

MAX Financial Services

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR1,060 TP: INR1,250 (+18%) Buy

Steady performance; VNB margin moderates on seasonal factors

Non-PAR growth and Persistency trends robust

- MAX Life Insurance (MAXLIFE) continued to demonstrate a resilient performance in a challenging macro environment, led by healthy 32% APE growth. This was owing to robust growth in Non-PAR Savings and recovery in ULIP. However, Protection growth has moderated, similar to that for peers. On the distribution front, the strong push via the bancassurance channel has aided premium growth, while proprietary channel growth was impacted by COVID 2.0.
- The VNB margin declined to ~19.7% in 1QFY22 (v/s 24% in 4QFY21), largely affected by seasonality due to the drag from operating cost and rising ULIP mix. Overall, we expect the VNB margin trajectory to remain stable and estimate a 21% CAGR in APE over FY21–23E. This would enable a 23% VNB CAGR over FY21–23E. **Maintain Buy.**

Healthy APE trends led by Non-PAR/ULIP; VNB margin moderates on seasonal factors

- **GWP grew ~27% YoY**, led by 29%/56%/~21% growth in first-year/single/renewal premium. However, shareholders' pre-tax profit declined 44% YoY to ~INR770m.
- In 1QFY22, individual APE grew 31% YoY, with total APE growth at 32%, **aided by strong trends in Non-PAR Savings (~99%) and healthy recovery in ULIP (~40%)**. On the other hand, Protection trends were sluggish (flat). The share of Protection stood at 19% (v/s 25% in 1QFY21 and 14% in FY21), while Non-PAR increased to 27% (v/s 18% in 1QFY21). MAX increased pricing for individual protection products in July'21.
- **COVID-19 update:** Total claims increased to 1.3x in 1QFY22 from the peak of the first COVID wave in 3QFY21. Gross/Net claims settled stood at INR10.3b/INR5.6b (2.1x/1.6x from 3QFY21). It utilized COVID-related provisions of INR2.3b in 1QFY22.
- **Absolute VNB growth was strong at 53% YoY to INR1.7b** (18% miss), while the margin declined to ~19.7% in 1QFY22 (v/s 24% in 4QFY21). This was largely attributable to the seasonality witnessed due to the drag from operating costs. Also, rising ULIP mix dragged margins. EV growth stood at 15% YoY, while operating RoEV declined to 13.5%.
- On the distribution front, **banca APE reported robust trends and grew 49% YoY**, while growth in the proprietary channel moderated due to the second COVID wave impact (grew 5%). Axis Bank constituted 63% of the total APE over 1QFY22 (v/s 56% in 1QFY21).
- **Persistency improved 300bp/200bp to 85%/54% in the 13th/61st month**, while trends remained stable in other cohorts. On the cost front, the opex-to-GWP ratio rose to 23.4% (v/s 21.9% in 1QFY21).

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Bloomberg	MAXF IN
Equity Shares (m)	345
M.Cap.(INRb)/(USDb)	365.8 / 4.9
52-Week Range (INR)	1148 / 515
1, 6, 12 Rel. Per (%)	-6/24/58
12M Avg Val (INR M)	1149

Financials & Valuations (INR b)

Y/E MARCH	FY21	FY22E	FY23E
Net Premiums	190.2	224.9	270.6
Sh.PAT	5.2	6.1	7.8
NBP gr-unwtd (%)	22.3	20.0	23.0
NBP gr-APE (%)	18.8	17.8	23.3
Premium gr (%)	17.5	18.3	20.3
VNB margin (%)	25.2	25.3	25.9
Op. RoEV (%)	18.5	20.2	21.6
Total AUMs	904	1,091	1,226
VNB(INRb)	12.5	15.0	18.9
EV per Share	274.5	326.1	391.2

Valuations

P/EV (x)	4.8	4.1	3.4
P/EVOP (x)	30.9	23.9	18.9

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	14.7	17.0	28.3
DII	50.7	51.4	28.7
FII	26.3	23.1	30.5
Others	8.2	8.5	12.5

FII Includes depository receipts

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

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Highlights from management commentary

- A COVID-19 provision buffer of ~INR2.3b was utilized towards COVID-19 claims settlements while maintaining an excess COVID provision buffer of ~INR2.7b against potential future claims. Overall, it expects the P&L impact to remain neutral, and if required, would use the excess provisions available on the balance sheet.
- Over the near term, it has adopted a cautious approach to the Group Term business and adjusted pricing due to COVID-19 uncertainties.

