Cholamandalam Financial Holdings Ltd
Q2 FY23 Earnings Call

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CORPORATE PARTICIPANTS:

Mr. Sridharan Rangarajan
Director, Cholamandalam Financial Holdings Ltd.
Mr. N Ganesh
Manager And CFO, Cholamandalam Finance Holdings Ltd.
Mr. V Suryanarayanan
Managing Director, Cholamandalam MS General Insurance Co. Ltd.
Mr. S Venugopalan
CFO, Cholamandalam MS General Insurance Co. Ltd

Q&A PARTICIPANTS:

1. **Mr. Avinash Singh** : Emkay Global
2. **Mr. Devansh Nigotia** : Simpl
3. **Mr. Ravi Purohit** : Securities Investment Pvt Ltd
4. **Mr. Sanketh Godha** : Spark Capital
5. **Deepak Sonawane** : Haitong Securities

Moderator

Good morning, ladies and gentlemen. I'm Kritika, moderator for the conference call. Welcome to Cholamandalam Financial Holdings Ltd Q1 FY23 Earnings Conference Call hosted by DAM Capital Advisors Ltd. As a reminder, all participants lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call please signal an operator by pressing * then 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Pritesh. Thank you, and over to you Sir.

Mr. Pritesh Bumb

Thank you, Kritika. Hi, good morning, everyone. On behalf of DAM Capital, I would like to welcome the management of Cholamandalam Finance Holdings Ltd. Today we have with us Mr. Sridharan Rangarajan, director and Mr. N Ganesh manager and CFO of Cholamandalam Finance Holdings, along with Mr. V Suryanarayanan, MD, and Mr. S Venugopalan, CFO of Chola MS General Insurance. Now without further ado, we'll hand over the call to Mr. Sridharan for his opening remarks. Thank you, and over to you Sir.

Sridharan Rangarajan

Thank you. So, good morning to all of you. Hope you're all safe. So, in this call, we have with us Suryanarayanan our MD, Mr. Venugopalan, CFO of the company, Mr. Ganesh, CFO for the Chola Financial Holdings. As you all know that Cholamandalam Financial Holding consists of the solid results of Cholamandalam Investment and Finance Ltd. Cholamandalam MS General Insurance, and also Chola MS Risk Services Ltd. And there's a wide coverage about Chola Investment and Finance Ltd., you would have gone through their investment presentation to you as well as you would have participated in their call. So, I would quickly get into Chola MS General Insurance opening remark and then we'll open up for the Q&A. Chola MS General Insurance registered growth of 1,474 crores in Q2 FY23, an increase of 21% over the previous year driven by growth across channel and partners.

The company continues to have a dominant presence in motor segment and strategically diversifying across the motor eco system. In Q2, the industry grew by 8.7% and private sector players grew by 12.5%. In the first half, industry grew by 14.7%, and the private sector players grew by 20.8%, Chola MS General Insurance grew by 30.2%. In motors, Chola MS improved the market share from 5% to 5.3%, in PA grew the market share from 4 to 4.7%, in the fire business the growth is about 43%. In the first half, motor representing 66.5% of the portfolio grew by 25.6%, commercials representing a 16.4% of portfolio grew by 43%, Health Accident and Travel represent at 17.1% grew by 30%. Within motor, two-wheeler and PC, share has gone from 21%

to 35% and commercial vehicle has come down to 36% from 40%. Volumes from new channels, new verticals, OEM and financial channels have a very good growth. The company's long term policies growth was more and as per IRDAI direction the company needed to upfront absorb the full costs for all the long term **[inaudible 00:04:06].**

Moderator

Sir, please go ahead.

Sridharan Rangarajan

The long-term premium over GW was 12% in H1 compared 8.4% the same period last year. The solvency ratio as of September 22, is 2.13 as against 1.77, the same period last year. With that opening remark I think I would like to open up for Q&A. Thank you all for your participation.

Moderator

Thank you, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question, please press * and 1 and wait for your turn to ask a question, if you would like to withdraw your request, you may do so by pressing * and 1 again. Participants are requested to ask two persons in the initial round and may join the queue for further questions. I repeat, ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. First question comes from Avinash Singh from Emkay Global, please go ahead.

