

Max Financial

Refer to important disclosures at the end of this report

Product diversity to drive margins

CMP: Rs 558

as of (July 31, 2020)

TP: Rs 660 (▲)

12 months

Rating: BUY (■)

Upside: 18.2 %

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- MAX Life (MAXL) reported a 2.8% fall in APE (lower than peers) to Rs6.6bn, whereas VNB declined by ~15.7% yoy. The performance was relatively better than most peers and in sync with monthly data trends. Renewals grew at a slower pace of ~6% yoy to Rs18.5bn.
- VNB margins disappointed, falling 250bps yoy to 17.1%, as a rise in reinsurance charges was absorbed by MAXL in order to maintain growth momentum. However, it has introduced new products at increased prices, supporting margins and profitability going ahead.
- Management remains firm over the rising share of protection plans with an increasing focus on a proprietary channel of distribution (~37% 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 ~56%.
- We are building in improvement in the margin profile for MAXL, with a gradual rise in the share of protection plans. We continue to like MAXL for its diversified product profile and comfortable valuations. We introduce FY23 estimates and roll forward to Sept'22E. We retain Buy and OW in EAP, with a revised TP of Rs660 (1.2x Sept'22E EV).

VNB margin to improve with diversity in products: Buoyant capital markets, increased focus on linked products and targeting the underpenetrated high-margin protection segment will enable MAXL to make its product profile balanced, with non-par growing faster than the par segment. We expect margins to improve further with the rising share of protection plans. We expect VNB margins to improve to ~23.1% by FY23E against ~21.6% in FY20E.

Operating leverage kicking in, supporting profitability further: The operating leverage during the quarter was fairly encouraging, with the opex-to-GWP ratio improving ~243bps yoy to ~16.2%. As the company is becoming more digitally equipped, we do expect the improving trend to sustain for longer.

Overhang of Axis Bank stake purchase easing; focus 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 the company. However, in order to reduce its over-dependence on bancassurance (contributes over 68% to individual APE), MAXL is 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 profitable product mix and relatively comfortable valuations, we maintain the Buy rating (OW in Insurance EAP) and revised the TP to Rs660 at 1.2x Sept'22E EV. We expect VNB to grow at a CAGR of 14.2% to Rs13.3bn over FY20-23E, with ROEVs at ~19.5% for FY20-FY23E.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Profit	5,570	4,736	5,028	5,521	6,154
EPS (Rs)	9.8	9.8	10.8	12.2	14.1
VNB	8,560	8,970	9,883	11,364	13,348
VNB margin %	21.7	21.6	21.9	22.4	23.1
EV	89,380	99,770	1,16,655	1,36,541	1,60,201
ROEV %	21.9	20.3	19.9	19.6	19.5
P/EV (x)	1.7	1.5	1.3	1.1	0.9

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	24.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	10.8	12.2
Consensus	17.1	23.0
Mean Consensus TP (12M)	Rs 598	

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)	151 / 2.01
Daily Avg Volume (nos.)	16,02,208
Daily Avg Turnover (US\$ mn)	10.6

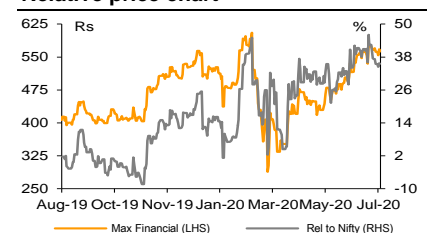
Shareholding Pattern Jun '20

Promoters	28.3%
FIIIs	30.5%
DIIIs	28.7%
Public and Others	12.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	19	10	34
Rel. to Nifty	(4)	6	19	34

Relative price chart



Source: Bloomberg

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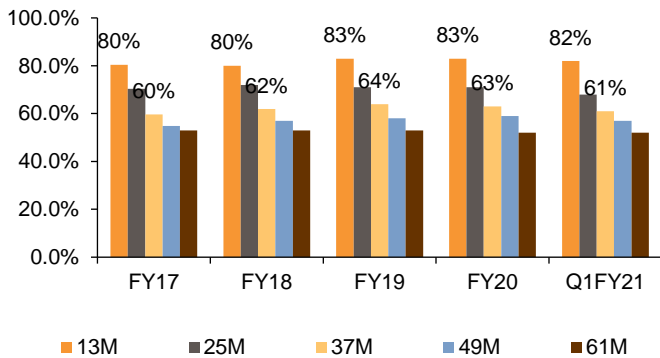
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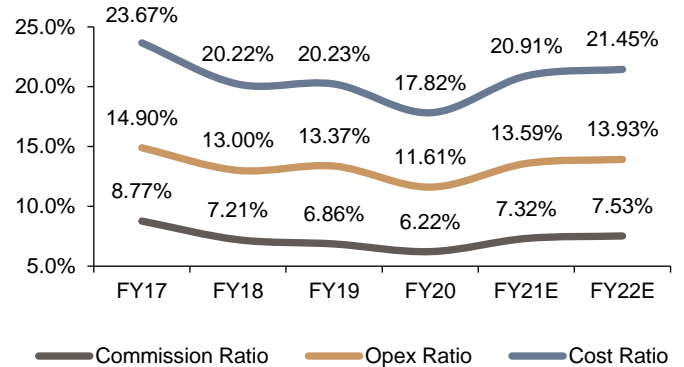
Story in Charts

