ICICI Prudential Life

BUY

INDUSTRY		INSURANCE
CMP *(as on 22 Jan 2019)*		Rs 345
Target Price		Rs 380
Nifty		10,923
Sensex		36,445
KEY STOCK DATA		
Bloomberg		IPRU IN
No. of Shares (mn)		1,436
MCap (Rs bn) / ($ mn)		495/6,938
6m avg traded value (Rs mn)		528

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 461/301**
	3M	6M	12M
Absolute (%)	9.0	(3.0)	(21.2)
Relative (%)	2.2	(2.9)	(23.0)

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

Source : BSE

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Margins decline on lower topline

9MFY19 VNB margins declined to 17.0% (-50bps vs. 1HFY19 and +50bps vs. FY18) on account of 9MFY19 APE decline of 4.2% YoY to Rs 53.4bn. Management stated that margins declined despite costs being within budget due to unexpected APE decline (2.1% YoY) in 3QFY19. This resulted in 9MFY19 cost/TWRP ratio increasing to 15.4% (+140bps YoY). We had highlighted high margin and growth expectations in our 1Q and 2Q earnings releases.

Driven by group protection (mainly credit protect), total protection mix for 3QFY19 improved to 9.9% as savings product sales remained subdued. Management stated that it was seeing a slowdown in higher ticket size ULIP sales as HNI customers had turned weary of the market and are taking longer to commit funds. <u>Volatile markets remain a key risk for IPRU given high share of ULIP in sales mix.</u>

While we like IPRU as it benefits from increasing need of protection, and financialisation of savings, we are cautious due to high share of ULIP in portfolio and volatile equity market conditions. Given growth pangs, and miss in margins we reduce our FY19E/20E/21E VNB estimates by 2.3/1.7/1.7%. We maintain BUY with a lowered TP of Rs 380 (FY20 EV + 18.2x FY21E VNB).

Highlights of the quarter

- 3QFY19 contribution from ULIP reduced to 78.9% while PAR increased to 8.8%. IPRU is not reporting Ind. Protection APE from 3QFY19.
- Channel mix on APE basis was Banca/agency/direct/corporate agents/group was at 57/20.5/11.3/5.4/5.6% of total APE.
- IPRU also stated that it was now also diversifying savings product sales to mass affluent segment to grow and de-risk. The monthly ULIP product is an attempt to increase options and make premium payment more comfortable in volatile times.
- AUM increased 8.4/2.6% YoY/QoQ to Rs 1.5tn with 47% Equity mix while solvency ratio declined to 224% as a result of new business strain on NPAR annuity and protection business.
- **Near-term outlook**: Stock price to remain sluggish until growth returns or margins improve substantially.

Business Summary

(Rs bn)	3QFY19	3QFY18	*YoY (%)*	2QFY19	*QoQ (%)*	FY18	FY19E	FY20E	FY21E
NBP	25.6	23.2	*10.4*	25.8	*-0.8*	92.1	98.3	111.1	127.8
APE	19.6	20.1	*-2.1*	19.9	*-1.2*	77.9	74.0	83.0	94.1
VNB	NA	NA	*NM*	NA	*NM*	12.9	12.7	14.4	16.6
VNB Margin (%)	17.0	16.5 #	*50bps*	17.5#	*-50bps*	16.5	17.1	17.4	17.6
EV						187.9	210.1	236.4	266.2
P/EV (x)						2.6	2.4	2.1	1.9
P/VNB (x)						23.8	22.4	17.8	13.8
ROEV						23.4	16.3	16.3	16.4

Source: Company, HDFC sec Inst Research #Refers to FYTD margins until respective period

Additional points:

- For 3QFY19, IPRU recorded new business and renewal business premiums of Rs 25.6bn (10.4% YoY) and Rs 51.0bn (+10.3% YoY) respectively.
- PAT for the 3QFY19 was down 34.3% YoY to Rs 3.0bn due to new business strain, higher costs and lower investment income.
- 13th/25th/49th month persistency dipped slightly on QoQ basis to 84.1/76.7/63.2%. Management stated that it was seeing lower persistency in high ticket ULIPs.
- As per SEBI rules, company needs to increase its public shareholding to at least 25% within 3 years from listing; thus additional supply of 3.7% until Sep 2019 is expected.

