Max Financial Services Limited

Q4-FY19 Earnings Conference Call Transcript
May 29, 2019

Moderator: Good morning ladies and gentlemen. Welcome to the Max Financial Services Limited Q4 FY19 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Jatin Khanna – Max Financial Services Limited. Thank you and over to you sir.

Jatin Khanna: Thank you. Good morning ladies and gentlemen. Thank you for being part of Max Financial Services Earnings Call. My name is Jatin Khanna and I'm representing Max Financial on the Earnings Call.

Before I proceed for the performance highlight, I would like to introduce some of my other colleagues who are with me on this call. I have with me Mr. Prashant Tripathy, who is the Managing Director and CEO of Max Life. I have with me Amrit Singh, who heads the Strategy for Max Life.

Now I will talk about the key highlights for FY19 first and then update on the strategic priorities outlined in the last couple of calls as well.

I am very happy to share that Max Financial had a robust financial performance with the revenue growth of 17% to 17,538 crore. The consolidated PBT at 391 crore though was down about 28% year-on-year but that was for some reason which we had outlined in the investor release as well as in our previous call. So, we had a one-off expense relating to the acquisition which we were pursuing earlier in the year. Then there was a fair valuation to Axis Bank put option obligation and then expenses for distribution expansion are the top three reasons why our earnings are down.

But moving on specifically to Max Life performance:

I will first want to start with really our aspiration and as you would recall that from last few calls, we have laid out our aspiration clearly to get to 25-25-25 target by 2022. Now I am pleased to share that we have achieved a 22-22-22 target this year on the sales growth, new business margin as well as ROEV and we are progressing smartly towards the aspiration. And this is on back of, just to remind you, a 20-20-20 performance last year so there has been a considerable improvement on the performance.

Now Max Life MCEV on an operating basis has grown about 22% to Rs 8,938 crore. The value of new business post cost overrun has grown by 30% to Rs. 856 Crore. Here I like to sort of lay emphasis on the fact that VNB has grown by more than 30%

consecutively over the last 3 years. The structural NBMs or the margin have expanded by about 230 bps to 22.5% and the actual NBM post cost overrun has expanded by about 150 bps to 21.7%. This is driven by increased focus on protection products. ROE for FY19 has been at about 21% and again like on the VNB growth, on ROEs as well we have been consistently clocking about 20% mark over the last few years.

This is best in class amongst the financial services industry and has been delivered without the requirement of continuously raising capital. Max Life Individual APE has grown at a strong 22% to Rs. 3,917 crore with increased contribution from protection products. Max Life has outperformed the industry growth on new sales by growing 22% against private insurance growth of 12% and gained about 65 bps on the market share. Again, this outperformance has been continuously over the last three years and our market share now stands at close to 10%. Then our enhanced productivity and investment in proprietary channels are predominantly the reasons which led to the 30% growth in those channels relative to a Bancassurance growth of about 18%.

The proprietary channels contribution has increased to 30% in FY19 from 27% in FY18. This is in line with our aspiration to increase proprietary channel share to about 35%. Max Life agency channel is one of the few agency channels that deliver positive margin so that's very important and actually the margin for a proprietary channel are now similar to a non-proprietary channel. Max Life is now entered into a strategic knowledge partnership with New York Life to further enhance its productivity on the proprietary channel. So, really in addition to protection product the second big focus for Max Life is on the proprietary channels.

Now continuing with the strong focus also on the digital, the e-commerce channel has grown by about 57% and our protection mix, like I said is our focus area, has improved by 160 bps to about 6% on the individual side and our group protection mix has also improved by 60 bps to about 4%. So, the overall protection is about 10%. The GWP growth has been strong at 17% to Rs 14,575 crore, our renewal premiums have grown 15% to Rs.9,415 crore and this was led by a notable improvement in our conservation ratios to about 89% and 300 bps improvement in a 13th month persistency to about 83%. Our claims paid ratio at 98.7% makes us the only private insurer to surpass market leader LIC and I must say so that it's improving month after month. The AUM as at March '19 stood at about 63,000 crore, growing at about 21%.

