Max India Limited

H1 FY15 Earnings Conference Call Transcript
November 13, 2014

Moderator Good afternoon Ladies and gentlemen I am Malika, moderator of this Conference Call. Welcome to the H1 FY15 Max conference call. We have with us today Mr. Mohit Talwar – Deputy Managing Director, Max India. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mohit Talwar. Thank you and over to you, Mr. Talwar.

Mohit Talwar Thank you Malika. Good afternoon, ladies and gentlemen and good morning and good evening to participants who joined us from the US, Europe and the Far East respectively. I would like to thank you all for being part of Max India's Earnings call. My name is Mohit Talwar, I am the Deputy Managing Director of Max India. So, on this call we are going to be talking about our performance for the second quarter of financial year 15 and we will also touch upon some highlights for the half year performance of FY'15 on our major businesses. Through this call we intend to provide you a comprehensive overview of all our businesses and their performances and it will be our endeavor to try and address all your queries. In case there are some unanswered queries we will get back to you in due course.

Before proceeding with the performance highlights I would like to introduce my colleagues who are on the call with me. So I have Prashant Tripathy – CFO of Max Life Insurance ; Yogesh Sareen – CFO, Max Healthcare; Anuj Vohra and Jatin Khanna who represent the Max India Investor Relations team.

So let me begin by providing a strategic perspective and an overview of the consolidated performance. The group snapshot of the consolidated financial highlights are as follows:

Some of you may have already noticed but for the benefit of those who have not – I am happy to share that Max India has concluded a landmark transaction on November 10th with our joint venture partner Life Healthcare who have increased their shareholding in Max Healthcare to equal to that with Max India at around 46%. This has resulted in a pre-tax inflow of Rs. 383 crore each for Max India and Max Healthcare. The transaction strengthens the Max India liquidity position as well as gives the required growth capital to Max Healthcare. Almost half of the investment in Max Healthcare will be used for Max Healthcare's expansion plans where we have line of sight to around 1,500 beds additional over the next four-five years. And the other half will be used for redemption of the IFC Washington's preference shares including some that will be used to retire some short-term debt.

Additionally, IFC Washington has also expressed its intent to maintain its stake at 7.5% by investing further Rs. 31 crore in Max Healthcare. This demonstrates its faith in MHC's potential for value creation. Considering the strong liquidity position of the overall group, I am pleased to announce that the board as a special case has approved an interim dividend of Rs. 4 per share. This translates in to a 100% payout of the dividend received from our life insurance business for the half year and 200% of the face value of Max India's shares.

Let me now talk briefly about the group's performance highlights:

The group consolidated revenues have recorded a strong growth of 47% backed by robust performance of our businesses and investment income on our UL funds. The operating revenue also grew by a strong 15% with profit before tax for Q2 FY15 recording a 26% increase.

Our life insurance business has continued its trend of strong performance with 15% growth in GWP, while shareholder profit before tax is up 21%. Trends in conservation and persistency also continue to show a healthy trajectory which I will talk about later in more detail.

Our healthcare business continues to deliver strong improvement in its financial performance and has recorded a cash profit of Rs. 40 crore for the half year vis-à-vis Rs. 3 crore in the corresponding half year. Our health insurance business' performance in its chosen B2C segments continues to remain strong with its B2C gross premiums growing at 43%.

We believe that all our businesses will continue to sustain their growth and profitability trends in the current year and we are encouraged further by the positive macroeconomic trends.

I am also very happy to advise you that Max India has been awarded the prestigious "Porter Prize" for "Excellence In Corporate Integration and Corporate Governance" at their award ceremony held in New Delhi in September this year.

On this note I will move on to our consolidated performance snapshot and performance of our key businesses for Q2 FY15:

The group has recorded a 15% growth in its operating revenues. Consolidated operating revenue for the quarter stood at Rs. 2,483 crore versus Rs. 2,158 crore during the same quarter last year, on the back of strong operating performances of all our businesses. The consolidated profits have also exhibited strong growth on the back of growing profitability in our life insurance business as well as that of our healthcare businesses, which is on the cusp of turning profitable. EBITDA has increased by 21% to Rs. 184 crore for the quarter while PBT has increased from Rs. 93 crore to Rs. 117 crore, a growth of 26%.

