

MAX Financial Services

Estimate change



TP change



Rating change



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Bloomberg	MAXF IN
Equity Shares (m)	345
M.Cap.(INRb)/(USDb)	343.8 / 4.7
52-Week Range (INR)	1050 / 463
1, 6, 12 Rel. Per (%)	3/44/61
12M Avg Val (INR M)	1053

Financials & Valuations (INR b)

Y/E MARCH	FY21	FY22E	FY23E
Net Premiums	190.2	224.9	272.0
Sh.PAT	5.2	7.1	8.0
NBP gr - unwdt (%)	22.3	21.0	24.0
NBP gr - APE (%)	19.5	20.7	24.3
Premium gr (%)	17.5	18.2	21.0
VNB margin (%)	25.2	26.4	26.8
Op. RoEV (%)	18.5	21.0	22.3
Total AUMs (INRb)	904	1,066	1,246
VNB(INRb)	12.5	15.8	19.9
EV per Share	274.5	325.5	390.8
Valuations		0.0	0.0
P/EV (x)	4.5	3.8	3.2
P/EVOP (x)	29.0	21.6	17.2

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	17.0	17.3	28.3
DII	51.4	50.9	29.0
FII	23.1	19.7	30.6
Others	8.5	12.2	12.1

FII Includes depository receipts

CMP: INR996
TP: INR1,200 (+20%)
Buy

Steady performance; Non-PAR growth remains robust

Persistency improves; maintains healthy provisioning buffer towards pandemic linked claims

- MAXLIFE continues to demonstrate resilient performance amid a challenging macro environment, led by healthy (36%) APE growth, aided by robust growth in Non-PAR savings and recovery in the ULIP segment. After witnessing robust Protection growth over 1H, the same moderated during 2HFY21.
- Healthy product mix towards high margin segments and strong APE growth aided VNB growth of 44% YoY during 4QFY21. Strong push via the bancassurance channel has aided premium growth, while the proprietary channel is showing healthy traction.
- We expect 22% CAGR in APE growth over FY21-23E, with VNB margin improving to 26.8% by FY23E. This would enable 26% VNB CAGR over FY21-23E, while operating RoEV sustains ~22%. **Maintain Buy.**

VNB growth steady; persistency recovers further

- **Gross written premium grew ~21% YoY** led by a 36%/40% growth in the first year/single premium, while renewal premium grew ~14%. Shareholder PAT declined 54% YoY to ~INR1.1b in 4QFY21 on higher additional provisions towards COVID-19 death claims.
- Individual APE grew 35% YoY in 4QFY21. Total APE growth stood at 36% YoY, aided by strong trends in Non-PAR savings (143%), with the launch of a new product 'Smart Wealth plan', while ULIP showed recovery trends. Protection growth moderated at 5% YoY as Group Protection fell 17%, while Individual Protection grew 17%. The share of Non-PAR savings increased to 30% in FY21 v/s 18% in FY20. The share of Protection stood at 14% v/s 13% in FY20.
- **Absolute VNB growth was healthy at 44% YoY due to strong margin profile and healthy product mix.** Margin stood ~24% in 4QFY21 (v/s 22.8% in 4QFY20). Absolute VNB grew 39% YoY in FY21. VNB margin improved sharply to 25.2% in FY21 (v/s 21.6% in FY20).
- On the distribution side, banca APE reported robust trends and grew 41% YoY, while proprietary channel APE witnessed a strong (22%) recovery in 4QFY21. The share of banca improved to 71% in FY21 (v/s 68% in FY20), while the share of proprietary stood at 28% (v/s 31% in FY20).
- MAXLIFE witnessed total net claims of ~INR1.2b in FY21 on account of COVID-19 deaths. It made total provisions of INR3.4b due to a likely adverse COVID-19 experience in FY22, and now holds an excess provision buffer of INR5b on its Balance Sheet. Operating RoEV stands at 18.5% (v/s 20.3% in FY20), impacted by higher COVID-19 provisions.
- Persistency improved with 13th/61st month improving by 100bp/200bp to 84%/54%. In other cohorts, persistency trends remained stable (barring the 49th month). On the cost front, opex-to-GWP ratio declined to 20.7% (v/s 21.7%/20.8% over 9MFY21/FY20).

