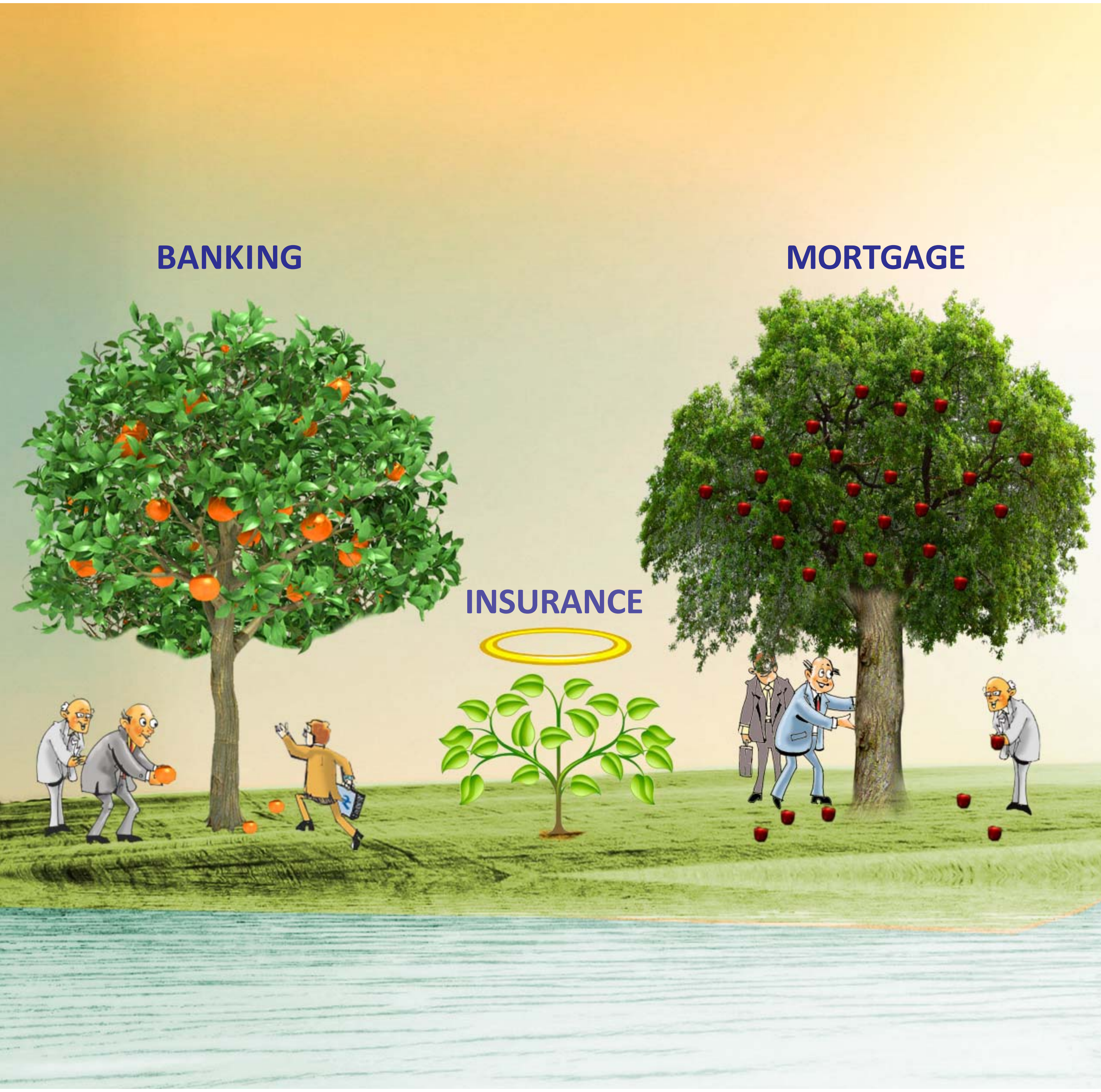
Initiating Coverage | 17 November 2017
Sector: Financials

HDFC Standard Life



Another 'compounder'

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Contents: HDFC Standard Life – Another 'compounder'

HDFC Standard Life Insurance

BSE Sensex	S&P CNX
33,107	10,215

CMP: INR290 **TP: INR370 (+28%)** **Buy**

Another 'compounder'

Quality franchise; attractive valuations

HDFC Standard Life (HDFCSL) is one of India's top three private sector life insurers and offers a wide range of insurance products. It has strengthened its position in a highly competitive industry and has a well-diversified business mix. HDFCSL has strong return ratios (FY17 RoEV at 21%) and the highest new business margin (22% for FY17) among the major private insurers, backed by its balanced product mix (47% ULIPs, 26% PAR, 27% Non-Participating business in FY17), strong distribution network and lower operating cost. HDFCSL has made significant investments in building its digital platform, which has enabled it to improve customer satisfaction and attract new business. We estimate HDFC SL to deliver RoEV of ~19% over FY17-20E and value it on 3.5x Mar-20E EV at INR370 per share, which implies an upside of 28% from the issue price. Initiate coverage with BUY.

- **New business premium to grow at 25% CAGR over FY17-20E:** HDFC SL has reported strong growth trends, which has enabled it to consistently rank among India's top three private insurers. We expect the company to deliver 25% CAGR in new business APE over FY17-20. This will be aided by aided by its increasing bancassurance tie-ups, improvement in agency channel and higher direct sales.
- **Diversified product mix, improving operating metrics to keep margins buoyant:** HDFC SL has a balanced product mix between participating, non-participating and ULIP products. It has steadily improved the share of high-margin protection products to 26.4% as at Sep-17, which has helped it deliver higher new business margins. Its diversified product portfolio and continued improvement in operating metrics (persistency, productivity) will keep margins/return ratios buoyant.
- **Strong distribution network; cost ratios to remain best-in-class:** HDFCSL continues to benefit from the strong distribution network of its bancassurance partners and has increased its bancassurance partner count to 125. This will help widen its reach and support premium growth. HDFCSL maintains strong control on cost ratios, aided by rising proportion of direct/online sales and multiple technology initiatives.
- **Valuation:** We expect HDFC SL to further improve its new business margin to 23% by FY20E, while operating RoEV/RoEV should sustain at 21%/19% respectively over FY17-20E. We value HDFC SL at 3.5x Mar-20E EV at INR370 per share (new business multiple of 28x), which implies an upside of 28% from the issue price. HDFC SL's strong new business margins, healthy return ratios and stronger growth potential will enable it to trade at a premium to other insurers. Initiate coverage with **BUY**.

Stock info

Equity Shares (m)	2,009
MCap (INR b)	582.6
MCap (USD b)	8.9

Financial snapshot (INRb)

Y/E MARCH	FY18E	FY19E	FY20E
Net Premium	231.2	282.5	349.6
Total Income	331.7	398.3	492.5
Opex	27.5	33.7	41.5
Op. profit	292.5	350.6	434.0
Surplus/Deficit	10.9	12.7	15.7
PAT	9.5	10.8	13.5
New bus gr. %*	30	28	26
Renewal Prem.gr. (%)	11.9	16.9	21.5
P/EV (X)	3.9	3.3	2.8
P/EPS(x)	61.5	54.0	43.1

*Un-weighted

Shareholding pattern (%)

Nov-17	%
Promoter	81.0
Others	19.0

Exhibit 1: HDFC Life: Key financials

INRb	Net Premiums	Surplus /Deficit	PAT	VNB	NBP margin	EVOP as % of IEV	RoEV	RoE	Dividend	EV	P/EV	EPS	P/EPS	P/AUM
FY16	161.8	9.6	8.2	7.4	19.9%	20.9%	16.1%	28.5%	9.0%	102.3	5.7	4.1	70.7	78.5%
FY17	192.7	9.5	8.9	9.1	22.0%	21.0%	21.1%	25.5%	11.0%	123.9	4.7	4.5	64.9	63.5%
FY18E	231.2	10.9	9.5	11.4	22.3%	21.5%	19.9%	22.7%	12.5%	148.5	3.9	4.7	61.5	52.9%
FY19E	282.5	12.7	10.8	14.8	22.4%	21.3%	19.0%	22.2%	15.0%	176.8	3.3	5.4	54.0	44.0%
FY20E	349.6	15.7	13.5	18.3	22.7%	21.1%	18.8%	23.8%	17.5%	210.0	2.8	6.7	43.1	36.3%

Exhibit 2: Snapshot of major insurers

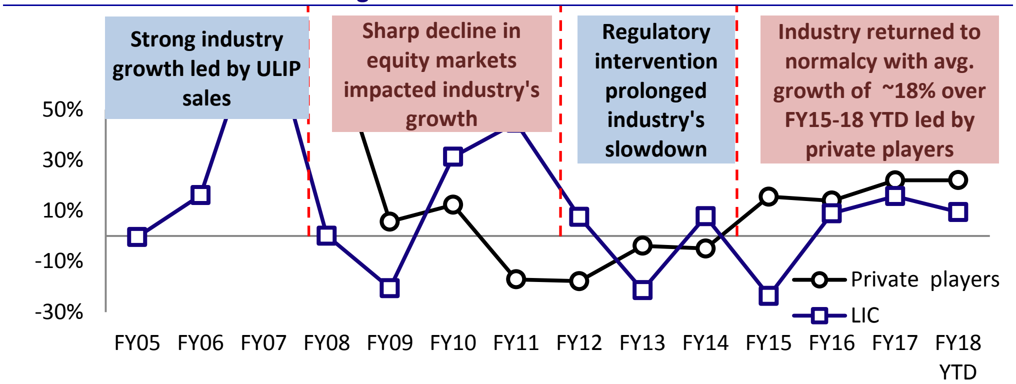
	HDFC Life		ICICI Life		Max India		SBI Life	
	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Profit and Loss matrix (INR m)								
Operating Profit	154,644	273,421	177,018	340,640	83,708	115,546	169,482	277,959
Surplus / Deficit	9,597	9,476	14,124	11,527	4,632	-1,721	6,642	6,543
PAT (Shareholder's a/c)	8,183	8,921	16,505	16,822	4,391	6,599	8,610	9,547
Premium (INR m) & growth (%)								
New business prem – wrp	36,156	40,852	51,085	64,862	21,627	27,485	48,781	66,009
Total premium – unwtd	64,872	86,964	67,658	77,604	28,817	36,664	71,066	101,439
Market share	4.7%	5.0%	4.9%	4.5%	2.1%	2.1%	5.1%	5.8%
New business growth – wrp	13.5%	13.0%	9.9%	27.0%	8.7%	27.1%	37.4%	35.3%
Total prem growth – unwtd	18.1%	34.1%	26.9%	14.7%	12.0%	27.2%	28.5%	42.7%
New business mix – wrp (%)								
Participating	26.8%	25.9%	11.4%	11.7%	62.6%	61.4%	27.7%	22.9%
Non-participating	20.5%	27.4%	13.6%	13.6%	13.0%	13.7%	28.7%	29.3%
ULIPs	52.8%	46.7%	75.1%	74.8%	24.4%	24.9%	43.6%	47.8%
Operating ratios (%)								
Investment yield (%)	2.5%	12.6%	1.2%	13.0%	4.2%	9.1%	4.6%	10.2%
Commissions / GWP	4.3%	4.1%	3.2%	3.4%	8.9%	8.7%	4.5%	3.7%
Total expense ratio	15.8%	16.3%	13.1%	13.9%	22.5%	23.4%	13.7%	11.6%
Solvency margin	198.4%	191.6%	320.0%	3.4%	343.0%	309.0%	212.0%	204.0%
Persistency ratios (%)								
13th Month	79.0%	81.0%	82.4%	85.7%	78.8%	80.4%	80.0%	80.6%
25th Month	67.0%	73.0%	71.2%	73.9%	66.6%	70.4%	72.1%	73.0%
49th Month	63.0%	58.0%	62.2%	59.3%	55.6%	54.9%	77.2%	65.0%
61st Month	50.0%	57.0%	46.0%	56.2%	42.7%	53.0%	50.6%	68.1%
Valuation ratios and other data points								
NBP margin (%)	19.9%	22.0%	8.0%	10.1%	17.9%	18.8%	16.0%	15.4%
RoE (%)	28.5%	25.5%	31.2%	28.7%	21.5%	29.1%	19.6%	18.6%
RoIC (%)	37.8%	41.0%	34.3%	34.8%	22.1%	33.2%	86.1%	95.5%
Total AUMs, INRb	742	917	1,039	1,229	364	444	798	977
RoEV (%)	16.1%	21.1%	0.8%	16.1%	6.9%	16.6%	NA	21.4%
Operating RoEV (%)	20.9%	21.0%	15.3%	16.5%	17.0%	19.9%	19.0%	23.0%
Dividend (%)	9.0%	11.0%	84.0%	73.5%	136.6%	52.5%	12.0%	15.0%
Dividend payout ratio (%)	26.4%	29.6%	87.7%	39.5%	100.0%	25.5%	16.8%	18.9%
EPS, INR	4.1	4.5	11.5	11.7	11.5	17.3	8.6	9.5
Embedded Value, INRb	102.3	123.9	139.4	161.8	56.2	67.4	130.0	165.4
P/E (x)	70.7	64.9	33.0	32.4	48.1	32.0	75.5	68.1
P/EV(x)	5.7	4.7	3.9	3.4	3.8	3.2	5.0	3.9
P/AUM	79%	64%	52%	44%	41%	34%	81%	67%
VIF as a % of AUM	68%	67%	60%	58%	63%	62%	NA	58%

Source: Company, MOSL

India Life Insurance: Growth comes back full circle

The insurance industry in India has staged a smart recovery over the last three years after multiple regulatory actions had significantly impacted insurer's business operations. The industry has now aligned itself with the revised regulations, with improved product portfolio, strong cost control and multiple productivity improvement initiatives. Reforms to boost tax compliance, promote digital transactions and curb black money have further catalyzed the industry's growth. Having successfully navigated through the turbulence, we believe the sector has emerged stronger and insurers are now underwriting better quality business, which will boost profitability in the medium term. During FY18YTD, private players have reported strong 22% growth in new business APE (14% growth in un-weighted premiums) and we expect the industry to grow at 17% CAGR over the next three years. This will be led by rising share of financial savings, benign rate environment, favorable demographics, and increasing customer awareness. Healthy GDP growth and stable regulatory regime will act as further enablers for the industry's growth.

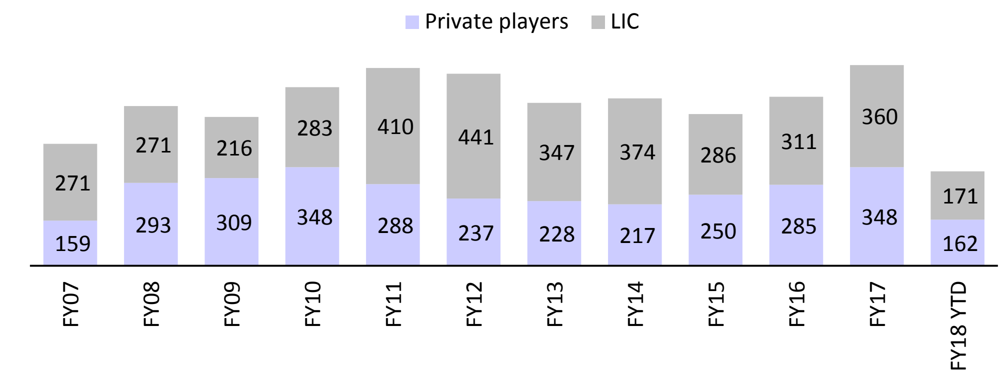
Exhibit 3: Trend in new business growth – APE terms



Source: Company, MOSL

The profitability of the insurers is also likely to increase, as improving operating metrics (persistency and product mix) and strong cost control help expand margins. We expect large bancassurers to gain market share owing to their better distribution reach and stronger operating models. The share of the agency channel in overall business sourcing for select large insurers like HDFCSL is also likely to improve gradually.

Exhibit 4: Industry's total new business premium – APE terms



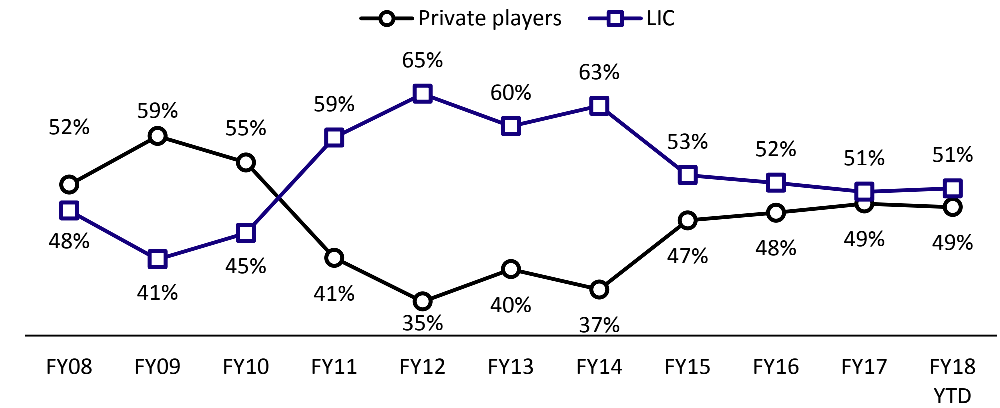
Source: Company, MOSL

Exhibit 5: Latest new business premium figures for the industry, APE - INR mn

Life Insurer	Oct- 17	Y-Y Growth (%)	M-M Growth (%)	FY18 YTD	YTD Growth (%)	FY17	Y-Y Growth (%)
Industry Total	59,379	28.7%	-14.0%	392,287	17.1%	7,09,040	18.8%
LIC	31,892	37.7%	-5.7%	202,852	13.1%	3,60,376	15.8%
Total Private	27,487	19.5%	-22.0%	189,435	21.7%	3,48,664	22.1%
ICICI Prudential	5,873	29.5%	-12.5%	43,125	44.7%	64,966	27.2%
SBI Life	6,252	44.7%	-11.0%	39,304	38.5%	66,028	35.4%
HDFC Life	3,733	25.0%	-26.6%	24,175	36.8%	40,851	13.0%
Max Life	1,807	13.2%	-35.6%	13,258	16.9%	21,302	38.1%
Kotak Life	1,508	70.2%	-21.0%	9,823	10.7%	27,495	27.2%
Bajaj Allianz	1,500	-14.4%	-26.9%	9,520	-1.7%	21,592	26.8%
Birla Sunlife	743	-66.7%	-36.2%	5,997	-55.7%	10,755	11.6%
Tata AIA	922	62.6%	-19.9%	5,963	37.5%	24,721	13.5%
PNB Met Life	795	14.5%	-32.2%	5,725	18.3%	9,667	-33.7%
Canara HSBC OBC	428	27.6%	-54.0%	4,346	79.8%	11,270	55.2%
Reliance Life	510	2.5%	-33.0%	4,145	-20.3%	5,285	53.3%
Exide Life	465	48.9%	-26.9%	3,398	2.1%	6,598	15.6%
IndiaFirst Life	428	2.0%	-12.9%	2,997	31.3%	4,341	28.4%
DLF Pramerica	567	181.4%	0.3%	2,967	156.1%	6,513	35.7%
Shriram Life	316	15.4%	-27.8%	2,601	4.4%	2,468	6.2%
Star Union Dai-ichi	306	40.8%	-48.2%	2,527	-6.6%	4,831	6.5%
IDBI Federal Life	350	32.4%	-18.8%	2,393	41.9%	3,749	50.1%
Future Generali	268	1.6%	-38.1%	2,314	21.4%	4,098	8.8%
Bharti Axa Life	322	3.5%	-11.0%	1,938	-3.0%	6,780	20.3%
Aviva Life	139	-12.5%	-32.7%	1,299	51.0%	1,936	26.2%
Edelweiss Tokio	161	32.5%	0.0%	1,024	29.0%	2,369	-24.3%
Aegon Religare	93	120.8%	-8.1%	578	76.1%	893	-33.4%
Sahara Life	-	-100.0%	-100.0%	19	-68.4%	155	2.1%

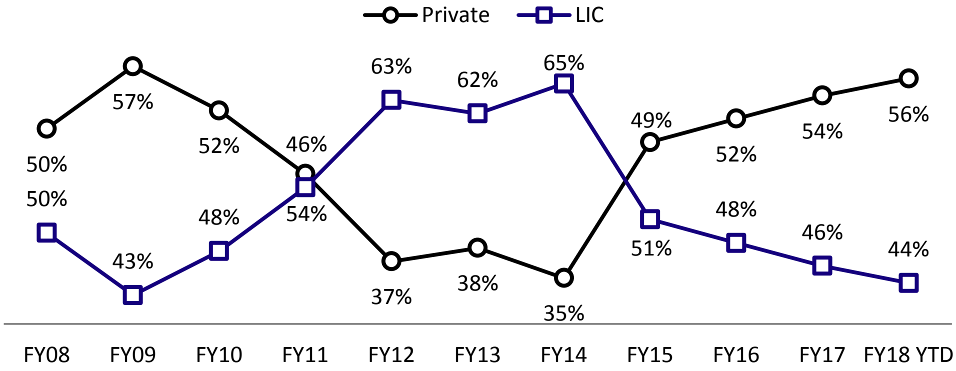
Source: Company, MOSL

Exhibit 6: Market share trend in new business APE for private players and LIC



Source: Company, MOSL

Exhibit 7: Trend in individual new business market share for private players and LIC



Source: Company, MOSL

Exhibit 8: Market share trend in new business APE for private players

Insurer	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 YTD
ICICI Prulife	10.6%	13.7%	12.2%	9.6%	8.4%	6.4%	7.4%	5.6%	8.7%	8.6%	9.2%	11.2%
SBI Life	4.2%	6.2%	8.9%	10.1%	5.4%	3.9%	5.0%	5.4%	6.6%	8.2%	9.3%	9.9%
HDFC Life	3.1%	4.1%	4.5%	4.4%	4.9%	4.6%	5.6%	4.3%	5.9%	6.1%	5.8%	6.1%
Birla Sunlife	1.9%	3.4%	5.3%	4.6%	2.9%	2.7%	3.2%	2.8%	3.6%	3.7%	3.5%	1.6%
Max Life	1.8%	2.4%	3.1%	2.6%	2.6%	2.4%	2.7%	3.1%	3.7%	3.6%	3.9%	3.4%
Kotak Life	1.3%	1.9%	2.5%	1.8%	1.3%	1.0%	1.4%	1.4%	2.1%	2.9%	3.0%	2.5%
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%
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%
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%	1.5%
Tata AIA	1.3%	1.5%	2.1%	2.0%	1.6%	1.1%	0.7%	0.6%	0.6%	1.2%	1.6%	1.5%
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%
Star Union Dai-ichi			0.1%	0.4%	0.6%	0.7%	0.7%	0.8%	1.0%	0.9%	0.9%	0.7%
Canara HSBC OBC			0.6%	1.0%	1.2%	1.0%	1.0%	1.0%	0.7%	0.8%	0.9%	1.2%
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

Insurance and Mutual Fund – driving the growth in financial savings

India's gross savings rate has declined over the past few years, impacted by a sluggish macroeconomic environment and high inflation rate, which moved savers away from financial assets. However, with inflation in control, government impetus towards increasing formalization of the economy and subdued returns from physical assets, the share of financial savings has begun to increase. While the share of financial savings has been increasing over the past few years, the composition of insurance sector has further increased by ~25% over FY14-16 and we expect this to continue. We expect the share of net household financial savings to increase from 7.8% of GNDI in FY16 to 10% over the next few years while the gross savings rate also recovers in the medium term (average of ~32% over past few years).

