



Max Financial Services Limited

Q1 FY22 Earnings Conference Call Transcript

August 11, 2021

Moderator: Ladies and gentlemen, good day and welcome to Max Financial Services Limited Q1 FY22 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Jatin Khanna – CFO at Max Financial Services. 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 who are with me on this call, I have with me Mr. Prashant Tripathy – Managing Director & CEO of Max Life; Mr. Amrit Singh – CFO and Head of Strategy for Max Life.

I would like to begin with the transaction update first and then get on to the performance. As you know we concluded the transaction for Axis to become the Co-promoter of Max Life with 13% stake in this quarter. We have now got on to the third step of the transaction and filed application with IRDA for acquiring residual stake of 5.17% from MSI in Max Life at Rs. 85 a share. Significant value creation is expected once this transaction is completed, considering that the price is quite attractive. We are hopeful of concluding this transaction in the current quarter.

The next step will be really for Axis to acquire the balance 7% which we expect them to do sometime next year. I imagine that you will have some more nuanced questions around the transaction. However, since we are still to conclude many other steps of the transaction my request will be to refrain seeking any further details of the transaction at this stage. We will be happy to address at an appropriate time. I will request you to restrict your question all on the business performance.

So, now quick highlights for our business performance for Q1 FY22. Our consolidated revenue excluding investment income for Q1 FY22 was Rs. 3,420 crore, a strong growth of 27% in the most challenging business environment. The consolidated profit after tax declined by 80% to Rs. 36 crore relative to the same quarter last year, which has one off tax refunds. Lower operating expenses and lower death claims due to COVID-19 induced lockdowns.

Moving on to the key business highlights for Max Life:

Despite Covid Wave-2 headwinds on a two-year CAGR basis Max Life registered highest sales and highest VNB growth among the top four players, which is incredible performance in the most challenging times for our country.

Max Life's individual APE has grown by 32% to Rs. 875 crore in Q1 FY22. Market share improved by 63 bps to 11.3%. Value of new business at Rs. 172 crore in Q1 FY22 has grown by about 53% year-on-year, which is again a very, very strong growth. Our NBMs have also expanded on a year-on-year basis by about 260 bps to about 19.7%. The MCEV has grown by about 16% to Rs. 12,290 crore.

The first quarter is normally a low quarter, and which is why the margins and MCEV growth will typically always be the lowest in the first quarter and then it catches up as the year progresses. MCEV on an operating basis has grown at about annualized 13.5% and including non-operating variances the RoEV is 16.3%. The operating RoEV for Q1 FY21 was relatively, higher due to positive operating variances in form of tax refunds which is Rs. 63 crore and also due to delayed reporting of claims in the same quarter last year because of the lockdown. Adjusting the same the operating RoEV for Q1 FY22 is actually better than the same quarter last year, considering the seasonality the first quarter tends to be usually lower.

The gross premium grew by 27% to Rs. 3,484 crore in Q1 FY22 and the renewal premium grew by 21% to Rs. 2,244 crore. 13M consistency improved by 317 bps to 85.1% and 61M by 160 bps to 54%. Claim paid ratio improved by 13 bps to 99.35% in FY21. Impact of Covid Wave-2 for Max Life has been 3x to 4x severe relative to that of the first Wave and so we have seen for the industry.

The Claim experience is higher than expected across all lines of businesses currently. The higher claims trend consistent across other life insurers and few players created additional reserves in Q1 FY22 to absorb the higher claims.

I am pleased to report that we were carrying adequate reserves and therefore the pandemic reserve was worth Rs. 500 crore which we created in Q4 FY21 really helped us to withstand this entire COVID Wave-2. The financial strain in the first quarter because of the Wave-2 is about Rs. 234 crore on the shareholders due to the excess claim, which was utilized by the pandemic reserves as I said, with no impact on the shareholder P&L. Even though our long-term opportunity continues to be attractive on the protection business. given the ongoing pandemic, we are taking a bit of a cautious approach on the business, and we have put additional underwriting controls in place.

As a consequence, our overall protection contribution has reduced from 25% to 18%. The individual sum assured of new business also declined by 13% in Q1 FY22 due to the degrowth in protection business.

While our market share improved to 16.1% so relative to the others it is still continues to trend better. Our solvency surplus is about Rs. 1,400 crore with solvency ratio of about 197%. Pleased to report that we raised Rs. 496 crore this quarter through a non-convertible debenture issuance and which has strengthened our solvency margin to about 214%. Our AUM as on June end stood at Rs. 94,000 crore growing at 28% YoY led by growth in unit-linked fund and controlled fund AUM of 39% and 23% respectively.

Max Life is now the fourth largest manager on life insurance AUM. We have also filed an application for Pension Fund Manager License to PFRDA which is ready to participate in the overall retirement ecosystem driven by our focus on getting into annuities in a big way.

