



**Max India Limited**  
**9M & Q3 FY11 Investor / Analyst Conference Call**  
**February 14, 2011**

**Moderator:**

Good evening ladies and gentlemen. I am Rashmiya, moderator for this conference. Welcome to the conference call of Max India Limited. 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 key pad. 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. Please go ahead, sir.

**Mohit Talwar:**

Yeah, thank you. Good morning, those participants who joined us from the US. Good afternoon for the ones in India. And good evening for the eastern part of the world. I would like to thank you all for being part of this earnings call. We are going to be talking about our nine months performance. And what we are trying to achieve through this call is to provide you a comprehensive overview of our businesses, its performance and we will try and address all your queries towards the end of the call. Before proceeding with the performance highlights, I would like to introduce my colleagues. I have with me Sujatha Ratnam who is the Chief Financial Controller for Max India, Jatin Khanna, Deputy General Manager - Corporate Development, Max India, Prashant Tripathy, Director - Business Development and Strategic Initiatives for Max New York Life and he is also the acting CFO. As some of you may or may not be aware, our CFO Sunil Kakar has left us for another company. I also have Mr. S. L. Narayanan, who is the CFO and Executive Director of Max Healthcare and Arvind Kakar, who is the Deputy CFO for Max Healthcare.

Okay, let me begin with a disclaimer first and this is regarding an article which appeared in the Economic Times today. Some of you may have read it. It talks about Max Healthcare investing Rs. 1,000 crore in the medical institute business. And all I want to basically clarify here is that neither Max Healthcare nor Max India has any plans of investing in the space of medical institute, this is an



investment in Mr. Analjit Singh's personal domain. Neither does Max Healthcare have plans of increasing its bed capacity to 5,000 beds as was reported. We have a short while ago sent in an intimation to the stock exchanges, that's something I just wanted to kind of start off today's call with.

Okay, having got this out of the way I would like to progress with the call and begin with the strategic perspective of the group and provide a snapshot of the consolidated financial performance for the nine months period. We are absolutely delighted that the group has turned profitable in the recent quarter. And this has been led by robust growth in revenue and sharp focus on cost management. Our life insurance business has successfully responded to the changing regulatory landscape by realigning its strategy for a sustainable and profitable growth. MNYL has demonstrated the inherent robustness and flexibility in the business model by turning profitable and outpacing the private life insurers de-growth of almost 42% in the quarter. We managed to stay flat to a negative 4% de-growth during the same period. Life insurance business turning profitable is significant positive for the entire group, as now the business will not need any further capital going forward. This implies that the treasury corpus of Rs. 580 crore, which you all would have read, that's available with us, this is going to be sufficient to ensure that funding for all our other businesses will be met. I would like to just share some key strategic shifts in Max New York Life as we progress through the call, there is going to be more details as we talk about the individual businesses. With regards to our healthcare business, that's also achieved a cash breakeven this quarter and it's been led by a sequential growth and improvement in its EBITDA margins. The expansion of the healthcare business in terms of doubling its bed capacity to 2,000 beds in financial year 2012 is progressing towards completion. And I would like to just repeat that it is 2,000 beds and not 5,000 as was reported in the newspapers. We believe that all our businesses will sustain the growth and profitability trend in the forthcoming quarters as well.

So, moving to our consolidated performance, our operating revenues posted Rs. 4,732 crore for the nine months period, that's up 19% from around Rs. 3,986 crore in the corresponding period. All our businesses have contributed to this strong growth and we will share more details when we talk about individual businesses. The operating revenue for the quarter was at Rs. 1,678 crore and this



also registered a healthy growth of about 16%. As I said in the beginning, the business turned profitable during the quarter reporting a profit of Rs. 38 crore, against a loss of Rs. 94 crore in the same quarter last year. Net loss for the nine months period has therefore reduced to Rs. 98 crore against Rs. 180 crore in the corresponding period. Our consolidated borrowings are around Rs. 447 crore, which includes Rs. 383 crore in the healthcare business, at Rs. 58 crore for the specialty film business.

