Max Financial Services Limited

Q2 & H1-FY19 Earnings Conference Call Transcript
November 14, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to Max Financial Services Limited Q2 and H1 FY '19 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 would now like to hand over the conference to Mr. Mohit Talwar, Managing Director. Thank you and over to you, Mr. Talwar.

Mohit Talwar Thank you. Good Afternoon everybody, Welcome to this call. Let me introduce my colleagues, I have with me Mr. Prashant Tripathy, he is now the Managing Director and CEO designate. I also am joined by Mr. V. Viswanand who is the Deputy Managing Director designate. There is Ms. Sujatha Ratnam, the CFO for Max Financial Services and Mr. Jatin Khanna who handles the Investor Relations business. We start with key highlights for H1 FY19 and then I will update on the strategic priorities which have been outlined as per our last calls.

Max Financial had a revenue growth of 19% achieving Rs.7,168 crore, consolidated PBT for Q2FY19 was at Rs.129 crore up 6% year-on-year; however, due to a one-off expense relating to the IDBI-Federal acquisition which we had bid for, there was a certain amount of payment which had to be made to the underwriting bank, so that was an expense which we took in the first quarter, so the H1 PBT is therefore down by 14% to Rs.180 crore. Moving onto Max Life performance, the MCEV on an operating basis has grown at 18.5% is up 170 basis points year-on-year to Rs.7,752 crore. Structural NBM's pre-cost overrun expands by 260 basis points with 22.9% and actual NBM which is post cost overrun expands by 230 basis points to 20.4%. Value of new business post-overrun has grown by 42% to Rs.290 crore. Max Life's individual APE has grown at a strong 26% to Rs.1,405 crore with a bias towards traditional and protection products. Investment in proprietary channels led to a 33% growth in H1 contributing 35% of sales exceeding the Banca growth of 21%. This has been in line with our aspirations to increase the proprietary share to about 35% to 40% by FY21. To this effect, there is an arrangement which we have entered into and this is strategic knowledge partnership with New York Life and with some of the ex New York Life leaders who actually were heading Agency, Digital and Training and this is an arrangement which is going to further enhance the focus on our proprietary channel.

We will be leveraging best practices in the agency distribution channel via co-branded selling tools like training manuals and digital literature. To start with, this is a one-year arrangement and then we see how this kind of pans out. Considering our strong focus on digital, the e-commerce channel has grown almost 158%. Protection sales including individual and group grew 63% year-on-year resulting in improvement in protection mix from 10% in H1 '18 to 13% in H1 FY'19. Individual protection mix improved from 5% to 7%. Group protection mix improved from 6% to 7% and gross written premium grew a strong 17% to Rs. 5,619 crore. On renewal premium, there is a 15% growth to Rs. 3,711 crore led by a record improvement in conservation ratio to 91%, one of the highest in the industry. Expense ratio and conservation and persistency all continue to show a healthy year-on-year improvement. Claim settlement ratio at 96.1% is best-in-class. Asset under management as of September '18 stood at Rs. 56,070 crore, that is a growth of 17%. Max Life has also been recognized amongst India's best companies to work for in 2018, number one in life insurance and top 15 in the BFSI space, and it is amongst the top 50 companies in India.

Now, I will briefly update on the progress towards the strategic priorities. We have started investments in proprietary channels to build robust multi-distribution architecture. We plan to add 36,000 new agents every year over the next three years and increase our agency offices from 205 to 350 over the next 12 to 18 months. To this effect, we have already opened 79 new offices this year and added around 8000 agents. We aspire to grow these channels by around 35% CAGR over the next three years to get a more balanced channel mix and get 35% to 40% contribution from our proprietary channels. Max Life agency is one of the few agency channels that delivers positive margins and the profitability of the proprietary channels is now similar to the 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 also 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 a bias towards protection segments, which you would have noticed in our product mix as well. In summary, Max Financial Services is on a course to drive strong shareholder outcomes via its new strategic plan. With significant investment in proprietary channel, sustained improvement in cost ratios, and improvement in protection mix, we are progressing our aspirations of 25:25:25 target on EV, VNB and growth over the next three years. With that, I will hand it back to the moderator and open the floor for question and answers, please. Thank you.

