

Max India – BUY

Financials

31 July 2009

MNYL gains further market share

Max India's consolidated loss widened to Rs770m in 1QFY10 compared to loss of Rs430m in 1QFY09 on account of higher losses at its life insurance venture, Max New York Life (MNYL). While MNYL gained 260bps in APE market share among private players during 1QFY10, rapid expansion in distribution network over past four quarters led to higher losses. EBITDA margin at Max Healthcare (MHC) expanded 30bps YoY to 5.4%. Maintain BUY.

- Rapid expansion leads to losses at MNYL:** MNYL has rapidly expanded its distribution network over the past year. Number of sales offices went up from 311 as at end-1QFY09 to 711 as at end-1QFY10 and agency force increased 102%YoY to 94,600 agents. In 1QFY10 alone the company added 10,000 agents. Going forward, the company does not expect much expansion in sales offices but the agency strength is likely to increase to ensure adequate staffing at existing sales offices. However, growth in premium income was lower, resulting in a loss of Rs800m for 1QFY10 compared to a loss of Rs600m for 1QFY10.
- MNYL performs better than the industry, gains market share:** For 1QFY10, MNYL's APE declined by 11% YoY compared to the 18% decline for private players. This was on the back of above average industry performance in FY09 as MNYL gained 260bps APE market share during 1QFY10. Lower sales were primarily on account of high base, wherein APE for private players grew by 77% YoY and 41% YoY for the first two quarters of FY09. To that extent, sales during 2QFY10 is also expected to be muted; however, growth should pick up from 3QFY10, thanks to the lower base effect.
- EBITDA margin expands at Max Healthcare:** MHC's revenues for 1QFY10 were up 18% YoY to Rs1,180m. EBITDA margin expanded 30bps YoY to 5.4%, translating to 25% YoY growth in EBITDA. Average occupancy increased from 61.5% as at end-1QFY09 to 69.4% as at end-1QFY10, while average length of stay (ALOS) was at 3.3 days. Higher occupancy and lower ALOS leads to higher asset utilisation and higher profitability.

CMP	Rs190
12-mth Target price (Rs)	251 (32%)
Market cap (US\$ m)	912
Bloomberg	MAX IN
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52Wk High/Low (Rs)	254/80
Diluted o/s shares (m)	232
Daily volume (US\$ m)	3.7
Dividend yield FY10ii (%)	0.0
Free float (%)	65.2
Shareholding pattern (%)	
Promoters	34.8
FII's	37.2
Domestic MFs/Insurance cos	2.5
Others	25.5

Price performance (%)

	1M	3M	1Y
Max India	-10.4	34.5	-1.5
Rel. to Sensex	-16.6	-0.4	-9.2
Bajaj Finserv	-12.1	59.4	-21.4
Reliance Cap	-4.3	64.1	-33.9
ICICI Bank	4.8	58.0	18.8

Stock movement

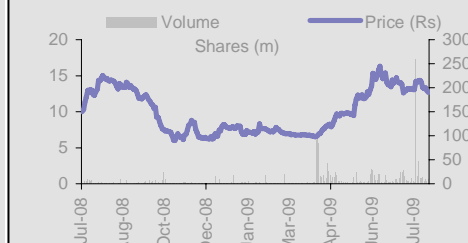


Figure 1: Max India SOTP – FY10ii

	Basis	Rs m	Multiple (x)	Stake (%)	Value of stake (Rs m)	% in Total	Value/share (Rs)
Max New York Life	EV+NBAP	65,594	12.0	74	48,539	87.0	219
Max Healthcare	EBITDA		13.0	75	4,245	7.6	19
Max Neeman	Sales	182	5.0	100	910	1.6	4
Max Specialty Products	EBITDA		5.0	100	2,117	3.8	10
Total					55,811	100	251

Source: Company, IIFL Research

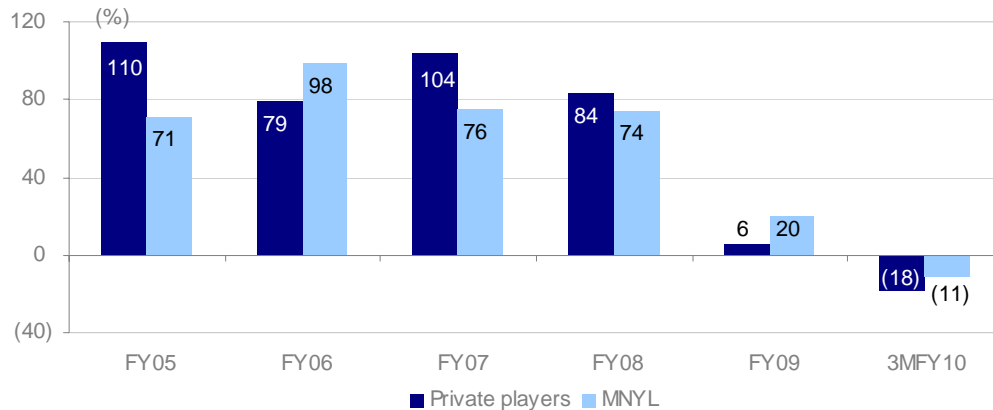
Impact of revised IRDA guidelines likely to be limited for MNYL:

There is widespread concern that new IRDA guidelines capping ULIP charges may hurt NBAP margins of life-insurance companies. MNYL is relatively better placed as compared to its peers, as ULIPs contribute 75-80% of sales for MNYL, compared to more than 90% in case of most private players. Life insurance companies have made a representation to IRDA asking for exclusion of mortality charges from the cap. IRDA's decision on the matter is awaited. MNYL said that about 70-75% of its ULIP products already conform to the new IRDA regulation. So, the impact, if any, would be on the balance 25% of its ULIP products. Thus, the impact on MNYL's NBAP margins will likely be limited.

