

November 6, 2019

## Q2FY20 Result Update

### Key Financials

Y/e March	FY19	FY20E	FY21E	FY22E
Net Premiums (Rs m)	144,184	173,299	206,854	246,103
- Growth (%)	16.5	20.2	19.4	19.0
Surplus / Deficit (Rs m)	8,244	11,559	13,923	16,728
PAT (Rs m)	5,564	8,054	8,865	9,823
- Growth (%)	5.5	44.7	10.1	10.8
EPS (Rs)	2.9	4.2	4.6	5.1
Emb. Value (Rs bn)	89.4	103.1	119.2	138.9
NBP Margin (%)	21.7	21.7	21.9	22.1
post overrun				
RoE (%)	20.4	27.8	58.4	58.6
Operating RoEV (%)	16.8	19.3	19.8	20.1
RoEV (%)	21.9	20.3	20.5	20.8
Dividend yield (%)	0.5	0.5	0.6	0.6
Price/EV (x)	4.9	4.3	3.7	3.2
Ap. Value/EV (x)	4.2	3.7	3.2	2.7

### Key Data

MAXI.BO | MAXF IN

52-W High / Low	Rs.473 / Rs.361
Sensex / Nifty	40,470 / 11,966
Market Cap	Rs.118.2bn/ \$ 1,664.8m
Shares Outstanding	269.4m
3M Avg. Daily Value	Rs.409.9m

### Shareholding Pattern (%)

Promoter's	28.32
Foreign	29.57
Domestic Institution	30.70
Public & Others	11.41
Promoter Pledge (Rs bn)	30.55

### Stock Performance (%)

	1M	6M	12M
Absolute	5.7	1.0	10.0
Relative	(0.9)	(1.8)	(3.1)

### Pritesh Bumb

priteshbumb@plindia.com | 91-22-66322232

### Riddhi Mehta

riddhimehta@plindia.com | 91-22-66322258

## Business on track; previous overhang back

### Quick Pointers

- Swap deal & purchase transaction terminated between Mitsui Sumitomo Insurance (MSI) and Max Life as agreement couldn't be reached on transaction
- Business continues to remain on track with +20% VNB, margin & APE growth for Q2FY20

**MAXF have put up to withdraw the application for share swap & purchase transaction for MSI's stake in Max Life for MAXF shares as agreement for finalization of definitive terms were not reached. MSI will remain as JV partner of Max Life continuing existing arrangements. Transaction arrangement may not be required for reverse merger but some issues have to be ironed out like a one-off pending contingent liability from erstwhile telecom investment. Management also showcased confidence on being strongly associated with Axis but are still to reach any arrangement for future course of action. Key business parameters remain on track with 22% new business growth, 21% margin and +20% VNB growth. We retain BUY with TP of Rs596 (Rs695) but lower out multiple to 1.8x (from 2.3x) based on Sep-21 EV and increase Holdco discount to 40% as overhang remains from promoter pledge, rationalizing ownership structure and business partner uncertainty.**

- Business fundamentals remains good:** Life insurance business continued to do well with overall APE growth was 22% YoY continued to be led by non-par savings continued from limited pay short duration endowment type product (5P-10Yr-Income) which is fully hedged. Mix of Non-par continues to improve, now at 34% (37% in Q2FY20) and management expects it to reach 35% in FY20. Protection continues to deliver strongly with 30% YoY growth but mix has been slightly off to 14% in APE mix. Proprietary channels also have shown improvement in growth from 15% in Q1FY20 to 21% in Q2FY20 mainly led by non-par saving & protection products.
- Value continues to improve:** Life EV grew by 26% YoY and VNB grew by 25% leading to margin of 21.0% in H1FY20 (implied 22% in Q2FY20) v/s 19.6% in Q1FY20. Margins have improved from strong Non-Par growth which are relatively higher margin products, while both proprietary and agency have seen improvement in margins, although post-over run margin rise was slower than the pre-over run on drag from higher costs and investments in Prop channels. Company expects it will touch the 22% margin in next two quarters. Overall profitability was impacted on higher reserving from strong growth in non-par segment, while slightly higher acquisition costs of business.
- Uncertainty on holdco, pledge and banca partner undermine business:** Uncertainty on arrangement with banca partner in the future creates a vacuum on the business front which is otherwise doing excellent combined with the restructured proprietary channels of Max Life. Additional partner does cannibalize business similarly seen with HDFC Life from HDFC Bank but improves business pie for the bank and hence Max Life will continue to strive harder. More importantly, larger overhang has been the ownership structure with MSI & Max Life calling of share swap deal which may be seen to be stalling the merger along with other issues. Also, higher pledge of promoter continues to be overhang. This continues to lead to larger discount to the Max Life proposition and hence we reduce our TP multiple to 1.8x from 2.3x.