Exhibit 9: Gross Savings as a percentage of Gross National Disposable Income (GNDI)

Item	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Gross Savings	33.7	33.7	33.8	33	32.3	32.3	31.7
Non-financial Corporations	9.2	8.8	9.5	9.7	10.6	12	11.8
Public non-financial corporations	1.3	1.2	1.4	1.2	1.1	0.9	1.0
Private non-financial corporations	7.9	7.6	8.1	8.5	9.4	11.1	10.8
Financial Corporations	2.2	2.3	3	3	2.6	2.6	2.1
Public financial corporations	1.5	1.7	1.9	1.7	1.4	1.3	1.3
Private financial corporations	0.5	0.6	1.2	1.2	1.1	1.3	0.8
General Government	-3.1	-0.5	1.8	-1.6	-1.3	-1	-1.0
Household sector	25.2	23.1	23	21.9	20.5	18.7	18.8
Net financial saving	12	9.9	7.2	7.2	7.5	7.5	7.8
Saving in physical assets	13.2	13.2	15.5	14.4	12.7	10.8	10.7
Saving in the form of valuables			0.4	0.4	0.3	0.3	0.3

Source: Company, MOSL

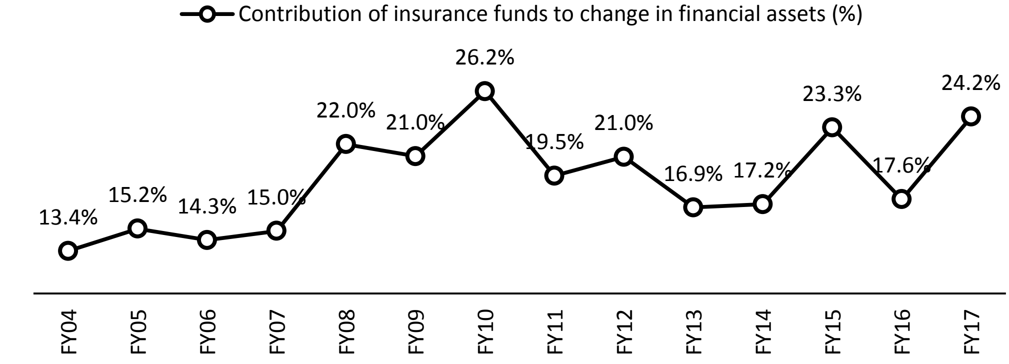
Exhibit 10: Financial savings of household as % of Gross National Disposable Income (GNDI)

Item	FY12	FY13	FY14	FY15	FY16	FY17
A. Gross financial savings	**10.4**	**10.5**	**10.4**	**10.1**	**10.9**	**11.8**
Currency	1.2	1.1	0.9	1.1	1.4	-2.1
Deposits	6.0	6.0	5.8	5.0	4.8	7.3
Shares and debentures	0.2	0.2	0.2	0.2	0.3	1.2
Claims on government	-0.2	-0.1	0.2	0.0	0.5	0.5
Insurance funds	2.2	1.8	1.8	2.4	1.9	2.9
Provident and pension funds	1.1	1.5	1.5	1.5	2.0	1.9
B. Financial liabilities	**3.2**	**3.2**	**3.1**	**2.9**	**3.1**	**3.7**
C. Net financial saving (A-B)	**7.2**	**7.2**	**7.2**	**7.2**	**7.8**	**8.1**

Source: Company, MOSL

Within financial savings, we expect the share of insurance to increase, as a benign rate environment keep savers away from fixed deposits and increases the attractiveness of life insurance products for savings/protection. Moreover, with expectations of recovery in GDP growth and continued buoyancy in capital markets, ULIPs will continue to do well and dominate the bouquet of insurance products. We expect the life insurance industry to grow at a CAGR of ~17% over the medium term, led by large private players that have strong bancassurance tie-ups, robust technology platform, and healthy product profile.

Exhibit 11: Contribution of insurance funds to change in household financial assets (%)



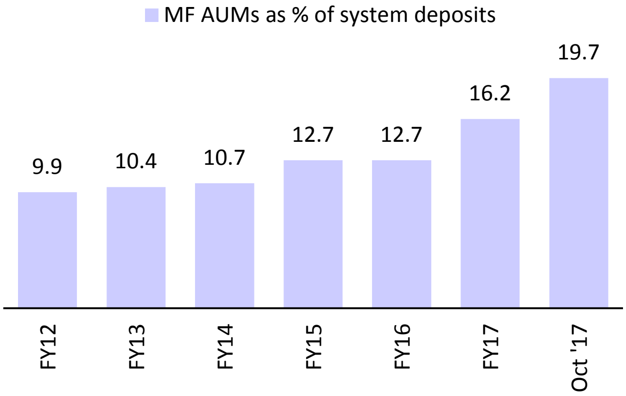
Source: Company, MOSL

Exhibit 12: Trend in composition of change in household financial assets (%)

Year	Currency	Bank deposits	Non-banking deposits	Life insurance Fund	Provident & Pension fund	Claims on Govt.	Shares & Debentures	Others	Total change
FY12	11.4%	56.4%	1.1%	21.0%	10.3%	-2.3%	1.8%	0.5%	100%
FY13	10.5%	54.0%	2.6%	16.9%	14.7%	-0.7%	1.6%	0.3%	100%
FY14	8.4%	53.7%	1.9%	17.2%	14.9%	1.9%	1.6%	0.4%	100%
FY15	10.4%	47.0%	2.6%	23.3%	14.7%	0.1%	1.5%	0.3%	100%
FY16	13.2%	41.1%	2.4%	17.6%	18.3%	4.4%	2.7%	0.3%	100%
FY17	-17.4%	60.2%	1.9%	24.2%	16.3%	4.6%	10.0%	0.2%	100%

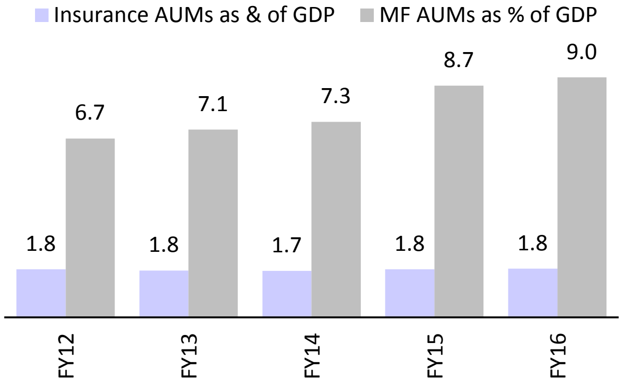
Source: Company, MOSL

Mutual Fund AUMs as % of deposits



Source: Company, MOSL

Exhibit 13: Mutual Fund & Insurance AUMs as % of GDP

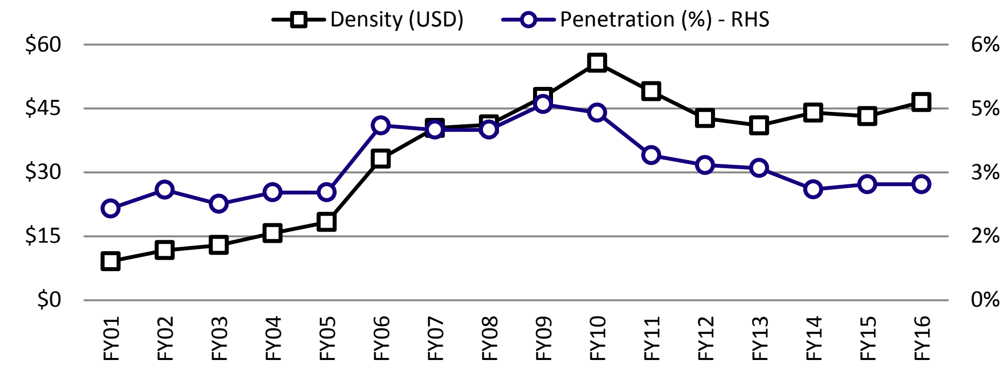


Source: Company, MOSL

China has shown strong progress in premium growth – How much can India replicate?

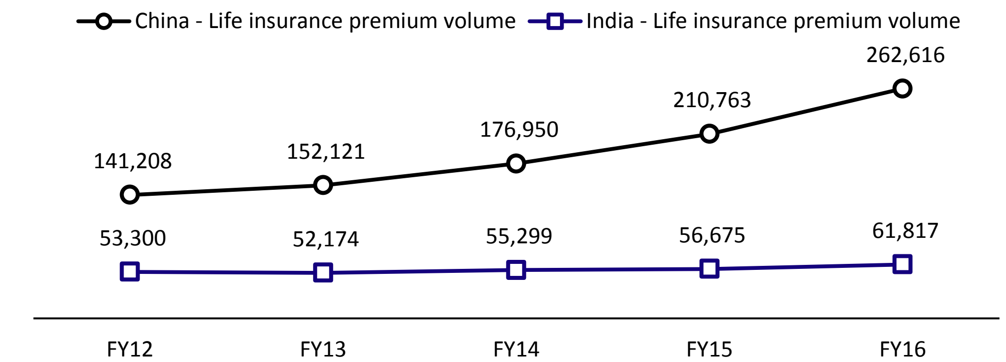
Insurance penetration in India declined from a peak of 4.6% in FY09 to 2.5% in FY13 and recovered marginally to 2.7% in FY16. Bulk of the decline happened during the years of major regulatory changes, which necessitated significant effort on the part of the insurers to adapt. Several products (predominantly ULIPs) were rendered ineligible and insurers had to re-design them to comply with the new regulations, resulting in a sharp decline in product offerings. With improving product offerings and macro drivers, we expect insurance penetration in India to increase over the next few years.

Exhibit 14: India: Insurance penetration and density trend



Source: SwissRe, MOSL

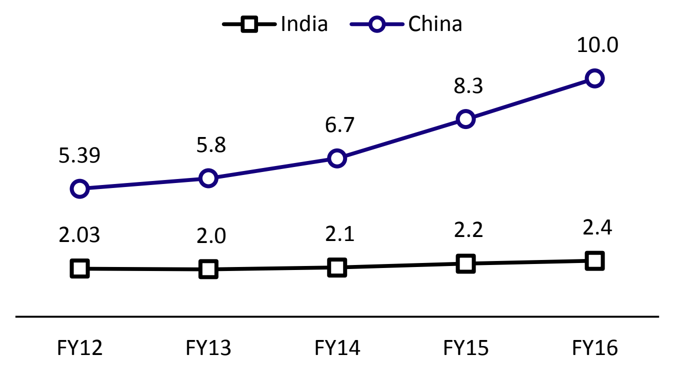
Exhibit 15: Trend in life insurance premium volume for China & India in US$



Source: SwissRe, MOSL

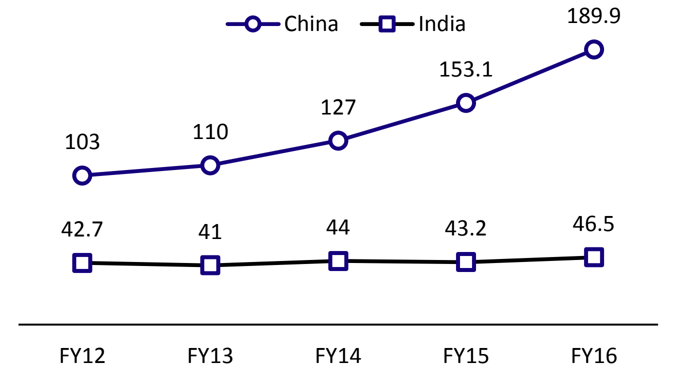
We note that while the advanced economies are reporting muted trends in premium growth, China has reported very strong growth in total premium collections over past few years. Its share in world life insurance market has thus grown by 420bp between FY13-16 to 10% while India has reported modest 40bp gain over the similar period.

Exhibit 16: Market share in world life insurance for India & China



Source: SwissRe, MOSL

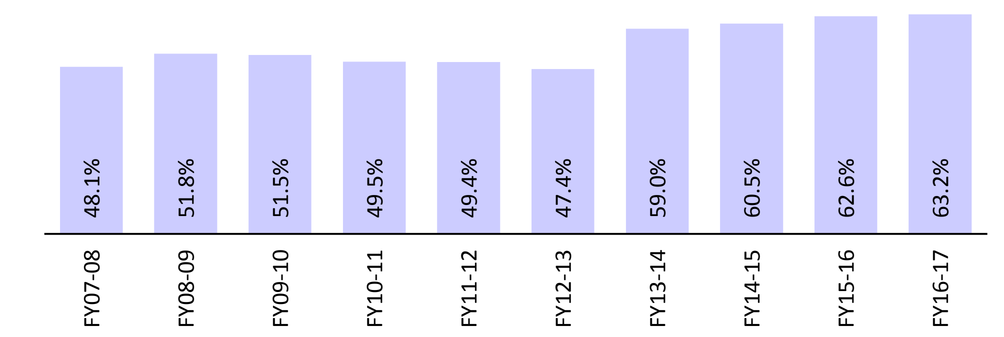
Exhibit 17: Trend in Insurance density for China & India



Source: SwissRe, MOSL

We believe that India's strong economic growth, rising share of financial savings/disposable income and huge protection gap will enable healthy growth trajectory over next few years. The larger private insurers are thus well positioned to capitalize on this strong opportunity and are likely to deliver healthy double digit growth rate in premiums and gain further market share.

Exhibit 18: Individual Sum assured to GDP for India (%)



Source: Company, MOSL

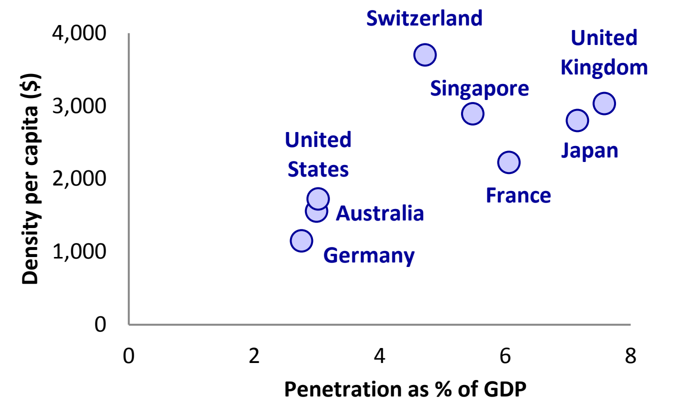
Insurance density has been stagnant for a while; expect it to recover with pick-up in financial savings

India's current insurance density (measured as insurance premium per capita) at USD43 is nearly 21% lower than the peak of USD55.7 in FY10. It declined consistently over FY11-13, the period that witnessed intense regulatory action coupled with weak economic environment. However, there has been a mild recovery during FY13-15 and we expect it to pick up pace as the financial savings rate improves and India maintains its medium-term GDP growth rate of 7-8%. Regionally, we see that insurance density in India is significantly below China (USD190) and other emerging countries. China has reported ~17% CAGR increase in insurance density over FY12-16.

One could argue that insurance penetration in India is not very low when compared to developed countries, but we note that developed countries have (i) healthy social security benefits for their citizens, and (ii) in many such countries, life insurance and pension savings are held separately – the latter do not get counted in insurance sales.

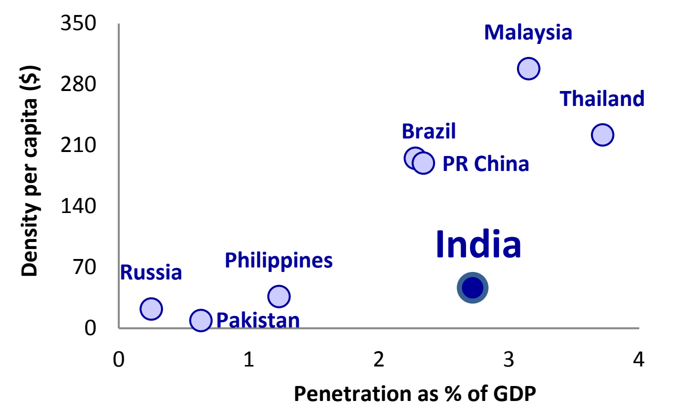
We believe it is more relevant to compare insurance density in India with other Asian/regional peers and emerging countries. We note that the dynamics in the Indian insurance industry are similar to Taiwan, Korea and South Africa – these countries also offer tax incentives on insurance premium, though the extent of benefits varies. Insurance penetration in these countries is higher and this points to strong growth potential in the Indian insurance industry.

Exhibit 19: Insurance penetration and density in developed countries – FY16



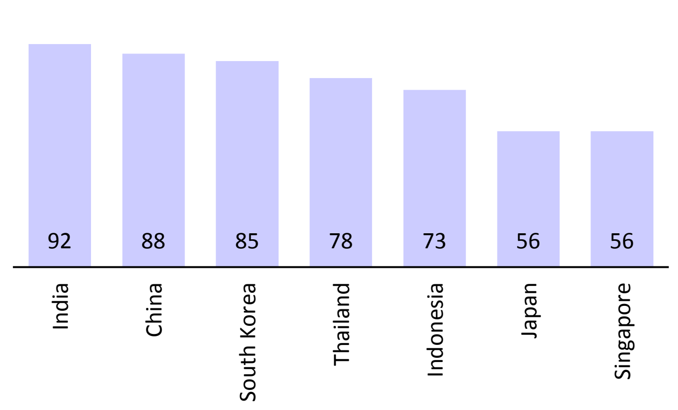
Source: Company, MOSL

Exhibit 20: Insurance penetration and density in Asia & other emerging countries – FY16



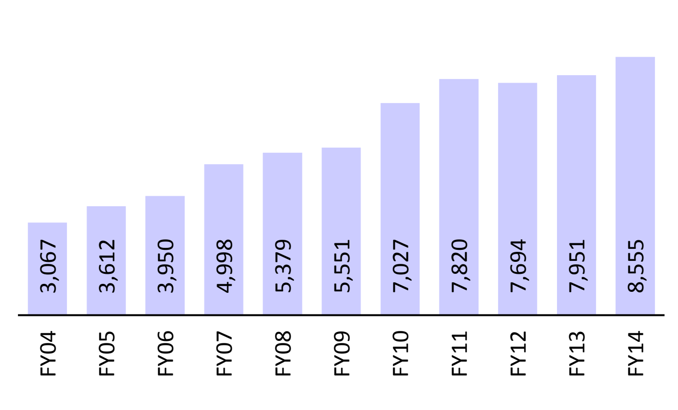
Source: Company, MOSL

Exhibit 21: India has the highest gap in protection requirement amongst key Asian countries (%)



Source: Company, MOSL

Exhibit 22: India's mortality protection gap ($ bn)



Source: Company, MOSL

Reduced mis-selling and focused efforts to boost persistency are yielding results; we expect trend to continue

Insurance industry's operating metrics has improved over past few years aided by improved product designing, reduced mis-selling and strong control on operating costs. Thus, persistency trend (most important operating metric to assess the performance of the insurance company) has shown an improvement for most insurers. It is significantly more important for ULIP products as by regulation insurers have to even out their expenses over the life of the ULIP policies while the business may not stay with them for the entire term. The insurers thus offsets the front loaded expenses incurred in new business acquisition by miscellaneous charges (Fund Management Charge, Policy Administration Charge etc.) over the life of the policy which makes persistency very important. Participating products however are least sensitive to persistency given that shareholders participate in only 10% of the surplus and surrender penalties are generally high.

