



“Cholamandalam Financial Holdings Limited
Q4 FY2021 Earnings Call”

May 20, 2021



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*Cholamandalam Finance Holdings Limited
May 20, 2021*

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2021 Earnings Call of Cholamandalam Finance Holdings Limited hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you and over to you!

Nischint Chawathe: Good morning. Hope you and all your loved ones are safe. Welcome to the FY2021 Earnings Conference Call of Cholamandalam Financial Holdings Limited. This morning we will discuss the financial and operating performance of Cholamandalam Financial Holdings and its subsidiaries including Cholamandalam MS General Insurance, Cholamandalam Investment and Finance Company and Cholamandalam MS Risk Services. Representing the management, we have with us today Mr. Sridharan Rangarajan, Director, Cholamandalam Finance Holdings Limited, Mr Ganesh N, Manager and CFO, Cholamandalam Financial Holdings Limited, Mr Suryanarayanan V, Managing Director, Cholamandalam MS General Insurance, Mr Venugopalan S, CFO, Cholamandalam MS General Insurance. I would now like to hand over the call to Mr. Sridharan for his opening comments.

Sridharan Rangarajan: Thank you Nischint. First of all I thank all of you in participating in large numbers in today’s call. I hope you are safe and your family members are also safe and we wish and pray that you will continue to be safe in this pandemic. Please take care of yourself safety is first.

To start with I will have a few opening remarks and I have my colleague, Mr. Suryanarayanan, MD of Chola MS, Mr. Venugopalan, CFO of Chola Insurance, and I have Mr. Ganesh, the CFO of the company here to answer your questions. As you know that we have posted the presentation and you would have also attended Chola Finance call as well and gone through the presentation that was posted a few weeks back. Our company, NBFC subsidiary Chola Finance and Chola MS Risk continue to report under Ind-AS; however, Chola Insurance continue to report under IGAAP and they would adopt Ind-AS as and when IRDA gives guidance. However, for the purpose of Cholamandalam Financial Holdings, Ind-AS financials of Chola Insurance is provided to us for consolidation. Chola Finance though we hold lower than 50% it is treated as subsidiary under the Ind-AS based



Cholamandalam Finance Holdings Limited
May 20, 2021

on the concept of control; however, it continues to be an associate under the Companies Act.

I will now cover the standalone financial performance of Chola Financial Holdings. For the year March 31, 2021 the company made a profit before tax of Rs.33.9 Crores providing for tax of Rs.12.19 Crores, the profit after tax is Rs.21.71 Crores. Being an NBFC it transferred 20% of the PAT to statutory reserve. The total income of the company is lower by 36% because Chola Finance declared an additional interim dividend last year, which would have otherwise been received in the current financial year as final dividend. Interest expense relating to the fund borrowed for investment in equity shares of Chola Finance has also impacted the standalone profitability for the year. There is a change in tax law effective from April 1, 2020. Dividend is taxable now and the interest is allowed as deductible expense to the extent of 20% of the dividend income. Hence you would note that there is a higher tax provision this year. The consolidated results of the company consist of the results of our NBFC, insurance business and risk services business. At consolidated level, the revenue from operation for the year ended March 31, 2021 is Rs.13900 Crores and PAT is Rs.1764 Crores. As of year ended March 2021 disbursement of Chola Finance declined by about 10% from Rs.29091 Crores in the previous year to Rs.26043 Crores in the current year; however, the profit after tax increased by 44% from Rs.1052 Crores to Rs.1515 Crores.

In terms of asset quality as of March 2021 stage 3 was at about 3.96% with provision coverage of 44.27% as against 3.8% in the previous year with provision coverage of 41.52%. The company created an additional provision as management overlay for Rs.350 Crores towards the future contingencies in the current year thereby the overall management overlay is Rs.1100 Crores as on March 31, 2021. The total provision currently carried against the overall book is about 3.58% as against the normal overall provision level of 1.75%, carried prior to the pandemic period. Capital adequacy as at the end of Q4 was at 19.07% as against the regulatory requirement of 15%. In case of Chola MS General Insurance the topline largely remained flat Rs.4705 Crores as against industry consisting of PSUs and private players a growth of 2%. Growth in FY2021 was halted by national lockdown having its effect on the economic growth for well over six to eight months of the year and resurgence in the last four to five months of the year helped us to bounce back to the level of FY2020. Chola MS most productive quarter with a volume of Rs.1374 Crores, which is the Q4 a 14% growth is higher than the general insurance industry growth of 8.8%. The profit before tax was at about Rs.367 Crores. Chola Insurance Express, which has become our principal growth driver crossed more than Rs.1000 Crores of GWP mark



