

Max Financial Services (MAXF IN)

Rating: HOLD | CMP: Rs563 | TP: Rs545

Better growth but weaker margins

Quick Pointers:

- Biz. slows down with de-growth seen YoY for APE at 4% and VNB at 16%
- Margins come off to 17% on lower interest rate though Protection segment share spikes up

Max Life's overall APE de-grew 4% YoY supported by decent growth in single & regular premiums. Protection segment remains the key focus with shift of Product mix to NPar savings and Protection as Par share is reduced. Margins disappointed and fell to 17% for 1Q21 despite of favorable product mix on account of lower interest rates and higher cost overruns. Approvals with respect to Axis/Max/MSI deal should not get into hurdle post queries from IRDAI/RBI but should take time. We retain HOLD with revised TP of Rs545 (Rs518) valuing Max Life based on 2.4x Mar-22 EV.

- **Overall growth better than peers, Indv. Protection vols. double:** Life ins. business growth slowed with overall APE de-growing 3.5% YoY though was better than industry which de-grew 18% YoY and private players that de-grew 23% YoY while also gaining 217bps market share YoY amongst the private players. Growth was mainly led by Protection and NPar savings with Individual protection business doubling YoY. Mix of NPar continues to improve, now at 43% (30% in 1Q20). Protection (incl. group) continues to deliver strongly with 61% YoY growth with share in mix now at 25% up 1000bps.

- **Margins face adverse impact:** VNB de-grew 16% YoY and margins fell 260bps YoY to 17%. In spite of favorable product mix led by Protection and NPar savings, margins declined due to high sensitivity from lower interest rates and lower operating leverage due to lower volumes owing to lockdown and business mix shift. Company has re-priced NPar savings and Protection products to soften interest rate impact and should reflect going forward. Structural margins were down only 40bps YoY to 24.5% but NBM post overrun fell 260bps in spite of 320bps boost to margins from favorable product mix, as lower interest rates had an adverse impact of 390 bps and acquisition overrun costs had an adverse impact of 180 bps on the margin

- **Balanced channel mix:** Axis channel continues to grow well with mix maintained at 56%, while Proprietary rose to 37% mainly led by NPar savings & protection products. Banca channel has been ULIP heavy with protection gaining traction at the cost of Par products. **Persistency** was adversely impacted due to the lockdown though is expected to show improvement during FY21 due to various initiatives implemented by the company and also should have some impact from grace period which will improve going ahead.

- **Embedded Value growth steady; Axis/MSI deal on track:** MCEV grew 15% YoY driven by growth in VNB and quality of inforce business and operating RoEV grew ~100bps to 15.9% YoY but as the sales are usually skewed towards later part of the year, the impact of cost overrun is higher for 1Q21 leading to lower RoEV than 20.3% for FY20. For the Axis deal, RBI and IRDAI applications are under progress while shareholders' approval has been received and for the MSI deal, shareholders, CCI & stock exchanges approval have been received with DEA & IRDAI applications under progress

July 30, 2020

Q1FY21 Result Update

Key Financials

Y/e March	FY20	FY21E	FY22E	FY23E
Net Premiums (Rs m)	164,635	183,561	209,180	236,539
- Growth (%)	14.2	11.5	14.0	13.1
Surplus / Deficit (Rs m)	11,239	13,031	15,244	17,734
PAT (Rs m)	8,001	8,744	9,646	10,631
- Growth (%)	43.8	9.3	10.3	10.2
EPS (Rs)	4.2	4.6	5.0	5.5
Emb. Value (Rs bn)	99.8	113.9	130.9	149.6
NBP Margin (%) post overrun	21.6	19.5	20.7	20.8
RoE (%)	27.6	57.7	55.1	52.6
Operating RoEV (%)	20.3	17.9	18.4	17.9
RoEV (%)	16.7	18.2	18.6	17.5
Dividend yield (%)	40.9	37.3	39.1	39.1
Price/EV (x)	1.5	1.3	1.2	1.0
Ap. Value/EV (x)	2.6	2.5	2.4	2.3

