Max Financial Services Limited Q3 FY19 Earnings Conference Call Transcript
February 11, 2019

Moderator Ladies and gentlemen, good day and welcome to the Max Financial Services Limited Q3 FY19 earnings conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. I now hand the conference over to Mr. Mohit Talwar, Managing Director, Max Financial Services Limited. Thank you and over to you, sir.

Mohit Talwar Thank you and good afternoon ladies and gentlemen. Welcome to this earnings call. I would like to introduce my colleagues, Mr. Prashant Tripathy, who is the MD and CEO of Max Life and Mr. Jatin Khanna who handles the Investor Relations for Max Financial Services. I will talk about the key highlights first for 9 months and then update on the strategic priorities as we have been doing in our previous calls.

Max Financial had a robust revenue growth of 16% and achieved 11,292 crore. Consolidated PBT at 253 crore is down 27% year-on-year due to the reasons which we had outlined in our earlier investor release. There were some one-off expenses relating to an acquisition, which we didn't pursue and then there was truing up of the Axis Bank put option liability and there were some expenses relating to distribution expansion and change in product mix.

Moving onto Max Life, they have had a fantastic performance. Max Life's MCEV on an operating basis has grown 18.8% to 8,254 crore. Structural NBM's pre-cost overrun expands by 280 basis points to 22.8% and actual NBM's post-cost overrun expands by 240 basis points to 20.4%. Full year ROEV and NBMs are expected to be better than the historical trends. Value of new business post overrun has grown 37% to 466 crore. Individual APE has grown at a strong 21% to 2,269 crore with increased contribution from protection products. Max Life has been outperforming the industry growth on new sales, individual by growing at 21% against the private market growth of only 11%. It has gained 65 basis points in its market share.

Strong momentum in sales growth continues in January too, where growth is even higher than 21%. Whereas we understand that some of the larger players have had a muted performance. Investment in proprietary channels led to a 30% growth in 9M contributing 33% of sales exceeding the Banca growth of 17%. This is in line with our aspiration to increase proprietary share to about 35% to 40%. To this effect, Max Life has entered into a strategic knowledge partnership with New York Life where ex-New York Life leaders will work with Max Life starting March to help drive further performance improvement in the proprietary channel. They will be leveraging best practices in the agency distribution channel via cobranded selling tools like training manuals and digital literature. Continuing with our strong focus on digital, the e-commerce channel has grown 76%. Protection sales including individual and groups grew 65% year-on-year resulting in improvement in protection mix from 9% in the 9MFY18 to 12% in 9MFY19. Individual protection mix improved by 210 basis points to 6% in 9MFY19, which is best amongst the listed players. Group protection mix improved by 110 basis points to 5% in 9MFY19. Gross written premium has grown strong 15% to 9,054 crore, 14% growth in renewal premiums to 5,956 crore led by a record improvement in conservation ratio to 90%. 13-month persistency improved by 265 basis points to 84%. Max Life claims paid ratio at 98.26% in FY18 makes it the only private insurer to surpass market leader LIC. Assets under management as at December '18 end stood at 58,397 crore, grown 16% year-on-year. Max Life recognized as being amongst India's best companies to work for in 2018. It is number one in life insurance, amongst the top 15 in BFSI and amongst the top 50 companies in India.

I will briefly update on the progress towards strategic priorities now. We are expanding our proprietary channels to build robust multi-distribution architecture. We plan to add 36,000 new agents every year over the next 3 years and increase our agency offices from 205 to 415 over the next 12 to 18 months. To this effect, we have opened 100 new offices this year so far and added around 3000 agents. We will aspire to grow these channels whereon 30% CAGR over the next 3 years to get 35 to 40% contribution from this channel. Max Life agency channel is one of the few agency channels that delivers positive margins and the profitability of proprietary channels is now similar to non-proprietary channels encouraging us to grow these channels sharply. We will continue to strengthen our market leadership in online sales because of consistent pricing advantage powered by strong underwriting capabilities. We will continue our efforts of deeply integrating with our bancassurance partners and build capabilities across products, marketing and technology while continuously attempting to acquire new partners. There will be a focus to pursue a more balanced product portfolio with the bias towards protection segments, which you would have noticed in our product mix shift as well.

