Max India Limited
Q2FY14 Investor / Analyst Conference Call
November 11, 2013 at 4.00 p.m.

Moderator: Good afternoon ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the H1 / Q2 FY14 Max India conference call. We have with us today Mr. Mohit Talwar, Deputy Managing Director of Max India. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Mohit Talwar.

Mohit Talwar: Thanks and let me welcome you all to the Max India earnings call. I would like to thank you for sparing time off for being on this call. On this call we will be talking about the performance for the second quarter of financial year 2014. And thereafter we will throw the floor open for questions. We will try and address all the questions. And if there is something which is unanswered, we will definitely get back to you. However, before proceeding with the performance highlights, I would like to introduce my colleagues who are on this call, so Rahul Ahuja, Group Financial Controller for Max India. Anuj Vohra and Jatin Khanna, who represent the Investor Relations team for the group, Prashant Tripathy, Chief Financial Officer of Max Life Insurance Company, Yogesh Sareen, Chief Financial Officer of Max Healthcare and Neeraj Basur, Chief Financial Officer for Max Bupa Health Insurance.

I would like to begin with the strategic perspective of the group. I will give you a snapshot of the consolidated financial highlights for the second quarter of financial year 2014. I am very happy to announce that the Board has approved an interim dividend of Rs.1.80 per share in their meeting held on Friday. This is based on the consistent performance of our life insurance business, which is now paying dividends regularly to its shareholders.

Let me now move on to the group performance. The group consolidated numbers have recorded a considerable growth on the back of strong business performance from each of its key businesses. Our life insurance business continues to perform admirably, despite a challenging regulatory environment. Max Life is the only private sector insurer to have recorded a consistent growth every month for the past twelve months. We believe that this business is uniquely positioned for growth, given the alignment of its product suite and the sales philosophy to the current regulatory agenda. Max Life has paid an interim dividend of Rs. 128 crore to its shareholders for the first half of financial year 2014 and is very well capitalized with the solvency surplus of Rs.1,941 crore.

As mentioned during our last earnings call, for our healthcare business financial year 2014 is expected to be an inflection point, with the profitability of our older hospitals getting sizable and our newer hospitals showing strong growth trajectory. Additionally, in October we completed the transaction for IFC, Washington, converting part of its preference shares to 7½% equity in Max Healthcare, reducing the outstanding liability, including coupon, to Rs. 127 crore. Life Healthcare, our JV partner has also contributed

Rs. 42 crore to maintain its 26% shareholding. The transaction values of the business at Rs. 2,150 crore post money with Max India holding 65.86% stake in the business.

Our health insurance business is also tracking well vis-à-vis its plans. Opening up of the bancassurance channel for distributing standalone health insurance products offers a great opportunity for this business. And I am pleased to announce our first bancassurance tie-up with Deutsche Bank.

Pre-sales for our senior living business have commenced in April and the response has been very encouraging. We have received all regulatory clearances for our Dehradun project and civil contractors have been appointed.

We believe that all our businesses will sustain their growth and profitability trend in the forthcoming quarters as well.

On this note, I will move on to our consolidated performance snapshot and performance of our key businesses.

Max India consolidated operating revenue for the quarter reported a 12% growth to Rs.2,158 crore versus Rs.1,930 crore during the same period last year. Consolidated profits have also exhibited strong growth on the back of strong performance of our life insurance and healthcare businesses. EBITDA has grown by 52% to Rs.152 crore for the quarter, while PBT has increased from Rs. 43 crore to Rs. 93 crore, which is a growth of about 116%. This is extremely encouraging result for us, considering the challenging business environment. Max India continues to maintain comfortable liquidity with treasury corpus of about Rs. 305 crore as of September 30th 2013.

Now, moving on to the individual businesses, we will start with the Life Insurance business. APE at Rs. 415 crore has recorded a growth of 13% vis-à-vis Q2 of financial year 2013. Private industry growth during the second quarter was 7%. Our consistent outperformance has enabled us to increase our market share from 9.1% in Q2 2013 to 9.7% in Q2 2014. New work system (NWS) in agency is yielding positive outcomes and as a result we have registered strong growth in our agency channel. This has now been rolled out to across 77 locations and delivering considerable improvement in productivity and in recruitment. Renewal premium grew for Q2 by 6% to Rs.1,160 crore and our conservation ratio has improved from 77% to 79% and remains amongst the best in the industry. GWP growth for the quarter stood at 8% on account of encouraging trends in both new and renewal premium. Our cost management initiatives have continued to bear results with the operating expense ratio improving to 18.3% from 19.5% in Q2 financial year 2013. All of the above resulted in our shareholder PBT increasing by 20% to Rs.136 crore for Q2 versus Rs.114 crore for Q2 of financial year 2013. Assets under management increased 13% to Rs.21,735 crore and sum assured increased 18% to Rs.186,841 crore. Max Life solvency continues to be robust with excess solvency of Rs.1,941 crore as of September 30th.

