Bajaj Finserv

Operator: Ladies and gentlemen, good day and welcome to the Q2 and FY27 analyst conference call for Bajaj Finserv Limited, hosted by JM Financial Institutional Securities Limited. As a reminder, all participant 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 assistance during the call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ajit Kumar from JM Financial Institutional Securities Limited. Thank you, and over to you, sir.

Ajit Kumar – JM Financial Institutional Securities Limited: Thank you, Ryan. Good evening, everyone, and welcome to the Q2 FY27 earnings conference call of Bajaj Finserv Limited. First, I would like to thank the management of Bajaj Finserv for giving us the opportunity to host this call. We will have the opening comments from the management team, after which we will open the floor for Q&A.

From the management side today, we have Mr. Tapan Singhel, MD and CEO, Bajaj General Insurance Limited; Mr. Tarun Chugh, MD and CEO, Bajaj Life Insurance Limited; Mr. Rajeev Jain, MD and CEO, Bajaj Finance Limited and Bajaj Housing Finance Limited; Mr. Ashish Panchal, MD and CEO, Bajaj Finserv Direct Limited and Group Strategy Head, Bajaj Finserv Limited; Mr. Deepak {? Matay ?}, CEO, Bajaj Finserv Health Limited; Mr. Ganesh Mohan, MD, Bajaj Asset Management Limited; Mr. S. Sreenivasan, President Insurance and Special Projects; Mr. Ramandeep Singh Sahni, CFO, Bajaj Finserv Limited; Mr. Vipin Bansal, CFO, Bajaj Life Insurance Limited; and Mr. {? Aveesh Karmadi ?}, CFO, Bajaj General Insurance Limited.

With this, I would hand over the floor to Ramandeep sir for his opening comments. Thank you, and over to you, sir.

Ramandeep Singh Sahni – CFO, Bajaj Finserv Limited: Thank you. Good evening, everybody. We welcome you to the conference call to discuss the results of Bajaj Finserv Limited, BFS, for Q2 FY27. As before, in this call we will largely concentrate on the consolidated results of Bajaj Finserv; the results of our insurance operations through Bajaj General and Bajaj Life Insurance Limited; our emerging companies, which include Bajaj Finserv Health, Bajaj Finserv Direct, and Bajaj Asset Management Company; and lastly, where material, the standalone results of Bajaj Finserv.

Bajaj Finance and Bajaj Housing Finance, our other two material subsidiaries, have already held their conference calls, and hence we will pursue only very high-level questions on these companies.

To start with a few hygiene points, as a word of caution, we affirm that any statements that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance or result.

On the basis of accounting, as required by the regulation, Bajaj Finserv prepares its financials in compliance with Ind AS. The insurance companies are, however, currently not covered under Ind AS since we have sought 1-year forbearance from the regulator. Therefore, Bajaj General and Bajaj Life have prepared Ind AS financials on an Ind AS 104 basis only for the purpose of consolidation, and the standalone numbers for them are based on non-Ind AS accounting standards, which are referred to as Indian GAAP, as applicable to insurance companies today.

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Further on this subject, in line with the recent regulations from IRDA, both insurance companies will transition to Ind AS from April 1, 2027.

Additionally, regarding the recently published consultation paper by IRDA on recalibrating the economics of insurance distribution, we appreciate and support IRDA's intention of fostering a customer-centric, competitive, efficient, and transparent distribution ecosystem. As this is a consultation paper at this stage, it will be followed by draft regulations for comments, and then the final regulation will be issued. Hence, in that sense, it would be premature to come to any conclusion based on this consultation paper.

However, as has been seen in the past, any large-scale initiative that aims to improve the customer proposition may lead to a short-term impact for insurers as well as distributors in this case. However, in the medium to long term, the sector only bounces back much stronger, as has been seen in the past in terms of GST exemptions, various changes in ULIP norms, or surrender value changes, and so on.

We hence continue to support any initiative that improves the customer proposition and expands insurance coverage. As part of IRDA's outreach to seek feedback on the paper, our insurance companies have also been providing necessary feedback to the authorities.

I will now move to giving a small update on the consolidated financial results for the quarter, which have been put in the press today. Consolidated total income grew 17% to {? 48,460 ?} crore. Consolidated profit after tax grew a healthy 25% to 5,952 crore. Consolidated profit after tax attributable to the owners grew 23% to 2,758 crore.

Let me now go deeper and give you further detail on the performance of each of our companies. I will start with Bajaj General.

GWP for Bajaj General grew 10% for the quarter to about 7,560, sorry, 7,556 crore, which is marginally lower than the industry growth of about 12%. However, if we were to exclude the bulky tender-driven crop and government health business, GWP for the company increased by a very healthy 21%, which is significantly higher than the industry growth of close to 13%. This was primarily driven by the health and motor segments, which grew 31% and 18%, respectively.

