Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Max Financial Services Ltd

Healthy margin aided by better product proposition

Banks & Finance	Sharekhan code: MFSL
Reco/View: Buy ↔	CMP: Rs. 721 / Price Target: Rs. 1,100 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 29.85

Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 24,891 cr
52-week high/low:	Rs. 1,148/697
NSE volume: (No of shares)	5.8 lakh
BSE code:	500271
NSE code:	MFSL
Free float: (No of shares)	29.4 cr

Shareholding (%)

Promoters	14.7
FII	23.3
DII	54.0
Others	8.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-9.4	-17.9	-25.9	-21.5
Relative to Sensex	-1.1	-9.7	-15.1	-32.5

Sharekhan Research, Bloomberg

Summary

- Max Life Insurance reported APE growth of 15.2% q-o-q and decline of ~4% y-o-y to Rs. 1,836 crore versus expectation of Rs. 1,850 crore and maintained its market share of 10% (private) in Q4FY2022. APE growth was driven by strong growth in Par and ULIP sales. Protection also recorded strong growth (34% y-o-y).
- Q4FY2022 witnessed VNB growth of 27% y-o-y to Rs. 586 crore. VNB margin stood at 27.4%, up 220 bps y-o-y, aided by new products with better margins and increased protection products.
- Management guided for VNB margins to be at 25% to 26% going ahead.
- We maintain Buy rating on the stock with a revised PT of Rs. 1,100.

For Q4FY2022, Max Financials Services (MFS) reported PAT at Rs. 144 crore, recording ~100% y-o-y and ~58% q-o-q growth. For FY2022, consolidated revenue, excluding investment income, grew by 17% y-o-y to Rs. 22,084 crore. While PBT declined by 34% y-o-y. This was mainly due to COVID-related provisions during the year. Max Life Insurance (MLI, subsidiary of MFS) reported new business APE sales of Rs. 1,836 crore, an increase of 15% q-o-q (declined by 4% y-o-y) with a market share of ~10% in Q4FY2022, on account strong growth across channels. Further, renewal premium increased by ~19% y-o-y (up ~57% q-o-q) and led to gross written premium growth of 13% y-o-y during the quarter. Protection growth was healthy at 34% y-o-y and share of protection remained stable at 14% in FY2022. Gross and net death claims stood at Rs. 3,170 crore and Rs. 1,964 crore, respectively. The company holds Rs. 500 crore as pandemic reserves and does not intend to draw down going ahead.

Key positives

- Protection including individual grew by 9% y-o-y in FY2022.
- VNB margin increased by 220 bps y-o-y, aided by new products and their better margins and growth in protection products.
- Opex to gross written premium (GWP) declined by 70 bps to 13.5% in FY2022.

Key negatives

- While protection business witnessed strong growth driven by credit life (up 55% y-o-y) and group term business (up by 51% y-o-y), group term is likely to moderate going ahead.

Management Commentary

- Management has guided for 25-26% VNB margin, which would be driven by share of high-margin products and scale of protection.
- Management has maintained that it would continue to focus on balanced product mix.

Our Call

Valuation – We maintain a Buy rating on the stock with revised PT of Rs. 1,100: Max Life Insurance's (MLI) business has evolved over the years with improving VNB margins, private market share at 10%, and diversified product portfolio. It is an attractive player with strong capabilities and business mix in the insurance space. Axis Bank continues to be MLI's strongest distribution partner, with ~67% contribution to APE and, hence, is a crucial partner for it. Moreover, MLI has been on-boarding newer bancassurance partners 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 (of 19.2% in FY2022) and has sufficient capital (solvency ratio of 201%). Hence, it is likely to benefit from improving outlook for the insurance sector going ahead. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 1,100.

