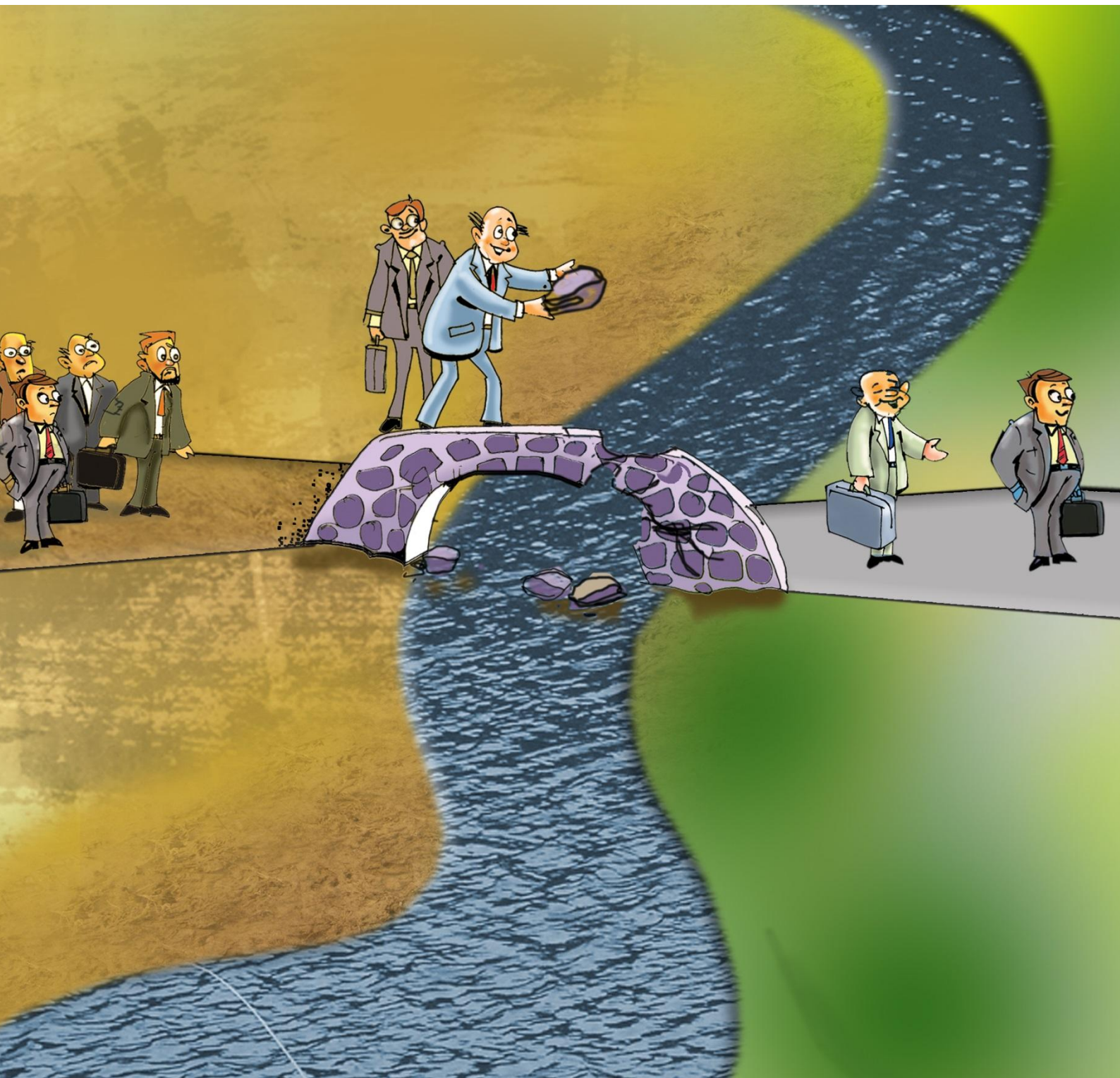


# MAX Financial Services



## Bridging the gaps!

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

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

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# MAX Financial Services

BSE SENSEX  
48,348

S&P CNX  
14,239

CMP: INR696

TP: INR830 (+19%)

BUY



Bloomberg	MAXF IN
Equity Shares (m)	345
M.Cap.(INRb)/(USDb)	240.1 / 3.3
52-Week Range (INR)	752 / 280
1, 6, 12 Rel. Per (%)	-1/-3/16
12M Avg Val (INR M)	1187
Free float (%)	82.7

## Financial snapshot (INR b)

Y/E MARCH	FY20	FY21E	FY22E
Net Premiums	161.8	180.0	201.9
Surplus / Deficit	12.9	6.1	6.8
Sh.PAT	5.4	5.3	6.2
NBP gr - unwt'd (%)	8.2	12.0	15.0
NBP gr - APE (%)	5.9	10.4	14.7
Premium gr (%)	11.0	11.3	12.2
VNB margin (%)	21.6	23.2	23.3
Op. RoEV (%)	20.3	19.9	19.6
Total AUMs (INRb)	684.7	809.7	916.9
VNB(INRb)	9.0	10.8	12.5
EV per Share	209.7	270.6	317.1

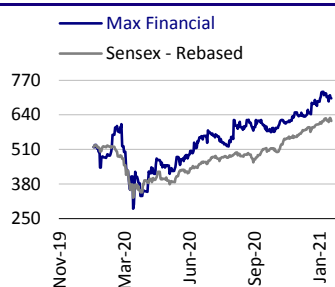
Valuations			
P/EV (x)	4.1	3.2	2.7
P/EVOP (x)	20.7	18.9	16.4

## Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	17.3	22.3	28.3
DII	50.9	30.4	31.5
FII	19.7	32.4	27.7
Others	12.2	14.9	12.5

FII Includes depository receipts

## Stock Performance (1-year)



## Bridging the gaps!

### Robust distribution; AXSB deal to further cement sector positioning

- MAX Life Insurance (MAXLIFE) has demonstrated resilient performance amid a difficult macro environment, delivering 10% YTD growth in new business APE v/s a 3% decline for private peers, led by a shift in product mix towards Protection and Non-PAR segments.
- The management has increased its focus on the Protection and Non-PAR segments, with their share increasing to ~31% in FY20 from ~16% in FY17. Both these segments would continue to deliver better than industry trends.
- It has made significant investments towards growing its own distribution network – branch/employee count has increased by ~190/~5,600 over FY17-20. Market share in Individual APE has risen to 6.2% in FY21 YTD from 3.7% in FY14.
- MAXLIFE has one of the most productive agency channels, with agent productivity improved to INR250k in FY20 (vs INR150k in FY17). The proprietary channel accounted for 32% to total APE. The deal with Axis Bank (AXSB) would create a strategic partnership and increase visibility for long-term business growth via higher cross-sell opportunities. The proposal has received RBI's approval and is now awaiting IRDAI's clearance.
- The stock has delivered a 35% return over the past one-year. Given its strong business performance and likely partnership with AXSB, we expect the re-rating to continue in the stock. We overall expect growth in new business premium (NBP) to sustain at 15% CAGR over FY20-23E, while VNB margin remains steady ~23.5%. This would enable 18% VNB CAGR over FY20-23E, while operating RoEV sustains ~20%. The stock currently trades at 2.3x FY23EV and ~14x FY23 EVOP. We initiate coverage on the stock with a BUY rating and TP of INR830 (2.8x FY23E EV).

### Growth momentum strong; market share increases 140bp over FY16-21 YTD

MAXLIFE has delivered a resilient performance amid a difficult macro environment, reporting industry leading 10% FY21YTD growth in Individual APE v/s an 8% decline for the industry. This was mainly led by a shift in the product mix towards Protection and Non-PAR segments, which are witnessing healthy demand in the current environment. Strong push via the bancassurance channel has supported premium recovery as the channel's share in total new business APE increased to 67% during 1HFY21. The company reported 18% CAGR in new business APE over FY16-20 and its market share in Individual APE among private insurers has improved to ~6.2% in FY21 YTD v/s 4.8% in FY16.

### Strategic focus on growing proprietary channels

The management has been making significant investments in growing its proprietary channels – branch/employee count has increased by ~190/~5,600 over FY17-20 – which enabled it to steadily gain market share. It has one of the most productive agency channels, with agent productivity improved to INR250k in FY20 (vs INR150k in FY17). The proprietary channel accounted for 32% to total APE. Improving agency channel productivity remains a key focus area for the management.

**AXSB-MFS deal to provide visibility on long-term growth**

AXSB and MAX Financial Services (MFS) have decided to enter into a long-term strategic partnership. AXSB, as per feedback from RBI, has proposed to acquire 9% stake directly and an additional 3% stake through its subsidiaries (with the option to invest another 7% stake in the future). This is a crucial partnership for MFS and increases long-term growth visibility/cross-sell opportunity for MAXLIFE. After this transaction, the company will be 80:20 joint venture between MFS and AXSB. The proposal is awaiting IRDAI approval and remains a key overhang on the deal.

**VNB margin remains steady while operating RoEV sustains ~20%**

In the past, the VNB margin for MAXLIFE grew at a slower rate due to high cost overruns as the focus was on improving the distribution channel, adding employees, etc. The distribution mix has started reflecting productivity gains, while the management's increased focus towards high margin Non-PAR Savings/Protection products has enabled healthy expansion in VNB margin. During FY20, both these segments contributed ~70% of VNB. We expect VNB margin to remain steady ~23.5%. This would enable 18% VNB CAGR over FY20-23E, while operating RoEV sustains ~20%.

**Initiate coverage with a Buy rating and TP of INR830/share**

MAXLIFE reported strong VNB growth (22% CAGR over FY17-20), with a 16% growth in APE. VNB margin improved to 21.6% (v/s~19% in FY17). With increasing focus towards high margin products and productivity improvements from the distribution mix, we estimate VNB to grow at 18% CAGR over FY20-23E. We estimate an operating RoEV of ~20% for FY23E, with embedded value (EV) reflecting 17% CAGR over FY20-23E. The stock currently trades at 2.3x FY23EV and ~14x FY23 EVOP. We expect the stock to continue to re-rate if the AXSB-MAXLIFE deal goes through and both entities forge a long term strategic partnership. We initiate coverage on the stock with a BUY rating and TP of INR830 (2.8x FY23E EV).

**Exhibit 1: Valuation summary of Life Insurance companies**

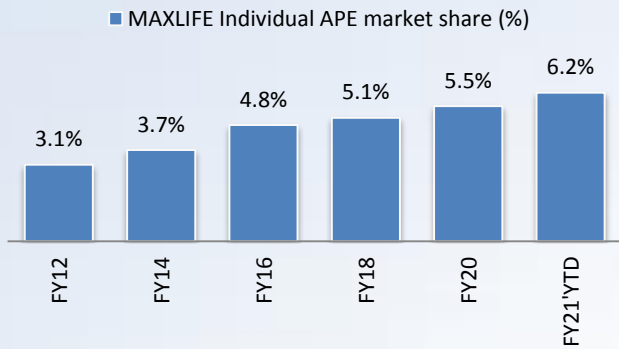
Val summary	Rating	Mkt. Cap	CMP	TP	Upside	EVOP (INRb)		EV per share (INR)		VNB Margin (%)		Op. RoEV (%)		P/EVOP (x)		P/EV (x)	
						FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Life Insurance</b>																	
HDFCLIFE	Neutral	1,374	680	650	-4	45.9	54.3	146	171	26.2	26.4	18.4	18.5	29.9	25.3	4.7	4.0
IPRULIFE	Buy	721	502	575	15	41.1	47.6	220	252	27.5	28.1	14.9	15.1	17.5	15.1	2.3	2.0
SBILIFE	Buy	863	863	1,050	22	56.5	69.6	363	431	21.1	21.8	18.4	19.2	15.3	12.4	2.4	2.0
MAXF	Buy	240	696	830	19	22.8	26.7	317	373	23.3	23.5	19.6	19.5	16.4	14.1	2.7	2.3

**Note: MFS valuation ratios adjusted for MFS stake (80%) and holdco discount (20%)**

Source: MOFSL, Company

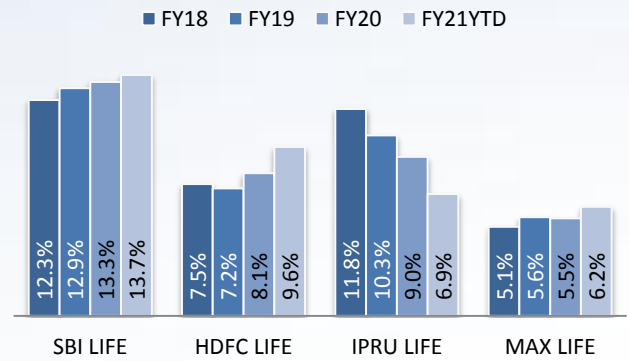
**STORY IN CHARTS**

**Exhibit 1: Individual APE market share trend for MAXLIFE**



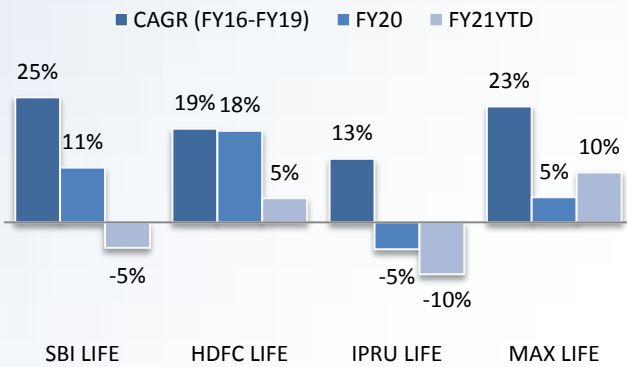
Source: Company, MOFSL

**Exhibit 2: Individual WRP share across major players**



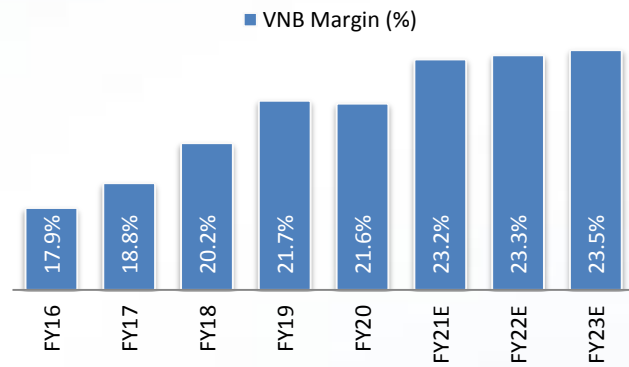
Source: Company, MOFSL

**Exhibit 3: MAXLIFE outpaces peers in APE growth - FY21YTD**



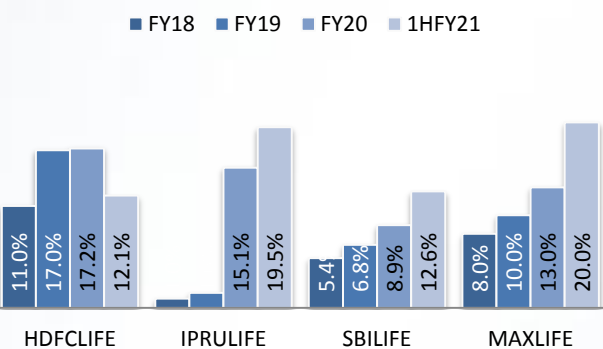
Source: MOFSL, Company

**Exhibit 4: VNB margin to improve to 23.5% by FY23E**



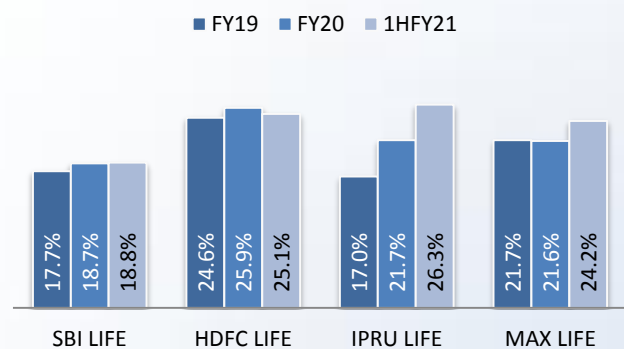
Source: MOFSL, Company

**Exhibit 5: MAXLIFE has the highest proportion of Protection mix in total APE as on 1HFY21**



Source: Company, MOFSL

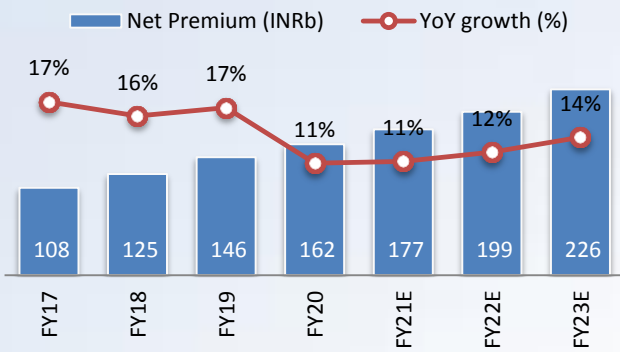
**Exhibit 6: VNB margins for MAXLIFE and IRPULIFE expands sharply over 1HFY21**



