

Max Financial

Worst is behind

MAXL's 4QFY20 APE declined 15.1% YoY (better than expected!) to Rs 15.1bn as lock-down impacted sales in Mar-20. Total VNB for FY20 grew 4.8% YoY to Rs 9.0bn as margins declined 10bps YoY to 21.6%. We maintain our BUY rating with TP of Rs 620.

- **Protection** (4QFY20) grew 50.8% YoY to Rs 1.8bn and its share rose 571bps YoY to 13.1%. For FY20, protection grew 41.7% YoY, contributing 13.8% to total APE. Limited pay protection is driving higher protection sales.
- NPAR savings contribution to total APE increased 97bps YoY to 14.1% while contribution of PAR (-360bps, 32.4%) and ULIP (-146bps, 42.4%) declined. Management expects NPAR savings contribution to increase as customer risk appetite is low. Company stated that given the yield curve, it planned to increase the duration of the NPAR savings product to 8 years.
- **VNB margin** was at 21.6% (-10bps YoY). Better product mix drove margins higher by 190bps, while higher acquisition costs and other factors pulled down margin by 190/10bps YoY. Investments in proprietary channel continue to burden margins.
- **Deal on track:** MaxF settled its telecom tax liability dispute by paying Rs 1.2bn. It is awaiting approval from the CCI for investment by Axis Bank and DEA for share swap into MaxF. Respective parties have also filed for approval with RBI and IRDAI. Expects deal to be completed by Mar-21.
- **Covid-19 impact:** Management stated that new policy sales and renewals were severely impacted in Mar-20. MAXL has completely digitized the sales process and has increased its underwriting decision making over video calls and through tele-medicals. Management stated that outlook for savings business remains muted and it expects increased protection/NPAR share in mix to make up for VNB loss. Overall it aims to FY20 absolute VNB in FY21E. Management indicated that sales trends have improved in Apr/May-20 and renewals are also back to normal levels in May-20.
- **Valuation and view.** A strategic JV partner such as AXSB provides long term distribution capability, ending uncertainty and market anxiety over the future of the AXSB distribution arrangement. We expect MAXL to lower its dependence on proprietary channels which will be VNBM accretive as investments in channels reduce. We have increased our VNB estimates for FY20/21E by 18.4/15.6%, and fine tuned our DCF assumptions, resulting in a 10.7% increase in TP to Rs 620. **Key risks:** Lower growth, higher cost overruns, supply overhang due to promoter pledges, and any hurdles in deal.

Financial Summary

(Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
NBP	18,910	20,620	-8.3	14,020	34.9	43,486	51,604	52,376	47,078	52,223
APE	14,090	16,590	-15.1	10,100	39.5	32,475	39,500	41,490	37,281	40,466
VNB	NA	NA	NA	NA	NA	6,560	8,560	8,970	8,127	9,064
VNB Margin (%)#	21.6	21.7	-10bps	21.0	58bps	20.2	21.7	21.6	21.8	22.4
EV						74,949	89,730	99,780	113,591	129,742
MCap/EV (x)*						2.9	2.4	1.6	1.9	1.7
P/Adj. VNB (x)*						29.8	21.5	10.7	14.6	11.6
ROEV						19.7	22.4	20.3	13.8	16.9

Refers to FYTD margins

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

BUY

CMP (as on 27 May 2020)	Rs 444	
Target Price	Rs 620	
NIFTY	9,315	
KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 560	Rs 620
	FY21E	FY22E
VNB %	18.4%	15.6%

KEY STOCK DATA

Bloomberg code	MAXF IN
No. of Shares (mn)	270
MCap (Rs bn) / (\$ mn)	120/1,582
6m avg traded value (Rs mn)	1,382
52 Week high / low	Rs 612/276

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(25.8)	(11.3)	(0.5)
Relative (%)	(5.3)	11.7	19.9

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	28.3	28.3
FIs & Local MFs	31.5	29.0
FPIs	27.7	30.6
Public & Others	12.5	12.1
Pledged Shares	20.3	26.8

Source : BSE

Madhukar Ladha, CFA
 madhukar.ladha@hdfcsec.com
 +91-22-6171-7323

Business update

- For 4QFY20: QoQ persistency declined across all periods except for the 37th and 61th month. Persistency was down for 13th/25th/49th month by 200/100/100bps.
- Proprietary channel outperformed banking channel growing 8.5% YoY to Rs 12.9bn in FY20. Banca was impacted by the developments at Yes Bank.
- Management stated that it will be re-pricing its protection products and offering protection without medicals (but with tele-medicals or on video calls). As reinsurance costs are increasing management will look to increase protection pricing so as to maintain its margins.
- **Holding co level:** 4QFY20 total cash expenses in MAXF declined to Rs 319mn (-73.3/+80.5% YoY/QoQ). FY20 total cash expenses were at Rs 1.1bn. Expense leakage continues to remain high but is expected to reduce as management retrenches high cost employees and legal expenses reduce.
- **Pledges reduce:** Share of promoter pledges have increased from 71.5% in Dec-19 to 94.7% in Mar-20. This is most likely as a result of reduction in stock price. Management has stated in its earlier calls that promoters are looking to reduce pledges by selling MaxF shares to repay loans.
- During FY20 MAXF has increased its stake in MAXL from 71.79% as of Mar-19 to 72.52% as of Dec-20 as it has bought shares back from AXISB. Total consideration for the share purchase transaction is Rs 1.9bn. This works out to ~Rs 134/sh for MaxL.

