

MAX Financial Services

Estimate change



TP change



Rating change



CMP: INR960

TP: INR1040 (+8%)

Neutral

In-line performance; VNB margin contracts 1,200bp YoY

RoEV to sustain at 19%

Bloomberg	MAXF IN
Equity Shares (m)	345
M.Cap.(INRb)/(USDb)	331.4 / 4
52-Week Range (INR)	1069 / 599
1, 6, 12 Rel. Per (%)	0/10/11
12M Avg Val (INR M)	834

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Gross Premiums	286.8	326.3	373.0
Sh. PAT	8.5	7.3	9.9
NBP gr - unwt'd (%)	10.0	16.0	16.0
NBP gr - APE (%)	4.5	16.0	16.0
Premium gr (%)	13.2	13.8	14.3
VNB margin (%)	26.5	27.0	27.5
Op. RoEV (%)	19.0	18.9	18.9
Total AUMs (INRb)	1,585	1,832	2,077
VNB(INRb)	17.2	20.3	24.0
EV per Share	451	536	635

Valuations

P/EV (x)	2.7	2.2	1.9
P/EVOP (x)	16.8	14.1	11.9

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	6.5	6.5	11.5
DII	36.9	35.1	36.0
FII	50.9	51.5	44.8
Others	5.7	7.1	7.7

FII Includes depository receipts

- MAX Financial Services (MAXLIFE) reported a decent performance in 3QFY24. Total APE grew 19% YoY to INR17.95b (13% beat), whereas absolute VNB declined 17.5% YoY to INR4.9b (14% beat) and VNB margins contracted significantly by 1,200bp YoY to 27.2% (our estimate of 27%).
- The margin contraction was a result of changes in the product mix, with a decline in non-par and an increase in ULIPs. MAXLIFE will continue to focus on growth. VNB margins are expected to be around 26-27%.
- We have cut our absolute VNB estimates by 5.1%/7.8%/6.1% for FY24/FY25/FY26, resulting in a VNB margin of 27.5% in FY26. **Maintain Neutral with a TP of INR 1,040, premised on 2.0x Mar'26E EV and a holding company discount of 20%.**

Margins declined due to higher share of par products

- **Gross written premium grew ~16% YoY (in line) in 3QFY24.** New business premium increased 19% YoY, led by 21% YoY growth in first-year premium. The renewal premium grew 14.6% YoY (6% miss). Shareholders' PAT (pre-tax) declined 35% YoY to INR1.5b (in line with our expectations).
- In 3QFY24, total APE grew 19% YoY to INR17.95b (13% beat). All products witnessed YoY growth, with par products reporting exponential growth of 82% YoY. Retail and Group protection grew 53% and 110% YoY, respectively. Total protection increased 70% YoY and ULIP business grew 70% YoY. Non-par savings declined 25% YoY but grew 34% QoQ.
- On a YoY basis, the business mix moved in favor of PAR and ULIP products, with their share increasing to 18% (12% in 3QFY23) and 33% (23% in 3QFY23), respectively. The share of Non-PAR savings declined to 35% in 3QFY24 from 55% in 3QFY23.
- **Absolute VNB declined 17.5% YoY to INR4.9b (14% beat),** and VNB margin came in at 27.2% in 3QFY24 (declined 1,200bp YoY; our estimate of 27%). AUM grew ~21% YoY to INR1.43t.
- On the distribution side, **Banca APE/proprietary channels grew 6%/46% YoY.**
- On the cost front, the opex-to-GWP ratio increased 220bp YoY to 22.6% for 9MFY24.
- Max has received IRDAI approval for capital infusion of INR16.12b by Axis Bank, subject to CCI approval.

Highlights from the management commentary

- MAXLIFE received IRDAI approval for a capital infusion by Axis Bank through the issuance of equity shares for an aggregate investment of INR16.12b. The transaction is expected to conclude in the next 90 days. The capital infusion will improve the company's solvency ratio by ~35%.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- In 3QFY24, MAXLIFE launched Smart Total Elite Protection (STEP) exclusively for the affluent segment with an in-built terminal illness cover and the option to get back all premiums at no cost. This resulted in growth of 82% in Retail Protection and Health segment in 3QFY24 and 65% YoY in 9MFY24.
- The company has maintained its counter share in Axis Bank and Yes Bank. Growth in Axis Bank was lower in 3QFY24; however, a strong pickup in the banca channel is expected in Jan'24.

