17 April 2024

INDIA | INSURANCE | COVERAGE INITIATION

JM FINANCIAL

Life Insurance



Taxation and economic headwinds faced head-on

Growth and margins to be consistent

Suppressed valuations provide room for rerating

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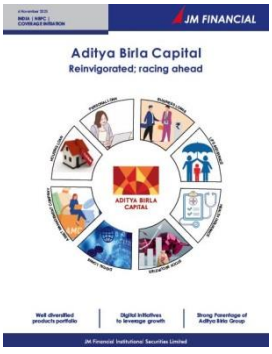


Insurance sales as a savings product have evolved with customer demand, regulations and taxation, but maintained wallet share. Our coverage companies, which are household names with strong channels, have survived but only the nimble thrive through cycles. While the sector itself should compound from a weak FY24, we look at the strength of channels and the resilience of products to evaluate the companies. We initiate coverage on LICI, SBILIFE, IPRU and HDFCLIFE. With strengthening banca and agency, and strong product propositions, HDFCLIFE is our top pick.

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Life insurance – LIFE marches on…

We initiate coverage on four life insurers, viz., Life Insurance Corporation of India (LICI), SBI Life Insurance Company (SBILIFE), ICICI Prudential Life Insurance (IPRU) and HDFC Life Insurance (HDFCLIFE), with a positive stance. Our favourable view stems from continued under-coverage of mortality risk (just 22% pure risk cover-compared to 100%+ for emerging Asian peers), lack of a national social security system (NPS AUM of INR 11trln, has grown at 37% CAGR, waiting to be annuitised) and an established sales machinery that commands 18% wallet share of household financial savings.

The industry is expected to report a sub-par growth of c.8% in individual premiums for FY24, against 12% CAGR over FY13-FY23. This was on the back of pre-buying in traditional products in Mar'23, following introduction of tax on non-mortality returns. We build in growth of 12.1%/13.2% over FY25e/FY26e, with private insurers outperforming LIC. We expect VNB margins to be flattish in FY24e – at 21.5%, 10 bps below FY23. Although LIC's margins expanded on the back of 50% YoY growth in the non-par business, private insurers under coverage have seen margins contract from 29.7% in FY23 to 27.3% in 9MFY24 – due to higher share of low-margin ULIPs, and increased opex. We build expansion in margins to 23.9% by FY26e, led by LIC (c.3%), with IPRU Life and HDFC Life expecting 1-2% margin expansion and SBI Life's margins seen flattish over FY24-FY26.

HDFC Life, having already weathered headwinds from competition in the parent channel, Exide Life acquisition and taxation of higher ticket policies, is our top pick in the sector. With its strong product proposition and enhanced distribution strength of parent banca and agency, we have the greatest comfort in its growth delivery, with margin expansion expected from FY26 onwards. We see 35% upside from current levels for our TP of INR 819.

LIC is the joker in the pack, with its embedded value highly sensitive to equity markets. While the company will deliver returns of EV below our hurdle rate, valuation below 0.8x its embedded value looks unjustified. We expect the insurer to report substantial EV growth for FY24, and volume growth through a long runway in the non-par business.

We are structurally positive on SBI Life and ICICI Prudential, as they have strong brand recall and exclusive channels to bring in growth with consistent margins. We expect them to compound at high-teens over FY24-FY26, in-line with returns on embedded value.

Established, time-tested business machinery

The listed life insurers have been time-tested, moving across products and variants with changing customer preferences, regulations and tax implications. Post-Covid, listed insurers expanded their margins from 22.5% to 29.7% over FY20-FY23. This was achieved with caution in underwriting risk, by offering return guarantees in an unstable macro. In FY24, they catered to consumers' demands for higher returns through ULIPs – through the same sales machinery. With product innovation in traditional products (immediate return variants), ULIPs (higher sum assured), protection (return of premium), and annuity (regular pay), we expect resilience going forward.

Long runway in higher-margin products

Pure risk products provide a cover of only 22% of India's GDP in FY22, a figure 6x-7x below Asian peers – Malaysia and Thailand. Annuitisation of retirement savings has just started as people on New Pension Scheme (launched in 2004) begin to retire. These can grow at 20%+ CAGR for decades. These products are longer tenor and provide higher margins (70%+ for protection and 35%+ for non-par annuities against a blended c.27% for insurers), enabling higher channels payouts.

Valuations have turned attractive as insurers combat key headwinds

Concerns around impact of Covid on mortality and idiosyncratic issues in key channels and caution on the part of insurers saw the sector de-rate post CY19 – private players moved from 3.5x on one year- forward embedded value in Dec'19 to 2.2x in Mar'24, while growth has become resilient and margins improved by 7%+ on a base of 22.5% in FY20. With time-tested supply and multi-decadal demand opportunities, the sector can only re-rate from these valuations.

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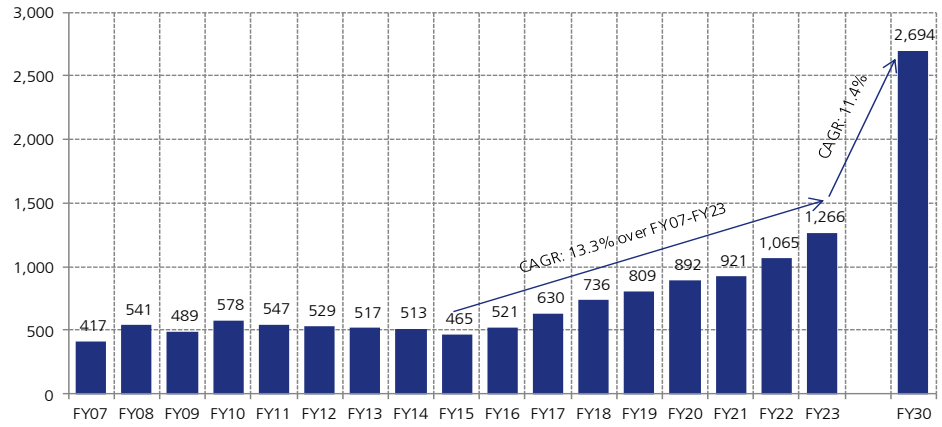
JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Life insurance market – Savings evolve, mauka in protection & annuity

While life insurance has channelised savings, India remains under-insured

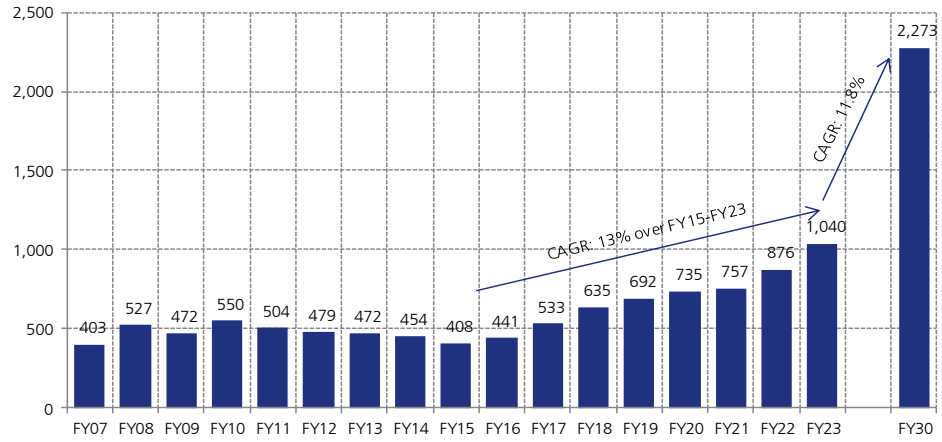
Through the efforts of Life Insurance Corporation (LIC) since 1956, life insurance has reached customers in almost every nook and corner of the country. In a country of 1.4bn people, in-force policies stood at 328.5mn in FY23, of which LIC accounted for 277.4mn (84.5%). Interestingly, the number of new policies by the industry has grown at just 0.2% CAGR over FY18-FY23. However, there has been strong growth from upselling and ticket size increase – c.12% CAGR over 10 years for private insurers while LIC has grown at a CAGR of 8% over the same period.

Exhibit 1. Industry: Total APE has grown at 13% CAGR over FY15-FY23



Source: Industry, JM Financial

Exhibit 2. Industry: Individual APE is expected to grow at about 11.8% over FY23-FY30



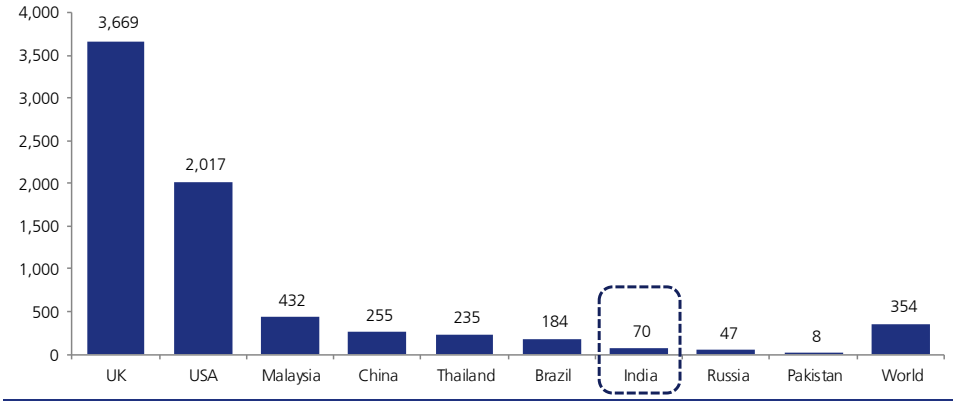
Source: Industry, Company

Exhibit 3. Average ticket size has grown at a brisk pace especially for private insurers

ATS (INR '000)	FY09	FY14	FY19	FY24*	CAGR		
					5 Year	10 Year	15 Year
LIC	**5.7**	**8.2**	**13.6**	**18.2**	**6%**	**8%**	**8%**
Private Players	**17.9**	**27.1**	**55.4**	**82.6**	**8%**	**12%**	**11%**
HDFC Life	21.5	26.9	50.4	97.5	14%	14%	11%
ICICI Pru Life	19.5	41.8	79.5	109.4	7%	10%	12%
SBI Life	30.8	27.0	58.7	77.9	6%	11%	6%
ABSL Insurance	17.7	20.1	59.5	104.6	12%	18%	13%
Max Life	13.2	33.6	60.1	91.9	9%	11%	14%

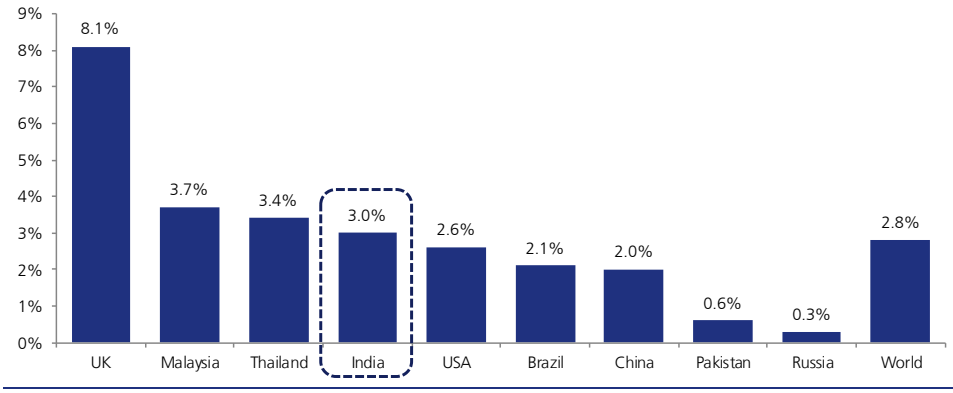
Source: Industry, JM Financial, *Represents 11MFY24 ATS

Exhibit 4. Insurance density: India's per capita premium is a fraction of Brazil and China



Source: Industry, JM Financial

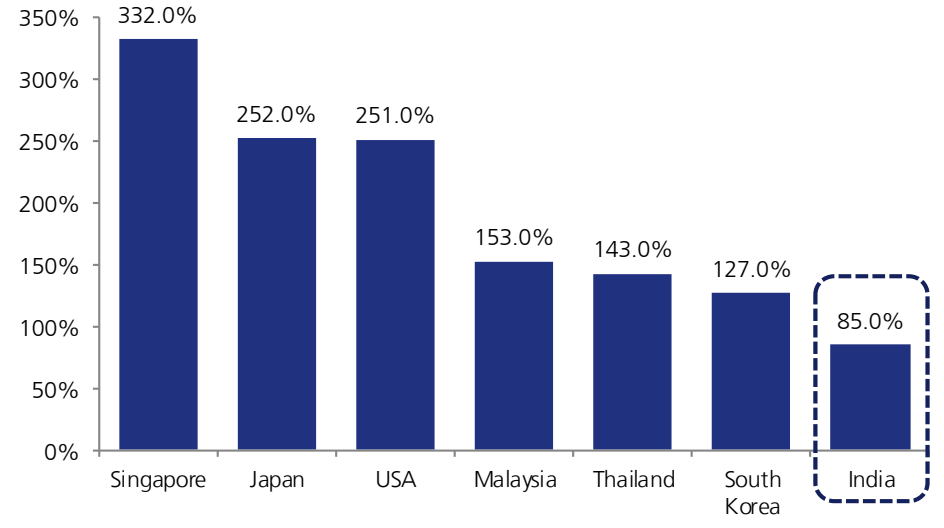
Exhibit 5. Insurance penetration: Premium share high due to strong life insurance savings



Source: Industry, JM Financial

Due to a focus on higher ticket savings products, India pays 3.0% of its GDP in life premiums, while sum assured per person remains low at INR 143,000 or USD 1,746 in FY23. In FY22, as per Swiss Re, India had a sum assured of 85% of GDP compared to 140-150% to South Asian peers, like Thailand and Malaysia.

Exhibit 6. India's sum assured to GDP at 85% in FY22 implies sufficient headroom for growth



Source: Company, JM Financial, HDFC Life Investor Presentation

We see the life insurance market as three broadly parallel streams: protection, savings and retirals.

Savings products:

While risk cover is the primary requirement for an individual, channels suggest that the Indian insurance ecosystem has shown limited appetite for pure risk policy on two counts: first, the conversation around death is off-putting for large segments of society; and, secondly, value-conscious consumers do not like a product where they pay for something and do not receive any benefit if they survive the term of a pure risk policy. Another reason that has emerged is tightening medical underwriting standards. The indicative premiums for a person, assuming sound health, may be much lower than that after medical tests. Hence, intermediaries often lose clients and have to spend substantial time for no remuneration, if the customer chooses not to buy the product. Secondly, since the term of a pure risk policy is longer, consumers tend to be more sensitive to premium amount and apply to multiple insurers before making a purchase. So, conversion from prospect to sale is lower.

- Because of the sustained efforts of intermediaries, we observe that, even in the last 3 years, while individuals' propensity to save and invest in fixed deposits or equity markets varied, the share of insurance funds in financing savings sustained at a good 18%, as per the Reserve Bank of India's (RBI's) data on household financial savings.

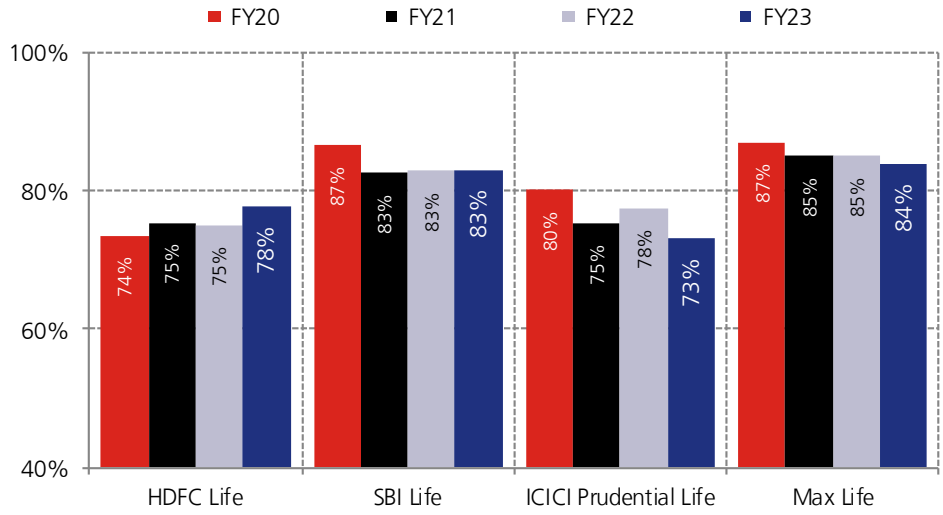
Exhibit 7. Insurance has consistently commanded 18% of household financial savings

Asset	FY21	FY22	FY23
Total Financial savings (INR bn)	30,623	25,975	29,591
Deposits	40.5%	31.8%	37.2%
Life insurance	**18.5%**	**18.0%**	**18.1%**
Provident Funds & PPF	16.4%	21.7%	22.4%
Currency	12.5%	10.4%	8.0%
Investments	4.1%	8.8%	7.2%
- o/w Mutual Funds	2.1%	6.2%	6.1%
- o/w Direct equity	1.3%	1.9%	0.8%
Small Savings	7.9%	9.3%	6.8%

Source: Industry, JM Financial

Considering the above situation, savings products have been popular in the Indian life insurance market, and accounted for the lion's share of the annualised individual premiums of listed life insurers in FY23.

Exhibit 8. Individual savings comprise 70%+ of premium mix for listed insurers



Source: Company, JM Financial

Savings mix has moved back to traditional in search of higher margins

Savings products are sold in India based on life goals and customer segments. Based on return characteristics of products, we divide savings products into the following categories.

Traditional products:

Participatory products – 90% profits shared with customers, hence, lower margins: These products have been championed and widely distributed by LIC for decades now. The consumer pays premiums upfront, which goes to the Life Fund of the insurer, profits from which are shared between the shareholders and the policyholders of the insurance company in a pre-defined ratio. Insurance Regulatory and Development Authority of India (IRDAI) has capped the share of profits retained by shareholders at 10% [link].

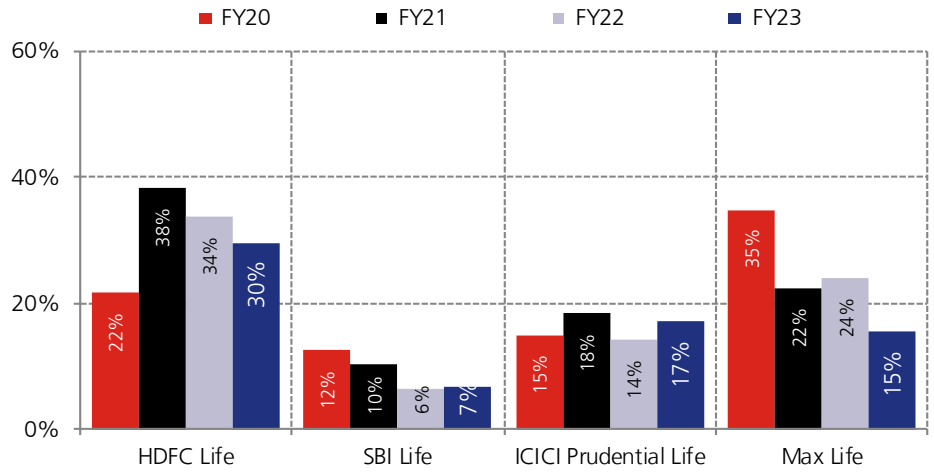
- All the listed private insurers share 90% of their surplus from their par book with policyholders. LIC traditionally shared 95% with policyholders, but with amendments to the LIC Act in FY22, [link], it adopted a glide path to 90% profit sharing, starting with sharing 92.5% with policyholders in FY23 and FY24 and 90% in FY25.
- These products are popularly called endowment plans, as they involve a regular premium payment from the customer and provide a lumpsum at the end of the policy term. These are marketed based on life goals of the life insured, for instance, a child plan to take care of children's education and marriage needs or plans to take care of retirement for businesspeople (akin to a Provident Fund). These are sold as an alternative to the popular recurring deposits (RDs), with the kicker of participation in LIC's profits. A policy, like LIC's New Jeevan Anand allows annual premium options of as low as INR1,000 per annum, allowing the product to cater to a mass segment.
- Newer variants include policies which give a return from the second year, itself. We looked at the immediate payment option for the popular par product of a leading insurer (Exhibit 9). The product shows returns for a 30-year-old, male, non-smoker, with life cover till age of 100 years.

Exhibit 9. Par products provide flexible income options, and payout in addition to life cover

Year #	Premiums	8% payout	4% payout
0	100,000	0	0
1	100,000	30,990	14,935
2	100,000	30,990	14,935
3	100,000	30,990	14,935
4	100,000	30,990	14,935
5	100,000	30,990	14,935
6	100,000	30,990	14,935
7	100,000	30,990	14,935
8		30,990	14,935
9		30,990	14,935
.	.	.	.
.	.	.	.
.	.	.	.
70	0	18,700,000	2,107,000

Source: JM Financial

Exhibit 10. HDFC Life and Max have a balanced share of par in their savings mix



Source: Company, JM Financial

Non-participatory products – highest margins for insurers for bearing return risks: By definition, these are the policies in which consumers do not have a share (do not participate in sharing) of surplus from Policyholders' Funds. Hence, these products share a pre-defined cash inflow plan for the consumer. Given the pre-defined nature of returns, these products are called return guarantee products.

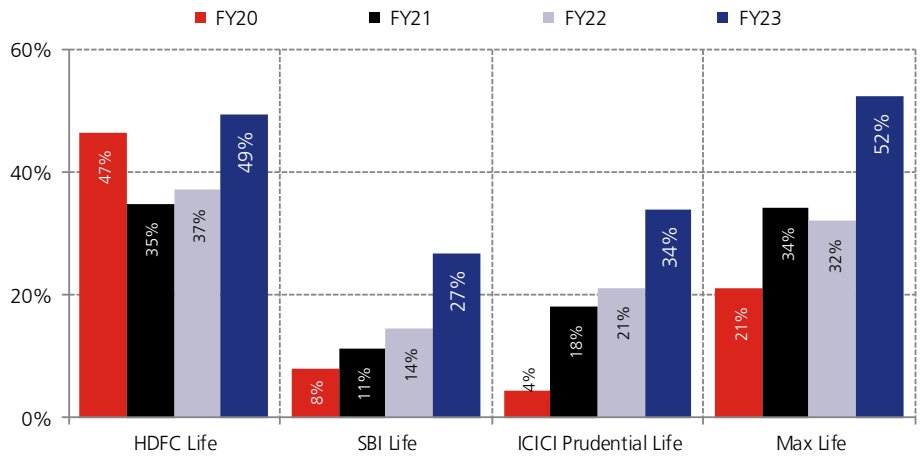
Below is the illustration of a typical non-participatory, return guarantee product, from a leading life insurer. It considers a 10 pay (10 year premium payment term) policy with premium of INR 47,486 (before tax) and guaranteed return of INR 12,00,083 after 20 years (policy term). In the product, customer receives an IRR of 6.5% if she stays through the plan, which is tax exempt since the annual premium is below INR 0.5mn every year during the policy term. Premium is also deductible under Section 80C under old I-T scheme.

Exhibit 11. Customer benefits from a typical return guarantee product

Year #	Premium	Minimum Surrender Value	Special Surrender Value	Death benefit
1	-47,486	-	-	498,600
2	-47,486	29,916	29,916	498,600
3	-47,486	52,353	52,353	498,600
4	-47,486	99,720	116,552	498,600
5	-47,486	124,650	159,191	498,600
6	-47,486	149,580	208,670	498,600
7	-47,486	174,510	265,962	498,600
8	-47,486	211,406	332,087	498,600
9	-47,486	255,782	408,160	498,600
10	-47,486	299,160	495,394	523,530
11	-	314,118	541,237	541,237
12	-	334,062	591,401	591,401
13	-	349,020	646,005	646,005
14	-	363,978	705,769	705,769
15	-	383,922	771,053	771,053
16	-	398,880	842,458	842,458
17	-	413,838	920,343	920,343
18	-	433,782	1,005,429	1,005,429
19	-	448,740	1,098,436	1,098,436
20	-	1,200,083	1,200,083	1,200,083

Source: JM Financial

Exhibit 12. Share of high margin non-par products within individual savings mix

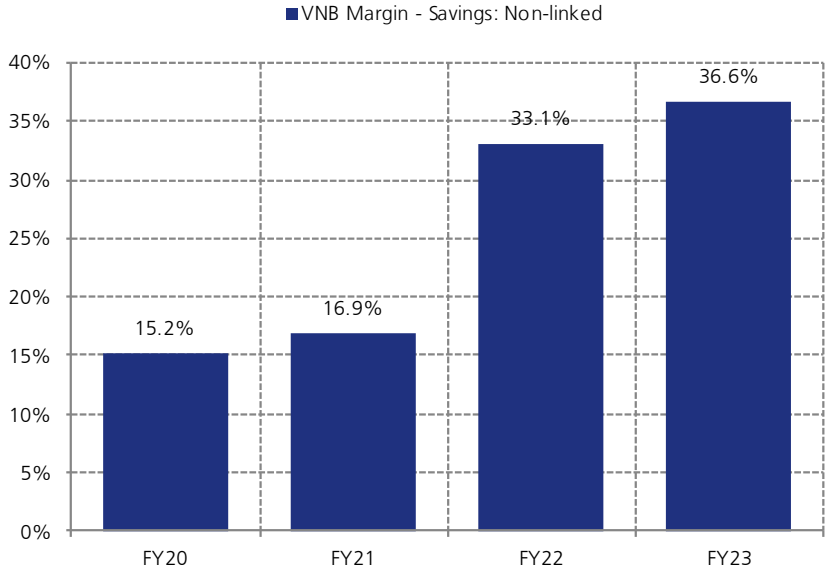


Source: Company, JM Financial

– The entire surplus from non-par funds available with an insurer is retained by the shareholders, so, these products provide a higher VNB margin for the customer in lieu of bearing the market and reinvestment risks by the insurer.

