ICICI Prudential Life

BUY

INDUSTRY	INSURANCE
CMP *(as on 23 Oct 2018)*	**Rs 324**
Target Price	**Rs 397**
Nifty	10,147
Sensex	33,847
KEY STOCK DATA	
Bloomberg	IPRU IN
No. of Shares (mn)	1,436
MCap (Rs bn) / ($ mn)	465/6,320
6m avg traded value (Rs mn)	746

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 461/302**
	3M	6M	12M
Absolute (%)	(13.6)	(16.4)	(16.4)
Relative (%)	(5.8)	(14.6)	(20.6)

SHAREHOLDING PATTERN (%)	
Promoters	78.7
FIs & Local MFs	4.4
FPIs	8.9
Public & Others	8.1

Source : BSE

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Steep 2HFY19 APE growth ask

2QFY19 APE growth recovery to 6.1% YoY, and a largely stable protection share at 7.7% (-50bps QoQ) resulted in flat VNB margins of 17.5% in 1HFY19. Cost/TWRP ratio improved as a result of business growth to 15.1% in 2Q (1Q: 17.5% & FY18: 13.6%) but continues to remain high. Growth in business was largely driven by individual/group protection growing 24.3%/50.0% QoQ and ULIP which grew 49.3% QoQ. It was encouraging to see strong growth in individual protection.

Management is confident of being able to absorb higher operating costs through business growth. However we do highlight that the company needs to deliver APE growth of 18.7% QoQ over 3Q and 4Q to achieve our FY19E estimate of 9.5% YoY APE growth.

For 2QFY19, IPRU recorded new business and renewal business premiums of Rs 25.8bn (13.1% YoY) and Rs 51.0bn (+18.1% YoY) respectively. PAT for the 2QFY19 was down 28.5% YoY to Rs 3.0bn due to new business strain, higher costs and lower investment income. We retain our FY19 estimates but note the high APE growth ask. While we continue to like IPRU as it benefits from increasing need of protection, and financialization of savings we are cautious due to high share of ULIP in portfolio and volatile equity market conditions. We maintain BUY with a TP of Rs 397 (Avg. FY20-21E EV + 19.8x Avg. FY20-21E VNB).

- 2QFY19 contribution from ULIP is 83.8% as growth revived.
- Banca at 56.7% (+105bps YoY) and group at 4.1% (+199bps YoY) drove business while contribution declined from corporate agents at 5.1% (-63 bps YoY) and direct at 11.8% (-278bps YoY).
- 13th month persistency was steady at 85.2% for 2QFY19 while 49th month persistency improved to 63.7% in 2QFY19 vs. 60.6% seen in 2QFY18.
- AUM increased 2.4% QoQ to Rs 1.5tn with 47% Equity mix while solvency ratio declined to 234% from 252% at end of FY18 as a result of dividend payments and high new business strain.
- Management has reduced total dividend payout ratio to 40%.
- AUM is up 12.7% YoY to Rs 1.426 tn
- **Near-term outlook**: Stock price to remain sluggish until growth returns or margins improve substantially.

Business Summary

(Rs bn)	2QFY19	2QFY18	*YoY (%)*	1QFY19	*QoQ (%)*	FY18	FY19E	FY20E	FY21E
NBP	25.8	22.8	*13.1*	17.7	*45.7*	92.1	112.1	126.7	145.6
APE	19.8	18.7	*6.1*	14.0	*42.1*	77.9	85.4	95.7	108.4
VNB	NA	NA	*NM*	NA	*NM*	12.9	14.9	16.9	19.4
VNB Margin (%)	17.5	16.5	*98bps*	17.5	*0bps*	16.5	17.5	17.7	17.9
EV						187.9	212.2	240.6	272.6
P/EV (x)						2.5	2.2	1.9	1.7
P/VNB (x)						21.5	16.9	13.2	9.9
ROEV						23.4	17.5	17.4	17.4

Source: Company, HDFC sec Inst Research #Refers to 1HFY19 and FY18 margins respectively

Additional points

- Company participates in the PMJJBY scheme, mainly through ICICI Bank and its experience has largely been positive.
- Surplus in linked segments has not grown as new business strain due to growth is still very high.
- Management stated that ex-economic variances and interim dividend payout EV growth in 1HFY19 has been slightly above 8%. Additionally management stated that variances have been positive indicating that the company was still conservative in its assumptions and would only review assumptions at the end of FY19.
- Management confident of growth recovery in 2HFY19

Five Quarters At A Glance

(Rs Bn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YOY (%)	QoQ (%)
Premium Earned	66.0	68.6	87.3	55.2	76.8	*16.4*	*39.2*
Premium on re-insurance	0.6	0.6	0.7	0.8	0.8	*37.3*	*1.3*
Net premium earned	**65.4**	**68.0**	**86.6**	**54.4**	**76.0**	***16.2***	***39.8***
Investment income	29.8	67.6	-13.7	24.6	13.7	*-54.1*	*-44.4*
Other income	0.2	0.2	0.2	0.2	0.2	*11.8*	*-5.0*
Total Income	**95.4**	**135.7**	**73.1**	**79.2**	**89.9**	***-5.8***	***13.5***
Commission Paid	3.6	3.8	4.5	2.8	4.0	*8.8*	*41.1*
Expenses	6.5	6.8	7.8	7.5	8.3	*28.0*	*10.3*
Tax on policyholder funds	0.2	0.2	0.5	0.3	0.3	*21.7*	*-9.7*
claim/benefits paid	40.7	46.9	45.6	29.4	35.0	*-14.0*	*19.1*
change in actuarial liability	39.9	73.2	11.3	36.4	39.4	*-1.3*	*8.3*
Total outgo	**90.9**	**130.9**	**69.5**	**76.4**	**86.9**	***-4.5***	***13.8***
PBT	**4.5**	**4.8**	**3.6**	**2.8**	**3.0**	***-32.5***	***6.7***
Tax on	0.3	0.3	0.2	0.0	0.0	*-92.9*	*0.0*
PAT	**4.2**	**4.5**	**3.4**	**2.8**	**3.0**	***-28.5***	***6.7***