**Exhibit 1: Strong APE growth supported by growth in Protection business; Shift in focus to Non-Par pushes margins up**

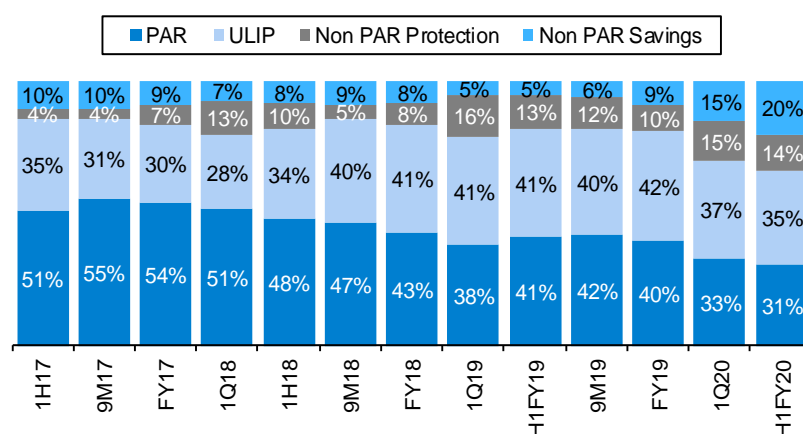
Rs Mn	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY19	YoY gr. (%)
<b>Individual New Business APE</b>	<b>10,380</b>	<b>8,530</b>	<b>21.7</b>	<b>6,790</b>	<b>53</b>	<b>17,170</b>	<b>14,050</b>	<b>22.2</b>
<b>Total Protection APE</b>	<b>1,450</b>	<b>1,000</b>	<b>45.0</b>	<b>1,140</b>	<b>27</b>	<b>2,590</b>	<b>2,000</b>	<b>29.5</b>
Individual Protection APE	800	580	37.9	520	54	1,320	1,000	32.0
Group Protection APE	650	430	51.2	620	5	1,270	1,010	25.7
% of Total protection of Total APE	13.9	11.6	225.7	16.7	(17)	14.0	13.0	100.0
<b>Ratios (%)</b>								
Commission Ratio	6.5	6.8	(30.1)	6.0	51.0	6.3	6.6	(30.0)
Operating Expense Ratio	15.3	12.9	242.7	18.7	(340.2)	16.7	14.7	200.0
Total Expense Ratio	21.8	19.7	212.6	24.7	(289.2)	23.0	21.3	170.0
VNB post overrun	2,300	1,890	21.7	1,340	72	3,640	2,900	25.5
<b>VNB Margin post overrun (%)</b>	<b>22.0</b>	<b>21.9</b>	<b>6</b>	<b>19.6</b>	<b>238.2</b>	<b>21.0</b>	<b>20.4</b>	<b>60.0</b>
Embedded Value	97,450	77,520	25.7	93,140	5	97,450	77,520	25.7
Operating Return on EV (%) (Op. RoEV)	N/A	N/A	N/A	15.0	N/A	18.3	18.5	(20.0)

Source: Company, PL

**Exhibit 2: Product mix is shifting towards protection segment and lowering in PAR**

Total NB APE Product Mix (%)	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY19	YoY gr. (%)
ULIP	33.7	41.0	(731)	37.0	(331)	35.0	41.0	(600)
Non PAR Savings	23.3	5.0	1,827	15.0	827	20.0	5.0	1,500
Individual Protection	7.1	6.1	106	5.9	120	7.0	6.0	100
Group Protection	6.2	5.0	122	9.1	(286)	7.0	7.0	-
PAR	29.7	42.9	(1,325)	33.0	(331)	31.0	41.0	(1,000)

