"Bajaj Finserv Limited
Q1 FY'25 Earnings Conference Call"
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MODERATOR: **MR. RAGHVESH – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '25 Earnings Conference Call for Bajaj Finserv Limited, 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 touchtone phone. Please note that this conference is being recorded.

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

Raghvesh: Thank you. Good afternoon, everyone, and welcome to the Q1 FY '25 earnings conference call for Bajaj Finserv Limited. First of all, I would like to thank the management of Bajaj Finserv for giving us this opportunity to host the call. As always, we'll have opening comments from the management team, post which we'll open the floor for Q&A.

From the management side today, we have Mr. S. Sreenivasan, CFO, Bajaj Finserv; Mr. Tapan Singhel, CEO, Bajaj Allianz General Insurance Company; Mr. Tarun Chugh, CEO of Bajaj Allianz Life Insurance; Mr. Ramandeep Singh Sahni, CFO of the General Insurance Business; Mr. Vipin Bansal, CFO of the Life Insurance business; Mr. Ashish Panchal, CEO of Bajaj Finserv Direct; and Mr. Devang Mody, CEO of Bajaj Finserv Health.

With that, I would like to hand over the floor to Mr. Sreenivasan for his opening comments. Over to you, sir. Thank you.

S. Sreenivasan: Thank you. Welcome, everybody, to the conference call to discuss the results of Bajaj Finserv Limited for Q1 of FY '25. As before in this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations to Bajaj Allianz General Insurance BAGIC and Bajaj Allianz Life Insurance BALIC, and where material, the standalone results of our company, BFS.

We'll also be covering our emerging businesses, which include Bajaj Finserv Direct, Bajaj Finserv Health and Bajaj AMC. Bajaj Finance (BFL), which is another major subsidiary of ours, has already had its Conference Call on 23/07/2024. 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. 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.

A word on IndAS. As required by regulation, BFS prepares its financials in compliance with Indian Accounting Standards (Ind AS). The insurance companies are not yet fully covered under IndAS, particularly IndAS 117, once applicable it will change the way insurance results are measured by both Life and General Insurance businesses.

However, for the purpose of consolidation, both BAGIC and BALIC provides IndAS compliant financial statements, largely focusing on the rest of the IndAS. Accordingly, for BAGIC and BALIC, standalone numbers reported are based on 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 today morning.

I would like to draw your attention to the newly revamped investor deck with more disclosures. We do hope you appreciate this and look forward to your feedback.

Let me start with the key highlights of Q1 FY '25.

Q1 FY '25 was a strong quarter for growth across all our major businesses. Risk metrics, however, varied across segments and our company's focused on balancing risk with growth. Overall, I would say it was a mixed quarter.

Bajaj Finserv's consolidated profit after tax for Q1 FY '25 was INR2,138 crores, which is 10% higher than the previous quarter. Excluding the volatile unrealized mark-to-market gains of BAGIC and BALIC, the consolidated profit after tax was INR2,122 crores, which is up 8% over the same quarter of the previous year.

The lower growth impact in the current quarter at a consolidated basis is on account of the following items. In the previous year, Bajaj Finance had raised capital through qualified institutional placement post this, the BFS shareholding in BFL is reduced to 51.34% from 52.49%. This has impacted consolidated profit by INR45 crores.

You may recall that Bajaj Finserv has also subscribed in the form of a preferential issue, which is to be converted into shares by May 2025. At which time, the share should further go up by about 12basis points.

Cumulative losses from emerging businesses of Bajaj Finserv Health, Bajaj Finserv Direct and Bajaj AMC were INR119 crores as against INR82 crores in Q1 FY '24 as the businesses are trying to achieve scale. These are within our annual operating plan. And as you know, we continue to invest in these businesses for achieving scale and to achieve the objectives for which they are set out.

As mentioned in the BFL's investor call in Q1 FY '24, Bajaj Housing Finance had a onetime deferred tax liability reversal of INR73 crores. This impacted consolidated profit by INR38 crores. Together, these items reduced YoY % change in the consolidated profit after tax by 7% for Q1 FY25. And it is our hope that some of these items will not recur being of a onetime nature.

Coming to BAGIC. BAGIC recorded market-leading growth of 24% in gross written premium touching INR4,761 crores. And even excluding the bulky tender-driven crop and government health business growth was strong at 22%. Its profit after tax increased by 39%.

BALIC continues to record market-leading growth of 26% in individual rated new business (IRNB) and its net new business value grew by 11% in the quarter.

BFL resumed sanction and disbursal of loans under 'eCOM' and 'Insta EMI Card' and issuance of EMI cards after the RBI removed the restrictions on these businesses on 2 May 2024. Its quarterly consolidated profit after tax increased by 14%

BHFL has filed Draft Red Herring Prospectus ("DRHP") on 8 June 2024, with the SEBI and stock exchanges for potential IPO of equity shares and awaits clearance. We would not, therefore, be able to take some questions on BHFL.

Bajaj Finserv Health successfully completed acquisition of Vidal Healthcare, along with all necessary approvals. The capital has been infused in the first quarter and the post-acquisition integration work has commenced.

Now coming to the highlights of our consolidated financial results and performance of our businesses, which have been put up in our press release.

Consolidated total income was up 35% at INR31,480 crores, consolidated profit after tax is up 10% to INR2,138 crores.

BAGIC recorded top line growth of 24% at INR4,761 crores. Profit after tax increased by 39% to INR576 crores and the ROE on an annualized basis was 21.3%. The combined ratio, as reported under the IRDA's guidelines is 103.7% versus 100.7%, largely because of some large liability claims. However, on the basis of net earned premium, the company had an underwriting profit of INR16 crores and a combined ratio below 100%.