Five Quarters at a Glance

(Rs Bn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YOY (%)	QoQ (%)
Premium earned	68.6	87.3	55.2	76.8	75.7	*10.4*	*-1.5*
Premium on re-insurance	0.6	0.7	0.8	0.8	0.8	*36.1*	*2.5*
Net premium earned	**68.0**	**86.6**	**54.4**	**76.0**	**74.8**	***10.1***	***-1.6***
Investment income	67.6	-13.7	24.6	13.7	11.9	*-82.5*	*-13.4*
Other income	0.2	0.2	0.2	0.2	0.2	*11.1*	*5.3*
Total income	**135.7**	**73.1**	**79.2**	**89.9**	**86.9**	***-36.0***	***-3.3***
Commission paid	3.8	4.5	2.8	4.0	3.7	*-2.7*	*-7.1*
Expenses	6.8	7.8	7.5	8.3	7.4	*8.9*	*-10.0*
Tax on policyholder funds	0.2	0.5	0.3	0.3	0.3	*20.8*	*3.6*
Claim/benefits paid	46.9	45.6	29.4	35.0	33.3	*-29.0*	*-5.0*
Change in actuarial liability	73.2	11.3	36.4	39.4	39.3	*-46.4*	*-0.2*
Total expenses	**130.9**	**69.5**	**76.4**	**86.9**	**83.9**	***-35.9***	***-3.4***
Profit before tax	**4.8**	**3.6**	**2.8**	**3.0**	**3.0**	***-38.0***	***-1.7***
Tax	0.3	0.2	0.0	0.0	0.0	*-96.6*	*-50.0*
Profit after tax	**4.5**	**3.4**	**2.8**	**3.0**	**3.0**	***-34.3***	***-1.3***

Source: Company, HDFC sec Inst Research

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

Business metrics

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YOY (%)	QoQ (%)
New Business Premium (Rs bn)	**23.2**	**29.9**	**17.7**	**25.8**	**25.6**	***10.4***	***-0.8***
Product mix on APE basis (Rs bn)							
Individual Savings	**19.1**	**19.8**	**12.6**	**18.1**	**17.4**	***-9.3***	***-4.2***
PAR	2.1	2.0	1.4	1.4	1.7	*-16.1*	*27.4*
Non-PAR	0.1	0.2	0.1	0.1	0.2	*150.0*	*15.4*
ULIP	17.0	17.6	11.1	16.6	15.5	*-9.0*	*-6.9*
Group Savings	**0.1**	**0.2**	**0.2**	**0.2**	**0.3**	***135.7***	***57.1***
Protection	**0.8**	**2.2**	**1.1**	**1.5**	**2.0**	***143.8***	***28.3***
Individual Protection	0.7	1.1	0.7	0.9	NA	*NM*	*NM*
Group Protection	0.1	1.1	0.4	0.6	NA	*NM*	*NM*
Total	**20.1**	**22.1**	**14.0**	**19.8**	**19.6**	***-2.1***	***-1.1***
Product mix - APE Basis (%)							
Individual Savings	**95.3**	**89.4**	**90.5**	**91.3**	**88.4**	***-693bps***	***-290bps***
PAR	10.2	9.2	9.7	6.8	8.8	*-146bps*	*196bps*
Non-PAR	0.3	0.9	0.9	0.7	0.8	*47bps*	*11bps*
ULIP	84.8	79.4	79.8	83.8	78.9	*-594bps*	*-496bps*
Group Savings	**0.7**	**0.8**	**1.4**	**1.1**	**1.7**	***98bps***	***62bps***
Protection	**4.0**	**9.8**	**8.2**	**7.7**	**9.9**	***595bps***	***227bps***
Individual Protection	3.6	4.8	5.3	4.5	NA	*NA*	*NA*
Group Protection	0.3	5.0	2.9	3.1	NA	*NA*	*NA*
Total	**100**	**100**	**100**	**100**	**100**		

ULIP growth suffered due to volatile market.

Driven by credit protect, protection APE grew to 1.4x YoY to Rs 2bn.

Protection mix improved to 9.9%; management has stopped reporting split between individual and group.

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	*YOY (%)*	*QoQ (%)*
APE (Rs bn)							
Retail APE	19.9	20.8	13.4	19.0	NA	*NA*	*NA*
Group APE	0.2	1.3	0.6	0.8	NA	*NA*	*NA*
Total APE	**20.1**	**22.1**	**14.0**	**19.8**	**19.6**	***-2.1***	***-1.1***
VNB Margin (%)#	**16.5**	**16.5**	**17.5**	**17.5**	**17.0**	***50bps***	***-48bps***
Channel Mix-APE basis (%)							
Bancassurance	53.5	52.8	55.6	56.6	57.0	*6.5*	*0.7*
Agency	25.0	23.0	21.8	22.3	20.5	*-18.2*	*-8.3*
Direct	14.6	11.1	11.8	11.8	11.3	*-23.1*	*-4.6*
Corporate Agents	5.6	7.3	6.5	5.1	5.4	*-3.2*	*5.7*
Group	1.0	5.8	4.4	4.1	5.6	*439.5*	*37.0*
Cost to Total Premium (%)	**13.8**	**12.9**	**17.5**	**15.1**	**12.0**	***-182bps***	***-312bps***
Solvency Ratio (%)	252	253	235	234	224	***-2720bps***	***-970bps***
AUM (Rs bn)	**1,383**	**1,395**	**1,427**	**1,461**	**1,500**	***8.4***	***2.6***
Equity (%)	48	47	47	47	47	-	-
Debt (%)	52	53	53	53	53	-	-
Linked (%)	71	NA	NA	NA	NA	*NA*	*NA*
Non -Linked (%)	29	NA	NA	NA	NA	*NA*	*NA*
Persistency ex. single premium and group (%)							
13th month persistency	NA	87.8	85.8	85.2	84.1	*NA*	*-110bps*
25th month persistency	NA	78.8	77.8	77.8	76.7	*NA*	*-110bps*
37th month persistency	NA	68.9	68.2	68.3	68.7	*NA*	*40bps*
49th month persistency	NA	63.6	63.7	63.7	63.2	*NA*	*-50bps*
61st month persistency	NA	54.8	54.0	54.8	55.6	*NA*	*80bps*