Max Life improved its ranking by six places to 18th amongst the great places to work for in 2021 and amongst top 25 best places to work for second year in a row. For the

first time we have been recognized among the top 100 great places to work in Asia, and we ranked 55. The only life insurance company in India to actually achieve this.

So, in summary, Max Life will continue its trajectory to deliver and driving strong shareholder outcome. With Axis now on board as the new JV partner with good progress which has been made on the five pillars of Max Life strategy with predictable and sustainable growth, product innovation to drive margins, customer centricity across the value chain, digitization and analytics as a foundation and augment human capital. So, really there is good progress has been made on all the five pillars of our strategy.

Now with Axis partnership, having been strengthened and with right Bancassurance arrangement renewed for on a five-year, Max Life is under the process of re-crafting its strategic play and has identified the following key focus areas:

Leadership in digital distribution across both sort of old assets as well as aggregators and other ecosystems. So, we really want to sort of establish the leadership in the digital distribution. We want to be amongst the fastest growing profitable proprietary channel in our country. We would like to consolidate and build our leadership position in protection business, as well as strengthen our position in health and retirement state by providing holistic offerings to customers. And lastly, actively evaluate inorganic opportunities to build distribution and ensure the capabilities.

So, these will really be our focus areas going forward in terms of how we will want to differentiate and position Max Life relative to the other players in the life insurance space.

And on that note, I will hand over to 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 Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Can we get VNB walk from Q4 FY21 to Q1 FY22? So, the 25.9 declining to 19.7 though we understand that it is seasonal in nature, but I just wanted to understand that the negative operating leverage. How much it impacted and then how much it was due to the product mix change? This is just from the moment from full year to first quarter number. So, that was my first question. And I have two more. So, if you answer this then I can ask another two.

Amrit Singh: Yes Sanketh, the exact walk obviously I do not have it offhand. But the large reason for it is the product mix, which actually is higher proportion of protection and non-PAR versus how this quarter has been, which has been a bit more over indexed on ULIPs. And this was also the case last year as well.

If you will recall, even last year, same time, in the first quarter our ULIP mix was higher and as the year kind of progress through, the proportion of other product categories started increasing during the year, and we expect to do something similar even in this year as things move forward.

Prashant Tripathy: So, let me give you maybe a clear number, it is just trades for expense, Sanketh. If we were to make adjustments for expense, which means we keep the expense on a run rate basis for the full year rather than lumping it all in the first quarter because

first quarter is generally small. So, it is the same for seasonality in expenses, it is 19.7% will be somewhere around 23%.

So, this 25.9% to 23%, which is 2.9% delta is predominantly because higher ULIP mix. Now, this higher ULIP mix, generally is a phenomenon that we see in the first quarter. It has happened last year also, and it happened only from our bank channels. As things appear right now to a great extent the ULIP bias has been corrected. And we expect that going forward some bit of that product mix related challenges will be corrected. So, sitting today Sanketh, if your question is and I am just guessing your question is, do you have a permanent impact on the margin profile of the organization going forward because of the change in product mix? The emphatic answer to that, from my perspective is, no.

Sanketh Godha: So, sir, you are confident that by the end of the year, you will be still in the 25%, 26% range by end of the year?

Prashant Tripathy: Unless there is a wave 3 or wave 4. So, those things aside I think as management we are reasonably comfortable that we will be able to come back to the numbers. The first quarter low margin number is a phenomena that you will see for Max Life Insurance every year. If you go back last four years also you will see the same phenomenon.

As things stand in the month of July, August significant steps have been taken by our bank partners, our sales to rebalance the product mix in a manner that the margins will get optimized. So, I am reasonable level of confidence that we should be able to come back to margin numbers that we delivered last year overall.

Sanketh Godha: And the second question was basically the interest cost on NCDs for the funds which we have raised, how much likely impact it will be on the margin for EV because it was such a permanent cost which will have in our forecast going ahead. So, likely impact of in terms of margins, if you can just tell me that will be also useful in that sense assuming the product mix remains very similar to what it was in at the end of FY21?

Amrit Singh: So, Sanketh, you know that this is surplus capital only. So, obviously we have a strategy of deploying this capital in similar yield generating assets. So, this cost drag is actually very insignificant because if I have raised it at 7.5% rate in the range bound which has been investing it immediately and this being surplus capital. So, the drag on the financials is actually very, very insignificant.

Prashant Tripathy: I mean even if you were to push really hard, Sanketh, and talk about say your own rate or whether your own rate will be 7.5 an order, will it be 6.5 you know 1% delta on Rs. 500 crore number is like Rs. 5 crore, it is insignificant to any asset.

