August 21, 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 August 14, 2024, post declaration of Un-audited Financial Results of the Company for the quarter ended June 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_q1fy25.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: 2024.08.21 17:34:20 +05'30'

Piyush Soni
Company Secretary & Compliance Officer

Encl: As above

Max Financial Services Limited

Q1 FY'25 Earnings Conference Call Transcript
August 14, 2024

Moderator: Ladies and Gentlemen, Good Day and Welcome to Max Financial Services Limited Q1 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 – Chief Financial Officer, Max Financial Services Limited and Max Life Insurance Company Limited. Thank you and over to you, sir.

Amrit Singh: Thank you. Good morning to everyone and welcome to Max Financial Services Earning Call for the Quarter-ended June 2024.

Our Results were made available on our Website and on the Stock Exchanges last evening. And today, as always, I am joined by Prashant Tripathy – Managing Director and CEO of Max Life Insurance.

I will hand it over to him to share "Key Developments and Insights" from the 1st Quarter.

Prashant Tripathy: Thank you, Amrit. Good morning, everyone, and thanks for being on the call.

We have had a remarkable start of FY25 as far as overall new sales growth is concerned, building on the strong foundation laid in FY24. Our focus on enhancing our sales growth engines across all strategic areas has paid off with continued investment driving excellent growth in the 1st Quarter FY25.

But before I come to our sales performance, let me just share a good news with you:

I am very proud to share an achievement that underscores our commitment to being a people-centric organization. Max Life Insurance has been honored with the Laureate Distinction by Great Places to Work Institute and a Collegiate Reserve for organization that have been recognized as one of the India's Best Companies to Work for 10-consecutive years. Additionally, Max Life insurance has been ranked #28 amongst 1,750 organizations that participated in this progress with the prestigious 100 best companies to work for in India and placed among top 25 in India Best Places for the BFSI.

Max Life Insurance has again demonstrated its commitment to excellence in fulfilling its promises to its customers, achieving best in the industry, claims paid ratios of 99.65% for FY24, and these two really underscore our commitment not just on growth, but also towards two very important constituents, our customers as well as our employees.

Predictable & Sustainable Growth:

Coming to the Overall Growth Numbers

On full year, individual adjusted first year premium basis, we saw a growth of robust 27% outpacing both the private sector and overall industry growth rates of 24% and 20% respectively for Q1 FY25. I am very happy to share that July numbers just came out and this number has accelerated further for the month ending July YTD. Our growth has increased from 27% to 32%, hence enabling us to capture about 44 basis points of the private market by YTD July.

Our total APE for Q1 saw growth of 31% with a significant 27% increase in the number of policies. This growth was driven by the strong performance in our prop channels, which now accounts for 49% of our total sales in Q1, growing at 60%.

We have relentlessly pursued new business models to bolster growth from traditional proprietary channels, and these models have become the bedrock of our recent success.

Our offline proprietary channels grew by 24%, supported by agent activation and an expanded pool of top performing agents, thanks to enhanced governance rhythm as well as many new initiatives that we have taken within agency channels. Direct channels driven by new cross-sell verticals have also contributed significantly towards our growth.

One of the key drivers of our cross-channel growth has been our online channel, which expanded more than 200% in Q1 FY'2025, fueled by strong demand for our new fund offers targeting the online saving segment.

Through our reporting, you would have noticed that the ULIP mix in our prop channels have gone up and this has been intentionally done to take out the benefit or tactical benefit of the buoyancy in the market and it has been driven predominantly through online channels.

We continue to demonstrate our capability to scale digital business rapidly, achieving the top ranking across all digital platforms, in both protections as well as savings.

And we have been quite diligent about growth, not just in the savings side, which comes with unique proposition of capital guarantees where ULIP is kind of mix up with non-Par to achieve reasonably good margin, but we have been equally focused on protection business which again in a combined way, yields an outcome which is quite acceptable to us.

Our Bancassurance as you would have noticed, grew at APE of 9%, which is a bit slower than prop channels. However, I am very happy to share that things have significantly accelerated in the month of July and our bank is especially driven by Axis Bank and has been the key driver of growth for us for the first four months. Just to give you a sense of number, by the time we finished July, we are seeing about 19% growth from Axis Bank.

Additionally, our group credit life, which is another area of focus for us, grew at 49% in Q1 despite heightened competition and this is almost double the growth rate of the industry while maintaining profitability target.

I am also very happy to share that recently we just signed an agreement with Catholic Syrian Bank, one of the quickly expanding ambitious banks and I am very hopeful that our partnership will start to bear fruits for both the partners as we go along. In addition, we also signed up six new partners in the quarter.

We remain committed to delivering a consistent, sustainable business outcome as can be seen in July sales numbers like I mentioned to you. We have not only maintained the pace of our growth in prop channels, but also sales momentum again back in bank channels as I mentioned to you, with 43% growth in the month of July.

Product innovations to drive margins:

Of course, you would have noticed that our margin is a bit lower than last year and that's because we want to take the tactical benefit of driving growth through ULIP channel, especially in the digital space as well as at the Banca space. Our commitment to product innovation remains very strong and we launched the Smart Wealth Annuity Guaranteed Pension Plan, limited pay variant and industry-first initiative designed to personalize retirement planning, which led to 42% growth in our retail annuity segment. So, just want to underscore that we are growing our annuity which was one of the strategic initiatives for Max Life Insurance.

