Go Digit General Ins

Operator: Ladies and gentlemen, good day and welcome to the Go Digit General Insurance Company Limited Q1 FY27 earnings conference call hosted by ICICI 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 call, please signal an operator by pressing star then zero on your touch-tone phone. I now hand the conference over to Mr. Anshuman Deb from ICICI Securities Limited. Thank you and over to you, sir.

Anshuman Deb – ICICI Securities: Good evening, ladies and gentlemen. We are extremely delighted to host the management team of Go Digit General Insurance. I now hand over the call to Chairman, Mr. Kamesh Goyal. Over to you, sir.

Management: Thanks, Anshuman, and good evening everyone. Thank you for joining the earnings call for Q1 FY27. I have with me Jasleen Kohli, our CEO; Ravi Khetan, our CFO; Piyush Singh, Head of Investor Relations; and Divya, who works in the finance team and also with Piyush.

Let me just start by saying that this is our 10th earnings call, about two years since we listed. Let me also thank you for staying with us during this period. I noticed a lot of you joined the call on a regular basis. One thing which I have realized, maybe in my last 2 years compared to my 38 years in insurance, is that convincing customers to pay us premium and trust us with their risk turns out to be a lot easier than convincing analysts and investors.

When we went public 2 years back, we made one decision: whatever happens, we will not change the DNA that got us here. We chart our own path. Where the market is going, we are often happy to sit it out. Where everyone sees risk, that is usually where we get interested. We do not chase growth that does not pay for itself. And as some of you have noticed in the past, occasionally with some frustration, we do not give guidance. We would rather you judge us by terms of what we do rather than what we promise.

The second thing which we decided is that on every call, we will explain how we think, our KPIs, how we allocate capital, why retention matters, and how we read the Indian Accounting Standards (Ind AS), which is IFRS. It is the same framework every quarter. We may bore you, but at least in my view, we are consistently boring. One thing we are quite proud of this quarter is that we are the first multiline insurer in the country to declare all our results under Indian Accounting Standards as per the proforma prescribed by IRDAI.

As we were preparing for the start of the new financial year, what was the scene like? For 5 years, there has been no increase in third-party motor rates. Expense of Management (EOM) rules have pushed the commissions up. Pricing across most lines of business has drifted down, and now it is down across the board. At the same time, claims costs have climbed on Own Damage (OD) parts, paint, and labor. Third-party (TP) claims go up every year due to an increase in rates and also inflation. Third-party claims are linked to wages, and every minimum wage revision increases the cost. These things do not come back down. We have not assumed any of these will settle on their own in the near future.

So, we consciously decided that these times call for a clear direction; it is either growth or profitability, as both cannot be balanced. We decided to focus on maintaining profitability. For us, this is a soft quarter, and much of it is soft by choice. You will see growth that looks flat or negative, which we said we would do if the market turns bad. This is not what the market is doing to us. In a soft market, we would rather protect the quality of the book than the optics of a single quarter. I will take you through exactly where we have stepped back and why, slide by slide.

I will leave you with one thought before we get into the numbers, and you will see me coming back to this thought a couple of times as we go along. We are built to do well either way. We suffer the least if the market stays soft, which is where it is now, because we do not depend on the props that are hardest to sustain. And we gain the most when the market turns because the book underneath is clean. When I say props, I mean booking reinsurance commission upfront or high dependence on capital gains to protect profitability. Both are now under threat due to IFRS, or Indian Accounting Standards, and the present stock market level. I will cover this optionality, which we have on the business side as well as on the investment side, in detail later.

With that, let me take you through the numbers. Like always, we will answer every single question; even if it means we go beyond one hour today, that is fine too. Moving to slide number 4 on the deck, these are the numbers we normally present. If you look at our Assets Under Management (AUM), they have increased. Overall, the numbers look good. One number which has come up, and this is where I want to explain, is that our motor market share is now 5.6%. This compares to 6.25% for the whole of FY26.

