

Max Financial Ltd

NOT RATED

CMP Rs738

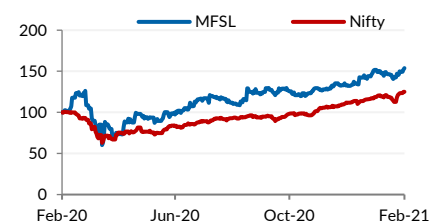
Best in class profitability

- ✓ **Premium** – Premium Income was at Rs 45bn and grew by 19% on YoY basis and 2% on sequential basis.
- ✓ **APE** – APE at Rs12.25bn was higher than our estimates of Rs11.11bn. APE grew by 21% yoy and 6% qoq. The growth was led mainly on back more than doubling of Non-Par segment.
- ✓ **APE Mix** – Share of Non-Par increased by 1448bps which was offset by decline in share of ULIPs and Par business. Share of Individual Protection remained flat.
- ✓ **VNB & VNB Margin** – Q3FY21 VNB at Rs3.5bn was higher than our forecasts of R3.0bn, while VNB margin at 28.6% was above our estimates of 27.4%. On a yoy basis VNB margins expanded by 758bps.
- ✓ **Persistency improvement** – Sequentially, persistency improved by 100bps for 13th Month and 200bps for 61st Month. On a yoy basis 13th month persistency saw a decline.
- ✓ **Opex and commission ratios** – Commission ratios declined 13bps yoy whereas opex ratio declined by 22bps yoy
- ✓ **EV** – EV improved by 6% to Rs117bn from Sept 2020. ROEV stands at 18%
- ✓ **Channel Mix** – On YoY as well as QoQ basis, share of banca improved by 398bps and 171bps respectively.
- ✓ **Axis transaction update:** (a) CCI approval received (b) IRDAI application under progress (c) MSI transaction update: Concluded swap of MSI 20.57% stake in Max Life, with 21.87% stake in MFSL
- ✓ **Valuations** – The stock currently trades at FY23 P/EV of 2.0x.
- ✓ **Our view:** : Max Life Insurance has been outperforming its private peers in the past three quarters in terms of premium growth as well as profitability (VNB Margins). The company through an aggressive pricing strategy has been able to gain significant market share in the protection segment. Also, new product launches along with favorable environment for interest rate hedging mechanism has allowed them to strengthen their non-par business. The trajectory is likely to sustain. However, key to future business trajectory lies in the approval for Max Financial deal with Axis Bank. The stock currently trades at a FY23E P/EV of 2x and is at discount to peers owing to uncertainty over the Axis Bank deal and high promoter pledge.

Stock data (as on Feb 09, 2021)

Nifty	15,109
52 Week h/l (Rs)	752 / 276
Market cap (Rs/USD mn)	254694 / 3495
Outstanding Shares (mn)	345
6m Avg t/o (Rs mn):	1,025
Div yield (%):	N/A
Bloomberg code:	MAXF IN
NSE code:	MFSL

Stock performance



	1M	3M	1Y
Absolute return	1.5%	19.2%	53.9%

Shareholding pattern (As of Sept'20 end)

Promoter	17.36%
FII+DII	70.69%
Others	11.95%

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Exhibit 1: Result Table

	Q3FY21	Q3FY20	% yoy	Q2FY21	% qoq	Q3FY21E
Premium Income	45,573	38,219	19%	44,473	2%	
Renewal premium	28,800	24,770	16%	29,370	-2%	
APE	12,250	10,100	21%	11,540	6%	11,119
Ind APE	12,100	10,010	21%	11,440	6%	
Commission ratio	6.7%	6.5%	13bps	6.6%	5bps	
Opex ratio	15.8%	15.6%	22bps	15.6%	24bps	
VNB	3,500	2,120	65%	3,250	8%	3,046
VNB Margin	28.6%	21.0%	758bps	28.2%	41bps	27.4%
APE Mix						
PAR	2,083	2,857	-27%	1,631	28%	
Individual protection	862	707	22%	1,253	-31%	
Group protection	372	433	-14%	725	-49%	
Non PAR savings	4,224	2,020	109%	4,618	-9%	
ULIP	4,710	4,083	15%	3,313	42%	
Total APE	12,250	10,100	21%	11,540		
APE Mix						
PAR	17%	28%	-1129bps	14%	286bps	
Individual protection	7%	7%	4bps	11%	-382bps	
Group protection	3%	4%	-125bps	6%	-324bps	
Non PAR savings	34%	20%	1448bps	40%	-554bps	
ULIP	38%	40%	-198bps	29%	974bps	
Total APE	100%	100%		100%		
Distribution mix						
Proprietary	27%	30%	-298bps	30%	-229bps	
Others	0%	1%	-100bps	-1%	58bps	
Other Banca	73%	69%	398bps	71%	171bps	
Income from investments	11,481	9,987	15%	11,422	1%	
Persistency						
13th Month	83%	85%	-200bps	82%	100bps	
64th Month	54%	53%	100bps	52%	200bps	

Source: Company, Yes Sec Research

CONCALL TAKEWAYS

Reasons for sequential improvement in VNB Margins

- ✓ Scale advantage as premium growth has been 20%+ as their VNB Margin are on actual cost basis.
- ✓ Protection price hike benefit for the full quarter
- ✓ Tweak in non-par IRR has also played out, no major advantage from favorable FRA environment in margins

Persistency

- ✓ ULIP persistency continues to be a challenge, Other savings segment persistency has significantly improved, 500bps impact of ULIP
- ✓ Expect to end the year at last year level
- ✓ Operating variance impact was taken in H1 EV (1% impact), no structural impact and hence not changing any major assumptions
- ✓ Does not expect any negative variance in H2

Product mix

- ✓ Will try to keep the non-par mix at 30-35% range
- ✓ Looking to keep the product mix balanced

Protection slowdown

- ✓ Google trends indicated slowdown during October to December
- ✓ Pent up demand existed in the initial half
- ✓ January has seen a recovery
- ✓ With savings segment picking up, especially in the banca channel, protection took a back seat
- ✓ Underwriting rules got stricter, but although not a major impact of the same

ULIPs

- ✓ Tax change does not impact ULIP business materially, at worst it impacts long term IRR by 10-15bps
- ✓ Move is akin to levying capital gains tax on MFs
- ✓ See max 4-5% impact on Premium, even lesser on VNB
- ✓ Administrative hassles have increased, some uncertainty still exists with regards to implementation of the new rule

Claims

- ✓ Claims have been higher and have impacted reserves a bit, although have reduced from peak
- ✓ Implications of COVID on long term mortality assumptions could be adverse
- ✓ Reinsurers having access to global data on COVID are extrapolating experiences elsewhere to India, which could lead to higher pricing in future

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