VNB and Embedded Value

- Post cost overrun, VNB for FY20 was 9.0bn (+4.8% YoY).
- VNBM was negatively impacted by higher effective tax rate (11.8%, +35bps YoY), offset by lower CRNHR (impact not quantified). Margin would be even lower had this assumption not been changed.
- EV was hit by negative economic variance of Rs 3.2bn. Components of this were 1) MTM on equity Rs (2.7)bn, 2) MTM on fixed income Rs (1.9)bn, 3) Higher effective tax rate Rs (0.3)bn, 4) CNHR assumption change Rs 1.3bn, and 5) Others Rs (0.4)bn.
- MAXL reported an annualized RoEV of 16.7% (-11bps YoY) for FY20.
- Reported EV was at Rs 99.8bn (+11.6% YoY)

APE declined 15.1% YoY, beating estimates.

VNB margin for FY20 was -10bps on account of better product mix (+190bps,) offset by acquisition cost overruns (-200bps) and other expenses (-10bps).

Protection share improved 571bps YoY to 13.1%.

Proprietary channel outperformed banking channel.

Banca was impacted by the developments at YES Bank.

AUM growth continues to remain healthy, 83% is debt.

Share of equity in total AUM decreased on account of steep fall in equity markets.

Operating cost in MaxF declined 67.1% QoQ as the company is bringing down expense at annual level.

We have revisited our estimates to increase APE and VNB margin.

Five Quarters at a Glance

Particulars (Rs mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)
New Business Premium	20,620	9,110	13,800	14,020	18,910	(8.3)	34.9
Individual adjusted premium	16,480	6,790	10,380	10,010	13,980	(15.2)	39.7
Shareholder profit (Pre tax)	2,480	770	930	1,830	2,420	(2.4)	32.2
Total APE	16,590	6,850	10,450	10,100	14,090	(15.1)	39.5
FYTD VNB (post over-run)	8,560	1,340	3,640	5,760	8,970	4.8	55.7
FYTD VNB margin (post over-run)	21.7	19.6	21.0	21.0	21.6	-10bps	58bps
Product Mix - Total APE basis (%)							
PAR	36.0	33.0	29.7	26.9	32.4	-360bps	551bps
Individual protection	5.3	7.0	7.0	9.7	8.0	269bps	-171bps
Group protection	1.7	8.0	6.3	4.3	3.1	140bps	-123bps
Non PAR savings	13.1	15.0	23.3	20.0	14.1	97bps	-589bps
ULIP	43.8	37.0	33.7	39.1	42.4	-146bps	332bps
Total	100.0	100.0	100.0	100.0	100.0		
Channel Mix-Total APE (%)							
Proprietary	25.9	33.0	33.0	30.3	29.1	320bps	-123bps
Axis Bank	55.0	45.0	58.2	58.4	60.9	589bps	246bps
Other Banks	18.1	21.0	7.8	10.3	9.1	-909bps	-123bps
Others	1.0	1.0	1.0	1.0	1.0	0bps	0bps
Total	100.0	100.0	100.0	100.0	100.0		
AUM	627,980	640,000	654,250	686,180	684,710	9.0	(0.2)
Debt Mix (%)	78.0	79.0	79.0	78.0	83.0	500bps	500bps
Equity Mix (%)	22.0	21.0	21.0	22.0	17.0	-500bps	-500bps
Non -Linked (%)	68.0	69.0	69.0	70.0	72.0	400bps	200bps
Linked (%)	32.0	31.0	31.0	30.0	28.0	-400bps	-200bps
Opex at Max Financial-Standalone	1,200	246	360	186	395	(67.1)	112.4
Solvency (%)	242	225	224	220	207	-3500bps	-1300bps
Policyholder expense to Gross premium (%)	13.2	18.7	16.7	16.3	14.5	130bps	-180bps

Source: Company, HSIE Research

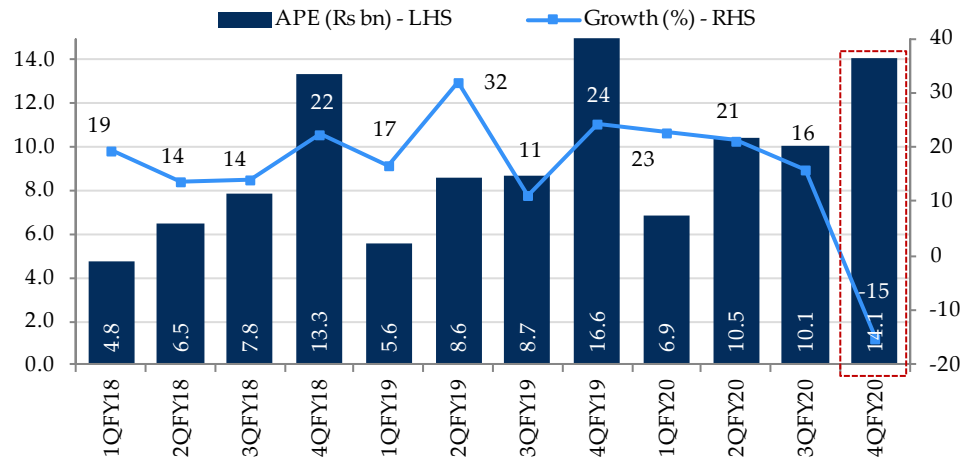
Estimate Change

Rs bn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
APE	35.6	37.3	4.9	38.8	40.5	4.2
VNB	6.9	8.1	18.4	7.8	9.1	15.6
VNB Margin	19.3	21.8	250bps	20.2	22.4	220bps
EV	108.0	113.6	5.2	120.4	129.7	7.7

Source: Company, HSIE Research

Decline in PAR, NPAR and ULIP sales led to decline in total APE of 15.1% YoY.

