October 28, 2024

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 October 23, 2024, post declaration of Un-audited Financial Results of the Company for the quarter and half year ended September 30, 2024, is enclosed.

The same has also been uploaded on website of the Company at https://maxfinancialservices.com/static/uploads/financials/mfsl-earnings-call-transcript_final_q2fy25.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: 2024.10.28 21:44:38 +05'30'

Piyush Soni
Company Secretary & Compliance Officer

Encl: As above

Max Financial Services Limited

Q2 and H1 FY '25 Earnings Conference Call Transcript
October 23, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Max Financial Services Limited Q2 and H1 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 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 – Chief Financial Officer, Max Financial Services Limited and Max Life Insurance Company Limited. Thank you, and over to you, sir.

Amrit Singh: Thank you, Rayo. Good morning to everyone and once again I welcome you to the Max Financial Services Earning Call for the quarter ended September 2024.

We made our Results available on our website as well as Stock Exchanges last evening and as always, I am today joined by Prashant Tripathy – Managing Director and CEO of Max Life Insurance.

I request him to share "Key Developments and Insights" from this Quarter.

Prashant Tripathy: Good morning, everyone, and warm welcome to Max Financial Services Earning Call. I am very excited, just to begin with, to share with you that we have now solid plans to refresh our corporate name and brand identity.

With Axis Bank on board as a co-promoter, Max Life Management proposed the inclusion of Axis as a part of its corporate name and brand identity. And I am so thankful to the Axis Bank Management Board as well as Max that we now have permission to use Axis name from their perspective on our brand identity. With Axis Bank coming as a co-promoter way back in 2021, igniting a powerful synergy, the time was right for us to consider having Axis name in our brand also.

Our goal is to create an even more powerful and influential brand that continues to inspire 'Bharosa' for our customers, employees, investors and other stakeholders. This strategic decision was backed by in-depth research with all our stakeholders by an external consultant. The key findings of studies show a strong association with Axis Bank beyond urban and tier 1 and Max plus Axis joint branding being a preferred thing.

Combining the two brands would result into stronger brand association, increased likability, and ease of remembering and preferred buying consideration and it will also very solidly and overtly exhibit to all the stakeholders the association as well as ownership of Max Life Insurance by Axis Bank. The brand refresh has been approved by all the boards, Max Life, Max Financial and Axis Bank. And the new corporate name and brand identity will be announced in due course subject to corporate and regulatory approvals. I am very optimistic that we will do that over the next quarter.

Now moving on to key development in Quarter 2 across all the strategic areas and I will pick them up one by one.

Predictable & Sustainable Growth

In the second quarter of FY '25, our individual adjusted first year premium exhibited a very strong growth of 34% outperforming both the private sector and overall industry growth rates of 24% and 21% respectively. It is noteworthy that this growth, even on a two-year CAGR term, is also healthy 25% compared to overall industry growth of only 14%.

Total APE in Quarter 2 expanded by 31%, led to a significant over 20% increase in the number of policies issued. Therefore, so far in the first half of the year, our sales, which is APE and adjusted FYP have grown by an impressive 31% backed by secular growth from both proprietary and partnership channels.

Our continued investment in prop channels led to a sustained momentum in their growth, achieving year-on-year 45% growth in Quarter 2 FY '25 and 51% in H1 FY '25. It is noteworthy that our strong focus and execution capabilities have resulted in prop channels growing at two-year CAGR of around 46% in H1 FY '25.

Offline prop channels saw a remarkable 39% growth driven by enhanced frontline sales productivity and the expansion of our top performing agent pool. Our online channels continue to lead the market, holding the top position across digital platforms in both protection and savings segments. These channels grew by over 59% in Quarter 2 FY '25 fueled by robust demand of our new fund offer aimed at the online savings segment.

Further, in our ongoing efforts to broaden distribution, we have successfully onboarded 20 new partners during Quarter 2 FY '25 including two banks, Indian Post Payment Bank is one of them, 10 GCL partners, 5 online and offline brokers and 3 corporate agents. While these partners become sizable in the medium term, our existing partnership channels delivered a strong performance in Quarter 2 as well, posting 22% growth and 17% in H1 FY '25.

Additionally, despite a competitive and slow disbursal market, our group credit life business expanded by 34% in H1 FY '25, showcasing our ability to scale up in highly competitive markets despite being late entrants.

In short, we are committed to maintaining a similar momentum of growth throughout the year, surpassing industry growth by a significant margin.

