



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey with check	Red
Right Valuation (RV)	Green with check	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Grey	↔	Grey
RV	Green	↔	Green

ESG Disclosure Score NEW

ESG RISK RATING
Updated Aug 08, 2023 **25.33**

Medium Risk

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

Source: Morningstar

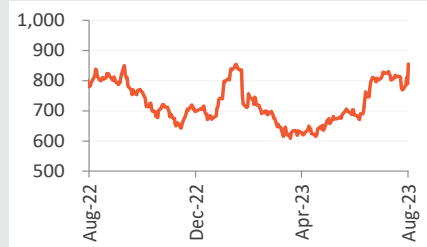
Company details

Market cap:	Rs. 29,580 cr
52-week high/low:	Rs. 886 / 599
NSE volume: (No of shares)	9.1 lakh
BSE code:	500271
NSE code:	MFSL
Free float: (No of shares)	23.5 cr

Shareholding (%)

Promoters	10.2
FII	48.5
DII	34.4
Others	7.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.7	28.8	15.1	9.6
Relative to Sensex	5.6	23.2	7.3	-1.5

Sharekhan Research, Bloomberg

Max Financial Services Ltd
In line Q1

Insurance	Sharekhan code: MFSL		
Reco/View: Buy	↔	CMP: Rs. 855	Price Target: Rs. 1,020 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Max Life reported in-line performance with ~10% y-o-y growth in APE and 16% y-o-y rise in VNB. VNB margin stood at 22.2% vs. 21.1% y-o-y.
- APE growth was led by non-par savings (55% y-o-y) and protection (17% y-o-y). Banca APE was down 2.3% y-o-y, while proprietary channels saw strong growth at ~23% y-o-y.
- Management has guided to achieve double-digit APE growth in FY2024, led by a rise in the share of the proprietary channel and other partners along with the bancassurance channel with VNB margin at 27-28%.
- The stock trades at 1.8x/1.5x its FY2024E/FY2025E EVPS. We maintain our Buy rating with a revised PT of Rs. 1,020.

Max Life reported in-line performance in Q1FY2024, with ~10% y-o-y growth in APE. Value of the new business (VNB) grew by 16% y-o-y, while VNB margins improved to 22.2% vs. 21.1% y-o-y, aided by a better product mix with a higher share of non-PAR savings/protection. The share of non-PAR savings in the APE mix rose to 38% (vs. 27% y-o-y), the share of protection stood at 19% (vs. 18% y-o-y), PAR at 17% was stable y-o-y, and the share of ULIP stood at 25% vs. 38% y-o-y. On the distribution side, banca APE declined by 2% y-o-y; however, proprietary channels continued to witness healthy growth of 23% y-o-y. Management guided that the company has retained its counter share at Axis Bank, but overall growth at Axis Bank itself was subdued. Persistency ratios were stable across all buckets. Solvency ratio stood at 188% vs. 196% y-o-y.

Key positives

- Proprietary channels continued to perform well.
- Non-par savings and protection saw strong growth.
- Persistency ratios were stable across all buckets.

Key negatives

- Banca channel APE growth remained subdued.

Management Commentary

- The company is confident of maintaining the share of non-par in the product mix at 35-40%.
- The company has guided for a 27-28% VNB margin range for FY2024E, as it envisages strong investments in the channel.
- The solvency margin is expected to increase by 39%, after the additional stake acquisition by Axis Bank.

Our Call

Valuation – We maintain Buy with a revised PT of Rs. 1,020: Max Life is incrementally investing in growing other channels/partnerships to reduce dependency on Axis Bank channel, which is a key positive; however, the company may need to increase payouts to deliver higher growth with new partners, which could have some impact on margins. Approval of IRDAI on the remaining stake transfer to Axis Bank at FV, derived momentum in Axis Bank channel's performance, and a reduction in pledge on Promoter's stake could be positive triggers for the stock in the near term. Key catalyst over the medium term 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

Particulars	FY22	FY23	FY24E	FY25E
APE (Rs. cr)	5,588	6,248	6,850	7,920
VNB (Rs. cr)	1,528	1,949	1,900	2,150
VNB Margin (%)	27.3	31.2	27.7	27.1
EV (Rs. cr)	14,174	16,263	19,600	23,500
ROEV (%)	19.8	14.7	20.5	19.5
P/EV (x)	2.5	2.2	1.8	1.5
P/VNB (x)	23.4	18.3	18.8	16.6

