

Sector: Banks & Finance
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 563	
Price Target: Rs. 665	↑
↑ Upgrade ↔ No change ↓ Downgrade	

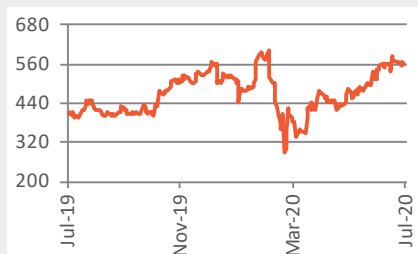
Company details

Market cap:	Rs. 15,172 cr
52-week high/low:	Rs. 611/280
NSE volume: (No of shares)	24.5 lakh
BSE code:	500271
NSE code:	MFSL
Sharekhan code:	MFSL
Free float: (No of shares)	19.3 cr

Shareholding (%)

Promoters	28.3
FII	30.5
DII	28.7
Others	12.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.2	18.3	-6.0	36.0
Relative to Sensex	1.3	3.0	-4.5	35.1

Sharekhan Research, Bloomberg

Max Financial Services (MFS) posted strong numbers for Q1 FY2021, with better-than-expected operating performance, and an encouraging EV growth with market share gain despite the impaired collections because of the lockdown is notable. Max Life Insurance (MLIC, MFS has 72.5% shareholding) saw gross written premium (GWP) rise by 4% y-o-y, despite the lockdown, which impacted a major part of Q1FY21, which we believe is impressive. New business premiums (on an APE basis) amounted to Rs 661 crore, down 4% y-o-y which indicates better than expected traction. Market share for new business (on APE basis) saw increase to 10.7% from 9.7% in FY20. Despite all COVID-19 challenges, Max life outperformed industry and gained more than 217 BPS share from FY20 in private market. Also, the individual sum assured of new business clocked a 39% growth in Q1FY21 due to strong growth in protection business that was also encouraging. The 13th-month persistency ratio for Q1 FY2021 was stable at 82% (as compared to 83% in FY2020), which indicates good customer retention and effective client communication. Claims paid ratio stood at 99.22% at the end of FY20, one of the best in the industry and best-ever ratios reached.

New business margins (actual) contracted by 40 bps y-o-y to 24.5%, due to low interest rates. The embedded value grew by 15%, while operating RoEV for Q1FY21 at 15.9% which is strong performance. Structural margins were stable compared with FY2020 margins (actual) driven by change in business mix. MLIC's relation with its bancassurance partner now seems more stable; and the recent agreement between the two entities seems to be progressing well. So far, the deal has been granted Shareholders, CCI & Stock exchanges approval; DEA & IRDAI application is under progress. Going forward, as operating leverage benefits kick in, and lesser pressure on investing in own channels will support margins, which will help at present times of impacted sales and volatile markets. Due to the lockdown, for the medium term, premium recovery and incremental sales growth may be impacted for insurance players, including MLIC. We believe the Indian insurance market has significant growth opportunities; and MLIC, with its strong brand image and stable bancassurance partnership, is well-placed to ride over medium-term challenges. We believe strong business fundamentals and current valuations (at a significant discount to peers) make risk-return favourable for MFS. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 665.

Key positives

- Embedded Value (EV) has grown at 15% YoY to Rs 10,670 crores driven by growth in value of new business and quality of in-force business.
- Despite challenges, Persistency stable across cohorts, the 13th month / 61st month persistency at 82% / 52% levels, stable compared to the first 11 months of FY20.

Key negatives

- Margins (post-overrun) declined to 17.1%, down 250 bps y-o-y and also from 21.6% in FY20. NBMs declined due to lower interest rates and higher cost overrun due to lower volumes and business mix shift.
- RoEV has declined to 15.9% in Q1FY21, down from 20.3% in FY20.

Our Call

Valuation - MFS' valuation appears attractive and is at a significant discount compared to some of the listed bank-owned insurance players. We find that there are significant long-term positives in the company's strong operational numbers. While the share pledge is a niggling issue, we believe the deal with its bancassurance partner will help. The deal also lends stability to the banca relationship and will be with long-term positives. We maintain our Buy rating with a revised PT of Rs. 665.

Key Risks

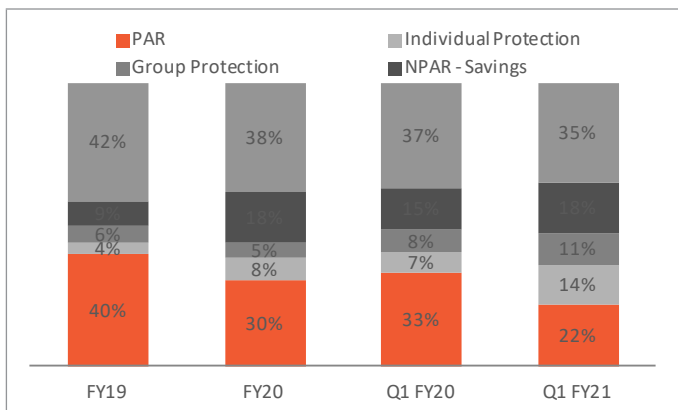
A slowdown in business operations and higher slippages/bond downgrades due to the economic weakness may impact earnings outlook.

