

November 14, 2018

## Q2FY19 Result Update

### Key Financials

Y/e March	FY18	FY19E	FY20E	FY21E
Net Premiums (Rs m)	123,795	147,053	174,277	208,056
- Growth (%)	15.9	18.8	18.5	19.4
Surplus / Deficit (Rs m)	7,082	9,474	11,607	13,984
PAT (Rs m)	5,276	9,523	11,026	12,448
- Growth (%)	-20.0	80.5	15.8	12.9
EPS (Rs)	2.7	5.0	5.7	6.5
Emb. Value (Rs bn)	75.1	88.1	104.3	123.4
NBP Margin (%) post overrun	20.2	21.0	21.8	22.1
RoE (%)	20.3	31.4	29.1	59.2
Operating RoEV (%)	20.6	20.8	21.3	21.1
RoEV (%)	19.9	21.0	21.6	21.1
Dividend yield (%)	0.4	0.3	0.3	0.3
Price/EV (x)	2.5	2.1	1.8	1.5
Ap. Value/EV (x)	4.0	3.4	2.9	2.4

### Key Data

MAXI.BO | MAXF IN

52-W High / Low	Rs.350 / Rs.268
Sensex / Nifty	35,142 / 10,576
Market Cap	Rs.105.5bn / \$ 1,465.1m
Shares Outstanding	268.4m
3M Avg. Daily Value	Rs.390.2m

### Shareholding Pattern (%)

Promoter's	30.29
Foreign	28.52
Domestic Institution	31.20
Public & Others	9.99
Promoter Pledge (Rs bn)	25.42

### Stock Performance (%)

	1M	6M	12M
Absolute	9.4	(18.2)	(27.7)
Relative	8.4	(16.1)	(31.6)

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## Steady Performance

### Quick Pointers

- Total protection share improves to 13% of APE helping deliver overall APE growth
- Margins improve to 20.4% on lower opex and better protection growth

**Max Life's individual NB APE growth was better at 25% YoY led by strong protection segment growth which grew by 78%. Group protection segment also grew robust at 51% YoY. Improving protection share with improvement in opex cost has helped deliver margins of 20.4% up by 230bps YoY in H1FY19. Management continues to give thrust on growing from proprietary/e-commerce channels and higher focus on improving protection mix further, targeting 25% growth in top-line, 25% VNB margin and 25% RoEV by FY21. We have slightly toned down growth but improved margin estimates marginally as we see continuing upward trends. Valuations at 1.6-1.7x EV remains undemanding with improving product mix, hence maintain our recommendation of BUY with revised TP of Rs629 (from Rs700) translating to 2.6x Sep FY21E EV, rolled from Mar FY20E EV, adjust CoE assumptions upwards and assign higher holdco discount of 20% from 10%.**

- Stronger growth led by protection:** Max Life's individual APE grew by strong 26% YoY in H1FY19 (33% YoY implied in Q2FY19) led by robust protection growth of 78% YoY improving its share to 7% of total APE mix. Growth was driven by proprietary channels and Axis banca channel, while non-Axis banca contribution to growth was meagre due to seasonality in those banca relationships. Group protection also grew robust 51% YoY with share of 7% of which 1% if group credit and rest is group term.
- Profitability growth lower by one-off expenses:** Earnings were lower due to one-time expenses for the attempted acquisition of IDBI Federal Life, knowledge partnership with New York Life, higher protection sales and shift in product mix, despite which opex saw improvement by 80bps YoY in H1FY19. PBT was aided by better yield on investment, Rs500mn write-back from re-alignment of reserves associated with non-par savings product.
- Persistency improving:** Max saw good gains in 13<sup>th</sup> & 37<sup>th</sup> month persistency YoY and from Q1FY19, while was steady at 61<sup>st</sup> month bucket. Improved protection share helped improve margin to 20.4% up 230bps YoY with VNB growing 42% YoY. EV grew by 12% YoY to 77.5bn on positive operating variance led by better persistency and mortality experience but was offset by dividend payout and negative investment variance.
- Strong guidance till FY21:** Management has charted path of 25% top line growth, 25% VNB margins (20.4% currently), RoEV of 25% by FY21 which will be led by strong focus on growth from proprietary channels (increase agents/branches), focus on individual protection growth and improve operating leverage. We remain conservative in our estimates on growth and margins as upfront opex would be incurred to build business and channels but continue to see upward trends.

