

# Max Financial

Refer to important disclosures at the end of this report

## Robust Q4 growth; FY21 was a year of margin re-set

- Max Life (MAXL) reported robust growth of ~35.8% yoy in APE to Rs19.4bn (against our estimate of Rs14bn) during Q4FY21 as company witnessed a sharp surge in retail demand. VNB grew ~43.6% yoy to Rs4.6bn. Although the company benefited from the low base of last year, overall growth trajectory remained robust in Q4FY21.
- VNB margins declined to ~23.7% in Q4 from ~25.9% in 9MFY21 as the portfolio mix shifted to ULIP products, with the share of protection falling to ~14% from ~16% last quarter. Management intends to re-prize protection plans (~5-10% hike implemented in Apr'21) to support margins, and also increase the share of savings and protection products in the overall mix.
- Though we are witnessing some hiccups on the growth front for most insurance companies due to partial lockdowns amid the second Covid wave, with its diverse product portfolio and strong distribution channel, MAXL should be able to ramp up sales in the coming months. The tie-up with Axis Bank and Yes Bank to boost the bancassurance channel.
- We increase FY22/23 APE estimates for MAXL by ~17.3%/23.4% while trimming VNB margin assumptions to 26.1%/26.4%. We continue to like MAXL for its diversified product profile, aggressive growth strategy and healthy margins. We retain Buy/OW in EAP, with a revised TP of Rs1,145 (Rs830 earlier), based on 2.3x Mar'23E EV.

**VNB margin to improve with diversity in products:** Buoyant capital markets, increased focus on linked products and targeting the underpenetrated high-margin protection segment should enable MAXL to make its product profile balanced, with non-par growing faster than the par segment. We expect margins to improve further with the rising share of protection plans. We expect VNB margins to improve to ~26.4% by FY23E from ~25.2% in FY21.

**Axis Bank becoming co-promoter provides comfort; focus on improving distribution mix:** Axis Bank entities have become the Co-Promoter of Max Life with a 12.99% stake, along with the right to acquire an additional 7%. Axis has filed application with the IRDAI for acquiring the residual stake of ~5.17% from MSI in Max Life and the transaction is expected to complete by Q2FY22. Thus, the share of Axis Bank would be ~20% vs. ~18% as per previous filings. However, in order to reduce its over-dependence on bancassurance, MAXL is ramping up its agency network through an agency-light model and is looking at other distribution channels as well.

**Outlook and valuation:** Considering a gradual shift toward more profitable product mix and relatively comfortable valuations, we continue to like Max Life. We increase FY22/23 APE estimates for MAXL by ~17.3%/23.4% while trimming VNB margin assumptions to 26.1%/26.4%. We retain Buy and OW stance in EAP, with a revised TP of Rs1,145 (2.3x Mar'23E EV).

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(page 7\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Profit	5,495	5,230	7,462	8,648	10,384
EPS (Rs)	6.4	11.5	11.0	13.5	16.9
VNB	8,970	12,490	15,781	19,482	24,409
VNB margin %	21.6	25.2	26.1	26.4	26.7
EV	99,770	118,340	140,865	168,656	203,260
ROEV %	20.3	29.2	22.2	22.4	22.7
P/EV (x)	2.7	2.6	2.4	2.0	1.7

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 996</b> as of (June 9, 2021)	<b>Rs 1,145 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>14.9 %</b>

### Change in Estimates

EPS Chg FY22E/FY23E (%)	26.0/17.3
Target Price change (%)	38.0
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	11.0	13.5
Consensus	17.6	22.9
Mean Consensus TP (12M)	Rs 1,036	

### Stock Details

Bloomberg Code	MAXF IN
Face Value (Rs)	2
Shares outstanding (mn)	345
52 Week H/L	1,050 / 462
M Cap (Rs bn/USD bn)	344 / 4.71
Daily Avg Volume (nos.)	795,309
Daily Avg Turnover (US\$ mn)	9.9

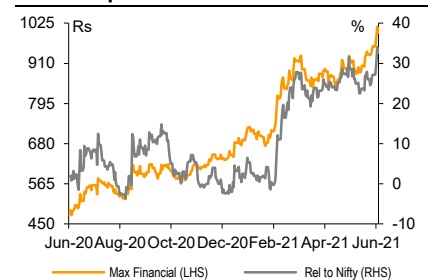
### Shareholding Pattern Mar '21

Promoters	17.0%
FIIIs	23.1%
DIIIs	51.4%
Public and Others	8.5%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	9	9	57	114
<b>Rel. to Nifty</b>	3	5	36	37

