



Max Financial Services Limited Q4 FY22 Earnings Conference Call May 10, 2022

Moderator: Good day and welcome to the Q4 FY22 Earnings Conference Call of Max Financial Services Limited.

I now hand the conference over to Mr. Amrit Singh, CFO at Max Financial Services Limited and Max Life Insurance Company. Thank you, and over to you, sir.

Amrit Singh: Good evening, everyone, and welcome to the Earnings Call of Max Financial Services Limited for the financial year 2022., our results have been made available on the stock exchange and on our website.

Today, I am joined by Prashant Tripathy, MD and CEO of Max Life Insurance; and also Subrat Mohanty, Group Executive - Banking Operations & Transformation at Axis Bank, and also a nominee Director on Max Life, board from Axis.

I will request Prashant to provide opening remarks and share the progress on Max Life's strategic journey. And then I will take you through the financial performance of Max Financial Services. Thank you. Over to you, Prashant.

Prashant Tripathy: Good evening, and welcome, everyone. At Max Life, we take pride in being a purpose-driven organization. All the areas of our business, namely employee, agent advisors, partners work with the purpose of inspiring people to increase the value of their lives, and this purpose and our values has helped us be one of the most consistent player year-on-year.

Five Year Performance

Our five-year performance has had a consistent track record, and the five-year CAGR is about 16% compared to the industry growth rate of 10% which mean, we have a 6% overperformance with respect to industry over last five years. And our market share has been improving year-on-year and we have maintained our rank of being number 4 Private Life Insurance Company.

Our consistency is woven in our distribution channels as we have grown equally in both Proprietary and Banca channels at 16%, which means both Banca as well as Proprietary channels have delivered equal growth rate over the last five years. Our growth has come with excellent financial outcome for shareholders. We have grown our VNB at a CAGR of 25% and with this rate, we have more than tripled our value of new business over the last five years. In FY '17, our VNB was INR 499 crore, this year, we are reporting a number of INR 1,528 crore for VNB, with market leading business margins. Sum assured is the vector, which is quite aligned to our purpose.



I am very happy to share that we have grown our new business sum assured at 20% CAGR over last five years and we ranked number 3 in the private industry basis new business sum assured in FY '22.

2-Year COVID Experience

Last two years were very different as well difficult because of COVID. As you are aware, there was a big impact, not just on people at large, but also on businesses. And this period actually tested the resilience of the life insurance industry and acted as a litmus test of a company's commitment towards its stakeholders. At Max Life, we were not untouched by the severity of pandemic. The pandemic had profound impact on the lives of many of our employees, agent advisors and their family. Though, we did not leave any stone unturned in driving 100% vaccination for them, we still encountered the loss of a few of our colleagues. While our heart goes out for their families, I am proud to say that Max Life Insurance successfully weathered this storm by honoring the commitment of paying claims to our policyholders to ease the financial burden their families would have gone through.

We clocked, an industry best claims rate ratio of 99.35% in FY '21. We have settled 85,973 death claims in the last two years. Also, while fulfilling our commitment to our policyholders, we did not compromise on robustness of financial outcomes for our shareholders returns. On a two-year basis, we have grown 16% whereas the industry could grow only 9%. Protection business, retail and group included, grew at CAGR of 18%, value of new business grew a massive 31% CAGR over last two years and maintained a healthy RoEV of 18.5% in FY'21 and 19.2% in FY '22. This has been possible only because of the relentless effort of our employees, agents advisors and partners who are passionately driven by the purpose of our organization.

Looking ahead

We believe that overall economy is not out of woods yet, and there are still uncertain times given the geopolitical situation and consequent implications on inflation and consumer demand. Further, we continue to be watchful for potential COVID waves, though we believe that the severity is going to be significantly limited. While we are watching the emerging situation very closely, life insurance segments of Retirement, Health and Protection space continue to offer great opportunities. Overall for Max Life, we remain optimistic and confident about our future, and I would like to talk about the key initiatives of the business for Q4 as well as FY '22.

Predictable & Sustainable growth by building distribution

In terms of our overall distribution build-up, for the first half of the year, of course, there was a deep impact of wave two as you may recall, however, our continued focus on building proprietary channels have yielded strong results in H2, and for second half of the year, we grew 19% as against only 8% in the first half.

Online Proprietary

Our online proprietary business did really well. In last five years, e-commerce grew 6 times and the number of policies sold through online increased from 8% to 21%. We continue to be the leaders in online protection sales and this year we entered savings market as well, and thus the channel grew by 58%. Our success in online segment is driven by our SEO's leadership position, which is best in class, as well as our strong conversion ratios, innovative practices, seamless integration with our partners and our analytics engine.

We are passionately working towards becoming the ecosystem partner of choice. We signed up a partnership with 10 new fintech companies during the year, such as PhonePe, Scripbox, InsuranceDekho, Ditto Insurance, RenewBuy, etc., and also



have worked with some partners to co-create disruptive proposition. Our vision is to continue our dominance in Protection and scale up savings in coming time through our product innovations, new funds and best-in-class issuance.

Offline Proprietary channels

A joint force of agency and direct sales, offline proprietary channels focus on building scale and profitability driven by balanced product mix, which is a source of strong profitability for our offline proprietary channels.

