

Max Financial Services (MAXF IN)

Rating: ACCUMULATE | CMP: Rs853 | TP: Rs995

A clearer path with hurdles behind

Quick Pointers:

- IRDAI approves Axis Bank & its subsidiaries to acquire 12% stake in Max Life with right to increase by additional 7%.
- Deal uncertainty ends on distribution given that Axis bank has been strong driver of growth

Max Financial Services got a much awaited regulatory approval for acquisition of stake in Max Life by Axis Bank and its capital market subsidiaries. Axis bank & subs will together acquire 12% stake and have a right to acquire additional 7% stake over one or more tranches which it intends to do over next few years. Deal approval ends uncertainty on Axis & Max Life partnership, which has been a major driver of growth. Max Life has consistently delivered on APE growth throughout the pandemic led by protection & non-par savings mix improvement coupled with sharp VNB rise of 37% YoY in 9MFY21 with near to industry leading margins of ~26%. We believe there is further room for improving protection mix (16% currently) with higher retail share (10% currently) and gradually move towards long term margins of 26-28%. We eliminate regulatory risk discount while we retain holdco discount of 10% (from 25%). We increase VNB/VNB margins and growth estimate leading to increase in multiple to 2.8x (from 2.4x) FY23E EV with revised TP of Rs995 (from Rs760). Retain Accumulate.

- Banca has been a strong pillar for Max Life** – Max Life's APE growth has been supported by 26% YoY in 9MFY21 and 15-20% over FY18-FY21 in APE sales by Axis Bank partnership. Overall bancassurance contribution has moved to ~70% in 9MFY21 from 65-66% in FY20 with Axis contribution being +50% in overall contribution, making it a preferred partner and an important pillar for growth. Strong growth for Max Life has led to improvement of market share in overall industry APE to 5.2% in 10MFY21 from 4.6% in FY20 and sub 10% within private players from 9% in FY20 with similar market share gains in individual APE.

- What's ahead:** Most of the hurdles have got eliminated over last few years' post-merger with HDLI not going through. MAXF has already reduced complexity with Mitsui Sumitomo's stake in Max Life was swapped with listed entity Max Financial, while Axis entities have got approval to acquire and hold 20% stake in Max Life which reduces uncertainty on distribution. Only impending hurdle is to create value for MAXF shareholders with listing of Max Life which could be achieved through reverse merger with listed entity and eliminate holding company. Although we believe it is some time away, while Max Life could focus on new growth areas & partnerships, improve on its proprietary channels especially agency to diversify its sourcing mix.

- Max Financial had a strong re-rating journey** – With combination of strong improvement in operating performance of life insurance business, reducing complexity on holding structure and promoters action by reducing pledge has led to re-rating in Max Financial in last three years as well as improved Max Life valuation from 1.8x EV to 2.8x EV (trades at 2.6x EV currently). We believe, strong growth of 15% over FY21-FY25 and structural margins of 25% with long term margins moving to 28-30% has room for multiples to trade at 3x EV on back of strong display of growth, industry leading margins & RoEV of 20%.

February 25, 2021

Event Update

Key Financials

Y/e March	FY20	FY21E	FY22E	FY23E
Net Premiums (Rs m)	1,60,218	1,79,290	2,06,289	2,37,210
- Growth (%)	11.1	11.9	15.1	15.0
Surplus / Deficit (Rs m)	10,211	11,373	13,288	15,398
PAT (Rs m)	6,991	7,509	8,147	8,829
- Growth (%)	25.6	7.4	8.5	8.4
EPS (Rs)	3.6	3.9	4.2	4.6
Emb. Value (Rs bn)	99.8	122.7	144.2	169.9
NBP Margin (%)	21.6	26.2	26.5	26.8
post overrun				
RoE (%)	24.6	51.3	50.3	49.2
Operating RoEV (%)	20.3	21.4	20.2	20.0
RoEV (%)	16.7	27.4	21.3	21.0
Dividend yield (%)	27.0	27.0	28.1	28.1
Price/EV (x)	2.9	2.4	2.0	1.7
Ap. Value/EV (x)	3.4	3.1	2.9	2.8

