

May 7, 2024

RESULT REPORT Q4 FY24 | Sector: Insurance (Life)

Max Financial Services Ltd.

Max Life continues to prove it is the growth champion, reiterate as top life insurer pick

Our view – Healthy growth over high base particularly creditable

VNB margin - Margin expanded on sequential basis due to seasonality as well traction for certain margin-enhancing products: Calculated VNB margin for 4QFY24 rose 134bps QoQ but fell -175bps YoY to 28.6%. One of the reasons for margin expanding sequentially is seasonality as the margin for Max Life is computed on actual cost due to which scale impact is highest in 4Q. Furthermore, Max Life has driven protection, health, annuity and riders, which have optimized margin despite a higher share of ULIP. In terms of margin guidance, management stated that VNB growth will be at the same level as sales growth or slightly lower, implying broadly stable margin.

APE growth - The 13.2% YoY growth on the high base of 4Q last year is particularly creditable for the life insurer and underlines its multi-pronged growth engine: New business APE grew by 60.0%/13.2% QoQ/YoY, driven higher YoY by growth in Par, Individual Protection, Annuity and ULIP segments. Total APE was at Rs 74.33 bn for FY24, up 19% YoY, while the company is looking at a sales growth in the high teens in FY25. For the year, proprietary channel APE was Rs 29.57 bn, up 28% YoY, while banca channel APE was Rs 43.4bn, up 12% YoY. Management stated that it has been publicly communicated by Axis Bank that they would like to maintain Max Life counter share between 65-70%. For the Non-Axis Bank partners, the counter shares have been increasing on month-on-month basis. Non-Axis Bank partners will be a potent source of revenue and the company will also continue to look for new partners.

We maintain 'BUY' rating on MAXF with a revised price target of Rs 1310: We value Max Life (MLI) at 2.4x FY26 P/EV for an FY25E/26E RoEV profile of 20.8/19.8% and then apply a 20% holding company discount. We had deliberately 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.

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

Other Highlights (See "Our View" above for elaboration and insight)

- **VNB growth:** VNB growth was at 67.9%/6.6% QoQ/YoY driven sequentially by sharp rise in APE
- **Expense control:** Expense ratio de-grew -149bps/-14bps QoQ/YoY to 21.3%, QoQ driven lower by fall of -169bps in Opex ratio
- **Persistency:** 37th month ratio rose 200bps YoY to 63% whereas 61st month ratio was up 700bps YoY at 58%

Exhibit 1: Result table

Rs mn	Q4FY24	Q4FY23	% yoy	Q3FY24	% qoq
NBP	40,530	33,200	22.1%	26,890	50.7%
Renewal premium	66,830	58,340	14.6%	46,080	45.0%
Income from investments	19,010	16,535	15.0%	18,378	3.4%
APAT	(501)	524	-195.5%	1,712	-129.2%
Expense ratio	21.3%	21.4%	-14bps	22.8%	-149bps
37th mo. Persistency^	63.0%	61.0%	200bps	63.0%	0bps
APE	28,720	25,380	13.2%	17,950	60.0%
VNB	8,210	7,700	6.6%	4,890	67.9%
VNB Margin	28.6%	30.3%	-175bps	27.2%	134bps

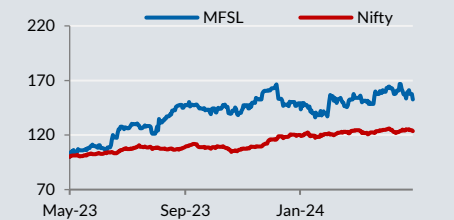
Source: Company, YES Sec-Research, ^N.B. Individual policies excluding single pay/fully paid up policies

Recommendation	: BUY
Current price	: Rs 970
Target price	: Rs 1310
Potential return	: 35%

Stock data (as on May 7, 2024)

Nifty	22,303
52 Week h/l (Rs)	1092 / 636
Market cap (Rs/USD mn)	340922 / 4084
Outstanding Shares (mn)	345
6m Avg t/o (Rs mn):	1,045
Div yield (%):	-
Bloomberg code:	MAXF IN
NSE code:	MFSL

Stock performance



	1M	3M	1Y
Absolute return	-4.4%	1.0%	52.6%

Shareholding pattern (As of Mar'24 end)

