Initiating Coverage | 21 June 2018

Sector: Financials

ICICI Prudential Life Insurance

Moving up the profitability curve

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ICICI Prudential Life Insurance

BSE Sensex	S&P CNX
35,012	10,629

CMP: INR389 **TP: INR480(+23%)** **Buy**

Stock info

Bloomberg	IPRU IN
Equity Shares (m)	1,435
MCap (INR b)	558.4
MCap (USD b)	8.2
52-Week Range (INR)	507.9/ 363.0
1, 6, 12 Rel. Per (%)	-9/-7/-25
12M Avg Val (INR M)	627.5
Free float (%)	19.3

Financial snapshot (INRb)

Y/E MARCH	FY18	FY19E	FY20E
Net Premium	268.1	317.2	384.0
Total Income	382.2	482.7	571.0
Comm & opex	34.3	42.4	50.7
Surplus/deficit	13.6	14.2	16.0
S/h PAT	16.2	19.2	21.6
Total Premium Gr. (unwtd, %)	20.3	19.6	21.2
Renewal Prem. growth (%)	22.5	18.8	20.7

Shareholding pattern (%)

June-18	%
ICICI Bank	52.88
Prudential Corp.	25.83
Others	21.29

ICICI Prudential Life Insurance

Moving up the profitability curve

Nitin Aggarwal

Please click here for Video Link

Moving up the profitability curve

ICICI Prudential Life Insurance (IPRU) is amongst the market leader in the private sector life insurance space, aided by its strong brand, distribution capabilities and product portfolio. It has increased its market share in retail weighted premium to ~12% in FY18 (~6% in FY12) and has alongside reported sharp improvement in persistency ratios. This coupled with change in product mix in favor of protection business and strong cost control has enabled healthy margin expansion (16.5% VNB margin in FY18 v/s 10.1% in FY17). We expect margins to improve further to 18.2% by FY20E, boosting average operating RoEV to ~20% over FY18-20E. We value IPRU at INR480 per share using P/EV multiple of 2.7x (implied new business multiple of 21x). Initiate coverage with BUY.

Growth leadership to sustain; diverse distribution gives distinct advantage

IPRU has delivered ~18% CAGR in new business APE over FY15-18 aided by its robust distribution mix. Unlike other large bancassurers, IPRU has a balanced premium sourcing mix between bancassurance, agency, and direct sales channel. The strong distribution capability will thus enable IPRU to maintain healthy momentum in new business growth.

Operating metrics improving; margin gap with peers has narrowed

IPRU's persistency ratios have shown marked improvement over past few years. This coupled with improvement in cost ratios and favorable product mix has aided steady margin expansion (16.5% in FY18 v/s 10.1% in FY17). We expect further expansion in new business margins from 16.5% to 18.2% by FY20E.

Strongly positioned in ULIP products; sensitivity to tax rate has reduced

IPRU has built a strong franchise in ULIP products (>80% of total new business APE) and yet it has been able to report steady expansion in margins. Owing to improved profitability the company's sensitivity to tax-rate has also reduced significantly while dominance of customer friendly ULIP product has helped insulate it from potential regulatory changes on traditional products.

Valuation

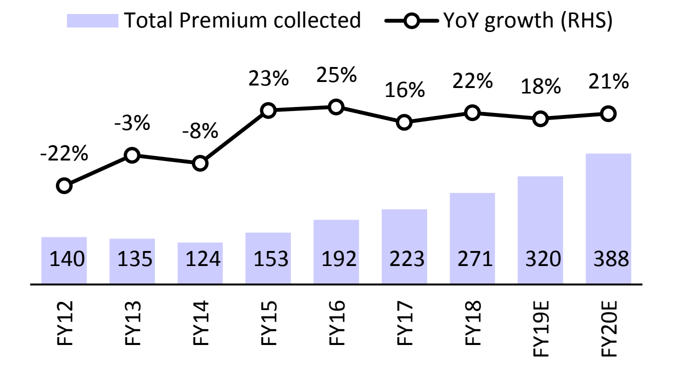
We value IPRU using the embedded value methodology and estimate the company to deliver new business value of INR20.4b in FY20E, while operating RoEV remains healthy at 19.5%. We value IPRU at ~INR684.6b using P/EV multiple of 2.7x (implied new business multiple of 21x). This implies a PT of INR480/share – an upside of 23%. We thus initiate coverage with a BUY rating.

Exhibit 1: Financials and valuations

INR b	Net Premium	Surplus / Deficit	S/h PAT	VNB	NBM (%)	EVOP as a % IEV	ROE (%)	EV/Sh, INR	P/EV (x)	P/EPS (x)	P/VIF (x)	P/AUM (%)
FY17	221.6	10.7	16.8	6.6	10.1%	16.4%	28.7%	112.7	3.5	33.2	5.9	45%
FY18	268.1	13.6	16.2	12.9	16.5%	22.8%	24.4%	130.8	3.0	34.5	4.7	40%
FY19E	317.2	14.2	19.2	16.4	18.0%	20.1%	25.5%	153.5	2.5	29.1	4.1	34%
FY20E	384.0	16.1	21.6	20.4	18.2%	19.5%	24.1%	178.8	2.2	25.9	3.5	29%

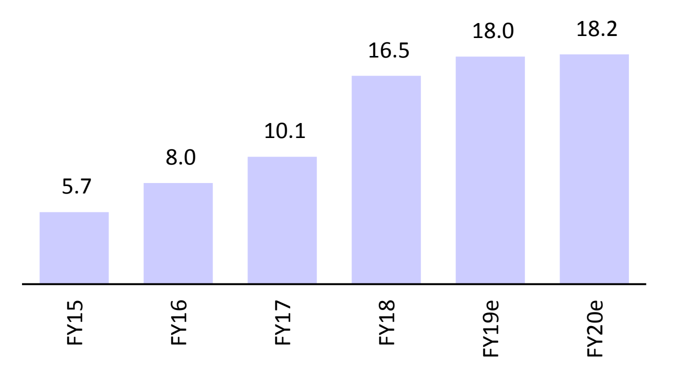
Source: Company, MOSL

Exhibit 2: Strong growth in total premium collection



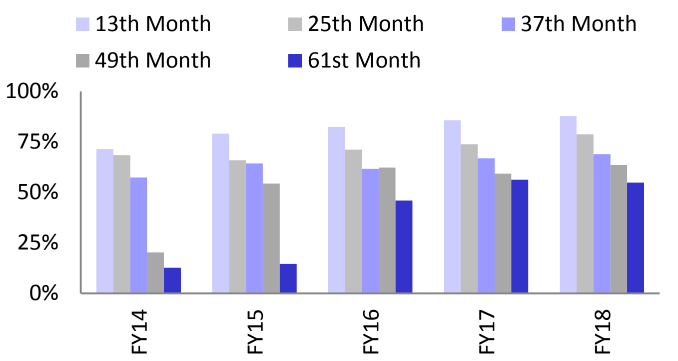
Source: Company, MOSL

Exhibit 3: Expect VNB margin to improve to 18.2% by FY20E



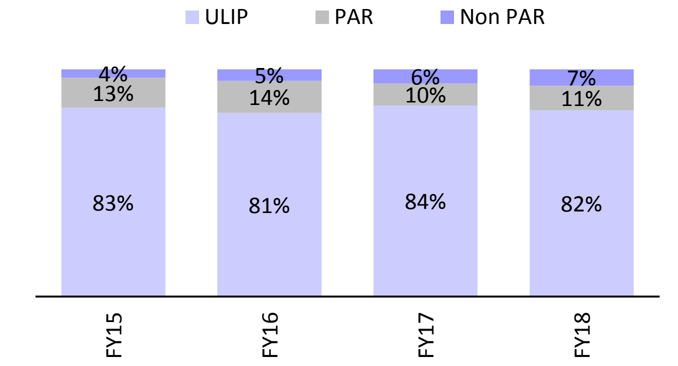
Source: Company, MOSL

Exhibit 4: Persistency ratios has improved across the curve



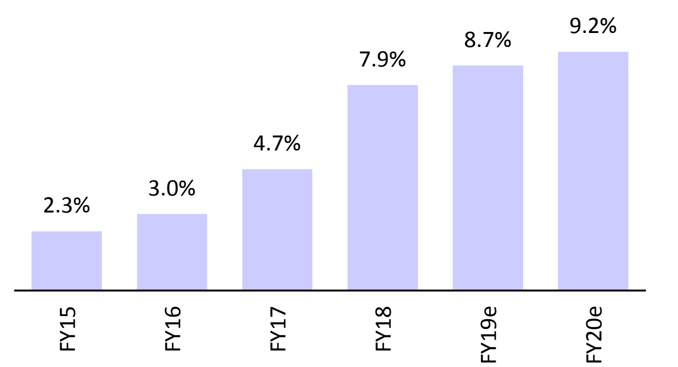
Note: Persistency ratios are including single premium

Exhibit 5: ULIPs remain the dominant business segment



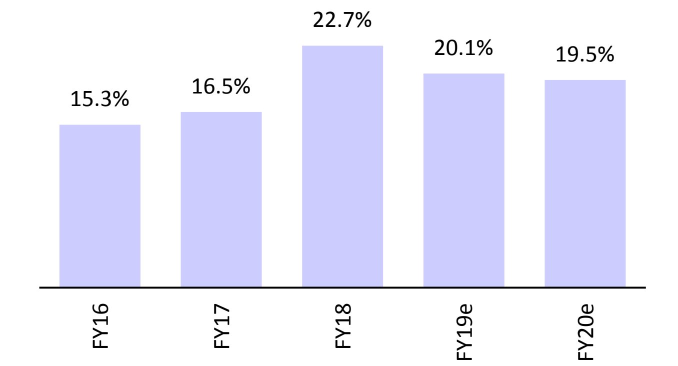
Source: Company, MOSL

Exhibit 6: VNB as a % of opening EV has improved sharply



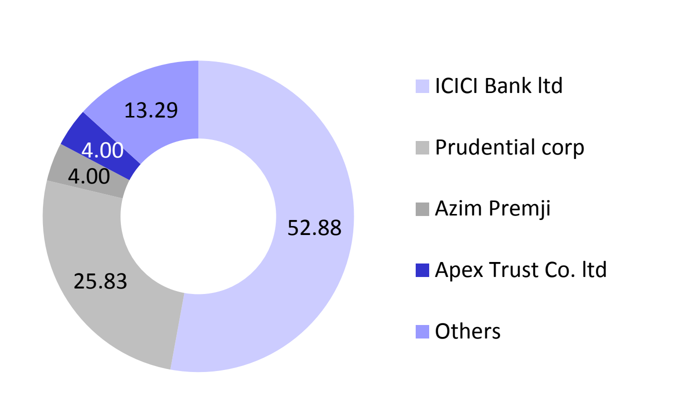
Source: Company, MOSL

Exhibit 7: Trend in EVOP as a percentage of IEV



Source: Company, MOSL

Exhibit 8: Shareholding pattern as of June-18 (%)



Source: Company, MOSL

Exhibit 9: We value IPRU at INR480 per share (2.7x FY20E EV)

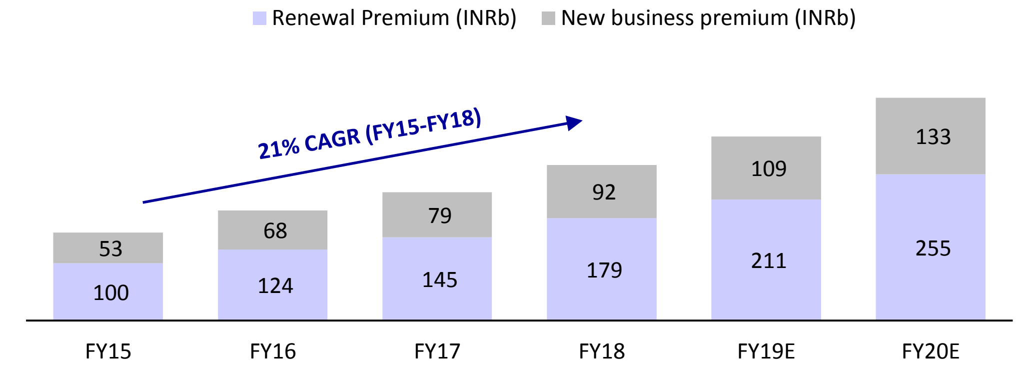
Embedded value - FY20E	256.7
New Business Profit - FY20E	20.4
Appraisal Value - FY20E	**684.6**
Fair value / Embedded value	2.7
Number of shares, mn	1,435
Valuation per share	**480**
Implied -	
- PE multiple	31.7
- New business multiple	21.0
- P/VIF	4.3
- P/AUMs	35%
Contribution of future business in Appraisal Value	63%
CMP	389
Upside	**23%**

Source: Company, MOSL

ICICI Prudential Life Insurance: well-positioned to deliver long-term growth

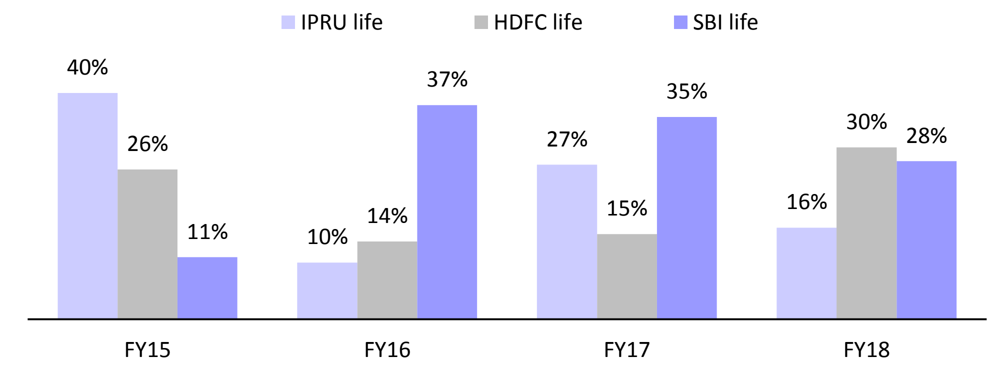
IPRU is one of the largest private sector insurers by premiums as well as AUM. The company has reported strong improvement in operating metrics (margins, cost, persistency) while delivering robust growth led by its focus on ULIP products. It has consistently maintained its leadership and has steadily gained market share to ~10% based on total new business APE from ~6% in FY14. This has been enabled by strong brand name, robust distribution and wide product portfolio. We expect new business CAGR of ~22% over FY18-20E, led by strong growth in its savings (ULIPs) and protection business. IPRU reported sharp 640bp margin expansion over FY18, aided by strong cost control, continued improvement in persistency, and rising share of protection business. Continued improvement in operating metrics coupled with rising share of high-margin protection business should drive further margin expansion. We expect new business margins to improve to 18.2% by FY20E (16.5% in FY18), boosting average operating RoEV to ~20% over FY18-20E.