Valuation and view

MAXLIFE reported healthy operating business trends, with strong premium growth in the Non-PAR business, and the ULIP business also showed recovery. The strong push via the bancassurance channel supported premium growth. Persistency trends also improved. The VNB margin moderated on a sequential basis due to seasonal factors, but the outlook remains stable. Over the near term, MAX remains cautious on group term products due to higher COVID-19 uncertainties. We estimate a 21% APE CAGR over FY21–23, with the VNB margin remaining stable at ~26% in FY23. This would enable a 23% VNB CAGR over FY21–23E, while operating RoEV would sustain at ~22%. **We maintain our BUY rating, with TP of INR1,250 (4.0x FY23E EV with 20% Holdco discount).**

Quarterly performance

(INR m)

Policy holder's A/c (INR m)	FY21				FY22				FY21	FY22E	FY22E 1QE	A v/s E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Gross prem. income	27,510	45,330	46,280	71,060	34,840	53,982	56,231	79,872	190,180	224,925	31,930	9%
Growth (%)	3.8%	19.9%	19.3%	21.0%	26.6%	19.1%	21.5%	12.4%	17.5%	18.3%	16.1%	
Renewal premium	18,520	29,370	28,800	45,230	22,440	34,322	35,753	50,495	121,920	143,010	19,393	16%
Growth (%)	6.4%	22.3%	16.3%	13.6%	21.2%	16.9%	24.1%	11.6%	15.0%	17.3%	4.7%	
PAT	1,710	260	2,200	1,060	770	1,464	1,647	2,219	5,230	6,101	1,215	-37%
Growth (%)	151.5%	-69.8%	42.9%	-54.2%	-55.0%	463.1%	-25.1%	109.4%	-3.0%	16.6%	-28.9%	
Key metrics (INR m)												
New Business APE	6,610	11,540	12,250	19,170	8,750	14,228	14,820	21,759	49,570	59,282	8,524	3%
Growth (%)	-3.5	10.4	21.3	36.1	32.4	23.3	21.0	13.5	17.0	19.6	29.0	
VNB	1,130	3,250	3,500	4,610	1,720	3,614	3,942	5,717	12,490	14,993	2,097	-18%
Growth (%)	-15.7	41.3	65.1	43.6	52.2	11.2	12.6	24.0	39.2	20.0	85.6	
AUM (INRb)	730	780	850	904	937	1,016	1,053	1,091	904	1,091	945	-1%
Growth (%)	14.1	20.0	23.9	32.0	28.4	30.3	23.9	20.6	32.0	20.6	29.5	
Key Ratios (%)												
VNB Margins (%)	17.1	28.2	28.6	24.0	19.7	25.4	26.6	26.3	25.2	25.2	24.6	-494
Solvency ratio (%)	212.0	207.0	208.0	196.0	197.0	193.0	191.0	204.2	196.0	204.2	195.0	-200

