"Cholamandalam Financial Holdings Limited Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 earnings conference call of Cholamandalam Financial Holdings Limited hosted by DAM Capital Advisors 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. Pritesh Bumb DAM Capital Advisors. Thank you and over to you Sir!

Pritesh Bumb: Thank you Margaret. Good morning, on behalf of DAM Capital I would like you to welcome to Q3 FY2022 earnings conference call of Cholamandalam Financial Holdings Limited. We will discuss the financial and operating performance of the company and its subsidiaries. From the management team we have with us today Mr. Sridharan Rangarajan, Director, Cholamandalam Financial Holdings Limited, Mr. Ganesh N, Manager & Chief Financial Officer, Cholamandalam Financial Holdings Limited, Mr. Suryanarayanan, Managing Director, Cholamandalam MS General Insurance Company Limited, Mr. Venugopalan S, CFO Cholamandalam MS General Insurance Company Limited. I would now like to hand over the call to Mr. Sridharan for his opening remarks. Thank you.

Sridharan Rangarajan: Thank you. Good morning and happy to see that COVID is receding throughout India and we hope to see this trend continue and we are all behind this challenging situation once and for all. We have with us Mr. Suryanarayanan, our MD for Chola MS; Venugopalan, our CFO for Chola MS; and Mr. Ganesh, CFO for Chola Financial Holdings. We will just make a quick remark and then we will open up for question and answers. As usual I think the company has Chola Finance, NBFC subsidiary and joint venture with Chola MS and Chola MS Risk Services. NBFC and Chola MS just reports under Ind-AS while Chola Insurance reports under IGAAP, but they provide the data for us and Ind-AS for consolidation. I come to the standalone performance of Chola Financial Holdings. The total income for the quarter is 2.27 Crores as against 2.37 Crores in the corresponding quarter of the prior year. Loss after tax for the quarter ended December 2021 is 1.28 Crores as against 3.48 Crores in the corresponding quarter of the prior year. The consolidated financial results consist of Chola Investment and Finance, and Chola MS General Insurance as well as Chola MS Risk Services. The total income for the quarter ended December 2021 increased marginally by 2% to 3727 Crores while the profit after tax increased by 19% to 543 Crores. Cholamandalam Investment Finance Company had several positives like pent up demand, good monsoon, and uptrend in economic indicators like tax collection, power consumption, vehicle registration, highway toll collection, and e-way bill. This has led to a sharp recovery in disbursements and collections during Q3 FY2022. Disbursements went up by 32% compared to last year Q3 FY2021. PAT for the quarter ended December 2021 is 524 Crores compared to Rs.409 Crores in the corresponding quarter of the prior year registering a 28% growth.

Assets under management marginally increased by 4% that is 79161 Crores as of December 2021 as compared to 75813 Crores as of December 2020. CIFCL's Asset quality as at December 2021 represented by Stage 3 stood at 5.85% with a provision coverage of 38.8% as against 6.16% as at the end of September 2021 with a provision coverage of 36.45%. Total provision currently carried against the overall book is at 4% against the normal provision level of 1.75% carried prior to COVID-19 pandemic representing more than twice the normal pre-COVID provision coverage level. As per RBI norm based on circular dated November 12, 2021 GNPA percentage and NNPA percentage as of December 2021 is 8.53% and 5.76% respectively. We carry 746 Crores of higher provision under Ind-AS over the IRAC. The capital adequacy ratio as at Q3 FY2022 is at 19.8% against the regulatory requirement of 15%.

