Max Financial

BUY

INDUSTRY	Life Insurance
CMP *(as on 07 Aug 2018)*	Rs 491
Target Price	Rs 577
Nifty	11,389
Sensex	37,666

KEY STOCK DATA

Bloomberg	MAXF IN
No. of Shares (mn)	268
MCap (Rs bn) / ($ mn)	132/1,918
6m avg traded value (Rs mn)	338

STOCK PERFORMANCE (%)

52 Week high / low			Rs 653/403
	3M	6M	12M
Absolute (%)	(3.6)	(4.8)	(19.5)
Relative (%)	(10.6)	(15.3)	(36.2)

SHAREHOLDING PATTERN (%)

Promoters	30.3
FIs & Local MFs	29.5
FPIs	29.4
Public & Others	10.8

Source : BSE

Madhukar Ladha
madhukar.ladha@hdfcsec.com
+91-22-6171-7323

Investing to grow and de-risk

While 1QFY19 total APE grew 17% YoY to Rs 5.6bn post over-run VNB margins increased only 10bps YoY to 18.1%. Margin was dragged lower as 1Q is a seasonally slower qtr (~15% of annual premiums), product mix changed (300bps YoY improvement in protection offset by a 1300bps interchange from PAR to linked), and costs rose as a result of higher investments in proprietary channel and higher acquisition operating costs. We believe that as the year progresses growth in business will help in absorption of these additional expenses and hence remain comfortable with our FY19 VNB margin estimate of 20.4% post over-runs (+20bps YoY). Additionally, we appreciate this strategy as company invests for growth simultaneously de-risking itself from any possible severance of relationship with Axis Bank.

<u>We believe MAXL has a strong franchise run by a credible and strong management team and believe MAXL-Axis partnership to be mutually beneficial which neither of the parties would be willing to abandon.</u> To mitigate this risk, MAXL has embarked upon a plan to increase investments to grow its proprietary channels. MAXL is also open to evaluate any acquisition candidates. We have tweaked our APE growth assumptions as a result of which our target price increases to Rs 577 (FY20 EV + 26.5x FY20E adj. VNB).

Highlights of the quarter

- Pre-cost overruns VNB Margins for 1QFY19 improved by 130bps YoY to 23.5% as share of protection improved by 300bps YoY to 16%.
- MAXL has embarked upon an business investment strategy of Rs 2.3bn. (1) Rs 1.7bn to be invested in increasing branches, agents, protection share and digital initiatives while (2) Rs 0.6 bn in capex for branch network expansion.
- For 1QFY19, protection has grown 48% YoY. AUM increased to 539bn up 17.6/3.3% YoY/QoQ.
- Axis Bank's contribution to Total APE is at 52% (+300bps YoY) from 1QFY18.
- **Near-term outlook**: Premium growth and VNB margins to improve as FY19E progresses.

Business Summary – For Max Life

(Rs mn)	1QFY19	1QFY18	*YoY (%)*	4QFY18	*QoQ (%)*	FY18	FY19E	FY20E	FY21E
NBP	7,660	6,650	*15.2*	17,110	*-55.2*	42,182	49,284	57,298	66,044
APE	5,580	4,780	*16.7*	13,260	*-57.9*	32,475	37,673	43,713	50,285
VNB	1,010	860	*17.4*	NA	NA	6,560	7,685	8,983	10,409
VNB Margin (%)	18.1	18.0	*10 bps*	0	*NA*	19.1	19.5	19.8	19.8
EV						74,460	85,247	97,903	112,686
MCap/EV (x)*						2.5	2.2	1.9	1.7
P/Adj. VNB (x)*#						22.2	17.2	12.9	9.3
ROEV						19.7	20.3	20.4	20.4

Source: Company, HDFC sec Inst Research,*EV adjusted for for 70% stake in Max Life; #VNB adjusted for AXSB value transfer discount of 22%.

Quarter highlights (contd..):

- PAR/Protect/Non-PAR/ULIP contributed 43/16/5/41% compared to 51/14/7/28% for 1QFY18.
- Persistency continues to be stable across buckets and improved especially in the 37th month (61% to 64% YoY).
- AUM increased to 539bn up 17.6/3.3% YoY/QoQ.
- Holding co level: Total expenses in MAXF–Standalone rose to Rs 536 mn (4QFY18: Rs 249 mn) due to finance charge of Rs 272mn owing to underwriting fees and other finance cost in preparing for the IDBI-Federal acquisition which was subsequently called off.

Business

- Strategic priorities by FY21-
  - Continue to integrate with existing partners.
  - Accelerate investment in technology for proprietary channel. Target to grow proprietary channel at 35% CAGR in order to reduce dependence on Axis bank to ~40% of business.
  - Retain and grow existing partners.
- Management re-stated that axis bank partnership stands until FY21E, and that both partners agree that a partnership between them will create maximum value for all shareholders.
- MAXL intends to increase its protection business mix by 150-200 bps in FY19E. Protection business contributed 8% to total APE in FY18.
- While the aim remains to increase protection business, MAXL is more focused on individual protection rather than group protection as it fears regulatory crackdown on the premium arbitrage.
- The company has allocated Rs 2.3bn to be funded entirely by internal accruals over the next 4-5 quarters for strengthening its proprietary channel (Rs 1.7bn opex and balance capex). The company looks to reduce its dependence on Axis Bank incase the partnership fails post FY21.
- Plans to increase its office count from 257 to 305 and add 36,000 agents over the next 3 years.
- While the IDBI-Federal acquisition was called off, it will always be on the look-out for a possible acquisition as the life insurance industry will see consolidation.
- Aspires to achieve 25-25-25 goal: 25% RoEV, 25% growth in APE and 25% VNB margins over the next three years.

