

Max Financial Services (MAXF IN)

Target Price **Rs725.0**
 Current Price **Rs502.7**
 % Upside **44%**

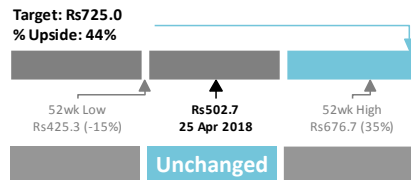
Concerns Provide Opportunity

Insurance

India

25 Apr 2018

BUY



Basic Share Information

Market cap	Rs134.9b / US\$2.02b
Daily traded value (3mth)	US\$5.41m
Shares outstanding	268.4m
Free float	55%
Foreign Shareholding	30%
1 yr high	Rs676.7
1 yr low	Rs425.3

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	12.4%	-6.5%	-22.7%
Absolute USD	9.3%	-11.2%	-25.7%
Relative to SENSEX	6.2%	-2.5%	-38.3%

Santosh Singh CFA
 Haitong International Research Ltd
 santosh.singh@htisec.com

Hitesh Gulati, CFA
 Haitong International Research Ltd
 hitesh.gulati@htisec.com

Hong Kong Office (852) 2899 7090
 Tokyo Office (81) 3 3560 9300
 London Office (44) 20 7397 2700
 New York Office (1) 212 351 6050
 Mumbai Office (91) 22 4315 6839

www.equities.htisec.com

Operating Performance Remains Strong

Summary: Max Financial (MAXF IN; MFS) is one stock where investors have been concerned for one reason or another mainly due to speculations. Most of the concerns have proven to be unfounded in the last five years and Max Financial has been one of the top performing companies during this period on almost every qualitative and quantitative parameter. Despite this, in the last six months a new concern cropped up around Axis Bank (AXSB IN) entering into manufacturing life insurance products on its own. Investors perceived this as a threat, which they thought would significantly destroy MFS' franchise – this resulted in the stock's 15% ytd decline and 22% decline in the last 12 months (Sensex up 15.2%). However, despite the current underperformance and all the concerns the stock has returned 26% share price CAGR over the last five years. We find it hard to reconcile that Axis would want to break one of its top performing business lines and start something afresh. However, in the worst case scenario, even if Axis leaves in the current year, our implied value for MFS' shares would be higher than the current price (see our valuation scenarios in the valuation section), which might have even further upside if Max Life were to acquire IDBI Federal Life Insurance (unlisted).

Target Price and Catalyst: Our revised target price for MFS is Rs725. In our opinion, successful acquisition of IDBI Federal could be a significant catalyst. Even in the absence of this, we believe every quarterly result would be a catalyst for the stock.

Earnings: We forecast VNB CAGR for Max Life of 26% over FY3/18–20. For FY3/17, Max Life recorded a VNB growth of 29% YoY. We expect the company to deliver 20% RoEV (on average EV) by FY3/20 on the back of new business margins growing to 22% driven by better operating performance. We are yet to price in the company's ambitions on margin and growth as we want to take a conservative stance.

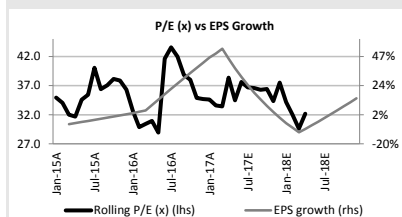
Valuation: In our view, the stock is already trading at inexpensive valuations and builds in the scenario that the tie-up with Axis Bank is no longer there, given the near-30% discount to ICICI Prudential Life (IPRU IN) and SBI Life (SBI LIFE IN). We lower our target price from Rs775 to Rs725 on the back of downgrades to our APE growth forecasts to 12% from 15% previously for FY3/21–25. Our valuation is derived using an appraisal value methodology, where we add the value generated from new business using discounted cashflow (DCF) analysis of the merged entity's pre-dividend EV. The main risk to our rating and to the attainment of our target price is the risk of regulatory regulations on traditional products.

	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E	Trend
Gross premiums written (Rsm)	92,160	107,804	125,818	145,571	168,436	■ ■ ■ ■ ■
Total turnover (Rsm)	106,473	151,999	168,236	195,920	228,287	■ ■ ■ ■ ■
Pre-tax profit (Rsm)	5,091	7,682	6,789	8,388	10,406	■ ■ ■ ■ ■
Net income to ord equity (Rsm)	3,017	4,619	4,111	5,113	6,367	■ ■ ■ ■ ■
Net profit growth	5.5%	53.1%	(11.0%)	24.4%	24.5%	■ ■ ■ ■ ■
P/EV (x)	3.17	2.79	2.43	2.03	1.70	■ ■ ■ ■ ■
P/B (x)	6.83	5.78	4.62	3.69	2.96	■ ■ ■ ■ ■
P/E (x)	44.44	29.13	32.81	26.39	21.19	■ ■ ■ ■ ■
ROE	11.5%	21.5%	15.6%	15.6%	15.5%	■ ■ ■ ■ ■
EVPS (Rs)	158.8	180.1	206.9	247.8	296.3	■ ■ ■ ■ ■
EPS HTI old (Rs)	9.47	14.81	15.38	19.13	23.82	■ ■ ■ ■ ■
EPS HTI New (Rs)	11.31	17.26	15.32	19.05	23.72	■ ■ ■ ■ ■
Consensus EPS (Rs)	13.93	12.19	10.47	12.20	13.79	■ ■ ■ ■ ■
HTI EPS vs Consensus	(18.8%)	41.6%	46.3%	56.2%	72.1%	■ ■ ■ ■ ■

Source: Company data, Bloomberg, HTI estimates

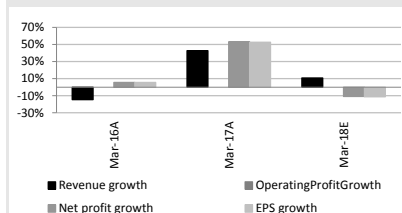
Click [here](#) to download the working model

Valuation



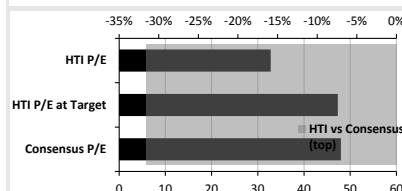
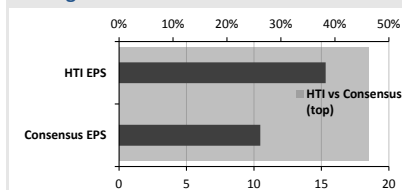
Source: Company data, Bloomberg, HTI estimates

