

Accumulate

Well-managed franchise; valuations factor most positives

Traditionally a Par player, MAXLIFE has significantly diversified its product mix and has made significant strides to capture the protection and non-par segment. MAXF has been able to build a strong franchise with a profitable agency channel. AXIS bank transaction will also give more comfort to the renewal on the bancassurance tie-up which is due to expire in September 2021. MAXF has already delivered strong growth thus far and we believe stock price largely reflects the positives from the AXIS deal as well as top-line growth. As most positives are already factored in, we initiate with an ACCUMULATE rating with TP of Rs784, implying a FY-22E P/EV of 1.9x. The stock currently trades at a FY22 P/EV of 1.6x.

Strong proprietary channels

MAXF is the 4th largest private life insurer with a market share (ex-LIC) of 11% and the largest non-bank promoted private life insurer. This success can be attributable to its strong performance from the agency channel, which has one of the industry leading productivity metrics of ~Rs 0.2m.

Outpacing peers in growth and profitability

MAXF outperformed both the private players and industry on YTD basis and is the only life insurer to record growth in VNB (~20% YoY for H1FY21). Although margins expanded ~2.5% since FY20 and are now closer to HDFCLIFE and IPRU, cost overruns have offset gains made in VNB margin from mix change. Expect cost ratio (opex ratio plus commission ratio) to remain higher than peers at ~21% for FY21 and FY22 and VNB margins to normalize ~21-22% FY21-FY23.

Product mix diversifying, protection driving growth

MAXF's heavy reliance on par products (43% mix FY18 to 17% mix H1FY21) has reduced in favour of higher margin protection (8% mix FY18 to 20% mix H1FY21) and non-par products (8% mix FY18 to 31% mix H1FY21). Over the last 2-3 years, MAXF increased the protection business mix and has delivered positive growth in this segment in H1FY21. MAXF's ULIPs carry lower risk and fared better than peers due to share of equity in AuM. This has enabled MAXF to outperform peers in this segment since the COVID-19 pandemic when customers have not favoured ULIPs. We expect a product mix of 86% savings and 14% protection for FY22.

Revised deal structure with AXIS bank

MAXF and AXIS bank revised the terms of their agreement with AXIS bank and its subsidiaries to acquire 19% stake in MAXLIFE subject to regulatory approval. Per the earlier deal structure, as on April 2020, AXIS bank was to acquire 30% stake in MAXLIFE. We believe the revised deal structure will likely get approved and thereby remove the overhang on MAXF's arrangement with AXIS from whom it derives ~55% of business. We believe that the stock price has already priced in the favourable outcome from the potential deal.

FINANCIALS (Rs Mn)

Snapshot	FY19A	FY20A	FY21E	FY22E	FY23E
APE	39,500	41,490	44,991	51,221	58,847
PAT	5,564	5,394	3,212	2,657	2,577
VNB	8,230	8,970	10,987	11,555	12,994
VNB margin	2167.1	2162.0	2442.2	2256.0	2208.0
VNB per share	4.5	4.7	5.7	6.0	6.8
Embedded value (EV)	89,380	99,770	120,834	143,869	170,530
EV per share	331.6	370.1	350.2	417.0	494.3
Opt. Return on EV	21.9	20.3	21.1	19.1	18.5
P/EV	2.1	1.8	1.9	1.6	1.4
Assets under mgmt.	627,979	684,707	858,698	1,001,371	1,159,987

CMP	Rs 680
Target / Upside	Rs 784 / 15%
NIFTY	13,933

Script Details

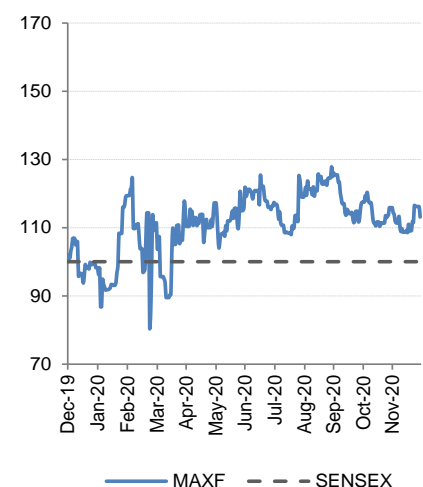
Equity / FV	Rs mn / Rs 2
Market Cap	Rs 235bn
	USD 3.2bn
52-week High/Low	Rs 703/ 276
Avg. Volume (no)	1,630,650
Bloom Code	MAXF IN

Price Performance	1M	3M	12M
Absolute (%)	5	11	26
Rel to NIFTY (%)	5	11	34

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	28.3	28.3	22.3
MF/Banks/FIs	29.0	28.7	30.4
FIs	30.6	30.5	32.4
Public / Others	12.1	12.5	14.9

MAXF Relative to SENSEX



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Valuation and Outlook

We initiate coverage on MAXF with a target price of Rs. 784 and an “Accumulate” rating implying a FY22 P/EV of 1.9x. We believe that the share price largely reflects the revised business mix and a 3-year (FY20-FY23) APE CAGR of ~12% and hence see limited upside at current levels after applying a conservative 10% holco discount.

Our valuation is based on the DCF methodology using a cost of equity 14.4%, assuming APE growth dovetails to 5% over a 20-year period from FY24 onwards and a steady state protection mix at 14%. MAXF currently trades at a multiple lower than peers due to promoter pledge and holding company discount.

Exhibit 1: Peer comparison valuation – MAXF trades cheaper than peers

	Company	HDFCLIFE	IPRU	SBILIFE	MAXF
TP (Rs.)		644	525	1,018	784
Target P/EV (x) – FY22		4.4	2.4	3.0	1.9
Rating		ACC	BUY	BUY	ACC
	FY2021E	5.4	2.6	3.0	2.0
P/EV (x)	FY2022E	4.6	2.3	2.7	1.7
	FY2020	2,06,500	2,30,320	2,62,900	99,770
EV (Rs.mn.)	FY2021E	2,53,340	2,73,759	2,96,793	1,20,834
	FY2022E	2,98,853	3,14,167	3,39,595	1,43,869
	FY2020	25.9	21.7	18.7	21.6
VNB margin (%)	FY2021E	25.8	26.4	18.7	24.4
	FY2022E	27.1	24.2	19.6	22.6
	FY2020	74,070	73,810	1,07,400	41,490
APE (Rs.mn.)	FY2021E	78,461	57,970	1,08,772	44,991
	FY2022E	94,136	75,641	1,36,784	51,221
	FY2020	18.1	15.2	20.5	20.3
RoEV (%)	FY2021E	18.7	14.4	16.0	21.1
	FY2022E	18.8	16.7	17.5	19.1

Source: DART, Company

Exhibit 2: EV walk - Life Insurance sector

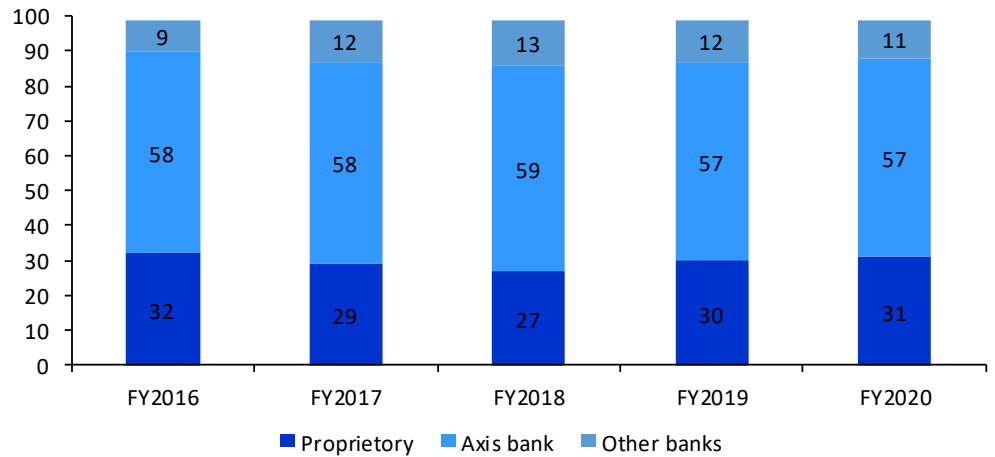
(Rs. Bn)	IPRU			HDFCLIFE			SBILIFE			MAXF		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Opening EV	216.2	230.3	273.8	183.0	206.5	253.3	224.0	262.9	296.8	89.4	99.8	120.8
Unwind	17.3	18.4	21.9	13.7	16.7	19.9	20.1	21.0	23.7	8.1	9.1	10.3
VNB	16.1	15.3	18.3	19.2	20.2	25.5	19.0	20.3	26.7	9.0	11.0	11.6
Operating variances	(0.4)	(0.5)	5.5	0.3	1.7	2.2	5.6	0.8	1.5	1.0	1.0	1.2
EV operating profit	32.9	33.3	45.7	33.2	38.6	47.6	45.9	42.2	52.0	18.1	21.1	23.0
Non-operating items	(18.8)	10.2	(5.3)	(9.6)	8.2	(2.1)	(7.1)	(8.3)	(9.2)	(7.7)	0.0	0.0
Closing EV	230.3	273.8	314.2	206.5	253.3	298.9	262.9	296.8	339.6	99.8	120.8	143.9
RoEV (%)	15.2	14.4	16.7	18.1	18.7	18.8	20.5	16.0	17.5	20.3	21.1	19.1
APE	73.8	58.0	75.6	74.1	78.5	94.1	107.4	108.8	136.8	41.5	45.0	51.2
VNB margin (%)	21.7	26.4	24.2	25.9	25.8	27.1	18.7	18.7	19.6	21.6	24.4	22.6