Exhibit 10: Trend in total premium collection (renewal + new business) for IPRU life



Source: Company, MOSL

Exhibit 11: New business wrp growth trend for major listed players



Source: Company, MOSL

Major milestones	
2001	ICICI Prudential life starts operations
2002	Crossed the mark of 100,000 policies
2005	Crossed the mark of 1mn policies
2008	Crossed the mark of 5mn policies
	Crossed receipt of INR 100 billion of total premium
	Crossed INR 250 billion of assets under management
2010	Established subsidiary for the purposes of undertaking pension funds related business
	Company turned profitable - registered profit of INR 2.58 billion
	Crossed INR 500 billion of assets under management
2012	Started paying dividends
2015	Crossed INR 1 trillion of assets under management
2016	In September, got listed on stock exchange at issue price of INR 334 per share
2018	Protection premium crosses 5% of total APE

Exhibit 12: Trend in total new business wrp, market share and growth for major insurers

Life Insurer	FY18	YoY gr. %	Mkt sh. (%)	FY17	YoY gr. %	Mkt sh. (%)
Industry Total	**793,951**	**12.0%**	**100.0%**	**709,040**	**18.8%**	**100.0%**
Total Private	**406,513**	**16.6%**	**51.2%**	**348,664**	**22.1%**	**49.2%**
LIC	**387,438**	**7.5%**	**48.8%**	**360,376**	**15.8%**	**50.8%**
SBI Life	84,120	27.4%	10.6%	66,028	35.4%	9.3%
ICICI Prudential	79,033	21.7%	10.0%	64,966	27.2%	9.2%
HDFC Life	53,833	31.8%	6.8%	40,851	13.0%	5.8%
Max Life	33,067	20.3%	4.2%	27,495	27.2%	3.9%
Kotak Life	24,458	13.3%	3.1%	21,592	26.8%	3.0%
Bajaj Allianz	19,190	-9.9%	2.4%	21,302	38.1%	3.0%
Tata AIA	14,830	31.6%	1.9%	11,270	55.2%	1.6%
Birla Sunlife	13,979	-43.5%	1.8%	24,721	13.5%	3.5%
PNB Met Life	12,777	18.8%	1.6%	10,755	11.6%	1.5%
Canara HSBC OBC	8,979	37.9%	1.1%	6,513	35.7%	0.9%
Reliance Life	8,722	-9.8%	1.1%	9,667	-33.7%	1.4%
Exide Life	7,020	6.4%	0.9%	6,598	15.6%	0.9%
DLF Pramerica	6,908	179.9%	0.9%	2,468	6.2%	0.3%
IndiaFirst Life	6,578	24.5%	0.8%	5,285	53.3%	0.7%

Source: Company, MOSL

Exhibit 13: Trend in market share – new business wrp (%)

Insurer	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
SBI Life	4.2%	6.2%	8.9%	10.1%	5.4%	3.9%	5.0%	5.4%	6.6%	8.2%	9.3%	10.6%
ICICI Prulife	10.6%	13.7%	12.2%	9.6%	8.4%	6.4%	7.4%	5.6%	8.7%	8.6%	9.2%	10.0%
HDFC Life	3.1%	4.1%	4.5%	4.4%	4.9%	4.6%	5.6%	4.3%	5.9%	6.1%	5.8%	6.8%
Max Life	1.8%	2.4%	3.1%	2.6%	2.6%	2.4%	2.7%	3.1%	3.7%	3.6%	3.9%	4.2%
Kotak Life	1.3%	1.9%	2.5%	1.8%	1.3%	1.0%	1.4%	1.4%	2.1%	2.9%	3.0%	3.1%
Bajaj Allianz	7.4%	10.3%	7.7%	5.9%	3.5%	2.9%	3.6%	2.9%	3.0%	2.6%	3.0%	2.4%
Tata AIA	1.3%	1.5%	2.1%	2.0%	1.6%	1.1%	0.7%	0.6%	0.6%	1.2%	1.6%	1.9%
Birla Sunlife	1.9%	3.4%	5.3%	4.6%	2.9%	2.7%	3.2%	2.8%	3.6%	3.7%	3.5%	1.8%
PNB Met Life	0.8%	1.4%	2.0%	1.6%	0.8%	1.1%	1.2%	1.1%	1.5%	1.6%	1.5%	1.6%
Reliance Life	1.7%	3.4%	5.8%	5.8%	3.4%	2.2%	2.1%	3.1%	3.7%	2.4%	1.4%	1.1%
Exide Life	1.0%	1.2%	1.2%	1.0%	0.9%	0.9%	0.9%	0.8%	0.8%	1.0%	0.9%	0.9%
Shriram Life	0.2%	0.3%	0.4%	0.5%	0.3%	0.3%	0.4%	0.4%	0.6%	0.8%	0.7%	0.7%
Bharti Axa Life	0.0%	0.2%	0.5%	0.6%	0.5%	0.3%	0.4%	0.5%	0.7%	0.6%	0.6%	0.5%

Source: Company, MOSL

Exhibit 14: Trend in individual new business wrp, market share and growth for major insurance players

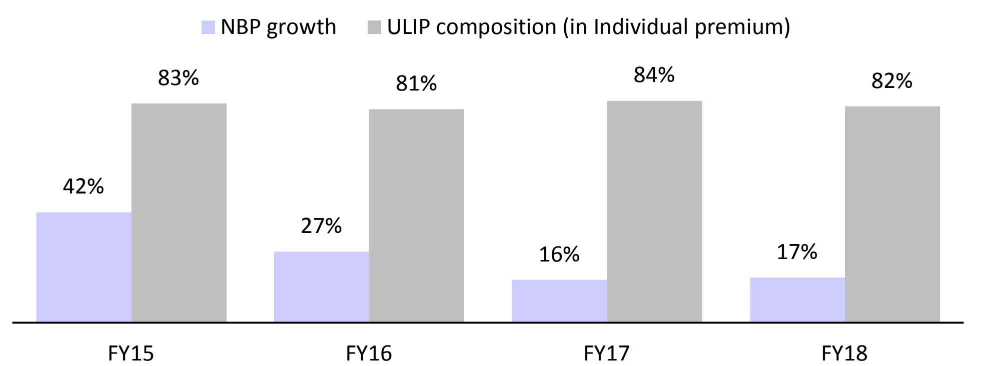
INRm	FY18	YoY gr. %	Mkt sh. (%)	FY17	YoY gr. %	Mkt sh. (%)
Grand Total	**634,458**	**19.2%**	**100.0%**	**532,163**	**21%**	**100.0%**
Total Private	**356,440**	**24.2%**	**56.2%**	**286,968**	**26%**	**53.9%**
LIC	**278,018**	**13.4%**	**43.8%**	**245,194**	**15%**	**46.1%**
SBI Life	77,873	31.1%	12.3%	59,380	39%	11.2%
ICICI Prudential	74,606	16.4%	11.8%	64,081	29%	12.0%
HDFC Standard	47,536	30.8%	7.5%	36,356	9%	6.8%
Max Life	32,145	21.8%	5.1%	26,392	26%	5.0%
Kotak Life	15,745	31.0%	2.5%	12,022	28%	2.3%
Tata AIA	13,974	33.4%	2.2%	10,476	73%	2.0%
Bajaj Allianz	13,971	38.3%	2.2%	10,102	41%	1.9%
PNB Met Life	12,211	20.3%	1.9%	10,148	11%	1.9%
Birla Sunlife	10,590	14.9%	1.7%	9,219	35%	1.7%
Canara HSBC OBC	8,179	33.5%	1.3%	6,126	39%	1.2%
Reliance Life	7,272	5.4%	1.1%	6,901	-23%	1.3%
Exide Life	5,943	-2.9%	0.9%	6,119	28%	1.1%
IndiaFirst Life	5,754	42.9%	0.9%	4,026	82%	0.8%
Star Union Dai-ichi	5,745	-4.5%	0.9%	6,016	64%	1.1%

Source: Company, MOSL

Gaining market share on the back of ULIPs and strong distribution

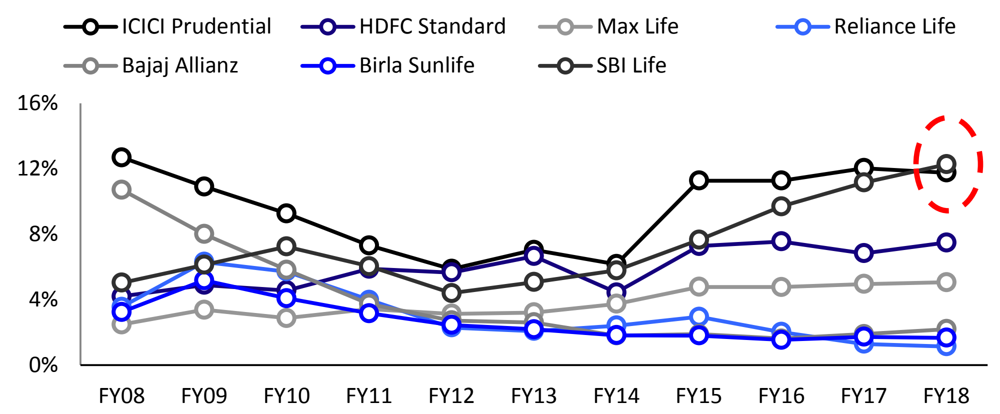
IPRU reported 23% CAGR in total new business APE over FY14-18, led by strong growth in ULIP products. The company believes that post regulatory changes, ULIP products offer the best value proposition with an attractive combination of risk cover and returns. IPRU has adopted the strategy of staying away from non-participating savings products. It has capitalized on its low cost strong bancassurance tie-ups with ICICI Bank (4,867+ branches), Standard Chartered Bank (100+ branches across 43 cities) and direct marketing initiative to drive its premium growth. IPRU's strong brand pull and vast reach due to its bancassurance tie-up gives it a strong competitive edge and the company is thus mainly positioned more towards the individual segment. Retail annualized premiums earned account for ~97% of IPRU's total APE in FY18.

Exhibit 15: IPru life: Trend in new business growth and ULIP composition



Source: Company, MOSL

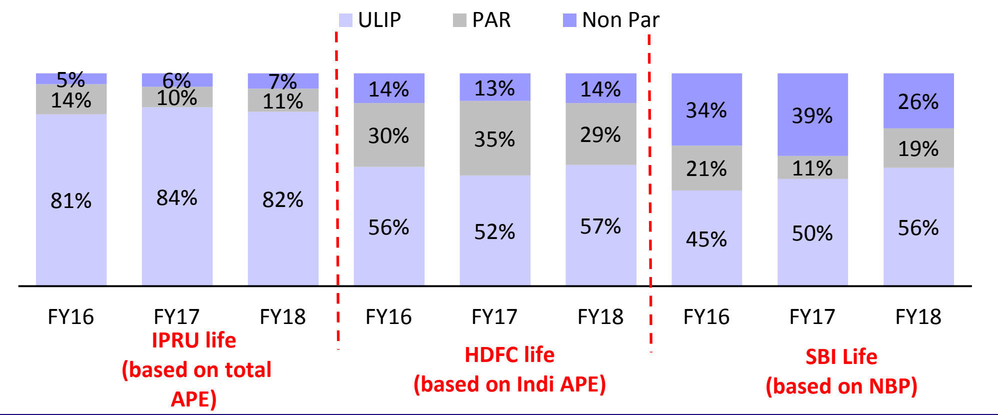
Exhibit 16: Market share trend in individual new business APE for key private insurers (%)



ULIP remains the dominant business segment with new business share of >80%

IPRU has traditionally been a major player in the ULIP segment, with ULIPs constituting over 80% of its total APE in the last few years (82% in FY18). While we expect the share of protection business to increase in the coming years, ULIPs will still account for >75% of total retail APE going forward, in our view.

Exhibit 17: Premium mix comparison across private players



Source: Company, MOSL

What drives ULIP purchases?

Fund performance is just one of the factors!

The success in scaling up the ULIPs business depends more on the selling proposition and customer relationship than just the performance of the funds, in our view. We believe performance is an important consideration in choosing a scheme, but is not the deciding factor. ICICI Group's favorable brand image and recognized asset management capabilities enable IPRU to effectively sell ULIP products. Other reasons why customers choose ULIPs over mutual funds are life cover and flexibility to switch between schemes. IPRU's large bancassurance network makes it easy for the company to service customers. The sustainability of this business is largely dependent on brand image and performance of the schemes, all of which are favorable for IPRU, in our view. The introduction of long-term capital gains tax has further improved the competitiveness of ULIP products vis-à-vis mutual funds/direct equity investments.