Max India continues to maintain strong liquidity with treasury corpus of Rs. 384 crore as at September 30th, 2014 before accounting for the inflows from life healthcare transaction, that got completed earlier this week.

Now moving on to individual businesses – I will first talk about Max Life Insurance:

GWP for the quarter stood at Rs. 1,937 crore growing at 15% on account of strong renewal trends. APE growth for the quarter at 5% was lower vis-à-vis last quarter on account of the base effect of a strong performance in September 2013. However, we remain confident of delivering an early teen APE growth for the full year, in line with our earlier expectation.

Product mix for the quarter stood at 65% PAR, 32% ULIP and 3% non-PAR as positive impetus in ULIP sales from buoyant equity markets continues. Persistency and conservation ratios continue to exhibit encouraging results based on persistent efforts in this area. Thirteen month persistency improved to 78% versus 76.5% in Q2 of FY14, while conservation for the quarter was 86.7% vis-à-vis 79.2% earlier. Consequently renewal premium for Q2 grew by 18% to Rs. 1,366 crore. Our cost management initiatives have continued to bear results with the operating expense ratio improving to 16.5% in Q2 FY15 from 18.5% in Q2 FY14.

All of the above resulted in our shareholder PBT growing by 21% to Rs. 165 crore for Q2 FY15. Max Life has paid an interim dividend of Rs. 107 crore to Max India for the first half of FY15 and is very well capitalized with a solvency surplus of over Rs. 2,250 crore.

Its AUM increased 29% to Rs. 28,038 crore and sum assured increased 8% to cross Rs. 200,000 crore.

I will now talk about Max Healthcare:

Max Healthcare's network of hospitals achieved revenues of Rs. 435 crore for the quarter recording a growth of 24% over the same quarter in FY14. Our contribution margin improved to 62.2% in Q2 from 61.9% in Q2 of the previous year. EBITDA for Q2 FY15 grew 44% to Rs. 45 crore versus Rs. 31 crore in Q2 FY14 on the back of encouraging performances from both our older and new hospitals. EBITDA margin for our older hospitals is up from 12% to 13.2**%** while the newer hospitals contributed a positive EBITDA of Rs. 5 crore versus a negative EBITDA of Rs. (-1) crore in Q2 FY14. Cash profit for Q2 FY15 recorded a 180% increase to Rs. 22 crore versus Rs. 8 crore in Q2 FY14.

As I briefly mentioned earlier cash profit for the half year stands at Rs. 40 crore against just Rs. 3 crore in the previous half year. Our network of hospitals would have recorded a PBT of Rs. 6 crore, were it not for the recently introduced accelerated depreciation, that had an incremental negative impact of Rs. 12 crore for the half year.

Some other key parameters to note:

Average revenue per bed has increased 9% to Rs. 27,709 in Q2 FY15. Average occupancy across facilities stood at 76.4% despite a 15% increase in average operational beds to Rs. 1,660. Our current registered patient base stands at over 2.2 million and we did over 3.7 lakhs patient transactions per month in Q2. We have a network of over 2,100 doctors which includes over 1,300 who are on our rolls.

Moving on to Max Bupa Health Insurance:

Max Bupa continues to tread well on its growth trajectory with its B2C gross written premium growing 43% for the quarter to Rs. 83.6 crore as against Rs. 58.4 crore in Q2 FY14.

Overall GWP growth was lower at 22% due to 77% reduction in our B2B business GWP which is now in a run-off mode, as we have consciously decided to operate solely in the B2C segment. As a result of this, B2C business accounted for 97% of our GWP for the quarter vis-à-vis 83% during the same quarter last year. Net earned premium is up 37% over Q2 of FY14. Over 216,000 lives have been covered during the quarter with the overall number of lives covered crossing 775,000 excluding our rural and social obligations.