Source: DART, Company

Diversified Channel mix; strong agency channel

While MAXF has benefitted from its tie-up with AXIS bank, it has also built a strong agency network. MAXF has the second best agent productivity among the private players. As life insurers have started to focus more on proprietary channels, MAXF has already developed a strong channel in this regard mainly through its agency channel.

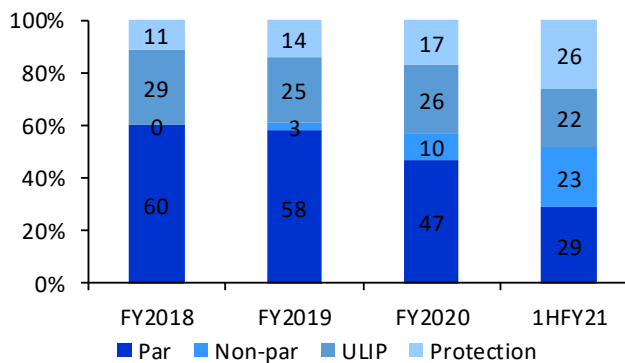
Exhibit 3: Diversified channel mix (%)



Source: DART, Company

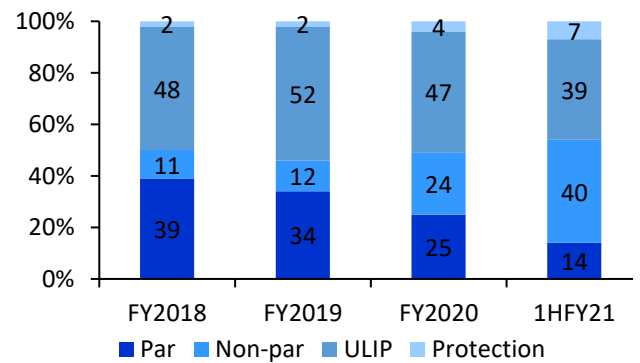
A stronger proprietary channel enables MAXF to have more control on the products it wants to push and thereby tactically manage the overall business mix. The share of higher margin protection products has increased through the proprietary channels. Bancassurance remains more heavily inclined towards savings products with the share of non-par products picking up.

Exhibit 4: Proprietary channel used for protection and non-par



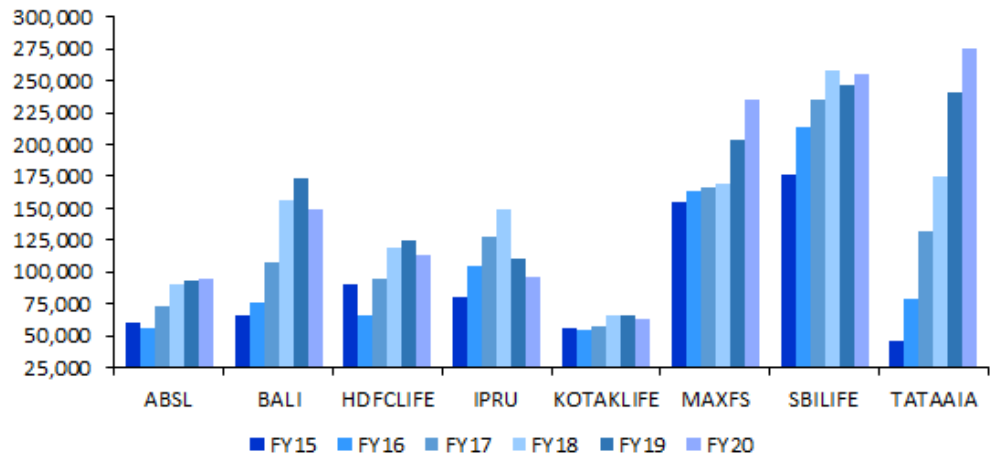
Source: DART, Company

Exhibit 5: Bancassurance channel used for savings products



Source: DART, Company

Exhibit 6: Agent productivity one of the best (Rs.)



Source: DART, Company

Top 5 states account for ~50% of the business mix

MAXF derives most of its business from the larger metros with the top 5 states accounting for ~50% of the business in FY20. However, this is lower than the concentration for IPRU and HDFCLIFE but higher than SBILIFE

Exhibit 7: High concentration among top 5 states (%)

Mix	FY16	FY17	FY18	FY19	FY20
Maharashtra	16.9	15.7	14.4	15.5	13.8
West Bengal	9.1	9.4	10.0	10.0	11.0
Haryana	8.3	8.2	8.6	8.6	9.6
Uttar Pradesh	6.8	7.6	7.8	7.8	7.8
Delhi	8.4	8.3	8.1	10.0	7.8
Total top 5	49.5	49.1	48.9	51.9	50.0

Source: DART, Company

Exhibit 8: Share of business from top 5 states (%)

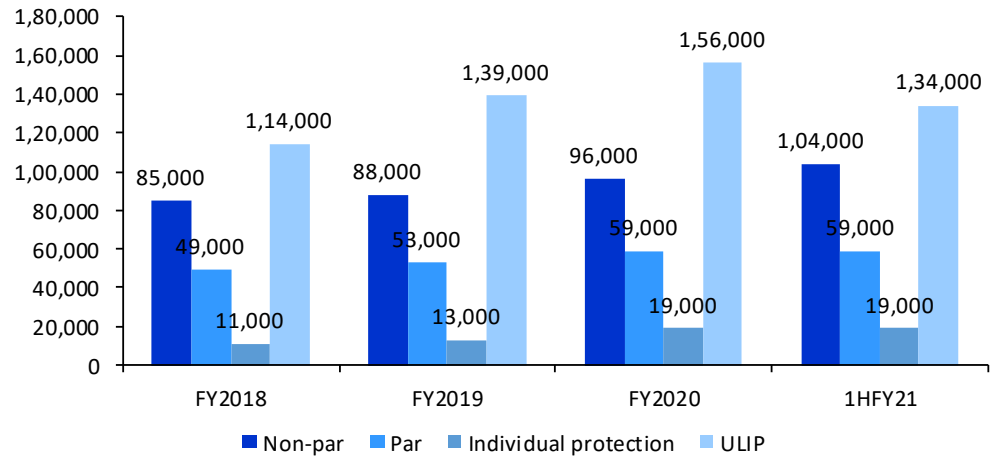
Mix	FY16	FY17	FY18	FY19	FY20
HDFCLIFE	53.6	56.4	62.0	57.2	57.3
IPRU	55.7	55.5	55.3	54.0	54.8
SBILIFE	37.5	36.7	38.0	37.9	39.5
MAXF	49.5	49.1	48.9	51.9	50.0

Source: DART, Company

Customer segment more affluent

MAXF's products cater more to the affluent customer class across all product segments. Despite the higher ticket size MAXF has been able to outperform the private segment due to its strong distribution channel.

Exhibit 9: MAXF's average ticket size is at the higher end (Rs.)