ULIP products have become much more competitive

ULIP products have become more competitive, with the IRDA significantly reducing surrender charges and specifying the maximum gap between gross and net yields. However, this also implies that cost management has become much more important for the insurers. As such, insurance distribution via the banking channel has gained importance owing to its lower distribution and sourcing cost. Such rationalization in cost structure coupled with reduced mis-selling has also aided an improvement in persistency rate and thus boosted the operating metrics for the insurers.

Exhibit 18: ULIP regulations: Minimum sum assured raised to 10x annual premium

Type of Products	Age at entry below 45 years	Age at entry of 45 years and above
Single premium	❖ 125%	❖ 110%
Life regular premium	❖ 10 times the annualised premiums or (0.5xT x annualized premium) whichever is higher.	❖ 7 times the annualised premiums or (0.25xTx annualized premium) whichever is higher.
Health regular premium	❖ 5 times the annualised premium or Rs.100,000 per annum whichever is higher.	❖ 5 times the annualised premium or Rs.100,000 per annum whichever is higher.

Source: Company, MOSL

Exhibit 19: ULIP – gross and net yields

Annualized Premium Paid, Years	Maximum difference between Gross and Net Yield (% p.a.)
5	4.00%
6	3.75%
7	3.50%
8	3.30%
9	3.15%
10	3.00%
11 & 12	2.75%
13 & 14	2.50%
15 & thereafter	2.25%

Source: Company, MOSL

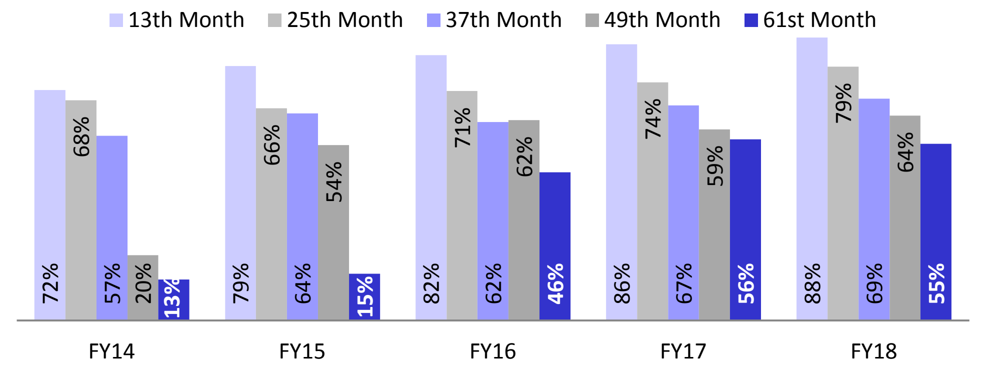
Persistency ratios has improved steadily

Conservative assumptions may drive further margin expansion

IPRU's persistency rate was severely impacted post revised ULIP regulations in 2010. The company witnessed high surrender rates while the gap between actual and pre-overrun new business margins also widened sharply. However, it continued to focus on the ULIP segment with redesigned products, which became more customer-friendly under the new regulations. IPRU has been reporting steady improvement in persistency rate and we expect this trend to continue, especially across the longer end of the curve, as the improvement benefit trickles down. The focus on need-based selling, superior customer service and high product transparency have further helped improve satisfaction levels. This should drive further improvement in persistency and support renewal premium growth.

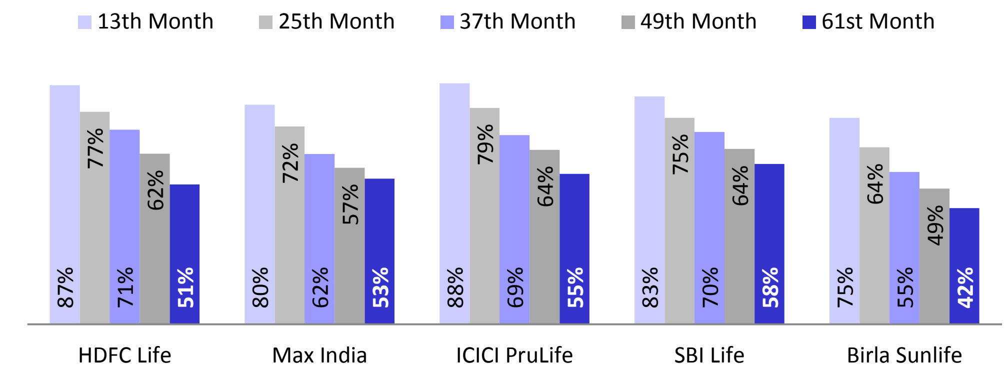
- With greater focus on right-selling and improved product suite, 61st month persistency has improved from 13% in FY14 to ~55% in FY18.
- With improved persistency and reduction in expense ratios, VNB margins have increased from 5.7% in FY15 to 16.5% in FY18.

Exhibit 20: Persistency ratios has improved significantly across the curve



Source: MOSL, Company

Exhibit 21: Persistency ratios of major insurers as on FY18

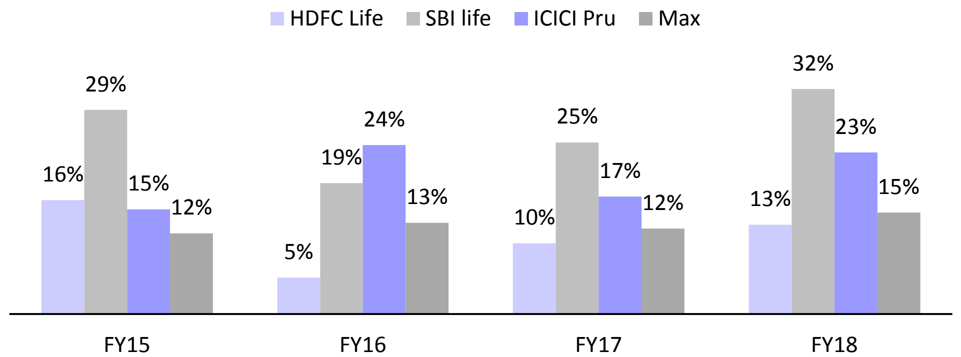


Source: Company, MOSL

Renewal premium growth has improved

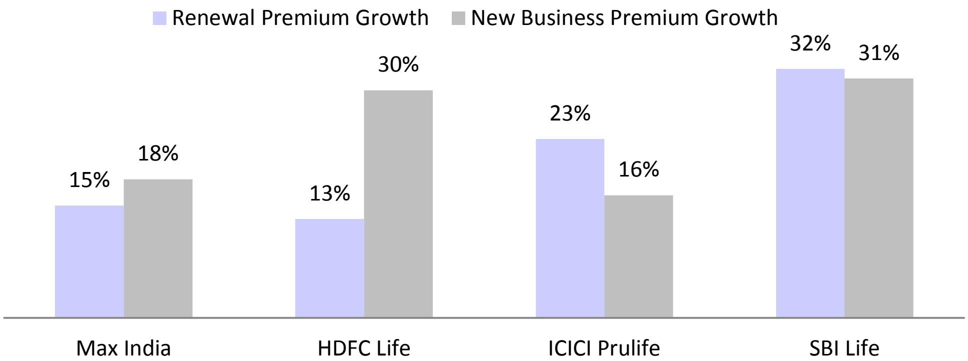
With improvement in persistency rate, the growth in IPRU's renewal premium has also improved steadily. This has contributed to the build-up of policy reserves, and hence higher value in force. However, the persistency of ULIP products is inherently linked to the performance of capital markets and will need to be tested in a cyclical downturn in equity markets.

Exhibit 22: Trend in renewal premium growth for major insurers



Source: Company, MOSL

Exhibit 23: Renewal premium growth v/s new business growth for major insurers

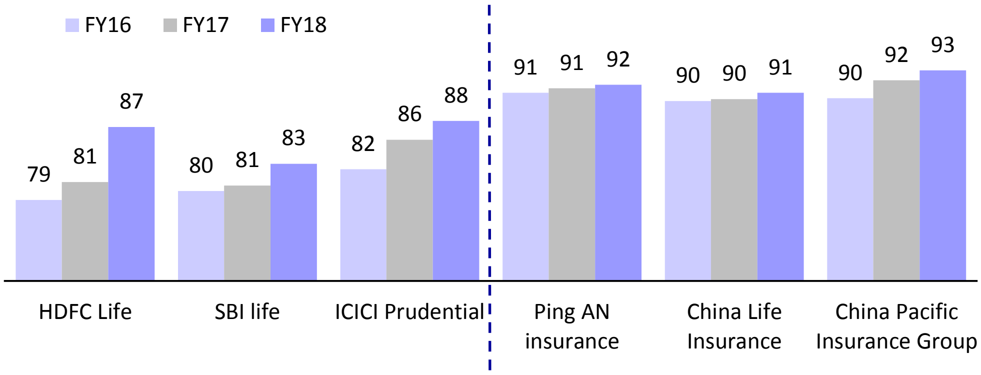


Source: Company, MOSL

Regional comparison of persistency trend – further room for improvement exists!

With the change in product structure, curb on mis-selling and buoyant equity markets, the persistency rate has improved for most Indian insurers. However the same still remains below their Asian peers. The savings business remains the dominant segment for Indian insurers that have been reporting a steady improvement in persistency over the last few years. We expect persistency to improve further, as quality of business improves and increasing customer awareness positions insurance as a protection-cum-savings product rather than just a play on capital markets.

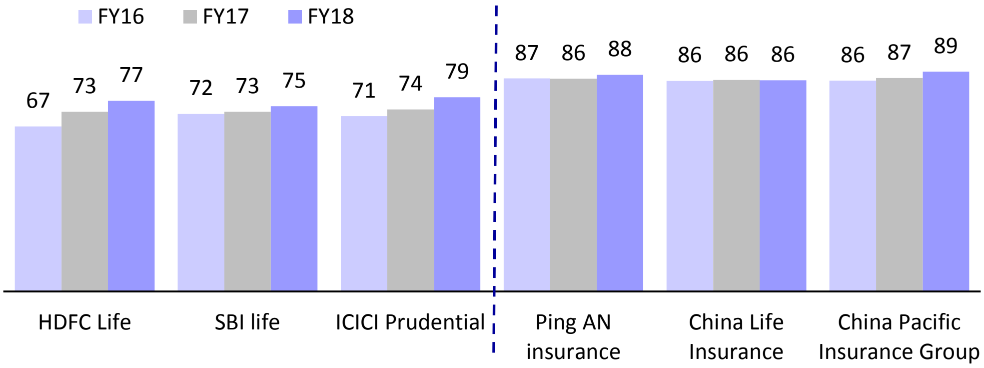
Exhibit 24: 13-month persistency comparison of Indian and Asian insurers – FY18



Note: For Ping AN, China life insurance and China Pacific life insurance persistency data is as of Dec'17

Source: Company, MOSL

Exhibit 25: 25-month persistency comparison of Indian and Asian insurers – FY18



Note: For Ping AN, China life insurance and China Pacific life insurance persistency data is as of December 2017

Source: Company, MOSL

Commission structure has also been designed to boost persistency

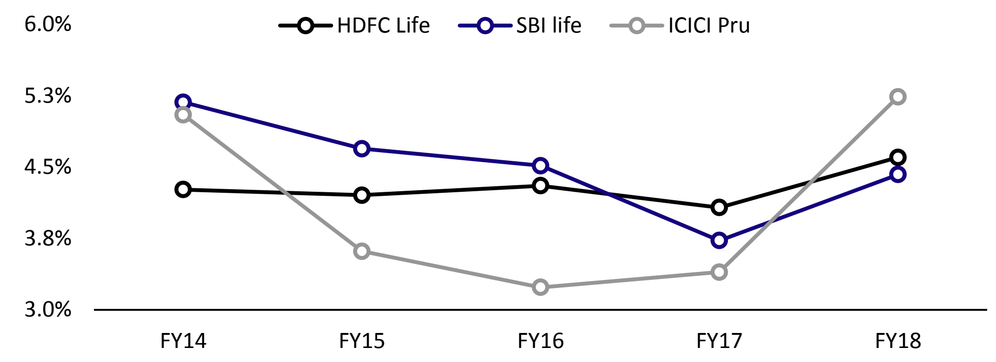
In December 2016, IRDA made further changes in the commission structure to bring more consistency into the commissions paid on regular-premium insurance products. Commissions were capped at 2% of the premium on single-premium products, and at 15% in the first year and 7.5% thereafter on regular insurance products with a premium paying term of at least five years. In case of pension products, the commission was capped at 2% on single-premium products and at 7.5% in the first year and 2% thereafter on regular products. With these changes, the IRDA has adequately incentivized agents / distributors, and has ensured that the right product gets sold to the customers.

