Max Financial Services Limited

Q3 FY18 Earnings Conference Call Transcript
February 12, 2018

Moderator

Ladies and Gentlemen, Good Day. And Welcome to the Max Financial Services Limited Q3 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. I would now like to hand the conference over to Mr. Mohit Talwar – Managing Director from Max Financial Services Limited. Thank you and over to you, sir.

Mohit Talwar

Thank you and welcome everybody. I am joined by Prashant Tripathy, CFO of Max Life, and Jatin Khanna who handles our Investor Relations and M&A activities.

I will talk about the key highlights first for 9MFY18, and then move on to the more strategic items and our priorities going forward. I am very happy to share that Max Financial had a robust growth in revenues of about 12% to Rs. 9,667 crore. Our consolidated PBT was Rs 328 Cr however down 35% Y-o-Y basis, but that is because of the unusual situation we were in last year when we were in a midst of a merger. Max Life's individual adjusted sales has grown at a strong 18% to Rs. 1,876 crore with undiluted focus on traditional and protection products. This is with a strong focus on digital, e-commerce channel which has grown about 116% and online ULIP has been launched to gain further market share in the online market.

Protection sales grew 52% Y-o-Y resulting in 100 basis points improvement in protection mix from 3.7% in the 9MFY17to 4.7% in 9MFY18. Gross written premium grew a strong 12% to Rs. 7,852 crore. 11% growth in renewal premiums to Rs. 5,214 crore which was led by record improvement in the conservation ratio to 88.7%, which is probably one of the highest in the industry.

Trends in expense ratios, conservation and persistency all continue to show a healthy Y-o-Y improvement. Claim settlement ratio is over 96% and is best in class. Solvency surplus at Rs. 1,956 crore results in a ratio of 280%. Assets under management has for the first time crossed Rs. 50,000 crore, which is a milestone as at December 2017, and this is now at Rs. 50,333 crore with a growth of 23% Y-o-Y.

Let me now talk about some strategic priorities for our business that we have identified in the just concluded review of the business. We will continue our efforts of deeply integrating with our partners and build capabilities across products, marketing and technology. We will accelerate investment in proprietary channels to build a robust multi-distribution architecture. Max Life agency channel is one of the few channels in the country that is delivering positive margins. Our focus will be to build on that by growing our active agents and not just the number of agents. We will continue to build on our marketing leadership in online sales because of consistent pricing advantage, powered by strong underwriting capabilities.

Through fresh investment in our proprietary channels we will aspire to grow these channels by around 35% CAGR over the next three years to get to a more balanced channel mix and get close to 40:40:20 ratio between the channels, i.e. Proprietary, Axis and Others. In other words, Proprietary would be 40, Axis would be 40 and the Other channels would be 20.

We will continue to maintain an aggressive posture towards inorganic growth for acquiring bank-based life insurers and acquiring new Banca relationships. And to this effect Max Financial Board has recently approved a significant capital raise of up to Rs. 5,000 crore. There will be a focus to pursue a more balanced product portfolio with a bias towards the preferred segments in which we want to grow.

Given our increased focus on affluent customer segment, you will see proportion of par will reduce to around 40% with contribution from ULIP increasing to around 40%, protection focus sharpening further with contribution increasing to 8% from current 5% and non-par contributing the residual 12%. We will further accelerate digitization across insurance value chain to improve customer experience and cost efficiencies.

You would recall in our last call that we were aspiring to get to a 20:20:20 performance by 2020. I am pleased to share that we deliver to the above outcomes and if there are no regulatory headwinds we are now aspiring to get to a 25:25:25 on sales, margins and EV growth.

So to sum up, Max Financial Services is delivering strong performance for shareholders via Max Life, which will further refine as Max Life delivers on the new strategic plans. We spoke about our vision of 20:20:20 which now improves to 25:25:25, and that is our aspiration.

And so on that note I would like to hand it over to the moderator and open the floor for Q&A session. Thank you.

Moderator Thank you very much. We have the first question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal My question is on the NBAP margin 9MFY18, what is that data, because it is not available in the presentation?