I will now move to Cholamandalam MS General Insurance Company. I am presenting the numbers as per IGAAP. Please refer page 47 of the presentation which was posted. Chola MS registered a gross return premium of 1320 Crores in Q3 FY2022, an increase of 13.1% over the corresponding quarter of the prior year driven by increased contribution from new channels and growth in commercial as well as SME segments. On YTD basis GWP is at 3442 Crores showing an increase of 10.4% over the last year. The company maintained its leadership position in Motor LOB in Tamil Nadu, Chhattisgarh and targeting to reach number one position in AP and Telangana. You would note that the YTD profit before tax is 82 Crores. This YTD performance is after providing for write off of deferred acquisition cost as per IRDA advice Rs.375 Crores with also COVID impact of 135 Crores which is offset by the benefits from frequency, hence in a way exceptional impact of 375 Crores, this means our normal profit would have been Rs.457 Crores instead of the 82 Crores as we reported now. We would like to clarify the 375 Crores is arrived at after considering the proportionate write off of opening DAC amount plus the new business DAC cost, which is assuming that we write off the new business cost in the new model, less had we followed our earlier model how much we would have charged P&L so that is how the 375 Crores is arrived at. Since there are a lot of one-offs this time we feel it is important to talk about what would be our sustainable profit before tax for this year. To arrive at this we consider the following, how much of opening DAC less normal charge of from that would impact the full year P&L this is an important element, the second element is COVID impact and the third element is the frequency benefit. We feel all put together along with our expectation for Q4 we expect a sustainable profit before tax for this year would be in the range of 350 Crores. Solvency is at 1.86 times as of December end after considering the irrelevance of about 166 Crores of tax paid towards contingent liabilities as per IRDA circular. This has an impact of 0.19 times solvency which means we did consider 1.86 plus 0.19, but since the 166 Crores needs to be considered less in the calculation the net is 1.86. Cholamandalam MS Risk Services is a small but niche company reporting a profit after tax of 2.26 Crores for the quarter against 3.56 Crores in the corresponding quarter of prior year. With this opening remark I open up for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Arjun Narayan from Spark Capital. Please go ahead.

Arjun Narayan: Hello Sir. Thank you for the opportunity. Congrats for a great set of numbers and a very detailed presentation thanks for that. I would like to understand the non-COVID health ratios has increased from 58.4% in 3Q 2021 to almost 55% in Q3 2022 our health loss ratios pre-COVID used to be sub 50% so is there any significant change in the mix, what is happening within the portfolio and where do you expect these loss ratios to settle as more and more of non-COVID claims which are not getting reported or the surgeries that would have got postponed in the last two years that come and hit where do you expect this loss ratio to settle?

Suryanarayanan V: Certainly, the indemnity health claims incidence has been reducing and I can add with the benefit of the data that we have seen in January and to date that the impact of third wave on indemnity claims has only been marginal. To that extent it is unlikely to impact loss ratios in a big way. Having said that, medical inflation which is running at about 10% to 12% is something that the industry is living with and will push the health claims ratios going forward. Almost all players have approached the regulator to permit one-time correction in the health premium prices. We are hopeful that the regulator will respond to the request of the industry favorably. In connection with your query of the claims ratio in relation to the corresponding, our proportion of indemnity business has been going up. As we see a jump and increase in the indemnity business we will see a sympathetic movement in the loss ratios which are definitely higher in the indemnity side. To an extent the Q3 numbers factor in the elective surgeries that had been deferred and also dengue which had its impact on Q3 is not expected at least for the next 6 months. we would tend to think that our Q3 loss ratios which are there in health and PA at about 71% and ex-COVID at about 65% is by and large sustainable.

Arjun Narayan: Thank you Sir. Thank you for that. Sir if you can give a breakup of what is the mix between indemnity and benefit base in the health book?

Suryanarayanan V: In Q3, our indemnity to benefit business on the retail side at about 93% indemnity and 7% benefit and if you have to look at the bundled business there it would be actually the opposite it would be about 80% benefit and then 20%. On a blended basis, we could end somewhere around close to about 40:60, 40 would be the indemnity side and 60 is the bundled side.

Arjun Narayan: Thank you Sir. Sir just one question. Reported the number of live customers data so that has seen a sharp increase from YTD 21 to 22, now what would be the products here **(audio cut) 15:04** health product just to understand what is driving this number of customers?

Suryanarayanan V: Our market share in two wheelers has been rising consistently which is also disclosed in the number of customers in the motor side somewhere in the presentation. We now have a market share of close to about 15% on new two wheelers that are sold within the country. This market share varies between different manufacturers and OEMs quite differently and this has been driving the customer additions to much larger levels.

Arjun Narayan: Okay Sir. Thank you. That was my questions.

Moderator: Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks for the opportunity. Just a couple of questions, if you can just elaborate a bit more on the motor insurance, the market share gains that you have seen is it largely in two wheelers or it is happening in the passenger vehicles as well and what is driving this market share gain where are these market share gains coming from?