Cholamandalam Finance Holdings Limited
May 20, 2021

despite the lockdowns and this is our principal channel. Growth in premium from OEM tie ups was significant during the year and they have also added new OEM tie ups. Achieved portfolio diversification by strong growth in property lines and also achieved mix diversification within Motor LOB, the strong growth of two wheeler and in car segment. You would note that two wheeler and passenger vehicle was about 24.4% now it is 41.8% while commercial vehicle was 75.6% it moved down to 58.2% making this mix change in the last two years. They have commenced new virtual office model and testing out in Uttar Pradesh, which we are getting a positive feedback and probably would rollout more.

All SBUs added new channels, which contributed to as much as 7% of Q4 volume. The year witnessed growth in Indian commercial SME and bancassurance vertical as SBU digitize customer journeys for agent on boarding and policy issuance. The COVID year also meant that we had a lot of health claims impacting our results by over Rs.140 Crores. Chola MS with a claim settlement ratio over 75% by value of claims settled to the claims made. This is the second best ratio in the industry showing our commitment to timely and transparent claims servicing policy to the holders. The Motor OD Claims team maintained its track of high settlement levels and maintaining its leadership, which we have shared in our presentation data relating to that. Cholamandalam MS Risk Service is a small but niche company reported a profit after tax of Rs.1.95 Crores.

To summarize on the insurance side I think a few points I would like to summarize. Investment related provisioning is by and large complete and we have shared the details in the presentation. Solvency has improved to 2.08% from 1.58%. Product mix change in two years is achieved. Significant expansion in networks and partnerships. Technology enabled process across value chain and analytics; this will go on for another two to three years to make Chola MS one of the best tech enabled GI player in India. We have also strengthened the organization in information technology; Mr. Anubhav Rajput is leading the work there and also strengthened the organization within. We have also strengthened the investment management team - Mr. Abhiranjan Gupta is leading it and it is a new investment team. We have also strengthened all vertical line leadership and I think Chola MS is ready and fully geared in terms of its organization structure and the deep investment that they are making in terms of the technology will augur well for the future. With these comments I would like to open up for Q&A. We have our insurance team to clarify all your questions. You would have covered the NBFC discussion in their call as well as the transcript is posted so you would have gone through that, so we welcome you. Please ask your questions. Thanks for participation.



Cholamandalam Finance Holdings Limited
May 20, 2021

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks for the opportunity. Sir I just had a couple of questions. Sir one is so considering the COVID claims that have come in the last two quarters I am really surprised on the negative side, earlier there were issues with the investment book and now there is this new negative surprise so overall at company level how are we thinking in terms of risk management, so what is the thought process behind taking risk if you can just throw some light there?

Suryanarayanan V: Good morning . let me proceed to answer this. On the question with respect to the COVID claims we should understand that COVID claims is not something unique for Chola MS and Covid claims has impacted the entire industry with a total reported claims of around Rs.14000 Crores only on COVID of which about Rs.8000 Crores has got settled by all players in the industry. So, it is not something that is unique for Chola MS and that is the first point that I would like to place. Our covid claims arose both out of indemnity and benefit products. Those arising out of indemnity products would probably have a much higher severity as is reflected even in the industry severity numbers. Chola MS had a larger proportion of benefit related claims where the severity is less than or about one third of the avg indemnity claims and to this extent, the impact is lower. The pandemic is not something that can be actually managed in terms of risks because even reinsurance cover is not available for a pandemic. Unlike property insurance or any other insurance where there can always be a balance sheet protection coming out of reinsurance a pandemic is never reinsured, so to that extent covid losses impact the entire general insurance industry and the specialized health insurers. From a purely financial risk point of view the risk transfer is just not possible.

Devansh Nigotia: If we look at our peers like Lombard and even Allianz even they have a health insurance book but we have not seen that kind of negative surprise on their book in comparison to us so that is where the question was actually coming from that failing a lot of COVID policies considering what was our existing health book so that was the overall idea?

