Max Financial Services Limited

Q1 FY18 Earnings Conference Call Transcript
August 10, 2017

Moderator Ladies and Gentlemen, Good Day and Welcome to Max Financial Services Limited Q1 FY 2018 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 colleagues from the East. I would like to thank you all for being part of the Max Financial Services earnings call. Before proceeding with the performance highlights, I would like to introduce my colleague who is with me on this call, I have Mr. Prashant Tripathy, who is the Chief Financial Officer of our life insurance business, which is Max Life. Before I begin the call, 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 ended June 30, 2017, and how we are out looking into the current year. The call is not to discuss the merger as we have already announced the same having been called off, hence would request the participants to restrict their questions to financial performance of Max Financial Services and Max Life. I will now get to the Q1 results.

I am very happy to share that Max Financial had a robust revenue growth of 15% to Rs. 2,566 crore. The consolidated profits at Rs. 87 crore, at a headline level are down by about 38%, however, if we normalize last year's performance, which had certain one-offs because of merger, the profit before tax performance has been in line with the previous year. Max Life's individual adjusted first year premium has grown at strong 19% to Rs.458 crore despite maintaining the focus on traditional and protection products in an environment where most of the players are delivering growth through ULIPs. On the contrary, Max Life has delivered a strong improvement in protection mix in Q1 FY18 which has resulted in margin and ROEV expansion relative to Q1 FY17. The gross written premium grew a strong 15% to Rs. 2,007 crore. There has also been a 14% growth in the renewal premiums to Rs. 1,342 crore led by a record improvement in conservation ratio to 92%, which is up by about 550 bps and is one of the highest in the industry.

Max Life continues to dominate online term market; e-commerce channel reported an overall growth of 87% and Max Life is currently the largest player when it comes to this channel. Max Life got awarded also for its e-Business Leadership in 2017. Trends in the expense ratio, conservation, persistency all continue to show a healthy year-on-year improvement. We had a strong solvency surplus of Rs.1,953 crore with the solvency ratio of 295%. The Asset Under Management at Rs. 45,870 crore has grown 22% year-on-year primarily driven by growth in the controlled funds. We have not seen any attrition in our leadership team since the merger announcement as the retention plans are very much in place. To sum up, we feel happy to report that Max Financial Services is delivering strong performance for the shareholders via Max Life. The performance trajectory is expected to grow by mid teen level in line with our expectation from private players. Now with the merger behind us, we plan to focus on organic and inorganic growth bets. On that note, I will hand it over to the moderator to open the floor for Q&A.

Moderator Thank you, Sir. The first question is from Avinash Singh from SBICAP Securities.

Avinash Singh Couple of questions from my side, the first one would be on your protection business growth because as per the disclosure, it seems that the growth is completely driven by individual business segment, so I mean it looks a very difficult task to just steer up from 4% number where you have been for quite some time to 7% all within the quarter, so if you can provide some more color on the granularity of this individual protection business growth.? Secondly, your agents' productivity number, what you have disclosed this time, it looks a bit different from what you used to do earlier, so the current number suggests that your active agent productivity per month has gone to 81,000 per month, that number is higher and even if we take that what is the growth in the agent productivity, so that is some 20 odd percent growth, your agent number year-on-year has grown by 9%, but if I look at that agency share of premium that has just grown by kind of 10% on absolute basis, so what explains this discrepancy?

Prashant Tripathy On your first question, typically what we notice is the protection penetration in the first quarter is higher than the yearly average and that generally happens because of higher share of proprietary channels that we see in Quarter-1, it is a seasonal phenomenon so just to give you a sense of the numbers, last year in Quarter-1 our protection mix was closer to 4 and this year it has gone up by about 250 basis points, so what we are targeting for the full year is a number between 5 and 6, and last year, we were around 4, so it will be an improvement of 100 to 200 basis points is the target, the 6.5 that you see has to be seen in the light of seasonality

On your second question with respect to agency productivity, one of the things that we are trying right now is juicing out a bit more from our active agent and we have readjusted our compensation philosophy in a manner that it delivers higher productivity from active agents. It has been our long-term strategy to focus on active agents a bit more than collective set of all the agents, and hence as a result of that we would see a much higher productivity from active agents though we believe that the result of this will start to show up on total numbers with a lag and hopefully it will start to show up in the following quarter, so you are right in your observation, the productivity active agents have gone up faster than how agency has grown at a total level.