– These products have become a major part of the product mix in recent years. We believe these products were sold at scale by the life insurers only after they gained the ability to hedge their portfolio.

Exhibit 13. ICICI Prudential Life has reported healthy VNB margins for traditional products



Source: ICICI Prudential Life: Annual Report, JM Financial

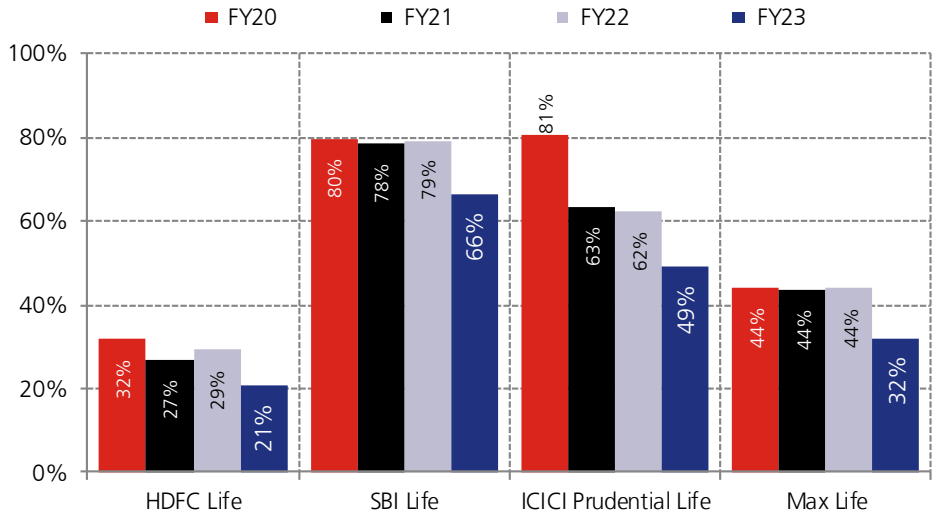
- **Linked products – least mortality risk, no investment risk implies lowest margins:** These products entail zero investment risk for the insurer. While the insurer bears the mortality risk, the returns to the consumer are a direct function of the returns generated on one or more of the segregated funds maintained by the insurer. They are only incentivised through charges like fund management fees, policy administration fees, etc., which are based on the fund value of the investments.
  - The insurer is compensated for bearing the mortality risk; however, a typical ULIP product has a sum assured of 10x regular premiums, implying lower risk, and hence, lowers compensation, for the insurers.
  - In the example below, we look at a typical ULIP from a leading insurer with a 15 year, regular premium and assumed returns at 8%. Death benefit is a minimum of 10x the regular premium. While initial charges are high, we see that, as the policy ages, charges compare favourably to an equity mutual fund, which can charge upto 2.25% of the fund value. [link]
  - In the below example, non-mortality charges, on a weighted average basis, amount to under 1.6% of fund value, which is lower than the equity schemes of mutual funds.

Exhibit 14. Benefits and charges for a typical 15-pay, ULIP product

Year #	Premiums	Mortality charges	Other charges	Surrender value	Death Benefit	Charges, %
0	-180,000	1,809	7,280	-	1,800,000	4.1%
1	-180,000	1,670	9,747	-	1,800,000	2.7%
2	-180,000	1,515	12,372	-	1,800,000	2.2%
3	-180,000	1,368	15,165	-	1,800,000	2.0%
4	-180,000	1,197	18,137	1,003,229	1,800,000	1.8%
5	-180,000	1,017	21,300	1,244,060	1,800,000	1.7%
6	-180,000	803	24,666	1,500,401	1,800,000	1.6%
7	-180,000	563	28,249	1,773,292	1,800,000	1.6%
8	-180,000	280	32,063	2,063,642	2,063,642	1.6%
9	-180,000	22	36,119	2,440,653	2,440,653	1.5%
10	-180,000	0	41,384	2,773,003	2,773,003	1.5%
11	-180,000	0	46,026	3,126,267	3,126,267	1.5%
12	-180,000	0	50,960	3,501,762	3,501,762	1.5%
13	-180,000	0	56,205	3,900,887	3,900,887	1.4%
14	-180,000	0	61,779	4,453,720	4,453,720	1.4%

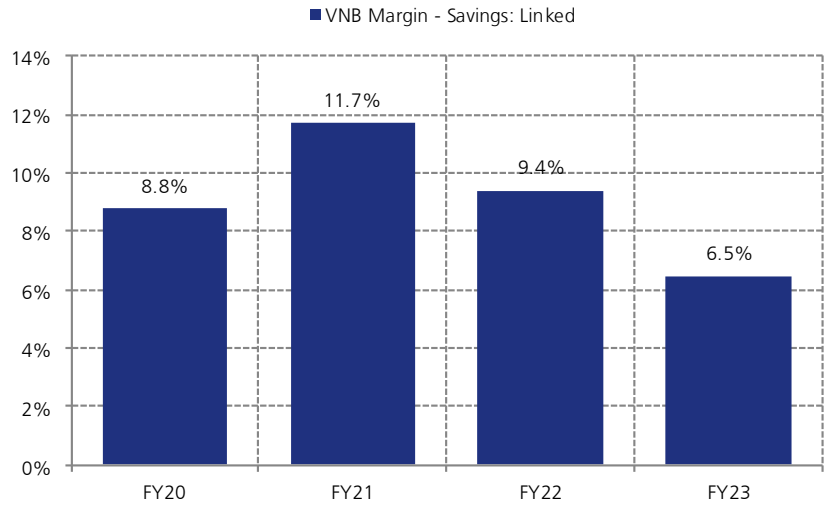
Source: Company, JM Financial

Exhibit 15. Share of ULIPs within individual savings has come down for listed insurers



Source: Company, JM Financial

Exhibit 16. ICICI Prudential Life has reported lower margins in linked products (ULIP)

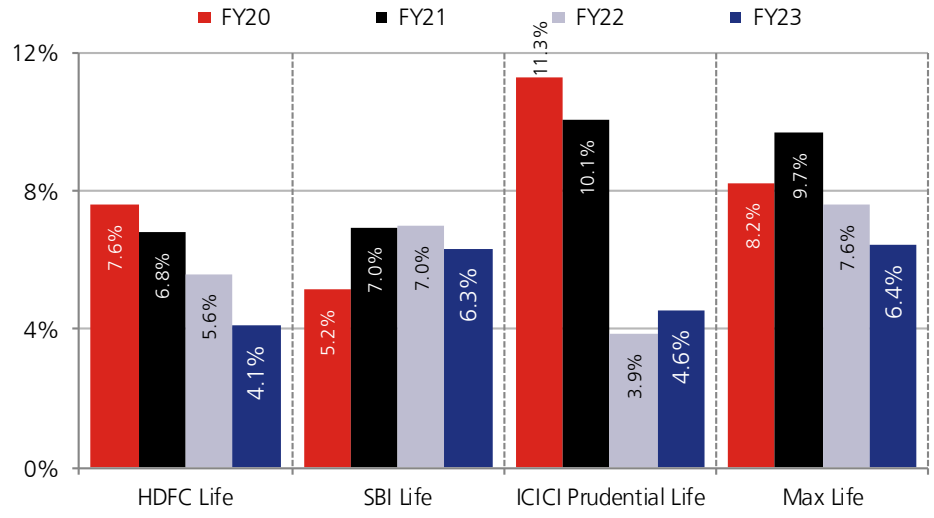


Source: ICICI Prudential Life: Annual Report, JM Financial

Protection or pure risk products offer higher margins, APE share low on ticket sizes

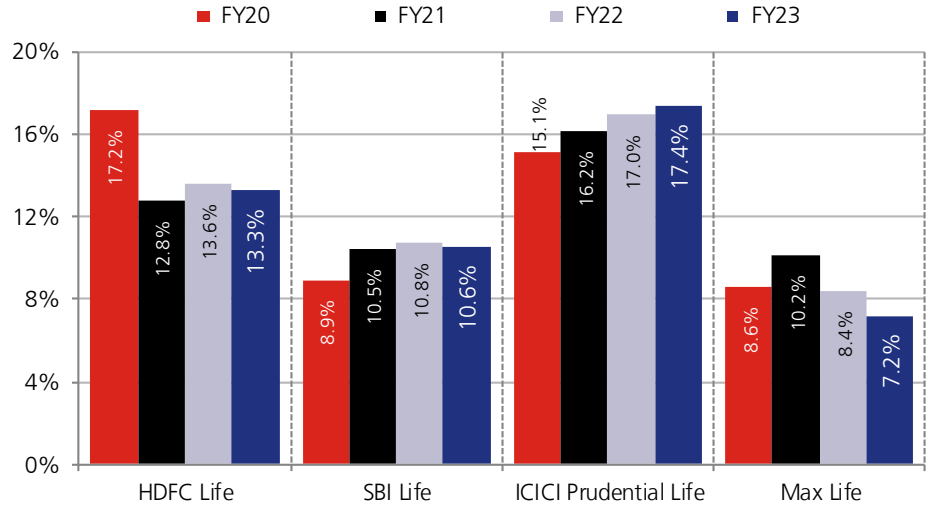
These products, as the name suggests, provide a cover for death, and riders to cover other eventualities like permanent disability and critical illnesses. They remain a hard-sell and account for under-10% of premiums for all listed insurers.

Exhibit 17. Share of Individual Protection in Individual APE has remained low



Source: Company, JM Financial

Exhibit 18. Protection share in Total APE has caught up through group business



Source: Company, JM Financial

Exhibit 19. Sum assured to EV for FY23 reveals that LICI and SBI Life have low risk book

Sum assured to EV	Sum assured (INR bn)	EV (INR bn)	Ratio
HDFC Life	15,905	395	40.2x
SBI Life	9,395	461	20.4x
ICICI Prudential Life	14,541	356	40.8x
LICI	114,074	5,822	19.6x

Source: Company, JM Financial

- Based on consumer preference for returns from any cash outgo, Indian insurers have come up with a popular variant of protection policy, called term life with return of premium (ROP). While the typical sum assured for a pure protection product is 400x-800x of annual regular premiums, the same multiple for an ROP product is 100x-200x.

Exhibit 20. Comparison of pure term and ROP plans

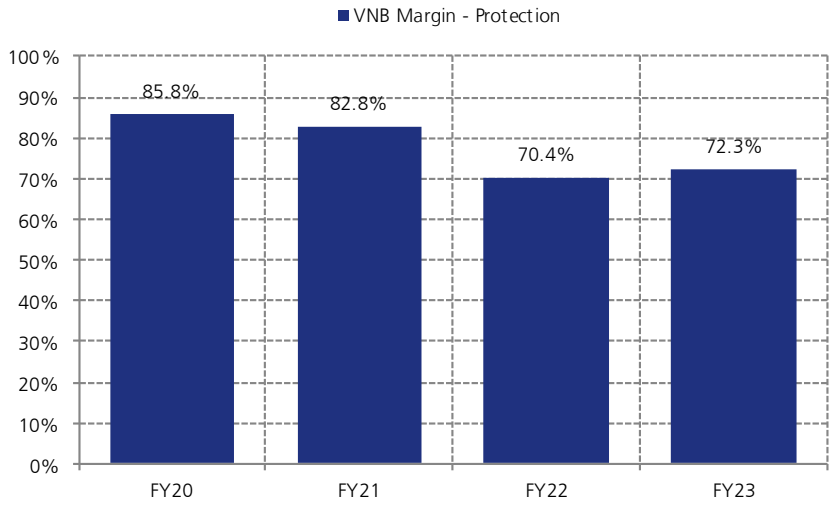
	Pure term	Term with ROP
Regular premium (INR)	14,393	56,800
Single premium (INR)	213,015	664,600
Sum assured (INR mn)	10	10
Age (yrs)	30	30
Term (yrs)	30	30
Sum assured to regular premium	695x	176x
IRR on regular premium variant	N.A.	1.8%
IRR on single premium variant	N.A.	1.3%

Source: JM Financial

We compared the features of pure term plan and term plan with ROP for a leading insurer for a 30 year old, non-smoker for a 30-year-term product. We note that insurers mention that their VNB margins on pure term and ROP variant are similar.

- We observe that the sum assured to regular premium is 695x for pure term and 176x for the ROP variant. If we consider the returns on the additional premium paid for the ROP variant, the IRR comes to be sub-2%, 1.8% for single premium variant and 1.3% for the regular premium variant.
- This lower IRR is explained by the separate customer profile for the two products. Since ROP variant is preferred by mass customers, for whom the mortality experience is worse than that for the affluent/mass affluent opting for pure term plan, the lower IRR helps insurers maintain their VNB margins on the two products.

Exhibit 21. ICICI Prudential Life has reported strong VNB margins for protection business



Source: ICICI Prudential Life: Annual Report, JM Financial

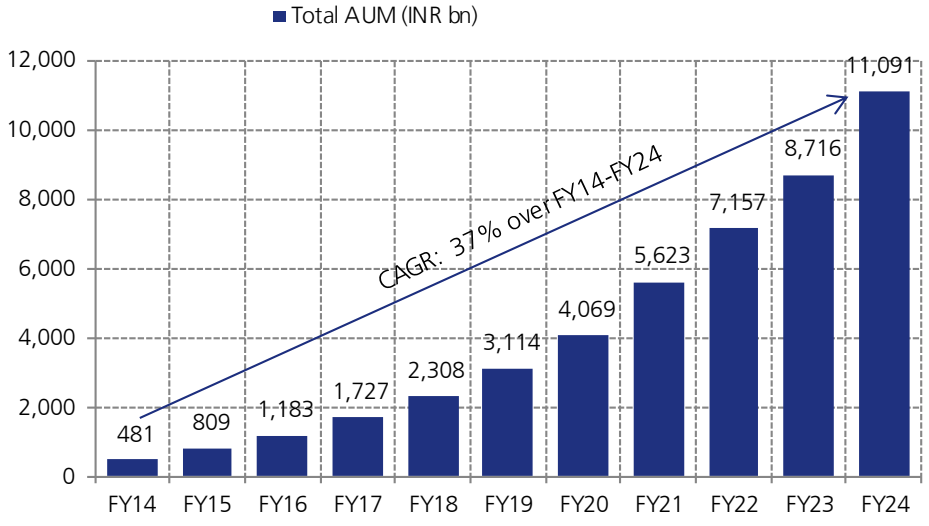
Annuity is a sunrise product, with government and public pensions moving in

Annuity products cater to the demand for ensuring a sustainable living income after productive (working) years. In India, social security is not universal, so retirement planning gains more significance. These products are unique because they do not offer a life cover.

- Variants for the product include one where the premiums are returned on death and one where the premiums are not returned. With the Indian customers' preference for returns, insurers report that greater than 90% of policies involve return of premium.
- While single premium policies are popular, regular premium variants have also come in recently. These have helped boost the APE reporting of insurers, as they are considered with 100% weight.
- The NPS opportunity: In 2004, the Government of India shifted its employees prospectively from a defined benefits based-pension scheme to a defined contribution-based scheme, called the New pension Scheme. It was made applicable for employees joining the Government of India from 1st Jan'05, while it started at specific dates for some of the other states. As on 29th Feb'24, NPS AUM stood at INR 11.1trln, 20.3% of the AUM of the Mutual Fund (MF) industry on that day. Of this, 80% comes from government employees, down from 92% in FY14.
- Upon superannuation, NPS requires individuals to invest at least 40% of the accumulated funds to purchase an annuity plan from an annuity service provider. The Annuity Service Providers (ASPs) are, today, subsidiaries of life insurers. As the government employees and other citizens introduced to NPS start to retire, we can see strong inflows into annuity for the life insurers.
- Over the last 10 years, AUM of government employees, central and state, has grown at a CAGR of 34.9%. If we consider AUM growth of 18% over the next decade, we can expect a corpus of INR 46.3trln. If we consider that 2% is deposited as annuity, i.e., 3.33% is withdrawn and 60% will be annuitised, annuity premiums will aggregate to INR 926bn every year, which is equivalent to 64.1% of FY23 individual new business premiums for the industry.

We see this as a substantial opportunity for Indian life insurers, starting with the 2030s.

Exhibit 22. Total AUM has grown as a CAGR of 37% over last 10 years



Source: Industry, JM Financial

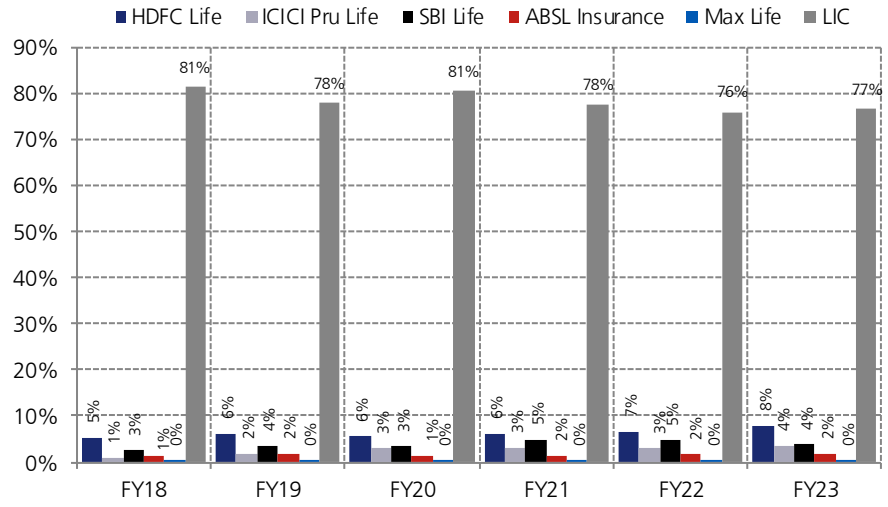
Group products have grown faster than individual

Like individual business, group business of insurers can also be savings (funds) and protection businesses.

- **Group funds** business involves managing the retirals of employees in an employer-employee relationship. Because the mortality risk borne by insurer is lower (sum assured to premiums ratio), the margins on the business are also lower.
  - The business is underwritten in the form of single premiums, through direct and broker channels, as it is dependent on sticky relationships to generate longer-term value through relationship.
- In contrast to group funds business, **group protection** offers higher margin through higher mortality risk borne by the insurer. Group protection broadly manifests as one of two products, credit protect and group term.
  - Credit protect is a policy sold to lenders by insurers that protects their repayments in case of death of the borrower.
  - Group term policy is typically sold by insurers to companies who provide insurance as one of the benefits to their employees.
- **Market dynamics – LIC has retained dominance with strong relationships**

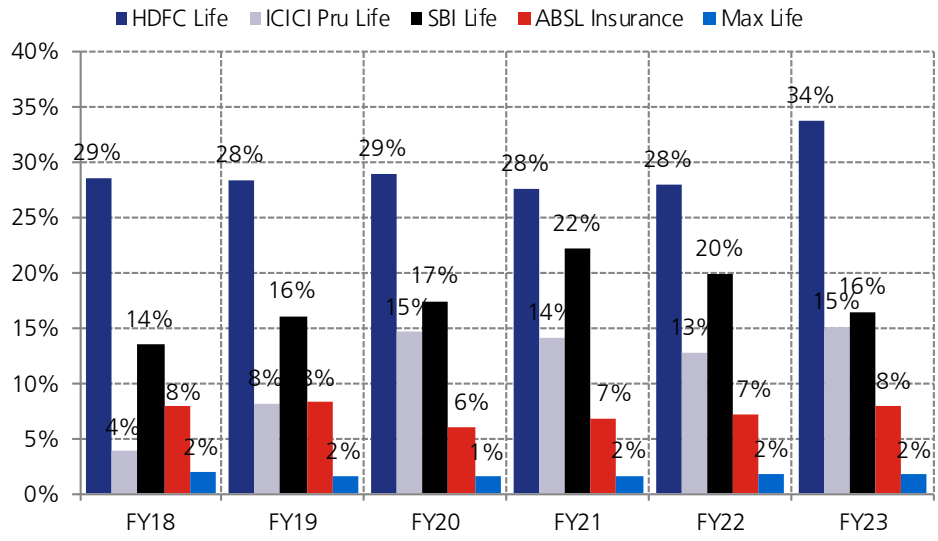
  LIC is even more dominant in the group business than in the individual business, accounting for 76.7% share of industry group APE in FY23, compared to 34.2% share in individual APE.

Exhibit 23. Group APE: LIC remains a dominant player



Source: Company, JM Financial

Exhibit 24. Private market share of HDFC Life has increased notably in FY23 in group business



Source: Company, JM Financial

- **Group margins on NBP are sub-2% due to shorter tenor and bulk pricing**

  We looked at LIC's reported VNB margins from group business. We understand that LIC has limited exposure to credit protect, which is a higher-margin business. For the group business as a whole, LIC reported a strong 14.3% VNB margin for 9MFY24, significantly higher than its par business, which reported margins of 10.3% for the same period. However, if we dig deep, we observe that the same is due to accounting for single premium business as 1/10th in APE calculations.

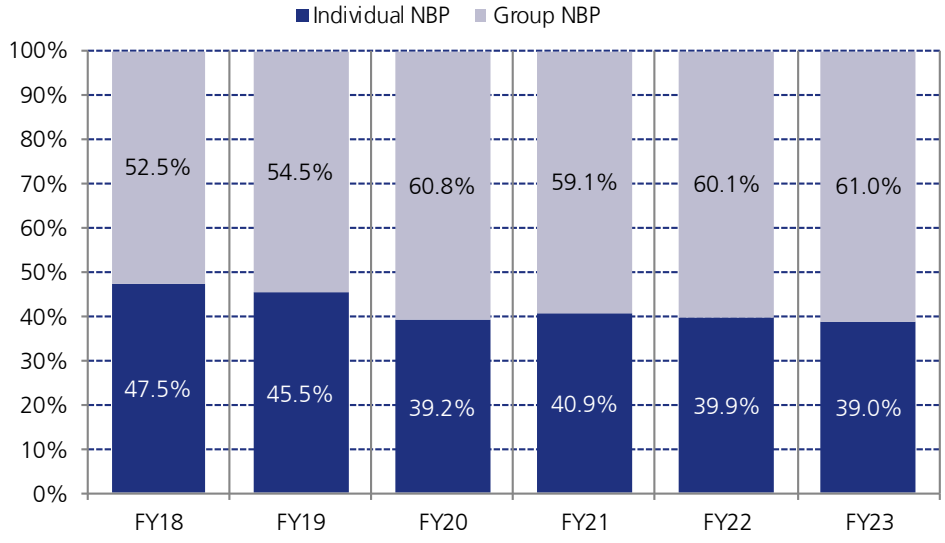
  – If we consider the margins on NBP basis, we observe that group business for LIC yields a margin of 1.6% against 10.8% for individual business. However, lower margins are compensated by sticky relationships, which have seen LIC's market share being steady in group business, unlike individual business.

Exhibit 25. LIC: Group business provides even lower margins if viewed on NBP basis

(INR mn)	Group	Individual
Reported VNB	17,600	41,780
Reported APE	122,870	235,020
Reported NBP	1,087,960	386,790
VNB margins (%)	14.3%	17.8%
Margin on NBP (%)	1.6%	10.8%

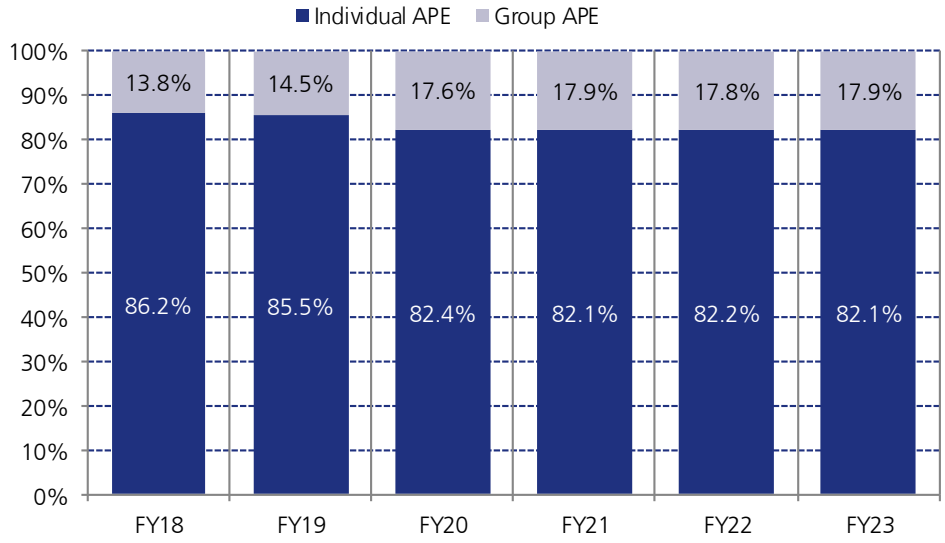
Source: Company, JM Financial

Exhibit 26. Industry: Share of group NBP has inched up gradually from FY18



Source: JM Financial, Industry

Exhibit 27. Industry: Group business share in APE has increased meaningfully since FY20



Source: JM Financial, Industry

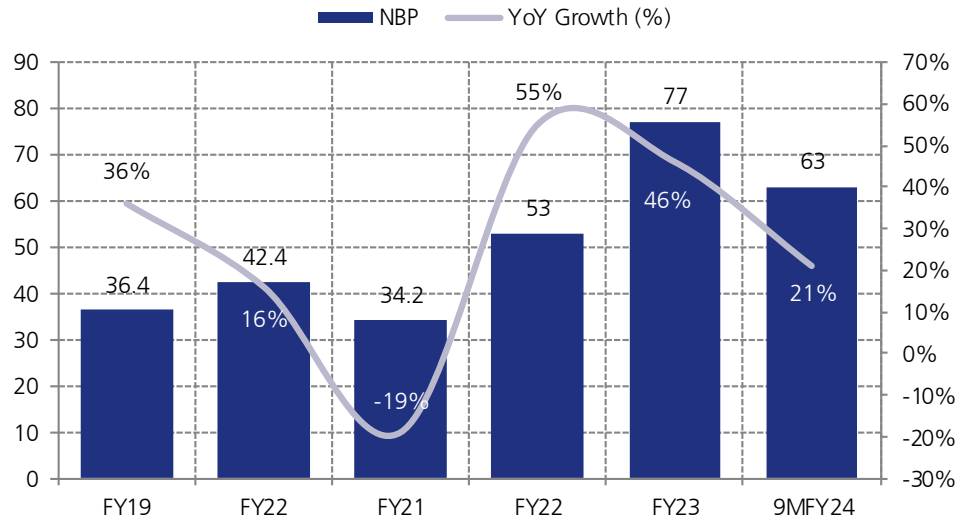
- **Credit protect has seen consistent growth through credit growth and attachment**

  Credit protect policies are sold to lenders (banks and NBFCs), wherein their group of borrowers form a cohort, and their lives are assured by the insurer. Generally, the policy has a reducing sum assured. This is because as the loan amortises in the book of the lender, requirement of protection reduces. Typically, these products are sold as single premium. However, regular premium policies are also gaining traction.

