



## Max Financial Services Limited

### Investor and Analyst Update Conference Call Transcript April 28, 2020

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**Moderator:** Ladies and Gentlemen, good day. Welcome to the Max Financial Services Limited Investor and Analyst Update Conference Call to discuss the joint-venture with Axis Bank. Please note that this conference is being recorded. I would now hand the conference over to Mr. Mohit Talwar – Managing Director, Max Financial Services. Thank you and over to you, sir.

**Mohit Talwar:** Thank you, Margret. Good afternoon, Ladies and Gentlemen. And thank you for joining us on this call at this very short notice. These are unusual times and I just hope that you and all your family and your close ones are well, healthy and safe. Before proceeding with the last night's developments, I would like to introduce my other colleagues who are with me on this call. So let me start with Prashant Tripathy – Managing Director and CEO of Max Life, Amrit Singh – Head of Strategy for Max Life and Jatin Khanna – Chief Financial Officer for Max Financial Services.

This is indeed a landmark day for us. This call really is to discuss the notable developments which we think will reshape the future prospects of Max Life with Max Financial Services, and our incoming JV partner Axis Bank, who have been a partner with us for almost a decade. But this is a partnership which has been stitched together and it augurs well for the Company. And it is going to be a long-term joint venture relationship. Max Life, as we have all seen through the years, has been the best performing life insurer when we see it on a holistic level, whether it is in terms of the balance or its growth, its profitability, and the sustainability of being product agnostic. However, it is well known and we have kind of discussed this in the past that if there was one weakness in the Company, and that was to do with the fact that there was an over dependence on Axis Bank and the relationship, even though it is currently on, comes in for a renewal in FY21-22. And so the questions in the minds of investors, analysts was, what happens then? I think with this deal; those questions are now to be left behind. We believe that this JV which we have stitched together is one which is going to be long-term. It takes away the fact that there was a lacuna in terms of our distribution and there was ambiguity all that is behind us now.

So, as you all would have read, Axis Bank proposes to take 30% stake in Max Life, which is going to be a secondary transaction. With this transaction, it brings together the third largest private bank and the fourth largest private life insurer in the Company. This joint venture should be mutually beneficial and endure a relationship between both our organizations. Like I mentioned, this addresses the uncertainty and brings in the needed stability through a long-term strategic partnership. We should significantly improve Max Life's competitive positions vis-à-vis its peers, including the Top private life insurance companies owned by large banks. This will



unlock value for MFS shareholders, given our long standing high performing business and the partnership with Axis Bank.

Some features on the deal. The name remains the same, which is Max Life Insurance. However, there would be a tagline which would include the Axis Bank's logo, and this will further enhance the customer trust in the brand and highlight the strength of the partnership. Axis Bank and Max Life have had a successful business relationship since over a decade, providing long-term savings and protection to over 19 lakh customers. The total premium generated through this relationship has aggregated over Rs. 38,000 crore. Both have invested extensively in product and need based sales training, thereby leading to consistent increase in productivity. So much so that Axis Bank was the best performing bank insurance player from amongst the large banks in a month, that was marked by significant headwinds. All things being equal, we expect the transaction to be completed within the current calendar year. This is however subject to all the regulatory approval.

The definitive agreements provide for certain rights and these are as follows:

There are governance rights with four Directors for Max Financial Services in existing Max Life and three for Axis. Some of that we will re-adjust as the eventual shareholding gets changed once the contemplated merger is implemented. The endeavor will be to initiate the merger process by middle of next year. So, we have around five years to implement the same. Axis Bank has an alternative liquidity option through the Swap upto Max Financial Services, if for some unforeseen reason merger is not implemented. There is also a put option in seven years if both do not happen. However, that's a remote probability event, but we will address some of your questions around the same as we go through the call.

Before I handle the call to the moderator, I would like to thank the entire Axis Team and welcome them into our JV. I want to thank the team which has worked relentlessly and I will tell you, they have been nothing short of being absolutely professional. I also want to thank our existing joint venture partner, which is Mitsui Sumitomo who have always been very, very supportive of the transactions we do. And lastly, my team in Max Corporate, who have worked tirelessly to make this thing happen. So to sum up, Max Life will continue on its trajectory of driving strong shareholder outcomes, with Axis Bank as the new JV partner. With partnership with Axis Bank having been strengthened, and the YES Bank bancassurance being renewed for another five years, significant investments in proprietary and digital channels, razor sharp focus on cost and significant improvement in protection mix, we are progressing well despite the current challenges.

On that note, I would like to hand it over back to the moderator and open the floor for questions and answers. Thank you.

**Moderator:** Thank you very much. The first question is from the line of Manoj Bahety from Carnelian Capital.

**Manoj Bahety:** Firstly, let me congratulate the entire management team of Max as well as Axis for moving ahead a long pending strategic deal. So, my first question is, can you elaborate a little bit on the put option, in fact, this Rs. 295 per share into 55 crore shares gives some like Rs. 16,000 crore kind of numbers. So, what am I reading wrong here?

**Mohit Talwar:** If I can just start on this, yes, there is a put option, but if you see the waterfall, this is an event which is absolutely somewhat remote because the first thing we are



planning to do is a merger. Failing which there is a swap which has been contemplated, and thereafter there is a put option. Now you must look at it as an event which is of low probability, but if you want to know the details of the numbers, may be Jatin, if you could take that question, please.

**Jatin Khanna:**

Sure. So, I think Mohit has made some very important comments. I will sort of drill a little deeper into that. So, firstly, the idea from a Max Financial and Axis Bank partnership standpoint is that we have to go through this merger. Now, we have had this structure for precisely the reason why we are here today. Now, having sort of accomplished that, now it's a matter of time which is I would say maybe 12 to 18 months I would rather say, because this transaction itself may take about 12 months to complete. So, I think we are looking at in the next 12 to 18 months to progress with that merger. So, therefore, the genesis and the basis of this transaction is merger. So, that is one thing which I want to just say so that it's very clear. And we are not looking at getting into any other option but the merger.

Now, there have been questions in the past around merger and the whole uncertainty because some people have spoken about this telecom liability which people keep bringing up, how this will we get that sorted and what is the certainty around the merger. So I wanted to use the opportunity at this forum to say that we have decided to sort out the telecom liability in the Tax Amnesty Scheme, which is on. So, the only roadblock which could have potentially come in the way of the merger gets cleared. So, at this stage, we do not anticipate any challenges with the merger. Now, obviously, merger is a regulatory process, so nobody can say with 100% certainty it will go through. But however, if we were to look at it from an Axis Bank standpoint, , if they are coming in as a JV partner, it's also important that that JV has liquidity event at some stage. Now, in that liquidity event if the merger doesn't go through for whatever reason, which we obviously do not anticipate at this stage, otherwise one wouldn't have gone through this structure. So, there is an alternate provided to do the share swap, like we have done for Mitsui or we are in the process of going from Mitsui. So, therefore, frankly, we don't see anything beyond these two steps is point number one. And therefore, this whole put option is a very remote liability event from our perspective. So, that is one thing which you must take away from this call.

