Max Financial Limited

Q4 FY 2017 Conference Call Transcript
May 31, 2017

Moderator

Ladies and Gentlemen, Good Day and Welcome to the Max Financial Limited Q4 FY 2017 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes.

I now hand the conference over to Mr. Jatin Khanna. Thank you and over to you, Sir!

Jatin Khanna

Thank you. Good afternoon, Ladies and gentlemen, Good morning to those participants who have joined us from Europe and Good evening to our callers from the East. I would like to thank you all for being a part of the Max Financial Services Earning Call.

Before proceeding with the performance highlights, I would like to introduce my colleague who is with me on this call, I have with me Mr. Prashant Tripathy - who is the CFO for Max Life Insurance.

Before I begin the call, I would like to set the context for today's call. The call is to discuss the financial performance of Max Financial Services and Max Life Insurance for the quarter and year ended March 31st, 2017 and how we are out looking into the next year. The call is not to discuss update on the merger as the rumours in media over last few weeks are unconfirmed and we have not received any formal communication or confirmation in this regard from any regulator or governmental authority. We remain committed to the merger and are focused on securing regulatory approvals to get that done. Hence, I would request all the participants to refrain from asking questions relating to these rumors. We will keep you posted and updated as the clarity emerges on these approvals.

Let me now move on to the key highlights for Max Financial Services in FY 2017. I am very happy to share that Max Financial had a robust revenue growth of 19% to a revenue of Rs. 12,971 crore. There was a strong growth in consolidated profits wherein the PBT for FY 2017 grew about 51% to Rs. 702 crore.

Despite being in a transaction mode, Max Life has delivered its strongest performance over the last decade. Max Life MCEV has grown at 20% on an operating basis and the headline EV is at Rs. 6,590 crore.

Value of new business grew 29% to Rs. 499 crore margins are at 18.8% which has improved further by 90 bps relative to last year.

Now, I will give briefly Max Life's performance highlights for FY 2017. The Gross Written Premium grew by 17% to Rs. 10,780 crore and the renewals have grown by 13% to Rs. 7,114 crore. The renewals have shown a very good progress led by improvement in the conservation ratio. Our conservation ratio is currently at 88.6%, This has improved by 511 bps year-on-year and is highest in the industry as we speak.

Individual Adjusted first year premium (adjusted for the single premium) has grown by about 25% to Rs. 2,639 crore, the highest growth in the last nine years. This growth has been led by a strong growth across channels, so we are very encouraged by the performance and the robustness of the business.

Max Life maintained its overall market share at 9% in FY 2017. We have hit a huge milestone in our digital journey by transitioning from a challenger to a market leader in online term sales. So, we are today ranked number one when it comes to the online term sales. Our e-commerce channel reported an overall growth of 89% in FY 2017. The trends in expense , conservation and persistency ratios, all continue to show a healthy year-on-year improvement. Solvency surplus at Rs. 1,914 crore with a solvency ratio of 298%.

Our assets under management at Rs. 44,370 crore has increased by 24% year-on-year primarily on account of growth in controlled fund.

Max Life has won quality accolade in the ASQ World Conference and has won a Bronze Medal amongst many other accolades which they won during the year.

So, now, briefly I talk about the Max Life's performance highlights for the Q4 FY 2017. Strong performance continues even in the Q4 wherein the growth in GWP has been 16% to Rs. 3,267 crore and the individual adjusted first year premium has grown by 24% to Rs. 1,049 crore. Profits have also grown by about 100% year-on-year.

So, just to sum-up the performance, we feel that Max Financial Services is already delivering healthy returns for shareholders via Max Life performance. Max Life growth trajectory particularly in terms of its sales continued to be around the levels we have been discussing in the past many years which is broadly in-line with our expectation of how even private players will grow. On our operating EV growth rate is also expected to continue to be healthy in line with our past performance.

On that note, I will hand it over to the moderator to open the floor for Q&A.

Moderator Thank you Mr. Khanna. The first question is from the line of Hardik Doshi from First Voyager.