Source: Company, MOFSL

**STORY IN CHARTS**

**Exhibit 7: Premium to grow at 12% CAGR over FY20-23E**



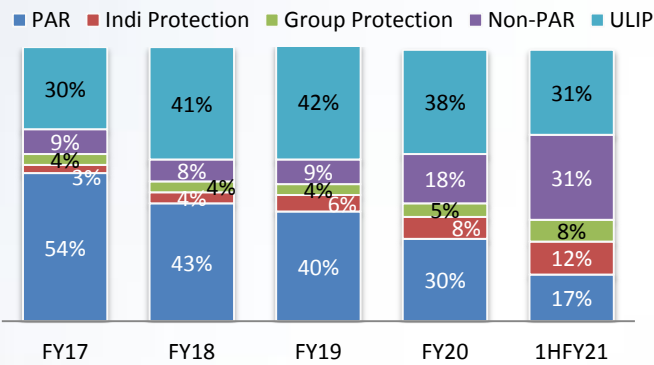
Source: Company, MOFSL

**Exhibit 8: Value MAXLIFE at INR830 per share**

Appraisal value method (INR b)	FY23E
Embedded value	161
New business profit	14.9
<b>Appraisal value</b>	<b>447</b>
MFS stake Post deal arrangement	80%
<b>MFS Valuation per share, INR</b>	<b>1,040</b>
Appraisal value/embedded value (x)	2.8
Holdco discount	20%
<b>Target Price, INR</b>	<b>830</b>
<b>Implied multiples -</b>	
- VNB multiple (x)	19.3
-EVOP multiple (x)	17.0
<b>Upside</b>	<b>19%</b>

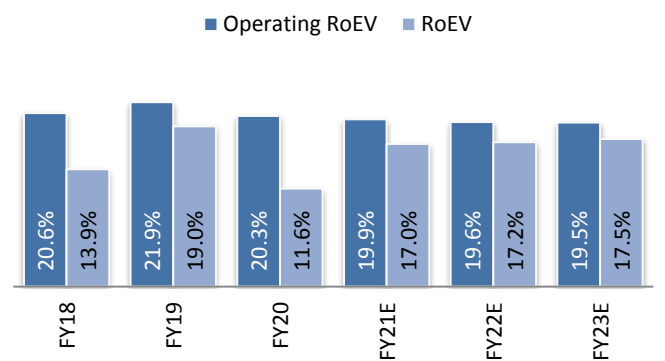
Source: Company, MOFSL

**Exhibit 9: MAXLIFE business mix composition based on APE**



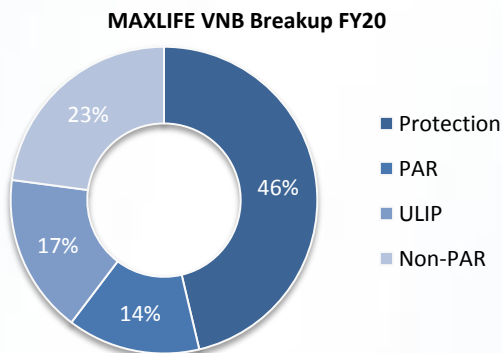
Source: Company, MOFSL

**Exhibit 10: Operating RoEV to remain steady at ~20%**



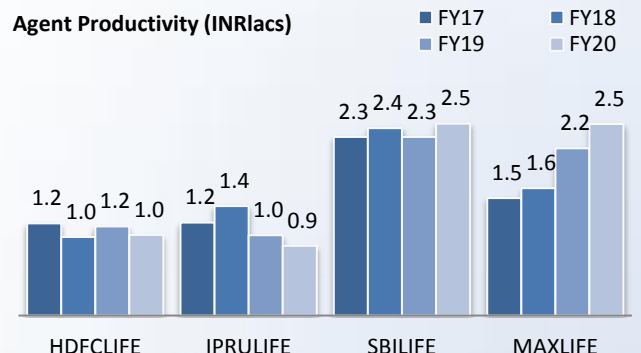
Source: Company, MOFSL

**Exhibit 11: Protection and Non-PAR contributes ~70% to total FY20 VNB**



Source: Company, MOFSL estimates

**Exhibit 12: MAXLIFE has one of the best agent productivity in the industry**



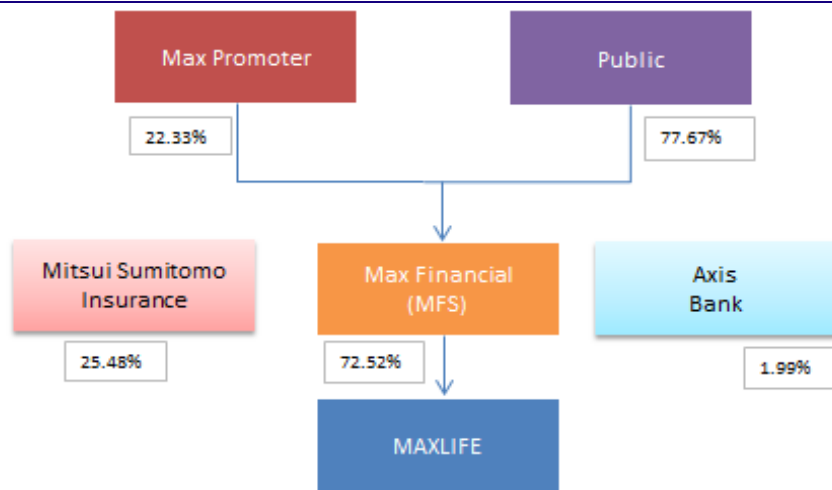
Source: Company, MOFSL

## AXSB deal cements MAXLIFE’s positioning in LI industry

MAXLIFE is a JV between MFS and Mitsui Sumitomo Insurance and the company is the largest non-bank private sector life insurer in India. MFS is a holding company owning 72.5% stake in MAXLIFE with no other operating business. AXSB is the biggest bancassurance partner as it contributed 57% of total APE during FY20.

AXSB and MFS have announced plans to enter into a long term strategic partnership. Based on the feedback from the RBI, AXSB has proposed to acquire 9% stake directly and an additional 3% stake through its subsidiaries (Axis Capital and Axis Securities), with the option to invest an additional 7% stake through its subsidiaries in the future. After this transaction, MAXLIFE would be an 80:20 JV between MFS and AXSB. The proposal has got the RBI and CCI clearance and the approval from IRDAI is keenly watched as that would cement this deal and strengthen MAXLIFE positioning in a space which is heavily dominated by bank led insurers.

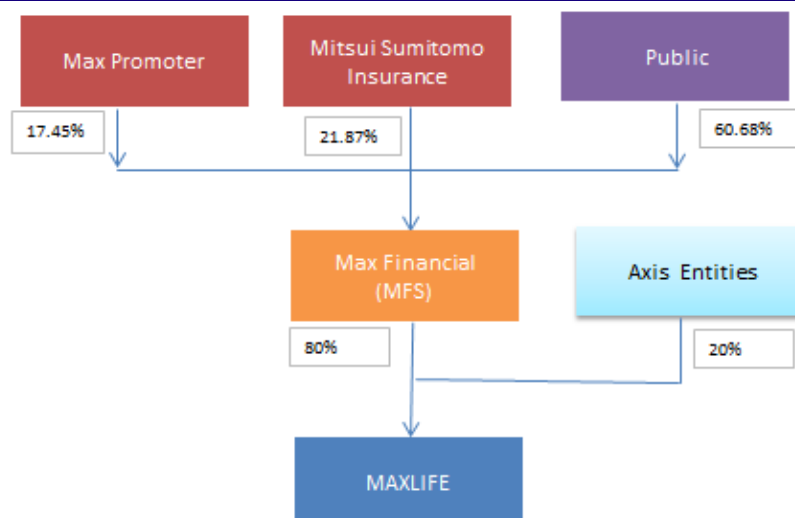
**Exhibit 13: Current shareholding structure of MAXLIFE**



Source: MOFSL, Company

AXSB proposes to acquire up to 9% stake directly and up to 3% stake through its subsidiaries. It will have the option to invest an additional 7% stake only through subsidiaries in the future

**Exhibit 14: Final structure post completion of the deal**



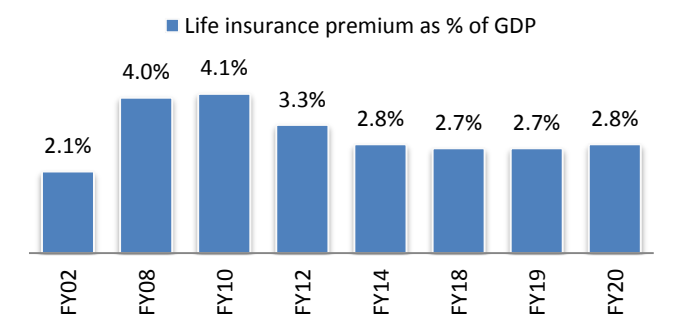
Source: Company, MOFSL

## Life Insurance industry grew at 18% CAGR over FY15-20

**Outlook robust; Product innovation and operating metrics are key value drivers**

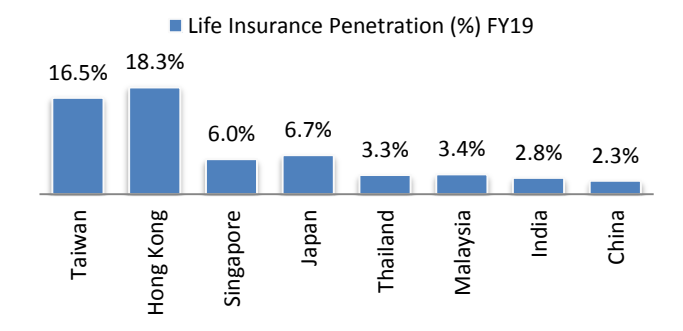
- New Business Premium for India’s Life Insurance industry has grown at a healthy rate (18% CAGR) over FY15-20, within which the top seven private players have reported faster growth (21% CAGR). The long-term growth drivers for the industry continue to strengthen as risk awareness increases, while improving innovation and product evolution help fulfill growing customer requirements.
- India’s insurance density and penetration remain low as compared to other countries. On sum assured-to-GDP, the nation lags significantly behind other regions. Supportive demographic trends, rising disposable incomes, and growing need to insure oneself would continue to drive healthy premium growth over the next few years. The recent growth in term and annuity business indicates that customers have begun to see **insurance as a life cover rather than a savings product**.
- Currently, Savings-related products dominate the Indian Insurance market, while the total Protection market is just INR200b (~4% of GWP). **We believe that Protection would play an important role in improving the product mix across insurers over the next decade**, while Non-PAR fixed guaranteed business would provide healthy growth opportunities in the near term.
- Private insurers over the last few years are gaining market share in individual APE and their market share has improved to 57% in FY20 from 35% in FY14. The market share of the top four private insurers has improved to 36% in FY20 from 20% in FY14. MAXLIFE currently has a 6.2% market share in total individual APE, a 240bp gain over the past six years.

**Exhibit 15: Life insurance premium as a percentage of India’s GDP**



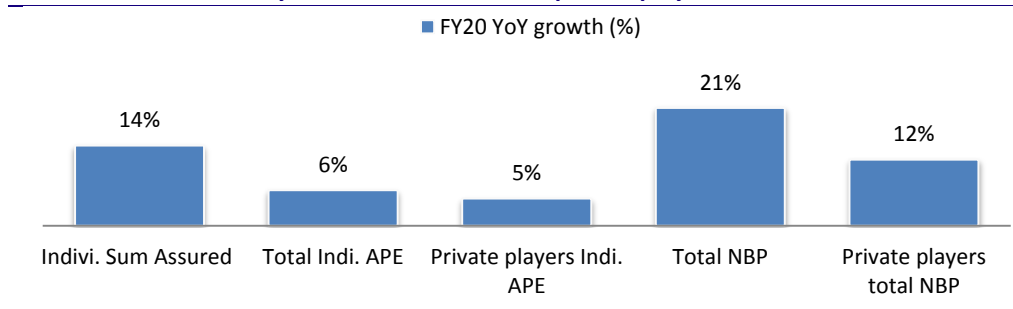
Source: Company, MOFSL

**Exhibit 16: Life insurance penetration across countries**



Source: Company, MOFSL

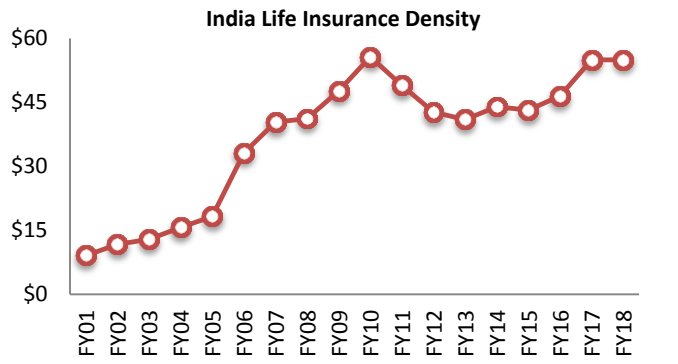
**Exhibit 17: Growth in key business trends for the private players**