Max Life now is the fourth-largest manager of Life Insurance AUMs and eight largest managers of overall AUMs having including mutual funds, the retail portfolio mutual fund. Max Life is recognized amongst top 50 companies and top 20 BFSI companies by Great Place to Work Institute 2019 survey, something which we feel very proudly about.

So, really to sum up:

Max Financial is on course to drive strong shareholders outcome via its new strategic plan with significant investments in proprietary channels, sustained efforts to deepen our Bancassurance relationships, razor-sharp focus on cost and improvement in our protection mix. We are progressing towards our aspiration of our 25-25-25 target on Sales Growth, RoEV. and VNB margin over the next 3 years. On that note I will hand over to the moderator to open the floor for Q&A.

Moderator: Thank you. The first question is from the line of Abhishek Saraf from Deutsche Bank.

Abhishek Saraf: On the proprietary channel now, you say that your profitability is similar to the non-proprietary part but generally the received wisdom is that proprietary tends to be higher expenses more fixed cost than the banca channel. So, what has led to this equalization in margin of the two channels and going forward you think that proprietary could actually be a higher margin driver because right now we are just thinking in terms of products being the margin driver. So, is it a right assessment going forward and because you are also focusing more on proprietary taking it to 35%, so that is one on the channel part? Secondly on the product part what are your thoughts on the non-PAR saving so few of the peer set has also started to now incrementally focus more on the non-PAR savings bit and those who are not doing it earlier now seeing reasonable opportunity there as well. So, what is the thinking that Max Life on the non-PAR saving part?

Prashant Tripathy: It is right that the margin outcomes for our own channels now are similar to the margin outcomes on the regular channel and this is how it was expected also. You may recall that in the previous calls I have been highlighting that the margin enhancement will happen more out of our own channel because the driver of the margins are 2 or 3, A. higher protection mix and B. as you build scale the operating leverage and those increments happen through our own channels. As we can see on slide #16, you will notice that the protection mix through our own proprietary channel, is significantly higher than the protection mix in the Bancassurance channel. Actually the protection mix is about 14% in our own channels whereas the 2% in the Bancassurance channel, unless we want the biggest drivers, also as we are opening more offices and now building up scale, the ability to absorb the overheads and the fixed costs is enhancing. So, those were two reasons why you are noticing that our own channels as well the margins are enhancing our increased density and it will suffice to say that by FY22 the margins from our own channels are expected to be really more higher than the margins from the Bancassurance channel. So, that's the answer to your first question.

On the question on non-PAR we have been reasonably placed on non-PAR for many years now. It is going to be an anchor design but because non-par designs may directly in terms of taking guaranteed risk, we always hedge the backing, the entire portfolio is largely hedged and that minimized it. It is also our endeavor to be around 15% of our total PAR through our non-PAR so you will enhancement through non-par that will come through for our overall product portfolio. So, as we move forward it is expected to share of PAR will moved towards non-PAR broken into higher protection and higher non-PAR guaranteed sales.

Abhishek Saraf: So, share of non-PAR will keep increasing?

Prashant Tripathy: Yes

Abhishek Saraf: Driven by the protection and even the savings bit.

Prashant Tripathy: Yes

Abhishek Saraf: One last thing on persistency just wanted to understand like when do you true up your persistency, so like generally over the past few years we have seen that across players persistency has been improving. But in your EV calculation, do you want that persistency improvement to season for certain period and then you account persistency improvement in your EV calculations or you do it or your truing up is much faster for persistency?

Prashant Tripathy: Actually it is on the basis of experience analysis that happens in the business every six months and the EV reports are tied to the latest experience numbers, so if the persistency improves you will start to see operating variance and some part of the operating variance this year is coming from enhancement in persistency.

Jatin Khanna: I just want to add here that in terms of our aspiration which is we sort of casted for a 25-25-25 target we are looking at persistency improving beyond the 83% significantly.

