"Bajaj Finserv Limited

Q1 FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY24 Earnings Conference Call of Bajaj Finserv Limited, hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode. 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 "*" and then "0" on your touchtone 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, Mr. Bhise.

Sameer Bhise: Thank you, Michelle. Good morning, everyone, and welcome to the 1Q FY24 earnings conference call of Bajaj Finserv Limited. First of all, I would like to thank the management team of Bajaj Finserv for giving us the opportunity to host the call. From Bajaj Finserv, we have Mr. S. Sreenivasan, CFO; Mr. Tarun Chugh, CEO of Bajaj Allianz Life Insurance; Mr. Ramandeep Singh Sahni, CFO of Bajaj Allianz General Insurance; Mr. Bharat Kalsi, CFO of Bajaj Allianz Life Insurance; Mr. Ashish Panchal, CEO of Bajaj Finserv Direct; and Mr. Devang Mody, CEO of Bajaj Finserv Health.

I would like to now hand over the floor to Mr. Sreenivasan for his opening comments, post which we will take the Q&A. Over to you, sir. Thank you.

Sreenivasan S.: Good morning, everybody. I welcome everyone to this conference call to discuss the results of Bajaj Finserv Limited for Q1 FY24.

As before, 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 Company (BAGIC) and Bajaj Allianz Life Insurance Company (BALIC), and where material, the stand-alone results of our company, BFS. Bajaj Finance Limited (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 also have with us Devang and Ashish from Bajaj Finserv Health and Bajaj Finserv Direct, and if you have any specific questions on those businesses, they will answer them.

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

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

Remark on Ind AS: while BFS prepares its financials in compliance with Ind AS, the insurance companies are not yet covered under Ind AS. They have prepared Ind AS financials only for the purpose of consolidation. Accordingly, for BAGIC and BALIC, stand-alone numbers reported are based on non-Ind AS accounting standards as applicable to insurance companies.

Our results, the press release accompanying the results and our investor deck have been uploaded on our website yesterday, and I hope most of you would have had a chance to go through that.

Let me first put in a word on Bajaj Finserv Asset Management Limited which launched its first mutual fund during the quarter. It filed for its first 7 products with SEBI in March '23 and April '23. And the first 2 funds, the Liquid Fund and the Overnight Fund, were launched by the end of June '23, while the money market fund, NFO, was launched in July '23. The NFO of its first and flagship equity fund, the Bajaj Finserv Flexi Cap Fund with a Megatrends strategy, is currently ongoing.

Over the next few months, BFS-AMC will be launching other categories of funds, including Balanced, Large and Mid-cap, Banking and PSU sectoral, and Arbitrage Funds.

Let me now move to the update on the performance for Q1 of FY24. Macroeconomic conditions were stable during the quarter with a higher level of business confidence, and overall business conditions were very conducive. Our companies have once again delivered very strong operating performance.

Let me start with BAGIC. BAGIC regained retail growth momentum with broad based growth across products and channels. New initiatives, including the GEO expansion initiated in FY23 started yielding results. For the quarter, BAGIC reported a strong growth of 22.2% in Gross Direct Premium Income (GDPI), as against the private sector growth of 21.2% and the industry growth of 16.5%. Excluding the tender-driven business, which are crop insurance and environment health schemes, the GDPI growth for the quarter was a very healthy 26.7%.

In Q1, BAGIC continued its growth momentum with motor business recording strong performance of 26% Y-o-Y growth across private cars and 2-wheelers. Group health, in which BAGIC recorded a sub-100% loss ratio in FY 23 continued to grow strongly with 43% growth. Commercial lines (Fire, engineering, marine and Liability) continued the growth momentum of earlier years recording 22.1% growth. The growth in commercial lines was aided by BAGIC's strong bancassurance network and multiline agency channel, supported by strong underwriting and large reinsurance capacity for covering large risks. BAGIC was able to capitalize on its strong presence in smaller towns and rural areas through its ban virtual satellite offices.

In terms of retail health, BAGIC grew 11.9%. However, due to the high incidence of frauds in reimbursement claims, BAGIC continues to be cautious and is focusing on strengthening the use of analytics and processes to control frauds and focus on growing in profitable areas.

Note on earned premium - As you may be aware, when growth is strong, the earned premium grows less than the gross premium, as premiums are deferred across the tenure of the policies, while costs are returned upfront. As a result, net earned premium grew only 5%, but this unearned premium is expected to get mostly earned in the subsequent quarters of the year.

For Q1 FY24, the loss ratio was lower at 74.3% as against 77.9% in Q1 of FY23. The improvement in loss ratio was attributable to lower claims in motor and commercial segments, and this is after absorbing losses of Rs. 10 crores from Cyclone Biparjoy and other catastrophic losses.

As a result, the combined ratio for Q1 FY24 was a healthy 100.7% as compared to 104.6% in the same quarter of the last year. We expect this will be around the best when compared with other composite general insurance companies.

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 a strong sourcing, claims management and controlling grievance.

The profit after tax of BAGIC was Rs. 415 crores in Q1 FY24 versus Rs. 411 crores in Q1 FY23. The muted PAT growth was attributable mainly to lower realized gains from sale of equities, which was offset by higher current income and lower combined ratio. Excluding the effect of realized gain, the core operating profit before tax would have been increased by over 45%.

BAGIC's AUM grew 13% to Rs. 28,611 crores as of 30th June 2023, v/s Rs. 25,362 crores on 30th June '22. The floor generated, which is represented by the increase in AUM was Rs. 3,249 crores during the last 12 months, which includes advanced premium as on 30 June 2023 of Rs. 1,678 crores. Strong growth in 2-wheeler and CV business helped in this growth.