Source: MOFSL, Life Insurance Council

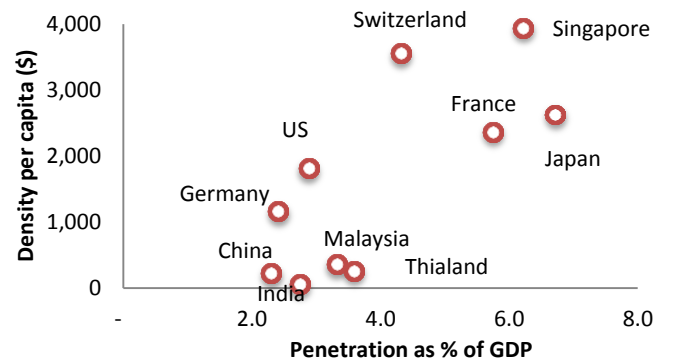


**Exhibit 18: India's Life Insurance density over the years**



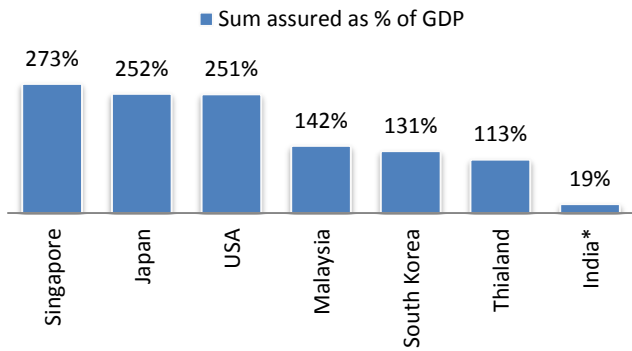
Source: IRDA, MOFSL

**Exhibit 19: Life Insurance density and penetration across countries**



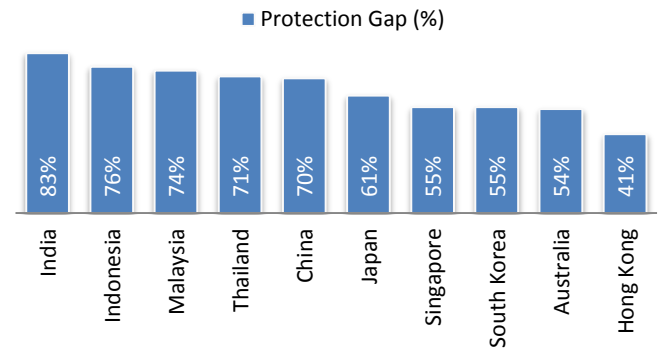
Source: IRDA, MOFSL

**Exhibit 20: Sum assured trend across countries**



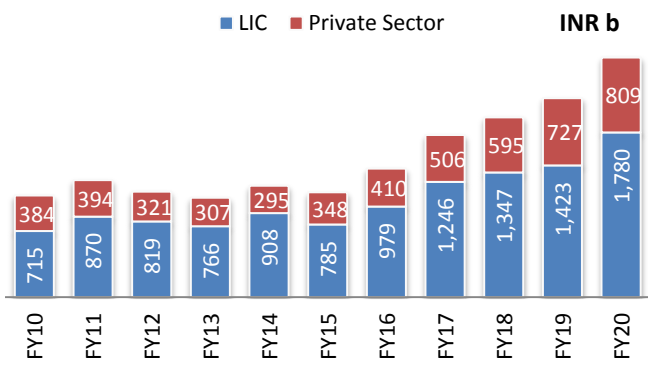
Source: McKinsey estimates; \*For retail Protection sum assured (company estimates)

**Exhibit 21: Protection gap in India remains high**



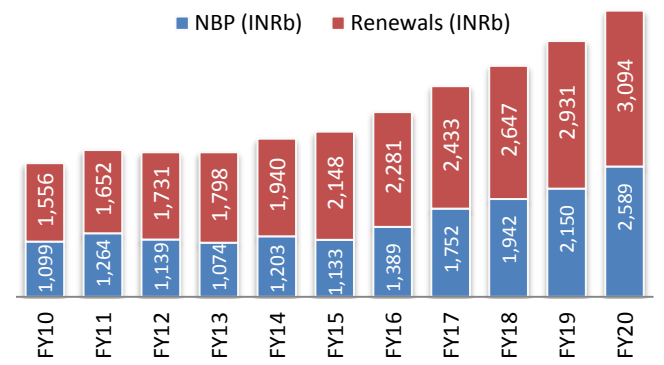
Source: Swiss Re; Data as on FY19

**Exhibit 22: Industry NBP grew at 18% CAGR over FY15-20...**



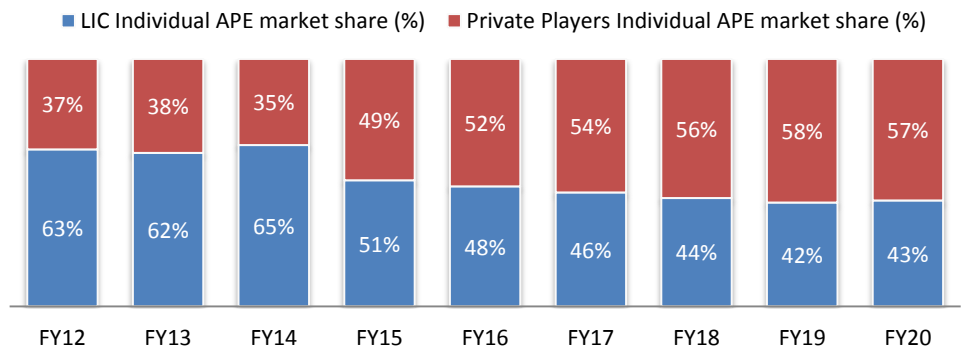
Source: IRDA, MOFSL

**Exhibit 23: ...while total premium grew at 12% CAGR**



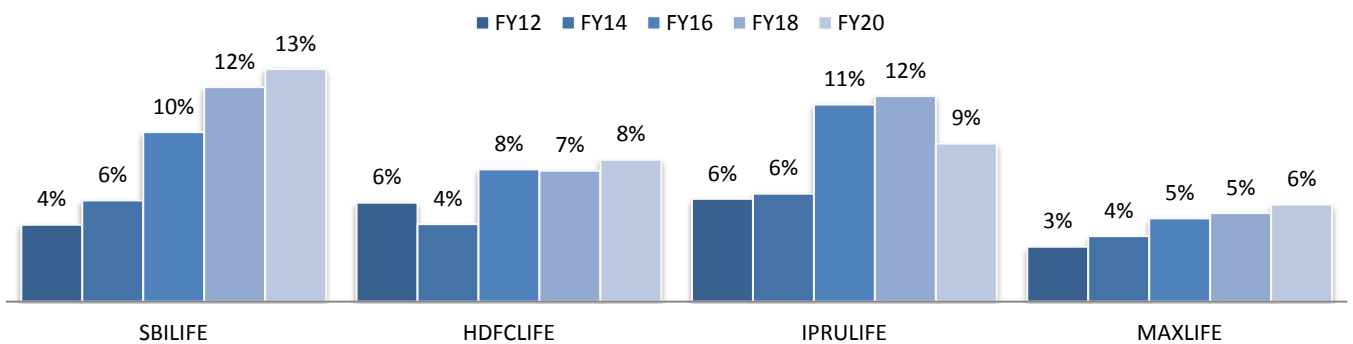
Source: IRDA, MOFSL

**Exhibit 24: Private players gain market share based on individual APE**



Source: IRDA, MOFSL

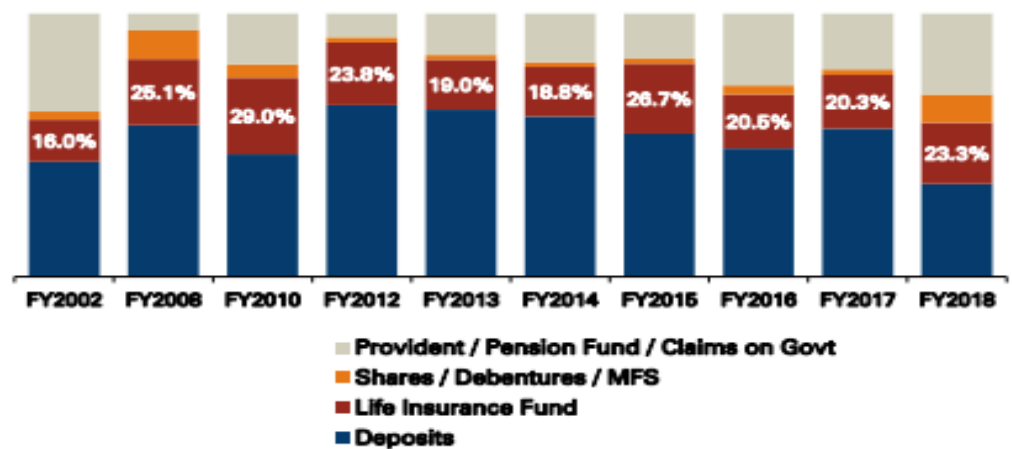
**Exhibit 25: Individual APE market share trends since FY12**



Source: IRDA, MOFSL

- Insurance has been the preferred mode of savings as it accounts for 23% share of total financial savings, excluding currency. Over the past five years, the share of life insurance in total financial savings has improved to 23.3% from 18.8%, aided by strong market performance, rising customer awareness, and continued tax benefits.

**Exhibit 26: 23% of financial savings (excluding currency) are through Life Insurance**



Source: RBI, IPRU

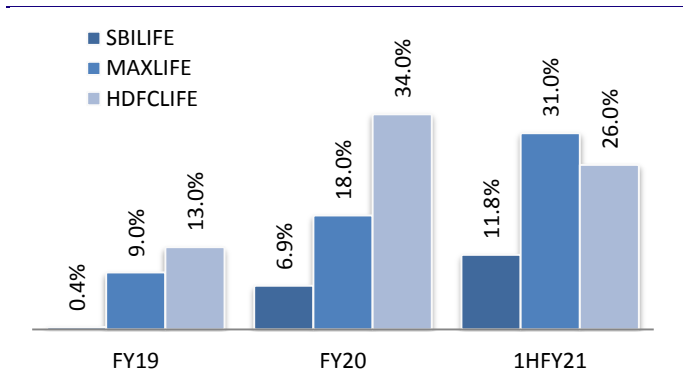
## Product mix improving across insurers led by rising Non-PAR mix

The Life Insurance sector is seeing a structural shift in the product mix toward high margin products (Retail/Group Protection and Non-PAR products) as insurers capitalize on large untapped income pools. Indian life insurers have adapted well to the growing Protection/Annuity needs of customers, and have accordingly redesigned product structures, pricing, and distribution incentives.

The IRR offered on Non-PAR products are attractive for investors in a declining interest rate environment. Currently, IRR offered by insurers is in the 4.5-5.75% range, in line with prevailing term deposit rates offered by various banks. However, tax free returns on these investment products make it an attractive value proposition for customers.

Scaling up of the Non-PAR segment requires effective interest rate hedging, which is difficult given the limited options to hedge interest rate risk. The products are hedged either using: a) forward rate agreements; b) partly paid bonds, and c) matching cash flows. Private players have also been focusing on the Non-PAR segment as: a) it is a high margin product compared to PAR/ULIPs, and b) there is strong demand for retirement and guaranteed return products given the high volatility in the equity market.

Exhibit 27: Non-PAR APE mix across insurers



Source: MOFSL, Company

Exhibit 28: Impact of interest rate changes on the EV and VNB margin of HDFCLIFE’s Non-Par products

EV and VNB Sensitivity	Overall (FY20)		Non par (FY20) <sup>1</sup>	
	EV	VNB Margin	EV	VNB Margin
Interest Rate +1%	(1.2%)	(0.7%)	(1.3%)	(2.0%)
Interest Rate -1%	0.6%	0.2%	0.0%	1.7%

Source: MOFSL, Company

### Protection growth remains robust though may moderate over 1HFY21

- Consistent decline in mortality charges, increasing risk awareness, and deep under-penetration has turned the Protection segment into an attractive opportunity for insurers. The COVID-19 pandemic has changed mindsets in terms of the importance of life insurance as a risk cover rather than a savings-linked investment product.
- 1HFY21 saw strong Protection trends aided by the fear psychosis, induced by the COVID-19 pandemic and front-loading of Protection policies before the expected re-insurance price increase. While growth trends in 2H may moderate over the strong 1HFY21, we expect demand for Protection to remain robust given the huge under-penetration and strong demographic factors.

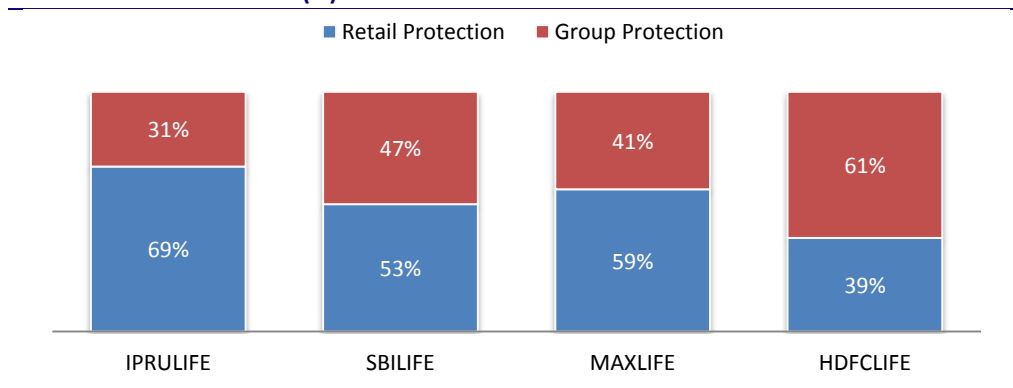
- Among listed insurers, HDFCLIFE and SBILIFE have a higher share of Protection business coming in from Credit Life, while IPRU and MAXLIFE have a higher focus towards the retail Protection business.
- We expect the Credit Protection business to bounce back in 2HFY21 as retail loan growth, particularly auto and home loans, has improved, supported by a pickup in economic activity and benign interest rates. Most bank managements indicated that home loan disbursements have reached pre-COVID levels.
- MAXLIFE has guided at continuously growing its Protection portfolio, which would keep margins buoyant. We expect this segment to deliver robust growth due to: a) rising urban population with improving income levels, b) high Protection gap, and c) the product being simple to purchase through digital channels.

**Exhibit 29: APE split between Individual and Group Protection across major insurers**

APE Mix	SBILIFE			HDFCLIFE			IPRULIFE			MAXLIFE		
	FY19	FY20	1HFY21	FY19	FY20	1HFY21	FY19	FY20	1HFY21	FY19	FY20	1HFY21
<b>Total APE (INR b)</b>	<b>96.9</b>	<b>107.5</b>	<b>39.8</b>	<b>62.6</b>	<b>74.1</b>	<b>33.3</b>	<b>78.0</b>	<b>73.8</b>	<b>22.9%</b>	<b>39.5</b>	<b>41.5</b>	<b>18.2</b>
Individual Protection	3.8%	4.7%	6.5%	6.7%	7.6%	9.0%	5.6%	10.4%	NA	5.7%	8.0%	12.0%
Group Protection	3.0%	4.2%	6.0%	10.3%	9.6%	3.0%	3.7%	4.7%	NA	4.5%	5.0%	8.0%
<b>Total Protection</b>	<b>6.8%</b>	<b>8.9%</b>	<b>12.6%</b>	<b>17.0%</b>	<b>17.2%</b>	<b>12.0%</b>	<b>9.3%</b>	<b>15.1%</b>	<b>19.5%</b>	<b>10.2%</b>	<b>13.0%</b>	<b>20.0%</b>