**Exhibit 1: Better protection share, improvement in margins on lowering cost**

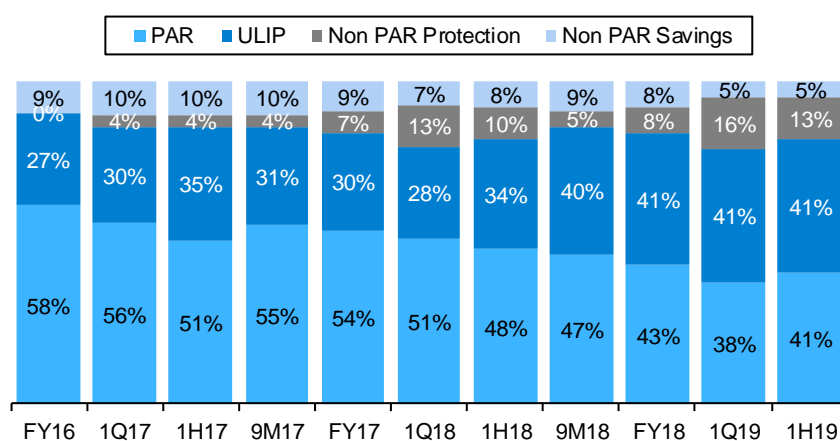
Rs Mn	Q2FY19	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	H1FY19	H1FY18	YoY Chg.
<b>Individual New Business APE</b>	<b>8,530</b>	<b>6,400</b>	<b>33.3</b>	<b>5,520</b>	<b>55</b>	<b>14,050</b>	<b>11,120</b>	<b>26.3</b>
<b>Total Protection APE</b>	<b>1,010</b>	<b>560</b>	<b>80.4</b>	<b>990</b>	<b>2</b>	<b>2,000</b>	<b>1,230</b>	<b>62.6</b>
Individual Protection APE	570	260	119.2	410	39	980	550	78.2
Group Protection APE	430	290	48.3	580	(26)	1,010	670	50.7
% of Total protection of Total APE	11.7	8.6	314.4	16.0	(27)	13.0	10.0	300.0
<b>Ratios (%)</b>								
Commission Ratio	6.8	6.7	8.0	6.3	51.1	6.6	6.7	(12.4)
Operating Expense Ratio	12.9	13.0	(11.3)	17.3	(442.8)	14.7	15.5	(76.2)
Total Expense Ratio	19.7	19.7	(3.3)	23.6	(391.7)	21.3	22.2	(88.6)
VNB post overrun	1,890	1,180	60.2	1,010	87	2,900	2,040	42.2
<b>VNB Margin post overrun (%)</b>	<b>21.9</b>	<b>18.1</b>	<b>386.2</b>	<b>18.1</b>	<b>382.6</b>	<b>20.4</b>	<b>18.1</b>	<b>230.0</b>
Embedded Value						77,520	69,460	11.6
Operating Return on EV (%) (Op. RoEV)	0.0	0.0	-	15.0		18.5	16.8	170.0

Source: Company, PL

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

Total NB APE Product Mix (%)	Q2FY19	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	H1FY19	H1FY18	YoY Chg.
ULIP	41	38	261	41	-	41	34	700
Non PAR Savings	5	9	(373)	5	-	5	8	(300)
Individual Protection	6	3	270	7	(93)	6	4	200
Group Protection	5	4	55	9	(401)	7	6	100
PAR	43	46	(286)	38	494	41	48	(700)

Source: Company, PL

**Exhibit 3: Steadying mix in ULIP/Par but steady improvement in protection**


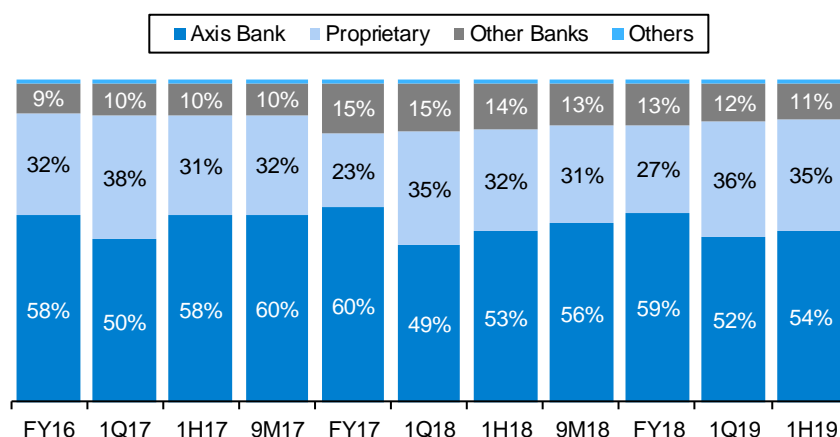
Source: Company, PL

Note: Periods 1Q19/1Q18/FY18/FY17/FY16 represent Total Protection (Group + Individual)