VNB Margins and EV

- Pre-cost overruns VNB Margins for 1QFY19 improved by 130bps YoY to 23.5% as share of protection improved by 300bps YoY to 16%.
- Post cost overrun VNB for 1QFY19 was 1.01bn (+17% YoY).
- MAXL reported a 1QFY19 Operating RoEV of 15% (FY18 RoEV of 22.7%).

Outlook

- Premium growth should improve as company invests in new products and channels. We expect APE growth to be at ~16% in FY19E.
- VNB margins to improve from 2QFY19 onwards as (1) yield curve has gone up and (2) business seasonality plays out allowing for absorption of costs.

Valuing MAXF

Step 1: Value MAXL excluding value transferred to Axis Bank

- We have used a DCF framework to arrive at a multiple to value the company accordingly our FY20E VNB multiple works out to be 26.5x.

Step 2: Adjusting the VNB for value transfer.

- We have adjusted the FY20E VNB by 22% to arrive at Rs 7bn and then apply the multiple of 26.5x as derived in step 1.

  Discount of 22% computed as below:

Share sale and buy-back transaction history

Year	Type for Axis Bank	Seller / Issuer	Buyer	Value (Rs mn)	Stake trfd. (%)	Closing stake (%)
FY12	Purchase	Max Life Insurance Company	Axis Bank	770	4.0	4.0
FY13	Sell	Axis Bank	Max Financial Services	1,034	(1.0)	3.0
FY15	Sell	Axis Bank	Max Life Insurance	1,034	(1.0)	2.0
FY16	Purchase	Max Financial Services	Axis Bank	766	4.0	6.0
	Purchase	Mitsui Sumitomo Insurance Company	Axis Bank	192	1.0	7.0
FY17	Sell	Axis Bank (through IDFC)	Max Financial Services	1,463	(1.0)	6.0
	Sell	Axis Bank	Max Financial Services	2,126	(1.0)	5.0
FY18	Sell	Axis Bank	Max Financial Services	1,533	(0.7)	4.3

Source: Max Life Ltd., Max Financial Services Ltd. Annual reports

Axis Bank estimated earnings from Max transactions

	FY12-21E	
	Shares (mn)	Amount (Rs mn.)
Realized gain	91.2	6,278
Unrealized gain*	81.6	9,781
Total pre-tax profits	**172.8**	**16,059**
Tax assumed @10%		(1,606)
Total post tax profits		**14,453**
Period (FY12-21E)		10
Average p.a.		1,445
FY18 VNB		6,560
Percentage of FY18 VNB		22%

**** We have valued the shares at 20% premium to last transaction price of Rs 108/sh as the re-purchase transaction will take place in the coming years.***

Source: Company, HDFC sec Inst Research

Step 3: Adjusting for discount of expenses and holding company discount

- MAXF also bears certain group level expenses at the holding co level which need to be adjusted for. During FY15, FY16, and FY17 the company has incurred net expenses of Rs 630mn, Rs 534mn, and Rs 651mn respectively. We are applying a multiple of 10x to reduce from the valuation of the company.
- We are also applying a holding company discount of 15% to this to arrive at a value for MAXF shares

Based on Appraisal value		**FY18**	**FY19E**	**FY20E**	**FY21E**
EV		74,460	85,247	97,903	112,686
New Business Value		6,560	7,685	8,983	10,409
Growth YoY		31%	17%	17%	16%
Adj. to VNB	**22%**	1,443	1,691	1,976	2,290
Adjusted VNB		5,117	5,994	7,007	8,119
Multiple of New Business Value		36.3	31.0	26.5	22.9
Structural value		185,694	185,694	185,694	185,694
Valuation		260,154	270,941	283,597	298,380
MFSL Valuation					
Stake in Max Life		70%	70%	70%	70%
Valuation of Max life		**182,108**	**189,659**	**198,518**	**208,866**
Leakages:					
Group level expenses		7,500	7,500	7,500	7,500
Max Life valuation post leakages		**174,608**	**182,159**	**191,018**	**201,366**
Holding company discount	**15%**	26,191	27,324	28,653	30,205
Max Financial valuation		148,417	154,835	162,365	171,161
MFSL (Value/share Rs)		553	577	605	638

Source: Company, HDFC sec Inst Research

Valuation (Rs mn)	**FY18**	**FY19E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**FY28E**	**FY29E**
APE	32,475	37,673	43,713	50,285	57,325	65,351	74,500	82,695	91,791	101,889	113,096	125,537
Growth %	*18.2*	*16.0*	*16.0*	*15.0*	*14*	*14*	*14*	*11*	*11*	*11*	*11*	*11*
VNB Margin	20.2	20.4	20.6	20.7	20.9	21.1	21.3	21.5	21.7	21.9	22.1	22.3
Change bps	*204*	*20*	*15*	*15*	*20*	*20*	*20*	*20*	*20*	*20*	*20*	*20*
VNB	6,560	7,685	8,983	10,409	11,981	13,789	15,869	17,779	19,919	22,314	24,994	27,995
Growth %	*31.5*	*17.2*	*16.9*	*15.9*	*15.1*	*15.1*	*15.1*	*12.0*	*12.0*	*12.0*	*12.0*	*12.0*
Discounted VNB			8,049	8,358	8,620	8,889	9,167	9,203	9,239	9,274	9,308	9,342
Discounted Terminal Value												148,621
Present value of cash flows		89,449										
Discounted terminal value		148,621										
Structural value		238,069										
Embedded value		85,247										
Appraisal value		323,316										
MFSL stake		70%										
MFSL stake value		226,322										
Value per share		843										
Implied multiple of VNB	**36.3**	**31.0**	**26.5**	**22.9**								
Government 10 yr risk free rate	8.0											
Equity risk premium	5.0											
Adj. beta	0.72											
Cost of equity	11.6											
Terminal growth rate	5.0											

