



Max Financial Services Limited

Q3-FY20 Earnings Conference Call Transcript

February 5, 2020

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Max Financial Services Limited Q3 FY '20 Earnings Conference Call. I would now like to hand the conference over to Mr. Jatin Khanna, CFO, Max Financial Services Limited. Thank you and over to you, Sir.

Jatin Khanna: Thank you. Good Afternoon, Ladies and Gentlemen. Thank you for being part of Max Financial Services Earnings Call. My name is Jatin Khanna and I am CFO for Max Financial Services.

Before proceeding with the performance highlights, I would like to introduce my other colleagues who are with me on this call. I have with me Mr. Prashant Tripathi who is the Managing Director and CEO for Max Life and Mr. Amrit Singh who is the Head of Strategy for Max Life.

I will first talk about the key highlights for nine months FY20 and then briefly recap the strategic priorities outlined in the last two calls. Max Financial had a robust revenue growth of 13% to Rs. 14,000 crore. Our consolidated profits at Rs. 266 crore were up by 23%, but that is predominantly due to one-off gain from successful transition in hedging strategy. We have moved away from interest rate swaps and entered into the forward rate agreement to cover up our interest rate risk. Now, this is as this has been aided by therefore higher investment income, but has been offset by a shift in product mix towards non-par savings as well as our investment in proprietary channels, so a combination of product mix shift and investments have pulled our profits down year-on-year, but for this one-off item.

Moving onto the Max Life performance:

Very happy to report that our embedded value has crossed Rs. 10,000 crore mark with MCEV at Rs. 10,077 crore growing by about 22% year-on-year. MCEV on an operating basis has grown at an 18.4% annualized and including non-operating variance of about 18.7%, but as you will all know that the larger part of the life insurance sales happen in Q4, so really the year-on-year growth of 22% is more representative of how our embedded value growth is likely to shape up for the full year. Now, on value of new business, we have grown by about 24% to Rs. 576 crore. The structural new business margin on a pre-override basis have expanded by about 150 bps to 24.3% and our actual NBM on post-override basis have expanded by 60 bps to 21%. This has been driven by our increased focus on non-participating products. Max Life individual APE has grown by a strong 20% to Rs. 2,718 crore with an increase in contribution from protection and non-par savings products. Now, Max Life has outperformed the industry growth on new sales by growing 20% versus the private insurers growth of 16%, so our market share has expanded by about 30 bps to about 9%.



The proprietary channel growth at 22% for Nine months and 19% for Q3 is faster than our banca channel growth of 20% and 14%, respectively, which is in line with our strategy to grow our proprietary channels or outgrow the third-party channel relative to the proprietary channel growth, so Max Life agency channel is one of the few agency channels that delivers positive margin and margins of proprietary channel and non-proprietary channels are almost similar. Axis Bank has been delivering 18% growth and Yes Bank has delivered about 32% new sales growth. The overall protection sales has grown by about 38% year-on-year higher than the Company growth and the individual protection sales has grown by about 45% year-on-year with group protection growing by 29% year-on-year. Our gross written premiums have grown by 14% to Rs. 10,311 crore with a renewal premium growth of by about 11% to Rs. 6618 crore with a healthy conservation ratio of 88%. We have achieved the second rank and third rank in 13th month and 61st month persistency, respectively, on the basis of our results which we just declared. The 13th month persistency has improved by about 50 bps to 85%. Max Life claim paid ratio improved by about 130 bps to 97.8% and we have a healthy solvency surplus of about Rs. 1625 crore with solvency ratio of 220%.

Our AUM as of December '19 end stood at around Rs. 69,000 crore and has grown by 18% year-on-year with par AUM growing by 20% year-on-year. Max Life has now the fourth largest life insurance AUM and the largest par AUM. Max Life also received an annuity service provider license from PFRDA to provide annuity service to NPA subscribers. We improved our ranking by eight places to 35th amongst the great places to work for and were amongst the top 20 BFSI places to work. The only life insurance Company in top 100 has a great place to work is stood in Economic Times study.

To sum up, Max Financial Services continues on its trajectory of driving strong shareholder outcome via its new strategic plan with significant investments in proprietary channel, sustained efforts to deepen our bancassurance relationship, razor-sharp focus on cost and improvement in protection mix. We are progressing our aspirations of expanding our VNB Growth, VNB margin and RoEV on all three vectors over the next few years, so on that note we will hand over to the moderator to open the floor for Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Ajox Henry from B&K Securities.