Growth in this business is a factor of three dynamics,
- Number of lender partnerships
- Disbursement growth for the partner lenders
- Attachment rate of credit protect with loans disbursement

In the table below, for HDFC Life, we see steady growth in FY24, while growth in FY22-FY23 was led by an aggressive foray into NBFCs space.

Exhibit 28. HDFC Life: Credit protect NBP grew at a healthy CAGR of 21% over FY19-FY23



Source: Company, JM Financial

Margins, on APE basis, are determined by the length of the product being underwritten, hence, mortgages generate the highest VNB margins. Industry executives suggest that margins on mortgage business are at par with individual protection as the highest margin insurance products.

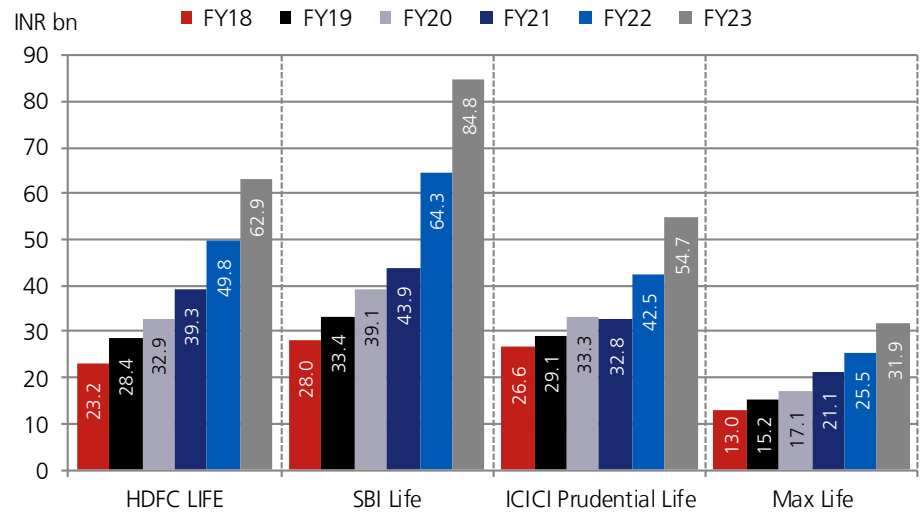
Current Dynamics & Prospects:

EV-VNB outcomes have been consistent for listed players

While the market has been valuing financial firms on book value (BV) multiples, limited confidence in the embedded value (EV) for life insurers often puts a question mark on their valuation. We acknowledge that, while book value is realised and sitting on books, value-in-force (VIF) of the underwritten business is subject to operating and economic assumptions – manifesting as risks in investment performance, mortality and inflation risks. Given that Indian insurers are using a market consistent EV (MCEV) approach and have not shown unexplained negative variances, we largely take comfort in their EV reporting, and value them based on potential growth of their EV.

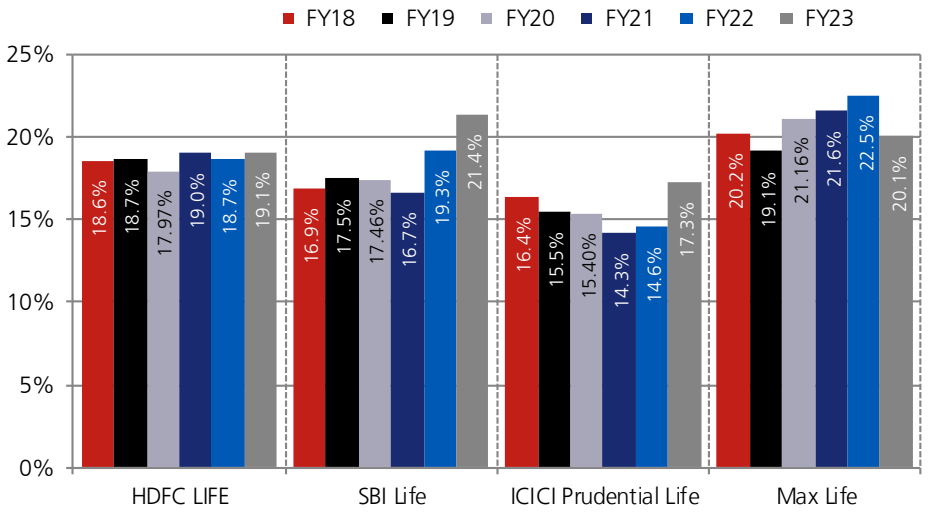
We use core EVOP (embedded value operating profit), comprising unwind (expected return on existing business) and value of new business (expected returns on new business underwritten during a year), as the earnings and core RoEV (return on EV) as return metrics. Since operating variances have remained range-bound and much of the economic variances return to null over the medium term, we can consider core EVOP as a good proxy for growth in embedded value of the insurers.

Exhibit 29. Core EVOP: Unwind & VNB growth has been consistent for listed insurers



Source: Company, JM Financial, *Core EVOP includes only VNB and Unwind

Exhibit 30. Core RoEV has been consistent for listed insurers, with kicker from growth



Source: Company, JM Financial, Core RoEV* = (VNB+Unwind)/Opening IEV

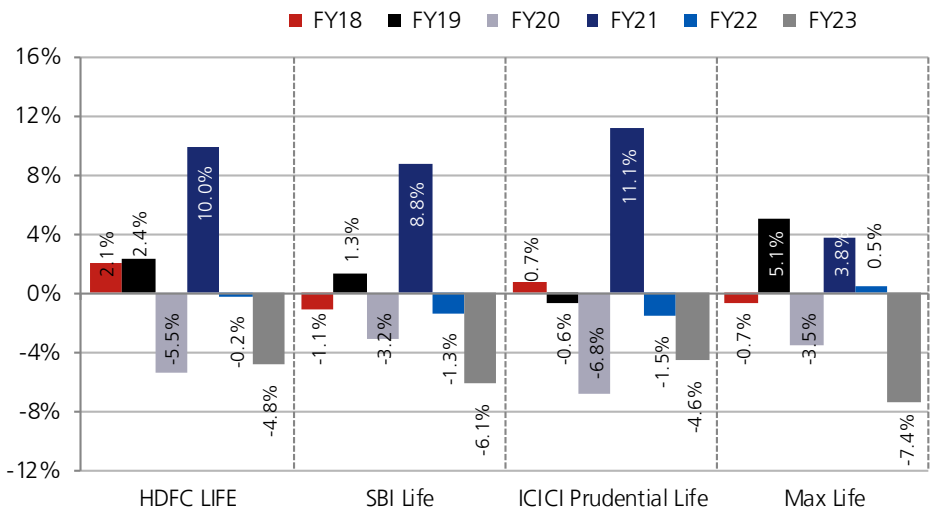
However, we recognise that embedded value for an insurer has multiple assumptions; economic – returns on existing business, through yields on fixed income and returns on listed equity and debt securities; and operational – mortality, persistency, cost of acquisition, maintenance and assumptions around tax rates charged. Both economic and operational assumptions drive present value of business-in-force as well as that of new business being underwritten. Finally, to get to the present value of both existing and new business involves assumption of a risk-free rate and expected return beyond the risk-free rate based on the insurer's portfolio of assets.

Disclosures around sensitivity to these assumptions provide an insight into the risks inherent in such valuation. Beyond the disclosures, there are nuances to be considered when estimating embedded value, which we discuss below.

- **Economic factors have provided cyclicality to EV returns – we focus on core EVOP**

  While economic variance has been benign, we saw large volatility as yield curves moved following central bank action around Covid.

Exhibit 31. Economic variance turned volatile with changing yield curves around Covid



Source: Industry, JM Financial

We look at the economic variance reported by HDFC Life in 4QFY23 of INR 15.9bn, which was 4.8% of the opening EV for the year. In the beginning of FY23, HDFC Life had reported a sensitivity of -2.0% to a 100 bps rise in reference rate.

We attribute this to a large rise in yields in the lower duration of the yield curve, in graph below. Subsequently, in 1HFY24, the insurer reported a positive variance of INR 8.1bn. As the business has grown strongly, the contribution of variance to RoEV has been low. However, as the embedded value builds up, there will be a need for greater disclosure of the variances and its movement, as we have seen for LIC, where the share of these variations is high in EV growth trajectory.

Exhibit 32. HDFC Life: Reported interest rate assumptions

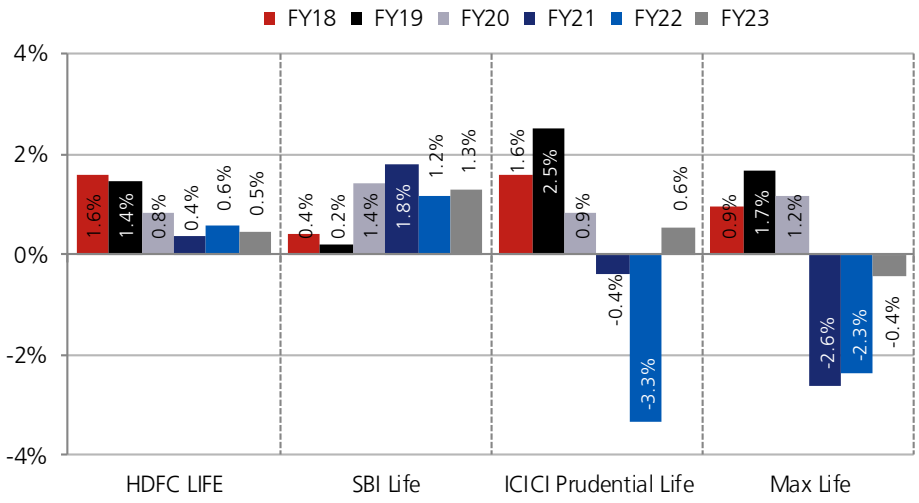
Years	Forward rate, %		Spot rate, %	
	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-23
1	4.34%	7.19%	4.25%	6.94%
2	5.65%	7.47%	4.87%	7.07%
3	6.70%	7.47%	5.41%	7.11%
4	7.43%	7.45%	5.85%	7.13%
5	7.90%	7.44%	6.20%	7.14%
10	8.36%	7.51%	7.10%	7.17%
15	7.97%	7.60%	7.34%	7.22%
20	7.57%	7.66%	7.36%	7.25%
25	7.27%	7.68%	7.32%	7.28%
30	7.08%	7.69%	7.25%	7.30%

Source: Company, JM Financial

- **Operational variance has been low, as a share of EV**

  We observed that, over time, variance due to operational assumptions and experience has been lower compared to economic variances which indicate that, over time, bringing about these changes has been a slow process.

Exhibit 33. HDFC Life and SBI Life have consistently reported positive operating variance



Source: Company, JM Financial

However, we must understand that operating assumptions built in can be aggressive and, if not achieved, they may result in negative operating assumption changes/variances.

- A key variable is mortality assumptions. Insurers disclose their assumptions as a percentage of IALM (Indian Assured Lives Mortality) tables, published by LIC. These vary from 20-40% for higher ticket policies catering to an affluent clientele to a high of 660%, presumably for microfinance customers.
  - Insurers were able to navigate Covid-19 with their books largely intact, suggesting these assumptions were largely prudent.
- On maintenance expenses, companies assume inflation in costs while reporting VNB and EV. Typically, that has ranged at around 5-6%, in-line with retail inflation in India.
  - Listed insurers showed under-1% sensitivity to a 10% rise in maintenance expenses, beyond their expected 5%-6% rate, so, we consider that this has a benign impact on their EV.

- In FY23, SBI Life/HDFC Life/ICICI Prudential assumed inflation of 5.5%/6%/6.5% in maintenance expenses.

- Automation and AI/ML may reduce these maintenance expenses going forward, which will bring in positive assumption change, positive experience for insurers and, equally importantly, drive VNB margins on new business higher.
  - For instance, over FY18-FY23, SBI Life's persistency improved by 6% or below in each bucket. If we consider linear gains in EV on account of persistency improvements, impact should have been 33 bps.
  - For HDFC Life, the impact over FY19-FY23 has been 3% or below in each bucket – 13th month, 25th, 37th, 49th and 61st.

- **As companies mature, VNB share in EV profits reduce & EV reports become cyclical**

  In a mature company like LIC, unwind and variances comprise a larger share of RoEV. For private peers, VNB comprises a larger share of RoEV and, hence, the RoEV is more predictable.

Exhibit 34. Mature insurer, like LIC, is more susceptible to changes in economic conditions

(INR mn)	LIC	HDFC Life
Opening EV	5,414,920	329,600
Unwind	415,770	26,240
VNB	91,560	36,740
Variances	-99,820	2,690
- o/w economic variance	-171,830	-15,940
RoEV	407,510	65,670
Closing EV	**5,822,430**	**395,270**
Share in RoEV of,		
- Unwind	102.0%	40.0%
- VNB	**22.5%**	**55.9%**
Variances	-24.5%	4.1%
- o/w economic variance	-42.2%	-24.3%

Source: Company, JM Financial

Exhibit 35. Sensitivity of EV to operational parameters is lower than economic conditions

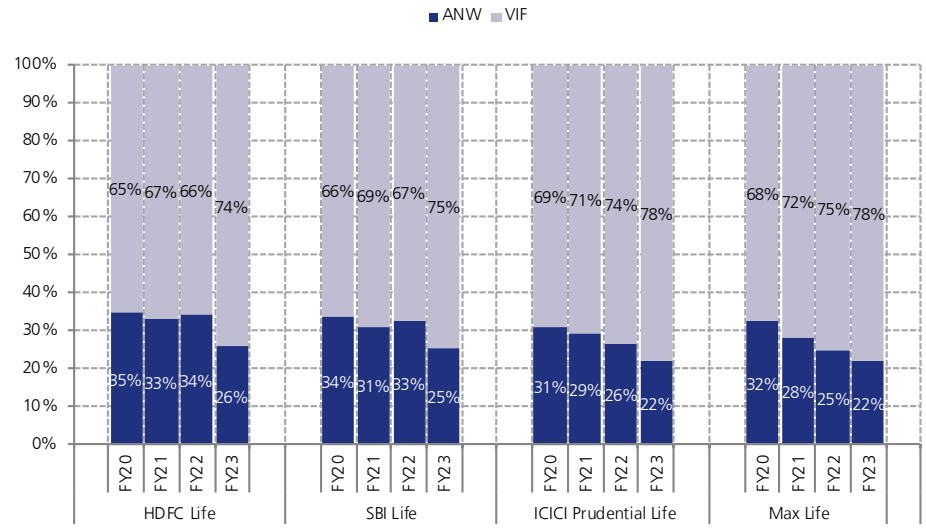
FY23	LIC*	SBI Life	ICICI Prudential Life*	HDFC Life
Persistency				
- increases by 10%	-0.4%	1.3%	0.6%	-0.3%
- decreases by 10%	0.4%	-1.0%	-0.5%	0.3%
Maintenance expenses				
- increases by 10%	-0.2%	-0.6%	-0.8%	-0.8%
- decreases by 10%	0.2%	0.6%	0.8%	0.8%
Mortality/Morbidity				
- increases by 10%	0.0%	-1.9%	-1.9%	-1.1%
- decreases by 10%	0.0%	1.9%	2.0%	1.1%

Source: Company, JM Financial; *Sensitivity to EV due to Mortality/Morbidity for LIC and ICICI Prudential Life is for 5% increase/decrease and not 10%

- **Higher share of VIF can increase cyclicality:**
  - Life insurers reported strong negative economic variances on their embedded value reporting for FY23, as bond yields spiked in near-term tenors. As the yield curve normalises, we build in positive economic variance to counter this.

– With the industry reporting strong growth, share of net worth in embedded value has come down. The value-in-force is subject to operational assumptions; hence, sensitivity is likely to increase.

Exhibit 36. Industry: Share of ANW in EV has been coming off

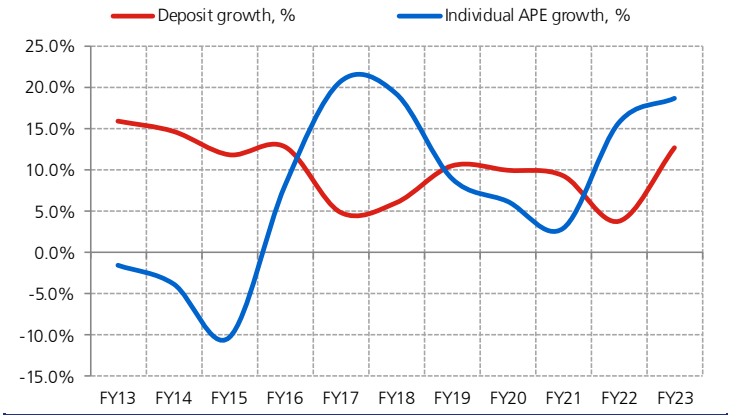


Source: Company, JM Financial

Insurance shows strong negative correlation to retail deposits

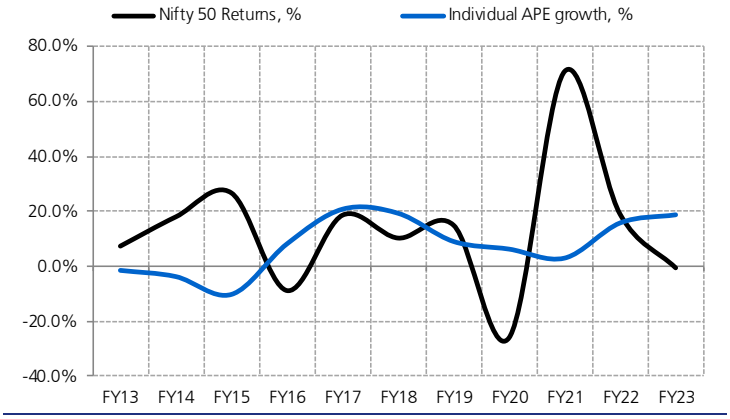
Over FY13-FY23, individual APE growth has seen a strong negative correlation, -0.66, with retail deposit growth and a weaker negative correlation, -0.22, with equity returns.

Exhibit 37. Strong negative correlation of 0.66 with retail deposits



Source: JM Financial

Exhibit 38. Weaker negative correlation of 0.22 with equity returns

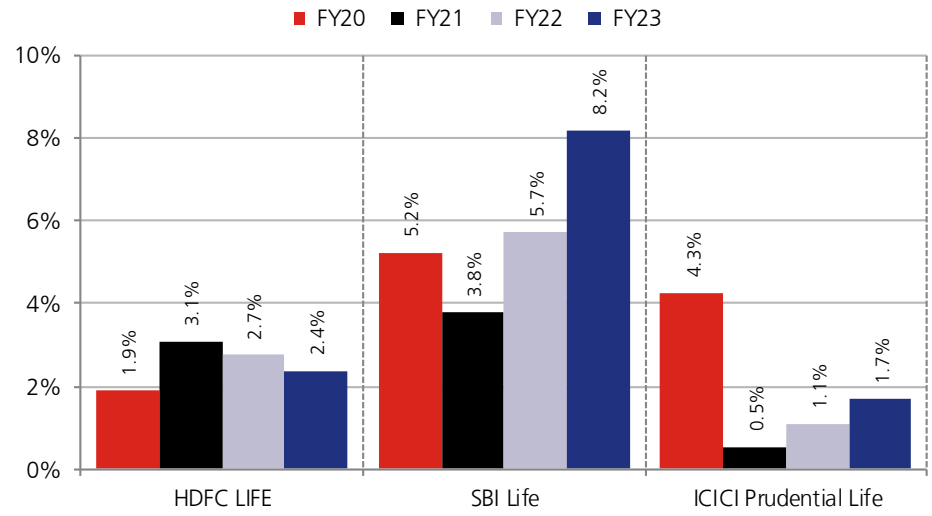


Source: JM Financial

As the listed insurers see a large proportion of their individual business come from bancassurance, a focus on deposit mobilisation by the banca partners is seen as a threat to the growth of life insurance products through the channel. This past year, we have seen this unfold for HDFC Life, as the parent bank has been trying to raise deposits to replace the high cost borrowings of erstwhile HDFC Limited.

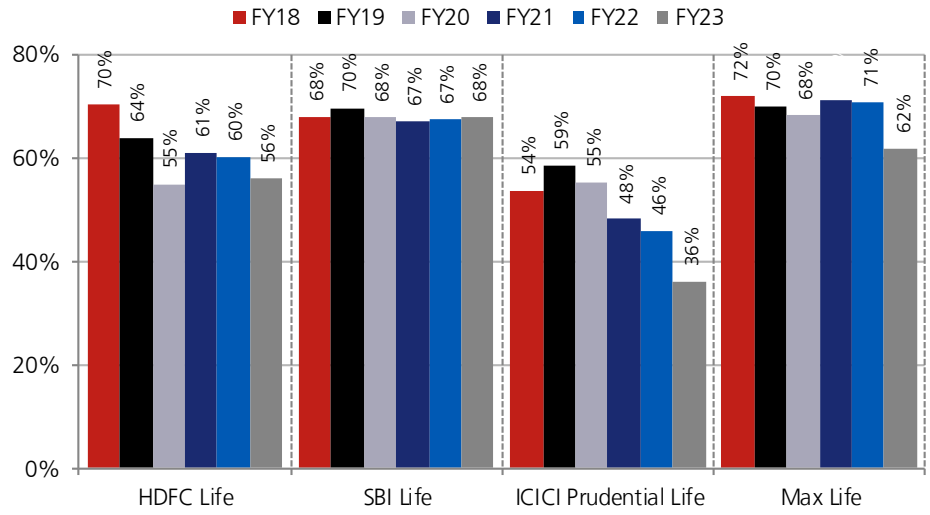
If we zoom in, we observe that such concerns may be overdone. The premiums garnered by insurance companies are a very small proportion of the deposits raised.

Exhibit 39. Insurers' entire banca has remained sub-10% of deposit accretion



Source: Company, JM Financial

Exhibit 40. Share of banca in channel mix has come off but remained high, except ICICI Pru



Source: Company, JM Financial

- **Regime change to 25% tax rate can strongly hit EV, especially for LIC**

  Over the last couple of years, insurers have received substantial demands from both income-tax and GST authorities; some of the recent orders include the following:

  – HDFC Life received orders from state GST offices in West Bengal and Bihar on excess availment of input tax credit and adjustment of turnover as part of taxable turnover.

  – LIC received a refund of INR 217.4bn (and expect another INR 37bn) after the same following a previous disallowance of interim bonus paid, from its P&L.

Both the above cases start from FY13. Several such orders have come in in FY24. While we await final verdicts in these matters, given that we have not seen any major final payouts from the insurers yet, we do not build these into our estimates. However, it remains a risk for the sector.

Another key issue for the sector is the tax rate on profit before tax (PBT), which is 14.56%. Sensitivity tables indicate a strong hit to EV in case the tax structure itself is aligned to other corporates.

The lower tax regime for life insurers was introduced for LIC, at a time when the product portfolio exclusively of participatory products, wherein 95% of profits were shared with policyholders. Now, par products comprise a small portion of the product mix, and in the remaining business, 100% of profits are retained by shareholders.

Exhibit 41. Impact on EV is contained for private insurers even at 25% tax rate

Change in tax rates	LIC	SBI Life	ICICI Prudential Life	HDFC Life
- to 25% from current levels	-24.3%	-4.7%	-6.3%	-9.1%

Source: Company, JM Financial

Insurance for All by 2047: Government's push for insurance sales

In 2022, IRDAI committed to enable 'Insurance for All' by 2047, where every citizen has an appropriate life, health and property insurance cover and every enterprise is supported by appropriate insurance solutions and also to make Indian insurance sector globally attractive. It has taken, and is taking, steps to strengthen policyholders, insurers and intermediaries to achieve this vision by,

- making available right products to right customers;
- creating robust grievance redressal mechanism;
- facilitating ease of doing business in the insurance sector;
- ensuring the regulatory architecture is aligned with the market dynamics;
- boosting innovation, competition and distribution efficiencies while mainstreaming technology and moving towards principle based regulatory regime.

