



Max India Limited
Investor / Analyst Conference Call
October 14, 2011

Moderator: Good evening ladies and gentlemen. I am Mary, moderator for this conference. Welcome to the conference call of Max India Limited. We have with us today the senior management of Max India. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Mohit Talwar, Director - Corporate Development of Max India Limited.

Mohit Talwar: Good morning, good afternoon, good evening to all our participants who have dialed in from various parts of the world. I would like to thank you all for being part of this call. What I am trying to do on this call essentially is to talk about investment by Life Healthcare for the 26% stake which is aggregating about 516 crore. We will endeavor to address all your queries on this deal once I have given you the details. And if there are some unanswered questions, we will get back to you in due course. I have also invited our Acting CFO of Max New York Life, because I think it is also good occasion for him to give you a brief update on what's happening in our life insurance business. So, please avail of this benefit of having him on the call and ask some questions around life insurance if you would like to. So before proceeding, let me just introduce my colleagues on this call, apart from Prashant Tripathy, who is the acting CFO of Max New York Life. I have Sujatha Ratnam, who is the Chief Financial Controller for Max India and I have Jatin Khanna, who is the Deputy General Manager of Corporate Development, who works closely with me. Before I talk about the investment, may I just hand over to Prashant, who can give you an overview or a brief update on the life insurance business and its performance till date and after that I will take it over.

Prashant Tripathy: Thank you Mohit and warm wishes from Max New York Life team to all of you. I will just take a few minutes to update you on where we are in our growth journey and transformation agenda of Max New York Life that we began end of last year. I am very happy to report that the overall agenda has moved as per plan. For this calendar year which is from January to August, while the overall private industry has de-grown by about 43% on APE basis, we are glad that we are negative 5, so we have a delta of about 38% with respect to the private industry. Our growth is much superior. As a result of that we have captured about 370 basis points of market share and we are positioned fourth on the new business sales, both for the period January to August and April to August. The overall impact on profit for the organization is looking really robust. The same superior performance continues at the share holder profit level also without transferring any of the part surplus to the shareholder account. In a nutshell, overall financial performance looks very robust. The expense ratio which were running at about 32% for the similar period last year and the full financial year of 29% have gone in the range of about 24% to 25% this year, a reduction of about 500 to 600 basis points versus full of last year, our expense ratio has been a result of the transformation agenda that we have been pursuing. Our Axis Bank relationship is running 20% ahead of our internal target and for the first six months, this relationship has gone beyond our own



expectations. Our agency which has always been a benchmark for the industry, continues to perform and if you see the results for the period January to August, and for the period April to August this year, our agency productivity continues to be number one amongst the private industry and much higher than some of the peers. So, overall the business is in great shape. Our inputs are working well, this new sales trajectory looks good, the profit numbers are looking superior and we are progressing well on our transformation journey. I will hand it back now to Mohit to continue with this call.

Mohit Talwar: Thank you Prashant. So moving on let's talk about Life Healthcare. They are a leading private healthcare company in South Africa with around 27% market share. They have 63 hospitals, over 8,000 beds and they have a market cap of around 2½ billion dollars. So, Life Healthcare is currently operating in South Africa which as you would know is having some limited growth opportunities there. So, this partnership with Max Healthcare will really offer the platform to tap the Indian opportunity here. So, they are investing 516.5 crore in Max Healthcare through a primary issuance, which is fresh issuance of shares, acquiring 26%. And this translates into Rs.50.4 per share. We believe it's also one of the largest FDI investments in the healthcare space.

