

Margin Juggernaut

While IPRU reported an APE growth of a mere 5.3% YoY, protection share grew to 14.6% (+530bps vs. FY19). This boosted VNBM to an unexpected 21.0% (+400bps vs. FY19) and absolute VNB to Rs 3.1 (+29.9% YoY). We upgrade IPRU to a BUY with a TP of Rs 445 (Jun-20 EV + 19.0x FY21E VNB).

HIGHLIGHTS OF THE QUARTER

- Despite an 87.7% YoY growth in protection, APE grew merely 5.3% YoY as ULIPs declined 6.1% YoY. Protection was driven by both indiv. and group, which grew 91.7% and 81.0% respectively.
- An increased protection share of 14.6% (+530bps vs. FY19), drove up VNBM to a stunning 21.0% (+400bps vs. FY19) and absolute VNB to Rs 3.1 (+29.9% YoY).
- Management stated that margin improvement was driven by product mix and not operating leverage as it estimated revenue growth conservatively.
- IPRU clarified that it is using estimated unit costs of FY20E for margin calculation. Additionally, reduced costs on the savings business aided margins.
- Renewal premium growth was low at 7.9% YoY as large pool of policies crossed 5 year completion. While mass

FINANCIAL SUMMARY

(Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
NBP	22.9	17.7	29.2	40.9	-44.1	92.1	103.6	123.6	138.1	152.9
APE	14.7	14.0	5.3	24.6	-40.1	77.9	78.0	84.6	93.3	102.7
VNB	NA	NA	NM	NA	NM	12.9	13.3	18.0	20.2	22.6
VNB Margin (%) #	21.0	17.0	400bps	17.0	400bps	16.5	17.0	21.3	21.7	22.0
EV						187.9	216.2	247.0	278.3	312.7
P/EV (x)						2.9	2.6	2.2	2.0	1.8
P/VNB (x)						30.5	27.6	18.8	15.2	12.2
ROEV (%)						23.4	19.6	17.7	16.2	16.1

Refers are FYTD margins Source: Company, HDFC sec Inst Research

lapse ratio has not increased surrender payouts increased and renewal premiums dropped.

- AUM increased 15.0/2.3% YoY/QoQ to Rs 1.64tn with 48% equity in mix.
- 1Q channel mix (APE): Banca/agency/direct/CA/group was at 52.4/21.2/12.8/6.8/6.8% of APE.
- Total cost/TWRP declined to 17.0% vs. 17.5% for FY19, while for the savings business the same improved substantially to 11.3% vs. 13.7% for FY19.
- Management clarified on the call that it was not averse to write long term pension/annuity business, but given current investment/hedge options it is not comfortable with the balance sheet risk.
- Near-term outlook:** We expect stock to move up in the short term.

STANCE

We like IPRU's re-engineered business model which focused on a more diversified product mix and an increasing protection mix. Sharp increase in VNB margin (to 21%) drive up our FY20/21E VNB estimates by 18.8%/16.1% to Rs 18.0/20.2bn. Lower than expected growth and lower protection share remain key risks.

INDUSTRY	INSURANCE
CMP (as on 24 Jul 2019)	Rs 383
Target Price	Rs 445
Nifty	11,271
Sensex	37,848
KEY STOCK DATA	
Bloomberg	IPRU IN
No. of Shares (mn)	1,436
MCap (Rs bn) / (\$ mn)	550/7,978
6m avg traded value (Rs mn)	874
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 428/277
	3M 6M 12M
Absolute (%)	5.5 26.1 (0.7)
Relative (%)	8.6 21.6 (3.4)
SHAREHOLDING PATTERN (%)	
	Mar-19 Jun-19
Promoters	75.0 75.0
FIs & Local MFs	6.5 6.3
FPIs	10.1 11.5
Public & Others	8.4 7.2
Pledged Shares	Nil Nil

Source : BSE

Madhukar Ladha, CFA
 madhukar.ladha@hdfcsec.com
 +91-22-6171-7323

Keshav Binani
 keshav.binani@hdfcsec.com
 +91-22-6171-7325

Five Quarters at a Glance

(Rs Bn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YOY (%)	QoQ (%)
Premium earned	55.2	76.8	75.7	101.6	63.3	14.7	-37.7
Premium on re-insurance	0.8	0.8	0.8	1.1	1.2	51.3	12.0
Net premium earned	54.4	76.0	74.8	100.6	62.1	14.2	-38.3
Investment income	24.6	13.7	11.9	58.4	20.9	-14.9	-64.1
Other income	0.2	0.2	0.2	0.3	0.2	-15.0	-45.2
Total income	79.2	89.9	86.9	159.3	83.2	5.0	-47.8
Commission paid	2.8	4.0	3.7	5.1	2.7	-5.4	-47.9
Expenses	7.5	8.3	7.4	9.6	8.1	7.7	-15.5
Tax on policyholder funds	0.3	0.3	0.3	0.3	0.3	-6.5	16.0
Claim/benefits paid	29.4	35.0	33.3	44.9	36.5	24.0	-18.9
Change in actuarial liability	36.4	39.4	39.3	96.6	32.9	-9.6	-66.0
Total expenses	76.4	86.9	83.9	156.5	80.3	5.2	-48.7
Profit before tax	2.8	3.0	3.0	2.8	2.9	1.1	3.2
Tax	0.0	0.0	0.0	0.2	0.0	0.0	-88.2
Profit after tax	2.8	3.0	3.0	2.6	2.9	1.1	9.2

Source: Company, HDFC sec Inst Research

Despite NBP growth of 29.2%, overall premium growth was low at 14.7%, as renewal premiums increased only 7.9%.