Capital requirements for full year: MNYL's capital requirement for the full year is likely to be in the range of Rs4.5bn-Rs5bn, of which Max India would contribute its share of 74%. During 1QFY10, Max India raised Rs1.5bn by way of preferential allotment to IFC, Washington. Part of this capital would be invested in the healthcare business.

Lowering our growth estimates: We are lowering our FY10 growth estimates for all the private players. Accordingly, we have lowered FY10 APE growth estimate for MNYL from 20% to 10%, resulting in a lowering of the target price from Rs264 to Rs251.

Figure 2: APE growth YoY – MNYL performs better than private players



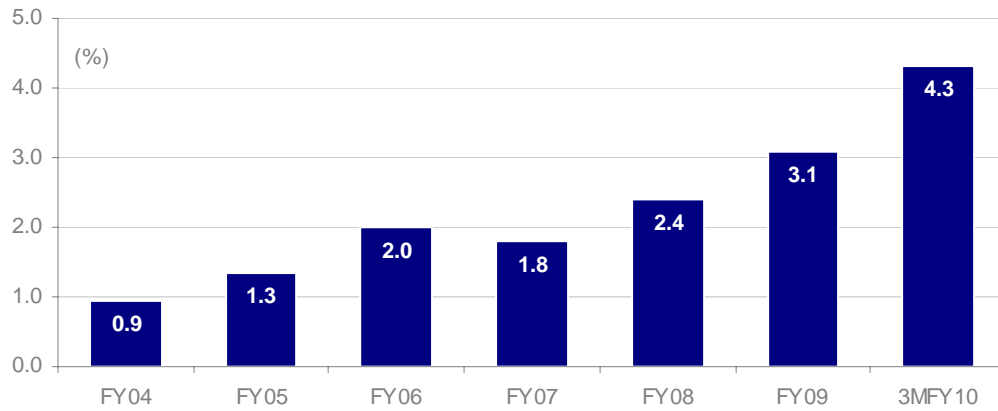
Source: Bloomberg, IIFL Research. Price as at close on 30 July 2009

Figure 3: Results at a glance

Rs m	1QFY09	1QFY10	YoY (%)
Consolidated			
Operating Revenue	10,220	12,840	26
Investment and other income	990	10,130	923
Total Revenue	11,210	22,970	105
Profit/(loss) after tax	(430)	(770)	
Loans funds	5,510	3,360	(39)
Max New York Life (MNYL)			
Gross Premium income	8,650	11,180	29
Assets under management (AuM)	39,730	69,650	75
Sum Assured in force (Rs bn)	777	1,030	33
Paid-up capital (Rs bn)	12.3	17.8	45
Persistency ratio (%)	89	85	(4)
Number of agents (nos)	46,851	94,600	102
Number of sales offices (nos)	311	711	129
Max HealthCare (MHC)			
Revenue	995	1,177	18
EBITDA	51	64	25
EBITDA margin (%)	5.1	5.4	0.3
Cash profit	(28.0)	(11.0)	
Average operational beds (nos)	700	727	4
Average occupancy (%)	61.5	69.4	7.9
Average length of stay (days)	3.2	3.3	0.1
Average revenue per occupied bed day (Rs)	19,930	19,873	(0.3)
Max Specialty Plastics (MSP)			
Revenue	978	798	(18)
EBITDA	139	107	(23)
PBT	71	48	(32)

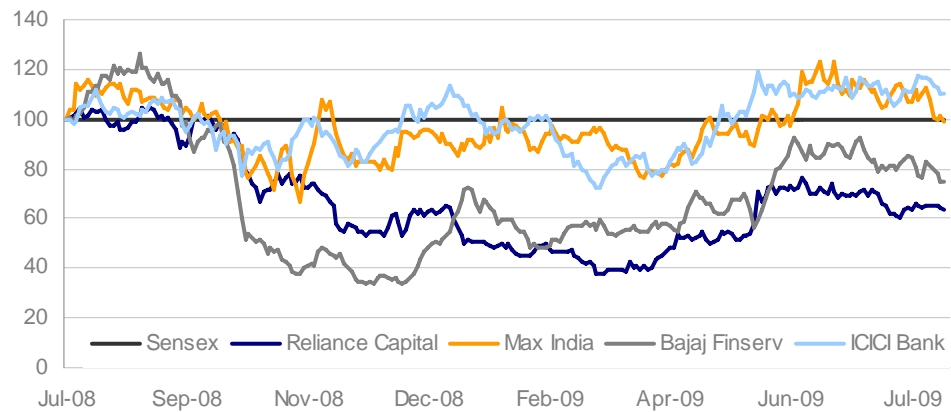
Source: Company, IIFL Research

Figure 4: MNYL APE market share in life insurance sector



Source: IRDA, IIFL Research

Figure 5: Max India price performance vis-à-vis peers



Source: Bloomberg, IIFL Research. Price as at close on 30 July 2009



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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