digit
Insurance

Date: 29th October 2024

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort, Mumbai – 400 001
BSE Scrip Code: 544179

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE Symbol: GODIGIT

Dear Sir/Madam,

Subject: Transcript of earnings call of the Company for the quarter and half year ended 30th September 2024

Pursuant to Regulation 30 and Para A of Part A of Schedule III and Regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call held on Friday, 25th October 2024 on performance review of the Company for the quarter and half year ended 30th September 2024.

The above information is being made available on the Company's website at www.godigit.com

We request you to kindly take the above intimation on record.

Thanking you,

Yours faithfully,

For **Go Digit General Insurance Limited**

Tejas Saraf
Company Secretary & Compliance Officer

"Go Digit General Insurance Limited Q2 FY'25 Results Conference Call"

October 25, 2024

MANAGEMENT: **MR. KAMESH GOYAL – CHAIRMAN – GO DIGIT GENERAL INSURANCE LIMITED**

MODERATORS: **MR. RUSHAD – ICICI SECURITIES**
MR. ANSUMAN – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to Go Digit General Insurance Limited Results Call hosted by ICICI Securities.

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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to ICICI Securities. Thank you.

Analyst – ICICI Securities: Good evening all of you. Welcome to the Q2 FY '25 Results Conference Call of Go Digit General Insurance Limited. We will start the call with "Opening Remarks" from the Management, following which there will be an opportunity to ask questions.

I now hand over the call to Chairman – Mr. Kamesh Goyal. Thank you, and over to you, sir.

Kamesh Goyal: Good Evening and thanks for organizing this call. Before I start, I would request everyone to refer to the investor presentation published yesterday. I'll keep referring to the page numbers so that everyone can also refer to the relevant page. I will try and cover each of the areas in detail so that everyone who has joined the call gets a perspective of what has happened in this quarter and then as in the past will be happy to answer any questions that you may have.

So, I am on Slide #4, serial number. This is, as you know, the standard slide we have. We have given the H1 numbers here. We crossed 5,000 crore premiums, growth of about 18% in H1. We will cover quarter-wise later. The market share in motor was 6.2%, overall, 3.3%. Number of claims, number of partners, customers, all of them are increasing. AUM has crossed now 18,500 crores. Manual policy insurance continues to be miniscule and customer satisfaction score continues to be high for motor claims as well as for other claims.

If we go to the next slide, I think here if we look at quarter-by-quarter performance, we have grown by about 14% in Quarter 2 and I will talk about the industry numbers a bit later. There is a net earned premium is also grown. Net retention ratio, everything is in place.

I think there are two points which one needs to look at here. One is the loss ratio has gone up by 5.5%, which has then increased the combined ratio by about 3.4%. So, I think if we look at our loss ratio to increase of 5.5%, I think 2% of these losses are coming due to the floods in Quarter 2.

Last year, you would recall that our industry and Digit also had seen a lot of Nat Cat events, but all those claims have actually come in Quarter 3. Quarter 2 last year actually had no Nat Cat claims, so this 2% difference is actually coming in from that.

The second is, last year our motor TP loss ratio was about 56%. This year our motor TP loss ratio is 66%. Now, what has happened here? Now if you look at it, last year whatever claims TP reserve release we had in the entire year, 37% of that reserve release had actually happened in the second quarter.

Basically, last year's second quarter was an outlier in terms of the TP claims reserve release. If we normalize the TP claims reserve release and remove for the Nat Cat, which there was no claim, our loss ratio actually would have been the same. And this is also visible later in the deck if you see a line wise business. Health where you would recall where the last two quarters we have actually been seeing reduction in our loss ratio, prior it has reduced.

So, overall loss ratios have actually continuously reduced across all lines of business, but outlier in terms of reserve release in Quarter 2 last year and 2% loss ratio coming in due to Nat Cat or due to floods has actually impacted the loss ratio. Overall, the expense ratio has actually gone down.

So, this is actually the point I wanted to bring across here. If you also look at our H1 ROE is about 6%, not normalized. And despite the increase in combined ratio in Quarter 2, our actual profit has gone up 3x. Now, obviously, our investment income has not increased by 3x during the same quarter.

So, one another point I wanted to actually say is that the way this combined ratio is calculated under IGAAP, this is not a true reflection of profitability. So, this is the point I wanted to really make on this slide. Our solvency ratio has increased to 2.18%, which I think is good. Then as you know, the minimum required is 1.5%.

Now when we go to the next slide, and if we look at the growth in detail, and here again, I will focus more on Quarter 2. In motor OD, industry has grown by 6%, we have grown by 14%. In TP, industry has grown by 6%, we have grown by 2%. If you remember in quarter 1, in TP there was actually no increase. In fact, we had negative growth. So, in TP we are seeing a better trend.

In health, fire and PA we have grown by 7% while industry has grown by 3%. And here again, like last quarter, in the employer-employee group health space, we have actually de-grown by –3%. And fire, we have de-grown by –7%, industry is –11%.

In our case, there was one large account we had last year in the tender account, where due to pricing we lost the tender. That is why this discount is there. If you remove that from the base, even in fire, we have actually grown compared to the industry.

So, overall, in a very tough quarter of growth for industry at 2%, we have actually grown by 14%. So, the growth rate has actually in a very difficult quarter has been good.

Now I also wanted to say that non-employer-employee have shown and spoken about de-growth. And I would maybe like to make two points here. In non-employer-employee, when the de-growth is happening and it comes at a lower expense ratio, our segment for attachment business or credit-linked business has actually grown by more than 100% during this period.

