

Sector: Banks & Finance
Company Update

	Change
Reco: Buy	↑
CMP: Rs. 530	
Price Target: Rs. 590	↑

↑ Upgrade ↔ No change ↓ Downgrade

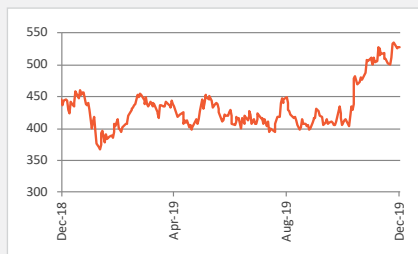
Company details

Market cap:	Rs. 14,284 cr
52-week high/low:	Rs. 543/361
NSE volume: (No of shares)	8.0 lakh
BSE code:	500271
NSE code:	MFSL
Sharekhan code:	MFSL
Free float: (No of shares)	19.3 cr

Shareholding (%)

Promoters	28.3
FII	29.6
DII	29.7
Others	12.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.0	27.0	22.6	18.2
Relative to Sensex	3.2	20.2	17.3	1.2

Sharekhan Research, Bloomberg

Max Financial Services

Strong Business, attractive valuations

Max Life Insurance (MLI) (holding company Max Financial Services) continues with strong operational performance (healthy margins, adequately capitalized and attractive EV growth) and thus is an attractive business franchise (6% overall market share). MLI's best in class 13th month persistency, indicates good customer retention and effective client communication, critical for the life insurance business. Uncertainties regarding pledging of shares, future of ownership, etc have been a drag on Max Financial (MFS; Holding company), and we believe that the valuations are attractive now. The reverse merger with JV partner Mitsui Sumitomo will be positive as and when it happens. During H1FY2020, MFS has been proactive on business growth (on-boarded 10+ new distribution partners viz, NBFCs, etc). Despite uncertainties, we believe that strong business fundamentals and the current valuations (at a significant discount to peers) makes the risk-return favourable for Max Financial Services. We introduce FY22E earnings estimates and accordingly arrive at a price target (based on two-year average multiples). We therefore upgrade our rating to BUY on the stock with a revised price target (PT) of Rs. 590.

Continued healthy performance, underscores franchise strength: MLI continues to have a strong bancassurance relationship and is proactively expanding and diversifying its delivery channels and Q2 FY20 as well saw the company make further investments in proprietary channels. The life insurance business, saw gross written premiums (GWPs) increasing by 14.6% y-o-y, mainly driven by a rise of 24.5% y-o-y in first year premium. Persistency ratio increased by 100 bps y-o-y to 85% in Q2FY2020, similar to the previous quarter. Individual annualised premium equivalent (APE) increased at a healthy pace of 21.7% y-o-y, while assets under management (AUM) grew by 16.7% y-o-y. Value of new business (VNB) grew by 25% y-o-y, with H1FY2020 margins at ~21%, driven by increased non-par (NPAR) savings contribution that rose by 1500 bps to 20%. The individual protection mix grew by 44 bps y-o-y to 7%. We believe a shift towards NPAR savings mix (increased by 1500 bps) will help drive up margins. Faster growth in individual protection business, compared to group protection is also positive for margins going forward. The continued strong business metrics indicate the strength of the franchise.

Our Call

Valuation for MFS appears attractive as they are at a steep discount compared with some of the listed bank-owned insurance players. We find that there are significant long term positives in the strong operational numbers for the company. While the share pledge elevates the risk profile for Max Financial Services, we believe that a possible reverse merger probability will be a positive and helps offset it. We introduce FY22E earnings estimates and accordingly arrive at a price target (based on 2-year average multiples; and a 15% Hold Co discount). We upgrade our rating to Buy with a revised price target of Rs. 590.

Key Risks

Lack of visibility on the Future of bancassurance tie up with Axis Bank

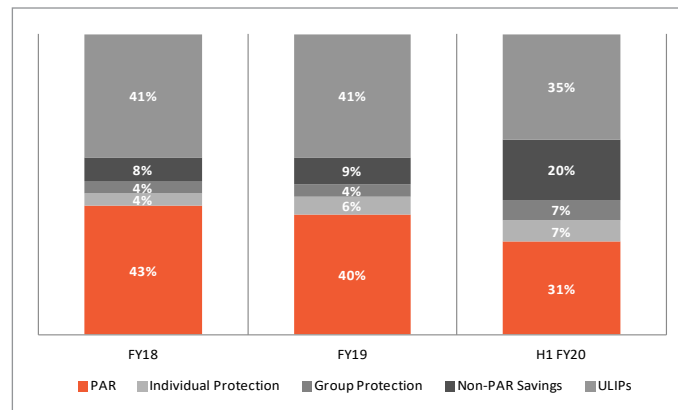
Valuation

Particulars	FY19	FY20E	FY21E	FY22E
Total Premium (Rs. cr)	14,575	16,476	19,030	21,984
New Business Premium (Rs. cr)	3,950	4,780	5,783	6,998
VNB Margin (%)	22%	22%	21%	21%
Embedded Value (Rs. crore)	9,257	10,059	11,777	13,794
EV / Share (Rs.)	248	269	314	368
P / EV (x)	2.1	2.0	1.7	1.4