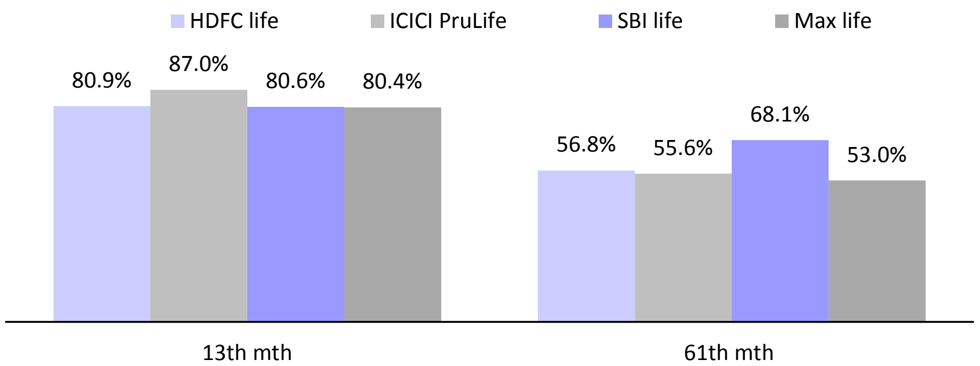
Exhibit 23: ULIP regulations: Minimum sum assured was raised to 10x of annual premiums

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

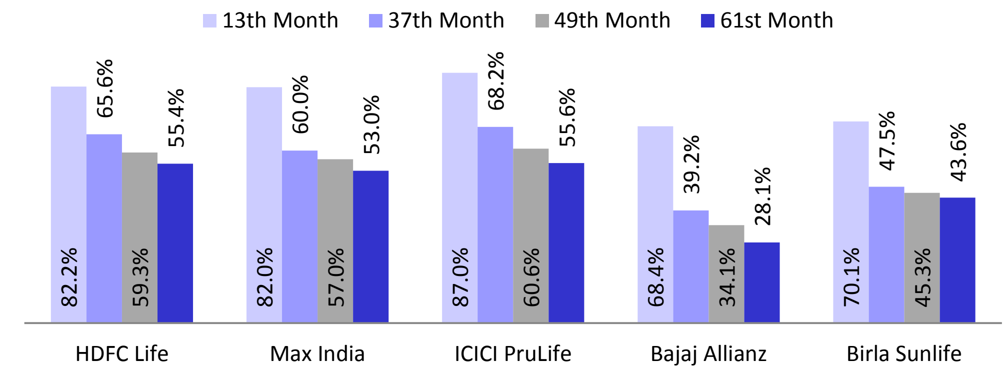
IRDA revised ULIP regulations in 2010 and mandated lower surrender charges / commissions on ULIPs and increased the lock-in period from three to five years. This coupled with subdued equity markets resulted in a sharp rise in surrenders and impacted persistency adversely. However, improved product features, controlled misselling and decline in surrender rate of ULIPs have aided a steady improvement in persistency rate over the past few years. Shorter-end persistency (13th month to 37th month) has improved sharply for several insurers and we expect the trickle-down benefits to improve trends at the longer end (61st month).

Exhibit 24: Trend in persistency for major insurers 13th, 25th and 61st month —



Source: Company, MOSL

Exhibit 25: Persistency rate of major insurers as on 2QFY18



Source: Company, MOSL

ULIP/traditional products have been made much more competitive

ULIP/traditional products have become more competitive, with the IRDA significantly reducing the surrender charges and specifying the maximum gap between gross and net yields for ULIPs. 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.

Exhibit 26: ULIP – gross and net yields

Annualized Premiums Paid	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

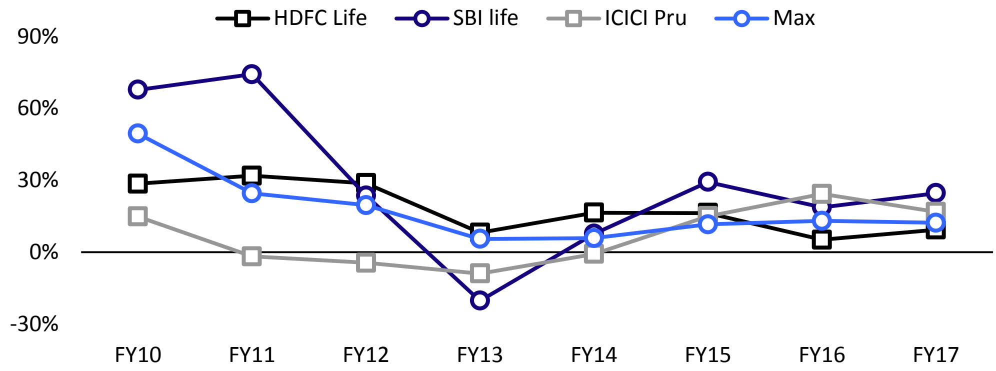
Exhibit 27: Surrender charges on traditional products

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

With improvement in persistency rate, renewal premium growth has begun to improve, contributing to the build-up of policy reserves, and hence, value in force.

Exhibit 28: Trend in renewal premium growth for major insurers



Source: Company, MOSL

Commission structure has also been designed to boost persistency

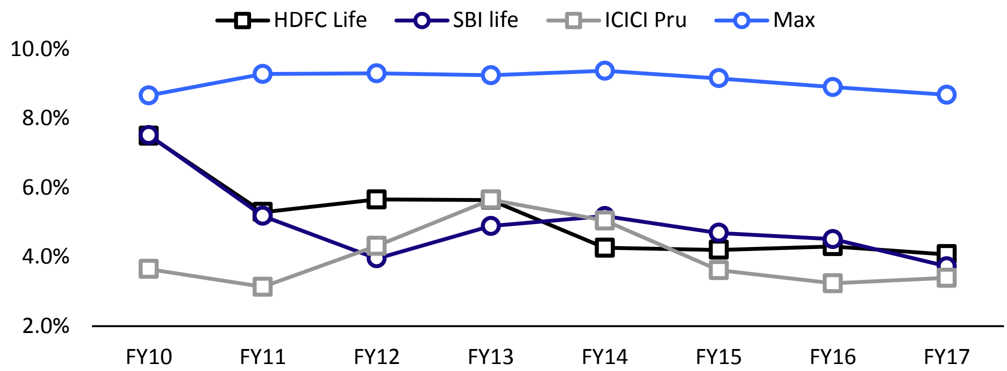
In December 2016, IRDA made further changes in the commission structure to bring more consistency into the commissions paid on regular-premium insurance products. Commissions were capped at 2% of the premium on single-premium products, and at 15% in the first year and 7.5% thereafter on regular insurance 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 29: Commission structure for regular premium based insurance products linked and non-linked

Premium Payment term	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 30: Commission expense across different channels for major insurers



Source: Company, MOSL

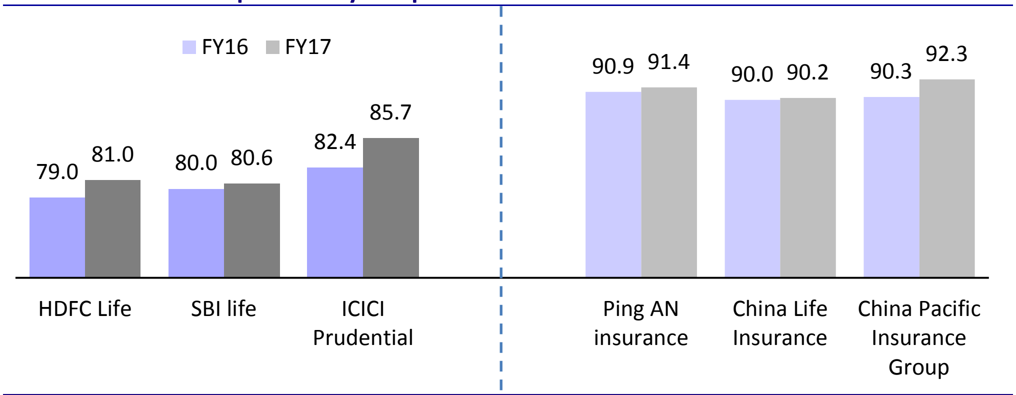
Cap on total expense will ensure further discipline in operations

The IRDA also implemented an expense cap on insurers based on their years of operation. For insurance companies in operation for over 10 years, the expense cap is 80% of first-year premium and 15% of renewal premium. However, for players in operation for less than 10 years, the expense cap is higher at 90% of first-year premium and 20% of renewal premium due to high costs involved in the first few years of operation.

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

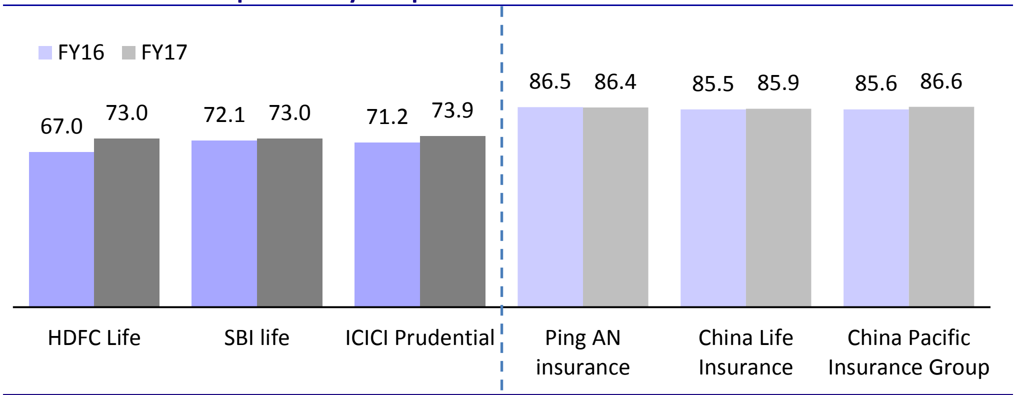
The persistency ratio of Indian companies is still below their Asian peers. Bulk of their new business was led by ULIPs, which are more savings oriented. With a slew of regulatory changes and volatile equity markets over 2010-14, the surrender/lapse rate spiked, resulting in a sharp drop in persistency rate. However, with the change in product structure, curb on mis-selling and buoyant equity markets, the 13-month persistency rate has improved for most insurers. We expect persistency rate to improve further, as quality of business improves and customers begin to see insurance as a protection-cum-savings product rather than just a play on capital markets.

Exhibit 31: 13-month persistency comparison of Indian vs Asian insurers - FY17



Source: Company, MOSL

Exhibit 32: 25-month persistency comparison of Indian vs Asian insurers – FY17



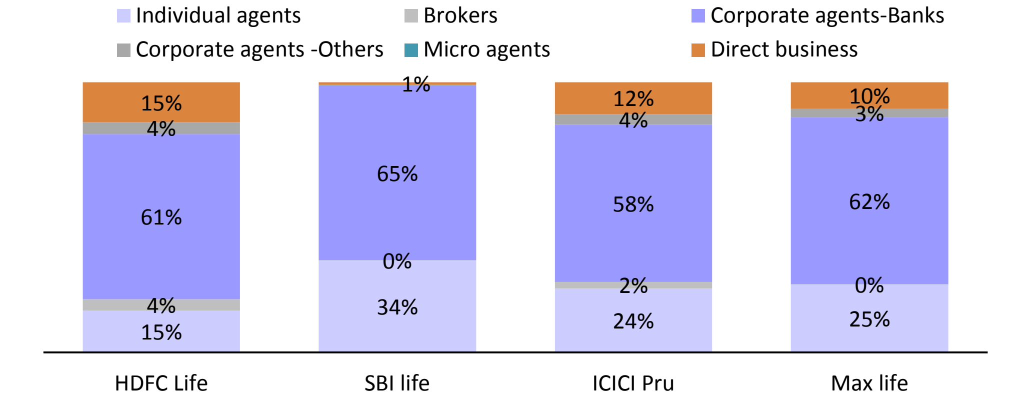
Source: Company, MOSL

Bancassurance – the key distribution edge; however no longer the cheapest channel

Insurance companies promoted by banks (ICICI Prudential Life, SBI Life) or those having strong bancassurance tie-ups (HDFC Life, Max Life) have consistently gained market share and reported strong improvement in operating costs. Multiple changes in regulations have impacted the economics of the agency channel, forcing several agents to move away from the industry. The bancassurance channel provides unmatched distribution to the insurers and has been the key growth driver for the larger players.

Bancassurance accounts for 58%, 65%, 61% and 62% of total premium for ICICI Prulife, SBI Life, HDFC Life and Max Life

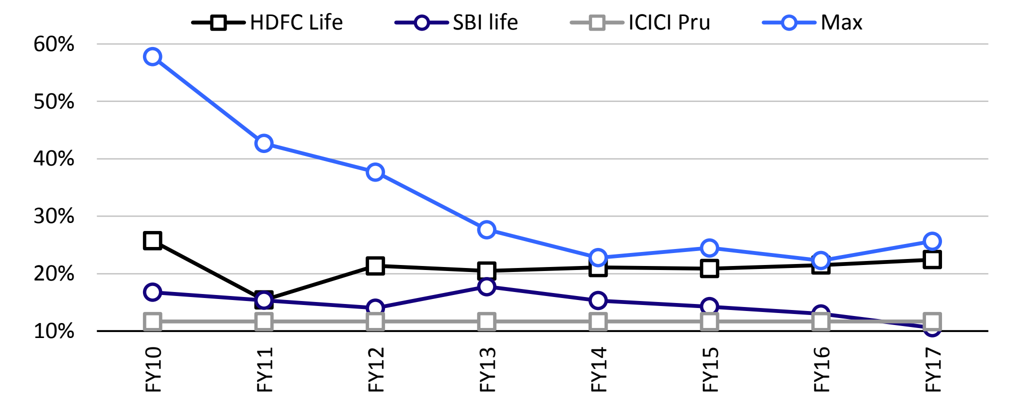
Exhibit 33: Private insurers: premium composition through different channels -



Source: Company, MOSL

However, bancassurance is no longer the cheapest channel for insurers, as banks now have an option to tie-up with more than one insurer and are bargaining hard for higher share of commissions. Insurers are investing significant efforts to strengthen their direct sales channel and technological capabilities to maintain strong control on their cost ratios.

Exhibit 34: Cost of bancassurance channel as proportion of new business APE for major insurers (%)



Source: Company, MOSL

Exhibit 35: List of insurance companies and their key bancassurance partners

Insurer	Bancassurance Partners
ICICI Prudential	Standard Chartered Bank, ICICI Bank
HDFC Life	HDFC Bank, Saraswat Bank, Ratnakar Bank, IDFC Bank
Kotak Life	Kotak Bank, DNS Bank
Canara HSBC OBC	Canara Bank, HSBC, Oriental Bank of Commerce
Aviva	RBS, Punjab and Sind Bank
India First	Bank of Baroda, Andhra Bank
SBI Life	SBI, BNP Paribas Cardiff
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
PNB Met Life	Punjab National Bank(PNB), J&K Bank, Karnataka Bank
Tata AIA	Citibank, IndusInd Bank, DBS

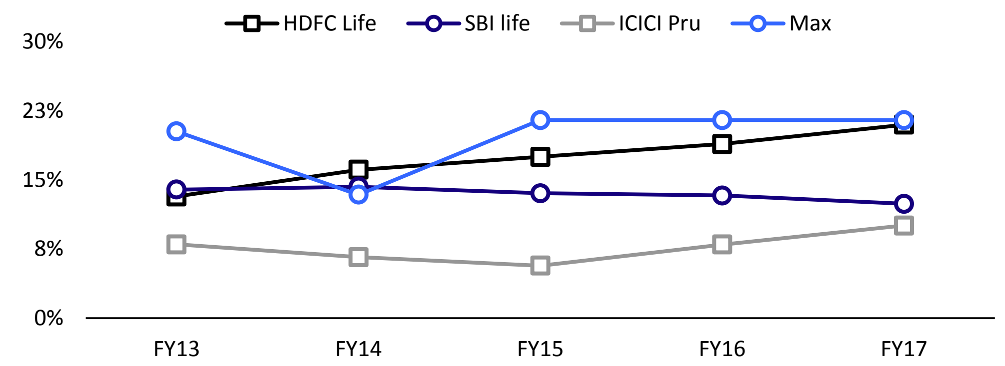
Source: Company, MOSL

New business margins have been on an up curve; expect selective improvement here on

The new business margins for larger players have improved over the past few years, led by continued improvement in persistency rate, strong cost control and better product mix. Currently, margins are at 12-14% on participating products, 10-14% on ULIPs, and >30% on non-participating products (>50% on protection products).

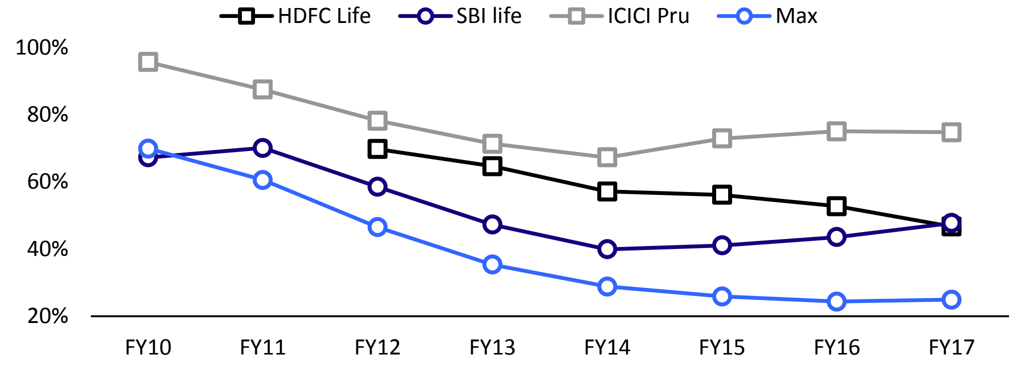
New business margins are the highest for HDFC Life (at 22%; 350bp improvement over two years) and Max Life (at 18.8%; 90bp improvement in one year), aided by higher share of non-linked business. While ICICI PruLife stands relatively lower on the margin curve, it has shown 370bp improvement since Mar-16, led by strong growth in protection business, improving persistency and continued cost control.

Exhibit 36: Trend in new business margins for major insurers



Source: Company, MOSL

Exhibit 37: Share of ULIP in total premium mix for major insurers



Source: Company, MOSL

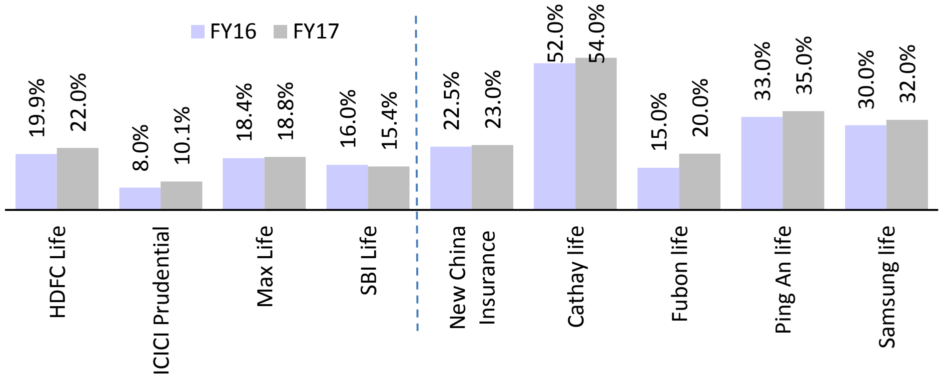
Exhibit 38: Product types and characteristics

Product characteristics	Capital Consumption	Regulatory Risk	Market Risk	Ease of Selling	Reinvestment Risk	Product Cost Structure	Savings or Protection
Participating	High	High	Medium	Medium	Low	Medium	Savings
Non-participating	Medium	Low	High	High	High	High	Protection + small savings
ULIPs	Low	Low	Low	High	Low	Low	Savings + Small protection
Protection / Term plans	Low to Medium	Low	NIL	Low	NIL	Low	Pure protection

Source: Company, MOSL

We expect share of protection business to pick up, as customers become aware of the true benefits of insurance. Significant decline in mortality charges has already made the protection business much more attractive. This would drive margin expansion for most players over the next few years.

Exhibit 39: Regional comparison of NBAP margins: NBAP margins are lower in India than other countries



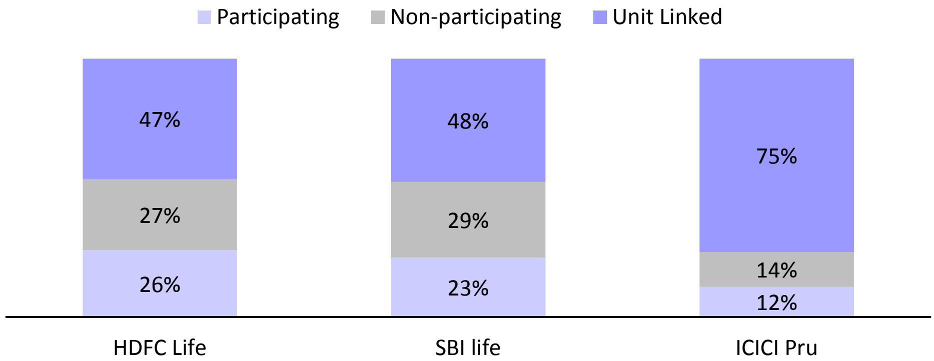
Note: For Chinese insurance companies, data is as of December ending 2015 & December 2016

Source: Company, MOSL

Balanced product mix is key to sustainable profit growth

We believe that a life insurance company should have a balanced mix of participating, non-participating and unit-linked products, with participating products forming the core. Non-participating products help boost profitability due to their inherently higher margins. ULIPs are easier to sell due to their higher medium-term return potential, despite being cyclical in nature. Participating products help provide stability amidst periods of equity market volatility and through interest rate cycles.

Exhibit 40: Product mix comparison of large private insurers



Source: Company, MOSL

Diversified product mix also minimizes the impact that an insurer might face due to regulatory changes. In the past, we have seen significant changes in the structuring of ULIPs, lower surrender charges on traditional products, ban on NAV guaranteed products, etc.

Amongst the top private insurers, we believe that HDFC Life and SBI Life followed by Max Life have the most diversified and balanced product mix, which will help them deliver steady growth and profitability across equity market / interest rate cycles. On the other hand, ICICI PruLife, being ULIP-dominated, may witness growth and profitability pressures if the equity markets are subdued for an extended period of time; lower margins in ULIPs will anyway keep profitability lower than peers.

Product innovation will drive market share gains and boost profitability

In a highly competitive market with more than twenty four life insurers present, product innovation will play an important role in driving healthy business growth and stronger profitability for the insurers. Insurers need to be responsive to the needs of a wide variety of Indian customers and introduce products that address these specific requirements. This requires high level of innovation at the insurers' end and right level of marketing to ensure the products' success. Such a strategy will also enable insurers to gain customer mindshare and cross sell other basic insurance products. Recently, few large private insurers (HDFC Life and ICICI PruLife) have launched a variety of term insurance with (i) critical illness cover, (ii) savings and investment option, and, (iii) added riders of accident and disability benefits, to capitalize on the rapidly growing protection market.

