“Cholamandalam Financial Holdings Limited

Q4 FY '23 Investors Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Cholamandalam Financial Holdings Limited Q4 FY '23 Investors Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note this conference call is being recorded.

I now hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you, and over to you, Mr. Agarwal.

Praveen Agarwal: Thank you, Vikram. Good morning, everyone, and welcome to this earnings call. From the management team, we have Mr. Sridharan Rangarajan, Director; Mr. V. Suryanarayanan, MD of Chola MS; Mr. S. Venugopalan, CFO of Chola MS; and N. Ganesh, Manager and CFO of CFHL, to basically discuss the key highlights of the results.

I would request Mr. Sridharan to give his initial remarks. Over to you, sir.

Sridharan Rangarajan: First of all, good morning to all of you, and thanks for taking time for participating in our call. I have with me Suryanarayanan, MD of Chola MS; and Mr. Venugopalan, CFO of Chola MS; and the CFO of our company, Mr. Ganesh.

The consolidated total income for Chola Financial Holdings for the quarter ended March '23 increased by 39% to INR5,281 crores, while the profit after tax increased by 31% to INR901 crores. The consolidated total income for FY '23 increased by 25% to INR18,376 crores, while the profit after tax increased by 26% to INR2,810 crores.

Cholamandalam Investment and Finance Company, you might have attended the call, where the details on the presentation and transcripts were available, but I'm sure you've gone through that. I'll just give a broad highlight of that. CIFCO gained market share across product segments in vehicle finance and other business units. Disbursements were at INR21,020 crores for the quarter ended, which went down by 65%, and INR66,532 crores for the full year, went up by 87%.

Total AUM stood about INR112,782 crores, which is up by 36%. The profit before tax for the full year was at INR3,600 crores, went up by 25%. Asset quality also improved from 3.51% in December '22 to 3.01% as of March '23. Cholamandalam MS General Insurance had registered a gross premium of INR1,776 crores in Q4, increase of 27.9%. And the company crossed the INR6,000 crores mark, and they did INR6,200 crores for the full year, an increase of 27.6% over the last year.

I will also request Suryanarayanan to make a brief comment about Chola MS General Insurance, and then we will open up for Q&A.

V. Suryanarayanan: Good morning, everyone. Thanks, Sridhar. As was mentioned by Sridhar, Chola MS recorded a GWP of INR1,776 crores in Q4 and INR6,156 crores for the full year. The growth rate at 27.6% was strong and compared to the multiline insurers' growth of 16.3% meant that Chola MS enhanced its market share to 2.87% amongst multiline insurers.

The growth was across all lines of business with growth rates of 33.4% in fire, 26.8% in motor, 36.7% in health and 16.7% in personal accident line of business. The company grew across all its channels. In its captive channels, business from the sister company and the Insurance Express outlets grew by almost 20%. Bancassurance business grew by over 50%. And with the addition of new tie-ups in Tamilnad Mercantile Bank and South Indian Bank, growth from the new channel acquisitions across OEM platforms, financial partners help attain the strong growth.

Chola MS investment portfolio corpus was at INR14,680 crores. And with no net exposure to stressed assets, meaning that all of these stressed assets have been fully provided for. Recoveries from the fully provided exposures in IL&FS and Reliance Capital would be recognized on a cash basis as and when it happens.

Chola MS registered a combined ratio of 104.2 in the quarter and 109.3 for the full year. The claims ratio for the quarter was at 70.8 and for the full year at 71.2. The company ended the year with a profit before tax of INR264 crores, solvency ratio of 2.01 times. With a net worth of about INR2,160 crores, Chola MS owned reserves over the years constitutes about 81.5% of the net worth.

That, ladies and gentlemen, is the summary of Chola MS results. We shall now open the floor for questions.

Moderator: Thank you. We'll take our first question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Sir, just one question in terms of -- at a broader level, if you look at the listed entity, are there any plans in the medium term or the near term to unlock value for shareholders from the perspective that -- there's just 2 entities one is Chola, which is a listed entity; and the other one is the General Insurance business, which perhaps can be listed at some point in time. So I ask, given the substantial -- in terms of discount the company paid back to underlying value. So just thoughts around this will be very helpful, sir.