The underwriting loss for the company stood at 115 crore for the quarter, as against 92 crore for the same quarter last year. This was largely impacted by NatCat claims of 75 crore net during the quarter. Accordingly, the combined ratio was also elevated at 104.5% for the quarter, as against 102.3% for the same period last year.

The combined ratio excluding NatCat claims is around 102%, and if we were to exclude both NatCat claims as well as the impact of 1/n regulations, which is only a temporary difference, the combined ratio stands at 101.4%.

PAT for the company grew at, sorry, degrew for the quarter to 420 crore versus 517 crore for the same period last year. This was largely attributable to lower capital gains due to the volatile equity markets and the challenging external macro environment. It was also impacted by what I indicated earlier, NatCat claims of 75 crore net, and there was also an impact of about 50 crore due to the

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capital reduction we have done through buyback and dividend in the last 6 months.

The annualized ROE for the company at 200% surplus, sorry, 200% solvency stands at 16.2%. AUM as of September 30 stood at 36,313 crore versus 34,974 crore for the same period last year. The lower growth in AUM is largely attributable to the buyback and dividend payout last quarter, totaling close to 3,500 crore.

In summary, these operating results underscore Bajaj General's disciplined focus on delivering balanced and profitable growth in the most challenging, difficult, and highly competitive market.

I will now move to Bajaj Life. Bajaj Life's financial outcomes are in line with the plan for sustainable and profitable growth. Retail weighted received premium grew 5% to about 1,942 crore. Growth was milder compared to the industry; however, that came with a continued increase in term mix, which went up by about 3.4% and has a lower ticket size.

Retail protection contributed 11% of the overall retail business, growing by a significant 51% year on year. Group protection business also registered very healthy growth of 81% for the quarter.

VNB for the quarter grew 40% to 512 crore, and NBM was up at 21.6% for the quarter, as against 17.1% for the same quarter last year, an expansion of 4.5%.

I am also happy to inform you that on a rolling 12-month basis, despite the impact of GST, our life insurance business has crossed an NBM of 20% and ended at 20.8%.

Bajaj Life's GWP grew a healthy 23% during the quarter, which includes renewal premium growth of 17%. We have been seeing some persistency dips over certain cohorts, which is in line with the industry, and the company is making efforts to improve the same.

On a retail weighted received premium basis, the product mix for the quarter continues to be well balanced, as has been seen in the last few quarters.

Profit after tax for the company was at about 30 crore, sorry, was at 55 crore, as compared to 13 crore for the same period last year. However, PAT growth was on a lower base since last year we had a one-time GST impact of 112 crore, partially offset by lower capital gains attributable to the external macro environment.

Bajaj Life ended the quarter with AUM of 1,46,322 crore, up 11%. Bajaj Life has also commenced operations in GIFT City in October and is also expected to start the retail business with IndusInd Bank from Q3 of this year.

Overall, the quarter for Bajaj Life has been good and in line with expectations. We continue to reap the benefits of the revamped strategy of Bajaj Life 2.0, which is focused on sustainable and profitable growth.

Finally, both insurance companies continue to be financially strong, with solvency for Bajaj Life at 255% and General at about 230%, and are well poised to weather any external adversity.

Let me now move to our lending businesses, Bajaj Finance and Housing Finance.

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Starting with Bajaj Finance, it was an excellent quarter across all key metrics. The number of new loans booked grew 11% to 1.34 crore for the quarter. The company's diversified business model has enabled it to record strong AUM growth of 26% for the quarter, at about {? 5,84,000 ?} crore.

Net total income grew 23% to 15,975 crore. Profit after tax was at about 6,267 crore, registering very healthy growth of 29%.

Opex to net total income was flat at 33% for the quarter; however, with visibility of green shoots in operating efficiencies due to AI implementation, the company is confident of improving the opex-to-NII ratio by 25 to 40 bps in FY27.

Loan losses and provisions in the quarter were 2,166 crore, as against 2,080 crore for the same quarter last year. Q2 also includes a prudent management and macroeconomic provision of close to 340 crore.

Loan losses-to-AUM ratio declined to 1.56% this quarter versus 1.88% for the same period last year. Accordingly, gross and net NPAs stood at 1.46% and 0.42%, respectively, much lower than the same period last year. Capital adequacy remains strong at 20.3% as of September 30.

On October 1, 26, Bajaj Finance's board also approved an additional capital raise of 11,700 crore through equity shares by QIP to qualified institutional buyers, and {? 5,800 crore ?} through a preferential issue of warrants convertible into an equivalent number of equity shares to Bajaj Finserv Limited.