BALIC recorded top line growth of 24% at INR5,018 crores of gross written premium. And the individual rated new business, as I mentioned earlier, was again up significantly above market and the private sector. The profit after tax saw a 37% decrease at INR97 crores versus INR155 crores. And as you are aware, in the life insurance business, higher growth results in a higher new business trend, and therefore, there will be a strain on the profit. The new business value is INR104 crores versus INR94 crores in the previous year's first quarter, which is an 11% increase.

BFL recorded a 24% increase in consolidated net total income at ₹ 10,418 crore and a 14% increase in consolidated profit after tax at ₹ 3,912 crores with an ROE of 19.86%.

Let me start with BAGIC now.

BAGIC continues to balance growth with profitability and consistently delivers a superior overall performance versus the industry. BAGIC continued its growth momentum, recording above market growth in Q1 FY '25, growing at double the pace of the industry, 24% as against 12%. Its market share increased to 6.5% from 6% in Q1 of FY '24.

Even excluding tender-driven Government health and crop business, the GDPI growth for BAGIC is at 22% as compared to industry growth of 13.5% (Private+PSU).

The growth is largely attributable to commercial lines at 19%, health at 48%, personal accident at 25% and miscellaneous at 73%. The combined ratio was 103.7% on account of higher claim ratio. There is also an element of higher reinsurance ceding, including ceding of a past book, which has reduced the net return premium for the quarter. This is a one-off adjustment, which is not expected to occur at the same level in the subsequent quarters.

The underwriting profit was INR16 crores. And for your information, for the year FY '24, the underwriting losses for the industry were INR29,620 crores. And for the private sector, it was INR10,760 crores as per the public disclosures. So, it is in the context of this that the underwriting profit of BAGIC has to be seen.

Aided by better underwriting result and higher profit on sale of investment, the profit after tax for Q1 FY '25 increased by 39% to INR576 crores versus INR415 crores in Q1 FY '24. Motor insurance business growth was muted due to BAGIC's tight focus on writing only preferred categories of business, particularly in the case of commercial vehicles, BAGIC continues to take a cautious stance and is not growing that line of business, lower new vehicle registrations in Q1 and the base impact of Q1 FY '24 also contributed to some extent for the muted growth of motor insurance.

The subsequent quarters as the BAGIC continues to balance growth and profitability, it will continue to seek opportunities to grow.

In the case of the 2-wheelers, BAGIC has signed up with Hero Motors in Q1 of FY '25, which as you know, over the last 20 years had no tie-up with BAGIC. We believe this can add significant value going forward. While motor still continues to dominate the business, the other significant improvements in movements in Q1 FY '25 includes increasing the health portfolio mix by 5%.

Overall claim ratio increased to 77.1% versus 74.3%. The increase in claim ratio is mainly attributable to a few large property and liability claims. We do not believe such claims are recurring in nature, but as it happened in the Q1 of the year, hopefully, they will not recur in the next remaining 3 quarters.

BAGIC's AUM, including cash increased by 11% to INR31,651 crores as on June 30, 2024, versus INR28,611 crores. On the customer front, BAGIC relentlessly drives the theme of "Caringly yours" on the foundation of customer obsession through innovations in customer experience. Accordingly, we continue to have lowest grievance ratio in the industry consistently year-on-year.

As we mentioned before many of the new initiatives which BAGIC invested in over the last 18-24 months including focus on smaller tier towns, distribution expansion, doing more with bancassurance partners and strong presence in the large ticket corporate segment has resulted in this performance and will continue to contribute to coming quarters. This is a longer-term initiative and BAGIC has calibrated growth in this for the quarter especially in the motor segment.

In a market where asset insurance is intensely price competitive, where incidents of frauds are high, and where the market often goes into irrational pricing, this operating result, we believe, displays BAGIC's commitment to a balanced, profitable and sustainable growth on the back of a deep and broad distribution and prudent underwriting while focusing on best-in-class customer service.

In summary, a solid result from BAGIC in terms of top line growth and strong profitability metrics, I must reiterate that insurance is a long-term business, and we remain steadfast in our commitment to drive profitable growth, create sustainable value and always prioritize the interest of our policyholders.

Let me move to BALIC next.

BALIC continued its strong market-beating growth trajectory and reported an individual rated new business premium growth of 26% against the industry growth of 20% and the private industry growth of 24%. Its market share in IRNB terms increased from 8.9% to 9% in Q1 FY '25 among private players. BALIC ranked fifth among private players on IRNB basis; and fourth on retail regular new business policies in Q1.

The company's growth was secular and driven by all key channels with agency growing 15%, institutional business growing 27% and BALIC Direct growing 75% during the quarter. On the back of continued strong renewal premium growth of 30%, BALIC GWP grew 24% during the quarter. The consistent growth in renewal premium reflects the improvement in persistency year-on-year that BALIC has been displaying over the last 5 years.

In terms of new policies, BALIC grew 8%, and the number of policies in Q1 FY '25 was 1.55 lakhs. During the current quarter, BALIC's NBV, as I mentioned earlier, grew by 11% from Rs 94Cr to 104Cr and the growth in NBV is mainly due to high business growth and change in the channel/distribution mix.

Overall, in terms of product mix based on IRNB, it was 23% Par, 19% non-Par savings, 6% term, 5% annuity and 47% from ULIP. We have seen across the market, all companies showing a higher proportion of ULIP because of the strong performance of equity markets. And therefore, this quarter we have seen a higher proportion of ULIP for us as well. BALIC has been increasing its focus on protection business with 5-year CAGR of group protection business at 10% and retail protection at 91%. During the quarter, the Retail Protection business grew 30% on a Q-o-Q basis.

BALIC has been scaling up agency in the direct channel through investing in people, processes and deepening existing channels. It has led to BALIC building up one of the largest agency channels in the private life insurance space with 1.5 lakh agents. BALIC is also building on the data and analytics for the direct sales through upsell and cross-sell initiatives. It has led to BALIC presence in 342 towns with dedicated verticals for different customer segments within the direct space.

