Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 25.33

Updated Dec 08, 2022

Medium Risk

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

Source: Morningstar

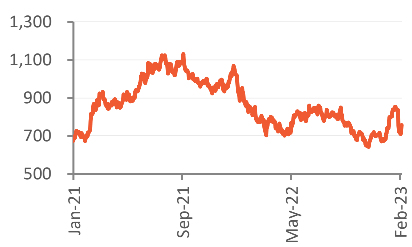
Company details

Market cap:	Rs. 26,091 cr
52-week high/low:	Rs. 886 / 628
NSE volume: (No of shares)	8.9 lakh
BSE code:	500271
NSE code:	MFSL
Free float: (No of shares)	21.7 cr

Shareholding (%)

Promoters	11.5
FII	44.8
DII	36.0
Others	7.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.9	6.0	-4.9	-13.0
Relative to Sensex	2.9	6.3	-8.9	-16.2

Sharekhan Research, Bloomberg

Stock Update

Result Update

Max Financial Services Ltd

New product launched drives higher margins

Insurance		Sharekhan code: MFSL	
Reco/View: **Buy**	↔	CMP: **Rs. 756**	Price Target: **Rs. 950** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Max Life reported ~50% y-o-y VNB growth despite a 5% y-o-y decline in APE. VNB margin expanded to 39.3% in Q3FY2023 vs. 31.8% in 9MFY2023 and 24.9%/25.1% in Q3FY2022/9MFY2022, respectively. This was driven by its new non-par product, which likely had higher product margins as well.
- The share of non-PAR increased to 55% of overall APE vs. 38% q-o-q. Non-PAR savings grew at 118% y-o-y/83% q-o-q, led by a 300% y-o-y increase in the annuity segment. Income from insurance policies with a premium of more than Rs 5 lakh p.a. will not be exempt from April 2023 and will impact par and non-par business flows.
- We have factored this into our estimates. Also, we believe Q4FY2023 would be bumper growth for the non-PAR savings segment. Individual APE declined by 5% y-o-y. Retail protection grew by 2% y-o-y, while group protection fell by 19% y-o-y. PAR declined by 46% y-o-y. ULIP also saw a decline of 52% y-o-y.
- We maintain Buy with a revised PT of Rs. 950. Valuations are inexpensive after the recent sharp corrections.

Max Life reported ~12% y-o-y and 8% q-o-q growth in gross written premium. Annualised new business premium declined by 5% y-o-y reported at Rs. 1,510 crore. Value of new business (VNB) grew by 50% y-o-y reported at Rs. 593 crore. VNB margin expanded to 39.3% in Q3FY2023 vs. 31.8% in 9MFY2023 and 24.9%/25.1% in Q3FY2022/9MFY2022, respectively, aided by better product mix with higher share of non-par savings product. The share of non-PAR savings in the APE mix increased to 55% (vs. 24% in Q3FY2022); while protection at 9.8% stood flat y-o-y and PAR stood at 12% in Q3FY2023 vs. 21% in Q3FY2022. The share of ULIP stood at 23% in Q3FY2023 vs. 45% in Q3FY22. On the distribution side, Banca APE declined by 12% y-o-y; however, it picked up sequentially and grew by 36% q-o-q. Proprietary channels continued to witness healthy growth of 13% y-o-y. Axis Bank is now set to own a 20% stake in Max Life. The consideration for the balance 7% stake purchase by the bank will be significantly higher than initially envisaged, but it will likely to be compensated in the form of higher commissions from Max Life as IRDA has removed the commission caps from FY2024E.

Key positives

- Persistency improved in most buckets except the 13th month.
- Higher share of the non-par savings segment drove improvement in VNB margin.

Key negatives

- Overall APE declined by 5% y-o-y on account of Banca channel APE, which declined by 12% y-o-y; however, it picked up sequentially.

Management Commentary

- Management expects the mix of the non-par segment to be ~40% on a sustained basis in the near to medium term with annuity at ~6%. Thus, management expects VNB margin to remain at 27-28% over the medium term.
- Non-par savings APE grew by 118% y-o-y, driven by the newly launched Smart Wealth Advantage Guarantee (SWAG) product. It received tremendous response across channels. This has supported the VNB margin and VNB growth trajectory.

Our Call

Valuation – We maintain Buy on the stock with a revised PT of Rs. 950. Growth in non-par savings continues to witness strong momentum, led by new product launch. However, going forward from April 2023, we believe business flows would get impacted in this segment due to Union Budget proposal of taxing income from insurance policies with a premium of greater than Rs. 5 lakh p.a. We have factored this into our estimates. Group protection saw a decline due to pricing pressure in GTL policies, while individual protection growth remained tepid. Going forward, Max Life would have to diversify across product segments, which could support the overall growth momentum. It 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 sectoral tailwinds may result in providing a positive trigger for improving growth metrics going forward. Max Life generated stable operating RoEV of ~19.5% in 9MFY2023 and persistency trends were stable. We believe now the key catalyst would be the reverse merger of Max Financials with Max Life Insurance along with the listing of Max Life. Valuations are inexpensive, after the recent sharp correction.

Key Risks

Muted demand and any adverse regulatory policies/guidelines may affect its profitability.

