



IN THE BUSINESS OF
LIFE

MAX INDIA LIMITED | ANNUAL REPORT 2009-10





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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 healthcare on Trust

The patients 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...Building trust for Growth



LETTER TO SHAREHOLDERS



THE LONG PREDICTED SHIFT IN BALANCE OF POWER FROM THE DEVELOPED WORLD TO DEVELOPING ECONOMIES ACTUALLY PLAYED OUT FOR THE FIRST TIME IN 2009-10

Dear Shareholders,

Under normal circumstances, this would have been a usual, informative letter with its share of good tidings.

There were many reasons for being positive. For one, India survived the global meltdown remarkably well. Despite severe international economic problems, we achieved 6.7% real GDP growth in 2008-09; and did even better in 2009-10 by hitting 7.4% growth. Today, India and China are the only two global economies that are posting high growth quarter-on-quarter. And the general consensus is that we as a nation are again well set to achieve a steady-state growth rate of anywhere between 8.5% to 9%.

The inherent economic strength of India, China and other BRIC countries saw the long predicted shift in balance of power from the developed world to developing economies being actually played out for the first time. This was evident through the collective clout at various multilateral forums such as G20 and Climate Meets. Clearly the economic meltdown has accelerated this shift by 5 to 10 years and in order to have more balanced approach, businesses across the developed world are much more aggressively looking at the developing countries.

Moreover, your Company's businesses handled the shocks of



YOUR COMPANY'S BUSINESSES
HANDLED THE SHOCKS OF
2008-09 REMARKABLY WELL

2008-09 remarkably well. Gross premium income of Max New York Life (MNYL) increased by 26% to Rs. 4,861 crore in 2009-10; it sold around a million policies in the year, and by 31 March 2010, had almost 3 million policies in force; its assets under management at the end of the year had crossed Rs. 10,000 crore; and the policyholder and shareholder combined profits were Rs. 24 crore, versus a loss of Rs. 419 crore in the previous year. MNYL has consciously focused on developing multiple distribution channels. It entered into a long term strategic tie-up with Axis Bank, India's

third largest private bank. This bancassurance agreement should prove to be a game changer for MNYL as it will give them exclusive access to 20 lakh consumers of Axis Bank. This relationship will be unique and to the customers benefit, due to better training and integration between MNYL and Axis.

Max Healthcare, too, did well. It increased capacity by 46% with the addition of 350 beds during 2009-10 – bringing the total bed strength to 1,100. Revenues increased by 26% to Rs. 534 crore. Although the profit margin dropped a bit, Max Healthcare, with its team of 1,250 doctors, 1,900 nurses and 1,700 para-medical staff across its network of hospitals, still earned a positive EBIDTA of Rs. 24 crore.

2009-10 was an active year for the healthcare industry. The Corporate Hospital space saw expansion and consolidation. While Max Healthcare also plans to add another 800 beds in 2011, however, it stays strong on its belief of first tapping the opportunities in North India with complete control on quality, before expanding into distant geographies since quality physicians and practices is critical and can be leveraged better with geographical proximity. As a part of ongoing emphasis on capability building, Max Healthcare intends to mature into Quaternary Care and foray into Medical Education. Besides providing a captive skill pool, this will provide quality research opportunities to Max Healthcare doctors, a critical need in this profession.

Max Bupa, your Company's cutting edge health insurance play with Bupa of UK, was up and running from April 2010 – having started commercial operations across six centres in India. The Health Insurance Industry in India is likely to grow at over 25% in the medium to long term. While there are many General Insurance players selling Health Insurance, it needs focus to service the diverse and unique Indian needs. This focus is why Max Bupa will succeed in a seemingly cluttered Indian Health Insurance market.



AT MAX HEALTHCARE, THE FOCUS IS ON QUALITY AND IT IS SEEKING TO EXPAND IN NORTH INDIA SINCE QUALITY PHYSICIANS AND PRACTICES CAN BE LEVERAGED BETTER WITH GEOGRAPHICAL PROXIMITY



The Company has already made its mark by bringing in many innovations at the product and servicing level.

Max Neeman, your Company's value adding clinical research organisation, grew its client base, its business development pipeline, revenues and profits.

Max Speciality Films earned revenues of Rs. 340 crore in 2009-10; an EBITDA of Rs. 43 crore; PBT of Rs. 20 crore; and is well on its way to commission a state-of-the-art BOPP production facility (Line 4) with a capacity of 22,000 tonnes per annum, along with its fourth metalliser.

In other words, your Company had not only weathered the storms of 2008-09, but was also well positioned for higher growth and greater profits.