Promoter	6.5%
FII+DII	87.6%
Others	5.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1310	1300

Financial Summary

Rs mn	FY24	FY25E	FY26E
APE	74,330	86,483	100,047
% yoy	19.0%	16.4%	15.7%
VNB	19,730	22,918	27,013
VNB Margin	26.5%	26.5%	27.0%
PAT	2,729	7,689	9,661
% yoy	-37.3%	181.7%	25.7%
EVPS (Rs)	457.5	585.5	695.9
VNBPS (Rs)	46.3	53.8	63.4
ROEV (%)	20.2%	20.8%	19.8%
P/EV (x)	2.1	1.7	1.4
P/VNB (x)	20.9	18.0	15.3

Δ in earnings estimates

Rs bn	FY24	FY25E	FY26E
VNB (New)	NA	22.9	27.0
VNB (Old)	NA	21.3	25.2
% change	NA	7.4%	7.1%

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COMPREHENSIVE CON-CALL TAKEAWAYS

VNB and VNB margin

- **VNB**
 - The VNB was at Rs 19.73bn in FY24, up by 1% YoY.
- **VNB margin**
 - The VNB margin for FY24 was 26.5%, down by -470bps YoY.
 - The VNB margin for 4QFY24 was at 28.6%, up 134bps QoQ.
- **Sequential expansion**
 - One of the reasons for margin expanding sequentially is seasonality as the margin for Max Life is computed on actual cost due to which scale impact is highest in 4Q.
 - Furthermore, Max Life has driven protection, health, annuity and riders, which have optimized margin despite a higher share of ULIP.
- **Guidance**
 - VNB growth will be at the same level as sales growth or slightly lower.
- **Non-Par margin**
 - The company has increased rates with changes in the yield curve with an intention to maintain margin.
- **Individual protection margin**
 - There has been some shrinkage in protection margin but nothing significant.

Overall revenue growth

- New business premium for FY24 was at Rs 110.23 bn, up 23% YoY.
- Total APE was at Rs 74.33 bn for FY24, up 19% YoY.
- MFSL's consolidated revenue excluding investment income in FY24 was at Rs 290.11bn, up 16% YoY.
- **Guidance**
 - The company is looking at a sales growth in the high teens in FY25.

Channel growth and mix

- **Proprietary channel**
 - Proprietary channel APE was at Rs 29.57 bn in FY24, up 28% YoY.
 - Share of proprietary channel was at 40% in FY24, up by 300bps YoY.
 - Proprietary channel growth was driven by growth in Agency, E-commerce and Cross sell.
 - **Online Proprietary channel**
 - Online Proprietary channel APE was at Rs 6.90 bn in FY24, up 79% YoY.
 - On maxlifeinsurance.com, the company is driving higher-margin product.
 - On web aggregators, the company is driving both savings and protection.
 - The market share in the online savings business has improved from 12% to 22%.
 - **Offline Proprietary channel**
 - Offline Proprietary channel APE was at Rs 22.67 bn in FY24, up 18% YoY.
 - **Agency channel**
 - Agent recruitment growth in FY24 was 54% YoY.

(Con call takeaways continue on the next page)

- The prop channel has grown 21% over 5 years (CAGR) and the company hopes to maintain this growth.
- **Banca channel**
 - The banca channel APE was at Rs 43.4bn in FY24, up 12% YoY.
 - **Non-Axis Bank partners**
 - Counter shares in non-Axis Bank partners vary between 8-9% to 60%.
 - The counter shares have been increasing on month-on-month basis.
 - Non-Axis Bank partners will be a potent source of revenue and the company will also continue to look for new partners.
 - New partners
 - Max Life onboarded 40+ new partners FY24, i.e, 1 Bank, 20 new GCL partners, 14 Online & offline Brokers and 6 Corporate agents.
 - **Axis Bank channel**
 - The Axis Bank channel opened up to Tata AIA Life in December and it will open up to Aditya Birla Sun Life very soon.
 - However, the access provides is not pan-India but restricted to certain centres.
 - It has been publicly communicated by Axis Bank that they would like to maintain Max Life counter share between 65-70%.
 - The counter share has remained at 70% despite Tata AIA Life coming in.