In addition, our efforts in the protection segment have resulted in an impressive growth of 53% in retail protection. Just to highlight again, 53% in retail protection and 49% in credit protection. The two areas where we are extremely focused to capitalize on the opportunities in the equity market. We launched the Flexi Cap Fund predominantly targeting e-commerce and back insurance customers. This launch led to more than 100% growth in ULIP segment, shifting our product mix towards this segment from 25% total APE to 39% of APE in Q1 FY'25. Again, just to highlight, these are moves that we made tactically to garner new sales opportunities which were otherwise not being captured. I would like to again underscore at this point in time that Max Life Insurance intends and remains focused on growing our VNB as we go along.

Increased ULIP and lower non-PAR contribution result in Q1 FY25 in VNB of 17.5% lower than previous year. However, VNB grew by 3% and as we go long, VNB is going to be a key measure. We will try to balance the sales growth with our margin as we have tried to do in the last 18 to 24 months. We view the equity market as a tactical opportunity, and we will recalibrate our product mix towards more profitable designs as we go forward.

Additionally, I would like to share an update regarding the recent changes in surrender regulations by IRDAI, a matter which has been of concern and question from many of you. These changes make our product offerings more attractive to customers by increasing the surrender value in the initial years, thereby enhancing the life insurance proposition. I remain very optimistic whenever such changes come, it just expands the pie and I am hopeful that this will give tailwinds for industry growth with higher or better proposition for our customers.

While these guidelines have impact on margins of traditional products which are impacted by surrender regulations, the impact will be mitigated with multiple elements such as restructuring of distribution commercials, realigned maturing and surrender customer proposition. And we estimate that the surrender impact will be in the range of 100-200 basis points at the company level for the transitory period and we will work hard at figuring out more ideas so that we are able to tie through these changes unaffected which we intend to mitigate over a period of time if the regulations do change on 1st of October, I think it will take us three to six months to implement all the changes or mitigating actions. Our aim is to ensure that the impact is balanced across all stakeholders, namely shareholders, customers and distributors.

Customer Obsession Across the Value Chain:

Talking about the customer obsession angle, which is one of the values of Max Life Insurance. At Max Life Insurance, customer obsession is the core of everything we do, driving us to deliver unparalleled value and trust in our customers.

Over the past five years, our claim paid ratio has improved from 99.22% to 99.65% and the claims paid ratio is a hallmark in the life insurance industry as demonstrated by Max Life Insurance over the years. We have seen many players make improvements, but we continue to lead the path.

This achievement is more than just a statistics. It reflects our unwavering commitment to putting customers first, leveraging advanced digitization and intelligence systems, we proactively combat fraud, identify high risk areas, and accurately assess claims validity. This holistic approach ensures that we are not only there for our customers in time of need, but also empower them with reliability and security in every step of the way.

Additionally, Max Life Insurance has been Recognized for Industry Leadership and Customer Experience at the prestigious 5th ET Now Customer Experience Summit.

We also measure customer loyalty through the net promoter score, and I am pleased to share that we have reported three points increase in our overall company level NPS. It's generally a combination of transaction NPS which has improved by five points from 74 to 79, and relationship NPS, which has improved by two points from 44 to 46, hence, overall NPS growing from 56 to 59 between March 2024 to June 2024.

Max Life also proudly maintains a leadership in 13^{th} month since we own the number of policy basis. From our pack, you would have noticed across all cohorts, we have made progress on both number of policies as well as premium basis. In terms of premium our 13^{th} month persistency for regular and limited pay premium reached its highest ever at 87% and improvement above ~320 basis points, while our 61st first month persistency stood at 58% for the period ending June 2024.

Digitization for efficiency and intelligence:

The last area which is of huge significance to Max Life Insurance is how quickly are we digitizing for efficiency and intelligence.

Our ongoing digitization initiatives have significantly enhanced efficiency across multiple business functions, driving both cost savings and customer satisfaction. Our training management system called mSaarthi has been adopted across all channels, enabling enforcement of training calendars and ensuring required outcome. The roll out of Phase-I of mSpace which is our Sales Super App has integrated end-to-end funnel view of our (DSF) Direct Sales Force channel which is where we have first piloted it and I am very optimistic that through the year of FY24-25 we will take it to every channel and we will reap the benefit of bringing the different elements of sales on just one app, which will be hugely beneficial to our sellers.

Additionally, our AI-driven approach has played a pivotal role in risk management and decision-making processes. Through AI-based sourcing risk avoidance, we have successfully mitigated risk including cost avoidance through the Shield Program and claims avoidance through Meditech with our govern engine achieving an impressive underwriting claims of underwriting accuracy of 99.86%.

Our automation in our optimization efforts in onboarding customer service such as the insurance bureau integration in the purchase journey and enhance IVR capabilities have streamlined operations resulting in improved conversion rate, faster payouts and increased customer engagement.

Our focus on data-driven intelligence exemplified by the centralization of e-mail shops and expansion of digital and NPS coverage continues to provide valuable insights for improving service delivery and customer experience.

To Summarize, I am very happy with our Q1 Results, which highlight the effectiveness of our strategic priorities, the scaling of proprietary channels, building strong partnerships and reaching newer customer segment.

