



## Max Financial Services Limited and Max India Limited Conference Call

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Max Financial Services Limited & Max India Limited Conference Call. We have with us today on the call senior management team from Max Financial Services Limited and Max India Limited. I would now like to hand the conference over to Mr. Mohit Talwar – Managing Director of Max Financial Services & Max India. Thank you and over to you, Mr. Talwar.

**Mohit Talwar:** Thank you and welcome everybody on this Call.

Before proceeding, I just wanted to introduce my colleagues who are with me; so I have got Sujatha Ratnam; she is the CFO of Max Financial Services; Prashant Tripathy is the CFO and Jose John Appointed Actuary for Max Life; from Max India there is Yogesh Sareen who is the CFO for Max Healthcare; Jatin Khanna, the CFO for Max India.

Let me begin with a significant development that has taken place last year and that's on the 'Demerger'. We have been doing periodic updates on that, so as things stand today, the Max Financial Services of course the listing that happened some months ago, the listing of Max Ventures & Industries is in the last leg with the stock exchanges, I would expect it is a few days before Max Ventures gets listed.

Also, like to share that the allotment of shares of Max India that has already happened and we have filed the listing application and we are working now towards the listing, so this should happen within June itself. Once that happens I think the entire demerger process which we had embarked upon early last year should get completed.

So let me start with some highlights for Max Financial Services first: I am happy to report that the Max Financial Services Board has recommended a final dividend of Rs.1.80 per share. Considering the comfortable liquidity position, we are maintaining our dividend policy in line with what we have done in the past.

Max Life, their MCEV has grown 17% on an operating basis to Rs.5,617 crore with a pre-override margin at around 18.3%, which is in line with the guidance which was given earlier.

We have also been very successful in renewing our Bancassurance partnership with Axis Bank for a period of five years. The other two partners which is YES Bank and Lakshmi Vilas Bank, in fact, they have got an approval from the respective Boards that this will continue to be an exclusive tie-up with Max Life.



Moving on to key highlights of Max India: We have done very well in Max Healthcare and this is the first time in its history that it has actually turned profitable; they made a profit, though modest one. EBITDA has grown pretty strongly by 26% to end the year at Rs.215 crore.

We completed two landmark acquisitions which was late last year, early this year and that has really provided the platform to essentially try and double our bed capacity to over 5,000 beds over a period of 4-5-years.

The transaction in Max Bupa where 23% stake divestment to Bupa, that has received all relevant approvals and the closing is likely to happen later this week. So once that goes through, the net proceeds which will come to Max India would be around Rs.207 crore, which just adds more to the comfortable liquidity position which we currently have.

Also, happy to report that Max Bupa has entered into a very lucrative strategic tie-up on Bancassurance with the Bank of Baroda and so we have recently inked a deal and I am sure this will augur very well as far as the growth in terms of GWP is concerned for health insurance. As you know, Bank of Baroda has about 5,400 branches and over 60 million customers, so that is a sort of play we are talking about in Bancassurance.

I am going to take up questions later, but just before that briefly talk about Max Life performance and its highlights. So it has been a good year for us despite a lot of turbulence in the market as well as some regulatory headwinds, etc., But our Life Insurance business has continued its strong performance trend with 13% growth in GWP and ended the year at Rs.9,216 crore. Individual adjusted FYP which is about Rs.2,103 crore, that has grown by 8%. If you look at the performance of the other private life insurance companies, you will find that this growth has come about amidst a lot of turbulence that we witnessed in the Life insurance space. A lot of our competitors have actually degrown in the marketplace.

Trends in expense, conservation ratio and persistency, all continue to show healthy year-on-year improvement. Shareholders profit pre-tax increases by 7% to Rs.511 crore on account of improved product mix and higher investment income. AUM size at Rs.35,824 crore, increases by about 15%, primarily on account of growth in the controlled fund..

Apart from the financial numbers, Max Life has also been recognized as the “Life Insurance Provider of the Year”, an award by “Outlook Money”.