Suryanarayanan: So we did sell the COVID covers in Q1 of last year before IRDA came up with its standard products, which got introduced in July-August. The exposure in respect of the May- July sales of last year will have their natural run off perhaps in July or so and thereafter Chola MS may not see the same volume of claims coming in from these COVID benefit products that we had launched.



Cholamandalam Finance Holdings Limited
May 20, 2021

Devansh Nigotia: Okay and Sir if you can just throw some more light on the health portion like how has our agency network trended over the last four years and how do we really make this segment a high percentage of our mix profitability so if you can just throw some more light on that and if you got reference from the leaders Star Health like they have cracked this business model so what do you think what will it take for us to go in that direction?

Sridharan Rangarajan: we have begun our focus on growing the health business. Last year the initial steps that were put in place were digitizing the entire customer journeys beginning with the agent on boarding journey, digitizing the policy issuance journey, the agent performance journeys and also sprucing up the claims management and servicing journeys. So the journeys including the portability, the straight through processing, the telemedical underwriting driven processes, all of these have been spruced up and put in place. The second work that has happened is the product diversification and approvals. Our flagship products continue to be the Chola Flexi product. We have received IRDA approvals for a few more products, which are under IT development for offering to the public. We have also drawn the brand positioning for health quite distinctly. We waited for the backend, which is ready now. Once we also have the diversified products available for offering, we should see the Chola Health Insurance brand positioning and these will be undertaken during the current year to grow the health insurance business. Coming to some specific numbers, we added over 6500 point of sales personnel who procure from individuals apart from the sourcing that we do out of our various bank tie-ups where insurance products are offered to the liability customers of banks. The focus is more on increasing the activation of these agents and we expect our retail businesses from the agents, from the public sector banks to grow pretty well next year. Chola MS always had a stronger presence in the bundled attachment sales in health through the financial partners. While that took a beating last year in view of the pressures that the financiers faced, we expect that the volume will come back say from the H2 of the current year or perhaps even from Q2 beginning. Chola MS always had enhanced proportion from the attachment business. Now in the current year we would want to look at proportion of 40:60, 40 coming in from retail sales and 60 coming in from the attachment sales in the current year, this is a proportion which we would like to keep tweaking and changing over the next two to three years, which should help us position and grow Chola Health as a retail brand as well. While we are well known in the motor side as a large player this is what we would like to do on the health space.

Devansh Nigotia: Sir can you elaborate more on what is the role of S. Vellayan in the Cholamandalam General Insurance Company if you can just throw some light, what is it, is it focusing on



Cholamandalam Finance Holdings Limited
May 20, 2021

the strategic part, is it business development, is it claims if you can just throw some light it will be helpful?

Sridharan Rangarajan: Mr. S Vellayan is the Director in Cholamandalam Financial Holdings and he gives the broad direction in terms of the portfolio that we hold both in terms of NBFC and the other businesses that we have. Insurance business has a separate board and it is fully professionally managed where we have a full fledged team and the team is managing independently.

Devansh Nigotia: What is the thought process behind raising Rs. 150 Crores NCD in Cholamandalam Financial Holdings, are we looking to enter some new business or since it is a holding company so if you can just throw some light?

Sridharan Rangarajan: This NCD raise is to payback certain loans that we have taken at higher cost for us to subscribe for the Chola Finance preferential issue and that is what we have done, we have brought down the interest rate, we took Rs. 200 Crores loan, right now we have paid Rs. 50 Crores, we have Rs.150 Crores to be paid.

Devansh Nigotia: Sir if you can just throw some light on qualitative point in terms of the changes in the investment team, you highlighted something in the earlier point, but if you can just throw some more light like what was the investment team before the number of count, how big is the investment team, who is heading it and some soft points would really help?

Suryanarayanan V: we had Mr. N V Murali who was the chief investment officer. He superannuated out of the company. In January we brought in Mr. Abhiranjan Gupta , earlier with HDFC ERGO as the Chief Investment Officer of Chola MS. Under him we also have people who have come in from companies like Bajaj Life to head the debt portfolio. we have strengthened both the research and the analyst team both on the debt and the equity side. A few more positions especially on the equity side are that we would like to add in the current year. We would want to strengthen the equity presence over a period of time so accordingly the team strengthening would happen..

Sridharan Rangarajan: Mostly on the research side we will strengthen it.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.



