“Max Financial Services Limited

Q3 FY '23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Max Financial Services Limited Q3 FY '23 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Amrit Singh: Thank you. Good evening everyone and welcome to the earnings call of Max Financial Services for the quarter ended December '22. Results have been made available on our website as well as on the stock exchange. I'm joined by Prashant Tripathy, MD and CEO of Max Life Insurance, request Prashant to share key developments of the last quarter.

Prashant Tripathy: Good evening, everyone.

Transaction Update

Respect to sale of up to 20% of equity share capital of Max Life to Axis Bank and its subsidiaries. Our plan included a series of steps to be taken to and the second last step of Max Financial Services acquiring balance 5.17% of Max Life Insurance stake from MSI has been concluded. Post this transaction, MFSL holding in MLI stands at 87%.

Now as the next and last step, Axis and its subsidiaries have a right to acquire additional 7% stake in Max Life Insurance. In this regard, we would like to inform you that the parties had entered into revised agreements, in terms of which Axis Bank and its subsidiaries have the right to purchase the balance 7% equity stake of Max Life from the company at fair market value using discounted cash flow method instead of valuation as per rule 11UA of the income tax rules 1962. This revision has been done consequent to the guidance received by Max Life from IRDAI.

1. <u>Predictable & Sustainable growth by building distribution:</u>

In Q2, we had announced a series of tie-ups with new distribution partners, and we continue to successfully navigate the trajectory of enhancing our distribution capability in this quarter as well.

In Q3, we have tied up with Ujjivan Small Finance Bank and have entered into a relationship with two new brokers from renowned financial services group. The contribution of business from these partners will become meaningful in coming years, and thus, we are hopeful and confident of projecting a sustainable growth for Max Life.

In first 9M, our total new business premium grew by 7% to INR 5,640 crores. Our proprietary channel APE resulted in a growth of 19% for the first 9 months, led by strong growth in both online and offline crop channels. Within online channels, we grew by 26%.

In Protection category, we entered into new segments of NRI, homemakers and self-employed customers, which now contribute about 20% of term business on a run rate basis and has strengthened our leadership position in protection market, both on our website and partner channels.

Online savings market, we launched an industry-first short-term savings product with best-in-class returns to fuel our ambitions of becoming leaders in this market. This led to about 100% growth in savings run rate and enabled us to grow online savings portfolio by 4x year-on-year in the first 9 months of FY '23.

Offline channels, we saw a growth of 18% in the first 9M, supported by growth in agency and direct channels. Within core agency, we have launched a program called, Way of Working (WoW) with our consulting partner and we are trying to build discipline on input vectors. We witnessed 38% year-on-year improvement in recruitment and 21% improvement in new agents performance in Q3. Our direct customer acquisition channels also witnessed improvement in frontline seller productivity of 17% and headcount growth of 11%.

Banca channel de-grew by ~9% in the 9M FY'23 due to full-blown impact of open architecture and overall general slowdown observed in banking channels. The base impact of counter share is now almost ended and we expect growth to come back in Q4, in line with the overall growth in bank channels. Max Life share in Axis Bank is being maintained at close to 70% since January of 2022.

2. Product Innovation to drive margins:

Max Life has successfully created a new product category in online savings, homemaker segment, NRI, self-employed and has accelerated product innovation agenda.

Product mix in 9M FY '23 is PAR 16%, non-PAR at 45%, ULIP at 32% and protection 7% on individual APE basis. In Q3, Max Life launched a new non-PAR offering named Smart Wealth Advantage Guarantee, which is also called SWAG, with first to industry features, giving the customer flexibility to collect customized paying terms, policy term, income start date and income period, etc. The product received a stellar response across all distribution channels. It became the most successful product in Max Life history as it was fastest to scale up to about INR 300 crores. This non-PAR offering supported in navigating our margins and VNB growth outlook for the year. However, because this new product launch, you will also notice that mix of non-PAR within our product portfolio is artificially higher for the quarter.