Hardik Doshi I just wanted to get sense, since the merger was announced in the last eight to ten months back. For Max Financial Services or Max Life Insurance have there been any changes made on the organizational level as of now? And can you talk a bit about in terms of the top ten people in management team within the company, I mean has there been any kind of attrition in the number of people who have left among the core team at the top?

Prashant Tripathy Just to confirm we have not made any structural change in the organization. The organization pretty much remains the same. As far as attrition of top ten people is considered, every year you will see normal attrition. We had our Head of Distribution leave just at the time or even before the merger announcement, he has gone to become CEO of a different life insurance organization. But other than that movement, which already has been replaced by somebody equally capable, there is no change. So, we have all the leadership team intact. All the big roles within the organization both Max Life as well as Max Financial are being populated by the same set of individuals.

Hardik Doshi The people who will report under Head of Distribution would have a separate agency head and a separate Bancassurance as well.

Prashant Tripathy Yes. Those people remain the same.

Hardik Doshi The second question I had was related to the Axis Bancassurance tie-up till when is that arrangement intact and are there any kind of clause for like automatic renewal beyond 2021 or that is renegotiated all over again?

Prashant Tripathy When we renewed it until 2021 and that is where it is today, there has been no change as far as the duration is concerned and like we do always both the parties will continue to remain engaged, at an appropriate time re-engage for further extension, at this point of time we are not engaged in that discussion

Hardik Doshi In NBAP margins there has been decent improvement, I guess 90 bps year-on-year, and now you are at 18.8%, what is the outlook, cost overruns are pretty much taken care of and where can these margins kind of stabilize going forward?

Prashant Tripathy Basically two or three areas, actually because the interest rates have taken a beating and we had reasonable proportion of interest rate sensitive product designs and the Non PAR, that was a negative variance of 90 basis points, but that got compensated by two favorable outcomes one was protection mix, if you see our protection mix has gone up closer to 4% now. Second, we have actualized the NBAP margins on VNB on our current cost. So, those two were plus and because of that we have a net upside of 90 basis points.

Hardik Doshi What is the outlook on margins?

Prashant Tripathy Outlook on margin is in the same range I mean we have been targeting 18 to 20% so I think we will continue to operate in that range.

Moderator Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Securities.

Atul Mehra So, a large part of solvency decline that we see is because of higher pure protection mix is that the only reason?

Prashant Tripathy No, generally solvency you would expect it to go down for two reasons: number one because the book size is growing what we call as required solvency margin goes up. So, that eats into and while protection consumes more capital if you grow it by like 1% it is not the biggest guzzler of capital. So, it is overall book growth and if you continue to declare dividend which is what we have been doing of course, it goes down. So, whatever you preserve in the business actually goes out of business. But, this kind of trajectory is aligned to how you are looking at some of you have discussed with me one-to-one and I mentioned to you that with this solvency margin I think we have a good run rate to very healthy dividend distribution for at least two to three years, so you will see that gradual reduction and that is very typical of any life insurance company.

Atul Mehra While you talk about in terms of pure protection you are driving it online in a big way. So, while we do that is this largely through aggregation and in that sense would margins be strong enough?

Prashant Tripathy I think the efforts are equally focused on building it from aggregation as well as from direct channels and we have seen reasonable growth on both fronts. And pure protection is a part of our digital strategy, you may recall we have been talking about it for a last couple of years, this is one very strong area of focus for us and we are definitely working in the direction so that the protection mix goes up gradually closer to anywhere between 7% to 10%. So, that is our desire in next few years. So, underneath that digital definitely is one of the most potent channels that we have been working on and we are trying to grow that channel quite aggressively.

Atul Mehra What would be the margins in overall protection, so it is similar to the levels we saw in the past 70 odd percent because all the players we talk to they guide between 60% to 80% margins in this business. So, would it be similar for us?

Prashant Tripathy You could land up with similar margins. Though I am not taking myself to any particular number, because this is one line of business which has to be managed through its entire life very smartly as the large part of the risk is under writing risk**.** So, based with the current experience I will say it is towards the higher side with respect other channels or other lines of business.

