

INDUSTRY		LIFE INSURANCE	
CMP (as on 11 Feb 2019)		Rs 377	
Target Price		Rs 595	
Nifty		10,889	
Sensex		36,395	
KEY STOCK DATA			
Bloomberg		MAXF IN	
No. of Shares (mn)		269	
MCap (Rs bn) / (\$ mn)		101/1,424	
6m avg traded value (Rs mn)		350	
STOCK PERFORMANCE (%)			
52 Week high / low		Rs 539/344	
	3M	6M	3M
Absolute (%)	(7.1)	(22.6)	(28.6)
Relative (%)	(10.6)	(18.7)	(35.7)
SHAREHOLDING PATTERN (%)			
Promoters		28.4	
FIs & Local MFs		31.5	
FPIs		30.1	
Public & Others		10.0	
Source : BSE			

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## In-line performance

MAXL reported a stable 3QFY19 as total APE printed Rs 8.7bn (+11.3% YoY/+1.0% QoQ). Share of protection in the mix rising to 12% (+400bps YoY), higher interest rates and better operating performance pulled 9MFY19 VNB margins (post overrun) higher to 20.4% (+240bps YoY, flat QoQ). On the back of expected 4QFY19 seasonal uptick, management is confident on closing FY19E at VNB margins of ~20.5-21.0%.

MAXL's proprietary channel push is yielding benefits (distribution share is now 33%, +250bps YoY) as banca channel slowed. Developing the proprietary channel shields Max from a possible parting of ways with Axis Bank.

Management highlighted that promoters may divest 5-7% stake to bring down pledges which are currently at 81.2% of the 28.4% promoter holding in MFSL. Pledges remain high and have had a negative impact on recent stock performance. While stake sale remains an overhang, a reduction in pledges will be value accretive for minority shareholders.

### Business Summary: Max Life Insurance

(Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY18	FY19E	FY20E	FY21E
NBP	11,900	10,660	11.6	11,420	4.2	42,182	49,973	58,100	66,968
APE	8,710	7,828	11.3	8,620	1.0	32,475	38,160	44,278	50,935
VNB	1,760	1,360	29.4	1,890	-6.9	6,560	7,937	9,298	10,798
VNB Margin (%)	20.4	20.2#	20bps	20.4#	0bps	20.2	20.8	21.0	21.2
EV						74,460	85,499	98,494	113,721
MCap/EV (x)*						1.9	1.7	1.5	1.3
P/Adj. VNB (x)*#						13.4	9.3	6.1	3.5
ROEV						19.7	20.6	20.8	20.8

Source: Company, HDFC sec Inst Research

#Reported VNB margins for 1HFY19 and FY18 resp. \*EV adj for 70% stake in Max Life. #VNB adjusted for AXSB value transfer discount of 22%.

Given that the distribution agreement is mutually beneficial for both Axis and MAXL, we suspect that MAXL may become an attractive takeover candidate for Axis Bank This holds optional upside value beyond our TP of Rs 595 (FY21 EV + 13.6x FY21E adj. VNB).

### Highlights of the quarter

- Renewal premiums rose ~13.5% YoY as conservation ratio remained stagnant at ~90%.
- PAR/Protect/Non-PAR/ULIP contributed 42/13/6/40% compared to 47/8/8/38% for 9MFY18. We note higher protection in mix.
- Axis Bank's contribution to Individual APE is at 55% (-50bps YoY).
- AUM increased to 584bn up 16.0/4.2% YoY/QoQ.
- Near-term outlook:** Premium growth and VNB margins to improve in 4QFY19. **Promoter stake** sale may remain an overhand.

**Management highlighted that margins in policies sold through proprietary channel are now converging to non proprietary channel margin.**

**MAX aspires to increase proprietary channel distribution share to ~35%-40% by FY21.**

**Of the banca channel, ULIP policies have ~45-50% share, whereas ~15-20% is non par and protection combined.**

## Quarter highlights

- Persistency continues to be stable across buckets. Management attributed drop in persistencies for 25<sup>th</sup> month to a specific ULIP product where premium inflows are affected because of volatile equity market conditions.
- **Holding co level:** Total expenses in MAXF standalone stood at Rs 367mn as against Rs 645mn in 2QFY19 and Rs 319mn in 3QFY18. Loss of Rs 97.3mn was booked due to fair value change in value of option, regarding transaction of equity repurchase from Axis bank.
- Company has a total exposure of ~Rs 400mn to IL&FS group cos. 75% of the exposure is in ULIPs while balance 25% lies in shareholders funds. The company has provided ~Rs 100mn against this exposure. Shareholders fund also has exposure to DHFL paper of ~Rs 50mn.
- MFSL purchased 1.4bn shares (0.74% of equity) from Axis bank at ~Rs 115/share. MFSL now owns 71.49% stake in Max life.

## Business

- Strategic priorities by FY21
  - Continue to integrate with existing partners.
  - Accelerate investment in technology for proprietary channel. Targets growing the proprietary channel at 35% CAGR in order to reduce dependence on Axis bank to ~40% of business.
  - Retain and grow existing partners.
- The company has entered into a strategic knowledge partnership with New York life and plans to hire three ex New York life employees to improve proprietary channel performance.