PAT growth was sub-due due to low investment income and high claims payout.

Business metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YOY (%)	QoQ (%)
New Business Premium (Rs bn)	17.7	25.8	25.6	40.9	22.9	29.2	-44.1
Product mix on APE basis (Rs bn)							
Individual Savings	12.6	18.1	17.4	21.4	12.3	-2.5	-42.5
PAR	1.4	1.4	1.7	2.3	1.4	4.4	-38.0
Non-PAR	0.1	0.1	0.2	0.3	0.4	238.5	57.1
ULIP	11.1	16.6	15.5	18.9	10.5	-6.1	-44.5
Group Savings	0.2	0.2	0.3	0.5	0.2	26.3	-55.6
Protection	1.1	1.5	2.0	2.6	2.1	87.7	-18.0
Individual Protection	0.7	0.9	1.2	2.0	1.4	91.7	-32.4
Group Protection	0.4	0.6	0.8	0.6	0.8	81.0	33.3
Total	14.0	19.8	19.6	24.6	14.7	5.3	-40.2
Product mix - APE Basis (%)							
Individual Savings	90.5	91.3	88.4	87.2	83.8	-670bps	-340bps
PAR	9.7	6.8	8.8	9.3	9.7	-10bps	30bps
Non-PAR	0.9	0.7	0.8	1.1	3.0	210bps	190bps
ULIP	79.8	83.8	78.9	76.7	71.2	-860bps	-560bps
Group Savings	1.4	1.1	1.7	2.2	1.6	30bps	-60bps
Protection	8.2	7.7	9.9	10.6	14.6	640bps	390bps
Individual Protection	5.2	4.6	5.9	8.3	9.4	420bps	110bps
Group Protection	3.0	3.0	4.0	2.3	5.2	220bps	290bps
Total	100	100	100	100	100		

ULIP segment sales declined as equity market conditions remain tepid; additionally management is more focused on protection.

Protection mix improved to highest ever 14.6% leading to sharp increase in VNB.

INSTITUTIONAL RESEARCH

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YOY (%)	QoQ (%)
APE (Rs bn)							
Retail APE	13.4	19.0	18.5	23.5	13.7	2.6	-41.6
Group APE	0.6	0.8	1.1	1.1	1.0	63.9	-9.9
Total APE	14.0	19.8	19.6	24.6	14.7	5.3	-40.2
VNB Margin (%)#	17.0	17.0	17.0	17.0	21.0	400bps	400bps
Channel Mix-APE basis (%)							
Bancassurance	55.5	56.7	57.2	54.2	52.4	-310bps	-180bps
Agency	21.8	22.3	20.5	21.9	21.2	-60bps	-80bps
Direct	11.8	11.8	11.3	12.8	12.8	100bps	0bps
Corporate Agents	6.5	5.1	5.4	6.5	6.8	30bps	30bps
Group	4.4	4.1	5.6	4.6	6.8	240bps	220bps
Cost/TWRP*(overall business) (%)	17.5	15.1	12.0	15.9	17.0	-50bps	110bps
Cost/TWRP (savings business) (%)	13.7	NA	NA	NA	11.3	-240bps	NA
Solvency Ratio (%)	235	234	224	215	217	-1,830bps	170bps
AUM (Rs bn)	1,427	1,461	1,500	1,604	1,640	15.0	2.3
Equity (%)	47	47	47	48	48	100bps	0bps
Debt (%)	53	53	53	52	52	-100bps	0bps
Persistency ex. single premium and group (%)							
13th month persistency	85.8	85.2	84.1	86.1	84.4	-140bps	-170bps
25th month persistency	77.8	77.8	76.7	76.3	75.7	-210bps	-60bps
37th month persistency	68.2	68.3	68.7	69.8	69.8	160bps	0bps
49th month persistency	63.7	63.7	63.2	63.9	64.2	50bps	30bps
61st month persistency	54.0	54.8	55.6	56.4	57.3	330bps	90bps

Even if banca's contribution decreased 310bps YoY, management claimed that banca's contribution towards sale of protection remained healthy.

Reduction in cost ratios of savings business also contributed to expansion of VNB margins.

AUM growth continues to remain robust at 15.0% YoY with equity mix at 48%.

#Refers to FYTD margins

*Refers to Total weighted received premium

Source: Company, HDFC sec Inst Research

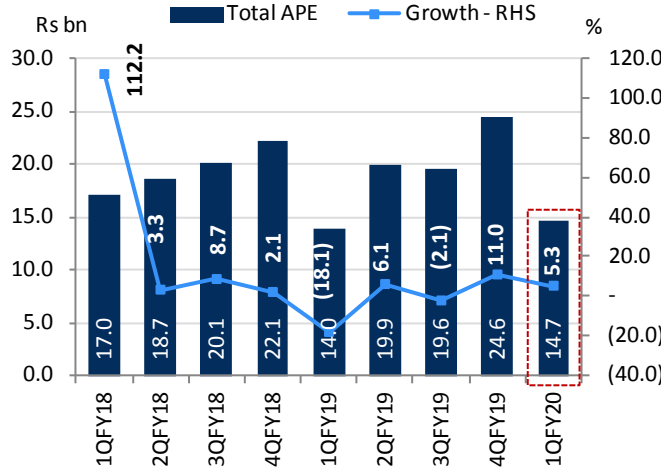
Total APE grew a mere 5.3% YoY despite low base.

Share of ULIP in product mix declined sharply as management focus shifts towards protection.

Also current market environment is tough for ULIP sales.