On the regulatory front, all our products filing under the new regulations were completed well in time and 80% of these have already been approved. The regulator has informally commended Max Life for the effectiveness of our product filing process under these new guidelines, which is really encouraging for us.

So, on this happy note I will now turn to our Healthcare business. Max Healthcare network of hospitals achieved revenues of around Rs. 351 crore for the quarter, recording a growth of 28% over the same period in financial year 2013. Our contribution margin improved to 61.8% in Q2 2014 to 61.2% in Q2 2013. EBITDA for Q2 2014 grew six folds to Rs.31 crore vis-à-vis Rs. 5 crore in the previous quarter on the back of a healthy improvement in margins from our existing hospitals which grew from 7.6% to 12%. Moreover as occupancy levels have picked up in our new hospitals, the EBITDA drag has considerably reduced to a negative Rs. 1 crore versus negative Rs. 13 crore in Q2 financial year 2013. As against the cash loss of Rs. 11.5 crore last year, I am pleased to share with you that our network of hospitals has turned cash positive with Rs. 7.7 crore in Q2 2014. As I mentioned earlier, this business is now at an inflection point with a profitability of our older hospitals showing considerable growth, which along with the stabilization of our new hospitals in the next two years will allow us to get closer to our targeted ROEs.

Some other key parameters to note: average revenue per bed has increased 5% to Rs.25,392. Average occupancy across facilities has improved to 77.7% from 70.2%, despite 14% increase in average operational beds, which are now at 1,440. Our current registered patient base is touching 1.9 million patients, with over 3.4 lakhs patient transactions per month in Q2. We have a network of 1900 doctors which includes around 1,200 who are on our rolls.

Moving on to our health insurance business, Max Bupa continues to tread well on its growth trajectory with its GWP growing 77% for the quarter to Rs.71 crore. Net earned premium is up 93% over Q2 2013. Over 162,000 lives covered during the quarter with the overall life covered crossing 580,000, excluding our rural and social obligations. Max Bupa's B2C market share has grown from 8% in Q2 2013 to 11% in Q2 2014 and its market ranking has improved from number ten to number seven. The company's average premium realization rate per life at 5,300 is the highest in the industry. Max Bupa's brand awareness amongst specialist health insurers is again the highest at 73% against some of our other competitors one of which is in the 60% range and the other is in the 40% range. Second season of Max Bupa "Walk for Health" was held on October 20th in Delhi and Mumbai. More than 18,000 people participated across the two cities. Our provider network has expanded to over 2,800 hospitals and likely to reach between 3,500 to 4,000 by the year end. Rs.556 crore capital has been invested till September 30th 2013, in this business. Max India's share is 74% of that. All existing products have been refilled and regularized as per the revised product guidelines of IRDA.

We are very excited with the bancassurance opportunity I talked about earlier, which we believe would be a game changer for this business. As I briefly mentioned, we have already entered into a first bancassurance tie-up with Deutsche Bank. We see considerable commonality in our business philosophies and target market and strongly believe that this will be a mutually beneficial relationship. We have discussions ongoing with a number of other banks and you will see some more traction on this front in the coming quarters.

I will now move on to our specialty films business. So, after three successful challenging quarters, Q1 of this year witnessed a considerable upswing. While the industry hasn't reached its optimum utilization levels, the signs during quarter two have been encouraging and MSFs performance has improved both vis-à-vis Q2 2013 as well as Q1 financial year 2014. Better pricing has enabled at 8% growth in revenues vis-à-vis Q2 2013 and has also helped improve EBITDA margins from 6% to 8%. Contribution margins have been consistently rising over the last few months as borne out by the fact that our contribution of Rs. 25.7 per kilo for September 2013 was the highest in the last twelve months. As a result of these, EBITDA has recorded a 46% rise from Rs.11 crore to Rs.16 crore, while PBT has increased from Rs.1 crore to Rs.5 crore in Q2 2014. Transfer of this business from Max India into a subsidiary is underway and we expect the process to be completed by the end of the financial year.

