"Cholamandalam Finance Holdings Limited Q3 FY25 Earnings Conference Call"

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MANAGEMENT:	**MR. SRIDHARAN RANGARAJAN - NON-EXECUTIVE DIRECTOR, CHOLAMANDALAM FINANCIAL HOLDINGS** **MR. N. GANESH - CHIEF FINANCIAL OFFICER, CHOLAMANDALAM FINANCIAL HOLDINGS** **MR. V. SURYANARAYANAN - MANAGING DIRECTOR, CHOLAMANDALAM MS GENERAL INSURANCE** **MR. S. VENUGOPALAN - CHIEF FINANCIAL OFFICER, CHOLAMANDALAM MS GENERAL INSURANCE**
MODERATOR:	**MR. PARTH JARIWALA - DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to Cholamandalam Finance Holdings Limited Q3 FY25 Earnings Conference Call hosted by DAM Capital Advisors Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference call is being recorded.

I now hand the conference over to Mr. Parth Jariwala from DAM Capital Advisors. Thank you and over to you.

Parth Jariwala: Thank you. Good evening all and welcome to Q3 FY25 Earnings Call of Cholamandalam Financial Holdings Limited.

From the management, we have Mr. Sridharan Rangarajan – Non-Executive Director, Cholamandalam Financial Holdings; Mr. N. Ganesh – Chief Financial Officer Cholamandalam Financial Holdings; Mr. V. Suryanarayanan – Managing Director, Cholamandalam MS General Insurance and Mr. S. Venugopalan – Chief Financial Officer, Cholamandalam MS General Insurance.

Without further ado, I hand over the call to the Management for their opening remarks, post which we can open the floor for questions-and-answers. Over to you, sir.

Sridharan Rangarajan: Good evening to all of you and thanks for your participation. We have our Managing Director, Suryanarayanan and also our CFO – Venugopalan.

I would request Suryanarayanan to make the opening remark and we will then open up for Q&A.

V. Suryanarayanan: Thanks, Sridhar. Good evening to each one of you.

Let me proceed with giving an "Overview of the Performance" of Chola MS for the quarter and nine months ended December 2024:

In Q3, in line with the regulatory requirements, the industry implemented the 1/n method of accounting and reporting of GWP with respect to long-term non-motor business. As all of you are aware, the motor business long-term has been dealt with in a particular way since 2018 when it was introduced. Now with this changed method of recognizing GWP, recorded a gross direct premium of Rs. 2,003 crores with a growth rate of 8% as against the multi-line insurers growth of 7.2%. And we followed the method that was adopted until September 24. The additional GDP recognition would have been Rs. 124 crores, which amount is now reflected as premium received in advance.

As at the end of nine months, the GDPI was Rs. 6,095 crores with a growth rate of about 10.3% as against the multiline growth, multiline insurers growth of 6.8%. In quarter three, the company grew higher than industry in motor. As a result of the aforementioned 1/n method in reporting, the growth in the fire, which means more the dwelling business and health line of business was lower.

As of December, YTD, the composition of motor in the overall premium has reduced to about 64% as against 65.9% in the previous financial year. In motor, the principal line of business for Chola MS, the market share grew to about 5.5%. Within motor, now the company has a composition of 41.2% in cars, 42.9% in CVs, and 15.8% in two-wheelers. The company gets about 28% of its total motor premium from new vehicles. In the current quarter, the company entered two large OEM car programs and businesses commenced in these programs. The EOM for Chola MS in Q3 was rendered higher because of the 1/n method change and product mix changes. The company stays committed to stick to the glide path approved by the Board and presented to the regulator. In the nine months ended December 24, the company expended Rs. 92 crores towards technology spend as against Rs. 70 crores in the corresponding period, which also had marginal influence on the EOM ratio.

The claims ratio for the quarter was at 72.6 as against 74.5 in the corresponding quarter lower by about 1.9%. The Natcat event from Fengal Cyclone in Pondicherry impacted the company during the quarter. The combined effect of Natcat events on the claims ratio for the nine months ended December is about 0.7%. The company continues to be prudent in its reserving for motor third party claims. The combined ratio for the quarter was 111.7%. If one were to look at it without the 1/n effect, it was 108.9% and compares well with 110.3% of corresponding quarter. Likewise, the YTDC combined ratio without 1/n effect was 109.4% as against 110.4% in corresponding period. The company's investment corpus as of December grew to 17,640 crores with an investment income of Rs. 332 crores for the quarter. The profit before tax in the quarter and the 9 months ended December were at Rs. 137 crores and Rs. 486 crores respectively. The return on equity asset December progressed to 13.6%, not annualized. The company operates with a solvency of 2.14x.

We'll now be happy to take any questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take a first question from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Thank you for the opportunity. Sir, in the current quarter, we are seeing little asset growth compared to what we delivered in the first half. So, is this growth largely driven because of you believing the competition has improved in the motor segment? And that's why you see the better opportunity to group a particular segment or to some extent, 1/n drove to go a little aggressive, a little on the motor so that overall growth doesn't get impacted. I just wanted to understand, was there any material change in the underlying market to drive the growth in the motor business? That's my first question, sir.