Valuation and view

MAXLIFE reported a healthy trend in total APE, driven by strong traction in all segments, except non-par. The YoY decline in the share of non-par was offset by a higher share of par and protection. APE for proprietary/banca channels grew by 46%/6% YoY in 3QFY24. The proprietary channels maintained strong trends. VNB margin contracted to 27.2%, whereas persistency trends were stable. We have cut our absolute VNB estimates by 5.1%/7.8%/6.1% for FY24/FY25/FY26, resulting in a VNB margin of 27.5% in FY26. **Maintain Neutral with a TP of INR 1,040, premised on 2.0x Mar'26E EV and a holding company discount of 20%.**

Quarterly performance

(INR m)

Policy holder's A/c (INR b)	FY23				FY24				FY23	FY24E	FY24E 3QE	A v/s E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
First Year premium	9.2	11.1	14.6	24.1	9.9	15.3	17.6	18.2	59.0	61.1	15.1	17%
Growth (%)	14.2%	-9.3%	-5.5%	38.3%	8.0%	37.7%	20.7%	-24.3%	10.9%	3.6%	3.3%	
Renewal premium	26.2	39.1	40.2	58.3	30.1	42.0	46.1	70.0	163.8	188.3	49.0	-6%
Growth (%)	16.7%	12.9%	17.5%	8.4%	15.1%	7.5%	14.6%	20.1%	12.9%	14.9%	21.7%	
Single premium	5.7	7.8	8.0	9.1	8.7	8.9	9.3	10.6	30.6	37.4	8.4	10%
Growth (%)	30.1%	21.3%	26.9%	4.0%	52.8%	14.2%	15.5%	16.5%	18.3%	22.4%	4.8%	
Gross premium income	41.0	58.0	62.8	91.5	48.7	66.3	73.0	98.9	253.4	286.8	74.1	-2%
Growth (%)	17.8%	8.8%	12.2%	14.4%	18.7%	14.2%	16.1%	8.0%	13.1%	13.2%	17.9%	
PAT	0.9	0.5	2.3	1.3	1.0	1.6	1.5	4.4	4.4	8.5	1.5	2%
Growth (%)	18.2%	-25.4%	101.7%	-16.2%	13.2%	196.2%	-34.9%	238.2%	13.1%	93.7%	-49.4%	
Key metrics (INRb)												
New Business APE	10.1	11.9	15.1	25.4	11.1	16.5	18.0	19.2	62.0	64.8	15.9	13%
Growth (%)	15.3	-7.2	-5.2	38.2	10.3	38.8	18.9	-24.2	11.3	4.5	5.3	
VNB	2.1	3.7	5.9	7.7	2.5	4.2	4.9	5.7	19.5	17.2	4.3	14%
Growth (%)	23.8	-0.3	49.7	31.4	16.0	11.5	-17.5	-26.4	27.6	-11.8	-27.6	
AUM (INRb)	1,071	1,134	1,184	1,229	1,291	1,342	1,426	1,585	1,229	1,585	1,398	2%
Growth (%)	14.3	13.3	15.5	14.3	20.5	18.4	20.5	29.0	14.3	29.0	18.1	
Key Ratios (%)												
VNB Margins (%)	21.1	31.3	39.3	30.3	22.2	25.2	27.2	29.5	31.2	26.5	27.0	24
Solvency ratio (%)	196.0	196.0	200.0	190.0	188.0	184.0	179.0	180.5	192.7	180.5	189.0	-1,000

