

June 9, 2021

## Q4FY21 Result Update

### Key Financials

Y/e March	FY20	FY21	FY22E	FY23E
Net Premiums (Rs m)	1,59,788	1,88,134	2,17,654	2,51,675
- Growth (%)	10.8	17.7	15.7	15.6
Surplus / Deficit (Rs m)	13,155	11,678	13,714	15,920
PAT (Rs m)	5,394	3,763	3,936	4,939
- Growth (%)	-3.1	-30.2	4.6	25.5
EPS (Rs)	2.8	2.0	2.1	2.6
Emb. Value (Rs bn)	99.8	118.4	139.1	164.8
NBP Margin (%) post overrun	21.6	25.2	26.1	26.9
RoE (%)	20.2	29.2	31.4	39.9
Operating RoEV (%)	20.3	18.6	22.4	22.0
RoEV (%)	16.7	22.4	21.1	21.5
Dividend yield (%)	33.6	23.1	22.1	22.1
Price/EV (x)	3.4	2.9	2.5	2.1
Ap. Value/EV (x)	3.9	3.6	3.4	3.2

### Key Data

MAXI.BO | MAXFIN

52-W High / Low	Rs.1,050 / Rs.463
Sensex / Nifty	51,942 / 15,635
Market Cap	Rs.344.2bn/ \$ 4,716.7m
Shares Outstanding	345.1m
3M Av g. Daily Value	Rs.720.9m

### Shareholding Pattern (%)

Promoter's	16.99
Foreign	23.08
Domestic Institution	51.39
Public & Others	8.54
Promoter Pledge (Rs bn)	49.36

### Stock Performance (%)

	1M	6M	12M
Absolute	10.6	59.6	117.1
Relative	5.3	42.9	62.1

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## Maximized performance

### Quick Pointers:

- Strong growth performance ending FY21 APE growth at 20%
- VNB margins steady at 25% despite higher COVID claim provisions

**Max Life's overall APE grew by 36% YoY in Q4FY21 ending FY21 with 19.5% YoY growth best among peers and given the pandemic impact which was led by led by 18% FYP premium. Also protection growth of 10-12% YoY was better than peers, while product launches at start of FY21 augured well with non-par savings mix improving by 12% with doubling of APE in FY21. Max has done well at start of FY22 despite challenges from second wave. It should continue to gain market share with continued focus on non-par savings/protection and gradually move towards medium term margins of 27-28%. We increase VNB on back of sustained higher growth and retain VNB margins of 26%/27% for FY22/FY23. In past three years Max has caught up with peers in most parameters and has witnessed strong re-rating. It trades at 15% premium to SBIL and 30% premium to IPruLI and is only 12% discount to HDFCLI. Hence we see limited risk-reward and retain our Accumulate rating with revised TP of Rs1,120 (from 995) based on 3.2x (from 2.8x) FY23 EV.**

- Much stronger surprise on growth front** – Overall APE grew by 36% YoY/56% QoQ in Q4FY21, leading to FY21 ending on a strong note with growth of 19.5% YoY. Growth continued to be led from non-par both savings and retail protection, but surprise from strong growth was from ULIP recovering with growth of 43% YoY/81% QoQ in Q4FY21 and ending with growth of 16% in FY21 which was much higher than peers which saw largely de-growth. Max strategy is to focus traditional products and protection through proprietary channels and non-par savings & ULIP through Banca channels to keep mix equally diversified and improve margins. Focus in long term continues to improve protection mix which is currently at 14% and sub 10% for retail protection, while continue to build on non-par savings business.
- Margins steady at 25%, down sequentially due to COVID provisions:** VNB margins were lower at 24% in Q4FY21 versus expectation of 27% as company conservatively created Rs880mn of COVID claims provision for FY21 business and if adjusted margins would have been ~27%. FY21 margins ended at 25% steady from 9MFY21 basis but saw a strong improvement by 360bps over FY20 largely led by both strong growth & mix change rather than only mix change from de-growing lower margin products. Company believes product changes, tailwinds from launched products in FY21, improving channel distribution strength and likely price hikes (in protection) could help margins improve by 100-200bps over medium term. We expect medium term margins to move towards 27-28% with sustained mix improvement in better margins products.
- Max Financial had a strong re-rating journey** – With combination of strong improvement in operating performance of life insurance business, ending uncertainty on partner investment and promoters action of reducing pledge has led to re-rating in Max Financial in last three years as well as improved Max Life valuation from 1.8x EV to 2.8x EV. We believe, strong growth of 15% over FY21-FY25 and margins of 26-27% with ROEV of 20% has played out in the re-rating and should see limited upside in near term.

