

Sector: Banks & Finance  
Company Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 621</b>	
Price Target: <b>Rs. 720</b>	↑
↑ Upgrade ↔ No change ↓ Downgrade	

## Company details

Market cap:	Rs. 16,729 cr
52-week high/low:	Rs. 631/280
NSE volume: (No of shares)	21.0 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	0.4	27.2	31.0	24.3
Relative to Sensex	-0.9	1.6	2.7	21.8

Sharekhan Research, Bloomberg

Max Financial Services' (MFS') deal with Axis Bank appears to be progressing positively, even though the lender will now buy a lower stake in Max Life Insurance Co. Ltd. (MLIC). Mutually altering the deal, Axis Bank now will acquire 17% in MLIC to increase its holding to 18% (lower than a 29% stake buy announced earlier). The companies have executed a definitive agreement to the effect but are yet to approach regulatory authorities with the revised applications. Axis Bank is one of the key bancassurance partners for Max Life, contributing ~57% (as on FY20) to the insurer's total premium income and hence is crucial for it. We believe that the tweaks in deal structure notwithstanding, the clarity and the deal going through is a critical positive from the point of view of MLIC (and MFS). We opine the changes may likely have been in response to the regulator's view and requirements, which indicates as another step towards deal closure. We believe that the agreement offers both players with significant positives. The Indian insurance market has significant growth opportunities and MLIC, with its strong brand image and (now) stable bancassurance partnership, is well-placed to ride over medium-term challenges. We believe that MFS' strong business fundamentals and current valuations (at a discount to peers) make the risk-return favourable. With the improving clarity on outlook, we have revised our target multiples. We maintain our Buy rating on Max Financial Services with a revised price target of Rs. 720.

## Our Call

**Valuation:** At CMP, Max Financial is available at 1.7x FY22E MCap / EV (considering MFS' present stake in MLI) and valuations appear attractive and at a discount as compared to some of the peer bank-owned Life Insurance companies. While deal fruition will still remain subject to very likely but nevertheless non-trivial "regulatory proof", we believe that the deal is closer to consummation now which will remove the overhang on the stock. On a performance basis, the insurance sector has been progressing well, with a consistent 13-15% growth on the normal rate and improving recovery post the lockdown opening up. Max has strengths on Protection (25% of APE as on Q1 FY21) and Non-PAR (18% of APE as on Q1 FY21) segments which we believe are likely to see customer preference in the medium term, which augurs well for MLI. Max Life generates healthy ROEV (15.9% in Q1 FY21) and has sufficient capital (solvency ratio of 212%; no need for dilution in near term) and hence its strong fundamentals make it a strong candidate for potential re-rating as outlook improves further. We maintain a Buy rating on the stock with a revised price target of Rs. 720.