Ajox Henry: Sir, first of all obviously the impact on budget if you could give the reaction on that and following which I wanted to know what is your thought on the price hike on protection, term policies coming next year, and my third question is with respect to agents, how many have we added or what is the productivity of agents as of now?

Prashant Tripathi: Thanks for your question. I think budget changes have to be seen with two or three filters, first one was with respect to any changes in the tax slab rates and abolition or removal of reduction as well as exemptions, so we have done the Math. It appears that for a large majority of our customers, they will be better off continuing with the previous regime and hence enjoying the benefit of reduction and the exemption and therefore the 80C will remain applicable. Also life insurance is bought for the benefit of section 10(10d) which is the maturity proceed been completely tax free and hence from a fiscal incentive perspective to propel the growth of life insurance or create propensity to buy life insurance is not going to go away. There was another change with respect to DDT in terms of the taxability of dividend in the hands of recipient as against deduction at source, as you know in our effective tax rate we take the credit for the dividends that we have received on our funds especially ULIP funds. With these changes, of course there may be a possibility of the effective tax rate going



up, however, that has to be knocked off against the dividend that we declare and in past five years, we have been declaring more dividends than the dividends that we have received, so we are doing some Math. The worst case scenario, I can tell you however will be lower than that, So, our margins may undergo stress of about 50-60 basis points because of this change. In case we were not to declare dividend, I will continue to mention that point, there may be a consequent impact on the embedded value of the Company. We are currently estimating that again the worst case scenario will be in the range of about 1% to 2%, we need to see that. Again, I must repeat the impact because of DDT on the effective tax rate has to be seen in light of the dividend that the Company is declaring. Now, historically speaking, we have always given more dividend than we earned, so if we were to go back and cuff it or test it, the impact would be zero or positive, so really we have to see how it plays out, as you know by looking at the capital situation of the Company. Nevertheless, estimates that I gave you are under the worst case scenario. On protection, the strategy we remain committed to driving protection, it is a very important part of our strategy. We are doing quite well and we are growing our protection mix. As Jatin mentioned, we have on an individual basis we have a growth of about 45%. As we speak, 8.4% on individual basis is our mix of individual protection and at a total basis cost 13% to 14% is the mix of protection. We will continue to work on it.

Ajox Henry: So the rate hike we are expecting in some policies?

Prashant Tripathi: We are reviewing that situation and of course any pricing decision is competitive in nature. If the entire market is moving up, we will of course move up the price. If large majority of our competition stays on the same pricing level, we will then absorb it in our margin and see how it plays out. The bias will be to increase the price, but at this point of time we are just observing the market, we will see how it plays out. In case we do not in our prices we will then review what is the impact, but the answer to this question is at least three months away from now, by then we will have visibility and and I will come back to you.

Ajox Henry: Sir, you were telling that majority of our customers are not taking the ask for 80C benefit, but when we look at FY '19 split of tickets for retail renewable policies, our mix in premium is just 43% when we compare that with, how is the competition who are all way above us, so above one lakh we have only 43% of our customers and given one lakh the probability of shift is very low, so will we be having a higher risk in that probability of customer shifting towards the new regime?

Prashant Tripathi: Not quite, I would not quite go by the analysis that you have done, because who can afford to take one lakh of premium every year and I do not even know that person how many policies he holds, so in my estimate somebody who is paying one lakh of premium really somebody who earns 30 to 40 lakhs of income every year because at this point of time people will be holding four to five policies of this kind, so really talking about people earn 15 lakh to below. There is just two data point that I will mention to you; number one is we would do this survey to find out basic reason for people to buy life insurance. Earlier around eight years ago, we would find that buy life insurance because of tax reasons will be number one. Number two, increasingly in last few quarters I have seen that reason to become number seven and number eight from number one, hence it is not the key reason why people buy life insurance. Number two, the 10(10d) benefit of it still continue, and number three, a large part of this is not because of the target segment that we are going to, it is also to do with the type of product that we are selling. Historically, we have been a bit traditional product oriented. Now, by design you cannot say traditional product is bought by people whose income is lower. Traditional product is a product strategy that we have followed, hence somebody who has more than one lakh of ticket size necessarily is not reaching out to the segment, completely different from where we are reaching out. We sell about two-third of our premiums through banks who have access to

similar customers segment as of the banks have, so I would not quite go down the path of doing the analysis that we are doing. I think when I do the Math, my finding is that irrespective of whatever the income segment being on the previous regime of claiming the benefits of deductions and exemptions is beneficial across all segments of customers, not just people who are high net worth.