So, to sum up, Max India is liquid with a comfortable liquidity of Rs. 300 crores and it is adequately capitalized for all its current and foreseen capital needs. We will continue to reward shareholders with our life insurance business now paying regular dividends. We are well placed for growth in both our insurance businesses, given that our product suites and our strategic choices are well aligned with recent regulatory developments. Our healthcare business has exhibited strong traction during this year and we expect it to be a strong growth engine for us over the next couple of years. With that, I will hand it back to the moderator and we will be glad to take your questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from, Amit Ganatra from Religare Invesco Asset Management.

Amit Ganatra: the question is on the life insurance business. In the first half if one basically goes through the periodic disclosures which are filed, the premium growth has largely been driven by non-participating products. Just wanted to understand that which is the product basically which has been the growth driver? Is it the guaranteed or assured return kind of products, which have grown very significantly last six months?

Prashant Tripathy: Actually the growth has come from Unit Linked products as well as non-par product designs. And this has come on the back of an index linked design product that we were selling in the first half, with strong total contribution of close to about 19% over last year's 11%. And even the ULIP, though percentages may look a little lower than last year, but if you were to look at absolute number, the ULIP sale is higher than last year. Those two product designs are the ones which have driven growth. On par, our ratio has moved in the right direction. We actually wanted to be close to about 70%. We have communicated at different times that we want to keep our product mix at somewhere around 65% for par and the balance for non-par and ULIP and we have moved in that direction. This is part of our overall product strategy.

Amit Ganatra: And incremental growth is also being driven by same products or post October is the mix expected to change?

Prashant Tripathy: There will be minor changes in product mix for a brief period of time, what I am telling you is over a long period of time, I think our target will be 60-65% par and the balance will be split between ULIP and non-par.

Amit Ganatra: And since now most of the products post October, just wanted to understand is the inherent profitability as strong as what it was in the previous products for traditional products?

Prashant Tripathy: We have earlier communicated and it has been our consistent communication to the market since we came to know about the new product guidelines that there will be roughly a 200 basis point reduction in our margins due to the changes

Amit Ganatra: Also one question on Max Bupa Health Insurance. You said that capital invested is around Rs. 556 crore, what is the net worth of that company?

Neeraj Basur: The net worth as of now is about Rs. 140 crore. And we are still in an investment phase, we have invested most of the capital that we sourced from the shareholders in our future growth.

Amit Ganatra: *Rs.* 556 crore which is the total amount which has been infused, is the share of investment is the same as ownership? I mean ownership is 74% and investment share is also 74% for Max India?

Mohit Talwar: Yes, it is 74-26.

Moderator: Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

Next question comes from Nishant Chandra from Temasek.

Nishant Chandra: Hi, just one quick question. I saw the commentary for the results of this quarter and the growth have been attributed to strong momentum on the agency side. Just wanted to understand what has been the incremental change on the company's part that has resulted in this growth from a qualitative perspective?

Prashant Tripathy: Basically there is lot of focus that we have put into agency and that has started to bear fruit. We began our program called NWS, which as Mohit mentioned, has been rolled out across 77 of our offices. NWS focuses on two or three different elements. (a) Making sure that the agent behavior and his compensation are linked to discipline and activation and (b) IT enabling the entire process end to end.

And both of them put together are in the program called NWS and as a result for example, if I were to look at the growth of agency channel vis-à-vis exactly the same period last time, we have recorded 19% growth there, which is perhaps one of the highest across all the channels. And the endeavor of the company is to maintain that momentum going forward. You would have noticed that agency as a channel wasn't doing so well for the industry and even for our company. Until last year we had even de-grown in the channel, but very happy to report that growth has come back in the channel and for the first half as well as quite considerably for the quarter we have seen growth in the agency channel.

Nishant Chandra: And in terms of the product that has been seen through the agency channel, is the mix similar to the mix that you are seeing across the company or is the mix at the agency channel level slightly biased towards let's say par or non par?

Prashant Tripathy: It is slightly more biased towards par, I must say that. It will be in the range of about 75% to 80% versus 66% for the Company.

Nishant Chandra: And when you look at the agency channel, is there a broad metric that you track in terms of APE or premiums contributed by agents who have been with the firm for greater than five years or greater than three years, whatever is the right vintage, just to see. I am just using this as a proxy for the magnitude of back poke that the agents would have on hand, more like a retention plan for the agent.

Prashant Tripathy: Yes, you are right in your observation. As agents mature, our observation is that the overall productivity of the agents goes up as well as the ticket size increases. We will measure the productivity and activation ratio across different classes of agents. We will typically measure contribution from the current agents; we call them current class, which is agents included this year. And then there are different tiers first, second, third, fourth and the established class. So, those are different categories in which we continue to monitor the performance of our agents, to see that there is healthy and robust growth across all the different parts.