## Key Risks

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

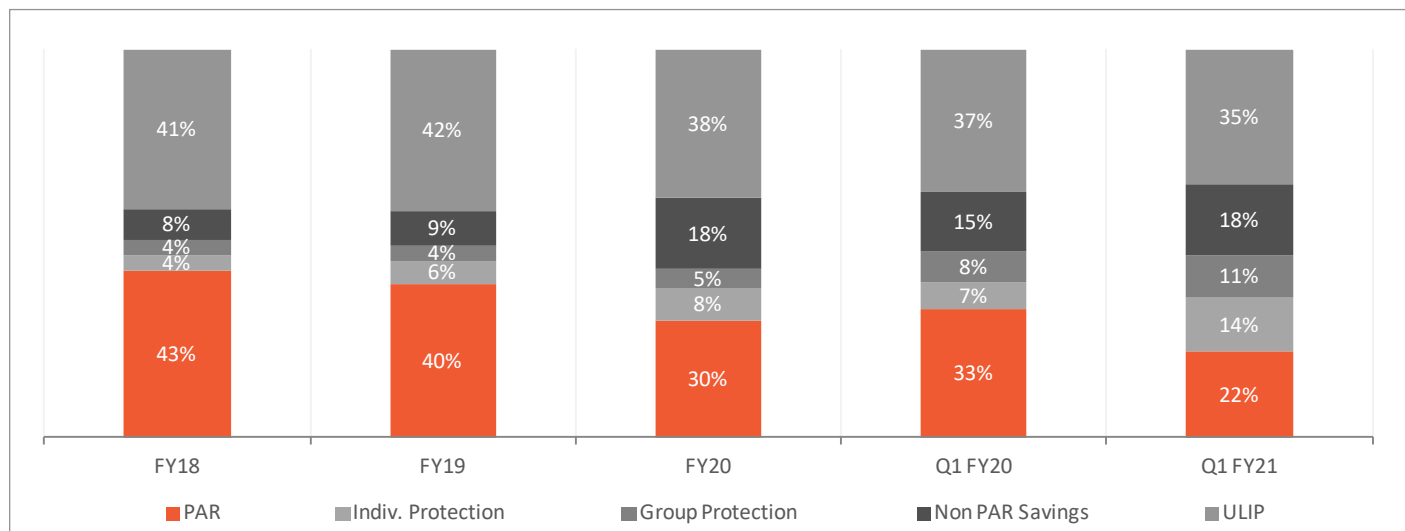
## Valuation

	Rs cr				
Particulars	FY18	FY19	FY20	FY21E	FY22E
Total Premium	12,501	14,575	16,183	18,523	21,270
New Business Premium	3,248	3,950	4,345	5,171	6,179
VNB Margin (%)	22%	21.7	21.6	19.0	20.0
Embedded Value	7,706	9,257	9,977	11,550	13,317
EV / Share (Rs)	206	248	267	311	358
MCap / EV (x)	3.0	2.5	2.3	2.0	1.7

Source: Company; Sharekhan estimates

**Max Life has increasingly built balanced product and channel mix:** The business is majorly shifting towards protection and savings products where Max Life is strong, which makes the company well placed going forward as well.

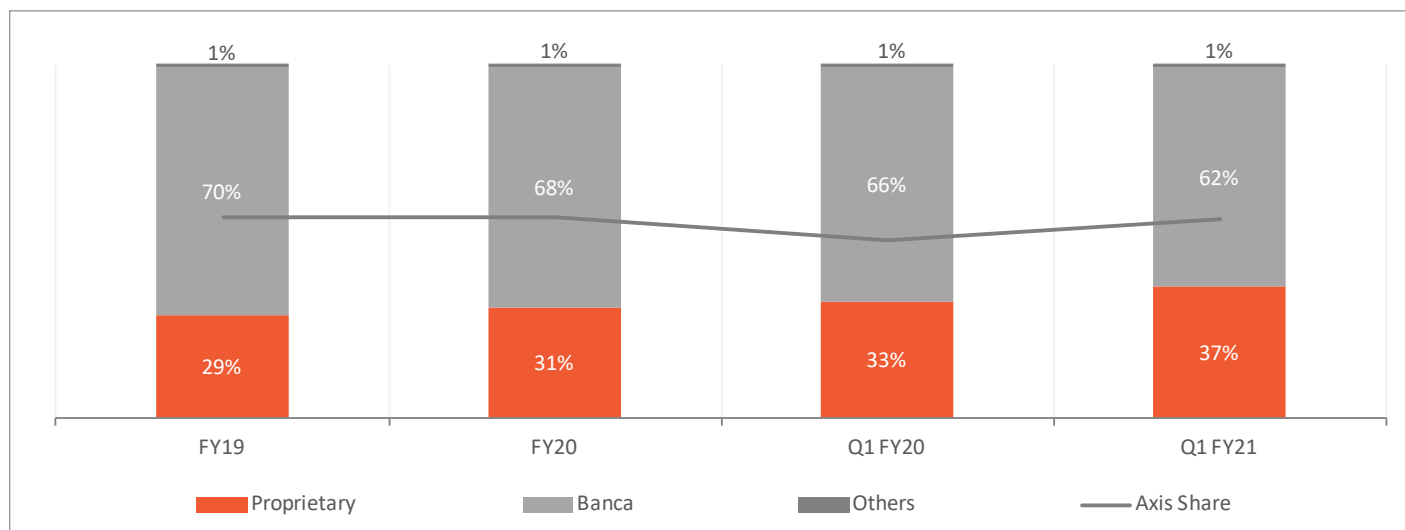
#### Balance Product mix



Source: Company, Sharekhan Research

The bancassurance channel is important, but the agency channel is also strong, providing levers for margins and growth. If the bancassurance partnership deal with Axis consummates successfully, then we believe MLI can have an enviable mix of own and banca channels which can be a significant growth and cost driver.