Avinash Singh As a follow up, how do you define this active agent because if you recall what you have been disclosing earlier, so your typical average agent productivity used to be somewhere 8000 to 10,000 per month in terms of new business premium, now suddenly it is 10 times up when we are taking active agent, so what the number of that active agent and how you just define this active agent?

Prashant Tripathy The way active agents are defined, I think I will take your feedback so maybe from next time we will start to show total agents productivity as well, but active agent is an agent who is responsible to do at least one policy every month, 12 policy for the full year. Active agent is a very strong measure that most companies measure and that is why we have chosen to focus on active agents' productivity which has become more relevant in the current strategy that we are following and it is showing significant improvement versus last year. If you look at the total agency base lot many agents do not end up doing 12 policies, it means they are not active for the full of year and some of them come and just go in a shorter period of time, so while looking at total agent productivity may be a bit misleading, it is always good to also keep in focus what your active agents are delivering and hence we have chosen to show this number.

Avinash Singh What is the number of that active agent currently and what percentage of agency premium they have contributed?

Prashant Tripathy About 20% of our agents will be active agents and contribute around 80% of Agency sales.

Moderator Thank you. The next question is from Nischint Chawathe from Kotak Securities.

Nischint Chawathe It would be nice if you could give us some color on the incremental margins in the protection business that you would have done, did you see margins kind of more under pressure or on any color on that side would be appreciated, thank you?

Prashant Tripathy Basically, as you know we report our margins on a six-month basis, so I would share some of the numbers from our internal reporting. The 250 basis points improvement that we see in the business would take our margin up by little over 100 basis points. However, it is too premature, as Q1 is one of the smallest quarter and I wouldn't quite recommend that you take it as guidance for the full year, but yes, we will be closer to 20%.

Moderator The next question is from Harshit Toshniwal from ICICI Securities.

Harshit Toshniwal Sir, two questions actually, one would be on the share of Axis Bank in the distribution mix, so clearly there is a trend that it has been reducing in the last 2 to 3 quarters whereas the other banks' shares have been improving, so can you throw some light that what exactly the driving factor behind this and how can we project this going ahead?

Prashant Tripathy Basically, while the share of Axis Bank has gone down you must remember that it is very, very significant and there has been an attempt to work on looking at other banks also and the reason for growth in the other bank segment is predominantly coming from growth from Yes Bank which has grown faster than the entire company, that is why you will see that, however, in the first quarter historically you would notice the share of Axis Bank is lower and it pickups as the year passes, I am hoping that their percentage will come either similar or marginally lower than last year not significantly lower.

Harshit Toshniwal For Axis Bank specifically, you see their share also normalizing back to around 53% to 55% or will that be around 45-50 range?

Prashant Tripathy It will be closer to 50%.

Harshit Toshniwal Another question Sir, if I look at the number of agents on quarterly basis, I can see that there is a reduction in the number of agents, so is that also part of that you would be liking to keep the active agents?

Prashant Tripathy **A**t the end of every year we assess looking at the criteria of retention and during the first quarter, we have an annual process where we take out the agents who are not performing, typically in Quarter-1 you will see that trend.

Harshit Toshniwal Sir, just one more thing since now HDFC Max merger is off the card, just want to know that from here on will that be a case that our focus on this agency channel will again be back, more number of agency we can see in the next year or any kind of distribution mix focus which you want to keep in the next year given now the merger is not on the cards right now?

Prashant Tripathy It has been our discussed and declared strategy that we will continue to focus significant efforts to build our proprietary channels. We have been working at agency and the focus has always been to build and continue to be in any one of the top agencies in the country. We will start to make fresh investments in terms of adding more capacity to our agency, and hence, we will be adding more agents, however, the changes that you would see may not be only at the total level, but also at an active agent level, but it is true that we will start to make investment in our own channels. Equally, in view of this merger not taking place, all our previous initiatives around looking at inorganic growth, looking at participating significantly and vigorously in open architecture setup will be back on the table and will be fairly aggressive in the market.