Sanketh Godha: And finally, we are saying that we are going to increase the prices from July onwards. So, is it driven because we had one more round of reinsurance rate hardening or is it because of the divergence at the current price with respect to mortality on our own without no defect from the reinsurance we are increasing the prices, I just wanted to understand the color, why we are approaching that by increasing the prices?

Prashant Tripathy: It is to factor in some of the price increases from the reinsurance companies, which is what we are now implementing.

Sanketh Godha: Okay, so the large part whatever you will increase in July month from July month onwards is largely because of hardening of reinsurance proce, right?

Prashant Tripathy: Predominantly and basically, when the reinsurance rates go up to when we start to reflect in the price, there is generally a lead time. So, that lead time it took us maybe a few weeks to do that, but now, it has been implemented.

Sanketh Godha: And finally, out of Rs. 500 crore, Rs. 234 crore is utilized. You are still sitting on Rs 260 odd crores to take any third, fourth wave kind of an impact on Covid claims, right?

Prashant Tripathy: No, so let me just clarify. I think this is a very important question that you asked, Sanketh, and I will draw the attention of everybody else. You know the wave 2 came in the month of April and May, and some part of June. That was wave two. Now, when the deaths take place to when the claims are raised, generally there is a lead time so will give you an admission but there will be a lead time. The lead time is six to eight to ten weeks by when you start to receive the claim, people intimate you then you inform them that these are the documents which are needed.

So, head back and forth actually takes 10 weeks' time. So, then you expect the peak to come and then the peak to settle down. So, the claims that you see that we have handled until June may not be all the claims of Wave-2. We expect that Wave-2 claims will come, and you would have seen in some of our peers' disclosures also they have made provisions etcetera to take care of claims of wave two. So, this Rs. 266 crore is not about wave three or wave four etc. Some part of that will get utilized in wave two also because we are expecting that the claims will continue to be kicking in somewhere in July and August also.

Sanketh Godha: Maybe a last point if I can squeeze related to this question only. So, sir, given you are already 50 days past the second wave of the first quarter. Have you seen that Rs. 266 crore will be fully utilized, or you will still carry a buffer by the end of the year? That is the only question I had.

Prashant Tripathy: Very hard to say because we are still seeing wave two claims coming. Some of the Wave-2 claims are still coming. Until we have some visibility on whether the claims have vanished or has completely gone, etc, very hard to comment. Sanketh, I will give ourselves perhaps a few more weeks, like I mentioned to you, it is like a normal distribution curve where the peak comes six, eight weeks after the death has taken place. But the tale of the normal distribution just continues for little while. We have to wait for maybe four or five weeks to completely ascertain how much of that we are consuming.

Moderator: Thank you. We have the next question from the line of Nitin Aggarwal from Motilal Oswal Securities. Please go ahead.

Nitin Aggarwal: So, just continuing on this, like the recent provisions that we have now listed, do you think that this will be sufficient because as you were indicating like 8 to 10 weeks is what it takes and the wave 2 was there is two more till June. So, this much provisioning be enough and any color on IBNR claims that you can provide?

Prashant Tripathy: Yes. Basically IBNR is on the basis of expectation of the claims which we are expecting, and that is generally a part of the financials. So, I will just refer it subsequently to Amrit to talk about the IBNR, but this Rs. 266 crore unfortunately very hard for me to say whether this is going to be enough because claims continue to come. But I think I am reasonably sure that we will be able to keep it P&L neutral with the help of these provisions if required some more provisions, which are already in the balance sheet to take care and make it P&L neutral as far as Wave-2 concerned. So, we are seeing from a profit and loss statement perspective, we feel

that we are reasonably confident that we will be able to manage Wave-2. Over to you, Amrit.

Amrit Singh: So, on IBNR, firstly IBNR is actually computed basis how the past trends of delays actually are. And that is the logic which is kind of use. As we sit in the first quarter end, we would have IBNR of around Rs. 150 crore plus kind of a number.

Nitin Aggarwal: And a question on protection business like this quarter like, we have seen typically say almost a 50% higher ticket size in terms of claims that we are seeing on the protection side. Does this not like look higher while I know that most other companies also have reported an increase in ticket size in terms of claims that they are received listed to COVID 2. But COVID 2 was more rural in terms of its like impact. So, these ticket sizes ought to be lower versus what the industry is seeing as a whole. So, just curious on why this divergence?

Amrit Singh: Nitin, so what is your specific question? Are you saying claims and protection have doubled or your question is ticket size of protection policies have?

Nitin Aggarwal: Yes, ticket size. Claims I understand the impact was much more of Covid 2 casualties were higher, but why the ticket size also are like 50%, 60% higher? Because this time, the impact was more rural.

Amrit Singh: So, it is not a sum assured play. And it is neither is it a market or a customer segment kind of a play. I think that has remained fairly consistent. It is a bit of a mixed change, which has happened towards limited pay designs, which you can see from a case size perspective.