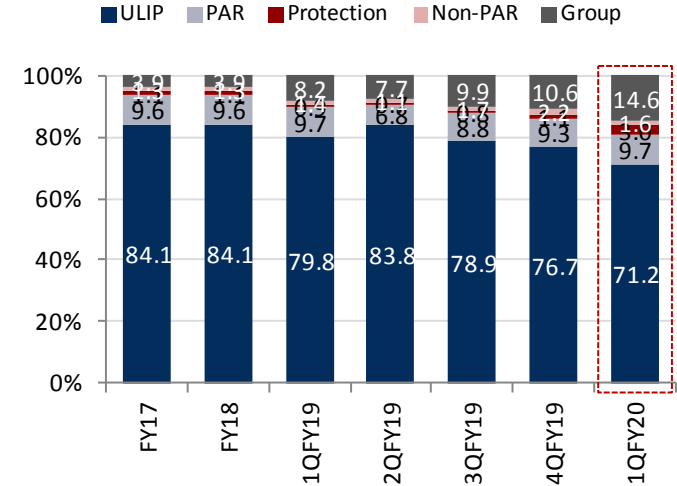
VNB margin positively surprised as it surged to 21.0(+400 bps vs. FY19) led by increase of protection in the mix.

APE trend



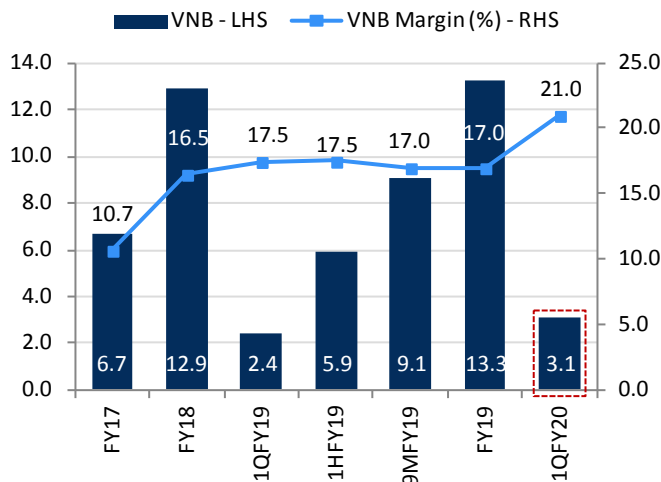
Source: Company, HDFC sec Inst Research

Product Mix On APE (%)



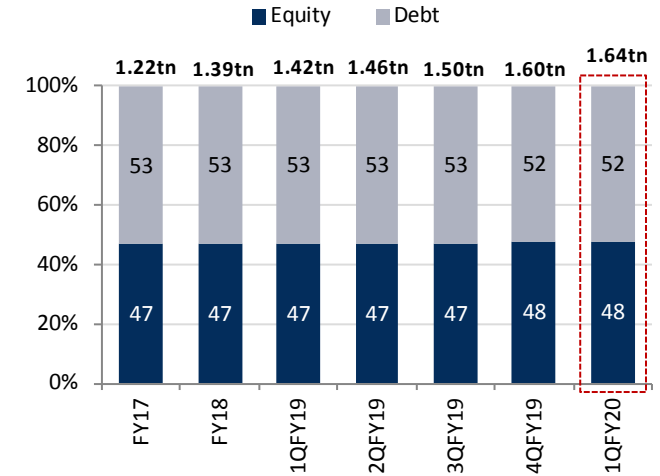
Source: Company, HDFC sec Inst Research

VNB Trend



Source: Company, HDFC sec Inst Research

AUM Mix



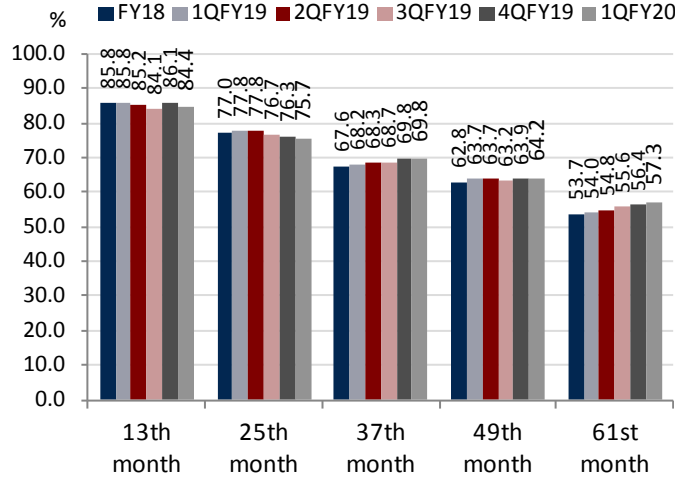
Source: Company, HDFC sec Inst Research

Bancassurance channel contribution declined in 1QFY20 to 52.4% (-310/-180bps YoY/QoQ). However we believe this is temporary and will normalize over the year.

Within Banca channel, ICICI Bank and Standard Chartered bank contribute most to the banca channel sales.

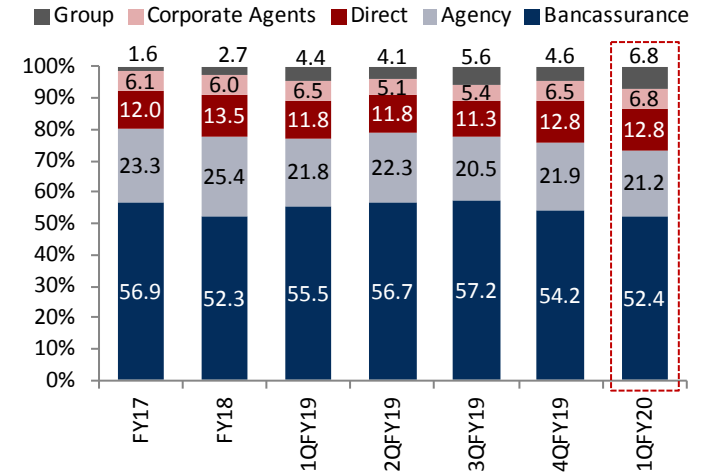
Management also mentioned that persistencies assumptions for VNB and EV are lower than current persistencies.

