

August 14, 2024

RESULT REPORT Q1 FY25 | Sector: Insurance (Life)

Max Financial Services Ltd.

RoEV to remain reasonably healthy

Our view – Improved APE growth to partly offset VNB margin pressure

VNB margin – VNB margin for the quarter was subdued due to a tactical focus on ULIPs, while company remains confident of managing the impact of surrender rules: Calculated VNB margin for 1QFY25 fell -471bps YoY and -1111bps QoQ to 17.5%. The share of ULIP has risen in the prop channel, with the company aiming to tactically benefit from buoyant equity markets, particularly via the online prop channel. The share of ULIP in total APE has risen from 25% in 1QFY24 to 39% in 1QFY25. The company will recalibrate this approach going forward. The other factor impacting margin was seasonality. Due to the new surrender rules, there will be a negative impact of 100-200 bps on overall company VNB margin towards the end of the year but product design changes will attempt to eventually nullify this impact. Earlier, management had guided for a full year margin of 25-26% and VNB growth in the mid-teens. Now, the company has to navigate regulatory changes but will try to come as close to guidance as possible.

APE growth – Overall APE growth of 31% YoY in 1Q is further improved from 19% registered in FY24, with prop channel picking up banca slack: New business APE de-grew/grew by -49.4%/30.5% QoQ/YoY, driven higher YoY by growth in Individual Protection and ULIP segments. APE growth was driven by the prop channel, which grew 64% YoY and now occupies 49% share in total APE, up 10% points YoY. The offline prop channel grew 24% YoY driven by agent activation whereas the online prop channel was up 200% YoY driven by new fund offers targeting the online savings segment. For the quarter, bancassurance growth was subdued at 9% YoY. However, things have accelerated significantly in July and the YTD July (4M) growth for Axis Bank stands at 19% YoY compared with 8% in 1Q.

We maintain 'BUY' rating on MAXF with a revised price target of Rs 1300: We value Max Life (MLI) at 2.4x FY26 P/EV for an FY25E/26E RoEV profile of 20.2/19.5% 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 Aspects (See “Our View” above for elaboration and insight)

- **VNB growth:** VNB de-grew/grew -69.1%/2.8% QoQ/YoY driven YoY by sharp rise in APE
- **Expense control:** Expense ratio grew 619bps/267bps QoQ/YoY to 27.5%, QoQ driven by rise of 634bps in Opex ratio
- **Persistency:** 37th month ratio rose 300bps YoY to 64% whereas 61st month ratio was up 700bps YoY at 58%

Exhibit 1: Result table

Rs mn	Q1FY25	Q1FY24	% yoy	Q4FY24	% qoq
NBP	20,760	18,570	11.8%	40,530	-48.8%
Renewal premium	33,230	30,140	10.3%	66,830	-50.3%
Income from investments	20,465	17,917	14.2%	19,010	7.7%
APAT	1,559	1,011	54.2%	(501)	-411.4%
Expense ratio	27.5%	24.8%	267bps	21.3%	619bps
37th mo. Persistency^	64.0%	61.0%	300bps	63.0%	100bps
APE	14,530	11,130	30.5%	28,720	-49.4%
VNB	2,540	2,470	2.8%	8,210	-69.1%
VNB Margin	17.5%	22.2%	-471bps	28.6%	-1111bps

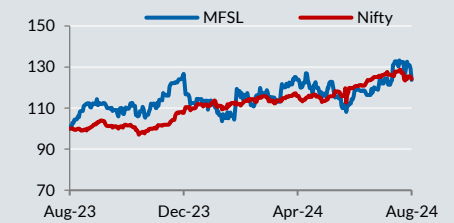
Source: Company, YES Sec-Research, ^N.B. Individual policies excluding single pay/fully paid up policies

Recommendation	: BUY
Current price	: Rs 1,042
Target price	: Rs 1,300
Potential return	: 25%

Stock data (as on August 14, 2024)

Nifty	24,145
52 Week h/l (Rs)	1133 / 821
Market cap (Rs/USD mn)	371637 / 4430
Outstanding Shares (mn)	345
6m Avg t/o (Rs mn):	1,031
Div yield (%):	-
Bloomberg code:	MAXF IN
NSE code:	MFSL