The BFL board's decision on raising additional capital, subject to shareholders' approval, is driven by various factors, including the strong India growth story, the underlying growth momentum of the company and its subsidiaries, and an increasing focus on building resilience across various dimensions of the business.

I will now move to Bajaj Housing Finance, our mortgage subsidiary of Bajaj Finance. Overall, it was a good quarter across growth, asset quality, and profitability metrics. The company surpassed the landmark milestone of 1.5 lakh crore of AUM. AUM grew 25% year on year. The growth was very well balanced across all lending companies, BFL and BHFL.

I will now give you an update on the emerging companies.

To start with Bajaj Finserv Health, Bajaj Finserv Health executed about 5.7 million healthcare transactions during the quarter. However, revenue for the quarter registered a degrowth on account of restructuring required in some partnerships attributable to the RBI's revised [trails off]

Management: So, Abhijit from General Insurance, I will take the life insurance piece later. Abhijit, do you want to take that?

Abhijit: Sure. Thank you for your question and the detail. The loss ratio on health is an overall figure. I would recommend that you look at it on an overall basis. You would then have to consider the NEP mix. Essentially, what you are seeing is that the NEP mix for the quarter has increased because of our tender business.

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For tender business, one has to look at it holistically, where you see that it comes with a much lower expense ratio. From a sustainability perspective, the loss ratio on health is something that we envision will come down because the tender business is, as I mentioned before, 2+1.

On the motor side, as you said, it was driven by CAT, and therefore we expect it not to continue at the current rate in the next quarter.

In terms of retention, that is something that is looked at annually, and we would make a judicious decision at the end of the year. I hope I have answered both questions.

Analyst1: Yes, just a follow-up on the last one. I wanted to check whether, in the last few years, we have seen NatCat events occurring. Is there a normalized NatCat rate that we should look at or assume going forward in our assumptions?

Abhijit: At this point in time [cut off]

Shreeni: [pause] Sorry, maybe I can take it. While NatCats are evident every year now, there is a lot of variation year on year. There are some large events in some years, and if you look across a decade, that is what we have been seeing, every second or third year you see one spike. Otherwise, they have been in control.

I think that is the trend we are seeing: every 3 years, you will see one area having a large event, but otherwise it is sustainable. That is what we have been looking at, and hence we have not seen any real need to change our retention limits at this stage.

Abhijit: Yes, I will add to that. I think the best way to look at NatCat is through your quarterly reported number. An event usually happening in Q2, when you have more floods, tends to distort that quarter's results. However, over the year, these events tend to normalize. The same happens with large fire claims as well.

While the gross amount of claims can be very large, because of the retention and reinsurance arrangements, the net loss is significantly contained. As a company of our size, I think if you look at the net impact of NatCat over time, it has not been unreasonable, and that is something where every 2 or 3 years you would have a larger NatCat.

You could also have a situation where there is a large number of large claims that are not technically NatCat, but are an accumulation of claims. However, these are what people insure for, and generally, over cycles, if you have maintained a good combined ratio, that is an indicator that your economic model is working well.

Also, just to give you a sense, if you look at the large NatCats that have occurred in the last 10 years, I think the maximum hit we have had on a net basis has not crossed close to {? 100 crores ?}. That is the extreme situation we have seen in the last few years, and in the good years it is close to zero as well.

That is what we have been seeing. As Shreeni said, it is not as extreme as one may envisage, and hence there is no need to change the retention at this stage.

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Analyst1: Got it, sir. Thank you for the detailed answer. Secondly, if I look at the life insurance business, the agency channel has seen a slowdown in growth. Could you help us understand what is driving this slowdown?

Secondly, if we look at the growth numbers for non-par versus annuity, we have seen non-par going down and annuity growth picking up. Could this be read as a shift from non-par toward annuity products? Also, could you give us some color on whether the margin profile of both these products is in a similar range, or which one is at a higher level in terms of annuity versus non-par?

Abhijit: Yes, thanks, Mahesh. These are good questions. The agency growth number does look slow because we are focused largely on getting our product mix right, so there is an opportunity to streamline the protection mix in the agency business further.

As a result, there has been significant growth in protection sold by the agency, at 54% over the same quarter last year. Similarly, we saw a similar impact on proprietary sales and the institutional business, including face-to-face institutional business, which themselves grew rapidly in term by 49% and 62%.

As a company, we can clearly read the signal from the regulator that the focus is toward protection. We made this early move 6 months ago. While we would not have expected it—I remember that last time there was a question on whether we would be able to grow further in term—but, as you see, this growth has been consistently high.

