Max Financial Services Limited

Q4 FY '20 Earnings Conference Call Transcript
May 27, 2020

Moderator: Ladies and gentlemen, good day. And welcome the Q4 FY '20 Earnings Conference Call of Max Financial Services Limited. Please note that this conference is being recorded. I now hand the conference over to Mr. Mohit Talwar – Managing Director, Max Group. Thank you and over to you, sir.

Mohit Talwar: Thank you, Margaret. And good afternoon, ladies and gentlemen. Thank you for being a part of the earnings call. As customary, I would like to introduce my colleagues on this call. So we have Prashant Tripathy, Managing Director and CEO for the Max Life Business. There is Amrit Singh, Head of Strategy for Max Life; and there is Jatin Khanna, CFO for Max Financial Services.

I would like to begin first with certain of the updates, one of which is around the two transactions which we have embarked upon. The first one is an update on the MSI swap transaction. I am pleased to share that CCI and shareholder approvals for this transaction have been received. In fact, on the shareholders' approval, we had over 99% shareholders who were supportive of this transaction, so we are really thankful to all those who have participated in this postal ballot. IRDAI and DEA approval, they are being processed. And from what we know, it's at a fairly advanced stage. We are hoping that we should be in a position to close out this transaction within a month or so.

As far as the update for the Axis transaction is concerned, the applications to the Reserve Bank of India as well as IRDAI, those have already been filed. The IRDAI application went on 20th, so it's kind of early days to get any sort of a reaction so far. The CCI approval, that's being sought in a couple of days, we don't anticipate any problems on that one. The postal ballot notice for approval of the transaction, that's already been issued to the shareholders. And we are hoping that we would get an overwhelming response from this one as well. And all things being going well, we hope to close out this particular transaction toward year-end.

The third update is on the MTVL tax settlement. On our previous call, we had mentioned that we will opt for the tax amnesty scheme to settle a contingent liability in relation to our telecom stake of the past under the direct tax 'Vivad se Vishwas' scheme. So I am pleased to update you that we have arrived at the number. We have deposited the tax amount, which was around Rs. 124 crore. And this matter now stands closed.

So these are really the updates as far as some of the deals which are concerned as well as on the amnesty. I would like to now move on to the financials. I mean, a lot of it is what you will see here in terms of the performance has really been unfortunately affected by the COVID pandemic. March, as you know, is always very, very robust busy month for insurance company and really the latter part of March is when all the sales really happen. That was really a kind of a washout. So, I would encourage all of you to basically ask questions to Prashant around what are some of the things which have taken place post-March, how we have done in April, how we are doing in May. And then you will find that work around, the way the work habits, all that has undergone a dramatic change and the results of that playing out now. So please do ask him those questions.

But anyhow, let me just give you a brief summary of our financials:

So the consolidated revenues were lower by 7% relative to last year at Rs. 18,242 crore. And this was due to the mark-to-market loss on debt and equity portfolio of Max Life caused by the volatility in the capital markets because of COVID. Gross written premium grew 11% to Rs. 16,184 crore, and consolidated profit after tax was down by 34% to Rs. 273 crore, largely due to shift in product mix towards non-PAR products, investments in proprietary channel and the provision which we have made for the impairment and one-time tax expense on account of MTVL.

Moving to Max Life, the MCEV, post dividend payout as at 31st of March, 2020, is at Rs. 9,977 crore. Operating RoEV is at 20.3%. Structural NBMs pre cost overrun have expanded by 180 basis point to 24.3%. However, actual NBMs post cost overrun is at 21.6%, which is in line with the previous year. VNB post overrun has grown 5% to Rs. 897 crore, driven by increase in proportion of non-PAR savings business, but partly offset by lower new sales growth and acquisition cost overrun. Individual APE grew by 5% to Rs. 4,116 crore with a market share within that maintained at 10%. Max Life grew at 17% till YTD February, which is more than the private industry growing at 14%. Like I mentioned, I mean, March was really a setback for, not just for us, I think it was for the whole industry. So you have got to look at it in that construct.

Full year growth impacted by COVID-19 in March 2020, but we managed to kind of preserve our market share. Proprietary channels delivered 10% growth in financial year 2020, faster than the Banca growth of 3% on an APE basis. Share of proprietary channel in sales increased to 31% from 29%. Max Life agency channel, one of the few agency channels which delivers positive margin. Axis Bank delivered 5% growth in FY '20 and YES Bank sales was down 2% in FY '20. And I think all of you are familiar with all that happened with YES Bank. Overall protection sales, which is including individual and group, this grew 42% year-on-year. Individual protection grew by 49%. 13% growth in renewal premium to Rs. 10,600 crore with the conservation ratio at 85%.

On persistency, as you may be aware, IRDAI has allowed for additional grace periods, which has an implication on persistency computation for March. For comparison purpose, we have provided for 11 months FY '20 period, there is a slight moderation and persistency for 13 months to 83.3% and 61 months to 52.1%, primarily due to lower collection in ULIP as a result of market volatility.

Max Life claim paid ratio improved to 99.2% in FY '20 and was best amongst the top quartile players. Solvency surpluses that Rs. 1,378 crore, with a solvency margin of the 207%. Our AUM crossed Rs. 70,000 crore mark for the first time in February 2020. AUM as of March 2020 stood at Rs. 68,471 crore, includes 9% year-on-year owing to market impact. Controlled Fund AUM crossed Rs. 50,000 crore for the first time in April 2020. Controlled fund AUM grew 15% year-on-year is more than 95% of debt instrument, in sovereign bonds and AAA rated securities.

Max Life ranked number one for ULIP funds for the quarter and for the financial year 2020 across all the categories. And finally, Max Life improved its ranking by eight places to 35th amongst Great Places to Work. And was among the top 25 BFSI places to work, and number one in life insurance space.

So in summary, Max Life will continue on its trajectory of driving strong shareholder outcomes with Axis Bank coming in as a JV partner, and MSI becoming a shareholder at Max Financials. YES Bank renewal also for the next five years, that's going to be an added traction as far as the performance is concerned. So we continue to be a strong franchise and have stress tested on multiple accounts like solvency, ALM, credit, market, liquidity risk and we don't anticipate any immediate or medium term stress as far as these activities are concerned.

On that note, let me hand it the back to the moderator and open it up for question-and-answer session. Thank you.

Moderator: The first question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Sir, I wanted a few bookkeeping questions and one more. I have three questions basically. First, can you tell me the total tax rate for FY '20? The net investment income for FY '20? And third thing which I wanted was that, if I see historically, Max Life has its premium concentrated largely in the fourth quarter, like around 42% to 43% of the entire year's premium comes from the fourth quarter and that is why we believe that the run rate of growth which we were seeing in the Max Life till nine month of 18% to 20%, suddenly got impacted with what happened in March this year.