Prashant Tripathy Actually we do not disclose the nine months margins, so we disclose it twice a year, the first disclosure was made at the end of first half which was H1FY18 where we had projected that on a full year estimate or expenses we should come close to 20%, we continue to maintain that outlook for the time being and we will disclose the numbers only at the end of full year.

Manish Ostwal Okay. And second question capital raise, we are now raising Rs. 5,000 crore of capital and in the press release it is mentioned that it will be used for inorganic growth opportunity in the life insurance company. So basically, the lion share go for this acquisition or how it is split in terms of incremental use of capital?

Mohit Talwar So this has obviously been widely publicized that we are one of the bidders for the acquisition. So should that come through and if we are in a position to win that mandate, a large part of that will be consumed there. But at this point in time it is difficult to announce what the valuations are. But that is the big number which we have sought an approval for. But right now, we are going through a process of diligence and a little premature to tell you what percentage of that would go for this acquisition if we were to get it.

Manish Ostwal Okay. And last question on this, our Bancassurance tie-up with Axis Bank is up to 2021 I believe.

Mohit Talwar That is correct.

Manish Ostwal So when this will be up for renewal and equity participation by Axis Bank in Max Life can increase, how it is?

Mohit Talwar So, for now our arrangement with Axis Bank will continue till 2021. So again, on that one it is a little premature to tell you exactly how it is going to play out beyond that. But suffice to say that should we reach 2021 which would be almost over 10 years of relationship which has really stood the test of time and has done very well for both... mutually beneficial relationship. And the teams are so well entrenched that I see no reason why somebody would want to destabilize that.

Manish Ostwal Right. And last, have we upgraded this 2020 guidance to 25:25:25?

Mohit Talwar That is an aspiration.

Prashant Tripathy And that is not for FY20, I think it will be more about FY22, but aspiration is to lift by 5% point across all the three vectors of NBAP margins, sales and RoEV?

Mohit Talwar By 2022.

Moderator Thank you. We have the next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria Sir, one, if you look at the third quarter numbers the Axis channel growth is roughly 9% to 10%, so any reason why the growth is lower compared to the other channels?

Prashant Tripathy Actually, what is hidden in that number is the impact of demonetization last year. So, it is a very high base effect because of which you are seeing may be a more moderate growth. I think my suggestion will be let us review the numbers at the end of the full year and anywhere historically we have observed some bit of sales seasonality with respect to Axis Bank the bias towards doing more higher in last quarter versus third quarter.

Vishal Rampuria Okay. Sir second question to ask you on this fund-raising plan, so already we are holding good amount of surplus in Max life in terms of solvency surplus, so why we plan to raise such big amount of money?

Jatin Khanna So, the approval we have taken is for an up to a particular amount, but needless to say what will be raised is what is actually required to pursue the acquisition and that amount is only an umbrella approval so to say.

Vishal Rampuria Within your product mix you have got protection right which is 4.7%, so how much of that will be group credit and group term?

Prashant Tripathy Actually all of it is individual protection business of 4.7%. Additionally, we have one more percent of group credit life, so if you have to add our Group protection business it will be 5.7%. However, historically we have been showing only the individual protection as a measure and that is around 4.7%.

Vishal Rampuria And what is our strategy to pursue the Group credit business because many players are growing aggressively in that segment?

Prashant Tripathy Yes, so our focus is going to be a bit higher on individual business. We are looking at increasing our mix of protection business to closer to 8% to 10% in next three to four years' time. So, I think the biggest driver will be individual business, however, suffice to say that we will be equally focused at Credit Life business. We would be looking at it more aggressively but looking at the market outlook and some of the realities of how that market is, we will operate somewhere between 1% to 2% in about three years' time.

Moderator Thank you. We have the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada A couple of things, first just a suggestion, I think we are pioneers in terms of disclosures for the sector and probably as new players have come we have sort of not upgraded to that extent. So may be if we could sort of provide basic stuffs like margins and EV probably on a quarterly basis that would be more helpful. If not EV then at least margins would be more helpful. That is one. The second thing is, I understand the logic of going for the capital raise approval and things around it, but just to take a step back and to sort of highlight one point, so Axis Bank has openly mentioned that they are not satisfied with the sort of annuity based distribution model and they have aspirations for building a life insurance franchise and probably I have seen their name appear in the IDBI-Federal deal as well. So how do you sort of rest that sort of aspiration which the bank has with our current set up, if you could just comment your thoughts on that that would be very helpful.