Research Analyst: [Nitin Aggarwal](mailto:Nitin.Aggarwal@MotilalOswal.com) (Nitin.Aggarwal@MotilalOswal.com) | [Himanshu Taluja](mailto:Himanshu.Taluja@motilalosal.com) (Himanshu.Taluja@motilalosal.com)

[Alpesh Mehta](mailto:Alpesh.Mehta@MotilalOswal.com) (Alpesh.Mehta@MotilalOswal.com); [Yash Agarwal](mailto:Yash.Agarwal@motilalosal.com) (Yash.Agarwal@motilalosal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Highlights from the management commentary

- In the medium term, the management expects persistency to reflect an upward trajectory. The 13th month persistency can reach up to 86% (v/s 84% currently).
- It expects business growth between 15% and 20% over FY22.
- The Non-PAR segment will continue to remain between 25% and 30% in the total APE mix. It expects a 200-300bp VNB margin improvement over the next 2-3 years.

Valuation and view

MAXLIFE reported strong operating trends, with premium growth in the Non-PAR business remaining steady, while the ULIP business showed a recovery. VNB margin has improved sharply to ~25.2% in FY21 (360bp YoY improvement), while persistency trends have also improved. Strong push via the bancassurance channel has supported premium growth, while growth is improving gradually in the proprietary channel. We estimate APE growth at 22% CAGR over FY20-23E and VNB margin to improve to 26.8% in FY23E. This would enable 26% VNB CAGR over FY21-23E, while operating RoEV will sustain ~22%. We maintain our Buy rating with a TP of INR1,200/share (3.1x FY23E EV/3.8x FY23E EV after a 20% holding company discount).

Quarterly performance**(INR m)**

Policyholder's A/c (INR m)	FY20				FY21				FY20	FY21E	FY21E 4QE	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross premium income	26,510	37,810	38,800	58,710	27,510	45,330	46,280	71,060	1,61,836	1,90,180	68,123	4%
Growth (%)	14.3%	14.6%	12.8%	6.4%	3.8%	19.9%	19.3%	21.0%	11.0%	17.5%	16.0%	
Renewal premium	17,400	24,010	24,770	39,820	18,520	29,370	28,800	45,230	1,06,000	1,21,920	45,226	0%
Growth (%)	12.0%	11.3%	10.3%	15.1%	6.4%	22.3%	16.3%	13.6%	12.6%	15.0%	13.6%	
PAT	680	860	1,540	2,314	1,710	260	2,200	1,060	5,394	5,230	2,700	-61%
Growth (%)	NA	NA	NA	NA	151.5%	-69.8%	42.9%	-54.2%	-3.1%	-3.0%	16.7%	
Key metrics (INR m)												
New Business APE	6,850	10,450	10,100	14,090	6,610	11,540	12,250	19,170	42,380	49,570	17,876	7%
VNB	1,340	2,300	2,120	3,210	1,130	3,250	3,500	4,610	8,970	12,490	4,667	-1%
AUM (INR b)	640	650	686	685	730	780	850	904	685	904	905	0%
Key Ratios (%)												
VNB Margin (%)	19.6	22.0	21.0	22.8	17.1	28.2	28.6	24.0	21.6	25.2	26.1	206bp
Solvency ratio (%)	225.0	224.0	220.0	207.0	212.0	207.0	208.0	196.0	207.0	196.0	208.7	1, 270bp