**Exhibit 1: Strong growth in APE leading to VNB growth of 43% in Q4FY21 and 39% in FY21 which is strongest ever**

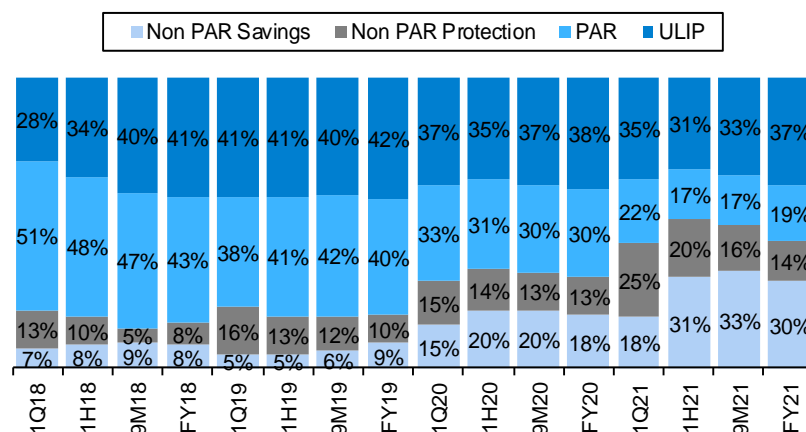
Rs Mn	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
<b>Individual New Business APE</b>	<b>18,930</b>	<b>13,980</b>	<b>35.4</b>	<b>12,100</b>	<b>56.4</b>	<b>49,070</b>	<b>41,160</b>	<b>19.2</b>
<b>Total Protection APE</b>	<b>1,930</b>	<b>1,840</b>	<b>4.9</b>	<b>1,500</b>	<b>28.7</b>	<b>7,310</b>	<b>5,710</b>	<b>28.0</b>
Individual Protection APE	1,410	1,210	16.5	990	42.4	4,750	3,390	40.1
Group Protection APE	520	630	(17.5)	510	2.0	2,560	2,320	10.3
<i>Total protection as % of Total APE</i>	<i>10.1</i>	<i>13.1</i>	<i>(299.1)</i>	<i>12.2</i>	<i>(17.8)</i>	<i>14.0</i>	<i>13.0</i>	<i>100.0</i>
<b>Ratios (%)</b>								
Commission Ratio	6.0	6.2	(22)	6.6	(56)	6.5	6.3	20.0
Operating Expense Ratio	12.2	14.5	(231)	15.6	(339)	14.2	14.5	(30.0)
Total Expense Ratio	18.2	20.8	(861)	22.1	(996)	20.7	20.8	(10.0)
Value of New Business (VNB)	4,610	3,210	43.6	3,500	31.7	12,490	8,970	39.2
VNB Margins (%)	24.0	22.8	126.6	28.6	(452.3)	25.2	21.6	360.0
Embedded Value	118,340	99,770	18.6	117,230	0.9	118,340	99,770	18.6