The reduction in motor market share is primarily due to the corrective actions we have taken, essentially in private cars, both in the standalone own damage section, about which I have spoken in the past, and also non-new cars, where we feel the combination of commission and premium rates do not justify writing business in the same volume as we were doing earlier. In commercial vehicles—and some of you would recall 4 or 5 years back this was 65% of our total book—this quarter it has dropped to about 23-24% of the motor portfolio. Commercial vehicle business is something we have been giving up, and we gave up a lot of business we were writing in the first quarter. Personally, as an individual view, I cannot understand how some companies are being so aggressive in the TP business when there has been no price hike in the last 5 years and inflation increases claim severity. Anyway, good luck to them.

Now let us move to the next slide. I want to spend time on the KPI we have tried to explain in the last year. Even in our February analyst meet, I had mentioned that we look essentially at NEP-driven combined ratios on an IFRS basis, including Deferred Evaluation Cost (DEC). If you are looking at Indian Accounting Standards, I am removing two things from a KPI perspective which we do internally. First, we exclude the mark-to-market movement of investments. We also exclude the impact of discounting of reserves. Globally, insurance companies include the discounting of reserves in their IFRS results from an ROE and profit perspective. We do not look at it that way because discount rates can change, making it difficult to compare results on a quarter-by-quarter basis from the core insurance perspective.

From that perspective, our Profit After Tax (PAT) with DEC but without discounting and mark-to-market is 190 crores, compared to 200 crores a year ago. This is a drop of 5%. The combined ratio is 107.2% with DEC and 104.3% with discounting. You can see the difference between the two numbers is roughly 3%. Solvency is very strong at 2.43, which plays into the optionality we have.

One number going the other way is Net Earned Premium (NEP). This number has shown an increase of 8% compared to the same quarter last year, reaching 2,007 crores. The premium is earning through while the Gross Written Premium (GWP) has reduced. As I said at the start, the reduction in gross premium is a matter of discipline for us; it is not really shrinkage.

Regarding our investment yield, we have an asset allocation of 9.5% of AUM in equities. Previously, we used to speak in terms of market value, but based on feedback, we are now discussing every number at book value. Because the equity asset allocation is now 9.5%, which was lower a year ago, this has led to a reduction in interest income of 14 crores. We could have easily booked capital gains to keep us at the same investment yield as last year, but we do not manage the business for quarterly targets. This reduction is because we have a higher allocation on the equity side, which led to lower investment income on fixed income.

Our net worth has increased on an I-GAAP basis to roughly 4,700 crores, up from 4,600 crores in March. ROE for the quarter on this basis—with DEC on NEP but without discounting and mark-to-market—is 4.1% against 4.9% in the previous quarter (non-annualized). Our net worth on an IFRS basis is 8,200 crores, compared to roughly 7,600 crores as of March 31. As I said in our last call, we are waiting to see when RBC guidelines come and whether solvency will be based on RBC Indian Accounting Standards or I-GAAP.

New business in two-wheelers grew by 26% in Q1. Our collected premium is 546 crores against 433 crores last year, an increase of 113 crores. The total tax rate under Indian Accounting Standards is 25.2%. Indian Accounting Standards have been profitable for us since 2021. Long-term advance premium now stands at 3,387 crores, with motor at 2,879 crores and non-motor at 508 crores. Total pre-tax DEC as of June 30, 2026, stands at 2,615 crores.

Coming to the next slide, this is the slide where IRDAI has prescribed how non-life insurers should present results under Indian Accounting Standards. On the basis we look at KPIs, our profit dropped by 5%. However, if we look at the actual IFRS results, our PAT last quarter was 325 crores, while this year it is 372 crores. This is essentially coming from mark-to-market benefits and discounting in reserves. You can see we have an increase in unrealized gains from 124 crores to 187 crores. Despite seeing an increase in the way foreign insurers look at results, as I said, we have always explained our internal KPIs, which show a profit drop. We chose not to harvest capital gains unnecessarily because we feel this is the time to keep the equity rather than sell and buy back, which involves frictional costs.