Therefore, to sum up, Max Financial Service is on course to drive strong shareholder outcomes via its new strategic plan. With significant investments in proprietary channel, sustained improvement in cost ratios and improvement in product mix, we are progressing our aspirations of 25-25-25 target on EV, VNB margin and Sales growth over the next 3 years. On that note, I would like to hand over to the moderator to open the floor for question and answers. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha In your opening remarks, you mentioned that there was some truing up of the Axis Bank Liability provision in the previous quarter. Can you give a little bit more colour on that? What was the amount and how is it determined? That is the first question and my second question is you also spoke about the New York Life partnership, so this is something new, so I would like to know more about that?

Jatin Khanna Let me first talk about the Axis Bank put option liability. See, we have now migrated to Ind AS which is the IFRS equivalent, so we have to do derivative accounting because there is a put and call option on this instrument, therefore as per the derivative accounting methodology, we recognised broadly about 30 crore loss in the first 6 months on this derivative. So this quarter, there is another 10 crore loss which we have recognised on the same instrument; however, this is just purely an accounting entry in the sense that as all the put and call options are exercised, this amount will reverse in the P&L, so really this amount is ignorable from an overall result standpoint. While it is there, but it is just there because of accounting norms and has no implication on cash flows or in some sense P&L over the life of the option.

Madhukar Ladha And this put and call options are on Max Life shares?

Jatin Khanna Yes, this is the 1% between the two shareholders which we buy at frequencies.

Madhukar Ladha Understood and you can pick up the New York Life mission.

Prashant Tripathy We have gotten into a knowledge partnership kind of relationship with New York Life where there are two contracts that we have signed. Three very experienced professionals from New York Life who held strong leadership positions within agency and product area are going to be coming and working with us for about 1 year timeframe to look at our own channels closely and come up with mechanisms to (a) enhance the productivity and also impart leadership to agency office heads and senior colleague. This is required predominantly because of two reasons (a) New York Life parted ways with us in 2012, hence it is important that after 6 or 7 years, we are going to look at their practices closely and what they have learned to tried to replicate and learn from them and (b) because we are on an expeditious journey to expand our agency very quickly as Mohit shared, we have opened close to 100 new office units and we hope to reach about 145 by the mid of this year. It is important to make sure that we replicate practices of agency consistency across all the new office units, so this particular project where three of their very senior retired professionals come over and work with us over a period of 1 year will help us do that. The second one is marketing and branding leverage opportunities where we will (a) try to brand or create platforms, which could be motivating for our own agency workforce and also come up with co-branded literature, which could be used for the purposes of training or publicity. So these are two that we are going to work on and the objective is to continue down the journey of increasing the productivity and making our own channels contribute to overall sales growth as quickly as possible.

Moderator Thank you. The next question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar Sir, my first question is with respect to the agency channel. If I look at the number of agents, it has declined from around 62,000 last quarter to 42,000 in Q3. Can you just help us to understand what is happening over there because at the initial comments, you mentioned that you have also added around 3000 agents, so just want to understand what is happening over there?

Prashant Tripathy Let me just highlight you that at any point of time, amongst our agents, about anywhere between 25 to 35% of the agents are active and who are contributing and over a period of time, there are many agents who become dormant and we run campaigns every 2 or 3 years to make sure that we cull out those agents who have chosen to do something else and are no longer contributing. We made that call last quarter to ensure that all those agents who were not performing are being culled out and hence you will see a reduction in number of agents. This is a part of our journey to make sure that we overall lift the productivity of the channel and also minimize the cost and not waste our energy on people who are not contributing, so at any point of time, the agency work force is contributed by number of agents who were hired last year and a part of the pool that is there and also new agents that we are hiring. This year, suffices to say that the new agent recruitment has been on an upward trajectory and we have been able to hire 20% more new agents than last year. However, like I mentioned to you every 2 to 3 years, we look at our agency work force and people who have not contributed for a long period of time are given an opportunity to come and become active. If they fail to become active, we will cull them out and this is a part of that exercise. It has no bearing on our ability to generate more sales and also it cleans up the overall agency environment, so that we focus only on those agents who are contributing.

