ICICI Lombard General Insurance Company Limited

Q4 & FY2019 Earnings Conference Call

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Management: MR. BHARGAV DASGUPTA – MANAGING DIRECTOR & CEO,

MR. GOPAL BALACHANDRAN – CHIEF FINANCIAL OFFICER

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AND

MR. ALOK AGARWAL – EXECUTIVE DIRECTOR (WHOLESALE)

Moderator: Good evening, ladies and gentlemen and a very warm welcome to the earnings conference call of ICICI Lombard General Insurance Company Limited for Q4 FY2019 and FY2019. From the management we have with us today, Mr. Bhargav Dasgupta – Managing Director and CEO, Mr. Gopal Balachandran – CFO; Mr. Sanjeev Mantri – Executive Director and Mr. Alok Agarwal -- Executive Director. As a reminder, all participants' lines will be on 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, please signal an operator by pressing '*' then '0' on your phone. I now hand the conference over to Mr. Bhargav Dasgupta. Thank you and over to you, sir.

Bhargav Dasgupta: Thank you and good evening, everybody. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Limited for Q4FY2019 and FY2019. Before we update you on the financial performance of the company, I would like to give you a brief overview of the recently ended quarter, post which our CFO, Mr. Gopal Balachandran will share the financial numbers of the company.

The General Insurance Industry registered a growth of 12.9% in FY2019 over FY2018 with the industry GDPI moving up to ₹ 1,701.04 billion in FY2019 from ₹ 1,506.62 billion in FY2018 (Source: IRDAI). For the quarter ended March 31, 2019, the growth was 12.6% as compared to the quarter ended March 31, 2018.

The combined ratio of the Industry was 119.8% in 9M FY2019 as compared to 112.9% in 9M FY2018 based on available information. The overall combined ratio of the private multi-line general insurers was 103.3% in both 9M FY2019 and 9M FY2018 (Source: GI Council).

Some of the key developments in the general insurance industry during the recently concluded quarter include:

General Insurance Corporation of India (GIC Re) prescribed minimum rates to be charged for certain occupancies under fire segments which are higher than the prevailing market rates if they are ceded via treaty to GIC Re. These new rates are applicable with effect from March 1, 2019 on all treaties wherever GIC Re participates. Since GIC Re is the leading reinsurer, this development is expected to be positive since it could improve fire segment's profitability of primary insurers over the medium to long-term horizon.

The Regulator has recently notified that the insurance companies shall continue to charge the prevailing rates for Motor Third-Party Liability Insurance Cover from April 1, 2019 onwards until further order is issued. This could however impact the loss ratio of the industry adversely.

Speaking about the Company's performance, the GDPI growth rate for the company in FY2019 was 17.2% (excluding crop segment - 20.5%) which was higher than the industry growth rate of 12.9%. The GDPI growth rate (excluding crop segment) of the Company in Q4 FY2019 was higher at 29.4%. In line with the previous quarters, we continued to register an across the board increased growth in most preferred segments such as Fire, Engineering, Marine, Liability and Group Health. The contribution of crop segment to overall GDPI of the company has reduced to 16.9% in FY2019 from 19.2% in FY2018.

On the Retail side, SME & Agency channel and Retail Health indemnity products continued to grow faster and remain our areas of focus. Further, we registered robust growth in the Motor segment which aided overall GDPI growth in the current quarter. To harness the potential of these segments, we have been expanding our distribution network so as to increase penetration in tier 3 and tier 4 cities. Our virtual offices network has increased to 910 in FY2019 from 135 in FY2018. Our individual agents (including POS Agents) were 35,729 as on March 31, 2019 as against 24,379 as on March 31, 2018.

Our underwriting performance measured in terms of combined ratio continued to be healthy for Q4 FY2019 as also for FY2019.

I will now request Gopal to take you through the financial numbers of the recently concluded quarter and financial year.

Gopal Balachandran: Thanks, Bhargav and good evening, everyone. I will now give you a snapshot of the financial performance of the Company for the quarter and the financial year ended March 31, 2019. We have put up the results presentation on our website. You can access it as we walk you through the performance numbers.

The Gross Direct Premium Income (GDPI) of the company increased to ₹ 144.88 billion in FY2019 compared to ₹ 123.57 billion in FY2018, registering a growth of 17.2%. Excluding crop segment, the GDPI growth was 20.5% for FY2019. The GDPI growth for Q4 FY2019 was 19.1% over Q4 FY2018. Excluding crop segment, the GDPI growth was 29.4% for Q4 FY2019.