Atul Mehra Just one final question, although you said, you would not speak on particular merger thing. But just, if you were to give a status update as of now in terms of what exactly is the bone contention and if you have heard anything from the regulator at this point in time and if at all, do you think there is any kind of risk even if there is say a 5% risk to this deal not happening. So, if you could just give us status update on that?

Jatin Khanna Like I said that we should refrain from commenting on the merger because frankly whatever you are reading in the newspapers and everything is all speculative, we have no update from any regulatory authority or governmental authority at this stage in terms of where our application is. Point of contention you know, you have been reading about it, it is the Section 35 of the Insurance Act. But frankly, we are still engage with the regulator and like I said, we are committed to the merger but beyond a point it is not appropriate to discuss that because all of these rumors which you are hearing are all speculative and we have no basis to believe or disbelieve any of this. So, I do not think we should get into that territory at all.

Prashant Tripathy Atul, we have no official communication, so at this point what we can say is we are very committed to this particular deal and we will do whatever it takes to make sure that it is realized.

Moderator Thank you. The next question is from the line of Diviya Wahi from Samaira Investment.

Diviya Wahi Two questions. Sir, first just wanted to get an idea of what is your current mix between debt and equity and given that the equity markets have been coming up do you see yourself changing that mix going forward?

Prashant Tripathy Basically, we write close to 56% of PAR product designs and within that, we like to have an equity proportion which is closer to 15% and it generally range between 12% to 15%, so that is first part and in the PAR product, we do not like to go beyond 15% because if you do that then you are exposing a person who has very different expectations from the portfolio to be exposed to equities that is one part of the business. The second part is Non-PAR where most of our investments actually sit in fixed income security because we need to hedge it and there are interest rate related guarantees which are involved, so we do not take any equity risk at all there. The third part which is most important and we have our 31% of new sales that come from unit-linked, this is where equity becomes most relevant and that is driven by the choice that the customer makes and we offer several funds which could vary from super growth which is more than 90% equity to a balanced portfolio which could be you know 30% to 50% to a full debt portfolio. All those flexibilities do exist and that is a choice which is given to the customer. So, what happens is when the equity market starts to go up, we would theoretically notice a swing towards making choices in super growth type of funds because of which automatically our exposure to equity market will go up. But for the other lines of businesses I think we will grow equity in proportion to the defined higher limits. By the way, IRDAI also has limitations in terms of what kind of equity exposures we could take on control funds.

Diviya Wahi Second question I have assuming the merger will go off well, technically your insurance products will be branded as HDFC. How does that kind of play with your current banca partners Axis and Yes, which are direct competitors to HDFC. Just want a branding connotation

Jatin Khanna So, the way the brand transition is planned is that they continue to use the brand of Max for another four years and after which also I think there is a transition period of another three years. Till the time any of the policies are live, they can continue to use our brand for those. So, in some sense the brand will have a far longer life even after the merger, so the brand transition will be very smooth. So, that is the first question. And second is that as part of our overall arrangements which we agreed upon at the time of the merger, our Bancassurance partner which is Axis Bank has agreed to distribute the HDFC life products. So, to that extent they would be agnostic to selling it under the Max name or an HDFC name but the option is pretty much there to continue to sell under Max name till the time we transition out to the HDFCs name.

Moderator Thank you. The next question is from the line of Vishal Rampuria from HDFC Securities.

Vishal Rampuria I want to understand that in terms of your products, your PAR and Non-PAR and ULIP, which product gives you, what will be the margin spilt between these products?

Prashant Tripathy Generally, we do not go into details of what is the margin that comes from each of the product lines. But because, margin is linked to the kind of risk that you end up taking but suffice to say that we will generally is highest on Non-PAR followed by PAR and followed by unit-linked.

Prashant Tripathy It would vary depending on the type of channel that we chose to sell from and it is like a complex outcome depending on the type of product that we chose from type of channel, etc., but at a very high level these are different.

Vishal Rampuria So, one more question to ask you, why your tax rates are so low any specific reason or any incentive which we get?

Prashant Tripathy It is because life insurance is taxed at preferential rate.

