

November 1, 2023

RESULT REPORT Q2 FY24 | Sector: Insurance (Life)

Max Financial Services Ltd.

After waiting to initiate with BUY in Dec 2022, we now place MAXF as the top pick, tactically

Result Highlights (See "Our View" below for elaboration and insight)

- **VNB margin:** Calculated VNB margin for 2QFY24 rose 297bps QoQ but fell -615bps YoY to 25.2%
- **VNB growth:** VNB growth was at 68.4%/11.5% QoQ/YoY where the YoY growth was driven by growth in APE
- **APE growth:** New business APE grew by 48.5%/38.8% QoQ/YoY, driven higher YoY by growth in all product segments except Non-Par savings
- **Expense control:** Expense ratio de-grew/grew -175bps/309bps QoQ/YoY to 23.0%, QoQ driven lower by fall of -380bps in Opex ratio
- **Persistency:** 37th month ratio was flat YoY at 62% whereas 61st month ratio was up 100 bps YoY to 58%

Our view - MAXF gets its act together on distribution, while simultaneously devising plan for margin

Axis Bank channel sees a sharp turnaround while MAXF continues to build up the agency channel: The banca channel has grown 30% YoY in 2Q. The growth on the Axis Bank channel on paid premium basis was 12% YoY in 1H whereas, in 2Q, it has improved to 28% YoY. The growth in the other banks has been 60% YoY for 2Q. Prop channel (mainly agency) APE growth has been 50% YoY, driven by both offline and online prop channels. Agent count was flat in FY23 at about 70,000 but has risen about 7000 in 1H. Management stated that not only is the company recruiting in large numbers, throughput per manpower has also been improved by way of activation.

While VNB margin in the first half was under pressure due to product mix changes, MAXF sounded confident on their plan to achieve full year guidance of 27-28%: Overall margin has been under pressure mainly due to the launch of the new index-linked ULIP, whose margin is lower. Furthermore, the strength in Par segment due to the launch of a Par product has come at the cost of the Non-Par segment. Margin expansion in the second half will be driven by tactical product launches including in the Non-Par segment. Operating leverage will also drive margin since 60% of sales happens in the second half for the company.

We maintain 'BUY' rating on MAXF with a revised price target of Rs 1200: We value Max Life (MLI) at 2.5x FY25 P/EV for an FY24E/25E/26E RoEV profile of 21.1/21.0/20.8%% and then apply a 20% holding company discount. We had resisted covering MAXF for an extended period of time and then initiated coverage on it in our [report dated 4th December 2022](#) after we felt the negatives were more than priced in. Now, we place it as our top pick in the life insurance space from a tactical perspective.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Rs mn	Q2FY24	Q2FY23	% yoy	Q1FY24	% qoq
NBP	24,240	18,940	28.0%	18,570	30.5%
Renewal premium	42,010	39,070	7.5%	30,140	39.4%
Income from investments	18,718	15,206	23.1%	17,917	4.5%
APAT	1,703	616	176.4%	1,011	68.4%
Expense ratio	23.0%	19.9%	309bps	24.8%	-175bps
37th mo. Persistency^	62.0%	62.0%	0bps	61.0%	100bps
APE	16,530	11,910	38.8%	11,130	48.5%
VNB	4,160	3,730	11.5%	2,470	68.4%
VNB Margin	25.2%	31.3%	-615bps	22.2%	297bps

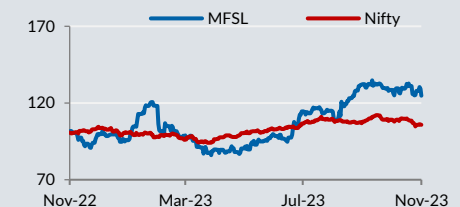
Source: Company, YES Sec-Research, ^N.B. Individual policies excluding single pay/fully paid up policies

Recommendation	: BUY
Current price	: Rs 897
Target price	: Rs 1200
Potential return	: 34%

Stock data (as on November 1, 2023)

Nifty	19,051
52 Week h/l (Rs)	961 / 599
Market cap (Rs/USD mn)	318593 / 3826
Outstanding Shares (mn)	345
6m Avg t/o (Rs mn):	733
Div yield (%):	-
Bloomberg code:	MAXF IN
NSE code:	MFSL

Stock performance



	1M	3M	1Y
Absolute return	-3.0%	8.9%	23.0%

Shareholding pattern (As of Sept'23 end)

Promoter	6.5%
FII+DII	86.6%
Others	6.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1200	1150