Another key highlight of this quarter was the contract of the first ever General Insurance Festival of India (GIFI) in Pune, which won an entry in the Guinness Book of World Records for the largest attendance at an insurance conference, with over 7,000 agents attending the event. This event, which is one of a kind, also reiterated a significant connect that BAGIC has with the agent community. Going forward, we would hopefully want to make it an annual event.

In summary, it was a quarter with intense competition, and BAGIC has performed very well with solid growth supported by strong underwriting performance.

I'll cover BALIC next. During the quarter, BALIC continued its growth trajectory and reported individual rated new business (IRNB) premium growth of 15%, against the industry and private player growth of 2% and 8%, respectively. The market share in IRNB terms, therefore, increased from 8.3% in Q1 FY23 to 8.8% in Q1 FY24 among private players, leading to BALIC improving its ranking on IRNB basis from 6th to 5th position. BALIC's 2-year IRNB CAGR of 44% in Q1 is among the highest in the industry.

BALIC's 15% growth is to be seen in the backdrop of an 80%+ growth in Q1 of FY23, which resulted in a very strong base. The total number of policies sold by BALIC grew 18% to 1.44 lakhs in Q1 FY24.

Overall, IRNB mix for Q1 FY24 stood at Par - 13%, Non-Par Savings - 33%, protection 5%, Annuity - 6% and ULIP - 42%. In absolute terms, we have seen a significant growth this quarter in retail term segment of 124% as compared to Q1 of FY23, although it is on a small base.

After the uncertainty initially followed by very strong growth in Q4 due to the tax changes, and since business in the first quarter for life insurance is usually muted, BALIC decided to use this period to strengthen its ULIP product with the launch of a new and innovative product. As a result, there was a lower share of PAR business, which the company expects to correct in the coming quarters.

During the quarter, growth was driven by all the main channels with agency, institutional business and BALIC Direct growing at 22%, 8% and 18%, respectively.

During the quarter, BALIC started activating several of the recently signed corporate agency tie-ups with DBS, City Union Bank, TamilNad Mercantile Bank, Punjab & Sind Bank, and Jammu and Kashmir Bank. Moreover, with the opening of a rep office in Dubai, BALIC looks to further strengthen their institutional business.

Another point I would like to highlight here is the various initiatives undertaken by BALIC to improve persistency across most cohorts, especially in the later buckets. 13-month persistency stood at 83%, while 49th and 61st month persistency has improved to 63% and 50%, respectively. The increase in persistency over the last few years has helped delivered a very strong growth of 31% in renewal premium in Q1 FY24.

New business value, net of expense overrun de-grew by 30% from Rs. 135 crores in Q1 FY23 to Rs. 94 crores in Q1 FY24. This is mainly due to a lower proportion of PAR in the product mix, as I explained earlier, and also the effect of interest rate movement on the guaranteed non-PAR savings business. The profit after tax grew 26% from Rs. 124 crores to Rs. 155 crores, supported mainly by higher shareholder income and lower death claims, partially offset by higher new business strain on account of business growth.

Overall, a balanced quarter for BALIC with a strong focus on retail distribution growth.

Finally, both insurance companies are financially among the most solvent - BALIC which was 475% solvency and BAGIC with 388% - and hence we are well poised to weather any external adversity.

Let me move to our lending businesses, BFL and BHFL.

BFL has already had its investor call, and hence, we will only broadly touch upon BFL's results. Q1 FY24 was another excellent quarter for BFL, with the company delivering on all its long-term financial guidance metrics - AUM, profit growth, return on assets, return on equity, as well as gross and net NPA. Continuing its growth story, BFL acquired 3.84 million new customers in Q1 FY24. Total customer franchise stood at Rs. 7.3 crores or 73 million, while the cross-sell franchise stood at 44 million. Building on this customer franchise, the number of new loans booked in Q1 FY24 increased by 34% from 7.42 million to 9.94 million.

The company's diversified business model has enabled it to record a strong AUM growth as seen from the total AUM standing at Rs. 2,70,097 crores as on 30th June 2023 (32% higher than the Rs. 2,04,018 crores in the previous year). 61.4% of BFL's customers were repeat customers.

BFL’s loan losses and provisions were Rs. 995 crores on 30th June 2023. It has a management overlay provision of Rs. 840 crores at a consolidated level as of 30th June 2023. The company released Rs. 120 crores from the overlay in Q1.

Gross NPA and Net NPA (ECL Stage 3), recognized as per extant RBI prudential norms and provisioned applying the expected credit loss (ECL) method prescribed in Ind AS, as on 30 June 2023 continues to be exceptional at 0.87% and 0.31% respectively, as against 1.25% and 0.51% as on 30 June 2022. It is worth mentioning that this quarter BFL has had its lowest ever GNPA over a number of years.

BFL ended the quarter with a PAT of Rs. 4,551 crores, which was 30% higher than the same quarter of last year. The capital adequacy ratio, including Tier 2 capital, was very strong at 24.6%; and Tier 1 capital was again very strong at 23%.

Bajaj Housing Finance Limited – the 100% mortgage subsidiary of BFL - continues to do well. The AUM grew 29% to Rs. 74,124 crores as on 30th June 2023, and the profit after tax grew 23% to Rs. 526 crores in Q1. Capital adequacy ratio stood at 22.52%. GNPA and NNPA were again quite exceptional at 0.23% and 0.08% as against 0.27% and 0.11% in the same quarter of the previous quarter.