PAT declined due to new business strain, higher expenses and lower investment income

Business metrics

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YOY (%)	QoQ (%)
New Business Premium (Rs bn)	**22.8**	**23.2**	**29.9**	**17.7**	**25.8**	***13.1***	***45.7***
Product mix on APE basis (Rs bn)							
Individual Savings	**17.7**	**19.1**	**19.8**	**12.6**	**18.1**	***2.6***	***43.4***
PAR	3.0	2.1	2.0	1.4	1.4	*-54.4*	*-0.7*
Non-PAR	0.1	0.1	0.2	0.1	0.1	*116.7*	*0.0*
ULIP	14.6	17.0	17.6	11.1	16.6	*13.7*	*49.3*
Group Savings	**0.3**	**0.1**	**0.2**	**0.2**	**0.2**	***-30.0***	***10.5***
Protection	**0.7**	**0.8**	**2.2**	**1.1**	**1.5**	***108.2***	***33.3***
Individual Protection	0.9	0.7	1.1	0.7	0.9	*8.2*	*24.3*
Group Protection	-0.1	0.1	1.1	0.4	0.6	*-600.0*	*50.0*
Total	**18.7**	**20.1**	**22.1**	**14.0**	**19.8**	***6.2***	***42.1***
Product mix - APE Basis (%)							
Individual Savings	**94.5**	**95.3**	**89.4**	**90.5**	**91.3**	***-321bps***	***81bps***
PAR	15.8	10.2	9.2	9.7	6.8	*-904bps*	*-294bps*
Non-PAR	0.3	0.3	0.9	0.9	0.7	*33bps*	*-28bps*
ULIP	78.3	84.8	79.4	79.8	83.8	*550bps*	*402bps*
Group Savings	**1.6**	**0.7**	**0.8**	**1.4**	**1.1**	***-55bps***	***-30bps***
Protection	**3.9**	**4.0**	**9.8**	**8.2**	**7.7**	***375bps***	***-50bps***
Individual Protection	4.6	3.6	4.8	5.3	4.6	*9bps*	*-66bps*
Group Protection	-0.6	0.3	5.0	2.9	3.0	*367bps*	*16bps*
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		

ULIP growth revived despite more volatile market.

Ind. and group protection APE grew. Group APE was mainly driven by protection mix.

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	*YOY (%)*	*QoQ (%)*
APE (Rs bn)							
Retail APE	18.5	19.9	20.8	13.4	19.0	*2.9*	*42.3*
Group APE	0.2	0.2	1.3	0.6	0.8	*350.0*	*37.3*
Total APE	**18.7**	**20.1**	**22.1**	**14.0**	**19.8**	***6.2***	***42.1***
VNB Margin (%)#	**16.5**	**16.5**	**16.5**	**17.5**	**17.5**	***98bps***	***2bps***
Channel Mix-APE basis (%)							
Bancassurance	53.8	53.5	52.8	55.6	56.7	*5.4*	*1.9*
Agency	24.0	25.0	23.0	21.8	22.3	*-7.0*	*2.4*
Direct	14.6	14.6	11.1	11.8	11.8	*-19.0*	*0.1*
Corporate Agents	5.8	5.6	7.3	6.5	5.1	*-11.0*	*-20.9*
Group	2.1	1.0	5.8	4.4	4.1	*95.9*	*-7.7*
Cost to Total Premium (%)	**14.0**	**13.8**	**12.9**	**17.5**	**15.1**	***111bps***	***-238bps***
Solvency Ratio (%)	276	252	253	235	234	***-4200bps***	***-100bps***
AUM (Rs bn)	**1,306**	**1,383**	**1,395**	**1,427**	**1,461**	***11.9***	***2.4***
Equity (%)	46	48	47	47	47	*2.2*	*0.0*
Debt (%)	54	52	53	53	53	*-1.9*	*0.0*
Linked (%)	71	71	NA	NA	NA	*NA*	*NA*
Non -Linked (%)	29	29	NA	NA	NA	*NA*	*NA*
Persistency ex. single premium and group (%)							
13th month persistency	87.0	NA	87.8	85.8	85.2	*-180bps*	*-60bps*
25th month persistency	74.3	NA	78.8	77.8	77.8	*350bps*	*0bps*
37th month persistency	68.2	NA	68.9	68.2	68.3	*10bps*	*10bps*
49th month persistency	60.6	NA	63.6	63.7	63.7	*310bps*	*0bps*
61st month persistency	55.6	NA	54.8	54.0	54.8	*-80bps*	*80bps*

#Refers to 1HFY19 and FY18 margins respectively
Source: Company, HDFC sec Inst Research