Moderator: The next question is from the line of Rahul Marathe from Akash Ganga Investments.

Rahul Marathe: When we see your EV walk through we see that Max Life has proposed a final dividend of 319 crore over and above what we have already paid, 282 crore. So, what will be the dividend policy for Max Financial Services, the dividend that we received from Max Life?

Jatin Khanna: The dividend that we received from Max Life is actually the preserved for the put option liability obligation which we have towards Axis Bank as you know they have about 3% ownership which they sell back to us at a staggered fashion. So, the dividends are preserved in Max Financial/utilized for meeting that put option obligation.

Moderator: The next question is from the line of Neeraj Toshniwal from Emkay Global.

Neeraj Toshniwal: Just wanted to have some color on how much have been of we have invested for the proprietary channel this year and what is the plan going ahead?

Prashant Tripathy: So, think about proprietary channel in three parts, one is agency or agency lite model, the other one is our direct channel growth and the third one is Internet channel growth.

Prashant Tripathy: I just responded and I will summarize again for you that we made a CAPEX investment of about 28 crore, setting up close to about 120 offices and we also had the OPEX of about 68 crore, setting up all agency related offices, new channel, defense channel everything that we had decided we will do that. So, that will give some substance, in addition we also made some investment of 20 crore towards digital initiative and e-commerce. So, if you look at the entire thing close to about 90 crore of OPEX and about 30 crore of CAPEX. As we look ahead of the plan is to continue to grow but not at this speed, so we are planning to open about 60-65 offices as well.

Neeraj Toshniwal: On the strategic partnership with New York Life how is that progressing, any color on that, what different they are doing if at all you can share that?

Prashant Tripathy: It's doing very well, New York is a very strategic partnership. Three retired individuals from New York Life who held very senior positions at New York Life are working with us to look at the entire skilling model and system, sales-system, agent recruitment & development and development of leadership, those are core projects which they are working on. There is a project plan and we are tracking to it and as a result of that we are hoping that the trajectory that we've seen agency of growth will continue.

Neeraj Toshniwal: Last call we said that we are looking at selling some part of Max Financial as well, so any progress on that or any color on that?

Jatin Khanna: What we had said that was at some stage we would look at it but this is not the right time from our perspective. We don't think this is the right time so therefore I think Mr. Talwar had said in the last call was that at some stage we would look at it.

Neeraj Toshniwal: And on the development, the dialogue with Axis Bank where are we if we can have some color on that as well?

Jatin Khanna: This stage all I can say is that progressing but at the same time there is no tangible development which one can report is where I will sort of leave this at this stage.

Neeraj Toshniwal: If you can give me the ticket size product wise, segment wise ticket size if that's handy with you?

Prashant Tripathy: If you could send that e-mail we will be able to send that to you give that is okay with you.

Neeraj Toshniwal: What is this severance pay of 25 crore that is there in the standalone entity, for a particular employee or a group of employees?

Jatin Khanna: There have been several conversations with investors, analysts separately to say Max Financial cost and all of that, what's the long-term plan around those costs. So, this is a journey which we have now started to in some sense sort of prune down the cost. So, I think if you look at the P&L for Max Financial and I am taking the one-offs away which is like that acquisition cost or Axis put option liability etc. And if you really look at it from an operating P&L standpoint Max Financial has about 85 crore of cost. So, the whole idea to settling some of the employees etc. and some of the other associated cost also which come down is to bring that to about more or less like a 55 crore odd number this year. And in the future it's likely to further go down in the next few years, so the whole idea is to bring down the Hold Co cost to sub-50 crore over the next few years and then by which time this thing become irrelevant and meaningless from an overall assessment standpoint because both the EV and VNB would have become so sizable that this will be like some decimal points for EV and maybe a low single-digit number of VNB, so really the idea is to address that expense because of which some people talk about some sort of Hold Co discount and the whole idea is to take that concern away from the investor.