Utsav Gogirwar So this ratio, if I look at inactive agents to total number of agents for us and for industry, is it like on the similar levels or we are better off?

Prashant Tripathy I am sure no comparable data exists, but I am reasonably sure that we will be higher than other people and that shows up in our overall productivity of our agents, specially performing agents.

Utsav Gogirwar Sir, my second question is with respect to persistency, so if I look at 13th month persistency, we have shown a pretty good performance over there, but 25th month persistency has been declined, so just want to understand why?

Prashant Tripathy Basically, you may recall that last year, we had increased the proportion of ULIP in our overall product mix, which is going to move to the second year block and because the market being volatile, we have seen a bit of higher level of policies not continuing which is reflecting in the persistency level, so we believe that by the time we finish the year, this will stabilize and come back up.

Moderator Thank you. The next question is from the line of HR Gala from Finvest. Please go ahead.

HR Gala I just wanted to know, you see the growth level has substantially come down from we had in H1 FY19, mainly in the new business premium which in H1 had grown by 21.4% and in Q3, it has grown only by 11.6%. As a result, the 9-month performance growth in new business premium has substantially come down, so what is the main reason, are we recasting the products, etc., therefore not selling some old products or something?

Prashant Tripathy No, Mr. Gala, let me explain to you, your observation is correct, there in quarter 3 which is October to December, the growth rate was a bit lower than the overall growth rate for the first half. In the first half, we had reported a number of about 26% and YTD we are reporting close to about 21%, so Q3 would be close to about 14%. Now, this was predominantly because (a) was on a higher base, if you were to look at, last year our growth rate in quarter 3 had picked up, so there was a bit of base effect, but also we found that our bank channels were not growing as fast as we would expect them to, but suffices to say that the trend has already reversed. For the month of January, we grew close to about 35%, which means YTD January, our numbers will be more like 22% and we are on an upward tick. These things do happen through the years, some quarters will be heavy, some quarters will be smaller. I am not really worried about Q3 where we saw a bit of a lower growth. We will pick it up and by the time we finish the year, we will be more or less on the trajectory of achieving 23 to 24% growth.

HR Gala My second question is between individual and group, which will be your major priority areas?

Prashant Tripathy Always individual business, we have always communicated that individual is something that is sustainable that is long term, that delivers long-term margin, so we have always maintain that individual is very important equally on a tactical basis, we are also looking at opportunities within group business, all of which may not be repeat premium, some of them are single premium also, but that is more tactical, that is just to support the sales momentum. Within individual business also, we don't look at so much on single premium, our focus is on regular premium because we believe that that is what generates long-term value for the customer as well as shareholders.

HR Gala My third question is on association with New York Life, are we not getting adequate guidance, etc., from Sumitomo, our existing partner?

Prashant Tripathy We do work very collaboratively with Mitsui Sumitomo, but I would like to highlight that globally Mitsui Sumitomo is more of a PMC company than life insurance company and hence overall know how with respect to distribution channel, we have already leveraged. New York Life being a predominantly gold agency channel, there is always new to learn from them. Our partnership came to an end in 2012 and since 2012, the industry has moved a lot, so it will be good to reconnect with them after 7 years to learn whatever additional they would have created either in form of training material or sales stories and recreate that as a part of our own learning process as well as sales process.

HR Gala And sir last question from my side, we keep on hearing a lot that many people are interested to take over the promoter stake in Max Life, so what is your thinking on that? Do you think any substantial change can take place over next few months?

