Max Financial Services Limited

Q4 & FY21 Earnings Conference Call Transcript
June 9, 2021

Moderator: Ladies and gentlemen, good day and welcome to Max Financial Services Limited Q4 & FY21 Earnings Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jatin Khanna – CFO, Max Financial Services Limited. Thank you and over to you, sir.

Jatin Khanna: Thank you. Good morning, ladies and gentlemen. Thank you for being part of Max Financial Services' Earnings Call. My name is Jatin Khanna – CFO for Max Financial Services. Before proceeding with the performance highlights, I would like to introduce my other colleagues on the call with me. So, I have with me Mr. Prashant Tripathy, who is the MD & CEO for Max Life; Mr. Amrit Singh, who is the CFO and Head of Strategy for Max Life; Mr. Ashish Taneja, who is the Senior Leader from our Actuarial Function.

So, delighted to be hosting this call after a pause of few quarters. As you know, we were in middle of a seminal transaction, which will shape out the course of Max Life for the future. So, we had to pause for a while. Glad to be back to our quarterly results.

Also glad that Axis has become the Co-Promoter of Max Life with 13% stake. MFSL received about Rs. 736 crore on stake sale to Axis Bank and Axis has the right to acquire an additional 7% stake. This deal closure marks the new phase of growth and stability for Max Life. We have now got on to the first step of the transaction and filed an application with IRDA for acquiring revenue stake of 5.17% from MSI in Max Life. This would entail an outflow of about Rs. 843 crore. We have around Rs. 894 crore in our balance sheet to take care of this requirement. So, we are well covered.

We are hopeful of concluding this transaction in the coming quarter. We are also hopeful of concluding the 7% stake sale transaction to Axis in the next 12 months to 18 months. I had imagined we will have some further nuanced questions on the transaction structure. However, since we have to still conclude many other steps of the transaction, my request will be to refrain from seeking any further details of the transaction structure at this stage. We will be happy to address those at an appropriate time.

I will request you to restrict your questions on the call to the performance of MFS and Max Life.

Now quick highlights of our business performance for FY21:

Our consolidated revenue excluding investment income for FY 21 was at Rs. 18,815 crore, a strong growth of 18% in the most challenging business environment. Consolidated PAT at Rs. 560 crore has grown at a strong 105%.

Growth in profits was largely aided by one off factors such as reversal of provision for impairment on financial assets and lower tax expense. These one-off gains were partly offset by higher new business strain due to shift in product mix towards non-PAR business.

Now, moving on to the key business highlights for Max Life:

Despite COVID lead challenges, FY21 was the most successful year for Max Life. Our successful closure of Axis transaction and renewal of YES Bank partnership for five years sets the stage for a sustainable and profitable growth trajectory of Max Life. Decadehigh new business market share of 10.8% improved by 107 basis points. Most importantly, Max Life achieved one of the industry leading values of new business growth of 39%.

VNB almost doubled in last three years to Rs. 1,249 crore in FY21. NBM also expanded by 360 bps to an all-time high of 25.2% primarily driven by increase in non-PAR and protection business and cost saving initiatives. Max Life's MCEV grows by 19% year-on-year to about Rs. 11,834 crore. MCEV on operating basis have grown at 18.5% annualized, impacted by COVID provisions.However, including non-operating variances RoEV is at 22.4%. Max Life's individual APE has grown by 19% to Rs. 4,907 crore in FY21. Q4 sales grew by 36% driven by both proprietary and partnership channels. Max Life has outperformed the industry growth on new sales individual by growing 19% in FY21 versus a private insurance growth of 8%.

Highest ever individual sum assured stood at Rs. 2.2 lakh crore, individual new business sum assured grew by 22% versus 6% for private sector. The market share on sum assured touched about 15.6% and very pleased to share that we enjoy a third rank in the industry when it comes to the sum assured. So, really our protection focus comes out of this vector. Our overall protection sales grew 28% year-on-year higher than the overall company growth. Individual protection sales have grown by 40% year-on-year and contribution to overall sales have improved from 8% in previous year to 9% in the current year.

Group protection sales grew by 10% year-on-year, ranked number one on ecommerce, direct, online and web aggregator marketplace for protection based on our market intelligence. Gross premium grew by 19% to Rs. 19,018 crore in FY21 with Q4 growth of 21%. Renewal premiums also grew by 15% to Rs. 12,192 crore. There has been an improvement in 13 months persistency by 80 bps to 84.1% and 61st month persistency by 190 bps to 54%.

Strong roots and investments in digital assets enabled transition to fully digital sales, recruitment, training and governance in four weeks during the lockdown period. Agility in technology enabled faster new product launches. So, we launched 14 new products or modified some products and we launched some riders as well over the last 12 months. This enabled sales momentum and margin improvement. During FY21 company experienced Rs. 121 crore of net claims on account of COVID-19 which will neutralize the provision held at the start of the year.

We have made further provisions in excess of Rs. 500 crore to neutralize any adverse impact of COVID going forward. Our claim paid ratio improved by further

13 bps to 99.35% despite all the difficulties faced in this current environment and the propensity of claims also went higher because of the COVID implications. Very happy to share that we were ranked number one in customer loyalty as per the annual syndicated survey of policyholders by Kantar. We were ranked number two in customer grievances into the incidence rates as per the Q3 disclosures with decade-low mis-selling account an incidence rates.

We have been extremely efficient in our capital management where the ROE is consistently hovering around 20% which is again best in class. Our solvency surplus is at Rs. 1,341 crore with solvency ratio of about 196%. Our AUM as on March '21 end stood at Rs. 90,000 crore, growing at 32% year-on-year and our par AUM has grown by about 26% year-on-year. We were now the fourth largest asset manager of life insurance.

We have also improved the ranking by 10 places to get to 24th amongst the great places to work for and were amongst the best workplaces in BSFI space. So, to really sum up, Max Life will continue its trajectory of driving strong shareholder outcomes with Axis as a new JV partner. With partnership with Axis having been strengthened and YES Bank Bancassurance renewed for another five years, significant investments in proprietary and digital channels, razor sharp focus towards cost and improvement in protection mix, we are progressing well despite the current challenges.

Good progress made on five pillars of Max Life strategy with predictable and sustainable growth, product innovation to drive margins, customer centricity across the value chain, digitalization and analytics as a foundation and augmentation of human capital as I had detailed above. So, on that note, we will hand over to the moderator to open the floor for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nitin Aggarwal from Motilal Oswal Securities. Please go ahead.