Key Risks

Slowdown in business operations and any adverse change of regulations by IRDA.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Gross Premium	19,018	22,414	25,888	29,901
Net Profit	523	558	715	780
EPS (Rs.)	2.7	2.9	3.7	4.0
EV	11,834	14,174	16,389	19,997
ROE (%)	18.7	17.5	19.8	18.8
P/EV (x)	3.4	2.8	2.4	2
BVPS	14.4	16.5	18.7	21.4

Source: Company; Sharekhan estimates

Stock Update | Result Update

Key Conference call takeaways

- **Opening remarks:** The company is watchful of the potential situation about COVID-19 fourth wave. It is foreseeing good opportunities in the retirement and health segments going ahead. Both proprietary and Banca channels have witnessed a five-year CAGR of 16%. It maintained its market share of 10% (private) in FY2022.
- **VNB guidance:** It guided for 25-26% VNB margin, which would be driven by share of high-margin products and scale of protection. In FY2022, VNB margin saw robust growth (up 220 bps y-o-y), primarily due to launch of new products with superior margins and growth from the scale of protection business.
- **Focus on protection:** The company continues to focus on the protection business. Its share of individual and group business in protection stood at 7% and 6%, respectively, in FY2022 versus 9% and 5%, respectively, in FY2021. For retail protection, it was a challenging year for the company. However, it foresees strong growth from this segment going ahead.
- **Digital initiatives and product launches:** The company has entered into partnership with 10 fintech firms during the year. Apart from this, it has launched new products in savings and retirement.
- **Distribution Channels:** Distribution channels witnessed strong growth with proprietary and Banca channels growing by 15% and 12% respectively. The company focused on maintaining balanced distribution mix.

Results — Rs cr

Particulars	Q4FY22	Q3FY22	Q4FY21	y-o-y (%)/bps	q-o-q (%)/bps
First year premium	1,743	1,542	1,886	-7.6	13.0
Renewal premium	5,381	3,423	4,523	19.0	57.2
Single premium	876	634	697	25.7	38.2
Gross Written Premium	8,000	5,599	7,106	12.6	42.9
Profit After Tax	154	116	106	45.3	32.8
New Business APE	1,836	1,594	1,917	-4.2	15.2
VNB	586	396	461	27.1	48.0
VNB Margins (%)	31.9	24.9	24.1	780.0	700.0
Solvency Ratio (%)	201	207	196	500.0	-600.0
Embedded value	14,170	13,410	11,830	19.8	5.7

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Insurance industry has long-term positive growth prospects

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 32-35% of APE, while protection is 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.

■ Valuation – We maintain a Buy rating on the stock with revised PT of Rs. 1,100

Max Life Insurance's (MLI) business has evolved over the years with improving VNB margins, private market share at 10%, and diversified product portfolio. It is an attractive player with strong capabilities and business mix in the insurance space. Axis Bank continues to be MLI's strongest distribution partner, with ~67% contribution to APE and, hence, is a crucial partner for it. Moreover, MLI has been on-boarding newer bancassurance partners 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 (of 19.2% in FY2022) and has sufficient capital (solvency ratio of 201%). Hence, it is likely to benefit from improving outlook for the insurance sector going ahead. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 1,100.

About company

Max Financial Services (MFS) is part of India's leading business conglomerate - Max Group. Focused on life insurance, MSF owns and actively manages an 81.83% majority stake in MLI, which is the sole operating subsidiary of MFS. 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, 2022.

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 any adverse change of regulations by IRDA.

Additional Data

Key management personnel

Mr. Mohit Talwar	Managing Director
Mr. V Krishnan	Company Secretary
Mr. Jatin Khanna	Chief Financial Officer
Mr. Patnam Dwarakanath	Head Human Capital

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mirae Asset Global Investments Co	5.6
2	ICICI Prudential Asset Management	4.1
3	Moneyline Port Inv	3.5
4	Nippon Life India Asset Management	3.3
5	HDFC Asset Management Co Ltd	3.2
6	New York Life Insurance Co	3.0
7	WF ASIAN SMALLER CO FUND	2.8
8	Kotak Mahindra Asset Management Co. Ltd	2.5
9	Baron Capital Inc	2.3
10	Vanguard Group Inc	2.3

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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