

## Max Financial Services Ltd

### Decent set of numbers; ULIP scales higher

Axis Max Life continues to have a product mix geared towards ULIP with its share increasing in the APE mix. The APE grew 26% YoY in 9MFY25 with VNB growth of 9% YoY. We expect APE to clock 18% CAGR over FY24-FY27E to Rs121bn. VNB margin contracted 336bps YoY to 21.9% in 9MFY25. We cut our VNB margin estimates by 140-160bps over FY25-FY27. Embedded Value (EV) grew 29% YoY to Rs241bn in 9MFY25. We increase our EV estimates by 9-12% over FY25-FY27 and now expect EV to clock 23% CAGR over FY24-FY27 to Rs365bn. Proprietary channels grew faster than overall APE growth, thereby increasing its share in the APE mix from 40% to 44%. The stock is currently trading at 1.3x FY27E P/EV. We value it using the appraisal method to arrive at a revised target price of Rs1,450 (vs Rs1,400), translating into a 1.7x FY27E P/EV. Maintain BUY.

#### ULIP led growth

Axis Max Life's APE grew 26% YoY to Rs 57bn in 9MFY25 (up 17% YoY at Rs21bn in Q3FY25). ULIP continues to be the growth driver, with it increasing by 70% YoY in 9MFY25 and thereby increasing its share to 43% (vs 31% in 9MFY24). The company expects the share of ULIP to stabilise. Non-par grew 6% YoY in 9MFY25 with its share decreasing from 27% to 23%. Protection APE (16% share) jumped 27% YoY in 9MFY25 with Individual Protection rising 37% YoY whereas Group (ex-Term Life) increased by 18%. Annuity growth was in single digits at 5% YoY. The company achieved rider attachment ratio of 45% in 9MFY25 vs 32% in the same period last year. We expect APE to clock 18% CAGR over FY24-FY27E to Rs121bn.

#### VNB margin declines

Axis Max Life's VNB margin contracted 336bps YoY to 21.9% in 9MFY25 due to change in the product mix (geared towards ULIP and low demand of Non-par). VNB margin in Q3FY25 stood at 23.2% vs 27.2% in Q3FY24. The margin drop of 400bps was mostly attributable to the impact of business mix (300bps) and surrender rule (100bps). To mitigate the impact of surrender laws, the management took internal actions such as increasing rider penetration and ensuring the sale of variants with greater margins. Further, other measures such as upfront reduction and deferral or clawback of commissions have also been taken. We lower our VNB estimates by 6-7% whereas the VNB margin estimates have been cut by 140-160bps over FY25-FY27. VNB margin estimates are 22.2%/22.6%/ 23.2% for FY25/FY26/FY27.

#### EV to clock 23% CAGR over FY24-FY27

EV grew 29% YoY to Rs241bn in 9MFY25. Operating ROEV stood at 17.3%. In 9MFY25, the operating variance was zero whereas the positive economic variance was Rs5.4bn. The economic variance declined from Rs6.6bn in H1FY25 to Rs5.4bn in 9MFY25 on account of a decline in equity. We increase our EV estimates by 9-12% over FY25-FY27 and now expect EV to clock 23% CAGR over FY24-FY27 to Rs365bn.

#### Distribution mix – Proprietary channels score

Proprietary channels grew faster than the overall APE growth with a 41% YoY growth in 9MFY25, thereby increasing its share within the APE mix from 40% to 44%. Bancassurance was relatively weak at 14% YoY growth. The company added 8 distribution partners in Q3FY25, which included 5 group credit life partners, 2 brokers and 1 corporate agent. These new partnerships have already crossed business of Rs1bn.

**Maintain BUY:** Axis Max Life's EV is expected to clock 23% CAGR over FY24-FY27E to Rs365bn. The stock is currently trading at 1.3x FY27E P/EV, which we believe is undervalued considering the balanced product mix, diversified distribution mix and strong growth prospects. We increase our EV estimates by 9-12% over FY25-FY27 to bake in a strong Q3. We value the company using the appraisal method to arrive at a revised target price of Rs1,450 (vs Rs1,400), implying an unchanged 1.7x FY27E P/EV. Maintain BUY. **Key risks:** Change in regulations, adverse economic events and change in persistency.