Nitin Aggarwal: So, my first question is like, how sufficient do you think will this provisioning be towards the COVID claims that we have prepared Rs. 500 crore? Or put in other words, like what sort of increase in mortality claims are you prepared for while making this provision? And how much of these provisions have actually flown through the P&L because a lot of it has flown through the EV. So, any number that has gone through the P&L also?

Prashant Tripathy: We feel confident about the provisions that we are carrying. Like I mentioned to you, throughout the year, last year, we had about Rs. 121 crore as Jatin mentioned of claims. So, as a reference point, we are carrying about little over four times more to our P&L as well as to our Embedded value. So, I feel quite confident however, sitting today, with the numbers coming down now, there is reasonable confidence that we will be able to manage, but as you know, there is a bit of unpredictability. So, this is our best judgment at this point of time. I am reasonably sure we will be able to manage within number, but one of course needs to be watchful about it also.

Nitin Aggarwal: Okay. How of these provisions have flown through our P&L?

Prashant Tripathy: So, this is the provision, actually, we have been a prudent organization and we always carried pandemic reserve etc. So, we will just re-class that, and we will consume that. So, we have not taken it through the P&L because it was already available. That is a part of prudent balance sheet planning for a life insurance company and very happy that we were always prepared for any pandemic.

Nitin Aggarwal: And secondly, are we now likely to see an increase in pricing of term products, especially the group term and any steps that we are taking to mitigate risks?

Prashant Tripathy: Yes, I mean, one is mindful about COVID claim experiences and honestly, a large part of that is reinsured also and we might see price increases, but one, because we play in marketplace, and we are one of the largest players on aggregators counters. So, we will attempt to be competitive, and balance it out. So, to answer your question, is there a price increase, on individual business, there might be some.

On the group side, I think the prices are being increased on the GTL side, which is employer-employee kind of areas. That is where we are seeing higher incidences of claims. So, those are two areas where we are reviewing the prices, and as you know, the group side is yearly renewable contracts. So, it keeps changing depending on the instances of claims. So, that is a very normal thing the way it planned.

But to summarize, we will be dynamic, we do see protection as a long term bet for Max Life Insurance. There is lot of penetration still to happen. So, we will take those calls, to optimize for customers, growth and our margins.

Nitin Aggarwal: And lastly, like a question on the persistency. Now, see that you have made good progress on claims, say our customer loyalty scores, grievance rate. All of these indicators are improving. But on a comparative basis, we are still a little lower on the persistency number. So, why is this so versus the peers? And where do you see this persistency in the medium term?

Prashant Tripathy: Yes, in the medium term, you will see an upside. As for our models, we do expect the numbers to go up, closer to about 86%. So, you should see about 200 basis points. We are on a journey to increase our persistency. There is a lot of underlying work which is taking place. At the end of the day, it is combination of product mix, approach to how the channels have performed. So, there is a lot of planning which goes behind it and I am hoping that over a medium term basis where you will see growth.

We had a rather difficult first half where you would have seen through our reports last year that we had a bit of a persistency decline year-on-year. We worked on it. And that has been covered now, both 13th month as well as 61st month persistency are about 100 to 200 basis points higher than how they were the year before. And I think we will be on an upward trajectory from here on.

Nitin Aggarwal: And just to clarify here, is it possible to share like how much indicatively this number will be including the grace period? Because now month like is over, we are already past 30 days, over the quarter end so because last year we reported 87% as on FY20 so?

Prashant Tripathy: Yes, I mean, if we were to compare apple-to-apple, because grace period means nothing actually. I mean, you compute persistency but if you were to kind of eliminate the impact of grace period, this year, we will be significantly better than last year.

Nitin Aggarwal: So, higher than 87% is what you are aiming?

Prashant Tripathy: Let us say 87% was taking into account the impact of grace period. Assuming that there was no grace period, it would not have been 87%, it would have been a lower number. So, wherever today we are versus eliminating the impact of grace period, we are significantly higher than last year.

Moderator: Thank you. The next question is from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.

Andrey Purushottam: I had two sets of questions. The first set of questions really related to marketing. And what I wanted to understand in some detail is that what has really led to your increase in market share? What is your hypothesis and if you could link it to your IMRB results from consumer loyalty, if you can delve into some detail as to what was the measures of loyalty on which you have emerged higher than the others? And correlate this to the question of having increased market share and/or any other reasons that you have for you for getting a fundamental insight and why do you think you have gained market share?

Prashant Tripathy: So, a direct mathematical correlation typically is very hard, but let me kind of break down first the Kantarsurvey and then our overall growth. Kantar survey is done on the customers of respective companies, which means the research company will go to customers of different life insurance companies, and they will seek or run a questionnaire with respect to how they feel about owning the policy of that particular company, how happy they are, how engaged do they believe, etc.

It is a composite score that they come up with, they ask the questions, the questionnaire based thing. On that basis, Max Life Insurance is the top company, a top private company based on customer loyalty, which indicates that our customers are most loyal compared to how the customers of other companies feel.

That is point number one. When you look at it in terms of growth, I think growth is a combination of two things, acquiring new customers as well as upselling to your existing customers. Now, by having more loyal customers, the ability to upsell is pretty high and we have seen increase in our upsell ratios, but a very large part of growth is also contributed by acquisition of new customers and acquisition of new customers happened because of many things, because of expansion through distribution network, it happens because of new product categories, which you end up launching, and the normal marketing efforts that is putting in terms of promoting the brand and reaching out to the customer.

So, in a way they are linked but not in a direct way. The ability to or the propensity for the customers to buy because they are more loyal does contribute to growth, but there are many other factors which also contribute to growth including acquisition of new customers.

Andrey Purushottam: Okay, let me just rephrase my question. If I were to let us say ask the Hindustan Lever employee as to why have he gained share versus Procter & Gamble and let us say soaps or detergents or something. He may say that we have a better product or we have better distribution or something else. I was trying to get an insight as to what is making you a gainer in market share? The fact that you gained market share growth is there for us to see. I was trying to understand what you think is the why?

Prashant Tripathy: Okay, three or four reasons actually. One most important reason is stranglehold in distribution predominantly being caused by our promoter Axis Bank. It was a key reason Axis Bank demonstrated very high rate of acquisition of customers through our progress in expanding our products, through protection and non-PAR savings that also cause the market share to go up. Those are two categories, where we saw disproportionate growth come through.

Number three is the strength of the brand that our consideration scores have jumped quite significantly. And that has led to more customer traction. And last but not the least, I think overall focus on a distributed or diversified channel mix. So, while on one side Axis did very well. Towards the second half of the year, we also found our own channels as well as YES Bank's channel to grow quite considerably versus the market average. Those are reasons why we believe we gained market share.