I am satisfied with our margin outcome, and I am sure there are more opportunities to improve, but like I mentioned to you, these are tactical moves that one has to take in the smallest quarter of the year to ensure that we are preparing well and giving enough confidence to our sellers as the year starts. As we move forward, we remain dedicated to creating lasting value for our customers, shareholders and partners.

Now, I am going to hand it over to Amrit, who will provide an update on our "Financial Performance".

Amrit Singh: Thank you, Prashant.

Before we get into the performance on key financial metrics, I just wanted to share an update on the Asset Liability Management (ALM) Strategy.

Willis Towers Watson recently concluded a review for us and our ALM strategy. The scope and the results of the study are presented on slide 29 of the presentation. The review included testing cash flow against 5,000 intra scenarios where interest rates are varied from 2% to 12% across different durations and different types of shapes or curves.

In summary, the Wilis Watson team has concluded that the ALM framework and the asset liability position of Max Life as of 30 June 2024 are appropriate to meet Max Life stated objective of protecting shareholder value and fulfilling policyholder obligation.

Moving to some key financial metrics:

- Max Financial Services Limited consolidated revenue excluding investment income stands at Rs. 5,235 crores, a growth of 11% in the quarter.
- Consolidated PAT at MFSL level is Rs.156 crores, up by 54%.
- Renewal premium for Max Life has grown by 10% to Rs. 3,323 crores. Gross premium grew by 11% to Rs. 5,399 crores.
- The value of new business, stands at Rs. 254 crores for the quarter in comparison with Rs.247 crores last year with an NBM of 17.5%.
- The embedded value as at end of 30th June 2024 is Rs. 22,043 crores, also aided by the capital infusion, which was consummated in the quarter by Axis of Rs. 1,612 crores.
- The annualized total return on EV in Q1 FY25 excluding the capital infusion of Rs. 1,612 crores is 20.6% and the annualized operating RoEV stands at 14.2%
- Though, we don't do detailed EV movement analysis during the quarter. However, operating ROE was 14.2% consist of contribution from unwind, VNB and also a positive operating variance coming out of both persistency

and mortality trends. Further, the non-operating variance stands at Rs. 276 crores, due to movements in interest rates and the equity market.

- Policyholder OPEX-to-GWP is 17.9% and total cost-to-GWP is 26.3%. Policyholder OPEX has grown by 14%, largely due to increase in headcount in the distribution function.
- Max Life Q1 FY25 profit before tax is Rs. 151 crores, a growth of 46%.
- With the infusion of capital, which was completed during the quarter, the solvency margin stands now at 203% as at end of June '24.
- The overall assets under management for the company has crossed Rs. 1.61 lakh crore and a YoY growth of 25%.

We continue to remain dedicated to our mission of inspiring people to enhance the value of the lives. And we are confident in our ability to harness the strength and continue to be living on sustainable value to both our shareholders and customers.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: One question. Given the way you do account cost for the quarter, your margin trajectory has increased by kind of stepping up over the quarters and eventually the full year margin is far higher and different than Q1 that has been the trend. Now I mean in a few recent years, it was also an outcome that I mean like in FY23, you had very, very strong non-PAR saving, in FY22 the growth was slightly weaker. Now, this year, I mean given that the growth trajectory is very strong, the product mix is not so favorable so far, and also in H2, the implementation of the new products in this sort of a new surrender regulation regime. So, how do you see margin trajectory sort of progressing this year, I mean your high growth led by some not so profitable product and in the second half that newer product getting introduced, so how confident are you sort of the margin trajectory panning out over the year?

Prashant Tripathy: You raised a very good question and if you go to the Page #12 of our investor release, you will find that we have given Q1 and Q4 numbers for last for four, five years just to give you the confidence that because we come up with true margins, which means we take all the costs for the quarter and because Q1 generally is the lowest in terms of sales, generally margins are subdued and they range between 17% to 20%, 21%, that's been the trajectory for the last many years. As every quarter passes because the leverage that we get on the business, and I would like to highlight everybody that our 1st Quarter VNB is 254 crore. If you were to look at our last year's total VNB is 2,000 crore. We are talking about 10% to 12% VNB in Q1 only. Hence I will tend to not read too much into this margin drop because as we go long, the leverage will kick in and the margins will improve. You asked a question about what's going to be the impact of Q2. I think I did mention to you about Q2 numbers. It is going to be an industry thing though Max Life Insurance will play as we go along. However, I am reasonably confident that with all the efforts that we are putting, the product mix will get rebalanced. And I am not really hinting at any permanent shift or permanent impact on our overall margin delivery capabilities.

So, I will just request that you'll remain patient and see how it evolves. I am very confident that it will pick up.

Avinash Singh: Just a small kind of related on that. This 30th September is in a way kind of a hard deadline by the regulator to sort of sell the existing product, but you can introduce new product even prior to that. So, how sort of are you planning to launch the product, I mean, the new product is going to be launched only from 1st October or you will start phase wise introduction of the new regime product, or even that?