In comparison to your peers who do manage to have little less concentration in fourth quarter, around 34%, 35%, can you give us some idea how the company is going to change its strategy or change its product lines? Or what changes would you bring about to reduce this concentration in the fourth quarter? Those are my three questions. Thank you.

Mohit Talwar: Prashant would you like to take the third question first?

Prashant Tripathy: I will take the third question and then maybe first and second, Jatin, you could take. I am assuming that the tax rate questions are more for Max Financials as against Max Life.

Shreya Shivani: Sorry. It's actually for Max Life.

Prashant Tripathy: Okay. So let me address some of the questions. So, the tax rate of 14.56%, whatever is the effective tax rate, we have to the best of our abilities taken into consideration the tax changes with regards the dividend distribution tax and that has been adjusted. So the effective tax rate is, Amrit, correct me if I am wrong, but close to about 14.7%.

Amrit Singh: Effective tax rate, Prashant, is 11.8%.

Prashant Tripathy: Sorry, 11.8%, I beg your pardon. 11.8% from 11.45% earlier, we have moved to 11.8%. And that gets computed on the basis of expected dividends that we were giving earlier, and also have been adjusted for the IRDAI embargo on paying out dividends. So as you know, we are dividend paying company, we have been paying dividends for many years. We have taken into account a brief period when we would not be able to pay dividend. So we have made adjustments for that because you get credit for the division payout. So basis that, we have increased the effective tax rate. And it has a bearing of close to about Rs. 5 crore on VNB, about Rs. 30 crore on EV, that has been adjusted for, number one.

Number two, your observation is absolutely right. And it has to do a lot with how our distribution networks work and ever since our existence and more so with companies like YES Bank coming on board, or Axis Bank, there is a lot a sale that we would do typically in the last quarter, and historically you would have seen at least in last two, three years the sales momentum will pick up quite a lot in the last quarter. So yes, there was an impact because of two weeks of sales that we missed. And that is why if you do a weighted average, from a 17% we came to actually 5% versus some of the other players who saw a bit of low reduction. This particular thing is because of historical reasons on how the sales machinery actually gets activated, the reward recognition, the platforms that have been created, etc.

Now, do we want to adjust for it? Yes. It is slowly getting adjusted verses history, some of that has been adjusted. One of ways to adjust that is also write more and more sales through our own channels, which do considerably well through the first nine months, and that adjustment is underway. Like Mohit just mentioned to you, the growth in our own channel is more than third-party channels, and the slowly that should get adjusted.

Shreya Shivani: Okay great. And sir, the net investment income for, say, just the policy holder book for FY '20, that will be very helpful.

Prashant Tripathy: I don't have that handy right now for me to share with you. But if you could just mail either to me or Amrit, we will be able to happy to respond Or Amrit, if you have the number please share.

Amrit Singh: No, actually I am probably understand what she is looking for, because if its a UL investment income which is actually P&L neutral, so I will check with you offline what exactly you are looking for.

Prashant Tripathy: We will be very happy to provide.

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

Ajox Frederick: Like you mentioned, I would like to know what have you changed in April and May, because your performance has been much better than your peers, particularly in April. So on that to start off with, sir.

Prashant Tripathy: So, after the March, it was very clear to us that we will have to do things very differently. And as management team, with shareholders we decided that we want to leverage this more as an opportunity as against risk. And while it was clear to us that there will be some impact on sales, there will be a few things that we can do quite differently from other people to make sure that our performance vis-à-vis the competition improved significantly and no points in guessing the first thing that we had to do was to digitize the sales. Now our digital sales, we have been doing digital sales earlier was everything that we will do through our internet channel, which was close to about 2%. The mammoth task was to move that 2% to maybe almost all of it or maybe 95% on digital. The good part was we were making investments in our digital capabilities, that was one of the top five things that we have been focusing on. You will notice that on our presentation for last many quarters of the five things that is digital, four things digital that we are working on. And we had digitized bits and pieces of our journey, starting from solicitation to issuance to recruitment of our agents to customer services journey. And all it needed was a bit of momentum, a bit of weaving it all together. But the good part is that within two to three weeks of when the lockdown happened, the entire sales process got fully digitized. Which means, no face-to-face meetings, everything either happens on phone or video calls, Zoom calls. And then starting from there, pitching the product to taking all the information on board to issuance, everything is happening completely digitally and we successfully implemented.

That to me was a very important step, because of which you would notice momentum in our sales activity. So for the month of April we were about 80% of last year April, which means we were running 80% of our run rate. But the good part is, we wrote more number of policies. We also noticed that the protection mix almost doubled from about 10% to 20%, we are writing around 20% protection. And even for the month of May, we see similar momentum, close about 80% sales. You may also want to keep in mind that YES Bank, which is one of our large channels, is also undergoing change, they just came out of there moratorium conditions and hence that is yet to pick up steam versus last year. So I think there is a lot of tailwind which is working because of the work that we did on digital across all channels. You will be surprised with some of the numbers, very quickly in about two to three weeks times we trained about 10,000 of our agents, and close to about 25,000 source of specified person working with our partners, on the digital sales process the adoption went up. So that part really has started to fire and it is bearing fruits. The second thing that we did was, of course, identify areas of cost reduction that we have kick-started. We have well defined paths that we are going to follow with respect to working on cost. There are already cost decisions that we have taken, we should have about 10% to 12% of cost impact or positive impact on the first half of the expenses. And we are also working on structural review of our course vis-a-vis our distribution networks, our infrastructure, work from home, all the elements of the business actually. And I am very hopeful that we will be able to have a good bounce around that. That's the second one.

We are working really hard to maintain our persistency levels or collection levels. I saw a bit of stress in the month of April, but by now it's been corrected. We are running to almost similar kind of collection rates like we ran in the month of May. And hopefully when the grace period extension goes away, I think we will be able to cover up for the deficit we saw in month of April. And we have taken a lot of steps to enable sales which are decisions around, you know, most of the diagnostic centers got closed, we had to write a lot of protection, so we made decisions with respect to tele-medical underwriting or video based medical underwriting or taking very well judicious calls around risk and return. So some of those things coming up with new variants which could have being agile about pricing, looking at our pricing closely, because there are things which are happening in the space of interest rate. So really, we looked at the business from 360 angle and some of that is there in the presentation that we have shared with you. And I am very happy and satisfied with the progress that we have made so far and hopefully through this experience we wish to come out stronger, gain market share and do better than competition. For the month of April, the private industry de-grew 40%, we had a degrowth minus 20%. I am yet to see the number for the month of May. But I am very positive that with the change in product mix and with the actions that we are taking around cost and the other elements of risk management, the business is getting stronger day by day.