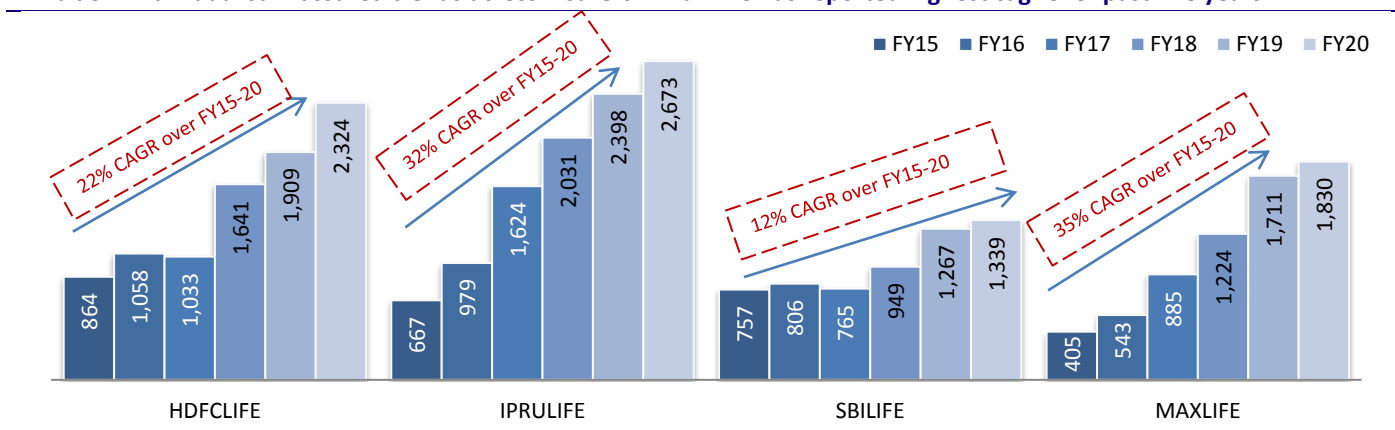
Source: Company, MOFSL

**Exhibit 30: Protection mix (%) across insurers**



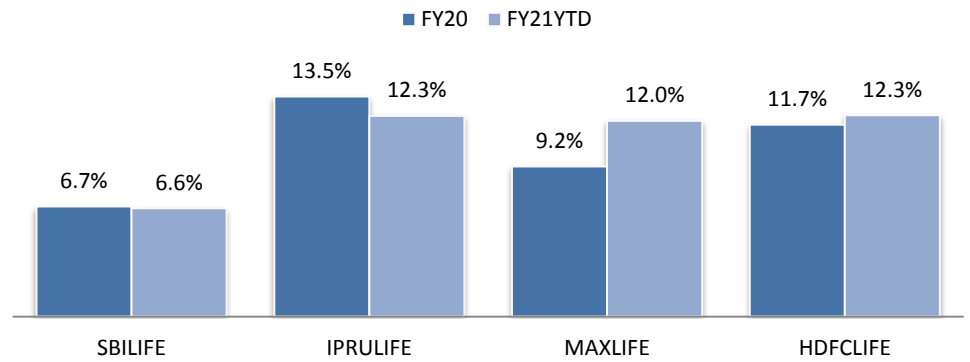
Source: MOFSL, Company

**Exhibit 31: Individual sum assured trends across insurers – Max Life has reported highest cagr over past five years**



Source: MOFSL, Company

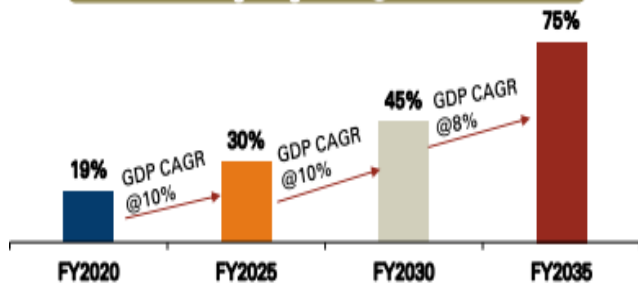
**Exhibit 32: Individual sum assured market share trends: MAXLIFE posts highest market share gains over FY21YTD**



Source: MOFSL, Company

**Exhibit 33: Opportunity: Sum assured as a percentage of GDP**

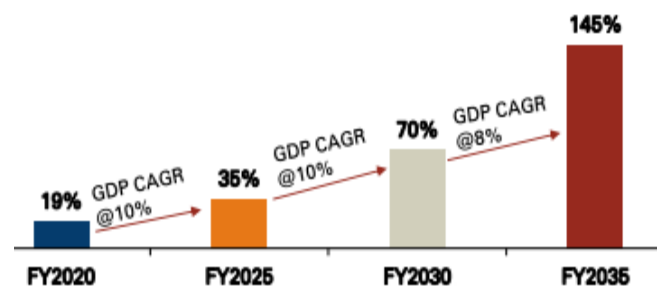
Sum Assured (SA) as a % of GDP:  
Assuming SA growth @ 20% CAGR



Source: MOFSL, IPRU

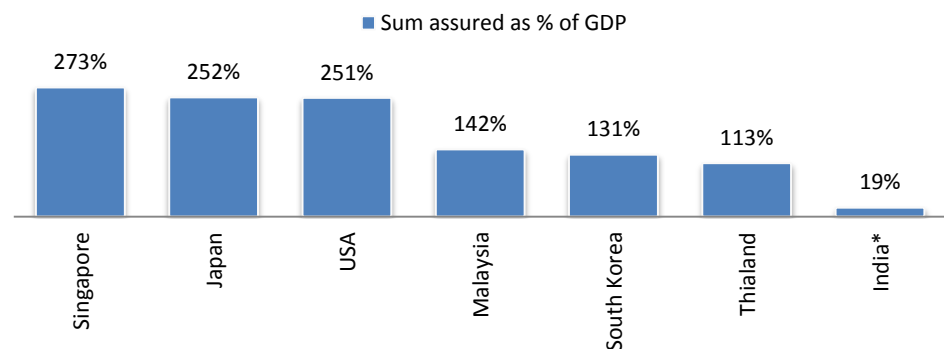
**Exhibit 34: Opportunity: Sum assured as a percentage of GDP**

Sum Assured (SA) as a % of GDP:  
Assuming SA growth @ 25% CAGR



Source: MOFSL, IPRU

**Exhibit 35: Sum assured to GDP trends across industries**



Source: McKinsey estimates; \*For retail Protection sum assured (company estimates)

## Business growth revives gradually post COVID-19 shock

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### Resilient operating metrics, improving business mix key positives

The Life Insurance industry is reporting a gradual normalization in business growth after witnessing a sharp decline during 1HFY21. The shift away from the ULIP business, which put continued pressure on growth for ULIP heavy players, is driving realignment of the business mix. Among private players, MAXLIFE reported a resilient performance as it delivered 10% growth in total APE, followed by HDFCLIFE, which reported 5% growth in FY21 YTD. We expect business growth to remain under pressure over the near term, especially in the Savings business as ULIP demand remains tepid, and expect strong recovery from FY22E onwards. The Protection and Annuity businesses are likely to do well, drive VNB, and support margin expansion.

**Protection to remain key growth and margin driver:** The VNB margin for all listed insurers have improved, aided by shift in product mix towards higher margin Protection and Non-PAR Savings products. As per our estimates, the Protection segment contributes 33% of total VNB for SBILIFE, 44% for HDFCLIFE, 46% for MAXLIFE and 60% for IPRU. We expect margin to remain healthy as continued improvement in product mix and rising mix of digital channels/cost control further improves operating leverage in the business. In the Protection segment, the full margin benefit should reflect 2HFY21 onwards as insurers increased the pricing of term plans to neutralize the impact of a re-insurance hike.

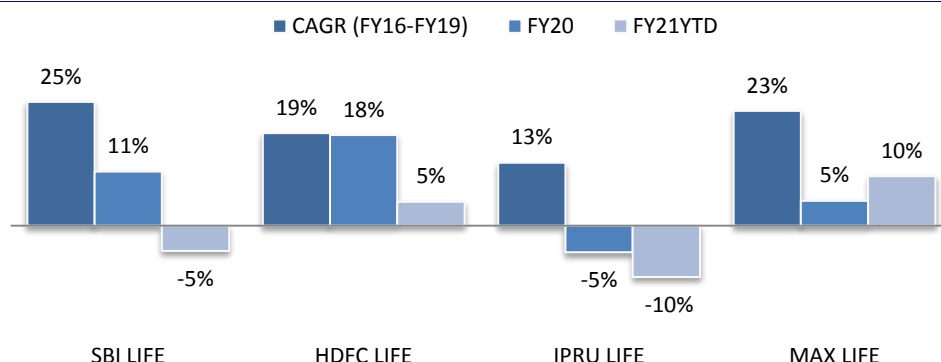
**Focus on increasing cost efficiencies:** While cost ratios have improved in the Savings business, they remain high in the Protection segment. Rising digital penetration should lead to continued investments in technology platforms to improve customer onboarding, client servicing through chat bots, etc. The management near-term focus would be on controlling costs in a low business volume environment. The key focus areas such as controlling discretionary expenses, making cost more variable, and re-negotiating branch rentals would drive improvement. Therefore, cost metrics would be a key monitorable in the near term.

## MAXLIFE: Premium growth aided by better product mix

### Expect to deliver 14% CAGR in new business APE over FY20-23E

- MAXLIFE clocked 18% CAGR in new business APE over FY16-20 even as it maintained one of the most diversified business mix. This was led by its traditionally strong agency channel and bancassurance partnership with AXSB (which contributes 57% of total APE). Within product mix, it has increased focus on the Protection and Non-PAR segment. The share of both has increased to ~31% in FY20 from ~16% in FY17. The Protection/Non-PAR Savings segment grew at 45%/46% CAGR over FY17-20. MAXLIFE has further indicated that both these segments would continue to deliver better than industry trends.
- **MAXLIFE posted ~10% growth in total APE during FY21 YTD v/s a 3% dip for private players. IPRU/SBILIFE posted an APE decline of 10%/5% YoY over the same period.**
- This is mainly led by stronger trends in Non-PAR Savings and Protection business, which is seeing healthy demand in the current environment. Strong push via the bancassurance channel has also supported premium recovery. We expect MAXLIFE to deliver ~14% CAGR in new business APE over FY20-23E.
- **In terms of individual APE trends, MAXLIFE’s market share among private insurers has improved to ~11% in FY21 YTD v/s ~9% in FY18.**

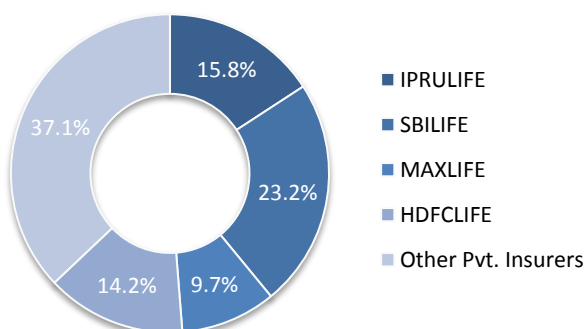
Exhibit 36: Total APE growth trends | MAXLIFE posted 10% growth over FY21 YTD



Source: MOFSL, Company

Exhibit 37: Individual APE market share for private players in FY20 (%)

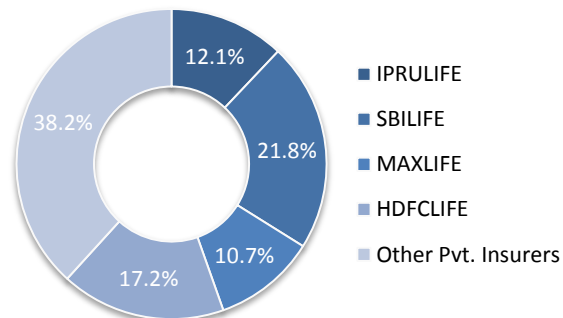
RWRP market share of private players FY20 (%)



Source: LIC Council, IRDAI, MOFSL

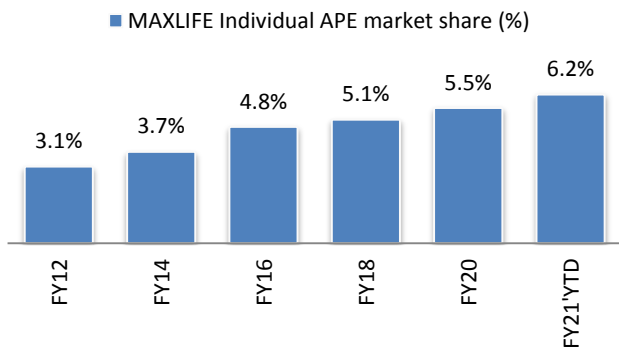
Exhibit 38: MAXLIFE, HDFCLIFE gain market share after the COVID-19 pandemic led by a better product mix

RWRP market share of private players FY21 YTD (%)



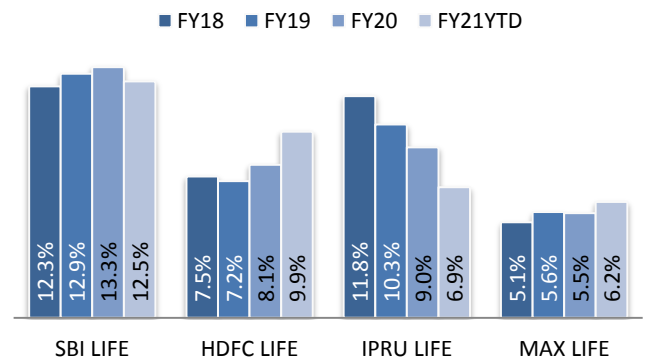
Source: LIC Council, IRDAI, MOFSL

**Exhibit 39: Individual APE market share trends for MAXLIFE**



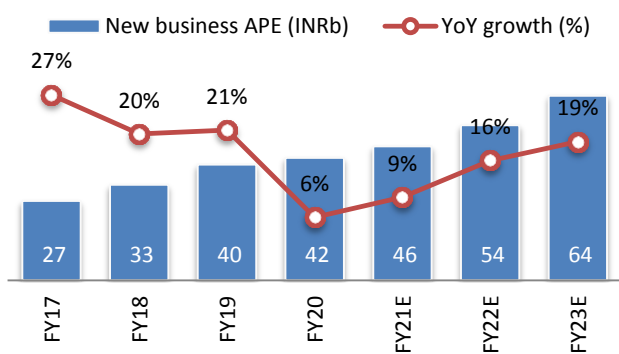
Source: Company, MOFSL

**Exhibit 40: Individual WRP share across major players**



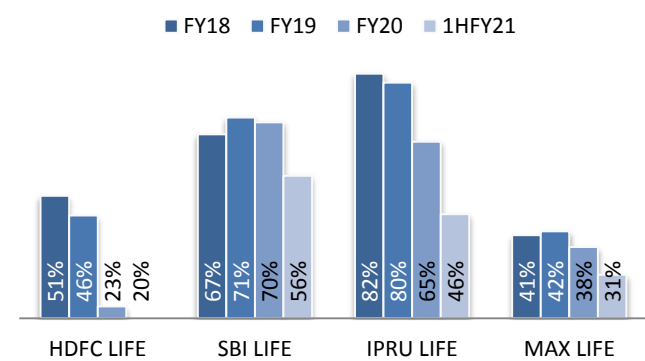
Source: Company, MOFSL

**Exhibit 41: APE to grow at 15% CAGR over FY20-23E**



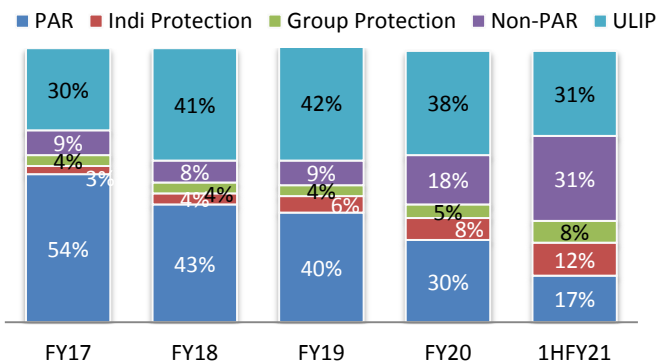
Source: Company, MOFSL

**Exhibit 42: Mix of ULIP (APE) across insurers**



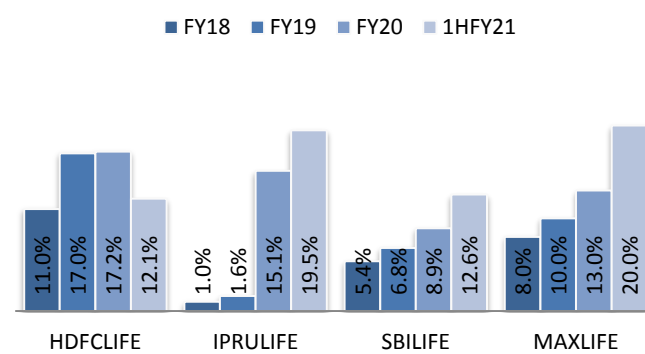
Source: Company, MOFSL

**Exhibit 43: Composition of business mix based on APE**



Source: MOFSL, Company

**Exhibit 44: Protection mix in total APE**



Source: MOFSL, Company

**Exhibit 45: Product mix breakup across segments as of FY20...**

Product mix FY20 (%)	HDFCLIFE	IPRU	SBILIFE	MAXLIFE
PAR	16%	12%	11%	30%
Non-PAR	34%	5%	7%	18%
ULIP	23%	65%	70%	38%
Protection	17%	15%	9%	13%
Annuity	4%			
Group	6%	3%	4%	

Source: MOFSL, Company

**Exhibit 46: ...with MAXLIFE increasing focus on the Protection and Non-PAR segment**

Product mix (%) based on 1HFY21	HDFCLIFE	IPRU	SBILIFE	MAXLIFE
PAR	28%		9%	17%
Non-PAR	26%	28%	12%	31%
ULIP	20%	46%	56%	31%
Protection	12%	20%	13%	20%
Annuity	5%			
Group	9%	6%	11%	

Source: MOFSL, Company



### Rising Protection and Non-PAR mix enables strong VNB growth

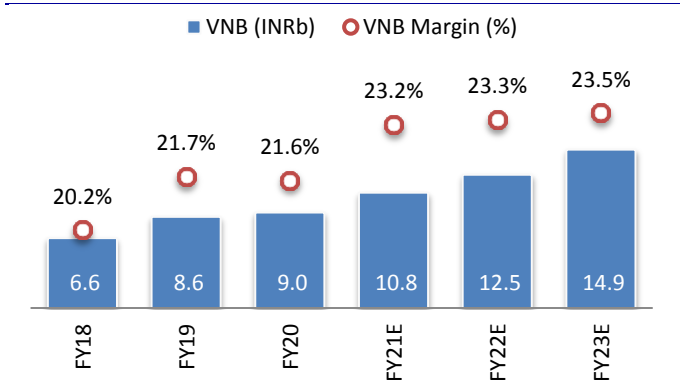
The rising Protection mix has enabled steady VNB growth for most Insurance players in FY20. Absolute VNB for Life Insurance players clocked 22-35% CAGR over FY17-20. MAXLIFE has increased its focus toward Non-PAR Savings and Protection, which constitutes ~31% of total APE as of FY20 (v/s ~16% in FY17). Our analysis suggests that ~70% of absolute VNB for MAXLIFE during FY20 was contributed by the Protection and Non-PAR segment. We expect VNB margin to sustain at ~23.5% by FY23E.