The second thing which you should also take away from this call is that when somebody walks into a joint venture relationship, and if you were to look at our press release, you will see that there is seven year proximity timeline to the put option. And that is really the period of time which we have with us to either deliver the merger or the share swap. Now obviously, off these seven years, first five years are for the merger. So, practically we don't see a reason why this merger cannot be done in five years, because when I said that we can be filing for the merger in 12 to 18 months from now. Now, you have to look at it from a different perspective to say that Axis Bank has come in here as a joint venture partner, they haven't come in here as a partner seeking an exit in seven years, because no partner will walk into a relationship and want a mid-way exit. Because this Company has done well, continues to do well. And now you think about where this company can be, with the current management team, which has done a spectacular job, also supplemented by both Amitabh Chaudhry as well as Naveen Tahilyani who have both been in the life insurance industry and have seen this business closely. This combination will put this Company in a different orbit.

Now, if we are in that situation and from an Axis Bank standpoint, okay liquidity event as they desired has not happened, but the Company is doing well and there is a lot of growth still left from a joint venture partnership standpoint. And so we see no reason for them to exercise this put option itself, from that standpoint as well, because practically I am sure you will all value this relationship in Axis Bank's stock,



which then will pretty much take away any reason for them to even think of a mid-way liquidity event. However, at the same time, when you get into any partnership, you obviously have a liquidity desire at some stage, not to exit but to be in a liquid position. So to that extent you will always put those conditions to say that, what if it doesn't happen? What if I don't want to continue? And therefore to protect those what if scenarios you will put several events. So, this is like one of those what if scenarios. But again, like I said, an extremely remote probability event. So, on behalf of both Max Financial and Axis Bank submission is that this partnership is with the intent to merge this Company, and therefore merger is really the option we will be working towards. And frankly, you should be focused on that and nothing else.

**Mohit Talwar:** If I may add two more things. One is, the fact that they are coming with a 30% stake, I leave it to the best judgment of the people on the call and it is for you to infer how long this arrangement is going to continue. There will be future announcements which we will make periodically. So that's point number one. And the second is, the Amnesty Scheme which Jatin spoke about, last night we also took an enabling resolution from our Board, so we have got that cleared as well. And as soon as the lockdown gets over, we want to be the first Company in the jurisdiction of Punjab to go in for the Amnesty Scheme.

**Jatin Khanna:** And just to add to what Mohit just said, the certainty of this Tax Amnesty Scheme is so much, so then we have actually already filed the formal application with the department, which is online filing and liability, crystallization, everything has happened. Now the only thing is that the day they open up, they should be approving it and we should be sort of getting on with it. So therefore, before committing for this merger, we have also made sure that we have cleared all the roadblocks to the merger. So that is our position at this stage.

**Manoj Bahety:** Okay, thanks for this explanation. I have a couple of more questions. First one is, initial part of the call I might have missed, have you mentioned what is the money which Axis Bank is paying for this 30% stake? Has that been firmed up or still it is open?

**Jatin Khanna:** So, now whether the money is firmed up? Answer is, no. Whether the mechanism of formula for this money has been firmed up? Answer is, yes. So what that means is that under the Income Tax Act there is a valuation methodology called Rule 11 UA. Now that Rule 11 UA practically is a tax adjusted book value. And that is the basis of our transaction. And to that extent, the reason why that number is missing at this stage is because the tax book value has to be ascertained at the time of closing and not today. So, it was pointless, frankly, to put a number there because that number is subject to change. And that is why we haven't put the number at this stage. But the methodology for ascertaining that number is pretty crystal clear.

**Manoj Bahety:** Okay. And Mitsui payout will be close to Rs. 800 crore for residual 5% stake which you might have to buy out at a future date, right?

**Jatin Khanna:** Yes, it's about Rs. 840 crore to be precise. And so that you are seeing some numbers and all that being floated around in the press, but obviously I can't confirm or deny those numbers because I don't know whether or what the number will be at that stage. But practically, this number is nothing as compared to the number which we will get on the stake sale. So to that extent, this Mitsui Sumitomo acquisition liability is fully provisioned for in our assessment, when we actually went ahead with this transaction.



**Manoj Bahety:** And this transaction will be at holdco level, right? Max Financial will receive money from Axis and they will pay to Mitsui, right?

**Jatin Khanna:** Absolutely right.

**Mohit Talwar:** It is a secondary transaction which will be taking place.

**Manoj Bahety:** Okay. And lastly the final stake in Max Life once all these things get concluded will be around 69% to 70% will be held by the listed Company and 30% by Axis, right?

**Jatin Khanna:** Yes, it is 70% and 30%. So it's not around, it's exact 70:30.

**Manoj Bahety:** Okay. Some stake is there with employees and all also, that also will get subsumed, right?

**Jatin Khanna:** No, the employees have phantom stock, they don't have ESOPs. So to that extent, there could be some few hundred shares from the past employees. But other than that, practically it's a 70% ownership.

**Moderator:** The next question is from the line of Avinash Singh from SBICAP Securities.

**Avinash Singh:** A few questions. I believe all the merger, if I misunderstood just pardon me, the merger you are mentioning will basically collapse of Holdco and operating Company structure. And subsequent to that, I mean, whatever amounts you will receiving that is not ascertain from Axis Bank, but I assume that to be sufficient to sort of for Mitsui stake buyout as well as kind of your assessment of the tax amnesty payment you may have to make. And then finally, what kind of costs efficiency you expect of post this deal, because, I mean, in the past you would have certain mechanism to pay the commission and other benefits to Axis Bank, but that time Axis Bank did not have a direct equity interest, but a very small stake. Now, they are becoming a strategic owner in Max Life, so does that mean that the cost structure also you are going to subsequently improve meaningfully?

**Jatin Khanna:** I don't know what you mean by other mechanisms, because practically we have never had a mechanism other than the regulatory possible compensation to be paid to Axis Bank. So, I don't know what other mechanisms are being referred and I would rather refrain from commenting on something like that, because we are in a regulated industry and what we pay and what we can pay is what's within the bounds of being regulatory compliant. Prashant, you may want to add something as well?

**Mohit Talwar:** I think it's best to kind of sequence out, I mean, I didn't hear the question very well, but I think he was probably wanting to know what the sequence would be. So the first part of it, as you know, we have already embarked upon the swapping of the Mitsui stake, so that process is currently on. And then there will be a residual stock which is about 5% odd on which we have about 12 months to affect that from the time that we get the approvals. Hopefully, in this interim period, the Axis Bank transaction would have closed, at which time the money would have come in. Jatin mentioned, the money would be more than significant for us to buy out the 5% stake. And the Amnesty Scheme we have talked about, that is a cleanup job which is happening and the process for the merger will embark 12 months from now. And at that point in time, really there is no other gremlin, I would say, at the holding Company which would preclude the whole process of the merger. And I think the last part of the question was around compensation and remuneration, which Jatin has adequately addressed.