Ajox Frederick: Sir, my second question is a follow-up to your presentation. On protection pricing, you were telling that you are writing off more protection, the mix has gone up. But the information we are getting is lesser, we are doing through tele-medical instead of medical. So my question is two folds, one, what is the proportion of your tele-medical to medical now versus earlier? And two, are you adjusting for the lack of data now through increasing prices in protection products?

Prashant Tripathy: So let me answer the second question first. We are going to be very focused on margin this year and it is important to remain focused, because I personally think that there will be stress on the savings part of the business and hence one needs to be focused on protection. And within that, we will deploy everything possible to make sure that the margins are protected. And it may mean some bit of repricing or coming up with new product designs we are in the process of doing that. And I think by the second half, which is October, we should have a new product design factoring into all the things that we have seen with respect to reinsurers, rates etc. And as you can understand the game of being competitive, yet making good margin, and lot many times it's also about taking very balanced calls on pricing as well as margins. So we are in the process of doing that.

On your first question on tele-medical versus medical, yes, of course, unlike many other people we believe in doing medicals and the medical part came under stress. We have moved to tele-medicals and, Amrit, you may correct me, but I think close to about 35% to 40% of all policies might be going through tele-medicals.

Ajox Frederick: What was this percentage earlier sir, normally?

Prashant Tripathy: It would have been around 15% earlier or even lower.

Ajox Frederick: Okay. And sir, final question on your distribution side. What support are giving to agents now compared to earlier, extra?

Prashant Tripathy: Yes. And you would have noticed some bit of that here. As an organization we believe that the best of relationships are established in tough times. And hence, it is important to remain empathetic and compassionate towards all the stakeholders, but mainly employees, customers and agents. So for agents we have created a special plan where we are allowing them to take advances against their renewals that maybe due, we have created or enhanced their group medicals and COVID related hospitalizations benefits. And I think that has created a lot of positive momentum and goodwill. So those are level of support. But the biggest support actually is a digital process, at this point of time agents do want to protect their income and they of course were looking for a solution where they could face customers digitally and virtually rather than going and meeting face-to-face, which is I knew nobody in a mood to do right now. And we proactively worked with them, we have trained them, we have supported them, we have helped them get trained, not just on the process but what kind of products they could sell. And all that is bearing fruit for us. So, suffice it to say that in our own channel, especially agency, I am not noticing a minus 20% number, think agency is closer to last year sales.

Ajox Frederick: Okay. Just a question on persistency. Sir, 36 month persistency saw a slight dip, was it due to ULIPs?

Prashant Tripathy: Yes. I think there we have noticed, I don't know exact reason, but they most probably it will be ULIPs, we have seen a bit of stress because of the market downturn throughout last year on ULIPs. We haven't noticed drastic reduction across and you will notice that 48 months has gone up a little bit. So these are plus and minuses that will continue to happen.

Moderator: Thank you. The next question is from the line of Madhukar Ladha from HDFC Security. Please go ahead.

Madhukar Ladha: Sir, in your VNB margin walk you mentioned the business mix and assumption change is 2% positive. Can you break that down on how much is with respect to business mix? And within assumption changes, what assumption changes have happened?

Prashant Tripathy: Okay. So maybe, Amrit or Ashish, you could answer that.

Amrit Singh: So I think the way to kind of look at it is that because there is a higher proportion of non-PAR savings and protection in the business which has given us a kicker. But at the same time, the interest rate curves have also kind of come down. So it has kind of counterbalanced it to some bit of a proportion there. Those are largely the key changes actually around assumptions, which is the interest rate curve moving.

Prashant Tripathy: So Madhukar, you should read this as a change in business or product mix, adjusted for change in the curves. That's the way you should read it.

Madhukar Ladha: And no persistency, mortality or expense assumptions there or would that be like a smaller amount that?

Prashant Tripathy: They will be very small amount. As you can see on our embedded value, change in assumptions has caused about Rs. 103 crore of profit, so all of them are small pluses, pluses/minuses all adjusted. We do not have a negative operating variance.

Madhukar Ladha: Okay. Got it. And this negative Rs. 317 crore, that is the economic variance, most of it I am guessing will be…

Prashant Tripathy: Yes, mark-to-market.

Madhukar Ladha: Yes, so can we get a split of that also in terms of debt and equity and also the forward rate assumption change?

Amrit Singh: So, I think I will just kind of reiterate it. So, equity is around Rs. 275-odd crore is what Ashish was indicating. The debt related is around Rs. 190 crore impact there. There is a small impact of that effective tax rate movement of around Rs. 30-odd crore. You would also note that in this year we had done a readjustment to the capital charge on the CNR cost of non-adjustable risk, that also has given us a positive kicker of around Rs. 133 crore.

Management: Yes, so it's negative of debt and equity adjusted for the positive of the cost of capital.

Madhukar Ladha: Sir, can you give me some indication of which products will drive growth into FY '21? So, obviously, protection is going to do very well, and on the savings side what do you think, which products will drive growth there?

Prashant Tripathy: I think, there is going to be big playoff mix as it is quite obvious to me. So, growth is a word that is very difficult to use in the current circumstances and growth in terms of new premium is, of course, a challenging environment where, despite doing so well the industry is looking minus 40%. So I think our strategy will be to remain focused on driving protection and profitable protection mix which is where we are positioned well vis-à-vis the market, and we are making good margin. So, there is already a tailwind that I am seeing, the market demand is at generally higher and definitely a COVID generated demand which we do want to leverage. Of course, it will require us to be agile, to be issuing the policies well, to be taking measured risk and we will do all that. So there is mix related growth that will come from connection. Also in times like these, where there is a lot of uncertainty, people do look for certain outcomes and I think the non-PAR savings design, especially the long-term non-PAR savings designs are going to come quite handy. For the first time I am seeing that the curve is quite favorable over a long period of time, so I think that will be a big support and they will drive that to increase our share in the savings side. Also, insurance products are not driven by how the market is, and we do find that skilled sellers are able to sell ULIPs as well as participating design. So for example, in agency participating designs continue to very well, even during COVID. So I think it will be a combination, but if you were to ask me which two products can drive growth, I think it will be protection related products as well as non-PAR savings.

Madhukar Ladha: Even despite the interest rates coming off so sharply…?

Prashant Tripathy: The long part interest rates are holding up, Madhukar, as you can see, and actually hardening a little bit, which is good. The shorter tenure may be difficult, so we will have to readjust the mix.

Madhukar Ladha: So how long are these products that you are now writing?

