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Institutional Equities

# INDIAN LIFE INSURANCE SECTOR

## A MUST-OWN AMONG FINANCIALS

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# Life Insurance Sector

3 April 2019

Sector Report

## A Very Attractive Way To Play Indian Financials

**We think that the Indian listed life insurance sector is a very attractive way to play Indian Financials since certain aspects of the sector look structurally superior to the Indian credit sector and Indian asset management sector. A key conclusion is that a very significant portion of the overall value that the life insurance sector will generate will accrue to the top 4 (listed) private sector life insurers. We base this broad, over-arching conclusion on the following: (1) From a player count perspective, competitive intensity for the top 4 private sector life insurers is comparably lower than in the credit industry and in the asset management industry (2) Along with LIC, the top 4 private sector life insurers form a de-facto oligopoly since they enjoy non-replicable access to large and efficient bancassurance networks. We assign a Buy Rating on all 4 listed life insurers, SBI Life, ICICI Prudential Life, Max Financial Services and HDFC Life. *Our top pick in the life insurance sector is SBI Life.***

**From a player count perspective, competitive intensity for the top 4 private sector life insurers is comparably lower than in the credit industry and in the asset management industry:** The number of life insurers operating in India has remained largely static over the last decade or so, with player count increasing by only a solitary new entrant since 2010 (in 2012), to a count of 24. The deep reluctance of new entrants is structural and will remain so since (a) Indian life insurance is an ultra-long gestation business in terms of profitability with players breaking even, on average, in 8.3 years. (b) A large bancassurance network has been seen to be a must-have for Indian life insurers to scale up and, given the scarcity of bancassurance networks available for tie-ups, stitching up a large bancassurance network from scratch seems an onerous task for any new entrant. Our exhaustive analysis of industry-wide bancassurance networks reveals that as much as 66% of Indian bancassurance branch count is unavailable for new tie-ups. Tie-ups with the 34% available network component are not straightforward to execute for reasons detailed subsequently. The player count in the Indian credit industry, on the other hand, has been on a relative rise with 2 domestic universal banks, 13 MNC universal banks, 10 small finance banks, 11 payment banks and nearly 2000 NBFCs having entered the industry since 2010. Similarly, in the Indian asset management industry, the number of mutual funds has increased by 6 since 2010 to a count of 44. The alternative asset management industry is also on the rise in India with PMS fund count at 294 and regulatory clarity regarding AIFs.

**Along with LIC, the top 4 private sector life insurers form a de-facto oligopoly since they enjoy non-replicable access to large and efficient bancassurance networks:** The market share of LIC has declined from 75% in FY14 to 70% in FY18 on new business premium basis, whereas the market share of the top 4 private sector life insurers has risen from 13% to 18% in the same period. The market share of the remaining 19 private sector life insurers has inched lower from 12% to 11% across this period. The key differentiating factor that separates the top 4 private sector life insurers from the remaining 19 is access to a large and efficient bancassurance network. To gain further insight, *we conducted an exhaustive analysis of the life insurance tie-ups of as many as 198 entities* extending from Indian private sector universal banks, PSU universal banks, MNC universal banks, small finance banks, listed NBFCs, urban co-operative banks and regional rural banks. We developed an index of bancassurance strength factoring in size and efficiency of branch networks and, based on our analysis, we note that, among private sector life insurers, SBI Life, HDFC Life and ICICI Prudential Life possess the strongest bancassurance networks.

**We assign Buy rating on all 4 listed life insurers and within the life insurance space, we prefer SBI Life the most**: (1) **SBI Life** is our top pick since (a) It possesses by far the largest bancassurance network among private sector life insurers, bancassurance network size being most critical for scalability (b) Its individual agency force is the most productive among 8 key private sector life insurer peers (c) It has the structurally lowest expense ratio among 9 key life insurer peers (d) It has the second best persistency outcomes across time cohorts among 9 key life insurer peers (e) It has an inherently low risk business that is slated to grow sustainably with lower revenue volatility compared with key peers. (f) Strong under-writing is a key feature that leads to lower claims and higher profitability. (2) We are bullish on **ICICI Prudential Life** since (a) It possesses a large bancassurance network, within which, importantly, parent ICICI Bank network sources exclusively for IPLI (b) It has the second best expense ratio among 9 key life insurer peers (c) It has the third best persistency outcomes across time cohorts among 9 key insurer peers (3) We are bullish on **Max Financial Services**, the holding company for Max Life Insurance (MLI) since (a) MLI displays margin leadership on the back of high share of participating product and reasonably good share of protection business in topline (b) MLI's high agent productivity is symptomatic of organization-wide efficiency that also feeds into desirable product mix outcomes, among other benefits (c) Strong under-writing is a key feature of MLI that leads to lower claims and higher profitability (d) MLI conducts business that is stickier and more linear than key life insurer peers. (4) We are bullish on **HDFC Life** since (a) In line with the profitability-focused DNA of the wider HDFC Group, it has the highest share of pure protection products in revenue among listed life insurers, which leads to high overall margin (b) It possesses an energetically stitched up bancassurance network, which is the second largest among private sector life insurers.

## View: POSITIVE

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## Valuation and Metrics tables

| Life insurance companies | SBI Life | | | ICICI Pru Life | | | HDFC Life | | | Max Financial (Max Life) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E |
| **Key financials (Rs bn)** | | | | | | | | | | | | |
| CMP (Rs) | | 601 | | | 366 | | | 384 | | | 436 | |
| Target price (Rs) | | 787 | | | 453 | | | 450 | | | 535 | |
| Upside (%) | | 31% | | | 24% | | | 17% | | | 23% | |
| Current rating | | BUY | | | BUY | | | BUY | | | BUY | |
| M-cap (US$mn) | | 8,757 | | | 7,646 | | | 11,299 | | | 1,709 | |
| **Key financials (Rs bn)** | | | | | | | | | | | | |
| NBP | 149.0 | 178.6 | 213.8 | 98.8 | 115.9 | 139.4 | 143.0 | 183.4 | 233.7 | 50.6 | 58.8 | 67.6 |
| APE | 96.8 | 112.0 | 128.4 | 73.1 | 80.0 | 89.0 | 63.2 | 74.6 | 89.5 | 39.4 | 46.3 | 53.7 |
| GWP | 338.0 | 413.7 | 500.4 | 311.4 | 356.9 | 412.4 | 286.5 | 352.2 | 433.6 | 144.4 | 168.5 | 196.8 |
| Post-tax surplus | 11.5 | 13.3 | 15.8 | 10.9 | 13.3 | 15.2 | 12.6 | 14.5 | 16.2 | 6.8 | 7.8 | 9.2 |
| PAT | 13.4 | 15.9 | 19.3 | 12.4 | 15.3 | 17.9 | 12.9 | 15.4 | 18.1 | 5.5 | 6.3 | 7.3 |
| Net worth | 76.5 | 89.6 | 105.5 | 83.5 | 94.7 | 109.9 | 56.6 | 67.4 | 80.1 | 28.6 | 31.1 | 35.3 |
| Total assets | 1,421.2 | 1,722.2 | 2,096.2 | 1,545.5 | 1,783.4 | 2,070.3 | 1,240.1 | 1,469.8 | 1,754.9 | 624.4 | 732.8 | 861.6 |
| Total AUM | 1,386.9 | 1,698.6 | 2,072.5 | 1,542.8 | 1,779.7 | 2,061.6 | 1,249.6 | 1,481.7 | 1,765.8 | 612.0 | 719.5 | 847.4 |
| VNB | 16.5 | 20.2 | 23.8 | 12.4 | 14.0 | 16.0 | 15.5 | 19.0 | 23.3 | 7.9 | 9.5 | 11.0 |
| EVOP | 33.9 | 40.1 | 47.4 | 30.3 | 34.6 | 39.0 | 31.5 | 37.3 | 44.4 | 15.1 | 17.8 | 20.6 |
| EV | 220.8 | 258.5 | 302.7 | 209.7 | 238.3 | 270.8 | 178.8 | 212.4 | 252.3 | 86.5 | 100.7 | 118.4 |
| **Growth rates (%)** | | | | | | | | | | | | |
| NBP | 35.8 | 19.9 | 19.7 | 7.3 | 17.3 | 20.2 | 26.0 | 28.2 | 27.4 | 16.3 | 16.3 | 15.1 |
| APE | 14.9 | 15.7 | 14.7 | -3.0 | 9.3 | 11.3 | 17.1 | 18.0 | 20.0 | 19.1 | 17.6 | 15.9 |
| GWP | 33.3 | 22.4 | 21.0 | 15.0 | 14.6 | 15.5 | 21.6 | 22.9 | 23.1 | 15.5 | 16.7 | 16.8 |
| Post-tax surplus | 12.9 | 15.2 | 18.4 | -20.3 | 22.2 | 14.8 | 15.3 | 15.3 | 11.4 | -4.4 | 14.9 | 18.0 |
| PAT | 16.7 | 18.3 | 21.4 | -23.5 | 23.5 | 16.8 | 16.1 | 19.5 | 17.6 | 4.7 | 14.5 | 15.3 |
| Net worth | 17.1 | 17.2 | 17.8 | 8.0 | 12.3 | 13.5 | 19.2 | 19.1 | 18.9 | 5.9 | 8.8 | 13.6 |
| Total assets | 20.3 | 21.2 | 21.7 | 11.7 | 15.4 | 16.1 | 17.2 | 18.5 | 19.4 | 17.4 | 17.4 | 17.6 |
| Total AUM | 21.2 | 22.5 | 22.0 | 11.4 | 15.4 | 15.8 | 17.2 | 18.6 | 19.2 | 17.2 | 17.6 | 17.8 |
| VNB | 20.6 | 22.5 | 17.9 | -0.1 | 12.5 | 14.5 | 23.7 | 22.8 | 22.3 | 20.1 | 20.5 | 15.9 |
| EVOP | 14.6 | 18.2 | 18.2 | -17.8 | 14.2 | 12.9 | 17.3 | 18.4 | 19.1 | 11.4 | 17.5 | 15.6 |
| EV | 15.7 | 17.0 | 17.1 | 11.6 | 13.6 | 13.6 | 17.5 | 18.8 | 18.8 | 15.2 | 16.4 | 17.6 |
| **CAGR (FY18-21E)** | | | | | | | | | | | | |
| NBP | | 24.9 | | | 14.8 | | | 27.2 | | | 15.9 | |
| APE | | 15.1 | | | 5.7 | | | 18.4 | | | 17.5 | |
| GWP | | 25.4 | | | 15.1 | | | 22.5 | | | 16.3 | |
| PAT | | 18.8 | | | 3.4 | | | 17.7 | | | 11.4 | |
| AUM | | 21.9 | | | 14.2 | | | 18.3 | | | 17.5 | |
| **Profitability (%)** | | | | | | | | | | | | |
| VNB margin | 17.0 | 18.0 | 18.5 | 17.0 | 17.5 | 18.0 | 24.5 | 25.5 | 26.0 | 20.0 | 20.5 | 20.5 |
| ROA | 1.0 | 1.0 | 1.0 | 0.8 | 0.9 | 0.9 | 1.1 | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 |
| ROE | 19.5 | 19.7 | 20.5 | 17.3 | 19.4 | 20.1 | 24.9 | 25.0 | 24.7 | 19.9 | 21.2 | 21.9 |
| ROEV | 17.8 | 18.2 | 18.3 | 16.1 | 16.5 | 16.4 | 20.7 | 20.8 | 20.9 | 20.2 | 20.6 | 20.4 |
| **Key ratios (%)** | | | | | | | | | | | | |
| Commission ratio | 4.1 | 4.1 | 4.0 | 5.0 | 5.0 | 5.0 | 3.9 | 3.8 | 3.8 | 6.5 | 6.4 | 6.3 |
| Opex ratio | 6.6 | 6.5 | 6.4 | 8.3 | 8.1 | 8.2 | 13.3 | 13.3 | 13.3 | 13.5 | 13.1 | 12.9 |
| Claims ratio | 41.0 | 40.9 | 41.7 | 49.5 | 48.8 | 48.1 | 49.5 | 46.8 | 45.9 | 41.3 | 42.8 | 43.2 |
| **Per share data (Rs)** | | | | | | | | | | | | |
| EPS | 13.4 | 15.9 | 19.3 | 8.6 | 10.7 | 12.5 | 6.4 | 7.6 | 9.0 | 14.7 | 16.8 | 19.4 |
| BVPS | 74.3 | 86.7 | 101.8 | 51.8 | 58.1 | 66.0 | 27.9 | 33.2 | 39.5 | 75.8 | 82.5 | 93.7 |
| EVPS | 220.8 | 258.5 | 302.7 | 146.0 | 165.9 | 188.6 | 88.6 | 105.3 | 125.1 | 230.0 | 267.6 | 314.7 |
| **Valuation (x)** | | | | | | | | | | | | |
| P/E | 44.8 | 37.9 | 31.2 | 42.4 | 34.3 | 29.3 | 60.2 | 50.4 | 42.9 | 29.7 | 25.9 | 22.5 |
| P/BV | 8.1 | 6.9 | 5.9 | 7.1 | 6.3 | 5.5 | 13.8 | 11.6 | 9.7 | 5.8 | 5.3 | 4.7 |
| P/EV | 2.7 | 2.3 | 2.0 | 2.5 | 2.2 | 1.9 | 4.3 | 3.7 | 3.1 | 1.9 | 1.6 | 1.4 |

*Source: Companies, Nirmal Bang Institutional Equities Research*

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## Life Insurance is a very attractive way to play Financials since the value that will accrue to the top 4 private sector players over the ultra-long term is humongous

The structure of the Indian Life Insurance sector is such that (1) **From a perspective of the number of participants, the competitive intensity for current key incumbents is comparably lower than in other Financial sectors competing for Indian Financial Savings** viz. (a) the Indian Credit sector and (b) the Indian Asset Management sector (2) **The Indian Life Insurance sector is a de-facto oligopoly** of LIC and a clutch of private sector life insurers that possess large and efficient bancassurance distribution networks. Owing to these 2 broad reasons, the value that will accrue to the top 4 life insurers over the ultra-long term is humongous. Within the top 4, some private sector life insurers stand to gain more than the others.

It is important to state here, that, our conclusion above is not dependent on any rise in the share of insurance in Indian household financial savings although we do not preclude the possibility for such a rise.

## Competitive intensity for key life insurance incumbents is comparably lower than in other Financial sectors competing for Indian Financial Savings

**An examination of the number of life insurers operating in the Indian Life Insurance industry would reveal that this number has hardly risen over the past decade**. The number of life insurers operating back in 2010 was 23 and this number today stands at 24. The only player to enter the life insurance space since FY10 has been Edelweiss Tokio Life Insurance (in FY12).

It is a well chronicled fact that FY10-14 was a period of downturn for the private life insurance sector primarily due to the ULIP Guidelines of 2010 and, to a lesser extent, due to a general sluggishness of equity markets. Hence, it can be argued by some that the underperformance of the private life insurance sector during FY10-14 could be a reason that potential entrants prospecting the space could be put off by the said underperformance. However, **the period FY14-19 has seen a strong recovery for the sector driven by a maturing of the private life insurance sector in terms of product strategy** and, again, to a lesser extent, by generally robust equity markets. **However, the FY14-19 phase has not seen a single new entrant into the Indian Life Insurance sector**.

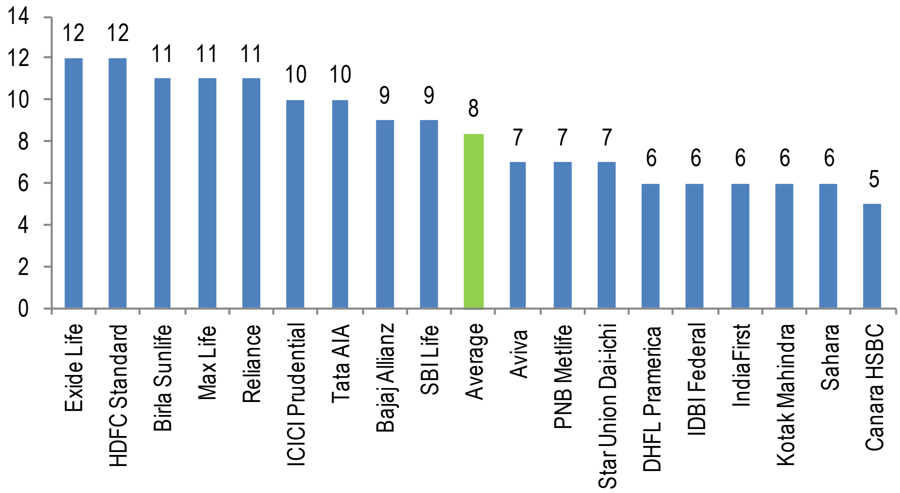
**This is the consequence of structural reasons that will remain intact and continue to deter potential new entrants who prospect the Indian life insurance sector**. So, what are these structural reasons which, in effect are strong de-facto barriers to entry? We enumerate them below:

1. **Life insurance is a long-gestation business in terms profitability and Indian life insurers have been observed to break even, on average, in 8.3 years**. Such a long-term wait-period for new entrants to break-even, let alone deliver a return on equity that exceeds a meaningful hurdle rate, is a huge deterrent to new entrants in the space, regardless of how deep-pocketed they may be.

2. Profitability alone is not the only consideration for a new entrant. Scale is also an important consideration and sound profitability ratios on a small base do not carry the same significance. **Life insurers that have truly scaled up over the years are the ones that have a large associated bancassurance network at their disposal**. Being associated with a large bancassurance network is not something that new entrants can achieve easily (we will discuss this further subsequently) and this is an incremental deterrent for new entrants.

## *Long gestation to profitability in the Indian life insurance sector is a major deterrent factor for new entrants considering entering this space*

**Exhibit 1: Number of years to break-even – Indian life insurers**




*Source: IRDAI, Nirmal Bang Institutional Equities Research*

N.B. Life insurers that are yet to break even are not included in the chart above. Also, in a few cases, viz. ICICI Prudential (Rs 2.3mn PAT in Year 1), Max Life (small profits in Years 2 and 3) and Reliance Life (small profits in Years 1 and 2), some insignificant profits were delivered in earlier years but have been ignored for our analysis as they do not hold any meaning in the context of the current discussion.

**Exhibit 2: Life insurers that are yet to break even**

| Company | Year of commencement | No. of years in operation (upto FY19) |
|---|---|---|
| Aegon Religare | FY2009 | 11 |
| Bharti AXA | FY2007 | 13 |
| Edelweiss Tokio | FY2012 | 8 |
| Future Generali | FY2007 | 13 |

*Source: Companies, Nirmal Bang Institutional Equities Research*

N.B. Aegon Religare regisetered insignificant profits in Years 1 and 2, which have been ignored for our analysis.

**As discussed, Indian private sector life insurers, on average, take 8.3 years to break even let alone reach a return ratio that justifies their existence**. This is a major structural deterrent factor for new players considering entering the life insurance sector.

It may be interesting to note that Indian entrepreneurs have been known to generally avoid (a) long-gestation businesses where (b) analytical sophistication is needed and (c) a payoff is not a given such as (i) technology products industry and (ii) drug discovery industry.

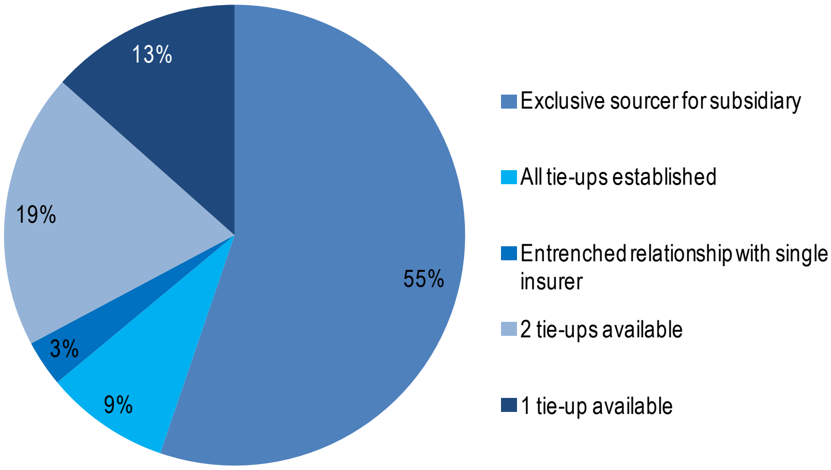
The entry of foreign players, for their part, in the Indian life insurance sector can only be via a joint venture with an Indian player.

## *Another key reason for the dis-interest of new entrants in Indian Life Insurance is that large bancassurance networks seem imperative but scarce*

Having a large bancassurance network is not easy to come by for any new entrant at this point in the Indian life insurance space. This is because (1) **most of the large bancassurance networks exclusively source business for a life insurer that is the bank's subsidiary** (e.g. SBI for SBI Life, ICICI Bank for ICICI Prudential, BoB for IndiaFirst Life, Canara Bank for Canara HSBC OBC Life, etc). This is the state of affairs even after the advent of the "open architecture" environment. (2) While "open architecture" did open up the possibility of new bancassurance partnerships, (a) many 'exclusive sourcers' continue to remain so and (b) many new partnership possibilities have been quickly filled up by current incumbents.

**Aside**: In terms of bancassurance partnerships, the Indian life insurance sector can be divided into two phases viz. pre-open architecture and open architecture. In the pre-open architecture phase, a bank was allowed to sell life insurance products of only a single life insurer. In this phase, banks exclusively sold products of the life insurer they had an existing economic relationship with. Under open architecture, banks are allowed to sell life insurance products of upto 3 life insurers.

**Exhibit 3: The vast majority (66%) of Indian universal bank branches are not available for new tie-ups**




*Source: IRDAI, Nirmal Bang Institutional Equities Research*

An analysis of Indian universal banks and their life insurer bancassurance partnerships reveals that **as much as 66% of Indian universal bank branches are, as such, not available for bancassurance tie-ups**. We categorize banks as "Exclusive sourcer for subsidiary" (banks which have ownership in a specific life insurer and choose to source exclusively for said insurer; 54% of industry branch count), "All tie-ups established" (banks which have tie-ups with 3 life insurers and cannot accommodate any more; 9% of industry branch count) and "Entrenched relationship with single life insurer" (Axis Bank; 3% of industry branch count) as banks which, as such, are not available for bancassurance partnerships. We acknowledge that, in this regard, Axis Bank's status is in the realm of debate but excluding it, in any case, would not alter our thesis. We also acknowledge that many of these partnerships are not for posterity but the moot point is, for a new player prospecting the industry from the outside, all these existing relationships are daunting.

Furthermore, **as far as the banks where 1 or 2 bancassurance tie-ups are available and represent 34% of the wider bancassurance branch pool, it is not straightforward for a new entrant to benefit even from this available opportunity** since (1) there are as many as 22 such 'available' banks and sewing up bancassurance partnerships for a new incumbent with as many banks would be an onerous task (2) most of the relatively large (and likely comparably productive) private sector branch networks, with the exception of Indusind Bank, Yes Bank and Bandhan Bank, are not available for tie-ups (3) while some PSU Banks of reasonable size are theoretically available for tie-ups, most have tie-ups with both LIC and SBI Life (Allahabad Bank, Syndicate Bank and Punjab & Sindh Bank) or only LIC (Central Bank of India, UCO Bank, Indian Bank, IOB, Corporation Bank and United Bank of India) and these relationships may be entrenched to some extent, given these are sister concerns owned and controlled by the GOI. (Vijaya Bank is the only exception, having tied up with HDFC Life apart from LIC.)

### *Competitive intensity in the Indian credit industry is comparably higher than in the life insurance sector*

The Indian credit industry's competitive intensity from a perspective of the number of participants is relatively higher than in the Indian life insurance space since (1) **the number of scheduled commercial banks has been on the rise since the RBI has earmarked them as vehicles of financial inclusion** (2) **the number of NBFCs has also been on the rise as regulators have granted NBFC licences more readily**.

Since 2010, (1) the number of domestic universal banks has risen by a count of 2 (Bandhan Bank, IDFC First Bank) to 42, adjusting for mergers (BoR-ICICI, SBI associate banks, Kotak-ING) (2) the number of MNC banks has risen from 32 to 45 (3) 11 small finance banks have been granted licences and (4) 10 payments banks have been granted licences.

**Exhibit 4: The number of banks in operation has increased significantly**

| | 2010 | 2018 |
|---|---|---|
| No. of domestic UBs* | 40 | 42 |
| No. of MNC banks | 32 | 45 |
| No. of SFBs** | 0 | 10 |
| No. of payment banks | 0 | 11 |
| **Total** | **72** | **108** |

*Source: RBI, Nirmal Bang Institutional Equities Research; *Adjusted for mergers*

**A major reason for the RBI granting as many licences in recent years has been its viewpoint that banks are effective vehicles of financial inclusion**. 8 of 10 small finance banks licencees and 1 of 2 universal bank licencees are NBFC-MFIs. While micro-insurance is also viewed as a vehicle for financial inclusion, we have not seen the IRDA consider the granting of life insurance entity licences as ways and means of promoting financial inclusion.

### <u>Small finance banks are slated to have a material impact on the competitive intensity for retail liablities</u>

**While it has to be acknowledged that small finance banks possess a differentiated licence, they do increase the competitive intensity of the battle for retail liabilities**. The same can be said for payment banks although their impact would be lesser since the payment bank business model has significant constraints, especially the inability to make loans, which precludes a natural revenue model. 3 payment bank licencees happened to give up their licences. Having said that, some of the remaining have pushed ahead with their plans, including India Post Payments Bank, and would also serve to incrementally intensify the battle for retail liabilities.

**As for small finance banks, we do not view its key constraining stipulations as holding back their growth trajectory and their concomitant requirement for retail liabilities**. The two key asset-side stipulations are (1) a minimum of 50% of loan book to borrowers of ticket size lesser than Rs 2.5mn and (2) priority sector lending minimum at 75% (instead of 40% for universal banks).

**Furthermore, it may also be noted that small finance banks have recourse to apply for full universal bank licences after 5 years of successful and profitable operation**. We think some of the small finance banks stand good chance of ultimately obtaining these licences as current regulations require a certain extent of bottom-of-the-pyramid focus, which most of the small finance banks already possess, given their micro-financier pedigree.

Lastly, it may also be noted that **while small finance banks may, initially, have been founded by conservative individuals with a primary focus on financial inclusion, most are now owned and controlled by deep-pocked private equity funds with an acute focus on growth and profitability**. This aspect means that small finance banks will compete hard for retail liabilities and many have already introduced premium SA rates in this regard.

**Though there is a paucity of relatively recent data on the breakeven period for greenfield banks, the experience of Yes Bank has been positive**

Bandhan Bank, IDFC First Bank and Kotak Mahindra Bank, though 'greenfield bank licencees', are not greenfield lending entities and hence, their examples are not admissible for examining breakeven period for bank licencees.

Yes Bank, however, was a greenfield lending entity in 2005 and turned profitable in its second year (2006) of operation itself. On evidence of the same, **it does not seem that the breakeven period for banking business has been a deterrent factor for new entities from wanting to enter the banking industry**.

**The existence of 'On-tap' bank licensing guidelines, at least in theory, adds to the competitive intensity of the credit industry**

It has been more than 2 years since the 'On-tap' bank licensing guidelines were unveiled and there has, apparently, been no new applicant for a banking licence. This seems to be proof that the guidelines, as they stand, seem to be onerous. So, it might be of interest to see how long new universal bank licencees, if and when they arrive, would take to break even in the current setup.

Having said that, the existence of 'On-tap' licensing as opposed to waiting for a window to apply for banking licences, at least in theory, makes the Indian credit landscape, ceteris paribus, more competitive than the Indian life insurance sector, where there has been no real conceptualization for 'On-tap' licensing for life insurance.

**Urban cooperative banks and regional rural banks also add to the competitive intensity of the Indian credit industry at the margin**

While urban cooperate banks and regional rural banks have issues with efficiency, the union government has plans to shore up the performance of the same. At the margin, these entities also add to the competitive intensity of the Indian credit industry.

**The number of NBFCs has increased materially over the years and increased the competitive intensity in the overall credit industry**

As per our analysis, **there were 12,662 NBFCs in existence in 2010 and this number has since swelled to 14,651 as on today, implying an addition of about 2000 such entities in about 8 years**.

**Exhibit 5: The number of NBFCs in operation has increased significantly**

| | Mar-10 | Dec-18 |
|---|---|---|
| No. of NBFCs in existence | 12,662 | 14,651 |

*Source: RBI, Nirmal Bang Institutional Equities Research*

We are conscious of the fact that such rapid addition of NBFC count has to be viewed in the context that the NBFC model, not factoring in idiosyncratic aspects such as management quality and so on, seems inferior to the bank model, from a regulatory standpoint. Regulators have also served to reduce the advantages enjoyed by NBFCs such as NPA recognition timing (180 dpd to 90 dpd), SLR requirement to be reduced to 18% (this is a de facto advantage for NBFCs, even though retail liabilities raised by NBFCs require SLR, since NBFCs depend less on retail liabilities). In fact, dependence on wholesale liabilities has proved to be a major drawback for the NBFC model in the systemic liquidity crisis. **However, regardless of these considerations, the existence of NBFCs does increase competitive intensity in the Indian credit industry.**

Another consideration that we keep mind is that NBFCs' dependence on wholesale liabilities means that NBFCs need a lesser quantum of retail liabilities to build the same quantum of loan book as a bank would. However, **rising NBFC count would increase competitive intensity for Indian financial savings since** (1) their dependence on wholesale liabilities is already in the base (they will continue to require retail liabilities at the same proportion of loan book, broadly speaking) (2) some NBFCs are deposit-taking and do raise a significant quantum of deposits e.g. ones with strong umbrella brands like HDFC Limited and PNB HF (it has to be said though that incremental NBFCs licences have not been deposit-taking NBFC licences) (3) some of the liability raised through the NCD route are retail in nature (4) Indian financial savings indirectly find their way into NBFCs via mutual funds.

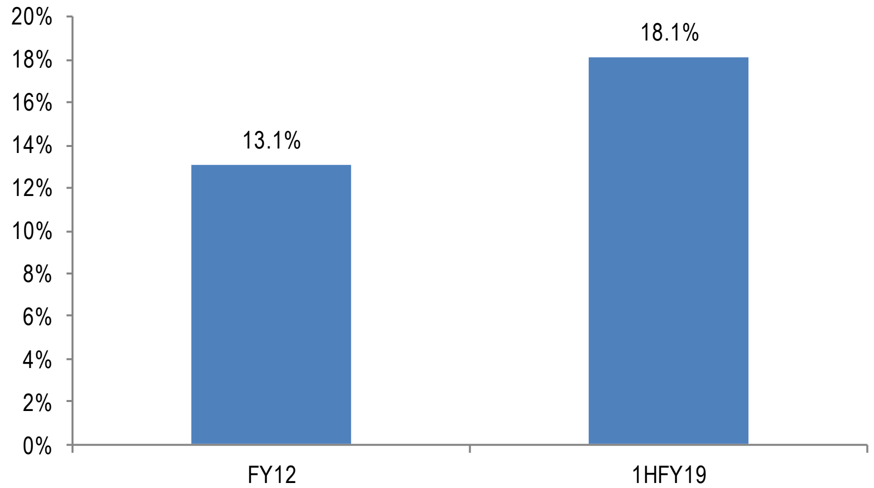
**<u>While we acknowledge the weaknesses of the NBFC model compared with banking, NBFCs do increase competitive intensity in the credit industry</u>**

Some observers may aver that the unbridled rise in the NBFC count does not meaningfully add to the competitive intensity of the credit industry since the NBFC model is inferior to the bank model. We do not think, though, that this assertion is factually accurate.

We agree that the NBFC model, on balance, is inferior to the bank model, (1) primarily because of differences in the liability profile (lack of CASA and other retail liability franchise, etc) and (2) erstwhile advantages such as (a) 180 dpd NPA recognition norm and (b) SLR cover non-requirement being whittled down to 90-dpd norm and reduction in SLR requirement for banks (now, to be 18%, in phases) (3) at the margin, banks learning to innovate and enter areas that were the exclusive domain of NBFCs due to regulatory constraints e.g. "zero-interest" EMI offerings.

However, despite this, the reality on the ground is that financial products, especially in the individual / retail segment, have a 'push' element to them and have **enabled NBFCs gaining market share at the expense of banks, especially when systemic liquidity has been sound**.

**Exhibit 6: Share of NBFCs in system loans has risen materially since FY12**




*Source: RBI, Nirmal Bang Institutional Equities Research*

**In fact, the share of NBFCs in system loans has risen from 13.1% in FY12 to 18.1% in 1HFY19**. While we acknowledge that this is partly the result of relatively abundant systemic liquidity during this period and PSU Bank lending having been been slow due to the NPA cycle, **this does demonstrate that, at the system level, NBFCs can increase competitive intensity in the credit industry**.

N.B. The share of NBFCs in system credit has been calculated as loans and advances of NBFC-ND-SI and NBFC-D (as per RBI data) in the numerator and the denominator containing the sum of the aforementioned loans and advances of NBFCs and bank credit of all scheduled commercial banks (as per RBI data).

## *Competitive intensity in the Indian asset management industry is also comparably higher than in the life insurance sector*

**The number of mutual funds in existence in 2010 was 38 and this number has since increased to 44.** This increase has not been adjusted for the buyouts that have taken place during this period. The SEBI, while being judicious, has not rendered a mutual fund licence as an onerous one to obtain.

**Exhibit 7: The number of mutual funds in operation has increased**

| (Nos) | 2010 | 2018 |
|---|---|---|
| Asset management companies in existence in India | 38 | 44 |

*Source: AMFI, Nirmal Bang Institutional Equities Research*

**Aside of mutual funds, there is an alternate asset management industry whose significance has only grown.** The number of PMS funds that currently operated in India stand at 294. We do not have the comparable number for 2010 but we would think it would likely be lower.

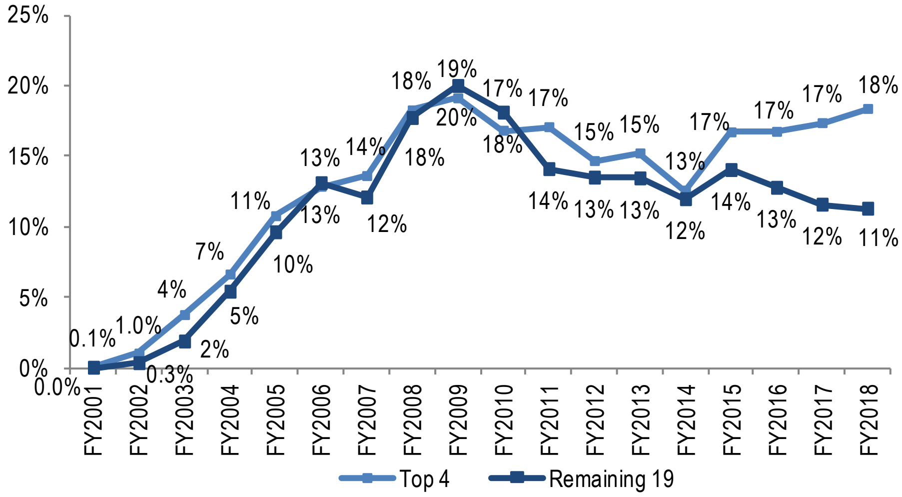
**SEBI has also, previously, paved the way for Alternative Investment Funds (AIFs), which also serves to increase the asset manager count in India**, though the AUM for AIF industry would currently be comparably modest.

## The Indian life insurance sector is an oligopoly of LIC and private sector insurers with large and efficient bancassurance networks

LIC of India has been in existence since 1956, when the life insurance sector was nationalized and enjoyed a monopoly in the sector for nearly 5 decades till 2000, when the sector was re-opened to the private sector. In the interim, though, LIC managed to build a large network of individual agents across the length and breadth of India. This individual agency network has remained strong and still generates the lion's share of new business for LIC. Hence, **LIC is the one exception when it comes to Indian life insurers that have scaled up without dependence on a large and efficient bancassurance network**. We use the word 'dependence' since LIC incidentally also has the largest bancassurance network, mainly comprising PSU Banks.

Aside of LIC, though, it is clear that the only life insurers that have managed to scale up sustainably are the ones with a large bancassurance network at their disposal. This means that life insurers that do not have large and efficient bancassurance networks at their disposal would find it an uphill task to scale up and **the private sector leadership of the top 4 private sector players would continue to get re-inforced as we move forward**. Within the top 4, certain private sector life insurers stand to gain more than the others due to idiosyncratic differences.

**Exhibit 8: The market share of the top 4 has risen materially while that of the remaining 19 has declined**




*Source: IRDAI, Nirmal Bang Institutional Equities Research; Market shares on total new business premium*

The market share of the top 4 (HDFC Life, SBI Life, ICICI Prudential, Max Life) has diverged from the remaining 19 after FY14, when the private sector recovery started after the FY10-14 upheaval due to the ULIP guidelines. **On total new business premium basis, the top 4 life insurers enjoy a market share of 18.4% as of FY18 compared with 11.3% for all the remaining 19 taken together**. What separates the top 4 from the rest is affliation to a large and efficient bancassurance network.

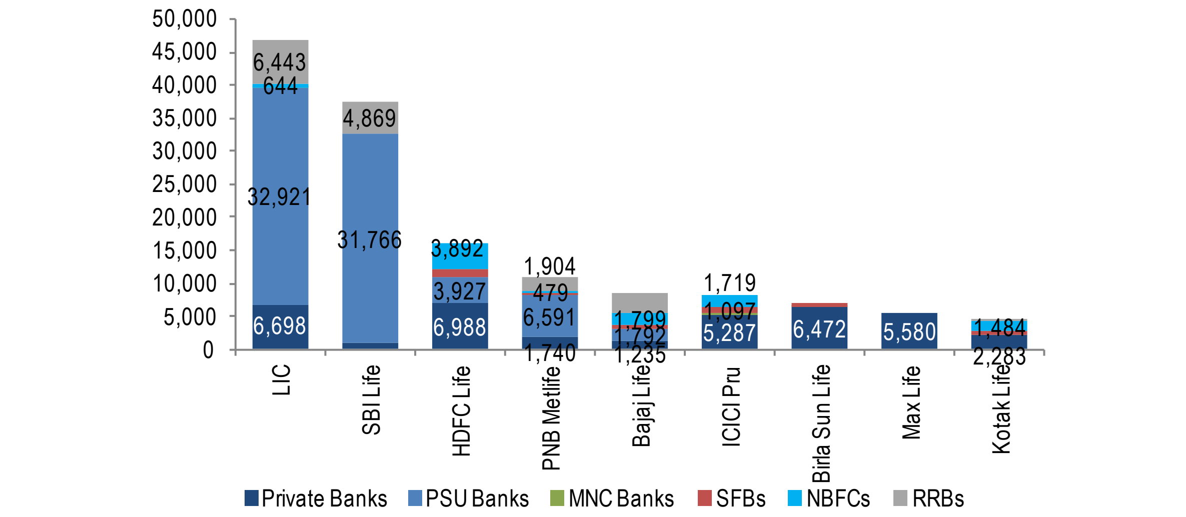
**The success of the top 4 life insurers is the direct result of the size and efficiency of the bancassurance networks**. HDFC Life, ICICI Prudential and Max Life benefit tremendously by their affiliation to the branch networks of HDFC Bank, ICICI Bank and Axis Bank, respectively, which are not only large but also have strong and efficient cross sell culture. SBI Life, for its part, benefits by tapping the branch network of parent SBI, which has a reasonably good cross sell culture and, in terms of size, is humongously large.

Of the top 4, **it seems reasoanably clear that, even in the open architecture environment, ICICI Bank and SBI will continue to source exclusively for ICICI Prudential Life and SBI Life, respectively**. HDFC Bank has moved to tie-up with Tata AIA Life and Birla Sun Life. Meanwhile, HDFC Life has aggressively added multiple alternate bancassurance partners. **HDFC Limited remains the common parent for the two entities and it remains to be seen what long-term strategy is adopted**. Axis Bank has added LIC to its tie-ups and one slot remains open as of now. However, we note that **Axis Bank continues to have a stake in Max Life (currently 2%) and it also remains to be seen what long-term strategy is adopted**. Buying out Max Life has been mulled before (valuation being a sticking point) and remains on the table, though not a given.

## *We conducted a comprehensive analysis of respective bancassurance networks and find that, among private sector life insurers, SBI Life's network is gargantuan*

**We looked at the life insurance tie-ups of as many as 198 entities extending from Indian private sector universal banks, PSU universal banks, MNC universal banks, small finance banks, listed NBFCs, urban co-operative banks and regional rural banks**. We then looked at the branch network count for each of these entities and then arrived at the total addressable bancassurance network size for each life insurer. We present our findings for 9 key life insurers in a chart below. Urban cooperative banks were removed from our analysis due to lack of comprehensive data but this does not alter the broad statistical significance of our analysis.