Key Data

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52-W High / Low	Rs.611 / Rs.280
Sensex / Nifty	37,736 / 11,012
Market Cap	Rs.151.7bn/ \$ 2,026.2m
Shares Outstanding	269.6m
3M Avg. Daily Value	Rs.798.1m

Shareholding Pattern (%)

Promoter's	28.31
Foreign	30.49
Domestic Institution	28.73
Public & Others	12.48
Promoter Pledge (Rs bn)	39.30

Stock Performance (%)

	1M	6M	12M
Absolute	3.8	12.5	35.9
Relative	(4.9)	19.4	34.8

Pritesh Bumb

priteshbumb@plindia.com | 91-22-66322232

Riddhi Mehta

riddhimehta@plindia.com | 91-22-66322258

Exhibit 1: Indi Protection volumes double, while APE falls 3% YoY; Margins adversely impacted by rates, acquisition costs

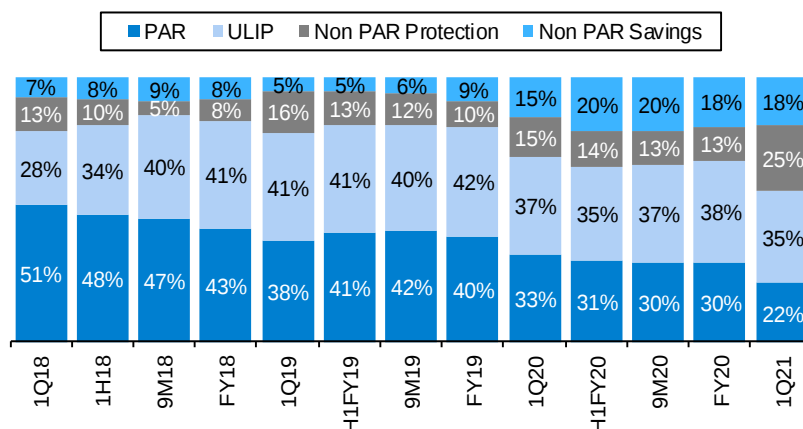
Rs Mn	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Individual New Business APE	6,600	6,790	(2.8)	13,980	(52.8)	41,160	39,170	5.1
Total Protection APE	1,870	1,140	64.0	1,840	1.6	5,710	4,030	41.7
Individual Protection APE	1,050	520	101.9	1,210	(13.2)	3,390	2,270	49.3
Group Protection APE	820	620	32.3	630	30.2	2,320	1,760	31.8
% of Total protection of Total APE	28.3	16.6	1,164.8	13.1	116.6	13.0	10.1	293.0
Ratios (%)								
Commission Ratio	5.7	6.0	(30.0)	6.1	(42.4)	6.3	6.8	(50.0)
Operating Expense Ratio	16.2	18.7	(250.0)	11.3	486.0	14.5	13.2	130.0
Total Expense Ratio	21.9	24.7	(280.0)	17.5	443.6	20.8	20.0	80.0
VNB post overrun	1,130	1,340	-15.7	3,210	-64.8	8,970	8,560	4.8
VNB Margin post overrun (%)	17.0	19.6	-260.0	22.8	(578.2)	21.6	21.7	(10.0)
Embedded Value	1,06,700	93,140	14.6	99,770	6.9	99,770	89,380	11.6

Source: Company, PL

Exhibit 2: Product mix shifts towards Indi. Protection, while ULIPs and PAR continue to see declines

Total NB APE Product Mix (%)	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
ULIP	35.0	37.0	(200)	40.7	(568)	38.3	41.8	(350)
Non PAR Savings	18.0	15.0	300	14.8	315	18.3	8.8	950
Individual Protection	14.0	7.0	700	8.6	541	8.0	4.0	400
Group Protection	11.0	8.0	300	4.5	653	5.0	6.0	(100)
PAR	22.0	33.0	(1,100)	30.7	(874)	30.3	39.8	(950)