- Moderator:** Thank you. Next question is from the line of Dhaval Gada from DSP Mutual Fund.
- Dhaval Gada:** Congrats on the transaction, at least the announcement. Couple of questions from my side. First is, what is the cost of the telecom liability settlement that you expect? And second is, what is the sort of medium-term plan of the promoter and Mitsui, given that combination, both of them together will hold more than 50%, and we know that Mr. Singh's pledge of share is one of the agenda that he wants to sort of reduce the pledge, etc. So, what is the medium-term plan? Is that a strategic over a period of time or any thoughts?
- Mohit Talwar:** Yes. So, whilst we have approached the tax department formally, and the number really hasn't been crystallized but we have got indications and it's looking that it would be in the range of about Rs. 120-odd crore. We have the adequate liquidity available with us as a holding Company to do that transaction. So that is your first question. With regards the second question, really the question is for the family, for the promoters. However, from what I know and probably wearing my public hat, I think Analjit has made this disclosure in previous occasions that he is relentlessly targeting to reduce the pledge. And really there are two events, one, which you all may or may not know is that we are almost at the cusp of completing our healthcare transaction. Unfortunately, because of a lockdown in Mumbai, we haven't got our written order from NCLT, so that is expected shortly. And then there is a process of listing the healthcare Company, the stake of Analjit in that Company will be up for monetization, a mandate is already out. So that's the first step in terms of reducing his debt burden and thereby his pledge level. We have also been fairly vocal about the fact that he would like to monetize some portion of his ~28% currently held with him in Max Financial Services, and that is very much on the anvil. There have been a lot of interest which has been evinced in terms of picking up that stake, but obviously he has to really look at the right time and the right opportunity and maximize as much as he can. But that's very much on the card that there would be some small portion which would be monetized. And with a combination of both these events, plus some assets which he already started in terms of asset sale reduction, the debt levels for him and consequently the pledge level will improve significantly.
- Dhaval Gada:** Right. And just lastly, I mean, we had this sort of a transaction in the past with HDFC Life where we explored the collapse of the structure. And even at that point, I remember we had looked to sort of park their telecom liability in one of the other listed entities. So what has changed from then to now that makes you believe that we will be able to collapse the structure, given that the amendment to the IRDA Act has not played out? So just trying to understand what has changed from then to now?
- Mohit Talwar:** It's a good question. One is time, I think as time goes by, there are a lot of things which we need to kind of reflect upon. And that is something which has happened. The second and a significant item what we just spoke about, which is this particular gremlin which is sitting there, right. It is not a clean holding Company, and at that point in time there was, if you recall, there was another structure which will be contemplated in order to cauterize this particular liability. So we are fairly confident that going through this Amnesty Scheme, cleaning up the holding Company with nothing else in there, this is a step in the right direction. Obviously, I can't give you 100% guarantee on it. But directionally I think this is the right approach.
- Jatin Khanna:** And if I may add to what Mohit just said. I think there is a significant difference between what we were trying to do earlier and what one would do in this situation. And let me tell you what the difference is. Earlier, Max Life was merging into Max Financial and then demerging into HDFC Life. Now, rightly or wrongly, the concern at that stage the regulator had was that an insurance Company is merging into an



NBFC and the comfort was that the insurance Company merging into an NBFC is not something which regulators can approve. They were at best amenable to looking at something what RBI does, which is, let's say, the reverse of it. So that is, I think, point number one, which is to say an NBFC can merge in a bank, but a bank cannot merge into an NBFC. So, I think that is one big difference between the last situation and this situation. The second sort of big difference is that when you strip away all the assets and liabilities of Max Financial, and when you collapse Max Financial into Max Life through a reverse merger mechanism, then practically there is nothing which is changing in the insurance Company, because neither the license moves anywhere nor does any asset liability comes in the insurance Company. All what happens is there is a change of shareholding which happens.

So, therefore, practically the regulator is approving only change of shareholding and nothing else when they are approving this transaction. So, therefore, there are material differences between the two structures, which gave us far more confidence that this is doable. And like I said in the previous, I think the first question, and then Mohit also sort of mentioned in his remarks that, it's not that our life is only dependent on the merger, we obviously have a swap option also, at least from a transaction standpoint. But of course, from an investor's standpoint who have been invested in Max Financial, from their perspective, obviously, the merger is desired. And as you can see, there is seriousness and steps being taken in that direction. Because otherwise we have discussed this in the past that this tax liability is a frivolous case. However, despite all of that one is going for a Tax Amnesty Scheme to really clean up the liability. So therefore, all the right steps are being taken in that direction.

**Mohit Talwar:**

If I may comment here, we need to kind of stand back a bit and take a more holistic view of why this marriage is really happening. I just want to remind all of you that not very long ago there were aspirations from Axis Bank in terms of wanting to get into the insurance business, whether it was a greenfield or brownfield, these discussions, obviously, were had a couple of years ago. So that aspiration of getting into the insurance space had been germinated well before. Now, here is a clean path by which you have a bank who aspires of playing in the insurance space, coming in as equal partners, jointly running the business. And with a CEO who has a wealth of experience in Life Insurance business together with his COO, who also has wealth of experience with life insurance business. So if you want to really look at it, I think they are here for the long haul. And like we mentioned that you need to have a few mitigants in place, because they are a Board governed company, a listed company. And it is but obvious that you need to have what's called an exit option. And that is really what has been contemplated here with an exit option, not that it is necessarily going to be exercised by them.

**Moderator:**

Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal Financial Services.

**Nitin Agarwal:**

My first question is, what is the dilution that MFS shareholders will see as MSI moves above? And Max Life shareholding, the dilution across categories of shareholder to facilitate this deal?

**Jatin Khanna:**

Yes. So, I think your question is coming from the fact that is Mitsui participating in this dilution. If that is your question, so the answer to that is, Mitsui swaps up is a precondition for this transaction to happen. Therefore, till such time that precondition is achieved, this transaction would not progress. So, to that extent when they swap up, they automatically participate in the dilution. Now, obviously, this COVID has impacted the stock price from Rs.600 level it's now down to more like Rs.470 level. But the share which we are acquiring from Mitsui we are practically acquiring at, a Rs. 440 of Max Financial share price. So, to that extent, when you look at it from



relative Rs. 600, even if you look at it from relative to Rs. 550, the Rs. 440 already factors in that cost of dilution. Now Rs. 600 becoming Rs. 470 today is obviously an unpredictable event. So to that extent what we are buying from them may or may not fully price their participation to that extent. However, when the deal was structured and it was conceived, the cost of dilution was part of both what we are buying out as well as what is being swapped.

**Nitin Agarwal:** Okay, so only the shares will be issued at now MFS level, to understand, so that is the only dilution to look at. Right?

**Jatin Khanna:** Correct, therefore, as they come up, become shareholders of MFS, they automatically participate in the stake sale to Axis Bank.

**Nitin Agarwal:** Okay. And secondly, suppose in a rare scenario, for some reason the deal couldn't go through and Axis exits at a predetermined price of Rs. 294 per share, then will Axis stay on as a banca partner after such a long time? Because if it doesn't, then buying share at that price may be really expensive. I understand that that is a big outlier, given all the explanation that you have given. But that is sort of a big factor to understand.

**Jatin Khanna:** Like I said, whilst there is a put option at the end of seven years, I think I clarified it clearly that the way we look at it is that a joint venture, it is like a marriage. And Mohit also mentioned this point to say that they have come in here after their stated intent of getting into life insurance business, for almost two and a half years we have been engaged with them to sort of make this work. So, practically, it is like to say that a worst case scenario is not what a deal is predicated or premised on. So, to that extent, I mean, we should not expect or assume a scenario wherein in middle of the relationship practically also you have to look at it in a different way also. If the merger or the swap happens, Axis Bank will be the largest shareholder of Max Financial and their shareholding will be disproportionately higher than anyone else. Now, when you are wanting to be in that position and when you come into a JV with all of that, then you don't walk into sort of terminate that relationship.