Exhibit 26: Commission structure for regular-premium products – linked & non-linked

Premium Payment term, Years	Maximum Commission as % of premium					
	New			Old		
	1st year	2nd & 3rd year	Subsequent years	1st year	2nd & 3rd year	Subsequent years
5	15	7.5/5	5	Maximum 35	7.5/5	5
6	18	7.5/5	5		7.5/5	5
7	21	7.5/5	5		7.5/5	5
8	24	7.5/5	5		7.5/5	5
9	27	7.5/5	5		7.5/5	5
10	30	7.5/5	5		7.5/5	5
11	33/30	7.5/5	5		7.5/5	5
12 & more	35/30	7.5/5	5		7.5/5	5

Source: Company, MOSL

Exhibit 27: Commissions as % of total un-weighted premium



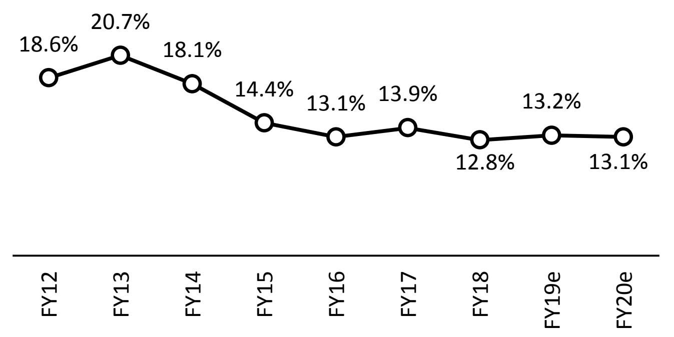
Source: Company, MOSL

Operating cost has reported a steady decline

IPRU's total commission and operating expenses as a percentage of gross written premiums is one of the lowest among the major private sector insurers. IPRU has steadily reduced its commission and operating expenses from 2.9% of AUM in FY12 to 2.6% in FY18; and as a proportion of gross written premium have declined from 18.6% to 12.8%. This has enabled IPRU to lower its cost overrun and report steady expansion in new business margin.

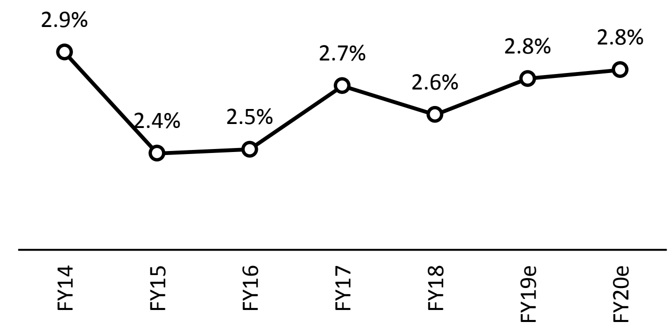
Healthy mix of sales from low-cost bancassurance channel and dominance of ULIPs in product mix has further aided decline in cost ratios. IPRU sells a variety of term plans, ULIPs, and pension/annuity plans online. However, according to the management, there is no major cost advantage in online sales as significant investments are being made in scaling up the online channel. We nevertheless expect IPRU to retain its cost leadership among private sector insurers while improvement in operating leverage and rising share of protection business further aids profitability.

Exhibit 28: Total Expense (commission + Opex) ratio as a % of GWP has improved to 12.8% in FY18



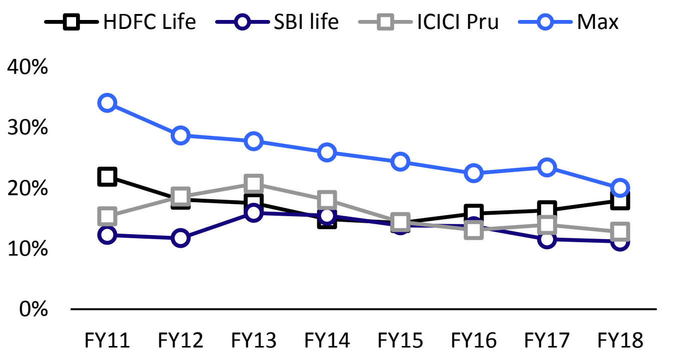
Source: Company, MOSL

Exhibit 29: Total expense as a % of AUM has also declined



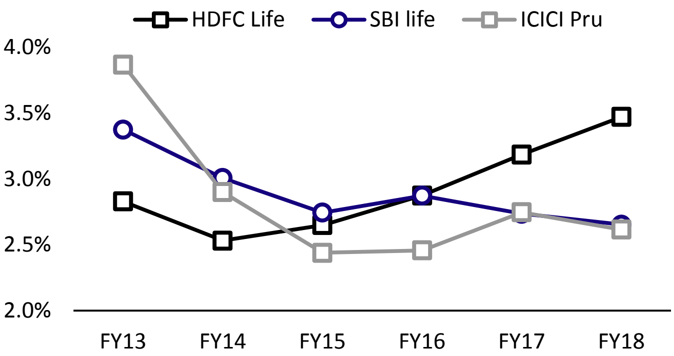
Source: Company, MOSL

Exhibit 30: Trend in total expense as % of GWP for major insurers



Source: Company, MOSL

Exhibit 31: Trend in total expense as a % of AUM for major insurers



Source: Company, MOSL

IPRU has significantly optimized its resource base

Post the regulations for ULIPs in 2010 capping surrender charges, insurers had to focus on cost reduction to maintain profitability in linked products. IPRU focused on rationalizing its cost structure (network, employee count, etc) and implemented process digitization to reduce operating expenses. It has smoothened backend processes and has begun doing most of its documentation online. The company has also begun Aadhar-enabled eKYC documentation. Over FY08-18, IPRU has reduced the number of offices from 1,956 to 505, the number of employees from ~28k to ~16k, and the number of agents from ~291k to ~152k. These initiatives have helped IPRU to position itself as a leader in the low-margin linked business.

Exhibit 32: Number of employees, branches and agents for major private insurers

		Employees	Branches	Agents
FY08	ICICI Pru	28,000	1,956	291,000
	HDFC life	15,411	572	144,000
	SBI Life	3,738	NA	40,643
FY11	ICICI Pru	13,000	1,400	260,900
	HDFC life	12,548	500+	138,000
	SBI Life	7,292	629	100,000
FY14	ICICI Pru	10,700	559	171,734
	HDFC life	13,900	429	55,933
	SBI Life	9,114	762	136,579
FY17	ICICI Pru	12,397	512	136,114
	HDFC life	14,800	414	54,516
	SBI Life	12,051	801	95,355
FY18	ICICI Pru	15,780	505	151,563
	HDFC life	17,609	414	77,048
	SBI Life	13,200	825	108,261

Source: Company, MOSL

Enhanced use of technology coupled with high share of premiums from online channels have helped achieve superior cost ratios

Improvement in cost ratios was aided by healthy momentum in premium growth, improvement in persistency trend, and enhanced use of technology. IPRU focuses on five main initiatives to drive the digital agenda – increasing digital marketing and sales, utilizing big data and machine learning techniques, building a modular information technology platform, digitizing sales and service processes, and partnering with organizations across the ecosystem. The percentage of new applications initiated through digital platforms has increased from 89% in FY14 to 93% in FY18 while the percentage of renewal premium being sourced online has increased from 44% to 61%.

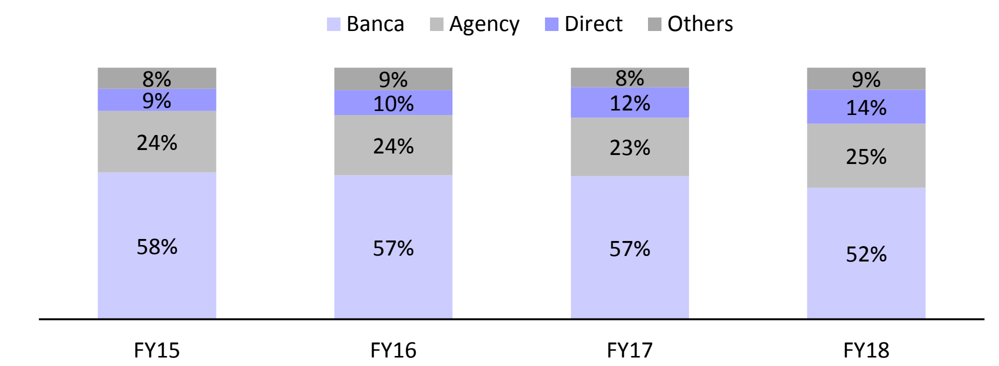
Strong distribution has been a key growth enabler

IPRU has a more balanced premium sourcing mix than other large bancassurers with the agency channel accounting for ~25% of total new business APE and bancassurance accounting for ~52% (other large bancassurers derive >60% of their new business APE from the bancassurance channel). Besides its parent, ICICI Bank, which has a strong distribution reach with 4,867 branches, IPRU also has a tie-up with Standard Chartered Bank, giving it a wide geographical presence all over India. The strong distribution capability has enabled IPRU to maintain healthy momentum in new business growth. ICICI Bank's growing proportion of retail business (retail loan growth of 18-20%; composition of retail loans up from 37% in FY13 to ~57% currently) will further help IPRU to tap a larger customer base to cross-sell its insurance products.

Robust bancassurance channel remains key competitive strength

Bancassurance has repeatedly proven to be one of the best channels for insurance distribution. All of the four largest private sector insurers (IPRU, HDFC Life, SBI Life and Max Life) rely on bancassurance as the main source of distribution. While the productivity of the agency channel has been increasing (discussed later), we expect bancassurance to remain the largest distribution channel over the next few years.

Exhibit 33: Distribution mix (based on total APE)



Source: Company, MOSL

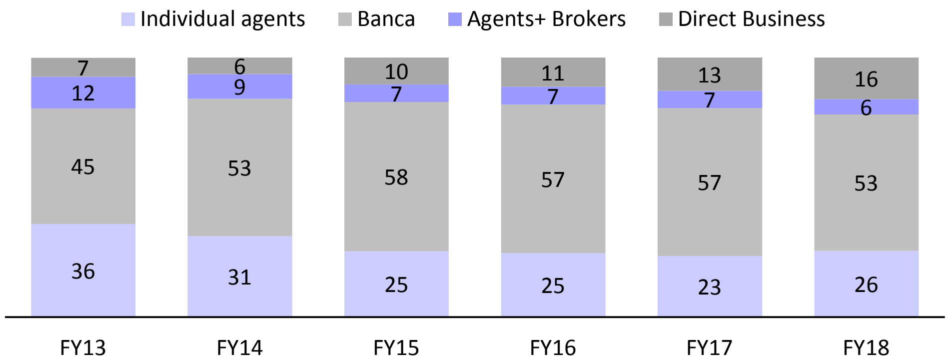
Exhibit 34: List of insurance companies and their key bancassurance partners

Insurer	Bancassurance Partners
ICICI Prudential	Standard Chartered Bank, ICICI Bank
HDFC Life	HDFC Bank, Ratnakar Bank, IDFC Bank
Kotak Life	Kotak Bank
Canara HSBC OBC	Canara Bank, HSBC, Oriental Bank of Commerce
SBI Life	SBI, South Indian Bank, Punjab and Sind Bank
Bajaj Allianz	Dhanlaxmi Bank, Ujjivan
IDBI Federal Life	IDBI Bank, Federal Bank
Max Life	Axis Bank, Laxmi Vilas Bank, Yes Bank
Birla Sunlife	Deutsche Bank AG, DCB Bank, HDFC Bank
PNB Met Life	Punjab National Bank, J&K Bank, Karnataka Bank
Tata AIA	Citibank, IndusInd Bank, DBS, HDFC Bank

Source: Company, MOSL

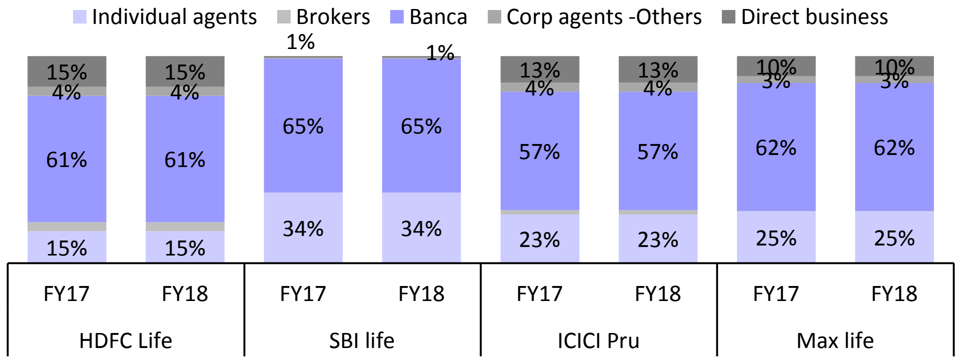
The share of total APE sourced via bancassurance has declined from 58% in FY15 to ~52% in FY18. The direct channel, however, has reported strong growth and the share of this channel in total premium mix has increased from ~9% in FY15 to ~13.5% currently. ICICI Bank, its 'in-house' bancassurance partner, provides IPRU with added stability and complement the company's strategy to focus on ULIP products, where commission rates have declined significantly, making the business less remunerative for agency channel.

Exhibit 35: IPRU life: Trend in individual premium sourcing mix – un-weighted



Source: Company, MOSL

Exhibit 36: Individual Premium sourcing through different channels for major insurers



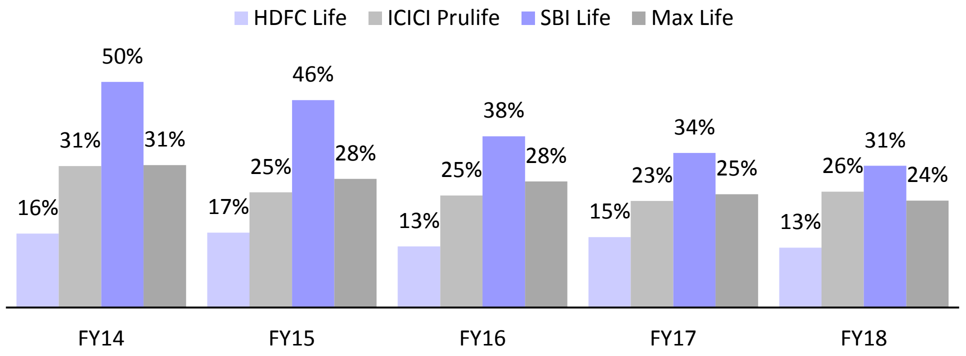
Source: Company, MOSL

Agency channel makes healthy contribution to new business sourcing

Despite several challenges in building up a strong agency channel (cost, recruitment and training issues, low productivity), agency network is a must for a life insurance company. Insurance by itself is a push product and insurers need multiple channels to sell their products and reach out to customers. While the bancassurance channel can help cross-sell insurance products to existing bank customers, it is the agency channel that gets the incremental new (otherwise unreachable) business.