Nitin Aggarwal: Okay. And lastly on the tariff hike for you. Like we have not taken any tariff hikes during the first quarter. Because if I look at the average CSI, the protection ticket size is like up by 35% for the quarter. So, have you taken any hikes during Q1 also?

Amrit Singh: We had an introduction of a new product. And Q1 typically is a transitory period also, Nitin so we had an introduction of a new product, which was at the margin a little higher, from a price perspective, not significant, but the significant price hike was taken in the month of July, at the start of July.

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

Madhukar Ladha: So, first on this COVID claims bit. Can we quantify what is the total net COVID claims for Q1 FY22? And what was it net for FY21? So, by net I mean net of reinsurance what was the hit?

Amrit Singh: So, I think Prashant spoke about this, Madhukar. Firstly, as these claims are trickling down and the sharp Discernment of the COVID marking and a non-COVID marking is taking a bit longer, because we are thoroughly investigating the specific reasons of that as well. But this Rs. 234 crore, which has been utilized, you can largely attribute towards COVID claims actually.

Madhukar Ladha: And we not created any additional reserves, right? So, it is just Rs. 500 crore, no additional reserves were created in this quarter?

Amrit Singh: That is correct.

Madhukar Ladha: Okay. And one question I had on the group credit side. So, I think that still a very small percentage in our APE mix. And I think we are still largely group term insurance, correct me if I am wrong. But given now, I mean, with this Axis partnership, we know that Axis also uses other partners. Is there any change in thinking towards moving more business and credit protect towards Max Life?

Prashant Tripathy: As the group term Life is a yearly renewable thing, whereas credit life is a single premium paid for many years. So, while in terms of crore of rupees which is premium received, we do significantly high credit life but then you make the APE adjustment, which means you leave the yearly renewable as it is, and you divide the credit life by 10, it starts to appear a bit smaller. So, just to clarify in terms of numbers of crore, we ride significantly higher credit life business. I think the relationship with Axis Bank is very promising. And we have been writing credit life business with Axis Bank for more than a decade. So, they have been always the single biggest contributor to our credit life business. In addition, we have significant relationships with the other bank partners, Yes Bank, and many other partners that we signed up.

Again, like any other organization, we are commercially savvy about this business. We look at profitability and this business has been growing quite significantly. Even in quarter one we have seen big growth come through in the credit life business. So, theoretically speaking, of course one would expect that with our relationship with Axis Bank strengthening, this part of the business will continue to grow. At the same time, I have always mentioned in past that credit life business is a business that we are tactical about, we are not strategic about, we are providers of predominantly individual policies, and that will remain our focus area. So, this part will grow. You would expect that with Axis Bank coming on board we will get the impetus. But a large part of our margin drivers will continue to be individual business.

Madhukar Ladha: Sir, can you provide a sort of a split if it is possible in the credit protect business, what percentage of it is coming from Axis?

Prashant Tripathy: Close to about 60% comes from Axis Bank.

Madhukar Ladha: Okay. And I think amongst our peers, I think we are the only insurance company that has seen an increase in the individual protection reinsurance rates. So, I just wanted to understand that, why is that the case? Is there anything specific in our business as a result of which this has happened? Or it is just a matter of time that even others probably foresee something of this sort?

Amrit Singh: Yes, so among the peers I am assuming you are comparing the top four. But on a generic trend for the industry, I would say that that statement might not be true. Because this hike is kind of come across other players as well. Now among the top four, two of them, I think, given the lay of land for them, where they do not operate in an open architecture environment, their pricing of the protection product is also very different than how it is for us. Whereas for us, who are actually operating in an open architecture environment we do try to optimize the pricing, keeping all things in considerations around brand, relativestrength, etc to ensure that we optimize for it.

So, maybe some of those players that you are hearing from they are probably indicating some of this. However, in our assessment, it is probably only a timing thing. I think the reinsurers have been assessing the implications of COVID, especially the long-term assessments of that, and some of that they are actually doing as a play across providers. Now specifically is our portfolio any different with respect to sourcing qualities, stringent quality. We have been given to understand, especially in these reinsurance conversations itself that there is no such thing. In fact, we

continue to have a fairly superior overall underwriting quality play in the books, and has been the case, even in the past.

Covid is a recent phenomenon. I think all reinsurers are also grappling with Covid as a recent phenomenon, and what long term implications of Covid will be. And some of that might play out for other players as well.

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

Ajox Frederick: Sir, on retail protection since we are focusing on ROP, why is the growth still lower? Because some of the peers who have been focusing on ROP are doing much better than the others who are focusing on pure term. So, what are your thoughts there? That is one. Again, an ancillary to the question to that is, since we are going ahead with the rates hike, that would have factored in the probable mortality risk in future as well. So, why are we going cautious again, given that the rate hike has happened? So, those are the two questions on protection.