**Mohit Talwar:** And let me also add another dimension to this. Today, as we speak, if we were to aggregate the quantum of fee which Axis would have earned from inception, we are talking about somewhere close to ~ \$ 0.8 billion. So as we speak and with current business levels, the numbers are between Rs. 800 to Rs. 900 crore per year, and growing. Now, you tell me if there is this steady stream of fee income where you don't need to maintain capital in a scenario where banks are always looking for the fact that your risk weighted averages and balance sheet management is a key focus, and if it is growing, why would one want to go and shake that beehive. You've got to look at it from that perspective as well.

**Jatin Khanna:** Because you have to also think about the magnitude of the performance of the bank at that stage. I mean, at that level of business volume and at that level of...

**Mohit Talwar:** In fact, Prashant, maybe you can come in here to just give a feel or an indication in terms of what is the sort of cumulative sales number that we are talking about, five years or 10 years or 15 years hence.

**Prashant Tripathy:** Thank you, Mohit. Really, without COVID we were hoping that we would conclude with Axis Bank had individual adjusted sales of about Rs. 2,700 crore and I have seen them grow close to about 20% CAGR for many years, so I will hope that they will continue to grow in that range for at least next 5-6 years, With 20% growth, Things double up every three years, so in six years times, maybe four times of this, we will





be talking about close to Rs. 10,000 crore of sales numbers at a very high level. Also, coming back to some of the issues which have been discussed with respect to the possibilities, I will just like to highlight that by then we can have a precedent in terms of Mitsui Sumitomo going up, the swap taking place, right. And swap is a sure shot thing. So when one constructs the deal, there are all kinds of possibilities which get discussed. We all have done deals, which means what if this doesn't happen. But one needs to be focused about a probability of an event taking place. In my mind the possibility of either a merger or a swap taking place is close to 100% really, so I don't see the third event play out. However, there is always in deals you have these scenarios which are created. Now on Rs. 10,000 crore of sales numbers, it will be very large relationship and the income stream that Axis will have will be very significant. With that point of time, these are exit barriers. So I will say, some of these scenarios are quite theoretical in nature and I will request all the investors as well as analysts to apply judgment in terms of assessing the risk in it.

**Nitin Agarwal:** Sure, lastly if you can provide some color on the tax liability that will arise, if Axis were to swap its holding for Max Financial, as that liability is planned to be borne equally by both the parties. So how much can the approximate range of that tax liability?

**Jatin Khanna:** The concept is we are sharing half-half, it will be a factor of the share price then. And I must say, that the incentives are aligned there, so obviously, depending on the price at that point in time, one would want to sort of time it such that the liability for both the parties are minimized. And while constructing this transaction we have actually thought through that and the mechanisms how we could possibly defray that liability over a period of time, there is a part which obviously is from the residual proceeds of this transaction, which can be taken care of. And the other part could be really very small and it could potentially be deferred over many years, if you could just get it financed, or something like that. So I don't anticipate at this stage that being a significant number, six years out, it will be sort of, I mean, whatever, significantly lower relative to the overall value of Max Life or the business.

**Prashant Tripathy:** Just to compliment what Jatin is saying, the objective, while there is six or seven years which has been kept for the transaction for the first event to take place, this is like the outermost time. As soon as the transaction is consummated, we are going to begin with the first steps of merger, we will know in some period of time as the merger is happening or not, post which, of course, there will be the event of swap. So in all expectations we will be able to conclude one of the first two much before the six years, and the liability in terms of what you share 50:50 is actually time dependent. So, it will be in my expectation much lower than how it will be six years from now.

**Moderator:** The next question is from the line of Ajox Frederick from B&K Securities.

**Ajox Frederick:** Sir, my question is again a repetition of an earlier question. The cost of running Max Financial, so basically how does that change from here?

**Jatin Khanna:** That is an insignificant cost, we will have like every corporate have gone through cost rationalization exercise over the past 12 months or so. And now the cost which we are looking at, for this year will be a sub Rs. 50 crore. And then on top of it the proceeds which we get from this transaction, as they come in sometime during the year, the interest income itself will take care of those costs. So, I think, at least in our mind we have moved away from that cost being an area of concern for us, because, in a Company which is delivering about Rs. 1,000 crore VNB or thereabout, Rs. 40 - 50 crore cost is nothing. And as you look at it from a long-term perspective and



overall scheme of things, it will be insignificant. Today, it's less than 5% of VNB and value also comes from the embedded value of the business, as we all know. So to that extent it's, I mean, it's low single-digit number, if at all, in terms of the overall valuation mathematics, as one would put out. And will become even insignificant over a period of time because the cost is not going to go up whereas the VNB keeps multiplying with the business growth and the margin improvement which we keep delivering.

**Prashant Tripathy:** And as Jatin mentioned, there is of course the desire to merge both the businesses. So once the merger gets over, anyway, there won't be a separate entity that is number one for us.

**Ajox Frederick :** Till that, I mean, the first two years anyways it's the JV which will be the focus and after that is the merger process. So till that merger process is there, anyways, the same kind of run rate will continue and that is what you are expecting, right, at least on the cost side? Very mild cost, but yes.

**Jatin Khanna:** Yes, sub Rs. 50 crore I can say for sure. Unless it comes down even further. And like I said, you have to look at it on a net basis because, with the corpus we will have, with the other income flows which happen, practically this number could be zero or maybe a Rs. 10 - 20 crore negative number. So it is not a number which you need to really worry about now for the future.

**Ajox Frederick :** Next question is on the Board. So how is the Board, like, I just read somewhere that one will be nominated by Axis but he will be part of Max Life's Board. So how does it work?

**Jatin Khanna:** The way it works is that there are four Directors which Max Financial will have on the Max Life Board, and three Directors Axis Bank will have on the Max Life Board. Obviously, Board composition being what it is, it's a joint venture and therefore we will run it and we will always want to run a JV in the spirit of equal partnership. So, obviously, we will sort of co-create and practically sort of jointly drive Max Life at a performance or an operating level or a governance.

**Mohit Talwar:** Jatin, let me come in here. We have contemplated is that while we may have this configuration of four and three, in the spirit of partnership, as we have done with all our JVs, whether it was New York Life or our healthcare business, we are known for basically operating in the spirit of equal partnership. So part of the overall construct there will be what is called a Shareholder Forum. And in this particular Forum, there will be representatives from Axis Bank and MFS. And all key decisions, whether it is to do with people, business plan, CAPEX, capital management, all of that, will be first discussed in this particular forum then brought to the Board. So, that is how we are planning to collaboratively work on the JV.

**Ajox Frederick :** One just quick book keeping question. So after everything is settled, like after the Mitsui swap and after Axis coming in, the current Max Financials' shareholders, so they will be holding what, 54.7% of Max Like?

**Jatin Khanna:** Yes.

**Moderator:** The next question is from the line of Madhukar Ladha from HDFC Securities.

**Madhukar Ladha:** Couple of questions sir. Number one, you mentioned that the book value is tax adjusted. Can you give us what is the tax adjusted book value as of December 2019?