In terms of the overall valuation, this works out to an enterprise value of around 2,300 crore, which values the company at 33 times its financial year 2012 EBITDA numbers and about 17 times the 2013 EBITDA numbers. As you all may have read in the press, we had also purchased the Warburg Pincus stake. So, our deal with Life Healthcare translates into a premium of almost 72% over the acquisition price which we had paid to Warburg. So, post this investment, Max India stake in healthcare would be around 70 odd percent. Now, how are these proceeds going to be utilized? This is essentially going to fund our future expansion in Max Healthcare and also in interim, it's going to go towards repaying the high cost debt. The financial position of Max Healthcare should significantly improve by reducing its debt from 1,000 crore to about 800 crore and we believe that the debt equity ratio should be in the region of about 1:1. This also augurs very well for Max India, which will have significant cash inflows and savings from this deal. And this will be to the order of around 300 crore. As you all may be aware, we had planned a rights issue, now this will get annulled, so that will result in saving about 150 crore of our treasury corpus. There are some preference shares, these are going to be redeemed and this will plough back to Max India and the amount that we are talking about here is about another 157 odd crore. There are preference shares of IFC Washington, which is about 250 crore. And we are not sure at this point in time as to what they intend doing, but if they affect the put, which they may, as they have the option to do so, then we have the resources to effect that transaction as well. We propose to redeem part of these preference shares through these issue proceeds, which will reduce the potential outflow from Max, ordinarily this put option would have actually happened on Max India. So, part redemption of IFC's preference shares and the stronger financial position of Max Healthcare after this deal will eliminate all the risks that were on Max India. Additionally, in terms of the guarantees which Max Healthcare or Max India has given on behalf of Max Healthcare, these will all now become proportionate. So, the deal therefore will significantly strengthen Max India's balance sheet as well, in addition to Max Healthcare's. The arrangement with Life Healthcare, they will nominate two Directors on the Board of Max Healthcare, but they will have no



affirmative rights and the rights will be limited to whatever is available to them under the law as per the 26% shareholder. We have however given them consultative and information rights and like I said no affirmative rights on any of the operational matters will be given to them.

We also believe that there are great benefits in this partnership for the Healthcare business, especially in the areas where Life Healthcare has their strengths and that is in terms of the lean operations and cost efficiencies. They are largely management driven. They have a largely decentralized administration and human capital management, very robust IT systems and information systems and based on all these strengths, their EBITDA margins have been in the region of about 25% year on year.

Other arrangements, Max Healthcare will continue to be an exclusive platform for Life Healthcare investments in India for three years and in Northern India, thereafter. For the rest of India, Max Healthcare will have a right of first refusal.

So in a nutshell, this deal is transformational. It's an opportunity for Max Healthcare. It improves its performance significantly. It brings in a lot of cash. The deal also establishes certain performance linked targets and on the way to an IPO. It sets a new benchmark for valuations for Max Healthcare. And we are hoping that your views on Max Healthcare post this deal will be more positive amongst the analysts than it has been historically. With that, I would like to hand it back to the moderator and we would be glad to take questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Ashish Sharma from Enam AMC.

Ashish Sharma: Good evening sir and congratulations on the deal. Just wanted to get a sense on the expansion plans for Max Healthcare. And second thing what would be the current level of debt in Max Healthcare?

Mohit Talwar: The current level of debt like I said is about 1,000 crore. And in terms of the expansion, I think in my previous calls and visits we mentioned that we are doubling our bed capacity, so we are already at about 1,450 beds. We recently opened up super tertiary hospitals in Mohali and in Bathinda. And by the end of this calendar year, we are hoping that our, the number of beds will move closer to 2,000.

Ashish Sharma: By the end of the year. And the 1,000 crore debt you mentioned was for Max Healthcare or for consolidated Max India?

Mohit Talwar: No, this is for Max Healthcare.

Ashish Sharma: Max Healthcare, okay fine.



Jatin Khanna: The debt will come down to 800 crore post the deal.

Moderator: Next question comes from Ankit Ladhani from Sharekhan.

Ankit Ladhani: Can you just help me out that how do we plan to use the proceeds of the stake?

Mohit Talwar: About 150 crore is going to be left in the business, because it has to fund all the expansions. 157 crore will be the redemption of the preference shares which Max India has put in. And the balance money will go towards, it's a contingency, if IFC Washington effect it's put on the optionally convertible preference shares, then that will be used towards that.