At this point in time, our face-to-face channels, including agency and the rest, across the entire sector today have the highest percentage of product focus on risk products. Other companies might depend on aggregators and brokers, but I am talking about face-to-face channels.

I think that is what we intend to achieve because it is sustainable, it is more difficult, and it represents a change in culture. I think that has gone quite well.

We may follow the same route for another quarter and then feel more comfortable that it is on a regular path by itself, with a sustained product mix.

As far as non-par is concerned, yes, non-par has grown, and so have annuities. On non-par, the product mix is looking at about—it is not showing up here—the {? 19.7% ?} versus last year's 17.1%. I was just looking at the data.

Last year, what we could see was that it was largely because of the short-pay product, where there was a benefit available, versus the proper regular non-par product mix, which is a better-quality non-par product and where the benefits go straight to the customer.

On the annuity side, we have seen an uptick, and that is an impact we would expect to be sustainable. Of course, under the new guidelines and the new consultation paper, there has to be some streamlining of the commission there. Let us see whether that happens, but we do see an opportunity on the annuity side, and we will take the benefit of that.

In terms of margins, I will have Shreeni answer that.

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Shreeni: Mahesh, as Abhijit mentioned, Q2 last year was when the mix started moving between non-par and annuity. If you recall, even in that quarter we called out that we observed very significant pricing pressures and intensity in the non-par segment.

We thought it was better to move to another space, and we found an opportunity in annuity. That was when we launched different products and pursued some new opportunities in annuity. That has held up since then.

If you look at Q1 last year, our non-par was about 18-odd percent and annuity was 5%, and in 2 quarters the mix changed to about 13% non-par and annuity at about 10%, plus or minus. I think that base has been holding up, so for almost a year we have seen our non-par and annuity running in this profile.

Regarding your question on margins, I would not say we should compare margins like this because it is always a question that we deal with on a daily basis. As I mentioned, we saw pricing intensity in non-par, and that was when we said it made more sense to do more annuity and do different things there. I think that is the flexibility we will continue to exercise.

Analyst1: Got it, got it. Thank you so much for the detailed answers. Thank you so much.

Operator: Thank you. Before we take the next question, a reminder to participants that you may press star and 1 to join the question queue. The next question is from Sanket Gora from Avendus Spark. Please go ahead.

Sanket Gora – Avendus Spark: Thank you for the opportunity. My first question is on General Insurance, especially on the motor side. We are growing in the range of 14% to 15%, which is better than the industry, but if I look at your loss ratio, especially on motor OD, it has deteriorated.

I wanted to understand which vehicle segments are driving the growth and where we are gaining market share. Second, this growth is somehow linked to our reinsurance strategy because, due to the better treaty, we are willing to pursue growth despite having slightly higher loss ratios. I wanted to understand the motor piece better.

My second question on General Insurance is to understand how much of our credit attachment business we have across the lines, whether SME fire, health, or accident. If regulation goes through in the proposed format—I know it is a consultation paper—but hypothetically, if it goes through in the proposed format, would we see an impact in that line of business? That is on General Insurance; then perhaps I will ask about Life.

Abhijit: I will take the question on motor, and I would ask the CEO to step in for any topics related to distribution reforms.

For the motor business, if you look at it, we are seeing positive outcomes in certain pockets where we have the ROAC model. As you know, for new business, the ROAC model has the 1+3 and the 1+5. That would then have a loss ratio that would be slightly higher in the first year and then taper down over the horizon of this contract.

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For motor, when we look at it from a sourcing loss ratio standpoint, we are currently comfortable with our sourcing mechanism.

Does that mean that we move around between four-wheelers, two-wheelers, and CVs? Yes, that is something we continue to do on a weekly basis, in fact, where we look at profitability based on market conditions. As and when we see pockets, we make those tactical changes.

From a motor loss ratio standpoint, I would encourage you not to get influenced by the NatCat amount, and I would continue to focus on the sourcing loss ratio mechanism as our driving philosophy. I hope that answers your point on motor.

For the other question on distribution reforms, I would request Tapan to step in.

Tapan – CEO: [line issue] [pause] Thanks, Abhijit. To look at distribution reforms from a business perspective, any business, if you are a distributor, would want the business to move forward, and you would want some sort of trust from the customer.

Abhijit: [pause] Sorry to interrupt, Tapan, but your voice is breaking, so we cannot hear you very clearly.

Tapan – CEO: [line issue] Oh, sorry. [pause] Can you hear me now?

Abhijit: No, sorry, you are breaking up a lot, Tapan.

Tapan – CEO: [line issue] Okay, I am sorry. I will just change the channel. [pause] Hello?

Abhijit: Yes, you are audible now, Tapan.