Persistency Trend



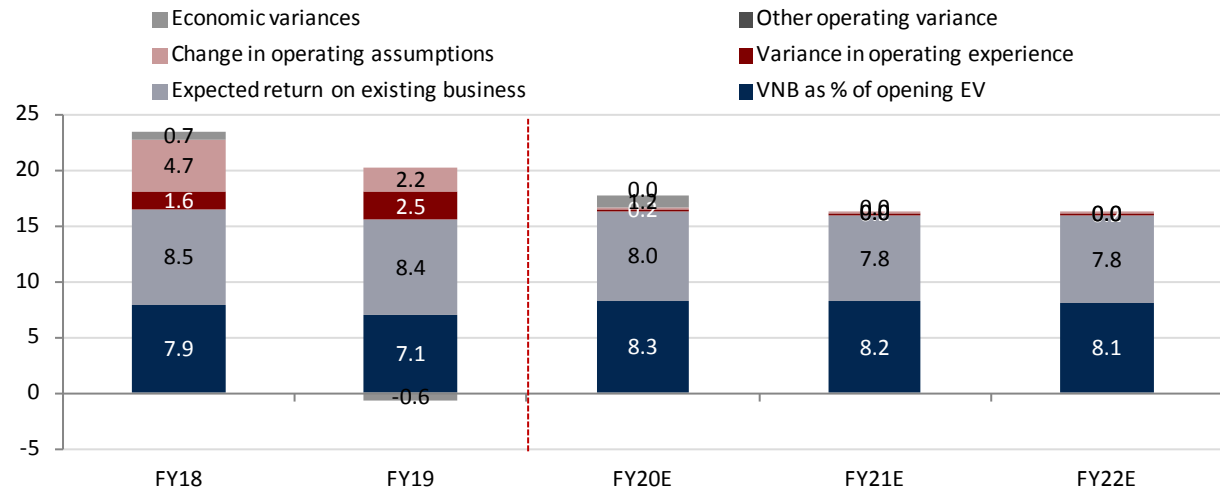
Source: Company, HDFC sec Inst Research

Channel Mix On APE



Source: Company, HDFC sec Inst Research

RoEV stack-up



Source: Company, HDFC sec Inst Research

Increase in reference rates will lead to lower unwinding going forward.

Embedded Value movement

Particulars (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Opening IEV	161,840	187,880	216,220	246,998	278,303
Value of new business	12,860	13,280	18,017	20,238	22,591
Expected return on existing business	13,720	15,840	17,216	19,173	21,603
Variance in Operating experience	2,580	4,670	500	500	500
Change in operating assumptions	7,640	4,200	100	100	100
Other operating variance	0	0	0	0	0
IEV operating earnings	36,800	37,990	35,833	40,011	44,794
Economic variances	1,120	(1,220)	2,500	0	0
Total IEV earnings	37,920	36,770	38,333	40,011	44,794
Capital contributions / dividend payouts	(11,880)	(8,430)	(7,555)	(8,706)	(10,434)
Closing IEV	187,880	216,220	246,998	278,303	312,664

Source: Company, HDFC sec Inst Research

Sensitivity Analysis

Particulars	FY18		FY19	
	% change in VNB	% change in EV	% change in VNB	% change in EV
Increase by 100bps in the reference rates	(4.9)	(2.1)	(4.3)	(2.0)
Decrease by 100bps in the reference rates	5.2	2.2	4.4	2.0
10% increase in the discontinuance rates	(8.6)	(1.3)	(8.5)	(1.3)
10% decrease in the discontinuance rates	9.1	1.4	8.9	1.4
10% increase in mortality/ morbidity rates	(5.4)	(1.0)	(9.4)	(1.4)
10% decrease in mortality/ morbidity rates	5.5	1.0	9.4	1.4
10% increase in acquisition expenses	(9.2)	Nil	(13.0)	Nil
10% decrease in acquisition expenses	9.2	Nil	13.0	Nil
10% increase in maintenance expenses	(3.5)	(1.0)	(3.6)	(0.9)
10% decrease in maintenance expenses	3.5	1.0	3.6	0.9
Tax rates increased to 25%	(7.9)	(4.6)	(7.5)	(4.0)

Source: Company, HDFC sec Inst Research

VNB is most sensitive to rise in acquisition costs and tax rate.

Increase in sum-assured drives higher sensitivity to mortality.

We have fine tuned our APE growth, VNB margins and EV forecasts.