Ankit Ladhani: 150 crore for business expansion, 157 crore for redemption of preference shares of Max India, am I correct?

Mohit Talwar: Yes, that's right.

Ankit Ladhani: And the last bit that you said?

Mohit Talwar: See, IFC Washington, they have put in optionally convertible preference shares of 250 crore, so that is, like I said in the call, we are not sure at this point in time whether they are going to effect the put or not. They have that obligation and that was essentially to come to Max India, but since the funding is available in Max Healthcare, if they choose to exercise the put, then the money is available to effect that transaction.

Ankit Ladhani: What would be Max New York profit?

Mohit Talwar: We still have to go through the Board approval process, but suffice to say that the profit numbers are looking very, very robust, so you will need to just wait for a couple of days before we can actually reveal what our profit numbers are.

Moderator: Next question comes from Arun Gopalan from Systematix Shares.

Arun Gopalan: Congratulations on the deal. This must be one of the largest FDI deals, so that's a good thing. Now the question is, how does Max Healthcare plan to synergize with Life Health in terms of exchange of expertise and technical know how? Now, would it be a two way exchange here? Would there be any synergies for Max Healthcare, Max in South Africa as such, or in terms of getting patients from there? How does this whole thing work out? Where are you seeing those synergies form out?

Mohit Talwar: So I think it would be very optimistic of me to kind of expect South African patients coming into India. We keep talking about medical tourism, but I don't really believe that that's really taken off, other than patients we see around from the SAARC countries. But, like I had mentioned on the call, we see operational synergies. Life Healthcare has their strength in certain areas like IT and the cost. They actually believe in managing their hospitals like separate SBU's, strong P&L focused operations. They are very strong on the nursing side of the business. Their hospital operations are largely



controlled by administrators, very unlike the kind of hospital business that you see in India. So, there are lots of these strengths where we believe that they can add value. And so even though we have given them no affirmative rights, we have given them consultative and informative rights, we would like to call upon them and try and seek whatever assistance we can in terms of transferring these best practices, for which we will be setting up task forces as we go along.

Jatin Khanna: Just to add on what Mohit said, see essentially they are a hospital player out of South Africa and you have to understand the South Africa geography a little bit. Now, there 95% of their patients come from insurance companies. So, pricing is very competitive, so in a way you have a price cap. They are not allowed to charge any markup on pharmacy revenues. So, therefore they can't make money on pharmacies either and they have to outsource all their diagnostics. Now, despite all these things, they still make 25% EBITDA margin, which in a way reflects that they are operationally very efficient. So the whole idea of doing this deal, one part of it is of course, Max India gets the financial strength, Max Healthcare gets the financial strength, but the other part of doing this deal is to sort of capitalize on these operational efficiencies and make our own model operationally very efficient, which can sort of add to significant profitability for the business and therefore value for the Max India shareholders.

Arun Gopalan: The other part of my question is, in terms of now this deal coming up and you have been able to share a lot of hospital operation expertise just like healthcare, how does that place Max Healthcare competitively in India vis-à-vis the other players who are there in this space?

Mohit Talwar: We are a little different when it comes to healthcare, unlike our life insurance business which is a PAN India operation; we have historically been very Delhi NCR centric. It is the first time that we ventured outside of the Delhi catchment area and moved to Mohali, Bathinda and we are opening up in Dehradun. So, as far as our competitors are concerned, we believe that our competition largely is around the North Indian belt. We do not have plans as yet for having a scattergun kind of an approach and opening up hospitals all over India, because we believe that whatever expansions are going to happen in the future, there is still a large play up in the Northern side of India. And so that's where we will focus.

Moderator: Next question comes from Hiral Patel from Indea Capital.

Hiral Patel: Congratulations on the deal. I understand that this deal, so currently this is probably a non-binding term sheet which you have signed with the South African group. So, (a) I wanted to understand, what are the kind of timelines that we are looking for the money to come into the company?

