

# Max Financial

Refer to important disclosures at the end of this report

## Well-positioned for profitable growth despite temporary 'noises'

We hosted Max Financial Services' top management in Mumbai on June 7, 2022 for meetings with DIs to discuss the company's business performance and growth trajectory, as well as investor concerns. Mr. Prashant Tripathy, CEO of Max Life, and Mr. Amrit Singh, CFO, were present. The key highlights: 1) the plan to simplify the corporate structure is on track and updates from the regulator's end are awaited; 2) the promoter is working on plans to reduce the pledge on MAXF shares; 3) Max Life's share in the Axis Bank channel should improve and stabilize in FY23; and 4) overall medium-term APE and VNB growth of above 20% remains an achievable target.

- Corporate structure simplification ongoing:** The simplification of the corporate structure has been one of the stated objectives of MAXF management. It will be a 3-step process: 1. MAXF buying a 5% stake in Max Life from Mitsui Sumitomo; 2. MAXF transferring a 7% stake in Max Life to Axis Bank subsidiaries; and 3. after the completion of Step 1 and 2, approaching regulators for the merger of Max Life and Max Financial, or any other way to bring the life insurance company at the listed level. Currently, the company's application for the approval of Step 1 is with the IRDAI, and management is hopeful that the approval will come soon.
- The promoter is committed to bringing down pledge level:** The high pledge of promoter's holding in MAXF has been one of the key investor concerns. As per the latest filing, 13.46%, out of the 14.72% of promoter's stake in MAXF, is pledged. This translates to about 91% pledge levels, a material increase from 64% as of Dec-21. The recent increase in pledge has largely been an outcome of the fall in share price (~25% fall between Dec-21 and May-22) without any significant change to the promoter's debt level, which remains stable. The promoter has acknowledged the concerns about the high pledge of MAXF shares and is working on plans to bring it down by monetizing some of his assets outside MAXF. It is worth noting that the current debt levels at the promoter level is much lower than what it was a few years back when the share pledge issue was at the forefront.
- Counter share and growth in the Axis Bank channel to normalize in H2 as base effects kick in:** When Bajaj Allianz also joined the Axis Bank distribution channel, it started to dent Max Life's counter share in the channel. This was a natural outcome of a notable private life insurance company partnering with a large retail bank and aggressively deploying workforce in bank branches, similar to what happened at HDFC Bank when it went for an open architecture. With Bajaj Life's impact going into the base and the Axis Bank channel growing strongly, Max Life's counter share and growth in the channel should recover and stabilize at a higher level than what was seen in FY22.
- To pursue profitable growth:** In the last five years, despite 2 years being disrupted by Covid-19, Max Life has delivered solid EV and VNB growth rates of 20% and 24%, respectively. Management reiterated its commitment to deliver profitable growth in the medium- to long term. Due to the changing competitive landscape, the company is prioritizing growth over profitability, and has guided for a slightly lower VNB margin in FY23 than 27.4% in FY22. However, the company is confident of delivering ~16-18% VNB growth, driven by APE growth.
- Proprietary distribution channels and retirement & protection products form the core of growth strategy:** The company will continue to augment and expand its agency channel to accelerate growth and profitability. The growth of the agency channel will be higher than that of the banca channel in the coming years, and this should lead to a gradual increase in agency channel share in the distribution mix. On the product front, retirement (pensions and annuity) and retail protection will be the focus areas for the company.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 6\)](#)

<b>CMP</b>	<b>Target Price</b>
<b>Rs 825</b> as of (June 8, 2022)	<b>Rs 1,030 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>24.8 %</b>

### Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	NA
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 1,048	

### 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)	280 / 3.61
Daily Avg Volume (nos.)	5,98,506
Daily Avg Turnover (US\$ mn)	5.8