Product Innovation to Drive Margins:

Talking about products, which have been a big discussion item also in view of the regulatory changes, which became effective from 1st October, our dedication to product innovation remains steadfast. Max Life continues to lead the market in launching attractive products that align with customer needs while delivering healthy returns to our shareholders.

With the same objective in Quarter 2, we introduced a Nifty 500 Momentum Fund predominantly for e-commerce customers, a move to leverage opportunities in the current equity market. This led to 74% growth in the ULIP segment at company level, with the ULIP share in our product mix increasing from 35% total APE last year to 47% in Quarter 2 FY '25.

Protection, a long-term focus area for us, saw 49% growth in retail protection in Quarter 2, driven by the success of our unique SEWA Health proposition and strategic emphasis on riders. We achieved the highest ever Rider Attachment Ratio of 45% in H1 FY '25 versus 31% in H1 FY '24, with Rider APE growing by over 280%. With this protection and health penetration in our individual APE, we reached 11% in Quarter 2 FY '25 versus 10% the previous year.

Further, in retirement, we recently launched our latest version of IRIS study, which reveals that most urban Indians recognize the importance of early retirement plans. The retirement preparedness index for urban India increased from 47 points in IRIS 3.0 to 49 points in IRIS 4.0, supported by greater awareness and proactive financial planning. Therefore, the retirement segment remains a strategic priority for us, and we are well positioned to capitalize on this opportunity through our annuity proposition.

While Quarter 2 annuity sales saw a moderate growth of 5% due to competitive pricing actions, we expect them to ease in the coming quarters, paving the way for renewed growth from this segment.

All our efforts in distribution expansion along with product innovation resulted in a significant increase of 23% in our VNB for Q2 with an NBM of 23.6%. And with that, our first half VNB growth is now 16%. This is an increase on quarter-on-quarter 6.1%, which comes from the benefit of our operating leverage and strong growth in rider attachment. You will find the outcomes to be consistent with the commentary that we have shared with you at the end of quarter 1, where there were a lot of questions around our NBMs.

Surrender regulations update is something that you must be waiting for. As you are aware, new surrender regulations became effective from 1st October, and it wanted all our products to be fully compliant. I am happy to share that we have successfully relaunched 98% of these products for sale.

Further, we are in the process of mitigating the impact on margins by adjusting distribution compensation, customer benefits, as well as taking actions on specific discretionary area of expenses. As guided earlier, we anticipate a net margin impact on a run rate basis, full year run rate basis of between 100 and 200 basis points. Majority of it, I believe, will be mitigated in the medium term, medium term defined as over the next few quarters.

Customer Obsession Across the Value Chain:

At Max Life, customer obsession is integral to everything we do. The dedication to delivering unparalleled value and trust has been recognized, with Max Life being named as one of the Best Organizations for Customer Experience 2024 by ET Now.

We also achieved a five-point increase in our company-wide net promoter score, rising from 56 in March '24 to 61 in September '24, with both touch point and relationship NPS showing similar gains. We maintain our leadership in 13th month persistency for number of policies, with our regular and limited premium for extensive reaching its highest ever level at 87% up 309 basis points, while our 61st month persistency stood at 58 for the period ending September 2024.

Digitization for efficiency and intelligence:

The fourth strategic lever, which is digitization for efficiency and intelligence, our ongoing digitization initiatives continue to enhance operational efficiency across the business, delivering both cost savings and improved customer satisfaction. Max Life's efforts were recognized with the Digital Transformation Award at the 19th SKOCH Summit for our OCI Cloud journey, as well as the Best DevSecOps Team Award by Quantic.

Our Quarter 2 technology interventions include the launch of the mPitch Pro app, designed to help agent advisors simplify the pitch to prospects, and the SARAL tool, which streamlines onboarding of customers and distributors.

Our new claim system called TEJAS, now operational for almost all products, offers real-time claim validation, further building customer trust. We also launched a generative AI-based co-pilot for our 4,000 frontline sales personnel and supervisors in Quarter 2 to assist with real-time sales query and objection handling.

In summary, our Quarter 2 Results underscore our ability to scale propriety channels, grow partnerships, and achieve profitable outcomes. As we move forward, leveraging the strengths of both Max and Axis brands, we remain committed to delivering sustainable long-term value for our customers, shareholders, partners, and employees.

I am going to hand it over to Amrit now, who will provide an update on our financial performance. Back to you, Amrit.

Amrit Singh: Thank you, Prashant. Some update on key "Financial Metrics" incrementally.