Stock performance



	1M	3M	1Y
Absolute return	1.4%	5.8%	22.1%

Shareholding pattern (As of June'24 end)

Promoter	6.5%
FII+DII	87.3%
Others	6.1%

Δ in stance

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

Financial Summary

Rs mn	FY24	FY25E	FY26E
APE	74,330	87,561	102,148
% yoy	19.0%	17.8%	16.7%
VNB	19,730	21,890	26,048
VNB Margin	26.5%	25.0%	25.5%
PAT	3,597	8,730	10,738
% yoy	-17.4%	142.7%	23.0%
EVPS (Rs)	457.5	583.1	691.0
VNBPS (Rs)	46.3	51.4	61.1
ROEV (%)	20.2%	20.2%	19.5%
P/EV (x)	2.3	1.8	1.5
P/VNB (x)	22.5	20.3	17.1

Δ in earnings estimates

Rs bn	FY24	FY25E	FY26E
VNB (New)	NA	21.9	26.0
VNB (Old)	NA	22.9	27.0
% change	NA	-4.5%	-3.6%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Overall APE growth

- Overall APE was up 31% YoY during the quarter.
- This was driven by a rise of 27% in the number of policies sold.

Channel growth and mix

- **Proprietary channel**
 - APE growth was driven by the prop channel, which grew 60% YoY and now occupies 49% share in total APE.
 - The offline prop channel grew 24% YoY driven by agent activation.
 - The online prop channel was up 200% YoY driven by new fund offers targeting the online savings segment.
 - **Prop channel split**
 - Share of E-commerce, Direct and Agency in prop channel was 20%, 20% and 60% in 1QFY24.
 - For 1QFY25, the same has evolved to 37%, 18% and 45% in total APE, respectively.
 - **Agent count**
 - The agent count has risen from 100,200 odd to 100,600 odd.
- **Bancassurance**
 - For the quarter, bancassurance growth was subdued at 9% YoY.
 - However, things have accelerated significantly in July and the YTD July growth for Axis Bank stands at 19% YoY compared with 8% in 1Q.
 - For July alone, the banca channel has grown 43% YoY driven by 45% growth in Axis Bank.
 - Max Life has signed a new agreement with CSB Bank and has signed on a total of 6 new partners during the quarter.
 - **Axis Bank counter share**
 - Max Life's counter share on the Axis Bank platform is tracking 68-70%.
 - It is expected to remain in the 65-70% range.
 - Other players have not impacted the counter share much.
 - **Non-Axis Bank partners**
 - Cumulative counter share on Non-Axis Bank bank partners stands at 22% and has been rising 1-1.5% point every month.

VNB margin

- **Rise in share of ULIP**
 - The share of ULIP has risen in the prop channel, with the company aiming to tactically benefit from buoyant equity markets, particularly via the online prop channel.
 - The company will recalibrate this approach going forward.
 - Management said they were satisfied with the margin outcome given their tactical move with ULIP in what is the smallest quarter of the year.
 - It may be noted that the capital guarantee ULIP product design being sold via e-commerce is margin accretive (presumably from a ULIP product bucket perspective).
- **Seasonality**
 - Generally, in 1Q, sales is subdued and margin is in a 17-21% range.
 - The share of VNB is generally 10-12% in 1Q.

(Con call takeaways continue on the next page)

- **Impact from surrender rules**
 - The impact from the new rules will be mitigated through multiple elements such as restructuring of distributor commercials, taking a re-look at expenses, realigning maturities and other customer propositions.
 - During the transitory period, there will be a negative impact of 100-200 bps on overall company VNB margin towards the end of the year but product design changes will attempt to eventually nullify this impact.
 - If surrender incidence remains at similar levels, the impact will in the lower end of the guided range.
 - Within 3-6 months, the company aims to mitigate the impact of surrender rule changes.
- **2-year evolution**
 - Over a 2-year period, margin has been impacted due to channel and product mix, driven by unit-linked product design.
 - The diversification of annuities away from single premium has also impacted margin.
 - There has been a protection margin shave off as well.
- **Banca margin**
 - It may be noted that bancassurance margin has improved due to rider attachment.
- **E-commerce margin**
 - Despite rising share of ULIP, e-commerce margin as a whole is good.
- **Guidance**
 - Earlier, management had guided for a full year margin of 25-26% and VNB growth in the mid-teens.
 - Now, the company has to navigate regulatory changes but will try to come as close to guidance as possible.
 - Since the company books actual opex, operating leverage will play out in the subsequent quarters, aiding margin, as it does every year.
 - The company intends to cover up the VNB growth shortfall (vis a vis guidance) due to margin pressure by better sales growth.