Moderator Thank you. The next question is from the line of Nishchint Chawathe from Kotak Securities.

Nishchint Chawathe Could you make some comment on the next year which is the current financial year in terms of your product strategy in terms of any specific product target that you could share and anything on the marketing side in terms of the channel strategy?

Prashant Tripathy So, basically you would see that with respect to the channel I think we are going to be very committed like we have always been with respect to our own channels. So there will be very strong push on driving our own channel. The bank channels have registered very strong growth last year and we are expecting that similar momentum will continue. So, I think an equal focus on building our own channel and trying to support and get the momentum going from bank channel, is going to be our strategy. Additionally, we are going to take selective bets on some new initiatives that we are going to kick-start. These will be mainly in the areas which could be offshoots of agency or agency like channels, we have been working on a couple of areas like IMF which is Insurance Marketing Firms. We are going to work on that, there will be some investments that we are trying to make on POS which is new standardize products that IRDA has now announced those are additional investments and we hope that will happen to build our own channel. As I have mentioned in one of the earlier questions, the focus on internet will continue where we will be out looking strong growth. As a result of all this we will be looking at a strong double-digit growth between 15% to 20%, again these are futuristic statements, so you have to really take it from the perspective of desire to work in that direction. On products, I think very similar to like I was mentioning to you that we will try to set-up the product protection mix, so we will take it higher than the current level most definitely. I think the focus and push on Non-PAR product designs other than protection will be similar to how it was last year. So, in terms overall mix, I think we will be targeting mix which is similar to the current mix in terms of PAR, Non-PAR and unit-linked. However, within Non-PAR I think the share of protection will be higher. I personally think that the Non-PAR should go up by virtue of higher protection mix. But overall, I think the kind of product mix that we achieve now is quite optimal in terms of giving us the desired outcome of efficiency as well as margins. I am not proposing that we will have a very drastic change in the strategy with respect to channels or products.

Nishchint Chawathe The share of other banks has been increasing. So, can you give any specific guidance on that?

Prashant Tripathy Yes, it basically comes out a very strong growth that we have registered from Yes Bank as well as new bank partner that we started to work on a couple of years ago which is Lakshmi Vilas Bank.

Nishchint Chawathe But I mean does it kind of it is gone from like from 6 to 9%, 9 to 12%, does it go to 15% next year or thereabouts. Are we able to see any great strong momentum?

Prashant Tripathy We will see the share of other banks increase, there is high likelihood but in the overall context 12% could become 13-14%.

Nishchint Chawathe It is sort of more or less plateauing is what you suggest?

Prashant Tripathy I mean 12% becoming 13 - 14% is not quite plateauing I mean they will grow faster but they may not see 3% to 4% increases.

Moderator Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund.

Dhaval Gada Sorry, I joined a little late but I do not know if you answered this but I just observed that our growth in the agency channel was very weak given that most of the players have seen close to 19% - 20% or even more kind of growth in the agency channel but we have not seen that kind of momentum. So, any specific reason and are we taking any measures to improve that productivity?

Prashant Tripathy Yes, I mean some of that to be honest, is intentional, it is very easy to grow agency channel by altering the product mix and by selling more unit-linked or fast moving products through agency. Our experience that when you try to do that, you generally would see a higher growth in agency but it has a much bigger implication on two fronts, number one your margins overruns actually go for toss because agency if you increase the share of ULIP quite disproportionally the margin implications could be heavy. And number two which is even bigger, is that is a channel where the access to the customer segment which really desires unit-linked as a primary product is not very-very high I mean then ULIP would come by a push sales that would lead to (a) worsening of sales habits and (b) overall implication on retention in future years. Because of those reasons we do want to grow agency in a wrong way, we did register double-digit growth within agency and I think when it comes at a product mix that we typically run with which is closer to less than 10% of unit-linked and at a position where expense efficiencies are improving etc., we are pretty happy with that outcome.

Dhaval Gada If you look at the volume that has been done by agency that was down by 15%, so while I take your point that when the strategy was in the right direction. Is it that you know on an underlying basis we have changed something or just the fact that I mean what was the reason for absolute volume growth also being a little soft?

