

Max Financial

Refer to important disclosures at the end of this report

VNB margin surprises positively; growth to take centre stage in FY23

Max Life reported a robust set of numbers in FY22 despite Covid-19-led disruptions to growth and mortality. The VNB margin threw a big surprise, expanding to 27.4% in FY22 (FY21: 25.2%; 9MFY22: 25.1%). Going ahead, Max Life will focus on growth through continued investments in its proprietary distribution channel and Axis Bank-led banca distribution channel, and responding to competition by improving products. Against this backdrop, the company has guided for a ~25-26% VNB margin, in line with our estimates. On the non-operational front (MAXF-Max Life merger, purchase of ~5.2% stake in Max Life by MAXF from Mitsui Sumitomo and up to 7% additional stake transfer to Axis Bank group), the status was broadly unchanged from 9MFY22. Overall, the FY22 performance, especially on a relatively stronger base of FY21 and amid a difficult environment in multiple Covid waves, reinforces our belief in the long-term profitable growth potential of Max Life. After the recent sharp correction, the stock price of MAXF is valued attractively and does not reflect the true value of the underlying Max Life franchise. We reiterate our Buy rating with a revised target price of Rs1,030.

- Max Life delivers robust operational and financial performance:** Max Life, the sole operating company of Max Financial, posted an overall good set of numbers in FY22, with VNB growing by 22% YoY to Rs15.3bn and VNB margin expanding by 2.2ppts YoY to 27.4%. APE growth was satisfactory at 13% YoY in FY22 but materially lower than 23% YoY in 9MFY22 due to a higher base of Q4FY21 and negative APE growth in Q4FY22 amid Omicron wave-led disruption. Given that the overall product mix and operating parameters were broadly stable YoY, the margin expansion was largely an outcome of improved profitability of products with changed designs. The operating RoEV at 19.2% (20.1% adjusted for excess Covid mortality) was very impressive. The solvency ratio at 201% was quite robust and very comfortable to support growth in FY23.
- Focus on growth in FY23:** In CY22, the company has so far delivered weaker topline growth owing to a host of factors, including a stronger base (on 2Y/3Y/5Y CAGR, Max Life has the best APE growth), Omicron-led disruptions in distribution and a slowdown in retail protection. Going ahead, management is confident of delivering strong growth, led by its continuous focus and investments in proprietary and banca distribution channels. In FY22, the Axis Bank channel grew by ~15%, while other bank channels declined by ~12% YoY. Additionally, management has guided for a slightly lower margin in FY23 as it continues to invest in distribution and respond to competition by offering attractive returns to customers. Overall, management remains very confident of delivering profitable growth, led by wide product offerings and powerful distribution (including Axis Bank), a strong agency channel and a solid presence in proprietary and web aggregator digital channels.
- Current weakness in shares unwarranted:** The performance of MAXF shares has traditionally been driven by a combination of fundamental performance of Max Life and noises around MAXF. Given that the operational performance of Max Life remains solid, the status of non-operational matters remains unchanged and management expresses its confidence in getting requisite regulatory approvals to achieve the desired corporate structure, the recent underperformance of MAXF shares is unwarranted. The current share price does not reflect the fair value of the high-quality underlying franchise of Max Life.
- Minor changes to estimates; reiterate Buy with a revised TP of Rs1,030:** We have slightly tweaked our estimates to reflect FY22 developments. We have increased our APE and VNB estimates for FY23-25 marginally. We increase the cost of equity to 13.5% to reflect the recent yield rise. We have increased the HoldCo discount to 20% from 10% on the appraisal value method valuation of Max Life and rolled forward to Jun'23. We reiterate our Buy rating on the stock with a new TP of Rs1,030 (implying FY23E P/EV of 2.6x) and find the stock attractively valued, offering a strong upside.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 8\)](#)