**Exhibit 9: Addressable bancassurance network size for 9 key life insurers**



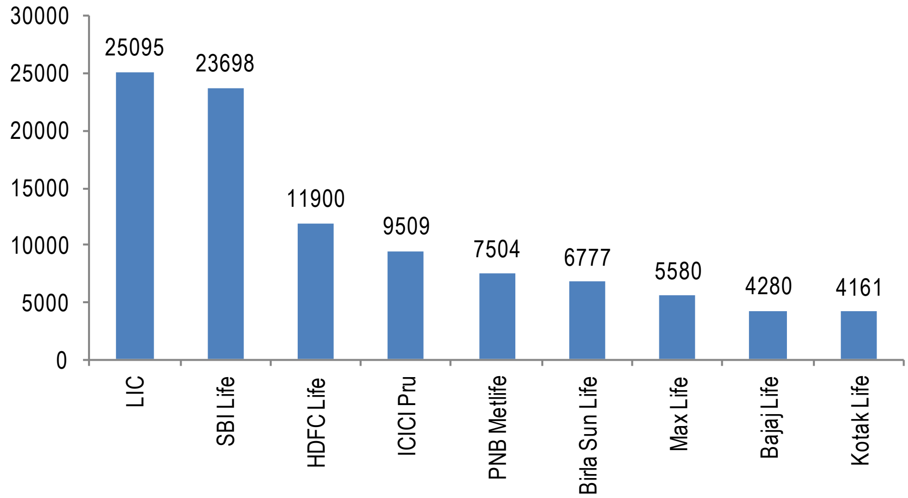

*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

We note that, among private sector life insurers, SBI Life has by far the largest addressable bancassurance network consisting of as many as 37,492 branches. Of this, 22,963 branches belong to parent SBI, which exclusively sources for SBI Life with a reasonable cross sell culture and efficiency. **We consider the bancassurance network of SBI Life is a key sustainable competitive advantage that will serve to drive its growth for a considerable period of time**.

**We also, further, note that not all banks can be painted with the same brush. The efficiency and cross sell culture at private sector banks would, admittedly, be better than that at PSU Banks**. Similarly, we would also aver that the branches of small finance banks, NBFCs and regional rural banks would have varying degrees of sourcing ability for partner life insurers. Hence, to arrive at a weighted bancassurance network 'index', we multiply PSU Bank and NBFC branch count by 50%, small finance bank branch count by 75% and regional rural bank branch count by 25% to arrive at a weighted index to indicate a more accurate strength of for respective bancassurance networks.

**Additionally, we also adjust to differentiate for certain branch networks sourcing exclusively for specific life insurers**. We add 50% for private sector bank branches and 25% for PSU Bank branches that are sourcing exclusively for specific insurers to our preliminary index to arrive at a final index for strength of bancassurance network. We present our findings for 9 key life insurers below in a chart.

**Exhibit 10: Index of bancassurance network strength for 9 key life insurers**




*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

As per our analysis, the strength of ICICI Prudential's bancassurance network is stronger than that indicated merely by the arithmetical sum of bank branch count of bancassurance partners. HDFC Life has the second strongest bancassurance network among private sector life insurers considered. **We expect HDFC Life and ICICI Prudential, aside of LIC, to continue to dominate the Indian life insurance space in the times to come but the one life insurer for whom scalability seems the greatest is SBI Life**.

## *Bancassurance network size is important since life insurance is a push product and it also sparks off a virtuous cycle for bancassurance-led life insurers*

One may ask, why, after all, is the size of the bancassurance network so critically important? The insurance sector, in general, has seen two long-standing statements in use: (1) "Insurance is the subject matter of solicitation" and (2) "Insurance is bought not sold". Both these statements imply that insurance products need to be first requested for by a potential policyholder. This may seem to imply that insurance is a pull product. However, the ground reality is that there is a clear push element in insurance products since **potential policyholders tend to source insurance from an insurer that has a network presence not too far from him i.e. from insurers which have a large bancassurance network**. A large bancassurance network also implies a large concomitant client pool as well to cross sell to though the network may, as well, be used to sell to non-captive clientele.

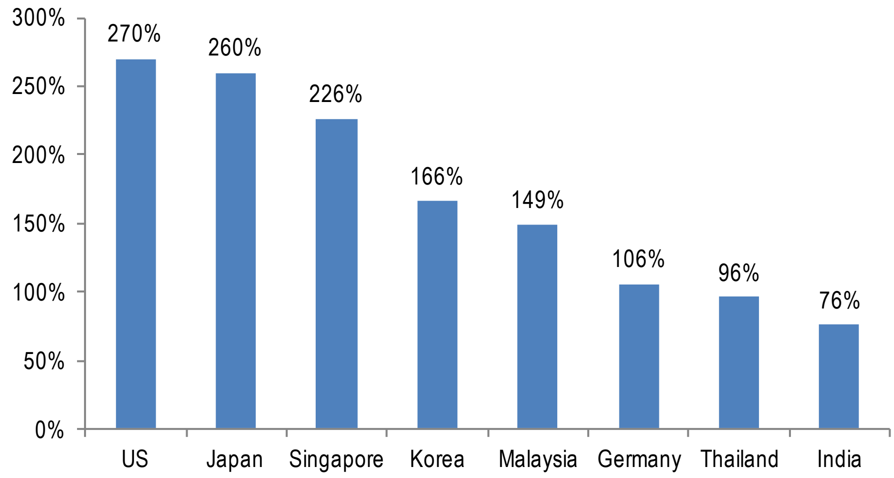
Hence, the life insurers that have had access to large bancassurance networks (mainly the top 4 listed life insurers) have scaled up more meaningfully and profitably than the rest of the private sector life insurers. Once a lead in this regard is taken, **such leadership is self-reinforcing as higher profits leave more capital for successful life insurers to invest more for future growth, thereby establishing, effectively, a 'virtous cycle'**.

## Protection is a business that is even more under-penetrated than the wider life insurance sector

That the Indian life insurance space is under-penetrated is a well-chronicled fact. Readers of the report can access charts based on key macro data related to country-wise insurance penetration and insurance density in the **Important Additional Material section** that comes after the Company Section. India looks particularly under-penetrated on the insurance density metric although it has to be said the entire Indian population may not rapidly warm up to life insurance as might be suggested by the density metric due to a variety of reasons including lack of adequate sophistication to understand the need for life insurance and the lack of disposable income, especially when many would regard life insurance as discretionary spending. Regardless of these considerations, we do consider life insurance in India is still relatively under-penetrated on an overall basis.

What we wish to additionally highlight is that the under-penetration in the pure protection segment is understood to be higher than in the wider life insurance space. This area could prove to be a big growth avenue over the long-term. **We think that pure protection is an insurance product that potential policyholders of a certain sophistication can warm up to.** We do not necessarily mean HNI customers but just potential customers of a certain education level who would come around to understanding the importance of insurance for the sake of insurance and not treat insurance products as only an investment vehicle.

**Exhibit 11: Country-wise Sum Assured to GDP (%) - 2015**




*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

The low degree of protection penetration in India can be gauged, to an extent, by the Sum Assured to GDP for India compared with other nations, where the metric is comparably higher. We do note that the Sum Assured to GDP data is dated and also, it is not the best metric to gauge the extent to which pure protection has penetrated India since the Sum Assured contains data for all life insurance sold, including for linked products. However, it is comparative data that is still reasonable to work with since other nations are known to contain significant contributions from pure protection, something relatively missing from the India metric.

# Company Section

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# SBI Life Insurance

3 April 2019

Initiating Coverage

**Reuters: SBIL.NS; Bloomberg: SBILIFE IN**

## Unparalleled Scalability With Sound Profitability

**SBI Life Insurance (SBIL) is our *top pick in the life insurance sector* since (1) It possesses by far the largest bancassurance network among private sector life insurers, bancassurance network size being most critical for scalability (2) Its individual agency force is the most productive among 8 key private sector life insurer peers (3) It has the structurally lowest expense ratio among 9 key life insurer peers (4) It has the second best persistency outcomes across time cohorts among 9 key life insurer peers (5) It has an inherently low risk business that is slated to grow sustainably with lower revenue volatility compared with key peers. (6) Strong under-writing is a key feature of SBIL that leads to lower claims and higher profitability. We initiate coverage on SBIL with Buy Rating and a Target Price of Rs787, valuing the stock at 2.6x FY21E P/EV.**

**SBIL possesses by far the largest bancassurance network among private sector life insurers, bancassurance network size being most critical for scalability:** We have, already, established that, based on empirical evidence, large bancassurance networks are critical for the scalability of life insurers in India. In this regard, it is important, therefore, to emphasize that SBIL has by far the largest bancassurance network among private sector life insurers consisting of as many as 37,942 branches, of which 22,963 belong to parent SBI, which exclusively sources business for SBIL.

**SBIL's individual agency force is the most productive among 8 key private sector life insurer peers:** While SBI Life is the runaway bancassurance champion, it prudently never de-focused its individual agency network. Consequently, among 8 key private sector life insurers, SBIL has the best agent productivity at 257,937 compared with 57,169-172,177 for peers.

**SBIL has the structurally lowest expense ratio among 9 key life insurer peers:** A key underlying reason for low opex ratio for SBI Life is that parent SBI sources business largely on auto-pilot. A single SBIL employee handles about 8 branches of parent SBI. For key life insurer peers, this number is far lower at about 1-2 branches per employee. This and other factors combine to result in total expense ratio (the sum of opex ratio and commission ratio) for SBIL being lowest among 9 key life insurers at 11.2% in FY18 compared with 12.7-26.1% for peers.

**SBIL has the second best persistency outcomes across time cohorts among 9 key insurer peers:** The persistency outcomes for SBI Life are superior across cohorts and are indicative of low mis-selling and strong customer service on the part of SBIL. We calculate a 'persistency index' that factors in $13^{th}$ month, $37^{th}$ month and $61^{st}$ month persistency into a single number and note that SBIL stands second best on this metric at 114.2% for FY18 compared with 70.3-109.1% for key peers. SBIL's superlative customer service levels are typified by the life insurer ranking $2^{nd}$, $1^{st}$, $2^{nd}$ and $2^{nd}$ among 9 key life insurer peers on the surrender ratio, policy complaints, claim complaints and settlement ratio metrics, respectively.

**SBIL has an inherently low risk business that is slated to grow sustainably with lower revenue volatility compared with key peers:** The low risk in SBIL's business is typified by (1) low dependence on market-sensitive HNIs for deriving business (2) low equity exposure as a proportion of AUM. SBIL's low dependence on HNIs is reflected in its low overall average ticket size at ~Rs 59,000, which is the lowest among the 4 listed life insurers. HNIs have tended to use life insurance products more as vehicles to play the stock market over time horizons that are far shorter than a life insurer would like the policies to stay in force. We also note that the share of equity in total AUM for SBI Life is close to the 20% ballpark, which is significantly lower than some its key listed life insurer peers. The risk from equity exposure exists since a prolonged downturn in the equity market would have an outsized negative impact on life insurers with high equity exposure.

**Strong under-writing is a key feature of SBIL that leads to lower claims and higher profitability:** Like in the credit industry, appraisal of the potential customer (policyholder) is also important since selling a life insurance product without pricing it appropriately (setting the premium) will come back and hit the insurer in the form of higher than manageable claims, crimping profitability. In this regard, SBIL has the third lowest 4-year average for claims as a percentage of average AUM at 11.5% among 9 key life insurers. SBIL also has the fourth lowest 5-year average claims ratio at 57.4% among 9 key life insurers.

**Valuation and outlook:** We have assigned a multiple of 2.6x FY21 P/EV (4.1x FY18 P/EV) to SBIL, given its FY19E/FY20E/FY21E RoEV profile of 17.8%/18.2%/18.3%. Consequently, we arrive at our Target Price of Rs787 for SBIL.

| Y/E March (Rsmn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| NBP | 1,01,439 | 1,09,661 | 1,48,958 | 1,78,611 | 2,13,805 |
| PAT | 9,547 | 11,504 | 13,421 | 15,878 | 19,275 |
| P/E (x) | 62.9 | 52.2 | 44.7 | 37.8 | 31.2 |
| P/B (x) | 11.0 | 9.4 | 8.1 | 6.9 | 5.9 |
| P/EV (x) | 3.6 | 3.1 | 2.7 | 2.3 | 2.0 |
| *RoE (%)* | *18.8* | *19.4* | *19.5* | *19.7* | *20.5* |
| *RoEV (%)* | *23.0* | *17.9* | *17.8* | *18.2* | *18.3* |

*Source:Compnay, Nirmal Bang Institutional Equities Research*

## BUY

**Sector:** Banking

**CMP:** Rs601

**Target Price:** Rs787

**Upside:** 31%

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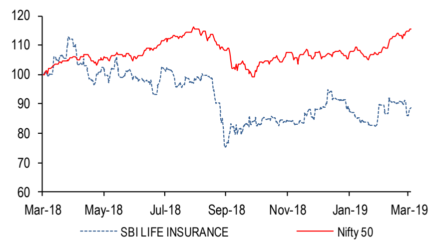
| Key Data | |
|---|---|
| Current Shares O/S (mn) | 1,000.0 |
| Mkt Cap (Rsbn/US$bn) | 600.5/8.7 |
| 52 Wk H / L (Rs) | 775/485 |
| Daily Vol. (3M NSE Avg.) | 3,160,576 |

| Share holding (%) | 1QFY19 | 2QFY19 | 3QFY19 |
|---|---|---|---|
| Promoters | 84.1 | 84.1 | 84.1 |
| Institutions | 9.2 | 9.2 | 9.3 |
| Non-Institutions | 6.7 | 6.7 | 6.6 |

### One Year Indexed Stock Performance




**Price Performance (%)**

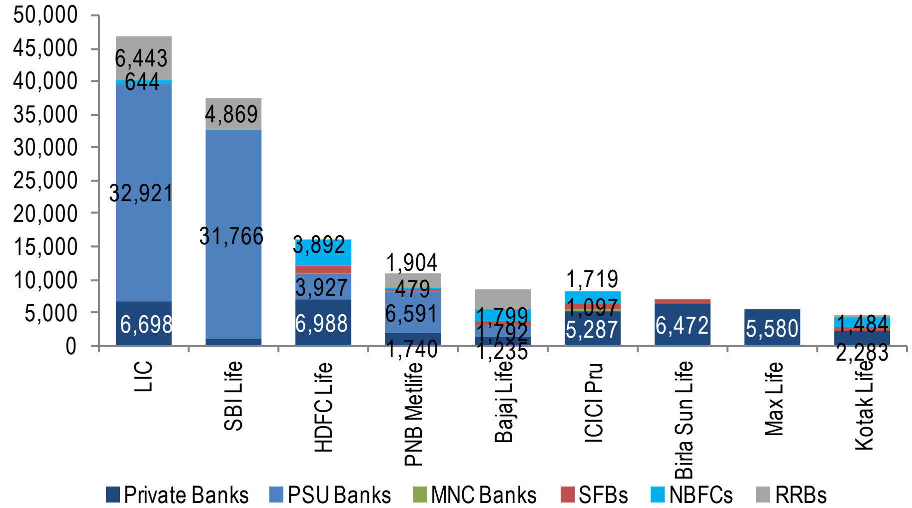
| | 1 M | 6 M | 1 Yr |
|---|---|---|---|
| SBI Life Insurance | (1.2) | 15.2 | (12.2) |
| Nifty Index | 7.7 | 6.2 | 14.5 |

*Source: Bloomberg*

## Based on our comprehensive analysis of respective bancassurance networks, we find that SBIL's network size is staggering, implying outsized scalability

**We looked at the life insurance tie-ups of as many as 198 entities extending from Indian private sector universal banks, PSU universal banks, MNC universal banks, small finance banks, listed NBFCs, urban co-operative banks and regional rural banks**. We then looked at the branch network count for each of these entities and then arrived at the total addressable bancassurance network size for each life insurer. We present our findings for 9 key life insurers in a chart below. Urban cooperative banks were removed from our analysis due to lack of comprehensive data but this does not alter the broad statistical significance of our analysis.

**Exhibit 1: Addressable bancassurance network size for 9 key life insurers**




*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

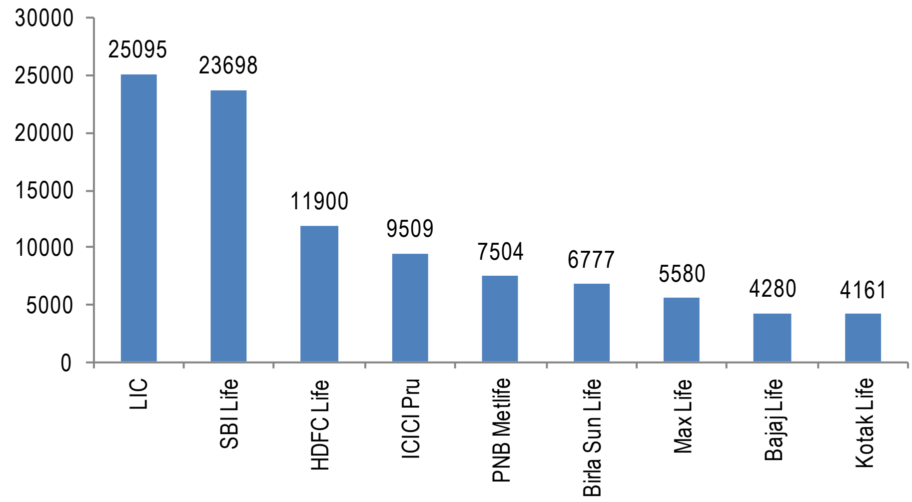
We note that, among private sector life insurers, SBIL has by far the largest addressable bancassurance network consisting of as many as 37,492 branches. Of this, 22,963 branches belong to parent SBI, which exclusively sources for SBIL, with reasonable cross sell culture and efficiency. **We consider the bancassurance network of SBIL a key sustainable competitive advantage that will serve to drive growth for a considerable period of time**.

## We adjust for differences in the efficiency levels of different categories of bancassurance partners to arrive at an adjusted bancassurance strength

**We also, further, note that not all banks can be painted with the same brush. The efficiency and cross sell culture at private sector banks would, admittedly, be better than that at PSU Banks**. Similarly, we would also aver that the branches of small finance banks, NBFCs and regional rural banks would have varying degrees of sourcing ability for partner life insurers. Hence, to arrive at a weighted bancassurance network 'index', we multiply PSU Bank and NBFC branch count by 50%, small finance bank branch count by 75% and regional rural bank branch count by 25% to arrive at a weighted index to indicate a more accurate strength of for respective bancassurance networks.

**Additionally, we also adjust to differentiate for certain branch networks sourcing exclusively for specific life insurers**. We add 50% for private sector bank branches and 25% for PSU Bank branches that are sourcing exclusively for specific insurers to our preliminary index to arrive at a final index for strength of bancassurance network. We present our findings for 9 key life insurers below in a chart.

**Exhibit 2: Index of bancassurance network strength for 9 key life insurers**



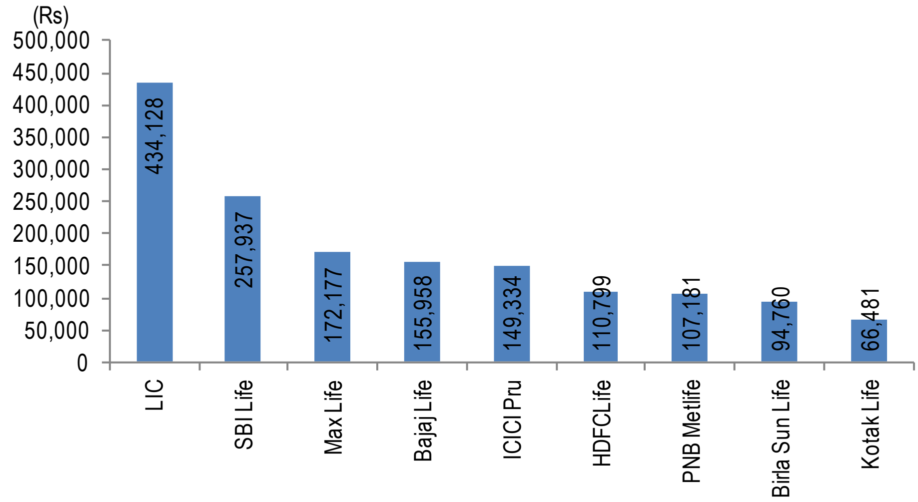

*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

As per our analysis, the chasm between SBIL and the remaining private sector life insurers is particularly large even from the perspective of our calculated index for bancassurance strength.

## While SBIL is the runaway bancassurance champion, it prudently never de-focused its individual agency network

The FY10-14 upheaval phase due to the ULIP guidelines of 2010 left some life insurers disillusioned with individual agency as a channel for sourcing business. However, SBI Life maintained a strategy for the ultra-long term and continued to invest in and nurture this channel even after FY14. As of consequence, today, **SBIL possesses one of the most productive agency networks among private sector life insurers**.

**Exhibit 3: Agent productivity (Rs) for 9 key life insurers – FY18**




*Source: IRDAI, Nirmal Bang Institutional Equities Research*

N.B. Agent productivity is defined as new business premium sourced via the agency channel divided by average agent count.

Among 9 key life insurers, **SBIL has the best agent productivity at 257,937 compared with 57,169-172,177 for key life insurer peers, barring LIC at 434,128**.

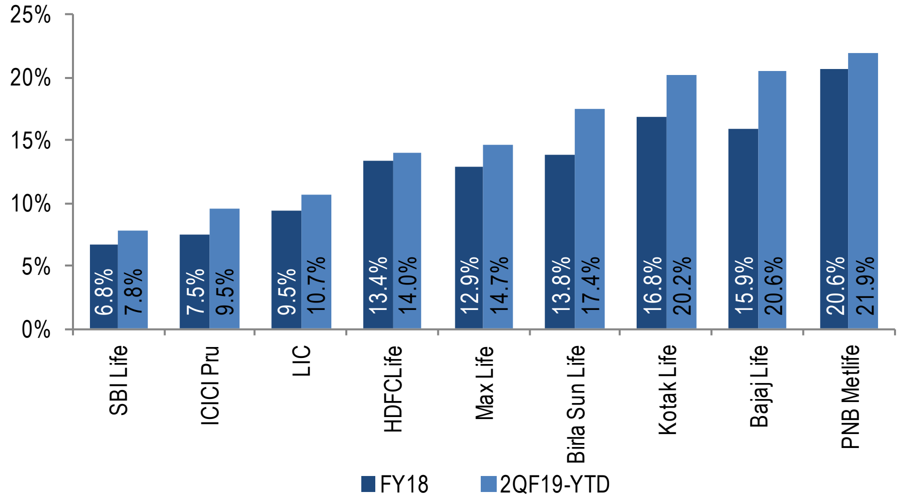
## Low total expense ratio is another key sustainable competitive advantage for SBIL over its peers

There are underlying structural reasons why SBIL enjoys the lowest total expense ratio among the 9 key life insurers. A basic reason for low expense ratio for SBIL is high share of bancassurance channel in sourcing, bancassurance generally being a lower cost channel but this cannot be a key differentiating factor since there are other life insurers with an equal or higher share of bancassurance sourcing. Among other reasons, a key underlying reason for low opex ratio for SBIL is that parent SBI sources business largely on auto-pilot. The requirement of hand-holding by SBIL employees is minimal and most of the sourcing is done by the bank CIFs. A single **SBIL employee handles about 8 branches of parent SBI. For key life insurer peers, this number is far lower at about 1-2 branches per employee**.

Consequently, the opex ratio for SBIL at 6.8% for FY18 is lower than key life insurer peers ranging between 7.5-20.6%.

*N.B. All charts where data pertaining to more than one period (e.g. FY18, 1HFY19) appears together, the respective companies have been sorted in ascending / descending order of data for the latest period (1HFY19 in our example). However, in text commentary, the rank of the respective company is generally specified as its rank as per its data point for full year FY18 (e.g. "SBI is also second best…."). Generally, the FY18 and latest period ranks may different at most by one position, if at all, and there is no qualitative difference to our conclusions whether we use FY18 or latest period data.*

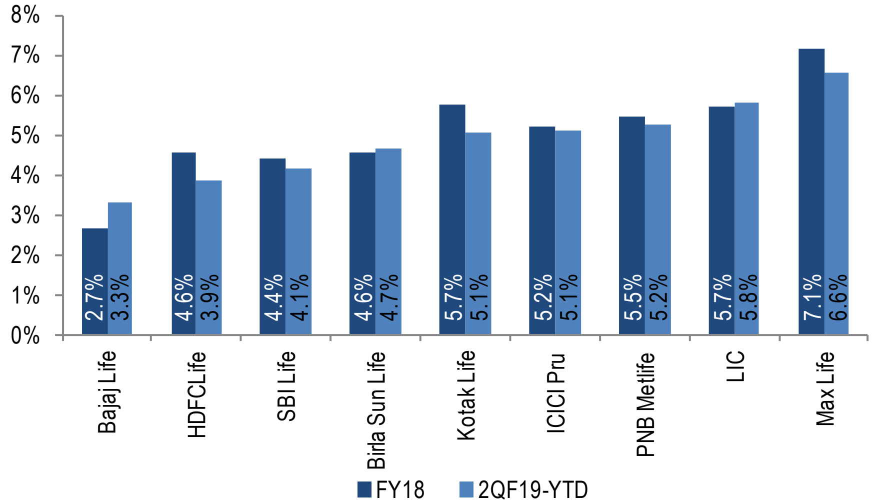
**Exhibit 4: Opex ratio for 9 key life insurers – FY18 and 2QFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**Commission ratio for SBIL is also second best among 9 key life insurers** with the ratio being 4.4% for FY18 compared with 4.6-7.1% for peers, barring Bajaj at 2.7%.

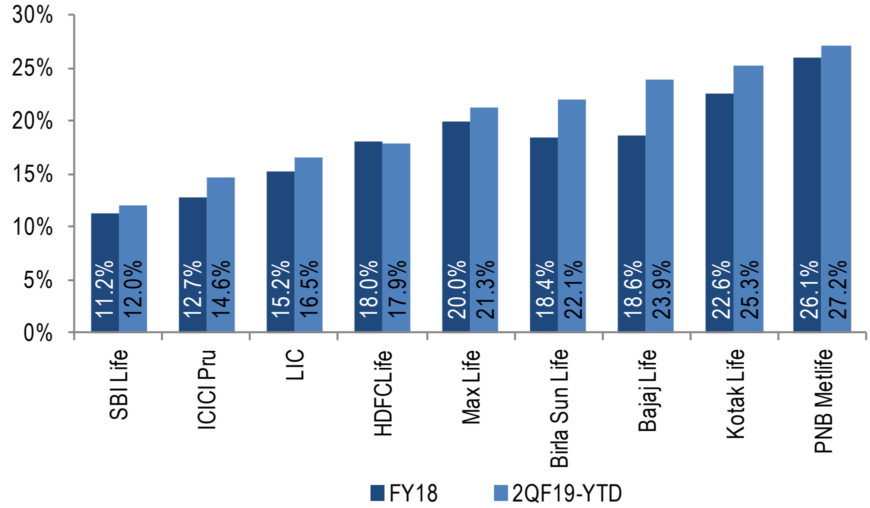
**Exhibit 5: Commission ratio for 9 key life insurers – FY18 and 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research; Arranged in ascending order for 2QFY19*

**Consequently, total expense ratio (the sum of opex ratio and commission ratio) for SBIL is best among 9 key life insurers** at 11.2% in FY18 compared with 12.7-26.1% for peers.

**Exhibit 6: Total expense ratio for 9 key life insurers – FY18 and 1HFY19**

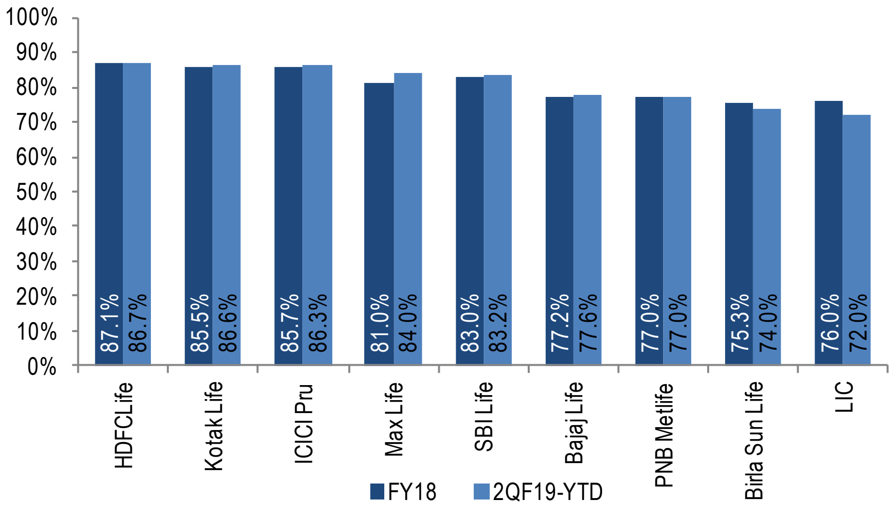



*Source: Companies, Nirmal Bang Institutional Equities Research*

## Superlative persistency outcomes for SBIL are indicative of low mis-selling and strong customer service

The persistency outcomes for SBIL are superior across cohorts and are indicative of low mis-selling and strong customer service on the part of SBIL.

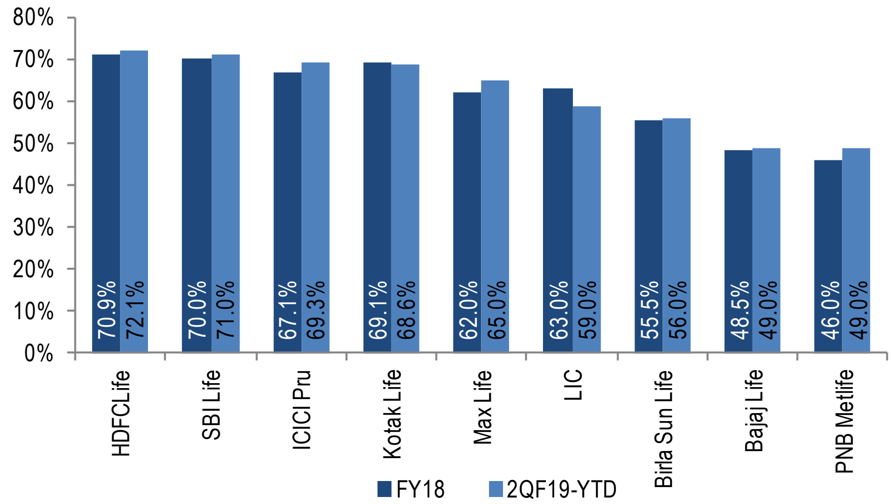
**Exhibit 7: 13th Month Persistency for 9 key life insurers – FY18 and 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

The 13th month persistency outcome for SBIL is reasonably good in the absolute sense at 83% for FY18 even though, in a relative sense, 3 life insurers registered a better metric in FY18. The importance of the 13th month persistency is lower than persistency ratios over longer time horizons given life insurance is a long-term financial product whose net cash flows (to the life insurer) start to rise as time elapses.

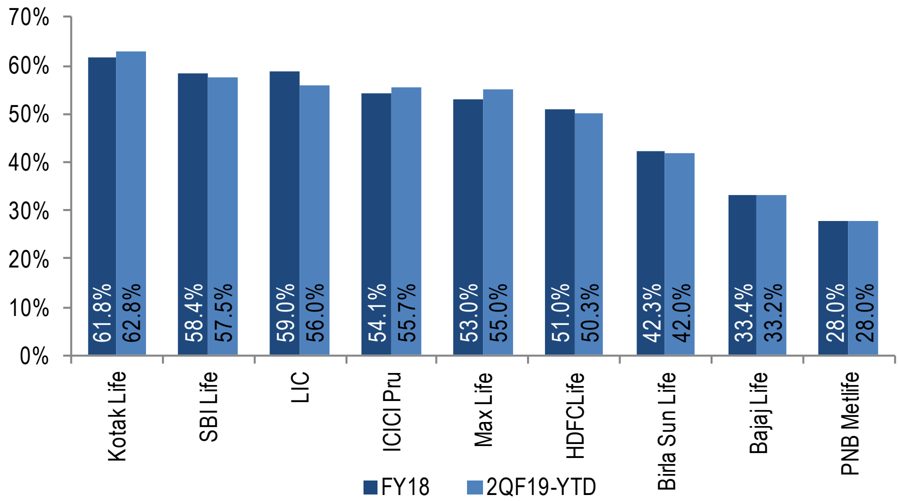
**Exhibit 8: 37th Month Persistency for 9 key life insurers – FY18 and 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**SBIL's 37th month persistency at 70.0% for FY18 is second best** among the 9 key life insurers.

**Exhibit 9: 61st Month Persistency for 9 key life insurers – FY18 and 1HFY19**

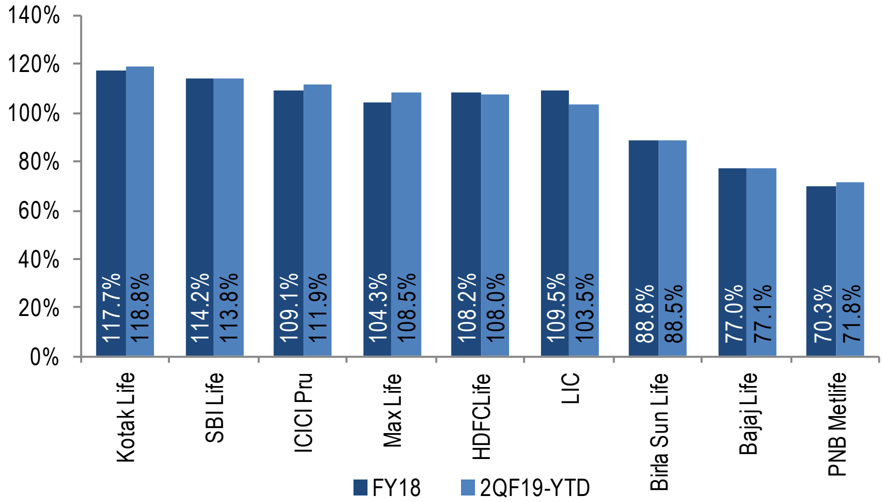



*Source: Companies, Nirmal Bang Institutional Equities Research*

**SBIL's 61st month persistency at 58.4% for FY18 is also second best** among the 9 key life insurers.

To arrive at **a single metric that captures persistency outcomes across time periods**, we multiply 13th month persistency by a factor of 0.25, 37th month persistency by a factor of 0.5 and add it to 61st month persistency, which is the most important and gets a factor of 1.0. We call it a persistency index and present our chart for the same below.

**Exhibit 10: Calculated Persistency Index for 9 key life insurers – FY18 and 2QFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

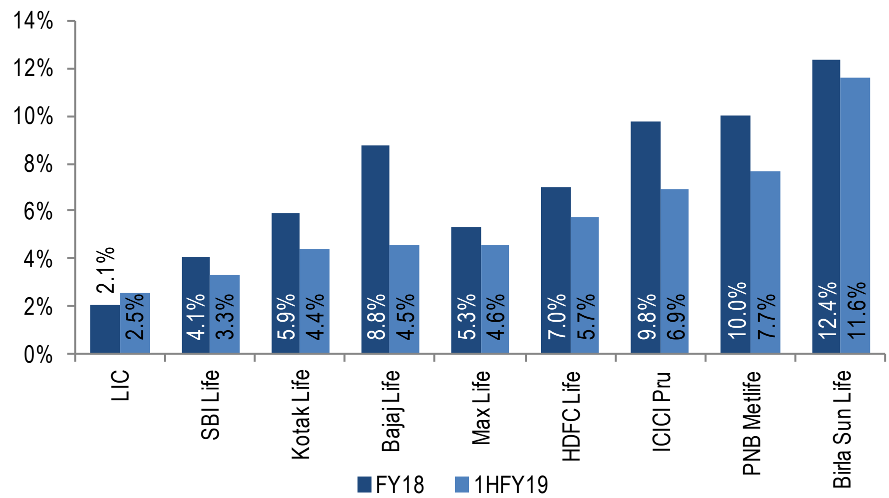
**SBIL's calculated persistency index for FY18 is also second best** among the 9 key life insurers.

Persistency is a key metric that life insurers would do well to manage properly since a life insurance contract, by its very nature, is structured in such a manner that related expenses are mostly upfront in nature whereas revenues accrue over the lifetime of the contract. Hence, **early surrender / cessation / lapse of a life insurance contract is a significantly sub-optimal outcome for life insurers from a profitability perspective**. Clearly, **SBIL's superlative outcomes in this regard directly feed into its long-term profitability**.

## It is important to look at Surrender Ratio separately and here, too, SBIL outperforms peers

To be clear, persistency ratio captures all factors due to which a policy may not be 'premium-paying' at a given point in time including surrender, lapse and other factors. Of these factors, surrender is a key consideration since, after surrender, the relationship between the policyholder and insurer ends as far as the specific contract is concerned. A lapsed policy, on the other hand, can always come back in force if a policyholder re-starts premium payment. **Hence, it is important to look at the surrender ratio metric separately, as it acutely focuses on the incidence of surrender**.

**Exhibit 11: Surrender Ratio for 9 key life insurers – FY18 and 1HFY19**



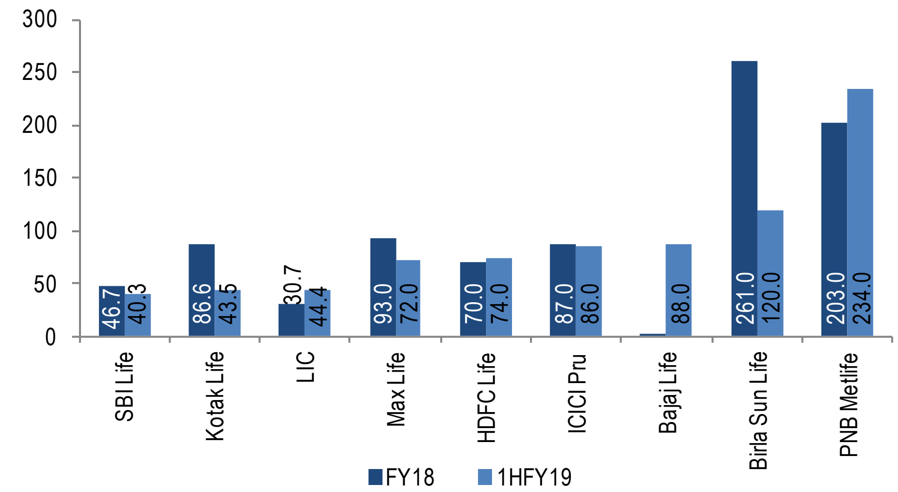

*Source: Companies, Nirmal Bang Institutional Equities Research*

**The surrender ratio for SBIL at 4.1% for FY18 second best** among 9 key Indian life insurers.

## Policyholders may also discontinue policies due to poor service and SBIL makes sure its service levels are best-in-class

For a long-term financial product like life insurance, it is imperative that insurers keep their service levels for customers at impeccable levels, lest they run the risk of customers discontinuing their policies due to dissatisfaction. In this regard, we find that outcomes for SBIL are the very best in the industry.

**Exhibit 12: Policy complaints (per 10,000 policies) for 9 key life insurers – FY18 and 1HFY19**



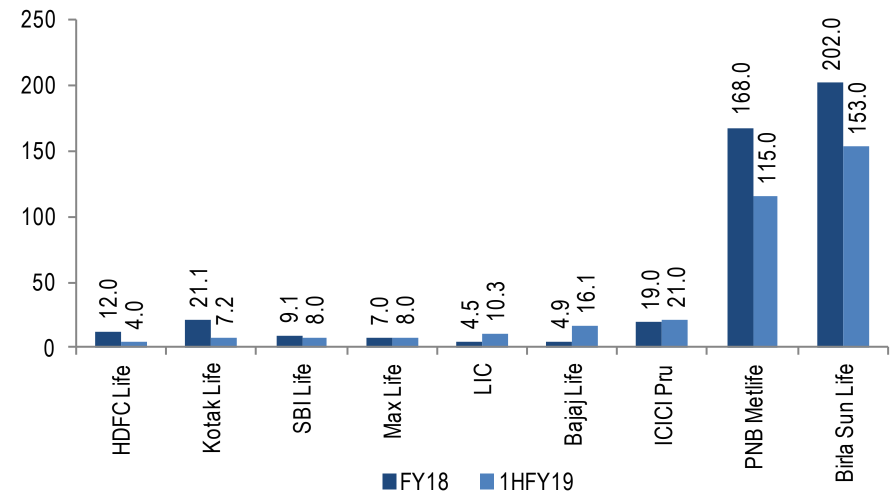

*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the Policy Complaints per 10,000 policies for SBIL for FY18 at 46.7 is the best** among 9 key Indian life insurers.