I will now move on to the individual businesses, so let me start with the life insurance business. I would first like to take you through the key strategic choices and outcomes for this business and then follow through with their performance. The choices which we have made should enhance productivity, reduce costs and overruns, improve the persistency and shore up the embedded value and as a result of which we don't anticipate further capital requirements in the business as it has turned profitable. We are moving away from an investment oriented products game, which was being played, to a long term savings and protection product, which we call LTSP. And the definition of LTSP is anything with tenure of more than ten years and a sum assured premium of twenty times or more is defined as long term savings and protection from our perspective. We will have a bias towards traditional products given that they will have higher margins and ROEs. As you might have noticed from our results, we have now sold around 85% of traditional products in the previous quarter. So, this whole mix has undergone a change from the earlier period during the year. Going forward we anticipate that two-thirds of our products will be on the traditional platform and one-third will be on the unit linked. The change in sales mix will help us protect overall distribution compensation as well. This also calls for a shift in our customers segments. So we are going to be moving away from the mass market focus to a sharper focus on mass affluent+, which is a customer segment through a high quality agency supplemented by an enduring bancassurance partnership and we can talk about Axis a little later. This should drive up our productivity, our persistency and consequently our profitability. The shift in customer segment will help us to right size the company through an ideal mix of productive agency offices and fueled by about a thousand branches of Axis Bank through our tie up. This reshaping of strategy will help us achieve long term goals and leaner cost structures. The OPEX to premium ratio will come down from about 31% in FY10 to about 18% in FY12 and this needs to be further brought down to about 14%, so that the



cost breakeven which we anticipate will be achieved, will be in CY2014. We have also implemented some tactical changes to improve our persistency, which we believe will create a benchmark for the industry.

Now moving on to the performance of the business for nine months, gross premium income was at Rs. 4,130 crore, and this grows 19% over the corresponding period. APE, which is the individual first year premium adjusted for single pay was at Rs. 1,252 crore and that grows 7%. Premium conservation ratio at 80% is still amongst the top quartile of players in this industry. On some of the non-financial parameters, we have 3.3 million policies in force with an in force sum assured at around Rs. 147,000 crore and this is up 28% over last year. With the right sizing of our business under way, our agency strength is down from 75,000 agents to around 55,000 agents. But, these are essentially the non-performing tail that we have cut to optimize on our costs. Our average agency case rate and case size are at around 0.73 and 17,513 respectively which are still amongst the best in the industry.

So, in summary I would like to state that for this year we will be focusing on six strategic priorities. And these are,

1. Transform the current agency to a platinum standard.
2. Re-align product strategy to balance the strategic thrust that is move away from the mass segments to mass affluent customer segment and LTSP focus.
3. Build a robust multi-channel distribution architecture, which will include bancassurance.
4. Improve persistency and overall persistency to around 75% to 80%.
5. Focus clinically on cost management and
6. Proactively try and shape the regulatory agenda.

So, this was a broad overview of our performance and our strategy and we will be happy to address any queries which you have towards the end of this call.

I would like to now move to our healthcare business. And here again we are seeing an improvement in performance. As you all know we currently operate eight hospitals in the NCR region which is the National Capital Region and we plan to add four more in 2011 itself, which will expand our footprint in North India. For the first time we will be having operations outside of the NCR in Dehradun, Mohali and Bhatinda. Both hospitals in Punjab, which is Mohali and Bhatinda, will have 300 beds each. We will start with 200 beds and 100 beds will follow thereafter. The hospital at



Dehradun will have around 150 beds. We are adding a 300 bedded hospital in Shalimar Bagh which is in Delhi. And so if you aggregate all this, we are talking about 2,000 beds towards the end of this calendar year. Revenues across Max Healthcare's network of hospitals are around Rs. 507 crore and this has grown 31% year on year. Our contribution margin has improved from 57.4% in the nine month period of FY10 to 59.4% for FY 11. The margins for the current quarter improved further to 60.9%. EBITDA for the period is at Rs. 32.4 crore and this has grown 55% year on year. And EBITDA margins have improved from 5.4% to 6.4% in the corresponding period. We are also happy to announce that the EBITDA margins for the current quarter were at around 10.4%.

Some key non-financial parameters. We have current registered patient base of over 1.1 million patients. And Max Healthcare is now experiencing almost 250,000 patient footfalls every month. Our average occupancy across facilities is maintained at around 68.2% and the average length of stay is as low as 3.5 days. Average revenue per occupied bed has improved from around Rs. 20,000 to about Rs. 21,000 in FY11 for the nine months period. We have a network of 1,200 doctors which includes around 600 of them being on our rolls.