Ajox Henry: Sir, one question on agency, how has the productivity moved recently and any strategy to expand the agency?

Prashant Tripathi: We are on the path of expanding our agency, as you know, agency growth for first Nine months is close to about 15%, which is healthy but we want of course to grow faster and there is lot of work that we are doing earlier in the year I had updated you that we have partnered with three consultants from New York Life which was our erstwhile joint-venture partner who have come and they are working with us. A series of recommendations that they have given which we are in the process of implementing. We have started to measure growth of top performing agents as the key measures, people who are contributing more than one lakh of premium every month to our business, and that number continues to grow, even for this year that number has grown by 20%, so our focus is to increase the number of high-performing agents and we are not really in the game of expanding the number of agents per se, so on that suffice it to say that the growth of such agents is quite healthy and it is 20%.

Ajox Henry: These are above one lakh contributors?

Prashant Tripathi: Yes, who contribute more than one lakh per month.

Moderator: Thank you. The next question is from the line of Hitesh from Haitong Securities.

Hitesh: Sir, my first question is that currently in the holding company when we receive dividends, obviously we are not paying tax because that is the only source of revenue we have, so is there any calculation if you highlight that will change now with us receiving dividend income there and obviously the holding Company pays lower dividend from there to the eventual shareholders, so will there be tax? My second question is will there be some impact on unwinding rates because of this change in dividend taxation?

Jatin Khanna: On the first one, historically the dividend we have received relative to the expenses in the holding Company, typically and as we move now the new tax rates are also down to 25%, we are better off in the new regime. Now, if I fast forward this to the future, there is a trend wherein you can see that the holding Company expenses are coming down and we have spoken about it that we expect those expenses to come down to less than Rs. 50 crore range hopefully next year itself, but certainly the year after they should come to sub-50 crore if not next year, so as the holding Company expenses come down, we are more or less neutral, but if you were to do the same analysis on historical numbers, we are better off at the holdco level.

Prashant Tripathi: Your are right on the second observation, the unwinding rate will go up marginally.

Hitesh: Sir, my question is what would be our approximate effective tax rate because last year we had moved from marginal to effective tax rate, so what would be the difference between those two numbers for us?

Prashant Tripathi: 11.5% is our effective tax rate.

Moderator: Thank you. We take the next question from the line of Kevin Kuriakose from Alpha Capital.

Kevin Kuriakose : Sir, my question is that, is our methodology used to calculate the embedded value is same as of our peers?

Prashant Tripathi: Yes, it is the standard methodology, there may be marginal delta in assumption but it is very confident to confirm that our approach is quite conservative in terms of our assumption.

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

Sanketh Godha: Sir, my question is that if you look at the individual protection business in Q3, it has grown by 72 percentage, just wanted to understand why such a strong growth happened, is it because we launched aggressively the return of premium (ROP) plans where the ticket size are higher or because we have sold lot of limited premium paying plans, which led to this increase in the individual protection business?

Amrit Singh: Actually it is both, it is the launch of the new product that we had which had the limited pay variant, also has a term return of premium variant in it, so you are absolutely right it is both the things actually playing out together which has helped us improve protection growth numbers in the quarter.

Sanketh Godha: Sir, for the same sum assumed number, the difference in the ticket size for regular premium paying plan versus limited premium paying plan of the same product and also the return of premium, what would be the differential in the ticket size, just wanted to understand a broad change in ticket size?

Amrit Singh: On regular premium to a limited pay kind of a design, it depends on whether it is five or ten. It will be in a range of three times the regular premium ticket size.

Sanketh Godha: For ROP?

Amrit Singh: That would largely be similar actually, it will not be so different.

Sanketh Godha: Second question is that on the VNB margin which we reported 21% on effective tax rate, last year we reported 20.3 margin on statutory tax rate, so Sir if I do like-to-like comparison of 20.3 of last year to current year, what is our real VNB margin, I believe it is lower than 20.3, so just wanted to know indicatively what is that number?

Prashant Tripathi: Yes, that is a very fair observation, however, the choice is who do you want to compare us with, you want to compare us with who we were last year or do you want to compare us with everybody else in the market. The reason why we made those changes was we made sure that our assumptions are consistent with everybody else, so if you look at the number 21%, it is consistent with assumptions that our competition is making, it is relevant however if the question is that on a real basis apple to apple is our margin lower than last year, the answer to that is yes.