Mohit Talwar In terms of bidding for this, it is with the knowledge of Axis Bank that we have bid for this business and we are also aware of the fact that they had bid for the business. So it is not something which is happening in a cloak-and-dagger fashion. So now the outcome depends on who kind of wins it. As far as relationship with Axis is concerned, I already mentioned to you that this has been a strong one and it stood the test of time and it goes all the way up to 2021. So that is something which I just want to let you all know that the fact that we bid is with the knowledge of our partners and probably with blessing of our partner. In terms of the disclosures, you are talking about quarterly EVs, the extent of work that is required for taking out a EV even twice a year is extensive, so now to make it quarterly is something which we take onboard but I have my doubts whether we can do that in that frequency. But I think we are probably amongst the pioneers when it comes to disclosures in terms of EVs and otherwise.

Dhaval Gada Sure. And follow-up on the Axis Bank question, would you sort of agree that they have indicated their desire to move ahead from the annuity-based business of distribution to now manufacturing, is that something that you have also witnessed in your conversation, and if so how have you tried to tackle that situation? Thanks.

Mohit Talwar So what you have heard and what you have read is what we have heard and what we read, there has been nothing specific in terms of Axis coming and telling us now listen we are now going to go in for manufacturing so thank you very much, this relationship is going to terminate like in another six months from now. We have not had any of those sort of conversations.

Moderator Thank you. We have the next question from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala Just was looking for a data point, if you could share your persistency excluding single premium?

Prashant Tripathy Excluding single premium is something that should be there on our website, I think we published that.

Sumeet Kariwala Because for the 13th month the persistency has come down slightly to 79% versus 80%.

Prashant Tripathy That is possibly predominantly because of the singular reason that last year we had one extra month for due collection as mandated by the government in view of the demonetization. So that has had a marginal impact. At the structural level there is no big reduction.

Sumeet Kariwala So you are saying that last year you got one more extra month, and which is why the data looked better, and this year you did not have that extra month because there was no grace period and therefore that number is…?

Prashant Tripathy In our par business there is an accounting thing where the due and unpaid business is already recorded, so last year we got one extra month, this year we did not, so hence the difference ….

Sumeet Kariwala Okay. And single premium you have disclosed on the website is it, excluding single premium?

Prashant Tripathy It is the IRDA way of reporting, including single premium.

Sumeet Kariwala Okay. And you do not disclose excluding, …

Prashant Tripathy There is no way to disclose, we will be quite open to disclose.

Sumeet Kariwala Okay. Because some of the players are being disclosing this, that is fine.

Prashant Tripathy Just for confirmation, our adjustment for single premium is negligible because we do not write significant single premium.

Sumeet Kariwala Okay. Because if I look at the data the share of single premium is a bit on the higher side, I guess those are some products wherein you provide top-up facility. And I was trying to understand whether that is used when you calculate persistency

Prashant Tripathy Let me confirm to you, what you see booked as single premium is something called paid-up addition which is a feature in the par product design where the customers have the right to buy more sum assured and that gets added and appears as single premium. You will see that more in par lines, that is excluded in the persistency computation.

Moderator Thank you. We have the next question from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

Amitabh Sonthalia Sir, my first question was regarding the merger options, are there any merger options that we are still considering after the failed HDFC and Max Life merger?

Mohit Talwar The answer to that is in the negative, there is no merger opportunities or discussions which are taking place at this point in time.

Amitabh Sonthalia Is that ruled out for the time being or potentially are we still open to that?

Mohit Talwar Let us put it this way that as far as Max Financial Services is concerned or Max Life is concerned we are not proactively looking at any merger.

Amitabh Sonthalia Okay. And do you see a need for consolidation in the sector though, do you see any merit in looking or exploring mergers in the future?