Within, Agency our focus continues towards building top advisors and variabilizing Agency for recruitment volume. Our number of top agents is greater than INR 10 lakh annual business grew by 16% and we increased our MDRT count this year over last year by about 100%. We have also launched Life Advisor value proposition with simplified and strengthened proposition, which should help us further attract more top agents. Being the pioneers in the industry, we have maintained our leadership position with more than 300 active IMF partners and we have doubled our sales through this channel in FY '22. At the same time, the focus on variable agency continues and our variable agency contribution has moved up from 36% to 39% year-on-year in FY '22. Overall agent recruitment also grew by 26% in FY '22. The real testament of these models and initiatives line how these initiatives are leading to better financial outcomes. I am happy to report that in FY '22, we have witnessed remarkable growth in VNB coming from these channels.

Banca and other Partnerships

On our partnership, Axis Bank has grown over 18% over the last five years and grew 15% in FY '22. In the last quarter, the growth was a bit lower predominantly because the high base of the previous year and of course, January was impacted because of the Omicron virus. However, on a two-year CAGR basis, Axis has grown with a handsome 23%. We are deeply integrated with both our large Banca partners' tech-platform, we have interconnected CRM marketplace, new insurance systems who have joined the narrative, and we continue to work with the bank to drive and improve penetration through investment towards distribution, engagement models and overall enhance integration for policy issuance.

Product innovation to drive margins

Product innovation was a big drive for last year, and our focus is definitely towards re-defining cutting-edge product innovations to achieve our aspiration. We added many new offerings to our fleet in FY '22. The key highlights were as follows. Within PAR, we've strengthened our PAR proposition with a product called like Max Life Smart Wealth Income Plan. It's not only helped the segment to grow by 22% but also strengthened margin in FY '22. Our non-PAR was bolstered by introduction of new variants focusing mainly on long-term income, and within ULIP, just about a week ago, we have launched a new ULIP design called, Flexi Wealth Advantage Plan with industry best features of auto debit boosters, which we believe will help us in driving persistency, five-pay whole life variant and return of all charges. This product is expected to fortify our market linked, cross offerings and it also comes with a new ESG compliant policy.

Segments of choice

1. Annuity and retirement

In addition to the regular product within savings and ULIP, there is a lot of focus towards building Annuity and Retirement segment, our focus on Annuity is yielding



exceptional results with about 65% growth in Annuity business in FY '22 with the objective of attaining leadership in Retirement, we launched Smart Guaranteed Pension Plan and augmented our NPS ecosystem with offering across the spectrum of customer needs. We have received certification for registration of Max Life Pension Fund Management Company, a wholly owned subsidiary of Max Life. We are thankful to MCA and PFRDA for their speedy approvals, and we are in the process of putting it all together so that we are ready to start our operations beginning Q2 of FY '23.

2. Protection & wellness:

Within Protection & Wellness space, FY '22 definitely was a challenging year, especially towards retail protection due to reasons that we have been updating you on, predominantly because of supply side constraints owing to COVID-19. Now, those constraints are slowly going away and those related changes seem to be getting completed. We ended the year with an absolute retail protection of about INR 419 crore, which was a de-growth of 12% year-on-year. It was a more tactical item because of COVID. I would like to highlight that in the last quarter, we did manage to grow our retail protection. So a large part of de-growth was until the third quarter led by issues generated by the COVID. But we remain committed to this line of business. This was of course one of the big four initiatives that we are trying within our organization for long-term success and scale-up, and the intent is to make sure that we continue to grow our Protection element.

We also launched a differentiated term plan with industry-first special features like special exit value, premium holiday options and with many such first initiatives, we have grown our retail protection more than 4 times in last five years. We have launched Critical Illness and Disability Rider, which is our play in the health space to tap the opportunity Health & Wellness. We are very happy to see the growth that's the take-up work rider attachment has gone up, and we have seen a massive 64% rider attachment in Q4 of FY '22, significantly higher than the previous year.

Customer obsession across the value chain

On some of the customer measures, we remain focused, customer satisfaction and customer obsession are extremely important to our organization. In FY '22, our 13th month persistency of regular premium products went up by about 120 basis points to 84.8, and the 61st month persistency stood at 50.2, which is year-on-year growth of about 90 basis points. Max Life Insurance also tracked performance on customer experience through Net Promoter Scores (NPS), and during FY '22, we witnessed a 5-point increase from 44 to 49, which is 11% growth on the NPS scores.

Digitization for efficiency and intelligence

As we have shared and we actually held a special session about digitization our efforts towards efficiency intelligence, it's been a key priority item for our organization and absolute necessity to stay competitive. Our play in the e-commerce space actually requires us to really build the capabilities in digital space very differently. Our vision is to be a company that focuses on world-class customer experience through frictionless onboarding, seamless customer service and proactive management of risks in a digital setup that is contemporary, secure and inspirational for millennial workforce. In FY '22, we have implemented various initiatives to achieve this vision, namely 46% of our infrastructure is now moved onto cloud.

We launched mSmart, a sales governance tool for agency that has been well received with 87% adoption within agency workforce, onboarding is made frictionless with new ways of cloud native and intelligent underwriting systems and integration with Banca marketplaces. We have also revamped customer communication by



providing omni-channel customer service experience. We are now addressing more than 1 lakh customer queries through bots every month. We upgraded two large enterprise systems. The first one being an HRMS or HR system on SAP success factors, which just got launched to support recruitment, onboarding, training, performance management, succession planning, leave, attendance, payroll etc. So it covers all the elements of employees. The other one is we upgraded our investment system onto SAP platform because our AUM has gone past INR 1 lakh crore, and we need a very robust platform.

