

Max Financial Services (MAXF IN)

Rating: ACCUMULATE | CMP: Rs591 | TP: Rs680

Strong margin performance

Quick Pointers:

- Strong margin improvement to 24.2% in H1FY21 from 17% in Q1FY21 & 21.6% in FY20 due hike in protection pricing and higher non-par savings mix
- Protection growth has continued to remain strong with 39% YoY growth in Q2, leading mix to 17%

Max Life's overall APE grew by 10% YoY/74% QoQ in Q2FY21 improving the H1FY21 growth to 5% YoY. This was led by a good 7% YoY growth in FYP, group also has strong growth of 43% YoY. Highlight for the quarter was strong margin improvement of 1100bps QoQ to 28.2% from a suppressed 17% in Q1FY21. MAXLI under took a pricing increase in Jul'20, while strong growth in protection & non-par savings led to delta in margins, ending at 24.2% in H1FY21. We estimate sustained margins levels of 23-24% at current juncture and have not changed our long term margins assumptions of 23% as mix could tilt back from non-par savings. On the deal front, RBI is believed to have not agreed to Axis bank acquiring stake in Max life and hence revised deal is to acquire 6% through capital market subs and 9% through bank. Investment comes under automatic route for bank, while Max Life will have to go to IRDAI for approvals. We retain ACCUMULATE with revised TP of Rs680 (Rs651) valuing Max Life based on 2.4x Sep-22 EV.

- Growth better and so are margins:** Overall APE grew by 10% YoY in Q2FY21 with growth being better in FYP of 7% YoY which looks better than even large peers, while growth support was also from group premium. With strong growth in non-par savings of 82% YoY/2.7x QoQ & 62% in H1FY21 led to strong margins improvement of 1100bps QoQ to 28% in Q2FY21 and 700bps from Q1FY21 to 24.2% in H1FY21. Margins drivers were on dual counts of (i) Pricing increase undertaken in Ju'20 in retail protection post re-insurer hiking in Q1FY21 and (ii) sharp change in no-par savings mix to 31% v/s 18% in Q1FY21 and lower ULIP mix to 31%. We expect margins to settle at 23-24% as likely mix to again change back from non-par savings which we have to watch closely.

- Protection mix improving steadily:** We note that retail protection mix has reached to 12% in H1FY21 with group being steady at 8% which was equal share of 7% in H1FY20, while growth in policies also has been 52% YoY. Protection mix in Banca channel has improved to 7% in H1FY21 from 3% H1FY20, although the driver has been proprietary channels taking the mix to 26% from 16% H1 to H1 basis. MAXLI will continue to focus on protection especially retail, but we need to see growth trajectory as complete landscape is quite fierce.

- Strong VNB growth, steady EV growth; Axis/MAXLI deal revised again:** VNB grew by strong 41% in Q1FY21 and settle at 20% YoY for H1FY21 driven by sharp margin improvement. MCEV grew 13% YoY remained steady although growth slightly moderated most likely due to lower unwind. Axis & Max have undertaken revision with it acquiring 9% directly & 3% each through Axis Capital & Axis securities with option of further taking it up. RBI did not approve the earlier deal but now direct stake of 9% in under automatic route and rest can be undertaken through subsidiaries. MAXF will apply to IRDAI for approval of revised deal which could take about 45-60 days to come through.

November 1, 2020

Q2FY21 Result Update

Key Financials

Y/e March	FY20	FY21E	FY22E	FY23E
Net Premiums (Rs m)	1,60,218	1,79,843	2,03,529	2,29,707
- Growth (%)	11.1	12.2	13.2	12.9
Surplus / Deficit (Rs m)	10,211	11,392	13,195	15,149
PAT (Rs m)	6,991	7,512	8,136	8,786
- Growth (%)	25.6	7.5	8.3	8.0
EPS (Rs)	3.6	3.9	4.2	4.6
Emb. Value (Rs bn)	99.8	114.7	131.8	151.1
NBP Margin (%)	21.6	23.4	23.7	24.2
post overrun	24.6	51.3	50.3	49.0
Operating RoEV (%)	20.3	19.1	18.7	18.6
RoEV (%)	16.7	19.4	18.9	18.2
Dividend yield (%)	38.9	38.9	40.6	40.6
Price/EV (x)	1.6	1.4	1.2	1.1
Ap. Value/EV (x)	2.6	2.5	2.5	2.4

Key Data

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52-W High / Low	Rs.645 / Rs.280
Sensex / Nifty	39,614 / 11,642
Market Cap	Rs.159.2bn/ \$ 2,148.1m
Shares Outstanding	269.6m
3M Avg. Daily Value	Rs.1,013.4m

