February 11, 2025

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 021

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East)
Mumbai – 400 051

Scrip Code: 500271

Scrip Code: MFSL

Dear Sir/Madam,

Sub: **Transcript of Investors & Analysts Conference Call**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Transcript of Investors & Analysts Conference Call held on February 5, 2025, post declaration of Un-audited Financial Results of the Company for the quarter and nine months ended December 31, 2024, is enclosed.

The same has also been uploaded on the website of the Company at https://maxfinancialservices.com/static/uploads/financials/max-financial-earnings-call-transcript-05-02-2025.pdf.

You are requested to kindly take the aforesaid on record.

Thanking you,

Yours faithfully

for **Max Financial Services Limited**

PIYUSH SONI
Digitally signed by PIYUSH SONI
Date: 2025.02.11 14:10:22 +05'30'

Piyush Soni
Company Secretary & Compliance Officer

Encl: As above

Max Financial Services Limited

Q3 FY'25 Earnings Conference Call Transcript
February 05, 2025

Moderator: Ladies and gentlemen, good day and welcome to the Max Financial Services Limited Q3 FY '25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Amrit Singh: Thank you. Good morning, everyone. And welcome to our Earnings Call for the quarter ended December 2024.

The Results were made available on our website and on the exchanges last evening. And as always, I am joined by Prashant Tripathy – Managing Director and CEO of Axis Max Life Insurance.

I will hand it over to Prashant to share "Developments and Insights" from the quarter.

Prashant Tripathy: Thank you, Amrit, and good morning, everyone. Thank you very much for being on the call this morning.

As many of you may be aware, and already know that in Quarter 3, actually in the month of December, we refreshed our brand, transitioning from Max Life Insurance to Axis Max Life Insurance and change our corporate name to Axis Max Life Insurance Limited.

The strategic move represents the integration of two trusted names in the financial services sector. It enables us to extend our reach beyond Metro and

Tier-1 cities, where our concentration as well as the awareness, both were pretty strong already. But the hypothesis was to deepen our presence through our brand, especially in smaller cities, while carrying forward Max Life's legacy, expertise, and leveraging the trust and recognition associated with Axis Bank.

A recent brand survey conducted by Kantar in January 2025 highlights the positive impact of our refreshed brand that we are seeing already, especially in Tier-2 and Tier-3 cities. You may refer to Slide number 9 of the Investor Presentation that we have given some data points. But very happy to share with you that our refreshed brand is already making a positive impact. And obviously, this is a move targeted towards keeping our long-term strategy and reach in mind. And I am very positive that the steps that we have taken is yielding early fruits already.

Our brand awareness scores have already increased in these areas. And I think with time, we believe that even consideration will increase. And with further investments, we expect that brands will reach out to the segments that we intend to cover more and more as we go forward. We are confident that the combined strength of our brand will create long-term value for all our stakeholders.

Let me now go back as usual to key developments across our strategic areas during Quarter 3:

Sustainable and Predictable Growth

Firstly, let's focus on our growth. We actually targeted sustainable and predictable growth, and I am very happy to share that in the first nine months of the fiscal year, our individual adjusted first-year premium has grown by 25%, outperforming the private sector, which grew at 19%, and overall industry, which grew at 14%. Even on a two-year compounded annual growth rate basis, we have grown at 22%, almost double at the industry CAGR at 11%.

In Quarter 3, individual adjusted sales grew by 16%, outperforming both private sector growth, which was at 13%, and overall growth of industry, which was at 5%.

Additionally, our Total APE expanded by 17%, driven by an 11% increase in policy issues. Our prop channels continue to see strong growth, expanding by 24% in Quarter 3 and 41% over the first nine months. This growth is supported by both offline and online channels, with the online segment strengthening our leadership position.

Banca grew by 12% in Quarter 3 and 14% over 9 months. Our Group Credit Life business grew by 18% in the first nine months of the year.

To expand our distribution, we onboarded 8 new partners in Quarter 3 of FY '25, including five group credit life partners, two brokers and one corporate agent. These new partnerships are expected to contribute significantly in the medium term and have already surpassed the 100-crore mark.

Overall, our focus on expanding prop channels and maintaining a healthy share in partner channels continue to support sustainable growth.

Product Innovation to Drive Margins

The last quarter also saw us being compliant with the surrender guidelines and my second topic, hence, is to talk about product innovation to drive margin. I know there is a question that must be going on in your head as to what is the impact of those guidelines on the margins of our company and I will share that in a bit with you.

Especially on product front, Max Life remains committed to leading product innovation. We continue to launch products that meet customer needs while delivering strong returns to our shareholders.

Our retail protection business has grown by 37% in the first nine months of the year. To strengthen our protection proposition, we recently launched a new protection product called Smart Term Plan Plus with key features like auto-rebalancing of Life Cover, Maternity Cover for female life insured and the Lifeline Plus feature, allowing a top-up in case of a spouse's death. This plan offers seven flexible variants to address unique customer needs. This protection product, along with our flagship offering of health products, SEWA 2.0, launched in November, puts us in a unique and competitive position to further grow our protection and health segment.

Additionally, we also achieved our highest rider attachment ratio of 45%, up from 32% in the first nine months of last year, with rider APE growing at over 250%. We also introduced a new PAR proposition with an income-advancing option leading to 10% growth in this segment in Quarter 3.

