

# Max Financial

Refer to important disclosures at the end of this report

## Improving product profile; comfortable valuation

**CMP: Rs 444**

as of (May 27, 2020)

**TP: Rs 531 (▼)**

12 months

**Rating: BUY (■)**

**Upside: 19.7 %**

- We assume coverage on Max Life (MAXL) with a Buy rating (OW in Insurance EAP) and a revised TP of Rs531 at 1x March'22E EV (earlier Rs600 at 1x Sep'21E EV). MAXL has reported a sharp decline in APE by ~15% yoy during Q4FY20, affected by lockdowns; however, the company managed to maintain its market share at 10%.
- MAXL management remains firm over the rising share of Protection plans, with increasing focus on proprietary channel of distribution (~31% of distribution). With Axis Bank acquiring a 30% stake in the insurance company, product diversification is likely to sail through more comfortably. Axis' share in total bancassurance remains healthy at ~57%.
- We are building in improvement in margin profile for MAXL, with a gradual rise in share of protection plans along with elevated share of Non-Par savings. However, the management needs to re-price its existing protection plans amid a rise in pricing for reinsurance. We expect VNB margins to improve to ~22.6% by FY22E against ~21.6% during FY20.
- 13M persistency for MAXL remained stable at ~83%, whereas 61M declined by 100bps yoy to ~52%. However, the data does not include the impact of Covid-19 lockdowns post March'20 and hence, the numbers are least relevant. The solvency ratio fell to ~207% because of a dip in equity markets but still remains in a comfortable range.

**VNB margin to improve with diversity in products; higher operating costs and pricing remains key:** Buoyant capital markets, increased focus on linked products and targeting the underpenetrated high-margin protection segment will enable MAXL to make its product profile more balanced, with ULIP and Non-par growing faster than the Par segment. Lower-than-expected margins are attributed to higher acquisition cost for MAXL. We expect the margin trend to improve further, with the rising share of protection plans and higher share of non-par savings products. However, management needs to re-price existing protection plans amid a price hike by most reinsurers. Management has confirmed that gaining market share is not at the cost of margins. We expect VNB margins to improve to ~22.6% by FY22E vs. ~21.6% in FY20.

**Overhang of Axis Bank deal easing; focused on improving distribution mix:** With Axis Bank acquiring a ~30% stake in Max Life, the major overhang over the distribution model has been resolved by MAXL. However, in order to reduce its over-dependence on bancassurance (contributes > 68% to individual APE), MAXL is focusing on ramping up its agency network through an agency-light model and is looking at other distribution channels.

**Outlook and Valuation:** Through a gradual shift toward a profitable product mix and relatively comfortable valuations, we are assuming coverage on Max Life (MAXL), with a Buy rating (OW in Insurance EAP) and a revised TP of Rs531 at 1x March'22E EV (earlier Rs600 at 1x Sep'21E EV). We expect VNB to grow at a CAGR of 17.1% to Rs12.3bn over FY20-22E with ROEVs at ~20.8% for FY20-FY22E.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(page 13\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Net Profit	5,276	5,564	4,806	6,184	7,438
EPS (Rs)	10.7	9.8	10.0	13.5	16.8
VNB	6,560	8,560	8,970	10,336	12,294
VNB margin %	20.2	21.7	21.6	22.1	22.6
EV	75,090	89,380	99,770	1,17,476	1,39,070
ROEV %	20.6	21.9	20.3	20.8	20.9
P/EV (x)	1.6	1.3	1.2	1.0	0.9

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	(11.5)
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	13.5	16.8
Consensus	20.3	25.3
Mean Consensus TP (12M)	Rs 570	

### Stock Details

Bloomberg Code	MAXF IN
Face Value (Rs)	2
Shares outstanding (mn)	270
52 Week H/L	612 / 276
M Cap (Rs bn/USD bn)	120 / 1.58
Daily Avg Volume (nos.)	26,47,604
Daily Avg Turnover (US\$ mn)	16.1

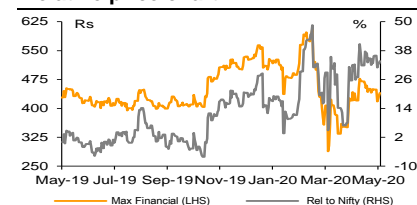
### Shareholding Pattern Mar '20

Promoters	28.3%
FIIs	30.6%
DIIIs	29.0%
Public and Others	12.1%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(26)	(11)	-
Rel. to Nifty	(2)	(7)	15	27

### Relative price chart



Source: Bloomberg

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## Exhibit 1: Comparative matrix

Ranking	IPRU	HDFCSL	SBIL	MAXL	Remarks
Product Mix	4	1	2	3	HDFCSL wins here with a balanced mix and the highest share of protection. IPRU is on the losing side with concentrated ULIP product mix and more sensitive to cyclical shocks
Distribution strength	4	2	1	3	SBIL wins here with strongest bancassurance base and huge parent network (branch activation rate of ~50% as of now).
Growth ratios	3	2	1	4	SBIL again wins here with fastest growth expectation on total premium basis
Persistence	3	1	2	4	HDFCSL has seen sharp improvement with overall persistency rising to ~88%, whereas for IPRU, the same has dropped to ~85% for FY20.
VNB Margin	4	1	2	3	HDFCSL wins here with big margin on the back of the highest share of protection mix and balanced portfolio. IPRU ranks lowest with ULIP being a low margin product.
Impact from sensitivity	4	1	2	3	IPRU is more sensitive to surrenders due to the ULIP-heavy model.