- Share of other banks in the distribution mix has reduced by 200bps YoY to 11.0%, this in turn again increases dependence on Axis bank for distribution.
- Protection business contributed 12% to total APE in 9MFY19 (+400bps YoY)
- While the aim remains to increase protection business, MAXL is more focused on individual protection rather than group protection. Axis bank has 70% share in group protection whereas NBFCs have 30% share.
- To boost its proprietary channel the company has added more than 100 branches this year. Plans to add 45 more branches by year end. Further, it added 3,000 agents this quarter.  
MAXL aspires to achieve 25% RoEV, 25% growth in APE and 25% VNB margins over the next three years. We believe this to be aggressive.

## VNB Margins and EV

- Post cost overrun, VNB for 9MFY19 was 4.66bn (+37% YoY).
- MAXL operating RoEV of 18.8% for 9MFY19.
- Reported EV was Rs 82.5bn (+6.5% QoQ)

## Outlook

- Premium growth should improve as the company invests in new products and channels. We expect APE growth to be at ~18% in FY19E.
- VNB margins to improve further going forward onwards as (1) yields are expected to remain elevated (2) business seasonality plays out allowing for absorption of costs.

*Max Life pays out ~100% dividend which is used by parent company for buy back shares from Axis bank.*

*Management indicated capex cost is around Rs 2mn per branch.*

*The company has added more than 100 branches in 9MFY19 and aims to add 45 more branches by 4QFY19.*

## 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 22.4x.

### Step 2: Adjusting the VNB for value transfer.

- We have adjusted the FY20E VNB by 22% to arrive at Rs 7.2bn and then apply the multiple of 22.4x 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
<b>Total pre-tax profits</b>	<b>172.8</b>	<b>16,059</b>
Tax assumed @10%		(1,606)
<b>Total post tax profits</b>		<b>14,453</b>
Period (FY12-21E)		10
<b>Average p.a.</b>		<b>1,445</b>
FY18 VNB		6,560
<b>Percentage of FY18 VNB</b>		<b>22%</b>

\* 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

<b>Based on Appraisal value</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
EV	74,460	85,499	98,494	113,721
New Business Value	6,560	7,937	9,298	10,798
Growth YoY	31%	21%	17%	16%
Adj. to VNB	22%	1,443	1,746	2,046
Adjusted VNB	5,117	6,191	7,253	8,423
Multiple of New Business Value	34.3	28.3	24.2	20.8
Structural value	175,464	175,464	175,464	175,464
Valuation	249,924	260,963	273,958	289,185
<b>MFSL Valuation</b>				
Stake in Max Life	70%	70%	70%	70%
<b>Valuation of Max life</b>	<b>174,947</b>	<b>182,674</b>	<b>191,770</b>	<b>202,430</b>
Leakages:				
Group level expenses	7,500	7,500	7,500	7,500
<b>Max Life valuation post leakages</b>	<b>167,447</b>	<b>175,174</b>	<b>184,270</b>	<b>194,930</b>
Holding company discount	15%	25,117	26,276	27,641
Max Financial valuation	142,330	148,898	156,630	165,690
MFSL (Value/share Rs)	530	555	584	617

Source: Company, HDFC sec Inst Research

## Five Quarters at a Glance

Particulars (Rs mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (%)	QoQ (%)
New Business Premium	10,660	17,110	7,660	11,420	11,900	11.6	4.2
Individual adjusted premium	7,640	13,390	5,520	8,530	8,640	13.1	1.3
Gross Written Premium	30,440	46,490	23,200	32,990	34,350	12.8	4.1
First year Premium	7,540	13,390	5,360	8,460	8,600	14.1	1.7
Renewal Premium	19,780	29,380	15,540	21,570	22,450	13.5	4.1
Single Premium	3,120	3,720	2,300	2,960	3,310	6.1	11.8
Shareholder profit (Pre tax)	1,540	2,250	910	1,850	990	(35.7)	(46.5)
Total APE	7,828	13,260	5,580	8,620	8,710	11.3	1.0
FYTD VNB (post over-run)	3,400	6,560	1,010	2,900	4,660	37.1	60.7
FYTD VNB margin (post over-run)	20.2	20.2	18.1	20.4	20.4	20bps	0bps

APE growth slowed down from 30.5% in 2QFY19

Product Mix - Total APE basis (%)							
PAR	45	NA	38	42	44	71bps	363bps
Individual protection	3	NA	7	7	6	183bps	-263bps
Group protection	1	NA	9	6	4	66bps	-396bps
Non PAR savings	8	NA	5	5	8	-37bps	263bps
ULIP	43	NA	41	40	39	-282bps	32bps
Total	100		100	100	100		

Shift towards protection business continues

Channel Mix-Individual APE (%)							
Proprietary	28	22	36	34	31	224bps	-297bps
Axis Bank	59	64	52	54	57	-170bps	297bps
Other Banks	12	13	11	11	11	-54bps	0bps
Others	1	1	1	1	1	0bps	0bps
Total	100	100	100	100	100	-	-

Proprietary channel continues to gain share. Focused on selling more protection through proprietary channel.

AUM	503,330	522,370	539,400	560,700	583,970	16.0	4.2
Debt Mix (%)	75	78	78	79	79	400bps	0bps
Equity Mix (%)	25	22	22	21	21	-400bps	0bps
Non -Linked (%)	66	67	68	68	68	200bps	0bps
Linked (%)	34	33	32	32	32	-200bps	0bps

Robust AUM growth; Debt mix increases.