- Jatin Khanna:** Okay. So I will tell you the current tax adjusted book value it's in the range of Rs. 28-29. Now that tax adjusted book value typically moves up with profits, however, could fluctuate outside of the profits because of mark to market of your bonds. And that is the biggest driver which can swing it this way or that way. So practically that is the number today and it could move depending on how the profits accrue and how the mark to market of the bond yields happen.
- Madhukar Ladha:** Got it. Second, I am assuming then the current buyback arrangement with Axis Bank is suspended.
- Jatin Khanna:** Yes, absolutely. I mean, the current arrangements will get suspended after this transaction comes in play. Obviously, there is another 1% put, for example, which will in a way materialize before this transaction is done. So to that extent, that 1% will get bought. But after which there is a 29% which will go and so the last 1% will get cancelled. And we have cash reserves for the 1% which we have to do.
- Madhukar Ladha:** Yes. Okay. Then you clearly stated what one of the promoters, Mr. Analjit Singh and family were kind of planning to do with their stake. But I don't think you really elaborated on what Sumitomo's intentions are, now they have a stake in the holding Company, and they will also be selling 5% stake to the holding Company. So, what are their plans?
- Mohit Talwar:** I don't know how familiar you are with Japanese Companies. But to give you a short answer to this question, Mitsui Sumitomo is here for the long-term.
- Jatin Khanna:** And also I want to just say one more thing, which was not said and so that we are all clear. When we talk about part monetization of the family's stake, we are not talking about the stake coming to the markets, block deals and all of that, it will be a private transaction. So to that extent, I just want to sort of clarify that you should not have a liquidity overhang in your mind somewhere, that this stock will come in the market or something like that and Mohit had said, there is a long queue waiting to get in as soon as we announce this transaction. So we will obviously have to start engaging with potential partners who will want to look at the stake and participate in the future growth.
- Mohit Talwar:** So, from what we know, I think, a lot of guys had kind of circled the wagons in the past and this wagon would actually come and stop on just one item. And that one item is this particular item, which we have now eradicated hopefully and is not going to be discussed for future negotiations.
- Madhukar Ladha:** Then just on what sort of regulatory approvals are still pending on this. I understand that we are pretty close to getting RBI's approval. Can you throw some color there?
- Mohit Talwar:** All regulatory approvals are pending, in fact, we have not even applied for the transaction. But for the Mitsui transaction, those we have already applied to Department of Economic Affairs. I think CCI has to go now through the fast track methodology, which they have, where they can do that. We have applied to IRDA, questions have come, questions have been addressed. So that's moving along fine. As far as the mother transaction is concerned, which is the Axis one, we just closed it and announced in the early morning hours today. And in the course of a week or so, we would be applying to CCI, IRDA, Reserve Bank of India. And so early days to say how long these are going to take. But we are hopeful that end to end we should be completing this towards calendar year end.
- Madhukar Ladha:** When should the share swap with Mitsui get done?



**Mohit Talwar:** So that should happen earlier than the crystallization or the closing of the Axis deal.

**Madhukar Ladha:** So what is the indicative timeline on that?

**Mohit Talwar:** Now COVID has come into the picture, so we were hoping that this will be done by June. But give or take a couple of months, I suppose.

**Jatin Khanna:** I think the Department of Economic Affairs is the only approval which typically should take time. Because, frankly, like Mohit said, with IRDA we are done, with CCI we are in a fast track, so maybe about a week, 10 days or so, if our application under the fast track is admitted, which I believe the meeting was to happen today. So if they admit that application, then I think it's about a week, 10 days process, so that will get done pretty soon. Now Department of Economic Affairs also, they have had their query list sent to us, we have responded to all the query, and haven't heard after that. So practically it could be while we all anticipate it to be a June event, it could surprise us on the other side also. Like while Mohit said that it could get delayed, but it actually could be a situation wherein you may get all the approvals by May itself. So we don't know at this stage.

**Madhukar Ladha:** Also could you please help me understand the number which was sort of floating in the press is about Rs. 1,600 crore and for a 30% stake, so that values the Company at Rs. 5,700 crore odd, Max Life. Whereas Max Financial with 93% stake, with current market price would be at roughly like Rs. 16,000 crore, Rs. 17,000 crore of market cap. So, isn't this a sweet deal for Axis Bank? And what am I not missing over here or what is the catch?

**Jatin Khanna:** I don't think so there is a catch. And practically you have to look at value not in terms of rupees crore and you have to not look at value in terms of what is being paid. But you have to also look at is that when the third largest private bank comes as a partner, it's a different ball game, that is one thing. Second is that if that partnership removes the overhang in terms of the gap which has been sort of perceived in the minds of the investors in terms of only one sort of missing piece in the overall Max Life strategy, which is to say that we are not owned by a bank like many of our other competitors. Otherwise, if you look at any vector, Max Life has outperformed pretty much practically than every player in the industry. I mean, just to give you a little bit of recent performance, in the month of March you saw this whole COVID situation playing out and we have all seen the numbers for March coming out. Max Life is pretty much second to none, except for one. And there also that player had a slow March last year, so it's more of a base effect. So practically, in all difficult time, we have seen Max Life performing better than the others, it has the most balanced product mix, it has the least amount of risk when it comes to sustainability of their profitability, because a lot of players have a very heavy focus on some of these products which are susceptible to regulatory action. Max Life don't have any of that.

Now despite all of that, rather than trading at pretty much top multiples, if I was to just say, it has traded at the lowest multiple, you know what I mean? So, now, having sorted this partnership and having sorted this uncertainty, we then are looking at Max Life being looked upon as a life insurance player which is second to none in terms of the quality of business which Prashant and team run. And in fact, we were having a little bit of scenario analysis conversation and may be Prashant can throw a little bit lighter on it, that we have done exceptionally well in COVID. Our agency has been the least in terms of degrowth. In fact, our incoming partner has hit ball out of the court in terms of being the number one bancassurance player in the month of March. Our Digital channel is growing very sharply and not degrowing or registering a small growth, but I will let Prashant talk a little bit more about it.



So, the point being made is that all this good work is not generating or not resulting in the value which it should result for the shareholders. Now, having sorted this lacuna or gap in the overall strategic piece for Max Life, we see a significant amount of value being created and unlocked for shareholders. So, I don't really want to compare with what price we are today trading at or what price at which we are selling. I think the value in this partnership and relationship is far more than the value being possibly put on the table to cement this relationship.

**Mohit Talwar:**

Actually if I could just give you a small little summary of this. Assume for a minute that we did not do a deal with Axis Bank and assume that you have reached 2021, 2022 and the banca arrangement is now kind of nebulous. What do you think would have happened to the Company? That is one scenario, where more than 50% of your sales is coming from one distribution channel, which is Axis. And now you extrapolate that scenario to the current scenario. And I am sure you will get your answers in terms of whether it's a sweet deal or who is in a sweet deal for. So, I leave it to you to decide that. But Prashant, over to you, if you have anything further to add on this question.

**Prashant Tripathy:**

I think the way to see this is, it creates a win-win for everybody, I first of all speak for Max Life as a platform, really all the good things that Jatin talked about, we are a distinguished, we are a very differentiated life insurance Company. However, the place for a large distributor has to be understood in the context of financial services. And with this relationship, hopefully we have cemented partnership over a long period of time as well, which will continue to accrue value. So to us as a franchise, it will build a platform for our future growth. Now, we also must keep in mind that having a robust platform like this creates far more avenues and opportunities for the management team to focus on different areas and different growth from other elements. We have mentioned multiple times that we are focused on driving our own channels. Now having cemented this partnership, relationship over a long period of time and having the discussion with YES Bank extended and five years extension, the management team and the Company is well set now to focus on expanding our own channels and going beyond what was possible earlier. And of course, that will start to show up in numbers.