Amrit Singh: And that is largely because of the investment that we had done in proprietary which is manifesting itself in the overrun position.

Jatin Khanna: It is very important what Amrit just said, if you are investing in the business, growing the business, growing your proprietary channel which are as profitable as any other

channel, so at some stage in life you have got to make some investments, so these are good investments eating up into your margin and not bad investments.

Sanketh Godha: Yes, I understand that point, but just wanted to understand trajectory whether the VNB margin though investments are upfronted basically which might give you fruits in subsequent years, but just wanted to understand that 20.3 could be potentially sub-20 kind of a number basically or 21, the subsidiary tax rate would be sub-20 kind of a number?

Prashant Tripathi: Okay, between 20 and 21, a bit lower than 21.

Sanketh Godha: Finally, one more question, just wanted to know your ticket size in ULIP. Par and Non-par in general, so just wanted to understand what kind of customer base you are catering in all the three product segments?

Prashant Tripathi: We do not have those numbers up front, maybe if you could write to us we will be able to share that with you.

Sanketh Godha: Finally, in the previous question you said that unwind rate will go up because of the change in DDT, so can you just give us the understanding why is it so?

Amrit Singh: So, because, there will be the underlying investments which are actually generating that dividend, they will not be taxed, so there will be higher effective value equally coming through in the funds either on the participating side or on the unit link side, so part of it which kind of will flow through and MCEV methodology uses a risk-free rate and you will get a better unwind rate, so it will be very marginal, but it will come through in your unwind rate as time progresses.

Sanketh Godha: What I was trying to ask is that because in VIF, we consider the future cash flows and they will be now a tax rate of the higher rate, in worst case scenario what Prashant said is 60 bps to us, then the present value of VNB or the future cash flows will come down and VIF will also be impacted, so if VNB is also coming down then the unwind rate, as per my assessment, it should also come down compared to what was there, so was not able to connect the dot how unwind rate will go up if the removal of DDT is applicable?

Amrit Singh: Firstly, I think Prashant made it amply clear about the current effective tax rate and our dividend paying position, on that basis the effective tax rate is not getting changed, so the VNB number kind of remains where it is as things stand today. It is only a matter of future if the dividend streams get altered, there could be an implication, but you will be aware and if you look at our dividend that Max Life has paid out versus the dividend that we would have actually received in the funds, our payout is many, many more times.

Sanketh Godha: Got it, actually you are saying that because the current payout is much higher than what you receive, therefore, you are better off in the new regime and therefore your unwind would be higher, right?

Amrit Singh: Absolutely.

Sanketh Godha: But in the future, because to maintain our solvency, if we lower our payout ratios gradually, then probably, theoretically, it will have a negative impact?

- Amrit Singh:** That is what Prashant kind of mentioned about the worst case number that he indicated, but there would be a few years but over a longer period of time and if you make a long term assumption because as you are aware the VNB assumptions are over a longer period of cash flows, you will be in a dividend paying positions at most points in time in the years.
- Moderator:** Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities.
- Madhukar Ladha:** First one is, we are saying that obviously most of the customers are buying life insurance for 10(10d) benefit rather than the 80C benefit, can we quantify a little bit on the customer segmentation in the sense that, what percentage of our premium income is from customers that have an income lower than Rs. 15 lakh or some such number and their average ticket sizes that would be helpful?
- Prashant Tripathi:** Actually, the budget came just two days ago, so we are in the middle of doing that analysis. As we are ready with that analysis, we will definitely share with you. Some of these answers that I gave you are basis our understanding of few calls etc., but the detailed analysis is underway, and it will be so much clearer as some of the following months pass. So, suffice it to say that the discussion that I have had at least with the industry CEOs, the peer group etc. it is a common understanding across the industry.
- Madhukar Ladha:** Can you give a sense of what percentage of the total individual business will be for an 80C benefit versus the 10(10d) benefit, any number?
- Prashant Tripathi:** Very difficult to quantify because we do not ask those questions, these are things that people decide basis their own understanding. You would expect that the salaried income people are more concerned about saving taxes as against self-employed people, but we find that in the month of January to March, the growth rate that we see for self-employed people is higher than the salaried people, so very hard to make some of those assumptions and computation.
- Madhukar Ladha:** I am sure and we know it will be great if you guys can provide us some numbers around this over the next few days, that will be very helpful.
- Prashant Tripathi:** Madhukar, just a heads up, this analysis will be very hard because it will just be looking at numbers at a very surrogate basis, how do I know if somebody is making investment for the purpose of 80C or for the purpose of 10(10d), very hard.
- Jatin Khanna:** Or somebody makes investments to protect his family.
- Madhukar Ladha:** You have the data in terms of the number of insurance policies that he has, you have data in terms of what percentage of your buyers are salaried versus self-employed, what is their salary segmentation, so you have that data so maybe if you can pull out something that will be great, I understand it is difficult...?
- Prashant Tripathi:** See we do not look at the data, we have data across, it is very hard then to infer whether it is for 80C or 10(10d) or nothing.
- Madhukar Ladha:** Second question, you mentioned that your margins could be lower by 50 to 60 bps in case you not pay dividend from Max Life to Max Life shareholders, any scenario where you envisage that there might be a lower payout ratio as of now, do you think that can happen?