Further, ULIP segment continues to grow in Quarter 3 at 49% despite a recent decline in equity markets. This trend is reinforced by the success of our new fund, the Sustainable Wealth 50 Index tailored for e-commerce customers. As a result, the ULIP share in our product mix increased from 35% in last year, Quarter 3 to 44% in Quarter 3 of this year.

Sequentially our product mix was largely stable from Quarter 2 to Quarter 3, and the volumes were slightly lower. Typically, in Quarter 3, our volumes will be higher than Quarter 2, and we will see volume leverage benefit. Unfortunately, this year, it was not so. So, our Quarter 3 was almost similar in terms of volume to Quarter 2.

As a result, our margin for Quarter 3 stood at 23.2%, slightly lower than Quarter 2, despite the impact of the surrender guidelines. Just to clarify, in all our discussions over the last many quarters, we have been repeating that the net impact of the surrender guideline on us will be between 100 to 200 basis points. Very happy to share with you that it remains at the lowest end of the guideline that we have been given. It is close to about 100 basis point impact.

So, if we were to simulate our product mix as we had last year on this year's sales, our margin would have been 100 basis point lower than the last year Quarter 3 margin, which means the delta that we see in this year's margin versus last year, which is close to about 400 basis point, about 300 basis point of that is because of product mix, our higher bias towards ULIP and lower sales from non-PAR and PAR segments.

We remain committed to rebalance the product mix, and there are many actions that we are taking right now. But suffice us to say that we have taken several steps internally, like increasing the rider penetration, ensuring that the variants which are high margin generating are being sold so that, you know, the effect of surrender income could be neutralized. And hence, we ended up at the lower end of 100-200 basis point guidance that we have given.

Coming to the other areas, on product, just like to clarify that we have taken all actions with respect to pricing as well as the negotiations that we have to do with our distributors with respect to compensation. And I think we have achieved an equilibrium with respect to all the deals or all the discussions that we had to have.

Customer-Centric Approach

Focusing on customer outcomes and especially around persistency let me first share with you that I remain very satisfied with the progress that we are making. Customer obsession is a central theme to everybody and everything that we do in this organization. We were pleased to report a 5 point increase in our net promoter score rising from 56 in March of 2024 to 61 in December 2024. This improvement is seen across both Touch Point and Relationship NPS.

We continue to be the market leader in 13th month persistency in NOP terms and across the five-year cohort of 13th, 25th, 37th, 49th, and 61st month persistency. On NOP basis, our rank will feature anywhere between number one to number three.

In value terms, however, we have achieved our highest ever level of regular limited pay persistency for 13th month, increasing by about 240 basis points, going up from 85 to 87%, and also a reasonable increase across other cohorts of persistency. We have made great strides over the last six months on the persistency vectors, and I remain very optimistic that as we go forward, we should see further improvement, especially in the 26th month cohort.

Digitization for Operational Efficiency

Digitalization is the fourth theme, which we look at not just for driving operational efficiency, but also driving our business. In Quarter 3 of this year, to drive enterprise agility in product launches, we launched a new age product configurator enabling do-it-yourself product setup and automated journey configurations resulting in reduction of product launch time by almost 50%. So, our ability actually to launch products quickly has significantly improved as far as the turnaround times are concerned.

Further, our digital progress and AI capabilities have helped enable not only new business by driving cross-sell propensity campaigns, but also collection of renewal via human-less alternate collection channels. Our risk analytics engines, namely, Shield, MediCheck, GoVern have been able to identify and avoid a claim risk of close to 700 crore claim for nine months of the year. Thus, our digital initiatives are improving operational efficiency, enhancing customer satisfaction, and driving cost savings as well.

We just came out of a two-day strategy meeting with our Board, and I feel very optimistic and positive about the discussions that we had about our business and opportunities for growth. I think we have very solid plans to drive our aspirations over the next three years. We have detailed, you know, plans, not just for our channels, but also areas that we like to venture into and experiment and grow as we go along. So, as we finish the three-quarters of the year, we remain hugely optimistic and positive about which way Axis Max Life Insurance is headed.

In summary, we have mostly been able to navigate the challenges posed by the introduction of surrender regulations in quarter 3. We had guided towards the short-term impact, and we are confident of mitigating this to deliver sustainable, profitable outcomes in medium to long term.

As far as the year is concerned, we do want to finish very positively. As the year closes, we have started well for quarter 4. And I think by the time we finish year, we will like to be in the range of about close to 20% growth on sales basis and high single-digit growth for our VNB. Those are numbers that we are targeting internally. Of course, there is a lot to be achieved. And quarter 4 is a large quarter. Especially the month of March is very large. And we are going to try our best.

With that, I am going to hand it back to Amrit for him to share all the financial performances and outcomes.

Amrit Singh: Thanks, Prashant. Just a quick update on housekeeping financial metrics.