Earnings Trends



Source: Company data, Bloomberg, HTI estimates

Earnings: HTI vs Consensus



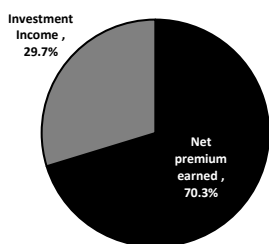
Source: Company data, Bloomberg, HTI estimates

Investment Thesis

BUY

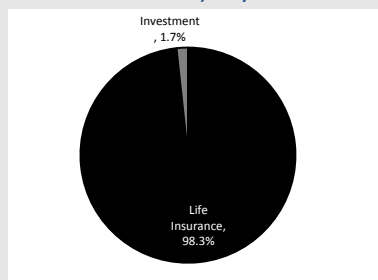
- ▶ We expect Max Life Insurance to post total APE CAGR of 18% between FY3/18–20.
- ▶ We expect the new business margins to improve from 18.1% in FY3/17 to 22% by FY3/20; this should mean a 26% CAGR of new business profits during the same period.
- ▶ We expect the improvement in persistency to sustain and expense to grow at slower pace than new business premiums over FY3/17 to FY3/20.
- ▶ We believe that Max Financial would be able to keep its partnership intact with Axis bank (AXSB IN) and Yes Bank (YES IN), which together contributed more than 50% to the new business premiums of the company in FY3/17.
- ▶ As a result of the above drivers, we expect the company to reach an RoEV of 20% (on average EV) by FY3/20.

Sales Breakdown, FY3/17



Source: Company data

Net Profit Breakdown, FY3/17



Source: Company data

Company Snapshot

MFS owns a majority (70%) stake in Max Life. Max Life is a joint venture with Mitsui Sumitomo Insurance (unlisted) (MSI), a Japan-based global leader in life insurance. Max Life is India's largest non-bank owned, private life insurance company. As a result of the demerger of the erstwhile Max India from 15 January 2016, the resultant entity MFS became India's first listed company focused exclusively on life insurance. Subsidiary Max Life reported gross written premium of Rs108bn in FY3/17, up 17% YoY, and pretax profit of Rs7.7bn, up 52% YoY. As of 31 March 2017, Max Life's EV stood at Rs65.6bn with an operating RoEV of 18%, and it was managing assets worth Rs447bn, up 24% YoY.

Key Investment Metrics

Revenue Growth

Low Medium **High**

The gross premium written CAGR for the last three years has been 14%. We expect gross premium written CAGR of around 16% for the next three years on the back of agency channels starting to grow and a balanced product mix.

Profit Margins

Low Medium **High**

MFS has historically boasted of high VNB margins, in our view, owing to the presence of non-participating (non-par) products in the product mix and absence of cost overruns. We expect its VNB margin to improve from 18.1% in FY3/17 to 22% in FY3/20.

Shareholder Returns

Low Medium **High**

We expect the RoEV for Max Life to increase to around 20% (on average EV) by FY3/20, owing to improvement in VNB margin from 18% in FY3/17 to 22% in FY3/20.

Balance Sheet Risks

High Medium **Low**

Max Life hedges its interest rate exposure due to non-par guaranteed products. Therefore, we believe balance sheet risk is low.

Barriers to Entry

Low Medium **High**

We believe there are significant barriers to entry in the life Insurance business due to the significant initial investment required.

International Exposure/Breakdown

High Medium **Low**

All premium income is from India.

FX Exposure

High Medium **Low**

On account of all premium income coming from India, the company has no forex exposure.

Corporate Governance

Low Medium **High**

We believe MFS and Max Life have high corporate governance standards given their independent board structures and the high quality of their respective management teams.

Our Model Assumptions

We expect gross premium written CAGR for Max Life to be around 16% over the three years to FY3/20, supported by a CAGR of around 14% for renewal premiums

Profit & Loss (Rsm)	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E
Gross premiums written	92,160	107,804	125,818	145,571	168,436
Premiums ceded	(772)	(1,002)	(1,169)	(1,747)	(2,021)
Net premiums written	91,388	106,802	124,649	143,824	166,415
Net premiums earned	91,388	106,802	124,649	143,824	166,415
Net interest income	15,086	45,196	43,587	52,096	61,872
Total turnover	106,473	151,999	168,236	195,920	228,287
Claims and policyholders' benefits	(31,460)	(37,768)	(45,319)	(54,482)	(65,065)
Commission and fee expense	(8,209)	(9,364)	(11,903)	(12,857)	(14,977)
G & A expenses	(12,495)	(15,912)	(16,708)	(17,543)	(18,420)
Other operating costs	(49,219)	(81,272)	(87,517)	(102,649)	(119,419)
Total operating costs	(101,383)	(144,316)	(161,447)	(187,532)	(217,882)
Pre-tax profit	5,091	7,682	6,789	8,388	10,406
Taxation	(718)	(1,083)	(916)	(1,084)	(1,311)
Profit after tax	4,372	6,599	5,873	7,304	9,095
Minority interests	(1,355)	(1,980)	(1,762)	(2,191)	(2,729)
Profit after tax & minorities	3,017	4,619	4,111	5,113	6,367
Net income to ord equity	3,017	4,619	4,111	5,113	6,367

Source: Company, HTI estimates

[Click For Interactive Model](#)

✓ Key P/L Takeaway

We see improving profitability at MFS being driven by rising operating leverage on account of a falling opex-to-policyholder AUM ratio for Max Life (from 4.0% in FY3/16 to 2.8% in FY3/20)

We expect a combination of life insurance new business growth, continual increases in persistency and improving operating leverage to drive top-line and NP growth for Max Life and its holding company MFS.

Our Model Assumptions

We forecast a CAGR for policyholder AUM at Max Life (on a standalone basis) of 20% over the three years to FY3/20

Balance Sheet (Rsm)	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E
Cash and balances with central banks	3,356	3,562	3,562	3,562	3,562
Accounts receivable	5,154	5,308	5,308	5,308	5,308
Policyholder account assets	337,090	408,773	496,775	595,377	709,286
Tangible fixed assets	981	653	653	653	653
Intangible assets	2,921	6,287	6,287	6,287	6,287
Other assets	31,967	42,809	46,196	48,550	51,525
Total assets	381,469	467,393	558,782	659,738	776,622
Insurance payables	339,516	419,212	507,640	606,242	720,150
Other liabilities	15,270	17,346	12,671	5,530	(3,319)
Total liabilities	354,787	436,557	520,311	611,772	716,832
Common stocks	534	535	535	535	535
Retained earnings reserve	19,123	22,812	28,685	35,989	45,084
Shareholders' equity	19,657	23,347	29,220	36,524	45,619
Minority interests	7,026	7,490	9,252	11,443	14,171
Other equity	-	0	-	(0)	0
Total equity	26,683	30,836	38,472	47,967	59,790
Total liabilities & shareholders' equity	381,469	467,393	558,782	659,738	776,622

Source: Company, HTI estimates

[Click For Interactive Model](#)

✓ **Key B/S Takeaway**

Policyholder AUM for Max Life (on a standalone basis) should reach around Rs709bn in FY3/20, while total AUM should reach Rs750bn

Policyholder AUM CAGR for Max Life (on a standalone basis) over the last three years has been 23%, even though the APE CAGR over that period was a much lower 11%. We forecast a CAGR for AUM of 20% for the three years to FY3/20, driven by strong inflows of premiums, high persistency across all cohorts and brisk new business growth.