### Relative price chart



Source: Bloomberg

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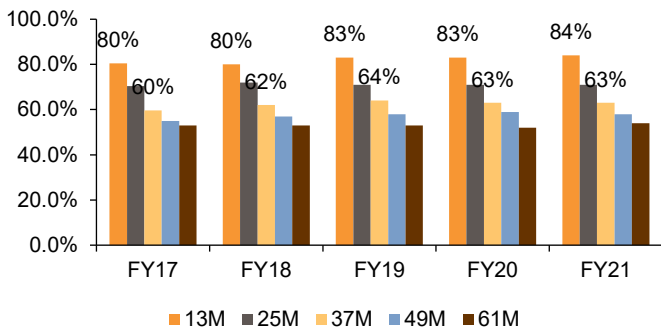
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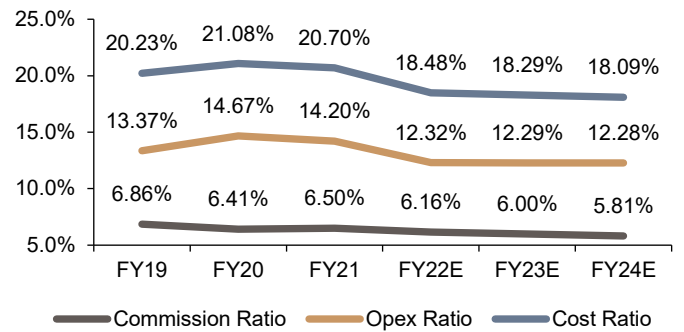
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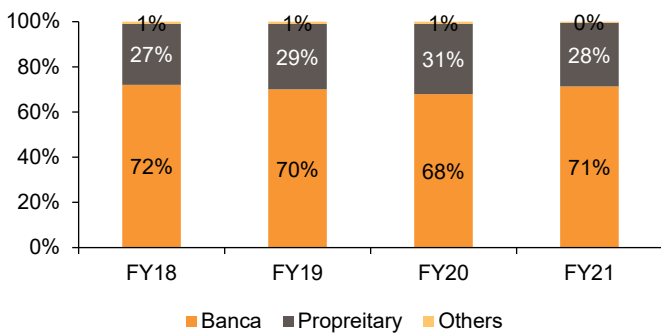
## Story in Charts

**Exhibit 1: Persistency ratio back to pre-Covid levels**


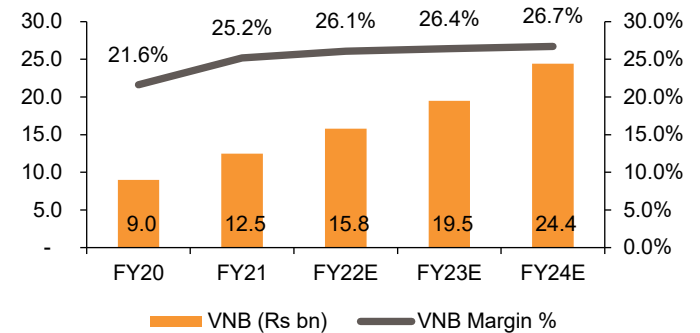
Source: Company, Emkay Research

**Exhibit 2: Costs to normalize by FY22E**


Source: Company, Emkay Research

**Exhibit 3: Max Life maintains a balanced distribution mix**


Source: Company, Emkay Research

**Exhibit 4: Increase in non-par business leads to superior margins**


Source: Company, Emkay Research

**Exhibit 5: Revision in earnings estimates**

(Rs mn)	FY22E			FY23E			FY24E
	Old	New	% change	Old	New	% change	Introduced
VNB	13,754	15,781	14.7%	16,166	19,482	20.5%	24,409
VNB margin %	26.7%	26.1%	(61) bps	27.0%	26.4%	(60) bps	26.7%
APE	51,572	60,487	17.3%	59,807	73,794	23.4%	91,384
<b>PAT (MAXL)</b>	<b>5,921</b>	<b>7,462</b>	<b>26.0%</b>	<b>7,375</b>	<b>8,648</b>	<b>17.3%</b>	<b>10,384</b>
EV	1,36,638	1,40,865	3.1%	1,60,888	1,68,656	4.8%	2,03,260
ROE %	20.5%	24.3%	382 bps	23.8%	25.2%	144 bps	26.4%
ROEV %	21.2%	21.5%	34 bps	21.1%	21.8%	73 bps	22.3%