Moderator Thank you very much. We take the first question from the line of Avinash Singh from SBICAP Securities. Please go ahead.

Avinash Singh Good Afternoon, good set of numbers, few questions, first one on Max Life PBT growth, the growth looks good and particularly if we look in the backdrop of a strong protection growth and also a strong ULIP growth, the product typically have a higher new business strain, what is explaining this PBT growth because I mean if you are growing strongly in protection and ULIP, I know that you are coming from a relatively lower base of last year, but some color around accounting profit or profit before tax growth at Max Life? Second question is why is it that on a relative basis our non-Axis bank channel is growing slowly whereas I mean in the non-Axis channel we have the Banks who are sort of trying to do more on the retail side, so one would expect the growth to be stronger instead of being slower? Thirdly, if you can just highlight, what kind of partnership you had with New York life, who are these people and if it will be costing you significant amount and what kind of arrangement, is it a consultant arrangement or those people will be working on your payroll?

Prashant Tripathy Thank you very much, really appreciate your questions, let me go one by one and answer. The PBT growth of course looks good, through the year we have seen good growth basically being driven by few organic items and also one-off items, I think organic items have been good gains on investment income plus you know the interest rates have remained quite strong so that yields more returns especially on shareholders side, . We had a one-off item of about Rs.50 crore that came to our books because of realignment of reserves that we had done, which we should consider not repeatable. However, despite all the investments that we are making in our own channels as well as higher mix of protection and because of efforts around better investment yields and managing the expenses better, you would see expense ratio improving, there is a positive rub off to the PBT numbers for Max Life Insurance.

On your second question on non-Axis and why the growth is a bit slower, your observation is correct. Overall, we have seen maybe a single digit kind of a growth number on the non-Axis. This comes because of two or three banks, Yes Bank, Lakshmi Vilas Bank, and a set of Urban Cooperative Banks that we work with and we have observed that growth from these channels though are picking up, have been slower than the growth from Axis Bank. We expect them to recover significantly in the second half of the year. Lot many times, it is also to do with bank's own seasonality, historically Yes Bank has a far higher a level of sales in the second half of the year as against first half.

On your last question, on arrangements with New York Life you would recall that we had disclosed to you that for growth of our own channels, carving out money and investments were being planned, so this particular arrangement is a part of that investment. As highlighted, we are looking at people from New York Life to come and work with us, it is a relationship/consulting project. People that we are going to get have been the top performers in the agency world of New York Life. The head of agency, people who have had very significant experience working on agency training as well as people who have worked on products and the reason why we thought it will be appropriate is because of the big bet that we are placing on growing our own channels. As we highlighted to you, we are opening large set of offices and when you open agency offices, it becomes very important to bring those offices to speed quickly and we believe that with additional support as well as the tailwind that we have seen in the growth that you have seen, we will be able to do faster and hence we have decided to make that investment, so I personally feel pretty good about it, it is a strategic channel and it is our chosen strategy to make investments and this is part of that investment. It is by the way going to be a part of the total investment bucket, that we had disclosed to you, of a little over Rs.100 crore..

Avinash Singh Just a quick, the Rs.50 crore you said that one-off gain kind of reserve release, from which product or which sort of a book it is coming?

Prashant Tripathy This happened on the non-PAR book, we actually reviewed the level of reserves and we kind of aligned it to what we needed. This is actually one-off correction that we made, this is non repeatable.

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

Nischint Chawathe Just couple of questions, now one is if I kind of look at your effective unwinding rate and that seems to have gone down a little bit between the second half of the year and the first half of the year, so how should one be thinking about it**?** Essentially, the calculated rate is working out to around 9.2 versus 9.8 or so in the second half of the year?

Prashant Tripathy I mean some of those things could be a possibility depending on the underlying assets, so that typically is the reason.