Source: Company, PL

**Exhibit 2: ULIP sees mix improvement in Q4FY21, while non-par savings see much strong improvement**

Total NB APE Product Mix (%)	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
ULIP	42.7	40.7	203	37.0	575	37.0	38.3	(125)
Non PAR Savings	24.6	14.8	976	37.0	(1,235)	30.0	18.3	1,175
Individual Protection	7.4	8.6	(123)	8.1	(73)	9.0	8.0	100
Group Protection	2.7	4.5	(176)	4.2	(145)	5.0	5.0	-
PAR	21.9	30.7	(888)	17.5	436	19.0	30.3	(1,125)

Source: Company, PL

**Exhibit 3: Product mix towards Non Par & Protection products**


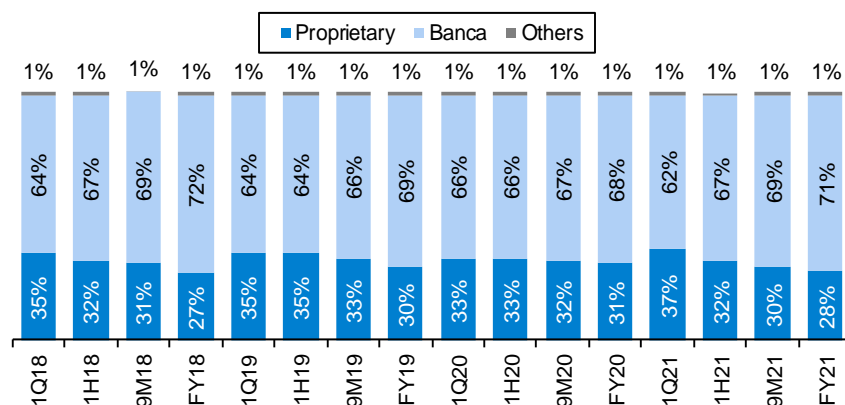
Source: Company, PL

**Exhibit 4: Banca continues to deliver much strongly and remains highest contribution to sourcing**

APE Sourcing Mix	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
<b>Rs Mn</b>								
Proprietary	4,760	4,094	16.3	3,312	43.7	13,880	12,862	7.9
Banca	14,219	8,579	65.7	8,816	61.3	35,195	23,649	48.8
Others	192	141	36.1	213	-10.1	496	415	19.5
<b>Total</b>	<b>19,170</b>	<b>14,090</b>	<b>36.1</b>	<b>12,341</b>	<b>55.3</b>	<b>49,570</b>	<b>41,490</b>	<b>19.5</b>
<b>(%)</b>								
Proprietary	24.8	29.1	(423)	27.0	(220.8)	28.0	31.0	(300)
Banca	74.2	60.9	1,328	72.0	220.8	71.0	57.0	1,400
Others	1.0	1.0	(0)	1.7	(74.1)	1.0	1.0	-