Sridharan Rangarajan: Thank you. I think this question has been posed to us every now and then. I think as we stated earlier, our aim is to carry out both the business well, and that's the primary objective of management. Both the businesses have NBFC and general insurance are doing really well at this point in time. And we would like to present how they have performed, what's the future hold for them. And it's up to the investor to take a look at it and value the company accordingly. And we will stay with that stance as we earlier stated.

Atul Mehra: Right. Right. I understand the perspective there on business performance. But is that -- at a Board level, is there any -- in terms of discussion on this particular point, given the like substantial value that can accrue to the shareholders of this entity, if and when an action is taken. So just trying to ask more particularly about the structure of the entity rather than underlying performance. Underlying performance, I'm sure, obviously doing very well there.

Sridharan Rangarajan: As and when the Board takes a call, definitely, we will get back. As of now, no such discussions.

Atul Mehra: Got it, sir. And sir, secondly, for the GI business, is there a listing plan? Because there are a number of other GI companies which are listed, so from that perspective, anything on that particular element?

Sridharan Rangarajan: Look, I think if you look at the capital adequacy of GI business and capital required for its growth, both in terms of the insurance business as well as some of the investment they would like to make in terms of, let us say, computer -- sorry, software upgrades and some of the digital assets that they would like to own and then improve the productivity of the business, they are adequately capitalized. And we feel it is enough and more that they can definitely look at for the growth trajectory what they have been projecting at this point in time. So definitely, as and when we have such a plan in terms of requirements of capital, we would definitely look at it. Our joint venture partner has a similar view, and I think we will explore this as and when we feel definitely there's a need for us to do.

Atul Mehra: Okay. Sir, just one final question on GI. In the sense that maybe at some point in time, we can look at a universal license or in terms of GI companies being allowed to do other insurance products. So is there a plan to get into life insurance at any point in time and as and when this opportunity path opens up? Or it's too early to talk about it?

Sridharan Rangarajan: So I think we are definitely observing the developments in this space. But I think we require more granular details, which is awaited. I think most of the industry is waiting for such details. And then we would take an appropriate call depending on how the guidelines would evolve. And based on that, definitely, we would take an appropriate call on that.

Moderator: We'll take our next question from the line of Devansh Nigotia from SiMPL. Please go ahead.

Devansh Nigotia: Sir, congratulations on a good set of numbers. Sir, in case of operating expenses ex commission, the run rate has actually started to moderate despite higher growth. So as a percentage of net written premium, it was hovering around 42%, 43%. This quarter, it's around 40%. If you can just help us understand, are there any diversion or -- are there any change in marketing expenses? Where are these savings have started to come from? And internally, how do we see this number shaping up?

S. Venugopalan: Yes, if you are talking about the COR element of EOM, it is 33.4% for Q4 and for the YTD, FY '23 is 38.1%. We have been able to reduce from the previous year Q4 from 38.5% to 33.4%. It's basically the reduction on account of higher growth in the GWP and corresponding NWP part, as well as the element of savings in cost both in fixed and acquisition cost level. Both elements have contributed to a reduction in Q4. We continue to examine the reduction in the expenses of management and by way of reducing the acquisition cost as much as possible despite our business growth.

Devansh Nigotia: So there is largely the marketing expenses, the customer acquisition call that you're talking about?

S. Venugopalan: Yes, yes. You can clearly see that the top line growth in the Q4 also has resulted in the reduction in the acquisition cost as well as in the expenses of management.

Devansh Nigotia: So sir, what we understand is that because of higher competitive intensity in motor insurance all leading to such high customer acquisition cost for us, so any comments that you can give on the competitive intensity on motor insurance and how it is shaping up, also how are we participating in this competitive intensity before and how now we are participating in the competition right now.

V. Suryanarayanan: As I've mentioned before in earlier calls as well, competitive intensity in the industry for all lines of business continues to be high, and motor is no exception to that. But what we are beginning to see is some tightening in the market in terms of the pricing of our discounts. And with the advent of OEM limits coming in effective April 1, we do see that some of the larger players are more conscious of what is being put out in the market, which is good for the industry and good for almost all players there. Given the trend of motor OD loss ratios, this reduction in discounts is something that is badly required for the market. And Chola MS, as the fifth largest player in the motor line of business, is more than happy to sail in this direction of reduced discounts.