Source: DART, Company

Outperformed private life insurers since COVID-19 pandemic

MAXF has fared better than the larger peers since the advent of the COVID-19 pandemic. The company was able to get operations up and running within just 4 days post the lockdown as processes are digitally enabled. This enabled MAXF to restart the sales engine fairly soon and thus perform better than the private sector and industry.

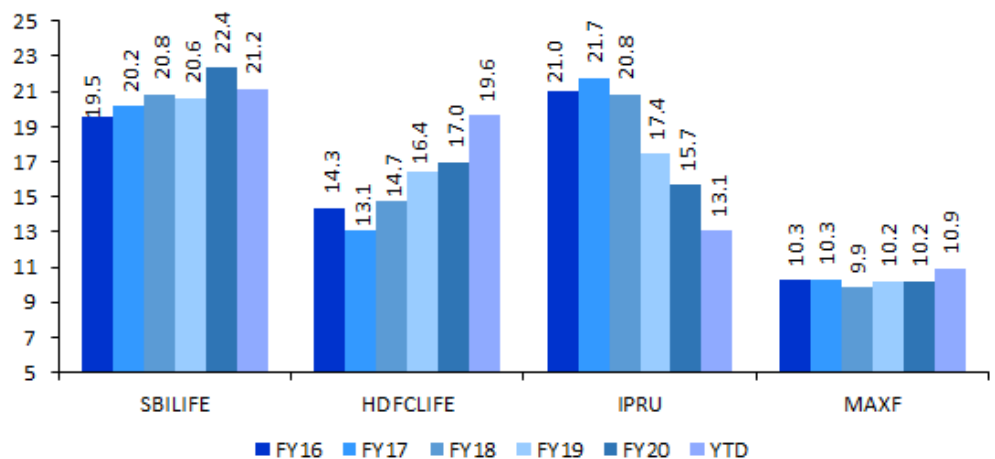
Exhibit 10: MAXF's Retail NBP growth outpaced both private players and industry

Retail NBP (Rs. Mn)	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
HDFCLIFE	8,079	8,290	2,746	4,555	8,442	9,348	8,058	9,164	7,760	7,791
YoY (%)	20.7	(31.4)	(35.4)	(37.0)	(0.2)	27.7	28.1	55.3	45.9	18.1
MoM (%)	(3.1)	2.6	(66.9)	65.9	85.3	10.7	(13.8)	13.7	(15.3)	0.4
IPRU	7,428	6,029	2,008	2,554	4,551	5,512	5,872	6,118	6,028	5,816
YoY (%)	(10.8)	(44.1)	(51.7)	(46.8)	(28.5)	(21.8)	(16.2)	(8.0)	(5.6)	(16.8)
MoM (%)	0.7	(18.8)	(66.7)	27.2	78.2	21.1	6.5	4.2	(1.5)	(3.5)
SBILIFE	7,264	8,086	1,365	3,828	8,171	9,279	9,022	10,406	9,794	10,508
YoY (%)	4.0	(36.2)	(68.1)	(41.4)	3.6	(6.5)	(6.9)	2.6	22.1	0.3
MoM (%)	(44.8)	11.3	(83.1)	180.5	113.4	13.6	(2.8)	15.3	(5.9)	7.3
MAXFS	5,101	7,263	1,596	2,253	4,748	4,433	4,809	5,533	4,417	4,355
YoY (%)	4.1	(28.1)	(8.7)	(11.3)	20.0	6.6	17.5	21.1	48.9	9.1
MoM (%)	1.7	42.4	(78.0)	41.2	110.7	(6.6)	8.5	15.0	(20.2)	(1.4)
Private	45,571	51,466	13,301	22,217	40,422	42,303	42,186	48,905	42,183	43,102
YoY (%)	6.5	(35.8)	(38.4)	(28.6)	2.3	2.3	4.2	13.9	23.3	(0.5)
MoM (%)	(9.1)	12.9	(74.2)	67.0	81.9	4.7	(0.3)	15.9	(13.7)	2.2
Industry	76,817	79,391	23,941	50,168	42,178	98,106	1,18,181	95,396	1,09,109	75,538
YoY (%)	(11.5)	(51.2)	(48.2)	(19.2)	(44.0)	18.5	(6.2)	30.2	62.8	(27.9)
MoM (%)	(36.4)	3.4	(69.8)	109.5	(15.9)	132.6	20.5	(19.3)	14.4	(30.8)

Source: DART, Company

This has allowed MAXF to incrementally increase market share over FY20 by ~700bps in the more profitable retail segment. We expect MAXF to continue to gain market share on account of both non-par and protection segment.

Exhibit 11: MAXF has gained market share in FY21 – retail NBP (%)



Source: DART, Company

Higher share of business from Q4 should aid the topline growth for FY21.

MAXF receives more than a third of its business in Q4. As MAXF has already outperformed the private players, we expect this growth trajectory to continue in the coming months and the outperformance to continue in FY21.

Exhibit 12: Higher share of business in Q4 – overall NBP (%)

MAXFS	FY18	FY19	FY20
Q1	15.3	14.8	16.3
Q2	20.9	22.1	24.7
Q3	24.5	23.1	25.2
Q4	39.4	40.0	33.9
	100.0	100.0	100.0

Source: DART, Company

Exhibit 13: Share of business in Q4 (overall NBP basis) higher for MAXF

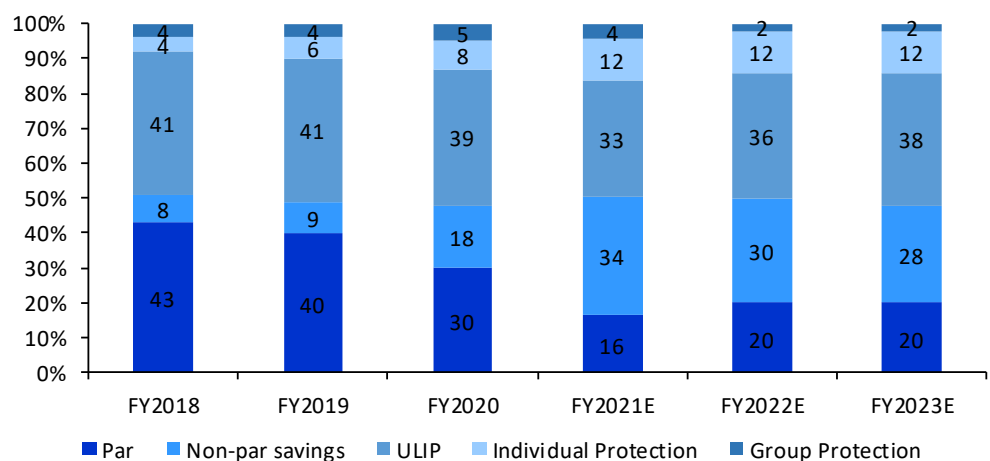
Company	Q4FY18	Q4FY19	Q4FY20
HDFCLIFE	37.8	33.6	29.4
IPRU	28.0	33.4	33.8
SBILIFE	34.3	31.3	22.9
MAXF	39.4	40.0	33.9
Private	35.1	34.5	29.2
Industry	28.7	34.0	24.9

Source: DART, Company

Product mix diversification encouraging

MAXF traditionally sold higher Par products. Over the course of the last 2 years, focus on higher margin product segments – non-par and protection – has enabled MAXF to move towards a more balanced product mix.

Exhibit 14: Reliance on par has come down (APE mix)

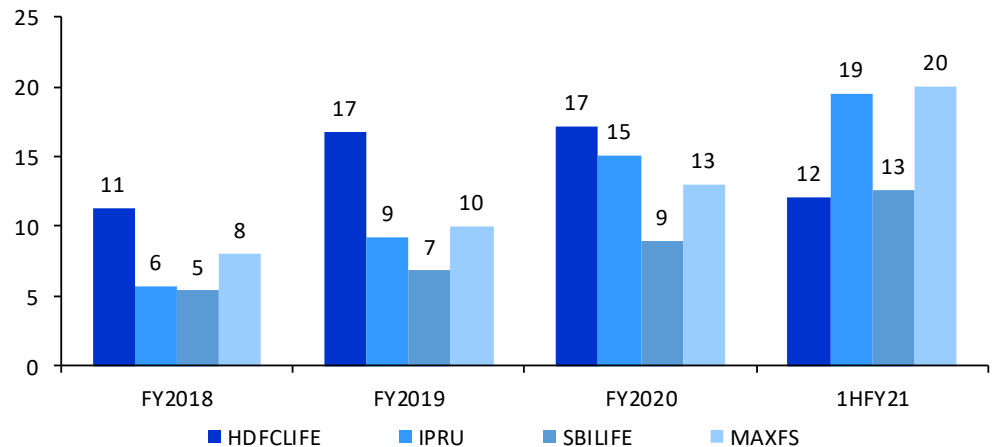


Source: DART, Company

Strong traction for pure protection products

Mix of protection in overall business share has increased substantially for MAXF over the last 2-3 years. The mix of protection in the business mix now stands at par with peers. MAXF has been able to gain on the pandemic led demand for protection products.

