



# In the Business of Life



**Max India Limited**  
**ANNUAL REPORT 2007-08**





Max India Limited

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ANNUAL REPORT 2007-08

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# trust + service = growth

We are in The Business of Life...

Building each of our businesses involves Trust

Customers choose insurance companies and products on Trust

The ailing choose healthcare and hospitals based on Trust

Pharmaceutical and medical companies choose clinical research partners on Trust

Manufacturers of food products and edibles select packaging material based on the Trust of health and safety

Trust is paramount to our business...

As is our unwavering passion for best-in-class Service

Everywhere; for every customer; all the time

Because we believe in a simple truth...

When you combine Trust with Service

You get Growth

**Max India Limited...Growing for India**

# Letter to Shareholders



## Dear Shareholder,

I had begun my letter to you in last year's Annual Report by saying that India is in a sweet spot and that your Company is reaping the benefits of the country's high growth.

Although things have changed somewhat since then - with the economic outlook being more volatile than before - I still believe that both the country and Max India are excellently placed to grow significantly and deliver superior value to customers and shareholders alike.

Let me start with the domestic economy. **Despite a perceptible slowdown in manufacturing growth during the second half of 2007-08, India still achieved a GDP growth of 9%. This is the third consecutive year of growth at 9% or more, and it is especially noteworthy given the bearish world economic backdrop.** Our compounded annual growth rate over the last five years is now 8.8%, which is the second highest growth rate among the large economies of the world - bettered only by China.

This growth will be under some threat in 2008-09. To my mind, the most significant threat to growth comes from the astronomical increase in crude oil price. As I write this letter to you, international price of crude has tested \$140 per barrel and now stands at \$129. An increasing number of energy experts are expecting the price to rise to \$200 per barrel before easing off! Given that India imports 70% of its oil requirement, I cannot see how such prices will not put a brake on growth. Nor can I see the government maintaining an indefinite subsidy regime, and thus putting the exchequer at extreme risk.

These are, therefore, volatile times. I anticipate lower GDP growth of somewhere between 7.5% and 8% in 2008-09, with inflation beginning to taper off only after the monsoons.

Why then am I still confident about India being in a sweet spot? And about your Company being well positioned to increase its rate of growth?

From a macroeconomic perspective, 7.5% to 8% GDP in 2008-09 is a decent performance by any yardstick. Few nations other than China can hope to do better. Such GDP

growth implies 11% to 12% growth in urban India and a 14% to 15% growth for India's 100 million to 120 million urban middle and upper-middle class.

**This is Max India's core customer base. I submit to you that very few companies can claim to service a customer base that not only grows in numbers, but also increases its household income by 14% to 15% per annum. This is why I believe that we are in a sweet spot, and why your Company's businesses will continue to grow and deliver value.**

Let me elaborate a bit on this by discussing each one of our key business verticals.

Max India is primarily in the business of Life. We protect life through Max New York Life; and we care for life through Max Healthcare. Each is a high growth business.

Consider life insurance. While it is true that the business is increasing rapidly in India, there is enormous scope for further growth. Only 38% of urban households and 19% of rural homes own some form of life insurance. Average annual premium paid per household is just Rs. 1,227; and the sum assured works out to be under Rs. 28,000.

The minimum household real income above which families start investing in life insurance products is Rs. 90,000 per annum. In 2005, only 46% of Indian households had annual income above this threshold. By 2025, after adjusting for inflation, 78% will earn more than that amount. Moreover, there will be an explosion of people in the insurable age bracket. People in the age group of 20 to 60 years were 46% of the total population in 1991. This will rise to beyond 55% by 2011.

Those are big numbers. And Max New York Life which has already increased its overall market share among private players from 7.2% in April - May 2007 to 8.4% in April - May 2008 - is well positioned to reap the benefits through its comprehensive product portfolio, the quality of its customer base, and its high standards of service delivery.





## Max New York Life and Max Healthcare are shining as premium players in the fast growing privatized life insurance and healthcare sectors

### This is how Max New York Life performed in 2007-08:

- ▶ It sold over 870,000 policies - an increase of 58% over the previous year.
- ▶ The total number of policies sold since inception stood over 2.3 million on 31 March 2008 - thus crossing the 2 million milestone.
- ▶ Gross premium income increased by 81% to Rs. 2,715 crore (\$672 million).
- ▶ First year premiums grew by 75% to Rs.1,598 crore (\$395 million)
- ▶ Renewal premium income grew by 90% to Rs.1,117 crore (\$276 million).