Avinash Singh

Yeah. Hi. Good morning. So, my question is on Chola Insurance. The first question would be if you can provide some kind of a light on the expense, the commission, non-claims cost basically, over the second half, and over the next year, because this is something I mean, of course, we have the reason, but I mean, upwards of 40%, this is slightly on the higher side, if we compare versus PA even **[inaudible 00:06:08]**. So, that's number one. Second, with a number of changes happening on the Crop Insurance side, with regards to the structuring in different states, do we have a kind of a rethink, or you're changing the strategies as far as crop insurance business is concerned. So, these are my two questions, thank you.

Suryanarayanan V

Good morning. Thanks, Avinash for raising these questions, the first one on EOM and next on crop, I will take Crop Insurance, first. Chola MS was participating in Crop Insurance until 2018-19 and took a pause from that line of business only because of the operating environment in that line of business, the related cash flows and the impact on solvency etc. But we do expect some changes in the program. In the last two, three weeks or so, the government has unveiled a slightly modified program and its intent to roll out an amended program. We would be looking at that pretty closely and based on the exact contours of the program that is unveiled, we would-- the board would evaluate its reentry into that segment, that is on the crop part.

The second question was on the Expensive of Management front. You would have noticed from page 52, where we are giving up the breakup of COR. While the claims ratio is more or less remained at about 72.3 and 72.4 between Q1 and Q2, you will find that there is a two and a half percent reduction largely in the EOM related costs. So, this is the shift that has happened from Q1 to Q2. We are confident that we will be able to glide down that path as we go along into subsequent quarters. As I had mentioned before, the upfront absorption is casting its impact. Our long-term business continues to be strong as Mr. Sridharan had mentioned, which means that while the cost push from fresh business acquired will be there, but we will be earning incrementally higher in the subsequent quarters and in the subsequent year, which would help us bring down the overall cost level as we go along.

Avinash Singh

Okay, thank you. Just a quick follow up on motor side, I mean on the motor OD NTP. I mean, in terms of claims ratio on QoQ basis, there are some slight improvement, but in overall sense, also the cost is half, the claims ratio upwards of 75- odd%, it appears to attain higher so, I mean, do you see sort of industry environment allowing this to improve? Or you think that at 75% claims ratio you are satisfied, I mean, you can operate.

Suryanarayanan V

On the industry front, the overall motor OD loss ratios, remain elevated for almost all players in the industry. For Chola MS, as we have indicated in page 54, our OD LRs have come down by about 5%, from Q1, we were at 75.8 and reduced to 70.5 in Q2. The company is working on multiple initiatives to keep this under check, a combination of initiatives of geography, segment and all of that. This is on the motor OD side. On the TP side, the LR is more or less at around 76.5, 77. And these small deviations on a QoQ level is largely driven by the product categories that we emphasize on. So, for the current year, I can safely say that it's unlikely that there will be any major shift in this loss ratio in the TP side.

We generally do an evaluation at the end of the year taking into the full years' experience of business, the price movements, the frequency developments and determine the loss ratio together with the appointed actuary. As I have said before the motor TP loss ratios toning down will happen on a larger front as the Motor Vehicles Amendments Act provisions get implemented strictly by courts. We are probably at the cusp of the first implementation. The time limitation that was imposed by the MV Act of six months from date of accident has just come into force. So, we would-- this quarter would probably tell us, as to how the courts are viewing and implementing this particular provision of MV Act. And that can be a big pointer to the way the loss ratios shape for us and for the entire industry.

Avinash Singh

Okay. Thank you.

Moderator

Thank you, Sir. Next question comes from Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia

Yes, thanks for the opportunity. So, there's a couple of questions. Sir, one is in our presentation we mentioned in Q2 FY23, there were a few one-offs, now like 47 crores of inflation-linked Motor TP provision and two others. So, I just one on one I'll ask on them. So, this inflation linked Motor TP provision, is it in claims or operating expenses? And what is it regarding?

Sridharan Rangarajan

Venu, you can answer that question.