Neeraj Toshniwal: There is also one mention of buying of stake with Axis, so this 0.74% from Axis at the cost of 165 crore or total including the cost of Sumitomo 0.3% buyback?

Jatin Khanna: This is total.

Moderator: The next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Just wanted to check what is the banca channels retail APE and I was comparing the numbers which are given in the presentation from the presentation which was given last year Q 4 FY18, the number doesn't seem to match, so just wanted to cross check on the changing the banca APE.

Prashant Tripathy : Is there minor a variance or a big variance?

Shreya Shivani: There is a minor variance but wanted to understand on why that number variance has come in. It was at Rs.2,299 Crore in FY18 and this year we have reported that we've recorded that to be Rs.2,335 Crore. In fact all the numbers till FY16 have gotten restated for banca channel APE.

Prashant Tripathy: We have taken out the group business or credit protect business from the banca and we have shown only the individual just to give you a sense of individual. There may be a delta between individual and group that could be a variance. The higher number will be including group, the lower number will individual.

Moderator: The next question is from the line of Ashish Kacholia from Lucky Investment Managers.

Ashish Kacholia: My question is regarding the industry growth, this year the industry has grown 9% it looks pretty low for a under penetrated markets like India, so do you have any thoughts on this why the industry is so slow?

Prashant Tripathy: There is a hypothesis on why it was 9%. It is 9% this year because the last 2 years it was 20%, individual year or (+) 20%, so because of high base effect you would have seen a number which is lower. The private industry has grown at around 12%. Our growth is more like 22%. My view is that over next few years the industry growth rate will be in 13% to 15% zone as the base settles.

Ashish Kacholia: If you look at the just there is the credit sales growth at 6%-7%, 5% inflation, so 11% is there no potential for this industry to grow at some high double digit or something.

Prashant Tripathy: At least for the private companies you will some of them registering that but it's a foundational industry and generally it has strong linkage to how it's GDP growing. So, my map will be 11% of normal GDP plus 2%-3% of penetration every year, it will be in the range of 14%-15%.

Jatin Khanna: Ashish I think there will be also a part of the sort of the de-mon impact because due to FY18 as well which could have created a little bit higher base for growth to look a little tepid.

Ashish Kacholia: And how is it trending in the April-May of this year, are you getting a sense that there is a good demand in the market or it's going to be like slow?

Prashant Tripathy: Looks pretty good, we are hoping that the first two months for us will be upwards of 25%, so overall industry also is doing okay.

Ashish Kacholia: Any thoughts from what I understood when we had discussions with HDFC Life, the merger deal that they couldn't happen because there was an issue of the Max Financial which is a financial services company which couldn't get merged with an insurance company. Can you just throw a little bit of light on this regulatory angle of a M&A process regarding Max Life?

Jatin Khanna: So, what happened in the HDFC Life transaction was that there was a section called Section 35, under that section IRDA can approve within insurance company merger within insurance company merger. Now here the thing was that for a Nano-second the insurance company was merging into a CIC and then simultaneously demerging into an insurance company. So, that was sort of one thing because it was a very technical sort of merger and not a merger-merger with an NBFC.. Secondly , Section 35 talks about insurance-insurance is IRDA approved but it does not prohibit a non-insurance and an insurance merger. Third very important point was that no assets of non-insurance business were moving into insurance business. Fourth thing was there was a previous judgment which supported saying that this scheme has to be looked holistically and therefore if the company is just going there as a via media and not really staying into an NBFC, so it's not an insurance and an NBFC merger. So, those were the four arguments. But what happened was that those arguments were submitted after SG had already given its opinion. So, when we represented to SG with all these arguments saying that your opinions does not stand good because you've sort of not understood the case properly and SG said I can't change my opinion so you have to either go to AG you go to SAT. Then we went to AG then we went to Law Ministry, Finance Ministry so there was a lot of time which got lost in all of that. By this time the IPOs of both ICICI and SBI Life had been done, so HDFC Life decision was to say that whether they pursue this with SAT or they go legal with this or they go and do their IPO. They chose the latter and therefore the transaction was called off. That's what happened.