On the institutional business side, the company continues to expand its network of partners and grow existing partnerships. BALIC now has a reasonably large number of bancassurance tires, which should help it reduce any concentration risk. During the quarter, BALIC has further tied up with Federal Bank and Yes Bank as a bancassurance provider.

On the persistency front, there has been improvement across most cohorts with 13-month persistency at 85% and 65-month persistency at 52%. If you do see a small blip in the 37-month persistency is largely because last year's 25th month persistency was affected due to a certain book of business that we had written a few years earlier and which we have since degrow.

The profit after tax was lower by 37% from ₹ 155 crore in Q1 FY24 to ₹ 97 crore in Q1 FY25, mainly account of higher new business strain due to business growth and product mix partially offset by higher profit release from past business, shareholders' investment income and ULIP charges.

BALIC ended the quarter with an AUM of INR116,966 crores.

One of the questions investors may be wanting to know is the impact of the new surrender regulations. The changes in the product regulations require surrender values to be paid from year 1 and also define the method of calculating special surrender values. We welcome the new regulation from IRDA as it enhances the product proposition and customer point of view, and it's positive for the industry in the long run.

BALIC margins have been consistently expanding over the last 4 to 5 years from 7% in FY '19 to 15% in FY '24. The changes in regulation in the short-term may temporarily impact the margin expansion. However, given our overall growth trajectory and focus on sustainable growth, we expect to see our margins continuing to expand in the medium term. To mitigate the impact of this change, we are proactively implementing various measures, including, but not limited to product filings, cost optimization and productivity improvement.

Overall, rather balanced quarter for BALIC with top line increasing at a higher rate than the market.

Finally, both insurance companies are among the most solvent in the industry with very strong solvency ratios.

Coming to our lending businesses, BFL and BHFL,

A mixed quarter, good quarter on volumes, AUM, operating efficiencies, portfolio metrics and ROE, loan losses were elevated in Q1, the company resumed sanction and disbursal of loans under e-com and insta EMI card, and issuance of EMI cards after the RBI removed the restrictions on these businesses on May 2.

Profit after tax grew 14% from INR3,437 crores to INR3,912 crores. BFL acquired 44.7 lakh new customers in Q1 FY '25. BFL disbursed INR1.1 crores loans and added 45 lakh new customers in Q1 FY '25 as against just INR0.1 crores new loans in Q1 FY '23, registering a growth of about 10%.

Total customer franchise as on 30 June 2024, stood at8.81 Cr while cross-sell franchise crossed a milestone of INR5 crores and stood at INR5.51 crores. The Bajaj Finserv app now has 5.6 crores net users as on 30th June, '24.

The Company's diversified business model has enabled it to record a strong AUM growth as seen from the total AUM standing at ₹ 3,54,192 crore as on 30 June 2024 (31% Y-o-Y growth as compared ₹2,70,097 crore on 30 June 2023). Net interest income grew by 25% to INR8,365 crores. NIM compression in Q1 FY25 over Q4 FY24 was 23 bps. 13 bps movement was due to cost of funds and 10 bps movement was due to AUM composition. The gross NPA, net NPA at 0.86% and 0.38% were in line with the previous year and among the best in the NBFC industry.

The loan losses and provisions in Q1 were elevated primarily on account of muted collection efficiencies and Stage 2 asset in Q1 went up by INR864 crores over Q4. We have a taken steps to strengthen collection efficiencies, slowing down rural B2C business and other steps, which we expect will yield results in H2.

The company remains watchful across portfolios and also proactively pruning segments. BFL's capital adequacy remained strong at 21.65%. Tier-1 capital was 20.73%.

Bajaj Housing Finance, BHFL, the 100% mortgage subsidiary BFL continues to do well. It has filed a DRHP on 8 June 2024. Its AUM grew 31% to INR97,0071 crores as of 30th June 2024, from INR74,124 crores.

The profit after tax was INR483 crores, which is 5% higher. BHFL's capital adequacy ratio was 23.82% with Tier 1 capital at 23.2%. It continues to track excellent loan loss metrics with GNPA and NPA at 0.28% and 0.11%. In summary, another very strong quarter for BFL and BHFL.

Now, to give some update on our emerging companies – Bajaj Finserv Health Limited (eBH), Bajaj Finserv Direct (Bajaj markets) and Bajaj AMC:

Bajaj Finserv Health carried out 26.6 lakh health transactions versus 10 lakhs in Q1 FY '23, having 3.08 lakh monthly active users. Obviously, this quarter, the transactions can be also attributed to the acquisition of Vidal Healthcare during the quarter, which now at 26.6, stands about 9 lakh transactions a month. Bajaj Finserv Health is also expanding its provider network, which includes 107,918 doctors, 5,838 lab touch points and 16,813 hospitals. The acquisition of Vidal gave access to a substantial number of hospitals to Bajaj Finserv Health.

Utilizing the network strength, eBH is now able to offer and service differentiated product plans, both for retail as well as to corporates for employee health benefits management.

Bajaj Finserv Direct (Bajaj Markets), our other subsidiary attracted 72 lakh consumers on its digital platform, of which 1.7 lakh became customers.

BFSD lending, (unsecured, secured, BFL and partnership) disbursement for the quarter stood at 1,789 crores as opposed to 1,636 crores. It sourced 42,294 cards (against 20,673 cards in Q1 FY24). It has also started selling the cards of BFL again, which were temporally restricted by the RBI on BFL.

Bajaj Finserv AMC, has crossed an AUM of INR12,000 crores as of 30th June up by 26% Q-o-Q. It is ranked 27th out of 43 on 30th June 2024.