E: MOFSL estimates

Exhibit 1: Quarterly snapshot

Policyholder A/c (INR b)	FY20				FY21				Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
Gross premium	26.5	37.8	38.8	58.7	27.5	45.3	46.3	71.1	21	54
First year premium	6.5	10.5	10.0	13.9	6.2	11.3	12.0	18.9	36	57
Renewal premium	17.4	24.0	24.8	39.8	18.5	29.4	28.8	45.2	14	57
Single premium	2.7	3.3	4.0	5.0	2.8	4.7	5.5	7.0	40	27
Shareholder's PAT	0.7	0.9	1.5	2.3	1.7	0.3	2.2	1.1	-54	-52
APE data (INR b)										
PAR	2.3	3.1	2.9	4.2	1.5	1.6	2.1	4.3	1	104
Individual Protection	0.5	0.7	1.0	1.1	0.9	1.3	0.9	1.4	26	65
Group Protection	0.5	0.7	0.4	0.4	0.7	0.7	0.4	0.7	52	76
Non-PAR Savings	1.0	2.4	2.0	2.0	1.2	4.4	4.4	4.8	143	10
ULIP	2.5	3.5	4.1	5.6	2.3	3.3	4.4	8.3	48	89
APE (% of total)									Change (bp)	
PAR	33	30	28	30	22	14	17	22	-783	517
Individual Protection	7	7	10	8	14	11	7	7	-59	38
Group Protection	8	6	4	3	11	6	3	3	36	38
Non-PAR Savings	15	23	20	14	18	38	36	25	1,113	-1,072
ULIP	37	34	40	40	35	29	36	43	340	738
Distribution mix (%)										
Proprietary	33	33	30	29	37	28	27	25	-423	-221
Banca	66	66	69	70	62	71	72	74	423	221
Others	1	1	1	1	1	1	1	1	0	0
Key Ratios (%)										
Operating ratios										
Opex-to-GWP ratio (%)	24.7	23.0	22.7	20.8	21.9	21.6	21.7	20.7	-10	-100
Solvency Ratio	225.0	224.0	220.0	207.0	212.0	207.0	208.0	196.0	-1,100	-1,200
Profitability ratios										
VNB margin	19.6	22.0	21.0	22.8	17.1	28.2	28.6	24.0	127	-452
Persistency ratios										
13th month	85.0	85.0	85.0	83.0	82.0	83.0	83.0	84.0	100	100
25th month	72.0	72.0	72.0	71.0	68.0	69.0	69.0	71.0	0	200
37th month	64.0	65.0	63.0	63.0	61.0	61.0	61.0	63.0	0	200
49th month	60.0	60.0	60.0	59.0	57.0	58.0	57.0	58.0	-100	100
61st month	53.0	53.0	51.0	52.0	52.0	53.0	54.0	54.0	200	0
Key Metrics (INR b)										
VNB	1.3	2.3	2.1	3.2	1.1	3.3	3.5	4.6	44	32
EV	93	97	101	100	107	110	117	118	19	1
AUM	640	650	686	685	730	780	850	904	32	6
Equity Mix (%)	21.0	21.0	22.0	17.0	20.8	21.0	23.1	21.6	459	-148

Please note: Persistency ratios, opex ratio, and EV for 1H, nine months, and 12 months

Source: MOFSL, Company



Highlights from the management commentary

Business mix

- As per sum assured, it has a 15.6% market share and is ranked third in the industry.
- A solvency surplus of ~INR13b has been maintained on the Balance Sheet.
- **In the medium term, the management expects persistency to reflect an upward trajectory.** The 13th month persistency can reach up to 86%.
- MAXLIFE believes in maintaining a balanced product mix. **It expects NBP (New Business Premium) growth between 15% and 20% over FY22.**
- **The Non-PAR segment will continue to remain between 25% and 30%** in the product mix as it offers better ability to hedge through the FRA market.
- Protection is a long term growth opportunity for the entire sector. The management's focus is on maintaining prudent pricing in this segment.