Suryanarayanan V: In motor we presently have a market share of about 4.9% and over the last 30 months plus what we have been trying to do is actually change the mix of the business, earlier we were overweighted on commercial vehicles and the change that has been coming up steadily is the changing mix towards two wheelers and cars. Cars is at 29%, two wheelers is about 23% and tractors and other miscellaneous is about 7% so we are now talking of noncommercial vehicle mix being placed somewhere at about 59% and 41% is the commercial vehicle business. This is a significant change as 36 months back we actually did not have much of a presence in two wheelers and our presence in cars was lower.

Devansh Nigotia: So largely if you can elaborate what is driving the market share gain as in what are we really competing on with the competitors that is helping us gain less in case of two wheelers we have just 15% of the market share where we were probably not present so largely strategically what are we doing if you can just throw some light on the soft points that would be helpful?

Suryanarayanan V: In the two wheeler space, we are now present in almost all the major OEM tie-ups. One big driver in the current year was the entry into tie-up with Hero and from January we have got into the tie-up with TVS Motors as well. Besides the conventional ICE engine two wheelers we now also have 8% market share in electric two wheelers where our market share in the top 5, 6 EV two wheeler manufacturers is fairly well and growing well. The reason for success in pushing up the numbers in these OEM tie-ups is our presence across the country through our Chola Insurance express outlets. Two wheeler is a business which is well penetrated into the country and not just the domain of the urban and Tier-1 markets. Our presence in these Tier-2, Tier-3 markets means our speed to market in having the relationship build, business building has been faster, which has helped us see growth. On the car side we got into the OEM relationship with Renault Nissan which has helped us grow the numbers and we have been stepping up our presence and volumes in tie-ups like Hyundai. Toyota is one programme that we have been around for well over 10 years now. Maruti is something where we entered sometime in July 2020 and that is growing. In the used vehicles there is a growth from our CIE businesses in the semi-urban markets.

Devansh Nigotia: Okay Sir that is really helpful. In case of the deferred acquisition balance so probably in the last quarter or before that it was 330 Crores and now we have highlighted it is around 375 Crores so if you can elaborate what has changed here?

Venugopalan: On the deferred acquisition cost on the opening balance of 326 Crores what we are left with Q4 is only 54 Crores so we have been as per the IRDA direction and we have additionally amortized 27 crs.

Suryanarayanan: Just to add that I think your question is why last time you said 326 now you are saying 375, the 326 is the opening balance no change in it, 375 includes the current year fresh acquisition so hence together is 375.

Devansh Nigotia: Okay so just to reclarify the numbers. In June this exceptional was 63, September 100 Crores and December 82 Crores if that is the right amortization?

Venugopalan: So you are talking about 63, 100, and 82?

Devansh Nigotia: Yes.

Venugopalan: Overall the opening balance has been amortized over the period basis that comes to around 245 Crores out of the Rs. 326 crores, it is purely a prorate absorption over the period. We additionally amortized Rs. 27 Crores so we have taken Rs. 272 Crores into the books and what is remaining is Rs. 54 crs.

Devansh Nigotia: Okay and in case of the opex, operating expense even if I adjust it for the one-off they are slightly limited and have been on a very higher end when we compare it with our competitors so where exactly these expenses are happening is it ad related or distribution related, also segmentally which segment are these opex at a higher level, is it health or motor or other business so directionally how is the number shaping up. So let us say if I adjust it for the 82 Crores in this quarter that number is 380 Crores the run rate used to be around 270 to 280 Crores and business growth has not increased in the similar way so if you can just throw some light?

Suryanarayanan V: I think very broadly what has to be understood for comparative purposes is that Chola MS is primarily a retail insurance company. We are not a large player in group health business. We are not there in crop insurance business nor are we there in the government health businesses. Why I am saying these are that three lines of businesses that do not have any sourcing acquisition cost, so there are competitors who participate in these businesses and therefore have an advantage in terms of the cost structure that they operate with.. Our business in the commercial lines is growing, but still we would be only about 17% of the total pie and as that grows it will provide the balance in terms of the expense structure. so this is the structural business led explanation one. Secondly, the cost structure that we are talking of is the total of the sourcing cost as well as the expenses of management. There have been investments in technology that have been happening to get ourselves upgraded on the technology platforms, revamp of websites, investments into other related technological requirements and final reason that I would place is still our proportion of long term business to the total premium is also fairly large. You would have noticed that we do write a considerable portion of dwelling business, we do write the long term PA and we also write the benefit products in long term in health which mean that our cost absorption is immediate even though the benefit by way of earned premium will flow in over the years. Anything Venu that you would like to add?