Source: Company, HDFC sec Inst Research

Five Quarters At A Glance

Particulars (Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
New Business Premium	**6,650**	**9,070**	**10,660**	**17,110**	**7,660**	***15.2***	***(55.2)***
Individual adjusted premium	**4,580**	**6,540**	**7,640**	**13,390**	**5,520**	***20.5***	***(58.8)***
Gross written premium	**20,070**	**28,010**	**30,440**	**46,490**	**23,200**	***15.6***	***(50.1)***
First year Premium	4,530	6,460	7,540	13,390	5,360	*18.3*	*(60.0)*
Renewal Premium	13,420	18,940	19,780	29,380	15,540	*15.8*	*(47.1)*
Single Premium	2,120	2,610	3,120	3,720	2,300	*8.5*	*(38.2)*
Shareholder profit (Pre tax)	**1,060**	**1,300**	**1,540**	**2,250**	**910**	***(14.2)***	***(59.6)***
Total APE	**4,780**	**6,607**	**7,828**	**13,260**	**5,580**	***16.7***	***(57.9)***
VNB (post over-run)	**860**	**NA**	**NA**	**6,560#**	**1,010**	***17.4***	***NA***
VNB margin	**18.0**	**NA**	**NA**	**20.2#**	**18.1**	***10 bps***	***-210bps***
VNB margin (pre over-run) (%)	**22.2**	**NA**	**NA**	**NA**	**23.5**	***130 bps***	***NA***
Product Mix - Total APE basis (%)							
PAR	51	NA	NA	NA	38	*-1300bps*	*NA*
Individual protection	6	NA	NA	NA	7	*100bps*	*NA*
Group protection	8	NA	NA	NA	9	*100bps*	*NA*
Non PAR savings	7	NA	NA	NA	5	*-200bps*	*NA*
ULIP	28	NA	NA	NA	41	*1300bps*	*NA*
Total	**100**				**100**		
Channel Mix-Individual APE (%)							
Proprietary	35	30	28	22	36	*100bps*	*1,390bps*
Axis Bank	49	57	59	64	52	*300 bps*	*-1,190bps*
Other Banks	15	13	12	13	11	*-400bps*	*-200bps*
Others	1	1	1	1	1	-	-
Total	100	100	100	100	100	-	-
Policyholder expense to Gross premium (%)	**19**	**13**	**14**	**10**	**17**	***-160bps***	***750bps***
AUM	**458,700**	**477,560**	**503,330**	**522,370**	**539,400**	***17.6***	***3.3***
Equity Mix (%)	NA	77	75	78	78	*NA*	-
Debt Mix (%)	NA	23	25	22	22	*NA*	-
Non -Linked (%)	NA	66	66	67	68	*NA*	*100bps*
Linked (%)	NA	34	34	33	32	*NA*	*-100bps*
Solvency (%)	**295**	**295**	**280**	**275**	**262**	***-3300bps***	***-1300bps***
Opex at Max Financial-Standalone (Rs mn.)	**252**	**253**	**311**	**249**	**537**	***113.3***	***115.8***

Source: Company, HDFC sec Inst Research #Refers to full year FY18 numbers

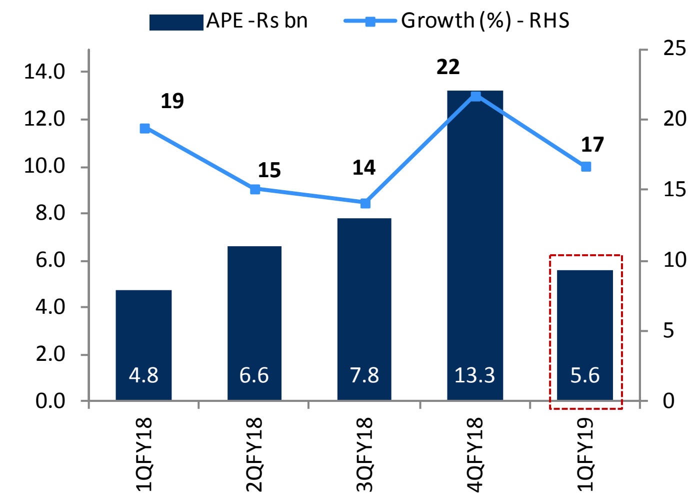
APE growth was 17% YoY to Rs 5.6bn for the quarter.

Clear focus on increasing contribution from protection and ULIP.

Persistency was strong in all buckets

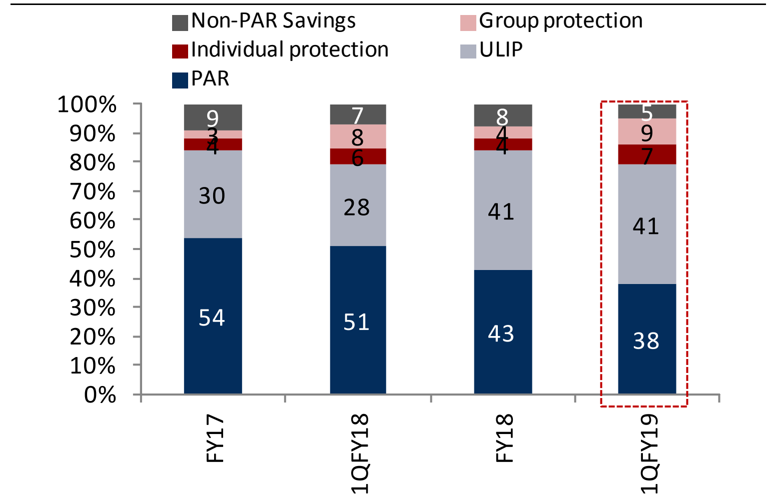
Axis Bank remains a key distribution partner.