In summary, a superb quarter for both BFL and BHFL.

Now to give some update on our newer companies **- Bajaj Markets (Bajaj Finserv Direct) and Bajaj FinServ Health.**

During Q1 FY '21, Bajaj Markets attracted about 88 lakh consumers on its digital platform, out of which 2.2 lakh became customers. BFSD lending (unsecured and secured, with both BFL and external partnerships) recorded a disbursement of Rs. 1,427 crores as against Rs. 1,313 crores in Q4 of FY23. 74,146 cards were sourced in Q1 FY24 as against 65,167 in Q4 FY23.

In Q1 FY24, Bajaj Finserv Health carried out 10.36 lakh health transactions (v/s 4.86 lakhs in Q1 FY23), having 3.22 lakhs+ monthly users. For the quarter, Bajaj Finserv Health had 1.14 million paying users versus 8.55 lakhs in Q1 FY23, with 3 lakh users having renewable products. Bajaj Finserv Health is also expanding the provider network, which includes 1 lakh+ doctors, 5,000+ lab touch points, and 1,950+ hospitals. Utilizing the network strength, BFHL is able to offer and serve differentiated product plans for both retail as well as to corporates for employee health benefits segment.

You will find more details about these in our presentation, which is uploaded on the website. For those of you who have not seen our press release, I will just summarize the consolidated results.

Consolidated total income - 47% increase at Rs. 23,280 crores versus Rs. 15,888 crores. Consolidated profit after tax - 48% increase at Rs. 1,943 crores versus Rs. 1,309 crores. The consolidated profit after tax includes the unrealized mark-to-market gains and losses on investments of the insurance companies, on account of the adjustments required under the Ind AS. If you exclude the volatile impact of the MTM losses and gains, the core profit after tax would have increased by 24% in Q1 FY24.

Before we open for questions, considering the limitation on time, I will request the audience to keep their questions brief and preferably not repeat questions that have already been asked or covered, so that we can cover more queries during this call. With this, I now invite questions from all of you. Thank you.

Moderator: Thank you. We have the first question from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited. Please go ahead.

Prakash Kapadia: Motor has been doing well for us. Is it because of some OEM market share gains, or because of some new geographies which we have now targeted - what is driving this growth? And is this growth sustainable for us? Secondly, on EoM, what impact does it have on the industry as we move forward? Will it lead to better consolidation or better pricing? And on BALIC, what is the unwind rate we should look at given the current interest rate cycle? These are my 3 questions.

Sreenivasan S.: I'll first give a high-level response before passing on to Raman. I think in BAGIC, what we are seeing is that, in the last 1.5 years, we have been investing quite a lot in expanding our distribution outside of even the OEMs. In terms of smaller towns, we have digital offices, digital banca, and we have virtual satellite offices. Last year, we were doing a lot of correction there because you have to get the people, and you have to get the strategy right. I think that has started falling in place. My own assessment is that it has been broad-based growth across OEMs as well as the agency and other channels in motor. On the EoM, and to give a more detailed flavour on the motor business, I now hand over to Raman.

Ramandeep Sahni: Thanks, Sreeni. I think Sreeni rightly articulated. If I try to summarize the way the motor business has been operating for us - one of the big levers for growth has been the 2-wheeler business. As we've discussed in the past, two-wheelers from an OEM perspective used to be a handicap for us since there were many OEMs who didn’t want to work with the Bajaj brand - because they looked at it as competition, given the group level branding from Bajaj Auto perspective.

But over the last 15 to 18 months, we've been able to kind of break that jinx. Barring Hero, I think we've now been able to tie up with all the OEMs in the two-wheeler space. And hence, if you see, for the quarter the growth on two-wheeler segment has been upwards of 40%. And that has been the trend for last 2-3 quarters now. So that is the biggest lever of growth in our overall motor number.

If you look at it from a channel contribution perspective also, one is motor dealer where we've been seeing a gain of market share. To give you some flavour of the market share numbers - on 4-wheelers or new car market share last year same quarter was about close to 7%, and in Q1 this year it moved close to 9%. 2-wheelers - which 2 years back used to be sub 4%, last year we had already moved that up to 6%. And now in Q1 this year we see that increase to around 11.5%. CV also has a very healthy number of close to 25% market share. The motor dealer channel seems to be contributing significantly to the growth. But like Sreeni said, the growth is more balanced across all the channels.

If you also recall a past discussion, we have said that we will try to penetrate more. As a strategy, we try to penetrate more into the smaller towns of the country, and we call it the Bharat Model. That's something where the numbers have started to register some decent growth. And that's one of the other levers for the growth.

Also, on the more established channels like agency also we've added a lot of manpower and agents, which is leading to the growth. And overall, if you recall our previous conversation, we had said that post the pandemic, we had kind of consolidated our manpower and reach, and so on and so forth. And we have said that there will be some stress on the bottom line as we start expanding. I think some of the expansion, which we've done in the last 12 months have started to show the results. These are the reason for the overall growth in the motor side.

Now obviously, because we've done the expansions, we've seen the growth sustain and we'll continue to expand for at least another year or so. So maybe in the medium term, you will see this growth sustain, is what we believe. Now, obviously, it's also an outcome of how the market moves. And as we know, it's a very, very dynamic market in terms of discounting and commercials. So, that is something which we'll have to wait and watch.

But as things stand today, maybe the growth in the medium term at least looks sustainable.