We are leveraging digital and AI to augment employee experience, enhance top-line, optimize effort and proactively identify and manage risk. On new business front, we have built an award-winning solution called VOX Speech Analytics engine for customer insights, sentiment, call effectiveness, agent collaboration and identification of cross-sell initiatives. On purchase and issuance, we have built Risk Analytics engines to identify fraud at policy application phase, which has led to 100% real time risk prediction. On servicing side, analytics will deploy to predict consumers' propensity to pay, optimizing efforts on who to call, which has led to a 3x conversion rate in high propensity leads.

People

People have continued to be the most important element of our business, and as we shared last year we were ranked amongst the top 50 workplaces, consecutively for the fifth year. In 2021, we ranked 18th Best Places to Work amongst the surveys conducted by India's Best Companies to Work For and in the Asia region, we were ranked 55th for the first time. This also resonates with the scores of our annual employee engagement survey in partnership with Willis Towers Watson which shares that our engagement score is 95% plus for the last three years.

ESG

We have started to take great steps towards our commitment to ESG. We have bold aspirations to drive organization towards sustainability goals around four pillars, work ethically and sustainably, care for people and society, financial responsibility and green operations. We have a dedicated ESG management committee towards our ESG actions and initiatives. We have fully integrated ESG in our investment decision-making and have launched our first ULIP ESG fund in this quarter. We have also improved our gender diversity ratio from 23% to 25% in FY '22 and we have set a target of 30% by FY '25. Max Life has also been awarded the Excellence in Gender Diversity at the Fourth D&I Summit, an award by Transformance Forums. We have completed our carbon assessment in all offices and we have identified initiatives to achieve the target of carbon neutrality by FY '28.

I am sure all of you are eagerly waiting for our financial outcome. I am going to hand over to Amrit to talk about our financials.

Amrit Singh:

Thanks, Prashant. At MFSL level on a consolidated basis, our revenue excluding investment income stands at INR 22,084 crore, a growth of 17% in FY '22. The consolidated pre-tax profit for MFSL for FY '22 is at INR 389 crore, lower than last year, primarily on account of reserves created for pandemic and certain one-offs that were recorded in the same period last year. Moving specifically to Max Life update, Max Life individual APE has grown 12% to INR 5,514 crore in FY '22. Renewal premiums grew by 19% to INR 14,509 crore, 13-month persistency as Prashant mentioned, improved by 120 basis points to 84.8 and 61-month persistency by 90 basis points to 50.2.

The gross premium on overall basis has grown 18% to reach INR 22,414 crore. Product mix for financial year '22 remained largely stable and as per our desired mix



with PAR at 20%, non-PAR saving at 29%, ULIP at 37% and protection at 14%. In the first nine months, we have experienced a slowdown in Protection business due to the supply side constraints. However, as the experienced started improving, we released some of the supply side constraints and our total protection business grew at 34% in Q4. Retail protection business arrested de-growth that was experienced in the first three quarters, and it grew by 4% in Q4. VNB is at INR 1,528 crore, a strong growth of 22% year-on-year due to both APE growth of 13% and improvement in new business margin from 25.2% to 27.4%. This improvement in margin is led by a combination of several factors including introduction of more profitable products variants and re-pricing decisions along with scale benefits.

Max Life MCEV is at INR 14,174 crore as at end of March'22, a growth of 19.8%. Operating RoEV is at 19.2%, which if we exclude one-off COVID impact, translates to 20.1% operating ROEV. The operating RoEV is driven largely by value of new business and unwind. We have experienced a negative operating variance of INR 277 crore, which includes COVID impact of INR 108 crore and rest is primarily due to strengthening of mortality assumptions. There is a non-operating variance of INR 64 crore, which is primarily because of positive economic variances experienced during the period.

In financial year '22, gross and net claims were INR 3,170 crore and INR 1,964 crore, respectively. We began the year with INR 500 crore of reserves earmarked to settle pandemic related claim. We took out impact of approximately INR 100 crore in our P&L during the year to settle the excess death claims. Even though severity of COVID-19 has declined as a prudent risk management framework adopted by the company, we are bolstering our overall pandemic reserve to a closing position of INR 500 crore in the balance sheet for any future pandemic like event.

Policyholder OPEX to GWP improved to 13.5% from 14.2% year-on-year. Absolute increase in OPEX was 11.7%. FY '22 profit before tax for, Max Life is INR 417 crore, a decline of 18% primarily due to COVID-related provisions. The profit after tax stands at INR 387 crore. Our solvency is comfortable at 201% and AUM has crossed INR 1 lakh crore mark closing at INR 107,510 crore as on March, '22.

Now we will be happy to take any questions. I will hand over the mic to the moderator to open the floor for Q&A.

Questions and Answers

Moderator: Thank you very much, sir. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Yes, hi, good evening. Great set of numbers. So couple of questions, firstly, on that INR 500 crore of pandemic reserve that you have decided to carry on book, just would like to understand, as and when how this reserve will be released if -- there is no pandemic hopefully, so by what time you will take the call and how this reserve will impact your accounting profitability your EV as well as the solvency capital? That's my question number one.

And the second question would be a more to do with the VNB margin that exceeds the past nine months, so have you sort of changed in any kind of operating assumptions there in terms of the cost of efficiency, have you reviewed and that has led to this sort of a margin expansion? So these are my two questions. Thank you.