Opex at Max Financial-Standalone	311	249	537	645	367	18.1	(43.1)
Solvency (%)	280	275	262	262	239	-4100bps	-2300bps
Policyholder expense to Gross premium (%)	14	10	17	15	15	100bps	-20bps

Source: Company, HDFC sec Inst Research

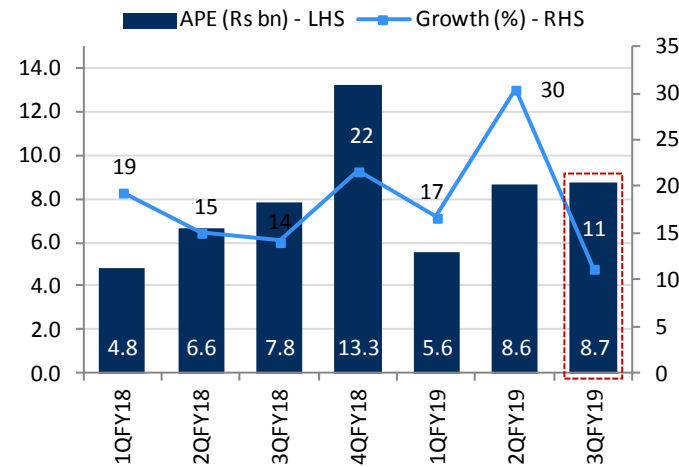
**APE growth slowed down to 11% YoY to Rs 8.7bn for the quarter.**

**Focus is to increase share of protection through proprietary channel.**

**Persistency was stable across all buckets except 25<sup>th</sup> month.**

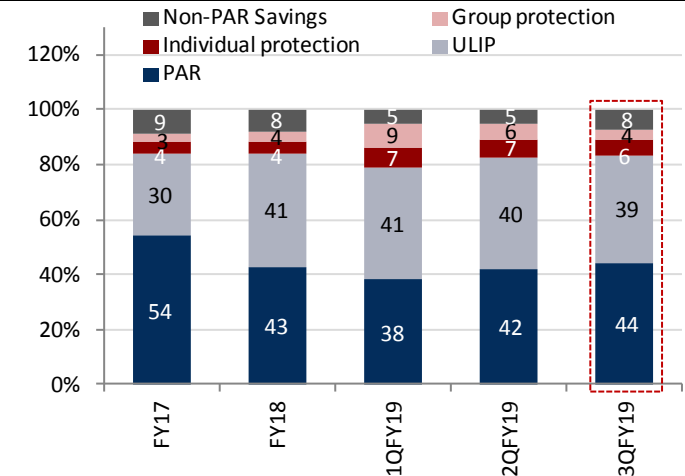
**Axis Bank remains a key distribution partner with a distribution share of 57% during 3QFY19.**