Source: Emkay Research

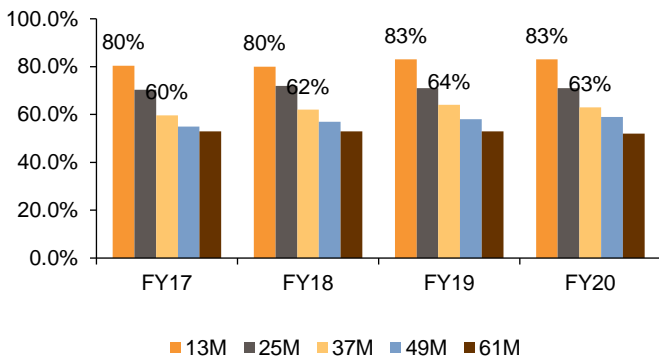
## Story in Charts

## Exhibit 2: Revision in estimates

	FY21E			FY22E		
	Old	New	% change	Old	New	% change
NBP	71,799	56,583	-21%	83,864	65,495	-22%
APE	56,611	46,865	-17%	66,552	54,350	-18%
PAT (MAXL)	7,015	6,184	-12%	8,704	7,438	-15%
EV	1,22,571	1,17,476	-4%	1,45,815	1,39,070	-5%
VNB margin %	22.0%	22.1%	0%	23.2%	22.6%	-3%
ROE %	24.1%	22.0%	-9%	27.2%	24.8%	-9%
ROEV %	20.8%	20.8%	0%	21.4%	20.9%	-2%

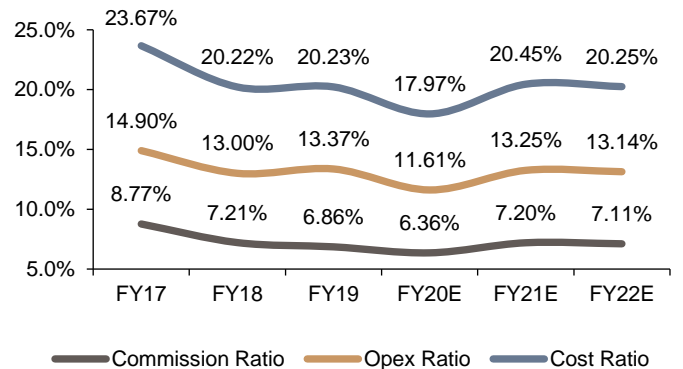
Source: Company, Emkay Research

## Exhibit 3: Stable persistency trends



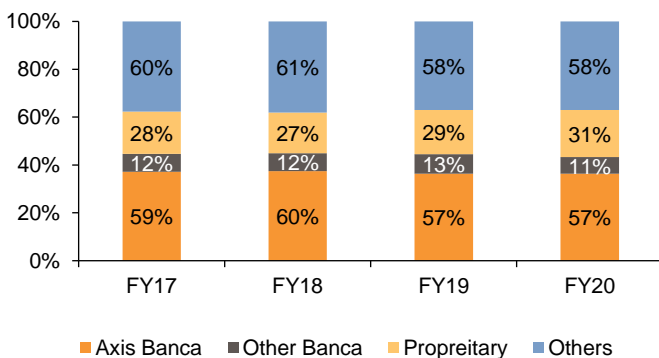
Source: Company, Emkay Research

## Exhibit 4: Cost matrix may weaken going forward



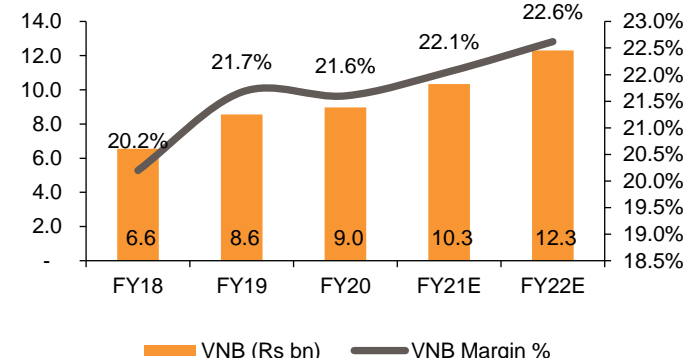
Source: Company, Emkay Research

## Exhibit 5: Proprietary distribution channel increasing



Source: Company, Emkay Research

## Exhibit 6: VNB margins to continue robust momentum



Source: Company, Emkay Research

**Exhibit 7: Movement in EV**

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E
Opening Embedded value (EV)	56,170	65,900	75,090	89,380	99,770	1,17,476
Expected return on existing business (A+B+C)	6,200	7,030	8,230	9,160	10,377	12,308
Expected return on existing business (unwind) (A)	5,340	6,410	6,970	8,130	9,347	11,278
Operating assumption changes (B)	-	-	-	-	-	-
VNB added during the period	4,990	6,560	8,230	8,970	10,336	12,294
Operating experience variance (C)	860	620	1,260	1,030	1,030	1,030
IEV operating earnings (EVOP)	11,190	13,590	16,460	18,130	20,713	24,602
Economic assumption changes and investment variance	1,710	(470)	-	-	-	-
IEV total earnings	12,900	13,120	16,460	18,130	20,713	24,602
Capital contributions/ / (dividends paid out)	(3,180)	(3,930)	(6,010)	(4,560)	(3,007)	(3,007)
Closing IEV	65,890	75,090	89,380	99,770	1,17,476	1,39,070
Expected return as % of opening (PAT/opening EV)	11.7%	8.0%	7.4%	5.4%	6.2%	6.3%
VIF transfer as % of opening (unwinding/opening EV)	9.5%	9.7%	9.3%	9.1%	9.4%	9.6%
ROEV %	19.9%	20.6%	21.9%	20.3%	20.8%	20.9%
Operating ROEV %	18.4%	19.7%	20.2%	19.1%	19.7%	20.1%