Mohit Talwar: Yes, so you are right, most deals are generally non-binding, but there is so much of discussions which have already happened over the last six months that we are pretty much there. Now, it is subject to diligence. The diligence begins on 19th of this month. We don't expect the diligence to take too long, because there have been several visits up and down from both sides. The South African parties have already got their Board approvals in place. As per regulation, they need to get the Reserve Bank of South Africa's approval before any remittance of foreign exchange.



So, that will take a little bit of time. So, given all this, we believe that we should close out the transaction by the end of November, early December.

Hiral Patel: And my other question is regarding the creating of capacity. Now, as I understand, you have this 500 crore, probably if IFC Washington is exercising the option of redeeming the preference shares, most of it would be going to reduction of debt and the paying of the preference shares. So, for the further expansion of 500 beds in this year and going forward as well, how do we intend to fund that expansion?

Mohit Talwar: The current expansion, there is no funding gap. Like I said, we were going to do a rights issue, Max India was going to do that, now that's not happening, because of the Life Healthcare deal. So, the 150 crore is going to come from there. So, up to 2,000 beds we are fully funded. As far as the rest of it is concerned, we get into the second phase only later once we can actually consolidate all of the operations. Now, with regards IFC Washington, we have had initial discussions with them, there is nothing to suggest that they are going to affect the put and ask for the entire money day one. These can be structured over a longer period of time. So, as such the money is going to be put into good use, such that there is no funding gap in expansion and at the same time it just strengthen the balance sheet from where we are.

Hiral Patel: And just one last question from me. You mentioned about the exclusivity for the first three years, can you just explain a little bit in detail? What kind of exclusivity are you talking about?

Mohit Talwar: Yes, it's for the first three years, anything which Life Healthcare wants to do, they have to do it with us.

Hiral Patel: This is going to be PAN India for the first three years?

Mohit Talwar: Yes, this is PAN India for the first three years. So, they can't go and open hospital anywhere else now. After three years, the same exclusivity remains for Northern India and we will define Northern India, basically it's in our definitive agreements that will be defined. For the rest of India, if they choose to actually go and open up a hospital somewhere else, south of the Tropic of Cancer, then the right of first refusal will be with Max. If Max chooses to go along with them, that's fine. If Max chooses not to go along with them, they can actually go in alone.

Moderator: Next question comes from Kashyap Pujara from Enam Securities.

Kashyap Pujara: Congratulations for a decent deal. Just wanted to take some highlights on the hospital front. Wanted to first understand, what is the current operational beds from the current capacity?

Sujatha Ratnam: 925 beds.

Kasha Pujara: So, the total capacity more or less is operational? The entire capacity is operational capacity?

Sujatha Ratnam: In terms of the occupancy, currently we are close to 68%.

Kashyap Pujara: Okay, 68%. And I think the average revenue per occupied bed is in the range of what, 22,000?

Mohit Talwar: 23,000 is what I am told.

Kashyap Pujara: Pardon me?

Mohit Talwar: 23,000.

Kashyap Pujara: And the incremental capacity that is coming up, that will come up in the next twelve months is what you are saying, that the total capacity, operational capacity will double in the next twelve months?

Mohit Talwar: No, no. We are going to be having close to 2,000 beds by the end of this calendar year, which is next two to three months.

Kashyap Pujara: Okay, okay, next two to three months.

Mohit Talwar: Yes.

Kashyap Pujara: So, basically the utilization levels of the current capacity, though your average length of stay has been under four, but what is your sense on the utilization levels?

Sujatha Ratnam: In the quarters to come, you will see the occupancy going up. There was this issue regarding, the under renovation. So, we couldn't avail of the beds that would provide us with the enhanced revenue.

Kashyap Pujara: And typically what is our case mix like as of now? In terms of the specialty related areas, how much do they contribute as a percentage?