Operating metrics

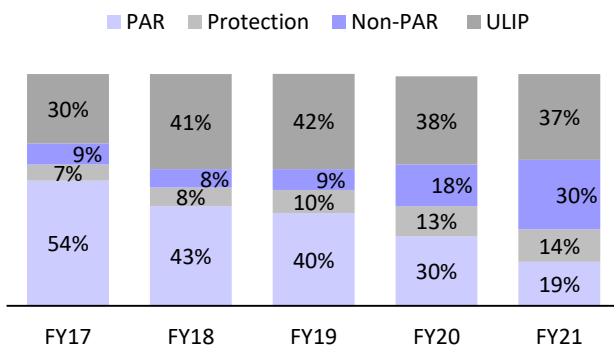
- There might be a price increase in Individual Protection policies. It is also reviewing the price of GTL (Group term plans).
- **VNB doubled in the last three years, aided by strong trends in the Non-PAR and Protection segment.** Tightening of operating expenses helped in VNB margin improvement.
- **MAXLIFE is already carrying provisions of INR5b on its Balance Sheet towards COVID-19 death claims. This is nearly 4x the net claims witnessed in FY21.**
- Tightening of mortality assumption is based on the rise in COVID-19 cases.
- There was an INR880m hit to VNB in FY21.
- Operating variance of INR800m is due to a tax refund of INR630m.
- **VNB margin outlook:** Over the next 2-3 years, it sees a 200-300bp upside to VNB margin.
- **The new Non-PAR product launched in FY21 aided VNB margin improvement.** It has better pricing and new offerings v/s the last product.
- **Dividend policy:** The management sees no need to declare a heavy dividend. It will retain most of the capital for the business to expand.
- It will maintain solvency ratio in the 180-200% range.
- In the new protection product, there was a 5-10% increase in pricing v/s the last product.
- Total gross death claims over FY21 stood ~INR13.49b. The same net of reinsurance is INR10.09b.

Distribution channel

- The management’s focus is on promoting the Axis Bank brand and is targeting higher cross-sell to AXSB’s customer base.
- It expects Yes Bank’s banca share to increase, in line with the growth of MAXLIFE.
- On the distribution front, the management focus remains on pushing Non-PAR and ULIP through partner channels, and traditional policy (PAR) and Protection through its own channels.
- It will continue to invest in growing its proprietary channel.

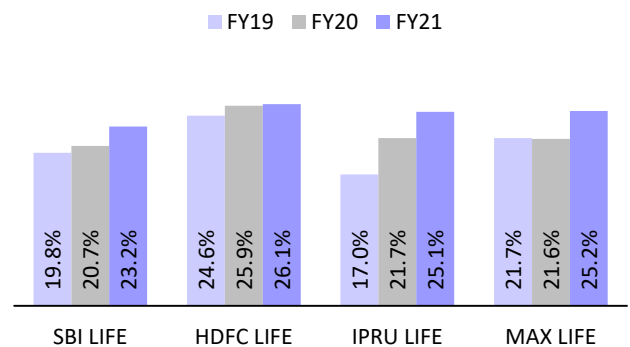
Key exhibits

Exhibit 1: Share of Non-PAR savings improves to 30%, while Protection at 14% in FY21