Source: Company, PL

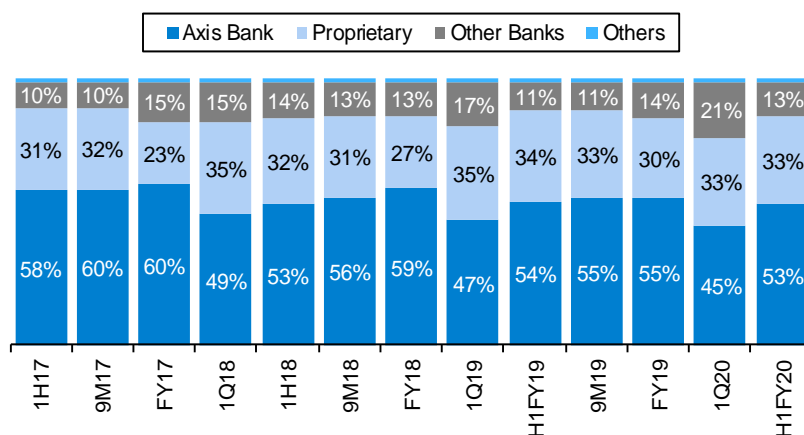
**Exhibit 3: Non-Par savings gains share in the mix at the cost of ULIP and Par**


Source: Company, PL

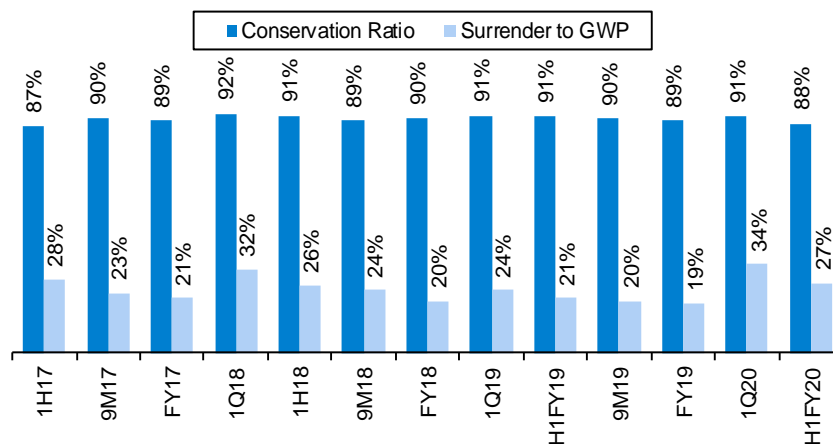
**Exhibit 4: Focus on Banca and Proprietary channels continue with other banks growing slowly**

APE Sourcing Mix	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY19	YoY gr. (%)
<b>Rs Mn</b>								
Proprietary	3,410	2,824	20.8	2,256	51.1	5,666	4,777	18.6
Axis Bank	6,024	4,964	21.3	3,077	95.8	9,100	7,587	19.9
Other Banks	796	597	33.4	1,436	-44.5	2,232	1,546	44.4
Others	103	85	22.0	68	51.1	172	141	22.2
<b>Total</b>	<b>10,333</b>	<b>8,470</b>	<b>22.0</b>	<b>6,837</b>	<b>51.1</b>	<b>17,170</b>	<b>14,050</b>	<b>22.2</b>
<b>(%)</b>								
Proprietary	32.9	33.1	(25)	33.0	(14.9)	33.0	34.0	(100)
Axis Bank	58.0	58.2	(17)	45.0	1,303.1	53.0	54.0	(100)
Other Banks	7.7	7.0	67	21.0	(1,332.8)	13.0	11.0	200
Others	1.0	1.0	0	1.0	(0.5)	1.0	1.0	-