Prashant Tripathy: We have a game plan actually. We have multiple products that need to be refiled. I don't know if you know that, but if the product which has been withdrawn on 30th September and the replacement product has not been filed, it will have to go through the approval process from IRDAI, it will no longer be use and file. So, we are very keen that by 30th of September we complete the entire replacement exercise. As you can understand, being such a mature organization is heck of a task. The surrender guidelines also come with different guidelines about different forms, free look cancellation period being extended, etc., So, we have a phasing approach. We will begin replacing our products somewhere from 15th of August to 30th of September in different tranches. So, that's how we are going to approach it, Avinash ji.

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

Swarnabh Mukherjee: A couple of questions. First, again just focusing on the margin part, I just wanted to understand whether you are still confident of achieving around a 26% kind of a margin guidance which you have provided earlier, because I think you highlighted that growth is fairly strong in Axis in July, but Axis, I think whatever we have seen in the disclosure this time, banca has largely focused on ULIP as a product category? And also wanted to understand how the commission dynamics are playing out in the proprietary channel because there the product mix is much far more balanced despite growth in retail protection we haven't seen that outcome playing out in the market. And thirdly, you have also mentioned the headcount increase in the distribution side. Is this cost going to remain in our P&L going forward? And if then what can be the impact on the margin in the subsequent quarters and hence on the overall guidance, if you could give some more color on? And secondly, on the Axis Bank part, if you could highlight how our counter shares are trending right now are we still at that range or what is the dynamics you are seeing in the Axis channel in terms of the multiple manufacturers who are now empaneled, what is the situation if you could highlight?

Prashant Tripathy: Thank you for the question. Let me take the easier one first, the Axis Bank counter share. Like we mentioned to you, we expect ourselves to remain in the range of 65% to 70%. I am very happy to confirm that we are in that range and we expect to remain in that range. So, as things stand, last month or so. our counter share has been in the range of 68% to 70%, overall for the quarter between 65% to 70%. So, really inclusion of other bank partners on the counter is not really significantly impacted our counter share and I will keep at that level. You may recall that for the year, our forecast was we will hit a VNB number of teens, and I remain confident about it in that number. And I had made that forecast or shared that forecast before the discussion on surrender income guideline. My guidance was for the year, we will outlook anywhere between 25% and 26% margin as against 26.5% last year. And the forecast was we will have teen kind of VNB growth for the year now. Of course, things have changed since then. If there was no surrender income guideline change, I would have perhaps reconfirmed the same guidance and I am pretty confident that we will get there, but we have to navigate the regulatory changes, which is not just a financial change, but also a significant change with respect to administrative effort, which needs to be put in with respect to product filing or change in commission structures, etc., So, we have to see how it goes and hence I will say it will be a bit dynamic, but we are going to work very hard to come as close as possible with respect to the guidance that we gave you.

Swarnabh Mukherjee: Just a follow up, just focusing on the 2nd Quarter, if you could comment on the commissions levels, how they are playing out? And also, on the increased distribution and the fact that Axis is growing faster, how can we think about the margin for that?

Amrit Singh: So, specifically on the commissions and OPEX, so OPEX has grown by 14% as I stated in my opening remarks. And of this, 14%, 8% growth is largely to do with headcount increase plus the wage bill increase that happens on inflationary case. This incremental headcount, where is it getting deployed? A significant portion of this headcount is getting deployed in our own channels, whether to expand the agency channel or to expand the direct selling team plus supporting all the new partners that we have been actually signing up. Now, the new partners are not necessarily fired to the full potential at this point in time and that will take time. But that investment is required in the distribution side to build that momentum. We have done a fair bit of investment, and I think as the years kind of progress by, there will be a productivity improvement trend that you will start seeing for Max Life. With respect to commission, the first-year commission has increased by around 60% for the 1st Quarter. A large part of this commission increase is actually coming out of two areas. One is because of the superlative performance in the e-commerce channel. We have seen an increase in associated commissions come through and also the new partners in the group credit life segment that we are actually building and making our portfolio more robust on that side as well. So, that's largely the areas where the commissions actually have increased. Otherwise, across other partners, the total cost of acquisition has remained constant. The operating leverage benefit does play out. I think as in the opening remark, as in the first question that was asked, we have an effect where we actually booked the actual OPEX in the quarter and as sales builds up during the quarter, we will definitely see an improving trends on margin.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta: So, I had three questions starting with the first one on Axis Bank, just wanted to understand when you're saying like 19% growth, is it for the first four months or is it only for July? And the improvement in the momentum in July, is it driven by any particular product launch in that counter or any change in effort? That's the first point that I wanted to understand. The second was on the surrender charges, you talked about the impact and the movement towards new products. Just wanted to understand when you're talking about the 100 to 200 basis points, does it take into account the current surrender trends that you're seeing, or does it take into account also that post the new product launches, there could be an increase in surrender, that factor into this 100 to 200 basis points? And thirdly, when I look at your product mix, obviously, there has been an adverse product mix which shift towards ULIP, I completely understand the strategy there. If I compare your 1st Quarter FY25 products mix with 1st Quarter FY23 product mix, it was broadly similar, but the margin is roughly around 350, 360 basis points lower. So, just wanted to understand is this 350, 360 basis points lower margin. is it a function of only the OPEX investments that we have made in the last two years which will deliver productivity gains say over the next 12 to 18 months or is there something else also that is actually here?