Moderator: Thank you. The next question is from the line of adjuncts Ajox Frederick from B&K Securities. Please go ahead.

Ajox Frederick: Sir, I have a question. It is a very basic question on taking a provisioning on VNB particularly the margin impact we saw for COVID basically. So, does this mean that this is factoring in the unexpected COVID claims of FY21 and pricing was not done for COVID when we started selling these products? Is my understanding right?

Amrit Singh: Ajox, this is a tightening of mortality data assumption that you can say on COVID. And largely this tightening is being done in duration one and duration two. So, whatever we sold in FY21, obviously, the claims coming in the same year are always going to be lower, but the claims that could come in FY22, or probably let us say FY23, given how and when the wave just kind of settle is this is that additional tightening of the mortality assumption that we have done. I hope that is clear.

Ajox Frederick: Yes. And sir, my second question is on the channel. Some of the checks which we do indicate again credit focused towards traditional business, PAR business basically. Is it a strategy to diversify mix and basically normalize the par I mean non-PAR not going beyond a point? So, is it a strategic to diversify the mix?

Prashant Tripathy: Yes, to both the questions. It is a constant effort to remain diversified. You will notice that our mix on non PAR actually went up this year, but you would also notice that it was in the range of 30% to 35%. We did not allow it to go beyond that. And you will also find that there is a distinct bias towards writing more and more traditional plans within that savings and PAR savings and protection through our own channels. And you will see that we write little bit more non PAR and ULIP through our partner channels. So, that is a part of strategy to remain diversified, aligned the product mix to the channel for reaching out to the customers and meeting the demands as well as optimizing the overall margins for the company.

Ajox Frederick: Just one additional question again on some of the checks were indicating that focus was slightly on the lower end, for Smart Secure Plus. Usually when a new product is launched there is very strong focus in that product, and like we saw for Smart Wealth Plan. But this Smart Secure Plus is a very innovative product out there. But push is not very aggressive, and now they are expecting one more round of price hikes on protection side. What is the broad sense, sir, like if you can answer me in two like categories as one is on protection demand out there and two is why are we slightly more cautious on this product?

Prashant Tripathy: So, it is, let me answer the second question first. We have always maintained that Max Life believes in a diversified product mix, we do not like to put all eggs in one basket. And ever since the evolution of the industry, you would have found that Max Life has maintained a market or product mix, which is a bit away from how the normal market will be, even during the peak period when the entire industry was selling more and more ULIP, we were selling more traditional plans. So, we always like to remain balanced. And it is for the purposes of ensuring that we are reaching the different customer segments, because these products are important for different segments, and we make sure that we meet a variety of needs for the customers. So, that is the second question. On the first part.

Amrit Singh: Sorry to interject. I think Ajox's question is on our new Protection Plan. Is that correct, Ajox?

Ajox Frederick: Yes.

Prashant Tripathy: So, on the new protection plan, we have launched it and there is a price increase, which is planned for. We are fairly aggressive about running it just to give you a sense, the sales are similar or better than last year, there is the demand has picked up in the month of April and May.

There are of course, some underwriting level controls that in consultation with reinsurance companies that we have institutionalized. So, it is not as if we are not promoting the product, it is just that we are a bit more cautious in view of what is happening because of pandemic.

Ajox Frederick: So, probably once everything settles down, we will?

Prashant Tripathy: Yes, absolutely. Like I mentioned to you, protection is a long-term bet from Max Life Insurance. We have done a very good job, our growth in last five years has been closer to 50%. And once things around COVID settle down, we continue to maintain that momentum.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment. Please go ahead.

Rahul Bhangadia: Just a dip on Rs. 88 crore that you have taken in the VNB margin is it totally a part of Q4 numbers itself or how do you look at it? And correspondingly what is your sense of what the margins are and going ahead?

Amrit Singh: So, this Rs. 88 crore was actually provided for in Q4. So, the hit with respect to the Rs. 88 crore had kind of come on to this particular Q4 but the view has been taken for the full year. And I will kind of reiterate; this is a prudent measure of ensuring that we are actually tightening the underlying implications of COVID into the VNB that we sold for this particular year.

VNB also is a factor of multiple things how you price it and how the reinsurance prices kind of pan out. And if COVID is behind us, obviously, this is a one off hit that has been taken, but over a long horizon once COVID is behind us, you will see this kind of gain accruing if other conditions around pricing, and reinsurance kind of stays in play.

Rahul Bhangadia: Just to clarify, but for this hit your Rs. 88 crore would have been, the VNB would have been higher by Rs. 88 crore, right?

Amrit Singh: That is correct.

Rahul Bhangadia: And your sense of margins going ahead, sir, FY22-23?

Prashant Tripathy: That is a good question. Actually the outlook is perhaps similar to over a short period. And it is a bit of crystal ball giving, especially in view of COVID. I mean, honestly, we must understand that what this country and that the entire world is going through is hugely unusual and view of that forecasting something over a short period of time is a bit difficult. But assuming that things recover well, I think, over a short period of time, similar to what we have delivered this year, over a long period of time long period, meaning next two, three years, I think we should see 100 to 200 basis upside from where we sit.

Rahul Bhangadia: Okay, and sir, you have already mentioned because of the situation it is a little bit tricky here, but any sense on what kind of growth you are planning out here over the next two, three years?

Prashant Tripathy: So, I mean, growth Max Life is quite bullish with respect to growth. And just to give you a sense of numbers, we just went past April and May months very too difficult months. For the first two months the cumulative growth rates on year-on-year growth rates is 57% which is also on two year CAGR basis, we are strong double digit growth number. So, we continue to grow but maybe a very strong double digit kind of a growth rate is what we will target, maybe closer to about 20%, between 15% to 20%. That will be my number at this point of time. That is what we're targeting.

Moderator: Thank you. The next question is from the line of Adarsh Parasrampuria from CLSA. Please go ahead.

Adarsh: The question is if I just look about the VNB performance for this year, excluding the Rs. 88 crore impact. Margins have accrued by north of 500 basis points and under 22 to 27 this year. And obviously, there has been a pickup in non-PAR mix about a 10%-12% increase, and then there is some pickup in our protection share. Even if I adjust for the margin gap of this product, vis-à-vis some of these were savings products. The 500 bps VNB margin expansion is still large. So, now we could have got more margin benefit either from OPEX, or within a category, certain margins of certain products are better this year than where we would have been last year to relate to this kind of VNB impact. So, if you can just try and walk through from under 22 to 27 how does it stack up?