E: MOFSL estimates

Exhibit 1: Quarterly snapshot

Policyholder A/c (INR b)	FY20				FY21				FY22	Change	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
Gross premium	26.5	37.8	38.8	58.7	27.5	45.3	46.3	71.1	34.8	27	-51
First year premium	6.5	10.5	10.0	13.9	6.2	11.3	12.0	18.9	8.0	29	-57
Renewal premium	17.4	24.0	24.8	39.8	18.5	29.4	28.8	45.2	22.4	21	-50
Single premium	2.7	3.3	4.0	5.0	2.8	4.7	5.5	7.0	4.4	56	-38
Shareholders PAT	0.7	0.9	1.5	2.3	1.7	0.3	2.2	1.1	0.8	-55	-27
APE data (INR b)											
PAR	2.3	3.1	2.9	4.2	1.5	1.6	2.1	4.3	1.5	2	-65
Individual Protection	0.5	0.7	1.0	1.1	0.9	1.3	0.9	1.4	0.9	-5	-38
Group Protection	0.5	0.7	0.4	0.4	0.7	0.7	0.4	0.7	0.8	8	20
Non-PAR Savings	1.0	2.4	2.0	2.0	1.2	4.4	4.4	4.8	2.4	99	-51
ULIP	2.5	3.5	4.1	5.6	2.3	3.3	4.4	8.3	3.2	40	-61
APE (% of total)											Change (bp)
PAR	33.0	29.7	28.3	30.0	22.0	14.1	17.0	22.2	17.0	-500	-517
Individual Protection	7.0	7.0	9.7	8.0	14.0	10.9	7.0	7.4	10.0	-400	259
Group Protection	8.0	6.3	4.3	3.1	11.0	6.3	3.0	3.4	9.0	-200	559
Non-PAR Savings	15.0	23.3	20.0	14.1	18.0	38.4	36.0	25.2	27.0	900	176
ULIP	37.0	33.7	40.4	39.9	35.0	28.7	36.0	43.3	37.0	200	-634
Distribution mix (%)											
Proprietary	33	33	30	29	37	28	27	25	30	-700	517
Banca	66	66	69	70	62	71	72	74	63	100	-1,117
Others	1	1	1	1	1	1	1	1	0	-100	-100
Key Ratios (%)											
Operating ratios											
Opex to GWP ratio (%)	24.7	23.0	22.7	20.8	21.9	21.6	21.7	20.7	23.4	150	270
Solvency Ratio	225.0	224.0	220.0	207.0	212.0	207.0	208.0	196.0	197.0	-1,500	100
Profitability ratios											
VNB margins	19.6	22.0	21.0	22.8	17.1	28.2	28.6	24.0	19.7	256	-439
Persistence ratios											
13th Month	85.0	85.0	85.0	83.0	82.0	83.0	83.0	84.0	85.0	300	100
25th Month	72.0	72.0	72.0	71.0	68.0	69.0	69.0	71.0	69.0	100	-200
37th Month	64.0	65.0	63.0	63.0	61.0	61.0	61.0	63.0	61.0	0	-200
49th Month	60.0	60.0	60.0	59.0	57.0	58.0	57.0	58.0	57.0	0	-100
61st Month	53.0	53.0	51.0	52.0	52.0	53.0	54.0	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	1.7	52	-63
EV	93	97	101	100	107	110	117	118	123	15	4
AUM	640	650	686	685	730	780	850	904	937	28	4
Equity Mix (%)	21.0	21.0	22.0	17.0	20.8	21.0	23.1	21.6	25.1	429	349

Please note: Persistence ratios, opex ratio and EV for 1H, 9M and 12M

Source: MOFSL, Company



Highlights from management commentary

Business related

- In Individual Protection, the higher focus remains on ROP products.
- The Credit Protect business is a sustainable segment, like Individual Protection. However, in group term plans, it has to derive tactical opportunities.
- The price hike has recently been higher in group term life products on account of higher COVID-19 uncertainties.
- It has maintained a cap on the Non-PAR Savings business at 35%.
- In the overall APE mix, around 50% of the business is re-insured. ~80% of the Protection business is also re-insured.
- The run-rate in Individual Protection is better v/s peers.
- It has increased focus on the Annuity segment.