S Venugopalan

Yeah, here we wanted to explain for the profitability moment here, what is, provided in the slide no. 49. So, one is about 47 crores a part of it, inflation-linked Motor TP provisioning. As you know that there is a TP price increase, there is an inflation, on an annual inflation, the claims will go up on the TP side. So, we are highlighting here that we have provided for the inflation in the TP ULR that has been vetted by the actuary, that amounts to 47 crores that has been part of the NIC on the TP side. The second is on the sourcing cost.

As we explained earlier, there are two components of the absorption of the acquisition cost one is the growth based and second is the long-term policies growth. We have segregated this and said that because we are one of the top growers in the industry in H12223 and that growth, absorption of the acquisition cost is 28 crores and the long-term policy's growth, a fresh long-term policy that has been acquired, that part is 47 crores. These both put together has been absorbed in the acquisition cost.

Suryanarayanan V

These are on an incremental basis of current Q2 with the corresponding Q2 of the previous year. And to add to what Venu had said, on the inflation linked to Motor TP, see this is an actuarial assumption. Whether this actual inflation bears out to the full level as envisaged, we would know only over a period of time. And if you were to look at this incremental provisioning translates to something around about four and a half percent on the COR. This we believe with the provisioning that is required and time will determine as to whether it will get unwound or will remain.

Devansh Nigotia

Okay, Sir just few basic questions relating to the long-term policy business. We highlighted that the long-term policies are for bundle credit links, personal accident and health policies. So, this is largely the policies for benefit the health insurance which are sold with the property loan through our banker channel, this is the right understanding?

S Venugopalan

Yeah, that is one large segment through which all these attachment products happen.

Devansh Nigotia

Okay, so, let's say we've mentioned that it is 12% of our business mix, these long-term policies. So, if I look at health part of our portfolio, health insurance, our mix is roughly around 8%, on a net premium basis. personal accident as a percentage of our portfolio is almost 5%. So, when we say that this is 12% of our net, we are long term policies, so, are we trying to refer the total mix for personal accident and health insurance over here. Is that the right understanding?

Management Team

Also dwelling

S Venugopalan

Dwelling is also there. The three segments- health, long-term policies-- PA long-term policies and home dwelling. This is a part of the property, that also a long-term policy.

Devansh Nigotia

So, some part of the mix is fire insurance. Is that the right understanding?

S Venugopalan

Yes.

Devansh Nigotia

Okay. So, basically what it means is that there is basically including fire, personal accident and health mix is 17%. Of that 17%, 12% of our mix is towards the long-term policies. So, is that the right understanding?

S Venugopalan

Yes, it is.

Devansh Nigotia

Okay. So, basically 60% of the mix in these businesses are long term and remaining 35, 40% are short term in nature. Now to come again, let's say what-- how long term are these policies? And what is the kind of OPEX which is front loaded? So when we say long term, what will be the average duration of these policies for each of the segments?

Suryanarayanan V

As we have mentioned before in earlier calls, dwellings would invariably be for a weighted tenure of anywhere between seven to eight years, the PA would be anywhere between three to four years, the health could be up to three years.

Devansh Nigotia

Okay. So, for these, the premium is recognized over the three-to-four-year, three-year period or seven period in case of dwelling while our commission structures are front loaded in our P&L.

Venugopalan S

Yes, you are right. That’s correct.

Devansh Nigotia

Okay. But when I look at the numbers and when I look at the operating expenses, the change in our operating expenses have actually happened from December 21, where our run rate used to be around 280 crores before December 21. And that run rate became 380 to 400 crores for the last four quarters. So basically, there's a 100 crores delta on a quarterly basis in last four quarters itself in comparison to YoY, if I compare it, the operating expenses number. But when I look at the mix for these businesses, definitely even the revenue amount has not increased by 400 crore for these businesses. While our operating expenses itself has increased by 400 crores when I'm comparing it YoY.