#### Financial and valuation summary

(Rs mn)	3QFY25A	3QFY24A	YoY (%)	2QFY25A	QoQ (%)	FY25E	FY26E	FY27E
NBP	30,000	26,890	11.6	30,160	-0.5	1,31,885	1,52,288	1,74,040
Gross premium	82,230	72,970	12.7	77,390	6.3	3,46,177	4,03,041	4,67,078
APE	21,080	17,950	17.4	21,700	-2.9	89,634	1,04,596	1,20,678
Embedded Value	2,41,290	1,87,090	29.0	2,33,380	3.4	2,62,628	3,09,749	3,65,224
VNB	4,890	4,890	0.0	5,130	-4.7	19,917	23,660	28,009
VNB Margin (%)	23.2	27.2	(404 bps)	23.6	(44 bps)	22.2	22.6	23.2
P/EV						1.8	1.5	1.3
P/VNB						19.1	16.1	13.6

Source: Company, Centrum Broking

#### Result Update

India | Insurance

05 February, 2025

#### BUY

Price: Rs1,101

Target Price: Rs1,450

Forecast return: 32%

Institutional Research

#### Market Data

Bloomberg:	MAXF IN
52 week H/L:	1,311/862
Market cap:	Rs373.9bn
Shares Outstanding:	345.1mn
Free float:	71.9%
Avg. daily vol. 3mth:	7,22,881
Source: Bloomberg	

#### Changes in the report

Rating:	NA
Target price:	Rs1,400 to Rs1,450
	FY25E: Rs542.4 to Rs608.8
EVPS:	FY26E: Rs649.9 to Rs718.0
	FY27E: Rs776.6 to Rs846.7
Source: Centrum Broking	

#### Shareholding pattern

	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	3.3	3.3	6.5	6.5
FIs	47.5	46.2	46.6	47.7
DIs	42.7	44.0	40.7	39.9
Public/other	6.5	6.4	6.1	5.9

Source: BSE



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs bn)	FY26E New	FY26E Old	% chg	FY27E New	FY27E Old	% chg
APE	105	105	0.0	121	121	0.0
VNB	24	25	-6.7	28	30	-5.5
EV	310	280	10.5	365	335	9.0

Source: Centrum Broking

### Company versus NIFTY 50

	1m	6m	1 year
MAXF IN	0.8	4.7	28.4
NIFTY 50	(3.9)	(2.4)	10.6

Source: Bloomberg, NSE

### Key assumptions

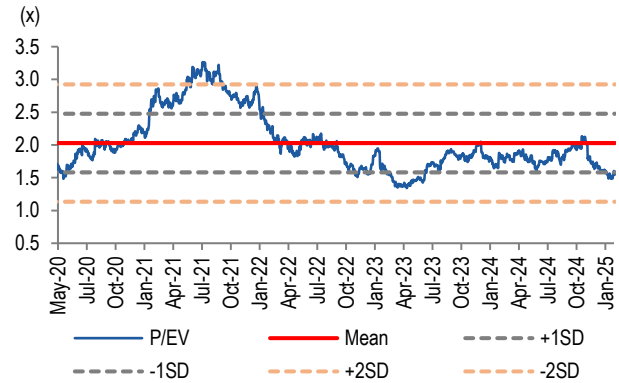
YE Mar (Rs bn)	FY25E	FY26E	FY27E
APE	90	105	121
VNB	20	24	28
VNB margin (%)	22.2	22.6	23.2
EV	263	310	365

Source: Centrum Broking

### Valuation

Axis Max Life had a decent quarter; APE grew 26% YoY in 9MFY25. We continue to expect APE to clock 18% CAGR over FY24-FY27E to Rs121bn. We increase our EV estimates by 9-12% over FY25-FY27 to bake in a strong Q3; it is expected to clock 23% CAGR over FY24-FY27E to Rs365bn. The stock is currently trading at 1.3x FY27E. We value the company using the appraisal method to arrive at a revised target price of Rs1,450 (vs Rs1,400), implying a 1.7x FY27E P/EV. **Key risks:** Change in regulations, adverse economic events and change in persistency.