Operating metrics

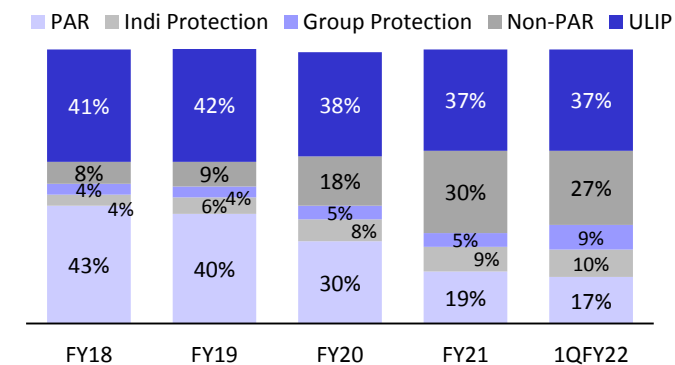
- The operating RoEV for 1QFY22 was supported by positive operating variances in the form of tax refunds (INR630) as well as by the delay in claims reporting amid the lockdowns.
- It raised INR5b in non-convertible debentures.
- The VNB margin decline was largely attributed to the seasonality impact due to the drag from operating costs. Also rising ULIP mix during the quarter dragged margins.
- It utilized INR2.34b of the COVID provision buffer while still maintaining an excess COVID provision buffer of INR2.66b against potential future claims. Overall, it expects the P&L impact to remain neutral, and if required, would use the excess provisions available on the balance sheet.
- Significant pricing was witnessed in Protection from July'21.

Others

- The online business grew 51% YoY in 1QFY22 and has seen a 41% CAGR over the last two years. Furthermore, an equal mix was seen between its direct channel and web aggregators.
- It filed an application with the IRDAI to acquire a residual ~5.17% stake from MSI in Max Life.

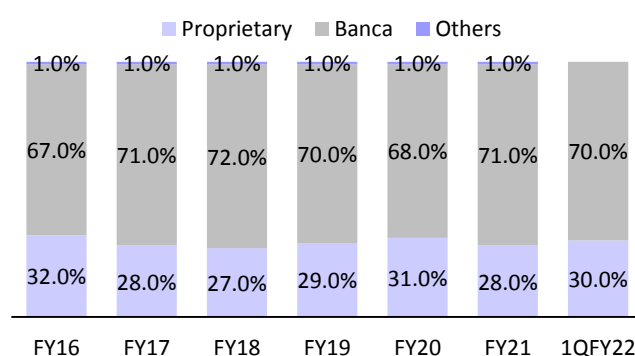
Key exhibits

Exhibit 2: Share of Non-PAR Savings / Protection at 27%/19%



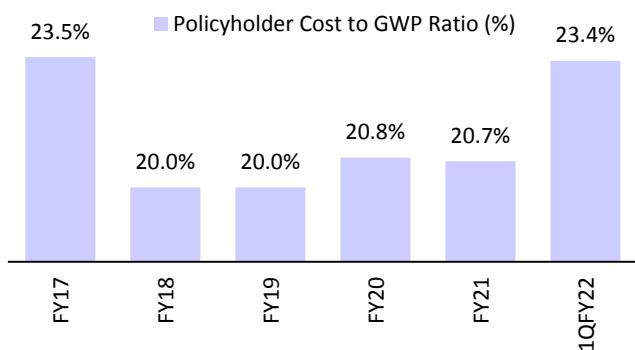
Source: MOFSL, Company

Exhibit 3: Distribution mix based on total APE (%)