Source: Company, Emkay Research

**Exhibit 8: Assumptions**

Assumptions	
Terminal APE growth FY36 onwards	5.0%
Terminal VNB Margin	23.0%
Cost of Equity	15.5%
Risk free rate	7.0%
Implied Beta (including company-specific risk)	1.70
Risk Premium	5.0%

Source: Emkay Research

**Exhibit 9: Valuation**

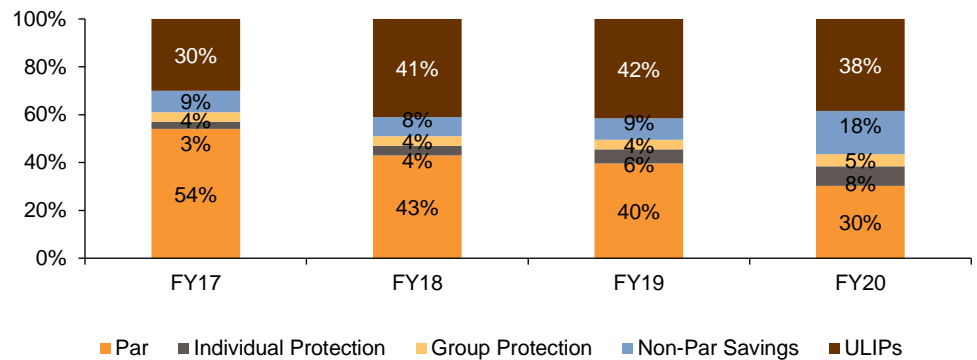
Valuation	FY22E
EV	1,39,070
Derived value of VNB	1,81,521
Value of the firm	3,20,592
MFS ownership in Max Life	70.0%
Max Life Value in MFS	2,24,414
Holding Company expense	316
Holding Company Discount	78,545
Axis Bank Call option strain on Fair Value	2,776
MFS Fair Value	1,43,094
MFS shares o/s	269.4
Per share value (Target Price)	531
Implied AV/EVx	2.3
Implied AV/Evx (after holding company discount)	1.2
Implied NBPx	14.8

Source: Emkay Research

## Diversified product portfolio – Growth in Protection remains the key

MAXL has seen a gradual shift in the product portfolio from PAR Product to Non PAR and ULIPs. However, unlike most of private insurers, MAXL has also seen a sharp surge in Non PAR savings product (guaranteed returns) during FY20. With a recent steep decline in interest rates, the push for the same product seems unlikely. Going forward, management remains firm over the increasing share of protection plans (mainly individual protection), along with a consistent rise in group protection as well. With HDFCSL gradually reducing its focus on credit protection, there could be decent headroom for MXSL through Axis Bank credit products.

**Exhibit 10: Non-Par products dominated FY20 however shift is likely to be in favor of protection**



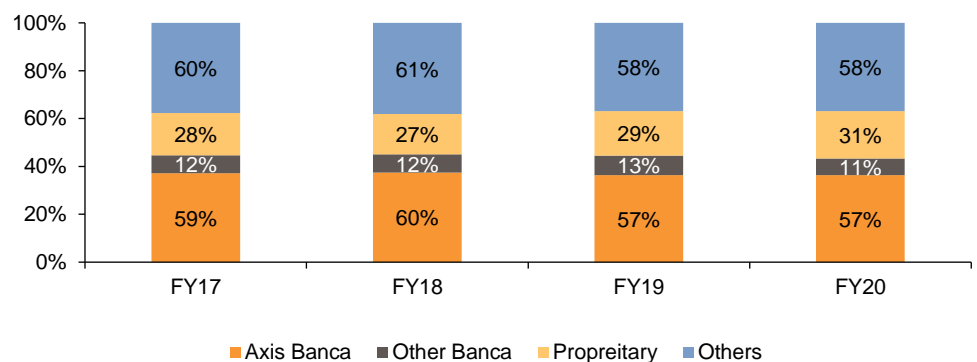
Source: Company, Emkay Research

## Post Covid-19, distribution channel holds the key

We believe that the overall insurance penetration in India is likely to rise post the Covid-19 scenario as individual as well as corporate customers would be more cautious toward such crisis. We also remain certain that demand for pure protection is tend to rise, with individual customers getting more educated toward the risk that such insurance covers.

Similar to IPRU and SBIL, MAXL also has large dependence on Bancassurance, which could trigger steady growth for ULIPs especially during H2FY20 as the overall equity market is witnessing some stabilizing trends. Management is also trying to focus on participating products in order to reduce the rising dependence on ULIPs; however, elevated dependence on bancassurance remains a major risk to this strategy.

**Exhibit 11: Elevated dependence on bancassurance remains the risk to product profile**



Source: Company, Emkay Research

As we highlighted earlier, we continue to believe that elevated reliance on bancassurance (~68%, mainly Axis Bank which stands at ~57%) remains a key risk to the product profile of the company. The bank prefers to sell ULIPs due to large ticket sizes, easier product to sell as well as less competitive to the bank's existing savings product. With normalization of equity markets, the probability of ULIP sales by the bank remains elevated, which could pose a major risk to the margin profile of the company.