Venugopalan S: We are also growing in the two wheelers segment which is also the long term policy.

Suryanarayanan V: But as cover we have a long term premium that the premium received in advance has also been growing in subsequent years as they roll back into the topline that associated cost benefit will also trickle into the P&L because we would have absorbed the cost already so that is one advantage that will flow.

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

Prateek Poddar: Thanks Sir, very elaborate presentation. Just a couple of questions one is just per your business model to appreciate this point on as you talked about the mix of long term business is high versus total premium what would be the sustainable expense ratio in the near term and how should we think about it in the medium term?

Suryanarayanan V: The expense ratio you are talking of 41.6 for the current year which is a combination of the various factors that I just explained. I would tend to think that over a period in the medium term this could come down to about 37 or so. It is where we would more likely settle down to because we would still have long term businesses coming in so while the curtain effect will be there - the roll in will happen from the PRA but we will still be doing fresh business and adding to the pool so that component would be there. I would see it as a more stable level at about 37 or so.

Prateek Poddar: And also similar commentary on loss ratio Sir where do you see loss ratio in this level what we disclosed in Q3 to be sustainable and I am saying Q3 and not Q1 and Q2 or do you believe this can further increase as the economy normalizes?

Suryanarayanan V: I think Q3 if you were to look at by and large we see the motor OD loss ratios at an elevated level and more in line with industry and the present market situation that is prevalent. Health claims - we talked of earlier in the call as to what has been shaping the loss ratios there. The one key element for that will have a large bearing on Chola MS and the entire industry for future would be as to how the motor third party loss ratios shape up. The key element is obviously the pricing element. All of us know that there has been no change in prices since June 2019 and in long term policy there have been no changes since October 2018. so it is more than three-and-a-half years since there has been any correction. That is going to have a significant bearing on how the loss ratios in PP shape up. Medical inflation in accident injury claims of motor third party and continuous rise in minimum wages as well as salary level, which should apply in case of death claims, will have that inflationary impact and these needs to be corrected by way of price correction. The industry has represented regularly and continuously both individually and through the council. We really hope that the regulator will come out with an announcement as to price correction sooner than later but that can have a bearing on the overall loss ratios for the industry itself.

Prateek Poddar: Understood and Sir this quarter we have disclosed motor TP loss ratio is about 64% with the pricing element not being there is this sustainable or this goes back slightly upwards, in the sense I am saying let us say pricing does not come back or there is no price revision which is due since last two to three years I agree How should I think about the sustainable level over here?

Suryanarayanan V: Prateek, even in earlier calls that we have said that the lockdown benefit as far as the current year is concerned we have taken it over a period. We have not really taken the benefit in one shot in May or June when the lockdown was there. To that extent this 64.13 includes the benefit that has come in and will probably sustain for the Q4 but thereafter once that wears off you will have a jump back to claims to earlier level and that is where it becomes necessary that the price correction happens.

Sridharan Rangarajan: Also just to add the two wheeler mix going up will help sustain this at a good level?

Suryanarayanan V: That will help moderate to a larger extent because definitely the TP loss ratios in cars and two wheelers are better than in commercial vehicles and the changing mix should help, moderate the TP loss ratios but the larger impact will come in from the price.

Prateek Poddar: Sure and Sir congratulations again for achieving such high market shares in such a short period of time in motor two wheelers just one more question, would you look to cap this noncommercial to commercial mix because next year mostly CVs will have a very strong growth right so just wanted your thought as to how should I look at a sustainable mix on the motor side?

Suryanarayanan V: I talked about 59% non-CV market share that is there presently since the engine of growth will run strongly and anyway in the current year we have had issues of microchip shortage and consumer demand in two wheelers holding the growth itself down across the industry. I would tend to place the shift perhaps in favor of CVs as nothing more than 2% to 3% from current levels. Yes we do have our financier channels which are still with us and they can come back with higher volumes, but I would still think that 59 non-CV may at best drop to 56 but nothing more than that.

Prateek Poddar: Very helpful. Sir on PA this quarter we have underperformed industry growth anything to read into or is it mostly because of IndusInd Bank channel?