I would now like to move on to our health insurance business. This as you all know is still a nascent business. It's yet to complete its first year of operations. However, the initial sales are tracking well with a gross written premium of around Rs. 15 crore. They have covered about 30,000 lives so far. The first 10,000 of these, it took about 160 days. The next 10,000 took 79 days and the next 10,000 was only 63 days. So, as you can see there is an improving trend here. We still expect the business to breakeven in five years. Max India has invested Rs. 271 crore till date. And the peak capital requirement or commitment is about Rs. 700 crore, which will be shared in the ratio of 74:26 going forward. As you know Max India is adequately funded to take care of this requirement going forward. We are happy to report that company has also received its approvals from IRDA and they are going to be adding three more new products. One in the international medical sphere, the other will be an SME product and the third is a micro insurance product. So, all these three coupled with the heartbeat product which we currently have that should obviously accelerate the sales growth. They have managed to achieve the highest productivity in



the industry for agency and telesales and I think these volumes should be growing in the future as well.

Moving on to specialty films, in this business, the capacity utilization continues to be at 100%. Revenue grows at 24% year on year to Rs. 307 crore. Sales quantity has grown 6% year on year to 23,302 tons. EBITDA improves to Rs. 39 crore, growing 24% year on year with EBITDA margins at almost 13%. The business has reported a profit of Rs. 26 crore for the nine months period, which is a growth of about 82% year on year. In terms of the expansion plans, they are adding 22,000 TPA capacity. So, the total capacity will go up to 52,000 tons and this is well on track and we are operationalizing this in March 2011.

Our business in clinical research even though it's a small business, it continues to grow, the revenue has grown 27% to Rs. 16 crore; it's doubled its profit to about Rs. 2.2 crore. The order book is healthy at Rs. 28 crore as at December end. New orders are on another Rs. 12 crore in this period and additionally there is a business development pipeline of about Rs. 87 crore. So, this is tracking well as well.

So, in summary I would like to encapsulate what I have just spoken. The group is liquid with a healthy treasury corpus of almost Rs. 600 crore. We do not expect any further dilution in the equity base going forward. The group is now profitable on a consolidated basis aided by the statutory profits generated by Max New York Life and this is likely to sustain. Healthcare business has also turned cash positive and continues to grow its revenue and occupancy and expand its EBITDA margins. This should further improve with the additional beds that are being commissioned. Our specialty film continues to be profitable and it will be growing its capacity by about 70%. So, with that I would like to hand it back to the moderator and we will be happy to take questions. Thank you.

**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 key pad 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 # key.

The first question comes from Mr. Ram Balasubramanian from Intime Spectrum.

**Ram Balasubramanian:** Congratulations for a strong set of numbers. I have one question I just want you to throw light on that. Regarding the Rs 400 crore of cost control, can you just elaborate on what are the factors what are the parameters you have undergone to control these cost?

**Prashant Tripathy:** Even before the regulatory changes happened, we began our cost journey realizing that it was very important to ensure that we move in a direction to expedite expense breakeven position. And the key actions have been around shredding cost from, a) unproductive areas or unproductive distribution, b) looking at our corporate overheads and overall view, miscellaneous costs like travel, marketing expenses, some of the comp benefit line. So, it's been a very comprehensive review for all the elements of cost within the organization. We have also reviewed some of the models within agency and that is coming out to be Rs. 400 crore of annualized cost savings. So, these are annualized numbers and will get realized over the next year.

**Ram Balasubramanian:** Okay. And do you think even if the company has to expand going ahead, this sort of control can be still put in place and the company can still show some bit of profitability going ahead?

**Mohit Talwar:** Let me just kind of take this question a little forward. There are two types of cost cuts which have been executed. One is what's called the tactical stuff, the tactical cost which has been rationalized, the other is structural. Now, the tactical costs are the ones which Prashant has just mentioned and some structural cost. But, what I would just like to mention here is that we have right sized the company. Effectively what has happened is this is not a downsizing exercise or cutting back on offices etc. What has really been cut is the tail, the unproductive offices, we are not moving out of the city where there is an office, it becomes into a sales and service models. And let's not forget that with some offices which are going to be right sized, we are also adding 1,000 branches of Axis Bank, so in effect we have really right sized the company, if you look at it from a structural cost perspective.