Prashant Tripathy: Thank you, Avinash, thanks for complementing the set of results. On the INR 500 crore, I think it's a measure which is more conservative in nature. We believe that for a business of our size, considering uncertainties especially driven by any pandemic right now or in future, it is important to carry some provisions in the balance sheet so that we are able to smoothen outcomes just in case we require to use them. It is a position that the company has taken along with the appointed actuary to make sure that we are keeping some buffer for bad times. I mean, let's put it that way.

Is it going to impact our embedded value? The answer is no. It is not going to impact our embedded value. In terms of how we keep it or release it or going forward, whether or not we build it, that we are in the process of creating a policy, basis which we will handle that.

On your question of 27.4% margins, I think the assumptions are all consistent with how we come up with. There are no big changes made in any of the assumptions. They're quite consistent with how we think of it with our margin consideration impact.

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

Madhukar Ladha: Hi, Good evening. First on the bank channel, I think you mentioned a 16% year-over-year growth for the bank channel. Was that FY '22 or for the quarter?

Prashant Tripathy: We mentioned a 15% growth on bank channel from Axis Bank. Our overall bank growth rate, including all the banks put together will be 12%

Madhukar Ladha: Right. And for the quarter what has Axis done?

Prashant Tripathy: Yes, that's a very good question. Actually for this quarter, our growth was quite muted. However, it has to be seen in conjunction with a very high base of last year. As you may remember, Q4 of FY '21, the growth was 47% and hence -- of course, the growth was a bit impacted also. There was this third wave of COVID, which had a significantly detrimental on sales growth in the month of January where activities actually came down. So for the first nine months, Axis Bank for Max Life Insurance was growing at a very robust pace however, the growth actually came down to 15% at the end of Q4.

I will, request Subrat to add anything -- Subrat, do you have anything to add to this?

Subrat Mohanty: No, I think, Prashant, you have covered it. Q4 had a bit of an impact because of some amount of issues around mobility in the month of January, and also because of the wave.

Prashant Tripathy: Thank you.

Madhukar Ladha: Right. It's good to have the Axis representatives here as well. My question is, within the Axis channel, what is Max's share now? And is that going down and what do you think Max will be going forward? So if you were to look at FY '22 as a year, then what would be Max's share in the Axis channel and then what is our sense of where that number will be going forward?

Prashant Tripathy: Okay, thanks. Really good question. I think it's a conscious decision by our stakeholders, especially at Bank to go through open architecture, because we all believe that an open architecture creates a fair play for the customer as well as provides impetus to growth of all the participants. Just to update you on some numbers, for the full year the overall percentage of counter of Max Life Insurance is

75%. So we at the end of year 75%. On a run rate basis, we are close to about 70% and we are hopeful that we will be able to maintain that kind of counter share going forward.

Madhukar Ladha: And what is Axis's sort of view on it, and because if your current run rate is 70%, what is resulting in this decline? Is it Axis's commitment to Bajaj or is it some sort of product differentiation, what would really make you retain or increase or decrease your share in that channel? I think that is pretty important to understand right now.

Prashant Tripathy: Yes, thank you. Let me go first, and then if Subrat has any additional points, he we will make. one needs to zoom out really to think about it. The hypothesis is through open architecture, the pie will get expanded. And it's not as if the open architecture got started just now, the process of open architecture started a couple of years. And we have seen consistent growth of Max Life Insurance. So the objective is to grow the pie and we have seen the pie growth. If you look at the Axis Bank growth for last couple of years, not just for Max Life, but overall Axis Bank growth for last couple of years, it will be significantly more than the private bank growth rate. My estimate is a private bank growth rate on insurance will be 15% and the bank growth rates at Axis Bank will be somewhere around 35-37%, about 20 absolute percent point more, which is objective of the bank and it is quite well understood.

Hence, Axis Bank has a dual objective or the primary objective is to continue to grow the pie and within that Max Life Insurance being a dominant player will have growth coming through the overall pie. So that's the direction in which we are working. That's the overall understanding. As far as Max Life Insurance's counter share and growth is concerned, it is a complete alignment with the operating team as well as at shareholder levels, so we are going to work together to make sure that the growth trajectory of Max Life Insurance is intact, notwithstanding some of the base effect. I mean, what we saw last quarter was definitely a last year high base impact. Ignoring that I think we will be growing at a pace which is consistent with how we have grown in past.

Moderator: Thank you. The next question is from the line of Preethi RS from UTI. Please go ahead.

Preethi RS: Hi, good evening to Max team. So my question is on the operating leverage. So we have actually outgrown the industry in the last three to four years, but if you see on the cost ratios comparing to the top three peers in the private sector of, we have not seen benefits on the cost as the scale has grown. So could you help us understand what would be the drivers on this?

Amrit Singh: I think the OPEX for GWP has improved from 14.2% to 13.5%. So we have got ourselves that benefit. Now, because the underlying denominator is gross written premium in this metric, scale is extremely important. So some of the competitors that you are comparing us with, the scale has to be adjusted for. And we are in an open architecture environment, we have to invest towards building distribution and distribution strength, and despite these OPEX ratios etc., for many years have been improving our margins and for now, last few years, we have demonstrated strong improvement in margins. These margins are all adjusted for this cost.

Going forward, I think on OPEX, we will continue investing for our distribution strength and distribution muscle, and hence you will see the pace of OPEX investment continue to remain strong given we are desirous of continue building distribution strengthen and our growth position.