## SBIL's service levels remain high even at the time of policy termination which is reflective of their sound work culture

How a life insurer treats a beneficiary at the time a claim is reflective of a life insurer's internal culture. However, it also makes business sense as poor or lax treatment of a beneficiary only serves to damage the reputation of life insurer. The impact of reputational damage to a life insurer is difficult to measure but preventing such reputational damage is of strategic importance since positive brand recall is of natural importance in any business catering to the Indian individual consumer, which life insurance directly does.

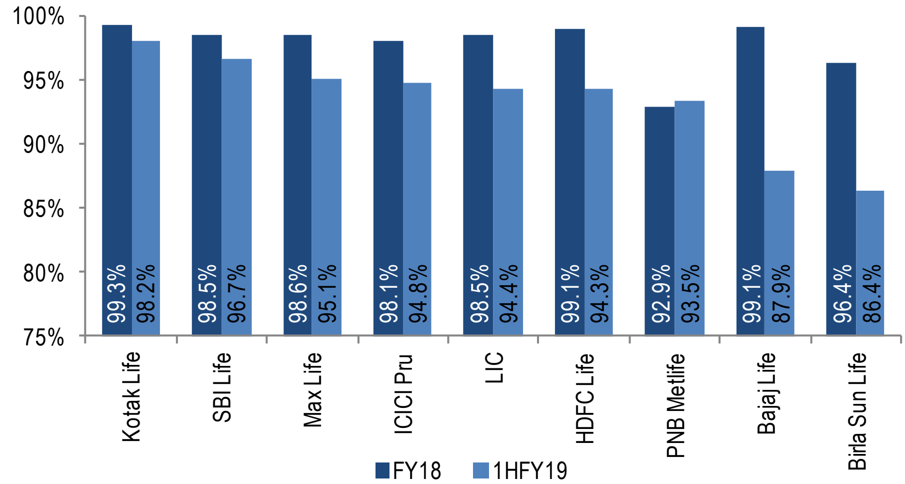
**Exhibit 13: Claim complaints (per 10,000 policies) for 9 key life insurers – FY18 and 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the Claim Complaints per 10,000 policies for SBIL for FY18 at 9.1 is the second best** among 9 key Indian life insurers.

**Exhibit 14: Settlement ratio for 9 key life insurers – FY18 and 1HFY19**



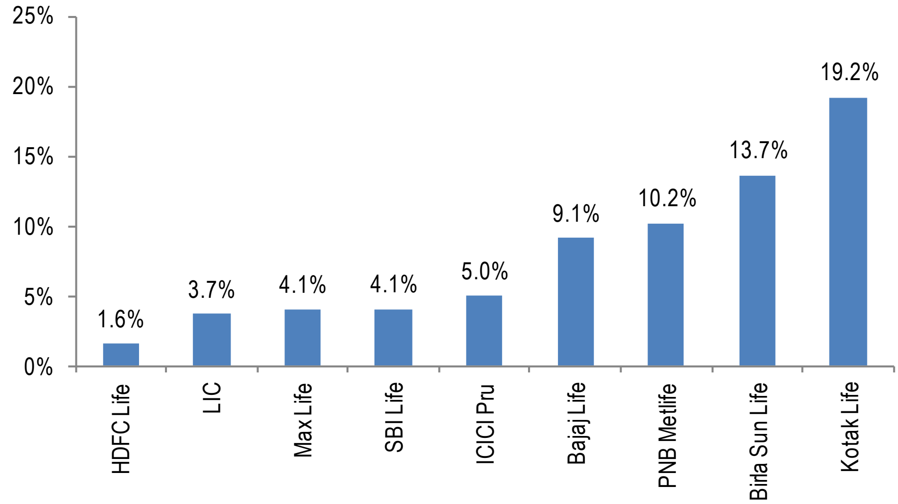

*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the Settlement ratio for SBIL for 1HFY19 at 96.7% is the second best** among 9 key Indian life insurers.

## SBIL does not tend to delay claim settlements to the second half of the year

It is of interest to note the Settlement ratio registered for the first half of the year as there seems to be a tendency for life insurers to postpone settlement of claims received to the second half of the year, while ensuring the full year settlement ratio outcome is good. However, what this practice implies is that while the life insurers are processing claims rapidly in the second half, the delay for claims filed in the first half would impact the beneficiaries from a perspective of timely receipt of payout. **We find that this phenomenon is minimal for SBIL as reflected in the low differential in the full year and half year settlement ratios**.

**Exhibit 15: Settlement ratio differential for 9 key life insurers – FY18 minus 1HFY18**



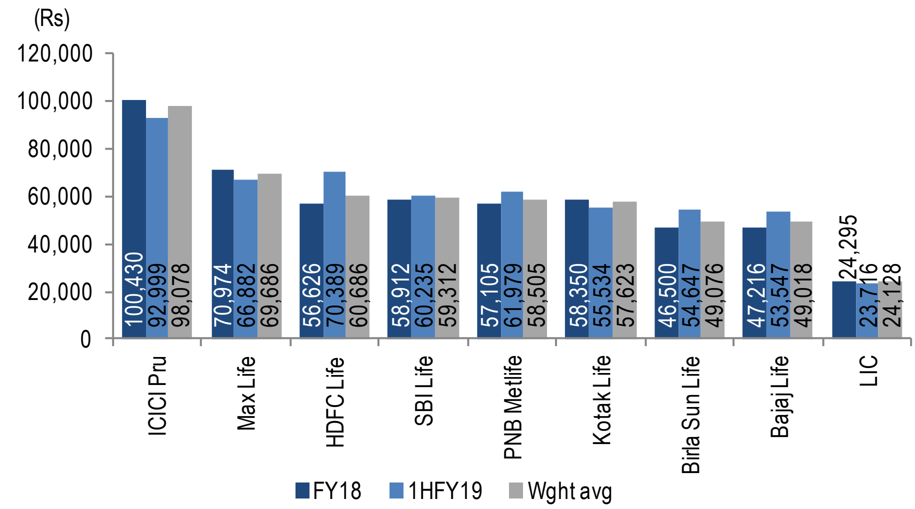

*Source: Companies, Nirmal Bang Institutional Equities Research*

## While SBIL's business has high growth outlook, it is a relatively low risk business

That SBIL's business has high growth outlook is something we discussed earlier in the section pertaining to bancassurance network sizes. **The low risk in SBIL's business is typified by (1) low dependence on market-sensitive HNIs for deriving business (2) low equity exposure as a proportion of AUM**. These two aspects, in fact, are inter-related to an extent since market-sensitive HNIs tend to allocate their premiums towards equity.

## SBIL's business has low dependence on market-sensitive HNI clients reflected in its relatively lower average ticket size

**Exhibit 16: Overall average ticket size for 9 key life insurers – FY18, 1HFY19, wt. avg.**

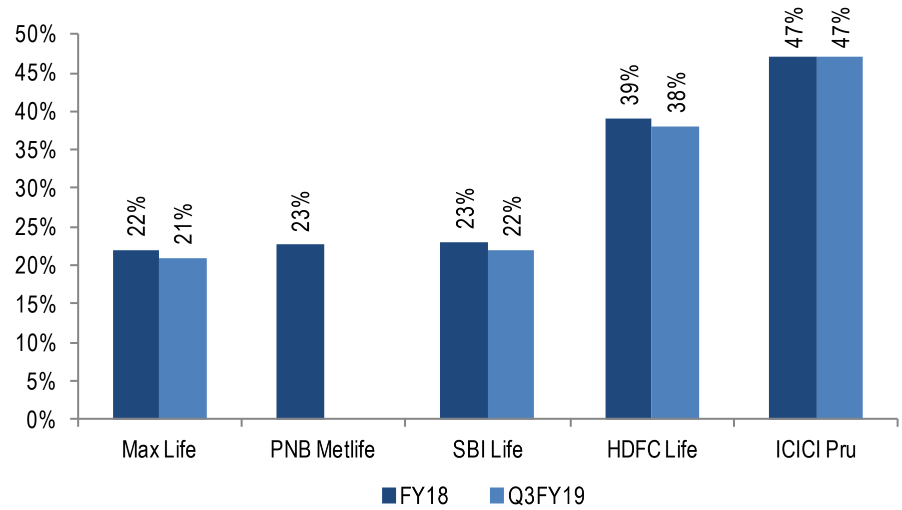



*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the overall average ticket size for SBIL at ~Rs 59,000 is the lowest among the 4 listed life insurers**. SBIL is known to be a **'mass market'-focused life insurer** and less dependent on HNIs for business compared with key listed life insurer peers. HNIs have tended to use life insurance products more as vehicles to play the stock market over time horizons that are far shorter than a life insurer would like the policies to stay in force.

## SBIL's business has low exposure to equity as a proportion of AUM

**Exhibit 17: Share of equity in AUM for 5 key life insurers – FY18, 3QFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the share of equity in total AUM for SBIL is close to the 20% ballpark, which is significantly lower than some its key listed life insurer peers**.

High exposure to equity makes underlying funds vulnerable to under-performance during stock-market downturns and increases the probability, ceteris paribus, of clients surrendering policies citing disappointment with performance.

At the same time, we note that high equity exposure may not, necessarily, be a negative in a scenario where the outlook for the equity market is positive and stable. The risk exists since a prolonged downturn in the equity market would have an outsized negative impact on life insurers with high equity exposure.

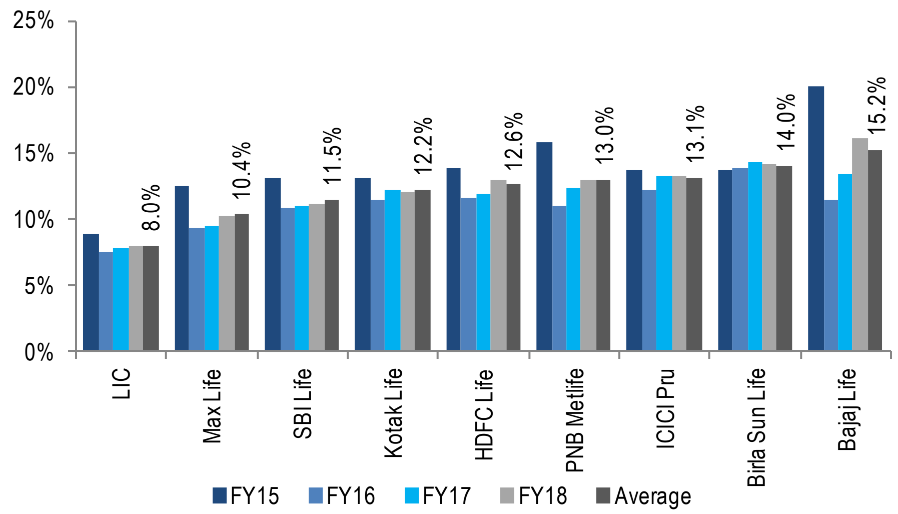
## Strong under-writing is a key feature of SBIL that leads to lower claims and higher profitability

Like in the credit industry, **appraisal of the potential customer (policyholder) is also important** since selling a life insurance product without pricing it appropriately (setting the premium) will come back and hit the insurer in the form of higher than manageable claims, crimping profitability.

We use claims (benefits paid) as a percentage of average AUM as the metric for comparing under-writing standards since claims emerge from the entire AUM. In the case of the claims ratio metric (which is defined as benefits paid divided by premiums for that year), while the premiums inflow contains regular premiums from the back-book, the metric does not factor in (a) the single premium products (b) persistency aspects (c) policies whose premium-paying term may have ended and other idiosyncrasies. Hence, **we consider claims as a percentage of AUM as a superior metric to gauge under-writing capability for a life insurer compared with the standard claims ratio**. However, the claims ratio has its own importance as it discloses the direct impact of claims on a given year's profitability and should also be separately looked at.

Furthermore, **we looked at the 4-year average of claims as a percentage of AUM** since claims, by nature, could be volatile although for an essentially retail (and, therefore, granular) business like life insurance, the volatility may not necessarily be particularly high.

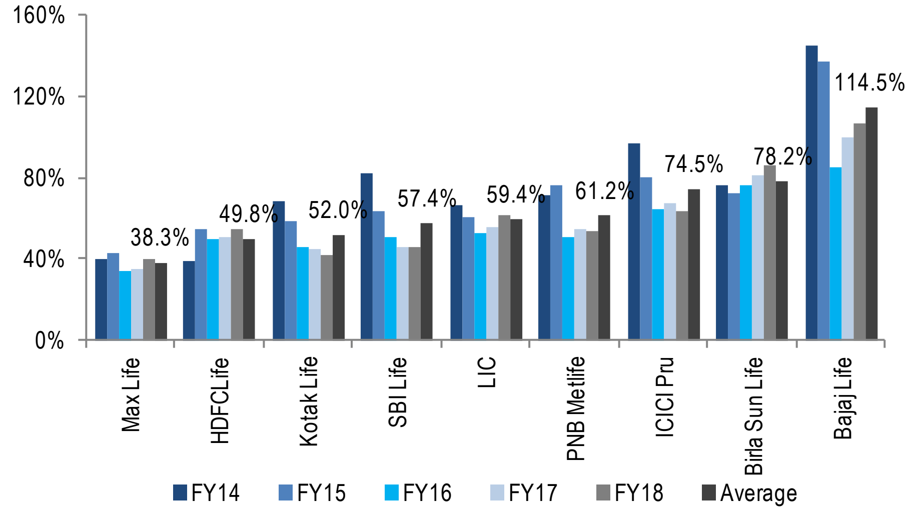
**Exhibit 18: Claims as a % of avg. AUM for 9 key life insurers – FY15-18, 4yr.avg.**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**SBIL has the third best 4-year average for claims as a percentage of average AUM at 11.5%** among 9 key life insurers.

**Exhibit 19: Claims ratio – FY14-18 and 5-year Average - for 9 key life insurers**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**SBIL also has the fourth best 5-year average claims ratio at 57.4%** among 9 key life insurers.

**Exhibit 20: Management team/ Key executives**

| Name | Designation | Experience |
|---|---|---|
| Mr. Sanjeev Nautiyal | MD & CEO | Mr. Sanjeev Nautiyal started his career as a Probationary Officer in State Bank of India in 1985 in the Bank's Lucknow Circle. After acquiring his Bachelor of Arts, Mr. Nautiyal took a Master's Degree in Business Administration from Lucknow University. Mr. Nautiyal is a Certified Associate of the Indian Institute of Bankers (C.A.I.I.B). In his illustrious career of 32 years, Mr. Nautiyal has held various important assignments in fields like Credit, Human Resources, and International Banking. Mr. Nautiyal's previous assignment was Chief General Manager of the Bank's Ahmedabad Circle. |
| Mr. Julien Hautiere - Rey | Deputy CEO | Julien has been the Deputy CEO of SBI Life since October 2016. Prior to joining SBI Life, he was the Chief Finance & Risks officer at BNP Paribas Cardif Russia involved in the restructuring of the company and change of business model from mono product/partner/distribution to multi-channel distribution of varied products. He played a vital role in launching innovative protection products in Russia during the economic crisis. |
| Mr. Sanjeev Pujari | President (Actuarial & Risk Management) | Mr Sanjeev Pujari is the President - Actuarial & Risk Management at SBI Life Insurance Co. Ltd. Prior to this, he has worked as the Appointed Actuary with SBI Life Insurance Co. Ltd. He joined LIC as a Direct Recruit Officer in 1985. He has spent a total of twenty two years with LIC in various roles and positions, from Marketing and IT to Actuarial, in different locations. Apart from this, he spent eight years in the UK, out of which four years were with AxaSunlife, Bristol, two years with Swiss Re and two years with LIC's Branch Office in London. He has also been on Actuarial positions in LIC including Head - Valuation (2003-2006) and Head - Pricing (2000-2002). |
| Mr. Anand Pejawa | President Operations, IT and International Business | Mr Anand Pejawar is the President – Operations, IT and International Business with SBI Life Insurance Co. Ltd. He has thirty two years of experience across the banking and insurance sectors. He started his career with Life Insurance Corporation of India (LIC) in the year 1983.Then he moved over to the Banking sector before returning to the Insurance sector. He completed his graduation in Science and followed it up with a post-graduation in Management and Law. He is very active on national and international forums and has been invited by the Million Dollar Round Table (MDRT) – USA for its annual conventions, Asian Bancassurance & Additional Distribution Congress organised by Asia Insurance Review among many others. He has been appointed to various committees formed at the behest of the Ministry of Finance for the Life Insurance sector. |
| Mr. Abhijit Gulanikar | President - Business Strategy | Abhijit Gulanikar joined SBI Life as the Chief Investment Officer in Jan, 2009 and has been, since then, in charge of Business Strategy. With over 15 years of experience in the insurance industry (both life and non-life), Mr Gulanikar has handled functions like life investments, finance, planning and strategy. |
| Mr. Sangramjit Sarangi | Chief Financial Officer | Sangramjit Sarangi is the Chief Financial Officer of SBI Life Insurance Co. Ltd. He holds a bachelor's degree in law from Utkal University. He is a qualified chartered accountant registered with the Institute of Chartered Accountants of India. He has been associated with SBI Life since December 30, 2009. He has more than 18 years of experience in handling multiple functions in the field of Life Insurance and Mutual Fund industry. Mr Sarangi has worked with ICICI Prudential Life Insurance Company as Vice President – Treasury, Investment Operations & Finance. Currently, he is responsible for finance & taxation, compliance & secretarial functions at SBI Life |
| Mr. Subhendu Bal | Appointed Actuary | Mr Subhendu Kumar Bal is the Appointed Actuary of SBI Life Insurance Company. He has an industry experience of more than 24 years in several life insurance companies. He has worked in SBI Life for over nine years. Prior to joining SBI Life, he has worked for three other private insurance companies. He has also worked with the Life Insurance Corporation of India before moving to the private life insurance sector. |
| Mr. Gopikrishna Shenoy | Chief Investment Officer | - |
| Mr. Pranay Raniwala | Compliance Officer | - |
| Mr.Nimesh Maniyar | Company Secretary | - |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 21: Board members**

| Name | Designation | Experience |
|---|---|---|
| Mr. Rajnish Kumar | Chairman | Mr. Rajnish Kumar is the Chairman of the Company. He is also the Chairman of State Bank Group. He has been with the State bank of India for over three decades, having joined the Bank as a Probationary officer in 1980. An M. Sc. in Physics, and a CAIIB, he has held several key assignments across various business verticals, including two overseas assignments in Canada and U.K. Prior to this, he was the Managing Director (National Banking Group), State Bank of India, Managing Director (Compliance & Risk) of State Bank of India and also the Managing Director & Chief Executive Officer in SBI Capital Markets Limited (the Merchant Banking arm of State Bank of India) before becoming Managing Director In SBI. |
| Mr. Dinesh Khara | Director | Mr. Dinesh Khara is a Non-Executive Director of SBI Life. He holds a degree in Masters in Business Administration from FMS, New Delhi and is a post graduate in Commerce. He is also a Certified Associate of Indian Institute of Bankers. Mr. Khara joined State Bank of India as a Probationary Officer in 1984 and has over 32 years of experience in all facets of commercial banking such as retail credit, international banking operations, branch management etc. Currently, he is Managing Director of Associates & Subsidiaries wing of State Bank of India. |
| Mr. P. K. Gupta | Director | Mr. P.K.Gupta is Managing Director of the Bank since 2nd November, 2015. Currently, he looks after Retail Banking and latest initiatives in Payments & Digital Banking. Prior to this, Mr. Gupta was the Managing Director looking after Compliance & Risk in the Bank. Mr. Gupta joined State Bank of India in the year 1982. |
| Mr. Pierre de Portier de Villeneuve | Director | Mr. Pierre de Portier de Villeneuve is Non- Executive Director of the Company. He is a qualified Actuary and a graduate of the Institut de Science Financiere et d'Assurances (ISFA) in Lyon. He has participated in the development of Cardif since its creation in 1973. He has more than 40 years of experience in the Insurance sector. He is currently Chairman of BNP Paribas Cardif. He was elected President of the Groupement Français des Bancassureurs, the French association of bancassurance companies in 2015. |
| Mr. Gerard Binet | Director | Mr. Gérard Binet is a Non- Executive Director of the Company. He has a degree of Masters in Business Administration. He has more than 35 years of experience in the Insurance sector. He is currently Senior Advisor of BNP Paribas Cardif with the title of Managing Director (Délégué Général). He has been previously, Head of International for 15 years. |
| Mr. Nilesh Vikamsey | Independent Director | Mr. Nilesh Vikamsey is an Independent Director of the Company. He is a member of the Institute of Chartered Accountants of India (ICAI) since 1985, a Diploma holder in Information System Audit (DISA) of the ICAI and has completed Business Consultancy Studies Course of Bombay Chartered Accountants Society jointly with Jamnalal Bajaj Institute of Management Studies (JBIMS) in 2000-2001. Mr. Vikamsey is a Senior Partner of Khimji Kunverji & Co. and immediate Past President of the Institute of Chartered Accountants of India (ICAI). He is also an elected member of the Central Council, the Apex decision making body of the Institute of Chartered Accountants of India (ICAI), the second largest accounting body in the world for three consecutive terms of 2010–2013, 2013-2016 and 2016-2019. |
| Mr. Ravi Rambabu | Independent Director | Mr. Ravi Rambabu is an Independent Director of the Company. He is a Fellow member of the Institute of the Chartered Accountants of India and has been practicing for more than 40 years. He has rich experience in handling Income Tax cases, audit of various corporate and non-corporate organizations and also Corporate Advisory in the areas of Finance and Accounting. He has served as a Director on the Board of State Bank of Patiala for a period of six years. |
| Mr. Raj Narain Bhardwaj | Independent Director | Mr. Raj Narain Bhardwaj is an Independent Director of the Company. Mr. Bhardwaj has done B.A (Hons.), M.A (Economics) from Delhi School of Economics, University of Delhi and is DIR & PM from Punjabi University, Patiala. Mr. Bhardwaj is Ex-Chairman of LIC having experience of working in various fields of life insurance like in charge of Branch Office and Divisional Office of LIC, Executive Director – Investments and Managing Director. Mr. Bhardwaj joined LIC as a Direct Recruit Officer in 1968. Post retirement from LIC, Mr. Bhardwaj was also a member of Securities Appellate Tribunal (SAT), Government of India, Ministry of Finance. |
| Ms. Joji Sekhon Gill | Independent Director | Ms. Joji Sekhon Gill is an Independent Director of the Company. She has done her Bachelor of Science, Economics and Masters in Personnel Management and Industrial Relations from Punjab University. She has more than 25 years of experience in the field of International Human Resources and has lived and worked in 3 different continents. |
| Mr. Deepak Amin | Independent Director | Mr. Deepak Amin holds a Bachelor's Degree in Technology (Computer Science & Engineering) from IIT, Mumbai and a Master's Degree in Science (Computer Science) from Rhode Island, USA. He was Director, Central Board, State Bank of India and member of the Central Board, the Executive Committee of the Central Board and various Committees of the Board. He is Founder and Promoter of Light Microfinance Pvt. Ltd., a rapidly growing professionally run Non-Banking Finance Company-Microfinance company based in Gujarat. |
| Mr. Somasekhar Sundaresan | Independent Director | Mr. Somasekhar Sundaresan is an advocate with practice focus in securities law, exchange controls, competition law and corporate law. He holds a B.Com degree from the University of Bombay's R.A. Podar College of Commerce and Economics, and studied law in the Government Law College, University of Bombay. |
| Mr. Sanjeev Nautiyal | MD & CEO | Mr. Sanjeev Nautiyal started his career as a Probationary Officer in State Bank of India in 1985 in the Bank's Lucknow Circle. After acquiring his Bachelor of Arts, Mr. Nautiyal took a Master's Degree in Business Administration from Lucknow University. Mr. Nautiyal is a Certified Associate of the Indian Institute of Bankers (C.A.I.I.B). In his illustrious career of 32 years, Mr. Nautiyal has held various important assignments in fields like Credit, Human Resources, and International Banking. Mr. Nautiyal's previous assignment was Chief General Manager of the Bank's Ahmedabad Circle. |

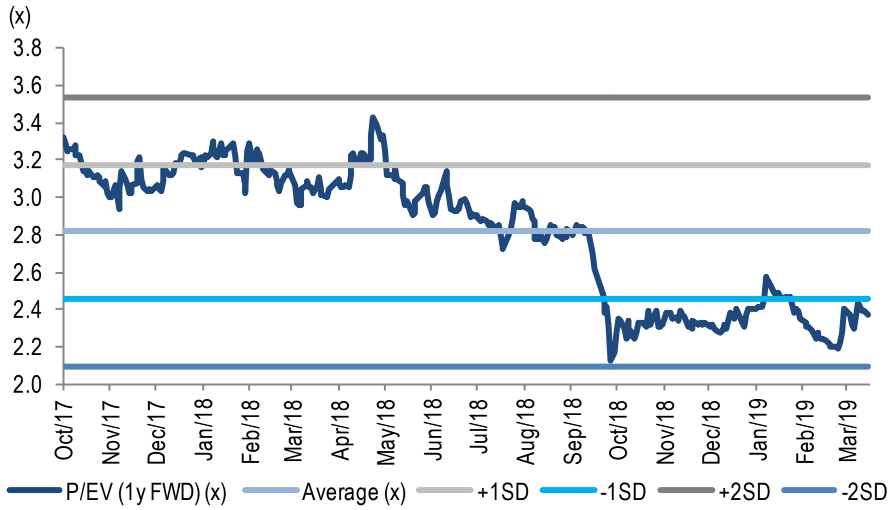
*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 22: Shareholding Information**

| Key institutional investors | (%) |
|---|---|
| **Promoter / Promoter Group** | |
| State Bank Of India Ltd | 62.1 |
| BNP Paribas | 12.8 |
| | |
| **Non - promoter** | |
| CA Emerlad Investments (Carlyle) | 9.0 |
| MacRitchie Investments (Temasek) | 3.9 |
| Value Line Pte (KKR) | 2.0 |
| ICICI AMC | 1.8 |
| Baron Capital Inc | 0.5 |
| Vanguard Group Inc | 0.5 |
| Standard Life Aberdeen PLC | 0.5 |
| Kotak Mahindra AMC | 0.3 |
| Sundaram AMC | 0.3 |
| Aditya Birla Sun Life AMC | 0.3 |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 23: One-year forward P/EV**




*Source: Company, Nirmal Bang Institutional Equities Research*

## Financials

### Exhibit 24: Revenue account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| FYP (first year premium) | 81,394 | 90,990 | 1,04,590 | 1,18,945 |
| SP (single premium) | 28,268 | 57,968 | 74,021 | 94,859 |
| **NBP (new business premium)** | **1,09,661** | **1,48,958** | **1,78,611** | **2,13,805** |
| RP (renewal premium) | 1,43,881 | 1,88,999 | 2,35,062 | 2,86,552 |
| **Gross premium** | **2,53,542** | **3,37,957** | **4,13,673** | **5,00,357** |
| (-) Reinsurance ceded | 1,941 | 2,912 | 3,523 | 4,316 |
| **Net premiums** | **2,51,601** | **3,35,045** | **4,10,149** | **4,96,041** |
| Income from investments and other income | 86,005 | 84,807 | 1,10,166 | 1,45,375 |
| **Total income** | **3,37,605** | **4,19,852** | **5,20,315** | **6,41,416** |
| - Commission expenses | 11,209 | 13,877 | 16,800 | 19,904 |
| - Operating expenses | 17,188 | 22,463 | 26,821 | 31,844 |
| - Provision for doubtful debts and taxes | 3,582 | 5,965 | 7,405 | 8,964 |
| **Operating surplus** | **3,05,681** | **3,77,617** | **4,69,371** | **5,80,799** |
| - Benefits paid (net) | 1,16,775 | 1,38,612 | 1,69,148 | 2,08,464 |
| - Interim & terminal bonuses paid | 348 | 431 | 487 | 547 |
| - Change in reserves | 1,75,950 | 2,24,668 | 2,83,785 | 3,53,069 |
| **Pre-tax surplus / (deficit)** | **12,609** | **13,905** | **15,951** | **18,719** |
| Provisions for tax | 2,380 | 2,361 | 2,646 | 2,968 |
| **Post-tax surplus / (deficit)** | **10,229** | **11,545** | **13,304** | **15,751** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 26: P&L account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| T/f from technical a/c | 8,294 | 8,838 | 10,298 | 12,451 |
| Investment and other income | 4,634 | 5,427 | 6,451 | 7,870 |
| **Total income** | **12,928** | **14,264** | **16,749** | **20,321** |
| **Total expenses** | **1,083** | **428** | **380** | **450** |
| PBT | 11,845 | 13,836 | 16,369 | 19,871 |
| Provision for tax | 341 | 415 | 491 | 596 |
| **PAT** | **11,504** | **13,421** | **15,878** | **19,275** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 27: Balance sheet

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Sources of Funds** | | | | |
| **Shareholders' fund** | **65,278** | **76,459** | **89,576** | **1,05,504** |
| Policy liabilities | 11,14,345 | 13,42,073 | 16,29,660 | 19,87,402 |
| Funds for future appropriations | 1,935 | 2,707 | 3,007 | 3,300 |
| **Total** | **11,81,558** | **14,21,240** | **17,22,243** | **20,96,206** |
| **Application of Funds** | | | | |
| Shareholders' investments | 50,143 | 61,175 | 74,634 | 91,053 |
| Policyholders' investments | 5,44,857 | 6,40,654 | 7,60,784 | 8,93,868 |
| Asset held to cover linked liabilities | 5,49,359 | 6,85,050 | 8,63,163 | 10,87,586 |
| Net other and current assets | 37,199 | 34,361 | 23,662 | 23,700 |
| **Total** | **11,81,558** | **14,21,240** | **17,22,243** | **20,96,206** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 25: Embedded value table

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Opening EV** | **1,65,404** | **1,90,804** | **2,20,816** | **2,58,459** |
| Unwind | 14,100 | 16,266 | 18,824 | 22,033 |
| VNB (or NBAP) | 13,900 | 16,454 | 20,159 | 23,760 |
| Operating variance | 1,600 | 1,200 | 1,100 | 1,600 |
| **EV Operating Profit (EVOP)** | **29,600** | **33,919** | **40,083** | **47,393** |
| Non-operating variance | (1,800) | (1,000) | 1,000 | 1,000 |
| **EV Profit** | **27,800** | **32,919** | **41,083** | **48,393** |
| Net capital injection | (2,400) | (2,908) | (3,440) | (4,176) |
| **Closing EV** | **1,90,804** | **2,20,816** | **2,58,459** | **3,02,675** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 28: Key ratios

| Y/E March | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| New business premium | 8.1 | 35.8 | 19.9 | 19.7 |
| Renewal premium | 32.3 | 31.4 | 24.4 | 21.9 |
| Net premium | 20.7 | 33.2 | 22.4 | 20.9 |
| PAT | 20.5 | 16.7 | 18.3 | 21.4 |
| Total AUM | 19.4 | 21.2 | 22.5 | 22.0 |
| Total Assets | 19.1 | 20.3 | 21.2 | 21.7 |
| **Expense analysis (%)** | | | | |
| Commission ratio | 4.4 | 4.1 | 4.1 | 4.0 |
| Opex ratio | 6.8 | 6.6 | 6.5 | 6.4 |
| Claims ratio | 46.1 | 41.0 | 40.9 | 41.7 |
| P/hs' opex / Avg P/hs' AUM | 1.7 | 1.9 | 1.8 | 1.8 |
| **Profitability analysis (%)** | | | | |
| RoA | 1.1 | 1.0 | 1.0 | 1.0 |
| RoE | 19.4 | 19.5 | 19.7 | 20.5 |
| RoEV | 17.9 | 17.8 | 18.2 | 18.3 |
| VNB margin | 16.2 | 17.0 | 18.0 | 18.5 |
| S/hs' AUM yield | 10.0 | 9.8 | 9.5 | 9.5 |
| P/hs' AUM yield | 8.4 | 6.9 | 7.3 | 7.9 |
| **Balance sheet analysis** | | | | |
| P/hs' funds / P/hs' AUM (x) | 1.0 | 1.0 | 1.0 | 1.0 |
| NWP / Net worth (x) | 3.9 | 4.4 | 4.6 | 4.7 |
| **Per share data (Rs)** | | | | |
| EPS | 11.5 | 13.4 | 15.9 | 19.3 |
| BVPS | 63.7 | 74.3 | 86.7 | 101.8 |
| EVPS | 190.8 | 220.8 | 258.5 | 302.7 |
| **Valuation data (x)** | | | | |
| P/E | 52.2 | 44.7 | 37.8 | 31.2 |
| P/BV | 9.4 | 8.1 | 6.9 | 5.9 |
| P/EV | 3.1 | 2.7 | 2.3 | 2.0 |

*Source: Company, Nirmal Bang Institutional Equities Research*

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Initiating Coverage

# ICICI Prudential Life Insurance Company

3 April 2019

Reuters: ICIR.NS; Bloomberg: IPRU IN

## Exclusive Access To Efficient Parent Network Provides The Edge

**We are bullish on ICICI Prudential Life Insurance (IPLI) since (1) It possesses a large bancassurance network, whose network size is most critical for scalability. Importantly, parent ICICI Bank network sources exclusively for IPLI (2) IPLI has the second best expense ratio among 9 key life insurer peers (3) It has the third best persistency outcomes across time cohorts among 9 key insurer peers. We have some moderate concerns since (1) IPLI's performance on customer service is a tad mixed and (2) IPLI also has an inherently somewhat higher business risk profile which introduces an element of cyclicality and volatility in its revenue stream. To be clear, these customer service and business risk aspects of IPLI's business are not major concerns, in our view and do not alter our overall bullish stance. We initiate coverage on IPLI with Buy Rating and a Target Price of Rs453, valuing the stock at 2.4x FY21E P/EV. *Our top pick in the life insurance space is SBI Life*.**

**IPLI possesses a large bancassurance network, whose network size is most critical for scalability. Moreover, parent ICICI Bank network sources exclusively for IPLI:** We have, already, established that, based on empirical evidence, large bancassurance networks are critical for the scalability of life insurers in India. In this regard, it is important, therefore, to emphasize that IPLI has one of the largest bancassurance networks among private sector life insurers consisting of as many as 8,209 branches. What is also important to understand and appreciate is that, (a) of these branches, the 4867 branches of parent ICICI Bank source exclusively for IPLI (b) the efficiency and cross sell culture at ICICI Bank is particularly sound.

**IPLI has the second best expense ratio among 9 key life insurer peers:** The opex ratio for ICICI Prudential Life at 7.5% for FY18 is the second lowest among 9 key life insurer peers. Like the rest of the ICICI Group, IPLI has an effective digital strategy that feeds into low opex ratio. As a result, total expense ratio (the sum of opex ratio and commission ratio) for ICICI Prudential Life is second best among 9 key life insurers at 12.7% in FY18.

**IPLI has the third best persistency outcomes across time cohorts among 9 key life insurer peers:** The persistency outcomes for IPLI are superior across time cohorts and are indicative of low mis-selling and strong customer service. We calculate a 'persistency index' that factors in 13th month, 37th month and 61st month persistency into a single number and note that IPLI stands third best on this metric at 109.1% for FY18 compared with 70.3-109.1% for key peers.

**We have some moderate concerns since IPLI's performance on customer service is a tad mixed and it has an inherently somewhat higher business risk profile:** On the customer service front, (a) IPLI needs to do better on managing Surrenders although, it has shown improvement (b) IPLI also needs to handle better Policy Complaints and (c) Claim Complaints (d) IPLI's performance on Settlement Ratio is reasonably good. IPLI's Surrender Ratio of 9.8% for FY18 is in the bottom 3 among 9 key life insurer peers but it has managed to improve this metric to 6.9% for 1HFY19. Policy Complaints for IPLI were at 87 per 10,000 for FY18 which puts it in the bottom 4 among 9 key life insurer peers. Claim complaints per 10,000 were 19 for IPLI in FY18 putting it in the bottom 3, albeit the absolute level for this metric is not concerning. IPLI's Settlement Ratio of 98.1% for FY18 is reasonably good. Regarding the business risk aspect, we think it is somewhat on the higher side due to (a) high dependence on market-sensitive HNI clients for business as reflected in its overall ticket size of ~Rs 98,000, which is the highest among 9 life insurer peers and (b) high exposure to equity as a proportion of AUM at 47% as of 3QFY19. To be clear, these customer service and business risk aspects of IPLI's business are not major concerns, in our view.

**Valuation and outlook: We initiate coverage on IPLI with Buy Rating:** We have assigned a multiple of 2.4x FY21 P/EV (3.5x FY18 P/EV) to IPLI, given its FY19E/FY20E/FY21E RoEV profile of 16.1%/16.5%/16.4%. Consequently, we arrive at our Target Price of Rs453 for IPLI.

| Y/E March (Rsmn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| NBP | 78,633 | 92,118 | 98,823 | 1,15,918 | 1,39,369 |
| PAT | 16,817 | 16,192 | 12,389 | 15,304 | 17,882 |
| P/E (x) | 31.2 | 32.4 | 42.4 | 34.3 | 29.3 |
| P/B (x) | 8.2 | 7.6 | 7.1 | 6.3 | 5.5 |
| P/EV (x) | 3.2 | 2.8 | 2.5 | 2.2 | 1.9 |
| *RoE (%)* | *28.7* | *24.4* | *17.3* | *19.4* | *20.1* |
| *RoEV (%)* | *16.4* | *22.7* | *16.1* | *16.5* | *16.4* |

*Source: Company, Nirmal Bang Institutional Equities Research*

## BUY

**Sector:** Banking

**CMP:** Rs366

**Target Price:** Rs453

**Upside:** 24%

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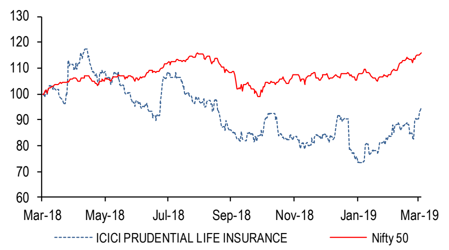
**Key Data**

| | |
|---|---|
| Current Shares O/S (mn) | 1,435.8 |
| Mkt Cap (Rsbn/US$bn) | 527.9/7.6 |
| 52 Wk H / L (Rs) | 461/277 |
| Daily Vol. (3M NSE Avg.) | 2,994,403 |

| Share holding (%) | 1QFY19 | 2QFY19 | 3QFY19 |
|---|---|---|---|
| Promoters | 78.7 | 78.7 | 78.7 |
| Institutions | 12.9 | 13.2 | 13.2 |
| Non-Institutions | 8.4 | 8.1 | 8.1 |

**One Year Indexed Stock Performance**




**Price Performance (%)**

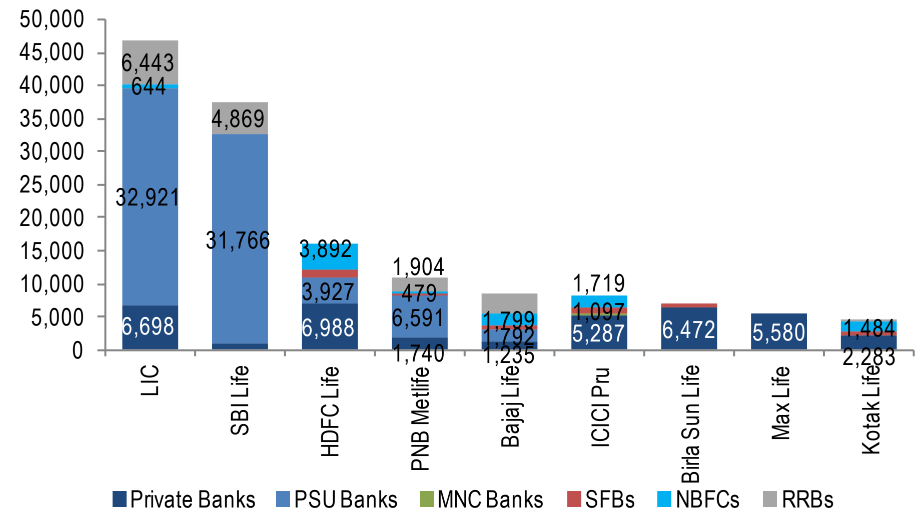
| | 1 M | 6 M | 1 Yr |
|---|---|---|---|
| ICICI Prudential Life Ins. Company | 13.1 | 11.3 | (4.2) |
| Nifty Index | 7.7 | 6.3 | 14.6 |

*Source: Bloomberg*

## Based on our comprehensive analysis of respective bancassurance networks, we find that IPLI has a particularly strong network

**We looked at the life insurance tie-ups of as many as 198 entities extending from Indian private sector universal banks, PSU universal banks, MNC universal banks, small finance banks, listed NBFCs, urban co-operative banks and regional rural banks**. We then looked at the branch network count for each of these entities and then arrived at the total addressable bancassurance network size for each life insurer. We present our findings for 9 key life insurers in a chart below. Urban cooperative banks were removed from our analysis due to lack of comprehensive data but this does not alter the broad statistical significance of our analysis.