Financial Snapshot

Y/E March (Rs bn)	FY21	FY22	FY23e	FY24e	FY25e
Annualised Premium Equivalent (APE)	49.6	55.9	65.2	75.5	87.4
New Business Value (NBV)	12.5	15.3	17.2	19.9	23.5
NBV Margin (% of APE)	25.2	27.3	26.3	26.3	26.8
Embedded Value	118.3	141.7	169.6	201.9	240.0
Operating RoEV (%)	18.6	19.2	20.6	20.1	19.9
EVPS (Rs)	281.2	336.8	393.2	468.1	556.3
EPS (Rs)	14.51	7.34	14.21	19.57	23.43
BVPS (Rs)	96.9	114.0	128.2	147.8	171.2
P/EV (x)	2.5	2.1	1.8	1.5	1.3

Source: Company, Emkay Research

CMP	Target Price
Rs 700 as of (May 10, 2022)	Rs 1,030 (▼) 12 months
Rating	Upside
BUY (■)	47.1 %

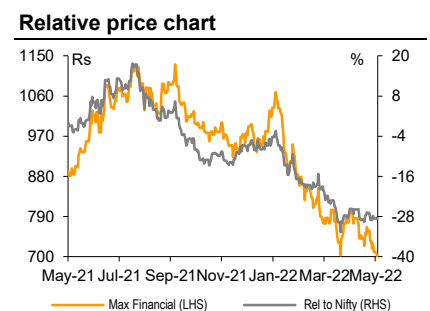
Change in Estimates	
EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	-7.2%
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus		
EPS Estimates		
	FY23E	FY24E
Emkay	14.2	19.7
Consensus	14.9	17.8
Mean Consensus TP (12M)	Rs 1,203	

Stock Details	
Bloomberg Code	MAXF IN
Face Value (Rs)	2
Shares outstanding (mn)	345
52 Week H/L	1,148 / 697
M Cap (Rs bn/USD bn)	242 / 3.12
Daily Avg Volume (nos.)	621,267
Daily Avg Turnover (US\$ mn)	6.3

Shareholding Pattern Mar '22	
Promoters	14.7%
FIIIs	23.3%
DIIIs	54.0%
Public and Others	8.0%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(13)	(20)	(30)	(23)
Rel. to Nifty	(4)	(14)	(22)	(29)



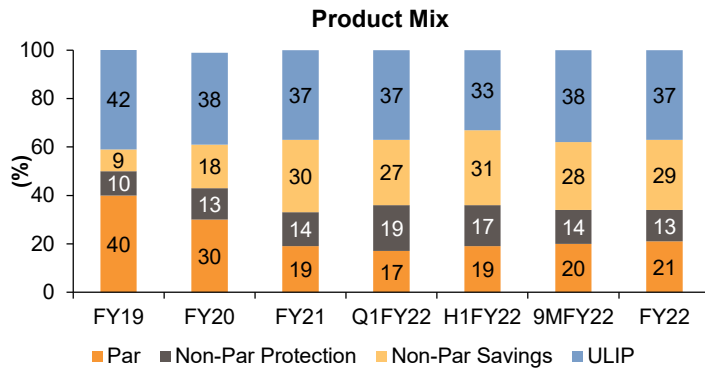
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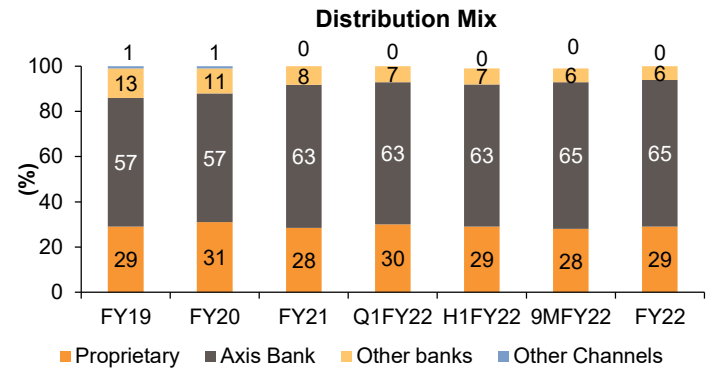
Story in Charts

