

# Life Insurance

EV compounding to remain strong; correction offers compelling investment opportunity

Recent price correction in life insurance stocks offers an attractive investment opportunity in our view. We expect long-term structural drivers such as robust nominal GDP growth, favourable demographics, and financialisation of savings to lead to healthy 16% Industry APE CAGR over FY18-20E. During FY16-18, operational metrics for banca insurers have improved significantly vs FY13-15 with 13-mth persistency improving from 78% in FY13 to 84% in FY18 while opex (ex-commissions) ratio fell from 13% in FY13 to 10% in FY18. Profitability metrics have also improved in this cycle with operating RoEVs reaching 19% in FY18 vs. 15% in FY13-15. We believe EV compounding for banca insurers will continue to remain strong at c.20% over FY18-20E vs. 15% over FY13-15. Given, valuations have corrected by c.20-50% to 1.5x to 2.2x FY20E P/EV (except HDFC Life which trades at 4.3x multiple), we believe life insurance stocks present a compelling investment opportunity. Our Top BUYs in the current correction are ICICI Pru (TP: INR 500), SBI Life (TP: INR 840) and MAX Life (unrated) while we continue our HOLD rating on HDFC Life (TP: INR 460) as it trades at a significant premium to peers.

- **Strong APE flows to continue:** We forecast 16% Industry APE CAGR over FY18-20E with private players growing faster at c.18%; driven by long-term structural drivers such as a) robust nominal GDP growth, b) favourable demographics, c) financialisation of savings, d) rising income levels and urbanisation. We forecast stable life insurance penetration at 2.7% by FY20E.
- **Retail share of new business premiums has been rising:** Individual premiums' share of new business is in the +90% range for ICICI Pru and Max Life. Erstwhile, group oriented insurer, SBI Life has taken concrete steps to improve retail mix of premiums like discontinuing the group fund management business. While HDFC Life generates c.50% of its premiums from individuals in part due to lower ticket sizes of protection policies. Overall, the increasing retail mix makes inflows more sustainable.

## Exhibit 1. Sustainable flows given increasing retail mix of new business premiums

Individual share of NBP (%)	FY14	FY15	FY16	FY17	FY18
HDFC Life	63%	60%	56%	48%	52%
SBI Life	64%	68%	70%	64%	77%
ICICI Pru	91%	90%	79%	89%	92%
Max Life	91%	92%	91%	90%	92%

Source: IRDA, Company, JM Financial

- **Consistent improvement in persistency with substantial improvement in 61-mth persistency:** 13-mth persistency for JMFL top BUYs has improved from 78% in FY13 to 84% in FY18. Moreover, the 61-mth persistency has moved significantly from 21% in FY13 to 54% in FY18 - indicative of, a) superior selling techniques utilising data analytics, b) rigorous follow-up procedures such as "dual contact-ability", email / SMS reminders, c) including persistency in employee KPAs and d) target market becoming more financially-savvy, having a longer investment horizon and thus more disciplined in paying premiums.
- **Significant improvement in expense ratios driven by digital initiatives, operating leverage:** Opex (ex-commissions) ratio fell from 13% in FY13 to 10% in FY18 driven by: a) increasing penetration of their respective partner bank branches (for e.g. SBI Life increased SBI Bank branch penetration from 58% in FY17 to 69% in FY18), b) launching digital-only product suite (for e.g. HDFC "ClicktoProtect" series) and c) operating leverage. Going forward, we expect opex (ex-commissions) ratios for the JMFL top BUYs to remain in the 10-11% range driven by digital initiatives and improving productivity.
- **Focus on profitability with improving NBV margins:** Recent commentary from life insurers highlights the focus shifting from market share (SBI discontinuing its group fund business; HDFC Life consciously aiming for a balanced traditional/linked mix) to margins/NBV growth (SBI Life made sale of protection policies part of employee's KPA, ICICI Pru



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### Ratings summary

	Rating	Current Price (INR)	Target Price (INR)	Upside/ (downside)
ICICI Pru	BUY	370	500	35%
SBI Life	BUY	664	840	26%
HDFC Life	HOLD	460	460	0%

Source: JM Financial

### Valuation summary

Insurer	Target Value		Target P/EV	Current P/EV
	INR bn	USD bn	FY20E	FY20E
HDFC Life	913	13.2	4.3	4.4
SBI Life	836	12.1	3.0	2.4
ICICI Pru	717	10.4	2.9	2.1
Max Life	253	3.7	2.4	1.5

Source: Company data, JM Financial

### Operating RoEV summary

	FY17	FY18	FY19E	FY20E
HDFC Life	21.1%	20.0%	20.7%	20.7%
SBI Life	18.3%	17.9%	19.0%	19.2%
ICICI Pru	15.6%	17.2%	18.7%	19.1%
Max Life	19.9%	20.6%	20.6%	21.0%

**Weighted average** 18.3% 18.5% 19.6% 19.8%

Source: Company data, JM Financial

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implemented analytics-based automated underwriting and door-step health check-ups to propel protection sales). The shift in product mix towards high-margin protection along with the improving persistency will help banca insurers to deliver 20% NBV CAGR over FY18-20E.

- **Operating RoEVs have shown marked improvement to c.20% in FY18 vs. 15% in FY13-15:** Key drivers for the upward trajectory in RoEVs are, a) improving persistency, b) operating efficiency, c) focus on increasing share of protection in product mix, and d) digital initiatives like online product suites (“ClicktoProtect” by HDFC Life), analytics-based automated-underwriting (for e.g. ICICI Pru). We expect banca insurers to continue to compound their EVs at 19-21% going ahead.

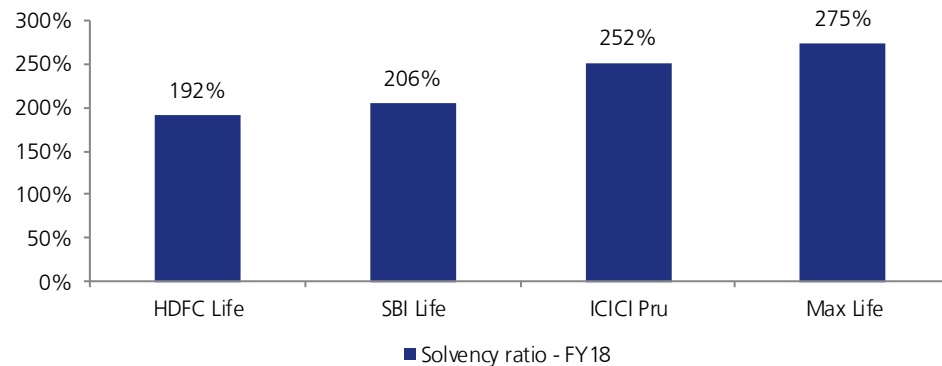
#### Exhibit 2. Operating RoEV has improved consistently

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
HDFC Life	19.7%	15.8%	14.1%	21.0%	21.1%	20.0%	20.7%	20.7%
SBI Life	16.3%	16.3%	16.1%	16.8%	18.3%	17.9%	19.0%	19.2%
ICICI Pru	14.1%	11.6%	10.7%	15.3%	15.6%	17.2%	18.7%	19.1%
Max Life	10.8%	15.6%	22.3%	17.0%	19.9%	20.6%	20.6%	21.0%
<b>Weighted average</b>	<b>16.3%</b>	<b>16.0%</b>	<b>14.6%</b>	<b>17.4%</b>	<b>18.3%</b>	<b>18.5%</b>	<b>19.6%</b>	<b>19.8%</b>

Source: Company, JM Financial

- **Adequately capitalised to meet organic growth requirements:** With solvency ranging from 192-275% vs. the required 150%, the banca insurers are well capitalised to pursue organic growth opportunities.

#### Exhibit 3. Adequately capitalised to pursue organic growth

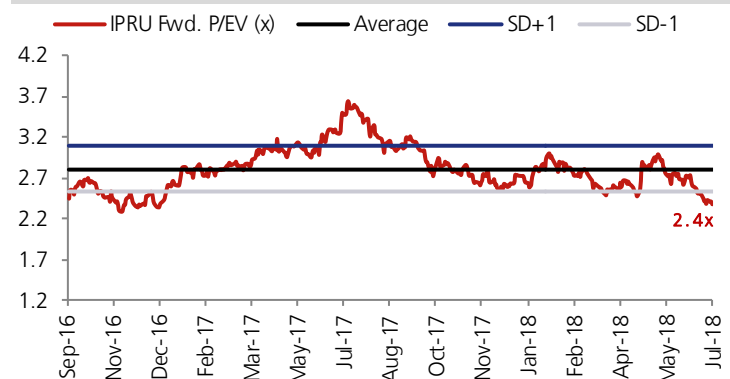


Source: Company, JM Financial

- **Low investment risk due to conservative IRDA guidelines, low share of guaranteed-return products:** There is low investment risk in the insurer’s books given conservative IRDA guidelines regarding investments from the life insurance controlled funds. These have to be predominantly invested in highest-rated debt securities. Similarly, asset quality risk is not an issue for Indian insurers. Moreover, in the ULIP business, the dominant product category, all the investment risk is borne by the policyholder. Furthermore, the low share of guaranteed-return products in the Indian market provides comfort.
- **Embedded values compounding at c.20% over FY18-20E vs. 15% during the last cycle to support valuations:** We believe EV compounding for banca insurers will continue to remain strong at c.20% over FY18-20E vs 15% in the last cycle. EV growth will be driven by: i) persistency improvement, ii) operating efficiency and iii) increase in NBAP margins as insurers double-down on direct channel and pure-protection products.
- **Top BUYs are ICICI Pru (TP: INR 500), SBI Life (TP: INR 840) and Max Life (Unrated):** P/EV multiples have corrected by an average 30% led by Max Life (-51%), ICICI Pru (-35%), SBI Life (-19%) and HDFC Life (-17%). We believe banca insurers are well placed to compound their embedded values at c.20% over FY18-20E vs 15% in the last cycle. Top BUYs in the current correction are ICICI Pru (TP: INR 500), SBI Life (TP: INR 840) and MAX Life (unrated) while we continue our HOLD rating on HDFC Life (TP: INR 460) as it trades at a significant premium to peers.

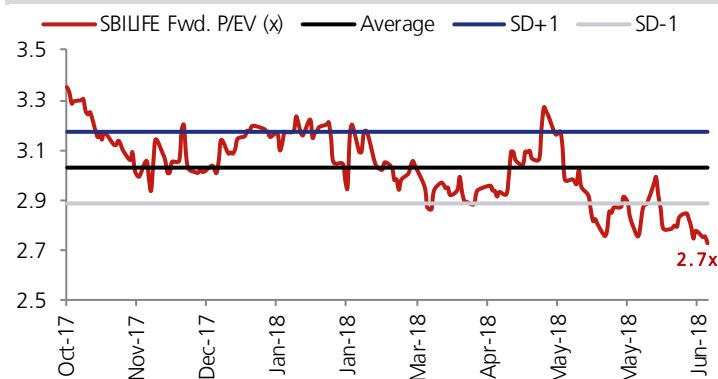
- **Key Risks:** a) An increase in the corporate tax rate from 14.2% to 34.6%, b) Any form of open architecture with mandatory clause will be negative for insurers with strong bancassurance channels, c) A sustained weakness in capital markets could have an adverse impact on sale of unit linked policies, and d) any regulatory changes capping expense on par products could impact the industry adversely.