Change in estimates

Rs bn	FY20E			FY21E		
	New	Old	Change (%)	New	Old	Change (%)
APE	84.6	87.6	-3.5	93.3	99.6	-6.4
VNB	18.0	15.2	18.8	20.2	17.4	16.1
VNB Margin (%)	21.3%	17.3%	400.0	21.7%	17.5%	420.0
Embedded Value	244.4	242.3	0.9	272.5	269.2	1.2

Source: Company, HDFC sec Inst Research

Industry NBP data

Particulars	Individual (Rs bn)					Group (Rs bn)					Total (Rs bn)				
	FY17	FY18	FY19	FYTD	YOY (%)	FY17	FY18	FY19	FYTD	YOY (%)	FY17	FY18	FY19	FYTD	YOY (%)
Aditya Birla Sun Life	9.6	11.5	22.0	3.2	29.9	15.7	15.1	21.9	1.9	-52.2	25.3	26.6	43.9	5.1	-20.4
Bajaj Allianz Life	10.7	14.6	18.0	3.5	17.0	22.2	28.4	31.2	6.7	57.2	32.9	42.9	49.2	10.1	40.7
Bharti Axa Life	4.0	4.7	6.4	1.3	19.1	2.1	2.6	2.7	0.6	-5.9	6.1	7.3	9.1	1.9	10.0
DHFL Pramerica Life	2.2	3.6	3.2	0.5	-48.7	6.6	10.9	9.1	1.0	-64.2	8.8	14.5	12.2	1.5	-60.5
HDFC Standard Life	42.0	59.4	76.4	19.9	61.3	45.0	54.0	73.3	19.9	37.9	87.0	113.4	149.7	39.8	48.7
ICICI Prudential Life	69.8	84.0	81.4	15.3	2.7	8.9	7.2	21.1	6.9	197.1	78.6	91.3	102.5	22.3	29.1
Kotak Mahindra Life	14.4	19.7	21.3	3.0	8.0	14.1	14.5	18.5	6.4	67.3	28.5	34.3	39.8	9.4	42.3
Max Life	33.1	39.8	47.5	8.2	22.0	3.6	3.6	4.1	0.9	-5.0	36.7	43.5	51.6	9.1	18.8
SBI Life	64.7	84.1	96.4	18.7	41.2	36.8	25.6	41.6	12.8	70.9	101.5	109.7	137.9	31.5	52.0
Tata AIA Life	10.5	14.0	23.5	5.6	108.6	0.8	0.9	1.3	0.2	-0.9	11.3	14.9	24.8	5.8	100.0
Private players Total	321	404	471	92	27.8	186	190	259	66	38.3	507	593	730	158	32.0
LIC	456	517	510	91	6.8	788	828	912	356	120.5	1,244	1,346	1,422	448	81.2
Industry total*	777	921	981	184	16.4	974	1,018	1,171	423	101.7	1,751	1,939	2,152	606	65.1

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				
	FY17	FY18	FY19	FYTD	YOY (bps)	FY17	FY18	FY19	FYTD	YOY (bps)
Aditya Birla Sun Life	3.0	2.9	4.7	3.5	6	8.5	8.0	8.4	2.8	-537
Bajaj Allianz Life	3.3	3.6	3.8	3.8	-35	12.0	14.9	12.0	10.1	122
Bharti Axa Life	1.3	1.2	1.4	1.4	-10	1.1	1.4	1.0	0.9	-43
DHFL Pramerica Life	0.7	0.9	0.7	0.5	-73	3.5	5.7	3.5	1.6	-443
HDFC Standard Life	13.1	14.7	16.2	21.6	449	24.2	28.5	28.2	30.0	-8
ICICI Prudential Life	21.7	20.8	17.3	16.6	-406	4.8	3.8	8.1	10.5	560
Kotak Mahindra Life	4.5	4.9	4.5	3.3	-60	7.6	7.7	7.1	9.6	167
Max Life	10.3	9.9	10.1	8.9	-43	1.9	1.9	1.6	1.3	-59
SBI Life	20.2	20.8	20.5	20.3	192	19.8	13.5	16.0	19.4	370
Tata AIA Life	3.3	3.5	5.0	6.0	233	0.4	0.5	0.5	0.3	-13
Private players*	41.3	43.8	48.0	50.2	448	19.1	18.6	22.2	15.7	-719
LIC	58.7	56.2	52.0	49.8	-448	80.9	81.4	77.8	84.3	719
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													
Rating		BUY			BUY			BUY			Not Rated		
Current market price	Rs	383			408			773			500		
Market Capitalisation	Rs bn	550			110			773			1005		
Target price	Rs	445			681			914			450*		
Upside/(Downside)	%	16.4			66.8			18.3			(9.9)		
Profitability													
		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
VNB Margin	%	17.0	21.3	21.7	21.7	22.2	22.8	19.8	20.2	20.6	24.6	28.5	29.1
Total RoEV	%	19.6	17.7	16.2	27.1	22.6	22.2	18.8	19.4	17.4	22.5	21.4	19.7
Operating RoEV	%	20.2	16.6	16.2	21.9	21.5	22.2	17.6	17.2	17.4	20.1	20.3	19.7
Non-operating RoEV	%	-0.6	1.2	0.0	5.1	1.1	0.0	1.2	2.1	0.0	2.4	1.1	0.0
RoE	%	17.1	21.0	21.7	30.9	31.8	30.9	19.2	17.3	16.7	23.0	26.5	26.2
Valuation at CMP													
		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
P/EV	x	2.5	2.2	2.0	1.8	1.5	1.3	3.3	2.8	2.4	5.5	4.6	3.9
P/EVOP	x	14.5	15.3	13.7	11.3	9.8	8.3	21.8	18.9	15.8	32.8	27.1	23.4
Implied P/VNB	x	27.3	18.5	15.0	12.7	8.1	5.3	29.8	22.9	17.5	55.4	38.2	30.4
Implied P/VIF	x	3.9	3.4	3.0	3.4	2.9	2.4	5.1	4.4	3.8	8.1	6.9	5.8
P/B	x	8.0	7.2	6.5	4.6	3.6	2.8	10.4	9.0	7.8	15.8	13.1	10.9
P/E	x	47.9	36.2	31.4	17.1	14.0	11.3	58.2	55.6	50.0	78.9	53.9	45.2
P/AUM	x	0.3	0.3	0.3	0.2	0.2	0.2	0.5	0.5	0.4	0.8	0.7	0.5
Valuation at TP/FV													
		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
P/EV	x	3.0	2.6	2.3	2.9	2.5	2.2	3.9	3.3	2.8	4.9	4.1	3.5
P/EVOP	x	16.9	17.9	16.0	18.8	16.4	13.9	25.7	22.3	18.7	29.6	24.4	21.1
Implied P/VNB	x	34.1	23.5	19.4	29.0	20.7	15.6	37.1	29.0	22.5	48.9	33.6	26.5
Implied P/VIF	x	4.5	4.0	3.5	5.7	4.8	4.1	6.0	5.2	4.5	7.3	6.2	5.3
P/B	x	9.3	8.4	7.5	7.6	6.0	4.7	12.3	10.6	9.2	14.2	11.8	9.8
P/E	x	55.8	42.1	36.6	28.5	23.4	18.9	68.9	65.8	59.1	71.1	48.6	40.7
P/AUM	x	0.4	0.3	0.3	0.2	0.2	0.1	0.6	0.5	0.4	0.7	0.6	0.5