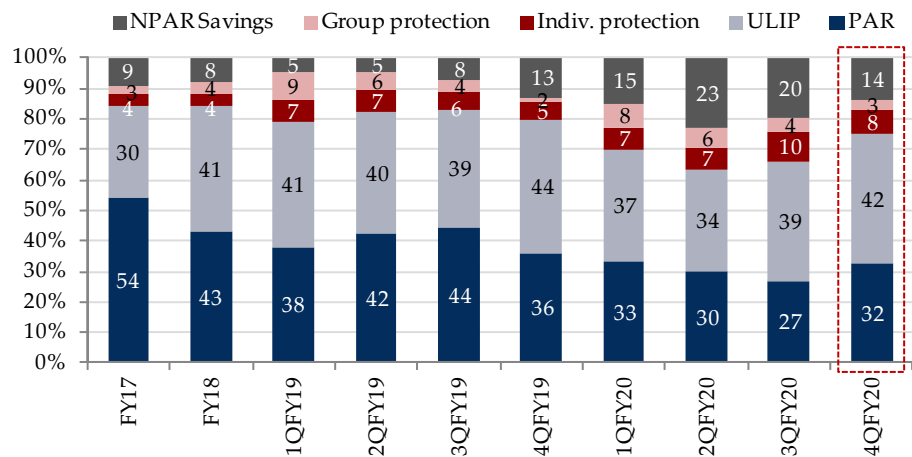
Total APE trend



Source: Company, HSIE Research

Share of indiv. and group protection improved YoY helping VNBM to sustain at 21.6% for FY20.

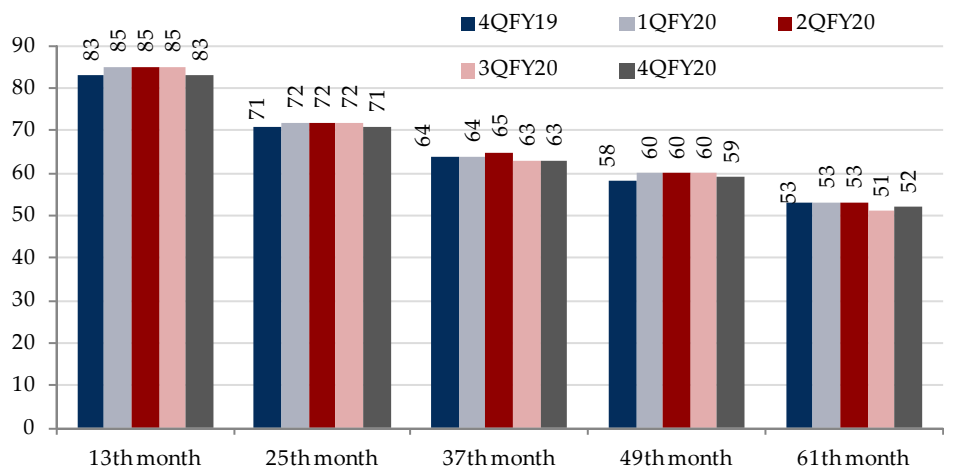
Product Mix On APE (%)



Source: Company, HSIE Research

Persistency for 37th and 61st month has declined YoY primarily due to stress seen in collections for ULIP due to market volatility.

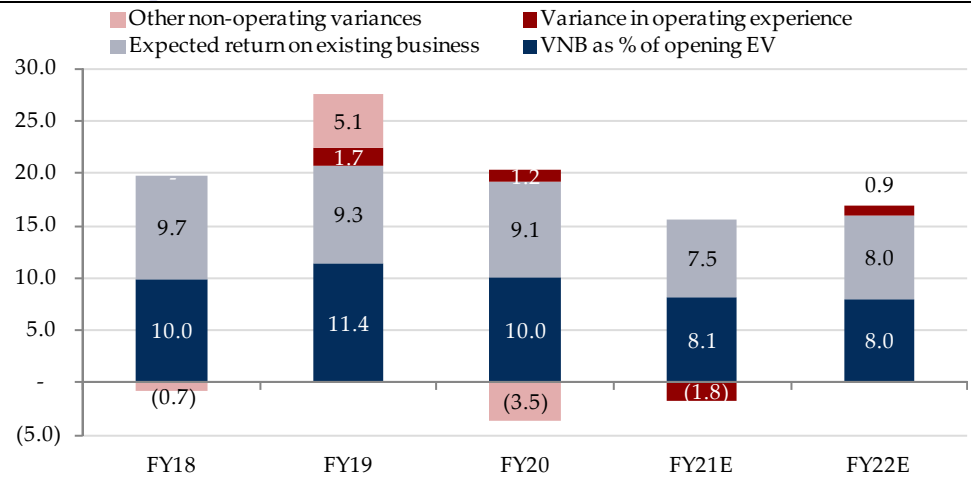
Persistency Trend



Source: Company, HSIE Research

FY20 VNBM at 21.6% (-10bps YoY) was a result of 1) business mix (+190bps) 2) higher acquisition costs (-200bps) and 3) other expenses variances (-10bps).