Prashant Tripathy Your information is incorrect. Actually, agency has grown by 10%.

Dhaval Gada No, sorry. I am saying the no of policy not the premium amount I am saying.

Prashant Tripathy Yes, you will typically see that and it has been happening for quite a while. Actually, it is about higher ticket sizes, and if you choose your product which is higher on ticket sizes, you would notice that the activity levels are compensated by the ticket size, so that is one phenomena that we have been working on. If you look at last few years you will find the number of policies being compensated by the ticket size.

Dhaval Gada On participating product, so overall the growth was pretty good but how do you see the mix sort of shifting for us may be in the next two years is it that this mix that they are today with that increase the term insurance business broadly is that the direction?

Prashant Tripathy Yes, I think what we would be very happy with this if we could go to about 50% PAR, 33% - 34% unit-linked and 16% - 17% Non-PAR. But 7% - 8% of that comes from protection. I think if we hit that kind of mix in two to three years' time that will be fantastic, so we will work in that direction.

Moderator Thank you. Next question is from the line of Kajal Gandhi from ICICI Direct.

Kajal Gandhi Sir, broadly, I would like to ask one question on the sales side as you mentioned on the ULIP side, we have already seen this year you have had a higher share and it has been good growth. But do you see there is demand also only in the ULIP segment and that is why the market is seeing good growth because of good equities and the trend to continue?

Prashant Tripathy So actually, we sold close to about 28% ULIP last year. This year is going to be about 31% - 32% that is like 4% change. So, on your first point that we have got growth, but it is not predominantly because of ULIP because ULIP mix has not altered very significantly, we saw growth across all lines of business actually, very significantly from PAR and Non-PAR as well. Two – yes, you are right, when the equity markets perform, the traction or demand for unit-linked products actually go up and which is quite true. But it is company's stated philosophy that we will not like to swing very heavily in terms of selling this ULIP, what we believe is long-term savings and protection. So, there will be a bias towards selling more traditional products as time passes, but we will definitely provide our products to people who need unit-linked or who are the right customer segments or who definitely are inclined to take unit-linked products, we will definitely provide. So, to answer your question, not really, this year we are expecting a 32% to go close to 40%, the answer to that is no, I think we will be in the range of 32% - 35% only.

Kajal Gandhi You have not consciously even if there is demand to grow on the ULIP.

Prashant Tripathy If there is demand of course, we will like to grow on ULIP. It is just that we are more conscious whether that demand is genuine or not or whether it is being induced.

Kajal Gandhi Second thing from an understanding perspective you have given your sensitive table, in that your risk-free rate, is going down by 1% you have stated a 2% positive change in EV and stated the comment that there is an increase in value of assets on account of which the loss in future value. But then I just wanted to understand this will be a case only when you have a good amount of AUM already there in your bucket, correct? In case of newer companies this will not be the case and the impact will be slightly higher side on the negative side for the fall in rate?

Prashant Tripathy That is true. If you look at the sensitivity what you will find if the interest rates will go down there is a positive variance on EV but there is a negative variance on VNB. And if the EV is not very high and for small companies VNB which is adding to the EV then they can definitely face negative impact because interest rates going down, in our case because our assets as we mentioned especially on shareholders' eyes are quite substantial. With a reduction in interest rates the market value of those assets go up. Which compensates for the reduction in VNB and we get a plus on EV.

Kajal Gandhi On overall basis, you need not had to provide in the last couple of years anything on the fallen interest rates. I think you did provided in the last year for negative impact .

Prashant Tripathy No, I think the trend whenever we will give the sensitivity is similar. So, you will see an upside on EV and you will see the downside on VNB.

Kajal Gandhi Yes, just what I wanted to understand is right now Axis Bank sell products for Max but gradually you will have every bank entering into partnership with three - four may be more than two is what is allowed. So, they can do sell for other players also. So, that having an impact?