Exhibit 1: Product mix broadly stable YoY



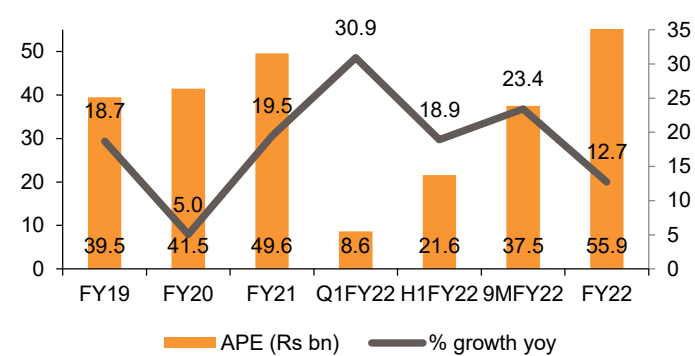
Source: Company, Emkay Research

Exhibit 2: Banca share up with increasing growth from Axis Bank



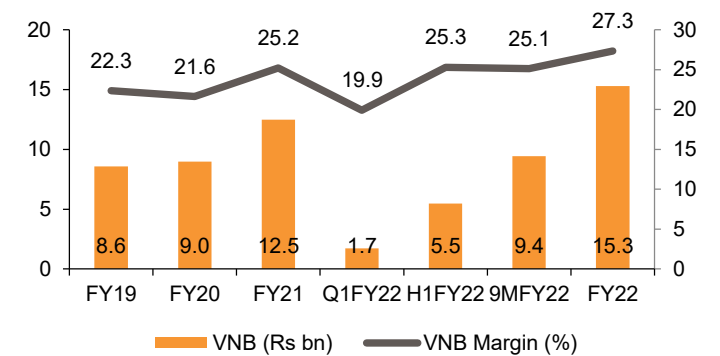
Source: Company, Emkay Research

Exhibit 3: Muted growth in APE in Q4 on account of larger base and Covid impact



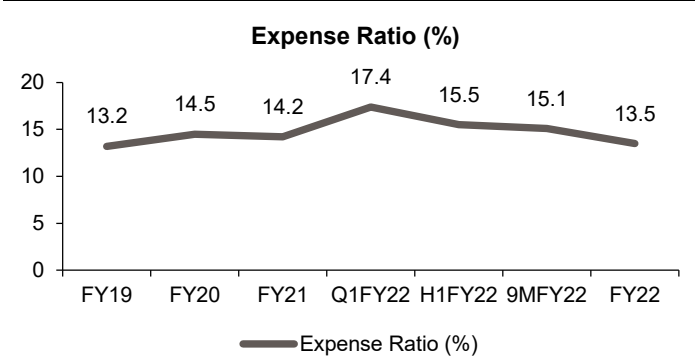
Source: Company, Emkay Research

Exhibit 4: Changes in product mix leads to better margins



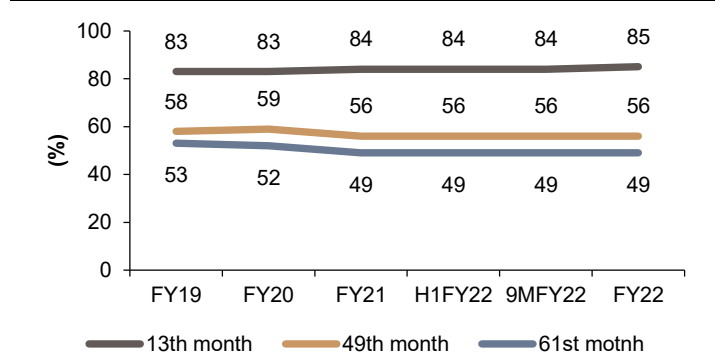
Source: Company, Emkay Research

Exhibit 5: Cost management actions continue to improve expense ratio



Source: Company, Emkay Research; Note: Expense ratio (reported) is Policyholders expense to GWP ratio

Exhibit 6: Focus on maintaining consistent persistency levels



Source: Company, Emkay Research Note: Persistency Ratio post FY21 is calculated on individual policies excluding single premium.