Total APE trend



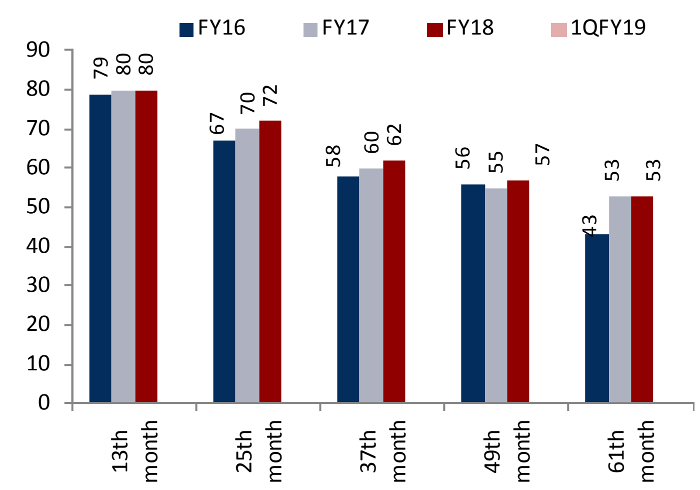
Source: Company, HDFC sec Inst Research

Product Mix On APE



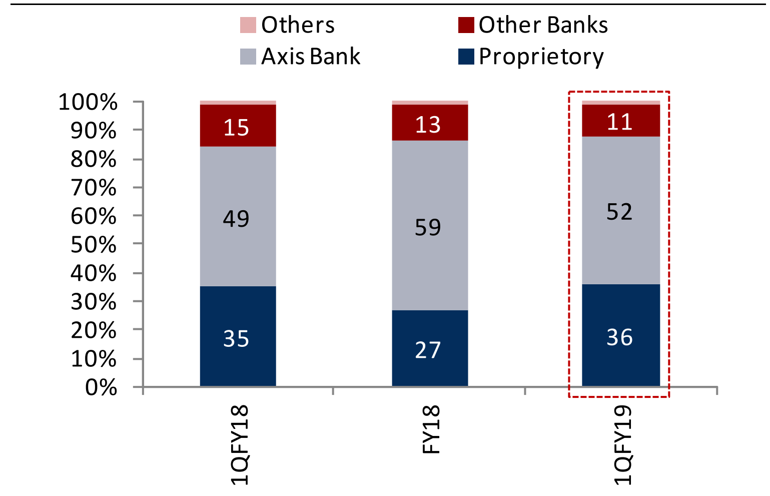
Source: Company, HDFC sec Inst Research

Persistency Trend



Source: Company, HDFC sec Inst Research

Individual Channel Mix On APE



Source: Company, HDFC sec Inst Research

We have fine-tuned our APE growth forecasts but retained the margin assumptions.

MAXL stated on the call that margins for 1QFY19 would be higher by 80bps (18.9%) had it used end of the period yield curve.

Change In Estimates

Rs mn	FY19E			FY20E		
	New	Old	*Change(%)*	New	Old	*Change(%)*
APE	37,673	36,697	*2.7*	43,713	42,582	*2.7*
VNB	7,685	7,486	*2.7*	8,983	8,751	*2.7*
VNB Margin (%)	20.4	20.4	*0*	20.6	20.6	*-0.2*
Embedded Value	85,247	86,335	*-1.3*	97,903	100,426	*-2.5*

Source: HDFC sec Inst Research

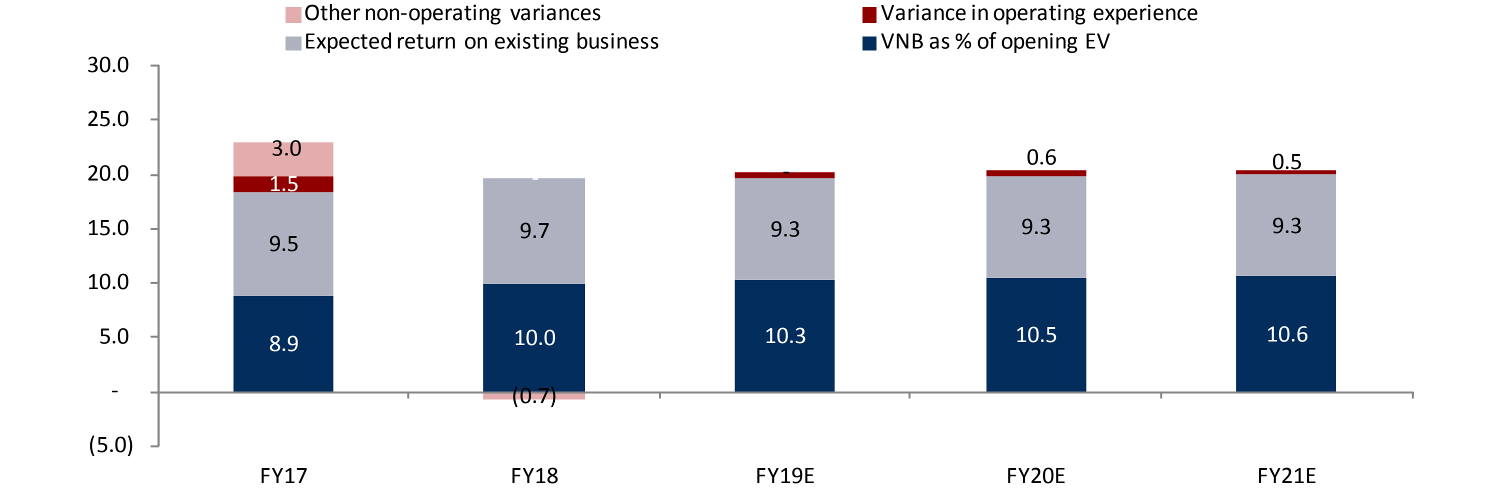
Sensitivity Analysis – FY18

Sensitivity Analysis	Change in VNB %	Change in EV %
Lapse/Surrender - 10% increase	-5%	-2%
Lapse/Surrender - 10% decrease	6%	2%
Mortality- 10% increase	-4%	-1%
Mortality- 10% decrease	4%	1%
Expenses- 10% increase	-5%	-1%
Expenses- 10% decrease	5%	1%
Risk free rates- 1% increase	5%	-2%
Risk free rates- 1% reduction	-7%	2%
Equity values- 10% immediate rise	Negligible	1%
Equity values- 10% immediate fall	Negligible	-1%
Corporate tax Rate – 2% increase	-3%	-2%
Corporate tax Rate – 2% decrease	3%	2%
Corporate tax Rate – increased to 25%	-15%	-9%

Source: Company, HDFC sec Inst Research

MAXL has not reported substantial negative operating varianc.