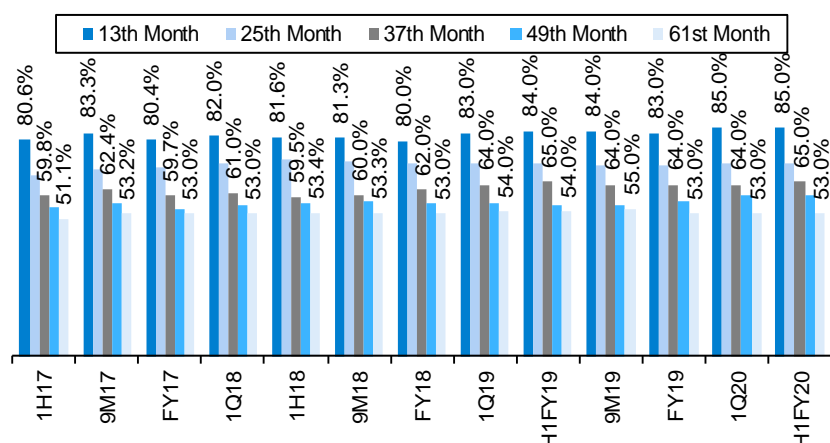
Source: Company, PL

**Exhibit 5: Axis Bank regains lost share as mix remains more or less stable**


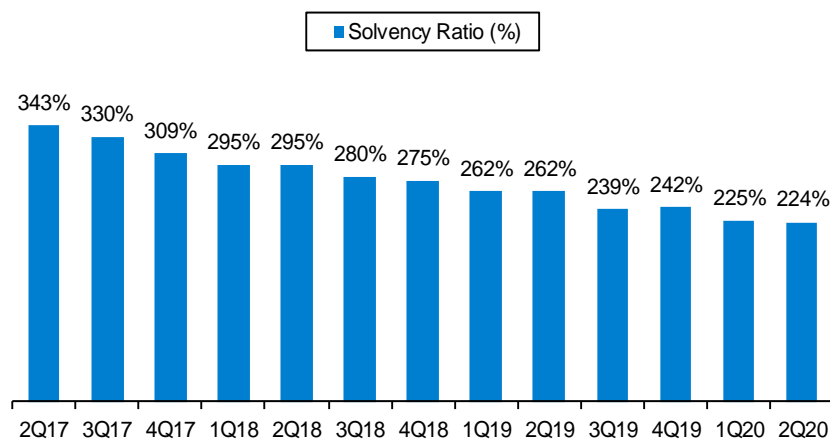
Source: Company, PL

**Exhibit 6: Conservation Ratio declines marginally but remains at good levels**


Source: Company, PL

**Exhibit 7: Persistency Ratios improve in key buckets**


Source: Company, PL

**Exhibit 8: Solvency Ratio remains stable at healthy levels**


Source: Company, PL

**Exhibit 9: Change in estimates table – We tweak our estimates on margin and unwind rate**

Rs Bn	Old		Revised		% Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
APE	46.2	54.2	46.9	55.0	1.4	1.4
VNB	9.8	11.7	10.2	12.1	3.8	3.3
VNB Margin (%)	21.2	21.5	21.7	21.9	0.5	0.4
EV	101.8	116.9	103.1	119.2	1.2	1.9
<b>Price target (Rs)</b>	<b>695</b>		<b>596</b>		<b>(14.1)</b>	
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>			

Source: Company, PL

**Exhibit 10: We slightly increase our TP to Rs696 (from Rs695)**

PT calculation and upside	
Op RoEV	20.7%
CoE	14.1%
g	5.0%
<b>Embedded value</b>	<b>129</b>
<b>Price / Embedded value</b>	<b>1.8</b>
<b>Appraisal Value</b>	<b>379</b>
Number of shares of Max Fin Services, mn	71%
<b>Valuation per share</b>	<b>596</b>
CMP	439
<i>Upside (%)</i>	<i>36.0%</i>

Source: Company, PL      Note – With Holding Co discount of 40% from 25%

**Exhibit 11: Key Metrics and EV movement**

Rs bn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>APE</b>	<b>15.7</b>	<b>18.3</b>	<b>19.7</b>	<b>21.1</b>	<b>26.6</b>	<b>33.1</b>	<b>40.0</b>	<b>46.9</b>	<b>55.0</b>	<b>66.0</b>
<b>YoY growth (%)</b>	<b>(1.3)</b>	<b>17.1</b>	<b>7.2</b>	<b>7.4</b>	<b>25.7</b>	<b>24.5</b>	<b>21.0</b>	<b>17.1</b>	<b>17.3</b>	<b>20.0</b>
NBV	2.0	2.4	4.2	3.9	5.0	6.6	8.2	10.2	12.1	14.6
YoY growth (%)		21.2	76.3	(8.5)	29.0	31.3	25.6	23.4	18.7	20.8
<b>EV Movement</b>										
Opening IEV	36.8	37.6	44.0	52.3	56.2	65.9	75.1	89.4	103.1	119.2
New Business Value, post-override	2.0	2.4	4.2	3.9	5.0	6.6	8.2	10.2	12.1	14.6
EVOP	3.7	5.1	12.4	8.2	12.9	13.1	16.5	18.1	21.1	24.8
Dividend payout	3.0	3.1	2.4	4.4	3.2	3.9	6.0	5.3	5.7	6.0
<b>Closing EV</b>	<b>37.6</b>	<b>39.5</b>	<b>52.3</b>	<b>56.2</b>	<b>65.9</b>	<b>75.1</b>	<b>89.4</b>	<b>103.1</b>	<b>119.2</b>	<b>138.9</b>
<i>Adjusted Net worth</i>	<i>19.0</i>	<i>19.3</i>	<i>21.2</i>	<i>20.8</i>	<i>24.0</i>	<i>24.8</i>	<i>25.2</i>	<i>27.9</i>	<i>31.1</i>	<i>34.9</i>
<i>Value in force (VIF)</i>	<i>18.6</i>	<i>20.2</i>	<i>31.2</i>	<i>35.4</i>	<i>41.9</i>	<i>50.3</i>	<i>62.9</i>	<i>70.8</i>	<i>79.9</i>	<i>90.1</i>
<b>Ratios (%)</b>										
NBAP margins	12.6	13.1	21.3	17.9	18.8	19.8	20.6	21.7	21.9	22.1
RoEV	10.2	13.5	28.1	15.7	23.0	19.9	21.9	20.3	20.5	20.8
Operating RoEV	10.8	15.6	22.3	17.0	19.9	20.6	16.8	19.3	19.8	20.1