Prashant Tripathy: I will take the first two questions, and I will request somebody to take the third one. The 19% growth rate on an adjusted sales basis is YTD July for Axis Bank; they grew about 45% in the month of July. So, we saw increased momentum as a result YTD July is 19%, the 8% numbers that we have reported for 1st Quarter has increased to 19%. There is a good surge. Of course, it came at the back of some new product interventions that the open architecture partners did. On the question on surrenders, it's a bit of a crystal ball gazing whether higher surrender charges will increase surrender or not. I mean we will see how it goes, but intuitively speaking, surrender might increase a little bit if the surrender benefits are improved for the customers. There will be two things that will happen. I think there will be very significant efforts towards validation at the time of sale, ensuring that the customer is going to continue. So, all the players I expect will ramp up their efforts to ensure that people who are buying policies are extremely serious about continuing, #1. And I think the retention efforts or renewal efforts will become significantly high. So, because of that, my sense is that the overall impact will be limited. But just to confirm to you, the 100, 200 basis points delta that I am mentioning does assume some increase in surrenders. So, we have factored that in just to be conservative while giving an estimate. That's the best foot forward and we have to see how it goes, but it does sans lack of increase or say assume that the surrenders remain at the same levels, this guidance will be on the lower side. That's the way I will put it. Amrit, if you could take the third question?

Amrit Singh: I might not have actually at this point in time exact FY23 to '25, but I can give you some directional answers. Yes, your observation is correct that one part of the answer definitely is the increase in OPEX, that has actually happened over the last two years. But then there are slivers of additional plays also which are happening. So, there is a sliver of the channel and product mix being sold during that quarter and this quarter especially on the unit linked designs, there's a sliver of that as well. And then inherently at that point in time, the annuity contribution largely in the business was coming out of single premium. As we have diversified the overall annuity mix, there is an intrinsic reduction in the margin of the annuity product as well, which comes in play. And as we have been speaking about protection margins, so some bit of a shave off there. So, it's a combination of these 3-4 attributes of the correlation that we are trying to drive. But the large answer stays in OPEX and also the fact that unit linked designs being sold in proprietary versus partnerships.

Moderator: We will take the next question from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: I have two questions. First you just mentioned refiling these products between or pulling these products back between 15th August to 25th September. So, last year 2nd Quarter was already a high base for you. On a total APE basis, it was a 36% YoY growth quarter. So, should we expect some disruption in growth in this quarter going ahead, how are you looking at it, will majority of the growth in the coming quarter be completely driven by ULIPs and protection and PAR and non-PAR will remain very subdued? Second, you've shared a data point on breakup of the proprietary channel. That eCommerce is now 37% of the mix there and direct is 18%. What was this in last year 1st Quarter?

Prashant Tripathy: Of course, I do agree that the base was very high, but we are seeing great sales momentum across all the channels. If you have to go by the data of July, I think I am very happy to share with you that we saw growth across all channels, not just bank channels, so be it agency be it direct, be it eCommerce, be it are the new banks that we have signed, YES Bank, Axis Bank is seeing growth across. So, I am very optimistic about the growth outcomes of Q2. It's very hard for me to tell you exactly where we will land up, but we are going to leverage every potential opportunities to drive growth. With respect to channel mix, last year, of course, we have seen good growth in the eCommerce channel. But Amrit, if you have access to what were the mixes last year do you have?

Amrit Singh: So, 20% eCommerce within the proprietary sales which she mentioned 37% for this quarter, that number was 20% last year.

Shreya Shivani: Of the 18, how much was direct last year in this quarter?

Amrit Singh: It does remain at 20% approximately.

Shreya Shivani: On the agency count, you were at 1,02,000 something as of March '24. Have we had any substantial agent addition this quarter or are we focusing more on agent activation of all those who have already been added?

Prashant Tripathy: I think generally the focus on agent activation and I at my level focus more on active agents and top performing agents than the total agent count, but the agent headcount at June '24 end, 1,06,860.

Moderator: We will take the next question from the line of Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: So, just quickly, first, on your overall growth guidance, so as I understand in the beginning of the year, VNB growth, you're saying mid-teens sort of a number but obviously the surrender values can have some impact on the margins. And from a top line perspective, how are we seeing the year play out? Second, on your EV, can you quantify what is the magnitude of economic variance in Q1 because back-of-the envelope there seems to be another negative variance in this quarter. Could you confirm if that is correct, and if that is the case, then what is really causing that? And third, sort of our calculations indicated that if nothing is done on the new surrender values, the company level margin impact could be in the range of 300 to 400 basis points, but what you're talking about is lesser, right about 100 to 200 basis points. So, I wanted to understand what are you exactly building in 4Q and what the difference can be between my understanding and your understanding?