Mohit Talwar No, this is not really something which we are in a position to answer being on the public side; however, I can attempt an answer on this. I think on behalf of the promoter and he has also gone fairly public, the focus areas for him is going to be life insurance, it is going to be in the areas of real estate, Antara and some investment functions. He has also on some previous occasions made a statement that in order to bring down the level of his indebtedness and the pledges, you could see a small amount of monetization. In fact, there already has been one where 2% was sold to New York Life about may be a month ago as is all with the intention of bringing down the pledge and so please don't be surprised if you see a small monetization taking place. Although at this point in time, I am not aware of any transaction which is in the offering, but these things are important and given from an investor's perspective also, there is a little bit of strain on the stock on account of this and so what one can say is that please do not categorise him or the company in the same bucket as the other promoters wwhere actually the businesses are not as strong. Here you are hearing from Prashant and from myself that the underlying business continues to be robust and strong and what I can assure you is that I don't believe that you are going to actually be seeing any sort of dumping of stock in the market. There are enough lines of credit also available just to face if there is an emergency and yes, simultaneously, there could be an opportunity where may be somewhere around 5 to 7% could be monetized.

HR Gala And sir, as far as our relationship with Axis Bank is concerned, you think will continue uninterrupted till at least 2023?

Mohit Talwar Again, this is a very relevant question you post and it comes to us from various quarters. At this point in time, the existing arrangement is still 21-22 and even Axis has gone on record in terms of wanting to do something strategic where they have also talked about all options being opened, but the comfort we take is the fact that this relationship has stood the test of time over the last 8 years. It is a win-win relationship for both sides and the CEO in Axis has also gone on record stating that he knows this company well and the comfort level has already been established, so we are optimistic going forward, there will be engagement and I hope that we will get into a more deeper strategic relationship with them, but on a standalone basis, the arrangement which we have currently that is till 21-22.

Moderator Thank you. The next question is from the line of Prateek Poddar from Reliance Mutual Fund. Please go ahead.

Prateek Poddar Sir, is it possible for you to get channel-wise product mix?

Prashant Tripathy We don't actually disclose channel-wise product mix, but we have chosen to declare this time the protection mix which is visible. Let me just given you a very high level comment on where we are by different channel, so as we have shared in past, we write more unit linked and non-PAR savings business through bank channel and from own channel, we write more participating and protection business. Participating and protection put together will be close to about 70 to 75%, the balance 25% comes out of ULIP and non-PAR savings product. From the bank channels, we will do close to about 45 to 50% ULIP, about 10 to 15% non-PAR savings and protection and the balance comes from participating.

Prateek Poddar Just one question on ULIP, I mean if I see first 9 months, we have grown very strongly in the ULIP segment and with equity markets being a bit weak, what are your thoughts on ULIP as a category in terms of, obviously our product mix is not that much skewed as what private industry is, but just from a top level, how do you see this part of the business hitting up?

Prashant Tripathy As long as the business is not hugely swayed towards doing ULIP only, I think it is a very good product category and we have always maintained that we will like to sell ULIPs to only those customers who understand what ULIP is and naturally, hence we sell a significant part from our banca channels, which has access to those customers who understand ULIP as a design. As far as my view on ULIP is concerned, it is a good product for people who understand it because it is not a lump sum payment which is going towards the equity market, it gets even down over a period of time and by the time you finish paying the premium, you could expect a good return. Again, it is also up to our design, which gives you the flexibility to choose what instruments or underlying instruments you want to go for, you could go for a possible growth kind of a design as well as more conservative designs. It gives the flexibility to the customers. It also gives switching options. So,, ULIP is a good design irrespective of wherever the market is as long as it is controlled and it is being sold to people who understand what ULIP is.

Prateek Poddar Sir, the small moderation which we have seen in persistency of something which we shouldn't be worried about, I was just thinking about and if you can also explain what would be the average ticket size for the ULIP segment?

Prashant Tripathy I wouldn't be worried about whatever is the reduction in persistency for 1 or 2 small transits. They get autocorrected and it is also linked to that particular quarter and what we wrote at that point of time. As far as ULIP ticket size is concerned, we write close to about 1,28,000 average ticket size.

Prateek Poddar Sir, just one last question before I go out. Sir, if possible, how many unique customers do we add every quarter or every year, just a ballpark number?