Devansh Nigotia: And sir, now that we are at an EoM of still very high, around 40%, 41%, and the regulations are given a direction to come down to 30%, so this 10% gap, where do you think how we can bridge this gap, which line item where maximum savings will come from? So some thought process on savings incrementally -- savings initiatives that we undertake?

V. Suryanarayanan: Yes. So the expenses of management is always seen in relation to gross written premium and, therefore, should not be confused with the COR computation, which is based on net written premium. as against the 30% limit that we have from effective April 1, 2023. We are at about...

S. Venugopalan: 36 % compared to last year 38%.

V. Suryanarayanan: On a comparative basis?

S. Venugopalan: Yes. We were at 36% in March '23 compared to 38 in March '22.

V. Suryanarayanan: Yes. So the point is on a comparative from the previous year, it's about 2% down. The regulation had also prescribed the 3-year glide path, for which we do have a plan for a continuous reduction over the next 3 years to conform to the 30% limit. The Board has assessed the matter, and we should see our cost structure going down the glide path as planned.

Devansh Nigotia: Okay. But which line item do we think can have maximum possibility of savings?

V. Suryanarayanan: It will have to be across the lines of business. Besides, there will be some advantage that will accrue to the company by business growth in size. As I have maintained before, our operating expenses will now get absorbed better on a larger base, which will also provide some relief in terms of the overall EoM.

Devansh Nigotia: Okay. And in case of commissions, the run rate is lower by 1% to 2%. So if you can help us understand in the same vein?

Sridharan Rangarajan: Can you repeat the question?

Devansh Nigotia: Commissions, normally, the run rate is around INR35 crores, INR40 crores, a gross written premium of INR1,500 to INR1,700 crores this quarter, gross written premium was INR1,767. But our commission expenses were just INR15 crores, so delta of around INR25 crores to INR30 crores is there against the normalized run rate. So any reversion or why is this run rate so low?

Sridharan Rangarajan: So commission is as per the -- if you are talking about the Q4, am I right?

Devansh Nigotia: Yes. Yes, I'm talking about Q4.

S. Venugopalan: So if you are talking about the commission on net basis, please understand that if you are looking at the revenue account, commission net, it consists of both RI commission as well as the gross commission. In the Q4, there are various treaties running on a sliding scale basis, wherein based on the last ratio at the end of the year, there will be an RI commission accrual that will come as a part of additional RI commission for the quarter, hence, the net commission looks lower. Actually, this has to be seen from the point of view of gross and the net. The net is after the credit for RI commission.

V. Suryanarayanan: Let me explain. Chola MS, conservatively, recognizes the reinsurance commission through the year. And when numbers get crystallized at the end of the year, it recognizes the full reinsurance commission as per the treaty. So naturally, you will find that the quantum of reinsurance commission that gets recognized in Q4 is generally higher as we do adopt a very conservative method of recognition. But then at the full year level recognizes the effect of operations for the full year.

Devansh Nigotia: Okay. Okay. And sir, in the case of -- or when you look at all the segments, fire, motor and health, our business momentum is stronger than the industry and strong market share gains continue. So if you can touch upon individual segments, what are we doing differently that is helping us gain market share, whether in fire, also motor and health, that would be really helpful.

V. Suryanarayanan: So let me begin with fire. In fire, there are a few drivers that have helped us grow. One, our volume of business from the bancassurance segment has gone up in the previous year. And with the new tie-ups coming, it should help in the current year. Besides in fire, our newly set-up verticals for SME business, our volumes from the larger Indian corporates has also grown well over the last couple of years.

In motor, we have this very visible growth. We have diversified the portfolio. We are now part of most OEM programs in cars, in 2-wheelers which has helped us diversify and grow in cars and 2-wheelers and help enlarge the pie in terms of the motor business.

Health, again, we are seeing growth in the bundled attachment health benefit business. And our growth in the health indemnity has also been there though still the proportion is smaller as compared to the proportion of the benefit business. So these have been the drivers.

Moderator: Thank you. We'll take our next question from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee: So 2, 3 questions. First of all, on the channel side, I wanted to understand what transpired in the broker and the direct channels. So broker, as I see, has been quite a good growth driver for us in the previous quarters. But this time, the numbers came in a bit low. So anything specific to read out there or would it continue -- would we bounce back going ahead? That was my first question. Same for direct.

Second is in terms of the fire business. So with run rate-related changes that has happened, is there any initial trends that you could highlight? It would help us to understand the currency value.

