



Max India Limited

Q4 & FY2009 Investor / Analyst Conference Call June 29, 2009

Mohit Talwar: Good afternoon everyone and thanks for being part of the Max India earnings call for Financial Year 2009. As always through this call, we would try and provide you with a comprehensive overview of all our businesses and thereafter we will try and address all the queries, which you all may be having. If something remains unanswered, we would definitely get back to you in due course. Before proceeding, I would just like to introduce my colleagues who are here on this call. There is Ms. Sujatha Ratnam – Chief Financial Controller for Max India, Mr. Sunil Kakar, CFO of Max New York Life, and Mr. Arvind Kakar, CFO for Max Healthcare.

Let me begin with a quick overview in terms of our strategy and give you a perspective of the group including a snapshot of our consolidated financial performance for the year gone by 2009. We are happy to report a strong growth in all our businesses. Despite the challenging macroeconomic environment which has caused some amount of moderation in the growth of our businesses in the recent quarters, the robustness and the inherent strength of our business model places us in a relatively better position. This is evident from an increase in market share by about a percent for our life insurance business as well as the healthcare business turning cash positive. We are happy to report that our consolidated revenue has crossed the US\$ 1 billion mark growing 35% year-on-year. IFC's recent investment in Max India as most of you may have read about it – is a true reflection of the growing interest in our businesses. We remain unabated in our endeavor to enhance value for our shareholders and in keeping with utmost level of transparency through improved disclosures as we have in the past. We are happy to report a 74% growth in embedded value of the life insurance business to a level of Rs. 2,300 crore for the year gone by. VNB, which is value of new business, is at Rs. 312 crore and this is growth of 17% over the previous year implying NBM of 21% on annualized first year premium adjusted for 10% of single premium and 50% of limited pay products. On the back of significant expansion in our Life Insurance business, our post tax losses increased from Rs. 60 crore to Rs. 333 crore, and we will talk more about that later on the call. The results of this expansion would, however, be obviously visible through the growth in the later part of this year. Our healthcare business has commenced its second leg of expansion, which is beyond the NCR. It is all set to build two multi-specialty hospitals in Punjab with 300 bed each under a PPP by the year 2011, in addition, to 180 beds in Dehradun planned during the next year. We are looking forward to another 1,000 bed capacity coming up by financial year 2012, of which 500 beds should come out within a year or so. In terms of our MSP business, we are encouraged by 100% utilization of capacity and we are all set to add another 20,000 tons line, which should take the capacity approximately 50,000 tons.

In terms of governance, we have further improved the governance Model at Max India and its subsidiaries recently by appointing a Vice Chairman who has global domain expertise and also various other experts on the boards of our subsidiary. Mr. Anuroop (Tony) Singh has been appointed as Vice Chairman – Non Executive of Max India Limited, Ms. Marielle Theron, and Mr. Omkar Goswami have been appointed as non executive directors at Max New York Life. Mr. Ajit Singh has been appointed as non executive director of Max Healthcare. Professor Ram Charan, who is a global Management Guru, has been engaged to facilitate strategic dimensions of the group. Mr. Tony Coleman has also been engaged as a Business Advisor to the Group. All these people are individuals of eminence and they bring adequate domain expertise and knowledge in their respective fields. In the case of Max Bupa, this joint venture is well on course to start operations in the next 12 months or so. Our top management team is in place headed by Dr. Damien Marmion, and we await regulatory approval before the business commences.

I will just share with you the consolidated highlights for the year. Revenues are at Rs. 4,900 crore and grows 35%. Operating revenue at Rs. 4,500 crore, is up 39% from the corresponding period



last year. As at March 31st, we had a treasury corpus of Rs. 413 crore, which includes Rs. 305 crore in Max India, Rs. 108 crore in Max Healthcare, and I just mentioned about the IFC Washington Investment, which is an additional Rs. 150 crore of recent infusion. Consolidated Borrowings are at Rs. 347 crore, which includes Rs. 236 crore in the healthcare business and Rs. 100 crore in the BOPP business. Basically, the debt equity ratio is at a very healthy level. Moving onto individual businesses, let me start with Life Insurance Business, which as you all know is a largest deal. Gross premium income recorded Rs. 3,850 crore, a growth of 42% over the corresponding period last year. New business sales for the year was around Rs. 2,100 crore and has grown 25%. APE that is individual first year premium adjusted for single pay is close to Rs. 1,600 crore and it is up 22% against the private players growth of 1% this has resulted in a 1% gain in our market share to 6%. Assets Under Management has crossed US\$ billion dollar mark and it is over Rs. 5,400 crore, up 51% from Rs. 3,575 crore in the corresponding period. Premium conservation ratio, which is a key parameter for tracking persistency for all life players is at 82% and it is amongst the top quartile players in this industry.

Moving onto some non financial parameters, we sold over 1.2 million policies during the year and currently have 2.6 million policies in force. Sum assured in force as at March 2009 is Rs. 94,000 crore and has grown 40% year-on-year. We have more than doubled our agency strength and our distribution network to 84,000 agents across 581 offices in 382 locations. We intend opening about 100 offices every year going forward. The employee strength has also increased from 7,700 employees to 15,400. This is all the expansion, which I referred to earlier and that has been the reason for the increase in our losses. Our average agency case rate and case size is at 1.1 and 19,000 respectively and again amongst the best in the industry. Both Max India and New York Life are totally committed to the growth and this is exemplified through the additional capital injection, which has taken place. We invested Rs. 750 crore in the business during the period taking its total capitalization to Rs. 1,782 crore and going forward we will continue to inject fresh capital as and when needed. MNYL has strengthened its partnership distribution relationships by entering into broker relationship with India Infoline, which as you know is a leading financial services distributor, and has a network of over 700 branches in 350 locations across 25 states. Peerless has also been signed up to distribute our innovative products, which is Max Vijay and encouraging results are visible already.