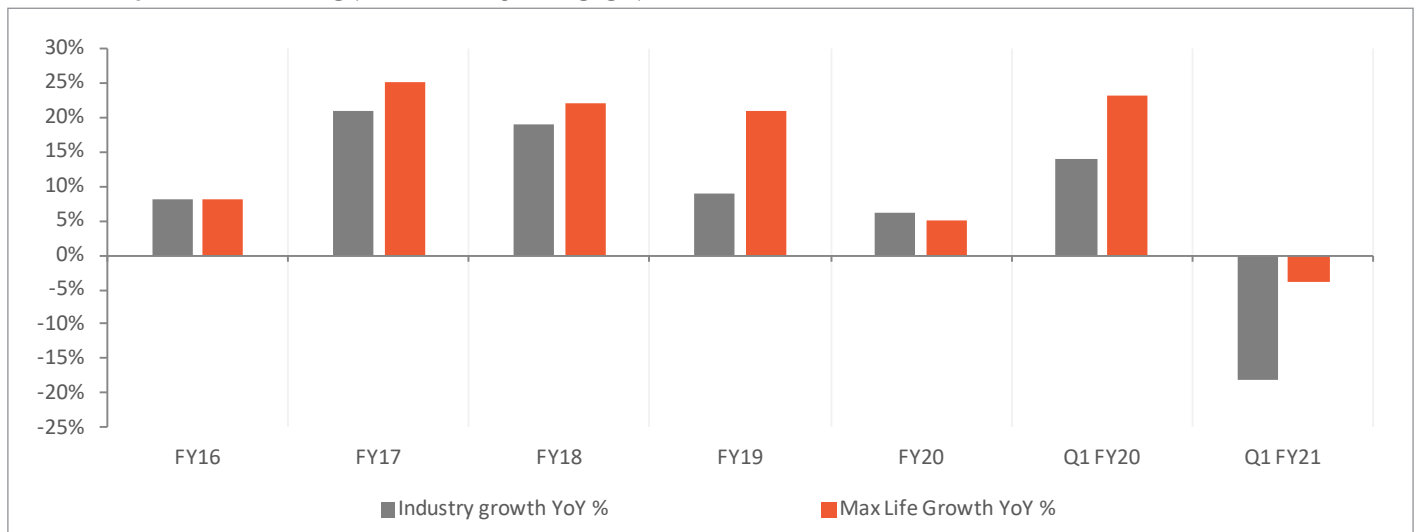
#### Channel mix



Source: Company, Sharekhan Research

Max life has consistently outperformed industry growth rates. Despite all COVID 19 challenges, MLI gained more than a 2% share among private players and has consistently been able to outperform the industry, which indicates its customer acceptance and business traction.

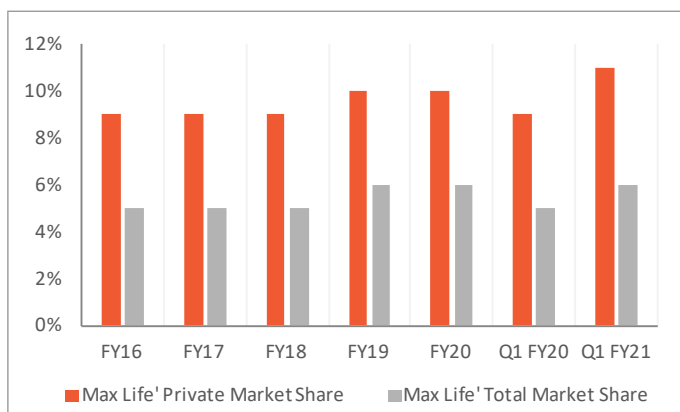
### MLI has outperformed Industry (Individual Adj. FYP, yoy%)