**Exhibit 47: Growth in VNB remains robust**

VNB (INR b)	FY17	FY19	FY20	CAGR FY17-20
HDFCLIFE	9.1	15.4	19.2	28%
IPRU	6.6	13.3	16.0	35%
SBILIFE	10.2	17.2	20.1	25%
MAXLIFE	5.0	8.6	9.0	22%

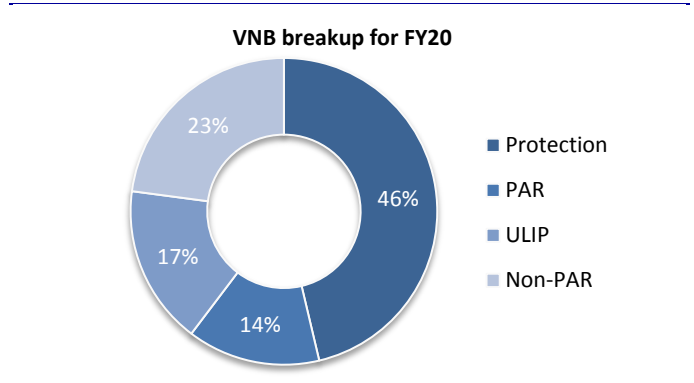
Source: MOFSL, Company

**Exhibit 48: MAXLIFE to deliver 18% VNB CAGR over FY20-23E**



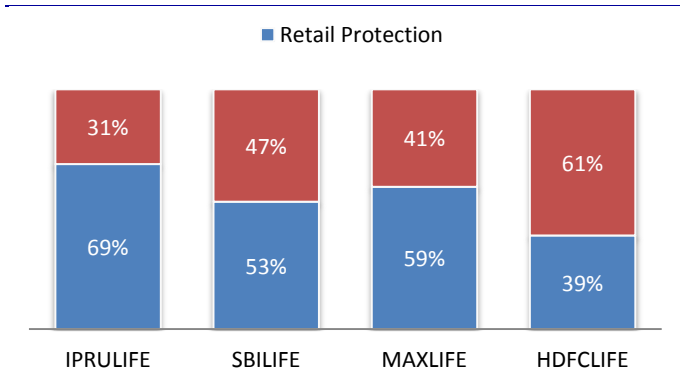
Source: Company, MOFSL

**Exhibit 49: Protection and Non-PAR segment contributes ~70% of total FY20 VNB**



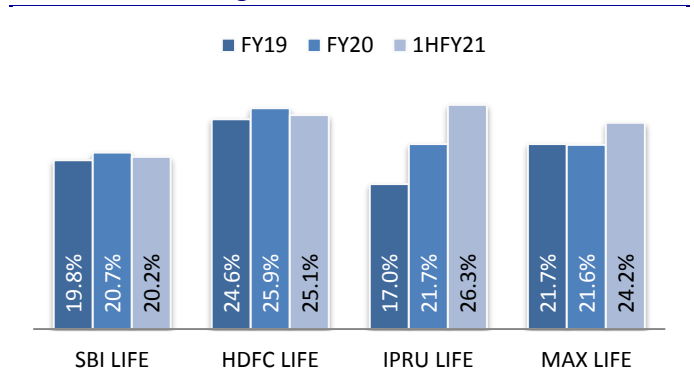
Source: Company, MOFSL

**Exhibit 50: MAXLIFE, IPRU have a higher mix of Retail Protection**



Source: Company, MOFSL

**Exhibit 51: VNB margin trend across insurers**



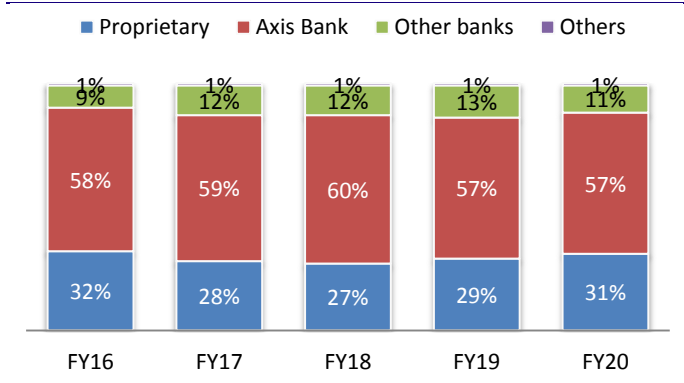
Source: Company, MOFSL

## Robust distribution supports healthy business growth

### Bancassurance channel contributes 67% of total APE

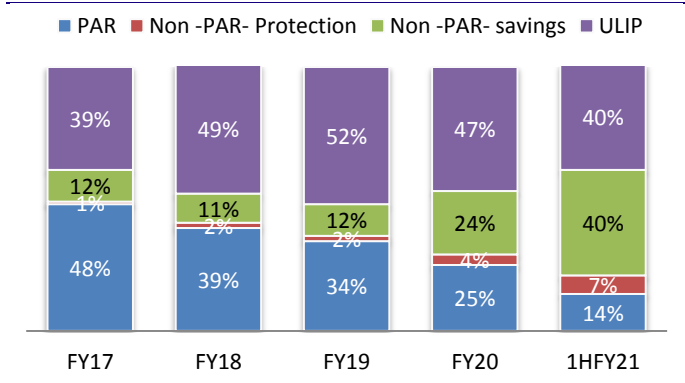
- Life Insurance companies in India are dependent on intermediaries (like banks and agents) for selling their products given their strong reach and customer trust. Bank-led insurers (SBILIFE, IPRU and HDFCLIFE) have ready access to the bank’s large customer base.
- Non-bank led insurers such as MAXLIFE, Tata AIA Insurance, Aditya Birla Sun Life Insurance Company, and Bajaj Allianz have to be dependent on their bancassurance partnership with banks and hence are scaling up their proprietary channels. MAXLIFE has built a long-term partnership with AXSB and recently announced formation of a JV partnership, subject to all regulatory approvals. Tata AIA has also tied up with HDFCB and IIB to sell life insurance policies to its customers.
- AXSB and MAXLIFE have a successful bancassurance arrangement for nearly a decade, with AXSB alone contributing ~57% of the total new business APE. This has enabled MAXLIFE to emerge as a leading Life Insurance company in a space completely dominated by insurers promoted by banks/NBFCs.
- It has also renewed its other bancassurance partnership with YES to further strengthen its bancassurance channel.

**Exhibit 52: AXSB contributes 57% of total APE**



Source: MOFSL, Company

**Exhibit 53: Non-PAR mix rises over the past few years**



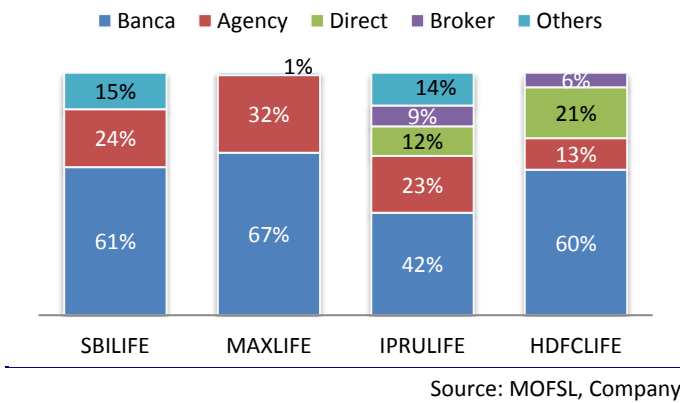
Source: MOFSL, Company

**Exhibit 54: Key bancassurance partners of major life insurers**

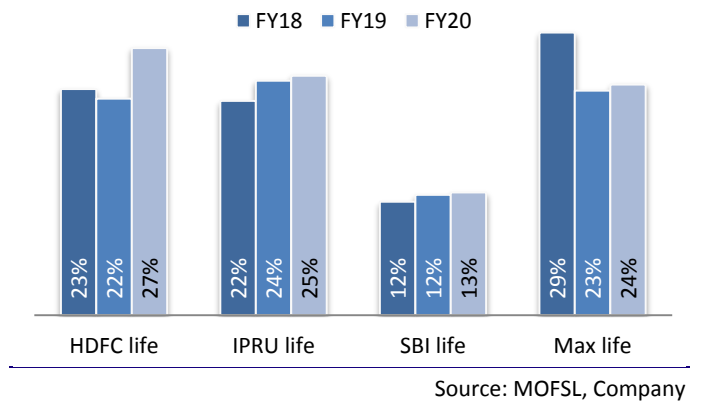
Insurer	Bancassurance partners
IPRU	ICICIBC, IDFCFB, IIB, RBK, AUBANK
HDFCLIFE	HDFCB, RBK, IDFCFB and BANDHAN
SBILIFE	SBI, SIB, PJSB, ALBK, SNDB, and INBK
MAXLIFE	AXSB and YES

Source: Company, MOFSL

**Exhibit 55: Share of distribution mix across key insurers**



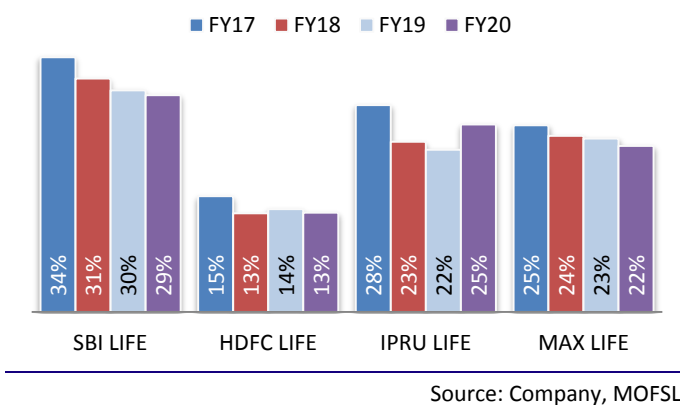
**Exhibit 56: Bancassurance commission rates across insurers**



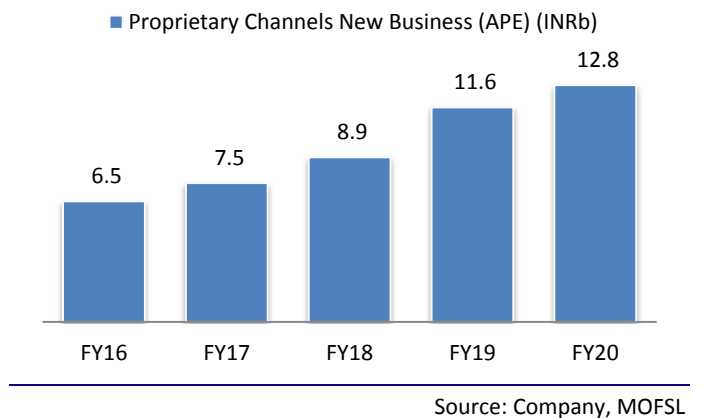
**Agent productivity remains a strategic focus, stands best-in-class**

- Despite several challenges associated with the agency channel (cost, recruitment and training issues), a strong agency network is a must for a Life Insurance company. MAXLIFE has one of the most productive agency channels, which accounted for ~32% of total new business APE.
- While total APE grew at 16% CAGR over FY17-20, the same via proprietary channels grew by 19% CAGR. With a strategic focus on increasing agent productivity, MAXLIFE has entered into a knowledge partnership with former executives of New York Life Insurance Company to share insights and best practices to help MAXLIFE increase efficiency in agency distribution.
- MAXLIFE reported an improvement in individual agent productivity to ~INR250k in FY20 from ~INR150k in FY17, albeit supported by restructuring in agency base. We estimate proprietary channels to further strengthen the company’s distribution mix and enable healthy business growth.

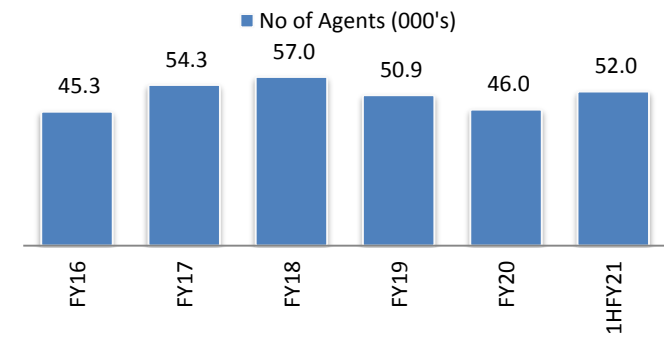
**Exhibit 57: Contribution of agency to Individual premiums**



**Exhibit 58: New business APE from proprietary channels grew at 19% CAGR over FY17-20**

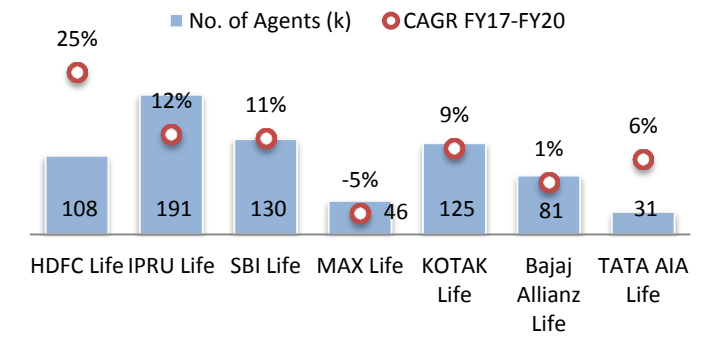


**Exhibit 59: Individual agent's trends over last few years**



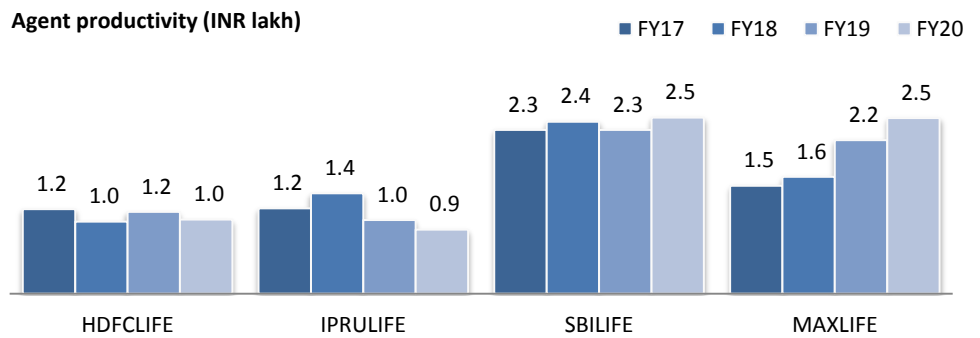
Source: Company, MOFSL

**Exhibit 60: Trend in number of agents across insurers**



Source: Company, MOFSL

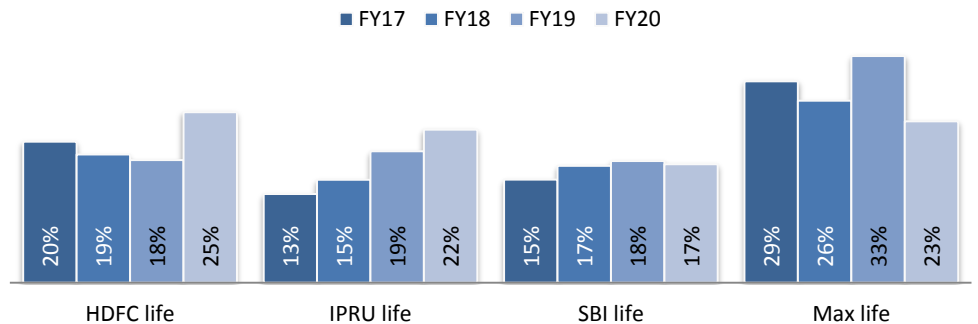
**Exhibit 61: MAXLIFE has one of the highest agent productivity in the industry**