Jatin Khanna So, I think here is my prognosis of this one, and Prashant pl add on to it. See, the entire industry is going towards open architecture, it will be very difficult for any bank to remain exclusive to any partner. So, good thing is that for us we have a secured partnerships for the next five years and therefore, to that extent there is a clearly a continuity of business performance which can be achieved through that partnership. But, I think if the merger goes through or not, in both the scenarios one will see most of the other banks getting into open architecture. So therefore, while one may lose some from the existing partners but you will gain some from the other bank partners and I think both Max Life and HDFC Life are very well positioned to benefit from this the sort of Bancassurance space being opened up for more than one tie-up, given the quality of the franchise, the way they do business, the strength and the brand, the way we have demonstrated our performance with Axis Bank and the way they have demonstrated their performance with HDFC Bank. So, I do not think so that five-year out you will have many banks who would still continue to be exclusive to a particular partner. And therefore, there will be some shift in channel mix and you will gain some and you will lose some.

Moderator Thank you. Next question is from the line of Harshit T. from ICICI Securities.

Harshit T. Just a few question. So, I wanted to understand that is it is a ULIP product, and then banks are more suited to sell that product than an agency channel. So, if I can get a share of that out of the ULIP sales, how much is being sold through agents and through Bancassurance for this particular year?

Prashant Tripathy Yes, so basically, as you would expect ULIP is for a particular target segment and it will be wrong to say that only bank channel customers buy ULIP. I think, agency channel customers also buy ULIP but as a percentage of the customers I think bank customer buy more ULIP than agency channel. I do not have the numbers off hand, generally within bank channels our proportion will be in the range of about 30% to 40% while in agency channel our percentage will be more in the range of 10% to 15%. However, we also run what we call as a customer advisory team which is our own direct team who sells to the customers directly, there we are very keen to promote unit-linked and they sell close to about 60% ULIP. So, it completely depends on which kind of customer do you have access to and whether you could control the sales process in a manner that you always make sure that your sale is perfect.

Harshit T. So, if I just look as per the regulation. So, for the first-year premium you can pay an amount of 30% to 35% and gradually from the second year you need to pay 5% to 7.5%. So, this is what the regulation allows to the maximum limits. If you can share that for an agency channel for our Bancassurance partners what is this agreement more or less?

Prashant Tripathy Actually it has been quite simplified starting from 1st of April. You know the first-year commission that would be paid is equal to maximum of 3x of premium paying terms, so you sell product which is 10 years or above or 12 years or above you could pay up to maximum 35%. However, if you sell a five-premium paying term product, maximum you could pay 15%. So, 5 multiplied by 3.

Harshit T. So, this is for all the channels?

Prashant Tripathy Yes, for all the channels consistently and the renewal actually on all the products is have been enhanced now, it can be paid at the maximum of 10% across all the years.

Harshit T. So, this is the regulatory maximum. So, if I look at your specifically Bancassurance partners.

Prashant Tripathy Just one information the 10% is only for Protection, for three other products it is 7.5%.

Harshit T. 7.5%, right and we follow this or we generally in our agreement it is lesser than that.

Prashant Tripathy It will be wrong to say, it varies it a commercial relationship. But you cannot go beyond of that.

Harshit T. Yes. So, for us is Bancassurance much cheaper than an agency channel, if I just want to compare both of them?

Prashant Tripathy If you look at direct cost or total cost of running the channel, what you are saying may be correct. However, from a compensation perspective both are equal.

Harshit T. So, is it that for a bank we have a uniform structure over the period? So, first year and the renewals both the structures scheduled in that way or is it similar way that first year premium they get a higher share?

Prashant Tripathy The second thing that you said, first year premium they get higher then renewal is as per limits?

Harshit T. Even for Bancassurance channel?

Prashant Tripathy Yes, exactly the same structure.

Moderator Thank you. Next question is from the line of Prakhar from CLSA.

Prakhar I had four quick questions, I wanted to check on. Firstly, on persistency ratio while you have reported a reasonable improvement consistently. I wanted to understand that when you compare it with some of the other listed private sector insurance companies, their persistency ratios on the 13 months basis are higher than yours despite then having a much higher share of ULIPs. Could you please put this in to perspective on why they are able to deliver higher persistency?