So, I'm still trying to understand where is the delta coming from. So, just to put some numbers, fire mix for last four quarter is 150 crores for the total portfolio of the revenue that we recognize, the health part of the portfolio is 304 crores for net premium and personal accident is around 182 crores. So, 180 plus 300 is 480 plus 150, so 650 crores is just the revenue that we recognize. While the delta in operating expenses we are seeing these are 400 crores. So, I'm not able to understand when we say that these operating expenses have increased, the numbers somehow, Sir it doesn't add up. If you are able to understand where I'm coming from. So, it looks like that the operating expenses are also coming-- have also stepped up from other parts of the businesses.

Management Team

Venu, if you can explain these.

S Venugopalan

Yeah. Actually, the cost has been increasing in the last 4 quarters mainly due to absorption of one-time prepaid expenses as per IRDAI letter in 2021-22. In the current financial year 2022-23, chola MS has been one of the top performers in the industry in terms of topline growth and hence acquisition cost is fully absorbed whereas the earnings come over the period of the policy tenure. Also, chola MS is one of the top growing company in terms of long-term policies (home dwelling, health and PA) and the earnings comes over the phase of the long tenure while the upfront cost is absorbed. In case of motor long term policies, there would not be any earnings, but cost is fully absorbed upfront. This provide mismatch in earnings vs cost absorption.

Devansh Nigotia

Okay, so if I have to.

S Venugopalan

When it comes to the numbers, and I think we can go offline and discuss about that, basically, because we need to see the numbers point of view from the previous year and current year, we can explain you. But in principle, what we are saying is, as mentioned in our previous reply, the three elements of the costs that has been absorbed upfront in the current year without corresponding level of earnings and hence there is a mismatch.

Devansh Nigotia

Sir, I will take that offline with you. I will contact the Company Secretary.

Moderator

Sorry to interrupt you. Can you please join the queue for further questions?

Devansh Nigotia

Sure, I will join them.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Participants are restricted to ask two questions in the initial round and may join the queue for further questions. We are having a question from Ravi Purohit, from Securities investment Pvt Ltd, please go ahead.

Ravi Purohit

Hi, thanks for taking my question. Just a follow up, and I will probably rephrase my question, as compared to what Devansh had mentioned earlier. You know, when we analyze our general insurance business over a longer period of time, there have been times in the past where our ROEs were fairly good, fairly healthy prior to let's say, when we had to-- prior to COVID, and prior to before we had to make this IRDAI adjustment on our expenses, right? So, now the-- last year in pretty much every concall that we had mentioned on Q3, Q4, Q2, that, you know, our true profit is about 350 crores pretax or 380 crores pretax and these are one-time adjustments that we're making this year because of the IRDAI norms and all that.

So, in the sense, we have kind of anchored and kind of communicated that the true business profitability of the general insurance business is about 350 to 400 crores pretax profit. Now, this year again, we have a lot of these one-off provisions and adjustments. So, I was just trying to understand what really is the true ROE of our business, our long-term Return on Equity, that we as a business are underwriting when we are kind of, underwriting policies. Whether the ROE that we reported in the past were correct, painting the correct picture, or what we are reporting now is painting a correct picture. So, if you could just kind of give us a little insight into what are they thinking in terms of, when it comes to Return on Equity on our business?

Suryanarayanan V

If you look at page 49, I'm sure you're drawing reference to the RoNW of 9.32 and 15.95 of FY20 and FY21. But then you have to bear in mind that those were prior to the implementation of the IRDAI order. Earlier, the company was absorbing the cost structure, in line with the earnings pattern. Now, we are doing an upfront absorption. So that is where it renders the comparison different from what from the earlier numbers of FY20 or FY21. So that's the first clarification.

Second is, at the end of H1, the numbers are reflecting the present return on net worth. we have also had a look at the combined ratios of competition, we would tend to think that in the short to medium term, your return on net worth of anywhere up to 13 and a half to 14 is what is possible in the near short term to medium term.

Sridharan Rangarajan

Just to add that there is no one-off this year. I just want to reiterate that point is that last year, we had this because we were taking the hit for the prior year long term policies cost absorption opening balance. Whereas this year is becoming a normal practice. So, there is no one-off this year, I just want to clarify that point.

Ravi Purohit

So is it fair to assume that.

Sridharan Rangarajan

And you are saying that we were talking about profit before tax of 350, 400 crores which we talked earlier, which I think they're still you know, in course to that.