Let me now talk about our healthcare business, which is Max Healthcare. As you know, we currently operate eight hospitals in the NCR region with plans to add seven more. Construction is under way in three of the seven proposed hospitals and funds are being tied up for the other four. 260 bedded hospital at Patparganj that was mentioned in our last call is on track to commence operations in October this year and a 100 bedded hospital in Saket and a 180 bedded hospital in Dehradun are all on track to commence operations within a year or so. Revenues across Max Healthcare's network of hospitals is at Rs. 423 crore and grows 13% year-on-year. Our contribution margin improved by 340 basis points from 53.1% in 2008 to 56.5% in 2009. EBITDA for the period is at Rs. 29 crore and has grown 46% over the previous year and as reported earlier the business has turned cash positive. Moving on to some non financial parameters, we have a current registered patient base of over 7,50,000 patients in Max Healthcare and is now experiencing over 1,60,000 patient footfalls every month. Average occupancy across our facilities is maintained at 65% and the ALOS, is at 3.3 days. Average revenue per bed has improved from Rs. 18,900 to Rs. 19,400 and is one of the highest amongst the Private Healthcare Service providers. Our network of doctors is at 1,200 of which 500 are on our rolls. Now I would like to just move onto the BOPP business. Capacity utilization is at 100% and is growing its capacity by another 70% to 50,000 tons. Revenue grows 21% year-on-year to Rs. 370 crore with sales quantity growing at 19% to 28,500 tons. Contribution margin, however, reduces to 36.9% and that is due to the volatility the crude prices witnessed during the year. EBITDA improved to Rs. 51 crore growing 4% year-on-year, but the margin contracted to 13.9% for the reasons which I just mentioned. Profit reported is Rs. 25 crore.



Moving on to our clinical research business, which is Neeman, revenues are at Rs. 14 crore, which grows 29%. Net earnings for the business is Rs. 1 crore, which has grown 20% year-on-year. The order book is healthy at Rs. 40 crore and grows 18%. New orders are at Rs. 27 crore and there is a robust business development pipeline of about Rs. 125 crore. With this snapshot, I am just throwing it open now for questions please.

Moderator: Thank you Sir. 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 # key. Our first question comes from Ms. Naga Deepika of Capital Market.

Naga Deepika: Hello.

Mohit Talwar: Yes, go ahead.

Naga Deepika: Hi Sir, good afternoon. Well, while hearing your previous calls we have got our guidance around Rs. 500 crore of loss for FY09, but it was surprising that we ended at very lower losses. Where do you see that we contained these losses?

Mohit Talwar: Okay, I pass that over to Sunil Kakar, the CFO.

Sunil Kakar: Yes, large part of the losses for Max India are driven by Max New York Life, which is the Life Insurance Company, so two, three events happened. The last quarter, which is January-February-March and even for the last six months as you would know, I guess the sales have not been as what we had anticipated in JFM. Now this is a strange animal, which I keep saying. If you have lower sales the losses also come down quite a bit, so higher sales actually results in higher losses. So that was one contributory reason – the lower sales because of the macroeconomic environment than anticipated earlier and second, also this is a large amount of actuarial reserves, etc., and decisions around that get taken place once a year around March and reserves are huge. Actuarial reserves run up to Rs. 4,000 odd crore and a small change in terms of either the amount of dividends, can make Rs. 100-200 crore movement very easily in the reserve line and all this is done on an annual basis when we close our books as of 31st March, you determine what surpluses are being created. So these two events have largely contributed from New York that is the insurance side to kind of lower losses. In addition to that, earlier when we had planned a few more expansions, which given what was happening around, kind of moderated our growth plans. Actually we stopped opening new offices and we managed our expenses like any responsible corporate citizen to ensure that expenses are in line with the kind of revenues, which we were anticipating. I wish we could have done more of it, but broadly speaking in that order sales, reserve change, or not change I would say, the finalization of the reserve, which happened on 31st March and our moderating of investment growth.

Naga Deepika: Sir, another query I have is for the EO that was of around Rs. 22.62 crore of diminution on Max Health Staff International – that was provided in stand-alone. Where did we provide this in the consolidated? It was moved to other expenditure or what else?

Sujatha Ratnam: In the consolidated results we will not find that for the simple reason, the investment of one entity happens to the share capital for the others whereas on a stand-alone basis, you will have the impairment of Rs. 22 crore lying in Max India.

Naga Deepika: One more query, it is only query for clarification. These new 1,000 beds added by FY12? This includes a breakup of 180 bed at Dehradun, 260 beds at Patparganj, and 100 beds, these all are included right?



Arvind Kakar: Yes, it includes and it also includes our expansions at Shalimar Bagh, Greater Noida, Mohali, and Bathinda.

Naga Deepika: Can you please give me a break up, when we will these beds get, in the FY10 how many beds will be accomplished and FY11 how many beds and FY12 how many?

Arvind Kakar: By April 2012 we will have all these beds in place, the total capacity. For example, Shalimar Bagh will come up by April 2011 that is 300 bed, another year from that would be Greater Noida and another 300 beds, and by another two years' time both Mohali and Bhatinda will reach the full capacities.