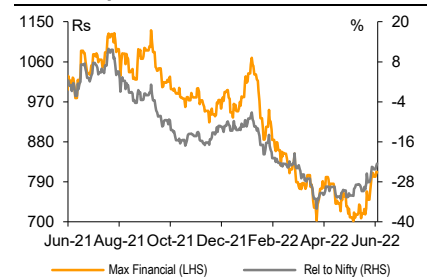
### Shareholding Pattern Mar '22

Promoters	14.7%
FII's	23.3%
DII's	54.0%
Public and Others	8.0%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	14	4	(16)	(17)
<b>Rel. to Nifty</b>	14	1	(12)	(21)

### Relative price chart



Source: Bloomberg

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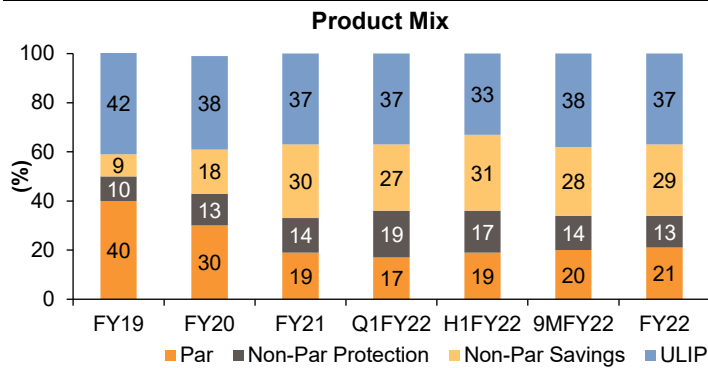
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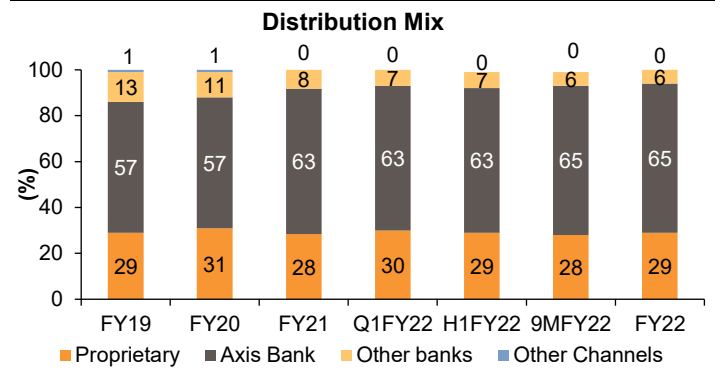
## Story in Charts