On the profitability front, our combined ratio improved to 98.5% in FY2019 from 100.2% in FY2018. The combined ratio improved to 98.0% in Q4 FY2019 as compared to 99.5% in Q4 FY2018. As regards the crop segment, the current year's Kharif season has been better than the previous years. Consequently, the loss ratio has been revised downward by 5%.

Our investment assets rose to ₹ 222.31 billion at March 31, 2019 as compared to ₹ 204.45 billion at December 31, 2018. Our investment leverage (net of borrowings) was 4.09x at March 31, 2019 as compared to 3.92x at December 31, 2018. Investment income increased to ₹ 17.55 billion in FY2019 compared to ₹ 14.82 billion in FY2018. Capital gains was at ₹ 4.26 billion in FY2019 compared to ₹ 4.47 billion in FY2018. On a quarterly basis, investment income increased to ₹ 4.14 billion in

Q4FY2019 compared to ₹ 3.06 billion in Q42018. Capital gains was ₹ 0.56 billion in Q4 FY2019 compared to ₹ 0.43 billion in Q4 FY2018.

Our Profit before tax (PBT) grew by 33.6% to ₹ 15.98 billion in FY2019 compared to ₹ 11.96 billion in FY2018 Profit after tax (PAT) grew by 21.8% to ₹ 10.49 billion in FY2019 as against ₹ 8.62 billion in FY2018.

On a quarterly basis, our PBT for Q4 FY2019 grew by 20.3% to ₹ 3.45 billion compared to ₹ 2.87 billion in Q4 FY2018 while PAT in Q4 FY2019 grew by 7.5% to ₹ 2.28 billion compared to ₹ 2.12 billion in Q4 FY2018. PBT for Q4 FY2019 includes upfront expensing of acquisition cost related to the growth of 29.4% in GDPI (excluding crop segment) whereas the full benefit of earned premium will be realized over the policy period.

As briefed in the previous quarters, PAT for Q4 FY2019 and FY2019 includes the effect of higher effective tax rate resulting from the change in the income tax regulation taxing long-term gains on sale of investments.

Return on average equity i.e. ROAE was 21.3% for FY2019 compared to 20.8% for FY2018. The ROAE for Q4 FY2019 was 17.5% compared to 19.1% in Q4 FY2018, on account of upfront expensing of acquisition cost related to the growth of 29.4% in GDPI (excluding crop segment) whereas the full benefit of earned premium will be realized over the policy period.

Solvency ratio was at 2.24x at March 31, 2019 as against 2.12x at December 31, 2018, continued to be higher than the minimum regulatory requirement of 1.50x. Solvency ratio was at 2.05x at March 31, 2018.

To summarize, we have ended FY2019 with diversified product portfolio and healthy financials whilst improving our competitive positions among general insurance companies.

I would like to thank you all for attending this earnings call and we would be happy to take any specific questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Avinash Singh from SBI Capital Securities. Please go ahead.

Avinash Singh: My first question is on ROAE. You are now at 20%+ ROAE. As articulated earlier, you will now be chasing a bit of growth and not looking to go beyond. So now can we see this for the full year? Of course I am not seeing the number quarterly. Are you happy with 90%-odd combined ratio with 21% kind of ROAE? Will you be chasing growth, if yes, what are the sort of broader contours of growth in terms of distribution and product mix? Secondly, on the similar lines, if we see even in FY2019, your loss ratio in certain lines have increased a bit, particularly on the health segment because you sort of made come back into the group health and also your health loss ratio has gone up? Similarly, on the fire segment, could you add more color in terms of claims ratio going up? Is the claims ratio development in these lines where you have seen rise in your claims ratio within the tolerance limit or your range? These are the two broad questions that I have.

Bhargav Dasgupta: Thanks, Avinash. Great questions. As regards the first one, there is no real change in our approach. You would have seen the same approach being applied in the last one and half years since we got listed and also over a very long period of time before listing. This approach has remained unchanged. At this point in time, we believe that there is a one-time opportunity in terms of the market share movement for companies which have the ability to scale up distribution and focus on building operational capabilities to grow. We are going after this opportunity. The reason why we feel confident about this is due to the overall industry dynamics. We are now seeing a structural shift and we believe that it will be very difficult for the industry on an aggregate to continue to remain aggressive for a long period of time, given the trend of the overall