#Refers to 1HFY19 and FY18 margins respectively

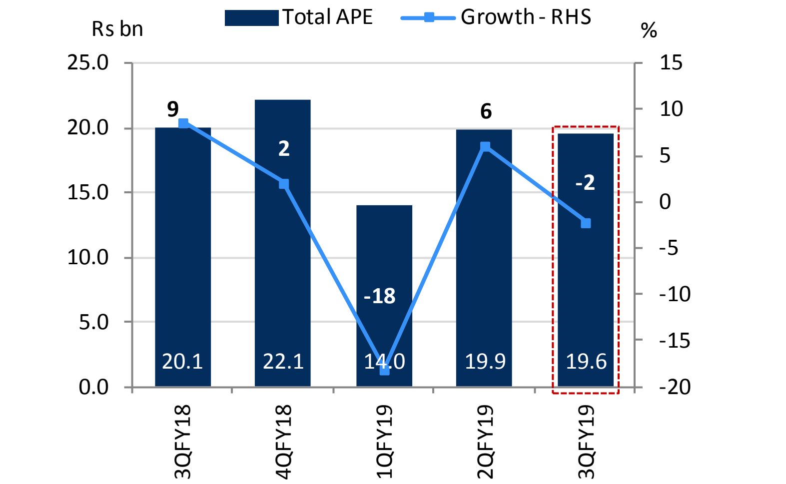
Source: Company, HDFC sec Inst Research

Growth revival seen in banca channel.

APE decreased 2% YoY.

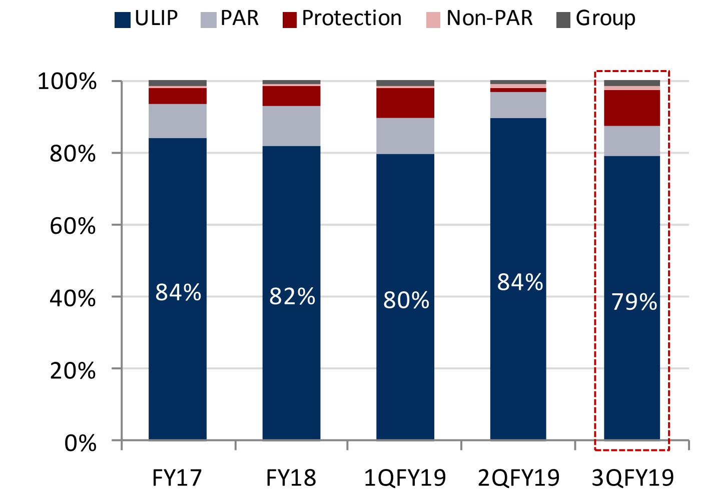
Protection business share improved to 9.9% (+227 bps QoQ).