### The year-to-date highlights up to 30 June 2008 are:

- ▶ MNYL grossed premium income of Rs.865 crore (\$208 million), recording a growth of 88% over Q1 2007-08.
- ▶ First year premiums rose to Rs.496 crore (\$119 million), a growth of 72% over the same quarter last year.
- ▶ The number of agent advisors increased by 68% to around 47,000.
- ▶ Cumulative sum assured stood at Rs.77,650 crore (\$18.7 billion).
- ▶ Strong growth of 240% in partnership distribution with over 20 strategic partnerships.
- ▶ Entry into health and retirement segments.

Last year, Max New York Life launched a new growth initiative. It focuses on building a comprehensive business portfolio to become a top quartile life insurer by 2011 on the basis of profitable new business. The plan entails:

- ▶ Widening and deepening distribution reach: opening at least 250 offices every year, to reach over 900 agency offices and 700 rural offices by 2011, while simultaneously, increasing the number of agents to over 300,000 by 2011.
- ▶ Strengthening partnership distribution through long term tie ups with existing partners and aggressive expansion with other new partnership sign ups.
- ▶ Aligning channels and product offerings to the different market segments.
- ▶ Addressing the large rural and urban low income population. A promising innovation for this market segment is Max Vijay, which aims to provide insurance to the un-served and the under-served population. It is a unique combination of insurance and savings, and is a tailor-made, self-empowerment tool for the nearly 100 million households in this category.
- ▶ Strengthening the MNYL brand: Increasing our brand awareness from 61% today to 85%.
- ▶ Increasing customer and employee management and fulfilment capabilities to support growth with appropriate technology backbone.
- ▶ Initiative to maximize cross sales to existing customers through appropriate campaign management and technology enablers.





I recommend you to read the chapter on *Management Discussion & Analysis* in this Annual Report which explain these drivers in greater detail.

Let me now share with you a significant recent development regarding Max New York Life. As of July 2008, Max India has restructured its JV agreement with New York Life. According to the amended agreement, New York Life has an 8-year option to buy 24% stake in Max New York Life at a fair market value based formula less discount of 10%, versus a preferential formula earlier. This will realize enhanced value for the shareholders of Max India.

There is another piece of good news on the insurance front. **We are setting up a new joint venture for health insurance with Bupa Finance Plc, a part of Bupa Group UK, a leading global health and care company.** The JV, Max Bupa Health Insurance Limited will, subject to regulatory approvals, offer a suite of products to both consumer and business customers. The initial share capital of the JV will be Rs 100 crore (£12 million). Max India will have 50% equity stake the Bupa Group will take 26% and the balance 24% will be held by me and my family through certain intermediate companies.

I am excited about this new company and am confident that, given our expertise in forging successful partnerships and JVs with global leaders, this collaboration too will be a successful one.

Healthcare, too, has massive growth potential. Max Healthcare is committed to 'Excellence in Patient Care'. It aims to establish itself as a 'one of its kind' healthcare service provider that will be a trend setter in India and epitomise the highest standards of healthcare services in the country.

We operate a network of six super-specialty and multi-specialty hospitals and two specialty medical centres located in New Delhi and the NCR of Delhi with a bed capacity of around 800. We are all set to double this capacity to over 1,500 beds by 2010. And we are selectively moving to other territories as well.

**Private healthcare currently accounts for 82% of the total healthcare expenditure in India. It will remain the largest component of healthcare spend and is expected to almost double from current spends of Rs.690 billion (\$17 billion) to Rs.1,560 billion (\$38 billion) by 2012.** This could rise much further if health insurance coverage becomes more available to the rapidly growing Indian middle class.

Max Healthcare's business model focuses on leveraging these opportunities. We lay strong emphasis on medical quality. Here are some facts for 2007-08.

- ▶ As on 31 March 2008, we had a base of over 1,250 physicians, including several doctors of international repute, 1,400 nurses, 330 paramedic staff, 1,020 other support staff, and more than 560,000 patients.
- ▶ We managed 20 operation theatres and 200 critical care beds across a completely integrated network.
- ▶ Our network of hospitals performed over 900 open heart surgeries, 2,100 angioplasties and 4,150 angiographies. We also performed over 2,000 orthopaedic surgeries, 650 neuro-surgeries and 8,200 general surgeries.
- ▶ The average number of operational beds at Max Healthcare increased from 610 in 2006-07 to 662 in 2007-08.
- ▶ Revenue from all hospitals in our network grew nearly by 52% to Rs 372 crore in 2007-08 (\$92 million). The healthcare business also turned EBITDA positive in this year.

We have some of the best facilities in India.

Our **Max Devki Devi Heart and Vascular Institute** combines cutting edge technology with internationally acclaimed professional expertise to deliver comprehensive cardiac care services.