Our Model Assumptions

We project an annualized premium equivalent (APE) CAGR at Max Life (standalone) of 18% over the three years to FY3/20, given improving industry growth and Max Life's strength in distribution

Operational Data (Rsm)	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E
Value of new life business	2,646	3,493	4,629	5,675	6,955
EV operating profit	6,209	7,833	9,250	10,975	13,017
Group EV	42,389	48,347	55,521	66,496	79,513
APE	15,138	19,246	23,147	27,021	31,615
FYP	20,171	25,671	30,805	36,042	42,169

Source: Company, HTI estimates

[Click For Interactive Model](#)

**Key Takeaway**

On our estimates, embedded value post dividend for Max Life (standalone) should reach around Rs8bn by FY3/19

We forecast a CAGR of 26% for VNB at Max Life over the three years to FY3/20, driven by the company's increasing exposure to non-par guaranteed and protection products, which have high margins and better persistency.

Our Model Assumptions

We expect new business margin (NBM) on an APE basis after overruns for Max Life to improve from 18.1% in FY3/17 to 22.0% in FY3/20, driven by a high proportion of protection products

Key Driver Takeaway
We expect the RoEV for Max Life to improve from 16% in FY3/16 to 20% (on average EV) in FY3/20 driven by improving NBM (APE-basis) margins

Per Share Data	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E
EPS (Rs)	11.31	17.26	15.32	19.05	23.72
FDEPS (Rs)	11.31	17.26	15.32	19.05	23.72
EVPS (Rs)	158.8	180.1	206.9	247.8	296.3
BVPS (Rs)	73.6	87.0	108.9	136.1	170.0
Shares in issue (million)	267.0	267.3	268.4	268.4	268.4
Year end adjusted shares in issue (m)	267.0	268.4	268.4	268.4	268.4
Key Ratios	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E
Valuation Measures					
P/E (x)	44.44	29.13	32.81	26.39	21.19
P/EV (x)	3.17	2.79	2.43	2.03	1.70
P/B (x)	6.83	5.78	4.62	3.69	2.96
Growth					
Revenue growth	(14.7%)	42.8%	10.7%	16.5%	16.5%
Net profit growth	5.5%	53.1%	(11.0%)	24.4%	24.5%
Margins					
NBM (APE basis)	17.5%	18.1%	20.0%	21.0%	22.0%
Tax rate	14.1%	14.1%	13.5%	12.9%	12.6%
Key Ratios					
ROE	11.5%	21.5%	15.6%	15.6%	15.5%
RoEV	15.2%	17.3%	17.8%	18.0%	17.8%
ROA	0.8%	1.1%	0.8%	0.8%	0.9%

Source: Company, HTI estimates

[Click For Interactive Model](#)

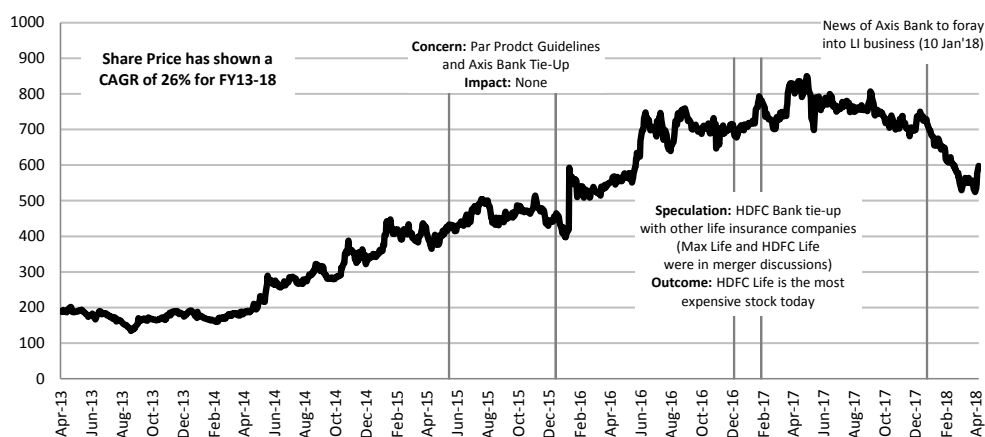
We expect the consolidated entity for Max Life to generate RoEV of around 20% (on average EV) by FY3/20. Given that this would be one of the highest RoEVs amongst all life insurance companies (compared with their current RoEV), not only in India but globally, we believe the stock should trade at a valuation premium to its sector.

Concern on Axis Bank Channel Dragging MFS' Share Price Down

Max has been one of the stocks where the market participants have been more concerned over the years as opposed to being bullish, although the stock price has posted 26% CAGR over the last five years despite recent underperformance. As is evident from the chart below, in FY3/16 there were a few concerns:

- one was around guidelines on par products, where the regulator was expected to bring down the expense ratio and the market expected that margins of Max Life would be heavily impacted. However, the guidelines did come and margins for Max Life came in at a healthy 17.5% in FY3/16 and have moved up to around 18% in H1 FY3/18.
- Second concern in FY3/16 was around Axis Bank tie up which people expected would not be renewed. However, the tie up was renewed.
- Third concern in the same year was that Axis Bank would tie up with multiple life insurance companies leading to loss in sales for MFS. Axis actually tied up with LIC; however, through the Axis channel MFS has posted around 16% sales CAGR since then.
- In FY3/17, when Max Life and HDFC Life were trying for a merger deal and HDFC Life sales through HDFC Bank were falling in the aftermath of demonetization, there were concerns that HDFC Bank would go for multiple tie-ups and this would lead to reduction in MFS' sales. Back then, we had said that we expected an open architecture in most of the banks over the next five years; however, we expected that the bank would sell majority of the products of that life insurer with which it had tied up first. Since then HDFC Bank has tied up with Tata AIA (unlisted) and Birla Sunlife (unlisted) and it still predominantly sells HDFC Life's products.