I will now hand over the call for the questions from the audience. But before we open for questions, concerning the paucity of time, may I request the audience to keep the questions brief so that we can cover more queries during the call. And please avoid asking questions which have already been answered. Thank you very much.

Moderator: The first question is from the line of Supratim Datta from AMBIT.

Supratim Datta: Now my first question is on the BAGIC business. I just wanted to understand what you are seeing in motor TP, that you have allowed to decline during 1Q. Is it higher commission? Is it higher loss ratio? What is exactly the concern here that you are taking?

Secondly, is more of an accounting question of what I see is that the NEP this quarter has been higher than the NWP, just wanted to understand what is driving that, if you could explain that. I have 2 more questions for the BALIC and Bajaj Health business, but I'll go after this.

S. Sreenivasan: Okay. So, the first question was on TP, what are we seeing in terms of losses? And why are we cautious on some segments of TP? And the second question was on the NWP, NEP is there a one-time adjustment? So, I'll now ask Tapan to take over the first question, and Raman can follow it up with the second. Over to you, Tapan.

Tapan Singhel: Sure. Thank you, Sreeni. If you look at the pricing of overall GI business, the pricing is free or left to the companies. But for motor third party, it is controlled by the government, more besides based on recommendations sent by IRDA in terms of the pricing.

For the past couple of years, there has been no price revision for motor TP. But the inflation under claim keeps on happening every year. You have to keep on recalibrating your business and how it moves. For others, you can reprice depending on how the business is moving. But for TP, you can't, you don't have the price control.

So, there's been no price hike for a couple of years, then some businesses which would have been good, let's say, 2 years back, will not be so good today because the inflation under claims is happening every year. That's the reason why you heard the statement Sreeni made in terms of recalibrating our business in the motor business, looking at how it's going. I hope it answered your question.

Raman, do you like to take the NWP one or the reinsurance part?

Ramandeep Sahni: Yes. Sure. So, like Sreeni highlighted in the opening remarks, during the quarter, we've actually done a new seeding on a treaty, which actually covers a book of the past. So, this is actually some of our rural business, which we were trying to seed, but it didn't happen before the year-end last year, but we were able to do it this year. And it included the past book as well. And that's why you see that our NWP growth is actually negative compared to the NEP growth. If I actually exclude this one-off impact, my NWP growth would have been close to 16.5%. So that's abnormality, which is being caused only for the quarter's results.

Tapan Singhel: So, let me explain it a bit further, why and how it gets done. In our business, when we write a large chunk of business, it's always good to have good reinsurance support because that is where the collaboration also happens to, and you build experiences on that. And that is why this treaty got done.

But if you look at this quarter result, we have underwriting profit. So technically, if you look at the combined ratio on NEP, which is the way when you calculate underwriting profit, our combined ratio is below 100.

Supratim Datta: Got it. But if I do not consider this one-off impact, then you will not have an underwriting profit as well, right? Because you would have gotten commission inwards due to the seeding, which would not just that.

Tapan Singhel: Would be to a certain extent but you're seeing a large portfolio, the combined ratio would be for complete portfolio. It will not be that high impact.

S. Sreenivasan: Let me just add one more point to this. Supratim, if you know, in the end of the year, we do publish our claims triangles and now under the public disclosures, they are available for all the peer group companies for the current year as well as for the previous year.

And when we check that, we found that the paid claims to the ultimate loss expenses provided initially, even after 6 or 7 years, we are the lowest in the market. Though we are prudent, we believe, in reserving for claims at the point of accident year and we will continue to maintain a prudent stance. This obviously, you have seen some companies having to strengthen their reserves or have large items on P&L, we do not anticipate that kind of situation for BAGIC in the near term.

Supratim Datta: Understood. That's very clear. Now coming to BALIC, on the margin, last year, first quarter, you had indicated that the margin was lower due to launch of a low-margin product and the growth being slower. Now this quarter, the growth has been strong at 18%. While there is a product mix shift. However, despite this the margin appears to be very soft. So just wanted to understand why this has been the case. And is there something beyond the product mix shift that is there?

S. Sreenivasan: Yes. Broadly, before I hand it over to Tarun and Vipin, let me just highlight this that Q1 is the softest quarter for life insurance business. Last year, we did launch a unit-linked low-margin product. This year, for the market as a whole, we have seen a shifted towards lower margin products because of consumer demand. We have seen, results have come down, margins softening across the companies that have already reported results. And it will be for this quarter and possibly next quarter as an industry phenomenon.

Tarun Chugh: So, I think it's on the same line that Sreeni mentioned. I think it's largely driven out of the mix that you spoke about. And it is also important that there is a mix coming from into ULIP. So, you see the bulk of that mix coming from the savings side, and that's where the delta is. And first quarter is always a small quarter. You still continue to run the fixed cost, and that's why there is shrink can be very significant in the first quarter. I think as we go through the year, the year normalizes, and there is better absorption of cost. So, I think that is what the normalization.

Supratim Datta: One last question on the Bajaj Health business. So, the Bajaj Health business, now have Vidal in that business. Just wanted to understand what kind of deal do you think is required in this business to turn profitable? Do you have a certain target, a business plan at which this business turns profitable? And what would help you to reach that scale?

S. Sreenivasan: Let me just take a bit before I pass it on to Devang. I think the acquisition of Vidal now gives us the complete toolkit required to operate across the health care spectrum in terms of services, products, platform provision and management of claims, apart from managed care services. We already have OPD and wellness, which we have invested in.

Now with the acquisition of Vidal, the integration is going on, and we will eventually come out within the next 6 to 9 months, complete long-term plan, which will give us the visibility on the breakeven. Devang, would you like to supplement?