Exhibit 1: Quarterly snapshot

Policyholder A/c (INRb)	FY23				FY24			YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Gross premium	41.0	58.0	62.8	91.5	48.7	66.3	73.0	16	10
First year premium	9.2	11.1	14.6	24.1	9.9	15.3	17.6	21	15
Renewal premium	26.2	39.1	40.2	58.3	30.1	42.0	46.1	15	10
Single premium	5.7	7.8	8.0	9.1	8.7	8.9	9.3	15	4
Shareholders PAT	0.9	0.5	2.3	1.3	1.0	1.6	1.5	-35	-4
APE data (INRb)									
PAR	1.7	2.0	1.8	2.6	1.9	3.9	3.3	82	-15
Individual Protection	0.7	0.8	1.1	1.2	0.9	1.6	1.6	53	1
Group Protection	1.1	0.7	0.5	0.9	1.2	1.0	1.0	110	-1
Non-PAR Savings	2.7	4.5	8.3	14.4	4.2	4.6	6.2	-25	34
ULIP	3.8	3.9	3.4	6.4	2.8	5.5	5.8	70	6
APE (% of total)									
PAR	17.0	17.0	12.1	10.1	17.0	23.7	18.5	637	-523
Individual Protection	7.0	7.0	7.0	4.5	8.0	9.7	9.0	200	-67
Group Protection	11.0	5.5	3.1	3.5	11.0	6.0	5.5	237	-52
Non-PAR Savings	27.0	38.1	55.1	56.8	38.0	28.0	34.5	-2,057	658
ULIP	38.0	32.5	22.7	25.1	25.0	33.4	32.5	983	-83
Distribution mix (%)									
Proprietary	34	36	33	41	39	41	40	746	-67
Banca	65	63	66	58	59	59	59	-746	0
Others	1	1	1	1	2	0	1	0	67
Key Ratios (%)									
Operating ratios									
Opex to GWP ratio (%)	22.9	21.0	20.4	20.5	23.6	22.8	22.6	220	-20
Solvency Ratio	196.0	196.0	200.0	190.0	188.0	184.0	179.0	-2,100	-500
Profitability ratios									
VNB margins	21.1	31.3	39.3	30.3	22.2	25.2	27.2	-1,203	208
13th Month	84.0	84.0	83.0	84.0	84.0	84.0	85.0	200	100
25th Month	68.0	68.0	68.0	68.0	69.0	70.0	70.0	200	0
37th Month	61.0	62.0	62.0	61.0	61.0	62.0	63.0	100	100
49th Month	56.0	64.0	63.0	57.0	57.0	65.0	65.0	200	0
61st Month	50.0	58.0	58.0	51.0	51.0	57.0	58.0	0	100
Key Metrics (INRb)									
VNB	2.1	3.7	5.9	7.7	2.5	4.2	4.9	-18	18
EV	142	147	155	163	169	179	187	20	4
AUM	1071	1134	1184	1229	1291	1342	1426	20	6
Equity Mix (%)	23.8	23.8	25.2	25.1	26.5	28.1	30.1	494	204

Note: (a) Persistency ratios, Opex ratio and EV for 5M, 8M and 12M

Sources: MOFSL, company reports

Highlights from the management commentary

Business

- During 9MFY24, MAXLIFE's individual adjusted first year premium grew 19% to INR42.85b and APE grew 23% to INR45.6b, leading to a market share gain by 59bp to 9% and helping the company regain the 4th rank among private players in 9MFY24 after a gap of 21 months.
- For 9MFY24, renewal premium income (including for the Group) rose 12% to INR118.2b, taking the gross written premium to INR187.9b, an increase of 16%.
- In 3QFY24, MAXLIFE launched Smart Total Elite Protection (STEP) exclusively for the affluent segment with an in-built terminal illness cover and the option to get back all premiums at no cost. This resulted in growth of 82% in Retail Protection and Health segment in 3QFY24 and 65% YoY in 9MFY24.

- It plans to launch new products in the non-par segment with a higher ticket size. It also plans for a new term offering for the affluent category.
- ULIPs have seen margin contraction due to sales of certain products in certain channels. Non-par products continue to face margin pressure owing to high competitive intensity.
- Group Credit Life sales grew by 120% in Q3FY24 and 59% in 9MFY24. Overall protection mix improved from 13% in 9MFY23 to 16% in 9MFY24, backed by partner additions. The company has strategically focused in growing the Group Credit Life segment.
- The margin contraction was mainly driven by changes in the product mix, with a decline in non-par and an increase in ULIPs. The company will continue to focus on growth. VNB margins are expected to be around 26-27%.