Source: Company; Sharekhan estimates

Robust business growth continues: MLI reported 22% y-o-y growth in NBP-APE to Rs. 1730 crore during H1FY20. Renewals too grew by 12% y-o-y to Rs. 4141 crore. The company has a market share of 9% (for private players) and 6% on overall market share Q2 FY20 at. During H1FY20, while the overall industry grew by 11%, MLI grew by 23% y-o-y that reflects its strong business traction. Individual annualised premium equivalent (APE) increased at a healthy 21.7% y-o-y, while assets under management (AUM) grew by 16.7% y-o-y. Value of new business (VNB) grew by 25% y-o-y, with H1FY2020 margins at ~21% driven by increased non-par (NPAR) savings contribution that rose by 1500 bps to 20%. Individual protection mix grew by 44 bps y-o-y to 7%.

Product mix of Max Life



Source: Company

The management has indicated its aim to increase the retail business, and therefore will keep the share of non-par savings business at ~15% going forward. Moreover, group protection will not be a focus area. The focus has been on short-term products within the non-par segment (endowment-oriented rather than income-oriented) products. The company also plans to launch deferred annuity products soon.

The 13th month persistency ratio improved to 85% as compared to 83% as of FY19 and MLI continues to be industry leader in this cohort. The company saw improvement in persistency across most of the cohorts. Surrender to GWP ratio stood at 27% as of H1FY2020 (4% of the surrenders were because of higher payouts due to UL discontinuance) compared to 21% as of H1FY19 and 19% as of FY2019.

Outlook

MFS is effectively building an attractive insurance franchise characterised by a multi-channel distribution network built upon a conservatively underwritten insurance business. Management has reiterated its strategic guidance of 25%+ VNB growth, ~25% VNB margin and ~25% ROEVs (or 25-25-25) by FY22. We believe the strategy to achieve a balanced product mix and focus on non-par savings, with the protection segment will be margin-accretive and is achievable. We view that cost management, re-balancing of product mix and further diversification of distribution channels are key levers for improving profitability levels and will add to business sustainability. While the reverse merger plan with JV partner Mitsui Sumitomo was terminated, MFS remains committed to an eventual reverse merger plan, which when happens will be positive for the company. MLIC continues to have a strong bancassurance relationship with Axis Bank for now, even as clarity on the future of the relationship would be key monitorable.

Valuation

Valuation for MFS appears attractive as they are at a steep discount compared with some of the listed bank-owned insurance players. We find that there are significant long term positives in the strong operational numbers for the company. While the share pledge elevates the risk profile for Max Financial Services, we believe that a possible reverse merger probability will be a positive and helps offset it. We introduce FY22E earnings estimates and accordingly arrive at a price target (based on 2-year average multiples; and a 15% Hold Co discount). We upgrade our rating to Buy with a revised price target of Rs. 590.

About company

Max Financial Services Limited (MFS) is the Holding company (holds 71.8% share) of Max Life a private life insurance company. Max Life (MLI) is a joint venture with Mitsui Sumitomo Insurance (MSI which holds 25% share of MLI), a Japan-headquartered global leader in life insurance. Max Life Insurance offers comprehensive long-term savings, protection and retirement solutions through its high-quality agency distribution and multi-channel distribution partners. The company has a strong customer-centric approach focused on advice-based sales and quality service delivered through its superior human capital. It is the 4th largest Private Life Insurance player in India with ~10% market Share.

Investment theme

Max Financial Services hold Max Life Insurance and is among the leading private sector insurers and has gained critical mass and enjoys the best operating parameters in the industry. Max Life had delivered strong performance on both new and renewal business over the years. As the insurance sector is showing signs of stability, the company's favorable product mix and a strong distribution channel augur well and will help sustain healthy growth in premiums and profits. Strong focus towards customer measures has helped to deliver superior performance across parameters and will continue to remain an important differentiator.

Key Risks

Lack of visibility on the Future of bancassurance tie up with Axis Bank

Additional Data

Key management personnel

Mr Mohit Talwar	Managing Director
Mr V Krishnan	Company Secretary
Mr Jatin Khanna	CFO
Mr Aman Mehta	Independent Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Max Ventures Investment Holdings	25.06
2	MONEYLINE PORT INV LTD	6.71
3	JACKSON NATIONAL ASSET	6.09
4	Reliance Capital Trustee Co Ltd	5.49
5	RELIANCE CAPITAL TRUSTEE C	5.36
6	HDFC Asset Management Co Ltd	5.01
7	Mirae Asset Global Investments Co	4.99
8	Baron Capital Inc	3.07
9	BARON EMERGING MRKTS FUND	2.87
10	Aditya Birla Sun Life Asset Manage	2.75

Source: Bloomberg

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