**Exhibit 1: Growth in Non-Par drives minor changes in Product Mix**



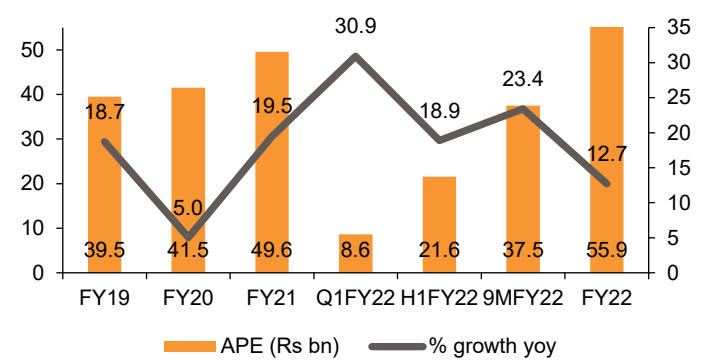
Source: Company, Emkay Research

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



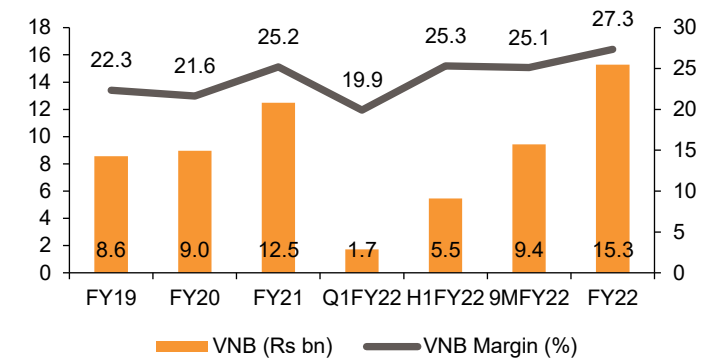
Source: Company, Emkay Research

**Exhibit 3: Muted Growth in APE on account of larger base and Covid 19 impact**



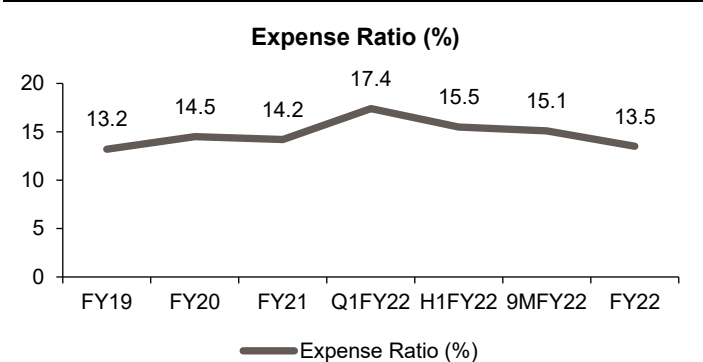
Source: Company, Emkay Research

**Exhibit 4: Changes in product mix lead to better margins**



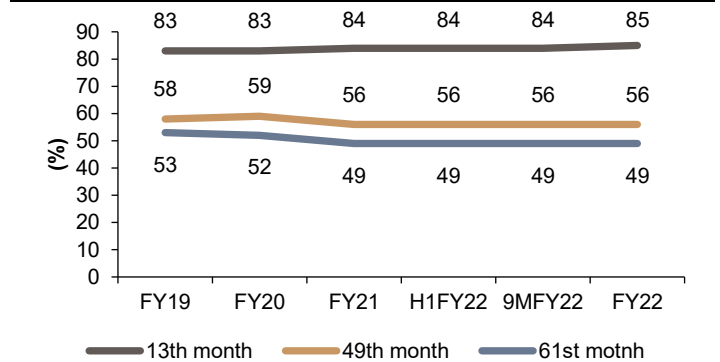
Source: Company, Emkay Research

**Exhibit 5: Cost management actions continue to improve expense ratios**



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 ( Max Life )**

Y/E March (Rs mn)	2019	2020	2021	2022	2023E	2024E	2025E
<b>Policyholders' account</b>							
Gross written premium	1,45,752	1,61,836	1,90,179	2,24,142	2,64,268	3,11,202	3,66,356
Net earned premium	1,44,184	1,59,788	1,87,390	2,19,870	2,61,626	3,08,090	3,62,693
Investment income	48,643	21,589	1,21,656	87,615	94,093	1,11,102	1,31,120
Other income	752	612	582	672	0	0	0
Total revenue	1,93,578	1,81,989	3,09,628	3,08,157	3,55,718	4,19,191	4,93,813
Commission expense	9,901	10,244	12,270	14,028	16,692	19,657	23,140
Operating expenses	19,261	23,441	27,006	30,192	35,926	42,307	49,805
Benefits cost	1,54,544	1,32,616	2,66,234	2,57,354	2,95,412	3,48,175	4,10,210
Total expense	1,85,334	1,69,073	3,07,412	3,03,994	3,50,273	4,12,779	4,86,264
Surplus/Deficit	8,244	12,916	2,217	4,163	5,445	6,412	7,549
<b>Shareholders' account</b>							
Transfer from policyholders' account	4,402	4,690	3,862	2,780	7,496	6,412	7,549
Investment income	2,177	2,074	2,360	3,204	2,575	3,765	4,447
Expenses	377	802	1,249	1,862	695	721	763
Profit before tax	6,226	5,978	5,099	4,170	9,375	9,457	11,233
Tax expense	662	585	-131	303	681	687	816
<b>Profit after tax</b>	<b>5,564</b>	<b>5,394</b>	<b>5,230</b>	<b>3,867</b>	<b>8,694</b>	<b>8,769</b>	<b>10,416</b>
<b>Balance Sheet</b>							
<b>Sources of Funds</b>							
Shareholders' Funds	27,609	25,739	30,079	31,960	38,914	45,929	54,262
Borrowings	0	0	0	4,960	4,960	4,960	4,960
Policyholders' Funds: Insurance reserves and provisions	5,85,765	6,40,747	8,52,331	10,19,007	12,03,550	14,20,777	16,76,405