Prashant Tripathy: So, I will give you a very high level answer. Maybe separately, you could talk to Amrit and we could give you that walk because that I may find it very hard to actually explain. But I think the mix increases of protection as well as non-PAR savings they will be the strongest contributors to our margin expansion.

Also there was a tight control on expense, which would have added to the overall margin profile. So, you are right, I think we just have been very tight on expenses. And we have altered the product mix more in favor of protection as well as non-PAR savings. That would have caused all out margin enhancement but Amrit will reach out to you separately, and we will be able to share the walkthrough.

Amrit, do you want to respond anything further?

Amrit Singh: Yes, I will just add actually. Even the product that we launched the new non-PAR, which was launched in FY21, that product fundamentally will have a better margin profile than what we saw what used to exist in our previous product. So, that is also an additional CAGR. So, it is not just that 10% delta from 20% to 32% movement in the non-PAR component, even the 20% itself also came out with a better margin profile.

Adarsh: Yes, that probably explains. So, you are saying the non-PAR margin profile in FY21 was better than FY20?

Prashant Tripathy: Yes, it is a new product that we launched. We launched it in the month of July actually. It is a new product that we launched, it was not the same profile of non-PAR that we used to have in 2019-20 or before that.

Adarsh: And second question a little more longer term question and probably was a continuation of one of the earlier questions was from a brand perspective, right, we have done well in terms of market share gain. But just as a financial brand, your top three peers have a larger umbrella of financial services brand and now obviously we have Axis as a partner. How do you see that play out because we have still accreted market share with not having a big umbrella brands like an ICICI, SBI or HDFC but now we have Axis which can get co-branded a little bit. So, how do you see that journey? Does it help or we have been extracting whatever we could with Max itself?

Prashant Tripathy: So, considering the current structure and ownership etc and the shareholder arrangement, the first step is to add Axis Bank's names on our tagline. We are going to say a joint venture between Max Financial and Axis Bank. We are going to promote, all our hoardings are going to get changed. We are incurring branding expenses actually to promote that. That will definitely have an upside. The other upside I definitely see is for Axis Bank customers and Axis Bank does anywhere between 55% to 60% of the sales, I think that is going to be very strong foundational affiliation, because the Axis Bank will be able to promote Max Life products being a joint venture company of Axis Bank. That will also a big rub off that we will get. So, for a very large part, I think the brand will start to play kick in and start to play a big role. And as things evolves etc at a later date, we will consider if there is a bigger rub off impact possibility exists or not, but over a short period of time, this is how we are going to approach it.

Just to conclude, we also saw distinctly big shift in brand consideration, from about late 40s to our consideration actually jumped up to late 60s, which was one of the sharpest consideration increases that we have seen in the evolution of Max Life Insurance predominantly because of (a) COVID, where insurance itself started to find but for a variety of pieces of work that we have done around protection sales around being just more prominent, by through mass media or published material, I think the brand has already strengthened quite considerably, especially in last 12 months, we feel good about that.

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

Sanketh Godha: My first question is on EV Walk. So, the operating variance number of Rs. 80 crore what we see other than the COVID provisioning is largely related to the tax refund what we got in the first quarter, right? So, we did not have any significant positive operating variance coming either from persistency or Opex in the current year, because this Rs. 80 crore seems to be exactly tying up with the tax reform what we got in first quarter. Is my understanding is right?

Amrit Singh: You are right. As we had disclosed, even in the first quarter, we had a tax refund of Rs. 63 crore so Rs. 80 crore has a tax refund of Rs. 63 crore and then the rest is actually some positive variances.

Sanketh Godha: And the second question, which I had was that right now, whatever VNB margin report around 25.2 is based on effective tax, right? Not only we paid a significant amount of dividend in the current year so we got a huge 80M benefit. So, the margins were little on higher side. So, as the Axis Bank relationship has now become permanent, our dividend payout will substantially come down going ahead, I am presuming so. So, then will it have a bearing on the VNB margins because of effective tax rate going up because Section 80M benefit will be relatively lower going ahead?

Amrit Singh: Yes, so effective tax rate actually has a methodology. We do not necessarily take a short term view, there is a defined methodology of taking a longer horizon view on how the tax structures and dividend flows will be. Maybe on the short period, the dividends will be of a lower order to support growth, but over a longer horizon obviously there will be dividend, which will be coming through in the business. So, effective tax rate actually, we have not altered the effective tax rate in this particular year as compared to last year.

Sanketh Godha: Okay, so you mean to say that the effective tax rates what we are baking in our VNB margin calculation is based on long term dividend strategy rather than the current effective tax rate what you have?

Amrit Singh: Correct. I mean, you cannot take one year views on how you are changing effective tax rate. There is a set methodology, which actuarial team uses and which actually takes a longer view around how do you compute the effective tax rate.

Sanketh Godha: So, basically, 25.2 is more on a normalized basis rather than a onetime benefit what we have accrued this year?

Amrit Singh: Correct.

Sanketh Godha: And finally, just one question. The unwind rate in the current year seems to be a little lower at around 8.6% compared to (+9%) what you usually have. So, is it because we did a lot of non-PAR business and therefore we think this to be old profit pool, and therefore the unwind rate was lower. Should we look it in that way? And also, if you can tell me how the unwind rate going ahead would be?

Amrit Singh: So, actually the unwind rate that you see in the EV walk is the management expectation of how the interest rate view will be at the start of the year. And you will recall at that point, and I think that continues to be the case that the view at that point of time was of lower interest rate. And that is what you see actually kind of come through when you see that our unwind from FY20, which was at 9.1% came down to 8.6% in FY21.

So, it is a view. In actual reality, what happens is you will have the performance of the funds kind of come through where you will get actual return income on the Fund, which actually has been significantly higher than our expectation and part of that goes and sits in the non-operating variance. And that is how it is done.

With respect to the view for the future, I think it will remain range bound maybe a few basis point lower than how it was at the start of previous year given the interest environment that we see at this point in time.

Sanketh Godha: And finally on protection business. Somewhere in the newspaper report mentioned that we have made vaccination compulsory for 45 plus guys, where the most for taking the protection business. Just wanted to know the likely impact on the growth of protection business in near term, because we believe that by 40% odd and even if I look at fourth quarter growth around 17%, it looks very healthy compared to the industry average.

So, just wanted to know the impact of it on the numbers? And this vaccination requirement of making compulsory is more of a reinsurance requirement or we optionally to get choice of making vaccination compulsory to do term insurance incremental?

