

# MAX Financial Services

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↔ |
| Rating change   | ↔ |

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|                       |             |
|-----------------------|-------------|
| Bloomberg             | MAXF IN     |
| Equity Shares (m)     | 345         |
| M.Cap.(INRb)/(USD\$)  | 292.9 / 3.7 |
| 52-Week Range (INR)   | 1140 / 697  |
| 1, 6, 12 Rel. Per (%) | -4/-6/-33   |
| 12M Avg Val (INR M)   | 623         |

## Financials & Valuations (INR b)

| Y/E MARCH           | FY22  | FY23E | FY24E |
|---------------------|-------|-------|-------|
| Net Premiums        | 165.4 | 256.3 | 302.9 |
| Sh. PAT             | 2.8   | 4.0   | 4.5   |
| NBP gr - unwt'd (%) | 15.8  | 16.0  | 22.0  |
| NBP gr - APE (%)    | 11.0  | 17.8  | 22.0  |
| Premium gr (%)      | 17.9  | 14.3  | 18.2  |
| VNB margin (%)      | 27.4  | 26.6  | 27.7  |
| Op. RoEV (%)        | 19.2  | 22.1  | 22.6  |
| Total AUMs (INRb)   | 1,075 | 1,245 | 1,480 |
| VNB(INRb)           | 15.3  | 17.5  | 22.2  |
| EV per Share        | 328.7 | 394.9 | 477.2 |

## Valuations

|            |      |      |      |
|------------|------|------|------|
| P/EV (x)   | 3.2  | 2.7  | 2.2  |
| P/EVOP (x) | 20.1 | 14.6 | 11.9 |

## Shareholding pattern (%)

| As On    | Jun-22 | Mar-22 | Jun-21 |
|----------|--------|--------|--------|
| Promoter | 14.7   | 14.7   | 14.7   |
| DII      | 53.3   | 54.0   | 50.7   |
| FII      | 23.8   | 23.3   | 26.3   |
| Others   | 8.2    | 8.0    | 8.2    |

FII Includes depository receipts

**CMP: INR849 TP: INR950 (+12%) Buy**

## Modest performance; growth from banca remains soft

### Stable product mix; persistency moderates sequentially

- MAXF reported a 24% YoY growth in VNB, led by APE growth of 15% and a 140bp improvement in VNB margin. Within segments, Non-PAR continues to see strong momentum, led by the Annuity business. Other products, except Retail Term, saw a healthy traction.
- In 1QFY23, the proprietary channel grew 32% YoY and now contribute 34% (up 400bp YoY) of overall APE. On the other hand, the banca channel grew at a mere 8% YoY and dragged overall APE growth. This is due to true adoption of open architecture at AXSB and YES and a high base of last year. The management said it will take an additional two more quarters for the base to settle down.
- We expect VNB margin to sustain ~27% and 20% APE CAGR over FY22-24. This will imply a 20% VNB CAGR over FY22-24E. **We maintain our Buy rating with a TP of INR950, based on 2.5x FY24E EV and a holding company discount of 20%.**

### VNB margin improves by 140bp YoY to 21.1%, led by higher margin on Individual products

- Gross written premium grew by ~18% YoY, led by 30% growth in Single premium. First-year/Renewal premium grew 14%/17% YoY. Shareholders pre-tax grew 18% YoY, but fell 41% QoQ, to INR910m.
- In 1QFY23, Individual APE grew at 15% YoY, similar to total APE growth of 15% (6% miss). All products contributed to growth, except Retail Protection, which contracted by 19% YoY. Group Protection jumped 40%, resulting in a 15% increase in overall Protection APE. Growth in PAR and Non-PAR stood at 15% YoY each, while ULIP grew marginally (up 18%).
- Absolute VNB grew 24% YoY. VNB margin improved by 140bp YoY to 21.1% (v/s 31.9% in 4QFY22). EV grew at 15% YoY, while Operating RoEV was flat at 13.5%. However, RoEV (including non-operating variance) stood at -0.6% in 1QFY23.
- On the distribution side, banca APE grew at a modest 7% YoY, while Proprietary Channels came to the rescue with a robust growth of 31%.
- Persistency ratio was flat YoY on key cohorts, but declined sequentially by 100-400bp across all cohorts.
- On the cost front, OPEX-to-GWP ratio improved by 50bp YoY to 22.9% (v/s 19.7% in 4QFY22).

### Highlights from the management commentary

- The poor performance in the banca channel is a result of open architecture at AXSB and YES. These channels are sitting on a high base of last year, and it will take an additional two more quarters for the base to settle down.
- On a two-to-three year basis, MAXF expects the proprietary channel to contribute 35% of APE.
- Growth in Retail Protection should return over the next few quarters.

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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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**Valuation and view**

MAXLIFE reported a muted showing in APE due to weak performance in the banca channel. Growth in APE was led by the proprietary channel as past investments in augmenting its distribution capabilities have started to pay off. All products other than Retail Protection contributed to APE growth. VNB margin improved by 140bp YoY to 21.1%, led by higher margin on Individual products, even as the product mix is largely stable. However, it saw a sharp QoQ contraction due to seasonal factors. Persistency too was flat YoY in key cohorts, but declined sequentially across all cohorts. We expect 20% APE CAGR over FY22-24, with VNB margin sustaining at an average ~27%. This will imply 20% VNB CAGR over FY22-24, while operating RoEV will sustain ~22%. **We maintain our Buy rating with a TP of INR950, based on 2.5x FY24E EV and a holding company discount of 20%.**