RoEV stack-up



Source: Company, HSIE Research

EV movement for last 3 years

(Rs mn)	1HFY18	2HFY18	1HFY19	2HFY19	1HFY20	2HFY20
Opening IEV	65,890	69,440	75,090	77,510	89,380	97,450
Value added by new business during the period	2,040	4,520	2,900	5,330	3,640	5,330
Unwind	3,060	3,350	3,450	3,520	3,890	4,240
Variance in Operating experience/assumptions	200	-200	420	840	260	770
IEV operating earnings	5,300	7,670	6,770	9,690	7,790	10,340
Economic and other non-operating variances	210	-680	-1,530	5,370	1,140	-4,310
Total IEV earnings	5,510	6,990	5,240	15,060	8,930	6,030
Capital contributions / dividend payouts	-1,960	-1,481	-2,820	-3,190	-860	-3,700
Closing IEV-Year End	69,440	74,949	77,510	89,380	97,450	99,780
EVOP return %	16.1	22.1	18.0	25.0	17.4	21.2

Source: Company, HSIE Research

Margin expansion in 2HFY20 resulted in higher VNB accretion.

Steep drop in equity prices, movement in yield curve impacted negatively.

Embedded Value movement

Particulars (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Opening MCEV	65,890	75,090	89,380	99,780	113,591
Value of new business	6,560	8,560	8,970	8,127	9,064
Unwind/ Expected Return	6,410	6,970	8,130	7,484	9,087
Variance in Operating experience	0	1,260	1,030	-1,800	1,000
MCEV operating earnings	12,970	16,790	18,130	13,811	19,152
Economic and other non-operating variances	-470	3,860	-3,170	0	0
Total MCEV earnings	12,500	20,650	14,960	13,811	19,152
Capital contributions / dividend payouts	-3,441	-6,010	-4,560	0	-3,000
Closing MCEV-Year End	74,949	89,730	99,780	113,591	129,742

Source: Company, HSIE Research

Sensitivity Analysis

Sensitivity Analysis	FY19 % change in		1HFY20 % change in		FY20 % change in	
	VNB	EV	VNB	EV	VNB	EV
Lapse/Surrender - 10% increase	-4%	-2%	-4%	-1%	-4%	-1%
Lapse/Surrender - 10% decrease	4%	2%	4%	2%	4%	1%
Mortality- 10% increase	-4%	-1%	-5%	-2%	-5%	-2%
Mortality- 10% decrease	4%	1%	5%	2%	5%	2%
Expenses- 10% increase	-6%	-1%	-7%	-1%	-7%	-1%
Expenses- 10% decrease	6%	1%	7%	1%	7%	1%
Risk free rates- 1% increase	7%	-2%	3%	-1%	2%	-2%
Risk free rates- 1% reduction	-9%	2%	-8%	1%	-6%	2%
Equity values- 10% immediate rise	Negligible	1%	Negligible	1%	Negligible	1%
Equity values- 10% immediate fall	Negligible	-1%	Negligible	-1%	Negligible	-1%
Corporate tax Rate – 2% increase	-3%	-2%	-3%	-2%	-3%	-2%
Corporate tax Rate – 2% decrease	3%	2%	3%	2%	3%	2%
Corporate tax Rate – increased to 25%	-17%	-12%	-20%	-12%	-20%	-12%

Source: Company, HSIE Research

VNB is most sensitive to rise in expenses.

Industry NBP data

Particulars	Individual (Rs bn)					Group (Rs bn)					Total (Rs bn)				
	FY17	FY18	FY19	FY20	YOY (%)	FY17	FY18	FY19	FY20	YOY (%)	FY17	FY18	FY19	FY20	YOY (%)
Aditya Birla Sun Life	9.6	11.5	22.0	18.0	-18.1	15.7	15.1	21.9	18.5	-15.3	25.3	26.6	43.9	36.6	-16.7
Bajaj Allianz Life	10.7	14.6	18.0	20.0	11.0	22.2	28.4	31.2	31.8	1.9	32.9	42.9	49.2	51.8	5.2
Bharti Axa Life	4.0	4.7	6.4	6.3	-1.5	2.1	2.6	2.7	1.9	-27.2	6.1	7.3	9.1	8.3	-9.0
DHFL Pramerica Life	2.2	3.6	3.2	1.7	-47.4	6.6	10.9	9.1	3.5	-61.4	8.8	14.5	12.2	5.1	-57.8
HDFC Standard Life	42.0	59.4	76.4	85.2	11.5	45.0	54.0	73.3	88.7	21.1	87.0	113.4	149.7	174.0	16.2
ICICI Prudential Life	69.8	84.0	81.4	78.7	-3.3	8.9	7.2	21.1	44.7	111.8	78.6	91.3	102.5	123.5	20.4
Kotak Mahindra Life	14.4	19.7	21.3	24.0	12.5	14.1	14.5	18.5	27.1	46.7	28.5	34.3	39.8	51.1	28.4
Max Life	33.1	39.8	47.5	51.3	8.1	3.6	3.6	4.1	4.5	9.4	36.7	43.5	51.6	55.8	8.2
SBI Life	64.7	84.1	96.4	112.4	16.7	36.8	25.6	41.6	53.5	28.7	101.5	109.7	137.9	165.9	20.3
Tata AIA Life	10.5	14.0	23.5	30.8	31.0	0.8	0.9	1.3	1.6	28.5	11.3	14.9	24.8	32.4	30.9
Private players Total	321	404	471	503	6.8	186	190	259	306	18.1	507	593	730	809	10.8
LIC	456	517	510	512	0.4	788	828	912	1,267	39.0	1,244	1,346	1,422	1,780	25.2
Industry total*	777	921	981	1,015	3.5	974	1,018	1,171	1,574	34.4	1,751	1,939	2,152	2,589	20.3