- MFSL consolidated revenue excluding investment income now stands at Rs. 12,820 crore, a growth of 14% in the first half.
- The consolidated profit after tax for MFSL stands at Rs. 295 crore.
- Max life renewal premium grew by 12% to Rs. 8,046 crore, and hence consequently, the gross premium has grown by 14% to Rs. 13,137 crore.
- The value of new business over the first half is at Rs. 766 crore versus Rs. 663 crore the previous year, a growth of 16%. The NBM for first half now has improved to 21.2%.
- Embedded value end of September 2024 is Rs. 23,338 crore. This includes the capital infusion which was done by Axis in the first quarter of Rs. 1,612 crore.
- The annualized total return on EV, first half FY '25, excluding the capital infusion of Rs. 1,612 crore is 24.2%, and the annualized operating RoEV stands at 16.8%.
- In the annualized operating RoEV, there has been a positive operating variance of Rs. 9 crore. And on overall embedded value, there is a non-operating variance of Rs. 660 crore.
- Policyholder OPEX to GWP stands at 16.5%, and total cost to GWP is at 25.6%. Policyholder OPEX has grown by 22% in line with business growth.

- Max Life first half FY '25 profit stands at 267 crore, the growth of 3%. Solvency position is at 198% end of September 2024.
- The overall assets under management end of September '24 is Rs.1.7 lakh crore, a growth of 27%.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Sir, just wanted to check on two things. First is on the surrender value regulation. We have heard your peers speak about that they are using a different combination of claw-back or progressive commissions and that's how the structures are currently under discussion with distributors. Where are you guys on this conversation? Are the deals sealed? Most of your peers have said that the industry will take another quarter for this entire dynamic to settle down. So, some commentary around that would be useful.

And second, sir, on this Axis, use of Axis Bank in the name, Axis in the name, what sort of regulatory approvals are required here? We are saying it can come through in the next quarter. Will RBI be included in approving this? Some color around that would be useful.

Prashant Tripathy: Thanks, Shreya. I will take both the questions. On surrender income, my commentary is consistent with what the industry peers are saying. We have had a detailed conversation with a large set of partners already and their proposals which are a combination of all the things that you mentioned. I am very optimistic that from our perspective we will be able to close it in less than one quarter. With smaller distribution partners, we are engaging in that discussion right now. And we are really optimistic that all that will get settled over the next few weeks.

As far as the approval of branding is concerned, as you know, we need to go to ROC, followed by an approval from IRDAI for the name change. Those are two approvals which are required. We don't require any approval from RBI. So, hopefully, the turnaround time to do that will be close to 45 days. And I am very optimistic that hence within next quarter we will be able to launch our brand.

Moderator: The next question is from Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee: So, first, I wanted to understand regarding the margin front. So, if I were to look at Q2 vis-a-vis Q1, this is around 600 basis points improvement that has come through. Just wanted some quantification from your side that how much of this would have come from operating leverage and how much would have come from the product mix.

Because at least at macro level, it looks like that product mix have, you know, impact might be relatively smaller, but if you could give more color on that. And also, whether you like a couple of your peers had commented that the yield curve impact were absorbed in terms of the non-PAR products.

So, have you done the same as well? And whether that is part of this number, how much in basis points terms maybe had impacted the margin? That would give us some color on what could be going ahead. And also if your guidance changes because of that, because this margin came out strong in this quarter, whether there would be any change in the guidance?

Secondly, sir, in terms I wanted some color on the break up that you generally provide on the sub segments in your proprietary channel, what has been the mix of the direct channel, the e-commerce and the agencies in your prop channel this quarter and the prior year same quarter. So, that would be helpful. And how the commission structures are panning out in the e-commerce channel, because I think for 1H you have mentioned that there has been more than 100% growth in this channel. So, I just wanted to understand that.

Just one last one on the structure simplification process risk if you can highlight.

Prashant Tripathy: Let me make an attempt to answer some of the questions and I will lean on Amrit to share with you the numbers. I think, with respect to the advantage or margin increase, you may recall that we mention every time that when we come up with our margin numbers, we take expenses on actuals. And hence, if you were to look at last many years, our quarter 1 margins are smallest and every passing quarter the margin builds up. And this quarter was no different.

If you remember, we had a 17.5% margin in quarter 1. If you look at our VNB in the first quarter, our VNB was close to 250 crore, now it is more than doubled. So, we do significant more sales in Quarter 2 compared to quarter 1. And hence, there will be a big advantage of leverage, first part. And I don't know if Amrit has those numbers handy. I will give it to him in a second.

