

October 23, 2024

RESULT REPORT Q2 FY25 | Sector: Insurance (Life)

Max Financial Services Ltd.

Assigned BUY for the first time in Dec 2022, MFSL showcases required positive outcomes

Our view – Robust APE growth coupled with reasonable margin control

VNB margin – Max Life displays material sequential expansion driven by seasonality and rider attachment: Calculated VNB margin for 2QFY25 rose 613bps QoQ to 23.6%. About 500 bps of the sequential margin expansion is attributable to operating leverage and seasonal aspects, while about 100 bps is attributable to healthy rider attachment. At the beginning of the year, the company had guided for a 25-26% VNB margin for FY25 with a likelihood to settle at the lower end of this range. Upon the announcement of surrender guidelines, the company guided that there would be a negative impact of 100-200 bps on VNB margin on a run rate basis. Hence, the guidance for VNB margin for full year FY25 is 23-24%.

APE growth – Max Life continued to demonstrate stellar growth outcomes driven by its proprietary channel: New business APE grew by 49.3%/31.3% QoQ/YoY, driven higher YoY by growth in Individual Protection, Non Par Savings and ULIP segments. Proprietary channel APE was at Rs 9.41 bn in 2QFY25, up 45% YoY, driven by growth in Agency, E-commerce and Cross sell. Online Proprietary channel (E-commerce) APE grew by 59% YoY in 2Q. About 1.5 years ago, the company had entered the online savings segment, where they were previously not present, which has driven the growth in online savings. Offline Proprietary channel (Direct Sales) APE grew by up 39% YoY. The direct sales channel is being driven by selling to new customer pools including cross sell and upsell, including to Axis Bank franchise customers.

We maintain 'BUY' rating on MAXF with a revised price target of Rs 1550: We value Max Life (MLI) at 2.8x FY26 P/EV for an FY25/26/27E RoEV profile of 20.2/19.7/19.5% and then apply a 20% holding company discount. We had deliberately kept MAXF on "NOT RATED" for an extended period and then initiated coverage in our [report dated 4th December 2022](#) after we felt that the negatives were 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 grew 101.7%/23.2% QoQ/YoY driven YoY by sharp rise in APE
- **Expense control:** Expense ratio fell/rose -176bps/266bps QoQ/YoY to 25.7%, QoQ driven lower by fall of -297bps in Opex ratio
- **Persistency:** 37th month ratio rose 200bps YoY to 64% whereas 61st month ratio was flat YoY at 58%

Exhibit 1: Result table

Rs mn	Q2FY25	Q2FY24	% yoy	Q1FY25	% qoq
NBP	30,150	24,240	24.4%	20,760	45.2%
Renewal premium	47,230	42,010	12.4%	33,230	42.1%
Income from investments	21,705	18,718	16.0%	20,465	6.1%
APAT	1,393	1,703	-18.2%	1,559	-10.6%
Expense ratio	25.7%	23.0%	266bps	27.5%	-176bps
37th mo. Persistency [^]	64.0%	62.0%	200bps	64.0%	Obps
APE	21,700	16,530	31.3%	14,530	49.3%
Ind APE	20,490	15,328	33.7%	12,600	62.6%
VNB	5,123	4,160	23.2%	2,540	101.7%
VNB Margin	23.6%	25.2%	-156bps	17.5%	613bps

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

Recommendation	: BUY
Current price	: Rs 1,265
Target price	: Rs 1,550
Potential return	: 23%

Stock data (as on October 23, 2024)

Nifty	24,523
52 Week h/l (Rs)	1253 / 854
Market cap (Rs/USD mn)	411808 / 4898
Outstanding Shares (mn)	345
6m Avg t/o (Rs mn):	1,249
Div yield (%):	-
Bloomberg code:	MAXF IN
NSE code:	MFSL

Stock performance



	1M	3M	1Y
Absolute return	4.5%	21.2%	40.4%

Shareholding pattern (As of Sep'24 end)