Ashish Kacholia: If we were to hypothetically assume that Max Life is pretty consolidated with another entity at some point of time then the way to do this would be that this company would have to merge into another insurance company that would be a clean way of doing it?

Jatin Khanna: I don't want to get into the…

Ashish Kacholia: I'm just checking the feasibility. I'm just saying that if it is to be merged with another insurance company there is no hurdle, right?

Jatin Khanna: There are several structures possible if you have to do something like that for example, we were buying IDBI Federal and as part of that acquisition IDBI Federal would have been merged with Max Life. Like I said it depends on situation and circumstances but clearly there is no consideration for any merger or….

Moderator: The next question is from the line of Hitesh Gulati from Haitong Securities.

Hitesh Gulati: On this operating variance of Rs.126 Crore, so does this include operating assumption changes also?p

Prashant Tripathy: Yes.

Hitesh Gulati: What would that quantum be in this 126?

Prashant Tripathy: Basically, a large part is coming from persistency assumption changes, mortality assumption changes.

Hitesh Gulati: My question actually this 126 what will be the breakup between operating variance and operating assumption changes?

Prashant Tripathy: I tell you operating assumption changes out of the 126 will be close to about 60 crore will be experience variance and about net 20 crore on assumption changes with respect to demographic variances and then there are some assumptions changes with respect to lapse revival also which is the balance.

Hitesh Gulati: What is the effective tax rate now, so what is that number that we are building in right now?

Prashant Tripathy: We don't give that number, it is closer to 11.5.

Hitesh Gulati: So, it's only slightly different from what is the rate at marginal tax rate for us?

Prashant Tripathy: We went through, it is not simply just copying the practice of who is doing what. We had a claim to ITAT. If ITAT agreed and approved, so it's gone through the Tax Authorities and that gives us the confidence to take the numbers as a part of the EV and its gone down hence from 14.56 to 11.45.

Moderator: The next question is from the line of Sanket Godha from Spark Capital.

Sanket Godha: Just wanted to understand why we bought a stake of 0.3% from Mitsui Sumitomo in the current fiscal year? And the second thing is that we had paid around 165 crore in the current year for 1.05% buyback, so can you just break it down what we paid to Axis Bank and Mitsui Sumitomo?

Jatin Khanna: Before I answer your second question let me first answer the first question which is to do with the 0.34%. 0.34% from Mitsui Sumitomo was acquired because when we in the old days had sold this 5% Mitsui Sumitomo has a preference to maintain their shareholding about 25% because of which we sold 4% and they sold 1% so it was not 74-26 ratio, so to readjust that to the 74-26 ratio they had to sell some stake back to us. Once they have repurchased at least the 0.34% from Axis Bank. As we concluded two buybacks over the last few years, the 0.34 was acquired by Mitsui, so sold it back to us to readjust this to 74-26. That was sort of one answer to your question number one. Answer to your question number two is that the Mitsui Sumitomo stake was to be bought at PAR value so it's hardly paid anything about 3 crore. The balance has been paid for acquisition of Axis Bank stake.

Sanket Godha: Since we are at Max Life, we are paying almost 100% kind of a dividend payout. This over a period of time will have a bearing on solvency, so how long we can continue with the kind of growth we are doing with an 100% dividend payout at Max Life level?

Prashant Tripathy: About 18 months to 2 years more.

Sanket Godha: So, basically it will probably coincide with the period when our renewal of tie-up with Axis Bank will come?

Prashant Tripathy: Yeah but that's not how we see it. It has to be seen more in light of our net of dividend solvency ratio of 227. We will like to not go below 170, so that's the delta about 57%. It will be consumed over a period next 18 months.

Sanket Godha: At 170, will we change our product strategy by focusing on more less capital consuming products like maybe protection would go behind the screen kind of thing?

