

June 25, 2024

Max Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	496.00	496.00	[ICRA]AA+ (Stable); reaffirmed
Total	496.00	496.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in Max Life Insurance Company Limited's (Max Life) established presence in the individual life insurance segment with a diversified distribution network. The company was among the top 3 private insurers with an overall market share of 6.2% in FY2024 (5.6% in FY2023; in terms of individual new business premium (NBP)). The rating also considers the comfortable solvency with a solvency ratio of 2.06 times post capital infusion in April 2024, up from 1.72 times as of March 31, 2024, following the capital infusion of Rs. 1,612 crore¹ in April 2024. The profitability is healthy with a return on embedded value (RoEV) of 20.2% in FY2024 (22.1% in FY2023). Moreover, the embedded value (EV) increased at a compound annual growth rate (CAGR) of 17% during FY2019-FY2024 to Rs. 19,494 crore as on March 31, 2024.

The rating factors in the company's strong promoter profile, with Axis Bank (Axis) holding a 19.02% stake along with its subsidiaries (Axis Capital Limited and Axis Securities Limited), as of April 30, 2024 (up from 12.99% as of March 31, 2024). The rating also considers Max Life's strategic importance to the bank and the expectation of support as and when required. Axis has been associated with Max Life as a distributing partner with a share of more than 52% in its individual annualised premium equivalent (APE) for FY2024. It has strong board representation at Max Life (five directors appointed by Axis including the Chairman). While Axis has a presence across the financial services segment, Max Life's foothold in the insurance business is of strategic importance to the bank. The other promoter, Max Financial Services Limited (Max Financial), had an 80.98% stake in Max Life as on April 30, 2024.

The company's operating expenses remain high compared to large private life insurance players, given the significant share of individual business in its overall business. The growth in the value of new business (VNB), VNB margin and profitability would depend on Max Life's ability to increase its APE and improve its operating efficiency. The profitability and solvency may remain susceptible to changes in the actuarial assumptions, leading to long-term changes in the reserving requirements.

The Stable outlook reflects Max Life's diversified distribution network and balanced product mix, enabling it to maintain its market position. It also reflects the expectation of continued strategic and capital support from the Axis Group.

Key rating drivers and their description

Credit strengths

Strong promoter profile – As of April 30, 2024, Axis had a 19.02% stake in the company, along with its subsidiaries (Axis Capital Limited and Axis Securities Limited), up from 12.99% as of March 31, 2024 with the capital infusion of Rs. 1,612 crore through preferential equity in April 2024.

Axis is the third largest private bank in India. Although it has a diversified presence in the financial services segment spanning asset management, securities broking, and investment banking through its subsidiaries, Max Life helps the bank improve its

¹ By Axis Bank (Axis; rated [ICRA]AAA (Stable) for its Basel III Tier II bonds)

foothold in the life insurance business. Axis already had a well-established relationship with Max Life as a bancassurance (banca) partner. It is now a promoter of Max Life (along with Max Financial) and has strong representation on the company's board (five directors nominated by Axis including the Chairman). Max Life's existing branding is strengthened further as a joint venture between Axis and Max Financial.

Axis' wide distribution network is likely to provide impetus for additional growth. The share of banca was in the range of 59-72% of the individual APE in the last five years, mainly including Axis' contribution (>52%). As Axis is a promoter of Max Life, ICRA expects strategic and capital support from the bank to be forthcoming.

Established player in individual segment with balanced product mix – Max Life is among the top 3 private life insurers with a market share of 6.2%, in terms of individual NBP, even though its limited presence in the group business moderated its overall market share to 2.9%, in terms of the overall NBP, in FY2024. The company has a balanced and diversified product mix with unit linked insurance plans (ULIPs) accounting for 37% of the individual APE in FY2024, followed by non-participating (non-par) at 35%, participating (par) at 19% and protection at 9%. The group portfolio, which accounted for 16% of the NBP in FY2024, largely comprised group protection (90% of group NBP with focus on credit life) and group annuity. The product mix is likely to remain diversified with Max Life looking at balanced growth across segments.

While the company's distribution channel was concentrated towards banca, the increased focus on the growth of the proprietary channel has led to diversification. Hence, the share of the banca channel declined to 58% of the individual APE in FY2024 from 70% in FY2019.

Solvency supported by recent equity infusion – Max Life's solvency remained comfortable at 2.06 times post capital infusion in April 2024 (up from 1.72 times as on March 31, 2024) compared to the regulatory requirement of 1.50 times. It was supported by the capital infusion of Rs. 1,612 crore by Axis in April 2024 to meet the company's growth requirements. The solvency ratio was previously supported by internal accruals and funds for future appropriation (FFA) related to par funds. FFA accounted for 47% of the available solvency margin as on March 31, 2024. While dividend payouts had been high till FY2021, the company did not announce any dividend payout between FY2022 and FY2024 to retain profits for business growth and to maintain solvency. Max Life has headroom for raising additional sub-debt of ~Rs. 496 crore as of March 31, 2024, which could help boost the solvency. Further, ICRA expects support from the parents to be forthcoming if required. Max Life's solvency, while expected to decline with the healthy growth, is likely to be maintained above 1.70 times.

Healthy profitability – Max Life's absolute VNB was Rs. 1,973 crore in FY2024 (Rs. 856 crore in FY2019), supported by the growth in the VNB margin as well as the APE. The EV increased to Rs. 19,494 crore as on March 31, 2024 (Rs. 8,938 crore as on March 31, 2019), with operating RoEV of ~19-22% in the last five years. The VNB margin, though healthy, declined to 26.5% in FY2024 from 31.2% in FY2023 due to the change in the product mix with the increase in the share of ULIP and the decline in the share of the higher margin non-par segment in individual business. Going forward, the improvement in the absolute VNB will largely depend on APE growth.