Prashant Tripathy: Just to clarify, we have not made it so to that extent, the representation in that article is not correct. We have not made vaccination compulsory. That is the clarification. However, at the front end, there are several underwriting controls that the company is deployed in consultation with the reinsurance organizations. So, that we are selecting lives where we are almost sure about the quality of life etc. Those are things that most of the reinsurance companies have recommended life insurance companies to adopt, and almost all players have done that.

So, we have done that too. However, we have seen an upside in the demand for protection and despite those controls. I think our overall mix for the first two months is higher than the mix that we were seeing in Q3, Q4. The overall mix is closer to about 15% of protection.

Sanketh Godha: Just on ULIP business just wanted to understand that our ticket size seems to be little on the higher side compared to industry average, around Rs. 1.5 lakhs ticket size. Have you seen any impact or do you foresee any impact of the new tax rules with respect to given our ticket sizes on the little higher side compared to maybe other players?

Prashant Tripathy: To be honest not so far actually, Sanketh.

Moderator: Thank you. The next question is from the line of Abhishek Saraf from Jeffries. Please go ahead.

Abhishek Saraf: So, most of my questions have been answered. Just wanted to understand on the reserving part, so we mentioned that we are carrying around Rs. 500 crore plus of extra reserving. But in the EV Walk, if I see that it is around Rs. 340 crore on the EV operating assumptions and Rs. 88 crore on the VNB side. So, what am I missing here, it does not add up so, just wanted to understand that part? And secondly, was that relative to the claim size it seems that our reserving is much higher than what other peers who reported earlier have done. So, what is making us provide more on the COVID reserve part?

Prashant Tripathy: I will answer the second question first then I will let Amrit to give you the recon. The answer to your second question is, when we saw the size of wave 2 versus wave 1, we just thought it would be prudent to be more conservative. So, the claims in the first wave and the death rates and the infection rates were much lower actually. Wave 2 appears to be higher.

So, we have gone to be a little more conservative just to see how it unwinds in times like these. It is good to be conservative. That is why you would have seen a little conservatism in our balance sheet, in our EV, in our VNB also to that extent just to make sure that we are protected and we do not come up with surprises as we hit FY22. That is the reason. If we perform better, of course, it will unwind and come back to our financials.

Amrit, if you could just talk about how the balance sheet reconciles to the EV?

Amrit Singh: Yes, so Abhishek, you are absolutely right. Rs. 340 crore in the EV plus Rs. 88 crore and then you also gross up for tax as well, and the delta still is actually our old CAT and pandemic reserve. So, in our last interactions, whenever it would have happened, we had indicated that we have been carrying a very reasonable size pandemic reserve, even though at end of FY20, we created a Rs. 10 crore small reserve, but beyond this Rs. 10 crore, we were carrying in excess of Rs. 200 crore plus kind of a number with respect to our pandemic reserve.

So, a part of it we did use up in FY21 to neutralize the Rs. 121 crore that COVID claims that we kind of saw for ourselves and the rest is what the differential is between the Rs. 500 crore and the maths that you are doing money on Rs. 88 crore plus Rs. 340 crore.

Abhishek Saraf: One last bit if you can just on YES Bank side. So, is it possible to share me with what kind of share YES Bank will now be accounting for in our business? And what kind of products are being sold on that counter? So, just give some kind of understanding on that?

Prashant Tripathy: Since it is a very important relationship and we are absolutely immensely proud of the relationship that we share with YES Bank, they have been a part of our growth both organizations have evolved together and we just concluded 16 years of our journey with YES Bank, which is very, very important relationship. The way to look at last two, three years, the contribution from YES Bank has been anywhere between 7% to 10%. And we expect that it will continue to grow at the same pace at least in the same pace as we grow as an organization so, we expect to grow.

At this point of time, YES Bank is growing. It is contributing positively and while YES Bank is going down the path of open architecture as we all know, we really hope sincerely and wish that we continue to maintain the counter share, our significant counter share on YES Bank account.

Abhishek Saraf: Possible to share, which could be the product mix with YES Bank?

Prashant Tripathy: Sorry, I missed it. The product mix will be pretty similar to the product mix that we sell at broader BANCA level, but if their margin up or down we will be able to share that with you, but predominantly ULIP as well as non-PAR, those two will make the large part of product mix that we sell at YES Bank.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nidhesh Jain: Sir, firstly on the dividend payout and capital position. Our solvency has now been like 200%. What is the comfortable solvency margin that we would like to maintain? And how is the dividend payout policies will be there going forward?

Prashant Tripathy: On dividend side, of course, as you know, last few years we had to declare dividend for facilitation of buybacks from Axis Bank etc. All that is now behind us. So, there is no need to declare heavy dividends. There will be marginal dividends that we may be declaring in the organization, hence retaining most of the capital in the business to grow. In addition, we anticipate to maintain our solvency ratio anywhere between 180% to 200%. That will be our target over next few years and hence, we will at an appropriate time during this financial year we will look at the need to raise any capital. It is not formed up yet. It will go through several approval processes, but there is a desire to actually buffer up the capital position by raising debt.

Nidhesh Jain: With respect to Axis Bank, do you see similar synergies? It is already a very well old relationship. We have been there for the last almost 10 years plus. So, do you think after this tie up, one is definitely a certainty that we are getting in terms of

Banca tie up. But in addition to that, do you see any other synergies coming to Max Life?

Prashant Tripathy: Yes, I am very optimistic being a part of their group company, or their joint venture, I think there are definitely significant synergies. Synergies like I mentioned to in governance already we see a few of their business leaders coming and sitting in our board that adds to the heft. That adds to the knowledge and a few of them are very, very experienced in life insurance space as well. So, overall, strategically, their contribution to Max Life Insurance is going to go high. Brand rub-off we were just talking about little while earlier, that is a big contribution.

We are also discussing how Max Life Insurance could participate in the new channels or new verticals that they are adding. The teams are discussing how we could work together to inject more analytics in overall sales process and improve penetration. Refinement in what we sell product mix, especially in the area of selling more annuity or selling more protection is going to get more weight. And needless to say, being such a large financial services organization, we do anticipate that we will be able to leverage some synergies with respect to procurement, or people practices, etc. So, really, we are looking at leveraging this relationship in a 360 manner. And I am very optimistic, Nidesh, that it will be a plus, plus from where we have been so far.

Nidhesh Jain: Actually, on the credit life we have not consciously focusing on that segment. But has any thought process changed with respect to that segment? And also, Axis Bank would also be having significant retail lending operations. So, is there a possibility to scale up credit life business from that channel?