Devang Mody: Yes, it's a valid question. And of course, operating leverage is going to be the largest trigger, but at this point of time, where we are focused on is TPA industry. It is highly commoditized, and there is not material difference besides stickiness of existing clients of employer-employee group that employees used to working with certain TPA. I think that's the only point for choice of TPA in industry in our view.

What we are focused on today is, how do we create value proposition for our customers, which is differentiated. So, we are focused on a few things, which is highly propagated by regulator as well as government that how do we make health care transactions more digital. To answer your point, once the integration is underway in terms of improving Vidal's platform capability, creating differentiated products for their customers, these are the 2 important tasks of integration.

And as Sreeni answered that in the next 3 months, now that we have visibility and thought process of what together we can take to market. We will do the long-range plan, which would mean also running the excel numbers. Most important thing we are focused on currently is that how do we differentiate in the market.

Another very important lever for P&L for health business is as we create meaningful products for our customers, like now with Vidal acquisition, we can also offer hospitalization as a service. Similarly, we have lined up for our self-services, which we can offer to our same customers. So last quarter, we have launched Diabetes Care as a Service, which is a fully managed package- which our customers, employers or insurers can offer to their customers. Similarly, we have a plan to launch 1 or 2 services every year. Now that requires investment. For example, in H2, we will be focused on providing Maternity as a Service. Now that requires a completely new dimension of network providers to be enrolled.

Every year, we'll try to roll out 2 services, that's another trigger for us to do investment on and rest of the business will continue to drive operating leverage. Our quarterly loss rates are reducing Y-o-Y by at least 20% to 30% and that trajectory will continue. But we are focused on launching more services and creating differentiated products. So that's the focus of the organization at this point of time. Hope I'm answering your question. I'm shall not be able to give you revenue number at which we will break even. The reason is it will depend on our investment horizon rather than just optimization of our operating leverage.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: First, I think on the life side, we're trying to sort of translate the margins and looking at a reasonably high increase in unit-linked and Par business, taking away from non-Par. Just curious how the margin stacks up, given the fact that there was a pretty small compression in margins on a year-on-year basis. So, is it something that margins at product levels have changed?

Vipin Bansal: So, Nischint, I think margins are a function of a lot of things, including what are the current interest rates, what we are able to own, what do we offer to customers. It's a function of all of it. However, we will also have the distribution mix that plays a lot of functions. I think at a broader level, like we answered to Supratim earlier, we do believe that quarter 1 is too early to react on any impact on margins because this is the very smallest quarter for our business. And there will be a huge impact on the fixed costs. So, I think as it gets as we go through the year, that's the time we should lead too much into margins.

Just specifically to your question, have our product margins changed very significantly? Probably not, but we do keep taking price corrections reacting to what competition is doing and what is happening in terms of the yields that we have.

Tarun Chugh: And let me just add on to this. There are 2 other elements that become critical. One is the productivity, there is a 24% increase in top line which denotes there is an increase in productivity other is the channel mix. So, if our proprietary sales channel does better, previously, that's a lot more profitable than a few others. So, I think those things also play in other than product structures.

Nischint Chawathe: Sir, just a related question. On the agency side, growth this time was around 15%. I guess we have been stepping up a little bit more now. So, is this kind of a mid-teens agency growth that we're looking at?

Tarun Chugh: We don't make a projection on growth of channels and otherwise, don't talk about forward-looking statements. But having said that, yes, the CAGR on agency has been at 15%. Our focus is always to ensure that, despite being now one of the largest agencies, look at the base effect, get into more cities, run multiple agencies. We don't run one. So, a lot of these will play out over a period of time. But I don't think I can make a statement on growth rates like this.

S. Sreenivasan: Nischint, just to add to that, what Tarun said, I think Agency has these multiple channels with different economics on growth and profitability. And depending on how the overall requirement of the company is in terms of balancing the product mix, I think the levers will be used differently.

So more than the overall growth, it's a balance between growth and profitability that you should see. It was a channel which was said to be across the industry, not possible to make money, but I think now we are into double-digit margin territory there and we would like to keep it growing in that space.

Nischint Chawathe: And Axis Bank seems to have stepped up this quarter.

Tarun Chugh: Yes. So, is that a question or statement?

Nischint Chawathe: No, no. It's a question.

Tarun Chugh: So, Axis Bank, we are where we are. We usually tend to keep our market share between 25% to 30%. And as Sreeni, mentioned upfront in the call, we are very clear that we do not want to be one bank channel-led unlike our peers who are largely skewed and that brings a lot of risk to the business mix and kind of, it is better to be distributed always. And that's how we are going. And I think Axis has been keeping instead.

Nischint Chawathe: One is on health insurance. If you could kind of help us understand the trend in health loss ratios. Is it a mix-change? Or is it something that we are able to see some deterioration or improvement in the retail loss ratios?

And on Bajaj markets, we're looking at organic visits and transacting customers sort of slowing down. So how should one look at this and whether we'll be doing further investments on this?

S. Sreenivasan: Right. Tapan, would you like to take them?

Tapan Singhel: Can we just get the question again?

Nischint Chawathe: Yes. Sorry, on the health side, if you could break the loss ratios between retail and group and the change in loss ratio this quarter? On the retail side, have we seen an improvement or deterioration in the loss ratio, if possible, you could break it between retail and group?

Tapan Singhel: So, if you look at the retail loss ratios, it is a combination of the year of policies, and that is across the industry, your first-year policies have a lower loss ratio. Second year goes up, third a bit more and fourth goes up for it. So, depending on how you acquire fresh and business, the loss ratio moves on that basis. That is one way to look at loss ratio, which predominantly happens in the industry.

The other way to look at the loss ratios, how do you redefine your business mix and acquire customers at what age and where do you put it on. So, if you look at our average age of customers, it now has gone down in retail health, which shows that overall, this would be a better book as it progresses further. The loss ratio movement has not been very significant in terms of that compared to the last time i.e., we have not moved up or down significantly, but we are in the process of correcting the book so that it gets better over time.