Source: Company; Sharekhan estimates

Key result highlights

Product mix: APE growth was led by non-par savings (55% y-o-y) and protection (17% y-o-y). The share of non-PAR savings in the APE mix rose to 38% (vs. 27% y-o-y), the share of protection stood at 19% (vs. 18% y-o-y), PAR at 17% was stable y-o-y, and the share of ULIP stood at 25% vs. 38% y-o-y. Protection growth has been strong on account of a favourable low base effect and rise in demand. The company is confident of maintaining the share of non-par in the product mix at 35-40%. VNB margin improvement was muted despite strong growth in non-par savings and protection, as margins had reduced due to changes in interest rate curves, lower margins in the non-par business due to change in profile, and an uptick in investments in banca and proprietary channels.

Distribution mix: The company remains focused on increasing the agent count and investments in the agency channel, which will drive incremental growth. On the distribution side, banca APE declined by 2% y-o-y. However, proprietary channels continued to witness healthy growth of 23% y-o-y. Management guided that the company has retained its counter share at Axis Bank, but the overall growth at Axis Bank itself was subdued. Growth in the proprietary channel was high, likely due to better access to the HNI segment. During the quarter, the company successfully on-boarded six new partners, including a South Indian Bank and five corporate agents.

Axis Bank deal: Axis Bank's board has approved to infuse Rs. 1,612 crore in Max Life through preferential allotment, resulting in Axis Bank's direct stake in Max Life increasing to 16.22% and the collective stake of Axis Entities rising to 19.02%. Deal completion is expected to happen in the next three to six months. IRDAI, CCI, and PFRDA approval will be required. The last 1% stake will be a secondary transaction.

Results

Particulars	Rs cr				
	Q1FY24	Q1FY23	Q4FY23	y-o-y (%)	q-o-q (%)
Gross Written Premium	4,871	4,103	9,154	18.7	(46.8)
PBT	103	91	67	13.2	53.7
New Business APE	1,113	1,009	2,538	10.3	(56.1)
VNB	247	213	770	16.0	(67.9)
VNB Margins	22.2%	21.1%	30.3%		
Solvency Ratio	188%	196%	190%		
Embedded Value	16,938	14,153	16,263	19.7	4.2

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Large opportunity, but regulatory risk higher

Insurance penetration in India is still very low compared to international benchmarks. 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. Against this backdrop, we believe strong players with the right mix of products, services, and distribution are likely to gain disproportionately from the opportunity. However, there is a high risk of regulatory changes, which can impact profitability.

■ Company outlook - Eyeing balanced growth

MFSL 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 ~35% of APE, while protection is expected 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 adding value to the business franchise. Axis Bank's acquisition of an additional stake in Max Life improves growth visibility from a weak banca channel. 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 a Buy on the stock with a revised PT of Rs. 1,020

Max Life is incrementally investing in growing other channels/partnerships to reduce dependency on Axis Bank channel, which is a key positive; however, the company may need to increase payouts to deliver higher growth with new partners, which could have some impact on margins. Approval of IRDAI on the remaining stake transfer to Axis Bank at FV, derived momentum in Axis Bank channel's performance, and a reduction in pledge on Promoter's stake could be positive triggers for the stock in the near term. Key catalyst over the medium term 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

MFSL 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 business growth.

Key Risks

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

Additional Data

Key management personnel

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

Source: Company

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.	6.32
4	NIPPON LIFE INDIA ASSET MANAGEMENT LTD.	4.25
5	ICICI PRUDENTIAL AMC CO LTD.	4.04
6	HDFC ASSET MANAGEMENT CO LTD.	4.02
7	CAPITAL GROUP CO. INC.	3.18
8	KOTAK MAHINDRA ASSET MANAGEMENT CO. LTD.	3.12
9	WF ASIAN SMALLER CO FUND LTD.	2.99
10	NEW YORK LIFE INSURANCE CO.	2.96

Source: Bloomberg

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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 deteriorating 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

Sharekhan

by BNP PARIBAS

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