- MFSL consolidated revenue excluding investment income stands at Rs. 20,907 crore, a growth of 14% in 9 months FY '25.
- MFSL consolidated profit after tax is at Rs. 365 crore.
- Axis Max Life's renewal premium has grown by 12% to Rs. 13,269 crore. And thereby a gross premium growth of 14% to Rs. 21,360 crore.
- Value of new business, written over this period, stands at Rs. 1,255 crore, growth of 9%, with an NBM of 21.9% for 9 months FY '25.
- Embedded value as at end of 31st December is Rs. 24,129 crore. And annualized total RoEV for 9 month FY '25 is 21.2% and the annualized operating RoEV stands at 17.3%. This has nil operating variance and a positive non-operating variance of Rs. 537 crore.
- Policyholder OPEX to GWP is 14.9% and total cost to GWP stands at 24.3% for 9 months FY '25. Policyholder OPEX has grown by 15% for 9 months FY '25 and for Quarter 3, it has grown only by 2%.
- Axis Max Life 9-month profit before tax stands at 397 crore. It's a degrowth of 9%, though largely due to higher strains of product forms that we have written and overall segment allocations.
- Solvency position stands at 196% as at end of December 24. And AUM, we have ended at around Rs. 1.72 lakh crore, a growth of 20% in our AUM.

We will now be happy to take any questions that you may have, and hence, I will hand over to the moderator to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on the touchstone telephone. If you wish to remove yourself from the question queue, you may press "*" and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Yes, thank you for the opportunity. Good morning, everyone. I have two questions. First is on the VNB margins. I wanted a little bit more detail to understand how the VNB has moved from 9 months to 9 months. So, we were at 25.3 in 9-month '24. What I heard was 300 bps impact drag from mix change, 100 bps drag from surrender value. So, the delta, some 60 bps that positive that we are coming to, is that from the higher riders? Because if I reduce 4% points from 25.38, we come closer to 21.3. So, 21.9 in 9 months, you can help me understand on that bit.

My second question is on the Banca channel. There is a bit of, I mean, a slight slowdown that sequentially probably that has picked up over there. If you can help us understand, is it just Axis Bank, all of the banks, are there any regulatory process changes going on at the banks? Any color on that would be helpful.

And my last question is, sir, we are done with the rebranding exercise and congratulations on that. On the timelines on listing of Axis Max Life Insurance, What I understand that the Insurance Amendment Bill could probably facilitate it better because there is a clause for merger between insurance and non-insurance companies. So, if that comes through, do you think that timelines on listing could be much shorter than earlier envisaged of 1, 1.5, 2 years? Those are my three questions. Thank you.

Prashant Tripathy: Thank you, Shreya. Let me take the questions one by one. The first question was the nine-month margin. I was talking about the Quarter 3 margin. So if you remember, for Quarter 3, last year we did 27.2, and this year we have done 23.2. And the clarification I was giving to you was of the 400 basis point, about 100 basis point is the impact of surrender income, and 300 basis point impact, or net impact, net of all the corrective actions that we have taken is because of product mix.

Hopefully, as we fix the product mix, we will come in the range that we typically like to be, which is around 25% or plus. As we have communicated in past, we would like to drive VNB growth and sales growth while being at around 25% margins. That will be the endeavor on which we will work as we go along.

With respect to your question on Banca, your observation is correct. However, I must highlight that that's tactical. For the quarter, the growth that we saw from Axis Bank was a bit lower than other bank channels that we got. But suffice us to say that as we go along and we have started the new calendar year, growth is significantly higher coming from Axis Bank.

On your question on Section 35 clarification, yes, we are very optimistic. Actually, that's a very positive thing, especially for Axis Max Life Insurance, because as soon as that bill gets approved, we will go ahead and file it with the regulator. Hopefully, the regulatory approval process will be shortened because of the guidelines or the clarification coming from the Act. However, the overall process of going to NCLT seeking approval, etc., will take about one year. So, hopefully, a few months lower, but it is not going to be crunched to, you know, coming in one or two quarters. It will take its own time.

Hopefully, answered all your questions. Over to the next question, please.

Shreya Shivani: Yes, thank you so much. That answers my questions. Thank you a lot.

Moderator: Thank you. The next question comes from the line of Avinash from Emkay. Please go ahead.

Avinash: Hi, good morning. Thanks for the opportunity. So, a couple of questions. The first one is, you know, I mean, for very long, you had a kind of range of ULIP in product mix. And now you seem to be consistently breaching that. So, is it that, I mean, post this Axis Max Life or Axis joining the rank of promoters, then the strategic change as far as the thought process is concerned that now you are fine with kind of, you know, selling the product that is demanded by the customer amid prevailing external environment. So, is it a kind of a strategic shift that, okay, now you are comfortable with selling even higher ULIPs if there is a demand? And of course, when the demand moderate, of course, you will change that. So, is there kind of some change in thought process?

And related to that on ULIP, in terms of you have been attaching these protection and riders, currently, if any kind of you can provide the numbers around that, okay, what's the attachment rate with the ULIP products? Yes, so that is the first question.

And second, again, a bit I know it will be premature, but what are, I mean, because you have kind of your Board has deliberated this issue and come up with this kind of a roadmap. So, of course, once Section 35 is amended, things become much easier. But what is the view, I mean, if that amendment for whatever reason is delayed, can this, you know, the roadmap provided by the Board for this merger of Max Financial and Max Life, is it possible, I mean, to progress even if the Section 35 amendment gets delayed? Thank you.