Prashant Tripathy: Currently we write a lot of eight pay or six pay, so I think we will have to move more towards the eight pay.

Madhukar Ladha: Understood. And final question from me, with Axis Bank now expected to take the stake, will there be any change in the business on the group side with them? Is that part of the arrangement or are the JV partners thinking in some ways to do more group business?

Prashant Tripathy: So we already do group business. There is part of group credit life that we already do.

Madhukar Ladha: Yes, but it's a lot smaller right now.

Prashant Tripathy: I mean, in our scheme of things, I think two-thirds of our sales actually come from, close to about two-thirds of group credit life comes from Axis Bank. And the deal, to be honest, is more around individual. But as you can understand, when there is a shareholding kind of strategic relationship, of course, there are many possibilities that will exist. When the time comes we will have a discussion, we will try to leverage that. But at this point of time very hard to predict. But I am sure there will be leverage with respect to product mix, with respect to selling designs which are mutually beneficial. Because it's a new dimension of Axis Bank being our shareholders. So of course, their interests will go far beyond just doing sales, and all of that will be quite beneficial to the overall shareholders as well as to Max Life Insurance.

Moderator: The next question is from the line of Dhaval Gada from DSP Investment Managers.

Dhaval Gada: Two questions. First is, could you give some sense on collections in the month of April and May, so far how have they been versus the sort of expected premiums? So that is the first question. And the second question relates to the cost of residual non-hedgeable risk. So I believe we made some changes, if you could explain what those changes are which led to lower deductibles?

Prashant Tripathy: Just talk more clearly the second question, Dhaval, if you don't mind.

Dhaval Gada: Yes. The CRNHR, there has been some change, I understand, in terms of assumptions. So what drove that reduction is what I wanted to understand.

Prashant Tripathy: So, this change actually we made. Let me answer the second question. This change we made in the first quarter itself. And it was more to do with aligning with the market. So most people were using 3.5%-4%. We were the only ones using 5% without any reason or cause for us to become more conservative and use higher cost of non-hedgeable risk components. We just aligned it to the market and that was a change that happened long time ago. But on the full year basis it has been shown. On your question on collection, that's a very interesting question. You may know that it's very hard to talk about collection at this point of time, predominantly because of extensions or grace period extensions that IRDAI has given. IRDAI has said for the month of April, one could collect until June, so there are a couple of months of extension. And for March, it has been given until May end. So we need to just watch out because there is always a set of people who like to use the grace period, because it's been given by IRDAI, even we are duty bound to inform the customer that there is a grace period which has been given. So really, the collection numbers while I can't share with you, are non-representative and we will have to give some time. And at least until the end of May or June to get a handle on where the collection rates are. But looking at whatever I have seen so far, in the month of April, we had a bit of stress on collections. So in the month of April, because of extension of grace period, we saw some bit of stress because they were customers who were saying we will pay later. Now, does that mean a big impact on the collections permanently? The answer is no, but we have to see how it plays out. But in the month of May, so far I have seen it flow right, and we are also letting the customers know that by 31st or 30th May they need to make the payment. So the collection is picking up. Hopefully, by the end of May we will be in a good position to tell you. But at a summary level, I saw a bit of stress in April, that stress has already been corrected in the month of May. We are targeting to maintain our persistency level. That's the target with which we are working.

Dhaval Gada: And just to sort of elaborate this, so some of players have been reporting 30%, 40% reduction in their collection.

Prashant Tripathy: No, no, sorry, then I should talk about the numbers. In the month of April, we were 8% lower than last year, so 8% degrowth. In the month of May so far, we are 13% higher on collection versus last year on renewal income.

Dhaval Gada: Okay, May you are saying it's back to normal?

Prashant Tripathy: 13% up year-on-year.

Dhaval Gada: Okay, understood. And June onwards it comes to normal?

Prashant Tripathy: That's the hope, because this consumer behavior that when IRDAI gives more time and people like to use that time to manage their cash flows. So hopefully, those extensions will go away after May, that's my hope. And then it should fall to normal. I must also say that we have upped our collection efficiency collection machinery quite significantly. The kind of coverage that we work with, we have increased by 30% to 40% to make sure that there is no deficit, number one. Number two, we changed all the scripts. It is very important for the customers to continue with their plans. Earlier we didn't have to explain, but in times like these where people are homebound, some of the businesses have shut down or not working temporarily, we have now changed our scripts so that we have more explaining, so time taken per call has gone up. So we doing whatever it takes to make sure that the collection machinery works, not just for ourselves but also for the customers. Because in times like these we believe that coverage of life is more important.

Dhaval Gada: And just one last follow-up. Is there a pattern that you saw in April when salaried sort of workforce was far more resilient than self-employed, or the bank channel was more resilient than the non-bank channel? Just any color around customer…

Prashant Tripathy: I mean, it's a mixed bag actually to be honest. But honestly, on bank channel, where most of the people come through direct debit, they appear more robust versus some of our own channels where there is a mixture of people who are paying through cheque, now collection of cheque became a big deterrent. So there were all kinds of issues in April, so April that way is very unrepresented month. So we had issues with respect to, not issues really, but extension of time line, offices where predominantly shut so people while they came or they won't have perhaps come to our offices to deposit cheques, and there was no way to go and collect cash from them, logistics was a big nightmare, all of them have been corrected. So, now we have people who can go pick up cheques. We having opened at this point of time about 225 of our offices, so people could walk in and deposit cheques with skeletal staff. And, of course the grace period hopefully will not get extended beyond May. So, all that should have a positive impact.

Moderator: The next question is from the line of Harshit Toshniwal from PremjiInvest.

Harshit Toshniwal: Hope you guys are doing well. Two questions, first on the bank channel. So, I think as you pointed out that agency has been recovering quite well, if you can throw some color and how the bank channel is recovering? And specifically, so in a normal time, how much percentage of the bank sales would have been kind of digitally enabled or through a web-based application versus, so because higher the number that would be, it would be easier to recover.

Prashant Tripathy: So, I think it's a mixed bag actually. Agency is closer to where it was last year, some of our own channels are close to where we were last year. Axis is also close to where they were last year. Like I mentioned to you earlier, every passing month, YES Bank is becoming stronger and stronger because they, of course, been through a moratorium condition so they are trying to work and bolster the bank, hopefully it should come back up in a couple of months' time, they are a bit behind last year. In the internet channel we have seen significant growth versus last year, because all the obvious reasons that I described. So it is a mixed bag really, almost all channels are coming closer to where they were last year, except YES Bank for all the reasons that you and I know. And of course, they are making very quick progress. So all positive news. There is just one caveat that I will put that this is a lean quarter and we have to perhaps build our momentum to make sure that as time passes we are able to do well and demonstrate same performance like we are doing now. So that's really how it is looking like in the overall channel construct.