Key Data

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52-W High / Low	Rs.935 / Rs.276
Sensex / Nifty	39,614 / 11,642
Market Cap	Rs.294.3bn / \$ 4,068.6m
Shares Outstanding	345.1m
3M Avg. Daily Value	Rs.1,516.3m

Shareholding Pattern (%)

Promoter's	17.26
Foreign	19.70
Domestic Institution	50.85
Public & Others	12.18
Promoter Pledge (Rs bn)	44.32

Stock Performance (%)

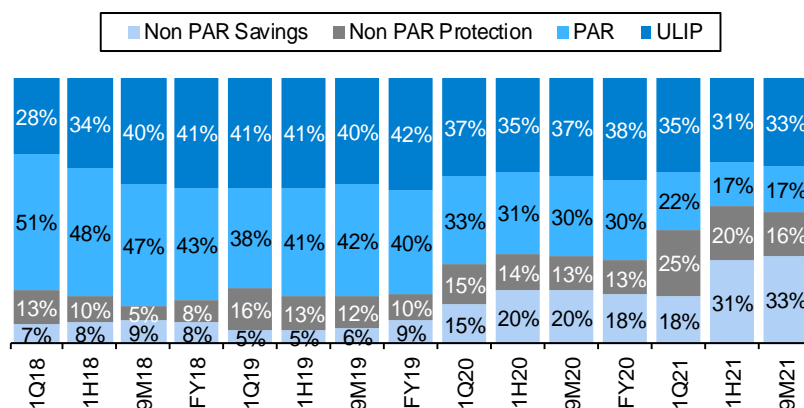
	1M	6M	12M
Absolute	22.1	36.9	43.7
Relative	18.8	8.7	19.0

Pritesh Bumb

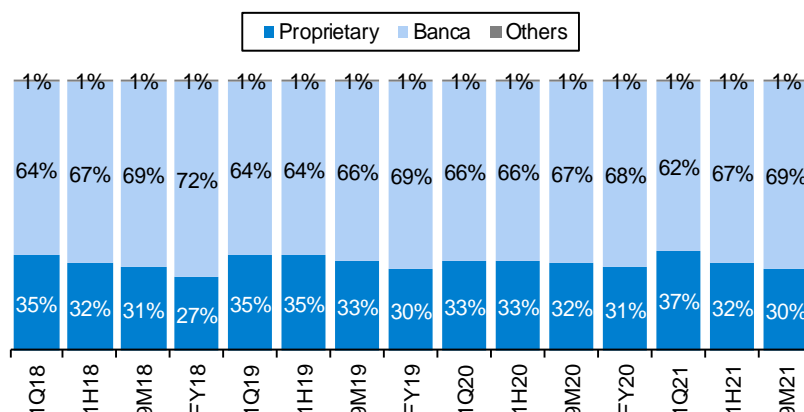
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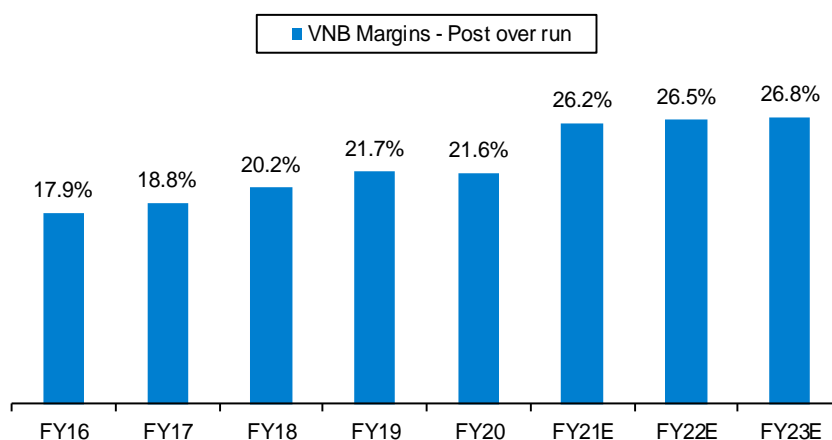
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Exhibit 1: Product mix towards Non Par & Protection products