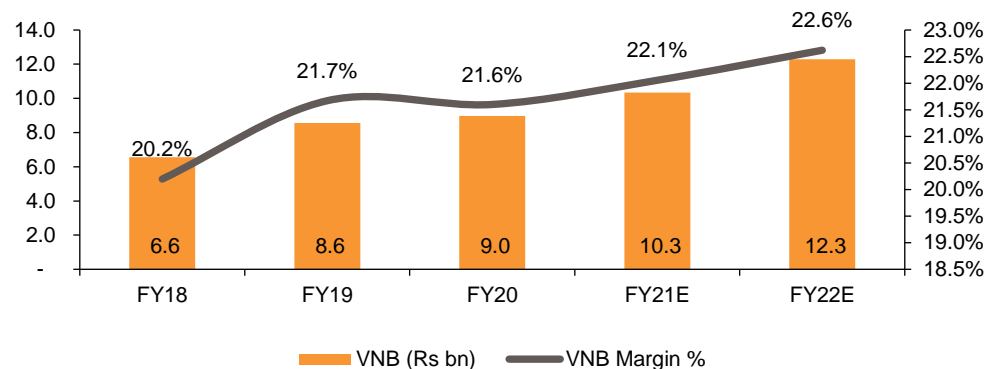
## Improvement in VNB margins likely, however, acquisition costs and pricing remain the key

MAXL has reported steady trends in VNB margins at 21.6% (-10bps yoy) in spite of a shift in the product mix toward the non-par business as well as a gradual rise in protection plans. The lower-than-expected margins are attributable to higher acquisition costs for the company. Structural margins are fairly encouraging at ~24.3% against ~22.5% last year. Thus elevated operating and acquisition expense would be the key aspect for management to focus on.

We believe that MAXL margin will improve owing to its increased focus on protection, which is a high-margin business. However, management needs to reprice its existing protection plans since most of reinsurance companies have already opted for a price hike. Management has confirmed that the current protection plans are being priced cheaper to HDFCSL, however, post a rise in prices, the competition from HDFCSL would surely play an important role.

We expect VNB to grow at a CAGR of 17.1% to Rs12.3bn over FY20-22E, with ROEVs at ~20.8% for FY20-FY22E.

**Exhibit 12: VNB margin to witness steady improvement**

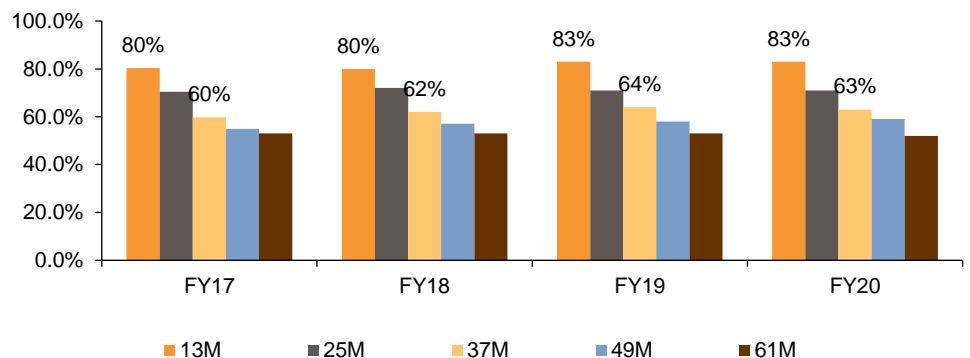


Source: Company, Emkay Research

## Persistency Ratio: March numbers would remain volatile

The improvement in persistency is vital, especially for the linked business due to the inherent cyclicality in the business. 13M persistency for MAXL remained stable at ~83%, whereas 61M declined by 100bps yoy to ~52%. However, the data does not include the impact of Covid-19 lockdowns post March'20 and hence, the numbers are least relevant.

**Exhibit 13: Trend in persistency remains encouraging**



Source: Company, Emkay Research

## Q4FY20 Earnings Update – Slowing growth

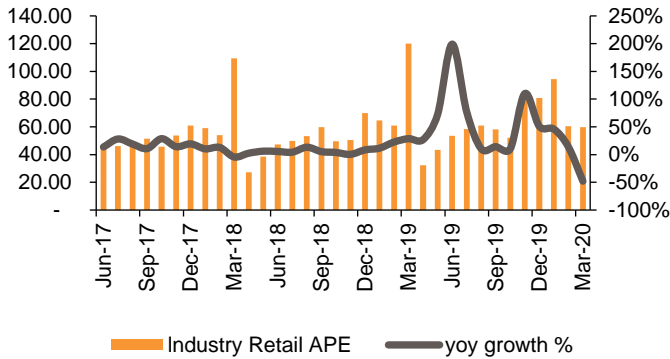
- MAX Life (MAXL) reported weak trends in APE, which declined by ~15% yoy for Q4FY20 at Rs13.2bn.
- For full year FY20, APE has grown at a nominal rate of ~5% yoy to Rs41.2bn. The impact of Covid-19 is clearly visible on growth momentum of the company.
- VNB margins during the quarter were stable at ~22.8% against ~21% last quarter and ~23.5% last year. The dip on a yoy basis is mainly attributable to a change in the product mix toward non-par savings and investments in the proprietary channel.
- 13M persistency dipped by 200bps sequentially to (flat yoy) 83%, while 61M persistency dropped by 100bps yoy to 52%, led by a change in the share of ULIP mix, of certain product design in particular.
- The solvency ratio reduced to ~207% because of a dip in equity markets. However the same is fairly comfortable against the statutory requirement of ~150%
- Operating variance had been positive by Rs1bn – strengthened assumptions mainly on amid tightening persistency assumptions, whereas the mortality rate has been kept flat.
- The management expects Q1FY21 growth to be in single digits, whereas H1FY21 would be under pressure and post which one can see some momentum once Covid-19 issues are sorted out and macro factors stabilize.
- Share of Non Par products should consolidate as the rate of interest has been reducing – had seen a sharp rise during Q2-Q3FY20.
- Agency remains preferred mode of distribution, however, management is also comfortable with bancassurance contribution.
- IRDA approval is at an advance stage for the Mitsubishi swap transaction – shareholder approval has already been obtained.
- IRDA and RBI filings have been done for Axis acquisition in Max Life - CCI approval is sort in couple of days – hopeful to complete the transaction by year end.
- Tax amenity scheme has been obtained for previous tax issue - Rs1.24bn has already been paid – matter stands closed.