You are right, we focused a lot on the agency last year. Of course, COVID was an unexpected impact. But within that constraint the momentum actually continues. I am surprised, positively surprised with the way our agents are adopting the digital, the digitally enabled sales process and are working on it. To your second question on what percentage or how was the digital working earlier? So basically, all across, in the bank channel as well as in the agency channel, the first step was a face-to-face meeting, which means in most cases if the customer will be met or the customer will walk in, etc., so that is where the discussion will begin. So, really the solicitation process or sharing the solution was mostly face-to-face in all the cases. After that, in most cases, in bank as well as our agency, the movement was digital, which means we will take all the information, put it digitally and it will move across then digitally for underwriting, etc., etc. Now we have for last many weeks we have created solutions even for the first part. So we are able to then do that part of solicitation or product demonstration or solutioning even that part digitally, so we have kind of made it fully digital. But suffices to say that our investment in last two years in our own channels as well as bank channel, a large majority of the process or big part of the process was already digitized.

Harshit Toshniwal: Yes. On the return guarantee business, so clearly maybe this is one product which might, as you rightly pointed out, that this might be seeing rather superlative demand in the next few months. How are we on the investment book side of it? So is it that the following rates would also impact the margin? And if you can throw some light on how is the competition fares between players versus us?

Prashant Tripathy: Yes, it's a question, I mean, all the savings design actually sell a lot on stories or cash flows as against simply talking about IRR, etc., because normal customer doesn't understand the IRR concept so well. So they have stories which are woven around child's education or retirement or a big event that is going to take place. And those stories are woven around it. Like I mentioned to you, in the shorter version, because of falling interest rate, the give and get may not look as attractive and we have to see at what point customer is no longer interested in it because of falling interest rate and the curves changing. But on the longer duration, like I mentioned to you earlier, eight or ten pay, it will continue to become more attractive, because the rates have hardened a little bit, they are sticky, and we will be able to provide good guarantee. So it will be a combination of both the things.

As far as the investment book is concerned, it is fully hedged. We use FRA, forward rate agreement which is a much more superior tool where the leakage is lower, the rates that we are getting is quite high and the ability actually to generate margin is equal lucrative. So it creates a win-win. I have always mentioned that we are not a company where 50%, 60% of our book will become a non-PAR savings, we don't believe in that. We will work towards having a mix which is more around 30%, 35%. So that is really an ideal thing. Last year we finished closer to around 20%, so it may go up by say 7% or 10% more in this year.

Moderator: The next question is from the line of Ashish Kacholia from Lucky Investment Managers.

Ashish Kacholia: I just wanted to understand that earlier we used to have an arrangement with Axis Bank, where we would buy back some of their shareholding in Max Life every year. And thereby, they made an extra Rs. 200 crore a year. So, under this new agreement that you have signed with them, what is the kind of arrangement that you have, do you have a similar buyback arrangement with them?

Jatin Khanna: Prashant, let me take this question. So, we don't have any buyback arrangements with them per say. However, there are sort of two parts here. So firstly, as you know there is 30% of equity ownership which they will own in the company. It is under regulatory lock-in because of IRDAI for five years. And there is also an arrangement which we have disclosed in the postal-ballot notice which has been sent to the shareholders, that 2% shares get released every year. Now, whilst those shares get released, so from that standpoint Axis Bank is eligible to sell those shares in the market or to non-competitors, but that practically will only happen after the IRDAI lock-in goes away. But we have no obligation to buy those shares. So that is first aspect.

Second is that you would have also noticed in the stock exchange disclosure we made, as well as the postal ballot notice, that there are three options as value creation waterfall in this arrangement wherein your first step of the waterfall is that once we have been able to do this transaction as well as been able to do the Mitsui Sumitomo put call option for the residual 5% ownership, then practically we have to file for the merger. So under the contract we have three years to do it, but our endeavor is to really sort of do it over the next 12 months or so, once all the other transactions are behind us. Now we have not been able to achieve the merger for whatever reason where the biggest roadblock to that merger, which Mohit spoke about in his opening comments, has been clear in terms of settlement of that telecom contingent liability. Whilst we had a very strong case and we really didn't need to do it, but we have done it because we wanted to clear the roadblock for the merger. So, if for whatever reason we have not been able to do that, then there is an option of a share-swap. So like I said, the shares will be locked-in for five years, after that we attend the share-swap. Now, if for whatever reason the share-swap is not implemented, then there is a put option and Axis has a choice to exit. Now, that's the waterfall. Now, obviously, we don't anticipate the first two steps not going through, in fact we have been at…

Prashant Tripathy: Ashish, you should simply see this as, the earlier arrangement had more a color of being a distributor, the new arrangement is more color of being shareholder, being a promoter, being a stakeholder in the organization, those are true. So hence, in the first one there was this early buyback, in the second one there is no provision of any early buyback. Of course, like any other new shareholder, they have a desire to be operating a company where the shares are liquid, which means either be a part of listed company, etc. And they are provisions which are created in the new contract to enable that. But overall, there is no liability actually for us to buy every year, it is a completely different contract where Axis comes and owns 30% of Max Life Insurance and participates in governance and drives the growth of the company.

Ashish Kacholia: Okay. And just a small follow-up on that. So is there any change in the commissions that Axis Bank would have earned versus the earlier agreement?

Prashant Tripathy: No, commissions are going to be aligned to the regulator, that's the reason we are doing this transaction.

Ashish Kacholia: Okay. So the commission structure essentially hasn't changed, it remains the same?

Prashant Tripathy: I mean, it will change depending on the new products when they get launched, but it will be similar to what IRDAI allows.

Moderator: The next question from the line of Nidhesh Jain from Investec.

Nidhesh Jain: Thanks for the opportunity. Sir, firstly on the margins, given we have invested quite a bit in agency and proprietary channel and we have seen higher cost overrun in FY '20. How do you see post cost overrun margins in FY '21?

Prashant Tripathy: That's a very good question. I am sure this is a very relevant question for all the industries at this point of time. There couldn't be, any more opportune moment to ask this question. I will have to use the crystal ball gazing to give you the answer. But to cut the long story short, I think the desire, first of all, we made investment in our own channels, and we were expecting the margins to remain sticky for a couple of years, which is how the outcome is last year we were 21.7, this year 21.6. So, a large part of funding for growth for our own channels was meant to be compensated by change in product mix and we have successfully achieved that. Now, how will the next year look I think, one would target to come closer to the VNB that we have done this year. Of course, it will require a lot of effort, rebalancing, product mix, etc. So the likelihood of the margin to go up maybe higher than 21.6%, that's the direction that we will work in. Now, having said that, as you will appreciate, the market dynamics are extremely inclement not just for life insurance business, but across all business lines. These are unprecedented situations that we are going through. So, I will give at this point of time or directional input, and as quarters pass by, we will come back and review and discuss with you how far we are able to implement on the vision that we have.