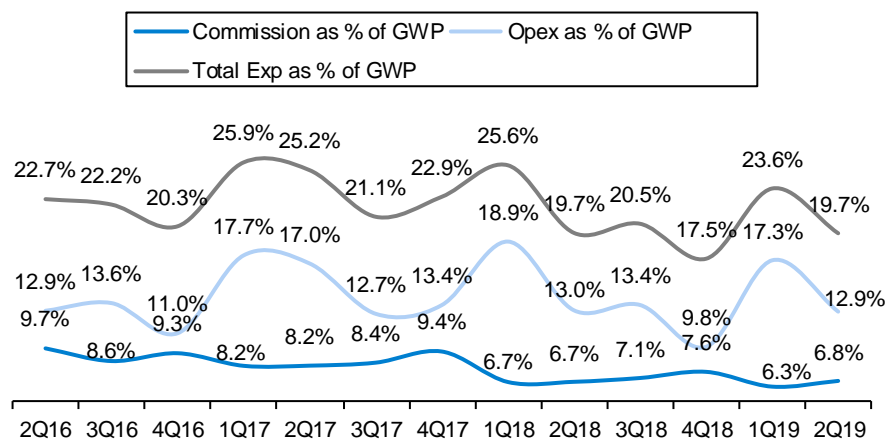
**Exhibit 4: Proprietary channel grew better than banca channel with non-Axis banca muted**

APE Sourcing Mix	Q2FY19	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	H1FY19	H1FY18	YoY Chg.
<b>Rs Mn</b>								
Proprietary	2,930	1,906	53.7	1,987	47.5	4,918	3,558	38.2
Axis Bank	4,717	3,581	31.7	2,870	64.3	7,587	5,894	28.7
Other Banks	883	849	4.0	662	33.3	1,546	1,557	-0.7
Others	85	64	33.3	55	54.5	141	111	26.3
<b>Total</b>	<b>8,615</b>	<b>6,400</b>	<b>34.6</b>	<b>5,575</b>	<b>54.5</b>	<b>14,191</b>	<b>11,120</b>	<b>27.6</b>
<b>(%)</b>								
Proprietary	34	30	456.5	36	(164.7)	35	32	300.0
Axis Bank	55	56	(65.6)	52	329.4	54	53	100.0
Other Banks	10	13	(291.0)	12	(164.7)	11	14	(300.0)
Others	1	1	-	1	-	1	1	-

Source: Company, PL

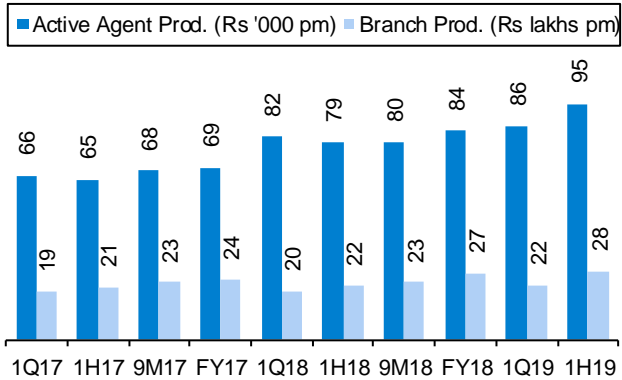
**Exhibit 5: Proprietary channel share sees good improvement**


