

Max India Ltd. - Analyst Meeting Notes

July 22, 2008

Price: Rs180.35

52wk High / Low: 290 / 120

Market Cap: Rs4,004Cr (\$937mn)

BSE Sensex: 14104

Rating: Not rated

In the analyst meeting, Max India Ltd (MIL) announced the restructuring of its Joint Venture (JV) with New York Life.

Company Background

MIL is diversified into life Insurance, healthcare, clinical research business and specialty packaging segments.

Key takeaways**Restructuring of JV with New York Life**

Max New York Life Insurance Company Ltd. (MNYL) is a 74% subsidiary of Max India. MNYL contributes approx. 80% of Max India's consolidated revenues. MNYL has a network of 311 offices across 196 locations.

- In earlier JV agreement, following was the equity contribution by the JV partners

New York Life International (NYLI) 26% + Advance paid by NYLI to MNYL 24%	50%
Max India Ltd. (MIL)	50%
- Under the amended JV agreement, Max India Ltd. hiked its stake in MNYL from 50% to 74%. The additional 24% stake was acquired in lieu of refund of Rs174Cr deposit to NYLI.
- NYLI however has the option of increasing its stake in MNYL by up to 24% of the issued and paid-up capital of MNYL, subject to regulations, so that both can again become 50:50 partners.
- This option is available to NYLI for a period of 8 years from the date of the amended JV agreement. This option will be priced at fair market value less discount of 10%.
- Embedded value of MNYL as at March 31, 2008 is Rs1316Cr.

Expansion of life insurance business

- MNYL intends to soon launch micro life insurance product "Max Vijay" targeted at low income, under serviced households. The pilot launch would take place in Allahabad.
- It intends to expand its life insurance distribution reach via tie-up with Indian Oil Corporation Ltd.
- It plans to have equity capital commitment to Rs3600Cr over next 2 years, of which 1/3rd has already been invested.
- To add 250 offices p.a. Thereby, it will have total of 900 agency offices and 700 rural offices by FY12.
- Increase number of agents from 47,000 to 3,00,000 by FY12.
- Annualised First Year Premium target of Rs12,000Cr by FY12.
- It targets 20mn annual policyholders by FY12.

Foray into health insurance

It recently entered into health insurance JV with UK-based Bupa Finance Plc. MIL will hold a 50% stake in the JV and plans a roll-out in Q4FY09.

Healthcare to record cash profits in FY09; strong order book for Clinical Research business

MIL has 8 super specialty hospitals in the National Capital Region (NCR) with 800 beds and operates under Max Healthcare. The business became EBITDA positive in FY08 only. It reported revenues of Rs100Cr, with EBITDA margin of 5% in Q1FY09. The company expects it to report cash profits in the current year.

It is expanding the bed capacity to 1,500 beds by 2010, adding three facilities in the NCR and one in Dehradun. According to the management, the expansion plans are well on track. Total project cost is Rs1,100Cr while funding will be met by equity infusion of Rs430Cr, preference issue to IFC, Washington Rs250Cr and debt of Rs420Cr.

The company's newly formed Clinical Research business reported revenue of Rs3Cr in Q1FY09. The business has order book of Rs36Cr (140% y-o-y growth). The company estimates revenues of Rs20Cr in FY09.

To expand packaging business

MIL has achieved 100% capacity utilization within a year of its expansion upto- 29,000 tpa. The company plans to expand capacities further. It plans to add two lines for production of thermal films. The first thermal film production line will be operational in October 2008 followed by the second one in August 2009.

MIL also plans for fourth BOPP production line with a capacity of 20,000 tpa by early 2010. The company estimates topline of \$180-200mn for this segment by 2012.

Valuation

The stock trades at 2.6x FY08 book value.

Financial Snapshot

Consolidated Financials

(RsCr)

Particulars	Q1FY08	Q1FY09	FY07	FY08
Revenue	563.40	1022.15	1819.36	3244.05
EBITDA	5.13	-12.47	20.51	70.59
Investments and Other Income	136.83	99.13	174.26	366.50
Profit After Tax	-20.30	-41.34	-55.49	-43.06
Book Value (Rs)	-	-	32.39	68.91
Paid up Equity Capital	35.98	44.35	35.98	44.35

Financials of Insurance Business

Particulars	Q1FY08	Q1FY09	% growth	FY07	FY08	% growth
Sales (RsCr)	309	541	75.1%	970	1676	72.8%
Paid-up Equity Capital (RsCr)*	732	1,232		732	1,032	
No of agents	27,727	46,851	69.0%	25,048	36,896	47.3%
Net agents added	2,679	9,955	271.6%	9,763	11,848	21.4%
Individual Policies in force	12,05,730	19,85,626	64.7%	10,98,230	17,50,725	59.4%

* Equity share capital increased from Rs1032 in FY08 to 1232Cr in Q1-FY09, consequent to the capital infusion of Rs200Cr. MIL infused Rs148Cr in the equity share capital, taking its total investment in the subsidiary to Rs906.5Cr.

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