Exhibit 1: Persistency marginally weak



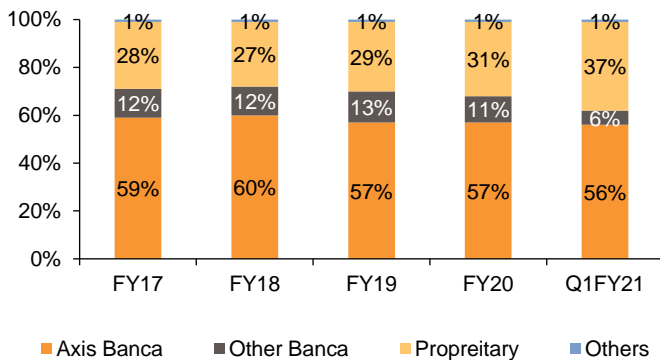
Source: Company, Emkay Research

Exhibit 2: Costs to normalize by FY21E



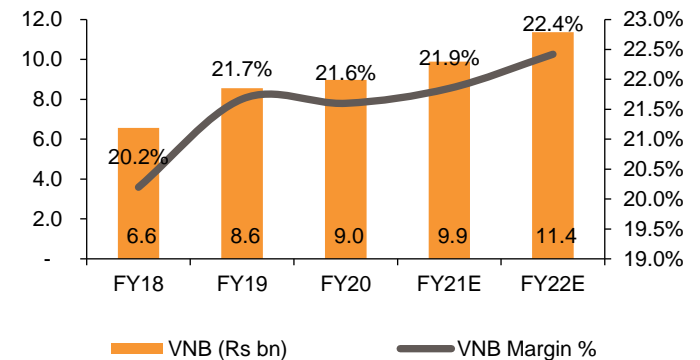
Source: Company, Emkay Research

Exhibit 3: Proprietary channel delivers in Q1



Source: Company, Emkay Research

Exhibit 4: VNB margins to remain stable



Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

	FY21E			FY22E			FY23E
	Old	New	% change	Old	New	% change	Introduced
NBP	56,583	54,948	-3%	65,495	61,832	-6%	70,251
APE	46,865	45,230	-3%	54,350	50,687	-7%	57,759
PAT (MAXL)	6,184	5,028	-19%	7,438	5,521	-26%	6,154
EV	1,17,476	1,16,655	-1%	1,39,070	1,36,541	-2%	1,60,201
VNB margin %	22.1%	21.9%	-1%	22.6%	22.4%	-1%	22.8%
ROE %	22.0%	18.3%	-17%	24.8%	19.9%	-20%	20.7%
ROEV %	20.8%	19.9%	-4%	20.9%	19.6%	-6%	19.6%