Nidhesh Jain: Sure. So, hypothetically, let's say, if there is a 10% to 15% grow decline in premium Y-o-Y, do you foresee material increase in cost overrun? Or to what extent of growth declines you will be able to observe?

Prashant Tripathy: We will always look for margin, net of overruns. And the desire will be either to hold the margin or improve the margin so that it could cover for the premium deficit.

Nidhesh Jain: Sure. Secondly, on the protection, if I understood right…

Jatin Khanna: In Max Life, I think we are trying to aspire for trying to get to the similar VNB, whether or not the same growth is tad lower than last year.

Prashant Tripathy: Yes, Nidhesh, sorry, your second question.

Nidhesh Jain: Secondly, on the protection side, the way I understand correctly is that you are trying to protect your margins on the protection. So, whatever increases will be there in reinsurance, you will pass it on to the customer, is that correct?

Prashant Tripathy: We plan to pass in phases, actually not to start with. So, of course, there are a new product design that we are we are working on, there we will be able to pass on fully. At this point of time, we are being a bit more tactical about it. So, trying to capture more and more market share. So hopefully, a combination of both, which means for the first half running with the older product to see how the market plays out. And in the second half, going ahead with a new product design, where we will be able to pass on a large part of the reinsurance impact onto the customer.

Nidhesh Jain: Sure. And just lastly, on the number of policies both in protection. What I see for the entire industry this year, the number of policy growth has been quite low. And you have also mentioned the reason that limited pay is the key…

Prashant Tripathy: That was the reason, we actually launched it last year only. Unlike many other people who had this product even earlier. So that's why you will see sum assured not grow that drastically because the sum assured to premium multiples are a bit lower in the limited pay. That's the reason why you saw a bit tepid growth. Earlier, the year before, we were writing a lot of, what we call, online term plan which was more regular premium, so we had a big base on which we launched the limited pay. And hence the number of policy growth is not that big.

Nidhesh Jain: But in the month of April and May, you are seeing decent number of policy growth?

Prashant Tripathy: Of course.

Moderator: The next question is from the line of Jignesh Shial from Emkay Global.

Jignesh Shial: Most of the questions have been answered, just quickly. In your EV walk and VNB walk I am seeing, especially now on the VNB side, the acquisition cost overrun is roughly minus 1.9% on the margin front, so any further clarity over this? How this particular matrix could see an improvement so that the margin trajectory could see some further improvement here? I know that more or less you are sticking to be same. I have two or three more questions, but I will first…

Prashant Tripathy: So let me answer this question. I think acquisition overrun that you see just now is because of a very thought through strategy to invest in growth of our own channels. Of course, COVID is a new situation that has come in. So, without COVID, the answer would have been, this will reduce further as the business continues to grow because the growth will actually absorb the cost overrun, that was our plan. Now, in the circumstances that are emerging, now we will deploy a variety of things. But the two biggest elements will be action on expense reduction and change in product mix which will be able to absorb the overruns a bit.

Jignesh Shial: Understood. Secondly, there had been some instance, your position from Axis has been clarified, more or less it's been sorted. So, now can we expect that the share of bancassurance, and even YES Bank now coming back on track and all, the share of bancassurance rising will lead to even the share of ULIPs rising hereon? Or the focus would still remain on the protection and all? Or the other way around, will the banks be seen selling this product or how does that work? Sorry.

Prashant Tripathy: I think the bank will be focused, on selling more non-PAR savings designs as well as protection, considering the equity markets are expected to remain tepid for a long time. But yes, they will continue to be reasonable sellers of ULIP. On your first question whether the share of banca will increase, actually you will notice that the share of Axis Bank has been stable or going down, tapering down a little bit for past many years. So it used to be 57% about two years ago, then it came to 55%, continues to remain in the range of 55% and 56%. Versus that, our own channels were 27%, then it became 29%, then this year 31%. So we are making a conscious shift in increasing the proportion of our own channels and that strategy continue to hold. So, that in a few years' time, I think our own channels will be expected to deliver somewhere between 35% to 40%, the rest coming from banca channel. Of course, with Axis Bank becoming our shareholders, there will be more opportunities to drive growth. But the desire will be to maintain similar level of growth or more growth from our own channels also.

Jignesh Shial: Understood. And just lastly, your solvency ratio has seen a sharp correction Y-o-Y, so it is still much ahead of the comfort level of 1% to 2% and all. But any reasoning behind it? I mean, what level are you comfortable with?

Prashant Tripathy: So the correction happens because of growth. If you grow, of course, it comes down. And plus, we have been declaring dividend, last year we have paid out Rs. 450 crore dividend, because of which it comes down. Now, we would like to maintain that, upward of, about 170%, 180%, that's the range we are more comfortable with, and that solvency will continue to get absorbed as we continue to grow and write more protection. At some stage, not in near future, but I think in about 18 months' time if we need more capital, we will be looking at means to raise capital either through sub-debt or asking for more equity in the business.

Jatin Khanna: And I think capital should not be anyway a constraint for growth, because, practically, we will have after the transaction about another Rs. 800 crore of surplus available to fund the growth. So I think capital will never be a constraint to grow this business.

Moderator: The next question is from the line of Sanket Godha from Spark Capital.

Sanket Godha: Prashant, just wanted to understand, last year 21.7 VNB margin was based on capital charge of 5% for cost for achieving Now, 21.6 is on 4% capital charge. So if you do like-to-like on the capital charge, then what would be the VNB margin either of FY '19 or FY '20?

Prashant Tripathy: Yes, so it may be a bit lower, if that is the question you are asking. Amrit of course can share with you what the delta is. But I think my request will be, you look at it in absolute terms, because it's a competitive and comparable world. So while year-on-year versus last year it may be a bit lower, but where does it take vis-à-vis other people, our assumption is similar or more conservative than other people. So there is market frame where 21.6 actually holds. There is a last year frame, because this assumption is apple-to-apple basis, we may be a bit lower this year.

Jatin Khanna: I think I just want to supplement Prashant a little more, to say that, you have to also put a frame on the fact that we are trying to expand. We were 200 offices, we opened more than that on top of it. So I think expansion has some cost. So it's not that you can look at this number in isolation, you have to look at both.