HDFC Life has recently launched *Cancer Care* and *HDFC Life Group Health Shield*, and has received approval for one other non-participating protection product, *HDFC Life Cardiac Care*, which it plans to launch during FY18.

Exhibit 41: Product offerings of life insurers

Name of the Insurer	Individual Sep-2017	Group Sep-2017	Total Sep- 2017
Aegon Life Insurance Company Limited	22	6	28
Aviva Life Insurance Company Limited	26	11	37
Bajaj Allianz Life Insurance Company Limited	24	12	36
Bharti Axa Life Insurance Company Limited	23	4	27
Birla Sun Life Insurance Company Limited	29	8	37
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	24	6	30
Future General India Life Insurance Company Limited	23	6	29
HDFC Life Insurance Company Limited	35	15	50
ICICI Prudential Life Insurance Company Limited	20	9	29
Kotak Mahindra Old Mutual Life Insurance Company Limited	27	15	42
Max Life Insurance Company Limited	17	5	22
Reliance Nippon Life Insurance Company Limited	27	10	37
SBI Life Insurance Company Limited	30	8	38
TATA AIA Life Insurance Company Limited	30	4	34
PRIVATE	**537**	**176**	**713**
Life Insurance Corporation Of India	**27**	**12**	**39**
TOTAL	**564**	**188**	**752**

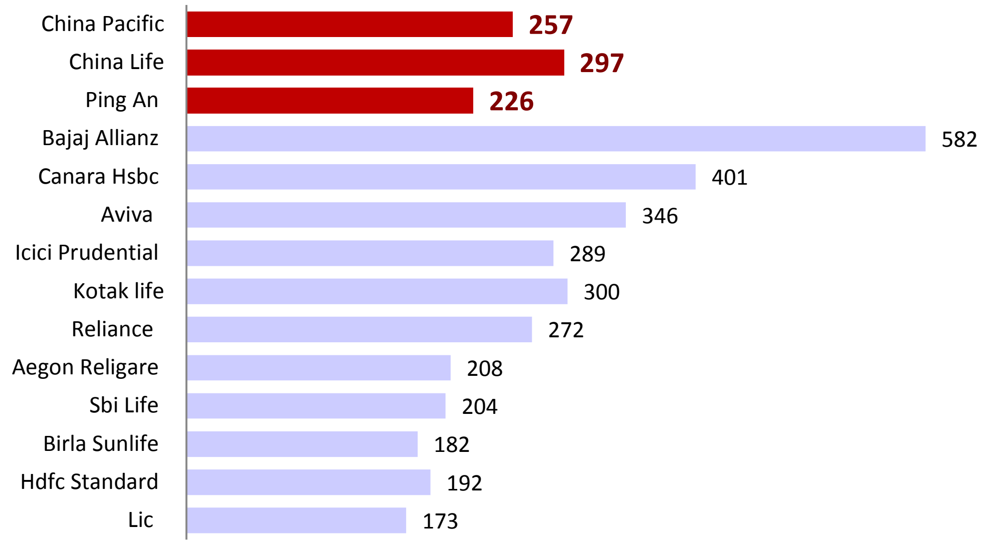
Source: Company, MOSL

Solvency ratio remains healthy

The solvency ratio (ratio of available solvency margin to regulation-required solvency margin) of life insurers remains healthy, aided by improved profitability trend and lower share of protection business, which requires higher capital. Most insurers remain well capitalized (significantly above the minimum regulatory requirement of 150%), which will support business growth over the next few years. Also, migration to economic capital will further ease capital requirements for the insurers, as the insurance industry in India is still savings oriented and overall sum assured still remains relatively lower than most countries.

The listing of the top four private players (ICICI PruLife, SBI Life, HDFC Life, Max Life) will allow insurers to raise capital as and when needed to meet growth requirements. Tier-II bonds also remain a viable option for fund raising. We note that Indian insurers' solvency margin is comparable to their larger Chinese peers.

Exhibit 42: Life insurers' solvency margin (%) remains healthy



Source: Company, MOSL

Note: Data Ping An, China life, China pacific is as of Dec'16

Valuation of Indian life insurers – How does it stack against global peers?

There has been a clear re-rating of the Indian life insurance sector over the last two years, which has resulted in many of these insurers trading at significant premium to their embedded value. While such valuations may appear excessive compared to other global insurers the multiple differential is accounted for by the difference in business growth and profitability. We note that the five-year average premium growth for life insurers in advanced countries is a muted 1.5% against 9% average new business APE growth for Indian life insurers (10% average growth in total un-weighted premium) over the similar period. Also, several global insurers are reporting single-digit RoE against 19%-29% for the top four listed private insurers in India.

Exhibit 43: Trend in global life insurance premium growth

	FY12	FY13	FY14	FY15	FY16	5 yr avg gr. (%)
Advanced markets	1.8%	-0.2%	3.8%	2.5%	-0.5%	1.5%
Emerging markets	4.9%	6.4%	6.9%	12.0%	17.0%	9.4%
World	2.3%	0.7%	4.3%	4.0%	2.5%	2.8%

Source: Company, MOSL

Exhibit 44: New business APE growth for private players (%)

	FY13	FY14	FY15	FY16	FY17	5 yr avg gr. (%)
Individual, APE	1.9%	-48.2%	116.2%	13.6%	26.4%	22.0%
Group, APE	-20.1%	-47.3%	94.2%	16.1%	5.3%	9.6%
Total	-4%	-5%	16%	14%	22%	8.6%

Source: Company, MOSL

As highlighted in the exhibit below, the disparity in valuation between Indian and Chinese Insurance companies is justified by the differential in return ratios. We note that China Life Insurance company and China Taiping are trading at 1.5x/1.2x of FY16 EV respectively however have recorded modest FY16 RoE of 6% - 8%. On other hand, Ping An Insurance, which recorded superior RoE of 17.4%, trades at a rich valuation of 4.1x FY16 EV - comparable to HDFC Life which recorded FY17 RoE of 28.5%. We thus believe that current valuations of Indian insurers are a rightful reflection of their return ratios and potential growth trajectory.

Exhibit 45: Valuation comparison across Asian peers

	China Life (CNY)		China Taiping (HKD)		Ping An Insurance (CNY)	
	FY16	FY17	FY16	FY17	FY16	FY17
Return on Common Equity (%)	11.4	6.1	12.6	7.8	17.4	17.4
Return on Assets (%)	1.5	0.7	1.4	1.0	1.2	1.2
Return on Capital (%)	9.5	6.4	7.7	6.1	2.6	3.7
Return on Invested Capital (%)	8.7	10.2	10.9	11.4	7.1	47.9
EPS	1.2	0.7	1.9	1.3	3.0	3.5
BV	11.4	10.7	16.6	15.6	18.3	21.0
EV (b)	560.3	652.1	92.0	87.4	325.5	360.3
Mcap (b)		1,010.6		106.2		1,480.4
Price		26.7		30		77
Price Earnings Ratio (P/E) (x)		40.4		23.4		22.0
Price to EV (x)		1.5		1.2		4.1

Source: Company, MOSL

Exhibit 46: Valuation comparison across listed players

	HDFC Life Ins.		SBI Life Ins.		ICICI Pru		MAX	
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017
RoE (%)	28.5	25.5	19.6	18.6	31.2	28.7	17.9	18.8
RoIC (%)	37.8	41.0	86.1	95.5	34.3	34.8	21.5	29.1
EVOP as % of IEV	20.9	21.0	19.0	23.0	15.3	16.5	22.1	33.2
RoEV (%)	16.1	21.1	0.0	21.4	0.8	16.1	17.0	19.9
EPS (INR)	4.1	4.5	8.6	9.5	11.5	11.7	11.5	17.3
EV (INRb)	102.3	123.9	130.0	165.4	139.4	161.8	56.2	67.4
Mcap (INRb)		NA		649.0		546.3		147.1
Price (INR)		290		649		381		548
P/E	70.7	64.9	75.5	68.1	33.0	32.4	48.1	32.0
P/EV	5.7	4.7	5.0	3.9	3.9	3.4	3.8	3.2
P/AUM	79%	64%	81%	67%	52%	44%	41%	34%
VIF as a % of AUM	68%	67%	NA	58%	60%	58%	63%	62%

Source: Company, MOSL

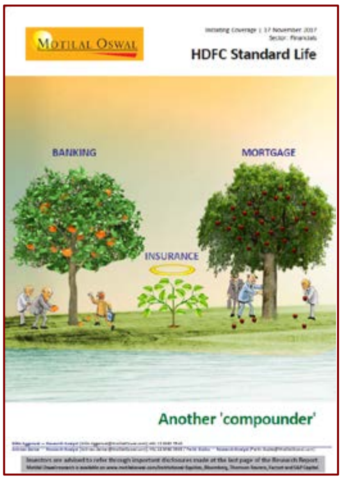
We believe the life insurance sector in India is in a sweet spot, where strong structural potential is now overlapping with buoyant equity markets, rising share of financial savings and higher disposable income. We expect Indian insurers to trade at a premium to global insurers, though trading multiples would vary with economic cycles.

Exhibit 47: Snapshot of global insurers (INR b)

	HDFC Life		SBI Life		ICICI Prudential		Ping AN Insurance		China Life Insurance		China Pacific Insurance Group	
	FY16	FY17	FY16	FY17	FY16	FY17	FY15	FY16	FY15	FY16	FY15	FY16
Profit and Loss matrix												
PAT (Shareholder's a/c)	8,183	8,921	8.6	9.5	16.5	16.8	22.5	18.9	34.6	19.1	17.7	12.1
Premium (INRm) & growth (%)												
Total premium*	163130	194455	158.2	210.1	191.6	222.5	222.0	291.2	363.9	430.4	203.3	234.0
Operating ratios												
Investment yield (%)	2.5	12.6	4.6	10.2	1.2	13.0	8.4	6.2	6.4	4.6	6.8	4.9
Total expense ratio	15.8	16.3	13.7	11.6	13.1	13.9	50.5	48.3	17.4	19.7	31	31.9
Solvency margin	198.4	191.6	212.0	204.0	320.0	283.2	219.7	225.9	359.02	297.16	262	257
Persistency ratios (%)												
13th Month	79.0	81.0	80.0	80.6	82.4	85.7	90.9	91.4	90	90.2	90.3	92.3
25th Month	67.0	73.0	72.1	73.0	71.2	73.9	86.5	86.4	85.5	85.9	85.6	86.6
Profitability ratios (%)												
RoE (%)	20.9	21.0	19.6	18.6	31.2	28.7	17.4	17.4	11.4	6.1	14.2	9.1
Valuation ratios												
Embedded Value, INR b	0	0	130.0	165.4	139.4	161.8	325474	360312	560277	652057	151918	181603

*Un weighted

Source: Company, MOSL



HDFC Life: Another 'compounder'

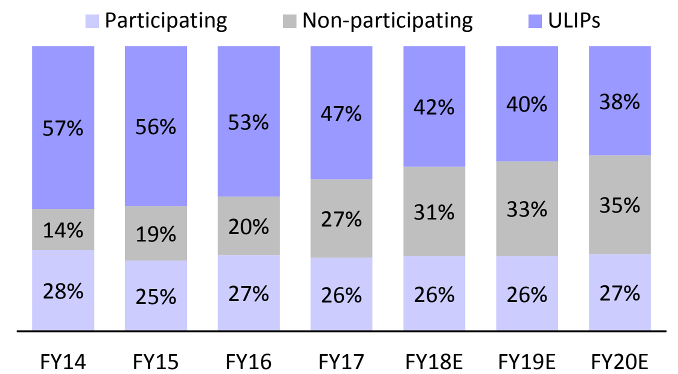
Quality franchise; attractive valuations

- HDFC Standard Life insurance is a JV between HDFC (India's leading housing finance company) and Standard Life Aberdeen plc through its wholly owned subsidiary, Standard Life Mauritius. The company offers a complete bouquet of insurance products comprising of protection, pension, savings & investment and health solutions for both its individual and group customers. HDFCSL has emerged as one of the top three private insurers in India with a new business premium APE market share of ~13% for FY18YTD amongst private insurers. It has strong return ratios (FY17 RoEV at 21%) and highest new business margin amongst private insurers (22% for FY17) backed by its balanced product mix (47% ULIPs, 26% Participating, 27% Non-Participating business in FY17), strong distribution network and lower operating cost.
- As on Sep-17, the company operates out of 414 branches, has 16,544 full-time employees and a growing base of 66,372 individual agents. HDFC SL has a solvency ratio of 200.5% (requirement of 150%) and has insured 64.5 million lives across individual and group customers as on Sep-17. We expect HDFC Life to deliver average RoEV of ~19x% over FY17-20E and value it on 3.5x Mar-20E EV at INR370 per share, which implies an upside of 28% from the issue price. We initiate coverage on the stock with a BUY rating.

Strong growth and market share gains; expect 25% cagr in new business over FY17-20E

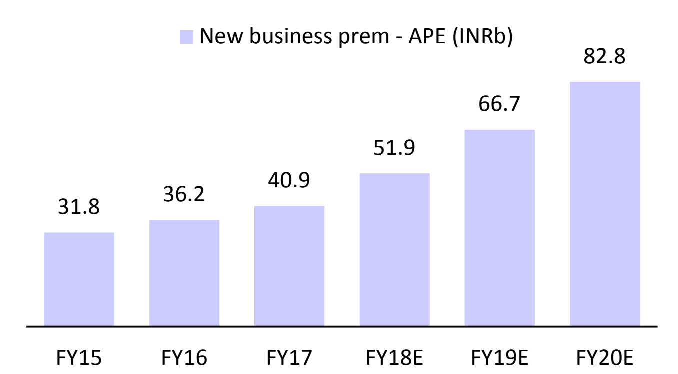
HDFC Life has strengthened its position in the industry and consistently ranks amongst the top three private insurers. The company has a market share of ~13% amongst private insurers (from ~8% in FY10). Besides maintaining healthy trajectory in premium growth the company has also diversified its business mix and strategically reduced its reliance on low margin ULIP business. This has enabled the HDFCSL to report industry leading return ratios. We expect HDFC Life to deliver 25% cagr in new business over FY17 to FY20E.

Exhibit 48: Composition of ULIP has steadily declined to 47%



Source: Company, MOSL

Exhibit 49: We expect HDFC life to report 25% cagr in new business premium over FY17-20E



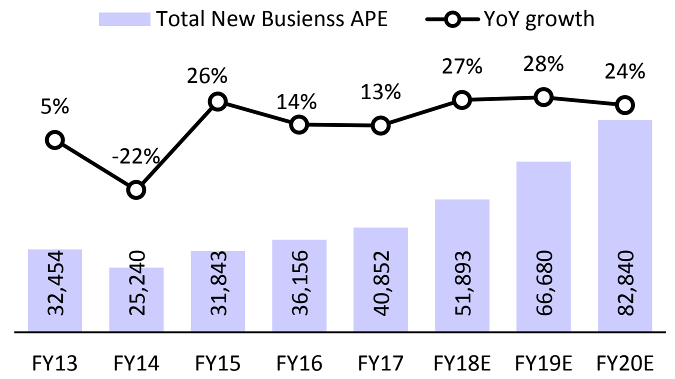
Source: Company, MOSL

Exhibit 50: Lives insured and new business policies issued

	FY15	FY16	FY17	Sep-17
Number of lives insured (individual customers)	830,951	1,181,597	1,098,329	430,273
Number of lives insured (group customers)	4,861,059	14,226,737	19,774,194	11,312,543
Number of new business policies (individual customers)	659,672	849,181	851,536	429,799

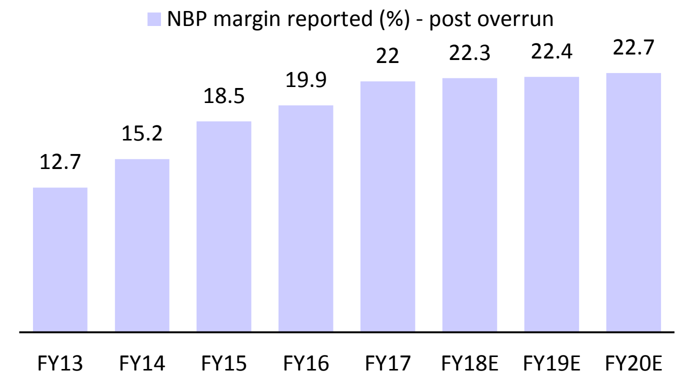
Source: Company, MOSL

Exhibit 51: Trend in APE premium and growth



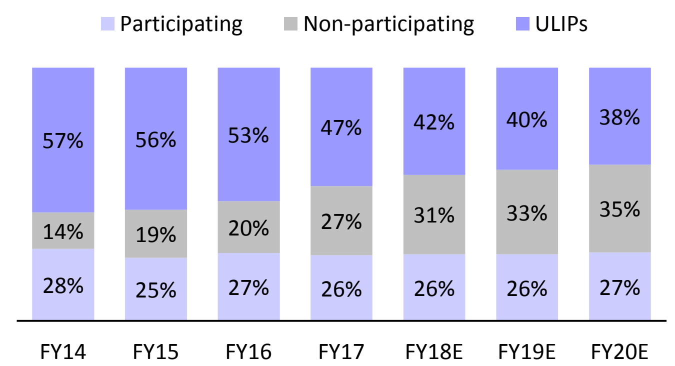
Source: Company, MOSL

Exhibit 52: Trend in new business margin



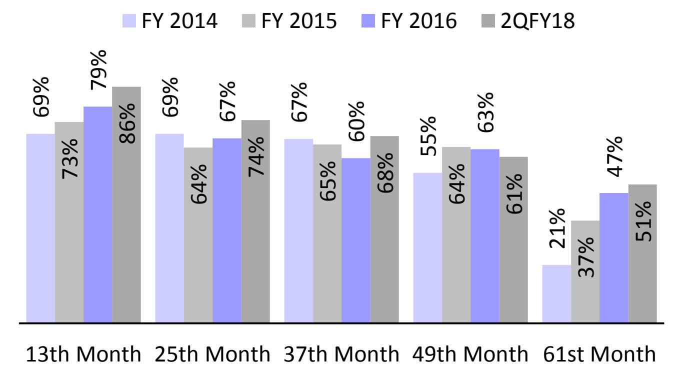
Source: Company, MOSL

Exhibit 53: Composition of ULIP has steadily declined to 47%



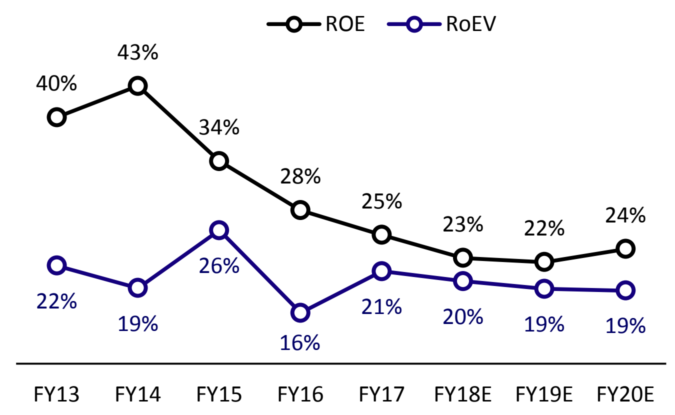
Source: Company, MOSL

Exhibit 54: Persistency ratio has improved across the curve



Source: Company, MOSL

Exhibit 55: Trend in operating RoEV and RoE



Source: Company, MOSL

Exhibit 56: We value HDFC Life at Rs743bn (3.5x FY20E EV)

INRb	FY20E
RoEV	19%
RoE (%)	24%
Embedded value	210
Appraisal Value	723
Fair value / Embedded value	3.4
Number of shares, m	2,009
Valuation per share	370
Implied P/E multiple	53.5
Implied new business multiple	28
Issue price, INR	290
Upside	28%

Source: Company, MOSL

Exhibit 57: Insurance industry new business sales (APE) for Oct'17 and FY18 YTD (INR mn)

Life Insurer	Oct - 17	YoY growth (%)	MoM growth (%)	FY18 (YTD)	YTD growth (%)
Industry Total	59,379	28.7%	-14.0%	392,287	17.1%
LIC	31,892	37.7%	-5.7%	202,852	13.1%
Total Private	27,487	19.5%	-22.0%	189,435	21.7%
ICICI Prudential	5,873	29.5%	-12.5%	43,125	44.7%
SBI Life	6,252	44.7%	-11.0%	39,304	38.5%
HDFC Life	3,733	25.0%	-26.6%	24,175	36.8%
Max Life	1,807	13.2%	-35.6%	13,258	16.9%
Kotak Life	1,508	70.2%	-21.0%	9,823	10.7%
Bajaj Allianz	1,500	-14.4%	-26.9%	9,520	-1.7%
Birla Sunlife	743	-66.7%	-36.2%	5,997	-55.7%
Tata AIA	922	62.6%	-19.9%	5,963	37.5%
PNB Met Life	795	14.5%	-32.2%	5,725	18.3%
Canara HSBC OBC	428	27.6%	-54.0%	4,346	79.8%
Reliance Life	510	2.5%	-33.0%	4,145	-20.3%
Exide Life	465	48.9%	-26.9%	3,398	2.1%
IndiaFirst Life	428	2.0%	-12.9%	2,997	31.3%
DLF Pramerica	567	181.4%	0.3%	2,967	156.1%
Shriram Life	316	15.4%	-27.8%	2,601	4.4%
Star Union Dai-ichi	306	40.8%	-48.2%	2,527	-6.6%
Future Generali	350	32.4%	-18.8%	2,393	41.9%
IDBI Federal Life	268	1.6%	-38.1%	2,314	21.4%
Bharti Axa Life	322	3.5%	-11.0%	1,938	-3.0%
Aviva Life	139	-12.5%	-32.7%	1,299	51.0%
Edelweiss Tokio	161	32.5%	0.0%	1,024	29.0%
Aegon Religare	93	120.8%	-8.1%	578	76.1%
Sahara Life	-	-100.0%	-100.0%	19	-68.4%