Cholamandalam Finance Holdings Limited
May 20, 2021

Nidhesh Jain: Thanks for the opportunity Sir and thanks for hosting this call. Sir first is a bit high level question. If I look at the holding company discount for our company it is pretty high versus some of the other holding companies of similar fundamentals like Bajaj Finserv and other groups, which are trading given that our group companies have very stronger growth potential and very good operating matrices what in your mind is the reason for holding company discount and do you plan to take any corporate actions or any steps, which may reduce this holding company discount in future?

Sridharan Rangarajan: Thanks for the question. I think what we would like to do is I think as far as the Chola Finance portfolio is concerned it is well covered and we have lot of coverage in that, what we do not have at this point in time is the coverage on the insurance, which I think we realize we should have more discussions around that, we have started in the last six months but in a very, very slow and COVID environment but I think we will increase that transparency more, which should give more and more color to the insurance business and people can appreciate the strength of the insurance business and thereby understand the Chola Financial Holdings stock better, which should in turn help the market to read the business better so that should help this is what we should do.

Nidhesh Jain: Sure Sir and the second comment that if we look at our investor communications as of now till now it has been a bit sporadic, we have not been organizing the calls on a regular basis, investor presentation and disclosures specifically on the general insurance side are not comparable to some of the listed companies like ICICI Lombard so just a comment from my side if you can have more tabular interaction and probably the disclosure and loss and segment wise loss ratio that would also help analyst like us.

Sridharan Rangarajan: Noted Sir I think this is there in our mind.

Nidhesh Jain: Sir just one question on the COVID impact last year you mentioned that Rs.140 Crores is the claims that you have paid on COVID what is the same number in the last 45 days of this quarter?

Suryanarayanan: In the industry we do see a surge in the claim count that is getting reported in April and May and we will have our share of claims as well in Q1.

Nidhesh Jain: Sure. Do you expect this Rs.140 Crores number to multiple 2x, 3x, how can we think about this for the full year, any guidance that will be helpful?



*Cholamandalam Finance Holdings Limited
May 20, 2021*

Suryanarayanan: As I mentioned earlier in the call, the losses from the products that we had launched these benefit policies that ran for anywhere up to say seven to eight months in the previous year they have by and large a residual life of about four months so we would tend to think that the claims should drop down after that.

Nidhesh Jain: Sure Sir helpful. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Geetika Gupta from First Voyager Advisors. Please go ahead.

Geetika Gupta: Thanks for the opportunity. I have two questions. First is on the strategic direction if you could comment in terms of both distribution as well as the product mix because even within motor there is a very significant change in the product mix that has happened in the last two years so are we largely done or how are we looking at the company over the next two to three years perspective, second if you could comment on a team side as well because I think the strengthening of the team was not new on the investment side but also on the product side so if you could comment on that?

Suryanarayanan: Very broadly what we have been trying to do and have been fairly successful is to diversify away from motor to a larger extent and that is number one priority. The number two priority is within motor which is also the largest line in the industry and our own skill sets have been built over the last 18 years, we are also seeking a diversification. we were primarily a commercial vehicle dominated insurer so from there we have made the transition into diversifying into two wheelers in a big way. We commenced this journey in October 2018 and last year we ended with close to about 16.5% of the motor business. The journey from 0% to 16.5% in a matter of about two years and we see this journey moving forward as well. we have got into several OEM programs of two wheelers, which is also helping our cause plus our own presence in the tier three towns is helping us penetrate the sub dealerships in all the counters. The second step is also setting up the presence in cars. we have got into OEM programs of a few large OEMs, which is again helping grow. Tractors constitutes about 8% of our total motor business,; core commercial vehicle is now down to about 50% and we see that going down as we go along for a variety of reasons, one at least in the current year we do see the sluggishness in CVs to continue for some more time while the bounce back both in terms of cars and two wheelers can be pretty fast, which will also help in the acceleration of the proportion of cars and two wheelers.. On the overall, non-motor share of business we talked about health earlier. The other major area is the commercial lines. We have added on to our bank assurance tie ups. We are now with