S. Sreenivasan: So, to add to Tapan's, if you look at FY '22 onwards, the market as a whole, the number of policies hasn't grown at all. It's fairly flat. Most of the increase in premium for companies is majorly on account of the increase in the prices by them. The number of new people coming into the market is not growing as fast.

Given our position, we have also now located that there are many pockets in the country where we need to do more health business, where traditionally, we were doing more and more other businesses. Over the next 2 to 3 years, we will focus a lot more effort on to that. This is very clear from our side.

Ramandeep Sahni: Nischint, I'll just add to the loss ratio. See, I think what you rightly highlighted is while there is an increase in the loss ratio, but it's a result of the increase in the proportion of government and GMC business, which is causing a minor increase in the loss ratios.

Also, like we have mentioned earlier, if you recall in the last call, I think we had highlighted that we will be repricing our products because I think on that front, we are lagging versus the market. And some amount of repricing has gone into play late during this quarter. And I think about 50% of the book on the retail side will get repriced in quarter 2. So, you will hopefully see some impact of that coming in, in the coming quarters.

Nischint Chawathe: Bajaj markets?

S. Sreenivasan: Yes. Ashish.

Ashish Panchal: The question has 2 parts.

The first one was on Organic traffic going down. The overall traffic has gone up QoQ. Organic, Direct and Social are zero-cost channels. While at a split-level, Organic has decreased by ~12%, sum of all zero-cost channels have increased by ~7% from Q4 FY24 to Q1 FY25 (2.40 Cr. To 2.57 Cr.) Organic traffic has momentarily gone down for the quarter due to some changes in Google algorithm, but if you look at our direct channels for which we have zero cost - these are Organic, Direct and Social – the sum total of these 3 has gone up for us, which means our free channels have higher traffic. And therefore, while Organic has gone down, total traffic and traffic from free channels has gone up and has not affected us economically.

As for the trend of transacting customers, our transacting customer count in Q1 FY25, has decreased by 71,000 against Q4 FY24, but 90% of this reduction is only on account of mutual funds. And in mutual funds, we are in the process of migrating from offering direct mutual funds to regular mutual funds. And in turn, we are moving from RIA to ARN. Therefore, this change of strategy caused us this decrease in transacting customers. I hope that's answers the questions.

Moderator: The next question is from the line of Dhaval from DSP.

Dhaval Gada: There is one question on the general business, BAGIC. Could you talk a little bit around these few liability claims that came during the quarter? Second, on the Bajaj Life business, the rolling 12-month margin is about 14.3% and initial comments that I think Sreeni made were that this year, the margin is expected to be more consolidating given the surrender impact, but over medium term, the margin continues to expand that sort of our aspiration was earlier. So, could you talk a little bit around near-term margins in the context of the last 12-month margin? And what should one expect over the next 2, 3 years in terms of margin expansion?

The third question is on Bajaj Health. On Slide 51, you have the business model. I understand you haven't yet made the proper LRS for this business, but could you give some perspective around what will be the biggest driver of operating leverage that Devang talked about earlier? And just a data giving question on Bajaj Health is this quarter, the revenue includes Vidal. If you ex out Vidal, would the revenues be close to INR160 crores, INR165 crores. That's just a data-keeping question. Yes. So those are the questions from my side.

S. Sreenivasan: Dhaval, the first question was on liability claims. While we can't give out the exactly what kind of claims they were, I can only tell you that in the P&C business, P&C, this is the C part of P&C, claims tend to be large, but infrequent especially with respect to corporate liability claims, whereas in the terms of asset insurances, you will find a large number of claims are more frequent and low severity.

I'll then hand over to Raman or Tapan to explain.

Ramandeep Sahni: I think, Sreeni, you rightly highlighted while we can't take names of the clients and the nature of claims, but there are basically 2-3 claims, which are large in nature and fortunately, see, this liability business is largely managed amongst the top 5 private players. And there, all the 3 claims which I spoke about are coinsured, and you'll hopefully see a similar impact either in this quarter or next quarter in most of the other private players accounts also, but like we said, there seem to be one-offs and hence don't seem to be an area of worry at this stage for us.

S. Sreenivasan: And usually, they take time to settle. So eventual settlement depending on how the company is reserving could be less as well, but that takes time because these are all matters of their own liability and contracts. The second question was on life. We can't give any picture on margin, but if Vipin or Tarun would like to highlight that.

Tarun Chugh: Yes, Sreeni, I'll take that. Yes, you're right. We can't talk about numbers, but see, I understand that there is a concern on the surrender charges that is coming in. So, what we're doing is a little conservative in the way we are talking about this year. A lot of this is yet to pan out, which is why the statement from Sreeni where there could be lesser of an expansion, let me put it this way.

See, as a company, if you look at our motion of the movement on our NBV, we've only been going up. And the last 5 years, our margins have grown significantly in terms of share percentages. And although we largely look at NBFC. What you will find is that our expansion of margin shall continue. But maybe for the short term this year, we'll wait and watch, and we are not making any significantly optimistic forward-looking statements even directionally for this year. Maybe there will be a little bit of pause before it starts expanding this again. That's the way I'd like to answer.

S. Sreenivasan: And the third question was on Bajaj Finserv Health. You want to understand that the operating leverage will come and whether ex Vidal, what would have been the revenue growth. I will only add one thing before I hand it over to Devang is that the business that Bajaj Finserv had built was basically a capability on OPD, wellness and networks, mostly smaller ticket riders and products sold. Vidal is a different stream of revenue. I'll hand over to Devang to explain that one.