We launched 2 new protection plans in Q2, focusing on self-employed individuals, which continue to help us make further inroads into protection business. Our confidence in this category is further instilled post our recently concluded India Protection Quotient 5.0 survey conducted in association with Kantar. In a positive, urban India has made huge strides with 5 percentage point increase in knowledge index over the last 5 years. However, term insurance ownership remains to be at only 30% signifying existence of a very wide opportunity for protection business.

In line with our strategy to focus on retirement business, we have strengthened our current annuity offering flexibility of premium payment terms as well as extended entry ages to broad base new customers. Our annuity business has grown substantially by more than 300% in 9M FY'23 as we advance on our trajectory of increasing penetration in this segment. Max Life Pension Fund Management has now received point of purchase (POP license), which will further accentuate the growth of retirement business.

3. Customer obsession across the value chain:

At Max Life, remain committed to provide a significant value proposition to our customers and continuously work towards enhancing their overall experience. We measure our performance on customer experience through a globally established metric, Net Promoter Score. During the first 9M FY'23, we witnessed an improvement 3 points from 49 in March 22 to 52 in December '22 in the overall company NPS score.

Max Life continues to be the market leader on 13th month persistency in terms of number of policies. In terms of premium 13-month persistency of regular limited paid premium was 83% and 61st month persistency at 51% for the period ending December '22.

Max Life also bagged best customer initiative and Best Use of Relationship marketing at the Customer Fest Award 2022.

4. Digitization for efficiency and intelligence:

Max Life has been making significant investments in cloud in the quest of becoming a truly digital enterprise we have migrated 54% of our entire infrastructure on cloud now.

We have strengthened our underwriting capability further with the launch of AI-backed smart gUWern solution. It is an underwriting decision anomaly identification suite to enhance decision accuracy. gUWern is integrated to Dolphin, which is our policy issuance and underwriting workflow to provide real-time anomaly in underwriting decision-making and prompts the underwriter to take corrective actions before submitting case decision.

We are continuously digitizing the sales force to improve productivity and better the governance. To enable better activity traction and conversion we have launched mSmart - sales management and activity monitoring tool across all channels.

Customer servicing has been a special focus area for the company and our work on - Digitization of POS processes has led to increase in straight-through process from 37% to 51%. Automation or advanced pay outs for traditional policyholders has led to improvement in TAT from 7 days to 1 day and website revamp with new age homepage leading to reduced bounce rate by 19% and improved S2L by 15%.

Our digital capability has stood the testimony of agility in integration of technology and new partners as we ar able to onboard new brokers and Banca partners in record time.

Overall, from a margin perspective, this quarter has been pretty satisfying. There are some issues with respect to our new premium growth, but I'm very hopeful that as the impact of open architecture settles and the momentum at our banks reverses, we will be able to be back on the growth trajectory as far as new premium is concerned. With the optimism for Q4, I'm going to hand it over to Amrit Singh to talk about some of the numbers.

Amrit Singh: Moving on to some key financial metrics.

- Consolidated revenue excluding investment income stands at INR 15,890 crores, a growth of 12% in the first 9 months FY '23. Consolidated PAT is at INR 399 crores, up 129%
- Renewal premium grew by 16% to INR 10,548 crores for Max Life Insurance. Gross premium grew by 12% to INR 16,188 crores.
- The value of new business written over 9M FY'23 stands at INR 1,179 crores versus INR 942 crores last year, representing a growth of approximately 25%. New business margins have improved from 25.1% to 31.8% for the period 9M FY'23. For Q3, VNB stands at INR 593 crores, which is an increase of 49% over previous quarter last year.
- Embedded value for 31st December 2022 is at INR 15,547 crores, which implies an operating return on EV on an annualized basis of 19.5%.
- Policyholder opex continues to improve to 14.3% from 15.1% year-on-year.
- The 9M FY'23 profit before tax for Max Life is INR 438 crores, an improvement of 66% and profit after tax of Max Life is INR 376 crores.
- Max Life's solvency ratio stands at 200%, and overall AUM as on 31st December '22 is at approximately INR 1.18 lakh cr, a growth of 16%.