Max Bupa's B2C market share has grown from 7.2% in half year FY14 to 9.5% in H1 FY15 and its market rank stands now at #8. The company's average premium realization per life has increased 23% to Rs. 6,452 for Q2 FY15 as a result of greater push towards Gold, Platinum, and Family First products that accounted for 71% of GWP versus 61% in Q2 of FY14. Our B2C claim ratio continues to remain healthy and has improved to 51% in Q2 FY15 vis-à-vis 55% in Q2 of FY14. Conservation ratio in the B2C segment has also continued to improve and stood at 91% for the quarter versus 87% in the same quarter last year.

Our provider network continues to grow and it is now touching 3,500 hospitals. All four of our bank assurance tie ups are now up and running and gaining traction and bancassurance alliances now contribute 20% of the overall GWP.

I now move in to Max Specialty Films:

Higher realizations based on product mix changes enabled Max Specialty Films to record a 3% increase in revenues despite slightly lower volumes. Contribution also recorded a 10% growth based on higher realizations. Higher contribution coupled with conscious cost saves resulted in 25% growth in EBITDA to Rs. 20 crore versus Rs. 16 crore during the same quarter in the previous year. As you would be aware this business was transferred in to a wholly owned-subsidiary at the beginning of FY15. The transaction structure included raising of incremental debt to replace part of Max India's capital invested into the business. There has accordingly been a one-off financial structuring and funding fee paid during the quarter which, along with incremental interest on the borrowings, has translated into a net loss for MSF during the quarter. However, since bulk of this expense is one time, it should be viewed accordingly.

Through this smart structuring we have been able to monetize one-third of our value in this business. The business performance itself is on the right track.

So, in summary, the group is liquid with a healthy treasury corpus of Rs. 384 crore which will get further boosted with the inflows from the MHC stake sale transaction. Our life insurance business has continued its strong performance and the focus on persistency and cost control continues to bring forth gains.

Max Healthcare's performance has exhibited a strong and consistent trajectory in the last two years and it is now consistently generating cash profit. While Max Bupa's performance in its chosen B2C segment remains solid.

With that let me hand it back to the moderator and thereafter we will be glad to take your questions. Thank you.

Moderator The first question is from the line of Jai Mundhra from CRISIL.

Jai Mundhra Sir, just wanted to know, our renewal premium has shown a strong increase in this quarter. Is it partly because of the strong capital markets that we are seeing? Apart from that, is there any specific reason, why the renewal premium has grown so much and what has led to the conservation ratio moving up to 87%? So anything you want to say here?

Mohit Talwar So before Prashant answers that question, let me give you a little perspective on conservation and persistency. This clearly has been our focus right from inception and you will find that on both these vectors we have really been a top quartile player, if not number one, we have been number two. So consistently, the focus has been in terms of maintaining consistent renewals from our policy holders and there have been lots of initiatives, which have been taken over the years and I think one of which is the fact that our entire selling process is predicated on the fact that it is need based and it is long term in nature. So I just wanted to kind of give that perspective and may be Prashant can add to that.

Prashant Tripathy This is a very valid question and I think those reasons that are coming to my mind, just to give you some numbers, for the first half of the year we have grown 12% with a strong double digit number as far as renewal growth is concerned in an industry where most of the people are witnessing negative renewal growth. Which means, because of high level of surrenders they are seeing negative renewal performance. So for the quarter, we have close to about 18% growth and I will only mention the additional points saying a large part of this is also linked through our strategy that we have picked four years ago to focus on long term savings and protection market.

We have products which are generally long term oriented and because the quality of sales as well as nature of representation, as well as setting the expectations, right we are noticing that the share of LTSP in our overall product mix is much higher than competition hence we are witnessing higher than competition growth in renewal and we expect this trend to continue for the year.

Jai Mundhra And second question is sir, just on your view in light of the let us say if the FDI limits goes on do you have any higher stake increasing agreement with your foreign partner in case the partner wants to raise his limit?

Mohit Talwar So I will take that one. In our shareholder agreement with Mitsui, I suppose you are talking about life insurance here?

Jai Mundhra Yes, sir.

Mohit Talwar There is no option which has been given to them per se. If the sectoral caps are increased, it is not automatic. We are basically free to have a discussion with them or with anyone else we choose to. So there is no obligation that it has to be only with Mitsui Sumitomo.