Harshit Toshniwal Sir, if I compare the online channel and the traditional channel for selling a pure protection, can I know that is the margin significantly different, I do not want to know the numbers, but on an average maybe persistency on a margin basis, how are these two channels comparable, if I look there?

Prashant Tripathy Generally on Internet channel because it is a no touch channel, customers are coming on their own, you would expect it to have higher margins than agency channels.

Harshit Toshniwal Is persistency relatively lower or is that also very much?

Prashant Tripathy Persistency what we are noticing actually in the Internet channels, the persistency is significantly higher, it is around 95%.

Harshit Toshniwal **So,** it is even higher than the traditional channel?

Prashant Tripathy Yes.

Moderator The next question is from Sumit Kariwala from Morgan Stanley. **Sumit Kariwala** I had two questions, one was could you talk about the impact on Non-Par business, impact on Embedded Value because of lower rates, has there been any change in assumptions, any negative variance etc. over the last one year, and second is on the protection business, could you talk a bit on the distribution side, where is this growth coming from, is this online, web aggregator, bancassurance, agency, where is it coming from, thank you?

Prashant Tripathy Going to your first question if I look at the Non-Par margins two years ago versus now, there has been an impact on the margin, the margins have gone down but not very, very significantly. Also on our current book, there will not been any impact because the entire book is hedged, but what happens really is when the interest rates fall, the relative attractiveness of the interest rate guaranteed product designed marginally dips and hence you will see that in the product mix, the percentages have gone down a bit, not very significantly but a bit, what we are trying to do is to cover that Non-Par gap by selling more protection and as I have always said selling more protection is part of our core strategy and we are doing that.

Your second question on where this growth is coming from. The growth in protection is coming from, Internet channels and within that both from direct as well as web aggregator we are seeing significant growth. Our Internet channel has grown quite substantially, close to 87% growth year-on-year. It is also coming from agency. We have also started to see traction in the bank channel, so it is an intentional strategy where we are trying to sell protection through all the channels, but in terms of its significance, the order is first Internet followed by agency followed by bank.

Sumit Kariwala Within Internet will web aggregator be a large portion?

Prashant Tripathy Typically between 50% to 60%.

Sumit Kariwala One more question, on the group protection business where are we, what kind of premiums are we doing and what is the strategy there?

Prashant Tripathy We are focused on doing the group credit life kind of business, we currently have a book which does over Rs.300 crore for the year. In the first quarter, we have close to about little over 80 crore of that business and we are seeing reasonable growth above 15%. I must say because of the issues last year and because of real-estate this particular book was not growing enough, but from the first quarter we have started to see reasonable growth in this segment. We have the intention to ramp up this business and we are actively working towards looking for more partners.

Sumit Kariwala This Rs.300 crore and Rs.80 crore is single premium right?

Prashant Tripathy Yes.

Moderator The next question is from Hitesh Gulati from Haitong Securities. **Hitesh Gulati** Sir, my question is again on the protection book, you just mentioned that the group business we did around Rs.80 crore in Q1, so I just wanted to understand how different, obviously you cannot give us the number, but how different of margins for group protection from let us say individual protection which is sold to a retail customer like us, so what is the difference in margins for those segments?

Prashant Tripathy Typically you would expect higher margins from the individual business and the 6.5% or 7% number that I spoke about was with respect to just the individual business, the Group Credit Life business is separate. It is very hard to compare both the products, one is regular premium and the other one is single premium, however, I must say generally the margins are higher on the individual business and growth.

Hitesh Gulati I am sorry I did not get the 6.5-7% which you mentioned?

Prashant Tripathy It is coming from individual business, group is separate.

Moderator The next question is from Atul Mehra from Motilal Oswal Asset Management. **Atul Mehra** I have a question for you Jatin, just in case of the holdco now, so at this point in time, we have a Rs.25 crore kind of quarterly expenditure, so how do we look at that going forward given that it will now be just a shell company in a way?