Source: Company, MOFSL

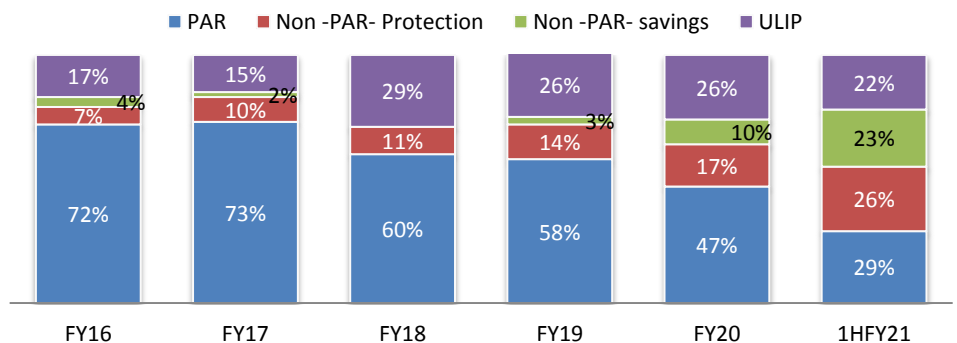
**Exhibit 62: MAXLIFE has a higher agency commission rate v/s peers due to higher mix of traditional business via this channel**

Agency commission rate for MAXLIFE higher v/s peers. It also has a higher agent productivity



Source: MOFSL, Company

**Exhibit 63: Proprietary channel product mix breakup (%)**



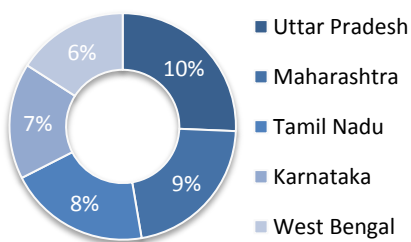
Source: MOFSL, Company

## Geographical diversity remains high

### 50% of individual premium comes from top five states

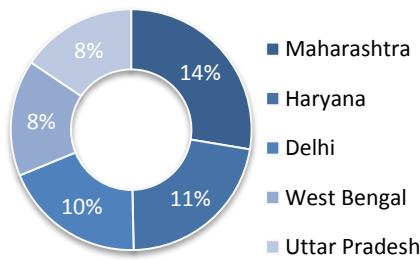
- **Top five states contribute 50% of total individual premiums:** Individual premium contribution from top five states for MAXLIFE is 50%, lower than its peers (barring SBILIFE), which is in the 55-65% range.
- Moreover, the contribution from the top five states has been stable over the past several years.

**Exhibit 64: 40% of SBILIFE's individual premium comes from top five states**



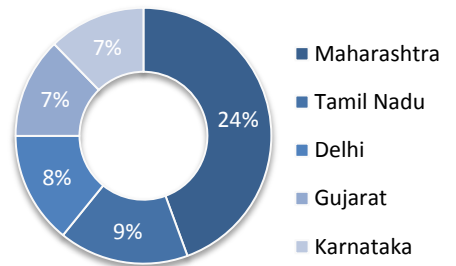
Source: MOFSL, Company

**Exhibit 65: 50% of MAXLIFE's individual premium comes from top five states**



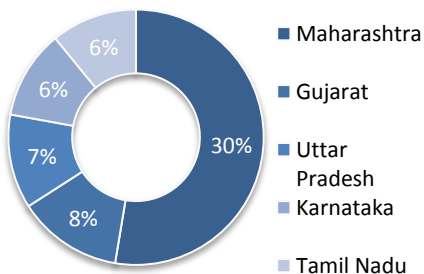
Source: MOFSL, Company

**Exhibit 66: 55% of IPRU's individual premium comes from top five states**



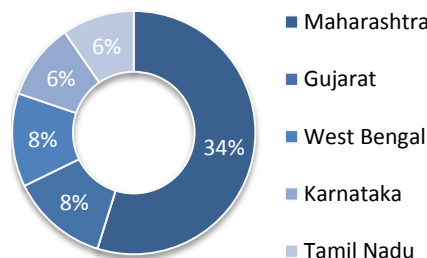
Source: MOFSL, Company

**Exhibit 67: 57% of HDFCLIFE's individual premium comes from top five states**



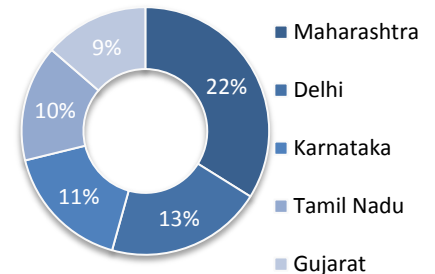
Source: MOFSL, Company

**Exhibit 68: 63% of Tata AIA's individual premium comes from top five states**



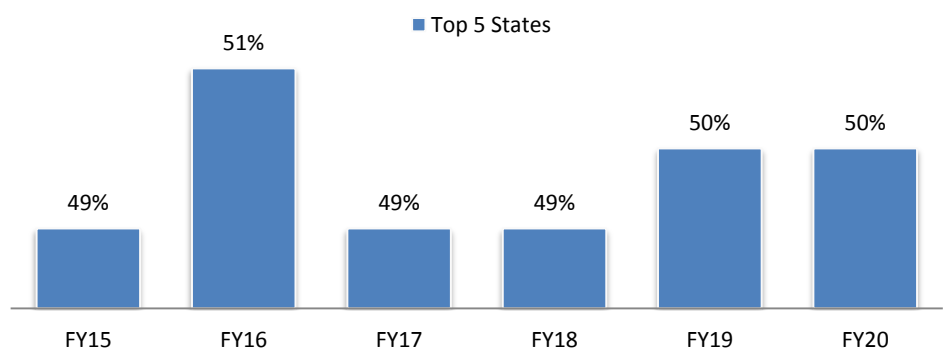
Source: MOFSL, Company

**Exhibit 69: 65% of Kotak Life's individual premium comes from top five states**



Source: MOFSL, Company

**Exhibit 70: MAXLIFE: Individual premium contribution of top five states over the past years**



Source: MOFSL, Company

### Persistency curve shows stable trends

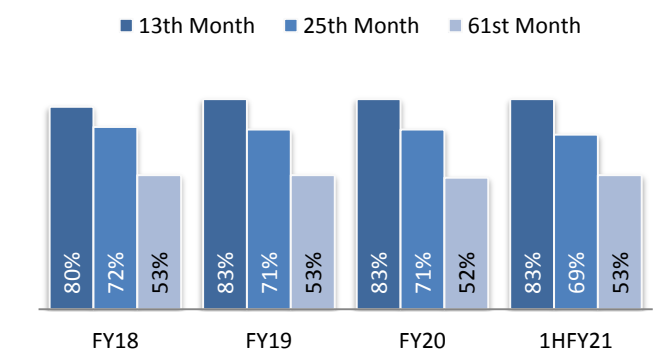
- MAXLIFE 13<sup>th</sup>/25<sup>th</sup>/61<sup>st</sup> month persistency has been largely stable over the past four years at 83%/71%/52%.
- It is currently witnessing persistency pressure in the ULIP segment, but remains strong in the Protection segment. The low business volumes affected due to the COVID-19 pandemic led to strain on persistency which is expected to recover towards the year-end.
- After a 300bp/400bp YoY decline in 13<sup>th</sup>/25<sup>th</sup> month persistency rate during 1QFY21, the same has already shown an improvement during 2QFY21. The company expects persistency rate to recover further during 2HFY21 aided by rising mix of non-par products.

Exhibit 71: Persistency rate declines across insurers –

Persistency	SBILIFE			HDFCLIFE			IPRU			MAXLIFE		
	FY20	1QFY21	1HFY21	FY20	1QFY21	1HFY21	FY20	1QFY21	1HFY21	FY20	1QFY21	1HFY21
13th month	86.1%	81.6%	85.9%	90.1%	87.0%	88.0%	83.2%	81.8%	82.1%	83.0%	82.0%	83.0%
25th month	78.5%	76.0%	78.8%	80.2%	80.8%	79.0%	75.1%	73.4%	73.0%	71.0%	68.0%	69.0%
37th month	71.6%	68.9%	72.1%	73.8%	69.5%	69.0%	66.7%	65.4%	65.2%	63.0%	61.0%	61.0%
49th month	67.3%	63.8%	66.3%	67.2%	64.9%	66.0%	64.6%	63.9%	63.8%	59.0%	57.0%	58.0%
61st month	59.9%	63.1%	60.9%	55.0%	54.4%	53.0%	56.0%	56.8%	57.5%	52.0%	52.0%	53.0%

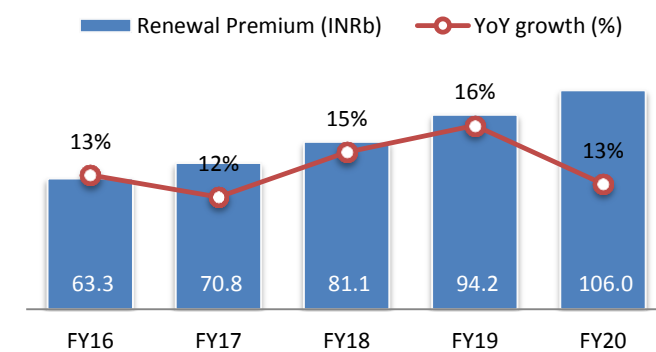
Source: MOFSL, Company

Exhibit 72: Trend in persistency rate



Source: Company, MOFSL

Exhibit 73: Renewal premium growth for MAXLIFE

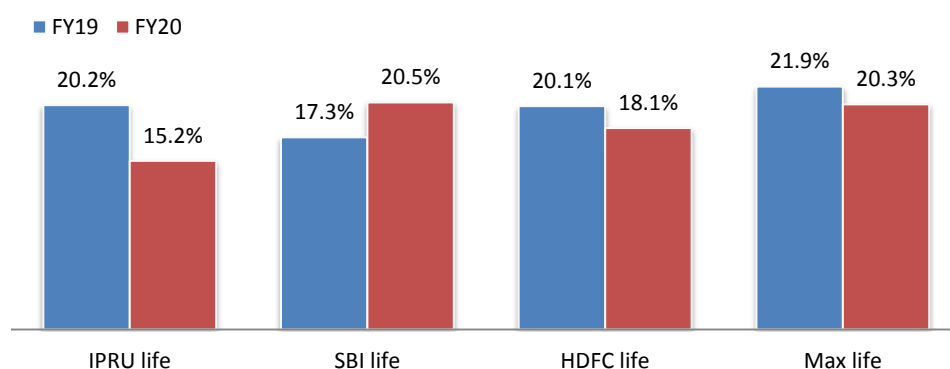


Source: Company, MOFSL

## Margin and operating RoEV remains steady

- Increased focus on Non-PAR Savings and Protection business (currently ~31% of total APE) have helped improve margin over the past few years. This, coupled with positive operating variances as cost overruns declined and persistency/other operating parameters improved, has driven an improvement in operating RoEV across insurers.
- We expect MAXLIFE to deliver operating RoEV at ~20% for FY23E while margin remains steady at 23.5% for FY23E.

**Exhibit 74: Operating RoEV trends**



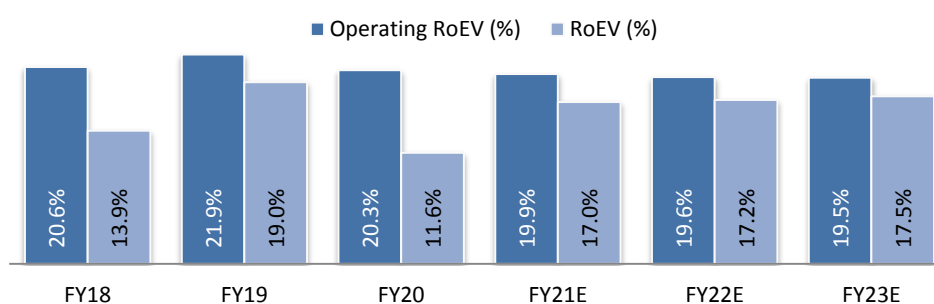
Source: MOFSL, Company

**Exhibit 75: EV movement analysis**

(INR b)	HDFCLIFE		IPRU		SBILIFE		MAXLIFE	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
<b>Opening EV</b>	<b>152.2</b>	<b>183.0</b>	<b>187.9</b>	<b>216.2</b>	<b>190.7</b>	<b>224.0</b>	<b>75.1</b>	<b>89.4</b>
Unwind	13.0	13.7	15.8	17.3	16.2	19.0	7.0	8.1
<b>Unwind rate (%)</b>	<b>8.5%</b>	<b>7.5%</b>	<b>8.4%</b>	<b>8.0%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>9.3%</b>	<b>9.1%</b>
VNB	15.4	19.2	13.3	16.1	17.2	20.1	8.2	9.0
Operating experience variances	2.2	1.5	4.7	1.8	0.8	5.6	1.3	1.0
Change in operating assumptions		(1.2)	4.2		(1.0)	1.2		
<b>EVOP</b>	<b>30.6</b>	<b>33.1</b>	<b>38.0</b>	<b>32.9</b>	<b>33.2</b>	<b>45.9</b>	<b>16.5</b>	<b>18.1</b>
Economic assumption change and invt. variance	3.6	(10.0)	(1.2)	(14.8)	2.5	(7.1)	3.8	(3.2)
Others (ESOP/dividend payout)	(3.4)	0.4	(8.4)	(4.1)	(2.4)	-	(6.0)	(4.6)
<b>Closing EV</b>	<b>183.0</b>	<b>206.5</b>	<b>216.2</b>	<b>230.3</b>	<b>224.0</b>	<b>262.9</b>	<b>89.4</b>	<b>99.8</b>
<b>Operating RoEV (%)</b>	<b>20.1</b>	<b>18.1</b>	<b>20.2</b>	<b>15.2</b>	<b>17.4</b>	<b>20.5</b>	<b>21.9</b>	<b>20.3</b>

Source: MOFSL, Company

**Exhibit 76: Expect operating RoEV at ~20% and RoEV at ~18% for FY23E**

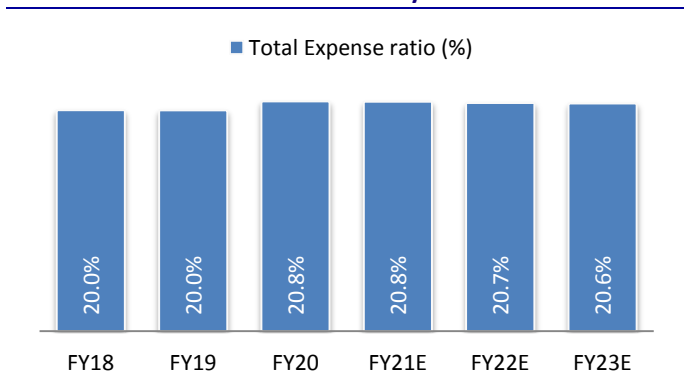


Source: MOFSL, Company

## Cost-ratios remain higher than peers

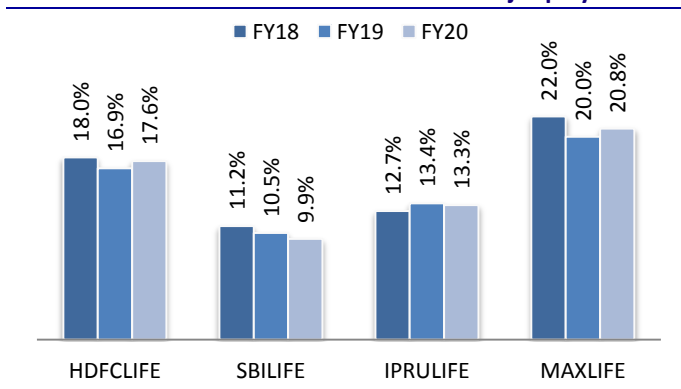
- MAXLIFE has one of the highest cost structures among leading private insurers on higher investments towards ramping up distribution, such as opening of new branches, greater employee expenses, and higher commission rates in the bancassurance and agency channel.
- The management’s focus has been on gaining market share across business segments. It has significantly ramped up its branch presence and employee count over the past few years. Though we expect cost ratios to moderate from current levels, it would nevertheless remain higher than peers.