We continue to remain committed to our focus on inspiring people to increase value of their lives and are working across all areas of business to make this happen. We are happy to now take any questions that you may have, and I will hand over to the moderator to open the floor for questions.

Moderator: We have a question from the line of Adarsh from CLSA.

Adarsh: First question on the Axis transaction that you all have repriced. Just wanted to understand, Prashant, is the first 13% done deal or is there any scope where that can get revised as well? And number two, if the pricing has changed from an Axis Bank perspective and given that the regulator wants to provide more flexibility around commission structures, would that involve some giveaway in terms of payouts over the medium term?

Prashant Tripathy: So, let me first give you the answer around 13%. 13% is already done and it's gone through, the balance 7% has to happen. It is proposed as per the guidance from regulator that we should be pricing 7% on a discounted cash flow basis. Axis Bank has agreed to do that and is desirous for long term perspective because they believe that Maxlife is a great investment and it is their own entity that they would like to remain invested over a long period of time. So the methodology is going to get changed.

In terms of commission guidelines etcetera, it's quite conjecture at this point in time because no commission guideline has changed. At this point in tie, as it stands, Axis Bank wants to make investment in Max Life to acquire balance 7% at fair market value.

Adarsh: Got it. Prashant, we can't quantify the change in cash flows for them? Or would it be possible for you to talk about it?

Prashant Tripathy: No, currently no such discussion has taken place. At the time when they're ready to acquire we'll go ahead and do the discounted cash flow valuation. They will acquire the 7% on that price.

Adarsh: Perfect. Prashant, you did mention that the wallet share has now stabilized at 70%. Just wanted to understand in terms of the way one would look forward on this number, what do you need to do to remain at 70%? Do you see a scope to get back to 80%, if you do something better at their counters? Or this should be the wallet share, one should expect is a more sustainable number? What's the risk to that?

Prashant Tripathy: I would say you should expect that around 70% plus/minus 2-3%. Otherwise, it doesn't look like that we will go back to 80%. So the share will be near about 70%.

Adarsh: And last question is obviously on the non-PAR- launches for products, mix and the margins change in the quarter. What you think is a sustainable mix, do you want to keep a particular mix or if there are sales on a particular product over a period of time would you take non-PAR higher even if not at this quarter level?

Just wanted to understand non-PAR sales across the system has been going up and the threshold various management have said is 30% and the number keeps goes up. So just wanted to understand, not only for this quarter, but over a medium term, is there any target mix? Or you just sell what is selling in the market, what customer wants?

Prashant Tripathy: We have desire to keep the non-par mix in the range of 35% to 40%, that's our stated position. So I will say, around 40% is what will be our estimate over a medium-term basis and if we benchmark our sales mix with some of the other players we appear to be in the same range. I think our risk appetite will allow us. If we need to hold more capital for that and look at our solvency ratio, we will be open to that.

What you see for this quarter is really an impact of a product launch and it happens quite often that when you launch your product in the quarter the mix goes up. It has happened in past with ULIPs. Generally, the new product take-up is very high across distribution channels and hence the impact that you see of higher non-PAR and a consequent higher margin is something that will get reversed.

When we look at next year or maybe a couple of quarters down the line we do anticipate that our non-PAR mix will fall back to near about to 40% and we will rebalance it with more diversion towards participating and ULIP.

Adarsh: So from a trajectory of VNB margins, it should be a smoother curve if you take 2 to 3 years. So, any guidance that you all want to give on your product mix with a steadier margin trajectory that you would aim for over the next couple of years?