Amrit Singh: So, Nidhesh, credit life we have always indicated from as a strategic choice, it is individual business that we have been working towards. And that is where the granularity of business comes, sustainability of margin profile comes. And actively we have participated in credit life and even within the bank, we do participate. And credit life, actually, for the FY21 did end up growing at a pace of 45% growth, we saw in the credit life business. Overall, you will see the group business at 30, because the term life business was largely held flat.

And this credit life growth has come out of better penetration and activation across many counters that we are running, including Axis Bank. As you will be aware, within the credit life space Axis Bank actually runs an open architecture model. And it has been the case for a couple of years now. We will evaluate tactically as and when any opportunity kind of comes through. But the margin profile of this particular category especially in the background of mortality, again becomes extremely important for us to kind of keep a view on.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Two questions. One was really on your channel mix. And there you have invested a lot in your proprietary channel. You had guided sometime back that probably the channels which will kind of get a little bit more balanced with the ratio of Axis Bank coming down over time. But if anything we can see the share of Axis Bank going up this year? So, what do you think should be the channel mix maybe in 2022 or 2023?

Prashant Tripathy: So, that is correct. Actually we made investment and you would have noticed that the contribution of own channel has been growing. Last year was a blip year; I must share that with you because of the model. I mean, industry wide if you see the growth of Banca channel is higher than agency or proprietary channels. That has happened because the agency or the channel where agents go and meet with the customer, and profile of agents, where many times homemakers or retired people are also agent advisors, they were reluctant to walk out as against the Banca channel model where it is more dependent on bank customers or footfalls. So, proprietary channels did take a hit and you would have noticed that even in our growth, significant part of the growth is also contributed by banks. Our own channels actually grew 10%.

So, hopefully as COVID settles, we will be able to rebalance that. We are yet to see it because as this year has begun again we have seen COVID. As long as COVID last, the impact on proprietary channels will be a bit more than how it is on bank channels, but assuming that COVID will be out of our ways through this year.

I anticipate that our own channels will start to grow, at least as the bank channels, and that will be the objective. So, we will maintain or expand the proportion of own channels going forward.

Nischint Chawathe: And any particular ratio or guidance you could give in terms of where does Axis Bank or proprietary channel settled

Prashant Tripathy: Yes, I mean, we have been historically for last few years, we have been close to 30% in terms of contribution from proprietary channel. So, at least that level is one would definitely try.

Nischint Chawathe: And I think you also mentioned that you are looking at around 100 to 200 basis of guidance on margins?

Prashant Tripathy: Over a longer period, Nischint, like three years.

Nischint Chawathe: And what are the immediate triggers for? I mean if I have to look at the margin profile for next three years, so what are the immediate triggers? Or what do you think that that probably VNB growth next year will be driven maybe by volume than by margin expansion?

Prashant Tripathy: So, it will be a combination of sales growth and a bit on margin expansion. Really, if you were to look at our product mix, we have optimized our product mix. There are some thoughts on how we could enhance the margins better. But I think what will also start to kick in is basis our size. Some bit of scale benefits, we saw that come last year, and we will continue to see in next two to three years. And that will be one of the biggest sources of margin expansion.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: I have a couple of questions. Firstly, on your non-PAR portfolio right around the guaranteed return products, I just wanted to understand how has our hedging exposure changed over the last couple of years and as a result, the consequent impact on margins that we are driving from these products?

Prashant Tripathy: So, actually we changed our view a little bit with respect to non-PAR savings predominantly after FRA were allowed somewhere in 2019. Before that we had a different view, you would have seen our overall exposure to non-PAR was a bit limited, but with FRA coming on board, which is a much more efficient design to hedge one was more comfortable to go ahead and increase the proportion. So, we increased the proportion from 20% to about 30%. And I think we do intend to keep this ratio in the range of or similar ranges. So, you will not see us go 40%, 50%. But yes, one route take the exposure of 25% to 30-35%, that kind of range. And that is our view on non-PAR savings, because we can hedge it better.

Rishi Jhunjhunwala: And the trend on profitability as a result I mean margin?

Prashant Tripathy: Of course, it has had a positive bearing on margin. And definitely one of the biggest contributors of margin enhancement of about close to about 350 basis points has been an increase in non-PAR savings.

Rishi Jhunjhunwala: The second question is on the protection side. So, some of your larger peers are suggesting that the market is not looking that great and as a result, they are kind of pulling back in terms of selling retail term protection. Just want to understand your thought process? Do you see it as a tactical opportunity to gain higher market share or do you really think that some of those concerns are probably unjustified?

Prashant Tripathy: So, in times like these, of course, there are several forces that you need to be cognizant of. One big force is of course, your relationship with reinsurance companies. As things stand reinsurance companies have had to take losses on account of COVID and hence, some of the norms around underwriting will be a bit more stringent. But our view is that we will be cautious over a short period of time, but protection is a long term growth area for us and we will continue to operate with competitive product designs, improvement in our processes, making sure our pricing is competitive in the market, etc. To win over a long period of time, we do intend to remain a potentially strong player in the protection space.

Rishi Jhunjhunwala: And just one last quick one. Can you give us some sense of our share of business in Axis Bank channel given that it is an open architecture? And how has it changed?

Prashant Tripathy: About 85% is our share on the counter. It may go up or down depending on how it moves but about 85%. Over last few years it is at some stage we were 100% then we were about 95%. So, there is a rebalancing which is taking place, but we hope to remain to have the lion's share on the counter.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Capital. Please go ahead.

Manoj Bahety: I have a couple of questions. First one is like if I see like over last three, four years, the margin improvement of Max and along with that, if I look at the product mix change, it appears that a sizable proportion of this margin improvement is contributed by a rising share of protection business and also on the protection business like one thing which I was seeing like when I was seeing the financial reporting of one of your peers, that a lion share of the profitability is contributed by the protection business. I assume that the same will be in your case too. So, how do you see the sustainability of margins of protection business? I understand that it will be a high growth vertical for the industry as well as for you but along with that high growth, whether these kind of margin on protection are going to sustain and how it compares vis-à-vis let's say international insurance companies' protection margins? Yes, these are like a couple of questions from my side.

Amrit Singh: So, Manoj, your observation is correct. The margin improvement there are two levers. There is obviously the product mix lever, which is the non-PAR protection and plus savings along with the inefficiency which kind of keeps coming through as the business rises in scale. Specifically coming to protection, margins and prediction profiles; actually protection margins have been falling sharply in the last few years. And consequently, you have also been seeing the protection prices actually increasing.