Financial Summary

Rs mn	FY24E	FY25E	FY26E
APE	73,020	85,078	98,620
% yoy	16.9%	16.5%	15.9%
VNB	19,715	23,397	27,614
VNB Margin	27.0%	27.5%	28.0%
PAT	6,598	8,194	10,112
% yoy	51.6%	24.2%	23.4%
EVPS (Rs)	492.2	590.3	706.7
VNBPS (Rs)	49.7	59.0	69.6
ROEV (%)	21.1%	21.0%	20.8%
P/EV (x)	1.8	1.5	1.3
P/VNB (x)	18.0	15.2	12.9

Δ in earnings estimates

Rs bn	FY24E	FY25E	FY26E
VNB (New)	19.7	23.4	27.6
VNB (Old)	19.4	23.0	26.7
% change	1.6%	1.7%	3.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Channel growth and mix

- **Bancassurance**
 - The banca channel has grown 30% YoY in 2Q.
 - 8 new partners have been added.
 - **Axis Bank channel**
 - **Counter share**
 - The counter share for Max Life has remained stable at 70% in 1H.
 - Axis Bank has given the understanding that counter share for Max Life would not drop below 65-70%.
 - **Growth**
 - The growth on the Axis Bank channel on paid premium basis was 12% YoY in 1H whereas, in 2Q, it has improved to 28% YoY.
 - **Tata AIA Life**
 - Tata AIA Life has a banca relationship with erstwhile Citi and hence, is sold on that specific platform.
 - Presently, Tata AIA Life is not sold on legacy Axis Bank channel but management cannot confirm whether that will not happen in the future.
 - **Other banks**
 - **Growth**
 - The growth in the other banks has been 60% YoY for 2Q.
- **Proprietary channel**
 - Prop channel APE growth has been 50% YoY, driven by both offline and online prop channels.
 - **Online channel**
 - The company has been a leader in the online protection segment and has now entered the online savings segment and become a leader here as well.
 - The online channel has seen a growth of 37% on premium paid basis driven by the launch of the index-linked ULIP product.
 - E-commerce is contributing 9-10% to business this year compared with 5-6% last year.
 - **Groundwork on enhancing prop channel growth**
 - Prop channel is a strategic advantage for the company and a focus area.
 - **BCG project on agency channel**
 - The company had begun a project on the agency channel along with BCG and has been fairly successful in terms of outcome.
 - The company has one of the top 3 fastest growing agency channels in India.
 - **New offices**
 - Furthermore, the effect of the build up of new offices is yet to pick up.
 - **Growth expectation for agency**
 - The company expects agency channel growth to be 20-30% after the impact of new office openings plays out.
 - **Agent count**
 - Agent count was flat in FY23 at about 70,000 but has risen about 7000 in 1H.
 - Management stated that not only is the company recruiting in large numbers, throughput per manpower has also been improved by way of activation.

(Con call takeaways continue on the next page)

VNB margin

- **VNB margin for the quarter**
 - VNB margin in 2Q was 25.2% and 24% in 1H, which is lower on YoY basis.
 - **Reasons behind margin decline**
 - **ULIP margin**
 - Overall margin has been under pressure mainly due to the launch of the new index-linked ULIP, whose margin is lower.
 - **Shift from Non-Par to Par**
 - Furthermore, the strength in Par segment due to the launch of a Par product has come at the cost of the Non-Par segment.
 - **Annuity margin**
 - In addition, the annuity margin is lower than last year since there has been a shift from single premium to regular premium, which is in line with the industry trend.
 - **New health product**
 - The margin of the integrated health and protection product, Seva, is similar to protection margin.
 - **Other product level margins**
 - Other than ULIP and annuity, other product level margins have remained stable.
 - **Non-Par pricing reset**
 - The company looks at Non-Par pricing on a monthly basis.
 - Over the last 6 months, the company has executed 2 pricing resets in line with the market.
 - **VNB**
 - VNB for 1H amounted to Rs 6.63bn, up 13% YoY.
- **Margin guidance**
 - The company had guided for 27-28% margin and management hopes to get there by the end of the year.
 - Margin expansion in the second half will be driven by tactical product launches including in the Non-Par segment.
 - Operating leverage will also drive margin since 60% of sales happens in the second half for the company.
 - **Cost aspect**
 - While cost has been fairly stable, this year will continue to be a year of investment.
 - A large part of the investment will go into augmenting distribution and into technology and cost will remain elevated this fiscal.
 - **Long-term guidance**
 - Over the next 3 years, VNB margin could expand by 200 bps.