**Quarterly performance****(INR m)**

| Policy holder's A/c<br>(INR b) | FY22        |             |             |             | FY23E       |             |             |             | FY22         | FY23E        | FY23E<br>1QE | A v/s E   |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|-----------|
|                                | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2QE         | 3QE         | 4QE         |              |              |              |           |
| First Year premium             | 8.0         | 12.3        | 15.4        | 17.4        | 9.2         | 13.8        | 18.8        | 21.0        | 53.2         | 62.8         | 10           | -10%      |
| Growth (%)                     | 29.5%       | 8.9%        | 28.7%       | -7.6%       | 14.2%       | 12.5%       | 22.2%       | 20.3%       | 10.0%        | 18.1%        | 27.3%        |           |
| Renewal premium                | 22.4        | 34.6        | 34.2        | 53.8        | 26.2        | 38.4        | 39.5        | 60.5        | 145.1        | 164.6        | 27           | -2%       |
| Growth (%)                     | 21.2%       | 17.9%       | 18.8%       | 19.0%       | 16.7%       | 10.8%       | 15.4%       | 12.4%       | 19.0%        | 13.4%        | 18.9%        |           |
| Single premium                 | 4.4         | 6.4         | 6.3         | 8.8         | 5.7         | 7.0         | 7.6         | 8.6         | 25.9         | 28.9         | 5            | 6%        |
| Growth (%)                     | 56.5%       | 37.4%       | 15.3%       | 25.5%       | 30.1%       | 8.7%        | 20.3%       | -1.6%       | 29.8%        | 11.6%        | 22.3%        |           |
| <b>Gross premium income</b>    | <b>34.8</b> | <b>53.3</b> | <b>56.0</b> | <b>80.0</b> | <b>41.0</b> | <b>59.2</b> | <b>66.0</b> | <b>90.1</b> | <b>224.1</b> | <b>256.3</b> | 42           | -3%       |
| Growth (%)                     | 26.6%       | 17.6%       | 21.0%       | 12.6%       | 17.8%       | 11.0%       | 17.8%       | 12.6%       | 17.9%        | 14.3%        | 21.2%        |           |
| <b>PAT</b>                     | <b>0.8</b>  | <b>0.7</b>  | <b>1.2</b>  | <b>1.5</b>  | <b>0.9</b>  | <b>0.8</b>  | <b>1.1</b>  | <b>1.2</b>  | <b>3.9</b>   | <b>4.0</b>   | <b>1</b>     | <b>6%</b> |
| Growth (%)                     | -44.2%      | 163.0%      | -54.4%      | 45.3%       | 18.2%       | 13.8%       | -1.6%       | -22.6%      | -26.1%       | 4.5%         | 11.2%        |           |
| <b>Key metrics (INRb)</b>      |             |             |             |             |             |             |             |             |              |              |              |           |
| New Business APE               | 8.8         | 12.8        | 15.9        | 18.4        | 10.1        | 14.5        | 19.6        | 21.5        | 55.8         | 65.7         | 11           | -0        |
| Growth (%)                     | 32.4        | 11.2        | 30.0        | -4.2        | 15.3        | 13.2        | 23.1        | 17.0        | 12.5         | 17.8         | 23.1         |           |
| VNB                            | 1.7         | 3.7         | 4.0         | 5.9         | 2.1         | 3.9         | 5.1         | 6.3         | 15.3         | 17.5         | 2            | -0        |
| Growth (%)                     | 52.2        | 15.1        | 13.1        | 27.1        | 23.8        | 5.6         | 29.2        | 7.3         | 22.3         | 14.4         | 34.6         |           |
| AUM (INRb)                     | 937         | 1,001       | 1,025       | 1,075       | 1,071       | 1,135       | 1,185       | 1,245       | 1,075        | 1,245        | 1,102        | -3%       |
| Growth (%)                     | 28.4        | 28.7        | 20.6        | 18.9        | 14.3        | 13.4        | 15.7        | 15.8        | 18.9         | 15.8         | 17.6         |           |
| <b>Key Ratios (%)</b>          |             |             |             |             |             |             |             |             |              |              |              |           |
| VNB Margins (%)                | 19.7        | 29.2        | 24.9        | 31.9        | 21.1        | 27.2        | 26.1        | 29.3        | 27.4         | 26.6         | 21.5         | -39       |
| Solvency ratio (%)             | 197.0       | 211.0       | 207.0       | 201.0       | 196.0       | 198.0       | 201.0       | 197.4       | 201.0        | 197.4        | 200.0        | -400      |