APE trend



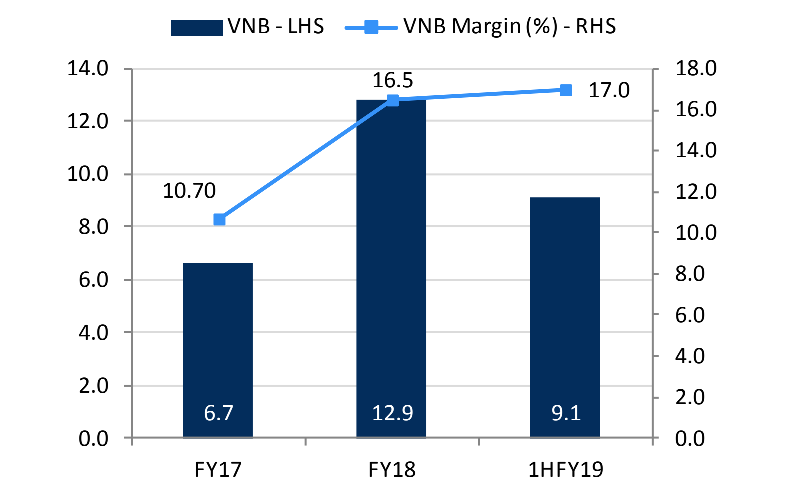
Source: Company, HDFC sec Inst Research

Product Mix On APE



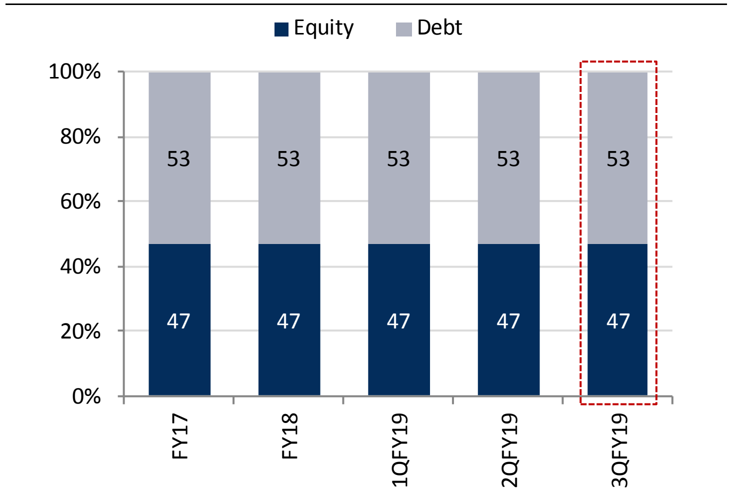
Source: Company, HDFC sec Inst Research

VNB Trend



Source: Company, HDFC sec Inst Research

AUM Mix



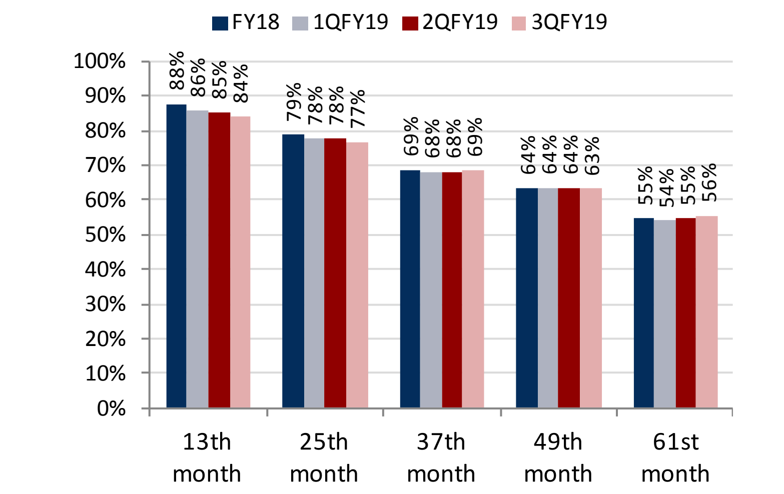
Source: Company, HDFC sec Inst Research

Persistency levels were largely stable.

Share of agency channel decreased marginally by 200bps QoQ to 20% during the quarter.

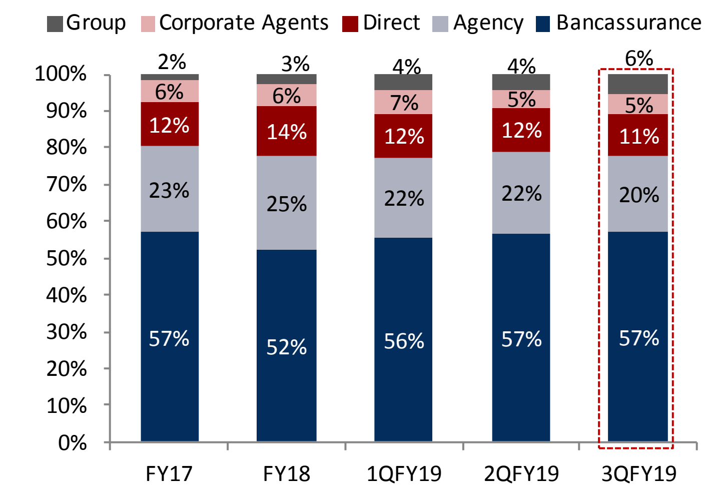
Equity: Debt mix has remained stable at 47:53%.