So, what it does is that in the Indian accounting, the benefit of a lower loss ratio in health because you are de-growing on group health, it will happen over a period of time. The expenses on the attachment products hit you immediately. And here again, the earning of this premium will actually happen over the next two years.

So, when you are in a situation where a low expense business is actually de-growing and the higher expense business is growing a lot, it impacts your expense ratio immediately, but the benefit of lower claims ratio will actually flow over a period of time. And that is also, I think, one has to keep in mind in terms of how the expenses are moving.

The second point I would want to add is about TP business because, as you know, it is a very important line of business for us. Last year, in the first half, we had actually a market share in TP business of 7.1%. Since we realized that the premiums are not increasing, we have started cutting some business. So, our market share in Q3 last year was 6.3%. So, H1 was 7.1%. Q3, it went to 6.3%. In Q4, it actually went down to 5.7%. So, overall, we had a, for the full year, a market share of 6.5%, H1 was 7.1%, H2 was 6%, overall 6.5%.

Now when we started the year, the Q4 market share in TP was 5.7%. We reached 6.2% market share. So, market share increased, but we still had a de-growth in business. In Q2, our TP market share has gone to 6.9% and we have seen a bit of growth.

Now in H1, in H2, our base is a 6% market share. I am not giving any guidance here, but if you look at both in Q1 our market share was 6.2%, Q2 6.9%, H1 is 6.6%. Last year the H2 market share was 6%. And why this was possible is that when we reduce the business where we felt that we are not getting the requisite ROE, then we started finding in segments where we can grow the business. And as I explained, we have started seeing really the results of that.

So, that is really the perspective I wanted to bring in that though we grew from 2% to 14%, but in terms of directionally, especially employer-employee, which constitutes a big proportion of our business and TP, especially in TP, what the base effect will be in H2. I will cover about EOM in a bit more detail later as we publish that we have received a show cause notice. I will cover that in a bit more detail later, but this is what I wanted to bring in.

The second aspect in this slide, Slide #6, is if you look at, there is a continuous increase in the mix towards TP business, which is now I would say stable at about 21%. TP has gone down in H1, but in Q2, we have actually seen also a bit of a drop compared to last year, but compared to Q1, TP proportion has increased, and OD business also is stable more at 23%.

So, let's move to the next slide, which is Slide #7. I think this is the combined ratio, and as I have explained already on the loss ratio, now let me explain a bit on the expense ratio. So, expense ratio has reduced by 2.2%. This is despite the fact that our employer-employee business has actually degrown, which comes with a lower expense. Our non-employer-employee business, which is the attachment business, which comes with a higher expense ratio, has substantially increased. Despite that, we have reduced our EOM.

Now, when we look at the market, and you can look at the results of, say, the large, maybe amongst the largest private companies, in both quarters, in Q1 and Q2, their expense of management has actually increased over the last year. In case of visit, in both the quarters, we have actually seen roughly about 2.8% reduction in expense of management compared to GWP. So even on expenses, whatever we have discussed in the past, about the glide path, etc., I think we are on a good track.

Now, last year, if I give you exactly what happened on the EOM front, we filed for forbearance application with IRDAI in March, in May '23. In June, IRDAI sought additional information. June, we submitted the response. In July, IRDAI sought a detailed business plan. August '23, we shared a detailed business plan. December '23, we submitted updates on the EOM plan for 2024, based on first-half performance.

Now, October 28, so from December 23 to October 18, there is no further correspondence with IRDAI. Now, IRDAI has issued this show cause notice to a lot of companies. Since we are listed, we obviously had to publish it.

Now, when we look at the glide path which we have shared with IRDAI, last year, which is ‘23-24, we have actually done slightly better than what we had shown in the glide path. IRDAI obviously has no visibility to the expenses of management of second-halves. So, I would again say that IRDAI is, and this is our intent, this is our interpretation, our assessment, that IRDAI obviously is serious about EOM, they have issued show cause notices, and they want to understand where we are in H2 and how do we intend to stay in the path.

And as I explained, and I would request all the analysts, that even for the larger companies, please look at their EOM, you will actually see an increasing trend. I would expect, if this trend continues, even the biggest of these companies to exceed this 30% EOM limit. And at this stage, we feel that we would be able to follow through at this stage on our glide path.

As of now, based on where we are today, 18 months into the glide path, we feel that we will be able to achieve on the expense of management. So, that is what I really wanted to cover in this slide on expenses because claims I had covered earlier.

Now I think this slide is also very important for two reasons. One is that you can actually see that in this quarter also we have added, in the first half we have added about 1,659 crores in terms of AUM and this is coming from the business surplus. If you look at our capital gains in this quarter or in the first half, this quarter our capital gains is 10 crores. This is essentially IPO proceeds. Some of the IPOs we have applied for, we got allotment, and we sold, so we booked these gains.

In the first half, we still have a capital loss. If you compare our profit in this quarter coming in from capital gains, this is less than 3%. In the first half, capital, we actually have a capital loss. You can compare this result with any general insurance company and see what is the capital gains contributing as a percentage of investment income and you will see an increasing trend.

Now here I just wanted to again emphasize that our business model is about higher retention, higher leverage. As of now, our investment yield is coming in purely from fixed income, in fact, actually having a capital loss. So, the quality of our earnings and dependence of our earnings on the stock market is the least it is in the entire general insurance industry. And maybe that is the point which I will say that I personally have never really explained it in the way we are doing.