Prashant Tripathy That is the question which I don't have right now the answer for. All I can say that our unique customer, net of the surrenders, has been growing this year close towards 6 to 7%. My sense is that we will be adding about 10 to 15% unique customers this year.

Prateek Poddar Of the total number of customers?

Prashant Tripathy If you could write, I will be able to give you the answer.

Moderator Thank you. The next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe Couple of questions from my side, one was if I look at the third quarter, it looks like there was some slowdown in group protection. Is there anything specific that we should be aiding in this?

Prashant Tripathy We have not seen significant reduction in group protection. Historically, if you look at our overall numbers, the quarter 3 where there is lot that also happened with respect to NBFCs, so that definitely is the reason why it might be a bit slow, but is it structurally slow, the answer to that is no. At any point in time, we keep reviewing this portfolio and also on APE basis, this doesn't have too much bearing on the total sales because it gets adjusted by 10%.

Nishchint Chawathe And what proportion of group protection is NBFCs?

Mohit Talwar May be around 25 to 30%, perhaps above 30%.

Nishchint Chawathe Just if you could share the economics of the deal or the partnership with New York Life, I am not sure, if you did not discuss it earlier?

Prashant Tripathy Of course, it is a private contract, so I won't be able to share with you the contours of contract, but let me just give you the comfort saying if you may recall, we had said that for expanding our own channels, we had about 125 crore cuffed out for the year. This particular engagement is a part of that, so it is not beyond of that.

Nishchint Chawathe Just moving on, it looks like in this quarter, there was some positive investment overruns.

Prashant Tripathy Where are you seeing that number Nishchint?

Nishchint Chawathe We just done the working backwards for the 9 month and the first half.

Prashant Tripathy Specifically for this quarter, you are talking?

Nishchint Chawathe Yes, that is right, so I am just basically doing 9 months minus second half.

Prashant Tripathy We have seen that compared to September, the interest rates have come down, so September was around 60 to 70 basis point high, so they are down to the levels of March.

Nishchint Chawathe May be that is the reason.

Prashant Tripathy That is the reason in the follow up interest rate versus September.

Nishchint Chawathe And anything on the operating overrun side because I think between 9 months and first half, your operating overruns would have kind of almost double. It is a small number, but still that seems to be substantial increase.

Prashant Tripathy In a quarterly basis, as such we don't do a detailed operating and non-operating split, but those of the operating variances, it is likely to be positive and small.

Prashant Tripathy It is not substantial. My sense is that it will be very small variance.

Nishchint Chawathe Let me put this a little differently on the mortality side, how is the variance, are we kind of better off or worse off?

Prashant Tripathy It is positive.

Moderator Thank you. The next question is from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala Couple of questions from my side, so one is on persistency, the 13-month persistency has improved quite a bit and 25th month has slowed and you mentioned that this is driven by ULIPs, so I was just trying to understand why is it not impacting 13-month versus 25-months, so the problem is to do with that particular cohort because 13 month should have also got impacted, right?

Prashant Tripathy I did explain Sumeet some time ago that the 25th month is because of particular product where we are seeing lower persistency, I think we are hoping that will get settled, so on the 25th, I am not expecting that, it is a permanent variance that will continue, it should go back up and many times, it is also linked to when the sale has happened, I will have to go back and investigate. If it has to do with demonetization that also may be a reason, so you should get autocorrected. On the 13th month, we have been on this journey and I am repeatedly saying that one of the six things that we are doing is working on customer measures and we have systematically taken several steps to improve the persistency of 13th month and hopefully that will start to flow all the way and improve our persistency. On a long-term basis, we are after achieving 88 to 90% persistency for 13th month and closer to 60% persistency for 61st month, so that is the business trajectory and hopefully as time passes by, you will start to see more and more improvement in 13th month.

Sumeet Kariwala And the product that you spoke about for the 25th month, is that in ULIP or traditional non-PAR?

Prashant Tripathy That was in ULIP.

Sumeet Kariwala And then if I look at the distribution mix, I see on a Y-o-Y basis, the contribution of other banks has come down, so is there any particular bank that is driving that or?