### Total APE trend



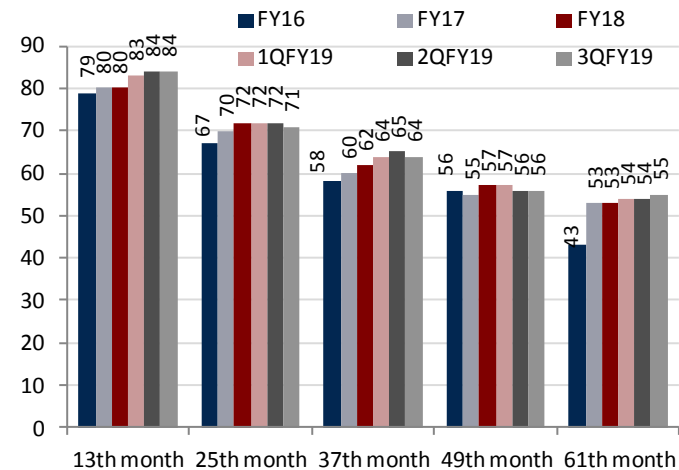
Source: Company, HDFC sec Inst Research

### Product Mix On APE



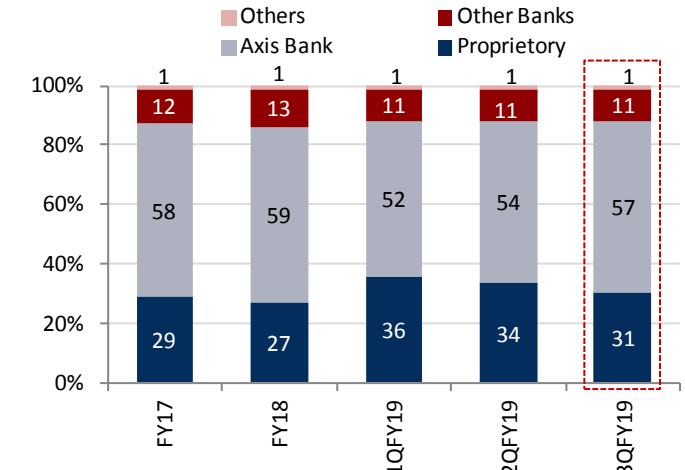
Source: Company, HDFC sec Inst Research

### Persistency Trend



Source: Company, HDFC sec Inst Research

### Individual Channel Mix On APE



Source: Company, HDFC sec Inst Research

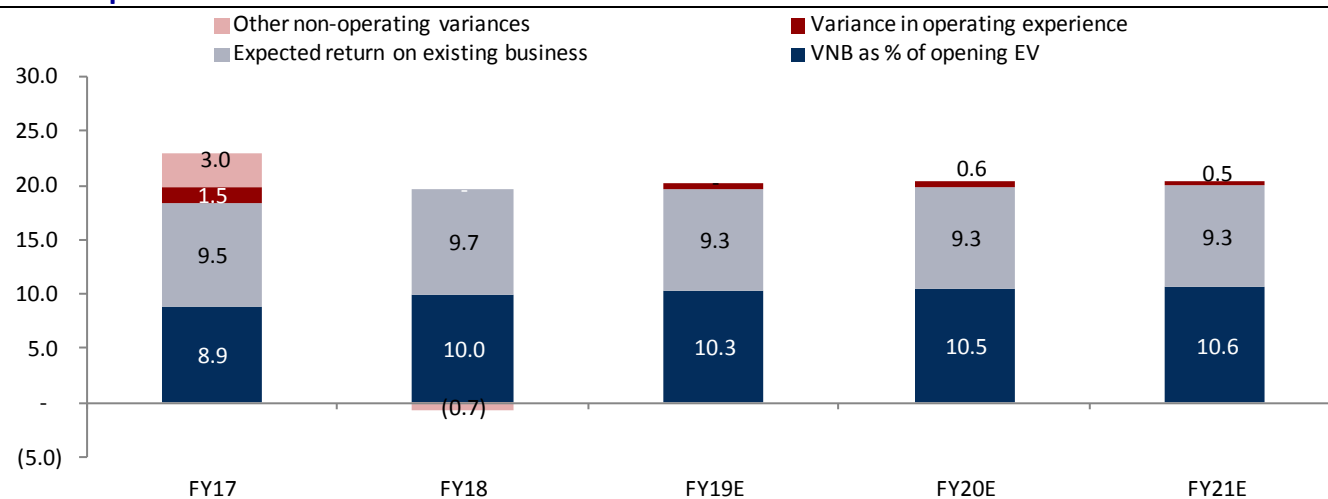
**Company reported EV of Rs82.5bn (+6.5% QoQ).**

### Sensitivity Analysis – 1H FY19

Sensitivity Analysis	Change in VNB %	Change in EV %
Lapse/Surrender - 10% increase	-5%	-2%
Lapse/Surrender - 10% decrease	5%	2%
Mortality- 10% increase	-4%	-1%
Mortality- 10% decrease	4%	1%
Expenses- 10% increase	-7%	-1%
Expenses- 10% decrease	7%	1%
Risk free rates- 1% increase	4%	-2%
Risk free rates- 1% reduction	-6%	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

### RoEV stack up chart



Source: Company, HDFC sec Inst Research

*Management highlighted Investment variance was positive due to fall in interest rates during the quarter.*

*Operating variances were mildly positive for the quarter.*

### Embedded Value movement

(Rs. Mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Opening MCEV</b>	<b>56,170</b>	<b>65,890</b>	<b>74,460</b>	<b>85,499</b>	<b>98,494</b>
Value added by new business during the period/ VNB	4,990	6,560	7,937	9,298	10,798
<b>Unwind/ Expected Return</b>	<b>5,340</b>	<b>6,410</b>	<b>6,925</b>	<b>7,951</b>	<b>9,160</b>
<b>Variance in Operating experience</b>	<b>860</b>	<b>0</b>	<b>500</b>	<b>500</b>	<b>500</b>
<b>MCEV operating earnings</b>	<b>11,190</b>	<b>12,970</b>	<b>15,362</b>	<b>17,750</b>	<b>20,458</b>
<b>Economic variances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other non-operating variances</b>	<b>1,710</b>	<b>-470</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total MCEV earnings</b>	<b>12,900</b>	<b>12,500</b>	<b>15,362</b>	<b>17,750</b>	<b>20,458</b>
Capital contributions / dividend payouts	-3,180	-3,930	-4,323	-4,755	-5,231
<b>Closing MCEV-Year End</b>	<b>65,890</b>	<b>74,460</b>	<b>85,499</b>	<b>98,494</b>	<b>113,721</b>

Source: Company, HDFC sec Inst Research

### EV Movement

	1HFY16	2HFY16	1HFY17	2HFY17	1HFY18	2HFY18	1HFY19
<b>Opening IEV</b>	<b>52,320</b>	<b>54,120</b>	<b>56,170</b>	<b>60,340</b>	<b>65,890</b>	<b>69,440</b>	<b>75,080</b>
Value added by new business during the period	1,600	2,280	1,830	3,160	2,040	4,520	2,900
<b>Unwind</b>	<b>2,500</b>	<b>2,630</b>	<b>2,540</b>	<b>2,800</b>	<b>3,060</b>	<b>3,350</b>	<b>3,450</b>
Variance in Operating experience	-300	160	150	710	200	420	420
Change in operating assumptions		0	0	0		0	0
Other operating variance		0	0	0		0	0
<b>IEV operating earnings</b>	<b>3,800</b>	<b>5,070</b>	<b>4,520</b>	<b>6,670</b>	<b>5,300</b>	<b>8,290</b>	<b>6,770</b>
<b>Economic variances</b>	<b>0</b>	<b>0</b>		<b>0</b>		<b>0</b>	<b>0</b>
Other non-operating variances		-630	1,340	370	210	-680	-1,530
<b>Total IEV earnings</b>	<b>3,800</b>	<b>4,440</b>	<b>5,860</b>	<b>7,040</b>	<b>5,510</b>	<b>7,610</b>	<b>5,240</b>
Capital contributions / dividend payouts	-2,000	-2,390	-1,690	-1,490	-1,960	-1,970	-2,820
Closing adjustments		0		0	0	0	
<b>Closing IEV-Year End</b>	<b>54,120</b>	<b>56,170</b>	<b>60,340</b>	<b>65,890</b>	<b>69,440</b>	<b>75,080</b>	<b>77,500</b>
<b>EVOP return %</b>	<b>14.5%</b>	<b>18.7%</b>	<b>16.1%</b>	<b>22.1%</b>	<b>16.1%</b>	<b>23.9%</b>	<b>18.0%</b>