Naga Deepika: In the clinical research you have already said around Rs. 40 crore was order books and the new additions in this quarter were around Rs. 27 crore, is it right?

Sujatha Ratnam: That is for the year.

Mohit Talwar: That is for the year 2009.

Naga Deepika: Yes, Rs. 40 crore was order book as on March 31, 2009 and you said new net additions were there of around Rs. 27 crore, new orders of Rs. 27 crore? I did not get that

Sujatha Ratnam: That is for the year as a whole. Rs. 27 crore is the new order for the year as a whole in FY09.

Naga Deepika: Okay and in the presentation you have given net additions of around Rs. 12 crore was during the quarter?

Sujatha Ratnam: Yes, that is during the quarter.

Naga Deepika: Okay, thanks. that is from my end.

Moderator: Our next question comes from Ms. Tabassum Inamdar of UBS.

Tabassum Inamdar: Couple of questions on insurance. First of all just trying to understand the EV calculation. The unwinding of discount seems rather high at Rs. 1.9 billion. Also, wanted to know what is the other adjustment in market value or if you can you just explain that first?

Sunil Kakar: Yes. The unwinding of discount is basically the amount which Rs.1,316 crore if one year forward and even if you were to take that as a year.

Tabassum Inamdar: So what is the interest rate, the discount rate would be like 13% or so right?

Sunil Kakar: We have discounted everything at 13%. So that would go high. I could send you the breakup of that independently, but that is how it works. It is basically the unwinding of the 13% discount, which we had taken.

Tabassum Inamdar: That should be on value in force, right? The value in force last year was about Rs. 9.5 billion.

Sunil Kakar: Yes, and will be some on the Rs. 362 crore also there which is the Net Worth, also some interest income are there. As I said Tabassum Inamdar, we can send you the breakup details of what that contains. Broadly speaking, the market value movement, which was your next part of the question, is basically the assets – for Embedded Value calculation all the government secured debt securities, which are a part of the shareholder and everything are captured on a mark-to-market basis rather than on a book value basis, which is there in our books of account.



So the change last year in 1316, the interest rates were reasonably high and then compared to book value there was a loss. This is the market adjustment, which we have to do as per definition of how the embedded value includes that particular assets. The other adjustment of Rs. 55 crore has a long list, which includes some opening adjustments, part of shareholder expenses, which goes through and, I would say, broadly speaking these are not necessarily an ongoing kind of adjustment. These are one time one off adjustments, which are there and from the actuarial side it will take time, I do not think this is an appropriate forum. There are at least six-seven items, which kind of plus/minus move into the story, but broadly speaking large part of it is part of it, as I said, the surrender charges, and there is some book adjustments which we had to do for change in improving the modeling assumptions of this. But the key number since we did pick up on the Embedded Value there are two things I would just like to share that the operating variance is (+) 9 seeing that there is minor coloring code issues. It is a (+) 9 not (-) 9 and the other key vector, which I would link back to what Mohit was saying, is the cost overrun which we have shown of Rs. 392 odd crore. Last year this number was obviously negligible or very small and large part of this is basically based on the fact that we did do a whole lot of expansion or investment during the third and fourth quarter, which in the initial few years causes strain in terms of the expenses and simultaneously the macroeconomic environment was not very healthy and even the level of sales, which we had anticipated did not come through. So from the actuarial perspective the overrun did take place and this is the number, which we expects as we go forward, will start coming down and as these offices become more productive in nature. As we had mentioned earlier also our intention is to close the expense gap by 2012. This is the number which relative to last year has popped up, but this is a known,. The NBM and the implied value of new business is on structural cost. If we were to take on actual cost, we would have to net the two off, which is almost coming to 0 or slightly negative. The rest is there and I hope we continue to share these details, and provide the value of new business along with embedded value, which should help all our investor community to be able to make a much better valuation process.

Tabassum Inamdar: Sunil, can you just maybe also talk a little bit about the margin because I guess one of the confusion we have is that volume growth clearly have come off and the volume growth assumption which you had maybe two years back and what you should be having now would be quite different. Plus also the persistency ratio slippages or other adaptations have increased across the industry during this year whichever company renewal numbers you look at. So should the margin number really remain where it is or is it that you have changed the products to charge more and therefore you are managing to keep your margin intact?

Sunil Kakar: I will answer that. Some very good questions and I hope this does reflect the questions all others have. Broadly speaking in our release also on a like-to-like basis, ,There was a margin squeeze by about 80 basis point. We have now adjusted 50% for limited pay product. I am addressing the margin first, I will come to the volume growth question in a minute. On the margin side, through the modification of product mix as I have always said last year we saw about 80 basis point reduction. On going forward, as we have said we can all anticipate – our intention would be to ensure that this margin at best it will get squeezed a little as competition increases and products are being designed, but it is not going to drop off the cliff. A 200 basis points – over a two-three year period maybe 50 basis points every year is a kind of thing I can see. and then it should stabilize in that direction. Our persistency ratio as reflected in the conservation ratio –has dropped marginally from 83 to 82, so without doubt and I do not have everybody else’s numbers in front of me, but I can state without any doubt that relatively speaking this would either be the best or at best maybe one or second best I guess, but this is definitely significantly better than what many of our large players have been reporting given their renewal income is known. You know what the last year’s numbers are. Most of the competition is running around on an average 70% and even players, which had done extremely well last year, have dropped below 80. Now, having said that we have had a very intense focus on ensuring that the renewal premiums are managed properly and the fact remains that we have always claimed that our sales process is a need based process, which ensures that most of our agents do set appropriate level of expectations, and we do sell long-term oriented products. But as I said our conservation ratio is



82, which is probably the best in the industry currently and we have put in processes in our operations to ensure that we continue to manage this at a high level.