industry combined ratio. Having said that, we always had a calibrated approach. Whenever we find certain segments behaving in an unsustainable manner owing to aggressive pricing, we are usually reluctant to enter that segment or we reduce our exposure in the same. Overall, our approach will continue to remain focused on delivering in profitable segments. We suggest to not view the numbers on Q-o-Q basis because it would be impossible to manage such a volatile business. Instead we suggest to view the numbers on an annual basis. Speaking about growth, as articulated before, we are focusing on certain segments in terms of granular businesses. Accordingly, the distribution rollout in terms of virtual offices, distribution points and agencies, that we have added, is basically to expand our reach into the tier 3 and tier 4 cities. It is an investment that we are making, a lot of the investments has happened and the cost for it has been incurred but we believe this is going to help us from a long-term perspective. The other aspect about where we are focusing on growth is also where we are not focusing on growth. And again there is no change in that approach. We have been repeatedly saying that we find the chunky tender-driven businesses volatile and unpredictable. At this point, the price is not in line with our expectation. Hence, we are not targeting these segments for growth. Our focus on growth is the remaining segments where we expect the growth to be between 15-20%.

Avinash Singh: A quick follow-up. As you rightly said, looking at the full year, not quarterly, the combined ratio improved from 103% to close to 100% and now at 98% and this 98% also include the cost of investment in distribution. Going forward, what is the level of combined ratio? Because now 103% to 98% of course kind of required journey, but are you in an industry where you are saying that even private players combined ratio is 104%, do you see again you improve on, you are very happy at this level and sort of grabbing more market here, do you see scope of improvement from 98%?

Bhargav Dasgupta: That is what I explained. Our approach is if we are delivering an ROAE of 20%+, we want to go for growth. That is the philosophy. As regards the second point about the movement of the combined from 103% to 100% to 98%, I do not think you can assume further improvement given the industry is volatile based on our past experience. I will give you a couple of changes that are happening in the industry as we speak – Firstly, as you have seen in this year, the Regulator has not given a third-party price increase. Now almost 30% of our earned premium is in the form of third-party premium. If we do not get a price increase by our standard model, given the claim inflation that we see, we expect to see the loss ratio increase for that book to the extent of the claim inflation. This is because the numerator (net claims incurred) will change, while the denominator will remain unchanged. Hence, if we do nothing, our loss ratio is expected to increase by 2%-3% at an aggregate level just because of the lack of third-party price increase. So I do not think you can assume a glide path in terms of the numbers that we have demonstrated so far. Our strategy will be to keep the combined ratio around 100% and whenever there are opportunities of growth in our preferred segments, we would want to go for growth at this point in time.

Avinash Singh: Any material sort of a change for you, of course, GIC circular gives you better growth opportunity with the better pricing environment, because you are well capitalized, what sort of impact do you see on the property line?

Bhargav Dasgupta: You are absolutely correct. We will see an improvement in the eight occupancies that GIC has indicated. This is a positive development for the industry as also for us, since we will benefit because of it in the fire segment. However, if you were to look at the earned premium of the fire segment, it is a very small proportion of the aggregate net earned premium. Further, within that, we are talking about only eight occupancies where the price has increased. So it does not move the combined ratio for the company. The only material change is expected to be the proportion of crop segment to overall business. We want to

bring it down for the next fiscal. If you were to see the full year number, we have actually brought it down to about 16%. I believe this trajectory may get accelerated given what we are seeing in the market place on the crop side. That could be another dynamic in terms of mix of business going ahead.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: First, the data keeping one. I want to know the balance of advance premium in the balance sheet currently?

Gopal Balachandran: At the end of the nine months the advance premium was about ₹ 800 crore and for the full year, the amount stands at about ₹ 1300 crore.

Harshad Toshniwal: On the Motor TP business, as you explained that if we do nothing, our loss ratios will increase because there are no third-party rates hike but maybe over a longer period of time, say, over two to three years period, do you expect that simply because of the nature of the regulation where I get the float benefit but I lose on the claim inflation part, the general trajectory of loss ratios will be on an increasing trend which will be again compensated but is it okay to build in a gradual increase in the combined ratios over three to four years period of time?