Source: Company, HDFC sec Inst Research



## Industry NBP data

Particulars	Individual (Rs bn)					Group (Rs bn)					Total (Rs bn)				
	FY16	FY17	FY18	FY19TD	YOY (%)	FY16	FY17	FY18	FY19TD	YOY (%)	FY16	FY17	FY18	FY19TD	YOY (%)
Aditya Birla Sun Life	7.1	9.6	11.5	11.1	67.5	15.1	15.7	15.1	15.8	52.1	22.2	25.3	26.6	26.9	58.1
Bajaj Allianz Life	8.9	10.7	14.6	10.9	13.4	19.9	22.2	28.4	20.1	4.1	28.8	32.9	42.9	31.0	7.2
Bharti Axa Life	3.6	4.0	4.7	4.2	55.5	1.8	2.1	2.6	2.0	15.3	5.4	6.1	7.3	6.2	39.7
DHFL Pramerica Life	1.8	2.2	3.6	2.5	7.8	5.4	6.6	10.9	7.5	-2.8	7.2	8.8	14.5	10.0	-0.3
HDFC Standard Life	36.6	42.0	59.4	49.8	42.6	28.3	45.0	54.0	49.6	39.1	64.9	87.0	113.4	99.4	40.8
ICICI Prudential Life	53.6	69.8	84.0	54.8	-8.7	14.1	8.9	7.2	13.5	136.6	67.7	78.6	91.3	68.3	4.0
Kotak Mahindra Life	10.6	14.4	19.7	11.4	10.2	11.5	14.1	14.5	12.3	24.9	22.1	28.5	34.3	23.7	17.4
<b>Max Life</b>	<b>26.1</b>	<b>33.1</b>	<b>39.8</b>	<b>28.2</b>	<b>17.5</b>	<b>2.7</b>	<b>3.6</b>	<b>3.6</b>	<b>2.8</b>	<b>17.2</b>	<b>28.8</b>	<b>36.7</b>	<b>43.5</b>	<b>31.0</b>	<b>17.5</b>
SBI Life	49.8	64.7	84.1	66.0	14.0	21.3	36.8	25.6	28.7	103.6	71.1	101.5	109.7	94.7	31.5
Tata AIA Life	6.1	10.5	14.0	13.1	66.2	1.3	0.8	0.9	0.9	37.1	7.4	11.3	14.9	14.0	64.1
<b>Private players Total</b>	<b>255</b>	<b>321</b>	<b>404</b>	<b>299</b>	<b>15.1</b>	<b>155</b>	<b>186</b>	<b>190</b>	<b>176</b>	<b>40.6</b>	<b>410</b>	<b>507</b>	<b>593</b>	<b>475</b>	<b>23.4</b>
LIC	328	456	517	335	-9.0	649	788	828	607	-3.7	977	1,244	1,346	941	-5.7
<b>Industry total*</b>	<b>7.1</b>	<b>9.6</b>	<b>11.5</b>	<b>11.1</b>	<b>67.5</b>	<b>15.1</b>	<b>15.7</b>	<b>15.1</b>	<b>15.8</b>	<b>52.1</b>	<b>22.2</b>	<b>25.3</b>	<b>26.6</b>	<b>26.9</b>	<b>58.1</b>

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	FY19TD	YOY (bps)	FY16	FY17	FY18	FY19TD	YOY (bps)
Aditya Birla Sun Life	2.9	3.0	2.9	3.7	116	8.0	8.5	8.0	9.0	68
Bajaj Allianz Life	3.6	3.3	3.6	3.7	-6	14.9	12.0	14.9	11.4	-401
Bharti Axa Life	1.2	1.3	1.2	1.4	36	1.4	1.1	1.4	1.1	-25
DHFL Pramerica Life	0.9	0.7	0.9	0.8	-6	5.7	3.5	5.7	4.2	-189
HDFC Standard Life	14.7	13.1	14.7	16.7	321	28.5	24.2	28.5	28.1	-31
ICICI Prudential Life	20.8	21.7	20.8	18.3	-478	3.8	4.8	3.8	7.7	311
Kotak Mahindra Life	4.9	4.5	4.9	3.8	-17	7.7	7.6	7.7	7.0	-87
<b>Max Life</b>	<b>9.9</b>	<b>10.3</b>	<b>9.9</b>	<b>9.4</b>	<b>19</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.6</b>	<b>-32</b>
SBI Life	20.8	20.2	20.8	22.1	-23	13.5	19.8	13.5	16.3	504
Tata AIA Life	3.5	3.3	3.5	4.4	135	0.5	0.4	0.5	0.5	-1
<b>Private players*</b>	<b>43.8</b>	<b>41.3</b>	<b>43.8</b>	<b>47.2</b>	<b>580</b>	<b>18.6</b>	<b>19.1</b>	<b>18.6</b>	<b>22.5</b>	<b>592</b>
LIC	56.2	58.7	56.2	52.8	-580	81.4	80.9	81.4	77.5	-592
<b>Industry</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0</b>