Source: Company, Emkay Research

Exhibit 6: Movement in EV

Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Opening Embedded value (EV)	65,900	75,090	89,380	99,770	1,16,655	1,36,541
Expected return on existing business (A+B+C)	7,030	8,230	9,160	10,009	11,529	13,319
Expected return on existing business (unwind) (A)	6,410	6,970	8,130	8,979	10,499	12,289
Operating assumption changes (B)	-	-	-	-	-	-
VNB added during the period	6,560	8,230	8,970	9,883	11,364	13,348
Operating experience variance (C)	620	1,260	1,030	1,030	1,030	1,030
IEV operating earnings (EVOP)	13,590	16,460	18,130	19,892	22,893	26,667
Economic assumption changes and investment variance	(470)	-	-	-	-	-
IEV total earnings	13,120	16,460	18,130	19,892	22,893	26,667
Capital contributions/ / (dividends paid out)	(3,930)	(6,010)	(4,560)	(3,007)	(3,007)	(3,007)
Closing IEV	75,090	89,380	99,770	1,16,655	1,36,541	1,60,201
Expected return as % of opening (PAT/opening EV)	8.0%	7.4%	5.3%	5.0%	4.7%	4.5%
VIF transfer as % of opening (unwinding/opening EV)	9.7%	9.3%	9.1%	9.0%	9.0%	9.0%
ROEV %	20.6%	21.9%	20.3%	19.9%	19.6%	19.5%
Operating ROEV %	19.7%	20.2%	19.1%	18.9%	18.7%	18.8%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net earned premium	1,44,184	1,59,891	1,51,077	1,70,712	1,96,897
Income from investments	48,805	54,782	66,482	73,985	85,094
Contribution from the shareholders fund	120	293	0	0	0
Miscellaneous income	320	352	387	426	468
Total income	1,93,429	2,15,318	2,17,946	2,45,123	2,82,459
Commissions	9,900	9,940	11,057	12,850	15,143
Operating expenses	19,262	18,560	20,526	23,776	28,379
Provisions	1,628	1,927	2,030	2,244	2,437
Total expenses	30,790	30,427	33,613	38,870	45,959
Benefits paid (net)	57,178	68,662	75,690	85,884	97,016
Change in liabilities (net)	97,365	90,186	1,05,536	1,19,356	1,39,745
Total	1,54,544	1,58,848	1,81,226	2,05,240	2,36,761
Surplus	8,095	26,042	3,107	1,013	(260)
Tax	0	0	0	0	0
Net surplus	8,095	26,042	3,107	1,013	(260)
Transfer to shareholders account	4,402	3,805	4,194	4,924	5,733

Shareholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Transfer from policyholders account	4,402	3,805	4,194	4,924	5,733
Income from investments	2,177	2,141	2,001	1,896	1,882
Other income	25	5	0	0	0
Total income	6,604	5,952	6,194	6,820	7,615
Expenses	251	289	333	382	440
Contribution to policyholders account	120	293	0	0	0
Profit before tax	6,232	5,370	5,862	6,438	7,175
Tax	662	634	834	916	1,021
Net profit	5,570	4,736	5,028	5,521	6,154

Balance Sheet

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Sources of funds					
Share capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	8,478	8,346	8,390	8,928	10,098
Fair value change account credit/(debit)	(57)	(57)	(57)	(57)	(57)
Net worth (including fair value change)	27,609	27,477	27,521	28,059	29,229
Policyholders funds	5,85,765	6,73,455	7,73,281	8,86,926	10,20,961
Funds for future appropriations	22,498	26,270	29,759	33,316	37,630
Total liabilities	6,35,872	7,27,202	8,30,560	9,48,301	10,87,820
Application of funds					
Shareholders investments	35,187	33,117	30,939	29,324	29,098
Policyholders investments	3,94,173	4,62,852	5,34,783	6,18,155	7,19,837
Assets to cover linked liabilities	1,98,619	2,23,341	2,56,946	2,92,930	3,30,992
Loans	3,265	3,265	3,265	3,265	3,265
Fixed assets	1,921	1,921	1,921	1,921	1,921
Net current assets (A-B)	2,706	2,706	2,706	2,706	2,706
Total assets	6,35,872	7,27,202	8,30,560	9,48,301	10,87,820

Key Ratio (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Conservation ratio %	83.0	79.8	67.1	78.5	81.0
Commissions ratio %	6.9	6.2	7.3	7.5	7.7
Opex ratio %	13.4	11.6	13.6	13.9	14.4
ROA %	0.9	0.7	0.6	0.6	0.6
ROE %	18.9	17.3	18.3	19.9	21.5
Dividend payout ratio %	25.9	26.1	24.4	21.5	18.7

EV Data	FY19	FY20	FY21E	FY22E	FY23E
Embedded value (Rs mn)	89,380	99,770	1,16,655	1,36,541	1,60,201
Value of new business (Rs mn)	8,560	8,970	9,883	11,364	13,348
EVOP (Rs mn)	16,460	18,130	19,892	22,893	26,667
ROEV %	21.9	20.3	19.9	19.6	19.5
VNB margin %	21.7	21.6	21.9	22.4	23.1

Source: Company, Emkay Research

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	9.8	9.8	10.8	12.2	14.1
DPS	2.5	2.6	2.6	2.6	2.6
BVPS	104.2	110.9	118.6	127.6	138.5