A limited review of these results has been done by our joint statutory auditors and presented to the audit committee today. These are the results IRDAI has prescribed for insurance companies to publish. In our case, you do not have to guess. We published them last year and are doing so again. I hope other insurers also publish them to make comparisons easier for analysts and investors.

On the growth slide, our Gross Written Premium is down by 8%. Most of this is coming from the skip in reinsurance inward business, essentially in health and crop. In group health and crop, where pricing was unattractive, our team decided not to renew those policies. If we remove these, our growth rate is about minus 2%, which is very similar to the overall GDPI. Motor was flat, growing by

0.4%, with high growth in two-wheelers, much lower growth in private cars, and a 27% decline in commercial vehicles. This is by design. If the market stays where it is, we will continue to focus on profitability.

In the fire business, the industry de-grew by about 27-28%, whereas we de-grew by 37%. Fire rates are currently down by about 40-45%. Last year, when rates were good, the industry grew by 22-23% and we grew by 38%. Now the trend has reversed. Why are we de-growing more than the industry? Our retention in fire is about 20%, which is typical for the industry. When you write business at a low premium, 80% of the risk passes to the reinsurer. So, your bottom line is only hit by 20% of the loss, but it impacts your treaty profitability. If results are bad, reinsurers will put restrictions on the treaty next year. For us at Digit, reinsurance is not a tactical play. We want our reinsurers to make money working with us, and they have for the last 8 years. We treat these relationships as stronger than a marriage. We do not change reinsurers for a 1% or 2% commission. This year, we increased our reinsurance commission and capacity across all lines. Our objective is not to write business that does not make sense and to protect the gross loss ratios for our reinsurers so that when rates improve, we can substantially increase business based on our treaty capacity. In Q1, despite one large claim, our gross fire loss ratio was 67%.

Regarding the combined ratio, the logic remains based on NEP with DEC. If we had used the foreign insurance methodology, it would have been about 104.3%, lower by about 3%. The essential increase occurred because the loss ratio increased from 70.3% in Q1 last year to 73.3% now. Compared to the full-year exit of FY26, the increase is only 0.7%. Most of the increase is coming from the Own Damage loss ratio, specifically in the car portfolio, not two-wheelers or commercial vehicles. I said in April that we started corrective actions in February, which continued through April and May. If the OD loss ratio had stayed where it was last year, our overall loss ratio would have been 71.4%. We expect the OD loss ratio to stabilize in the second quarter as earned premium from corrected business flows through.

Regarding the investment slide, everything is on a book value basis. We increased our AUM by about 500 crores in one quarter. We booked 6 crores of capital gains and held an equity position that reduced pre-tax profit by 14 crores due to lower interest income. However, we are sitting on unrealized gains in equity of 268 crores. As of March 31, 2026, unrealized gains were negative, so we had a significant turnaround in one quarter without harvesting gains. At the time of the IPO, our equity allocation was 3.5%. We have since tripled that to 9.5% of AUM. We follow strict capital allocation discipline in investments.

Now that we are close to 10% in equities, which was our first step, we will decide based on solvency. Sitting at a 2.43 solvency ratio, if the market goes down, we can easily increase our equity allocation to 13-14%. If markets go up, we have our current 10% allocation. We benefit either way through positioning.

In fixed income, we have unrealized gains of 220 crores. Last year in March, our duration was 5.2 and reinvestment yield was 7.5%. Through active management, we reduced duration to 4.4 by December 2025 as rates changed. By June, the duration moved back to 4.9 and the reinvestment yield is at 7.8%. We reduced duration when rates were going down and increased it as they went up. We have the optionality to increase duration further if rates go beyond 7.75%.

Regarding loss ratios, on the TP side, our loss ratio is 66.6%, which is broadly stable. Third-party is a long-tail business that we look at on a full-year basis. We disclose the full reserve triangle annually. We reserve TP provisions conservatively and consistently. Once the OD loss ratio comes under control, likely in the second quarter, things will be right. In such an environment, instead of keeping a foot in each of two boats, one must keep both feet in one boat, and we decided to put our feet on the profitability boat rather than the growth boat. We will now take your questions.