Jatin Khanna The fact that we are actively pursuing an acquisition opportunity, that itself tells you that we are very keen on consolidation. But the preference is to do via acquisition route than a merger route at this stage.

Amitabh Sonthalia And could you throw a little bit of light on what type of opportunities you are looking at in terms of acquisition and what is the size?

Mohit Talwar I touched upon that.

We are looking at opportunities where it is value add we just would not be going for opportunity where you are adding on just a book, it should actually augment our distribution capability.

Amitabh Sonthalia Okay. And are there opportunities available in the space, are there any targets that you have identified?

Mohit Talwar There is one right now which we all wait for, which is the IDBI-Federal, so that is the one on the table right now.

Amitabh Sonthalia Okay. And what is the likely size and outlay that we have prepared to sort of…

Mohit Talwar Would not be in a position to tell you that because there is a process being run, so that is something which obviously is subject to diligence and a whole lot of other things. So a little premature to be saying what that value would be.

Amitabh Sonthalia Sir, and a related question would be, just as a refresher what is the fund raise that you have done recently and what are you looking to do and what is just available to you?

Mohit Talwar The fund raise is for exactly this purpose, but I would not say that all of it is for this particular opportunity, there could be more.

Jatin Khanna So, just to clarify, the fund has not been raised, we have taken an in principle approval from the Board as to pursue this opportunity we have to raise fund we have the approval and support from the Board available to go and raise such funds. And as we get through the process and if we emerge as a final bidder is when the fund will be raised.

Mohit Talwar So it is really an umbrella approval or what you call an enabling resolution which is passed by the board.

Amitabh Sonthalia And you would raise the fund if required, not pre-emptive raise the money?

Mohit Talwar No, why would we do that, why would we dilute ourselves if there is no opportunity. So this only is going to be need based.

Amitabh Sonthalia And fund raise would be at the listed entity level, the Max Financial?

Mohit Talwar It would be at the listed entity.

Amitabh Sonthalia Also the reason why I am asking this is because, if I recall correctly there was also announcement by the parent entity about the parallel fund raise.

Jatin Khanna The parent entity is the listed entity, the subsidiary is not listed.

Amitabh Sonthalia No, I am talking about the holding level at the promoter level was there not an announcement about promoter level fund raise?

Mohit Talwar You are right.

Amitabh Sonthalia So, could you throw some light on that if that is related to this or what is the, just explain and clarify the difference between the two and what the quantum for the two is, etc. And is the promoter level fund raise to pursue other unrelated opportunities or is it to be pumped into Max Financial?

Mohit Talwar Okay, so let me clarify this. You are right in terms of there were two announcements, the first one was at the promoter level for about Rs. 2,000 crore. And that is I think KKR's name was mentioned in that, that is nothing, it is basically restructuring of existing debt, and that is for ventures in the sponsor's private side of the business, that has nothing to do with what we are talking about which is the second announcement and that is the enabling resolution for us to raise up to Rs. 5,000 crore for inorganic opportunities in the life insurance space. So there are two separate items unconnected with each other.

Amitabh Sonthalia Okay. And you are saying the promoter level fund raise is essentially not a fresh raise but a restructuring of the existing debt?

Mohit Talwar Absolutely.

Amitabh Sonthalia So it is not really the fresh money that they will be using with recourse to the holdings in Max Financial or…

Mohit Talwar No, it is a restructure of debt and it is a very good deal, may be not to be discussed in this call but it is quite innovative, probably first time in the country. And I think KKR has done a fabulous job in structuring that product.

Amitabh Sonthalia Okay. And just lastly very quickly, on the Axis Bank dependency, I did hear your response to your earlier question about the relationship almost being a 10-year relationship and not seeing any reason why that would be at risk. But at the same time I think the street is concerned and rightly so about your dependency on that channel and what steps, if any, the management is trying to take to reduce that dependency.