Prashant Tripathy: Always, you ask very sharp questions. So, let me try to answer number one, number two and then number three is going to talk about number. #1, #3, Amrit will give you the EV variance on non-operating. I think the VNB growth was expected to be mid-teens without surrender. So, I stick to that and if we end up being at a low margin, I think we will cover it up with higher sales growth. That's our current position and as every quarter moves, you will see some of that play out. The second thing that I will definitely make is there's only so much that has to be read in Q1 numbers. Like I mentioned to you, this is 12% VNB quarter for us of the total VNB. So, I think the journey is long and we are going to be quite focused on ensuring that the overall margin numbers pick up and we are in the range that we have given as guidance. When surrender guidelines come, you would have picked up from the industry, it will have impacts on the industry with respect to several things changing and just to clarify, it may mean some changes on distribution compensation, not just in terms of volume, but the phasing to ensure that we are protected with respect to lapses and the burden is shared with the distribution partners. It may mean some changes on maturity policyholders returns, it may mean for us to of course refile, add new features, it may mean that overall we look at our expenses with the different light and some of those actions like I mentioned to you are quite non-financial, they touch the business and hence I will say that 100, 200 basis points is the residual thing that I am expecting to be there which is the run rate that we should hit by the end of this year. However, I am reasonably sure that with the series of changes that they're going to make, we will be able to nullify. So, that's our position. With your estimate of 3% to 4% and me saying 1% to 2%, like I mentioned to you, of course there is pieces of work that all the businesses will undertake. Being a life insurance person, I must say these are the changes that will be industry-wide like it happened in 2009 when ULIP regulations change, they will have changes in the industry. And overall, I think the impact at the end of the day when we have made many changes are expected over next one or two quarters to be in the range of 100 to 200 basis points but again, as I mentioned to you, some of these changes are non-financial, they touch the business and making those changes in the business has a lead time and everybody is going to take that lead time. So, I am very optimistic at this point in time that we will be able to nullify with the set of initiatives that we have identified already and nullify the impact over six to 12 months period post the implementation date. On your question on embedded value and the economic impact, Amrit, do you want to take that?

Amrit Singh: As I mentioned in the opening remark as well that on the non-operating side we have a positive non-operating variance of 276 crore. A predominant portion of this is coming out of equities, but there is a positive on the debt side as well. So, both equities and debt, the non-operating variance is positive and a total of 276 crore.

Even on the operating side, even though you didn't ask reiterating that operating side as well, the operating variance is a margin positive number.

Moderator: We will take the next question from the line of Paresh Jain from Motilal Oswal. Please go ahead.

Paresh Jain: Firstly, just extending the point on surrender charges, you have the best-in-class persistency especially on the one year, on the 13-month in terms of number of policies. In spite of that, we have a relatively larger impact as compared to some of the other peers that have mentioned the impact. Just wanted to understand where is this higher magnitude coming from, whether it is our persistency or surrender profit assumptions in our VNB numbers or is it coming from the product mix or is it coming from the IRR that we offer? So, that would be my first question. Second is from a product mix standpoint, how is July being compared to the 1st Quarter, has it been any meaningful difference in terms of non-PAR share again moving higher and ULIP share going lower and in case we sustain the kind of growth momentum that we have seen in the month of July for the other two months as well what kind of VNB margins can we look at in Q2? And my last question is on the mix of partners that we have at Axis Bank today. So, are you seeing similar level of growth across partners because at some point if some of the other players kind of group after there could be some wallet share loss at Axis or is it fair to assume that the focus will still be on growing Axis Bank and maintaining that wallet share between 65% to 70%?

Prashant Tripathy: You asked two or three questions. Let me just say, it's very hard for me as you can understand for me to comment on the impact on other people. Of course, being in the industry, I have a view, but it's very hard for me to comment on the impact on other people. My estimate is impacts are more or less similar because the large part of the impact is going to come from the allowance on surrenders in year one, which until now was not there. And if people are in the similar ranges on persistency, in fact, we being at the better place, I would expect that pretty much everybody's being reasonably impacted. Just to highlight that our IRR is not very aggressive, they are in line with the market and the assumptions are already in line with respect to this in our experience. The majority of our policyholders who stopped paying premium choose to remain in a paid-up mode and on slide 30, we have given you guidance or actual data on how it looks. So, there are of course multiple elements of the business, there is impact on annuities, there is impact on return on premium, protection plans and all that has to be taken care of. There is an impact of course on health policies and we write reasonable health policies because the reviewability clause on health is going away. So, there are nuances on proportions, there are nuances on percentages, there are nuances on assumptions which is how at least we have determined for ourselves. I am reasonably sure around the numbers that I am telling you, it's very hard for me to take a guess on other people. Margin in Q2? I think we are making positive progress and at least from my perspective, the first thing is to preserve the counter share. We don't want to see counter share and for example there are product interventions, I mean if you really look at how it operates on open architecture counters, every day is a new day, you have to really fight it out. I am very happy that with all the interventions on a run rate basis, we are trending at 68% to 70%, which is the good part. I think Max Life Insurance is not new to open architecture. We have been on open architecture counters now for four years. For a large part of these four years, we have maintained our counter share. I am reasonably confident that we will remain at 65% to 70%. While it does take effort, of course, with the support of Axis Bank, not just as our large distribution partners, but also our promoters as well as the good work that we do, we will be able to preserve. I am seeing good growth on the other bank counters also. I mean, if you look at until July, the private industry growth rate is 26%, while there is a bias towards ULIP, which has been a key driver. But overall industry itself is growing so fast, all the bank partners are growing so fast. and in the other bank partners that we have signed up month-on-month, we are increasing our share on counter, the six or seven new bank partners that we had signed up. Our overall counter share cumulatively on those counters have gone up to close to 22%. Every month I have been seeing our counter share increase by a percentage or a percentage and a half and I am seeing good growth because of the low base effect. So, suffices to say that this growth is pervasive, and it is in the prop channel, it is in the bank channel, it is everywhere.