Nishant Chandra: Understood. And if I may ask one more question, in terms of the cross selling or repeat customers in terms of new policies, of the new policies sold for this year either in terms of premium APE or in terms of the number of policies sold, would you be having the share of existing customers as in people with let's say ULIP or par, who now buy a non-par or vice versa?

Prashant Tripathy: No, I have to come back with the exact numbers. Typically our ability to measure it within third party distribution channel is a bit limited, because the up sell in that context will be across different product categories, beyond life insurance also as you will appreciate. But, we measure that quite closely for agency as of now. Typically close to about 20% of sales comes from the repeat sales.

Nishant Chandra: 20%, okay, understood. And you are measuring in terms of number of policies or premium?

Prashant Tripathy: This is on the basis of premium. And this is on top of mind; I have to come back with the exact numbers.

Moderator: The next question comes from Dinesh Shukla from Sharekhan.

Dinesh Shukla: Firstly, it is relating to life insurance. Now, earlier we were expecting around 10% growth in the premium, now we are growing at 13% and second half will be supposedly better than the first half. So, what kind of growth now we expect from here in the APE?

Prashant Tripathy: So, basically the growth so far for the first six months has been about 12%. However, the growth in second quarter was a bit higher than in the first quarter. The growth for the quarter was about 17%. And we endeavor to maintain or do slightly better than where we are today, that will be the objective towards which we will work. Of course one of the changes which is expected to come through is the change in product regulation. We have to look at the overall impact of that change. Our personal feeling is that, it is not going to have a very deep impact. But, the objective will be to grow plus 10% for the full fiscal year and try to better with respect to where we stand.

Dinesh Shukla: Just one more clarification, regarding the treasury corpus, now as per the presentation the treasury corpus in Q1 was Rs. 430 crore and it is Rs. 340 crore in Q2. So, as per the notes given in the results, about Rs. 18 crore went to Max Bupa and about Rs. 8 crore for Antara. So, what is the difference, remaining difference?

Jatin Khanna: There is another Rs. 60 crore of dividend which has been paid in this quarter. That is the key difference.

Dinesh Shukla: Okay.

Moderator: The next question comes from Amit Ganatra from Religare Invesco Asset Management.

Amit Ganatra: This question is on Max Healthcare. You provided very detailed P&L breakup between existing hospitals and the new hospitals. Just wanted to know if it is also possible to get balance sheet number like capital employed between new and existing hospital?

Jatin Khanna: So, the total capital employed in the business is about Rs. 1,750 crore across both existing and new hospitals, out of which new hospitals will be about Rs. 650 crore.

Amit Ganatra: Okay.

Moderator: Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Next question comes from Shrey Loonker from Reliance Mutual Fund.

Shrey Loonker: You mentioned 80% of the existing product bouquet has been approved under the new product regulation. What percentage of the non-par would have been approved as of now?

Prashant Tripathy: The main driver of non-par which was the GMIP, the equivalent of that is filed and is under consideration by the regulator. The other design for example, we have a return on premium term policy as well as internet sales products, they have been approved. So, I will say of the 19 products that we have filed so far, close to about 15 is approved and balance 4 is under consideration.

Shrey Loonker: But, as an industry has there been, non-par products getting approved in the last few months?

Prashant Tripathy: Yes, we have noticed non-par product designs being approved for some of the significant players.

Shrey Loonker: How would you guide us towards the agency growth in the second half and say over the next two years?

Prashant Tripathy: Basically we are working very hard to have the agency come to its fullest potential. And we are very serious player as far as agency is concerned. There is lot of investment of time, effort and energy and management bandwidth towards making the agency deliver to its full potential. And it will be our endeavor to continue with a double digit growth rate within agency; so, really it is very hard for me, until or unless we have seen the full potential of NWS, which has been rolled only in about 40% offices. So, I will be better placed to give guidance after we roll out to all the offices. At the intent level, we of course would endeavor to grow at a double digit growth rate for the agency.

Shrey Loonker: And the coverage from 40% to 100% will happen in quarter three or it will take much longer than that?

Prashant Tripathy: No, it is going to take about one more year for this to fructify…I mean we have come to 77 offices in about eight months. So, it is a very slow rollout that we have adopted for all the good reasons to make sure that it is people oriented and it gets a traction that it is desired for.

Shrey Loonker: Just on the hospital side, just two questions. Could you just give us the roadmap on the bed addition that we expect to see in the second half or rather a ramp up more so and any other physical additions that we are planning and capital expenditure therein?