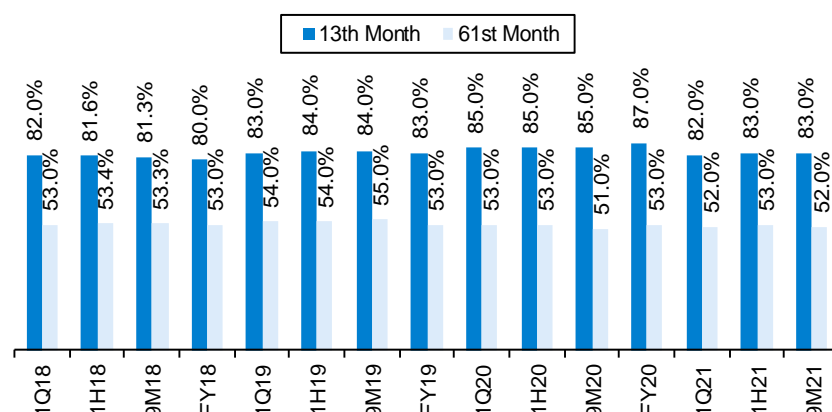
Source: Company, PL

Exhibit 2: Banca has consistent share in sourcing mix


Source: Company, PL

Exhibit 3: Max Life has seen strong upward margin trajectory


Source: Company, PL

Exhibit 4: Persistency ratios remains stable on 13th month but 61st month


Source: Company, PL;

Exhibit 5: Increasing estimates, margins and lower Holdco discount to 10%

Earnings Estimates Changes (Rs bn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
APE	44.2	50.1	56.1	46.5	53.4	62.2	5.3	6.6	10.9
VNB	10.3	11.9	13.6	12.2	14.2	16.6	17.9	19.4	22.5
VNB Margin (%)	23.4	23.7	24.2	26.2	26.5	26.8	2.8	2.8	2.5
EV	114.7	131.8	151.1	122.7	144.2	169.9	7.0	9.5	12.4
Price target (Rs)	760			995			30.9		
Recommendation	ACCUMULATE			ACCUMULATE					

Source: PL

Exhibit 6: We raise our TP to Rs 995 (from Rs760) based on 2.8x Mar-23 EV

PT calculation and upside	
Op RoEV	18.2%
CoE	13.2%
G	5.0%
Embedded value	169
Price / Embedded value	2.8
Appraisal Value	470
Valuation per share of Max Life	1,105
Number of shares of Max Fin Services, mn	81%
Valuation per share for Max Fin Services post Holdco Discount of 10%	995
CMP	853
Upside (%)	16%