Prashant Tripathy: Yes. I think the range will be between 27%-28%. I would highlight to you that the life insurance industry is growing and hence, there will be a bias towards making investments and increasing the investments towards building more distribution channels.

So over a short period of time if we were to compromise a little bit of margin to achieve higher growth via build-up of offline distribution channel, our own proprietary distribution channel. The company will have a bias to do that.

Moderator: We have our next question from the line of Swarnabha Mukherjee from Batlivala & Karani Securities.

Swarnabh Mukherjee: Congrats for a good set of numbers. So first question, again, on the margins. So thank you for that range 27 - 28%. But if I try to delineate this 39% margin this quarter. So just wanted to understand, how to think about the margin for the new product? Is it significantly higher than the blended level that we are seeing right now because of which we have landed up to this? Or is there any one-off maybe more in terms of say nonoperating kind of numbers and interest rate movement or something like that, that is also behind this margin trajectory going up so significantly this quarter. So that would be the first question.

And the second would be in terms of what you are seeing. The month of January is now gone. So how have you seen the momentum at the banks you have alluded to that the future growth will depend on how the overall savings growth in the banking channel is. So in Axis, what is the trend that you are seeing in terms of insurance sales vis-à-vis deposits, how many they're focusing on deposits, if you can give some colour?

Amrit Singh: So, on your question on product mix and margin, it's a result of higher than expected non-PAR mix, which is causing the overall margin to be high for this quarter. As you know, we generally target anywhere between 35% to 40% non-PAR as against that, our non-PAR mix actually increased upwards of 55%.

Again, I will repeat that it is tactical and we will rebalance that going forward. It is the result of a new product launch which has been fairly successful. And we find that when a new product launch happens for a couple of quarters, there could be a bias towards selling or picking up that new product. And hence, the 39% that you see is artificially high this quarter. And hopefully, as we move forward it will get rebalanced. So, 39% is not a sustainable number going forward.

On bank, I think suffice is to say that bank has been a big vector for growth for Max Life Insurance over the last 12 years. And there will be periods where the bank will prioritize their core banking related subjects which is what has happened over the last few quarters. We're very optimistic that as we move into FY 23-24, so that will get rebalanced. And with open architecture or the deep impact of open architecture behind us, we are very hopeful that growth will start to come back.

As we go through our business planning process which is an exercise done between us and the bank leadership team, we will discuss some of those things and when our planning period is complete I'll be in a better position to give you any guidance.

Swarnabh Mukherjee: And just a follow-up on this margin again. The new product which has come, is the margin profile significantly different from the earlier smart wealth non-PAR plan? And what would be the mix of these 2 products on a sustainable basis going ahead?

Amrit Singh: So Swarnabh, as we've been highlighting over calls there are many levers within the non-PAR designs that can be leveraged upon which is a mix of the PPT variants, endowment, income and elements around. So, we have used some of those mix and levers to improve upon the margin profile. Needless to say, we have held on to the margin profile and there is no deterioration in the margin profile and as Prashant spoke about it is coming out of the mix, which is driving the margins of the quarter.

Swarnabh Mukherjee: In terms of individual protection, we have seen some growth in this category in this quarter. So what is driving that, is it largely pure term or ROP, how that mix has been? Some comments on that would be very helpful.

Amrit Singh: Yes. I think the ROP element of it has been very static for us over the quarters. We have been around 15% in our mix as ROP for a couple of quarters. And that actually is a reduction over last year period. So that's not necessarily the shift. And I won't say it healthy, it's still flattish is how I will see it. There are much more opportunities. And as Prashant spoke in his opening remark that we conducted survey which we do over many cities and many customers continue to give us that belief of saying that there is huge under penetration in protection.

And as time is progressing both elements of demand and supply are actually improving upon and that we continue to be very optimistic on this long-term opportunity in protection.

Moderator: We have our next question from the line of Sahej Mittal from HDFC Securities.