Valuation				Rs cr
Particulars	FY19	FY20	FY21E	FY22E
Total Premium (Rs Cr)	14,575	16,183	18,523	21,270
New Business Premium (Rs Cr)	3,950	4,345	5,171	6,179
VNB Margin (%)	21.7	21.6	19.0	20.0
Embedded Value (Rs Cr)	9,257	9,977	11,550	13,317
EV / Share (Rs)	248	267	311	358
P / EV (x)	2.3	2.1	1.8	1.6

Source: Company; Sharekhan estimates

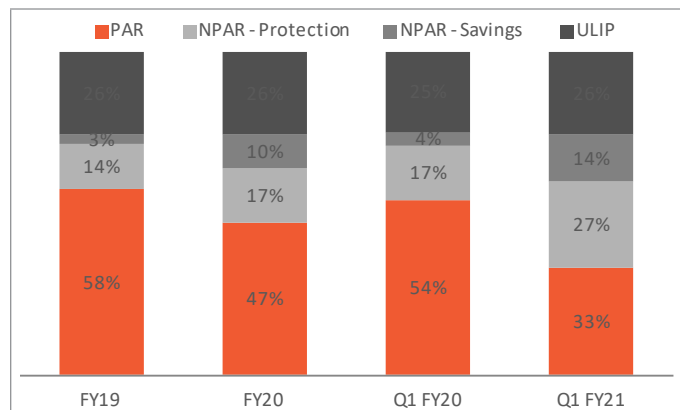
Max Life has increasingly built a balanced Product and Channel mix

Balanced Product Mix



Source: Company, Sharekhan Research

Bancassurance Channel Product Mix



Source: Company, Sharekhan Research

Results

Particulars	Q1FY21	Q1FY20	YoY%	Q4FY20	Rs cr
First year premium	621	646	-3.9	1,391	-55.4
Renewal premium	1,852	1,740	6.4	3,983	-53.5
Single premium	278	265	4.9	499	-44.3
Gross Written Premium	2,751	2,651	3.8	5,873	-53.2
Shareholders Profit (Pre Tax)	138	77	79.2	242	-43.0
Individual APE	660	679	-2.8	1,398	-52.8
Average case size (Rs.)	68,182	58,406	16.7	57,873	17.8
AUM (Rs Cr)	73,239	63,877	14.7	68,471	7.0
			bps		bps
13th Month Persistency Ratio (%)	82.0	85.0	-300	83.0	-100

Source: Company, Sharekhan Research

Outlook

MFS is effectively building an attractive insurance franchise, characterised by a multi-channel distribution network built upon a conservatively underwritten insurance business. 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 profitability and will add to business sustainability. Going forward, as operating leverage benefits kicks in, due to lesser pressure on investing in own channels, there will be positive support for margins, which will help at present times of impacted sales and volatile markets. Due to the lockdown, for the medium term, premium recovery and incremental sales growth was impacted for insurance players, including MLIC. However, insurance players, especially private ones are seeing impressive climb-back to their revenues which is encouraging. We believe the Indian insurance market has significant growth opportunities; and MLIC, with its strong brand image and riding on stable bancassurance partnerships is well placed to ride over medium-term challenges.

Valuation

Valuation - MFS' valuation appears attractive and is at a significant discount compared to some of the listed bank-owned insurance players. We find that there are significant long-term positives in the company's strong operational numbers. While the share pledge is a niggling issue, we believe the deal with its bancassurance partner will help. The deal also lends stability to the banca relationship and will be with long-term positives. We maintain our Buy rating with a revised PT of Rs. 665.

About company

MFS is the holding company (holds ~72.5% share) of Max Life Insurance (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 ~10.7% 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

A slowdown in business operations and higher slippages/bond downgrades due to the economic weakness may impact earnings outlook.

Additional Data

Key management personnel

Mr Mohit Talwar	Managing Director
Mr V Krishnan	Company Secretary
Mr Jatin Khanna	Chief Financial Officer
Mr Archana Pandey	Senior Dir:Corporate Affairs

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MONEYLINE PORT INV LTD	6.7
2	Mirae Asset Global Investments Co	6.3
3	JACKSON NATIONAL ASSET	6.1
4	HDFC Asset Management Co Ltd	4.8
5	ICICI Prudential Asset Management	3.6
6	Baron Capital Inc	3.5
7	Reliance Capital Trustee Co Ltd	3.4
8	BARON EMERGING MRKTS FUND	3.3
9	Kotak Mahindra Asset Management Co	3.1
10	New York Life Insurance Co	2.7

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVL R, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.