**Exhibit 1: Addressable bancassurance network size for 9 key life insurers**




*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

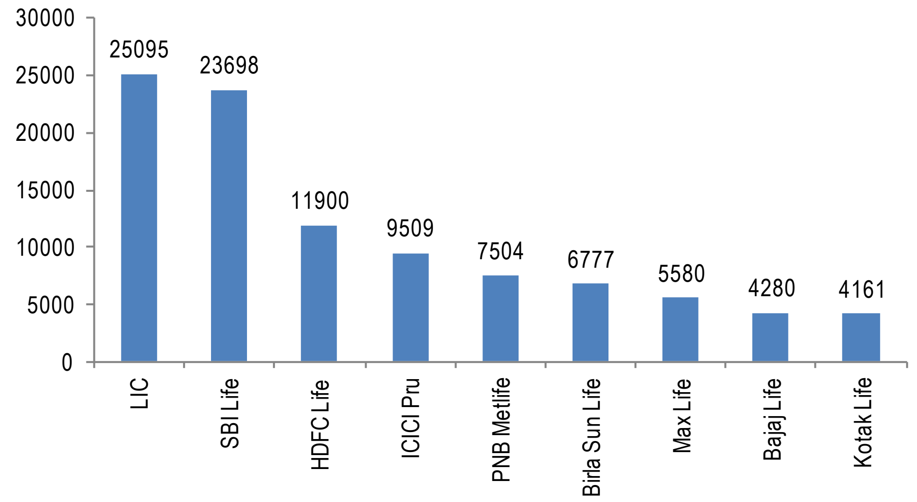
We note that, among private sector life insurers, IPLI has a large addressable bancassurance network consisting of as many as 8,209 branches. Of this, 4,867 branches belong to parent ICICI Bank, which exclusively sources for IPLI and does so with great cross sell culture and high efficiency. **We consider the bancassurance network of IPLI a key sustainable competitive advantage that will serve to drive its growth for a considerable period of time**.

## We adjust for differences in the efficiency levels of different categories of bancassurance partners to arrive at an adjusted bancassurance strength

**We also, further, note that not all banks can be painted with the same brush. The efficiency and cross sell culture at private sector banks would, admittedly, be better than that at PSU Banks**. Similarly, we would also aver that the branches of small finance banks, NBFCs and regional rural banks would have varying degrees of sourcing ability for partner life insurers. Hence, to arrive at a weighted bancassurance network 'index', we multiply PSU Bank and NBFC branch count by 50%, small finance bank branch count by 75% and regional rural bank branch count by 25% to arrive at a weighted index to indicate a more accurate strength of for respective bancassurance networks.

**Additionally, we also adjust to differentiate for certain branch networks sourcing exclusively for specific life insurers**. We add 50% for private sector bank branches and 25% for PSU Bank branches that are sourcing exclusively for specific insurers to our preliminary index to arrive at a final index for strength of bancassurance network. We present our findings for 9 key life insurers below in a chart.

**Exhibit 2: Index of bancassurance network strength for 9 key life insurers**



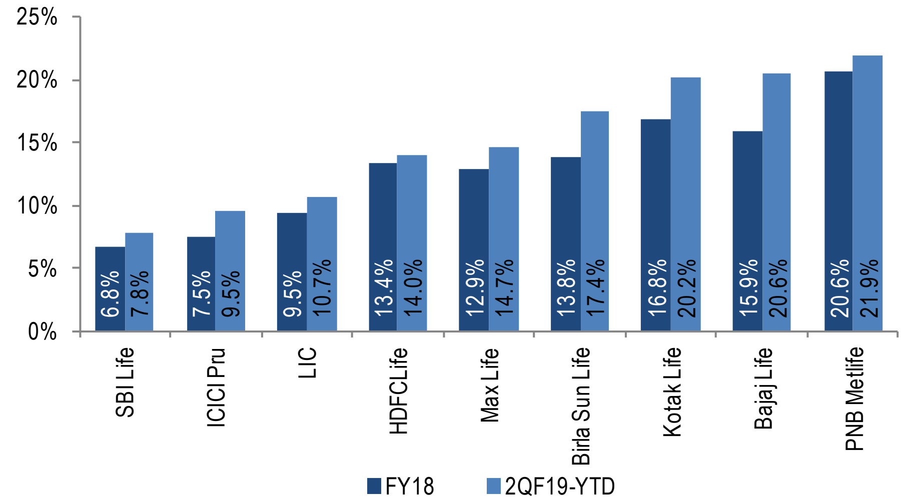

*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

**As per our analysis, the strength of IPLI's bancassurance network is stronger than that indicated merely by the arithmetical sum of bank branch count of bancassurance partners**. In fact, IPLI has the third strongest bancassurance network among 8 key private sector life insurers.

## Low total expense ratio is another key sustainable competitive advantage for IPLI over its peers

**The opex ratio for IPLI at 7.5% for FY18 is the second lowest** among 9 key life insurer peers.

**Exhibit 3: Opex ratio for 9 key life insurers – FY18 and 1HFY19**

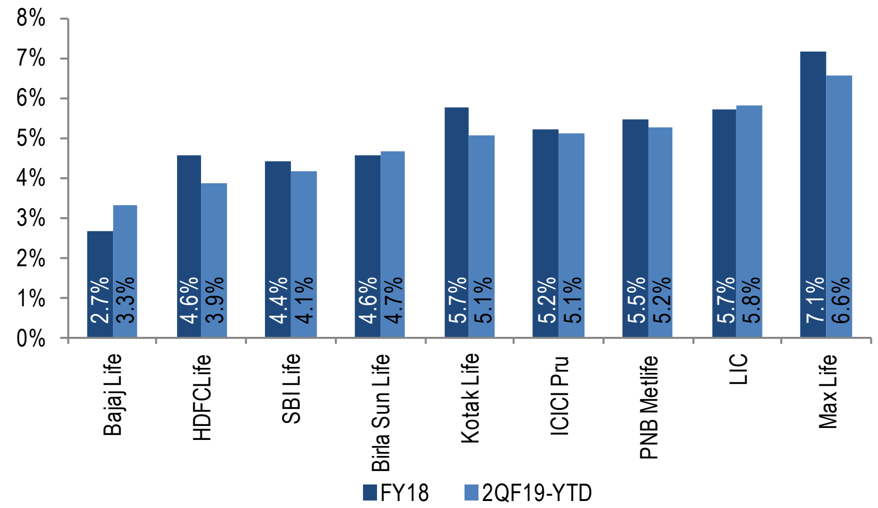



*Source: Companies, Nirmal Bang Institutional Equities Research*

*N.B. All charts where data pertaining to more than one period (e.g. FY18, 1HFY19) appears together, the respective companies have been sorted in ascending / descending order of data for the latest period (1HFY19 in our example). However, in text commentary, the rank of the respective company is generally specified as its rank as per its data point for full year FY18 (e.g. "SBI is also second best…."). Generally, the FY18 and latest period ranks may different at most by one position, if at all, and there is no qualitative difference to our conclusions whether we use FY18 or latest period data.*

**Commission ratio for IPLI is not one of the best among 9 key life insurers** with the ratio being 5.2% for FY18. However, **this does not move the needle as much as the opex ratio does for the total expense ratio**.

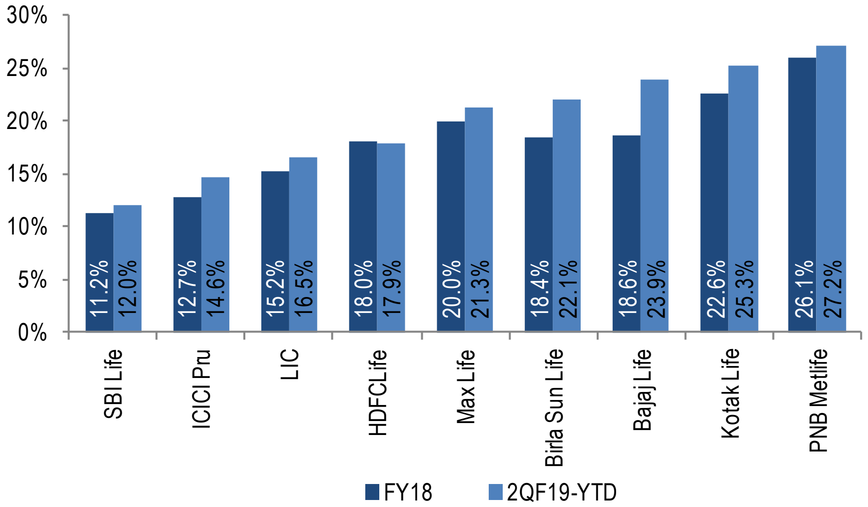
**Exhibit 4: Commission ratio for 9 key life insurers – FY18 and 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**Consequently, total expense ratio (the sum of opex ratio and commission ratio) for IPLI is second best among 9 key life insurers at** 12.7% in FY18.

**Exhibit 5: Total expense ratio for 9 key life insurers – FY18 and 1HFY19**

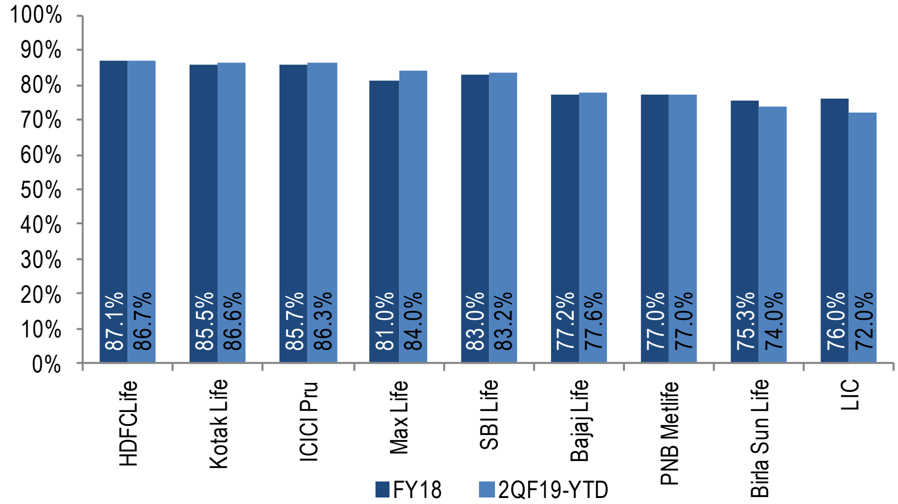



*Source: Companies, Nirmal Bang Institutional Equities Research*

## Superior persistency outcomes for IPLI are indicative of low mis-selling

The persistency outcomes for IPLI are superior across cohorts and are indicative of low mis-selling on the part of IPLI.

**Exhibit 6: 13th Month Persistency for 9 key life insurers – FY18 and 2QFY19**

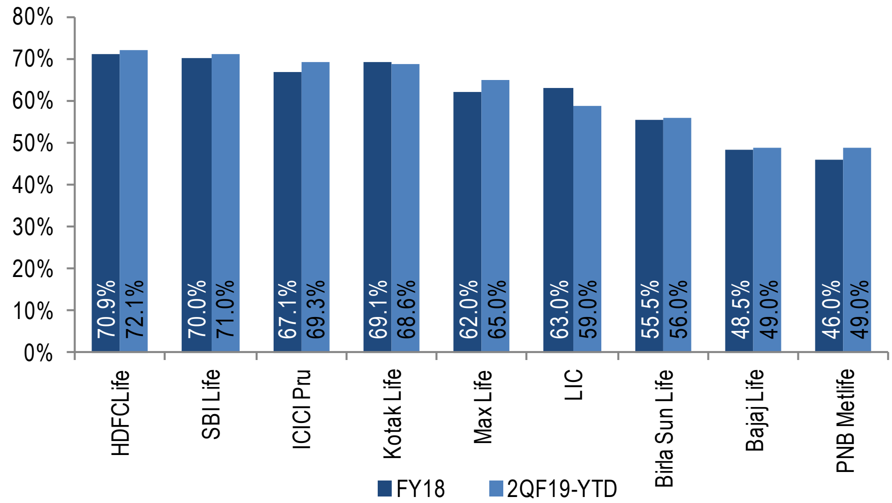



*Source: Companies, Nirmal Bang Institutional Equities Research*

**The 13th month persistency outcome for IPLI at 85.7% for FY18 is second best among 9 key life insurers**. It may be noted that the 13th month persistency for IPLI has deteriorated in FY19, declining to 84.1% in 8MFY19, but is still good in the absolute sense.

The importance of the 13th month persistency is lower than persistency ratios over longer time horizons given life insurance is a long-term financial product whose net cash flows (to the life insurer) start to rise as time elapses.

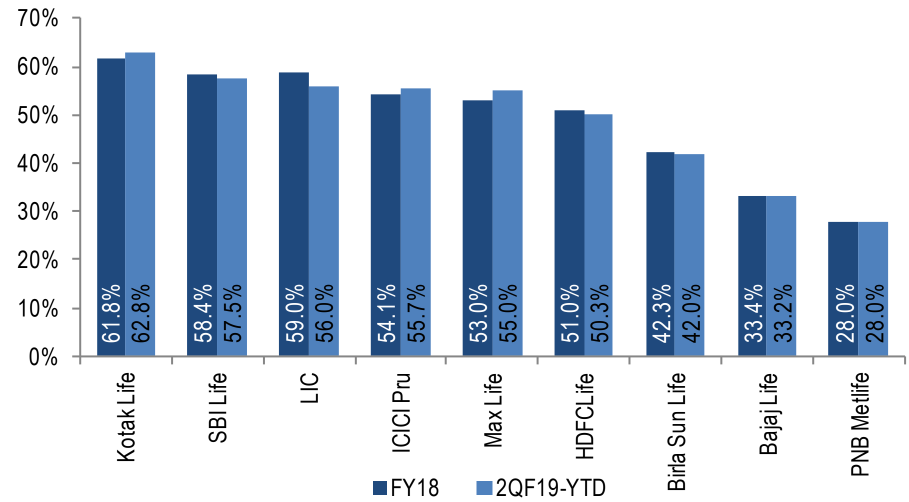
**Exhibit 7: 37th Month Persistency for 9 key life insurers – FY18 and 2QFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**IPLI's 37th month persistency at 67.1% for FY18 is fourth best** among the 9 key life insurers.

**Exhibit 8: 61st Month Persistency for 9 key life insurers – FY18 and 2QFY19**

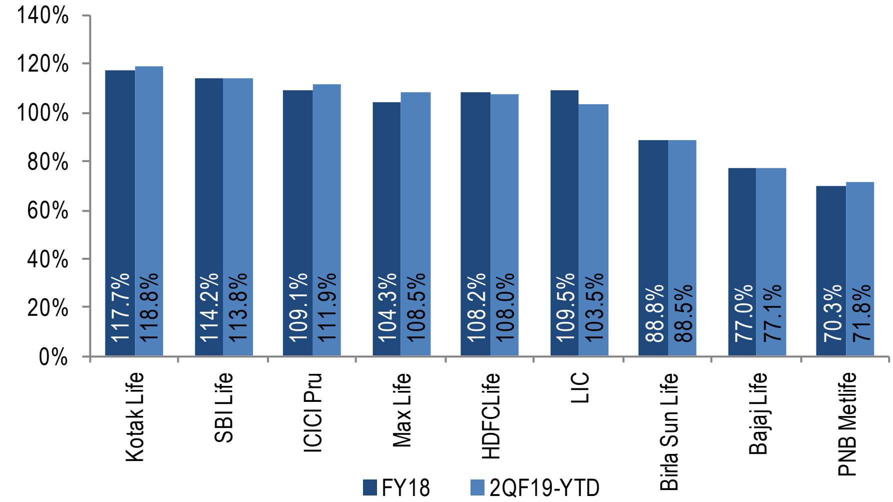



*Source: Companies, Nirmal Bang Institutional Equities Research*

**IPLI's 61st month persistency at 54.1% for FY18 is also fourth best** among the 9 key life insurers.

To arrive at **a single metric that captures persistency outcomes across time periods**, we multiply 13th month persistency by a factor of 0.25, 37th month persistency by a factor of 0.5 and add it to 61st month persistency, which is the most important and gets a factor of 1.0. We call it a persistency index and present our chart for the same below.

**Exhibit 9: Calculated Persistency Index for 9 key life insurers – FY18 and 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

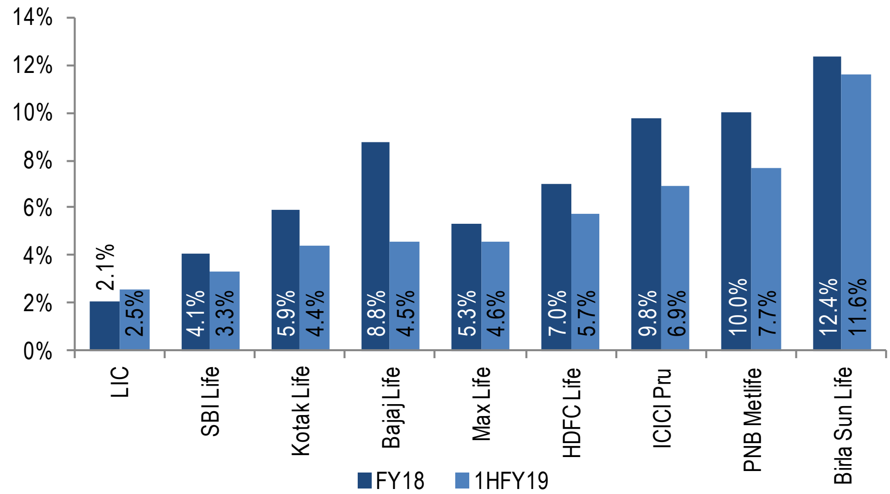
**IPLI's calculated persistency index for FY18 is also fourth best** among the 9 key life insurers.

Persistency is a key metric that life insurers would do well to manage properly since a life insurance contract, by its very nature, is structured in such a manner that related expenses are mostly upfront in nature whereas revenues accrue over the lifetime of the contract. Hence, **early surrender / cessation / lapse of a life insurance contract is a significantly sub-optimal outcome for life insurers from a profitability perspective**. Clearly, **IPLI's superior outcomes in this regard directly feed into its long-term profitability**.

## IPLI needs to do better on the Surrender Ratio front but has managed to make significant improvement

To be clear, persistency ratio captures all factors due to which a policy may not be 'premium-paying' at a given point in time including surrender, lapse and other factors. Of these factors, surrender is a key consideration since, after surrender, the relationship between the policyholder and insurer ends as far as the specific contract is concerned. A lapsed policy, on the other hand, can always come back in force if a policyholder re-starts premium payment. **Hence, it is important to look at the surrender ratio metric separately, as it acutely focuses on the incidence of surrender**.

**Exhibit 10: Surrender Ratio for 9 key life insurers – FY18 and 1HFY19**



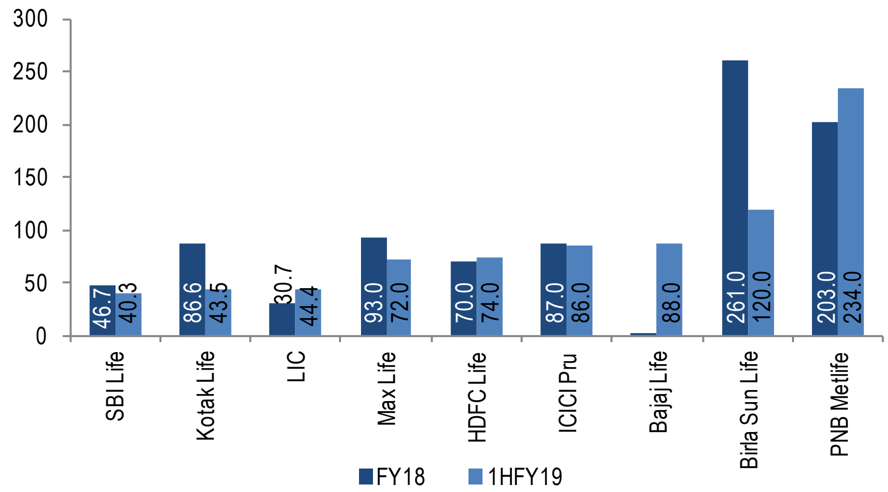

*Source: Companies, Nirmal Bang Institutional Equities Research*

**The surrender ratio for IPLI at 9.8% for FY18 is in the bottom 3** among 9 key Indian life insurers. However, IPLI has turned things around materially in 1HFY19 with its Surrender Ratio dropping to 6.9%, though it needs to do more on this front.

## Policyholders may also discontinue policies due to poor service and IPLI needs to do better in this regard

For a long-term financial product like life insurance, it is imperative that insurers keep their service levels for customers at impeccable levels, lest they run the risk of customers discontinuing their policies due to dissatisfaction. In this regard, we find that outcomes for IPLI are sub-optimal compared with 9 key life insurers.

**Exhibit 11: Policy complaints (per 10,000 policies) for 9 key life insurers – FY18 and 1HFY19**



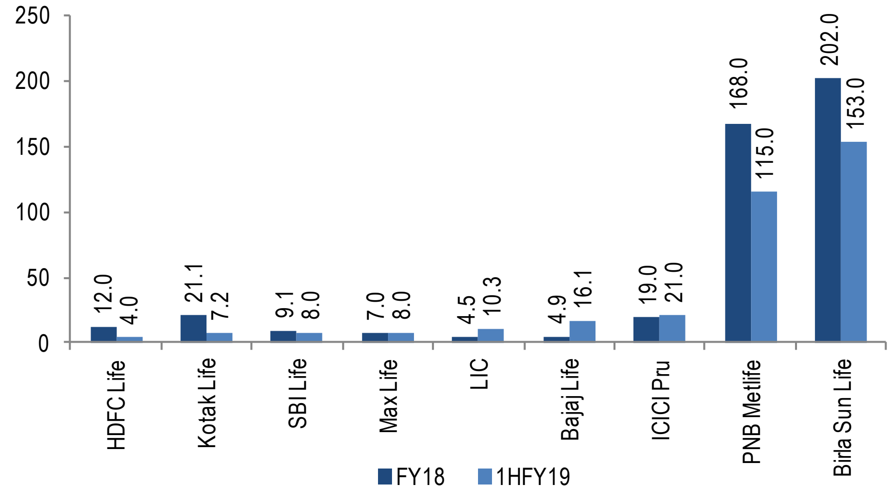

*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the Policy Complaints per 10,000 policies for IPLI for FY18 at 86.0 is in the bottom 4** among 9 key Indian life insurers.

## IPLI's service levels remain reasonably good even at the time of policy termination which is reflective of their sound work culture

How a life insurer treats a beneficiary at the time a claim is reflective of a life insurer's internal culture. However, it also makes business sense as poor or lax treatment of a beneficiary only serves to damage the reputation of life insurer. The impact of reputational damage to a life insurer is difficult to measure but preventing such reputational damage is of strategic importance since positive brand recall is of natural importance in any business catering to the Indian individual consumer, which life insurance directly does.

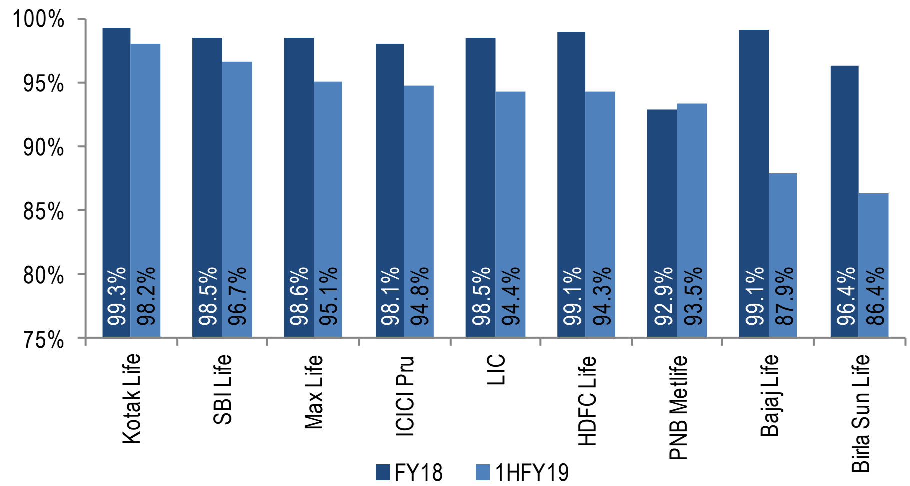
**Exhibit 12: Claim complaints (per 10,000 policies) for 9 key life insurers – FY18 and 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the Claim Complaints per 10,000 policies for IPLI for FY18 at 19.0 is in the bottom 3** among 9 key Indian life insurers. While we acknowledge that IPLI should be doing better on this front and move up the ranks, the absolute number of the metric is not necessarily cause for alarm.

**Exhibit 13: Settlement ratio for 9 key life insurers – FY18 and 1HFY19**



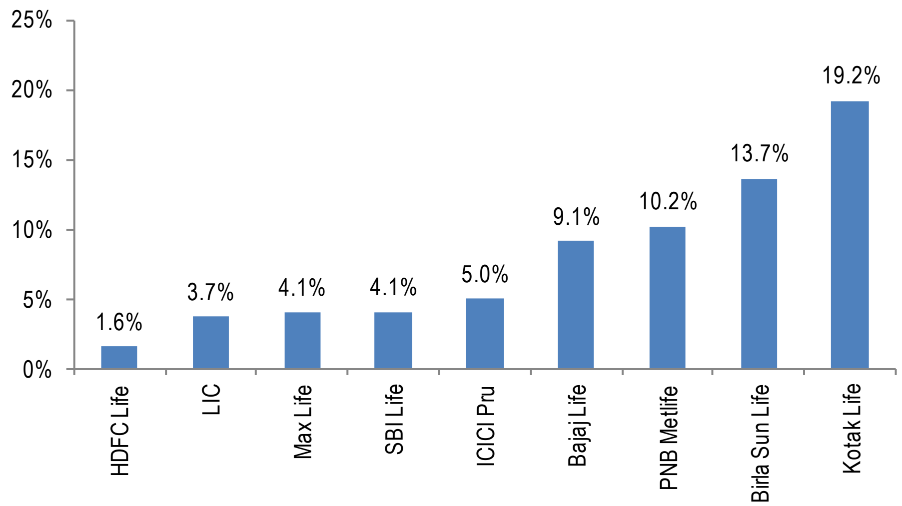

*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the Settlement ratio for IPLI for 1HFY19 at 94.8% is the fourth best** among 9 key Indian life insurers. **When seen conjunction with Settlement Ratio, we aver that IPLI's service levels at the point of policy termination are reasonably good**.

## IPLI does not tend to delay claim settlements to the second half of the year

It is of interest to note the Settlement ratio registered for the first half of the year as there seems to be a tendency for life insurers to postpone settlement of claims received to the second half of the year, while ensuring the full year settlement ratio outcome is good. However, what this practice implies is that while the life insurers are processing claims rapidly in the second half, the delay for claims filed in the first half would impact the beneficiaries from a perspective of timely receipt of payout. **We find that this phenomenon is minimal for IPLI as reflected in the low differential in the full year and half year settlement ratios**.

**Exhibit 14: Settlement ratio differential for 9 key life insurers – FY18 minus 1HFY18**



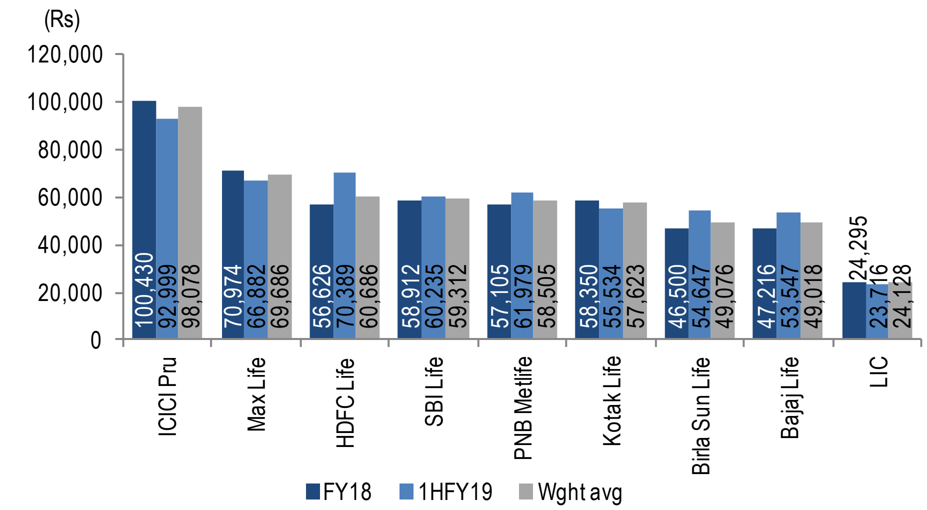

*Source: Companies, Nirmal Bang Institutional Equities Research*

## IPLI has a higher risk business in terms of HNI dependence and equity exposure but this is mitigated by retail focus

It has to be acknowledged that, in comparison to key listed life insurer peers, **IPLI's business carries a higher business risk due to (1) high dependence on HNI clients for business (2) high exposure to equity as a proportion of AUM**. These two aspects, in fact, are inter-related to an extent since market-sensitive HNIs tend to allocate their premiums towards equity.

## IPLI's business has high dependence on market-sensitive HNI clients reflected in its relatively higher average ticket size

**Exhibit 15: Overall average ticket size for 9 key life insurers – FY18, 1HFY19, wt. avg.**

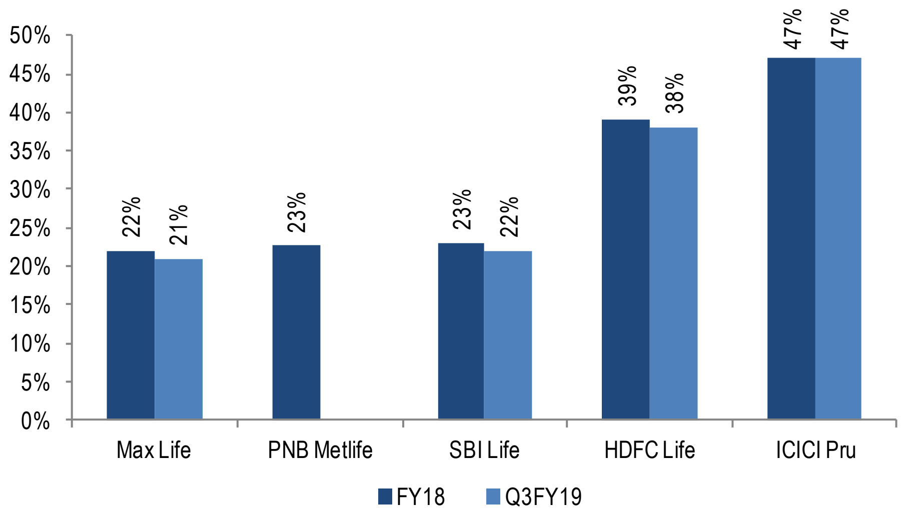



*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the overall average ticket size for IPLI at ~Rs 98,000 is the highest among the 9 key life insurers**. HNIs have tended to use life insurance products more as vehicles to play the stock market over time horizons that are far shorter than a life insurer would like the policies to stay in force. This has led to volatility in IPLI's topline of late. To clear, we do not consider this aspect of IPLI's business to be a major risk.

## IPLI's business has high exposure to equity as a proportion of AUM

**Exhibit 16: Share of equity in AUM for 5 key life insurers – FY18, 3QFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the share of equity in total AUM for IPLI is close to the 50% ballpark, which is significantly higher than its key listed life insurer peers**.

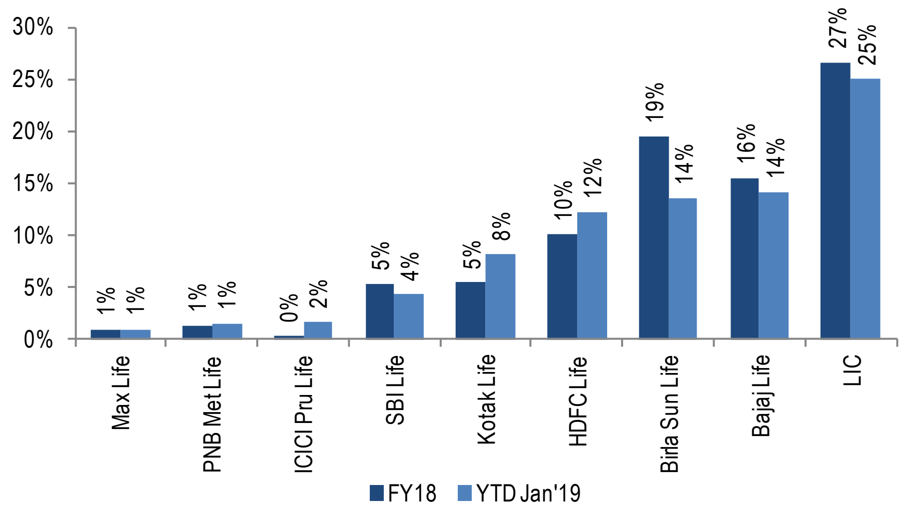
High exposure to equity makes underlying funds vulnerable to under-performance during stock-market downturns and increases the probability, ceteris paribus, of clients surrendering policies citing disappointment with performance.

At the same time, we note that high equity exposure may not, necessarily, be a negative in a scenario where the outlook for the equity market is positive and stable. The risk exists since a prolonged downturn in the equity market would have an disproportionate negative impact on life insurers with high equity exposure.

## IPLI's retail focus, introduces, a risk mitigation aspect to its business that needs to be understood and appreciated

While we have acknowledged the risk related to IPLI's business from a perspective of dependence on HNI clients and equity exposure, we must, also, acknowledge the risk-mitigating quality of its retail focus. **IPLI's retail focus introduces an element of linearity in its business that serves to reduce volatility in revenue other than that due to market related factors**.

**Exhibit 17: Share of group business in APE for 9 key life insurers – FY18, YTD Jan 2019**




*Source: Companies, Nirmal Bang Institutional Equities Research*

While we have acknowledged the risk related to IPLI's business from a perspective of dependence on HNI clients and equity exposure, we must, also, acknowledge the risk-mitigating quality of its retail focus. **IPLI's retail focus introduces an element of linearity in its business that serves to reduce volatility in revenue other than that due to market related factors**.

**We note that the proportion of Group business for IPLI has been just 2% for YTD January 2019 which is comparably lower than most peers from amongst 9 key life insurers**. In Group business, a life insurer is not dealing with individuals but organizations and linearity for such a businesses would depend on securing Group business wins, which are inherently non-linear / lumpy like most wholesale businesses.

**Exhibit 18: Management team/ Key executives**

| Name | Designation | Experience |
|---|---|---|
| Mr. N. S. Kannan | Managing Director & CEO | Mr. Narayanan Srinivasa Kannan, BE, CFA, PGDM, is Chief Executive Officer and Director at ICICI Prudential Life INS Co. since June 19, 2018. Mr. Kannan served as an Executive Director of ICICI Bank Limited since May 1, 2009 until June 18, 2018. Mr. Kannan's responsibilities include Finance, Treasury, Corporate Legal, Operations, Risk Management, Secretarial, Corporate Communications, Corporate Branding and Strategic Solutions Group. He also has the responsibility for day-to-day administration of the Compliance and Internal Audit functions. He is a Chartered Financial Analyst from the Institute of Chartered Financial Analysts of India and an Honors Bachelor's Degree in Mechanical Engineering from National Institute of Technology (formerly Regional Engineering College), Tiruchirappalli. Mr. Kannan also holds an MBA/postgraduate in management from the Indian Institute of Management, Bangalore with a gold medal for best all-round performance. |
| Mr. Puneet Nanda | Deputy Managing Director | He is an engineer by qualification and has also completed his Post Graduate Diploma in Management (MBA) from Indian Institute of Management, Lucknow. He has been Deputy Managing Director of ICICI Prudential Life Insurance Company Limited since July 3, 2018. His experience spans more than two decades in financial services having worked in ICICI Securities and J.P. Morgan prior to joining ICICI Prudential Life Insurance Company Ltd. |
| Mr. Satyan Jambunathan | Chief Financial Officer | Mr. Satyan Jambunathan has been Chief Financial Officer of ICICI Prudential Life Insurance Company Limited since June 29, 2016 and serves as its Senior General Manager. Mr. Jambunathan served as Executive Vice President and Chief Actuary at ICICI Prudential Life Insurance Company Limited. |
| Mr. Deepak Kinger | Chief Risk & Compliance Officer | Mr. Deepak Kinger has been Chief Risk and Compliance Officer of ICICI Prudential Life Insurance Company Ltd since July 7, 2016 and served as its Executive Vice President. |
| Ms. Vyoma Manek | Company Secretary | Ms. Vyoma Manek has been Company Secretary of ICICI Prudential Life Insurance Company Ltd since May 12, 2015 and serves as its Compliance Officer. |
| Mr. Judhajit Das | Chief - Human Resources | - |
| Mr. Manish Kumar | Chief Investment Officer | - |
| Mr. Manish Dubey | Chief Marketing Officer | - |
| Ms. Asha Murali | Appointed Actuary | - |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 19: Board members**

| Name | Designation | Experience |
|---|---|---|
| Mr. M. S. Ramachandran | Chairman, Independent Director | He is currently on the Boards of Ester Industries Ltd., GOCL Corporation Limited, Supreme Petrochem Limited, Gulf Oil Lubricants India limited, ICICI Prudential Life Insurance Company Limited, Houghton International Inc. (USA)i Infrastructure India PLC. (Isle of Man) and SOS Children's Villages of India. He has held numerous senior positions in the Indian energy sector. He holds a Bachelor's Degree in Mechanical Engineering. |
| Mr. Anup Bagchi | Director | Mr. Bagchi joined ICICI Group in 1992 and has worked in the areas of retail banking, corporate banking and treasury. Mr. Bagchi is a Chartered Accountant and has a management degree from the Indian Institute of Management, Bangalore and an engineering degree from the Indian Institute of Technology, Kanpur. |
| Mr. Sandeep Batra | Director | Mr. Sandeep Batra, B. Com, FCA, ACS, has been Non-Executive Additional Director of ICICI Prudential Life Insurance Company Ltd. since October 8, 2018. Mr. Batra is a Chartered Accountant (1987) and a Company Secretary (1993). |
| Mr. Raghunath Hariharan | Director | Mr. Raghunath Hariharan, MBA, serves as Chief Financial Officer of Prudential Corporation Asia Limited. He has been a Non- Executive Nominee Director of ICICI Prudential Life Insurance Company Ltd. since December 14, 2017. He holds MBA in Finance & Strategy from London Business School. He also earned his Masters in Marketing Management and Bachelors in Production Engineering from the University of Mumbai, India. |
| Mr. V. Sridar | Independent Director | He has been an Independent Director of ICICI Prudential Life Ins Co. since April 18, 2013. He served as an Independent Non-Executive Director of ICICI Bank Limited from January 21, 2010 to January 21, 2018. He is a Chartered Accountant and holds a B.Sc. degree. |
| Mr. Dilip Karnik | Independent Director | He holds a Bachelor of Science from the University of Pune in 1969 and is a Gold Medalist in law from the University of Pune. He was practicing advocate from 1972 to 2001 and served as Additional Judge of Hon'ble Bombay High Court on October 12, 2001. He served as October, 2001 as permanent Judge on 4th October, 2004 until May 09, 2012. He serves as an Independent Director of ICICI Prudential Asset Management Company Limited and has been an Independent Director at ICICI Prudential Life Insurance Company Ltd since June 29, 2016. |
| Mr. R. K. Nair | Independent Director | Mr. Radhakrishnan Nair, MSc, LLB, MBA, has been an Independent Director at ICICI Prudential Trust Limited since July 05, 2015. Mr. Nair has been an Independent Additional Director at ICICI Prudential Life Insurance Company Limited since July 25, 2017 and ICICI Bank Ltd. since May 2, 2018. He holds MSc, LLB, MBA in Financial Management and Diploma in Securities Law. |
| Ms. Vibha Paul Rishi | Independent Director | Ms. Vibha Paul Rishi has been Non-Executive Independent Director at ICICI Prudential Life Insurance Company Ltd. since January 01, 2019. Ms. Rishi served as the Head of Marketing and Group Strategy & Consumer Director of Future Consumer Limited. Ms. Rishi served as an Executive Director of Brand & Human Capital at Max Financial Services Limited (alternate name, Max India Limited). She was associated with Future Group as Group Strategy and Consumer Director and was responsible for marketing, communication and customer strategy of Future Group's companies. Ms. Rishi holds a Master's Degree in Business Administration & Marketing from the Faculty of Management Studies, University of Delhi. Ms. Rishi holds an honors degree in Economics from Lady Sri Ram College, Delhi University. |
| Mr. N. S. Kannan | Managing Director & CEO | Mr. Narayanan Srinivasa Kannan, BE, CFA, PGDM, is Chief Executive Officer and Director at ICICI Prudential Life INS Co. since June 19, 2018. Mr. Kannan served as an Executive Director of ICICI Bank Limited since May 1, 2009 until June 18, 2018. Mr. Kannan's responsibilities include Finance, Treasury, Corporate Legal, Operations, Risk Management, Secretarial, Corporate Communications, Corporate Branding and Strategic Solutions Group. He also has the responsibility for day-to-day administration of the Compliance and Internal Audit functions. He is a Chartered Financial Analyst from the Institute of Chartered Financial Analysts of India and an Honors Bachelor's Degree in Mechanical Engineering from National Institute of Technology (formerly Regional Engineering College), Tiruchirappalli. Mr. Kannan also holds an MBA/postgraduate in management from the Indian Institute of Management, Bangalore with a gold medal for best all-round performance. |
| Mr. Puneet Nanda | Deputy Managing Director | He is an engineer by qualification and has also completed his Post Graduate Diploma in Management (MBA) from Indian Institute of Management, Lucknow. He has been Deputy Managing Director of ICICI Prudential Life Insurance Company Limited since July 3, 2018. His experience spans more than two decades in financial services having worked in ICICI Securities and J.P. Morgan prior to joining ICICI Prudential Life Insurance Company Ltd. |
| Mr. Dileep Choksi | Independent Director | - |