From a EoM perspective, as we have discussed in the past, at least half of the industry was non-compliant. Hence, we were of the view that there should be some sanity which should come in the way the commercials are moved over a period of time. Well, too early to say that because it's only been one quarter. As of now, we are not seeing any outcome of that because I think people are just getting aligned to the new regime. Maybe another quarter or so will be required to figure out the real impact. But what we are clearly seeing is that in the case of all the bulky businesses like Crop and others - there the level of engagement from many other private players has got accelerated. And also, the competition is becoming even more intense in Crop business, because as we know, that gives the arbitrage on the EoM ratio. So that's the only thing I would like to submit at this stage. Let's probably wait for another quarter or so to figure out what's the real outcome of the regulation.

Sreenivasan S.: I'll just add to what Raman said. On the OEM, I think it is now that the regulator has given a budget - 30% of your gross written premium. Now different companies will have to evaluate where do they want to pitch more, because there are no individual limits on product level or intermediary level. But if they pay more somewhere, they have to pay less somewhere else. So clearly, I think it is for each company to decide - some people might want to pay more in motor, some may want to pay more to banks - whichever channel or product they want to pay for.

This will evolve and will keep changing as companies keep changing the strategy, because of a very competitive market. I think we will keep watching, but we were below the limit and we do have very significant solvency. We have the strength to play out any of the combinations that one might see in the market.

Now I'll hand it over to Bharat to take the question on the unwinding rate on the Life business.

Bharat Kalsi: The unwinding basically depends on the market yield of the assets which we are holding, as well as what are we expecting in terms of return. But if you see that consistently it has been between 8% to 8.5%, and we will also be hovering around there only.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital.

Supratim Datta: I'll start up with BAGIC. The loss ratios on the commercial lines have improved this quarter despite the reinsurance rate hardening, and the fire pricing being rejigged by the regulator. So just wanted to understand how have you achieved this improvement in loss ratio despite the headwinds? That would be the first question. I have a few more, but I'll pause before I go to those.

Sreenivasan S.: In commercial business, the loss ratio has to be seen across cycles because they're also exposed to catastrophes. Raman, would you like to explain?

Ramandeep Sahni: Yes. If I just look at the movement, like you rightly highlighted, from last year same quarter - last year in the same quarter there were some large gains which were reported in Q1. And hence, in some of the lines, the loss ratio had moved up. I remember that being true for engineering and fire. Fortunately, that's not the case in this quarter. And like Sreeni said, it is cyclical. At times you have some calamities, and because of this, things happen.

Now given the fact that in the Q1 there has been the cyclone. But we've seen only a hit of net of Rs. 10 crores, while the gross is a little higher amount of close to Rs. 50 crores. But just a word of caution - these are Q1 numbers, and we've seen the way the nature has been creating havoc in quarter 2. I think this doesn't end here.

We are just keeping our fingers crossed to see how quarter 2 plays out. Because of the heavy rainfall most part of the country has been experiencing, this is just a word of caution. While further one has been good, we've just seen a small impact of Rs. 10 crores from Biparjoy cyclone. But quarter two is something which we'll have to wait and watch. But otherwise, to answer your question, I think, like Sreeni said, it's a cyclical thing. This quarter has just been better compared to last year where we had some bulky claims reported in the Q1.

Supratim Datta: My second question was on the North Indian floods. I wanted to understand what kind of claims we are experiencing.

Ramandeep Sahni: So as of now, nothing material has been reported. Obviously, on the motor side, there are many claims which have got reported. But I think maybe in a few weeks' time from now, we will really have the right assessment. So maybe the Q2 call is when we will really be able to give the right picture. But the claims, like I mentioned, has gone up. Fortunately, at this stage, on the retail ones we have been having been reported. Nothing significant on the commercial side so far. So maybe you'll get a better picture in the Q2 call.

Supratim Datta: That's very helpful. And last question on BALIC. If you could quantify what was the impact of the interest rate move on the VNB margin? That would be very helpful. I just wanted to understand what is the hedging strategy when it comes to non-PAR products?

Bharat Kalsi: First of all, let me just cover the hedging strategy part of it. See, all our non-PAR book and annuity and a good extent of term book, which has a long tail also, is being effectively hedged through FRA, partly paid bonds, and obviously we look at other hedging strategies including cash flow matching and duration management. To that extent, the comfort is at 90% - 95% of the book is hedged through the relevant instruments. And wherever there is an unhedged portion left, something which is beyond 40 years of a liability, we assume a very minimal rate of interest to make sure that there is no interest rate risk. Hence from a hedging perspective, it's completely in control.

As far as your question on the margin concerns - compared to previous year, if you look at Q1 versus now, the yield curve has actually changed. And it is not just a shift in the curve, the slope of the curve has also changed significantly. But if I broadly put, two things can be done. One is that you immediately react in terms of customer IRR change, or there could be a little bit of a lag - because when you decide by the time you make a change, there could be a lag of 2 weeks, 3 weeks or a month. That could have an impact on the margins. In our case, that would number be around 1.5% or so compared to previous year Q1 number.

The other dent in the margin is basically because of the product mix change as Sreeni in the beginning also mentioned, that you wanted to pick up the Q1 on a high momentum. So those are the 2 broad breakup in terms of change in margin versus previous year.

Other thing just I wanted to update is that, as I said, if the margin has dropped around 3.5%, maybe give and take 2% because of the product mix change, 1% - 1.5% because of the yield curve change. But both the corrective actions in terms of product mix as well as in terms of changing the IRR in line with the yield curve, has already been done, executed in the month of July itself. So, this was just a Q1 where the momentum was the strategy for us, and the corrective action has already been taken. Tarun, in case if you want to add anything?

