

Stock Update

Strong performance in a slowing environment

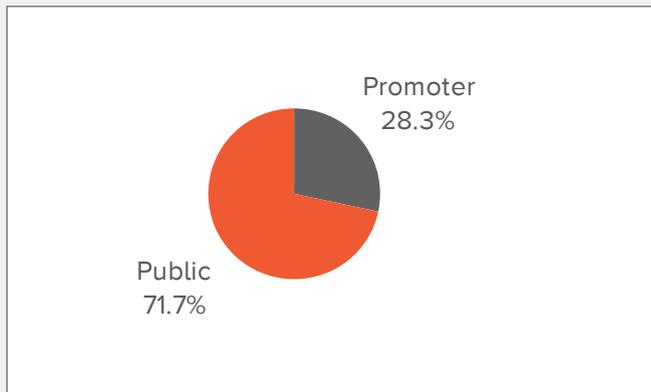
Max Financial Services

Reco: Hold | CMP: Rs440

Company details

Price target:	Rs480
Market cap:	Rs11,844 cr
52-week high/low:	Rs534 / 344
NSE volume: (No of shares)	5.9 lakh
BSE code:	500271
NSE code:	MFSL
Sharekhan code:	MFSL
Free float: (No of shares)	19.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.3	8.7	-0.3	-9.4
Relative to Sensex	-3.1	-2.1	-10.7	-20.9

Key points

- ♦ **Healthy operating performance:** During Q4FY2019, Max Financial Services (MFS) posted healthy results in terms of premium growth, margin performance and traction in new business.

During the quarter, MFS registered 19% y-o-y growth in gross written premium (GWP) to Rs. 5,521 crore. Growth in new business premium was also strong. The first year's premium grew by 21.8% y-o-y to Rs. 1,631 crore, while growth recorded in renewal premium increased by 17.7% y-o-y and 54.1% q-o-q. Single premium business increased at a healthy pace of 15.9% y-o-y and 30.6% q-o-q. Individual adjusted premium equivalent also witnessed 22% y-o-y growth. Overall, topline growth has been healthy consistently.

AUM growth for the quarter, however, improved to Rs. 62,798 crore, up 20.8% y-o-y and 7.5% q-o-q. However, conservation ratio (a measure of customer loyalty) saw a dent of 160 BPS q-o-q for the quarter at 86.6% (88.2% in Q3FY2019) and is a sign of moderate concern. Persistency ratio (13th month) during the quarter declined by 100 BPS q-o-q at 83%, but it had improved by 300 BPS from Q4FY2018, while surrender-to-GWP declined to 19% from 20% q-o-q, which indicates decent customer retention for MFS.

- ♦ **Strong margin performance:** Management has taken several initiatives to improve its NBAP margins in the long run. However, for Q4FY2019, margin performance was strong for MFS as new business margin (Actual) for the quarter improved by 230 BPS on a y-o-y basis to 22.5%, but declined by 30 BPS on a sequential basis.

Margins are likely to improve with increased levels of protection mix and cost efficiencies. MFS is also aiming to focus on internet marketing and online distribution channels, with greater focus on agent training, which would improve cost efficiencies. MFS has invested in developing proprietary channels to achieve a balanced distribution mix ad, thereby diversifying the distribution mode.

As a result of enhanced productivity and investment in proprietary channels have led to 30% y-o-y growth in share of Adjusted Individual First-Year Premium during FY2019 as compared to 18% y-o-y growth from bancassurance channel. This is positive performance for the business sustainability. However, we opine that cost advantages and deep client reach are significant positives, which the bancassurance model provides. Hence, it is critically important for the success of any life insurance player in India. Therefore, brewing uncertainty regarding the continuity of the relationship of MFS with its main dominant bancassurance partner is an overhang in the near term for MFS.

- ◆ **Outlook:** MFS is effectively building an attractive insurance franchise characterised by a multi-channel distribution network built upon a conservatively underwritten insurance business. However, in the medium term,

despite slowing industry growth rate, MFS has been able to grow faster in a slowing environment, which we believe is positive. Cost management, re-balancing of product mix and further diversification of distribution channels are key levers available for improving profitability levels and are adding to business sustainability. Amalgamation/acquisition of MSF by a leading private bank is in the advance stage of deliberation and development in that aspect in the medium term can act as a trigger for the stock.

- ◆ **Valuation:** Valuations for MFS are at a discount with some of the listed bank-owned insurance players and are, therefore, prima facie reasonable. However, pending clarity on developments on M&A etc, we believe near-term upsides may be limited for the stock. We maintain our Hold rating on the stock with a revised price target (PT) of Rs. 480.

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY%	Q3FY19	QoQ%
First year premium	1,631	1,339	21.8	860	89.7
Renewal premium	3,459	2,938	17.7	2,245	54.1
Single premium	431	372	15.9	330	30.6
Gross Written Premium	2,062	1,711	20.5	1,190	73.3
Shareholders Profit (Pre Tax)	225	220	2.3	99	127.3
Individual Adjusted FYP	1,634	1,339	22.0	866	88.7
Conservation ratio (%)	87	91	-480 bps	88	-160 bps
Average case size (Rs.)	57,873	60,053	-3.6	55,731	3.8
AUM	62,798	52,000	20.8	58,397	7.5

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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