Source: Company, MOSL

Exhibit 58: HDFC has been successfully leveraging the group customer base to cross sell individual insurance products

	FY15	FY16	FY17	Sept'FY17
Number of policies from existing group customers	10,508	29,685	46,959	28,860
Total number of individual new business policies	659,672	849,181	851,536	429,799
Cross sell on group customer base (%)	1.6%	3.5%	5.5%	6.7%

Source: Company, MOSL

Exhibit 59: Market share amongst private insurers for Oct'17 and FY18 YTD

Life Insurer	Oct - 17	YoY change (% pts)	MoM change (% pts)	FY18 YTD	YTD change (% pts)
Total Private	100.0%				
ICICI Prudential	21.4%	1.6%	2.3%	22.8%	3.6%
SBI Life	22.7%	4.0%	2.8%	20.7%	2.5%
HDFC Life	13.6%	0.6%	-0.8%	12.8%	1.4%
Max Life	6.6%	-0.4%	-1.4%	7.0%	-0.3%
Kotak Life	5.5%	1.6%	0.1%	5.2%	-0.5%
Bajaj Allianz	5.5%	-2.2%	-0.4%	5.0%	-1.2%
Birla Sunlife	2.7%	-7.0%	-0.6%	3.2%	-5.5%
Tata AIA	3.4%	0.9%	0.1%	3.1%	0.4%
PNB Met Life	2.9%	-0.1%	-0.4%	3.0%	-0.1%
Canara HSBC OBC	1.6%	0.1%	-1.1%	2.3%	0.7%
Reliance Life	1.9%	-0.3%	-0.3%	2.2%	-1.2%
Exide Life	1.7%	0.3%	-0.1%	1.8%	-0.3%
IndiaFirst Life	1.6%	-0.3%	0.2%	1.6%	0.1%
DLF Pramerica	2.1%	1.2%	0.5%	1.6%	0.8%
Shriram Life	1.1%	0.0%	-0.1%	1.4%	-0.2%
Star Union Dai-ichi	1.1%	0.2%	-0.6%	1.3%	-0.4%
Future Generali	1.3%	0.1%	0.1%	1.3%	0.2%
IDBI Federal Life	1.0%	-0.2%	-0.3%	1.2%	0.0%
Bharti Axa Life	1.2%	-0.2%	0.1%	1.0%	-0.3%
Aviva Life	0.5%	-0.2%	-0.1%	0.7%	0.1%
Edelweiss Tokio	0.6%	0.1%	0.0%	0.5%	0.0%
Aegon Religare	0.3%	0.2%	0.1%	0.3%	0.1%
Sahara Life	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, MOSL

High intangible entry barriers provides larger insurers a distinct edge over others

The Indian life insurance industry consists of 23 private insurers and one public insurer. Despite this we believe that there are huge intangible entry barriers in this business and it is therefore be extremely difficult for any new entrant to make a mark in this business. The top bancassurers have made significant investments in building their brand, customer service touch-points, digital platform and distribution which gives them a sustainable competitive edge over most other insurers. Also, unlike any other industry in the country the insurance buyer in India is not very price sensitive and faith and sustainability of the company is a critical factor behind the purchase. We have seen instances of aggressive term insurance pricing by some of the smaller private insurers however they have not had much success in scaling up their protection portfolio. We believe that large insurers are sensible enough not to indulge in any aggressive pricing war as they are already accounting for ~70% of private market share and thus expect the industry to report healthy new business margins over next few years.

Exhibit 60: Market share trend in new business APE for key private insurers

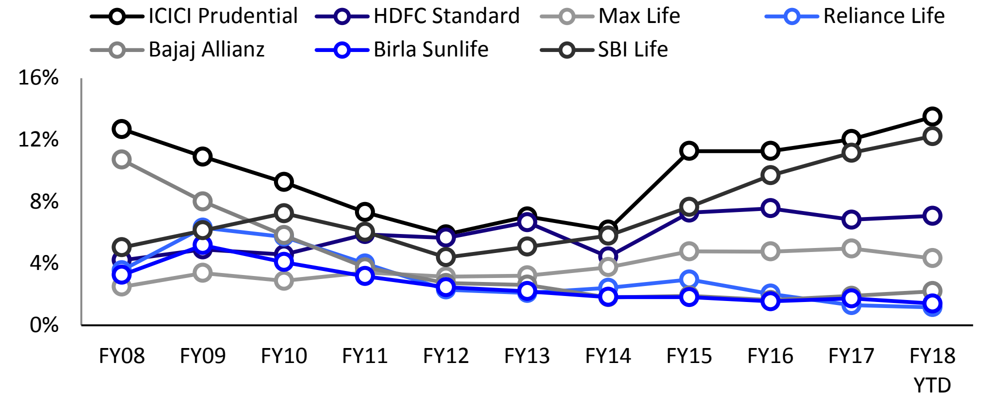
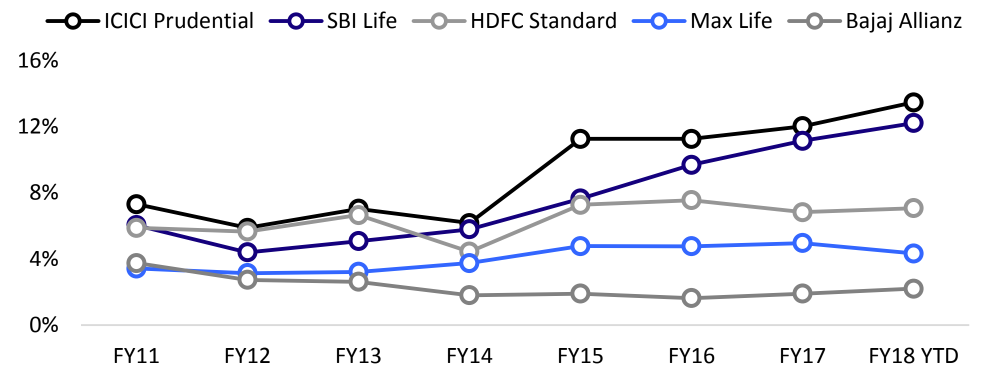


Exhibit 61: Market share trend in Individual new business APE for key private insurers

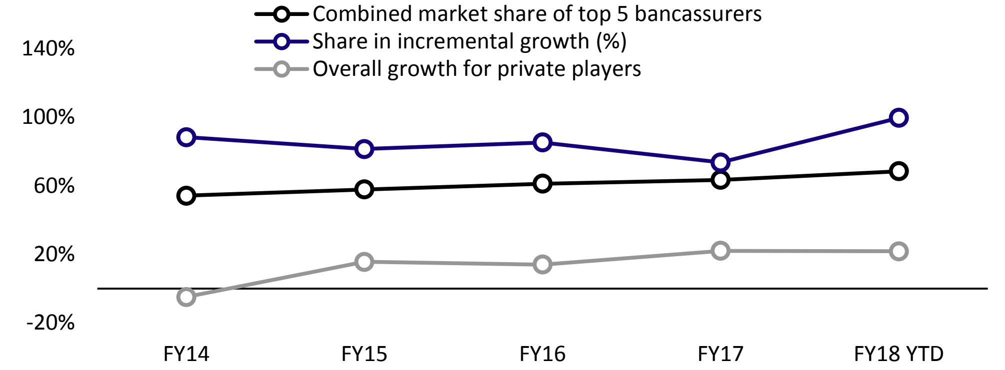


Source: Company, MOSL

Top 5 insurers are accounting for nearly the entire growth of the private industry

The following chart shows that the growth contribution of top five bancassurers has increased from 88% to ~100% over past few years even as their combined market share amongst private insurers has increased from 54% in FY14 to 68% currently. This highlights that despite a condusive macro environment the smaller players are getting marginalized in the industry and the larger insurers are going to benefit disproportionately more from the strong growth potential of the sector.

Exhibit 62: IRDA : Market share trend of top 5 bancassurers and their contribution in incremental growth



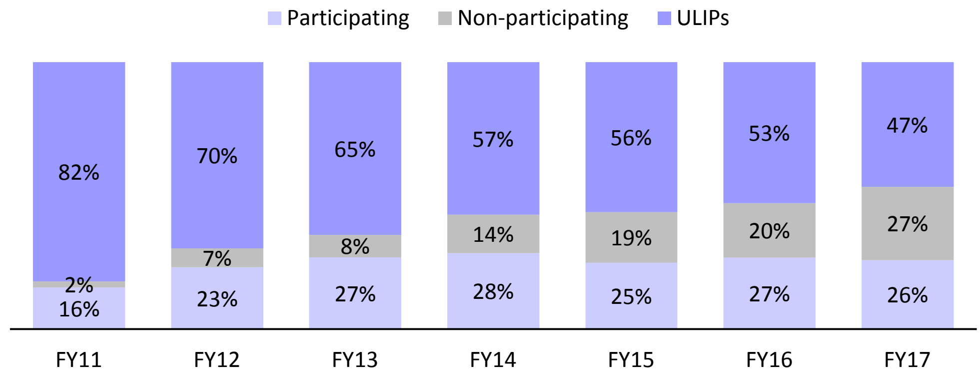
Source: Company, MOSL

- **Strong brand and customer service brings some "pull" to an otherwise highly "push" industry:** HDFC Standard Life insurance has a strong parentage and a very reputed brand name which enables it to attract and gain new business from potential customers. The company has won several recognitions for its strong brand and has figured amongst 50 most valuable brand list in India in 2016. It was selected as a superbrand in India for three consecutive years from 2014 to 2016. Reputed brand and superior customer service has further enabled the company to create a strong positioning for itself and build a high customer recall.

Business mix is well diversified; composition of ULIPs stands relatively lower at 47%

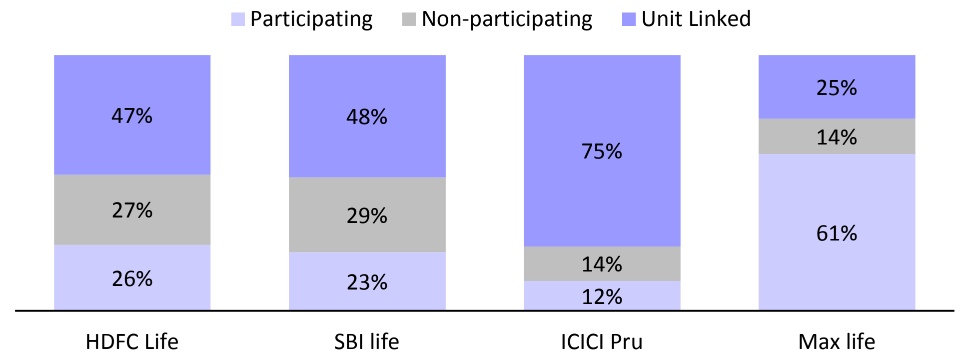
HDFC Life has a balanced product portfolio. Despite 15% CAGR in new business APE overFY15-17, it has been able to scale up the share of traditional and protection products in its new business mix. Par/non-par products and ULIPs constitute 26%/27% and 47%, respectively in the total new business mix. The company has also improved the share of protection products by1440bp between FY15 and 1HFY18 and now has the highest composition of high-margin protection business (26.4% in 1HFY18) amongst all leading insurers. The company intends to maintain a healthy 50:50 product mix between ULIPs and traditional business. While ULIPs is a low-margin business, it is still an attractive product for low-cost bancassurers since they do not expose the company to volatility in interest rates and also now carries negligible regulatory risk.

Exhibit 63: Trend in business mix



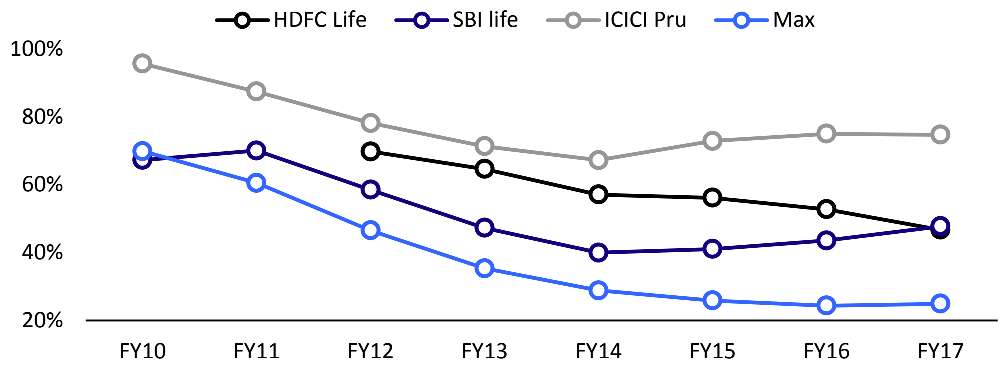
Source: Company, MOSL

Exhibit 64: HDFC Life has one of the most balanced business mix



Source: Company, MOSL

Exhibit 65: Share of ULIP business is lowest amongst larger private peers

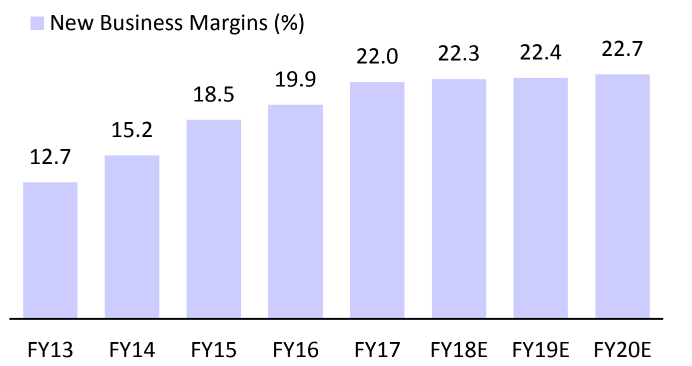


Source: Company, MOSL

High share of protection business + lower ULIP composition has boosted margins

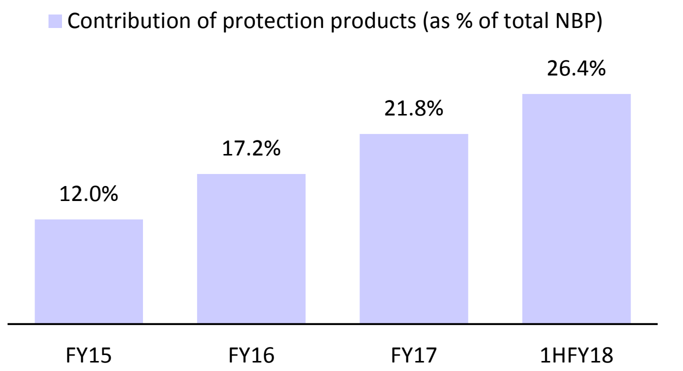
HDFC Life's new business margins are much higher than its other larger peers. This has happened on the back of healthy underwriting, strong cost-control and well balanced product mix. HDFC Life is currently making new business margins of ~22%, which is significantly higher than the average margins of other top four insurers. The company has a higher share of high-margin protection business and higher proportion of low-cost online sales, which enables it to maintain healthy margins. The strong control on cost ratios led by multiple productivity improvement initiatives has has further enabled a decline in cost overrun and supported margins.

Exhibit 66: New business margin has improved steadily to 22%



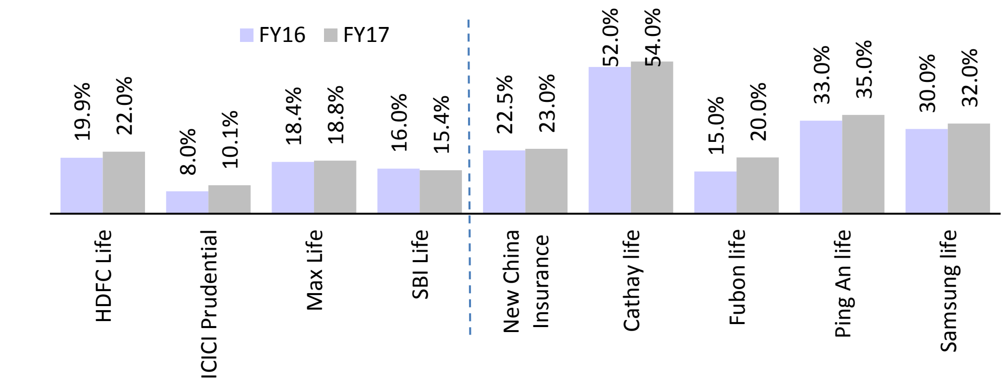
Source: Company, MOSL

Exhibit 67: Business mix is well diversified with share of protection business improving to 26.4% over 1HFY18



Source: Company, MOSL

Exhibit 68: Regional comparison of NBAP margins: NBAP margins are lower in India than other countries



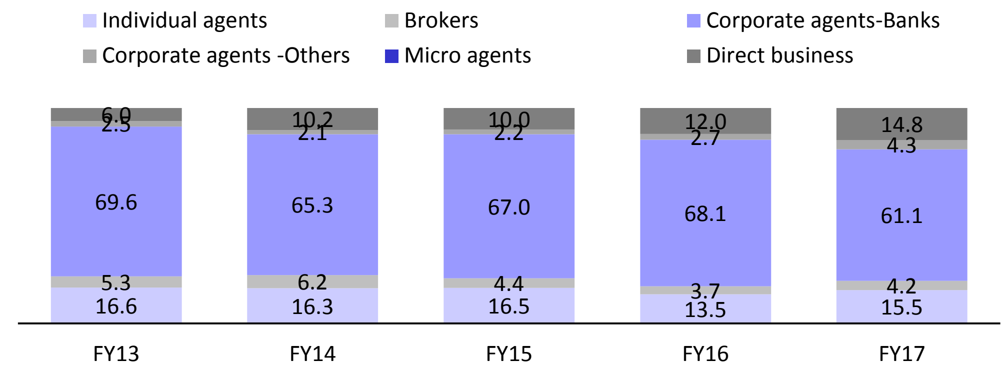
Note: For Chinese insurance companies, data is as of December ending 2015 & December 2016

Source: Company, MOSL

Strong distribution network will support business growth

The company offers its products through diversified distribution network which comprises of four distribution channels, namely: bancassurance, individual agents, direct, and brokers/others. The multi-channel distribution network provides HDFC SL the flexibility to adapt to changes in the regulatory landscape and mitigate the risk of over-reliance on any single channel. All the company's distribution channels have been independently profitable over past three years. The company benefits from the strong bancassurance channel which generates ~61% of total new business premium even as the company has rationalized its own branch network over past few years. Besides strong bancassurance tie-ups, the company has over 45 broker and other tie-ups, comprising of 21 major insurance brokers and 29 key insurance marketing firms. We thus expect HDFC Life to maintain strong new business growth at 25% CAGR over FY17-20E.

Exhibit 69: Trend in premium sourcing mix



Source: Company, MOSL

Exhibit 70: Number of employees, branches and agents for major private insurers

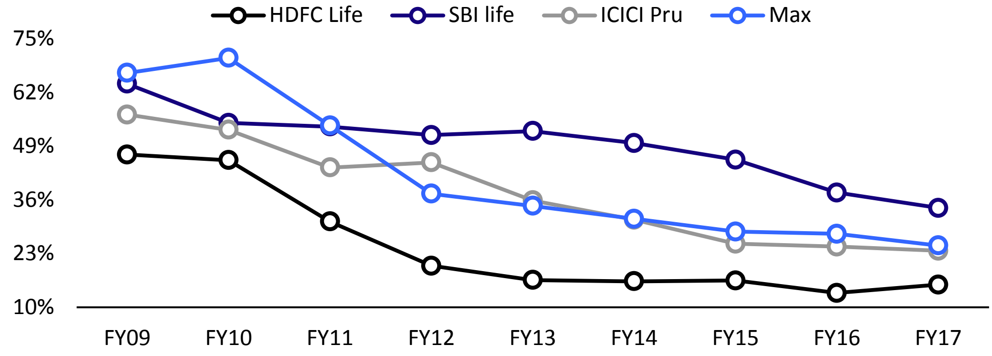
As of FY17	Employees	Branches	Agents
HDFC Life	14,800	414	54,516
SBI life	12,051	500+	145,516
ICICI Pru	12,397	512	136,114

Source: Company, MOSL

Agency channel relatively weak; aims to develop this, going ahead

Contribution of the agency channel to total new business premium is relatively low at ~15% against 23-35% for other large bancassurers. In fact, the contribution of this channel has declined gradually over past few years. Post IRDA cap on commissions and ULIP charges, the commission payout to agents declined significantly. This resulted in a steep decline in the agency force for all private insurers. However, with growth returning and cost-optimization efforts paying off, the company has now started putting significant efforts in building up this very important but often neglected distribution channel. Over 1HFY18 the company has thus added 11,856 agents and thus increased the size of its agency channel to 66,372 agents.