**Exhibit 77: TER as a % of GWP to stay at 20.6% for FY23E**



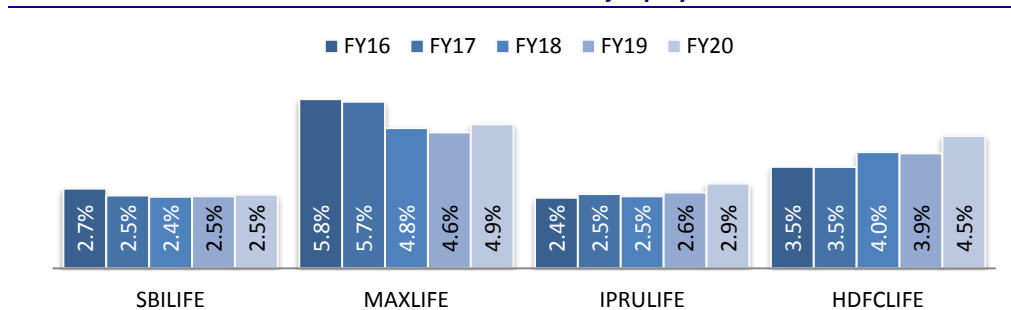
Source: Company, MOFSL

**Exhibit 78: Total cost to GWP ratio across major players**



Source: Company, MOFSL

**Exhibit 79: Trend in total cost-to-AUM ratio across major players**



Source: MOFSL, Company

**Exhibit 80: Employee strength of various insurers – MAXLIFE has reported sharp increase in employee count over past two years**

Insurance players	FY11	FY14	FY17	FY18	FY19	FY20
IPRU	13,000	10,700	12,397	15,780	14,099	14,630
SBILIFE	7,292	9,114	12,051	13,207	14,961	16,759
HDFCLIFE	12,548	13,900	14,800	17,601	19,583	20,257
MAXLIFE	NA	NA	9,446	10,226	12,082	15,020

Source: MOFSL, Company

**Exhibit 81: Branch network of various insurers – MAXLIFE has added significant number of branches over past two years**

	FY11	FY14	FY17	FY18	FY19	FY20
SBILIFE	629	762	801	825	908	937
HDFCLIFE	498	429	414	414	412	421
MAXLIFE	NA	NA	205	203	334	391

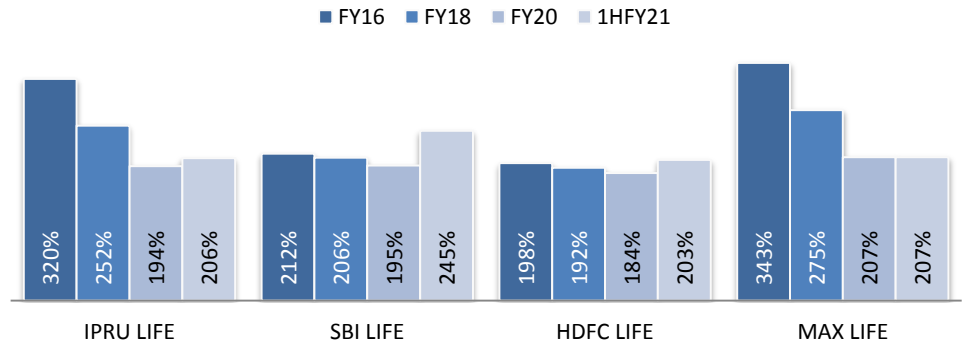
Source: MOFSL, Company



**Solvency rate remains healthy**

- MAXLIFE currently has a solvency ratio of 207% (v/s the regulatory requirement of 150%). This is sufficient for it to pursue growth opportunities across business segments.
- After the AXSB deal, the company would likely receive capital infusion as AXSB further increases its stake in conformity to RBI requirements. This would further boost solvency ratio.

**Exhibit 82: Solvency ratio trends across insurers**



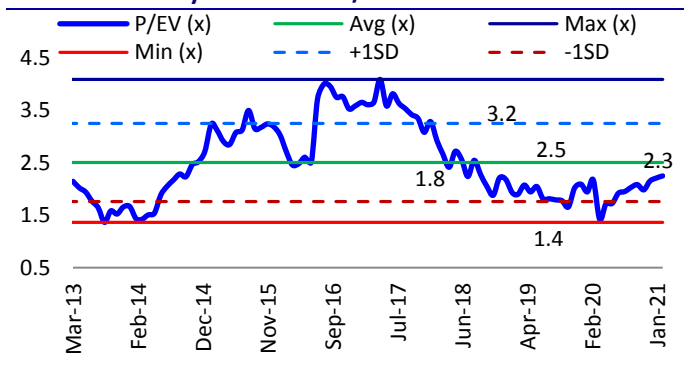
Source: MOFSL, Company

## Valuation and view: Initiate with Buy

### Business growth steady; operating RoEV to sustain at ~20% over FY22-23E

- MAXLIFE has increased its focus on the Protection and Non-PAR segment, the share of which increased to ~31% in FY20 from ~16% in FY17 as Protection/Non-PAR Savings grew by 45%/46% CAGR over FY17-20. The management indicated that both these segments would continue to deliver better than industry trends.
- The company has posted 10% YoY growth v/s 5% for HDFCLIFE over FY21 YTD, while IPRU and SBILIFE have posted a decline, led by stronger trends in the Protection and Non-PAR segments. We expect the company to deliver ~14% CAGR in new business APE over FY20-23E.
- MAXLIFE has one of the most productive agency channels, with agent productivity improved to INR250k in FY20 (vs INR150k in FY17). The proprietary channel accounted for 32% to total APE, growing 19% CAGR over FY17-20 v/s 16% CAGR in total APE. It will continue to make significant investment in growing its proprietary channels.
- Our analysis suggests that ~70% of total VNB during FY20 was contributed by the Protection and Non-PAR segment. We expect VNB margin to remain steady at 23.5%. This would enable 18% VNB CAGR over FY20-23E, with operating RoEV sustaining at ~20%.
- **Valuation and view:** MAXLIFE has reported strong VNB growth (22% CAGR) over FY17-20 and 16% APE growth. VNB margin improved to ~22% (v/s ~19% in FY17). Increasing focus towards high margin products coupled with productivity improvements are likely to drive VNB growth at 18% CAGR over FY20-23E. We estimate ~20% operating RoEV for FY23E, with Embedded Value reflecting 17% CAGR over FY20-23E. The stock currently trades at 2.3x FY23EV and ~14x FY23 EVOP, while in the past, the stock has traded at higher discount compared to other listed peers mainly due to overhang over its banca tie-up with AXSB and lack of clarity over strategy / stake of the promoters. However, MAXLIFE has delivered strong returns over past one year and we see further re-rating potential as the company gets all the regulatory approvals and consummates deal with AXSB. We initiate coverage on the stock with a BUY rating and TP of INR830/share (2.8x FY23EV).

Exhibit 83: One-year forward P/EV



Source: Company, MOFSL

Exhibit 84: Value MAXLIFE at INR830/share

Appraisal value method (INR b)	FY23E
Embedded value	161
New business profit	14.9
<b>Appraisal value</b>	<b>447</b>
MFS stake Post deal arrangement	80%
<b>MFS Valuation per share, INR</b>	<b>1,040</b>
Appraisal value/embedded value (x)	2.8
Holdco discount	20%
<b>Target Price, INR</b>	<b>830</b>
<b>Implied multiples -</b>	
- VNB multiple (x)	19.3

Source: Company, MOFSL

## Key risks

- The deal with AXSB has in the past faced multiple challenges and regulatory observations. If the current proposal fails to seek regulatory blessings it could result in de-rating of the stock.
- MAXLIFE is focused on scaling up its Non-PAR business which increases the balance sheet risk, especially in a declining interest rate environment. Though the insurer seeks to hedge interest rate risk through the use of a forward rate agreement (FRA) to manage cash flows, the volatility in interest rates may not result in a perfect hedge. This could affect the cost of FRAs, making it difficult to manage cash flows.
- Volatility in capital markets remains a key risk to sale of ULIPs and could impact persistency ratios. Subdued equity markets or excessive volatility in interest rates can impact investment returns for insurers.
- Its peers (HDFCLIFE and IPRU) have significantly increased their focus on improving digital adoption, online platforms and product innovation to provide unique solutions to customers. Any sluggishness in digital adoption could be a key risk for MAXLIFE.
- During the COVID-19 outbreak, the company has underwritten policies based on tele-medical s which could result in higher claims in the future.
- In terms of sensitivity analysis, 10% increase in operating expenses for MAXLIFE to have highest impact on the absolute VNB by 8%. Also, 100bp decline in interest rates could impact VNB by 6%.

**Exhibit 85: Sensitivity analysis across insurers**

Sensitivity analysis	IPRU		HDFCLIFE		SBILIFE		MAXLIFE	
	% change in IEV	% change in VNB	% change in IEV	% change in VNB	% change in IEV	% change in VNB	% change in IEV	% change in VNB
1% increase in interest rates	-2.5%	-2.4%	-1.5%	-0.9%	-2.9%	-0.2%	-2.0%	3.0%
1% decrease in interest rates	2.6%	2.2%	0.7%	0.2%	3.4%	0.0%	1.0%	-6.0%
10% increase in lapse rates	-1.1%	-5.0%	-0.7%	-0.3%	-0.8%	-3.9%	-1.0%	-1.0%
10% decrease in lapse rates	1.1%	5.1%	0.7%	0.2%	1.2%	5.0%	1.0%	1.0%
10% decrease in equity value	-1.8%	-0.7	-1.3%	-0.1%	-1.5%	-0.4%	-1.0%	Negligible
10% increase in maintenance expense	-0.8%	-3.0%	-0.8%	-0.6%	-0.6%	-2.6%	-1.0%	-8.0%
10% decrease in maintenance expense	0.9%	3.0%	0.8%	0.6%	0.6%	2.6%	1.0%	8.0%
Changes in tax rate to 25%	-5.8%	-11.4%	-7.9%	-5.0%	-8.1%	-16.3%	-12.0%	-22.0%

Source: Company, MOFSL, **Note: Data as on 1HFY21 for HDFCLIFE, MAXLIFE and SBILIFE while IPRULIFE based on FY20 assumptions**

## SWOT analysis

- MAXLIFE has one of the most diversified business mix among life insurers.
- It has robust distribution with best-in-class agent productivity.
- Superior customer service



- Cost ratio remains high for MAXLIFE v/s other peers. This has impacted margin and profitability.
- Dependency on bancassurance channel, particularly AXSB, remains high. In case of any disruption to the deal, it could impact growth.

- Max Life operates in an underpenetrated market with huge growth potential.
- The company is increasing focus on proprietary channels to sustain growth momentum.
- AXSB deal will provide long-term stability to distribution. Access to the bank's digital capabilities provides significant cross-selling opportunities.



- Volatile capital market could result in lower persistency, especially in the ULIP segment.
- AXSB's deal not going through could result in a de-rating and impact the bancassurance distribution.
- Higher protection business could result in higher claims in case of calamity resulting in adverse mortality variance.
- Higher competition from peers in Protection and Non-PAR savings products.

## Bull and Bear Case



### Bull Case

- ✓ In our Bull Case, we assume 20% premium CAGR over FY20-23E (v/s 15% in our Base Case), resulting in 20% CAGR in APE v/s 14% in our Base Case. Strong growth opportunities in an underpenetrated market, improving proprietary channels, and strong bancassurance relationship could surprise on the upside.
- ✓ We expect ~26% improvement in VNB margin by FY23E v/s 23.5% in our Base Case.
- ✓ We expect PAT CAGR of 26% (12% in our Base Case), leading to an operating RoEV/RoEV of ~23%/~22% for FY23E (v/s our Base Case of 19.5%/~17.5%). EV is likely to grow by 20% CAGR over FY20-23E v/s 17% in our Base Case.
- ✓ Based on the above assumptions, we value MAXLIFE at INR1,100 per share (3.4x FY23E EV).



### Bear Case

- ✓ In our Bear Case, we assume 11% premium CAGR over FY20-23E (v/s 15% in our Base Case), resulting in 11% CAGR in APE v/s 14% in our Base Case. Increasing competition and the AXSB deal not going through could result in lower-than-expected growth.
- ✓ We expect FY23E VNB margin ~22% (v/s 23.5% in our Base Case) due to slower-than-expected growth in the Protection business and lower pricing power.
- ✓ We expect EV to grow by 13% CAGR over FY20-23E (17% in our Base Case), leading to an operating RoEV/RoEV of ~17%/~14% for 23E (v/s our Base Case of ~19.5%/~17.5%). PAT is this likely to grow by 4% CAGR over FY20-23E v/s 12% in our Base Case.
- ✓ Based on the above assumptions, we value MAXLIFE at INR450 per share (1.7x FY23E EV).