Source: Company, Emkay Research

**Exhibit 6: Movement in EV**

Rs mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Opening Embedded value (EV)	65,900	75,090	89,380	99,770	1,18,340	1,40,865	1,68,656
Expected return on existing business (A+B+C)	7,030	8,230	9,160	16,640	10,504	12,069	13,955
Expected return on existing business (unwind) (A)	6,410	6,970	8,130	8,620	9,704	11,269	13,155
Operating assumption changes (B)	-	-	-	7,220	-	-	-
VNB added during the period	6,560	8,230	8,970	12,490	15,781	19,482	24,409
Operating experience variance (C)	620	1,260	1,030	800	800	800	800
IEV operating earnings (EVOP)	13,590	16,460	18,130	29,130	26,285	31,551	38,364
Economic assumption changes and investment variance	(470)	-	-	-	-	-	-
IEV total earnings	13,120	16,460	18,130	29,130	26,285	31,551	38,364
Capital contributions / (dividends paid out)	(3,930)	(6,010)	(4,560)	(3,760)	(3,760)	(3,760)	(3,760)
Closing IEV	75,090	89,380	99,770	1,18,340	1,40,865	1,68,656	2,03,260
Expected return as % of opening (PAT/opening EV)	8.0%	7.4%	6.0%	5.2%	6.3%	6.1%	6.2%
VIF transfer as % of opening (unwinding/opening EV)	9.7%	9.3%	9.1%	8.6%	8.2%	8.0%	7.8%
ROEV %	20.6%	21.9%	20.3%	29.2%	22.2%	22.4%	22.7%
Operating ROEV %	19.7%	20.2%	19.1%	21.2%	21.5%	21.8%	22.3%

Source: Company, Emkay Research

## Con-Call highlights

- Management stated that Axis Bank entities have become the Co-Promoter of Max Life with a 12.99% stake and a right to acquire an additional 7%. Axis has filed an application with the IRDAI to acquire 5.17% stake from MSI and the transaction is expected to be completed by Q2FY22.
- Growth in profits was aided by a reversal of provision for impairment on financial assets, lower tax expense and a partial offset by new business strain due to the shift in product mix toward Non-Par business.
- On the pricing of term products, management said it remains mindful of Covid-related claims though a large part of which has been reinsured. There might be price increases on individual and group policies, which are yearly contracts, to remain competitive.
- Management indicated that Rs880mn of provisions is taken as a one-time impact on EV as a part of prudent balance sheet planning for Life Insurance Company. Management assured that long-term mortality assumptions remain the same.
- In FY21, the company saw Rs1.2bn of net claims on account of Covid-19. It continues to review the emerging situation and make appropriate actions, including strengthening underwriting and risk-control measures to control/minimize the adverse impact of ongoing pandemic.
- The company holds provisions in excess of Rs5bn (4x provisions) held in the last year) to offset any adverse impact of the second Covid wave in FY22.
- Growing market share is attributable to strong hold in distribution, predominantly contributed by the promoter Axis Bank, expanding product reach through protection and non-par savings, strength of the brand leading to customer attraction and overall focus on diversified channel mix.
- **Future outlook:** MAXL sees growth similar to FY21 in the short term and expects margins to grow by 100-200bps in the next 2-3 years with focus on product mix optimization and leveraging scale benefits. The company plans to maintain solvency ratio in the range of 180-200%.
- Management expects persistency to improve to 86% (+~200bps) in the medium term, with a focused approach on improving channel performance and maintaining diversified channel mix.
- Going forward, MAXL plans to maintain high share of non-par and protection products as it is the product category that would drive margins. The company would continue to have distinct bias toward writing traditional plans through own channel, ULIPs and non-traditional (non-par) plans through banca channels.
- Management indicated its intention to raise capital going ahead and maintaining RoE at ~20% levels.

**Key Financials (Standalone)****Income Statement**

<b>Policyholders Account-Y/E (Rs mn)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Net earned premium	159,787	187,791	216,137	266,083	332,059
Income from investments	21,589	75,209	76,587	84,747	93,931
Contribution from the shareholders fund	171	0	0	0	0
Miscellaneous income	442	387	426	468	515
<b>Total income</b>	<b>181,989</b>	<b>263,387</b>	<b>293,149</b>	<b>351,298</b>	<b>426,505</b>
Commissions	10,244	12,206	13,304	15,965	19,307
Operating expenses	23,441	26,666	26,632	32,708	40,768
Provisions	1,302	2,118	2,678	3,238	3,950
<b>Total expenses</b>	<b>34,988</b>	<b>40,991</b>	<b>42,614</b>	<b>51,911</b>	<b>64,025</b>
Benefits paid (net)	66,222	75,898	87,011	99,530	115,471
Change in liabilities (net)	66,394	119,842	138,860	164,345	197,237
<b>Total</b>	<b>132,616</b>	<b>195,740</b>	<b>225,871</b>	<b>263,874</b>	<b>312,708</b>
Surplus	14,385	26,656	24,664	35,513	49,772
<b>Net surplus</b>	<b>14,385</b>	<b>26,656</b>	<b>24,664</b>	<b>35,513</b>	<b>49,772</b>
Transfer to shareholders account	4,690	6,481	6,742	8,159	10,225