Since capital markets now in the last twothree weeks have been a bit nervous, you can imagine and I am not hoping for it, you can imagine if markets drop by 10%, what it can do to the quality of earnings for everyone else.

On the fixed income side, our duration is five years, and you will see in the next slide our quality, I will speak about fixed income in detail. If the interest rates go down, we are actually sitting in a very, very good situation. And this is something really important.

So, I have covered claims, I have covered expenses, I am now covering the third piece of investment and I wanted to emphasize the quality of investment earnings because having capital gains in a very bullish stock market, unfortunately markets have been very bullish, especially in the last 2.5, 3 years. We know the cycles come and across the world in 2000, in 2008, Euro prices of 2012-13, you can actually look across that do PNC or non-life companies dependence on capital gains is as high as it is for some insurance non-life companies in India.

Now I think this slide is important where we have made one change based on the feedback we have received from some of you that last time we used to show AT1 bonds which by nature of being quasi-equity were actually rated in AA segment.

So, some people had asked us why you are investing in AA rated bonds. So, I just wanted to say here again that if you look at our investment in terms of percentage or proportion, equity is 2.4, sovereign is 40%, AAA and equivalent is 40%, AT1 bonds is constituting about 10.8%.

Now in AT1 bonds, if we look at, the total investment is 1,945 crores and out of 1,945 crores, 67% or two-thirds is with SBI AT1 bonds, 27% of AT1 bonds is coming in from Canara Bank and 6% is actually coming in from HDFC.

Now why this opportunity came in AT1 bonds and why we took it is, as you know, in mutual funds, last year some changes were made in terms of calculation of duration for AT1 bonds and AT1 bonds by definition then became unattractive for mutual funds. The yields for AT1 bonds had actually gone up when they were issued at about 8.2%, 8.3%, and when we looked at this, we felt there is a good opportunity, and we actually invested in AT1 bonds.

So, our investment portfolio also is not geared towards AA. It's actually towards AAA, sovereign bonds and AT1 bonds and other bonds are really, really less and even there, we have AA and equivalent is still 5.6%, AA minus is 0.6. So, this is I really wanted to speak on the investment.

So, just to recap investment, we are talking about the quality of investment income, least dependent on capital gains. In fact, we have a capital loss in H1. Compare this with any other large multi-line company in India, look around and see across the world do insurance companies depend non-life companies so high on capital gains as we have seen in some of these companies.

Our bond portfolio is absolutely good and within the bond portfolio, what was actually being shown in AA rated is actually AT1 bonds and I have already explained, SBI is 67%, Canara at 27% and HDFC Bank at 6%.

Now moving on to the loss ratios. I think results will come out for the entire industry as we go along. Our sense is that on the loss ratio, we should continue to be amongst the best in class and in the top quartile in almost all lines of business.

Last time I had said that in group health we are seeing very aggressive competition. Every quarter you will see companies which gained the market share in group health or grew group health business in employer-employee aggressively, the loss ratios are actually increasing.

If you look at Digit's, in Q2 we were at 86. In Q1 we have actually moved to about, I think, 83% or so, 84%. In Q2 we have actually gone down to 81%. And you link it with what I said earlier. Our high growth in attachment products is still not showing fully because it will get earned over a period of the next one to two years.

So, fire loss ratios are 54%. We got some fire claims, especially in Gujarat during the flood in Baroda. Engineering we had one Nat Cat claim of flood, but engineering down premium is actually quite less. And overall, our loss ratios continues to be good. I have already explained in TP from 56 to 67 and why in last year's Q2 37% of the yearly reserves were actually in Q2. This year we don't foresee. And again, it's not our guidance. We don't foresee the releases which we had in the first two quarters that are releases in Q3 or Q4, if the trend continues of claims would actually be lesser. So, there is no reason for us to believe that.

Let's go further. I think you know this. So, I will only say that our focus on APIs continues. Two-third policies continue despite the growing number of policies because with increasing APIs, we are adding more and more APIs, and it is issuing more and more policies. So, even in the first half if you look at it here, we have added 270 APIs, new APIs in 6 months, which I think is a decent number. So, that really is this.

Now this is, sorry, let's see the IFRS. So, as usual as you know last year we had published audited IFRS results. I would also mention that every company, especially large ones should publish IFRS results because this gives you much better idea on profitability compared to the IGAAP because as I explained earlier in IGAAP, the impact of say employer-employee, non-employer-employee companies which do upfront high reinsurance and book the reinsurance commission now show a lower loss expense ratio. All these gets actually normalized in IFRS, and you can actually see in IFRS, the first half what are unaudited results of the ROE, and the overall result is.

Last year, '23-'24, we had not prepared IFRS Results in the first half. We had started preparing this from Q3. So, you will actually be able to see the Q3 Results when you see next quarter. You will be able to see the quarter-on-quarter also movement in IFRS. When we enter here, our statutory auditors for IGAAP will also be auditing the IFRS ballot sheet.

So, we have 100% readiness to move to IFRS. I must say that there are some companies we believe don't want to move to IFRS and by telling the regulators that they are not ready and they will not be ready, they have actually pushed the IFRS to this.

Personally, for me, this is a signal that for some of these companies who are seeing this, their results in IFRS might not be as good as what they are telling people informally. So, this is what I really wanted to say on the IFRS. All these triangles are old ones, so would not really cover that, but we will obviously publish all these triangles also at the end of the financial year. That's about it.