## Monthly Tracker: Group insurance saves the day

- Premium growth in March'20 witnessed a sharp decline of ~37.8% yoy against growth of ~31.8% during February'20, mainly due to lockdowns amid Covid-19.
- Decline in Retail APE was more severe compared to group APE at ~39.8% yoy (+4.8% YTD), again reflecting a delay in premium collections, especially from retail individuals.
- IRDA has anyhow permitted one-month extension for all insurance players, whereas the government allowed a moratorium of 90 days over insurance payments for tax benefit purposes, which could also have resulted in a decline in overall insurance premiums.
- The sole PSU entity, LIC, also witnessed a similar drop in premium collections due to Covid-19. LIC APE declined by ~57% yoy (retail APE declined by 64.5% yoy).
- MAXL reported relatively better APE numbers, with a decline of 15% yoy in Apr'20 to Rs1.2bn. Retail APE decreased 19.5% yoy to Rs1.1bn. Total NBP at Rs1.7bn was down by 14.7% yoy. Retail NBP was down by 8.7% yoy to Rs1.6bn.
- Policy sales fell by ~19.7% yoy in April'20, while the retail APE ticket size increased by ~5% yoy, helped by resuming sales of non-par products.
- The current month premium data is more or less irrelevant, considering the impact of Covid-19 has not been analyzed. We continue to remain optimistic toward improvement in premium collection data over coming months, however some volatility is expected amid the current macro crisis due to Covid-19.
- We also believe that private insurance players are unlikely to see any significant shift in premium growth due to the recent announcements made in the Union Budget 2020 (tax savings sale dropping off under the new tax regime), given a diversified product suite and evolving distribution ecosystem.