We also continued winning in our Social Service efforts through Max India Foundations (MIF) as we stepped up our efforts in providing improved access to quality health care for the underprivileged; mass immunization for needy children, and activities around environment awareness. Almost 50,000 people at over 150 locations across the country benefited from MIF's work.

What made the circumstances 'abnormal'? In a nutshell, it was a series of wide reaching regulatory changes that affected the insurance industry. These were announced by the Insurance Regulatory and Development Authority (IRDA) on 28 June 2010, and have changed the playing field for India's life insurance industry.

Because these guidelines were announced at the end of June 2010, they have had no impact on MNYL's performance for 2009-10 and, therefore, have not been discussed in the chapter on Management Discussion and Analysis. The new rules and limits laid out in the guidelines will come into play from 1 September 2010 and, hence, will not affect MNYL's first quarter results as well. However, these are extremely fundamental and far reaching, and I will fail in my duties if I did not explain what these imply for the life insurance industry, for MNYL and, consequentially, for your Company.

As you may be aware, unit-linked insurance products (ULIPs) are by far the most popular product in the life insurance industry. In 2004-05, ULIPs accounted for only 38% of the industry's new business premium. In 2009-10, it is estimated at 74%. Why have these products gained such popularity? Because most customers are relatively young and want gains from the share market through unit linked products, with some insurance cover as well.

This huge and rapidly growing popularity of ULIPs led to serious encounters between IRDA and the Securities and Exchange Board of India (SEBI), as to who should have the ultimate regulatory oversight of these share market based products. IRDA has retained its regulatory remit over ULIPs. In doing so, however, it has imposed several constraints on ULIPs to increase their longer term life insurance content. The note of 28 June 2010 addresses precisely this issue, i.e. constrain the extent of policy-holders' and insurers' freedom in ULIPs and ensure greater emphasis on the life insurance aspect of any such policy.



HEALTH INSURANCE REQUIRES FOCUS TO SERVICE THE DIVERSE AND UNIQUE INDIAN NEEDS. IT IS THIS FOCUS THAT WILL LEAD TO THE SUCCESS OF MAX BUPA



WE ALSO CONTINUED WINNING IN OUR
SOCIAL SERVICE EFFORTS THROUGH
MAX INDIA FOUNDATION



Some of the key changes are:

- The three-year lock-in period for all ULIPs has been increased to five years, including top-up premiums. While this may be positive for margins per policy, it will negatively affect sales — especially for customers who prefer anticipated shorter period capital gains over longer period insurance.
- There are caps proposed on the net reduction in yield across different time frames: up to 4% in the fifth year; up to 3% in the tenth year; and no more than 2.25% for the 15th year, and thereafter. These are significantly lower than current net reductions in yield across most ULIPs. This may increase sales, but will affect the insurers' margins and increase capital requirements.
- There were no specific IRDA guidelines on how to allocate charges over the tenure of a ULIP policy. This has been now mandated to being levelled during the lock-in period of the first five years. Again, while this could increase sales, it will certainly reduce margins and raise capital requirements.
- There were no caps on surrender charges. These have been very stringently capped. Clearly this will affect margins and raise capital needs.
- The minimum sum assured, i.e. the insurance component, has been significantly increased in future ULIPs. These will now stand at 10 times the annualised premium for those who are below 45 years at the time of purchasing such a policy; and at least 7 times for those who are 45 years and above. It is unclear how this will impact the business.
- Currently, top-ups for ULIPs were allowed without life cover. IRDA has stipulated that any top up must be treated as a single premium with life cover. This could possibly increase sales, but be neutral with respect to margins and capital needs.
- Premium holidays were allowed after three years. The new regulation disallows it. This will tend to reduce sales, since it will make a ULIP relatively less flexible and less attractive than before.
- For unit linked pension products, there was no minimum returns guarantee. This has been now pegged at 4.5% on date of maturity, or as specified by the IRDA from time to time. This may increase sales, but it will certainly affect margins. Worse still, it has created an environment for guaranteed return pension products.
- At present, partial withdrawals were permitted for unit linked pension or annuity products. These have been banned. This will negatively affect sales, but ought to be better for margins.

How serious are these changes? I would be untruthful if I didn't say that these are extremely serious, and will profoundly alter the way that the entire Indian life insurance industry operates. The industry and, therefore, MNYL, will have to rapidly create new ULIPs that meet these guidelines starting from 1 September 2010. This will create a major discontinuity in the businesses of each life insurance player, including MNYL. In the short run, it will affect profits, raise the capital adequacy and solvency needs, possibly create disruptions in the sales channels, and affect valuations.

So, I have honestly given you the bad news. Now let me share with you what I think will happen over the next three to five years.