Operating expenses

- Policyholder expenses to GWP has remained stable at 15%.
- Post new EoM guidelines, the cost of acquisition has been maintained.

Accounting profit

- New business strain has been lower due to higher share of Par business.

Product growth and mix

- **New product offerings**
 - Industry-first index fund on smallcaps in the ULIP segment.

(Con call takeaways continue on the next page)

- Seva, a product in the health and protection space, which is an integrated wealth, protection and health product, and sold Rs 0.18bn during the quarter.
- **Product mix – 1HFY24 APE**
 - Par – 21%
 - Annuity – 6%
 - Savings – 26%
 - Protection and Health – 9%
 - Group – 8%
 - ULIP – 30%
- **New focus areas**
 - The new focus areas for growth for the company are retirement and protection and health.
 - **Protection and Health**
 - The growth in protection and health has been 55% YoY.
 - **Retirement business**
 - The growth in annuities has been 217% YoY on APE terms, driven by both single and limited pay annuities.
 - Max Life Pension Fund Management AUM stands at Rs 4.09bn as of September 2023.
 - **Factors behind growth in retirement business**
 - The company has brought on board a holistic team for the retirement business.
 - The team is focusing of various area such as NPS and corporate superannuation.
 - There have also been some product interventions in terms of regular pay, single pay and deferred annuity product designs.
- **Credit life**
 - The life insurer has signed more partners and is expecting a pick up in this area.

Overall revenue growth

- In 2Q, individual adjusted first year premium growth for the company was 32% YoY vs 16% for the private sector and this growth was driven by policy count.
- Gross premium was up 16% YoY in 1H.
- **Overall growth guidance**
 - Management stuck to their prior guidance of hitting double digit growth in FY24 on the high base of FY23.
 - They added that it is good to remain conservative on guidance but they will try to beat their guidance and deliver a healthy double-digit growth.

Embedded Value

- EV was Rs 179.11bn as of September 2023, up 21.8% YoY.
- The operating RoEV has been 17.5% for 1H, up 180 bps YoY.
- The operating variance has been negligible.
- The non-operating variance (economic variance) has been Rs 2.82bn, driven by equity markets and other factors.

Exhibit 2: Other Business Parameters

Rs mn	Q2FY24	Q2FY23	% yoy	Q1FY24	% qoq
APE Mix, Rs mn					
PAR	3,897	2,025	92%	1,911	104%
Individual protection	1,590	834	91%	899	77%
Group protection	976	650	50%	1,237	-21%
Annuity	873	238	266%	787	11%
Non PAR savings	3,706	4,298	-14%	3,485	6%
ULIP	5,487	3,866	42%	2,811	95%
Total APE	16,530	11,910	39%	11,130	49%

APE Mix (% Proportion)					
PAR	24%	17%	658bps	17%	641bps
Individual protection	10%	7%	262bps	8%	154bps
Group protection	6%	5%	45bps	11%	-521bps
Annuity	5%	2%	328bps	7%	-179bps
Non PAR savings	22%	36%	-1366bps	31%	-889bps
ULIP	33%	32%	74bps	25%	794bps
Total APE	100%	100%		100%	

APE by channel (Rs mn)					
Proprietary	6,723	4,269	57%	4,341	55%
Banca	9,476	7,522	26%	6,567	44%
Others	331	1,191	-72%	223	49%
Total	16,530	11,910	39%	11,130	49%

Channel mix (% in APE)					
Proprietary	41%	36%	483bps	39%	167bps
Banca	57%	63%	-583bps	59%	-167bps
Others	2%	10%	-800bps	2%	0bps

Persistence[^]					
13th Month*	84%	84%	0bps	84%	NA
61st Month*	58%	57%	100bps	51%	NA

Expense ratio					
Commission ratio	8.5%	5.9%	258bps	6.4%	205bps
Opex ratio	14.6%	14.1%	51bps	18.4%	-380bps

Solvency					
Solvency ratio	184%	196%	-1200bps	188%	-400bps

Source: Company, YES Sec – Research, [^]N.B. Individual policies excluding single pay/fully paid up policies, *Not comparable QoQ due to internal restatement

Exhibit 3: Quarterly Actuals Vs Estimates

Q2 FY24 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	24,240	23,994	1.0
Total APE	16,530	16,570	(0.2)
VNB	4,160	4,308	(3.4)