From Axis Bank's perspective, of course, they get shares in one of the distinguished Companies or differentiated Companies, and it is going to accrue value to them. So if you look at it, it's a sweet deal for just about everybody, the shareholders of Max Financial it is a sweet deal. And we just managed to or we hopefully will manage to unlock the value which is lying in the franchise, which will get passed on to all the participants. So it is going to just benefit everyone. So, I think Jatin talked a lot, but suffice it to say that we continue to operate with lot of confidence under COVID situation also, there is a laid plan that we are executing too, we are seeing reasonable growth, a reasonable performance under the current circumstances. And there is a very well laid strategy for a short period of time when the lockdown continues and, of course, there is a long-term strategy that we have to remain focus on at a very high level. Of course, COVID is causing a bit of stress, but we are managing that by completely digitizing over a record period, digitizing the entire sales machinery, entire sales process by driving significant amount of protection, hopefully that will yield the positive impact on our margins. Being extremely focused on our cost with a roadmap on how we will manage the expenses over the short and long period of time, looking at structural cost reduction, as well as focusing on reimagining how our fulfilment will look like in the current context. So there is a lot of work currently happening, which I am sure will position Max Life to remain one of the market leaders and will benefit over a long period of time. So, overall, the performance is intact, which is very hard to make sure that we remain, we gain market share, we remain one of the market leaders.



- Moderator:** Thank you. The next question is from the line of Udit Kariwala from Ambit Capital.
- Udit Kariwala:** So, the question I had was that, we have discussed enough about the merger. One thing which I wanted to know is, if this deal goes through, operationally how does things change with Axis? So till now they were a partner and a large part of their business was coming from Max. So in terms of some numbers or some sense as to how operationally things will change if this deal goes through, any increase in commitment of business or something around those parameters? If you could give any color that will be helpful.
- Mohit Talwar:** So, what I can tell you is that, look, assume that they are also a promoter, just like we are and I have kind of, talked a little bit in terms of our governance, how we plan to work together, the Shareholder Forum, etc. And my belief is, having interacted with their very professional team that they would be quite actively involved in the business and all critical key decisions will be co-created, discussed and mutually agreed upon and disseminated to management. So, that is how I perceive this joint venture to operate going forward. But, Prashant, if you want to add some color. There is no numbers to give you right now, but if there is anything else you want to add to what I just said.
- Prashant Tripathy:** Very healthy relationships, I mean, as you know, the bank currently follows the model of open architecture, however, Max Life continues to have upwards of 90% share of the total counter. And once the bank becomes a promoter, we will have no reasons to believe that it will go down. So, I will continue to remain optimistic that Max Life Insurance would be the largest beneficiary a very substantial beneficiary of the bancassurance sales from Axis Bank.
- Udit Kariwala:** So, I mean, where I am coming from is that we saw that Axis had done another deal, and you rightly mentioned about the open architecture where they have partnered with one of the other private insurers. So I was just kind of trying to get some sense around that, because most of the banks once they are promoter, they typically kind of push their subsidiary kind of products. So that's what I was alluding to...
- Mohit Talwar:** So actually that is the question you should actually ask to Axis. I mean, our belief is that intuitively if you are a promoter, you own 30% in a Company, then you are not going to shove us under a truck there, right. But best you ask that question to Axis and see what they have to say.
- Moderator:** Next question is from the line of Mrigakshi Punga from L&T Infrastructure Finance.
- Mrigakshi Punga:** I just wanted to ask more on the lines of utilization of the money that is going to come in from Axis Bank. I know you have mentioned about the Mitsui buyout as well as the tax scheme. But over and above that can you share some light on how the funds are going to be utilized?
- Jatin Khanna:** So for now, we have no plans for dividend in foresight? At this stage, we have no plans for any of that. But obviously, at the right time we will think through some of these, think through what our requirements are and then take a call, because given the regulatory process, maybe six - nine months away from closure, so I think it's a little premature question at this stage. So, at this stage we will enjoy the moment and then think through what we need to do with the cash nine months from now.
- Moderator:** Thank you. The next question is from the line of Devang Patel from Crest Wealth.



- Devang Patel:** Sir, are there any covenants in the deal structure that put a cap on how much Axis Bank can hold in either Max Life or Max Financial? So if they want to increase their stake to majority, is there a roadmap?
- Jatin Khanna:** So, under the Banking Act there is a section called Section 19(2), and this is our understanding of the Banking Act, of course, we don't run a bank. There is a cap of 30% for a bank to own in a life insurance Company. Now, in the past now your question obviously will be to say what happened when ICICI started or when, for that matter, let's say, SBI started. At that stage this interpretation was not very clear, because the carve-out to go beyond 30% is only an indemnity based business, whereas life insurance is not an indemnity based business. Now, what one is hearing lately is that that view in RBI is almost certain that, that interpretation was not the right interpretation at that point in time. And the interpretation is that a bank cannot own more than 30% of the life insurance Company under the Banking Act. So, to that extent, that is the maximum at this stage, what I just said, what Axis Bank can own. Now, what happens in the future or not, we don't know, frankly, how will regulator look at this issue 5 years or 10 years down the line, nobody knows.
- Devang Patel:** Sir, and the Board sharing or four and three seats, for how long does that continue? Because Axis Bank will have the largest stake after the merger.
- Jatin Khanna:** Correct. So once the merger happens, and I think Mohit mentioned in his opening remarks that the Board will get readjusted based on the shareholding. Whilst the merged entity still continues as a joint venture in terms of Mr. Singh depending on the family shareholding being the joint venture partner for Axis Bank directly as opposed to Max Financial being the partner. But obviously, since his shareholding on a diluted basis will be much lower than what Axis Bank shareholding is. So, in that construct, clearly Axis Bank will have significantly higher number of Directors relative to what the family will have in the merged entity, given their shareholding.
- Moderator:** Thank you. The next question is from the line of Dixit Joshi from White Stone Financial.
- Dixit Joshi:** Just one question, is there a clarity regarding the merger ratio, I mean, how much Axis Bank will be holding post the merger?
- Jatin Khanna:** Well, I don't think so there is any sort of clarity required here and confusion, because practically what one said is that whatever assets and liabilities are there in the holding Company will have to be pulled out. So, it has to be something called a composite scheme wherein you demerge the asset liabilities into another, let's say, group entity and have a Max Financial as a shell company. And that shell will merge into Max Life. So, practically only the Max Financial shareholders will get the shares in the merged co, there is nothing which changes for Axis Bank, they will continue to hold their 30%. So, the effect of that merger will be that the shareholders of Max Financial will become direct shareholders of Max Life.
- Dixit Joshi:** Okay. So Axis will continue to hold 30% in Max Financial?
- Jatin Khanna:** No, in Max Life, the merged entity.
- Moderator:** Thank you. The next question is from the line of Harshit Toshniwal from Premji Invest.
- Harshit Toshniwal:** One question, so in the current structure, since Axis becomes the majority owner, the largest owner, and simultaneously they will be having seats on the Board, you



think that this can form as a control and the point where RBI might need more clarity or might need to think about? So, is the line of thought relevant?