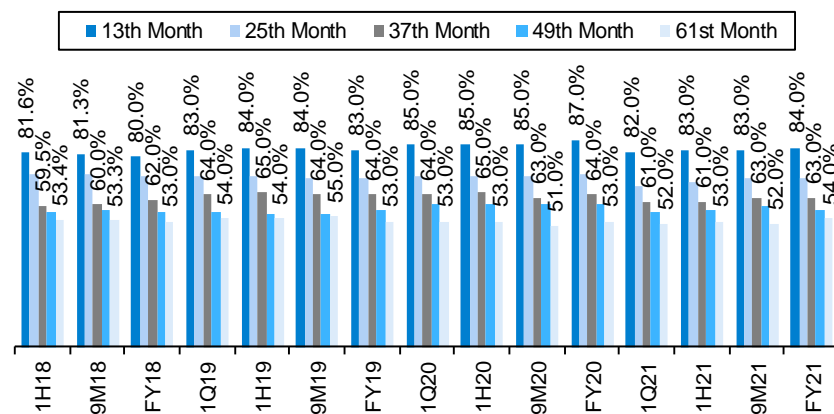
Source: Company, PL

**Exhibit 5: Banca channel contributes 71% sourcing mix led by Axis/Yes bank**



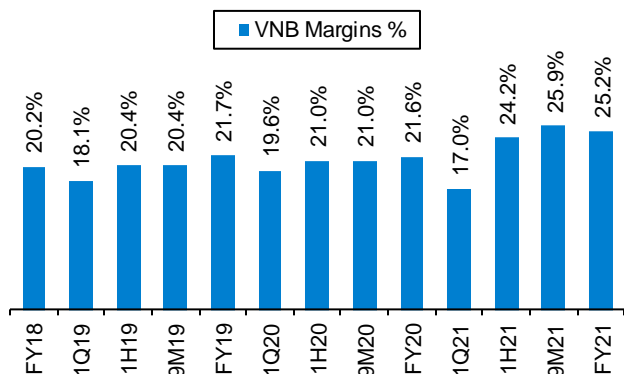
Source: Company, PL

**Exhibit 6: Persistency improves marginally**



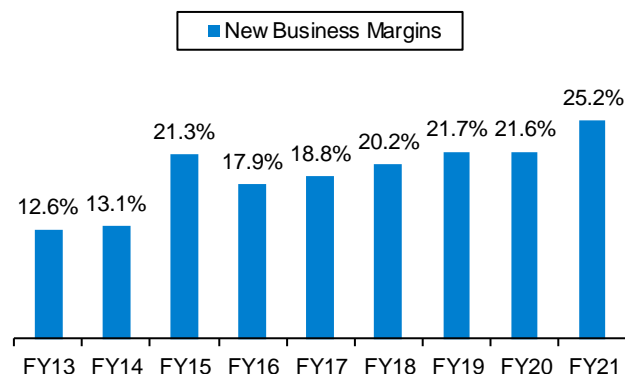
Source: Company, PL;