Source: Company, Sharekhan Research

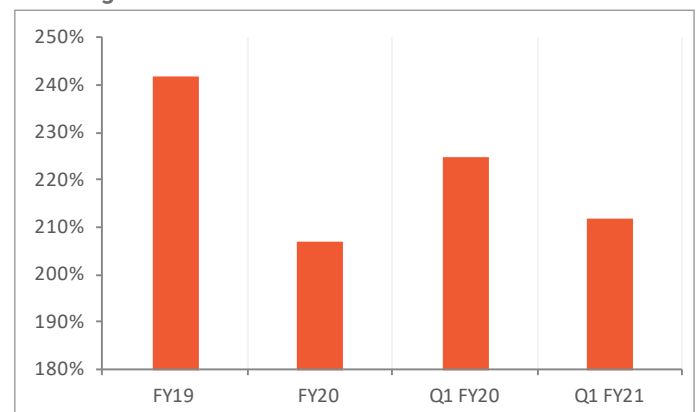
### Financials in charts

#### Market Share



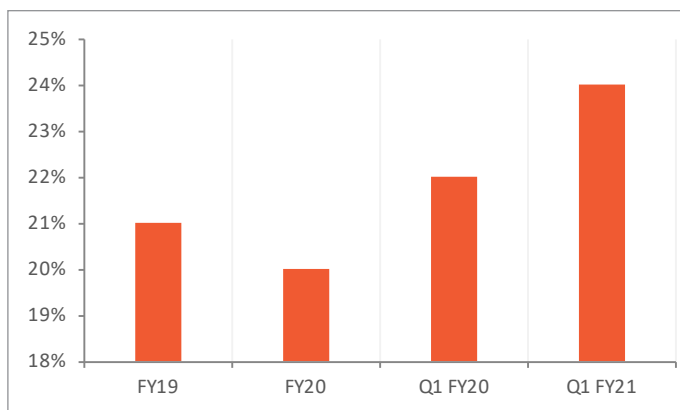
Source: Company, Sharekhan Research

#### Solvency Ratio



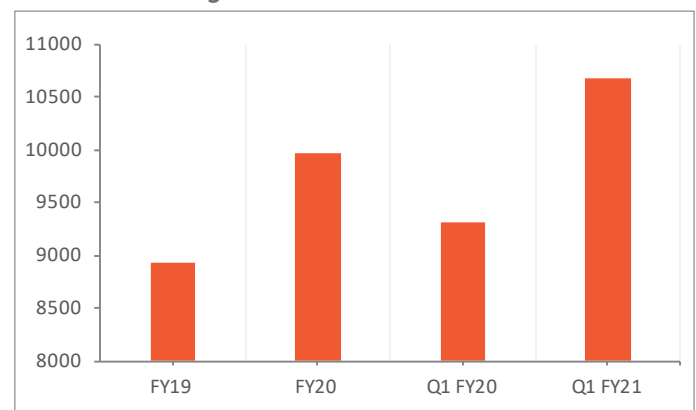
Source: Company, Sharekhan Research

#### ROE



Source: Company, Sharekhan Research

#### Embedded Value growth



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 that the company's 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 kick 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. Though the lockdown impacted premium recovery and incremental sales growth for insurance players, including MLIC, companies, especially private ones are seeing impressive bounce-back in 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 partnership (with the formalisation of deal with Axis Bank), appears well placed on most parameters to ride over medium-term challenges.

## Valuation

At CMP, Max Financial is available at 1.7x FY22E MCap / EV (considering MFS' present stake in MLI) and valuations appear attractive and at a discount as compared to some of the peer bank-owned Life Insurance companies. While deal fruition will still remain subject to very likely but nevertheless non-trivial "regulatory proof", we believe that the deal is closer to consummation now which will remove the overhang on the stock. On a performance basis, the insurance sector has been progressing well, with a consistent 13-15% growth on the normal rate and improving recovery post the lockdown opening up. Max has strengths on Protection (25% of APE as on Q1 FY21) and Non-PAR (18% of APE as on Q1 FY21) segments which we believe are likely to see customer preference in the medium term, which augurs well for MLI. Max Life generates healthy ROEV (15.9% in Q1 FY21) and has sufficient capital (solvency ratio of 212%; no need for dilution in near term) and hence its strong fundamentals make it a strong candidate for potential re-rating as outlook improves further. We maintain a Buy rating on the stock with a revised price target of Rs. 720.

### 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	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	JACKSOM 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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by BNP PARIBAS

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