Group APE driven by credit protect

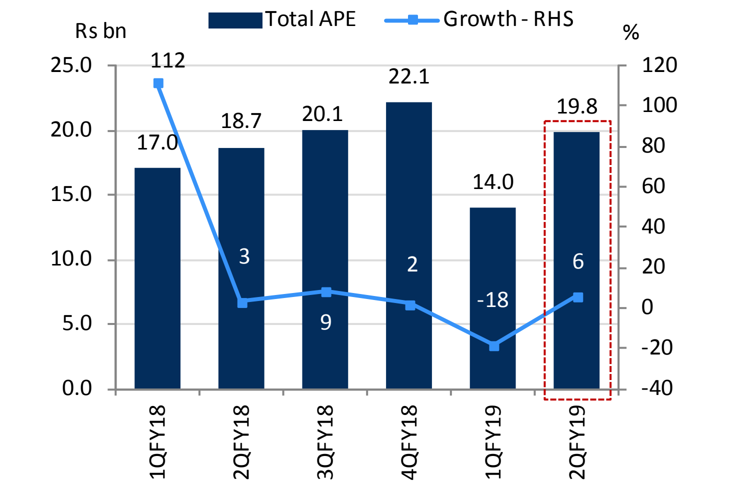
Growth revival seen in banca channel.

APE growth recovered at 6.1% YoY !

Protection business share stable at 7.7% (-50 bps QoQ).

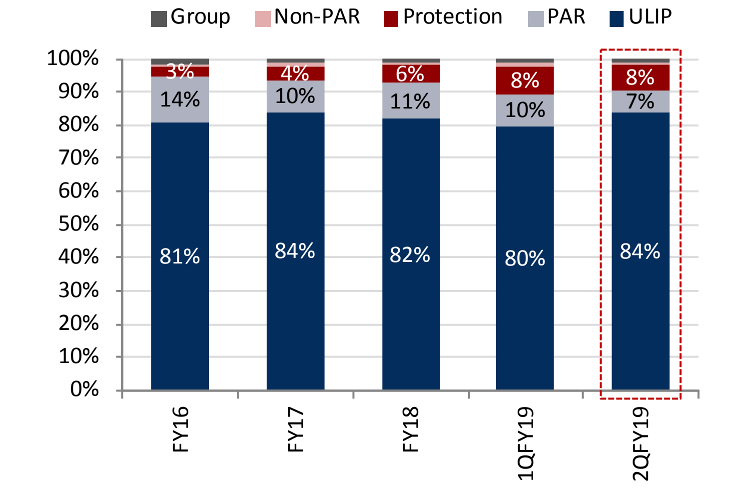
Despite sluggish APE growth and higher expenses, VNB margins have seen 100bps improvement in 1HFY19.