Valuation Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
APE (Rs cr)	5,590	5,800	6,050	6,800
VNB (Rs cr)	1,530	1,770	1,650	1,850
VNB Margin (%)	27.4	30.5	27.3	27.2
EV (Rs cr)	14,170	16,430	19,350	28,500
ROEV (%)	19.8	15.4	18.5	18.0
P/EV (x)	2.3	2.0	1.7	1.1
P/VNB (x)	21.3	18.4	19.8	17.6

Source: Company; Sharekhan estimates

Key result highlights

- **Focus on balanced product mix:** Product mix improved with an increasing share of non-PAR savings. The company aims to keep the share of non-PAR savings at ~40%. The company launched Smart Wealth Advantage Guarantee (SWAG) product. The company received tremendous response across channels. This has supported the VNB margin and VNB growth trajectory. The company also launched two new protection plans, which are witnessing healthy traction and is likely to maintain the momentum going ahead. Overall, long-term opportunity in the protection business remains strong and intact.
- **Improving distribution mix:** The company remains focused on increasing the agent count and make investments in the agency channel, which will drive incremental growth. On the distribution side, Banca APE declined by 12% y-o-y; however, it picked up sequentially and grew by 36% q-o-q. Proprietary channels continued to witness healthy growth of 13% y-o-y. The company is aiming for sustainable growth, led by new partnerships and pick-up in the Banca channel as open architecture settles down. The company has entered into multiple partnerships to strengthen its distribution franchise. The company has entered into partnership with Ujjivan SFB and two stockbrokers.
- **Stake sale transaction:** Max Financial has concluded the acquisition of a 5.17% stake in MAXLIFE from MSI. Post this, Max Financial holds an 87% stake in Max Life. The last stage of the transaction is pending now, wherein Axis Bank would acquire the balance 7% stake from Max Financial. The company has entered into a revised agreement with Axis Bank and its subsidiaries to purchase the balance stake at a fair market value using the DCF method. This is as per the guidance received from the IRDAI.

Results (Max Life Insurance) Rs cr

Particulars	Q3FY23	Q3FY22	Q2FY23	Y-o-Y %	Q-o-Q %
Gross Written Premium	6,284	5,600	5,801	12.2	8.3
PBT	294	115	53	155.7	454.7
New Business APE	1,510	1,593	1,191	(5.2)	26.8
VNB	593	396	373	49.7	59.0
VNB Margins	39.3%	24.9%	31.3%		
Solvency Ratio	200%	207%	196%		
Embedded Value	15,547	13,412	14,704	15.9	5.7

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook

Factors such as a large protection gap and expanding per capita income are key long-term growth drivers for the insurance sector in India. India has a high protection gap and credit protection product is still at an early stage and has the potential to grow multifold as the 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. Industry growth even during the pandemic shows a promising future for India's life insurance sector and the pandemic has highlighted the protection gap in India.

■ Company Outlook – Moving towards a balanced product mix

Max Financial Services (MFS) is building a strong franchise, characterised by a multi-channel distribution network built upon a balanced product mix. Going forward, management has indicated a balanced mix of business with non-PAR at ~40% of APE, while protection is at 35-40% of APE. We believe cost management, re-balancing of the product mix, and further diversification of distribution channels are key levers for profitability improvement, growth, and add value to business franchise. We believe now the key catalyst would be the reverse merger of Max Financials with Max Life Insurance along with the listing of Max Life.

■ Valuation – We maintain Buy on the stock with a revised PT of Rs. 950

Growth in non-par savings continues to witness strong momentum, led by new product launch. However, going forward from April 2023, we believe business flows would get impacted in this segment due to Union Budget proposal of taxing income from insurance policies with a premium of greater than Rs. 5 lakh p.a. We have factored this into our estimates. Group protection saw a decline due to pricing pressure in GTL policies, while individual protection growth remained tepid. Going forward, Max Life would have to diversify across product segments, which could support the overall growth momentum. It 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 sectoral tailwinds may result in providing a positive trigger for improving growth metrics going forward. Max Life generated stable operating RoEV of ~19.5% in 9MFY2023 and persistency trends were stable. We believe now the key catalyst would be the reverse merger of Max Financials with Max Life Insurance along with the listing of Max Life. Valuations are inexpensive, after the recent sharp correction.

About company

Max Financial Services Limited (MFSL) is part of India's leading business conglomerate – Max Group. Focused on life insurance, MSFL currently owns a ~87% majority stake in MLI, which is the sole operating subsidiary of MFSL. Max Life is India's largest non-bank 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.

Investment theme

MFS holds a majority stake in MLI, which is among the leading private sector insurers. The company has gained critical mass and enjoys strong operating parameters in the industry. MLI has delivered strong performance 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 business. Strong focus towards customer measures has helped to deliver superior performance across parameters and will continue to remain an important differentiator. Key catalyst is the reverse merger of Max Financials with MLI.

Key Risks

Muted demand and any adverse regulatory policies/guidelines may affect its profitability.

Additional Data

Key management personnel

Mr. Prashant Tripathy	MD and CEO of Max Life Insurance
Mr. Amrit Singh	CFO of Max Financial & Life Insurance

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MS&AD INSURANCE GROUP HOLDINGS INC.	21.86
2	MAX VENTURES INVESTMENT HOLDINGS PVT. LTD.	11.33
3	MIRAE ASSET GLOBAL INVESTMENTS CO. LTD.	5.97
4	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	4.54
5	NIPPON LIFE INDIA ASSET MANAGEMENT LTD.	4.18
6	HDFC ASSET MANAGEMENT CO. LTD.	3.81
7	KOTAK MAHINDRA ASSET MANAGEMENT CO. LTD.	3.36
8	WF ASIAN SMALLER COS FUND. LTD.	2.84
9	NEW YORK LIFE INSURANCE CO.	2.53
10	DSP INVESTMENT MANAGERS PVT. LTD.	2.29

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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