Jatin Khanna The holdco remains the way it is so we do not anticipate any change happening at the holdco level at this stage, obviously if merger would have gone through then there would have been changes at the holdco level, but currently it stays the way it is.

Atul Mehra In terms of the expenditure run rate should continue at the same level or are there any one-off share, how do we look at it?

Jatin Khanna I think broadly it will be at the same level. Net of Income we have Rs.60 to Rs.70 crore expenses at the holdco level, so that will continue.

Atul Mehra Taking you on the business side, in terms of given that we have now very strong protection growth coming about, so where do we see margins for us maybe this year or how do you look at margins given that this can be a significant delta for us in terms of margins, so how do we look at it?

Jatin Khanna Like Prashant mentioned earlier, we don't disclose margins on a quarterly basis, but directionally obviously protection business helped improve margins because also part of that business is online business, which has even higher margins, but I think the first quarter is also relatively smaller quarter relative to the whole year, so as we come back with a six-monthly disclosure, I think we will be able to better answer that question in terms of how much, but directionally yes, the protection business helps margin expand.

Prashant Tripathy Atul, what I was going to say is over a medium-term basis at an intent level we will definitely try what I call as 2020 which means 20% margin and 20% ROEV, the largest means to get there will be protection, so we will be focused on protection. We are seeing reasonable growth in first quarter though as I mentioned to you a bit of this is seasonal but we definitely want to enhance that by about 150 to 200 basis points every year, so that in 18 months or two years' time we get that 2020 magic.

Moderator The next question is from Prakhar Agarwal from Edelweiss Securities.

Prakhar Agarwal Sir, couple of questions, first in terms of ticket size across the segments, could you highlight how the ticket sizes have evolved over the last year or so within various business segments?

Prashant Tripathy Ticket sizes generally have gone up, we are noticing that our ticket size has gone up as you could see on one of the pages some 42,700 to about closer to 46,000 and that is happening despite the higher mix of protection. Generally the protection average ticket size on an individual basis will be in the range of 11,000 to 13,000, so while we are adding lot of protection equally we are trying to grow the ticket size on the other elements and a bit of this is happening because of higher ULIP mix if you can see versus last year about 200 basis points higher in our mix on ULIP and ULIP typically does higher case sizes, so I am seeing increasing case sizesacross all the channels.

Prakhar Agarwal Sir, what will be the average ticket size in ULIP as such probably because if I look at your presentation, your ULIP has gone by 100 odd basis points, so ideally when you write a protection business as you progress 11,000 to 13,000 ticket size, so what will be your ULIP?

Prashant Tripathy Typically ULIP ticket sizes will be significantly higher than par ticket sizes, they will range anywhere between depending on which channels you are selling from and are between 50,000 to 90,000, more towards 90,000, because if we are selling through bank, it will be higher ticket size.

Prakhar Agarwal Some sense on a broader product mix that you probably want to achieve over next couple of years?

Prashant Tripathy Basically, I will be very happy if we achieve what I call as 45, 20, and 35 mix, 45% Participating, 20% Non-Participating within which we should have may be close to about 12% interest rate guarantee and 8% protection and about 35% ULIP, so we are not very different from where we desire to reach, however, there is a definite push towards increasing the protection business which will give kicker to both margins as well as other financial.

Prakhar Agarwal Sir, last one is on your persistency improvement, so if I look at your 61 month persistency which has come up significantly to around 54% vis-a-vis to 46% last time around so that will probably feed into our higher margins, what sort of assumptions that we are currently making into our margins when we factor in this cohorts?

Prashant Tripathy We actually go by whatever is the current reality, so for example until last year we were factoring in whatever was the persistency at that point of time, now those persistency assumptions would be getting revised because our margin declaration is on the basis of current experience, but does not consider in any futuristic growth and as and when those futuristic numbers are realized, we will include that. I was just mentioning that while we understand that there is a significance of persistency in improving the margin, but it only gets realized and you start to see significant improvement across all the cohort, so generally such significant margins will get realized over a longer period of time as against a short period of time.

Prakhar Agarwal Sir, lastly on this merger thing, with the merger now being called off, any organizational changes that we have done earlier that could have an impact on our businesses and probably would have to be above anything of that sort?

