Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Max Financial Services Ltd

Mixed Q1

Insurance	Sharekhan code: MFSL
Reco/View: Buy ↔	CMP: **Rs. 1,037** / Price Target: **Rs. 1,200** ↑

↑ 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		↔	

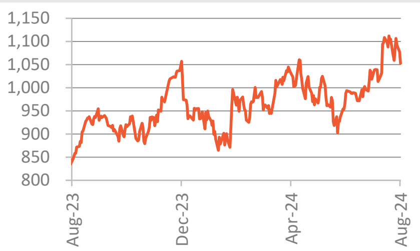
Company details

Market cap:	Rs. 35,785 cr
52-week high/low:	Rs. 1,140 / 828
NSE volume: (No of shares)	10.7 lakh
BSE code:	500271
NSE code:	MFSL
Free float: (No of shares)	24.5 cr

Shareholding (%)

Promoters	6.5
FII	46.6
DII	40.7
Others	6.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.6	7.0	7.7	23.4
Relative to Sensex	4.3	-1.3	-2.4	2.4

Sharekhan Research, Bloomberg

Summary

- APE grew by ~31% y-o-y (in-line) driven by strong growth in proprietary channels besides good show by ULIP and protection segment.
- VNB grew by only 3% y-o-y (~22% below estimates). VNB margins were at 17.5% versus 22.2% y-o-y / 28.6% q-o-q and estimates of 23.2%.
- Adverse product mix and higher opex led to big miss in VNB. Factoring in new surrender value norms, company expects VNB margins to be at 23-24% versus earlier 25-26% guided for FY25E.
- Stock trades at 2.0x/1.7x its FY2025E/FY2026E EVPS. We maintain a Buy with a revised PT of Rs. 1,200.

Q1FY25 numbers were a mixed bag, wherein APE growth was healthy but on the VNB front, there was a big miss. ULIP and protection segments drove strong growth reported at 103% y-o-y/ 53% y-o-y, respectively. Retail protection reported strong growth at 53% y-o-y. Group protection recovered this quarter, grew by 16% y-o-y led by healthy term/credit life business. PAR and Non-PAR savings were down 3% y-o-y/ 9% y-o-y respectively in Q1FY25. Annuity grew by just 1% y-o-y. The company tactically scaled e-commerce channel along with favourable equity markets helped to leverage ULIPs. VNB margins were at 17.5% versus 22.2% y-o-y and estimates of 23.2%. Adverse product mix and higher opex led to a huge miss in VNB. Going forward, the company would calibrate the business mix towards higher margin product. Factoring in new surrender value norms, the company expects VNB margins to be at 23-24% for FY25E. Bancassurance channel grew at a slower pace by 9% y-o-y, while strong growth continued in proprietary channels (60% y-o-y) led by both online and offline channels. Axis bank share continue to trend between ~65-70%. Persistency ratios improved across all buckets. The solvency ratio stood at 203% versus 172% q-o-q led by capital infusion by Axis Bank.

Key positives

- Strong growth in APE was led by proprietary channels although on low base.
- Persistency ratios improved across all buckets.

Key negatives

- VNB margins were lower at 17.5% versus 22.2% y-o-y and estimates of 23.2%. Adverse product mix (due to higher ULIP sales and lower non par business, although strong growth in protection segment was seen) and higher opex, led to big miss in VNB margins.

Management Commentary

- Factoring in new surrender value norms, company expects VNB margins to be ~23-24% for FY25E. Impact of revised surrender norms (applicable from October 1) would be 100-200 bps on VNB margins.
- Product mix rebalance, new product sales innovation and a better operating leverage would support margins.
- Margins in Annuity and Protection segments are relatively lower in the last 2 years.
- The company launched a *Flexi Cap Fund* predominantly for the e- commerce and bancassurance Customers to capitalise increasing interest in Index funds. The Company also introduced the Max Life Smart Wealth Annuity Guaranteed Pension Plan - limited pay variant with a feature to personalise retirement planning, an industry-first initiative.
- The company has successfully on-boarded seven new partners in Q1FY25, including CSB bank.
- Management highlighted that counter share at Axis Bank (65-70%) has been maintained and expects to maintain at the same level going forward also despite new partnerships.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,200 - Max Life is incrementally investing in growing other channels/partnerships to reduce dependency on the bancassurance channel and focusing on product innovation, which is a key positive. We expect APE growth to remain healthy, but VNB margins would be lower due to higher payouts to other channels and increase in surrender penalties on traditional policies thus margins would be under pressure. A key catalyst over the medium term remains the reverse merger of Max Financial with Max Life Insurance, along with the listing of Max Life.

Key Risks

Slow APE growth, lower VNB margins and any adverse regulatory policies/guidelines may affect its profitability.