- Prashant Tripathi:** It has not happened last few years, but the only scenario will be, for example, we are writing lot of protection and we are writing lot of non-pars, we need capital in the business and we need to preserve for a few years to three years that we are not giving dividend, so that will be for a brief period. I mean going forward is the profitable Company. Once it matures a Company of our size doing 20% VNB growth every year, healthy margin, healthy ROEV, will start to give dividends and will continue to give dividend, so your question around the scenario when we do not give dividend could be there for a few years, but not in perpetuity.
- Mandeep Mehta:** When we look at VNB in the scenario, we generally look at long-term, one or two year if a Company does not pay dividend, it will definitely impact the tax for that particular year, but not long-term assumption of dividend.
- Madhukar Ladha:** On the margin, in the opening remarks I think Jatin mentioned that part of the change in margin was also because of the move towards FRA from swaps, which I am not wrong, can you explain that a little bit?
- Jatin Khanna:** Margin improvement I said is because of the shift towards protection products and non-participating products. What I said was the statutory profits for this year or quarter are higher because of the basically shift in the hedging strategy.
- Moderator:** Thank you. The next question is from the line of Hitesh Arora from Unified Capital.
- Hitesh Arora:** I had two questions, one was around, you had some tax litigation going on, you had mentioned the previous quarter and you were looking to settle with the tax authorities, wanted to know the status of that, and second, wanted to know if anything around your negotiation or relationship with Axis that comes to maturity in 2021 I believe, if you could talk about both these things?
- Jatin Khanna:** Firstly, on the settlement piece, we are not volunteering to get into any type of settlement because it makes no sense to sort of just waste money on an item on which we are confident that we will win, so obviously prudence will not force us into a call wherein we get into a settlement mode, so I think that is the response to your first question.
- Hitesh Arora:** The matter has been I understand pending since around almost 20 years now starting at the first?
- Jatin Khanna:** To understand why this matter is pending for last 20 years in an environment wherein tax authorities are hungry to collect tax wherein Government is sort of pushing a faster collection, they are also giving this windows for people to settle and all but nobody has bothered to look at this case, that gives you the answer to the question which you just asked, because the reason why for last 20 years this case is in I-TAT and it is not even moved to the courts is because we have a strong case. Now, when you are in a situation where you have a strong case, you do not just waste money for the sake of it. Now, on your second question I think the answer lies in your own response which is to say that your contract is till September '21, but given our partnership is deep and we are engaged, so we are always in discussion with them to see how we can cemented for a longer term, but till such time I think it is cemented, I do not know what to say or not to say, but what I can say is that we have been engaged with them and we continue to be engaged with them and we will continue to be engaged with them to cement it as long a term as we can.
- Prashant Tripathi:** It is a long-term relationship, we complete 10 years this year and we have done more than Rs. 10,000 crore of new sales with them. It is a very priced relationship that we enjoy and we have created a win-win. We are very optimistic that we will work in the

direction, so that sometime in near future we have a long-term arrangement established with them which gives the comfort to both the parties as well as to the outside world that it is a longer term relationship, so let us keep it at that level as we stand.

Hitesh Arora: Just on the first one, last time you had mentioned that to collapse or merge the insurance of the listed entity, we needed to get over this whole tax litigation overhang that was preventing this merger, if I remember correctly, so if this overhang still continues to that extent this merger does not happen between the holdco and the insurance Company, would that be a correct assessment?

Jatin Khanna: I broadly said was that, I do not know whether it is an overhang or not, but it obviously needs to be sorted, but that does not mean we will go and start spending money where it is not required, so, we are obviously wanting to sort this as soon as possible, but at the same time, we are putting significant amount of money on the table to just solve it and it is not like we are talking about pittance here, is not the right way to go. Now, we have to solve it independent of going in for settlement with the tax authorities.