Promoter	3.3%
FII+DII	90.2%
Others	6.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1550	1450

Financial Summary

Rs mn	FY25E	FY26E	FY27E
APE	92,801	108,237	126,293
% yoy	24.9%	16.6%	16.7%
VNB	21,808	26,518	30,942
VNB Margin	23.5%	24.5%	24.5%
PAT	8,484	10,458	12,828
% yoy	135.9%	23.3%	22.7%
EVPS (Rs)	582.9	691.9	819.9
VNBPS (Rs)	51.2	62.2	72.6
ROEV (%)	20.2%	19.7%	19.5%
P/EV (x)	2.2	1.8	1.5
P/VNB (x)	24.7	20.3	17.4

Δ in earnings estimates

Rs bn	FY25E	FY26E	FY27E
VNB (New)	21.8	26.5	30.9
VNB (Old)	21.9	26.0	30.4
% change	-0.4%	1.8%	1.8%

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COMPREHENSIVE CON-CALL TAKEAWAYS

VNB margin

- **VNB**
 - The VNB was at Rs 7.66bn in 1HFY25, up by 16% YoY.
 - The VNB was at 5.12bn in 2QFY25, up by 23% YoY
- **VNB margin**
 - The VNB margin for 1HFY25 was 21.2%, down by -280bps YoY.
 - The VNB margin for 2QFY25 was at 23.6%, up 613bps QoQ.
- **Reasons for sequential margin expansion**
 - **Operating leverage**
 - About 500 bps of the sequential margin expansion is attributable to operating leverage and seasonal aspects.
 - The margin for 1Q is seasonally the lowest and then it builds up over the rest of the year since the company takes expense on actuals, while sales ramps up on sequential basis.
 - **Rider attachment**
 - About 100 bps of the sequential margin expansion is attributable to healthy rider attachment.
 - The product mix is not a key reason for sequential margin expansion.
 - If ULIPs see strong traction, the company tries to attach more riders, especially on the ULIP design sold through banks.
- **Impact of yield curve changes**
 - The company keeps making pricing changes in the regular course of business and Non-Par pricing has been adjusted in 1H.
 - The movement in pricing in the last month has been sharper due to competition.
- **Margin guidance**
 - Management stated that they would stick to prior guidance that they have made.
 - At the beginning of the year, the company had guided for a 25-26% VNB margin for FY25 with a likelihood to settle at the lower end of this range.
 - Upon the announcement of surrender guidelines, the company guided that there would be a negative impact of 100-200 bps on VNB margin on a run rate basis.
 - Hence, the guidance for VNB margin for full year FY25 is 23-24%.
 - Over the next 3-4 quarters, the company expects to nullify the run rate impact on margin due to the surrender guidelines.
 - While the next 2 quarters, particularly 3Q, will be dynamic, the company will try to hold its margin.

Channel growth and mix

- **Proprietary channel**
 - Proprietary channels APE grew by 51% in H1FY25 on YoY basis.
 - Proprietary channel growth was driven by growth within Agency, E-commerce and Cross sell.
 - Proprietary channel APE was at Rs 9.41 bn in 2QFY25, up 45% YoY.
 - **Prop channel mix**
 - The agency channel's share has been 21-22%, which is similar to last year.
 - The direct sales (CAT) channel contributed 9%, which is also similar to last year.
 - The share of e-commerce has gone up from 9% to 15%.