V. Suryanarayanan: Thanks, Sanketh. See, this quarter also, as you will know, represents the festivities season for the business. Particularly, we found the car sales are a little more bullish in this quarter. So, I talked about the new vehicle business coming during the quarter. So, all these have helped. Besides, we have also been seeing an uptick in our agency business, particularly in motor which has also helped in the growth in motor. And the thrust that the company has been having in a higher proportion of cars, you would see it in the charts in page 57. So, where over a period of time, so we were at 25.4 in FY21 and it has progressively improved to now about 41.2% in cars. So, that's the portfolio composition swing that the company has been bringing about over the last four years or so. And it's moving in the same direction. This is contributing to the growth in motor.

Sanketh Godha: Okay, so it is fair to assume that in 3rd Quarter predominantly little higher exposure to cars has played a role to see better growth. And if I am right, then the growth was more reflected in OD because cars predominately OD benefit there.

V. Suryanarayanan: You could say that the composition of OD in this entire business has been rising continuously.

Sanketh Godha: Got it sir. And the second question, sir, what's on health loss ratios for the quarter? See, honestly, we had, from a historical past, our health loss ratios have deteriorated and now at 75.5 health and PA put together, seems to be much higher compared to what we were reporting around 69-ish for last 3-4 quarters. So, anything to read, because 3rd Quarter is typically a healthy quarter for the country as a whole. Still, the loss ratio has deteriorated. Any color to understand and any corrective measures to be taken there?

V. Suryanarayanan: The company has been shaping up its employer-employee group health business this year, though at a number of about Rs. 320 crores for nine months ended, the Chola MS would still be amongst the bottom five in terms of the employer-employee. But from our past, this has grown and this probably reflects the loss ratio that are more closer to that segment of business. And then moving on to actually the retail side of the health business. Some of our products, we had a price increase in one of the products coming in from October and in one of the products, we have the division is coming in from January 2025. So, which would also help in reducing the loss ratios as we move along.

Sanketh Godha: Should we expect that it to go to below 70 is kind of a number going ahead, sir?

Management: No, given the employer-employee group L, so one can reasonably expect it to be around 72 or so, but I don't see that going back to about 65 or 66. The component of weight of the employer-employee would be there.

Sanketh Godha: Got it, sir. And one more question was, we were under the impression that the 1/n accounting should impact combined, but it should not have any impact on profits because we were recognizing premium on 1/365 basis . But just from an accounting point of view, the profit seems to be different for 3rd Quarter Rs. 102 crores versus Rs. 111 crores. So, what explains that difference, what led to that 7-8-9 crores of extra profit if we would have not followed 1/n accounting?

Venugopalan: In the 3rd Quarter, you are right that the net earned premium will not have any impact due to 1/n because the pro-rata premium is being same between the old and new. But there are smaller amount of impact that it creates from the point of view of the RI commission that is also there. There are impacts arising out of the commission direct is also there but in a smaller way. So, overall, the profitability for the company is not impacted other than the direct commission in a smaller way and the RI commission to some extent. So, this has impacted PBT slightly negatively. There is not much of a difference. Rs. 7 – Rs. 8 crores difference in the Q3 may not be a material part.

Sanketh Godha: Okay, understood. So, basically the biggest portion, the divergence largely because of RI commission. That's the simple way I need to understand, right sir?

Venugopalan: Yes.

Sanketh Godha: Okay, perfect. And last one from my side, 1/n accounting naturally will impact industries EoM. So, do you expect regulators to give a leeway because the denominator itself got changed and therefore do you expect a leeway to come on EoM compliance by some, maybe by a year or so. And second thing is that if it doesn't come, then in these long-term plans, is it possible to defer the commissions so that industry becomes EoM compliant. Because when we speak to other players in the industry, the answer seems to be a mixed bag because some people are able to defer it, some people did not defer it. So, just wanted to understand how it is expected to play out given we have a decent exposure to these long-term plans.

V. Suryanarayanan: Sanketh, with respect to the diminished denominator while computing the EOM levels, which is what you are explaining. So, they have taken this explanation and the industry hopes that in subsequent years it will probably help in some guidance which could actually help the industry. So, that is on the first part. The second part with respect to the commission payouts to various channels. Some channels it's been possible to ensure that the payment of commission happens on an annual basis. And naturally as an intermediary, the channels have their own interests in terms of their own requirements, in terms of their own reporting requirements and financial requirements. So, it's a mixed bag is how we would tend to see it at this point in time. From a company's point of view, if there are certain high-cost channels at this point in time are high-cost products, however profitable they may be, we may need to take a more cautious call keeping the EOM compliance in mind.

Sanketh Godha: Got it. So, just trying to follow up on that point, assume regulator doesn't relax EoM, then your strategy to long-term products might change from current approach so that you become or industry players become more EoM compliant?

V. Suryanarayanan: It's more an opportunity that's there. These are by and large economically profitable businesses. And therefore, I think, so to the extent that there is leeway, I am sure companies and market competitors will continue to take the long-term view.

Sanketh Godha: Got is, sir. That's it from my side. If I have any further questions, I will come back in queue.

Moderator: Thank you. Ladies and gentlemen, to ask a question, please press '*' and '1' on your phone now. There are no further questions. I now hand the conference over to management for closing comments. Over to you, sir.

Suryanarayanan: Thanks everyone for making it to this conference call. The company has been growing well ahead of industry and sticking to its core objectives. We expect to continue to do well over the ensuing quarters. Thank you.

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