We examine some key initiatives under the umbrella,

- Product regulations and surrender charges;
- Liberalisation of insurance tie-ups;
- IFRS and capital consumption;
- Expenses of management;
- Composite licences.

Product regulations and surrender charges - to hit non-par products

Life insurance products are long-tailed and insurers typically purchase long-term bonds to service the return requirements emanating from the policies. As such, surrender of policies adversely affects their Asset Liability Management (ALM). Further, value proposition for the customer from a long-term savings point of view is reduced/lost. Hence, insurance industry has maintained substantial surrender charges to create discipline amongst savers.

IRDAI had, on 12th Dec'23, released draft product regulations in which a major item was a cap on surrender charges being levied by life insurers on traditional policies. These were based on recommendations of its RRC (Regulation Review Committee) constituted in Jul'22. Insurers represented to IRDAI on the need for surrender charges to bring in discipline in savings and maintain value proposition for consumers who invest regularly. Further, in its recently (Mar'24) released principles-based regulations of insurance products, IRDAI has not made any change in the surrender charges payout.

- While IRDAI has refrained from acting on surrender charges in its principles-based regulations, we can expect some moderation in charges. The visible solution is a change in commission structure, with lower initial payouts to intermediaries.
- Given the unique ability of life insurers to provide longer term (20-40 years) return guarantees, the product proposition remains intact. However, to remain competitive with fixed deposits and debt funds, insurers may have to compromise on margins to remain competitive.

We estimated the VNB margins coming from surrender for participatory and non-par products. Our estimates suggest that surrenders in the first 7 years yield margins of 26% - 35% for non-par products, if we assume a discount rate of 8%. HDFC Life reported New Business Strain of INR 38.3bn for FY23, which was 28.7% of its total APE for the year. Considering this benchmark, we estimate that industry can face an impact on surrender charges by reducing initial commissions and moving to a trail model. ICICI Prudential Life had offered a new product, GPP (Guaranteed Pension Plan) Flexi, with an updated payout structure to adapt to these guidelines, even when the guidelines were in the draft stage.

While product-level margins coming from surrenders will vary, insurers with a higher share of traditional products in their mix, and poorer persistency will be most impacted. Also, with a threshold being discussed, insurers with a higher average ticket size are likely to be more impacted than those selling in mass segments.

Exhibit 42. VNB margins from surrender for a INR 1mn policy

Year #	Premiums	1,000,000		Threshold		25,000		500,000		1,000,000	
	Min surrender, %	Premiums	Surrender charges	Persistency	Surrender current	Charges surrender	Actual surrender	Charges surrender	Actual surrender	Charges surrender	Actual surrender
0		-1,000,000	1,000,000	94%	60,000	25,000	1,500	500,000	30,000	1,000,000	60,000
1	30%	-1,000,000	1,400,000	89.3%	65,800	35,000	1,645	700,000	32,900	1,400,000	65,800
2	35%	-1,000,000	1,950,000	85.7%	69,654	48,750	1,741	975,000	34,827	1,950,000	69,654
3	50%	-1,000,000	2,000,000	82.3%	68,582	50,000	1,715	1,000,000	34,291	2,000,000	68,582
4	50%	-1,000,000	2,500,000	79.8%	61,724	62,500	1,543	1,250,000	30,862	2,500,000	61,724
5	50%	-1,000,000	3,000,000	78.2%	47,898	75,000	1,197	1,500,000	23,949	3,000,000	47,898
6	50%	-1,000,000	3,500,000	77.5%	27,382	87,500	685	1,750,000	13,691	3,500,000	27,382
NPV					305,841		7,646		152,921		305,841
Tax					14.56%		14.56%		14.56%		14.56%
VNB (net)					261,494		6,537		130,747		261,494
VNB margin					26.1%		0.7%		13.1%		26.1%

Source: JM Financial

Exhibit 43. VNB margins from surrender for a INR0.1mn policy in first 7 years

Threshold / Year #	Min surrender, %	Premiums	Persistency	Surrender current	Actual surrender	25,000		50,000		100,000	
						Charges surrender	Actual surrender	Charges surrender	Actual surrender	Charges surrender	Actual surrender
0		-100,000	90%	10,000	2,500	25,000	2,500	50,000	5,000	100,000	10,000
1	30%	-100,000	82.8%	10,080	2,520	35,000	2,520	70,000	5,040	140,000	10,080
2	35%	-100,000	77.8%	9,688	2,422	48,750	2,422	97,500	4,844	195,000	9,688
3	50%	-100,000	73.2%	9,340	2,335	50,000	2,335	100,000	4,670	200,000	9,340
4	50%	-100,000	70.2%	7,316	1,829	62,500	1,829	125,000	3,658	250,000	7,316
5	50%	-100,000	68.8%	4,214	1,054	75,000	1,054	150,000	2,107	300,000	4,214
6	50%	-100,000	68.1%	2,409	602	87,500	602	175,000	1,205	350,000	2,409
NPV				41,497			10,374		20,749		41,497
Tax				14.56%			14.56%		14.56%		14.56%
VNB (net)				35,480			8,870		17,740		35,480
VNB margin				35.5%			8.9%		17.7%		35.5%

Source: JM Financial

In Sep'18, SEBI had banned upfront commissions paid to mutual fund distributors. There was a near-term impact with FY21 gross inflows similar to FY19 levels; however, gross equity inflows rose at 31% CAGR over FY21-FY24 as the product proposition became evident, aided by strong equity markets. We can expect a similar slowdown before the insurance markets normalise.

- **Liberalisation of insurance tie-ups - to impact agency more than banca**

As part of the Insurance for All initiative by IRDAI, the regulator has liberalised the number of tie-ups an intermediary can have with insurers. For instance, while earlier, an individual agent could tie-up with one life insurer, one multi-line general insurer and one SAHI, they have now been allowed to tie-up with three insurers in each of the categories. For corporate agents (read, banks, amongst others), the number has been raised to nine from three. Such liberalisation will definitely have an impact on the bancassurance setup.

For individual agents, anecdotal evidence suggests most productive, career agents tied up with a life insurer had another tie-up with some other insurer in the same category by holding licenced tie-ups in their spouse/relatives' names.

Insurers suggest that top 20% of their agents sell 80% of their premiums, and large majority of them are offering products from multiple insurers, though they remain primarily connected through a better understanding and appreciation of products from their tied-up insurer.

Amongst listed insurers, LIC has a lion's share of premiums coming from individual agency. While LIC's brand and sovereign guarantee hold it in good stead, liberalisation of tie-ups is likely to impact its business, as agents begin selling other insurers in their own name. Considering this risk and given the already the strong base of LIC, we are building contained growth in its flagship participatory products, in line with inflation.

In bancassurance, the dynamics may play out differently.

- SBI Life and ICICI Prudential Life enjoy exclusivity in their parent banca channel. IRDAI, while issuing a cap on number of tie-ups, has refrained from mandating a floor. The parent banks have comfort in selling their subsidiaries' policies since the consumers are hooked onto the parent brand.
  - In SBI, we have seen that even though mutual fund sales through SBI channel is liberalised, SBI Mutual Fund accounted for 97.0% and 96.3% of mutual fund commissions received by the parent in FY22 and FY23, respectively. We believe this provides resilience to SBI Life against any inroads into its parent banca channel by competing insurers.
- IPRU Life may lose counter share in IndusInd Bank once erstwhile Reliance Capital is revived by the Hinduja group, and gains share through a bank promoted by them. Management commentary and our estimates suggest IndusInd Bank's contribution to IPRU's topline is under 4% as of 9MFY24.
- HDFC Life is seeing a reversal in fortunes. HDFC Bank had allowed Tata AIA and Aditya Birla Sun Life Insurance into their channels in FY18, and HDFC Life lost counter share down to mid-50s percent. After HDFC Bank, by merging HDFC Limited with itself, became a parent of HDFC Life, HDFC Life has articulated that closer co-operation is likely to help it gain counter share to 70%. This, coming at a time when HDFC Bank is quickly expanding branches, augurs well for banca growth for the insurer.
- Channels suggest that, in mutual funds, third party product (TPP) sales through most banks involve a rigorous process of vetting and products are only offered after satisfaction of the bank. In such a scenario, adding bancassurance partners beyond three is unlikely to result in substantial counter share losses; however, the same will be sentimentally negative for the top bank-led insurers. The case of ICICI Prudential and HDFC Life suggests that insurer fortunes can move with group strategy, even without regulatory intervention.
- **IFRS & Capital consumption – Equity raise unlikely in near term**

  Growth in new business premiums in life insurers has been strong at c.14% CAGR over FY18-FY23. As insurers underwrote higher risk through return guarantees and pure risk products, capital consumption has exceeded growth in the sector.

IRDAI has taken multiple steps to ease capital raise, the key being,

- Making the SPV structure optional for Private Equity funds to invest in insurers;
- Allowing subsidiaries to float insurance companies;
- Allowing investors to raise their stake to 50% without being classified as a promoter;
- Allowing promoters to reduce their stake to 26%;
- Blessing investments, mergers and acquisitions in the structure through following deals, including acquisition of stake in Max Life by Axis Bank and Exide Life by HDFC Life.
- Licensing of new insurers with limited focus, for instance, Kshema General insurance with a focus on crop insurance.
- Reducing capital requirements for unit-linked products.

For the existing players, IRDAI doubled the threshold for raising non-equity capital – other forms of capital can be raised upto 50% of the paid-up-capital and premium of the insurer. This is likely to delay capital raise requirements for insurers,

IRDAI and industry executives say that the insurers are preparing their financial statements as per IFRS and IRDAI has started looking into these, in order to bring in a smooth transition to the framework. However, industry executives opined that rollout of the IFRS standards is likely only by FY27, at the earliest.

The promise of IFRS is a better matching of revenue and cash outflows. Industry values life insurers based on embedded value (EV) and value of new business (VNB) methodology because while the cash inflows, and profits from spreads, are back-ended, the expenses, in the form of commissions and the cost of underwriting is upfront. In an industry growing at mid-teens and average product duration of >15 years, the mismatch in cashflow becomes very prominent, as suggested by the table below.

Exhibit 44. While VNB has grown at a healthy pace, PAT growth has lagged

Company	Parameter	FY18	FY19	FY20	FY21	FY22	FY23	CAGR (FY18-FY23)
HDFC Life	VNB	12.8	15.4	19.2	21.9	26.8	36.7	23.4%
	Core EVOP	23.2	28.4	32.9	39.3	49.8	62.9	22.1%
	PAT	11.1	12.8	13.0	13.6	12.1	13.6	4.2%
SBI Life	VNB	15.7	19.2	22.2	26.6	37.0	50.7	26.4%
	Core EVOP	28.0	33.4	39.1	43.9	64.3	84.8	24.8%
	PAT	11.5	13.3	14.2	14.6	15.1	17.2	8.4%
ICICI Prudential Life	VNB	12.9	13.3	16.1	16.2	21.6	27.7	16.5%
	Core EVOP	26.6	29.1	33.3	32.8	42.5	54.7	15.5%
	PAT	16.2	11.4	10.7	9.6	7.5	8.1	-12.9%
Max Life	VNB	6.6	8.2	9.0	12.5	15.3	19.5	24.3%
	Core EVOP	13.0	15.2	17.1	21.1	25.5	31.9	19.8%
	PAT	5.3	5.6	5.4	5.2	3.9	4.4	-3.8%

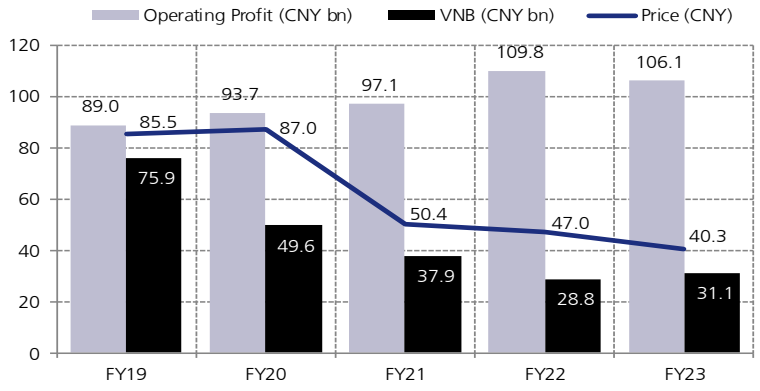
Source: Company, JM Financial

In our opinion, market analysts will measure the usefulness of IFRS based on how closely PAT aligns with VNB/EVOP metrics being used to evaluate life insurers.

Chinese insurers moved to IFRS in CY23, and we looked at the metrics for Ping An, a leading private Chinese financial conglomerate, with 65%-75% of operating profits coming from life and health insurance; however, we observed minimal change in their operating profit reported for CY22 – CNY 109.8bn pre-IFRS vs. CNY 113.0bn post IFRS.

If we look at the 5-year market performance of Ping An, we observe that the market has rewarded VNB rather than operating profit, which looks unlikely to change with the current implementation of IFRS.

Exhibit 45. Ping AN market price has reflected VNB instead of operating profit

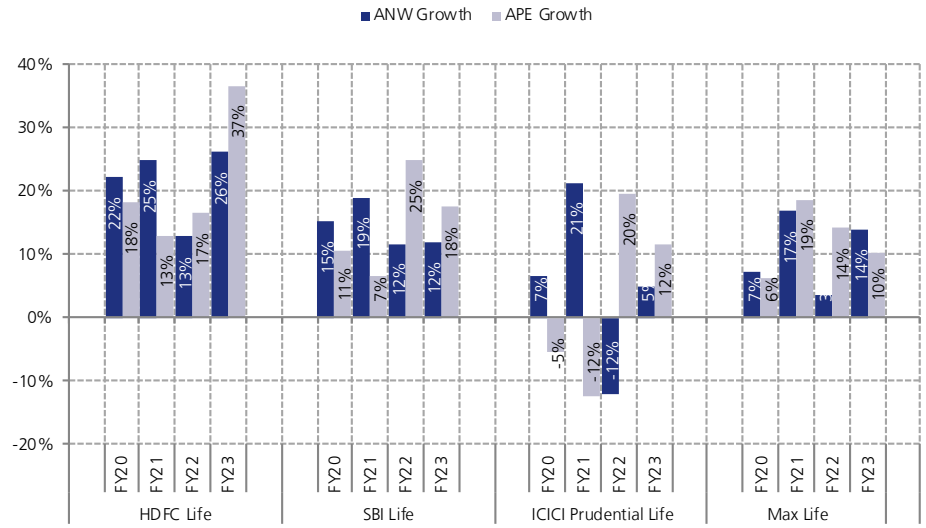


Source: Bloomberg, JM Financial, Company

In the non-life insurance space, where the contracts are generally of 1 year tenure, the impact on reported RoEs is expected to be around 2% to 4%. The profitability metrics will start to mimic combined ratios (where we consider claims on earned premium and opex on written premium), plus the kicker from investment income.

Over a medium term, we expect the new business growth of private insurers to outpace the accretion of profits to their net worth, and see them come to market and raise funds at premium valuations.

Exhibit 46. APE growth has outpaced ANW growth depicting potential need for capital

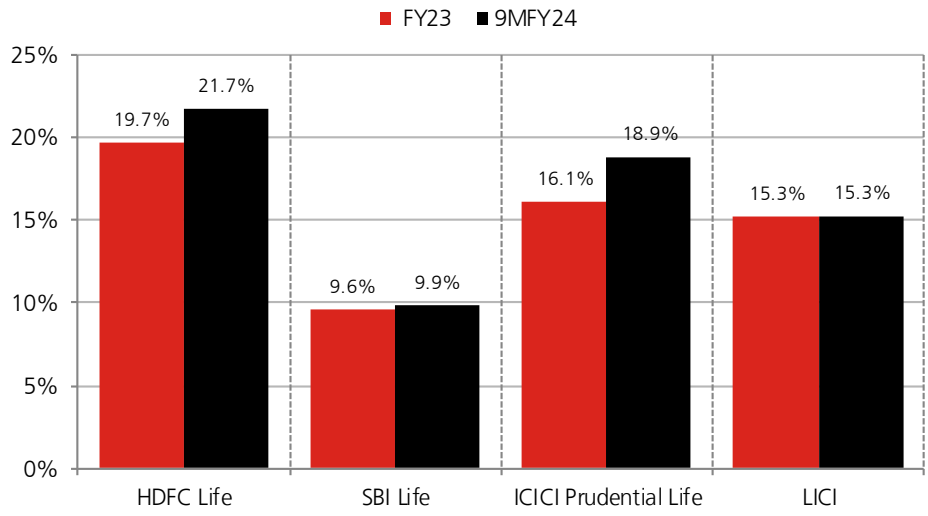


Source: Company, JM Financial, APE: Annualised premium equivalent, ANW: Adjusted net worth

- **Expenses of Management - have hit opex ratios, can reduce dominance**

  When expenses of management (EoM) regulations were updated w.e.f. 1st Apr'23, life insurers got room to flexibly structure payments towards acquisition costs. As caps on commission were liberalised, players with contracted fixed expenses for sales & marketing suffered. Hence, companies saw pressure on VNB margins in 9MFY24. As we move forward to 2HFY25 and old contracts expire, this fixed part of commission expense is expected to go down, resulting in reduced pressure on margins.

Exhibit 47. Cost ratio has escalates in FY24 with commission liberalisation post EoM



Source: Company, JM Financial

- ICICI Prudential is likely to be the key beneficiary, as it navigates sales through diverse channels in a process to reduce dependency on its parent and other banca channels. With these guidelines, we build in growth at expense of margins for the insurer.

- **Composite licences - open up a new, faster-growing, adjacent market**

  In Jul'16, IRDAI barred life insurers from underwriting indemnity based health products, i.e., products in which the insurer bears the actual costs of hospitalisation and other health eventualities, not amounting to death. However, they were allowed to continue with benefits based- products, i.e., products which provide a pre-defined sum on any health condition, for instance, a Cancer cover of INR 1mn would entail the insurer paying INR 1mn in case the life assured is detected with it.

  – In draft Insurance (Laws) Amendment bill introduced in Dec'22, the government proposed licensing of composite insurers, who can underwrite life and non-life businesses, implication being life insurers can again start underwriting indemnity-based health policies.

  – This is a good value proposition for life insurers and in other Asian markets, these products are widely sold. Further, while today, health products have a maximum tenor of 3 years, life insurers may be permitted to underwrite longer-term health policies. Due to longer tenor, composite insurers, like Ping An, report life and health business together and the same is widely valued by analysts on a multiple of EV. Composite licences open the same opportunity for Indian life insurers.

Exhibit 48. Retail health has outgrown life insurance APE over FY18-FY23

Year (INR bn)	FY18	FY19	FY20	FY21	FY22	FY23	CAGR (FY18-FY23)
Retail health	158.3	179.0	205.1	263.4	306.9	354.3	17.5%
Ind APE	634.7	691.8	734.9	756.6	875.7	1,039.6	10.4%
Ratio	24.9%	25.9%	27.9%	34.8%	35.0%	34.1%	

Source: Industry, JM Financial

  – We looked at the combi-plan, HDFC Life Click2Protect Health. In the product we sampled, we see that the health premium is underwritten by HDFC Ergo health (the erstwhile Apollo Munich business) and life premium is underwritten by HDFC Life.
  If we look dispassionately, we are actually buying two separate plans from the two insurers, both of which are, incidentally, subsidiaries of HDFC Bank. In contrast, in other Asian markets, we see longer-term products, which may become a reality in India too. Globally, companies like Ping An report their life & health business under one head, which is valued on EV/VNB.

  – Indemnity based health policies involve significant operational capability as every claim needs to be scrutinised by the health insurer – including the doctor's prescription and corresponding bill from the hospital/clinic. STAR Health employed 748 claims officers to process claims in FY23. While use of third party administrators, like MediAssist, may reduce operational requirements for life insurers, however, their development suggests the complexity of claims processing.

  – We have seen strong price hikes of 20% and higher by health insurers in FY23-FY24, plus there is an in-built kicker in premiums with age slab; for instance, a 10% rise in premiums as a person graduates from 30-34 to 35-39 year age bracket. These price hikes and the inflation of medical costs is likely to pull people to fix their premiums at the time of first purchase of the health plan – akin to a life insurance policy. If life insurers can come up with these products, they can expand their wallet share of consumers, and grow new business through ticket size increase – which they have ably done over FY18-FY23.

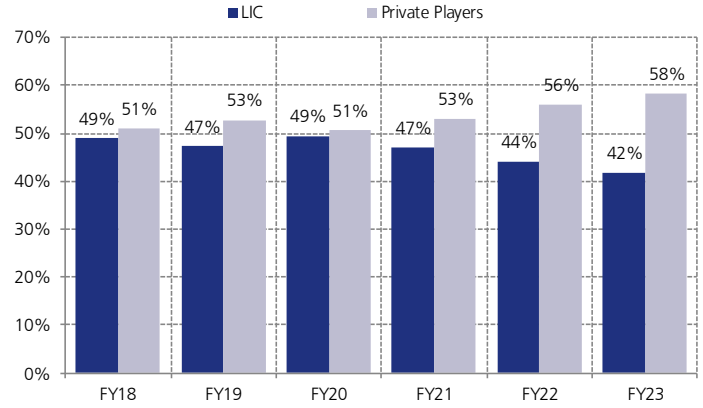
Evolution and Product Innovation

Life insurance business took off in India with the passing of the LIC Act, 1956. LIC has focused on two products, par savings for earning members of families and annuity for the retiring/retired. Industry was liberalised, starting with formation of IRDAI in 1999.

Entry of private life insurers – LIC has mainatined leadership over 2 decades

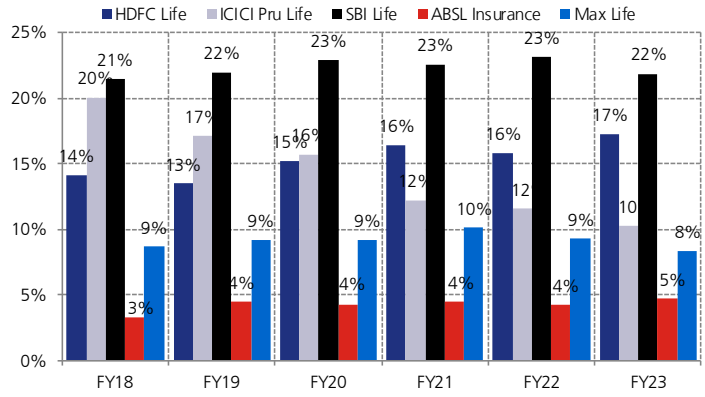
As the life insurance sector was opened up and private players came in, new products gained traction. In the 2000s, as markets boom coincided with the expansion of private life insurance, ULIPs gained prominence. These were seen by customers as offering higher returns compared to participatory products and the insurer could book present value of future profits (PVFP) into its VIF. ICICI Prudential Life Insurance Company (IPru) emerged as the largest private life insurer during this time.

Exhibit 49. Total APE: Private players have grown their share gradually



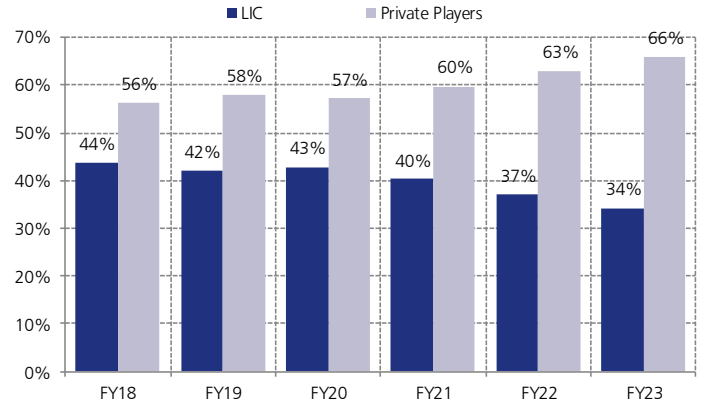
Source: Company, JM Financial

Exhibit 50. Total APE: HDFC Life has grown its share consistently



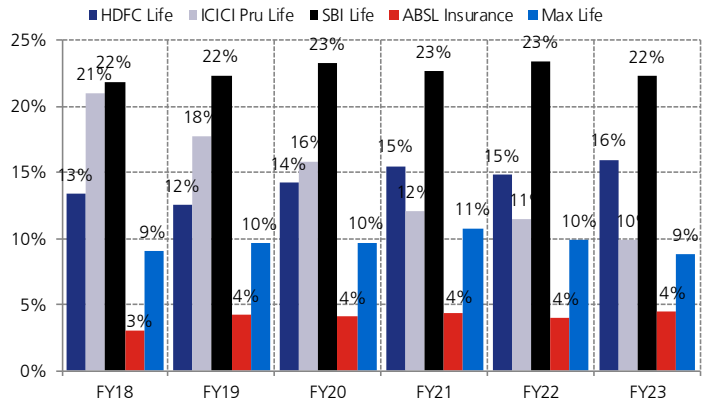
Source: Company, JM Financial

Exhibit 51. Ind APE: LIC has lost market share post-Covid



Source: Company, JM Financial

Exhibit 52. Ind APE: IPru has lost market share recently



Source: Company, JM Financial

ULIP regulations temporarily hit growth but brought in affluent

When IRDAI strongly regulated ULIP products in 2010, the incumbents saw a major dip in their growth. As agents saw their commissions getting hit, focus on the product reduced. ICICI Bank continued to sell the product strongly through its bancassurance as the post-2010 product was transparent and left benefits on the table for policyholders. By selling a regular premium insurance product, the bank's relationship managers could build a multiple year-relationship with their customers, and advise them on their asset allocation, at least at yearly rests, when the premiums became due. This was beneficial for the customer and the intermediary, and saw the industry grow into the affluent and mass affluent segments. This is evidenced by resumption of growth following a slowdown from FY10-FY13.