And the other one is a commentary that I mentioned to you. We have attached significant more riders this quarter to drive our margins up. So, hence, if you look at our product mix, our product mix is more or less similar. We have written similar amounts of ULIP also. But because of higher leverage as well as attachment of riders, we were able to drive more profit. So, riders we generally call as a part of our protection and health proposition. And you will notice that protection and health proposition has significantly increased in the first half. So, that is the big reason why it has happened. But I am going to hand it over to Amrit to give more color as well as talk about responses to other questions.

Amrit Singh: Thanks, Prashant. Swarnabh, so from quarter 1 to Quarter 2 walk, the 600-basis point improvement that you see, 500 basis point of that comes out of operating leverage and also strong volume growth that we have continued experience in the quarter. And around 100 basis point is a mix of the riders which we have been successfully able to actually attach across our product forms.

And the second question that you actually asked was on the yield curve impact. Look, the yield curve impact is a regular course of business. There is a yield curve movement which will happen, and we will respond to those yield curve movements. We have done some bit of it during this first half. The non-PAR pricing has been adjusted at various points in time, though the movement in the last month has been a bit sharper. But keeping an overall view of competitive intensity and competitive actions, we will also continue to take those calls with respect to adjusting our non-PAR rates for the customers as well.

I think you asked a question on the contribution coming out of our different channels. The agency has at an overall level contributed around 21%, 22% last year. It has a similar level this year as well. The CAT channel also contributed around 9% last year. It is at similar levels this year as well. And the e-commerce contribution is actually up from 9%. It has moved to 15%. So, there is the e-commerce growth which you can see of over 105% in the first half is causing to an improvement of share of the e-commerce business. Any additional?

Swarnabh Mukherjee: Yes, a couple of things. One was whether there is any change in the margin guidance that you had given because of the better margin profile that came through this time and maybe the rider attachments are growing. So, they would like to change that. And the second is on the structure simplification process, if there is any progress, if you want to share.

Amrit Singh: So, I think on guidance, we will stick to whatever we had been saying at the start of the year. You will appreciate that it's not a normal period that we are entering into from a regulatory disruption that has come in play and it will require this quarter 3 some bit of stabilization to happen. But keeping the overall guidance in view that we do aspire for double-digit VNB growth and a strong APE growth and VNB margins would be an outcome of some of those things. So, we will kind of continue holding to those particular guidance.

Prashant Tripathy: On the structure simplification, we don't have any updates beyond whatever we have shared so far. We are working and we are observing.

Swarnabh Mukherjee: Do you have any timelines in mind for that?

Prashant Tripathy: I think the moment we have visibility to timelines, we will come back to you. It is going to be a time-consuming process, and I think we will make an attempt to do that over the next few quarters is the way I will put it.

Moderator: The next question is from Supratim Datta from Ambit. Please go ahead.

Supratim Datta: So, my first question is on the growth side. ULIP has been growing very strongly and this has not been the case only for you but across the sector, ULIP has been growing very strongly. Just wanted to understand what in your experience suggests that when the market slows down or when things start to stabilize, how easy is it to switch from ULIP to other products and what could be some of the levers that you could use to shift the growth from one product to the other, if you could give some color on that and what your past experience suggests, particularly given we could enter a period where you could see rate cuts as well? If you could give some color on how life insurance products during rate cut period plays out, that would be very helpful.

And the next question is on the EV walk. So, there seems to be a positive operating variance that you have been holding for this half. Just wanted to understand that what has resulted in this positive operating variance? If you could give some color on that, that would be helpful.

Prashant Tripathy: So, I will take that. I think growth from ULIP definitely is a phenomenon and this is not happening for the first time. In the past also, there is a strong correlation on ULIP growth with respect to market uptake and over the last few quarters we have seen the share market perform well and hence ULIP picks up.

In past, we have witnessed that life insurance industry has been able to maneuver the change quite well and so have we. There have been many quarters where... where our growth or our ULIP mix will go up to between 40% to 45%, it will fall between 35% to 40%, but we have more or less maintained that trajectory. I don't expect a big impact on account of ULIP transition. If at all, it will be very marginal.

In terms of EV walk and operating variance, positive variance, operating variance, which is a minor number, is because of some of the upsides that we have seen from our mortality experience.

Supratim Datta: And just one clarification. So, on the name change or rebranding, would it be a joint name that you are proposing like Axis Max or Max Axis, or how would that be? If you could give some color.