Exhibit 71: Contribution of agency channel to total individual premiums

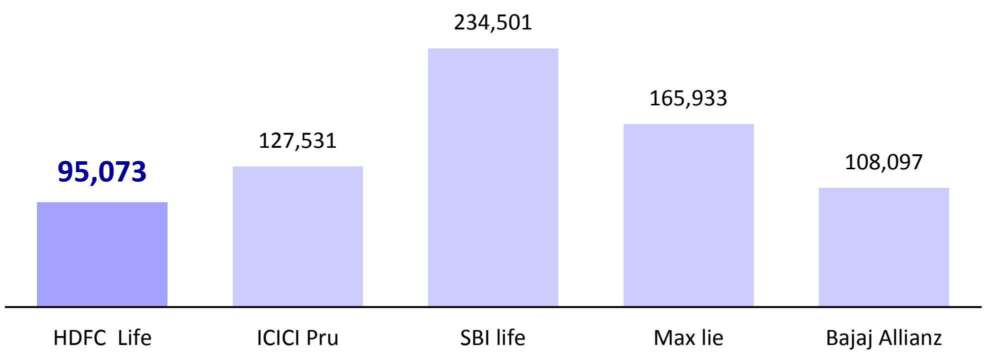


Source: Company, MOSL

Productivity of agency channel has already begun to increase

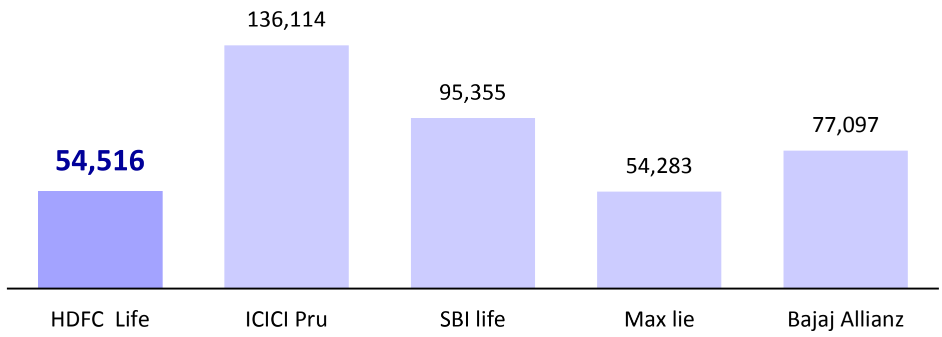
HDFCSL is alongside also focusing on improving the productivity of this channel. The company has thus reported an improvement in agent productivity, with average Premium per agent increasing from INR59k in FY12 to INR84k in FY17. We expect productivity of the agency channel to improve further on sustained efforts made in building this channel, adequate training provided to agents and reduced cases of mis-selling. This will further diversify the company's distribution mix and enable healthy business growth

Exhibit 72: Agents productivity : New business Premium (NBP) as of 2QFY18



Source: Company, MOSL

Exhibit 73: Size of agency channel for major insurers as of 2QFY18



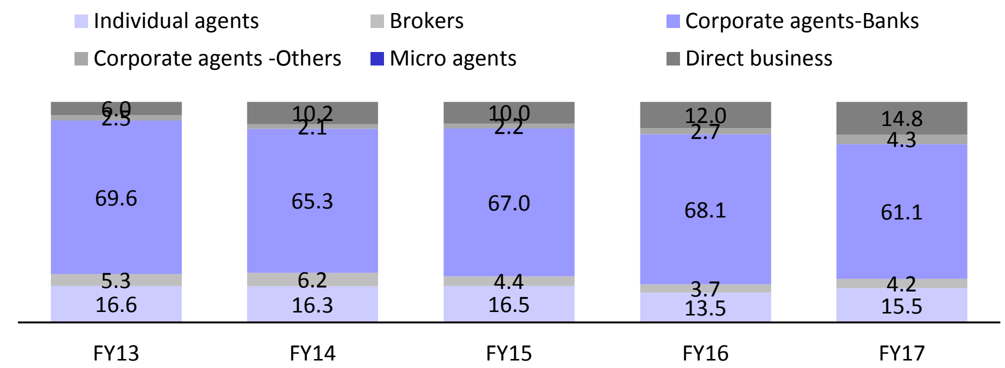
Source: Company, MOSL

Bancassurance – key distribution edge; however, no longer the cheapest channel

Bancassurance has been the top most distribution channel for all major private insurers. Its share in total new business sales for HDFC Life stands at ~61% and we expect this channel to maintain its dominance aided by the growing number of bancaussrance partners. The company's bancassurance partner includes banks, NBFCs, MFIs, SFBs and now has a tie-up with 125 partners, significantly higher than any of its competitors.

However, we note that bancassurance is no longer the cheapest channel for insurers, as banks now have an option to tie up with more than one insurer and are now bargaining hard for higher share of commissions. HDFC Bank, for instance, has already announced tie-ups with other life insurers (Birla Sunlife and TATA AIA). Insurers have thus invested significant efforts to strengthen their direct sales channel and technological capabilities to maintain strong control on their cost ratios. The increasing number of bancassurance partners will enable the company to deepen its distribution reach and thus create a wider customer base.

Exhibit 74: Trend in premium sourcing mix



Source: Company, MOSL

HDFC Life has formed bancassurance tie-ups with a large number of banks/NBFCs such as Bajaj Finance, Capital Small Finance Bank, Catholic Syrian Bank, Chola Insurance Distributions Services, Equitas Small Finance Bank, HDFC Bank, HDFC Credila Financial Services, HDFC Sales, HDFC Securities, IDFC Bank, Indiabulls Housing Finance, Janalakshmi Financial Services, Manappuram Finance, PNB Housing Finance, RBL Bank, Saraswat Bank, and Suryoday Small Finance Bank.

Exhibit 75: Key bancassurance partners of major insurers

Insurer	Bancassurance Partners
ICICI Prudential	Standard Chartered Bank, ICICI Bank
HDFC Life	HDFC Bank, Ratnakar Bank and IDFC Bank
Kotak Life	Kotak Bank, DNS Bank
Canara HSBC OBC	Canara Bank, HSBC, Oriental Bank of Commerce
Aviva	RBS, Punjab and Sind Bank
India First	Bank of Baroda, Andhra Bank
SBI Life	SBI, BNP Paribas Cardiff
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
PNB Met Life	Punjab National Bank(PNB), J&K Bank, Karnataka Bank
Tata AIA	Citibank, IndusInd Bank, DBS

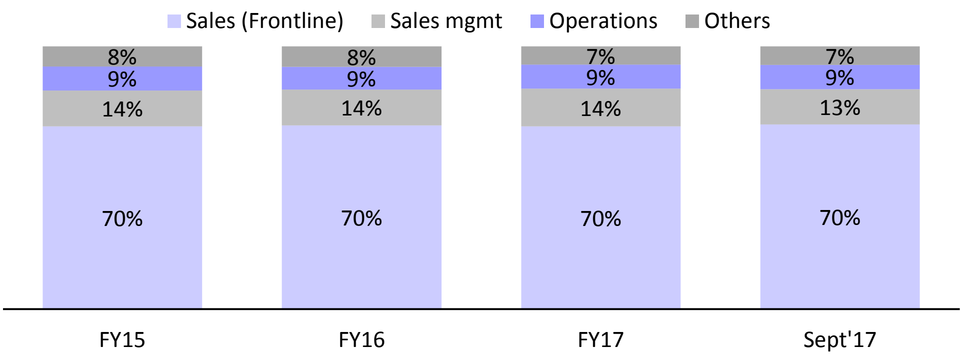
Source: Company, MOSL

Exhibit 76: Trend in number of bancassurance partners for HDFC life

	FY15	FY16	FY17	Sept'FY17
Major bancassurance partners	31	58	117	125

Source: Company, MOSL

Exhibit 77: Almost 83% of employees belongs to sales function

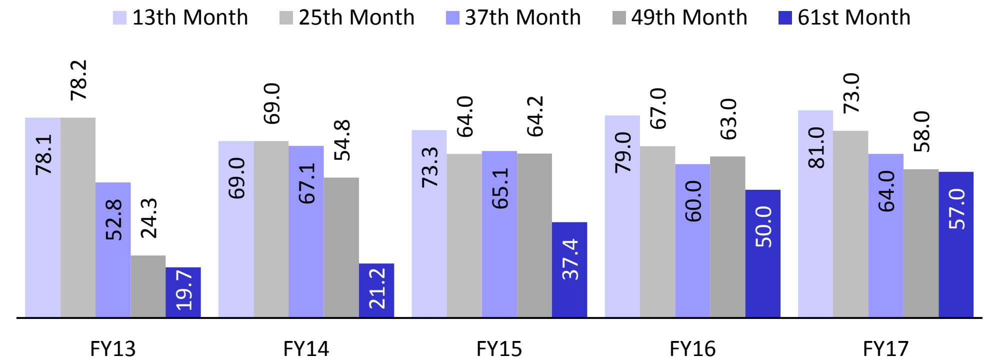


Source: Company, MOSL

Persistency rate has shown an all-round improvement; we expect trend to continue

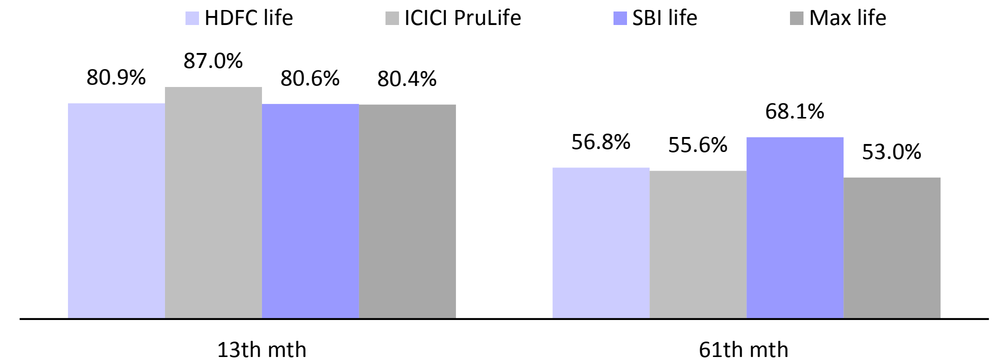
HDFCSL has reported a consistent improvement in persistency ratio. The persistency ratio for the 13th month bucket stood at 80.9% in FY17 (82.2% in 1HFY18) while at the longer end the 61st month persistency stood at 56.8% in FY17. The improvement in persistency rate has helped boost operating returns for the company and have supported healthy growth in renewal premiums. We expect persistency rate to improve further as company's focus on need based selling and superior customer service further improves satisfaction levels while the macro environment is likely to remain conducive.

Exhibit 78: Persistency rate has improved significantly; but its not done yet



Source: MOSL, Company

Exhibit 79: Persistency rate of major insurers

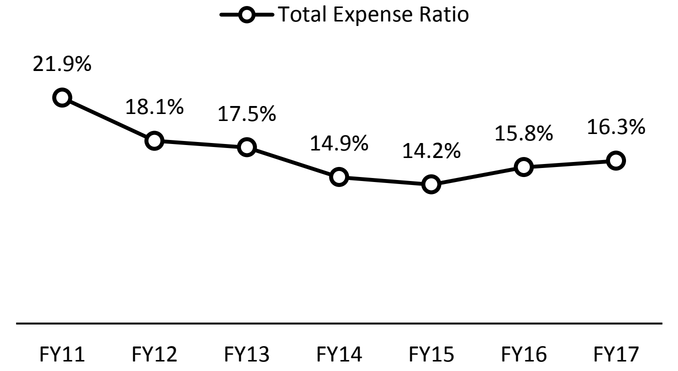


Source: Company, MOSL

Strong cost control has helped deliver healthy return ratios

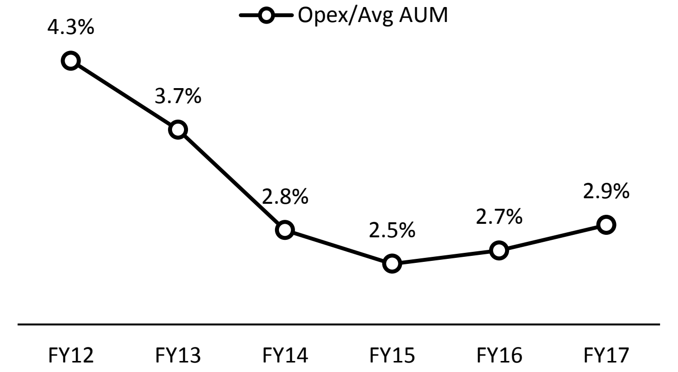
While HDFC Life already operates on a very low-cost structure, it has further strengthened its cost-leadership by increasing the proportion of online sales. The company sells a variety of term plans, ULIPs, and pension/annuity plans online. It expects gradual improvement in cost ratios, as opex growth remains modest while it continues to fare well on margins and new business growth.

Exhibit 80: Total expense ratio has been under control



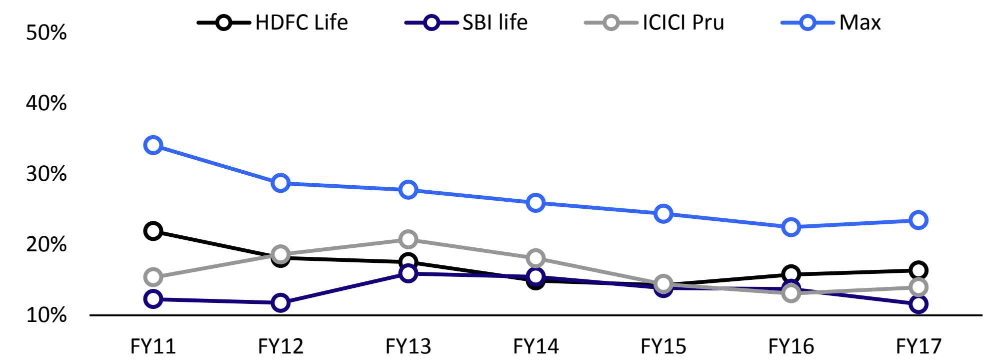
Source: Company, MOSL

Exhibit 81: Operating expense as % of AUMs



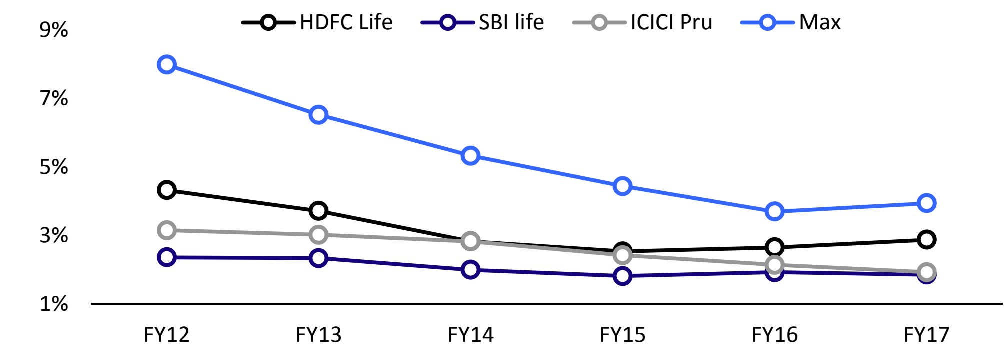
Source: Company, MOSL

Exhibit 82: Comparison of operating expense as % of weighted premiums for key insurers



Source: Company, MOSL

Exhibit 83: Comparison of operating expense as % of AUMs for key insurers



Source: Company, MOSL

Significant investments in building the technological backbone are yielding results

HDFC has made significant investments in building its digital platform which has enabled it to streamline and digitize customer on-boarding and servicing.
This has boosted productivity levels across all levels in the value chain, including its distribution partners. During FY17, the company sourced 48% of the new applications through mobile devices. Besides customer acquisition and policy issuance the digital platform also helps the company in efficiently handling customer queries and grievances. This thus provides the company an edge over many other insurers and makes the business highly scalable without incurring material incremental costs. The annualized premium equivalent earned through online channels has thus increased at a CAGR of 28% over past 2x years. The continued increase in smart phone user base, improved and cost-effective data services and government's continued thrust towards formalization of the Indian economy will help sustain stronger growth trajectory for the digital channel.

Exhibit 84: Usage of digital channels has increased significantly over past few years

	Fiscal Year Ended March 31			Six months Ended September 30,
	FY15	FY16	FY17	FY17
% of new business initiated through digital platforms	NA	90.0%	99.2%	99.9%
% of customer documentation uploaded through digital platforms	NA	76.9%	97.0%	96.0%
% of customer verification through mobile devices	NA	2.0%	22.7%	45.0%
% of renewal premium collected electronically	51.5%	61.2%	69.6%	72.9%
% of renewal policies collected electronically	65.1%	70.8%	77.7%	82.1%
% of policies with auto-debit and digital payments	71.0%	79.5%	76.0%	66.1%

Source: Company, MOSL

Product innovation will drive market share gains and boost profitability

In a highly competitive market with more than twenty four life insurers present product innovation plays an extremely important role in driving healthy business growth and stronger profitability for the insurers. Insurers thus need to be highly responsive to the need of wide variety of Indian customers and introduce products which address these specific requirements. This requires high level of innovation at the insurers end and right level of marketing to ensure the product success. This strategy will thus enable insurers to gain customer mindshare and cross sell other basic insurance products. Recently, few large private insurers (HDFC Life & ICICI Prulife) have launched a variety of term insurance with options of – (i) critical illness cover, (ii) savings and investment option, and, (ii) added riders of accident and disability benefits, in order to capitalize on rapidly growing protection market.

Their first online term product, HDFC Life Click 2 Protect, in FY12. Their range of Click2Series products sold through online channel collectively generated an APE of INR1.09b in FY17 (31% CAGR over past two years) while the APE premium collection in 1HFY18 has further improved to INR0.87bn. HDFC Life has recently launched "Cancer Care" and HDFC Life Group Health Shield product and has received approval for one other non-participating protection product - HDFC Life Cardiac Care, which it plans to launch during Fiscal 2018. The company has already insured 245,000 lives under the HDFC Life Cancer Care product over past two years.

Exhibit 85: Product offerings of HDFC Life

Products	Name of product	Primary customer need addressed
Participating products	HDFC Life Super Income Plan	Income/Savings
	HDFC Life ClassicAssure Plus	Savings
	HDFC Life Sampoorn Samridhi Plus	Savings
	HDFC Life Personal Pension Plus	Retirement/Pension
	HDFC Life Uday	Small Savings
	HDFC Life Pragati	Small Savings
	HDFC Life YoungStar Udaan	Child Education/Marriage
	HDFC Life Super Savings Plan	Savings
	HDFC Life Group Pension Plan	Retirement/Pension
Non-participating protection (term) products	HDFC Life Click 2 Protect 3D Plus	Protection
	HDFC Life Click 2 Protect Plus	Protection
	HDFC Life CSC Suraksha Plan	Protection
	HDFC Life Group Term Insurance Plan	Protection
	HDFC Life Group Credit Protect	Protection
	HDFC Life Group Credit Protect Plus Insurance Plan	Protection
	HDFC Life Group Credit Suraksha	Protection for micro loans
	HDFC Life Group Jeevan Suraksha	Protection for micro loans
	HDFC Life Pradhan Mantri Jeevan Jyoti Bima Yojna Plan	Protection
Non-participating protection (health insurance) products	HDFC Life Cancer Care	Health
	HDFC Life Easy Health	Health
	Click 2 Protect Health	Protection (Term plus Health)
Other non-participating products	HDFC Life Sanchay	Savings
	HDFC Life Guaranteed Pension Plan	Retirement/Pension
	HDFC SL Sarvgrameen Bachat Yojana	Savings for micro segment
	HDFC Life New Immediate Annuity Plan	Retirement/Pension
	HDFC Life Group Variable Employee Benefit plan	Gratuity, leave encashment and superannuation
Unit-linked insurance products	HDFC Life Click 2 Invest – ULIP	Wealth Creation
	HDFC Life Click 2 Retire	Retirement/Pension
	HDFC Life ProGrowth Plus	Wealth Creation
	HDFC SL ProGrowth Super II*	Wealth Creation
	HDFC SL ProGrowth Flexi*	Wealth Creation
	HDFC Life Assured Pension Plan	Retirement/Pension
	HDFC Life Sampoorn Nivesh	Wealth Creation
	HDFC Life Capital Shield	Wealth Creation
	HDFC SL Crest*	Wealth Creation
	HDFC SL YoungStar Super Premium*	Child Education/Marriage
	HDFC Life Smart Woman	Wealth Creation for Women
	HDFC Life Single Premium Pension Super	Retirement/Pension
	HDFC SL ProGrowth Maximiser*	Wealth Creation
	HDFC Life Pension Super Plus	Retirement/Pension
	HDFC Life New Group Unit Linked Plan	Gratuity and Leave encashment
	HDFC Life Group Unit Linked Pension Plan	Superannuation
Riders	Accidental Death Benefit	Protection (Individual)
	Total & Partial Permanent Disability Benefit	Health (Group)
	Total Permanent Disability Benefit	Health (Group)
	Critical Illness Benefit	Health (Group)
	Accident Death Benefit	Protection (Group)
	HDFC Life Income Benefit on Accidental Disability Rider	Health (Individual)
	HDFC Life Critical Illness Plus Rider	Health (Individual)
	HDFC Life Group Critical Illness Plus Rider	Health (Group)

Source: Company, MOSL

Stable and experienced management team

HDFC SL has a strong management team with rich experience across banking, financial services and insurance sectors. All the key management personnel have been employed with the company for several years and indicate the healthy stability at the top management level. The leadership team is committed to deliver healthy returns to the stakeholders and work with the HDFC group ethos of pursuing profitable growth.

Experienced management team

- **Mr. Deepak Parekh** is a Nominee Director and Chairman of the company. He has been on the Board since August 2000. He is also the chairman of HDFC. Mr. Parekh is an associate of the ICAEW. He is on the board of several leading corporations across diverse sectors. He is the non-executive chairman of HDFC AMC Ltd, HDFC ERGO General Insurance Company Limited, Siemens Limited and GlaxoSmithKline Pharmaceuticals Limited

- **Mr. Amitabh Chaudhry** is the MD & CEO of the company since Jan-10. Mr. Chaudhry holds a B.E. degree from BITs Pilani and post graduate diploma in management from IIM A. Mr. Chaudhry was the MD and CEO of Infosys BPO and has worked in diverse roles across banking and finance, head of technology, investment banking, wholesale banking & global markets and CFO of Bank of America (India).

- **Ms. Vibha Padalkar** is an ED & CFO of HDFC SL and joined the company in Aug-08. Ms. Padalkar is a member of the Institute of Chartered Accountants of England and Wales and also Institute of Chartered Accountants of India. She leads the finance, legal, secretarial and compliance, internal audit and risk functions as well oversees pension subsidiary, HDFC Pension.

- **Mr. Srinivasan Parthasarathy** is the Senior Executive VP - Chief Actuary & Appointed Actuary of HDFC SL. He holds a bachelor's degree in science (mathematics) from Loyola College, University of Madras. He is also a Fellow of Institute of Actuaries of India (2008) and Institute of Actuaries, UK (2004). He has been associated with the company since Dec-11. He was appointed as Senior Executive VP - Chief Actuary & Appointed Actuary with effect from Apr, 2015.