Ravi Purohit

So, you would expect that the company has the potential to be making 400 crores sustainable profit on a pretax basis, even in the current year, given that the first half it kind of not been able to achieve that.

Sridharan Rangarajan

Yeah, I mean, I think, let's give this H2 and then probably that will give us a far more strength to comment on that. Let's give one more half for us to get to a firm footing on that.

Ravi Purohit

Okay, Sir just one understanding, when you mentioned that you earlier, we were booking our expenses, commensurate to the revenue that we're booking on our P&L, right? And when this IRDAI change happened, now we are booking the entire expense upfront, whereas the revenue kind of gets u know over a period of time. So, let's say, is there something like, if we were to let's say, under IFRS, for example, or I'm just trying to kind of understand that from a cash flow point of view, for example, right, or from a more normalized ROE understanding from point of view, how should we kind of analyze the numbers in that context, right? When does this kind of adjustment go away, or we'll have to kind of continue to live with this adjustment, and therefore, the reported ROE will continue to be lower, whereas the true business ROE is probably higher, because of upfronting of expenses. If you could just kind of enlighten us a little bit on that.

Suryanarayanan V

The query is in two parts. First is in an IFRS context, the expense would get absorbed, linked to the earnings over a period. So, which means that the kind of ROE that we reported in FY20 or 21, would be straight away back. So that's the first clarification.

Second is as Mr. Sridharan had mentioned, what we are having is the value in the balance sheet. The cost is all absorbed upfront, and then these do support a very good loss ratios, an indication of which is there even in the kind of loss ratios that were put out on the results. And these are sitting as values in the balance sheet to be unfolded. There are two ways by which the value will unfold. One is over a period of time when they convert into earnings and there are no claims against or lower claims ratio against this. Thus, it unfolds into the P&L. The other is actually if you were to do any reinsurance structures, which many the players in the competition have done. So that is something which is a possibility which is a decision of the board as to whether we would want to adopt any such structures to bring into P&L then and there or retain as an embedded value. So, this is a decision of the board. if you were to compare the overall business retention levels of Chola MS with that of competition, you would find that our overall level is fairly higher. So, it's therefore, choice of whether you want to cede, recognize the commission and manage your COR, or whether you would want it to unfold over a period of time. So that's a critical choice that the board would make.

Ravi Purohit

Correct. But from a business analyst point of view, we should like-- it should be fairly clear to us that the economics are superior than what they're getting reported. Because of this.

Sridharan Rangarajan

That is what, Sury mentioned there's an embedded value which was sitting here.

Ravi Purohit

Okay. Fair point Sir. And Sir last question, I think this must have been asked fairly, few times in the past as well, in terms of you know, the Chola Holding has a very large holding value in CIFC, and you have MS insurance. So, as a holding company does not really fully reflect or recognize the true value of the assets that it owns. So, any plans or any thought process on kind of unlocking this value?

Sridharan Rangarajan

So I think as we have been communicating is that, as investors, you could see, the current value that Chola Financial Holding represents has to have two compartments, one is an insurance value, and then there is an NBFC value with the whole code discount. So, which, whatever way each one would attribute, you know, by better communicating the results of insurance business, and its prospects is one way of bringing an appreciation to the investor community and thereby getting a full value to that, the other models are not at this point in time explored. So, we would continue to communicate the best possible appreciation of the business prospects that the insurance business has got and NBFC is well covered, so one can bring in some of the parts and we don't want to come into the valuation methodology, or we leave it to the respective investors to take that into account.

Ravi Purohit

Absolutely. Thank you so much for your time, I really appreciate you taking your time out and explaining the nitty gritties of the insurance with me Sir, really helps us a lot. Thank you.

Management Team

Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad. We will wait for a moment while question queue assembles. We're having a question from Sanketh Godha from Spark Capital, please go ahead.

