

# Max India - Demerger

## Value accretive but already priced in

Max India on 27 Jan 2015 announced a corporate restructuring plan to split the company into three separate units — Max Financial Services, Max India, and Max Ventures and Industries. We view this as a positive for existing shareholders given the conglomerate discount will be done away with and investors will have access to a pure listed Life Insurance firm. Max Financial Services will be the first pure listed life insurance play in India and will provide a valuation benchmark in the Indian life insurance sector. The open offer in the speciality films business is also a positive as it will provide an exit opportunity for investors not interested in that entity. However, we believe the benefits of corporate restructuring are more or less priced in and hence see limited upside from the current levels.

### Max India corporate restructuring is value accretive for shareholders

Max India's board has approved a corporate restructuring plan to vertically split the company through a demerger into three listed companies (refer Figure 1 on page 2 for details on the corporate structure):

- Max Financial Services:** The existing company will be renamed Max Financial Services and will hold a 72.2% stake in Max Life Insurance.
- Max India (resulting Company 1):** It will house Max Bupa, Max Healthcare, and Antara Senior Living businesses and will be called Max India Limited.
- Max Ventures and Industries:** The third company will be called Max Ventures and Industries (resulting Company 2) and will house the Speciality films business.

The restructuring in our view is value accretive for investors' point of view as:

- Conglomerate discount will vanish:** Analysts' in general assign 10%-20% holding company discount to the company, which now will be done away with in the new corporate structure as the two companies will be pure play companies. However, Max India (resulting Company 1) could continue to be valued with a holding company discount.
- Allays concerns on capital allocation:** Investors' had concerns on capital allocation, cash utilization and dividend payment by the company. Post the demerger, Max Life's dividend will be attributed to Max Financial Services shareholders only.
- Offers opportunity for a pure play life insurance:** Max Financial services would be the first listed pure play in the Indian life insurance sector. We have been upbeat on the potential of the sector and Max Life has been our top pick in the space.
- Open offer from promoter will floor the valuation of specialty films business:** The promoter has announced an open offer to increase its stake to 75% valuing the company at enterprise value of INR 4,680 m at 6.0x FY16E EBITDA.

### Corporate restructuring benefits priced-in

Max India (MAX IN, BUY, FV: INR500) has rallied 23% in the last five trading sessions. In our view, this rally has priced in benefits of corporate restructuring and hence we see limited upside potential in the stock at current valuation.

### BUY

2% upside

Fair Value Rs500.00

Bloomberg ticker **MAX IN**  
Share Price Rs492.00  
Market Capitalisation Rs130,841.00m  
Free Float 65%

INR m Y/E 31-Mar	2013A	2014A	2015E	2016E
Revenues	106,236	116,832	120,735	133,488
Operating Expenditure	94,110	111,777	115,000	125,799
EBITDA	12,126	5,056	5,735	7,689
PBT	9,914	2,744	3,432	5,329
PAT after MI	7,841	1,394	2,141	3,197
EPS	29.4	5.2	8.0	12.0
EVPS	141.0	148.4	160.6	175.7

Exceptional gain of Rs8022mn in 2013 on account of stake sell in Life Insurance

Y/E 31-Mar	2013A	2014A	2015E	2016E
RoEV (Max Life)	10%	13%	17%	19%
NBAP Margin (Max Life)	13.6%	13.1%	11.5%	13.0%
P/EV (Max Life)	3.5	3.3	2.8	2.4
P/E	16.7	94.0	61.2	41.0
P/B	4.5	4.4	4.3	4.2
Debt/Equity	0.3	0.3	0.3	0.3
RoA	3.7%	0.6%	0.7%	1.0%
RoE	29%	5%	7%	10%