Tarun Chugh: No, I think you've largely answered. If there's some further question, I'll take it.

Moderator: The next question is from the line of Nidhesh from Investec.

Nidhesh: Firstly, on BALIC, again, because we have not seen such margin trends for other insurance companies. So, is it primarily because that we have not repriced our guaranteed product when interest rates have changed, that is the main reason for margin decline? And also, the product mix because the PAR has declined, but at the same time, protection has gone up and non-PAR has also gone up? So, what explains product mix change impact of 200 basis point of margin? And then how should we look at margins for the full year basis?

Sreenivasan S.: Bharat, would you like to take it?

Bharat Kalsi: Okay. As I said, one is because there has been a little lag in terms of reducing the customer IRR. It's just a timing difference, not that it's structurally a drop in the margin. So to answer your question whether this is just because of the time lag of 2 - 3 weeks or a month is what is reflecting in the non-PAR side. Otherwise, if you look at ULIP, it has gone up compared to last year. ULIP, as we know, is a very low-margin business. And Par obviously helps in terms of the overall cost. That reflects in margin.

I think those two working in the negative - like ULIP going up as well as PAR going down, has a double impact in terms of the margin, which is where we have already corrected it. In the beginning of the July only we have dropped IRR of our key products, which is AWG and others. And similarly, our ULIP mix has also dropped, and Par mix has gone up. What we have done is we have launched a new Par product that is helping us.

Secondly, in Q1, the call was that because the market was also showing positive results, and after the Q4 euphoria of being a high quarter for the industry, we didn't want to lose the momentum, and we went with the approach of what the customer would as of now wants to buy in terms of the, say, the preferences, which is more linked to the market. And hence, we launched a very specific product in the month of May, which has kind of taken an initial euphoria of taking ULIP higher. And now all that has already been settled, our product mix is already back to what we were last year. Even if you look at last year till YTD December, because last quarter was not the right mix for the industry - we are back to the YTD December mix already. So, it's just a quarter where we have seen it. And given this quarter is small for the industry and for us also, we could take some calls at this quarter, whatever plus/minus comes in, we can cover it up in the 9 months.

And in the deck, you would see that our rolling 12-month margin is steady at 14.8% compared to last year also. So, this quarter doesn't take away the margin directionally up or down. The numbers are hovering around 15%.

Sreenivasan S.: Just to add to what Bharat said, Q1 is when life companies can afford to try different tactical strategies. Because it's the lowest quarter in the whole year. And every year, you will see that in the first quarter, at least for the last couple of years, I've been noticing they have been doing something different. But as the second quarter comes, I think things will start falling in line and the distribution gets aligned to what is required.

Nidhesh: Secondly, on BAGIC, we have seen a sharp improvement in market share on the motor OD side. But we keep on hearing that the compete intensity in that segment is quite intense, specifically on the private car side. So how are we able to gain market share? And how should we look at the profitability from a combined ratio perspective, given the competition still remains intense in the motor segment?

Sreenivasan S.: I will broadly start it off by saying that in motor the competitive intensity is largely price driven, and therefore there is price competition. I think the way BAGIC selects the business, grows the distribution, mixes up OD and TP, and the different ages of vehicles (new v/s old), all have a bearing on loss ratio. Raman, would you like to expand on it?

Ramandeep Sahni: Thanks, Sreeni. I think on the risk selection perspective, nothing has really changed for us. It's only about getting deeper into the market with the dealer side or otherwise - that's the only change like I mentioned, it’s the result of the expansion and the penetration. But from a risk selection perspective, we've been quite healthy vis-a-vis the rest of the market, and nothing really changes there. It's not that we relaxed some of our norms and hence got into some lines of business which we couldn’t have done earlier that’s not the case.

It's largely coming from the fact that we've done some amount of expansion on manpower, on geographies in terms of infrastructure, and added many more agents. And because of the this, you see a deeper penetration. Otherwise, nothing really changes on the quality of the portfolio.

Nidhesh: Lastly, a data-keeping question. One is that what is the advance premium for BAGIC? And secondly, for Bajaj Finserv markets, the disbursement for the quarter, and then credit cards originated for the quarter?

Sreenivasan S.: I already gave you the disbursement number, which in the Q1 was Rs. 1,427 crores and we sourced 74,000+ cards. It was Rs. 1,313 crores in Q4 FY23.

Ramandeep Sahni: On the advance payment side, the number for June 30 was about Rs. 1,678 crores, which has moved up by almost 44% from Rs. 1,168 crores on June 30 last year. And like I mentioned earlier, it happened largely because of the 2-wheeler business, where the advance payment has really grown by 58%. And also 4-wheeler new business where it has grown by 21%.

Moderator: We have the next question from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: I have two questions on BAGIC and a question on BALIC. On BAGIC, just wanted to understand that our retention strategy seems to have changed meaningfully compared to what we were 2 years back. Even in the retail lines like motor, we seem to be retaining less compared to what we did in the past. And given our solvency is very strong, just wanted to understand the entire logic of having a strategy very different from what we were 2 years back on retention across the product segments. That's point number one.

And the second question what I had is with respect to EoM. Basically, we are the market leaders in the crop business. And EoM, in my view, will impact mostly the crop business, if a company wants to change that particular product. So given that you already might have bid for Kharif, I just wanted to understand what you are picking up at the ground level - whether EoM is impacting the pricing or anything on crop where we are always market leader, and it has been a profitable product for us.