RoEV stack up



Source: Company, HDFC sec Inst Research

Embedded Value movement

(Rs. Mn)	FY17	FY18	FY19E	FY20E	FY21E
Opening MCEV	**56,170**	**65,890**	**74,460**	**85,247**	**97,903**
Value added by new business during the period/ VNB	4,990	6,560	7,685	8,983	10,409
Unwind/ Expected Return	5,340	6,410	6,925	7,928	9,105
Variance in Operating experience	860	0	500	500	500
MCEV operating earnings	11,190	12,970	15,110	17,411	20,014
Economic variances	0	0	0	0	0
Other non-operating variances	1,710	-470	0	0	0
Total MCEV earnings	12,900	12,500	15,110	17,411	20,014
Capital contributions / dividend payouts	-3,180	-3,930	-4,323	-4,755	-5,231
Closing MCEV-Year End	**65,890**	**74,460**	**85,247**	**97,903**	**112,686**

Source: Company, HDFC sec Inst Research

Industry NBP analysis

Particulars	Individual (Rs bn)					Group (Rs bn)					Total (Rs bn)				
	FY16	FY17	FY18	1QFY19	*YOY (%)*	FY16	FY17	FY18	1QFY19	*YOY (%)*	FY16	FY17	FY18	1QFY19	*YOY (%)*
Aditya Birla Sun Life	7.1	9.6	11.5	2.5	*46.7*	15.1	15.7	15.1	3.9	*56.6*	22.2	25.3	26.6	6.4	*52.6*
Bajaj Allianz Life	8.9	10.7	14.6	3.0	*1.4*	19.9	22.2	28.4	4.2	*8.7*	28.8	32.9	42.9	7.2	*5.6*
Bharti Axa Life	3.6	4.0	4.7	1.1	*75.7*	1.8	2.1	2.6	0.6	*35.1*	5.4	6.1	7.3	1.7	*58.3*
DHFL Pramerica Life	1.8	2.2	3.6	0.9	*42.3*	5.4	6.6	10.9	2.9	*24.0*	7.2	8.8	14.5	3.8	*27.9*
HDFC Standard Life	36.6	42.0	59.4	12.4	*56.6*	28.3	45.0	54.0	14.4	*68.6*	64.9	87.0	113.4	26.8	*62.8*
ICICI Prudential Life	53.6	69.8	84.0	14.9	*(18.1)*	14.1	8.9	7.2	2.3	*46.7*	67.7	78.6	91.3	17.2	*(12.9)*
Kotak Mahindra Old Mutual Life	10.6	14.4	19.7	2.8	*15.6*	11.5	14.1	14.5	3.8	*23.5*	22.1	28.5	34.3	6.6	*20.1*
Max Life	**26.1**	**33.1**	**39.8**	**6.8**	***14.4***	**2.7**	**3.6**	**3.6**	**0.9**	***22.5***	**28.8**	**36.7**	**43.5**	**7.7**	***15.3***
SBI Life	**49.8**	**64.7**	**84.1**	**13.2**	***9.0***	**21.3**	**36.8**	**25.6**	**7.5**	***28.7***	**71.1**	**101.5**	**109.7**	**20.7**	***15.4***
Tata AIA Life	6.1	10.5	14.0	2.7	*36.6*	1.3	0.8	0.9	0.2	*96.7*	7.4	11.3	14.9	2.9	*40.0*
LIC	327.9	455.9	517.4	85.6	*3.2*	648.9	788.1	828.1	161.6	*7.9*	976.7	1,244.0	1,345.5	247.3	*6.2*
Industry total*	**582.8**	**776.8**	**921.1**	**157.8**	***6.2***	**803.6**	**974.1**	**1,017.8**	**209.5**	***13.9***	**1,386.5**	**1,750.9**	**1,938.9**	**367.3**	***10.4***

Source: IRDAI data, HDFC sec Inst Research * Total will not add up since we have excluded smaller sized private players

Market share on NBP basis (%)

Particulars	Individual					Group				
	FY16	FY17	FY18	1QFY19	*YOY (bps)*	FY16	FY17	FY18	1QFY19	*YOY (bps)*
Aditya Birla Sun Life	2.9	3.0	2.9	3.4	*86*	8.0	8.5	8.0	8.2	*86*
Bajaj Allianz Life	3.6	3.3	3.6	4.1	*-35*	14.9	12.0	14.9	8.9	*-256*
Bharti Axa Life	1.2	1.3	1.2	1.5	*57*	1.4	1.1	1.4	1.3	*-5*
DHFL Pramerica Life	0.9	0.7	0.9	1.2	*28*	5.7	3.5	5.7	6.0	*-78*
HDFC Standard Life	14.7	13.1	14.7	17.1	*510*	28.5	24.2	28.5	30.1	*507*
ICICI Prudential Life	20.8	21.7	20.8	20.7	*-711*	3.8	4.8	3.8	4.9	*22*
Kotak Mahindra Old Mutual Life	4.9	4.5	4.9	3.9	*19*	7.7	7.6	7.7	8.0	*-107*
Max Life	**9.9**	**10.3**	**9.9**	**9.4**	***36***	**1.9**	**1.9**	**1.9**	**1.9**	***-27***
SBI Life	20.8	20.2	20.8	18.4	*-17*	13.5	19.8	13.5	15.7	*-140*
Tata AIA Life	3.5	3.3	3.5	3.7	*72*	0.5	0.4	0.5	0.5	*14*
Private players*	**43.8**	**41.3**	**43.8**	**45.7**	***159.3***	**18.6**	**19.1**	**18.6**	**22.9**	***428.6***
LIC	56.2	58.7	56.2	54.3	*-159.3*	81.4	80.9	81.4	77.1	*-428.6*
Industry	**100**	**100**	**100**	**100**	***0***	**100**	**100**	**100**	**100**	***0***

Source: IRDAI data, HDFC sec Inst Research * Total private insurers' market share with respect to total market, whereas individual private insurers market share is with respect to total private market.