Prashant Tripathy That is a definitely a possibility Prakhar**.** In fact, even for us the ULIP persistency is higher than the average persistency and the reason why it happens is because of apple-to-apple comparison with respect to IRDAI reported data is given could be wrong because they defined persistency even on single premium products. So, for example, single premium will always be persistent because we have to pay premium only once. We have made recommendations to look at only on the regular business. So, that is how it is reported.

Prakhar But based on your assessment can the 13 months persistency numbers that are put up by different insurance companies, can there be a significant diversions I am not trying to say okay Max versus the other listed players.

Prashant Tripathy No, if somebody is writing very significant single premium product then there could be possibility that the numbers may not be comparable, I do not know whether who will be higher or lower but it may not be comparable. Ever since the regulatory change we have found that ULIP persistency has typically run a bit higher than the traditional persistency and the root cause of that is also the five-year lock-in on ULIP.

Prakhar So, given that from a premium inflow perspective ULIPs are stabilizing. Do you think that at some stage the margins in this business could also be better than what we currently are benchmarked to if the persistency demonstration is at 80% - 85%, could there be a reasonable improvement in margins unless whatever pricing changes, etc.?

Prashant Tripathy Definite possibilities do exist. However, the sensitivity to persistency considering the margin numbers are small will also be not humongous.

Jatin Khanna Also Prakhar I think the market risk remains, right I mean end of the day our equity markets turn the other way around for some reason then these assumptions can go for a toss.

Prashant Tripathy Yes, the large part is from assets management fees or assets management charges and if the equity market goes down then your fees go down.

Prakhar On the 61st month persistency what is driving this 10% improvement, is there a calculation issue also here because past block goes out, etc.?

Prashant Tripathy Across the board within the industry you would have seen many people improve because it is a new cohort which kind of took over and five years ago we had significant shift towards traditional and we found that traditional persistency after year one has been quite robust. So, that actually flows into but suffice to say that very significant work has gone into improving persistency not just for 13th month but across the broad.

Prakhar Sorry, to just asking for extra clarification on the 61st month thing. The fact that ULIP policies have a five year lock-in the facts that after five years for 61st month may be those policies are not considered and hence, that is not affecting.

Prashant Tripathy No, everything is considered.

Prakhar Second question, may I asked for the shareholding pattern at Max Life?

Prashant Tripathy It is 70% by Max Financial 25% by MSI and 5% by Axis.

Prakhar What would be the net profit at Max Life for fiscal 2017?

Prashant Tripathy Rs. 660 crore.

Prakhar Last question is on the GST related thing. Any broad assessment on whether or not you will have the pricing power or there any logistical or regulatory clarification that you would like to seek from the government?

Prashant Tripathy Yes, we have been seeking those and it is more or less clear that the rates will be 18%. They are currently 15%. So, of course you know it adds to a bit of burden especially on people who are trying to buy protection products because that is where the rates are maximum. However, overall burden on the customer goes up. I think as a CFO I worry a bit about the logistical nightmare that will cause, because we will have to operate in all states it is linked to place of service we will have to manage many jurisdictions, and many inputs and outputs we have to see, more than anything else I worry about how it will all get resolved. I am not anticipating big financial implication on the business because of this.

Prakhar Prashant just to go back the net profit number this Rs. 660 crore profit is the Y-o-Y number Rs. 439 crore?

Prashant Tripathy Yes.

Participant So, you had a strong premium growth which technically leads to a high upfront cost.

Prashant Tripathy We have seen robust increase in our profits but some part of that is also setting in the non-operating variance which is the gains we realized which are one-time gains realization on shareholder and non-linked product types they are not repeatable.

Prakhar May I ask what would be the split of this net, what would be the policy holder profit for the year?

Prashant Tripathy So, let me get that number for you, Prakhar**,** I will come back. Maybe you could check with me separately after the call.

Moderator Thank you. Next question is from Atul Mehra from Motilal Oswal Securities.

Atul Mehra Just a couple of more questions. One is into ULIP, is it really viable as a product to sell through agency?