**Exhibit 4. ICICI Pru Life – down 35%**



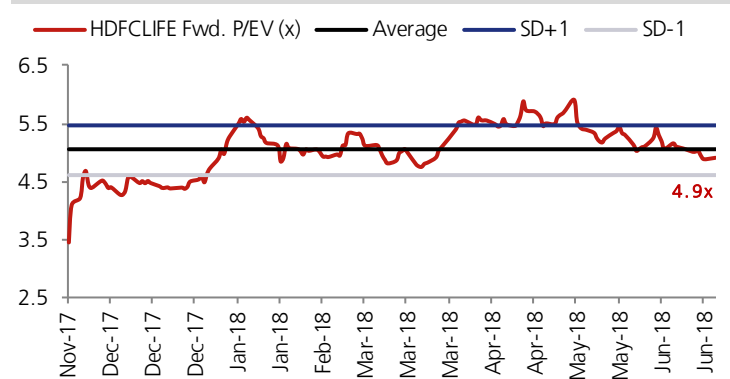
Source: Company, JM Financial

**Exhibit 5. SBI Life – down 19%**



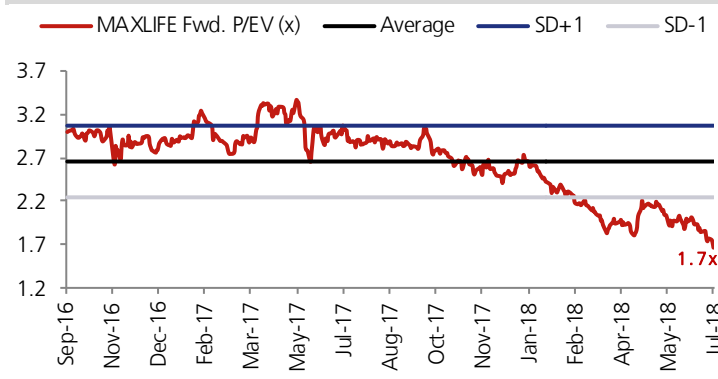
Source: Company, JM Financial

**Exhibit 6. HDFC Life – down 17%**



Source: Company, JM Financial

**Exhibit 7. Max Life – down 51%**



Source: Company, JM Financial

**Exhibit 8. Peer valuation**

Company	Mcap	Embedded Value (INR bn)			APE grth YoY %			New business margin (%)			Operating ROEV (%)			P/EV (x)		
	INR bn	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
ICICI Pru	531	188	214	244	16%	19%	17%	17%	18%	18%	17%	19%	19%	2.8	2.5	2.1
SBI Life	664	191	231	279	28%	21%	19%	17%	17%	18%	18%	19%	19%	3.5	2.9	2.4
HDFC Life	926	152	180	212	30%	21%	19%	23%	24%	24%	20%	21%	21%	6.1	5.2	4.4
Max Life	155	75	89	105	22%	17%	17%	20%	20%	21%	21%	21%	21%	2.1	1.7	1.5

Source: Company, JM Financial

## ICICI Prudential Life Insurance (BUY; TP: INR 500)

ICICI Prudential Life (IPRU) is well-placed to deliver healthy operating RoEVs of 19% by FY20E led by a) diversified distribution network with a strong banca channel, b) focus on ULIPs, which constituted 82% of APE in FY18, c) improvement in productivity and d) increase in the proportion of high-margin protection policies. IPRU is one of our top picks in the life insurance space and we value it at 2.9x EV FY20E. We maintain BUY with a TP of INR 500.

- Sustained market leadership; APE share to stabilise at c.10%:** ICICI Pru's achieved APE CAGR of 17% over FY15-18 with market share at 10.2% in FY18. Going ahead, we expect APE CAGR of 18% over FY18-20E with market share at c.10%. We also expect weak 1QFY19 APE number due to high base of last year.
- Margin focus visible in product mix:** In FY18, protection APE grew 72% YoY to INR 4.5bn increasing its share of total APE to 6% vs. 4% last year. Of total retail new business policies, 41% were protection policies. This growth was driven by all segments – retail protection, group term and credit protect. In terms of margin movement during FY18, 62% of the positive jump was due to favourable product mix, a) higher share of protection and b) sales of re-designed, margin accretive ULIP products. ULIPs continued to dominate the overall product mix with over 80% share.
- Share of direct channel continues to increase:** The company reduced its reliance on bancassurance whose contribution fell 4.6% YoY to 52% of total APE for FY18. Contribution of direct channel increased to 16% in FY18 vs. 10% in FY15. This growth has come from initiatives such as paperless on-boarding of new agents, modular plug-&-play infrastructure, geo-tagging lead allocation for its direct channel and use of robotics for policy underwriting. Moreover, in FY18, 93% of new business was initiated using digital platform while 72% of the service transactions were executed using self-service option. This has helped to reduce opex (ex-commission) ratio to 7.6% in FY18 vs. 10.6% last year. Overall, total expense ratio fell to 12.8% in FY18 vs. 14.1% last year.
- Retail persistency (ex-single premiums) improved to 86.9% led by ULIPs and PAR:** 13-mth persistency improved to 88% in FY18 vs 79% in FY15. Moreover, retail persistency (ex-single premiums) stands at 86.9% for FY18 – one of the highest in the industry. Persistency improvement was seen across distribution channels as well given the initiatives taken to reduce distribution led churn. In addition to having premium persistency as an important performance metric the scope has been widened to include surrender rates as well.
- NBV almost doubles YoY to INR12.9bn with margins improving 6.4pps YoY to 16.5% for FY18:** The company reported NBV growth of 93% YoY led by significant growth in protection premiums, growth in the re-designed high-margin ULIP premiums, consistent improvement in persistency and expense ratios. In terms of breakup, i) 4% (YoY increase in margins) came from product mix led by protection and re-designed ULIP, ii) 1.1% from favourable expense variances and iii) 1.3% majorly from operating assumption changes. Moreover, margins in the savings business (ULIPs, PAR, non-PAR) improved on the back of cost efficiencies. We expect the NBV margins to remain stable at c.18% level going into FY20E.
- Expect operating RoEV to improve to 19% in FY20E; Maintain BUY with a TP of INR 500:** We expect operating RoEV to improve to 19% by FY20E – the only insurer achieving it with an over 80% ULIP product base, driven by (1) sustainable post-overrun margins at 18% level going into FY20E, led by an increase in sales of high-margin protection policies and improving persistency and (2) further improvement in cost ratios. We value IPRU at 2.9x Mar'20 EV, implying a Mar'19 TP of INR 500. Maintain BUY.

IPRU Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	500
Upside/(Downside)	35%
Previous Price Target	495
Change	1%

Key Data	
Current Market Price	INR 370
Market cap (bn)	INR 535.2/US\$7.8
Free Float	11.2%
Shares in issue (mn)	1,435.5
3-mon avg. daily vol. (mn)	INR 829.9/US\$12.1
52-week range	505/361
Sensex/Nifty	35.369/10,708
Rs/US\$	68.6

Price Performance			
%	1M	6M	12M
Absolute	(9.2)	(1.6)	(23.2)
Relative*	(10.2)	(5.7)	(36.5)

\* To the BSE Sensex

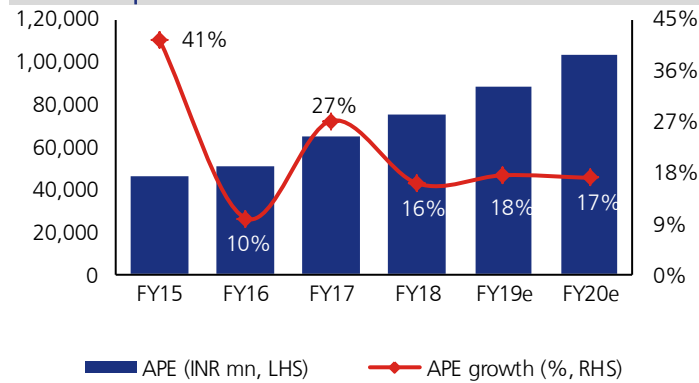
Shareholding pattern (%)	
ICICI Bank	52.89%
Prudential Plc.	25.83%
Premji Investments	4.00%
Temasek	2.00%
Others	15.28%

Key performance indicators			
INR bn	FY 18	FY 19e	FY 20e
APE	78	91	107
Growth (%)	18%	18%	17%
Mkt share-industry	10%	10%	10%
Mkt share- pvt	20%	20%	20%
NBV	13	16	19
NBAP Marg.(%)	16.5%	17.6%	18.0%
Opex ratio (%)	13%	13%	13%
PAT	16	18	20
Growth (%)	(4%)	10%	12%
RoE (%)	24%	24%	24%
EV	188	215	247
P/EV	2.8x	2.5x	2.2x
Oper. RoEV (%)	17%	19%	19%

Source: Company, JM Financial

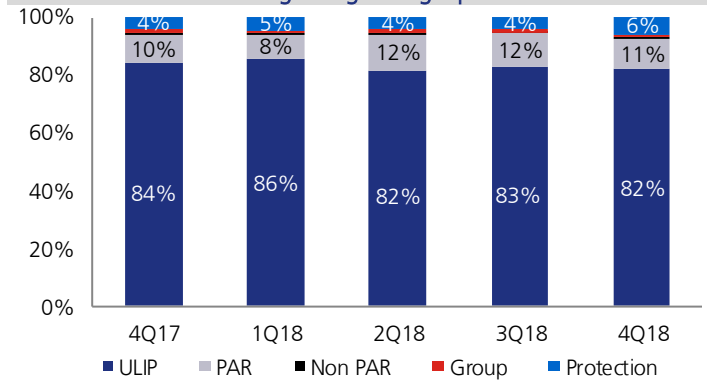
Valuation summary (INR bn)	
	FY20E
Embedded value	247
P/EV	2.9x
Fair value	717
Per share for parent (INR)	59
% of ICICI Bank Mkt Cap.	22%