Sreenivasan S.: On the reinsurance, while we can't disclose the complexities of the strategy that BAGIC follows, there are many layers of treaties. We have a base treaty, we have a catastrophe treaty, excess of loss for certain lines, and proportional treaties for majority of the lines, and we continue to increase capacities as and when the reinsurance markets allow us.

Having said that, within our retention, which are fairly high because of our large spread of banca business and our large retail spread, we do have several sub-treaties specifically for certain products for certain periods of time. And that is how the retentions can vary across years as well, even on the retail lines. Raman, would you like to add on to that and anything on the EOM on crop insurance?

Ramandeep Sahni: Yes, I think you've is articulated the retention part. Without going into too much of detail, I think you rightly responded. I think Sanketh, the only additional point I'll make is that some of these businesses, as you know, have been under stress. And many of you have mentioned it also that there are some parts of motor, because of the high level of discounting in commercials, have been under stress.

So that's one of the strategies we are trying, by managing our retentions in a particular area and particular portfolio. But like Sreeni said, we can’t divulge too much of the strategy, but that's something which we are working on.

On the crop business, you are absolutely right, and that’s what I mentioned a little while earlier also. We are seeing a lot of stress on the crop business, especially from some of the private players. We've been facing some stress on EoM regulation, and also from some the PSUs. So, the level of activity has indeed gone up significantly, and it has a bearing on the pricing. But some of the tenders have already been closed. And from our perspective, I think while this year may pass through with similar levels of numbers which we've done in the past. But year on, I think it is going to be a stressful situation, because that’s one arbitrage people really have clearly identified and started to focus on.

We'll have to wait and watch what happens here on. But at least from our perspective this year, maybe we will clock similar numbers because some of the tenders would have indeed got closed. But here on, you are absolutely right that there is likely to be stress even on our numbers, from a crop perspective.

Sreenivasan S.: There will be a bit of paradox again on this crop business because a lot of the players who are traditionally keeping away from that, will now do it for top line, to increase their EoM expense allowance. But in the process, they will bring down the prices as well and the premium will drop. Secondly, many states have already gone to the 80-110 model, which means that the premium anyway will have to drop.

So overall, the benefit they expect may not come through. But people like us who are in the crop business, we'll wait and watch and keep centring on where we feel the better opportunity. For us, I think as of FY23, even including crop, we were well below the EOM limit. So, crop was not required for us to achieve the EOM limit. And hopefully, BAGIC will continue to be among the cost leaders

Sanketh Godha: I understand that point, Sreeni and Raman. The only reason I was asking this question is that the geographic diversification was the biggest crux for us to be profitable in this particular line. And given the EoM, whether we will be able to achieve that geographical diversification which we achieved in the past - that's the only reason I was asking this question.

Sreenivasan S.: I think Raman already answered that. Next year will be a better time. This year already closed, and we have got reasonable amount of diversification.

Sanketh Godha: Got it. And on BALIC, the obvious question is again on the margin and related growth. So, margin compressed, maybe you kept IRR on the higher side, maybe to achieve the growth. Even despite that our growth (and with launching ULIP) was of 15% growth reported in the quarter. If we are taking a cut in IRR, and given incrementally Axis Bank will be a bigger base; and if we intend to refocus a bit on ULIP, then the growth what we have delivered in the last few years, could come down. is the point that I wanted to check. What exactly are you thinking on growth and how it will be delivered?

Sreenivasan S.: I think broadly, before I pass it on to Tarun, I will just give one comment there - that the first quarter contribution to NBV was hardly 15% last year. As I told you, this is a quarter where you can try different things. And as Bharat mentioned earlier, lot of actions have already been taken, and on a YTD basis we have already brought it back to where it was. Tarun, would you like to take the rest of it on whether it is back on growth and profitability balance?

Tarun Chugh: Absolutely. See, Sanketh, the Q1 has to be seen in the light of 81% growth of Q1 last year. On CAGR, we remain the highest in the industry on IRNB at 46% and GWP of 34% over three years. Hence, I would not worry about growth. Our standard answer on this and more than that, the delivery, has been we will be easily growing more than double of the private sector. So, I think that I want to allay our worries.

You have gotten specific on a few bits but let me just say more. The intent this quarter really was to widen our product offerings. And as non-PAR in March and PAR as well had reached a certain peak, it was a challenge the entire sector saw. And you have seen it in the growth of the sector as well - it has been quite muted. On trying to get people back in the market, talking to their customers, they felt that they had already met their non-PAR and PAR requirements. Hence you see the impact on the overall growth of the sector.

Some companies may have grown because of various base impacts here and there. For us, the objective was hence to pretty much launch an offering which widened our offerings every month. We have launched four offerings, and we have largely done significantly there. You have seen the launch of a ULIP plan in April; in May the small cap fund which was ULIP; and then the diabetes term plan in which we are getting some significant positive reviews and experience has been very encouraging.

And in July, the ACE plan, which is a PAR plan, has had a good take-off. So PAR is kind of right up there, and ULIP is settling back to what it had to. I think

Sreeni has already talked about the fact that Q1 is a good time to re-engineer and re-look. So that we have achieved, we have become the third largest in the private sector in terms of number of customers that have been added in Q1 - after two bank owned significant number one and number two companies. And we are very happy with that. Honestly, I think we have achieved what we wanted strategically.

