Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	72,079	-5.7	-0.2
Nifty-50	21,885	-5.9	0.7
Nifty-M 100	49,151	-7.9	6.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,291	0.2	10.9
Nasdaq	16,857	0.2	12.3
FTSE 100	8,232	-0.4	6.5
DAX	18,406	-1.1	9.9
Hang Seng	6,554	0.3	13.6
Nikkei 225	38,837	-0.2	16.1
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	76	-0.8	-2.0
Gold ($/OZ)	2,327	-1.0	12.8
Cu (US$/MT)	10,017	0.0	18.3
Almn (US$/MT)	2,619	0.0	11.7
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.5	0.5	0.4
USD/EUR	1.1	-0.2	-1.4
USD/JPY	154.9	-0.8	9.8
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.0	0.09	-0.1
10 Yrs AAA Corp	7.6	0.07	-0.2
Flows (USD b)	**4-Jun**	**MTD**	**CYTD**
FIIs	-1.5	-0.66	-1.9
DIIs	-0.40	-0.56	24.9
Volumes (INRb)	**4-Jun**	**MTD***	**YTD***
Cash	2,930	2396	1208
F&O	4,15,395	3,03,232	3,75,432

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research theme

India Politics: A surprise verdict…but with mandate for continuity

Expect the current policy agenda to continue with some tweaks

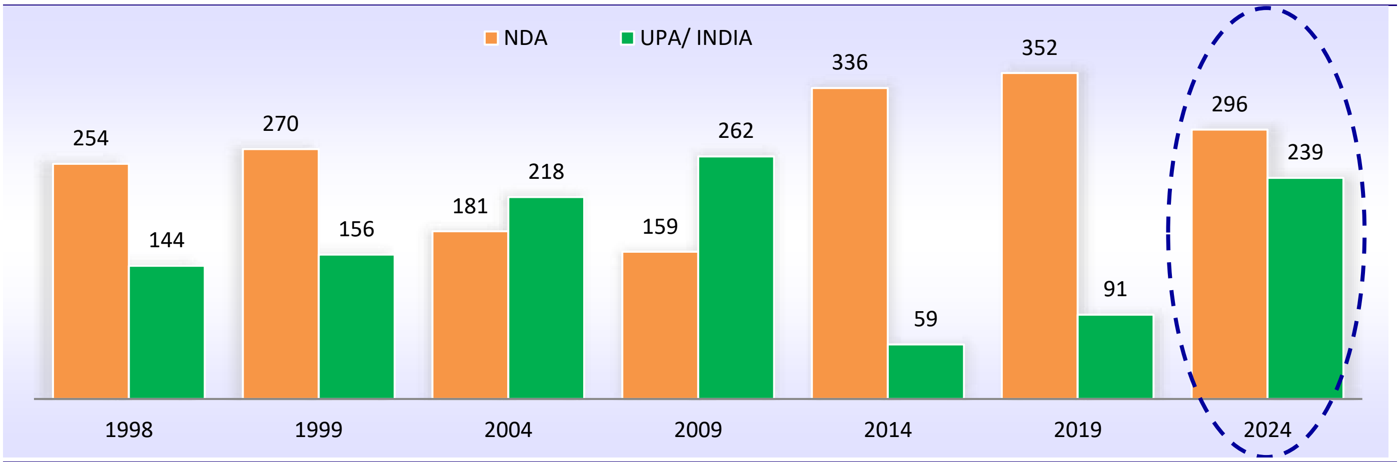
- The BJP-led NDA has won the 2024 Lok Sabha elections with a full majority (296 out of 543 seats) for an unprecedented third consecutive term, albeit the numbers were well below the Exit Poll predictions of ~370 seats and the BJP's own ambitious target of 400+.
- The BJP fell well short of the majority of 272+ mark and won 241 seats. The opposition INDIA Alliance has notably improved its tally and won ~231 seats (vs UPA's 59/92 seats in the 2014/2019 Lok Sabha elections), with the Congress almost doubling its tally to 99 seats from 52 in 2019.
- Despite the reduced majority, we expect the policy agenda of Modi 2.0 (Investment-led growth, Capex, Infrastructure creation, Manufacturing, etc.) to continue, although with some tweaks. We also expect some populist measures to address rural stress and lift sentiments at the margin, given the nature of the verdict.
- After the initial disappointment and anxiety around government formation, we expect the focus to revert to fundamental bottom-up stock picking. That said, sectors with over-heated valuations and recent sharp outperformance viz. Industrials, Railways, Defense, and PSUs may see more moderation in valuations before they become attractive again from the risk-reward perspective.