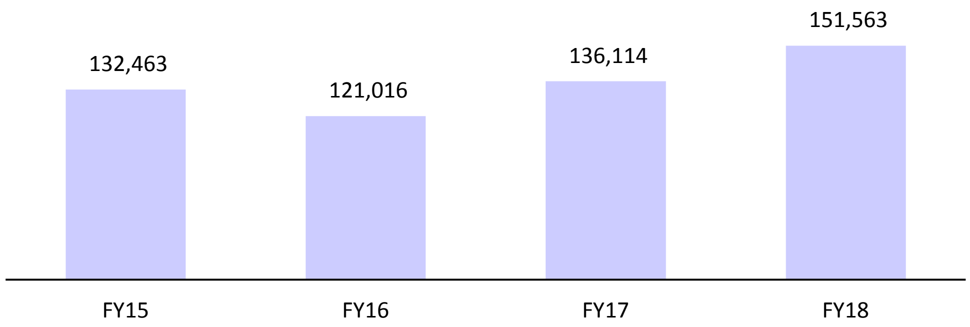
Despite the challenges of maintaining a productive agency network, we note that in other emerging countries, the agency channel still remains very important for insurers. IPRU has the third-largest agency network in India after LIC and Reliance Life Insurance.

Exhibit 37: Contribution of agency channel to total individual premiums



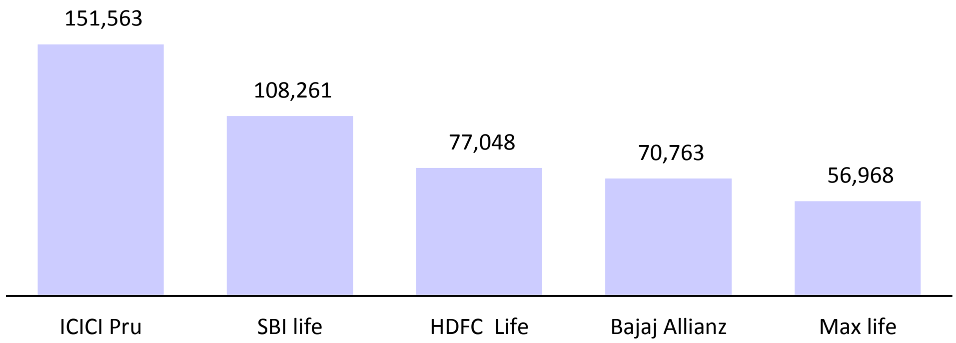
Source: Company, MOSL

Exhibit 38: IPRU has been gradually scaling up its agency channel



Source: Company, MOSL

Exhibit 39: Size of agency channel for major insurers as on FY18

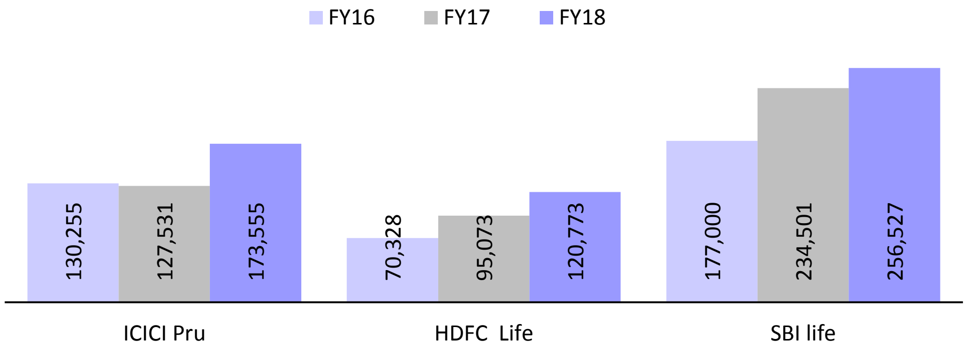


Source: Company, MOSL

Productivity of agency channel has been showing an improving trend

IPRU is also focusing on improving the productivity of the agency channel. The average premium per agent has thus increased from INR127k in FY18 to INR173k in FY18. We expect agent productivity to improve further on IPRU's sustained efforts to (a) build this channel, (b) adequate training imparted to agents, and, (c) focus on reduction in mis-selling cases. This will further strengthen the company's distribution mix and enable healthy business growth.

Exhibit 40: IPRU life has seen the highest growth in agent productivity (INR) in FY18



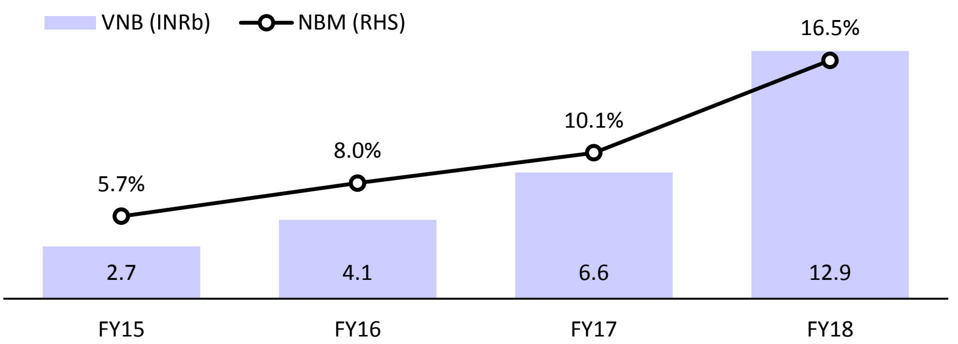
Note : Agent productivity = Premium through individual channel / average individual agents
Source: Company, MOSL

New business margins have improved sharply; rising share of protection business to further boost margins

New business margins have improved ~640bp during FY18

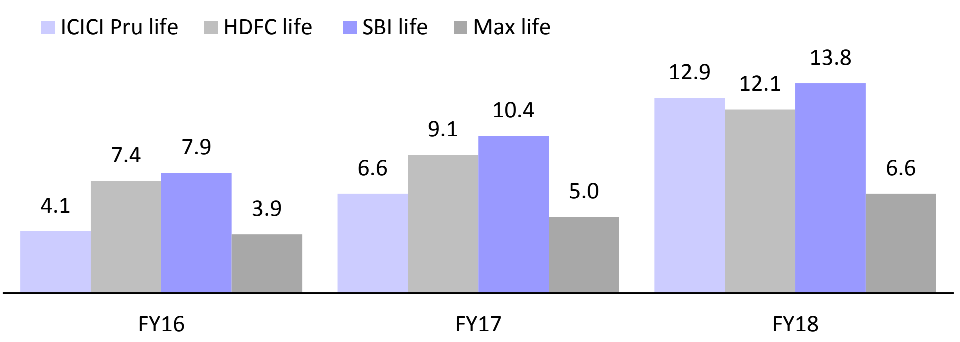
IPRU's product mix is heavily dominated by ULIP products, which have inherently lower margins. However, the company remains committed to the segment – ULIPs constituted ~82% of total new business premium in FY18. The high share of ULIPs has been a drag on IPRU's margins though it has one of the lowest cost structures and highest persistency rate. Persistency is crucial, as insurers need to even out their expenses on ULIP products over the life of the policy. IPRU has, nevertheless, been able to improve new business margins from 5.7% in FY15 to 16.5% in FY18, backed by its consistent efforts to control cost, improve product mix, persistency and underwriting capabilities.

Exhibit 41: Trend in value of new business and new business margin



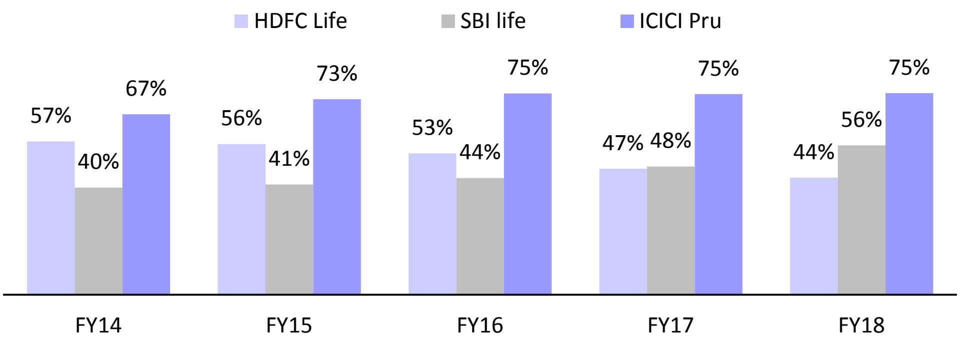
Source: Company, MOSL

Exhibit 42: Value of new business (INR b) has improved significantly for IPRU



Source: Company, MOSL

Exhibit 43: Share of ULIPs in total un-weighted premium mix for major insurers

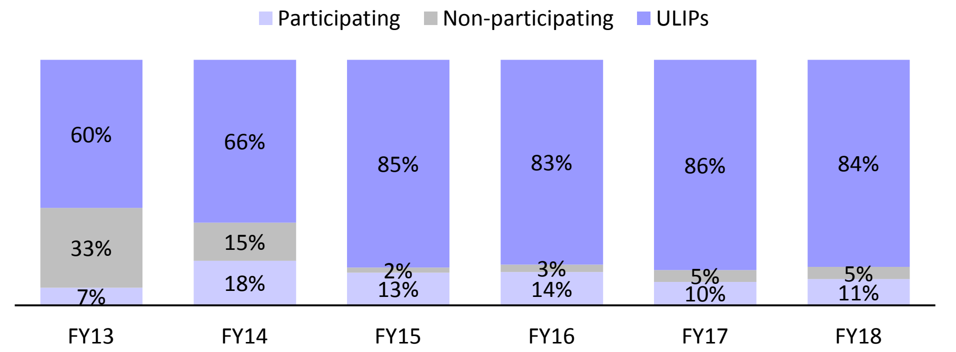


Source: Company, MOSL

Robust growth in protection business to further drive margins

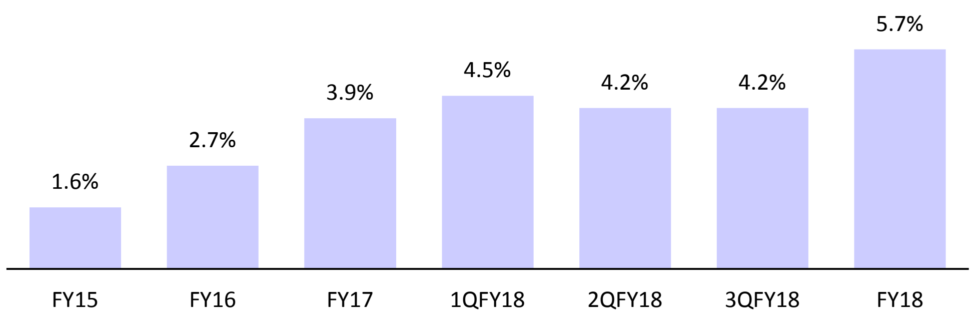
IPRU has been reporting strong growth in the protection business, which is one of the highest margin product segments. The segment has grown at a CAGR of 80% over the last three years (72% growth in FY18), while its share in the total new business mix has increased to 5.7% from 1.6% in FY15. Consistent decline in mortality charges, increasing risk awareness and deep under-penetration has turned this segment into an attractive opportunity for insurers. IPRU remains focused on growing its protection portfolio, which will further support margin expansion. We expect the share of the protection business to increase to 9% (5.7% currently) by FY20. As a business strategy, IPRU has decided to stay away from non-participating savings products as the segment carries high interest rate risk and might impact the quality of the franchise in the long term.

Exhibit 44: Share of non-participating segment has increased from 2% in FY15 to 5% in FY18 led by higher mix of protection products (wrp)



Source: Company, MOSL

Exhibit 45: Share of protection business in total APE has increased steadily

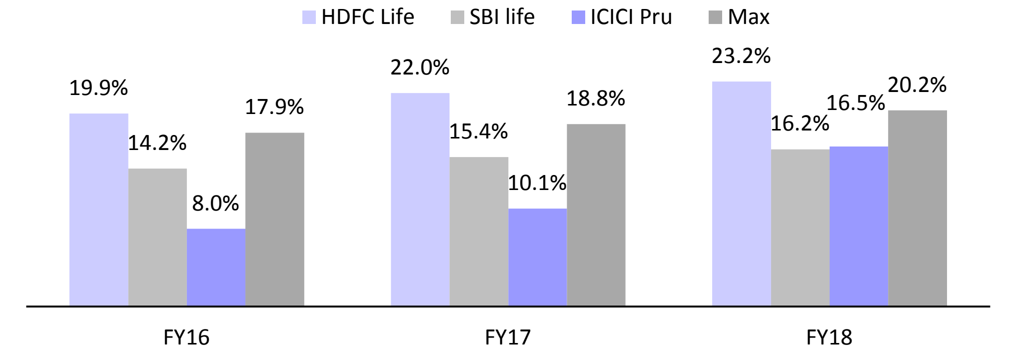


Source: Company, MOSL

Improvement in persistency and controlled cost ratios to support margins

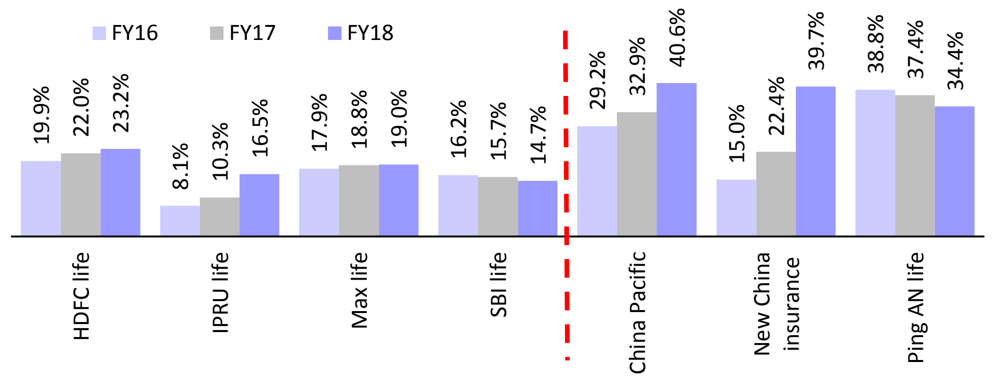
Given the significant improvement in persistency rate at the shorter end of the curve, we expect IPRU's persistency to improve at the longer end over the next few years. This would help narrow cost overruns and improve margins. Also, there is still some scope on the distribution side to curtail expenses, as IPRU focuses on improving productivity in its agency channel and further increases the share of direct sales. We expect IPRU's new business margins to thus improve to 18.2% by FY20 (currently at 16.5%). IPRU has thus significantly narrowed the margin gap with peers and is now ranked third in this category amongst the four major listed bancassurers.