- Preethi RS:** Would there be any targets that you would anchor to be in terms of AUM or GWP?
- Amrit Singh:** We don't anchor ourselves on an official GWP kind of a target. I think the VNB on a current cost basis is what we report out, and the margins are also reported out on a current cost basis. That's where we anchor ourselves, and improvement of some of those metrics are more important.
- Moderator:** Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.
- Nidhesh Jain:** Yes. Thanks for the opportunity. Sir, firstly, this INR 500 crore number that we set aside for pandemic, there is no impact on EV out of this number, only in our statutory accounts and solvency, that has an impact. Is that right understanding?
- Prashant Tripathy:** That's correct, Nidhesh.
- Nidhesh Jain:** Sure. Second, can you give the break-up of operating variance. So I missed the number, how much is mortality strengthening and how much is COVID?
- Amrit Singh:** So the total negative operating variance, Nidhesh, was INR 277 crore, of which INR 108 crore is COVID-related, and rest of it primarily is mortality assumptions. There is a small lapse related variance which exists, largely been seen on ULIP portfolios, but bulk of it is assumption strengthening around protection business.
- Nidhesh Jain:** Sure. Sir, one thing that we are grappling with is how to assess the underwriting on the protection side for companies, but there is something including Max Life given we are underwriting this 20-year product, and as an outsider, it becomes very difficult to assess how are individual companies underwriting and whether they are pricing the mortality risk adequately. So given that we have gone through a COVID-related impact, there has been lot of issues in the reinsurance industry as well, how do we assess our underwriting capabilities and how is experience we expect, what are the assumptions on the underwriting side as of now, and how should we think about that in future?
- Prashant Tripathy:** Max Life is a conservative organization, and we continue to monitor claims experience, which is the outcome of underwriting decisions which have been taken. We are working on two counts. Count number one is, how do we improve the process of underwriting so that errors which are more manual in nature, decision related errors could be eliminated and that's the part of BAU a very tactical item. On a most strategic business, I think once the process issues were resolved or we are on top of the process, we true up the mortality outcomes in our assumptions to make sure that they're reflective of most current experiences. We believe that -- and, of course, actuarial team does that, we believe that our assumptions are true up to the current experience, and we hope to improve it.
- Now, the other maker checker that happens in the process is our reinsurance partners. Every year, reinsurance renewal or reinsurance conversations come up where we have to go and share the outcomes of underwriting process basis which the rates are portrayed. So that's another maker checker process that is already in place.
- Nidhesh Jain:** Sure. And so our VNB margins have expanded quite well on a Y-o-Y basis, despite our product mix have remained quite stable. So what explains VNB margin expansion?

Amrit Singh: So, Nidhesh, I had mentioned in my opening remarks, the products we sell remains stable. However, the underlying product and their margins, whether it is on the participating design, the new product that we've introduced, whether it is on non-participating saving design, the new product that we've introduced, which also saw the full-year of those products run through, they were fundamentally most superior margin profile. And even on Protection business, we have been able to, despite the reinsurance changes and repricing right now, hold on and further improve the margin profile. And then, as scale builds up, as you can see overall premiums are up 16% and the OPEX is only up 11.7%, there is some scale advantages as we get in the process.

Nidhesh Jain: Sure, sir. And lastly on the protection, we have seen good growth in the group protection. So is it driven by credit life or it is driven by a group term, the growth that we have seen in this year y-o-y?

Amrit Singh: So it's driven by both, actually

Prashant Tripathy: Yes, credit life growth has been quite robust actually this year. We have seen close to about 55%

Nidhesh Jain: Sure, sir. Because I think there we still have low market share versus our listed peers. And since Axis Bank as our strategic partner, over a period of time should we expect pretty strong growth in that segment over a period of time?

Prashant Tripathy: Yes, you should expect continued growth from Axis Bank and our bank partners. We are quite selective about the kind of business that we want to grow. We are focused on margin and we are focused on ensuring that we take risk, which is as per our risk appetite. So, like I always maintained, this is not going to be a big VNB driver, so this is not going to become a very large part of our VNB, but you should expect continued robust growth in this portfolio.

Amrit Singh: And for numbers, 55% was a Group Credit Life growth and Group Term Life has grown 47%. So to comment on growth continuing is largely in the Credit Life side. On Group Term Life, I would say some moderation will happen because this was a year of pricing for pandemic etc., and as we are now entering the endemic stages and the severity of pandemic has come down, the Group Term Life business will start seeing itself some moderation actually happening.

Nidhesh Jain: Sure sir. And sir, lastly, what is the status of the transactions with Mitsui Sumitomo, remaining stake buyout from Axis Bank?

Prashant Tripathy: Okay, you mean our application?

Nidhesh Jain: Yes, I think there are two steps pending. One is the additional 7% stake Axis Bank will buy – and stake buy out from Mitsui Sumitomo and then selling to Axis Bank. These two steps are still pending, right?

Prashant Tripathy: Correct. The first step, which is the Mitsui Sumitomo buyback is under application. As you know, we were waiting for some of the placements at our regulator's office that Mr. Chairman in onboard and I'm sure with his arrival, there will be a faster process. We are constantly working with our regulators to have that done. Hopefully, over next few weeks we expect that. Once that is done, then the second step of Axis increasing stake will be processed.