Exhibit 7: Margins has moved up in new band



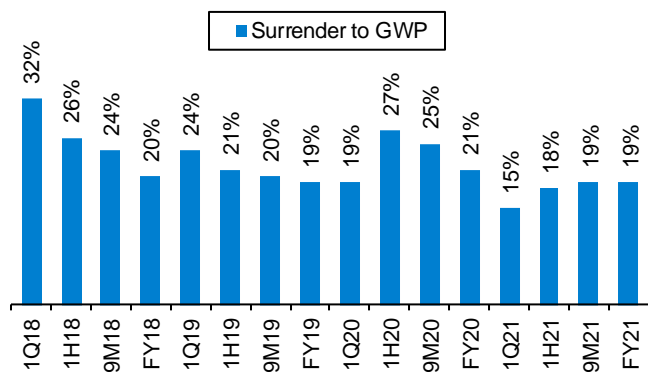
Source: Company, PL

Exhibit 8: Journey on margins has been quite better



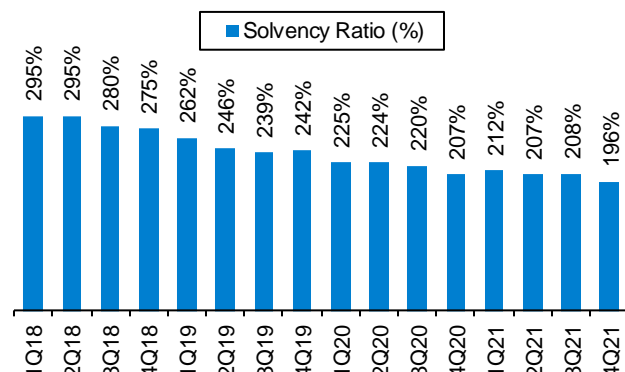
Source: Company, PL

Exhibit 9: Surrenders are better off than trends



Source: Company, PL

Exhibit 10: Solvency ratio came off on higher reserving



Source: Company, PL

Exhibit 11: Key Metrics and EV movement

Rs bn	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>APE</b>	<b>18.3</b>	<b>19.7</b>	<b>21.1</b>	<b>26.6</b>	<b>33.1</b>	<b>40.0</b>	<b>42.4</b>	<b>50.2</b>	<b>57.5</b>	<b>67.1</b>
YoY growth (%)	17.1	7.2	7.4	25.7	20.3	21.0	5.9	18.4	14.5	16.9
<b>NBV</b>	<b>2.4</b>	<b>4.2</b>	<b>3.9</b>	<b>5.0</b>	<b>6.6</b>	<b>8.2</b>	<b>9.0</b>	<b>12.5</b>	<b>15.0</b>	<b>18.1</b>
YoY growth (%)	21.2	76.3	(8.5)	29.0	31.5	25.5	9.0	39.2	20.0	20.5
<b>EV Movement</b>										
<b>Opening IEV</b>	<b>37.6</b>	<b>44.0</b>	<b>52.3</b>	<b>56.2</b>	<b>65.9</b>	<b>75.1</b>	<b>89.4</b>	<b>99.8</b>	<b>118.4</b>	<b>139.1</b>
New Business Value	2.4	4.2	3.9	5.0	6.6	8.2	9.0	12.5	15.0	18.1
EVOP	5.1	12.4	8.2	12.9	13.6	16.5	18.1	18.5	26.5	30.6
Dividend payout	3.1	2.4	4.4	3.2	-3.9	-6.0	-4.6	-3.8	-4.2	-4.2
<b>Closing EV</b>	<b>39.5</b>	<b>52.3</b>	<b>56.2</b>	<b>65.9</b>	<b>75.1</b>	<b>89.4</b>	<b>99.8</b>	<b>118.4</b>	<b>139.1</b>	<b>164.8</b>
Adjusted Net worth	19.3	21.2	20.8	24.0	24.8	24.0	25.5	27.7	27.4	28.1
Value in force (VIF)	20.2	31.2	35.4	41.9	50.3	65.4	74.3	90.7	102.1	114.7
<b>Ratios (%)</b>										
NBAP margins	13.1	21.3	17.9	18.8	20.2	21.7	21.6	25.2	26.1	26.9
RoEV	13.5	28.1	15.7	23.0	19.9	27.0	16.7	22.4	21.1	21.5
Operating RoEV	15.6	22.3	17.0	19.9	20.6	21.9	20.3	18.6	22.4	22.0

Source: Company, PL

**Exhibit 12: Higher APE due to strong FY21 base growth leading to increase in value of new business**

Estimate Change Table (Rs Bn)	Old		Revised		% Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
APE	53.4	62.2	57.5	67.1	7.6	7.9
VNB	14.2	16.6	15.0	18.1	5.9	8.5
VNB Margin (%)	26.5	26.8	26.1	26.9	(0.4)	0.2
EV	144.2	169.9	139.1	164.8	(3.6)	(3.0)
<b>Price target (Rs)</b>	<b>995</b>		<b>1,120</b>		<b>12.6</b>	
<b>Recommendation</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>			

Source: Company, PL

**Exhibit 13: We raise our TP to Rs 1,120 (from Rs995) based on 3.2x Mar-23 EV**

PT calculation and upside	
Op RoEV	20.3%
CoE	13.2%
G	5.0%
<b>Embedded value</b>	<b>165</b>
<b>Price / Embedded value</b>	<b>3.2</b>
<b>Appraisal Value</b>	<b>530</b>
Valuation per share of Max Life	1,245
Number of shares of Max Fin Services, mn	81%
<b>Valuation per share for Max Fin Services post Holdco Discount of 10%</b>	<b>1,120</b>
CMP	997
<i>Upside (%)</i>	12%