Turning to Max Healthcare Performance: The business continues to deliver strong improvement in its financial performance and has turned profitable. Revenues have grown 24% to Rs.2181 crore and EBITDA as I mentioned earlier has grown 26% to Rs.215 crore. The profit number which I keep talking about is a modest one is Rs.10 crore and from here on hope this trend should be improving upon the numbers going into the current year. The business is on a path of continuous improvement in margins for mature hospitals, our definition of mature hospitals are one which are more than five years old. So if you really bucket these hospitals into greater than five, less than five, start-ups and where we have done M&As, we find that the blended margin would be somewhere close to about 10% or so. But in our matured hospitals margins are more than 14%. This has also come about due to a continuous improvement in channel mix, service base and relentless focus on cost rationalization. We have taken out about Rs.40 crore in cost in FY16 and that is a similar amount for the current year. Technology-led cost rationalization and mix improvement journey will continue for another 3-4-years as we reach our desired margin levels of 18% plus.



Moving on to Health Insurance: The performance in B2C segment continues to remain strong with B2C gross premiums growing at about 31% and doubled with good customer experience has driven renewals and the conservation ratio of about 83%. Focus on cost led to a reduction in loss from the figure of Rs.93 crore in FY15, is down to Rs. 68 crore in FY16, this include some of the one-offs and so the guidance for the current year the loss numbers would possibly increase a little bit.

Our last business which is senior living is also shaping up well with more than 40% of the units have already been presold and the community is now on track to commence operations in the next quarter. So really we believe all our businesses will continue to sustain the growth and profitability trends in the current year and we are encouraged further by the fact that the macroeconomic trend seem to be in our favor.

So to sum up, we feel that the timing for the demerger could not have been any better with Max Financial Services already delivering healthy returns for the shareholders via the strong performance of Max Life. The newly formed Max India is also on a robust growth trajectory and these shares will be listed shortly. Max Healthcare is charting on a profitable path for the next five years to double its bed capacity from 2,500 to about 5,000 beds. Max Bupa is growing about 25-30% and Antara is all set to fulfill its on-time delivery promise within this fiscal year.

So, with that let me hand it back to the moderator and we will be happy to take questions. Thank you.

**Moderator:** Thank you very much, sir. First question is from the line of Dhaval Gada from Motilal Oswal.

**Dhaval Gada:** Sir, the first question that I had was on the operating variance this fiscal year. So despite significant improvement in persistency ratios, we are seeing negative operating variance. So, I just wanted to have a breakdown of why that has happened? Second bit is what is driving the negative non-operating variance?

**Jose John:** It is mainly driven by small expense overrun of around Rs.10 crore, if you see the total operating variance is a small number of Rs.14 crore, a couple of years ago, this was a much larger number, but this time because of the good demographic experience like lapses and mortality we had positive contribution. The only negative we had that too a minor one was around expenses. So that negative number is still a negative, but it is a very small number and big journey, from bigger negative number which we found in the last couple of years.

**Dhaval Gada:** So, if I just exclude the Rs.10 crore of the cost overrun, it is still a negative number, and I would have imagined that given that we have seen 11% point improvement in the fifth year persistency ratios, the experience would have been positive compared to our previous assumptions, so?

**Jose John:** You are right actually. When we say expense overrun, its effectively you compare the actual overrun against what you planned, for example, there is an element of expense which is in the shareholder account which we do not normally anticipate in an Embedded Value calculation. So the expense overrun which we said is Rs.10 crore and if we include the maintenance part it is about Rs.13 crore, in addition to that you add about Rs.38 crore of expenses in the shareholder account which you do not actually anticipate in an Embedded Value calculation, has canceled out the positive lapse and mortality experience which we had. As I said before the lapses and mortality experience, were if you remember correctly a couple of years ago

was much larger negative numbers. Now, it has turned positive and the expectation is that this operating variance should turn positive in no time.

**Prashant Tripathy:** If you look at the sensitivity that is being provided on lapse and surrender, you find that 10% change will cause a 2% variance on Embedded Value. Now, that 10% change should consistently come across all tranches of the persistency starting from 13<sup>th</sup> month all the way to the maximum value you got. Now, we have started with the positive journey however, we will have to wait to see that kind of increase come along until and unless it kind of flows through to all the tranches, you would not see a very significant uplift, and as Jose mentioned to you, it got nullified by the expense overrun and shareholder expenses that we book.

**Dhaval Gada:** Could you provide the non-operating variance breakdown as to why that minus?

**Jose John:** In the non-operating variance, it is primarily due to first time allowance for CSR expenses, which the Companies Act actually mandates all companies with certain amount of net worth to pay 2% of the net profit they make over a block of three years. So it is kind of a deduction from the anticipated profits in the future. So actually as a good practice, we have made allowance for that and the non-operating variance is mainly driven by this deduction. This is more a one-off as it came isomewhere in the last year. So this sort of deduction is a one-off as we speak, but after that it will be gradual one year forward type number rather than a big deduction like Rs.60 crore number that you see now.