Last but not the least, but most important question you asked was respect to volume growth. Yes, prior to September 2008, which I call the financial tsunami, growth rate anticipated as well as the plans for investing in the infrastructure have been re-calibrated currently and this is a million dollar question and I can ask a few people here. All I can say is we hope that our growth rate will out perform the private player's industry growth rate by at least 10% to 15%. I can tell you this quarter, April-May numbers are out and we all know (-) 26-27 and we are at (-) 6. It is not that we are not negative, but definitely the delta or the spread we anticipate to maintain is at least around 15 odd percent. Current financial year 2009-2010, again this is a view, not a guidance, the industry growth is expected to be somewhere in the range of 5%-10% and correspondingly I guess we can add and see what the spreads are. But roughly, as I would say private player industry this financial year is expected to be on a single digit growth rate. Beyond that for two-three years as I said it gets a bit more difficult, but as I said our intention is to maintain almost 1% point of market share capture, we went from 5-6, rounded off, of course. I hope 6-7 and 7-8 before we stabilize. So by 2012 when we expect to break-even and then stabilize, it is our intention that we can increase market shares by another 200 odd basis points. Whether it happens on the first quarter or last quarter is another story, but that is the direction we are heading towards and the growth rates are significantly moderated compared to what we were thinking earlier.

Tabassum Inamdar: Okay sir, thank you.

Moderator: Our next question comes from Mr. Akash Lathi of Kotak Mahindra Bank.

Akash Lathi: Hello. My question is regarding the BOPP division. If we consider the margins of BOPP without considering any income from investment, the overall margin of FY09 has come down and I just wanted to know the reason behind it, mainly reasons behind it?

Sujatha Ratnam: That does not come under BOPP. It comes under Max India. You said BOPP. See there has been a decline in the corpus from almost Rs. 1,056 crore to around Rs. 300 crore. You will appreciate with the corpus coming down; generation of any income will also come down. It is in line with the decline in the corpus.

Akash Lathi: Okay. No, basically there are two divisions. One is into investment and one is into BOPP under Max India Limited?

Sujatha Ratnam: Under Max India Limited you have BOPP, you have foil division, and you have the corporate division. These three segments are there. Now as far as treasury income is concerned it falls under the corporate. As I said, at the beginning of the year, the corpus was at a level of almost around Rs. 1,056 crore. Over a period of time, that is, during the year that got depleted to a level of Rs. 300 crore. Largely it was in the form of business investment through Max New York Life, and we had also refunded Rs. 174.20 crore to New York Life that was by way of refund of option deposits. These two itself almost aggregated to about Rs. 700 crore. That is the difference between the opening and the closing balance in terms of the corpus and hence the decline in the treasury income.

Akash Lathi: My question is not regarding the treasury. I just would like to know about the BOPP margin basically. It is obviously substantially down. What are the main reasons, because decrease in the margin of BOPP division?

Sujatha Ratnam: That is because of the volatility in the crude prices.



Akash Lathi: Only because of crude prices? Because it is down I think somewhere around 3% from 7%.

Sujatha Ratnam: But it has been very volatile in the 2008-2009 if you see. We have seen a very high of almost I would say 140 dollars a barrel and it has come down to a level of even 67 dollars a barrel.

Akash Lathi: Okay that is it madam, thanks.

Moderator: Our next question comes from Mr. Srikanth Vadlamani of Nomura Securities.

Srikanth Vadlamani: Hi. I joined in a bit late so I do not know whether I missed this, but I wanted to know the operating cost of premium ratio for this year in the insurance business?

Sunil Kakar: It is around 42%.

Srikanth Vadlamani: Okay. What is the sense of the direction, obviously it is going to go down, but in terms of the quantum how much should we be looking at next year?

Sunil Kakar: That is a tough one, man. As I said that would require being able to forecast the sales.

Srikanth Vadlamani: Obviously I am talking about with the sort of internal sales that you people must be forecasting with that and because you already said that you are talking about industry growth of 5%-10% and you are talking about 1 percentage point market shares gain, so obviously under that scenario what numbers we should be looking at?

Sunil Kakar: If it all works out appropriately and very approximate number as I said this including commissions and all I have a number, which is in the range of say 43-44%, but then I have to subtract the commissions.

Srikanth Vadlamani: This 42% that you have given is excluding commissions, right?

Sunil Kakar: As of now, I gave you what is excluding. For the current year including commission that number is 54%. I think about 7-8% odd for reduction is what we can anticipate.

Srikanth Vadlamani: One more question on operating just trying to understand how the company is coping with the changed business outlook. What I am trying to understand is you have more than doubled your branch network. Even the employee force is almost like doubled in the last one year. So my question is coming from the point that probably this then happened in a different business outlook so given such change and these parameters seem to be at least on the rolls as of now how can cost be brought down to the level under the assumption of lower sales going forward?