Bhargav Dasgupta: I will take two minutes to explain because it is very important to understand this concept. If there had been no structural change in the motor business, the structural change that I am talking about is the fact that we have moved into five years for two wheeler and three years for private car, my answer would have been different. My answer would have been that the regulator looks at the claims ratio and it is not just one company's claims ratio they look at, but the industry claims ratio. There is claim inflation and generally we have been seeing a price increase. So if there had not been the structural change, we would have still seen annual price increases because that is necessary. Having said that, there

has been structural change in the form of TP insurance for private car. Now by design when the pricing has been done for the five years policy, it is a fixed price for five years. As explained in the Q3 earnings call, the way it has been priced has already factored the upfront receipt of cash. So there is some amount of migration of profitability from underwriting to investment. What I mean by that is the profit component will come more from investment and less from underwriting for these long-term TP businesses. Just by sheer tint of that development, you will see the migration that you are talking about because you got a fixed price policy which you have written for five years, the accounting policy for TP states that you divide the total premium received by the number of years. So the premium will be divided by 3 in case of private cars and will be divided by 5 in case of two wheelers. This amount will be accounted as income on the revenue side, but the claim inflation will still remain.

Harshit Toshniwal: Yes, that is effectively my question. So gradually we should increase the float and simultaneously build some higher combined ratio.

Bhargav Dasgupta: We feel this will happen only for the Motor segment. Our belief is that this movement of profitability from underwriting to investment income will still lead to slightly better ROAE as per our current estimates. Only time will tell if our estimate will be right because this is a new learning for us since we are assuming some frequency drops, increased claims inflation and cost reduction after one-time investment on distribution.

Harshad Toshniwal: Having said that, I want to understand your opinion on the risk of cannibalization of the own damage business typically in the two wheeler segment because penetration itself was low in that particular segment and now if I am having a five year third-party, do you see that to be a big risk that is the own damage of two wheeler might fall down very significantly for the industry?

Bhargav Dasgupta: So what has happened is that 100% of the vehicles that are getting sold are getting sold with at least five year TP policy. If you look at the past

track record, the percentage of people who used to renew after one year, when there was no such five year scheme, was 20%-30% for two-wheelers. Accordingly, around 70%-80% of people did not even renew their TP policy. That was the drop-off rate after one year. I am talking about two wheeler. As it is we are getting five years of TP which is a positive. Secondly, if you look at the penetration of five year own damage on the policy that we are selling at this point in time, the customer can buy five year TP with one year OD or five year TP with five year OD. The percentage of people who are buying five year OD with the new policy is more than 20% at this point. Now the question is the balance 75-80% who are not buying five year OD, will we be able to renew them after one year? I think that conversation we can have later since it is difficult to predict. Of course we will make an attempt to renew the policies, but we do not know what will happen because the ticket size is very small for just the OD component of our two wheeler. Even if nothing happens in aggregate, as an industry, we are benefiting today.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: Follow-on from the previous question actually. So I just noticed in your reserving triangle, this year for the first time we have not had a back book provisions for the dismantled third-party pool. So is this something which is happening at the industry level as well and one of the reasons why there have been no price hikes in the third-party segment this year or is it just purely because of the long-term tenure policies that have been introduced is why you have not received any hikes?

Bhargav Dasgupta: Neither of that. We have spoken even at the end of last year that we believe the strengthening of the triangle for the dismantled pool book is completed. However, this is largely company-specific since we do not have data on the motor pool number for the other companies. We do not know if they have reserved adequately or inadequately, so we cannot comment on that. That picture will be different for every company. And

if you see the overall combined ratio for the industry being adverse, our guess is also because of back book provisioning that some companies are having.

Nishant Shah: What then essentially is the reason for not having any price hikes if it is not the long-term policies and not the back book provisions for the industry going out like what reasons explain this?

Bhargav Dasgupta: We will have to get into the realms of speculation. That question can be answered only by the regulator. The Regulator has specified no rate hike until further order is issued. So we are hopeful that we may witness an increase in the rate however, we do not know with certainty at this point.

Nishant Shah: Just one very quick question on the crop segment. Are you actively trying to de-grow the segment or is it just like not going to keep pace with the growth in the other segments and therefore the proportion is going to sharply reduce?

Bhargav Dasgupta: There are two things: Firstly, it is a tender-driven business. Till last year we had three year policy with one of the states. Accordingly, there was some committed business that we were anyway getting till last year and hence we could predict with some certainty. However, this year we cannot predict with adequate certainty because every tender is bided out. Hence, it is very difficult to predict growth in this segment. This is the reason why we do not kind of talk about the crop segment as a part of our plan. Secondly, if you look at the overall business from the first year to the past two years, there has been significantly higher level of aggression in the market. Also, the reinsurance market has been tightening over the last three years, which is why we have been reducing our share of the business in our overall portfolio. Accordingly, the break-even for that segment has now reached to a level which,in our opinion, is unsustainable from a social insurance perspective. Hence, we will be cautious simply from that perspective. That is the reason why we believe it will sharply come down.