Our **Max Super Speciality Hospital** provides tertiary care facilities in neurosciences, orthopaedics, paediatrics, obstetrics and gynaecology and other support services.

The Centres of Excellence at Max Super Speciality Hospital include:

**Institute of Orthopaedics and Joint Replacement**, which offers comprehensive and latest treatment of joint replacement, using computer navigation, sports medicine, management of arthritis and trauma, spinal surgery and paediatric orthopaedics.

**Institute of Neurosciences**, which is driven by high-end technology including Brain Suite and Flat Panel DSA lab. It also has India's first DynaCT for treatment of stroke, aneurism and spine. Brain Suite is the first integrated high field intra-operative MRI in Asia, which neurosurgeons can use to operate upon complicated brain tumours with utmost precision.

**Institute of Paediatrics**, which has a team of highly experienced paediatricians and paediatric super-specialists. It has fully equipped neonatal ICUs with round-the-clock neonatologists providing multi-speciality care to premature babies, and can treat critically ill children suffering from life threatening conditions.

**Institute of Obstetrics and Gynaecology**, which offers maternity and reproductive healthcare service even to patients in high risk groups. Other services range from reproductive care and mother and child healthcare to infertility.

**Institute of Aesthetic & Reconstructive Plastic surgery** is a centre of excellence for advanced Microsurgery and Craniofacial Surgery. It has introduced the latest techniques in plastic surgery, and is in the process of entering the futuristic domain of stem cell research.



**Institute of Internal Medicine**, which offers core medical services and includes indoor patient care, outdoor patient care and preventive health checks. Max Home Care Programme is a recent addition, which will bring healthcare to the home of patients to maintain continuity of care.

**Max Institute of Allied Medical Sciences**, which delivers comprehensive services in medical, surgical and minimal access surgery programmes with a state-of-the-art surgical ICU, a medical ICU, a dedicated endoscopy suite, a sleep lab and five modular operation theatres.

To make the service profile more comprehensive in our tertiary facilities at Saket, a state-of-the-art oncology facility is being set up at the Super Speciality Hospital and is expected to be operational by end 2009. With this, oncology services would be available across two locations, Saket and Patparganj. Additionally, our Patparganj hospital is now a licensed renal transplant centre.

Four new hospitals are coming up in the current phase of expansion. We are setting up a 100 bed tertiary care hospital in Saket which will start operations in 2009. A new wing of the Max Balaji Hospital with 270 beds at Patparganj is expected to start operations in 2009. And a 100 bed multi-speciality hospital in Dehradun will commence operations by late 2009. We have also acquired land for setting up a 300 bed hospital at Shalimar Bagh in North-West Delhi. This facility would be a suitable mix of tertiary and multi-speciality services and is likely to be commissioned in mid 2010.

Max Healthcare continues to add to its existing professional training and development programmes. In 2007-08, it entered into an MoU with George

Washington University, USA under which a post-graduate fellowship programme in emergency medicine was developed. Under a separate MoU with Hamdard University, New Delhi a unique course in emergency medicine and trauma technology has been developed.

Along with ongoing postgraduate and shorter term courses, these initiatives will ensure that the organisation builds an excellent reputation not only in patient care, but also in training and education.

We are, therefore, superbly positioned to leverage growth in the healthcare sector.

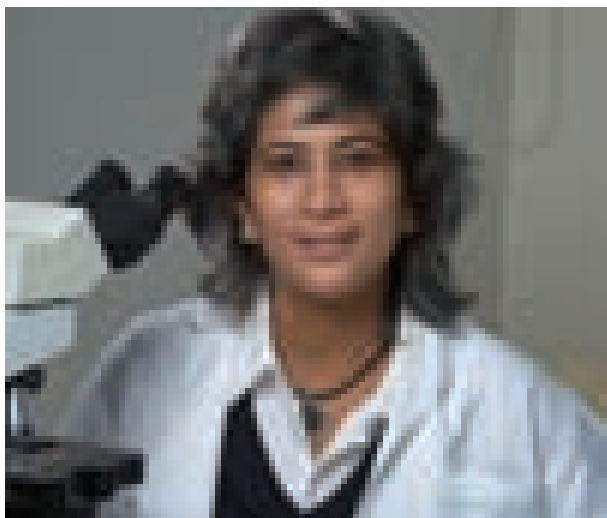
The current year has started well. The highlights for the quarter ending 30 June 2008 are:

- ▶ Revenues from all our hospitals grew 21% year-on-year to Rs.100 crore (\$25 million). EBITDA grew 82% year-on-year to Rs.5 crore (\$1.2 million).
- ▶ Number of patient episodes increased from 360,000 at the end of Q1 2007-08 to 470,000 for Q1 2008-09.