Source: Company, PL

**Exhibit 6: Opex sees improvement**


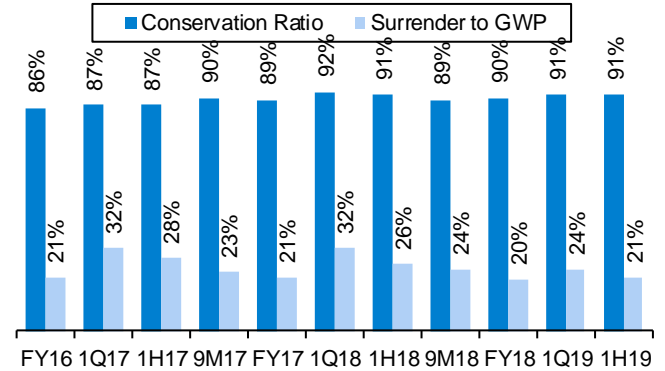
Source: Company, PL

**Exhibit 7: Active agent productivity has been improving**



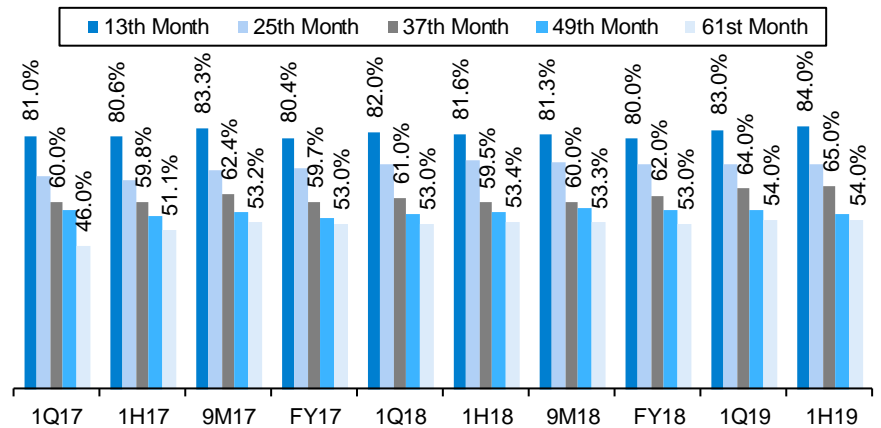
Source: Company, PL

**Exhibit 8: Conservation Ratio is amongst the best in peers**



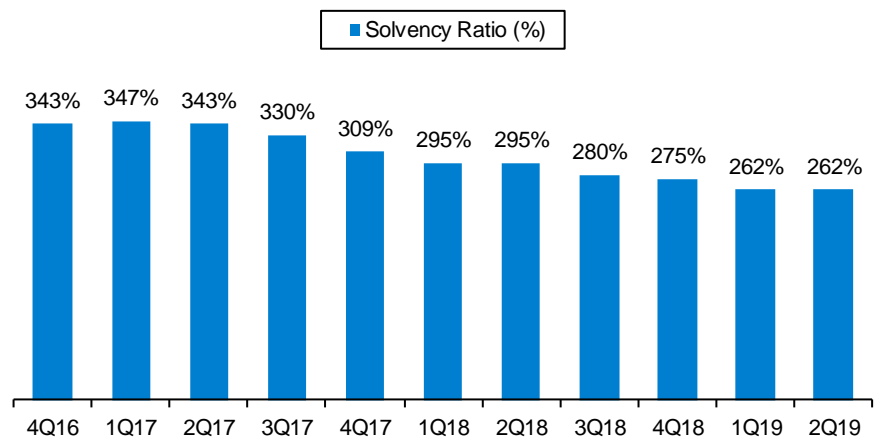
Source: Company, PL

**Exhibit 9: Persistency Ratio improved in key buckets**



Source: Company, PL

**Exhibit 10: Solvency Ratio remains healthy**



Source: Company, PL

### Exhibit 11: Change in estimates table – We decrease APE growth but improve margins profile slightly

	Old		Revised		% Change	
Rs Bn	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
APE	39.8	47.8	39.1	46.6	(1.6)	(2.4)
VNB	8.1	10.3	8.2	10.2	1.0	(1.5)
VNB Margin (%)	20.5	21.6	21.0	21.8	0.5	0.2
EV	86.9	101.4	88.1	104.3	1.4	2.9
<b>Price target (Rs)</b>	<b>700</b>		<b>629</b>		<b>(10.1)</b>	
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>			