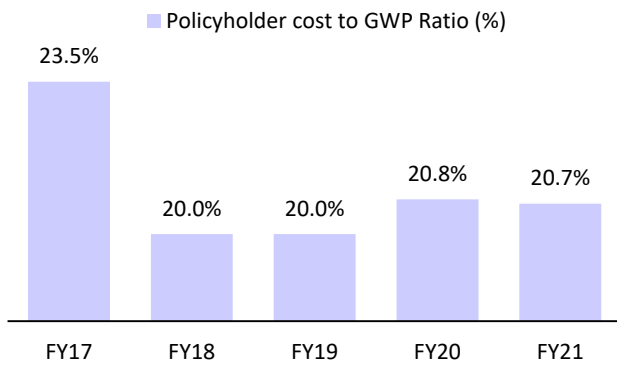


Source: MOFSL, Company

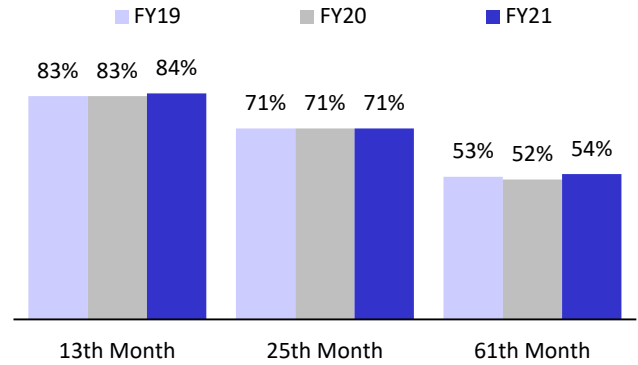
Exhibit 2: VNB margin improves to ~25.2%, similar to IPRULIFE levels



Source: MOFSL, Company

Exhibit 3: Opex-to-GWP ratio at 21.7%

Source: MOFSL, Company

Exhibit 4: Persistency improves in the 13th/61st month

Source: MOFSL, Company

Valuation and view

- MAXLIFE has increased its focus on Non-PAR and Protection segments, the share of which has increased to ~44% in FY21 v/s ~16% in FY17 as Protection/Non-PAR savings grew by 40%/58% CAGR over FY17-21.
- The company has one of the most productive agency channels, with an improvement in agent productivity to INR250k in FY20 (v/s INR150k in FY17). The proprietary channel accounted for 28% of total APE. The management will continue to make significant investments in growing its proprietary channel.
- VNB has doubled in the last three years, aided by improvement in high margin products in the total APE mix. VNB margin currently stands at 25% (360bp YoY investment).
- **Buy with a TP of INR1,200/share:** MAXLIFE reported strong operating trends, with premium growth in the Non-PAR business remaining steady, while the ULIP business showed a recovery. VNB margin has improved sharply to ~25.2% in FY21 (360bp YoY improvement), while persistency trends have also improved. Strong push via the bancassurance channel has supported premium growth, while growth is improving gradually in the proprietary channel. We estimate APE growth at 22% CAGR over FY20-23E and VNB margin to improve to 26.8% in FY23E. This would enable 26% VNB CAGR over FY21-23E, while operating RoEV will sustain ~22%. We maintain our Buy rating with a TP of INR1,200/share (3.1x FY23E EV/3.8x FY23E EV after a 20% holding company discount).

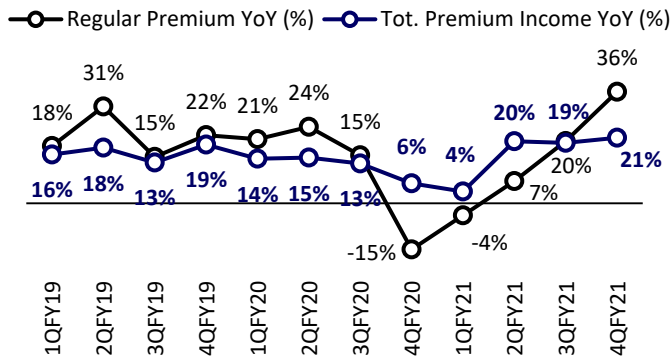
Exhibit 5: Value MAXLIFE at INR1,200 per share

Appraisal value method (INR b)	FY23E
Embedded value	169
New business profit	19.9
Appraisal value	647
MFS' stake post deal	80%
MFS' value	518
MFS' valuation per share (INR)	1,500
Appraisal value-to-embedded value (x)	3.8
Holding company discount	20%
Target price (INR)	1,200
Implied multiples	
- VNB multiple (x)	24.0
- EVOP multiple (x)	20.7
Upside	20%