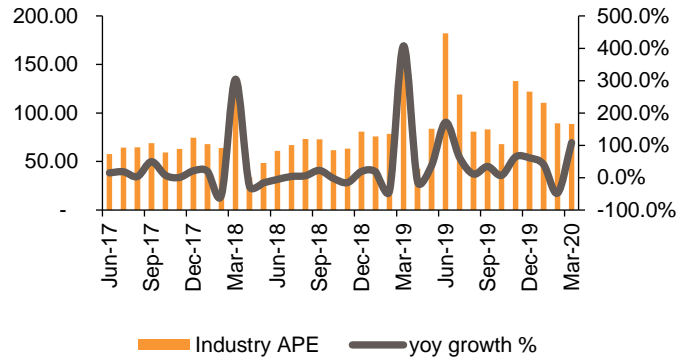
# Monthly Tracker Charts

**Exhibit 14: Industry's retail APE (Rs bn) and yoy growth (%)**



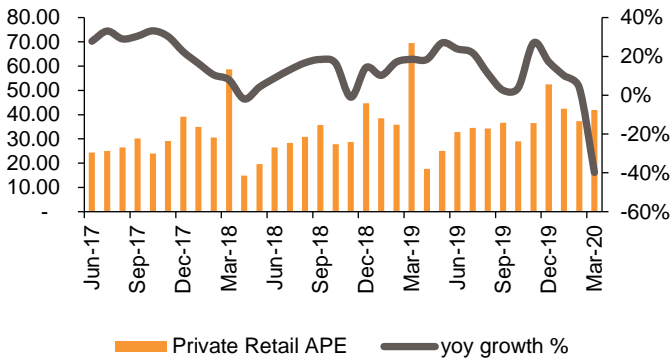
Source: Company, Emkay Research

**Exhibit 15: Industry's APE (Rs bn) and yoy growth (%)**



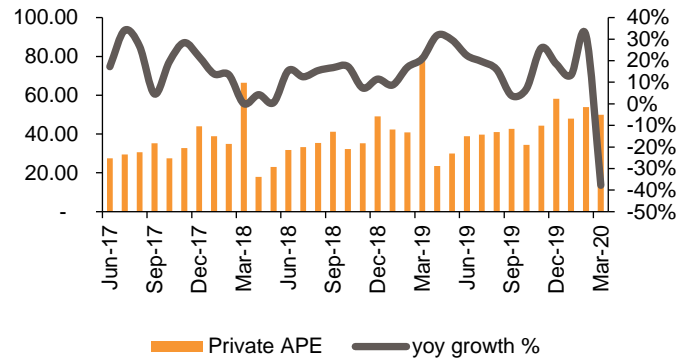
Source: Company, Emkay Research

**Exhibit 16: Retail APE of private players (Rs bn) and yoy growth (%)**



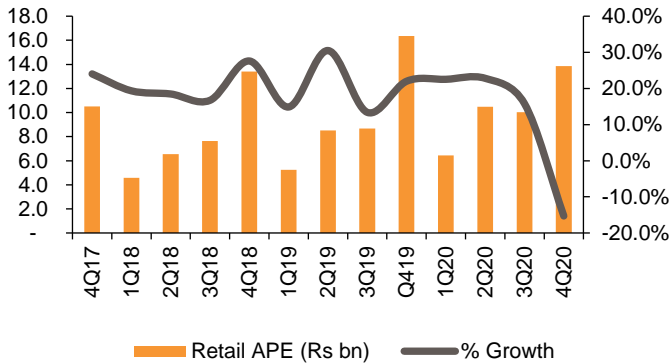
Source: Company, Emkay Research

**Exhibit 17: APE of private players (Rs bn) and yoy growth (%)**



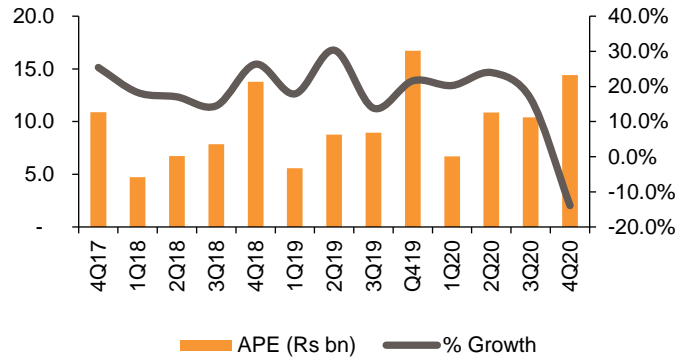
Source: Company, Emkay Research

**Exhibit 18: MAXL's retail APE (Rs bn) and yoy growth (%)**



Source: Company, Emkay Research

**Exhibit 19: MAXL APE (Rs bn) and yoy growth (%)**



Source: Company, Emkay Research



**Exhibit 20: Glossary**

Term	Abbreviation	Description
Annualized Premium Equivalent	APE	APE is the sum of annualized first year premiums on regular premium policies and 10% of single premiums on the new business written during any period.
Bancassurance	Banca	An arrangement entered into by an insurance company with banks through which the bank sells or markets insurance products of the insurance company to the bank's clients.
Embedded value	EV	It represents the present value of shareholders' interests in the earnings distributable from the assets allocated to the business after sufficient allowance for the aggregate risks in the business. It is the sum of retained earnings, invested capital and value in force (VIF). It is the value of company's existing business.
Embedded value operating profit	EVOP	EVOP is a measure of the increase in the EV during any given period due to matters that can be influenced by management. It includes value created due to writing off new business and positive operating variance due to better persistency and mortality experience, better expense efficiencies. It excludes changes in EV due to external factors like changes in economic variables and shareholder-related actions like capital injection or dividend pay-outs.
Operating return on embedded value	ROEV	Operating Return on EV is the ratio of EVOP for any given period to the EV at the beginning of that period.
First Year Premium	FYP	Insurance premium that is due in the first policy year of a life insurance contract.
In-Force	-	An insurance policy or contract, reflected on records, which has not expired, matured or otherwise been surrendered or terminated.
Insurance Penetration	-	It is the insurance premium as % of GDP for any given period.
Morbidity Rate	-	It is an estimate of the number of persons that are expected to suffer a disease, illness, injury, or sickness and could vary by age or other factor such as occupation, health etc.
Mortality Charges	-	The risk charges that are deducted from the unit fund of a policy to provide for the mortality benefit to the policyholder.
Mortality Rate	-	An estimate of number of deaths, varying by such parameters as age, gender and health, used in pricing and computing policy liabilities.
New Business Premium	NBP	Insurance premium, which is due in the first policy year of a life insurance contract or single lump sum payment from the policyholder.
New business strain	NBS	New business strain arises when the premium paid at the commencement of a contract is not sufficient to cover the initial expenses, including acquisition costs and any mathematical reserve that a company needs to set up at that point.
Participating Product	-	A life insurance policy where the policyholder is entitled to share the surplus emerging in participating fund. The current minimum share that the policyholders are entitled to, as per the IRDAI regulations, is 90%.
Persistency Ratio	-	It can be measured in terms of number of policies or in terms of premium underwritten. It is in proportion of the business retained from business underwritten E.g. 49th Month persistency at 65% will mean that only 65 policies are in force today out of 100 policies sold 4 years back.
Value of New Business	VNB	VNB is the present value of expected future earnings from new policies written during a specified period and it reflects the additional value to the shareholders - expected to be generated through the activity of writing new policies during a specified period.
Value of new business margin	VNB margin	VNB margin is the ratio of VNB to New Business APE for a specified period and is a measure of the expected profitability of new business.
Solvency Ratio	-	It is the minimum amount of required capital to run insurance business smoothly. In India, it is set at 150% of the requirement by IRDAI.
Sum Assured	SA	The amount that an insurer agrees to pay on the occurrence of a stated contingency.