So, I think I have taken 50% almost 50% of the time. I will hand it back to the moderator and we will be happy to answer any questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahek from Emkay Global. Please go ahead.

Mahek: So, my first question would be on the net retention ratio. So, I just wanted to understand why is there a dip in the net retention ratio. And the second thing was can you just repeat what commentary you gave on the reserve release?

Kamesh Goyal: Comment on the reserve release. So, actually this year, I will not be able to share details. You will have to excuse me for that. If you have seen our miscellaneous portfolio and in some help we have started working on some new product lines and in some new product lines, we have two or some major partners.

We have actually opened up a re-insurance line so that we can develop these products in line with our partnership with our re-insurance for the longer period. But here again I would say if you look at our overall retention, it continues to be significantly higher than everyone else in the multi-line sector.

Now on the reserve release, what I mentioned was that if you look at last year in terms of our TP claim reserve release, we basically said if you are releasing Rs. 100 in a year, it is not 25-25-25% each quarter last year. Last year in Quarter 2, we released 37% of our reserves which means more than if 25 or 23 was normalized, we released almost 1.5x the reserves. So, the total because of that Q2 actually became an outlier and because of this the TP loss ratio this year seems higher. If we normalize the reserve release, then actually on the TP claims, it is not that our portfolio inherently has a higher loss ratio. It is just because of this outlier very high reserve release in Quarter 2 of last year. This is what I meant by reserve release.

Mahek: So, sir, in H2, are you expecting any reserve release in H2 for the motor TP reserves?

Kamesh Goyal: No, as I said, we don't want to give guidance, but every quarter if you see, we have been having reserve release. What I mentioned was that in the last two quarters, whatever trend we have seen, we have no reason to believe that this trend will not continue for the next two quarters and TP release, but since by principle we don't give guidance. Sitting here as of now, those reserve release will continue until less suddenly more accidents start coming in or something which we don't expect. So, that trend should continue for the next two quarters.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta: My first question is on the health insurance side. So, sir, what I was asking is on the health insurance side, firstly, I wanted to understand within the group health business, what proportion of your group health business is now attachment products versus employer-employee products, if you could give us the breakdown this quarter versus what it was last year similar quarter, that will help us understand how things have moved here.

And the question over here is that, you know, which are the banks or partners that you are selling this product through? And is it an attachment with a loan or attachment with credit cards? Because currently what we are seeing is on the lending side, there is a slow down, things are slowing down. So, just wanted to understand how things can play out or if you have added newer partners here, if you could give us some clarity on how we should think about growth in this product going forward, that would be helpful.

Now, moving to the motor side of the business, now, if you look at the commentary from peers who have reported or some of the auto OEMs, it suggests that second half, the volumes are going to be muted. Now, in this scenario, how do you look at growth in the second half or how you are thinking of or what steps you are taking to drive growth in the second half, if you could give some color on that. And then what happens to this glide part, if OEM, the auto demand remains weak? Then despite that, could we still get to our EOM target within the timeframe given or we would have to revisit that? If you could give some color on these three points, that would be very helpful.

Kamesh Goyal: So, thanks, Supratim. So, on the attachment products, I think this corporate agency information is public. I obviously don't want to share names of the companies, etc., simply because this can only harm us rather than help. Some of the biggest banks we have started working with, we sell it with loans, we also sell it with credit cards.

Now, again, in terms of without giving an exact proportion, our employer-employee business de-grew by 3.3% in this quarter, while the growth in attachment business was 110%. So, you can actually see that this business is growing nicely.

Now, if the group health pricing, employer-employee pricing, improves, then this mix can again change, but it will come at a price for us, employer-employee, where we should not be making big losses. At least we should try and achieve a break-even. But this growth which we are seeing in non-employer-employees continues will continue, and it will continue for two reasons.

This year, the first half has been a bit difficult on personal loan segments, on micro-finance, etc. We do a lot of business with them. Now things are getting normalized and our chances that H2 will be very good or better, significantly better than what a lot of these partners have in H1.

We are also launching some new partnerships. So, the proportion can change because we might end up writing more employer-employee business if pricing corrects. So, instead of looking at proportion, I would say that the growth rate in non-employer-employee attachment products will continue to be strong.

Now when we look at the motor business, I think I explained in detail on the TP side as to what the basis for last year and how we have started seeing increase in our market share on TP. In H2, our last year base is only 6% market share. We are actually finishing H1 this year with a market share of 6.6. For TP, all things being equal where the market is, we definitely should grow in the second half. But again, as I am saying, all things being equal as to where we are.

On the OD side, the new vehicle sales were muted and that is why if you look at, we grew in motor OD by 14% in Q2 and industry grew by 6%. So, our growth rate in OD is in quarter as well as in the first half has been 2x of the industry.

Now we obviously also have a very good base in the old vehicles or renewals coming in from last year. So, if new vehicles continue to be sluggish, the sales, again, I think there is no guidance, but you can see that we have been growing faster than the industry on the OD side. So, TP and OD put together, you can actually then see what could happen on the motor.

Now on EOM as I explained, we had a 3-year glide path. I gave the date lines from December. After submitting the updated business plan and updating the H1 performance in '23-'24, we haven't heard anything from regulators. They obviously have no visibility to what has happened with us on the expenses on '24-'25.