**Ram Balasubramanian:** My second question is regarding the specialty films segment. Like you said that you are going to expand going ahead. What is the capacity you are looking for?

**Jatin Khanna:** 30,000 is the existing capacity, 22,000 is getting added.

- Mohit Talwar:** It goes up to 52,000.
- Ram Balasubramanian:** And we have been experiencing a lot of pricing pressures in the film packaging and going ahead do you feel like you can maintain these kinds of EBITDA levels?
- Sujatha Ratnam:** Yeah, it is possible.
- Mohit Talwar:** You see what happens is that this polymers business is kind of inextricably linked to the price of crude. However, in our case, the way the customer arrangements are, we are in a position to more than adequately pass on those cost increases as and when they come up. So, the margins going forward will be maintained.
- Jatin Khanna:** Our model is a little different as opposed to what you would have seen for some of the players like Jindal or Cosmo etc. wherein they follow that any price increase or any increase in crude prices, are absorbed or passed on or realized by Jindal. But, in our case we go by a protected delta. So, now the key number here is that what's happened to that delta? So, from about Rs. 21 a kg delta, we've increased our margins to Rs. 26.5 a kg which is essentially because of our better product mix and couple of new films which we have developed.
- Moderator:** Next question comes from Mr. Sudhakar from Span Capital.
- Sudhakar:** My first question is regarding the Hospital business. Just wanted to understand what has led to the significant increase in EBITDA margins compared to Q2? The margins have improved from 5% to 10.5% compared to Q2, so just wanted to understand the reason for the same?
- S L Narayanan:** I think primarily it's on the back of improvement in occupancy and the mix. And we have also looked at some cost items and rationalized cost.
- Sudhakar:** Because if we compare the revenue, revenue of Rs 170 crore in Q2 and Rs. 177 crore in Q3, looks almost flat, so just wanted to understand.
- S L Narayanan:** Therein lies the secret of this business, you see the kind of operating leverage that exists. So, from 64% if you move to 68%, the kind of kicker on the bottom line is enormous in this business.

- Sudhakar:** So, this 10% will be sustainable over a period of time?
- S L Narayanan:** We would like to improve on this, but we wouldn't like to give any forward looking statement.
- Sudhakar:** My second question is regarding the addition of thousand beds. Will this be in this year or next year?
- S L Narayanan:** All these beds would be operational towards the end of the calendar year. They will start opening around August and the last hospital will be opened for business sometime in October.
- Sudhakar:** On the Insurance business you said there wouldn't be any more requirement of capital in that business, just wanted to understand if growth picks up again to 30%-35% levels, you think the current capital is sufficient enough?
- Prashant Tripathy:** Yes, that's correct. I think we will be able to sustain that level of growth, because we have moved significantly towards traditional business. Anyway, the requirement on capital is kind of self-funded because our traditional funds have already turned surplus. So, we have tested those scenarios and even for significant growth scenarios we are prepared.
- Mohit Talwar:** Yes, you see the business itself and I am talking about the joint venture, they are also sitting with some liquidity and some more is likely to be added through the arrangement we have with Axis Bank. As you know we have bancassurance tie up, MNYL is going to be issuing fresh shares to them, so there is going to be additional funds coming into the business. So, combination of Axis money plus what they have currently to maintain the solvency as well as the business turning around and becoming statutory profitable, the likelihood of additional capital may not be there.
- Moderator:** Next question comes from Mr. Anubhav Adlakha from Morgan Stanley.
- Anubhav Adlakha:** I had a couple of questions. To start off, first on the life insurance business, just wanted one clarification or an understanding that your single premium business has grown up like 21% in nine months. So, is that primarily due to the tie up with Axis Bank?
- Prashant Tripathy:** If you look at the absolute numbers, while on percentage it looks significant. If you look at the crore numbers, it grows

only from Rs 155 crore to Rs 187 crore, so this is not a chosen strategy; these numbers go up and down. In terms of absolute numbers we are not in favor of driving single premium business, because we believe that that doesn't add so much to the value of the organization. We are a recurring premium business and that's our strategy. So, these numbers are just fluctuations, they will go up or down. So, don't go by the percentage, look at the absolute numbers.

**Anubhav Adlakha:**

But if you see the entire industry as a whole, it's more moving towards single premium business, so do you see that trend coming for yourself or you continue to be on those regular premium businesses?