(Con call takeaways continue on the next page)

- **Agency channel**
 - The agency channel is being driven by top agent momentum, expansion of capacity and productivity gains.
- **Direct sales channel**
 - Offline Proprietary channel APE grew by up 39% YoY.
 - The direct sales channel is being driven by selling to new customer pools including cross sell and upsell, including to Axis Bank franchise customers.
- **E-commerce**
 - Online Proprietary channel APE grew by 59% YoY in 2Q.
 - About 1.5 years ago, the company had entered the online savings segment, where they were previously not present, which has driven the growth in online savings and reaching pole position in counter share.
 - The company has already been the leader and number 1 player in online protection since a long time.
 - **Own website vs Web Aggregators**
 - Sales via the company's website comprise 30-35% of total e-commerce sales for the company.
 - Both the website and aggregators are growing well at 90% and 110% YoY, respectively.
- **Banca channel**
 - The banca channel APE was at Rs 18.85bn in 1HFY25, up 16% YoY.
- **New partners**
 - Max Life onboarded 20 new partners in 2QFY25, i.e. 2 Banks, 10 new GCL partners, 5 Online & offline Brokers and 3 Corporate agents.

Product growth and mix

- **Overall growth**
 - New business premium for 1HFY25 was at Rs 50.91 bn, up 19% YoY.
 - Total APE was at Rs 36.2 bn for 1HFY25, up 31% YoY.
 - Number of policies issued increased by 20% YoY in 1HFY25.
 - **Overall growth guidance**
 - The company will try to grow faster than the industry with a delta of 5-7% points.
 - The change in regulations is not expected to have a material impact on the company's growth rate.
- **Product Mix**
 - The share of ULIP has increased from 35% in FY24 to 47% in 2QFY25 in APE terms.
 - The share of Par products has decreased to 11% in 1HFY25 in APE terms, down by -1000bps YoY.
 - The share of Non-Par savings products has decreased to 24% in 1HFY25 in APE terms, down by -200bps YoY
 - The share of Protection & Health has increased to 10% in 1HFY25 as against 8% in FY24.
- **Annuities business**
 - Retail annuities is up 18% YoY in 1H.
 - There was a one-off deal in group annuities last year due to which, group annuities has seen a 60% de-growth.
 - The retail annuities business was Rs 1.73bn whereas group annuities was Rs 0.12bn.
 - The company is optimistic that the group annuities business will pick up in the subsequent quarters.

(Con call takeaways continue on the next page)

Protection

- Retail protection and Health was at Rs 2.37bn in 2QFY25, up 49% YoY.
- Retail Protection and Health APE grew by 51% YoY to Rs 3.96 bn in H1FY25.
- The Company's flagship Health product SEWA APE grew by 130% YoY in 1HFY25 and is now contributing >10% of Retail Protection and Health APE.
- **Riders**
 - The company achieved highest ever rider attachment ratio of 45% in 1HFY25 Vs 31% 1HFY24,
 - Rider APE grew by 280% YoY in 1H.
- **Group Protection**
 - Group credit life grew by 34% YoY in 1HFY25.

ULIP

- ULIP segment APE grew by 85% YoY.

Structure simplification

- Currently, there is no further update on the structure simplification for Max Financial.

Embedded Value

- The EV was Rs 233.38bn as of September 2024, up 30% YoY.
- **Operating variance**
 - The operating variance had a positive impact of Rs 90mn in 1H
 - There was some positive operating variance seen due to mortality experience.
- **Economic variance**
 - The non-operating variance had a positive impact of Rs 6.6bn in 1H
 - Two-third of the economic variance is due to the equity.
 - The remaining one-third is due to debt.
- **Return on Embedded Value**
 - The operating RoEV was 16.8% for 1HFY25, down -70bps YoY.
 - The operating RoEV excluding the capital infusion is 24.2%.

Inclusion of Axis name in brand

- The new name for the brand will be a combination of the words "Max" and "Axis" but one cannot comment on the order at this point.
- Axis Bank is a larger financial conglomerate present in centres where Max may not be present, particularly smaller cities.
- Various stakeholders gave the company feedback that it would be better off including Axis Bank in the brand and hence, management requested Axis Bank for the same.
- This name inclusion is expected to also given an advantage to Max Life with sellers on the Axis Bank platform, where the counter share of 65-70% is currently being maintained.
- Max Life's attempt will be to grow even faster and the company aspired to be a top 3 player.