Sahej Mittal: You stated that VNB margins have been better on account of better profitability even within products, right? So, if you can just give us some colour around which all are these products where we are seeing improved margins excluding the mix change? Second is on the agency side. So how should we look at the benefits which will flowing from new initiatives which we have taken on the agency side?

And do you anticipate any risk flowing in from the new regulation which is allowing 9 partners to be impanelled with a single bank. So even earlier when BALIC was impanelled with Axis Bank we saw Max Life's wallet share dropping at Axis Bank . So is there a possibility, how are we looking at it?

Amrit Singh: I'll take the first question, and I'll request to Prashant to come in for the remaining two questions that you've asked, Sahej. I think on margins the reality is that all our underlying products there are some marginal improvements in the margin. For example, our participating design margin profiles are better. This is largely because of the product that we had launched last financial year, which is now running through in the full year. So there is that positive lift coming in that margin profile.

Our non-PAR design, because of all the various factors that we put in place is demonstrating a better profile. Protection because of repricing that we have done has holding or slightly better margin profiles. So these are some reasons but the dominant reason for margins to improve is actually a mix as an answer.

Prashant Tripathy: On your other two questions. First question on the agency. Max Life Insurance has a core belief in agency and in the first decade of our existence we were an agency-led player and historically we have been known for higher than industry productivity and we have run a fairly successful agency modelling part.

As we move forward, the desire is to expand agency and increase the productivity as well as make investments in creating more units of agency and we are quite committed to doing that. We embarked a couple of quarters ago on a long-term program with one of the renowned consulting partners to work for 3 years to grow agency and hence, as the outlook agency please expect that the fruits of that program will start to appear.

It is very hard for me to give you a number but one would be desirous to have a very strong growth from agency coming forward. So, the guidance from the shareholders and board is to make investment in agency and that's what we are going to over next few quarters.

On your question on counter share and 3 to 9, I think we should see this as more opportunity than risk. We are signing up with new banks, with Axis Bank becoming our promoters and they are telling you what you should expect in terms of counter share. I am not anticipating that there will be big depletion of the counter share at Axis Bank. We are working very closely with other bank partners to protect our counter share on those stocks. At the same time it is an opportunity that has opened from our perspective to acquire also we are very aggressively working on our business development efforts to partner with as many banks as possible. So, my guidance with respect to this is that I don't anticipate significant risk from 3 to 9 and those things should remain stable.

Sahej Mittal: And lastly, what would be the proportion of sales personnel deployed in Axis Bank branches between Max and our counterpart? And the second is, how should we look at segment-wise growth for the next two years? Maybe if you can give us some sense around non-PAR or a retail protection given that we are seeing some recovery in the retail protection as well?

Prashant Tripathy: Yes. In terms of people deployed we are currently at about 60:40 and we intend to improve that. We have committed to make more investments. We are also making investment in the alternate channels of Axis Bank, where our team is being built. So, from an investment perspective and deployment perspective, we will always double down in terms of our resources which are deployed in Axis Bank.

With respect to your question on where the growth will come, despite not huge growth in protection as a company we are quite committed to protection as a category and as the outlook we definitely feel that growth will be come our way. We have been working quite meticulously and looking out at our process, looking at issuance, looking at underwriting, looking at our relationship with our reinsurance partners, new product categories, new segments and all that hopefully will come together for us to deliver good growth in Protection segment. Both protection and retirement are strategic to us and we will make all strides to deliver good growth in those two areas.

Very hard for me to give you growth rates by par ,non-PAR, UL, etcetera, at this point of time, predominantly because of the rebalance that will take place and that will be quite artificial. So we look at growth at a total level. And then within that we try to optimize our margins and that will be the strategy we will continue to follow.

Sahej Mittal: And any plans to increase this to 60:40 proportion?

Prashant Tripathy: It will be on the base of discussion. But yes, there is a plan to increase.

Moderator: We have a next question from the line of Neeraj Toshniwal from UBS India.