We also have two other Life-oriented businesses: Max Neeman Medical International (MNMI), which focuses on clinical trials and research for global pharmaceutical majors, and Max HealthStaff International, which provides trained healthcare professionals to agencies across the world. Although both businesses are at their early stages, they have high growth opportunities.



Private healthcare currently accounts for 82% of the total healthcare expenditure in India. It will remain the largest component of healthcare spend and is expected to almost double from current spends of Rs.690 billion (\$17 billion) to Rs.1,560 billion (\$38 billion) by 2012.



MNMI is already in a growth phase, and is currently doing clinical trials for 23 clients on around 4,000 patients across over 230 sites in India. Its large pharma customers include companies like Merck, GlaxoSmithKline, Bristol Myers Squibb, Sanofi-Aventis, Johnson & Johnson, Novartis and Wyeth.

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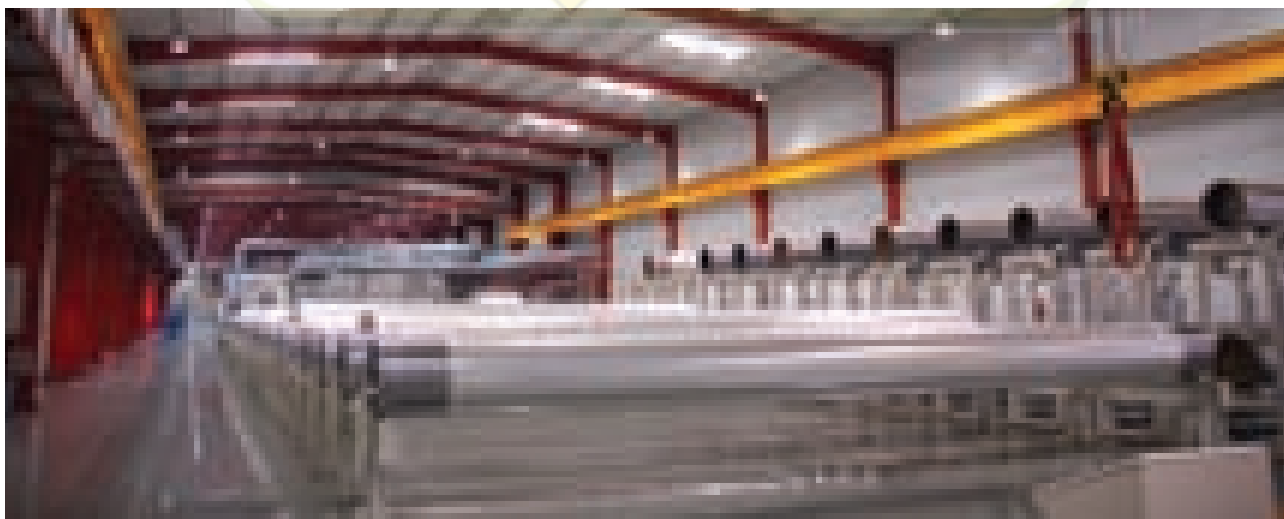
In the light of ongoing visa restrictions that regulate the immigration of nursing professionals into the US, Max HealthStaff is currently re-evaluating its business model.

That brings me to the substantial non-life based business of your Company. Max Speciality Products (MSP), a division of Max India, which manufactures niche and high barrier polymer films that cater mainly to the packaging industry.

I have been often asked by analysts, "Why are you in this business?" And my answer has been, "Why would I want to exit a well run, independently managed business that generates excellent growth for itself and the group, and even better cash?"

Here are some numbers for 2007-08:

- ▶ MSP's revenue increased by 84% to almost Rs.306 crore (\$76 million).
- ▶ Its EBITDA grew by 136% to Rs. 50 crore (\$12.3 million).
- ▶ Its exports more than doubled to over Rs.65 crore during the year (\$16 million).
- ▶ And its operating margin (EBITDA to net sales) grew from 12.6 % in 2006-07 to 16.2 % in 2007-08.



The first quarter numbers for MSP for 2008-09 are also excellent. Production is running at full capacity, and total sales volume for April-June 2008 is 75% higher compared to the same quarter in the previous year. At Rs.98 crore (\$24 million), revenue was 85% higher than Q1 2007-08. EBITDA for the quarter has doubled: Rs.14 crore versus Rs.7 crore for Q1 2007-08; exports have increased by 89%; and demand remains robust enough for us to pass on increases in polymer prices.