Source: Company financials and disclosures, HDFC sec Inst Research

Per Share data		IPRU			MAXF			SBILIFE			HDFCLIFE		
		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
EV	Rs	151	172	194	233	269	309	237	281	327	91	109	128
EVOP	Rs	26	25	28	43	50	60	36	41	49	15	18	21
VNB	Rs	9	13	14	21	28	34	19	23	28	8	11	13
VIF	Rs	99	112	126	153	180	214	152	175	202	62	73	86
Book Value	Rs	48	53	59	89	113	144	75	86	99	32	38	46
Earnings	Rs	8	11	12	24	29	36	13	14	15	6	9	11
AUM	Rs	1,117	1,288	1,491	1,638	1,927	2,286	1,410	1,688	2,037	625	757	918
ANW	Rs	51	58	66	98	106	116	86	101	120	29	35	42
Key parameters													
APE	Rs bn	78	85	93	40	48	57	97	116	136	60	76	89
VNB	Rs bn	13	18	20	8	11	13	19	23	28	15	22	26
Total EVOP	Rs bn	37	38	40	16	19	23	36	41	49	34	39	43
Operating EVOP	Rs bn	38	36	40	16	19	23	36	41	49	31	37	43
Non- operating EVOP	Rs bn	(1)	3	0	4	1	0	3	5	0	4	2	0
EV	Rs bn	216	247	278	89	103	119	237	281	327	183	218	258
Net worth	Rs bn	69	76	85	34	43	55	75	86	99	64	77	93
Net Profit	Rs bn	11	15	18	9	11	14	13	14	15	13	19	22
AUM		1,604	1,850	2,140	628	739	876	1,410	1,688	2,037	1,258	1,522	1,846
Growth YOY													
APE	%	0.1	8.5	10.3	21.6	21.0	19.0	13.5	19.2	18.1	12.0	24.9	17.8
VNB	%	3.3	35.7	12.3	25.5	28.9	22.2	22.2	21.7	20.4	20.3	39.8	20.3
Total EVOP	%	(3.0)	4.3	4.4	26.9	16.9	18.7	13.4	15.3	19.3	16.3	14.5	9.8
Operating EVOP	%	3.2	(5.7)	11.7	26.9	16.9	18.7	13.4	15.3	19.3	14.2	21.4	15.7
Non- operating EVOP	%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EV	%	15.1	14.2	12.7	19.3	15.3	15.1	17.7	18.3	16.4	20.2	19.4	17.9
Net worth	%	4.5	11.0	11.4	27.4	26.8	26.8	17.0	15.4	14.8	35.6	20.6	20.3
Net Profit	%	(29.3)	32.4	15.1	73.7	22.0	23.6	15.3	4.8	11.2	16.2	46.3	19.3
AUM	%	15.0	15.3	15.7	20.2	17.7	18.6	21.3	19.7	20.7	18.0	21.0	21.3