### Scenario analysis - Bull Case

Bull Case (INR b)	FY21E	FY22E	FY23E
Gross premium	180	209	249
Total income	227	263	309
Total expense	218	250	289
<b>Surplus</b>	<b>7.3</b>	<b>10.8</b>	<b>15.0</b>
<b>Shareholder's PAT</b>	<b>5.9</b>	<b>7.9</b>	<b>10.9</b>
NBP – WRP	48.0	57.5	71.3
<b>VNB margin</b>	<b>24.0%</b>	<b>24.6%</b>	<b>25.5%</b>
EV	118.0	142.1	173.5
<b>Operating RoEV</b>	<b>21.2%</b>	<b>22.2%</b>	<b>23.4%</b>
<b>RoEV (%)</b>	<b>18.4%</b>	<b>20.3%</b>	<b>22.1%</b>

Source: Company, MOFSL

### Scenario analysis – Bear Case

Bear Case (INR b)	FY21E	FY22E	FY23E
Gross premium	176	193	212
Total income	223	248	271
Total expense	216	241	266
<b>Surplus</b>	<b>5.6</b>	<b>4.8</b>	<b>3.5</b>
<b>Shareholder's PAT</b>	<b>5.1</b>	<b>5.3</b>	<b>6.0</b>
NBP - WRP	46.0	51.3	58.0
<b>VNB margin</b>	<b>22.8%</b>	<b>22.0%</b>	<b>21.8%</b>
EV	113.9	128.6	144.3
<b>Operating RoEV</b>	<b>18.0%</b>	<b>17.1%</b>	<b>17.0%</b>
<b>RoEV (%)</b>	<b>14.0%</b>	<b>13.5%</b>	<b>13.7%</b>

Source: Company, MOFSL

## Comparative analysis of key life insurers

### Exhibit 86: Comparison on key metrics across key life insurers

Key metrics (FY20)	MAXLIFE	HDFCLIFE	IPRU	SBILIFE
Renewal premium (INRm)	106,000	154,684	209,432	240,422
% growth	12.6%	8.8%	1.8%	25.2%
VNB (INRm)	8,970	19,190	16,050	20,100
% growth	4.8%	24.6%	20.8%	16.9%
VNB margin	21.6%	25.9%	21.7%	20.7%
EV (INRm)	99,770	206,500	230,300	262,900
% growth	11.6%	12.8%	6.5%	17.4%
Opex to GWP	20.8%	17.6%	15.9%	9.9%
Operating RoEV	20.3%	18.1%	15.2%	20.5%
Solvency ratio	207%	184%	194%	195%
AUM (INR b)	685	1,272	1,530	1,604
Debt	83%	71%	53%	79%
Equity	17%	29%	47%	21%
<b>Product mix based on APE (%)</b>				
PAR	30%	16%	12%	11%
Non-PAR	18%	34%	5%	7%
ULIP	38%	23%	65%	70%
Protection	13%	17%	15%	9%
Others		10%	3%	4%
<b>Persistency</b>				
13th Month	83%	90%	85%	86%
25th Month	71%	80%	77%	78%
37th Month	63%	74%	69%	72%
49th Month	59%	67%	66%	67%
61st Month	52%	55%	57%	60%

Source: MOFSL, Company;



## | Company overview

MAXLIFE is the fourth-largest private insurer and the only non-bank sponsored life insurer among the listed players with an individual WRP market share of 6.2% in FY21 YTD. The company has historically focused on participating products and is a market leader in this space, which has helped it achieve higher VNB margins v/s others who have higher contribution from ULIPs. It has a best-in-class agent productivity and high share of proprietary channel, while its long-term bancassurance tie-up with AXSB has provided long-term stability in distribution. MAXLIFE has an agent network of 52,000 and manages a total AUM of INR780b. MFS holds 72% stake in MAXLIFE (the only subsidiary that it operates).

## Stable and experienced management team



**Mr. Analjit Singh**, the founder and Chairman of Max Group, has been awarded with India's highest civilian honor, the Padma Bhushan. He is the Non-Executive Chairman of multiple Max Group companies: MFS, Max India, Max Ventures & Industries, MAXLIFE, and Antara Senior Living. He is also the Chairman of Vodafone India, and is on the Board of Tata Global Beverages and Sofina NV/SA, Belgium. He has significant interests in real estate in India and lifestyle-related ventures in the Western Cape, South Africa, pertaining to viticulture, winemaking and hospitality.



**Mr. Prashant Tripathy** is the MD & CEO of MAXLIFE since Jan'19. He is a seasoned professional with over two decades of experience across finance, organizational strategy, operations, risk management, and investor relations. Having spent 12 years with the company, he was earlier the CFO spearheading financial management and corporate strategy. Prior to joining MAXLIFE, he was associated with GE and Genpact for eight years and Tata Steel. He holds a degree in Chemical Engineering from IIT Kharagpur and is a Post Graduate in Management from IIM Bangalore.



**Mr. V Viswanand (Deputy MD)**: An industry veteran with a dynamic presence in the financial services sector for nearly three decades. He is responsible for distribution, including proprietary channels, bancassurance, and third-party business. He has been associated with the company for nearly two decades and was earlier its COO. Prior to joining MAXLIFE, he was a retail banker with ANZ Grindlays Bank for nearly a decade and holds a Master's degree in Management Studies from BITS, Pilani.



**Mr. Jose John (Director & Appointed Actuary)**: He heads the actuarial function at MAXLIFE as Director & Appointed Actuary, besides strengthening its internal governance and risk management capabilities. Prior to joining MAXLIFE, he had spent most of his career in the UK where he worked with Prudential and MetLife. He is a Fellow of the Institute and Faculty of Actuaries, UK and Institute of Actuaries of India. Mr. Jose holds an MBA from the Cardiff Business School, UK.



**Mr. Jatin Khanna (CFO)**: He has been with the Max Group for ~15 years and recently assumed the position of CFO of MFS. In his earlier role, he was the CFO of Max India. He has over 12 years of experience in raising equity and structured financing, M&A, corporate restructuring, financial planning, and management reporting. Prior to joining the Max Group, he worked with HCL Infosystems. He is a Chartered Accountant, holds a bachelor's degree in Commerce and completed a Post Graduate Program in Management from ISB, Hyderabad.

## Financials and valuations

Technical account (INR m)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Gross Premiums	107,804	125,009	145,752	161,836	180,044	201,943	229,471
Net Premiums	106,802	123,795	144,184	159,788	176,986	198,659	225,680
Income from Investments	42,107	37,574	48,643	21,589	46,418	53,324	58,609
Other Income	192	346	440	612	714	832	971
<b>Total income (A)</b>	<b>149,101</b>	<b>161,715</b>	<b>193,267</b>	<b>181,989</b>	<b>224,118</b>	<b>252,815</b>	<b>285,259</b>
Commission	9,363	8,929	9,896	10,244	11,962	13,369	15,145
Operating expenses	15,912	16,098	19,274	23,441	25,501	28,417	32,237
<b>Total commission and opex</b>	<b>25,275</b>	<b>25,027</b>	<b>29,170</b>	<b>33,685</b>	<b>37,463</b>	<b>41,786</b>	<b>47,383</b>
Benefits Paid (Net)	37,775	49,466	57,178	66,222	68,753	81,109	93,593
Chg in reserves	78,693	79,043	97,365	66,394	110,099	121,132	133,291
<b>Total expenses (B)</b>	<b>141,748</b>	<b>153,555</b>	<b>183,730</b>	<b>166,321</b>	<b>216,329</b>	<b>244,042</b>	<b>274,284</b>
<b>(A) - (B)</b>	<b>7,353</b>	<b>8,160</b>	<b>9,536</b>	<b>15,668</b>	<b>7,789</b>	<b>8,773</b>	<b>10,975</b>
Prov for Tax	799	1,077	1,299	2,752	1,707	1,935	2,247
<b>Surplus / Deficit</b>	<b>6,555</b>	<b>7,083</b>	<b>8,237</b>	<b>12,916</b>	<b>6,081</b>	<b>6,838</b>	<b>8,729</b>

Shareholder's a/c (INR m)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	5,551	3,992	4,402	4,690	4,211	4,635	5,521
Income From Investments	3,089	2,178	2,177	2,074	2,106	2,739	3,489
<b>Total Income</b>	<b>8,645</b>	<b>6,175</b>	<b>6,604</b>	<b>6,781</b>	<b>6,317</b>	<b>7,374</b>	<b>9,010</b>
<b>Total Expenses</b>	<b>964</b>	<b>24</b>	<b>377</b>	<b>802</b>	<b>330</b>	<b>372</b>	<b>421</b>
<b>PBT</b>	<b>7,681</b>	<b>6,152</b>	<b>6,226</b>	<b>5,978</b>	<b>5,987</b>	<b>7,002</b>	<b>8,589</b>
Prov for Tax	1,083	875	662	585	659	770	945
<b>PAT</b>	<b>6,598</b>	<b>5,276</b>	<b>5,564</b>	<b>5,394</b>	<b>5,329</b>	<b>6,231</b>	<b>7,644</b>

Premium (INR m) & growth (%)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
New business prem - unwtd	36,664	43,486	51,604	55,835	62,535	71,915	84,141
New business prem - WRP	27,485	33,072	40,019	42,380	46,776	53,663	63,316
Renewal premium	71,140	81,523	94,148	106,002	117,509	130,028	145,330
Total premium - unwtd	107,804	125,009	145,752	161,836	180,044	201,943	229,471
New bus. growth - unwtd	27.2%	18.6%	18.7%	8.2%	12.0%	15.0%	17.0%
New business growth - wrp	27.1%	20.3%	21.0%	5.9%	10.4%	14.7%	18.0%
Renewal premium growth	12.3%	14.6%	15.5%	12.6%	10.9%	10.7%	11.8%
Total prem growth - unwtd	17.0%	16.0%	16.6%	11.0%	11.3%	12.2%	13.6%

Premium mix (%)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>New business - unwtd</b>							
- Individual mix	90.2%	91.6%	92.0%	91.9%	91.5%	90.5%	90.0%
- Group mix	9.8%	8.4%	8.0%	8.1%	8.5%	9.5%	10.0%
<b>New business mix - WRP</b>							
- Participating	54.9%	44.7%	41.4%	32.2%	31.6%	32.7%	32.5%
- Non-participating	13.5%	13.9%	16.4%	29.6%	32.1%	32.0%	32.2%
- ULIPs	31.5%	41.4%	42.2%	38.2%	36.4%	35.4%	35.3%
<b>Total premium mix - unwtd</b>							
- Participating	61.4%	57.3%	53.4%	49.0%	43.4%	44.3%	43.1%
- Non-participating	13.7%	14.2%	15.0%	19.8%	25.0%	23.8%	24.2%
- ULIPs	24.9%	28.5%	31.5%	31.2%	31.6%	31.9%	32.6%

Individual prem sourcing mix (%)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Individual agents	25.0%	23.6%	23.2%	22.2%	23.0%	24.0%	25.0%
Corporate Agents-Banks	61.8%	63.6%	63.1%	61.4%	62.0%	62.5%	63.0%
Direct Business	9.7%	10.0%	11.3%	14.5%	13.0%	11.5%	10.0%
Others	3.5%	2.8%	2.5%	1.8%	2.0%	2.0%	2.0%

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



## Financials and valuations

Balance sheet (INR m)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Sources of Fund</b>							
Share Capital	19,188	19,188	19,188	19,188	19,943	19,943	19,943
Reserves And Surplus	5,867	7,702	8,478	6,806	8,509	4,463	1,563
<b>Shareholders' Fund</b>	<b>25,093</b>	<b>26,989</b>	<b>27,609</b>	<b>25,739</b>	<b>28,168</b>	<b>24,091</b>	<b>21,157</b>
Policy Liabilities	245,296	310,137	381,436	454,807	579,978	634,771	694,233
Prov. for Linked Liab.	152,204	163,050	186,738	174,210	199,055	254,330	322,467
Funds For Future App.	15,565	18,655	22,498	30,962	1,473	1,767	2,328
Current liabilities & prov.	17,084	17,841	23,398	20,276	23,318	25,649	28,214
<b>Total</b>	<b>464,434</b>	<b>549,628</b>	<b>659,270</b>	<b>717,724</b>	<b>847,452</b>	<b>960,819</b>	<b>1,094,646</b>
<b>Application of Funds</b>							
Shareholders' inv	32,303	32,146	35,187	32,581	43,985	59,379	80,162
Policyholders' inv	255,483	319,238	394,173	460,484	564,469	644,180	736,148
Assets to cover linked liab.	155,910	170,981	198,619	191,642	201,224	213,297	226,095
Loans	1,333	2,233	3,265	4,264	6,525	9,983	15,274
Fixed Assets	1,623	1,582	1,921	2,187	2,559	2,994	3,503
Current assets	17,783	23,448	26,105	26,566	28,691	30,986	33,465
<b>Total</b>	<b>464,434</b>	<b>549,628</b>	<b>659,270</b>	<b>717,724</b>	<b>847,452</b>	<b>960,819</b>	<b>1,094,646</b>
<b>Operating ratios (%)</b>							
Investment yield	11.3%	8.3%	9.0%	3.4%	6.4%	6.6%	6.4%
<b>Commissions / GWP</b>	<b>8.7%</b>	<b>7.1%</b>	<b>6.8%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.6%</b>
- first year premiums	23.5%	20.2%	18.1%	17.2%	19.3%	18.9%	18.2%
- renewal premiums	4.4%	3.0%	2.7%	2.6%	2.6%	2.6%	2.6%
- single premiums	0.1%	0.1%	1.2%	1.1%	1.0%	1.0%	1.0%
Operating expenses / GWP	14.8%	12.9%	13.2%	14.5%	14.2%	14.1%	14.0%
<b>Total expense ratio</b>	<b>23.4%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.8%</b>	<b>20.8%</b>	<b>20.7%</b>	<b>20.6%</b>
Claims / NWP	35.4%	39.9%	39.6%	41.4%	38.8%	40.8%	41.5%
Solvency ratio	309%	275%	242%	207%	202%	197%	192%
<b>Persistency ratios (%)</b>							
13th Month	80.0%	80.0%	83.0%	83.0%	81.0%	82.0%	83.0%
25th Month	70.0%	72.0%	71.0%	71.0%	69.0%	71.0%	72.0%
37th Month	60.0%	62.0%	64.0%	63.0%	62.0%	62.5%	63.0%
49th Month	55.0%	57.0%	58.0%	59.0%	58.0%	59.0%	59.5%
61st Month	53.0%	53.0%	53.0%	52.0%	52.0%	52.5%	53.0%
<b>Profitability ratios (%)</b>							
New business margin (%)	18.8%	20.2%	21.7%	21.6%	23.2%	23.3%	23.5%
RoE (%)	29.1%	20.2%	21.7%	21.6%	23.2%	23.3%	23.5%
RoIC (%)	34.4%	20.3%	20.4%	20.2%	19.8%	23.8%	33.8%
Operating RoEV	19.9%	20.6%	21.9%	20.3%	19.9%	19.6%	19.5%
RoEV (%)	17.3%	13.9%	19.0%	11.6%	17.0%	17.2%	17.5%
<b>Valuation ratios</b>							
Total AUMs (INR bn)	444	522	628	685	810	917	1,042
EPS (Rs)	17.9	14.3	15.0	14.5	12.4	14.5	17.7
Value of new business (INRb)	5.0	6.6	8.6	9.0	10.8	12.5	14.9
Embedded Value (INR bn)	65.9	75.1	89.4	99.8	116.7	136.7	160.7
EV Per share (INR)	138.5	157.8	187.9	209.7	270.6	317.1	372.7
P/EV (x)	6.3	5.5	4.6	4.1	3.2	2.7	2.3
P/EPS (x)	48.6	60.7	58.1	60.0	70.4	60.2	49.1
P/EVOP(x)	33.5	27.6	22.8	20.7	18.9	16.4	14.1

Note: Valuation ratios adjusted for MFS stake (80%) and holdco discount (20%)

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Initiating Coverage | Sector: Others

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**Safe and Bottled**

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### Westlife Development




**Promising McProspects**

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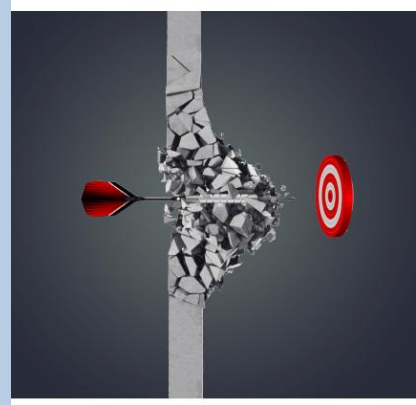


**Not just a broker!**

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Initiating Coverage | Sector: Financials

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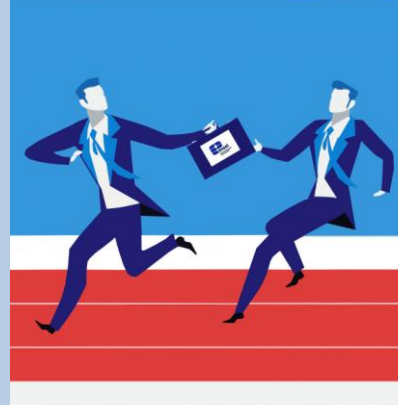


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**Embarking on the next growth trajectory**

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**Building unique business model**

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Initiating Coverage | Sector: Consumer

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**Brewing a heady mix!**

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