APE trend



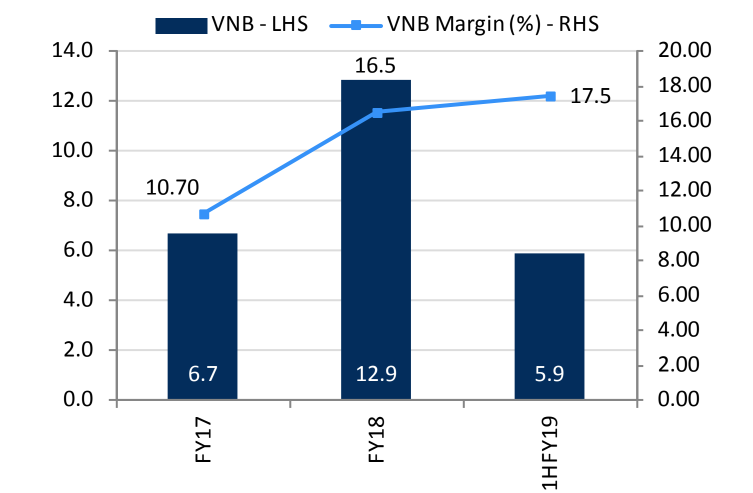
Source: Company, HDFC sec Inst Research

Product Mix On APE



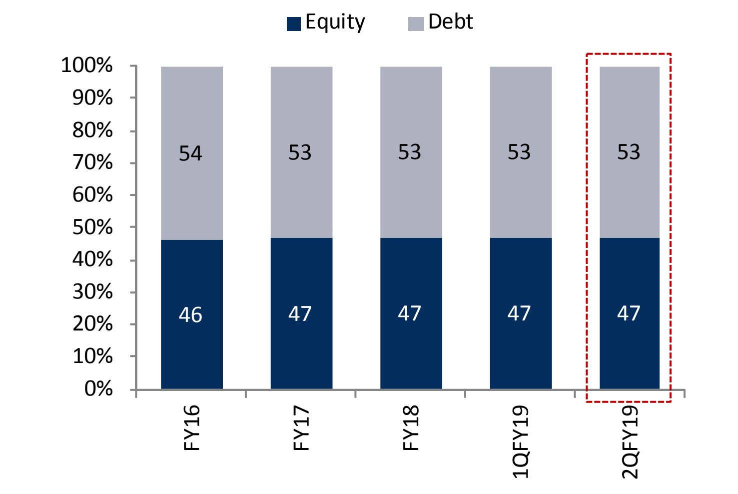
Source: Company, HDFC sec Inst Research

VNB Trend



Source: Company, HDFC sec Inst Research

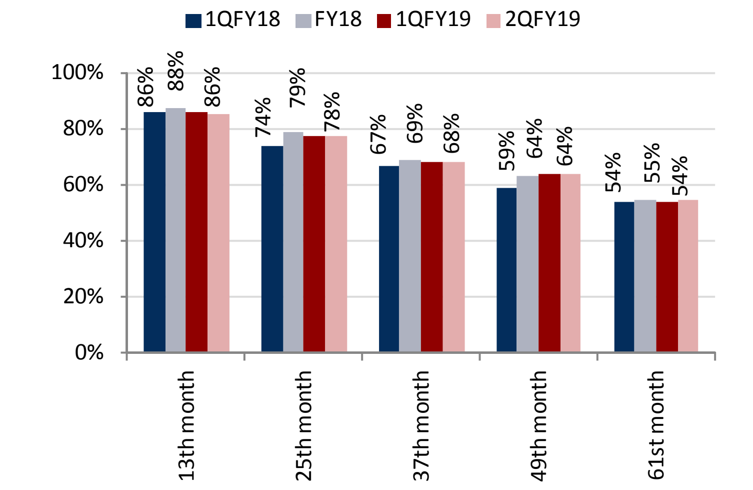
AUM Mix



Source: Company, HDFC sec Inst Research

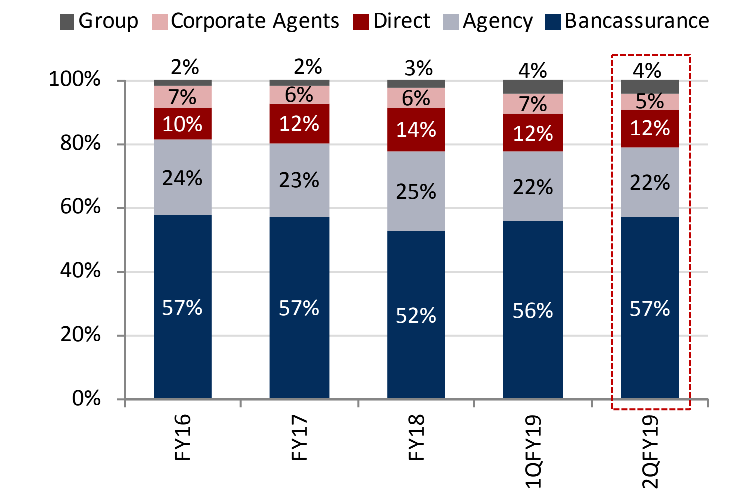
Persistency levels were largely stable.