Prashant Tripathy: There are many possibilities. Actually We want to maintain this product portfolio . We don't want to change the product portfolio quite considerably because this yields an outcome with the balances out, the customer needs, the overall profitability, the capital consumption as well as in the outcome. We will eventually have a bit lower PAR and a bit higher non-PAR but that's about we are not drastically planning to change. From the perspective of our ability to continue to declare dividend and relating at capital sources of course they are two sources that come to mind (a) keeping more capital in the business so declare less dividend. But moving back there is also a possibility of raising debt which IRDA allows. We will consider both of them and choose the one which makes sense to us.

Jatin Khanna: I just wanted to that once we have had a long-term arrangement with Axis Bank cemented then our need to pay this kind of dividends also comes down a bit.

Sanket Godha: Yes, I completely agree with you.

Prashant Tripathy: From just to that deal happens.

Sanket Godha: Two data keeping points, one is can you give the group protection breakup into the Credit life and GTL? And second is that when you said that in FY20 we want to keep holding company OPEX at 55 crore, can you just break it down into employee cost and non-employee cost? I think the legal expenses the largest second line, so if you can give a broader breakup of that 55 crore into these two numbers?

Jatin Khanna: The thing is that before I give you the breakup let me just say that the legal expenses point which you just mentioned is not just the legal cost per se, it also includes the support which Max India provides to Max Financial because if you look at it today Max Financial has some only 6-7 people. That is one thing and which is why that cost broadly remains sticky. The employee cost, vaguely I remember it of the 55 crore employee cost is about 25 crore odd but just give me a minute I will just reconfirm that number.

Sanket Godha: In the meantime can you give me the protection breakup of group?

Prashant Tripathy: On the group business side you will see our group business of about 4%, the mix at a very high level GTL as we call of 3% and that little less than 1% for credit life business on APE basis.

Sanket Godha: If that breakup would be given then that would be great, on 55 crore broadly the breakup?

Jatin Khanna: I will just reconfirm that number. Like I said the employee cost is about 25 crore odd of that and the rest is other expenses. I will just mention one more thing, legal expenses you should not look at a gross level because Max Financial also cross charges for the services they had provided. So, really the legal and professional way to look at it as a net level which is generally around 15-20 crore.

Moderator: The next question is from the line of Suhani Doshi from Edelweiss Broking Limited.

Suhani Doshi: My first question is wanted to understand this 25% VNB margin guidance which you gave is at the structural level or is it the post cost margins?

Prashant Tripathy: Post cost.

Suhani Doshi: So, also if you can help me understand when would we see this cost overrun reducing by when?

Prashant Tripathy: Cost overrun is the factor of investments. If you continue to make investments in growing our own channels then cost overrun might remain. However our cost overruns are very low less than a percent so I really don't worry about it. But I think by next year the cost overruns will go away.

Suhani Doshi: By FY20 it should be done with?

Prashant Tripathy: FY21 it should be done.

Suhani Doshi: Can I get the total number of agents for Max at the end of the year?

Prashant Tripathy: We had close to about 50,000 agents.

Suhani Doshi: How much would be our active number of agents at an average level in percentage terms?

Prashant Tripathy: Actually we have gone beyond active while we show as active is what we measure is, agents broken into different levels of productivity numbers and on chart that we have given on agencies page 17 we have given both the numbers.

Suhani Doshi: Is it possible to give the breakup of the ticket size at the channel wise banca and agency what would be the ticket size?

Prashant Tripathy: Proprietary overall ticket size is around Rs. 44,000-45,000 which includes agency, Internet and our direct channels. The agency ticket size is around Rs. 55,000. The banks are operating at a ticket size of Rs. 70,000 to 90,000.

Moderator: The next question is from the line of Ashwini

Ashwini: One question on structuring, I was just wondering that when Max Life Insurance pays out this dividend and this money is used essentially to buy the stake with Axis Bank, is that leading to tax lead leakage by way of dividend distribution tax and I'm just wondering is there a better way to use that cost?