Source: Company, PL



Exhibit 7: Key Metrics and EV movement

Rs bn	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
APE	18.3	19.7	21.1	26.6	33.1	40.0	42.4	46.5	53.4	62.2
<i>YoY growth (%)</i>	<i>17.1</i>	<i>7.2</i>	<i>7.4</i>	<i>25.7</i>	<i>20.3</i>	<i>21.0</i>	<i>5.9</i>	<i>9.8</i>	<i>14.7</i>	<i>16.5</i>
NBV	2.4	4.2	3.9	5.0	6.6	8.2	9.0	12.2	14.2	16.6
<i>YoY growth (%)</i>	<i>21.2</i>	<i>76.3</i>	<i>(8.5)</i>	<i>29.0</i>	<i>31.5</i>	<i>25.5</i>	<i>9.0</i>	<i>36.0</i>	<i>16.1</i>	<i>17.5</i>
EV Movement										
Opening IEV	37.6	44.0	52.3	56.2	65.9	75.1	89.4	99.8	122.7	144.2
New Business Value, post-override	2.4	4.2	3.9	5.0	6.6	8.2	9.0	12.2	14.2	16.6
EVOP	5.1	12.4	8.2	12.9	13.6	16.5	18.1	21.4	24.8	28.9
Dividend payout	3.1	2.4	4.4	3.2	-3.9	-6.0	-4.6	-4.4	-4.6	-4.6
Closing EV	39.5	52.3	56.2	65.9	75.1	89.4	99.8	122.7	144.2	169.9
<i>Adjusted Net worth</i>	<i>19.3</i>	<i>21.2</i>	<i>20.8</i>	<i>24.0</i>	<i>24.8</i>	<i>24.0</i>	<i>25.5</i>	<i>28.5</i>	<i>32.1</i>	<i>36.3</i>
<i>Value in force (VIF)</i>	<i>20.2</i>	<i>31.2</i>	<i>35.4</i>	<i>41.9</i>	<i>50.3</i>	<i>65.4</i>	<i>74.3</i>	<i>83.5</i>	<i>94.1</i>	<i>106.3</i>
Ratios (%)										
NBAP margins	13.1	21.3	17.9	18.8	20.2	21.7	21.6	26.2	26.5	26.8
RoEV	13.5	28.1	15.7	23.0	19.9	27.0	16.7	27.4	21.3	21.0
Operating RoEV	15.6	22.3	17.0	19.9	20.6	21.9	20.3	21.4	20.2	20.0

Source: Company, PL

Technical account (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross Premiums	1,61,836	1,81,101	2,08,373	2,39,606
Reinsurance Ceded	1,618	1,811	2,084	2,396
Net Premiums	1,60,218	1,79,290	2,06,289	2,37,210
Other Income	484	532	586	644
Total income	2,09,658	2,42,522	2,81,914	3,39,041
Commission	13,756	15,394	17,712	20,367
Operating expenses	21,039	23,543	27,088	31,149
Prov for doubtful debts	-	-	-	-
Operating Profit	1,74,863	2,03,585	2,37,114	2,87,526
Prov for Tax	1,049	1,222	1,423	1,725
Benefits Paid (Net)	54,489	60,975	70,156	80,671
Chg in reserves	1,09,114	1,30,016	1,52,246	1,89,732
Surplus / Deficit	10,211	11,373	13,288	15,398

Shareholder's a/c (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Transfer from technical a/c	5,561	6,549	7,694	9,004
Income From Investments	2,989	2,651	2,301	1,845
Total Income	8,549	9,200	9,995	10,849
Other expenses	291	328	371	419
Contribution to technical a/c	130	140	152	164
Total Expenses	421	469	523	583
PBT	8,129	8,731	9,473	10,266
Prov for Tax	1,138	1,222	1,326	1,437
PAT	6,991	7,509	8,147	8,829

Premium (Rs m) & growth (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business prem - unwttd	55,835	59,185	68,063	78,272
New business prem - APE	42,380	46,527	53,385	62,219
Renewal premium	1,06,002	1,21,916	1,40,310	1,61,334
Total premium - unwttd	1,61,836	1,81,101	2,08,373	2,39,606
New bus. growth - unwttd	8.2%	6.0%	15.0%	15.0%
New business growth - APE	5.9%	9.8%	14.7%	16.5%
Renewal premium growth	12.6%	15.0%	15.1%	15.0%
Total prem growth - unwttd	11.0%	11.9%	15.1%	15.0%

Premium mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
New business - unwttd				
- Individual mix	91.9%	90.0%	91.0%	91.0%
- Group mix	8.1%	10.0%	9.0%	9.0%
New business mix - APE				
- Participating	32.2%	15.2%	15.9%	15.6%
- Non-participating	29.6%	50.6%	50.4%	48.8%
- ULIPs	38.2%	34.2%	33.7%	35.6%
Total premium mix - unwttd				
- Participating	49.0%	49.9%	50.0%	49.6%
- Non-participating	19.8%	25.4%	25.4%	25.1%
- ULIPs	31.2%	24.6%	24.6%	25.3%