Distribution

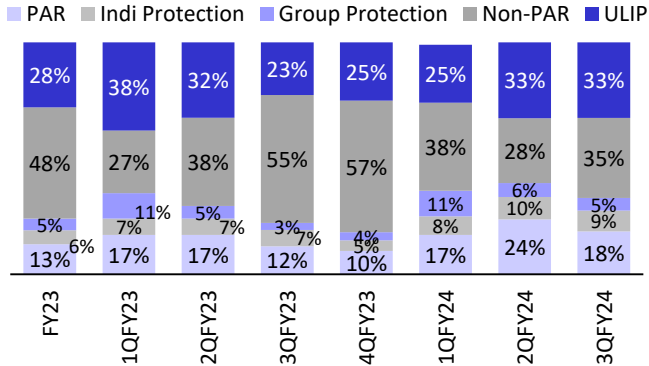
- In proprietary channels (~50% agency), new business premiums grew by 44% YoY to INR18.1b, growing for the 3rd consecutive quarter. As a result, the contribution of proprietary channels to total new sales increased from 34% in 9MFY23 to 40% in 9MFY24. All three channels, e.g., agency, direct and e-com, have been growing at 40%+ YoY.
- In banca channels, new business premiums grew by 10% to INR26.7b in 9MFY24. The company has maintained its counter share in Axis Bank and Yes Bank. Growth in Axis Bank was lower in 3QFY24; however, a strong pickup in the banca channel is expected in Jan'24.
- MAXLIFE posted YoY growth of ~52% in Annuity business on APE basis.
- There is a bias to drive growth in the business and market share gain. The company has invested in the expansion and strengthening of its distribution network.
- It maintained its leadership position in online protection and was ranked 2nd in online savings in 9MFY24.
- MAXLIFE successfully on-boarded 8 new partners in 3Q - 1 Online, 2 Corporate Agents & 5 GCL.

Capital infusion by Axis Bank

- MAXLIFE received IRDAI approval for capital infusion by Axis Bank through the issuance of equity shares for an aggregate investment of INR16.12b, which will help the company support its future growth ambitions, augment its capital position and improve solvency margins. The transaction is expected to conclude within the next 90 days.
- The solvency ratio stands at 179%. The capital infusion will improve the solvency ratio by ~35%.