Jai Mundhra And sir lastly, your view on, there have been recent talk of proposals for bank acting as a multi insurer brokers. So, you have exclusive tie up with Axis and part of your bancassurance is also done by Yes Bank. So, given that this proposal for the bank acting as a multiple brokers to multiple ventures, any comment on how can actually that impact your business per se?

Prashant Tripathy Yes, the discussion was going on about six months ago. Subsequently, there was a committee formed and the committee has reviewed this. The way we understand the progress on that front is that most of the banks as well as of the life insurance companies have represented saying this model is not favorable as far as the growth of life insurance industry is concerned. So, we understand that this is not something which is currently actively being debated and in our opinion this is something which has gone to the back burner, so we expect this change to not take place in the near future. However, the regulatory regime always reviews things and we are hoping that when any of those situations that arise Max Life Insurance will benefit, because we are a standalone life insurance company. We do not come from a banker pedigree. So, if those changes take place, we will be a bigger beneficiary with respect to other people, considering our experience in the bancassurance space. So, if that were to take place we will be beneficiaries; however, we are not seeing a big movement on that front currently.

Jai Mundhra And just a follow up on this can you just quantify what percentage of your revenue is coming from bancassurance channel just a ballpark number?

Prashant Tripathy It will be between 50% to 55% is what comes from bank.

Moderator The next question is from the line of Nilesh Parikh from Edelweiss Securities.

Nilesh Parikh I had a couple of questions. The first one you have articulated the plan for the money which is coming in the Max Healthcare business what about the inflows which have come for Max India if you can just spell out the plans what you intend to do with that excess cash flow which has come in?

Mohit Talwar So, basically we have always had a treasury corpus as you know and clearly the money which is coming in to Max India is to take care of some future growth plans which are there in the offing. And it's obviously going to be in related areas. So, whether it is in the life insurance business or more hospitals you will find us pretty active as far as growing both these businesses are concerned. So, I think this money will be used mainly for that purpose.

Nilesh Parikh And in terms of the Senior Living Project you said Rs. 250 crore is the contribution so anything going from this cash flow to fund that part?

Mohit Talwar Nothing is going from here because we have capitalized the business, we have raised the debt and construction is on, pre-sales are happening, so things are as planned. There is no incremental capital which has been put in there at this point in time.

Nilesh Parikh One question for Prashant. On the product mix, we have seen the share of ULIP obviously going up. Is there an internal cap that we are working with and on the other side when you look at all the other players the share of non-PAR that is slightly lower. So what is the aggregate mix that we are looking at over the next may be 6 to 12 months?

Prashant Tripathy Actually the participating business mix has almost remained the same as it was last year so we were at 66% last year same quarter we have 65% this time. The UL mix definitely has gone up from 12% to 32% and the non-PAR mix which was last year about 22% is down to about 3%. The basic reason for this shift is that the large part of the non-PAR volume has shifted to UL because one of our significant non-participating designs was under approval, it just got approved, and we are in the process of launching it. So, in my belief, it will get rebalanced again and ideally speaking we are looking at about two-third PAR and one-third mix of UL and non-PAR perhaps broken 50/50. So, the ideal state will be about 65% PAR about 17-18% UL about 17-18% non-PAR. That is the ideal mix that we target.

Nilesh Parikh So does that give an upside to margins because of the non-PAR?

Prashant Tripathy It does give an upside to the margin, however we don't want to drive the non-participating design in a very significant manner because other than non-participating designs which are protection oriented, which are pure term, the other ones have significant guarantees to be given and we do not want to be in that business in a big way. However, as the time passes probably next couple of years we are going to focus very, very significantly on the protection side of business the pure term business as well as our internet sales which is again a pure term business to drive our margins upwards.

Moderator The next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe Now that we are half way through the year sir, if you could give any guidance on the RoEV that you are looking forward for this year?

Prashant Tripathy Yes, so it is consistent with the guidance that we have been giving for the first half at a very high level we generally publish those numbers so we will see a bit it should be in the range of 15-16% the operating RoEV.

Nischint Chawathe And you are fully done away with the cost overrun and we should not expect anything coming out of it again?

Prashant Tripathy Yes, not anything significant.