## Exhibit 1: Quarterly snapshot

| Policyholder A/c (INRb)     | FY21        |             |             |             | FY22        |             |             |             | FY23        | Change             |            |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------|------------|
|                             | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | YoY                | QoRQ       |
| <b>Gross premium</b>        | <b>27.5</b> | <b>45.3</b> | <b>46.3</b> | <b>71.1</b> | <b>34.8</b> | <b>53.3</b> | <b>56.0</b> | <b>80.0</b> | <b>41.0</b> | <b>18</b>          | <b>-49</b> |
| First year premium          | 6.2         | 11.3        | 12.0        | 18.9        | 8.0         | 12.3        | 15.4        | 17.4        | 9.2         | 14                 | -47        |
| Renewal premium             | 18.5        | 29.4        | 28.8        | 45.2        | 22.4        | 34.6        | 34.2        | 53.8        | 26.2        | 17                 | -51        |
| Single premium              | 2.8         | 4.7         | 5.5         | 7.0         | 4.4         | 6.4         | 6.3         | 8.8         | 5.7         | 30                 | -35        |
| <b>Shareholders PAT</b>     | <b>1.4</b>  | <b>0.3</b>  | <b>2.5</b>  | <b>1.1</b>  | <b>0.8</b>  | <b>0.7</b>  | <b>1.2</b>  | <b>1.5</b>  | <b>0.9</b>  | <b>18</b>          | <b>-41</b> |
| <b>APE data (INRb)</b>      |             |             |             |             |             |             |             |             |             |                    |            |
| PAR                         | 1.5         | 1.6         | 2.1         | 4.3         | 1.5         | 2.6         | 3.4         | 3.7         | 1.7         | 15                 | -53        |
| Individual Protection       | 0.9         | 1.3         | 0.9         | 1.4         | 0.9         | 0.9         | 0.9         | 1.3         | 0.7         | -19                | -45        |
| Group Protection            | 0.7         | 0.7         | 0.4         | 0.7         | 0.8         | 1.2         | 0.7         | 0.7         | 1.1         | 41                 | 53         |
| Non-PAR Savings             | 1.2         | 4.4         | 4.4         | 4.8         | 2.4         | 4.3         | 3.8         | 5.7         | 2.7         | 15                 | -52        |
| ULIP                        | 2.3         | 3.3         | 4.4         | 8.3         | 3.2         | 3.9         | 7.1         | 6.4         | 3.8         | 18                 | -40        |
| <b>APE (% of total)</b>     |             |             |             |             |             |             |             |             |             | <b>Change (bq)</b> |            |
| PAR                         | 22.0        | 14.1        | 17.0        | 22.2        | 17.0        | 20.4        | 21.4        | 20.0        | 17.0        | 0                  | -300       |
| Individual Protection       | 14.0        | 10.9        | 7.0         | 7.4         | 10.0        | 6.6         | 5.6         | 7.0         | 7.0         | -300               | 0          |
| Group Protection            | 11.0        | 6.3         | 3.0         | 3.4         | 9.0         | 9.0         | 4.3         | 4.0         | 11.0        | 200                | 704        |
| Non-PAR Savings             | 18.0        | 38.4        | 36.0        | 25.2        | 27.0        | 33.7        | 23.9        | 31.0        | 27.0        | 0                  | -404       |
| ULIP                        | 35.0        | 28.7        | 36.0        | 43.3        | 37.0        | 30.3        | 44.8        | 35.0        | 38.0        | 100                | 304        |
| <b>Distribution mix (%)</b> |             |             |             |             |             |             |             |             |             |                    |            |
| Proprietary                 | 37          | 29          | 24          | 25          | 30          | 28          | 27          | 31          | 34          | 400                | 296        |
| Banca                       | 62          | 62          | 75          | 74          | 63          | 63          | 72          | 71          | 65          | 200                | -600       |
| Others                      | 1           | 1           | 1           | 1           | 0           | 2           | 1           | -2          | 1           | 100                | 304        |
| <b>Key Ratios (%)</b>       |             |             |             |             |             |             |             |             |             |                    |            |
| <b>Operating ratios</b>     |             |             |             |             |             |             |             |             |             |                    |            |
| Opex to GWP ratio (%)       | 21.9        | 21.6        | 21.7        | 20.7        | 23.4        | 21.7        | 21.4        | 19.7        | 22.9        | -50                | 320        |
| Solvency Ratio              | 212.0       | 207.0       | 208.0       | 196.0       | 197.0       | 211.0       | 207.0       | 201.0       | 196.0       | -100               | -500       |
| <b>Profitability ratios</b> |             |             |             |             |             |             |             |             |             |                    |            |
| VNB margins                 | 17.1        | 28.2        | 28.6        | 24.0        | 19.7        | 29.1        | 24.9        | 31.9        | 21.1        | 145                | -1,079     |
| <b>Persistency ratios</b>   |             |             |             |             |             |             |             |             |             |                    |            |
| 13th Month                  | 82.0        | 82.0        | 83.0        | 84.0        | 84.0        | 85.0        | 85.0        | 86.0        | 84.0        | 0                  | -200       |
| 25th Month                  | 68.0        | 69.0        | 69.0        | 71.0        | 67.0        | 70.0        | 71.0        | 72.0        | 68.0        | 100                | -400       |
| 37th Month                  | 61.0        | 61.0        | 61.0        | 63.0        | 59.0        | 61.0        | 62.0        | 62.0        | 61.0        | 200                | -100       |
| 49th Month                  | 57.0        | 58.0        | 57.0        | 58.0        | 55.0        | 58.0        | 58.0        | 58.0        | 56.0        | 100                | -200       |
| 61st Month                  | 52.0        | 53.0        | 54.0        | 54.0        | 50.0        | 55.0        | 54.0        | 54.0        | 50.0        | 0                  | -400       |
| <b>Key Metrics (INRb)</b>   |             |             |             |             |             |             |             |             |             |                    |            |
| VNB                         | 1.1         | 3.3         | 3.5         | 4.6         | 1.7         | 3.7         | 4.0         | 5.9         | 2.1         | 24                 | -64        |
| EV                          | 107         | 110         | 117         | 118         | 123         | 130         | 134         | 142         | 142         | 15                 | 0          |
| AUM                         | 730         | 778         | 850         | 904         | 937         | 1001        | 1025        | 1075        | 1071        | 14                 | 0          |
| Equity Mix (%)              | 20.8        | 21.0        | 23.1        | 21.6        | 25.1        | 27.0        | 21.2        | 23.5        | 23.8        | -125               | 37         |

Please note: Persistency ratios, OPEX ratio, and EV, for six, nine, and 12 months