**Prashant Tripathy:**

I repeat we have not chosen those strategies, which some of our competitors are following. We are not inclined to increase our single premium business and that's our chosen product strategy. These are tactical moves that we will continue to do to leverage some of the customers segment. But, we don't expect our percentage contribution from single premium business to increase significantly.

**Anubhav Adlakha:**

Next question is on your expenses of management ratio which is mentioned on page number five on your presentation has come down from 42.6 to 31.3, so this includes the commission and the OPEX?

**Mohit Talwar:**

That's correct.

**Anubhav Adlakha:**

So, now that number has come down. But now if I look at the number of agents, they have come down substantially, but the average case size hasn't grown up that substantially, because 28% decline number of agents per case per size for nine months has just gone up by 4% and the first year premiums have gone up by 7% and overall, total premiums have gone up by 19%. I am just trying to figure out whether this kind of management expense which is trending downwards, will you be able to continue to bring it down or we might see some upward trend?

**Prashant Tripathy:**

What I can confirm is the downward trends that you see on OPEX to premium ratios are sustainable and they are permanent in nature. If you are trying to link it to the number of agents, in a way these agents were unproductive and as a part of our recurring exercise that we continue to do, from time to time we take a call on the activity levels and we take out the inactive agents. So, anyways those agents who were inactive have been taken

out. And as the costs are primarily fixed in nature, by taking out the agents the overall production will not go down, but will remain steady.

And that's how the total premiums will not be impacted and the expense to premium ratios will continue to move in the downward direction.

**Moderator:** Next question comes from Mr. Kaustav Kakati from B&K Securities.

**Kaustav Kakati:** My question actually pertains to your professional expenses that you actually show in your standalone results. They have gone up by almost four times, is there any particular reason for that?

**Sujatha Ratnam:** There are two reasons for it. One is on account of the enhanced provision for the ESOP and second is on account of slight increase in the head count and the annual increment.

**Kaustav Kakati:** Okay and the increase in interest cost is because of the CCD?

**Sujatha Ratnam:** Yes. Increase in interest cost is on account of 12% CCD.

**Kaustav Kakati:** So going forward I think from the next year onwards it will not be there?

**Sujatha Ratnam:** Yeah, only till 10<sup>th</sup> of June.

**Mohit Talwar:** 10<sup>th</sup> of June, that's right.

**Moderator:** Next question comes from Mr. Ankit Agarwal from Barclays Wealth Management.

**Ankit Agarwal:** Just wanted some more detail on the Axis Bank tie up and what percentage of your revenues or on the premiums came from the Axis Bank channel this quarter? That is first. Secondly, your conservation ratio declined in this particular quarter, what are the specific reasons for that, because we have had industry leading conservation ratios? Just wanted to get a sense of why they are seeing a declining trend. On a nine-month basis also they are down from 84% to 80%. And thirdly, if you could give a sense of where do we see embedded values for FY11, will they be less or more than FY10 and where do we see the NBAP margins stabilizing? If you could give some sense over there.

**Prashant Tripathy:**

Let me go one by one. Axis has been a great story so far. We have done really well and we are tracking to our plans. I think around 25% of our first year premium is coming from Axis. On your second question, as the ratio or proportion of the ULIP business going beyond three years increases, there is some impact on the overall conservation ratios, because we are finding surrenders to go up in that cohort. This has to do with the customer believing that those policies were only for three years. While there is a lot of work that we are doing to educate the customers and retain the customers, the primary reason is the cohort which is graduating and becoming more than three years has grown and that's causing some impact on the surrender values. This reduction we believe is not permanent and there is whole lot of work at the moment going on to significantly improve the conservation ratios. We have moved towards annual modes more and more, because we find persistency and overall conservation ratios are better there. So, we have made significant move towards more of annual modes. All the monthly and quarterly modes have been put on ECS to minimize the impact of, drop off of these policies. At the same time we have taken special initiatives to create and meet your mentor program where we are linking the new agents to the existing agents and we are ensuring that there is a positive impact on the 37<sup>th</sup> month persistency for agency. There are all kinds of ratings that we have created around agents qualifying to their R&R only after they meet a certain persistency target, there's welcome calling for this. I am trying to demonstrate to you that there is lot of work that is going on at the moment to work on it. And we believe that we will catch up in the next couple of months on the persistency and on conservation ratio numbers. On your third question on overall embedded value, the embedded value is moving in a positive direction. And while there will be an impact on overall NBAP margins, because of the regulatory changes. We expect the NBAP margins in the new regulatory regime to be in early teens. And as and when we close the year, we will come back to you with revised embedded value number for FY11.