Source: Company, PL

### Technical account (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross Premiums	145,752	174,872	208,733	248,338
Reinsurance Ceded	1,569	1,574	1,879	2,235
Net Premiums	144,184	173,299	206,854	246,103
Other Income	440	484	532	586
<b>Total income</b>	<b>193,267</b>	<b>233,266</b>	<b>280,412</b>	<b>336,052</b>
Commission	9,888	14,864	17,742	21,109
Operating expenses	19,274	22,733	27,135	32,284
Prov for doubtful debts	17	-	-	-
<b>Operating Profit</b>	<b>164,087</b>	<b>195,668</b>	<b>235,535</b>	<b>282,660</b>
Prov for Tax	1,299	1,174	1,413	1,696
Benefits Paid (Net)	57,178	58,936	70,347	83,693
Chg in reserves	97,365	123,999	149,851	180,543
<b>Surplus / Deficit</b>	<b>8,244</b>	<b>11,559</b>	<b>13,923</b>	<b>16,728</b>

### Shareholder's a/c (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Transfer from technical a/c	4,402	6,811	8,234	9,932
Income From Investments	2,177	2,975	2,543	2,012
<b>Total Income</b>	<b>6,604</b>	<b>9,786</b>	<b>10,777</b>	<b>11,945</b>
Other expenses	257	291	328	371
Contribution to technical a/c	120	130	140	152
<b>Total Expenses</b>	<b>377</b>	<b>421</b>	<b>469</b>	<b>523</b>
<b>PBT</b>	<b>6,226</b>	<b>9,365</b>	<b>10,308</b>	<b>11,422</b>
Prov for Tax	662	1,311	1,443	1,599
<b>PAT</b>	<b>5,564</b>	<b>8,054</b>	<b>8,865</b>	<b>9,823</b>

### Premium (Rs m) & growth (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
New business prem - unwttd	51,604	61,925	74,310	89,172
<b>New business prem - APE</b>	<b>40,019</b>	<b>46,870</b>	<b>54,979</b>	<b>65,975</b>
Renewal premium	94,148	112,948	134,423	159,167
Total premium - unwttd	145,752	174,872	208,733	248,338
New bus. growth - unwttd	18.7%	20.0%	20.0%	20.0%
<b>New business growth - APE</b>	<b>21.0%</b>	<b>17.1%</b>	<b>17.3%</b>	<b>20.0%</b>
Renewal premium growth	15.5%	20.0%	19.0%	18.4%
Total prem growth - unwttd	16.6%	20.0%	19.4%	19.0%

### Premium mix (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>New business - unwttd</b>				
- Individual mix	92.0%	92.0%	91.0%	91.0%
- Group mix	8.0%	8.0%	9.0%	9.0%
<b>New business mix - APE</b>				
- Participating	41.4%	41.4%	41.5%	41.5%
- Non-participating	16.4%	17.2%	17.5%	17.5%
- ULIPs	42.2%	41.4%	41.0%	41.0%
<b>Total premium mix - unwttd</b>				
- Participating	53.4%	58.0%	57.6%	57.5%
- Non-participating	15.0%	15.5%	15.5%	15.5%
- ULIPs	31.5%	26.5%	26.9%	26.9%