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Policyholders account					
Net premium	219,870	248,818	286,396	332,597	385,891
Income from investments	87,615	60,936	115,051	135,475	159,202
Other income	516	688	688	688	688
Contri. from shareholders A/C	156	104	104	104	104
Total income	308,157	310,547	402,240	468,865	545,886
Commission	14,028	16,138	18,329	21,286	24,697
Operating Expenses	30,192	35,808	40,095	46,564	54,025
Benefits paid	92,773	99,765	116,896	135,754	157,507
Change in valuation of liability	164,581	150,603	216,259	252,562	294,566
Others	2,420	2,236	2,578	2,993	3,473
Provision for Tax	0	0	0	0	0
Surplus/(Deficit)	4,163	5,997	8,082	9,706	11,618
Transfer to shareholders A/C	2,780	4,563	6,062	7,279	8,714

Source: Company, YES Sec – Research

Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Transfer from Policyholders' account	2,780	4,563	6,062	7,279	8,714
Income from Investments	3,252	3,295	4,356	5,220	6,257
Total A	6,032	7,858	10,418	12,500	14,971
Expenses (apart from insurance)	695	812	888	977	1,075
Contribution to Policyholders' Acc	1,168	1,999	2,199	2,419	2,661
Others	0	0	0	0	0
Total B	1,862	2,811	3,087	3,396	3,735
Profit/(Loss) before tax	4,170	5,046	7,331	9,104	11,235
Provision for Taxation	303	694	733	910	1,124
Profit/(Loss) after tax	3,867	4,352	6,598	8,194	10,112

Source: Company, YES Sec – Research

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' Funds:					
Share Capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	12,760	16,209	20,264	25,407	31,859
Credit/(Debit) Fair Value Ch. Acct.	11	71	71	71	71
Borrowings	4,960	4,960	4,960	4,960	4,960
Policyholders' Funds					
Policy Liabilities	672,822	805,354	986,936	1,199,619	1,448,324
Provision for Linked Liabilities	294,035	303,656	338,333	378,212	424,073
Fair Value change	6,794	8,466	8,466	8,466	8,466
Insurance Reserve	0	0	0	0	0
Fund For Discontinued Policies	40,397	48,847	58,616	70,339	84,407
Funds for future appropriation	32,369	35,803	37,593	39,473	41,446
Sources of Funds	1,083,335	1,242,553	1,474,426	1,745,735	2,062,793
Investments - Shareholders	51,477	55,043	65,954	79,057	94,742
Investments Policyholders	689,187	821,021	987,079	1,181,160	1,406,549
Assets Held to Cover Linked Liab.	334,432	352,502	396,097	446,230	503,884
Loans	6,661	9,248	9,711	10,196	10,706
Fixed Assets	2,604	3,452	3,752	4,052	4,352
Net Current Assets	(1,026)	1,287	11,835	25,040	42,561
Misc. Expenditure	0	0	0	0	0
Application of funds	1,083,335	1,242,553	1,474,426	1,745,735	2,062,793

Source: Company, YES Sec – Research

Exhibit 7: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Opening EV	118,350	141,750	162,630	195,253	234,148
Unwind of Discount	10,250	12,450	13,824	16,597	19,903
Value of New Business	15,280	19,490	19,715	23,397	27,614
Operating Variance	(2,770)	(620)	813	976	1,171
EV Operating Profit (EVOP)	22,760	31,320	34,352	40,969	48,687
Economic Variance	640	(10,440)	813	976	1,171
EV Profit	23,400	20,880	35,165	41,946	49,858
Net Capital Inflow / Outflow	0	0	(2,542)	(3,050)	(3,660)
Closing EV	141,750	162,630	195,253	234,148	280,345

Source: Company, YES Sec – Research

Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Annual Premium Equivalent	73,020	85,078	98,620	69,328	80,754	93,647	5.3	5.4	5.3
Value of new business	19,715	23,397	27,614	19,412	23,015	26,690	1.6	1.7	3.5
Embedded Value	195,253	234,148	280,345	194,950	233,434	278,640	0.2	0.3	0.6