And thirdly, in terms of the motor business, so I see that a last part of the growth has been driven by private vehicles given that the competition level we hear about is very strong there. So how should we think about in terms of our loss ratio for the segment? Also from the fact that we are also starting to see growth in the CV business to come back, so how should we think about the loss ratio in the motor segment in the upcoming quarters? And given that it has seen slight elevation this time, what will be the factors for this? So those are my questions, sir.

V. Suryanarayanan: On the brokers business, the business reflects the volumes that we get in motor from the OEM types, the retail broking entities as also the volumes that we get for the commercial lines of business. Generally, the commercial volumes are lower in Q4. So as compared to the other quarters, volumes are more of motor and less of commercial. So that's the really broader trend as far as the broker volumes are concerned.

On the fire business, yes, with IIB benchmark rates going away effective April, we have seen a dip in the property premium pricing. It's not just for us, it's there for the entire industry. One set of segments, what we charge for the pure fire and earthquake rates, the rate has come down. But the pricing for the STFI risks, so that has actually gone up, which is for the storm, tempest, flood and inundation. So that segment has gone up.

The combined effect is that we have seen about an average price reduction of about 8% to 9% for us in April. The numbers for the industry in the fire line of business is out. Actually, at a 7% growth for the industry in this line of business, it is rather muted this year as compared to the previous year. This effect is going to be there for everyone.

On the third question relating to motor, I think now we have reached a stage where the mix between the 3 categories of 2-wheelers, cars and commercial vehicles has more or less settled down. As you have rightly mentioned, the volume in commercial vehicles will be better this year, which is the wider expectation. And given Chola MS' traditional strength in this area, both arising from the sister company as also the other larger tie-ups, we do expect the proportion of commercial vehicles to go up, leading to a slightly amended mix from the one that we see now.

Swarnabh Mukherjee: Yes, sir. So just wanted to come back on the last question. What I wanted to understand was also your thoughts on how the loss ratio might shape up because of this change in the mix.

And also, as a follow-up to the previous question in terms of fire segment, I wanted to understand that given that this year for reinsurance rate, it's a seemingly hard market, so possibly, the rates might not go down very significantly. But is there a risk that when the cycle changes and we move towards the softer market, the impact, what we have mentioned, of 8% to 9% can be more?

V. Suryanarayanan: First, on the motor loss ratios, we have been around this stable mark of around 68 to 70, which has definitely gone up by at least about 10% as compared to the numbers that we used to see, say, a couple of years back our pre-COVID period, so which is the effect of price discount. But as we've stated earlier in the call, so market is seeing some tightening with respect to discounts and pricing. Hopefully, we should see that helping the loss ratios as we go along. But then what we have to counter is also that the parts prices and labor prices are on the increase. So this price increase in premium could effectively neutralize such price hikes in the material and labor parts. So that's the broader direction that I would like to mention on the motor claims ratio.

And coming back to the fire, yes, reinsurance rates have gone up across the industry. And hopefully, one can expect a softer regime if overall losses across the globe are down and in India also if we are fairly better off on the cat losses. Last year, of course, the increase for the Indian industry was more a reflection of the higher loss levels across the globe and not necessarily a reflection of Indian losses. So a good year on the Indian subcontinent would mean that, hopefully, the rates will ease.

Swarnabh Mukherjee: Sir, so will that, can that result in like we mentioned that in the pure fire and earthquake rates that has come down because of the realisation. Once the reinsurance market turns soft, can there be a higher negative impact coming out of this?

V. Suryanarayanan: I'm sure, yes, corporates would seek a price reduction at that level. It is fair to assume that corporates would seek a reduction if loss ratios continue to be low and manageable.

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

Sanketh Godha: Sir, in the previous quarter, we alluded to the point that we might get into low-opex products like crop or even commercial lines to some extent to achieve the glide path of 30% within a 3-year period. So it still remains the same or we believe, with the existing business model, we can reduce it to 30? That's my first question.

V. Suryanarayanan: The company has started participating in the tenders for crop insurance. We are planning for a portion of the business to come from crop, which incidentally would also help us on the glide path.

Sanketh Godha: And any internal target you have set to the crop as a percentage of the total business, beyond which you might not be comfortable doing it?