Prashant Tripathy Overall if you see, it is the question of relative growth at the end. If our own channels are growing fast, the other ones will start to contribute a bit low and you will see that it is true of both Axis bank as well as for other banks because our own channels are growing much faster.

Sumeet Kariwala And apart from Axis, 13% going down to 11%, this is just basically proprietary channels growing fast. There is no individual bank specific issue, right?

Prashant Tripathy No, of course, I haven't seen very robust growth in, for example, Likes of Lakshmi Villas and urban cooperative banks which we do contribute to overall at 10 or 11% that you are talking about that could be a part of the reason, but nothing really significant to mention.

Sumeet Kariwala And just to refresh, the tie-up with YES Bank remains on track?

Prashant Tripathy Yes, we have an on-going relationship which is yet to be discussed and closed, so as we speak, we remain the single party.

Sumeet Kariwala And final question with respect to non-PAR savings and I see the product mix is I think so inclusive of individual and group and you don't do group much, but is there a focus to reduce that or the moderations because if I look at that number, that has come down to 6% now versus 8% in fiscal 18 and 9% in fiscal 17, the non-PAR savings, so are we intentionally trying to reduce that or again it is a function of?

Prashant Tripathy No, it is not really intentional. I think we will, going forward, like to put more pressure on that and more focus, so that the percentage goes up. I think through this year, we will quite focus on driving protection and also look at the overall value proposition for the customers, but we do want to maintain share of non-PAR savings upwards or 10% between 10 to 15% and we have embarked and taken series of actions to do that as I have shared in past that particular book is hedged to a great extent and hence it is a very safe design for us to go.

Moderator Thank you. The next question is from the line of Neeraj Toshniwal from Emkay Global. Please go ahead.

Neeraj Toshniwal Just wanted to understand on how much expenses relating to distribution, we have actually did till 9 months and what was the CAPEX in the third quarter itself?

Prashant Tripathy The overall CAPEX, as I had mentioned to you that we were undertaking, there is one CAPEX which goes as a regular part of the business, I am not really going deep into the CAPEX that we could have put that runs anywhere between 60 to 65 crore every year where large part of that goes towards IT and upkeep of our infrastructure. So leaving that aside, so far this year, we have put 20 crore of additional CAPEX in setting up the 100 new office units that we have done. It is aligned to how we had planned, actually a bit lower than how we had planned and if this number will go up as we continue down the path of setting up more and more units. Again, you will notice that 20 crore for 100 offices is more like 20 lakhs, so we are just trying to set up offices which are economical, which are small size and in large number of cases, they have been carved out within our own offices to minimize investment in setting up new offices.

Neeraj Toshniwal On the impact of group PBT just wanted to have one off expenses and if you can just split the different line items through acquisition through expenses and through product launch?

Jatin Khanna There are 2 broad reasons which Mohit spoke about, first one is the one-off expenses relating to acquisition, as you know we were participating in the IDBI Federal acquisition, so there was a 27 crore fee which was paid to KKR and Standard Chartered Bank for organizing that funding commitment, so that is one. The true-up of Axis Bank put option is about another 37 crore, so that is the second one.

Neeraj Toshniwal How much, Axis thing, total of?

Jatin Khanna 40, right, then, the next one is the expenses relating to distribution expansion and change in product mix which is something which Prashant spoke about in terms of how amount we are spending in terms of expanding our distribution network and things like that. Those are the other expenses.

Neeraj Toshniwal What did you understand, do we have any lumpy exposure in terms of any particular NBFC, which may need to have provision or we have already done some provisions?

Prashant Tripathy I mean the one that we spoke about last time, which was of course, we all discussed was IL&FS on which we had an exposure of 40 crore. We have taken the provision of 10 crore already and going forward, we are monitoring that portfolio, may be as we move along, we will raise the provisions. Large part of that is in ULIPS.

Jatin Khanna None of the exposure, which we have to any of these names are other than marginal 5 crore in shareholder fund from DHFL, all the other exposures are in ULIP only.

Neeraj Toshniwal So in this 40 also, majority is in the ULIP, so if you have the split, how much is in ULIP and 40 crore in IL&FS?