Amrit Singh: So, Ajox firstly, I think the ROP proportion for us remains fairly constant over a period that you are comparing. So, that is not as if that we have increased ROP within our mix, it has remained largely constant. So, there is not a play off saying that we have increased the ROP, and hence overall value should have increased.

Now, coming to your questions of why we are going cautious about it. I think wave 2 was clearly grave and fairly unfortunate. And as we have seen so far and more and more data kind of keeps coming through, we are seeing the intensity to be almost three to four times of how the wave one intensity was.

Now during these times, actually it is imperative that the protection book that we are onboarding, we have just enhanced the diligence of it. We used to practice tele medicals and video medicals, where a doctor would speak with the customer. We have modified it a little bit of that, and we are ensuring that actually all customers undergo a necessary medical test so as to ensure that, we are onboarding good quality lives, especially during this uncertain period of the pandemic, which is ongoing.

As things will progress in future, I think the pace at which vaccinations are happening the efficacy of vaccinations is something that we are watching for. And that is the reason we are actually building additional prudence. Even globally, you see, there is a resurgence of wave three, which happened. And though from a mortality perspective, the implications were far lesser, though the infection rates are higher. I think it is just for us to wait out and pan out because you will recall all of this quarter was the quarter when actually both in the month of April and May, the pandemic was at its highest actually.

So, we would like to wait out and see out for a couple of more quarters to see how, the pandemic actually behaves and the implications of pandemic.

Prashant Tripathy: But overall, I must reiterate for the benefit of everyone and especially answering your question that protection is a very strategic area for Max Life Insurance, we have called that out as a key area where we want to grow. We will continue to drive our way through and increase the share of protection, we will always work towards coming up with competitively priced products which can help us garner market share. And we will work with our reinsurance partners and our underwriting process to make it more frictionless. So, that commitment just continues. It is more tactical, keeping in mind the wave two came keeping in mind some of the uncertainties right now. It is

not as if we have stopped writing protection business, as you can see, in terms of percentage individual protection business, in terms of percentage of sales, we are still very competitive.

Our run rate in quarter one is actually more than quarter three and quarter four. So, we are showing protection with confidence. It is just that why is not it equal to last year in terms of percentages predominantly because last year the demand perhaps was a bit higher than how it is this year and also our underwriting grid after having seen the experience of first wave and second wave and in consultation with the reinsurance providers are a bit more stringent. Needless to say, that is how it should be.

Amrit Singh: I think the two-year CAGR Ajox, if you see it is 35% for us on protection business as well. So, it was on high base that there is a decline. But if you see a two-year CAGR, it is still 35%.

Ajox Frederick: Sir, going forward starting August, you will be challenged with high base on Smart Wealth Plan, which is the non-PAR piece. So, what is our stance there, because just the outlook on non-PAR, because that has been our growth driver or the engine for growth till now? So, what is the view over there?

Prashant Tripathy: So, there could be quarters or months of up or down really, I mean, at my level, at our level, we do not worry too much about it. The business you know last year, we made significant improvement in our margins, we went from 21% odd or to about 25.2%. The objective this year, like I mentioned in response to the first question will be to maintain or improve the margin at a total level for the full year.

So, the other element that we have is try to drive sales growth. And you would have seen that in first quarter, we again gained market share, we are trying to keep the sales propped up so that overall, we are able to grow our VNB. So, at a very high level, despite a very high base effect and you may recall that with respect to peers who were more in the range of single digit growth on VNB, we grew 39%, despite on that higher VNB growth the businesses were very confident, and we are working towards diving further with a very strong double digit growth rate at least aligned to the sales growth numbers. So, that is really the strategy for this year. And sitting today, just over the hump by the horrendous first quarter, where all the business struggled, we are sitting in July, and that is the level of confidence that we have that we will be able to churn these numbers, and we will be able to maintain our growth trajectory.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: I have two questions. My first question was more on the group protection business. We see some of your peers are fairly optimistic about it, while some would become more cautious. Just wanted to know your stand on this particular product. And how do you see this growing and what kind of profits can one assume to make in this business?

Prashant Tripathy: I can tell you basis all my experience of close to 15 years in the business that, especially if you are looking at Group Term Life, which is the GTL business, which is employer employee kind of business, there may be tactical opportunities for any companies to participate and maybe prop up some bit of recovery or say profit for this year, but I can tell you, that kind of profit may not be sustainable, because once the COVID settles, and the employers go out in the market to take quotes, there will be competitive quotes. So, really some of these margins are not sustainable. Now,

having said that, is Max Life Insurance quite focused to tactically leverage the opportunity which and through price take more risk? The answer to that is also, yes. In fact, in some of our policies, we are trying to do that.