Nishant Shah: Now that lot of these dealers are now trying to bundle the insurance policy as a part of the discount package or something like that for the two wheelers or the four wheelers. It is the dealers or the B2B side taking this cost on their own P&L. Is there a chance that they might try and negotiate some rates for you and like you might see some pricing pressure come through because ultimately these guys who drive where or what insurance company the policy is bought from and is there a chance that not in the third party which is regulated but in the OD segment you see some price corrections happening because it is moving in the nature from B2C to a more B2B kind of environment given that the dealers are bearing this cost now?

Bhargav Dasgupta: This is not a new phenomenon. It has kept happening in the industry over the years. To some extent, it happened for two wheelers in this year. We negotiate with the OEMs whenever they want to run these schemes to push their underlying volumes. We negotiate to a level where it makes sense for us. The way to look at it is at a structural level i.e. if the motor own damage book at an industry level is running at very high loss ratios, we hope that it should not get passed on further. What we can tell you is that the motor own damage rates have come down already tremendously for the industry. Post MISP regulations, the prices have dropped and the loss ratios for the industry is getting quite adverse in our estimate. So we hope that we do not see further reduction for the coming year. But this is nothing new, this is usual dynamics that is between the GI industry and the OEMs on a regular basis.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: So the question is on profitability. If we look at this year, it has been bigger with our results final, results strengthening on the motor TP while last year we have strengthened our reserves in motor TP. So on a profitability basis for this particular year how one should look at the

profitability because if we do that it will mean that the profitability for this year maybe adverse versus the profitability of last year?

Bhargav Dasgupta: In terms of absolute number, you are absolutely correct. As articulated earlier, it is our practice to remain conservative while reserving. And as the data flows through, if we see the opportunity to release, we make some releases. This is the standard global practice of reserve redundancies that you see. 2% - 3% reserve redundancy is considered a good number at a global level. Until last year there was some strengthening for the TP book, particularly in the dismantled pool. However, this year we have not had that incremental provisioning. Accordingly, there is no doubt about the fact that this year we benefited from the reserve releases which we did not benefit in the last year. Having said that, one of the things that we had to factor in this year is the incremental growth that we have seen in the last two quarters. If you look at this quarter, for example, our growth was around 29% excluding the crop segment. As explained in the previous quarter's call also, when you grow much faster in these retail lines of businesses, you have to strain for about a year, that is to say, acquisition cost of sourcing this business is expensed upfront while the benefit in terms of earned premium plays out over the next 12-months. This has had some impact for us this year. Lastly, we have been investing to expand the distribution network, in a sense we have timed it or we were fortunate to be able to time it when industry was going through a churn where we felt the timing was right in terms of market share growth as also our ability to invest in terms of our profitability improving.

Nidhesh Jain: Can you quantify the impact of these two growth aspects which has led to as well as investment that we are doing in future, any percentage which has led to higher OPEX ratio for us?

Gopal Balachandran: If you see, Nidhesh, I think even last quarter we had kind of said that the growth was about 25% and it definitely had an impact of upfronting of expense. As Bhargav said, even this quarter, growth has been at around

29% excluding crop segment. And therefore, from a PAT standpoint, you would have seen the growth in Q4 PAT at just about 7.5%. If one was to adjust for this incremental growth which we have seen in Q4 of current year relative to Q4 of last year, we could potentially see an increase in our growth in profit after tax numbers at around 15% over and above the 7.5% growth that you have seen in Q4 profits in this quarter.

Nidhesh Jain: Lastly on the OD segment, there has been an increase in loss ratio from FY2018 to FY2019. So is it a new normal because the pricing has become adverse or specific to …?

Bhargav Dasgupta: Whether it is new normal or not, we will have to see but it is certainly in line with what we have been saying post the MISP regulations. We have been saying that some of the benefits will get passed to customers. Our sense is that it has probably swung particularly extreme now. And one of the questions someone had earlier was the industry OD loss ratios. The nine months numbers for the industry has gone from around 67% to about 73%. So the industry is actually suffering on the OD side as we speak. We do not know if it will sustain at this level. Obviously, my guess is most insurance companies will try to push back in terms of the pricing, etc., on that. We will see how it plays out going ahead. But at this point of time, the OD loss ratios have definitely gone pretty adverse for industry and even for us.