Exhibit 7: Key Financials from FY22/Q4FY22 results

in Rs bn except %	FY22	FY21	%yoy	Q4FY22	Q4FY21	%yoy	FY21	FY20	%yoy
Annualised Premium Equivalent (APE)	55.9	49.6	12.7	18.4	19.2	-4.2	49.6	41.5	19.5
--o/w Savings	48.6	42.6	14.0	16.4	17.1	-4.3	42.6	36.1	18.1
--o/w Protection	7.3	6.9	4.7	2.0	2.1	-3.0	6.9	5.4	28.7
Protection (% of APE)	13.0	14.0	-1.0ppts	11.0	10.8	0.1ppts	14.0	13.0	1.0ppts
Value of New Business	15.3	12.5	22.3	5.9	4.6	27.1	12.5	9.0	39.2
New Business Margin (%)	27.3	25.2	2.1ppts	31.9%	24.05%	0.1ppts	25.2	21.6	3.6ppts
Embedded Value	141.7	118.3	19.8	141.7	118.3	19.8	118.3	99.8	18.6
Operating RoEV (%)	19.2	18.5	0.7ppts	-	-	-	18.5	20.3	-1.8ppts
Total New Business Premium	79.0	68.3	15.8	26.2	25.8	1.4	68.3	55.8	22.3
Renewal premium	145.1	121.9	19.0	53.8	45.2	19.0	121.9	106.0	15.0
Gross written premium	224.1	190.2	17.9	80.0	71.1	12.6	190.2	161.8	17.5
PBT - Max Life	4.17	5.10	(18.2)	1.5	0.7	108.3	5.10	5.98	(14.7)
PAT - MAXF	2.53	4.25	(40.4)	1.2	0.6	88.8	4.25	1.45	193.4
AUM	1,075	904	18.9	1075.1	904	18.9	904	685	32.0
13th month persistency (%)	85.0	84.0	1.0ppts	-	-	-	84.0	83.0	1.0ppts
49th month persistency (%)	56.0	56.0	0.0ppts	-	-	-	56.0	59.0	-3.0ppts
61st month persistency (%)	50.0	49.0	1.0ppts	-	-	-	49.0	52.0	-3.0ppts
Solvency ratio (%)	201	196	5ppts	201	196	5ppts	196	207	-11ppts

* Persistency Ratio is calculated on Individual Policies Excluding Single Premium post FY21.

Source: Company, Emkay Research; Note: Operating RoEV without the impact of Covid 19 is 20.1% for FY22

Exhibit 8: Appraisal value method valuation of Max Fin

Parameter (Rs bn)	Value
FY23e-38e APE CAGR	10.5%
FY23e-38e VNB CAGR	10.5%
Terminal growth rate	4.5%
Cost of Equity	13.5%
FY23 EV	170
Present value of future new business	371
FY 23 Appraisal value	540
Max Financial ownership in Max Life	80.0%
FY23 Fair value of Max Financials (20% Holdco discount)	346
No. Of shares	345.1
FV per share (Rs.)	1,002
Jun-23 Target Price	1030

Source: Emkay Research

Exhibit 9: Implied valuation multiples

Target multiples on FY23 estimates	1030
Implied P/EV	2.6x
RoEV (%)	20.6
P/EVoP	15.2x
Implied FY24e VNB multiple	16.0x
Current price multiple on FY23 estimates	700
P/EV	1.8x
RoEV (%)	20.6
P/EVOP	10.4x
Implied FY24e VNB multiple	6.7x

Source: Emkay Research. Note: Implied VNB multiple is the derived number that is the ratio of premium of appraisal value/market cap over closing EV of previous year to VNB

Exhibit 10: Revision in estimates

(Rs bn)	Old			Revised			(%) Var		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
APE	64.5	74.6	NA	65.2	75.5	0.0	1.1	1.1	NA
VNB	16.6	19.6	NA	17.2	19.9	0.0	3.6	1.7	NA
VNB margin (%)	25.7	26.2	NA	26.3	26.3	0.0	0.6pts	0.1pts	NA
Embedded Value	165.6	194.7	NA	169.6	201.9	144.2	2.4	3.7	NA
Consolidated EPS (Rs)	15.6	19.3	NA	14.2	19.6	23.4	-9.0	1.6	NA