Research covered

Cos/Sector	Key Highlights
India Politics	A surprise verdict…but with mandate for continuity
Max Financial Services	Regulatory overhang; fairly valued
EcoScope	EAI – Monthly Dashboard: EAI-GVA decelerated to an 18-month low

Chart of the Day: India Politics (A surprise verdict…but with mandate for continuity)

NDA still leads with a higher number of seats than the previous collation government



Source: MOFSL, Media

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

5G spectrum auction put off again till June 25

This is the second time the spectrum sale has been pushed back. It was originally scheduled on May 20, and was initially deferred to June 6, in the wake of the general elections. Now, mock auctions will be conducted on June 13 and 14, the DoT said in its official notification amending the auction rules.

2

Indian Railways registers highest ever freight loading in May 2024

An official statement said the national transporter carried 139.16 million tonnes (MT) of freight in May 2024. This is 3.6% higher than 134.16 MT loading achieved in May 2023. An official statement said, Rs 15,230.90 crore freight revenue was clocked during May 2024

3

SJVN's 900 MW project in Nepal to start power generation from 2025: CMD

SJVN expects its under-construction 900 MW Arun-3 hydro-electric project in Nepal to start power generation next year with 74% completion.

4

Total foodgrain products in 2023-24 lower than 2022-23: Third Advance Estimate

The total foodgrain production in India is estimated at 3,288.52 lakh tonne in 2023-24, which is lower than 3,296.87 lakh tonnes of foodgrain production of 2022-23, according to the third advance estimates of production released by agriculture ministry on Tuesday.

5

Netherlands emerges as India's 3rd largest export destination in 2023-24

The Netherlands has taken over major destinations such as the UK, Hong Kong, Bangladesh and Germany

6

Infosys hires 11,900 freshers in FY24, down from 50,000

Not to forget, Infosys' also saw a headcount reduction for the first time in at least 23 years in FY24, which fell by 25,994 to 317,240.

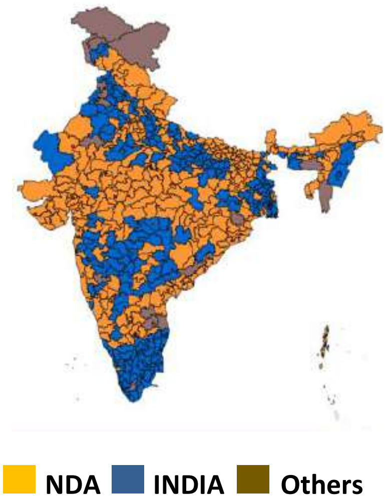
7

Reforms, PLI: CEOs expect new govt to maintain policy continuity

The election results coincide with a slowdown in manufacturing activity for the second consecutive month in May

India Politics

LOK SABHA ELECTION RESULT 2024



A surprise verdict…but with mandate for continuity

Expect the current policy agenda to continue with some tweaks

BJP below the 272 mark; NDA gets majority; Congress gains big on a low base

The BJP-led NDA has won the 2024 Lok Sabha elections with a full majority (296 out of 543 seats) for an unprecedented third consecutive term, albeit the numbers were well below the Exit Poll predictions of ~370 seats and the BJP's own ambitious target of 400+. This resulted in a sharp market reaction with Nifty-50 falling 6% while Mid-Cap/Small-Cap indices fell 8-9%. The sectoral indices such as Nifty PSU Bank/Oil & Gas shaved off 15%/12%. The BJP fell well short of the majority of 272+ mark and won 241 seats. The opposition INDIA Alliance has notably improved its tally and won ~231 seats (vs UPA's 59/92 seats in the 2014/2019 Lok Sabha elections), with the Congress almost doubling its tally to 99 seats from 52 in 2019.