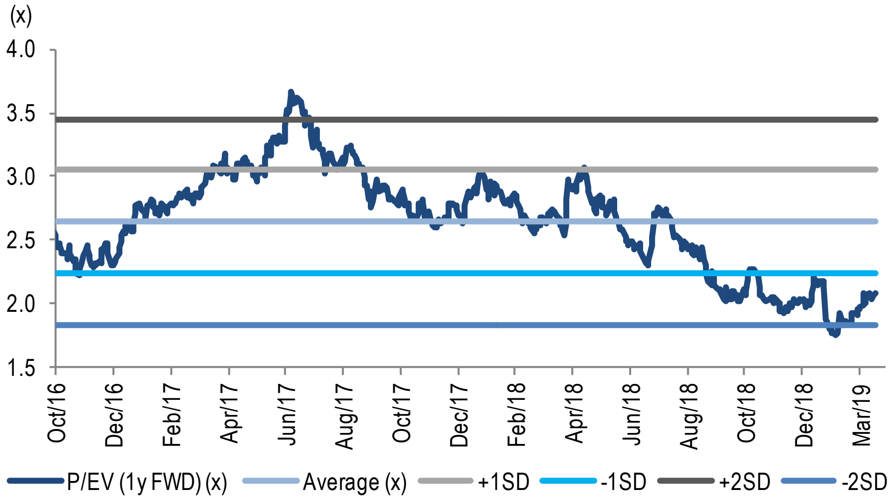
*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 20: Shareholding Information

| Key institutional investors | (%) |
|---|---|
| **Promoter / Promoter Group** | |
| ICICI Bank Ltd | 52.9 |
| Prudential Holdings Ltd | 25.8 |
| | |
| **Non - promoter** | |
| Apex Trust Co Ltd | 2.5 |
| Compassvale Investments Pte Ltd (Temasek) | 2.0 |
| SBI Funds Management Pvt Ltd | 1.1 |
| Vanguard Group Inc | 0.7 |
| Baillie Gifford & Co | 0.6 |
| Aditya Birla Sun Life AMC | 0.6 |
| Nomura Holdings Inc | 0.5 |
| ICICI Prudential AMC | 0.5 |
| Jupiter Investment Management Group | 0.5 |
| Franklin Resources Inc | 0.4 |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 21: One-year forward P/EV




*Source: Company, Nirmal Bang Institutional Equities Research*

## Financials

### Exhibit 22: Revenue account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| FYP (first year premium) | 73,562 | 70,291 | 75,974 | 83,449 |
| SP (single premium) | 18,556 | 28,531 | 39,943 | 55,920 |
| **NBP (new business premium)** | **92,118** | **98,823** | **1,15,918** | **1,39,369** |
| RP (renewal premium) | 1,78,570 | 2,12,565 | 2,40,986 | 2,72,998 |
| **Gross premium** | **2,70,688** | **3,11,388** | **3,56,903** | **4,12,367** |
| (-) Reinsurance ceded | 2,581 | 2,814 | 3,421 | 4,223 |
| **Net premiums** | **2,68,107** | **3,08,574** | **3,53,483** | **4,08,144** |
| Investment and other income | 1,14,068 | 56,489 | 1,11,781 | 1,36,711 |
| **Total income** | **3,82,174** | **3,65,063** | **4,65,264** | **5,44,855** |
| - Commission expenses | 14,033 | 15,525 | 17,722 | 20,732 |
| - Operating expenses | 20,299 | 25,944 | 28,832 | 33,988 |
| - Provision for doubtful debts & taxes | 5,809 | 6,625 | 7,383 | 8,299 |
| **Operating surplus** | **3,42,115** | **3,17,068** | **4,11,445** | **4,81,978** |
| - Benefits paid (net) | 1,72,259 | 1,52,673 | 1,72,529 | 1,96,220 |
| - Interim & terminal bonuses paid | 549 | 639 | 739 | 850 |
| - Change in reserves | 1,54,475 | 1,51,760 | 2,23,735 | 2,68,487 |
| **Pre-tax surplus / (deficit)** | **14,833** | **11,997** | **14,442** | **16,422** |
| Provisions for tax | 1,201 | 1,136 | 1,171 | 1,184 |
| **Post-tax surplus / (deficit)** | **13,632** | **10,860** | **13,271** | **15,237** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 24: P&L account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| T/f from technical a/c | 10,892 | 8,095 | 10,421 | 12,356 |
| Investment and other income | 7,469 | 7,149 | 8,039 | 8,682 |
| **Total income** | **18,361** | **15,244** | **18,460** | **21,038** |
| **Total expenses** | **1,173** | **2,092** | **2,213** | **2,055** |
| PBT | 17,189 | 13,152 | 16,246 | 18,983 |
| Provision for tax | 997 | 763 | 942 | 1,101 |
| **PAT** | **16,192** | **12,389** | **15,304** | **17,882** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 7: Balance sheet

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Sources of Funds** | | | | |
| **Shareholders' fund** | **68,845** | **74,319** | **83,470** | **94,733** |
| Policy liabilities | 13,06,111 | 14,59,659 | 16,85,572 | 19,58,296 |
| Funds for future appropriations | 8,782 | 11,547 | 14,397 | 17,278 |
| **Total** | **13,83,737** | **15,45,525** | **17,83,438** | **20,70,308** |
| **Application of Funds** | | | | |
| Shareholders' investments | 77,493 | 81,368 | 87,877 | 94,907 |
| Policyholders' investments | 3,32,889 | 4,03,503 | 4,91,101 | 5,97,891 |
| Asset held to cover linked liabilities | 9,75,020 | 10,57,896 | 12,00,712 | 13,68,812 |
| Net other and current assets | -1,664 | 2,759 | 3,749 | 8,698 |
| **Total** | **13,83,737** | **15,45,525** | **17,83,439** | **20,70,308** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 23: Embedded value table

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Opening EV** | **1,61,840** | **1,87,890** | **2,09,688** | **2,38,260** |
| Unwind | 13,720 | 15,928 | 17,776 | 20,199 |
| VNB | 12,860 | 12,435 | 13,995 | 16,027 |
| Operating variance | 10,220 | 1,900 | 2,800 | 2,800 |
| **EV Operating Profit (EVOP)** | **36,800** | **30,263** | **34,571** | **39,026** |
| Non-operating variance | 1,130 | (2,500) | 1,000 | 1,000 |
| **EV Profit** | **37,930** | **27,763** | **35,571** | **40,026** |
| Net capital injection | (11,880) | (5,964) | (6,999) | (7,533) |
| **Closing EV** | **1,87,890** | **2,09,688** | **2,38,260** | **2,70,753** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 25: Key ratios

| Y/E March | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| New business premium | 17.1 | 7.3 | 17.3 | 20.2 |
| Renewal premium | 23.2 | 19.0 | 13.4 | 13.3 |
| Net premium | 21.0 | 15.1 | 14.6 | 15.5 |
| PAT | (3.7) | (23.5) | 23.5 | 16.8 |
| Total AUM | 13.9 | 11.4 | 15.4 | 15.8 |
| Total Assets | 13.5 | 11.7 | 15.4 | 16.1 |
| **Expense analysis (%)** | | | | |
| Commission ratio | 5.2 | 5.0 | 5.0 | 5.0 |
| Opex ratio | 7.5 | 8.3 | 8.1 | 8.2 |
| Claims ratio | 64.3 | 49.5 | 48.8 | 48.1 |
| P/hs' opex / Avg P/hs' AUM | 1.7 | 1.9 | 1.8 | 1.9 |
| **Profitability analysis (%)** | | | | |
| RoA | 1.2 | 0.8 | 0.9 | 0.9 |
| RoE | 24.4 | 17.3 | 19.4 | 20.1 |
| RoEV | 22.7 | 16.1 | 16.5 | 16.4 |
| VNB margin | 16.5 | 17.0 | 17.5 | 18.0 |
| S/hs' AUM yield | 10.4 | 9.0 | 9.5 | 9.5 |
| P/hs' AUM yield | 9.2 | 4.0 | 7.0 | 7.4 |
| **Balance sheet analysis** | | | | |
| P/hs' funds / P/hs' AUM (x) | 1.0 | 1.0 | 1.0 | 1.0 |
| NWP / Net worth (x) | 3.5 | 3.9 | 4.2 | 4.2 |
| **Per share data (Rs)** | | | | |
| EPS | 11.3 | 8.6 | 10.7 | 12.5 |
| BVPS | 48.0 | 51.8 | 58.1 | 66.0 |
| EVPS | 130.9 | 146.0 | 165.9 | 188.6 |
| **Valuation data (x)** | | | | |
| P/E | 32.4 | 42.4 | 34.3 | 29.3 |
| P/BV | 7.6 | 7.1 | 6.3 | 5.5 |
| P/EV | 2.8 | 2.5 | 2.2 | 1.9 |

*Source: Company, Nirmal Bang Institutional Equities Research*

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# Max Financial Services

3 April 2019

Reuters: MAXI.NS; Bloomberg: MAXF IN

Initiating Coverage

## Exceptionally Well-run Life Insurer

**We are bullish on Max Financial Services (MFS), the holding company for Max Life Insurance (MLI) since (1) MLI displays margin leadership on the back of high share of participating product and reasonably good share of protection business in topline (2) MLI's high agent productivity is symptomatic of organization-wide efficiency that also feeds into desirable product mix outcomes (3) Strong under-writing is a key feature of MLI that leads to lower claims and higher profitability (4) MLI does business that is stickier and more linear than key life insurer peers. The only moderate concern that we have is that it is not readily clear whether Axis Bank would be able to focus the lion's share of its energy on sourcing for MLI in the future. This concern does not alter our overall bullish stance and we initiate coverage on MFS with Buy Rating and a Target Price of Rs535, valuing MLI at 2.0x FY21E P/EV. *Our top pick in the life insurance sector is SBI Life.***

**MLI displays margin leadership on the back of high share of participating product and reasonably good share of protection business in topline:** Among 8 key private sector life insurers, MLI has the third best VNB margin at 20.2% in FY18. MLI achieves this margin leadership on the back of a high share of participating products, whose margin, though lower than pure protection products, is materially higher than those for linked products. The share of participating products for MLI in NBP for FY18 is 50%, which is the highest among 7 private sector life insurers. Also, MLI's share of pure protection in APE at 12% for 9MFY19 is the second highest among listed life insurers. This is also a key reason for the margin leadership for MLI given pure protection products tend to have the best margin profile.

**MLI's high agent productivity is symptomatic of organization-wide efficiency that also feeds into desirable product mix outcomes:** While MLI has enjoyed a successful bancassurance partnership with Axis Bank, it has consciously nurtured its individual agency force over the years. As a result of its focus on its agency force, the agent productivity of MLI is the third highest among 9 key life insurers at ~Rs 172,000 for FY18. High agent productivity is symptomatic of MLI's overall distribution network, including bancassurance, being appropriately geared to deliver desirable outcomes for, but not limited to, product mix. While bancassurance generally tends to sell linked products, individual agents are able to push non-linked products, primarily participating products in MLI's case.

**Strong under-writing is a key feature of MLI that leads to lower claims and higher profitability:** Like in the credit industry, appraisal of the potential customer (policyholder) is important as selling a life insurance product without pricing it appropriately (setting the premium) will come back and hit the insurer in the form of higher than manageable claims, crimping profitability. Among 9 key life insurers MLI has the second best 4-year average for claims as a percentage of average AUM at 10.4%. MLI also has the best 5-year average claims ratio, among 9 key life insurers, at 38.4%.

**MLI does business that is stickier and more linear than key life insurer peers:** Single premium business, on balance, has been observed to be a less sticky business than regular premium business. Share of single premium for MLI in total new business premium for 1HFY19 was 28%, which is the second lowest among 9 key life insurer peers. Furthermore, high share of individual premium business is positive from a sustainability perspective since Group business is potentially lumpy whereas retail (individual premium) business in inherently linear in nature. The share of Group business in APE for MLI is 1% for YTDJan19, which is the lowest among 9 key life insurers.

**Our only concern is that it is not readily clear whether Axis Bank would be able to focus the lion's share of its energy on sourcing for MLI in the future:** Axis Bank no longer sources exclusively for MLI and has tied up with LIC in the life insurance space. Axis Bank increasingly sourcing for LIC is, therefore, a risk that MLI has to grapple with. 55% of MLI's total new business APE is sourced by Axis Bank, implying the potential for impact due to the above considerations is material.

**Valuation and outlook:** We have assigned a multiple of 2.0x FY21 P/EV to MLI (3.2x FY18 P/EV), given its FY19E/FY20E/FY21E RoEV profile of 20.2%/20.6%/20.4% and risk of cessation of bancassurance partnership with Axis Bank. We also apply a holding company discount of 15%. Consequently, we arrive at our Target Price of Rs535 for MFS.

| Y/E March (Rsmn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| NBP | 36,664 | 43,486 | 50,553 | 58,781 | 67,631 |
| PAT | 6,599 | 5,276 | 5,522 | 6,323 | 7,288 |
| P/E (x) | 24.9 | 31.1 | 29.7 | 25.9 | 22.5 |
| P/B (x) | 6.5 | 6.1 | 5.8 | 5.3 | 4.7 |
| P/EV (x) | 2.5 | 2.2 | 1.9 | 1.6 | 1.4 |
| *RoE (%)* | *29.1* | *20.3* | *19.9* | *21.2* | *21.9* |
| *RoEV (%)* | *19.9* | *20.6* | *20.2* | *20.6* | *20.4* |

*Source: Company, Nirmal Bang Institutional Equities Research*

## BUY

**Sector:** Insurance

**CMP:** Rs436

**Target Price:** Rs535

**Upside:** 23%

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**Raghav Garg**
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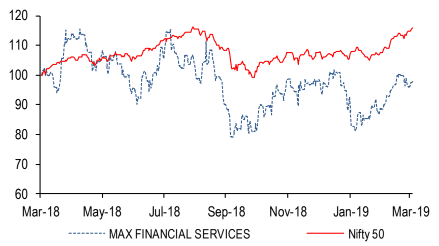
**Key Data**

| | |
|---|---|
| Current Shares O/S (mn) | 269.4 |
| Mkt Cap (Rsbn/US$bn) | 119.3/1.7 |
| 52 Wk H / L (Rs) | 534/344 |
| Daily Vol. (3M NSE Avg.) | 682,266 |

| Share holding (%) | 1QFY19 | 2QFY19 | 3QFY19 |
|---|---|---|---|
| Promoters | 30.3 | 30.3 | 28.4 |
| Institutions | 59.8 | 59.7 | 61.6 |
| Non-Institutions | 10.0 | 10.0 | 10.0 |

**One Year Indexed Stock Performance**




**Price Performance (%)**

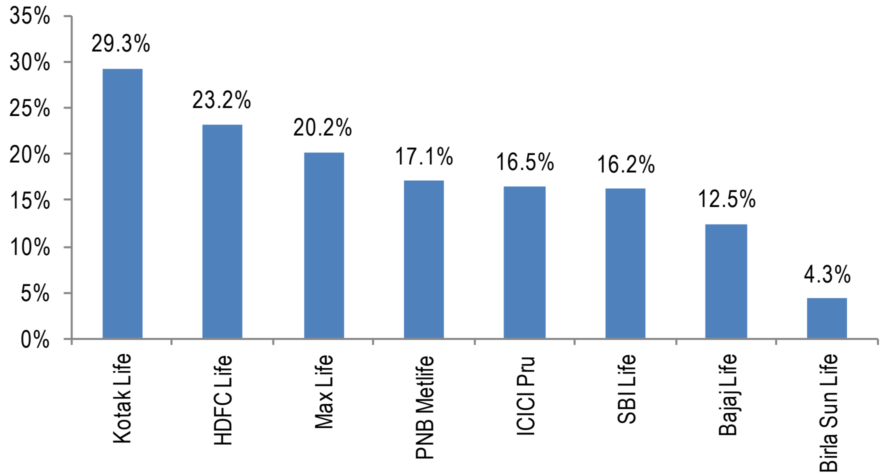
| | 1 M | 6 M | 1 Yr |
|---|---|---|---|
| Max Financial Services | 10.3 | 10.5 | (3.8) |
| Nifty Index | 7.7 | 6.3 | 14.6 |

*Source: Bloomberg*

## MLI displays margin leadership on the back of high share of participating product and reasonably good share of protection business

**Among 8 key private sector life insurers, MLI has the third best VNB margin** at 20.2% in FY18 and has maintained similar levels of 20.4% in 9MFY19.

**Exhibit 1: VNB margin – 8 key private sector life insurers – FY18**

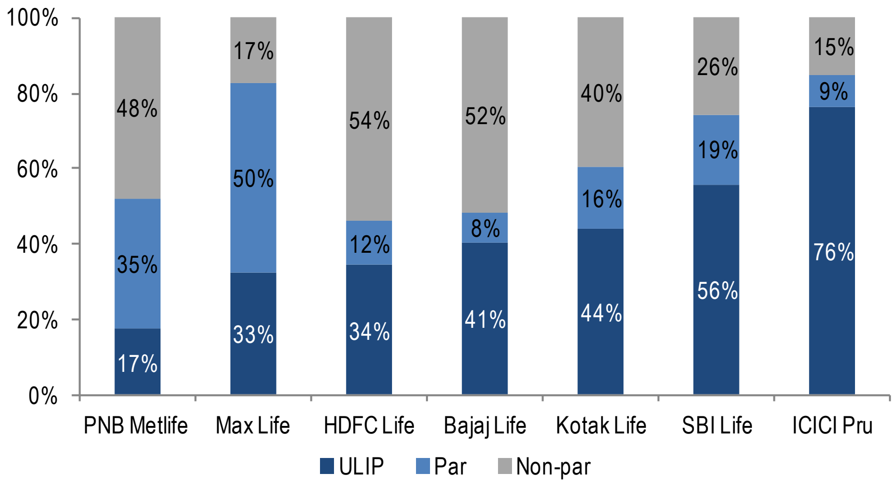



*Source: Companies, Nirmal Bang Institutional Equities Research*

## MLI's share of participating business is the highest among 7 key private sector life insurers

**MLI achieves this margin leadership on the back of a high share of participating products, whose margin, though lower than pure protection products, is materially higher than those for linked products**. The share of participating products in new business premium for FY18 is 50%, which is the highest among 7 private sector life insurers.

**Exhibit 2: Product mix – 7 key private sector life insurers – FY18 – NBP basis**

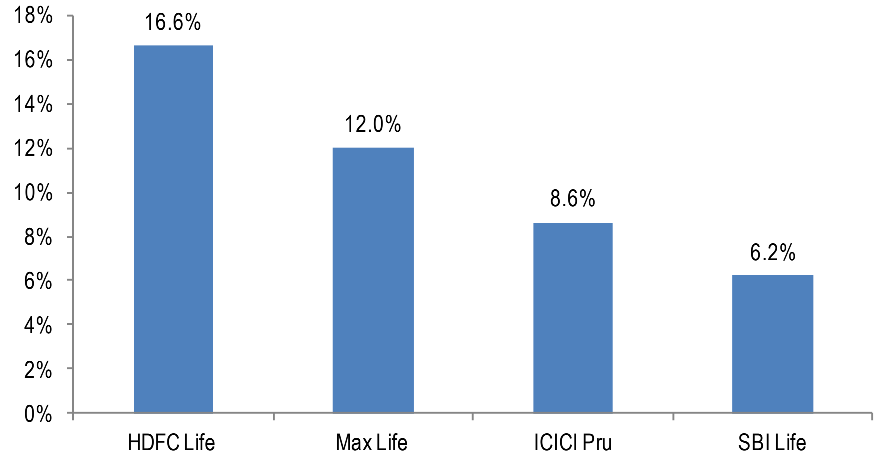



*Source: Companies, Nirmal Bang Institutional Equities Research*

## MLI's share of pure protection business is the second highest among listed life insurers

**MLI's share of pure protection in APE at 12% for 9MFY19 is the second highest** among listed life insurers.

**Exhibit 3: Share of pure protection – Max Life vs listed peers – 9MFY19 – APE basis**



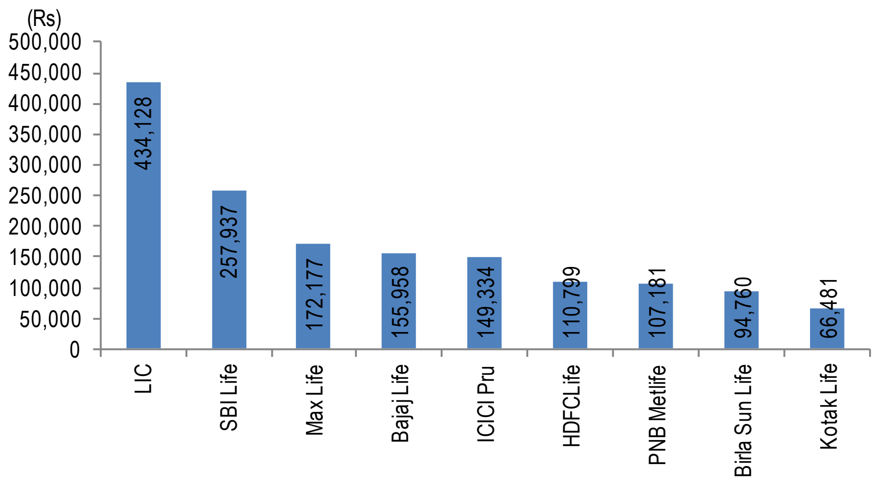

*Source: Companies, Nirmal Bang Institutional Equities Research*

This is also a key reason for the margin leadership for MLI given pure protection products tend to have the best margin profile.

## MLI's high agent productivity is symptomatic of organization-wide efficiency that also feeds into desirable product mix outcomes

While MLI has enjoyed a significantly successful bancassurance partnership with Axis Bank, it has consciously nurtured its individual agency force over the years.

**Exhibit 4: Agent productivity (Rs) for 9 key life insurers – FY18**




*Source: IRDAI, Nirmal Bang Institutional Equities Research*

**As a result of its focus on its agency force, the agent productivity of MLI is the third highest among 9 key life insurers** at ~Rs 172,000 for FY18.

High agent productivity is symptomatic of MLI's overall distribution network, including bancassurance, being appropriately geared to deliver desirable outcomes for, but not limited to, product mix. **While bancassurance generally tends to sell linked products, individual agents are able to push non-linked products, primarily participating products in MLI's case**. This is not to say the MLI's bancassurance is not effective at selling non-linked products. Non-linked products are higher margin products compared with linked products.

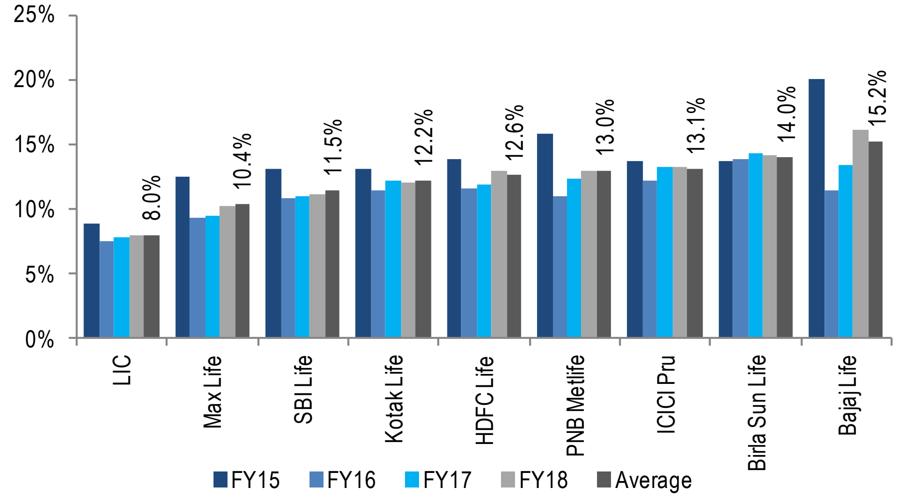
## Strong under-writing is a key feature of Max Life that leads to lower claims and higher profitability

Like in the credit industry, **appraisal of the potential customer (policyholder) is also important** since selling a life insurance product without pricing it appropriately (setting the premium) will come back and hit the insurer in the form of higher than manageable claims, crimping profitability.

We use claims (benefits paid) as a percentage of average AUM as the metric for comparing under-writing standards since claims emerge from the entire AUM. In the case of the claims ratio metric (which is defined as benefits paid divided by premiums for that year), while the premiums inflow contains regular premiums from the back-book, the metric does not factor in (a) the single premium products (b) persistency aspects (c) policies whose premium-paying term may have ended and other idiosyncrasies. Hence, **we consider claims as a percentage of AUM as a superior metric to gauge under-writing capability for a life insurer compared with the standard claims ratio**. However, the claims ratio has its own importance as it discloses the direct impact of claims on a given year's profitability and should also be separately looked at.

Furthermore, **we looked at the 4-year average of claims as a percentage of AUM** since claims, by nature, could be volatile although for an essentially retail (and, therefore, granular) business like life insurance, the volatility may not necessarily be particularly high.

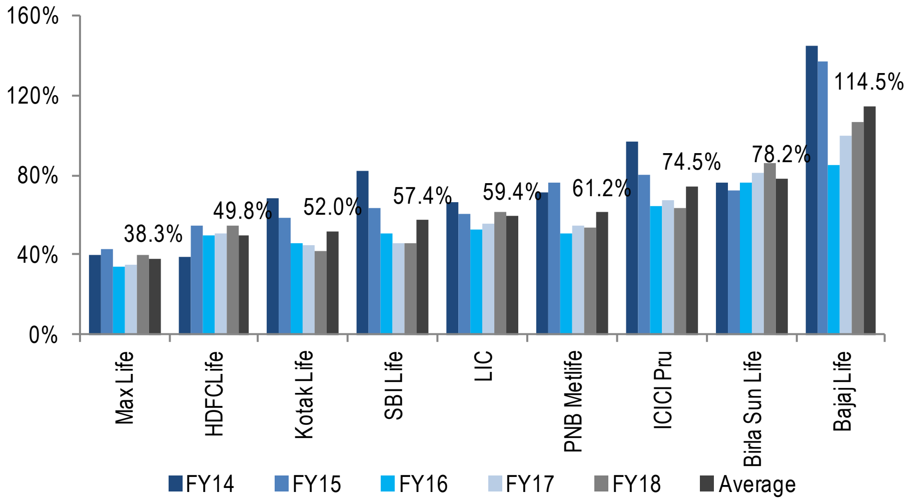
**Exhibit 5: Claims as a % of avg. AUM for 9 key life insurers – FY15-18, 4yr.avg.**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**MLI has the second best 4-year average for claims as a percentage of average AUM at 10.4%** among 9 key life insurers.

**Exhibit 6: Claims ratio – FY14-18 and 5-year Average - for 9 key life insurers**




*Source: Companies, Nirmal Bang Institutional Equities Research*

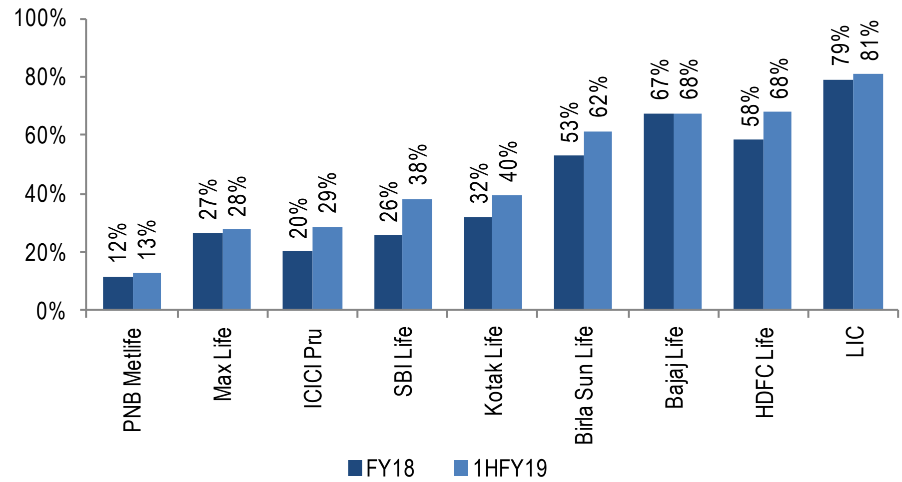
**MLI also has the best 5-year average claims ratio at 38.4%** among 9 key life insurers.

## Max Life does business that is stickier and more linear than key life insurer peers

### Ceteris paribus, non-single premium business is a more entrenched and, on balance, a more repeatable business than single premium business

Single premium business, on balance, has been observed to be a less sticky business than regular premium business. **MLI has a low share of single premium business as a proportion of new business premium**.

**Exhibit 7: Share of single premium in NBP – 9 key life insurers – FY18, 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

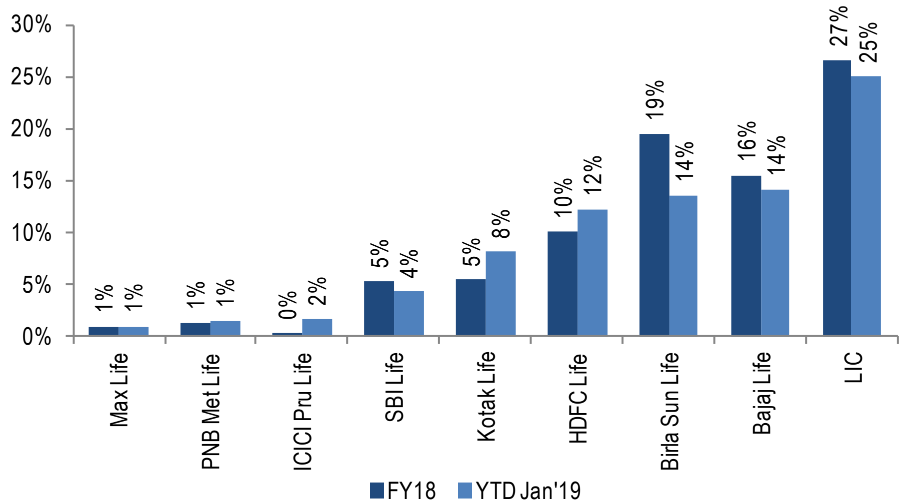
**Share of single premium for MLI in total new business premium for 1HFY19 was 28%, which is the second lowest** among 9 key life insurer peers.

### Ceteris paribus, individual premium business is a less lumpy and, on balance, a more repeatable business than group premium business

**High share of individual premium business is positive from a sustainability perspective** since Group business is potentially lumpy whereas retail (individual premium) business in inherently linear in nature.

**The share of Group business in APE for MLI is 1% for YTDJan19**, which is the lowest among 9 key life insurers

**Exhibit 8: Share of Group business in APE – 9 key life insurers – FY18, 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

## It is not readily clear whether Axis Bank would be able to focus the lion's share of its energy on sourcing for MLI

Axis Bank no longer sources exclusively for MLI. The bank has tied up with LIC in the life insurance space. **While there may still be some inertia of shop floor staff in moving away from pushing MLI products, LIC has started to eat into the share of total life insurance business sourced by Axis Bank**. It is possible that this shift continues in favour of LIC till the situation normalizes.

**55% of MLI's total new business APE is sourced by Axis Bank alone**, implying the potential for impact due to the above considerations is material.

At the same time, it is in the public domain that Axis Bank is interested in acquiring a meaningful stake in a life insurer with, of course, the approval of the RBI. **Max Life becomes one of the natural choices that would form part of Axis Bank's consideration set** since (a) Axis Bank has a long-standing bancassurance partnership with MLI and currently holds a 2% stake in MLI (According to media reports, Axis Bank has, in the past, under Shikha Sharma as CEO, explored this) (b) Axis Bank's new CEO, Amitabh Chaudhry is a life insurance veteran who was previously CEO of HDFC Life, which had previously decided to enter into an amalgamation agreement with Max Group and has, therefore, examined the Max Life asset from close quarters.

**Whether RBI would approve the acquisition of a major stake in Max Life by Axis Bank is not known at this stage**. It is, however, known that for newer bank licencees, the RBI has not been in favour of mixing para-banking activities (including life insurance) with banking and advocates keeping the two separate under a non-operating financial holding company.

**Exhibit 9: Management team/ Key executives**

| Name | Designation | Experience |
|---|---|---|
| Prashant Tripathy | MD & CEO | Having spent 12 years with the Company, Prashant was earlier the Chief Financial Officer of the Company, spearheading Financial Management and the Corporate Strategy, as well as playing a critical role in managing Investor Relations and Communications for Max Financial Services Ltd., the parent company of Max Life Insurance. Prashant joined Max Life as Head of Strategy in 2007 and led all organizational strategic initiatives on growth and profitability. In his eight years' tenure as the CFO, Prashant played a pivotal role in positioning Max Life Insurance as a respected private life insurance company. It is during his tenure as CFO, that Max Life gained market share and grew to be the fourth largest private life insurer and the largest non-bank promoted private life insurance company in India. Through this period, margins, Return on Embedded Value (RoEV) and other financial outcomes of Max Life, all witnessed consistent growth. |
| V.Viswanand | Deputy MD | In his role, he is responsible for Distribution, including Proprietary Channels, Bancassurance and Third Party Business, Institutional Sales, Business Development and Distribution Operations. He also steers the strategic direction and growth of the company through his deep involvement in the strategy formulation processes. A Founder Team Member of Max Life, Viswanand has been associated with the Company for nearly two decades. In his previous role at Max Life Insurance, Viswanand was Senior Director and COO. Prior to that he was Director & Head - Product Solutions Management wherein he enabled two large scale transformations in the face of regulatory changes which resulted in significant increase in market share of the company. |
| Manik Nangia | Director & COO | As part of his role, Manik leads Digital Center of Excellence, Operations and Customer Service, Technology, Claims & Underwriting and Quality, Innovation & Service Excellence functions at Max Life Insurance. Over his last fourteen plus years with the organisation, Manik has led teams across Distribution, Product Management, Strategy & Analytics, Marketing and Digital Centre. He has led setting up of new capabilities at Max Life in the Digital, E Commerce and Analytics areas. |
| Mihir Vora | Director & CIO | He is responsible for creating the Investment strategy and leading all aspects of the company's Funds Management function. A Mechanical Engineer from the Maharaja Sayajirao University, Baroda, Mihir also holds a Post Graduate Diploma in Management from Indian Institute of Management, Lucknow. Additionally he is also a certified Chartered Financial Analyst from the CFA Institute, USA. Mihir has more than 20 years of in-depth experience across asset classes including Equity, Fixed Income & Hybrid funds and has previously managed large equity AUM of over USD 1.5 Billion. In his previous assignment, Mihir was with Birla Sun Life Asset Management, where he was working as the Chief Investment Officer – Offshore. He has also worked with HSBC Global Asset Management and ABN AMRO Asset Management. In the initial part of his career, Mihir worked with ICICI Prudential and SBI Funds Management as Fund Manager. |
| Aalok Bhan | Director & Chief Marketing Officer | In his role, Aalok oversees the company's Product, Branding and Corporate Communication strategies towards strengthening Customer-Oriented Product Design strategies, Brand Positioning and Marketing, as well as managing all Corporate & Internal Communications. Aalok joined Max Life in 2012 as part of the Executive Management Committee and later transitioned to establish Max One in 2013. After a brief stint as the Head of Product, Marketing and Corporate Communications, in October 2016, he assumed the responsibility of Chief Distribution Officer. Under his leadership, Aalok led the company's distribution footprint across the nation with the responsibility of managing and driving Agency and all bank partnerships. |
| Amitabh Lal Das | Director and Head - Legal, Compliance & Regulatory Affairs | As part of his role, Amitabh defines the vision and operating framework for Legal, Compliance and Regulatory function at the Company. He joined Max Life Insurance in 2014 after a seven year stint at Yahoo India, where he served as Senior Legal Director, General Counsel & Head of Government Relations, being responsible for legal affairs of all the India incorporated entities, working on general as well as specialized laws and regulations. |
| Shailesh Singh | Director & Chief People Officer | He is responsible for developing and implementing successful Human Resources strategies that support long term growth and transformation of the organization. |
| Jose John | Director & Appointed Actuary | Jose John heads the Actuarial function at Max Life Insurance as Director & Appointed Actuary, alongside strengthening the company's internal governance and risk management capabilities. Over the course of his decade long association with Max Life Insurance, he has made significant contribution in advancing Max Life's capabilities in core actuarial areas as well as areas related to risk management in general. |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 10: Board members**

| Name | Designation | Experience |
|---|---|---|
| Mr. Analjit Singh | Founder & Chairman Emeritus | Mr. Analjit Singh is the Founder and Chairman Emeritus, Max Group, and Chairman of Max Ventures & Industries and Antara Senior Living. As Founder and Chairman Emeritus, Mr. Analjit Singh provides guidance and vision to the Group and its executive management. |
| Mr. Rahul Khosla | Chairman | As President, Mr. Khosla is the senior most executive in the Group and is responsible for Group strategy, and the overall management of Group capital, performance, people, partnerships, governance, policies, brand, reputation and external representation, while enhancing the Group's framework of core values. Before joining Max, Mr. Khosla spent 11 years based in Singapore as the Group Head of Products for Visa across Asia Pacific, Central Europe, Middle East and Africa, following his role as Chief Operating Officer for the Asia Pacific region. |
| Mr. K. Narasimha Murthy | Director | Mr. K. Narasimha Murthy was appointed as an Independent Director of Max Life Insurance Co. Ltd. with effect from August 23, 2013. He holds brilliant academic records with ranks in both CA & ICWA courses. Expert in his field, he has to his merit credits of turning around of many large Corporates, focusing on systems improvement with Cost Reduction approach. In the past, Mr. Murthy has served as a Director with IDBI Bank Ltd.(2001-11), UTI Bank Ltd., (presently AXIS Bank)(1999-2004), Unit Trust of India (UTI)(2002-03), IFCI Ltd.(2008-09), APIDC Ltd., Bombay Stock Exchange and many more. |
| Mr. D.K. Mittal | Director | Mr. D. K. Mittal was appointed as an independent non-executive Director of Max Life Insurance with effect from April 01, 2014. He is a former Indian Administrative Service (IAS) officer of 1977 batch (UP cadre) and has served the government of India in various capacities. Mr. Mittal was Secretary, Department of Financial Services, where he was responsible for overseeing Banking, Insurance and Pension policies of India. During his tenure he worked very closely with the RBI and was on the Board of the RBI, LIC, State Bank of India, IIFCL and IIFCL(UK). |
| Ms. Marielle Theron | Director | Ms.Theron was appointed Director of Max Life Insurance with effect from May 2009. Ms. Theron, a Fellow of the Society of Actuaries, has over 30 years' experience in the financial service industry. She is a Principal of Erlen Street Corporation, Switzerland, a company that specialises in strategic investment and management consulting solutions. Prior to that, Ms Theron worked in both consulting and corporate roles for multi-national companies and governments across Europe, Asia, Australia, New Zealand and South Africa, advising on insurance and investment related solutions. She holds a B.Sc. majored in Actuarial Science from Laval University, Canada and is a Fellow of the Society of Actuary (FSA). |
| Mr. Mohit Talwar | Director | Mr. Mohit Talwar was appointed as an Additional Director of Max Life Insurance with effect from January 30, 2016. Mohit Talwar is the Managing Director of Max Financial Services and Max India. In addition, he is the Vice Chairman of Max Ventures & Industries Limited (MVIL), Chairman of Max Speciality Films and serves on the Boards of Max Life Insurance, Max Healthcare, Max Bupa and Antara Senior Living. Mr. Talwar has a wealth of experience in Corporate Finance and Investment Banking, and spent 24 years in Wholesale Banking in Standard Chartered, ANZ Grindlays and Bank of Nova Scotia. |
| Mr. Rajit Mehta | Director | Mr. Rajit Mehta was appointed Director of Max Life Insurance with effect from November 01, 2008. He is a seasoned business manager with a wide domain of expertise built over 20 years in financial services. Rajit is the Managing Director & CEO of Max Healthcare, a leading private healthcare company in India. |
| Mr. Pradeep Pant | Director | Mr. Pradeep Pant was appointed as an Independent Director of Max Life Insurance with effect from February 07, 2019. He is a highly experienced senior business leader, with active involvements in business consulting and education and holding several board positions. He is currently a Director on the Board of Max Bupa Health Insurance Company Limited and Antara Senior Living Limited. |
| Mr. Deepak Bhattasali | Director | Mr. Deepak Bhattasali was appointed as an Independent Director of Max Life Insurance with effect from February 07, 2019. He is currently associated with the Georgetown University, Washington D.C. and prior to that, was working for the World Bank. |
| Mr. Sahil Vachani | Director | Mr. Sahil Vachani is CEO & Managing Director, Max Ventures and Industries Limited, which is the holding company for Max Speciality Films, an innovation leader in the Speciality Packaging Films business; Max Estates, the commercial and residential real estate development arm; Max Learning, the education vertical; and Max I an Investment arm, wherein he is responsible for the overall strategic vision and direction of the company. |
| Prashant Tripathy | MD & CEO | Having spent 12 years with the Company, Prashant was earlier the Chief Financial Officer of the Company, spearheading Financial Management and the Corporate Strategy, as well as playing a critical role in managing Investor Relations and Communications for Max Financial Services Ltd., the parent company of Max Life Insurance. Prashant joined Max Life as Head of Strategy in 2007 and led all organizational strategic initiatives on growth and profitability. In his eight years' tenure as the CFO, Prashant played a pivotal role in positioning Max Life Insurance as a respected private life insurance company. It is during his tenure as CFO, that Max Life gained market share and grew to be the fourth largest private life insurer and the largest non-bank promoted private life insurance company in India. Through this period, margins, Return on Embedded Value (RoEV) and other financial outcomes of Max Life, all witnessed consistent growth. |
| V.Viswanand | Deputy MD | In his role, he is responsible for Distribution, including Proprietary Channels, Bancassurance and Third Party Business, Institutional Sales, Business Development and Distribution Operations. He also steers the strategic direction and growth of the company through his deep involvement in the strategy formulation processes. A Founder Team Member of Max Life, Viswanand has been associated with the Company for nearly two decades. In his previous role at Max Life Insurance, Viswanand was Senior Director and COO. Prior to that he was Director & Head - Product Solutions Management wherein he enabled two large scale transformations in the face of regulatory changes which resulted in significant increase in market share of the company. |