Share Price Movement of Max Financials



Source: Bloomberg

Note: We have added stock price of Max India and Max Ventures (adjusted for 5:1 share (for Max Ventures) to reflect share price of the consolidated entity before de-merger)

Now the concern is that Axis would want to get into manufacturing life insurance products itself and it may not renew its tie up with Max. Some speculators have gone even further and highlighted that Axis may break its tie up with Max. Reflecting these investor concerns, MFS' stock derated steeply. The concerns were further fueled by the fact that Axis bank bid for IDBI Federal, where, if media reports are to be believed, it is already out of the race. In our view, manufacturing and distribution are two very different domains. Therefore, we do not see Axis bank entering into manufacturing life insurance products on its own.

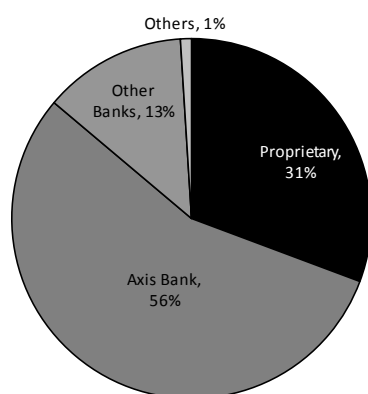
Despite all its problems, one of the best performing pieces in Axis Bank's P&L is Max Life, which increased its share of the bank's PBT from 5% in FY3/15 to 14% in FY3/17 (including the payouts on share buyback). For these reasons, we find it really hard to understand why Axis Bank would want to break its tie up with Max Life.

Payment to Axis Bank from Max Life

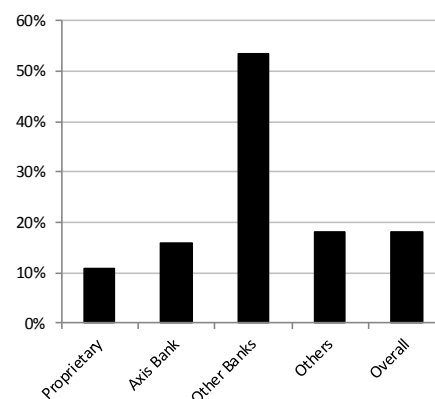
<i>(in Rs mn)</i>	FY3/15	FY3/16	FY3/17
Max Life Payment to Axis Bank	4,913	4,982	5,582
Payment for share buyback	845	1,186	2,126
Total Payment to Axis Bank	5,758	6,168	7,708
Axis Bank PBT	110,569	123,938	54,675
<i>Contribution of payment from Max Life (%)</i>	5.2%	5.0%	14.1%

Source: Company data, Bloomberg, HTI estimates

Also, MFS is already in the process of reducing the concentration risk of Axis by a) investing in its own channels where it highlighted that Axis may account for 40% of its new business premiums in next three years and b) it is going for inorganic growth, where it has already bid for IDBI Federal.

Distribution Mix for Max Life (December 2017)

Source: Company data

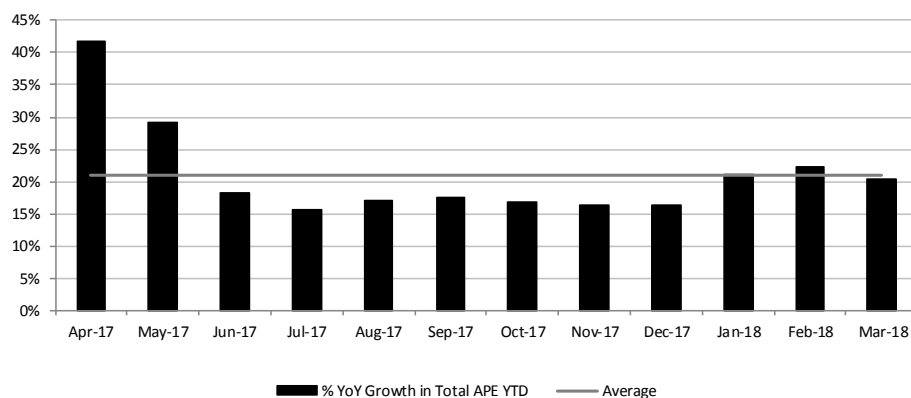
Q1–3 FY3/18 YoY Growth in Individual APE across channels

Source: Company data

Business Continues To Do Well

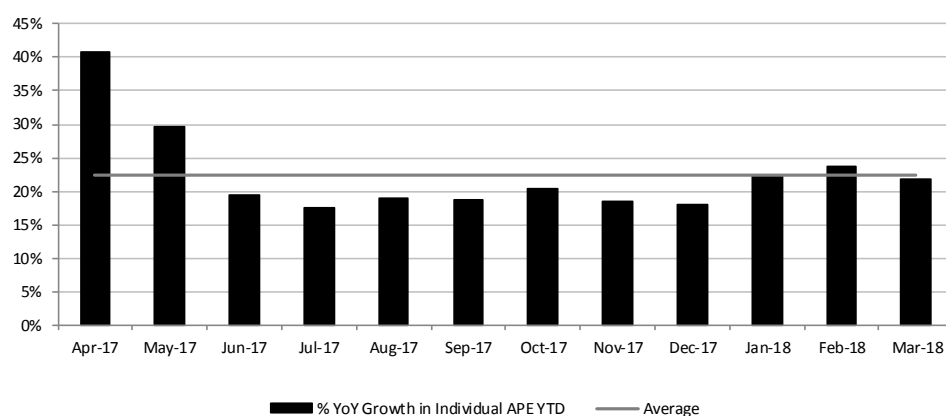
Moving onto fundamentals, Max has been one of the best performing companies in FY3/18 also with total APE growth of 20% YoY in FY3/18. The key highlight in Q1–3 FY3/18 Max Life results was its 23% YoY AUM growth, reflecting a 100bps increase in protection business in individual annualized premium equivalent (APE) and 27% YoY growth in sum assured.