Operator: Thank you very much. The first question is from Supratim Datta from Jefferies. Please go ahead.

Supratim Datta - Jefferies: Hi, thanks for the opportunity. My first question is on growth. I understand the industry dynamics were different this quarter, but over the last 2-3 years, growth has significantly slowed compared to pre-listing levels. Has the competitive atmosphere changed drastically, and is this structural? Does this require shifting investment into other channels like retail health? Secondly, regarding the Supreme Court ruling on June 11, what was the impact on your TP loss ratio and did you require additional reserving? Lastly, we see high losses in Fire, Marine, and Engineering. Were there any one-off large losses this quarter?

Management: Supratim, for fire and engineering, we look at the loss ratio on a gross basis. On a net basis, profits still emerge because we reinsure 80% of the book. In this quarter, we had one fairly large claim in fire. Claims happen regardless of the premium rate. Despite this large loss, our gross loss ratio for fire was 67% for Q1.

Regarding growth, this is the first quarter since the company started where we lost market share. EOM rules have pushed commissions up, and some players are writing crop or group health at much lower rates to meet guidelines. Fire business is also seeing the reverse of last year's trend. We look at each line and decide where to grow. Our bancassurance and digital partner channels are actually seeing good growth. We don't run the business on a quarter-to-quarter basis. Our dependence on capital gains is about 20% over the last 3 years, while for the top players, it has been 40% on average. We prefer to suffer the least if the current pain continues. My personal wish is that this soft market continues until March 31, 2027, though my colleagues might disagree, because it will eventually force a correction.

Regarding TP claims and the Supreme Court ruling, our Q1 TP loss ratio is 66.6%. We provide reserves based on the likely loss ratio plus legal inflation, which includes cases like Sarla Verma, Pranay Sethi, and now Shishupal. Since Digit started, we have settled 36,000 TP claims, 83% of which were settled through compromise. Early settlement helps us save on legal inflation and interest. We are already reviewing our underwriting based on the recent judgment. However, it usually takes 3 years for the full impact of such judgments to work through. Interestingly, since that June 20 judgment, the Allahabad High Court and Karnataka High Court have already issued rulings stating that Shishupal does not apply to every case (e.g., cases with adult dependents). We are comfortable with our reserving and will aggressively settle homemaker compromises. When nobody was writing Third-Party business, we were the first to see the opportunity. In April, we started reducing our Third-Party market share. We understand this business better than most.

Supratim Datta - Jefferies: Thanks a lot for the detailed answer.

Operator: The next question is from Avinash Singh from MK Global. Please go ahead.

Avinash Singh – MK Global: Hi, good evening. First, on medium-term industry dynamics: many players are surviving on cash-flow-based underwriting or regulatory dispensations. Do you see profitability turning around allowing you to be disciplined yet profitable? Second, on the IRDAI Chairman's interview: he suggested there is no case for commissions on mandatory products like Motor TP or Motor OD. Do you think the regulator will come down hard on commissions before addressing rate hikes?

Management: Avinash, thank you. I turn 60 in May. If you make me comment on the IRDAI Chairman's interview now, I will have to retire at 61 instead of 70. I will not comment on his specifics, but I was pleasantly surprised by the detail he shared. He mentioned recommendations for TP premium increases, including specific mentions of school buses. He also spoke about distribution reforms. Digit supports anything good for the customer.

Regarding industry dynamics, I believe IFRS/Indian Accounting Standards will benchmark performance clearly. I am surprised more companies haven't published these results yet. If it's true that some think our numbers look better under Ind AS, does it mean theirs look worse? To quote Warren Buffett: when the tide goes down, you see who is swimming naked. IFRS and capital gains are the two areas where the water level is going down. Also, Warren Buffett once congratulated the management of National Indemnity for shrinking their premium by 85% over 20 years to maintain a positive float. If we must shrink business to protect profitability, we will. We don't follow the music just because it's playing.

Operator: The next question is from Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb – ICICI Securities: Do you believe most motor segments need a TP hike, and what could be the quantum? Secondly, given the strong solvency and shift to IFRS, what will be your dividend policy?