Source: MOFSL, Company



## Highlights from the management commentary

### With respect to business performance, product and distribution mix

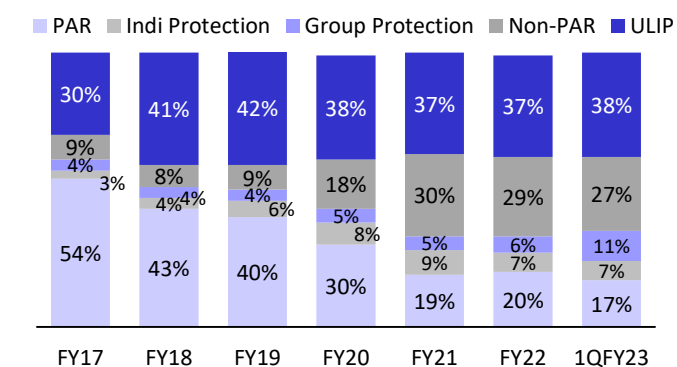
- The new Chairman of IRDAI has enabled ease of doing business and is expected to make many more changes to deepen insurance penetration and build customer confidence in the sector
- Max has not seen any significant impact on ULIPs till now; however it does expect some moderation in demand as demand usually gets affected 6-8 months after market underperformance
- Product mix remains balanced and stable. Max aspires to keep the same largely unchanged.
- Non-par savings continues to see strong growth momentum
- Higher interest rate benefit was passed on to the consumer without affecting profitability/margin
- Annuity business remains a strong focus area and it grew 125% YoY in 1QFY23
- Max has received Certificate of Registration for pension business and expects to commence operations from Q2FY23
- Max has also launched a new guaranteed product exclusively for the online channel – Smart Fixed Return Digital
- ULIP performance has been healthy due to a new product launch
- Total protection growth was led by strong performance in Group as retail protection moderated by 19% YoY
- Group protection was led by GTI segment. This remains a tactical opportunity for the company
- Disbursement momentum is strong in 1QFY23 and hence is leading growth in credit life. This is also being driven by a higher ticket size
- Growth in retail protection should come back in the next few quarters
- The company expects Opex to stay elevated as it continues to build distribution machinery
- The poor performance in banca channel is a result of open architecture at Axis and Yes. Max is sitting on a high base of last year with respect to these channels and it will take 2 more quarters for the base to settle down. However, counter share of Max Life remains stable in these Banks
- The share of Axis Bank will be lower compared to past as proprietary channel has grown much faster
- Multiple initiatives have been taken to bring back the growth in banca channel
- Max expects to end FY23 with a higher share of proprietary in distribution mix. On a 2-3 year basis, it expects proprietary channel to contribute 35% of APE.

### Operating metrics

- VNB margin has improved 140bp on a YoY basis despite stable product mix as individual product margins has increased
- VNB margin guidance of 26% for FY22 remains intact. Spend increase in distribution build up will offset rise in individual product margins
- Lower margin in 1QFY23 on a QoQ basis is due to seasonality as Max reports margin on actual cost basis
- The margin on non-par savings is similar to historical levels as benefit of higher interest rate has been passed to the consumers

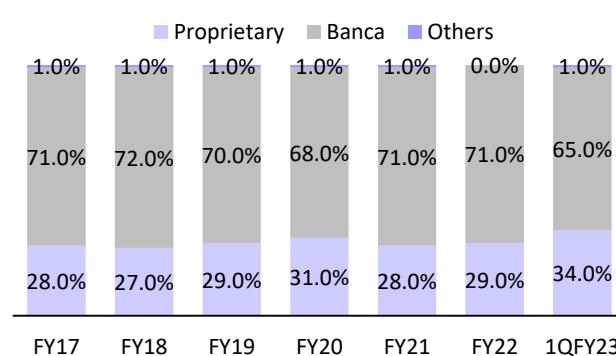
## Key exhibits

**Exhibit 2: Product mix is largely stable**



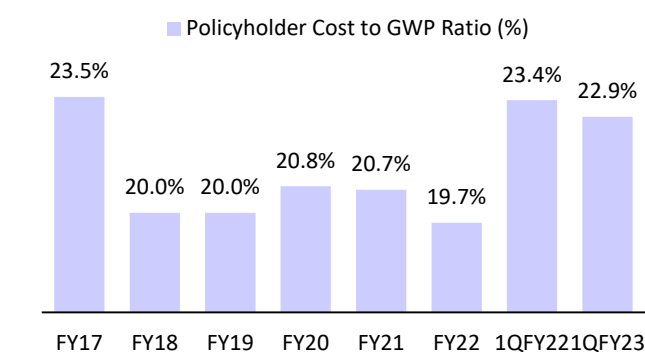
Source: MOFSL, Company

**Exhibit 3: Proprietary channel growing faster than banca**



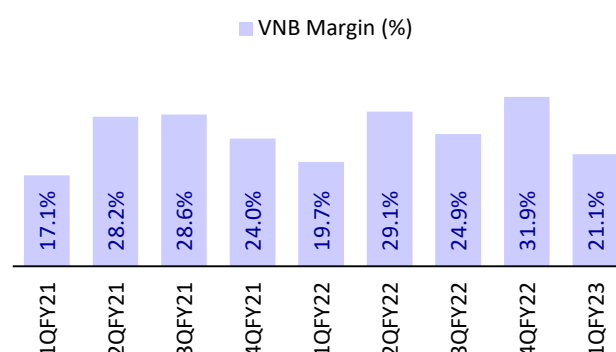
Source: MOFSL, Company

**Exhibit 4: OPEX-to-GWP ratio improves by 50bp YoY to 22.9% in 1QFY23**



Source: MOFSL, Company

**Exhibit 5: VNB margin improves 140bp YoY to 21.1%; QoQ dip is seasonal in nature**



Source: MOFSL, Company

## Valuation and view

- MAXLIFE has increased its focus on the Non-PAR and Protection segments – the share of these segments improved to ~45% in 1QFY23 (v/s ~16% in FY17). Growth in non-par savings continues to witness strong momentum led by annuity business. Group protection demand was strong led by disbursement momentum and selective opportunity in Group Term (GTI). Retail protection, however, witnessed soft demand and contracted 19% YoY. Going forward, MAXFLIFE would increase its focus on annuity and protection, which, along with healthy growth in other segments, would support the overall growth momentum.
- The proprietary channel accounted saw a sharp growth of 32% YoY in APE as compared to muted growth of 8% YoY for banca channel. With this, proprietary channel now contributes ~34% of the total APE. The management continues to make significant investments in growing the proprietary channel and expects it to contribute 35% of overall APE in future. MAXLIFE has also taken a number of steps to improve sales momentum in banca channel. A high base and true adoption of open architecture at Axis and Yes Bank remain key challenges.