Yogesh Sareen: So, we have roughly 1,900 beds, of which we opened only 1,500 beds as at the end of September, so which means that we have more beds to be opened yet in the new hospitals. So, we have 400 more beds available to us. At the same time we are always in the process of adding some beds in the existing hospitals. For example Saket is going to see an addition of 25 beds by the end of this month. So, there are these small things that we are doing. On the M&A side, I don't think I can give any guidance, although we do have lot of talks being going on there. But, there is another opportunity which has opened up with the increase in the FAR. I think you would be all aware that in Delhi the FAR has increased from 2 to 3.75, which means we can roughly add 60% to 70% more beds in the existing hospitals and which can be even up to 800 beds in all the Delhi hospitals. So, I think we are actively engaged with our engineers to see how we really exploit this new regulation. And I think at the opportune time we will come back and tell you what we do.

Mohit Talwar: If I may just supplement what Yogesh has said regarding the expansion part of it. I think it is important for you to realize that this FAR thing which he talked about is really a game changer as far as hospital business is concerned. What this really means is, between our two flagship hospitals, in fact three hospitals, but two flagship hospitals, you can actually create another hospital on the hospital. So, effectively the capital cost for something like that is going to be far lower than if we were to really go and set up a greenfield in a prime most center of Delhi. So, this is really a game changer and we are working towards obviously making this happen. In addition, what one can kind of tell you is that there are several proposals which kind of come to us. These are in the areas of M&A, some Brownfield, Greenfield, asset lite, all of these get evaluated. And as far as we are concerned, obviously we see this particular sector seeing a massive growth in the forthcoming years and we would like to be well positioned to capitalize on that. As far as funding of all these things are concerned, there is adequate liquidity available, both at the top co. as well as at the subsidiary in terms of its own equity raising capability as well as the debt raising capability. So, capital would not really be an issue. It is just that we have to kind of calibrate this growth. And so over the next three to five years, we obviously expect a significant growth agenda for Max Healthcare.

Shrey Loonker: That's helpful. This 400 beds ramp up that we are expecting in the new hospital, that is likely to come up in the second half itself or it takes much longer than that?

Yogesh Sareen: Yes, I would say part of it would be in second half, but one or two hospitals wherein probably in H1 of the next year.

Shrey Loonker: Would that alter the margins profile significantly?

Yogesh Sareen: It would. Yes, I would say quite a bit, because beyond a level of occupancy, then most of the gross margins start to flow into EBITDA, given our model of hiring doctors on the fulltime basis. So, I would say yes, it will significantly alter the margins.

Mohit Talwar: The economies of scale would really kick in. So, you are going to see a significant improvement going forward in gross margins & EBITDA margins.

Shrey Loonker: And the FAR bit that you mentioned, are we already thinking along those lines and have we laid out a capital expenditure plan for that, where we take advantage of this situation and augment the capacity?

Mohit Talwar: Yes. I think there is not much to think about it. It is really a low hanging fruit which we should do. We are in active dialogue with our joint venture partner in terms of how we can calibrate this whole capital expenditure. We have already held two discussions with them. There is the third one happening at the end of this month. So yes, we are extremely serious about this. And maybe there will be more disclosure once we calibrate the expansion programs, we will let you guys know about it.

Shrey Loonker: That is very helpful Mohit. And just one more thing, when we are looking at the hospital numbers, is there any seasonality which we should bear in mind, which can alter the trend line or is there any seasonality that is there?

Yogesh Sareen: I would say on an overall basis there would be seasonality in terms of dengue season and our cardiac footfalls. But, I would say that will not really alter the top line too much. So, it is not something which is very significant, because something goes up, something comes down. So, I would say although there will be seasons within the hospital in terms of specialties, but on an overall basis I don't think there is any discernible revenue thing that we can see.

Mohit Talwar: Whilst there would be seasonality, it is consistently you can assume it is the same in the previous year or the year before that. So, all of that would really get captured in terms of your quarterly results or half yearly results.

Shrey Loonker: Right. Essentially Mohit, the FAR thing and the two flagship hospitals where we can literally double our capacity that would roughly mean what, another 500 odd beds?

Mohit Talwar: Yes, I would imagine it would be somewhere in that region.

Yogesh Sareen: Around 600 beds.

Shrey Loonker: And on the Antara side, Mohit if you can just make us understand what is the utilization level and how is the debt ramp up, if it has seen any debt ramp up?

Shrey Loonker: The capital infused thus far and the roadmap therein and the debt capitalization ramp up.