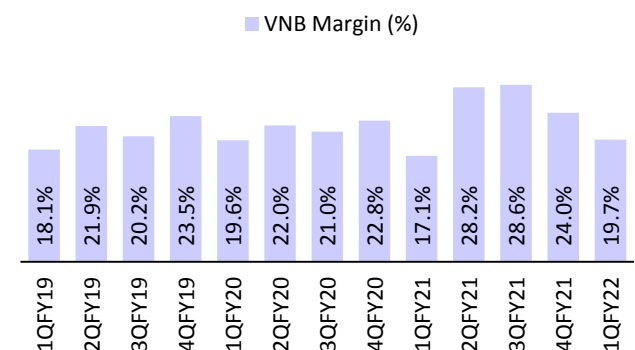
Source: MOFSL, Company

Exhibit 4: Opex-to-GWP ratio at 23.4%



Source: MOFSL, Company

Exhibit 5: VNB margin declines to 19.7%



Source: MOFSL, Company

Valuation and view

- MAXLIFE has increased its focus on the Non-PAR and Protection segments –it posted a 40%/58% CAGR in Protection / Non-PAR Savings over FY17–21. The share of these segments increased to ~46% in 1QFY22 (v/s ~16% in FY17). However, in 1QFY22, while growth in Non-PAR was robust, the Protection business came in flat, while ULIP saw healthy recovery.
- MAXF has one of the most productive agency channels, with agent productivity higher at INR250k in FY21 (v/s INR150k in FY17). The proprietary channel accounted for 30% of the total APE. However, the strong push via the bancassurance channel aided premium growth in 1QFY22 – the proprietary channel was affected by COVID 2.0. The management would, however, continue to make significant investments in growing its proprietary channel.
- **Buy, with TP of INR1,250:** MAXLIFE reported healthy operating business trends, with strong premium growth in the Non-PAR business, and the ULIP business also showed recovery. The strong push via the bancassurance channel supported premium growth. Persistency trends also improved. The VNB margin moderated on a sequential basis due to seasonal factors, but the outlook remains stable. Over the near term, MAX remains cautious on group term products due to higher COVID-19 uncertainties. We estimate a 21% APE CAGR over FY21–23, with the VNB margin remaining stable at ~26% in FY23. This

would enable a 23% VNB CAGR over FY21–23E, while operating RoEV would sustain at ~22%. **We maintain our BUY rating, with TP of INR1,250 (4.0x FY23E EV with 20% Holdco discount).**

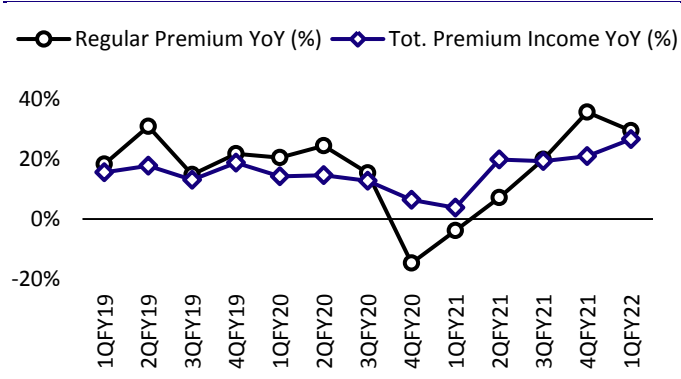
Exhibit 6: We value MAXLIFE at INR1,250 per share

Appraisal value method (INR b)	FY23E
Embedded value	169
New business profit	18.9
Appraisal value	674
MFS stake post deal	80%
MFS Value	539
MFS valuation per share (INR)	1,563
Appraisal value-to-embedded value (x)	4.0
Holding company discount	20%
Target price (INR)	1,250
Implied multiples	
- VNB multiple (x)	26.7
-EVOP multiple (x)	22.2
Upside	18%

Source: MOFSL

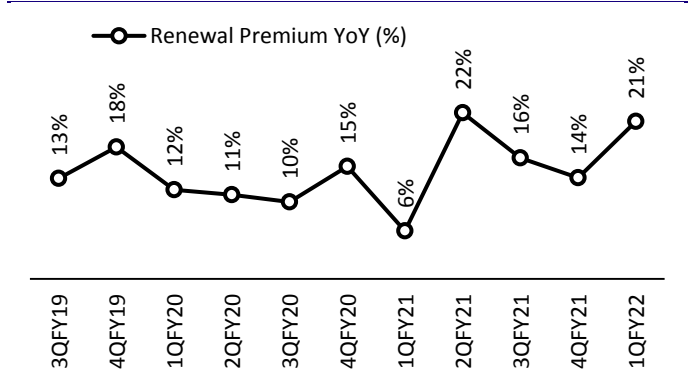
Story in charts

Exhibit 7: First-year premium up 29% YoY in 1QFY22 and total gross income premium up 27% YoY