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

	Unit												
Bloomberg Ticker		IPRU			MAXF			SBILIFE			HDFCLIFE		
Rating		BUY			BUY			BUY			Not Rated		
Current market price	Rs	298			373			567			356		
Market Capitalisation	Rs bn	427			100			567			716		
Target price	Rs	380			595			750			390*		
Upside/(Downside)	%	28			60			32			NA		
Profitability		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
VNB Margin	%	17.1	17.4	17.6	20.8	21.0	21.2	19.6	20.0	20.2	24.2	24.5	25.0
Total RoEV	%	16.3	16.3	16.4	20.6	20.8	20.8	17.4	20.0	19.4	19.7	19.3	19.2
Operating RoEV	%	16.3	16.3	16.4	20.6	20.8	20.8	17.4	20.0	19.4	19.7	19.3	19.2
Non-operating RoEV	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RoE	%	24.1	20.7	20.5	25.7	25.7	25.4	20.1	20.3	20.5	26.8	28.9	28.4
Valuation at CMP		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
P/EV	X	2.0	1.8	1.6	1.7	1.5	1.3	2.4	2.0	1.7	4.0	3.4	2.8
P/EVOP	X	13.9	12.4	11.0	11.1	9.6	8.4	16.1	12.1	10.5	23.9	20.7	17.5
Implied P/VNB	X	17.2	13.2	9.7	9.3	6.1	3.5	17.4	13.1	9.4	35.1	28.5	22.0
Implied P/VIF	X	3.3	2.9	2.6	3.1	2.7	2.3	4.2	3.6	3.1	6.0	5.2	4.5
P/B	X	5.8	5.2	4.7	4.1	3.5	2.9	7.5	6.4	5.4	12.6	10.3	8.4
P/E	X	25.3	26.4	24.1	18.7	15.9	13.4	40.7	34.0	28.4	51.5	39.1	32.5
P/AUM	x	0.3	0.2	0.2	0.2	0.2	0.2	0.4	0.3	0.3	0.6	0.5	0.4
Valuation at TP/FV*		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
P/EV	x	2.6	2.3	2.0	2.7	2.3	2.0	3.2	2.7	2.3	4.4	3.7	3.1
P/EVOP	x	17.8	15.9	14.1	17.7	15.4	13.4	21.3	16.0	13.9	26.2	22.6	19.2
Implied P/VNB	x	26.5	21.4	16.9	23.0	17.9	13.6	27.0	21.4	16.7	39.5	32.4	25.2
Implied P/VIF	x	4.2	3.7	3.3	5.0	4.3	3.7	5.5	4.7	4.0	6.6	5.7	5.0
P/B	x	7.4	6.6	6.0	6.6	5.5	4.6	10.0	8.4	7.1	13.8	11.2	9.2
P/E	x	32.3	33.7	30.7	29.8	25.3	21.4	53.8	45.0	37.6	56.4	42.8	35.6
P/AUM	x	0.3	0.3	0.3	0.2	0.2	0.1	0.5	0.4	0.4	0.6	0.5	0.4
Per Share data		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
EV	Rs	146	165	185	223	257	297	234	278	329	89	106	125
EVOP	Rs	21	24	27	40	46	53	35	47	54	15	17	20
VNB	Rs	9	10	12	21	24	28	19	22	25	8	9	11
VIF	Rs	91	102	114	152	176	204	136	159	185	59	68	78
Book Value	Rs	52	57	63	90	107	128	75	89	106	28	35	42
Earnings	Rs	12	11	12	20	23	28	14	17	20	7	9	11
AUM	Rs	1,115	1,283	1,471	1,645	1,919	2,239	1,401	1,707	2,065	636	769	924
ANW	Rs	55	62	71	102	115	132	87	108	133	30	38	47