Mohit Talwar So, I think you may have missed the second part of my preamble where basically I talked about how we would get to the 25:25:25 stage and there were a whole host of initiatives which we have and are embarking upon in order to basically mitigate exactly the sort of risk which you highlighted, which at this point in time Axis, I would not call it as a risk, I see that as an opportunity, but that dependency has come down. And going forward in terms of all these initiatives whether it is in the proprietary channels or going after the other Banca sales, as well as online, digital, all have got put together would reduce the dependency down to about 40% or so.

Moderator Thank you. We have the next question from the line of Mithun Soni from GeeCee Investment. Please go ahead.

Mithun Soni I have one question with respect to if we take a long-term view, I am talking of three to five years and strategically would it mean as industry wide a Bancassurance model will or just like an HDFC and ICICI having an own bank or having a partnership which is long-lasting without having to worry about what is going to be the scene after two or three years is a much better model. Or you think that the independent model like what we have today is not to be worried about from a medium-term to long-term, when I am saying medium-term to long-term three to five years and plus perspective, can I have your view on that please?

Mohit Talwar Yes. So, let us get real here, I do not think we would be in a position to be starting a bank and we have no such intentions. So, what is the next best thing which is optimal for all? Going into proprietary channels 100% would not make sense because we want to be extremely cautious, and by the time these channels breakeven it takes several years. A healthy mix would be a combination of your own channels as well as online digital as well as getting a couple of banks. Now we have the Axis relationship and like we said it is there till 2021 and it is strong, and it is a win-win relationship, we do not believe that we are going to be seeing that relationship getting aborted in this interim. Meanwhile if we were to get some more banks, that only augments the whole distribution mix and strengthens it. We also have YES Bank which has done very well for us, we have got Lakshmi Vilas Bank which is again doing very well for us. So, I think the answer to this question is, yes ideally if we had a bank we could sleep easy, unfortunately that is not the case. So in order to make the best of the situation I think a combination of proprietary channels as well as the Banca channel is something which would be desirable at this point in time for a Company like ours.

Mithun Soni So just to understand, when you say by FY22 you are targeting about 40% coming from the Banca channels, would you say that by that point in time not any single bank would have more than 25% or 30% share of that Banca pie, is that a possibility you are looking at or that will be still very difficult?

Mohit Talwar No, see in this statement of mine the 40% is what I said will come down from where we are currently on Axis Bank. So, I am not building in here any additional banks which might come in, so for example if IDBI-Federal happens I do not know how that would really play out or how this mix will change, that only time will tell, but at this point in time if we were to look at our existing distribution arrangements and the initiatives which we have embarked upon, then that is a sort of level we would see Axis coming down to, clearly to mitigate the overdependence which you all brought up.

Mithun Soni But just to understand, even once we do all these things will we not need to partner with finally one bank from a long-term strategic perspective? And from that perspective does it make sense to join hands with Axis just like what we were earlier trying to do with HDFC, may be with Axis or another private retail bank who may not have today the strong franchisee like what HDFC or ICICI would have. Is that sort of possibility not feasible for us from a medium-term to long-term perspective for us?

Mohit Talwar I think the slant in your question is driving me towards a merger sort of an answer, but like I said at this point in time we are not in discussion with any so-called partner.

Mithun Soni In medium-term to long-term, well today or may be not next two years, but I am talking of a little longer perspective where finally will that be the path we will have to go or you feel that we can finally just avoid it and be independent as we are today?

Jatin Khanna Let me chip in here, your question is pre-supposing that our bank partners are walking out, which is not the case. Our partnerships are strong, Mohit spoke about a 10-year relationship with Axis, we have had a 12 - 13 years relationship with YES Bank. And in any partnership, it is a mutual win-win, if they bring something to the table we also bring something to the table. For example, we are also 70% of the fee income of Axis bank. So, I think it is a mutually beneficial partnership. So I think your question is presupposing that those partnerships are weak or they are going anywhere, which Mohit clarified in the beginning itself to say there is no reason for us to believe so at this point in time. So, I would say that we should sort of take comfort out of that.