Source: Company, PL

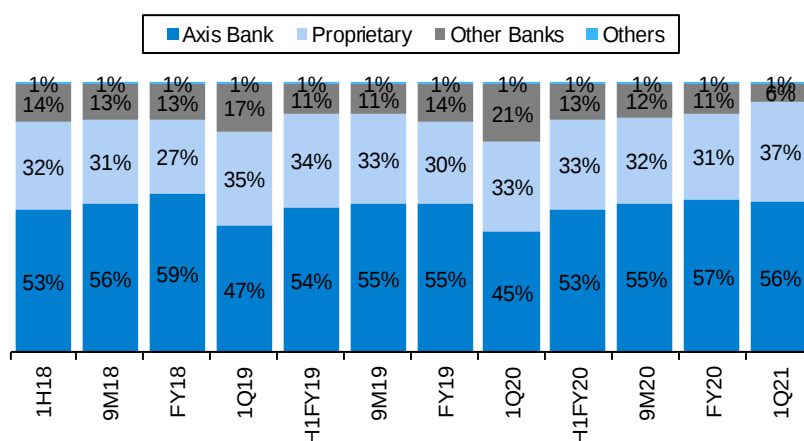
Exhibit 3: Indi Prot share spikes while PAR share falls


Source: Company, PL

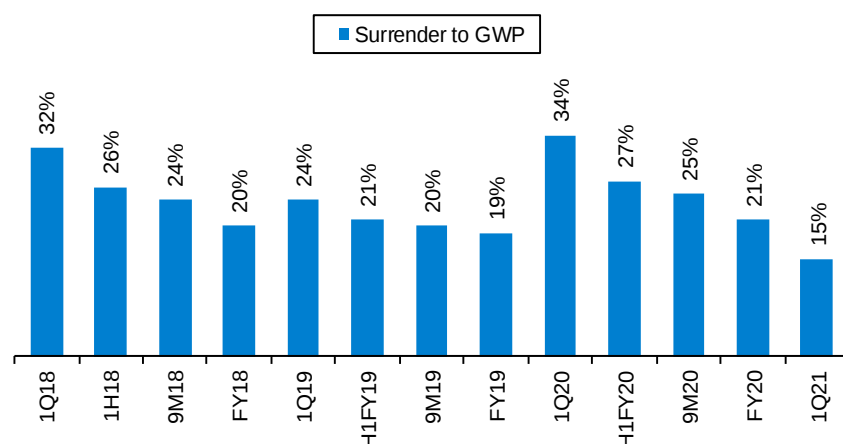
Exhibit 4: Focus on Banca and Proprietary channels continue while other continue to see decline

APE Sourcing Mix	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Rs Mn								
Proprietary	2,446	2,261	8.2	4,094	-40.3	12,862	12,005	7.1
Axis Bank	3,702	3,083	20.1	8,579	-56.9	23,649	22,010	7.4
Other Banks	397	1,439	-72.4	1,276	-68.9	4,564	5,603	-18.5
Others	66	69	-3.5	141	-53.1	415	400	3.7
Total	6,610	6,850	-3.5	14,090	-53.1	41,490	40,018	3.7
(%)								
Proprietary	37.0	33.0	400	29.1	794.5	31.0	30.0	100
Axis Bank	56.0	45.0	1,100	60.9	(488.9)	57.0	55.0	200
Other Banks	6.0	21.0	(1,500)	9.1	(305.5)	11.0	14.0	(300)
Others	1.0	1.0	-	1.0	(0.0)	1.0	1.0	-