- **Maintain BUY with a TP of INR950:** MAXLIFE reported a muted show in APE due to weak performance in banca channel. Growth in APE was led by proprietary channel as investments made in the past in augmenting distribution capabilities have started to pay off. All products other than retail protection contributed to APE growth. VNB margin improved 140bps YoY to 21.1%, led by higher individual product margins even as product mix is largely stable. However, it saw a sharp contraction QoQ due to seasonal factors. Persistency too was flat YoY in key cohorts but declined sequentially across all cohorts. We estimate 20% APE CAGR over FY22-24, with VNB margin sustaining at average ~27%. This would imply 20% VNB CAGR over FY22-24E, while operating RoEV would sustain at ~22%. **Maintain BUY with a TP of INR950, based on 2.5x FY24E EV and a holding company discount of 20%.**

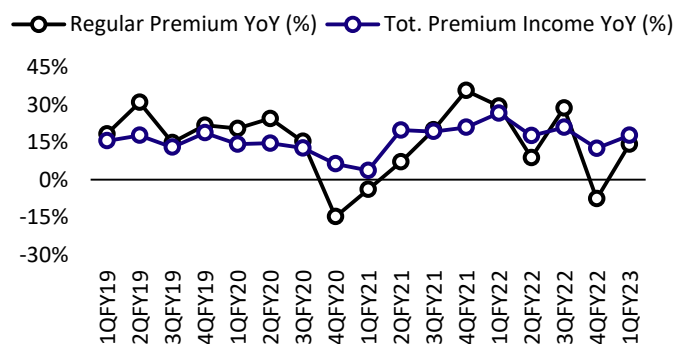
**Exhibit 6: We value MAXLIFE at INR950 per share**

| Appraisal value method (INR b)        | FY24E        |
|---------------------------------------|--------------|
| Embedded value                        | 206          |
| New business profit                   | 22.2         |
| <b>Appraisal value</b>                | <b>512</b>   |
| MFS stake post deal                   | 80%          |
| <b>MFS Value</b>                      | <b>410</b>   |
| <b>MFS valuation per share (INR)</b>  | <b>1,188</b> |
| Appraisal value-to-embedded value (x) | 2.5          |
| Holding company discount              | 20%          |
| <b>Target price (INR)</b>             | <b>950</b>   |
| <b>Upside</b>                         | <b>12%</b>   |

Source: MOFSL

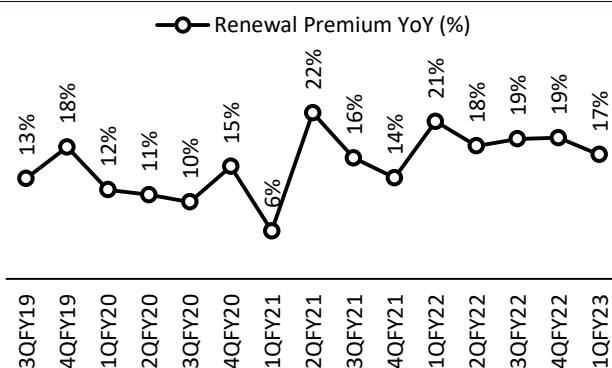
## Story in charts

**Exhibit 7: First-year premium rose 14% YoY in 1QFY23 while total gross premium income rose 18% YoY**



Source: MOFSL, Company

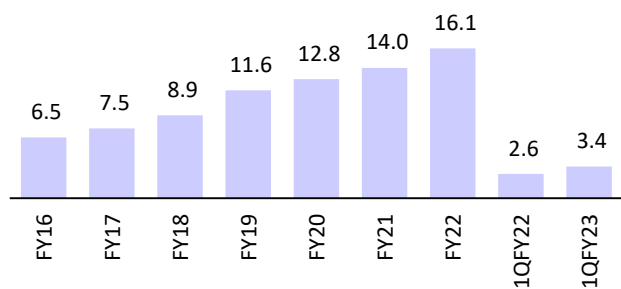
**Exhibit 8: Renewal premium increased 17% YoY in 1QFY23**



Source: MOFSL, Company

**Exhibit 9: Proprietary channel APE rose 32% YoY in 1QFY23 as investments made in the past start paying off**

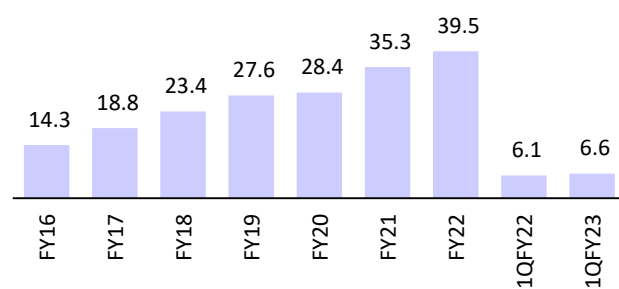
Proprietary Channels New Business (APE) (INRb)