Exhibit 53. ULIP surrender charges rationalised

Year #	Premium under INR50,000/-	Premium more than INR50,000/-
1	Lower of 20% * (AP or FV) subject to a maximum of INR 3,000/-	Lower of 6% * (AP or FV) subject to a maximum of INR 6,000/-
2	Lower of 15% * (AP or FV) subject to a maximum of INR 2,000/-	Lower of 4% * (AP or FV) subject to a maximum of INR 5,000/
3	Lower of 10% * (AP or FV) subject to a maximum of INR 1,500/-	Lower of 3% * (AP or FV) subject to a maximum of INR 4,000/-
4	Lower of 5% * (AP or FV) subject to a maximum of INR 1,000/-	Lower of 2% * (AP or FV) subject maximum of INR 2,000/-
5	Nil	Nil

Source: Industry, JM Financial

Exhibit 54. Surrender charges for a ULIP and return guarantee for INR 0.1mn premium

Year #	ULIP	Non-par
1	6,000	100,000
2	5,000	140,000
3	4,000	195,000
4	2,000	200,000
5	0	250,000
6	0	300,000
7	0	350,000

Source: Industry, JM Financial

Listing of life insurers saw margins expand

IPRU was the first Indian (life) insurer to be listed, in Sep'16. At that time, industry product mix was skewed towards ULIPs. While ULIP sales through agency had reduced, with lower commissions, bancassurance emerged as a strong growth channel for ULIPs.

The market was educated on accounting and actuarial valuation of life insurers and people started talking of them on embedded value (EV) and value of new business (VNB) metrics.

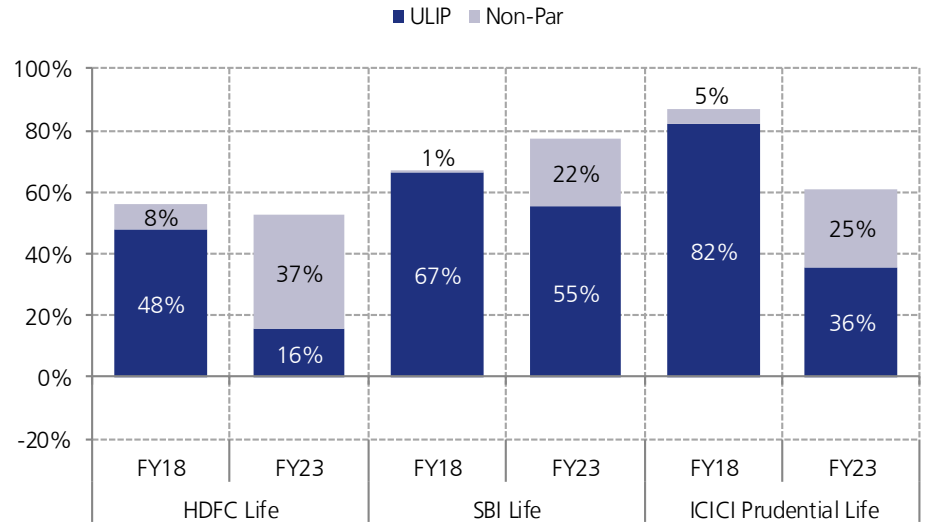
Meanwhile, the industry had built in its datasets and gained confidence in its ability to underwrite both mortality and market risks, leading to growth in return guarantees and protection (pure risk) products.

Exhibit 55. Significant improvement seen in VNB margins observed post listing

Margin Movement post listing	Listing date	FY17	FY23	Delta
ICICI Prudential Life	29-Sep-16	10.1%	32.0%	21.9%
SBI Life	03-Oct-17	15.5%	30.2%	14.7%
HDFC Life	17-Nov-17	22.0%	27.5%	5.5%

Source: Company, JM Financial

Exhibit 56. Change in product mix from ULIPs to non-par helped in margin expansion



Source: Company, JM Financial

Return guarantees hit home with longer-term features

While ULIPs led growth into the affluent/mass affluent segment, mutual funds were parallelly running their own growth story as real estate returns came down in metro cities. As affluent and HNI customers moved towards MFs, a need was felt to cut down the market risk on their portfolios and build long-term guaranteed returns – thus came the return guarantee products, which remain the mainstay of our discussion on life insurance today. Life insurance remains the only industry which offers longer term (30-40 years) guarantee of returns to the end consumers. So, they provide a unique value proposition.

These products generated strong VNB returns for insurers, and were widely sold in the affluent/HNI category while aspirational segments continued with ULIP/MFs to grow wealth.

Despite murmurs and expectations of a possible regulation of traditional products, like ULIPs were regulated in 2010, the regulator, perhaps understanding the unique value proposition the product offered, let market forces act to balance the benefit of end consumer – insurance manufacturers and intermediaries.

Exhibit 57. Customer benefits from a typical return guarantee product

Year #	Premium	Minimum Surrender Value	Special Surrender Value	Death benefit
1	-47,486	-	-	498,600
2	-47,486	29,916	29,916	498,600
3	-47,486	52,353	52,353	498,600
4	-47,486	99,720	116,552	498,600
5	-47,486	124,650	159,191	498,600
6	-47,486	149,580	208,670	498,600
7	-47,486	174,510	265,962	498,600
8	-47,486	211,406	332,087	498,600
9	-47,486	255,782	408,160	498,600
10	-47,486	299,160	495,394	523,530
11	-	314,118	541,237	541,237
12	-	334,062	591,401	591,401
13	-	349,020	646,005	646,005
14	-	363,978	705,769	705,769
15	-	383,922	771,053	771,053
16	-	398,880	842,458	842,458
17	-	413,838	920,343	920,343
18	-	433,782	1,005,429	1,005,429
19	-	448,740	1,098,436	1,098,436
20	-	1,200,083	1,200,083	1,200,083

Source: JM Financial

Above is the illustration of a typical non-participatory, return guarantee, from a leading life insurer. It considers a 10 pay (10 year premium payment term) policy with premium of INR47,486 (before tax) and guaranteed return of INR 12,00,083 after 20 years (policy term). In the product, customer receives an IRR of 6.5% if she stays through the plan, which is tax exempt since the annual premium is below INR 0.5mn every year during the policy term.

Exhibit 58. Customer IRR for return guarantee variants

Age	30	30	30
Policy term	42	42	42
Regular premium	400,000	400,000	400,000
Sum assured	4,120,000	4,120,000	2,920,000
	Increasing income, 10x cover	Level income, 10x cover	Level income, 7x cover
IRR	6.9%	6.8%	7.1%
Year #	Customer cash flows	Customer cash flows	Customer cash flows
0	-400,000	-400,000	-400,000
1	-400,000	-400,000	-400,000
2	-400,000	-400,000	-400,000
3	-400,000	-400,000	-400,000
4	-400,000	-400,000	-400,000
5	-400,000	-400,000	-400,000
6	-400,000	-400,000	-400,000
7	-400,000	-400,000	-400,000
8	-400,000	-400,000	-400,000
9	-400,000	-400,000	-400,000
10	-	-	-
11	-	-	-
12	-	-	-
13	328,000	478,000	508,000
14	344,400	478,000	508,000
15	360,800	478,000	508,000
16	377,200	478,000	508,000
17	393,600	478,000	508,000
18	410,000	478,000	508,000
19	426,400	478,000	508,000
20	442,800	478,000	508,000
21	459,200	478,000	508,000
22	475,600	478,000	508,000
23	492,000	478,000	508,000
24	508,400	478,000	508,000
25	524,800	478,000	508,000
26	541,200	478,000	508,000
27	557,600	478,000	508,000
28	574,000	478,000	508,000
29	590,400	478,000	508,000
30	606,800	478,000	508,000
31	623,200	478,000	508,000
32	639,600	478,000	508,000
33	656,000	478,000	508,000
34	672,400	478,000	508,000
35	688,800	478,000	508,000
36	705,200	478,000	508,000
37	721,600	478,000	508,000
38	738,000	478,000	508,000
39	754,400	478,000	508,000
40	770,800	478,000	508,000
41	787,200	478,000	508,000
42	4,923,600	4,598,000	4,628,000

Source: JM Financial, Company

As the policy term increases, returns to the customer also increase, hence, incentivising her for staying longer with the insurer. Insurers tell us that these longer-term products also yield higher VNB margins for them.

Further, we can see that, as the sum assured reduces, IRR increases as the insurer is expending a lower amount to cover for the mortality risk. 7x cover is the minimum required by the IRDAI for any life insurance product, while 10x is the minimum cover to avail of tax benefits. After taxation of higher ticket sized policies since FY24, we expect a proliferation of lower sum assured policies. The value proposition of a guaranteed 7%+ IRR remains, as no other financial entity offers this longer-term guarantee.

Covid made insurers cautious, pure risk slowed down

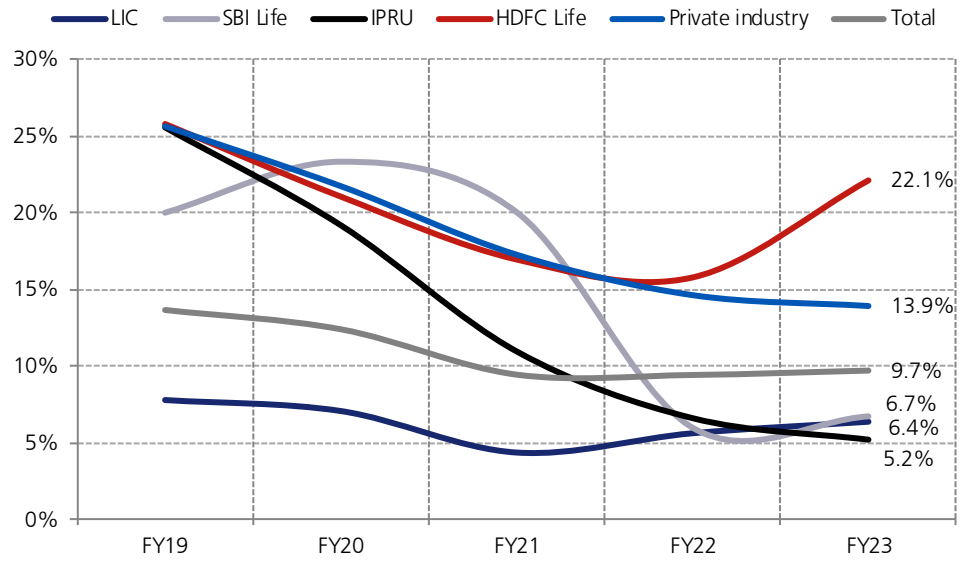
FY18-FY19 saw the industry expand its VNB margins by writing products that brought market and mortality risks onto its books. Covid brought in a unique situation wherein insurers faced higher mortality and also the risk of higher subsequent mortality for people who had acquired the disease (and possibly lost immunity). Our discussions with intermediaries suggests that, post Covid, the insurance industry became more disciplined. Medical underwriting became the norm for protection products. Reinsurers mention that, as private insurers moved to Tier 2 and Tier 3 towns and lower income groups, their mortality experience deteriorated. A combination of newer customer profile and risks associated with long term effects of Covid meant reinsurers became more guarded in their supply.

While reinsurers became guarded, primary insurers had, being in the business for over a decade and having built good actuarial and underwriting teams and processes, gained confidence in their ability to underwrite Indian mortality risks and increased the sum assured they could retain on their books.

However, with tighter medical underwriting, intermediaries were reluctant to sell pure risk policies with the possibility that their efforts would go to waste if the consumer did not pass the medical tests, and incur higher premiums than what a healthy individual would incur.

Hence, sum assured growth reduced for the sector, implying a slowdown in sale of pure risk products.

Exhibit 59. Sum assured growth slowed down post Covid, before a recovery in FY23



Source: Company, JM Financial

Exhibit 60. Sum assured growth has slowed down as insurers have become cautious

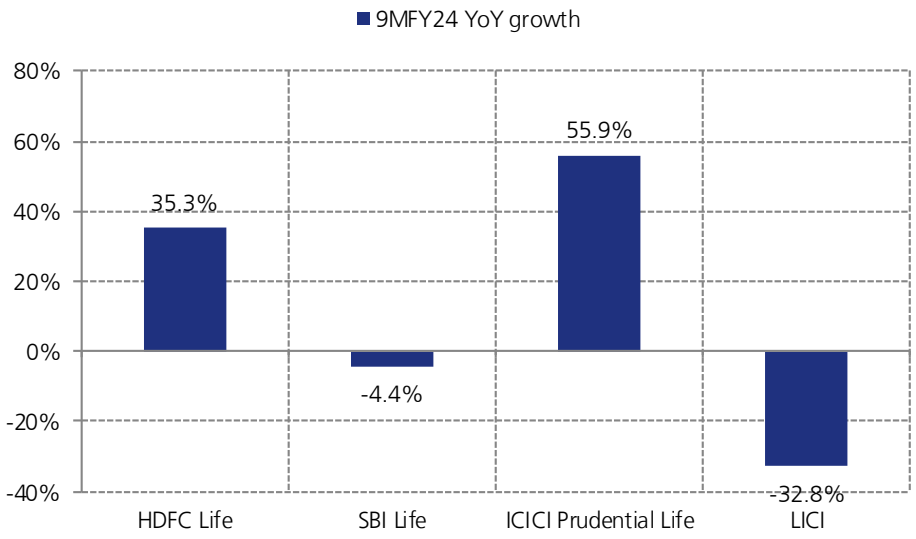
Company	FY19	FY20	FY21	FY22	FY23	CAGR
LIC	**7.8%**	**7.1%**	**4.3%**	**5.6%**	**6.4%**	**6.2%**
SBI Life	20.0%	23.3%	20.0%	6.0%	6.7%	15.0%
IPRU	25.6%	19.2%	10.9%	6.6%	5.2%	13.2%
HDFC Life	25.8%	21.1%	17.0%	15.8%	22.1%	20.3%
Private industry	**25.7%**	**21.7%**	**17.3%**	**14.6%**	**13.9%**	**18.6%**
Total	**13.7%**	**12.4%**	**9.4%**	**9.4%**	**9.7%**	**10.9%**

Source: Company, JM Financial

At this time, growth in VNB came through via non-par products, which continued to sell in an environment where term deposit rates were low, supply of hedging instruments unconstrained in a steep yield curve environment, and affluent customers willing to book their market returns in safer instruments.

In FY24, this trend has reversed with insurers reporting robust growth in protection.

Exhibit 61. Individual Protection has grown strongly for private players in FY24



Source: Company, JM Financial

ULIPs tax had limited impact, impact on non-par to be seen

As the industry absorbed the ULIP regulations of 2010, it grew through the 2010s at a CAGR of % from FY13 to FY20. As the industry expanded and brought in newer products and product propositions for customers, IRDAI did not bring in any big bang reforms. The government had, in an effort to support penetration, refrained from taxing returns from insurance policies. The exception was annuities, which catered to a retired customer segment, in line with government pensions.

In the budget for FY22, the Finance Minister announced that, henceforth, non-mortality returns on ULIPs with an annual premium of above INR 250,000 would be taxed as (long term) capital gains, bringing them at par with mutual fund products, which have a similar value proposition.

Non-mortality benefits on ULIPs with equity as underlying were taxed at 10%, without indexation, while non-mortality benefits on ULIPs with debt underlying were taxed at 20%, again without indexation.

While it was seen as a jolt to the sector, value proposition remained intact, as evidenced by the continued growth in ULIPs for the sector in FY22-FY24. As we see below, given the longer term nature of the product, taxation did not have a major impact on equity-linked ULIP returns.

Exhibit 62. Limited impact on ULIP IRRs post taxation changes

Premiums (INR)	200,000	300,000	300,000
Product	Any ULIP	Equity linked plan	Debt linked plan
Year #		Customer cash flows	
0	-200,000	-300,000	-300,000
1	-200,000	-300,000	-300,000
2	-200,000	-300,000	-300,000
3	-200,000	-300,000	-300,000
4	-200,000	-300,000	-300,000
5	0	0	0
6	0	0	0
7	0	0	0
8	0	0	0
9	0	0	0
10	2,507,879	3,761,818	2,792,868
Pre-tax return assumption	12.0%	12.0%	8.0%
Pre-tax IRR	12.0%	12.0%	8.0%
Tax	0	226,182	258,574
Post-tax return	2,507,879	3,535,636	2,534,294
IRR	12.0%	11.2%	6.7%

Source: JM Financial

The next bout of taxation came in in budget for FY23, where traditional products (participatory and non-participatory) with premiums above the threshold of INR 500,000 were to be taxed at the marginal slab rate for customers. While the threshold was higher, taxation at marginal rate meant higher tax outgo for the individuals. The industry saw strong pre-buying demand in Mar'23, before a subdued FY24, as individuals preferred higher tax-adjusted returns.

Digital opened up sector but listed players enjoy pricing power

There are three key discussion areas in online sales of insurance products:

- **Direct sale has not seen sustained focus:** Offline direct sales of insurance products remains predominant in group business, with the high cost broker channel as the other key alternative to reach out to corporates. In individual business, online sales have been approached differently by various insurers. For instance, HDFC Life reported sales through online channel till FY21, when it approached the direct integrated direct online sales to its direct channel. Similarly, ICICI Prudential considers its direct channel to focus on online sales and upselling to existing customers.
- **Sales through online web platforms has reflected brand strength:** An online platform allows prospective consumers to compare price and features. Companies with competitive pricing are likely to benefit from such an initiative. We saw that private insurers, willing to offer competitive rates, benefited from the Policybazaar channel, with HDFC Life, Max and Tata AIA contributing highest share of business.

Exhibit 63. Large insurers have ability to price risk better than smaller ones

Insurer	1st year premium	Regular premium
Aditya Birla Capital	10,008	10,762
Canara HSBC	10,871	11,443
Edelweiss Tokio	11,525	11,525
Tata AIA	10,530	11,918
Kotak Life	11,328	11,924
Aegon Life	11,413	12,014
Max Life	11,553	12,161
PNB Metlife	12,272	12,272
ICICI Prudential	12,686	12,686
SBI Life	13,683	13,683
HDFC Life	13,499	14,210

Source: JM Financial

- **Bima Sugam a work in progress:** A part of IRDAI's comprehensive Insurance for All initiative, it has been established as a not-for-profit entity, shareholding spread out amongst life, general and health insurers, with no entity having controlling stake.

  The regulations include the following,

  - 2 members to be nominated by IRDAI on the Board; Chairperson and CEO (separate positions) to be appointed with prior approval of IRDAI.
  - Consumers will not be charged for any of the services rendered by the marketplace; however, Bima Sugam is free to evolve another revenue model.
  - Insurance companies may sell policies through the marketplace and also render services, like claim settlement and grievance redressal.

Bima Sugam provides for aggregation of data from multiple insurers, customer service and sales. Currently, it specifies that sale of policies can be carried out through the marketplace. Whether or not it will evolve into a price comparison platform remains to be seen. Equity markets initially considered Bima Sugam as a direct competitor to the largest online aggregator (now broker) of insurance products, Policybazaar.

IRDAI had last mentioned a target of going live in FY25 (Jun'24 first and then FY25), after missing initial target of 1st Jan'23. Even with the recent guideline providing for its establishment, effective sales by end of FY26 look like a best case.

For sales, Bima Sugam would operationalise as a marketplace, with an interface for the individual insurers, one like Amazon provides for individual sellers and brands on its platform.

In this case, companies with strong direct-online business, where leads are generated online and converted by tele-calling, are likely to benefit.

With strong growth in direct channel in 9M24, ICICI Prudential looks like a potential beneficiary from such a platform.

Industry is also expecting a comparison platform, akin to Policybazaar, where prospective consumers can compare price and features. Companies with competitive pricing are likely to benefit from such an initiative. We saw that private insurers, willing to offer competitive rates, benefited from the Policybazaar channel, with HDFC Life, Max and Tata AIA contributing highest share of business.

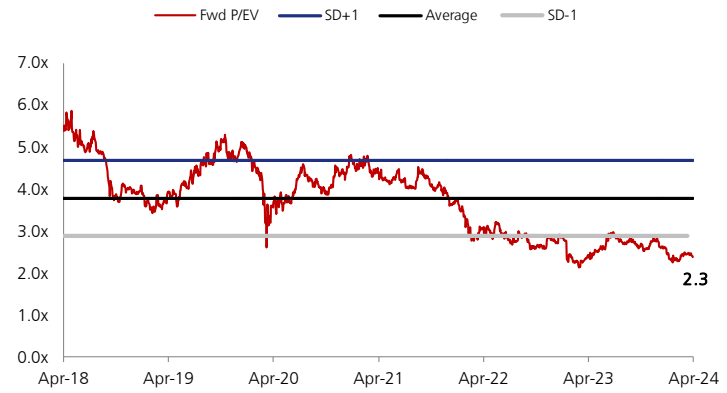
Exhibit 64. Comparative analysis of companies under coverage

INR bn	HDFC Life					SBI Life					ICICI Prudential Life					LICI				
	FY22	FY23	FY24E	FY25E	FY26E	FY22	FY23	FY24E	FY25E	FY26E	FY22	FY23	FY24E	FY25E	FY26E	FY22	FY23	FY24E	FY25E	FY26E
Total APE	98	133	136	159	189	143	168	200	232	271	77	86	87	100	114	504	567	582	635	701
Individual APE	82	114	116	137	163	131	155	181	211	248	66	72	74	86	99	356	387	402	437	483
Group APE	16	19	20	22	25	12	13	19	21	24	12	15	13	14	15	148	180	180	198	218
VNB	27	37	37	44	53	37	51	57	66	77	22	28	24	27	33	76	92	100	117	138
VNB margins %	27.4%	27.5%	27.1%	27.6%	28.2%	25.9%	30.2%	28.3%	28.5%	28.5%	28.0%	32.0%	27.0%	27.4%	28.9%	15.1%	16.2%	17.1%	18.4%	19.7%
Core EVOP %	**18.7**	**19.1**	**17.6**	**17.5**	**17.7**	**19.3**	**21.4**	**20.6**	**19.8**	**19.1**	**14.6**	**17.3**	**14.8**	**14.8**	**14.9**	**31.7**	**9.4**	**8.8**	**9.9**	**9.9**
Costs																				
- Commission	19	29	32	38	44	22	31	37	43	52	17	19	20	22	25	232	256	308	361	425
- Other opex	36	54	94	105	118	12	14	40	45	51	25	31	48	51	55	389	481	579	680	800
Embedded Value																				
Opening IEV	266	330	395	469	551	334	396	461	569	690	291	316	356	416	477	956	5,415	5,822	7,216	7,988
Core EVOP	50	63	69	82	98	64	85	95	113	132	42	55	53	62	71	303	507	513	717	791
- Unwind	23	26	33	38	44	27	34	38	47	54	21	27	29	34	38	76	92	100	117	138
- VNB	27	37	37	44	53	37	51	57	66	77	22	28	24	27	33	227	416	413	601	653
Variances	14	3	5	0	-3	-2	-21	14	8	3	-17	-15	7	-1	-6	271	-100	881	54	-17
- Operating	1	2	1	1	1	5	6	4	5	5	-11	0	4	4	4	111	82	52	43	36
- Economic & others	13	1	4	-0	-3	-7	-26	10	3	-3	-7	-15	3	-5	-10	159	-181	829	11	-54
Closing IEV	330	395	470	552	645	396	461	569	690	824	316	356	416	477	542	5,415	5,822	7,216	7,988	8,762
Valuations (INR mn)																				
CMP (INR)			605					1,463					609					976		
EVx	3.9	3.3	2.8	2.4	2.0	3.7	3.2	2.6	2.1	1.8	2.8	2.5	2.1	1.8	1.6	1.0	1.0	0.8	0.7	0.6
EV + VNBx	36.3	24.6	22.5	17.0	12.3	28.9	19.8	15.8	11.7	8.3	25.8	18.8	19.5	14.6	10.1	-	-	-	-	-
EV + EVOPx	19.5	14.4	11.9	9.1	6.7	16.6	11.8	9.4	6.9	4.9	13.2	9.5	8.7	6.5	4.7	-	-	-	-	-
VNBx	48.6	35.4	35.2	29.5	24.4	39.6	28.9	25.9	22.2	18.9	40.5	31.7	37.2	32.0	26.5	74.1	61.7	56.7	48.4	40.9
EVOPx	26.1	20.7	18.7	15.8	13.3	22.8	17.3	15.4	13.0	11.1	20.6	16.0	16.5	14.2	12.3	18.6	11.1	11.0	7.9	7.1
Market cap (INR bn)	1,300	1,300	1,300	1,300	1,300	1,464	1,464	1,464	1,464	1,464	875	875	875	875	875	5,646	5,646	5,646	5,646	5,646
TP (INR)			**819**					**1,783**					**736**					**1,222**		
EVx	5.3	4.5	3.7	3.2	2.7	4.5	3.9	3.1	2.6	2.2	3.3	3.0	2.5	2.2	2.0	1.3	1.2	1.0	0.9	0.8
EV + VNBx	53.5	37.2	35.0	27.5	20.9	37.5	26.1	21.5	16.6	12.4	34.3	25.4	27.4	21.3	15.7	-	-	-	-	-
EV + EVOPx	28.7	21.7	18.6	14.7	11.4	21.6	15.6	12.8	9.7	7.3	17.5	12.8	12.2	9.4	7.3	-	-	-	-	-
VNBx	65.8	47.9	47.7	40.0	33.1	48.2	35.2	31.6	27.0	23.1	49.0	38.3	45.1	38.7	32.1	94.5	78.7	72.3	61.8	52.1
EVOPx	35.3	28.0	25.3	21.4	18.0	27.8	21.0	18.8	15.8	13.5	24.9	19.3	20.0	17.2	14.9	23.7	14.2	14.0	10.0	9.1
Market cap (INR bn)			1,760	1,760	1,760			1,785	1,785	1,785			1,059	1,059	1,059			7,203	7,203	7,203
Growth %																				
Total APE	16.6%	36.7%	1.9%	17.3%	18.3%	24.9%	17.6%	18.8%	16.0%	17.0%	19.7%	11.7%	0.7%	14.9%	14.4%	17%	12.5%	2.7%	9.1%	10.3%
Individual APE	14.7%	39.6%	2.0%	18.1%	18.9%	27.4%	17.7%	16.8%	16.7%	17.5%	15.6%	9.2%	3.5%	16.6%	14.7%	17%	8.7%	4.0%	8.6%	10.5%
VNB	22.4%	37.3%	0.4%	19.3%	20.9%	39.1%	37.0%	11.5%	16.9%	17.0%	33.4%	27.8%	-15.0%	16.4%	20.6%	-	20.2%	8.7%	17.1%	18.5%
Closing IEV	23.8%	19.9%	19.0%	17.3%	17.0%	18.7%	16.2%	23.6%	21.1%	19.5%	8.7%	12.7%	16.7%	14.7%	13.6%	-	7.5%	23.9%	10.7%	9.7%