Source: DRHP, Industry data, Emkay Research

**Key Financials (Standalone)****Income Statement**

<b>Policyholders Account-Y/E (Rs mn)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Net earned premium	1,23,795	1,44,184	1,59,891	1,58,239	1,82,391
Income from investments	37,574	48,643	54,782	70,572	81,885
Contribution from the shareholders fund	91	120	293	0	0
Miscellaneous income	254	320	352	387	426
<b>Total income</b>	<b>1,61,715</b>	<b>1,93,267</b>	<b>2,15,318</b>	<b>2,29,198</b>	<b>2,64,702</b>
Commissions	8,929	9,888	10,163	11,393	12,973
Operating expenses	16,099	19,274	18,568	20,972	23,961
Provisions	1,096	1,317	1,618	1,869	2,162
<b>Total expenses</b>	<b>26,124</b>	<b>30,479</b>	<b>30,349</b>	<b>34,234</b>	<b>39,096</b>
Benefits paid (net)	49,466	57,178	68,662	75,690	86,964
Change in liabilities (net)	79,043	97,365	90,186	1,12,981	1,29,778
<b>Total</b>	<b>1,28,509</b>	<b>1,54,544</b>	<b>1,58,848</b>	<b>1,88,671</b>	<b>2,16,742</b>
Surplus	7,082	8,244	26,121	6,293	8,864
Tax	0	0	0	0	0
<b>Net surplus</b>	<b>7,082</b>	<b>8,244</b>	<b>26,121</b>	<b>6,293</b>	<b>8,864</b>
Transfer to shareholders account	3,992	4,402	3,887	5,212	6,556

<b>Shareholders Account-Y/E (Rs mn)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Transfer from policyholders account	3,992	4,402	3,887	5,212	6,556
Income from investments	2,178	2,177	2,146	2,139	2,268
Other income	5	25	5	0	0
<b>Total income</b>	<b>6,175</b>	<b>6,604</b>	<b>6,038</b>	<b>7,351</b>	<b>8,824</b>
Expenses	(68)	257	296	340	391
Provisions	0	0	0	0	0
Contribution to policyholders account	91	120	293	0	0
<b>Profit before tax</b>	<b>6,152</b>	<b>6,226</b>	<b>5,449</b>	<b>7,011</b>	<b>8,433</b>
Tax	875	662	643	827	995
<b>Net profit</b>	<b>5,276</b>	<b>5,564</b>	<b>4,806</b>	<b>6,184</b>	<b>7,438</b>

**Balance Sheet**

<b>Y/E Year End</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
<b>Sources of funds</b>					
Share capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	7,702	8,478	8,422	9,627	12,087
Fair value change account credit/(debit)	98	(57)	(57)	(57)	(57)
<b>Net worth (including fair value change)</b>	<b>26,989</b>	<b>27,609</b>	<b>27,553</b>	<b>28,758</b>	<b>31,218</b>
Policyholders funds	4,86,143	5,85,765	6,73,455	7,80,725	9,04,793
Funds for future appropriations	18,655	22,498	26,267	30,666	35,901
<b>Total liabilities</b>	<b>5,31,788</b>	<b>6,35,872</b>	<b>7,27,274</b>	<b>8,40,150</b>	<b>9,71,912</b>
<b>Application of funds</b>					
Shareholders investments	32,146	35,187	33,189	33,084	35,068
Policyholders investments	3,19,238	3,94,173	4,62,852	5,37,425	6,23,616
Assets to cover linked liabilities	1,70,981	1,98,619	2,23,341	2,61,749	3,05,335
Loans	2,233	3,265	3,265	3,265	3,265
Fixed assets	1,582	1,921	1,921	1,921	1,921
Net current assets (A-B)	5,608	2,706	2,706	2,706	2,706
Miscellaneous expenditure	0	0	0	0	0
Debit balance in p&l	0	0	0	0	0
<b>Total assets</b>	<b>5,31,788</b>	<b>6,35,872</b>	<b>7,27,274</b>	<b>8,40,150</b>	<b>9,71,912</b>

**Key Ratio (%)**

Y/E Year End	FY18	FY19	FY20	FY21E	FY22E
Conservation ratio %	83.5	83.0	79.8	70.8	80.0
Commissions ratio %	7.2	6.9	6.4	7.2	7.1
Opex ratio %	13.0	13.4	11.6	13.3	13.1
ROA %	1.1	0.9	0.7	0.8	0.8
ROE %	20.3	18.9	17.5	22.0	24.8
Dividend payout ratio %	0.0	25.9	25.7	19.5	15.7

EV Data	FY18	FY19	FY20	FY21E	FY22E
Embedded value (Rs mn)	75,090	89,380	99,770	1,17,476	1,39,070
Value of new business (Rs mn)	6,560	8,560	8,970	10,336	12,294
EVOP (Rs mn)	13,590	16,460	18,130	20,713	24,602
ROEV %	20.6	21.9	20.3	20.8	20.9
VNB margin %	20.2	21.7	21.6	22.1	22.6

Source: Company, Emkay Research

Per Share Data (Rs)	FY18	FY19	FY20	FY21E	FY22E
EPS	10.7	9.8	10.0	13.5	16.8
DPS	0.0	2.5	2.6	2.6	2.6
BVPS	97.5	104.2	111.1	121.4	135.0

Valuation (x)	FY18	FY19	FY20	FY21E	FY22E
P/E	41.5	45.3	44.3	32.8	26.5
P/B	4.6	4.3	4.0	3.7	3.3
P/EV	1.6	1.3	1.2	1.0	0.9
P/VNB	18.1	13.9	13.3	11.5	9.7
Dividend yield (%)	0.0	0.6	0.6	0.6	0.6