Source: Company, PL



Technical account (Rs m)					Balance sheet (Rs m)				
Y/e Mar	FY20	FY21	FY22E	FY23E	Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Gross Premiums</b>					<b>Sources of Fund</b>				
Gross Premiums	1,61,836	1,90,034	2,19,853	2,54,217	Share Capital	19,188	19,188	19,188	19,188
Reinsurance Ceded	2,048	1,900	2,199	2,542	Reserves And Surplus	6,806	6,156	5,870	6,588
Net Premiums	1,59,788	1,88,134	2,17,654	2,51,675	Policy Liabilities	4,54,807	5,37,548	6,30,766	8,21,343
Other Income	851	936	1,030	1,133	Prov. for Linked Liab.	1,74,210	2,12,537	2,59,295	2,59,295
<b>Total income</b>	<b>1,82,228</b>	<b>2,46,886</b>	<b>2,88,804</b>	<b>3,48,508</b>	Funds For Future App.	30,962	16,718	25,258	34,178
Commission	10,244	16,153	18,687	21,608	Current liabilities & prov.	20,276	22,304	24,534	24,534
Operating expenses	23,441	24,704	28,581	33,048	<b>Total</b>	<b>7,17,724</b>	<b>8,33,960</b>	<b>9,96,764</b>	<b>11,96,978</b>
Prov for doubtful debts	19	-	-	-	<b>Application of Funds</b>				
<b>Operating Profit</b>	<b>1,48,524</b>	<b>2,06,028</b>	<b>2,41,536</b>	<b>2,93,851</b>	Shareholders' inv	32,581	5,717	(86)	(7,021)
Prov for Tax	2,752	1,236	1,449	1,763	Policy holders' inv	4,60,484	5,59,449	6,74,516	8,81,665
Benefits Paid (Net)	66,222	63,984	74,022	85,592	Assets to cover linked liab.	1,91,642	2,33,803	2,85,239	2,85,239
Chg in reserves	66,394	1,29,130	1,52,351	1,90,577	Loans	4,264	4,691	5,160	5,160
<b>Surplus / Deficit</b>	<b>13,155</b>	<b>11,678</b>	<b>13,714</b>	<b>15,920</b>	Fixed Assets	2,187	2,406	2,646	2,646
<b>Shareholder's a/c (Rs m)</b>					Current assets	26,566	27,894	29,289	29,289
Y/e Mar	FY20	FY21	FY22E	FY23E	<b>Total</b>	<b>7,17,724</b>	<b>8,33,960</b>	<b>9,96,764</b>	<b>11,96,978</b>
Transfer from technical a/c	4,690	3,424	5,173	7,000	<b>Operating ratios</b>				
Income From Investments	2,074	1,723	253	(320)	Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Total Income</b>	<b>6,781</b>	<b>5,148</b>	<b>5,427</b>	<b>6,680</b>	Investment yield (%)	7.5%	8.0%	8.0%	9.0%
Other expenses	292	330	372	421	<b>Commissions / GWP</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>
Contribution to technical a/c	410	442	478	516	- first year premiums	17.9%	21.6%	21.6%	21.2%
<b>Total Expenses</b>	<b>802</b>	<b>772</b>	<b>850</b>	<b>937</b>	- renewal premiums	2.6%	4.7%	4.7%	4.7%
<b>PBT</b>	<b>5,978</b>	<b>4,376</b>	<b>4,576</b>	<b>5,743</b>	- single premiums	1.1%	0.2%	0.2%	0.2%
Prov for Tax	585	613	641	804	Operating expenses / GWP	13.0%	13.0%	13.0%	13.0%
<b>PAT</b>	<b>5,394</b>	<b>3,763</b>	<b>3,936</b>	<b>4,939</b>	<b>Total expense ratio</b>	<b>20.8%</b>	<b>21.5%</b>	<b>21.5%</b>	<b>21.5%</b>
<b>Premium (Rsm) &amp; growth (%)</b>					Claims / NWP	34.0%	34.0%	34.0%	34.0%
Y/e Mar	FY20	FY21	FY22E	FY23E	Solvency margin	5%	257%	259%	260%