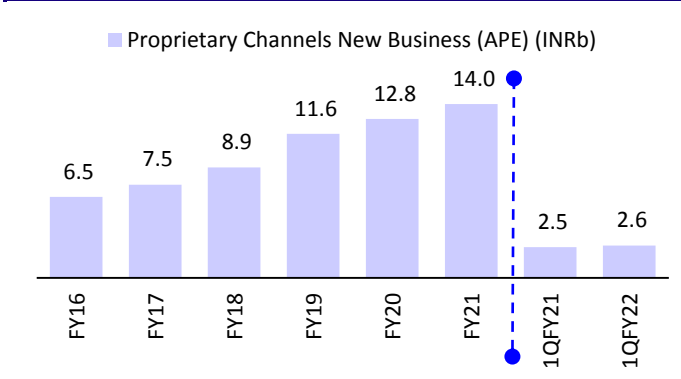
Source: MOFSL, Company

Exhibit 8: Renewal premium up 21% YoY in 1QFY22



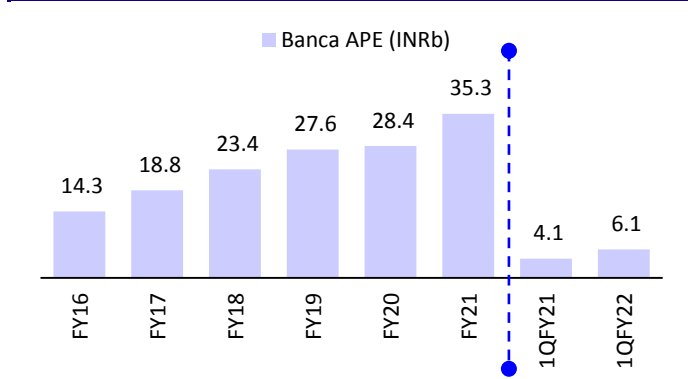
Source: MOFSL, Company

Exhibit 9: Proprietary channel APE up 5% YoY in 1QFY22



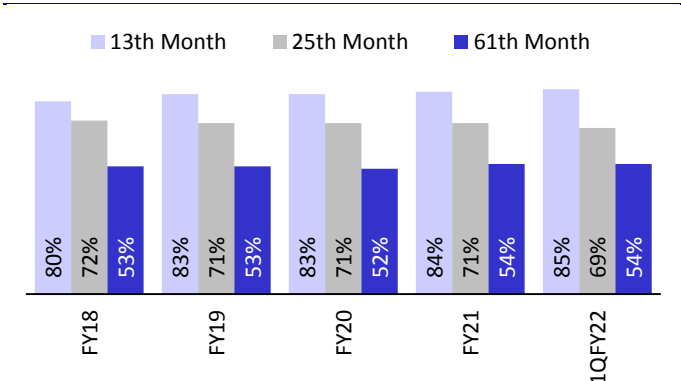
Source: MOFSL, Company

Exhibit 10: Banca APE at 49% YoY over 1QFY22



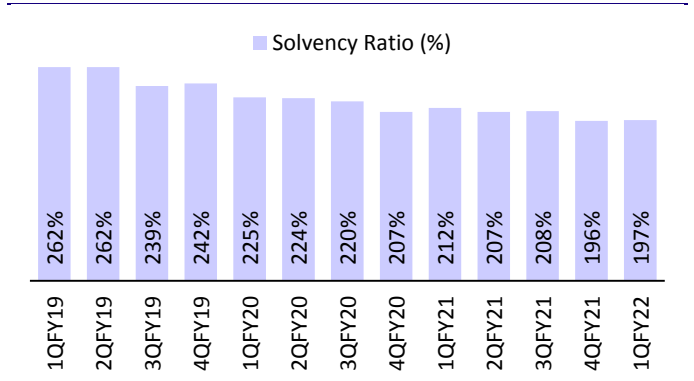
Source: MOFSL, Company

Exhibit 11: Persistency trends for MAXLIFE



Source: MOFSL, Company

Exhibit 12: Solvency ratio stands at 197%



Source: MOFSL, Company

Financials and valuations

Technical account (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E
Gross Premiums	125,009	145,752	161,836	190,179	224,925	270,566
Reinsurance Ceded	1,213	1,569	2,049	2,788	3,662	4,466
Net Premiums	123,795	144,184	159,788	187,391	221,263	266,100
Income from Investments	37,574	48,643	21,589	121,656	59,822	66,135
Other Income	346	440	612	1,084	1,281	1,514
Total income (A)	161,715	193,267	181,989	310,131	282,365	333,749
Commission	8,929	9,896	10,244	12,270	15,703	18,980
Operating expenses	16,098	19,274	23,441	27,006	32,589	39,277
Total commission and opex	25,027	29,170	33,685	39,276	48,291	58,257
Benefits Paid (Net)	49,466	57,178	66,222	70,011	93,289	112,665
Chg in reserves	79,043	97,365	66,394	196,223	130,513	150,404
Prov for doubtful debts	19	17	19	40	21	26
Total expenses (B)	153,555	183,730	166,321	305,549	272,113	321,351
(A) - (B)	8,160	9,536	15,668	4,581	10,252	12,398
Prov for Tax	1,077	1,299	2,752	1,861	2,153	2,648
Surplus / Deficit	7,083	8,237	12,916	2,720	8,099	9,749