Product growth and mix

- Max Life has introduced 37 products in FY24 which has contributed significantly to new business.
- **Product Mix**
 - The share of ULIP has increased to 35% in FY24 in APE terms, up by 800bps YoY.
 - The share of Par products has increased to 18% in FY24 in APE terms, up by 500bps YoY.
 - The share of Non Par savings has come down to 28% in FY24 in APE terms, down by -1500bps YoY.
- **Group protection**
 - Group credit life is up 59% YoY in FY24 and more than 150% in 4Q.
 - Group term life is a tactical play for Max Life and was up 25% in FY24 and lesser in 4Q due to competitive intensity.
 - Group credit life business amounted to Rs 1.12bn in FY24 and group term life Rs 3.01bn.
- **Individual protection**
 - There has been some easing in underwriting as Covid got over.
 - The intention is to grow individual protection faster than overall business.

Embedded Value

- The EV was Rs 194.94bn as of March 2024, up 20% YoY.
- **Return on Embedded Value**
 - The operating RoEV was 20.2% for FY24, down -190bps YoY.
- **Economic variance**
 - The non-operating variance is slightly negative, amounting to - Rs 0.57bn, due to economic variance.
 - While on equity, Max Life has experience a Rs 5.5bn gain, this has been offset by the debt portfolio due to interest rates moving lower.
(Con call takeaways continue on the next page)
 - The impact on equity portfolio depends on which segmental portfolio the equity assets are held.

- It may be noted that most of the portfolio is HTM.
- **Operating variance**
 - The operating variance was negative driven by tightening of assumptions on group credit life.
 - There was nothing unusual about this and this is done on annual basis proactively by the company.

Operating expenses

- The opex to GWP ratio was 13.8% in FY24, down by -40bps YoY.

AUM

- The AUM is up 23% YoY to Rs 1.51 trn.

Solvency

- The solvency ratio is 206% as of April 2024.
- The solvency ratio is 172% as of March 2024.

Regulations

- The discussion on surrender charges is still underway and this is a consultative process.
- The company believes the IRDAI will take decisions that will be a win-win.

Persistency

- The 13th month persistency is 87% whereas, the 61st month persistency is 58%.
- The company is ranked number 2 in customer loyalty as per Hansa Research for the second consecutive year.

NPS score

- The overall NPS score was 56 in 4QFY24.
- The website NPS score has improved to 67 in March 2024, up 10 points YoY.

On Max Life's stake acquisition by Axis Bank

- Axis Bank has acquired additional 6% stake in Max Life in April 2024.
- Axis bank has infused Rs 16.12bn and subscribed to 142.58 mn shares of Max Life.
- Axis Group's now holds around 19.02% stake in Max Life.
- The purchase of the balance stake of 0.98% by Axis Bank in Max Life will hopefully happen over the next few months.
- **Structure simplification**
 - After residual stake purchase, the process of collapsing the holding company structure (if it happens), will take place over the next 18-24 months.

Exhibit 2: Other Business Parameters

Rs mn	Q4FY24	Q4FY23	% yoy	Q3FY24	% qoq
APE Mix, Rs mn					
PAR	4,257	2,597	64%	3,313	28%
Individual protection	1,842	1,170	57%	1,616	14%
Group protection	524	913	-43%	980	-47%
Annuity	1,723	1,253	38%	1,077	60%
Non PAR savings	8,498	13,623	-38%	5,123	66%
ULIP	11,876	5,823	104%	5,841	103%
Total APE	28,720	25,380	13%	17,950	60%

APE Mix (% Proportion)					
PAR	15%	10%	459bps	18%	-364bps
Individual protection	6%	5%	180bps	9%	-259bps
Group protection	2%	4%	-178bps	5%	-364bps
Annuity	6%	5%	106bps	6%	0bps
Non PAR savings	30%	54%	-2409bps	29%	105bps
ULIP	41%	23%	1841bps	33%	881bps
Total APE	100%	100%		100%	

APE by channel (Rs mn)					
Proprietary	11,488	10,504	9%	7,180	60%
Banca	16,658	14,623	14%	10,411	60%
Others	574	254	126%	359	60%
Total	28,720	25,380	13%	17,950	60%

Channel mix (% in APE)					
Proprietary	40%	41%	-139bps	40%	0bps
Banca	58%	58%	39bps	58%	0bps
Others	2%	1%	100bps	2%	0bps