<b>Shareholders Account-Y/E (Rs mn)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Transfer from policyholders account	4,690	6,481	6,742	8,159	10,225
Income from investments	2,074	2,321	2,344	2,368	2,391
Other income	17	0	0	0	0
<b>Total income</b>	<b>6,781</b>	<b>8,802</b>	<b>9,086</b>	<b>10,527</b>	<b>12,616</b>
Expenses	292	335	386	443	510
Contribution to policyholders account	410	2,369	0	0	0
<b>Profit before tax</b>	<b>6,079</b>	<b>6,098</b>	<b>8,701</b>	<b>10,083</b>	<b>12,106</b>
Tax	585	868	1,238	1,435	1,723
<b>Net profit</b>	<b>5,495</b>	<b>5,230</b>	<b>7,462</b>	<b>8,648</b>	<b>10,384</b>

**Balance Sheet**

<b>Y/E Year End</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
<b>Sources of funds</b>					
Share capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	6,806	10,256	13,247	17,424	23,336
Fair value change account credit/(debit)	(255)	(255)	(255)	(255)	(255)
<b>Net worth (including fair value change)</b>	<b>25,739</b>	<b>29,189</b>	<b>32,180</b>	<b>36,357</b>	<b>42,269</b>
Policyholders funds	640,748	898,394	912,692	1,023,048	1,147,091
Funds for future appropriations	30,962	28,612	32,949	41,433	54,736
<b>Total liabilities</b>	<b>697,449</b>	<b>956,195</b>	<b>977,821</b>	<b>1,100,838</b>	<b>1,244,097</b>
<b>Application of funds</b>					
Shareholders investments	32,581	19,107	32,137	50,500	75,417
Policyholders investments	460,484	624,070	618,666	708,620	811,527
Assets to cover linked liabilities	191,642	280,000	294,000	308,700	324,135
Loans	4,264	4,264	4,264	4,264	4,264
Fixed assets	2,187	2,187	2,187	2,187	2,187
Net current assets (A-B)	26,566	26,566	26,566	26,566	26,566
<b>Total assets</b>	<b>717,724</b>	<b>956,195</b>	<b>977,821</b>	<b>1,100,838</b>	<b>1,244,097</b>

**Key Ratio (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
Conservation ratio %	79.8	83.0	80.2	87.0	89.0
Commissions ratio %	6.4	6.5	6.2	6.0	5.8
Opex ratio %	14.7	14.2	12.3	12.3	12.3
ROA %	0.8	0.6	0.8	0.8	0.9
ROE %	20.7	19.0	24.3	25.2	26.4
Dividend payout ratio %	40.3	22.9	23.9	19.6	15.6

EV Data	FY20	FY21	FY22E	FY23E	FY24E
Embedded value (Rs mn)	99,770	118,340	140,865	168,656	203,260
Value of new business (Rs mn)	8,970	12,490	15,781	19,482	24,409
EVOP (Rs mn)	18,130	29,130	26,285	31,551	38,364
ROEV %	20.3	29.2	22.2	22.4	22.7
VNB margin %	21.6	25.2	26.1	26.4	26.7

Source: Company, Emkay Research

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	6.4	11.5	11.0	13.5	16.9
DPS	2.6	2.6	2.6	2.6	2.6
BVPS	84.6	216.6	200.9	211.2	224.9

Valuation (x)	FY20	FY21	FY22E	FY23E	FY24E
P/E	156.0	86.6	90.2	74.0	58.9
P/B	11.8	4.6	5.0	4.7	4.4
P/EV	2.7	2.6	2.4	2.0	1.7
P/VNB	29.9	24.5	21.7	17.6	14.0
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
GWP	11.0	17.5	15.4	23.2	24.9
New business premium (NBP)	8.2	22.3	21.5	22.0	22.9
Annualized premium equivalent (APE)	5.9	18.7	20.2	22.0	23.8
Retail APE	5.8	19.0	20.5	22.3	24.2
Commissions	3.5	19.2	9.0	20.0	20.9
Operating expenses	21.7	13.8	(0.1)	22.8	24.6
Net income	(3.2)	(3.0)	42.7	15.9	20.1