Persistency Trend



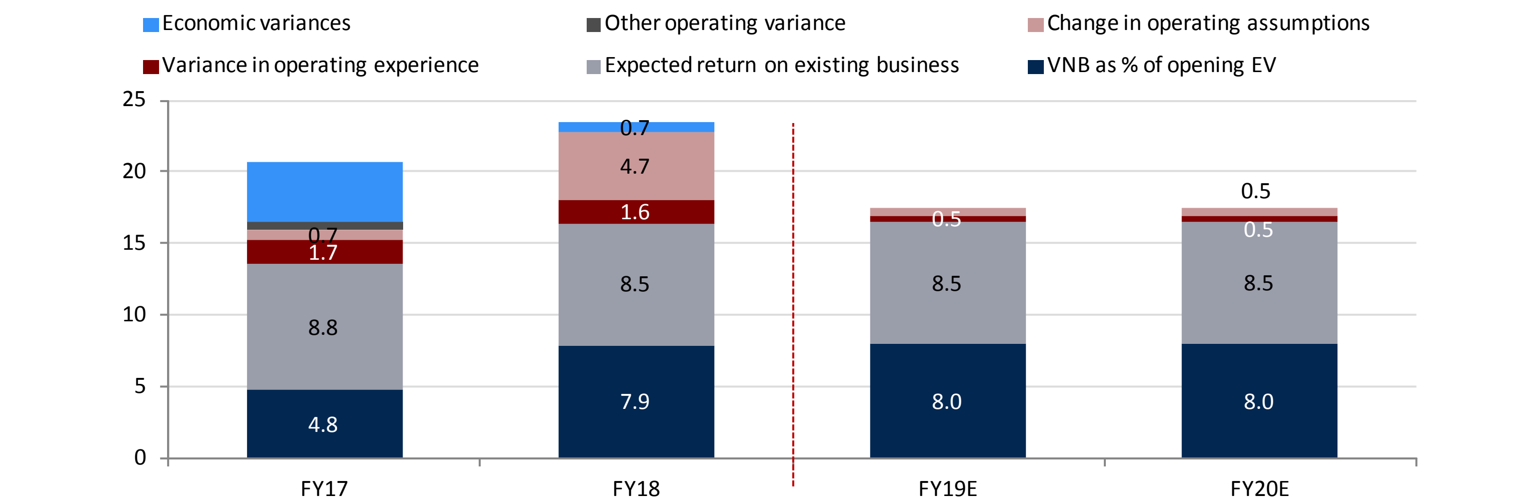
Source: Company, HDFC sec Inst Research

Channel Mix On APE



Source: Company, HDFC sec Inst Research

RoEV stack-up



Source: Company, HDFC sec Inst Research

Industry NBP data

Particulars	Individual (Rs bn)					Group (Rs bn)					Total (Rs bn)				
	FY16	FY17	FY18	1HFY19	*YOY (%)*	FY16	FY17	FY18	1HFY19	*YOY (%)*	FY16	FY17	FY18	1HFY19	*YOY (%)*
Aditya Birla Sun Life	7.1	9.6	11.5	6.3	*66.9*	15.1	15.7	15.1	10.5	*42.0*	22.2	25.3	26.6	16.7	*50.4*
Bajaj Allianz Life	8.9	10.7	14.6	6.6	*12.0*	19.9	22.2	28.4	12.8	*-6.6*	28.8	32.9	42.9	19.3	*-1.0*
Bharti Axa Life	3.6	4.0	4.7	2.6	*70.4*	1.8	2.1	2.6	1.3	*25.4*	5.4	6.1	7.3	4.0	*52.0*
DHFL Pramerica Life	1.8	2.2	3.6	1.8	*29.5*	5.4	6.6	10.9	6.0	*20.1*	7.2	8.8	14.5	7.8	*22.2*
HDFC Standard Life	36.6	42.0	59.4	30.9	*50.2*	28.3	45.0	54.0	32.0	*36.7*	64.9	87.0	113.4	62.9	*43.1*
ICICI Prudential Life	**53.6**	**69.8**	**84.0**	**36.0**	***-5.6***	**14.1**	**8.9**	**7.2**	**6.7**	***54.0***	**67.7**	**78.6**	**91.3**	**42.8**	***0.5***
Kotak Mahindra Life	10.6	14.4	19.7	6.5	*7.6*	11.5	14.1	14.5	8.3	*42.1*	22.1	28.5	34.3	14.8	*24.5*
Max Life	26.1	33.1	39.8	17.2	*21.2*	2.7	3.6	3.6	1.8	*23.4*	28.8	36.7	43.5	19.1	*21.4*
SBI Life	**49.8**	**64.7**	**84.1**	**37.2**	***11.7***	**21.3**	**36.8**	**25.6**	**18.5**	***93.8***	**71.1**	**101.5**	**109.7**	**55.7**	***30.0***
Tata AIA Life	6.1	10.5	14.0	7.4	*53.1*	1.3	0.8	0.9	0.5	*90.0*	7.4	11.3	14.9	7.8	*55.0*
LIC	327.9	455.9	517.4	204	*-3.2*	648.9	788.1	828.1	431	*-8.6*	976.7	1,244.0	1,345.5	635	*-7.0*
Industry total*	**582.8**	**776.8**	**921.1**	**386**	***5.2***	**803.6**	**974.1**	**1,017.8**	**545**	***-1.6***	**1,386.5**	**1,750.9**	**1,938.9**	**931**	***1.1***

Source: IRDAI data, HDFC sec Inst Research * Total will not add up since we have excluded smaller sized private players

Market share on NBP basis (%)

Particulars	Individual					Group				
	FY16	FY17	FY18	1HFY19	*YOY (bps)*	FY16	FY17	FY18	1HFY19	*YOY (bps)*
Aditya Birla Sun Life	2.9	3.0	2.9	3.4	*104*	8.0	8.5	8.0	9.2	*24*
Bajaj Allianz Life	3.6	3.3	3.6	3.6	*-14*	14.9	12.0	14.9	11.2	*-539*
Bharti Axa Life	1.2	1.3	1.2	1.4	*46*	1.4	1.1	1.4	1.2	*-12*
DHFL Pramerica Life	0.9	0.7	0.9	1.0	*10*	5.7	3.5	5.7	5.3	*-80*
HDFC Standard Life	14.7	13.1	14.7	17.0	*382*	28.5	24.2	28.5	28.0	*-34*
ICICI Prudential Life	**20.8**	**21.7**	**20.8**	**19.8**	***-462***	**3.8**	**4.8**	**3.8**	**5.9**	***60***
Kotak Mahindra Life	4.9	4.5	4.9	3.6	*-30*	7.7	7.6	7.7	7.3	*19*
Max Life	9.9	10.3	9.9	9.5	*37*	1.9	1.9	1.9	1.6	*-20*
SBI Life	20.8	20.2	20.8	20.4	*-88*	13.5	19.8	13.5	16.3	*465*
Tata AIA Life	3.5	3.3	3.5	4.0	*97*	0.5	0.4	0.5	0.4	*11*
Private players*	**43.8**	**41.3**	**43.8**	**47.2**	***458.2***	**18.6**	**19.1**	**18.6**	**20.9**	***604.6***
LIC	56.2	58.7	56.2	52.8	*-458.2*	81.4	80.9	81.4	79.1	*-604.6*
Industry	**100**	**100**	**100**	**100**	***0***	**100**	**100**	**100**	**100**	***0***

Source: IRDAI data, HDFC sec Inst Research * Total private insurers' market share with respect to total market, whereas individual private insurers market share is with respect to total private market.

Valuation Comps

	Unit												
Bloomberg Ticker		IPRU			MAXF			SBILIFE			HDFCLIFE		
Rating		BUY			BUY			BUY			Not Rated		
Current market price	Rs	323			378			579			359		
Market Capitalisation	Rs bn	464			101			579			723		
Target price	Rs	397			576			735			NA		
Upside/(Downside)	%	23			52			27			NA		

Profitablity		**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**
VNB Margin	%	17.5	17.7	17.9	20.4	20.6	20.7	19.4	19.6	19.7	24.2	25.0	25.0
Total RoEV	%	17.5	17.4	17.4	20.3	20.4	20.4	17.3	19.8	19.2	20.1	20.3	19.9
Operating RoEV	%	17.5	17.4	17.4	20.3	20.4	20.4	17.3	19.8	19.2	20.1	20.3	19.9
Non-operating RoEV	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RoE	%	24.6	22.0	22.5	25.7	25.5	25.3	20.1	20.3	20.5	22.2	22.4	23.2