Operating expenses

- The opex to GWP ratio was 16.5% in 1HFY25, up by 105bps YoY.
- There has been a 28% rise in total expenses.

(Con call takeaways continue on the next page)

- **Commission aspects**

- The rise in pure opex is 21-22%, while the incremental rise is due to commission increase due to re-design.
- Furthermore, the company is also aggressively pursuing new accounts in credit life, where commissions are higher.

New business strain

- New business strain has been due to the product mix sold.
- For the company, strain is higher for Protection, Credit Life and ULIP and lower for Par.

Persistency

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

AUM

- The AUM is up 27% YoY to Rs 1.70 trn.

Solvency

- The solvency ratio is 198% as of September 2024.

Exhibit 2: Other Business Parameters

Rs mn	Q2FY25	Q2FY24	% yoy	Q1FY25	% qoq
APE Mix, Rs mn					
PAR	2,118	3,897	-46%	1,908	11%
Individual protection	2,192	1,590	38%	1,468	49%
Group protection	1,094	976	12%	1,468	-25%
Annuity	1,096	873	26%	734	49%
Non PAR savings	5,554	3,706	50%	3,229	72%
ULIP	9,646	5,487	76%	5,724	69%
Total APE	21,700	16,530	31%	14,530	49%
APE Mix (% Proportion)					
PAR	10%	24%	-1382bps	13%	-337bps
Individual protection	10%	10%	48bps	10%	0bps
Group protection	5%	6%	-86bps	10%	-506bps
Annuity	5%	5%	-23bps	5%	0bps
Non PAR savings	26%	22%	317bps	22%	337bps
ULIP	44%	33%	1126bps	39%	506bps
Total APE	100%	100%		100%	
APE by channel (Rs mn)					
Proprietary	9,546	6,723	42%	7,120	34%
Banca	11,720	9,476	24%	7,120	65%
Others	434	331	31%	291	49%
Total	21,700	16,530	31%	14,530	49%
Channel mix (% in APE)					
Proprietary	44%	41%	332bps	49%	-501bps
Banca	54%	57%	-332bps	49%	501bps
Others	2%	2%	0bps	2%	0bps
Persistency[^]					
13th Month*	87%	84%	300bps	87%	0bps
61st Month*	58%	58%	0bps	58%	0bps
Expense ratio					
Commission ratio	9.9%	8.5%	142bps	8.7%	121bps
Opex ratio	15.8%	14.6%	125bps	18.8%	-297bps
Solvency					
Solvency ratio	198%	184%	1400bps	203%	-500bps

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

Exhibit 3: Quarterly Actuals Vs Estimates

Q2 FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	30,150	28,873	4.4
Total APE	21,700	22,094	(1.8)
VNB	5,123	4,414	16.1

Source: Company, YES Sec - Research

ANNUAL FINANCIALS

Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Policyholders account					
Net premium	248,818	289,847	339,634	402,158	474,247
Income from investments	60,886	170,071	142,598	168,827	199,413
Other income	688	804	600	600	600
Contri. from shareholders A/C	155	77	100	100	100
Total income	310,547	460,800	482,933	571,685	674,360
Commission	16,138	23,983	21,737	25,738	30,352
Operating Expenses	35,834	40,861	47,549	56,302	66,395
Benefits paid	99,765	133,177	138,626	164,146	193,570
Change in valuation of liability	150,603	257,486	261,141	309,198	364,869
Others	2,211	2,130	3,057	3,619	4,268
Provision for Tax	0	0	0	0	0
Surplus/(Deficit)	5,997	3,164	10,823	12,682	14,907
Transfer to shareholders A/C	4,563	2,612	8,118	9,511	11,180