Prashant Tripathy: Yes. Thank you, Avinash ji. Always a pleasure to hear from you. Let me first answer your question on ULIP Mix. No, just to clarify, we are trying to balance many things here. A, customer demand, customer centricity definitely drives the choice of products. B, our growth rate. And C, the overall profitability of the business. And generally, our product mix is a combination or triangulation of all these three. At our level, the product mix of, you know, upwards of 45%, close to 45% ULIP at a total level is on the higher side. We will typically like to be in the range of 35 to 40%. There are efforts that we are making to ensure that ULIP remains range bound in the range of about 35 to 40%.

However, as ULIP has been over the last few quarters, the most favorite design considering stock market upsides, etc., we have taken actions to attach more riders so that the profitability profile of the riders could be increased. Like I mentioned to you in my initial commentary, we have about 45% total level. I don't have the numbers for ULIP, but we could talk to you separately. But because the attachment rates overall, you know, the attempt is to recover the overall profitability profile of the total book.

So just to clarify, we are taking actions to, you know, keep it in the range of 35 to 40%. I am very hopeful that as things stabilize and we move forward a couple of quarters, we will be back into the range that we have always been. There is no strategic shifts towards, you know, selling significantly higher ULIP. We are comfortable selling a bit higher ULIP.

On your question on Section 35, you know, at this point I am very positive that it should go through. It is definitely, you know, a problem with us to create a tangible structure that could facilitate the merger. So, at this point in time, you know, we are patient, and we will wait for Section 35 to get approved. If your question is about do we have anything alternative to expedite, the answer is, we are not considering that right now. We remain very optimistic about this going through and then subsequently work with the regulator to expedite our overall approval process. But this definitely is a good step and we welcome that. Thank you, Avinashji.

Avinash: Thank you.

Moderator: Thank you. The next question comes from the line of Supratim Datta from Ambit. Please go ahead.

Supratim Datta: Thanks for the opportunity. My first question is on the growth side. So, you have indicated that you are expecting a 20% growth for the full year, which basically means that in fourth quarter, the growth will be around 11%. Is that correct? So, should we see a higher mix of the non-PAR and PAR and slower growth in the ULIP? Is that something that you are building towards in the fourth quarter?

And continuing that, you know, over FY '26 and, you know, maybe into FY '27, how do you see this product mix shift now that, you know, we are seeing some bit of slowdown in the market and, you know, potentially there could be a rate cut in the next 6 to 12 months. So, you know, how should we think about or how Max as a company is thinking about the product mix changing over the next 12 months and what are you doing towards that? So, that's my first question.

The second one was, again, on ULIP. Recently, SEBI has been talking about launching a product which combines mutual funds and term insurance. If such a product comes into the market, then what would be the liability of

ULIP as a product opportunity? If you could throw some color on that, that would also be helpful.

And lastly, also, you know, we have seen over the last, you know, your tie-up with Axis, that has helped you gain traction in some of the markets you have disclosed in the presentation. But wanted to understand what proportion of your policies currently come from, you know, Tier-two and below cities. And how can this go up or change with this Axis rebranding that you have done? If you could throw some color there, that could also be very helpful. Thank you.

Prashant Tripathy: Thank you. Let me answer your question one by one. I don't know if, you know, your 11% number gets us to 20%. Maybe you have back calculated or whatever that number is. But please know that quarter 4 is the largest quarter. And hence, you know, maintaining the same 25% growth may not exactly happen. I think 20% or above is the number that we are targeting. So, you know, 20% perhaps the lower end of where we should end up for the year.

With respect to our margin profile and product mix, yes, we are making an attempt to rebalance the product mix and we will continue to do so. Like I mentioned to you, there are three forces that actually impact the product mix. A, the customer demand. B, you know, our ability to gain market share, and maintain market share and see creating profitability. So, there is a band in which we can operate, which will be, you know, 5 to 7% lower ULIP and maybe 5% more non-PAR. And I think with that, I believe we will be able to hit our margin guidelines or margin endeavor of 25% plus.

So, I think that's the direction. But suffice us to say that we are not going to take draconian actions on our product mix which will have very significant impact on our growth. We typically try to grow faster than the market so that we continue to gain our market share.

Very interesting thought on mutual fund plus term insurance. Very hard to predict, actually, on how it will evolve. In the past, I know that about a decade ago, you know, mutual fund industry did try to attach and actually attach term insurance a long time ago before it got stopped.

But there was a period when we saw mutual fund industry try to attach, you know, term insurance or term to create a kind of surrogate or mimic of ULIP plans. But during that period, I didn't see much impact actually on the industry. These are distribution-led businesses, targeting different set of customers, using different distribution channels. So, not to defend the life insurance industry, but at the same time, I think the customer segments and distribution methodology are very different.

So, I am not expecting huge impacts, but yes, it is definitely a development that the life insurance industry should understand and prepare itself for. At the same time, it also opens up opportunities to attach some insurance that we could provide to a very large set of buyers of mutual funds. So, it could be a unique opportunity as that.

I don't have the numbers of Tier-2 and Tier-3 cities, but my sense is that it will be quite significant. My sense is it will be close to almost a halfway mark on the number of policies that we get from Tier-2, Tier-3 cities. And a large part of that actually comes from our partnerships. Axis Bank, YES Bank, other bank branches, you know, the corporate agents. And the hypothesis was to create a brand or a combined brand which helps our sellers to be able to sell.