Source: Company, Emkay Research

Con-call highlights

- Management said that the company posted a 5-year CAGR of 16% vs. the industry growth rate of 6%. The company's market share has been improving year-on-year, and the company has maintained the 4th rank among private life insurers with proven consistency in the distribution channels.
- The company reported VNB of Rs15.28bn, recording a margin of 27.4% for FY22. Management said that the New Business Sum Assured saw a 20% CAGR over the last five years and ranked 3rd among the private players.
- Management mentioned that the company maintained a healthy RoEV of 19.2% for FY22, which would turn out to be 20.1% without the Covid impact.
- Management's vision is to maintain the company's dominance in protection and scale up even further in coming time through product innovations and strengthening its distribution channels.
- Max Life launched various products with differentiated plans, with special features such as special exit value, premium holiday options, etc. With many other initiatives, the company grew its retail protection more than four times in the last five years.
- Management said that during FY22 the company witnessed a five-point increase in the Net Promoter Score from 44 to 49 (11% growth).
- Management said that the Rs5bn Covid reserve was a measure, more of conservative in nature. Management believes that it is important to create provisions in the balance sheet, so that the company is able to smoothen the outcome, and to make sure that the company has a buffer for bad times. Such reserves do not have any impact on the Embedded Value.
- Regarding the Axis Bank distribution channel, management said that the quarterly growth was muted on account of a higher base and the impact of the Omicron wave. However, on a 9-month basis, the performance of the Axis Bank channel was robust with 15% growth in FY22.
- Management stated that out of 277mn of Operating Variances, 108mn amounted to the impact of Covid and the rest was on account of changes in mortality assumptions.
- Regarding the stake buyout from Mitsui Sumitomo, management said that the buyback application is under process and the company is closely working with the regulator. Management expects the process to be completed in the next few weeks.

Exhibit 11: Key Financials (Max Life)

Y/E March (Rs mn)	2020	2021	2022e	2023e	2024e	2025e
Policyholders' account						
Gross written premium	1,61,836	1,90,179	2,24,140	2,64,268	3,11,202	3,66,356
Net earned premium	1,59,788	1,87,390	2,22,100	2,61,626	3,08,090	3,62,693
Investment income	21,589	1,21,656	1,20,462	1,02,720	1,21,064	1,42,660
Other income	612	582	0	0	0	0
Total revenue	1,81,989	3,09,628	3,42,562	3,64,345	4,29,153	5,05,352
Commission expense	10,244	12,270	14,543	17,131	20,173	23,749
Operating expenses	23,441	27,006	32,008	37,705	44,401	52,270
Benefits cost	1,32,616	2,66,234	2,90,342	3,02,178	3,55,946	4,19,170
Total expense	1,69,073	3,07,412	3,38,840	3,59,307	4,23,220	4,98,368
Surplus/Deficit	12,916	2,217	3,722	5,038	5,933	6,985
Shareholders' account						
Transfer from policyholders' account	4,690	3,862	2,500	4,617	5,933	6,985
Investment income	2,074	2,360	2,716	2,483	3,481	4,128
Expenses	802	1,249	744	770	814	871
Profit before tax	5,978	5,099	4,170	6,329	8,600	10,241
Tax expense	585	-131	-107	-162	-220	-263
Profit after tax	5,394	5,230	4,277	6,492	8,821	10,504
Balance Sheet						
Sources of Funds						
Shareholders' Funds	25,739	30,079	31,960	38,045	45,101	53,504
Borrowings	0	0	5,200	5,200	5,200	5,200
Policyholders' Funds: Insurance reserves and provisions	6,40,747	8,52,331	10,49,582	12,37,125	14,57,952	17,17,885
Others	30,962	29,819	-5,200	-5,200	-5,200	-5,200
Total	6,97,448	9,12,228	10,81,542	12,75,170	15,03,053	17,71,389
Application of Funds						
Shareholders' Investments	32,581	38,484	40,891	48,676	57,705	68,456
Policyholders' Investments	4,60,484	5,81,847	7,16,500	8,44,527	9,95,276	11,72,720
Assets Held to Cover Linked Liabilities	1,91,642	2,83,736	3,49,400	4,11,832	4,85,344	5,71,874
Net Current Assets (C) = (A – B)	6,290	626	-25,250	-29,866	-35,271	-41,661
Other Asset	6,452	7,535	0	-0	0	0
Total	6,97,448	9,12,228	10,81,542	12,75,170	15,03,053	17,71,389
Embedded Value Account						
Embedded Value	99,770	1,18,340	1,41,740	1,69,607	2,01,906	2,39,959
--o/w Adjusted Net Worth	25,450	27,690	31,110	37,195	44,251	52,654
--o/w Value-in-Force	74,320	90,650	1,10,630	1,32,412	1,57,655	1,87,305
Annualised Premium Equivalent (APE)	41,490	49,570	55,880	65,184	75,467	87,444
New Business value	8,970	12,490	15,280	17,172	19,881	23,474
New Business Margin (%)	21.6	25.2	27.3	26.3	26.3	26.8
EV Operating Profit	18,130	18,510	22,760	29,166	34,063	40,154
Operating RoEV (%)	20.2	18.6	19.2	20.6	20.1	19.9
Per share data, in Rs						
EPS	2.8	2.7	2.2	3.4	4.6	5.5
DPS	3.4	1.0	0.8	0.7	0.9	1.1
EVPS	52.0	61.7	73.9	88.4	105.2	125.1
BVPS	13.4	15.7	16.7	19.8	23.5	27.9
EV Op. Profit per share	9.5	9.7	11.9	15.2	17.8	20.9
Key Ratio						
Return on Equity (%)	20.2	18.7	13.8	18.5	21.2	21.3
Commission expense/TWRP (%)	7.0	7.2	7.2	7.3	7.4	7.5
Operating expenses/TWRP (%)	16.9	16.1	15.9	16.1	16.3	16.6
Total expense (% of TWRP)	23.9	23.3	23.2	23.4	23.8	24.1
Total expense (% of Avg AUM)	5.1	4.9	4.6	4.5	4.5	4.5
Calculated conservation ratio (%)	79.8	83.0	85.2	85.2	85.2	85.2