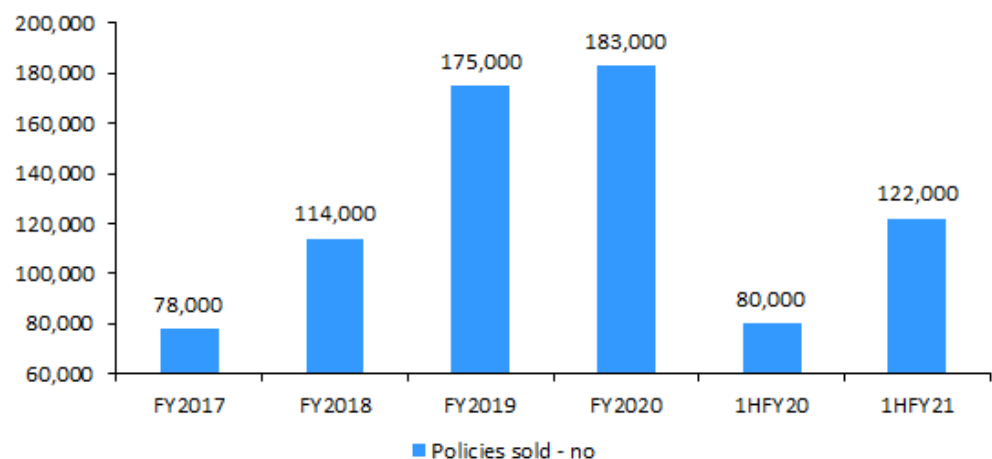
Exhibit 15: MAXF has made strong in-roads in the protection segment over the last 3 years (mix of protection %)



Source: DART, Company

MAXF has benefited from lower pricing on the term protection product as it has not passed on the full reinsurance price hike to customers. This has enabled MAXF to garner higher volumes. However, lower pricing has affected protection margins negatively.

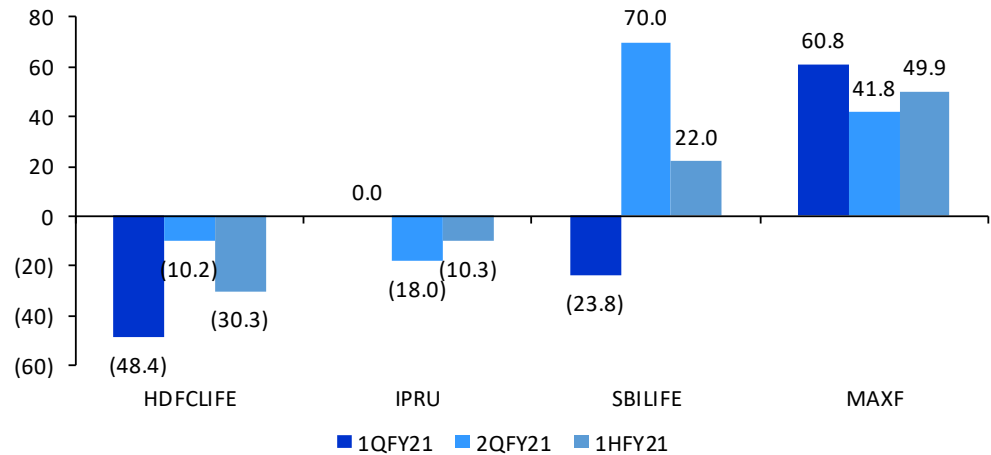
Exhibit 16: Strong growth in number of protection policies sold



Source: DART, Company

MAXF has been able to capitalize well on the demand for protection products stemming from the pandemic.

Exhibit 17: MAXF delivered better growth in protection vs peers – APE basis (%)

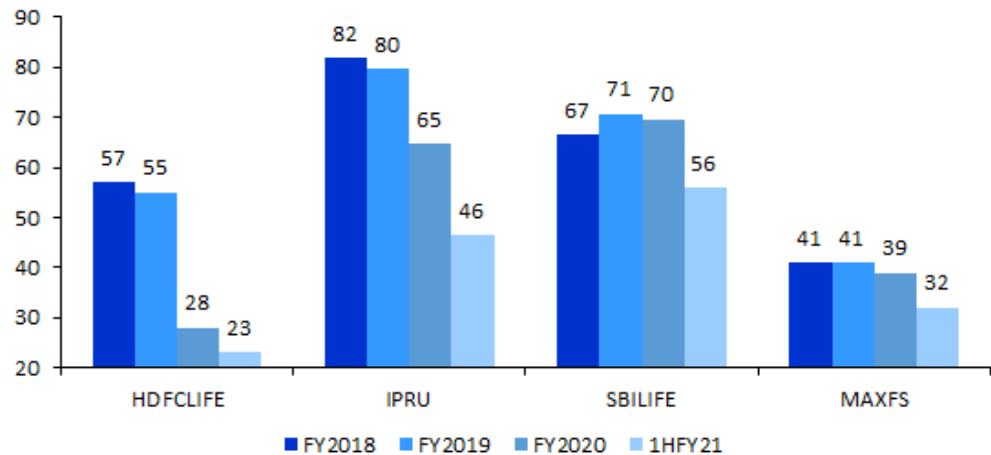


Source: Company, DART

Lower risk in ULIP portfolio

The mix of ULIP in the product mix for MAXF is also at the lower end. As ULIP's have become less favorable among customers, MAXF will not suffer from a prolonged decline in this product segment.

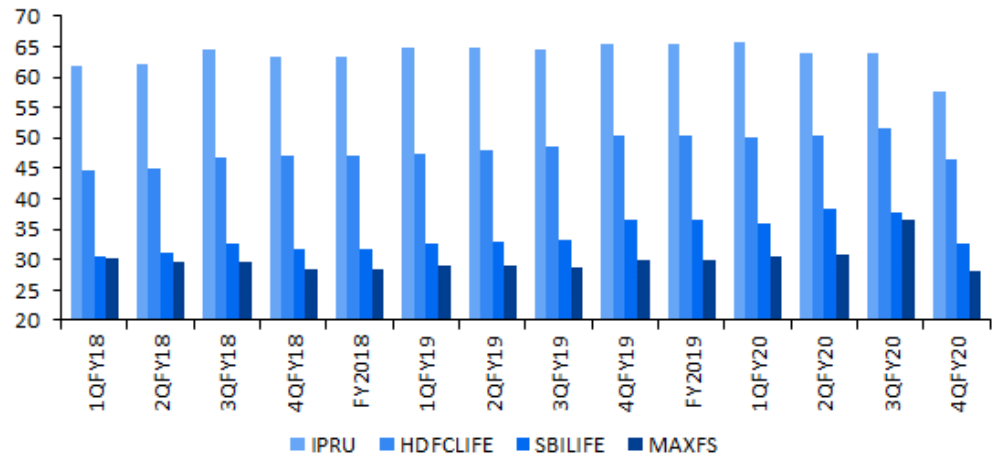
Exhibit 18: Lower mix of ULIP in product mix (%)



Source: DART, Company

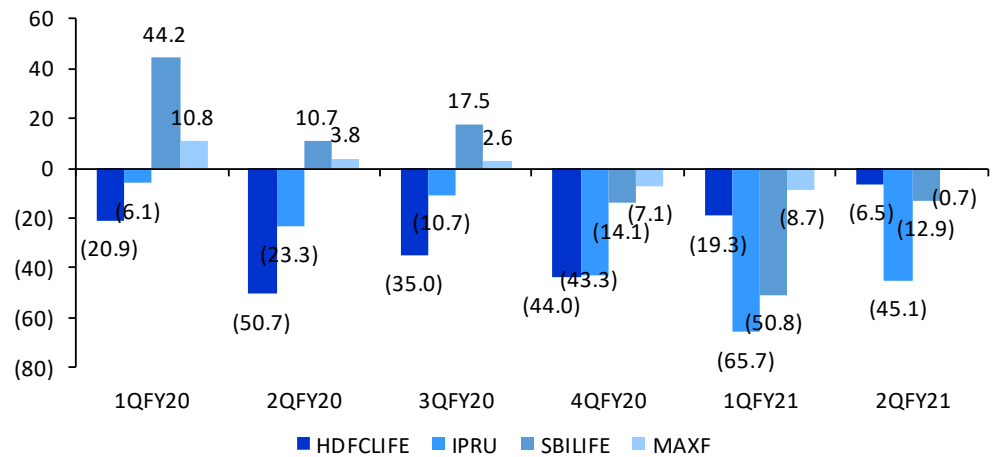
MAXF's ULIP portfolio has lower % of equity oriented funds and hence is subject to lower volatility as compared to IPRU and HDFCLIFE. This has enabled MAXF to deliver better performance relative to peers in this segment.