**Mohit Talwar:**

And on your first question on the arrangement with Axis Bank. The arrangement is a ten year corporate agency agreement, which was signed last year. It details issuance of equity with them and that's 4%. So, basically the whole idea is to make them not just another platform through whom you are going to sell your insurance, but also it's more like being a long term strategic partner in the business.

- Ankit Agarwal:** Thanks a lot for your responses.
- Moderator:** Next question comes from Mr. Subramaniam PS from Sundaram Mutual Fund.
- Subramaniam PS:** Just wanted to get a sense on how the AUM mix has moved between equity and debt over the past two years, is there any change in mix in policies, if you could just share some numbers?
- Jatin Khanna:** First let me just correct you to an extent that we don't put any equities in traditional funds, so all our equity investment goes only into the unit linked funds, wherein the mix is about 60-40 and we typically remain at about 60-40 only, other than the fact that if there is a lot of fluctuation in the equity market, then we come down to about a 50% level. And the mix between traditional and unit linked is about, one-third for traditional and about two-third for unit linked.
- Mohit Talwar:** Yes, the AUMs are at about Rs 13,000 crore. Just also to tell you, one of our funds which is a super growth fund, it allows and entails the company to put in basically upto 100% into equities. Even in that fund, we don't go beyond 70-80%. It's a fairly conservative approach.
- Subramaniam PS:** Sure, what I wanted to understand is of your total AUM, how much would be the ULIP AUM, how much would be the non-ULIP AUM? Is that something that you could disclose?
- Prashant Tripathy:** Yes, it will be 50-50. This is equity versus debt. I am not breaking it versus ULIP and traditional, I am saying equity and debt are 50-50.
- Mohit Talwar:** Yes, on a portfolio basis for the company, if you look at the cut, we will have 50% in equity and 50% in debt.
- Subramaniam PS:** Okay and was this ratio similar say some time during March or a year ago?
- Jatin Khanna:** As the time goes by equity increases a little bit in the proportion because the returns on equities are expected to be disproportionately higher than the returns on debt. And as you would be aware that equity markets have almost doubled in a year, so the mix has certainly changed.

- Prashant Tripathy:** The mix has been going more in favor of the equity for two reasons. One, the market revival as Jatin was mentioning. The other one is, in the last three-four years, our percentage of unit linked business has been more than traditional and we have been collecting renewals against that, which is again going into the equity market. So, the ratio has been moving up. But as Mohit just explained to you, the strategy going forward is more biased towards what we call as long term savings and protection, which means we will try to rebalance that and the focus will move back towards more of debt than more of equity as we ride the new business.
- Mohit Talwar:** On this I just want to add something here. We are probably the only insurance company which does not play in the guaranteed segment. Since you guys are aware of this, given the facts that while the risk on something like that could be managed, but there is a huge mis-selling risk there. And so both New York Life as well as Max, we have taken a conscious decision not to play in that market, which the other players are doing so quite a bit.
- Moderator:** Next question comes from Mr. Aditya Singhania from Enam Holdings.
- Aditya Singhania:** I have two questions. Just wanted to check on the expense breakeven you mentioned calendar 2014, is that correct or was that FY2014?
- Mohit Talwar:** Calendar 2014.
- Aditya Singhania:** Is that a slight change or postponement from what you had indicated earlier?
- Jatin Khanna:** We are still looking at it, either it will end of FY14 or it will be first quarter of FY15. So, broadly we are not looking at a change per se.
- Mohit Talwar:** But it is just a few months here and there, yes, there is no dramatic change from what we have been saying in our earlier calls and our meetings.
- Aditya Singhania:** And second from the Axis bit, you mentioned 25% of first year premium will be coming from Axis, just wanted to get an exact number if it is possible on YTD sales or third quarter sales?
- Jatin Khanna:** Third quarter sale is Rs 116 crore.

