Sharekhan by BNP PARIBAS

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Max Financial Services Limited

Delivered strong set of numbers

Banks & Finance	Sharekhan code: MFSL	Result Update

Stock Update

Summary

- Max Financials Services (MFS, holding company of Max Life Insurance) saw positive results from the subsidiary, Max Life Insurance (MLI) with smart pickup in VNB and new business margins.
- For Q4FY2021, Max Life saw individual APE up by 35.4% y-o-y and 65.5% q-o-q, led by the non-par savings business (up by 121% y-o-y) and ULIP business (43% y-o-y) in Q4FY2021. VNB grew by healthy 44% y-o-y.
- Healthy metrics continued with margin expanding to 25.2% in FY2021; persistency also improved and MLI achieved its decade-high new business market share of 10.8%.
- We have maintained our Buy rating on the stock with a revised PT of Rs. 1,250.

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 996**	
Price Target: **Rs. 1,250**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

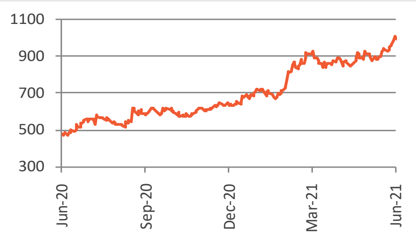
Company details

Market cap:	Rs. 34377.9 cr
52-week high/low:	Rs. 1050/463
NSE volume: (No of shares)	16.1 lakh
BSE code:	500271
NSE code:	MFSL
Free float: (No of shares)	28.5 cr

Shareholding (%)

Promoters	17.0
FII	23.1
DII	24.9
Others	35.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.2	8.6	56.3	106.5
Relative to Sensex	4.3	5.5	39.8	54.8

Sharekhan Research, Bloomberg

Max Financials Services (MFS, holding company of Max Life Insurance) saw strong results from the subsidiary, Max Life Insurance (MLI), which saw smart pickup in VNB and new business margins. However, due to higher dividend payout and growth in non-par and protection business (higher capital-intensive business), solvency margin declined to 196% (from 208% in Q3FY2021). That said, operating metrics continued to improve for MLI, which is positive. For Q4FY2021, Max Life reported individual APE of Rs. 1,893 crore, up 35.4% y-o-y and 65.5% q-o-q. Growth in APE was led by the non-par savings business (up by 121% y-o-y) and ULIP business (43% y-o-y) in Q4FY2021. Value of New Business (VNB) in Q4FY2021 grew by healthy 44% y-o-y to Rs. 461 crore due to strong margin profile and healthy product mix. For the full-year basis, APE grew to Rs. 4,907 crore, up 19% y-o-y in FY2021. APE growth was driven by non-par savings and individual protection business. ULIP growth revived in FY2021 for Max Life, but par business declined by 25% y-o-y in FY2021. Gross Written Premium (GWP) grew by 21% in Q4, led by both new business and renewal income. The higher share of protection and non-par savings led to margin expansion to 25.2% in FY2021, which has improved by 60 bps from FY2020 and by 500 bps since FY2018.

Persistency for FY2021 improved as compared to 9MFY2021 across most cohorts. Overall, persistency in FY2021 was similar to FY2020 levels, indicating the smart pickup in business by MLI despite the pandemic impact during the year. At FY2021 end, Max Life has EV of Rs. 11,834 crore, which has grown by 18.5% from FY2020 levels. Successful closure of Axis transaction and renewal of Yes Bank partnership for five years are key positives seen for FY2021. MLI has achieved its decade-high new business market share at 10.8%, which is a milestone. The Indian insurance market has significant growth opportunities. MLI, with its strong brand image and (now) stable bancassurance partnership, is well placed to benefit from the same. We believe MFS's strong business fundamentals make it attractive. With improving clarity on the outlook, we have revised our target multiples. We maintain our Buy rating on MFS with a revised price target (PT) of Rs. 1,250.

Key positives

- Strong growth seen in NBM (post cost overrun), which stood at 25.2%, saw 360 bps improvement y-o-y (was 21.6% for FY2020) primarily driven by an increase in non-par and protection business.
- Max Life's market share improved by 107 bps to 10.8% at March 2021. The company saw Individual Adjusted First Year Premium (FYP) growth of 19% against private players' growth of 8% for FY2021. MLI had 15.6% market share based on sum assured.

Key negatives

- Operating RoEV for FY2021 came at 18.5%, which, though healthy, was down from 20.3% in FY2020 mainly impacted by COVID-19 provisions. However, RoEV including non-operating variances stood at 22.4%.