Prashant Tripathy We continue to operate with the same strength and vigor the way we operated always and you would have seen in our performance so as we announced last year we grew quite significantly despite going through the merger and we have not made any significant organizational changes, we are always prepared for the outcome that it has turned out to be, so it is not going to be very difficult for us to unwind anything or fortunately for us most of the top leadership team, distribution team is within the company and we will be able to come back to our winning ways very, very quickly.

Moderator The next question is from Roshan Chutkey from ICICI Prudential Asset Management.

Moderator The next question is from Nidhesh Jain from Investec. **Nidhesh Jain** Sir, my question is on distribution mix, so if I look at last two years the share of proprietary channel including agency have been coming down, while for other players we have seen agency doing quite well for last two years, so it is to do with ULIP growth or what is the?

Prashant Tripathy What I am noticing Nidhesh is across the board for many of these agencies, I think players have a bias towards registering growth as against registering profitable growth and all of us know the implication of writing lot of ULIP through agency, generally the profitability that you end up getting on the ULIP business is much lower than writing traditional business, so it is our chosen strategy, We are doing as desired to actually go and maintain the share, absolutely yes, however you must know that because of the regulatory changes that has taken place in last few years channel which has suffered the most is agency. We will look at the product mix within agency, but we do not have desire to go as high as 50% to 60% as all the players are doing, so between choosing significant impact on margins and lower profitability, than registering higher growth through agency, I think we will choose the first one and that has been our strategy always, so we ourselves are trying very hard to grow in strong double digits on agency, but we are not really targeting to grow 30%, 40%, 50% through agency by selling lot of ULIPs.

Nidhesh Jain Sir, just last question on the operating expenses, what sort of trajectory we should expect on the OPEX as percentage of gross premium or OPEX as percentage of AUM?

Prashant Tripathy We had some one-off that we had to take last year and except for those one-off, the number that I have OPEX as a percentage of gross premiums would be closer to about 14%, so I will say in a way we target to. There are some readjustment that we are doing, so for this year, I will perhaps look at the total cost rather than expense itself, this is for a variety of reasons, but the desire definitely will be closer to the benchmark and our benchmark are top three companies, so we will continue to make progress on our expense and I think we will try to be in the range of about 11% to 13% that is where I will be more comfortable.

Moderator The next question is from Prakash Kapadia from Anived PMS.

Prakash Kapadia I was wondering if you could give some idea on the protection business, how do we clearly differentiate in this particular segment that lot of other private players are also now aggressively focusing on this to improve profitability, that was the first question, and secondly, if you could give us some understanding on the ULIP, when do persistency ratio start coming down, is it 13 month which falls earlier and then the 49 month and what is the mix in terms of our ULIP between balance and growth say market falls 10%, we have seen ULIP fall, how is there a correlation. If you could give us some insights that would be helpful?

Prashant Tripathy I will take your second question first, I wish there was a direct correlation…

Prakash Kapadia Your experience, your understanding.

Prashant Tripathy Typically at a very high level the persistency remains strong, if there is a lock in provided by the regulator, currently the lock-in period is five years, so I would expect that the persistency remains strong for five years. Second thing is the persistency is dependent on which customer segment you are selling it to, so for example if your ticket sizes are high and you are selling it to more affluent customer segments, your persistency typically remain higher, and the third one is there is no lock in…

Prakash Kapadia Do you mean like one lakh plus or two lakh plus?

Prashant Tripathy Yes, closer to there are some companies which are definitely selling between 1.5 to 2 lakhs, so there you would expect the persistency to be higher and when I say higher it can be 200 to 300 basis points better and last is as a thumb rule if there is no lock in period left and the stock market falls, empirical evidence suggests that the redemption rates go up very high, very similar to asset management business and that is really something which may be a bit onerous because where you earn from in the ULIP business is fund management, and if the Asset Under Management falls, then your future earnings projections may go down.

Prakash Kapadia Secondly, on the protection business, if you could?