V. Suryanarayanan: We would ideally like that to be around, say, sub-10%.

Sanketh Godha: Okay. Perfect. And the second question, sir, was that you -- to a previous question, you alluded that the acquisition cost will come down. And if I see in the fourth quarter, the marketing spend, which was around INR260 crores in third quarter, has reduced to INR219 crores. So sir, I just wanted to understand that is it that we constantly reduced our exposures to the products, will the acquisition cost be higher, probably like 2-wheelers or car, where the competitive intensity is higher?

Or is it largely -- just wanted to understand that capital business increased, and therefore, the marketing expense were lower, if you can give the granularity. The reason why I'm asking this question is that this 104 combined improvement predominately happening because of the expense ratio improvement. So just wanted to understand the durability or the sustainability of this combined to remain at 104 or what you guided for maybe '24 kind of a number.

V. Suryanarayanan: Actually, it's a combination of both. The advanced volumes from our captive channels, sister company as well as our Chola Insurance Express outlets, plus paring off high-cost businesses from certain quarters, it's a combination of both that has contributed to this reduction.

Sanketh Godha: Sir, let me -- sorry to interrupt, sir. So if captive volumes are seasonally or, due to any reason, are higher in fourth quarter and if the contribution from a full year point of view, captive business remains similar, then from a full year point of view, that 38%, 36% is from AUM point of view, will improve -- is the whole point and, accordingly, what would be the likely combined ratio you are expecting it to be.

V. Suryanarayanan: We ended the year at, as I said, at 109% of combined ratio. While it is certainly not a guidance, we would certainly want to reduce that by at least 200 to 250 basis points for the current year. I think that is the broad direction that we would be working for here.

Sanketh Godha: And then this will be largely achieved by opex performance, sir?

V. Suryanarayanan: It's a combination of what we will have by opex and by sourcing costs. It's also the loss effect, the claim ratios in certain lines of business. It should really be a combination of all 3.

Sanketh Godha: Okay. And the claims ratio improvement, sir, just wanted to understand because we are already one of the best things with loss ratio in the industry at around 71, 72 or even lower than that. But to the extent I understand, health is the one segment where you can see an improvement because you have taken price hikes there, which will have a full year benefit in FY '24. But we don't know motor TP price hike in the current year. So just wanted to understand, given motor TP price hike is not there and health has improved, net-net, it will negate. So do you believe that your levers for losses should improve?

V. Suryanarayanan: So our expectation is that the non-motor proportion has been increasing, so it should help broadly. And as you rightly mentioned, our health loss ratios, with the corrections, they should tone down over a period of time through the year, which should also help. I agree with you that the more third party, in the absence of price corrections, we would continue to step up our inflation linked provisioning. And of course, as we have always mentioned, we have not recognized any Motor Vehicle Act-related benefits in numbers, which are there from April 1, '22. And we would also await the final Supreme Court decision on the matter.

Sanketh Godha: Got it. Got it. And last 2 questions probably. One data keeping, what is the average duration of bonds what we own today? And then second, in a broader sense, in the entire opex, what we have, just wanted to understand how much is fixed in nature and how much is variable in nature so that with growth. And the leverage story, we wanted to understand that better. So if you can give these 2 data points will be helpful, sir.

V. Suryanarayanan: I think the bond, the duration is at about 3.8.

S. Venugopalan: 3.8, yes.

V. Suryanarayanan: 3.8, Venu confirms. So it's about 3.8. Yes, the company will take advantage of the rate position as also the volatility in the markets for monetizing as and when the opportunities arise. So that part will be there. And given the fact that we have over almost 63%, 64% in G-Sec bonds, all of which have been invested for a longer duration, the volatility will give us some opportunity as well.

The second question on the opex part is that I should tell the investor community that in the current year, Chola MS is also embarking on a tech and data transformation program, which will entail some spends. See, we have been operating a fairly legacy system, which requires a revamp. So the Board has decided to spend some money in transforming the tech platforms and also setting up our data analytics architecture. So thankfully, the spend will qualify for the additional allowance that the regulator has put out. So while that may have some strain on the overall EoM, we believe that this is required for the company to incur this expense at this juncture for further growth of not just volumes but in efficiency and productivity as well.

Sanketh Godha: Sir, what -- can you quantify the number, how much you intend to spend?

Sridharan Rangarajan: I think we -- I mean, this is a program of 3 years, and I think we would like to complete this program and share the progress as and when we do it.