Percentage Growth YoY in Total APE YTD



Source: Life Insurance Council

Percentage Growth YoY in Individual APE YTD



Source: Life Insurance Council

YoY Growth for Life Insurers

	Total APE			Individual APE		
	YoY Growth FY3/16-17	YoY Growth FY3/17-18	2 Year CAGR FY3/16-18	YoY Growth FY3/16-17	YoY Growth FY3/17-18	2 Year CAGR FY3/16-18
Bajaj Allianz	38%	-7%	13%	41%	38%	40%
Birla Sunlife	13%	-43%	-20%	35%	15%	25%
HDFC Standard	13%	32%	22%	9%	31%	19%
ICICI Prudential	27%	23%	25%	29%	16%	23%
IDBI Federal	28%	6%	16%	29%	8%	18%
Kotak Mahindra	27%	13%	20%	28%	31%	29%
Max Life	27%	20%	24%	25%	22%	24%
PNB MetLife	12%	19%	15%	11%	20%	15%
Reliance Life	-34%	-9%	-22%	-23%	5%	-10%
SBI Life	35%	28%	31%	39%	31%	35%
TATA AIA	55%	32%	43%	73%	33%	52%
Private Industry	22%	17%	20%	26%	24%	25%
Total Industry	19%	12%	16%	21%	19%	20%

Source: Life Insurance Council

Brief about IDBI Federal (Rs in mn)

Total APE (FY3/18)	4,583
Individual APE (FY3/18)	4,470
2 Year CAGR in Total APE upto FY3/18	16%
Networth (as of December 2017)	7,996
PAT (FY3/17)	520
Embedded Value (FY3/17)	17,000
No. of IDBI Branches	1,916
No. of Federal Bank Branches	1,253
Total Branch Network	3,169
Shareholding (as of March 2017)	
IDBI Bank	48%
Federal Bank	26%
Ageas Insurance	26%

Source: Company data

Valuation Scenario Analysis**Cases with No Deal with IDBI Federal Life Insurance**

- Scenario 1: Business as usual with Axis Bank tie up continuing
- Scenario 2: Business with Axis Bank discontinuing tie up from FY3/22 onwards
- Scenario 3: Business as usual with Axis Bank tie up continuing but Axis Bank increasing its stake to 20% in Max Life without additional payments

Cases if Deal with IDBI Federal Life Insurance materializes

- Scenario 1: Axis Bank tie up continues
- Scenario 2: Axis Bank tie up discontinues up from FY3/22 onwards
- Scenario 3: Business as usual with Axis Bank tie up continuing but Axis Bank increasing its stake to 20% in Max Life without additional payments

If the Axis Bank tie up goes away from FY3/22, onwards we would make the following changes (a) APE would de-grow by 25% in FY3/22 and clock a CAGR of 12% over FY3/23–29; (b) VNB margin for FY3/22 would drop to 18.0% from 22% in FY3/21 and would increase gradually to 23% by FY3/27 and then remain steady; and (c) stake of MAXF in Max Life would increase to 74.75% from 70.75% currently.

Scenario Analysis for Max Financial

	Max Life Implied valuation (Rs mn)	Max Financial Services stake in Max Life	Holding company discount	Implied Value (Rs)
No IDBI Federal deal				
Axis Bank tie up continues (Our Base case)	323,766	70.8%	15.0%	725
Axis Bank tie up discontinuing from FY3/22	256,380	74.8%	5.0%	678
Axis Bank tie up continues with Axis Bank increasing its stake to 20% in Max Life without additional payments	323,766	58.9%	5.0%	675
Max wins IDBI Federal deal				
Axis Bank tie up continues	450,580	71.8%	15.0%	815
Axis Bank tie up discontinues from FY3/22	349,115	74.8%	5.0%	696
Axis Bank tie up continues with Axis Bank increasing its stake to 19.2% in Max Life without additional payments	450,580	60.0%	5.0%	760

Source: Company data, HTI estimates

Base Case Valuation

Our appraisal value of Max Life entity uses DCF analysis to derive the valuation ascribed to new business achieved profit (NBAP), which we add to our EV estimate. This generates a value of Rs324bn. With MFS shareholders holding 70% of the entity this suggests at a target price for MFS of Rs725.

Valuation Table

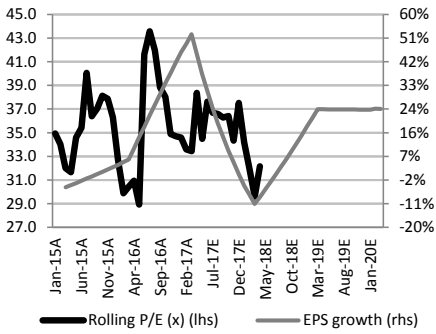
(in rs bn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	
Valuation Year				1	2	3	4	5	6	7	8	9	10	TV
VNB post overrun	5.0	6.6	8.1	9.9	11.1	12.5	14.0	15.6	17.5	19.6	22.0	24.6	27.6	27.6
VNB Growth		33%	23%	23%	12%	12%	12%	12%	12%	12%	12%	12%	12%	4%
Discount Factor				0.9	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.3	
Present Value				8.9	9.0	9.0	9.0	9.1	9.1	9.2	9.2	9.2	9.3	137.8
EV (post investment by shareholders)	95													
Value	229													
Appraisal Value	324													
TV %	60%													
Share price	725													
Implied NBAP multiple (FY 20NBAP)	23													
Holding company discount	15%													

Source: Company data, HTI estimates

Main Risks to Our Rating and Attainment of our Target Price

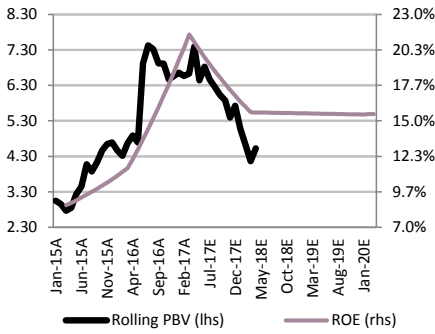
- Financial markets turning negative leading to lower growth in new business premium for Max Life
- Regulatory risk for the insurance industry overall
- If Max Life Insurance makes losses

P/E (x) vs EPS Growth (%)



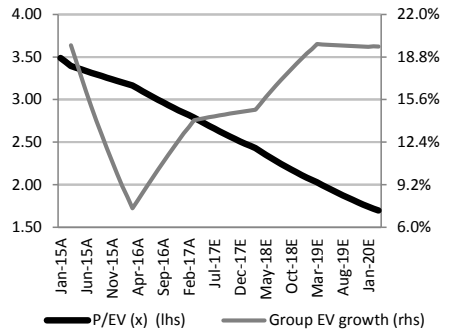
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



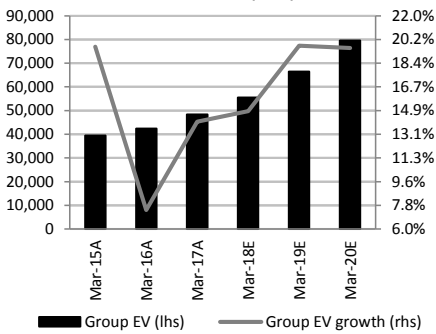
Source: Company data, Bloomberg, HTI estimates

