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 Mar 08, 2023

Medium Risk

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

Source: Morningstar

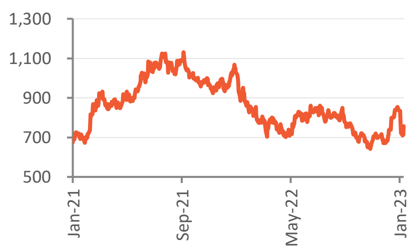
Company details

Market cap:	Rs. 23,169 cr
52-week high/low:	Rs. 885 / 599
NSE volume: (No of shares)	11.7 lakh
BSE code:	500271
NSE code:	MFSL
Free float: (No of shares)	22.8 cr

Shareholding (%)

Promoters	10.2
FII	47.7
DII	34.1
Others	8.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.2	-9.9	-0.7	-6.3
Relative to Sensex	4.0	-11.7	-1.5	-24.4

Sharekhan Research, Bloomberg

Max Financial Services Ltd

Good Q4, valuations reasonable

Insurance	Sharekhan code: MFSL
Reco/View: Buy ↔	CMP: **Rs. 671**
	Price Target: **Rs. 950** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Max Life reported a strong ~38% y-o-y growth in APE in Q4FY23. VNB grew by 31% y-o-y. VNB margin reported were lower at 30.3% in Q4FY23 versus 31.9% in Q4FY22 and 31.8% in 9MFY23.
- APE growth was muted in 9MFY23, but higher business volumes from the sale of higher ticket value non-linked products in the last two months of the quarter, ahead of the change in union budgetary provision lifted FY23 APE growth to ~12%.
- The company is guiding to achieve double-digit APE growth in FY24 led by a rise in share of the proprietary channel and other partners along with bancassurance channel with VNB margin of 27-29%.
- Stock trades at 1.5x/1.2x its FY24E/25E EVPS. Valuations are inexpensive. We maintain a Buy rating with an unchanged PT of Rs. 950.

Max Life reported a ~12% y-o-y growth in APE for FY23. Value of new business (VNB) grew by 28% y-o-y in FY23 while VNB margins expanded to 31.2% in FY2023 vs 27.3% in FY22 aided by a better product mix with a higher share of non-PAR savings product. Company is guiding to achieve double-digit APE growth in FY24 led by rising share of the proprietary channel and other partners along with bancassurance channel with VNB margins of 27-29%. Higher investments in growth, pay-outs, and a reversion in business mix from non-PAR to other products will put pressure on margins. The share of non-PAR savings in the APE mix rose to 48% (vs 29% in FY22); while the share of protection stood at 11% vs 14% in FY22, PAR at 13% vs 20% in FY22 and the share of ULIP at 27% vs 37% in FY22. On the distribution side, Banca APE declined by 2% y-o-y in FY23; however, Proprietary channels continued to witness healthy growth of 43% y-o-y. Persistency ratio were stable across all buckets.

Key positives

- Proprietary channels APE were up by 90% y-o-y, driving APE growth.
- Non Par savings APE (excluding one off) was still higher by 92% y-o-y in Q4FY23.

Key negatives

- Retail protection APE was down by 24% y-o-y in Q4FY23.
- Bancassurance channel's APE growth remained lower at 13% y-o-y in Q4FY23.

Management Commentary

- The company has guided that the share of non-par in the product mix is likely to moderate to 40% over the next two years.
- The company is confident on achieving double-digit APE growth in FY24, despite higher base in FY23 with VNB margins in the range of 27-29%. Investment in growth will likely put pressure on margins in the near term.
- As far as the entry of Tata AIA in Axis Bank channel, company said that at present, Tata AIA's presence is limited to Citi branches only and company will maintain its Axis Bank channel share at levels similar to current levels (65-70%).

Our Call

Valuation – We maintain a Buy on the stock with an unchanged PT of Rs. 950: Max Life is incrementally investing in growing other channels/partnerships to reduce dependency on Axis Bank channel which is a key positive. Company generated strong operating RoEV of ~22% in FY23 and persistency trends are also stable. Going forward, the company may need to increase pay-outs to deliver higher growth with new partners, which could pressurise margins. The remaining ~7% stake transfer to Axis Bank, momentum in Axis Bank channel's performance and reduction in pledge on Promoter's stake could be positive trigger for the stock in near term. Key catalyst over the medium terms remains the reverse merger of Max Financials with Max Life Insurance along with the listing of Max Life.