Source: Company, Emkay Research
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Exhibit 12: Max Financial Services - Consolidated Financials

Y/E March (Rs mn)	2019	2020	2021	2022	2023e	2024e	2025e
Income statement							
Max Life Profit before Tax	6,190	5,978	5,099	4,170	6,329	8,600	10,241
Holding company expenses net of income	1,382	1,554	-830	284	298	313	328
Profit before Tax	4,808	4,425	5,929	3,887	6,032	8,288	9,913
Tax expense	644	1,696	332	703	-162	-220	-263
Profit after Tax	4,165	2,729	5,598	3,184	6,194	8,508	10,175
Minorities	1,539	1,279	1,344	650	1,292	1,755	2,090
Group Net Income	2,626	1,450	4,254	2,534	4,902	6,753	8,085
Balance Sheet							
Source of Funds							
Shareholders' Equity	20,590	21,465	33,430	39,346	44,248	51,001	59,086
Minorities	7,741	6,723	2,621	5,503	11,410	13,526	16,046
Financial Liabilities	6,20,750	7,09,710	9,35,352	11,24,176	11,75,269	13,85,054	16,31,990
Non-financial Liabilities	23,026	7,364	9,253	8,461	1,38,971	1,64,263	1,93,566
Total	6,72,107	7,45,262	9,80,656	11,77,486	13,69,897	16,13,844	19,00,689
Application of Funds							
Investments	6,14,060	7,08,703	9,55,071	11,49,688	12,56,359	14,80,620	17,44,594
Other Financial Assets	34,997	216	509	2,361	82,711	97,822	1,15,735
Cash and Bank balance	5,084	4,475	5,072	5,689	8,097	9,544	11,248
Non-financial Assets	17,967	31,869	20,004	19,747	22,730	25,859	29,113
Total	6,72,107	7,45,262	9,80,656	11,77,486	13,69,897	16,13,844	19,00,689
No. Of shares outstanding (mn)	269.4	269.4	345.1	345.1	345.1	345.1	345.1
Weighted average number of shares (mn)	269.4	269.4	293.2	345.1	345.1	345.1	345.1
Weighted average diluted shares (mn)	268.7	268.7	293.2	345.1	345.1	345.1	345.1
Return on Equity (%)	13.54	6.90	15.50	6.96	11.73	14.18	14.69
BVPS	76.4	79.7	96.9	114.0	128.2	147.8	171.2
Basic EPS	9.77	5.38	14.51	7.34	14.21	19.57	23.43
Diluted EPS	9.77	5.38	14.51	7.34	14.21	19.57	23.43