Others	22,498	30,962	29,819	27,408	-4,960	-4,960	-4,960
<b>Total</b>	<b>6,35,872</b>	<b>6,97,448</b>	<b>9,12,228</b>	<b>10,83,335</b>	<b>12,42,464</b>	<b>14,66,707</b>	<b>17,30,667</b>
<b>Application of Funds</b>							
Shareholders' Investments	35,187	32,581	38,484	51,477	62,677	73,977	87,398
Policyholders' Investments	3,94,173	4,60,484	5,81,847	6,89,187	8,13,999	9,60,917	11,33,806
Assets Held to Cover Linked Liabilities	1,98,619	1,91,642	2,83,736	3,34,432	3,94,998	4,66,290	5,50,186
Net Current Assets (C) = (A – B)	2,706	6,290	626	-1,025	-39,836	-47,021	-55,524
Other Asset	5,186	6,452	7,535	9,265	10,626	12,543	14,801
<b>Total</b>	<b>6,35,872</b>	<b>6,97,448</b>	<b>9,12,228</b>	<b>10,83,335</b>	<b>12,42,464</b>	<b>14,66,707</b>	<b>17,30,667</b>
<b>Embedded Value Account</b>							
Embedded Value	89,710	99,770	1,18,340	1,41,740	1,69,167	2,01,439	2,39,471
--o/w Adjusted Net Worth	23,980	25,450	27,690	31,110	38,064	45,079	53,412
--o/w Value-in-Force	65,730	74,320	90,650	1,10,630	1,31,103	1,56,360	1,86,059
Annualised Premium Equivalent (APE)	39,500	41,490	49,570	55,880	65,184	75,467	87,444
New Business value	8,560	8,970	12,490	15,280	17,172	19,881	23,474
New Business Margin (%)	21.7	21.6	25.2	27.3	26.3	26.3	26.8
EV Operating Profit	16,790	18,130	18,510	22,760	29,166	34,026	40,116
Operating RoEV (%)	22.4	20.2	18.6	19.2	20.6	20.1	19.9
<b>Per share data, in Rs</b>							
EPS	2.9	2.8	2.7	2.0	4.5	4.6	5.4
DPS	2.1	3.4	1.0	0.9	0.9	0.9	1.1
EVPS	46.8	52.0	61.7	73.9	88.2	105.0	124.8
BVPS	14.4	13.4	15.7	16.7	20.3	23.9	28.3
EV Op. Profit per share	8.8	9.5	9.7	11.9	15.2	17.7	20.9
<b>Key Ratio</b>							
Return on Equity (%)	20.4	20.2	18.7	12.5	24.5	20.7	20.8
Commission expense/TWRP (%)	7.5	7.0	7.2	7.0	7.1	7.2	7.3
Operating expenses/TWRP (%)	14.8	16.9	16.1	15.0	15.4	15.6	15.8
Total expense (% of TWRP)	22.2	23.9	23.3	22.0	22.5	22.8	23.1
Total expense (% of Avg AUM)	5.1	5.1	4.9	4.5	4.5	4.5	4.5
Calculated conservation ratio (%)	83.0	79.8	83.0	85.2	85.2	85.2	85.2

Source: Company, Emkay Research  
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**Exhibit 8: Max Financial Services - Consolidated Financials**