Source: MOFSL, Company

**Exhibit 10: Banca APE grew at a modest pace of 8% YoY in 1QFY23 due to open architecture at Axis and Yes Bank**

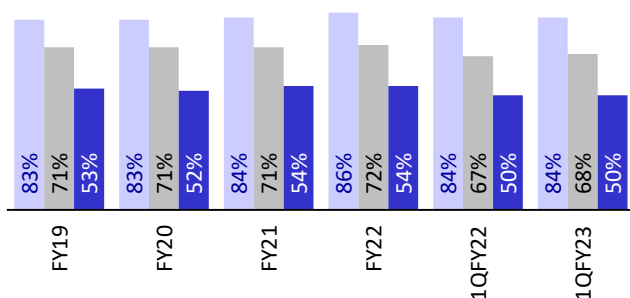
Banca APE (INRb)



Source: MOFSL, Company

**Exhibit 11: Persistency trends for MAXLIFE**

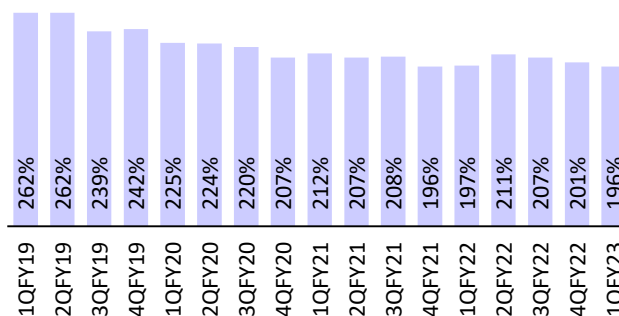
13th Month 25th Month 61th Month



Source: MOFSL, Company

**Exhibit 12: Solvency ratio stood at 196%**

Solvency Ratio (%)



Source: MOFSL, Company



## Financials and valuations

| Technical account (INR m)        | FY18            | FY19            | FY20            | FY21            | FY22            | FY23E           | FY24E           |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Gross Premiums                   | 1,25,009        | 1,45,752        | 1,61,836        | 1,90,631        | 2,24,141        | 2,56,259        | 3,02,865        |
| Reinsurance Ceded                | 1,213           | 1,569           | 2,049           | 2,788           | 4,272           | 4,155           | 4,848           |
| Net Premiums                     | 1,23,795        | 1,44,184        | 1,59,788        | 1,87,843        | 2,19,870        | 2,52,104        | 2,98,017        |
| Income from Investments          | 37,574          | 48,643          | 21,589          | 1,21,805        | 87,615          | 66,219          | 73,096          |
| Other Income                     | 346             | 440             | 612             | 1,084           | 671             | 780             | 908             |
| <b>Total income (A)</b>          | <b>1,61,715</b> | <b>1,93,267</b> | <b>1,81,989</b> | <b>3,10,732</b> | <b>3,08,155</b> | <b>3,19,103</b> | <b>3,72,021</b> |
| Commission                       | 8,929           | 9,896           | 10,244          | 12,270          | 14,028          | 17,958          | 21,176          |
| Operating expenses               | 16,098          | 19,274          | 23,441          | 27,008          | 30,192          | 37,150          | 43,790          |
| <b>Total commission and opex</b> | <b>25,027</b>   | <b>29,170</b>   | <b>33,685</b>   | <b>39,277</b>   | <b>44,220</b>   | <b>55,108</b>   | <b>64,966</b>   |
| Benefits Paid (Net)              | 49,466          | 57,178          | 66,222          | 70,149          | 92,772          | 1,06,824        | 1,25,958        |
| Chg in reserves                  | 79,043          | 97,365          | 66,394          | 1,96,686        | 1,64,581        | 1,51,513        | 1,75,774        |
| Prov for doubtful debts          | 19              | 17              | 19              | 40              | 18              | 12              | 14              |
| <b>Total expenses (B)</b>        | <b>1,53,555</b> | <b>1,83,730</b> | <b>1,66,321</b> | <b>3,06,153</b> | <b>3,01,592</b> | <b>3,13,458</b> | <b>3,66,713</b> |
| <b>(A) - (B)</b>                 | <b>8,160</b>    | <b>9,536</b>    | <b>15,668</b>   | <b>4,579</b>    | <b>6,564</b>    | <b>5,646</b>    | <b>5,309</b>    |
| Prov for Tax                     | 1,077           | 1,299           | 2,752           | 1,857           | 2,402           | 2,509           | 2,982           |
| <b>Surplus / Deficit</b>         | <b>7,083</b>    | <b>8,237</b>    | <b>12,916</b>   | <b>2,722</b>    | <b>4,162</b>    | <b>3,136</b>    | <b>2,327</b>    |

| Shareholder's a/c (INR m)     | FY18         | FY19         | FY20         | FY21         | FY22         | FY23E        | FY24E        |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transfer from technical a/c   | 3,992        | 4,402        | 4,690        | 3,864        | 2,781        | 2,617        | 1,902        |
| Income From Investments       | 2,178        | 2,177        | 2,074        | 2,360        | 3,212        | 2,722        | 4,001        |
| <b>Total Income</b>           | <b>6,175</b> | <b>6,604</b> | <b>6,781</b> | <b>6,351</b> | <b>6,033</b> | <b>5,339</b> | <b>5,903</b> |
| Other expenses                | (68)         | 257          | 292          | 739          | 707          | 798          | 902          |
| Contribution to technical a/c | 91           | 120          | 410          | 502          | 1,168        | -            | -            |
| <b>Total Expenses</b>         | <b>24</b>    | <b>377</b>   | <b>802</b>   | <b>1,249</b> | <b>1,862</b> | <b>798</b>   | <b>902</b>   |
| <b>PBT</b>                    | <b>6,152</b> | <b>6,226</b> | <b>5,978</b> | <b>5,102</b> | <b>4,170</b> | <b>4,541</b> | <b>5,001</b> |
| Prov for Tax                  | 875          | 662          | 585          | (131)        | 303          | 499          | 550          |
| <b>PAT</b>                    | <b>5,276</b> | <b>5,564</b> | <b>5,394</b> | <b>5,232</b> | <b>3,867</b> | <b>4,041</b> | <b>4,451</b> |
| <b>Growth</b>                 | <b>-20%</b>  | <b>5%</b>    | <b>-3%</b>   | <b>-3%</b>   | <b>-26%</b>  | <b>4%</b>    | <b>10%</b>   |