Tapan – CEO: [line issue] Perfect. Okay, what I was saying was that if you are a distributor, any business would want the business to move forward and would want to provide a reason for customers to come. This is not because it serves a purpose. The example, let us say, that the regulator is looking at is to reduce mis-selling. In the GI business, mis-selling is very, very low if you look at it. No, very low means [inaudible]

Tapan: ...next to negligible. This has historically been the case because the short-term contract is like a [pause] one-off contract.

My personal feeling is that the business-to-bank model is not going to be affected, even with the changes taking place, because I think it serves the purpose of the partnership that exists for the bank's customer.

I clearly remember that way back in 2014, when similar things had happened and {? [unclear] ?}, the bank did not have any NPA because of that, because the customers were all covered by {? Bajaj Allianz ?}. So it does work for the bank as well. From that perspective, we do not see too much [inaudible].

Sanket Gora – Avendus Spark: Okay, sir. I think you were not very clear, but what you are trying to say is that because of NPA protection and because it is not a mis-selling product, you do not see much negative impact on the business from any regulatory changes. That is the simple conclusion I

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should draw, sir?

Tapan: [pause] Yes, yes. When you look at the impact today on the distribution commissions, it is not on the distribution of products. As long as the bank is protected and its NPA is protected for factory loans, bank insurance [unclear], and the [unclear] which they have, it serves the purpose. I have seen this many times. I think banks will still want to continue serving and protecting their customers.

Sanket Gora – Avendus Spark: Understood, sir. But can you quantify, as a percentage of the overall mix?

Tapan: [pause] As a policy, I normally do not publicly provide micro numbers because of the business strategy. I can tell you that we are not the top player in terms of the {? credit-agent ?} business in the country. That should give you some understanding of where we will be positioned.

Sanket Gora – Avendus Spark: Understood, sir. Thanks. But just to add to the response Tapan gave, I think one significant piece of evidence supporting what Tapan said is that, if you go back to before the pandemic, the amount of credit protection being sold in the economy was negligible.

After the pandemic, people realized that it is not merely a sale for the sake of selling; it actually serves a purpose. The amount of NPAs we were able to protect because of the health cover we provided was very significant.

Over a period of time, banks have realized that this is a way of mitigating a large part of their NPA risk in case a calamity were to occur. To the point Tapan is making, while there may be some impact, we do not see a very large impact coming from this.

Also, as I mentioned in the opening remarks, the current reforms, as articulated, are only in draft form, and a lot of iterations are expected. I think most of the representations will discuss this segment of the product because it caters to a very large part of the population.

Out of all the lives we write, both on health and protection, more than 80% is done through group products. If somebody were to decide to reduce commissions to that extent, it could have serious repercussions for the overall insurance business because it would have a large impact on penetration.

Hence, I think it is better to wait and watch what finally comes out in the reforms when they are concluded at this stage.

Sanket Gora – Avendus Spark: Understood, sir. I also had a similar question for Bajaj Life because you are quite large in credit life. If Bajaj Life could also share its view, or if it is a similar view, I am happy to take that as an answer.

Tarun: Sanket, our impact is going to be a little different. We are large in credit life, but we are very well spread, and what we do find is that we have all types of distribution, including MFIs, non-MFIs, and so on.

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Over the last couple of years, we have invested in diversifying into various loan types, and that is what will hold us in good stead. We do, in fact, see an effect overall on credit life, but we also see various opportunities where bulk covers and retail term life could also be possible because they have customer access and they do want to cover their NPA, as Raman pointed out very clearly, but that capability may not be with them.

There is more to be seen there. While we see an impact, for us it is more important to keep focusing on the retail life business, which is where the focus on retail term has been.

Sanket Gora – Avendus Spark: Understood, sir. Secondly, regarding persistency, given that we have seen a decline in life insurance, is it predominantly related to ULIPs, especially the higher sum-assured ULIPs that we have been selling incrementally, or have we seen it across traditional products as well, with a decline in persistency?

Bipin: [pause] Sanket, Bipin here. Regarding persistency, you would recall that we have been pointing out that there was a non-par product that was sold, and that effect is running through. It is largely seen in the 13th month. A small portion is sitting in the 25th month.

Regarding persistency for the 25th month, where you are seeing a larger dip of about 4%, that is largely because the markets have not performed well. We have seen some decisions being taken, but eventually that money comes back because if people do not pay, the policy becomes discontinued and the returns are very negligible, with a guaranteed 4%.

To your point, even if I were to dissect this and take the hypothesis of large ticket sizes, those people eventually come back. They may want to time the market, but that is not really a major concern for us.

I think the real point where we are seeing a dip is what we called out earlier as well: the non-par product that impacted us, with some of that effect flowing through.