Valuation Comp

Bloomberg Ticker	Unit	IPRU			MAXF			SBILIFE			HDFCLIFE		
Rating				BUY			BUY			BUY			Not Rated
Current market price	Rs			420			491			688			479
Market Capitalisation	Rs bn			603			132			688			964
Target price	Rs			484			577			846			NA
Upside/(Downside)	%			15			18			23			NA

Profitablity		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
VNB Margin	%	16.5	17.5	18.0	20.2	20.4	20.6	18.4	19.3	19.4	23.2	24.2	25.0
Total RoEV	%	23.4	17.8	18.1	19.0	20.3	20.4	16.9	20.1	19.7	23.6	20.1	20.3
Operating RoEV	%	22.7	17.8	18.1	19.7	20.3	20.4	18.0	20.1	19.7	21.5	20.1	20.3
Non-operating RoEV	%	0.7	0.0	0.0	-0.7	0.0	0.0	-1.0	0.0	0.0	2.1	0.0	0.0
RoE	%	27.9	25.3	22.9	24.2	25.7	25.5	19.4	20.1	20.5	27.7	22.2	22.4

Valuation at CMP		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
P/EV	x	3.2	2.8	2.5	2.5	2.2	1.9	3.4	2.9	2.4	6.3	5.3	4.5
P/EVOP	x	16.4	18.0	15.7	14.5	12.5	10.8	22.0	17.0	14.6	36.0	31.5	26.3
Implied P/VNB	x	32.3	25.3	19.6	22.2	17.2	12.9	30.9	23.2	17.9	63.4	49.1	38.2
Implied P/VIF	x	5.1	4.5	3.9	3.7	3.2	2.8	5.9	5.0	4.3	9.3	8.1	6.9
P/B	x	9.2	8.1	7.2	6.5	5.4	4.6	10.8	9.1	7.7	20.5	17.5	14.9
P/E	x	37.1	34.0	33.3	31.7	24.6	21.0	59.8	49.2	40.7	87.9	85.1	71.8
P/AUM	x	0.4	0.4	0.3	0.4	0.3	0.3	0.6	0.5	0.4	0.9	0.8	0.6

Valuation at TP		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
P/EV	x	3.7	3.3	2.9	3.0	2.6	2.3	4.3	3.6	3.1	NA	NA	NA
P/EVOP	x	18.8	20.7	17.9	17.0	14.6	12.7	27.8	21.5	18.4	NA	NA	NA
Implied P/VNB	x	39.1	31.0	24.4	22.2	17.6	13.6	42.6	32.6	25.9	NA	NA	NA
Implied P/VIF	x	5.9	5.2	4.5	3.1	2.7	2.3	7.5	6.4	5.4	NA	NA	NA
P/B	x	10.5	9.3	8.3	7.6	6.4	5.4	13.6	11.6	9.7	NA	NA	NA
P/E	x	42.5	38.9	38.1	37.1	28.8	24.6	75.6	62.2	51.5	NA	NA	NA
P/AUM	x	0.5	0.4	0.4	0.2	0.2	0.1	0.7	0.6	0.5	NA	NA	NA

Bloomberg Ticker	Unit	IPRU			MAXF			SBILIFE			HDFCLIFE		
Per Share data		**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**
EV	Rs	131	148	169	194	222	255	202	240	284	76	90	107
EVOP	Rs	26	23	27	34	39	45	31	40	47	13	15	18
VNB	Rs	9	11	13	17	20	23	16	19	23	6	8	10
VIF	Rs	82	93	107	131	151	175	116	136	160	51	59	69
Book Value	Rs	46	52	58	76	90	107	64	75	89	23	27	32
Earnings	Rs	11	12	13	15	20	23	12	14	17	5	6	7
AUM	Rs	972	1,127	1,317	1,362	1,644	1,916	1,163	1,403	1,717	530	627	744
ANW	Rs	49	55	62	90	102	115	75	92	113	24	30	38
Key parameters		**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**
APE	Rs bn	78	88	102	32	38	44	85	100	116	54	66	78
VNB	Rs bn	13	15	18	7	8	9	16	19	23	13	16	20
Total EVOP	Rs bn	38	33	38	13	15	17	31	40	47	29	31	37
Operating EVOP	Rs bn	37	33	38	13	15	17	31	40	47	27	31	37
Non- operating EVOP	Rs bn	1	0	0	(0)	0	0	(2)	0	0	3	0	0
EV	Rs bn	188	212	242	74	85	98	201.7	239.7	284.0	152	181	215
Net worth	Rs bn	66	75	84	29	35	41	64	75	89	47	55	65
Net Profit	Rs bn	16	18	18	6	8	9	12	14	17	11	11	13
AUM	Rs bn	1,395	1,617	1,891	522	630	735	1,163	1,403	1,717	1,066	1,261	1,496
Growth YOY		**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**
APE	%	17.6	13.0	16.2	18.2	16.0	16.0	29.3	17.5	16.0	32.2	22.0	19.0
VNB	%	93.1	19.8	19.5	31.5	17.2	16.9	51.4	23.0	16.9	40.7	24.5	22.9
Total EVOP	%	31.8	(11.9)	15.2	15.9	16.5	15.2	8.4	29.3	16.5	22.5	4.0	19.9
Operating EVOP	%	60.3	(9.2)	15.2	15.9	16.5	15.2	8.4	29.3	16.5	24.7	14.1	19.9
Non- operating EVOP	%	(80.8)	(100.0)	NM	(127.5)	(100.0)	NM	(114.0)	(100.0)	NM	4.0	(100.0)	NM
EV	%	16.1	13.1	13.9	13.0	14.5	14.8	21.7	18.9	18.4	22.8	18.8	19.2
Net worth	%	7.2	13.5	12.1	15.9	18.9	19.1	16.6	18.1	18.6	24.0	17.1	17.2
Net Profit	%	(5.0)	9.2	2.1	(9.9)	28.7	17.1	20.5	21.5	20.9	22.8	3.3	18.5
AUM	%	13.5	15.9	16.9	17.7	20.7	16.5	19.0	20.7	22.3	1,192.1	18.3	18.6