Exhibit 19: MAXF's ULIP are subject to lower volatility from capital markets due to lower share of equity AuM in overall ULIP AuM



Source: DART, Company

Exhibit 20: ...thus the decline in ULIP APE is less severe (%)

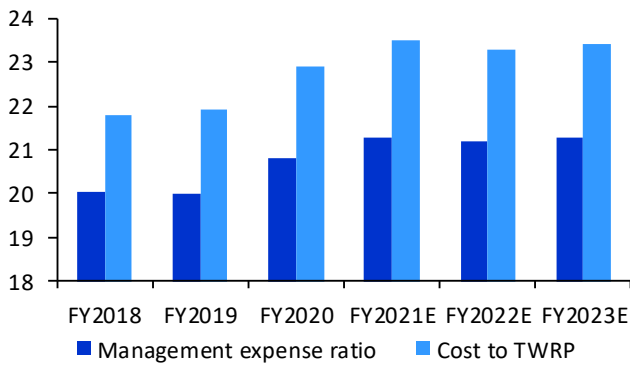


Source: DART, Company

Cost ratios high, room for improvement

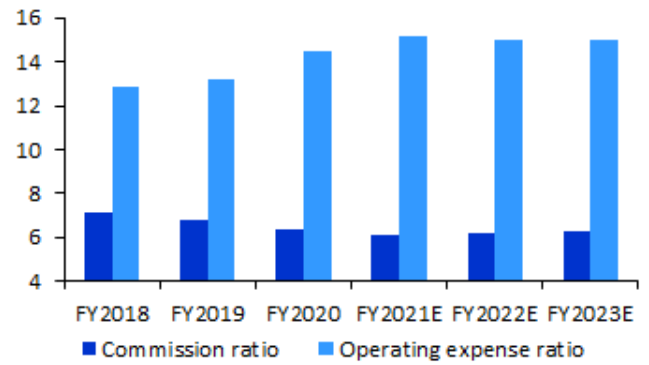
Better product mix has enabled MAXF to improve VNB margins. Although the effect of better business mix has been offset by cost overruns arising from investments made in channels. These investments should pay dividend going forward as we expect cost ratios to trend between ~20-22% on cost to TWRP basis. Higher operating expenses has been the main reason for the high cost ratios.

Exhibit 21: Cost ratios treading upwards (%)



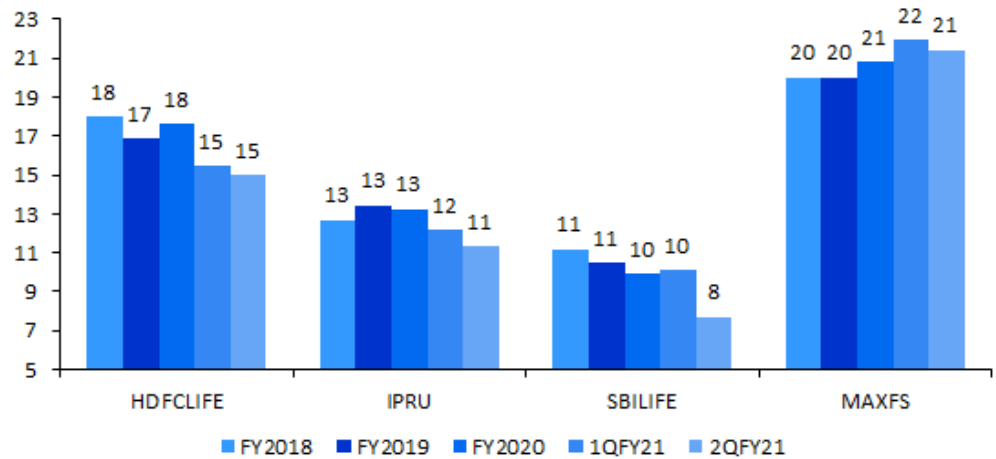
Source: DART, Company

Exhibit 22: Cost ratios higher due to higher opex (%)



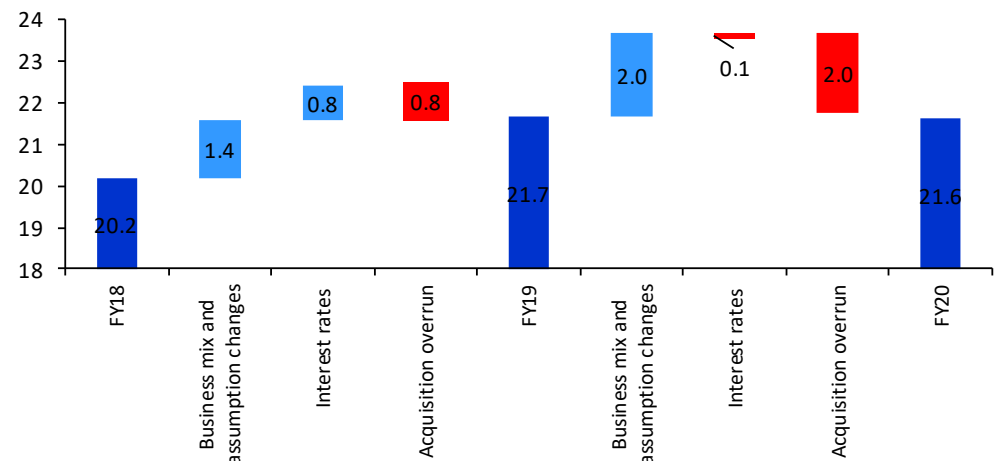
Source: DART, Company

Exhibit 23: Cost ratios % for MAXF higher than peers



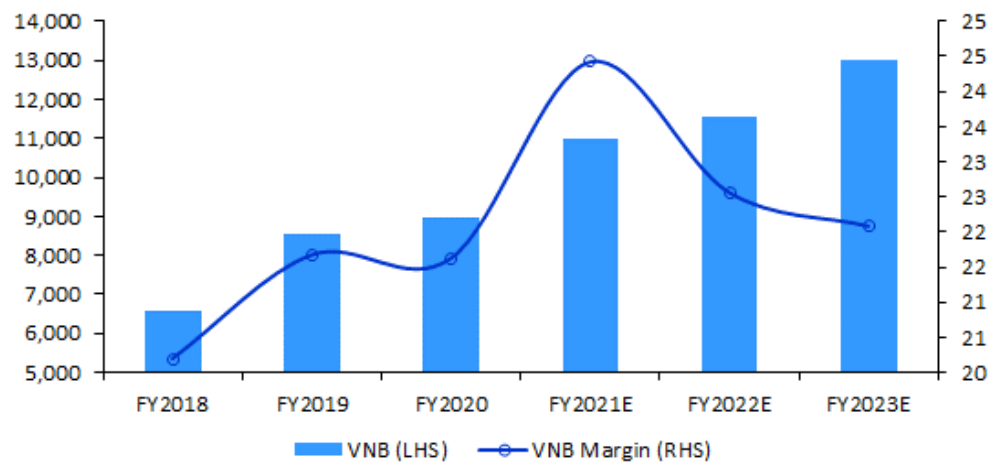
Source: DART, Company

Exhibit 24: Cost overruns negating positive effect of business mix change on VNB (%)



Source: DART, Company

Exhibit 25: VNB margin to stabilize around 22% as share of protection and non-par normalizes and cost overruns continue