**Jatin Khanna:** Well, at this stage, it's not conceived as a control, like we discussed, because Max Financial will have one Board seat more than Axis Bank and it is a 70:30 partnership. So, now, what happens in the future post the merger is not something which anybody can sort of at this stage, I mean, sort of say what RBI will take a view at that point in time or not. But at this stage this transaction is not structured as a control transaction. So there is no control passing on and therefore we don't anticipate any such issues arising with RBI.

**Harshit Toshniwal:** Okay. And another question, since practically because of the RBI regulations, 30% becomes a Maximum which Axis Bank will be able to hold, do you think that the structure will be a very competitive open architecture despite being the promoters the structure will always be more skewed towards a very stiff and competitive outlook at Axis Bank channel?

**Jatin Khanna:** Let me put it in a very simple fashion. When it comes to, let's say, open architecture or having a different partner as part of your overall distribution network, practically what you get is compensation, because they are commissions under the law which get paid when you sell a policy. However, here they will be 30% owner and possibly the single largest owners in the future of this business. So, now there is that much more value which is accruing to you as a bank being a shareholder. So, to that extent, reasonably one wouldn't expect any meaningful or, let's say, whatever, any notable share to go to any other partner but to Max Life of that the business, is how I would sort of put it.

**Moderator:** Thank you. The next question is from the line of HR Gala from Finvest Advisors.

**HR Gala:** I just wanted to know, have you filed this merger document with the authorities?

**Jatin Khanna:** No, we said in the opening remarks, it is a 12 to 18 months event, because we have to first close the transaction, then we have to close the Mitsui buyout, then we get on with the merger. So, 12 to 18 months event.

**HR Gala:** So, what will happen post-merger is that entire Max Financial Services will get merged into the Max Life?

**Jatin Khanna:** Correct.

**HR Gala:** Okay. That is most likely to happen. Now as a result of it, somewhere in some answer you said that the Axis Bank's state will go up, will it go up beyond 30% after merger?

**Jatin Khanna:** No, it cannot. So I just clarified that about two questions back that all the Max Financial shareholders will participate in the 70% shareholding of Max Life. And Axis Bank's ownership will remain at 30%.

**Moderator:** Thank you. The next question from the line of the Sumeet Kariwala from Morgan Stanley.

**Sumeet Kariwala:** Prashant, just wanted to understand, the partnership is like almost 10 years old and we would have attracted a lot of synergies. But now that the tie up becomes much more strategic and of a long-term nature, are there something additional synergies





that you can generate from a three, five year perspective, which was missing so far and can be better extracted now?

**Prashant Tripathy:** So for our relationship, while we always called it strategic, it was more tactical, value share, year-on-year getting a stake and buying back. Now from there it converts into them becoming solid set of shareholders who are vested, participate in governance, participate in learning of business and as well as their value actually accruing out of the business growth. So, from that perspective, I think it's definitely going to help. Also, some better maneuverability with respect to how do we adjust the product mix, how to deploy resources, what strategies do we deploy, the overall leverage that I will hope Max Life insurance has to work with the management team of Axis Bank shoulder to shoulder now being as shareholder than just simply being distributor's will definitely accrue synergies. So I remain very optimistic about how future will unfold for Max Life Insurance.

**Jatin Khanna:** And on the governance level, I think, something which I alluded to, to say that there are two more people who come on the Board in a way, who have been in part of the life insurance industry in the past. So obviously that expertise also comes into play somewhere.

**Moderator:** Thank you. The next question is from the line of Nidhesh Jain from Investec.

**Nidhesh Jain:** Thanks for the opportunity and congratulations for the deal. Firstly, from a distribution strategy and Max Life, do you foresee any difference? Because in last two years we were investing quite a bit on proprietary channels and which has impact on our margins. Going forward since we have high certainty on the Axis Bank channel, do you foresee any change in our distribution strategy?

**Prashant Tripathy:** I think leaving COVID aside, COVID is a problem that's impacting, yes. This strategy of ramping up our own channel is very well thought through strategy and we will remain steadfast about it. And as a part of the strategy when you push the pedal on expansion, there is definitely a pressure on your profitability margin, etc. So you will notice that our margins have remained at the same level, haven't quite grown drastically. But once you make the investment that is where you get leverage from, and hopefully that leverage will start to accrue, which will start to show up on our maneuverability. We firmly believe that agency or own proprietary channels are a very integral part of our overall channel strategy, so that focus will remain there. And I am sure our shareholders and even Axis Bank when they become the shareholders will want us to pursue that. There are enough and many examples, if you see in the marketplace, all the large bancassurance or banks owning life insurance Companies have been pushing agency hard. So that will remain there.

I think what it will also give us, having settled sort of large relationships quite steady, it will give management more bandwidth to focus not just on our own channel, but also to grow, acquire more partnerships, etc. So, from that perspective, there may be a little bit of change in the distribution mix, but we remained steadfast. As we finish the year, I was looking at some of the numbers, the mix of our own channel is growing the way we had envisaged, so it has gone up from 29% to 31% as we finish March end. And that trajectory we continue to maintain.

**Nidhesh Jain:** And secondly on the dividend payout policy, will there be a change because now historically Max Life has been declaring dividend, but that probably will not be required going forward. So, in that context, will there be a change in dividend payout policy? And the solvency requirement and capital requirement for Max Life?



**Prashant Tripathy:** Yes, we are going to review that. Actually you know, and you actually rightly pointed out that dividend policies are aligned to our requirement to buy back from Axis Bank. So with that compulsion actually going away, we will review our dividend policy. But I will also like to highlight that Max Life is a growing organization and we are touching our solvency ratio is close to about 207%. So, if we continue to grow with the pace that we are growing, anyway our ability actually to distribute dividend for next two to three years is going to be limited, we may end up requiring more capital which over next two to three years we will do it either by raising debt or through our own profits. But suffice to say that level of dividends that we were paying earlier is going to be reviewed.

**Nidhesh Jain:** Questions on the reverse merger, will there be any tax implication on the shareholders of reverse merger, of a merger of Max Financial and Axis Bank?

**Jatin Khanna:** It's a tax neutral merger. It is designed to be tax neutral.

**Moderator:** Thank you. The next question is from the line of Brijesh Bohra from Nischint Holding.

**Brijesh Bohra:** So sir, is 30% buyout, does it mean you have to give any open offer?

**Jatin Khanna:** No, it will be unlisted Company, so there is no acquisition of shares in the listed Company, so there is no open offer.

**Brijesh Bohra:** But it is getting merged, right? That is happening afterwards, is it?

**Jatin Khanna:** Yes, that will happen some 12 to 18 months from now, not at this stage.

**Moderator:** Thank you. The next question is from the line of Husain Lakdawala from **Lalkar Security**.

**Husain Lakdawala:** Just wanted to ask whether the shareholding of MFSL post the merger will get the share of Axis Bank?

**Jatin Khanna:** No, the shareholder of MFSL will get shares of Max Life, not Axis Bank.

**Moderator:** Thank you. The next question is from the line of Narottam Garg from Trust Investment.

**Narottam Garg:** I just wanted to ask that, here it appears like Axis has two options, one is swap up option and one is the put option. So first question, the swap up option, I mean what kind of valuation does it happen? Is it like just 30% from Max Life and then 30% in Max Financial?