Individual prem sourcing mix (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Individual agents	22.2%	24.0%	24.0%	24.0%
Corporate agents-Banks	61.4%	65.0%	65.0%	65.0%
Direct business	14.5%	7.0%	7.0%	7.0%
Others	1.8%	4.0%	4.0%	4.0%

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sources of Fund				
Share Capital	19,188	19,188	19,188	19,188
Reserves And Surplus	10,148	13,244	16,785	21,009
Policy Liabilities	4,42,923	5,13,213	5,90,175	7,79,907
Prov. for Linked Liab.	2,27,820	2,77,941	3,39,088	3,39,088
Funds For Future App.	27,149	31,972	37,566	43,960
Current liabilities & prov.	25,738	28,312	31,143	31,143
Total	7,77,038	9,17,541	10,81,746	12,82,095
Application of Funds				
Shareholders' inv	31,226	27,693	23,442	17,561
Policyholders' inv	4,70,382	5,59,167	6,60,519	8,66,749
Assets to cover linked liab.	2,42,315	2,95,625	3,60,662	3,60,662
Loans	3,592	3,951	4,346	4,346
Fixed Assets	2,113	2,325	2,557	2,557
Current assets	27,410	28,781	30,220	30,220
Total	7,77,038	9,17,541	10,81,746	12,82,095

Operating ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Investment yield (%)	7.5%	8.0%	8.0%	9.0%
Commissions / GWP	8.5%	8.5%	8.5%	8.5%
- first year premiums	17.9%	21.4%	21.4%	21.1%
- renewal premiums	2.6%	4.7%	4.7%	4.7%
- single premiums	1.1%	0.2%	0.2%	0.2%
Operating expenses / GWP	13.0%	13.0%	13.0%	13.0%
Total expense ratio	21.5%	21.5%	21.5%	21.5%
Claims / NWP	34.0%	34.0%	34.0%	34.0%
Solvency margin	438%	393%	360%	335%

Persistency ratios (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
13th Month	81.3%	81.4%	81.4%	81.4%
25th Month	72.4%	72.4%	72.4%	72.4%
37th Month	63.1%	63.2%	63.2%	63.2%
49th Month	56.8%	56.9%	57.0%	57.0%
61st Month	53.2%	53.2%	53.3%	53.3%

Profitability ratios (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NBP margin (%) pre overrun	0.0%	0.0%	0.0%	0.0%
NBP margin (%) post overrun	21.6%	26.2%	26.5%	26.8%
RoE (%)	24.6%	51.3%	50.3%	49.2%
RoIC (%)	36.4%	78.3%	82.5%	91.9%

Valuation ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total AUMs, Rs bn	744	882	1,045	1,245
EVOP as % of MCEV	20.3%	21.4%	20.2%	20.0%
RoEV (%)	16.7%	27.4%	21.3%	21.0%
Dividend %	27%	27%	28%	28%
Dividend payout ratio (%)	76%	59%	57%	52%
EPS, Rs	3.6	3.9	4.2	4.6
Embedded Value, Rs bn	100	123	144	170
Appraisal value/EV (x)	3.4	3.1	2.9	2.8
Appraisal value/Net profit (x)	48.8	51.0	52.2	53.3

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	725	632
2	Bank of Baroda	BUY	82	74
3	Federal Bank	Accumulate	88	77
4	HDFC Bank	BUY	1,690	1,467
5	HDFC Life Insurance Company	Reduce	650	687
6	ICICI Bank	BUY	630	537
7	IDFC First Bank	Sell	32	47
8	IndusInd Bank	BUY	1,195	1,058
9	Kotak Mahindra Bank	Hold	1,912	1,794
10	Max Financial Services	Accumulate	760	727
11	Punjab National Bank	Accumulate	43	38
12	SBI Life Insurance Company	BUY	1,080	858
13	South Indian Bank	BUY	10	9
14	State Bank of India	BUY	445	355

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Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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