Max Life's accounting profitability has moderated in recent years with an average return on equity (RoE) of ~9-12% in FY2023 and FY2024 (compared to 19-20% in the five years ending FY2021). Profitability was lower due to the higher initial reserving in the non-par segment in the last two years and rising operating expenses. While the persistency² ratio is satisfactory in the 13th month and improved to 87% in FY2024, it is lower in the later cohorts, which also impacts profitability. The ability to maintain prudent asset-liability management, to mitigate the interest rate risk arising from the deployment of future policy premiums at remunerative rates, and achieve operating experience (such as persistency, mortality, operating costs, and interest rates), in line with the assumptions at the time of policy underwriting, will remain the key driver of the long-term profitability and capitalisation.

² Regular premium/Limited premium payment under individual category

Credit challenges

Operating expenses relatively higher than peers – Max Life’s operating expenses (including commissions) remained higher than other larger private life insurance peers and increased further to 22.2%³ of the gross written premium (GWP) in FY2024 from 20.8% in FY2023. The higher expense compared to larger private life insurance peers was due to the significant share of retail premium in the overall business. The rising expense was on account of the scale-up in the proprietary channels and the opening of new branches under agency. The operating expenses are expected to remain elevated in the medium term.

Ability to maintain NBP growth in individual segment – The growth in FY2024 was lower for the industry (individual NBP growth of 3.7% in FY2024), largely on account of the headwinds faced by the industry due to the change in taxation, given the Budget announcement regarding taxation on returns from life policies with a premium of more than Rs. 5 lakh per annum applicable after March 2023. Max Life’s individual NBP, however, grew strongly by 14.5% YoY in FY2024, which was higher than the private life insurers’ growth of 7.4% (though lower than private life insurers’ growth in the previous two years).

Given the environment of low NBP industry growth for the industry, competitive pressure could increase. With the VNB margin growth expected to remain limited, APE growth is likely to be the driver of the absolute VNB growth. Further, the impact of the recent regulatory changes, leading to an increase in the surrender values of life insurance policies, on the persistency ratios and profitability will remain monitorable. ICRA, however, takes note of Max Life’s diversified product mix and improved distribution network, which are likely to support its growth.

Liquidity position: Superior

The company’s net premium (excluding ULIP) stood at Rs. 21,812 crore in FY2024 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 6,562 crore in the last few years. As a result, the operating cash flows have remained positive, leading to growth in the investment book. Additionally, investments in Central and state government securities stood at Rs. 66,842 crore, accounting for 63% of the total investments (excluding ULIP) as on March 31, 2024, which supports the liquidity to meet the claims of policyholders. The shareholders’ investment of Rs. 5,848 crore also remains superior in relation to the sub-debt outstanding of Rs. 496 crore as on March 31, 2024.

Rating sensitivities

Positive factors – A sustained increase in Max Life’s market position and profitability will be a positive factor.

Negative factors – A rating downgrade for Axis or a decline in the strategic importance of Max Life to the bank or in the expectation of support from the promoter could impact the rating. Additionally, weakening in the overall market position and profitability or a decline in the company’s solvency ratio to less than 1.70 times, on a sustained basis, would be negative factors.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Life Insurance Rating Approach – Consolidation Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Group Company: Axis Bank The rating considers management support, given Axis’ board representation, and the company’s ability to leverage the bank’s wide branch network for the distribution of its insurance policies.
Consolidation/Standalone	For arriving at the rating, ICRA has used the standalone financials of Max Life. However, in line with its consolidation approach, ICRA has factored in the capital requirement of Max Life’s subsidiary, which is listed in Annexure II.

³ Includes shareholder expenses

About the company

Max Life is a joint venture (JV) between Max Financial Services Limited and Axis Bank, holding a stake of 80.98% and 19.02% (including Axis Group entities), respectively, as on April 30, 2024. Max Financial is a listed entity with Mitsui Sumitomo Insurance Company and Max Ventures Investment Holdings Private Limited & individual promoters holding 21.86% and 6.52%, respectively, as on March 31, 2024.

Launched in 2000, Max Life provides life insurance, savings, investment and annuity to individuals and groups. The products are offered under the protection, par, non-par and unit-linked lines of business with a presence across the country through 304 branches (own branches) and distribution partners.

Key financial indicators (audited)

Max Life Insurance Company Limited	FY2023	FY2024
Gross direct premium income	25,342	29,529
PAT	435	360
Net worth	3,547	3,998
Total investments [^]	87,606	1,06,656
Value of new business margin	31.2%	26.5%
13th month persistency ratio	84.2%	86.7%
61st month persistency ratio	57.9%	58.3%
Regulatory solvency ratio (times)	1.90	1.72 [#]

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; [#] 2.06 post capital infusion in April 2024

[^]Excluding linked investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Jun 24, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 25, 2024	Jul 7, 2023	July 11, 2022	Jul 15, 2021
1 Subordinated debt programme	Long term	496.0	496.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE511N08016	Subordinated debt programme	Aug-02-2021	7.50%	Aug-02-2031*	496.00	[ICRA]AA+ (Stable)

Source: Company

* The company has a call option exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date

The rating also factors in the key features of the subordinated debt instrument:

- Servicing of interest is contingent on the company maintaining a solvency ratio above the levels stipulated by the regulator⁴
- In case the interest payouts lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt

Annexure II: List of entities considered for consolidated analysis

Company Name	Max Life Ownership	Consolidation Approach
Max Life Pension Fund Management Limited	100.0%	Full Consolidation

Source: Max Life annual report for FY2023

⁴ As per Insurance Regulatory and Development Authority of India (IRDAI) regulations, insurers are required to maintain a minimum solvency ratio of 150%

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Branches



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