Our Call

Valuation: At the CMP, MFS is available at 2.6x/2.2.x its FY2022E/FY2023E MCap/EV (considering MFS's present stake in MLI) and valuations appear reasonable. MLI's business has evolved over the years (and today has best-in-class VNB margins, high ROEVs, and diversified product portfolio) and is an attractive player with strong capabilities and business mix in the insurance space. Regulatory approvals put the overhang for the deal behind us and focus will now shift to business performance and the possible synergy benefits for the entities. Axis Bank has been the MLI's strongest distribution partner, with ~60% contribution to APE and, hence, was a crucial partner for it. Moreover, MLI has been on-boarding newer bancassurance partners with banks and new-age digital players, which would not only help diversify the mix but also provide higher sales capacity for it. Hence, we believe business tailwinds may result in providing a positive trigger for improving metrics going forward. MLI generates healthy ROEV (18.5% in FY2021) and has sufficient capital (solvency ratio of 196%; no exigency for capital dilution in the near term) and, hence, its strong fundamentals make it a strong candidate to benefit as the outlook improves further. We expect the stock to see further re-rating owing to deal closure and improvement in MLI's operating performance. We maintain our Buy rating on the stock with a revised PT of Rs. 1,250.

Key Risks

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

Valuation (Max Life Insurance) Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Gross Written Premium (Rs. cr)	14,575	16,184	19,018	22,727	27,158
Net Profit	555.2	539.6	523.0	685.3	850.5
EPS (Rs.)	2.9	2.8	2.7	3.6	4.5
ROA (%)	0.9	1.0	0.6	0.7	0.8
ROE (%)	20.3	20.2	18.0	19.3	20.7
EV / Share (Rs.)	48	52	62	74	87
P / EV (x)	20.7	19.2	16.1	13.5	11.4
Dividend Yield (%)	0.3	0.3	0	0.1	0.1

Source: Company; Sharekhan estimates; EV/Share (Rs.) as for Max Life per share value

Key Concall Highlights

Covid-19 Provision: MLI had received Rs. 121 crore in claims in FY2021. Hence now MLI is carrying ~4x of this amount as provision which the company expects this to be sufficient.

Pricing of products: MLI management expects to see some price increase but it will be competitive and there may be some individual-side increase. In the Group term segment too, the company is reviewing the pricing.

Persistency: On comparative basis, persistency is presently lower compared to peers but is improving. For the medium term, the company may see upsides, should see persistent increase by ~200 bps. For FY2022E will be better than FY2021 (eliminating for grace period).

Market share: MLI is top ranked as per independent survey in terms of customer loyalty. Increased possibility of upselling, due to customer loyalty. Moreover, having strong bancassurance channel (especially Axis Bank) and expanding share in protection and savings all contributed to market share gains.

Mortality assumption: MLI has done tightening of mortality rates due to COVID-19 in policies sold for the last two years. MLI saw Rs. 88 crore was provided for Q4FY2021 as the company chose tightening of risk assumptions in VNB due to Covid-19 measures.

New Protection Plan: MLI has already launched the new product and price increase is expected soon. Demand has picked up in April and May. MLI believes in having diversified product mix, which ensures better customer reach and variety.

Guidance: Over a long period time, MLI expect 100-200 bps upside in VNB margins. Growth was healthy in April and May 2021, which is strong performance, and expect around 15-20% growth on topline for FY2022E.

Margins performance: Margins have improved helped by pickup in non-par mix and protection. VNB margins improved due to mix change (Non-PAR and Protection) and some cost control, which aided margins. New non-PAR product, which was launched last year in July 2020, was a better yielding product, which is why the overall sharp jump in the margins.

Axis Bank: Will have a tagline with both companies' names. Axis Bank does 55-60% of sales for MLI and with a JV will be able to play bigger role due to the acquisition.

Effective Tax Rate: There has not been any change in the ETR methodology for the company.

Vaccination: MLI has not made vaccination compulsory for new clients unlike as reported in Media.

ULIP Business, the ticket size for MLI has declined from Rs 1.5 Lakh earlier, but is still higher side compared to peers.

Yes Bank tie up: MLI have completed 16years with Yes bank and management sees it as still strong. Product mix with Yes Bank is similar but ULIP and non-PAR is the higher business streams with Yes Bank. Capital Position: dividend side, MLI had to use to declare heavy dividend, but now may declare lower amount. The MLI is now looking to raise debt and drones.

Credit Life business: MLI has always like Credit life business, which is growing fast and is expect to sustain.