Prashant Tripathi: It is our long-term objective to collapse the two entities which we can realize the overall value for the shareholders. We will work in that direction, however, as we start to make progress, we will review the tax litigation. All the Companies have some kind of tax litigation and there is always a practical view that is taken by the proving authorities as well as tax authorities and we are optimistic that with the low strength that this particular case has, we will be able to consummate it but very hard to predict at this point of time the roadblock that we will face.

Jatin Khanna: I would also like to give you a little bit of a perspective, I think it is important what we are holding does, frankly, holding Company there are some cost which are like I said will become Rs. 40-50 crore, I mean the way our margins are trending, this year itself this cost will become 4%-5% of VNB. Now, as we fast forward two to three years from now, it has become 2%-3% of VNB but frankly these are insignificant item from an overall scheme of things when we think about Max Life, so Max Financial and Max Life are no different, I mean you could tomorrow be in Max Life today in Max Financial, but that does not change the overall franchise quality we have built which is far more robust than anybody else in this industry.

Moderator: Thank you. The next question is from the line of Neeraj Toshniwal from Emkay Global.

Neeraj Toshniwal: So wanted to check, how much is the one-off item in this quarter?

Jatin Khanna: One-off item that the hedging strategy change, Rs. 140 crore.

Neeraj Toshniwal: Second on your stake you have bought with Axis of 0.73% you have mentioned in your disclosures is at Rs. 189 crore, so want to understand and if you look at these from last four years, the value per EV what you value the firm by the EV you are having the year-end is actually coming down gradually from FY '17 to FY '20 at a greater cut in terms of the multiple, why is it so, I mean who will be valuing this third-party in terms of consideration of buying back and how do we do that, any color to that?

Jatin Khanna: Well, the thing is that somewhere when you look at the value and things like that the current market price also sort of fit somewhere in the equation, so you have to have that factored in your assessment from then and therefore I do not know whether looking at that value to derive on multiple, and therefore, say that multiple is coming

down is the right assessment or right direction in which you are looking at this item. Tomorrow, our share price is where everyone else is in terms of the multiple, then you will see the multiple also expanding, so I think these are all very relative and subjective items when you enter into a transaction so my request will be sort of not read too much into it and try not to make inferences out of what you are seeing.

Neeraj Toshniwal: In terms of your overruns, I think when do you think operating leverage will start playing from the second of the next year or anything you will be over with the investment thing and operating leverage agents starts picking up because we might have some loss of market share through as Bajaj picks, so we need to be ready with the agents gearing up with some extra growth or coming from that angle, any thoughts around that?

Prashant Tripathi: I will give us a couple of years, next year and the following year by which the overruns would go away. The overruns would have gone if we had not decided to make investments in our own channels, so hopefully when you start to make investments it takes about three to four years and that is the timeline I will give to myself, we are already 18 months in that process, maybe couple of years.

Neeraj Toshniwal: Last question is on the bond market, so this budget I think it is positive on bond side, so any strategy we have in mind in terms of selling of the products like non-par could pick up, so what would be your sense in if at all you find your yields to be on your side, so any thoughts on how much non-par in the strategy, any change in thoughts?

Prashant Tripathi: I would be very happy if we keep our non-par at around 20% to 25% that's fits the target. The bond market definitely helps, but I do not think the benefit of the bond market will straight away pass through the margin or margin generation's ability in the Company, I think it will pass on more to the customer in form of better returns because it is a competitive play, but in 20% to 25% of non-par, when I say non-par which means interest rate guaranteed design and if I get closer to about 10% of protection, so collectively between 30% to 35% of non-par is in bonded.

Neeraj Toshniwal: 20 to 25% or 30 to 35%, I did not get you?

Prashant Tripathi: 20 to 25 of interest rate guaranteed design and add about 10% more for the protection design.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Asset Management.

Manoj Bahety: Couple of questions, first is that will it be possible for you to share persistency or conservation ratio between par and non-par and if you cannot share the exact number, directionally just wanted to understand that where persistency ratio is better whether on par or non-par?

Prashant Tripathi: That is a good question, we actually do not disclose down to product level but if you are writing, again non-par is multiple thing, it is protection, it is non-par saving so if you are writing non-par saving designs then the persistency and conservation will be better of shorter tenure and higher ticket size.

Manoj Bahety: If it is non-par with lower denomination and higher duration then persistency will be lower than par?