Devang Mody: Yes. So, I think let me take the revenue number question out first. So, the stand-alone revenue is INR 167.65 crores. So that answers your question on that. I must also mention that this quarter has decent amount of acquisition-related expenses because as transaction gets consumed, we have to pay the bankers fees, etc. So that is passed through both P&Ls.

On Slide number 51, where operating leverage would come from? See, practically, we are too small a business at this point of time. And hence, all the pieces of payer stack should add to operating leverage to explain you. I think every quarter, we are adding one more nonlife insurer and one life insurer to our payers who are offering OPD services to their customers. Now these contracts take time because they formulate the product, they file the product, they do the technology integration with us. And after that, they roll out in the market, and that's when our revenue clock starts.

So, I think that addition of non-life insurance and life insurance will be continuous. And these are fairly sticky business unless we falter on services tremendously. It will keep adding value. Most of these products on life as well as nonlife side are renewable, and that's what should provide kicker to revenue without having to spend on business development, initial integration, product launch time etc. So, I have a business development team, which is knocking doors and product launch takes anywhere from 3 to 6 to sometimes 9 months with an insurance company. So, there is no revenue which fits in.

So that's what will add to our operating leverage, which is normalized, more partnerships, life insurance more partnerships. In those partnerships, more products and more penetration. But I think as a company, do you see largest trigger to come from corporates. Vidal in the market is heavily skewed towards corporate as payer, the percentage of premium under management, they would be amongst highest corporate for the share of total premium under management.

And we believe that our digital experience as well as OPD capabilities are much more suited for corporate as a payer. Since we are a small business, all the payer sectors should grow, but corporates will find much quicker revert as there is an existing demand, which is not getting met.

And we have what it takes, but it requires a little bit of solutioning because insurers have to be brought on board, etc. So as all those things we complete, corporate will give immediate revenue increase and hence operating leverage. Insurers is a longer walk, but much more sticky business. I hope I have answered your question.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: Sir, my question is largely related to motor OD. Our growth on OD is strong around 22 percentage. By any challenge, this growth includes Hero, I say OEM addition? Or we expect that Hero addition will come in subsequent quarters?

And second thing, with respect to OD was to understand the claims because last year, we ended at 63.6. Today, it is at 69.4, it's a meaningful deterioration around 600 basis points. So just wanted to understand any specific reason why this motor OD loss ratios have increased compared to last April. That is the question on BAGIC I have, then I'll ask on BALIC.

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

Ramandeep Sahni: Yes, I'll take it. So, Sanketh, Hero has not yet started firing guns. I think it'll take a few more weeks. Business has started. But in Q1, it was not material enough to talk about. Your second question on OD. I think to understand that better, if you just look at our OD loss ratios, they move quarter-on-quarter. If you see the trend for last 3 years, every year, you will see in quarter 1, there is a spike. And by year-end, from quarter 2, actually, it starts normalizing.

So, I think that's a trend we've seen reoccur every year. Having said that, at least what we believe seeing the trend for last month and so on, we believe that the trend for full last year is close to where we should end this year at on ages basis.

Now obviously, like Tapan has been reiterating now and then, it all depends on the quality of the portfolio, you're right. But if I were to just look at the past trends and answer your question, you'll see that this normalizes over the balance 3 quarters, and we, on ages basis should settle at close to 65%.

Sanketh Godha: Got it. Perfect. And Hero, you might have assessed it internally. How big is the potential? I mean if it starts firing from second quarter, how much extra layer it can add to the growth?

Ramandeep Sahni: Like I think we all have said in the past, we'll not make any forward-looking statements. So, let's wait and watch how the numbers shape up because it's also a matter of how much commission we want to pay, right? It's very easy, like we've been saying every now and then it's very easy to buy a business in the motor segment. So, it will all depend on what the discounting is, what the commercials are depending on that. So, let's wait and watch, hopefully in the second quarter onwards, you'll start seeing the result.

Sanketh Godha: Okay. On BALIC, if you can break up that growth of Bancassurance of 27 percentage into Axis and non-Axis. I just wanted to understand where the growth has come from compared to the large bank channel we have. And the next one was, again, with respect to growth, if something a little different have we done in direct channel, which led to such a strong growth?

Anything which you want to highlight, the 75% growth, how is it sustainable for the full year because that's probably one of the ways to recruit margins if surrender norms impact, as you rightly highlighted that the direct channel will be a little mitigant on product mix to protect the margin. Sir, if you can give a little more colour on that part will be very useful.

Tarun Chugh: Okay. See, we can't be so transparent, we tell you exact percentages of all our banks. And honestly, its keep changing. But I mean, broadly speaking, Axis is, of course, our largest contributor. And I mean, a little less than all our other banks. For banca business, half of that comes from Axis Bank. But we do have partners in aggregator space, in the broking spaces, etc, which we're not adding up to that.

On an overall basis, Axis will be under 23%, which is what we've always been saying. And Banca would be Banca broking, everything would be close to about 45% to 50%. It varies, like for this quarter was 45%.

Now on the Direct business, see, Direct is something we've been working on for quite some time, and we've been actually quite positive in making a lot of investments, I think a lot many verticals. We started a defense channel. These are customers who are existing with us. And we have to get more and more efficient about servicing them and upselling them new products.

And as our product mining has been going on, we've been able to decipher where there are more possibilities of developing efficiencies in this channel. We do expect this channel to remain relatively faster growing versus the rest of the other businesses, namely agency and institutional business. But yes, these are exceptional growth rates we've been able to get this quarter. I don't think that kind of level will be sustainable further.

Sanketh Godha: Got it. Just is it fair to assume that if direct growth at a faster rate than the other channel, then any margin loss because of the surrender loans can play a role in reconning a bit from the surrender loans?

Tarun Chugh: To an extent, you're right. But it's not entirely that story because it's also a product mix play that is there, direct sells lot more ULIPs. And then plus, there is no commission payout there. And usually, surrender commissions, costs, it's a very complicated trade in the way things will pan out after H1. Among all of these, yes, Direct say tends to get a positive benefit of all of these 3.