The unwind primarily comes from what was there when you started your EV, so during March '18 what were the interest rates and how will it unwind, so this is a minor fluctuation if you see on an annualized basis, the 9.7 number at the year end is now 9.5 on an annualized basis which is constituted by the interest rate assumption in the starting EV and now how it has unwound over the half-year. Over the full year, this number could be very much similar to what it was for the full last year.

Nischint Chawathe Because ideally I would have expected the number to actually go up, so I guess the swing is not as much but directionally I would have actually expected this number to be higher this year versus last year?

Prashant Tripathy The unwind is actually dependent on the start of the period interest rate, so I understand unwind happening over the years with interest rates going up, which would be reflected, but this is what was the interest rate when you started your EV at, so that is why it will be dependent on the interest rate at the beginning of the period, but on the full-year basis as the interest rates continue to go up and they stay at this level, the unwind should come back to the original level.

Nischint Chawathe If you could give a breakup of operating variance?

Prashant Tripathy We have an operating variance of Rs.42 crore. I think large part of operating variance actually comes out of demographic variance. The experience variance on account of mortality is upwards of Rs.10 crore, we have persistency assumption changes basis the current persistency trends of about Rs.22 crore, some other minor pluses and minuses, but those are the large ones. We have reviewed our maintenance expenses and have done a re-baseline basis the current maintenance experience and that has given us an upside of Rs.13 crore, so basically if you look at the reason for operating variances 3 large ones are mortality, persistency and maintenance expenses being better.

Nischint Chawathe Sure, so basically you said mortality was Rs.10 crore, persistency Rs.22, and expenses Rs.13?

Prashant Tripathy Yes, there are many minor items, but I am not getting into details and all that.

Nischint Chawathe If you could give us some thumb rule in terms of what you are really building in persistency versus where you are currently?

Prashant Tripathy We always build persistency which is the latest assumption, so there is nothing futuristic, you would have noticed through our presentation that the persistency numbers have improved. Of course, there is more science to it because we look at different product categories and depending on whether it is non-PAR, ULIP, or PAR, it has different implication on the operating ROEV, but suffices to say that there has been improvement in persistency which has been reflected appropriately, but it is nothing futuristic, it is all on the basis of what has been achieved.

Nischint Chawathe If you could give some guidance on the dividend that you would pay out for this year?

Jatin Khanna Typically, Max Life pays out about 100% of profit as dividend. As you know, there are obligations to buy out 1% stake from Axis Bank as and when it falls due, so because of which we have been conserving dividend at this stage, so we will reasses at the close of the year and then take a call on whether Max Financial can pay some dividend, but at this stage we have not paid any dividend because Axis Bank put option is due very soon.

Prashant Tripathy We expect it to be consistent, from Life Insurance industry perspective, plus the policy which we have followed which is giving full dividend or whatever is the profit as dividend because our solvency ratios continue to be around 250% or upwards, so we will continue with that until the solvency comes close to 180%, so until then we will follow 100% dividend policy.

Nischint Chawathe And the way you are growing the protection business, you would expect this 180 to come in like?

Prashant Tripathy In a year-and-a-half time.

Nischint Chawathe So for the next year-and-a-half you should be comfortable with 100% kind of a payout?

Prashant Tripathy Yes, plus we have some undeclared profits also sitting in our book, so at times we do review depending on the cash flow needs.

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

Neeraj Toshniwal Sir, I just wanted to understand follow up question on solvency, so when we are likely to raise capital, I mean 180%, you are saying in one-and-a-half years will be what you are looking at?

Prashant Tripathy So, actually we are not planning to raise any capital in the near future even if we were to raise it will be a minor need because we are a profit-making company so the way solvency will get managed will be by declaring less dividend and keeping a bit more capital within the business, there is no big need for raising capital.

Neeraj Toshniwal On the Axis partnership I think on the Amitabh Chaudhry would be joining soon Axis and so what are the key pointers we are taking, I mean how we bring about it, anything in plan, strategy?