Sanket Godha: Got it. Actually, my next question was on that only, basically to understand given the gap between structural margin and the reported margin, so our post-sovereign margin stood at 270 bps. So you have highlighted that you have measure to control costs in effect FY '21. So just wanted to understand your broad levers, which are the line items we can control the cost, given we have recently invested in the agency and the prop channel, so what are the other low hanging fruits the cost can be really controlled so the margin can be held up?

Prashant Tripathy: So, it's a fairly large business, Sanket, and there are cost opportunities everywhere. So there are, for example, there is a sequence that we have created to look at cost. And of course, the immediate costs are the discretionary expenses and all the things around people and recruitment and going and negotiating rentals with our landlords or negotiating contracts with outsourced service providers, etc., all those actions we have already undertaken. That will be no regret move actually launched and have been done. So that part is already established. That action should lead close to about 10% kind of cost reduction for the first half, I was talking about first half because I was hoping that it will be lock down, but for the full year maybe around Rs. 150-odd crore. And then, of course, we have a sequence of things, so the sequence of things we will be looking at our back office in view of work from home, etc. There is a plan to redesign our overall facilities requirement that is going to get implemented. We are going to look at support expenses, we are also going to look at agency, agency cost is always an opportunity to optimize it. So, we will do all that depending on how the market evolves and there is a sequence that has been created. What we remain committed to is the margin net of overrun. And these are calls that one will have to take depending on how the market has moved in 3-5 months down the line. We remain committed to financial outcome. So, it won't happen that the expenses have an overbearing impact on the financial outcomes, so we will maintain expenses in a manner so that we are able to deliver on margins net of overruns.

Sanket Godha: Got it. And lastly, two questions. Basically on non-PAR just wanted to understand our construct, whether it's more of an income plan or endowment plan?

Prashant Tripathy: Actually it will be both, we are going to come up with a new design. Currently, we write more endowment.

Sanket Godha: And group protection breakup, can you break it down into CL and GTL?

Prashant Tripathy: About 1% comes from credit life and the balance comes from GTL. We have been 1% for a long time.

Moderator: The next question is from the line of Lalitabh Srivastav from Sharekhan.

Lalitabh Srivastav: Most of the questions have been asked, just two small questions. First of all, the last time also we talked about going for tele-medical and for the larger size policies we talked about the larger size policies campaign hold till the time situation normalizes. So, can you give a sense as to what proportion or what quantum of your sales are, maybe pending due to that, the requirement of physical examination of medical? And how are you accounting for that, because, I believe that some amount of premium or some token amount of premium is also charged on that. So whether that is built as sales done or not? That is my first question.

Prashant Tripathy: I will ask my colleague, Amrit, to help me with the numbers. But I confirm to you that unless the policy has been underwritten and paid, paid meaning the policy has been issued, we don't book the revenue. So revenues are not recognized until you have paid the policy, just because we have received the cheque doesn't mean that it will be booked as revenue. Amrit, do you have any numbers that you could share?

Amrit Singh: That is correct, Prashant.

Prashant Tripathy: He asked some numbers around what percentage are pending, etc. Do you have that?

Amrit Singh: What I can say is that with respect to our medical centers, etc., the policies which are going for medicals, we are now tracking to actually almost 900 plus medicals happening on a daily basis. So, which is actually a trendline that we have seen in the past. So we have been able to recover that quite sharply. Now how much of it is exactly trending, I think I will have to pull that out and I could probably share that.

Prashant Tripathy: So, some reference frame for you, before COVID we were doing close to about 500 to 550 medicals, before COVID. Now, we are touching between 800 to 900 medicals every day, and that reflects two things, that things have become normal and the number of policies that we are underwriting and paying in protection has increased significantly.

Lalitabh Srivastav: Thank you. That was helpful. Secondly, would it be possible to share the impact on PBT on a normalized basis, if you do not take in to account the one-offs, then a normalized PBT what could have been? And the movement of this change in networth, how that has, if you can give a breakup or is that entirely because of MTM losses?

Amrit Singh: I think on the previous question, I just was able to pull out the information. Around 10% of our policies are pending largely because of customer saying that he doesn't want to do because of COVID situations. So it's not a very large number. 10% of the protection policies in work-in-progress, so it's not a very high number that we are experiencing for ourselves.

Prashant Tripathy: So the PBT number, I don't know, I mean I was a CFO for a long time, also CEO. I think the more important number to look at will be VNB, and you should see how the VNB is growing over the years. Because looking at profit numbers, they don't really represent the health or the movement the business is making. For example, you write more protection, or you write more non-PAR, your PBT can fall, you write more participating in a particular year or you de-grow, your PBT can look very good. So those are factors that one needs to keep in mind. I don't have a readymade normalized number because when we normalize for this year, we will have to normalize for previous years also. But if you could send me and Amrit an email, we will come back with that analysis and share that with you.

Moderator: The next question is from the line of Manoj Bahety from Carnelian Capital.

Manoj Bahety: I have a couple of questions. First one is, is it possible for you guys to give us a broad breakup of VNB amongst your various products like PAR, non-PAR, protection, ULIP? Just a broad sense will help. And as well as like also if you can touch upon persistency amongst your various products.

Prashant Tripathy: So actually we don't disclose down to that level of details, Manoj, you will have excuse us there.

Manoj Bahety: Okay. In terms of like some hierarchy of this VNB in terms of like some broader percentage, will that be possible?

Prashant Tripathy: I will have to come back actually to you. I mean, I can give us a sense of margin, not VNB. So the best margins one gets in the protection plan, followed by the non-PAR savings designs, followed by participating designs, followed by unit linked designs.

Manoj Bahety: Okay. And similar level of hierarchy in terms of persistency terms?

Prashant Tripathy: No, it can change actually, there is a lot of channel dependence, ticket size dependence. So typically you would find persistency to be the best in in protection, higher ticket size non-PAR designs, ULIP designs and then participating designs.

Manoj Bahety: Okay. So participating designs may be having lowest persistency, right?

Prashant Tripathy: Generally, it's not to do with which product you are selling, it's to do with the ticket sizes. And typically the ticket sizes on non-PAR as well as ULIP is more than participating. So that's the reason why the persistency comes a bit lower. It's not because of product type. So the biggest driver, with an exception to protection, the biggest driver is ticket size, not the type of product.

Manoj Bahety: Got it. My second question is on the transaction where we have to do now series of steps. I think the first step is swapping Sumitomo's share from Life to the listed entity. So what is the expectation of timeline around that? And what are pending steps which we need to complete to do that thing?