Jatin Khanna: There is unfortunately no better way to use that cost. If there were one, we would have loved to do it. But unfortunately given all the constraints this is the best way to do this.

Ashwini: What's holding back the merger between the Financial Services and the Insurance Business now because there is really nothing else barring the some of the cost setting at the Hold Co?

Jatin Khanna: I will talk about number one item which is the question which was asked in the call before which is this conversation around a long-term arrangement with Axis Bank, so once we have cemented that then really we don't need to have the Hold Co and then we will work towards collapsing the Hold Co but like I said the endeavor is also to reduce the cost of the Hold Co to a minimalistic level where in it becomes insignificant in overall scheme of things as in its like a plan B.

Ashwini: I appreciate that I heard that but I was just wondering that if you collapse this wouldn't it save you the dividend distribution cost. But I suppose you're looking at it as a limited cost for the next 2 years till this deal gets cemented. What would be the timeline by which we should expect an outcome?

Jatin Khanna: The timeline is something will be difficult at this stage to say but our endeavor will be to make that happen very soon.

Moderator: The next question is from the line of Vinod Rajamani from HSBC.

Vinod Rajamani: I just wanted the ticket size by product so in terms of protection, in terms of PAR and non-PAR savings and so on?

Prashant Tripathy: If you could send an e-mail, we will be very happy to respond. At a very high level the smallest ticket size is for protection followed by participating followed by non-PAR, followed by ULIP.

Moderator: The next question is from the line of Rudhir Verma from Alpha line Wealth Advisors.

Rudhir Verma: A fairly large proportion of the promoter shareholding is pledged, could you give me a reason behind that what is the rationale behind that?

Jatin Khanna: When we were doing this, I think this is very important to understand what's caused that. When there was a merger is happening with HDFC Life in some sense the sponsors would have become financial investors in the merged entity. There this thing was to say where is the next phase of growth we can find for the Max group to really take it to the next level and is this shareholding is becoming monetizable for me because I am a financial investor and might as well make optimum use of this shareholding and start building the next phase of growth for Max group. So, they made certain investments on the Hospitality front internationally, so that was one. The second is that from the old days the ownership through multiple round of fund raising had gone diluted down to 30% across entities and then over a period of time they kept buying to bring back their ownership to about 40% so that was the second big reason for pledge. Those were the top two reasons why we there was a pledge on shares. Then what happened was that the both unfortunately at Max Financial as well as at Max India front the prices corrected by almost 30% odd and then this whole IL&FS, Zee Fiasco started because of which there was a further correction in the prices. Now with this stock prices being almost 40% to 50% below the levels at which they used to be; the pledge went up. I think earlier in the call there was a question asked around some monetization at a Max Financial level. That plan remains obviously there from a medium-term perspective obviously not near-term because like I said we don't think it's the right time to monetize that any part of Max Financial shareholding at this stage, but you would have read about monetization happening at Max Healthcare front wherein is the idea is to bring down the leverage and therefore bring down the pledge. And we are very advanced in closing out that transaction so I think it's just a matter of weeks and I won't say month before this concern around pledge becomes a history.

Moderator: The next question is from the line of Jigar Shroff from Financial Research Technologies.

Jigar Shroff: I had two questions one is the Axis Bank relationship is going to continue till 21-22, am I right?

Prashant Tripathy: Yes. That's correct.

Jigar Shroff: Can you quantify the one-offs which have been debited because of which the group PBT is down by 30%? Can you give the breakup of that?

Jatin Khanna: I can give you breakup at a Max Financial level and Prashant and Amrit give it at Max Life level. So, the first one-off is the put option liability of Axis Bank which is about 106 crore, it's a non-cash item in the P&L that is one. The second is the acquisition related finance cost of about 27 crore and the third is the severance payout of about 25 crore.

Jigar Shroff: What is the severance payout related to?