#### P/EV mean and standard deviation



### Appraisal value

<b>Particulars (Rs bn)</b>	<b>FY27E</b>
Embedded Value	365
PV of Future business	372
<b>Appraisal Value</b>	<b>737</b>
<b>MFS stake</b>	<b>80%</b>
MFS value	590
MFS valuation per share	1,709
Holding company discount	15%
Target price (Rs)	1,453
Target price (round off)	1,450
Price per share	1,101
Upside / downside	31.6%

Source: Centrum Broking

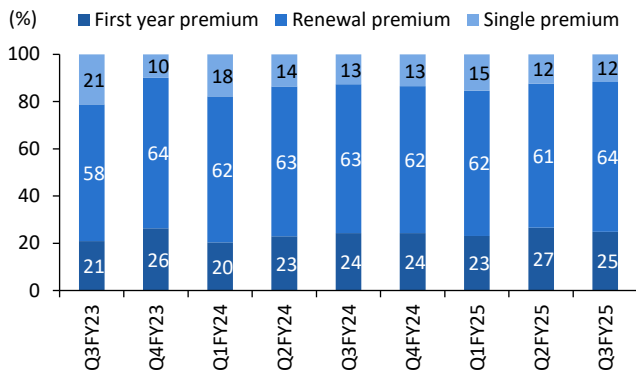
### Valuation summary

Companies	Rating	CMP	Target Price	Upside	P/EV		Implied P/EV		P/VNB		Implied P/VNB	
		(Rs)	(Rs)	(%)	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
MAXF IN	BUY	1,101	1,450	31.6	1.5	1.3	2.0	1.7	16.1	13.6	21.1	17.9
SBILIFE IN	BUY	1,473	1,930	31.0	1.8	1.5	2.3	2.0	21.7	18.8	28.4	24.6
HDFCLIFE IN	BUY	628	780	24.2	2.0	1.8	2.6	2.2	28.9	24.9	35.8	30.9
IPRU IN	BUY	608	780	28.3	1.7	1.4	2.0	1.8	28.6	23.9	36.7	30.6
LICI IN	BUY	835	1,220	46.2	0.6	0.5	0.9	0.8	45.1	40.3	65.9	58.9