Prashant Tripathy So of that about 30 crore was in ULIP and 10 crore in shareholder.

Neeraj Toshniwal And in terms of operating leverage, I think this time, if you just look at the third quarter margins, I think it has been quite significantly lower than the second quarter, but that has been the trend last year as well, so anything particular to read it or we will be good in fourth quarter similar to what we see in the last year?

Prashant Tripathy Not quite actually if you look at the margin that we declared at the end of first half and after quarter 3 – they were similar, actually we had declared about 20.4 and it continues to be the same.

Neeraj Toshniwal Sir, for the particular quarter, third quarter, if you work out back calculation, I think that has been quite lower than the second quarter; otherwise it has been stable for if we look at the 12-months number?

Prashant Tripathy Unfortunately, I am unable to reconcile, I am just trying to compare our net overrun margins.

Jatin Khanna Prashant, if I may, for first 6 months, if I remember correctly, the post over run margin was 18.1 and the 9 month is 20.4, so therefore there is an expansion in margin, so that is point number one, from first two quarters to quarter 3. I think second is that our margins have expanded relative to same period last year, even on a post overrun basis by 240 bps. So I think if you look at either quarter 3 or you look at Y-o-Y, there is an expansion in margin, so I am not very sure that where your comment is coming from.

Neeraj Toshniwal So basically, I was comparing just third quarter margins vis-a-vis last quarter margins, singular, only without taking the impact of the first 6 months, this third quarter numbers, working backwards on a Y-o-Y basis.

Jatin Khanna Working backward on a Y-o-Y basis, is it?

Neeraj Toshniwal That is this quarter, this quarter VNB, on this quarter APE.

Jatin Khanna Relative to last year same quarter VNB?

Neeraj Toshniwal No, on a sequential basis.

Jatin Khanna On the sequential basis, like I said, first 6 months we were 20.2 and the first 9 months we are 20.4, so there should be an expansion in margin and not contraction.

Neeraj Toshniwal I can take it offline. Probably I can explain better.

Prashant Tripathy But suffices to say that margins are holding off and there is no deterioration in margin?

Moderator Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P Question again on margins. For 9 months, vis-à-vis 9 months, we had like 240 bps improvement. As you get into completing the full year and we see the protection mix has gone up, should that translate into similar improvement for the full year because you did have a bump up in the full year number vis-à-vis, the 9-month number last year.

Prashant Tripathy That came actually out of investment income, so I won't expect a bump up. My sense is that we will sit somewhere between 20.5 and 21, which has been the guidance all through. The strategy Adarsh, has been as follows that we lose the margin because of higher expenses that we are investing in building our own channels and recover that by having higher margins from protection and we have been more than successful at doing so. When we began the year, I thought that we will land up close to about 19% margin, so if we come something like 20.5 despite making the investment in new channels and opening so many offices, it will be a good story.

Adarsh P And all of your expenditure of this plus 100 crore will be part of the actual expense that will go into the VNB margin, is that the correct understanding?

Prashant Tripathy It has been some part actually because it also gets distributed amongst different lines of business.

Jatin Khanna And also gets absorbed in some sales, right?

Prashant Tripathy Correct.

Adarsh P And on the point, I am trying to ask is, this runs through the margin, rather than a good part getting capitalized and then getting amortized over a period of time.

Prashant Tripathy It runs through the margin.

Moderator Thank you. The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha Just wanted to clarify that in the month of January, you said that growth is 36% because if I look at the base of last year January 18, it was 65% you grew, so on your higher base, you have managed to grow at 36% in the month of January and if it is so, which products have led to this strong growth and which channel led to this strong growth?

Prashant Tripathy The product mix actually remained the same and it is true that on a very large base, we grew at around 35%. Within that our own channels actually grew close to about 37% and we saw reasonably good momentum at banks also and overall banks have grown close to about 35% and a lot many times, it is also a factor of effort, things building up, etc., so I am not really quite saying that we will start to grow at 35%, but it is just a reflection of the businesses ability to grow at a much higher pace on a large base.