Sujatha Ratnam: Just to give you a flavor, 58:42 percent that is the tertiary and super specialty mix. And in case you wanted let's say for the major service profile, the Tertiary IP business that we told you 58%, you can have largely let's say, 20% is on account of cardiac, ortho is about 11, MAS is about 6 and neuro will be about 12%.

Moderator: Next question comes from Ashish Sharma from Enam AMC.

Ashish Sharma: A follow up question on insurance. What is the outlook for FY12, with the transformation under the new regime and what sort of growth we are looking for 2012? Will it be a de-growth or we will be outperforming the industry vis-à-vis some positive growth in second half?

Mohit Talwar: Prashant, will you take that please?



Prashant Tripathy: Yes. So, we definitely are planning to outperform industry wise. We have outperformance for six months, that's the forecast that I can give you at this stage. At this stage we are of course planning for a positive growth, let's see how the industry comes up in the second half of the year. At the moment the industry is quite unpredictable, so for me to really tell a number at this stage would be a bit difficult.

Ashish Sharma: But, what's your sense on the traditional and ULIP mix? We were doing 50-50 both, do you think that we can, after selling strong ULIP thing, selling traditional plans for one year or two years is fine, but after that selling traditional plan would become difficult in the industry. That's the concern we have.

Prashant Tripathy: Before going down the path of our long term savings and protection strategy, we did an extensively market research to find out what is the market for long term savings and protection solutions and we figured out that this is a non-penetrated space, so while we can classify those categories as traditional products, there is of course a huge possibility in terms of few of the product designs which cater to the needs of the customer segment. And the customers won't directly buy the product, they buy the benefits which cater to a need. So, we will continue to operate in that regime. And our long term focus is to keep about two-third of traditional, about one-third in terms of ULIP and other non-par designs. So, that's the strategy we will continue to pursue.

Ashish Sharma: And any comments on the NBFC margins for 2012?

Prashant Tripathy: Like it was communicated earlier also, we are looking at early teens, around 13%-14%.

Ashish Sharma: 13-14 we can say.

Moderator: Next question comes from Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: I just had a technical question on this acquisition. Can you just give us a brief sense of what could be the impact on Max India consolidated P&L and the balance sheet on account of this deal go through?

Jatin Khanna: Yes, from the P&L side, of course this is a sort of capital deal, so really speaking P&L would not get impacted, but for the fact that Life Healthcare is putting lot of equity and we spoke about their operational excellence, which will improve the profitability for the healthcare business. But, on the balance sheet side, the improvements are very, very visible. One is that, Max Healthcare debt will reduce from 1,000 to 800 crore. Their debt equity ratio will improve from 1.7:1 to 1:1, so that's on the healthcare side. On the Max India side, we will have 300 crore of cash inflow/savings with rights issue being annulled and preference shares being redeemed. So, that's broadly the balance sheet impact.

Moderator: Next question comes from Subramaniam P S from Sundaram Mutual Fund.

Subramaniam P S: My question was on the Life Healthcare business. We heard some interesting analysis about the business thing that lot of their business is insurance, despite that they make 25% EBITDA margins. So, if you could just give us some sense



on how their business is different from us in terms of few operational parameters and where are the gaps, because of which our margins are lesser?

Mohit Talwar: In India as you probably know, the health insurance sector as such is largely under penetrated. If you look at a patient profile coming into any hospital, there is a significant percentage of these patients who do self pay, so that's the biggest difference, whereas in South Africa, substantial amount is all through insurance company. So, that's the main difference there. And the fact that these people can maintain such high EBITDA margins tells you that they have got some great operational efficiencies in their system. And I am sure that we can benefit from that going forward.

Subramaniam P S: But, what I was trying to understand is in terms of some operational parameters like revenue per bed, CAPEX per bed or opex per bed, how different would they be from?

Mohit Talwar: I don't have those details currently with me, that's something which maybe you can send us an email and we will try and get back to you.

Moderator: Next question comes from Shrey Loonker from Reliance Mutual Fund.

Shrey Loonker: When is this deadline with IFC preference shares calling up put ending?