Source: Company financials and disclosures, HDFC sec Inst Research

Operational Comps

		IPRU			MAXF			SBILIFE			HDFCLIFE		
APE mix		**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
Individual	Rs bn	49.7	65.2	75.8	21.0	26.4	32.2	44.9	60.2	77.9	34.3	37.4	48.9
Group	Rs bn	1.4	1.1	2.1	0.1	0.2	0.3	3.9	5.8	7.5	1.9	3.5	6.3
APE (Rs bn)	**Rs bn**	**51.1**	**66.3**	**77.9**	**21.1**	**26.6**	**32.5**	**48.8**	**66.0**	**85.4**	**36.2**	**40.9**	**55.2**
YoY Growth	%		30	18		26	22		35	29		13	35
CAGR 3 years	%			19			18			34			20
CAGR 5 years	%			13			NA			24			11

Business mix- product wise		**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
		***Total APE**	***Total APE**	***Total APE**	*** Total APE**	*** Total APE**	*** Total APE**	*** Total APE**	*** Total APE**	*** Total APE**	*** Total APE**	*** Total APE**	*** Total APE**
Individual	**%**	**97.1**	**98.4**	**96.8**	**96.0**	**97.0**	**96.0**	**87.3**	**89.5**	**92.5**	**100.0**	**89.3**	**88.4**
PAR	%	14.1	9.6	10.9	58.0	54.0	43.0	30.7	16.6	24.4	30.0	31.2	24.8
Non-PAR	%	0.4	1.1	0.5	9.0	9.0	8.0	1.2	0.7	0.8	14.0	8.0	8.0
ULIP	%	80.8	84.1	81.4	26.0	30.0	41.0	53.3	70.9	66.5	56.0	46.4	51.3
Protection	%	1.8	3.6	4.0	3.0	4.0	4.0	2.2	1.2	0.7	NA	3.6	4.4
Group	**%**	**2.9**	**1.6**	**3.2**	**4.0**	**3.0**	**4.0**	**12.3**	**10.5**	**7.5**	**NA**	**10.7**	**11.6**
Savings	*%*	*2.0*	*1.3*	*1.2*	*NA*	*NA*	*NA*	*4.2*	*5.5*	*2.8*	*NA*	*6.5*	*4.7*
Protection	%	0.9	0.3	2.0	4.0	3.0	4.0	8.1	5.1	4.7	NA	4.2	6.9
Total	**%**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**99.6**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Channel mix (Overall)		**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
		***Total APE**	***Total APE**	***Total APE**	*** Ind APE**	*** Ind APE**	*** Ind APE**	***NBP**	***NBP**	***NBP**	*** Total NBP**	*** Total NBP**	*** Total NBP**
Bancassurance	%	58	57	52	67	70	72	60	53	62	43	52	48
Agency	%	24	24	25	32	29	27	25	22	25	40	32	33
Direct	%	9	10	14	-	-	-	-	-	-	7	7	10
Brokers and others	%	9	9	9	1	1	1	15	25	13	10	9	9
Total	%	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Banca channel partners		ICICIB and SCB			AXIS, YES, LVB			SBI, P&SB, SIB			HDFCB, RBL, IDFCB, BFL		
		FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
AUM	**Rs bn**	**10,394**	**12,292**	**13,953**	**358**	**444**	**522**	**798**	**977**	**1,163**	**742**	**917**	**1,066**
Equity	%	47	47	47	29	24	22	23	23	23	39	59	61
Debt	%	53	53	53	71	76	78	77	77	77	61	41	39
Linked	%	72	71	70	37	35	33	55	54	53	62	52	57
Non-linked	%	28	29	30	63	65	67	45	46	47	38	48	43
Solvency ratio													
Solvency	**%**	**320**	**281**	**252**	**343**	**309**	**275**	**212**	**204**	**206**	**198**	**192**	**192**
Market Share													
Individual NBP Private Market Share	**%**	21	22	21	10	10	10	21	20	21	15	13	15
Individual APE Private Market Share	**%**	22	22	21	9	9	9	19	21	22	15	13	13
VNB Margin													
Margin	**%**	**8.1**	**10.1**	**16.5**	**17.9**	**18.2**	**20.2**	**14.3**	**15.7**	**16.3**	**19.9**	**22.3**	**23.2**
Persistency													
13th month	**%**	82	82	82	79	80	81	81	81	83	79	81	87
25th month	**%**	71	74	79	67	70	71	73	74	75	67	73	77
37th month	**%**	62	67	69	58	60	60	69	67	70	60	64	71
49th month	**%**	62	59	64	56	55	55	77	62	64	63	58	62
61th month	**%**	46	56	55	43	53	53	54	67	58	50	57	51