Bloomberg Ticker		IPRU			MAXF			SBILIFE			HDFCLIFE		
Key parameters		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
APE	Rs bn	74	83	94	38	44	51	97	110	125	63	72	85
VNB	Rs bn	13	14	17	8	9	11	19	22	25	15	18	21
Total EVOP	Rs bn	31	34	39	15	18	20	35	47	54	30	35	41
Operating EVOP	Rs bn	31	34	39	15	18	20	35	47	54	30	35	41
Non- operating EVOP	Rs bn	0	0	0	0	0	0	0	0	0	0	0	0
EV	Rs bn	210	236	266	85	98	114	234	278	329	180	213	252
Net worth	Rs bn	74	82	91	35	41	49	75	89	106	57	70	85
Net Profit	Rs bn	17	16	18	8	9	11	14	17	20	14	18	22
AUM	Rs bn	1,600	1,842	2,111	631	736	858	1,401	1,707	2,065	1,279	1,546	1,859
Growth YOY		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
APE	%	(5.0)	12.1	13.3	17.5	16.0	15.0	14.0	13.2	13.2	17.0	14.2	17.2
VNB	%	(1.5)	14.1	14.6	21.0	17.2	16.1	21.5	15.5	14.3	19.4	15.6	19.6
Total EVOP	%	(19.2)	12.0	12.6	18.4	15.5	15.3	12.4	33.1	15.5	1.8	15.9	18.0
Operating EVOP	%	(16.7)	12.0	12.6	18.4	15.5	15.3	12.4	33.1	15.5	11.6	15.9	18.0
Non- operating EVOP	%	(100.0)	NM	NM	(100.0)	NM	NM	(100.0)	NM	NM	(100.0)	NM	NM
EV	%	11.8	12.5	12.6	14.8	15.2	15.5	16.2	18.7	18.2	18.4	18.2	18.3
Net worth	%	12.8	10.9	10.8	19.0	19.2	19.5	18.1	18.3	18.5	20.9	22.7	22.2
Net Profit	%	3.9	(4.0)	9.6	28.9	17.6	18.2	21.2	19.6	19.7	26.8	31.9	20.2
AUM	%	14.7	15.1	14.6	20.8	16.7	16.7	20.5	21.9	21.0	20.0	20.9	20.2

Source: Company financials and disclosures, HDFC sec Inst Research

**\*Fair Value**

## 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
<b>APE (Rs bn)</b>	<b>Rs bn</b>	<b>51.1</b>	<b>66.3</b>	<b>77.9</b>	<b>21.1</b>	<b>26.6</b>	<b>32.5</b>	<b>48.8</b>	<b>66.0</b>	<b>85.4</b>	<b>36.2</b>	<b>40.9</b>	<b>55.2</b>
YoY Growth	%		30	18		26	22		35	29		13	35
CAGR 3 years	%			19			18			34			20
CAGR 5 years	%			13			NA			24			11
<b>Business mix- product wise</b>		<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
		<b>*Total APE</b>	<b>*Total APE</b>	<b>*Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>	<b>* Total APE</b>
<b>Individual</b>	<b>%</b>	<b>97.1</b>	<b>98.4</b>	<b>96.8</b>	<b>96.0</b>	<b>97.0</b>	<b>96.0</b>	<b>87.3</b>	<b>89.5</b>	<b>92.5</b>	<b>100.0</b>	<b>89.3</b>	<b>88.4</b>
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
<b>Group</b>	<b>%</b>	<b>2.9</b>	<b>1.6</b>	<b>3.2</b>	<b>4.0</b>	<b>3.0</b>	<b>4.0</b>	<b>12.3</b>	<b>10.5</b>	<b>7.5</b>	<b>NA</b>	<b>10.7</b>	<b>11.6</b>
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
<b>Total</b>	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>99.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Channel mix (Overall)</b>		<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
		<b>*Total APE</b>	<b>*Total APE</b>	<b>*Total APE</b>	<b>* Ind APE</b>	<b>* Ind APE</b>	<b>* Ind APE</b>	<b>*NBP</b>	<b>*NBP</b>	<b>*NBP</b>	<b>* Total NBP</b>	<b>* Total NBP</b>	<b>* Total NBP</b>
Bancassurance	%	58	57	52	68	70	72	60	53	62	43	52	48
Agency	%	24	24	25	31	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
<b>Total</b>	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Banca channel partners		ICICIB and SCB			(AXIS, YES, LVB)			SBI, P&SB, SIB, SYB, ALB			HDFCB, RBL, IDFCB, BFL		
AUM		FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
AUM	Rs bn	1,039	1,229	1,395	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	80	81	81	83	79	81	87
25th month	%	71	74	79	67	70	72	73	74	75	67	73	77
37th month	%	62	67	69	58	60	62	69	67	70	60	64	71
49th month	%	62	59	64	56	55	57	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	49,973	58,100	66,968
APE	27,485	32,475	38,160	44,278	50,935
VNB	4,990	6,560	7,937	9,298	10,798
EV	65,890	74,460	85,499	98,494	113,721
EVOP	11,190	12,970	15,362	17,750	20,458
<b>Rs/share</b>					
EPS	17.2	15.5	20.0	23.5	27.8
BV	65.3	75.7	90.1	107.4	128.4
<b>Growth (%)</b>					
Premium growth	16.9	11.9	12.2	17.0	16.5
Total income growth	42.7	14.7	4.7	16.0	16.5
Commissions growth	14.1	14.8	16.9	17.7	16.9
Opex growth	27.3	10.2	10.6	15.0	16.5
PAT growth	20.1	19.8	22.2	16.7	16.6
<b>Performance metrics growth (%)</b>					
NBP	27.2	15.1	18.5	16.3	15.3
APE	27.1	18.2	17.5	16.0	15.0
VNB	28.6	31.5	21.0	17.2	16.1
EV	17.3	13.0	14.8	15.2	15.5
EVOP	26.2	15.9	18.4	15.5	15.3
EPS	50.2	(9.9)	28.9	17.6	18.2
BV	24.4	15.9	19.0	19.2	19.5
<b>Expense ratios (%)</b>					
Commissions/premium	5.3	5.0	5.0	5.0	5.0
Opex/premium	21.5	11.7	12.8	15.7	16.3
Total expenses/premium	24.4	24.4	24.5	24.2	24.2
<b>Efficiency ratios (%)</b>					
RoAA	1.6	1.3	1.4	1.4	1.4
RoE	29.2	24.2	25.7	25.7	25.4
ROEV return	23.0	19.0	20.6	20.8	20.8
Operating RoEV	19.9	19.7	20.6	20.8	20.8
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	133,990	156,810	182,642
Income from investments and other income	42,296	51,626	45,163	51,065	59,501
Transfer from shareholders AC	2	-	-	-	-
<b>Total Income</b>	<b>149,101</b>	<b>171,090</b>	<b>179,153</b>	<b>207,876</b>	<b>242,143</b>
Commission	9,364	10,746	12,562	14,780	17,273
Operating expenses	15,912	17,540	19,402	22,311	25,986
Provisions	803	843	886	930	976
<b>Total Expenses</b>	<b>26,080</b>	<b>29,129</b>	<b>32,850</b>	<b>38,021</b>	<b>44,236</b>
Benefits Paid	37,775	45,261	55,322	64,569	75,272
Change in valuation of liabilities	78,693	91,458	84,062	97,298	113,315
<b>Total</b>	<b>116,468</b>	<b>136,719</b>	<b>139,384</b>	<b>161,868</b>	<b>188,587</b>
<b>Surplus</b>	<b>6,553</b>	<b>5,242</b>	<b>6,919</b>	<b>7,987</b>	<b>9,320</b>
<b>Transfer to shareholders AC</b>	<b>5,551</b>	<b>4,455</b>	<b>5,881</b>	<b>6,789</b>	<b>7,922</b>