Valuation (x)	FY19	FY20	FY21E	FY22E	FY23E
P/E	57.0	56.7	51.7	45.6	39.7
P/B	5.4	5.0	4.7	4.4	4.0
P/EV	1.7	1.5	1.3	1.1	0.9
P/VNB	17.5	16.7	15.1	13.2	11.2
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
GWP	16.6	11.0	(5.2)	13.2	15.6
New business premium (NBP)	18.7	8.2	(1.6)	12.5	13.6
Annualized premium equivalent (APE)	21.0	5.9	6.7	12.1	14.0
Retail APE	20.7	5.8	6.6	12.1	14.1
Commissions	10.9	0.4	11.2	16.2	17.8
Operating expenses	19.6	(3.6)	10.6	15.8	19.4
Net income	5.6	(15.0)	6.2	9.8	11.5

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net earned premium	25,999	37,285	38,414	58,274	29,949
Total income	39,675	46,954	53,231	71,477	32,245
Total expenses	38,649	45,990	51,561	43,339	29,770
Net income	682	857	1,149	2,048	1,124
EPS (Rs)	1.26	1.57	3.93	3.36	2.39

Source: Capitaline

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	28.3	28.3	28.3	28.3	28.3
FIIIs	29.6	29.6	27.7	30.6	30.5
DIIIs	32.2	30.7	31.5	29.0	28.7
Public and Others	10.0	11.4	12.5	12.1	12.5

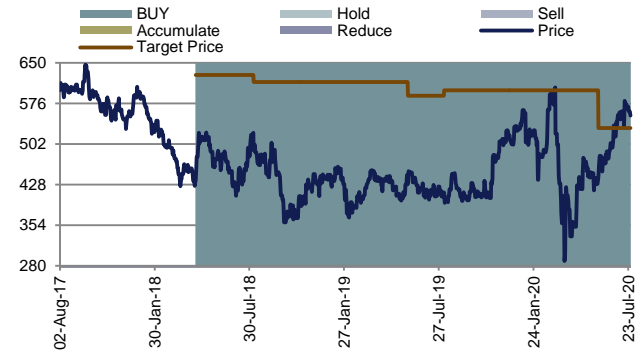
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
01-Jul-20	537	531	12m	Buy	Jignesh Shial
11-Jun-20	476	531	12m	Buy	Jignesh Shial
27-May-20	444	531	12m	Buy	Jignesh Shial
26-May-20	438	600	12m	Buy	Jignesh Shial
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)
BFSI-Insurance	1.48	1.48	0%	0	100.00
HDFC Life	0.54	0.56	4%	2	37.77
ICICI Pru Life	0.27	0.22	-20%	-5	14.84
Max Financial	0.16	0.17	5%	1	11.63
SBI Life	0.51	0.53	4%	2	35.75
Cash	0.00	0.00	NA	0	0.0

Source: Emkay Research

* Not under coverage: Equal Weight

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

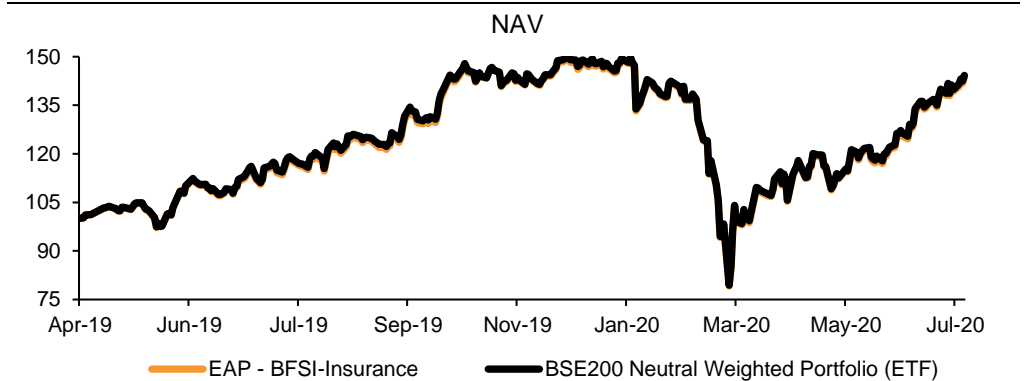
Sector portfolio NAV

	Base					Latest
	01-Apr-19	27-Oct-19	30-Jan-20	30-Apr-20	30-Jun-20	30-Jul-20
EAP - BFSI-Insurance	100.0	144.1	147.9	117.5	128.3	143.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	144.9	148.2	117.9	129.1	144.2

*Performance measurement base date 1st 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: 31 Jul 2020 23:50:55 (SGT)

Dissemination Date: 31 Jul 2020 23:51:55 (SGT)

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