Source: IRDAI data, HSIE Research * Total will not add up since we have excluded smaller sized private players

Market share on NBP basis (%)

Particulars	Individual					Group				
	FY17	FY18	FY19	FY20	YOY (bps)	FY17	FY18	FY19	FY20	YOY (bps)
Aditya Birla Sun Life	3.0	2.9	4.7	3.6	-109	8.5	8.0	8.4	6.1	-238
Bajaj Allianz Life	3.3	3.6	3.8	4.0	15	12.0	14.9	12.0	10.4	-165
Bharti Axa Life	1.3	1.2	1.4	1.3	-11	1.1	1.4	1.0	0.6	-39
DHFL Pramerica Life	0.7	0.9	0.7	0.3	-34	3.5	5.7	3.5	1.1	-235
HDFC Standard Life	13.1	14.7	16.2	17.0	71	24.2	28.5	28.2	29.0	73
ICICI Prudential Life	21.7	20.8	17.3	15.7	-163	4.8	3.8	8.1	14.6	647
Kotak Mahindra Life	4.5	4.9	4.5	4.8	24	7.6	7.7	7.1	8.8	172
Max Life	10.3	9.9	10.1	10.2	12	1.9	1.9	1.6	1.5	-12
SBI Life	20.2	20.8	20.5	22.4	189	19.8	13.5	16.0	17.5	144
Tata AIA Life	3.3	3.5	5.0	6.1	113	0.4	0.5	0.5	0.5	4
Private players*	41.3	43.8	48.0	49.5	154	19.1	18.6	22.2	19.5	-269
LIC	58.7	56.2	52.0	50.5	-154	80.9	81.4	77.8	80.5	269
Industry	100	100	100	100	0	100	100	100	100	0

Source: IRDAI data, HSIE Research * Total will not add up since we have excluded smaller sized private players

Valuation Comps

Bloomberg Ticker	Unit	IPRU			MAXF			SBILIFE			HDFCLIFE		
Rating		BUY			BUY			BUY			Not Rated		
Current market price	Rs	354			444			741			503		
Market Capitalisation	Rs bn	508			153			741			1,013		
Target price	Rs	460			620			975			540*		
Upside/(Downside)	%	30.0			39.7			31.6			7.3		
Profitability		FY20	FY21E	FY22E	FY20P	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
VNB Margin	%	21.7	23.4	24.4	21.6	21.8	22.4	20.7	21.0	21.6	25.9	27.3	27.7
Total RoEV	%	8.4	13.6	15.2	16.7	13.8	16.9	16.8	13.4	15.1	12.7	15.6	16.6
Operating RoEV	%	15.2	13.6	15.2	20.3	13.8	16.9	20.0	13.4	15.1	18.2	15.6	16.6
Non-operating RoEV	%	-6.8	0.0	0.0	-3.5	0.0	0.0	-3.2	0.0	0.0	-5.5	0.0	0.0
RoE	%	15.5	18.4	17.8	19.5	19.5	19.6	17.4	20.1	21.6	23.5	24.4	26.8
Valuation at CMP		FY20	FY21E	FY22E	FY20P	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
P/EV	x	2.2	2.0	1.7	1.6	1.9	1.7	2.7	2.4	2.1	4.9	4.3	3.8
P/EVOP	x	15.4	16.2	12.9	10.2	15.8	11.4	15.6	20.1	15.7	30.5	31.5	26.0
Implied P/VNB	x	18.2	18.0	13.6	10.6	14.5	11.5	22.7	23.7	18.7	43.2	47.9	39.4
Implied P/VIF	x	3.3	3.1	2.8	3.1	2.9	2.6	4.2	3.8	3.4	7.5	6.7	5.9
P/B	x	6.7	5.8	5.1	7.1	5.9	5.3	8.3	6.8	5.7	14.5	12.4	10.5
P/E	x	45.6	33.9	30.3	38.9	34.5	30.9	52.1	37.3	28.7	68.1	54.7	42.3
P/AUM	x	0.3	0.3	0.2	0.2	0.3	0.3	0.5	0.4	0.3	0.8	0.7	0.6
Valuation at TP/FV		FY20	FY21E	FY22E	FY20P	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
P/EV	x	2.9	2.5	2.2	2.3	2.7	2.3	3.5	3.1	2.7	5.3	4.6	4.0
P/EVOP	x	20.1	21.1	16.8	14.3	22.1	15.9	20.6	26.4	20.6	32.7	33.8	27.9
Implied P/VNB	x	27.7	27.9	21.9	19.9	25.2	21.1	33.3	35.7	28.9	47.1	52.2	43.2
Implied P/VIF	x	4.3	4.0	3.6	4.3	4.0	3.6	5.6	5.0	4.5	8.1	7.2	6.3
P/B	x	8.8	7.5	6.6	9.9	8.2	7.4	11.0	9.0	7.5	15.5	13.3	11.2
P/E	x	59.3	44.0	39.4	54.3	48.2	43.2	68.6	49.1	37.8	73.1	58.6	45.4
P/AUM	x	0.4	0.4	0.3	0.3	0.2	0.2	0.6	0.5	0.4	0.9	0.7	0.6