Source: Company, JM Financial

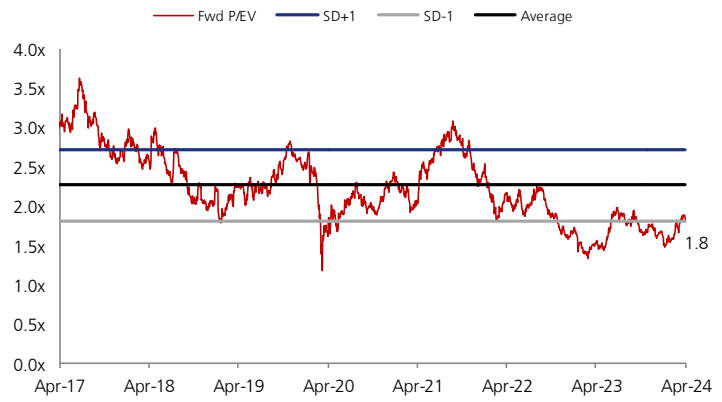
Sector valuations:

Exhibit 65. HDFC Life: Always enjoyed premium to peers



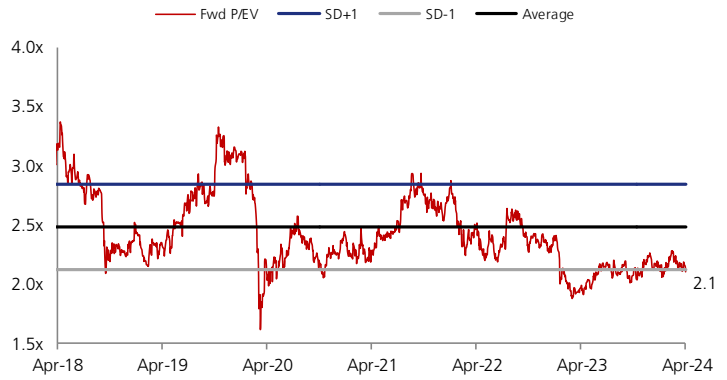
Source: Company, JM Financial

Exhibit 66. ICICI Pru Life: Growth concerns weighed on valuations



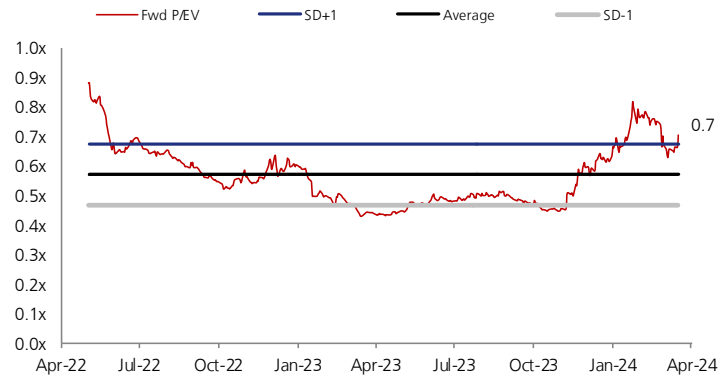
Source: Company, JM Financial

Exhibit 67. SBI Life: Consistent growth has been rewarded



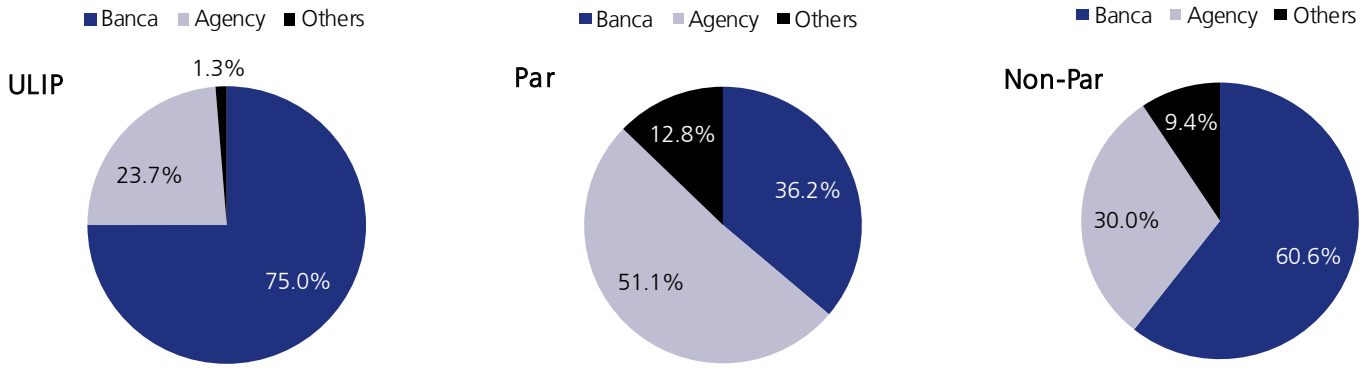
Source: Company, JM Financial

Exhibit 68. LICI: Valuations uptick on strong Non-Par growth



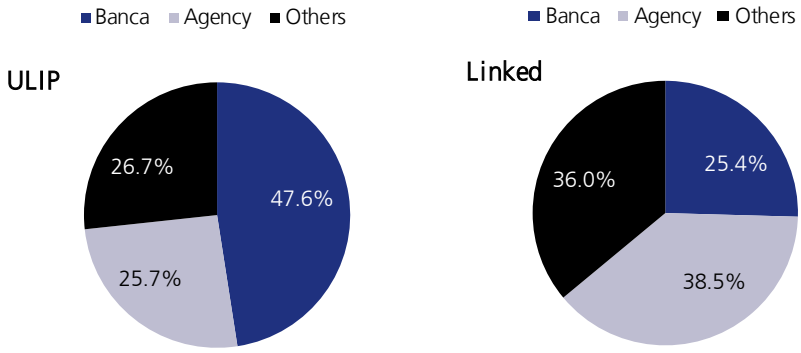
Source: Company, JM Financial

Exhibit 69. SBI Life: FY23 - Banca loved ULIPs, growth in non-exclusive channels key to product diversification



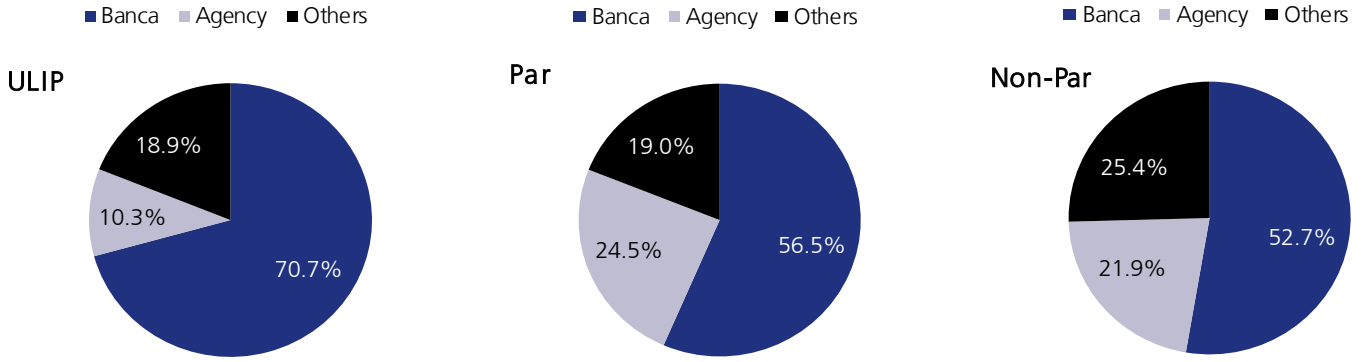
Source: Company, JM Financial

Exhibit 70. ICICI Pru Life: FY23 - Diversity in channels promotes non-linked business



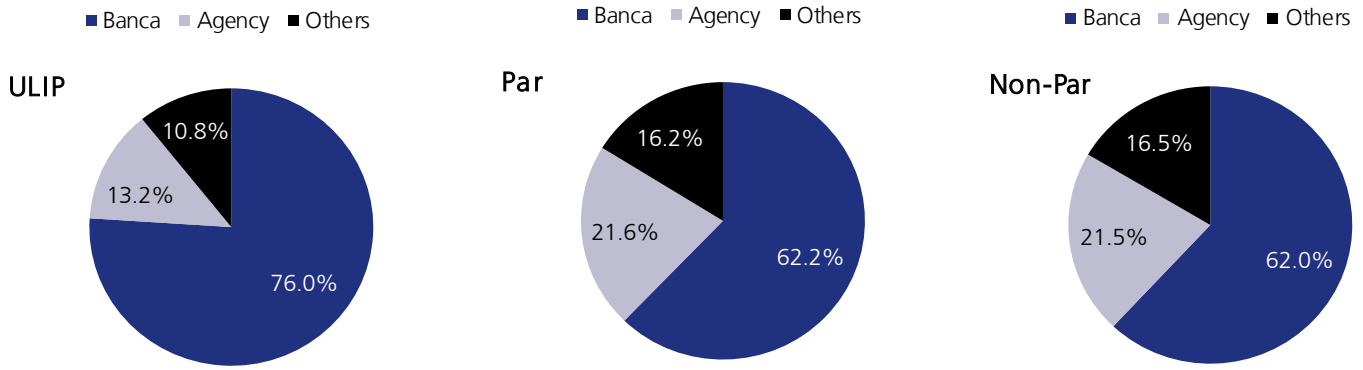
Source: Company, JM Financial

Exhibit 71. HDFC Life: FY23 – ULIPs sold through banca, traditional products drive channel mix



Source: Company, JM Financial

Exhibit 72. HDFC Life: 9MFY24 – ULIPs successfully compete in banca, while other channels continue to focus on traditional



Source: Company, JM Financial

Life Insurance Corporation of India | BUY

Strong value; consistency in non-par growth to watch out for

JM FINANCIAL

With 60%+ share of new business in the fast-growing insurance sector, LIC is expected to lose ground to smaller insurers. However, the company has maintained 50%+ market share after facing competition for 20 years and, post listing, has shown strong growth in non-participatory products (4x YoY in 9MFY24), beating decades of business-as-usual. This provides a strong runway for margin expansion through launch of protection and non-par products, which provide a sovereign guarantee, in addition to competitive returns. It is underappreciated that LIC of India had an embedded value of 12.6x the largest private insurer in FY23. Even accounting for consistent 3x company-level growth in non-par products, VNB margins on new business are likely to remain below that of private peers by FY30. Similarly, operating returns on EV will trail the private industry, even if it enhances dividend payouts in the medium term. However, with buoyant equity markets, we expect the company to report strong, 24% YoY, growth in embedded value as on 31st Mar'24. Its core business is priced at under 0.7x on its FY26e embedded value. At these valuations, the company offers a large margin of safety. While embedded value growth will fluctuate with equity market movements, improving new business margins will provide consistency to its growth. Value unlocking in the banking subsidiary provides an additional upside potential. We initiate with BUY with a target price of INR 1,222, valuing the company at 0.8x its FY26e EV of INR 8,761.5bn.

- **Strong EV growth expected in FY24 numbers on back of gains in equity book:** The company has an AUM of over INR 50trln, with c.25% invested in equities – this is likely to provide a kicker to its EV reporting in FY24. On a structural basis, the vast book allows it to take risks in equity markets and report higher returns on in-force business, in line with private players at above 8% while it had reported 7.4% returns in FY23.
- **Build-up of non-par business looks on track:** With decades of selling participatory and annuity products, the company's agents struggled to pitch a totally new product proposition. However, with concerted training and technology inputs, the 1.3mn plus agents are gradually selling non-par products, visible through 4x growth in 9MFY24, on a low base. While 4x growth may not sustain, we expect the company to grow the non-par book at 20%+ YoY through the 2020s. This will drive VNB margins above 20% levels and provide stability to EV returns.
- **Lowest mortality risk on book provides resilience:** LICI has been careful in underwriting mortality risk and its sum assured to embedded value remains lowest in the listed space – at just under 20x. This provides resilience against tail risks, and enables the insurer to take on return risks on its vast book, which it has so far refrained from, having predominantly sold par products. The non-par book is a focus area and provides growth kick to the company. We expect the insurer to grow at 9%/11% over FY25/FY26, led by its growing non-par business.

Financial Summary

INR bn	FY22	FY23	FY24E	FY25E	FY26E
Total APE	503.9	566.8	582.3	635.0	700.5
Growth YoY (%)	16.5%	12.5%	2.7%	9.1%	10.3%
Individual APE	355.7	386.7	402.1	436.9	482.5
Opex + Commissions	620.6	737.3	886.3	1,041.7	1,224.4
VNB	76.2	91.6	99.6	116.6	138.1
Growth YoY (%)	-	20.2%	8.7%	17.1%	18.5%
VNB margins	15.1%	16.2%	17.1%	18.4%	19.7%
EVOP %	31.7%	9.4%	8.8%	9.9%	9.9%
P/EVx	1.0	1.0	0.8	0.7	0.6
Embedded value					
Opening IEV	**956.1**	**5,414.9**	**5,822**	**7,216**	**7,988**
EVOP	**303.4**	**507.3**	**513**	**717**	**791**
- Unwind	76.2	91.6	100	117	138
- VNB	227.2	415.8	413	601	653
Variances	**270.8**	**-99.8**	**881**	**54**	**-17**
- Operating	111.4	81.5	52	43	36
- Economic & others	159.4	-181.3	829	11	-54
Closing IEV	**5,414.9**	**5,822.4**	**7,216**	**7,988**	**8,762**

Source: Company, JM Financial

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Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NA
Current Price Target (12M)	1,222
Upside/(Downside)	25.2%
Previous Price Target (12M)	NA
Change	NA

Key Data – LICI IN	
Current Market Price	INR976
Market cap (bn)	INR6,172.6/$73.9
Free Float	3.5%
Shares in issue (mn)	6,325.00
Diluted share (mn)	6,325.00
3-mon avg daily val (mn)	INR5,720.4/US$68.5
52-week range	1175/543
Sensex/Nifty	72,944/22,148
INR/US$	83.5

Price Performance			
%	1M	6M	12M
Absolute	11.9	38.7	99.8
Relative*	11.4	26.3	64.1

* To the BSE Sensex

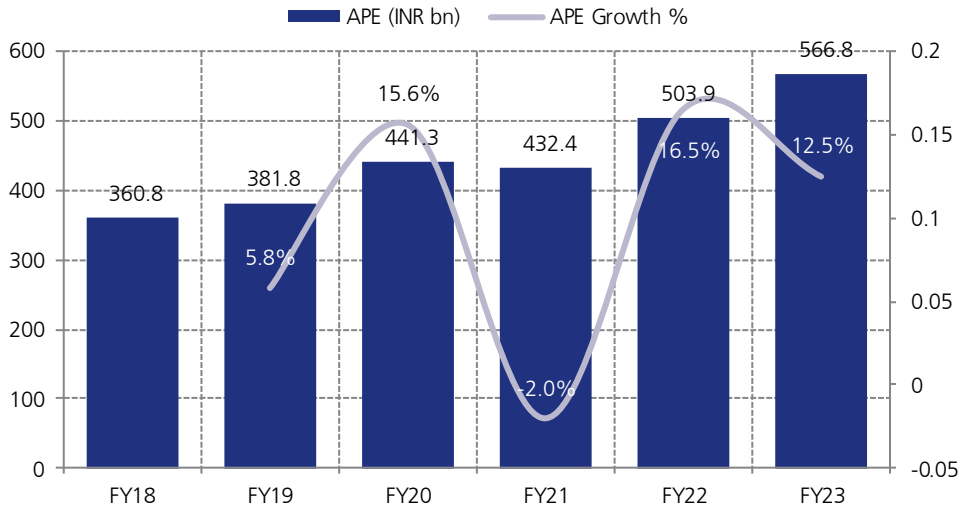
JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Company overview

LIC is the sole public entity in the Indian life insurance space. It was formed by consolidation of 245 private insurers in 1956 and was, till 2000, the only life insurer in the Indian landscape. As such, it enjoys pole position in new business premiums, accounting for 34.2% of individual APE and 76.7% of group APE underwritten in FY23 in India. The Government of India retains 96.5% stake in the entity. The company has been losing market share on a high base, and the focus, like other insurers upon listing in Indian markets, is on diversifying its product mix to higher margin products. It employs the largest agency force in Indian insurance, which accounts for 96% of its new business premiums. Due to the vast embedded value of the insurer, and almost 25% of it invested in equity instruments, returns on its EV have a higher sensitivity to market factors, like equity market movements. It has two listed lending associate companies, namely IDBI Bank and LIC Housing Finance, through which it is trying to dig deeper into bancassurance sales to diversify from its agency model.

Exhibit 73. LICI: Sustained total APE growth over last 2 years



Source: Company, JM Financial

Management team:

Exhibit 74. LICI: Experienced management team leads the industry giant

Name	Designation	Profile
Mr Siddhartha Mohanty	Chairperson	Mr Siddhartha Mohanty took charge as Chairperson, LIC of India in April 2023. Prior to that he held the post of Managing Director of LIC of India. A Post graduate with a Master's Degree in Arts in Political Science, he has also got his Bachelor's Degree in Law and a Post Graduate Certification in Business Management.
Mr M Jagannath	Managing Director	Mr M Jagannath took charge as Managing Director of Life Insurance Corporation of India on 13th March, 2023. Joining LIC in the year 1988 as a Direct Recruit Officer, Mr Jagannath brings with him rich experience of over three decades across various functions of the Corporation. He holds Post-Graduate Diploma in Marketing, International Post Graduate Diploma in Life Insurance, General Insurance & Risk Management from the Institute of Insurance and Risk Management (IIRM), Hyderabad. He is an Associate of the Insurance Institute of India, Mumbai.
Mr Tablesh Pandey	Managing Director	Mr Tablesh Pandey took charge as Managing Director on 01st April, 2023. Prior to taking charge as Managing Director, he was Executive Director (ERM) and Chief Risk Officer of the Corporation. Mr Tablesh Pandey is a Bachelor of Technology in Agricultural Engineering. He is a qualified Associate Member of Actuarial Society of India. He joined LIC in 1988 as a Direct Recruit Officer.
Mr Sat Pal Bhanoo	Managing Director	Mr Sat Pal Bhanoo took charge as Managing Director of Life Insurance Corporation of India from July 2023. He joined the Corporation as Special Batch Direct Recruit Officer in October, 1988. He served the Corporation in various roles as Additional Director, Regional Manager etc. He holds a Bachelor's Degree in History (Honours) from Himachal Pradesh University, Shimla.
Mr R Doraiswamy	Managing Director	Mr R. Doraiswamy was appointed Managing Director of Life Insurance Corporation of India on 1st September, 2023. He is a Direct Recruit officer of 17th Batch with more than 37 years of rich and diverse experience in operations, Marketing, Technology and Academics. Before taking charge as Managing Director, Mr R. Doraiswamy has held various positions like Executive Director (IT/SD) and Chief (IT/SD) at CO etc. He is a Graduate in Mathematics from Madurai Kamaraj University, Fellow Member of Insurance Institute of India and a student member of Institute of Actuaries of India.
Mr Sunil Agrawal	Chief Financial Officer	Mr Sunil Agrawal was appointed CFO w.e.f. April, 2022. Prior to joining LIC he was a CFO of Reliance Nippon Life Insurance Co Ltd. until 2018. He holds a bachelor's degree in Computer Engineering and is a qualified Chartered Accountant from ICAI.
Mr P. Kumaresan	Executive Director (Audit) & Chief Internal Auditor	Mr P. Kumaresan took over as ED (Audit) in July, 2022. He joined LIC in 1988 as a Direct Recruit Officer. In the long service of 34 years he had worked in five different Zones. Major part of the service was spent in marketing assignment. Prior to joining as ED (Audit) he was Director & CEO of LIC Care Homes Ltd.
Mr R. Sudhakar	Executive Director (Mktg./PD) Chief Marketing Officer	Mr R Sudhakar is a Direct Recruit Officer of the 17th batch and Joined LIC in the year 1989. His experience spans various departments of LIC ranging from Marketing at different levels as well as Information Technology, Pension & Group Schemes, Corporate Communications and Investments. He is a Commerce Graduate and a Fellow of the Insurance Institute of India.
Mr Dinesh Pant	Executive Director (Actuarial) Appointed Actuary	Mr Dinesh Pant took charge as ED Appointed Actuary in January, 2017. He has worked in the areas of risk management, underwriting and actuaries. He holds LLB and MBA degrees.
Mr Krishna Kumar S	Executive Director, (CG/GJF/Reg. Compl.) and Chief Compliance Officer	Mr Krishna Kumar S took charge as Chief Compliance Officer w.e.f. 11 April 2023. He has worked in various domains like Insurance Marketing including Bancassurance, Housing Finance, Information Technology, and Customer Relations (Claims and Persistency). He is a BTech graduate and a Fellow of the Insurance Institute of India. He also holds a Diploma in Health Insurance and a Diploma in Advanced Life Insurance Underwriting from the Insurance Institute of India.
Mr Ratnakar Patnaik	Executive Director (Investment Front Office) Chief Investment Officer	Mr Ratnakar Patnaik was appointed as CIO w.e.f. 10 April, 2023. Patnaik had joined LIC as a Direct Recruit Officer in September 1990. During the last thirty two years, he has worked across four Zones, mostly in marketing assignments. He holds a major in Physics and is a fellow of the Insurance Institute of India.
Ms Bella Paul	Chief(I/C), Board & Secretarial	Ms Bella Paul was appointed as Chief in-charge Board & Secretarial Department on 18 January, 2024. Ms Bella Paul joined the services of the Corporation in 1990. During the 33 years of her career, she had worked in Branch, Divisional, Zonal and Central offices of the Corporation including as in charge of Branches and a Division. A Bachelor of Science and Fellow of Insurance Institute of India, she has also completed Executive level of Company Secretary ship.
Mr S Sunder Krishnan	Chief Risk Officer	Mr SS Krishnan was appointed Chief Risk Officer in April 2023. He is a chartered accountant and has worked in leadership roles at Reliance Nippon Life Insurance for 18 years. He has work experience in leadership roles at DSP Merrill Lynch, ING Vysya, Credit Lyonnais Bank and Bank International Indonesia.
Mr Anshul Kumar Singh	Company Secretary & Compliance Officer	Mr Anshul Kumar Singh was appointed Company Secretary & Compliance Officer on 18 January, 2024. He joined the Corporation as Direct Recruit Officer in 2011. Prior to joining the Corporation, he was associated with Jaksons Developers Private Limited as Assistant Manager (Legal & Secretarial) and also had worked in a firm of Practicing CS. He is a Fellow member of the Institute of Company Secretaries of India (ICSI) and Graduate in Commerce from University of Delhi. He is also a Law graduate and Fellow of Insurance Institute of India.

Source: Company, JM Financial

EV: With a base 12x largest private peer, returns to be lower

LIC, as the sovereign life insurer, worked with a paid-up capital of INR 50mn and a single Life Fund till FY21. Before listing, it bifurcated its Life Fund into Par Fund and Non-par Funds, the latter accounting for its shareholders' value. Henceforth, as the business throws profits, a large part of it is likely to be capitalised and will show up as net worth.