Product growth and mix

- **ULIP**
 - The launch of the Flexi Cap Fund has driven a more than 100% growth in ULIP.
 - The share of ULIP has risen from 25% in 1QFY24 to 39% in 1QFY25 in total APE.
- **Protection**
 - Group credit life is up 49% YoY.
 - There was a 63% growth in retail protection.
- **Annuities**
 - The company has launched Smart Wealth Annuity Guarantee Plan, which has driven 42% YoY growth in retail annuities.

Culture of Best Practices

- **Customer service levels**
 - The company puts customers first and the claims paid ratio has improved to 99.65%.
 - The overall NPS score has improved from 56 to 59 on QoQ basis.
- **Great Place to Work**
 - The company is ranked 28 among 1750 companies surveyed by Great Place to Work.

(Con call takeaways continue on the next page)

Persistency

- 13th month persistency for regular and limit pay products is 87%, up 320 bps.
- The 61st month persistency is 58%.

Embedded Value

- The Embedded Value stood at Rs 220.43bn, up 30% YoY.
- The EV was aided by a capital infusion of Rs 15.12bn by Axis Bank.
- **Return on Embedded Value**
 - The RoEV excluding capital infusion amounted to 20.6%.
 - The operating RoEV stood at 14.2%.
- **Operating variance**
 - There was a positive operating variance on account of persistency and mortality.
- **Non-operating variance**
 - The Economic Variance amounted to a positive Rs 2.76bn.
 - This was mainly driven by the equity markets and, to some extent, by debt markets.

Solvency

- The Solvency Ratio stood at 203% including the impact of capital infusion.

Assets under management

- The AUM stood at Rs 1.61 trn up 25% YoY.

Exhibit 2: Other Business Parameters

Rs mn	Q1FY25	Q1FY24	% yoy	Q4FY24	% qoq
APE Mix, Rs mn					
PAR	1,889	1,911	-1%	4,257	-56%
Individual protection	1,453	899	62%	1,842	-21%
Group protection	1,453	1,237	17%	524	177%
Annuity	727	787	-8%	1,723	-58%
Non PAR savings	3,197	3,485	-8%	8,498	-62%
ULIP	5,667	2,811	102%	11,876	-52%
Total APE	14,530	11,130	31%	28,720	-49%
APE Mix (% Proportion)					
PAR	13%	17%	-404bps	15%	-169bps
Individual protection	10%	8%	202bps	6%	369bps
Group protection	10%	11%	-101bps	2%	828bps
Annuity	5%	7%	-202bps	6%	-95bps
Non PAR savings	22%	31%	-909bps	30%	-737bps
ULIP	39%	25%	1414bps	41%	-196bps
Total APE	100%	100%		100%	
APE by channel (Rs mn)					
Proprietary	7,120	4,341	64%	11,488	-38%
Banca	7,120	6,567	8%	16,658	-57%
Others	291	223	31%	574	-49%
Total	14,530	11,130	31%	28,720	-49%
Channel mix (% in APE)					
Proprietary	49%	39%	1000bps	40%	900bps
Banca	49%	59%	-1000bps	58%	-900bps
Others	2%	2%	0bps	2%	0bps
Persistence[^]					
13th Month*	87%	84%	300bps	87%	0bps
61st Month*	58%	51%	700bps	58%	0bps
Expense ratio					
Commission ratio	8.7%	6.4%	226bps	8.8%	-15bps
Opex ratio	18.8%	18.4%	42bps	12.5%	634bps
Solvency					
Solvency ratio	203%	188%	1500bps	172%	3100bps

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

Q1 FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	20,760	23,293	(10.9)
Total APE	14,530	13,928	4.3
VNB	2,540	3,132	(18.9)