New business prem - unwtd	55,835	68,118	76,974	87,750	<b>Persistency ratios (%)</b>				
<b>New business prem - APE</b>	<b>42,380</b>	<b>50,172</b>	<b>57,464</b>	<b>67,148</b>	Y/e Mar	FY20	FY21	FY22E	FY23E
Renewal premium	1,06,002	1,21,916	1,42,879	1,66,467	13th Month	81.4%	81.4%	81.4%	81.4%
Total premium - unwtd	1,61,836	1,90,034	2,19,853	2,54,217	25th Month	72.4%	72.5%	72.5%	72.5%
New bus. growth - unwtd	8.2%	22.0%	13.0%	14.0%	37th Month	63.1%	63.2%	63.2%	63.2%
<b>New business growth - APE</b>	<b>5.9%</b>	<b>18.4%</b>	<b>14.5%</b>	<b>16.9%</b>	49th Month	56.8%	56.9%	57.0%	57.0%
Renewal premium growth	12.6%	15.0%	17.2%	16.5%	61st Month	53.2%	53.2%	53.3%	53.3%
Total prem growth - unwtd	11.0%	17.4%	15.7%	15.6%	<b>Profitability ratios (%)</b>				
<b>Premium mix (%)</b>					Y/e Mar	FY20	FY21	FY22E	FY23E
Y/e Mar	FY20	FY21	FY22E	FY23E	NBP margin (%) pre overrun	0.0%	0.0%	0.0%	0.0%
<b>New business - unwtd</b>					NBP margin (%) post overrun	21.6%	25.2%	26.1%	26.9%
- Individual mix	91.9%	92.0%	91.0%	91.0%	RoE (%)	20.2%	29.2%	31.4%	39.9%
- Group mix	8.1%	8.0%	9.0%	9.0%	RoC (%)	28.1%	39.2%	39.9%	51.4%
<b>New business mix - APE</b>					<b>Valuation ratios</b>				
- Participating	32.2%	19.8%	18.3%	15.3%	Y/e Mar	FY20	FY21	FY22E	FY23E
- Non-participating	29.6%	43.1%	46.4%	47.7%	Total AUMs, Rs bn	685	799	960	1,160
- ULIPs	38.2%	37.2%	35.4%	37.0%	EVOP as % of MCEV	20.3%	18.6%	22.4%	22.0%
<b>Total premium mix - unwtd</b>					RoEV (%)	16.7%	22.4%	21.1%	21.5%
- Participating	49.0%	50.6%	50.0%	48.8%	Dividend %	34%	23%	22%	22%
- Non-participating	19.8%	24.5%	25.3%	25.8%	Dividend payout ratio (%)	144%	117%	107%	85%
- ULIPs	31.2%	25.0%	24.8%	25.4%	EPS, Rs	2.8	2.0	2.1	2.6
<b>Individual prem sourcing mix (%)</b>					Embedded Value, Rs bn	100	118	139	165
Y/e Mar	FY20	FY21	FY22E	FY23E	Appraisal value/EV (x)	3.9	3.6	3.4	3.2
Individual agents	22.2%	24.0%	24.0%	24.0%	Appraisal value/Net profit (x)	71.8	114.5	121.4	107.3
Corporate agents-Banks	61.4%	65.0%	65.0%	65.0%	Source: Company Data, PL Research				
Direct business	14.5%	7.0%	7.0%	7.0%					
Others	1.8%	4.0%	4.0%	4.0%					

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	770	700
2	Bank of Baroda	BUY	100	81
3	Federal Bank	Accumulate	90	82
4	HDFC Bank	BUY	1,735	1,429
5	HDFC Life Insurance Company	Reduce	660	705
6	ICICI Bank	BUY	700	570
7	ICICI Prudential Life Insurance Company	Accumulate	504	452
8	IDFC First Bank	Reduce	48	57
9	IndusInd Bank	BUY	1,195	935
10	Kotak Mahindra Bank	Hold	1,900	1,725
11	Max Financial Services	Accumulate	995	890
12	Punjab National Bank	Accumulate	43	37
13	SBI Life Insurance Company	BUY	1,150	959
14	South Indian Bank	BUY	10	8
15	State Bank of India	BUY	480	401

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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