Exhibit 75. LICI: EV is subject to economic factors; (VNB+Unwind) to generate 10% returns

Embedded value	FY22	FY23	FY24E	FY25E	FY26E
Opening IEV	956	5,415	5,822.4	7,216.0	7,987.6
Core EVOP	**303**	**507**	**513.0**	**717.3**	**791.1**
- Unwind	76	92	99.6	116.6	138.1
- VNB	227	416	413.4	600.7	653.0
Variances	**271**	**-100**	**880.6**	**54.3**	**-17.2**
- Operating	111	82	51.5	42.9	36.5
- Economic & others	159	-181	829.1	11.3	-53.7
Closing IEV	**5,415**	**5,822**	**7,216.0**	**7,987.6**	**8,761.5**

Source: Company, JM Financial

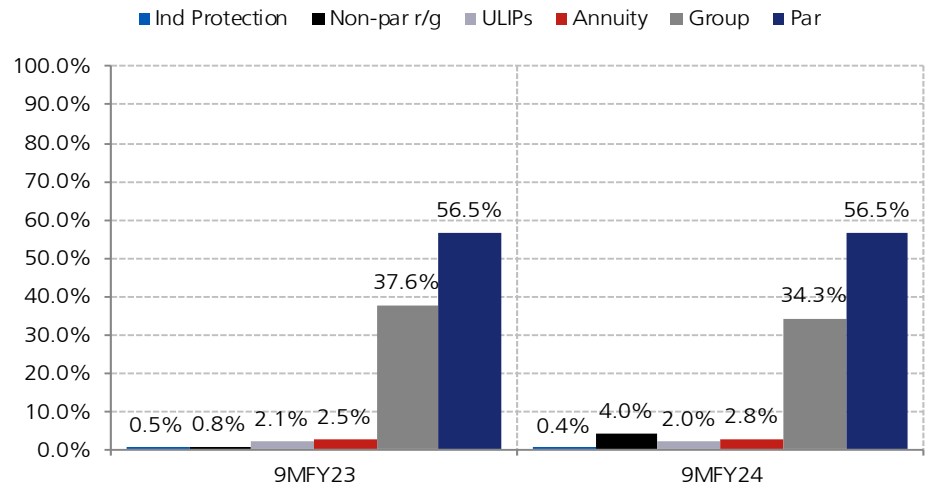
Even though LIC is a seasoned insurer with a large embedded value and lower share of VNB in its valuation, we value it using EV-VNB rather than PAT profitability, as the EV-VNB methodology looks at longer-term profit generation of the insurer.

Following the Milliman Report pre-IPO, value of new business (VNB) for LIC considers PVFP from cash flows beyond FY25 in the ratio of 90:10 for policyholders to shareholders. Hence, there is no meaningful upside from this change in profit sharing in VNB, beyond 50 bps, in par products. This, in turn, means that the incremental VNB improvements will be from product mix and channel mix, not unlike other insurers.

Recent dynamics:

- **Strong growth in non-par, led by return guarantees, looks sustainable:** We have seen SBI Life, HDFC Life and ICICI Prudential show strong growth in VNB margins after listing and LIC has opted to traverse the same path. It is doing this by raising the share of non-par products in its product mix, and succeeded in increasing it to 14.0% by 9MFY24 from 7.1% in FY22.
  - In its mass customer segment, consumers have shown an inclination for returns and insurers, like SBI Life and HDFC Life, have also turned to Return of Premium (ROP) products for this segment – which generates similar margins. While this can be a growth lever for LIC going forward, it has pivoted to non-par sales in FY24, with protection contracting 32.8% YoY in 9MFY24.
  - We are bullish on this growth as we believe LIC has, through its time-tested agency channel, the ability to market non-par return guarantee products to mass and mass affluent segments.
  - With non-par comprising a small portion of the book, and thus accounting for lower overheads, margins are very strong, at 63.8%, despite a lower share of individual protection.
  - 9MFY24 APE of INR 32.99bn is small compared to LIC's massive sales organisation and we believe reported growth of 49% YoY is not an anomaly, with the available runway and demand for savings products, and it is likely to slow down only gradually to 20% YoY by FY30.

Exhibit 76. LICI: Product mix has been dominated by par and group business

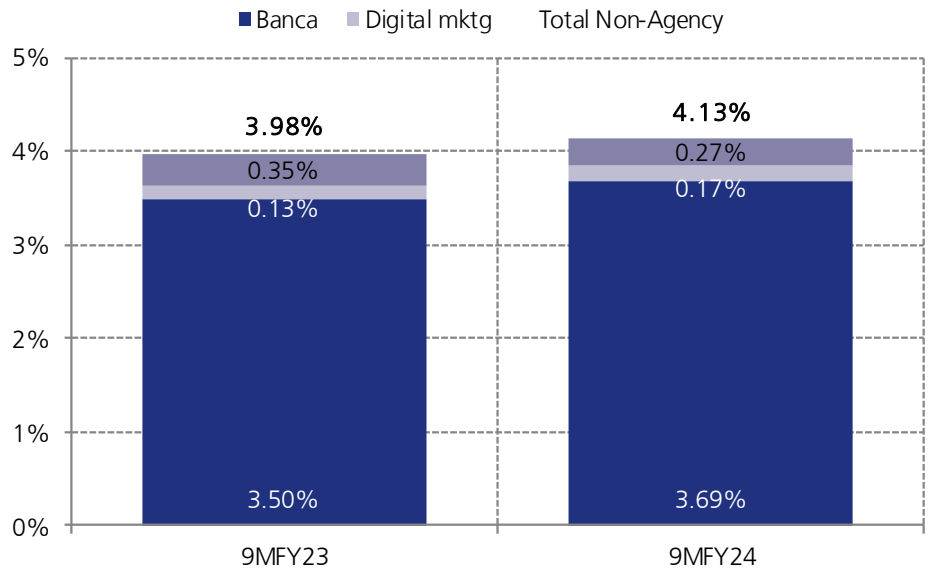


Source: Company, JM Financial

- **Growth in non-agency channels constrained by sales model:** LIC has articulated a plan to move to 5% banca share in its NBP by FY26. It was at 3.7% in 9MFY24, up 19 bps YoY. Due to its vintage, LIC has access to large banca channels, including Axis Bank, IDBI Bank and YES Bank. Bancassurance sales in India has seen two models – the first championed by SBI and ICICI Bank, where sales is driven by CIFs (Certified Insurance Facilitators), who are bank tellers and relationship managers, with insurance persons providing support. The second model, used by Axis Bank and HDFC Bank, is where insurance salespersons actively facilitate sales at branches. LIC is working on the first model (SBI and ICICI Bank), which has worked only in situations where the bank and insurer are working under a tight parent-subsidiary relationship. This model is working for LIC in IDBI Bank; however, our channel checks suggest that LIC has not gained traction in Axis Bank or YES Bank.
  - With recurrent news of stake sale by the government and LIC in IDBI Bank, continued growth in banca sales looks difficult.

- For banca to contribute to a double digit share of new business, we may have to wait for LIC to station personnel at bank branches, adopting the model championed by insurers like HDFC Life, Max Life and Tata AIA.

Exhibit 77. LICI: Share of Non-Agency channel has increased although marginally



Source: Company, JM Financial

- **Innovative products need strong channel training:** LIC has brought out some innovative products in recent years.
  - LIC Jeevan Umang is a full-life plan which provides life cover till the age of 100 years with death cover and returns in each year. In the variant we sampled, the survival benefit in the 100th year provided an IRR of 14.3% to the customer.
  - LIC Tech Term is a digital-only protection plan which offers competitive rates, made possible by savings on commission and rewards payouts. It is innovative as it prevents channel conflicts, and aligns with LIC's ability to replace par products with non-par in agency. It can only be purchased directly from LIC website.
  - LIC Bima Ratna is a non-par product sold exclusively through bancassurance channels. For LIC, given the model it has adopted of sales through bank CIFs, banca is cheaper than agency, and it is able to pass on savings on commissions to the customer through a banca-only product.

  When its channels have been selling par and annuity products for long, a sudden change in pitch are difficult for them, hence, training them is the focus.
- **Build-up of Embedded value looks complete, economic factors to drive unwind:** LIC reported embedded value of INR 956.1bn as on 31st Mar'21. At the time, it had not modeled embedded value for all its plans. When remaining plans were modeled in 1HFY22, newly modeled plans added INR 142.99bn to its EV. Further, till FY21, LIC had a single Life Fund, in which participatory policyholders would have rights to profit sharing. When this Life Fund was bifurcated into par and non-par funds, wherein non-par fund was entirely available to LIC shareholders, LIC was able to add INR 3,741.72bn to its EV. Following this exercise, LIC has cleaned up its back books and its EV now reflects the Adjusted Net Worth and Present value of in-force business on its books. Following this exercise, with the huge base, expected return on existing business (unwind) and Value of New Business comprise a smaller share of its Embedded value, compared to peers. Hence, its RoEV (%) will look poor even with strong growth momentum.

- **Impact of potential regulation of surrender charges is limited:** While IRDAI has refrained from acting on it in its principles-based regulations; we can expect some moderation in charges. The visible solution is a change in commission structure, with lower initial payouts to intermediaries.
  - We estimate that, for a INR100,000 premium, participatory policy, 3.5% VNB margins are generated by surrender charges in first seven years. This is substantial, as LIC generated a VNB margin of 10.3% on its new par business, underwritten in FY24.
  - On return guarantee business, which it is strongly building, surrender charges contribute c.30% to VNB margin. In its evolving non-par new book, LIC has reported 60.3% margins in 9MFY24. Thus, a cap on surrenders can hit this hard.
  - While losses from such regulation are significant, LIC has an average ticket size of INR 20,000, hence, it should remain largely insulated from these guidelines.
  - Any change will be an industry phenomenon, and we expect industry to cut down on New Business Strain to protect margins, thus compromising growth in the near term. Since LIC has a significant share of career agents, they are likely to continue with the business on the basis of trail revenue, something that has happened with mutual funds.

Differentiators:

- **Brand recognition remains unparalleled:** Anecdotal evidence from insurance channels and customers show that the brand of LIC, and the sovereign guarantee it enjoys, is a strong value proposition for consumers across age and income groups. It has ended up in the top 4 in annual rankings published by Brand Finance since 2014. It has also been the top financial services brand in the rankings. Brand Finance, in 2023, estimated LIC's brand value at INR 9,756mn.
- **Agency force remains unique in its strength and resilience:** LIC pioneered life insurance sales through a Development Officer (DO) model, whereby its employees recruited agents to sell insurance products to prospective customers. Even today, it has >50% of India's agency force issuing life products. While listed private insurers have preferred to work through bancassurance partnerships, data suggests the agency channel has delivered better outcomes for them, in terms of persistency and product mix.

Exhibit 78. LICI: In FY23 LIC has 51.3% of total agents in the industry

No of agents ('000)	FY18	FY19	FY20	FY21	FY22	FY23	Share in FY23
LIC	1,149	1,179	1,209	1,354	1,326	1,347	51.3%
HDFC Life	77	91	108	112	115	179	6.8%
SBI Life	108	124	130	170	146	209	7.9%
ICICI Prudential Life	152	171	191	188	199	201	7.7%
ABSL Insurance	92	82	86	95	80	65	2.5%
Max Life	57	51	46	55	61	70	2.7%

Source: Industry, JM Financial

- **Low risk on balance sheet despite the high share of value from in-force business:** Due to its product mix, LIC has not built significant risk of mortality or return guarantees on its books. Hence, difference between gross and net VNB is low for the insurer. This, along with the sovereign guarantee, allows LIC to operate at sub-200% solvency margins, while others keep it above the threshold. Sum assured in-force is under 20x its EV, which is the lowest amongst listed insurers.

Prospects:

- **Product mix**

– **Non-participatory products growth in a sweet spot:** While most insurers refer to return guarantee and annuity plans as non-participatory, LIC likes to classify its entire individual book, except its predominant participatory products, as non-par. LIC has articulated, and its numbers show, a strong growth in non-participatory products. While growth in FY23 was led by sale of ULIPs, 9MFY24 saw 4x growth in return guarantee products, at a time when the industry struggled. This is attributable to successful rollout of its Ananda app and concerted efforts in training its agency force. Given the strength of its agency and consistent training efforts, we see non-par APE growing at 40% YoY (on a low base) over FY24-FY26 as well, accounting for 20.7% of FY26 APE. As the base consolidates, growth can taper to industry levels over the medium term.

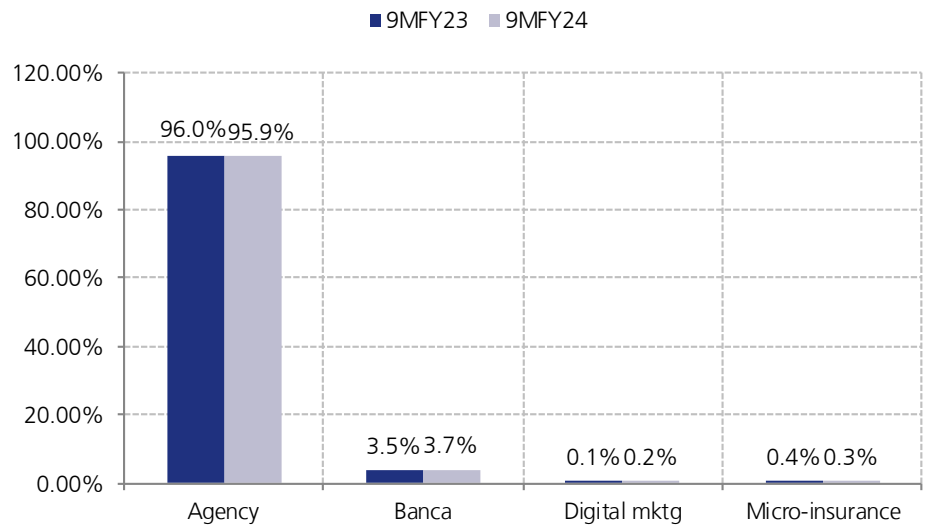
– **Participatory products to remain the mainstay of LIC's operations:** LIC's par products sold through its strong agency channel remain the identity of Indian insurance sales. We do not see this segment growing in double digits on its already strong base, especially with a focus on driving a change in a product mix. We expect incremental growth to come from ticket size increase, largely in line with growth in domestic savings and inflation. A key threat is the de-liberalisation of agency force by IRDAI, whereby individual agents can tie-up with multiple life insurers; however, we expect any movement to other life insurers to be compensated by increase in ticket sizes.

– **Annuity an opportunity LIC has tapped well and can deliver in medium term:** LIC already has a strong base in annuity products, with these accounting for 25% of its New Business Premiums in FY23. While growth would be constrained by a strong base, as private insurers focus on the growth of annuities and drive awareness, we see LIC growing its annuity business in 10%+ range in the medium term. Finally, once the government employees on NPS start retiring, growth can accelerate in the 2030s to bring in a growing premium pool. Also, in this segment, LIC's returns are comparable with the private sector, and given the long-term nature of these products, we expect sovereign guarantee to tilt consumers in favour of LIC.

– **Difficult to see LIC multiply its pure risk business:** LIC has not been a large player in the pure risk category and we expect this to continue going forward. This is driven by LIC's customer segment, which, with an average ticket size of INR 20,000, expects a return on investments in life insurance. Other insurers have also catered to this segment through Return of Premium policies, rather than plain vanilla- term plans. Further, given the lower ticket size of these products, we do not see agents taking to these in a big way.

- **Channel mix to remain lop-sided, diversification within agency provides relief:** While LIC has a focus on increasing share of non-agency channels, we do not see the other channels growing to a meaningful size in the medium term.
  - Share of bancassurance in APE is now 3.7% in 9MFY24, up from 1.8% in FY21. While we do not have a split across banks, channel checks suggest a major share of this is coming from IDBI Bank, an associate of LIC. While most private insurers, like HDFC Life, Max Life and Bajaj Allianz, drive bancassurance sales through their own persons stationed at bank branches, LIC's bancassurance sales works in a manner similar to SBI Life, where the bank tellers and relationship managers are almost exclusively responsible for insurance sales, with LIC's personnel taking a back seat. We do not see LIC changing this strategy. Further, with the government intent on offloading its (and LIC's) stake in IDBI Bank, we do not see a very strong secular growth in the channel in the medium term. However, on a low base, we will not be surprised to see bancassurance sales share rising to 5% of new business by FY26.

Exhibit 79. LICI: Channel mix dominated by Agency channel



Source: Company, JM Financial

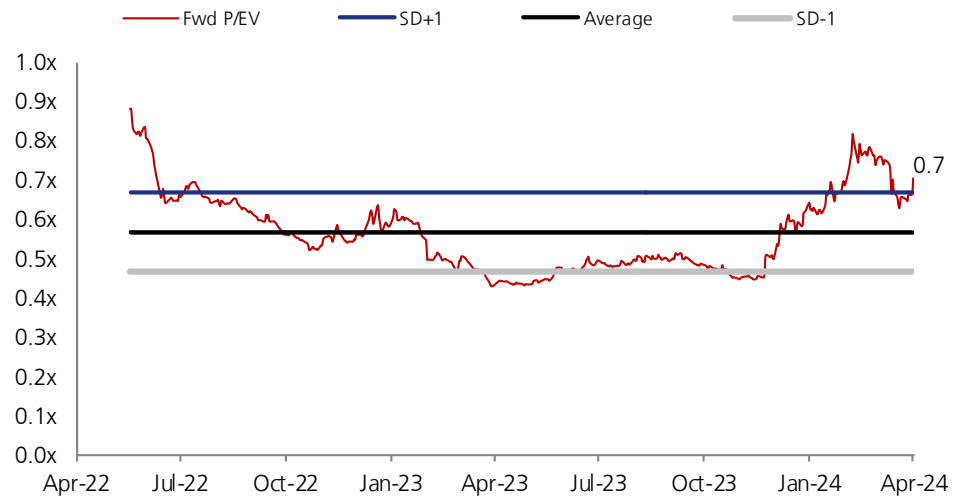
- **Online and non-exclusive broking partnerships:** With deregulation in commission payouts, there is scope for LIC to grow these channels. LIC has started pricing products competitively in the online channel, like its LIC Tech-term plan; as the industry itself has struggled to grow their proprietary online channel, we do not see LIC being the pioneer, especially given its time-tested Development Officer model.
- **Proprietary agency force:** As much as 95.9% of LIC's individual premiums come from its proprietary agency channel. The channel has been trained to sell participatory and annuity products. With the launch of new Ananda app and concerted training efforts by the company, it has started diversifying its product mix, as visible in the 4x YoY growth in non-par return guarantee plans in 9MFY24.
- We do not see the channel growing in double digits on the already strong base, especially with a focus on driving a change in a product mix. We expect incremental growth to come from ticket size increase, largely in line with growth in domestic savings and inflation. A key threat is the de-liberalisation of agency force by IRDAI, whereby individual agents can tie-up with multiple life insurers, however, we do not believe it will drive LIC to de-growth in the medium term.

- **Embedded value to show strong surge in FY24 reported numbers:** Due to the sizeable business-in force built over decades, LIC has a VIF (Value of In-force policies) of INR 5,361.3bn, which is one of the strengths of the company and provides it with a strong valuation. However, incremental growth in embedded value, as a percentage of opening EV is low, implying a lower multiple on its embedded value, compared to faster growing retail counterparts.

Valuation and view

We value LIC's insurance business at 0.8x FY26e EV of INR 8761.5bn, to get a target price of INR 1222. At CMP of INR 976, the stock trades at 0.71x/0.64x FY25e/FY26e EV. We value the listed subsidiaries at market cap, with a holding company discount of 15% and LIC AMC in line with UTI AMC's market-cap to average AUM.

Exhibit 80. LICI: Stock has re-rated following initial pessimism

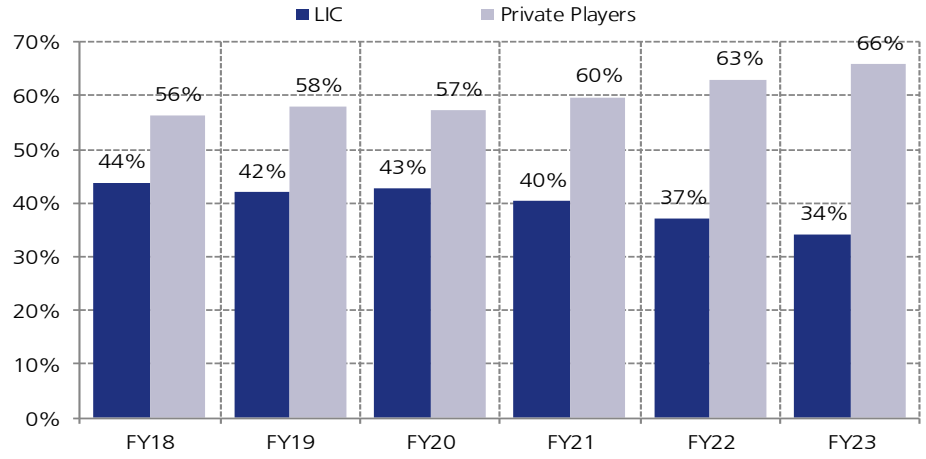


Source: Company, JM Financial

Risks:

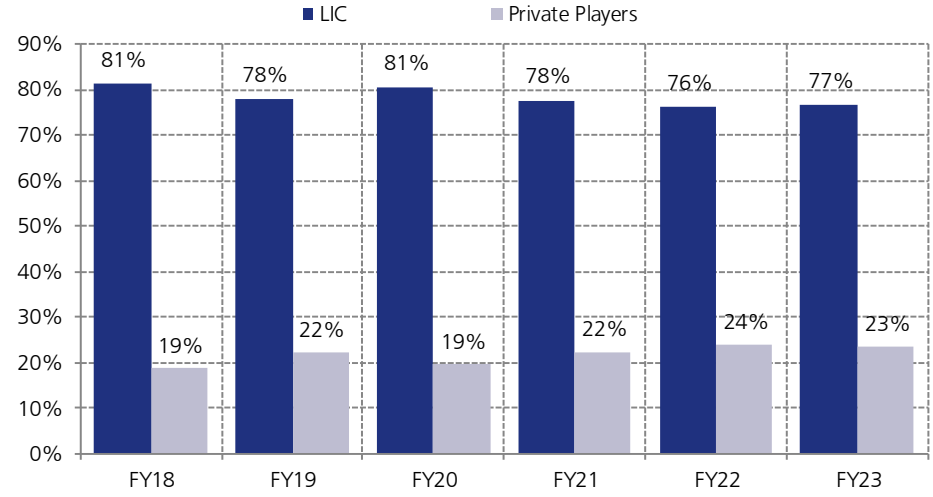
- **Liberalisation of individual agency tie-ups can gradually eat up growth:** While we believe a significant proportion of the productive agents of LIC are offering policies from other insurers through friends and families, we do consider their direct tie-ups with multiple insurers as a risk. LIC's cost structures are comparable to private peers despite a higher share of renewal business in premiums, and as such, there is limited room for higher payouts compared to private peers.
- **Sensitivity to equity markets can move its fortunes:** A 10% fall in Indian equities drives LIC's EV down by 6.9%, a figure which is a multiple of that for other insurers. Along with the slower growth, on a higher base, compared to other insurers, LIC's valuation can be driven largely by market movements, unlike new business performance on growth and product mix, as is the case for private players. This can induce cyclicality in stock performance and higher beta.
- **Market share loss is a reality, pace to remain gradual:** LIC has consistently lost market share to private players, down to 34% in individual APE and 76.7% in group business from a monopoly in 2000. Aggression from private players in pricing or payouts can hasten this loss in individual business, while a slowing industry can shift focus to group to show growth.