Prashant Tripathy Yes, of course it is viable.

Atul Mehra No, I mean in terms of if you have to look at overall margins.

Prashant Tripathy No, it is viable to sell through agencies just that it cannot be the largest carrier for the channel. Definitely, I mean if you want to survive in the market and you have an offer for all the people you have to sell what people want. Just that if it becomes the only product that is being sold that puts burden on this.

Atul Mehra Right. Because ULIP in itself even if we look at say the market leader for ULIP they would do about 6.5% - 7% post overrun margins. So, given that agency is much higher cost structure so, is it safe to assume that in case of agency it will be at least lower than these?

Prashant Tripathy Yes, lower than the average.

Atul Mehra So, as we look at FY 2018, so you said there were some one-offs in this year so where do we see that Statutory P&L in FY 2018, broadly given say the current set of assumptions?

Prashant Tripathy We should be touching anywhere between Rs. 475 crore to Rs. 500 crore.

Atul Mehra Post-tax?

Prashant Tripathy Yes.

Atul Mehra Right. So, there will be like Rs. 660 crore to about Rs. 475 crore - Rs. 500 crore.

Prashant Tripathy Around at Rs. 500 crore.

Atul Mehra Right.

Prashant Tripathy I think that answers Prakhar's question also.

Moderator Thank you. Next question is from the line of Harshit T. from ICICI Securities.

Harshit T. Just a few follow-up question, I just want to know the currently our 61st month persistency is 53%. Just want to know that in our EV calculation what would be the 13th or 61st month persistency built-in when we calculate EV, any average on that?

Prashant Tripathy When we calculate just to clarify the process as we follow, we have experience is being measured every six months and our EV computation as we get trued up to the latest estimate of persistency computation.

Harshit T. If I look at the six months earlier persistency it must he somewhere around 48 – 50%.

Prashant Tripathy Just to give you a very high-level number. You see some operating variance this time a part of that is coming from the persistency.

Harshit T. Okay. So, that is more persistency driven. Last question, so what was the one-off this year. So, you said that there was Rs. 660 crore full year profit there were some one-off?

Prashant Tripathy Because the interest rates went down, we realized some gains those things are not possible to every year. It will be neutral to in terms of how we value our assets. We took it through our net worth. These things will not happen every year. As I am mentioning to you I think I will expect more like Rs. 490 to Rs. 520 net profit on a run rate basis.

Moderator Thank you. The next question is from the line of Sudhir Kedia from Mirae Asset.

Sudhir Kedia My question is related with embedded value. So, current embedded value what you have declared is based on the current tax rate. If we assume tax rates to be at marginal rate that is full tax rate of 30%, how much this EV comes, sir?

Prashant Tripathy So, for example, our tax rate is close to 15%, the total tax. I assume for second it goes to 30%, we have a 15% change. So, you assume that your margins will go down by about 50%. So, EV will go down by about 6% - 7%.

Sudhir Kedia EV will go down or value in force will go down by 6% - 7%?

Prashant Tripathy Value in force will go down by 15%, yes but embedded value a part of that is net worth.

Sudhir Kedia Yes, net worth will not change, only VIF will go down, right? So, is it correct, to say that 1% increase in tax rate will relate to decrease of 1% in value in force is that metrics, right?

Prashant Tripathy 1% will reduce by 1%, yes.

Moderator Thank you. As there are no further questions, I now hand the hand the conference over to Mr. Khanna for closing comments. Over to you, sir!

Jatin Khanna Yes, thank you. Okay. So, thank you, ladies and gentlemen for being on the Max Financial earnings call. We appreciate you are taking out time to be part of this call and we sincerely hope that we address most of your queries to your satisfaction. In case, you still have additional queries or you could not find any answers to any questions to your satisfaction please do not hesitate to contact us. If you have missed out anything on the call, the recording of this call will be available and a transcript will be put up on the website. We look forward to much such interaction in the future. Thank you once again. Good bye.

Moderator Thank you. Ladies and gentlemen, on behalf of Max Financial Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.