Persistence[^]					
13th Month*	87%	84%	300bps	85%	200bps
61st Month*	58%	51%	700bps	58%	0bps

Expense ratio					
Commission ratio	8.8%	7.0%	184bps	8.6%	20bps
Opex ratio	12.5%	14.4%	-198bps	14.1%	-169bps

Solvency					
Solvency ratio	172%	190%	-1800bps	179%	-700bps

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

Q4 FY24 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	40,530	38,195	6.1
Total APE	28,720	24,390	17.8
VNB	8,210	6,705	22.5

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	289,343	337,801	391,740
Income from investments	87,615	60,936	171,826	137,201	161,457
Other income	516	688	0	600	600
Contri. from shareholders A/C	156	104	0	100	100
Total income	308,157	310,547	461,168	475,702	553,897
Commission	14,028	16,138	23,985	21,619	25,071
Operating Expenses	30,192	35,808	38,807	47,292	54,844
Benefits paid	92,773	99,765	133,212	137,878	159,894
Change in valuation of liability	164,581	150,603	259,860	256,214	298,911
Others	2,420	2,236	2,604	3,040	3,526
Provision for Tax	0	0	0	0	0
Surplus/(Deficit)	4,163	5,997	2,701	9,658	11,652
Transfer to shareholders A/C	2,780	4,563	2,025	7,244	8,739

Source: Company, YES Sec – Research; FY24 is an estimate as actuals not available for accounting P&L

Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Transfer from Policyholders' account	2,780	4,563	2,025	7,244	8,739
Income from Investments	3,252	3,295	4,094	4,695	5,731
Total A	6,032	7,858	6,120	11,939	14,470
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	3,033	8,543	10,734
Provision for Taxation	303	694	303	854	1,073
Profit/(Loss) after tax	3,867	4,352	2,729	7,689	9,661

Source: Company, YES Sec – Research; FY24 is an estimate as actuals not available for accounting P&L

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Shareholders' Funds:					
Share Capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	12,760	16,209	16,396	21,034	27,035
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	1,017,084	1,217,948	1,453,207
Provision for Linked Liabilities	294,035	303,656	351,786	407,135	470,787
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	1,514,159	1,788,614	2,109,567
Investments - Shareholders	51,477	55,043	58,688	71,727	87,457
Investments Policyholders	689,187	821,021	986,475	1,166,833	1,375,909
Assets Held to Cover Linked Liab.	334,432	352,502	413,009	482,591	562,611
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	42,524	53,216	68,532
Misc. Expenditure	0	0	0	0	0
Application of funds	1,083,335	1,242,553	1,514,159	1,788,614	2,109,567

Source: Company, YES Sec – Research; FY24 is an estimate as actuals not available for accounting balance sheet

Exhibit 7: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Opening EV	118,350	141,750	162,630	194,940	249,447
Unwind of Discount	10,250	12,450	13,690	16,570	21,203
Value of New Business	15,280	19,490	19,730	22,918	27,013
Operating Variance	(2,770)	(620)	(570)	975	1,247
EV Operating Profit (EVOP)	22,760	31,320	32,850	40,463	49,463
Economic Variance	640	(10,440)	(540)	975	1,247
EV Profit	23,400	20,880	32,310	41,437	50,710
Net Capital Inflow / Outflow	0	0	0	13,070	(3,660)
Closing EV	141,750	162,630	194,940	249,447	296,496

Source: Company, YES Sec – Research; FY24 is on actuals for EV walk

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	NA	86,483	100,047	NA	80,521	93,379	NA	7.4	7.1
Value of new business	NA	22,918	27,013	NA	21,338	25,212	NA	7.4	7.1
Embedded Value	NA	249,447	296,496	NA	230,187	273,607	NA	8.4	8.4