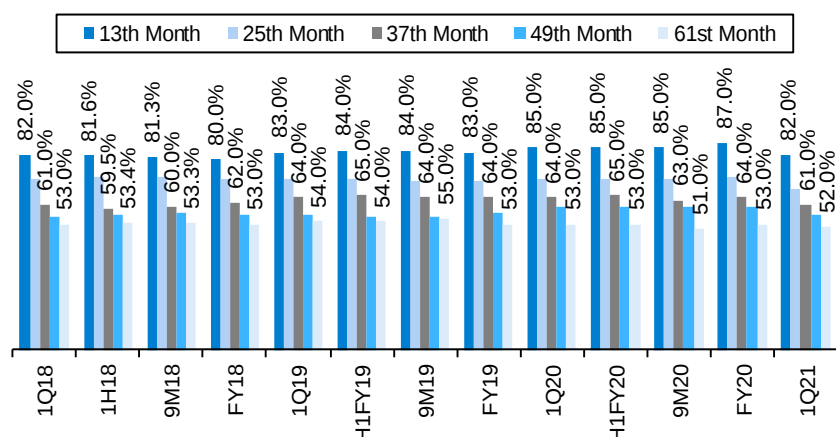
Source: Company, PL

Exhibit 5: Axis and Proprietary channels do well while Other Banks lose share


Source: Company, PL

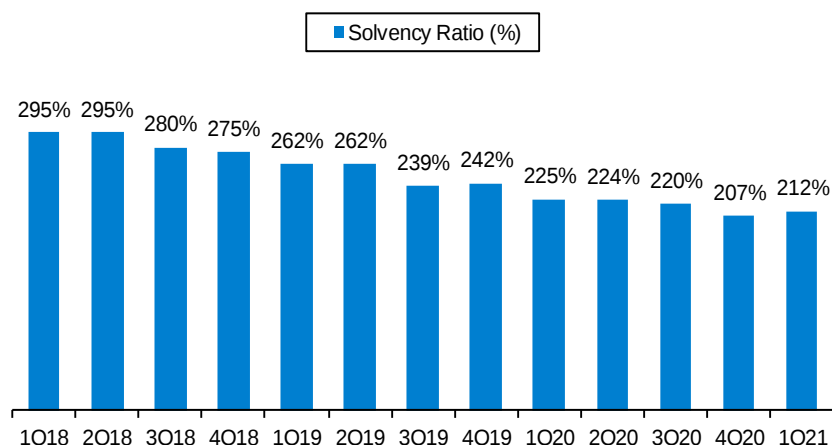
Exhibit 6: Surrender ratio improvement continues


Source: Company, PL

Exhibit 7: Persistency ratios suffer in the short term due to lockdown


Source: Company, PL;

Note: FY20 persistency for 11M as against 12M shown above is 83%/ 71%/ 63%/ 59%/ 52% for 13m/25m/37m/49m/61m respectively. 12MFY20 actually accounts for grace period extension which may not be appropriate for comparison from last year.

Exhibit 8: Solvency ratio improves and remains comfortable


Source: Company, PL

Exhibit 9: Change in Estimates – We adjust APE growth and adjust lower margins as delay in re-pricing of products

(Rs bn)	Old		Revised		% Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
APE	40.5	44.5	45.6	52.0	12.6	16.8
VNB	8.9	10.0	8.9	10.8	(0.2)	7.4
VNB Margin (%)	22.0	22.5	19.5	20.7	(2.5)	(1.8)
EV	114.1	130.2	113.9	130.9	(0.1)	0.5
Price target (Rs)	518		545		5.2	
Recommendation	HOLD		HOLD			

Source: PL

Exhibit 10: We raise our TP to Rs 545 (from Rs518) based on 2.4x Mar-22 EV

PT calculation and upside	
Op RoEV	18.4%
CoE	14.4%
g	5.0%
Embedded value	131
Price / Embedded value	2.4
Appraisal Value	315
Number of shares of Max Fin Services, mn	72%
Valuation per share	545
CMP	563
Upside (%)	-3.1%