Prashant Tripathy Everybody is trying to do protection predominantly because of all the regulatory changes that have taken place, the push from the regulator is to take risk and earn margins and protection is a risky business, so two or three things that I would say for a company to be successful in protection business, one needs to look at not just the ability to sell but also your ability to underwrite the mortality experience over a long period of time and your ability to create more pull than push and my experience is that while many people are trying that, and make some good stride. I think combination of these three will play out in terms of who succeeds in future. Also when it comes to trying to sell more protection business through Internet channels, etc., your brand plays a bigger role and hence you would typically see that protection through Internet will start to consolidate with larger players than smaller players.

Prakash Kapadia Here Sir, given I would assume based on my understanding this would be not too much of a differentiation in terms of the product, so when you say create a pull by pricing lower or risk adjusted pricing lower is that also a relevant factor?

Prashant Tripathy It is relevant only for both the Internet kind of product, though I must say differentiation is also possible with respect to brand. As I mentioned to you and also with respect to product features, your ability to have sharper underwriting without doing medical versus pushing everybody through medical etc. can have an implication on how well you could convert the business, so there are nuances which will work out, but I will agree with you that pricing plays an important role in the direct business where customers are coming.

Jatin Khanna Just to add to Prashant's comments, the robustness of your underwriting practices is a very very important component when it comes to the online business because if you are underwriting is very robust, then you clearly can price your product either in line or lower than the market, and which therefore also helps you to create that pull which Prashant was mentioning and the brand pull and the differentiation which you can create, I think it is a combination of all three.

Prakash Kapadia You mentioned about empirical evidence of redemptions being in line with Asset Management Company, so what is the broader range, is there an average upper-lower range, so is it like 5%, 8%, 10%?

Prashant Tripathy Basically, the way we measure that is the redemption/surrender as a percentage of total premium which is being collected. That is the way we look at it and a range which is more between 15% to 25% to 30% is a safe range, again it depends on what kind of ULIP mix you have been writing, but then higher ULIP mix can be higher. In the worst situations that we saw from 2011 to 2013 etc., we saw some of the companies bleed upwards of more than 100% of surrender as a percentage of premium.

Prakash Kapadia That would be very smaller companies I would guess?

Prashant Tripathy A very large set of companies actually went through that issue.

Moderator The next question is a follow up from the line of Avinash Singh from SBICAP Securities.

Avinash Singh A couple of questions, one if you can just help explaining this your profit before tax last year at Rs.155 crore versus now Rs.106 crore, what was the one off and are there some changes like new business strain impacting that apart from that one off, that is the first question? Second, in terms of your cost, given that the protection is going up, so on most of the metrics cost looks improving a bit, so what is there that is helping you improve the cost?

Prashant Tripathy

On your question of Rs.155 to Rs.106 crore of PBT, you may recall that the interests rates were falling quite drastically last year and we realized some of those gains, so very large part about the lower 30 crore is the realization that we have because of falling interest rate on the shareholder count and the balance amount is of course strain because we are riding more Non-Par and protection business, so that is really the big item. On your question on expense improvement, generally as a business, if you look at our trajectory year on year, we have seen improvement and this year is similar in terms of the improvement that we are going to make, so like I mentioned to you earlier in the presentation as a business you get an operating leverage as your revenues increase and despite of writing protection business, you will continue to see some of these improvements come through.

Avinash Singh A few of those things regarding expense slightly contrary between I mean what you are saying and some of the peers, like in case of your online, so what peers say that okay, even in case of online direct, the acquisition cost they allocate is pretty high they say in terms of your online marketing expense and all those thing when allocated…?

Prashant Tripathy Yes, to some extent that is correct actually, but not very, very significantly higher than say an agency channel, so it is in the same ballpark.

Avinash Singh Similarly between group and individual protection the views are a bit contrasting, some of the peers they say that the group margins are better because I have not expense that I have to incur in case of individual and the business is visited in bulk, so of course the medical checkup and all those things are not coming…

Prashant Tripathy That is true if you write more group business, your expense ratio should come down.

Avinash Singh In terms of the margin, they say that okay in a group credit life is higher than individual protection?

Prashant Tripathy That is not true in our case, I do not know how they have price, but really theoretically speaking anything that you write on group plus form cannot give you more margin than individual, I mean a B2B proposition could not be better than B2C proposition.