Prashant Tripathy: I think your expectation is correct. I can't tell you whether it will be Axis Max, Max Axis, but yes, it is going to be a combination of both the names.

Moderator: The next question is from Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Sir, firstly, just extending the point on the rebranding, which channels do you, in the survey or the feedback that you would have received from the third party, which channels would you expect to benefit the most out of this? And we have already kind of been delivering very strong growth on APE front. So, on this base also from a, say, two to three-year perspective, what would be your growth aspirations considering the rebranding?

Prashant Tripathy: Thank you very much. That's a very good question you asked, and it is something very, very strategic. From our point of view, of course, Max Life Insurance is a prominent brand. Within life insurance space, we are seen as experts in life insurance, and we have had an incredible journey so far.

However, Axis is a larger financial services conglomerate, and it has presence in many, many more cities, tier 2, tier 3, smaller part of India where perhaps Max Life brand is not as strong. And hence, we kick started, and this is not really something which was guidance from shareholders. Actually, management team picked up this exercise to look at any opportunities that may arise by having the strength of Axis Bank associated with Max Life Insurance and we actually talked to almost everybody.

As you know, we are expanding in smaller cities. We opened 100 branches over the last one year. We talk to agent advisors. We talk to current customers. We talk to prospective customers. We talk to employees of Axis Bank, sellers of Axis Bank, seller for other banks. And I think across all cohorts, we found that the strength of both brands coming together was more prominent than Max Life on its own.

So, hence, the management team made a request to our Axis set of shareholders along with Max's shareholders to allow us to use a brand which kind of carries the strength of both the brands together. And I am very happy and lucky that it's been allowed. So, we will take that on board.

It also, in a way, answers some of the questions that investors and analysts have over and over again come and ask us about seriousness, the ownership of the agenda of Max Life Insurance growth by Axis Bank.

I would like to unequivocally communicate that it is reflective, the ownership of the agenda, the growth of Max Life's agenda by Axis Bank is quite vested in the decision that Axis Bank has chosen to lend its name brand to Max Life Insurance. It goes to that extent.

So, it serves to the purpose of really reflecting and demonstrating to the entire world that both the companies are going to work together, and we have very deep interest in building life insurance business in India.

I think the advantage, a distinct advantage that we are going to get is also with sellers of Axis Bank where we have an open architecture situation. And I think having a common brand or having Axis brand attached to Max Life Insurance will definitely give some bit of distinctive advantage to Max Life Insurance in the minds of the sellers.

We already are in the counter-share range of 65% to 70% and we have maintained that. Over and over again, there have been questions around it. We have maintained it. So, honestly, from all counts, I think this was a very positive decision that I was personally passionate about and I am happy that they're moving in that direction.

Our growth has been strong. Your observation is right. We are doing very well, and I think with these changes or with the strategic decisions that we are doing, one will make an attempt to grow even faster. We have deep aspirations to be among the top three players and I think we will continue to pursue that journey with strength and with determination.

Prayesh Jain: Thanks for that elaborate answer. And secondly, from a VNB margin perspective in the second half, how do you see this panning out given that the surrender charges would kind of come in and probably you will have a rebranding cost that would come into your numbers, and also the commission structures are still being discussed and not yet finalized? So, do we see the margins kind of coming up in Q3 and then kind of possibly a more normalized number in Q4? How do we see the margin kind of panning out? And from a, say, again, from a two to three-year perspective, do we see that the VNB CAGR would be similar to the APE CAGR or how should we kind of look at from a two to three-year perspective?

Prashant Tripathy: Yes, I think margin is something which is quite dear to us. And on all the discussions that we do internally, margin finds a very important place. However, over the last two or three years, you would have seen that we are trying to balance market share growth with margin. One would be very happy if we are near about 24%, 25% margin, yet being able to maintain the growth trajectory on APE the way we are doing.

Last year, the margin was 26.5. The year began without any surrender impact. We had given guidance of being between 25 to 26, that kind of number, close to about 25%. The surrender guidelines have come, and we have spoken about 100-200 basis point impact. So, really, I think our margin should be in the range of 23 to 24 for the full year basis.

I am being bold in giving some kind of guidance in a very fluid environment. So, with one quarter here or there, I think on a run rate basis, we should try and make or try and come close between 23%, 24% for the year. That will be our attempt. And over a medium-term basis, when I say medium term, over three to four quarters, we should try to cover up this delta which has come. And as demonstrated in this quarter, we have several initiatives which are running to optimize for margin. So, we will continue to do that.