Valuation at CMP		**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**
P/EV	x	2.2	1.9	1.7	1.7	1.5	1.3	2.5	2.1	1.8	4.0	3.4	2.8
P/EVOP	x	14.1	12.5	11.1	11.4	9.9	8.7	16.5	12.5	10.8	23.6	19.7	16.6
Implied P/VNB	x	16.9	13.2	9.9	18.1	14.7	11.9	18.2	13.9	10.2	34.0	25.9	19.6
Implied P/VIF	x	3.5	3.1	2.7	3.2	2.8	2.4	4.3	3.7	3.1	6.0	5.2	4.4
P/B	x	6.2	5.6	5.0	4.2	3.5	3.0	7.7	6.5	5.5	13.1	11.2	9.5
P/E	x	26.9	26.8	23.5	18.9	16.2	13.7	41.5	34.7	29.0	63.8	53.8	44.4
P/AUM	x	0.3	0.2	0.2	0.2	0.2	0.2	0.4	0.3	0.3	0.6	0.5	0.4

Valuation at TP		**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**
P/EV	x	2.7	2.4	2.1	2.6	2.3	2.0	3.1	2.6	2.2	NA	NA	NA
P/EVOP	x	17.3	15.4	13.6	17.4	15.1	13.2	21.0	15.8	13.8	NA	NA	NA
Implied P/VNB	x	23.9	19.4	15.3	30.8	25.5	21.3	26.5	21.2	16.6	NA	NA	NA
Implied P/VIF	x	4.3	3.8	3.3	4.9	4.2	3.7	5.4	4.6	4.0	NA	NA	NA
P/B	x	7.7	6.9	6.1	6.4	5.4	4.5	9.8	8.3	7.0	NA	NA	NA
P/E	x	33.0	32.9	28.8	28.9	24.7	20.9	52.7	44.1	36.8	NA	NA	NA
P/AUM	x	0.4	0.3	0.3	0.2	0.1	0.1	0.5	0.4	0.4	NA	NA	NA

Bloomberg Ticker		IPRU			MAXF			SBILIFE			HDFCLIFE		
Per Share data		**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**
EV	Rs	148	168	190	222	255	294	234	278	328	90	107	128
EVOP	Rs	23	26	29	39	45	52	35	46	53	15	18	22
VNB	Rs	10	12	14	20	23	27	19	22	25	8	10	12
VIF	Rs	93	106	120	151	175	202	136	158	184	59	69	81
Book Value	Rs	52	58	65	90	107	128	75	89	106	27	32	38
Earnings	Rs	12	12	14	20	23	28	14	17	20	6	7	8
AUM	Rs	1,123	1,305	1,514	1,644	1,916	2,232	1,401	1,707	2,065	627	744	882
ANW	Rs	55	62	70	102	115	132	87	108	133	30	38	47

Key parameters		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
APE	Rs bn	85	96	108	38	44	50	97	110	125	66	78	92
VNB	Rs bn	15	17	19	8	9	10	19	22	25	16	20	24
Total EVOP	Rs bn	33	37	42	15	17	20	35	46	53	31	37	43
Operating EVOP	Rs bn	33	37	42	15	17	20	35	46	53	31	37	43
Non- operating EVOP	Rs bn	0	0	0	0	0	0	0	0	0	0	0	0
EV	Rs bn	212	241	273	85	98	113	234	278	328	181	215	256
Net worth	Rs bn	74	83	93	35	41	49	75	89	106	55	65	76
Net Profit	Rs bn	17	17	20	8	9	11	14	17	20	11	13	16
AUM		1,611	1,874	2,173	630	735	856	1,401	1,707	2,065	1,261	1,496	1,773

Growth YOY		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
APE	%	9.5	12.1	13.3	16.0	16.0	15.0	14.0	13.2	13.2	22.0	19.0	17.0
VNB	%	16.2	13.4	14.5	17.2	16.9	15.9	20.3	14.4	13.8	24.5	22.9	21.4
Total EVOP	%	(13.2)	12.4	13.2	16.5	15.2	15.0	11.8	32.5	15.1	4.0	19.9	17.1
Operating EVOP	%	(10.5)	12.4	13.2	16.5	15.2	15.0	11.8	32.5	15.1	14.1	19.9	17.1
Non- operating EVOP	%	(100.0)	NM	NM	(100.0)	NM	NM	(100.0)	NM	NM	(100.0)	NM	NM
EV	%	13.0	13.4	13.3	14.5	14.8	15.1	16.1	18.6	18.0	18.8	19.2	19.0
Net worth	%	13.1	11.6	11.9	18.9	19.1	19.3	18.1	18.3	18.5	17.1	17.2	17.8
Net Profit	%	6.2	0.5	14.1	28.7	17.1	17.9	21.2	19.6	19.7	3.3	18.5	21.3
AUM	%	15.5	16.3	16.0	20.7	16.5	16.5	20.5	21.9	21.0	18.3	18.6	18.5