P/EV (x) vs Embedded value growth (%)



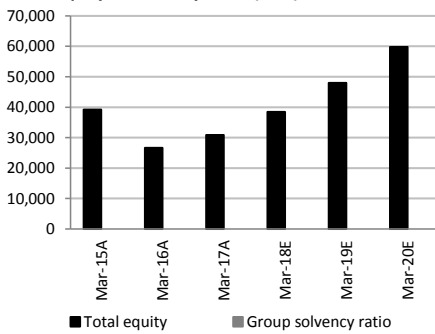
Source: Company data, Bloomberg, HTI estimates

Embedded Value and Growth (Rsm)



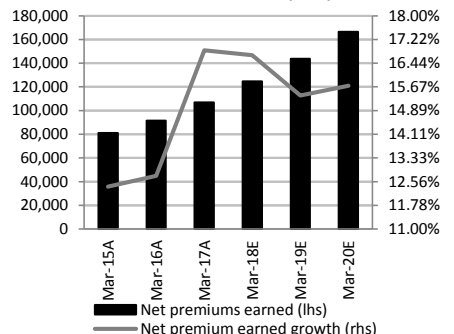
Source: Company data, Bloomberg, HTI estimates

Total Equity vs Solvency Ratio (Rsm)



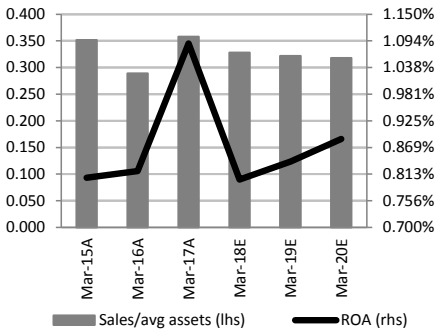
Source: Company data, Bloomberg, HTI estimates

Net Premium Earned and Growth (Rsm)



Source: Company data, Bloomberg, HTI estimates

ROA (%) vs Asset Turnover (x)



Source: Company data, Bloomberg, HTI estimates

Revenue Growth

The gross premium written CAGR for the last three years has been 14%. We expect gross premium written CAGR of around 16% for the next three years on the back of agency channels starting to grow and a balanced product mix.

Profit Margins

MFS has historically boasted of high VNB margins, in our view, owing to the presence of non-participating (non-par) products in the product mix and absence of cost overruns. We expect its VNB margin to improve from 18.1% in FY3/17 to 22% in FY3/20.

Shareholder Returns

We expect the RoEV for Max Life to increase to around 20% (on average EV) by FY3/20, owing to improvement in VNB margin from 18% in FY3/17 to 22% in FY3/20.

Balance Sheet Risks

Max Life hedges its interest rate exposure due to non-par guaranteed products. Therefore, we believe balance sheet risk is low.

Key Takeaway

We forecast VNB CAGR for Max Life of 26% over FY3/18–20; for FY3/17, Max Life recorded a VNB growth of 29% YoY and we expect the company to deliver 20% RoEV (on average EV) by FY3/20 on the back of new business margins growing to 22% driven by better performance

Investment Thesis – Target Price – Share Price Catalysts

Max Financial (MAXF IN; MFS) is one stock where investors have been concerned for one reason or another mainly due to speculations. Most of the concerns have proven unfounded in last five years and Max Financial has been one of the top performing companies during this period on almost every qualitative and quantitative parameter. Despite this, in the last six months a new concern has cropped up around Axis Bank (AXSB IN) entering into manufacturing life insurance business. Investors perceived this as a threat, which they thought would significantly destroy Max's franchise – this resulted in the stock's 13% ytd decline and 18% decline in the last 12 months. However, despite the current underperformance and all the concerns the stock has returned 26% share price CAGR over the last five years. We find it hard to reconcile that Axis would want to break one of its top performing business lines and start something afresh. However, in the worst case scenario, even if Axis leaves in the current year, our implied value for MFS' shares would be higher than the current price (see our valuation scenarios in the valuation section), which might have further upside if Max Life were to acquire IDBI Federal Life Insurance (unlisted)).

APPENDIX

IMPORTANT DISCLOSURES

This research report is distributed by Haitong International, a global brand name for the equity research teams of Haitong International Research Limited ("HTIRL"), Haitong Securities India Private Limited ("HSIPL"), Haitong International Japaninvest KK ("HTIJKK"), Haitong International Securities Company Limited ("HTISCL"), Haitong International Investment Services Limited ("HTIIS"), and any other members within the Haitong International Securities Group of Companies ("HTISG"), each authorized to engage in securities activities in its respective jurisdiction.

Analyst Certification: We, Santosh Singh CFA and Hitesh Gulati, CFA, certify that (i) the views expressed in this research report accurately reflect our personal views about any or all of the subject companies or issuers referred to in this research and (ii) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report; and that we (including members of our household) have no financial interest in the security or securities of the subject companies discussed.

Conflict of Interest Disclosures

Haitong Securities Co., Ltd. and/or its subsidiaries (collectively, the "Haitong") have a role in investment banking projects of HDFC Life (HDFCLIFE IN) and HDFC Bank (HDFCB IN) within the past 12 months. The investment banking projects include a lead or co-lead manager in a public offering of equity or debt securities.

HDFC Life (HDFCLIFE IN) and HDFC Bank (HDFCB IN) are/were investment bank clients of Haitong currently or within the past 12 months.

Axis Bank (AXSB IN) is/was a client of Haitong currently or within the past 12 months. The client has been provided for non-investment-banking securities-related services.

Haitong expects to receive, or intends to seek, compensation for investment banking services in the next three months from HDFC Life (HDFCLIFE IN) and HDFC Bank (HDFCB IN).

Haitong has received compensation in the past 12 months for products or services other than investment banking from Axis Bank (AXSB IN).

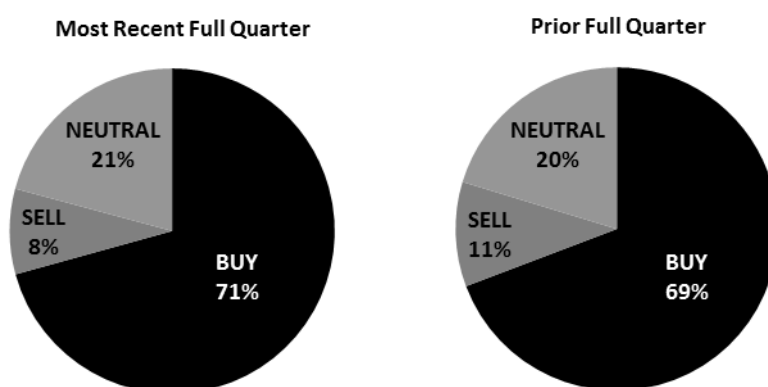
Ratings Definitions: Haitong International (sometimes referred to as "HTI") has three ratings, which are defined below. The percentage of BUY, SELL or NEUTRAL ratings out of the total number of rated notes appears in the Ratings Distribution chart. ALL rated stocks have a target price which represents the analyst's best estimate of the fundamental value of the stock on a 12 month forward basis.