| Premium (INR m) & growth (%) | FY18     | FY19     | FY20     | FY21     | FY22     | FY23E    | FY24E    |
|------------------------------|----------|----------|----------|----------|----------|----------|----------|
| New business prem - unwtd    | 43,486   | 51,604   | 55,835   | 68,262   | 79,049   | 91,697   | 1,11,870 |
| New business prem - WRP      | 33,072   | 40,019   | 42,380   | 50,327   | 55,762   | 65,701   | 80,155   |
| Renewal premium              | 81,523   | 94,148   | 1,06,002 | 1,21,917 | 1,45,093 | 1,64,562 | 1,90,995 |
| Total premium - unwtd        | 1,25,009 | 1,45,752 | 1,61,836 | 1,90,179 | 2,24,142 | 2,56,259 | 3,02,865 |
| New bus. growth - unwtd      | 18.6%    | 18.7%    | 8.2%     | 22.3%    | 15.8%    | 16.0%    | 22.0%    |
| New business growth - wrp    | 20.3%    | 21.0%    | 5.9%     | 18.8%    | 10.8%    | 17.8%    | 22.0%    |
| Renewal premium growth       | 14.6%    | 15.5%    | 12.6%    | 15.0%    | 19.0%    | 13.4%    | 16.1%    |
| Total prem growth - unwtd    | 16.0%    | 16.6%    | 11.0%    | 17.5%    | 17.9%    | 14.3%    | 18.2%    |

| Premium mix (%)                  | FY18  | FY19  | FY20  | FY21  | FY22  | FY23E | FY24E |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| <b>New business - unwtd</b>      |       |       |       |       |       |       |       |
| - Individual mix                 | 91.6% | 92.0% | 91.9% | 91.2% | 89.8% | 90.0% | 90.0% |
| - Group mix                      | 8.4%  | 8.0%  | 8.1%  | 8.8%  | 10.2% | 10.0% | 10.0% |
| <b>New business mix - WRP</b>    |       |       |       |       |       |       |       |
| - Participating                  | 44.7% | 41.4% | 32.2% | 20.7% | 0.0%  | 33.5% | 33.6% |
| - Non-participating              | 13.9% | 16.4% | 29.6% | 41.6% | 0.0%  | 30.0% | 29.8% |
| - ULIPs                          | 41.4% | 42.2% | 38.2% | 37.7% | 0.0%  | 36.5% | 36.6% |
| <b>Total premium mix - unwtd</b> |       |       |       |       |       |       |       |
| - Participating                  | 57.3% | 53.4% | 49.0% | 41.3% | NA    | 43.3% | 43.5% |
| - Non-participating              | 14.2% | 15.0% | 19.8% | 27.7% | NA    | 24.1% | 23.7% |
| - ULIPs                          | 28.5% | 31.5% | 31.2% | 30.9% | NA    | 32.6% | 32.8% |

| Individual prem sourcing mix (%) | FY18  | FY19  | FY20  | FY21  | FY22  | FY23E | FY24E |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Individual agents                | 23.6% | 23.2% | 22.2% | 25.2% | 23.0% | 24.0% | 25.0% |
| Corporate Agents-Banks           | 63.6% | 63.1% | 61.4% | 63.5% | 64.4% | 63.0% | 63.0% |
| Direct Business                  | 10.0% | 11.3% | 14.5% | 7.0%  | 8.4%  | 11.0% | 10.0% |
| Others                           | 2.8%  | 2.5%  | 1.8%  | 4.2%  | 4.2%  | 2.0%  | 2.0%  |