Moderator Thank you. The next question is from the line of HR Gala from Finvest. Please go ahead.

HR Gala Sir, can you just tell us your journey about 25-25-25. Which are these three elements, where do we stand now and how we will get to the 25-25-25 level?

Prashant Tripathy Mr. Gala, that is really a vision in aspiration. We want to be a business, which grows its sales as well as VNB at 25%, it has a margin of 25% and the return on embedded value is 25%. That is really the aspiration towards which we are working. We achieved 20-20-20 last year, which means 20% growth, 20% margin and 20% ROEV. Now where does this 5% delta comes from, basically on sales growth and VNB growth, that data actually comes from 2 factors, (a) growth of our own channels and as I mentioned to you as we speak, we are making significant investment in our own channel which is reflected in our own channel's growth rate, we are growing at around 33%, so hopefully this momentum will continue because in the year that you make the investment or in the two years that you make the investment, actually you can expect a higher than average growth through these channels for next 2 to 3 years, so hopefully that will be a factor which will drive the growth rate. Margin growth actually comes out of two factors (a) we will take our protection mix in 2 to 3 years' time close to about 10%, so when that happens, we will see a margin uplift of about 200 to 250 basis point and the balance should come out the operating leverage which you will get when the business is expanding. That should take the margins higher than 25% and generally if you hit a 25% growth number and 25% margin number, ROEV is an outcome, and the good news is it happens on its own, at least for first few years until the base becomes really large, so hopefully that is what we are targeting the business to reach. Of course, this assumes very good momentum from our channel partners as well as our own channels and it just gives a guiding path for the business to work together.

HR Gala

So do you expect any major regulatory disturbances coming from IRDA or from the government side, in which we do business, the freedom you have to come up with the products, etc.?

Prashant Tripathy

The positive is, the answer to your question is no and I say this having seen the regulatory thinking, the new product guidelines or the draft that has come, all the other things which were contentious being implemented like compensation guidelines, expense of management, product regulation, all those are out of our ways, so I am not really anticipating anything major coming from IRDA which could either have significantly detrimental impact or any impact which could inhibit growth in a big way.

HR Gala

Because the way in which they have played in the general insurance, especially the motor side, crop side, etc., I was just wondering whether that kind of things could come in some of the products?

Prashant Tripathy

We were perhaps ahead in the pack and we were hit in 2010 to 2013 quite badly.

HR Gala

Sir from health insurance, what is your take, are we having any major share of health?

Prashant Tripathy

Actually, we want to participate in health only through two parts, either by having a product as we speak, we have cancer insurance which is not a very large part of our product portfolio, but itself has a health offering and we do want to participate through our riders, so those are through which we want to participate. We have no desire actually to go down the path of creating dedicated health products because all of us including the entire industry tried to venture into health and we didn't have a reasonable success.

Moderator

Thank you. The next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe

Just one qualitative aspect, how would you think the individual protection business ramps up on the Banca side?

Prashant Tripathy

It is a good segment, it just requires a bit of focus, though it is not as successful as you can see from the percentages as it is in our own channels where the degree of freedom to control mix is much higher and the time spend in solicitation is much higher than the banks, but we are on the journey and we will continue to push it. My sense is that we must target and go closer to 5%, perhaps next year and that will be our target internally.

Nishchint Chawathe And in the group side, what will be the share of Axis, when I say group, I am saying group protection?

Prashant Tripathy Group protection is quite low, actually less than 1% of the APE.

Nishchint Chawathe What I am saying is that for the business for the total group protection that you have, what is the contribution of Axis, I think you said NBFC is around twenty five, so the rest of it everything would be Axis?

Prashant Tripathy Yes, as we speak our credit life or whatever credit protect business, as a percent to the APE of the 12% will be close to about 1%. Within that 1%, may be 70% will be Axis and 30% will be rest of NBFCs. We are not so big for protect business as you know we have shared many times.

Moderator Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Mohit Talwar Thank you ladies and gentlemen for sparing time. We look forward to the next earnings call in the next quarter. Thank you.