**Dhaval Gada:** The second bit was the agency channel growth in the fourth quarter was about 19-20% on new business. So I was just wondering whether that number is sustainable going forward and what should one expect on the agency side for next couple of years?

**Prashant Tripathy:** Basically we look at our own proprietary channel as one cluster and we will definitely be targeting something like 15-16% growth. It may not be 19% that you saw. Anyway there are quarterly aberrations that you see and the final quarter generally is stronger for the industry. But suffice to say that we are targeting healthy double digit number for proprietary channel growth.

**Dhaval Gada:** One more observation actually; so in terms of small finance banks and other banks like rural RRBs, we have a tie up with three banks but we do not see the opportunity in those other main banks specifically. So any specific reason or is it something where our focus is more towards larger private sector banks?

**Prashant Tripathy:** No, we are equally focused, if you look at for example the business priorities have been highlighted, inorganic growth is one of the top priority for us and within inorganic we are looking at different segments of distributors and absolutely the small finance as well as payment banks are two distinct opportunities that we are focusing on. However, equally you must realize that some of these banks will build over a period of time and while we are actively participating, the individual business growth may not be driven through acquisition of any of these relationships. I will repeat one more time; nevertheless we are quite focused on all these opportunities and our business development team is working very closely with these banks.

**Dhaval Gada:** How has the margins for the Non-Par savings and Non-Par protection business shifted from let us say FY'15 to FY'16 in terms of margin profile, has there been a significant downward shift in these product lines?

**Prashant Tripathy:** They continue to drive robust margin for us; however, as you would notice and it has been declared in our EV declaration also, with falling interest rates as well as



because we have started to hedge the book, the margin on Non-Par saving has come lower than last year.

**Moderator:** Thank you. The next question is from the line of Rajeev Verma from Bank of America.

**Rajeev Verma:** Clearly there is a massive amount of volatility in this industry. So how do you see kind of growth panning out both at industry level and obviously getting some market share gains and do you see that persisting? The second question is looking ahead if you could give us some guidance in terms of how you see margins shaping up?

**Prashant Tripathy:** If you look at slide 5 , you would notice the point which is a bit stark where we give the industry growth figures, you would find that the industry has grown by 8% in FY'15-16, but the other point that is quite clear it has grown after 5-years. The industry seems moving in the positive trajectory versus how it has been. If you were to look at the growth of private sector, this is the second time in a row that the private sector has grown and it is growing at a healthy rate of upwards of 10%. So things are improving, we are seeing traction build up and of course it will coincide with the improvement in the macroeconomic environment. So, I am as far as representative of life insurance business far more positive about the growth prospects as we go along versus how it has been in the last few years. Looking at the margin, I think there are a couple of opportunities of margin enhancements that the business is working on. We have got an 18.3% the overall margin and you would notice that last year we finished with about 3% of individual business coming from 'Protection' business. That's another very strong area of focus for the business. We are targeting to almost double the number, so we are targeting to go to close to 6%. Also, with improvement in persistency that we are seeing across as a combination of both, the margin numbers are expected to go northwards.

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

**Nidhesh Jain:** This year we have seen a significant improvement in persistency. So how that has an impact on our margins for this year?

**Prashant Tripathy:** That question actually came along and we just answered saying when the persistency flows through all the tranches, which means all the cohorts, there is a sensitivity of 2% by about 10% improvement. So while persistency does play a role in terms of overall improvement of margins, as far as our book is concerned, the sensitivity is a bit sluggish, it does not improve immediately. So, we just have to wait for few more quarters for the impact of improved persistency to flow through.

**Nidhesh Jain:** Second, how do you see product mix changing from here onwards and how it will have an impact on our margins?

**Prashant Tripathy:** That is a very good question. What we are trying to do is we are looking at the Non-Par segment far more closely. We finished the year with about 10% of Non-Par savings design and 3% of Non-Par Protection, the total is about 13%. What we are trying to do is to improve this ratio and we will target to go closer to 19-20% for the following year and a significant part of that actually will come off from Par design. So we are in a way trying to rebalance our mix towards more of Non-Par design, as a result of this, I am expecting that there may be a margin enhancement, needless to say all these are very difficult things to do that the business has taken on board , but if we were to go in that direction, where there may be improvement of about couple of hundred basis points in our margins.