BJP loses its heft in UP but makes big inroads in Odisha; also wins the state for the first time

While the BJP managed to maintain its vote share around ~37%, Congress gained ~180bp vote share to 21.2%. For the NDA, the vote share stood at 44% (down 1.1% from 2019). The INDIA alliance's vote share came in at 41.4% (while that for UPA was 29.8% in 2019), though it is not a like-to-like comparison as the composition of the opposition alliance was different in 2019. The BJP's loss of seats despite a similar vote share can be explained by the state-wise mix of its votes, with Uttar Pradesh/ Maharashtra/Rajasthan seeing a significant loss of 29/13/11 seats vs. its 2019 tally. It also lost seats in Haryana and West Bengal and managed an almost clean sweep in MP, Chhattisgarh, and Gujarat. Meanwhile, the BJP made big inroads in Odisha and won 20/21 seats. It also won the assembly elections in Odisha for the first time with a tally of 78/147 seats. In the Andhra Pradesh assembly polls, the NDA's alliance partner, TDP won 135/175 seats, while TDP+ coalition managed to win a historic ~94% mandate with 164/175 seats.

LS elections snapshot 2024

Seats tally	2014	2019	2024
NDA	**336**	**351**	**296**
BJP	**282**	**303**	**240**
INDIA / UPA	59	92	231
Congress	44	52	99

*Results as of 10pm IST (4^{th} Jun'24)

Return to coalition politics but with lesser partners than in the past

The BJP-led NDA alliance is a pre-poll alliance, and hence we see less friction in the government formation exercise. However, after two consecutive terms of a clear single-party (BJP) majority, the coalition government is making a comeback. That said, unlike the earlier NDA coalition governments of 1998-2004 which had >15 constituents with the BJP itself at 182 seats, this coalition will have a lesser number of constituents with the anchor BJP at ~240 seats and thus potentially a more smoother approach to governance, in our view. Nonetheless, we expect the government to steer clear from the contentious issues such as Uniform Civil Code, One Nation One Poll, Farm Laws, etc. Prime Minister Modi in his victory speech, however, reaffirmed his commitments to reforms and growth.

Implications for the market/economy: Despite the reduced majority, we expect the policy agenda of Modi 2.0 (Investment-led growth, Capex, Infrastructure creation, Manufacturing, etc.) to continue, although with some tweaks. We also expect some populist measures to address rural stress and lift sentiments at the margin, given the nature of the verdict. While the broad thrust on capex and investment-led growth continues, the agenda going forward could also include measures for reviving consumption at the bottom-of-the-pyramid, some relief in taxation measures, and indeed the rationalization in the GST structure. The government does have some leeway with the higher-than-expected RBI dividend and recent moderation in Brent crude prices. However, we see the broader fiscal discipline to be still maintained and long-term priorities, viz., thrust on renewable energy, investments in power, PLI, etc., to continue. In the very near term, we expect the market to remain obsessed with government formation exercise, with a keen eye on key cabinet portfolios such as Finance, Defense, Roads, Energy, Commerce, and Railways. With elections now behind, fundamentally, India remains in a very good shape with almost a mini-Goldilocks moment with excellent macros (GDP growth of 8.2% in FY24 on the back of ~7% growth in FY23, inflation at ~5%, both current account and fiscal deficits well within tolerance band, stable currency, etc.), solid corporate earnings (Nifty ended FY24 with 25% earnings growth and FY25/26 earnings are likely to post 14-15% CAGR) and valuations at ~20x one-year forward earnings. After the initial disappointment and anxiety around government formation, we expect the focus to revert to fundamental bottom-up stock picking. That said, sectors with over-heated valuations and recent sharp outperformance viz. Industrials, Railways, Defense, and PSUs may see more moderation in valuations before they become attractive again from the risk-reward perspective.