In terms of distribution, we have been adding a lot many bancassurance partners, albeit not as big as Axis. Axis has grown by about 8%. Contribution to our business is down from 25% to 23%. And if you remember in the previous calls, I have always been saying that our endeavour would be never to depend on one bank, unlike other companies. And we would want it to be in the range of 20-25%. Versus the company growth rate, Axis growth rate for us has actually been low. But having said that, we will of course want our customer penetration to be far higher in the Axis array. That shall remain.

Our base is getting higher, so don't expect a growth like last year; and the CAGRs that you have seen over the last three years, which has been the highest in the industry at 36% and whereabouts. But given the width of our other businesses, other than Axis, PSF is expected to grow near double of the company growth rate. Our agency has beaten the trend year on year. We are expanding our branch network further. Even in our institutional business, the kind of partners, and the array of partners - this 3 to 9 gives us a good platform to extend further.

And the engine getting all this moving, is really our focus on data and technology. So that remains. And with that, now the product innovation that is kicking in as well, I'd say it has been a success for last quarter, because we've seen significant take up of each of these. These offerings, within a very short time, have already been a significant part of our product mix. So, the distribution gets more and more things to go and get a higher share of the customer wallet. I hope that answers your question.

Moderator: The next question is from the line of Swarnabh Mukherjee from B&K Securities.

Swarnabh Mukherjee: Hi, sirs. Thank you for the opportunity and a very good morning. So a couple of questions on BALIC. First, on the VNB margin, the 12-month number that you have shared in the presentation. That being stable, I just wanted to understand what the role of expenses in this number would be. If you can provide some colour on how it would have moved pre-cost overrun versus post-cost overrun. I felt that since the scale has gone up, there might be some benefit that might be coming out of the expense ratio. So, what are your thoughts on that?

Secondly, in terms of the non-PAR category, if you could highlight if you are seeing any impact because of the taxation on 5 lakhs+ policies. How is that being handled, and whether we are seeing some business that earlier happened in the non-PAR category, being moved to other categories. Because I think in terms of proportion, the number is fairly steady.

And also wanted to understand what is happening in the annuities in the individual business, because the number looks steady for this particular quarter. So that's on BALIC. I have one question on BAGIC, and I will come back after the response.

Tarun Chugh: So, let me take the last two and then I will ask Bharat to come and add on the expenses and any further things that he might have. On the annuity side, I think it's a natural flow of business. The base has been in the 5% to 8% range, and it will remain broadly there. We don't see a big shift in any form whatsoever. Of course, given the tax equality now all across, maybe annuities are getting relatively more attractive versus the others.

Now, we were the first ones to launch the deferred annuity, and we shall remain focused on that segment. It is also a non-medical product which makes it quite easy to sell. That shall remain, but I do not expect this to significantly change from where we are. Ballpark 5% to 8%, maybe sometimes 10%, but that's the whereabouts.

On the 5 lakh and above, yes, there is an impact there for the entire sector. Which is exactly why we chose to widen our proposition base, and we have successfully done that. There are some exciting thoughts we have, and things we are going to be rolling out in the next 3 to 4 months to be able to take benefit of that. Because although 5 lakh and above, the taxation is put on life insurance companies, for Par and non-Par customers there. But having said that, still the ability to structure that in the customer's favour through products is significant. And our Par product, for example, allows that quite well, because you can actually structure when the tax is going to be coming in.

So, I do see an impact on the sector, but I think the sector has enough tools available with itself to get that sorted. The good thing is that now above 5 lakhs, we remain possibly the only product range which does have the capability of helping the customers in their tax planning, versus any other product in the entire financial services side. Finally, I think you should assume that this year is the year where the base will get settled in, and it will sink in with the HMI customers as well, and then should sort itself out after this year.

Bharat, on the expenses or anything else you'd like to add.

Bharat Kalsi: Yes, thank you Tarun. The question was on the overall margins and the overruns. Just to be clear, what happens with the overruns is that as we are adding new partners - as Tarun and Sreeni also mentioned, we recently added 5-6 banks and they are in the early stage or even early months of the operation - they will always produce an overrun. So, technically, overrun is also like a rolling number. As we add more partners, in the initial period they will give overrun, by the time they become a complete number.

But on the overall basis, if I take steady state that where we are, maybe the overrun could be in the range of 5%-6% which is already there. But this can improve significantly even in the next quarter or next year, or it can be there if we start adding more partners. So, I think having any number of overrun to me does not suit a business like BALIC, which is as of now growing and adding new channels. Not only on the third-party side, but if you look at our agency side, we are expanding, we are getting into new territories, we are getting into new sub-channels. All of them in the initial stage will always add to an overrun. So, I think it's just a way of looking at what is overrun. To me, it's not the best metric to see as of now for a company like BALIC which is adding on to the partners.

Sreenivasan S.: Let me just add to that, you asked about the 12-month rolling margins and the reason we report 12-month rolling NBV is precisely because the life insurance is very seasonal. The fixed expenses are pretty constant, but the top line is varying from Q1 to Q4. And last year specifically, Q4 was very high.

Therefore, the rolling 12-month gives you on a rolling basis, on an annualized basis, where we are moving without annualizing in terms of assumptions about future margins. This is a disclosure we started doing just to give the effect of this. Secondly, the company's goal is to grow its NBV. See, this business has got multiple lines with different capital requirements, different levels of risk, different levels of profitability. And one margin internally for us does not indicate what it is. But NBV does because that is the absolute amount of money you are making.