Management: Regarding dividends, even on an I-GAAP basis, our solvency is 2.42. We can easily have a 15-18% equity allocation and still maintain a 220% solvency. We are in a position to pay dividends on an I-GAAP basis and are waiting for the final RBC norms. We will discuss this in the board in the last quarter.

Regarding the TP hike, I believe there is a case for a hike. A year ago, there were presentations suggesting some segments could see rate reductions, but now probably 90-95% of vehicles should see a hike. We aren't waiting for the hike to run the business properly, but the case for an increase is definitely there.

Operator: The next question is from Sanket Godha from Aventus Park. Please go ahead.

Sanket Godha – Aventus Park: You mentioned 83% of TP claims are settled via compromise, but for the 17% settled by courts, given the claim severity has increased 10 times for certain categories, is your reserve enough? Are you betting on different interpretations of the Shishupal judgment?

Management: Sanket, the 83% is the actual number of claims we have settled since inception, not a wish. We don't take bets on anything—not TP hikes, court judgments, or markets. In our reserves, we include legal inflation, which covers judgments like Sarla Verma and now Shishupal. Our 2018-19 reserves have shown consistent releases over seven years. While the Shishupal judgment is less than a month old, we already see different interpretations in High Courts. We are sitting as trustees of investors' money and take a conservative view. We will take actions based on what we think is the correct conservative interpretation. We do not give guidance on future releases.

Sanket Godha - Aventus Park: Understood. In current GDPI, you had the unwinding of long-term plans. If I knock off that number, has growth slowed more acutely than the optics suggest?

Management: Two-wheeler business, which represents much of our long-term book, grew 26% in Q1. In IFRS, both commissions paid and received are deferred. I gave the example of National Indemnity: if we must shrink to protect profitability, we will. We do not chase growth for the sake of it.

Operator: The next question is from Dipanjan Ghosh from Citi Group. Please go ahead.

Dipanjan Ghosh - Citi Group: On the car portfolio, what are the loss ratios tracking like for the non-PV business? And for group health, why does the loss ratio seem higher this quarter despite your focus on more profitable segments?

Management: In group health, we had a large bank-driven personal accident policy where claims get intimated and then often repudiated later. For now, we have provided for those claims, which elevated the ratio. In Motor OD, ratios have been going up for the industry since post-COVID 2022. Our car portfolio was impacted by new car standalone OD business, which isn't very profitable. We have cut that portfolio sharply and expect OD loss ratios to stabilize in the second quarter as the corrected business flows through.

Operator: The next question is from Nitesh from Investec. Please go ahead.

Nitesh - Investec: Why were we not able to anticipate the Motor OD loss ratio increase last year? Is there a fundamental change in claims?

Management: I own this failure. We wrote a lot of new car business, and while the standalone OD policies were coming in, we hoped we could wait and protect renewals to control the ratio. In hindsight, I made the wrong call. As we realized this, we took corrective actions and sharply cut the portfolio starting in March.

Operator: The next question is from Angana Rana from A91 Partners. Please go ahead.

Angana Rana - A91 Partners: What is the reason for the NEP retention ratios to increase? Is it the business mix or a conscious decision to reduce reinsurance? And why is AUM growth faster than NEP growth?

Management: Retention increase is a mix of both. We increased retention in commercial lines like fire, and there's a mix effect because fire (which has lower retention) is de-growing while motor is a larger share. Regarding Expense of Management, ratios have gone up industry-wide because low-EOM business like fire and crop has de-grown. We gave up business that didn't make economic sense. We don't chase a single number if it leads to losses. I am sure that this year, the regulator will help finalize distribution and commission frameworks aimed at reducing insurance costs for customers.

I believe we have answered every question. Thank you everyone for joining. If there are more questions, please reach out to Ravi and Piyush. Whenever you see a difficult quarter, you'll see us being more available for the call. Thank you for joining.

Operator: Thank you very much. On behalf of ICICI Securities, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.