- **TOP IDEAS | Large caps –** ICICI Bank, ITC, HCL Tech, Coal India, SBI, L&T, M&M, Ultratech, CIFC and Hindalco;
- **Midcaps:** Indian Hotels, Ashok Leyland, Godrej Properties, Global Health, KEI Industries, PNB Housing, Cello World, and Kirloskar Oil.

pdf

4 June 2024

Company Update | Sector: Insurance

Max Financial Services

BSE SENSEX	S&P CNX
72,709	21,885

MAX FINANCIAL SERVICES

Stock Info

Bloomberg	MAXF IN
Equity Shares (m)	345
M.Cap.(INRb)/(USDb)	311.5 / 3.7
52-Week Range (INR)	1093 / 660
1, 6, 12 Rel. Per (%)	-7/-18/11
12M Avg Val (INR M)	1067
Free float (%)	93.5

Financials Snapshot (INR b)

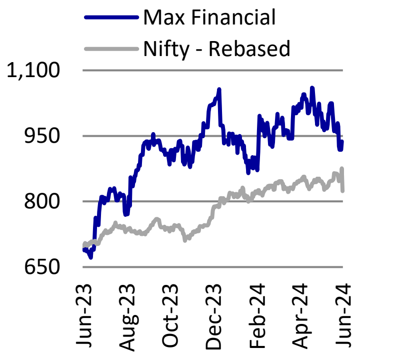
Y/E MARCH	FY24	FY25E	FY26E
Grosss Premium	295.3	341.4	394.6
Sh.PAT	6.9	9.3	11.4
NBP gr - unwtd (%)	20.0	16.0	16.0
NBP gr - APE (%)	14.0	16.0	16.0
Premium gr (%)	16.7	15.4	15.6
VNB margin (%)	26.5	26.4	26.7
Op. RoEV (%)	20.2	19.3	19.2
Total AUMs (INRb)	1,508	1,832	2,077
VNB(INRb)	19.7	21.7	25.4
EV per Share	452	539	641
Valuations			
P/EV (x)	2.5	2.1	1.8
P/EVOP (x)	14.8	12.9	10.9

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	6.5	6.5	10.2
DII	39.9	36.9	34.1
FII	47.7	50.9	47.7
Others	5.9	5.7	8.1

FII Includes depository receipts

Stock performance (one-year)



CMP: INR903 TP: INR1,020 (+13%) Neutral

Regulatory overhang; fairly valued

- **Max Financial Services (MAXLIFE) is seeing pension as a big opportunity over the medium term. The company is investing in its pension subsidiary and has set up a dedicated vertical to grow the annuity business.**
- **Protection demand has been strong, and with supply-side pressure moderating, growth is likely to be strong as well. The return of premium products has enabled strong growth in the offline channel as well. RoP accounts for 20% of MAXLIFE's retail protection. The group-term business is becoming challenging with hyper-competition, and MAXLIFE is playing this conservatively.**
- **The non-par segment has seen price correction recently, and profitability has moderated. MAXLIFE expects the share of non-par to be stable in FY25.**
- **MAXLIFE has invested in the agency channel (fourth-largest net addition in FY24 at 32k agents) and related branch expansion (132 branches in FY23 and FY24), which will result in productivity improvement going forward.**
- **Axis Bank has increased its skin in the game with a capital infusion and the appointments of two directors to the Board of MAXLIFE. While Axis Bank has committed to maintaining MAXLIFE's wallet share at 60-70%, the addition of Tata AIA (via Citibank acquisition) and the appointment of Aditya Birla Life Insurance as a new partner can act as a constraint.**
- **Regulations are customer-centric and likely to be favorable over the medium term. The surrender charges regulation can adversely impact margins, but insurers can use the levers of product pricing and commissions to cushion this impact. MAXLIFE, with 55% share of business from non-linked and non-protection businesses (the highest among peers), could see the highest impact.**
- **We expect a 13% CAGR in APE and VNB margins for MAXLIFE during FY24-26. RoEVs would be maintained in the 18-19% range. Reiterate Neutral with a TP of INR1,020, based on 2.0x Mar'26E EV and a holdco discount of 20%.**