Persistency Trend



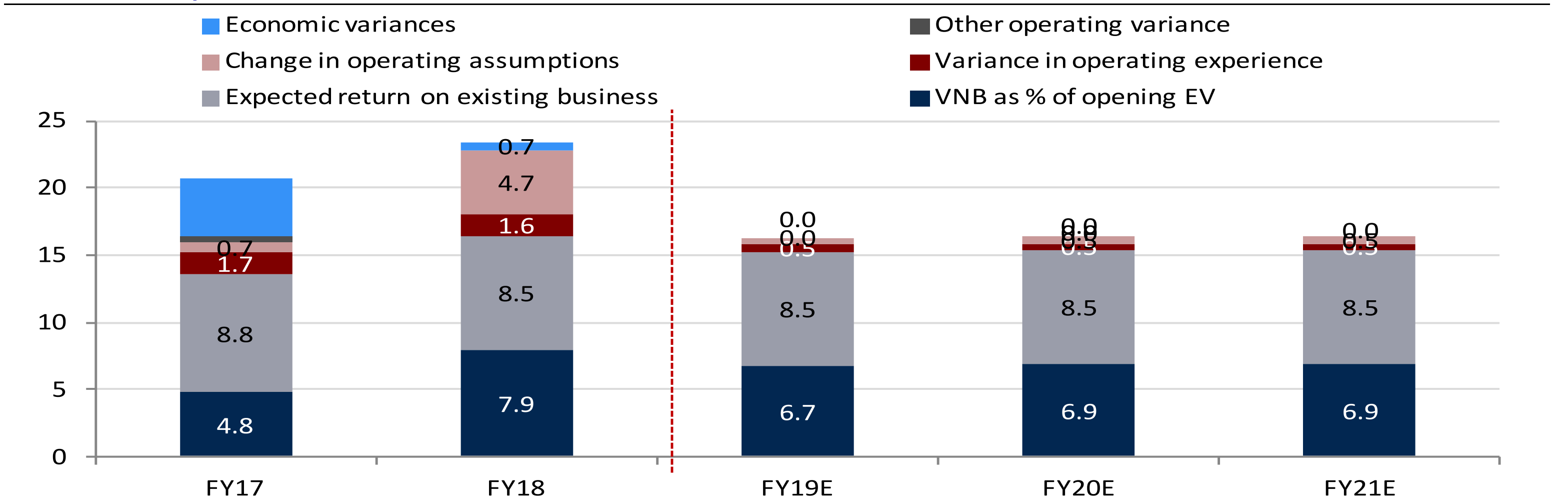
Source: Company, HDFC sec Inst Research

Channel Mix On APE



Source: Company, HDFC sec Inst Research

RoEV stack-up



Source: Company, HDFC sec Inst Research

We have toned down our VNB margin estimates for FY19E-21E.

Change in estimates

Rs bn	FY19E			FY20E			FY21E		
	New	**Old**	***Change (%)***	**New**	**Old**	***Change (%)***	**New**	**Old**	***Change (%)***
APE	74.0	74.0	*0.0%*	83.0	83.0	*0.0%*	94.1	94.1	*0.0%*
VNB	12.7	13.0	*-2.3%*	14.4	14.7	*-1.7%*	16.6	16.8	*-1.7%*
VNB Margin (%)	17.1%	17.5%	*-40*	17.4%	17.7%	*-30*	17.6%	17.9%	*-30*
Embedded Value	210.1	210.4	*-0.1%*	236.4	236.9	*-0.2%*	266.2	267.1	*-0.3%*

Source: HDFC sec Inst Research

Industry NBP data

Particulars	Individual (Rs bn)					Group (Rs bn)					Total (Rs bn)				
	FY16	FY17	FY18	9MFY19	*YOY (%)*	FY16	FY17	FY18	9MFY19	*YOY (%)*	FY16	FY17	FY18	9MFY19	*YOY (%)*
Aditya Birla Sun Life	7.1	9.6	11.5	11.1	*67.5*	15.1	15.7	15.1	15.8	*52.1*	22.2	25.3	26.6	26.9	*58.1*
Bajaj Allianz Life	8.9	10.7	14.6	10.9	*13.4*	19.9	22.2	28.4	20.1	*4.1*	28.8	32.9	42.9	31.0	*7.2*
Bharti Axa Life	3.6	4.0	4.7	4.2	*55.5*	1.8	2.1	2.6	2.0	*15.3*	5.4	6.1	7.3	6.2	*39.7*
DHFL Pramerica Life	1.8	2.2	3.6	2.5	*7.8*	5.4	6.6	10.9	7.5	*-2.8*	7.2	8.8	14.5	10.0	*-0.3*
HDFC Standard Life	36.6	42.0	59.4	49.8	*42.6*	28.3	45.0	54.0	49.6	*39.1*	64.9	87.0	113.4	99.4	*40.8*
ICICI Prudential Life	**53.6**	**69.8**	**84.0**	**54.8**	***-8.7***	**14.1**	**8.9**	**7.2**	**13.5**	***136.6***	**67.7**	**78.6**	**91.3**	**68.3**	***4.0***
Kotak Mahindra Life	10.6	14.4	19.7	11.4	*10.2*	11.5	14.1	14.5	12.3	*24.9*	22.1	28.5	34.3	23.7	*17.4*
Max Life	26.1	33.1	39.8	28.2	*17.5*	2.7	3.6	3.6	2.8	*17.2*	28.8	36.7	43.5	31.0	*17.5*
SBI Life	49.8	64.7	84.1	66.0	*14.0*	21.3	36.8	25.6	28.7	*103.6*	71.1	101.5	109.7	94.7	*31.5*
Tata AIA Life	6.1	10.5	14.0	13.1	*66.2*	1.3	0.8	0.9	0.9	*37.1*	7.4	11.3	14.9	14.0	*64.1*
LIC	**255**	**321**	**404**	**299**	***15.1***	**155**	**186**	**190**	**176**	***40.6***	**410**	**507**	**593**	**475**	***23.4***
Industry total*	328	456	517	335	*-9.0*	649	788	828	607	*-3.7*	977	1,244	1,346	941	*-5.7*