BUY ≥ 15% absolute upside performance expected within the next 12 months

SELL ≥ 15% absolute downside performance expected within the next 12 months

NEUTRAL: A stock under coverage with insufficient upside or downside to justify a BUY or SELL rating. For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category.

Rating Distribution



Haitong International Equity Research Ratings Distribution, as of March 31, 2018

	BUY	Neutral (hold)	SELL
HTI Equity Research Coverage	71%	21%	8%
IB clients*	6%	3%	4%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category. Please note that stocks with an NR designation are not included in the table above.

Haitong International Non-Rated Research: Haitong International publishes quantitative, screening or short reports which may rank stocks according to valuation and other metrics or may suggest prices based on possible valuation multiples. Such rankings or suggested prices do not purport to be stock ratings or target prices or fundamental values and are for information only.

HTI Equity-Style Portfolios: Stocks are selected for Haitong International's equity-style portfolio products based on six different strategies: Value, Quality, Growth, Risk, Momentum and US Exposure. Each quarter, HTI's rated coverage is screened based on the selection criterion for each strategy and using a scoring methodology, the top 20 stocks for each strategy are identified and assigned to the portfolios. Note that the quantitative screening used to rank stocks for the HTI equity-style portfolios is separate from the fundamental analysis employed by HTI sector analysts, so there may be differences in the assessments of individual stocks.

HTI Themes: The Haitong International research department periodically identifies a select number of themes that it believes have longevity and identifies stocks from among its rated coverage that are relevant for these themes. These themes and the relevant stocks are reviewed on a quarterly basis. Note that the strategic attractiveness of a general theme may be different from the fundamental assessments of individual stocks within that theme.

Related SCNet Visits: The designation of a related SCNet visit means that the specified Haitong International non-rated company visit reports may provide additional perspective with regard to HTI's rated coverage. The research department selects these related SCNet visit reports on a quarterly basis. The process of compiling and publishing unrated SCNet notes is separate from the fundamental assessment and publication of individual rated stocks.

Haitong International Coverage of A-Shares: Haitong International may cover and rate A-Shares that are subject to the Hong Kong Stock Connect scheme with Shanghai and Shenzhen. Haitong Securities (HS; 600837 CH), the ultimate parent company of HTISG based in Shanghai, covers and publishes research on these same A-Shares for distribution in mainland China. However, the rating system employed by HS differs from that used by HTI and as a result there may be a difference in the HTI and HS ratings for the same A-share stocks.

Haitong International Quality 100 A-share (Q100) Index: HTI's Q100 Index is a quant product that consists of 100 of the highest-quality A-shares under coverage at HS in Shanghai. These stocks are carefully selected through a quality-based screening process in combination with a review of the HS A-share team's bottom-up research. The Q100 constituent companies are reviewed quarterly.

IMPORTANT DISCLAIMER

For research reports on non-Indian securities: The research report is issued by Haitong International Research Limited ("HTIRL"), a wholly owned subsidiary of Haitong International Securities Group Limited ("HTISGL") and a licensed corporation to carry on Type 4 regulated activity (advising on securities) for the purpose of the Securities and Futures Ordinance (Cap. 571) of Hong Kong, with the assistance of Haitong International Japaninvest KK ("HTIJKK"), a wholly owned subsidiary of HTISGL and which is regulated as an Investment Adviser by the Kanto Finance Bureau of Japan.

For research reports on Indian securities: The research report is issued by Haitong Securities India Private Limited ("HSIPL"), an Indian company and a Securities and Exchange Board of India ("SEBI") registered Stock Broker, Merchant Banker and Research Analyst that, inter alia, produces and distributes research reports covering listed entities on the BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE") (collectively referred to as "Indian Exchanges"). HSIPL was acquired and became part of the Haitong International Securities Group of Companies ("HTISG") on 22 December 2016.

All the research reports are globally branded under the name Haitong International and approved for distribution by Haitong International Securities Company Limited ("HTISCL") and/or Haitong International Investment Services Limited ("HTIIS"), and/or any other members within HTISG in their respective jurisdictions.

The information and opinions contained in this research report have been compiled or arrived at from sources believed to be reliable and in good faith but no representation or warranty, express or implied, is made by HTIRL, HTISCL, HTIIS, HSIPL, HTIJKK or any other members within HTISG from which this research report may be received, as to their accuracy, completeness or correctness. All opinions expressed herein are as of the date of this research report and are subject to change without notice. This research report is for information purpose only. Descriptions of any companies or their securities mentioned herein are not intended to be complete and this research report is not, and should not be construed expressly or impliedly as, an offer to buy or sell securities. The securities referred to in this research report may not be eligible for purchase or sale in some jurisdictions. If an investment product is denominated in a currency other than an investor's home currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Certain transactions, including those involving derivatives, give rise to substantial risk and are not suitable for all investors. You should also bear in mind that recommendations in this research report are not tailor-made for you. The analyst has not taken into account your unique financial circumstances, such as your financial situation and risk appetite. You must, therefore, analyze and should, where applicable, consult your own legal, tax, accounting, financial and other professional advisers to evaluate whether the recommendations suits you before investment. Neither HTISG nor any of its directors, employees or agents accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this research report.

HTISG and our affiliates, officers, directors, and employees, excluding the analysts responsible for the content of this document, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research report. Sales, traders, and other professionals of HTISG may provide oral or written market commentary or trading strategies to the relevant clients and the companies within HTISG that reflect opinions that are contrary to the opinions expressed in this research report. HTISG may make investment decisions that are inconsistent with the recommendations or views expressed in this research report. HTI is under no obligation to ensure that such other trading decisions, ideas or recommendations are brought to the attention of any recipient of this research report.

Please refer to HTI's website www.equities.htisec.com for further information on HTI's organisational and administrative arrangements set up for the prevention and avoidance of conflicts of interest with respect to Research.