Shareholding Pattern (%)

Promoter's	22.33
Foreign	32.40
Domestic Institution	30.38
Public & Others	14.89
Promoter Pledge (Rs bn)	32.12

Stock Performance (%)

	1M	6M	12M
Absolute	(3.5)	25.8	43.6
Relative	(7.2)	7.4	45.0

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Exhibit 1: Strong growth in Ind APE, price hike and lower opex help margins post over run

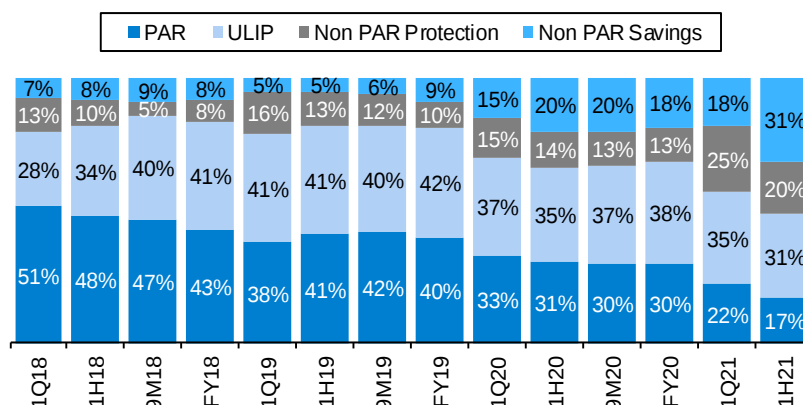
Rs Mn	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Individual New Business APE	11,440	10,380	10.2	6,600	73.3	18,040	17,170	5.1
Total Protection APE	2,010	1,450	38.6	1,870	7.5	3,880	2,590	49.8
Individual Protection APE	1,300	800	62.5	1,050	23.8	2,350	1,320	78.0
Group Protection APE	710	650	9.2	820	(13.4)	1,530	1,270	20.5
Total protection as % of Total APE	17.4	13.9	354.2	28.3	(38.4)	20.0	14.0	600.0
Ratios (%)								
Commission Ratio	6.5	6.6	(12.3)	5.7	82.2	6.2	6.3	(10.0)
Operating Expense Ratio	15.4	16.7	(130.0)	16.2	(80.0)	15.4	16.7	(130.0)
Total Expense Ratio	21.6	23.0	(140.0)	21.9	(30.0)	21.6	23.0	(140.0)
VNB post overrun	3,250	2,300	41.3	1,130	187.6	4,380	3,640	20.3
VNB Margin post overrun (%)	28.2	22.0	615.3	17.0	1,116.3	24.2	21.0	320.0
Embedded Value	110,470	97,450	13.4	106,700	3.5	110,470	97,450	13.4

Source: Company, PL

Exhibit 2: Product mix shifts towards Non Par Savings, while ULIPs and PAR continue to see decline

Total NB APE Product Mix (%)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
ULIP	28.7	33.7	(498)	35.0	(629)	31.0	35.0	(400)
Non PAR Savings	38.4	23.3	1,517	18.0	2,045	31.0	20.0	1,100
Individual Protection	11.3	7.7	361	14.0	(273)	12.0	7.0	500
Group Protection	6.2	6.2	(7)	11.0	(485)	8.0	7.0	100
PAR	14.1	29.7	(1,555)	22.0	(786)	17.0	31.0	(1,400)

Source: Company, PL

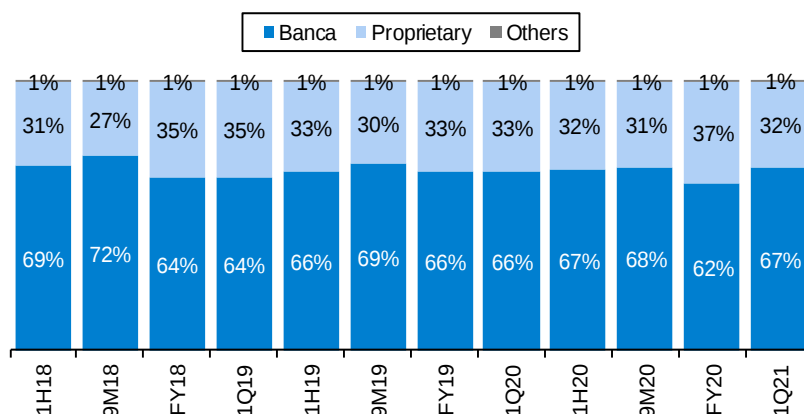
Exhibit 3: Non Par mix is now 50% of APE