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	9MFY19	*YOY (bps)*	FY16	FY17	FY18	9MFY19	*YOY (bps)*
Aditya Birla Sun Life	2.9	3.0	2.9	3.7	*116*	8.0	8.5	8.0	9.0	*68*
Bajaj Allianz Life	3.6	3.3	3.6	3.7	*-6*	14.9	12.0	14.9	11.4	*-401*
Bharti Axa Life	1.2	1.3	1.2	1.4	*36*	1.4	1.1	1.4	1.1	*-25*
DHFL Pramerica Life	0.9	0.7	0.9	0.8	*-6*	5.7	3.5	5.7	4.2	*-189*
HDFC Standard Life	14.7	13.1	14.7	16.7	*321*	28.5	24.2	28.5	28.1	*-31*
ICICI Prudential Life	**20.8**	**21.7**	**20.8**	**18.3**	***-478***	**3.8**	**4.8**	**3.8**	**7.7**	***311***
Kotak Mahindra Old Mutual Life	4.9	4.5	4.9	3.8	*-17*	7.7	7.6	7.7	7.0	*-87*
Max Life	9.9	10.3	9.9	9.4	*19*	1.9	1.9	1.9	1.6	*-32*
SBI Life	20.8	20.2	20.8	22.1	*-23*	13.5	19.8	13.5	16.3	*504*
Tata AIA Life	3.5	3.3	3.5	4.4	*135*	0.5	0.4	0.5	0.5	*-1*
Private players*	**43.8**	**41.3**	**43.8**	**47.2**	***580***	**18.6**	**19.1**	**18.6**	**22.5**	***592***
LIC	56.2	58.7	56.2	52.8	*-580*	81.4	80.9	81.4	**77.5**	***-592***
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	IPRU			MAXF			SBILIFE			HDFCLIFE		
Bloomberg Ticker		IPRU			MAXF			SBILIFE			HDFCLIFE		
Rating		BUY			BUY			BUY			Not Rated		
Current market price	Rs	344			437			619			359		
Market Capitalisation	Rs bn	494			117			619			723		
Target price	Rs	380			595			750			NA		
Upside/(Downside)	%	10			36			21			NA		
Profitablity		**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**
VNB Margin	%	17.1	17.4	17.6	20.8	21.0	21.2	19.6	20.0	20.2	24.2	24.5	25.0
Total RoEV	%	16.3	16.3	16.4	20.6	20.8	20.8	17.4	20.0	19.4	19.7	19.3	19.2
Operating RoEV	%	16.3	16.3	16.4	20.6	20.8	20.8	17.4	20.0	19.4	19.7	19.3	19.2
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	%	24.1	20.7	20.5	25.7	25.7	25.4	20.1	20.3	20.5	26.8	28.9	28.4
Valuation at CMP		**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**
P/EV	x	2.4	2.1	1.9	2.0	1.7	1.5	2.6	2.2	1.9	4.3	3.6	3.1
P/EVOP	x	16.1	14.4	12.8	13.0	11.3	9.8	17.6	13.2	11.4	25.8	22.3	18.9
Implied P/VNB	x	22.4	17.8	13.8	13.2	9.5	6.4	20.1	15.4	11.5	38.7	31.7	24.6
Implied P/VIF	x	3.8	3.4	3.0	3.7	3.2	2.7	4.5	3.9	3.3	6.5	5.7	4.9
P/B	x	6.7	6.0	5.4	4.8	4.1	3.4	8.2	6.9	5.9	13.6	11.1	9.0
P/E	x	29.3	30.5	27.8	21.8	18.6	15.7	44.4	37.1	31.0	55.5	42.1	35.0
P/AUM	x	0.3	0.3	0.2	0.3	0.2	0.2	0.4	0.4	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	2.6	2.3	2.0	2.7	2.3	2.0	3.2	2.7	2.3	NA	NA	NA
P/EVOP	x	17.7	15.8	14.0	17.7	15.4	13.4	21.3	16.0	13.9	NA	NA	NA
Implied P/VNB	x	26.3	21.2	16.7	23.0	17.9	13.6	27.0	21.4	16.7	NA	NA	NA
Implied P/VIF	x	4.1	3.7	3.3	5.0	4.3	3.7	5.5	4.7	4.0	NA	NA	NA
P/B	x	7.3	6.6	6.0	6.6	5.5	4.6	10.0	8.4	7.1	NA	NA	NA
P/E	x	32.1	33.5	30.6	29.8	25.3	21.4	53.8	45.0	37.6	NA	NA	NA
P/AUM	x	0.3	0.3	0.3	0.2	0.2	0.1	0.5	0.4	0.4	NA	NA	NA