**Exhibit 9. Expect 18% APE CAGR over FY18-20E**



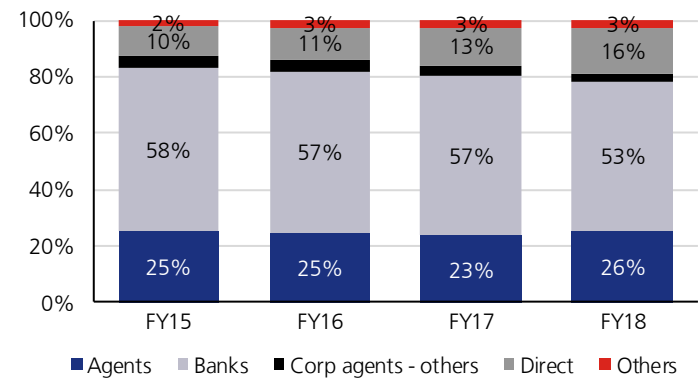
Source: Company, JM Financial

**Exhibit 10. APE mix shifting to high margin products**



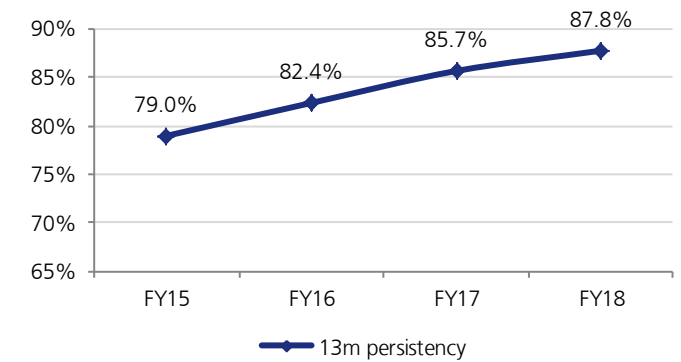
Source: Company, JM Financial

**Exhibit 11. Agency and Direct channels gaining strength**



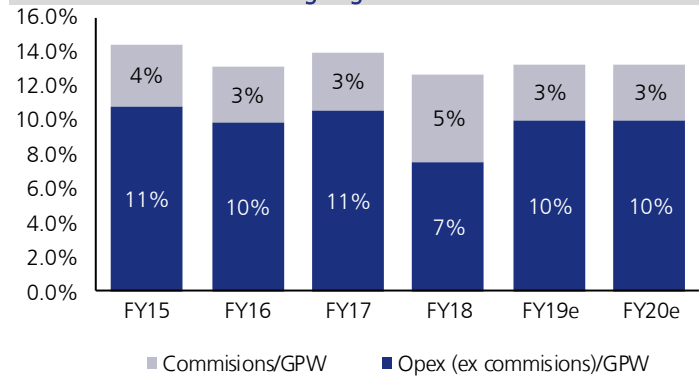
Source: Company, JM Financial

**Exhibit 12. Industry leading 13-mth persistency at 88%**



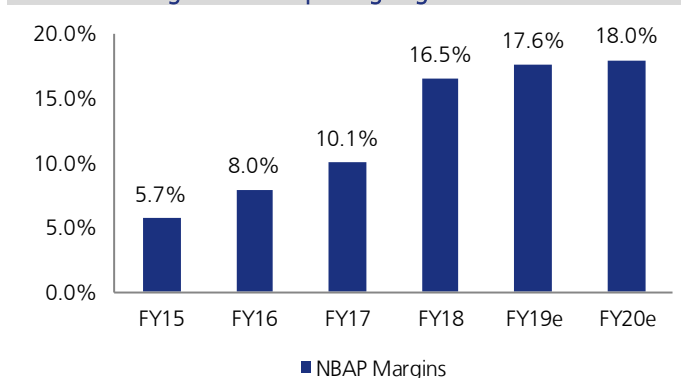
Source: Company, JM Financial

**Exhibit 13. Stable cost ratios going forward**



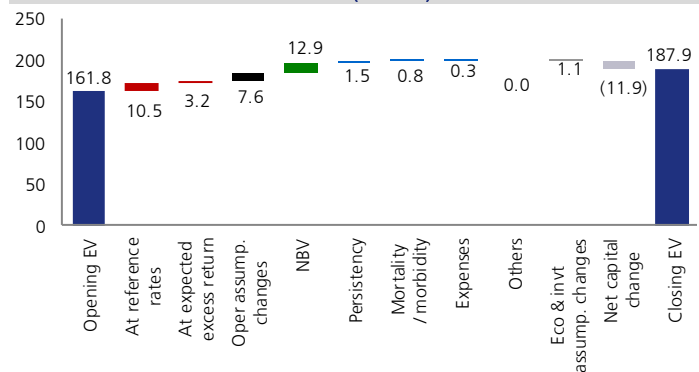
Source: Company, JM Financial

**Exhibit 14. Margins set to improve going forward**



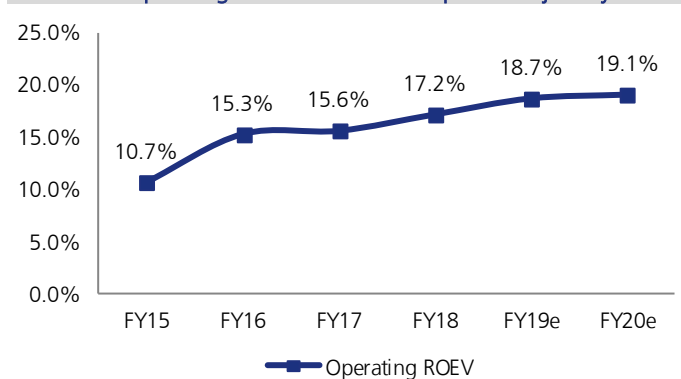
Source: Company, JM Financial

**Exhibit 15. EV movement – FY18 (INR bn)**



Source: Company, JM Financial

**Exhibit 16. Operating RoEVs to continue upward trajectory**



Source: Company, JM Financial

## SBI Life Insurance (BUY; TP: INR 840)

SBI Life is well positioned to outperform industry growth driven by i) focus on increasing share in under-penetrated markets; ii) expanding credit life protection business and iii) leveraging its large bancassurance channel for cross-selling opportunities. With significant brand equity, an expansive multi-channel distribution network, most cost-efficient model in the industry and huge client base of its parent that can be leveraged further, SBI Life is well-placed for strong profitable growth. We value the stock at 3.0x FY20E. It remains one of our top picks in the life insurance space. We maintain BUY and TP of INR 840.

- Poised to outperform industry APE growth:** We expect SBI Life to deliver an APE CAGR of c.20% over FY18-20E outperforming industry growth as the company taps into its large bancassurance channel to increase penetration and leverage cross-sell opportunities.
- Product mix shifts in favour of retail products; share of protection stable at 5% in FY18:** The share of individual business increased to 77% of new business premiums (vs.64% in FY17) as the insurer continued to pull back from the volatile group fund management business. Protection's share of NBP was stable at 5.5% in FY18 (vs 4.8% in FY17). Majority of the 23% YoY growth in protection premiums came from group term life business (+30% YoY in FY18) and individual protect business (+27% YoY) driven by, a) launch of "Poorna-Suraksha" – a term insurance + critical illness cover, and b) making sales of protect policies part of employee's KPA. Within credit protect, the insurer continued with efforts to increase penetration of SBI Bank branches, which rose from 58% in FY17 to 69% in FY18 – aims to take it to 80%. Moreover, the insurer has got on-board South Indian Bank, Punjab and Sind Bank and is currently in talks with 8-10 other partners especially in the home loan space which it aims to bring on-board by FY19.
- 13-month persistency improves to 83%; expense ratios continue to be the lowest in the industry:** 13-mth persistency has continuously improved since FY15 and is currently 83% in FY18 (vs 81% in FY17) led by healthy renewals and shift to single premium. 61-mth persistency continued to be plagued by the FY12 policies which were largely single premiums (30-35%). In terms of operating efficiency, the insurer continued to achieve best-in-class expense ratios which improved c.40bps YoY despite the insurer's investment into technology and into building its agency force. With rising premium volumes, the insurer is also benefitting from operating leverage which has helped to offset the slight increase in commission ratio (from 3.8% in FY17 to 4.5% in FY18) in line with the rising share of retail premiums. We expect SBI Life to continue to be the most cost-efficient insurer and forecast total expense ratio of 12% to sustain into FY20E.
- New business value (NBV) increased 34% YoY to INR 13.9bn in FY18 accompanied by stable margins:** In line with rising share of protection and improving persistency, NBV recorded a 37% CAGR over FY15-17. Post-overrun margins improved by 80bps to 16.2% aided by positive operating experience in acquisition expenses and persistency. However, the margin expansion was constrained by negative mortality experience in government schemes like Pradhan Mantri Jeevan Jyoti Bima Yojana and group 1-year renewable business. We expect NBV CAGR of 23% over FY18-20E with post-overrun margins reaching 17.5% by FY20E.
- Embedded value expanded 15.3% YoY to INR 190.7bn with operating RoEV at 18%:** The expansion in EV was driven by NBV growth while the unfavourable non-operating variances (negative INR1.8bn) and adverse mortality experience (negative INR0.1bn) offset the positive benefit from acquisition expenses and improvement in persistency (positive INR1.9bn) resulting in a 37bps YoY decline in operating RoEV to 18% in FY18.
- Expect operating RoEV to improve to 19% in FY20E; Maintain BUY with a TP of INR 840:** We expect RoEVs to improve to 19% by FY20E, driven by: (1) continuing improvement in NBV margins led by an increase in the proportion of high-margin protection policies and improving persistency, (2) focus on cost efficiency, and (3) strong parent brand equity and scope for cross-selling opportunities. We value SBI Life at 3.0x Mar'20 EV, implying a Mar'19 TP of INR 840. Maintain BUY.

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	840
Upside/(Downside)	26%
Previous Price Target	870
Change	(3%)

### Key Data

Current Market Price	INR 664
Market cap (bn)	INR 670/US\$9.8
Free Float	34%
Shares in issue (mn)	1,000
3-mon avg daily vol (mn)	INR 371.3/US\$5.4
52-week range	775/629
Sensex/Nifty	35,369/10,708
INR/US\$	68.6

### Price Performance

%	1M	6M	12M
Absolute	1.5	(4.5)	na
Relative*	0.5	(8.6)	na

\* To the BSE Sensex

### Shareholding pattern (%)

State Bank of India	62.1
BNP Paribas Cardif SA	22.0
KKR PE	2.0
Tamasek	2.0
Others	12.0

### Key performance indicators

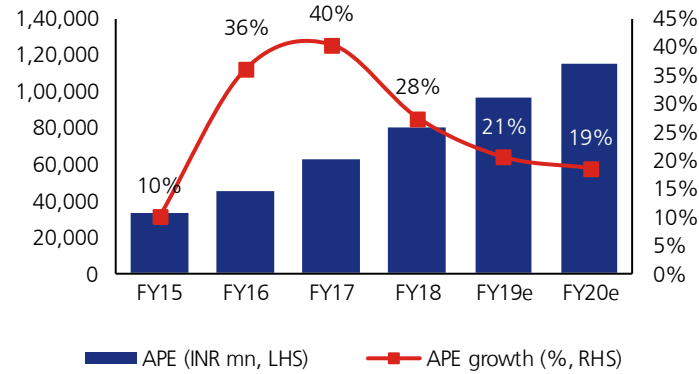
INR bn	FY 18	FY 19e	FY20e
APE	84	101	120
Growth (%)	28%	20%	18%
Mkt share-industry	11%	11%	11%
Mkt share- pvt	21%	22%	22%
NBV	14	17	21
NBAP Marg.(%)	16%	17%	17%
Opex ratio (%)	11%	12%	12%
PAT	11	13	16
Growth (%)	21%	14%	20%
RoE (%)	15%	15%	16%
EV	191	230	279
P/EV	3.5x	2.9x	2.4x
Oper. RoEV (%)	18%	19%	19%