Neeraj Toshniwal: First question is on protection. Peers have reported a decent sequential growth. So fat we have been quite steady. So, any new trends you're picking up or the conversations with reinsurers which might be sounding more positive given some of your player has kind of mentioned that. So what are trends where we can keep prediction moving from this trajectory in FY '24, particularly?

Amrit Singh: So some of those discussions are going Neeraj and hence it will be hard for me to give you the detail but at this point in time I can only share my optimism with respect to potential growth.

Neeraj Toshniwal: Sir, any relaxations you can see from this reinsurance happening?

Prashant Tripathy: Yes. I mean there's generally a balance that one needs to strike between price relaxation, underwriting grid, etcetera and we need to hit the sweet spot which is what we are trying to do.

Neeraj Toshniwal: And in terms of non-PAR saving, obviously, we have been phenomenally well here, but I wanted to know the trajectory, as you mentioned, 35% to 40% that includes annuity also, right? I mean, the kind of mix we are targeting? And where are we in terms of annuity right now, if you can give in terms of absolute numbers will be more comparable?

Prashant Tripathy: Non-PAR, which is the savings part is going to be between 35% to 40% and plus annuities of about 6% over and above it.

Amrit Singh: Appx 6% of our individual APE is annuity which on AFYP basis is around INR 950 crores of annuity.

Neeraj Toshniwal: How much of this non-PAR savings would have come from online because I think you mentioned we have seen phenomenal growth in online. So if you can give that number?

Amrit Singh: Annuity growth is coming mostly from our offline channels.

Neeraj Toshniwal: Not, annuity, non-PAR savings or the new products. Has it been only agency driven or online as well?

Amrit Singh: Neeraj, there are multiple new products. There is a product that we call as smart fixed return product which largely is an online product and then we also have a smart wealth advantage guarantee product (SWAG) which is an offline product. All the growth that we spoke of there is a large acceptance of these SWAG products in our offline channel.

The online channel also has leveraged smart FD product , our premiums have grown quite robust on the savings side to drive that growth. But there are two different segments of products that we're talking about here.

Neeraj Toshniwal: Got it. And if I look at the last year Q4, the base was very strong in terms of non-PAR savings for the smart wealth product we did last year. So I want to think about the mix for this year? Because right now looks like non-PAR savings is quite heavy. So you start correcting from Q4 itself or it will take a couple of quarters to reach a mix we target too?

Amrit Singh: It will take a couple of quarters. But the sharp number of quarter 3 that you saw there is always a waning off effect that will happen but quarter 4 will also be a bit higher on the non-participating side.

Moderator: We have next question from the line of Avinash Singh from Emkay Global Financial Services.

Avinash Singh: Pretty strong set of numbers. Question one, I don't know if I missed it. Considering now is the process the new agreement with Axis Bank regarding this 7% stake acquisitions. Any sort of a time line in mind and considering that now whatever amount, but the cash outgo for Axis Bank increases will this 7% acquisition be likely happening in one go or maybe multiple tranche?.

Amrit Singh: So there is keen interest at Axis Bank to do it as fast as possible but there are certain internal process that they are working towards. At this point in time it will be very difficult for us to indicate any timeline to you except for the fact that Axis as a shareholder there is a keen interest to do it as quickly as they can.

Moderator: We have a next question from the line of Madhukar Ladha from Nuvama.

Madhukar Ladha Can you clarify what you mentioned on the non-PAR mix that you want? I think you first mentioned that you would target about 40% in the mix and that will include annuity and then was there some revision to it?

Amrit Singh: Yes. So Prashant mentioned 35% to 40% is our non-PAR, which actually in our mind doesn't include the annuity business. Annuity businesses in incremental retirement proposition which we will keep building.