**Jatin Khanna:** There is practically nothing in the holdco, like I said. So, therefore, whether a merger happens, or swap happen, it's straight sort of the shareholding moving up.

**Narottam Garg:** So, instead of holding 30% in Max Life we will hold 30% in Max Financial?

**Jatin Khanna:** No, because 30% may not be because they may still want to hold something in Max Life. So, whatever they swap up, they could swap up to that percentage.

**Narottam Garg:** Okay. And second question is if, let's say, they refuse to exercise the first option, and obviously this is a hypothetical scenario, but if the first option they refuse, they can



still exercise the second one, which is the put option or is the second one contingent on the first?

**Jatin Khanna:** No, there is no concept of refusal. We have to practically file for the merger. Now, you have to understand also the fact that what is in the best interest of Axis Bank, is what is in the best interests of Max Financial shareholders. Because practically, if the merger happens, they become the single largest shareholder of a directly listed life insurance Company, which is what the desire of the Max Financial shareholders also is. So, to that extent they will always want to merge. And swap is really the backup option, because practically if you really think about it, in a life insurance business your shares get locked in for five years when you come in as a promoter. So the swap option, possibly unless and until we get a waiver from the regulator, will become alive five years from now. So if they really want to be in that position, which is where they could get to, then merger is really the option.

**Narottam Garg:** So swap is the option that becomes exercisable if the merger doesn't go through, right?

**Jatin Khanna:** Correct.

**Narottam Garg:** And then the last option is the put option?

**Jatin Khanna:** Well, no, exercisable independently, but practically firstly they cannot swap for five years because of the IRDA lock-in which is under the Insurance Act that there is a five year lock-in, so it is not that there is any other interpretation which can be taken of that item. So, to that extent within those five years the only option is a merger option. Now, if you haven't been able to deliver merger for five years, then obviously they will want to swap to come into the liquidity situation.

**Narottam Garg:** And it is up to their discretion whether they want to swap or to put options to you, is that fair?

**Jatin Khanna:** No. So, they can only put if they have exercised the swap.

**Narottam Garg:** Because once they exercise the swap then they get the Max Financial Shares, right?

**Jatin Khanna:** Correct. Then once they get the shares in the listed Company, even if they want to exit or monetize partly, that's a better option for them.

**Narottam Garg:** Put option is only for a limited number?

**Jatin Khanna:** Put option is deterrent, in a way in any construct you will have certain events to say that, for example, we want Max to sort of get a merger done or a swap done, those kinds of things. Otherwise, somewhere in the overall life of the relationship, we could possibly choose to exercise another option which will then ensure that our first two options are delivered to us. That is how you typically do some of these things. And that's why we said, it's not their desire or it's not in their interest to exercise the put, and we have given rationale for why it would make sense to exercise that put.

**Mohit Talwar:** Let me also add there, one, you talked about the fact that this is going to be sequential, it is a waterfall, it is merger failing which it is swap and then is the put. Now, Jatin has talked about, really, this being a deterrent. There is one more lever which is available, and that is that in order for whether the merger or the swap actually happens, you also need the concurrence of the majority shareholders. So



as part of this deal construct, we also got Mitsui who is a major shareholder to actually adhere to it through a deal of adherence. So they will support both these items. So really it is like a deterrent, which Jatin has spoken about.

- Moderator:** The next question is from the line of Shiv Chanani, an individual investor.
- Shiv Chanani:** Just wanted to understand post this deal and, let's say, post the merger, when Axis Bank actually becomes 30% shareholder in hopefully the listed Max Life, are there any thoughts around rebranding like a Max-Axis or something like that?
- Mohit Talwar:** So the arrangement is that, like I said, the name of the Company will be Max Life as it is today. However, there will be an amendment to the tagline which is currently there. And that amendment includes the inclusion of the Axis Bank name as well as their logo which will be prominently displayed. So very clearly it is talking about a joint venture between Max Group and Axis Bank, so that would be there.
- Shiv Chanani:** Right, fair enough. And just one more question. Let's say, in whatever, 1%, 5% probability of the merger actually not going through, what prevents Max Financial from giving out shares of Max Life to all the shareholders of Max Financial?
- Jatin Khanna:** So, obviously, firstly, there will be a dividend tax leakage for all the shareholders, which is obviously a financial implication. But to say that, let's say, we will obviously weigh all are options and therefore if not an option which is not somewhere in the table is not part of the deal, but it's a possibility which is there, but it has implication in terms of dividend tax leakage. So, we will have to weigh everything when we come out with the final structure, in the sense that the preferred option is a merger followed by the swap and followed by any other option.
- Shiv Chanani:** Yes, I do understand the dividend part of it. I am just trying to understand, is there anything else because the dividend, yes, there is a one-time...
- Jatin Khanna:** No, what you said is absolutely right. It is not that it is not a possibility, it wasn't a possibility because of the tax amnesty scheme previously, it is very much a possibility today. But that possibility has a cost attached to it, so we will figure out at the right time which way to go.
- Shiv Chanani:** Fair enough. And if I may just squeeze in one last question. In terms of, let's say, again, in the eventuality of the merger of Max Life and Max Financial, clearly Axis Bank becomes the largest shareholder at 30%. So, while you mentioned that there is an RBI limit in terms of 30% holding for insurance Company, but I am just trying to understand is there a conflict between the SEBI and RBI, because SEBI might want that it's an indirect 30% holding in a listed Company for Axis Bank and hence they may insist on an open offer.
- Jatin Khanna:** No, not really, because practically if you think about it, New York Life was a joint venture, Mitsui Sumitomo is a joint venture today. So, I don't see why Axis Bank will be perceived differently.
- Shiv Chanani:** Have you sought a clarification from SEBI on this?
- Jatin Khanna:** Well, I mean, it is unlisted Company, so there is no clarification required. It is not that the Company to that extent, only has the life insurance business, it also has a shared service vertical. So, it's not practically the only business in the Company.



**Shiv Chanani:** Yes, the question will arise only in the eventuality of a merger, fair enough.

**Jatin Khanna:** Merger as you know, does not trigger change of control.

**Moderator:** Thank you. Next question is a follow-up from the line of Madhukar Laddha from HDFC Securities.

**Madhukar Laddha:** The put option, is there a time limit until which it can be exercised? So the 63 months after the transaction, and up to when is the put option alive?

**Jatin Khanna:** See, the thing is that, like I said, the swap is a precondition to the put. So if they have not exercised the swap then obviously they cannot exercise the put. And if they exercise the swap then swap will get done, if it gets down from Mitsui today. So to that extent, there is not a real risk in terms of the put, like I said. While it's there, like we spoke about, as a deterrent.

**Madhukar Laddha:** But there is no time limit until which the put expires or something?

**Jatin Khanna:** I mean, if they haven't exercised the swap, then put automatically expires.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Mohit Talwar for closing comments.

**Mohit Talwar:** Thank you. And I thought this was a very rich and quite an invigorating session we had. Lots of great questions, and I do hope that we have been able to kind of address whatever questions you all had, adequately. If there is anyone who wants to reach us separately, if there is something we have not addressed, please feel free to do so. So with that, I bring this session to an end. And thank you very much for joining us again.