Source: Company, PL

### Exhibit 12: We reduce our TP to Rs629 (from Rs700) on SOTP basis

PT calculation and upside	
Op RoEV	21.3%
CoE	13.9%
g	5.0%
<b>Embedded value</b>	<b>114</b>
<b>Price / Embedded value</b>	<b>2.6</b>
<b>Appraisal Value</b>	<b>300</b>
Number of shares of Max Fin Services, mn	267.3
<b>Valuation per share</b>	<b>629</b>
CMP	401
<i>Upside (%)</i>	<i>56.9%</i>

Source: Company, PL      Note – Holding Co discount of 20%

### Exhibit 13: Key Metrics and EV movement

Rs bn	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>APE</b>	<b>15.9</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>39.1</b>	<b>46.6</b>	<b>55.1</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>18.4</b>	<b>19.1</b>	<b>18.2</b>
NBV	0.7	2.0	2.4	4.2	3.9	5.0	6.6	8.2	10.2	12.2
YoY growth (%)			21.2	76.3	(8.5)	29.0	31.3	25.4	23.6	19.6
<b>EV Movement</b>										
Opening IEV	32.2	36.8	37.6	44.0	52.3	56.2	65.9	75.1	88.1	104.3
New Business Value, post-override	0.7	2.0	2.4	4.2	3.9	5.0	6.6	8.2	10.2	12.2
EVOP	4.7	3.7	5.1	12.4	8.2	12.9	13.1	15.8	19.0	22.0
Dividend payout	-	3.0	3.1	2.4	4.4	3.2	3.9	2.8	2.8	3.0
<b>Closing EV</b>	<b>36.8</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>88.1</b>	<b>104.3</b>	<b>123.4</b>
<i>Adjusted Net worth</i>	<i>17.1</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>31.6</i>	<i>39.8</i>	<i>49.3</i>
<i>Value in force (VIF)</i>	<i>19.7</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>57.6</i>	<i>66.2</i>	<i>76.0</i>
<b>Ratios (%)</b>										
NBAP margins	4.2	12.6	13.1	21.3	17.9	18.8	19.8	21.0	21.8	22.1
RoEV	14.6	10.2	13.5	28.1	15.7	23.0	19.9	21.0	21.6	21.1
Operating RoEV	12.2	10.8	15.6	22.3	17.0	19.9	20.6	20.8	21.3	21.1

Source: Company, PL

## Appendix

### Exhibit 14: Policyholders' Account (Technical Account)

Policyholders' Account	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net earned premium	65,703	72,118	81,051	91,389	1,06,802	1,23,795	1,47,053	1,74,277	2,08,056
Investment income	12,994	21,622	41,057	12,899	42,107	37,574	49,164	60,402	74,076
Other income	114	308	586	165	191	345	379	417	459
<b>Total Revenue</b>	<b>78,811</b>	<b>94,048</b>	<b>1,22,695</b>	<b>1,04,453</b>	<b>1,49,100</b>	<b>1,61,715</b>	<b>1,96,596</b>	<b>2,35,096</b>	<b>2,82,591</b>
Commission expense	6,140	6,828	7,486	8,210	9,364	8,929	12,613	14,948	17,845
Operating expense	12,288	12,038	12,419	12,496	15,911	16,097	20,032	22,862	27,293
Benefit Cost	53,480	68,402	96,025	78,349	1,16,461	1,28,499	1,53,482	1,84,483	2,22,031
<b>Total expense</b>	<b>71,877</b>	<b>87,868</b>	<b>1,16,551</b>	<b>99,816</b>	<b>1,42,492</b>	<b>1,54,426</b>	<b>1,87,123</b>	<b>2,23,489</b>	<b>2,68,608</b>
<b>Surplus / Deficit</b>	<b>6,934</b>	<b>6,180</b>	<b>6,144</b>	<b>4,638</b>	<b>6,609</b>	<b>7,289</b>	<b>9,474</b>	<b>11,607</b>	<b>13,984</b>

Source: Company, PL

### Exhibit 15: Shareholders' Account (Revenue Account)

Shareholders' Account	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Transfer from policholders' account	3,023	2,944	2,835	3,351	5,551	3,992	8,017	8,564	10,027
Investment income	2,193	2,415	2,706	2,187	3,089	2,178	3,083	4,282	4,470
Expenses	463	329	765	434	963	24	27	25	23
<b>Profit before tax</b>	<b>4,754</b>	<b>5,031</b>	<b>4,776</b>	<b>5,109</b>	<b>7,682</b>	<b>6,152</b>	<b>11,073</b>	<b>12,821</b>	<b>14,475</b>
Tax expenses	519	672	634	718	1,083	875	1,550	1,795	2,026
<b>Profit after tax</b>	<b>4,234</b>	<b>4,359</b>	<b>4,142</b>	<b>4,391</b>	<b>6,599</b>	<b>5,276</b>	<b>9,523</b>	<b>11,026</b>	<b>12,448</b>

