

MAXF logged a strong finish to FY23, with supernormal growth in Mar-23, thus lifting the FY23 PAE growth to 11.8%; also, the strong increase of non-par savings in the product mix to 48% (+19pps YoY) drove a 3.9ppt YoY VNB margin expansion to 31.2%. With its proprietary channels continuing to perform strongly and the Axis Bank channel showing signs of improvement in growth, Management expressed confidence on achieving double-digit APE growth in FY24, in spite of the FY23 base being inflated by the fire sale of high-ticket non-par savings in Mar-23. Currently trading at an implied FY24E P/EV of 1.46x, MAXF shares are attractively valued, accounting even for sector headwinds and some Company-specific issues. We reiterate our BUY on the stock, with our appraisal value-based Mar-24E target price of Rs870/share.

Max Financial: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	2,24,142	2,53,415	2,83,603	3,19,510	3,61,296
APE	55,880	62,480	68,288	76,766	86,403
VNB	15,280	19,490	18,779	21,111	23,761
VNB margin (%)	27.3	31.2	27.5	27.5	27.5
APE growth (%)	12.7	11.8	9.3	12.4	12.6
VNB growth (%)	22.3	27.6	(3.6)	12.4	12.6
Adj. EPS (Rs)	7.3	11.0	13.9	16.9	19.8
EV	1,41,740	1,62,630	1,92,282	2,28,387	2,69,759
EVOP	22,760	31,320	32,901	37,616	43,136
Op. RoEV (%)	19.2	22.1	20.2	19.6	18.9
EVPS (INR)	336.8	377.1	445.8	529.5	625.4
P/EV (x)	2.0	1.7	1.5	1.2	1.1
P/EVOP (x)	12.2	9.1	8.6	7.5	6.6

Source: Company, Emkay Research

Impressive Margin performance; March month fire sale heaves up growth

Max Life reported VNB of Rs19.5bn (+28% YoY) in FY23, driven by the 3.9ppt VNB margin expansion to 31.2% and the 12% YoY growth in APE. Affected by the muted performance till 9MFY23 of the Axis Bank channel, Max Life's APE growth was on the slower trajectory, but the supernormal growth in March on account of pre-buying of high ticket non-par savings lifted FY23 APE growth to a respectable ~12%. On operating parameters such as Persistency and Operating cost, the performance was largely stable. Regarding the product mix, non-par savings grew 19pps YoY to 48%, while share of ULIP and Par saw a material decline. In terms of distribution channels, the proprietary channel saw its share increase by 8pps YoY to 37%, indicating that the entire APE growth in FY23 was thanks to this channel.

Double-digit growth guidance looks impressive

Despite the supernormal base of FY23 and the regulatory volatility in FY24 so far, Management expressed confidence on achieving double-digit APE growth in FY24, with VNB margin of ~27-29%. This guidance looks impressive. Management expects the 7% stake transfer to Axis Bank subsidiaries to conclude in FY24. As far as the entry of Tata AIA in Axis Bank is concerned, Management said that at present, Tata AIA's presence is limited to Citi branches only, and that Max Life will maintain its Axis Bank channel share at levels similar to current levels (~65-70%). Overall, any tangible progress in the 7% stake transfer to Axis Bank, momentum in Axis Bank channel's performance and reduction in pledge on Promoter's stake will be key positive triggers for MAXF shares.

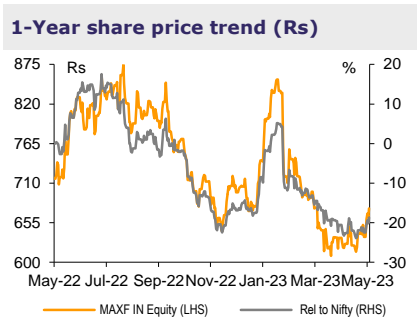
Current valuation pricing is the worst of the scenarios

The solid franchise, with a long-established track record of delivering ~19-21% operating RoEV, is currently trading at implied FY24E P/EV of ~1.46x. At this valuation, MAXF shares offer deep value; however, re-rating remains contingent on progress on key issues. We reiterate our BUY rating on the stock, with our appraisal value-based Mar-24E target price of Rs870/share (post applying a 25% HoldCo discount).