For example, in Axis Bank, you know, seller community having an Axis Max Life Insurance product definitely is expected to find more favors. And in the initial surveys that we have done, that is actually getting proved also.

So, you know, very happy with the step that we have taken. While it is just 50 odd days since we began, the early signs are better, but I am quite optimistic that as we go along and make investment in this area to penetrate our brand, it will have outcomes. This is a step that we have taken for our future. So, you know, I think the early signs are positive.

Supratim Datta: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Himaan Sanghai with Bernstein SG. Please go ahead. Himaan, your line has been unmuted. Please go ahead with your question.

Manas: This is Manas here from Bernstein. I wanted to understand you mentioned that Q3 is generally heavier than Q2. We are also seeing an impact in the mix because of surrender value. Wanted to understand how much of Q2 was pull forward demand and therefore a weaker Q3. Want to understand one part of that.

The other question I want to understand is a better brand awareness should eventually help you price better or cut the delta in pricing relative to larger private sector peers. So, how are we approaching that? Those two questions.

Prashant Tripathy: I will answer the second question first, and then I will request Amrit to talk about the first question. One would definitely expect that a stronger brand or a combined brand will drive awareness as well as consideration and hence our ability to price ourselves better should increase or should become better. It is not a short-term thing, but over medium to long-term, that definitely should be a possibility. We are already seeing some very positive development around. And I don't know if you know, but we are number one sellers on e-commerce or digital space. And that's where strong brand starts to play a big role. So, I am hoping that as we go along, strong brand will definitely help us price better and will have a positive impact on our overall margins. Amrit, you're in the first one, please.

Amrit Singh: So, the APE actually for Quarter 3, this time is Rs. 2,108 crore. And for Quarter 2, it was around Rs. 2,170 crore. So, approximately Rs. 62 crore this quarter has come off as compared to the previous quarter. Now, with respect to how much of it was impacted because of preponement of sale, I think it will be very difficult to kind of put a number there because the preponement of sale is only, or at Max is actually isolated only to an agency channel, if any. My guess, would be anywhere between 20 to 30 crore of preponement I could have considered in Quarter 2.

But overall, if you would have noticed in the industry that there is a slowness from a premiums origination perspective in Quarter 3, which has come through, and which is the reason why the Quarter 3 has come off slightly slower than Quarter 2.

Manas: Thank you. Understood.

Moderator: Thank you. The next question comes from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Yes, hi. So, just on this, you know, margins again, VNB margins again, what would have been the hit had we not kind of come off, brought down the share of non-PAR in this quarter, because I think, that also has a role to play in some form there. So, in a way, could you highlight as to what was the margin hit in the non-PAR side, particularly as to what kind of hit you would have seen on the non-PAR?

Prashant Tripathy: Yes, that's a good question. Amrit, I will just maybe one sentence and then you can take it. We don't really share the margin impact by product categories. But like I mentioned to you, there is a dual impact which is taking place. Inherently speaking, the ULIP margins are lower and the non-PAR margins are higher. And if you look at our overall product mix for Q3, you would see that ULIP is higher compared to last year and non-PAR is lower. So, it's a combined impact of this relative movement which is causing the margin to go down.

Amrit Singh: I think, as Prashant mentioned, we don't get into specific sub-segment margin sharing. Your observation is correct, actually. You are comparing Quarter 2 of this year with Quarter 3 of this year, where you are seeing that even the non-PAR actually has come off. So, there would be an impact because of that, which is true. That's an additional impact that we have faced in the quarter.

But as we said, as Prashant mentioned, that there are other mitigating actions also which have been taken, whether it is enhancing the product margin profiles of other segments, playing with variants, tweaking customer IRRs, etc., all have kind of gone into some of those computations.

Prayesh Jain: Amrit, just clarifying this and harping on this a bit more, if your share of VNB, if your share of non-PAR would have been similar, what was there in Q2, your hit on margins would have been more or would have been less?

Amrit Singh: If actually the share of non-PAR would have been similar to Q2, then our margins would have improved actually.

Prayesh Jain: Okay, so the surrender charge itself is kind of not playing out that much.

Amrit Singh: Yes.

Prayesh Jain: Okay. And second, on surrender charges, again, you know, what is the kind of actions that you have taken with respect to commissions and alterations with the distributors? Have all these been taken care of or how is that shaping up?

Amrit Singh: So, as Prashant mentioned, I think from a distribution action perspective, all actions taken in the quarter. And largely those are in line with how the market is actually done. Depending upon the strategic importance of the distributor, its quality of writing business, etcetera, either there is an upfront reduction or there is a deferral as a construct which has been created.

Prayesh Jain: Okay, got that. And the last question would be on the ULIP trajectory. How has January panned so far, given the market corrections? How do you think this quarter could play out with respect to the product mix?

Prashant Tripathy: For the quarter, we are trying hard. But suffice us to say that as soon as the market goes down, there is definitely a sales story around, the market is low, so we should invest now. So, generally, my experience of the market going down and ULIP mix readjusting on its own without external efforts is a delta of a few months. So, of course, it is improving, but not drastically.

Prayesh Jain: Okay, got that. Thank you so much.

Moderator: Thank you. The next question comes from the line of Sanketh Godha with Avendus Spark. Please go ahead.