Sanketh Godha

Thank you for the opportunity. Sir, if I look at the loss ratios, I clearly see in case of health, the loss ratios have deteriorated compared to what we have reported in Q1. Sir just wanted to understand what led to that number, because from 55 it has come to 71. So that's the question number one, and if I, and second question, which I have is with respect to motor **[inaudible 00:34:05]**, you alluded to the point but what just asking it again. See, in fourth quarter, we had a motor OD loss ratio at 83, which improved to 76 in Q1 FY23 and now it is closer to 71 in Q2. Sir, if I looked at the trend, it's like a 5% Delta improvement every quarter. Sir, it is fair to assume that what is leading this improvement to and by the end of the year the current 73 what we expect the number to play out. But that's on the loss ratio then, I have a question on few other numbers but it will be easy if you can explain these.

Suryanarayanan V

Sanketh, on overall motor loss ratios, beginning with OD, we have been seeing this improvement coming in. It's largely due to the portfolio mix choices that the company has made in terms of emphasis / de emphasis on certain product categories But I would tend to think that from here on given the competitiveness in the market, and the related pricing, the maximum that it can go down from the present 70 and a half level is perhaps by another two and a half percent. So, we are not going to see that 62 or 57 that we have seen in the earlier periods. That's unlikely. That's the clarity on the motor OD part. On the health loss ratios, yes, Q2 we did have higher health loss ratio primarily coming in from our business from the public sector banks. We, in some of our products, have affected a price revision in Q3. So, which should help us tone down our loss ratios as we go along.

Sanketh Godha

Okay, got it Sir. Sir, is it also because of the fact that in health, there is a mix has moved in favor of indemnity or what benefit based, is that reason to some extent we can-- can be attributed, Sir? Or you can tell me indemnity contribution compared to ones in current quarter? That will be helpful Sir.

Suryanarayanan V

Yeah, we are stepping on our indemnity proportion which I have mentioned it in earlier calls that the loss ratio will tend to increase. Presently the proportion is 39, 61. Still, indemnity is at about 39 and the benefit would be at about 61. The company would aim to reach a 50-50 level. But then yes, there were largely one-time losses that we had during this quarter, general monsoon related fever etc. This should improve in Q3, and I can say that now that I have the benefit of the month of October before me, we are already seeing that trend there.

Sanketh Godha

Got it Sir. And another question is if I look at just pure OPEX, from a ratio point of view, maybe not in **[inaudible 00:37:29]** crores. It had improved from 39.4 in Q1 set of commission **[inaudible 00:37:37]** to say. If I improve from 39.4 to 36.4, its a 300-basis improvement which is an improving trend but just wanted to understand, whether this number on sequential basis will improve. And if a loss ratio hold up at 72, around 72 for subsequent quarters. Can we see this 112 combined to go back to less than 110 kind of a number by fourth quarter? Or what do you believe this number will be in FY23 and probably you want to achieve in FY24, Sir?

Suryanarayanan V

Sanketh, you should understand that in Q1our growth was 43% and Q2 growth was 20%. So naturally when you do an upfront absorb, and when growth moderates from 40 to 20, it brings down the upfront absorption cost element. So, while H1 overall growth is 30, the quarterly growth differential is from 40 to 20. But I suppose that we would be more or less near this growth rate even as we go along. The numbers for October are out in the market. We have grown in line with the industry at about 17% in the month of October. So that change in growth rate will definitely bring down the ratio.

second is that retail businesses grow more in H2 and our retention levels are higher. When I do our COR computation on the basis of net written premium, naturally the COR and the cost absorption ability when you measure it against NWP will be better as we go along. So, we do see the possibilities of this reducing further as we go along in Q3 and Q4.

Sanketh Godha

Got it, Sir. But Sir, in, as we are moving to FY24 when we need NEP benefit of the long-term policy what you have return in current year, and probably with the better denominators along should improve better than 72, what you're reporting today. Then how confidently you are there in FY24 against 110 kind of a number by exit quarter of the current year, whether we can see that number to play out to 107, just wanted to understand that thought process of better NEP realization, and probably loss ratio, delta implement will drive the combined to be better in 24 going ahead Sir?

Suryanarayanan V

I agree with you directionally I think we should be working more towards that number.

Sanketh Godha

Okay, got it Sir. And the last data keeping question, if you can tell us the advance premium number for September that would be enough.