Last year we did slightly better than the glide path we had shown. Based on where we are today, we feel that we will be able to achieve the glide path over 3 years. And as I also said, please do look at the expense ratio, EOM of some of the larger companies. Their EOMs are going up, our EOMs are actually reducing.

I had also said in the past that EOM is more a function of the line of business mix rather than actual EOM because for each product line, the expense ratios are more or less similar for everyone.

Now as we know that this year especially, the way accounts are prepared for commissions and management expenses have become a lot more transparent. If you look at quarter 1 at 7.5%, our admin expense ratios are industry's best. So, you can actually very well see that when it comes to our own expenses, despite being new and despite having lesser scale, these are the best in class in terms of our admin expense ratio. Our EOM is actually coming in from a product mix. It is not due to our inefficiency. In efficiency, we are already the best in class despite having a lower scale. So, this is maybe an additional point I can add about EOM in terms of our admin expenses.

Supratim Datta: Now I have just one follow up. So, given you are one of the best and on the OPEX side, it can be seen that despite your scale, you are better than some of the larger players. But then the question is that, can this improve further, or has it come to a level where it will remain at a similar place? So, if you could give some color on that, that would be helpful.

Kamesh Goyal: Everything can be improved. So, first time I used to sleep 7 hours, 4 years back. Nowadays I sleep 9 hours a day. So, I never used to go to gym before. I at least pass by it now, even if I don't go inside. Everything can improve. I am saying this intentionally because I don't want to give any sort of guidance, but if you keep looking at our admin expense ratio, they are coming down each year.

But on a serious note, I may add, I have seen this across having the benefit or the disadvantage of working in different countries, that because of expenses, companies stop investing in tech. And then over a period of 2, 3, 4 years, then it catches up with you. And then you have to over invest in technology.

We at Digit have been over investing in technology. We have seen a massive benefit. API is just one of those examples. Now transparency on admin expenses is a clear example of what it can do. So, I think all of us are here very, very conscious of the fact that in trying to save 0.25% of the management expenses, we would never under-invest in technology. So, that is what I wanted to say from a philosophy person. But as I said earlier, we don't give this sort of a guidance, not because we don't want to, it's just that we don't know what will happen.

TP market share is a great example that last year we significantly reduced our market share because we didn't see the profit. From 7.2% in Q2 of last year, in 4th Quarter, we had gone down to 5.7 and now it is way back. Market conditions change, things change, and we want to keep that flexibility open with us. We never say we will never do this. We never say we will always do this. But if we see an opportunity, we act and if we have to do lesser business or cut something, we will cut it.

In such a difficult market when industry grew by 2%, you can actually see we grew by 14%. If you had asked me this in say July that in Quarter 2 industry would only grow by 2% and you will grow 14%, I would have said chances are, first, I don't know that industry will only grow by 2% and secondly, to me it looked very high. But as things developed, I think it developed in a decent way I would say for us.

Moderator: The next question is from the line of Uday Pai from Investec India. Please go ahead.

Uday Pai: I just had a couple of questions. Firstly, so over the last four, five quarters, your share, total absolute amount of reinsurance accepted has increased. So, I just wanted some color on what kind of mix is that within that book and some color on profitability of that book if you could share.

And secondly, since we are seeing some kind of mix change due to various factors such as motor TP pricing, etc., how do you envisage the steady-state book mix and profitability of the book, if you could give some color on that?

Kamesh Goyal: So, let me answer the motor question first. So, basically, if you see when we felt that profitability is under stress in case of TP business, we kept on reducing market share. But at the same time, we started working more and more granular selection, if we could steer the TP portfolio according to what we thought the opportunity is. We obviously never say if anybody, I would say, we never consciously do any loss-making business, but because there was no TP hike, we have to do this.

So, based on what we have done, you can see that we felt comfortable now that the market share has increased from Q4 to Q1 and then Q1 to Q2. And as I said, simply because last year's base in H1 is only 6% and this year H2 and this year H1 we have finished at 6.6. All things being equal, we should actually see some growth.

On the reinsurance side, I think I would say there are two things. One is that the cedents we work with over a period of time now five, six years, we have developed a decent relationship. And we have also started exploring both on the direct side and at times on the facultative inward side reinsurance. And there is one particular line of business which we have started this year which we

didn't have earlier. Just due to confidentiality reasons, I don't really want to get into that level of details.

Overall, our underwriting philosophy, whether we write by way of inward facultative or directly, that philosophy stays same. And I may maybe add here that facultative basically means we are writing it for each individual risk.

So, facultative inward reinsurance or your direct business from an underwriting pricing perspective, there is actually no difference. You see every risk and then you accept it or you don't accept it. While another type of reinsurance which is much bigger is CTs, where you basically give a capacity within certain guidelines and the insurance company can within that framework keep giving you the business.

So, facultative, we see every single risk. So, our underwriting philosophy, whether it is direct or inward facultative, it actually stays the same.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Kamesh sir, given we need to improve or combine to ultimately deliver mid-teen ROI… I was just asking to improve our ROIs to mid-teens in the current accounting, that is IGAAP accounting, we need to improve our combined ratio maybe compared to the last year also by maybe 400 basis points.

So, just wanted to understand that given we are already best in class in loss ratio, we are already best in class in the other OPEX ratio. So, the only lever left over is the commission cost. So, naturally, then is it fair to say that the next leg of growth will predominantly come from the segments where the commission cost is meaningfully very low and probably through the same loss ratio what you have today, and that will be the next leg of the growth and that will be the trajectory of improving the combined overall? And then if that is the case, then what is the thought process what you have to achieve that thing? That is my first question.