Source: Company financials and disclosures, HSIE Research

		IPRU			MAXF			SBILIFE			HDFCLIFE		
Per Share data		FY20	FY21E	FY22E	FY20P	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
EV	Rs	160	181	206	270	231	264	276	313	357	102	116	134
EVOP	Rs	23	22	27	49	28	39	47	37	47	16	16	19
VNB	Rs	11	11	13	24	17	18	22	20	23	10	8	10
VIF	Rs	106	115	128	184	155	173	175	193	217	67	75	85
Book Value	Rs	52	61	70	62	75	84	89	109	131	35	40	48
Earnings	Rs	8	10	12	11	13	14	14	20	26	7	9	12
AUM	Rs	1,143	1,240	1,432	1,854	1,728	1,976	1,588	1,869	2,185	630	737	859
ANW	Rs	55	65	78	90	107	127	110	129	149	36	41	49
Key parameters		FY20	FY21E	FY22E	FY20P	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
APE	Rs bn	74	66	75	41	37	40	107	93	106	72	62	71
VNB	Rs bn	16	15	18	9	8	9	22	20	23	19	17	20
Total EVOP	Rs bn	18	31	39	18	14	19	47	37	47	23	32	39
Operating EVOP	Rs bn	33	31	39	18	14	19	47	37	47	33	32	39
Non- operating EVOP	Rs bn	-15	0	0	-3	0	0	-8	0	0	-10	0	0
EV	Rs bn	230	259	296	100	114	130	276	313	357	207	235	270
Net worth	Rs bn	75	88	101	31	37	41	89	109	131	70	82	97
Net Profit	Rs bn	11	15	17	6	6	7	14	20	26	15	19	24
AUM	Rs bn	1,640	1,780	2,056	685	849	971	1,588	1,869	2,186	1,273	1,488	1,733
Growth YOY		FY20	FY21E	FY22E	FY20P	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
APE	%	(5.4)	(10.9)	14.0	5.0	(10.1)	8.5	10.8	(13.1)	13.8	18.4	(13.9)	15.4
VNB	%	20.9	(4.1)	18.9	4.8	(9.4)	11.5	15.6	(11.7)	17.1	24.6	(12.2)	17.1
Total EVOP	%	(50.7)	72.5	25.8	8.0	(23.8)	38.7	33.5	(22.1)	28.2	(32.2)	38.5	21.4
Operating EVOP	%	(13.4)	(4.9)	25.8	8.0	(23.8)	38.7	33.5	(22.1)	28.2	8.5	(3.2)	21.4
Non- operating EVOP	%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EV	%	6.5	12.6	13.9	11.2	13.8	14.2	16.8	13.4	13.9	12.9	13.7	14.9
Net worth	%	9.7	16.3	14.8	11.0	20.6	10.9	19.1	22.4	20.2	24.0	16.5	18.6
Net Profit	%	(2.9)	34.6	11.7	1.2	12.7	11.5	7.2	39.7	29.9	16.7	24.6	29.2
AUM	%	2.3	8.5	15.5	9.0	24.0	14.3	14.0	17.7	16.9	1.4	17.0	16.5

Source: Company financials and disclosures, HSIE Research

Operational Comps

		IPRU				MAXF				SBILIFE				HDFCLIFE			
APE mix		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Individual	Rs bn	65.2	75.8	74.4	67.9	26.4	32.2	39.2	41.2	60.2	77.9	90.8	99.0	37.4	48.9	52.0	61.4
Group	Rs bn	1.1	2.1	3.7	5.9	0.2	0.3	0.3	0.3	5.8	7.5	6.1	8.5	3.5	6.3	10.6	12.7
APE (Rs bn)	Rs bn	66.3	77.9	78.0	73.8	26.6	32.5	39.5	41.5	66.0	85.4	96.9	107.5	40.9	55.2	62.6	74.1
YoY Growth	%	30	18	0	(5)	26	22	22	5	35	29	13	11	13	35	13	18
CAGR 3 years	%			15	4			23	15			26	-			20	22
CAGR 5 years	%			19	10			31	28			25	-			20	18
Business mix-product wise		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
		*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE	*Total APE
Individual	%	98.4	97.3	95.3	92.0	97.0	96.0	96.0	95.0	89.5	92.5	93.7	92.1	89.3	88.4	83.1	82.9
PAR	%	9.6	10.9	8.6	12.7	54.0	43.0	39.5	30.5	16.6	24.4	18.7	10.9	31.2	24.8	15.0	15.7
Non-PAR	%	1.1	0.5	0.9	4.2	9.0	8.0	9.0	18.0	0.7	0.8	0.4	6.9	8.0	8.0	16.6	37.3
ULIP	%	84.1	81.9	79.6	64.7	30.0	41.0	41.5	38.5	70.9	66.5	70.8	69.6	46.4	51.3	45.7	23.2
Protection	%	3.6	4.0	6.2	10.4	4.0	4.0	6.0	8.0	1.2	0.7	3.8	4.7	3.6	4.4	5.8	6.6
Group	%	1.6	2.7	4.7	8.0	3.0	4.0	4.0	5.0	10.5	7.5	6.3	7.9	10.7	11.6	16.9	17.1
Savings	%	1.3	1.0	1.6	3.3	NA	NA	NA	NA	5.5	2.8	3.3	3.7	6.5	4.7	6.0	6.6
Protection	%	0.3	1.7	3.1	4.7	3.0	4.0	4.0	5.0	5.1	4.7	3.0	4.2	4.2	6.9	10.9	10.6
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company financials and disclosures, HSIE Research