Sanketh Godha: Yes, thank you for the opportunity. So, initially our impact on surrender rules was somewhere between 100 to 200 basis points, but we have arrested it to 100 basis points. So, just wanted to understand if I want to break down this lower impact, how much is because of claw-back or rationalization of commission structure, and how much is because of change in IRR or benefits to the end policyholder. I just wanted to understand that part.

And second, in this 100-basis point impact, what you are trying to highlight, have you already incorporated an assumption change with respect to paid-up behavior or you believe current behavior of paid-up will continue? So, that's my first question.

Amrit Singh: So, I think such a granularity of how much is customer IRR and how much is distribution IRR, I think it will be incorrect on me to kind of share into such specific granularities actually. But we have tweaked all of these things. And I think in our assessment, we have been indicating earlier as well that we will try to ensure that this charge burden that has come in the product design is passed on equally to all the legs associated, whether it's customer, shareholder, or distributor. So, we have tried to optimize on those principles per se.

With respect to paid-up behaviors and assumption changes, etc., in the new design there is some conservatism which has been built given the associated risk, which we have, and that's actually panning out in the margin profiles of the product as well.

Prashant Tripathy: Yes, Sanketh, also just to clarify that there were three things that we deployed. Firstly, looking at the customer returns. B, distribution compensation. And C, cost actions at our end, you know, being more effective and looking at our expenses. The first two actually are market forces. So, you can't unilaterally decide a very significantly higher adjustment to either customer IRRs or to distribution compensation because at the end we are competing in open market. A large part of our distribution also is open architecture. So, one has had to keep that in mind.

My belief is that all the changes that we have made continue to keep us very competitive in this space either through return to the customers or return to the distributors. And definitely some other actions have been taken, either in form of more protection or rider or lifting margin profile by optimizing variance, etc., are actions which have helped us to curb this overall impact, net impact, about 100 basis points. So, that's the way we have operated. Unfortunately, we don't have breakdown on everything that I mentioned, but this is the net impact.

Sanketh Godha: Got it. Perfect. So, my second question was, basically, see, if I look at the just quarter, third quarter growth, it means heavy lifting of the entire growth seems to be driven only by ULIPs because I see a sign of weakness in individual protection related to what we delivered in first half and even credit life to that extent, which was anyhow a low base product for us. So, just wanted to understand that is equally true with non-PAR and annuity. So, just wondering, anything to read here, why there is slowdown in other non-ULIP business predominantly in third quarter?

Prashant Tripathy: Yes, basically you must also know that the overall market in Quarter 3 was lower than the first half. Just to offer a few numbers, for the first half of the year, the overall private market was growing at 24%. The overall industry was growing at 14%. If I were to look at those numbers for Quarter 3, the overall industry is 5%. And overall private market is 13%. So, there has been a slowdown.

And I think we always try to have a delta over our industry, a significant delta over industry. While we have succeeded in that, there has been an overall reduction in sales numbers. Your observation that a large part actually came through ULIPs is correct, but at the same time with all the actions that we took around riders, etc., one has tried to optimize for the margins. Like I mentioned to you, it is our endeavor to rebalance the product mix and we are working in that direction.

Sanketh Godha: Got it. And lastly, Prashant, on riders, which is 42% of the total business, is it largely fair to assume these riders are typically attached with ULIPs to make the margin profile of the particular product to look better?

Prashant Tripathy: Not simply with ULIP, actually, the rider attachment is a strategy that we started a couple of years ago and we have been trying to drive. Right now, my sense is that the overall volume in terms of sales volume will be between 2% to 3%. Overall attachment will be about 45%. But we attach it with our term plans in a significant manner. We attach it with non-PAR policies as well as we attach it with ULIPs. So, those are three areas where we are trying to attach.

Sanketh Godha: Got it. And riders, you don't show it in protection, right? You show it as part of the savings where you have attached.

Amrit Singh: No, protection. Disclosure is shown in the protection. You can see a footnote in the slide.

Prashant Tripathy: The color actually is protection.

Sanketh Godha: Okay, perfect. That's it from my side. Thank you.

Amrit Singh: Thank you.

Moderator: Thank you. The next question comes from the line of Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: Yes, thank you, sir, for taking my question. Sir, this one is on surrender impact, which you have clarified as 100 bps. I just wanted to understand, sir, this surrender regulations came in from 1st October. And this is one of a kind with no historical precedent. How is the management estimating the impact to 100 bps and just wanted to get a sense of where the underlying data is getting derived from? That's point number one.

And the second question, sir, is on overall claw-back from Banca and the proprietary channel. Are we able to claw-back, like have this discussion and claw-back the commission? Have that structure in place in both these sides?

Amrit Singh: So, okay, I will take this question. So, surrender impact, obviously, it's actually a mathematical number. Because there is now an increased surrender value that has to be given to the consumers after 12 months, and also there is a new mechanism of computing surrender values over the period of time.

It is very mathematically identifiable that how much is the margin implication. And what we have shared is actually basis what we have seen in that product form with the increased surrender regulations and the fact that we have adjusted for things around expense, commissions and returns, etc. The net number is what we have indicated actually.

So, I don't know your specific question, but it's not as if it's not mathematical. It's a fairly mathematical number of how we have kind of come to a computation of the same.