Source: Company financials and disclosures, HDFC sec Inst Research

Per Share data		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
EV	Rs	146	165	185	223	257	297	234	278	329	89	106	125
EVOP	Rs	21	24	27	40	46	53	35	47	54	15	17	20
VNB	Rs	9	10	12	21	24	28	19	22	25	8	9	11
VIF	Rs	91	102	114	152	176	204	136	159	185	59	68	78
Book Value	Rs	52	57	63	90	107	128	75	89	106	28	35	42
Earnings	Rs	12	11	12	20	23	28	14	17	20	7	9	11
AUM	Rs	1,115	1,283	1,471	1,645	1,919	2,239	1,401	1,707	2,065	636	769	924
ANW	Rs	55	62	71	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	74	83	94	38	44	51	97	110	125	63	72	85
VNB	Rs bn	13	14	17	8	9	11	19	22	25	15	18	21
Total EVOP	Rs bn	31	34	39	15	18	20	35	47	54	30	35	41
Operating EVOP	Rs bn	31	34	39	15	18	20	35	47	54	30	35	41
Non- operating EVOP	Rs bn	0	0	0	0	0	0	0	0	0	0	0	0
EV	Rs bn	210	236	266	85	98	114	234	278	329	180	213	252
Net worth	Rs bn	74	82	91	35	41	49	75	89	106	57	70	85
Net Profit	Rs bn	17	16	18	8	9	11	14	17	20	14	18	22
AUM		1,600	1,842	2,111	631	736	858	1,401	1,707	2,065	1,279	1,546	1,859

Growth YOY		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
APE	%	(5.0)	12.1	13.3	17.5	16.0	15.0	14.0	13.2	13.2	17.0	14.2	17.2
VNB	%	(1.5)	14.1	14.6	21.0	17.2	16.1	21.5	15.5	14.3	19.4	15.6	19.6
Total EVOP	%	(19.2)	12.0	12.6	18.4	15.5	15.3	12.4	33.1	15.5	1.8	15.9	18.0
Operating EVOP	%	(16.7)	12.0	12.6	18.4	15.5	15.3	12.4	33.1	15.5	11.6	15.9	18.0
Non- operating EVOP	%	(100.0)	NM	NM	(100.0)	NM	NM	(100.0)	NM	NM	(100.0)	NM	NM
EV	%	11.8	12.5	12.6	14.8	15.2	15.5	16.2	18.7	18.2	18.4	18.2	18.3
Net worth	%	12.8	10.9	10.8	19.0	19.2	19.5	18.1	18.3	18.5	20.9	22.7	22.2
Net Profit	%	3.9	(4.0)	9.6	28.9	17.6	18.2	21.2	19.6	19.7	26.8	31.9	20.2
AUM	%	14.7	15.1	14.6	20.8	16.7	16.7	20.5	21.9	21.0	20.0	20.9	20.2

Source: Company financials and disclosures, HDFC sec Inst Research

Operational Comps

		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)		**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
		***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 (major)		ICICIB and SCB			AXIS, YES, LVB			SBI, P&SB, SIB, Allah. Bank, Syndicate Bank			HDFCB, RBL, IDFCB, BFL, Vijaya Bank		
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 metrics, growth and ratios