Now, if you really go back in time and see the history of our protection, popularity in protection prices moved it used to be quite expensive product design, then the popularity started rising there was competitiveness with respect to pricing, everyone started taking actions around pricing. There was emergence of experiences which started coming through both for the life Insurers and for the reinsurance because this category is largely reinsured and the reinsurance support is extremely important.

And we are at a point in time where there is now a resettling of their pricing expectations around protection and hence the consequent last 1, 1.5, 2 years, you have seen a price rise which actually is happening, which is happening both from ensuring that you are on this particular category, trying to protect your margins as well.

So, even for us also, I think if you look beyond COVID there will be a right place and right play of where the margins will have to move towards where you will have to optimize for market penetration, market shares along with margin mathematics. This is a product category, which is important for us to drive margins, it comes with the associated risk and hence consequently the reward assessment by the insurer also has to be equally strong. And we will keep a view of these things when we are pricing our product forms.

Manoj Bahety: How do you see protection margins in India vis-à-vis like international players? I think India is abnormally high and if it starts like as the category sizes start growing, and if these margins starts normalizing, then how do you see the sustainable margin going forward?

Prashant Tripathy: That may not be correct actually. The Indian margins may not be higher than international margins. Actually India across the board operates on the lower side of margin including protection. It is a more competitive space, where even the pricing is quite competitive. So, I think a large part of normalization basis experience etc has happened now. I do not anticipate that the margins will continue to fall. If there is any new experience which is coming up it will get reflected in the pricing. So, my expectation is that companies will try to protect their margins by increasing prices.

Manoj Bahety: Is it possible to share the protection by margins separately?

Prashant Tripathy: Actually, we do not. It is not a part of our disclosure.

Moderator: Thank you. The next question is from the line of Vinod Rajamani from HSBC. Please go ahead.

Vinod Rajamani: Just on this the additional reserving that you have done for COVID. Just a hypothetical question, but just wanted to know, at what level of additional reserving will the solvency get impacted? That question number one. And then can you give some color on how much of the reserving buffer that you have created? How much of it you would have utilized say up to date? I mean, if that is possible? These were the two questions I had.

Prashant Tripathy: Basically, on first one, really, really far away. We have closed to 196% solvency. The breach on solvency happens at 150%, and every percent for us is close to about Rs. 30 crore. So, you are talking about 50% in Rs. 30 crore which is Rs. 1,500 crore so, really far away.

On the second question on the reserves, last year, as you can see, we saw only Rs. 121 crore. So, versus that this provision is significantly larger, and we hope that we will be able to manage in this phase also.

Vinod Rajamani: How much would you have used, Prashant, in this year, period from the year end reporting to to-date? I mean, some color on that if it is possible?

Prashant Tripathy: Fraction of that actually, and why I am not giving you a number is, the claims have started to come. So, I do not want to prematurely share the number but it looks at this point of time considering that the numbers come down and India gets vaccinated, etc, I am reasonably confident that we will be able to manage in a lower number than what we have provided for.

Moderator: Thank you. The next question is from the line of Neeraj Toshniwal from UBS Securities. Please go ahead.

Neeraj Toshniwal: So, two questions. One is on the deleverage strategy of March that is happening around. And second, on the protection price hikes, we have already taken some, how much was that and how much is in pipeline if at all?

Prashant Tripathy: Thanks Neeraj. I will request Amrit to take these questions. Amrit?

Amrit Singh: Sorry Neeraj, I actually could not hear your first question so well. If you could just say it again?

Neeraj Toshniwal: First was on the deleverage, basically on the pledge, anything happening around?

Amrit Singh: I think I am going to ask Jatin for that first question, Jatin.

Jatin Khanna: So, on the deleveraging actually, the thing is that the promoters have always been committed to sort of deleverage at different points in time. As you can see that, they have monetized a significant part of their ownership in both Max Financial as well as they have divested their entire shareholding in Max Healthcare to that effect, and then they are monetized some other assets as well outside of some of the listed company shares.

So, that is one thing. The second is that, the pledge level as it is now in a very comfortable zone. I am not on the private side or the family side, but what I know is that, there are a few things which are happening or have happened, which will at the current share prices will reduce the pledge level to maybe around 60%. So, to that extent, I think the pledge level is quite comfortable.

Having said that they are intent to monetize at right time some of their other assets as well continue and so you will see them continuing with the deleveraging initiatives. But as it is the pledge level will be quite comfortable. I think shortly, if it is not already at those levels.

Amrit Singh: Neeraj, on your second question, which was around price hikes. When we launched the new product in April, there was an inbuilt price hike in the product. As you are aware the product has multiple forms and multiple ages. So, I would say anywhere between 5% to 10% was the hike that actually happened with this new product launch. With respect to future product price hikes, I think we will take a considerate call keeping all the aspects around pricing and the environment and also the reinsurance application before we decide on the price hikes.

Neeraj Toshniwal: And recently we had some digital initiatives in terms of tie-up with some startups. Anything happening around and anything interesting coming out of that?

Amrit Singh: Actually every year annually, we do run an accelerator program, wherein we go out and outreach to various startups. And in FY21 we had the second cohort of this particular startups kind of coming through.

We again ran that program; they were six, seven used cases, which were specifically given out in the market. We saw upwards of 150 startups kind of applying. We have shortlisted a total of four or five startups with whom proof of concepts were actually being done. And these are across value chain dimensions of a more health engaging platform, underwriting capabilities, capabilities to read process documents actually more effectively and more better. So, those POCs actually in various stages with some of these providers. Some of them actually come and become mainstream, but it is our structured effort of actually outreaching in the market to ensure we are kind of scouting for new technology changes that are happening in the environment.

Prashant Tripathy: And just to conclude this, Neeraj. We tke this very, very seriously so on that day when the team shortlisted many people, everybody in the leadership team; me, Vishy who is our DMD, our COO, Amrit, and at least five or six of us spend about the full day going through the presentations. On one side, it gives an opportunity for the companies who we select to come and work with us, but on the other side, it just creates a sense of awareness for us to know what is happening in the marketplace and constantly evolve ourselves.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Sir, just one question. This Rs. 88 crore of provisions on the VNB walk, is this one time?

Amrit Singh: Yes Prateek, as I had said, this is actually we have kind of tightened some bit of mortality, which might come out of this sale that we are done in FY21 due to COVID which could come out probably in duration 1, duration 2 of those policies. So, you can call it one time, yes.

Prateek Poddar: So, fundamentally, we have not altered the mortality assumptions, right?

Amrit Singh: No, we have not.

Prashant Tripathy: No, not for long term.