Suryanarayanan V

Our long-term premium that we are carrying forward, which is largely relating to motor piece as of September is about 1,330 crores. March it was 1,198 crs.

Sanketh Godha

Got it Sir. And final one, if I can squeeze in, Sir, leverage, investment leverage is 6.6 today. So Motor Vehicle Act benefit coming in, I don't know, assuming that improvement in loss ratio in motor TP that itself spill in to higher competition in OD, I'm making that base assumption. Hope industry remain same and nothing happens, then what do you think the improvement in loss ratio and leverage to come off and therefore the ROE how it could get affected? That's the final one Sir.

Suryanarayanan V

As I said earlier, in our portfolio, that TP loss ratio is a large component of the overall loss ratio, given the weight of the TP earnings. And I talked about how we have built an inflation linked additional provisioning of about 47 crores which number was very similar even in Q1. And I had also mentioned that translates to about 4% of COR. So, we would really expect some benefit to flow from the Motor Vehicles Act over the long term. And plus, any possible future price increases, we know that price increases have been fairly low over the last three years, especially in the commercial vehicle space, where Chola MS is been having a 40, 45% of our motor composition, As that improves, that loss ratio can also come down because it will blunt at least our inflation assumptions that we make within the company.

Sanketh Godha

Got Sir. But any view on leverage, how it will play out in the end?

Suryanarayanan V

we are in a free market where every day we see changes happening in terms of price discounts, and then and all of that. One, therefore, yes. We believe that the kind of business mix that we are driving, we should see toning down of LRs, as we go along. So that's the intent.

Sanketh Godha

Okay Sir got it. Thank you, Sir. That’s it from my side. Thank you, Sir.

Moderator

Thank you, Sir. We are having a follow up questions from Devansh Nigotia from SIMPL, please go ahead.

Devansh Nigotia

Yes, sir. Thanks for giving me this opportunity. Sir in case of Motor TP, when you look at the loss ratios, not only for us, but even for other players in the industry. They are significantly below the pre-COVID levels. So, there was a frequency level settlement in courts were very slow. So where do you see that in comparison to pre-COVID level where they are right now? And what do we expect it to be going forward?

Suryanarayanan V

In fact, compromised settlements actually peaked during the COVID period. We were able to press home the advantage of the non-functioning of tribunals and courts during the period, because compromised settlements mean the victims and beneficiaries get the money faster. So, we were able to blunt the kind of inflation that you would normally see in court award. That effort continues and I'm sure we should be able to step up. Company continues to have a fairly large proportion of compromised settlements which on an average varies between 78 to 80% of all TP settlements over fairly large periods of time.

Devansh Nigotia

Okay. But I mean, So, where I'm coming from is that motor TP claim ratio used to be upwards of 100%, three years back before March 19, and then there is a business mix change that we are tilted towards PA and two Wheelers.

Suryanarayanan V

We have got into two wheelers from 18-19 and with the long term two wheelers, long term cars also coming into play, the insured base gets bigger, the level of uninsured vehicles in two wheelers definitely has come down from the earlier levels to current situation. But that I don't think we have still taken the full benefit of that development, because we would like to see the development of claims on our own portfolio as we are a fairly newcomer in the two wheeler space. So, our actuaries would wait for the actual development and look at our experience.

Devansh Nigotia

So, it's over next two to three years, what is the kind of claim ratios in Motor TP we believe are normalized, considering normalized level of court settlements in terms of the **[inaudible 00:47:12]**?

Suryanarayanan V
It is very difficult to predict a TP loss ratio, because there are so many moving parts there. one is the price itself. So, we have no idea as to how the government will view the pricing Second is there are court decisions - the loss ratios are determined by the decisions that courts take. So, these are two large variables, the only given element is that, yes, that as the insured population increases we can clearly expect a frequency reduction. That is the only given positive element. And of course, the thrust that companies provide to compromise settlement to reduce the severity levels.

Devansh Nigotia

Sir, can you come again on the frequency of court settlements, where they are right now and I just missed out on that comment.