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Performance metrics (Rs mn)					
NBP	78,633	92,118	98,261	111,128	127,760
APE	66,250	77,920	74,046	83,039	94,052
VNB	6,660	12,860	12,662	14,449	16,553
EV	161,840	187,880	210,121	236,377	266,197
EVOP	22,950	36,800	30,655	34,336	38,675
Rs/share					
EPS	11.9	11.3	11.8	11.3	12.4
BV	42.7	45.8	51.7	57.3	63.5
DPS	3.2	2.8	4.9	4.7	5.1
Growth (%)					
Premium growth	16.6	41.1	20.0	11.1	13.9
Total income growth	83.9	2.8	21.3	12.5	13.5
Commissions growth	22.4	126.3	4.1	11.1	12.8
Opex growth	24.8	7.5	62.5	10.0	12.2
PAT growth	3.4	(1.8)	3.9	(4.0)	9.6
Performance metrics growth (%)					
NBP	16.2	17.1	6.7	13.1	15.0
APE	29.7	17.6	(5.0)	12.1	13.3
VNB	61.5	93.1	(1.5)	14.1	14.6
EV	16.1	16.1	11.8	12.5	12.6
EVOP	8.3	60.3	(16.7)	12.0	12.6
EPS	3.1	(5.0)	3.9	(4.0)	9.6
BV	20.7	7.2	12.8	10.9	10.8
DPS	(49.1)	(11.6)	72.4	(4.0)	9.6
Expense ratios (%)					
Commissions/premium	3.4	5.2	4.5	4.5	4.5
Opex/premium	10.6	7.6	10.3	10.2	10.0
Total expenses/premium	14.1	12.8	14.8	14.7	14.5
Effeciency ratios (%)					
RoAA	1.5	1.3	1.1	0.9	0.9
RoE	30.5	27.9	24.1	20.7	20.5
ROEV return	20.6	23.4	16.3	16.3	16.4
Operating RoEV	16.5	22.7	16.3	16.3	16.4
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	321,659	357,407	406,997
Income from investments and other income	150,360	113,315	141,802	163,846	184,710
Transfer from shareholders account	18	753	-	-	-
Total income	**371,930**	**382,174**	**463,461**	**521,253**	**591,707**
Commission	7,589	14,033	14,614	16,233	18,310
Operating expenses	23,572	20,299	32,977	36,288	40,718
Provisions	61	31	32	32	33
Total expenses	**31,222**	**34,363**	**47,623**	**52,553**	**59,061**
Benefits paid	149,979	172,808	189,647	218,236	253,511
Change in valuation of liabilities	174,976	154,475	207,620	232,821	259,922
Total	**324,954**	**327,283**	**397,266**	**451,057**	**513,432**
Surplus	**15,754**	**20,529**	**18,572**	**17,643**	**19,213**
Tax	788	1,201	755	739	820
Net surplus	**14,966**	**19,328**	**17,816**	**16,904**	**18,393**
Transfer to shareholders account	**11,315**	**10,892**	**10,652**	**9,243**	**10,265**

Shareholders account (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Transfer from policyholders' a/c	11,315	10,892	10,652	9,243	10,265
Investment income	6,955	7,469	7,797	8,525	9,198
Other income	285	50	50	50	50
Total income	**18,555**	**18,412**	**18,499**	**17,818**	**19,514**
Expenses	409	420	451	485	522
Contribution to policyholders' a/c	18	753	-	-	-
Profit before tax	**18,128**	**17,239**	**18,048**	**17,333**	**18,992**
Taxes	1,028	997	1,170	1,123	1,231
PAT	**17,101**	**16,242**	**16,878**	**16,209**	**17,761**

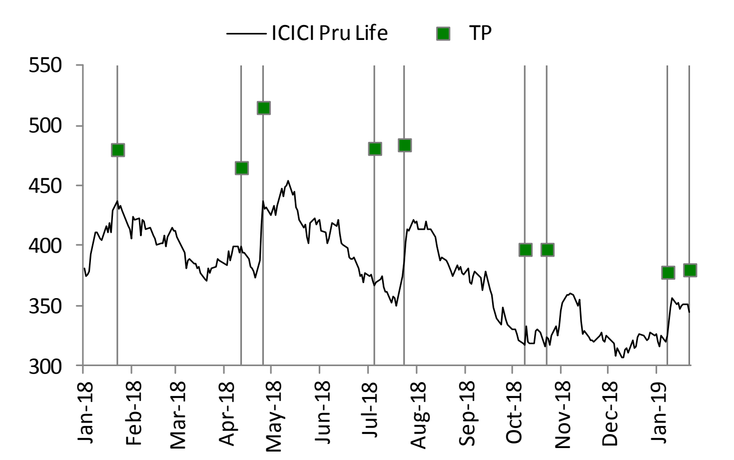
Source: Company, HDFC sec Inst Research

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	59,796	67,875	76,731
Net worth	**61,329**	**65,737**	**74,151**	**82,230**	**91,086**
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	1,513,730	1,746,551	2,006,473
Funds for future appropriation	6,042	8,782	9,001	9,226	9,457
Total Liabilities	**1,219,043**	**1,383,710**	**1,599,963**	**1,841,089**	**2,110,096**
Application					
Shareholders' Investments	66,349	77,466	84,742	93,346	102,746
Policyholders' investments	270,674	332,889	-	-	-
Asset to cover linked liabilities	878,783	975,020	1,515,528	1,748,349	2,008,270
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**	**1,599,963**	**1,841,089**	**2,110,096**

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
8-Jan-19	320	BUY	378
23-Jan-19	345	BUY	380

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, CFA & 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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