Paresh Jain: My second question, which was more specific to the 2nd Quarter. What is the kind of mix that we would have done in July, would it be similar to 1st Quarter and in case the growth kind of persists what we are seeing, and the product mix also remains similar, what could be the Q2 level margins?

Prashant Tripathy: I will see a positive movement; however, it will be unwise for me to get into the product mix issue, which is not market information. Market information is sales because those numbers are published by IRDAI. So, I will request that we review that as we conclude Q2.

Moderator: The next question is from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick: Sir, you mentioned about tactical push which you made in 1Q. So, I am assuming that's regarding ULIPs. Just want to clarify that.

Prashant Tripathy: Predominantly yes.

Ajox Frederick: And sequentially has product margins come off for ULIPs in 4Q versus 1Q?

Amrit Singh: It's a bit of a factor of which channel sells the product. If you ask apples-to-apples, Banca versus Banca, then the margins have actually only marginally improved, largely to do with the rider attachments that we are doing in our product. But because of the mix of the eCommerce ULIP sales that we have done, there is a sequential decline, but that's more to do with channel product combination. And as Prashant also mentioned in the opening remarks, the way we sell our unit link in the eCommerce channel is a combination of a capital guarantee plus a unit link design. So, it needs to be seen in a holistic perspective and that combination itself is a margin-accretive combination.

Ajox Frederick: Second question is regarding our Slide #19, where you mentioned about Axis emerging vertical and agency new models. So, what are these specifically? Within Axis, are they different distribution styles, what are they exactly?

Amrit Singh: So, this chart actually just kind of speaks about that we are not only just investing on the traditional way of how Bancassurance has been run, but also have been investing over the last two years in various verticals which are beyond the traditional branch banking vertical, which could mean the tele-calling setups, the virtual calling setups, it could mean the direct-to-consumer businesses that the bank actually runs. It has an approach towards corporate salary and small and medium enterprises. So, these are channels where traditionally we have not been present as an insurance seller. But we have kind of created muscle and capability to go and start selling in these channels as well and they're becoming meaningful contributor to the overall sales mix and actually demonstrating robust outcome. That's what the Axis emerging channels mean. Agency new models is actually this is new capacity that we have created certain farming constructs within the agency models, we have the variable agency channel constructs, we have specific proposition for top advisors in the market, for which we have created specific capacity. So, it's a mix of capacity plus new styles of actually approaching the agents, which is actually aiding in the overall mix of agency growth.

Ajox Frederick: So, these are slightly non-linear versus what the underlying distribution channels is?

Amrit Singh: That's right. This is also to demonstrate to you where the distribution capacity is being invested, how is that momentum of growth picking up and how that has every sequential quarters improving, how improvement in these particular investments is coming through.

Ajox Frederick: But I am assuming this must be very small at this point in time within the.

Prashant Tripathy: It will be around 10% from an Axis perspective, around 5% for the agency channel for today.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Amrit, you highlighted that the products that you sell on eCommerce channel are capital guarantee ULIP in nature. So, I just wanted to clarify again, you mentioned this product has invariably a better margin profile than overall ULIP what you sell. Is it my understanding right?

Amrit Singh: Say that again. Sorry, I missed the last part.

Sanketh Godha: I think you alluded to the point that the capital guarantee products of ULIP nature what you sell in the eCommerce channel are better than the overall company average ULIP margin products?

Amrit Singh: All ULIP is not necessarily capital guarantee. There is a significant portion of ULIP which is capital guarantee, that capital guarantee proposition is better.

Sanketh Godha: So, the reason why I am asking this question is that the predominant portion of the growth in ULIP seems to have come from eCommerce channel. So, whatever growth you have delivered in 1st Quarter in ULIP in eCommerce channel, whether that channel itself is having a better margin profile compared to what ULIP you do in other channels?

Amrit Singh: I will get into the specifics of channel and their specific margin profile, but I can confirm to you that the eCommerce channel as a whole actually has a strong margin profile despite the proportion of ULIP live that is running in it.

Sanketh Godha: You said that 45% growth has come from Axis Bank in the month of July and that is our overall growth also for the month. So, which means that you have defocused on this eCommerce channel little relatively compared to the old traditional ones. Just wondering if eCommerce is a little lower than the margin profile because of the channel mix it should play out going in subsequent quarters.

Amrit Singh: The proprietary momentum of growth has maintained. Obviously, there will be one month over another month where in the previous quarter we had a launch of a fund offer which actually helped galvanize momentum. So far we haven't done it. So, the eCommerce numbers have become slower, I mean, they come down from 200, but still very, very respectable growth momentum. But overall proprietary momentum for the month of July is also holding up. For the month of July, both the proprietary momentum has been maintained from a growth perspective and the Banca momentum actually has picked up, which has ensured that now whatever you are seeing as 9%, 10% growth on Banca has actually got trued up to 19% levels.

Sanketh Godha: Sorry, why I am asking this question is for the simple reason that given the mix in the distribution mood in same favor of pop in the current quarter and margins depleted, and if it reverses in subsequent quarter means Banca comes back little fully compared to pop channel whether the margin profile will look better even if the same product mix you do in the current quarter?