Moderator The next question is from Vishal Rampuria from HDFC Securities.

Vishal Rampuria In your slide #11, you had mentioned, surrender, so generally we have seen in the first quarter that number is going up, so can you explain why this number goes up in the first quarter?

Prashant Tripathy It happens predominantly because typically the surrender remains almost similar in terms of absolute surrender, but the denominator which is revenue is lower in this quarter.

Vishal Rampuria One more question to ask you, Sir, in terms of your ratios, which one is better one to look at persistency ratio or the conservation ratio?

Prashant Tripathy I think persistency, if you are looking at persistency you should look at multiple year persistency as against only 13 month persistency then conservation ratio is only a very crude measure of persistency, so I will suggest my view is to look at persistency more closely than just conservation, so conservation could be seasonal.

Moderator The next question is a follow up from the line of Roshan Chutkey from ICICI Prudential Asset Management.

Roshan Chutkey If I look at your conservation ratio and calculate it, 1,342 is the renewal premium this quarter up on 1,135 plus 382 which is the first year renewal premium of last year, if I do that it comes to around 86% whereas the conservation ratio you are reporting is about 92%, what am I missing in this calculation?

Prashant Tripathy You can send me the calculations and we could resolve.

Jatin Khanna The number is correct I must say that, we just rechecked it, if you send it to us and we will come back to you.

Moderator The next question is from Hitesh Gulati from Haitong Securities. **Hitesh Gulati** Sir, this is another follow up from my side, I wanted to check on how different is the solvency requirement for your protection products, like we obviously know the margin are highest for the protection business across all products, but if you can calculate or determine the embedded value when you try to see the net worth that it will consume on the product, how would that be, so that is why I wanted to understand how different is solvency requirement for the protection segment?

Prashant Tripathy As per rupee for protection return, of course the solvency requirement is higher in protection business, I do not have the numbers handy at this point in time to exactly tell you, but they are certainly higher because where you calculate solvency is you have to look at how much capital you have to keep it and it has a bearing because initial strength is high on this. Send me a note again and I will come back to you as how much the additional solvency is required for protection business vis-à-vis savings business.

Moderator The next question is a follow up from the line of Harshit Toshniwal from ICICI Securities.

Harshit Toshniwal Sir, this question was just asked in the previous one only, maybe exact numbers you can give later, but if I just want to know to calculate the kind of solvency margins, so what would be for pure protection, ULIP, and balance portfolio, what would be average kind of consumption of capital per rupee of premium, some kind of figure like that which we can use for estimation?

Prashant Tripathy It actually changes depending on the way you look at strain. It is a combination of two things, it is a combination of how much reserve you need to create in year 1 and also which channel you are selling from so what is the expense that you are incurring acquiring that. As a thumb rule, the highest will be in protection followed by the other Non-Par followed by Unit Linked, so Unit Linked would be lower, and participating one would argue that assuming that participating fund is surplus, it may not require any shareholder capital, so in a way the strategy that we follow is very favorable because for us we do not end up consuming a lot of capital.

Harshit Toshniwal You are saying that for Par product generally capital consumption is even lower than an ULIP?

Prashant Tripathy There is capital consumption, but that can be covered by the surplus which is generated by on the Par line.

Harshit Toshniwal For the net basis, if I look at the trajectory pure protection, Non-Par balance, ULIP, and then par?

Prashant Tripathy In that sequence for a company which is profitable on Par line.

Harshit Toshniwal Just in case the broad range between how much to how much that can lie in terms of basis points or percentage?

Prashant Tripathy I think that is a very detailed question for me to answer, we will get on one to one.

Moderator Thank you. I now hand the conference over to Mr. Khanna for closing comments. Over to you.

Jatin Khanna Thank you, Ladies and Gentlemen, for being on the Max Financial earnings call. I appreciate you taking time out to be part of this call and I sincerely hope that we addressed most of your queries to your satisfaction. In case, you still have additional query or you could not find answers to any question to your satisfaction, please do not hesitate to contact us. If we have missed out anything on the call, the recording of this call will be available and the transcript will be put on our website. We look forward to most of interactions in the future,. Thank you once again and Goodbye.