Source: Company, JM Financial

### Valuation summary (INR bn)

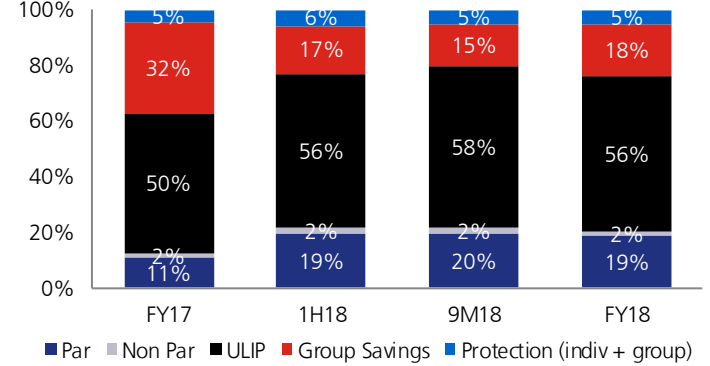
	FY20E
Embedded value	279
P/EV	3.0x
Fair value	835
Per share for parent (INR)	58
% of SBI Bank Mkt Cap.	23%

**Exhibit 17. APE CAGR of 20% expected to outperform industry**



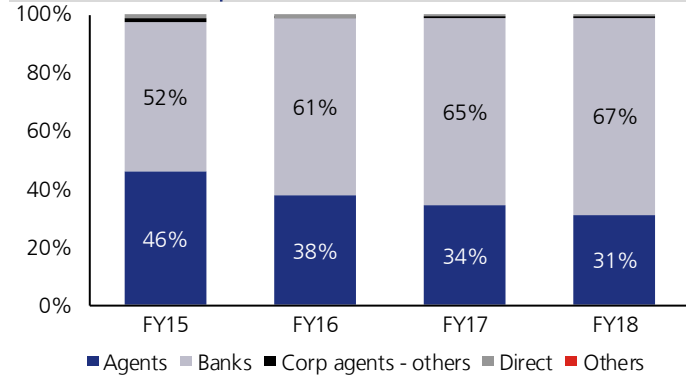
Source: Company, JM Financial

**Exhibit 18. Aims for a balanced product mix with focus on protection**



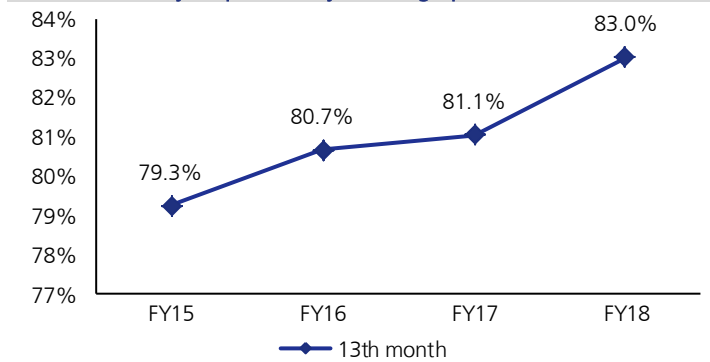
Source: Company, JM Financial

**Exhibit 19. SBI Bank penetration\* to increase to 80% (69% in FY18)**



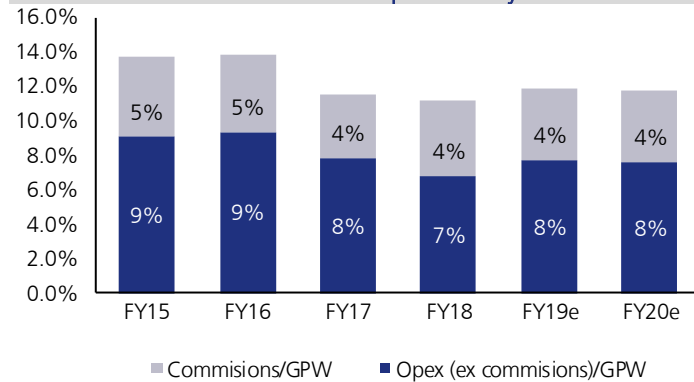
Source: Company, JM Financial; \* Six lakhs premium per year per branch

**Exhibit 20. One year persistency trending upwards**



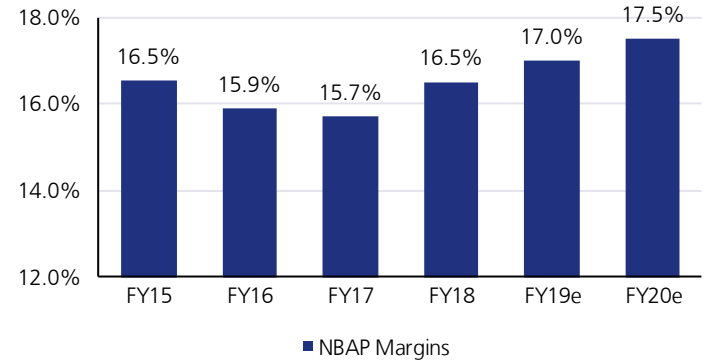
Source: Company, JM Financial

**Exhibit 21. To maintain cost leadership in industry**



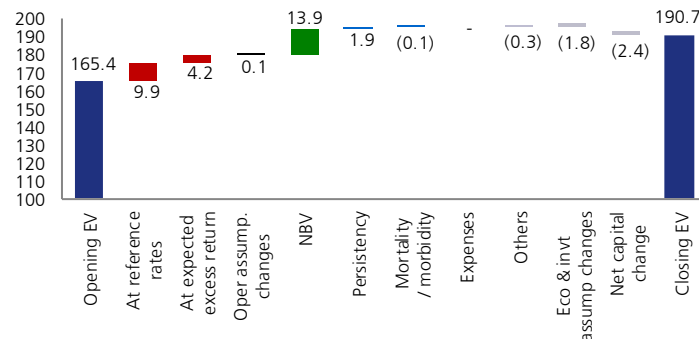
Source: Company, JM Financial

**Exhibit 22. Margins to improve steadily to 17.5% by FY20E**



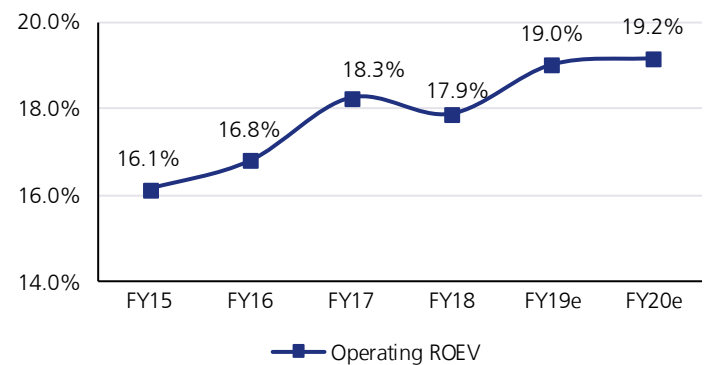
Source: Company, JM Financial

**Exhibit 23. EV movement – FY18 (INR bn)**



Source: Company, JM Financial

**Exhibit 24. Operating RoEV to remain in the 18-19% range**



Source: Company, JM Financial

## Max Life Insurance (Unrated; Implied M.cap: INR 155bn)

Post calling off the the merger with HDFC Life, Max Life (Max) has worked towards creating an efficient and diversified distribution mix. The results can be seen in the rising share of other bank partners (YES Bank, LVB) from 9% in FY16 to 13% in FY18. Moreover, Max has a well-balanced product mix between traditional (59% of APE as of FY18) and linked products (41%) alongwith an aim to increase the share of protection to 10% by FY20E. The insurer achieved post overrun margins of 20.2% in FY18 with operating RoEV of 20.6% thus bringing forward the management's FY20 goal of "20-20-20" in "sales-post overrun margins-RoEV". With continued focus on quality – both in terms of product and distribution – Max should generate steady growth of 17% CAGR over FY18-20E with strong operating ROEV of 21% over FY18-20E.

- **Improving APE market share** – Max Life has an APE share of 4.4% as of FY18 – up 17bps YoY – making it the 4th largest life insurer in the industry and the only non-bank promoted insurer in the Top-5. We expect an APE CAGR of 17% over FY18-20E.
- **Rising share of protection** – product mix is well-balanced with c.40% of total APE coming from ULIPs and PAR each while share of protection increased 100bps YoY to 8% in FY18 (4% from individual protection and 4% from group protection). Aim is to increase the share of protection to 10% by FY20E.
- **Steady improvement in operating metrics:** 13 month persistency is among the highest in the industry at 80% while 61 month persistency is promising at 53% for FY18. While, opex (ex-commissions) ratio improved to 13% in FY18 vs 15% last year, we expect the expense ratios to remain higher vs. peers on the back of channel investment. Management aims to improve it to 11-10% going forward.
- **Continuing force of strong bancassurance tie-ups:** Share of individual APE from AXIS Bank increased to 59% in FY18 vs 58% in FY17 while the share of other banks (YES bank, Lakshmi Vilas Bank) too rose 100 bps YoY to 13% in FY18 vs 12% in FY17. Going forward, Max is focused on building its proprietary channels (35% indiv APE CAGR over next 3 years) envisaging its contribution to be 35-40% with AXIS share falling to 40-45%.
- **Superior profitability** – post overrun NBV margins were 20.2% in FY18 while operating RoEV was 20.6% bringing forward the management's FY20 goal of "20-20-20" in "sales-post overrun margins-RoEV". Post this achievement, the management has a 3 year goal of "25-25-25" in "sales-post overrun margins-RoEV".
- **Renegotiation with AXIS Bank can entail a stake sale to AXIS at a steeper discount:** Given AXIS Bank contributes c.60% of individual APE for Max Life, we believe the market is anticipating AXIS to negotiate another strategic stake purchase deal (ideally close to expiry of the 2021 agreement) which could entail significantly higher stake sale to Axis Bank at a significant discount (historically AXIS paid 0.34x-0.66x P/EV).