Sunil Kakar: We are seeing lower sales growth not lower sales. In the initial the renewal income and the focus, you see, strategically as we said we did make these investments. It was necessary for us to be a player of significance to have certain level of presence all across the nation. Earlier, we had anticipated to be much larger. Let me put it in numbers. If we are talking about 600 odd offices we were earlier talking almost like 950-1,000 odd offices by 2011-2012. So first thing first what we have done is we have just kind of frozen any further expansion plans. The focus is on productivity enhancement. We have some significant special projects going on in the company under my own sponsorship to manage costs as well as improve, if I may say overall productivity and profitability. So even the employees are an asset as long as we have the right quality of the employees with us, so we will be wherever required. We are looking at the quality of people. I am not saying that we are going to look at the number of people depending on the



productivity levels. We will churn them around to see if we get good quality people through, so the focus will be to ensure that these new investments we have made do come up to speed faster than what we had anticipated and there has been a lot of effort in terms of training going through, but yes as I said, we are not out here to make a drastic change in our overall strategy, so it is just a tactical moderation. We will ensure that we focus towards the growth rates we anticipate and manage our expenses such that we do get the strategy break-even, which we are looking for, and our focus continues to ensure that we achieve the targeted growth. And I can tell you, that our agency is doing reasonably well, if I take away the thing what is not doing all that good is our third party distribution, which is anyway on variable cost price. So it is not going to hurt me.

Srikanth Vadlamani: Also could you spend some time on what happened to product pricing post September 2008. Have you increased prices and how do you see competition reacting to pricing. Have you seen any pricing increases from competition and how does it impact market dynamics?

Sunil Kakar: Pricing has not changed; as a matter of fact the pressure on pricing continues to be the other way round increasing upwards. As I was talking earlier to Tabassum and others that I anticipate a little squeeze in the margin, not very much, but that is the way directionally it is going.

Srikanth Vadlamani: Great, that is it from my side. Thanks.

Moderator: Our next question comes from Mr. Jayesh Gandhi of Morgan Stanley Mutual Fund.

Jayesh Gandhi: Good afternoon. Couple of questions from my end. One is you mentioned a pretty healthy persistency ratio. I wanted to check what persistency ratio we have in our ULIP business. Can you give the number separately for us?

Sunil Kakar: That is why I was very cautious in using the word conservation ratio not persistency ratio because I know commonly it is an indicator because technically persistency again is measured by duration, that is, for year one, year two, year three, year four we call it 13th month, 25th month, 37th month, then again it gets a bit technical and that is why what is available for comparison is conservation ratio and that is why we have done that, and I can give you the conservation ratio for ULIP separately if that is your question. We will just calculate it or we will send you an E-mail on that, but it is going to be slightly lower, I guess. But again I can get you that number, but in terms of persistency I would not like to quote that number because it varies with duration and it is not comparable and we will get into all sorts of wrong conclusion.

Jayesh Gandhi: No, I guess what I was trying to get at is that is for ULIP policies your consistency ratio or whatever you call it in line with the competition or is it better, that is what I was trying to ask?

Sunil Kakar: I am saying the financials do give renewal income. Conservation ratio is defined as renewal income divided by previous year's regular premium plus renewal income. My financials have all the data. The competition financial will have the data clicked by UL as well as non UL and as I said by the time I finish this call maybe I can give you the answer, if you can go on to the next question. I just have to calculate it. It will take me five minutes.

Jayesh Gandhi: Fine you can give me that to me. That is not a problem. That was my first question. Second question was that are you looking at raising equity funding assuming there is no change in the law or change in the foreign ownership regulation. Would that necessarily require you to raise equity capital?

Sujatha Ratnam: Yes. We have already taken into account that there will be a truncated version of the funding requirement should the FDI limit be hiked from existing 26% to 49%. Earlier we were talking in terms of fund raising exercise involving the total requirement of Rs. 1,000 crore, the FDI limit being hiked it is likely to come down to a level of Rs. 400 crore.



Jayesh Gandhi: Okay, thank you.

Moderator: Our next question comes from Mr. Arun Malhotra of Smith Management.

Arun Malhotra: Good afternoon. I just wanted to find out on the hospitals business. Our EBITDA margins are 7%, when do we think we can reach the benchmark level of maybe 18-20%?

Arvind Kakar: EBITDA margin is a combination of all the hospitals put together and the hospitals are in the various stages of maturity, so if you look at some of our nearing maturity hospitals like one at Saket, or Patparganj, we have got EBITDA margins as high as 15% and coupled with that is that we are carrying into an expansion mode also in these hospitals and new facilities. So it is the combination of as and when the hospital reach maturity, they move from EBITDA margin to about 23-24%, and at that point in time the expansion hits, so therefore the EBITDA margins start coming down. So, therefore, we will see consistent EBITDA margins once all these hospitals are in place and that could be about say between two to three years.

Arun Malhotra: Sure and how much is the equity investment in the hospital business, total equity investment so far?

Arvind Kakar: So far it is Rs. 375 crore.

Arun Malhotra: When do you think we can reach an ROE of maybe 18-20%, another five years?

Arvind Kakar: I think we should look at it once these hospitals start peaking.

Arun Malhotra: Last thing on, in the Saket Hospital we have seen an exit of a key cardiac surgeon to one of the rivals. Have you seen any decrease in the number of patients?

Arvind Kakar: Is it a cardiac surgeon or...?

Arun Malhotra: Dr. Seth.

Arvind Kakar: He is not a cardiac surgeon, but there has been no impact on that because over a period of time the brand has got built up, so the angioplasty business stays where it was.

Arun Malhotra: Thank you very much.

Sunil Kakar: This is Sunil Kakar from Life Insurance. The last question I am answering the ULIP related conservation ratio for FY08-'09 is 80.4%.