Moderator The next question is from the line of Atul Kumar from Quantum Asset Management Company.

Atul Kumar I just wanted some sense on the new business margins on the life insurance side. Probably, if you cannot disclose may be the actual margins may be on a qualitatively how they are faring?

Prashant Tripathy So it is again aligned to the guidance that has been given it will be in the range about 10% to 13%.

Moderator The next question is from the line of Nidhesh Jain from Espirito Santo

Nidhesh Jain What will be your guidance on dividend policy because of that this time you have paid 100% of dividend whatever you have received from life insurance? What will be the dividend policy going forward?

Mohit Talwar So our dividend policy actually is quite well established now. Basically 75% of the surplus from Max Life comes from Max India, of that we typically like to give up 40% to 50%. This time we gave more because we had a transaction and we felt that we should be rewarding shareholders.

Moderator The next question is from the line of Sudhakar Prabhu from Span Capital.

Sudhakar Prabhu Just one question. Now that your stake in healthcare has come down below 50% would there be change in the way you report numbers? Would healthcare be consolidated from next quarter onwards?

Jatin Khanna We will now have to follow the proportionate consolidation method, So, we cannot consolidate 100% of the revenues of our healthcare business into Max India. So, there will be some reporting change you will notice on revenues as well as on profits.

Sudhakar Prabhu And secondly, what is the minimum stake which you would like to maintain in your healthcare business?

Jatin Khanna I think we are comfortable with where we are. There are no plans for any more dilution going forward, but having said that tomorrow, for some reason if we take this business public, then it will be equally dilutive for both shareholders. So, any further dilution will be equal to that extent, but there is nothing like that which is planned as yet.

Mohit Talwar See, we have already kind of raised the money for our growth. So, I guess we are good to go in terms of almost doubling our bed capacity which will happen over the next three, four years. So I do not foresee any further dilution at least in near to medium term. And like Jatin says, I mean if we were to do an IPO, then that is another story in terms of equal dilution happening with both partners.

Sudhakar Prabhu And in terms of management of the hospital business it is joint management, right?

Mohit Talwar Yes, when life healthcare was 26, I think philosophically, we always operated in a manner which was extremely consultative in nature. We do that with all our JVs in the group. Now, of course, it is actually formalized by way of shareholder agreements and all of that. So yes, it is equal control but something which we have been kind of following right from inception from 2012 as far as LHC is concerned. We have created a subcommittee, which is called the investment performance and review committee, with equal representation from both shareholders and all critical decisions are taken in this forum. There is one voice, totally aligned, and that is the common message, which goes to management. It works very well.

Sudhakar Prabhu And one last question on the insurance business. You have mentioned that you expect mid-teen growth in your insurance premium this year but moving in to next year and year after that do you think growth can pick up significantly?

Prashant Tripathy So, we are all hoping, actually as you understand the life insurance business is quite linked to how the macroeconomic parameters of the country pan out and mathematically speaking there is no reason why life insurance should be growing anything less than the nominal GDP growth rate and if you all believe that at a nominal GDP rate is in the range of about 13-14%, and that is on a steady state basis, the life insurance industry should be growing at. But hopefully, in a couple of years' time, as the economy picks up, we are all expecting the overall new business growth will be in the range of mid to higher teens.

Sudhakar Prabhu And just one more last question. Let us assume in FDI is opened up till 49% in insurance business would Max be open to reducing their stake in Max Life?

Mohit Talwar So, all I can say, at the right time at the right price and to the right person we are open to doing it.

Moderator The next question is from the line of Prashant Kumar from Credit Suisse.

Prashant Kumar My question is on the hospitals business. In this quarter like the hospitals business has seen a good improvement in the EBITDA margins especially the existing hospitals. So just wanted to understand that going forward like what would be the drivers for further improvement in margins in terms of like, how is the pricing environment like, how is the demand volume growth, some color on that for new hospitals as well as and some medium term guidance in terms of EBITDA margin would be really helpful?