		IPRU				MAXF				SBILIFE				HDFCLIFE			
Channel mix (Overall)		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
		*Total APE	*Total APE	*Total APE	*Total APE	*Ind APE	*Ind APE	*Ind APE	*Ind APE	*NBP	*NBP	*NBP	*NBP	*Total NBP	*Total NBP	*Total NBP	*Total NBP
Bancassurance	%	57.3	52.3	56	51	70.0	72.0	69.6	68.0	53.0	62.0	64.0	60.0	52.0	48.0	49.0	50.0
Agency	%	23.8	25.4	22	21	29.0	27.0	29.8	31.0	22.0	25.0	21.0	20.0	32.0	33.0	26.0	23.0
Direct	%	9.8	13.5	12	13	-	-	-	-	-	-	-	-	7.0	10.0	16.0	17.0
Brokers and others	%	9.1	8.8	11	15	1.0	1.0	1.0	1.0	25.0	13.0	15.0	20.0	9.0	9.0	9.0	10.0
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Banca channel partners		IPRU				MAXF				SBILIFE				HDFCLIFE			
		ICICIB and SCB				AXIS, YES, LVB				SBI, P&SB, SIB, SYB, ALB				HDFCB, RBL, IDFCB, BFL			
AUM		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
AUM	Rs bn	1,229	1,395	1,604	1,530	444	522	628	685	977	1,163	1,410	1,604	917	1,066	1,256	1,272
Equity	%	46.8	47.0	48.0	40.0	24.0	22.0	22.0	17.0	23.2	23.0	23.0	21.0	41.0	39.0	38.0	29.0
Debt	%	53.2	53.0	52.0	60.0	76.0	78.0	78.0	83.0	76.8	77.0	77.0	79.0	59.0	61.0	62.0	71.0
Linked	%	71.5	69.9	NA	NA	35.0	33.0	32.0	28.0	54.0	53.0	49.0	49.0	52.0	57.0	NA	NA
Non-linked	%	28.5	30.1	NA	NA	65.0	67.0	68.0	72.0	46.0	47.0	51.0	51.0	48.0	43.0	NA	NA
Solvency ratio		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Solvency	%	281	252	215	194	309	275	242	207	204	206	213	195	192	192	188	184
Market Share		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Individual NBP Private Market Share	%	21.7	20.8	17.3	15.8	10.3	9.9	10.1	10.2	20.2	20.8	20.5	22.4	13.1	14.7	16.2	17.0
Individual APE Private Market Share	%	22.3	20.9	17.6	17.0	9.2	9.0	9.6	9.7	20.7	21.8	22.3	23.2	12.7	13.3	12.5	14.2

VNB Margin		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Margin	%	10.1	16.5	17.0	21.7	18.2	20.2	21.7	21.6	15.7	18.4	19.8	20.7	22.3	23.2	24.6	25.9
Persistence		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
13th month	%	85.7	87.8	87.4	85.3	80.0	80.0	83.0	83.0	81.1	83.0	85.1	84.3	80.9	87.0	87.2	90.1
25th month	%	73.9	78.8	78.0	77.4	70.0	72.0	71.0	71.0	73.9	75.2	76.7	77.2	73.3	77.0	80.4	80.2
37th month	%	66.8	68.9	71.3	69.0	60.0	62.0	64.0	63.0	67.4	70.0	71.4	70.1	63.9	71.0	72.0	73.8
49th month	%	59.3	63.6	65.2	66.4	55.0	57.0	58.0	59.0	62.5	63.9	66.4	64.6	58.3	62.0	67.7	67.2
61th month	%	56.2	54.8	57.6	57.4	53.0	53.0	53.0	52.0	67.2	58.4	57.2	59.4	56.8	51.0	52.3	55.0

Source: Company financials and disclosures, HSIE Research

Performance metrics, growth and ratios

Particulars	FY18	FY19	FY20P	FY21E	FY22E
Performance metrics (Rs mn)					
NBP	43,486	51,604	52,376	47,078	52,223
APE	32,475	39,500	41,490	37,281	40,466
VNB	6,560	8,560	8,970	8,127	9,064
EV	74,949	89,730	99,780	113,591	129,742
EVOP	12,970	16,790	18,130	13,811	19,152
Rs/share					
EPS	10.7	11.3	11.4	12.9	14.3
BV	54.7	56.3	62.5	75.4	83.6
Growth (%)					
Premium growth	15.9	16.5	6.6	6.2	8.9
Total income growth	8.5	19.5	6.3	8.6	10.4
Commissions growth	(4.7)	10.7	6.6	(2.0)	10.0
Opex growth	1.2	19.7	13.5	6.2	8.9
PAT growth	31.0	15.6	19.3	16.6	14.9
Performance metrics growth (%)					
NBP	18.6	18.7	1.5	(10.1)	10.9
APE	18.2	21.6	5.0	(10.1)	8.5
VNB	31.5	30.5	4.8	(9.4)	11.5
EV	13.7	19.7	11.2	13.8	14.2
EVOP	15.9	29.5	8.0	(23.8)	38.7
EPS	(20.1)	5.1	1.2	12.7	11.5
BV	7.3	2.9	11.0	20.6	10.9
Expense ratios (%)					
Commissions/premium	36.5	20.1	5.0	5.0	5.0
Opex/premium	0.2	16.7	10.9	3.6	9.1
Total expenses/premium	21.1	21.1	22.0	21.4	21.5
Efficiency ratios (%)					
RoAA	1.2	1.0	0.9	0.8	0.8
RoE	22.4	21.0	19.5	19.5	19.6
ROEV return	19.0	27.5	16.7	13.8	16.9
Operating RoEV	19.7	22.4	20.3	13.8	16.9
Non-operating RoEV	-0.7	5.1	-3.5	0.0	0.0