Sanket Gora – Avendus Spark: Understood. Actually, Bipin, I was under the impression that the non-par impact is now reflected more in the 25th month, rather than the 13th month. I was just wondering about that.

Bipin: Sanket, we actually started selling that product in the market only last year. So some of it is reflected in the 13th month, and some of it is in the 25th month.

Sanket Gora – Avendus Spark: Understood. And regarding the margin outlook, we are at 19.2% for the first half and almost 21% on a rolling 12-month basis. If the current product mix broadly remains the same, is it safe to say that we might be above this level? Given that the GST impact will not be there from the second half onward and that this will be a factor of the base effect, is it safe to say that what you are reporting on a rolling 12-month basis will be the new normal for FY27? Do we expect this to continue in FY28, or are there other levers in that regard?

Bipin: Sanket, while we do not provide guidance, to your point, we are at 20.8% on a rolling 12-month basis. I think that is a reasonable baseline to consider from here on. Our aspiration will be to expand it from here, so I think that is the way to look at it.

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Tarun: The only thing is that we would not like to raise expectations regarding the expansion. The expansion has been very high in this quarter as well, which I believe not many people were expecting in our last call.

The 4.6% expansion is very good, but I do not see this kind of expansion being sustained. So I would lower your expectations on that.

Sanket Gora – Avendus Spark: Understood.

Tapan: [pause] Sanket, can I add to what Bipin and Tarun have said? While margin is an indicator, it is also affected by a variety of things, as you know. It can change because of the product mix itself, as well as various other parameters.

However, when you look at value of new business, which effectively represents earnings, it grew 53% for the half year. It encapsulates our volume growth, our efforts to contain costs and manage product mix, as well as the mix between group and retail.

If I were to draw a parallel with an ordinary business that is not insurance, this would be equivalent to earnings growth and what you would call compounding.

At the end of the day, this business has a very wide range of margins across products. What will capture the risk as well as the volume and margins of the business is value of new business.

Our quest, as management, has always been to continue to grow value of new business faster than our top-line growth.

Sanket Gora – Avendus Spark: Understood, sir. Lastly, you mentioned in the initial remarks that IndusInd Bank will be available as a channel from Q3. We believe we will probably be the fourth large player there.

I wanted to understand whether you have quantified the size and what market share you can achieve there. I also wanted to understand the strategy around that channel. If you have anything in mind, it would be helpful if you could share it, perhaps including a potential VNB growth opportunity there.

Tarun: No, let me clarify, Sanket. We do not go into that level of detail. We signed up only recently. We will not be the fourth, because not everybody has been allowed in the branch channel. We are allowed in the entire branch banking channel.

We are now going there and manning it, and starting that work right now. You should expect some pickup from Q4 onward.

As you know, IndusInd would be among the top 6 or 7 banks in terms of insurance distribution. We are very happy that they have included us.

Along with the other tie-ups we have completed in the last 18 months, namely Yes Bank, AU, and Federal, this should also now make up a significant part of our growth on the institutional business side.

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Sanket Gora – Avendus Spark: Understood, sir. That is it from my side. Thank you, sir, for the answers.

Operator: Thank you. The next question is from Vinesh Chawade from Kotak. Please go ahead.

Vinesh Chawade – Kotak Securities: Thanks for taking my question. I am going to focus on the health business. I did not quite follow why the claims ratio in health went up. I believe the government business was down year on year, right? I am curious about the changes in the mix.

Bipin: I am happy to take that. The government business that you are looking at is from the {? GDPI ?} perspective. The loss ratio, as you know, is calculated on an NEP basis. That NEP basis has a higher proportion of government business. That is how you arrive at that number.

Vinesh Chawade – Kotak Securities: If I could get a sense of the underlying trends between retail and employer-employee, have the trends been stable, improving, or deteriorating? Various players are reporting divergent trends.

Bipin: Sorry, did I understand that you are talking about trends in terms of frequency trends? What exactly do you mean?

Vinesh Chawade – Kotak Securities: If we try to split the loss ratio between various segments, are we able to see any segmental trends of ratios increasing or decreasing, or is it more or less steady? Is there any material change happening? That is my question.

Bipin: No, it is primarily driven by the mix, Vinesh. If you look at trends, we do not provide the breakup, as you are aware, and that is not something we want to change.

However, what I can tell you is that the seasonality for Q2 during the monsoon season is something we have observed, and the experience across the 3 lines is largely similar.

Vinesh Chawade – Kotak Securities: The current discussion between IRDAI and the hospitals—do you benefit from this?

Bipin: Tapan, could I request you to take that one, as Tapan is leading the charge there?

