

Sector: Banks & Finance
Event Update

	Change
Reco: Buy	↔
CMP: Rs. 477	
Price Target: Rs. 650	↔
↑ Upgrade ↔ No change ↓ Downgrade	

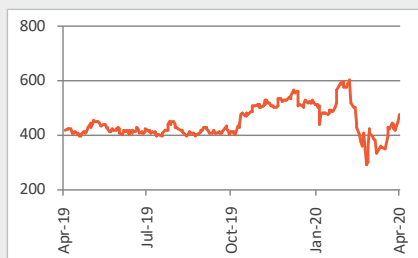
Company details

Market cap:	Rs. 12,823 cr
52-week high/low:	Rs. 611/280
NSE volume: (No of shares)	34.2 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	16.8	-7.2	15.6	14.2
Relative to Sensex	9.1	14.8	33.8	32.0

Sharekhan Research, Bloomberg

Max Financial Services Limited (MFS) announced that it had signed definitive agreements with Axis Bank Limited (Axis Bank) where the companies will be joint venture partners in Max Life Insurance Company Ltd (MLI). As per the agreement, Axis Bank will hold a 30% stake in Max Life once the deal is finalized in 12-18 months (expected), pending regulatory approvals. Due to the cap on the stake that a bank may hold in a life insurance company, Axis Bank stake is likely to remain at 30% in the JV. However, shareholders of MFS will get MLI shares and it will be merged with MLI. The development will result in a mutually beneficial relationship for both Axis Bank and Max Life Insurance and will bring the stability of a long-term partnership to India's fourth largest private life insurance franchise. The JV will augment MLI's competitive position vis-a-vis competitors. The agreement also removes the uncertainty over the future of MLI's bancassurance partnership with Axis Bank. We believe that the agreement offers both players with significant positives. We will revisit our price target and rating for MFS at the time of Q4 results update. We maintain our Buy rating on Max Financial Services with an unchanged price target of Rs. 650.

Our Call

Valuation - MFS's valuation appears attractive as it continues to be at a significant discount compared to some listed bank-owned insurers. The deal with Axis Bank as well as the arrangement with its partner in the insurance business are steps in the positive direction with long-term benefits. We believe that there is a large opportunity in the Indian life insurance industry, with a huge runway for growth available for strong players. We find there are significant long-term positives in the strong operational numbers for MLI. We believe MLI can get synergy benefits, including being able to enjoy operating leverage from its earlier investments in the proprietary channel once business scenario normalises. Hence, we maintain our Buy rating on Max Financial Services with an unchanged Price Target of Rs 650.

Key Risks

Adverse change in regulatory policies and a prolonged lockdown may impact MLI's profitability and growth.

Valuation

Particulars	FY19	FY20E	FY21E	FY22E
Total Premium (Rs Cr)	14,575	16,476	18,866	21,665
New Business Premium (Rs Cr)	3,950	4,780	5,688	6,797
VNB Margin (%)	22	21	19	20
Embedded Value (Rs Cr)	9,257	10,144	11,793	13,692
EV / Share (Rs)	248	271	314	365
P / EV (x)	1.9	1.8	1.5	1.3

Source: Sharekhan Research

Proposed deal structure: Max Financial Services presently holds a 72.5% stake, while Mitsui Sumitomo Insurance (MSI) owns 25.5% stake in Max Life Insurance. Axis Bank also has a minor stake in the life insurer. The aforesaid transaction with Axis Bank follows the ongoing swapping by the Japanese partner of the 20.6% stake that it holds in Max Life with a 21.9% stake in MFS. MFS also plans to purchase MSI's balance stake in Max Life (that will be valued ~Rs. 800 crores). Post completion of the series of transactions, Max Life will become a 70:30 JV between MFS and Axis Bank. Axis Bank indicated that they will be buying buy 55.6 crore shares of Max Life for a total consideration (estimated) of Rs. 1,592 crore, but the final amount will depend on exact pricing at the time of transaction. The proposed transactions are subject to approval of the requisite regulators (including IRDAI, RBI and the CCI). Max Life's tag line will include Axis Bank's name, which will further enhance customer trust in the brand and highlight the strength of the partnership.

Concall Highlights –On Axis Bank taking stake in MLI

- ◆ MLI was highly reliant on Axis Bank and the bancassurance relationship posed questions for investors on continuity and future. Regulatory clearance sare expected by 2020-end and the deal is expected to be finalised in 12-18 months. The current buyback arrangement with Axis Bank will be suspended once the transaction is completed. The companies have 5 years to finalise the deal.
- ◆ With the long-term nature of the JV, the distribution network lacuna is no longer an issue for MLI, which will make it more competitive.
- ◆ **Put Option:** There is also a Put option with Axis Bank, but the MFS management believes that exercising the same has a low probability. The intention is to go through with the merger which is expected to be done in 12-18 months.
- ◆ **Telecom liability:** MFS is planning to avail the tax amnesty scheme and clear the telecom liability issue. The cost of the telecom liability settlement hasn't been ascertained yet.
- ◆ **Pricing:** The transaction will be priced based on the tax-adjusted book value, which will be finalized at the time of closing the deal hence the companies haven't revealed the deal value. Axis Bank indicated that they will buy 55.6 crore shares of Max Life for a total consideration (estimated) of Rs. 1,592 crore, but the final amount will depend on exact pricing at the time of transaction.
- ◆ MFS will be buy out the Japanese partner's stake for ~Rs. 800 crore (at ~Rs 440 per share) in the swap deal, which will be from the accruals of share sale money received. MFS will sell its stake and receive funds from Axis. The Japanese partner intends to stay in the JV. There are no ESOPs for employees of either company.
- ◆ **Medium term plan of promoters:** Mr Analjit Singh (promoter of MFS) has stated that he is trying to reduce the pledge, and was on the cusp of resolving the Healthcare business stake but were delayed by the lockdown but expect it to happen soon. Also, some asset monetization by promoters will also help reduce the proportion of pledged shares. However, the monetisation of the family's stake will be done by private placements and not via secondary market sales, so the overhang of large supply will not be there.
- ◆ In an earlier deal, MLI was merging with MFS and then they were to form another private insurance company, but the deal was objected to by the regulator. However, nowthe merger is of an Insurance co with a bank. Hence the management is hopeful of getting approvals.
- ◆ Tax adjusted book value is Rs. 28-29 per share as on March 2020 that fluctuates due to profits and MTM of bond yields.
- ◆ Due to the cap on the stake that a bank may hold in a life insurance company, Axis Bank stake is likely to remain at 30% in the JV. However, shareholders of MFS will get MLI shares and it will be merged with MLI.
- ◆ Expect synergy benefits, with Axis Bank coming on board. MLI was investing in building its proprietary channels for last 3 years. The network created will start contributing more once the COVID-19 crisis is over and will also be attractive from Axis Bank's perspective.

About company

MFS is the holding company (holds ~72.5% share) of MLI, a private life insurance company. MLI is a joint venture with a Japanese insurance partner, which holds 25.5% share of MLI, and is a global leader in life insurance. MLI offers comprehensive long-term savings, protection and retirement solutions through its high quality agency distribution and multichannel 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 fourth largest private life insurance player in India with ~10% market share.

Investment theme

MFS holds MLI, which is among the leading private sector insurers. It has gained critical mass and enjoys strong operating parameters in the industry. MLI had delivered strong performance on both new and renewal business over the years. As the insurance sector is showing signs of sustained growth potential, the company's well-diversified 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

Adverse change in regulatory policies and a prolonged lockdown may impact MLI's profitability and growth.

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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