Sujatha Ratnam: It's ending in 2015.

Shrey Loonker: 2015, okay. With this 150 crore coming back to Max India, what do we intend to do with the 600 odd crore treasury corpus that we will be left with? Just in case if IFC doesn't exercise the put.

Jatin Khanna: So, IFC put will not happen on Max India. IFC put now can be taken care of by Max Healthcare. The reason being that, one, they will have 200 crore cash which they can utilize to pay off these preference shares and whatever is balance left out can be actually refinanced by Max Healthcare itself, because the debt equity ratio will improve significantly after this deal. Now, Max India has about 350 crore, so the 350 crore of treasury corpus plus another 157, which we get out of the deal, will take it to about 500 crore. So, now all that 500 crore clearly Max Bupa will take about 300, so the balance 200 crore is something which we need to figure out what to do with. But, of course our problem is not just limited to 200; we have an even higher problem with Max New York Life expected to start giving dividends, so in a way we have to sort of think through, when we should start rewarding shareholders, through dividend payments or buy back or whatever. Honestly speaking, this is very sort of premature to start talking about all that. But, of course we will over a longer term try and reward our shareholders through various ways and means which we can use.

Mohit Talwar: The big picture on this is that the group based on what you have heard from Prashant plus this deal, our other businesses are also tracking very well, plastic continues to do well, Max Bupa is growing month on month. The group as such is going to be fairly solvent. Profitability is going to be sustained.



The group is going to be profitable given the substantial profits which Max New York Life is making as well as the plastics business and the turnaround which is taking place in Max Healthcare. So, that's something which I think for the first time this entire group, financial position is looking fairly strong.

Shrey Loonker: You mentioned that we plan to start the second phase of expansion only once we consolidate the existing capacity of 2,000 odd beds. How exactly would you measure this consolidation?

Mohit Talwar: As you know, for any new hospital there is a gestation period before it actually kind of stabilizes to what we call the steady state. So, four new hospitals are coming up. There are some expansions on the existing ones which are also taking place. So give or take, I think in the next eighteen months or so we should really see this consolidation phase with our 2,000 beds, after which we can think in terms of further expansion and that's why I kind of touched upon the fact that based on certain financial parameters and benchmarks, which we set for ourselves, we would think in terms of doing an IPO.

Shrey Loonker: Fair. But, are there any EBITDA margins or are there any free cash flow thresholds that we would want to get to before we start talking about the second phase of consolidation?

Mohit Talwar: Yes, we have set some internal benchmarks in terms of EBITDA numbers, EBITDA margins, revenues. So, once those are achieved, we've also got to have a scale before we actually think in terms of doing an IPO and I think once we hit these numbers and I have no reason to believe we will not, then that's the phase we will get into.

Shrey Loonker: What are your views, the debt to equity ratio that you would want to get into the healthcare business over a period of time or rather any point of time?

Jatin Khanna: 1:1 is healthy. Now beyond that, one wouldn't typically want to go. And whenever we've undertaken a new project, we do it at 1:1. This 1:1 got distorted because of the preference shares which we always wanted to redeem out of the equity. So, now we have equity coming in the system and therefore we are coming back to 1:1 and that's the number we want to maintain over a longer term.

Shrey Loonker: With this deal, does the focus really change from North India to PAN India or would the strategic partner wish to venture into that direction? Could you just give us some sense? Would we always remain even five years down the line on North India focused player?

Mohit Talwar: I don't know about five years down the line, but currently I think our energies are going to be focused in our jurisdiction of strength, which is really Northern India. Few years down the road we could very well replicate the same model in another region, you cannot rule out that possibility. And that's something which as we go along this partnership, we will see how this evolves.



Shrey Loonker: Would you be in a position to give us some more NCR cluster specific data in terms of what kind of EBITDA margins we would be hitting just in the NCR specific hospitals?

Mohit Talwar: You mean in our existing hospitals?

Shrey Loonker: Yes.