Cholamandalam Finance Holdings Limited
May 20, 2021

Punjab National Bank, Union Bank of India, Bank of Baroda and Indian Bank where volumes have grown well in the last year. They continue to provide several advantages by way of a balanced geographical presence, which is also liked by the reinsurers in terms of widespread dispersal of risks. The second vertical that has grown is the newly set up SME vertical which has done well last year and has made a good beginning even in April, which is adding to our commercial line. The third is the large corporate business. We have strengthened our reinsurance capacities. Over a period of two years now our reinsurance capacities have doubled we are thankful to our reinsurers for reposing confidence in us. We have also given them good results over the last few years, which has made them repose that confidence, so that is also helping us now write good proportion of larger risks with reinsurance support. So the numbers for April were out and you would have seen that Chola MS has grown much higher than the industry growth in the month of April. So this is the strategic direction of the company in terms of diversifying away from motor and within motor lowering the share of commercial vehicles. we are now organized ourselves as strategic business units and when we operate as verticals there are about 11 verticals within the company each of which is a profit center and that is how the business performance of each of the vertical is tracked and measured.

Geetika Gupta: Okay just a followup in terms of the bank tie-ups the focus will be on commercial and SME lines because health benefit as an attachment product we have certain concerns on that so just wanted to clarify that?

Sridharan Rangarajan: Actually the public sector bank tie-ups provide an opportunity right across all lines of business. The focus and the much of the energy is actually on the property segment, but the banks also provide immense opportunity in terms of tapping the health businesses especially with the liability customers. the banks also need fee income in uncertain times and the health line of business supports them with a higher commission than what they would get from a property line of business.

Geetika Gupta: That is it from me. Thanks. Wish you all the best.

Moderator: Thank you. The next question is from the line of Swarnabh Mukherjee from Edelweiss Financial Services. Please go ahead.

Swarnabh Mukherjee: Thank you so much for the opportunity Sir. I just wanted to understand basically your health and motor business a little bit of the heavy vehicle, so wanted your views on the areas you are targeting in the sense what I understand that earlier your primary benefits I



Cholamandalam Finance Holdings Limited
May 20, 2021

think last year you had mentioned that you want to focus towards the high growth in the OD side; however, the deterioration of the loss ratio in your health business is significant this year so wanted to understand is this only because of the mix change or is it also because of the COVID claims negative that has come through, so if you can just talk on the health side on this front this is one and the second question is on the motor side so given that you are focusing now on the two wheeler and the personal vehicle segment so given that also the OD element how do you expect the overall profitability in this segment to pan out given the trend in the OD segment, do you expect a pressure on the profits from the competition there and also on the CV side the risk selection strategy here if you can also highlight that because you had a large presence on the CV side?

Suryanarayanan:

Let me proceed to answer the health claims part first. So you are right COVID claims arises not just from the COVID specific products but also from our normal health indemnity products and also from the products that we sell to the bank customers. Other than COVID claims, we are finding it pretty normal with a tendency for deferral of planned hospitalization Moving on to motor you are right in terms of the fact that the OD loss ratios are under pressure for several reasons. Apart from the reduction in new vehicles sales where the premium realization is higher, the sluggishness in renewals is also leading to a higher discounting of motor prices, which pushes up the OD loss ratios. From the presentation that we have put you can see that Chola MS has continued to maintain leadership in OD loss ratios. While we compare well with the rest of the competition and the peer group including the larger players it is a fact that the OD loss ratios have moved from the earlier levels by at least by about 5% to 6% during the last year, but what places us slightly differently is that we have our presence in the entire age cycle of the vehicles. while the OEMs give us the presence in the new vehicles typically in the zero to three age band, our presence in financiers give us the presence between four to six years age band and our own presence in the tier three towns gives us the presence in the older vehicles ranging from 7 to 10 or at 11. So the loss experiences of these three categories are very different and the blend of these three is what helps us get an overall loss ratio, which is comparable and rates amongst the best in the industry. On Risk selection strategy, yes, we understand motor as it is the bread and butter business. We understand dynamics at every subcategory level and at every district level so we have our data and analytics to understand how each of the 700 districts in the country behave with respect to each subcategory and that is what helps us plan our own business. We are leaders in the motor business in four states across categories in our home state, in the state of Telangana, Andhra Pradesh and Chhattisgarh and we rank amongst the top three in at least in four other states.



Cholamandalam Finance Holdings Limited
May 20, 2021

Swarnabh Mukherjee: Okay Sir that is very helpful. Just a couple of followups. In the health business will you be able to share the current mix of benefit and indemnity and also if you could give some color on read out this COVID portion of the claim in what ballpark range would you be estimating connecting the loss ratio for the company in the health?