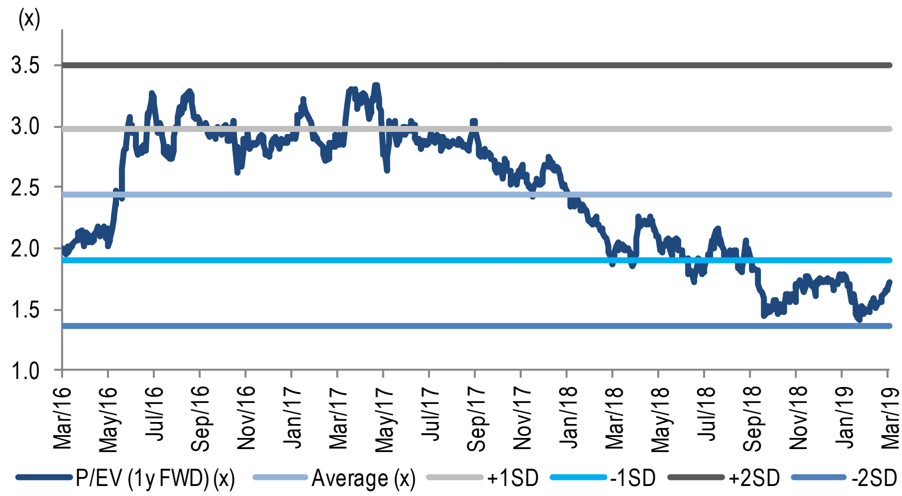
*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 11: Shareholding Information**

| Key institutional investors | (%) |
|---|---|
| **Promoter / Promoter Group** | |
| Max Ventures Investment Holdings | 53.2 |
| | |
| **Non - promoter** | |
| Moneyline Portfolio (KKR) | 6.7 |
| Jackson National Asset Mgmt | 6.1 |
| Aditya Birla Sun Life AMC | 5.5 |
| Reliance Capital Trustee Co Ltd | 5.4 |
| Baron Capital Inc | 5.2 |
| ICICI Prudential AMC | 4.7 |
| HDFC AMC | 4.5 |
| Motilal Oswal AMC | 4.2 |
| Mohair Investment | 2.0 |
| New York Life Insurance Co | 2.0 |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 12: One-year forward P/EV**




*Source: Company, Nirmal Bang Institutional Equities Research*

## Financial statements – Max Life Insurance

### Exhibit 13: Revenue account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| FYP (first year premium) | 31,915 | 38,146 | 44,931 | 52,111 |
| SP (single premium) | 11,571 | 12,407 | 13,850 | 15,520 |
| **NBP (new business premium)** | **43,486** | **50,553** | **58,781** | **67,631** |
| RP (renewal premium) | 81,523 | 93,803 | 1,09,720 | 1,29,138 |
| **Gross premium** | **1,25,009** | **1,44,356** | **1,68,501** | **1,96,769** |
| (-) Reinsurance ceded | 1,213 | 1,291 | 1,551 | 1,872 |
| **Net premiums** | **1,23,795** | **1,43,065** | **1,66,950** | **1,94,897** |
| Income from investments & other income | 37,917 | 40,987 | 49,361 | 58,865 |
| **Total income** | **1,61,712** | **1,84,052** | **2,16,311** | **2,53,762** |
| - Commission expenses | 8,929 | 9,445 | 10,772 | 12,424 |
| - Operating expenses | 16,099 | 19,448 | 22,113 | 25,297 |
| - Provision for doubtful debts and taxes | 1,096 | 1,452 | 1,816 | 2,219 |
| **Operating surplus** | **1,35,588** | **1,53,708** | **1,81,610** | **2,13,821** |
| - Benefits paid (net) | 49,456 | 59,089 | 71,430 | 84,148 |
| - Interim & terminal bonuses paid | 10 | 11 | 12 | 13 |
| - Change in reserves | 79,043 | 87,839 | 1,02,389 | 1,20,480 |
| **Pre-tax surplus / (deficit)** | **7,079** | **6,768** | **7,779** | **9,180** |
| Provisions for tax | 0 | 0 | 0 | 0 |
| **Post-tax surplus / (deficit)** | **7,079** | **6,768** | **7,779** | **9,180** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 15: P&L account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| T/f from technical a/c | 3,992 | 4,275 | 5,174 | 6,222 |
| Investment and other income | 2,184 | 2,447 | 2,545 | 2,673 |
| **Total income** | **6,175** | **6,722** | **7,720** | **8,894** |
| **Total expenses** | **24** | **286** | **350** | **400** |
| PBT | 6,152 | 6,436 | 7,370 | 8,494 |
| Provision for tax | 875 | 914 | 1,046 | 1,206 |
| **PAT** | **5,276** | **5,522** | **6,323** | **7,288** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 16: Balance sheet

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Source of Funds** | | | | |
| **Shareholders' fund** | **26,989** | **28,576** | **31,097** | **35,318** |
| Policy liabilities | 4,86,144 | 5,74,708 | 6,77,965 | 7,99,512 |
| Funds for future appropriations | 18,655 | 21,158 | 23,762 | 26,720 |
| **Total** | **5,31,788** | **6,24,442** | **7,32,824** | **8,61,550** |
| **Application of Funds** | | | | |
| Shareholders' investments | 32,146 | 33,110 | 34,766 | 36,504 |
| Policyholders' investments | 3,19,238 | 3,94,210 | 4,85,280 | 5,93,923 |
| Asset held to cover linked liabilities | 1,70,981 | 1,84,660 | 1,99,432 | 2,16,983 |
| Net other and current assets | 9,422 | 12,462 | 13,347 | 14,141 |
| **Total** | **5,31,788** | **6,24,442** | **7,32,824** | **8,61,550** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 14: Embedded value table

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Opening EV** | **65,900** | **75,090** | **86,524** | **1,00,700** |
| Unwind | 6,410 | 6,758 | 7,787 | 9,063 |
| VNB (or NBAP) | 6,560 | 7,877 | 9,495 | 11,001 |
| Operating variance | 620 | 500 | 500 | 500 |
| **EV Operating Profit (EVOP)** | **13,590** | **15,135** | **17,782** | **20,564** |
| Non-operating variance | (470) | 200 | 200 | 200 |
| **EV Profit** | **13,120** | **15,335** | **17,982** | **20,764** |
| Net capital injection | (3,930) | (3,902) | (3,805) | (3,070) |
| **Closing EV** | **75,090** | **86,524** | **1,00,700** | **1,18,394** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 17: Key ratios

| Y/E March | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| New business premium | 18.6 | 16.3 | 16.3 | 15.1 |
| Renewal premium | 14.6 | 15.1 | 17.0 | 17.7 |
| Net premium | 15.9 | 15.6 | 16.7 | 16.7 |
| PAT | (20.0) | 4.7 | 14.5 | 15.3 |
| Total AUM | 17.7 | 17.2 | 17.6 | 17.8 |
| Total Assets | 18.9 | 17.4 | 17.4 | 17.6 |
| **Expense analysis (%)** | | | | |
| Commission ratio | 7.1 | 6.5 | 6.4 | 6.3 |
| Opex ratio | 12.9 | 13.5 | 13.1 | 12.9 |
| Claims ratio | 39.9 | 41.3 | 42.8 | 43.2 |
| P/hs' opex / Avg P/hs' AUM | 3.6 | 3.6 | 3.5 | 3.4 |
| **Profitability analysis (%)** | | | | |
| RoA | 1.1 | 1.0 | 0.9 | 0.9 |
| RoE | 20.3 | 19.9 | 21.2 | 21.9 |
| RoEV | 20.6 | 20.2 | 20.6 | 20.4 |
| VNB margin | 19.8 | 20.0 | 20.5 | 20.5 |
| S/hs' AUM yield | 6.8 | 7.5 | 7.5 | 7.5 |
| P/hs' AUM yield | 8.3 | 7.6 | 7.7 | 7.8 |
| **Balance sheet analysis** | | | | |
| P/hs' funds / P/hs' AUM (x) | 1.0 | 1.0 | 1.0 | 1.0 |
| NWP / Net worth (x) | 4.6 | 5.0 | 5.4 | 5.5 |
| **Per share data (Rs)*** | | | | |
| EPS | 14.0 | 14.7 | 16.8 | 19.4 |
| BVPS | 71.5 | 75.8 | 82.5 | 93.7 |
| EVPS | 199.6 | 230.0 | 267.6 | 314.7 |
| **Valuation data (x)*** | | | | |
| P/E | 31.1 | 29.7 | 25.9 | 22.5 |
| P/BV | 6.1 | 5.8 | 5.3 | 4.7 |
| P/EV | 2.2 | 1.9 | 1.6 | 1.4 |

*Source: Company, Nirmal Bang Institutional Equities Research*

**N.B. Based on value accruing to Max Financial Services (MFS) and MFS share count.*

# HDFC Life Insurance Company

3 April 2019

Reuters: HDFL.NS; Bloomberg: HDFCLIFE IN

Initiating Coverage

## Profitability Focus Ingrained in DNA

**We are bullish on HDFC Life Insurance (HLI) since (1) HLI has the highest share of pure protection in revenue among listed life insurers which leads to high overall margin (2) HLI possesses the second largest bancassurance network among private sector life insurers, bancassurance network size being most critical for scalability. We have some moderate concerns since (1) HLI could face some difficulty in replicating the same degree of success with regard to pure protection business due to (a) HDFC Bank increasingly sourcing for other tie-up partners and (b) Credit protect products are generally group single premium products and less sticky as a business than individual regular premium products. (2) HLI has relatively high exposure to equity as a proportion of AUM, which introduces some degree of business risk. These concerns do not alter our overall bullish stance and we initiate coverage on HLI with Buy Rating and a Target Price of Rs450, valuing the stock at 3.6 FY21E P/EV. *Our top pick in the life insurance space is SBI Life.***

**HLI has the highest share of pure protection in revenue among listed life insurers which leads to high overall margin:** Share of pure protection in new business premium in FY18 is as high as 25.9% for HLI, which is significantly higher than peers. High share of pure protection is the direct result of HLI's bancassurance network partners, particularly HDFC Bank, heavily sourcing credit protect products. This results in a VNB margin for HLI at 23.2% for FY18, which is the highest among 8 key private sector life insurer peers, bar Kotak Life.

**HLI possesses the second largest bancassurance network among private sector life insurers, bancassurance network size being most critical for scalability:** We have, already, established that, based on empirical evidence, large bancassurance networks are critical for the scalability of life insurers in India. In this regard, it is important, therefore, to emphasize that HLI has the second largest bancassurance network among private sector life insurers consisting of as many as 16,144 branches.

**HLI could face some difficulty in replicating the same degree of success with regard to pure protection business:** This difficulty could arise due to (a) HDFC Bank increasingly sourcing for other tie-up partners and (b) Credit protect products being generally group single premium products and less sticky as a business than individual regular premium products. HDFC Bank no longer sources exclusively for HLI and has tied up with Birla Sun Life and Tata AIA Life in the life insurance space. While there may still be some inertia of shop floor staff in moving away from pushing HLI products, Birla Sun Life and Tata AIA Life have started to eat into the share of total life insurance business sourced by HDFC Bank. Furthermore, the share of single premium, a significant portion being credit protect, for HLI in total new business premium for 1HFY19 was 68%, which is the second highest among 9 key life insurer peers. Also, the share of Group business in APE for HLI is 12% for YTDJan19, which is the fourth highest among 9 key life insurers.

**We perceive some degree of business risk in HLI given relatively higher exposure to equity as a proportion of AUM:** HLI's exposure to equity as a proportion of AUM is on the higher side. This seems to indicate that the customers of HLI are tending to use their products as investment vehicles to play the stockmarket. We note that the share of equity in total AUM for HLI is close to the 40% ballpark, which is significantly higher than its key listed life insurer peers, bar ICICI Prudential. The risk from high equity exposure is that a prolonged downturn in the equity market would have an outsized negative impact on such a life insurer. Our concerns regarding protection share and equity exposure are moderate in nature and do not alter our overall bullish stance.

**Valuation and outlook:** We initiate coverage on HLI with Buy rating. We have assigned a multiple of 3.6x FY21 P/EV to HLI, given its FY19E/FY20E/FY21E RoEV profile of 20.7%/20.8%/20.9%. Consequently, we arrive at our Target Price of Rs450 for HLI.

| Y/E March (Rsmn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| NBP | 86,964 | 1,13,496 | 1,42,985 | 1,83,368 | 2,33,700 |
| PAT | 8,921 | 11,090 | 12,871 | 15,383 | 18,088 |
| P/E (x) | 86.2 | 69.8 | 60.3 | 50.4 | 42.9 |
| P/B (x) | 20.2 | 16.4 | 13.8 | 11.6 | 9.7 |
| P/EV (x) | 6.2 | 5.1 | 4.3 | 3.7 | 3.1 |
| *RoE (%)* | *25.5* | *26.0* | *24.9* | *25.0* | *24.7* |
| *RoEV (%)* | *21.0* | *21.5* | *20.7* | *20.8* | *20.9* |

*Source: Company, Nirmal Bang Institutional Equities Research*

## BUY

**Sector:** Insurance

**CMP:** Rs385

**Target Price:** Rs450

**Upside:** 17%

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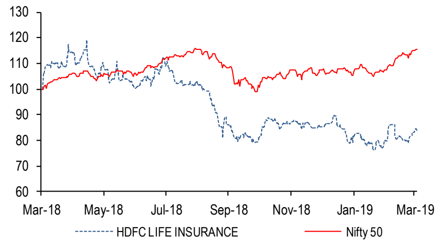
**Key Data**

| | |
|---|---|
| Current Shares O/S (mn) | 2,017.4 |
| Mkt Cap (Rsbn/US$bn) | 768.7/11.1 |
| 52 Wk H / L (Rs) | 548/344 |
| Daily Vol. (3M NSE Avg.) | 2,000,220 |

| Share holding (%) | 1QFY19 | 2QFY19 | 3QFY19 |
|---|---|---|---|
| Promoters | 80.9 | 80.84 | 80.71 |
| Institutions | 11.01 | 10.72 | 10.89 |
| Non-Institutions | 8.09 | 8.43 | 8.37 |

**One Year Indexed Stock Performance**




**Price Performance (%)**

| | 1 M | 6 M | 1 Yr |
|---|---|---|---|
| HDFC Life Ins. Co. | 5.0 | (1.9) | (21.1) |
| Nifty Index | 7.7 | 6.2 | 14.5 |

*Source: Bloomberg*

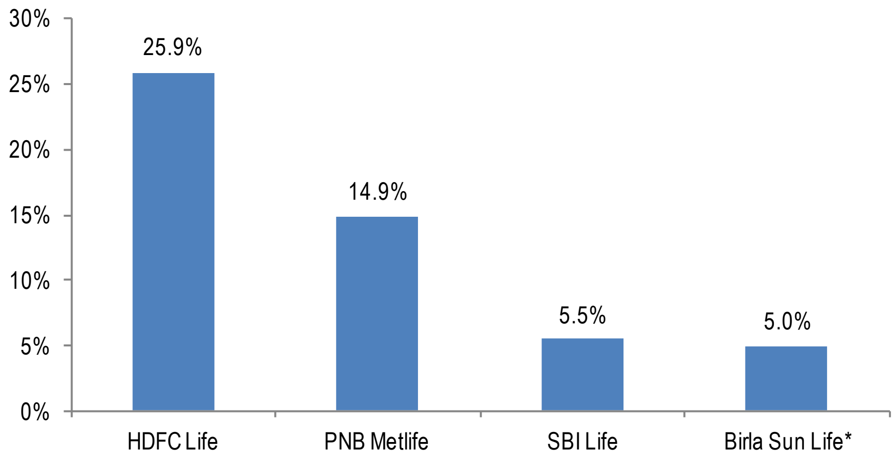
## Like the rest of the HDFC Group, HLI too is focused on and is able to execute high delivery of profitability via high share of protection business

HDFC Bank is known for net interest margin leadership among universal banks in India. HDFC AMC is known for high share of equity in AUM (and, therefore, higher profitability). **In consonance with profitability focused DNA of the wider HDFC Group, HLI too has been able to build a life insurance business with the highest share of pure protection**, the business category with the highest margin in the life insurance sector.

It is to be noted that **the pure protection product that HLI has been able to successfully sell is primarily credit life product sold via the bancassurance channel**.

**On a new business premium basis, the share of pure protection for HLI is as high as 25.9%** in FY18, which is significantly higher than key peers.

**Exhibit 1: Share of pure protection – HLI vs key peers – FY18 – NBP basis**



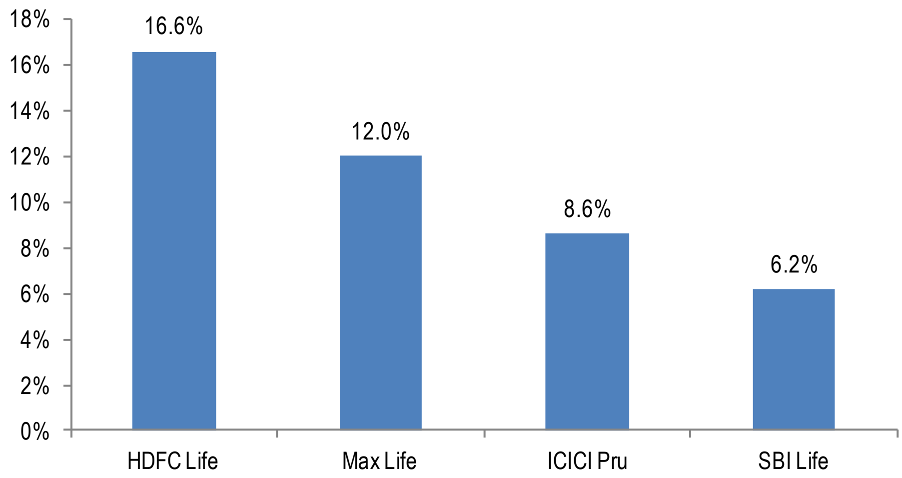

**Basis of classification not known.*

*Source: Companies, Nirmal Bang Institutional Equities Research*

On an APE basis, the share of pure protection is 16.6% for 9MFY19, which is again higher than key peers. **The share of pure protection for HLI tends to be significantly lower on APE basis than on NBP basis** since the credit protect product tends to be single premium product, which tends to suppress the APE number

**Aside on APE:** APE or Annual Premium Equivalent is a widely used metric to gauge topline for life insurers and is calculated as new business non-single premium plus a tenth of single premium.

**Exhibit 2: Share of pure protection – HLI vs key peers – 9MFY19 – APE basis**

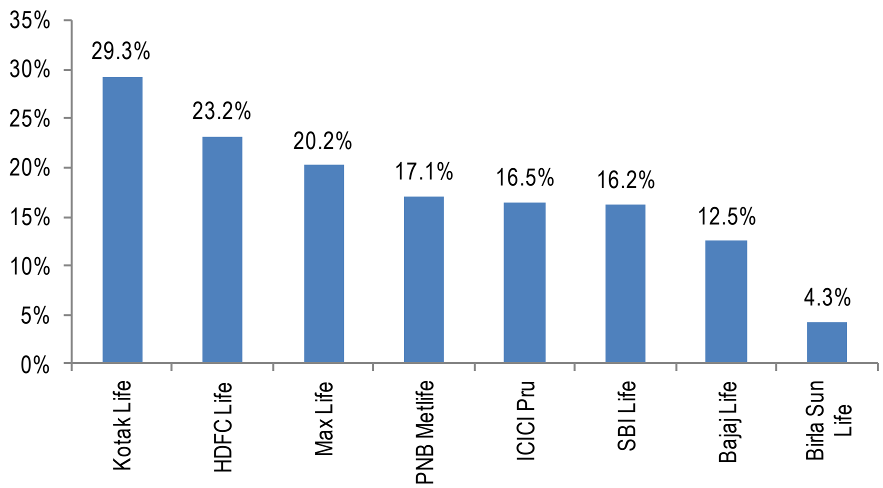



*Source: Companies, Nirmal Bang Institutional Equities Research*

## High share of pure protection business leads to margin leadership for HLI

High share of pure protection business, which is high margin business, feeds in directly into high overall VNB margin for HLI. **VNB margin for HLI at 23.2% for FY18 is the highest among 8 key private sector life insurer peers, bar Kotak Life**.

**Exhibit 3: VNB margin – 8 key private sector life insurers – FY18**




*Source: Companies, Nirmal Bang Institutional Equities Research*

## HLI has stitched together a large non-HDFC Bank network which would serve to mitigate the impact of HDFC Bank's non-exclusivity

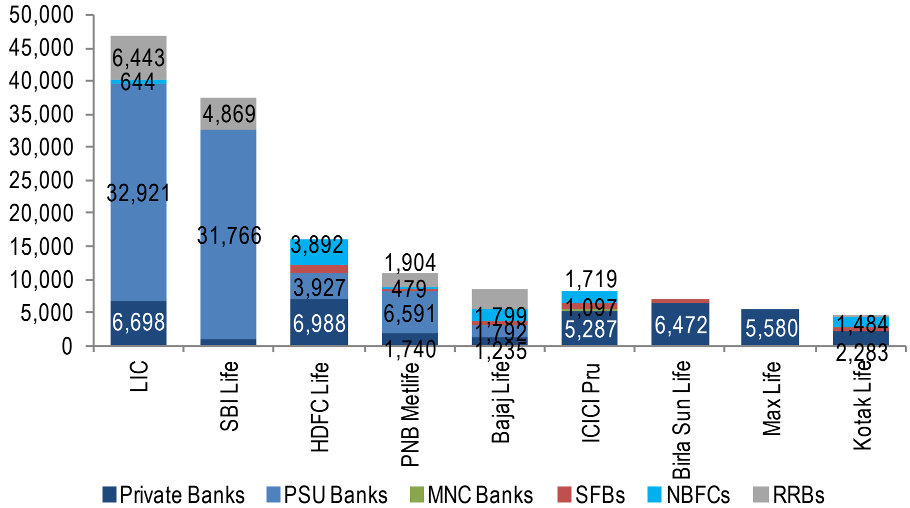
HDFC Bank has moved from being an exclusive sourcer of business for HLI to sourcing increasingly for its newer tie-up partners, Birla Sun Life and Tata AIA Life. **The impact from this is mitigated by HLI establishing an ever higher bancassurance partner count and sourcing from these additional partners**.

This underlines the importance of a B2B capability to succeed in B2C businesses. To that extent, **business leaders with a corporate / wholesale / investment banking background, who can strike up B2B relationships, are able to make a difference**. In this regard, Amitabh Chaudhry, the ex CEO of HLI, has been a good example. It may be noted that he does indeed have a wholesale banking background having worked in leadership positions at Bank of America. A lot of heavy lifting has already been done under his tenure and we think HLI has achieved critical mass and strong momentum in striking up bancassurance partnerships. We think HLI will continue in the same vein under the leadership of Vibha Padalkar.

## Based on our comprehensive analysis of respective bancassurance networks, among private sector life insurers, HLI has a very strong network

**We looked at the life insurance tie-ups of as many as 198 entities extending from Indian private sector universal banks, PSU universal banks, MNC universal banks, small finance banks, listed NBFCs, urban co-operative banks and regional rural banks**. We then looked at the branch network count for each of these entities and then arrived at the total addressable bancassurance network size for each life insurer. We present our findings for 9 key life insurers in a chart below. Urban cooperative banks were removed from our analysis due to lack of comprehensive data but this does not alter the broad statistical significance of our analysis.

**Exhibit 4: Addressable bancassurance network size for 9 key life insurers**




*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

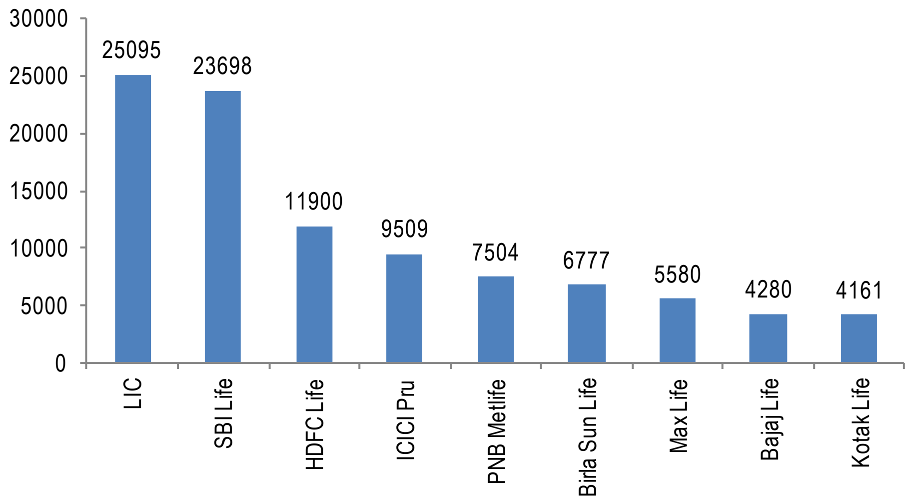
**We note that, among private sector life insurers, HLI has the second largest addressable bancassurance network** consisting of as many as 16,144 branches.

## We adjust for differences in the efficiency levels of different categories of bancassurance partners to arrive at an adjusted bancassurance strength

**We also, further, note that not all banks can be painted with the same brush. The efficiency and cross sell culture at private sector banks would, admittedly, be better than that at PSU Banks**. Similarly, we would also aver that the branches of small finance banks, NBFCs and regional rural banks would have varying degrees of sourcing ability for partner life insurers. Hence, to arrive at a weighted bancassurance network 'index', we multiply PSU Bank and NBFC branch count by 50%, small finance bank branch count by 75% and regional rural bank branch count by 25% to arrive at a weighted index to indicate a more accurate strength of for respective bancassurance networks.

**Additionally, we also adjust to differentiate for certain branch networks sourcing exclusively for specific life insurers**. We add 50% for private sector bank branches and 25% for PSU Bank branches that are sourcing exclusively for specific insurers to our preliminary index to arrive at a final index for strength of bancassurance network. We present our findings for 9 key life insurers below in a chart.

**Exhibit 5: Index of bancassurance network strength for 9 key life insurers**




*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

As per our exhaustive analysis, **HLI has the second strongest bancassurance network among private sector life insurers** considered.

## We have some moderate concerns that the high degree of HLI's protection success may not easily sustained

HLI registers high share of pure protection of the back of selling a high proportion of credit protect products. This may not be easily sustained to the same degree as is being currently achieved by HLI since the **credit protect products sold are (a) sourced materially by HDFC Bank and are (b) generally group single premium products**.

### *The HDFC Bank sourcing engine is no longer focusing the lion's share of its energy on sourcing for HLI*

HDFC Bank no longer sources exclusively for HLI. The bank has tied up with Birla Sun Life and Tata AIA Life in the life insurance space. **While there may still be some inertia of shop floor staff in moving away from pushing HLI products, Birla Sun Life and Tata AIA Life have started to eat into the share of total life insurance business sourced by HDFC Bank**. It is possible that this shift continues in favour of Birla Sun Life and Tata AIA Life till the situation normalizes. A key corollary of this would be reduced success in sourcing pure protection business from HLI's perspective.

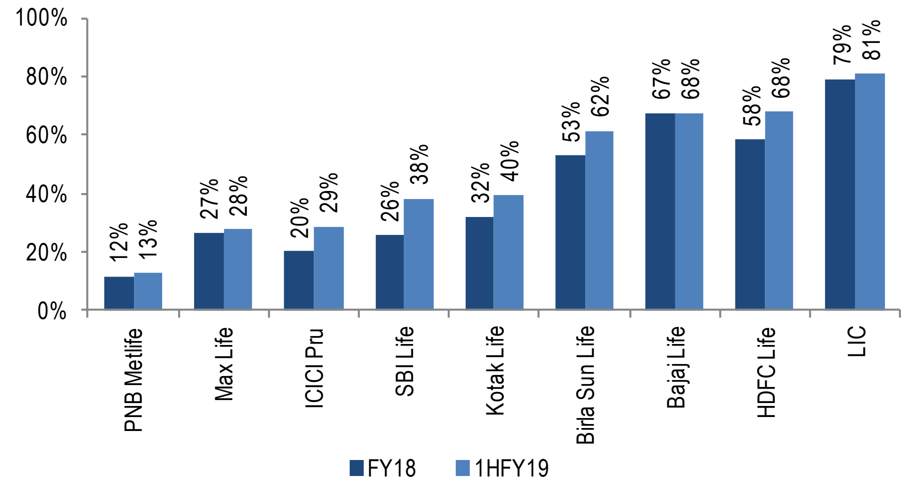
**About 25-30% of HLI total new business premium is sourced by HDFC Bank alone, a lot of it credit protect**, implying the potential for impact due to the above considerations is material, albeit some of the impact is already in the base.

### *Ceteris paribus, single premium business is a less entrenched and, on balance, a less repeatable business than non-single premium business*

Single premium business, on balance, has been observed to be a less sticky business than regular premium business. **Share of single premium for HLI in total new business premium for 1HFY19 was 68%, which is the second highest among 9 key life insurer peers**. This shows HLI's high dependence on single premium business, a lot of which is credit protect business.

To be clear, we do not say that this is any grave concern from HLI's perspective but, on balance, it is a moderate concern.

**Exhibit 6: Share of single premium in NBP – 9 key life insurers – FY18, 1HFY19**

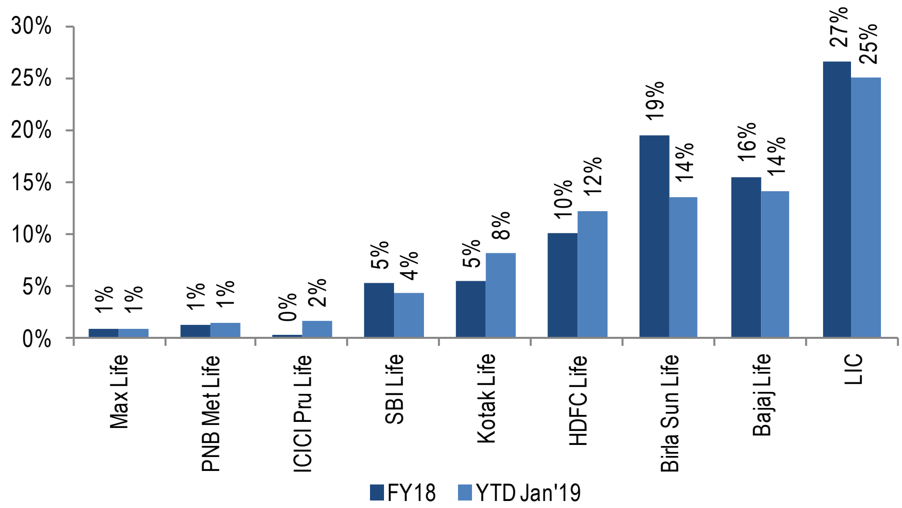



*Source: Companies, Nirmal Bang Institutional Equities Research*

### *Ceteris paribus, group premium business is a more lumpy and, on balance, a less repeatable business than individual premium business*

The share of pure protection for HLI tends to be even lower on individual APE basis (7% for 9MFY19) than on overall APE basis since a significant proportion of the credit protect product for HLI is sourced as Group business. **This, on balance, is somewhat negative from a sustainability perspective since Group business is potentially lumpy whereas retail business in inherently linear in nature**.

**Exhibit 7: Share of Group business in APE – 9 key life insurers – FY18, 1HFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

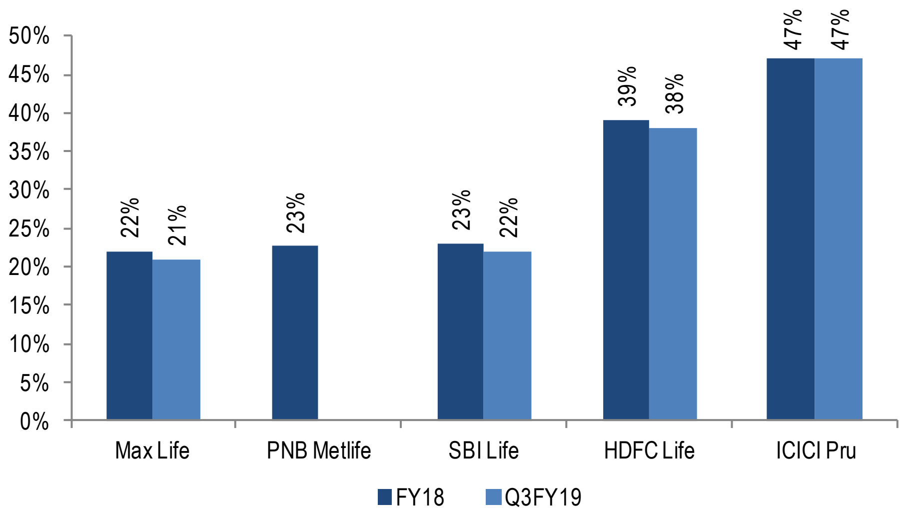
**The share of Group business in APE for HLI is 12% for YTDJan19**, which is the fourth highest among 9 key life insurers.

To be clear, we do not say that Group business share is any grave concern from HLI's perspective but, on balance, it is a moderate concern. Also, to be clear, **the lumpiness of the Group Protect business is different in nature from that of the Group Fund business (Superannuation, etc)** since the Group Protect business, in terms of sales execution is effectively a B2C business. The lumpiness comes from the fact that relationship of the insurer with the bancassurance partner is a B2B relationship and is, theoretically, susceptible to being ensnared by another insurer bidding for an economically more attractive agreement with the said bancassurance partner.

## We perceive some degree of business risk in HLI given relatively higher exposure to equity as a proportion of AUM

Unlike ICICI Prudential, HLI does not seem to be dependent on market sensitive HNI clients for sourcing business. However, like ICICI Prudential, **HLI's exposure to equity as a proportion of AUM is on the higher side**. This seems to indicate that the customers of HLI are tending to use their products as investment vehicles to play the stockmarket.

**Exhibit 8: Share of equity in AUM for 5 key life insurers – FY18, 3QFY19**




*Source: Companies, Nirmal Bang Institutional Equities Research*

**We note that the share of equity in total AUM for HLI is close to the 40% ballpark, which is significantly higher than its key listed life insurer peers, bar ICICI Prudential**.

High exposure to equity makes underlying funds vulnerable to under-performance during stock-market downturns and increases the probability, ceteris paribus, of clients surrendering policies citing disappointment with performance.

At the same time, we note that high equity exposure may not, necessarily, be a negative in a scenario where the outlook for the equity market is positive and stable. The risk exists since a prolonged downturn in the equity market would have an disproportionate negative impact on life insurers with high equity exposure.