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

- Sanketh Godha:** Thanks for the opportunity. My question is again on the margin. So if I do a back of the envelope calculation for the fourth quarter, it seems that the GTL business has almost grew 3x compared to what it was in previous quarter of 4Q. So is this margin expansion is largely led because we did a little more GTL in the current quarter and there is a lumpiness to the business. So that margin what we have reported, can we expect it to sustain if this particular product slows down? That's the point which I wanted to check, though you have said that the underlying designs of the respective products, whether it is PAR or non-PAR has changed and that has contributed to the margin, but just wanted to understand that from nine months to FY'22, the delta seems to be largely driven by GTL business. So trying to understand whether this sustainability is going to remain or not?
- Amrit Singh:** I think, Sanketh, actually for Q4 GCL has largely remained flat the GTL business, group term life business has grown
- Sanketh Godha:** Yes, I mean to say GTL only, group term life business which seems to have...
- Prashant Tripathy:** Sanketh, GTL business is not a part of margin computation for Max Life Insurance. It is a very tactical play, and it just flows through to the P&L. So we don't count that, these big reasons of margin expansions are exactly what Amrit described a while ago.
- Sanketh Godha:** Okay. But the understanding was that the newer designed products were also part of nine months FY '22 numbers because that full benefit was almost available for nine months FY '22, but still there is a decent delta in the margin expansion from nine months to FY '22. So just wondering what exactly led to it, because even if I see individual protection, on quarter-on-quarter basis, it has declined rather than growing in that sense.
- Amrit Singh:** So I'll say two things. Firstly, anyways, because our competition of VNB is on actual opex basis and as you are aware Q4 typically has...a leverage advantage which anyways comes. The second is the participating designs were actually introduced didn't really flow through the entire nine months, they kind of came somewhere around November, December, and hence that benefit also accrued. And lastly, you're asking only a sequential quarter question, so these two are the reason. If you see as compared to last year quarter, you will recall that we had made an INR 88 crore provision in the VNB, then for a one-time COVID impact, which actually doesn't exist this time.
- Prashant Tripathy:** So if we were to really count that INR 88 crore last year also, Sanketh, our margin would be closer to 29%. So, margin has expanded further from that number to a little bit more. And as a result of that, the overall average for the year has improved to 27.4%.
- Sanketh Godha:** Got it, got it. And just this INR 277 crore of operating variance number, you said that INR 108 crore is COVID loss, and some mortality tightening, and maybe I'm assuming there is no significant positive delta coming from the OPEX variance. So then if some part of mortality assumption is getting reflected in the EV, but when VNB is mentioned, I don't see any walk with respect to mortality, as it was in the fourth quarter of FY '21, I don't see anything of that kind in the EV walk. So it's only a one-time adjustment you did for the retrospective book on the EV, not to the incremental business what you have written?
- Amrit Singh:** So VNB, you will recall assumption tightening done at the start of the year itself, in line with how the reinsurance rates were, and then consequently the consumer

pricing etc., were also done. Now for EV, this is impact of only the back book at the year, or whatever is the book which is written.

Sanketh Godha: Got it, got it. And finally, the final question is, you said that Axis Bank grew by 15% on full-year basis, right, if I'm not wrong?

Prashant Tripathy: Our business from Axis Bank grew by 15%.

Sanketh Godha: For the full year FY '22, right?

Prashant Tripathy: That's correct.

Sanketh Godha: And, which means that other banks probably would have declined by 12%, 13%, right?

Prashant Tripathy: Yes. That's correct.

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

Prateek Poddar: Yes. Sir, can you just talk a bit about case size. The ticket size has gone up substantially. If you can. That's question number one. Second is, also, how should I think about VNB margin going forward given that the product mix lever looks like getting exhausted and we have almost had a balanced product mix. How should we think about VNB margins? And lastly on APE growth, if you can comment on the medium-term, how should we think about that?

Prashant Tripathy: So we are going to go after growth very aggressively. Firstly, answering your question on VNB margin, like I have always maintained our outlook, it has to be in the range of 25-26% while we have achieved 27.4%. The outlook is more around 25-26% that's what we have target internally.

For medium-term growth, definitely targeting a number closer to 20%, that's the plan that we are working towards as a part of our business plan. So those are numbers that we are working on. I'm going to just request Amrit to give answer on ticket size.

Amrit Singh: So ticket size, one reason for increase in ticket size on a blended basis is also the reduction of protection business on number of policies. So this year as we mentioned that the protection business has de-grown 12% on value, and similarly, a de-growth has been experienced in a number of policies, and protection business is low case size. So that weighted average impact is one that we're seeing.

Prateek Poddar: But, Amrit which is the break-up, right? You have given the break-up also. I can see ULIP doing substantially, from 145,000 to 168,000. Even on the PAR side, we have 60 going to 81, anything to read into this?

Amrit Singh: 10%, 15% kind of increases on case sizes keep happening depending on the segment that we are chasing. I mean I won't say that those are out of the ordinary. The other thing that also happens is that there is shopping on non-PAR saving move into ULIP etc. So some fact does help.

Prateek Poddar: And when we say, we're targeting growth of closer to 20%, sorry, how should I think about ticket sizes and NOP?

Prashant Tripathy: In terms of our growth rate?