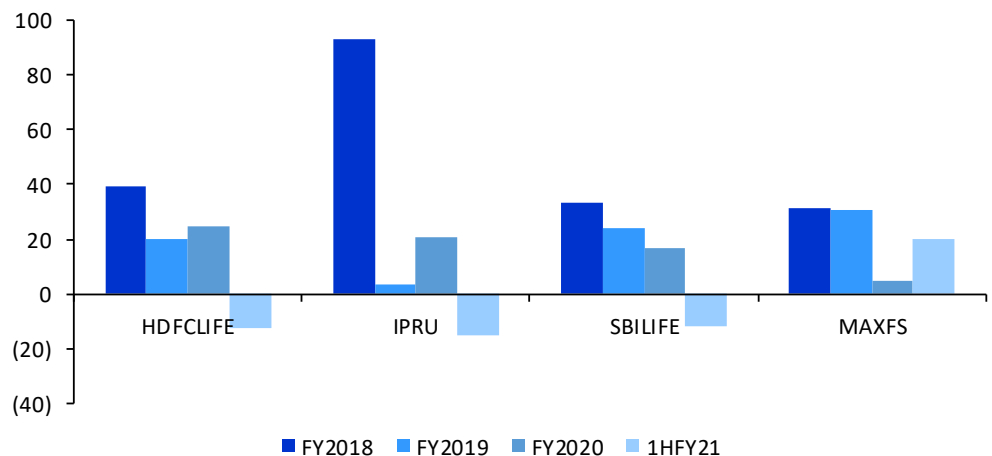
Source: DART, Company

Exhibit 26: Comparative VNB performance of top 4 private life insurers

VNB	FY2017	FY2018	FY2019	FY2020	1HFY20	1HFY21
HDFCLIFE	9,200	12,800	15,370	19,190	9,570	8,380
IPRU	6,660	12,860	13,280	16,050	7,090	6,020
SBILIFE	10,400	13,900	17,200	20,100	8,500	7,500
MAXFS	4,990	6,560	8,560	8,970	3,640	4,380

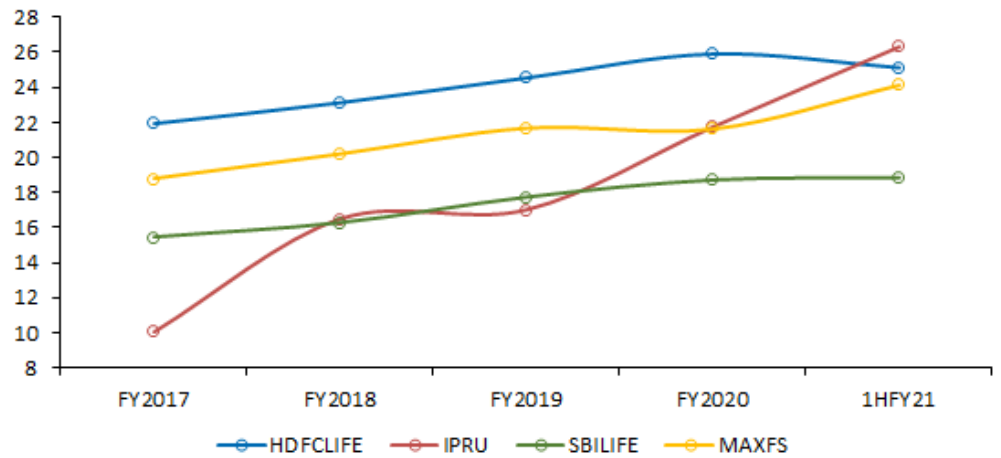
Source: DART, Company

Exhibit 27: VNB growth across players – MAXF delivered positive VNB growth in H1FY21



Source: DART, Company

Exhibit 28: MAXF VNB margin closer to peers (%)

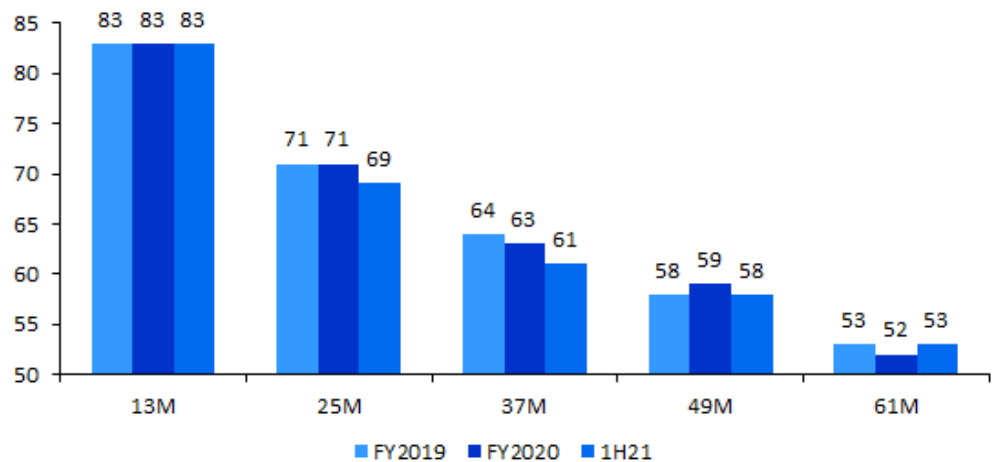


Source: DART, Company

Persistency ratios declined across 25M and 37M

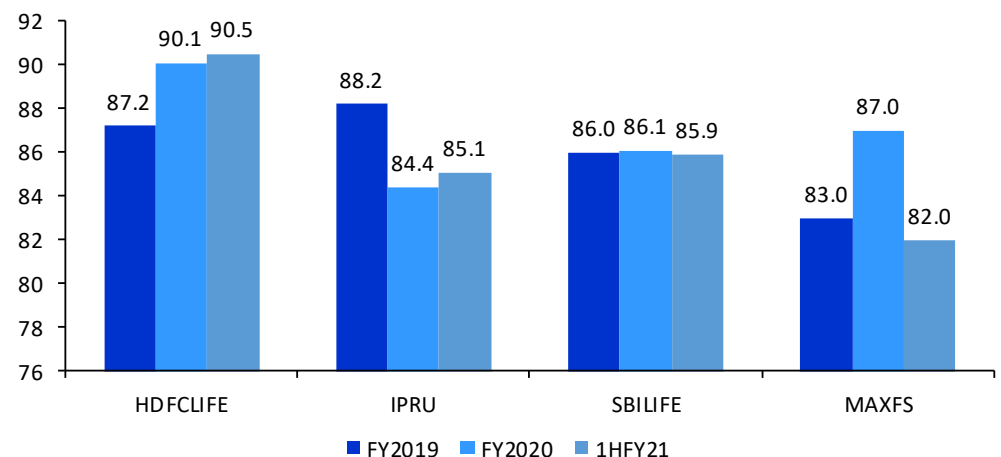
Persistency ratios have been stable for the 13M period but have fallen for the 25M and 37M which may reflect poorly on the 13M period going forward.

Exhibit 29: Persistency ratio (%)



Source: DART, Company *based on IRDA public disclosures

Exhibit 30: MAXF persistency ratio lower than peers – 13M persistency (%)



Source: DART, Company, *based IRDA public disclosures for comparability

AXIS deal update

MAXF concluded a share swap transaction with Mitsui Sumitomo Insurance (MSI) on 9th December 2020 wherein, MSI swapped a 20.57% stake in Max Life Insurance for a 21.87% stake in Max Financial. Max Financial allocated 75mn equity shares (FV Rs. 2) on a preferential allotment basis. The rationale behind Mitsui Sumitomo share swap was to simplify the shareholding structure in MAXF's subsidiary MAXLIFE and have more flexibility to attract strategic investment in MAXLIFE.

Previously, AXIS bank and its subsidiaries were to increase their stake in MAXLIFE to 30%. However, per the RBI master directions, banks individually and through their subsidiaries can own up to 10% and 20% stake respectively in non-financial entities. As a result, AXIS will look to acquire 9% stake in Max Life directly and 3% via its subsidiaries, AXIS capital and AXIS securities with an option to increase by a further 7%. We have presented the computations for the same below.