Second question was that, maybe the previous participant asked that question, just if you can give the mix, because the fire segment in the reinsurance, overall in GWP has declined, whether it has come more from non-fire business in the inward facultative reinsurance, whether it is crop or government health or just If you can give a better understanding of the business will be helpful, whether it is practical and you believe that it will be sustainable going ahead also?

And lastly, this benefit-based business what you have done, just want to understand this nature whether it is long-term or short-term in nature? If it is long-term in nature, given the regulatory recognition is going to change with respect to long-term benefit-based plan, whether it will have a negative impact on EOM or not? These are the three questions I have.

Kamesh Goyal: Thank you, Sanketh. So, let me start with the last question. When we look at attachment business, as a percentage of GWP, this would actually be the lowest for us. So, I think if there is a negative impact of this, our sense is that companies which drive substantial business from their captive banks, which captive basically means the promoter banks, they would actually suffer the most. So,

this is something which from a competitive perspective could actually improve our position. So, that is I think the first point I wanted to make.

The second I think is, if we look at the reinsurance questions you asked, as I mentioned earlier that we have started a new line of business. Even on property, we have not, without getting into too much detail, because I don't honestly know this also, I don't have the numbers in front of me, our reinsurance business on, inward facultative business on property is also grown in the first half and also in the second quarter.

So, we feel that with the sort of market pressure in the pricing market is seen, in April the reinsurance will have to act on the pricing. Otherwise, they will end up with a lot of losses. And here again, I think we might not have grown in the inward reinsurance business as much as we wanted, but we are still growing over last year and we have a new line of business. That is the second point.

On the third actually, Sanketh, and I think you would know this better than I do, that the combined ratio definition as per IRDAI actually has no direct reflection on the profitability, because profitability is more driven around net earned premium, net expense ratio and net claims ratio.

Now on the net earned premium basis, even in Quarter 2, our combined ratio despite whatever I said on TP and what I said on Nat Cat claims, despite that our net earned premium combined ratio has actually improved over last year. So, this combined ratio, unfortunately, the way it is presented has no direct correlation with profitability. And I think that is something which is a bit strange.

And second also as I said is in a lot of cases, companies which have lower retention and this is visible in their quarterly accounts, they book a lot of upfront commission, reinsurance commission, especially long more than 2 years, 3 years kind of products which gives them that slight advantage on the net basis, which is not visible which will not happen in case of IFRS results. So, did I answer your question, Sanketh?

Sanketh Godha: Kamesh, you mostly answered, but my only simple point was that whether you are at the 1-0, maybe 1-0-8 kind of a combined for the half, just wondering given the kind of expense and loss we have, whether the commission cost is the only place where we see this, even if I look it from the underwriting point of view, or NEP basis point of view, a big trigger to improve the overall profitability of the company, from underwriting, not from the investment.

Kamesh Goyal: Understood. So, Sanketh, I will say two things here. One is, if you see in H1, without annualizing, our ROE has been 6%. On Indian accounting, on the entire year, if we have a ROE which is slightly more than 10, and I am just giving arithmetic equation, no guidance, we actually will hit a profit of about 400 crores.

So, the idea is, and this is what actually shows, even in a combined of 108.7, arithmetically, if we hit an ROE of slightly more than 10, say 10.4, and I am doing a rough calculation here, we will actually hit a profitability of 400 crores.

Combined ratio, the way the definition is in this, it is not a right way to drive profitability. Otherwise, our combined ratio has increased, and as I said, by 3.5%, and our profit has gone up 3x, while our investment income has not gone up 3x. So, this is a misleading number.

Personally, if you ask me, I don't look at this number at all, because neither in IFRS, this combined ratio, I have not seen in any country, and I have had the benefit of working in about 26 countries, this definition of the combined ratio, because it does not reflect the true accounting or true profitability of a company.

Sanketh Godha: And lastly, your leverage is at 4.7x, which naturally came off because of the capital raise. So, what is a comfortable investment leverage you will always prefer to work at?

Kamesh Goyal: So, here again, I think, Sanketh, because we are not generating profit every quarter, my sense is by end of, say, 31st March '26, so next financial year, I think the leverage should increase to something like 5x.

Now, the way we look at it is not from a leverage perspective, we will look at it from a solvency perspective. So, the idea is that we would want to keep our solvency margins, say, at around 210%. I am giving you an ideal scenario. Take the equity allocation to 10% of the assets, so that in a down market also, the solvency ratio is above 175%. So, that is how we will look at it.

Secondly, if you look at, now our net worth in IGAAP is also about 3,800 crores. I think regulations allow you to raise TA2 capital up to 25% of the net worth. Now, if I just roll forward this by 2 years, and again, no guidance, under normal circumstances, we suppose our net worth hits 5,000 crores, and we have today 350 crores of tier 1 bonds, we can actually raise another 900 crores of tier 1 bonds to basically enhance our solvency.

So, from a capital perspective, I think we are in a very decent place. We have all the space to grow the business, to also change our asset allocation, and even after 2 years or 3 years, if we need capital, we can actually always raise a decent amount of capital through NCD, because we have not done this previously.

Obviously, there are other things which we can also do for better capital efficiency, but as of now, we don't really have to artificially do anything to either enhance our leverage or reduce our leverage or increase our solvency and things like that. We have all valid tools in place to focus on growing the business as much as we can.