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net earned premium	58,274	26,981	44,679	45,837	70,294
Total income	71,372	28,574	59,632	68,834	108,668
Total expenses	19,598	32,233	58,566	62,811	82,332
Net income	2,277	(1,297)	266	2,287	3,973
EPS (Rs)	2.99	(2.75)	0.46	4.44	8.25

Source: Capitaline

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Dec-20	Mar-21
Promoters	28.3	22.3	17.3	17.4	17.0
FIIIs	30.5	32.4	19.7	23.2	23.1
DIIIs	28.7	30.4	50.9	47.5	51.4
Public and Others	12.5	14.9	12.2	12.0	8.5

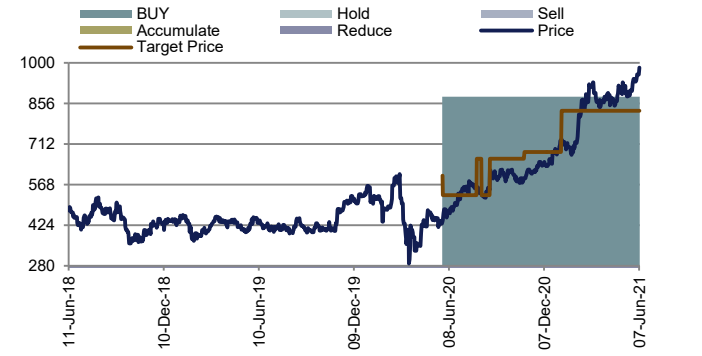
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-Apr-21	848	830	12m	Buy	Jignesh Shial
09-Mar-21	915	830	12m	Buy	Jignesh Shial
09-Feb-21	738	830	12m	Buy	Jignesh Shial
09-Jan-21	727	830	12m	Buy	Jignesh Shial
09-Dec-20	636	684	12m	Buy	Jignesh Shial
30-Oct-20	591	684	12m	Buy	Jignesh Shial
09-Sep-20	594	660	12m	Buy	Jignesh Shial
25-Aug-20	620	660	12m	Buy	Jignesh Shial
09-Aug-20	536	531	12m	Buy	Jignesh Shial
31-Jul-20	558	660	12m	Buy	Jignesh Shial
01-Jul-20	537	531	12m	Buy	Jignesh Shial
11-Jun-20	476	531	12m	Buy	Jignesh Shial
27-May-20	444	531	12m	Buy	Jignesh Shial
26-May-20	438	600	12m	Buy	Jignesh Shial

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Insurance



### Analyst: Jignesh Shial

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#### Sector

NBFCs/AFCs

#### Analyst bio

Jignesh Shial is a CA and has total 13 years of research experience. His team currently covers 11 NBFCs/AFCs.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Insurance</b>	<b>1.53</b>	<b>1.53</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
HDFC Life	0.60	0.60	0%	0	39.59
ICICI Pru Life	0.25	0.25	-1%	0	16.05
Max Financial	0.25	0.25	0%	0	16.57
SBI Life	0.42	0.42	0%	0	27.79
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	9-Jun-20	8-Dec-20	9-Mar-21	7-May-21	8-Jun-21
EAP - BFSI-Insurance	100.0	118.2	146.2	167.7	165.9	169.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	119.0	147.0	168.2	166.8	170.7

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

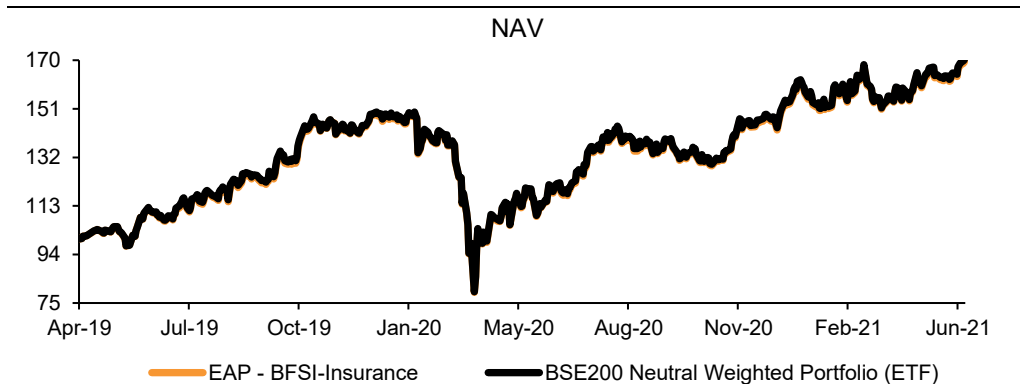
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	2.3%	1.3%	16.2%	43.7%
BSE200 Neutral Weighted Portfolio (ETF)	2.3%	1.5%	16.1%	43.5%

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

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