Exhibit 31: Shareholding pattern post new proposed AXIS deal

Shares in mn	Pre-dilution	%	Post-Mitsui deal	%	Post Axis deal - Old	%	Post Axis deal - New	%
MAXF								
Promoter	76	28.3	76	22.1	76	22.1	76	22.1
Others	193	71.7	193	56.0	193	56.0	193	56.0
Mitsui Sumitomo Insurance			75	21.9	75	21.9	75	21.9
Total shares	270	100.0	345	100.0	345	100.0	345	100.0
MAXLIFE								
MAXF	1,391	72.5	1,786	93.1	1,343	70.0	1,554	81.0
Others								
Mitsui Sumitomo Insurance	489	25.5	94	4.9	0	0.0	0	0.0
AXIS bank and subsidiaries	38	2.0	38	2.0	576	30.0	365	19.0
Total shares	1,919	100.0	1,919	100.0	1,919	100	1,919	100

Source: Company, DART

As per the original deal between AXIS bank and MAXF in April 2020, MAXLIFE would be merged with MAXF and the new entity would be listed. If the proposed merger were to not go through, AXIS bank's stake in MAXLIFE would be swapped for a stake in MAXF.

Exhibit 32: Shareholding post proposed merger of MAXF and MAXLIFE

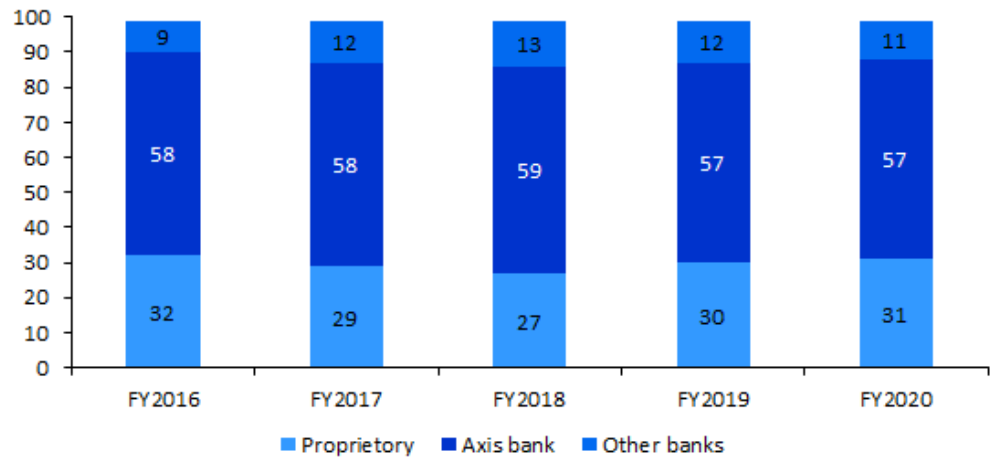
MAXLIFE	Shares	%
MAXF	1,215	63.3
Mitsui Sumitomo Insurance	340	17.7
AXIS bank and subsidiaries	365	19.0
Total shares	1,919	100.0

Source: DART, Company

We believe that AXIS's interest in acquiring a strategic stake in MAXLIFE is a positive for the insurer. AXIS is a key distributor for MAXLIFE with ~55% of business coming from this channel.

The current deal between AXIS and MAXLIFE is up for renewal in September 2021.

Exhibit 33: More than 50% of business is sourced from AXIS bank



Source: DART, Company

The concern on MAXLIFE’s relationship with AXIS bank has been largely 2 fold: a) AXIS severing ties with MAXLIFE as the partnership renewal date was fast approaching and b) Impact of AXIS’s decision to move to open architecture with the bank selling Bajaj Allianz Life Insurance and LIC policies.

With AXIS raising its stake to 19% under the proposed structure, the first concern gets addressed as the bancassurance partnership between MAXLIFE and AXIS gets cemented.

Why MAXLIFE stake purchase is appealing to AXIS bank

- Private peer banks HDFC and ICICI already own a strategic stake in life insurance companies which allows them to offer a bouquet of services to customers and create customer stickiness. AXIS will look to follow suit and create an eco-system of financial products for its customer base.
- Create more value for shareholders by growing life insurance operations.
- Representation on board of directors.

MAXF’s perspective

- AXIS is MAXLIFE’s largest distributor contributing ~55% of new business APE. MAXF will continue to distribute through AXIS and thereby keep one of its largest channels.
- As MAXLIFE already has a productive agency channel, synergies with AXIS may allow it to grow further in this channel as AXIS may push products more.

Valuation and Outlook

We initiate coverage on MAXF with a target price of Rs. 784 and an “Accumulate” rating implying a FY22 P/EV of 1.9x. We believe that the share price largely reflects the revised business mix and a 3-year (FY20-FY23) APE CAGR of ~12% and hence see limited upside at current levels after applying a conservative 10% holco discount.

Our valuation is based on the DCF methodology using a cost of equity 14.4%, assuming APE growth dovetails to 5% over a 20-year period from FY24 onwards and a steady state protection mix at 14%. MAXF currently trades at a multiple lower than peers due to overhang from the AXIS deal, promoter pledge and holding company discount.

Exhibit 34: Embedded value movement

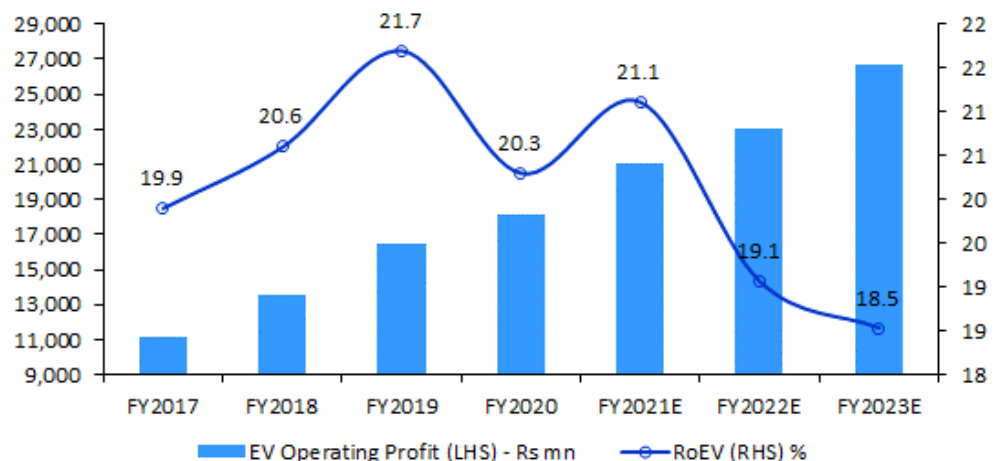
Embedded Value	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Opening EV	65,900	75,090	89,380	99,770	1,20,834	1,43,869
Unwind	6,410	6,970	8,130	9,079	10,271	12,229
VNB	6,560	8,230	8,970	10,987	11,555	12,994
Operating variances	620	1,260	1,030	998	1,208	1,439
EV Operating Profit	13,590	16,460	18,130	21,064	23,035	26,661
Non-operating items	(4,400)	(2,170)	(7,740)	0	0	0
Closing EV	75,090	89,380	99,770	1,20,834	1,43,869	1,70,530

Source: DART, Company

We expect RoEV to move towards 18.5% as share of protection in overall business mix normalizes resulting in slower VNB growth. Our estimates build in a lower margin on protection business as MAXF has not passed through the complete price hike and normalization of VNB margin to 22%-23% (100bps higher than FY20) as share of protection and non-par business normalizes. We expect protection mix to stabilize at ~14% and non-par to ~28%. Cost overruns will continue to offset positive gains on business mix from VNB. As a result, RoEV should be between ~18-20% for FY22-23E.

However, we expect RoEV to be still be higher than peers (Exhibit 1).