Shareholder's a/c (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E
Transfer from technical a/c	3,992	4,402	4,690	3,862	5,099	6,388
Income From Investments	2,178	2,177	2,074	2,360	2,397	3,052
Total Income	6,175	6,604	6,781	6,348	7,495	9,440
Other expenses	(68)	257	292	567	641	724
Contribution to technical a/c	91	120	410	674	-	-
Total Expenses	24	377	802	1,249	641	724
PBT	6,152	6,226	5,978	5,100	6,855	8,716
Prov for Tax	875	662	585	(131)	754	959
PAT	5,276	5,564	5,394	5,231	6,101	7,757
Growth	-20%	5%	-3%	-3%	17%	27%

Premium (INR m) & growth (%)	FY18	FY19	FY20	FY21	FY22E	FY23E
New business prem - unwtd	43,486	51,604	55,835	68,262	81,915	100,755
New business prem - WRP	33,072	40,019	42,380	50,327	59,282	73,098
Renewal premium	81,523	94,148	106,002	121,917	143,010	169,811
Total premium - unwtd	125,009	145,752	161,836	190,179	224,925	270,566
New bus. growth - unwtd	18.6%	18.7%	8.2%	22.3%	20.0%	23.0%
New business growth - wrp	20.3%	21.0%	5.9%	18.8%	17.8%	23.3%
Renewal premium growth	14.6%	15.5%	12.6%	15.0%	17.3%	18.7%
Total prem growth - unwtd	16.0%	16.6%	11.0%	17.5%	18.3%	20.3%

Premium mix (%)	FY18	FY19	FY20	FY21	FY22E	FY23E
New business - unwtd						
- Individual mix	91.6%	92.0%	91.9%	91.2%	90.5%	90.0%
- Group mix	8.4%	8.0%	8.1%	8.8%	9.5%	10.0%
New business mix - WRP						
- Participating	44.7%	41.4%	32.2%	20.7%	33.7%	33.7%
- Non-participating	13.9%	16.4%	29.6%	41.6%	29.8%	29.6%
- ULIPs	41.4%	42.2%	38.2%	37.7%	36.5%	36.7%
Total premium mix - unwtd						
- Participating	57.3%	53.4%	49.0%	41.3%	44.2%	43.0%
- Non-participating	14.2%	15.0%	19.8%	27.7%	23.9%	24.3%
- ULIPs	28.5%	31.5%	31.2%	30.9%	31.9%	32.6%