Source: Company, Emkay Research

Growth (%)	FY18	FY19	FY20	FY21E	FY22E
GWP	16.0	16.6	11.0	(0.7)	15.4
New business premium (NBP)	18.6	18.7	8.2	1.3	15.7
Annualized premium equivalent (APE)	20.3	21.0	5.9	10.6	16.0
Retail APE	21.8	20.7	5.8	10.6	16.2
Commissions	(4.7)	10.7	2.8	12.1	13.9
Operating expenses	1.2	19.7	(3.7)	12.9	14.3
Net income	(20.0)	5.5	(13.6)	28.7	20.3

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net earned premium	54,781	25,999	37,285	38,414	58,274
Total income	71,411	39,675	46,954	53,231	71,482
Total expenses	68,817	38,649	45,990	51,561	43,015
Net income	2,461	682	857	1,149	2,118
EPS (Rs)	4.89	1.26	1.57	3.93	3.53

Source: Capitaline

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	28.3	28.3	28.3	28.3	28.3
FIIIs	29.9	29.6	29.6	27.7	30.6
DIIIs	31.9	32.2	30.7	31.5	29.0
Public and Others	9.9	10.0	11.4	12.5	12.1

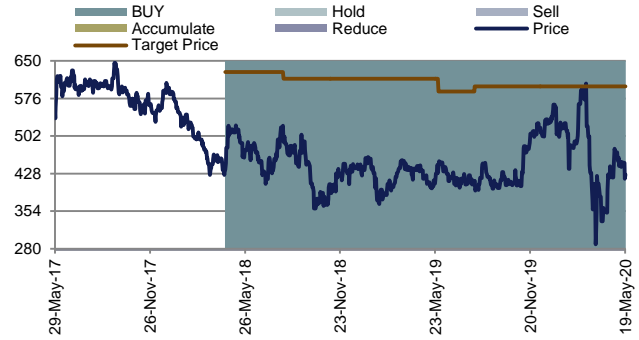
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
07-Feb-20	480	600	12m	Buy	Neeraj Toshniwal
06-Feb-20	481	600	12m	Buy	Neeraj Toshniwal
09-Dec-19	519	600	12m	Buy	Neeraj Toshniwal
08-Nov-19	482	600	12m	Buy	Neeraj Toshniwal
11-Oct-19	409	600	12m	Buy	Neeraj Toshniwal
03-Oct-19	419	600	12m	Buy	Neeraj Toshniwal
11-Sep-19	401	600	12m	Buy	Neeraj Toshniwal
13-Aug-19	396	600	12m	Buy	Neeraj Toshniwal
06-Aug-19	413	600	12m	Buy	Neeraj Toshniwal
29-May-19	440	590	12m	Buy	Neeraj Toshniwal
13-May-19	402	615	12m	Buy	Neeraj Toshniwal
22-Apr-19	434	615	12m	Buy	Neeraj Toshniwal
13-Mar-19	432	615	12m	Buy	Neeraj Toshniwal
11-Feb-19	377	615	12m	Buy	Neeraj Toshniwal
14-Nov-18	393	615	12m	Buy	Neeraj Toshniwal
07-Aug-18	491	615	12m	Buy	Neeraj Toshniwal
28-May-18	474	628	12m	Buy	Neeraj Toshniwal
18-Apr-18	436	628	12m	Buy	Neeraj Toshniwal

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Insurance



### Analyst: Jignesh Shial

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#### Sector

NBFCs/AFCs

#### Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Insurance</b>	<b>1.46</b>	<b>1.46</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
HDFC Life	0.53	0.55	4%	2	37.65
ICICI Pru Life	0.26	0.21	-20%	-5	14.20
Max Financial	0.16	0.16	5%	1	11.31
SBI Life	0.51	0.54	4%	2	36.84
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

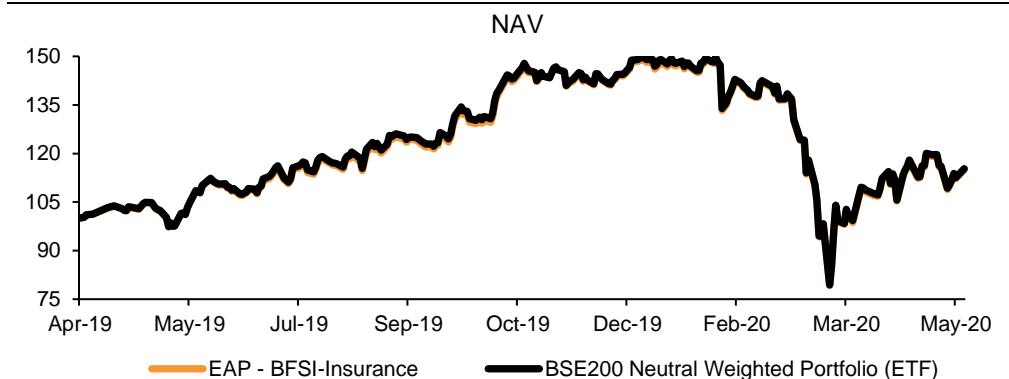
### Sector portfolio NAV

	Base					Latest
	01-Apr-19	23-Aug-19	26-Nov-19	24-Feb-20	24-Apr-20	26-May-20
EAP - BFSI-Insurance	100.0	120.2	144.2	140.7	105.3	115.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	121.1	144.7	141.1	105.6	115.3

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 May 2020 02:58:14 (SGT)

Dissemination Date: 28 May 2020 02:59:14 (SGT)

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