Moderator: Our next question comes from Mr. Anand Vasudevan of Franklin Templeton.

Anand Vasudevan: Hi, good evening. I just like to go back to the slide on Embedded Value and some questions on the cost overrun. When you say that you expect to reach expense break-even by is that FY2012, just to be clear?

Mohit Talwar: Yes, it is.

Anand Vasudevan: Okay and what sales growth assumption are you saying that to expect to reach expense break-even? It is a three year assumption?

Sunil Kakar: It is an assumption; it is upwards of 20%.



Anand Vasudevan: And for FY10 if sales were flat what would be your cost overrun versus a Rs. 392 crore this year?

Sunil Kakar: Obviously I do not have that answer straight, one has to calculate it. It is much more complex than just giving it like this. It is true that obviously the forecast projections or anticipation or internal plans are not projected at a flat growth rate. So if things like this were to happen and then the expense overrun, I guess, prima facie it would come down hardly very little. It is kind of linked to the question asked earlier with respect to what will be our opex to premium ratio. As I said that the overrun could go up also in that particular scenario, which you are saying, which is of almost 0 growth kind of a scenario, but as I said that does look a bit too pessimistic I may use the word. Obviously correspondingly, if we see now this is the strategy, if we see that this is not a temporary event and it is something more permanent in nature, then obviously drastic changes could be made on the cost side of course. So our current forecast and plan, there is nothing is that significantly fixed. After all it just branches. We would take a hit and get out of it, but again we do not foresee that as we speak.

Anand Vasudevan: This operating cost of premium ratio 42%, do we need to bring it down to about 10%. What is the ballpark number that you need to bring it down to meet your assumptions?

Sunil Kakar: That is when it becomes steady state would be in the range of slightly below 20%, so it is not going to happen next year.

Anand Vasudevan: Essentially, that should happen by FY12 if you are to reach some breakeven?

Sunil Kakar: That is correct, remember when we were talking premium we are talking total premium, so the focus on conservation ratio which continues to be, hopefully we will be able to maintain that and maintain that X percentage growth, which we spoke of. Directionally that is how it will come through.

Anand Vasudevan: Have you mentioned what your capital requirements are for the next year, FY10?

Sunil Kakar: It should be around somewhere between Rs. 600 crore to Rs. 700 crore at best.

Anand Vasudevan: Fine, thank you.

Mohit Talwar: Can I just add a little bit to what Sunil just said with regard, this is pertaining to the same question where you projected a very pessimistic scenario of 0% growth. Just wanted to give another perspective and that is linked to essentially the kind of liquidity flows, which we are seeing in the market place and what the country is likely to see. At this point in time, you have investors who are overweight in terms of cash and underweight in terms of stocks and if there are two places in the world where that flow is likely to happen, it is going to be China and India. It is a strong belief, which we have, and the results of that, we are already starting to see, in terms of our various discussions as well as investor interests over the last six weeks. So, I definitely do not subscribe to a pessimistic scenario for 0% growth rate in 2010.

Moderator: Shall I take the next question Sir?

Mohit Talwar: Yes please.

Moderator: Our next question comes from Mr. Prakhar Sharma of CLSA India.



Prakhar Sharma: Good evening sir. First I just wanted to clarify, you had mentioned us in a reply to an earlier query that your sales declined during the month of May about 6%?

Sunil Kakar: Sorry, that is YTD May, that is, April-May combined.

Prakhar Sharma: Fair enough Sir. That is what I wanted to clarify because.

Sunil Kakar: No, you are right. It was April-May combined was the answer, sorry.

Prakhar Sharma: The other is more open-ended question because we are hearing a lot on the regulatory side of insurance business. Recently, distribution fee on mutual funds were indirectly capped and there were some reports that IRDA or SEBI are likely to interfere on the insurance distribution also. If you could give a sense on what your views are that over the next couple of months when some of the announcements are likely to come in place. What is your sense on that? It is an open-ended question, just let me know what your thoughts are?

Sunil Kakar: Well, there is a lot of work and effort going on at IRDA including at the life insurance council, which is self-regulatory body of the insurance players. We do want that the customers should be treated fairly. They should understand what they are buying and in that direction I am not going to compare against Mutual Fund and this is not a press meet here, but the fact remains that life insurance company through their illustration methodology are far more transparent and our illustrations are almost world-class at this point in time. So in terms of transparency, I think we are almost there. We could treat it a little bit and combine it and do whatever it is. Comparing life insurance products to mutual fund products is completely not fair because commitment in life insurance is for 15 years, 20 years. Just as a joke, when you are getting married, there is a different kind of effort you put in, in terms of finding out about the other partner and it is just an affair, so mutual fund is short-term relationship oriented. You get in, you get out. The effort required to make that particular sale is different and the fact that life insurance worldwide is a push product. Nobody gets up in the morning and it has to be sold not bought whereas I am also mutual fund investor. There are many a time when I have called up and said I want to put so much money, so completely different set of sales process behind that. But having said that, the IRDA and the council is working on and there is lot of homework being done to come up with and see what is a fair level of charge or returns and it is not an easy question. We, as a company at MNYL do not believe that fixing charges or trying to fix market rates is a right thing to do. It just interferes. Artificial barriers are not necessarily correct, but having said that we will await, but all I can say directionally, yes, IRDA and all of us are in a particular direction, which ensures that there is a move, which will ensure that the customer is charged appropriately and it is not only the charge – I think the biggest problem has been in terms of expectations around the return. It is not necessarily around the charge alone and the method of charging and like first year everything goes those kind of stuff. So, the transparency is another big, big vector, which will help ensure that the customers and policy holders do appreciate the product, which they are buying. Broadly speaking I am saying that there is a lot of work going on and what is going to be a final outcome is not known, but directionally the terminology is treating customer fairly is on our books or is on our sight.