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

Sanketh Godha: Just from the OPEX point of view, we see a sharp growth in sales and promotion expense which is for the full year is almost 83% and for the quarter it is almost 2.3x of what you reported in Q4 FY2018. Just wanted to understand where are we spending this because after MISP I was under the belief that we cannot do any expenses. Is it outside the dealers where we are spending or these spends are towards virtual sale offices

or the agency channel expansion, just wanted to understand in more detail where these expenses are happening?

Bhargav Dasgupta: If you look at the expansion that we have done this year, we have added almost 25% headcount in one year. So we were around 8,000-odd number, and this year we have added 2,000 to the headcount. Add to that, the infrastructure spends in the offices, etc., and hence we had a pretty large impact as we speak.

Sanketh Godha: Because the employee cost grew only just by 13% for the quarter. But the sales promotion expenses the way it has been classified, it has grown 2.3x. So is it more because of the infra addition of branches and all those things led to the higher cost?

Bhargav Dasgupta: Yes, all of that.

Sanketh Godha: Just wanted to understand, given the OD business, the way we have grown, it has been far superior compared to the industry average where the industry is struggling to grow the primary sales. How, we have managed to grow and I also see that Maruti which is biggest OEM for most of the insurers are now open to multiple players like Go Digit and Magma kind of smaller players too. So the competition in one of the largest OEM is intensifying. So wanted to understand what is driving motor OD business growth for us and whether the kind of growth we reported in the full year is sustainable from the current level?

Bhargav Dasgupta: The competitive intensity actually played out even this year, not just for next year, in terms of number of new partners that some of the OEMs added, it happened even this year and of course, there are more partners that are getting added. We have now been able to do two things – One, given the entrenched relationship that we have at dealer levels, we have been able to hold on to our market share in most of the OEM platforms. Although, in some cases we have lost a little bit, in some cases we have increased a little bit but on balance we have been able to hold on. Where

we have grown is in terms of the agency channels that we have kind of invested in, in the tier 3 and tier 4 towns where we have been adding the distribution network. Our Virtual Offices numbers has gone up to about 910 from about 135 last year. And the number of agent count (including POS agents) has gone up significantly. So we begin to see traction coming out of some of those. Going ahead how it will play out? Yes, the competitive intensity is increasing but we believe given all the other strengths that we have had, the relationship with the dealers, the service infrastructure that we have created, the technology investments that we have made on virtual service, etc., we should be able to hold on to our market share.

Sanketh Godha: Just a final one data point. This advance premium breakup which you said around ₹ 1300 crore, can you break it into OD and TP and two wheelers and cars if possible?

Bhargav Dasgupta: Mostly TP.

Sanketh Godha: Between two wheelers and private cars?

Gopal Balachandran: That is a slightly sensitive number, so cannot give at this point of time.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: A couple of questions: One, on the crop portfolio, so you would have gone through a large part of the tendering process for next year's Kharif. So just wanted to understand what is the status there – have we won or lost any of the clusters? And also in terms of loss ratios for FY2019, we were provisioning 117%, it has now come down to 107%. But is there still a lot of provisioning there and which could reverse and if yes then would that impact actual flow through in FY2020?

Bhargav Dasgupta: As regards the first question, Rishi, we have not won any tender as of now. Most of the Kharif tenders, have been done but there are still some

tenders left. However, we have not won any tenders till now. On the second question, as mentioned before that we were holding 100% because even the Kharif numbers were not clear to us in Q3. Kharif numbers have now come through. We are more or less certain about the Kharif numbers and that seems to be quite healthy. In terms of our mix of crop business, about 75% of business was written in Kharif, 25% was written in Rabi. At the moment, we do not know about Rabi numbers and we do not want to take a call on the Rabi numbers at this point in time. However, what we see given the mix and given the loss ratio in the Kharif numbers, we were comfortable to release about 5% of our loss ratio numbers. So the loss ratio that we were holding has moved from 100% to 95%. We have had some other releases from previous years which is why the number has come down from 117% to 107%, but for this year we are holding 95% plus the reinsurance cost. We will know the exact numbers when the Rabi numbers come through. I do not want to misguide you to say that there will be releases or otherwise. We hope that it will not be otherwise. That is why we have taken that 5% reduction. But if the Rabi numbers stay within some reasonable limit, there will be releases. If the loss ratio exceeds, there will not be releases.