Shareholding pattern	
	%
Max Financial Services	70.75
Axis Bank	4.25
Mitsui Sumitomo Insurance	25.00

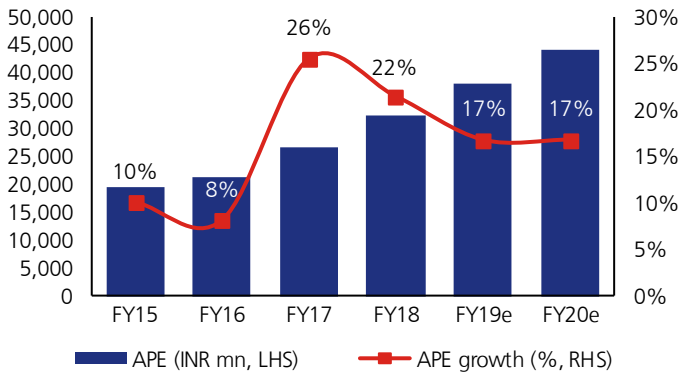
Valuation summary (INR bn)	
	FY20E
Embedded value	105
P/EV	2.4x
Fair value	252.6
Per share for parent (INR)	666
% of Max Financial Mkt Cap.	163%

Key performance indicators			
INR bn	FY18	FY19e	FY20e
APE	32	38	45
Growth (%)	22%	17%	17%
Mkt share- industry	4.4%	4.4%	4.4%
Mkt share- pvt	8.7%	8.5%	8.5%
NBV	6.6	7.8	9.2
NBAP Marg.(%)	20.2%	20.4%	20.5%
Opex ratio (%)	20%	22%	21%
PAT	5.3	4.0	3.9
Growth (%)	(20%)	(26%)	1%
EV	75	89	105
RoE (%)	20%	14%	13%
P/EV	2.1x	1.8x	1.5x
Oper. RoEV (%)	21%	21%	21%

Source: Company, JM Financial

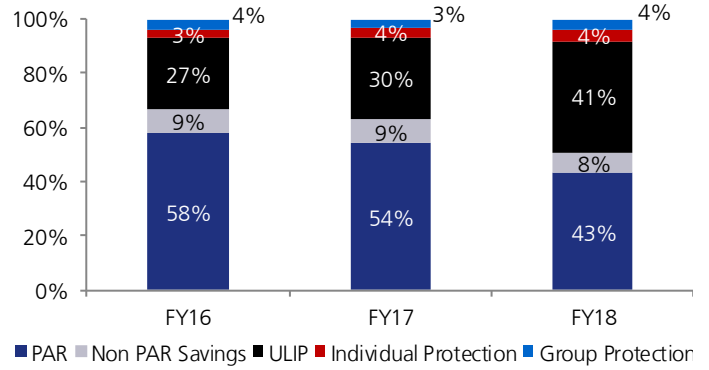


**Exhibit 25. APE CAGR to be 17% over FY18-20E**



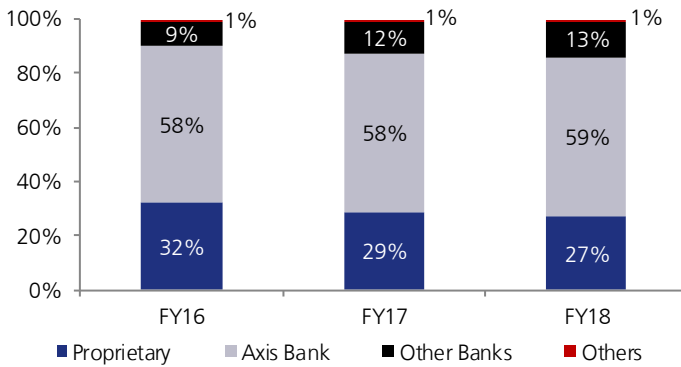
Source: Company, JM Financial

**Exhibit 26. Share of individual protection increases**



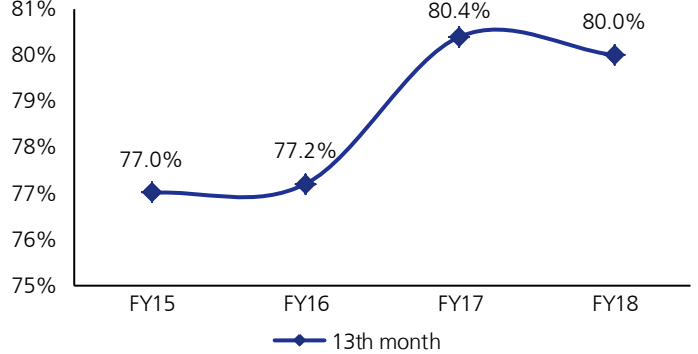
Source: Company, JM Financial

**Exhibit 27. Other bank partnerships (YES Bank, LVB) gaining strength**



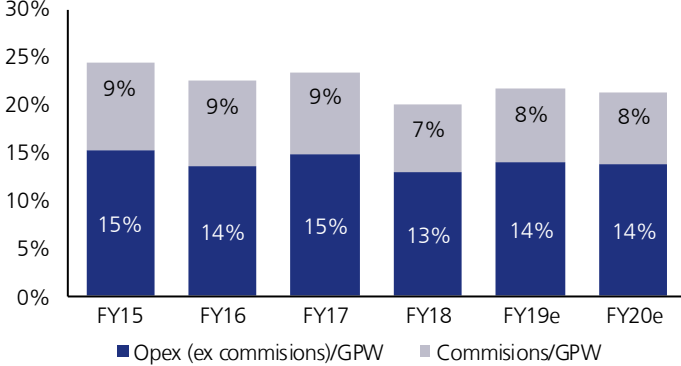
Source: Company, JM Financial

**Exhibit 28. 13-mth persistency improving steadily**



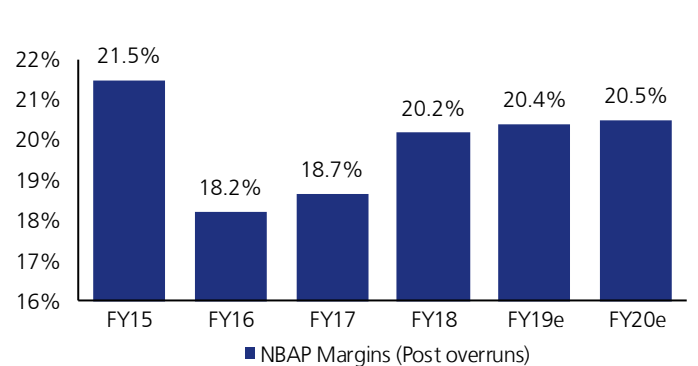
Source: Company, JM Financial

**Exhibit 29. Organisation structure to keep cost ratios higher vs. peers**



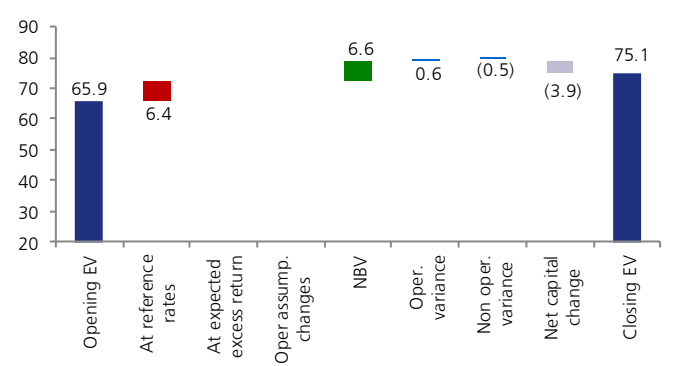
Source: Company, JM Financial

**Exhibit 30. Margin to rise as protection share, persistency improve**



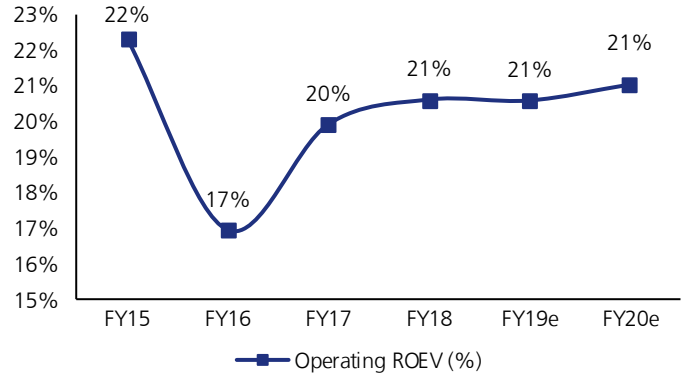
Source: Company, JM Financial

**Exhibit 31. EV movement – FY18 (INR bn)**



Source: Company, JM Financial

**Exhibit 32. One of the highest operating RoEVs at +20%**



Source: Company, JM Financial

## HDFC Standard Life Insurance (HOLD; TP: INR 460)

HDFC Life has consistently posted strong numbers since its listing in Nov'17, ending FY18 with one of the highest post-overrun margins at 23.2%. Favourable product mix with pole position in credit protect insurance, alongwith one of the highest 13-mth persistency have contributed to this improvement. We believe, HDFC Life – with healthy growth and better margins – will continue to generate superior operating RoEVs of 21% into FY20E. We like the franchise given strong product portfolio and superior return ratios; however, we would wait for further correction before entering the stock given it is trading at a significant premium to peers. We value HDFC Life at 4.3x FY20E EV, implying a TP of INR 460.

- Forecast APE CAGR of 20% over FY18-20E:** HDFC Life has recorded an APE CAGR of 20% over FY14-18 thus increasing its market share by 2.3pps over the same period to 7.2%. Going forward, we expect HDFC Life to achieve 20% APE CAGR over FY18-20E driven by i) leveraging access to 11,200 branches and huge customer base of HDFC Bank and other banca partners, and ii) leadership in group business (LTM m-share of 29% as of May'18 among private).
- Rise in proportion of both ULIPs and protection in the product mix:** The share of total protection in APE increased from 7.8% in FY17 to 11.3% in FY18 coming from both credit protect (premiums grew 63% YoY) and pure-protect products. Going forward, despite being the market leader in the credit protect business, the insurer expects growth to taper off as a result of, a) reaching critical mass in terms of signing up partnerships and b) increased competition. Meanwhile, the rise in ULIP share was driven by customer demand. In terms of product focus, apart from protection, the insurer wants to focus on Non-PAR (savings) market through launch of new annuity products such as "Click2Retire" and deferred annuities.
- Competitive advantages due to strong bancassurance channel:** HDFC Life's distribution set-up is dominated by the banca channel which contributed c.60% to individual NBP in FY18 (HDFC Bank contributes 90% to bancassurance premiums). Moreover, it is investing in Direct (incl online) channel whose share of individual NBP rose to c.20% from 10% in FY15 primarily driven by digital initiatives. c.99.9% of new business was initiated using the digital platform.
- 13-mth persistency improves to 87%; expense ratio to stabilise going forward:** For FY18, the 13-mth persistency increased from 84% in FY17 to 87% - one of the best in the industry. In terms of operating efficiency, opex (ex-commissions) ratio increased 111bps YoY to 12.4% as the insurer continued to invest in business development, technology and new growth opportunities. We expect opex (ex-commissions) ratio to improve to 11.6% by FY20E as channel productivity improves.
- Strong growth in NBV with industry leading margins of 23.2%:** NBV grew c.40% YoY to INR12.8bn in FY18 led by rising share of protection business. New business margins improved 120bps YoY to 23.2%, highest in the industry, led by both assumption changes (exercise done only in 4Q) and movement of product mix in favour of protection products. With a balanced product mix and cost controls, we believe margins would remain stable at 24% over FY18-20E
- Embedded value expands 22% YoY to INR152.2bn in FY18:** Growth in EV has come from improvements in NBV, favourable movement in operating assumptions (persistency: +INR 0.6bn; mortality: +INR 1bn) and positive non-operating variances (+INR 2.6bn).
- Expect strong operating ROEV of 20.7% by FY20E; maintain HOLD Rating and TP of INR 460:** Being an insurer with a strong bancassurance channel, we expect 20% APE CAGR over FY18-20E to be better than the industry average, thus leading to market share gains. Strong growth and stable margins would lead to operating RoEVs of 20.7% to continue into FY20E. We value HDFC Life at 4.3x FY20E EV, implying a TP of INR 460. We maintain HOLD given the stock is trading at a significant premium to its peers.

### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	460
Upside/(Downside)	0%
Previous Price Target (12M)	460
Change	0%

### Key Data

Current Market Price	INR460
Market cap (bn)	INR 923/US\$13.5
Free Float	48%
Shares in issue (mn)	2,012
52-week range	548/307
Sensex/Nifty	35,369/10,708
INR/US\$	68.6

### Price Performance

%	1M	6M	12M
Absolute	(3.2)	15.0	na
Relative*	(4.2)	10.8	na

\* To the BSE Sensex

### Shareholding pattern (%)

HDFC Ltd	51.62
Standard Life	29.31
Others	19.03

### Key performance indicators

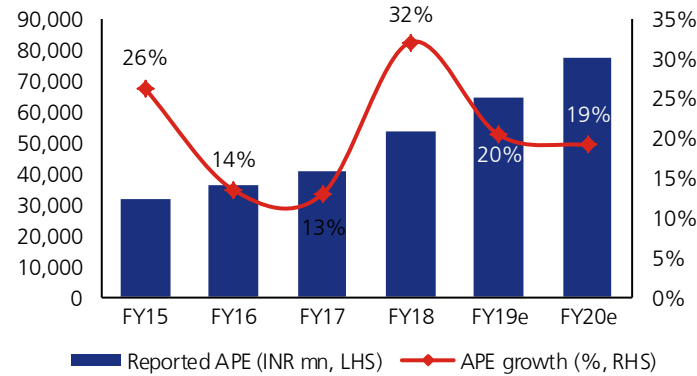
INR bn	FY 18	FY 19e	FY 20e
APE	54	65	78
Growth (%)	32%	20%	19%
Mkt share- industry	7%	7%	8%
Mkt share- pvt	14%	14%	15%
NBV	13	15	18
NBAP Marg. (%)	23%	24%	24%
Opex ratio (%)	18%	16%	16%
PAT	11	13	15
Growth (%)	24%	18%	17%
RoE (%)	26%	25%	25%
EV	152	180	212
P/EV	6.1x	5.1x	4.3x
Oper.RoEV (%)	20%	21%	21%

Source: Company, JMFInancial

### Valuation summary (INR bn)

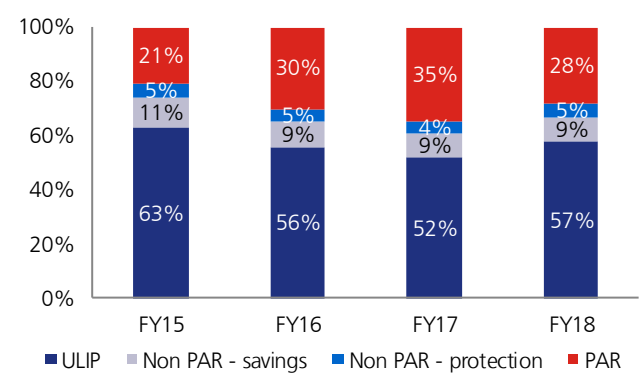
	FY20E
Embedded value	212
P/EV	4.3x
Fair value	913
Per share for parent (INR)	280
% of HDFC Mkt Cap.	15%

**Exhibit 33. APE CAGR to be 20% over FY18-20E**



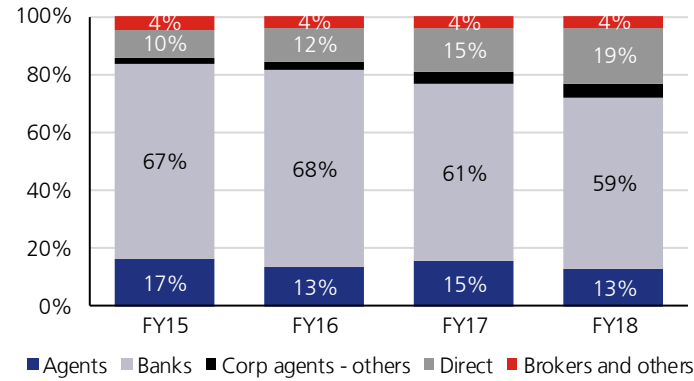
Source: Company, JM Financial

**Exhibit 34. Balanced product mix**



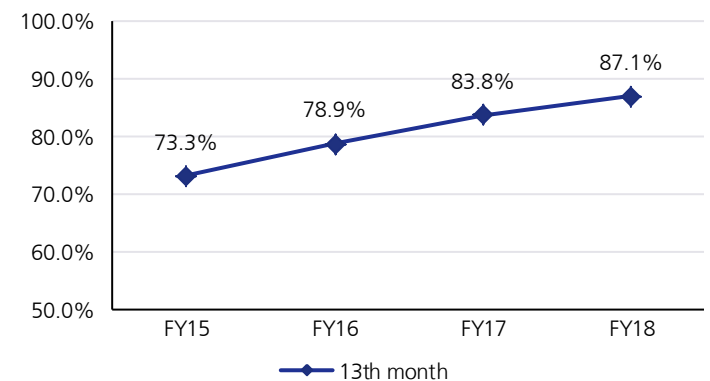
Source: Company, JM Financial

**Exhibit 35. Share of direct channels increasing**



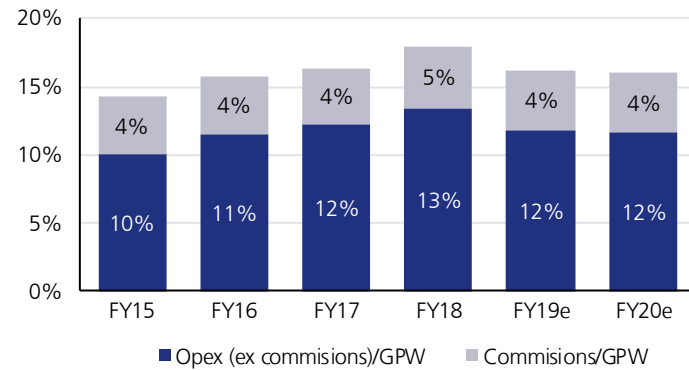
Source: Company, JM Financial

**Exhibit 36. Best-in-class 13mth persistency**



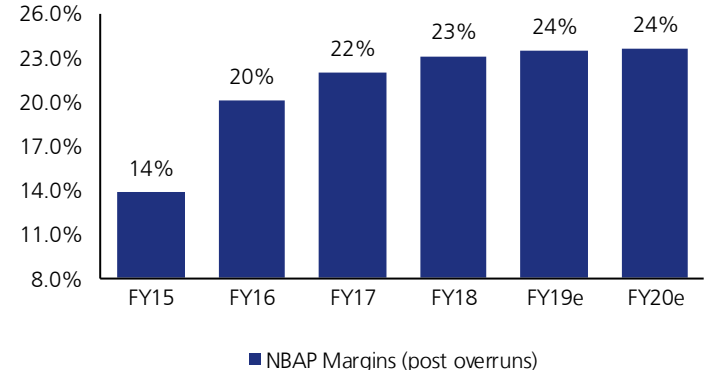
Source: Company, JM Financial

**Exhibit 37. Cost ratios are expected to improve going forward**



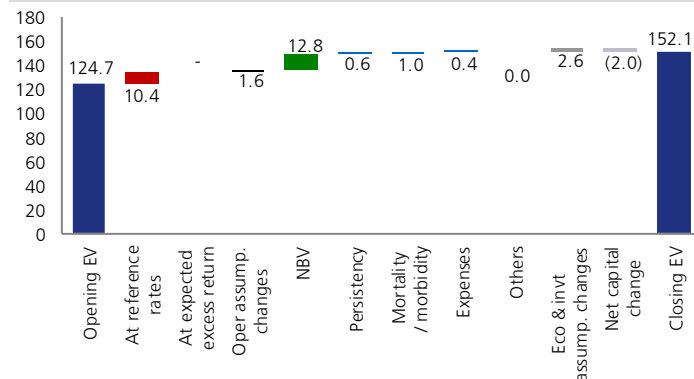
Source: Company, JM Financial

**Exhibit 38. One of the highest post-overrun margins in the industry**



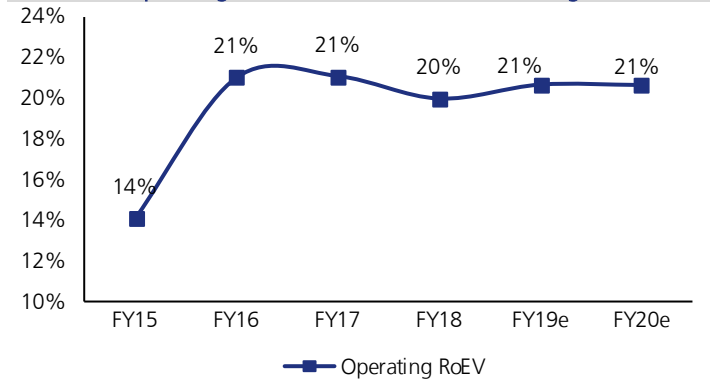
Source: Company, JM Financial

**Exhibit 39. EV movement – FY18 (INR bn)**



Source: Company, JM Financial

**Exhibit 40. Operating RoEVs to remain in the 21% range**



Source: Company, JM Financial

## Financial Tables – ICICI Prudential Life Insurance

P&L (technical account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Gross premiums	1,91,644	2,23,540	2,70,688	3,18,721	3,74,674
Net premiums	1,89,987	2,21,552	2,68,107	3,15,887	3,71,342
Investment income	12,084	1,49,769	1,12,615	1,75,397	2,05,388
Other Income	209	608	1,453	700	700
<b>Total Income</b>	<b>2,02,279</b>	<b>3,71,930</b>	<b>3,82,174</b>	<b>4,91,984</b>	<b>5,77,431</b>
Commissions	-6,200	-7,589	-14,033	-10,487	-12,237
Operating expenses	-18,883	-23,572	-20,299	-31,872	-37,467
<b>Total expenses</b>	<b>-28,726</b>	<b>-35,450</b>	<b>-40,059</b>	<b>-42,359</b>	<b>-49,704</b>
Benefits paid	-1,24,274	-1,49,979	-1,72,808	-1,96,613	-2,24,548
Change in valuation of life reserves	-35,155	-1,74,976	-1,54,475	-2,41,271	-2,88,271
<b>Total Benefits</b>	<b>-1,59,429</b>	<b>-3,24,954</b>	<b>-3,27,283</b>	<b>-4,37,884</b>	<b>-5,12,820</b>
Surplus/(Deficit)	13,421	10,738	13,632	11,154	14,161