Mohit Talwar: So, you know that this is now under the Max umbrella. So, in terms of our first maiden community, which is coming up in Dehradun, I am happy to announce that pre-sales have already kicked in and we have got bookings, shall I say somewhere in the double digits before even the ground has been dug. So, there is immense interest in what is coming up there. And there is really absolutely no doubt in terms of the need of the hour of having something as a senior living facility for a country such as India, having said that Max has already infused about Rs. 140 crore. We have recently tied up the debt component of that, which is close to about Rs. 160 odd crore. So, if you were to add that and plus the pre-sales, the total project cost for our first community would be in the region of about close to Rs. 500 crore. Does that answer your question?

Shrey Loonker: Yes, that is very helpful. But, of this Rs. 160 crore of debt hasn't come in yet?

Mohit Talwar: It is not yet come in. We have just finalized the deal a couple of days ago.

Shrey Loonker: Okay and how many such communities that we can add within the land bank of Dehradun?

Mohit Talwar: No, within the land bank of Dehradun, it is going to be this one big community, which is going to house around 220 units. It might have its own health centre. And so that will be one project in itself. So, the next one as and when it comes up will be in another jurisdiction. But, at this point in time, we obviously want to get this concept right, we want to make a success and really focus in terms of execution. This will get operationalized in 2015. Hopefully, by then all the units would have been sold out.

Shrey Loonker: That is very helpful. And all the approvals as you mentioned are in place?

Mohit Talwar: All approvals are in place. And the way the financial modeling for our first community is that we will be getting into a cash neutral situation at the end of year three. So, it is really contrary to the belief of most people that this is again one of those long gestation kind of businesses. We don't believe it is, because we have already seen the signs of the pre-sales kicking in before even there is any civil work which has commenced in Dehradun. Keen demand, very, very encouraging demand for something like this and we have not even actively targeted the NRI segment that in itself is a huge piece. All these pre-sales which I am talking about, these have all come from Indians.

Shrey Loonker: Very helpful. And just the last question on BUPA. What will be the peak capital requirement, any ballpark range that you can help us with, given the new opportunity on the bancassurance side?

Mohit Talwar: Yes. So, I think in my earlier calls I had kind of mentioned several times that our peak capital requirement was going to be Rs. 680 crore. Now, with this window of opportunity having opened up in terms of the Banca, I would anticipate that there will be some amount of incremental capital which will be deployed, because obviously we are not going to let go of this particular opportunity here. So all in all, this Rs. 680 crore would probably see a number close to about 850 or so, depending on how many bancassurance tie-ups you can do. We started with Deutsche Bank. We are in active dialogue with another three or four. And let's see how it goes, but these are, this will be great for the business in terms of the scale up as well as variabalisation of the cost.

Shrey Loonker: Okay, that is very helpful.

Moderator: The next question comes from Nishant Chandra from Temasek.

Nishant Chandra: Just a couple of questions relating to the life insurance business. Would you be able to provide some sort of a number on the share of online channel that you have got in this business?

Prashant Tripathy: Just to quickly let you know, online channel for us is going to start in next few days actually, so, so far none.

Nishant Chandra: Okay, got it. And in terms of the competitive intensity that you have seen in the business first six months, just wanted to get a sense of that?

Prashant Tripathy: Intensity is pretty high I will say, because of the drag that we have seen in the industry and everybody is trying is very hard. But, I think two or three big trends that I have noticed is, (a) I think the overall market share has started to polarize and I am seeing that top players are actually gaining market share and some of the people at a lower levels at the base are losing market share. So, market share is polarized, number one. And number two, I think because of the changes from the regulator and as well as within the industry, we will notice some of the products related shifts that industry will have to make. And only time will tell which way it will evolve; but mostly sales that will evolve will be sales of higher premium paying tenors of all the products as well as some shift from the non-PAR designs to maybe unit linked or par designs.

Nishant Chandra: In terms of the regulatory action, obviously there has been some development on the non-par side and that is sort of forcing most of the players to move towards PAR. And your product share is largely skewed towards par. Is that sort of impacting you significantly, because contrary to that you have actually grown over this quarter and with a significantly good flip, just wanted to get your thoughts on how you are interpreting these two seemingly contractions?

Prashant Tripathy: Basically in the first half we were about 19% on the non-par segment and last year for example that was about 14% to 15%. So, you are right in your observation that we don't have pre-dependence on non-par designs and from that perspective I am hoping that the overall implication or impact of the change onto us in terms of our ability to generate new sales will be limited. However, as I mentioned earlier, of course there are implications in terms of the overall margin, because of the change in regulations that will be in the range of about 200 to 250 bp reduction

Mohit Talwar: I think if I may just add to what Prashant is saying, there is a particular space in the product category which has really been vacated and that is on the highest NAV guarantees and that is the space, which we were the only company that chose not sell that product. And so now that is discontinued from October I think. And from what I believe, more than about 20%-25% of the market actually comprises of that particular product. So, it really throws up, I feel, an opportunity in terms of enhancement in our market share going forward.