Mohit Talwar It is an ideal world, what you are suggesting. If it were to happen it would be first priority. But in reality to really look at the so called bank led Insurance companies today, there are few and we know who those companies are, but at this point in time there is nothing concrete which one can tell you whether three years from now, five years from now a scenario such as what you are alluding to would really arise. And like I said, we have to be prepared from our perspective that we should build our capabilities in a manner which kind of optimizes shareholder value and we also must keep in mind that getting into one of these also has its downside. What happens tomorrow if mandatory open architecture comes into play, you cannot rule that out. So, the banks like the ones you named, bank owned insurance companies, all of them would have to go back to the drawing board and try and figure out as to what should be their distribution capability going forward. So it cuts both ways.

Jatin Khanna And you know some of the larger banks have already gone the open architecture way, so to that extent I do not know whether like what Mohit also said, if there is really a merit to be tied-up with a particular bank.

Mohit Talwar So I think the strategy we are adopting is something which we collectively believe is the right one, it has also been blessed by the Board, there are a lot of wise men sitting on the Board. So let us see how this plays out.

Mithun Soni One last question if you may allow, our aspiration for 25:25:25 in terms of growth, margins and NBAP, what are the key levers from the OPEX perspective you are factoring, how much of the contribution you feel can come from the OPEX related and how much will be coming primarily from the product mix?

Prashant Tripathy I guess when you get a growth of about 25% it has a very significant impact on the margin as well as RoEVs by virtue of operating leverage. So I would not quite say expense only, but maintaining expense at a level so that it doesn't grow proportional to the sales or revenue. So my sense is that it will be a combination of half and half. So for example, if we are sitting at 20% margin I think by every 1% increase in protection we should get **~60-80** bps increase in margins. So if we do 20% to 23% will be out of product mix and rest 2% should come out from operating leverage.

Moderator Thank you. We have the next question from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla First on the planned target or aspirational distribution mix, when you say a 40% Axis and 40% proprietary, I am assuming you would want your proprietary channels to grow faster than bank rather than bank going slow. In which case it would have implication in terms of investments in the channel and cost, how do you see that impacting the profitability and your cost going forward as proprietary is more expensive.

Prashant Tripathy I just want to highlight exactly what Mohit has said, we reviewed, and we looked at our strategy plan, and what we found was there was very little investment that we have made in our own channels in last ten years, it was predominantly trying to consolidate our own channels. And to get the belief that time has come for us to start to make investments. However, these investments are going to very different from opening full-fledged agency channels, and I will tell you what we are trying to do. These investments will be focused more towards working on agency like low cost variable channel, market has moved on in last few years and our own experiences as well as market experiences and some of these investments are bearing fruits. We are going to make investments on specific segments, we are going to make investments on the direct channel that we have got, we are going to make investments on internet marketing firm kind of set-up, we are going to make investment on point of sales. These are all new allowances that IRDA has come up with and we believe that by doing all this we will be able to drive proprietary channel significantly higher than third-party channel sale. And there may be investments that we may have to make, but those investments are going to have to be monitored with payback or a breakeven on NBM basis in a maximum of three to four years. So, we together believe that this is required to drive our growth, so strategically balance our channel mix. And we have approval to go ahead and do that. Will that start to show in a very significant manner the impact on profitability or margins, etc, the answer to that is no, actually I am not outlooking significant reduction in our margins, etc. There may be some bit of reduction in statutory profit for a particular year, but I think it will all get corrected as we move along.

Manish Shukla Alright. Next is on the product mix, and Mohit alluded to your comfort with a 40 par and 40 ULIP, now this is a slightly higher threshold for ULIP than what you have articulated in the past. Anything inherently changed in the market which makes you more comfortable with a higher share of ULIP and what if at all are the margin implications likely to be for the same?

Prashant Tripathy I have already indicated that our most optimal product mix will be 60 traditional and 40 unit linked. And if you notice that even at the end of this year to a large extent we have achieved it. When we finish this year, you would notice that our ULIP mix is closer to 40 as we finish, so we are already there. I think what we are trying do is keep ULIP either at that level or may be one or two percentage points here and there. We want to rebalance par and non-par because we want to drive more protection. So a bit of a share of par will be eaten by the non-par, especially in protection and some between non-par saving. We are more comfortable with non-par saving as we go along because of our hedging as well as the interest rate regime which is currently trending in favorable direction. So, really if you look at our product mix, two or three things, take a bit higher bet on ULIP into market which a large part of this has been done this year already, focus more on protection and take a bit extra bit on non-par savings, all of it by reducing par reliance.