Pension and retirement planning, a big opportunity

- With the share of middle-aged population rising, pension and retirement solutions are expected to present a notable opportunity over the next decade (last five-year growth has been 25-30% in NPS AUM).
- At superannuation, an NPS subscriber must use at least 40% of the accrued pension corpus to purchase an annuity that provides a regular monthly pension (life insurance products).
- The asset management charges in this segment are significantly lower than ULIP products, and hence, the scale would be the key driver for this segment.
- MAXLIFE has a subsidiary in this segment, Max Life Pension Fund Management, which started operations in 2022.
- Currently, it has an AUM of INR6.5b, but the company has plans to scale this up materially over the next few years.

Non-par competition intense; MAXLIFE's contribution to be steady

- During FY22/FY23, MAXLIFE recorded strong growth in the non-par segment led by innovative product launches, such as the Smart Fixed Return Digital plan, which was sold primarily on the online channel.
- Thesame product was also available in offline channels, but the commissions were paid on a lag basis, which did not go well with the distributors.
- While demand was strong in FY23, the announcement of taxation on INR0.5m+ premium policies buoyed demand further.
- Subsequently, demand trended down, and the competitive intensity accelerated. However, the industry took corrective actions, towards the end of FY24, based on the yield curve movements.
- Considering expectations of interest rate cuts in the future and IRDAI's regulations that allow pricing the product promptly, the responsiveness of the industry is quick, thus enabling stability in margins.
- The company expects to sustain its share of non-par products at FY24 levels going forward.

Product mix likely to be stable in the near term

- For ULIPs, per se, demand is likely to be strong in the near term, aided by favorable equity markets. However, there is an increased focus in the industry on improving the profitability of the product via attaching more riders and increasing the sum assured.
- The focus on scaling up the retirement business has also intensified, where the pension business is in a separate subsidiary and the company is setting up a dedicated vertical for the annuity business.
- Group credit has posted strong growth and will sustain over the medium term as the company continues to increase its tie-ups (30-35 partners in this space).
- The demand for protection has always been strong. However, post-Covid, the supply-side issues restricted business growth. Post-pandemic, after making the assumption changes and increasing risk retention from insurers, the reinsurance capacity has been improving.
- The return of premium has helped grow this segment in offline channels, particularly agency, as the ticket size is higher. From an insurer's perspective too, it becomes a better product as the premium-to-sum assured ratio is higher. For MAXLIFE, the ROPs would contribute about 20% of the overall retail protection.
- The group term business has been hyper competitive. As the product is renewable on a yearly basis, maintaining margins in the segment has become a challenge. Some players, who were aggressive in the past, are now experiencing profitability concerns. MAXLIFE will scale up this business only if it sees healthy underwriting profits.

Strengthening its agency channel; Axis Bank channel growth to be healthy

- MAXLIFE has gone full throttle with the variable-tiered agency concept, which allows them to scale up with a significantly lower fixed cost.
- Variable-tiered agency is a structure where there are multiple layers of agents, who manage other agents and all are on variable compensation. While fixed costs are lower in this channel, variable costs are higher, keeping the overall costs at similar levels.
- In the online channel, traditionally, MAXLIFE has been selling only protection business. Last year onwards, it ventured into the savings segment. It is the No. 2 player in terms of online savings business.
- In the bancassurance channel, MAXLIFE has been present predominantly with Axis Bank and Yes Bank; this has now expanded to a network of six banks (with the addition of Tamilnad Bank and DCB Bank).
- The guidance from Axis Bank is to maintain a 60-70% wallet share. With INR16.1b of investments by the bank and appointments of its directors to the MAXLIFE Board, the skin in the game has increased for Axis Bank.
- Bank branching will continue to grow at a healthy pace with branch addition plans at Axis Bank. Further, there are certain pockets at Axis Bank that are unexplored. Here, MAXLIFE could get exclusive access (direct-to-customer is one such area). These can be deepened without any major investments.
- With respect to competitive intensity within Axis Bank (as there are LIC, Tata AIA, and Aditya Birla Life Insurance), management is confident of maintaining its wallet share in the 60-70% range.