Source: Company financials and disclosures, HDFC sec Inst Research

Performance metrics, growth and ratios

Particulars	FY17	FY18	FY19E	FY20E	FY21E
NBP	36,664	42,182	49,284	57,298	66,044
APE	27,485	32,475	37,673	43,713	50,285
VNB	4,990	6,560	7,685	8,983	10,409
EV	65,890	74,460	85,247	97,903	112,686
EVOP	11,190	12,970	15,110	17,411	20,014
Rs/share					
EPS	17.2	15.5	19.9	23.4	27.5
BV	65.3	75.7	90.1	107.2	128.0
Growth (%)					
Premium growth	16.9	11.9	11.6	16.8	16.3
Total income growth	42.7	14.7	4.3	15.8	16.3
Commissions growth	14.1	14.8	15.9	17.5	16.8
Opex growth	27.3	10.2	10.1	14.7	16.3
PAT growth	20.1	19.8	22.2	16.6	16.5
Performance metrics growth (%)					
NBP	27.2	15.1	16.8	16.3	15.3
APE	27.1	18.2	16.0	16.0	15.0
VNB	28.6	31.5	17.2	16.9	15.9
EV	17.3	13.0	14.5	14.8	15.1
EVOP	26.2	15.9	16.5	15.2	15.0
EPS	50.2	(9.9)	28.7	17.1	17.9
BV	24.4	15.9	18.9	19.1	19.3
Expense ratios (%)					
Commissions/premium	5.3	5.0	5.0	5.0	5.0
Opex/premium	21.5	11.7	12.1	15.5	16.2
Total expenses/premium	24.4	24.4	24.5	24.2	24.2
Effeciency ratios (%)					
RoAA	1.6	1.3	1.4	1.4	1.4
RoE	29.2	24.2	25.7	25.5	25.3
ROEV return	23.0	19.0	20.3	20.4	20.4
Operating RoEV	19.9	19.7	20.3	20.4	20.4
Non-operating RoEV	3.0	-0.7	0.0	0.0	0.0

Source: Company financials and disclosures, HDFC sec Inst Research

Policyholder AC

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Total Premium earned	106,802	119,464	133,307	155,643	180,953
Income from investments and other income	42,296	51,626	45,143	50,995	59,352
Transfer from shareholders AC	2	-	-	-	-
Total Income	**149,101**	**171,090**	**178,450**	**206,638**	**240,305**
Commission	9,364	10,746	12,452	14,634	17,088
Operating expenses	15,912	17,540	19,303	22,145	25,746
Provisions	803	843	886	930	976
Total Expenses	**26,080**	**29,129**	**32,641**	**37,709**	**43,811**
Benefits Paid	37,775	45,261	55,322	64,517	75,131
Change in valuation of liabilities	78,693	91,458	83,585	96,493	112,161
Total	**116,468**	**136,719**	**138,906**	**161,009**	**187,292**
Surplus	**6,553**	**5,242**	**6,903**	**7,920**	**9,202**
Transfer to shareholders AC	**5,551**	**4,455**	**5,867**	**6,732**	**7,822**

Source: Company, HDFC sec Inst Research

Shareholders AC

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Transfer from policyholders' a/c	5,551	4,455	5,867	6,732	7,822
Investment income	3,089	3,230	3,728	4,385	5,158
Total income	**8,640**	**7,686**	**9,596**	**11,116**	**12,980**
Expenses	961	769	692	692	692
Contribution to policyholders' a/c	2	-	-	-	-
Profit before tax	**7,677**	**6,917**	**8,904**	**10,425**	**12,288**
Taxes	1,083	975	1,255	1,470	1,732
PAT	**6,594**	**5,942**	**7,649**	**8,955**	**10,556**

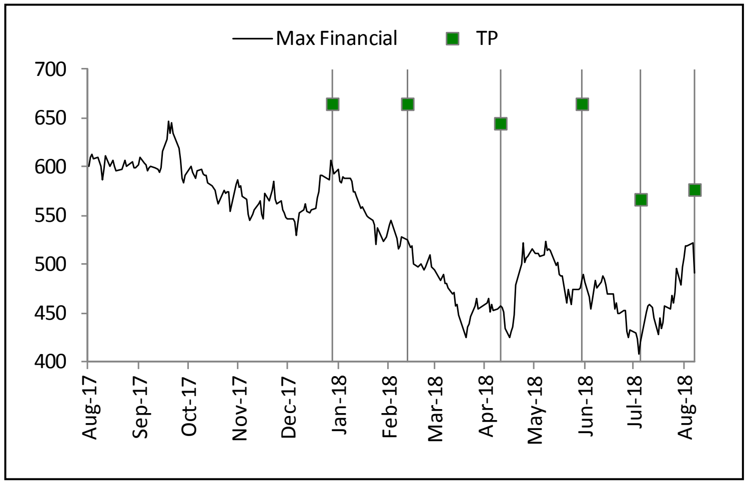
Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18E	FY19E	FY20E	FY21E
Source					
Share capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	5,867	9,849	15,342	21,925	29,873
Net worth	**25,055**	**29,037**	**34,530**	**41,114**	**49,061**
Credit/debit balance in fair value a/c	38	42	46	51	56
Policyholders' a/c	406,692	498,149	581,734	678,227	790,388
Funds for future appropriation	15,565	16,636	17,780	19,004	20,311
Total Liabilities	**447,350**	**543,864**	**634,091**	**738,395**	**859,815**
Application					
Shareholders' Investments	32,303	37,284	43,848	51,578	60,754
Policyholders' investments	255,483	-	-	-	-
Asset to cover linked liabilities	155,910	502,850	586,434	682,927	795,088
Loans	1,333	1,333	1,333	1,333	1,333
Fixed assets + DTA	1,623	1,663	1,705	1,748	1,791
Net current assets	699	734	771	809	850
Total Assets	**447,350**	**543,864**	**634,091**	**738,395**	**859,815**

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-Dec-17	600	BUY	665
12-Feb-18	521	BUY	665
10-Apr-18	458	BUY	645
30-May-18	485	BUY	665
6-Jul-18	420	BUY	567
7-Aug-18	491	BUY	577

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

I, **Madhukar Ladha** author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently send or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com **Phone: (022) 3045 3600**

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board : +91-22-6171 7330   www.hdfcsec.com