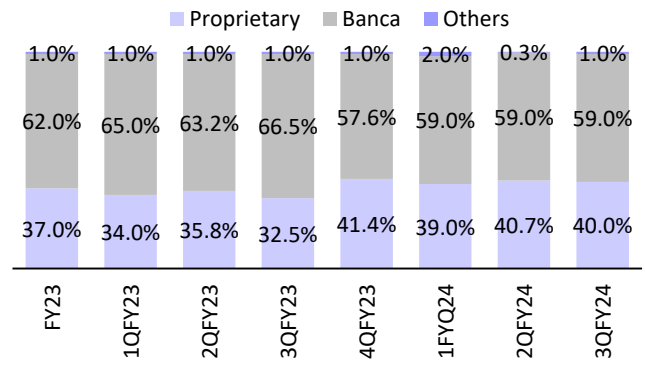
Key exhibits

Exhibit 2: Product mix improves in favor of par and non-par on QoQ basis



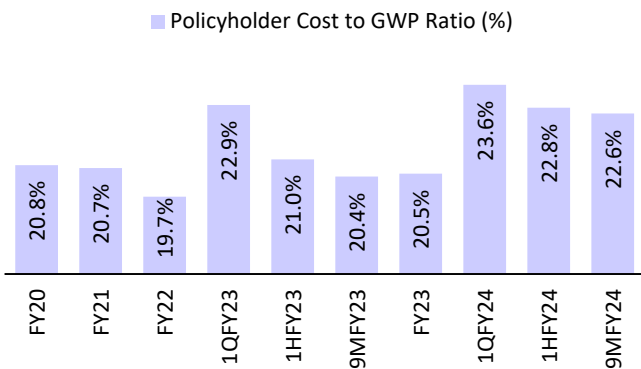
Sources: MOFSL, company reports

Exhibit 3: APE from proprietary and banca channels remains dominant



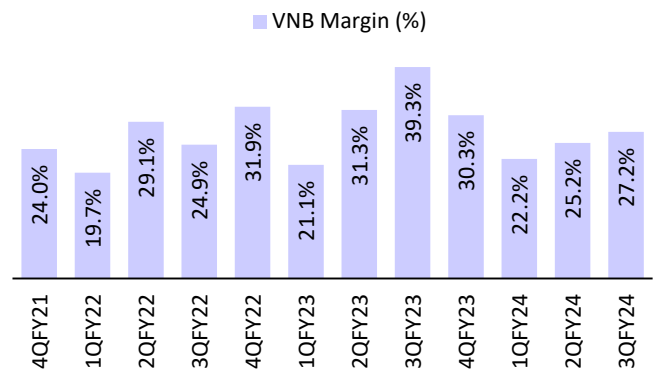
Sources: MOFSL, company reports

Exhibit 4: Opex-to-GWP ratio stood at 22.6% in 9MFY24



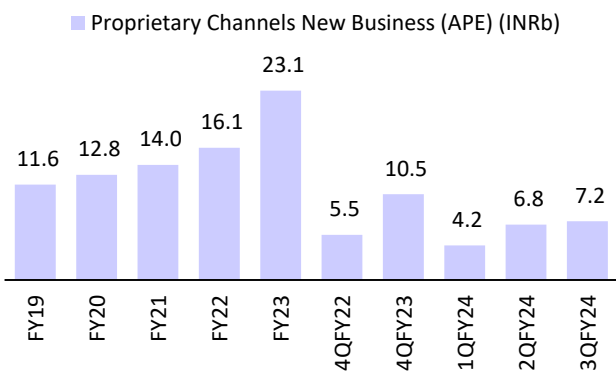
Sources: MOFSL, company reports

Exhibit 5: VNB margin contracted by 1,200bp YoY to 27.2%



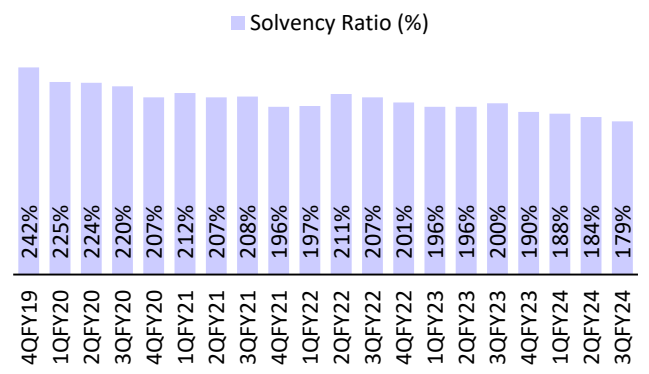
Sources: MOFSL, company reports

Exhibit 6: Proprietary channel APE up 46% YoY in 3QFY24 as investments made in the past start paying off



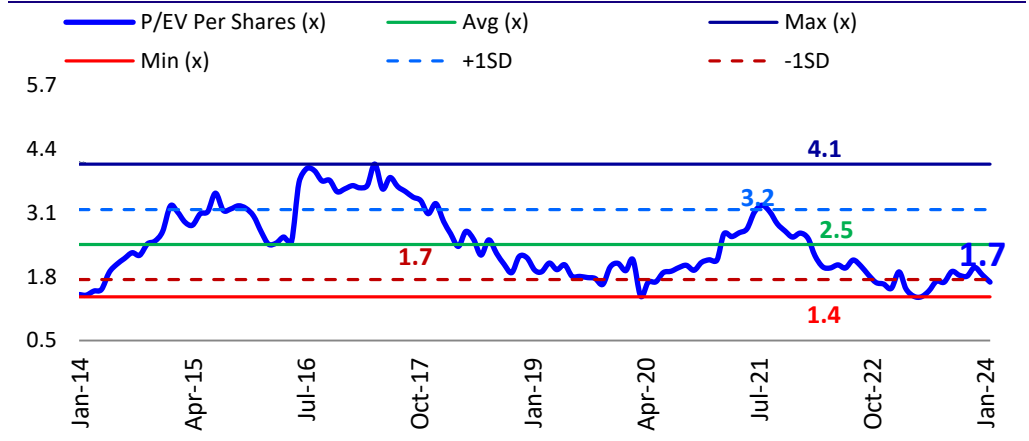
Sources: MOFSL, company reports

Exhibit 7: Solvency ratio stood at 179% as on 3QFY24



Sources: MOFSL, company reports

Exhibit 8: One-year forward P/EV



Source: MOFSL, Company

Exhibit 9: We value MAXLIFE at INR1,040 per share

Appraisal value method (INR b)	Mar'26E
Embedded value	274
New business profit	22.2
Appraisal value	560
MFS stake post deal	80%
MFS Value	448
MFS valuation per share (INR)	1,298
Appraisal value-to-embedded value (x)	2.0
Holding company discount	20%
Target price (INR)	1,038
Upside	8%