		IPRU			MAXF			SBILIFE			HDFCLIFE		
APE mix		**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
Individual	Rs bn	49.7	65.2	75.8	21.0	26.4	32.2	44.9	60.2	77.9	34.3	37.4	48.9
Group	Rs bn	1.4	1.1	2.1	0.1	0.2	0.3	3.9	5.8	7.5	1.9	3.5	6.3
APE (Rs bn)	**Rs bn**	**51.1**	**66.3**	**77.9**	**21.1**	**26.6**	**32.5**	**48.8**	**66.0**	**85.4**	**36.2**	**40.9**	**55.2**
YoY Growth (%)	%		29.7	17.6		25.7	22.2		35.4	29.3		13.0	35.1
CAGR 3 years (%)	%			18.8			17.7			34.0			20.1
CAGR 5 years (%)	%			12.9			NA			24.3			11.2
Business mix- product wise		***Total APE**	***Total APE**	***Total APE**	*** Total APE**	*** Total APE**	*** Total APE**	*** Ind NBP**	*** Ind NBP**	*** Ind NBP**	*** Ind APE**	*** Ind APE**	*** Ind APE**
PAR	%	13.2	9.6	10.9	58.0	54.0	43.0	29.0	17.0	24.0	30.0	34.0	29.0
Non-PAR	%	0.6	1.1	0.5	9.0	9.0	8.0	7.0	4.0	3.0	14.0	13.0	14.0
ULIP	%	83.1	84.1	81.9	27.0	30.0	41.0	64.0	79.0	73.0	56.0	53.0	57.0
Pure Protection	%	1.6	3.9	5.7	6.0	7.0	8.0	-	-	-	-	-	-
Group	%	1.5	1.3	1.0	-	-	-	-	-	-	-	-	-
Total	**%**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Channel mix (Overall)		***Total APE**	***Total APE**	***Total APE**	*** Ind APE**	*** Ind APE**	*** Ind APE**	***NBP**	***NBP**	***NBP**	*** Total NBP**	*** Total NBP**	*** Total NBP**
Bancassurance	%	58.4	57.3	52.3	67.0	70.0	72.0	60.3	53.0	62.0	43.0	52.0	48.0
Agency	%	24.4	23.8	25.4	32.0	29.0	27.0	24.9	22.0	25.0	40.0	32.0	33.0
Direct	%	8.6	9.8	13.5	-	-	-	-	-	-	7.0	7.0	10.0
Brokers and others	%	8.6	9.1	8.8	1.0	1.0	1.0	14.8	25.0	13.0	10.0	9.0	9.0
Total	**%**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company financials and disclosures, HDFC sec Inst Research

Banca channel partners		ICICIB and SCB			AXIS, YES, LVB			SBI, P&SB, SIB			HDFCB, RBL, IDFCB, BFL		
AUM		**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
AUM	Rs bn	1,039.4	1,229.2	1,395.3	358.2	443.7	522.4	798.3	977.4	1,163.0	742.3	917.4	1,066.0
Equity	%	46.8	46.8	47.0	29.0	24.0	22.0	22.5	23.2	23.0	39.0	59.0	61.0
Debt	%	53.2	53.2	53.0	71.0	76.0	78.0	77.5	76.8	77.0	61.0	41.0	39.0
Linked	%	72.4	71.5	69.9	37.0	35.0	33.0	55.0	54.0	53.0	62.0	52.0	57.0
Non-linked	%	27.6	28.5	30.1	63.0	65.0	67.0	45.0	46.0	47.0	38.0	48.0	43.0
Solvency ratio	**%**												
Solvency		320.0	281.0	252.0	343.0	309.0	275.0	212.0	204.0	206.0	198.4	191.6	191.5
Market Share	**%**												
Ind. NBP Private Market Share	%	20.8	21.7	20.8	9.9	10.3	9.9	20.8	20.2	20.8	14.7	13.1	14.7
Ind. APE Private Market Share	%	21.9	22.3	20.9	9.3	9.2	9.0	18.8	20.7	21.8	14.7	12.7	13.3
VNB Margin	**%**												
Margin	%	8.1	10.1	16.5	17.9	18.2	20.2	14.3	15.7	16.3	19.9	22.3	23.2
Persistency	**%**												
13th month	%	82.4	82.4	82.4	78.8	80.4	81.4	80.7	81.1	83.0	78.9	80.9	87.0
25th month	%	71.2	73.9	78.8	66.6	70.4	71.4	73.2	73.9	75.2	67.4	73.3	77.0
37th month	%	61.6	66.8	68.9	58.0	59.7	59.9	69.2	67.4	70.0	60.1	63.9	71.0
49th month	%	62.2	59.3	63.6	55.6	54.9	55.1	76.9	62.5	63.9	63.4	58.3	62.0
61th month	%	46.0	56.2	54.8	42.7	53.0	53.2	53.8	67.2	58.4	50.1	56.8	51.0

Source: Company financials and disclosures, HDFC sec Inst Research

Performance metics,growth and ratios

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Performance metrics (Rs mn)					
NBP	78,633	92,118	112,078	126,715	145,599
APE	66,250	77,920	85,358	95,720	108,405
VNB	6,660	12,860	14,938	16,942	19,404
EV	161,840	187,880	212,214	240,582	272,607
EVOP	22,950	36,800	32,931	37,007	41,884
Rs/share					
EPS	11.9	11.3	12.0	12.1	13.8
BV	42.7	45.8	51.8	57.8	64.7
DPS	3.2	2.8	5.0	5.0	5.7
Growth (%)					
Premium growth	16.6	41.1	25.2	14.1	16.2
Total income growth	83.9	2.8	25.1	14.9	15.5
Commissions growth	22.4	126.3	15.4	12.3	13.7
Opex growth	24.8	7.5	69.5	13.0	14.5
PAT growth	3.4	(1.8)	6.2	0.5	14.1
Performance metrics growth (%)					
NBP	16.2	17.1	21.7	13.1	14.9
APE	29.7	17.6	9.5	12.1	13.3
VNB	61.5	93.1	16.2	13.4	14.5
EV	16.1	16.1	13.0	13.4	13.3
EVOP	8.3	60.3	(10.5)	12.4	13.2
EPS	3.1	(5.0)	6.2	0.5	14.1
BV	20.7	7.2	13.1	11.6	11.9
DPS	(49.1)	(11.6)	76.2	0.5	14.1
Expense ratios (%)					
Commissions/premium	3.4	5.2	4.8	4.7	4.6
Opex/premium	10.6	7.6	10.3	10.2	10.0
Total expenses/premium	14.1	12.8	15.1	14.9	14.7
Effeciency ratios (%)					
RoAA	1.5	1.3	1.2	1.0	1.0
RoE	30.5	27.9	24.6	22.0	22.5
ROEV return	20.6	23.4	17.5	17.4	17.4
Operating RoEV	16.5	22.7	17.5	17.4	17.4
Non-operating RoEV	4.2	0.7	-	-	-