Moderator: Thank you. We take our next question from the line of Ravi Purohit from Securities Investment Management Pvt. Ltd.

Ravi Purohit: Congratulations on a good set of numbers, sir. I just wanted to kind of get a broader understanding from you on the ROE path that our company might take, the general insurance business might take. I think historically, let's say, a couple of years back, we used to be a fairly high ROE business. Last 2 years, of course, there we had write-offs earlier. And then last year, there were significant jump in operating expense. And I think you've alluded that in a couple of calls. So going forward now, where do you think our normal ROEs of the general insurance may settle down, in what range? And what would kind of drive that, if you could just share a little insight into that.

S. Venugopalan: Yes. Our current ROE for March '23 is around 9.2%. Definitely, with the profit growth contemplated for the subsequent periods, we are looking at around 14% to 15% ROE.

Ravi Purohit: We are looking for 14% to 15% ROE in the current year itself, in FY '24 itself?

S. Venugopalan: Yes, it would be around 14%, yes.

Moderator: Thank you. We take the next question from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Okay. So most of my questions have been answered. I just wanted to check first, in the case there is a capital-raising event in law -- in CIFC, would Chola Holdings participate like they have done last time?

V. Suryanarayanan: Can you repeat the question, please?

Sridharan Rangarajan: So I think we will definitely evaluate as this comes depending on the funds' availability and capability to rise. Last time, we did participate, and we maintained our shareholding, so we'll see. But it all depends on the quantum timing and other aspects related to that.

Moderator: Thank you. We'll take the next question from the line of Devansh Nigotia from SiMPL. Please go ahead.

Devansh Nigotia: So are you looking to raise any capital in Chola General Insurance? And any comment that you can give on -- since our investment leverage is at 6 to 7 times, so where do you see we find comfortable investment leverage?

S. Venugopalan: We are in the high level of leverage in terms of both networth and GWP. We will continue the same level and maintain that part in the future, too. That's one of the major advantage for Chola MS in maintaining such a high multiplier on the investment side.

V. Suryanarayanan: To add, actually, our proportion of motor business gives us this high leverage. So as a company which has almost 2/3 proportion in the motor line of business, the cash accretion adds to the investment corpus providing this leverage.

Devansh Nigotia: Okay. And because our ROE that we guided around 14%, 15%, while on business growth, when we look at, is upwards of 20%, 25%. So the investment leverage will keep expanding. So that is why I'm asking that where do we find comfort, beyond which we will look to raise capital?

V. Suryanarayanan: See, capital is a function of solvency level. So as long as our solvency continues to be strong, we are at 2.01 times now and this is sufficient to look at the growth for the next year and the internal accruals that will come in, we hope that will be sufficient to sustain the growth at these levels. This multiple, I think, has nothing to do with the capital requirement because that is driven solely by solvency.

Devansh Nigotia: Okay. And the risk-weighted factor, the solvency which is being proposed, how will that affect our solvency ratio if implemented?

V. Suryanarayanan: These are under discussion by the regulator. There is no framework put out as yet. We will have to wait to see. But then I would broadly tend to think that we are largely a retail business. Still about 80%, 82% of our business is retail and with granular risks. So even a risk-based solvency method should not affect us if we'd have to look at the models that are there globally.

Devansh Nigotia: Okay. What is the outlook on the claims ratios for the next year, for FY '24?

V. Suryanarayanan: So this was answered in part earlier. So as was correctly mentioned by one of the speakers, in the absence of motor TP price revision, the motor TP loss ratios will tend to go up if you have to provide for inflation both in medical expenditure as well as the wage levels, which will lead to, I mean, enhanced severity in motor third-party claims. So that will be the push factor.

The reduction factor is probably the efficiencies that we would look at emanating from the health line of business and the motor OD line of business, the two of our fairly large lines for us. So I would tend to think that we should be fairly successful in maintaining the claims ratios at current levels on an overall portfolio basis.

Devansh Nigotia: Okay. And just a clarification on the EoM regulations, which is applicable from 1st April. So for next 3 years, by FY '26 April, we have to comply with 30% bump for EoM as a percentage of gross premium. Is that the right understanding?

S. Venugopalan: Yes, you're right. The glide path is up to March '26.

Devansh Nigotia: March '26.

S. Venugopalan: And bring down to the level of 30% plus additional allowable for rural land and insurtech expenses together. We should achieve it by March '26.