Madhukar Ladha: Okay. So 35% to 40% is excluding annuity, so then there will be plus annuity in addition to it. Second, you mentioned in the PPT that, the VNB margin also improved because of lower new business strain. I wanted to understand and that's quite visible as well in the disclosure and especially if you look at Q3 then the total APE has declined by about 5% year-over-year, but we see a very sharp reduction in new business strain. And this probably has something to do with channel mix. Can you like sort of give us some explanation as to how this is happening?

Amrit Singh: I am unable to relate to your comment that you're saying which part of the slide are you referring where we have mentioned VNB margin and new business strain to come together?

Madhukar Ladha: So if you look at your…

Amrit Singh: Madhukar, margin improvement is a mix play.

Madhukar Ladha: So achieved new business margin. No, I understand that, but I think there was also some on another slide.

Amrit Singh: But we saw profit. I think if you're asking profit profile as the business growth has been lower. So there is a lower business strain.

Madhukar Ladha: But if you look at the business growth, that it seems that the new business strain reduction is much larger than the decline in new business, right, decline in APE. So there seems to be some channels, some product where we are paying lower commissions or there is some advantage of this.

Amrit Singh: Yes. Actually, Madhukar, maybe we should speak offline because I'm unable to understand the question that you're asking in which specific area that you're pointing because there is no reduction in commission or anything like that. It's a fairly product mix channel kind of a play which is supporting it. Maybe I'll understand it a bit better from you but I'm unable to understand the question at this point in time.

Moderator: We have our next question from the line of Prateek Poddar from Nippon India Mutual Fund.

Prateek Poddar: A couple of questions. One is, when I see your distribution mix. Propriety channels seems to have done much better versus banca. I would have thought a part of this would have played into the margins but the margin is only a function of product mix as you've explained. So am I missing something here?

Amrit Singh: It's largely pretty coming out of non-PAR because this product has also got picked up by our bank partners as well. So even though the sales volumes are lower but because the overall non-PAR is higher it is actually supporting the margin profile.

Prateek Poddar: And second, sir, I was a bit surprised when you said that you would maintain market share at 70%. Our understanding was that when we lost a bit of market share in the Axis channel we had ramped up the number of employees in that channel so as to to get back or at least gain a bit of market share. And with the base now coming into effect I would have thought that you would start gaining market share, right? So why are we saying that we would...

Prashant Tripathy: I think the market share was going down. In the Q2 it came below 70%. So that investment was needed. You need to understand that when a new player comes on board as the people deployed become more and more mature, the productivity of those resources become better. So the threat actually over next 18 months with an open architecture competitor is higher and one is to deploy more resources to counter that. Very happy with the fact that we have been able to maintain the counter share at 70% level. And going forward, there will be attempt made to keep it at that level.

Prateek Poddar: So, Prashant, but as your new manpower deployed becomes more mature you will claw back market share, right, isn't it?

Prashant Tripathy: I think you have to look at perhaps the industry on how it works. I think we have seen that the counter share and people deployment kind of go hand in hand. And with a 60 to 40 ratio, achieving a 70% target is quite credible and it talks about good execution on ground.

Prateek Poddar: And lastly, I don't know whether you guys can answer this question, but the promoter pledge, despite whatever selling has happened and the recent disclosures on the exchanges seem to suggest that the promoter pledge is not going down. How should I think about that?

Prashant Tripathy: I think it will be a question that we should park outside of this meeting because part of that is I honestly don't know.

Moderator: We have our next question from the line of Varun Palacharla from Kotak Securities.

Varun Palacharla: Hi. I just wanted to ask a question regarding the new business strain. So if I look at the numbers for this quarter it is down like 38%, while APE was down 5%. Can you give any particular reason why this has happened?

Amrit Singh: Varun can you say this question again? Sorry, I didn't pick up the question.

Varun Palacharla: My question is on new business strain. It's down 38% this quarter, if I'm not wrong, while APE was down 5%. Is there any driver for this?

Amrit Singh: You're saying the strain for the quarter is down to 38%, whereas the APE was only down 5%. So, it would be a mix of the channel elements including some bit of improvement in the strain profile of our non-PAR designs as well the benefit of which we are getting from the new product that we have launched.