Source: Company, HDFC sec Inst Research

Profit and Loss Account

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Policyholder Account					
Total premium earned	221,552	268,107	335,608	382,990	444,951
Income from investments and other income	150,360	113,315	142,353	165,953	189,191
Transfer from shareholders account	18	753	-	-	-
Total income	**371,930**	**382,174**	**477,961**	**548,943**	**634,142**
Commission	7,589	14,033	16,200	18,191	20,683
Operating expenses	23,572	20,299	34,407	38,886	44,516
Provisions	61	31	32	32	33
Total expenses	**31,222**	**34,363**	**50,639**	**57,109**	**65,231**
Benefits paid	149,979	172,808	189,647	219,823	258,023
Change in valuation of liabilities	174,976	154,475	218,640	252,920	289,122
Total	**324,954**	**327,283**	**408,287**	**472,743**	**547,145**
Surplus	**15,754**	**20,529**	**19,036**	**19,091**	**21,766**
Tax	788	1,201	783	833	986
Net surplus	**14,966**	**19,328**	**18,252**	**18,258**	**20,779**
Transfer to shareholders account	**11,315**	**10,892**	**11,044**	**10,421**	**12,342**

Shareholders account (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Transfer from policyholders' a/c	11,315	10,892	11,044	10,421	12,342
Investment income	6,955	7,469	7,797	8,543	9,271
Other income	285	50	50	50	50
Total income	**18,555**	**18,412**	**18,892**	**19,014**	**21,663**
Expenses	409	420	451	485	522
Contribution to policyholders' a/c	18	753	-	-	-
Profit before tax	**18,128**	**17,239**	**18,440**	**18,529**	**21,141**
Taxes	1,028	997	1,195	1,201	1,371
PAT	**17,101**	**16,242**	**17,245**	**17,328**	**19,770**

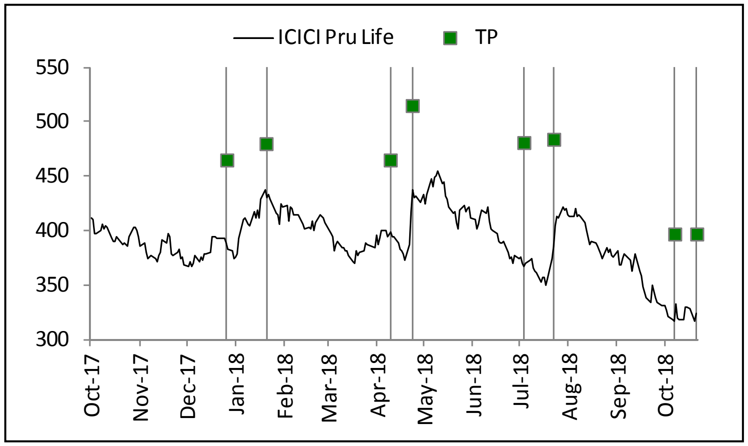
Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18E	FY19E	FY20E	FY21E
Source					
Share capital	14,353	14,355	14,355	14,355	14,355
Reserve and surplus	46,976	51,382	59,979	68,618	78,478
Net worth	**61,329**	**65,737**	**74,334**	**82,973**	**92,833**
Credit/debit balance in fair value a/c	2,731	3,081	3,081	3,081	3,081
Policyholders' a/c	1,148,941	1,306,111	1,524,751	1,777,671	2,066,793
Funds for future appropriation	6,042	8,782	9,001	9,226	9,457
Total Liabilities	**1,219,043**	**1,383,710**	**1,611,167**	**1,872,951**	**2,172,163**
Application					
Shareholders' Investments	66,349	77,466	84,926	94,088	104,493
Policyholders' investments	270,674	332,889	-	-	-
Asset to cover linked liabilities	878,783	975,020	1,526,548	1,779,468	2,068,590
Loans	806	1,451	1,451	1,451	1,451
Fixed assets + DTA	2,138	4,221	4,221	4,221	4,221
Net current assets	291	(7,336)	(5,979)	(6,278)	(6,591)
Debit balance in P&L	-	-	-	-	-
Total Assets	**1,219,042**	**1,383,710**	**1,611,167**	**1,872,951**	**2,172,163**

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-Dec-17	390	BUY	465
22-Jan-18	430	BUY	480
10-Apr-18	397	BUY	465
25-Apr-18	418	BUY	515
6-Jul-18	367	BUY	481
25-Jul-18	386	BUY	484
9-Oct-18	316	BUY	397
24-Oct-18	324	BUY	397

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Madhukar Ladha, CA & Keshav Binani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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