Prakhar Sharma: Thank you Sir.

Moderator: Our next question comes from Mr. Sumit Agrawal of Enam Securities.

Sumit Agrawal: Hello, good evening sir. Just wanted to have details about this restructuring of the health JV with Bupa like what is the reason we have just restructured it? If you can just throw some light on it?



Mohit Talwar: Earlier Max was to invest 50% and now we are going 74%, other than the fact that we obviously would like to, it is for better governance and from our subsidiary perspective that is the only reason.

Sumit Agrawal: Okay. And just wanted to recheck on the loss figure for the Life Insurance business as a whole for this year sir. Last year I guess it was Rs. 160 odd crore. What would be the figure this year?

Sunil Kakar: It is around Rs. 400 crore.

Sumit Agrawal: Okay, thanks a lot Sir.

Moderator: Our next question comes from Ms. Neha Agrawal of IDFC SSKI.

Pathik Gandotra: Hello, this is Pathik Gandotra.

Mohit Talwar: Hi Pathik. How are you?

Pathik Gandotra: I am doing good. I just have one question that is what is the kind of capital do you think Max New York Life will need before it goes on a path of self-sustaining growth – one and where will you get it from?

Sunil Kakar: I will answer the second one. Max India and New York Life and the amount which we are looking at is another about Rs. 1,800 to 2,000 crore in that range, probably 1,800 crore.

Pathik Gandotra: It was a slightly more leading question that do you think there was a capital raising plan three-four months back as was talked about and now do you think this whole insurance, if regulations changed, then do you think that equation will change. Will you take more capital from New York Life itself or how will that happen and you will not take capital from the market at all. Is there some clarity around that if regulations do change to permit New York Life to take stake?

Mohit Talwar: That is precisely. If regulations do change that is one. Number two is, when is it likely to change. Now as Sunil mentioned to you earlier the peak capital requirement is in the region of about Rs. 3,600 odd crore and that is by 2011-2012. Now, the dilemma in our mind was exactly precisely is this, as to when the regulations are going to change and how much of and what sort of timing we are really looking at and what is the sort of money which Max is likely to get. Since we are unclear in terms of the timing, I think we are all pretty much clear in terms of the regulations changing. The issue itself is that when is it going to happen. Now, we have taken an in-house view and that is that this time around the budget I have my doubts whether we are going to hear any announcement. So, there are different pundits who are giving different time lines to it. We do not anticipate regulations changing till at least the end of the year and as we had mentioned earlier on the call that we have a treasury corpus together with the money, which has come in from IFC Washington, we are pretty much funded till the end of the year or the first quarter of next year. In order that we are not kind of scraping the barrel, there is a possibility that we will look for a smaller capital raising program and for that the Board has not really cleared it so I am not in a position to give you more details. Suffice to say that there will be one round, but it will be a truncated one and that is essentially to basically meet the time gap, which is prevailing from the time that we have our treasury corpus and till such time as a regulations change and we get the inflows.

Pathik Gandotra: Thanks for that. I have one more question for Sunil. I am sorry, but I did not get the logic for why your conservation ratio is higher than the rest because the difference is extremely stark. It is about between 15 to 17% points is the difference that we have seen this year?



Mohit Talwar: Complement to you Sunil.

Sunil Kakar: Thanks for saying this in front of the shareholders.

Mohit Talwar: Well the conservation ratio is very high; difference about 15% or so. What is the reason for that?

Sunil Kakar: The reasons are two-three folds. The kind of products we sell, the process, ours is as I said regular pay products, so lot of the competition has been selling short-term product under the garb of regular pay products. Some of them which have now got, as you know IRDA has come up with a regulation that the next premium has to be at least 75%, so if the way you calculate obviously one premium was Rs. 100 the next premium was Rs. 10. The conservation is going to be 10%, so it is a function of products, which you sell. So the fact that the whole industry, etc., was only being shown in business premium on a month-on-month basis and we were not necessarily getting a complete picture of what the kind of product design was there and what kind of renewal incomes are expected over a period of time, so that I think is a major reason of why ours appear to be definitely significantly better than what others are going on and other reason that I would like to claim at least large part of our sales process is significantly better than what the competition has been doing. So I guess it would rather I would put it as they lost the game rather than we won it.

Pathik Gandotra: You would have none of those limited pay products at all, you had nothing?

Sunil Kakar: No, we do have limited pay, which is, but not this reducing renewal, second year kind of a stuff.

Pathik Gandotra: We do not have that product at all?

Sunil Kakar: No, that kind of product was not there. We have limited pay five years and three years, which is exactly. They have to pay the same amount, 100, 100, 100.

Pathik Gandotra: I understand and also would you track the performance of your fund vis-à-vis the others. Is their data available with you? How much returns are you making for your ULIP holders? Is that a source of competitive advantage or disadvantage at this point in time because the people would be redeeming also if somebody was not making returns?

Sunil Kakar: Did I set you up.

Pathik Gandotra: No, you did not. Do not worry.

