIC because the guaranteed rates increase with a lag. We also have this ecosystem which has multiple components - we have open architecture under Finserv markets, we have the health care ecosystem which is a population business.

So, if I look at say 10-15 years, it's a business where you have to hang on and create the capability and become a player with some large brand, which can operate all over India with operational excellence. That's what this business is about. And we have to get more and more customers to use our products and services and keep expanding the network and the products and services. So, when you add up all these together is what you have as BFS.

So, it is not an investing holding company, that we put in financial markets and carry huge amount of surplus. It's a company where we continue to invest in the ecosystem of our customers, which today is largely middle class, mass affluent and above. But over time, some of the businesses like insurance and health will also go into the mass markets in a bigger way, because the businesses are like that and that's where the market is.

Anand Bhavnani: Got it. And second question is on the Bajaj markets. There we see a lot of traffic. In terms of monetizing that traffic, particularly on the insurance side, which is a push product, how are you thinking? Like there are dedicated players, who have this pricing discovery platform, and then

they call the customers and push the insurance product. Do you think, you would explore that kind of option, having a dedicated call center to push through the insurance product from the leads, on Bajaj Markets app?

S Sreenivasan:

Let me first take that and then hand over to Ashish. If you look at insurance, both insurance companies have very solid distribution, very broad and deep distribution across channels - whether it is individual agents, whether it is banks, whether it is brokers, etc. And Finserv Markets is an open architecture platform, and to start with in the first few years the focus will always be on loans. Therefore, as a group distribution, we are much bigger and better than what we were last year. Now, in terms of products that they will sell, Ashish will expand on how they want to look at it.

Ashish Panchal:

Sure. So, answering specifically for insurance. While as I mentioned, loans and cards are the bigger revenue generators on the marketplace for us; as far as insurance is concerned – we have a corporate agency license as an entity and therefore, we have tied up with insurance manufacturers on life, general and health side, to offer their products.

We have an insurance marketplace that is embedded inside the overall app and web digital properties that we have, where customers can choose products, they can compare and they can do end-to-end buying journey, either assisted or unassisted in a DIY format. In addition, we have about 400 innovative asset products, which are insurance/value-added products which cover various aspects of life, both arising out of insurance needs, as well as otherwise. And that is the entry point for the customer, into the insurance pool.

S Sreenivasan:

Let me just add one more point here. When you look at Bajaj Finserv Markets, it works under an open architecture, and over time we have now been able to demonstrate neutrality. So, they will have multiple partners. The customer will make a choice, so it's a customer-centric organization. In that BAGIC and BALIC will participate in such of those businesses, which as a manufacturer, given their risk profile and their profitability needs, they feel they need to compete. But the other partners will also compete, and so we have the distribution revenue pool from all the partners. And our own companies, may compete on certain segments of the manufacturing profit pool, where they feel comfortable.

But in the process, there is a multi-stage thing. The first is to acquire customers, the pocket products that Ashish talked about, will bring us a lot of customers - many customers will buy it, they will use the app, they will find the value in the app, and they will also take other products from our ecosystem. Because they are in the ecosystem, next time they want to buy something, they will come and check us out. That is the first step. Once they do that, over time we will be able to grow the market.

Anand Bhavnani:

Sure. Thank you and all the best.

Moderator:

Thank you. That was the end of our question-and-answer session. I now hand the conference over to Mr. Akshay Jain from JM Financial for closing comments. Over to you.



Bajaj Finserv Limited
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- Akshay Jain:** Thank you all for joining the call and thank you to the management of Bajaj Finserv Limited, for giving us the opportunity to host this call. Thank you.
- S Sreenivasan:** Thank you.
- Moderator:** On behalf of JM Financial, that concludes this conference. Thank you for joining us and you may now disconnect your lines.