Source: Company, YES Sec - Research

ANNUAL FINANCIALS

Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Policyholders account					
Net premium	219,870	248,818	289,847	332,401	389,633
Income from investments	87,615	60,886	170,071	141,885	166,571
Other income	516	688	804	600	600
Contri. from shareholders A/C	156	155	77	100	100
Total income	308,157	310,547	460,800	474,986	556,904
Commission	14,028	16,138	23,983	21,274	24,937
Operating Expenses	30,192	35,834	40,861	46,536	54,549
Benefits paid	92,773	99,765	133,177	135,674	159,034
Change in valuation of liability	164,581	150,603	257,486	257,345	301,849
Others	2,420	2,211	2,130	2,992	3,507
Provision for Tax	0	0	0	0	0
Surplus/(Deficit)	4,163	5,997	3,164	11,165	13,029
Transfer to shareholders A/C	2,780	4,563	2,612	8,374	9,772

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	FY24	FY25E	FY26E
Transfer from Policyholders' account	2,780	4,563	2,612	8,374	9,772
Income from Investments	3,252	3,295	4,246	4,753	5,929
Total A	6,032	7,858	6,858	13,128	15,701
Expenses (apart from insurance)	695	812	737	817	899
Contribution to Policyholders' Acc	1,168	1,999	2,373	2,610	2,871
Others	0	0	0	0	0
Total B	1,862	2,811	3,110	3,428	3,770
Profit/(Loss) before tax	4,170	5,046	3,749	9,700	11,931
Provision for Taxation	303	694	152	970	1,193
Profit/(Loss) after tax	3,867	4,352	3,597	8,730	10,738

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	20,184	25,863	32,940
Credit/(Debit) Fair Value Ch. Acct.	11	71	611	611	611
Borrowings	4,960	4,960	4,960	4,960	4,960
Policyholders' Funds					
Policy Liabilities	672,822	805,354	973,550	1,173,139	1,408,568
Provision for Linked Liabilities	294,035	303,656	387,991	445,747	512,166
Fair Value change	6,794	8,466	39,204	39,204	39,204
Insurance Reserve	0	0	0	0	0
Fund For Discontinued Policies	40,397	48,847	53,802	64,563	77,475
Funds for future appropriation	32,369	35,803	38,727	40,663	42,697
Sources of Funds	1,083,335	1,242,553	1,538,216	1,813,938	2,137,810
Investments - Shareholders	51,477	55,043	58,484	73,557	91,146
Investments Policyholders	689,187	821,021	1,008,078	1,188,721	1,400,554
Assets Held to Cover Linked Liab.	334,432	352,502	441,793	514,400	597,899
Loans	6,661	9,248	10,605	11,135	11,692
Fixed Assets	2,604	3,452	4,153	4,453	4,753
Net Current Assets	(1,026)	1,287	15,103	21,670	31,765
Misc. Expenditure	0	0	0	0	0
Application of funds	1,083,335	1,242,553	1,538,216	1,813,938	2,137,810

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	248,419
Unwind of Discount	10,250	12,450	13,690	16,570	21,116
Value of New Business	15,280	19,490	19,730	21,890	26,048
Operating Variance	(2,770)	(620)	(570)	975	1,242
EV Operating Profit (EVOP)	22,760	31,320	32,850	39,435	48,405
Economic Variance	640	(10,440)	(540)	975	1,242
EV Profit	23,400	20,880	32,310	40,409	49,648
Net Capital Inflow / Outflow	0	0	0	13,070	(3,660)
Closing EV	141,750	162,630	194,940	248,419	294,406

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	87,561	102,148	NA	86,483	100,047	NA	1.2	2.1
Value of new business	NA	21,890	26,048	NA	22,918	27,013	NA	(4.5)	(3.6)
Embedded Value	NA	248,419	294,406	NA	249,447	296,496	NA	(0.4)	(0.7)