- Nidhesh Jain:** Last year we have shown a growth of around 8%. How do you see this rate panning out over next couple of years?
- Prashant Tripathy:** As I mentioned, this time the overall environment looks far more promising than how it was. The volatility looks to be more settled than how it was before. There has been core growth within the industry including LIC and I just mentioned to one of the previous questions that for the first time in 5-years industry has grown by about 8%. So, Max Life being a player which has been gaining market share over the last few years as well as having access to some of the promising distribution channels, we will definitely look at a growth rate which is reasonably higher than how we grew this year and it will be as per our guidance of close to about mid-to-high-teens for next year.
- Nidhesh Jain:** On the open architecture, are we in touch with any of the banks or is there any movement in the open architecture?
- Prashant Tripathy:** There are things which are moving in the open architecture space; however, not as rapidly as we had expected when the open architecture came in and it is quite clear from the market information that people taking longer than how we thought they would take, nevertheless we are quite glued on to the space and we are working very closely with all the banks who are either willing or are working in the direction of open architecture.
- Nidhesh Jain:** In Max Bupa, I notice that for this quarter the growth in first year premium was on the lower side of 10%. So anything to read on these numbers or this is just a quarterly phenomena?
- Jatin Khanna:** Not really, because it is not as seasonal business as life insurance which is more predominantly focused towards last quarter. The significant move away which we made from the B2B business has been a bit of an impact on the growth for the quarter, but at the same time we are also in the middle of sort of rejigging a little bit of Bancassurance on a portfolio in terms of the kind of business we do and the kind of arrangement we have with some of the banks, in which previous talk about recent tie-up with Bank of Baroda. I think some of that also has a little bit of an impact on the current quarter, but other than that the secular trend for the business, there is no change, we expect this business to continue to sort of grow at the trajectory which it has grown on in the past in terms of broadly outperforming the market as we move forward more particularly the private health insurance. So we do not see any change in the secular trend for the business.
- Moderator:** Thank you. The next question is from the line of Prakhar Sharma from CLSA.
- Prakhar Sharma:** Just wanted to ask couple of clarifications; if I look at the slide on the economic assumptions which is Slide #34 of the note, there is almost 40-50 basis points decline in the assumed interest rate between last year and this year. Is it correct to assume that this would have had that impact on both EV as well as NBAP margins as you have reported in this year versus what I am seeing for the last year?
- Jose John:** You are right, actually, under the market consistent approach, the values we report kind of move along with the market interest rate. So, you are right, any changes in the interest rate which you see in the year, flow through into the Embedded Value calculation, both in terms of margins as well as the total Embedded Value.
- Prakhar Sharma:** EV impact would flow through the non-operating variance, is that right?



- Jose John:** Correct, any market movement is of the non-recurring nature and in many ways it is not under control of the management, it goes through the non operating variance
- Prashant Tripathy:** Sensitivity of Embedded Value on the interest rate is far lower because the interest sensitive portfolio is much smaller with respect to the Embedded Value. So overall sensitivity as given in our presentation, is higher with respect to value of new business. So the impact of falling interest rate is higher perhaps on margins than it is on Embedded Value.
- Prakhar Sharma:** That is true, that is exactly what I wanted to check that it would have been higher if we would have had a flattish interest rate environment between last year and this year.
- Prashant Tripathy:** Please refer to Slide #23 of the 'Presentation' it is quite clearly laid out.
- Prakhar Sharma:** Secondly, on the PAR segment regulations, how has been the impact so far and probably one to two years out, would you like to tweak the product mix in any direction which is different from what it is today?
- Prashant Tripathy:** One of the regulations which could have an impact on PAR segment was Expenses of Management, very happy to share that the regulation is out, it's been gazetted and we have reviewed the impact and quite clearly we do not have any impact and we can very safely maintain the mix that we have currently today. The regulations requires compliance by different line of business and allows for 120% of the allowable limit in year one and 110% for the next year and then it requires an adherence of 100% or below, we are expected to be bit less than 100% in year one itself, so we are going to meet the requirement very safely and in healthy manner; however the product mix that we are aspiring to make is predominantly because of the desire to be more protection-oriented, hence increase the share of protection business in our portfolio as well as an attempt to enhance our margins.
- Prakhar Sharma:** From this Bancassurance tie up perspective, great that you have kind of extended the tie up beyond but there have been a couple of news flows on LIC also trying to set up a Bancassurance partnership. So just wanted to understand what is the understanding with Axis Bank in terms of exclusivity from the Bancassurance part?
- Prashant Tripathy:** As we always maintain and gave in our guidance that if open architecture were to happen Axis Bank may work with LIC; however, we are very confident that with the induction of LIC also we will be able to maintain our growth trajectory with Axis Bank because of the vigor and strength that we carry around products, around overall support, around experience that we carry..
- Moderator:** Thank you. The next question is from the line of Rajeev Verma from Bank of America.
- Rajeev Verma:** Is it possible for you to share your EV on the traditional method in case you do calculate that?
- Prashant Tripathy:** It is not a part of our disclosure currently.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities..
- Nischint Chawathe:** Why would the sensitivity to EV from decline in interest rates be higher this year as compared to the previous year especially given the fact that this year we had seen lesser contribution of Non-Par business?