### Exhibit 9: Management team/ Key executives

| Name | Designation | Experience |
|---|---|---|
| Ms. Vibha Padalkar | MD & CEO | Ms Vibha Padalkar has been associated with HDFC Life since August 2008. Ms Padalkar qualified as a member of the Institute of Chartered Accountants of England and Wales in 1992. She is also a member of the Institute of Chartered Accountants of India. Prior to her appointment with the Company, she has worked in varied sectors such as global Business Process Outsourcing, global FMCG and in an international audit firm. Ms Padalkar was recently honoured the 'CA CFO - Insurance Sector' award by the Institute of Chartered Accountants of India and by Business Today for the second consecutive year, as being amongst the 'Top 30 most powerful women in business'. She was also conferred the 'CFO-woman of the year' award by the Institute of Chartered Accountants of India in 2011 and for "Excellence in Financial Control, Compliance and Corporate Governance" by IMA, India in 2013. |
| Mr. Suresh Badami | Executive Director | Mr Suresh Badami has been associated with the Company since October 2013 and is the Chief Distribution Officer of the Company. Prior to joining the Company, Mr Badami was associated with Dunlop India Limited, ICI India Limited, Cogensis Networks Private Limited, Max Ateev Limited, and ICICI Bank Limited. Mr Badami holds a Bachelor's degree in Science from Bangalore University and a Post Graduate Diploma in Management from Xavier Institute of Management, Bhubaneswar. |
| Mr. Niraj Shah | CFO | Mr. Niraj Shah has been associated with HDFC Life since February 2019. He heads Finance, Audit, Risk Management and Investor Relations. He has 20 years of experience in financial services, primarily in life insurance and corporate finance advisory. Prior to joining HDFC Life, he was associated with PNB MetLife, ICICI Prudential Life, EY and BNP Paribas. Mr. Shah holds a Post Graduate Diploma in Management from India Institute of Management, Bangalore and is a member of the Institute of Chartered Accountants of India. |
| Mr. Parvez Mulla | COO | Mr. Parvez Mulla has been associated with HDFC Life as a Chief Business Officer - Group since January 2018. In November 2018, he was elevated as Chief Operating Officer (COO) of the HDFC Life. As COO, his portfolio includes Branch Operations, Customer Service, Underwriting, Centralised Operations & Technology functions. Since October 2018, Mr. Parvez Mulla has been appointed as the Non-Executive Director on the Board of HDFC Pension Management Company Limited. Prior to joining HDFC Life, he was the MD with True North Managers LLP and before that he was the Chief Executive of Retail at L&T Financial Services. Prior to L&T Financial Services, he was associated with ICICI Bank, ANZ Grindlays Bank and Bajaj Auto. He has over 23 years of experience in retail banking and financial services. Mr. Parvez Mulla holds a Bachelor's degree in Mechanical Engineering and a Post Graduate Diploma in Management from IIM Bangalore. |
| Mr. Prasun Gajri | CIO | Mr. Prasun Gajri has been associated with HDFC Life since April 2009 and heads Investments. Prior to joining HDFC Life, he was associated with Citibank N.A and Tata AIA Life Insurance Company Limited. Mr. Gajri holds a Bachelor's degree in Engineering from Punjab Engineering College, Chandigarh and is an alumnus of Indian Institute of Management, Ahmedabad. He is also a Chartered Financial Analyst from CFA Institute, USA. |
| Mr. Srinivasan Parthasarathy | Sr. EVP, Chief Actuary and Appointed Actuary | Mr. Srinivasan Parthasarathy has been associated with HDFC Life since December 2011 and heads Actuarial and Products. Prior to joining HDFC Life, he was associated with LIC of India, Watson Wyatt (UK), AVIVA Life (UK), York (Norwich Union), AVIVA India, and Canara HSBC. Mr. Parthasarathy holds a Bachelor's degree in Science (Mathematics) from Loyola College, University of Madras. He is also a Fellow of the Institute of Actuaries of India (2008) and Institute of Actuaries, UK (2004). |
| Mr. Amit M. Punchhi | Chief Business Officer, International Business, eCommerce, Analytics & CRM | Mr. Amit Punchhi has been associated with HDFC Life since October 2017. As the Chief Business Officer, he is responsible for the reinsurance strategy, international business, digital insurance, analytics and CRM. He is also responsible for the overall management of HDFC International Life & Re, the international subsidiary of HDFC Life. Prior to joining HDFC Life, he worked as the Chief Executive Officer, Reinsurance Group of America (RGA), Hong Kong. Additionally, he was also the Managing Director of Singapore, India and the Asia High Net-Worth business. Mr. Punchhi has 27 years of experience in Reinsurance, Insurance and Investments, in both North America and Asia. |
| Mr. Rajendra Ghag | Sr. EVP and Chief HR Officer | Mr. Rajendra Ghag has been associated with HDFC Life since September 2009 and heads HR, Administration, Business & Services Excellence, Learning & Development, Talent Development & Recruitment, and CSR. Prior to joining HDFC Life, he was associated with CEAT Limited, Sandoz (India) Limited, NOCIL, TFIPL (Reliance Industries Limited), Cadbury India Limited and DHL Express India Limited. Mr. Ghag holds a Bachelor's degree in Commerce from the University of Mumbai. He also holds a Bachelor's degree in Law and a Master's degree in Personnel Management from the University of Pune. |
| Mr. Pankaj Gupta | Chief Marketing Officer & Head, Strategic Alliances, Credit Life, Specialty Sales, Govt Business | Mr. Pankaj Gupta has been associated with HDFC Life since November 2014. He is the Chief Marketing Officer and heads Strategic Alliances, Speciality Sales, Credit Life & Government Business. Prior to HDFC Life, he was associated with Citigroup, ICICI Bank, and TCS. He has over 23 years of work experience in the financial services space. Mr. Gupta holds a Bachelor's degree in Technology from IIT Kanpur and is an alumnus of the Indian Institute of Management, Lucknow. |
| Mr. Sanjay Vij | EVP - Bancassurance | Sanjay Vij has been associated with HDFC Life since July 2001 and heads Bancassurance (HDFC Group). Prior to joining HDFC Life, he was associated with HCL Limited, Blue Star Limited, Core Parenterals Limited, Span Medicals Limited and Birla AT&T Communications Limited. Mr. Vij holds a Bachelor's degree in Science (D.Tech) from Gujarat Agricultural University and has a Master's degree in Business Administration from Faculty of Management Studies, University of Baroda. |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 10: Board members

| Name | Designation | Experience |
|---|---|---|
| Mr. Deepak S Parekh | Non-Executive Chairman | Mr. Parekh has been on the board since August 2000. He is an associate of the Institute of Chartered Accountants of England and Wales. He is on the board of several leading corporations across diverse sectors. He is the non-executive chairman of Siemens Limited, GlaxoSmithkline Pharmaceuticals Limited and BAE Systems India (Services) Private Limited. He is also on the boards of Indian Hotels Company Limited and Bangalore International Airport Limited (BIAL). |
| Sir Gerry Grimstone | Non-Executive Director | He has been on the board since April 2013. He became a director of the Standard Life Aberdeen, in July 2003 and has been the chairman of Standard Life Aberdeen since May 2007, having been deputy chairman since March 2006. He is also the chairman of Heng An Standard Life Insurance Company Limited in China. He is senior independent director and deputy chairman of Barclays Bank plc. He is also an independent, public interest, non – executive board member of Deloitte LLP and the lead non-executive at the Ministry of Defence. He is a senior adviser to the board of the Abu Dhabi Commercial Bank and is a member of the advisory council of the UK – India Business Council and is a member of the advisory council of the China – Britain Business Council. |
| Mr. Keki M Mistry | Non-Executive Director | Mr. Mistry has been on the board since December 2000. He is also the vice chairman and chief executive officer of HDFC. He is a Fellow of the Institute of Chartered Accountants of India. Mr. Mistry joined HDFC in 1981. He was appointed as the executive director of HDFC in 1993, as the deputy managing director in 1999 and as the managing director in 2000. He was re-designated as the vice chairman and managing director of HDFC in October 2007 and as the vice chairman and chief executive officer, with effect from January 1, 2010. |
| Ms. Renu Sud Karnad | Non-Executive Director | Ms. Renu Karnad is a Nominee Director of the Company. She has been on the Board since January 25, 2006. She is also the managing director of HDFC. She holds a bachelor's degree in law from the University of Mumbai and a master's degree in economics from the University of Delhi. She is a Parvin Fellow – Woodrow Wilson School of International Affairs, Princeton University, USA. Ms. Karnad joined HDFC in 1978 and she was appointed as the managing director of HDFC in January 2010. |
| Mr. Norman K Skeoch | Non-Executive Director | He has been on the board since November 2005. Mr Skeoch has been on the board of Standard Life Aberdeen plc (formerly Standard Life plc) since 2006 and was appointed chief executive officer in 2015. He is also the chief executive officer at Standard Life Investments Limited. Mr. Skeoch holds a bachelor's degree in Arts from University of Sussex, United Kingdom and a masters' degree in Arts from University of Warwick. Mr. Skeoch is a fellow of the Chartered Institute for Securities and Investment and fellow of the Society of Business Economists. |
| Dr. J J Irani | Independent Director | Dr. Jamshed J Irani is an Independent Director of the Company. He has been on the Board since August 11, 2017. He holds a master's degree in science from Nagpur University and master's in Metallurgy from University of Sheffield, United Kingdom. Further, he also holds a Doctorate from University of Sheffield, United Kingdom. He received the Padma Bhushan from the President of India in 2007 for his services to trade and industry in India. Additionally, he was conferred the honorary Knighthood (KBE) for contribution to Indo-British Trade and Co-operation. Dr. Irani has been a director of the Housing Development Finance Corporation Limited (HDFC) since 2008. Currently, Dr. Irani is an independent director of HDFC and Repro India Limited." |
| Mr AKT Chari | Independent Director | Mr. AKT Chari is an Independent Director of the Company. He has been on the Board since August 4, 2017. He holds a bachelor's degree in electrical engineering from Madras University in 1961. He previously held the position of chief general manager/adviser in Industrial Development Bank of India, where he handled project finance activities of the institution in various industrial and infrastructure sectors. Later he worked as chief operations officer/executive director/head project finance in IDFC Limited, where he was engaged in financing infrastructure projects, in multiple sectors. |
| Mr. Prasad Chandran | Independent Director | Mr. Prasad Chandran is an Independent Director of the Company. He has been on the Board since April 24 2014. Mr. Chandran holds a bachelor's degree (honors) in chemistry from the University of Mumbai and a master's degree in business administration from University Business School, Chandigarh. He has also completed the advanced business management education from Wharton Business School, University of Pennsylvania, USA and AOTS, Tokyo University, Japan. He was designated as the chairman and managing director of BASF India Limited to pursue his interest in nation building. He was also the chairman of CIBA India Limited, Cynamide India Limited, Pushpa Polymers before they integrated into BASF India Limited. He is also a member of the Prime Minister's Special Task Force on the National Chemical Policy. |
| Mr. Vish Viswanathan | Independent Director | Mr. Vegulaparanan Kasi Viswanathan is an Independent Director of the Company. He has been on the Board since April 24, 2014. Mr. Viswanathan holds a bachelor's degree in commerce from University of Madras and is a member of Institute of Chartered Accountants of India. Currently, he is the chairman of Bosch Limited. He joined the Bosch Group in Germany in September 1998 and worked in its global headquarters in Stuttgart, Germany for two years. He took over as joint managing director of Bosch Limited, India in January 2001 with responsibility for all commercial, finance, information technology, human resource and legal matters besides corporate strategy. He was seconded to USA as the senior vice president for its North American automotive electronics and electrical business in 2006. He was designated as the managing director of Bosch Limited and country head and president of Bosch Group in India from February 2008. He became the chairman of Bosch Limited in July 2013. |
| Mr. Sumit Bose | Independent Director | Mr. Sumit Bose is an Independent Director of the Company. He has been on the Board sinceJuly 19, 2016. He holds a degree of master of science in Social Policy and Planning in developing countries from the London School of Economics and Political Science, University of London, UK. He also holds a masters' degree in Arts (History) from University of Delhi. He was a member of Expenditure Management Commission set up to review the allocative and operational efficiencies of Government expenditure to achieve maximum output. He was also the Union Finance Secretary and Revenue Secretary in the Ministry of Finance, Government of India. |
| Mr. Ranjan Mathai | Independent Director | Mr. Ranjan Mathai is an Independent Director of the Company. He has been on the Board since July 22, 2016.He is a qualified as a member of the Indian Foreign Service in 1974 after having completed his Masters in Arts from the University of Poona. He has experience in diplomacy, administration and research and prior to his appointment with our Company, he was the Foreign Secretary of the Government of India for two years in 2011. |
| Mr. Ketan Dalal | Independent Director | Mr Ketan Dalal has joined HDFC Standard Life Insurance Company Limited as Director in July 2017. He is a fellow member of the Institute of Chartered Accountants of India, having qualified in 1981. In 1997, he (along with 3 other professionals) founded RSM, an Indian Tax practice, which merged into PwC in April 2007. He has recently founded a boutique structuring and tax firm, Katalyst Advisors LLP. He was a member of the 'Working Group on Non-resident taxation' formed by Ministry of Finance in 2003. He is a member of the Managing Committee and the Chairman of the Direct tax Committee of IMC. He has been a member of several SEBI Committees including SEBI's High Powered Advisory Committee on consent orders and compounding and Group of experts to advise SEBI on matters relating to Financial Sector Legislative Reforms Commission |

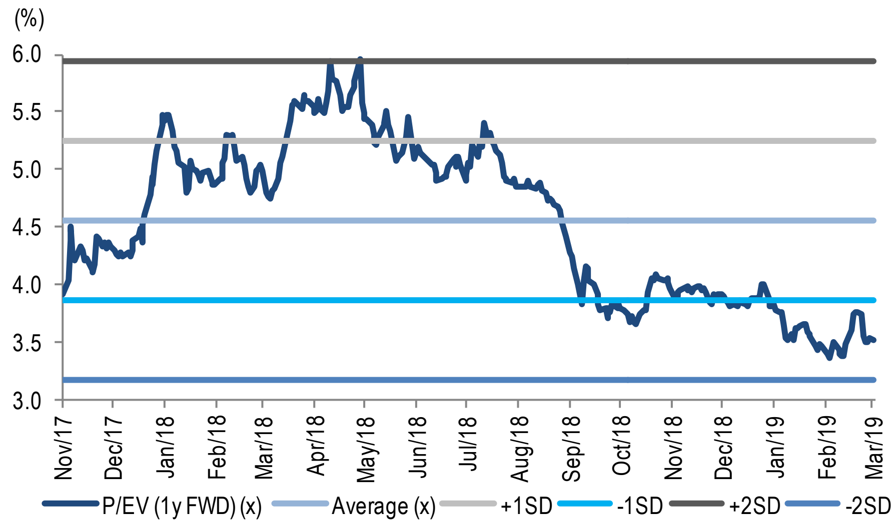
*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 11: Shareholding Information

| Key institutional investors | (%) |
|---|---|
| **Promoter / Promoter Group** | |
| HDFC Ltd | 51.5 |
| Standard Life | 24.7 |
| **Non - promoter** | |
| JPMorgan Chase & Co | 2.3 |
| Nomura Holdings Inc | 1.4 |
| Motilal Oswal AMC | 0.8 |
| Vanguard Group Inc | 0.5 |
| SBI Funds Management | 0.3 |
| Kotak Mahindra AMC | 0.3 |
| Mirae Asset Global Investments Co | 0.3 |
| William Blair & Co LLC | 0.2 |
| FIL Ltd | 0.2 |
| Credit Agricole Group | 0.2 |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 12: One-year forward P/EV




*Source: Company, Nirmal Bang Institutional Equities Research*

## Financials

### Exhibit 13: Revenue account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| FYP (first year premium) | 47,385 | 54,389 | 62,523 | 73,491 |
| SP (single premium) | 66,112 | 88,596 | 1,20,846 | 1,60,208 |
| **NBP (new business premium)** | **1,13,496** | **1,42,985** | **1,83,368** | **2,33,700** |
| RP (renewal premium) | 1,22,148 | 1,43,533 | 1,68,795 | 1,99,938 |
| **Gross premium** | **2,35,644** | **2,86,518** | **3,52,163** | **4,33,638** |
| (-) Reinsurance ceded | 1,934 | 2,399 | 3,132 | 3,802 |
| **Net premiums** | **2,33,710** | **2,84,119** | **3,49,031** | **4,29,836** |
| Income from investments & other income | 88,631 | 1,00,233 | 1,17,407 | 1,40,911 |
| **Total income** | **3,22,341** | **3,84,352** | **4,66,439** | **5,70,747** |
| - Commission expenses | 10,749 | 11,218 | 13,348 | 16,422 |
| - Operating expenses | 31,593 | 38,004 | 46,692 | 57,839 |
| - Provision for doubtful debts and taxes | 2,960 | 3,578 | 4,130 | 4,841 |
| **Operating surplus** | **2,77,038** | **3,31,552** | **4,02,269** | **4,91,645** |
| - Benefits paid (net) | 1,28,949 | 1,41,699 | 1,64,843 | 1,99,168 |
| - Interim & terminal bonuses paid | 2,165 | 5,268 | 4,926 | 5,289 |
| - Change in reserves | 1,33,223 | 1,69,242 | 2,14,962 | 2,67,639 |
| **Pre-tax surplus / (deficit)** | **12,702** | **15,343** | **17,539** | **19,549** |
| Provisions for tax | 1,755 | 2,724 | 2,990 | 3,345 |
| **Post-tax surplus / (deficit)** | **10,946** | **12,619** | **14,549** | **16,204** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 15: P&L account

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| T/f from technical a/c | 10,022 | 10,860 | 12,638 | 13,873 |
| Investment and other income | 2,933 | 3,465 | 4,400 | 5,974 |
| **Total income** | **12,955** | **14,325** | **17,039** | **19,847** |
| **Total expenses** | **1,687** | **1,056** | **1,180** | **1,200** |
| PBT | 11,267 | 13,269 | 15,859 | 18,647 |
| Provision for tax | 177 | 398 | 476 | 559 |
| **PAT** | **11,090** | **12,871** | **15,383** | **18,088** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 16: Key ratios

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Source of Funds** | | | | |
| **Shareholders' fund** | **47,492** | **56,583** | **67,396** | **80,113** |
| Policy liabilities | 10,01,267 | 11,72,135 | 13,89,093 | 16,59,160 |
| Funds for future appropriations | 9,592 | 11,351 | 13,262 | 15,593 |
| **Total** | **10,58,351** | **12,40,069** | **14,69,751** | **17,54,865** |
| **Application of Funds** | | | | |
| Shareholders' investments | 40,703 | 51,693 | 65,650 | 78,780 |
| Policyholders' investments | 4,53,471 | 5,88,844 | 7,67,481 | 9,97,569 |
| Asset held to cover linked liabilities | 5,71,854 | 6,09,024 | 6,48,611 | 6,89,474 |
| Net other and current assets | (7,678) | (9,493) | (11,991) | (10,958) |
| **Total** | **10,58,350** | **12,40,069** | **14,69,751** | **17,54,865** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 14: Embedded value table

| Y/E March (Rsmn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Opening EV** | **1,24,710** | **1,52,160** | **1,78,767** | **2,12,408** |
| Unwind | 10,440 | 12,934 | 15,195 | 18,055 |
| VNB (or NBAP) | 12,820 | 15,496 | 19,025 | 23,273 |
| Operating variance | 3,570 | 3,050 | 3,050 | 3,050 |
| **EV Operating Profit (EVOP)** | **26,830** | **31,480** | **37,270** | **44,378** |
| Non-operating variance | 2,590 | (1,000) | 1,000 | 1,000 |
| **EV Profit** | **29,420** | **30,480** | **38,270** | **45,378** |
| Net capital injection | (1,960) | (3,873) | (4,629) | (5,443) |
| **Closing EV** | **1,52,160** | **1,78,767** | **2,12,408** | **2,52,343** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 17: Key ratios

| Y/E March | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| New business premium | 30.5 | 26.0 | 28.2 | 27.4 |
| Renewal premium | 13.6 | 17.5 | 17.6 | 18.5 |
| Net premium | 21.3 | 21.6 | 22.8 | 23.2 |
| PAT | 24.3 | 16.1 | 19.5 | 17.6 |
| Total AUM | 16.2 | 17.2 | 18.6 | 19.2 |
| Total Assets | 15.9 | 17.2 | 18.5 | 19.4 |
| **Expense analysis (%)** | | | | |
| Commission ratio | 4.6 | 3.9 | 3.8 | 3.8 |
| Opex ratio | 13.4 | 13.3 | 13.3 | 13.3 |
| Claims ratio | 54.7 | 49.5 | 46.8 | 45.9 |
| P/hs' opex / Avg P/hs' AUM | 3.3 | 3.4 | 3.6 | 3.7 |
| **Profitability analysis (%)** | | | | |
| RoA | 1.1 | 1.1 | 1.1 | 1.1 |
| RoE | 26.0 | 24.9 | 25.0 | 24.7 |
| RoEV | 21.5 | 20.7 | 20.8 | 20.9 |
| VNB margin | 23.2 | 24.5 | 25.5 | 26.0 |
| S/hs' AUM yield | 8.0 | 7.5 | 7.5 | 7.5 |
| P/hs' AUM yield | 9.0 | 8.7 | 8.7 | 8.7 |
| **Balance sheet analysis** | | | | |
| P/hs' funds / P/hs' AUM (x) | 1.0 | 1.0 | 1.0 | 1.0 |
| NWP / Net worth (x) | 5.0 | 5.1 | 5.2 | 5.4 |
| **Per share data (Rs)** | | | | |
| EPS | 5.5 | 6.4 | 7.6 | 9.0 |
| BVPS | 23.5 | 27.9 | 33.2 | 39.5 |
| EVPS | 75.6 | 88.6 | 105.3 | 125.1 |
| **Valuation data (x)** | | | | |
| P/E | 69.8 | 60.3 | 50.4 | 42.9 |
| P/BV | 16.4 | 13.8 | 11.6 | 9.7 |
| P/EV | 5.1 | 4.3 | 3.7 | 3.1 |

*Source: Company, Nirmal Bang Institutional Equities Research*

# Important additional tables and charts – Key tables and charts prepared but not used elsewhere in the report (Useful for incremental insight)

## Exhibit 1: Life insurance tie-ups by corporate agents

| Corporate agent name | Category | Life tie-up 1 | Life tie-up 2 | Life tie-up 3 |
|---|---|---|---|---|
| Indusind Bank Limited | Private Sector Bank | Tata AIA Life | | |
| Hdfc Bank | Private Sector Bank | Tata AIA Life | Birla Sun Life | HDFC Life |
| The Catholic Syrian Bank Ltd | Private Sector Bank | Edelweiss Tokio Life | HDFC Life | ICICI Pru Life |
| City Union Bank Ltd. | Private Sector Bank | LIC | | |
| The Jammu And Kashmir Bank Ltd. | Private Sector Bank | Pnb Metlife | | |
| The Lakshmi Vilas Bank Limited | Private Sector Bank | Birla Sun Life | Max Life | DHFL Pramerica Life |
| The Karur Vysya Bank Limited | Private Sector Bank | Birla Sun Life | | |
| The South Indian Bank Ltd | Private Sector Bank | SBI Life | LIC | Kotak Life |
| Axis Bank Ltd | Private Sector Bank | LIC | Max Life | |
| Dcb Bank Limited | Private Sector Bank | Birla Sun Life | HDFC Life | |
| Idfc First Bank Ltd. | Private Sector Bank | HDFC Life | | |
| Icici Bank Limited | Private Sector Bank | ICICI Pru Life | | |
| Rbl Bank Ltd | Private Sector Bank | HDFC Life | | |
| Yes Bank Ltd. | Private Sector Bank | Max Life | | |
| Dhanlaxmi Bank Limited | Private Sector Bank | Can HSBC OBC Life | DHFL Pramerica Life | Bajaj Life |
| Karnataka Bank Ltd. | Private Sector Bank | LIC | Pnb Metlife | |
| Tamilnad Mercantile Bank Ltd | Private Sector Bank | LIC | | |
| The Nainital Bank Limited | Private Sector Bank | India First Life | Exide Life | |
| The Federal Bank Ltd | Private Sector Bank | Idbi Federal Life | | |
| Kotak Mahindra Bank Ltd. | Private Sector Bank | Kotak Life | | |
| Bandhan Bank Ltd | Private Sector Bank | Bajaj Life | HDFC Life | |
| State Bank Of India | Public Sector Bank | SBI Life | | |
| Bank Of Baroda | Public Sector Bank | India First Life | | |
| Allahabad Bank | Public Sector Bank | LIC | SBI Life | |
| Dena Bank | Public Sector Bank | HDFC Life | LIC | Bajaj Life |
| Oriental Bank Of Commerce | Public Sector Bank | Can HSBC OBC Life | | |
| Bank Of India | Public Sector Bank | Star Union Dai-ichi Life | | |
| Canara Bank | Public Sector Bank | Can HSBC OBC Life | | |
| Central Bank Of India | Public Sector Bank | LIC | | |
| Syndicate Bank | Public Sector Bank | LIC | SBI Life | |
| Andhra Bank | Public Sector Bank | India First Life | | |
| Bank Of Maharashtra | Public Sector Bank | Aviva Life | LIC | Reliance Life |
| Uco Bank | Public Sector Bank | LIC | | |
| Indian Bank | Public Sector Bank | LIC | | |
| Union Bank Of India | Public Sector Bank | Star Union Dai-ichi Life | | |
| Indian Overseas Bank | Public Sector Bank | LIC | | |
| Vijaya Bank | Public Sector Bank | LIC | HDFC Life | |
| Idbi Bank Ltd | Public Sector Bank | Idbi Federal Life | | |
| Corporation Bank | Public Sector Bank | LIC | | |
| United Bank Of India | Public Sector Bank | LIC | | |
| Punjab National Bank | Public Sector Bank | Pnb Metlife | | |
| Punjab And Sind Bank | Public Sector Bank | LIC | SBI Life | |
| Capital Small Finance Bank Limited | Small Finance Bank | HDFC Life | ICICI Pru Life | |
| Ujjivan Small Finance Bank Limited | Small Finance Bank | Birla Sun Life | HDFC Life | Bajaj Life |
| Equitas Small Finance Bank Limited | Small Finance Bank | HDFC Life | Reliance Life | ICICI Pru Life |
| Utkarsh Small Finance Bank Limited | Small Finance Bank | ICICI Pru Life | HDFC Life | Shriram Life |
| Suryoday Small Finance Bank Limited | Small Finance Bank | HDFC Life | Kotak Life | |
| Au Small Finance Bank Ltd | Small Finance Bank | Future Generali Life | | |
| Esaf Small Finance Bank Ltd | Small Finance Bank | Pnb Metlife | Bajaj Life | |
| Fincare Small Finance Bank Limited | Small Finance Bank | Edelweiss Tokio Life | Kotak Life | |
| Jana Small Finance Bank Ltd | Small Finance Bank | Bajaj Life | ICICI Pru Life | |
| Saurashtra Gramin Bank | Regional Rural Bank | SBI Life | | |
| Telangana Grameena Bank | Regional Rural Bank | SBI Life | | |
| Chhattisgarh Rajya Gramin Bank | Regional Rural Bank | SBI Life | | |
| Bihar Gramin Bank | Regional Rural Bank | Aviva Life | Bajaj Life | Reliance Life |
| Uttarakhand Gramin Bank | Regional Rural Bank | SBI Life | | |
| Vananchal Gramin Bank | Regional Rural Bank | SBI Life | | |
| Malwa Gramin Bank | Regional Rural Bank | SBI Life | | |

**Continued on next page**

| Corporate agent name | Category | Life tie-up 1 | Life tie-up 2 | Life tie-up 3 |
|---|---|---|---|---|
| Utkal Grameen Bank | Regional Rural Bank | SBI Life | | |
| Andhra Pradesh Grameena Vikas Bank | Regional Rural Bank | SBI Life | | |
| Langpi Dehangi Rural Bank | Regional Rural Bank | SBI Life | | |
| Mizoram Rural Bank | Regional Rural Bank | SBI Life | | |
| Madhyanchal Gramin Bank | Regional Rural Bank | SBI Life | | |
| Purvanchal Bank | Regional Rural Bank | SBI Life | | |
| Arunachal Pradesh Rural Bank | Regional Rural Bank | SBI Life | | |
| Meghalaya Rural Bank | Regional Rural Bank | SBI Life | | |
| Kaveri Grameena Bank | Regional Rural Bank | SBI Life | | |
| Pallavan Grama Bank | Regional Rural Bank | LIC | | |
| Ellaquai Dehati Bank | Regional Rural Bank | SBI Life | | |
| Allahabad Up Gramin Bank | Regional Rural Bank | LIC | | |
| Prathama Bank | Regional Rural Bank | LIC | Bajaj Life | |
| Central Madhya Pradesh Gramin Bank | Regional Rural Bank | LIC | | |
| Himachal Pradesh Gramin Bank | Regional Rural Bank | Pnb Metlife | | |
| Sarva Haryana Gramin Bank | Regional Rural Bank | Pnb Metlife | | |
| Narmada Jhabua Gramin Bank | Regional Rural Bank | Bajaj Life | Reliance Life | Star Union Dai-ichi Life |
| Gramin Bank Of Aryavart | Regional Rural Bank | Bajaj Life | Star Union Dai-ichi Life | |
| Kashi Gomti Samyut Gramin Bank | Regional Rural Bank | Reliance Life | Star Union Dai-ichi Life | Aegon Life |
| Jharkhand Gramin Bank | Regional Rural Bank | Star Union Dai-ichi Life | | |
| Vidharbha Konkan Gramin Bank | Regional Rural Bank | Star Union Dai-ichi Life | Bharti Axa Life | |
| Assam Gramin Vikash Bank | Regional Rural Bank | Bajaj Life | India First Life | |
| Tripura Gramin Bank | Regional Rural Bank | LIC | | |
| Punjab Gramin Bank | Regional Rural Bank | Pnb Metlife | | |
| Madhya Bihar Gramin Bank | Regional Rural Bank | Pnb Metlife | | |
| Paschim Banga Gramin Bank | Regional Rural Bank | Bharti Axa Life | LIC | Reliance Life |
| Karnataka Vikas Grameena Bank | Regional Rural Bank | LIC | | |
| Maharashtra Gramin Bank | Regional Rural Bank | Kotak Life | LIC | Bajaj Life |
| Puduvai Bharathiar Grama Bank | Regional Rural Bank | India First Life | | |
| Dena Gujrat Gramin Bank | Regional Rural Bank | LIC | Bajaj Life | |
| Chaitanya Godavari Grameena Bank | Regional Rural Bank | India First Life | | |
| Uttar Bihar Gramin Bank | Regional Rural Bank | LIC | Reliance Life | |
| Andhra Pragathi Grameena Bank | Regional Rural Bank | LIC | | |
| Uttarbanga Kshetriya Gramin Bank | Regional Rural Bank | LIC | | |
| Pragathi Krishna Gramin Bank | Regional Rural Bank | Can HSBC OBC Life | | |
| Bangiya Gramin Vikash Bank | Regional Rural Bank | LIC | | |
| Kerala Gramin Bank | Regional Rural Bank | LIC | Can HSBC OBC Life | |
| Manipur Rural Bank | Regional Rural Bank | DHFL Pramerica Life | LIC | |
| N K G S B Co-Operative Bank Ltd | Co-operative Bank | Max Life | Bajaj Life | |
| Abhyudaya Cooperative Bank Ltd | Co-operative Bank | LIC | Exide Life | |
| A P Mahesh Cooperative Urban Bank Ltd | Co-operative Bank | LIC | Max Life | |
| Kangra Central Co Operative Bank Limited | Co-operative Bank | Bajaj Life | LIC | DHFL Pramerica Life |
| The Saraswat Cooperative Bank Ltd | Co-operative Bank | Future Generali Life | ICICI Pru Life | HDFC Life |
| The Mahanagar Cooperative Bank Ltd | Co-operative Bank | LIC | Exide Life | Max Life |
| Sangli Urban Co Operative Bank | Co-operative Bank | LIC | Exide Life | |
| The Kangra Co-Operative Bank Ltd | Co-operative Bank | SBI Life | | |
| Prime Co Operative Bank Ltd | Co-operative Bank | Aviva Life | Exide Life | DHFL Pramerica Life |
| Zoroastrian Cooperative Bank Ltd | Co-operative Bank | Max Life | Reliance Life | |
| The Co Operative Bank Of Rajkot Ltd | Co-operative Bank | Exide Life | Reliance Life | |
| Vidyasagar Central Cooperative Bank | Co-operative Bank | LIC | | |
| The Kodungallur Town Co-Operative Bank Ltd. | Co-operative Bank | SBI Life | LIC | |
| The Nawanagar Co Operative Bank Ltd | Co-operative Bank | Exide Life | | |
| Almora Urban Cooperative Bank Limited | Co-operative Bank | Exide Life | | |
| Shivalik Mercantile Co Operative Bank Ltd. | Co-operative Bank | LIC | Bajaj Life | |
| The Janata Co Operative Bank Ltd | Co-operative Bank | Exide Life | | |
| Citizen Credit Cooperative Bank Ltd | Co-operative Bank | HDFC Life | Max Life | |
| Adarsh Co-Operative Bank Ltd | Co-operative Bank | Birla Sun Life | Exide Life | |
| Sumerpur Mercantile Urban Co Operative Bank Ltd | Co-operative Bank | Birla Sun Life | | |
| Bassein Catholic Co-Operative Bank Ltd | Co-operative Bank | LIC | HDFC Life | Max Life |
| Tirupati Urban Co Operative Bank Ltd. | Co-operative Bank | SBI Life | | |
| New India Cooperative Bank Limited | Co-operative Bank | ICICI Pru Life | Max Life | |
| Svc Co-Operative Bank Ltd | Co-operative Bank | Bajaj Life | Exide Life | |
| The Latur Urban Cooperative Bank Ltd | Co-operative Bank | Exide Life | Reliance Life | |

**Continued on next page**

| Corporate agent name | Category | Life tie-up 1 | Life tie-up 2 | Life tie-up 3 |
|---|---|---|---|---|
| The Greater Bombay Co-Operative Bank Ltd | Co-operative Bank | Max Life | Birla Sun Life | |
| The Visakhapatnam Cooperative Bank Limited | Co-operative Bank | LIC | | |
| Citizens Co-Operative Bank Ltd | Co-operative Bank | Kotak Life | | |
| Mulkanoor Cooperative Rural Bank And Marketing Society Ltd | Co-operative Bank | LIC | | |
| The Krishnagar City Cooperative Bank Ltd | Co-operative Bank | LIC | | |
| The Haldhar Vikas Credit Cooperative Soc | Co-operative Bank | Bajaj Life | | |
| The Baghat Urban Cooperative Bank Limited | Co-operative Bank | Kotak Life | | |
| The District Cooperative Central Bank Ltd Eluru | Co-operative Bank | Exide Life | | |
| Himachal Pradesh State Cooperative Bank Ltd. | Co-operative Bank | DHFL Pramerica Life | Reliance Life | Kotak Life |
| The Muslim Co-Operative Bank Ltd, Pune | Co-operative Bank | Exide Life | | |
| Jamia Co-Operative Bank Ltd | Co-operative Bank | Aegon Life | | |
| Jkv Multi State Credit Cooperative Society Ltd | Co-operative Bank | Reliance Life | | |
| Jivan Commercial Co Operative Bank Ltd | Co-operative Bank | Exide Life | Kotak Life | DHFL Pramerica Life |
| The Honavar Urban Co-Operative Bank Limited, Honavar | Co-operative Bank | LIC | | |
| Buldana Urban Cooperative Credit Society Ltd. | Co-operative Bank | Bharti Axa Life | | |
| The Nav Jeevan Co Operative Bank Ltd | Co-operative Bank | Idbi Federal Life | | |
| The Akhand Anand Co Operative Bank Limited | Co-operative Bank | Kotak Life | | |
| The Bhadran People Co Operative Bank Ltd | Co-operative Bank | Kotak Life | | |
| Nainital District Cooperative Bank Ltd | Co-operative Bank | Reliance Life | | |
| The Citizen Urban Co-Operative Bank Ltd. | Co-operative Bank | Exide Life | ICICI Pru Life | |
| The Satara District Central Co-Operative Bank Ltd., Satara | Co-operative Bank | Bharti Axa Life | | |
| The Chikhli Urban Co-Op. Bank, Ltd. | Co-operative Bank | Birla Sun Life | | |
| The Dahod Mercantile Co-Op Bank Ltd | Co-operative Bank | Kotak Life | SBI Life | |
| Shree Rajkot District Co-Op Bank Ltd | Co-operative Bank | Exide Life | | |
| The Gujarat State Co-Op. Bank Ltd. | Co-operative Bank | Exide Life | | |
| Model Co-Op Bank Ltd | Co-operative Bank | LIC | | |
| St.Milagres Credit Souharadha Co-Op Ltd., Karwar | Co-operative Bank | LIC | | |
| The Varachha Co-Op. Bank Ltd.,Surat | Co-operative Bank | LIC | SBI Life | Exide Life |
| Lokmanya Multipurpose Co-Op. Society Ltd. | Co-operative Bank | LIC | | |
| The Thane District Central Co-Op Bank Ltd. | Co-operative Bank | Exide Life | | |
| HSBC | MNC Bank | Canara HSBC OBC | | |
| Deutsche Bank AG | MNC Bank | Birla Sun Life | | |
| Standard Chartered Bank | MNC Bank | ICICI Pru Life | | |
| American Express Banking Corp | MNC Bank | Future Generali Life | Pnb Metlife | |
| Citibank N.A | MNC Bank | Tata AIA Life | | |
| Doha Bank | MNC Bank | Reliance Life | | |
| DBS Bank | MNC Bank | Birla Sun Life | Tata AIA Life | Aviva Life |
| Bank Of Bahrain And Kuwait B.S.C. | MNC Bank | Pnb Metlife | LIC | |
| Firstrand Bank | MNC Bank | Birla Sun Life | | |
| Shinhan Bank | MNC Bank | Pnb Metlife | ICICI Pru Life | |
| Icici Home Finance Company Limited | NBFC | ICICI Pru Life | | |
| Ifci Financial Services Limited | NBFC | SBI Life | Kotak Life | HDFC Life |
| Dewan Housing Finance Corporation Limited | NBFC | DHFL Pramerica Life | | |
| Housing Development Finance Corporation Limited | NBFC | HDFC Life | | |
| Hdfc Securities Limited | NBFC | HDFC Life | Birla Sun Life | Tata AIA Life |
| Axis Securities Ltd. | NBFC | Max Life | | |
| Sbi Cards And Payment Services P Ltd | NBFC | SBI Life | | |
| Tata Capital Financial Services Ltd | NBFC | Tata AIA Life | | |
| Hdfc Credila Financial Services Private Limited | NBFC | HDFC Life | | |
| Hdb Financial Services Limited | NBFC | HDFC Life | | |
| Fullerton India Credit Company Limited | NBFC | Kotak Life | HDFC Life | ICICI Pru Life |
| Indiabulls Housing Finance Limited | NBFC | HDFC Life | Bharti Axa Life | |
| Bajaj Finance Ltd | NBFC | Future Generali Life | HDFC Life | Bajaj Life |
| Sbicap Securities Ltd | NBFC | SBI Life | Bajaj Life | |
| Icici Securities Limited | NBFC | ICICI Pru Life | | |
| Sundaram Finance Limited | NBFC | LIC | Kotak Life | ICICI Pru Life |
| Edelweiss Broking Limited | NBFC | Edelweiss Tokio Life | | |
| Aditya Birla Money Insurance Advisory Services Limited | NBFC | Birla Sun Life | | |
| Cholamandalam Home Finance Limited | NBFC | HDFC Life | | |
| Reliance Securities Limited | NBFC | Birla Sun Life | Reliance Life | |
| Shriram Transport Finance Company Ltd | NBFC | Shriram Life | | |
| Shriram Fortune Solutions Limited | NBFC | Shriram Life | | |
| Shriram Insight Share Brokers Limited | NBFC | Shriram Life | | |
| **Continued on next page** | | | | |

| Corporate agent name | Category | Life tie-up 1 | Life tie-up 2 | Life tie-up 3 |
|---|---|---|---|---|
| Religare Securities Limited. | NBFC | Birla Sun Life | | |
| Geojit Financial Services Limited | NBFC | ICICI Pru Life | Pnb Metlife | |
| Kotak Securities Ltd. | NBFC | Kotak Life | | |
| Kotak Mahindra Prime Ltd. | NBFC | Kotak Life | | |
| Krchoksey Insurance Advisors Limited | NBFC | Birla Sun Life | HDFC Life | Bajaj Life |
| Religare Finvest Limited | NBFC | Future Generali Life | | |
| Iifl Wealth Finance Ltd | NBFC | Bharti Axa Life | | |
| Can Fin Homes Limited | NBFC | Can HSBC OBC Life | | |
| Aavas Financiers Limited | NBFC | Bajaj Life | | |
| Bajaj Finserv Direct Limited | NBFC | Bajaj Life | | |
| Jm Advisory Private Limited | NBFC | Reliance Life | ICICI Pru Life | HDFC Life |
| Motilal Oswal Financial Services Limited | NBFC | HDFC Life | ICICI Pru Life | Bajaj Life |
| Repco Home Finance Limited | NBFC | Kotak Life | | |
| Cholamandalam Securities Limited | NBFC | HDFC Life | ICICI Pru Life | |

*Source: IRDAI, RBI, Nirmal Bang Institutional Equities Research*

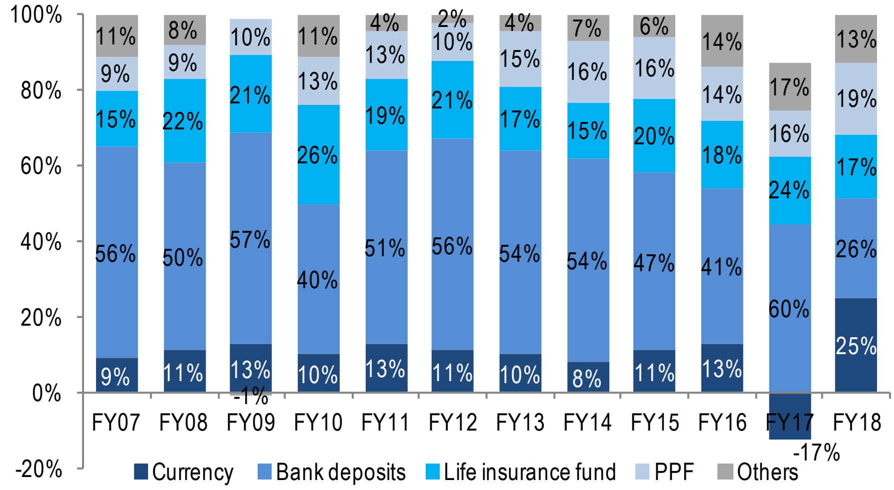
## Exhibit 2: PAT trend for private sector players since privatization of sector

| Accounting PAT (Rsmn) | FY2000 | FY2001 | FY2002 | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Aegon Religare | | | | | | | | | | 41 | 38 | (237) | (570) | (170) | (154) | (515) | (1,044) | (625) | (1,070) |
| Aviva | | | | | | (910) | (1,439) | (1,318) | (2,025) | (4,951) | (3,447) | 288 | 736 | 320 | 525 | 502 | 87 | (370) | (520) |
| Bajaj Allianz | | | (157) | (266) | (268) | (368) | (985) | (717) | (2,139) | (707) | 5,423 | 10,570 | 13,112 | 12,856 | 10,246 | 8,762 | 8,790 | 8,363 | 7,161 |
| Bharti AXA | | | | | | | | (804) | (2,420) | (4,175) | (4,782) | (3,404) | (1,898) | (1,193) | (1,597) | (1,206) | (1,115) | (1,209) | (727) |
| Birla Sunlife | | (83) | (361) | (610) | (777) | (606) | (611) | (1,397) | (4,453) | (7,021) | (4,355) | 3,050 | 4,607 | 5,415 | 3,708 | 2,854 | 1,400 | 1,228 | 1,668 |
| Canara HSBC | | | | | | | | | | (2,021) | (2,462) | (1,914) | (891) | 235 | 662 | 1,029 | 1,260 | 1,113 | 1,678 |
| DHFL Pramerica | | | | | | | | | | (445) | (933) | (1,096) | (1,283) | (1,324) | 9 | 399 | 508 | 614 | 1,059 |
| Edelweiss Tokio | | | | | | | | | | | | | (181) | (647) | (693) | (710) | (1,548) | (2,158) | (2,327) |
| Exide Life | | | (309) | (379) | (630) | (938) | (1,240) | (1,776) | (1,905) | (1,945) | (1,368) | (701) | (312) | 231 | 530 | 653 | 888 | 1,190 | 602 |
| Future Generali | | | | | | | | (36) | (301) | (2,559) | (3,569) | (3,201) | (1,297) | (683) | (387) | 10 | (357) | (870) | (1,434) |
| HDFC Standard | | (14) | (251) | (482) | (234) | (897) | (1,288) | (1,256) | (2,435) | (5,030) | (2,752) | (990) | 2,710 | 4,515 | 7,253 | 7,855 | 8,184 | 8,921 | 11,090 |
| ICICI Prudential | | 2 | (1,051) | (1,472) | (2,216) | (2,116) | (1,879) | (6,489) | (13,951) | (7,797) | 2,580 | 8,076 | 13,842 | 14,959 | 15,667 | 16,343 | 16,505 | 16,822 | 16,198 |
| IDBI Federal | | | | | | | | | (255) | (1,102) | (1,050) | (1,218) | (699) | 92 | 801 | 1,546 | 153 | 521 | 1,009 |
| IndiaFirst | | | | | | | | | | | (448) | (648) | (726) | (396) | (255) | 69 | 77 | 352 | 512 |
| Kotak Mahindra | | | | | (924) | (165) | (444) | (1,105) | (719) | 143 | 692 | 1,025 | 2,033 | 1,897 | 2,391 | 2,289 | 2,507 | 3,033 | 4,134 |
| Max Life | | (161) | 114 | 48 | (2,328) | (997) | (601) | (605) | (1,569) | (3,930) | (209) | 1,941 | 4,598 | 4,235 | 4,359 | 4,142 | 4,391 | 6,599 | 5,276 |
| PNB Metlife | | | (28) | 80 | (121) | (488) | (794) | (120) | 213 | 145 | 251 | 253 | 332 | 483 | 489 | 524 | 536 | 639 | 1,417 |
| Reliance | | | 21 | 62 | (778) | (540) | (984) | (3,151) | (7,681) | (10,849) | (2,838) | (1,293) | 3,726 | 3,804 | 3,589 | 1,352 | (1,973) | (611) | 5 |
| Sahara | | | | | | (75) | (78) | (5) | 33 | (182) | 362 | 280 | 295 | 307 | 241 | 215 | 64 | 14 | 82 |
| SBI Life | | | (3) | (75) | (164) | (115) | 20 | 38 | 344 | (263) | 2,765 | 3,663 | 5,558 | 6,222 | 7,401 | 8,200 | 8,610 | 9,547 | 11,504 |
| Shriram Life | | | | | | | 22 | 95 | 56 | 81 | (181) | 173 | 562 | 819 | 861 | 797 | 188 | 168 | 879 |
| Star Union Dai-ichi | | | | | | | | | | (186) | (214) | (283) | (256) | (186) | (465) | 129 | 226 | 548 | 759 |
| Tata AIA | | | (252) | (429) | (581) | (456) | (539) | (724) | (3,393) | (5,652) | (4,000) | 518 | 2,603 | 3,315 | 4,129 | 2,636 | 636 | 1,135 | 1,699 |
| **Total PAT** | | **(255)** | **(2,278)** | **(3,521)** | **(9,022)** | **(8,669)** | **(10,840)** | **(19,368)** | **(42,600)** | **(58,404)** | **(20,495)** | **14,852** | **46,602** | **55,108** | **59,312** | **57,875** | **48,976** | **54,962** | **60,656** |