Suryanarayanan V: The financier business led channels which provide the PA attachment business that has been a general claim down for most insurers. Anyone who is strong on the bank assurance front will find that the volumes have been under pressure there on PA so which is where we are facing that issue as well but we are adding new channels and we are clearly hopeful that we should be able to get back to our normal growth levels pretty soon.

Prateek Poddar: Really helpful. Sir last question any thoughts on IndusInd Bank that where does the channel like our capital channel has gone very well on YTD basis when I compare it year-on-year but IndusInd plus Toyota there, there has been a decline so how should I think about revival of this channel?

Suryanarayanan V: It is largely the bank's own present situation in terms of its focus on NPA management and other things. Presently their volumes is at about 10% of our topline. We do not see any significant change to be caused in the immediate future.

Prateek Poddar: Sure and when does that partnership gets renewed Sir or it comes up for renewal with Indus Ind bank?

Sridharan Rangarajan: If I remember right it is due somewhere in October 2023.

Prateek Poddar: Thanks Sir. I will come back in the question queue and all the best.

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

Sanketh Godha: Thank you for the opportunity. Sir you said that in medium term the opex ratio will improve from probably 41% plus to 37% I just wanted to understand what are the levers which can lead to this improvement, is it fairly to assume that your contribution of long term to total mix might come off and therefore this will improve or there are internal operating leverage stories which can play out in favor of improvement in the ratio Sir?

Suryanarayanan V: Thanks Sanketh. I did say earlier that this is a ratio which is a combination of several factors. As we keep stepping up on our commercial lines business where sourcing and the operating costs are lower it will provide the balance so that is one element. You would have seen that even over the last one to two years this proportion has been growing up. It will continue to grow. It is also reflected in page 48 of the deck where we are looking at the growth in the fire and other commercial lines of business where you are seeing a growth that is faster and higher than the industry both in fire and other commercial lines that is one clear pointer to look at it which is a key element which will bring the overall cost structure down. We know that this 41.17 what is reflected here is a combination of two things, one is the change over related costs plus the full absorption on the new business. You are absorbing the prior year cost plus you are changing over to a new regime where you are expensing upfront so that itself is bound to bring a reduction so that is the second element. The third element is that for various reasons we had overall topline that was rooted around 4400 Crores over the last two years for reasons of pandemic, abstention from crop insurance etc. This year, there is a break out from that level. The overall fixed cost absorption capability definitely will get better on the opex front These are some elements which we believe will help tone down to about 37 and then that will be our first level target but we are hopeful that we should be able to do slightly better than that as well.

Sanketh Godha: Got it Sir but when you said prior year cost has been absorbed but the 320 Crores of opening that cost is routed through shareholder accounts not routed through policy holder's account when we calculate our opex ratio or when we calculate our combined ratio that paying is not there in that 41.7% right?

Venugopalan S: You are right Sanketh but there are two portions to the opening DAC, one is marketing cost which was routed through shareholders account and another commission which is routed through the schedule three so to that extent it is included in the ratio part.

Sanketh Godha: Okay Sir. One more thing just wanted to understand that out of that 375 Crores of exceptional it is new extra debt which you are recognizing and opening that if I do a back calculation then the new business or cost associated with new long term policy is closer to 103 Crores in nine months FY2022 just wanted to understand what is the commensurate business you write when you spend 103 Crores to write new long term policies?

Venugopalan S: The new long term policies as our MD said about that clearly will fall into four segments one is about the dwelling business, second is about the personal accident insurance and the third is the health business which is a attachment business and the last part is the motor long term policies. These are all the four elements that are coming as a long term new business cost.

Sanketh Godha: What would be as a percentage of the total premium what we write in nine months just wanted to understand the indicative level how much GWP what we write?

Venugopalan S: The fact is motor business is not coming as a part of the GWP whereas in the case of other long term polciies, it is a part of GWP but it is not coming as earning as per policy tenure that is the difference in terms of that so we need to segregate between the non-motor and motor separately from the point of view of the percentage of long term.

Suryanarayanan V: Sanketh, to give you some idea on the numbers. Long term business booked in the first nine months is about 478 Crores in motor alone which is not part of a topline because IRDA mandates that these remain as premium received in advance and they roll in to premium in subsequent periods over the four years in case of two wheelers and two years in case of cars besides after reported topline I do not have the numbers readily now but I can safely say that at least 10% of that premium would be the long term numbers.

Sanketh Godha: That premium is dwelling, PA and health put together right Sir?