Mohit Talwar Let him join first, I am not sure if this is going to be the first item which he will take up when he joins, but as far as our plans are concerned it is topmost on our agenda that as soon as we can, we will be meeting him to engage in a dialogue for a more deeper strategic partnership than we currently have.

Neeraj Toshniwal I think you had mentioned a PBT at this current level of the interest you are looking at the VNB closing at 21%, so will there be positive surprises because interest rates are inching up, which is I think beneficial for your product mix?

Prashant Tripathy Basically, the margin is driven by several parameters, interest rate being just one of them and not very big. I think the driver of margin is product mix on which Mohit highlighted were we are doing a good job and also you would have noticed that Life Insurance business is quite seasonal in nature, the first half sales generally is only 40% and about 60% or 65% volumes comes in the second half. Expenses of the company or Life Insurance business are not that seasonal, they are more fixed in nature and hence typically in the second half you will see an upliftment of margin that can happen because of lower cost overruns. When we finish the year, currently you see a delta between 22.9 to 20.4, this is from structural to current cost, that delta we expect to have less than 1%, so anyway you will see margin upliftment in the level of 20.4 to upwards of 21%.

Moderator Thank you. The next question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.

Ashish Kacholia Sir, I have a basic question I do not know whether it is explained elsewhere, but I want to understand, what is the value of the equity that we are giving to Axis Bank every year in lieu of the business that we are doing with them?

Jatin Khanna It is not like a value question, last time what we had done was for a five-year relationship we had given them about 5% equity, so you could assume that it is 1% per year if you were to generalize it, but there is no connection per se between performance and the equity which we have given. It is more because you know they are strategic partner for us, which is why this is given.

Ashish Kacholia So the equity is already issued out to them?

Prashant Tripathy Yes, it has been transferred.

Ashish Kacholia They already hold the equity or this is like equity issued every year on an ongoing basis?

Prashant Tripathy No, it is already done. When we negotiated in 2015-16, we gave them 5% equity,for a contract that goes until September ’21.

Ashish Kacholia Since we are buying back the equity from them every year, we are buying back about Rs.200 crore worth of equity every year, in the ROEV calculation, this Rs.200 crore is subtracted, this ROEV number of 18.5% what we have reported?

Prashant Tripathy I think you could debate from both side, however, you must understand that it is really into principle of appropriately sharing value with a very important partner, so we do not make any adjustment in the report, because this is something which is already taken on-board. The further buyback actually happens at the fair market value ascertain through a DCF methodology, so you can see it from as a dilution that the shareholders had to take when the equity was transferred, but after that there is no impact on the companies mentioned.

Moderator Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati Sir, my question is on the standalone financials that we see in the press release, there is an item called loss on fair value change on derivative financial instruments of around Rs.37 crore and in the footnote it talks about an option with Axis Bank and Sumitomo, can you just throw some light on this?

Sujatha Ratnam We had entered into an agreement with Axis wherein we had said that, we would be buying back about 20% every year spread over next five years at FMV. Now, Ind-AS has come into the picture in the current financial year and that makes it crystal clear that you need to fair value all these options and the Rs.30 crore that you see, it is linked to the market price. Right now, it is in expense because the price is such, tomorrow if the price were to go up, this can also become an income. Please treat this something like below the line item because you cannot be sure right now whether it is going to be an expense or income over the tenure and in any case over the five-year period after which only four-years remain, this is likely to be nullified.

Moderator Thank you. We will take the next question from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf Just one small question on, what is our exposure to ILFS and what is the status of that exposure if any?

Prashant Tripathy We had a total exposure of Rs.40 crore in ILFS, about Rs.30 crore of them were through ULIP and the balance in other policyholders, because of the downgrade, please remember that they have not missed any coupon to us but because of the downgrade, we follow the guidance to take an impairment of 25%, so the current value of asset in our book is also about Rs.30 crore. We are working to review the revival. We are very hopeful that there will be something positive that will come, but suffices to say that our exposure is not very large considering our total investment is Rs.56,000 crore, our exposure is not very large in ILFS.