Gaurav Nigam: Sir, just one clarification. Why I said this thing is how many people are going to surrender is not known, right?

Amrit Singh: Okay, right.

Gaurav Nigam: But is that only mathematically possible?

Amrit Singh: But that anyways, this product form is not a new product form. This product form has always been in existence. And you have an experience on how the surrender behaves in those product forms. And that actually becomes the basis of computing the profiles of margins. The reality is that, you know, in certain cases, let's say three years out, if you are surrendering, the movement of the surrender values actually is not as if it's so stark or so material, actually. It is marginally up.

So, that can't become the reason why suddenly the consumers will start surrendering because still the premiums that they would have paid in the initial years, it doesn't break even so quickly given the long-term nature of the contract. So, we don't expect that this is a completely new product form and there is no underlying assumptions that we have or we are aware of that we can't price and can't understand the product.

The second question you asked was, you know, claw-backs on proprietary channels, bank channels. Every channel actually has their own nuances, etc. And needless to say, we have had discussions with our partners and in line with the market forces, as Prashant kind of mentioned, even our structures have either an upfront reduction or a claw-back kind of a mechanism come into play. I mean, with an agency also you will see variances, etc. But those are strategic choices of how you want to run businesses. Some places it will not be, some places it will be, some places it will be upfront, some places it will be a claw-back.

Gaurav Nigam: Understood. Thank you, sir, for answering my question. Thank you.

Moderator: Thank you. The next question comes from the line of Gaurav Jain from ICICI Prudential Mutual Fund. Please go ahead.

Gaurav Jain: Hi, two questions from my side. One is, we understand currently Axis Group owns 19.2% in Max Life. And that was to go to 19.99%. So, what is the status on that transaction? And is it linked to merger or can that happen irrespective of this, is the first question.

Second is, we understand in this budget, new tax regime has got a little attractive, while the majority of people have already moved to new tax regime 70% odd. But what in your assessment is the number of people who would still be buying life insurance policy for 80C purposes? And how do you see this impacting our business? Thank you.

Amrit Singh: Thanks, Gaurav. So, the Axis ownership in Axis Max Life Insurance stands at 19.02%. And there is a 0.98% option that exists. I think it's pending at Axis end. They are seeking their regulatory approvals for that. So, as and when that gets completed, the Board has already approved it, that will be facilitated.

I think on the merger aspects; there are many other things. This is a listing roadmap approval which the Board has given. As Prashant kind of mentioned, we will wait for applicable laws to get tweaked. We are hopeful that this will be concluded in similar timelines so that it doesn't become a challenge to it. But we will solve for it as and when the time comes.

On your second question around new tax regime and old tax regime, and I think even the government data over the last few years, there has been a quite significant shift, people preferring new tax regime. And already upwards of 70-75% people are on that particular regime. But that does not have, I mean, if 80C was the reason which was a reason for buying insurance, then you wouldn't kind of see the structural strong growth that industry has been demonstrating for the last few years.

And very frankly, this 80C as a reason to buy insurance actually is no longer a predominant reason. It's more on the 10(10D) benefits that is a more fundamental reason which creates a differentiation, which continues to remain intact and a strong basis for the product proposition to be overall attractive.

Gaurav Jain : Just to follow up on the second question, Amrit, any data crunching that you would have done to understand the income segment or the ticket size or the, say, coming in Q4, or from the sales team, if you would have checked that, is it really a top topic today? Well, we understand the impact is meaningfully less, but there are camps who say that no, it is still significant. So, any further insight from you on this will be helpful.

Amrit Singh: We haven't really, I mean, even those threshold levels of 5 lakhs and 2.5 lakhs at ULIPs, etc., this particular year, we have seen growth happening all across, by the way. So, even those product forms where the tax impact shifting away from capital gain in case of ULIPs and the greater than 5 lakh in traditional, I think consumers see a benefit in the underlying product as well.

So, we haven't really seen an impact that there is a reduction or sharp reduction happening in that particular area. And when it comes to less than a ticket size kind of threshold, there also I think the growth momentum has been there and you can see NOP growth numbers.

So, we haven't really experienced anything because of new tax regime shifting. And we have been sharing this survey which actually was done a few years back where it was a syndicated survey where the reasons for buying insurance is asked. And tax as a reason had kind of fallen down to beyond the top 10 reasons actually that the consumers were indicating. And even from a sales perspective, we haven't. We don't have, Gaurav, if you are asking the question that do you know whether the customer is buying this product for the purpose of 80C, I really don't have any data point actually for that particular perspective. We don't capture any of that information.

Gaurav Jain: Got it, Amrit. Thank you so much, and all the best.

Amrit Singh: Thank you.

Moderator: Thank you. The next question comes from the line of Neeraj Toshniwal with UBS Securities. Please go ahead.

Neeraj Toshniwal: Hi. So, my first question is on the kind of product mix we are targeting for Q4 given if we want to achieve single high-digit VNB on the ask rate of 12% PB on APE looks to be on the higher side in terms of margin. So, are we really looking to shift from ULIP to non-PAR in Q4?