Source: Company financials and disclosures, HDFC sec Inst Research

Operational Comps

		IPRU				MAXF				SBILIFE				HDFCLIFE			
		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
APE mix																	
Individual	Rs bn	49.7	65.2	75.8	74.4	21.0	26.4	32.2	39.2	44.9	60.2	77.9	90.8	34.3	37.4	48.9	52.0
Group	Rs bn	1.4	1.1	2.1	3.7	0.1	0.2	0.3	0.3	3.9	5.8	7.5	6.1	1.9	3.5	6.3	10.6
APE (Rs bn)	Rs bn	51.1	66.3	77.9	78.0	21.1	26.6	32.5	39.5	48.8	66.0	85.4	96.9	36.2	40.9	55.2	62.6
YoY Growth	%		30	18	0		26	22	22		35	29	13		13	35	13
CAGR 3 years	%				15				22				25				20
CAGR 5 years	%				19				31				24				20
Business mix- product wise																	
		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
		*Total	*Total	*Total	*Total	* Total	* Total	* Total	* Total	* Total	* Total	* Total	* Total	* Total	* Total	* Total	* Total
		APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE
Individual	%	97.1	98.4	97.3	95.3	96.0	97.0	96.0	96.0	87.3	89.5	92.5	93.7	100.0	89.3	88.4	83.1
PAR	%	14.1	9.6	10.9	8.6	58.0	54.0	43.0	39.5	30.7	16.6	24.4	18.7	30.0	31.2	24.8	15.0
Non-PAR	%	0.4	1.1	0.5	0.9	9.0	9.0	8.0	9.0	1.2	0.7	0.8	0.4	14.0	8.0	8.0	16.6
ULIP	%	80.8	84.1	81.9	79.6	26.0	30.0	41.0	41.5	53.3	70.9	66.5	70.8	56.0	46.4	51.3	45.7
Protection	%	1.8	3.6	4.0	6.2	3.0	4.0	4.0	6.0	2.2	1.2	0.7	3.8	NA	3.6	4.4	5.8
Group	%	2.9	1.6	2.7	4.7	4.0	3.0	4.0	4.0	12.3	10.5	7.5	6.3	NA	10.7	11.6	16.9
Savings	%	2.0	1.3	1.0	1.6	NIL	NIL	NIL	NIL	4.2	5.5	2.8	3.3	NA	6.5	4.7	6.0
Protection	%	0.9	0.3	1.7	3.1	4.0	3.0	4.0	4.0	8.1	5.1	4.7	3.0	NA	4.2	6.9	10.9
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	100.0	100.0	100.0	100.0
Channel mix (Overall)																	
		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
		*Total	*Total	*Total	*Total	* Ind	* Ind	* Ind	* Ind	*NBP	*NBP	*NBP	*NBP	* Total	* Total	* Total	* Total
		APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	APE	NBP	NBP	NBP	NBP
Bancassurance	%	58.4	57.3	52.3	55.8	68.0	70.0	72.0	69.6	60.3	53.0	62.0	64.0	43.0	52.0	48.0	49.0
Agency	%	24.4	23.8	25.4	21.7	31.0	29.0	27.0	29.8	24.9	22.0	25.0	21.0	40.0	32.0	33.0	26.0
Direct	%	8.6	9.8	13.5	12.0	-	-	-	-	-	-	-	-	7.0	7.0	10.0	16.0
Brokers and others	%	8.6	9.1	8.8	10.6	1.0	1.0	1.0	1.0	14.8	25.0	13.0	15.0	10.0	9.0	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	100.0	100.0	100.0	100.0

Banca channel partners		ICICIB and SCB				AXIS, YES, LVB				SBI, P&SB, SIB, SYB, ALB				HDFCB, RBL, IDFCB, BFL			
AUM		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
AUM	Rs bn	1,039	1,229	1,395	1,604	358	444	522	628	798	977	1,163	1,410	742	917	1,066	1,256
Equity	%	46.8	46.8	47.0	48.0	29.0	24.0	22.0	22.0	22.5	23.2	23.0	23.0	39.0	41.0	39.0	38.0
Debt	%	53.2	53.2	53.0	52.0	71.0	76.0	78.0	78.0	77.5	76.8	77.0	77.0	61.0	59.0	61.0	62.0
Linked	%	72.4	71.5	69.9	NA	37.0	35.0	33.0	32.0	55.0	54.0	53.0	49.0	62.0	52.0	57.0	NA
Non-linked	%	27.6	28.5	30.1	NA	63.0	65.0	67.0	68.0	45.0	46.0	47.0	51.0	38.0	48.0	43.0	NA
Solvency ratio		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
Solvency	%	320	281	252	215	343	309	275	242	212	204	206	213	198	192	192	188
Market Share		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
Individual NBP Private Market Share	%	20.8	21.7	20.8	17.3	9.9	10.3	9.9	10.1	20.8	20.2	20.8	20.4	14.7	13.1	14.7	14.7
Individual APE Private Market Share	%	21.9	22.3	20.9	17.6	9.3	9.2	9.0	9.6	18.8	20.7	21.8	22.3	14.7	12.7	13.3	13.3
VNB Margin		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
Margin	%	8.1	10.1	16.5	17.0	17.9	18.2	20.2	21.7	14.3	15.7	18.4	19.8	19.9	22.3	23.2	24.6
Persistency		FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
13th month	%	82.4	85.7	87.8	87.4	79.0	80.0	80.0	83.0	80.7	81.1	83.0	85.1	78.9	80.9	87.0	87.3
25th month	%	71.2	73.9	78.8	78.0	67.0	70.0	72.0	71.0	73.2	73.9	75.2	76.7	67.4	73.3	77.0	77.3
37th month	%	61.6	66.8	68.9	71.3	58.0	60.0	62.0	64.0	69.2	67.4	70.0	71.4	60.1	63.9	71.0	71.3
49th month	%	62.2	59.3	63.6	65.2	56.0	55.0	57.0	58.0	76.9	62.5	63.9	66.4	63.4	58.3	62.0	62.3
61th month	%	46.0	56.2	54.8	57.6	43.0	53.0	53.0	53.0	53.8	67.2	58.4	57.2	50.1	56.8	51.0	51.3