Moderator Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra Sir, you mentioned something on 25:25:25 by 21, I am not able to get what is that thing?

Prashant Tripathy Actually FY 21-22, so in the year 21-22 we should by then be looking at annualized growth rate, CAGR, of new sales growth of about 25%. We hope to increase our margins which we are expecting by the year-end to be around 21% to go to 25% and as a result of this growth as well as margins, we hope, at least through our projections, that our return on embedded value should also become 25%, so 25:25:25 is 25% sales growth, 25% margin, and 25% ROEV to be achieved in three years' time. We believe that this is very comprehensive financially measured to reflect the strength of the company and that is what we are after.

Sneha Ganatra So this would be achieved more on the protection policies or how it would be?

Prashant Tripathy The growth actually, let me spend time to talk to you about growth as well as protection. The growth of 25% we anticipate to happen because of our investment in the new channel, growing agency offices, that should give a kicker to our growth rate. By the way, last two years our growth has been in the range of about 24%, 25%, so it is not something unachievable, it is on the basis of something that we have achieved in last six years. The growth in margin happens because of higher protection as well as because of leverage of size or scale, so about 60% to 70% growth in margin should happen because of protection and about 30% to 40% should happen out of the leverage that we get or the operational efficiency that we get because of the scale, that should take our margin to about 25%, because we are constantly paying dividends and hence our EV is, at a net level, not growing very rapidly, we expect that our return on embedded value because of these two parameters will also lead to about 25% because of those two factors.

Moderator Thank you. The next question is from the line of Nakul Gupta from CLSA. Please go ahead.

Nakul Gupta Just a quick question, can you give us an idea of the share of credit protect in total group protection?

Prashant Tripathy The share of credit protect as a percentage of total group is absolute 1%, so of the numbers that you see of about 6%, of that about 1% is credit protect, the balance is employer-employee protect.

Moderator Thank you. The next question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.

Ashish Kacholia Given the size of our investment book of Rs.50,000 crore plus, do we as investors need to be worried about significant exposure to the real estate industry, NBFCs, all the industries which are currently kind of giving NPA heartaches to people?

Prashant Tripathy We would like to give the comfort that we have been very conservative and as a result of that, there is a very strong mechanism to keep a close eye on the investments. Suffices to say that our exposure in real estate kind of NBFCs is negligible, really close to zero, nothing that we cannot manage, so that is really a result of very strong risk management in the area of investment management and we are monitoring that very, very closely so nothing to worry about. All the papers that we have been in are very well AAA category, also our investment predominantly is in the space where there is Government presence or Government based enterprises, so as an existing CFO as well as somebody who is getting in to the role of CEO I can tell you that, we are quite protected.

Ashish Kacholia When you say Government related kind of entities?

Prashant Tripathy Power finance, those kind of entities.

Ashish Kacholia Okay, so REC, PFC that kind of stuff is it?

Prashant Tripathy Yes.

Ashish Kacholia Is there an implicit guarantee kind of a situation here or is it explicit guarantee?

Prashant Tripathy Generally, you know you could argue saying the Government backed companies have implicit guarantee of the Government, but historically there is no track record of somebody really going **belly-up** without Government intervening and helping.

Moderator Thank you. The next question is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf Sir, one small clarification on the 25:25:25 strategy that we are pursuing, so in terms of getting to the 25% VNB margin, are we also looking at some kind of share of protection because as you said the 60% to 70% of this margin expansion will be driven by protection, any number that we are working with in terms of and what will be the breakdown between different kind of products whether it will be individual term or group credit life and the employer-employee?