Suryanarayanan V: Yes.

Sanketh Godha: Okay got it, perfect. If you can give for clarity of other investors also this seeding what you have done with respect to home dwelling what is the impact on cost and what is the impact on the revenue because if you have seeded to extended period then you would have got reinsurance commission also, so net impact if we know the extra cost was around 27.5 Crores so what is the equivalent income which got recognized in the current quarter?

Sridharan Rangarajan: Sanketh the additional cession made was Rs. 66 Crores which is part of the reduction in NWP on that we have recognized RI commission of 50 Crores in Q3. We have also absorbed Rs. 27 Crores additionally in Q3 towards opening DAC relating to Home Dwelling.

Sanketh Godha: Got it Sir. One final data keeping question. Can you disclose NWP and NEP numbers for third quarter of nine months FY2022?

Sridharan Rangarajan: Yes Sanketh we will give it in future.

Sanketh Godha: I will take this number offline if you do not have it handy right now with you Sir. A little harping on the question on the motor TP loss ratio finally if we assume that motor TP price hike does not happen worst case scenario then given the mix is in the favor of two wheelers do we believe that the motor TP loss ratio would be potentially as high as 80% odd because before when CV was little higher we were around 90% plus and then we saw an improvement over mid 80s with two wheeler contribution going up in a worst case scenario given the wage inflation and assuming more price hike can we in the worst case scenario assume that motor TP loss ratio in 2023 can go back to 80% kind of level?

Suryanarayanan V: What I am trying to say is that it cannot be certainly at 64. We are in the process of looking at the way the frequency of accidents have been shaping over the years; presently the actual team is working on what would be the right estimate for the current year and I am sure we should be able to share our perspective on the same in subsequent calls.

Sanketh Godha: Got it Sir. Perfect. That is it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks a lot for the followup opportunity. Sir we mentioned 164 towards contingent liability if you can just help us understand what is it regarding?

Venugopalan S: So the contingent liability as we said in the earlier calls also consist of the direct tax litigation. We have paid tax in protest around Rs. 166 Crores that is the element that we have been asked to disallow for solvency purpose by the regulator and accordingly we have disallowed those portion also. The impact on account of this disallowance is 0.19 times in solvency. We are at 1.9 times as on date and but for this disallowance, it would have been more by almost 0.19 times. As far as the issue is concerned we are all confident about all the three issues involved in the tax litigation part with the Government and for other players, industry was able to get a favorable decision across the country also. We are waiting for the time to get similar favourable decision in our case also. In the meantime the question is about the taxes paid against those three tax litigation which has been conservatively taken as disallowance for the purpose of solvency.

Devansh Nigotia: So has that been adjusted from the network as well or it is only for the solvency calculation?

Venugopalan S: It is only for the solvency. It is disclosed in the contingent liability in the notes account on a gross basis and the portion of tax paid against those tax demands have been disallowed for the purpose of solvency.

Devansh Nigotia: Okay so it has not been adjusted in the network, okay.

Suryanarayanan V: As we have said in the past while the regulator is certainly sympathetic and has actually written letters both to CBDT and to the department of financial services in favor of all the players in the southern part of the country. As a measure of abundant caution they have instructed that these be deducted from net worth for the purposes of solvency computation. To reiterate, these are issues that have been enforced by the tax department only in the southern part of the country and not so much in the other parts so that extent it is a differential treatment that has been meted out.

Devansh Nigotia: If you can just elaborate a bit more on what is it regarding and what is our protest, what was our conflict and how did they arrive at this about it would be really helpful?

Suryanarayanan V: To put it in a nutshell. See we make this IBNR provisioning that we talked about relating to motor third party. We make these provisions as the claims get reported over a period of time anywhere ranging between 6-7 months till a reasonable development time of 6 to 7 years. On this provisioning, the department has taken a view that this provisioning should be disallowed and taxes to be remitted thereon. This is a view taken only by the department in this part of the country and not elsewhere. we have contested it. The second one is relating to reinsurance remittances that have been disallowed notwithstanding the fact that there are very clear double taxation avoidance agreements between the countries with the countries where the reinsurers are domiciled. Again, this issue is unique only to this part of the country so these are the two larger issues where the players from this part of the country have been contesting.

Devansh Nigotia: Okay Sir that is all from my side. Thanks a lot.