Amrit Singh: Look, that answer is actually a yes for Max Life always because every consequent quarter, even at the same product mix, I will keep lifting up the margin profile. There's a big operating leverage kicker that we always get. So, if your question is that even if I run the same product mix that I ran in Q1 and Q2, will the margins improve? Answer is yes.

Sanketh Godha: My question, Amrit, is not that. That I understand it will improve the margin structure in 2nd Quarter because of the operating leverage. My question was that even if distribution mix moves away from prop and moves in favor of Banca which you said in July the growth is very strong, not just because of the -

Amrit Singh: Yes, that also has a supporting effect.

Sanketh Godha: You indirectly alluded to the point that the surrender rules will have somewhere between 100 to 200 basis points impact on the margins if you don't make any change. This 100 to 200 basis points impact what you are highlighting is largely related to the first-year payout or you have also factored in a behavior change of the customer with respect to paid up behavior from subsequently onwards?

Amrit Singh: This question was asked, and we did respond that when we have given you an estimate of 100 to 200 basis points, we have assumed an increased surrender rate as well than what we are actually experiencing today because there is a value that is occurring in the first year itself. So, we have made that assumption when we have given you that. But I am reiterating that, and which is what our Slide #30 actually shows that for the non-participating design products, our experience or persistency is 91% in the first year and then subsequent to that, 90% of them still they stay with us and we have shown that particular trend. On this, we have assumed a worsening when we have given you 100 to 200 basis points. Now it can be argued both ways that maybe it might not worsen given the kind of controls and the deferment of commission structure that will come into picture. But at this point in time, just doing a simplistic view of the fact that there is an increased surrender value which could create an incentive for higher surrenders. We have assumed that in the competition provided to you.

Sanketh Godha: Just this additional one percentage Axis Bank stake increase or 0.98 percentage, this will be primary in nature, or it will be secondary?

Amrit Singh: So, it's right now envisaged to be secondary.

Sanketh Godha: Full year guidance, last year at the end of the fourth quarter you gave it to be in mid-teens to high-teens. So, even the surrender thing will have its own nuances, you believe that the growth guidance will be maintained and if you intend to maintain the growth guidance given there will be teething problems with respect to traditional plans, it is natural to assume that ULIP will drive that mid-teen growth or a little high mid-teen growth for you in the current year?

Prashant Tripathy: I will stay away from giving guidance. If there were no regulatory changes, the guidance is what the guidance which was given at the beginning of the year, which was close to 25%, 26% margin mid-teen kind of VNB growth rate. It's a large-scale change coming our way at industry level. I am 100% sure that within the period of three to six months we will be able to completely mitigate the negative impact of these regulatory changes, but because the situation is going to be very dynamic, it is very hard for me to tell you exactly where we will land up. We will try to come as close as possible to the guidance that was given at the beginning of the year.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: You mentioned that Axis in emerging vertical was up around 37% in this quarter. Just trying to understand what would have been growth in the rest of the Axis and like a decline.

Amrit Singh: We are not breaking it at such granularity, Nischint. The only idea and that's the reason you see we have not necessarily put a number there. But needless to say, obviously, that growth is lower than the average growth that has been indicated for the channel in the presentation.

Nischint Chawathe: I mean the only point is that Axis is somewhere sort of guided that ULIP kind of have a similar counter share but at the same time they're adding new partners. So, does it mean that you are kind of maintaining that counter share because of the fact that they are adding new channels or is it something that your counter share in the traditional channels is going to be whatever?

Amrit Singh: I think that's a fair question that you ask. So, if I exclude this channel and kind of speak about branch banking liability vertical, the core verticals where the sale happens, the counter share has remained stable. We will remain in the range of 65-70%.

Prashant Tripathy: At least at my level, I meant I review it by every different channel. And by the way while we have seen 27% growth of whatever growth in the overall channel, this is just a 10% share or 10% to 12% share of the total sale. It is growing fast and we want to build it where at this point of time in the overall sales number, it is a smaller number.

Nischint Chawathe: And can you talk a little bit about the new agency model, I mean, are these variable cost agency models?

Prashant Tripathy: We are experimenting with several new things, going to Tier-2 cities with a slightly different model of servicing as well as training. It is also APC which is a variable cost model. We added two or three different things to our main agency channel, and these are actually those subsidiary or additional agency models, a bit different from the core agency model that we have put in.

Nischint Chawathe: Now I think Axis is almost closer to 20% or 19%. So, what happens like do you want to give some update on the timeline when you're approaching the regulator?

Prashant Tripathy:: I think we will wait until they go up to 20% and we will come back separately with an update as and when it is available.

Nischint Chawathe: Just a data keeping question. You mentioned the breakup of proprietary between direct informers and others or agency essentially at 18, 37 and 45 for the 1st Quarter this year.

Amrit Singh: That's in the presentation itself. It is there as a part of a presentation, Nischint.

Nischint Chawathe: No, no, I am just asking, what was it last year?

Prashant Tripathy:: We will give you separately, but the eCom, direct both were 20, 20 each and that agency was 60%.

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

Amrit Singh: Thank you, everyone, ladies and gentlemen, for being on our call and for your interest. We do look forward to such more interaction. Have a good day. Thank you.

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

Disclaimer: Please note that this transcript has been slightly edited for the purpose of better reader experience.