Result (Max Life Insurance Company Limited) Rs cr

Particulars	Q4FY21	Q4FY20	YoY %	Q3FY20	QoQ %
First year premium	1,886	1,391	35.6	1,127	67.3
Renewal premium	4,523	3,983	13.6	2,937	54.0
Single premium	697	499	39.7	468	48.9
Gross Written Premium	7,106	5,873	21.0	4,532	56.8
Profit After Tax	106	231	-54.1	26	307.7
Individual APE	1,893	1,398	35.4	1,144	65.5
AUM	90,407	68,471	32.0	84,724	6.7
VNB	461	323	42.6	350	31.7
Solvency Ratio (%)	196	207	-1100 bps	208	-1200 bps
13th Month Persistency Ratio (%)	84.1	83.0	110 bps	83.3	80 bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Insurance industry has long-term positive growth prospects

New business, based on retail weighted received premium of the industry, has reported a CAGR of 10.4% from FY2002 to FY2021. Insurance density in India is still very low compared to international benchmarks. In addition, India's retail protection sum assured as a percentage of GDP is only 19%. As against this, the sum assured to GDP of other Asian economies such as Thailand, South Korea, and Malaysia is 113%, 131%, and 142%, respectively, points towards a huge growth potential. For Q4FY2021, overall premium/APE growth for the insurance industry continued to be encouraging, even as demand for market-linked ULIPs etc. continues to be tepid. However, strong demand for protection and non-PAR segments continues. Performance has continued to improve, which indicates that the insurance sector was steadily but surely reverting to normalcy. While the resurgence of COVID-19 cases clouds the medium term, we believe tailwinds as well as better preparedness are supportive factors. Factors such as a large protection gap and expanding per capita income are key long-term growth drivers for the sector. India has a high protection gap; and credit protection product is still at an early stage and has the potential to grow multi-fold as penetration of retail loans improves in the country. Hence, we believe the insurance sector has a huge growth potential in India. In this backdrop, we believe strong players armed with the right mix of products, services, and distribution are likely to gain disproportionally from the opportunity. The industry's growth even during the pandemic shows a promising future for India's life insurance sector and the pandemic has highlighted the protection gap in the country.

■ Company outlook - Strong metrics; Sustainable growth business

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 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. Going forward, management has indicated a balanced mix of business with non-PAR at 30-35% of APE, while protection at 35-40% of APE. We view cost management, re-balancing of product mix, and further diversification of distribution channels are key levers for profitability improvement and 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 in ongoing times of impacted sales and volatile markets. Despite challenges, sales growth for MLI are seeing impressive bounce-back in revenue, which is encouraging. MLI, with its strong proprietary channel, and riding on stable bancassurance partnership (further strengthened with the final regulatory approval of the deal with Axis Bank) appears well placed on most parameters.

■ Valuation - Maintain Buy with revised PT of Rs. 1,250

At the CMP, MFS is available at 2.6x/2.2.x its FY2022E/FY2023E MCap/EV (considering MFS's present stake in MLI) and valuations appear reasonable. MLI's business has evolved over the years (and today has best-in-class VNB margins, high ROEVs, and diversified product portfolio) and is an attractive player with strong capabilities and business mix in the insurance space. The regulatory approvals put the overhang for the deal behind us, and focus will now shift to business performance and the possible synergy benefits for the entities. Axis Bank has been MLI's strongest distribution partner, with ~60% contribution to APE and, hence, was a crucial partner for it. Moreover, MLI has been on-boarding newer bancassurance partners with banks and new-age digital players, which would not only help diversify the mix but also provide higher sales capacity for it. Hence, we believe business tailwinds may result in providing a positive trigger for improving metrics going forward. MLI generates healthy ROEV (18.5% in FY2021) and has sufficient capital (solvency ratio of 196%; no exigency for capital dilution in the near term) and, hence, its strong fundamentals make it a strong candidate to benefit as the outlook improves further. We expect the stock to see further re-rating owing to deal closure and improvement in MLI's operating performance. We maintain our Buy rating on the stock with a revised PT of Rs. 1,250.

About company

Max Financial Services Limited (MFSL) is part of India's leading business conglomerate - Max Group. Focused on life insurance, MSFL owns and actively manages an 81.83% majority stake in MLI, which is the sole operating subsidiary of MFSL. Max Life is India's largest nonbank private life insurer and the fourth largest private life insurance company. MLI 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 has 358 branch units across India as of March 31, 2021.

Investment theme

MFS holds MLI, which is among the leading private sector insurers. The company 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 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 Dilbagh S Narang	Dir:Taxation
Mr Patnam Dwarakanath	Head:Human Capital

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	WF ASIAN SMALLER CO FUND	3.92
2	Mirae Asset Global Investments Co	3.81
3	ICICI Prudential Asset Management	3.33
4	HDFC Asset Management Co Ltd	3.19
5	New York Life Insurance Co	3.06
6	Baron Capital Inc	2.94
7	Nippon Life India Asset Management	2.79
8	BARON EMERGING MRKTS FUND	2.78
9	Kotak Mahindra Asset Management Co	2.61
10	DSP Investment Managers Pvt Ltd.	2.54

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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