Prashant Tripathy It is our chosen strategy to operate more and drive protection through individual business as against credit protect business, we repeated that many times in the call, so the focus is going to be on individual business like you see we are a little over 7%, we are hoping that by the time we finish the year we will be closer to 6%. We are hoping that in three years' time that number should be closer to 9%, every year grow by 1%. If we were to do that I think it will be easier for us hopefully to achieve that 25% because equally we are looking at a growth of 25% and then revenue or new sales grow by 25%, expenses grow at the organic rate, there is typically a leverage kicker that the margins get and combination of higher protection and leverage should take us from 21% to 25%.

Moderator Thank you. The next question is from the line of Prakhar Agarwal from Edelweiss. Please go ahead.

Prakhar Agarwal Sir, can you run me through what are the sort of OPEX that we probably envisage for this investment in proprietary channels and till date what is the sort of investment that we have already made?

Prashant Tripathy We have carved out close to about Rs.120 crore to open 145 offices across and this is not an investment - investment, this is more like an additional expense that gets billed because we have to have more offices, more people, more fire power to **hire agents** so it is an augmentation of the distribution capability. As we stand half the year, we should be done with close to 40% of expenses on what we had planned and by the time we finish the year, we will have a good view on what has been the expense levels. Also we would like to give you the comfort that many of these models that we are trying are quite effective in terms of the cost ratio or the total OPEX and CAPEX, it requires, because of which you would have noticed that two things have happened, A, our expense ratios have improved actually versus last year. One would expect that when you are making such investments, the expense ratio will go worse, has not happened to us, we have improved, and B, you would have seen our margins improved. Again, if you are making such a large expense, you will expect the margins to go down, but you have seen our margins, net of overrun margins to go up by 230 basis points, so while we are making the investment, these investments are very judiciously injected in the business, we make sure that there is no looking back on the financial outcome.

Prakhar Agarwal This knowledge partnership that we have with New York, this expense is also included in this Rs.120 crore?

Prashant Tripathy Yes.

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

Nischint Chawathe Just two points, one was Prashant if you could give any comments that you would have on the draft product regulations and how should we think about Max in that context?

Prashant Tripathy We just spent lot of time as management team reviewing that, I think if you had to assess, the good thing is we had series of discussions and many people would ask us what happens to your product outcomes and margins if there is a big change in the size or scale on the participating and non-participating side that was a big fear that we are kind of talking about, very happy to share that in the draft there is no proposal on any change in this. There is of course a proposal to have a guaranteed surrender value available after the year two, but that is not very material for us, however, there are many positives that the regulator has come up with. There are proposals about collections, there are proposals about how we could drive the business of retirement by allowing close to about 60% commutation. There is more around new product design, so if I were to add all of it together in addition to the minor changes that has happened. I see that as more positive than negative, and hopefully, it is not going to have any material impact on our ability to create margins.

Nischint Chawathe Just one last micro question, the business that you are seeing from other banks which is other than Axis, there has been as we kind of said the growth rate has been lower or it has been kind of almost flat, so did you see a slowdown in the last month of the quarter or was the kind of momentum sort of a little subdued across all the three months?

Prashant Tripathy Actually, like I mentioned to you these are Banks which have a different seasonality to their sales, so they do not grow very substantially in first half of the year. Generally, the growth is more in the second half and we are not concerned. We believe that by the time we finish the year, we will have robust growth across all the Banks.

Nischint Chawathe But any specific trend within the quarter or is it kind of uniform across company?

Prashant Tripathy Got better, I saw high growth at Lakshmi Vilas Bank, similar growth at Yes Bank, so we are hoping that as we approach the second half of the year we should get better.

Nischint Chawathe What you are saying is that growth at Yes Bank was actually better in the last month?

Prashant Tripathy Year-on-year, we continue to grow. There is always a base effect that plays out versus last year, what was the growth in the first half of the year versus this year. Yes Bank grew quite handsome in the first half of last year and hence there is a bit of base effect. I generally feel that by the time we finish the year and we do the second half it should improve and be at the same level as the other banks.

Moderator Thank you. We will take the next question from the line of Sudhir Kedia from Mirae Asset. Please go ahead.

