

Stock Update

Insurance business entering an uncertain phase

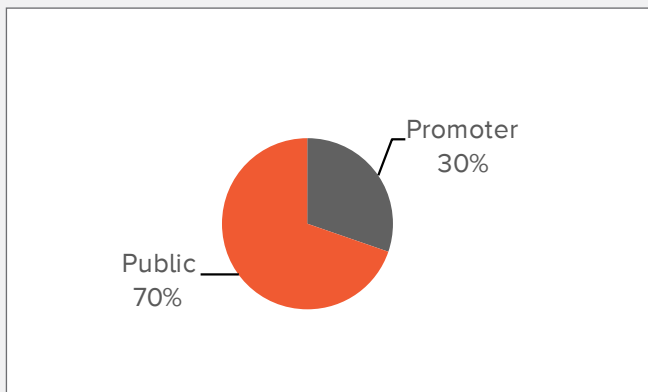
Max Financial Services

Reco: Hold | CMP: Rs435

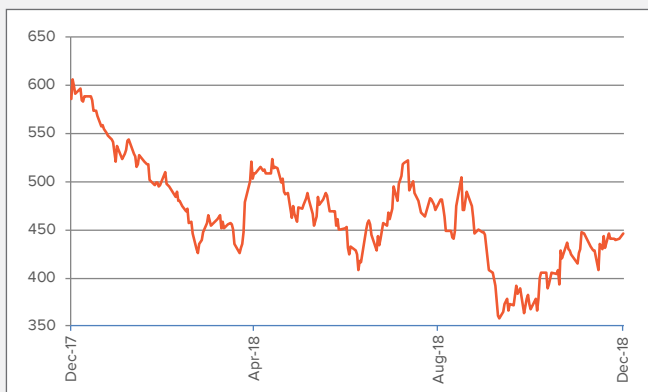
Company details

Price target:	Rs470
Market cap:	Rs11,676 cr
52-week high/low:	Rs610/344
NSE volume: (No of shares)	6.6 lakh
BSE code:	500271
NSE code:	MFSL
Sharekhan code:	MFSL
Free float: (No of shares)	18.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.6	0.7	-1.4	-24.0
Relative to Sensex	6.7	3.0	-2.5	-28.3

Key points

- ♦ **Challenges emanate in the insurance business:** Bancassurance is an important and critical distribution channel for insurance products in India as the product continues to be more of a savings/investment engine, competing with bank FDs and mutual funds (MF) rather than be seen as a safety net. Hence, a bancassurance channel becomes all the more important for the Indian insurance market. Notably, Max Financial Services (MFS) currently has a tie up with Axis Bank, and the bank is one of its primary bancassurance partners contributing ~54% to MFS's business. Entry of the new leadership at Axis Bank with a considerable insurance expertise may spell challenges for MFS in the medium to long term. Axis Bank has even earlier stated its intention for entering the insurance business space. We believe, in the medium to long term, there is significant probability of Axis Bank announcing its own plans to enter the insurance manufacturing space, which will be a setback and competition for MFS and hence becomes a vulnerability for MFS.
- ♦ **Outlook:** MFS is on the right track and is effectively building an attractive insurance franchise characterised by a multi-channel distribution network backed by conservatively underwritten insurance business. However, in the interim, slowing industry growth rate (for November 2018) as well as business challenges for MFS are key developments that cloud the outlook for the stock. While cost management, re-balancing of product mix and further diversification of distribution channels would be key levers available for improving profitability levels going ahead, high promoter pledge shares (though they have reduced during the year) are also a sentiment dampener. Hence, notwithstanding the steady performance of the business, we believe current challenges make the outlook uncertain for the stock in the medium term.
- ♦ **Valuation:** Valuations for Max Life are at a discount with some of the listed bank-owned insurance players giving comfort on valuations. However, considering the uncertainties and recent correction in pricing of peer group, we believe probability of large upsides is limited for the stock at present. We revise our rating to Hold on the stock with an unchanged price target (PT) of Rs. 470.

- ♦ **MFS taking steps to develop alternatives, but bancassurance remains key:** MFS has invested to develop other distribution channels with some success. Investment in proprietary channels and growth in agency led to 33% proprietary growth with 35% share. Anticipating the need, the company has already begun investing in developing proprietary channels to

achieve a desired distribution mix and reduce dependency on any one particular distribution mode. Focus on internet marketing and online distribution channels, which could improve cost efficiencies as well are steps in that direction. Yet, cost advantages and deep client reach are significant positives with the bancassurance model.

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