I think the cost of rebranding; I would count it out because that's honestly going to be a one-off cost. And hence, you know, one should look at margins independent of that. But you are right. The next two quarters will be in that sense, especially this quarter is going to be dynamic because of how surrender income regulations are settling. But one would definitely make an impact in a very genuine effort to hold the margin at the levels where we are or improve further.

Prayesh Jain: Now, this last question. How has the first 22 days of October been under the new regulations with respect to growth or with respect to product mix, any difference from what you would have seen in the first half?

Prashant Tripathy: Honestly, I think that's something which I will be running afoul talking about the growth rate. Let the IRDAI numbers come at the end of the month. I think it requires your patience. I don't have any reasons to worry.

Moderator: We take the next question from Sukant Garg from Equible Research. Please go ahead.

Sukant Garg: Just a little bit old school questions here. What would be the bind rate currently in the policy Max Life Insurance?

Prashant Tripathy: Can you repeat your question?

Sukant Garg: What would be the bind rate, the policy conversion rate against the quotes that's been generated?

Prashant Tripathy: We have the conversion rates, Amrit.

Amrit Singh: It's generally 10% conversion rates is what we observe.

Prashant Tripathy: And it varies by channels also.

Amrit Singh: And it does vary depending upon channel, bank conversion rates are slightly higher. E-commerce conversion rates are more tougher, and agency conversion rates and direct link conversion rates are between 8% to 10%.

Sukant Garg: So, 10% is the overall for the quote generated against the policy conversion. That could be said.

Prashant Tripathy: That's right. Customer meetings are done to policy converted.

Sukant Garg: That is 10%.

Prashant Tripathy: Yes.

Sukant Garg: And what would be the revenue per policyholder and average cost per claim approximately?

Amrit Singh: Sorry, revenue and what? Claims per policy you asked.

Sukant Garg: Revenue per policyholder and average cost per claim currently.

Prashant Tripathy: The ticket sizes you mean. You mean the ticket size of every policy?

Sukant Garg: Yes.

Prashant Tripathy: Yes, it's closer to 1 lakh, Amrit, if I am correct, right?

Amrit Singh: That's right.

Prashant Tripathy: Yes, 1 lakh per ticket size on the regular policies. Sorry, I don't have the answer to the second question. If you could email me and Amrit, we will come back to you with specific answers if that works.

Amrit Singh: I mean, if you are looking for case sizes in the investor release on Page #46, we do provide average ticket size per policy. On average, as Prashant mentioned, it is Rs. 1 lakh for all products put together, but it does vary depending upon the product that is being sold. So, it can be as low as 40,000 in a protection design going up to as high as Rs. 1.50 lakh in our annuity kind of design.

Moderator: The next question is from Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: Just I am not sure whether any of the previous participants have touched upon this. But can you talk a little bit about what is driving growth within the proprietary channel, so the online channel and the agency channel, if you could give what is the growth for each online direct and the agency?

Moderator: We seem to have lost the line from Mr. Madhukar. We will move to the next question. The next question is from Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: So, growth has impressed in the first half. And the growth is coming across channels and to be fair even product-wise growth is quite good. Now when you move to H2, there are kind of a couple of external factors that we get including your surrender regulation changes probably maybe limited, but some disruption on the product side and also some negotiation on the payouts. Additionally, the month of October is a very festive kind of a month where you have the Dasara, Diwali led disruption. So, how are you seeing the growth trend so far? And what sort of expectation will you have that, I mean, in this background? What kind of a growth I mean that you can deliver in terms of the APE in H2 or rather for the FY '25?

Prashant Tripathy: You asked a very relevant question. The good part is it just doesn't apply to Max Life insurance. It is true of industry. And hence, I will peg my response to the industry growth rate. Whatever is the industry growth rate we will try to grow substantially more than, like, for example, the industry growth rate was 24%, we grew 34. So, one would like to have a plus 5% to plus 7% delta with respect to private industry growth rate. Let me put it that way.

Very optimistic that the changes in regulation is not going to have a material impact on growth rates and we are at least from our side internally not cutting down on our growth expectations. So, one would make an attempt to maintain the trajectory of growth the way we have done in the first half.

We are quite committed actually on a double-digit teens kind of VNB growth rate, and we will target that. Earlier, Avinashji, I did mention that one would make an attempt to hold the margin like we have done in Quarter 2, despite having the surrender impact. But yes, you are right, there is some moving pieces, but I can only pivot back to every such regulatory changes.