Source: Company financials and disclosures, HSIE Research

Financials

Profit and Loss Account

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Policyholder Account								
Total premium earned	81,052	91,389	106,802	123,795	144,184	153,694	163,256	177,806
Income from investments and other income	41,203	13,046	42,296	37,828	48,963	51,701	59,783	68,372
Transfer from shareholders account	441	19	2	91	120	-	-	-
Total income	122,695	104,454	149,101	161,715	193,267	205,395	223,039	246,177
Commission	7,486	8,210	9,364	8,929	9,888	10,545	10,334	11,368
Operating expenses	12,419	12,496	15,912	16,099	19,274	21,868	23,228	25,298
Provisions	627	763	803	1,096	1,317	1,382	1,452	1,524
Total expenses	20,532	21,469	26,080	26,124	30,479	33,795	35,014	38,191
Benefits paid	35,031	31,464	37,775	49,466	57,178	68,185	79,519	91,374
Change in valuation of liabilities	60,996	46,888	78,693	79,043	97,365	98,549	103,080	111,192
Total	96,027	78,352	116,468	128,509	154,544	166,735	182,600	202,566
Surplus	6,136	4,633	6,553	7,082	8,244	4,865	5,425	5,421
Transfer to shareholders account	2,835	3,351	5,551	3,992	4,402	3,892	4,340	4,336

Shareholders account (Rs mn)

Transfer from policyholders' a/c	2,835	3,351	5,551	3,992	4,402	3,892	4,340	4,336
Investment income	2,693	2,190	3,089	2,178	2,177	2,639	2,986	3,806
Total income	5,528	5,541	8,640	6,170	6,579	6,531	7,327	8,142
Expenses	324	415	961	(68)	257	257	257	257
Contribution to policyholders' a/c	441	19	2	91	120	-	-	-
Profit before tax	4,764	5,108	7,677	6,146	6,202	6,274	7,070	7,885
Taxes	634	718	1,083	875	662	667	752	839
PAT	4,130	4,389	6,594	5,271	5,540	5,607	6,318	7,047

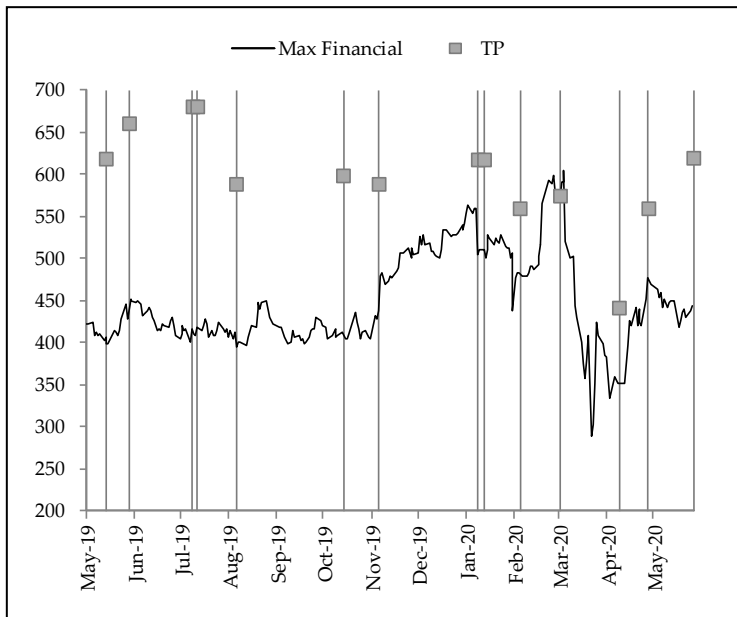
Source: Company, HSIE Research

Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Source								
Share capital	19,188	19,188	19,188	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	952	954	5,867	7,702	8,478	11,510	17,828	21,874
Net worth	20,141	20,142	25,055	26,891	27,666	30,698	37,016	41,062
Credit/debit balance in fair value a/c	412	97	38	98	(57)	(63)	(69)	(76)
Policyholders' a/c	280,250	325,054	406,692	486,143	585,765	684,314	787,394	898,586
Funds for future appropriation	13,279	14,563	15,565	18,655	22,498	27,131	32,719	39,458
Total Liabilities	314,081	359,856	447,350	531,788	635,872	742,081	857,060	979,031
Application								
Shareholders' Investments	26,227	23,918	32,303	32,146	35,187	42,663	54,371	64,950
Policyholders' investments	151,980	202,784	255,483	319,238	394,173	-	-	-
Asset to cover linked liabilities	133,996	131,538	155,910	170,981	198,619	691,342	794,422	905,614
Loans	592	764	1,333	2,233	3,265	3,265	3,265	3,265
Fixed assets + DTA	1,188	1,679	1,623	1,582	1,921	1,969	2,018	2,069
Net current assets	99	(827)	699	5,608	2,706	2,842	2,984	3,133
Total Assets	314,081	359,856	447,350	531,788	635,872	742,081	857,060	979,031

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
14-May-19	406	BUY	619
30-May-19	440	BUY	661
9-Jul-19	400	BUY	681
13-Jul-19	423	BUY	681
7-Aug-19	413	BUY	589
14-Oct-19	407	BUY	599
6-Nov-19	438	BUY	589
9-Jan-20	505	BUY	618
11-Jan-20	511	BUY	618
6-Feb-20	484	BUY	560
2-Mar-20	577	ADD	575
11-Apr-20	355	BUY	442
29-Apr-20	477	BUY	560
28-May-20	444	BUY	620

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com