Sudhir Kedia Sir, just one clarification, you have given the total APE as Rs.1,420 crore while individual APE is at Rs.1,405 crore, so difference is group APE of Rs.15 crore while on the protection slide you are saying group APE of Rs.101 crore, could not understand that point?

Prashant Tripathy Let me help you reconcile the APE number and individual adjusted sales number, so when IRDA publishes the number that is on the basis of adjusted collected premium which is a 24% growth which you would have seen in the competition place. However, when you come to the annualized premium that number is 26% growth, so for the purpose of consistency with respect to how other people report, we have shown that on annualized premium. The VNB actually includes only the GCL business, not the GTL business.

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

Adarsh P. Sir, question on the savings mix between ULIP and PAR, over the next two to three years as you ramp up margins, what is the expectation on the mix there?

Prashant Tripathy Basically, we are close to where we want to be, actually there is some bit of reduction in PAR that we anticipate to do more in favor of non-PAR saving, so the desire will be in three years' time to be around 35% to 37% in PAR, to be on ULIP where we are, but take the non-PAR including protection in the range of about 20% to 25%.

Adarsh P. Is this mix from PAR possible because of efficiencies, it is a cost pass through product, so is that some bit of design element there as well?

Prashant Tripathy You would have noticed in the last five to six years, we have taken conscious efforts to diversify the products mix. You would have noticed about five years ago our PAR mix was close to 70%, that is quite low now compared to where it was earlier. This happens out of the conscious effort with respect to distribution, with respect to the segment that we go after and also with respect to the internal strategy to optimize the margins. We believe that there is some bit of work more to be done to balance the mix more in favor of non-PAR, you would have noticed that non-PAR actually is a bit lower in the first half of the year versus last year, so there we are going to put more focus by redesigning products or improving the overall customer benefit, taking advantage of the yields to make sure that we have a higher mix of non-PAR, that is something that we want to do.

Adarsh P. The other question is more of a confirmation, so you said that whatever persistencies you get in the end of the quarter is a part of the margin that you would have, you have a gain in persistency in a quarter that is already reflected in your margins?

Prashant Tripathy That is correct. Generally, these happen on a rolling basis, so we will do an experience study twice every year and then we do the calculation on EV, whatever the last study that we have done will be included as a part of that outcome.

Adarsh P. Which means this quarter's or first half margin reflects the 13 month large improvement that you have seen from March levels?

Prashant Tripathy Yes.

Moderator Thank you. The next question is from the line of Avinash Singh from SBICAP Securities. Please go ahead.

Avinash Singh Just a quick one on this margins and the group APE part, I mean to say that you are saying when you are using that Rs.1,420 crore of APE that does not include the group term life that employer-employee business?

Prashant Tripathy That is correct.

Avinash Singh Does it include group fund base if at all you have?

Prashant Tripathy No.

Avinash Singh So it is individual plus credit protect?

Prashant Tripathy Yes correct.

Avinash Singh The Rs.290 crore number again that VNB does that also exclude those are like just Rs.290 crore have some whatever?

Prashant Tripathy That is actually correct, the margin on those product elements are much smaller, so even if I were to add it is not going to make a big difference in the VNB number, but just to confirm, the Rs.290 crore does not include the GTL business or funds business.

Avinash Singh So basically in the denominator-numerator both you have excluded?

Prashant Tripathy Yes.

Moderator Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati Just a small technical question, Sir on the participating product on the taxation issue before surplus I think it gets taxed at present 12.5% and then when we move 10% of surplus to the shareholder account, does that also get taxed at the same rate or is there a dispensation given there?

Prashant Tripathy All movement from PAR to shareholder, when it goes to the shareholder it is taxed at 12.5%..

Hitesh Gulati When it goes into the surplus and most to the shareholder account does that also get taxed at the same rate of 12.5%?

Prashant Tripathy Whenever any movement takes place from PAR to shareholder, it is taxed at 12.5% only once.

Moderator Thank you. Ladies and Gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Mohit Talwar Thank you very much for being on the call. We look forward to more interactions in the future as well. Thank you.