Source: Company, PL

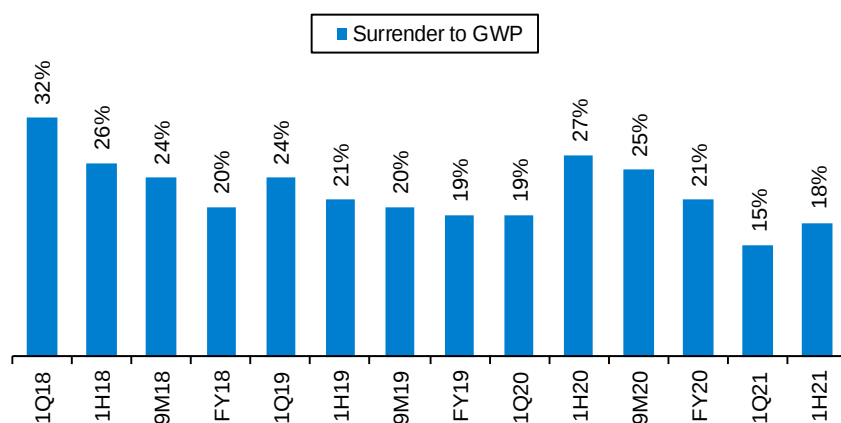
Exhibit 4: Focus on Banca and Proprietary channels continue while other is now negligible

APE Sourcing Mix	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Rs Mn								
Proprietary	3,362	3,449	-2.5	2,446	37.5	5,808	5,709	1.7
Banca	8,062	6,897	16.9	4,098	96.7	12,161	9,169	32.6
Others	25	105	-76.4	66	-62.7	91	173	-47.5
Total	11,449	10,450	9.6	6,610	73.2	18,059	15,051	20.0
(%)								
Proprietary	29%	33%	-11.7	37%	-21.3	32%	33%	-3.0
Banca	73%	58%	25.9	56%	30.9	67%	53%	26.4
Others	0%	1%	-78.6	1%	-78.6	1%	1%	-50.0

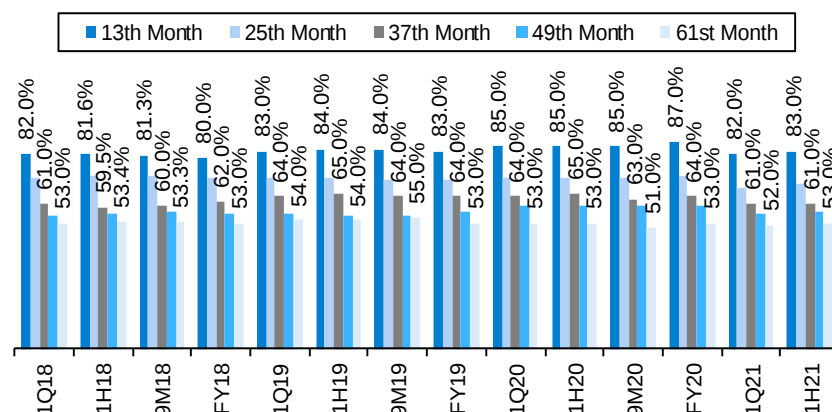
Source: Company, PL

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


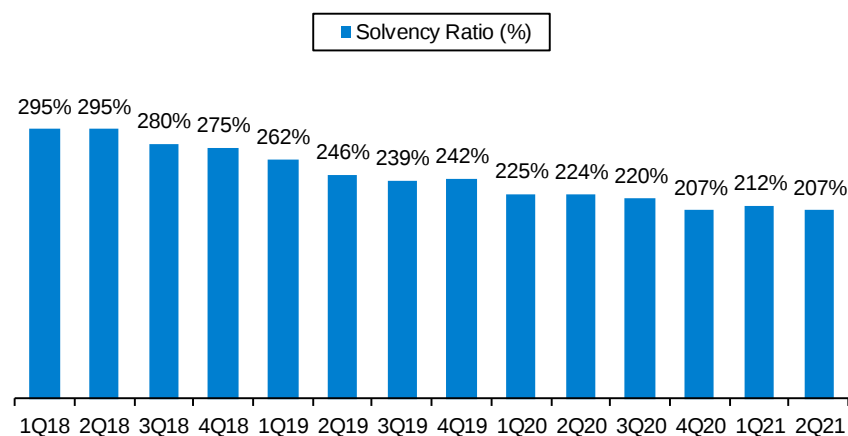
Source: Company, PL

Exhibit 6: Surrender ratio slightly inches up


Source: Company, PL

Exhibit 7: Persistency ratios improve marginally on 13th month & 61st month


Source: Company, PL;