- Jose John:** I do not know exactly the numbers which you are talking about, but what has happened in the last year is we have started to write more and more Non-Participating business which are interest sensitive. As Prashant said you would see that sensitivity on a new business margin side is much higher. The contribution of Non-Par is currently not as high, but over a period of time it is building up, but as Prashant said, at the same time we are hedging, so you will not see the decline you would have seen otherwise the hedging was not in place. The reason why the sensitivity has gone up is because of the increasing Non-Par portfolio.
- Nischint Chawathe:** As we see the share of Non-Par increasing, we should possibly see the sensitivity going up as well or does the hedging mechanism change or anything of that?
- Prashant Tripathy:** Just to answer the question, because of hedging, the impact of interest rate on Embedded Value will be nullified, that is the reason we are hedging. There may be an impact on new business margin however, if that impact becomes sharp or significant, the business always has a flexibility of repricing product to protect the margin. So one of the advantages of having the hedge is Embedded Value will be protected and repricing as an option is always available to protect the margin on non-par part of our products.
- Nischint Chawathe:** On the Non-Par side, is it possible for you to give some data points which kind of broadly tells us what is the weighted average duration sitting out there in the book?
- Jose John:** If you look at slide #13 which talks about average policy terms
- Nischint Chawathe:** This is what would build in your assumptions?
- Jose John:** Correct, some of the products there are Non-Par and you could see the average policy term remaining.
- Nischint Chawathe:** If you could share something on the partnership with Axis Bank on the put call option, pricing, etc.?
- Prashant Tripathy:** The arrangement is going to be very similar to the arrangement that we continue so far. The shareholders of Max Life Insurance has chosen to give 4.99% equity broken between Max Financial and MSI with an arrangement to buy back closer to the market price,
- Nischint Chawathe:** Basically you are saying that there may not be any pre-determined price?
- Jatin Khanna:** It is a fair market value linked price
- Prashant Tripathy:** It will be linked to the market.
- Nischint Chawathe:** On the partnership with Bank of Baroda, can you share any specific details in terms of is there an equity transfer or anything of that sort?
- Jatin Khanna:** No, it is a pure variable arrangement, like normal Bancassurance arrangement, we will pay that normal commission as we pay to any partner. Good thing about this is it brings a lot of strength in terms of 5,400 branches and 60 million customer access, I think that is really the opportunity.
- Mohit Talwar:** There is no equity which is being given in.
- Moderator:** Thank you. The next question is from the line of Vivek Verma from CIMB.