Target Price – 12M	Mar-24
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	32.4
CMP (12-May-23) (Rs)	657.3

Stock Data	Ticker
52-week High (Rs)	885
52-week Low (Rs)	599
Shares outstanding (mn)	345.1
Market-cap (Rs bn)	227
Market-cap (USD mn)	2,760
Net-debt, FY22E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	581.2
ADTV-3M (USD mn)	7.1
Free float (%)	89.9
Nifty-50	18,315
INR/USD	82.2
Shareholding, Mar-23	
Promoters (%)	10.2
FPIs/MFs (%)	47.7/34.1

Price Performance			
(%)	1M	3M	12M
Absolute	6.0	(11.6)	(7.3)
Rel. to Nifty	3.1	(13.8)	(20.0)



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Exhibit 1: FY23/Q4FY23 Financial Results

(Rs bn)	FY23	FY22	% YoY	Q4FY23	Q4FY22	% YoY
Annualized Premium Equivalent (APE)	62.5	55.9	11.8	25.4	18.4	38.2
--o/w Savings	55.4	47.9	15.7	23.1	15.6	47.9
--o/w Protection	7.1	8.0	-11.4	2.2	2.7	-17.7
Protection (% of APE)	11.3	14.3	-3.0ppts	8.9	14.9	-6.0ppts
Value of New Business	19.5	15.3	27.6	7.7	5.9	31.4
New Business Margin (%)	31.2	27.3	3.8ppts	30.3	31.9	-1.6ppts
Embedded Value	162.6	141.7	14.7			
Operating RoEV (%)	22.1	19.2	2.9ppts			
Total New Business Premium	56.4	79.0	-28.6	0.0	26.2	-100.0
Renewal premium	163.8	145.1	12.9	58.3	53.8	8.4
Gross written premium	253.4	224.1	13.1	91.5	80.0	14.4
PBT - Max Life	5.05	4.17	21.1	0.7	1.5	(56.5)
PAT - MAXF	3.78	2.53	49.4	0.5	1.2	(61.0)
AUM	1,229	1,075	14.3			
13th month persistency (%)	84.0	85.0	-1.0ppts			
49th month persistency (%)	57.0	56.0	1.0ppts			
61st month persistency (%)	51.0	50.0	1.0ppts			
Solvency ratio (%)	190	201	-11ppts			

Source: Company, Emkay Research

Exhibit 2: Appraisal method valuation for MAX Financial

Parameter (Rs bn)	Value
FY23-38e APE CAGR	9.2%
FY23-38e VNB CAGR	8.4%
Terminal growth rate	5.0%
Cost of Equity	14.5%
FY24 EV	192
Present value of future new business	309
FY 24 Appraisal value	502
Max Financial ownership in Max Life	80.0%
FY24 Fair value of Max Financials (25% Holdco discount)	301
Mar-24 Target Price	870

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiple for MAXF

Target multiples on FY24 estimates	870
Implied P/EV	2.0x
RoEV (%)	20.2
P/EVoP	12.1x
Implied FY25E VNB multiple	8.7x
Current price multiple on FY24 estimates	657
P/EV	1.5x
RoEV (%)	20.2
P/EVOP	9.2x
Implied FY25E VNB multiple	4.3x