Focusing on granular growth; investing in expansion

- The revision in taxation rates, adversely impacted premium growth in the higher-income segments. Resultantly, the companies have to focus on granular growth at present in terms of the number of policies.
- MAXLIFE had ceased its expansion plans between 2010-11 and 2019 and during Covid-19. However, over the past two years, there has been a significant branch expansion activity. The number of branches rose to 477 in FY24 from 345 in FY22, and they are present in 200+ cities.

Regulations are customer-centric and favorable in the long term

- The EOM regulations were implemented in FY24, and MAXLIFE has been compliant during the year. Overall costs have been well managed, and budgets are in control for FY25.
- The IFRS implementation appears to be getting delayed and could take some time, as it is still not notified. From notification to implementation, the process would take about 12-18 months.
- The IFRS implementation is a big challenge, given the highly nuanced changes that would be required.
- The risk-based capital regulations are being formulated, and the regulator is in discussions with the insurers to get a granular understanding. The current factor-based approach does not factor in any modalities, such as the use of derivatives or the retention of risks. RBC will definitely be favorable for the industry over the longer term, but currently it is at a nascent stage.

- Surrender charges are in a consultation phase, and several options are being evaluated by the regulator. The aim is to ensure a win-win situation for all three stakeholders – insurers, distributors, and customers. Insurers will have several options to mitigate the risk emanating from the same, such as altering pricing and changing commission constructs.

VNB margin likely to be stable in FY25

- With the product mix projected to be stable, MAXLIFE's margins are also expected to be similar to FY24.
- In certain pockets, business is becoming competitive, and the product-level margins are under some pressure, which will be partly offset by scale advantages for larger players.
- MAXLIFE has invested in agency count and branch additions over the past couple of years, which will lead to scale benefits.

Surrender charges remain an overhang; Axis Bank growth a key monitorable; reiterate Neutral

- In FY24, the non-linked and non-protection businesses accounted for 55% of the APE for MAXLIFE, the highest among the listed peers. The media (recent MoneyControl article) has been indicating that IRDAI is considering various options with respect to surrender charges. Any option that increases the surrender value to the customer can be detrimental to the VNB margin. MAXLIFE has the highest risk to these changes.
- Axis Bank, with its skin in the game in MAXLIFE, will have to counter various challenges, such as a high credit-to-deposit ratio at the bank and the increased number of life insurance partners.
- We expect a 13% CAGR in APE and VNB margins for MAXLIFE during FY24-26. RoEVs would be maintained in the 18-19% range. Reiterate Neutral with a TP of INR1,020, based on 2.0x Mar'26E EV and a holdco discount of 20%.

EAI – Monthly Dashboard: EAI-GVA decelerated to an 18-month low

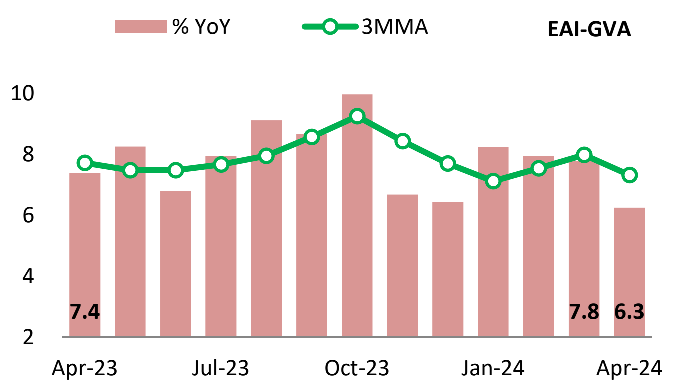
Expect real GDP growth to moderate in the coming months