Source: MOFSL

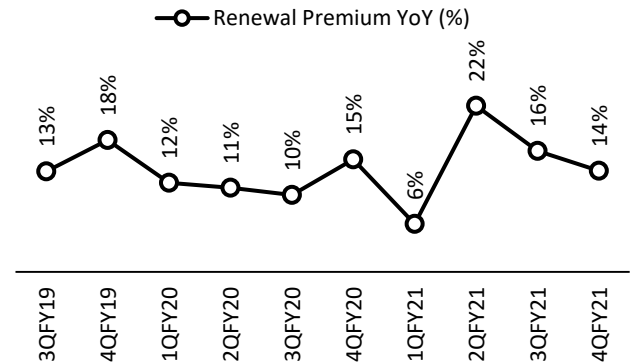
Story in charts

Exhibit 6: First-year premium grew 36% YoY in 4QFY21, while total gross income premium grew 21%



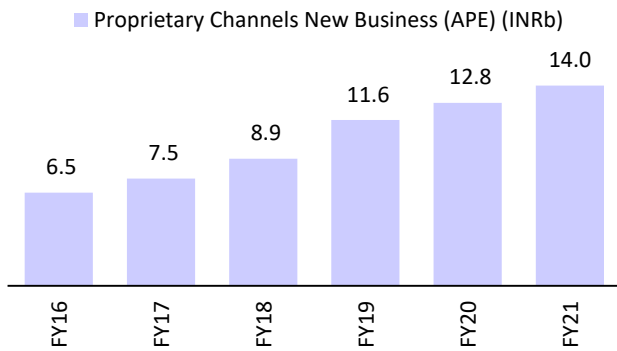
Source: MOFSL, Company

Exhibit 7: Renewal premium up 14% YoY in 4QFY21



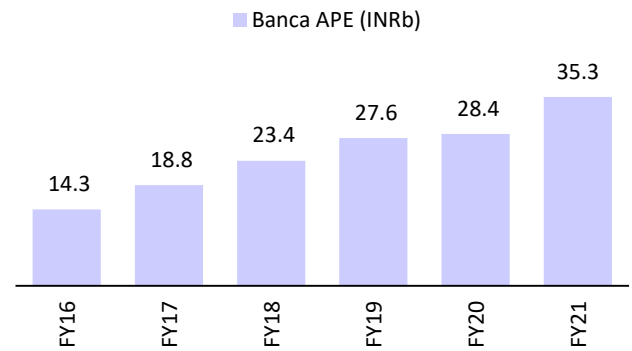
Source: MOFSL, Company

Exhibit 8: Proprietary channel APE grew 9% YoY in FY21



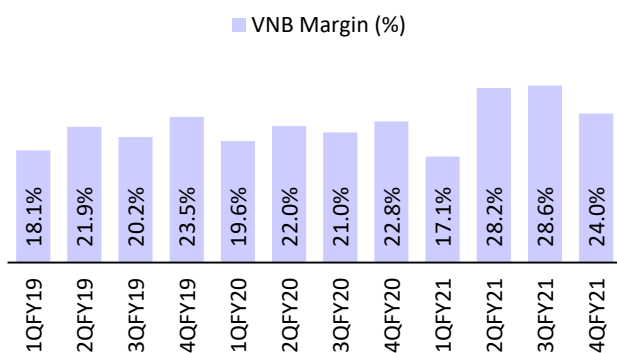
Source: MOFSL, Company

Exhibit 9: Banca APE rose 24% YoY



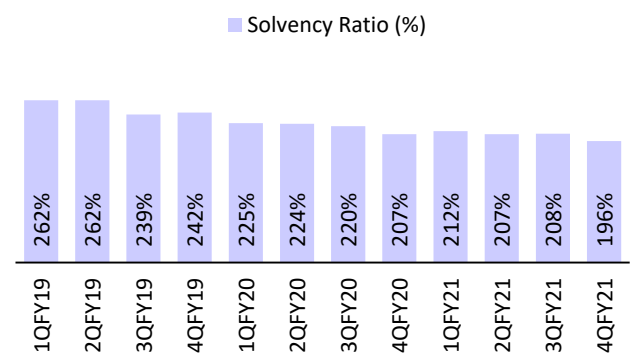
Source: MOFSL, Company

Exhibit 10: VNB margin stands at 24% as on 4QFY21



Source: MOFSL, Company

Exhibit 11: Solvency ratio stands at 196%



Source: MOFSL, Company

Financials and valuations

Technical account (INR m)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Gross Premiums	1,25,009	1,45,752	1,61,836	1,90,180	2,24,861	2,72,000
Reinsurance Ceded	1,213	1,569	2,049	3,263	3,684	4,520
Net Premiums	1,23,795	1,44,184	1,59,788	1,86,916	2,21,176	2,67,480
Income from Investments	37,574	48,643	21,589	42,061	53,324	58,609
Other Income	346	440	612	714	832	971
Total income (A)	1,61,715	1,93,267	1,81,989	2,29,691	2,75,332	3,27,060
Commission	8,929	9,896	10,244	12,644	14,893	17,958
Operating expenses	16,098	19,274	23,441	26,975	31,674	38,239
Total commission and opex	25,027	29,170	33,685	39,619	46,567	56,197
Benefits Paid (Net)	49,466	57,178	66,222	72,531	90,228	1,10,880
Chg. in reserves	79,043	97,365	66,394	1,06,262	1,25,281	1,44,329
Total expenses (B)	1,53,555	1,83,730	1,66,321	2,18,427	2,62,094	3,11,427
(A) - (B)	8,160	9,536	15,668	11,264	13,239	15,633
Prov. for Tax	1,077	1,299	2,752	1,801	2,152	2,662