Source: Company, YES Sec – Research

Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Transfer from Policyholders' account	4,563	2,612	8,118	9,511	11,180
Income from Investments	3,295	4,246	4,737	5,879	7,220
Total A	7,858	6,858	12,854	15,391	18,400
Expenses (apart from insurance)	812	737	817	899	989
Contribution to Policyholders' Acc	1,999	2,373	2,610	2,871	3,158
Others	0	0	0	0	0
Total B	2,811	3,110	3,428	3,770	4,147
Profit/(Loss) before tax	5,046	3,749	9,427	11,620	14,253
Provision for Taxation	694	152	943	1,162	1,425
Profit/(Loss) after tax	4,352	3,597	8,484	10,458	12,828

Source: Company, YES Sec – Research

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' Funds:					
Share Capital	19,188	19,188	19,188	19,188	19,188
Reserve and surplus	16,209	20,184	25,617	32,415	40,850
Credit/(Debit) Fair Value Ch. Acct.	71	611	611	611	611
Borrowings	4,960	4,960	4,960	4,960	4,960
Policyholders' Funds					
Policy Liabilities	805,354	973,550	1,167,308	1,399,016	1,674,772
Provision for Linked Liabilities	303,656	387,991	455,373	532,862	621,975
Fair Value change	8,466	39,204	39,204	39,204	39,204
Insurance Reserve	0	0	0	0	0
Fund For Discontinued Policies	48,847	53,802	64,563	77,475	92,970
Funds for future appropriation	35,803	38,727	40,663	42,697	44,831
Sources of Funds	1,242,553	1,538,216	1,817,488	2,148,429	2,539,362
Investments - Shareholders	55,043	58,484	73,096	90,216	110,340
Investments Policyholders	821,021	1,008,078	1,192,482	1,408,817	1,662,727
Assets Held to Cover Linked Liab.	352,502	441,793	526,502	623,917	735,945
Loans	9,248	10,605	11,135	11,692	12,276
Fixed Assets	3,452	4,153	4,453	4,753	5,053
Net Current Assets	1,287	15,103	9,821	9,034	13,020
Misc. Expenditure	0	0	0	0	0
Application of funds	1,242,553	1,538,216	1,817,488	2,148,429	2,539,362

Source: Company, YES Sec - Research

Exhibit 7: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Opening EV	141,750	162,630	194,940	248,337	294,787
Unwind of Discount	12,450	13,690	16,570	21,109	25,057
Value of New Business	19,490	19,730	21,808	26,518	30,942
Operating Variance	(620)	(570)	975	1,242	1,474
EV Operating Profit (EVOP)	31,320	32,850	39,353	48,869	57,473
Economic Variance	(10,440)	(540)	975	1,242	1,474
EV Profit	20,880	32,310	40,328	50,110	58,946
Net Capital Inflow / Outflow	0	0	13,070	(3,660)	(4,393)
Closing EV	162,630	194,940	248,337	294,787	349,341

Source: Company, YES Sec - Research

Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Annual Premium Equivalent	92,801	108,237	126,293	87,561	102,148	119,214	6.0	6.0	5.9
Value of new business	21,808	26,518	30,942	21,890	26,048	30,400	(0.4)	1.8	1.8
Embedded Value	248,337	294,787	349,341	248,419	294,406	348,382	(0.0)	0.1	0.3