Nishant Chandra: The thing that I was concerned about was, whether that will result in everyone focusing on let's say par now, given that sort of relatively untouched from a regulatory standpoint.

Prashant Tripathy: No, your observation Nishant is not correct. Actually the largest number of changes which has come in this product guideline is around par. So, par is perhaps the most impacted product design. And almost all the par products from Life Insurance Corporation as well as all the private players have been re-filed and reapproved. So, this product guideline change has had implications on almost all the designs. So, par is not left from there, number one. And number two, I think for all the other players, of course they will look for opportunities to grow and move away from heavy dependent product design to other product designs. So, from our perspective I think we will pretty much like to maintain the kind of product mix that we have had so far. So, we will have almost a replacement strategy rather than moving from one product design to another product design.

Mohit Talwar: But, there is also another aspect. Insurers can actually change the strategy and move towards par, the question really is that how robust an agency force is available as far as our competitors are concerned. The answer probably lies in the fact that maybe some of them need to kind of develop that, whereas in our case we have maintained our gold standard right from the inception, from the time we actually incorporated the company. And so we have always been in a bit of an advantageous position, whether it was when the first ULIP regime changed and price controls came in, strategic changes were made to product portfolios and through all of that we were well ahead of the curve. And here again, even today, I am happy to state that the state of readiness as far as Max Life is concerned, it is kind of unparalleled and there isn't another insurance company which is anywhere close to being in a state of readiness as we are. So, I think we are well positioned to actually capture this growth, which we are seeing coming back into the sector.

Prashant Tripathy: That is a valid point Mohit.

Nishant Chandra: Just in terms of margin changes, you said that because these product design related changes there would a negative that is on the margin side. Just in terms of the let's say on a blue sky scenario, what are the situations where you see the margin sort of trending back up, what do you see as the drivers for that?

Prashant Tripathy: There are two or three areas, I think the replacing designs of non-par and then we have replaced the index linked design with a guaranteed design, so that will be one. I think the business is going to work really hard on the levers that need to be focused on including have higher share of protection, which means really work hard on the internet channel, as well as the overall percentage of term in our overall books, that is the second one. And number three; I think there is a way available in terms of balancing out the product mix by channel, hence creating opportunity to lift the overall margin for the company. So, those three are the levers that can uplift margins.

Nishant Chandra: And while in the point of margins, just one fundamental question, par conceptually is a very capital lite product. So consequently the margins may also be lower on par. And hence is NBAP margin the best metric possible or is there an alternate metric that sort of equalizes the product differently?

Prashant Tripathy: Depends Nishant, at what life stage are you looking at it. For example, in the initial stage, when you are setting up the par fund, the entire capital has to be funded by the shareholder and that is when most of the capital kicks in. But, once the par fund becomes surplus, then there is no additional capital requirement. And to a great extent your return could be infinite, because you get one-tenth of the profit share without contributing any kind of capital. So, the way we measure rather than going too much in the return measures in terms of IRR etc. and we continue to measure ourselves in terms margin. So, we will look at a weighted average return rather than product return.

Nishant Chandra: And in terms of your second point on higher share of protection in your products, is there a special that you need entering a specific type of reinsurance back of that would sort of enable you to offer certain types of products more than others, I am just trying to see what….?

Prashant Tripathy: I told you there will be play in terms of insurance, because insurance services are always available. I think it is about focusing on that particular segment which in our mind is still under penetrated. So, while in terms of number of policies, the coverage has increased over the last few years. In terms of total sum assured, I think we are still one of the lowest as far as some of the developing economies are concerned. So, that is where perhaps the opportunity is, it will depend on creating distribution channels and right products and then aggressively sell it.

Nishant Chandra: And in terms of the agency that is basically the primary channel to push seemingly hard to sell products is what we understand. And I am just trying to see what are the incremental products are…is it going to be riders that will sort of add layers to the profitability of a channel?

Prashant Tripathy: You are absolutely right. I think improving the overall penetration of protection, number one. Number two, of course riders and improving the penetration and conversion of riders to improve the product design as well as looking at selling something which is more long tenure, long term policy and that is where agency has been extremely successful vis-à-vis all the other channels. Those three, will go a long way in terms of driving the overall margin of the company. One point that perhaps I need to highlight is, we will definitely work on improving the overall persistency as it has a strong linkage to the overall margin. Though we are one of the best in the industry and endeavor will be to lift the game even further.