Source: Centrum Broking

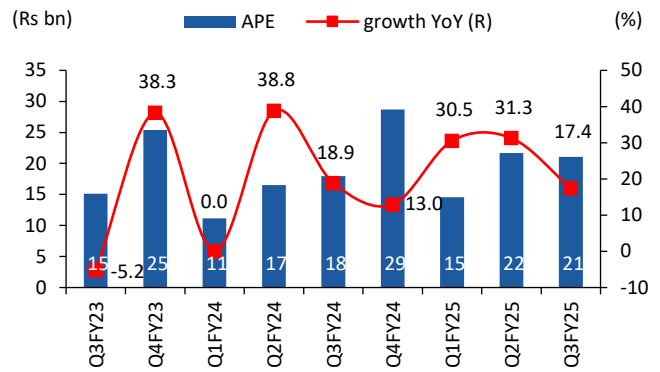
## Key charts

**Exhibit 1: Renewal premium growth higher in Q3FY25**



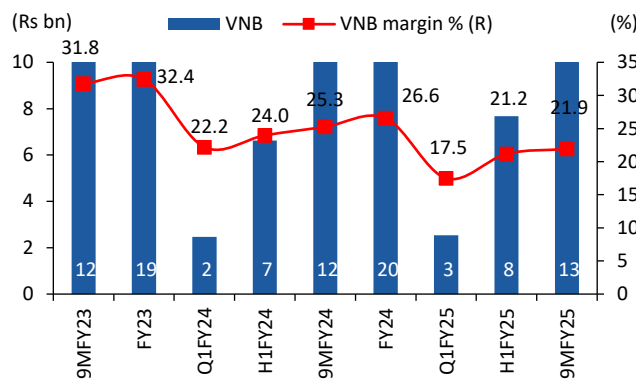
Source: Company Data, Centrum Broking

**Exhibit 2: APE YoY growth in high teens in Q3FY25**



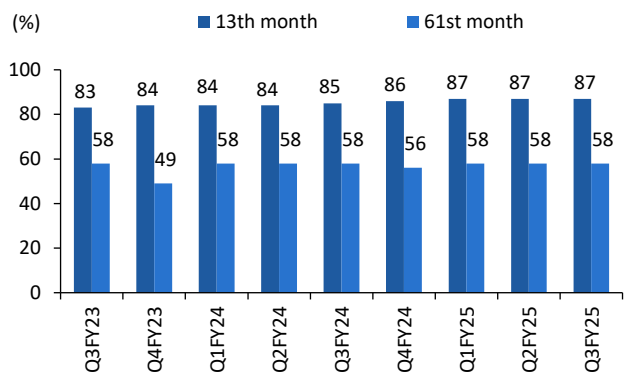
Source: Company Data, Centrum Broking. Note: APE excludes group term life.

**Exhibit 3: VNB margin down 336bps YoY at end 9MFY25**



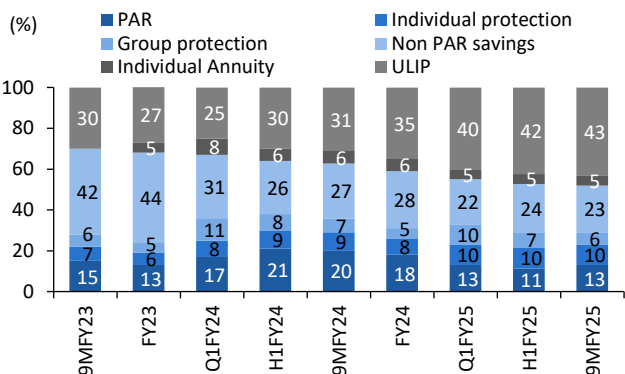
Source: Company Data, Centrum Broking

**Exhibit 4: Persistency ratios stable**



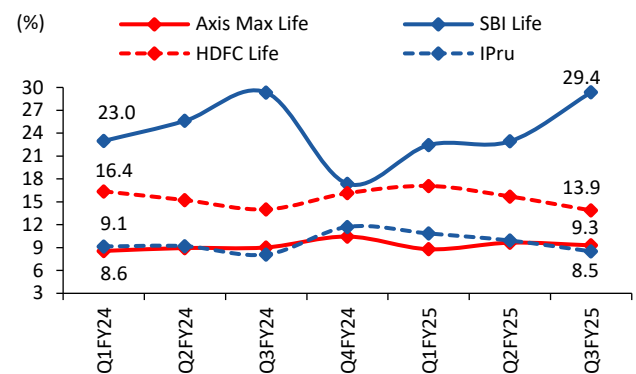
Source: Company Data, Centrum Broking

**Exhibit 5: ULIP constitutes 43% in APE at end 9MFY25**



Source: Company Data, Centrum Broking. Note: Group protection share includes group term life.