Devansh Nigotia: Okay. And with the change in accounting provision which is proposed for -- based on -- if you go to IRDA accounting, does that change the way we are recognizing expenses in opex as well as commission? And any insight you can give how that can change our P&L?

S. Venugopalan: Actually, we have not changed any of our accounting norms with regard to acquisition cost and expenses.

Sridharan Rangarajan: The question is if we adopt the Ind AS or IFRS going forward, will that impact?

S. Venugopalan: Sure, it will impact. Basically, we need to wait and see how the regulatory is planning those regulations. IFRS is allowing for the deferment of the expenses in line with the revenue recognition. We need to wait and see in that part. If that comes as a part of this without any interference from a regulator, definitely, we'll get the benefit.

Devansh Nigotia: Okay. So sir, can you help us understand the variable payouts, except commission, which is reported within opex, how much would be that amount?

S. Venugopalan: You want the breakup of the opex. What is it that you are asking?

Devansh Nigotia: Yes. So what we understand is that the variable commission which are recognized upfront in the P&L. But in the case of IFRS, it will be deferred based on the time in recognition. So I just wanted to understand within opex what would be that variable expenses, which currently are though upfront at the P&L but might be deferred going forward if the -- IFRS accounting is implemented.

V. Suryanarayanan: See, as we have mentioned in earlier calls as well, the company has a fairly strong level of long-term premium, both in motor as well as non-motor. In motor, we carry somewhere around INR1,450 crores plus which is future premium which is not reflected in the P&L but then the expense has been fully absorbed. So that itself, given the current market rates, would be somewhere in the region of about -- let me say, about INR300 crores or so. So that is fully absorbed.

So if there is a change in position only with respect to motor, so that's the kind of effect that it can have not just for us but for all players in the industry. And as we have said in the past before, the non-motor long-term premium continues to be fairly strong. So that -- there also where we are actually bearing the cost for a premium, the benefit of which accrues over a long-ish period, 3, 5 and 10 for the different lines of businesses. That also is supposed to help us.

So from a cost absorption point of view, the company continues to be conservative. And the regulator is now examining to see, even as a prelude to IFRS, it should permit insurers to absorb costs over the tenure of the policy. So that discussion is also on, so -- which would mean that it would exactly be a reversal of the absorption that we took in the year '21-'22.

Devansh Nigotia: Okay. And sir, in case of when you look at our -- if you normalize the part of your guiding around INR280 crores to INR300 crores back for FY '24. If we work with 14% ROE and guiding for similar claim ratios, so then the benefit from operating expenses would be around INR70 crores to INR80 crores at least. So this is largely the savings in the customer acquisition costs or -- I mean, if you can just help us understand more on how the savings will come.

V. Suryanarayanan: See, Venu has already given you a broad indication, so I would leave it to the team to do the math.

Moderator: Thank you. We take the next question from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick: Sir, we are intending to improve our combined by 200 bps. Do we factor in the tech spend in this improvement, like -- as both are expense in tech? Is that right?

V. Suryanarayanan: Yes, it consists of both capex and revex. So it is considered in the plan period '23, '24.

Ajox Frederick: Okay. And my second question is, sir, the intent of IRDA is to improve efficiency and pass the benefit to the customer. So when we improve our efficiency and bring the expense limit below 30%, how would the benefit be passed to the customers?

Sridharan Rangarajan: It will be reflected in the growth that we'll bring because of the passing on. And hence, it will also offset some -- higher growth will translate into higher benefits, some compensation that will be passed on. So net-net, it will travel in the trajectory that we have been traveling.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I'd now like to hand the conference over to the management for closing comments. Over to you, gentlemen.

V. Suryanarayanan: So thanks gentlemen for attending the call and also raising various questions, seeking clarifications on the company. It was a good, fruitful year for Chola MS that ended in March 2023. Even in '23-24, our intent would be to continue on the growth path and grow at least at 1.3x of the industry growth. If industry growth is 15%, we would like to grow at about 20%, which means that we would continue to see stepping up of our market share.

And on the profitability, as we have indicated, the growth in investment corpus will provide solidity in terms of investment income, which should help the improvement in the ROE. And directionally, as was mentioned earlier, we would like to pare down the combined ratio by about 200 to 250 bps from the current level of 109%. Thanks, gentlemen.

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