Jatin Khanna: See, the whole idea is to hit the 25% EBITDA margin and which is why the partnership with Life Healthcare has been done. So, from a directional sense of course, we want to achieve this number. And which is where the real value of this deal comes from, because we have about 2,000 beds and of course with an asset turnover of about 1:1 and 25% EBITDA margin, you can imagine the kind of profitability which this business can generate and the kind of value the business can generate in the steady state and which we hope to achieve in about three-four years from now. So, the real value of this deal in a way does not just come from the value which this deal creates or in terms of the price benchmark which is just set today, but really three years out, four years out, the kind of EBITDA margins which Max Healthcare can have with the revenue stabilizing at a significantly higher level and therefore the valuation more than doubling or whatever, the beds more than doubling etc. is where the real value of this deal is sitting in.

Shrey Loonker: Just trying to get a sense of the numbers that we see reported, how much, if you could just give us some sense of the hospitals that would be a year old and concentrated in the NCR region? What would be the EBITDA margins that we would be already tracking there in the more mature hospitals within our reach?

Sujatha Ratnam: It's in the region of about 10% to 15%.

Shrey Loonker: And that would be what percentage of the 925 operational beds?

Jatin Khanna: These are the larger hospitals, out of the 925 beds, which is Saket and Patparganj, which is both put together about 800 or 900 here, broadly, rough cut 800.

Shrey Loonker: On 925 beds, these are operational 800 beds?

Jatin Khanna: Yes.

Shrey Loonker: And what would be the cost of debt that we are carrying right now on the healthcare business?

Sujatha Ratnam: On a generic basis, it will be close to about 13½%.

Shrey Loonker: Just have a few questions, just two questions on the Life Insurance front. You want me to come back in the queue or I can continue?

Mohit Talwar: Would you like to kind of email us, just want to give a chance to the others?

Shrey Loonker: I will do that, sure.

Moderator: Next is a follow up question from Kashyap Pujara from Enam Securities.

Kashyap Pujara: I wanted to ask the question regarding the steady state margins that can be achieved. So, that's been answered, you have mentioned that you could hit 25% in the next few years, that's all.

Moderator: Next question comes from Amit Sureka from Aviva Life Insurance.

Amit Sureka: I was trying to understand that when we acquire the stake of Warburg in June, the company was valued at around 850 odd crore and today at the deal which we have done with Life Healthcare, the company is valued at around 1,900 crore plus. So, we are looking at almost more than 100% jump in the valuation in a span of 3½ to 4 months. Can you just help us understand why there has been such a sharp increase in valuation?

Jatin Khanna: Let me just first clarify you that 1,900 is post money value, so the pre money value is 1,500. Now we were giving an exit to Warburg, so if as a promoter shareholder, if we have to give an exit to a private equity without his going through a third party exit, which saves them from time and effort, of course we will negotiate a discount to the fair value of the business. The other thing you have to be mindful of is that, we are giving Life Healthcare a platform to come in India and to capitalize on India opportunity, so there is of course the price to be paid to getting the India opportunity. So, therefore the right answer lies somewhere between the two values, is where I would want to leave it.

Amit Sureka: The second thing is as you mentioned that you are looking for an IPO sometime down the road, is it possible for you to give us some sort of timeline which you have in mind for the IPO?

Mohit Talwar: It's difficult to ascribe a timeline, as I said we have to have scale, we have got to stabilize our operations, the new hospitals have to be up and running. So, I can't ascribe a timeline to it, but obviously it's in the short to term medium term.

Amit Sureka: Does the deal give Life Healthcare the option to increase their stake in the company going forward?

Mohit Talwar: Well, it's early right now, let's see how this journey, we are just starting with them, let's see how it evolves. These are all matter which will be discussed as we start this partnership.

Moderator: Next is a follow up question from Hiral Patel from Indea Capital.

Hiral Patel: I have a very basic question on the insurance business. Given the changes in the interest rates, how does it affect the overall solvency of the business and what kind of capital do we foresee going forward; let's say in this year for the insurance business?