- Aditya Singhanian:** Right and cumulative would be?
- Prashant Tripathy:** We have done around Rs 200 crore.
- Aditya Singhanian:** And is the 25% of first year premium a sustainable number or are you looking to ramp that up higher?
- Prashant Tripathy:** We are looking at anywhere between 25% to 30% going forward.
- Aditya Singhanian:** And just following up on that, assuming that the Axis channel were to somehow ramp up better, would 30% be a cap or would you try and place or are you comfortable with it going up to 35%-40% as well?
- Prashant Tripathy:** There are two primary channels that we are definitely looking at. One is agency and the other one is Axis, both of them in our opinion are strategic and we will try to push out through both the channels. We have not put any cap because the business that we are getting through Axis is very healthy in nature. We are very happy with the productivity ticket sizes, overall experience, cancellations and stuff like that. If that's a measure of the health of policies which are written through Axis, we are happy with it. So, we will not like to put a cap. But, looking at our plans on the agency and how we are planning to grow agency, we expect that the overall proportion will fall anywhere between 25% to 30%.
- Aditya Singhanian:** Can you give a rough sense on growth in first year premium for FY12 that you can guide to?
- Mohit Talwar:** In FY12 you are basically going to see a flat to a 10% growth. However, we are looking at a three year scenario and we are expecting from Max New York Life a CAGR of anywhere between 17% to 20%.
- Aditya Singhanian:** This is FY11 to 13?
- Prashant Tripathy:** Yes and we just came out of our long term strategic plan and these are long horizon plans, where we have looked at three years' growth rate. We believe that currently industry is going through some, tough and unpredictable situation, so we can forecast the long term growth much better. We expect that we will definitely follow industry growth rate, but at the same time like Mohit has mentioned to you, we are looking at flat to marginal plus or minus.
- Aditya Singhanian:** This is for FY12?

- Jatin Khanna:** To be specific on the time horizon of the growth, it's FY11 to FY15.
- Aditya Singhania:** Right, thank you very much.
- Moderator:** Thank you sir. Next question comes from Mr. Venkata Rajesh from Premji Invest.
- Venkata Rajesh:** I need one clarification on the NBAP margins. You have indicated that they are in the early teen or are actually below it in single digits right now and you would see them in early teen?
- Prashant Tripathy:** No, just to clarify on a structural cost basis, we expect our NBAP margins to be in early teens.
- Venkata Rajesh:** Is that in another six months or are they currently in early teens?
- Prashant Tripathy:** No, we are currently on the structural cost basis; we are in the early teens of NBAP margins.
- Mohit Talwar:** See that earlier we used to disclose it to about 20 odd percent. Given all that's happened in terms of the regulations, if you want a number I will be happy to stick my neck out to say it will be somewhere in the region about 13%-14%.
- Venkata Rajesh:** And does this includes cost overrun?
- Mohit Talwar:** It is on structural costs and cost overrun till break-even happens in 2014 goes to EV. Having said that this is still a very attractive business, from the point of view of IRRs and ROEs, it's still a 20% plus business. So, if you have margins at these numbers plus if you look at cost to capital, so we are looking at anywhere above 20% anyway.
- Venkata Rajesh:** And one question on the conservation ratios, you mentioned that you are seeing this decline because of ULIP products, customer profile actually stopped paying premiums after three years. So, do you think 78% is base and conservation ratios will keep moving upwards from here on?
- Prashant Tripathy:** That's correct. We are looking at coming back to where we were in last two-three quarters and there is lots of work that is going on. And at the same time with increased focus



on additional size etc. we believe that our overall conservation will go up. So, we are not seeing this number as a permanent number and it will go up. Just to also give a view, we believe that our 37<sup>th</sup> month ULIP persistency is also of superior quality and it's much better than competition.

**Venkata Rajesh:**

Yes that's it from my side.

**Moderator:**

Next question comes from Mr. Veekesh Gandhi from DSP Merrill Lynch.

**Veekesh Gandhi:**

Just one small clarification, I think you just mentioned your NBAP margins to be in the region of 13%-14% from 21%. Without getting into comparison, there are still players who are reporting upwards of 18%. So, I just want to understand where the disconnect is, given that you are looking at a slide of almost 800 bps versus industry players who are still maintaining that the slide will not be more than 200-300 basis points, so just wanted to get your thoughts on that.