Rishi Jhunjhunwala: On the tendering thing, you have not won anything as yet and I am assuming that MP tendering has already done and over. So effectively there is a possibility you can pretty much go down to zero?

Bhargav Dasgupta: There is always a possibility, absolutely. As we have been saying, our focus is on the rest of the business and that is the business that we want to focus on growing between 15% - 20%.

Rishi Jhunjhunwala: Absolutely, it will be EPS-accretive, we are happy with that. Secondly, on the changes that you talked about on motor TP from a structural shift and as a result probably the underwriting profits will not look as good going forward, but that will reflect in float income. So is it fair to assume that we are now also structurally moving towards higher investment leverage as a result of that?

Bhargav Dasgupta: Yes, it has moved up every quarter and we expect the investment leverage to go to 4.5x to 5x in the next three years.

Rishi Jhunjhunwala: Just wanted to understand and this is not related to this quarter, but if we look at your health insurance segment, the commissions that you get on that is almost 65-70% of the amount that you are ceding and by commission I mean commission on the ceded business, why is that such a high number? Effectively you are doing this business for free. Why is the commission rate that you are getting from GIC such a higher number, 65% of your premium that you are ceding to the company or reinsuring?

Gopal Balachandran: Rishi, historically, for us any business that we underwrite I think we always look at it in the context of how much to retain and how much to reinsure. If you look at the health point that you are talking about, obviously, we do write couple of product construct which is the indemnity and the benefit construct. Historically, on the indemnity side, we largely kind of retain the risk on the net account. As mentioned earlier on the benefit side, historically, we have been operating under reinsurance structure. Hence the levels of commissions that you get to see is as a result of the reinsurance terms that we have been able to negotiate on the portfolio. That is why you get to see those levels of commissions.

Rishi Jhunjhunwala: Is 70% of the premiums ceded received as commission?

Gopal Balachandran: It is a question of in terms of how you structure the terms. As I said, historically, so far as the benefit portfolio is concerned, we have always operated through reinsurance structure.

Bhargav Dasgupta: Benefit is a profitable segment which is the point that we made in the last quarter also. However, the business slowed down on account of the muted disbursement by NBFCs in the second half of the fiscal. Apart from that, the segment is very profitable. Of course, there is a lot of cost as well in terms of distribution cost to write that business.

Rishi Jhunjhunwala: You do not see any major risk to that considering GIC has otherwise been strengthening their commission rate?

Bhargav Dasgupta: This treaty is not just GIC, there are other global reinsurers. So I am sure they do the profitability modeling.

Moderator: Thank you. The next question is from the line of Rahul Jha from Bay Capital. Please go ahead.

Rahul Jha: My question was on motor segment - OD specifically. Industry is flattish but you have grown around by 10%. Is it because of new relations with OEMs or we are gaining market share in existing OEM?

Bhargav Dasgupta: We have gained market share in one or two of the OEMs. We have added a couple of new OEMs. As I was explaining, we have added almost close to 50% growth in number of agents by the end of the year. When I say agents, these includes point-of-sale (POS) agents as well. So it is a mix of all these factors. Hence, we have been able to get market share in terms of the motor business.

Rahul Jha: Can you provide how much of the contribution by volume, for example, you have given contribution by amount, but can you give the same in volume terms i.e. two wheelers, private cars and commercial vehicles?

Gopal Balachandran: If you look at the aggregate number of policy count for the company as a whole, I think given that we write almost like about 70% of the overall premiums in terms of both motor and health, aggregate policy count for the company as a whole has increased from about 23.5 million policies to 26.5 million policies.

Moderator: Thank you. The next question is from the line of Udit Gadia from Premji Invest. Please go ahead.

Udit Gadia: Just wanted to know what is the strategy on the digital channel? If I look at the March GWP premium number, one of the digital players Go Digit,

has seen a sharp uptick, they have written about at least ₹ 480 crore of premium, this is almost as half of what we have written. So what are your thoughts?

Bhargav Dasgupta: This is clearly a key focus area for us and one of the areas that we are investing. We did not want to talk about it because it is not a big number in terms of impact on our overall numbers. But one of the decisions that we took which is a public information is the fact that we have kind of created quasi-independent company within our company with all resources including engineering, underwriting, actuary, finance, HR, etc., to make that part move faster than what we as a large organization can do. What we are focusing there are three things – One is the growth in business on our own channels as in digital channels be it in terms of online or through mobile. Second is the digital ecosystem as in the partners working with some of the players in the eco-system. Lastly, we will see if we can come up with completely different approach in terms of new product construct. The third one is probably more of a long-term investment. However, as regards the first two, we have seen reasonable growth in those numbers in the last four- five months since we have done the structural change that I am talking about. So there is a number of new partners also that we have tied up. One of the bigger ones recently which we went public with is MobiKwik and that segment is growing pretty well. So in terms of focus, yes, that has to be a big and strategic focus for us. We are putting a fair amount of resources behind this initiative. We hope to see this play out really well for us.