But is that a sustainable strategy, which will continue to churn through EV to companies over a long period of time, I fear that that may not be possible. On credit protect business, of course, that is a sustainable business, it is similar to individual business just like it comes in form of group, but it is more individual than group. Where of course, sustainability will be similar to how it is.

Anirudh Shetty: Okay, and my second question is, I just wanted to understand, going through your sensitivity tables, and I thought that your VNB sensitivity to reduction in risk free is negative seven. So, I just want to understand what is the reason for that? And I do not know if it correlates with this, but your non-PAR book is about 33%. So, just wanted to understand what is our hedging strategy over there?

Amrit Singh: So, sensitivity actually on VNB sensitivity especially, it is a mix of the product that you are driving par, non-PAR etc. And it is a point in time kind of sensitivity. It does not take into a consequent action that you can take with respect to repricing your products or let us say adjusting the bonus rates from a PAR policyholder perspective.

So, if that interest rate had to move, it does not mean that we will end up actually having a decline of VNB of that number because we will take consequent actions with respect to pricing to ensure that those corrections will happen. So, that is the first point.

On the second one on hedging, ever since we have been writing a non-PAR business, we have been hedging this particular business and at the initial period of time we used to use tools like interest rate swaps. At this point in time the dominant strategy for hedging is Forward Rate Agreements. From a capability perspective, as an organization we have capability to use IRS, IRFs, FRAs. Even some experiments on partly paid-up bonds etc. But the dominant strategy in play right now is FRAs - Forward Rate Agreements and we do hedge our non-PAR business adjusting for persistency assumption to the full. And this hedging happens actually on a monthly basis so all the months that has been taken will get hedge.

Moderator: We have lost the line for Anirudh. We will move to the next question. That is from the line of Hardik Shah from SBI Mutual Fund. Please go ahead.

Hardik Shah: So, I have a question on reinsurance. Basically, given the experience of the claims, have you changed your reinsurance strategy in terms of how much of your terms business or life protection business will you be reinsurance?

Amrit Singh: So, Hardik, the reinsurance strategy remains the same. In case of term business, see it at almost 80% of our business to the reinsurer it has remained similar. Even on the retail side, the reinsurance strategy has remained the same. So, no change in the reinsurance strategy.

Hardik Shah: And in terms of solvency, now that you raise the sub debt, it is around 214%. So, is there any internal threshold of when you will again require to raise this capital? Or how long would this last?

Prashant Tripathy: We generally target for 170% and above, though the breach as per the regulatory norm is 150%, we generally target 170% and above and that is on the basis of a very detailed analysis that our Chief Risk Officer does. And it is a dynamic number. So, 170% and above I think with the growth that we are anticipating, we hope that this

will be good enough for at least next couple of years, but it completely depends, as things stand with Axis Bank coming on board, we are reviewing our strategy, we are reviewing our growth strategy, we will review our product mix through this year.

So, depending on the outcome of that strategy exercise is that we are undertaking. This may change up or down, but I can confirm to you that if we need capital in the business that will be available through equity and (b) it will all go towards growth.

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

Adarsh P: So, I was saying is pre and post all these tightening that we have seen on protection right it has been like 12 months to 15 months or maybe 18 months. Where is the protection margins and what is your outlook right let us say before this tightening and where do you think we end up on a normalized case basis?

Prashant Tripathy: Generally, we do not disclose margins at a protection level, but they continue to be similar. There is a target that we typically look at. And as and when the margin comes under pressure, we will increase the prices to maintain that level of margin.

Needless to say, there is a bit of competitive play also, which could tactically make us operate in a price range, despite having a lower margin, etcetera. But one has been reasonably successful with a target approach, and we are able to manage that because somehow with all the reinsurers and with the experience, it settles at that range. I would like to confirm that on protection Max Life Insurance will be focused and we look for that kind of margin numbers.

And the experience of last four, five years just that we will be able to hit that. As far as price increase etc is concerned Adarsh, unfortunately a very, very philosophical subject. For example, the big issue is to determine whether the COVID death claims are one off or permanent. Because if they are one off, if it goes as a part of pricing because you will be penalizing people over a very long period of time, and we will charge them much more than what they ought to be paying.

But if it is permanent, then we ought to be increasing the price. But how do know whether it is permanent? So, only time will tell. Perhaps we should be able to circumspect, continue to monitor, work with reinsurance companies, look at tactical price revisions. And at this point of time, our belief is that COVID is a one off, and it should get settled. And with all the reserves etc, that we typically carry life insurance company, we need to manage that and hopefully build those reserves again for any such future pandemic if it were to come through. But at this point of time Adarsh, I am not too sure if COVID has caused a fundamental increase in in the mortality profile of Indians, because that will evolve over a period. If that has happened, of course, is the business case to increase prices permanently.