Exhibit 46: Trend in new business margins for major insurers



Source: Company, MOSL

Exhibit 47: Regional comparison of NBAP margins: NBAP margins are lower in India



Note: For china pacific, new china insurance and Ping AN data is as of Dec'15, Dec'16 and for 1HFY17
Source: Company, MOSL

Product innovation to drive market share gains, boost profitability

In a highly competitive market, with 24 life insurers present, product innovation plays an extremely important role in driving healthy business growth and stronger profitability. Insurers need to be highly responsive to the need of diverse set of customers and introduce products that address these specific needs. Besides, they need to effectively market their products to gain customer mindshare and cross-sell other basic insurance products as well. To capitalize on the rapidly growing protection market, IPRU has launched a variety of term insurance products, with options of (i) critical illness cover, (ii) savings and investment product, and, (iii) added riders of accident and disability benefits.

Least vulnerable to any potential regulatory changes

In the past, IRDA has announced significant regulatory changes pertaining to ULIP products (as discussed earlier) – it rationalized the charges that can be levied and reduced the surrender penalties. This has impacted the profitability of the product and many insurers have gradually exited this segment. There have been concerns on the high surrender charges in traditional products and this could come under IRDA's scanner in the future. Due to its ULIP-dominated portfolio, IPRU is the least vulnerable to any potential regulatory change. Moreover, it has also taken a strategic decision to not focus on non-par products, given the inherent interest rate risk and the potential damage these could cause to the franchise. Protection products carry little regulatory risk, as these are pure-risk-cover products, where the charges are already very competitive.

Exhibit 48: Surrender charges on traditional products

Premium payment term	Consecutively paid for:
Less than 10 yrs	2 years
10 yrs or more	3 years
Single premium policy	
Year of Surrender	**Minimum surrender value**
3rd year	70% of total premiums
4th year	90% of total premiums
Last 2 yrs (if policy term is less than 7 yrs)	90% of total premiums
Regular premium policy	
Year of Surrender	**Minimum surrender value**
2nd & 3rd yr	30% of total premiums
4th - 7th yr	50% of total premiums
Last 2 yrs (if policy term is less than 7 yrs)	90% of total premiums

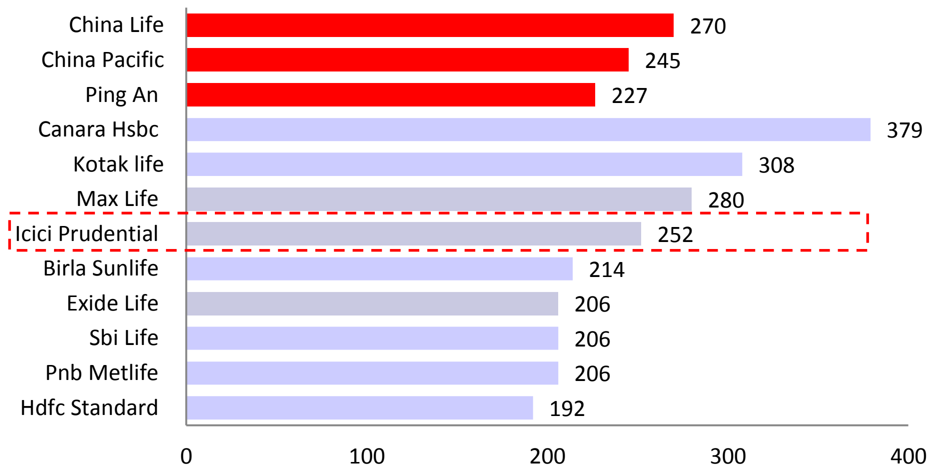
Reduce any survival benefits paid earlier to arrive at the minimum surrender value

Source: Company, MOSL

Solvency ratio remains healthy

IPRU is well capitalized and has a solvency ratio of 252% against the minimum requirement of 150%. It has wiped out its accumulated losses, and delivered RoE of 24% and RoIC of 33% in FY18. We expect the shareholders' profit to grow at a CAGR of 15% over FY18-20, as improving persistency aids profitability and improvement in product mix drives further margin expansion. IPRU has been making high dividend payouts and this has contributed to a decline in its solvency margin from 372% in FY14 to 252%, though still much higher than the regulatory requirement. We expect dividend payout rate to moderate thus slowing down the capital burn rate.

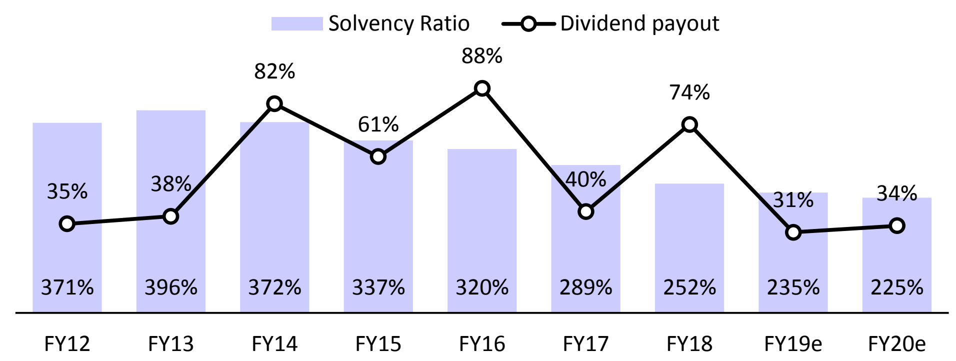
Exhibit 49: IPRU's solvency margin (%) remains healthy



Source: Company, MOSL

Note: Data for Ping An, China life, China Pacific is as of December 2017

Exhibit 50: Trend in solvency ratio and dividend payout

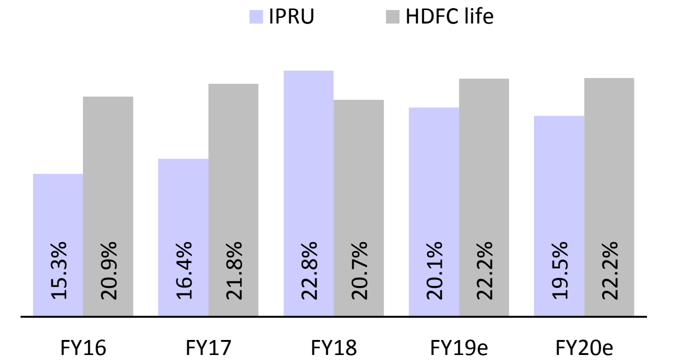


Source: Company, MOSL

Earnings quality improving, with steady growth in policyholder's surplus

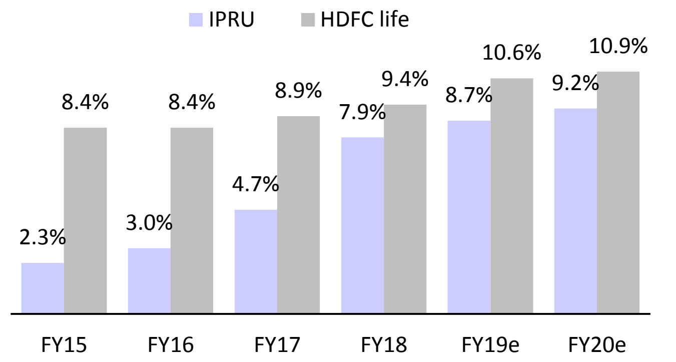
IPRU has been demonstrating an improvement in its earnings quality, with policyholder's surplus increasing by 27% in FY18, though shareholders' net profit has grown at a modest CAGR on account of higher new business strain. We expect earnings growth to pick up gradually (15% CAGR over FY18-20E), as the strain from new business subsides, while the back book matures further. We expect operating RoEV to sustain at healthy levels of19.5% and new business margins to improve further to 18.2% by FY20 (16.5% in FY18).

Exhibit 51: Trend in operating ROEV (calculated)



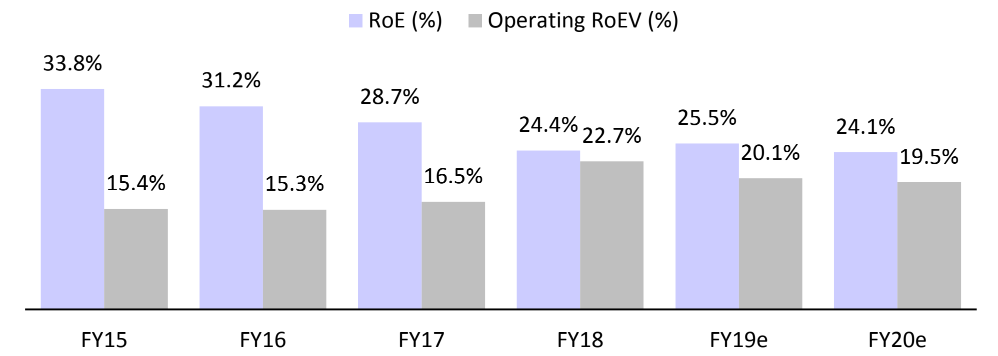
Source: Company, MOSL

Exhibit 52: VNB as a percentage of opening EV has shown significant improvement



Source: Company, MOSL

Exhibit 53: Trend in RoE and operating RoEV



Source: Company, MOSL

Stable and experienced management team

IPRU has a strong management team with rich experience across banking, financial services and insurance sectors.

Mr NS Kannan, Managing Director and Chief Executive Officer

Mr Kannan has been recently recommended as the MD & CEO of ICICI Prudential life insurance and was earlier associated as a Nominee Director from ICICI Bank. He has received his Bachelor's degree in Mechanical Engineering from National Institute of Technology, Tiruchirappalli and Post Graduate Diploma in Business Administration from IIM - Bengaluru.

Note: IRDAI approval is awaited for appointment of Mr NS Kannan as the MD & CEO of ICICI Prudential life Insurance

Mr Puneet Nanda, Executive Director

Mr Nanda is an Executive Director. He obtained his Bachelors' degree from Malaviya Regional Engineering College, Jaipur and a Post Graduate Diploma in Management from IIM - Lucknow. He has been part of the company since inception and he initially set up and managed the investment function as Chief Investment Officer.

Mr Sandeep Batra, Executive Director

Mr Batra is an Executive Director. He is a Chartered Accountant and Company Secretary. He has been one of the founder members of the company and has earlier worked as CFO.

Mr Satyan Jambunathan, CFO

Mr Jambunathan is the Chief Financial Officer of the company. He completed his Graduation from University of Madras and is a Fellow of the Institute of Actuaries of India. He has been associated with the company since August 17, 2000.

Mr Manish Kumar, CIO

Mr Kumar is the CIO of the company. He holds a Bachelor's degree in Electrical Engineering from IIT Kanpur and PGDM from IIM, Calcutta. He has been associated with the company since June 14, 2004. He has experience in equity research, trading and fund management.

Strong customer service will support business growth

IPRU places strong emphasis on offering high quality customer experience across the life chain of an insurance policy right from the stage of customer on-boarding and policy issuance to customer service and claims settlement. This has helped the company in lowering customer complaints to 92 per 10k policies from 253 in FY14. Besides, the reduction in customer complaints, the company has shown strong improvement in turnaround time for claim processing and has reduced this from 6 days in FY14 to 3 days currently.

IPRU has also improved its claim settlement ratio from 94.1% in FY14 to 97.9% in FY18. The company's continued efforts to improve the quality of new business, strong commitment to customer service and efforts to digitize premium collection and policy servicing has resulted in improved customer experience and has supported the growth in renewal/repeat business.