- Prateek Poddar:** Yes, I mean in the sense, will it be more ticket size led or it will be an equal balance or a higher number of policies?
- Prashant Tripathy:** You should think about a fair mix of both, maybe more tilted towards number of policies as against the ticket size.
- Moderator:** Thank you. The next question is from the line of Neeraj Toshniwal from UBS. Please go ahead.
- Neeraj Toshniwal:** Hi, my question is more specifically towards Axis. The wallet share which has gone down, so wanted to understand what is the strategy behind, and will 70% kind of sustain, with now LIC probably also in open architecture model, Axis has, how are we reading into it? And what this 18% five-year CAGR will now come down to 15% kind of CAGR, more with the recent trend we have seen in FY '22 or how should one think about it?
- Prashant Tripathy:** So, as you know and Subrat could supplement further, bank is on an overdrive on growth. The rate of customer acquisition, the rate of growth in the core business is unprecedented and we believe that the subsequent or consequential impact on insurance business is going to be very robust. That's number one.
- The decision for open architecture and the rationale etc., I just described in the earlier question, but we believe that Axis Bank will continue to register very, very strong growth. We have worked with the bank for 12-15 years. This bank is very strong in terms of the ability to do 20% plus kind of growth rate year-on-year for a continued period.
- So, notwithstanding this blip of what you call as open architecture, which I call more as very strong base effect settlement, we remain quite optimistic, and I'd say, along with Subrat who, of course, sits in Board and is our shareholder, that we are very optimistic to be able to register growth at Max Life Insurance on Axis Bank counter. Of course, there are plans to be deployed, collectively work together with operating team of Axis Bank and Max Life Insurance. And we are hoping that as we put our execution plans in action, it will start to churn numbers as 18% or better.
- Neeraj Toshniwal:** But coming to that, will the growth rationalize more towards the first nine months, as we saw dipping and then gradually going down and significant de-growth in the Q4. So the nine months have a higher wallet share of Axis, so the growth upwards of 20% for this year, looks difficult to me. Obviously, in the medium term, maybe getting aggressive on the proprietary channel with the other channel partners, we are looking to kind of grow. So I'm just trying to figure out kind of growth which the rationale how in this environment, you are kind of looking at -- with the Axis kind of moderating in de-growth. So just -- maybe in the medium-term, obviously, we can achieve, there is no doubt, but more from the FY '23 perspective?
- Prashant Tripathy:** I mean, of course, you could say so. We believe that the impact of open architecture will settle as we go along, somewhere during the year, perhaps mid-year or before that. And after that, the overall growth is going to be seen at Max Life Insurance level quite robustly, number one. Number two, we are internally working on plans to make sure that our overall counter share remains robust or grows. So as a result of both, I am very optimistic that we will be able to register the growth. Of course, these are the plans, and one works through the plans. We are trying to be very aggressive about our growth and that's why I said, some of the margin upside you will find to be used as an investment to make sure that we continue to grow.

At the same time, we are making good investments in our proprietary channel. As you know, there is a big project that we've undertaken within our agency area to act on several elements of variabilizing the agency, faster recruitment, growing the top agent count, etc., and we are very hopeful that that part of the business will also start to see growth.

So as a result of this A, aggressive posture; B, commitment to the solution build-up; C, special focus on agency; and D, open architecture now settling at wherever it is, we are quite hopeful that the trends will reverse and we'll start to see growth.

Neeraj Toshniwal: Got it. And coming to protection, in the earlier commentary you mentioned that we have seen some bit of underwriting relaxation happening. So more color will be helpful, how we can get the growth trajectory back as industry and obviously for Max, what are our plans in terms of the growth, both retail and credit protect? Are we now seriously looking into this category? And where the growth can happen in multiples or the current run rate, we can maintain?

Prashant Tripathy: Yes. If you look at our individual protection as a percentage of total, I think we will be one of the top players amongst top life insurance companies. And we have a significant share of counter at digital platforms where we have done reasonably well. Going forward, as I have been repeating, protection, health and well-being as a category is extremely important to us, and it is a part of Max Life Insurance's long-term growth strategy. So needless to say, our focus is going to come back. Of course, some of the underwriting flexibilities are coming back in terms of total sum assured or the means through which we will do. And as a result of this, quarter 4 did see marginal growth. We are very hopeful that as we traverse through the year, quarter-on-quarter, the growth on Protection will come back. Our internal plans are significantly more than the current year.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.

Nitin Agarwal: Yes, good evening, and congratulations on the results. Few questions, like, firstly, with interest rates moving up and now banks likely increasing deposit rate, how do you see the growth in the non-PAR business and margins going ahead and with yield curve flattening out, how do you see the growth in the margin dynamics?

Amrit Singh: Hi. Thanks for the question. With interest rates going up, you would have seen on the sensitivity, if we don't do anything, it kind of leads a margin expansion, but obviously to make a product to stay competitive, we will have to keep changing the IRRs with the product as well. So, we will respond to some of those interest rates hike. We will also improve the IRRs of our non-PAR design so as to continue for them to kind of remain attractive as compared to some of the deposit rates. And there is advantage of tax that anyway the consumer gets on a non-PAR rate. So on tax adjusted basis, the rate continues to remain up.

So what that consequently means is that you know I don't necessarily capture the margin expansion. I will remain largely margin neutral. The proposition of guarantee is an evergreen proposition. In a portfolio from a strategy perspective, from a consumer segment perspective, there is always an appeal for a long-term guarantee, which only our category is able to provide. And that advantage and that ability to find the customers' needs, I think it's fairly robust. It doesn't really matter what the environment around interest rates look like.

Nitin Agarwal: Okay, sure. And in context for Banca sales, with Axis, this product is seeing like a market share loss. Is there any specific product wherein growth has moderated, ULIP, PAR or anything specific that you can mention?

Amrit Singh: It's very secular. From a product perspective, we compete across all product categories. Our product propositions are very superior. It's a secular thing. It's nothing to do with a specific segment that we would have lost the market share relative to competition.