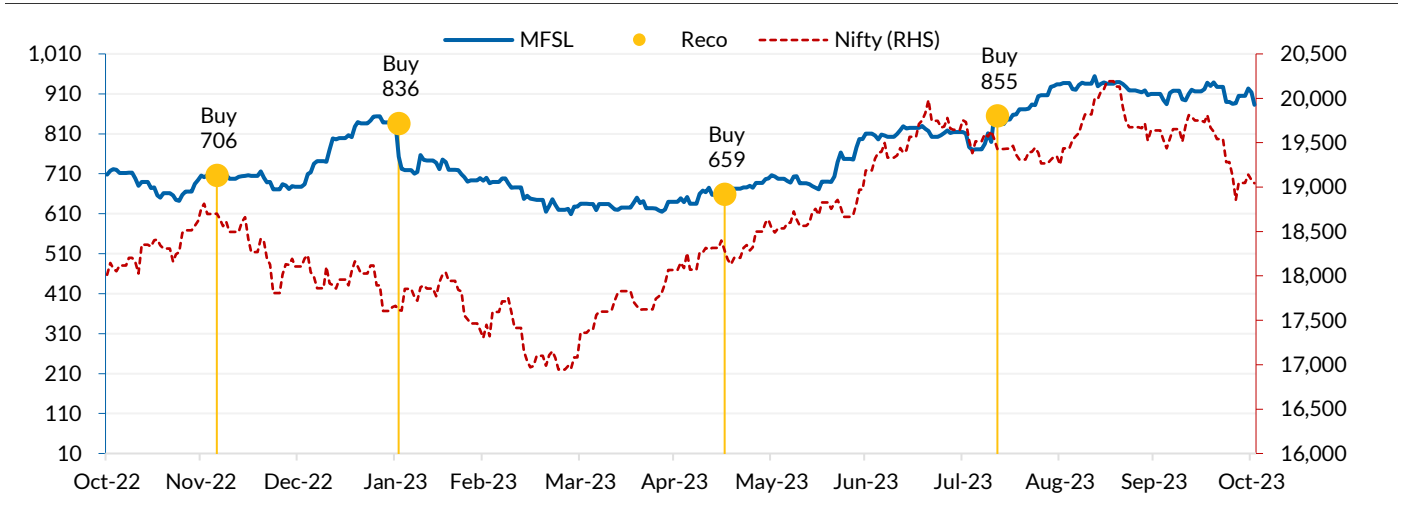
Source: Company, YES Sec – Research

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth (%) - P&L					
New business premium	15.8%	13.3%	14.8%	16.5%	15.9%
Renewal premium	19.0%	12.9%	15.6%	15.9%	16.1%
Net premium	17.3%	13.2%	15.1%	16.1%	16.0%
PAT	-26.1%	12.5%	51.6%	24.2%	23.4%
VNB	22.3%	27.6%	1.2%	18.7%	18.0%
Growth (%) - Balance Sheet					
Total AUM	18.9%	14.3%	18.0%	17.8%	17.5%
Total Assets	18.8%	14.7%	18.7%	18.4%	18.2%
Embedded value	19.8%	14.7%	20.1%	19.9%	19.7%
Profitability ratios (%)					
VNB Margins	27.3%	31.2%	27.0%	27.5%	28.0%
Commission ratio	6.4%	6.5%	6.4%	6.4%	6.4%
Opex ratio	13.7%	14.4%	14.0%	14.0%	14.0%
Expense ratio	20.1%	20.9%	20.4%	20.4%	20.4%
Conservation Ratio	85.2%	82.6%	85.0%	85.0%	85.0%
Return ratios (%)					
ROE	12.1%	12.3%	16.7%	18.4%	19.8%
RoEV	19.2%	22.1%	21.1%	21.0%	20.8%
RoA	0.4%	0.4%	0.5%	0.5%	0.5%
Investment Return (%)					
Solvency					
Solvency Ratio	201%	190%	190%	190%	190%
Underwriting					
Claims ratio	42.2%	40.1%	40.8%	40.8%	40.8%
Claims / AUM	8.6%	8.1%	8.1%	8.0%	7.9%
Per share data - MaxF Share (Rs)					
EPS	9.7	11.0	16.6	20.7	25.5
VNBPS	38.5	49.1	49.7	59.0	69.6
BVPS	80.5	89.2	99.5	112.4	128.7
EVPS	357.3	410.0	492.2	590.3	706.7
Valuation (x)					
P/E	92.0	81.8	53.9	43.4	35.2
P/VNB	23.3	18.3	18.0	15.2	12.9
P/BV	11.1	10.1	9.0	8.0	7.0
P/EV	2.5	2.2	1.8	1.5	1.3

Source: Company, YES Sec – Research; Per share figures are as per MFS' stake in MLI's value divided by MFS share count and valuation multiples are resultant figures and the rest are MLI figures; Certain figures for FY23 are actuals

Recommendation Tracker



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