Adarsh P: And the second question, the whole system and even Max is kind of seen margin will go up because the non-PAR mix in the last 12 to 15 months have kind of gone up right and now, we have already majority players say that there is a point at which you do not want the mix to go up beyond a point. Have we come to that point as a business and then that lever is exhausted and on the protection side, we are seeing some still the industry consolidating a little bit going through this tightening? What is the lever from a product angle?

Prashant Tripathy: From a non-PAR perspective, Adarsh, on a non-PAR saving perspective; I have always maintained that we typically target a number of 35%. That is our kind of appetite basis. So, that number is around 35%. So, in the first quarter, we were lower

than that. So, there may be an opportunity to shore up a bit on the non-PAR business.

On protection the belief that all of us have collectively as a group is protection is the core part of any life insurance company providers. So, there is no point putting any cap on protection. We should write as much protection as possible provided sufficient risk management practices are involved. We also hedge our protection book. I do not know, we said that, but we hedge our protection book.

So, overall, we will try to increase the share protection margin now. COVID definitely is a one-off event and a pretty severe one and that is why we are trying to be circumspect about it, but once COVID settles I think the overall desire and aspiration towards growing the protection business will continue.

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

Abhishek Saraf: Most of my questions have been answered. Just wanted to understand on the claims that we had Rs. 236 crore so basically, we are saying that those are the net claims right and since we are kind of reinsuring around 80% of our books so gross claims could have been in the handle of around Rs. 1,300 odd crore. Is my understanding right on that sir?

Amrit Singh: Rs. 1,300 crore, Abhishek, where did you get the number, Rs. 1,300 crore?

Abhishek Saraf: Yes, the kind of reinsuring 80% of ours?

Amrit Singh: No, but that is only for the protection business, Abhishek. There is other parts of the business also, the savings part of the business.

Prashant Tripathy: So, overall, it is close to 50:50 overall.

Abhishek Saraf: So, this Rs. 235 crore is net off we have retained on our book, and which will make a net off what would have been passed on to the reinsurers? And the balance Rs. 260 crore is also on a net basis? So, that understanding is correct?

Prashant Tripathy: Yes.

Abhishek Saraf: And the second question was on the protection price hike. So, probably I might have missed when it was discussed. So, what was the quantum of price hike that we took, and did we take it across all of our protection products or few of them? And in this line, as we also have been hearing that on group side, protection price hikes have been coming. So, if you can just share that what has been our experience on the group side as well in terms of price hikes? And the number that you can share? That will be quite helpful.

Amrit Singh: So, first question on the individual side, Abhishek. We actually deploy, pricing is a bit of an art and science that has to be kind of played through and it is actually done across sum assured, age groups, the variant of the product, the length of the product, etc. So, there could be certain places where there will be a very nominal hike, but it would have ranged anywhere between let us say 4% to 8% kind of a number happening across cohorts of our products. But it is giving a single number will always be very difficult. It is actually a triangulation of multiple things, which happens on the price hike that is typically done.

Now your question was on group. On group, term life business obviously has gone through significant price hike. Term life business, as you are aware is a single year business. And you kind of cover for a single year risk that is in place. And in single year business, given the pandemic situation, those price hikes have to be done. And even in a large part of our business, all the policies that we have pricing, we are pricing for the eventualities that could be there. And that is how the group term like pricing is happening. Credit protects policies we are in conversations, again this will be dependent upon individual account. There is no single number that I can speak about the group credit policy. It will be dependent upon a kind of book, loan, years of the underlying asset and also the kind of profile of customers that they deal with.

So, it is a varied number. Needless to say, as Prashant mentioned, it is a commercial enterprise, which is trying to also ensure the profit profiles are protected. So, those decisions are made basis, some of those considerations.

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

Nischint Chawathe: You seem to be alluding to the fact that you might go a little slow on protection business over the next couple of months. And there is some kind of a base effect that is playing out on the non-PAR side as well. So, what gives you confidence to maintain sort of a flat or 26% kind of a margin for this year as well?

Prashant Tripathy: Because this question is coming again, again, I just gave a clarification saying that if you were to look at our margin last year, we hit about 25.2% margins. And quarter to quarter three were really good quarters for us to do significantly higher margin business. We increased the proportion of non-PAR etc. So, from that perspective, your observation on overall margin profile appears logical. But we understand that this year we are growing year-on-year on our sales.

When we grow on the sales there is the VNB increase that comes if you are able to maintain the margin. Number two, is the trend that I am seeing already. I mean, we just finished July. July numbers are not audited, etc and I cannot share that with you. But that number is closer to the number that we did for that year. There is an increase already taking place.