Tapan: Fundamentally, if you look at it, a {? tax ?} payment initiative in terms of the health insurance premium, you know, at first {? perception ?}. What was mentioned was that if you break up the health insurance premium, about 80% actually goes to hospitals. At that point, there was no GST impact going to the government.

About 20% stays with insurance companies for their distribution costs, running the business, and putting everything together. If you want the health insurance premium to be at a reasonable level, you have to address the bigger component, which is the institutional service agencies as well. What impact would it have? That is where the discussion happened in GST.

Management: Now [inaudible] as of present, remains zero. In contrast to hospital payments, the majority of claims are hospital payments. We have limited claims in health that are for hospitalisation.

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Hospital inflation is now higher than the average inflation in the country, and that is going to lead to a scenario where healthcare will become unaffordable for the common man. I am very happy to see that the government is taking steps to determine how this can be brought under control.

That will obviously help with claims costs, and it will help the end consumer in terms of the pricing of health insurance products.

Vinesh Chawade – Kotak Securities: What percentage of your claims are part of a package?

Management: What do you mean by part of a package?

Vinesh Chawade – Kotak Securities: All the negotiations that you have with hospitals, the packages for various types [inaudible].

Management: Yes, so if you look at {? cashless ?} now, which is [inaudible], some of it, if you add this all together, would be roughly 80% to 85% [inaudible].

Vinesh Chawade – Kotak Securities: Sorry, Tapan, your voice was breaking. Could you repeat that?

Management: Okay, just a second. Yes, if I look at more than 67% or so being cashless, then obviously that is the package rate. Then if you add [inaudible], that also has 15% more there, so roughly 80% or more would be the negotiated part, and another [inaudible] would also be very close to that.

Vinesh Chawade – Kotak Securities: Got it, got it. Helpful, thank you. Just one more question. Raman, if you could give us some color on the investments required by the various businesses over the next year and how you will be able to fund them, including the investment being made in the finance business?

Management {? Raman ?}: Yes. As I articulated in the last quarter, if you look at our emerging companies, let us go one by one.

Bajaj Finserv Direct, as I indicated in my opening remarks, will hopefully break even in this year, on a quarterly basis in the last quarter, and on a full-year basis next year. They have not been taking capital, so we do not see any need for capital going forward.

What we have indicated in the past is that they will now go beyond just the lending marketplace and enter the insurance marketplace, and thereafter the investment marketplace as well. At that stage, would we need some capital? I do not think it will be material at this stage. That is the position on Bajaj Finserv Direct.

On Bajaj Health, as I indicated earlier, this year they will consume less than 200 crores. Next year it will be much lower, and the year after that they should hopefully break even there as well on a full-year basis. The endeavor is that, by the last quarter of next year, hopefully we should try to break even there as well.

The Asset Management Company will need, I think, another 300 crores until we achieve break-even, which will probably be in FY29. Ganesh, please correct me if I am wrong.

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This actually depends on the market because we believe that somewhere between 90,000 crore and 1 lakh crore of AUM is where we should achieve break-even. But, as I said, there is no need for material capital there.

What we recently called out is our venture in reinsurance. There, if you recall, in the last quarter I indicated that over the next 2 to 3 years we will probably need 500 crores. All of these put together will be about 800 to 900 crores.

Then the big investment will be in the Allstate business. There again, we will be putting in sponsor capital. It will not be capital to burn as we grow, but there will be sponsor capital. So, in another year, we will probably need about 1,100 crores there.

In all, for all these businesses put together, we believe we will need less than 2,000 crores over the next 18 months. There are obviously other investments that we have called out, of which 25% has to happen now and the balance over 18 months.

Currently, we are sitting on a surplus of about 5,000 crores of capital, to be precise, about 4,700 crores. As you know, we have been receiving dividends from all the material subsidiaries, whether it is BFL or the insurance companies.

That 4,700 crores plus the dividends should be sufficient to fund these investments going forward. We would be happy to have more surplus, and hence we will also have to wait and watch what IRDAI decides in terms of the surplus that will be generated upon the one-time migration to Ind AS.

We believe that because of discounting and reserve adjustments on the life side, there could be a one-time release. We will have to wait and watch whether that can be reinvested and what the timing of that will be, but that is a buffer we have.

These are some of the things we have in mind. There are many more options that we presented to the board when we agreed to subscribe to the warrants. This is where we stand, and the position is comfortable, to answer your question.

Vinesh Chawade – Kotak Securities: That is helpful, thank you. Just one thing, if I may ask: given that the distribution guidelines are taking away a lot of bandwidth, is there a chance that the Ind AS implementation could be pushed out somewhat?