- **Mr. Prasun Gajri** is the CIO of the Company. He holds a bachelor's degree in electronics and electrical communication engineering from Punjab Engineering College, Chandigarh and a post graduate diploma in management from IIMA. He is also a CFA from the CFA Institute, USA. He has been associated with Company since April 24, 2009. Prior to joining our Company, he was associated with Citibank N.A and Tata AIG Life Insurance Company Limited.

Key management personnel	Designation and Role
Mr. Amitabh Chaudhry	MD & CEO
Ms. Vibha Padalkar	ED & CFO
Mr. Srinivasan Parthasarathy	Chief Actuary & Appointed Actuary
Mr. Suresh Badami	Chief Distribution Officer
Mr. Rajendra Ghag	Chief HR Officer
Mr. Sanjay Vij	Executive VP - Bancassurane
Mr. Prasun Gajri	CIO
Mr. Sanjeev Kapur	Sr E VP Group Sales and Bancassurance
Mr. Subrat Mohant	Head- Strategy, Operations, Business Systems and Technology and Health
Mr. Khushru Sdhwa	Ex VP - Audit & Risk Management

Source: Company

Strong customer service and claim settlement record will help attract new business

Strong customer service and high claim settlement ratio will help attract new business

HDFCSL places a high emphasis on offering high quality customer service across the life of an insurance policy, from product development to customer on-boarding and policy issuance to customer service and claims settlement. This has helped the company in lowering the customer complaints to 81 complaints per 10k policies from 498 complaints in FY13. Besides, the reduction in customer complaints the company has shown strong improvement in turnaround time for complain resolution and now resolves ~99% of complaints within 15 days.

HDFCSL has one of the best claims settlement ratio of 99.2% in FY17 (individual claims settlement ratio of 97.6% and a group claims settlement ratio of 99.7%). The company's continued efforts in improving the quality of new business, strong commitment to customer service and efforts to digitize premium collection and policy servicing has resulted in an improvement in its renewal premium growth.

Exhibit 86: Trend in customer complaint has shown significant improvement

	FY13	FY14	FY15	FY16	FY17
Customer complaints per 10,000 new policies	498	594	348	107	81

Source: Company, MOSL

Exhibit 87: HDFC has one of the best-in-class claim settlement ratio amongst private insurers

	FY15	FY16	FY17	Sept'FY17
Number of policies from existing group customers	10,508	29,685	46,959	28,860
Total number of individual new business policies	659,672	849,181	851,536	429,799
Cross sell on group customer base (%)	1.6%	3.5%	5.5%	6.7%

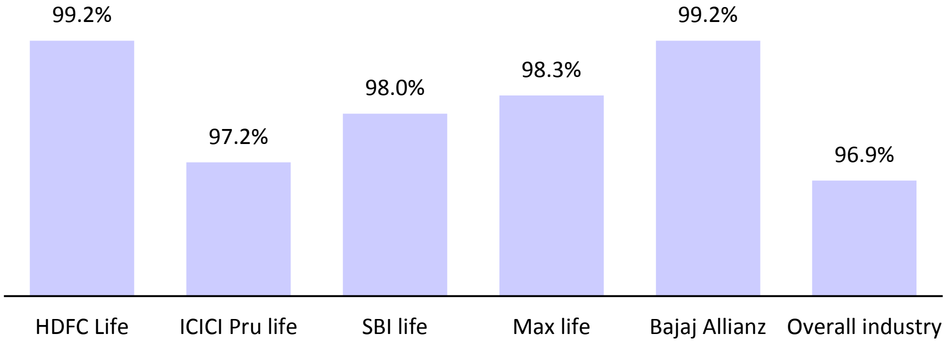
Source: Company, MOSL

Exhibit 88: HDFC has shown strong improvement in claim settlement ratio over past few years

		Fiscal Year Ended March 31,			Six months Ended September
		FY15	FY16	FY17	FY17
Individual customers	Settled	90.5%	95.0%	97.6%	94.1%
	Repudiated	5.9%	4.2%	1.9%	1.3%
	Rejected	1.3%	0.2%	0.1%	0.1%
	Pending	2.3%	0.6%	0.5%	4.6%
Group customers	Settled	98.7%	99.5%	99.7%	98.2%
	Repudiated	1.1%	0.5%	0.3%	0.3%
	Rejected	0.2%	0.0%	0.0%	0.0%
	Pending	NA	NA	NA	1.5%

Source: Company, MOSL

Exhibit 89: HDFC has one of the best-in-class claim settlement ratio amongst private insurers



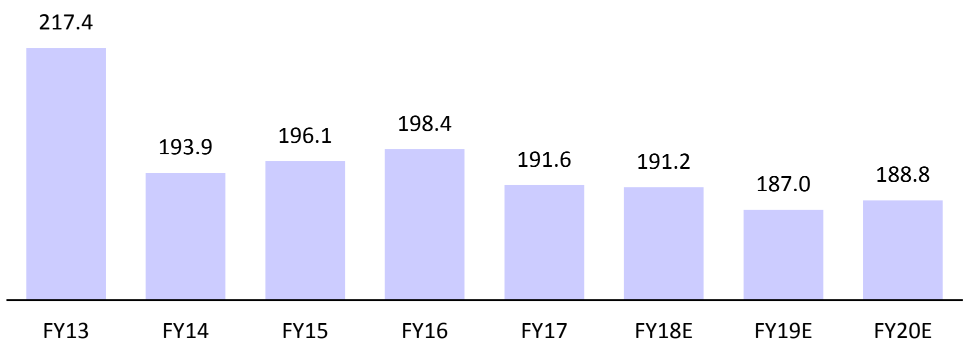
Source: Company, MOSL

HDFCSL plans to leverage the large customer base, primarily from their group business, to distribute and cross-sell individual insurance products. As on 1HFY18, the company has insured more than 59m lives under various group products (~19.8m lives insured in FY17 alone) and this vast customer pool is enabling them to cross-sell other individual products and riders.

Solvency ratio lower than peers; however robust profitability will support business growth

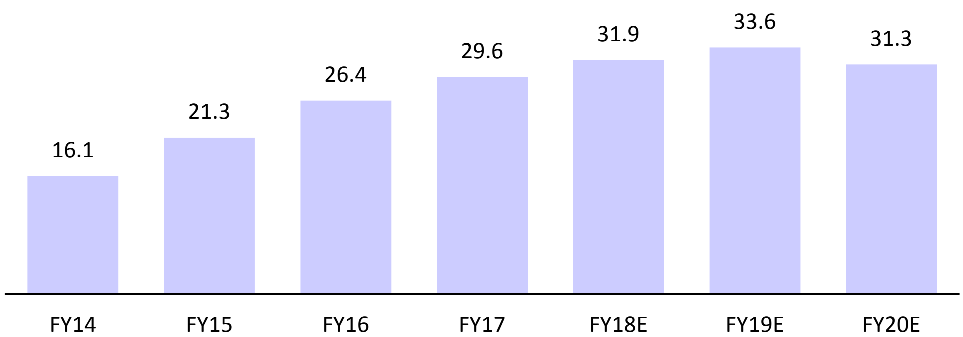
HDFCSL's solvency ratio (ratio of available solvency margin to required solvency margin) remains lower than its peers at 192% as at FY17 though stands well above the minimum requirement of 150%. However limited annual capital consumption and strong internal accruals will support the company's business growth over the next few years. Also, migration to economic capital will further ease capital requirements for the insurers, as the insurance industry in India is still savings oriented and overall sum assured remains relatively low. The listing of the company will further enable it to raise capital as and when needed to meet growth requirements; tier-II bonds also remain a viable option of fund raising. The company has been making healthy dividend payouts (~30% for FY17) and yet reporting healthy EV growth as the insurance profits have been growing while the strain from new business acquisition has declined.

Exhibit 90: Trend in solvency ratio



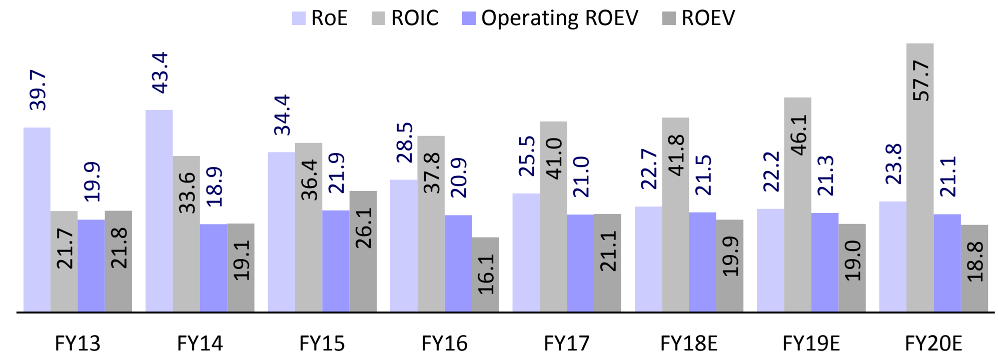
Source: Company, MOSL

Exhibit 91: Trend in dividend payout



Source: Company, MOSL

Exhibit 92: Trend in RoE, RoIC, Operating RoEV & RoEV

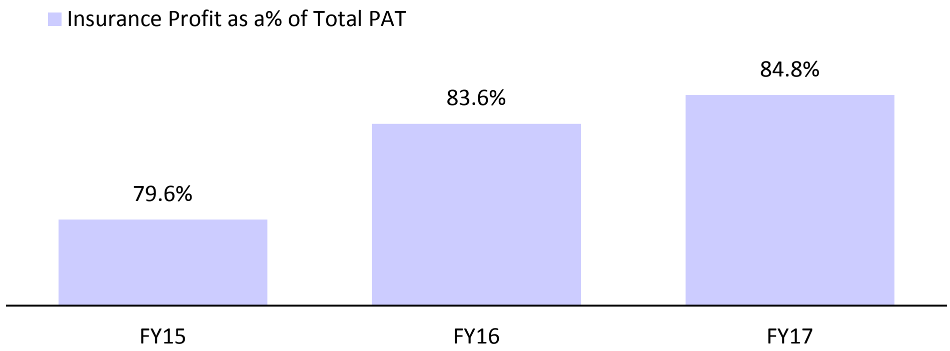


Source: Company, MOSL

Earnings quality has been improving with steady growth in insurance profits

HDFC Standard Life has been demonstrating an improvement in its earnings quality with proportion of insurance profit in total net earnings increasing gradually over past few years. Insurance profit as a percentage of profit after tax has thus increased from 79.5% in FY15 to 84.7% in FY17 even as the shareholder net profit has grown at a modest CAGR of 7% over FY14-17. We expect earnings growth to pick up as the strain from new business subsides while the maturity of back book helps release healthy provisioning. We thus expect HDFCSL to report an earnings cagr of 15% over FY17-20E. We expect operating RoEV to sustain at healthy levels of 21% and new business margins to improve further to 22.7% by FY20E (22% in FY17).

Exhibit 93: Insurance profit as % of total PAT has been improving



Source: Company, MOSL

SWOT analysis

- One of the top 4 leading life insurance companies in India (~13% market share), led by top notch management
- Broad distribution network comprising, Wide range of product offering catering to diverse customer classes
- Strong and reputed brand which gives the company a distinct edge over others.
- Superior customer service and strong technological capability

- High dependence on bancassurance channel for distribution
- Agency channel is relatively weaker than other large private insurers

- Underpenetrated market in India provides enough headroom for growth
- Gain in market share on the back of strong product offering, superior customer service and development of agency channel
- Product innovation and further investments in digital platform will sustain higher growth
- Cross sell individual business to its large pool of group customer base

- Dilution of largest distribution channel (banca) may adversely impact business growth
- High proportion of protection business may result in high claim incidence in the event of a natural calamity or a major disaster
- Increase in competitive intensity in its high margin group protection business can adversely impact profitability and business growth

Bull & Bear case

Bull Case

- ☑ In our bull case we assume strong premium CAGR (FY17 – 20) of 32.3% (v/s 25% in base case). We believe strong growth opportunities in an underpenetrated market could surprise on the upside
- ☑ We expect PAT CAGR of 12% (7.5% in base case), leading to average RoE/RoEV of 23.8%/21.5% over FY18-20 (vs base case of 20.9%/20.9%)
- ☑ Based on the above assumptions we value HDFC Life at INR456 (4.2x FY20 EV)

Bear Case

- ☑ In our bear case we assume strong premium CAGR (FY17 – 20) of 25.8% (v/s 25% in base case). Increasing competition and dilution in bancassurance channel could lead to lower than expected growth
- ☑ We expect PAT CAGR of 3% (7.5% in base case), leading to average RoE/RoEV of 15.7%/20.4% over FY18-20 (vs base case of 20.9%/20.9%)
- ☑ Based on the above assumptions we value HDFC Life at INR259 (2.5x FY20 EV)

Exhibit 94: Scenario Analysis – Bull Case

Bull Case	FY18E	FY19E	FY20E
Total Premium	265,734	342,621	449,897
Total operation expenses	29,593	38,228	50,078
Surplus	12,109	13,439	15,855
PAT	10,384	10,931	12,538
PAT gr	16.4	5.3	14.7
NBP - APE	61,785	85,817	114,546
NBP margin	22.5	22.6	22.9
EPS, Rs	5.2	5.4	6.2
RoE (%)	25.1	23.0	23.3
Embedded Value	154.1	185.6	224.6
EVOP as % of IEV	23.0	23.7	24.1
RoEV (%)	21.4	21.3	21.8

Source: Company, MOSL

Exhibit 95: Scenario Analysis – Bear Case

Bear Case	FY18E	FY19E	FY20E
Total Premium	221,852	290,517	387,411
Total operation expenses	27,294	35,803	47,623
Surplus	8,950	10,138	12,207
PAT	7,675	8,246	9,653
PAT gr	-14.0	7.4	17.1
NBP - APE	51,582	72,767	98,637
NBP margin	22.0	22.2	22.6
EPS, Rs	3.3	3.6	4.3
RoE (%)	18.5	17.6	17.9
Embedded Value	145.1	176.1	214.6
EVOP as % of IEV	19.2	17.6	17.1
RoEV (%)	19.2	17.2	16.8

Source: Company, MOSL

Sensitivity on key parameters

Exhibit 96: Sensitivity on key parameters

Scenario	HDFC life		ICICI Pru		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
An increase of 100 bps in the reference rates	-1.9	0.1	-2		-2	6	-6.2	3.6
A decrease of 100 bps in the reference rates	1.9	-0.3	2.1		2	-8	6.6	-4.9
Equity values decrease by 10%	-2.0	-0.3			1	N/A	-1.7	N/A
Equity values decrease by 20%	-4.1	-0.5			-1	N/A	-3.4	N/A
Implied swaption volatilities increase by 25%	-0.1	0					-0.8	-2.4
Implied equity volatilities increase by 25%	-0.1	-10					-0.1	-0.3
10% increase in maintenance expenses	-0.8	-0.5	-1.1	-5.5	-1	-6	-0.7	-2.9
10% decrease in maintenance expenses	0.8	0.5	1.1	5.4	1	5	0..7	2.6
10% increase in acquisition expenses	NA	-3.3	Nil	-20.5			N/A	-8.6
10% decrease in acquisition expenses	NA	3.4	Nil	20.5			N/A	8.3
10% increase in the discontinuance rates			-1.1	-10.6	-2	-6		
10% decrease in the discontinuance rates			1.2	10.9	2	6		
10% increase in mortality/ morbidity rates			-0.8	-6.1	-1	-5		
10% decrease in mortality/ morbidity rates			0.8	6.1	1	5		

Source: Company, MOSL

Valuations attractive; robust return ratios will drive stock performance

- HDFC Life has delivered strong return ratios with average FY15-17 RoE/RoEV at 29%/21% respectively. We expect return ratios to remain strong on healthy new business margins, quality underwriting, and strong cost control.

- We note that the quality of earnings for HDFC Life has improved over the past few years, as the share of investment income and surrender profits have both declined. The company has wiped out its accumulated losses and is delivering healthy return ratios, with RoE/RoIC of >30% and is thus capable of supporting healthy business growth. We expect RoEV to sustain at an average of 19% over FY17-20E and estimate FY20E EV at INR210b.

- We expect the company to deliver new business margin of ~23% in FY20E (22% in FY17) and new business value of INR18.3b, while operating RoEV sustains at 21%. This will be aided by further improvement in operating metrics (business mix, persistency and cost).

- We believe that 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, though trading multiples would vary with economic cycles. Over the medium term, the valuations of life insurers would be a function of operating performance, growth and profitability.

- We value HDFC Life using embedded value methodology. We value HDFC Life at INR743b using P/EV multiple of 3.5x, which implies a price target of INR370 and implies an upside of 28%. We initiate coverage with a BUY rating. We note that our TP implies a new business multiple of 28x as per appraisal value methodology. We believe that HDFC Life's strong new business margins, consistently healthy return ratios and stronger growth potential will enable it to trade at a premium to other insurers.

Exhibit 97: India Embedded Value

INR b	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Opening EV	**48.2**	**58.7**	**69.9**	**88.1**	**102.3**	**123.9**	**148.5**	**176.8**
New Business Value	6.0	6.6	5.9	7.4	9.1	11.4	14.8	18.3
EVOP	9.6	11.1	15.3	18.4	21.5	26.6	31.7	37.3
Dividend payout	-	(1.2)	(1.7)	(2.2)	(2.4)	(3.0)	(3.6)	(4.2)
Closing EV	**58.7**	**69.9**	**88.1**	**102.3**	**123.9**	**148.5**	**176.8**	**210.0**
- Closing VIF	41.8	49.8	60.2	69.4	82.5	97.7	114.6	133.5
- Closing Networth	16.9	20.1	27.9	32.9	41.4	51.6	63.0	78.9
AUMs INRb	**401**	**506**	**670**	**742**	**917**	**1,102**	**1,324**	**1,603**
PAT INRb	4,515	7,253	7,855	8,183	8,921	9,466	10,785	13,504
EPS	6.6	3.6	3.9	4.1	4.5	4.7	5.4	6.7

Source: Company, MOSL

Exhibit 98: Key Metrics

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
New Business APE growth	5%	-22%	26%	14%	13%	27%	28%	24%
New Business margin	12.7%	15.2%	18.5%	19.9%	22.0%	22.3%	22.4%	22.7%
Operating RoEV (%)	19.9%	18.9%	21.9%	20.9%	21.0%	21.5%	21.3%	21.1%
RoEV (%)	21.8%	19.1%	26.1%	16.1%	21.1%	19.9%	19.0%	18.8%
RoE (%)	39.7%	43.4%	34.4%	28.5%	25.5%	22.7%	22.2%	23.8%
RoIC (%)	21.7%	33.6%	36.4%	37.8%	41.0%	41.8%	46.1%	57.7%
Dividend %	0%	5%	7%	9%	11%	13%	15%	18%
Dividend payout ratio (%)	0%	16%	21%	26%	30%	32%	34%	31%
Solvency ratio (%)	217%	194%	196%	198%	192%	191%	187%	189%

Source: Company, MOSL

Exhibit 99: Fair value calculation

INR b	FY20E
RoEV	19%
RoE (%)	24%
Embedded value	**210**
Appraisal Value	743
Fair value / Embedded value	3.4
Number of shares, mn	2,009
Valuation per share	**370**
Implied P/E multiple	53.5
Implied new business multiple	28
Issue price, INR	290
Upside	**28%**

Source: Company, MOSL

Exhibit 100: Valuation comparison across Asian peers

	China Life (CNY)		China Taiping (HKD)		Ping An Insurance (CNY)	
	FY16	FY17	FY16	FY17	FY16	FY17
Return on Common Equity (%)	11.4	6.1	12.6	7.8	17.4	17.4
Return on Assets (%)	1.5	0.7	1.4	1.0	1.2	1.2
Return on Capital (%)	9.5	6.4	7.7	6.1	2.6	3.7
Return on Invested Capital (%)	8.7	10.2	10.9	11.4	7.1	47.9
EPS	1.2	0.7	1.9	1.3	3.0	3.5
BV	11.4	10.7	16.6	15.6	18.3	21.0
EV (b)	560.3	652.1	92.0	87.4	325.5	360.3
Mcap (b)		1,010.6		106.2		1,480.4
Price		26.7		30		77
Price Earnings Ratio (P/E) (x)		40.4		23.4		22.0
Price to EV (x)		1.5		1.2		4.1

Source: Company, MOSL

Exhibit 101: Valuation comparison across listed players

	HDFC Life Ins.		SBI Life Ins.		ICICI Pru		MAX	
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017
RoE (%)	28.5	25.5	19.6	18.6	31.2	28.7	17.9	18.8
RoIC (%)	37.8	41.0	86.1	95.5	34.3	34.8	21.5	29.1
EVOP as % of IEV	20.9	21.0	19.0	23.0	15.3	16.5	22.1	33.2
RoEV (%)	16.1	21.1	0.0	21.4	0.8	16.1	17.0	19.9
EPS (INR)	4.1	4.5	8.6	9.5	11.5	11.7	11.5	17.3
EV (INRb)	102.3	123.9	130.0	165.4	139.4	161.8	56.2	67.4
Mcap (INRb)		NA		649.0		546.3		147.1
Price (INR)		290		649		381		548
P/E	70.7	64.9	75.5	68.1	33.0	32.4	48.1	32.0
P/EV	5.7	4.7	5.0	3.9	3.9	3.4	3.8	3.2
P/AUM	79%	64%	81%	67%	52%	44%	41%	34%
VIF as a % of AUM	68%	67%	NA	58%	60%	58%	63%	62%

Source: Company, MOSL

Key risks

High dependence on bank for new business sales

HDFC Bank accounts for ~61% of HDFC Life's new business sales. This is much higher than the average bancassurance contribution for other large private bancassurers. HDFC Bank has recently tied up with other life insurance companies and this may have an impact on HDFC Life's business growth. Inability to scale up the agency channel will also impact premium growth and hence valuations.