- Vivek Verma:** Can I get your product wise VIF mix between Par, Non-Par, ULIPs and group?
- Prashant Tripathy:** Currently, that is not in the scope of our disclosures.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Deutsche Bank.
- Manish Shukla:** Prashant, you mentioned that you aspire to take protection from 3-6%. Is it fair to assume that it will take anywhere between 2-3-years to get to that number?
- Prashant Tripathy:** Very good question, Manish. The aspiration is to work towards 10% in next 3-4 years, the first test will be to go to 6% within this year.
- Manish Shukla:** Is protection largely sold via the proprietary channel?
- Prashant Tripathy:** It is sold by proprietary channel as well as the third-party channels which includes banks and there is also a internet channel.
- Manish Shukla:** The internet channel would be part of others or would be part of proprietary?
- Prashant Tripathy:** The proprietary channel is defined as a combination of three different channels – one, all agency and agency like channels; two, we have got a direct channel which is called Customer Advisory Team, which sells through our own employee and the third one is the internet channel. A combination of three is called proprietary channel.
- Manish Shukla:** My next question is on policyholder expenses. Despite the new business growth of about 8%-odd this year, they are virtually flat. Now, do you believe that is a kind of flat expenses can be repeated if we are expecting a mid-teens kind of growth this year and next or the policyholder expense ratio will broadly stay where it is right now?
- Prashant Tripathy:** The good part with our expenses is not just in the last three but actually last five years, our policyholder expenses are flat. The business has worked really hard to keep the policyholder expenses flat. My expectation is that the increase in policyholder expense will be significantly lower than the premium increase; however, it may not be 1% or 2%, it may be a bit higher because starting this year we are also starting to make investments in ramping up some of the distribution network and also we are going to make investments in digital as well as agency channel.
- Moderator:** Thank you. The next question is from the line of Prashant Kumar from Credit Suisse..
- Prashant Kumar:** Just a quick question about the Axis tie-up again. So, what is the tenor of the tie-up and what is the frequency of renegotiation?
- Prashant Tripathy:** The frequency of negotiation is not pre-determined and the tie-up is going to be for a minimum period of five years starting from 2016 October.
- Jatin Khanna:** Just to add to what Prashant just said, while this is not predetermined, but at the same time probably beyond the five-year period if at all.
- Prashant Tripathy:** The next negotiation will be at least five years or beyond, starting from October 2016.



- Prashant Kumar:** For the holding company structure, just wanted to understand kind of dividend policy, so I would assume that there is no real need to kind of cash at holding of the levels, so most of the dividend received will be pass-through? Also, wanted to understand, the cost structure would remain similar to what we have seen this year or could be some change going forward?
- Mohit Talwar:** So earlier the dividend policy when we were in the erstwhile Max India was you will get 75% from Max Life and then pay out 50%, right. Now, what happens is 100% comes from Max Life, we have given 37.5% out, we have done that before, and we have done it now, going forward this trend should continue. Do not forget that there are some of these cash outflows which will come our way. So this has been designed in a manner such that we continue to give dividends and generally we do twice a year, there is an interim and final, so that should continue, and at the same time we have to be conscious about keeping adequate liquidity. We are also looking at inorganic growth opportunities in the Life Insurance space, there is excess capital sitting in the Life business as well as corpus is quite satisfactory. So, looking at all of these, I think what we have as a dividend policy is a rationale one and it should continue that way. As far as costs are concerned, if you really look at our expense base as a function of size and scale of the business, it is not very much and going forward I do not anticipate these costs going up but probably be coming down or flat.
- Prashant Kumar:** Just wanted to understand this Axis put option. So, this is going to be cash inflow for Max holding company or you are going to just adjust it directly from the capital of Max Life as and when this option gets exercised?
- Mohit Talwar:** No, Max Financial Services will effect the Put..
- Jatin Khanna** Actually, it will be in proportion to the shareholding ratio between MFS and MSI. So they will be buying their portion and we will be buying our portion.
- Prashant Kumar:** There is one doubt about this EV calculation, I wanted to clarify. The unwind seems to be at the rate of around 10%.So just wanted to clarify that by definition of MCEV, we discount everything at risk free rate. So should not unwind also having a risk free rate instead of 10%?
- Jose John:** Again, if you look at that, that is probably close to 9%. In EV there are two things which are happening – one is the market consistent principles also give you some allowance for the expected returns as per management’s expectation. So you are right, in unwind first on a risk free, and there is a sort of return over and above the risk free if the management anticipated and that can be allowed in the unwind. That is one. Second, the unwind also includes returns on the free assets, If you look at proportion of the investment assets as a proportion of the total net worth, they are quite high and hence when you look at as a proportion of network it looks like a bigger number than what you see the risk free rate should be. So those are the two things why the return looks higher than the risk free.
- Prashant Tripathy:** So just to substantiate what Jose just mentioned , the net worth will unwind at about 8.5-8.6% which is a embedded yield that we are getting. If you look at the VIF, when you make all the adjustments of three adjustments, the effective VIF is at a discount rate much higher than the risk free rate and in my overall thinking you have to take a weighted average between the two, it will land up in the range of about 9-10%.
- Moderator:** Thank you. The next question is from the line of Nilesh Parikh from Edelweiss Securities..