**Prashant Tripathy:**

Yes it's a really great question and I and Mohit were talking about this question. As you might understand in the new regime there is lot of sensitivity between the NBAP margins and the persistency numbers. And that persistency number is on the basis of assumption of persistency in the breakeven year and that could be prudent, that could be aggressive, that could be unachievable and depending on your assumption, you can have the NBAP margins calculated. Knowing Max New York Life, where prudence is the way we operate, we have taken the prudent approach on persistency and that corresponds to the NBAP margin of 13%-14%. However, if we were to assume a much higher level of persistency, and that's the direction in which we are going to continuously work, that number can go up to 18% and 19%, if we go up by say 8% to 10% of persistency improvement. So, for the time being we are going with the prudent assumption on persistency and the corresponding number is 13%-14%. Keeping in mind reported numbers depending on their persistency assumptions; we only know that our persistency is much better than the competition persistency numbers. And if persistency indeed moves in a northward direction, we will still continue to be the leaders.

**Veekesh Gandhi:**

I know you partly answered this question, but do you expect this number to go up and stabilize in late teens or somewhere down the line or you are going to still work on

that 13%-14% moving to 15%-16% or a roundabout for next couple of years or will that number move to 18%-19% back? I am talking probably from a mid-term point of view like three years or two years.

**Prashant Tripathy:**

I think the question is very futuristic. So, needless to say we will continue to work in a direction where NBAP margins continue to go up. But, where they will stop, will depend on the ability to drive the persistency up. To answer the question, we will continuously endeavor to drive up our persistency.

**Moderator:**

Next question comes from Mr. Hiren Dasani from Goldman Sachs.

**Hiren Dasani:**

Taking up from the last question, would it be possible to know what kind of persistency assumptions you are building in for your 13%-14% NBAP?

**Prashant Tripathy:**

We are building about 70% persistency on 13 months persistency for the traditional business and 75% for ULIP business, which is very close to the achievable targets as to where we are.

**Hiren Dasani:**

But, would you say that structurally persistency would be somewhat lower in the new regulatory regime as compared to what it used to be earlier because of the lower incentive for the customer to remain, the lower surrender charges, etc.?

**Prashant Tripathy:**

No, actually we are expecting the persistency numbers to go up. So, these assumptions are quite prudent. We believe for all the initiatives that we have already taken around moving drastically towards annual mode, improving the ECS on monthly and quarterly mode, we will definitely see a jump and this will come closer to our assumption in a very short period of time. Specific to your question on whether in regulatory regime the persistency will go down? We don't quite believe that. I think with the changes on ULIP, which brought an increase in the minimum term from three to five, the persistency will go up.

**Mohit Talwar:**

If I can just kind of add to what Prashant is saying and anyhow this is where I think MNYL is somewhat different from the rest. It's the whole selling process. The way our agents sell, it's what we call a need based selling. Now, if you are sitting in front of a customer, the needs of that customer do not change over a period of time. If the basic needs whether it is educating your kids or getting your

daughter married or, your retirement planning, this does not change. So, if there is no mis-selling, then I think persistency and conservation, these things will automatically follow irrespective of the regulatory changes which currently are hitting us as headwinds.

**Hiren Dasani:**

Against the 75%, 13 months persistency assumption, what would be the current 13 months persistency for ULIP and for traditional?

**Prashant Tripathy:**

So, these are numbers which keep going up or down. We will be anywhere between 67%-68% currently. However, as you may realize persistency is a lag indicator, it's not a lead indicator. I think collection and conservation ratios are more lead indicators. And we believe that for the tranche of business that we wrote which will move into a 13 months persistency next year, we will be able to take it to about 75% and hence our assumption is on the basis of 75%.

**Jatin Khanna:**

Just to add to Prashant's point, now he spoke of couple of things, which is in terms of shift towards annual mode and ECS on monthly and quarterly mode etc. The moment we adjust our books for all that, our persistency anyway moves up to 80%. So, if at all the 75% persistency on unit linked or 70% persistency on traditional, and these assumptions if at all are conservative, not aggressive; this is all we are trying to say.

**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:**

Yes, I just like to thank all of you for taking time off to be on this call. I do hope that we have addressed all of your questions, but in case you still have some other questions, please don't hesitate to get in touch with us. And if you have missed out anything on the call, the recording of this call will be available and the transcript will be put onto the website. So, we look forward to more interaction. Thank you very much for your time.

**Moderator:**

Thank you sir. Ladies and gentlemen, this concludes your conference for today. The replay will be available from February 14<sup>th</sup> 2011 to February 18<sup>th</sup> 2011. 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 evening.