Share Price Performance

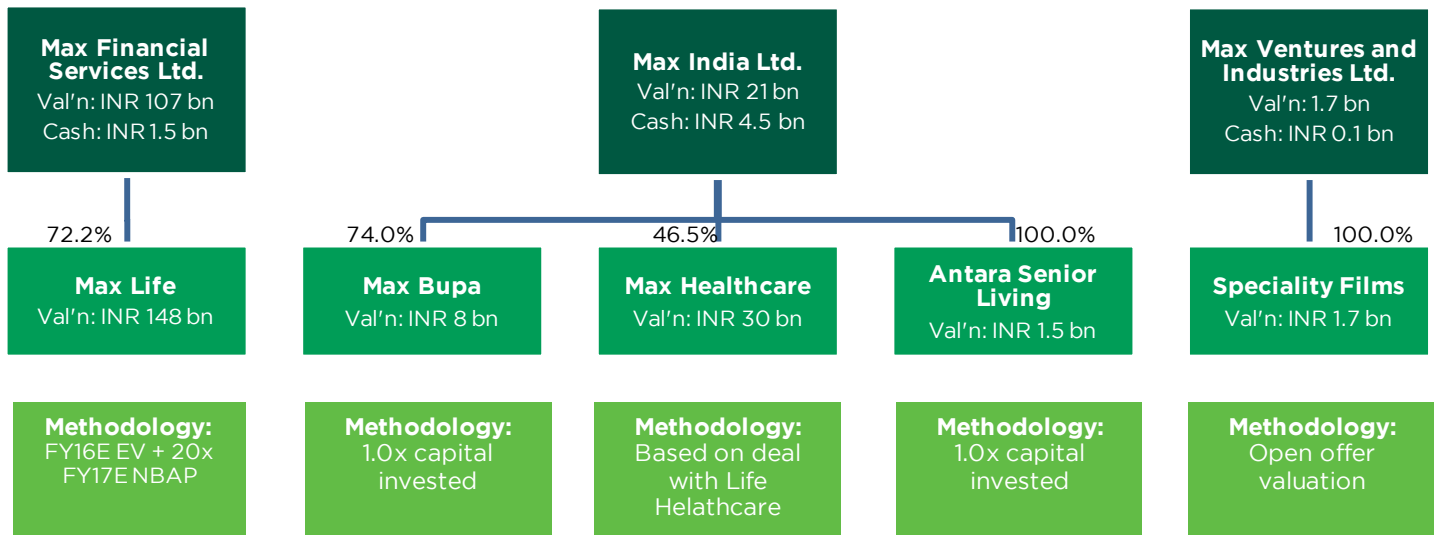


Source: BESI Research, Company Data, Bloomberg

### Analysts

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Figure 1 Revised Corporate structure of Max India – Total combined valuation = INR 130 bn along with total cash of INR 6 bn



Source: BESI Research, Company Data

## Valuation Methodology

We have valued the company on a sum of the parts basis. We value the Life Insurance entity using the Appraisal Value Method with FY16 as the base year for embedded value. We have used a NBAP multiple of 22x. Max Healthcare is valued using discounted cash flow methodology with 10 years of explicit forecast, terminal growth rate of 8% and cost of equity of 12%. Max Bupa is valued at 1.8x capital infused basis and Max Specialty films is valued 8x FY16E EBITDA

**Table 1 Max India - Sum of the parts**

Business Segment	Valuation	Max India Stake	Value per share	Methodology
Life Insurance	137,759	72%	373	Appraisal Value Method (FY16E EV + 22x FY16 NBAP)
Max Healthcare	23,971	66%	59	Discounted Cash Flow
Max Bupa	12,492	74%	35	1.8x Value of Capital Infused
Specialty Films	8,640	100%	32	EV/EBIDTA Multiple (8x FY16 EBITDA)

### Total SOTP Valuation

**500**

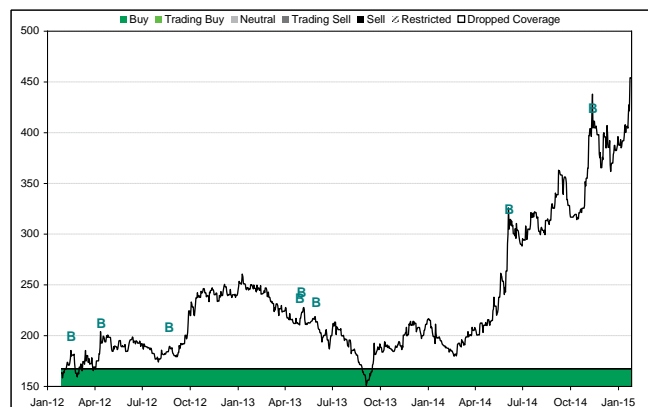
Source: ESS Research, Company Data

## Risks to Fair Value

We believe the regulatory overhang is over for the Life Insurance sector, and any further regulatory intervention will be a risk to our fair value. Moreover, we expect the loss making entities Max Healthcare and Max Bupa to break even by FY16 and FY17, respectively. Any deterioration in the operating environment of these entities that could delay the breaking even of these entities will be a risk to our consolidated profitability estimates and fair value.

Max India

MAX IN



Report date	Recommendation	Fair value	Share price
2014 November 13	Buy	Rs500.00	Rs438.00
June 5	Buy	Rs405.00	Rs326.00
2013 May 31	Buy	Rs308.00	Rs218.75
May 3	Buy	Rs307.58	Rs216.90
April 30	Buy	Rs279.00	Rs213.00
2012 August 22	Buy	Rs279.42	Rs181.70
April 13	Buy	Rs279.00	Rs204.00
February 16	Buy	Rs252.00	Rs188.00

Source: Bloomberg, BESI Research

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<b>Neutral</b>	142	32.7%	2	5.9%	0.5%
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<b>Restricted</b>	3	0.7%	1	2.9%	0.2%
<b>Under Review</b>	0	0.0%	0	0.0%	0.0%
Trading Rating:					
<b>Trading Buy</b>	0	0.0%	0	0.0%	0.0%
<b>Trading Sell</b>	0	0.0%	0	0.0%	0.0%
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