*Source:IRDAI, Nirmal Bang Institutional Equities Research*

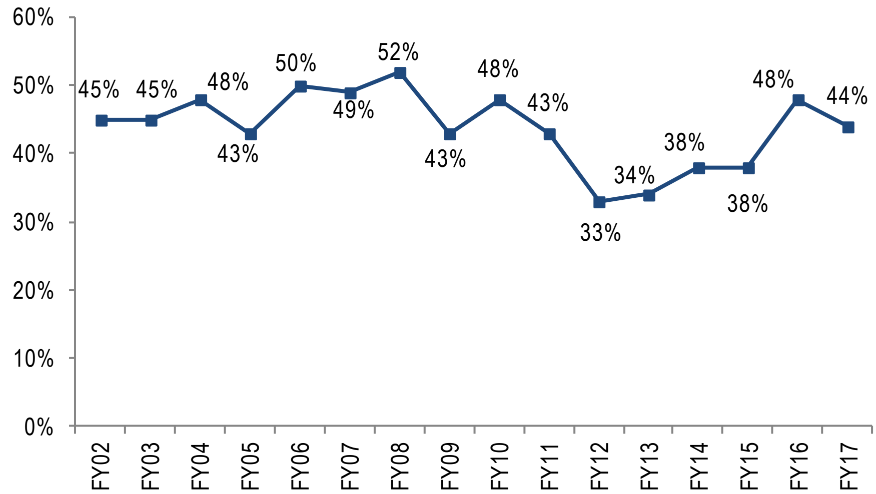
## Macro charts – Indian Financial Savings

**Exhibit 3: Share of life insurance in incremental household financial savings**




*Source: PNB Metlife DRHP, IRDAI, Nirmal Bang Institutional Equities Research*

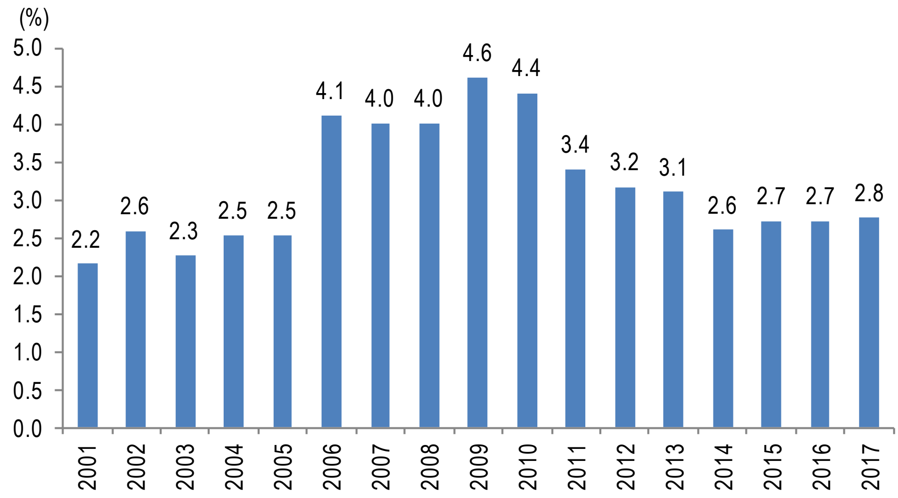
**Exhibit 4: Financial savings as % of total household savings**




*Source: PNB Metlife DRHP, Nirmal Bang Institutional Equities Research*

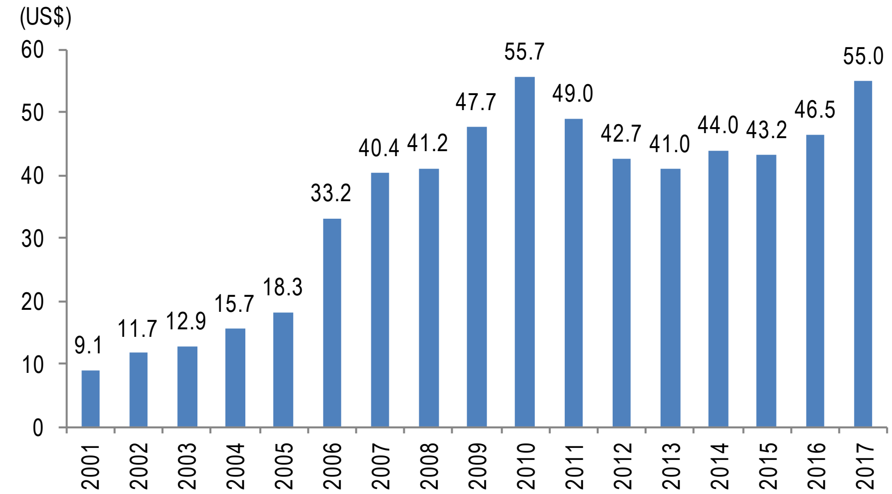
## Macro charts – Indian Insurance

**Exhibit 5: Life insurance penetration in India (%)**



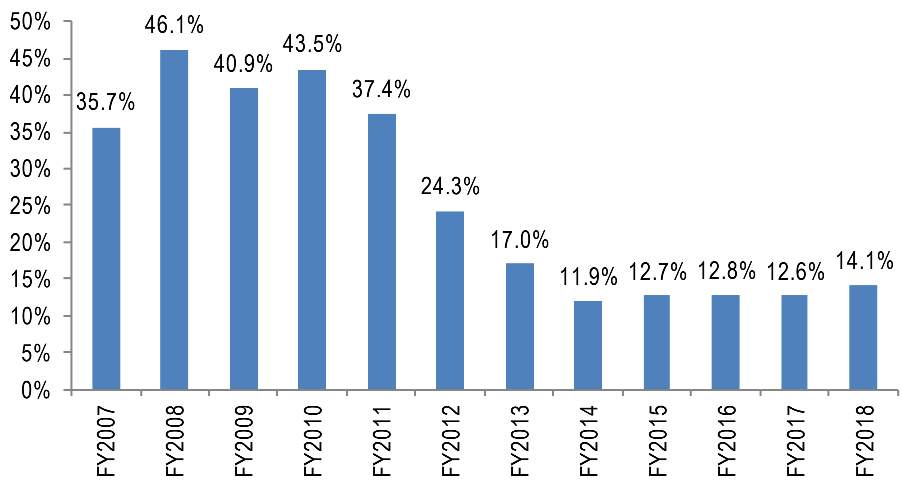

*Source:IRDAI, Nirmal Bang Institutional Equities Research*

**Exhibit 6: Life insurance density in India (US$)**




*Source:IRDAI, Nirmal Bang Institutional Equities Research*

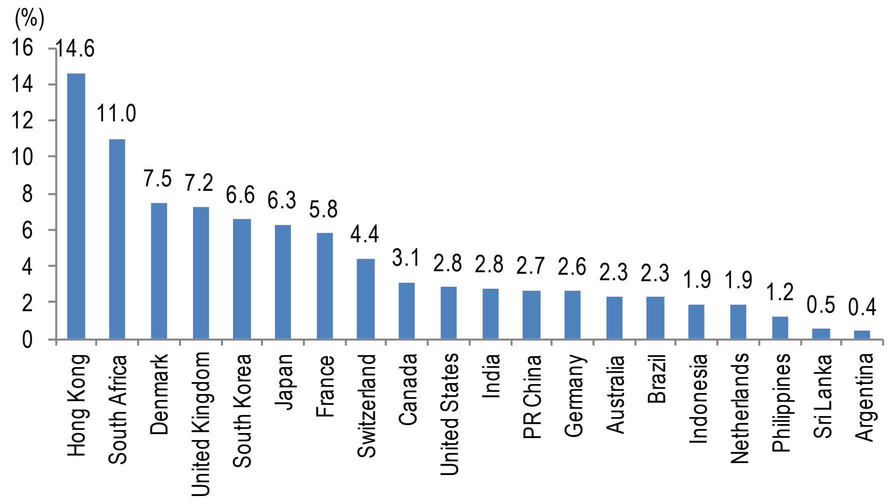
**Exhibit 7: Share of linked premium in total premium – India (%)**




*Source:IRDAI, Nirmal Bang Institutional Equities Research*

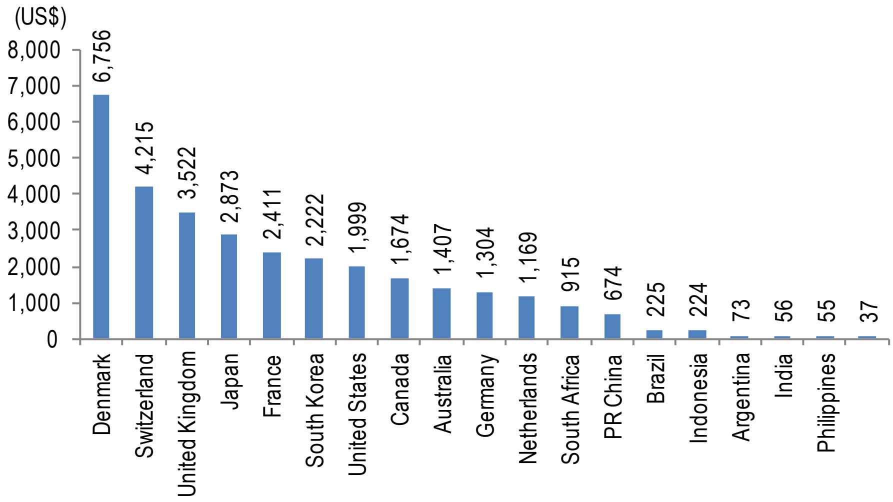
## Macro charts – Global Insurance

**Exhibit 8: Global Life Insurance Penetration Level – 2017 (%)**




*Source:Swiss Re, Nirmal Bang Institutional Equities Research*

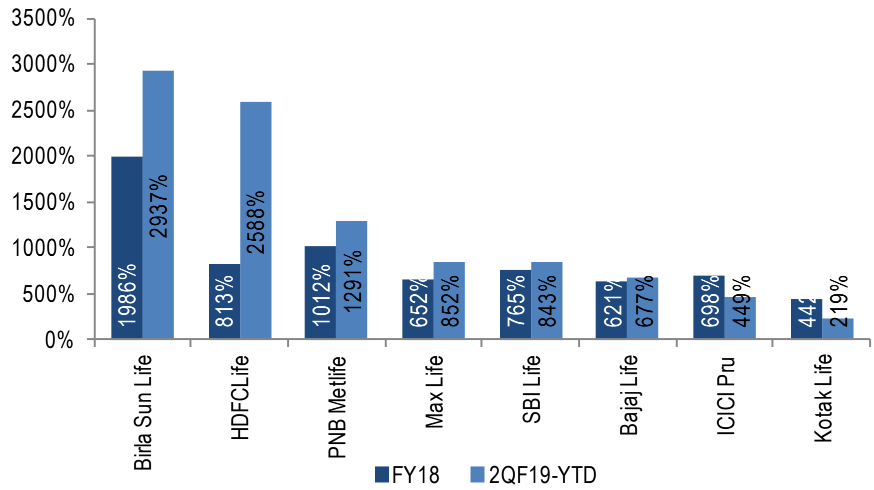
**Exhibit 9: Global Life Insurance Density – 2017 (US$)**




*Source:Swiss Re, Nirmal Bang Institutional Equities Research*

## Company comparison – Investment Income

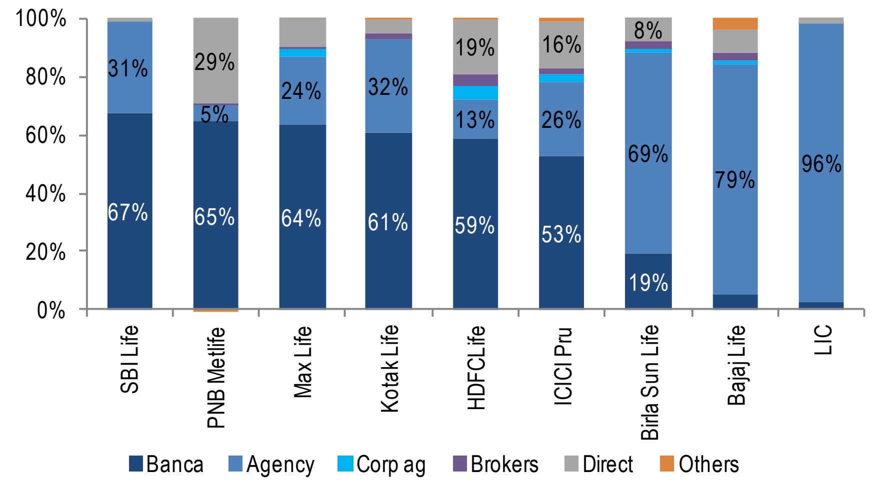
### Exhibit 10: Investment Income / PBT (%)




*Source:Companies, Nirmal Bang Institutional Equities Research*

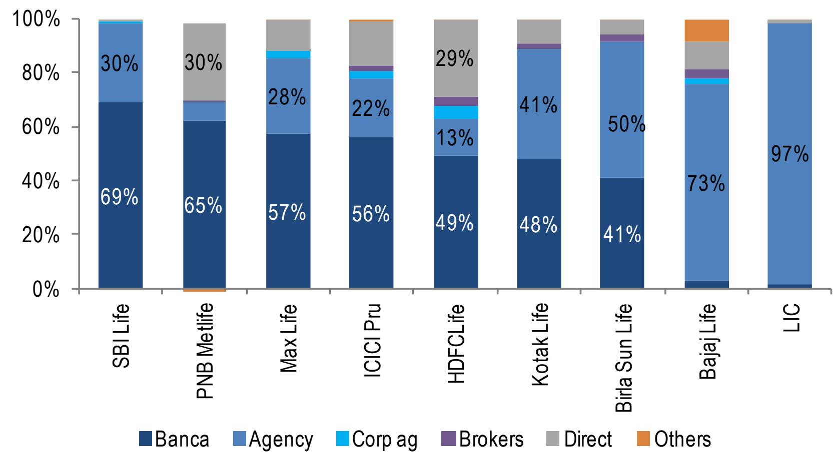
## Company comparison - Channel mix

### Exhibit 11: Channel mix – FY18 (%)




*Source:Companies, Nirmal Bang Institutional Equities Research*

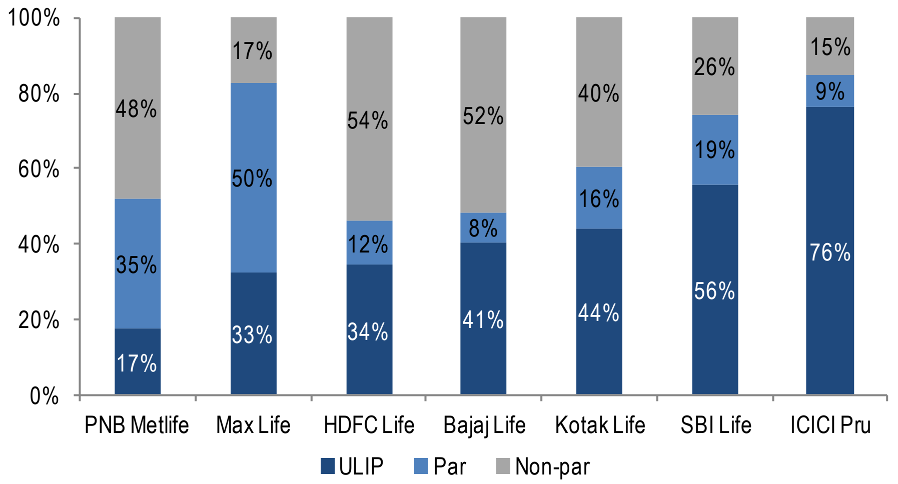
### Exhibit 12: Channel mix – H1FY19 (%)




*Source:Companies, Nirmal Bang Institutional Equities Research*

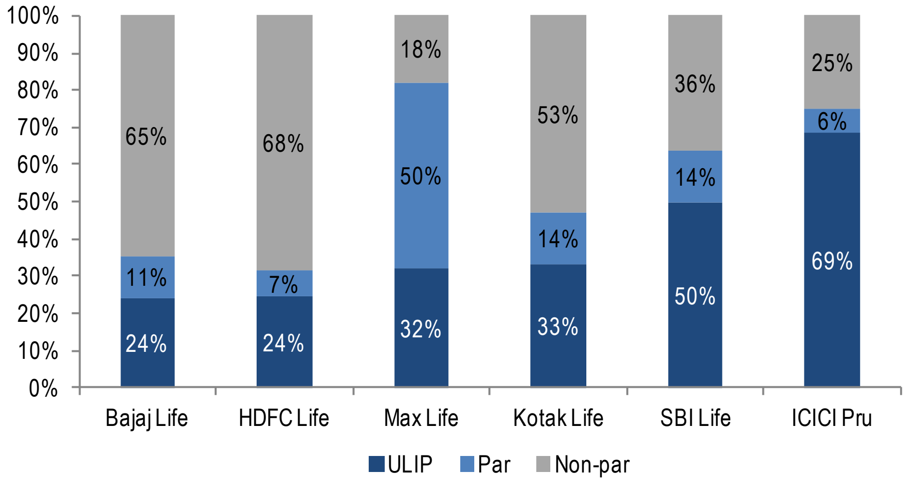
## Company comparison - Product mix

### Exhibit 13: Product mix (NBP basis) – FY18 (%)




*Source:Companies, Nirmal Bang Institutional Equities Research*

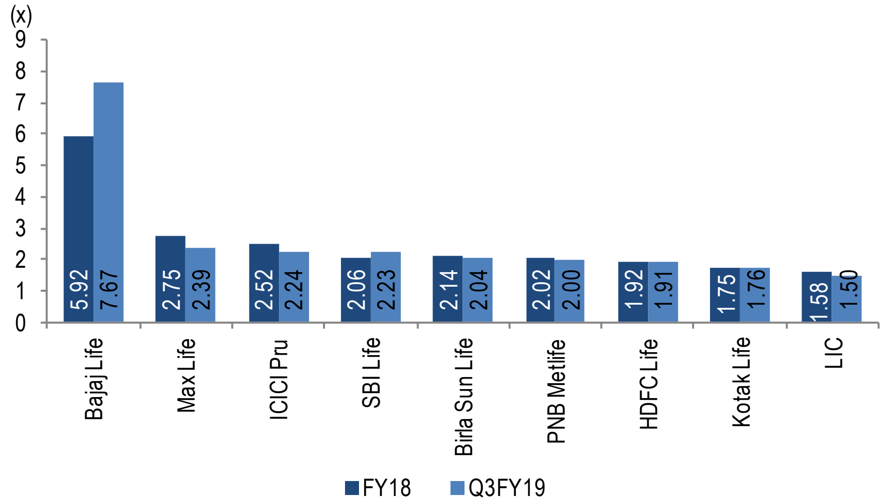
### Exhibit 14: Product mix (NBP basis) – H1FY19 (%)




*Source:Companies, Nirmal Bang Institutional Equities Research*

## Company comparison - Solvency

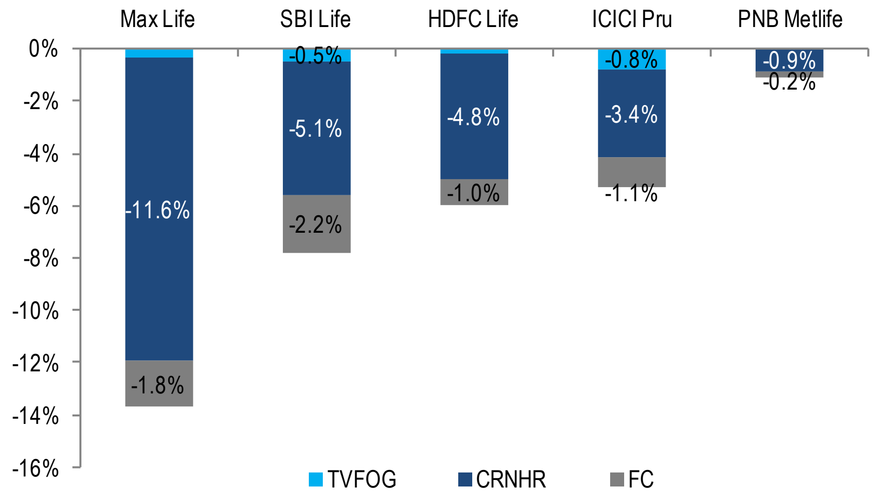
**Exhibit 15: Solvency margin (x)**




*Source:Companies, Nirmal Bang Institutional Equities Research*

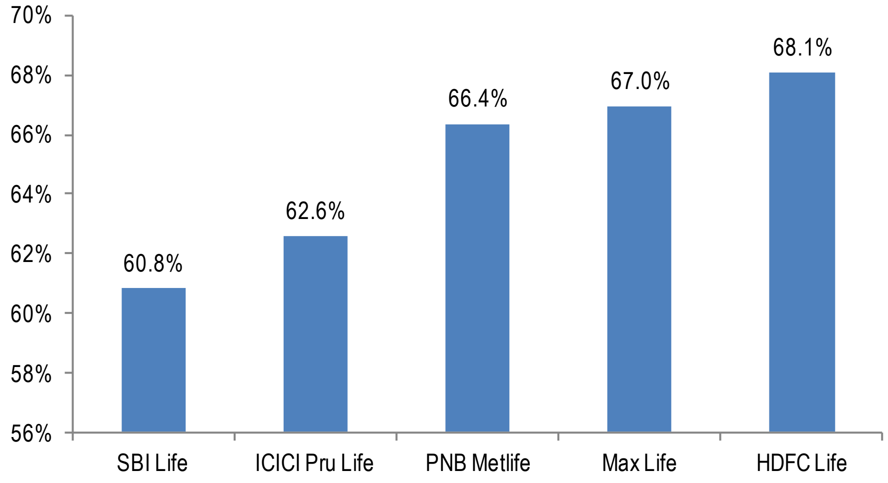
## Company comparison - Embedded Value internals

### Exhibit 16: Adjustment to PVFP – FY18 (%)



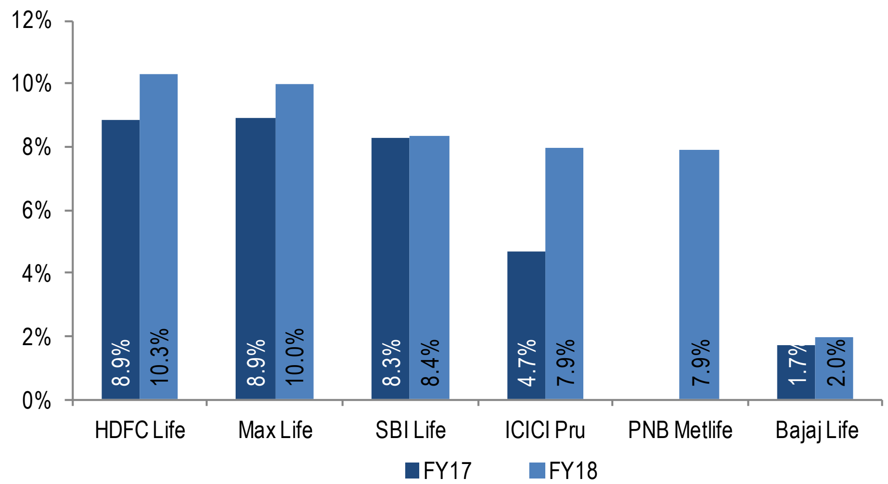

*Source:Companies, Nirmal Bang Institutional Equities Research*

### Exhibit 17: VIF as % of EV – FY18




*Source:Companies, Nirmal Bang Institutional Equities Research*

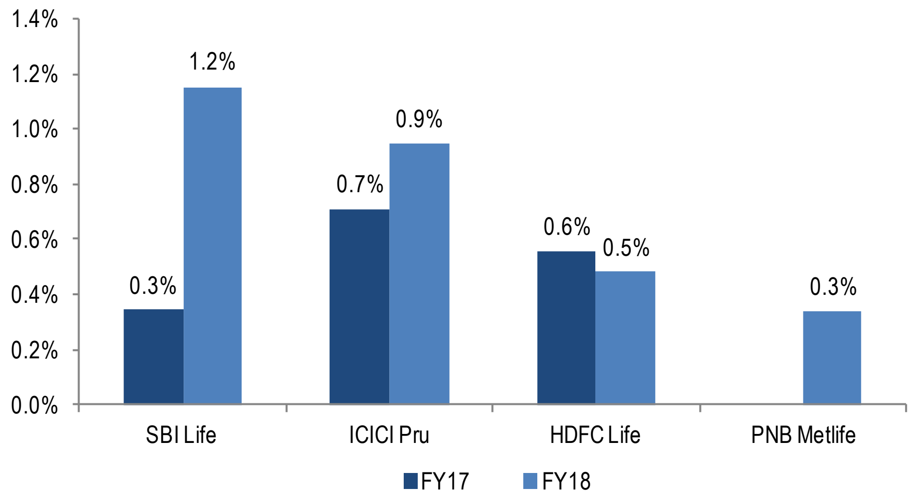
### Exhibit 18: VNB / Opening EV (%)




*Source:Companies, Nirmal Bang Institutional Equities Research*

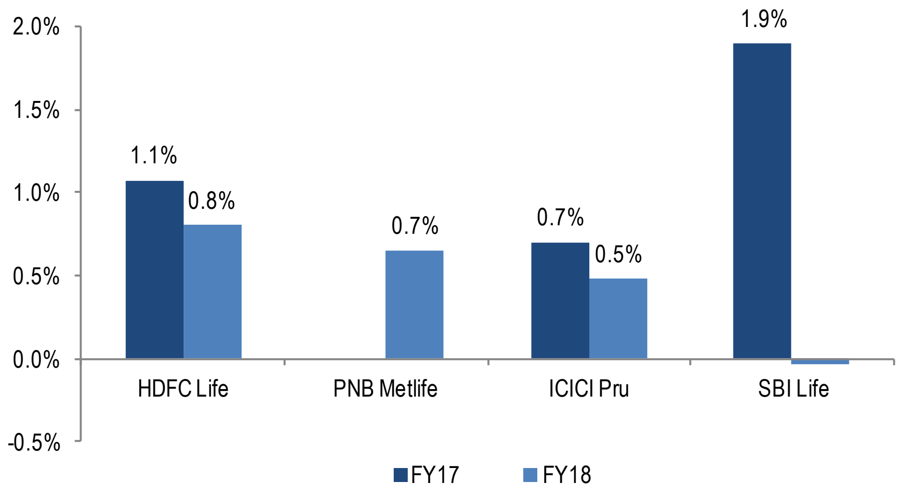
## Company comparison – Embedded Value variances

### Exhibit 19: Persistency variance as % of opening EV



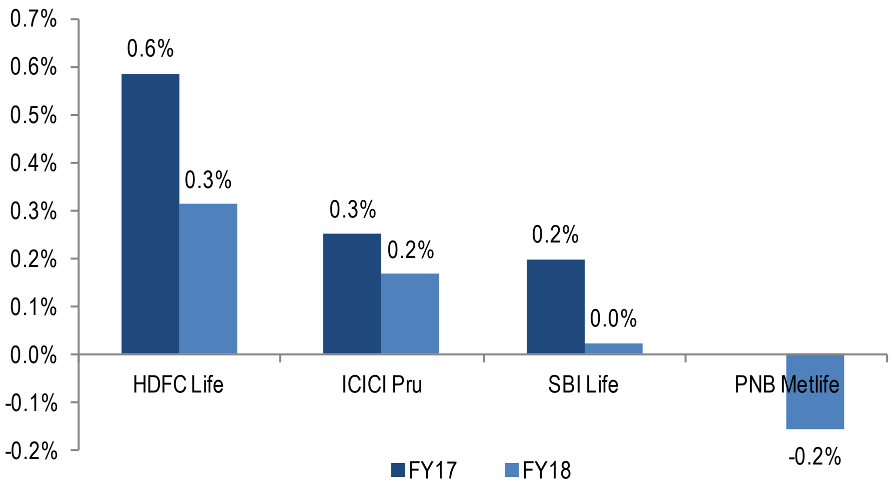

*Source:Company, Nirmal Bang Institutional Equities Research*

### Exhibit 20: Mortality and morbidity variance as % of opening EV



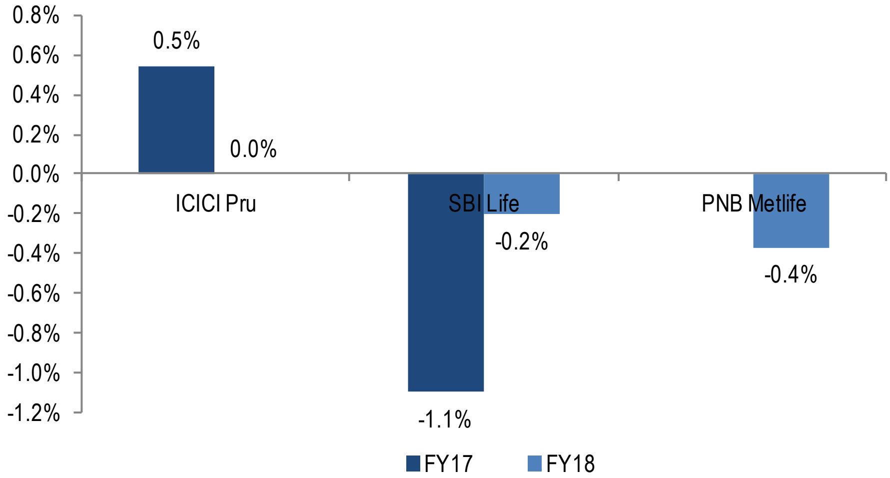

*Source:Company, Nirmal Bang Institutional Equities Research*

### Exhibit 21: Expense variance as % of opening EV



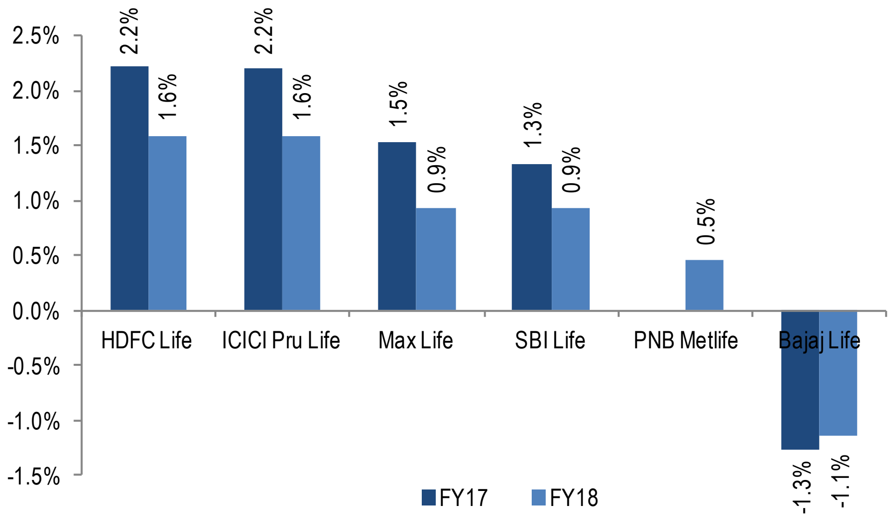

*Source:Company, Nirmal Bang Institutional Equities Research*

### Exhibit 22: Other variance as % of opening EV



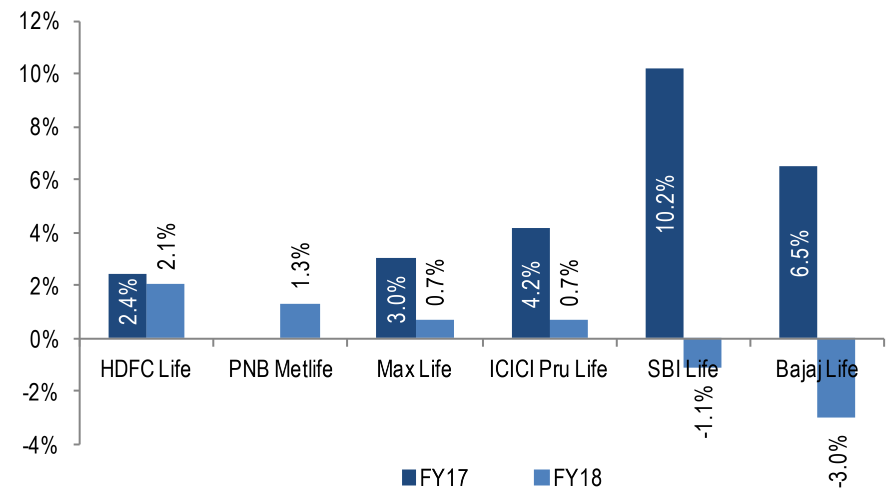

*Source:Company, Nirmal Bang Institutional Equities Research*

### Exhibit 23: Total experience variance as % of opening EV




*Source:Company, Nirmal Bang Institutional Equities Research*

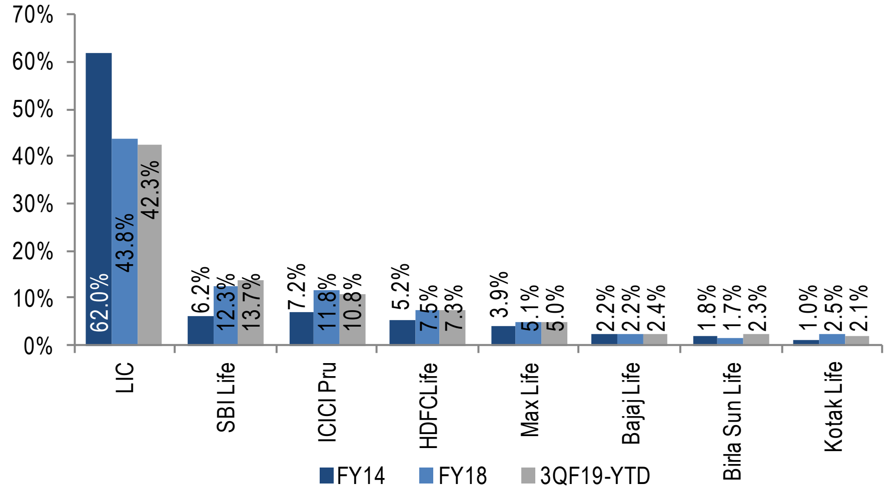
### Exhibit 24: Non-operating variance as % of opening EV




*Source:Company, Nirmal Bang Institutional Equities Research*

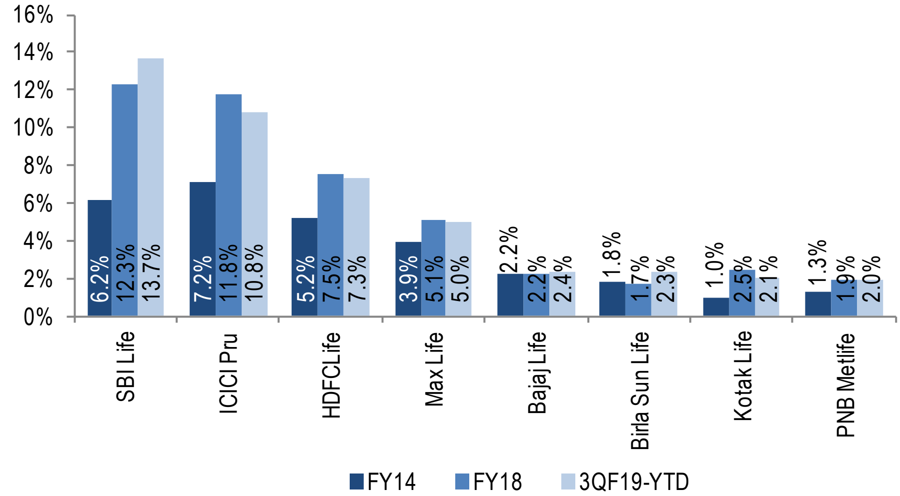
## Company comparison - Market share

### Exhibit 25: Total Industry market share (%) – Individual APE basis



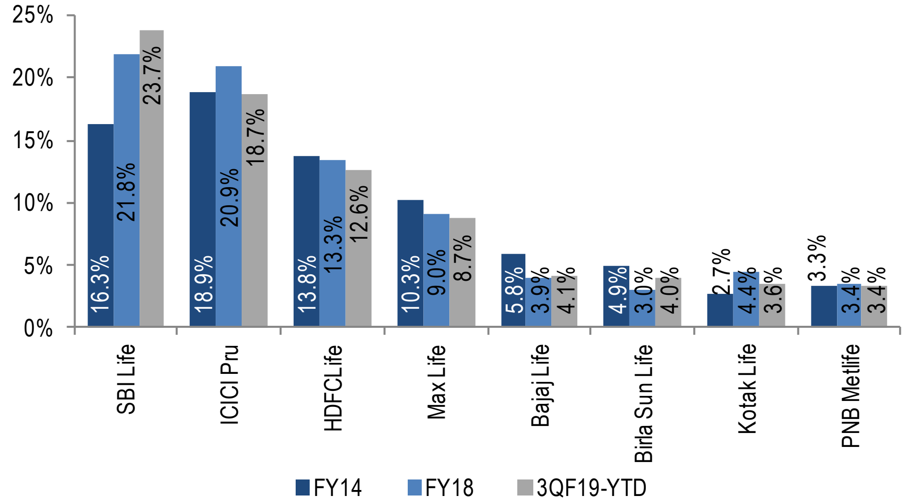

*Source:Company, Nirmal Bang Institutional Equities Research*

### Exhibit 26: Total industry market share (%) - Individual APE basis*




*Source:Company, Nirmal Bang Institutional Equities Research; *LIC (42.3% in 3QFY19) has been excluded to improve visibility*

### Exhibit 27: Private Sector Market Share (%) – Individual APE basis




*Source:Company, Nirmal Bang Institutional Equities Research*

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