**Exhibit 6: Individual APE market share inches up in Q3FY25**



Source: Company Data, Centrum Broking

## Key financials

### Exhibit 7: Key financials

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
<b>Policyholders' A/c</b>								
Gross premium	82,230	72,970	12.7	77,390	6.3	2,13,600	1,87,930	13.7
First year premium	20,430	17,696	15.5	20,618	-0.9	53,520	42,841	24.9
Renewal premium	52,230	46,080	13.3	47,230	10.6	1,32,690	1,18,230	12.2
Single premium	9,570	9,194	4.1	9,542	0.3	27,390	26,859	2.0
<b>Key metrics</b>								
APE (Rs bn)	21,080	17,950	17.4	21,700	-2.9	57,310	45,610	25.7
NBP	30,000	26,890	11.6	30,160	-0.5	80,910	69,700	16.1
Renewal	52,230	46,080	13.3	47,230	10.6	1,32,690	1,18,230	12.2
Embedded Value (Rs bn)	2,41,290	1,87,090	29.0	2,33,380	3.4	2,41,290	1,87,090	29.0
Value of New Business (Rs bn)	4,890	4,890	0.0	5,130	-4.7	12,560	11,520	9.0
VNB margin (%)	23.2	27.2	(404 bps)	23.6	(44 bps)	21.9	25.3	(336 bps)
<b>APE product mix</b>								
Par	3,530	3,220	9.6	2,260	56.2	7,880	9,400	-16.2
Individual protection	1,980	1,720	15.1	2,400	-17.5	5,940	4,340	36.9
Group protection	310	320	-3.1	300	3.3	870	740	17.6
Non-par savings	4,750	5,360	-11.4	5,680	-16.4	13,960	13,200	5.8
Individual Annuity	1,190	1,090	9.2	1,030	15.5	3,040	2,880	5.6
ULIP	9,330	6,240	49.5	10,030	-7.0	25,630	15,050	70.3
<b>Total APE (excluding group term life)</b>	<b>21,080</b>	<b>17,950</b>	<b>17.4</b>	<b>21,700</b>	<b>-2.9</b>	<b>57,310</b>	<b>45,610</b>	<b>25.7</b>
<b>APE product mix (%) (excluding group term life)</b>								
Par	16.7	17.9	(119 bps)	10.4	633 bps	13.7	20.6	(686 bps)
Individual protection	9.4	9.6	(19 bps)	11.1	(167 bps)	10.4	9.5	85 bps
Group protection	1.5	1.8	(31 bps)	1.4	9 bps	1.5	1.6	(10 bps)
Non-par savings	22.5	29.9	(733 bps)	26.2	(364 bps)	24.4	28.9	(458 bps)
Individual Annuity	5.6	6.1	(43 bps)	4.7	90 bps	5.3	6.3	(101 bps)
ULIP	44.3	34.8	950 bps	46.2	(196 bps)	44.7	33.0	1172 bps
<b>APE distribution mix</b>								
Proprietary	8,890	7,160	24.2	9,400	-5.4	25,460	18,120	40.5
Bancassurance	11,770	10,520	11.9	11,810	-0.3	30,620	26,760	14.4
Others	420	270	55.6	490	-14.3	1,230	730	68.5
<b>Total</b>	<b>21,080</b>	<b>17,950</b>	<b>17.4</b>	<b>21,700</b>	<b>-2.9</b>	<b>57,310</b>	<b>45,610</b>	<b>25.7</b>
<b>APE distribution mix (%)</b>								
Proprietary	42.2	39.9	228 bps	43.3	(115 bps)	44.4	39.7	470 bps
Bancassurance	55.8	58.6	(277 bps)	54.4	141 bps	53.4	58.7	(524 bps)
Others	2.0	1.5	49 bps	2.3	(27 bps)	2.1	1.6	55 bps

Source: Company Data, Centrum Broking

## Concall highlights

### Industry highlights

- The Life Insurance industry's NBP grew 10% YoY to Rs2.8tn in 9MFY25 vs. Rs2.5tn in the year-ago period. The private sector's NBP grew at a faster rate of 14% YoY to Rs1.2tn from Rs1tn in the year-ago period.
- In 9MFY25, individual APE for the insurance sector grew 14% YoY while private sector's APE grew 19% YoY.

### Business highlights

- Axis Max Life's NBP grew 12% YoY (remained flat QoQ) to Rs30bn in Q3FY25. In 9MFY25, NBP grew 16% YoY to Rs81bn whereas renewals grew 12% to Rs133bn.
- APE grew 17% YoY but declined 3% QoQ to Rs21bn in Q3FY25. In 9MFY25, it stood at Rs57bn, up 26% YoY.
- The individual APE market share increased 27bps YoY to 9.3% in Q3FY25. On QoQ basis, it was down 35bps. At end 9MFY25, the market share stood at 9.3%.
- The total policies issued in the period ending 9MFY25 stood at 0.5mn.
- The solvency ratio stood at 196% as on Dec'24. The company announced that the Board of Axis Max Life Insurance Limited has approved the proposal for raising of additional capital through issuance of Non-Convertible Debentures (NCD) aggregating up to Rs13bn.
- The 13<sup>th</sup> and 61<sup>st</sup> month persistency ratios (by premium) stood at 85% and 58%, respectively in 9MFY25 (87% and 58%, respectively in 9MFY24).
- In Q3FY25, the company launched a new protection product called Smart Term Plan Plus with 7 different variants. Per management, this protection product, along with flagship offering of health products (Stay by 2.0) launched in Nov'24 should be instrumental in the growth of protection segment further.
- Policyholder opex to GWP is 14.9% and total cost to GWP stands at 24.3% for 9MFY25.
- The company doesn't see a significant change in the product IRRs in the next few months.