### Individual prem sourcing mix (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Individual agents	23.2%	24.0%	24.0%	24.0%
Corporate agents-Banks	63.1%	65.0%	65.0%	65.0%
Direct business	11.3%	7.0%	7.0%	7.0%
Others	2.5%	4.0%	4.0%	4.0%

Source: Company Data, PL Research

### Balance sheet (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Sources of Fund</b>				
Share Capital	19,188	19,188	19,188	19,188
Reserves And Surplus	8,478	11,212	14,410	18,218
Policy Liabilities	381,436	457,808	547,933	653,192
Prov. for Linked Liab.	186,738	227,820	277,941	339,088
Funds For Future App.	22,498	27,245	32,935	39,730
Current liabilities & prov.	23,398	25,738	28,312	31,143
<b>Total</b>	<b>659,270</b>	<b>793,084</b>	<b>954,389</b>	<b>1,148,359</b>
<b>Application of Funds</b>				
Shareholders' inv	35,187	30,914	25,607	19,112
Policyholders' inv	394,173	486,740	598,102	731,463
Assets to cover linked liab.	198,619	242,315	295,625	360,662
Loans	3,265	3,592	3,951	4,346
Fixed Assets	1,921	2,113	2,325	2,557
Current assets	26,105	27,410	28,781	30,220
<b>Total</b>	<b>659,270</b>	<b>793,084</b>	<b>954,389</b>	<b>1,148,359</b>

### Operating ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
Investment yield (%)	9.0%	9.0%	9.0%	9.0%
<b>Commissions / GWP</b>	<b>6.8%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>
- first year premiums	18.7%	21.1%	21.5%	21.4%
- renewal premiums	2.7%	4.7%	4.7%	4.7%
- single premiums	1.2%	0.2%	0.2%	0.2%
Operating expenses / GWP	13.2%	13.0%	13.0%	13.0%
<b>Total expense ratio</b>	<b>20.0%</b>	<b>21.5%</b>	<b>21.5%</b>	<b>21.5%</b>
Claims / NWP	39.6%	34.0%	34.0%	34.0%
Solvency margin	498%	435%	389%	355%

### Persistency ratios (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
13th Month	81.3%	81.3%	81.4%	81.4%
25th Month	72.2%	72.4%	72.4%	72.4%
37th Month	62.7%	63.1%	63.2%	63.2%
49th Month	56.5%	56.8%	56.9%	57.0%
61st Month	53.0%	53.2%	53.2%	53.3%

### Profitability ratios (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
NBP margin (%) pre overrun	0.0%	0.0%	0.0%	0.0%
NBP margin (%) post overrun	21.7%	21.7%	21.9%	22.1%
RoE (%)	20.4%	27.8%	58.4%	58.6%
RoIC (%)	29.0%	42.0%	92.4%	99.5%

### Valuation ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
Total AUMs, Rs bn	628	760	919	1,111
EVOP as % of MCEV	16.8%	19.3%	19.8%	20.1%
RoEV (%)	21.9%	20.3%	20.5%	20.8%
Dividend %	0%	1%	1%	1%
Dividend payout ratio (%)	86%	66%	64%	61%
EPS, Rs	2.9	4.2	4.6	5.1
Embedded Value, Rs bn	89	103	119	139
Appraisal value/EV (x)	4.2	3.7	3.2	2.7
Appraisal value/Net profit (x)	68.0	47.0	42.7	38.5

Source: Company Data, PL Research

### Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	800	713
2	Bank of Baroda	BUY	115	91
3	Bank of India	Reduce	58	62
4	Federal Bank	BUY	102	82
5	HDFC	BUY	2,700	2,376
6	HDFC Bank	BUY	1,406	1,229
7	HDFC Life Insurance Company	Hold	604	608
8	ICICI Bank	BUY	541	469
9	ICICI Prudential Life Insurance Company	Accumulate	544	485
10	IDFC First Bank	BUY	44	39
11	IndusInd Bank	BUY	1,640	1,229
12	Jammu & Kashmir Bank	Under Review	-	32
13	Kotak Mahindra Bank	Hold	1,586	1,627
14	Max Financial Services	BUY	695	419
15	Punjab National Bank	Reduce	51	59
16	SBI Life Insurance Company	BUY	991	840
17	South Indian Bank	BUY	18	10
18	State Bank of India	BUY	413	290
19	Union Bank of India	Reduce	44	52
20	YES Bank	Hold	59	67

### PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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### **Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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