You can go back in history. Each time it has happened, Max Life Insurance has come out stronger. So, that gives me a lot of optimism. And basis all the discussions that we have done, made changes, etc., I think we are reasonably confident of what we are talking about.

Moderator: Next question is from Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Prashant, you said that your rider attachment is around 45%, which helped in the margin expansion. So, just wanted to understand what is the internal target you have, and to what extent it can negate the impact of say, surrender rules or product mix change to support the margins. 45 is already a very big number. Whether you see this number going meaningfully further up compared to what it is today? That's on riders, first question.

The second question is on annuity. It seems to have slowed down a bit, if I look at the numbers. Is it because last year you had a group and now you have not got it, that led to that moderation? If you can give a split between that number, annuity business into group annuity and individual annuity, and how individual annuity have behaved, that will be useful.

And the last question is on cost. See, the growth has been 31%, but the overall cost has increased by 280 basis point on a year-on-year basis. So, ideally, there should be still an operating leverage given the kind of growth we have had. So, just wanted to understand is this cost because of capacity addition, like many more people in Axis Bank, or your investment in prop channel is still happening. If that is the case, then future investment leverage, or sorry, this operating leverage for these investments made in the channel, how do you see to play out going ahead? These are my three questions.

Prashant Tripathy: I will take the first one and then I will request somebody to focus on the next two. In terms of rider attachments, Sanketh, in our organization, we have chosen protection and health as a very critical area of growth. And we are very deeply working on improving penetration and we count that as protection, meaning pure protection, either return of premium kind protection or normal protection. We held products and we have an offering called SEWA, which was very, very good in terms of margin contribution as well as sales.

And then the third one is riders, which we are trying very hard to attach to. A large part of the rider attachment that we did in last quarter was with ULIP design, which we sold through banks. We are at this point of time trying to rebalance the overall mix, and the efforts are on to reduce the proportion of ULIP, and we are seeing reasonable success in doing so.

So, we will continue to work on optimizing the margin. If the ULIP proportion goes up, we will try to attach riders so that we are able to preserve margin or reduce or optimize the product mix in a manner that ULIP proportion goes down and the proportion of non-PAR goes up. Those will be attempts as you would appreciate these are moving pieces and continuous efforts are made actually to optimize our product mix so that the margin outcomes are optimal.

For question two and three, I am going to hand over to Amrit to respond.

Sanketh Godha: So, Prashant, a small follow-up. Is it fair to assume these riders' margins are meaningfully superior compared to even the protection in the overall country average?

Prashant Tripathy: It will be aligned to protection and a tad higher than protection, and significantly higher than company average.

Amrit Singh: I think on the two questions that you asked, one was on annuity and the second one operating leverage in the subsequent quarters. Annuity, as we did mention in the opening remark and also in the presentation, the retail annuity has grown at 18% for first half. But the group annuity, because we actually experienced a very large deal last year, a single one-off deal last year, there is a large decline in group annuity at the moment, around 60% decline. But if you adjust for that large deal, then there is a 60% growth. We are quite optimistic that this group annuity business also will pick up in the subsequent quarters as it kind of takes away the effect of that one specific large deal.

Sanketh Godha: Amrit, can you split off your annuity into group and retail percentage mix?

Amrit Singh: So, around 173 is retail and 12 odd crore is group annuities for Super annuation annuities, on APE basis. This is APE, right?

Sanketh Godha: Yes, 173 crore is retail and 12 crore is group. That's the way I see it.

Amrit Singh: Yes. On operating leverage, you are right. Actually, historically, you would have seen that as quarters progress where sales volume increases and OPEX, operating leverage kicks in, there is an improvement in margin which happens. We do experience anywhere between 200 to 300 basis point expansion in margins from what you have seen in Quarter 2 going forward as well because of that.

Sanketh Godha: No, Amrit, my question was half to half comparison, that is first half last year to first half year. You had a growth of 31%, but ideally the cost ratio should have come down, but it has increased. So, wanted to understand this cost increase is largely because of man addition in Axis or investment in prop and how it will play out if you believe the investments are being done upfront, then how you see it playing out going ahead?

Amrit Singh: Right, so the total expense that has increased, which is around 28% increase, and obviously the individual business has grown by 31%. The APE has grown by 31%. The 28% increase, the OPEX, pure OPEX is actually around 21%, 22% increase and there is a large commission increase that is evident which some bit of it is rebase lining of commission between lines which is actually happening and planning out, and also the fact that we are aggressively pursuing some of the new accounts and group credit life businesses where generally the commission ratios are higher.