Non U.S. Analyst Disclosure: The HTI analyst(s) listed on the cover of this Research is (are) not registered or qualified as a research analyst with FINRA and are not subject to U.S. FINRA Rule 2241 restrictions on communications with companies that are the subject of the Research; public appearances; and trading securities by a research analyst.

DISTRIBUTION AND REGIONAL NOTICES

Except as otherwise indicated below, any Recipient wishing to discuss this research report or effect any transaction in any security discussed in HTI's research should contact the Haitong International salesperson in their own country or region.

Notice to Hong Kong investors: The research report is distributed by Haitong International Securities Company Limited ("HTISCL") and/or Haitong International Investment Services Limited ("HTIIS"), both licensed corporations to carry on Type 1 regulated activity (dealing in securities) in Hong Kong. This research report does not constitute a solicitation or an offer of securities or an invitation to the public within the meaning of the SFO. This research report is only to be circulated to "Professional Investors" as defined in the SFO. This research report has not been reviewed by the Securities and Futures Commission. You should not make investment decisions solely on the basis of the information contained in this research report.

Notice to U.S. investors: As described above, this research report was prepared by HTIRL, HSIPL or HTIJKK. Neither HTIRL, HSIPL, HTIJKK, nor any of the non U.S. HTISG affiliates is registered in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended. When distributing research reports to "U.S. institutional investors," HTI USA will accept the responsibilities for the content of the reports. Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Haitong International Securities (USA) Inc. ("HTI USA"), located at 850 Third Avenue, Suite 9B, New York, NY 10022; telephone (212) 867-7300. HTI USA is a broker-dealer registered in the U.S. with the U.S. Securities and Exchange Commission (the "SEC") and a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). HTI USA is not responsible for the preparation of this research report nor for the analysis contained therein. Under no circumstances should any U.S. recipient of this research report contact the analyst directly or effect any transaction to buy or sell securities or related financial instruments directly through HSIPL, HTIRL or HTIJKK. The HSIPL, HTIRL or HTIJKK analyst(s) whose name appears in this research report is not registered or qualified as a research analyst with FINRA and, therefore, may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to U.S. regulations. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the U.S. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments. All inquiries by U.S. recipients should be directed to:

Haitong International Securities (USA) Inc.

340 Madison Avenue, 12th Floor
New York, NY 10173
Attn: Sales Desk at (212) 351 6050

People's Republic of China (PRC): In the PRC, the research report is directed for the sole use of those who receive the research report in accordance with the applicable PRC laws and regulations. Further, the information on the research report does not constitute "production and business activities in the PRC" under relevant PRC laws. This research report does not constitute a public offer of the security, whether by sale or subscription, in the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the security or any beneficial interest therein without obtaining all prior PRC government approvals or licenses that are required, whether statutorily or otherwise. Persons who come into possession of this research are required to observe these restrictions.

Notice to Canadian Investors: Under no circumstances is this research report to be construed as an offer to sell securities or as a solicitation of an offer to buy securities in any jurisdiction of Canada. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by Haitong International Securities (USA) Inc., a dealer relying on the "international dealer exemption" under National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations ("NI 31-103") in Alberta, British Columbia, Ontario and Quebec. This research report is not, and under no circumstances should be construed as, a prospectus, an offering memorandum, an advertisement or a public offering of any securities in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this research report, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence. Upon receipt of this research report, each Canadian recipient will be deemed to have represented that the investor is an "accredited investor" as such term is defined in section 1.1 of National Instrument 45-106 Prospectus Exemptions or, in Ontario, in section 73.3(1) of the Securities Act (Ontario), as applicable, and a "permitted client" as such term is defined in section 1.1 of NI 31-103, respectively.

Notice to Singapore investors: This research report is provided in Singapore by or through Haitong International Securities (Singapore) Pte Ltd ("HTISSPL") [Co Reg No 201306644N], which is an Exempt Financial Adviser as defined in the Financial Advisers Act ("FAA") and regulated by the Monetary Authority of Singapore, and is only provided to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. Recipients of this research report are to contact HTISSPL in respect of any matters arising from, or in connection with, the research report. If you are an accredited investor or expert investor, please be informed that in our dealings with you, we are relying on certain exemptions to the Financial Advisers Act. Cap. 110 ("FAA") - (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts us from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts us from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAR, which exempts us from complying with Section 36 of the FAA on disclosure of certain interests in securities.

Notice to Japanese investors: This research report is distributed by Haitong International Japaninvest KK ("HTIJKK"), which is regulated as an Investment Adviser by the Kanto Finance Bureau of Japan. This research report is solely and exclusively directed at, and made available only to "Qualified Institutional Investors" as defined in the Financial Instruments and Exchange Law of Japan.

Notice to UK investors: This research report is distributed by Haitong International Securities (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. The research report (and any advice contained therein) is directed only at, and made available only to, professional clients and eligible counterparties (as defined in the Financial Conduct Authority's rules) who are clients of Haitong International Securities (UK) Limited.

Notice to Australian investors: The research report is distributed in Australia by Haitong International Securities (Singapore) Pte Ltd, Haitong International Securities Company Limited, and Haitong International Securities (UK) Limited in reliance on ASIC Class Order 03/1102, 03/1103 or 03/1099, respectively, which exempts those HTISG entities from the requirement to hold an Australian financial services license under the Corporations Act 2001 in respect of the financial services it provides to wholesale clients in Australia. A copy of the ASIC Class Orders may be obtained at the following website, www.legislation.gov.au. Financial services provided by Haitong International Securities (Singapore) Pte Ltd, Haitong International Securities Company Limited, and Haitong International Securities (UK) Limited are regulated under foreign laws and regulatory requirements, which are different from the laws applying in Australia.

Notice to Indian investors: The research report is distributed by Haitong Securities India Private Limited ("HSIPL"), an Indian company and a Securities and Exchange Board of India ("SEBI") registered Stock Broker, Merchant Banker and Research Analyst that, inter alia, produces and distributes research reports covering listed entities on the BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE") (collectively referred to as "Indian Exchanges").

This research report is intended for the recipients only and may not be reproduced or redistributed without the written consent of an authorized signatory of HTISG.

Copyright: Haitong International Securities Group Limited 2018. All rights reserved.

<http://equities.htisec.com/x/legal.html>

Recommendation Chart



Date	Recommendation	Target (Rs)	Price (Rs)
2018-02-14	Buy	775.0	518.1
2017-11-24	Buy	797.3	562.5
2017-05-01	Buy	756.0	656.1
2017-03-16	Buy	644.0	565.3
2017-03-10	Buy	635.0	536.1
2017-01-12	Buy	637.0	554.2
2016-12-21	Buy	626.0	536.4

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity