MOTILAL OSWAL FINANCIAL SERVICES

7 May 2024
4QFY24 Results Update | Sector: Financials

MAX Financial Services

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	MAXF IN
Equity Shares (m)	345
M.Cap.(INRb)/(USDb)	334.6 / 4
52-Week Range (INR)	1093 / 634
1, 6, 12 Rel. Per (%)	-3/-9/29
12M Avg Val (INR m)	1008

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Gross Premiums	295.3	341.4	394.6
Sh. PAT	6.9	9.3	11.4
NBP gr - unwtd (%)	20.0	16.0	16.0
NBP gr - APE (%)	14.0	16.0	16.0
Premium gr (%)	16.7	15.4	15.6
VNB margin (%)	26.5	26.4	26.7
Op. RoEV (%)	20.2	19.3	19.2
Total AUMs (INR b)	1,508	1,832	2,077
VNB (INR b)	19.7	21.7	25.4
EV per Share	452	539	641
Valuations			
P/EV (x)	2.7	2.2	1.9
P/EVOP (x)	15.8	13.8	11.6

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	6.5	6.5	10.2
DII	39.9	36.9	34.1
FII	47.7	50.9	47.7
Others	5.9	5.7	8.1

FII Includes depository receipts

CMP: INR970 TP: INR1040 (+7%) Neutral

Steady performance; VNB margin beats our estimate

Guides better-than-industry APE growth

- MAX Financial Services (MAXLIFE) reported a decent performance in 4QFY24. Total APE grew 13% YoY to INR28.7b (14% beat), while absolute VNB rose 7% YoY to INR8.2b (18% beat). VNB margin contracted 170bp YoY to 28.6% (vs. our estimate of 27.6%).
- **For FY24,** VNB stood at INR19.7b (flat YoY), whereas VNB margin came in at 26.5% (-470bp YoY).
- We prune our VNB margin estimates for FY25/FY26, in line with the management's guidance. **Reiterate Neutral with a TP of INR1,040, premised on 2.0x Mar'26E EV and a holding company discount of 20%.**

Margins contract due to the higher share of par products

- Gross written premium grew ~17.3% YoY (in line) in 4QFY24. The renewal premium grew 15% YoY (5% miss).
- In 4QFY24, total APE grew 13% YoY to INR28.7b (14% beat). The par products reported an exponential growth of 66% YoY. Retail protection jumped 60% YoY, whereas Group protection declined 42% YoY. Total protection increased 52% YoY, while ULIP business surged 87% YoY. Non-par savings declined 29% YoY, but grew 65% QoQ during the quarter.
- On a YoY basis, the business mix moved in favor of the par and ULIP products, with their share increasing to 15% (vs. 10% in 4QFY23) and 41% (vs. 25% in 4QFY23), respectively. The share of non-par savings declined to 36% in 4QFY24 from 57% in 4QFY23.
- Absolute VNB rose 7% YoY to INR8.2b (18% beat), with VNB margin contracting 170bp YoY to 28.6% (our est. of 27.6%). AUM grew ~23% YoY to INR1.5t.
- On the distribution side, **Banca APE/proprietary channels grew 11%/9% YoY.** Other channels surged 306% YoY in 4QFY24.
- On the cost front, the opex-to-GWP ratio was up 150bp YoY to 22% in FY24.
- The solvency ratio stood at 172% in 4QFY24. With the infusion of INR16.1b capital by Axis Bank into MAXLIFE, the solvency margin came in at 206%.

Highlights from the management commentary

- Product-level margins have been under some pressure for segments such as protection and annuity.
- Management guided a high-teen growth in premiums and lower/in-line growth in VNB.
- The online channel grew ~79% YoY in FY24. The growth was mainly fueled by web aggregators, wherein savings business accelerated markedly (market share improved to 22% from 10-12% YoY).
- The Banca channel's APE segment grew ~12% YoY, with wallet share being maintained with two main partners – Axis Bank at ~70% and Yes Bank at ~58%. While Axis Bank has partnered with Aditya Birla Life and Tata AIA (via Citibank acquisition), MAXLIFE still expects to retain 65-70% wallet share.

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Valuation and view

MAXLIFE reported a better-than-expected performance in 4QFY24. Going forward, if surrender charges are altered by the regulator, margins would be under pressure. In terms of growth, agencies and online channels are expected to maintain their strong growth momentum. Axis Bank channel growth will be critical given the new partner tie-ups as well as the challenge to grow the deposit base. We prune our VNB margin estimates for FY25/FY26, in line with the management's guidance. **Reiterate Neutral with a TP of INR1,040, 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	FY24	FY24E	A v/s E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
First Year premium	9.2	11.1	14.6	24.1	9.9	15.3	17.6	26.8	59.0	69.6	23.8	12%
Growth (%)	*14.2%*	*-9.3%*	*-5.5%*	*38.3%*	*8.0%*	*37.7%*	*20.7%*	*11.0%*	*10.9%*	*18.0%*	*-1.2%*	
Renewal premium	26.2	39.1	40.2	58.3	30.1	42.0	46.1	66.8	163.8	185.1	70.0	-5%
Growth (%)	*16.7%*	*12.9%*	*17.5%*	*8.4%*	*15.1%*	*7.5%*	*14.6%*	*14.6%*	*12.9%*	*13.0%*	*20.1%*	
Single premium	5.7	7.8	8.0	9.1	8.7	8.9	9.3	13.8	30.6	40.6	14.0	-2%
Growth (%)	*30.1%*	*21.3%*	*26.9%*	*4.0%*	*52.8%*	*14.2%*	*15.5%*	*51.3%*	*18.3%*	*32.7%*	*53.9%*	
Gross premium income	**41.0**	**58.0**	**62.8**	**91.5**	**48.7**	**66.3**	**73.0**	**107.4**	**253.4**	**295.3**	107.8	0%
Growth (%)	*17.8%*	*8.8%*	*12.2%*	*14.4%*	*18.7%*	*14.2%*	*16.1%*	*17.3%*	*13.1%*	*16.5%*	*17.8%*	
Key metrics (INRb)												
New Business APE	10.1	11.9	15.1	25.4	11.1	16.5	18.0	28.7	62.0	74.3	25.1	14%
Growth (%)	15.3	-7.2	-5.2	38.2	10.3	38.8	18.9	13.2	11.3	19.8	-1.0	
VNB	2.1	3.7	5.9	7.7	2.5	4.2	4.9	8.2	19.5	19.7	6.9	18%
Growth (%)	23.8	-0.3	49.7	31.4	16.0	11.5	-17.5	6.6	27.6	1.2	-9.8	
AUM (INRb)	1,071	1,134	1,184	1,229	1,291	1,342	1,426	1,508	1,229	1,508	1,585	-5%
Growth (%)	14.3	13.3	15.5	14.3	20.5	18.4	20.5	22.8	14.3	22.8	29.0	
Key Ratios (%)												
VNB Margins (%)	21.1	31.3	39.3	30.3	22.2	25.2	27.2	28.6	31.2	26.5	27.6	95
Solvency ratio (%)	196.0	196.0	200.0	190.0	188.0	184.0	179.0	172.0	192.7	172.0	180.4	-841

Exhibit 1: Quarterly snapshot

Policyholder A/c (INR b)	FY23				FY24				YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Gross premium	**41.0**	**58.0**	**62.8**	**91.5**	**48.7**	**66.3**	**73.0**	**107.4**	**17**	**47**
First year premium	9.2	11.1	14.6	24.1	9.9	15.3	17.6	26.8	11	52
Renewal premium	26.2	39.1	40.2	58.3	30.1	42.0	46.1	66.8	15	45
Single premium	5.7	7.8	8.0	9.1	8.7	8.9	9.3	13.8	51	48
APE data (INR b)										
PAR	1.7	2.0	1.8	2.6	1.9	3.9	3.3	4.3	66	28
Individual Protection	0.7	0.8	1.1	1.2	0.9	1.6	1.6	1.8	60	14
Group Protection	1.1	0.7	0.5	0.9	1.2	1.0	1.0	0.5	-42	-47
Non-PAR Savings	2.7	4.5	8.3	14.4	4.2	4.6	6.2	10.2	-29	65
ULIP	3.8	3.9	3.4	6.4	2.8	5.5	5.8	11.9	87	103
APE (% of total)										
PAR	17.0	17.0	12.1	10.1	17.0	23.7	18.5	14.8	475	-364
Individual Protection	7.0	7.0	7.0	4.5	8.0	9.7	9.0	6.4	187	-259
Group Protection	11.0	5.5	3.1	3.5	11.0	6.0	5.5	1.8	-171	-364
Non-PAR Savings	27.0	38.1	55.1	56.8	38.0	28.0	34.5	35.6	-2,118	105
ULIP	38.0	32.5	22.7	25.1	25.0	33.4	32.5	41.4	1,628	881
Distribution mix (%)										
Proprietary	34	36	33	41	39	41	40	40	-139	0
Banca	65	63	66	58	59	59	59	56	-120	-259
Others	1	1	1	1	2	0	1	4	259	259
Key Ratios (%)										
Operating ratios										
Opex to GWP ratio (%)	22.9	21.0	20.4	20.5	23.6	22.8	22.6	22.0	150	-60
Solvency Ratio	196.0	196.0	200.0	190.0	188.0	184.0	179.0	172.0	-1,800	-700
Profitability ratios										
VNB margins	21.1	31.3	39.3	30.3	22.2	25.2	27.2	28.6	-175	134
13th Month	84.0	84.0	83.0	84.0	84.0	84.0	85.0	87.0	300	200
25th Month	68.0	68.0	68.0	68.0	69.0	70.0	70.0	70.0	200	0
37th Month	61.0	62.0	62.0	62.0	61.0	62.0	63.0	63.0	100	0
49th Month	56.0	64.0	63.0	63.0	57.0	65.0	65.0	66.0	300	100
61st Month	50.0	58.0	58.0	58.0	51.0	57.0	58.0	58.0	0	0
Key Metrics (INRb)										
VNB	2.1	3.7	5.9	7.7	2.5	4.2	4.9	8.2	7	68
EV	142	147	155	163	169	179	187	195	20	4
AUM	1071	1134	1184	1229	1291	1342	1426	1508	23	6

Note: (a) Persistency ratios, Opex ratio and EV for 5M, 8M and 11M, Sources: MOFSL, company reports

Highlights from the management commentary

Business

- The Individual Adjusted First Year Premium grew 16% YoY to INR69.6b and the total APE rose 13% YoY, driven by robust NOP growth of 20%.
- The driving force for new business growth was the launch of ~37 new product interventions during FY24, contributing to 45% of new business.
- Group credit life continues to be a strong focus area and has posted a strong growth of 62% YoY in FY24. On the other hand, the group term life business has seen intensified competition and there has been a slowdown in that segment recently.
- On the non-par side, the company is increasing the rates to preserve margins.

EV/VNB

- Product-level margins have been under some pressure for segments such as protection and annuity.
- Under economic variance, INR5.5b gains in equity book was offset by interest rate implications on the liability side.
- Operating variance was negative owing to the tightening of mortality assumptions in the group credit life book.
- Management guided a high-teen growth in premiums and lower/in-line growth in VNB.
- Back-book surplus growth slowed down because of assumption tightening and a high base of the last year.

Distribution

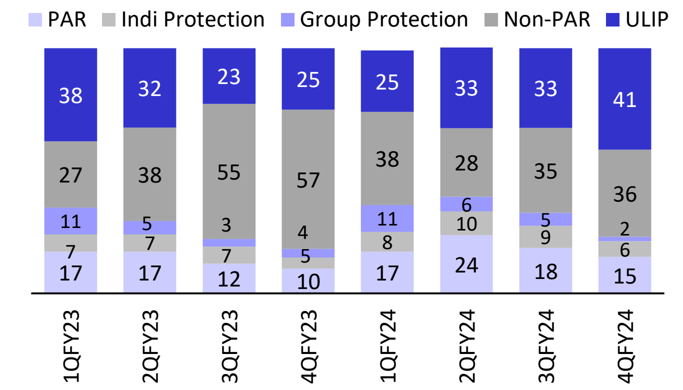
- Proprietary channels' APE grew ~28% YoY in FY24 driven by secular growth within Agencies, E-commerce, and Cross-selling.
- During the year, ~47,957 agents were recruited (54% growth), the highest among the Top 10 private players; the company opened ~80 new office units. The efficiency of this channel is expected to improve going ahead.
- It successfully onboarded 40+ new partners in FY24, consisting of 1 bank, 20 new GCL partners, 14 online & offline brokers, and 6 Corporate agents.
- The online channel grew ~79% YoY in FY24. The growth was mainly fueled by web aggregators, wherein savings business accelerated markedly (market share improved to 22% from 10-12% YoY).
- The Banca channel's APE segment grew ~12% YoY, with wallet share being maintained with two main partners – Axis Bank at ~70% and Yes Bank at ~58%.
- While Axis Bank has partnered with Aditya Birla Life and Tata AIA (via Citibank acquisition), MAXLIFE still expects to retain 65-70% wallet share.

Capital infusion by Axis Bank

- On 17th Apr'24, Axis Bank infused INR16.1b via equity share on preferential basis and owns ~19.02% as of FY24.
- Axis Bank entities can enhance their stakes and the company expects the transaction to go through in the next few months.
- The solvency ratio stood at 172% in 4QFY24. With the infusion of INR16.1b capital by Axis Bank into MAXLIFE, the solvency margin came in at 206% and the embedded value was at INR211b.
- MAXLIFE onboarded Mr. Munish Sharda and Mr. Arjun Chowdhry from Axis Bank, in the Board Committee of Max Financials.

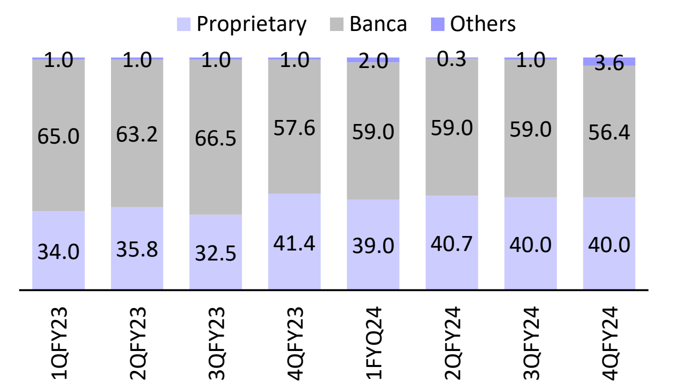
Key exhibits

Exhibit 2: Trend in product mix (%)



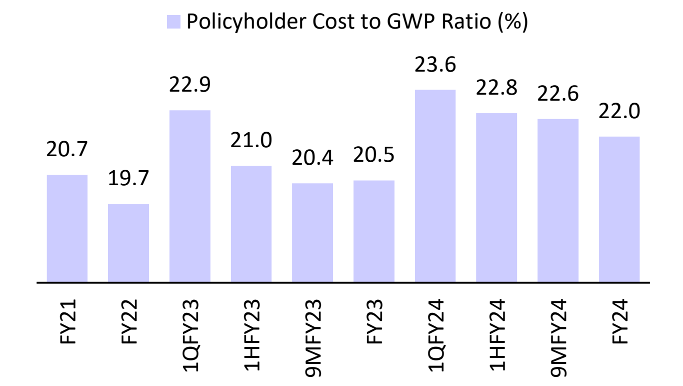
Sources: MOFSL, company reports

Exhibit 3: Banca channel's share reduced (%)



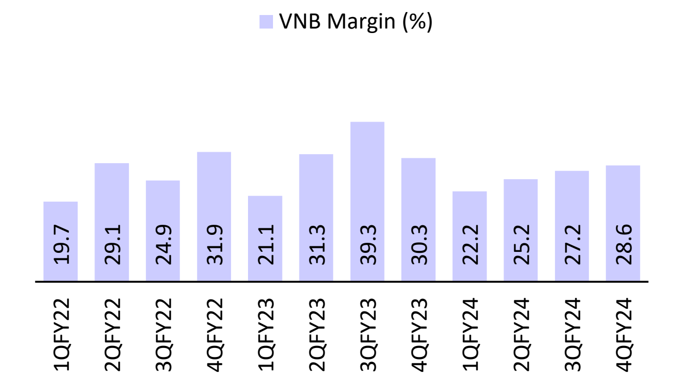
Sources: MOFSL, company reports

Exhibit 4: Opex-to-GWP ratio stood at 22% for FY24 (%)



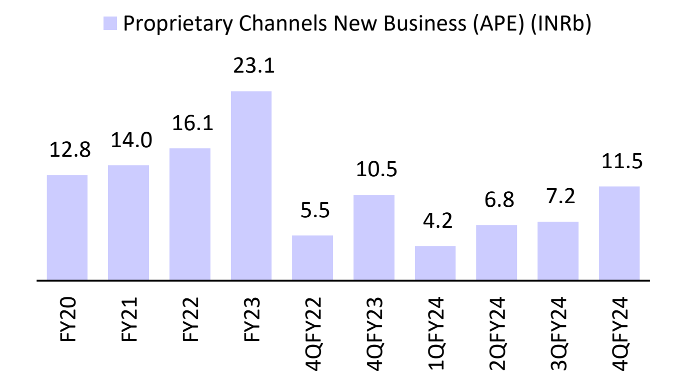
Sources: MOFSL, company reports

Exhibit 5: VNB margin contracted 170bp YoY to 28.6 (%)



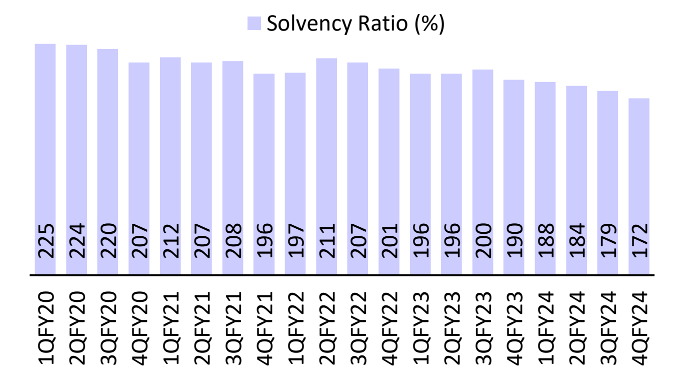
Sources: MOFSL, company reports

Exhibit 6: Proprietary channel's APE up 9.6% YoY in 4QFY24



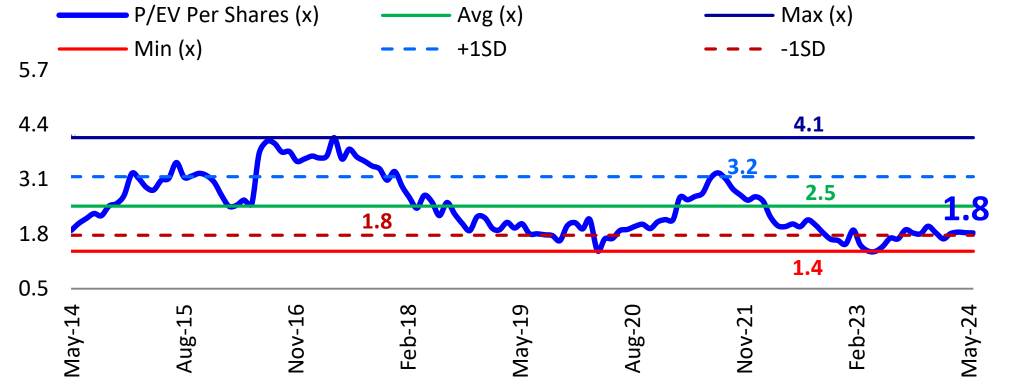
Sources: MOFSL, company reports

Exhibit 7: Solvency ratio stood at 172% as of 4QFY24 (%)



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	276
New business profit	23.5
Appraisal value	**565**
MFS stake post deal	80%
MFS Value	**452**
MFS valuation per share (INR)	**1,309**
Appraisal value-to-embedded value (x)	2.0
Holding company discount	20%
Target price (INR)	**1,040**
Upside	**9%**

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	2,95,290	3,41,390	3,94,559
Reinsurance Ceded	2,788	4,272	4,601	5,113	6,054	7,172
Net Premiums	1,87,391	2,19,870	2,48,818	2,90,664	3,35,336	3,87,387
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**	**3,71,241**	**4,26,217**	**4,90,160**
Commission	12,270	14,028	16,138	20,862	24,216	28,120
Operating expenses	27,008	30,192	35,808	43,262	50,259	58,412
Total commission and opex	**39,277**	**44,220**	**51,947**	**64,123**	**74,475**	**86,532**
Benefits Paid (Net)	70,149	92,772	99,792	1,42,549	1,62,054	1,85,953
Chg in reserves	1,96,686	1,64,581	1,50,603	1,52,794	1,75,898	2,02,094
Prov for doubtful debts	40	18	89	48	56	66
Total expenses (B)	**3,06,153**	**3,01,592**	**3,02,430**	**3,59,514**	**4,12,483**	**4,74,645**
(A) - (B)	**4,077**	**6,564**	**8,117**	**11,726**	**13,734**	**15,515**
Prov for Tax	1,857	2,402	2,120	2,912	3,305	3,776
Surplus / Deficit	**2,220**	**4,162**	**5,997**	**8,814**	**10,429**	**11,739**

Shareholder's a/c (INR m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Transfer from technical a/c	3,864	2,781	4,563	7,206	9,153	10,219
Income From Investments	2,360	3,212	3,143	3,949	5,331	7,197
Total Income	**6,351**	**6,033**	**7,858**	**11,156**	**14,485**	**17,416**
Other expenses	739	707	785	887	1,003	1,133
Contribution to technical a/c	502	1,168	1,999	2,500	3,000	3,500
Total Expenses	**1,249**	**1,862**	**2,789**	**3,387**	**4,003**	**4,633**
PBT	**5,102**	**4,170**	**5,069**	**7,768**	**10,482**	**12,783**
Prov for Tax	(131)	303	694	855	1,153	1,406
PAT	**5,232**	**3,867**	**4,374**	**6,914**	**9,329**	**11,377**
Growth	***-3%***	***-26%***	***13%***	***58%***	***35%***	***22%***

Premium (INR m) & growth (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
New business prem - unwtd	68,262	79,049	89,586	1,07,503	1,24,704	1,44,656
New business prem - WRP	50,327	55,762	62,046	70,737	82,055	95,184
Renewal premium	1,21,917	1,45,092	1,63,823	1,88,274	2,16,687	2,49,903
Total premium - unwtd	1,90,179	2,24,142	2,53,409	2,95,777	3,41,390	3,94,559
New bus. growth - unwtd	22.3%	15.8%	13.3%	20.0%	16.0%	16.0%
New business growth - wrp	18.8%	10.8%	11.3%	14.0%	16.0%	16.0%
Renewal premium growth	15.0%	19.0%	12.9%	14.9%	15.1%	15.3%
Total prem growth - unwtd	17.5%	17.9%	13.1%	16.7%	15.4%	15.6%

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	41.2	41.0	40.6
- Non-participating	27.7	NA	41.7	26.0	26.8	27.5
- 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

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	20,608	20,608
Reserves And Surplus	10,589	12,760	16,208	22,087	44,938	55,142
Shareholders' Fund	**30,079**	**31,959**	**35,467**	**41,354**	**65,633**	**75,847**
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	7,17,983	8,25,971	9,79,011
Funds For Future App.	29,819	32,369	35,803	35	197	422
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 (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Investment yield	15.2	9.0	5.1	5.8	5.8	5.8
Commissions / GWP	**6.5**	**6.3**	**6.3**	**7.1**	**7.1**	**7.1**
- first year premiums	17.5	18.0	18.7	23.6	23.7	23.8
- 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	14.7	14.7	14.8
Total expense ratio	**20.7**	**19.7**	**20.5**	**22.0**	**21.8**	**21.9**
Claims / NWP	37.4	42.2	40.1	49.0	48.3	48.0
Solvency ratio	202	201	193	172	195	190

Persistency ratios (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
13th Month	84.0	85.0	84.0	87.0	88.0	89.0
25th Month	71.0	68.0	68.0	70.0	71.0	72.0
37th Month	63.0	61.0	62.0	63.0	63.5	64.0
49th Month	58.0	56.0	63.0	66.0	66.5	67.0
61st Month	54.0	50.0	58.0	58.0	58.5	59.0

Profitability ratios (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
New business margin (%)	25.2	27.4	31.2	26.5	26.4	26.7
RoE (%)	18.7	12.5	13.0	18.0	17.4	16.1
Operating RoEV	18.5	19.2	22.1	20.2	19.3	19.2
RoEV (%)	18.6	19.8	14.7	19.9	19.2	18.9

Valuation ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total AUMs (INR b)	904	1,075	1,229	1,508	1,832	2,077
EPS (INR)	11.0	8.1	9.2	16.0	21.6	26.4
Value of new business (INR b)	12.5	15.3	19.5	19.7	21.7	25.4
Embedded Value (INR b)	118.4	141.8	162.6	194.9	232.4	276.5
EV Per share (INR)	274.3	328.6	377.0	451.9	538.8	640.8
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	74.8	55.5	45.5
P/EVOP(x)	28.0	22.7	16.5	15.8	13.8	11.6
P/VNB(x)	41.4	33.9	26.6	26.2	23.9	20.4

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

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