Manish Shukla Okay. And the talk of proposed changes for the par structure, your thoughts around that and what kind of implications it might have for you?

Prashant Tripathy I assume that you mean some of the charges that have come from the product committee around…

Manish Shukla Exactly, yes the product committee recommendation.

Prashant Tripathy I am very happy to share with you that our surrender scale are significantly better than most of the competition. So, basically I have been through that and we did an assessment. Currently it is not quite clear how that particular thing will be implemented but it does talk about breakeven for the departing policy holder, etc. And I am quite sure that by the time this gets approved after going through various approval processes, Max Life will be in a very good position to manage it because even now our surrender scales are reasonably better than other people.

Manish Shukla Sure. My last question is, Mohit, the proposed acquisition or M&A. Will the acquiring entity be MFS or Max Life Insurance?

Mohit Talwar It would be Max Life Insurance.

Moderator Thank you. We have the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe Just one thing on the Bancassurance side, from how many branches of Axis and YES do you currently operate? And how many employees do we have working with these branches?

Prashant Tripathy The total number of bank branches within Axis Bank is around 3,400. Of that almost all of them are active, so the activity levels will be closer to 98% - 99%. On YES Bank, the total number of bank branches is around 1000, but the branch activation is closer to 75%. Number of employees will be closer to about closer 3,500.

Nischint Chawathe All the three banks put together?

Prashant Tripathy Yes, all the three banks put together.

Nischint Chawathe Secondly, in this particular transaction that you are doing basically where Max Life is kind of looking at acquiring the other insurance company, would Mitsui also contribute proportionately?

Mohit Talwar Yes, they would.

Moderator Thank you. We have the next question from the line of Adarsh Parasrampuria from Nomura. Please go ahead.

Adarsh Parasrampuria On margins right, on your guidance or your aspiration of 25%, just wanted to understand when I look through the product mix persistency with various top three Companies, the listed bank lead insurers, your aspiration on margins is probably the highest that anybody is reporting now. HDFC is closer to 22% and others are lower than 17% - 18%. So I just wanted to understand and when I look at your cost structure even if you adjust for your product mix, you still would have the higher cost between all of them. So I am just trying to think about what would you do so different that you get to a margin leadership position from still having a little higher cost structure?

Prashant Tripathy That is a very good question Adarsh, let me just first clarify that the 25% is an aspirational number to be achieved in time from here. We will currently be at around 20% as you know. The reason why you see our margin number closer to 20% is predominantly because of the product mix, also because of the result of very smart alignment of target segments to channel to products category that we chose to sell to those target segments. And with the interplay of embedded economics of different channels you could land up with a much inferior outcome of margins in case you do not or you are not careful about what you want to sell through which channel, or you could land up with an optimal outcome the way we have done. So that really is a combination of target segment to channel, to channel economics to the choice of products. Needless to say, the choice or the fact that we run a larger share of traditional with around 60%, within that we have a good mix and we are trying to increase the mix of protection business, also a reasonable mix of the interest rate guarantee design, those are the reasons why you see our margins being superior.

Adarsh Parasrampuria And just kind of mixing this question with the regulations around the product structures, does par become from a return perspective a little more inferior product if you take out the surrender charges, because some amount of money being paid to guys who is persisting may be just coming from people who are not persisting. So I am just trying to think over whether that product goes through some bit of margin compression if you see any changes in the surrender charges of par product per say?

Prashant Tripathy Yes, that definitely is a possibility, completely depends on what kind of scale do you give. I mean, basically the traditional designs are a bit different from participating designs, especially in participating only 10% of the surrender charges go to the shareholders, the balance actually go to the fund. So the bigger impact will be the IRR on that fund or that policy holder, maturing policy holders versus the departing policy holders. And that interplay is something that is worth a debate actually and jury is still out to see which way it finally settles. Because there is also a benefit in the arguments that somebody who has decided to stay on gets a higher benefit than somebody who leaves midway.