Exhibit 54: Customer complaints (per 10,000 policies) has reduced thus underscoring improved customer service

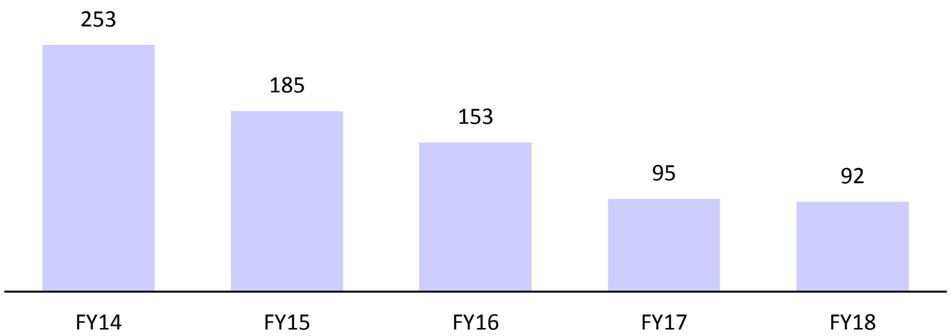
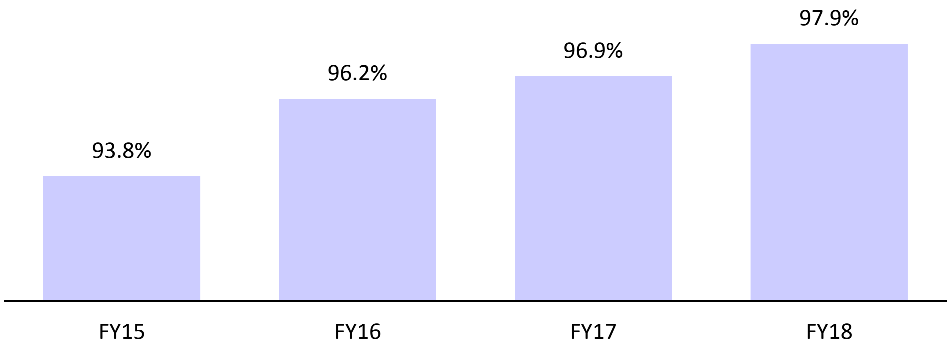


Exhibit 55: IPRU maintains a healthy claim settlement ratio



Source: Company, MOSL

SWOT analysis

- One of the largest private sector life insurance companies, with a strong brand
- Best-in-class bancassurance network and strong agency channel
- Lean operating structure with best-in-class expense ratio
- Strong dominance in linked products
- Superior customer service and strong technological capability

- Dependence on linked products is high; the company is trying to reduce this by increasing the share of protection products
- Continuation of partnership with ICICI Bank is crucial to maintain its leadership position and momentum in business growth

- Operates in an underpenetrated segment with huge growth potential
- Significant opportunities in scaling up the direct distribution channel
- Margin profile could improve further with higher share of protection business

- High dependence on unit-linked products may impact business growth and profitability in a cyclical downturn
- New open architecture framework could result in stiff competition if its bancassurance partners tie up with other insurers
- High proportion of protection business may result in high claim incidence in the event of a natural calamity

Bull & Bear case

Bull Case

- ☑ In our bull case we assume gross premium CAGR (FY18 – 20) of ~26% (v/s 20% in base case). We believe strong growth opportunities in an underpenetrated market could surprise on the upside
- ☑ We expect PAT CAGR of 24% (15% in base case), leading to FY20E RoEV of 19.1% (vs base case of 16.5%)
- ☑ Based on the above assumptions we value IPRU Life at INR560/sh (3.0x FY20E EV)

Bear Case

- ☑ In our bear case we assume premium CAGR (FY18 – 20) of 15% (v/s 20% in base case). Cyclical downturn and dilution in bancassurance channel could lead to lower than expected growth
- ☑ We expect PAT CAGR of 10% (15% in base case), leading to FY20E RoEV of 13.6% (vs base case of 16.5%)
- ☑ Based on the above assumptions we value IPRU Life at INR304/sh (1.8x FY20E EV)

Exhibit 56: Scenario Analysis- bull case

Bull Case (INR m)	FY19E	FY20E
Gross Premium	**342,417**	**426,549**
Total income	535,843	656,685
Total commission & opex	45,786	56,832
Total expenses	**508,947**	**614,553**
Surplus	14,527	17,678
Shareholder's PAT	**20,377**	**24,814**
NBP - APE	101,607	128,767
NBP margin (%)	**18.7%**	**19.6%**
EV (INRb)	224	267
EVOP as % of IEV	22.0%	22.0%
RoEV (%)	**19.4%**	**19.1%**

Source: Company, MOSL

Exhibit 57: Scenario Analysis-bear case

Bear Case (INR m)	FY19E	FY20E
Gross Premium	**300,815**	**356,750**
Total income	434,468	496,797
Total commission & opex	39,427	47,699
Total expenses	**425,665**	**499,324**
Surplus	13,673	15,107
Shareholder's PAT	**17,686**	**19,419**
NBP - APE	83,463	99,654
NBP margin (%)	**14.5%**	**14.7%**
EV (INRb)	213	243
EVOP as % of IEV	16.2%	16.8%
RoEV (%)	**13.4%**	**13.8%**

Source: Company, MOSL

Sensitivity on key parameters

Exhibit 58: Sensitivity on key parameters as of FY18

Scenario	HDFC Life		ICICI PruLife		Max Life		SBI Life	
	% Change in IEV	% Change in VNB	% Change in IEV	% Change in VNB	% Change in IEV	% Change in VNB	% Change in IEV	% Change in VNB
100bps increase in reference rates	-1.8	0.3	-2.1	-4.9	-2.0	5.0	-4.0	1.0
100bps decrease in reference rates	1.9	-1.7	2.2	5.2	2.0	-7.0	4.0	-2.0
10% decrease in equity values	-1.8	-1.2	NA	NA	-1.0	negligible	-1.0	-
10% increase in maintenance expenses	-0.6	-2.2	-1.1	-3.5	-1.0	-5.0	-1.0	-2.0
10% decrease in maintenance expenses	0.6	2.2	1.0	3.5	1.0	5.0	1.0	2.0
10% increase in acquisition expenses	NA	-14.2	Nil	-9.2	NA	NA	NA	NA
10% decrease in acquisition expenses	NA	14.2	Nil	9.2	NA	NA	NA	NA
10% increase in the discontinuance rates	-1.8	-5.6	-1.3	-8.6	-2.0	-5.0	-1.0	-7.0
10% decrease in the discontinuance rates	1.9	6.1	1.4	9.1	2.0	6.0	1.0	7.0
10% increase in mortality/ morbidity rates	-0.8	-5.2	-1	-5.4	-1.0	-4.0	-2.0	-8.0
10% decrease in mortality/ morbidity rates	0.8	5.2	1.0	5.5	1.0	4.0	2.0	8.0
Tax rate at 25%	-7.6	-14.4	-4.6	-7.9	-9.0	15.0	-9.0	-17.0

Source: Company, MOSL

Valuations attractive; improving return ratios to drive rerating

- We believe the life insurance sector in India is in a sweet spot, where strong structural potential is now overlapping with buoyant equity markets, rising share of financial savings and higher disposable income. We expect Indian insurers to trade at a premium to global insurers.
- Private sector life insurance companies have 51% market share in total new business APE and IPRU is amongst the market leader. Favorable demographics, increasing customer awareness about financial products, strong distribution network and superior brand image should help IPRU sustain wrp CAGR at 22% over FY18-20E.
- With the sharp improvement in margins over FY18, operating RoEV has improved from 15.4% in FY15 to 22.8% in FY18. IPRU is well capitalized and has a solvency ratio of 252%, which enables it to maintain healthy dividend payout rate. The company has wiped out its accumulated losses and is delivering healthy return ratios, with RoE of 24.4% in FY18.
- We value IPRU using embedded value methodology. In FY20E, we expect new business margin of 18.2% (16.5% during FY18), new business value of INR20.4b, and operating RoEV of 19.5%. This would be aided by continued improvement in persistency, improved product mix and controlled cost ratios. We expect IPRU to deliver 16.5% RoEV for FY20E.
- We value IPRU at INR684.6b using P/EV multiple of 2.7x, which corresponds to a price target of INR480 per share – an upside of 23%. We initiate coverage with a BUY rating. We note that our target price implies a new business multiple of 21x as per appraisal value methodology.

Exhibit 59: Appraisal Value and new business multiple (FY20e based)

Appraisal value and implied new business multiple	FY20E
Embedded value - FY20E	**256.7**
New Business Profit - FY20E	20.4
Appraisal Value - FY20E	**684.6**
Fair value / Embedded value	2.7
Number of shares, mn	1,435
Valuation per share	**480**
Implied -	
- PE multiple	31.7
- New business multiple	21.0
- P/VIF	4.3
- P/AUMs	35%
Contribution of future business in Appraisal Value	**63%**
CMP	389
Upside	**23%**

Source: Company, MOSL

Exhibit 60: Key metrics for IPRU life

	FY15	FY16	FY17	FY18	FY19E	FY20E
EV per share	96.3	97.1	112.7	130.8	153.5	178.8
AUMs (INRb)	1,002	1,039	1,229	1,395	1,655	1,943
Shareholder PAT (INRb)	16.3	16.5	16.8	16.2	19.2	21.6
EPS, INR	11.4	11.5	11.7	11.3	13.4	15.0
New business margin (%)	5.7%	8.0%	10.1%	16.5%	18.0%	18.2
RoEV (%)	17.4%	0.8%	16.0%	16.1%	17.4%	16.5%
RoE (%)	33.8%	31.2%	28.7%	24.4%	25.5%	24.1%
Dividend payout ratio (%)	61.0%	88.0%	40.0%	74.0%	31%	34%
Solvency ratio (%)	337%	320.0%	289%	252%	235%	225%

Exhibit 61: Valuation comparison across listed players

	HDFC Life			ICICI Life			SBI Life		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
ROE (%)	28.5%	25.5%	25.8%	31.2%	28.7%	24.4%	19.6%	18.6%	19.0%
Operating ROEV (%)	20.9%	21.8%	20.7%	15.3%	16.4%	22.8%	19.0%	23.0%	17.9%
EPS (INR)	4.1	4.5	4.5	11.5	11.7	11.3	8.6	9.5	11.5
EV (INRb)	102.3	124.7	151.0	139.3	161.7	187.9	130.0	165.4	190.6
Price			***473***			***389***			***676***
Mcap (INRb)			***949***			***558***			***676***
P/E	115.5	105.9	85.6	33.8	33.2	34.5	78.5	70.8	58.8
P/EV	9.3	7.6	6.2	4.0	3.5	3.0	5.2	4.1	3.5
P/AUM	128%	103%	89%	54%	45%	40%	85%	69%	58%
VIF as a % of EV	68%	67%	68%	60%	58%	63%	NA	58%	61%

Source: Company, MOSL

Key risks

High dependence on ULIPs makes business cyclical

IPRU has high dependence on ULIP business as the same contributes >80% of total new business premium. The resilience of this segment in a cyclical downturn still needs to be tested under the new regulatory framework however historical data suggests that the growth and persistency trend in the segment are highly correlated to performance of equity markets.

Dilution in bancassurance tie-ups could disrupt business growth

The company relies heavily on bancassurance and has distribution tie-ups with ICICI Bank and Standard Chartered Bank. Any adverse change in its bancassurance partnerships or partner banks tying up with more insurers under the open architecture framework can impact growth trajectory.

High competition in protection business

IPRU has identified protection business as one of the key focused business segment. Any pick-up in competitive intensity here may impact growth opportunities and adversely impact the segment's profitability.

Increase in tax rate

The Indian life insurance sector currently enjoys low tax rate. Any normalization in this rate towards the normal corporate tax-rate would adversely impact EV and margins.

Annexure

Exhibit 62: Snapshot for major listed players

	HDFC Life			ICICI Life			SBI Life		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Profit and Loss matrix									
Surplus / Deficit	9,597	9,476	10,947	13,421	10,735	13,630	6,643	6,544	6,754
PAT (Shareholder's a/c)	8,183	8,921	11,090	16,505	16,815	16,192	8,610	9,547	11,504
Premium (INRm) & growth (%)									
New business prem - wrp	36,156	41,534	53,996	51,085	64,862	75,227	48,781	66,009	84,220
Total premium - unwtd	163,130	193,702	235,644	191,644	222,511	267,674	158,254	210,151	253,543
New business growth - wrp	13.5%	14.9%	30.0%	9.9%	27.0%	16.0%	37.4%	35.3%	27.6%
Total prem growth - unwtd	10.0%	19.2%	21.2%	25.2%	16.1%	20.3%	23.0%	32.8%	20.6%
New business mix - wrp									
Participating	27.1%	30.5%	24.8%	13.6%	9.5%	10.6%	29.7%	16.5%	24.0%
Non-participating	18.2%	21.5%	22.7%	3.0%	4.8%	5.0%	15.8%	12.0%	9.0%
ULIPs	54.7%	48.5%	52.5%	83.4%	85.7%	84.4%	54.5%	71.5%	67.0%
Operating ratios									
Investment yield (%)	2.5%	12.6%	13.4%	1.2%	13.0%	8.6%	4.6%	10.2%	7.7%
Commissions / GWP	4.3%	4.1%	4.6%	3.2%	3.4%	5.2%	4.5%	3.7%	4.4%
Total expense ratio	15.8%	16.3%	18.0%	13.1%	13.9%	12.8%	13.7%	11.6%	11.2%
Solvency margin	198%	192%	192%	320%	289%	252%	212%	204%	206%
Persistency ratios (%)									
13th Month	79.0%	81.0%	87.1%	82.4%	85.7%	87.8%	80.7%	80.7%	81.1%
25th Month	67.0%	73.0%	77.4%	71.2%	73.9%	78.8%	73.2%	73.2%	73.9%
37th Month	60.0%	64.0%	70.9%	61.6%	66.8%	68.9%	69.2%	69.2%	67.4%
49th Month	63.0%	58.0%	62.2%	62.2%	59.3%	63.6%	76.9%	76.9%	62.5%
61st Month	50.0%	57.0%	51.0%	46.0%	56.2%	54.8%	53.8%	53.8%	67.2%
Valuation ratios									
NBP margin (%)	19.9%	22.0%	23.2%	8.0%	10.1%	16.5%	NA	15.7%	16.2%
RoE (%)	28.5%	25.5%	25.8%	31.2%	28.7%	24.4%	19.6%	18.6%	19.0%
Total AUMs (INR b)	742	917	1,066	1,039	1,229	1,395	798	798	977
RoEV (%)	16.1%	21.9%	22.2%	0.8%	16.0%	16.1%	-	27.2%	15.3%
Operating RoEV (%)	20.9%	21.8%	21.5%	15.3%	16.4%	22.8%	19.0%	23.0%	17.9%
Dividend %	9.0%	11.0%	13.6%	84.0%	73.5%	66.0%	12.0%	15.0%	20.0%
Dividend payout ratio (%)	26.4%	29.6%	29.7%	87.7%	39.5%	73.6%	16.8%	18.9%	20.9%
EPS, INR	4.1	4.5	5.5	11.5	11.7	11.3	8.6	9.5	11.5
Embedded Value, INR b	102.3	124.7	152.1	139.3	161.7	187.8	130.0	165.4	190.6
Current Price, INR			**473**			**389**			**676**
No. of shares (mn)			**2,005**			**1,435**			**1,000**
Mkt cap (INRb)			**949**			**558**			**676**
P/E	115.5	105.9	85.6	33.8	33.2	34.5	78.5	70.8	58.8
P/EV	9.3	7.6	6.2	4.0	3.5	3.0	5.2	4.1	3.5
P/AUM	128%	103%	89%	54%	45%	40%	85%	69%	58%
VIF as a % of EV	68%	67%	68%	60%	58%	63%	NA	58%	61%