Amrit Singh: Thanks, Neeraj, for the question. Obviously, there is all intention to optimize and improve upon the product mix. But what Prashant kind of gave as an indicative numbers around APE and VNB in his opening remark, I think that does not assume a very significant shift. But all efforts will be done. So, if the current run rate maintains, is that what the answer that is Prashant indicated. And typically, why the margin improves in quarter four is because of operating leverage.

So, the short answer is that we have assumed a similar trend going forward. Despite that trend, you know, the guidances on margin between 23 and 24, we will be able to meet. And if you are able to improve upon non-PAR significantly in the quarter, definitely the outcomes will look better.

Neeraj Toshniwal: And any change in strategy if the rate cut happens this week in terms of how the industry is looking at it?

Amrit Singh: Sorry, I didn't get your question. What happens in the industry?

Neeraj Toshniwal: So if the rate cut happens, let's say if we start with the easing of monetary policy, do you think the non-PAR or traditional products will see a pickup from here?

Amrit Singh: Rate cuts, you said?

Neeraj Toshniwal: Yes, rate cuts if it happens this week in the monetary policy.

Amrit Singh: Yes, we always keep a close eye on how the yield curves are, and everyone in the industry does it, and basis the movement in yield curves, the product gets repriced. But the reality is that all asset classes all across also move in a similar nature and similar direction.

But as things stand today, where the yield curve is, I think the products are priced in a particular manner, I don't see, you know, a significant change happening on the product IRRs in the next few months for sure. But over longer horizons, obviously, we keep repricing basis the movements in the yield curves. But it's not as if your repo rate moves and tomorrow we reprice it. We take a more balanced view of how do we see the overall trend and the pressure on margins or positive elements on margins.

Neeraj Toshniwal: Okay, thank you. Thank you so much.

Moderator: Thank you. The next question comes from the line of Madhukar Ladha with Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: Hi. Thank you for taking my question. First, can you give us some sense of what medium-term growth for topline and VNB you would be targeting over the next, you know, let's say three years? And where will the growth come from? So, if this year I look at your proprietary channel that's grown at 40% plus level, but the Banca has just grown at about 14%. So, over the next three years between these two channels, what will be the interplay, right? I mean, if we can get some sense on how this is going to move.

Second, despite ULIPs actually increasing in the mix on a year-over-year basis, your back book strain has increased considerably. So, if I look this for Q3, the number is up 57%, if I am not wrong, the new business strain. So, what's happening over there? You know, if some sort of sense of there. And your economic variance from 660 crore in the first half is down to 537 crore, I think you mentioned. I think Amrit mentioned in the opening remarks. So, I am guessing this is largely the equity movement. So, just, Yes, these three questions.

Amrit Singh: Thanks, Madhukar. I will go last question backwards. You are absolutely right. The movement down from H1 to 9 months on economic variance is largely due to equity. There is no other reason to that. The strain actually is because of unit-linked designs, because of new surrender regulations, also because of some allocation movements that actually happen. So, those are effectively the reasons for strain. And strain is coming, large part of the strain is coming because of unit-linked designs growing and increasing at a much faster pace. Where will the growth come? I think!

Madhukar Ladha: Just a follow-up. Wouldn't non-PAR design cause a higher strain initially or does sort of ULIP cause a higher strain?

Amrit Singh: So, in our case, they are fairly similarish is, I would say, ULIPs are slightly higher than the savings design of non-PAR. Protection, obviously, is higher strain. Annuity is higher strain, but the ULIPs are slightly higher than the savings part of the design. And that has caused the additional strain that you are seeing in the numbers that you are attributing to.

Madhukar Ladha: Understood.

Amrit Singh: From a growth perspective, I think the strategy, even though, you know, as we conclude our planning, long-range planning process, we have just initiated that process. And when we come and meet you next time, we will provide you more specific details around some of those things. But I think, needless to say, there is no shift in our overall thinking with respect to our priorities.

So, our priority will remain to continue, keep accelerating our proprietary channel growth rates. And when I say proprietary, it will come from our online business, will come from our agency business, and it will come from our direct selling business. Each of the businesses has their own nuanced strategy elements to how the growth will be built upon.

Agency, the focus will be on expansion. We still continue with respect to our size and scale, you know, a fifth or a sixth player in the industry. And there is more opportunity and room for us to keep adding on and augmenting capacity in our agency channel as well.

The direct selling team actually is doing quite well. It's a team which is a cross-sell, up-sell team, and there is, more and more avenues always available as the business book builds up. So, it will continue to remain focused on that.

In banks, the core banks both at Axis and YES, I think we will mirror the growth of how the banks will grow, hoping to keep counter share intact. And that's what we have done over the last many years now.

Additionally, there are new and new partners that we have added, as you would have seen. And all of those partners as where we scale and their annual run rates start coming to business, that will help us from a growth perspective. Without getting into some specific numbers, I think we will only reiterate that we will continue to grow faster than the market growth rate. From a total market growth rate, 300 to 500 basis points is always what we target. And that's where the focus will remain.

On margin fronts, it's a tactical period of where we kind of came across surrender regulations, etc. But over long horizons, we do see, you know, 25% margin profile is what we will try to target and try to be at.

Madhukar Ladha: Understood. This is very helpful.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Amrit Singh: Thank you, everyone, for joining our earnings call, and we look forward to more such interactions. Have a good day.

Prashant Tripathy: Thank you very much. Have a nice day.

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