

Max Financial

Lower margins despite higher protection

Despite a difficult environment, MAXL delivered an APE decline of just 3.5% YoY. The margin was 250bps YoY lower mainly due to an increase in reinsurance costs, which the company has passed on 2QFY20 onwards. We expect the margin to improve hereon. We believe the deal with AXSB will provide long-term distribution capability. We expect an FY21-23E APE/VNB CAGR of 12.6/16.2%. We retain our ADD rating with an unchanged target price of Rs 645 (FY21E EV + 21.3x FY22E VNB).

- 1QFY21 highlights:** Total APE declined 3.5% YoY to Rs 6.61bn but was 3.3% above our estimate. The share of protection in the mix grew 1,000/1,394bps YoY/QoQ to 25.0% as individual/group protection grew 101.9/32.3% YoY. Group protection was driven by higher GTI business. Share of NPAR savings in the mix also improved 300/389bps YoY/QoQ to 18.0%. The share of PAR and ULIP declined as customers chose protection and assured returns. **VNB/VNB margin** were at Rs 1.13bn/17.1% (Rs (210mn)/(250bps) YoY) led by (1) positive business mix and other assumptions (Rs 220mn, +320bps YoY), (2) lower interest interests (Rs (260mn), -390bps YoY), (3) cost over-run (Rs (120mn), -180bps) and (4) lower APE (Rs (50mn)/NA YoY). Management stated that it had not passed on higher reinsurance rates on protection and this, along with lower interest rates and an adverse interest rate curve, impacted margins.
- As expected, persistency declined in the range of 100-300bps QoQ across all cohorts except for the 61st month. The share of proprietary/AXSB channel grew 400/1100bps YoY to 37.0/56.0%, while that for other banks/channels declined. AUM grew 14.4/7.0% YoY/QoQ to Rs 732.5bn. Max reported solvency of 212%. Operating RoEV was at 15.9%.
- Outlook:** NPAR savings and protection are expected to sustain in a difficult FY21E, where we expect MAXL's APE/VNB to decline 4.2/5.6% YoY. We expect regulatory approvals for JV with AXSB to come through over FY21E.

Financial Summary

(Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	8.99	9.11	-1.3	18.91	-52.5	51.6	52.4	50.6	56.2	65.3
APE	6.61	6.85	-3.5	14.09	-53.1	39.5	41.5	39.8	43.6	50.4
VNB	1.13	1.34	-15.7	3.21	-64.8	8.6	9.0	8.5	9.6	11.4
VNB Margin (%)	17.1	19.6	-250bps	21.6	-450bps	21.7	21.6	21.3	21.9	22.7
EV						89.7	99.8	113.9	130.6	149.9
MCap/EV (x)*						3.1	2.1	2.4	2.1	1.8
P/Adj. VNB (x)*						30.2	16.9	20.9	17.0	12.7
ROEV (%)						22.4	20.3	14.2	17.3	17.3

*Refers to implied P/VNB. EV adj for ~70% stake in Max Life. Source: Company, HSIE Research

Change in estimates

Rs bn	FY21E			FY22E		
	Revised	Old	Change %/bps	Revised	Old	Change %/bps
APE	39.8	39.8	0.0	43.6	42.8	1.8
VNB	8.5	8.6	-1.4	9.6	9.6	0.0
VNB Margin	21.3	21.6	-30bps	21.9	22.3	-40bps
EV	113.9	114.1	-0.1	130.6	130.7	-0.1

Source: HSIE Research

ADD

CMP (as on 30 July 2020)	Rs 563
Target Price	Rs 645
NIFTY	11,102

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 645	Rs 645
VNB %	FY21E	FY22E
	-1.4%	0.0%

KEY STOCK DATA

Bloomberg code	MAXF IN
No. of Shares (mn)	270
MCap (Rs bn) / (\$ mn)	152/2,026
6m avg traded value (Rs mn)	1,250
52 Week high / low	Rs 612/276

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.8	12.6	36.3
Relative (%)	7.9	20.3	35.4

SHAREHOLDING PATTERN (%)

	Mar -20	Jun-20
Promoters	28.3	28.3
FIs & Local MFs	29.0	28.7
FPIs	30.6	30.5
Public & Others	12.1	12.5
Pledged Shares	26.8	25.9

Source : BSE

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Disclosure:

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