

Pick of the week



Max Financial Services Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹451

Target Price

₹550

Potential Upside

21.95%

Investment Argument

- Max Financials (Max FS) and Axis Bank have finally announced the much-awaited transaction – Max FS has entered into a definitive agreement to sell 29% stake in Max Life to Axis Bank, subject to regulatory approvals. Axis Bank currently holds ~1% in Max Life. Management expects to complete the transaction in CY20.
- Max FS has already announced a share swap with Mitsui Sumitomo (MSI) for its 21.9% stake in Max Life. After the conclusion of the transaction, Max FS will own 70% stake in the insurance JV with Axis Bank owning the balance 30%. The definitive agreement provides Axis Bank with three directors to the board of Max Life.
- With 30% equity stake, KIE believes Max Life will remain the preferred partner for Axis Bank. The extension of Axis partnership, expiring in September 2020, has been crucial for the company. Axis Bank contributes ~55% of Max Life's individual APE.
- KIE continues to believe the Max Life remains a strong and highly profitable franchise. Even though FY21 will be a challenging year for the industry, relatively superior operating performance of Max will likely drive stock re-rating, on obtaining regulatory approvals.
- KIE expects Max Life to deliver medium-term VNB margin (post overrun) of 21-22% and >20% operating RoEV. Max Life trades at significant discount to peers. KIE has a ADD rating with fair value of Rs550.