Mohit Talwar: Prashant, will you take that please?

Prashant Tripathy: I will take that Mohit. Just to reconfirm, we are in a very, very comfortable capital position. At the end of September we hold about 900 crore over and above the target solvency margin, which is 170% of the solvency margin required. So, we are in a very, very good position and we don't require capital any longer. And as far as the change in interest rate is concerned, of course we are in a long term business and we hold all the securities till maturity, so there is no interest rate risk that we carry as far as the financials are concerned.

Hiral Patel: But does it affect the calculation of let's say the embedded value or stuff like that?

Prashant Tripathy: It does have an impact when we calculate the embedded value and it has to be seen in the light of which direction the interest rates are headed. As the interest rates go up, it might have a marginal impact on the embedded value, because of the changes in mark to market amount. However, in an economy like ours, where we are a long term player and our business's policy is for fifteen years, these things will continue to happen. So, we typically in our calculations as well as the disclosures talk about mark to market.

Hiral Patel: And how frequently do we mark to market, is it quarterly, is it monthly, is it yearly, how do we do it?

Prashant Tripathy: We do the EV calculation once a year when it gets published and that's when we do the mark to market.

Mohit Talwar: May I request the participants to kind of restrict their questions to one, maximum two, so that others get a chance as well?

Moderator: Dear participants, please press * and 1 for your questions. Next question comes from Ankit Agarwal from Barclays Wealth.

Ankit Agarwal: Just had one question on the insurance business, could you give us what would be the surrender profit number for this quarter and how do you see that moving, because I think post the coming up of the new norms, your September results will show a large composition of surrender profits? So, in the insurance business, how do we see that moving going forward?

Prashant Tripathy: So, I will take that Mohit if that's fine.

Mohit Talwar: Yes, please go ahead.

Prashant Tripathy: I may not have the surrender income numbers currently at hand to share with you, however I did the analysis a couple of months ago and our surrender is much lower than how we expected it to be. This is primarily happening because of the work that we are doing around persistency we are able to retain more and more policies. So, while on one hand it may not directly show in the P&L in terms of the surrender profits, but at the same time this will help in the business, because it has a very positive impact on the embedded value numbers. However, we are moving in a significant



manner towards traditional cost and traditional profits. So, I think the profits will have to be seen in the light of all this.

Ankit Agarwal: Alright, but approximately what would be the current profits, what would be the percentage approximately? I don't want the specific number.

Prashant Tripathy: Perhaps somewhere around 10%-12% is the number.

Ankit Agarwal: Alright. And just on the healthcare business, what would be the approximate replacement cost of a bed for our healthcare business, if you can just give me some idea about that?

Sujatha Ratnam: You will have to tell us whether it is going to be high end tertiary care or for super specialty.

Ankit Agarwal: For tertiary care.

Sujatha Ratnam: Tertiary care will be somewhere around let's say 60 to 65 lakhs per bed.

Ankit Agarwal: And in super specialty?

Sujatha Ratnam: It will be roughly around 50.

Jatin Khanna: Just to give you an example, at Bathinda and Mohali hospitals, they are sort of tertiary in the sense that they have couple of specialties, but not all of them, and it's a cost of 230 crore to set up 400 beds, I think that gives you an answer.

Sujatha Ratnam: One more thing I would like to highlight. See, it's the land which nobody knows; land plays a very crucial and significant element in terms of the total sale, so just keep that in mind.

Moderator: There are no further questions. Now, I hand over the floor to Mr. Mohit Talwar, Director - Corporate Development of Max India Limited for closing comments.

Mohit Talwar: I thought that was a great interaction, so thank you very much and appreciate your taking time off to be on this call. So, in case if we have been unable to answer few questions, like I said please email us or call us and we will get back to you. And I am hoping that we will have many such interactions going forward.

Moderator: Ladies and gentlemen, this concludes your conference for today. The replay will be available from 14th October to 18th October. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.