Moderator: We have our next question from the line of Sanketh Godha from Spark Capital.

Sanketh Godha: With respect to the margin, just wanted to understand that, other than the product mix whether there is any assumption change which has happened either with respect to persistency or CRNHR anything which has driven that margin expansion? Or it's similar what we have assumed in FY '22?

Amrit Singh: So assumption review process we have concluded our review process of assumptions for this financial year and in this particular quarter that has been accounted and tested for. There is no gain coming out of assumption change. Sanketh if your question is that we have done assumption change which is creating an gain? Overall, the assumption changes have not changed the margin profiles materially. There have been certain pluses and minus but overall it has been neutral

Sanketh Godha: Okay. Got it. One sec. And another question, I just wanted to understand, is that you said that we deployed more people relatively compared to the last year in bank, Axis Bank. But still, we have managed to control the cost ratios. Obviously, the cost ratio has improved compared to what it was last year. Sir, I just wanted to understand which way those low hanging fruits which were available, where you have managed to cut the cost despite deploying more people and hiring more people?

Amrit Singh: So on distribution front we have continued to remain committed to our investment. In fact, the distribution opex levels has increased in line with how we had thought. It's some of the benefits on the non-distribution side, some variable sales element from overall sales being lower. Those are actually health and protection being lower where you know medical cost and stamp duties and some of those things are involved. These are some areas which are helping us overall.

Sanketh Godha: And last one, the two questions I have. One is to understand if you can quantify the economic variance number for the 9 months? And second, is that annuity you said is 6% which is of total business. I believe the regular pay was launched in the current quarter. So any colour with respect to the mix in APE terms for regular and single pay if you can do? And finally, what is our dividend strategy going ahead? Given solvency at 200 how we will relook at our dividend payment strategy or till in the collapse of the structure that can happen probably we will not start paying dividend?

Amrit Singh: So you have asked three questions, actually. One is the nonoperating variance, that largely that was around INR 657 crores for the 9M period largely coming out of negative impact of interest rates.

Sanketh Godha: Okay. And Annuity APE mix, which you said 6% is individual APE?

Amrit Singh: Yes, it was on annuity APE mix. Of the 6% individual APE that I said, around 2% to 3% is single premium and 3% to 4% is regular premium.

Sanketh Godha: Okay. And dividend?

Amrit Singh: So on dividend, Max Life is not intending to give any dividends to Max Financial Services. We would like to retain the profit profiles. So as to continue supporting the growth aspiration.

Moderator: We have a next question from the line of Madhukar Ladha from Nuvama.

Madhukar Ladha: You mentioned that you would try and develop some alternate channels within Axis. I wanted to understand that statement better within Axis. Is there a thought process also to grow the credit protect business over there?

Prashant Tripathy: I think beyond our credit protect, as we look at branch banking, there are several other areas where we need to perhaps do a better job and they were not as focused on, which are as follows i.e. from the corporate banking group, where we believe that we could sell a lot of business insurance, which is where we are ramping up. The call centre, where the inbound and outbound calls are taking place, generating the leads and fulfilling them. Bharat banking is another area where we intend to work with the bank. They're also setting up a fulfilment centre or direct salesforce kind of team for selling to the customers who don't have any relationship managers.. There is a lot of work that we are doing on launching a D2C capability and products on Axis Bank counters.

When I refer to alternate channels, these are channels. These channels this year are expected to deliver anywhere between 200 to 250Cr and we are hoping that with focus and attention, we should be able to grow it at significantly higher pace. So that's the objective.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Amrit Singh for closing comments. Over to you, sir.

Amrit Singh: Thank you, ladies and gentlemen, for being so late on the Max Life's earnings call. We look forward to more interaction in the future. Thank you, and good night.

Moderator: Thank you. On behalf of Max Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.