Suryanarayanan V
what I was saying was that the frequency of claims even as per IRDA publication and what industry has been seeing has been reducing over a period of time. So that is the first element. Compromised settlements, it depends on the strategy of the company and Chola MS has always been committed and been following an aggressive compromise settlement stand in the marketplace.

Devansh Nigotia

Sir because.

Moderator

Sorry to interrupt you. Sir can you please join the queue for further questions?

Devansh Nigotia

Yeah, I'll join that.

Moderator

Thank you, Sir. We are having question from Deepak Sonawane from Haitong Securities, please go ahead.

Deepak Sonawane

Yeah, thank you Sir for the opportunity. Sir, I have a single question on a long-term premium. In the previous call in Q1, that we guided for, let's say in FY23 we'll be achieving around 8.5% of our GDP that will be long term premium, but by H1 itself, we achieved 12%. So, what will be the next coming for H2, what will the guidance for the long-term premium I'm saying Non-Motor TP long term premiums.

Suryanarayanan V
See, we look at it more from an opportunity and whether the business is economically profitable without getting blinded by an accounting year consideration. If there is that opportunity to get a business, profitable business, which will be profitable over its life of two years, three years, eight years, as the case may be, we would continue to go for it. I think that has been the broader philosophy. So, we will find that even in Q2 it is at about 11, 11 and a half percent or so.

Deepak Sonawane

Okay Sir. Thank you, Sir.

Moderator

Thank you, Sir. Next question comes from Mr. Pritesh from DAM Capital, please go-ahead Sir.

Mr. Pritesh Bumb

Hi Sir. Sir our share on the CV composition has been coming down. So last quarter also, I think we mentioned or two three quarters we've been mentioning that it is bottomed, and we'll come back to 50% and high up. Despite growth happening in the system, we have not seen the improvement happening. Any case there why we will be losing a little bit of share there in terms of insurance?

Suryanarayanan V
CV is actually a wider spectrum you have the small tonnages, the medium intermediate category and heavy tonnages. Chola MS was particularly strong in the heavy tonnage categories by virtue of its market presence and channel relationships. Now, this particular segment is seeing heavy premium discounting and therefore, the LRs are quite high there. This we have to correspond with the kind of LR reduction that we are seeing and what we have demonstrated over the last six months.

Mr. Pritesh Bumb

So, when do you feel or see that this heavy discounting which is happening on the premium side could end or is the case that it will continue for next few quarters?

Management Team

Pritesh, your guess is as good as mine.

Mr. Pritesh Bumb

And so, basically any plans to diversify from the heavy category by more tie-ups into the medium category type of vehicles, so that the ratio.

Suryanarayanan V

So, it's not that we have not been active in the other categories in the past. It's only that the weight has shifted and reduced from the heavy category. We have been a full-fledged player in all segments, across all segments.

Sridharan Rangarajan

In fact, tractor and construction equipment there is a considerable growth, commercial vehicle also there's different tonnages and within that favorable tonnages, we are growing.

Mr. Pritesh Bumb

Got it. And also, is it fair to assume that because the two wheelers and passenger vehicle share is up our loss ratios also have increased pre-COVID and from last one or two quarters. Is that a fair sense or that is not related itself?

Suryanarayanan V
Certainly, especially in cars, we can say that generally the loss ratios are higher.

Mr. Pritesh Bumb

So that's the reason we see that the share being up and the loss ratios has been up as well?

Venugopalan

Yeah.

Mr. Pritesh Bumb

Okay, that is it from my side Sir. Thank you.

Moderator

Thank you, Sir. Now I hand over the floor to the management for closing comments.

Sridharan Rangarajan

I think, thanks a lot for your participation. I think the key message is that I think growth is there, we have been growing better than the market and we'll continue this path. Lots of prior year issues have been addressed. The investment issues we have also been addressed. I think they've communicated that our growth paths will continue, and you'll see a better mix coming up the end of the year. And the solvency is substantially improved and will continue this growth path, we'll start seeing better results to come, in the years to come. Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, this concludes our conference for today. Thank you for your participation and for using Door Sabha's Conference Call services. You may disconnect your lines now. Thank you and have a pleasant day.

Note: 1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.