Surplus/Deficit	7,083	8,237	12,916	9,463	11,087	12,971
Shareholder's a/c (INR m)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	3,992	4,402	4,690	4,141	5,574	5,944
Income From Investments	2,178	2,177	2,074	2,106	2,739	3,489
Total Income	6,175	6,604	6,781	6,246	8,313	9,432
Total Expenses	24	377	802	330	372	421
PBT	6,152	6,226	5,978	5,917	7,941	9,011
Prov. for Tax	875	662	585	651	874	991
PAT	5,276	5,564	5,394	5,266	7,067	8,020
Growth	-20%	5%	-3%	-2%	34%	13%
Premium (INR m) and growth (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
New business prem. – unwttd.	43,486	51,604	55,835	68,264	82,599	1,02,423
New business prem. - WRP	33,072	40,019	42,380	49,525	59,777	74,308
Renewal premium	81,523	94,148	1,06,002	1,21,916	1,42,262	1,69,577
Total premium – unwttd.	1,25,009	1,45,752	1,61,836	1,90,180	2,24,861	2,72,000
New bus. growth – unwttd.	18.6%	18.7%	8.2%	22.3%	21.0%	24.0%
New business growth - WRP	20.3%	21.0%	5.9%	16.9%	20.7%	24.3%
Renewal premium growth	14.6%	15.5%	12.6%	15.0%	16.7%	19.2%
Total prem. growth – unwttd.	16.0%	16.6%	11.0%	17.5%	18.2%	21.0%
Premium mix (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
New business – unwttd.						
- Individual mix	91.6%	92.0%	91.9%	91.5%	90.5%	90.0%
- Group mix	8.4%	8.0%	8.1%	8.5%	9.5%	10.0%
New business mix - WRP						
- Participating	44.7%	41.4%	32.2%	31.3%	33.7%	33.7%
- Non-participating	13.9%	16.4%	29.6%	33.1%	29.8%	29.6%
- ULIPs	41.4%	42.2%	38.2%	35.6%	36.5%	36.7%
Total premium mix – unwttd.						
- Participating	57.3%	53.4%	49.0%	43.1%	44.1%	43.0%
- Non-participating	14.2%	15.0%	19.8%	25.3%	24.0%	24.4%
- ULIPs	28.5%	31.5%	31.2%	31.6%	31.9%	32.6%