Jatin Khanna: Sure. So there are broadly two items pending there. I think the first item is the approval from Department of Economic Affairs. We have had a conversation with them, I think they should be done with their internal work in a week or so from now. And then they put up for final sign offs, and also we are anticipating that it should come hopefully by mid-June, if not mid-June, let's say by end-June latest. After that has come then the next approval is from IRDAI, and again, through our interaction there are at this stage fully satisfied with everything. But they are awaiting the DEA approval. So once that comes then we are broadly done with the Mitsui Sumitomo swap. So that is that timeline. Now, in terms of the regulatory approvals for the Axis transaction, we have filed with the IRDAI as of 20th of May, with RBI as of 6th of May. And we are almost at the final stages of the CCI application. Now, in terms of timelines, I think CCI generally is a 60 day timeline at max, from 45 to 60 days, and this is a straightforward one. So, we don't anticipate it taking too much time. Because it's not a combination, it's a share acquisition.

Then on RBI, our past experience is, generally it takes about two and a half, three months for any approval. But in this one, given more particularly their pre-occupation with COVID, maybe it will take a little longer, maybe four or five months, maybe, I don't know. And IRDAI generally, since they are the principal regulator for insurance company, will follow the approval of RBI. So, my sense is, we should get done with all the approvals and implementation by December.

Manoj Bahety: Okay. Prior to that, this Sumitomo transaction, like, as and when we get approval, this will go through or we will wait for complete chain of approval and then we will do all these transactions?

Jatin Khanna: No, so the swap transaction has to be done whenever we have all the approvals, because there is a 15 day window under the regulations to close out any shareholder approved transaction such as Mitsui Sumitomo's transaction, because it entails preferential allotment of shares. So, we will be done with the share swap. Then we will implement the Axis transaction. Then the residual 5% put-call arrangement with Mitsui Sumitomo, which will mostly be, let's say, April'21 or so. And then file for the merger.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe: First, just one clarification. The Rs. 1,600 crore that come from Axis Bank, that comes at the holding company level, right?

Jatin Khanna: Yes.

Nischint Chawathe: But then how can that be used for investing at Max Life level?

Jatin Khanna: So, see, after the Rs. 1,600 crore, you have to take care of Mitsui Sumitomo put call option. Once you have done that, we will be left with Rs. 800 crore capital in the parent company. Now that capital, as and when the underlying company requires, is available to fund the growth of the underlying company.

Nischint Chawathe: So, then in that sense, the listed entity will increase the stake in the underlying company?

Jatin Khanna: Not necessarily, I mean, Axis Bank can also invest proportionately. See, it's like that, do you have to do a capital versus growth trade-off and looking at what gives you better returns you accordingly decide. So, I mean, if you are a capitalist and value accretive, you will want to grow the business more and pump in more capital. If you think it's not value accretive, you will then say manage within your own resources. So, that is how as a shareholder we will calibrate that capital.

Nischint Chawathe: And in that sense, there is no reason to change the dividend payout policy as of now, at Max Life level?

Jatin Khanna: At Max Life level, the only thing in dividend payout policy is that, now there is no put-call option, so to that extent, there is no requirement for dividend at the parent company. But, obviously, once we have COVID behind us and we have sort of reassessed the long-term trajectory of the business and capital requirement in line with that long-term trajectory, our endeavor would be to have, if possible, and if sort of within the overall solvency requirements of the business, to have some dividend payout, how every other company has.

Prashant Tripathy: It will be at a lower level, to be honest, Nischint. Because, the responsibility of buyback goes away. So it will be much lower. And it will be a balanced between the solvency capital that is required in the business, growth as well as a dividend that will go out to shareholders.

Nischint Chawathe: Sure. Just coming into the guidance for APE and VNB for the next year. I guess, volumes would obviously be weak next year, and you have guided for sort of almost a flattish VNB, which would effectively mean that your margins will have to go up. And I think two levers what you mentioned, one was protection, and the other is non-PAR savings. Again, on the protection side, I think what you did mention was that the tariff hike that you are taking is going to be progressive throughout the year, you are going to be a little bit more tactical in the first half. So the entire load for margin expansion will have to be taken by the non-PAR product, and I guess that's against 6 going to 8. I mean, am I right, or? I don't have all the numbers with me, but I am just kind of trying to see where the expansion comes in.

Prashant Tripathy: You don't look at the margin per se, you look at volume. So, it's like the volume of protection multiplied by margin, that will have to take the load. So, I think the overall VNB drivers will be non-PAR and protection, that's the direction that will work. Guidance to some extent is a very strange word in the current construct, like we mentioned to you, it is our aspiration to hit that number.

Nischint Chawathe: And just one point is on the investment variance side, on the debt side this Rs. 190 crore was positive or negative?

Prashant Tripathy: Amrit, do you get what Nischint is asking?

Amrit Singh: Negative.

Nischint Chawathe: I thought decline in interest rate was positive for your EV, right?

Amrit Singh: So there is also an element of the shape of the curve actually which has come in play. I think you are referring to the sensitivity movements. Now unfortunately, those sensitive moments assume across the spectrum a decline. But because the shape of the curve has also changed and got altered, that has caused that difference to come through.

Nischint Chawathe: No, I am looking at unwinding rate between the third and fourth quarter. The effective unwinding rate for the quarter.

Ashish Taneja: In Q3, I guess for our disclosure we didn't report the unwinding rate as such, for H1, which is the September disclosure, the unwinding rate was closer to this level only, close to a 9% number. So it hasn't changed since then.

Nischint Chawathe: Okay, I can maybe take it offline. There has been something, maybe I can get that offline.

Ashish Taneja: The only thing in September, you will have to just annualized it, Nischint, that was just for half year unwind. So if you just analyze it, it should come up, we can connect offline maybe to discuss.

Nischint Chawathe: Sure. And just one last thing is on the operating variance side, positive, if you can share some breakup.

Prashant Tripathy: So it is a combination actually, I mean, of the number that you see there is close to about Rs. 30 crore which is coming because of maintenance expenses. I will have to go through the numbers, but it is equally broken between expenses, mortality and some bit of changes in our assumptions.

Nischint Chawathe: All positivity, is it?

Prashant Tripathy: All positive.

Moderator: The next question is from the line of Madukar Laddha from HDFC Securities.

Madhukar Ladha: Thank you for taking my question again. Can you give us some colour on what will be our protection margin or what percentage of VNB is coming from protection? Some of your competitors do give that.

Prashant Tripathy: It is a good suggestion, I think we will include that from the next reporting, Madhukar. And we could answer that question separately. I don't have the number in front of me.

Moderator: Thank you. As there are no further questions from the participant, I now hand the conference over to the management of closing comments.

Jatin Khanna: Thank you, ladies and gentlemen, for being on Max Financial's Earnings Call. We look forward to more such interaction in the future. If you have any follow-up questions, please feel free to reach out to me or Amrit. Thank you once again. Goodbye. Stay safe. Have a good day.