- Nilesh Parikh:** A question for Prashant. When you look at the Bancassurance contribution, now in the first three quarters, it was quite subdued and that actually impacted our overall first year growth and suddenly it has picked up in Q4. So just wanted to understand the sustainability of this going forward?
- Prashant Tripathy:** If you look at the growth that has come from Bancassurance channel, the last three years growth has been at a CAGR of about 17%. So, in a way what we saw in the first two or three quarters of the year was a bit of an aberration and we are confident that we will be able to maintain the growth journey through Bancassurance channel as well. Also, quite like to share that when you look at a quarter when we saw significant growth it didn't just come from Bancassurance channel, our own channels also were equally strong and they performed closer to about 19% growth quarter-on-quarter versus previous year.
- Nilesh Parikh:** The other question is on the partnership with Mitsui. So, is there an intention or what is the understanding in terms of future increase of stake again in the entity?
- Mohit Talwar:** We have not given them an option as we had with New York Life, so basically what we said is that should they raise for additional capital, we would obviously have a discussion, like I mentioned before at this point in time, there is a need for that to happen because of the excess liquidity which is there in the company. But should the need arises, of course, we will definitely be having a chat with MSI. Having said that we have not given them any right.
- Nilesh Parikh:** No, but is there an intent by them because most of the other companies also currently have not seen any significant requirement on capital, but if still seen some transactions taking place, so is there a intent or outside of the obviously the capital needs by Mitsui to actually take the step here?
- Mohit Talwar:** Yes, the intent is there. As we know Japanese obviously take a long-term view when we get into a particular country and Mitsui is no different. So they are fully committed to being here, seeing the business as well as wanting to see opportunities to increase it; however, it all depends on the need, it also depends on valuations, etc., they are lot of consideration will go into it.
- Jatin Khanna:** Also, the capital flexibility at Max Financial has now gone up, it has also been listed as a pure play. So to that extent, if we need cash for any of the M&A opportunities which we spoke about, I think the cash will very well be raised even at Max Financial Services level.
- Nilesh Parikh:** But that would mean that the Mitsui's stake gets diluted, right?
- Jatin Khanna:** No, they may maintain 26% is the point being made, it should not go up.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities..
- Nischint Chawathe:** Why was the pre-overrun margin lower in the second half?
- Prashant Tripathy:** If you look at the business, the new business is quite seasonal; however, the expenses are not very seasonal, so it is very normal that in the life insurance business like ours, quarter-on-quarter as the financial year progresses, you will see the overruns falling, essentially close to about 40% business comes in last quarter and that is when the overruns actually become under run and that is why you will see that in the second half or for the full year the overall expense overrun is lower than it was even for the first half.



- Nischint Chawathe:** I am looking at a pre-overrun margin which is lower in the second half; I am comparing pre-to-pre, 20.2 Vs 17.2
- Prashant Tripathy:** Two things we have done; a) the impact of hedging which we have started coupled with and reduction in interest rates and #2 we have made an adjustment for CSR as it was discussed a little while ago. So those two reasons are the ones because of which there is a reduction in pre-overrun margin.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from Motilal Oswal..
- Dhaval Gada:** Just to understand in case of Non-Par protection, it would be more of modality spreads business versus interest rate spread, if you move towards 19-20%, as you envisage over the next three years, the sensitivity to interest rates should it increase or should it stay where it is today?
- Prashant Tripathy:** Let us break it into two parts -- #1 is this year we had close to about 10% of share from interest sensitive Non-Par savings design. We are hoping to take it up by 2% or 3% points. So to answer your question briefly, the sensitivity might increase only a little bit; however, the large part of Non par increase we are trying to make is to increase the share of protection business, where the sensitivity of interest rate is very limited.
- Moderator:** Thank you. The next question is from the line of Prakhar Sharma from CLSA.
- Prakhar Sharma:** Just a data point question; can I have the shareholding pattern of Max life insurance today and when the options are fully exercised?
- Jatin Khanna:** When the options get exercised we will be back at 74% and today it is 68%.
- Prakhar Sharma:** 68% is with you, Mitsui?
- Jatin Khanna:** Mitsui is 25%.
- Prakhar Sharma:** Axis and others if there are any stocks?
- Jatin Khanna:** Axis is 6%.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor to Mr. Mohit Talwar for his closing comments. Over to you, sir.
- Mohit Talwar:** Thanks for sparing time to be on this call and really appreciate.