Source: Company, PL

Exhibit 11: Key Metrics and EV movement

Rs bn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
APE	15.7	18.3	19.7	21.1	26.6	33.1	40.0	42.3	45.6	52.0
YoY growth (%)	(1.3)	17.1	7.2	7.4	25.7	20.3	21.0	5.6	7.8	14.1
NBV	2.0	2.4	4.2	3.9	5.0	6.6	8.2	9.0	8.9	10.8
YoY growth (%)		21.2	76.3	(8.5)	29.0	31.5	25.5	9.0	-0.9	21.0
EV Movement										
Opening IEV	36.8	37.6	44.0	52.3	56.2	65.9	75.1	89.4	99.8	113.9
New Business Value, post-overrun	2.0	2.4	4.2	3.9	5.0	6.6	8.2	9.0	8.9	10.8
EVOP	3.7	5.1	12.4	8.2	12.9	13.6	16.5	18.1	17.9	20.9
Dividend payout	3.0	3.1	2.4	4.4	3.2	-3.9	-6.0	-4.6	-4.0	-4.2
Closing EV	37.6	39.5	52.3	56.2	65.9	75.1	89.4	99.8	113.9	130.9
Adjusted Net worth	19.0	19.3	21.2	20.8	24.0	24.8	24.0	25.5	30.2	35.6
Value in force (VIF)	18.6	20.2	31.2	35.4	41.9	50.3	65.4	74.3	83.3	93.5
Ratios (%)										
NBAP margins	12.6	13.1	21.3	17.9	18.8	20.2	21.7	21.6	19.5	20.7
RoEV	10.2	13.5	28.1	15.7	23.0	19.9	27.0	16.7	18.2	18.6
Operating RoEV	10.8	15.6	22.3	17.0	19.9	20.6	21.9	20.3	17.9	18.4

Source: Company, PL

Technical account (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross Premiums	166,130	185,228	211,080	238,688
Reinsurance Ceded	1,495	1,667	1,900	2,148
Net Premiums	164,635	183,561	209,180	236,539
Other Income	484	532	586	644
Total income	224,421	256,254	296,925	341,862
Commission	14,121	15,744	17,942	20,288
Operating expenses	21,597	24,080	27,440	31,029
Prov for doubtful debts	-	-	-	-
Operating Profit	188,703	216,430	251,543	290,545
Prov for Tax	1,132	1,299	1,509	1,743
Benefits Paid (Net)	55,991	62,427	71,139	80,443
Chg in reserves	120,341	139,673	163,651	190,624
Surplus / Deficit	11,239	13,031	15,244	17,734

Shareholder's a/c (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	6,747	8,004	9,452	11,108
Income From Investments	2,977	2,632	2,287	1,836
Total Income	9,724	10,636	11,739	12,944
Other expenses	291	328	371	419
Contribution to technical a/c	130	140	152	164
Total Expenses	421	469	523	583
PBT	9,304	10,167	11,217	12,361
Prov for Tax	1,303	1,423	1,570	1,731
PAT	8,001	8,744	9,646	10,631

Premium (Rs m) & growth (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business prem - unwtd	55,840	59,749	68,711	76,956
New business prem - APE	42,385	45,581	52,023	58,266
Renewal premium	110,290	125,479	142,368	161,731
Total premium - unwtd	166,130	185,228	211,080	238,688
New bus. growth - unwtd	8.2%	7.0%	15.0%	12.0%
New business growth - APE	5.9%	7.5%	14.1%	12.0%
Renewal premium growth	17.1%	13.8%	13.5%	13.6%
Total prem growth - unwtd	14.0%	11.5%	14.0%	13.1%

Premium mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business - unwtd				
- Individual mix	92.0%	91.0%	91.0%	91.0%
- Group mix	8.0%	9.0%	9.0%	9.0%
New business mix - APE				
- Participating	41.4%	40.2%	40.5%	40.5%
- Non-participating	17.2%	17.0%	17.1%	17.1%
- ULIPs	41.4%	42.8%	42.3%	42.3%
Total premium mix - unwtd				
- Participating	58.3%	58.2%	58.1%	58.2%
- Non-participating	15.4%	15.3%	15.3%	15.3%
- ULIPs	26.4%	26.5%	26.6%	26.5%