### Product mix

- ULIPs continue to gain momentum and constituted 43% share in APE vs 31% in 9MFY24, while Par products were down to 13% in 9MFY25 (vs 20%). Non-par products constituted 23% while Annuity products constituted 5%.
- Retail Protection stood at 10% while Group Protection was at 6% in 9MFY25. Protection plans thus constituted 16% in 9MFY25 - similar level vs a year ago.
- Group credit life grew 18% YoY while group term life grew 5% YoY in 9MFY25. Retail Protection business grew 37% YoY to Rs6bn while Group Protection (ex-group term life) grew by 18% YoY based on APE in 9MFY25.
- The company achieved rider attachment ratio of 45% in 9MFY25 vs 32% in the same period last year. Rider APE grew 250% YoY.

### VNB margin

- VNB grew 9% YoY to Rs13bn in 9MFY25 while VNB margin was down 336bps YoY at 21.9%. VNB remained flat on an annual basis in Q3FY25 at Rs4.9bn.
- VNB margin in Q3FY25 stood at 23.2% vs 27.2% in Q3FY24. The 400bps reduction in the margin was mainly due to the impact of business mix with it focussed on ULIPs and less on Non-par (300bps) and surrender regulations (100bps).

## Surrender norms

- The management had projected a 100-200bps impact on the VNB margin due to the surrender norm regulations. The impact of the same has been on the lower end at 100bps.
- Increasing rider penetration and ensuring the sale of variants with higher margins were internal steps taken by the management to reduce the impact of surrender margin regulations on the VNB margin.
- To further reduce the impact of surrender norms, appropriate measures in the form of upfront reduction and deferral or clawback of commissions have been initiated.

## EV

- EV grew 29% YoY to Rs241bn in 9MFY25. Operating ROEV stood at 17.3%.
- In 9MFY25, the operating variance was nil and a positive economic variance of Rs5.4bn. The economic variance declined from H1FY25 to 9MFY25 on account of a decline in equity.

## Distribution channel

- Bancassurance channel share in APE declined to 53% in 9MFY25 vs 59% in 9MFY24. Proprietary channel's share increased to 44% in 9MFY25 vs 40% in 9MFY24.
- The company added 8 distribution partners in Q3FY25, which included 5 group credit life partners, 2 brokers and 1 corporate agent. These new partnerships have already crossed business of Rs1bn.

## Listing roadmap

- The Board authorized a roadmap for Axis Max Life's listing through the merging of Max Financial Services Limited into Axis Max Life, with the goal of achieving listed company status for Axis Max Life.
- If there is an amendment in Section 35, the timeline for the listing of Axis Max Life will likely be expedited by a few months, coming down to about one year.

Revenue Account (Technical)					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Gross premium income	2,53,419	2,95,290	3,46,177	4,03,041	4,67,078
-First year premium	58,996	68,894	83,234	97,306	1,12,453
-Renewal premium	1,63,823	1,85,059	2,14,292	2,50,753	2,93,038
-Single premium	30,600	41,337	48,651	54,982	61,587
Net written premium	2,48,818	2,89,847	3,39,946	3,95,787	4,58,671
Income from investments	60,887	1,70,071	2,16,949	1,66,847	1,85,642
Other Income	2,842	3,254	925	972	1,020
Total income	3,12,548	4,63,173	5,57,820	5,63,606	6,45,333
Commissions	16,138	23,983	31,044	35,088	39,510
Operating expenses	35,834	40,861	46,213	53,032	60,495
Bonus paid	99,792	1,33,212	1,73,000	2,01,559	2,32,115
Change in liabilities (net)	1,50,603	2,57,486	2,98,486	2,64,086	3,02,265
Total Expenses	3,02,367	4,55,541	5,48,743	5,53,765	6,34,384
Provisions for doubtful debts & Investments	191	(14)	(15)	(15)	(16)
Service tax/ GST for linked charges	1,992	2,108	1,936	2,518	2,914
Surplus before tax	7,997	5,537	7,156	7,337	8,051
Provision for tax	-	-	358	367	403
Surplus after tax	7,997	5,537	6,798	6,970	7,649
Transfer to Shareholders' account	4,563	2,612	2,644	2,134	2,044
Balance being FFA	3,434	2,925	4,154	4,836	5,605