Nishant Chandra: Understood. Just a couple of housekeeping questions. Just wanted to understand the shareholding in the healthcare business now with the conversion of IFCs?

Jatin Khanna: Yes, Max Healthcare shareholding is now 65.86%.

Nishant Chandra: So, it is 26, 7½ and?

Jatin Khanna: 65.86.

Nishant Chandra: And on the loan, the split of the loan books, I am just trying to understand the amount that is attributable to the healthcare business and the plastics business?

Jatin Khanna: The amount which is attributable to the healthcare business, as we operate like a network, our network level outstanding loans are about Rs. 670 crore and then in addition to that as of 30th September, there is also a preference share liability of about Rs. 240 crore. Of this about Rs. 115 crore has been converted into equity, but that transaction has happened in early October and not as on 30th September. As well as there is another Rs. 42 crore which we received from Life Healthcare, this has been used to run down loans. So, that is on the hospital side. Additionally, the debt at plastics business is about Rs. 160 crore.

Nishant Chandra: And the healthcare debt that you have specified here, the Rs. 670 crore number includes those trust obligations as well?

Jatin Khanna: Yes.

Moderator: The next question comes from Sudhakar Prabhu from Span Capital.

Sudhakar Prabhu: I also had a question on your healthcare business. If I look at your occupancy, inpatient occupancy is around 80% and EBITDA is around 12%. So, my question is till where can you push the occupancy to and what would be the sustainable level for EBITDA?

Yogesh Sareen: So, I just mentioned that this occupancy is on the beds which we have opened.

Sudhakar Prabhu: This is I am talking about the existing hospitals, the old ones.

Yogesh Sareen: So, even in the existing hospitals I mentioned that one, we are always trying to add beds. Now we added 20% more beds in Noida and we are adding 5 more beds here and there. So, that is one which is on the bed side. But, I would say we should comfortably be able to run the network at around 85% to 90% capacity utilization on occupancy side. So, that is what we generally consider when we have to the peak capacity utilization kind of model.

Sudhakar Prabhu: So, you are saying 85% capacity utilization.

Yogesh Sareen: 85% to 90% utilization is possible in network, but at the same time, our endeavour is always to keep changing the mix. We changed for example…even in quarter two, we have changed the mix of surgical to medical by 2%, so the endeavour is always to grow it. So, today we have 62% surgical to 38% medical mix. As we improve the surgical mix, you tend to get higher ARR and you also tend to work out ALOS and be able to use the beds more effectively.

Jatin Khanna: Also what you have to notice is that in this quarter we had particularly the outbreak of dengue, which is pushing up occupancy which necessarily do not add to the EBITDA. As you move away from that, therefore there is more headroom available on the occupancy side from an optimization standpoint plus obviously there is the mix change and other things which Yogesh spoke of.

Sudhakar Prabhu: My second question would be on the outstanding, IFCs outstanding preference capital. What will be their stake if the entire thing, preference capital gets converted into equity, what would Max hold in the healthcare business?

Jatin Khanna: So, they had an option to convert only up to 7½%, beyond that they cannot convert. Now, our endeavor would be to at some stage, because we have our joint venture partner who has the right to have an equal shareholding, so whenever we walk that journey, then we will use part of those proceeds to run down the balance preference shares.

Mohit Talwar: But, having said that, I think if at some stage, IFC comes and says they want to go from 7½% to say 9% and if we are desirable of doing it, it all depends on what the valuation at that point in time is going to be. So, it won't be done at the price that has happened currently, which was at Rs.50.

Sudhakar Prabhu: Essentially what I wanted to know is, what is the stake which Max comfortable holding in the healthcare company, would it be 51% or less than 51%, what is the stake?

Mohit Talwar: I think all I can tell you at this stage is that Max would like to be in a situation of running this business and the second thing is would not like to have a stake which is at a minority.

Sudhakar Prabhu: And lastly my question is again on the insurance business, if we take a slightly longer term, three to five years, do you think 15%-20% growth is possible, next three to five years?

Prashant Tripathy: Absolutely, that will be our endeavor. Of course we will target something like 15% or 15 plus percent over next three to five years.

Sudhakar Prabhu: Thank you and all the best.

Moderator: Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

There are no further questions. Now, I hand over the floor to Mr. Mohit Talwar for closing comments.

Mohit Talwar: Thank you all for being on this earnings call. And I really appreciate you taking time off to be here. I just hope that we have been in a position to address all your queries. These transcripts would be available. If there are any additional queries anyone has, please email us, write to us and we will definitely address them. And I look forward to more interaction going forward. Thank you very much all.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good evening everyone.