Yogesh Sareen Yes the EBITDA margins have improved in quarter two of this year and if you really ask me we did not experience the kind of Dengue that we had last year same quarter and to that extent you will find that the overall growth is 24% in the healthcare business but if I take out the Dengue impact which was very strong last year the growth numbers are actually much better. So, if I really do a leveling of the last season then we are 29% up in this quarter. So, the numbers are, I would say really growing smartly.

In terms of EBITDA margins, the driver basically in the existing hospital is obviously to really add more beds wherever we can and besides that we are working on adding new high-end programs improving the ALOS, improving the ARR and doing pricing increase wherever we can. So, I think overall we do see that we want to improve the margin by at least 1.5% to 2% every year in the existing hospitals and new hospitals as you know we are growing the revenues, so we have been focused to really open all the beds and use the beds up before we start to really work on the profitability side.

But as the beds get occupied and we open more beds, we do think that EBITDA margin will, I would say, improve by at least 3% to 4% every year. So that is what I see as of now. The drivers besides that is obviously is the expansion plans that we have in the wave one hospital or the additional hospitals. So, as I think we have mentioned last time also we have plans to add more beds in Saket and in Patparganj and both of these hospitals are experiencing (+78%) occupancies and I think that is another driver of, I would say, revenue and as well the EBITDA in the wave one hospitals.

Prashant Kumar Just one thing like the intermediate expansion plans over next two, three years as you will start adding beds so would that impact like the EBITDA margins in the interim because initially there will be a phase of investment and the benefit you will realize only later. So what kind of impact on margin should you expect because of that?

Yogesh Sareen Most of the additions will happen in the existing hospitals where you are already short of beds, so the guidance that I am giving to you is assuming that we will have the beds expanded, so I do not see any major impact on the EBITDA margins because of expansion in the capacity in the existing hospitals because we will not open beds until such time we have the footfalls. So, I do not think any major impacts on the EBITDA, because we just want to expand from that, We have and probably put in one or two more program that we think are necessary to really take the level of care up.

Moderator The next question is from the line of Prakhar Sharma from CLSA. Please go ahead.

Prakhar Sharma I just have two questions. One on the insurance business, the kind of conservation ratio that you have been able to deliver now suppose it continues for the next 12 months or so, can there be write backs on the cost overruns? On the actuarial side, can there be structural improvement in profit? Is this sort of conservation ratio higher than what is built in to the margins let us put it in this way?

Prashant Tripathy So Prakhar, that is a very good question actually. I would say, I have noticed ups and downs as we go through the quarters on the conservation ratio, so I will first of all I will give it two, three quarters to observe the trends. Also, the conservation ratios are crude ways of measuring persistency, so the true measure which really impacts our margin is persistency. We have seen persistency trend up and we are now in the range of 78. It is one of the best in the industry. So, if the persistency numbers go up, it definitely has a positive impact on the margin. So, generally we wait for sustainable trends before we start to get that as a part of our margin reporting

Prakhar Sharma Any broad sense on what is the ballpark persistency number that is built to the margins guidance of 10% to 13%?

Prashant Tripathy So our margin reporting actually Prakhar, is on the rolling forward basis. So, every year we do adjust experience assumption, I think twice every year, and our margin reporting is aligned to the current experience. So it is not merely on the basis of pricing experience it gets trued up so every time we report the margins it is on the basis of the actual performance.

Prakhar Sharma And the other question just on the insurance with Prashant. The way portfolio returns have moved basically debt has moved up and equity has also moved up. From an EV perspective, does it make a big swing for you this Fiscal suppose the year end the current prices. Does it make any big delta from a one year investment volatility?

Prashant Tripathy I am hoping that when we look at the embedded value of returns, I think you will see a positive non-operating income too. But, that is generally quite notional in nature, basically the nature of business we are in and I always mentioned that we should look at the operating side. So, on a tactical basis I can confirm to you that gains from equities will get realized and then move through the net worth of the company it could cause marginal impact on a positive side.

Prakhar Sharma The other question is on the healthcare side can I have just the balance sheet side the net worth ex of any losses whatever basically the net worth of the company and the debt that is there?

Yogesh Sareen So the balance sheet size is Rs. 1,097 crore and the debt would be Rs. 597 crore.

Prakhar Sharma And you would now own basically 46% of that equity?