Prashant Tripathi: Lower than par or similar to par, then there will not be any difference between par and non-par.

- Manoj Bahety:** In terms of protection, how you see persistency there vis-à-vis non-protection?
- Prashant Tripathi:** Pretty good, depends on which channel it is coming from. We see highest coming from internet channel and from offline channels it is a bit lower, but collectively it is quite healthy.
- Manoj Bahety:** It is better than your non-protection persistency?
- Prashant Tripathi:** The persistency on non-protection currently is better than the rest.
- Manoj Bahety:** My second question is basically like if we see the way industry was trending and even if I have seen your business mix, last couple of years non-par portion has gone up, is it in response to the competition like the competition has started growing aggressively on non-par or it is by choice?
- Prashant Tripathi:** It is a mixture of many things actually. 1) We must know that now the norm is set that if you take more risks you get more margins and hence non-par design by nature generate a bit more margins than writing ULIP and par, so slowly everybody is understanding and hence there is a transition towards non-par. 2) Overall economic cycle, I think, last one year people have shown the propensity towards buying more non-par, guaranteed designs as against remaining invested in something which is volatile like equity market etc. and we have seen this trend in past. 3) The ability to hedge for a large part of last year, RBI was not allowing us to use forward rate agreement on that being allowed now. There is more propensity to write, so these are two or three reasons why it is happening. Of course the competitive play, the product of the season etc. is a reason, but I do not think the fourth reason is the permanent reason. I think the first three are the reasons and again slowly at some place it will stabilize. A good part for us is we are quite diversified as we move there. Par and non-par, and ULIP are broadly in one-third, one-third, one-third ratio and again from the competition we always make an attempt to remain more balanced and being around 60% traditional broke in half and half and about 40% ULIP is something that we are very happy with.
- Manoj Bahety:** But if margins on non-par are getting better because of all these new changes, why you want to restrict it let us say to 20%-25% or 10%, it is because of higher risk on non-par products?
- Prashant Tripathi:** Generally, we are not simply in the business of giving interest rate guarantees, as long as we are able to hedge it properly etc., going up to 20%-30% is a good solution, of course we do not want to be 50% and we do not want to be 50% on any product design by the way because there is no point keeping all the eggs in one basket, we like to be diversified, we like to be serving the customer need and work from customer need backward.
- Moderator:** Thank you. The next question is from the line of Sanketh Godha from Spark Capital.
- Sanketh Godha:** Just one small question I had with respect to the protection business again, see if you are writing ROP and you said that our ticket size of ROP is very similar to regular premium paying plan, then naturally because it has a bit of savings element to it, so the margins what we are making on ROP would be lower compared to Plain vanilla, regular premium paying protection plan, so just wanted to understand the margin dynamics differential between both the products?
- Prashant Tripathi:** Margin profile is something which is more or less similar, it depends on the product design and ticket size also, but life insurance we have sold on the strength of the

story, the story of return of premium resonates with our agent advisors and our customer segments, so we are selling that a bit more.

Sanketh Godha: I just wanted to understand our customer profile because when I check with other Companies probably most of the Companies are saying that almost 35% to 40% of their customer base is self-employed in nature, so for us just wanted to understand if we can get the broader mix from Max Life perspective, what percent of customers are self-employed, it looks little higher for us because of the previous question asked that seasonality in the fourth quarter is much higher for us compared to the Peers, so in that sense whether self-employed contribution is little on the higher side?

Amrit Singh: Actually, I do not know how you are comparing and what information you are getting from competition, because there are two parts of the business right now, there is the pure protection element of the business and then there is savings element of the business, so far I think on the protection element everyone has gone towards the salaried segment, because income discernibility is easier and hence large portion would be all salaried customers only, and if you rarely ask us now 30% of business is with the number of policies coming from the protection business, so that part of the business will have very high degree of salaried component there. When it comes to the rest of the business, I think India is largely a self-employed country, so our mix will also kind of reflect how India is though I would say we will be higher index on salaried there as well. Now, you also made an inference around the last quarter registered to seasonality, I think it is not necessarily that the self-employed are buying it hence our seasonality is very high, even the salaried guys also experience similar behavior and we have looked this across income categories even a very affluent customer also or a very non-affluent customer also, the seasonality for us is very similar in that customer profile, so it is a reflection of how our distribution machinery is setup, how does the motivation around R&R, incentives, promotions kind of come in play.

Prashant Tripathi: Having said that, I do not know where you are finding that our sales is more seasonal than other people, I guess it may be slightly but across the industry sales seasonality is quite universal.