Sunil Kakar: It is the regulatory reason where we do not publish this formally, but if you look at the NAVs and compare. We do it internally. For the last one year and as well as since inception, definitely for last one year when we looked at it, our fund performance would be amongst the top quartile including mutual funds. Last year Outlook Money over a two year period gave three of our funds number one ratings compared to others – and they did it. I am not doing it myself except the fourth fund, three out of three, which qualified. The fourth fund, which was our super growth funds, had not completed two years and that is why we could not do it. The one number I can share that is relative to the benchmark, which is nifty for pure equity and appropriately adjusted for other balance funds, we have out performed by an absolute number of 8% to 9% points, so the answer is big time, yes. Having said that, everybody in this industry knows that past performance is not...

Pathik Gandotra: That is fine, thanks a lot.



Moderator: Our next question comes from Mr. Puneet Jain of Karma Capital.

Puneet Jain: Good evening.

Mohit Talwar: Good evening, Puneet.

Puneet Jain: You guided for about opening 100 offices every year from here on and along with that you have been giving a quite a muted guidance for growth for this year, so is it like you are seeing a back ended kind of growth or is that 100 offices just for you to increase penetration and along with that you have also talked about increasing productivity, so I guess that would be even on a existing branch level pushing for higher premium growth going forward. So looking at that how do you see whether probably our later half of the year would be much better if you are still going aggressive on the branch expansion?

Sunil Kakar: On branch expansion front, I hope we have said no, let me say as we speak for this current year of which six months have gone in calendar year we have no intentions of adding any further branches right now. If there you make a plan or a long-term three year basis of penetration levels, but the market conditions do dominate translating those four visions of statements into actual tactics. So given what is happening around us right now, I do not think so those branches of 100 odd had a significant thing called what is called our own internal toll gating process so which we require management to review the situation on a quarter go up to the shareholders, etc., so basically bottomline I am saying that expansion plan of 100 other offices is currently being reviewed and as a matter of fact is on hold as we speak definitely for this calendar year and when we go into our next business planning cycle we will review on the basis of current environment and I guess that answers your question to some extent and of course our focus on productivity and training will continue. So the focus is more on ensuring that the existing investments we have made start giving some returns.

Puneet Jain: Secondly, you mention that you are not looking at really FDI increase, regulatory changes, in the near vicinity, but if it does happen in the budget, would your growth estimate would have been changed for the year?

Sunil Kakar: The customer is not buying based on is what the FDI condition is.

Puneet Jain: But just in terms of more regression in reaching out and more regression in terms of increasing the penetration.

Sunil Kakar: No, I get your question, so I understand. The point is that as I mentioned just a minute ago we will be currently focussing on ensuring that the investments in the 600 odd branches do start reaching a particular level of productivity or we have a huge expense overrun challenge, which we are managing. So just because capital is available easily does not mean that one will utilize it, so we will take decisions based on what market demand appears to be.

Puneet Jain: Right, fine. Thank you.

Moderator: Our last question comes from Mr. Kuldeep Khanapurkar of Kotak Asset Management.

Kuldeep Khanapurkar: Hi, good afternoon. This was regarding the peak capital requirement, which is stated around Rs. 3,600 crore by FY12. Of course, this was designed few years back when the growth condition was completely different. Do you see any changes in this peak capital requirement and the second actually adding to this question, in case the FDI regulation change does this peak capital requirement change?



Mohit Talwar: The second part of the question, the peak capital requirement does not change because FDI changes because the beneficiary is going to be Max India and Max India is the one who is actually going to be the shareholder in Max New York Life. As far as the peak capital requirement is concerned, I have given you a figure of Rs. 3,600. Yes, it could undergo changes, which is a 10% normal variance.

Kuldeep Khanapurkar: Okay. And other question was what will the regulatory changes we are expecting apart from this FDI norms, I hear that there are couple of things IRDA is working on, like IPO regulation or some disclosure norms. What are the changes you are expecting from regulatory angle for the insurance industry?

Sunil Kakar: I think if you are part of the discussion, one of the major focus areas is towards treating customer fairly. In that direction whatever it comes under that heading, is yes. The other one is this embedded value stuff, which we are disclosing and part of, it is a cornerstone of the overall valuation and the IPO process, the standards and the definitions, etc., are not done. We talk of NBM and depending on the denominator the same NBM could be 21% or it could be 14%, so this kind of standardizing the definition, laying down principles is what I think will happen as far as disclosure and from the investor world point is concerned and the other is more focused towards again disclosure towards the policy holder so that a better decision-making is taking place at the policy holder level and that the charges are appropriate and which is more in my mind more that the customer has understood the charges appropriately rather and he is getting value for money. Broadly speaking that is the general direction, which we are aware of. There is some talk about bancassurance being opened up a little, another committee has been formed, which will allow - currently one bank can have only one life insurance Company. There is a committee, which is formed to review this. So these are the two-three key important changes we are or rather under work.

Mohit Talwar: If I may just add. You are right in as much as your first observation about the IPO and that is probably the reason why I am not very bullish that in the budget you are going to see an announcement because I think they are toying with the idea of also looking at another form of opening up the insurance sector, the FDI, rather than just a normal route, but we do not have more details other than what came out in the press recently, so I have read it there myself. If this is the way it is going to be good for us.

Kuldeep Khanapurkar: Sure, thanks a lot.

Moderator: Thank you Sir. 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, thank you. Ladies and gentlemen, thank you for sparing time off to be on this call. I do hope that this was useful and look forward to talking again in the next quarter. Thank you again.

Moderator: Ladies and gentlemen, this concludes your conference for today. 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.

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