Source: Company, JM Financial

P&L (Shareholder's account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Transfer from the Policyholders' Account	12,076	11,315	10,892	10,688	13,611
Investment income	6,019	6,670	7,419	8,670	8,104
Other income	0	286	50	0	0
Total income	18,096	18,272	18,362	19,357	21,715
Operating expenses	-338	-409	-420	-494	-581
Contribution to the policyholders A/C	0	-18	-753	0	0
Profit before tax	17,714	17,844	17,189	18,863	21,134
Tax	-1,212	-1,028	-997	-1,094	-1,226
Profit after tax	16,501	16,817	16,192	17,769	19,908

Source: Company, JM Financial

Operational metrics (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
NBV	4,123	6,660	12,860	15,602	18,682
- Growth	53%	62%	93%	21%	20%
Reported NBAP margin	8.0%	10.1%	16.5%	17.6%	18.0%
New business premium	67,658	78,633	92,118	1,06,935	1,23,853
- Growth	27%	16%	17%	16%	16%
APE	51,087	64,966	75,417	88,650	1,03,789
- Growth	10%	27%	16%	18%	17%

Source: Company, JM Financial

Product mix – APE (%)				
Y/E March	FY16	FY17	FY18	FY19E
Par	14%	10%	11%	
Non-par	3%	5%	5%	
Linked	81%	85%	84%	
Group	2%	1%	1%	

Source: Company, JM Financial

Balance sheet (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Shareholders' Investments	62,124	66,349	77,466	73,647	74,201
Policyholders' Investments	2,15,156	2,70,674	3,32,889	4,49,380	5,82,998
Unit linked Investments	7,52,958	8,78,783	9,75,020	11,13,941	12,79,627
Loans	443	806	1,451	1,523	1,599
Fixed assets	2,196	2,138	4,221	4,432	4,653
Cash & Bank Balances - CA	2,002	2,137	2,037	2,139	2,246
Advances and Other Assets - CA	12,770	26,520	25,103	26,358	27,676
Debit Balance in P&L	0	0	0	0	0
<b>Total Assets</b>	<b>10,47,650</b>	<b>12,47,408</b>	<b>14,18,186</b>	<b>16,71,420</b>	<b>19,73,001</b>
Current Liabilities	18,216	28,160	34,254	35,967	37,765
Provisions	3,797	205	222	233	245
Borrowings	0	0	0	0	0
Fair Value Change Account	9,712	17,867	20,551	20,551	20,551
Policy Liabilities	2,02,548	2,51,695	3,09,934	4,12,275	5,34,860
Linked Liabilities	7,52,947	8,78,775	9,75,012	11,13,941	12,79,627
FFA	6,619	6,042	8,782	9,248	9,798
<b>Total Liabilities</b>	<b>9,94,417</b>	<b>11,83,348</b>	<b>13,49,368</b>	<b>15,92,829</b>	<b>18,83,461</b>
Share Capital	14,323	14,353	14,355	14,355	14,355
Reserves and surplus	36,401	46,976	51,382	61,155	72,104
Fair Value Change Account	2,509	2,731	3,081	3,081	3,081
<b>Shareholder's equity</b>	<b>53,233</b>	<b>64,060</b>	<b>68,818</b>	<b>78,591</b>	<b>89,540</b>

Source: Company, JM Financial

Embedded Value (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Opening EV	1,38,223	1,39,388	1,61,838	1,87,888	2,15,115
NBV	4,123	6,660	12,860	15,602	18,682
Discount unwind	12,582	12,210	13,720	17,121	19,924
Operating variance	4,484	3,080	2,580	2,500	2,500
Non-operating variance/assumption change	-5,610	5,820	1,130	0	0
<b>EV before capital changes</b>	<b>1,53,802</b>	<b>1,68,158</b>	<b>1,99,768</b>	<b>2,23,111</b>	<b>2,56,221</b>
Dividend payout	14,414	6,320	11,880	7,996	8,959
Capital injection	0	0	0	0	0
<b>Closing EV</b>	<b>1,39,388</b>	<b>1,61,838</b>	<b>1,87,888</b>	<b>2,15,115</b>	<b>2,47,262</b>
Operating RoEV	15.3%	15.6%	17.2%	18.7%	19.1%

Source: Company, JM Financial

Key multiples					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
P/EV (times)	3.85	3.32	2.86	2.51	2.20
ROEV	11.3%	19.8%	17.9%	18.6%	19.0%
P/B (times)	10.07	8.38	7.81	6.91	6.13
P/E (times)	32.48	31.94	33.18	30.23	27.11

## Financial Tables – SBI Life Insurance

P&L (technical account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Gross premiums	1,58,254	2,10,151	2,53,542	3,19,198	3,98,582
Net premiums	1,56,655	2,08,525	2,51,601	3,16,755	3,95,530
Investment income	33,409	92,950	84,563	1,19,280	1,37,632
Other Income	1,134	1,301	1,442	686	686
<b>Total Income</b>	<b>1,91,197</b>	<b>3,02,775</b>	<b>3,37,605</b>	<b>4,36,720</b>	<b>5,33,848</b>
Commissions	-7,143	-7,833	-11,209	-13,676	-16,782
Operating expenses	-18,081	-20,486	-23,095	-30,837	-37,230
<b>Total expenses</b>	<b>-25,223</b>	<b>-28,320</b>	<b>-34,304</b>	<b>-44,513</b>	<b>-54,012</b>
Benefits paid	-79,659	-95,502	-1,17,123	-2,00,115	-2,51,409
Change in valuation of life reserves	-79,869	-1,72,410	-1,75,950	-1,81,504	-2,13,197
<b>Total Benefits</b>	<b>-1,59,528</b>	<b>-2,67,912</b>	<b>-2,93,073</b>	<b>-3,81,619</b>	<b>-4,64,606</b>
Surplus/(Deficit)	6,446	6,544	10,229	10,588	15,230

Source: Company, JM Financial

P&L (Shareholder's account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Transfer from the Policyholders' Account	6,517	6,546	8,294	9,789	14,238
Investment income	3,178	4,016	4,521	5,747	4,493
Other income	79	82	113	113	113
Total income	9,774	10,644	12,928	15,649	18,844
Operating expenses	-283	-275	-319	-418	-522
Contribution to the policyholders A/C	-937	-627	-756	0	0
Profit before tax	8,551	9,746	11,845	15,231	18,321
Tax	-110	-199	-341	-2,163	-2,602
Profit after tax	8,441	9,547	11,504	13,068	15,720

Source: Company, JM Financial

Operational metrics (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
NBV	7,137	10,368	13,900	17,225	20,928
- Growth	31%	45%	34%	24%	21%
Reported NBAP margin	16.0%	15.4%	16.3%	17.0%	17.5%
New business premium	71,066	1,01,439	1,09,661	1,29,284	1,50,803
- Growth	29%	43%	8%	18%	17%
APE	44,888	66,009	84,220	1,01,322	1,19,587
- Growth	36%	47%	28%	20%	18%

Source: Company, JM Financial

Product mix – APE (%)				
Y/E March	FY16	FY17	FY18	FY19E
Par	32%	16%	24%	
Non-par	5%	12%	9%	
Linked	59%	71%	67%	
Group	3%	0%	0%	

Source: Company, JM Financial

Balance sheet (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Shareholders' Investments	35,649	42,955	50,144	39,872	52,296
Policyholders' Investments	3,82,559	4,69,617	5,44,857	6,43,705	7,43,178
Unit linked Investments	3,60,219	4,45,730	5,49,359	6,42,716	7,56,440
Loans	1,236	1,782	1,709	1,709	1,709
Fixed assets	4,472	5,385	5,813	6,104	6,409
Cash & Bank Balances - CA	26,168	24,298	26,446	27,769	29,157
Advances and Other Assets - CA	23,988	32,628	38,762	40,700	42,735
Debit Balance in P&L	0	0	0	0	0
<b>Total Assets</b>	<b>8,34,291</b>	<b>10,22,396</b>	<b>12,17,089</b>	<b>14,02,575</b>	<b>16,31,924</b>
Current Liabilities	25,026	27,641	32,046	32,366	33,013
Provisions	2,019	2,502	3,485	3,660	3,843
Borrowings	0	0	0	0	0
Fair Value Change Account	3,354	7,764	9,427	0	0
Policy Liabilities	3,96,342	4,83,238	5,55,559	6,43,705	7,43,178
Linked Liabilities	3,60,217	4,45,730	5,49,359	6,42,716	7,56,440
FFA	2	0	1,935	2,734	3,726
<b>Total Liabilities</b>	<b>7,86,960</b>	<b>9,66,875</b>	<b>11,51,811</b>	<b>13,25,181</b>	<b>15,40,200</b>
Share Capital	10,000	10,000	10,000	10,000	10,000
Reserves and surplus	36,907	44,648	53,745	64,199	76,775
Fair Value Change Account	424	873	1,534	3,194	4,949
<b>Shareholder's equity</b>	<b>47,331</b>	<b>55,521</b>	<b>65,278</b>	<b>77,393</b>	<b>91,724</b>

Source: Company, JM Financial

Embedded Value (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Opening EV	1,12,871	1,25,475	1,65,379	1,90,879	2,30,581
NBV	8,091	10,368	13,900	17,225	20,928
Discount unwind	11,823	10,862	14,100	19,091	23,285
Operating variance	-954	1,681	1,600	0	0
Non-operating variance/assumption change	-121	18,798	-1,800	6,000	7,000
<b>EV before capital changes</b>	<b>1,31,710</b>	<b>1,67,184</b>	<b>1,93,279</b>	<b>2,33,195</b>	<b>2,81,793</b>
Dividend payout	-1,444	-1,805	-2,400	-2,614	-3,144
Capital injection	0	0	0	0	0
<b>Closing EV</b>	<b>1,25,475</b>	<b>1,65,379</b>	<b>1,90,879</b>	<b>2,30,581</b>	<b>2,78,649</b>
Operating RoEV	16.8%	18.3%	17.9%	19.0%	19.2%

Source: Company, JM Financial

Key multiples					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
P/EV (times)	5.3	4.0	3.5	2.9	2.4
ROEV	16.7%	33.2%	16.9%	22.2%	22.2%
P/B (times)	14.1	12.1	10.3	8.6	7.3
P/E (times)	79.3	70.1	58.2	51.2	42.6