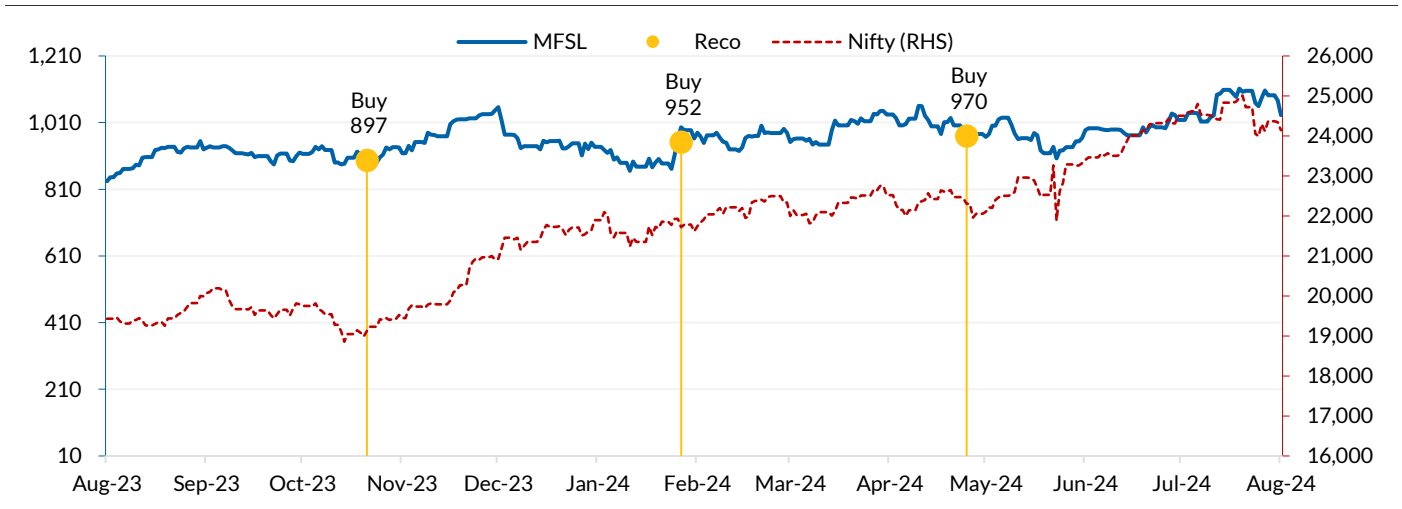
Source: Company, YES Sec – Research

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%	11.9%	16.7%
Renewal premium	19.0%	12.9%	13.0%	16.6%	17.5%
Net premium	17.3%	13.2%	16.5%	14.7%	17.2%
PAT	-26.1%	12.5%	-17.4%	142.7%	23.0%
VNB	22.3%	27.6%	1.2%	10.9%	19.0%
Growth (%) - Balance Sheet					
Total AUM	18.9%	14.3%	22.8%	17.8%	17.6%
Total Assets	18.8%	14.7%	23.8%	17.9%	17.9%
Embedded value	19.8%	14.7%	19.9%	27.4%	18.5%
Profitability ratios (%)					
VNB Margins	27.3%	31.2%	26.5%	25.0%	25.5%
Commission ratio	6.4%	6.5%	8.3%	6.4%	6.4%
Opex ratio	13.7%	14.4%	14.1%	14.0%	14.0%
Expense ratio	20.1%	20.9%	22.4%	20.4%	20.4%
Conservation Ratio	85.2%	82.6%	83.1%	85.0%	85.0%
Return ratios (%)					
ROE	12.1%	12.3%	9.1%	19.4%	20.6%
RoEV	19.2%	22.1%	20.2%	20.2%	19.5%
RoA	0.4%	0.4%	0.3%	0.5%	0.5%
Investment Return (%)					
Solvency					
Solvency Ratio	201%	190%	172%	200%	195%
Underwriting					
Claims ratio	42.2%	40.1%	45.9%	40.8%	40.8%
Claims / AUM	8.6%	8.1%	8.8%	7.6%	7.6%
Per share data - MaxF Share (Rs)					
EPS	9.1	10.2	8.4	20.5	25.2
VNBPS	35.9	45.7	46.3	51.4	61.1
BVPS	75.0	83.1	92.4	105.7	122.3
EVPS	332.7	381.7	457.5	583.1	691.0
Valuation (x)					
P/E	114.9	102.1	123.5	50.9	41.4
P/VNB	29.1	22.8	22.5	20.3	17.1
P/BV	13.9	12.5	11.3	9.9	8.5
P/EV	3.1	2.7	2.3	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; Certain figures for FY23 are actuals;

Recommendation Tracker



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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

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