Key Risks

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

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E
APE (Rs. cr)	5,588	6,248	6,850	7,920
VNB (Rs. cr)	1,528	1,949	1,980	2,250
VNB Margin (%)	27.3	31.2	28.9	28.4
EV (Rs. cr)	14,174	16,263	19,600	23,500
ROEV (%)	19.8	14.7	20.5	19.5
P/EV (x)	2.0	1.8	1.5	1.2
P/VNB (x)	19.0	14.9	14.6	12.9

Source: Company; Sharekhan estimates

Stock Update

Result Update

Key result highlights

- **Focus on a balanced product mix:** High-ticket policies sales have led to high growth in the non-par savings segment (up 153 % y-o-y); adjusting for this, growth was still high at 92% y-o-y in Q4FY23. The share of non-par in the product mix is up to 48% from 29% in FY22. Management has guided that the share of non-par in the product mix is likely to moderate to 40% over the next two years. Retail protection segment's APE was down by 24% y-o-y in 4QFY23. Overall retail protection was down by 10% in FY23. The management highlighted that the bulk of this contraction was due to supply-side constraints, and that after a decline in APE for two consecutive years, the segment is likely to grow on a low base. ULIPs were down 10% y-o-y in 4QFY23 while par was down 31% y-o-y. The decline has been across both proprietary and bancassurance channels. Management expects this to reverse over the medium term with the product mix becoming more balanced.

- **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, bancassurance APE declined by 2% y-o-y in FY23; however, Proprietary channels continued to witness healthy growth of 43% y-o-y. Growth in the proprietary channel was high likely due to better access to the HNI segment and higher contribution of high-ticket policies. Bancassurance growth was muted led by weak performance in the Axis Bank channel. With lack of clarity in business growth at Axis Bank, company has started to reduce its dependence by onboarding DCB and Capital SFB, in addition to Ujjivan SFB and TNB onboarded previously. A higher counter-share in the 4 new banca partners and stabilization of counter-share in Axis and Yes Bank will likely drive further growth in this segment. As far as the entry of Tata AIA in Axis Bank channel, company said that at present, Tata AIA's presence is limited to Citi branches only and company will maintain its Axis Bank channel share at levels similar to current levels (~65-70%).

Results (Max Life Insurance) Rs cr

Particulars	Q4FY23	Q4FY22	Q3FY23	y-o-y (%)	q-o-q (%)
Gross Written Premium	9,154	7,999	6,284	14.4	45.7
PBT	67	154	294	(56.5)	(77.2)
New Business APE	2,538	1,837	1,510	38.2	68.1
VNB	770	586	593	31.4	29.8
VNB Margins	30.3%	31.9%	39.3%		
Solvency Ratio	190%	201%	200%		
Embedded Value	16,263	14,174	15,547	14.7	4.6

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Long term outlook intact

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, the 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. Key catalyst over the medium term remains 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 an unchanged PT of Rs. 950

Max Life is incrementally investing in growing other channels/partnerships to reduce dependency on Axis Bank channel which is a key positive. Company generated strong operating RoEV of ~22% in FY23 and persistency trends are also stable. Going forward, the company may need to increase pay-outs to deliver higher growth with new partners, which could pressurise margins. The remaining ~7% stake transfer to Axis Bank, momentum in Axis Bank channel's performance and reduction in pledge on Promoter's stake could be positive trigger for the stock in near term. Key catalyst over the medium terms remains the reverse merger of Max Financials with Max Life Insurance along with the listing of Max Life.

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.	10.02
3	MIRAE ASSET GLOBAL INVESTMENTS CO. LTD.	6.36
4	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	4.46
5	HDFC ASSET MANAGEMENT CO LTD.	4.00
6	NIPPON LIFE INDIA ASSET MANAGEMENT LTD.	3.89
7	CAPITAL GROUP CO INC	3.18
8	KOTAK MAHINDRA ASSET MANAGEMENT CO. LTD.	3.02
9	WF ASIAN SMALLER CO FUND LTD	2.99
10	NEW YORK LIFE INSURANCE CO.	2.96

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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