P&L account (Non-technical Account)					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Transfer from policyholders account	4,563	2,612	2,644	2,134	2,044
Income from investments	3,143	3,943	3,801	4,494	4,932
Contribution to the policyholders fund	2,103	2,373	-	-	-
PBT	5,047	3,749	5,944	6,060	6,335
Provision for taxation	694	152	149	152	158
PAT	4,353	3,597	5,795	5,909	6,177

Key Metrics					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
AUM	12,28,566	15,68,484	18,11,124	20,79,701	23,87,383
New Business Premium	89,596	1,10,231	1,31,885	1,52,288	1,74,040
APE	62,500	74,300	89,634	1,04,596	1,20,678
Value of new business	19,525	19,652	19,917	23,660	28,009
Embedded Value (Rs bn)	1,62,620	1,94,920	2,62,628	3,09,749	3,65,224
EVOP	31,320	32,800	38,485	47,983	56,338

Source: Company Data, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity	35,467	39,983	45,001	50,047	55,361
Policy liabilities	11,57,857	14,15,342	17,13,828	19,77,915	22,80,179
Borrowings	4,960	4,960	4,960	4,960	4,960
FFA	35,803	38,727	42,881	47,718	53,323
Fair value change - Policyholders	8,466	39,204	39,204	39,204	39,204
<b>Total Sources of Funds</b>	<b>12,42,553</b>	<b>15,38,216</b>	<b>18,45,875</b>	<b>21,19,844</b>	<b>24,33,028</b>
Shareholders' funds	55,043	58,484	81,705	89,680	98,993
Policyholders' funds	8,21,021	10,08,078	11,57,071	13,27,773	15,18,686
Assets held to cover Linked Liabilities	3,52,502	4,41,793	5,72,348	6,62,248	7,69,704
Others	13,987	29,861	34,751	40,143	45,644
<b>Total application of funds</b>	<b>12,42,553</b>	<b>15,38,216</b>	<b>18,45,875</b>	<b>21,19,844</b>	<b>24,33,028</b>

Per share data (Rs)					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	10.1	8.3	13.4	13.7	14.3
Dividend per share	-	-	2.3	2.5	2.5
EVPS (Rs)	377.0	451.9	608.8	718.0	846.7
VNB/ share (Rs)	56.6	56.9	57.7	68.6	81.2

Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
VNB margin (%)	31.2	26.5	22.2	22.6	23.2
RoEV (%)	22.1	20.2	19.7	18.3	18.2
Opex ratio (%)	14.1	13.8	13.3	13.2	13.0
Commission ratio (%)	6.4	8.1	9.0	8.7	8.5
Expense ratio (%)	20.5	22.0	22.3	21.9	21.4
Solvency ratio (%)	201.2	189.8	171.7	194.6	200.5
ROAE (%)	12.9	9.5	13.6	12.4	11.7

Valuations					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
P/EV			1.8	1.5	1.3
P/VNB			19.1	16.1	13.6
Dividend yield			0.2	0.2	0.2

Source: Company Data, Centrum Broking

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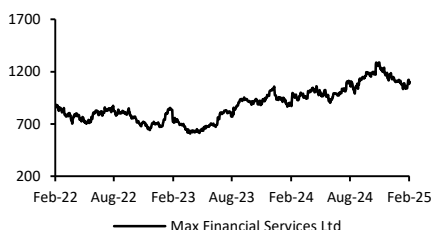
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**Max Financial Services Ltd**



Source: Bloomberg

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