Prateek Poddar: Yes, for long term you have not, right?

Prashant Tripathy: No.

Moderator: Thank you. The next question is from the line of Abhishek Khanna from Jefferies. Please go ahead.

Abhishek Khanna: I had one small question. What were our total death claims in FY21, gross and net of the insurance if you can provide that, please?

Amrit Singh: The gross for FY21 was Rs. 1,349 crore and net was Rs. 1,009 crore.

Abhishek Khanna: And the Rs. 121 crore numbers that we have provided for COVID is I am assuming net of reinsurance, right?

Amrit Singh: No, within Rs. 1,009 crore, Rs. 121 crore is also sitting. And Rs. 121 crore is net of the reinsurance, correct.

Moderator: Thank you. The next question is from the line of Mayank Bukrediwala from Franklin Templeton. Please go ahead.

Mayank Bukrediwala: Just harp on that same Rs. 88 crore on the VNB and Rs. 300 crore on the EV. So, what you are essentially saying is that this Rs. 88 crore is something that you expect to pay out in the next one year? And would it be fair to assume that even the close to Rs. 300 crore that you have created on the EV even that is something that you expect to pay out in the next one year? Or are these numbers a part of your value in force, are you arriving at the Rs. 388 crore post discounting over a period of years?

Amrit Singh: So, Mayank, this is a COVID related provision, keeping a view of what kind of an implication can come through during this pandemic, and now pandemic timeline is very difficult to kind of predict. It is a fairly evolving timeframe. So, this is a pandemic reserve that we have created for ourselves.

We may use it, we may not use it also. It all depends upon how much of the death claims will kind of come through. What I was saying is Rs. 500 crore is the provision that we have created for a pandemic, and at this point in time we are undergoing a pandemic situation. Now, is there a definitive view that we will end up using that in this year? The answer is, no. It is a pandemic reserve as in how long the pandemic lasts, what is the implication of that pandemic, it might get used or might not get used as well. And it is extremely difficult at this point in time to kind of give a very definitive sense of how and what it would be. It is a constantly evolving situation very closely we are monitoring it. But we feel comfortable that I think we have adequately and very prudently reserved us.

Jatin Khanna: So, what Amrit is saying is that it is quite prudent. It can be over one year, this can be over many years but what we have thought through is that this is what the reserve should be, and therefore we provisioned for everything sufficiently.

Mayank Bukrediwala: So, the Rs. 88 crore not essentially a discounted number, it is a one off. And so my question is that if I adjust for this one off your margins for the full year, look closer to 27%. And so when you are giving a guidance of an increase of about 100 to 150 bps over a period of years, are you giving this guidance over the 25% or over the 27%?

Prashant Tripathy: Over the 25% actually. Any number is not a static number, there are many moving pieces, the number of 27% could become 25% depending on change in product mix our view on protection, etc. So, more conservative number or a base number from our perspective is what we have reported. We definitely see an upside from here on of about 200 basis points over a medium term basis.

Mayank Bukrediwala: And just one last question. One is, if you could just give me the OPEX number for the quarter, the noncommissioned OPEX. And the other question is more on the outlook of Opex. Now I see that we have got about after two, three years of increasingly the employee count, we are at about 15,000 employees. So, for whatever growth, you are forecasting for the next two, three years, what sort of

OPEX investments will we have to do and will we have to increase our employee count from the 15,000 level further from here over the next two, three years?

Prashant Tripathy: There will be increase, but it may not be a step increase. They will continue to be increased because as we continue to grow as a business, we will have to deploy more resources. So, in the same way like it has grown for the past few years, we will see employee count going up. As far as expense is concerned, I think it will be a part of disclosure, I do not have that number in front of me. If you could share what was the expense or maybe if you could write to us, we will be able to give you that number.

As far as expense increase is concerned, I think expense increase will be circa 10% year-on-year is what we have planned for. We just need to review that. As things stand we are looking at our business very differently. And throughout this year, we are going to look at a new strategy for Max Life Insurance, which we will roll forward from next year. And once we do that, we will be able to give you a clearer view on how the expense increase will look like. Sitting today, the plan is about 10% expense increase year-on-year.

Mayank Bukrediwala: Which ideally means if it is a 10% Opex I believe one should assume a small amount of operating leverage playing out every year, would that be correct?

Prashant Tripathy: Yes, it will.

Moderator: Thank you. The next question is from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.

Andrey Purushottam: Is my understanding correct that pure protection product is better in terms of margins, but lower in terms of ROE and whether or not this is correct or not, could you tell us in terms of your financial metrics, how do you balance your ROE aspirations and your margin aspirations? And how does that influence your product mix going forward?

Prashant Tripathy: That is a very good question you asked. Typically, we will target healthy ROEs in the range of about 20%, and protection is no different. Protection is good in terms of margin, but it is also reasonably good in terms of ROE is the straight answer. When we make the decision on product, there are three or four vectors which are kept in mind. Number one is the customer value proposition as that is the starting point, whether this particular product has customer demand or not, what are customers looking at and we determine that basis research, talking to distributors, talking to sales people to find out if this product will do well or not.

Once that is done, then you will start to look at the financial outcomes, including the features and the financial outcomes will be seen in terms of margin and also in terms of strain as well as ROE. Those are vectors which are kept in mind and we kind of optimize it, depending on, try to hit a sweet spot actually, to put it simply. Try to hit a sweet spot and once those are all triangulated, we go ahead and launch the product.

Andrey Purushottam: Sorry, so you said your pure protection products are not lower in terms of ROE?

Prashant Tripathy: Not really. They are not.

Amrit Singh: I will just reiterate, I think we have a hurdle rate that we look even from an ROE perspective keeping the strain in place. And what Prashant is indicating is that there is a base bare minimum ROE that we will try to do. And generally protection products are all again healthy from an ROE perspective also. They are not any different or not treated any differently.

Moderator: Thank you. The next question is from the line of Ajox Frederick from B&K Securities. Please go ahead.

Ajox Frederick: Just one data keeping questions. Out of this Rs. 121 crore, if you can split it across individual, credit life and GPI?

Prashant Tripathy: Amrit, do you have that number?

Amrit Singh: I do not have it handy, but Ajox, I will provide that information.

Ajox Frederick: Yes, definitely I will take it afterwards.

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

Jatin Khanna: Thank you, ladies and gentlemen for being on the Max Financials' earnings call. We wish you good health and especially since these unusual times. We look forward to more such interactions in the future. Thank you once again and good bye and have a good day.

Moderator: Thank you. On behalf of Max Financial Services Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.