Suryanarayanan: I think the second part I can take it first, bereft of the COVID related losses our loss ratio should be around 62% to 63% band that is how our loss ratios will be, which is why I am saying that it is just a COVID related losses that is impacting us and then coming to the indemnity benefit ratio at about 30:70 in the current year 30% is indemnity and 70% is benefit, in the coming year we would like to move that to about 40:60. The attachment product business is a much larger business, it is a much larger in size and which is where this direction change will happen.

Swarnabh Mukherjee: That is pretty helpful.

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

Prateek Poddar: Sir just one question these conference calls will be now a regular phenomena?

Sridharan Rangarajan: I think we will make it regular.

Prateek Poddar: Even the presentations will now and when you say regular means quarterly right?

Sridharan Rangarajan: Yes and we will make the presentation.

Prateek Poddar: Okay Sir great thanks.

Moderator: Thank you. The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Thanks for the opportunity. I have a couple of questions. One is that we started something called virtual offices in the current year I just wanted to understand how different it is from smart offices and what exactly these virtual offices product category could be catering to and how different it will be from the smart offices that is the first question I have and the second question which I have is with respect to Chola Investment in the presentation you said that you have a market share of around 33% in the NBFC and you intend to increase it so just wanted to understand what type of measures taken to increase the market share and



Cholamandalam Finance Holdings Limited
May 20, 2021

to what extent it can go and what perception it can contribute to the growth and even if you can expand on the (inaudible) 46:32 vertical size policies on that it will be very helpful and finally on the bank split capital adequacy, which is around 15% of the business for us it will be great if you can break down the IndusInd bank, Chola, SMO PSU bank and how it was earlier, so just to understand how SMO and PSU bank contribution have increased for us?

Sridharan Rangarajan: First let me talk about the virtual offices. WE have made a beginning in the state of Uttar Pradesh distinct from our insurance express offices. our smart offices insurance express offices – 470 plus - are all based on a physical office presence that are driven with kiosk where the brand promise is insurance in minutes and where the policy is given in a matter of three to four minutes time and that is where we have built up a local community level awareness creation plus awareness of Chola MS brand in all these towns. An insurance express office operates by building the distribution - the agents network, the point of sale person network first and then they go into the sub dealers. In virtual offices what we have done is actually reverse of that. We are now trying to do first the sub dealerships and these would largely be the tractor and two wheelers where we would establish a base of business. Once that base of business is established then we would be looking at a possible conversion from a VO to an SMO or an insurance express outlet so in that sense we could say that this is some form of a backward integration. This is only to ensure that even when an office comes up in the town it is always on the foundation of minimum volume of business. So this is more from a point of cost optimization, productivity improvement and overall COR improvement. This experiment is now about five to six months old and we are seeing a good response there. During the current year we should be extending this not just in the state of UP but also in a couple of other states. Sanketh if you can repeat your second question.

Sanketh Godha: The second question is on Chola Investment in the presentation you said that we have 33% market share in Chola Investment in CV segment and in the same slide you mentioned that we want to increase the market share so just wanted to understand how you want to do it and how much you can contribute to the growth and in the same slide you mentioned about (inaudible) 50:09 if you can expand on that?

Sridharan Rangarajan: Let me answer that part - one at a time is probably easier. We consider Chola Finance as a captive channel, which provides us with sustainability and stability. One area where we would want to step up the growth is ensuring a much higher renewal ratio when it comes to Chola business. Now when it comes to new business that Chola Finance writes those again would be the exclusive preserve of the dealerships which is something that Chola Finance



Cholamandalam Finance Holdings Limited
May 20, 2021

will not be able to control; but with respect to the used vehicle finance business that they write so there is a very clear first choice advantage that we would have with them. The focus is on stepping up the renewal ratio for greater penetration and that is where a whole lot of work in close coordination with the field teams of Chola Finance has happened over the last 12 months. Lot of digital enablements have been made, which facilitates even a collection person in Chola Finance to try and offer Chola Insurance products.

Sanketh Godha: Got it. Do you see how this market share to move from 33% to what time frame may be 50% or more than 50% odd over a period of time?