Exhibit 8: Solvency ratio declines QoQ as higher capital reserves from non-par growth


Source: Company, PL

Exhibit 9: Change in Estimates – We adjust our VNB margins estimate

(Rs bn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
APE	45.6	52.0	59.8	44.2	50.1	56.1	(3.0)	(3.7)	(6.2)
VNB	8.9	10.8	12.1	10.3	11.9	13.6	16.4	10.4	12.3
VNB Margin (%)	19.5	20.7	20.8	23.4	23.7	24.2	3.9	3.0	3.4
EV	113.9	130.9	149.6	114.7	131.8	151.1	0.7	0.7	1.0
Price target (Rs)	651			680					
Recommendation	ACCUMULATE			ACCUMULATE					

Source: PL

Exhibit 10: We raise our TP to Rs 680 (from Rs651) based on 2.4x Sep-22 EV

PT calculation and upside	
Op RoEV	18.2%
CoE	14.5%
G	5.0%
Embedded value	141
Price / Embedded value	2.4
Appraisal Value	340
Number of shares of Max Fin Services, mn	72%
Valuation per share	680
CMP	591
<i>Upside (%)</i>	<i>15%</i>

Source: Company, PL

Exhibit 11: Key Metrics and EV movement

Rs bn	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
APE	18.3	19.7	21.1	26.6	33.1	40.0	42.4	44.2	50.1	56.1
<i>YoY growth (%)</i>	<i>17.1</i>	<i>7.2</i>	<i>7.4</i>	<i>25.7</i>	<i>20.3</i>	<i>21.0</i>	<i>5.9</i>	<i>4.3</i>	<i>13.3</i>	<i>12.1</i>
NBV	2.4	4.2	3.9	5.0	6.6	8.2	9.0	10.3	11.9	13.6
<i>YoY growth (%)</i>	<i>21.2</i>	<i>76.3</i>	<i>(8.5)</i>	<i>29.0</i>	<i>31.5</i>	<i>25.5</i>	<i>9.0</i>	<i>15.3</i>	<i>14.7</i>	<i>14.5</i>
EV Movement										
Opening IEV	37.6	44.0	52.3	56.2	65.9	75.1	89.4	99.8	114.7	131.8
New Business Value, post-override	2.4	4.2	3.9	5.0	6.6	8.2	9.0	10.3	11.9	13.6
EVOP	5.1	12.4	8.2	12.9	13.6	16.5	18.1	19.0	21.4	24.5
Dividend payout	3.1	2.4	4.4	3.2	-3.9	-6.0	-4.6	-4.4	-4.6	-4.6
Closing EV	39.5	52.3	56.2	65.9	75.1	89.4	99.8	114.7	131.8	151.1
<i>Adjusted Net worth</i>	<i>19.3</i>	<i>21.2</i>	<i>20.8</i>	<i>24.0</i>	<i>24.8</i>	<i>24.0</i>	<i>25.5</i>	<i>28.5</i>	<i>32.1</i>	<i>36.2</i>
<i>Value in force (VIF)</i>	<i>20.2</i>	<i>31.2</i>	<i>35.4</i>	<i>41.9</i>	<i>50.3</i>	<i>65.4</i>	<i>74.3</i>	<i>83.0</i>	<i>92.6</i>	<i>103.5</i>
Ratios (%)										
NBAP margins	13.1	21.3	17.9	18.8	20.2	21.7	21.6	23.4	23.7	24.2
RoEV	13.5	28.1	15.7	23.0	19.9	27.0	16.7	19.4	18.9	18.2
Operating RoEV	15.6	22.3	17.0	19.9	20.6	21.9	20.3	19.1	18.7	18.6

Source: Company, PL



Technical account (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross Premiums	1,61,836	1,81,659	2,05,585	2,32,027
Reinsurance Ceded	1,618	1,817	2,056	2,320
Net Premiums	1,60,218	1,79,843	2,03,529	2,29,707
Other Income	484	532	586	644
Total income	2,09,658	2,43,085	2,79,124	3,31,287
Commission	13,756	15,441	17,475	19,722
Operating expenses	21,039	23,616	26,726	30,163
Prov for doubtful debts	-	-	-	-
Operating Profit	1,74,863	2,04,028	2,34,923	2,81,401
Prov for Tax	1,049	1,224	1,410	1,688
Benefits Paid (Net)	54,489	61,163	69,218	78,120
Chg in reserves	1,09,114	1,30,249	1,51,101	1,86,444
Surplus / Deficit	10,211	11,392	13,195	15,149