- **Preliminary estimates indicate that India's EAI-GVA growth decelerated to 18-month low of 6.3% in Apr'24 (vs. 7.4%/7.8% YoY in Apr'23/Mar'24). Deceleration in growth was led by the services sector (18-month low), which was partly offset by improvement in farm sector growth and robust industrial sector growth.**
- **On the contrary, EAI-GDP grew at a seven-month high rate of 5.5% YoY in Apr'24 (vs. 5.8%/4.4% YoY in Apr'23/Mar'24), mainly led by nine-month high growth in total consumption and decent growth in real investments (highest in six months, but lower than the average of 5.9% in FY24), which was partly offset by negative contribution of net exports. Excluding fiscal spending, EAI-GDP grew 4.5% YoY in Apr'24 (vs. 4.9%/5.2% in Apr'23/Mar'24).**
- **Selected HFIs suggest a weak economic growth for May'24. Toll collections posted its second consecutive single-digit growth, growth in passenger vehicles hit a 29-month low, vaahan registrations growth remained muted, CV sales growth decelerated sharply and water reservoir levels continued to decline. These factors were only partly offset by continued strength in manufacturing and services PMIs, seven-month high growth in power generation and three-month highest growth in air cargo traffic.**
- **India has continued to throw a major surprise by recording a GDP growth of 7.8% in Q4FY24 and 8.2% (highest since FY17, barring FY22) for FY24 as a whole. However, EAI-GVA for Apr'24 decelerated to an 18-month low and selected HFIs for May'24 portray a weak picture for growth. We believe that growth could moderate in the coming months, given the high base factor at play. We expect 1QFY25 real GDP growth in the range of 6.0-6.5%, lower than RBI's projection of 7.5%.**

Preliminary estimates indicate that India's EAI-GVA growth decelerated to an 18-month low of 6.3% YoY in Apr'24.

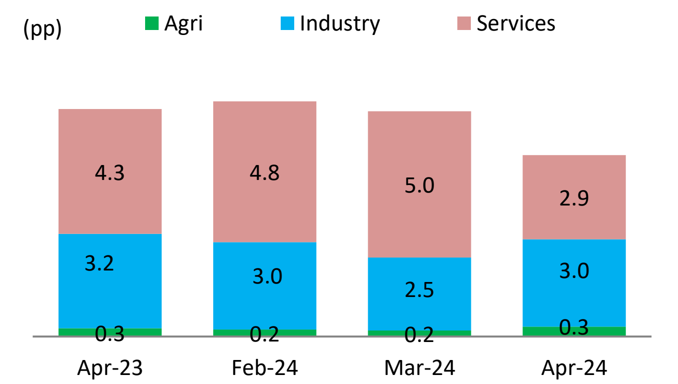
- **EAI-GVA growth decelerates to an 18-month low in Apr'24:** Preliminary estimates indicate that India's EAI-GVA growth decelerated to an 18-month low of 6.3% YoY in Apr'24 (vs. 7.4%/7.8% YoY in Apr'23/Mar'24). The moderation in growth was due to the services sector (at an 18-month low), which was partly offset by improvement in farm sector growth and robust industrial sector growth *(Exhibits 1 and 2)*.
- **EAI-GDP posts the highest growth in seven months:** On the contrary, EAI-GDP grew at a seven-month high rate of 5.5% YoY in Apr'24 (vs. 5.8%/4.4% YoY in Apr'23/Mar'24), mainly led by nine-month high growth in total consumption and decent growth in real investments (highest in six months, but lower than the average of 5.9% in FY24), which was partly offset by negative contribution of net exports. Excluding fiscal spending, EAI-GDP grew 4.5% YoY in Apr'24 (vs. 4.9%/5.2% in Apr'23/Mar'24). *(Exhibits 3 and 4)*.

Exhibit 1: EAI-GVA growth moderated to an 18-month low of 6.3% YoY in Apr'24…



Please refer to our earlier report for details

Exhibit 2: …led by slower growth in the services sector



Source: Various national sources, CEIC, MOFSL

N O T E S

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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