Moderator: The next question is from the line of Dipanjan Ghosh from Citi Bank. Please go ahead.

Dipanjan Ghosh: Just a few questions. First, going back to the group employer-employee business, just wanted to get some color on how the business mix is shifting, let's say, between larger corporates and smaller corporate. And in line with that, if you can give a qualitative understanding on how the claims ratios have been behaving in each of these two buckets, Y-o-Y or 1H, and the next is, what is the sourcing channel, or how does the sourcing channel differ, let's say, between when you source large corporates, which I would believe would be more direct, versus, let's say, the smaller corporates, and how does the profitability really shape up in these two segments?

The second question is more on the motor business. This is a data-keeping question. If you can give the split between two-wheelers, CVs and PVs, and also how that has changed, let's say, Y-o-Y? And lastly, going back to one question which has been asked quite a few times in the call on your strategy regarding inward reinsurance, so we know the numbers for 2Q and 1H. Just wanted to get some color on whether you plan to increase that going ahead over the next, let's say, 12 to 18 months. And if so, you have already mentioned there are a few products, new products segment of partnerships that you have kind of got in place. Are there more in the pipeline and how does that entire strategy really shape up?

Kamesh Goyal: So, thanks, Dipanjan, for the questions. Let me start on the inward facultative reinsurance, because as I said earlier and explained that it is a case-to-case. So, very difficult for us to say that how the business is, because it also depends upon what other reinsurers who write facultative business are doing. And there are other now direct companies also in India which have started writing inward facultative business, and we are seeing companies wanting to write that. So, very difficult for me to give a number or answer directionally. I think this will be more visible on a quarter-by-quarter basis only.

In April, I think if the reinsurers substantially change their TPs, then this opportunity for all direct companies to write and collaborate with each other for inward facultative business would substantially increase.

I may also add that the Government of India as well as the IRDAI Chairman are very keen that India reinsurance capacity should actually increase, and more business should be done. And they are also wanting to encourage companies to retain more and more business within India. So, hopefully, directionally, I think with the support from IRDAI and also from the Government of India, we feel that opportunity to do this business on the inward facultative side should actually increase.

I think on the employer-employee, our mix is slowly changing towards smaller groups, financing smaller groups, means groups with employees less than 5,000 or 2,500. But in H1, as you know, that in April, we have a lot of big renewals of large companies. So, H1 is always skewed. But if you compare this H1 with the last year's H1, we are actually seeing that our mix is moving more towards smaller groups rather than the bigger groups. Smaller groups actually come from retail brokers and agents, while big groups are more focused either direct or they come through large focus. So, that is what it is.

I would say in terms of profitability this year, if I speak about specifically, what we have seen is that especially in the first half, a competition was actually, first quarter, competition was seen around price on the larger groups and our quote conversion ratios was much lower on the larger groups compared to the smaller groups. But these things can change because this was written in April, May, for large groups, the loss ratios will actually start showing by already, but by November it will become like a trend. And then people, companies when they will see that the losses are increasing on large groups, then in January where we see again good renewals of large companies, things could actually change.

So, Dipanjan, this is, I would say, significantly more dynamic, but I personally feel that if you look at fire, you look at motor, you look at group health, if the pricing competition is really increasing, group health is the first one where the loss starts emerging and the trend starts emerging very, very fast. So we have started seeing some very early trend wherein if you look at in August and September, lot of companies, private companies, which actually were quite growing very aggressively, suddenly we have seen in September that the growth rate has come down, and this is really visible in the segment wise numbers which are published.

In motor, I would again say based on our new car sales, how our market share is moving in TP etc., this again moves a bit dynamically, but all three are in the 30s for us, and the private car, I think since last year, this is our now biggest segment within motor. So, this is what, Dipanjan, I can say so to answer your question.

Moderator: The next question is from the line of Jayant Kharote from Jefferies group. Please go ahead.

Jayant Kharote: Thank you for the opportunity and congrats, guys, on the claims side performance on the health side as well. Slightly broader question, little Go Digit but larger industry issue. We are hearing the show cause notices going out to a lot of players, maybe in double digits it seems. And correct me if I am wrong, if EOMs are supposed to be brought down and the timelines are like next, the two options that we have, one is of course doing more writing or more retention, and second is doing a bit more on the group or low commission origination whether it was group health or some of the other commercial lines.

The problem or probably what I want to hear from you is now probably cannot **(Inaudible)** going to go off similar lines of business. We are seeing the same pattern like in group health, we have been seeing for the past six months. So, how do you solve this puzzle, Kamesh, because even if we were to wait a bit to get the pricing right, the irrationality might continue because everybody is trying to end before the finishing line in six quarters? I don't know if I am putting the question correctly, but just trying to understand how do you think that it will play out eventually.

Kamesh Goyal: So, basically, Jayant, your voice was cracking, but let me say that you are saying that in EOM, if every company is trying to meet the EOM guidelines and because of that, they start writing business which is not that profitable, how will this play out eventually? Is that your question?

Jayant Kharote: Yes, and the fact that we have only six quarters, right, to complete the EOM, so there would be a rush or this high competitive intensity for the next six quarters.

Kamesh Goyal: So, I think, Jayant, I would say that there are two ways to look at it. So, this year if you look at, the industry's growth rate has not been good, which basically means that EOM for almost every single player will actually go up. I already said earlier that larger companies, amongst the largest, they have actually seen an increase in EOM this quarter, this half, despite a slightly better than industry growth. Others who have seen lesser growth, they would have seen even further increase in EOM.