Source: Company, Emkay Research

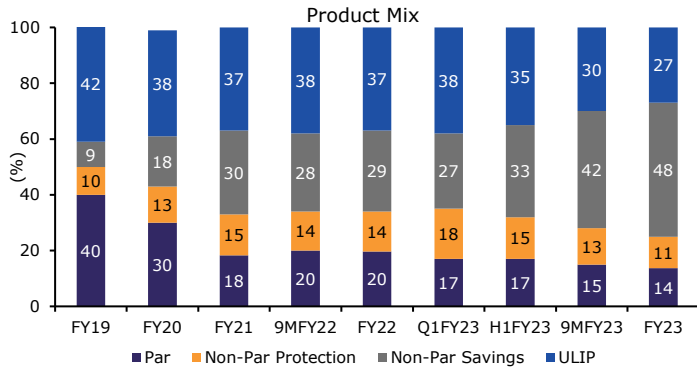
Exhibit 4: Changes in Estimates

(Rs bn)	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
APE	64.1	68.3	6.5	71.7	76.8	7.1	NA	86.4	NM
VNB	16.7	18.8	12.7	18.6	21.1	13.3	NA	23.8	NM
VNB margin (%)	26.0	27.5	1.5ppts	26.0	27.5	1.5ppts	NA	27.5	NM
Embedded Value	190.9	192.3	0.7	223.6	228.4	2.1	NA	269.8	NM
Consolidated EPS (Rs)	16.1	13.9	-13.5	19.1	16.9	-11.5	NA	19.8	NM

Source: Company, Emkay Research

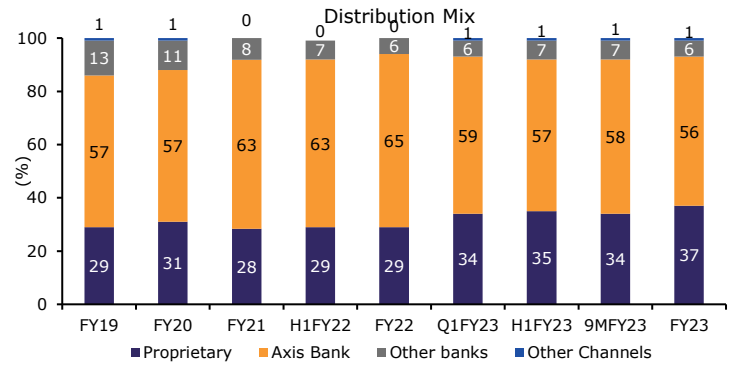
Story in Charts

Exhibit 5: Share of non-par increased materially, in FY23



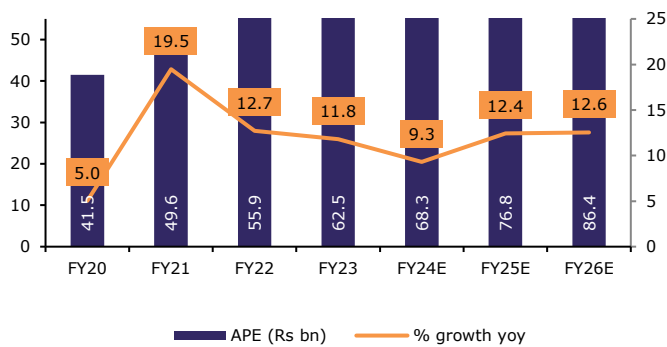
Source: Company, Emkay Research

Exhibit 6: Proprietary-channel share increasing



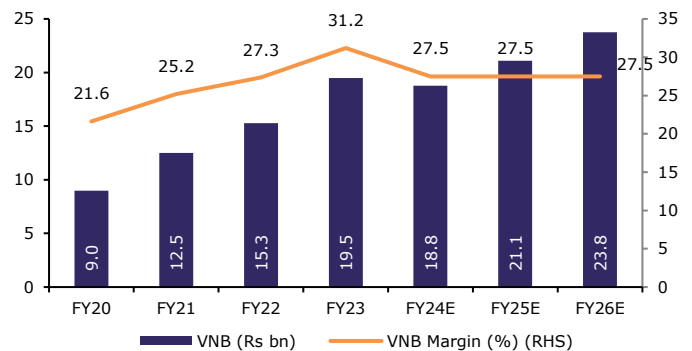
Source: Company, Emkay Research

Exhibit 7: Despite sector headwinds, we estimate APE will grow by ~11.4% over FY23-26E



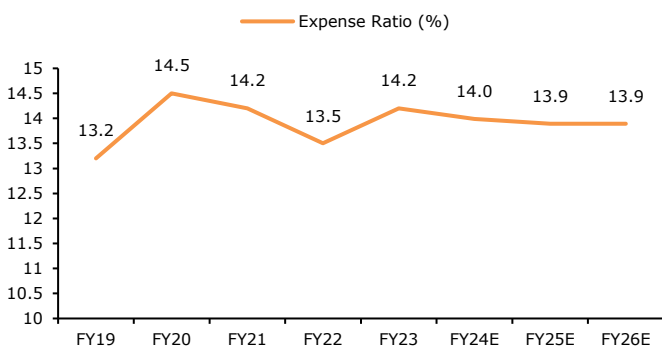
Source: Company, Emkay Research

Exhibit 8: Margin expected to normalize, post the supernormal FY23



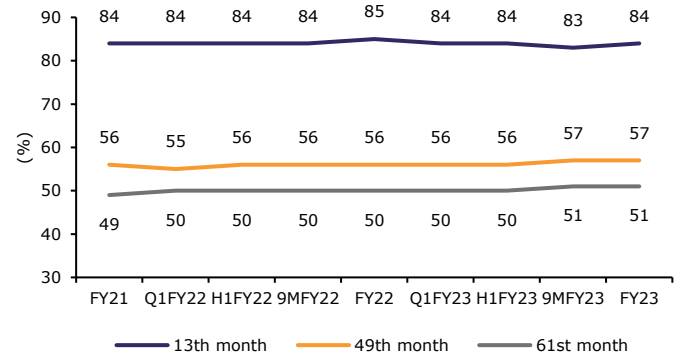
Source: Company, Emkay Research

Exhibit 9: Expense ratios to moderate over FY23-26E



Source: Company, Emkay Research

Exhibit 10: Persistency ratios remain broadly unchanged



Source: Company, Emkay Research

Concall Highlights

- Individual APE grew ~12% in FY23.
- Maintained lead position in the online sales space, seeing 44% growth in FY23. Online savings business grew 5x over FY22.
- Direct channels grew 36% YoY.
- APE of bank channels declined 2% in FY23 and grew 15% in Q4FY23, showing signs of revival. Maintained counter share in Axis Bank over a 15-month period at ~70%, despite the open architecture model.
- New Distribution Partnerships in FY23 – DCB Bank, Tamilnad Mercantile Bank and Ujjivan Small Finance Bank. Partnerships also entered into with 6 brokers in FY23.
- FY23 product mix: 14% Par; 51% non-Par; 29% Unit-linked; and 6% Protection. Q4 product mix: 11% Par; 60% non-Par; 24% ULIP; and the balance Protection. Mix in Q4 was skewed towards non-Par due to the one-time impact of tax-related changes announced in the Budget. However, the product mix is expected to normalize in the new fiscal year.
- Improvement of 3 points, from 49 in Mar-22 to 52 in Mar-23 in the company's overall NPS score.
- New business margin improved, from 27.4% in FY22 to 31.2% in FY23. FY23 operating RoEV stood at 22.1%.
- Growth in FY24 and product mix: Expects FY24 growth to be reasonably good (in double digits) and higher than that in FY23.
- Stake transfer to Axis Bank: Axis Bank is seeking approvals on its end (such as on capital requirements) and targets the transaction taking place in FY24. Valuation will be determined at the time of transaction.
- The relationship between the bank and Tata AIA will maintain status quo. Axis has an open architecture model and Max has withstood competition by maintaining counter share at around 70%. Axis is a promoter, and Max is confident about maintaining market share at 65-70%.
- Banca: Has signed partnerships with banks and brokers; this is important, as the company attempts to gain counter share in some of these places. As bank growth rates kick in, growth in Max's counter share will also commence.
- Will continue driving annuity business in the future.
- Has been pointing to a stable margin profile at 27-28%.
- Will continue making investments in proprietary channels.
- On composite license: Will keep monitoring the developments and maintain a favorable view on this.

Exhibit 11: Max Financial (Consolidated) – Financial Summary

Y/E March (Rs mn)	2021	2022	2023E	2024E	2025E	2026E
Income statement						
Max Life Profit before Tax	5,099	4,170	5,050	6,735	8,149	9,513
Holding company expenses net of income	-830	284	-222	200	210	221
Profit before Tax	5,929	3,887	5,272	6,535	7,939	9,292
Tax expense	332	703	753	489	592	691
Profit after Tax	5,598	3,184	4,519	6,046	7,347	8,601
Minorities	1,344	650	734	1,243	1,504	1,755
Group Net Income	4,254	2,534	3,785	4,803	5,843	6,846
Balance Sheet						
Source of Funds						
Shareholders' Equity	33,430	39,346	43,131	47,934	53,777	60,622
Minorities	2,621	5,503	10,708	12,206	14,019	16,136
Financial Liabilities	9,35,352	11,24,176	11,10,989	12,67,104	14,43,615	16,43,832
Non-financial Liabilities	9,253	8,461	1,41,281	1,60,168	1,82,979	2,08,685
Total	9,80,656	11,77,486	13,06,109	14,87,413	16,94,391	19,29,276
Application of Funds						
Investments	9,55,071	11,49,688	11,74,754	13,39,830	15,26,472	17,38,180
Other Financial Assets	509	2,361	90,407	1,03,077	1,18,051	1,35,364
Cash and Bank balance	5,072	5,689	7,361	8,395	9,567	10,897
Non-financial Assets	20,004	19,747	33,587	36,110	40,301	44,834
Total	9,80,656	11,77,486	13,06,109	14,87,413	16,94,391	19,29,276
No. Of shares outstanding (mn)	345.1	345.1	345.1	345.1	345.1	345.1
Weighted average number of shares (mn)	293.2	345.1	345.1	345.1	345.1	345.1
Weighted average diluted shares (mn)	293.2	345.1	345.1	345.1	345.1	345.1

Source: Company, Emkay Research

Max Financial: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross premium	2,24,142	2,53,415	2,83,603	3,19,510	3,61,296
Net premium	2,19,870	2,50,881	2,80,767	3,16,315	3,57,683
Investment income	87,615	68,699	75,438	87,422	1,00,388
Other income	672	0	0	0	0
Total revenue	3,08,157	3,19,580	3,56,205	4,03,737	4,58,071
Commission expense	14,028	16,007	17,633	19,865	22,105
Operating expense	30,192	34,952	39,678	44,385	50,190
Benefits paid (net)	92,773	1,10,869	1,27,239	1,45,118	1,65,334
Change in reserves	1,64,581	1,50,455	1,64,332	1,85,801	2,10,755
Total expenses	3,03,994	3,14,433	3,51,288	3,97,881	4,51,450
Surplus/Deficit	4,163	5,146	4,917	5,856	6,622
Trf from policyholders' acct	2,780	4,886	4,917	5,856	6,622
Shareholders' results	1,389	164	1,818	2,293	2,891
PBT	4,170	5,050	6,735	8,149	9,513
Extraordinary items	0	0	0	0	0
Tax expense	303	367	489	592	691
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,867	4,683	6,246	7,557	8,821
PAT growth (%)	(26.1)	21.1	33.4	21.0	16.7
Adjusted PAT	3,867	4,683	6,246	7,557	8,821
Diluted EPS (Rs)	NA	NA	NA	NA	NA
Diluted EPS growth (%)	NA	NA	NA	NA	NA
DPS (Rs)	NA	NA	NA	NA	NA
Dividend payout (%)	NA	NA	NA	NA	NA
Effective tax rate (%)	7.3	7.3	7.3	7.3	7.3
Shares outstanding (mn)	NA	NA	NA	NA	NA

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
APE	55,880	62,480	68,288	76,766	86,403
VNB	15,280	19,490	18,779	21,111	23,761
VNB margin (%)	27.3	31.2	27.5	27.5	27.5
APE growth (%)	12.7	11.8	9.3	12.4	12.6
VNB growth (%)	22.3	27.6	(3.6)	12.4	12.6
Operating ratios (%)					
NB commission/APE	18.0	NA	NA	NA	NA
Commissions/TWRP	7.0	NA	NA	NA	NA
Total exp ratio/TWRP	22.0	NA	NA	NA	NA
Conservation ratio	85.2	82.6	82.6	82.6	82.6
Solvency ratio	201.0	NA	NA	NA	NA
RoE	7.0	9.2	10.5	11.5	12.0

Historical metrics					
APE mix (%)	FY22	FY23	FY24E	FY25E	FY26E
A. Retail protection	7.5	6.4	NA	NA	NA
B. Group protection	6.8	5.0	NA	NA	NA
C. Savings - individual	NA	NA	NA	NA	NA
Par	19.7	13.7	NA	NA	NA
Non-Par	29.0	48.0	NA	NA	NA
ULIP	37.0	27.0	NA	NA	NA
D. Group Savings	NA	NA	NA	NA	NA
Persistence ratios (%)					
13th Month	85.0	NA	NA	NA	NA
49th Month	56.0	NA	NA	NA	NA

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	19,188	19,188	19,188	19,188	19,188
Reserves & surplus	12,760	16,506	21,503	27,548	34,605
Net worth	31,948	35,694	40,691	46,736	53,793
Borrowings	4,960	4,960	4,960	4,960	4,961
Policy liabilities	6,72,822	0	0	0	0
Prov for linked liab.	2,94,035	0	0	0	0
FFA	32,369	5,146	4,917	5,856	6,622
Current liabilities & prov	37,214	77,662	88,562	1,01,144	1,15,546
Total liabilities & equity	10,83,335	12,05,167	13,74,496	15,66,342	17,84,154
Shareholders' investment	51,477	57,509	65,557	75,294	86,661
Policyholders' investment	6,89,187	7,90,944	9,02,087	10,27,750	11,70,291
Assets to cover linked liab.	3,34,432	3,83,810	4,37,743	4,98,722	5,67,890
Current assets	36,189	40,259	45,915	52,324	59,600
Total assets	10,83,335	12,05,167	13,74,496	15,66,342	17,84,154
BV/share (INR)	114.0	125.0	138.9	155.8	175.7
EV/share (INR)	336.8	377.1	445.8	529.5	625.4
EVOP/share (INR)	54.1	72.6	76.3	87.2	100.0
Embedded value	1,41,740	1,62,630	1,92,282	2,28,387	2,69,759
ANW	31,110	34,060	39,057	45,102	52,159
VIF	1,10,630	1,28,570	1,53,225	1,83,284	2,17,599
VIF share in EV (%)	78.1	79.1	79.7	80.3	80.7
Total AUM	10,75,096	12,32,263	14,05,387	16,01,766	18,24,841
Investment yield (%)	9.2	6.2	6.0	6.1	6.1
Yield on PH funds (%)	9.3	6.3	6.0	6.1	6.2
Yield on SH funds (%)	7.1	4.5	5.4	5.4	5.5

Source: Company, Emkay Research

Valuation & key ratios					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	89.5	59.9	47.2	38.8	33.1
P/B (x)	5.8	5.3	4.7	4.2	3.7
P/EV (x)	2.0	1.7	1.5	1.2	1.1
P/EVOP (x)	12.2	9.1	8.6	7.5	6.6
Implied P/VNB (x)	10.4	7.1	6.4	4.3	2.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV account and RoEV					
Opening EV	1,18,340	1,41,740	1,62,630	1,92,282	2,28,387
Premium unwind	10,250	12,450	14,122	16,505	19,376
VNB	15,280	19,490	18,779	21,111	23,761
Operating variance	(2,770)	(620)	0	0	0
EVOP	22,760	31,320	32,901	37,616	43,136
Investment variance	640	(10,440)	(2,000)	0	0
Capital movement	0	0	(1,249)	(1,511)	(1,764)
Other changes	0	0	0	0	0
Closing EV	1,41,740	1,62,630	1,92,282	2,28,387	2,69,759
Change in EV	23,400	20,890	29,652	36,104	41,372
RoEV (%)	19.8	14.7	19.0	19.6	18.9
Operating RoEV (%)	19.2	22.1	20.2	19.6	18.9
EVOP growth (%)	23.0	37.6	5.0	14.3	14.7
EV growth (%)	19.8	14.7	18.2	18.8	18.1
Core operating RoEV (%)	19.2	22.1	20.2	19.6	18.9
Unwind rate (%)	8.7	8.8	8.7	8.6	8.5
VNB-to-opening EV (%)	12.9	13.8	11.5	11.0	10.4

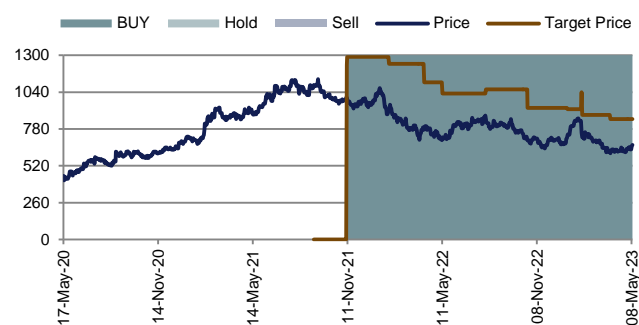
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
21-Apr-23	624	850	Buy	Avinash Singh
03-Apr-23	634	850	Buy	Avinash Singh
28-Mar-23	609	850	Buy	Avinash Singh
09-Mar-23	675	880	Buy	Avinash Singh
07-Feb-23	714	880	Buy	Avinash Singh
06-Feb-23	711	880	Buy	Avinash Singh
02-Feb-23	722	880	Buy	Avinash Singh
01-Feb-23	753	1,040	Buy	Avinash Singh
10-Jan-23	770	920	Buy	Avinash Singh
05-Jan-23	735	920	Buy	Avinash Singh
03-Jan-23	710	930	Buy	Avinash Singh
13-Dec-22	704	930	Buy	Avinash Singh
08-Dec-22	707	930	Buy	Avinash Singh
08-Nov-22	713	930	Buy	Avinash Singh
21-Oct-22	699	930	Buy	Avinash Singh
10-Oct-22	758	1,060	Buy	Avinash Singh
29-Sep-22	770	1,060	Buy	Avinash Singh
07-Sep-22	813	1,060	Buy	Avinash Singh
05-Sep-22	804	1,060	Buy	Avinash Singh
24-Aug-22	804	1,060	Buy	Avinash Singh
08-Aug-22	795	1,060	Buy	Avinash Singh
02-Aug-22	849	1,060	Buy	Avinash Singh
09-Jun-22	830	1,030	Buy	Avinash Singh
08-Jun-22	825	1,030	Buy	Avinash Singh
17-May-22	739	1,030	Buy	Avinash Singh
12-May-22	709	1,030	Buy	Avinash Singh
11-May-22	721	1,030	Buy	Avinash Singh
09-May-22	708	1,110	Buy	Avinash Singh
06-May-22	710	1,110	Buy	Avinash Singh
19-Apr-22	741	1,110	Buy	Avinash Singh
06-Apr-22	777	1,110	Buy	Avinash Singh
08-Feb-22	859	1,240	Buy	Avinash Singh
29-Jan-22	913	1,240	Buy	Avinash Singh
18-Jan-22	1,018	1,290	Buy	Avinash Singh
07-Dec-21	969	1,290	Buy	Avinash Singh
10-Nov-21	993	1,290	Buy	Avinash Singh
09-Nov-21	1,001	1,230	Buy	Avinash Singh
07-Sep-21	1,091	-	UR	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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