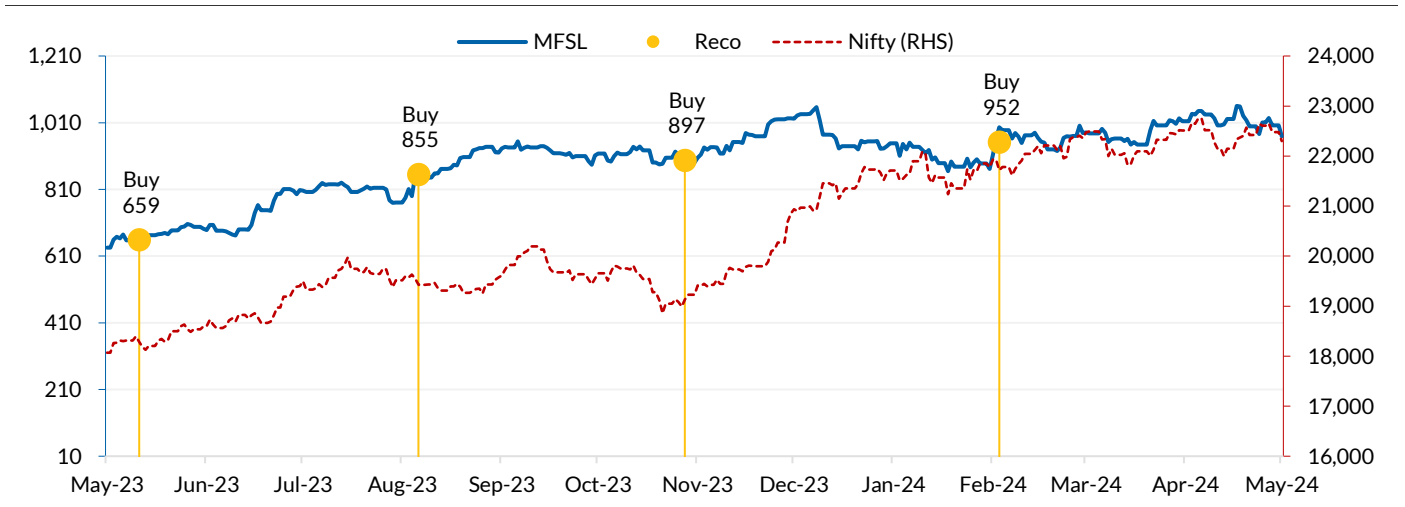
Source: Company, YES Sec – Research

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24*	FY25E	FY26E
Growth (%) - P&L					
New business premium	15.8%	13.3%	23.0%	10.5%	15.7%
Renewal premium	19.0%	12.9%	13.0%	20.4%	16.1%
Net premium	17.3%	13.2%	16.3%	16.7%	16.0%
PAT	-26.1%	12.5%	-37.3%	181.7%	25.7%
VNB	22.3%	27.6%	1.2%	16.2%	17.9%
Growth (%) - Balance Sheet					
Total AUM	18.9%	14.3%	18.7%	18.0%	17.7%
Total Assets	18.8%	14.7%	21.9%	18.1%	17.9%
Embedded value	19.8%	14.7%	19.9%	28.0%	18.9%
Profitability ratios (%)					
VNB Margins	27.3%	31.2%	26.5%	26.5%	27.0%
Commission ratio	6.4%	6.5%	8.3%	6.4%	6.4%
Opex ratio	13.7%	14.4%	13.4%	14.0%	14.0%
Expense ratio	20.1%	20.9%	21.7%	20.4%	20.4%
Conservation Ratio	85.2%	82.6%	83.1%	85.0%	85.0%
Return ratios (%)					
ROE	12.1%	12.3%	7.7%	19.1%	20.9%
RoEV	19.2%	22.1%	20.2%	20.8%	19.8%
RoA	0.4%	0.4%	0.2%	0.5%	0.5%
Investment Return (%)					
Solvency					
Solvency Ratio	201%	190%	172%	200%	195%
Underwriting					
Claims ratio	42.2%	40.1%	46.0%	40.8%	40.8%
Claims / AUM	8.6%	8.1%	9.1%	8.0%	7.9%
Per share data - MaxF Share (Rs)					
EPS	9.1	10.2	6.4	18.0	22.7
VNBPS	35.9	45.7	46.3	53.8	63.4
BVPS	75.0	83.1	83.5	94.4	108.5
EVPS	332.7	381.7	457.5	585.5	695.9
Valuation (x)					
P/E	106.8	94.9	151.4	53.7	42.8
P/VNB	27.0	21.2	20.9	18.0	15.3
P/BV	12.9	11.7	11.6	10.3	8.9
P/EV	2.9	2.5	2.1	1.7	1.4

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; *Certain FY24 numbers are estimates

Recommendation Tracker



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