Udit Gadia: Second question on the investment yield. So the investment yield in FY2019 has been much lower than what it was there in FY2018. So is that just because of booking lower profits from our equity investment book?

Bhargav Dasgupta: If you see our capital gains number for the two years have largely been the same. So all the total gains that we have had in the investment book this year over last year is largely driven by the interest income and the dividend income. If you look at the total number, the total investment

income for us was ₹ 17.55 billion, as against that the previous year was ₹ 14.82 billion, so roughly about ₹ 2.7 billion increase. But if you look at capital gains number this year, it is ₹ 4.26 billion, last year was ₹ 4.47 billion.

Moderator: Thank you. The next question is from the line of Prakhar Sharma from CLSA. Please go ahead.

Prakhar Sharma: I just wanted to ask a couple of things: One, on the non-operating results line, expenses other than insurance business and provision for doubtful debt. Could you explain what is the spike here reflects and is there a sort of one-off here? Also, on the doubtful debts, anything else that you would need to provide for?

Gopal Balachandran: So on the doubtful debt side, we do have outstanding balances which are due from let us say reinsurers and coinsurers. Definitely there is no doubt so far as recoverability of the balance is concerned. But internally as a company we follow the practice in case if the balance becomes sticky and the period that we kind of largely reckon is let us say any balances which are let us say outstanding for greater than three years, we make a provision in the books. That does not necessarily mean that the balance has become bad. So that is more of an internal norm. One of the co-insurance balances crossed the threshold period of three years which is why we had to make a provision in this particular quarter. Other than this, I think there is no specific balances which we think that could kind of come as provisioning for us. But as I said, this is more a policy that is driven internally by the organization.

Bhargav Dasgupta: If you remember Q2, one of these old provisions that we had made in the past come in as a one-time gain. Every quarter you will see something crossing the threshold and we will provide for it. Some of it may come back later which will be accounted as write-back. Because most of these are usually with co-insurers and re-insurers, we should recover most of

them and there will be some government receivables which in due course we could receive.

Prakhar Sharma: Nothing related to investment book here, right?

Bhargav Dasgupta: No

Prakhar Sharma: The OPEX other than insurance whatever ₹ 43-odd crore, sharp rise?

Gopal Balachandran: I think that IRDAI has stipulated certain expenses which they believe is not necessarily a part of the revenue account, for example, any element of interest of the subordinated-debt that you have, so that will be a part of expenses, that will directly go into the P&L and will not flow through the revenue account. Given that investment income gets allocated between the revenue account and the profit & loss account, the cost of the investment function will also be allocated proportionately between the revenue account and the profit & loss account. Lastly, the CSR spend which is driven by 2% of the profits of the last three years also goes directly into the P&L and does not go through the revenue account. So those are the key contributors so far as expenses which are there in the profit & loss account.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just trying to understand why the solvency ratio gone up?

Gopal Balachandran: Solvency is clearly a function of efficiency in operations. Our combined ratios are operating at levels of about 98%. So that is one of the key drivers of the improvement in solvency. As explained earlier, in so far as the Kharif season is concerned, the season looks to be favorable and which is why we kind of decreased the loss ratio numbers from 100% to 95%. So that again kind of leads to an improvement in Required Solvency Margins are concerned. Finally, any amount of profits that you make in

the business, automatically adds to the solvency. So those are the three contributors so far as the solvency position is concerned.

Nischint Chawathe: Which investment property was converted to a fixed asset?

Bhargav Dasgupta: We have property in Mumbai in Peninsula Business Park. When I talk about the digital business, we wanted to house our digital entity in a separate location. So that team is based out of Peninsula Business Park which we have moved out from our investment asset to operating asset.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to Mr. Bhargav Dasgupta for closing comments.

Bhargav Dasgupta: Thank you, guys. I know it is pretty late and middle of almost a holiday season for the market. So thanks for staying up and look forward to meeting you as and when you have more clarifications.

Moderator: Thank you very much. On behalf of ICICI Lombard General Insurance, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.