Exhibit 35: We expect RoEV to move towards 18.5%



Source: DART, Company

Exhibit 36: Key assumptions to our valuation

Annual premium equivalent		FY19	FY20	FY21E	FY22E	FY23E
Protection APE	Rs.mn.	3,950	5,394	7,376	7,171	8,239
Protection APE / Total APE	%	10.0	13.0	16.4	14.0	14.0
Growth	%	52.0	36.5	36.8	(2.8)	14.9
Savings APE	Rs.mn.	35,550	36,096	37,532	44,050	50,609
Savings APE / Total APE	%	90.0	87.0	83.4	86.0	86.0
Growth	%YoY	18.9	1.5	4.0	17.4	14.9
ULIP APE	Rs.mn.	16,195	16,181	14,825	18,440	22,362
% of total APE	%	41.0	39.0	33.0	36.0	38.0
Growth	%YoY	21.6	(0.1)	(8.4)	24.4	21.3
Par APE	Rs.mn.	15,800	12,447	7,367	10,244	11,769
% of total APE	%	40.0	30.0	16.4	20.0	20.0
Growth	%YoY	13.1	(21.2)	(40.8)	39.1	14.9
Non-Par APE	Rs.mn.	3,555	7,468	15,341	15,366	16,477
% of total APE	%	9.0	18.0	34.1	30.0	28.0
Growth	%YoY	36.8	110.1	105.4	0.2	7.2
Total APE	Rs.mn.	39,500	41,490	44,991	51,221	58,847
Growth	%	21.6	5.0	8.4	13.8	14.9
VNB	Rs.mn.	8,560	8,970	10,987	11,555	12,994
Growth	%	30.5	4.8	22.5	5.2	12.4
VNB Margin	%	21.7	21.6	24.4	22.6	22.1
Change in VNB margin	%YoY	1.5	(0.1)	2.8	(1.9)	(0.5)

Source: DART, Company

Exhibit 37: Price target computation

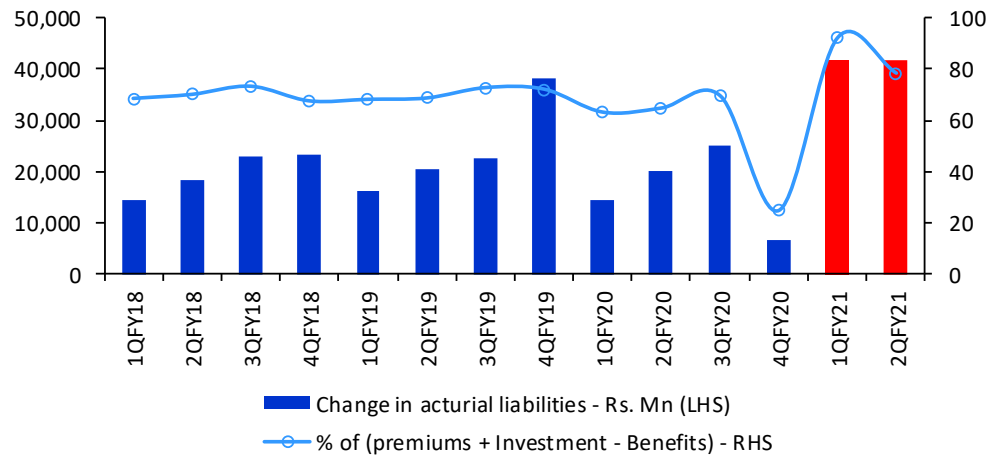
Intrinsic Value	Rs.mn
Structural value (A)	2,26,947
-PV of terminal value	57,282
-PV of other cash flows	1,69,665
Embedded Value (B) – FY22	1,43,869
Appraisal Value (A+B)	3,70,816
Final stake in MaxLife	81
Value of Max Financial stake in MaxLife	3,00,361
Per share value	871
Holding company discount	10
Per share TP	784

Source: DART, Company

As MAXF focuses on protection and non-par segment, we believe that in the short term, MAXF's total reserves will need to increase and remain at levels similar to those in H1FY21.

Evidence: MAXF's actuarial reserves for Q1 & Q2 were significantly higher than previous years.

Exhibit 38: Movement in reserves



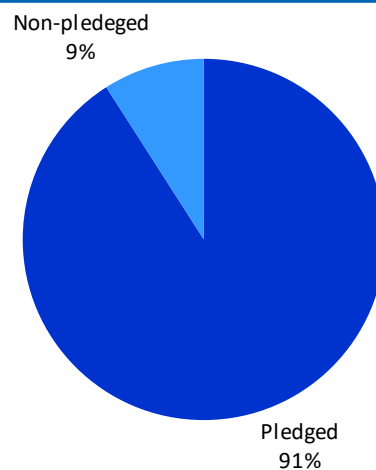
Source: DART, Company

As product mix will stay similar and MAXF looks to focus on non-par and protection, we believe that actuarial reserving may be higher which could affect PAT in the near term.

About Max Financial

MAXF is the holding company of MAXLIFE, India's largest non-bank promoted private life insurer. MAXLIFE is a JV between MAXF and Mitsui Sumitomo Insurance, Japan. MAXLIFE has close to a ~11% retail NBP market share among private players as on H1FY21 making it the 4th largest private life insurer. The insurer's customer base is more affluent and has product mix split as 83% savings and 17% protection. The insurer derives over 50% of business from AXIS bank and has a profitable and well established agency channel. The proportion of promoter pledge with lenders is ~91%.

Exhibit 39: Proportion of promoter stake pledged with lenders



Source: DART, BSE

Profit and Loss Account

Particulars	FY20A	FY21E	FY22E	FY23E
Premium earned	161,836	179,096	197,755	220,973
Premium on reinsurance	(2,049)	(3,587)	(3,955)	(4,419)
Net premium earned	159,788	175,509	193,799	216,554
Investment income	22,259	88,496	72,488	84,185
Other income	459	771	791	884
Total income	182,506	264,776	267,079	301,622
Commission paid	10,244	10,961	12,214	13,896
Expenses	25,202	28,820	31,068	34,709
Tax on policyholders fund	0	0	0	0
Claims/benefits paid	66,222	62,181	81,124	94,401
Change in actuarial liability	74,859	159,857	139,877	155,903
Total Outgo	176,527	261,819	264,282	298,909
Profit before tax	5,978	2,957	2,797	2,713
Tax charge	585	(255)	140	136
Profit after tax	5,394	3,212	2,657	2,577

Balance Sheet

Particulars	FY20A	FY21E	FY22E	FY23E
Share capital	19,188	19,188	19,188	19,188
Reserve and surplus	6,806	10,277	12,934	15,511
Credit/[debit] fair value change account	(255)	114	114	114
Shareholders' funds	25,739	29,579	32,236	34,814
Borrowings	0	0	0	0
Credit/(debit) fair value change account	(5,724)	2,796	2,796	2,796
Revaluation reserve - Investment property	22	22	22	22
Total insurance reserves	646,449	809,720	949,388	1,105,146
Funds for future appropriations	30,962	27,549	27,757	27,902
Total	697,448	869,666	1,012,200	1,170,680
Application of funds				
Assets under management	684,707	858,698	1,001,371	1,159,987
Shareholders'	32,581	39,939	50,050	61,986
Policyholders'	460,484	560,574	649,366	737,963
Asset held to cover linked liabilities	191,642	258,184	301,956	360,038
Other assets	12,741	10,969	10,829	10,693
TOTAL	697,448	869,666	1,012,200	1,170,680

E – Estimates

Embedded Value

Particulars	FY20A	FY21E	FY22E	FY23E
Opening EV	89,380	99,770	120,834	143,869
Unwind	8,130	9,079	10,271	12,229
VNB	8,970	10,987	11,555	12,994
Operating variances	1,030	998	1,208	1,439
EV Operating Profit	18,130	21,064	23,035	26,661
Economic variances	(7,740)	0	0	0
Capital injections/outflow	0	0	0	0
Closing EV	99,770	120,834	143,869	170,530

Key ratios

Particulars	FY20A	FY21E	FY22E	FY23E
APE growth	5.0	8.4	13.8	14.9
Savings APE growth	1.5	4.0	17.4	14.9
Protection APE growth	36.5	36.8	(2.8)	14.9
Business mix (APE basis)				
ULIP	39.0	33.0	36.0	38.0
Par	30.0	16.4	20.0	20.0
Non-par	18.0	34.1	30.0	28.0
Protection	13.0	16.4	14.0	14.0
Commission ratio	6.3	6.1	6.2	6.3
First year commission	17.9	18.2	18.0	18.0
Renewal premium commission	2.6	2.5	2.5	2.5
Single premium commission	1.1	0.7	0.5	0.5
Operating expense ratio	14.5	15.2	15.0	15.0
Management expense ratio	20.8	21.3	21.2	21.3
Cost to TWRP	22.9	23.5	23.3	23.4
VNB	8,970	10,987	11,555	12,994
VNB growth	9.0	22.5	5.2	12.4
VNB margin	2162.0	2442.2	2256.0	2208.0
RoEV	20.3	21.1	19.1	18.5

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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