Suryanarayanan: Look at it more in terms of the renewal ratio movement there, if we are able to do that the ultimate numbers will come, but the way we want to look at is that this is a channel that we would want to focus and grow, but we would want other channels to grow as well parallelly, so I would not want to hazard a guess of what proportion Chola Finance will be, but we have very clear plans, both the teams have a common vision of growing this business for both the companies. For them it is a fee income and for us it is premium and for the collective customer fold of Chola Financial Holdings it is a combined offering, which comes in where they get the assurance of Chola MS Claim servicing.

Sanketh Godha: Sir if you can expand on the (inaudible) 52:46 if you can break it down into Chola, SMO and PSU banks?

Suryanarayanan: we have in the pie chart of channel category wise sourcing which is there in the presentation we have talked of corporate agent captive which represents our own insurance express outlets.

Sanketh Godha: You are saying banks are 27.5% how much will be IndusInd?

Suryanarayanan: The overall bancassurance is shown at about 27.7%; IndusInd Bank would be at about 16%. 11% would be the other banks, primarily the public sector banks.

Sanketh Godha: How it has looked compared to last year because I just wanted to understand how is the traction in PSU bank?

Sridharan Rangarajan: The overall 27.5% would have been by and large the same but last year since IndusInd Bank which provides a good proportion of commercial vehicle business and that business degrew pretty deeply, it was a big pressure on the commercial vehicles space. The gap that



Cholamandalam Finance Holdings Limited
May 20, 2021

was created by IndusInd Bank by drop in business has been filled in by the volumes from the public sector banks. With the CV business under stress, so we had something close to about Rs.200 Crores business drop from IndusInd Bank. Without this drop of Rs.200 Crores possibly our overall growth rate would have been plus 5% instead of breaking even with the previous year's level.

Sanketh Godha: Got it. This broadly answers my questions. Thank you Sir.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Investment Managers. Please go ahead.

Dhaval Gada: Thanks for the opportunity. I just had one question relating to Chola Express. If I go back to my notes back in 2017–2018 when we started this in a big way at that point of time we had about 30% to 32% kind of cost ratio and today when I look at even FY2020 we are at about 31% and now 35% kind of cost ratio so I just wanted to understand what did we achieve from this line, which has now become very important part of our distribution because clearly it does not seem to suggest that we got operating efficiencies so if you could expand what has been the end gain of these 400 plus branches of Chola Express?

Sridharan Rangarajan: There are several advantages which come in. One is the market presence and promoting the Chola MS brand. Today if you walk into such offices in the states of Andhra Pradesh and Telangana, Chola MS has high market awareness which has helped us. I said that in motor we are leading motor insurance player in both these states, so this has come in also because of these insurance express outlets so that is the advantage number one. Number two is that the biggest advantage that I see in a pandemic environment, these insurance express outlets would be the first to bounce back because they deal with older vehicles; the renewals will come back first. The OEMs will come in second from a new vehicle sale and servicing and other part, the financier will be the last to bounce back, so the advantage of this presence was felt even in the last year helping us bounce back in Q3 and Q4. You talked about the cost structure. this is a manpower intensive structure and in a lockdown environment there are fixed costs that stay naturally. In a normal environment definitively the cost structure would get amortized over a large volume base. The other element that you do not see in current year results is that these are also the channels, which bring in a large portion of long term premium, which is sitting in as premium in advance and will convert into premium of subsequent years. So they generate the investment income which is an additional positive element.



Cholamandalam Finance Holdings Limited
May 20, 2021

Dhaval Gada: Sir just one followup on the renewal side that you talked about is there an element of cannibalization from your existing channel to Chola Express, if you did not have Chola Express would the renewals be lower, just trying to understand are we duplicating the benefits because there is cannibalization?

Suryanarayanan: Cannibalization is not possible because each channel holds to its customer base very fiercely. so the moment even when any channel tries to do any conversion of customers of other channels, you will have voices raised. we are also very particular that if the customer is sourced by a particular channel, the customer remains with that particular channel unless the customer is very specific that he wants to change his intermediary choice.

Dhaval Gada: Understood. Thanks Sir and all the best.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited for closing comments.

Nischint Chawathe: Thank you everybody for joining in this call today. We thank the management for providing us an opportunity to host the call. Stay safe.

Sridharan Rangarajan: Thank you and wish you safe, stay ahead and be safe. Thanks.

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