Y/E March (Rs mn)	2019	2020	2021	2022	2023E	2024E	2025E
<b>Income statement</b>							
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
<b>Balance Sheet</b>							
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
<b>Total</b>	<b>6,72,107</b>	<b>7,45,262</b>	<b>9,80,656</b>	<b>11,77,486</b>	<b>13,69,897</b>	<b>16,13,844</b>	<b>19,00,689</b>
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
<b>Total</b>	<b>6,72,107</b>	<b>7,45,262</b>	<b>9,80,656</b>	<b>11,77,486</b>	<b>13,69,897</b>	<b>16,13,844</b>	<b>19,00,689</b>
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

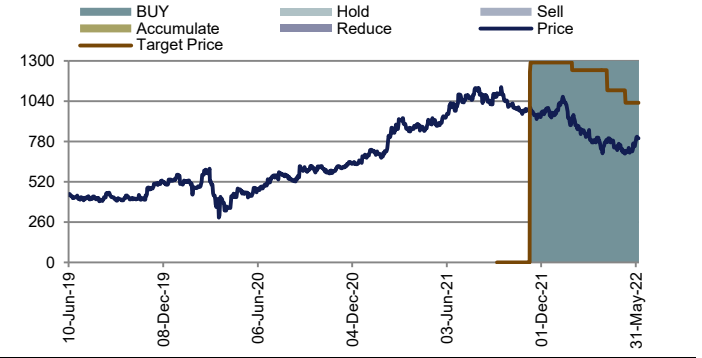
Source: Company, Emkay Research

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
17-May-22	739	1,030	12m	Buy	Avinash Singh
12-May-22	709	1,030	12m	Buy	Avinash Singh
11-May-22	721	1,030	12m	Buy	Avinash Singh
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



### Analyst: Avinash Singh

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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)
<b>BFSI-Insurance</b>	<b>1.55</b>	<b>1.55</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>	
HDFC Life Insurance	0.61	0.31	-49%	-30	20.15	0
ICICI Pru Life	0.23	0.25	9%	2	15.95	0
Max Financial	0.18	0.33	79%	15	21.40	0
SBI Life	0.52	0.66	26%	13	42.49	0
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>	<b>0</b>

Source: Emkay Research

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	8-Jun-21	7-Dec-21	8-Mar-22	6-May-22	7-Jun-22
EAP - BFSI-Insurance	100.0	169.8	178.1	143.7	151.3	164.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	170.7	179.6	143.4	151.7	164.1

\*Performance measurement base date 1<sup>st</sup> April 2019

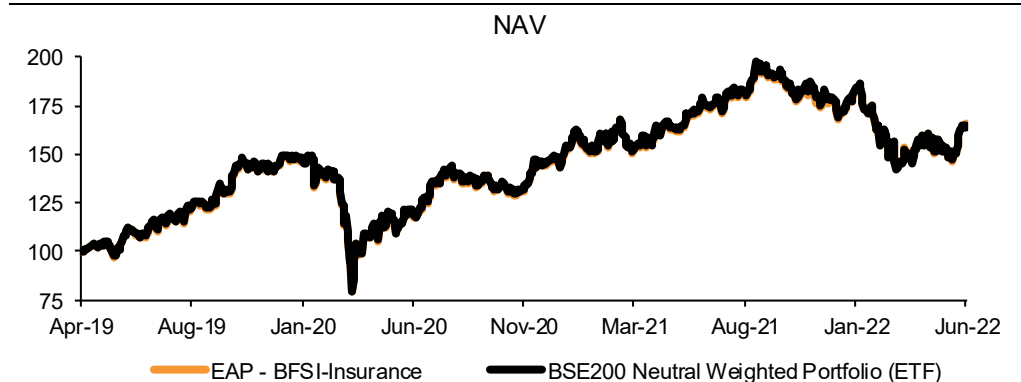
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	8.6%	14.4%	-7.8%	-3.3%
BSE200 Neutral Weighted Portfolio (ETF)	8.2%	14.4%	-8.6%	-3.9%

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%

Completed Date: 09 Jun 2022 00:50:39 (SGT)

Dissemination Date: 09 Jun 2022 00:51:39 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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