Valuation Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
APE (Rs. cr)	5,588	6,248	7,433	8,700	10,200
VNB (Rs. cr)	1,528	1,949	1,973	2,000	2,400
VNB Margin (%)	27.3	31.2	26.5	23.0	23.5
EV (Rs. cr)	14,174	16,263	19,494	22,500	26,500
ROEV (%)	19.8	14.7	20.2	16.0	16.5
P/EV (x)	3.2	2.8	2.3	2.0	1.7
P/VNB (x)	29.5	23.1	22.8	22.5	18.8

Source: Company; Sharekhan estimates

Key result highlights

- **Product mix:** APE growth of 31% y-o-y was driven by ULIP segment (up 103~% y-o-y) and Protection (up ~53%). Retail protection reported strong growth at 53% y-o-y. Group protection recovered this quarter, grew by 16% y-o-y led by healthy term/credit life business. PAR and Non-PAR savings fell 3% y-o-y/ 9% y-o-y respectively in Q1FY25. Annuity grew by just 1% y-o-y. The company tactically scaled e-commerce channel along with favourable equity markets helped to leverage ULIPs. VNB margins were at 17.5% versus 22.2% y-o-y and estimates of 23.2%. Adverse product mix and higher opex led to big miss in VNB. Going forward, the company would calibrate the business mix towards higher-margin product. Factoring in new surrender value norms, company expects VNB margins to be at ~23-24% for FY25E. Share of PAR products in the APE mix is at 13% versus 17% y-o-y, the share of protection segment, at 20% (vs 19% y-o-y), the share of non-PAR Savings product declined to 22% vs 31% y-o-y and the share of ULIPs stood at 39% versus 25% y-o-y. Product-level margins are slightly lower for segments such as protection and annuity. During the quarter, it launched a Flexi Cap Fund predominantly for the e-commerce and bancassurance customers designed to capitalise increasing interest in index funds and also launched Max Life Smart Wealth Annuity Guaranteed Pension Plan - Limited Pay – with a feature to personalize retirement planning, an industry first initiative.
- **Distribution mix:** Bancassurance channel grew at a slower 9% y-o-y, while strong growth continued in proprietary channels (60% y-o-y) led by both online and offline channels. The growth in bancassurance channel has picked up in July which is a key positive. The company guided that bancassurance channel growth is 19% y-o-y for 4MFY25. Share of proprietary channel increased to 49% vs 40% y-o-y while bancassurance channel share fell to 48% vs 58% y-o-y. The company has successfully on-boarded 7 new partners in Q1FY25, including CSB bank , 1 GCL partner, 2 online & offline Brokers and 3 corporate agents. Management highlighted that counter share at Axis Bank (65-70%) has been maintained and expects to maintain at the same level going forward also despite new partnerships.
- **Improved persistency trends:** Persistency ratios improved across all buckets by 50-300 bps on a y-o-y basis.

Results (Max Life Insurance) Rs cr

Particulars	Q1FY25	Q1FY24	Q4FY24	y-o-y (%)	q-o-q (%)
Gross Written Premium	5,399	4,871	10,736	10.8	(49.7)
PBT	151	103	(51)	46.6	NM
New Business APE	1,453	1,113	2,872	30.5	(49.4)
VNB	254	247	821	2.8	(69.1)
VNB Margins	17.5%	22.2%	28.6%		
Solvency Ratio	203%	188%	172%		
Embedded Value	22,043	16,938	19,494	30.1	13.1

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Large opportunity but competition and regulatory risk higher

Insurance penetration is still low in India as 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 products are 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 that 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/ competition, which can impact profitability.

■ Company Outlook – Eyeing balanced outcome

MFSL is building a strong franchise with a multi-channel distribution network built upon a balanced product mix. Over the medium term, management has indicated a balanced mix of business with non-PAR at 30-35% 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 and growth.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,200

Max Life is incrementally investing in growing other channels/partnerships to reduce dependency on the bancassurance channel and focusing on product innovation, which is a key positive. We expect APE growth to remain healthy, but VNB margins would be lower due to higher payouts to other channels and increase in surrender penalties on traditional policies thus margins would be under pressure. A key catalyst over the medium term remains the reverse merger of Max Financial with Max Life Insurance, along with the listing of Max Life.

About the company

Max Financial Services Limited (MFSL) is part of India's leading business conglomerate – Max Group. Focused on life insurance, MSFL currently owns a ~81% majority stake in Max Life Insurance (MLI), which is the sole operating subsidiary of MFSL. Max Life Insurance Company Limited is a Joint Venture between Max Financial Services Limited and Axis Bank Limited. It has built its operations over two decades, offers comprehensive long-term savings, protection, and retirement solutions through its high-quality agency 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. We believe the company's well-diversified product mix and strong distribution channel augur well and will help sustain healthy business growth.

Key Risks

Slow APE growth, lower VNB margins 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	HDFC Asset Management Co Ltd	8.27
3	Max Ventures Investment Holdings Pvt ltd	6.40
4	Nippon Life India Asset Management	5.94
5	Kotak Mahindra Asset Management Co ltd	2.88
6	ICICI Prudential Asset Management Co Ltd	2.79
7	Capital Group Cos Inc/The	2.74
8	Aditya Birla Sun Life AMC Ltd	2.72
9	HDFC Life Insurance Co Ltd	2.42
10	WF Asian Smaller Cos Fund Ltd	2.38

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 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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