Moderator: Thank you. We take the next question from the line of Shreya Shivani from CLSA.

Shreya Shivani: I have two questions, in Q2 you had mentioned that the operating ROEVs are generally better in the second half of the year, so I was just comparing the ROEV of this Nine-month versus last versus H1 FY '20 and it seems to be on the same level, so I wanted some qualitative comments on that? Second question is can you share the yield that you make on your equity AUM, the dividend yield you make on your equity portfolio?

Prashant Tripathi: On the first question, yes, that is true. The second half ROEV is better than the first half, but a large part actually will come in the last quarter, so I will request that you wait until the end of the year, the second half is yet to play out. This year, however, the number maybe similar to last year because of our investments, the investments that we have made in expanding our own channel which were, there is about 30 basis points impact on shareholder overrun leading into 30 basis point impact on the operating ROEV because of the overruns which may cause it to be a bit lower or equal, so that is the reason. Last quarter is heaviest where the overrun gets quite muted and hopefully that will start to show up on the ROEV number for the full year to be significantly better than the first half. On the second question you asked about the yield on equity, honestly I do not have that I will find you this, we will be able to give you the answer if you send me the question.

- Shreya Shivani:** One last question, I was checking the solvency ratio which has steadily been coming down over the years, I just want to know what is the comfortable zone that, it is still above the requirement of 150, it is decently about the requirement of 150%, I just want to know what is the range that we expect Max Life to maintain the solvency or do we expect it to come down?
- Prashant Tripathi:** You should expect it to be in the range of 170% to 175%, until then we will consume capital, so when it comes closer to 170 we will look at several measures of stopping to give dividend or reduce the level of dividend or may raise equity.
- Nischint Chawathe:** Sir, just trying to understand if I look at the VNB margin and the product mix, I think on the non-par saving side you are already at around 20%, individual protection side is at 10 and I guess with the product that you are launching possibly kind of it inches up from here on and on the pre-overrun margin you are already at around 24.3, so, do we kind of say that from here on, the pre-overrun margin kind of broadly remains here and it is the gap that kind of reduces here on?
- Prashant Tripathi:** I will tend to believe that, from the roadblock in terms of how the margins on protection evolve from here on, you heard the previous question with respect to change in pricing etc. and my comments, so those are roadblocks but directionally speaking that is correct.
- Nischint Chawathe:** Just trying to understand on the 61st month persistency, what really happened here?
- Prashant Tripathi:** We have seen a bit of deterioration, it is happening because of our particular product design which is kind of flowing through and it is coming from ULIP. Hopefully, it should go past the 61st month, so the ULIP mix of the 61st month bracket is going up from 11% to around 31% and higher ULIP is leading to faster depletion, hopefully, that should get settled as we move along, by next year it should be okay, but yes your observation is correct, we have seen about little over 250 basis points deterioration in the 61st month.
- Moderator:** Thank you. We take the next question from the line of Prayesh Jain from Yes Securities.
- Prayesh Jain:** Sir, just on the tax change that has happened, I joined in a bit late, possibly if it is answered you can just let it go and I will ask later, but would even a slight change in people shifting to the newer regime would impact your persistency, the shorter term persistency if possibly people those would have taken the insurance in the last couple of years would also look forward to shift to the newer regime and possibly move out of 80C, so that could impact the persistency?
- Amrit Singh:** I think this question was asked, so maybe you can take it off-line. Specifically on persistency, I think the bigger assumption is that how many of the people want to shift towards new regime, our analysis indicate that the old regime and its consensus analysis across industry participants that the old regime continues to be favorable, so if that is going in hypothesis then that question does not arise but I will explain to you.
- Prayesh Jain:** Secondly on the non-par portfolio what has been your experience with respect to lapsation and does that also goes into the pricing of the product, so how has been the experience so far and what do you see going ahead?
- Prashant Tripathi:** Lapsation assumptions are very core assumption, the lapsation / persistency assumption is one of the core basic assumption that not only goes into the pricing of non-par but every product design. We are finding that the non-par designing have

better persistency than other categories predominantly because we are able to or we have been focused to sell shorter pay, higher ticket size product design.

Prayesh Jain: My question was coming from the point that, my understanding was that...

Prashant Tripathi: It is aligned to the assumptions that we made, so not better, not worse.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Jatin Khanna: Thank you Ladies and Gentlemen for being on the Max Financial earnings call. We look forward to more such interactions in the future. Thank you once again and goodbye and have a good day.