Note: EPS and EV per share adjusted for MFS stake in MAXLIFE

Financials and valuations

Balance Sheet (INR m)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Sources of Fund						
Share Capital	19,188	19,188	19,188	19,943	19,943	19,943
Reserves And Surplus	7,702	8,478	6,806	8,446	6,920	5,785
Shareholders' Fund	26,989	27,609	25,739	28,106	26,548	25,379
Policy Liabilities	3,10,137	3,81,436	4,54,807	5,79,978	6,34,771	6,94,233
Prov. for Linked Liab.	1,63,050	1,86,738	1,74,210	1,95,666	2,48,564	3,14,376
Funds For Future App.	18,655	22,498	30,962	4,926	5,076	6,198
Current liabilities and prov.	17,841	23,398	20,276	23,318	25,649	28,214
Total	5,49,628	6,59,270	7,17,724	8,47,452	9,60,819	10,94,646
Application of Funds						
Shareholders' inv.	32,146	35,187	32,581	43,985	59,379	80,162
Policyholders' inv.	3,19,238	3,94,173	4,60,484	5,64,469	6,44,180	7,36,148
Assets to cover linked liab.	1,70,981	1,98,619	1,91,642	2,01,224	2,13,297	2,26,095
Loans	2,233	3,265	4,264	6,525	9,983	15,274
Total	5,49,628	6,59,270	7,17,724	8,47,452	9,60,819	10,94,646
Operating ratios (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Investment yield	8.3%	9.0%	3.4%	5.8%	6.6%	6.4%
Commissions / GWP	7.1%	6.8%	6.3%	6.6%	6.6%	6.6%
- first year premiums	20.2%	18.1%	17.2%	19.5%	19.1%	18.5%
- renewal premiums	3.0%	2.7%	2.6%	2.6%	2.6%	2.6%
- single premiums	0.1%	1.2%	1.1%	1.0%	1.0%	1.0%
Operating expenses/GWP	12.9%	13.2%	14.5%	14.2%	14.1%	14.1%
Total expense ratio	20.0%	20.0%	20.8%	20.8%	20.7%	20.7%
Claims/NWP	39.9%	39.6%	41.4%	38.8%	40.8%	41.5%
Solvency ratio	275%	242%	207%	209%	197%	192%
Persistency ratios (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
13th Month	80.0%	83.0%	83.0%	84.0%	85.0%	86.0%
25th Month	72.0%	71.0%	71.0%	71.0%	73.0%	74.0%
37th Month	62.0%	64.0%	63.0%	63.0%	63.5%	64.0%
49th Month	57.0%	58.0%	59.0%	58.0%	59.0%	59.5%
61st Month	53.0%	53.0%	52.0%	54.0%	54.5%	55.0%
Profitability ratios (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
New business margin (%)	20.2%	21.7%	21.6%	25.2%	26.4%	26.8%
RoE (%)	20.3%	20.4%	20.2%	19.6%	25.9%	30.9%
Operating RoEV	20.6%	21.9%	20.3%	18.5%	21.0%	22.3%
RoEV (%)	13.9%	19.0%	11.6%	18.6%	18.6%	20.1%
Valuation ratios	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total AUMs (INR b)	522	628	685	904	1,066	1,246
EPS (INR)	14.3	15.0	14.5	12.2	16.4	18.6
Value of new business (INR b)	6.6	8.6	9.0	12.5	15.8	19.9
Embedded Value (INR b)	75.1	89.4	99.8	118.3	140.4	168.5
EV Per share (INR)	157.8	187.9	209.7	274.5	325.5	390.8
P/EV (x)	8.0	6.8	6.0	4.6	3.9	3.2
P/EPS (x)	88.5	84.7	87.4	103.9	77.4	68.2
P/EVOP (x)	40.2	33.2	30.2	29.5	22.0	17.5
P/VNB (x)				43.8	34.7	27.5

Note: Valuation ratios adjusted for MFS stake (80%) and holding company discount of 20%

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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