Individual prem sourcing mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Individual agents	24.0%	24.0%	24.0%	24.0%
Corporate agents-Banks	65.0%	65.0%	65.0%	65.0%
Direct business	7.0%	7.0%	7.0%	7.0%
Others	4.0%	4.0%	4.0%	4.0%

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sources of Fund				
Share Capital	19,188	19,188	19,188	19,188
Reserves And Surplus	8,478	11,159	15,873	21,298
Policy Liabilities	381,436	454,151	534,097	622,464
Prov. for Linked Liab.	186,738	227,820	277,941	339,088
Funds For Future App.	22,498	26,989	32,016	37,808
Current liabilities & prov.	23,398	25,738	28,312	31,143
Total	659,270	789,117	941,098	1,118,789
Application of Funds				
Shareholders' inv	35,187	30,967	27,520	23,309
Policyholders' inv	394,173	482,720	582,897	697,696
Assets to cover linked liab.	198,619	242,315	295,625	360,662
Loans	3,265	3,592	3,951	4,346
Fixed Assets	1,921	2,113	2,325	2,557
Current assets	26,105	27,410	28,781	30,220
Total	659,270	789,117	941,098	1,118,789

Operating ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Investment yield (%)	9.0%	9.0%	9.0%	9.0%
Commissions / GWP	8.5%	8.5%	8.5%	8.5%
- first year premiums	21.8%	22.3%	22.4%	22.5%
- renewal premiums	4.7%	4.7%	4.7%	4.7%
- single premiums	0.2%	0.2%	0.2%	0.2%
Operating expenses / GWP	13.0%	13.0%	13.0%	13.0%
Total expense ratio	21.5%	21.5%	21.5%	21.5%
Claims / NWP	34.0%	34.0%	34.0%	34.0%
Solvency margin	435%	390%	357%	333%

Persistency ratios (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
13th Month	81.3%	81.4%	81.4%	81.4%
25th Month	72.4%	72.4%	72.4%	72.4%
37th Month	63.1%	63.2%	63.2%	63.2%
49th Month	56.8%	56.9%	57.0%	57.0%
61st Month	53.2%	53.2%	53.3%	53.3%

Profitability ratios (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NBP margin (%) pre overrun	0.0%	0.0%	0.0%	0.0%
NBP margin (%) post overrun	21.6%	19.5%	20.7%	20.8%
RoE (%)	27.6%	57.7%	55.1%	52.6%
RoIC (%)	41.7%	91.1%	97.7%	110.7%

Valuation ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total AUMs, Rs bn	756	906	1,082	1,285
EVOP as % of MCEV	20.3%	17.9%	18.4%	17.9%
RoEV (%)	16.7%	18.2%	18.6%	17.5%
Dividend %	41%	37%	39%	39%
Dividend payout ratio (%)	66%	46%	44%	40%
EPS, Rs	4.2	4.6	5.0	5.5
Embedded Value, Rs bn	100	114	131	150
Appraisal value/EV (x)	2.6	2.5	2.4	2.3
Appraisal value/Net profit (x)	32.0	32.5	32.6	32.7

Source: Company Data, PL Research

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	480	446
2	Bank of Baroda	BUY	83	53
3	Federal Bank	BUY	67	50
4	HDFC Bank	BUY	1,265	1,098
5	HDFC Life Insurance Company	Reduce	522	627
6	ICICI Bank	BUY	462	383
7	ICICI Prudential Life Insurance Company	Reduce	402	443
8	IDFC First Bank	Sell	21	28
9	IndusInd Bank	BUY	680	527
10	Kotak Mahindra Bank	Accumulate	1,389	1,323
11	Max Financial Services	Hold	518	546
12	Punjab National Bank	BUY	40	37
13	SBI Life Insurance Company	Hold	880	888
14	South Indian Bank	BUY	11	8
15	State Bank of India	BUY	254	192

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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