Financials and valuations

Balance sheet (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E
Sources of Fund						
Share Capital	19,188	19,188	19,188	19,188	19,188	19,188
Reserves And Surplus	7,702	8,478	6,806	10,589	12,240	14,796
Shareholders' Fund	26,989	27,609	25,739	30,079	31,762	34,355
Policy Liabilities	310,137	381,436	454,807	558,936	607,969	663,215
Prov. for Linked Liab.	163,050	186,738	174,210	254,703	262,904	325,497
Funds For Future App.	18,655	22,498	30,962	29,819	1,426	1,648
Current liabilities & prov.	17,841	23,398	20,276	29,514	32,465	35,711
Total	549,628	659,270	717,724	941,742	983,538	1,117,691
Application of Funds						
Shareholders' inv	32,146	35,187	32,581	38,484	51,953	70,137
Policyholders' inv	319,238	394,173	460,484	581,847	587,541	678,105
Assets to cover linked liab.	170,981	198,619	191,642	283,736	300,760	318,806
Loans	2,233	3,265	4,264	5,322	8,143	12,459
Fixed Assets	1,582	1,921	2,187	2,213	2,589	3,030
Current assets	23,448	26,105	26,566	30,140	32,551	35,155
Total	549,628	659,270	717,724	941,742	983,538	1,117,691
Operating ratios (%)	FY18	FY19	FY20	FY21	FY22E	FY23E
Investment yield	8.3%	9.0%	3.4%	16.5%	7.1%	7.0%
Commissions / GWP	7.1%	6.8%	6.3%	6.5%	7.0%	7.0%
- first year premiums	20.2%	18.1%	17.2%	17.5%	20.5%	20.2%
- renewal premiums	3.0%	2.7%	2.6%	2.7%	2.7%	2.7%
- single premiums	0.1%	1.2%	1.1%	1.4%	1.0%	1.0%
Operating expenses / GWP	12.9%	13.2%	14.5%	14.2%	14.5%	14.5%
Total expense ratio	20.0%	20.0%	20.8%	20.7%	21.5%	21.5%
Claims / NWP	39.9%	39.6%	41.4%	37.3%	42.2%	42.3%
Solvency ratio	275%	242%	207%	202%	204%	193%
Persistency ratios (%)	FY18	FY19	FY20	FY21	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	FY21	FY22E	FY23E
New business margin (%)	20.2%	21.7%	21.6%	25.2%	25.3%	25.9%
RoE (%)	20.3%	20.4%	20.2%	18.7%	19.7%	23.5%
Operating RoEV	20.6%	21.9%	20.3%	18.5%	20.2%	21.6%
RoEV (%)	13.9%	19.0%	11.6%	18.6%	18.8%	19.9%
Valuation ratios	FY18	FY19	FY20	FY21	FY22E	FY23E
Total AUMs (INR bn)	522	628	685	904	1,091	1,226
EPS (Rs)	14.3	15.0	14.5	11.0	14.1	18.0
Value of new business (INRb)	6.6	8.6	9.0	12.5	15.0	18.9
Embedded Value (INR bn)	75.1	89.4	99.8	118.3	140.6	168.7
EV Per share (INR)	157.8	187.9	209.7	274.5	326.1	391.2
P/EV (x)	8.4	7.1	6.3	4.8	4.1	3.4
P/EPS (x)	92.7	88.7	91.6	120.8	93.9	73.8
P/EVOP(x)	42.1	34.8	31.6	30.9	23.9	18.9
P/VNB(x)	87.3	69.6	63.9	45.9	38.2	30.3

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

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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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