## Financial Tables – Max Life Insurance

P&L (technical account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Gross premiums	92,162	1,07,804	1,25,009	1,45,161	1,68,403
Net premiums	91,389	1,06,802	1,23,795	1,43,578	1,66,567
Investment income	12,899	42,107	37,574	54,759	62,440
Other Income	165	192	346	254	254
<b>Total Income</b>	<b>1,04,454</b>	<b>1,49,101</b>	<b>1,61,715</b>	<b>1,98,591</b>	<b>2,29,261</b>
Commissions	-8,210	-9,364	-8,929	-11,101	-12,869
Operating expenses	-13,259	-16,715	-17,195	-21,419	-24,252
<b>Total expenses</b>	<b>-21,469</b>	<b>-26,080</b>	<b>-26,124</b>	<b>-32,520</b>	<b>-37,121</b>
Benefits paid	-31,464	-37,775	-49,466	-82,287	-1,02,625
Change in valuation of life reserves	-46,888	-78,693	-79,043	-78,839	-83,088
<b>Total Benefits</b>	<b>-78,352</b>	<b>-1,16,468</b>	<b>-1,28,509</b>	<b>-1,61,126</b>	<b>-1,85,712</b>
Surplus/(Deficit)	4,632	6,553	7,082	4,946	6,428

Source: Company, JM Financial

P&L (Shareholder's account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Transfer from the Policyholders' Account	3,351	5,551	3,992	1,168	2,186
Investment income	3,351	5,551	3,992	1,168	2,186
Other income	6	5	5	5	5
Total income	5,544	8,645	6,175	4,488	4,510
Operating expenses	-415	-961	68	79	91
Contribution to the policyholders A/C	-19	-2	-91	0	0
Profit before tax	5,109	7,682	6,152	4,566	4,601
Tax	-718	-1,083	-875	-658	-663
Profit after tax	4,391	6,599	5,276	3,908	3,938

Source: Company, JM Financial

Operational metrics (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
NBV	3,880	4,990	6,560	7,777	9,163
- Growth	-18%	32%	31%	19%	18%
Reported NBAP margin	17.9%	18.8%	20.2%	20.4%	20.5%
New business premium	28,817	36,664	43,486	50,359	58,353
- Growth	12%	27%	19%	16%	16%
APE	21,297	26,740	32,515	38,122	44,699
- Growth	8%	26%	22%	17%	17%

Source: Company, JM Financial

Product mix – APE (%)				
Y/E March	FY16	FY17	FY18	FY19E
Par	60%	56%	45%	
Non-par	12%	12%	12%	
Linked	27%	30%	42%	
Group	1%	1%	1%	

Source: Company, JM Financial

Balance sheet (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Shareholders' Investments	23,918	32,303	32,146	22,913	25,203
Policyholders' Investments	2,02,784	2,55,483	3,19,238	4,08,278	5,01,286
Unit linked Investments	1,31,538	1,55,910	1,70,981	1,72,692	1,67,201
Loans	764	1,333	2,233	2,344	2,461
Fixed assets	1,679	1,623	1,582	1,661	1,744
Cash & Bank Balances - CA	3,326	3,464	4,405	4,625	4,857
Advances and Other Assets - CA	12,302	14,318	19,043	19,996	20,995
Debit Balance in P&L	0	0	0	0	0
<b>Total Assets</b>	<b>3,76,311</b>	<b>4,64,434</b>	<b>5,49,628</b>	<b>6,32,509</b>	<b>7,23,747</b>
Current Liabilities	13,650	16,773	17,439	19,183	21,101
Provisions	2,806	310	401	422	443
Borrowings	0	0	0	0	0
Fair Value Change Account	101	3,045	3,454	0	0
Policy Liabilities	1,90,418	2,45,296	3,10,137	3,88,836	4,77,415
Linked Liabilities	1,34,536	1,58,351	1,72,552	1,72,692	1,67,201
FFA	14,563	15,565	18,655	22,433	26,675
<b>Total Liabilities</b>	<b>3,56,072</b>	<b>4,39,340</b>	<b>5,22,640</b>	<b>6,03,566</b>	<b>6,92,835</b>
Share Capital	19,188	19,188	19,188	19,188	19,188
Reserves and surplus	954	5,867	7,702	9,657	11,626
Fair Value Change Account	97	38	98	98	98
<b>Shareholder's equity</b>	<b>20,239</b>	<b>25,093</b>	<b>26,989</b>	<b>28,943</b>	<b>30,912</b>

Source: Company, JM Financial

Embedded Value (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Opening EV	52,320	56,170	65,890	75,080	88,591
NBV	3,780	4,990	6,560	7,777	9,163
Discount unwind	5,130	5,340	6,410	7,688	9,478
Operating variance	-140	860	620	0	0
Non-operating variance/assumption change	0	0	0	0	0
<b>EV before capital changes</b>	<b>60,560</b>	<b>69,070</b>	<b>79,010</b>	<b>90,545</b>	<b>1,07,233</b>
Dividend payout	-4,390	-3,180	-3,930	-1,954	-1,969
Capital injection	0	0	0	0	0
<b>Closing EV</b>	<b>56,170</b>	<b>65,890</b>	<b>75,080</b>	<b>88,591</b>	<b>1,05,264</b>
Operating RoEV	17.0%	19.9%	20.6%	20.6%	21.0%

Source: Company, JM Financial

Key multiples					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
P/EV (times)	2.90	2.48	2.17	1.84	1.55
ROEV	15.7%	23.0%	19.9%	20.6%	21.0%
P/B (times)	8.1	6.5	6.0	5.6	5.3
P/E (times)	37.1	24.7	30.9	41.7	41.4

## Financial Tables – HDFC Standard Life Insurance

P&L (technical account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Gross premiums	1,63,130	1,94,455	2,35,644	2,78,020	3,30,865
Net premiums	1,61,788	1,92,749	2,33,710	2,75,737	3,28,149
Investment income	17,906	1,11,406	85,946	1,25,521	1,50,143
Other Income	971	1,389	2,685	1,118	1,118
<b>Total Income</b>	<b>1,80,665</b>	<b>3,05,544</b>	<b>3,22,341</b>	<b>4,02,376</b>	<b>4,79,411</b>
Commissions	-7,018	-7,920	-10,749	-12,100	-14,482
Operating expenses	-22,349	-27,596	-36,308	-35,766	-41,340
<b>Total expenses</b>	<b>-29,368</b>	<b>-35,516</b>	<b>-47,058</b>	<b>-47,866</b>	<b>-55,822</b>
Benefits paid	-82,420	-1,00,004	-1,31,114	-1,02,369	-1,08,279
Change in valuation of life reserves	-59,281	-1,60,548	-1,33,223	-2,38,066	-2,97,256
<b>Total Benefits</b>	<b>-1,41,701</b>	<b>-2,60,551</b>	<b>-2,64,337</b>	<b>-3,40,435</b>	<b>-4,05,535</b>
Surplus/(Deficit)	9,596	9,476	10,946	14,075	18,053

Source: Company, JM Financial

P&L (Shareholder's account) (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Transfer from the Policyholders' Account	7,183	7,863	10,022	11,105	14,524
Investment income	1,712	2,268	2,803	4,379	3,568
Other income	106	0	130	130	130
Total income	9,000	10,131	12,955	15,614	18,222
Operating expenses	-254	-680	-125	-417	-496
Contribution to the policyholders A/C	-380	-354	-1,567	0	0
Profit before tax	8,334	9,141	11,267	15,197	17,726
Tax	-166	-220	-177	-2,158	-2,517
Profit after tax	8,168	8,921	11,090	13,039	15,209

Source: Company, JM Financial

Operational metrics (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
NBV	7,393	9,225	12,817	15,287	18,297
- Growth	25%	25%	39%	19%	20%
Reported NBAP margin	20.1%	22.6%	23.7%	23.5%	23.6%
New business premium	64,508	86,964	1,13,496	1,33,573	1,56,310
- Growth	17%	35%	31%	18%	17%
APE	36,160	40,852	53,996	65,050	77,530
- Growth	14%	13%	32%	20%	19%

Source: Company, JM Financial

Product mix – APE (INR mn)				
Y/E March	FY16	FY17	FY18	FY19E
Par		27%	31%	25%
Non-par		18%	17%	20%
Linked		51%	47%	51%
Group		4%	5%	4%

Source: Company, JM Financial

Balance sheet (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Shareholders' Investments	26,402	32,456	40,703	33,808	31,308
Policyholders' Investments	2,58,629	3,46,915	4,53,471	6,50,046	9,05,828
Unit linked Investments	4,57,270	5,38,005	5,71,854	6,26,471	6,85,023
Loans	931	479	187	197	207
Fixed assets	3,463	3,529	3,414	3,585	3,764
Cash & Bank Balances - CA	6,466	7,965	11,085	11,639	12,221
Advances and Other Assets - CA	12,326	21,713	24,100	25,305	26,570
Debit Balance in P&L	0	0	0	0	0
<b>Total Assets</b>	<b>7,65,487</b>	<b>9,51,062</b>	<b>11,04,815</b>	<b>13,51,050</b>	<b>16,64,921</b>
Current Liabilities	25,119	37,736	46,027	48,329	50,745
Provisions	415	466	437	459	481
Borrowings	0	0	0	0	0
Fair Value Change Account	536	3,981	6,220	0	0
Policy Liabilities	2,44,006	3,23,819	4,23,193	6,06,642	8,45,345
Linked Liabilities	4,57,270	5,38,005	5,71,854	6,26,471	6,85,023
FFA	7,055	8,668	9,592	12,562	16,092
<b>Total Liabilities</b>	<b>7,34,401</b>	<b>9,12,675</b>	<b>10,57,323</b>	<b>12,94,462</b>	<b>15,97,687</b>
Share Capital	19,953	19,985	20,117	20,117	20,117
Reserves and surplus	11,524	18,057	27,073	36,169	46,816
Fair Value Change Account	-412	323	302	302	302
<b>Shareholder's equity</b>	<b>31,065</b>	<b>38,365</b>	<b>47,492</b>	<b>56,588</b>	<b>67,235</b>

Source: Company, JM Financial

Embedded Value (INR mn)					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Opening EV	88,900	1,02,325	1,24,707	1,52,163	1,79,717
NBV	7,393	9,225	12,816	15,287	18,297
Discount unwind	8,100	9,592	10,441	13,989	16,441
Operating variance	3,200	2,880	1,990	2,190	2,390
Non-operating variance/assumption change	(3,107)	3,041	4,172	-	-
<b>EV before capital changes</b>	<b>1,04,486</b>	<b>1,27,063</b>	<b>1,54,126</b>	<b>1,83,629</b>	<b>2,16,845</b>
Dividend payout	(2,161)	(2,356)	(1,963)	(3,912)	(4,563)
Capital injection					
<b>Closing EV</b>	<b>1,02,325</b>	<b>1,24,707</b>	<b>1,52,163</b>	<b>1,79,717</b>	<b>2,12,282</b>
Operating RoEV	21.0%	21.1%	20.0%	20.7%	20.7%

Source: Company, JM Financial

Key multiples					
Y/E March	FY16	FY17	FY18	FY19E	FY20E
P/EV (times)	8.9	7.4	6.1	5.1	4.3
ROEV	18.7%	24.2%	23.6%	20.7%	20.7%
P/B (times)	29.4	24.0	19.4	16.3	13.7
P/E (times)	112.0	103.4	83.1	70.7	60.6

## APPENDIX I

## JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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