Jatin Khanna: Earlier in the call we spoke about we are trying to bring down the cost at Max Financial level and therefore trying to settle some of the employees and so that it can come down to more or less like a 55 crore odd at a net level and I'm talking about the operating cost and that the option liability because that can change depending on how the stock price moves. But really at an operating level it can come down to what of 55 crore at a net level from an 85, so there is a 30 crore cost pay which will flow through to this year P&L. Now to realize that process we got to settle some of the employees and that's why this severance cost has come.

Jigar Shroff: This IDBI Federal and severance cost I believe would be a one-off but this put option, Axis Bank would it be?

Jatin Khanna: For me frankly from your value assessment standpoint because we have already diluted our shareholding and Max Life to now 72%, so we own 71.8% of Max Life and not the 74 so to that extent that cost is already accounted for in the dilution. Now anything beyond that is then becomes a book entry.

Moderator: The next question is from the line of Neeraj Toshniwal from Emkay Global.

Neeraj Toshniwal: Two more follow-up questions, on the operating variance you said it is around 60 crore, so rest is coming from operating assumption change. Are we sitting on the actual assumptions like percentage 83% or still we have some room buffer available with us?

Prashant Tripathy The way it works as actually is that we have to look at the demographic variance that have come which are already there and like I mentioned to you about half of 126 with coming on account of experience variance broken into persistency and mortality broadly. Then there are demographic assumptions changes and then there are other assumptions changes with respect looking at maintenance expenses and throwing it up for future or lapse revival assumption so the demographic variance is about 60 Crore. The assumption changes with respect to demography is about 20 crore and the balance 40 crore are changes that we have done with respect to assumptions on maintenance expenses and lapse revival impact on ULIP portfolio. That's broadly the mix.

Neeraj Toshniwal: So, 50 crore is basically from demography you are putting it out? Am I getting it right 50 crore from demography?

Prashant Tripathy Last 60 crore from demography experience and 20 crore from assumption changes, so about 80 crore.

Neeraj Toshniwal: The second question was on the sensitivity analysis. It has moved for the interest rate in the VNB quite a lot from last, so any specific reason for that for a 100-basis points movement sensitivity is now quite higher than the last year, so any particular reason for change or it is the product mix that has led to change?

Prashant Tripathy: The only reason could be that comes to my mind is with the more non-PAR portfolio rise the sensitivity has to be goes up but it's not significantly enhanced. If you compare us with respect to many other competitions, we are still running a very robust portfolio with respect to sensitivities of your interest rate of mortality or lapsation.

Neeraj Toshniwal: Yes, vis-à-vis last year I was comparing not with the competitor, in that sense its fine.

Prashant Tripathy: If you write a lot of non-PAR there is an impact.

Moderator: The next question is from the line of Ashish Kacholia from Lucky Investment Managers.

Ashish Kacholia: I just wanted to understanding of how Axis Bank does their Life Insurance business. They now have a relationship with LIC as, well right?

Jatin Khanna: But that's only some 2%-3% of their overall savings.

Ashish Kacholia: I mean is it that they are choosing to do less business with LIC or that's the strength of the respective products?

Prashant Tripathy: They inducted LIC where LIC is good for example single premium or a particular smaller ticket size etc. For others we just continue we will get it again and the bank is growing so.

Ashish Kacholia: This is now just a hypothetical question that suppose if we really need to have a big-time sign up with Axis Bank, so that they continue to sell our product or even without an agreement they will continue to sell our product? Ultimately, it's a win-win deal, right?

Prashant Tripathy: There is always an agreement required either in form of corporate agency or the equity structure whatever. There will be an agreement that will be required and the objective from our perspective is to create a win-win, so that the both the parties benefit from the relationship. In what shape, form it will come time will tell.

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

Jatin Khanna: Thank you ladies and gentlemen for being on the Max Financial earnings call. We look forward to more such interactions in the future. Please feel free to reach out to us for any follow-up question which you may have and thank you once again, good bye and have a good day.