So, the company has the flexibility to grow certain high margin business or low margin business, high volume business, or channels focused on something more or less. But at the end of the day, we should grow our margins at least at the same rate as IRNB, or better if we can. Historically, last year, we have been doing better than the growth in the IRNB. So, this will continue. We have transformed the company from where it was, from a negative margin to a fairly healthy double-digit margin. We have some way to go and over the next few years, you will see this playing a lot more effectively.

Swarnabh Mukherjee: Understood sir. If I were to think about the margins for the full year, how will your guidance be? Would it have a similar level to last year?

Sreenivasan S.: We would not give guidance on margin, as I told you. But you can assume a certain growth in NBV. You know what the past trend is. but we normally try to avoid giving any guidance on profit.

Swarnabh Mukherjee: Understood.

Bharat Kalsi: As Sreeni rightly said, we do not give NBM margin. What we look at is NBV as an absolute value. Even if you look at our 12-month rolling NBV this quarter, it has also gone up by 24%. So, margin is a different way to look at it, but absolute NBV has grown by 24% on a rolling 12-month basis.

Swarnabh Mukherjee: So just a quick clarification on that. If I were to think only about the fourth quarter for this year, then it might not grow as much as what we have seen in first quarter, right?

Bharat Kalsi: For the industry, as a whole year.

Swarnabh Mukherjee: Okay. Understood. A couple of queries on the general insurance side if I may. First, your loss ratio number for the health insurance segment has worsened compared to last year. Just wanted to understand what is causing that, because first quarter is generally more benign in terms of claims that come about, and it is generally from second quarter onwards with monsoons, etc., that it starts to increase. And if you could also split out how the experience has been in retail. That is one. And secondly, in terms of the Geo initiative, if you could quantify what proportion of your premium right now comes under this Geo initiative? And any kind of quantification on what additional growth it is bringing.

Sreenivasan S.: The second question is how much we are getting from Geo. I don't think we want to disclose that number, because it is just a general initiative on a geographical basis of expanding rural and semi-urban areas.

Ramandeep Sahni: I think Sreeni is right. We have just started the endeavour to expand and like we said earlier, we are adding many people and infrastructure in these locations. So, as of now, we have just started the journey. I think it has only been two quarters, and we are adding about 100 plus branches this year. So, I think it is too early to even start discussing those numbers. While the numbers are good and the growth is pretty healthy, but maybe it is too early to start talking about that.

On the health piece, I think it is the result of the mix of the portfolio between retail and group. While we have not done any government health business in this quarter, but there are three parts. One there is GMC, then there is the non-employer-employee more linked to your lending business, and then there is the retail health.

The loss ratio has actually moved up in a few accounts in the GMC side. While they are still profitable, but it has moved up compared to where it used to be, and we have seen some hardening of rates happening there. This we have mentioned also last year, if you recall, that the benefit of the pandemic is probably going to be sustained for a short time, but the rates will start hardening in due course. And I think that is the reality of life.

On retail, while the loss ratios have not changed too much, but they are on the higher side. And it is something to do with the way the claims are being reported by the hospitals. We have enhanced our diligence significantly in Q1. Now every retail claim, whether it is cashless or reimbursement, goes through an investigation process. And we are hopeful that some amount of fraud which we are seeing on the retail portfolio should start coming down. And I had made this candid comment last quarter also that while on the motor side the anti-fraud processes were very robust, on health given the nexus we were seeing between hospitals, doctors and other parts of the ecosystem, it was very difficult to crack that code.

I think that is something which we have now started focusing on. And like I said during the quarter we have made a change that every claim now is getting thoroughly investigated. Every admission in the hospital is being thoroughly verified through a video call and so on and so forth. In the next quarter onwards, we will hopefully start seeing some benefit of that occurring. So that is just to summarize what is happening on the health front.

Swarnabh Mukherjee: Understood. Would it be possible to just give some colour on how the loss ratios have been in retail versus the two group lines that you have mentioned. Even a ballpark number would be okay.

Ramandeep Sahni: The best benchmark of that is comparing with the SAHI companies, our numbers are a little on the higher side for two reasons. One I have just mentioned, second is that the mix of our new business was on the lower side. We all have seen that the growth for the SAHI companies has been far better, and hence the mix of new business has been on the better side for them versus us. That's one reason, in addition to what I mentioned, our loss ratios are a little higher compared to the SAHI companies.

But like I said, we are working on that. And in due course we should start seeing the results of that. And also, just to recap, what we've mentioned in the past is that we've now set up a separate SBU for health, which is headed by a very senior person coming from Apollo Munich, and the gentleman is leading the portfolio to include all aspects of health business - whether it's distribution, products, underwriting, claims and so on and so forth.

With this enhanced focus we should see some benefits occurring on the retail side. While a lot of work has been done by the gentleman on the non-employer employee which is the credit link and there our growth is very healthy at upwards of 30%. In GMC also they've done a great job. Retail is where we are now investing in and hopefully you should start seeing some results in the future.

Moderator: We have the next question from the line of Nischint from Kotak.

Nischint: Thanks for taking my question. Most questions are answered just a continuation of the last one, what proportion of group health would be credit, and what would be employer-employee?

Ramandeep Sahni: I'll not share too much of data Nischint, but the ratio would be 2:1, with 2 being the GMC.

Moderator: Ladies and gentlemen, with that, we conclude our question-and-answer session. I would now like to hand the conference over to Mr. Akshay Jain for closing remarks. Over to you.

Sameer Bhise: Thank you all for joining the call, and the management of Bajaj Finserv Limited for giving us this opportunity to host this call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of JM Financial, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.