The third one is we are not going slow on protection. If we were to see our protection versus competition, I think we are going strong. Maybe it is a bit lower, but other people have gone significantly lower. And with that virtue on our direct channels on aggregators, etc, we continue to maintain the pole position. So, it is just that it is taking a bit longer to issue, etc, but we are not going slow. And if you were to look at last year, you would have seen that starting from quarter one, quarter two, quarter three, quarter four the overall protection as a percentage of our sales was going down. So, in a way, how the future will unfold is going to be similar to how it was last year. In view of all the parameters that I mentioned to you, we are confident about maintaining the margin at full year basis. Again, there will be quarters and it will go up or down depending on how it was last year. But overall, for the full year, we are reasonably confident of being at the same level or better than how we did last year.

Nischint Chawathe: And what kind of an APE growth would you be kind of looking for?

Prashant Tripathy: That is a great question. Actually, we grew 19% year-on-year. It was a very difficult year. We significantly captured market share. So, we are on a higher base effect. And I like to highlight that to everybody. On that this year so far, the growth has been robust. And I am just hoping that we are able to repeat similar or better performance than last year. It is very hard for me to comment the exact percentage because we

are not sure. But one, this looks at the inputs, our own channels have started to grow back much stronger, just after the wave two got finished. Every month, I am seeing improvement in the growth profile of our own channels. We have our new promoter, who has been our distributor for a long time. They are promoters they are participating in the value, wellbeing, governance of the organization and we will get tailwinds from there and overall, we have a base effects favorable base effect playing out from Yes Bank. So, I think our input level has been very comfortable of our growth prospects, especially on sales levels.

Moderator: Thank you. The next question is from the line of Sriram Rajaram from Ratnatraya Capital. Please go ahead.

Sriram Rajaram: Sir, what will be your online hits in terms of the overall premium and if you could split that in terms of how much will be the share of aggregators for the direct online from?

Amrit Singh: The online business for us actually has grown at around 51% over last year and a two-year CAGR also of around 41%. It would be of our business around in the range bound of 4% in this quarter.

Also, the question on mix, we actually do, it is not more like a 50:50 kind of a sourcing. 50% happens through our own digital assets, which is the consumer landing on to Max Life Insurance page and 50% happens through the aggregator ecosystems and other ecosystem that are in play. We typically have participated only in the protection business in this particular category that has been our focus area and that always we have been assuming leadership position from a market share perspective in the online protection space.

Sriram Rajaram: That is helpful. Just to add with that would that mix largely remain the same 50:50?

Amrit Singh: I think because the opportunity and the pace at which this channel is growing, that opportunity remains and both of them grow at a very healthy CAGR. So, I would say that efforts would remain to ensure that we are very diversified with business on our own websites and our own assets as well. And even also keep looking and evaluating an opportunities in the aggregator and ecosystems that kind of comes into play. It is difficult for me to answer that question very specifically that the mix will remain same, but our focus will remain similar to ensure that we are tapping into whatever opportunities and pools are becoming available where the customers are coming through the digital doors.

Sriram Rajaram: So, the aggregator channel would be a focus area for the company?

Amrit Singh: Yes. It continues to be, yes.

Moderator: Thank you. Our next question is from the line of Dhaval Acharya from Kotak. Please go ahead.

Dhaval Acharya: My question is on the lines of annuity and retirement. How are we focusing on that piece? Because vis-à-vis the top three players, we are probably lagging there? So, what is our outlook?

Prashant Tripathy: Yes. Your observation is absolutely right. That is definitely an area of focus. Internally this year, we are looking at growing both the businesses annuity/retirement and rider. Those two we have identified as an area of growth. We are looking at multiple Xs of growth. So, increase it like three times versus last year. We have to pick up pace. We just came out of the board meeting yesterday, and we have discussions around

that also. So, you are right. If we were to look at ourselves with respect to top three on how much annuity they are selling, I think we are going to cover and that definitely is a good opportunity for us. Because as we grow annuity, the overall profitability profile, etc gets better.

So, the answer is, yes. On both accounts. Is that a focus area of Max Life Insurance? Yes, I also added the rider element to it because I believe that that is one more area that we need to focus on. And this year, we are getting a slew of riders approved. There is significant focus, and for the first three months, the rider attachment has gone up manifold already. So, I am very optimistic that on both of these Max Life has an opportunity for improvement and we are very focused to grow there.

Dhaval Acharya: Also sir, in the opening remarks, you did mention about applying license for the pension fund manager, which makes you overall formidable in the NPS and other varieties also?

Prashant Tripathy: Absolutely the right observation. With that we have applied for the pension fund managing new business. We already have annuity service provider license. So, we are going to look at insurance more in the format of ecosystem, not just selling annuity and very excited discussion has taken place at our border level around that.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Jatin Khanna: Thank you, ladies and gentlemen for being on Max Financials' earnings call. We look forward to more such interactions in the future. Thank you once again and goodbye and have a good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Max Financial Services Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.