Sanketh Godha: And lastly if I can squeeze one. I'm trying my luck if you want to answer, you can answer.

Tarun Chugh: So, you thought say you're lucky anyway.

Sanketh Godha: If you can quantify by any chance, the impact of surrender loans on your margins. So that means on FY '24, the 14.6% margin, assuming you don't do anything with respect to payouts and all those things? What's the number you could, see?

Tarun Chugh: Sanketh, to correct you sorry, you're trying luck too hard. There could be a slight pause in the growth, but the expansion is going to be back. A lot has yet to be seen in the way commission span out, productivity span out, product mixes span out, there is this huge underlying surge in the market given the fact that the Sensex is at the top. So topline, it's going to be a combination of a lot of factors. Even if I also make a statement, I would be 100% sure it won't be correct.

S. Sreenivasan: Sanketh, the only limited point there is that a lot of the surrender is based on surrender values and so these are all actuarial reserving that needs to be adjusted now. As the business builds over the next few years, if there are no actual surrenders, which are much higher than where we are today, then that amount is going to get paid out only at maturity, which is already built in, okay? So, this is a game of actuarial reserving and actual results demonstrating that for the industry as a whole for this particular product lines, which are affected, will play out over the next few years.

Like all industry specific things, it is not one company which is getting affected. And we'll all adjust. Last year, there was a big thing about tax on traditional products. In reality, I think you can see in hindsight, we all adapted. So how margins will evolve is, we will adapt, and how we will adapt will vary from company to company, but eventually the focus will be in improving the margin while continuing to grow better than market. That remains, rather, the NBV, should grow faster than where we are today. That is our primary objective.

Moderator: The next question is from the line of Madhukar Ladha from Nuvama Wealth Management.

Madhukar Ladha: Most of my questions have been answered. Just a couple of ones which are left. One on the Vidal acquisition, now that you've acquired Vidal, are you seeing other insurance companies associated with Vidal withdrawing business from there because that was one of the fears that the market and I also had.

Second, you've done a pretty large government health transaction last year, the Gujarat government transaction and you would be competing about a year. So maybe you could talk a little bit about your experience and your learnings? And how would you sort of see that business in terms of whether you would still like to continue or what sort of changes that you would like to add in terms of making that business more profitable. Yes, any comments and colour around that would be helpful. These would be my 2 questions.

S. Sreenivasan: The first question is for Devang. As a policy, we have a Board approved policy that not more than 10% of our TPA business from Bajaj Finserv will be done with our insurance companies. So, we don't see that as a particular block. But Devang, can you add flavour to that?

Devang Mody: Yes. I think, as soon as we announced the transaction, as it is required, and desired, we informed to all the insurance companies with whom Vidal was working. And post that, we engage with them. Obviously, they had this question that you are now becoming part of the group, which owns an insurance company, what does it mean for a conflict of interest.

So, we explained it to them, which are all packed that Vidal is a regulated entity, regulated by IRDAI and open for inspection of IRDAI. And there are regulations around use of data etc. So

IRDAI has approved the transaction with caveats and reasons. And hence, they should have that as mitigant that there is a regulator in picture. Besides that, there is DPDP law, it has become a law now, though the fine prints of what are the bylaws, etc, are yet to be released, but it's at. So, nobody can just misuse the data for any other purpose than as required.

Third thing, our Vidal customer had these questions, we had answered them. We are on continuing business. Vidal is continuing the same premium under management. And hence, there will be some reluctance on some of the customers for the time being. The key question is what is the value add we are putting on trigger?

And this risk in our mind was thought out risk because even for OPD services, while we started our business with BAGIC because we co-created a product, every quarter, we are adding one non-BAGIC health insurance company and non-BALIC life insurance companies, they have same questions. And if you are able to add value, people will work quickly. That is our experience from last 4, 5 quarters that we are adding one health insurance company and one life insurance company.

Obviously, they also have, in competition, our group companies. And I think market is becoming mature that we are a listed company with Nifty 50 presence, fact that group has impeccable brand imagery. So, it should be mitigated. When I approach any insurance company, this is the first question they asked over a period of time with 3 to 6 months of business development, they come on Board.

So yes, it's a legitimate question, which customers will have. But if we are able to add value, people will work with that. In our group, in lending business, we bank all the checks of customer EMI into some bank only, and those same banks we compete for our loans business. Since there is no group having services business in the market, that's why it is a legitimate question from customers as well as the question you are asking. If you are able to add value, they will work with us, and that has been our observation till now. I hope I've answered the question you asked.

Madhukar Ladha: Got it. And the next one on the...

Tapan Singhel: On the Government group, if you look at our company's philosophy and over time, we have said it also. We are into all lines of businesses. And you've never seen us say that we are walking out of our business or we're entering again, and I've seen a lot of peers do that, but we consistently stay in all lines of businesses. And we learn from it, and we keep on looking at what to do next. That is how we also do in government held business. Gujarat is not the first one. We have done Jammu & Kashmir before, Maharashtra State also. It's a continuous process of doing business.

Madhukar Ladha: Sure, sir. Any comments qualitatively on the loss ratios or what needs to be done.

Tapan Singhel: That I don't give. I think I mentioned that last time also because see, this is our hard work that we do to figure out businesses and do that. So obviously, we'll not be giving details on our individual businesses and LOB.

Moderator: Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Raghvesh for closing comments.

Raghvesh: Thank you to all the participants for joining on the call and a special thanks to the management of Bajaj Finserv for giving us the opportunity to host the call. Thank you.

S. Sreenivasan: Thank you, everybody.

Tapan Singhel: Thank you, everybody.

Ramandeep Sahni: Thank you.

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