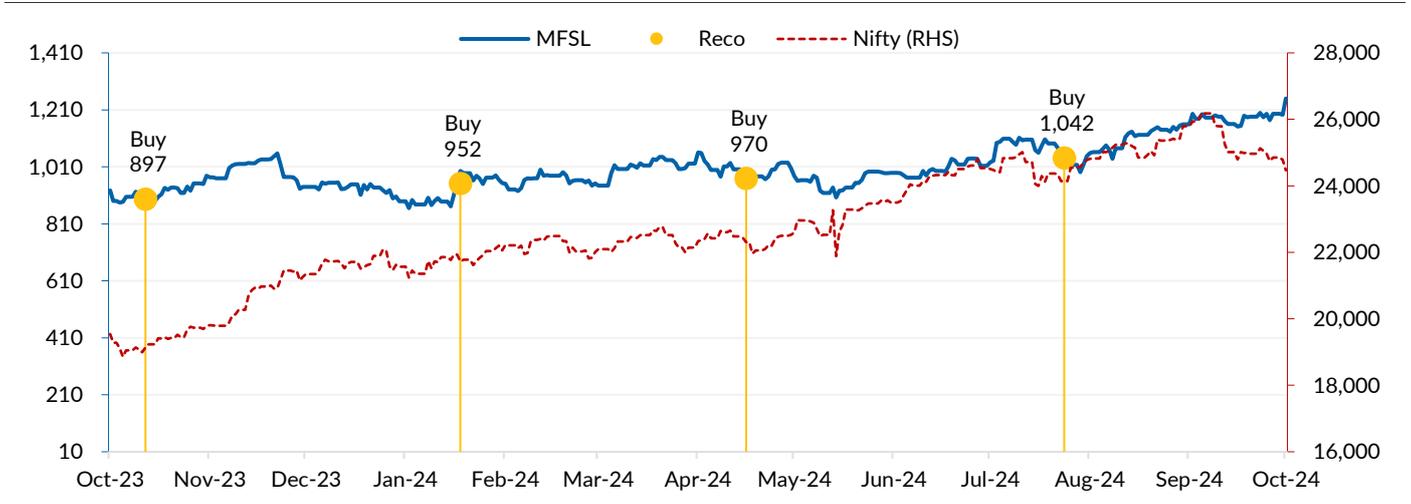
Source: Company, YES Sec - Research

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth (%) - P&L					
New business premium	13.3%	23.0%	18.6%	16.6%	16.7%
Renewal premium	12.9%	13.0%	16.6%	19.5%	18.7%
Net premium	13.2%	16.5%	17.2%	18.4%	17.9%
PAT	12.5%	-17.4%	135.9%	23.3%	22.7%
VNB	27.6%	1.2%	10.5%	21.6%	16.7%
Growth (%) - Balance Sheet					
Total AUM	14.3%	22.8%	18.8%	18.5%	18.2%
Total Assets	14.7%	23.8%	18.2%	18.2%	18.2%
Embedded value	14.7%	19.9%	27.4%	18.7%	18.5%
Profitability ratios (%)					
VNB Margins	31.2%	26.5%	23.5%	24.5%	24.5%
Commission ratio	6.5%	8.3%	6.4%	6.4%	6.4%
Opex ratio	14.4%	14.1%	14.0%	14.0%	14.0%
Expense ratio	20.9%	22.4%	20.4%	20.4%	20.4%
Conservation Ratio	82.6%	83.1%	85.0%	85.0%	85.0%
Return ratios (%)					
ROE	12.3%	9.1%	18.9%	20.3%	21.4%
RoEV	22.1%	20.2%	20.2%	19.7%	19.5%
RoA	0.4%	0.3%	0.5%	0.5%	0.5%
Investment Return (%)					
Solvency					
Solvency Ratio	190%	172%	200%	195%	195%
Underwriting					
Claims ratio	40.1%	45.9%	40.8%	40.8%	40.8%
Claims / AUM	8.1%	8.8%	7.7%	7.7%	7.7%
Per share data - MaxF Share (Rs)					
EPS	10.2	8.4	19.9	24.5	30.1
VNBPS	45.7	46.3	51.2	62.2	72.6
BVPS	83.1	92.4	105.2	121.1	140.9
EVPS	381.7	457.5	582.9	691.9	819.9
Valuation (x)					
P/E	123.8	149.8	63.5	51.5	42.0
P/VNB	27.6	27.3	24.7	20.3	17.4
P/BV	15.2	13.7	12.0	10.4	9.0
P/EV	3.3	2.8	2.2	1.8	1.5

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

Recommendation Tracker



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