Jatin Khanna Yes, but this Rs. 1,100 crore is as of 30th September. So, the recent transactions will boost it by another Rs. 400 crore so it will be Rs. 1,500 crore.

Prakhar Sharma Thank you for making that clarification, Jatin. Just does this Rs. 400 crore replace the debt for now or you will be use it for CAPEX?

Yogesh Sareen So, basically as Mohit mentioned, that we will repay part of the preference capital that we have from IFC, so net-net, we will get Rs. 265 crore after the repayment of the preference capital, etc., that we have on our balance sheet. So, Rs. 265 crore that added to the equity side and we are going to use the Rs. 80 crore for repayment of debt and balance would be available to us for expansion plan and as we have this Rs. 185 crore available to us for expansion plans we can borrow on another Rs. 215 crore. So, basically Rs. 400 crore is available to us on a 1:1 debt-to-equity basis for expansion plans going forward.

Mohit Talwar Plus any additional is required Max India has the capital to infuse it and as you know our growth program is spread over four years or so; so it is all kind of a staggered cash flow which will be going in.

Jatin Khanna The business has also started generating positive cash so that will also add to the equity.

Prakhar Sharma Just wanted to reconfirm this Rs. 400 crore is pure equity or there is a preference part to it?

Jatin Khanna No, pure equity.

Prakhar Sharma And this has come in, so there is no sort of deferred payment on this side?

Jatin Khanna Rs. 31 crore of IFC, Washington has to come yet, but that will also come in another week or ten days or something like that.

Prakhar Sharma So next quarter everything will be in December quarter?

Jatin Khanna Yes, correct.

Moderator The next question is from the line of Ketan Shah from Comgest. Please go ahead.

Ketan Shah Sir, my question is on your EV calculation is it based on MCEV basis or it is different?

Prashant Tripathy Currently, the EV declaration that we do is on the basis of what we call as top down. The European Embedded value, which uses a top down discount rate of 13%, on cash flows to calculate the embedded value. We are actively reviewing the current methodology and in the process of updating it so that it becomes more market consistent. In due course, we will bring that to the street.

Ketan Shah So by say?

Prashant Tripathy So, all I can tell you is our numbers, when you see could be more conservative and if one were to apply a market consistent discount rates, the embedded value will be higher than the current methodology and so will the value of business.

Ketan Shah And sir, now we have surplus cash in our balance sheet, so any guidance on restructuring the whole business as such by say demerging insurance part or anything you can share on that?

Mohit Talwar It is nothing to share at this point in time. But, all I can say is that we deliberate on this. So, at the right time we will see what we have to do from a corporate restructuring point of view.

Moderator The next question is from the line of Hiten Sampat from Quest Investment.

Hiten Sampat Sir, just one question on this new IRDA rules regarding the expenses. How will it impact? Because, I suppose the PAR policies will be impacted most because of that. So, where are we placed on that?

Prashant Tripathy There is no rule per se which has come yet.

Hiten Sampat That Rule 17B thing?

Mohit Talwar Rule 17B always existed and as a company we meet all the requirement of Rule 17B. However, there is a note which is more of discussion paper which IRDA has circulated. We are in the process of reviewing it and we will assess the impact. However, this is something which will be a discussion item between the industry and IRDA nothing has finalized yet.

Hiten Sampat But it will be impacting the PAR policies the most, right?

Prashant Tripathy Basically, it may set up 17B limit to participating business also. However, as I mentioned to you, nothing has finalized yet. These are all the initial discussions that IRDA just making. Just to confirm, we of course will be prepared for any kind of changes as a very progressive organization.

Hiten Sampat But it might be if they go ahead with this paper what could be the kind of impact that you might get?

Prashant Tripathy So, we will try to minimize the impact. I think, we will have to look at our expenses and do some bit of structuring in terms of taking out costs. So, that will be the immediate impact but as the management team as I mentioned to you we will be prepared to look at that.

Moderator Thank you. I now hand the conference over to Mr. Mohit Talwar for his closing comments.

Mohit Talwar I would like to thank all of you for taking time off to be on this call. Look forward to having one more in the next quarter. Thank you very much.