Shareholder's a/c (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	5,561	6,552	7,681	8,951
Income From Investments	2,989	2,651	2,302	1,848
Total Income	8,549	9,203	9,983	10,799
Other expenses	291	328	371	419
Contribution to technical a/c	130	140	152	164
Total Expenses	421	469	523	583
PBT	8,129	8,734	9,460	10,216
Prov for Tax	1,138	1,223	1,324	1,430
PAT	6,991	7,512	8,136	8,786

Premium (Rs m) & growth (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business prem - unwtld	55,835	59,743	67,510	75,611
New business prem - APE	42,380	44,188	50,072	56,120
Renewal premium	1,06,002	1,21,916	1,38,075	1,56,416
Total premium - unwtld	1,61,836	1,81,659	2,05,585	2,32,027
New bus. growth - unwtld	8.2%	7.0%	13.0%	12.0%
New business growth - APE	5.9%	4.3%	13.3%	12.1%
Renewal premium growth	12.6%	15.0%	13.3%	13.3%
Total prem growth - unwtld	11.0%	12.2%	13.2%	12.9%

Premium mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business - unwtld				
- Individual mix	91.9%	90.0%	91.0%	91.0%
- Group mix	8.1%	10.0%	9.0%	9.0%
New business mix - APE				
- Participating	32.2%	17.1%	22.5%	25.2%
- Non-participating	29.6%	46.5%	39.4%	36.7%
- ULIPs	38.2%	36.4%	38.1%	38.1%
Total premium mix - unwtld				
- Participating	49.0%	49.2%	51.2%	52.3%
- Non-participating	19.8%	26.2%	23.5%	22.5%
- ULIPs	31.2%	24.6%	25.3%	25.3%

Individual prem sourcing mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Individual agents	22.2%	24.0%	24.0%	24.0%
Corporate agents-Banks	61.4%	65.0%	65.0%	65.0%
Direct business	14.5%	7.0%	7.0%	7.0%
Others	1.8%	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	10,148	13,247	16,777	20,958
Policy Liabilities	4,42,923	5,13,446	5,89,263	7,75,707
Prov. for Linked Liab.	2,27,820	2,77,941	3,39,088	3,39,088
Funds For Future App.	27,149	31,988	37,502	43,700
Current liabilities & prov.	25,738	28,312	31,143	31,143
Total	7,77,038	9,17,793	10,80,761	12,77,584
Application of Funds				
Shareholders' inv	31,226	27,690	23,454	17,620
Policyholders' inv	4,70,382	5,59,422	6,59,522	8,62,179
Assets to cover linked liab.	2,42,315	2,95,625	3,60,662	3,60,662
Loans	3,592	3,951	4,346	4,346
Fixed Assets	2,113	2,325	2,557	2,557
Current assets	27,410	28,781	30,220	30,220
Total	7,77,038	9,17,793	10,80,761	12,77,584

Operating ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Investment yield (%)	7.5%	8.0%	8.0%	9.0%
Commissions / GWP	8.5%	8.5%	8.5%	8.5%
- first year premiums	17.9%	22.8%	22.7%	22.8%
- renewal premiums	2.6%	4.7%	4.7%	4.7%
- single premiums	1.1%	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	438%	393%	360%	335%

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%	23.4%	23.7%	24.2%
RoE (%)	24.6%	51.3%	50.3%	49.0%
RoIC (%)	36.4%	78.3%	82.4%	91.5%

Valuation ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total AUMs, Rs bn	744	883	1,044	1,240
EVOP as % of MCEV	20.3%	19.1%	18.7%	18.6%
RoEV (%)	16.7%	19.4%	18.9%	18.2%
Dividend %	39%	39%	41%	41%
Dividend payout ratio (%)	76%	59%	57%	52%
EPS, Rs	3.6	3.9	4.2	4.6
Embedded Value, Rs bn	100	115	132	151
Appraisal value/EV (x)	2.6	2.5	2.5	2.4
Appraisal value/Net profit (x)	37.8	38.9	39.8	40.6

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	570	505
2	Bank of Baroda	BUY	65	44
3	Federal Bank	BUY	69	52
4	HDFC Bank	BUY	1,385	1,203
5	HDFC Life Insurance Company	Reduce	533	571
6	ICICI Bank	BUY	462	402
7	ICICI Prudential Life Insurance Company	Hold	438	412
8	IDFC First Bank	Sell	21	32
9	IndusInd Bank	BUY	720	586
10	Kotak Mahindra Bank	Accumulate	1,503	1,417
11	Max Financial Services	Accumulate	651	610
12	Punjab National Bank	BUY	40	29
13	SBI Life Insurance Company	BUY	920	779
14	South Indian Bank	BUY	10	7
15	State Bank of India	BUY	276	198

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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