Source: MOFSL

Financials and valuations

Technical account (INR m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Premiums	1,90,179	2,24,141	2,53,419	2,86,818	3,26,277	3,73,015
Reinsurance Ceded	2,788	4,272	4,601	4,886	5,719	6,718
Net Premiums	1,87,391	2,19,870	2,48,818	2,81,932	3,20,558	3,66,296
Income from Investments	1,21,657	87,408	60,936	79,655	89,808	1,01,524
Other Income	730	878	792	922	1,073	1,249
Total income (A)	3,10,230	3,08,155	3,10,547	3,62,509	4,11,439	4,69,069
Commission	12,270	14,028	16,138	20,195	23,109	26,551
Operating expenses	27,008	30,192	35,808	41,856	47,941	55,134
Total commission and opex	39,277	44,220	51,947	62,052	71,050	81,685
Benefits Paid (Net)	70,149	92,772	99,792	1,18,624	1,33,757	1,51,860
Chg in reserves	1,96,686	1,64,581	1,50,603	1,68,396	1,98,638	2,25,722
Prov for doubtful debts	40	18	89	46	53	62
Total expenses (B)	3,06,153	3,01,592	3,02,430	3,49,117	4,03,497	4,59,328
(A) - (B)	4,077	6,564	8,117	13,392	7,941	9,740
Prov for Tax	1,857	2,402	2,120	2,825	3,162	3,574
Surplus / Deficit	2,220	4,162	5,997	10,567	4,780	6,167
Shareholder's a/c (INR m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Transfer from technical a/c	3,864	2,781	4,563	6,459	3,927	5,012
Income From Investments	2,360	3,212	3,143	3,949	5,331	7,197
Total Income	6,351	6,033	7,858	10,408	9,258	12,209
Other expenses	739	707	785	887	1,003	1,133
Contribution to technical a/c	502	1,168	1,999	-	-	-
Total Expenses	1,249	1,862	2,789	887	1,003	1,133
PBT	5,102	4,170	5,069	9,521	8,255	11,076
Prov for Tax	(131)	303	694	1,047	908	1,218
PAT	5,232	3,867	4,374	8,473	7,347	9,858
Growth	-3%	-26%	13%	94%	-13%	34%
Premium (INR m) & growth (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
New business prem - unwtd	68,262	79,049	89,586	98,545	1,14,312	1,32,602
New business prem - WRP	50,327	55,762	62,046	64,842	75,217	87,252
Renewal premium	1,21,917	1,45,092	1,63,823	1,88,274	2,11,966	2,40,413
Total premium - unwtd	1,90,179	2,24,142	2,53,409	2,86,818	3,26,277	3,73,015
New bus. growth - unwtd	22.3%	15.8%	13.3%	10.0%	16.0%	16.0%
New business growth - wrp	18.8%	10.8%	11.3%	4.5%	16.0%	16.0%
Renewal premium growth	15.0%	19.0%	12.9%	14.9%	12.6%	13.4%
Total prem growth - unwtd	17.5%	17.9%	13.1%	13.2%	13.8%	14.3%
Premium mix (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
New business - unwtd						
- Individual mix	91.2%	89.8%	90.2%	90.0%	90.0%	90.0%
- Group mix	8.8%	10.2%	9.8%	10.0%	10.0%	10.0%
New business mix - WRP						
- Participating	20.7%	22.6%	14.8%	20.6%	20.5%	20.4%
- Non-participating	41.6%	38.5%	57.3%	40.3%	40.6%	40.9%
- ULIPs	37.7%	39.0%	27.9%	39.1%	38.9%	38.8%
Total premium mix - unwtd						
- Participating	41.3%	NA	32.6%	41.6%	41.3%	40.8%
- Non-participating	27.7%	NA	41.7%	25.6%	26.4%	27.2%
- ULIPs	30.9%	NA	25.7%	32.8%	32.3%	31.9%
Individual prem sourcing mix (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Individual agents	25.2%	23.0%	22.4%	23.4%	24.4%	25.4%
Corporate Agents-Banks	63.5%	64.4%	58.9%	63.0%	63.0%	63.0%
Direct Business	7.0%	8.4%	13.1%	11.6%	10.6%	9.6%
Others	4.2%	4.2%	5.6%	2.0%	2.0%	2.0%