Now with respect to OPEX, pure OPEX, there is obviously an increase which has been done towards the distribution workforce across our channels, and that distribution workforce does start showing up productivity gains as time progresses, whether it is in agency, whether it is in direct teams or whether it is in the new relationships of banks that we have added. So, that is largely the overall contours of how OPEX is panning out.

Moderator: Next question is from Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: So, I just wanted to get a sense of what is driving growth within proprietary channels, the online agency and direct sub-sort of channel growth out there. And second, if you look at the new business strain, that has also gone up substantially. I mean, it is good to see that the back book surplus has grown, but new business trend has actually gone up quite sharply in this quarter and in the first half. So, any particular reason on that? Is it more resolving driven or is it more sort of higher commission payouts or something of that sort of actually payouts going up over there? Some color on that will be helpful. And can you break down the economic variance between fixed income and equity?

Prashant Tripathy: I will request Amrit, you take this, the question.

Amrit Singh: So, you asked three questions. The first one is actually what is driving the growth across our proprietary channels. In agency, clearly our top agent engagement programs and overall top agent momentum is very strong and that is actually helping us. In addition to the fact that the expansion of capacity, which is helping with productivity gains coming through the years, is also an aiding force in what has been driving the growth momentum within agency channels.

In direct selling teams, actually it is to do with more and newer pools of customer segments to whom we have started doing cross-sell and up-sell, which is actually aiding that growth. And those new pools have come as some of the customers who are unmapped at Axis franchise, customers whom we have had now e-commerce relationships. Those kinds of additional pools have helped. And obviously we have invested in people to go and kind of tap into these pools across our cities and that is enabling the growth momentum in the direct channel.

And largely in the e-commerce channel, I think we did mention around two years back that savings is a business that we are now entering into. And there has been strong savings momentum in that particular channel and which we have from not being present two years back have kind of come to a pole position with respect to the counter share that we own in that particular market. That has helped. And the underlying protection growth we continue to remain leaders in that business on a whole. So, that's the first one.

I think the second question you asked was on the strain. You saw a rise in strain. The reason for the strain increase, one obviously is higher sales in protection, group credit life, and ULIPs which actually intrinsically have higher NB strain. And that's largely the reason why the strain has grown. It's a factor of business mix and business growth coming out of these specific segments. And all these segments, unit-linked, credit life, and protection have higher strains initially unlike participating design policy.

Last question you asked was on the economic variance. What proportion? Two-third of that is attributable to equity gains and one-third to the debt gains.

Moderator: The next question is from Nidesh from Investec. Please go ahead.

Nidesh: The question is on e-commerce channel. So, what is driving such sharp growth in the channel almost 100% Y-o-Y? Definitely, we must be gaining significant counter share. So, what we are doing to drive that?

And second is if you can break down the e-commerce channel, what percentage of business is coming from your own website, from the e-commerce channel, in the e-commerce channel?

Prashant Tripathy: Thank you, Nidesh. And greetings to you. I think we historically on the e-commerce channel, this you remember, we were always very good on protection. We have been number one protection for many years and that was our area of focus. However, our presence on saving space was quite limited, and we were like a fourth player if we were to add leaving some protection together.

About a year, year and a half ago we decided that we need to be comprehensive, this is an area of growth. And if you look at our analyst presentations, you will find the number one initiative as being leader in the e-commerce space. So, we took tangible steps to consolidate our presence in the saving space, and that's been the key reason of our growth. Generally, we sell a combination of ULIP with non-PAR on e-commerce platforms. And over last few quarters, I think index-linked designs have been very famous or very popular, and that's driven our growth at e-commerce.

On the direct website, that's something that we always try to rebalance, and my sense is we will have close about 30% to 35% of this sale actually comes from directly our website.

Nidesh: So, that would also be a pretty large number, 30% of your e-commerce.

Prashant Tripathy: Yes, it's growing. Both are growing quite rapidly. Both the aggregator space as well as our own website, both of them have grown remarkably.

Amrit Singh: Yes, direct growth is up 90% and aggregators are also around 110%. So, both have grown quite handsomely.

Nidesh: And from a product level margin perspective, if you sell through aggregator or if you sell through other channels, how differential is the product level margins?

Prashant Tripathy: I think it comes similar, Nidesh. Honestly, it comes similar, not very different. Even coming to our website also requires investment in terms of generating traffic and search etc.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Amrit Singh: Thank you everyone for attending our Earnings Call. We continue to look forward to more such interactions and have a good day.

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