Management: [pause] As of now, there is no clarity. Based on the way IRDAI is engaging, we believe that April 1 should be the implementation date, and both companies are working toward that. At this stage, there is no indication from anybody that this could be pushed back.

Including the consultation paper, if you have a different view, please let me know.

Management {? Raman ?}: No, you are right, Tapan. That has been the position maintained by IRDAI. They now have a member actuary, and the first task is to implement Ind AS. They are quite confident that Ind AS and RBC will also happen by April 1.

Vinesh Chawade – Kotak Securities: Perfect, thank you very much, and all the best.

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Operator: Thank you. The next question is from Prayesh Jain from Motilal Oswal Financial Services. Please go ahead.

Prayesh Jain – Motilal Oswal Financial Services: Hi, thanks. My question is on the consultation paper and its impact, particularly on the Motor TP line of business, where we are seeing a substantial cut in commissions.

There has been an industry request for a tariff hike for several years. How should we think about this change in commissions? Do you think the cut in commissions will be retained by general insurance companies, or how do you see this shift? I know this involves some estimation, but your insights would be helpful.

Management {? Tapan ?}: Tapan, do you want to take that? [pause] Yes, I will take it, Raman. Can you hear me?

Management {? Raman ?}: Yes, you are audible.

Management {? Tapan ?}: Okay, thanks. Fundamentally, if you look at Motor as a business, it is mandatory by law to insure your vehicle.

I saw the period before 2001, when the commission on Motor was 5% and zero on hypothecation. The problem at that time was related to servicing. When people had to insure their vehicles, they either went to the branch to get insured or requested somebody to come to them, but it was not a captive distribution perspective.

In terms of the business being available, the business is always there because it is mandatory by law. If you hypothetically think that direct implementation happens, from a business perspective that does not change. The business exists in the market. What will change over a period of time is how the distribution takes place. I hope I have answered the question.

Prayesh Jain – Motilal Oswal Financial Services: [hesitates] I could hardly hear you properly, Tapan, but I will probably take that offline with the team.

Management: I can add to what Tapan said. Basically, what they are saying is that Motor Third Party is a tariff product. The tariffs are fixed by the government, and two-wheelers have to be sold with 5-year TP while new private cars have to be sold with 3-year TP.

This is mandatory, and that is how all new vehicles will be sold. Regarding whether commission is paid, because of EOM there were no product-level commissions. Therefore, it was always paid on the aggregate comprehensive premium.

To that extent, Motor TP, by itself, cannot be viewed in isolation from the overall consultation paper. We have to see what the final guidelines will be across all lines of business and across both Life and General Insurance.

Because of this, sales of cars are not going to decline, nor is the coverage of new vehicles going to decline. I hope that answers your question.

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Prayesh Jain – Motilal Oswal Financial Services: Understood. The other part was on Life Insurance, specifically for you. If you look at the EOM, it is quite high. How do you see the commission cuts affecting your ability to meet the target? What other initiatives or cost-cutting levers would you consider to meet those targets?

I understand that there could be changes to the final glide path and everything else, but if it comes through as currently proposed, what cost-cutting levers would you consider to meet those targets?

Management: Prayesh, I think all of us are trying to look at it mathematically, and I will try to answer it that way.

If you compare it with last year, and because that is the number you are looking at from a GWP expense ratio perspective, we already had about a 1% drop in that ratio because of the optimization we have been doing. That is point number one.

If we were to overlay the commissions proposed in the paper, our ratio, plus the exclusion of GST and stamp duty, which was part of the representation and was also more excluded under the erstwhile regulations, would reduce it by another 8%. Roughly 9% is what we are talking about being reduced from where we were in FY26.

That is the position for FY26. We have to comply with this by the end of FY28-29. Essentially, there is a 3-year transition, and there is not a large gap to be covered. We therefore feel comfortable if it were to come in the same shape and form.

However, I think we must remember, as Raman mentioned in the opening remarks, that if the customer proposition becomes better, assuming costs come down and all of that, then the customer proposition becomes better. The mathematics we are trying to do now ignores the fact that volumes will change. They could increase, and there could also be a short-term impact.

We are also ignoring, to some extent, the fact that we will have 3 years of renewals coming in, which currently come at a low cost, and that would also be the case under the proposed paper.

Mathematically, we are not very worried, but we will have to wait and watch what finally comes out in the draft regulations.

Prayesh Jain – Motilal Oswal Financial Services: Understood. Thank you so much.

Operator: Thank you very much. That was the last question. I would now like to hand the conference over to the management team for any closing comments.

Management: Thank you, and thank you, everybody, for all the good questions. We wish you all a very happy Diwali well in advance. Thank you.

Operator: Thank you very much. With that, we conclude today's conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

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