Nitin Agarwal: Okay. And lastly, if you can also share details on the reason behind the positive non-operating variance. Small number, of INR 64 crore that we have reported, because the EV sensitivity to the rising rate is slightly negative. So what has driven this?

Amrit Singh: So there are two things. Obviously, EV sensitivity is negative because of the increase in interest curves, the EV moves in a reverse direction. But we also have watched for certain realized gains during the year. And also, the unwind because unwind captures the management expectation of interest rates. Anything which is over that unwind, actually comes into non-operating variance. That has been positive with respect to the interest that has been risen. That's the reason, largely, for this positive variance to come.

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

Abhishek Saraf: Yes, hi, thanks for the opportunity. So just two questions. One, basically on our Credit Life stance. So, if I recollect right, so we used to have more of a tactical approach towards Credit Life, but now going by the commentary, it appears that we see it as a much more structural opportunity, and if we guide for very high growth, so just if you can share some thoughts around that?

And secondly, on the COVID reserve, few of our large private sector peers have actually seen COVID reserve releases. And we have kind of raised it to around INR 500 crore similar to what it was last year. And if I take the COVID impact in EV walk of INR 108 crore, so total impact was around INR 608 crore in a year where we had two waves. So while it is good to have a conservative stance, just wanted to understand, where we are a bit different from other players who have seen COVID reserve release? So these two questions will be very helpful.

Prashant Tripathy: Yes, on the first one, our stance on GCL remains tactical. However, with our partners, we do have business and we'll continue to work with them. So really like I mentioned to you, we are not going to build GCL to be a very significant part of our VNB. Our VNB is going to remain mostly retail related, question one.

I don't think you should call it COVID reserve. You should call it pandemic reserve or catastrophic reserve. Being a conservative organization, if you want to have some bit of reserve built for unforeseen circumstances, unforeseen events, etc., which we will continue to hold for as long, because these are events that happen in decades.

Amrit Singh: Yes, and I will just add on to this. The COVID severity and the mortality has declined quite sharply and we are not seeing any variances with respect to COVID deaths coming in for many months now. So this should not be seen as something that has been created for COVID. This is actually pandemic for the future. It just the side of the balance sheet, certain reserves around catastrophic and pandemic should be maintained. And we wanted to ensure that we can return to that mean position as we entered the COVID two years back when we experienced the pandemic.

Abhishek Saraf: Sure. That's quite helpful. If you can just help me with one number, what was the share of Axis in this quarter in the overall APE?

Prashant Tripathy I don't have that handy with me.

Amrit Singh: Abhishek, I'll have it sent to you.

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

Nidhesh Jain: So just one data keeping question, what is the back book surplus adjusted for COVID, impact for FY22?

Amrit Singh: Back book surplus, you are asking for it after the adjustment?

Nidhesh Jain: Yes, because back book is flattish or declined in FY '22

Amrit Singh: After adjusting for the one of the back book has grown by 14%. I don't have a specific number handy, but the back book has grown actually 14%, adjusting for this.

Nidhesh Jain: Yes, back book surplus. So, last year was INR 1,242 crore. That is up 14% this year.

Amrit Singh: Yes.

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

Abhishek Saraf: Thanks for taking my question, again. So I just missed asking one more thing. So if I heard it right, sir, you mentioned to an earlier question, the VNB margin guidance of around 25% to 26%, is that right that I heard? given that we have seen 27.4% this year.

Prashant Tripathy: I mean, really my guidance, if you ask me, will be more in 25-26% because we do want to make the investment towards growth, and that will come at the cost of some bit of margin sacrifice. Also, market and competitive forces will continue to resist significant growth in margin while there'll be all attempts to maintain the margin, but for your analysis purposes, I will say -- peg you more between 25% and 26%.

Moderator: Thank you. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: One question, whenever this happens, your buying of 5% stake, 5.2% stake from Mitsui, and then giving Axis Group, 7% stake broadly, so what will be the sort of accounting impact of that transaction? Because I guess you will be buying from Mitsui, it's around 85 per share of Max Life, and in the previous tranche, you have given to Axis around INR 32, INR 33. So what will be the accounting treatment of this transaction when it happens?

Amrit Singh: I guess you're asking from MFSL perspective on this, right?

Avinash Singh: Yes.

Amrit Singh: I will respond to you separately on that, with respect to the accounting details of that.

- Moderator:** Thank you, the next question is from the line of Madhukar Ladha from Elara Capital. Please go ahead.
- Madhukar Ladha:** Hi, thank you for taking my question, again. Are there any additional approvals required for Axis entities to increase stake by 7%?
- Prashant Tripathy:** Yes, we will have to go to IRDAI and seek approval because any equity stake more than 1% requires a pre-approval from IRDAI, but we believe that as part of our overall filing it was a disclosed items to IRDAI. So we feel that it should be okay and it may just happen very quickly.
- Madhukar Ladha:** Right. And can you give us some color around margins for protection in non-linked savings and linked savings as three separate category, or Protection was Savings margin? Some sort of color there that would be helpful, and how that has moved year-over-year?
- Prashant Tripathy:** Generally, that level of detail is not a part of our disclosure, but I will say all our margins are quite robust.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the Management for the closing comments. Over to you, sir.
- Amrit Singh:** Thank you, Steven. And thank you, ladies and gentlemen, for being on Max Financial earnings call. We look forward to more such interaction in future. Thank you once again and goodbye from the management team.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Max Financial Services Limited, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.

-End-

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