Source: Company, PL

### Exhibit 16: Balance Sheet

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Sources of Fund</b>									
Shareholders' Fund	21,509	21,480	20,553	20,239	25,093	26,989	33,752	42,019	51,478
Borrowings	-	-	-	-	-	-	-	-	-
Policyholders' Funds: Insurance reserves & provisions	1,74,684	2,17,135	2,79,846	3,25,054	4,06,692	4,86,143	5,88,157	7,13,387	8,64,678
Others	6,787	9,986	13,279	14,563	15,565	18,655	20,112	23,155	27,111
<b>Total</b>	<b>2,02,980</b>	<b>2,48,601</b>	<b>3,13,678</b>	<b>3,59,856</b>	<b>4,47,350</b>	<b>5,31,788</b>	<b>6,42,022</b>	<b>7,78,560</b>	<b>9,43,268</b>
<b>Application of Funds</b>									
Shareholders' inv	27,111	27,751	26,227	23,918	32,303	32,146	44,940	50,219	49,124
Policyholders' inv	72,921	1,06,102	1,51,980	2,02,784	2,55,483	3,19,238	3,88,275	4,75,879	5,88,441
Assets to cover linked liab.	1,04,547	1,13,304	1,33,996	1,31,538	1,55,910	1,70,981	2,00,048	2,44,059	2,97,751
Net Current Assets	-5,845	-1,369	-304	-827	558	5,608	4,639	3,872	2,967
Other Assets	1,553	1,596	1,780	2,442	2,956	3,814	4,120	4,532	4,985
<b>Total</b>	<b>2,00,287</b>	<b>2,47,385</b>	<b>3,13,678</b>	<b>3,59,856</b>	<b>4,47,209</b>	<b>5,31,788</b>	<b>6,42,022</b>	<b>7,78,560</b>	<b>9,43,268</b>

Source: Company, PL

**Exhibit 17: Embedded Value**

Embedded Value	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Embedded Value	39,530	52,320	56,170	65,900	75,090	88,104	1,04,346	1,23,357
Annualised Premium Equivalent (APE)	18,348	19,670	21,130	26,570	33,072	39,144	46,634	55,129
New Business Value	2,400	4,230	3,871	4,995	6,561	8,226	10,169	12,160
New Business Margin (%)	13.1	21.3	17.9	18.8	20.2	21.0	21.8	22.1
EV Operating Profit	5,060	12,370	8,240	12,905	13,121	15,785	19,013	22,014
Operating RoEV (%)	15.6	22.3	17.0	19.9	20.6	20.8	21.3	21.1

Source: Company, PL

**Exhibit 18: Key Ratios**

Key Ratio	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Commission expense/GWP (%)	9.2	9.4	9.2	8.9	8.7	7.1	8.5	8.5	8.5
Operating expense/GWP (%)	18.5	16.5	15.2	13.6	14.8	12.9	13.5	13.0	13.0
Total expense/GWP (%)	27.8	25.9	24.4	22.5	23.4	20.0	22.0	21.5	21.5

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	681	611
2	Bank of Baroda	BUY	161	110
3	Bank of India	Reduce	89	79
4	Federal Bank	BUY	102	82
5	HDFC Bank	BUY	2,310	1,968
6	HDFC Standard Life Insurance Company	BUY	500	359
7	ICICI Bank	BUY	365	316
8	ICICI Prudential Life Insurance Company	BUY	507	323
9	IDFC Bank	Accumulate	55	37
10	IndusInd Bank	BUY	2,000	1,627
11	Jammu & Kashmir Bank	BUY	94	40
12	Kotak Mahindra Bank	Hold	1,291	1,177
13	Max Financial Services	BUY	700	359
14	Punjab National Bank	Hold	79	65
15	SBI Life Insurance Company	BUY	779	564
16	South Indian Bank	BUY	22	15
17	State Bank of India	BUY	355	295
18	Union Bank of India	Reduce	79	68
19	YES Bank	Accumulate	231	198

**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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