## Financials and valuations

| Balance sheet (INR m)            | FY18            | FY19            | FY20            | FY21            | FY22             | FY23E            | FY24E            |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| <b>Sources of Fund</b>           |                 |                 |                 |                 |                  |                  |                  |
| Share Capital                    | 19,188          | 19,188          | 19,188          | 19,188          | 19,188           | 19,188           | 19,188           |
| Reserves And Surplus             | 7,702           | 8,478           | 6,806           | 10,589          | 12,760           | 13,351           | 14,007           |
| <b>Shareholders' Fund</b>        | <b>26,989</b>   | <b>27,609</b>   | <b>25,739</b>   | <b>30,079</b>   | <b>31,959</b>    | <b>32,551</b>    | <b>33,209</b>    |
| Policy Liabilities               | 3,10,137        | 3,81,436        | 4,54,807        | 5,58,936        | 6,72,822         | 6,62,443         | 7,21,037         |
| Prov. for Linked Liab.           | 1,63,050        | 1,86,738        | 1,74,210        | 2,54,703        | 2,94,035         | 3,26,715         | 4,08,172         |
| Funds For Future App.            | 18,655          | 22,498          | 30,962          | 29,819          | 32,369           | (723)            | (887)            |
| Current liabilities & prov.      | 17,841          | 23,398          | 20,276          | 28,853          | 37,214           | 40,936           | 45,029           |
| <b>Total</b>                     | <b>5,49,628</b> | <b>6,59,270</b> | <b>7,17,724</b> | <b>9,41,082</b> | <b>11,20,549</b> | <b>11,19,960</b> | <b>12,78,051</b> |
| <b>Application of Funds</b>      |                 |                 |                 |                 |                  |                  |                  |
| Shareholders' inv                | 32,146          | 35,187          | 32,581          | 38,484          | 51,477           | 69,494           | 93,817           |
| Policyholders' inv               | 3,19,238        | 3,94,173        | 4,60,484        | 5,81,847        | 6,89,187         | 6,43,646         | 7,47,099         |
| Assets to cover linked liab.     | 1,70,981        | 1,98,619        | 1,91,642        | 2,83,736        | 3,34,432         | 3,54,498         | 3,75,768         |
| Loans                            | 2,233           | 3,265           | 4,264           | 5,322           | 6,661            | 10,191           | 15,592           |
| Fixed Assets                     | 1,582           | 1,921           | 2,187           | 2,213           | 2,604            | 3,047            | 3,565            |
| Current assets                   | 23,448          | 26,105          | 26,566          | 29,480          | 36,189           | 39,084           | 42,211           |
| <b>Total</b>                     | <b>5,49,628</b> | <b>6,59,270</b> | <b>7,17,724</b> | <b>9,41,082</b> | <b>11,20,550</b> | <b>11,19,960</b> | <b>12,78,051</b> |
| <b>Operating ratios (%)</b>      |                 |                 |                 |                 |                  |                  |                  |
| Investment yield                 | 8.3%            | 9.0%            | 3.4%            | 16.5%           | 10.4%            | 7.0%             | 6.9%             |
| <b>Commissions / GWP</b>         | <b>7.1%</b>     | <b>6.8%</b>     | <b>6.3%</b>     | <b>6.4%</b>     | <b>6.3%</b>      | <b>7.0%</b>      | <b>7.0%</b>      |
| - first year premiums            | 20.2%           | 18.1%           | 17.2%           | 17.5%           | 18.0%            | 21.6%            | 20.9%            |
| - renewal premiums               | 3.0%            | 2.7%            | 2.6%            | 2.7%            | 2.5%             | 2.5%             | 2.5%             |
| - single premiums                | 0.1%            | 1.2%            | 1.1%            | 1.4%            | 1.8%             | 1.0%             | 1.0%             |
| Operating expenses / GWP         | 12.9%           | 13.2%           | 14.5%           | 14.2%           | 13.5%            | 14.5%            | 14.5%            |
| <b>Total expense ratio</b>       | <b>20.0%</b>    | <b>20.0%</b>    | <b>20.8%</b>    | <b>20.6%</b>    | <b>19.7%</b>     | <b>21.5%</b>     | <b>21.5%</b>     |
| Claims / NWP                     | 39.9%           | 39.6%           | 41.4%           | 37.3%           | 42.2%            | 42.4%            | 42.3%            |
| Solvency ratio                   | 275%            | 242%            | 109%            | 119%            | 230%             | 197%             | 185%             |
| <b>Persistency ratios (%)</b>    |                 |                 |                 |                 |                  |                  |                  |
| 13th Month                       | 80.0%           | 83.0%           | 83.0%           | 84.0%           | 86.0%            | 87.0%            | 88.0%            |
| 25th Month                       | 72.0%           | 71.0%           | 71.0%           | 71.0%           | 72.0%            | 73.0%            | 74.0%            |
| 37th Month                       | 62.0%           | 64.0%           | 63.0%           | 63.0%           | 62.0%            | 62.5%            | 63.0%            |
| 49th Month                       | 57.0%           | 58.0%           | 59.0%           | 58.0%           | 58.0%            | 58.5%            | 59.0%            |
| 61st Month                       | 53.0%           | 53.0%           | 52.0%           | 54.0%           | 54.0%            | 54.5%            | 55.0%            |
| <b>Profitability ratios (%)</b>  |                 |                 |                 |                 |                  |                  |                  |
| New business margin (%)          | 20.2%           | 21.7%           | 21.6%           | 25.2%           | 27.4%            | 26.6%            | 27.7%            |
| RoE (%)                          | 20.3%           | 20.4%           | 20.2%           | 18.7%           | 12.5%            | 12.5%            | 13.5%            |
| Operating RoEV                   | 20.6%           | 21.9%           | 20.3%           | 18.5%           | 19.2%            | 22.1%            | 22.6%            |
| RoEV (%)                         | 13.9%           | 19.0%           | 11.6%           | 18.6%           | 19.8%            | 20.2%            | 20.9%            |
| <b>Valuation ratios</b>          |                 |                 |                 |                 |                  |                  |                  |
| Total AUMs (INR bn)              | 522             | 628             | 685             | 904             | 1,075            | 1,245            | 1,480            |
| EPS (Rs)                         | 14.3            | 15.0            | 14.5            | 11.0            | 8.1              | 9.4              | 10.3             |
| Value of new business (INRb)     | 6.6             | 8.6             | 9.0             | 12.5            | 15.3             | 17.5             | 22.2             |
| Embedded Value (INR bn)          | 75.1            | 89.4            | 99.8            | 118.4           | 141.8            | 170.3            | 205.9            |
| EV Per share (INR)               | 157.8           | 187.9           | 209.7           | 274.3           | 328.6            | 394.9            | 477.2            |
| P/EV (x) - after 20% holdco disc | 6.7             | 5.6             | 5.1             | 3.9             | 3.2              | 2.7              | 2.2              |
| P/EPS (x)                        | 74.1            | 70.9            | 73.1            | 96.5            | 130.6            | 113.2            | 102.8            |
| P/EVOP(x)                        | 33.7            | 27.8            | 25.2            | 24.7            | 20.1             | 14.6             | 11.9             |
| P/VNB(x)                         | 69.7            | 55.6            | 51.0            | 36.6            | 29.9             | 26.2             | 20.6             |

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

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|----------------------------------|--|
| 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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