Subdued equity markets or excessive volatility in interest rates

ULIPs contribute ~47% of HDFC Life's new business sales and the sale of ULIPs is highly correlated with equity markets. Subdued equity markets or excessive volatility in interest rates may impact investment returns and growth.

Higher competition in protection business

HDFC Life currently has one of the highest new business margins owing to its larger share of protection business. Pick-up in competitive intensity may result in it losing market share in this business which will adversely impact margins.

Exhibit 102: Snapshot

	HDFC Life		ICICI Life		Max India		SBI Life	
	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Profit and Loss matrix (INR m)								
Operating Profit	154,644	273,421	177,018	340,640	83,708	115,546	169,482	277,959
Surplus / Deficit	9,597	9,476	14,124	11,527	4,632	-1,721	6,642	6,543
PAT (Shareholder's a/c)	8,183	8,921	16,505	16,822	4,391	6,599	8,610	9,547
Premium (INR m) & growth (%)								
New business prem – wrp	36,156	40,852	51,085	64,862	21,627	27,485	48,781	66,009
Total premium – unwtd	64,872	86,964	67,658	77,604	28,817	36,664	71,066	101,439
Market share	4.7%	5.0%	4.9%	4.5%	2.1%	2.1%	5.1%	5.8%
New business growth – wrp	13.5%	13.0%	9.9%	27.0%	8.7%	27.1%	37.4%	35.3%
Total prem growth – unwtd	18.1%	34.1%	26.9%	14.7%	12.0%	27.2%	28.5%	42.7%
New business mix – wrp (%)								
Participating	26.8%	25.9%	11.4%	11.7%	62.6%	61.4%	27.7%	22.9%
Non-participating	20.5%	27.4%	13.6%	13.6%	13.0%	13.7%	28.7%	29.3%
ULIPs	52.8%	46.7%	75.1%	74.8%	24.4%	24.9%	43.6%	47.8%
Operating ratios (%)								
Investment yield (%)	2.5%	12.6%	1.2%	13.0%	4.2%	9.1%	4.6%	10.2%
Commissions / GWP	4.3%	4.1%	3.2%	3.4%	8.9%	8.7%	4.5%	3.7%
Total expense ratio	15.8%	16.3%	13.1%	13.9%	22.5%	23.4%	13.7%	11.6%
Solvency margin	198.4%	191.6%	320.0%	3.4%	343.0%	309.0%	212.0%	204.0%
Persistency ratios (%)								
13th Month	79.0%	81.0%	82.4%	85.7%	78.8%	80.4%	80.0%	80.6%
25th Month	67.0%	73.0%	71.2%	73.9%	66.6%	70.4%	72.1%	73.0%
49th Month	63.0%	58.0%	62.2%	59.3%	55.6%	54.9%	77.2%	65.0%
61st Month	50.0%	57.0%	46.0%	56.2%	42.7%	53.0%	50.6%	68.1%
Valuation ratios and other data points								
NBP margin (%)	19.9%	22.0%	8.0%	10.1%	17.9%	18.8%	16.0%	15.4%
RoE (%)	28.5%	25.5%	31.2%	28.7%	21.5%	29.1%	19.6%	18.6%
RoIC (%)	37.8%	41.0%	34.3%	34.8%	22.1%	33.2%	86.1%	95.5%
Total AUMs, INRb	742	917	1,039	1,229	364	444	798	977
RoEV (%)	16.1%	21.1%	0.8%	16.1%	6.9%	16.6%	NA	21.4%
Operating RoEV (%)	20.9%	21.0%	15.3%	16.5%	17.0%	19.9%	19.0%	23.0%
Dividend (%)	9.0%	11.0%	84.0%	73.5%	136.6%	52.5%	12.0%	15.0%
Dividend payout ratio (%)	26.4%	29.6%	87.7%	39.5%	100.0%	25.5%	16.8%	18.9%
EPS, INR	4.1	4.5	11.5	11.7	11.5	17.3	8.6	9.5
Embedded Value, INRb	102.3	123.9	139.4	161.8	56.2	67.4	130.0	165.4
P/E (x)	70.7	64.9	33.0	32.4	48.1	32.0	75.5	68.1
P/EV(x)	5.7	4.7	3.9	3.4	3.8	3.2	5.0	3.9
P/AUM	79%	64%	52%	44%	41%	34%	81%	67%
VIF as a % of AUM	68%	67%	60%	58%	63%	62%	NA	58%

Source: Company, MOSL

Annexure

Exhibit 103: Global life insurance premium statistics

$m	Life insurance premium volume FY14	Life insurance premium volume FY15	Life insurance premium volume FY16	Share of world market (in %) FY14	Share of world market (in %) FY15	Share of world market (in %) FY16	Premiums in % of GDP FY14	Premiums in % of GDP FY15	Premiums in % of GDP FY16	Premiums per capita FY14	Premiums per capita FY15	Premiums per capita FY16
America	6,55,604	6,68,037	6,78,034	24.7	26.4	25.9	2.6	2.7	2.7	674	677	680
Europe	10,02,728	8,72,115	8,58,607	37.8	34.4	32.8	4.1	4.2	4.0	1,138	987	962
Asia	8,92,318	9,04,569	10,00,268	33.6	35.7	38.2	3.6	3.6	3.7	209	210	229
Africa	45,796	43,704	40,571	1.7	1.7	1.6	1.9	2.0	1.8	41	37	34
Oceania	58,103	45,393	39,537	2.2	1.8	1.5	3.4	3.2	2.7	1,509	1,166	1,001
World	26,54,549	25,33,818	26,17,016	100.0	100.0	100.0	3.4	3.5	3.5	368	346	353

Source: SwissRe, MOSL

Exhibit 104: Global life insurance premium volume and business mix

Life premium / Countries	FY14 Premium volume (USDm)	FY14 Share of total business (%)	FY14 Share of world market (%)	FY15 Premium volume (USDm)	FY15 Share of total business (%)	FY15 Share of world market (%)	FY16 Premium volume (USDm)	FY16 Share of total business (%)	FY16 Share of world market (%)
Australia	56,151	63.8	2.1	43,663	61.9	1.7	37,692	45.9	1.4
Brazil	44,980	52.6	1.7	37,106	53.7	1.5	41,005	56.4	1.6
France	1,72,761	63.9	6.5	1,50,143	65.1	5.9	1,52,817	64.3	5.8
Germany	1,18,475	46.5	4.5	96,725	45.4	3.8	94,661	44.0	3.6
Russia	2,828	11.0	0.1	2,129	12.7	0.1	3,217	18.3	0.1
South Africa	39,785	80.9	1.5	37,526	81.7	1.5	33,890	80.8	1.3
Switzerland	36,094	55.3	1.4	33,916	55.3	1.3	31,151	53.4	1.2
United Kingdom	2,35,321	67.0	8.9	2,14,492	67.0	8.5	1,99,369	65.5	7.6
United States	5,28,221	41.3	19.9	5,52,506	42.0	21.8	5,58,847	41.3	21.4
Asian Countries									
Hong Kong	36,856	89.8	1.4	41,255	90.2	1.6	51,940	92.0	2.0
India	55,299	79.1	2.1	56,675	79.0	2.2	61,817	77.9	2.4
Japan	3,71,588	77.5	14.0	3,43,816	76.5	13.6	3,54,053	75.1	13.5
Malaysia	10,231	64.5	0.4	9,588	66.8	0.4	9,189	66.0	0.4
Pakistan	1,255	60.5	0.1	1,451	66.5	0.1	1,773	70.3	0.1
PR China	1,76,950	53.9	6.7	2,10,763	54.5	8.3	2,62,616	56.3	10.0
Singapore	15,543	57.6	0.6	16,258	58.1	0.6	17,557	83.5	0.7
South Korea	1,01,572	63.7	3.8	98,218	63.9	3.9	1,04,169	61.0	4.0
Sri Lanka	366	43.0	0.0	383	43.0	0.0	440	46.4	0.0
Taiwan	79,156	82.8	3.0	79,627	83.0	3.1	84,493	83.3	3.2
Thailand	13,297	61.3	0.5	14,619	67.4	0.6	15,131	68.6	0.6
World	**26,54,549**	**55.6**	**100.0**	**25,33,818**	**55.6**	**100.0**	**26,17,016**	**55.3**	**100.0**

Source: SwissRe, MOSL

Exhibit 105: AUM Mix as on FY17

INRm	HDFC life		ICICI pru		SBI Life	
	Total	%	Total	%	Total	%
Government Securities	286,526	31.2%	322,530	26.2%	447,342	45.8%
Corporate Bonds:	205,317	22.4%	185,930	15.1%		
AAA	181,600	19.8%			172,506	17.7%
AA / AA+	20,072	2.2%			41,831	4.3%
AA- or Below	3,645	0.4%			9,480	1.0%
Equity Shares	376,344	41.0%	568,340	46.2%	231,148	23.7%
Preference Shares	1,332	0.1%				
Fixed Deposit with Banks	840	0.1%	12,230	1.0%	10,165	1.0%
Mutual Fund Units - Liquid schemes	0		47,740	3.9%	15,540	1.6%
Money Market Instruments	36,840	4.0%	60,600	4.9%	31,471	3.2%
Others2	10,225	1.1%	31,820	2.6%	17,788	1.8%
Total	**917,424**	**100.0%**	**122,9190**	**100.0%**	**977,370**	**100.0%**

Source: Company, MOSL

Exhibit 106: Milestone for HDFC life

Fiscal	Particulars
FY01	First private life insurer to obtain registration from the IRDAI
FY03	Crossed 100,000 policies and 10,000 individual agents; distribution tie-ups with HDFC Bank and other banks
FY04	Launch of unit linked funds; distribution tie-up with Saraswat Co-operative Bank Limited
FY07	Crossed the 500,000 policy milestone
FY10	AUM crossed ` FY0,000 million
FY11	Incorporated our Subsidiary, HDFC Pension on June FY, FY11
FY12	Our Company turned profitable, and registered a profit of ` 2,710 million and the total premium for the year crossed ` 100,000 million
FY14	Company's AUM crossed ` 500,000 million; dividend was declared for the first time in December, FY13
FY16	Total premium crossed the `160,000 million mark
FY16	Our Subsidiary, HDFC International was authorised by Dubai Financial Services Authority to carry on financial services
FY16	Standard Life Mauritius increased its stake from 26% to 35%
FY18	Company's AUM crossed ` 1,000,000 million

Source: Company, MOSL

Exhibit 107: 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: HDFC standard life insurance

Technical account (INR m)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Gross Premiums	1,48,299	1,63,130	1,94,455	2,33,357	2,85,300	3,53,129
Reinsurance Ceded	(674)	(1,342)	(1,706)	(2,132)	(2,767)	(3,549)
Net Premiums	1,47,625	1,61,788	1,92,749	2,31,225	2,82,532	3,49,580
Income from Investments	1,22,495	17,906	1,11,406	98,536	1,13,267	1,39,955
Other Income	789	972	1,389	1,926	2,473	2,973
Total income	**2,70,908**	**1,80,665**	**3,05,544**	**3,31,687**	**3,98,272**	**4,92,508**
Commission	6,235	7,018	7,920	11,295	13,432	16,252
Operating expenses	14,890	18,718	23,853	27,494	33,655	41,540
Prov for doubtful debts	1,507	285	350	423	547	723
Operating Profit	**2,48,277**	**1,54,644**	**2,73,421**	**2,92,475**	**3,50,639**	**4,33,993**
Prov for Tax	1,193	3,347	3,394	4,109	4,777	5,800
Benefits Paid (Net)	82,339	82,419	1,00,004	1,13,906	1,37,304	1,66,007
Chg in reserves	1,56,525	59,281	1,60,548	1,63,581	1,95,900	2,46,497
Surplus / Deficit	**8,220**	**9,597**	**9,476**	**10,878**	**12,657**	**15,688**
Shareholder's a/c (INRm)	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Transfer from technical a/c	6,709	7,181	7,863	7,965	9,209	11,651
Income From Investments	2,009	1,688	2,269	2,935	3,321	4,144
Total Income	**8,718**	**8,975**	**10,132**	**10,901**	**12,529**	**15,795**
Other expenses	206	214	680	728	815	937
Contribution to technical a/c	467	380	354	407	488	610
Total Expenses	672	626	991	1,091	1,260	1,504
PBT	**8,046**	**8,349**	**9,141**	**9,809**	**11,269**	**14,290**
Prov for Tax	191	166	220	343	485	786
PAT	**7,855**	**8,183**	**8,921**	**9,466**	**10,785**	**13,504**
Premium (INRm) & growth (%)	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
New business prem - unwtd	54,921	64,872	86,964	1,13,053	1,44,707	1,82,331
New business prem - WRP	31,843	36,156	40,852	51,893	66,680	82,840
Renewal premium	93,378	98,258	1,07,491	1,20,305	1,40,592	1,70,798
Total premium - unwtd	1,48,299	1,63,130	1,94,455	2,33,357	2,85,300	3,53,129
New bus. growth - unwtd	36.0%	18.1%	34.1%	30.0%	28.0%	26.0%
New business growth - APE	26.2%	13.5%	13.0%	27.0%	28.5%	24.2%
Renewal premium growth	16.4%	5.2%	9.4%	11.9%	16.9%	21.5%
Total prem growth - unwtd	22.9%	10.0%	19.2%	20.0%	22.3%	23.8%
Premium mix (%)	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
New business - unwtd						
- Individual mix	60.3%	56.4%	48.3%	55.0%	58.0%	62.0%
- Group mix	39.7%	43.6%	51.7%	45.0%	42.0%	38.0%
New business mix - WRP						
- Participating	19.6%	27.1%	30.5%	31.0%	31.0%	31.3%
- Non-participating	20.8%	18.2%	20.1%	23.0%	23.7%	24.1%
- ULIPs	59.6%	54.7%	49.4%	46.0%	45.3%	44.6%
Total premium mix - unwtd						
- Participating	24.9%	26.8%	25.9%	26.3%	26.3%	27.1%
- Non-participating	19.0%	20.5%	27.4%	31.3%	33.3%	34.6%
- ULIPs	56.1%	52.8%	46.7%	42.3%	40.4%	38.3%
Individual prem sourcing mix (%)	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Individual agents	16.5%	13.5%	15.5%	17.5%	19.5%	22.4%
Corporate agents-Banks	67.0%	68.1%	61.1%	59.6%	57.3%	52.6%
Direct business	10.0%	12.0%	14.8%	15.8%	16.4%	17.5%
Others	6.6%	6.4%	8.6%	7.1%	6.8%	7.5%

Financials and valuations: HDFC standard life insurance

Balance sheet (INR m)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Sources of Fund						
Share Capital	19,949	19,953	19,985	20,090	20,090	20,090
Reserves And Surplus	5,990	12,046	18,079	24,523	31,680	40,953
Shareholders' Fund	**25,919**	**31,586**	**38,387**	**44,935**	**52,093**	**61,366**
Policy Liabilities	1,93,405	2,44,543	3,27,801	4,21,441	5,50,467	7,29,483
Prov. for Linked Liab.	4,49,203	4,57,270	5,38,005	6,07,945	6,74,819	7,42,301
Funds For Future App.	4,641	7,055	8,668	11,702	15,212	19,776
Current liabilities & prov.	20,681	26,011	38,201	57,301	84,233	1,13,715
Total	**6,93,849**	**7,66,465**	**9,51,061**	**11,43,325**	**13,76,825**	**16,66,640**
Application of Funds						
Shareholders' inv	21,962	26,402	32,456	39,134	49,413	65,702
Policyholders' inv	1,99,085	2,58,629	3,46,915	4,54,859	5,99,481	7,95,081
Assets to cover linked liab.	4,49,203	4,57,270	5,38,005	6,07,945	6,74,819	7,42,301
Loans	1,256	931	479	584	736	912
Fixed Assets	4,020	3,964	3,529	3,706	4,150	4,773
Current assets	18,323	19,270	29,677	37,097	48,226	57,871
Total	**6,93,849**	**7,66,465**	**9,51,061**	**11,43,325**	**13,76,825**	**16,66,640**
Operating ratios (%)						
Investment yield	18.9%	2.5%	12.6%	9.3%	8.9%	9.1%
Commissions / GWP	**4.2%**	**4.3%**	**4.1%**	**4.8%**	**4.7%**	**4.6%**
- first year premiums	17.0%	17.4%	18.1%	20.5%	19.2%	18.5%
- renewal premiums	1.3%	1.2%	1.3%	1.5%	1.4%	1.4%
- single premiums	0.2%	0.1%	0.1%	0.4%	0.4%	0.5%
Operating expenses / GWP	10.0%	11.5%	12.3%	11.8%	11.8%	11.8%
Total expense ratio	**14.2%**	**15.8%**	**16.3%**	**16.6%**	**16.5%**	**16.4%**
Claims / NWP	55.3%	50.5%	51.1%	48.5%	47.8%	46.7%
Solvency ratio	196%	198%	192%	191%	187%	189%
Persistency ratios (%)						
13th Month	73.3%	79.0%	81.0%	81.8%	82.1%	82.2%
25th Month	64.0%	67.0%	73.0%	74.6%	75.2%	75.5%
37th Month	65.1%	60.0%	64.0%	67.6%	68.6%	68.9%
49th Month	64.2%	63.0%	58.0%	59.6%	61.0%	61.4%
61st Month	37.4%	50.0%	57.0%	56.0%	56.3%	56.6%
Profitability ratios (%)						
NBP margin (%)	18.5%	19.9%	22.0%	22.3%	22.4%	22.7%
RoE (%)	34.4%	28.5%	25.5%	22.7%	22.2%	23.8%
RoIC (%)	36.4%	37.8%	41.0%	41.8%	46.1%	57.7%
EVOP as % of IEV	22.9%	20.7%	21.7%	21.5%	21.3%	21.1%
RoEV (%)	26.1%	16.1%	21.1%	19.9%	19.0%	18.8%
Valuation ratios						
Total AUMs (INRb)	670	742	917	1,102	1,324	1,603
- of which equity AUMs (%)	48%	40%	41%	44%	45%	45%
Dividend %	7%	9%	11%	13%	15%	18%
Dividend payout ratio (%)	21%	26%	30%	32%	34%	31%
EPS, INR	3.9	4.1	4.5	4.7	5.4	6.7
Value of new business (INRb)	5.9	7.4	9.1	11.4	14.8	18.3
Embedded Value (INRb)	88.1	102.3	124.7	148.5	176.8	210.0
VIF as % of EV	68%	68%	67%	66%	65%	64%
Mkt. cap/AUM (%)	87%	79%	64%	53%	44%	36%
P/EV (x)	6.6	5.7	4.7	3.9	3.3	2.8
P/EPS (x)	73.6	70.7	64.9	61.5	54.0	43.1

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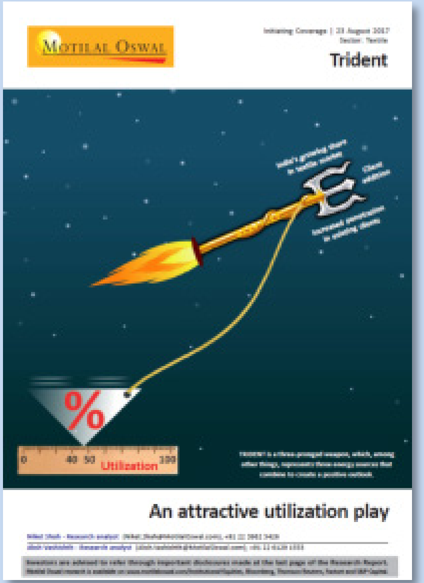

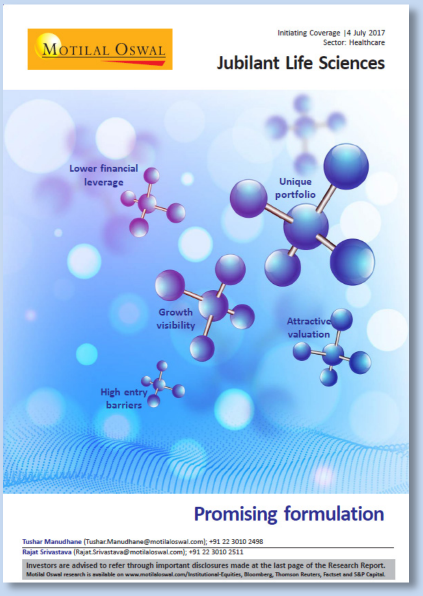

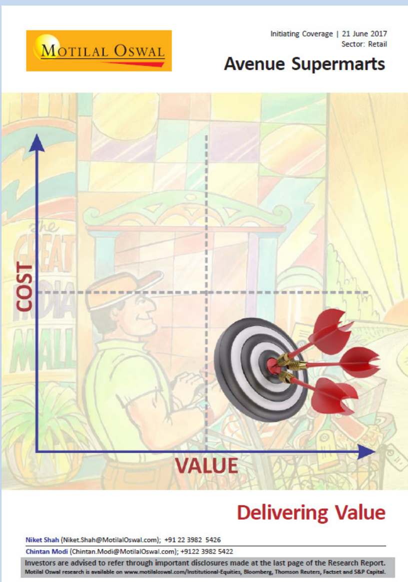

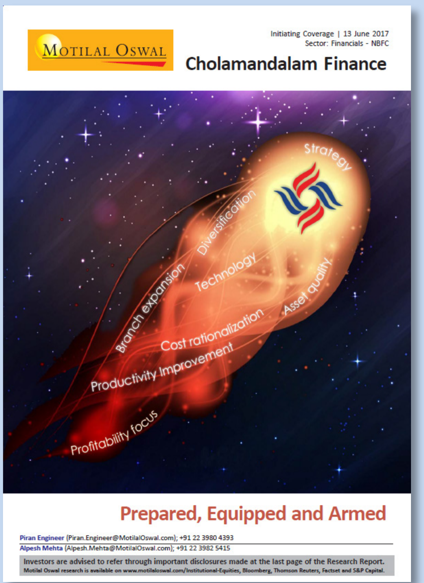

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