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

Prateek Poddar: Yes thanks for taking my question again Sir. Sir couple of questions one is can you just talk about the DHFL channel which is now with Piramal how our talks are progressing over there that is question number one, second is average duration of investment book and last question Sir within opex you called out for higher tech investment just wanted to understand if you can call out for the absolute amount and the sustainability of this?

Suryanarayanan V: The first one on the DHFL part our corporate agency with them subsists and we are in discussions with them. While business has not commenced as yet we are still hopeful that we should be able to receive business. The second one on the investment relating to technology over the last 18 months we have been continuously investing on various aspects of it. On our entire customer journey relating to health have been revamped. We have invested in RPAs. We have invested on our websites to provide the transacting experience. We have invested in our core ERP platform where we are transitioning into a cloud enabled platform and we are also in fact engaged presently in getting into data analytics so these trends will certainly be there and our volume growth which is largely retail is all supported by setting up middleware platforms which provide the transacting ease and convenience to our various channels so as a retail business yes we have been doing little more on all of this. We have also invested in AI based claims estimation which should get rolled out pretty shortly.

Prateek Poddar: How much is the investment Sir over here if you can call that, it has been the first time sustainability, will you invest within the next year the same amount?

Sridharan Rangarajan: Mr. Poddar I think we will share once we get their matured state. This is a three year programme we want to continue that and then we will get back to you.

Prateek Poddar: No problem Sir and lastly average duration of the investment book if you have it handy?

Suryanarayanan V: Yes so duration we are running at currently at about 3.4 and of course we will be seizing opportunities as they come up in the market. For instance we did have the spike in the tenure rates so when we are carrying a fair amount of liquid investments by way of bank deposits which is presently at about 10% to 11% of the total book. This is therefore available for deployment as and when rates spike to enable us to get into higher portfolio yields. But even for the longer term I do not see the duration shifting beyond 3.7, 3.8 which would still be reasonable given the fact that we have a fairly large TP book.

Prateek Poddar: Okay and Sir one structural question from a future book perspective today most of the motor business at least on new vehicles sales is originated in the dealers end, the way business model is being evolved at least in the electric vehicle side is the dealer just takes care of the delivery whereas the acquisition is done in a B2C way so from that perspective how should I think about your growth or what are your chance over there?

Suryanarayanan V: Prateek, here of course you might be aware that the regulator has put out a draft motor insurance service provider guidelines, which is calling for some change in the way the motor dealer businesses operate, but these are at discussion stage. We will wait to see as to how the operating structure changes in the industry.

Prateek Poddar: Sure Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ameya Karambelkar from Kotak Investment. Please go ahead.

Ameya Karambelkar: Hi good morning Sir. Thank you so much for the opportunity. Sir considering the different dynamics within the motor, OD, PP and health industry going forward on a more normalized basis how should we look at the overall combined ratio and ROE going forward your aspirations or your thoughts on that would be useful?

Suryanarayanan V: Look earlier in the call when Sridharan did mention about the impact of the various one time elements that have hit the P&L of the current year so we would tend to think that if we were to unclog all these onetime elements out of the P&L on a steady state basis we expect that the COR would have been roughly around 103 for the current year so which is where we are so this gives you an idea of the state of the industry presently. We do believe that our focus continuing on the retail side and with the kind of opex and expense structure improvement that we are looking at, we certainly see an improvement from this 103 as we go along. Certainly directionally yes but if you were to ask me whether you will ber 99 COR or 100 COR it is going to be a little tough. Given the various elements in the industry, the kind of discounting that is prevalent, the motor OD loss ratios the way they have been shaping up but what we see is directional improvement from this 103% COR and with the investment book continuing to grow strongly the overall profitability should improve and that should impact the ROE quite positively.

Ameya Karambelkar: Perfect that is very helpful Sir. Thank you so much.

Sridharan Rangarajan: I think the current ROE is about 15% if you readjust whatever we are doing on YTD basis.

Ameya Karambelkar: Got it Sir. Helpful. Thank you.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Pritesh Bumb for closing comments.

Pritesh Bumb: Thank you for the opportunity from the management. Stay safe.

Sridharan Rangarajan: Thank you. We feel that most of our challenges are behind us. I think we went through some tough times in the last couple of years both due to COVID as well as due to other challenges. I think we are having a very positive outlook going forward and look forward to meeting you again in the quarter. Thank you.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.