Source: Company, HDFC sec Inst Research.

## Shareholders Account

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Transfer from policyholders' a/c	5,551	4,455	5,881	6,789	7,922
Investment income	3,089	3,230	3,728	4,386	5,164
<b>Total income</b>	<b>8,640</b>	<b>7,686</b>	<b>9,609</b>	<b>11,175</b>	<b>13,086</b>
Expenses	961	769	692	692	692
Contribution to policyholders' a/c	2	-	-	-	-
<b>Profit before tax</b>	<b>7,677</b>	<b>6,917</b>	<b>8,918</b>	<b>10,483</b>	<b>12,394</b>
Taxes	1,083	975	1,257	1,478	1,747
<b>PAT</b>	<b>6,594</b>	<b>5,942</b>	<b>7,660</b>	<b>9,005</b>	<b>10,647</b>

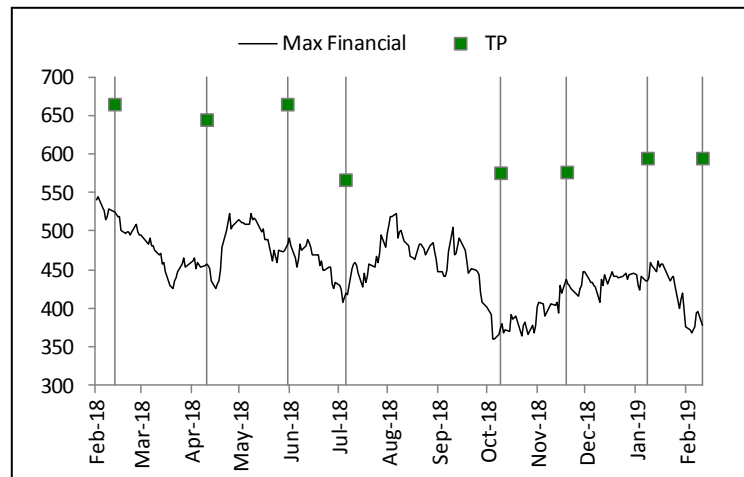
Source: Company, HDFC sec Inst Research

## Balance Sheet

(Rs mn)	FY17	FY18E	FY19E	FY20E	FY21E
<b>Source</b>					
Share capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	5,867	9,849	15,354	21,987	30,026
<b>Net worth</b>	<b>25,055</b>	<b>29,037</b>	<b>34,542</b>	<b>41,176</b>	<b>49,214</b>
Credit/debit balance in fair value a/c	38	42	46	51	56
Policyholders' a/c	406,692	498,149	582,212	679,510	792,825
Funds for future appropriation	15,565	16,636	17,780	19,004	20,311
<b>Total Liabilities</b>	<b>447,350</b>	<b>543,864</b>	<b>634,580</b>	<b>739,740</b>	<b>862,406</b>
<b>Application</b>					
Shareholders' Investments	32,303	37,284	43,859	51,640	60,907
Policyholders' investments	255,483	-	-	-	-
Asset to cover linked liabilities	155,910	502,850	586,912	684,210	797,525
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
<b>Total Assets</b>	<b>447,350</b>	<b>543,864</b>	<b>634,580</b>	<b>739,740</b>	<b>862,406</b>

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Feb-18	521	BUY	665
10-Apr-18	458	BUY	645
30-May-18	485	BUY	665
6-Jul-18	420	BUY	567
9-Oct-18	412	BUY	576
19-Nov-18	437	BUY	577
8-Jan-19	434	BUY	595
12-Feb-19	377	BUY	595

### 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



**INSTITUTIONAL RESEARCH**
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