Source: Company, MOSL

Exhibit 63: Glossary of key terms

Term	Abbreviation	Explanation
Annualised Premium Equivalent	APE	❖ The sum of annualized first year premium and 10% weighted single premiums including top-up premiums.
New Business Profit Margin	NBM	❖ A measure of profitability computed as the present value of future profits expected on the business sourced in a particular period and denoted as a percentage of APE.
Cost over-runs		❖ It is the cost incurred by the company over & above what is factored in the declared NBP margin.
Embedded Value	EV	❖ EV is the value of the company's existing business. It is taken as a summation of Invested capital, retained earnings & VIF - Essentially value of the company if it stops writing new business.
Value in force	VIF	❖ VIF is the present value of future profits which are yet to arise from the policies existing on book (policies in force).
Value of new business	VNB	❖ It is the absolute figure of present value of future profits expected on the business sourced in the current year. From analytical viewpoint, VNB is calculated in two tranches - pre and post over-run.
Market Consistent Embedded Value	MCEV	❖ The present value of shareholders' interests in insurance business, using market consistent methodology, where an explicit allowance for risk in the business is made. Over here, VIF component of the EV uses risk-free rate as the discount rate. VIF is separately adjusted for the risks and other costs.
Fair value change account		❖ Unrealised gains/losses (net) on mark to market securities pertaining to Shareholders' and Non-Linked Policyholders' funds, as required by the IRDA of India (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.
Funds for discontinued policies		❖ The liability of the discontinued unit linked policies which are within the lock in period of five years from the date of issue is held in this fund.
Funds for Future Appropriations	FFA	❖ The FFA for participating business represents the surplus which is not allocated to the Policyholders' or Shareholders' funds as at the Balance Sheet date. The FFA for the linked segment represents surplus on the lapsed policies unlikely to be revived. This surplus is required to be held within the Policyholders' funds till the time policyholders are eligible for revival of their policies.
Participating products	PAR	❖ Under these products, surplus arising from the business is distributed between the policyholders and shareholders. In India, 90% the surplus is transferred to the policyholders and 10% is retained by shareholders
Non-participating products	Non PAR	❖ Policyholders are assured a minimum guaranteed return under these products. Any surplus arising is taken by shareholders.
Unit Linked Products	ULIP	❖ Non-Participating insurance contracts that are investment cum protection plans that provide returns directly linked to the market performance. The policyholder bears the investment risk/return.
Conservation ratio		❖ This ratio means % of policies which continue in a particular year v/s the previous year. It is calculated by taking renewal premium of the current financial year to the total of first year premium and renewal premium of the previous financial year.
Persistency ratio		❖ The proportion of business retained from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten. E.g. 37th month persistency is at 60% means 60 policies are in force today out of 100 policies sold 3 yrs back.
Solvency ratio		❖ It is the capital required by an insurance company to run its business smoothly taking into account the portfolio of its policies. In India, the regulations demand it be 150% of the requirement.

Source: Company, MOSL

Financials and valuations

Technical account (INR m)	FY16	FY17	FY18	FY19E	FY20E
Gross Premiums	191,644	223,540	268,036	320,016	387,772
Reinsurance Ceded	(1,657)	(1,988)	(2,581)	(2,836)	(3,793)
Net Premiums	189,987	221,553	268,107	317,180	383,979
Income from Investments	12,084	149,769	112,615	164,521	185,896
Other Income	209	188	936	1,040	1,155
Total income	**202,279**	**371,927**	**382,172**	**482,742**	**571,031**
Commission	6,200	7,589	14,033	15,665	18,643
Operating expenses	18,883	23,572	20,299	26,730	32,101
Total commission and opex	**25,083**	**31,161**	**34,332**	**42,395**	**50,743**
Benefits Paid (Net)	124,274	149,979	172,808	240,964	307,604
Chg in reserves	35,155	174,976	154,475	179,320	190,360
Provisions for debt, tax, misc.	3,643	4,288	5,727	4,619	5,492
Surplus / deficit before tax	**14,124**	**11,523**	**14,830**	**15,443**	**16,831**
Prov for Tax	704	788	1,201	1,201	760
Surplus / Deficit	**13,421**	**10,735**	**13,630**	**14,243**	**16,071**
Shareholder's a/c (INR m)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Transfer from technical a/c	12,076	11,315	10,892	14,729	17,465
Income From Investments	5,996	6,669	7,419	7,493	7,850
Total Income	**18,073**	**18,270**	**18,362**	**22,278**	**25,377**
Other expenses	313	409	420	546	737
Contribution to technical a/c	-	18	753	836	929
Total Expenses	356	427	1,173	1,382	1,666
PBT	**17,717**	**17,843**	**17,189**	**20,896**	**23,711**
Prov for Tax	1,212	1,028	997	1,672	2,134
PAT	**16,505**	**16,815**	**16,192**	**19,224**	**21,577**
Growth	***1%***	***2%***	***-4%***	***19%***	***12%***
Premium (INR m) & growth (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
New business prem - unwtd	67,658	77,604	90,210	109,154	133,168
New business prem - wrp	51,085	64,862	75,227	90,721	111,971
Renewal premium	123,986	144,907	177,465	210,862	254,605
Total premium - unwtd	191,644	222,511	267,674	320,016	387,772
New bus. growth - unwtd	26.9%	14.7%	16.2%	21.0%	22.0%
New business growth - wrp	9.9%	27.0%	16.0%	20.6%	23.4%
Renewal premium growth	24.3%	16.9%	22.5%	18.8%	20.7%
Total prem growth - unwtd	25.2%	16.1%	20.3%	19.6%	21.2%
Premium mix (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
New business - unwtd					
- Individual mix	79.2%	89.9%	93.1%	93.0%	94.0%
- Group mix	20.8%	11.4%	9.8%	7.0%	6.0%
New business mix - APE					
- Participating	13.6%	9.5%	10.6%	10.4%	8.7%
- Non-participating	3.0%	4.8%	5.0%	8.5%	8.1%
- ULIPs	83.4%	85.7%	84.4%	81.1%	83.2%
Total premium mix - unwtd					
- Participating	11.4%	11.7%	12.0%	11.7%	12.0%
- Non-participating	13.6%	13.6%	12.8%	17.6%	18.6%
- ULIPs	75.1%	74.8%	75.2%	70.7%	69.4%
Individual prem sourcing mix (%)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Individual agents	24.7%	23.5%	25.6%	26.6%	27.6%
Corporate agents-Banks	57.2%	57.1%	52.6%	51.6%	51.4%
Direct business	11.2%	12.8%	16.0%	16.6%	16.4%
Others	6.9%	6.6%	5.8%	5.2%	4.6%

Financials and valuations

Balance sheet (INR m)	FY16	FY17	FY18	FY19E	FY20E
Sources of Fund					
Share Capital	14,323	14,354	14,355	14,355	14,355
Reserves And Surplus	36,401	46,976	51,382	64,559	78,795
Shareholders' Fund	53,233	64,060	68,818	82,211	96,776
Policy Liabilities	202,548	251,695	309,934	449,607	552,216
Prov. for Linked Liab.	719,903	839,365	923,124	1,034,504	1,127,609
Funds For Future App.	6,619	6,042	8,782	10,098	11,611
Current liabilities & prov.	22,013	28,365	34,479	41,363	49,623
Total	**1,047,650**	**1,247,408**	**1,418,187**	**1,639,763**	**1,860,879**
Application of Funds					
Shareholders' inv	62,124	66,349	77,466	83,663	90,775
Assets to cover linked liab.	752,958	878,783	975,020	1,034,504	1,127,609
Loans	443	806	1,451	1,712	1,934
Fixed Assets	2,196	2,138	4,221	4,727	5,389
Current assets	14,773	28,657	27,142	28,642	30,234
Total	**1,047,650**	**1,247,408**	**1,418,187**	**1,639,763**	**1,860,879**

Operating ratios (%)	FY16	FY17	FY18	FY19E	FY20E
Investment yield (%)	1.2%	13.0%	8.6%	10.8%	10.7%
Commissions / GWP	**3.2%**	**3.4%**	**5.2%**	**4.9%**	**4.8%**
- first year premiums	7.6%	7.3%	13.9%	12.9%	12.6%
- renewal premiums	1.9%	2.0%	1.9%	1.9%	1.8%
- single premiums	0.3%	0.6%	1.9%	1.2%	1.1%
Operating expenses / GWP	9.9%	10.5%	7.6%	8.4%	8.3%
Total expense ratio	**13.1%**	**13.9%**	**12.8%**	**13.2%**	**13.1%**
Claims / NWP	65.4%	67.7%	64.5%	76.0%	80.1%
Solvency margin	320%	289%	252%	235%	225%

Persistency ratios (%)	FY16	FY17	FY18	FY19E	FY20E
13th Month	82.4%	85.7%	87.8%	89.1%	89.8%
25th Month	71.2%	73.9%	78.8%	80.5%	81.5%
37th Month	61.6%	66.8%	68.9%	71.8%	72.8%
49th Month	62.2%	59.3%	63.6%	65.1%	67.1%
61st Month	46.0%	56.2%	54.8%	56.5%	57.1%

Profitability ratios (%)	FY16	FY17	FY18	FY19E	FY20E
New business margin (%)	8.0%	10.1%	16.5%	18.0%	18.2%
RoE (%)	31.2%	28.7%	24.4%	25.5%	24.1%
RoIC (%)	34.3%	34.8%	33.4%	39.6%	44.4%
EVOP as % of IEV	15.3%	16.4%	22.8%	20.1%	19.5%
RoEV (%)	0.8%	16.0%	16.1%	17.4%	16.5%

Valuation ratios	FY16	FY17	FY18	FY19E	FY20E
Total AUMs, Rs bn	1,039	1,229	1,395	1,655	1,943
- of which equity AUMs (%)	46%	47%	48%	48%	49%
Dividend (%)	84%	74%	66%	35%	43%
Dividend payout ratio (%)	88%	40%	74%	31%	34%
EPS, Rs	11.5	11.7	11.3	13.4	15.0
VNB (INRb)	4.1	6.6	12.9	16.4	20.4
EV (INRb)	139.3	161.7	187.8	220.4	256.7
EV/Per share	97.1	112.7	130.8	153.5	178.8
VIF as % of EV	60%	58%	63%	62%	62%
P/VIF	6.6	5.9	4.7	4.1	3.5
P/AUM (%)	54%	45%	40%	34%	29%
P/EV (x)	4.0	3.5	3.0	2.5	2.2
P/EPS (x)	33.8	33.2	34.5	29.1	25.9

REPORT GALLERY

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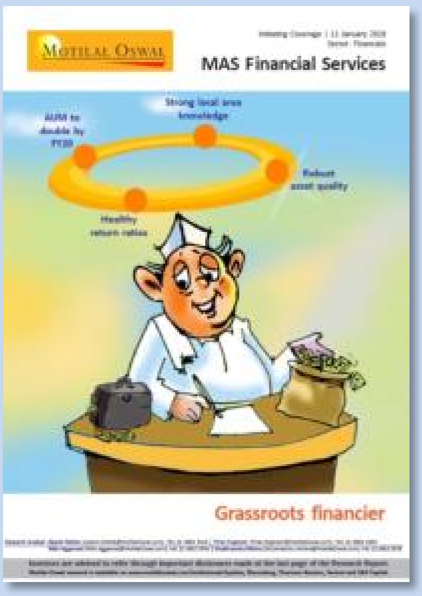

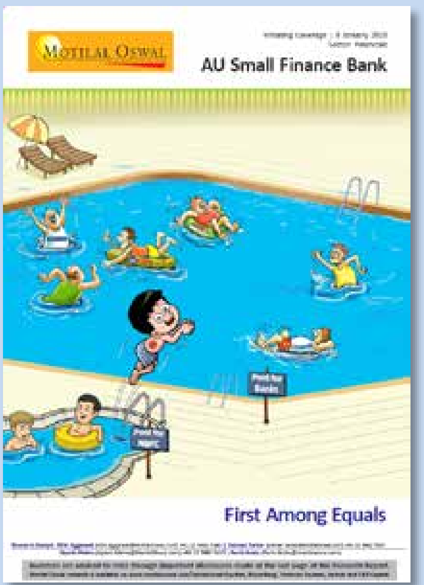

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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