Note: EPS and EV per share adjusted for MFS stake in MAXLIFE

Financials and valuations

Balance sheet (INR m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sources of Fund						
Share Capital	19,188	19,188	19,188	19,188	19,188	19,188
Reserves And Surplus	10,589	12,760	16,208	23,647	29,821	38,506
Shareholders' Fund	30,079	31,959	35,467	42,914	49,097	57,791
Policy Liabilities	5,58,936	6,72,822	8,05,354	7,22,072	7,85,026	8,51,976
Prov. for Linked Liab.	2,54,703	2,94,035	3,03,656	7,13,986	8,42,787	9,97,239
Funds For Future App.	29,819	32,369	35,803	2,473	(84)	250
Current liabilities & prov.	28,853	37,214	38,656	42,521	46,774	51,451
Total	9,41,082	11,20,549	12,81,208	15,94,421	18,10,354	20,65,688
Application of Funds						
Shareholders' inv	38,484	51,477	55,042	74,307	1,00,315	1,35,425
Policyholders' inv	5,81,847	6,89,187	8,21,021	10,85,135	12,41,004	14,21,460
Assets to cover linked liab.	2,83,736	3,34,432	3,52,502	3,73,652	3,96,072	4,19,836
Loans	5,322	6,661	9,248	14,150	21,649	33,123
Fixed Assets	2,213	2,604	3,452	4,039	4,725	5,528
Current assets	29,480	36,189	39,942	43,138	46,589	50,316
Total	9,41,082	11,20,550	12,81,208	15,94,421	18,10,354	20,65,688
Operating ratios (%)						
Investment yield	15.2%	9.0%	5.1%	5.8%	5.8%	5.8%
Commissions / GWP	6.5%	6.3%	6.3%	7.0%	7.1%	7.1%
- first year premiums	17.5%	18.0%	18.7%	24.8%	24.5%	24.4%
- renewal premiums	2.7%	2.5%	2.5%	2.5%	2.5%	2.5%
- single premiums	1.4%	1.8%	1.6%	1.0%	1.0%	1.0%
Operating expenses / GWP	14.2%	13.5%	14.2%	14.6%	14.7%	14.8%
Total expense ratio	20.7%	19.7%	20.5%	21.6%	21.8%	21.9%
Claims / NWP	37.4%	42.2%	40.1%	42.1%	41.7%	41.5%
Solvency ratio	202%	201%	193%	181%	178%	175%
Persistency ratios (%)						
13th Month	84.0%	85.0%	84.0%	85.0%	86.0%	87.0%
25th Month	71.0%	68.0%	68.0%	69.0%	70.0%	71.0%
37th Month	63.0%	61.0%	61.0%	61.5%	62.0%	62.5%
49th Month	58.0%	56.0%	57.0%	57.5%	58.0%	58.5%
61st Month	54.0%	50.0%	51.0%	51.5%	52.0%	52.5%
Profitability ratios (%)						
New business margin (%)	25.2%	27.4%	31.2%	26.5%	27.0%	27.5%
RoE (%)	18.7%	12.5%	13.0%	21.6%	16.0%	18.4%
Operating RoEV	18.5%	19.2%	22.1%	19.0%	18.9%	18.9%
RoEV (%)	18.6%	19.8%	14.7%	19.7%	18.8%	18.6%
Valuation ratios						
Total AUMs (INR bn)	904	1,075	1,229	1,585	1,832	2,077
EPS (INR)	11.0	8.1	9.2	19.7	17.0	22.9
Value of new business (INRb)	12.5	15.3	19.5	17.2	20.3	24.0
Embedded Value (INR bn)	118.4	141.8	162.6	194.6	231.2	274.1
EV Per share (INR)	274.3	328.6	377.0	451.1	535.8	635.5
P/EV (x) - after 20% holdco disc	4.4	3.7	3.2	2.7	2.2	1.9
P/EPS (x)	109.1	147.7	130.5	61.1	70.4	52.5
P/EVOP(x)	28.0	22.7	16.5	16.8	14.1	11.9
P/VNB(x)	41.4	33.9	26.6	30.1	25.5	21.6

Note: Valuation ratios adjusted for MFS stake (80%) and holdco discount (20%)

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