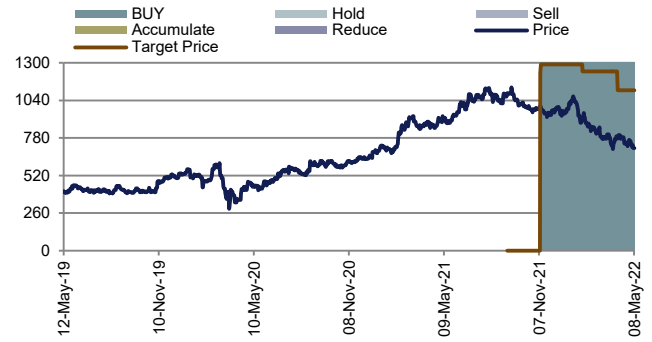
Source: Company, Emkay Research

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-May-22	708	1,110	12m	Buy	Avinash Singh
06-May-22	710	1,110	12m	Buy	Avinash Singh
19-Apr-22	741	1,110	12m	Buy	Avinash Singh
06-Apr-22	777	1,110	12m	Buy	Avinash Singh
08-Feb-22	859	1,240	12m	Buy	Avinash Singh
29-Jan-22	913	1,240	12m	Buy	Avinash Singh
18-Jan-22	1,018	1,290	12m	Buy	Avinash Singh
07-Dec-21	969	1,290	12m	Buy	Avinash Singh
10-Nov-21	993	1,290	12m	Buy	Avinash Singh
09-Nov-21	1,001	1,230	12m	Buy	Avinash Singh
07-Sep-21	1,091	-	12m	UR	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



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Sector

Insurance and Non-lending Financials

Analyst bio

Avinash Singh holds a PGDM and CFA. He has over 13 years of experience, including 10 years of research experience on the sell side. His team currently covers four insurance and one asset management stocks.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Insurance	1.43	1.43	0%	0	100.00	
HDFC Life Insurance	0.57	0.60	5%	3	42.31	0
ICICI Pru Life	0.20	0.07	-64%	-13	5.11	0
Max Financial	0.16	0.19	18%	3	13.27	0
SBI Life	0.49	0.56	15%	7	39.32	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base						Latest
	1-Apr-19	10-May-21	9-Nov-21	9-Feb-22	8-Apr-22	9-May-22	
EAP - BFSI-Insurance	100.0	166.4	185.6	162.5	159.7	151.2	
BSE200 Neutral Weighted Portfolio (ETF)	100.0	167.3	186.8	162.9	159.7	151.5	

*Performance measurement base date 1st April 2019

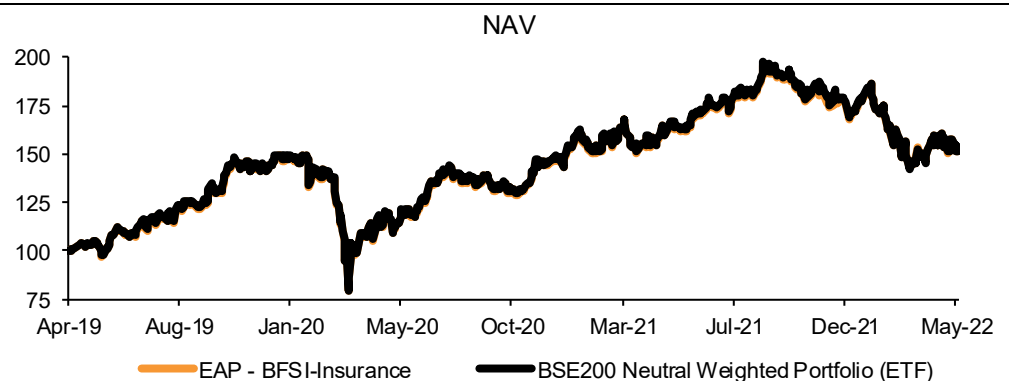
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	-5.3%	-6.9%	-18.5%	-9.1%
BSE200 Neutral Weighted Portfolio (ETF)	-5.1%	-7.0%	-18.9%	-9.4%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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