Source: Company financials and disclosures, HDFC sec Inst Research

Performance metrics, growth and ratios

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Performance metrics (Rs mn)					
NBP	92,118	103,644	123,592	138,118	152,926
APE	77,920	77,990	84,587	93,262	102,688
VNB	12,860	13,280	18,017	20,238	22,591
EV	187,880	216,220	246,998	278,303	312,664
EVOP	36,800	37,990	35,833	40,011	44,794
Rs/share					
EPS	11.3	8.0	10.6	12.2	14.6
BV	45.8	47.9	53.1	59.2	66.4
DPS	2.8	1.3	4.4	5.1	6.1
Growth (%)					
Premium growth	41.1	14.1	16.4	12.7	11.7
Total income growth	2.8	8.3	17.8	12.1	13.8
Commissions growth	126.3	10.5	19.0	10.4	10.1
Opex growth	7.5	28.3	21.6	12.7	11.7
PAT growth	(1.8)	(29.3)	32.4	15.1	19.7
Performance metrics growth (%)					
NBP	17.1	12.5	19.2	11.8	10.7
APE	17.6	0.1	8.5	10.3	10.1
VNB	93.1	3.3	35.7	12.3	11.6
EV	16.1	15.1	14.2	12.7	12.3
EVOP	60.3	3.2	(5.7)	11.7	12.0
EPS	(5.0)	(29.3)	32.4	15.1	19.7
BV	7.2	4.5	11.0	11.4	12.3
DPS	(11.6)	(52.9)	228.9	15.2	19.8
Expense ratios (%)					
Commissions/premium	5.2	5.1	5.2	5.1	5.0
Opex/premium	7.6	8.5	8.9	8.9	8.9
Total expenses/premium	12.8	13.6	14.1	14.0	13.9
Efficiency ratios (%)					
RoAA	1.3	0.8	0.9	0.9	0.9
RoE	27.9	17.1	21.0	21.7	23.2
ROEV return	23.4	19.6	17.7	16.2	16.1
Operating RoEV	22.7	20.2	16.6	16.2	16.1
Non-operating RoEV	0.7	(0.6)	1.2	-	-

Source: Company, HDFC sec Inst Research

Profit and Loss Account

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Policyholder Account					
Total premium earned	268,107	305,783	355,984	401,185	448,304
Income from investments and other income	113,315	102,948	128,489	143,669	172,877
Transfer from shareholders account	753	5,272	3,163	1,898	1,139
Total income	382,174	414,003	487,636	546,751	622,320
Commission	14,033	15,513	18,458	20,382	22,445
Operating expenses	20,299	26,053	31,679	35,701	39,894
Provisions	31	(1)	(1)	(1)	(1)
Total expenses	34,363	41,565	50,135	56,082	62,338
Benefits paid	172,808	142,591	163,098	184,984	214,566
Change in valuation of liabilities	154,475	210,030	251,585	281,734	318,353
Total	327,283	352,621	414,684	466,718	532,920
Surplus	20,529	19,817	22,817	23,951	27,063
Tax	1,201	1,132	1,324	1,390	1,616
Net surplus	19,328	18,685	21,493	22,562	25,447
Transfer to shareholders account	10,892	10,770	12,897	13,536	15,741

Shareholders account (Rs mn)

Transfer from policyholders' a/c	10,892	10,770	12,897	13,536	15,741
Investment income	7,469	6,536	6,881	7,472	8,240
Other income	50	93	93	93	93
Total income	18,412	17,400	19,871	21,101	24,074
Expenses	420	422	454	488	524
Contribution to policyholders' a/c	753	5,272	3,163	1,898	1,139
Profit before tax	17,239	11,705	16,254	18,715	22,411
Taxes	997	223	1,050	1,210	1,451
PAT	16,242	11,482	15,204	17,505	20,960

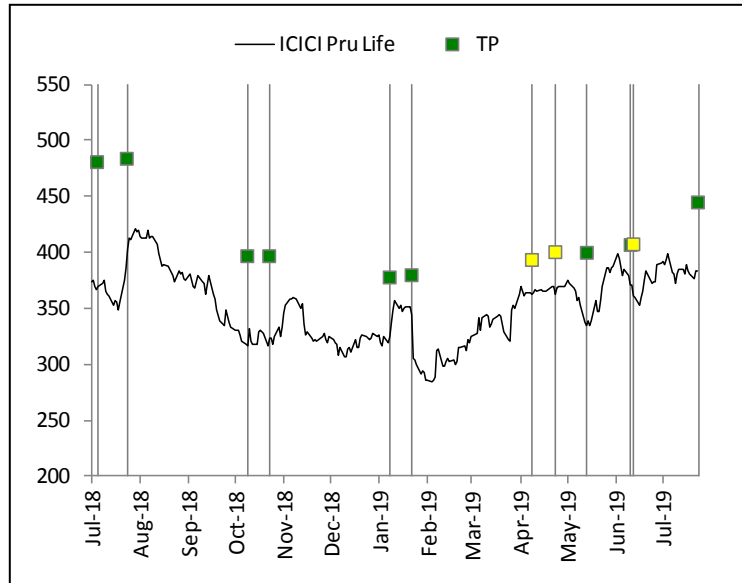
Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Source					
Share capital	14,355	14,358	14,358	14,358	14,358
Reserve and surplus	51,382	54,353	61,909	70,615	81,048
Net worth	65,737	68,711	76,267	84,972	95,406
Credit/debit balance in fair value a/c	3,081	1,712	1,712	1,712	1,712
Policyholders' a/c	1,306,111	1,513,451	1,765,036	2,046,770	2,365,123
Funds for future appropriation	8,782	10,344	10,603	10,868	11,139
Total Liabilities	1,383,710	1,594,218	1,853,617	2,144,322	2,473,381
Application					
Shareholders' Investments	77,466	79,862	87,839	96,982	107,867
Policyholders' investments	332,889	400,712	-	-	-
Asset to cover linked liabilities	975,020	1,109,458	1,761,755	2,043,489	2,361,842
Loans	1,451	2,702	2,702	2,702	2,702
Fixed assets + DTA	4,221	4,757	4,757	4,757	4,757
Net current assets	(7,336)	(3,273)	(3,436)	(3,608)	(3,788)
Debit balance in P&L	-	-	-	-	-
Total Assets	1,383,710	1,594,218	1,853,617	2,144,322	2,473,381

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
9-Apr-19	365	NEU	393
25-Apr-19	363	NEU	400
14-May-19	334	BUY	400
9-Jul-19	381	BUY	407
13-Jul-19	385	NEU	407
25-Jul-19	383	BUY	445

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

INSTITUTIONAL RESEARCH
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.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: IN2000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.