Adarsh Parasrampuria Understood. No, it is just that the ability to load expenses also go down, right, so that is the only question I am trying to understand whether there is an implied hit to the margins as well?

Prashant Tripathy Unless we really look at what scale, etc, it is very hard to predict, because it can go from very harsh to where we are today. So really very, very hard for me to predict. My early look on the basis of the product committee guidelines which is looking at this is, my sense is that it is not going to be extremely severe. And anything transformational will have a big impact because all said and done about 70% of the market or 75% of the market in India is still traditional, so LIC which is between 45% to 50% of the market share still sells all of traditional. Even within the private space my sense is that closer to about 40% to 50% of the product is traditional and at industry level it is very big. And hence making transformational changes can be quite hard on or difficult for the industry. And I am sure the regulators whosoever is making the change will be aware of this.

Moderator Thank you. We have the next question from the line of Rahul Maratha from Akash Ganga Investments. Please go ahead.

Rahul Maratha The kind of lofty valuations that we are seeing in the newspaper for this IDBI-Federal Life, what is the investment rationale, like what are the kind of return on investment we are targeting from this deal?

Mohit Talwar You will appreciate that whenever there is a deal which under a big situation, it is not fair to be asking a question like that because we are not in a position to divulge anything at this juncture.

Moderator Thank you very much. We have the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada Just a couple of follow-ups, firstly on margins. Just want to understand for the nine months period have we seen any benefits, if any, from the guideline change that happened in terms of commissions and remunerations paid to distributor apart from commissions? So we had some expenses going through the operating expense line, so have we saved some or it is neutral on margins? That was the first question. And the second question was on agency channel growth, so I was just looking at the last five year data and for 1H, but probably it is true for nine months as well, so the CAGRs have been between 7% and 9% for us from the agency channel premium contribution, and I think this nine months as well, if I am correct, it is about 11%. So just wanted to get a sense, has the agency channel moved to a steady state high single-digit low double-digit number and we should not expect more than 20% growth from this channel? Just some thoughts over there.

Prashant Tripathy On the first one, the guideline change in commission has neutral impact on our margins. On your question on agency channel, I think as I mentioned to you right up-front that for last many years we were trying to consolidate agency by taking out cost, hitting the optimal product mix and trying to deliver closer to about 10% growth year-over-year. Time has come for us now to review that strategy, and as I mentioned we are going to make investment in agency channel, and all the proprietary channel. So my expectation is that with that investment agency and agency like channels will jump on to closer to about 20% growth rate for next three years.

Dhaval Gada Prashant, just one follow-up on the agency channel answer. Could you highlight a couple of investment that you are making in this channel just to explain us how the channel will move from 9% - 10% to about 20%, just a couple of initiatives, that would be very helpful.

Prashant Tripathy There are many things, we are going to look at concept where we are going to add more agency manager units within us at the lowest level without really building the facility cost, the supervisory cost, the training cost, etc, which are also very significant in case of agency, so we are going to just build handsome street for recruitment and sales. We will have close to about 600 to 700, which is 25%

additional ADMs which we are going to add, ADM units. We are going to focus quite a lot on insurance market firm(IMF), a new channel which was allowed two to three years ago, we have reasonable success so far, we approved the concepts, we are going to make investments there. We are also going to look at a few offices in very large cities with different model of highly skilled direct work-force which targets more than 10 lakhs income segment of customers, and that is something which we piloted and we are happy with the results, we are going to increase that. Our own channel which we call customer advisory team, that does about a little over Rs.130 crore of sales, we are outlooking to grow that very significantly up to 50% CAGR for next three years by deploying more people and expanding. So those are some initiatives. All of them are on the experience that we have gained by doing the pilot, so unlike the normal belief around agency where it takes very long-term, we are looking at initiatives which could pretty much start to pay back in three to four years' time.

Moderator Thank you. That was the last question. I now hand the floor back to the management for their closing comments.

Mohit Talwar Thank you. And thank you all the participants for taking time out of your busy schedules. So until the next earnings call, good bye all. Thank you very much.