Now companies which have become aggressive, say in group health, employer-employee business to make up for the EOM, they will actually see a very bad outcome on the loss ratio, so the profitability will suffer. So, eventually, all of this has to balance itself out.

Secondly, my sense is that regulators will realize, and that is my sense, that after EOM has come, the expense ratios have actually gone up rather than going down. And this is happening because instead of having, this is my personal opinion, not Digit's, this is happening because everyone is trying to develop business in low commission, which is group health, government health, crop, and trying to write more of that business and increasing commission on the retail side. Now this is leading to a situation where growth rate has gone down and expense ratios are going up.

So I personally feel that this is something which regulators, because they are very serious about it, they will look at the results of '24-'25 and they will think about as to what is to be done. Sanketh had spoken about a change which is happening from 1st of October. If actually that happens, any company which has even 10% of the premium coming in from attachment or even 5% coming in from overall attachment business, their expense ratio are going through the roof.

So, with these guidelines, I have a sense, and I have not done a calculation, but I have a sense that almost every company, barring maybe one or two, would actually see EOM limit being reached. So, we have to really see how this year plays out and then what the regulator intends to do.

However, from a Digit side, last year we were on a decent path, on our glide path. This year we have reduced our expense ratios compared to first half of last year and we are hopeful that we will continue on this trend even on the second half. So, our aim is to stick to the glide path and we will be able to give you better idea to everyone, maybe after third quarter, but as of now we feel that we should be able to stick to the glide path this year also.

Jayant Kharote: Thank you, Kamesh, that was very elaborate. If I could just add one last question, as an industry, are there any representations being made to the regulator for extending the EOM timelines?

Kamesh Goyal: Honestly, Jayant, I don't know about that and my sense is, regulator at this stage wouldn't really do this. They would want to see what is happening this year and what each company is doing. So, my sense is, this again is an assessment, that they are looking at more company by company, but as of now we haven't seen. I think it is what I have heard. And again, I have no inside knowledge. I have heard that on this accounting change from 1st of October, there are some companies which have pushed hard. I think standalone health insurance companies, some multi-line companies have requested IRDAI to postpone the date. I think this is what I heard from the industry sources, but I have no internal information, Jayant, on this.

Moderator: Thank you, Kamesh, as always for your insights on this and congrats on the claims, especially again on the health, great job over there.

Kamesh Goyal: We can take one more question because I have another call starting in five minutes.

Moderator: The last question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: You know, this is actually on the IFRS part, on the discounting aspect, impact in IFRS, as and when it gets implemented, how do you think the industry takes it? Does it get translated into higher payouts or does it get translated into tariffs or how does it play out?

Kamesh Goyal: So, Nischint, I actually can't really talk about the industry because the challenge we have is that even very established companies are not publishing IFRS results, and what we hear is that most of them want this IFRS implementation date to be postponed, and I think we hear that it has been postponed by a year already. So, very difficult for me to comment on what we will do because I don't know their IFRS results.

My sense is for a lot of companies, IFRS results will be worse than Indian Accounting results simply because lot of them are taking upfront lot of credit for their insurance commission in their case and that is why my sense is they don't want to publish IFRS results.

I can definitely speak about Digit that this discounting of results, we will not be seeing this from a perspective of increasing commission. So, I think philosophically, that is definitely I can see it, my CEO is sitting next to me and she is nodding and saying absolutely.

Nischint Chawathe: Because if you are going to price a product, I mean very, very conceptually based on an ROE basis and then probably there is some release that happens. Competitive dynamics will kind of mean that it goes on to either the distributor or the customer.

Kamesh Goyal: My sense is, Nischint, it will not. Simply because, as I said, IFRS results for most companies will be worse than Indian Accounting. So, when the results look worse, how do you increase the commission? And I would say that, and I will be very transparent here. When we were in the IPO and I was meeting one of like very reputed mutual fund in India, and I think the person asked me about IFRS results and this that will you publish the IFRS results after listing.

So, actually I can say it again now, ICICI Securities also has organized the call, they and Morgan Stanley were lead bankers. We have proposed to SEBI to include both IFRS and Indian Accounting results in the DRHP. I think they said, "No, it will confuse the retail investors." But as soon as we got listed and we published our last year results, you can actually see that in May, it was late May because IPO, we got listed on 23rd May if I remember and our results came in the first quarter of June or second quarter of June. We have actually published audited IFRS results and after that, every quarter we are giving IFRR results. From next quarter, we will start giving quarter-on-quarter.

My request in a way for people like you, Nischint, and I think we have some of the most educated insurance analysts on this call, is to ask insurance companies who publish IFRS results, even if unaudited. We will publish your audited result, but please push them so that, I think, if I can speak in Hindi *"sher aya, sher aya aur sher aya nahi"*. So, on a lighter note, I just wanted to say this. It is Friday evening. Our office is actually on a lane which has all the pubs. So, I think we can't even speak too seriously on a Friday.

Thanks everyone for joining. Nischint, I hope I have answered your question.

Nischint Chawathe: Yes, thank you very much, And Happy Diwali to you.

Kamesh Goyal: Thanks a lot, Nischint. So, Happy Diwali to everyone, and thanks a lot for joining. Have a good weekend. Have a great Diwali season, and we will connect again in January. Thank you so much.

Moderator: Thank you so much, sir. That's it for the closing comments. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.