Exhibit 81. Individual APE: Private players have gradually taken share away from LIC



Source: Company, JM Financial

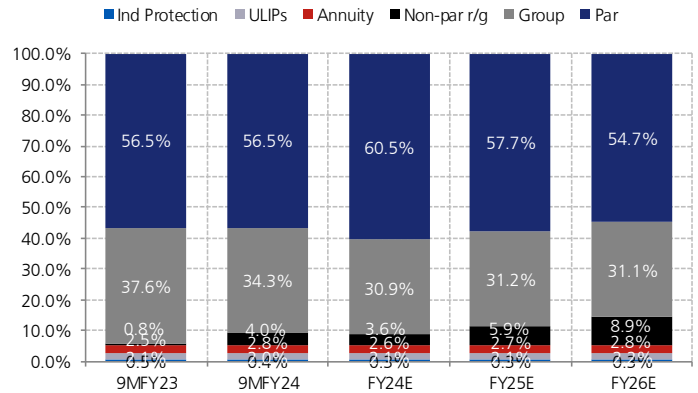
Exhibit 82. Group APE: LIC has been able to retain market share in group business



Source: Company, JM Financial

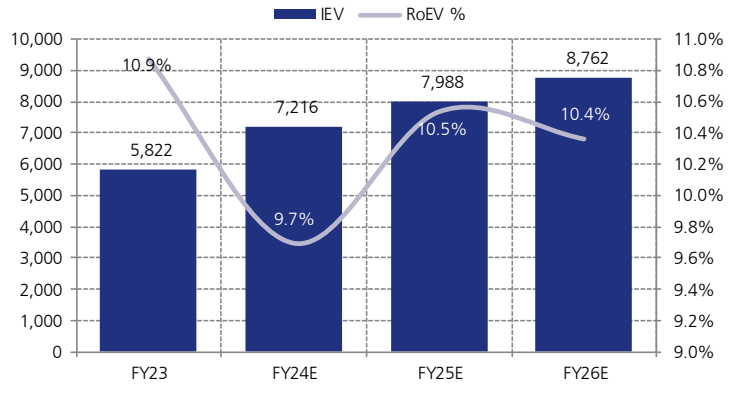
Key Projections:

Exhibit 83. Share of Par products to gradually come down



Source: Company, JM Financial

Exhibit 84. EV is expected to grow at 10.2% CAGR over FY24E-26E



Source: Company, JM Financial

Financial Tables (Standalone)

Policyholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Gross premiums	4,280,250	4,746,681	5,231,823	5,625,966	6,055,886
Net premiums	4,274,192	4,740,046	5,224,666	5,617,557	6,046,037
Investment income	2,928,945	3,063,901	3,701,866	4,289,968	5,067,852
Other Income	7,889	76,579	478,840	580,335	727,968
Total Income	**7,211,026**	**7,880,526**	**9,405,373**	**10,487,861**	**11,841,857**
Commissions	231,715	255,804	307,529	361,450	424,825
Operating expenses	388,907	481,456	578,810	680,295	799,576
Provisions & Taxes	-1,096	-75,523	51,386	56,108	61,736
Total expenses	**619,525**	**661,737**	**937,725**	**1,097,854**	**1,286,137**
Benefits paid	3,574,649	3,425,768	3,775,903	4,117,002	4,534,537
Change in valuation of life reserves	2,972,776	3,433,828	3,784,787	4,164,536	4,628,537
Total Benefits	6,547,425	6,859,595	7,560,690	8,281,538	9,163,074
Surplus/(Deficit) for the year	**44,076**	**359,194**	**428,117**	**528,133**	**664,678**

Source: Company, JM Financial

Shareholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Transfer from the Policyholders' Account	38,754	360,489	470,929	580,947	731,146
Investment income	2,012	11,478	26,614	21,729	24,016
Other income	-	29	-	-	-
Total income	**40,766**	**371,996**	**497,543**	**602,675**	**755,161**
Operating expenses	5	4,716	5,670	6,664	7,832
Contribution to the policyholders A/C	94	2,712	3,261	3,833	4,505
Profit before tax	**40,667**	**364,568**	**488,612**	**592,179**	**742,825**
Tax	236	594	9,772	11,844	14,856
Profit after tax	**40,431**	**363,974**	**478,840**	**580,335**	**727,968**

Source: Company, JM Financial

Key Ratios

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
VNB (INR mn)	76,190	91,560	99,565	116,593	138,149
VNB growth	NA	20%	9%	17%	18%
Reported VNB margin	15.12%	16.15%	17.10%	18.36%	19.72%
APE	503,900	566,820	582,282	635,026	700,516
- Growth	17%	12%	3%	9%	10%
Opex (ex-comm) ratio	9.09%	10.14%	11.06%	12.09%	13.20%
Commissions ratio	5.41%	5.39%	5.88%	6.42%	7.02%

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Investments	64,121	293,635	324,544	358,707	396,465
Policyholders' Investments	38,956,935	41,891,778	50,420,659	59,998,986	70,442,642
Unit linked Investments	239,386	263,095	356,844	473,820	633,356
Loans	1,098,756	1,155,624	1,273,737	1,369,694	1,474,363
Fixed assets	35,520	38,196	40,148	41,660	43,252
Net Current Assets / (Liab)	1,198,732	1,268,986	1,333,835	1,384,078	1,436,961
Total Assets	**41,593,452**	**44,911,314**	**53,749,767**	**63,626,945**	**74,427,039**
Borrowings	-	-	-	-	-
Fair Value Change Account	4,002,393	3,482,803	3,482,803	3,482,803	3,482,803
Policy Liabilities	37,229,764	40,671,038	49,160,142	58,649,009	69,033,789
Linked Liabilities	238,858	261,592	355,060	471,451	630,189
FFA	18,344	39,187	43,192	46,446	49,995
Total Liabilities	**41,489,360**	**44,454,620**	**53,041,197**	**62,649,708**	**73,196,777**
Share Capital	63,250	63,250	63,376	63,503	63,630
Reserves and surplus	40,430	394,920	645,193	913,733	1,166,632
Fair Value Change Account	411	-1,477	-	-	-
Shareholder's equity	**104,091**	**456,694**	**708,569**	**977,236**	**1,230,263**

Source: Company, JM Financial

EV movement

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Opening IEV	**956.1**	**5,414.9**	**5,822**	**7,216**	**7,988**
Core EVOP	**303.4**	**507.3**	**513**	**717**	**791**
- Unwind	76.2	91.6	100	117	138
- VNB	227.2	415.8	413	601	653
Variances	**270.8**	**-99.8**	**881**	**54**	**-17**
- Operating	111.4	81.5	52	43	36
- Economic & others	159.4	-181.3	829	11	-54
Closing IEV	**5,414.9**	**5,822.4**	**7,216**	**7,988**	**8,762**
Operating RoEV	43.4%	10.9%	9.7%	10.5%	10.4%

Source: Company, JM Financial

SBI Life Insurance | BUY

Consistent in growth delivery, ability to diversify holds the key

JM FINANCIAL

In FY24, SBI Life has emerged as the leader in both growth and margins amongst listed insurers. This is attributable to its strong relationship with its parent banca, allowing it to sell lower-margin products efficiently. The company obtains 85%+ of its individual business from proprietary channels of bancassurance and agency, and we expect growth to sustain in the medium term. Due to its ability to sell clean ULIP and diverse protection products at scale, the company has not seen any impact of taxation of higher premium policies, and the stock was resilient through discussions on rationalisation of surrender charges. However, following IRDAI's liberalisation of intermediary payouts, we believe SBI Life is likely to work on its commission structure to compete in non-proprietary channels, in which its payouts remain below that of industry. Its industry best-cost structures have deteriorated in FY23, with commissions rising 40% against 17% APE growth. We remain bullish on the company's ability to come out of this challenge in the medium term and resume its consistent growth journey – we build in 16%/17% growth in FY25/FY26, with margins range-bound within 28-28.5%. We carefully watch its ability to navigate structural changes in expenses; however, we expect it to compound embedded value at 18% over FY24-FY26. We initiate with BUY with a target price of INR 1,783, valuing the company at 2.2x FY26e EV of INR 824.1 bn.

- **Strong banca relationship with parent allows runway for continued growth:** The insurer obtains 60%+ of its individual business from its parent banca, which has lower CD ratio (72% in FY23) compared to private peers; also, its total banca NBP is just INR 7.9mn per SBI branch, which offers room for expansion. Even if intermediation is liberalised, we do not see SBI Life losing counter share as we have seen SBI MF enjoy 96%+ share in MFs sold through SBI, in a non-exclusive set-up. This relationship provides resilience to the insurer's growth outcomes.
- **Lowest regulatory risk as 2/3rd of new business comes from regulated ULIPs:** The company offers single card rate payouts across sales intermediaries, which has allowed it to sell and grow through lower-margin products. Sales of the product can suffer if the insurer faces higher payouts. We build in moderation of ULIP share to 66% levels from 70%+ seen in FY24. This should help it sustain 28% margins. It is least impacted by any regulatory action on traditional products.
- **Margin expansion unlikely even with an improving product mix:** SBI Life enjoys strong pricing power in protection and return guarantees, and higher margin despite a lower-margin product-heavy business. We expect the insurer to expand beyond SBI banca and proprietary agency, and this is likely to compromise on its margins. We have already seen pressure on commission payouts with 40% YoY rise in FY23 commissions.

Financial Summary

INR bn	FY22	FY23	FY24E	FY25E	FY26E
Total APE	143.0	168.1	199.8	231.8	271.2
Growth YoY (%)	24.9%	17.6%	18.8%	16.0%	17.0%
Individual APE	131.4	154.7	180.7	210.8	247.7
NBP	254.6	295.9	345.2	405.6	474.5
Opex + Commissions	51.3	64.7	76.3	88.3	102.5
VNB	37.0	50.7	56.5	66.1	77.3
Growth YoY (%)	39.1%	37.0%	11.5%	16.9%	17.0%
VNB margins	25.9%	30.2%	28.3%	28.5%	28.5%
EVOP (%)	19.3%	21.4%	20.6%	19.8%	19.1%
P/EVx	3.7	3.2	2.6	2.1	1.8
Embedded value					
Opening IEV	**333.9**	**396.3**	**460.6**	**569.3**	**689.7**
Core EVOP	**64.3**	**84.8**	**95.0**	**112.7**	**131.8**
- Unwind	27.3	34.1	38.4	46.6	54.5
- VNB	37.0	50.7	56.5	66.1	77.3
Variances	**-1.9**	**-20.5**	**13.8**	**7.6**	**2.7**
- Operating	4.6	5.8	4.2	4.6	5.4
- Economic & others	-6.5	-26.3	9.6	3.1	-2.7
Closing IEV	**396.3**	**460.6**	**569.3**	**689.7**	**824.1**

Source: Company, JM Financial

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Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NA
Current Price Target (12M)	1783
Upside/(Downside)	21.9%
Previous Price Target (12M)	NA
Change	NA

Key Data – SBILIFE IN	
Current Market Price	INR1463
Market cap (bn)	INR1,464.9/$17.5
Free Float	39.2%
Shares in issue (mn)	1,001.47
Diluted share (mn)	1,001.47
3-mon avg daily val (mn)	INR2,011.9/US$24.1
52-week range	1572/1091
Sensex/Nifty	72,944/22,148
INR/US$	83.5

Price Performance			
%	1M	6M	12M
Absolute	-2.5	10.6	29.4
Relative*	-3.4	0.1	6.9

* To the BSE Sensex

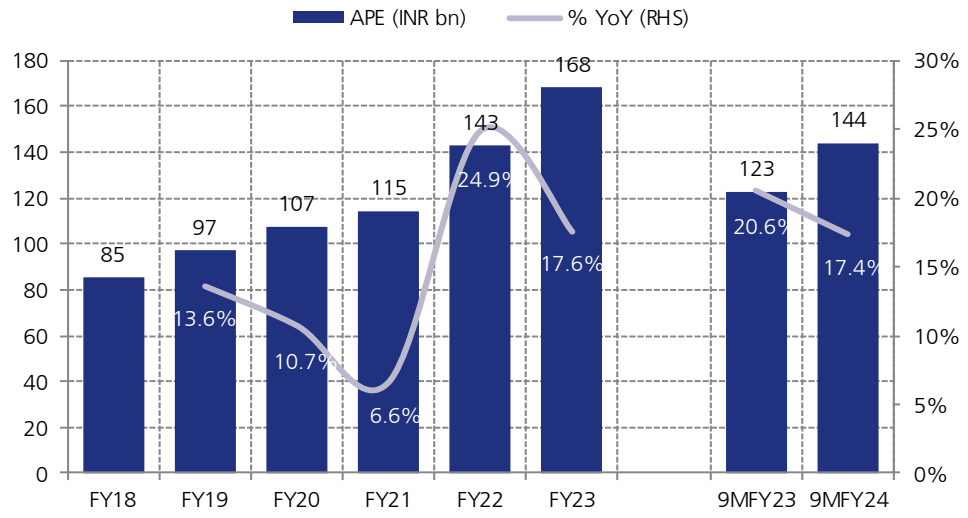
JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Company overview:

SBI Life is a subsidiary of the State Bank of India (SBI), which was set up after deregulation of the sector in 2000. SBI, India's largest bank, holds 55.45% stake in the insurer and accounts for >60% of its individual business. It is a private company bank, in which SBI nominates the MD and CEO, and the Chairperson of the company. The leadership team, except the CEO, is recruited from the private sector, on competitive pay and perks. The company has distinguished itself by the consistency in growth outcomes, leading the industry in growth in eight of the last nine non-Covid years. Around 90% of its new business comes from exclusive channels of banca and agency, which provides this consistency. The company enjoys a strong relationship with its parent, who has provided this strong growth and industry-leading opex ratios through its bancassurance channel.

Exhibit 85. SBI Life: Consistent growth– outgrowing private sector in 8 of last 10 yrs



Source: Company, JM Financial

Exhibit 86. SBI Life: CEO comes from SBI, others recruited from market

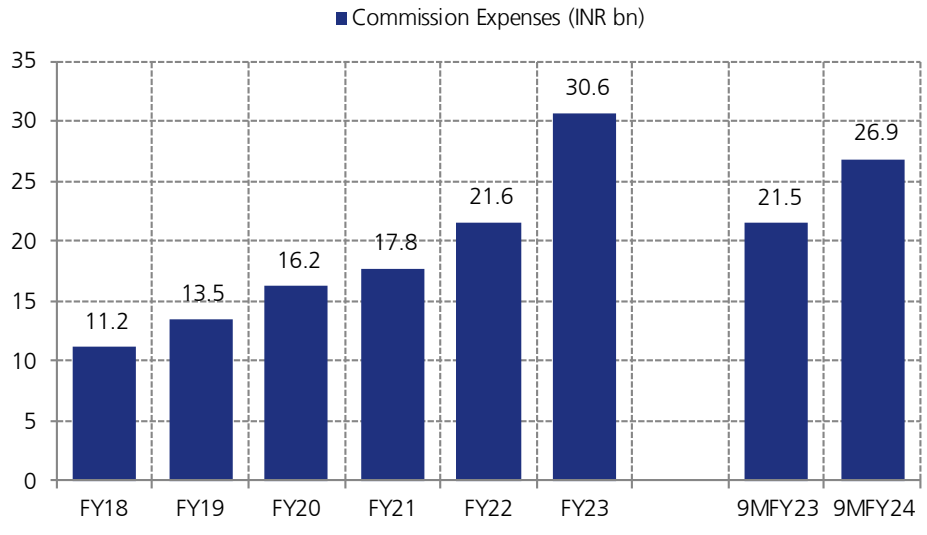
Name	Designation	Profile
Mr. Mahesh Kumar Sharma	Managing Director & Chief Executive Officer	Mr. Sharma holds a Master of Science Degree in Chemistry and is also a Certified Associate of the Indian Institute of Bankers. He brings with him over 30 years of experience in the Banking Sector. He held many important assignments in the State Bank of India.
Mr. Ravi Krishnamurthy	President - Operations and Information Technology	Mr. Krishnamurthy has more than 29 years of experience in insurance and banking. He holds a PGDBM in Human Resources from NMIMS, Mumbai. He has done his Executive Management Program from The Columbia Business School. He joined SBI Life in November 2004 and has worked across roles like Chief Operating Officer and President Marketing.
Mr. M. Anand	President - Marketing (Zone 1)	Mr. M. Anand has more than 31 years of experience in Insurance and banking. He holds a Bachelor's Degree in science and a Post Graduate degree in management studies.
Mr. AVS Siva Rama Krishna	President - Marketing (Zone 2)	Mr. Siva Rama Krishna is a graduate in science and a post graduate in arts from Osmania University and Fellow in Insurance Institute of India. Mr. Siva Rama Krishna has overall 38 years of experience in Insurance Industry.
Mr. G Durgadas	President - Marketing (Zone 3)	Mr. Durgadas is a Science Graduate with additional certification from the Indian Institute of Bankers and Indian Institute of Insurance. He also holds certification from Indian Institute of Corporate Affairs Mr. Durgadas has overall 31 years of experience in Banking & Insurance.
Mr. Abhijit Gulanikar	President - Business Strategy	Mr. Abhijit Gulanikar has 23 years of experience in life insurance, general insurance, banking and corporate finance. He holds a Bachelor's degree in Commerce, a Postgraduate diploma in Management from the Indian Institute of Management, Ahmedabad and is an associate of the Institute of Chartered Accountants of India.
Mr. Sangramjit Sarangi	President and Chief Financial Officer	Mr. Sangramjit Sarangi has 22 years of experience in Life Insurance and Mutual Fund industry. He holds a Bachelor's Degree in Commerce and Law and is a Fellow of the Institute of Chartered Accountants of India.
Mr. Subhendu Kumar Bal	Chief Actuary and Chief Risk Officer	Mr. Subhendu Kumar Bal has 28 years of experience in life insurance industry. He holds a Post Graduate Degree in Statistics and is a Fellow of the Institute of Actuaries of India.
Mr. Prithesh Chaubey	Appointed Actuary	Mr. Prithesh Chaubey is a Fellow Member of the Institute of Actuaries of India and holds a Graduate degree in Mathematics, Statistics and Economics. He has more than 29 years of professional experience in managing various aspects of insurance business and held multiple senior positions in Life Insurance Companies.
Ms. Seema Trikannad	EVP, Chief of HR and Management Services	Ms. Seema Trikannad has over 32 years of experience in the banking sector and has taken up important assignments as Deputy General Manager Human Resources, International Banking Group, VP Credit Administration New York, Credit Analyst Corporate Accounts Group.

Source: Company, JM Financial

Recent dynamics:

- **Limited impact of taxation of higher ticket sized policies:** When non-mortality returns on traditional policies with annual premium above INR 500,000 were taxed in Budget FY23, SBI Life, with its mass client base, reported that only 2% of its business was impacted. While competing private insurers capitalised on the pre-buying opportunity in Mar'23, the company did not sell higher ticket size policies aggressively. Hence, the company is expected to show business-as-usual growth in Mar'24 while its private sector peers are expected to contract on YoY basis.
- **Upward pressure on commission payouts looks like a reality:** With the Expenses of Management (EoM) guidelines rolled out by IRDAI w.e.f. 1st Apr'23, insurers have seen a pressure on commission payouts. SBI Life worked on a model where it paid in the same commission structure to all intermediaries, irrespective of volumes and fixed costs.
  - For its dominant banca channel, sales effort is strongly undertaken by the bank CIF (Certified Insurance Facilitators), while SBI Life personnel played a support role. This is in contrast to a model adopted by other insurers who deploy their personnel at bank counters to sell their products. With the strong push from bancassurance personnel, there is a case for higher payouts, especially as SBI Life enjoys best cost structure in industry.
  - In FY24, while cost ratios deteriorated for the insurer, most of the fall in VNB margins was explained by a shift in product mix towards ULIPs. However, going forward, there is likely to be a renegotiation with the parent SBI on costs.
  - SBI Life, because of its quasi-sovereign nature, has been able to attract customers despite poorer returns compared to private players, which puts pressure on their product pricing to offer customers a higher share of their profitability.
  - We expect commission payouts to parent to be a tightrope walk between enhanced customer benefits, higher rewards to the channels for their efforts and retention by the insurer. We build in flattish margins on the company's products as it walks the tightrope and build that operating leverage from its growth will be passed on to customers and intermediaries.

Exhibit 87. SBI Life: Commissions rose by 42% in FY23, against 17% APE growth

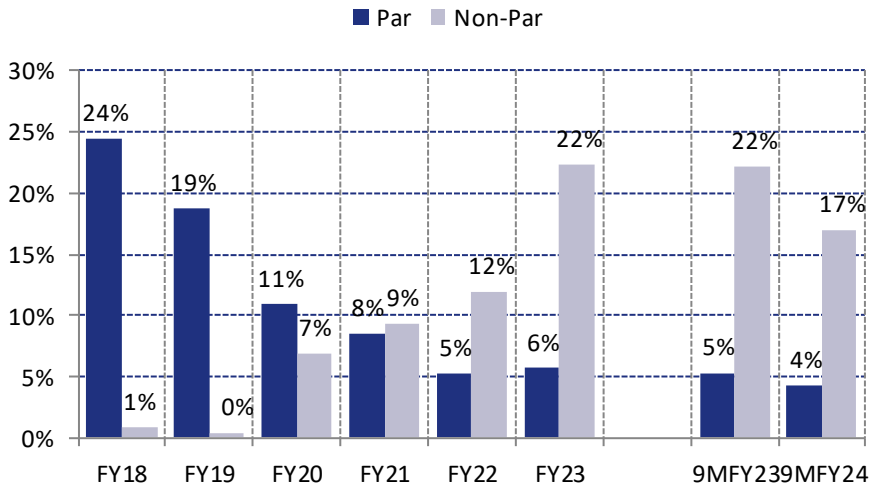


Source: Company, JM Financial

- **Impact of potential regulation of surrender charges to be contained:** While IRDAI has refrained from acting on surrender charges in its principles-based regulations, we can expect some moderation in charges. The visible solution is a change in commission structure, with lower initial payouts to intermediaries.

– In 9MFY24, slightly more than 20% of the company's savings sales comprised non-par products; this will be most impacted by any cap on surrender charges. Hence, SBI Life has limited susceptibility to these regulations.

Exhibit 88. SBI Life: Increasing share of Non-par in total APE



Source: Company, JM Financial

Differentiators:

- **Consistent growth through strong banca and agency:** SBI Life has the strongest bancassurance channel and the largest agency channel outside of LIC amongst Indian insurers. Over FY14 to FY23, SBI Life has grown its individual APE at a CAGR of 20.4% and underperformed the private industry in only 2 years, one of which was FY21, marred by the pandemic. We continue to see strong runway in both channels – in its parent banca, premiums per branch are significantly lower than Axis Bank and HDFC Bank, while ICICI Prudential has consciously curtailed sale of insurance products through its counters.
  - Insurance sales per branch are the lowest for SBI compared to peer banks, like HDFC and ICICI. Further, SBI enjoys the lowest Loan-Deposit Ratio (LDR) in the peer set. Hence, there is greatest room for growth.
  - SBI Life has amongst the largest agency force among private players and highest premiums coming from the channel. Moreover, premium per agent remains competitive. Further, the insurer has seen a 50% growth in its agents in previous year. As the agents are acquainted and trained with the product profile, we are likely to see productivity gains, resulting in sustained growth from the channel.

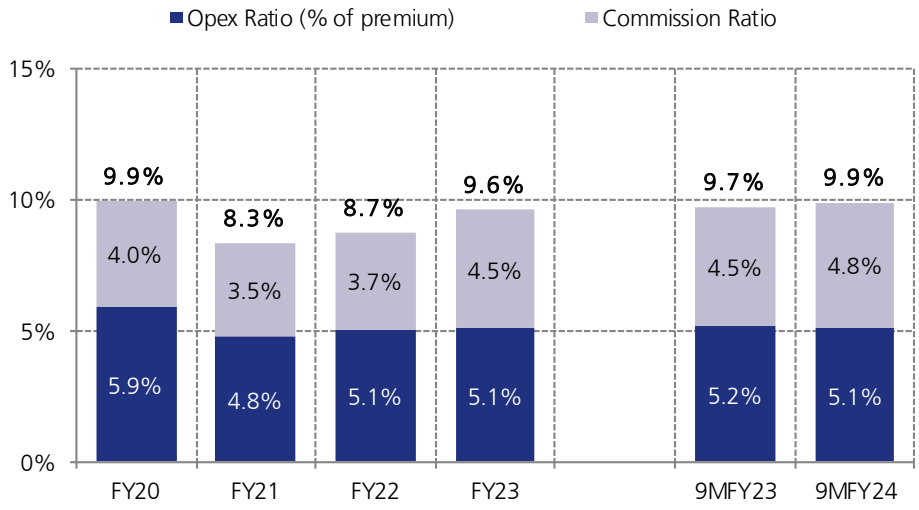
Exhibit 89. SBI Life: Amongst the strongest agency channels in the industry

Agency Channel	FY18	FY19	FY20	FY21	FY22	FY23
No of Agents ('000)	108	124	130	170	146	209
Agency Sales (INR bn)	26	28	30	30	37	43
Premium per agent (INR mn)	0.24	0.22	0.23	0.18	0.25	0.21

Source: Company, JM Financial

- **Industry leading cost structure trending upwards:** SBI Life is disciplined in its payout to channel partners, perhaps because of the available runway in its banca and proprietary agency. Its operating expenses to premiums have consistently remained the lowest in industry. With liberalisation of commission payouts, there is a chance of higher payouts. However, basis management commentary, we believe any inch up in commissions will be mutually decided and gradual, and we do not expect the company to buy growth at the expense of margins through non-exclusive channels.

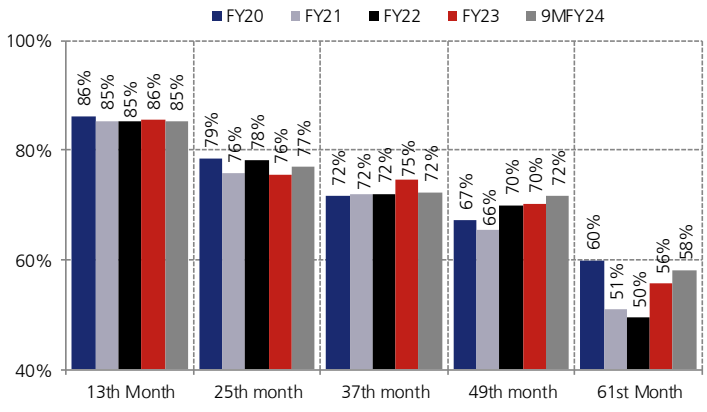
Exhibit 90. SBI Life: Lower opex and commission ratios vis-à-vis peers



Source: Company, JM Financial

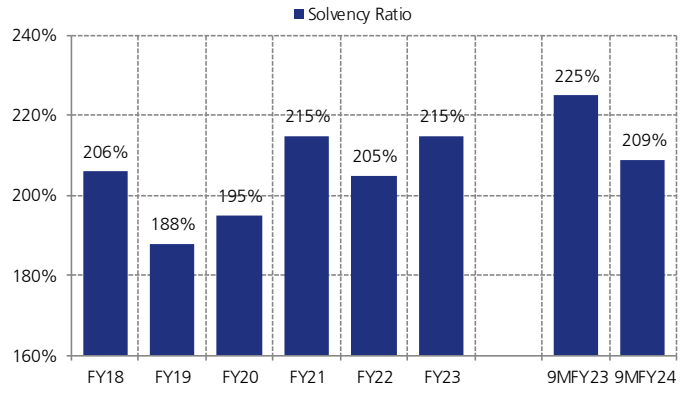
- **Low regulatory risks due to high ULIP share:** Following the Regulations Review Committee recommendations, insurance companies came under pressure. Going forward, we expect the regulator to keep coming up guidelines in support of end-consumers. Since a large proportion of SBI Life's book is composed of ULIPs, already regulated strictly, we do not expect short-term pressures on the insurer.
- **Strong pricing power due to its brand recognition:** SBI Life is amongst the most prudent when it comes to pricing their products. A comparison of its protection pricing is charted. As such, we can see it support growth over time by improving benefits to policyholders.

Exhibit 91. SBI Life: 61st month persistency improved after FY22



Source: Company, JM Financial

Exhibit 92. SBI Life: Comfortable solvency ratio



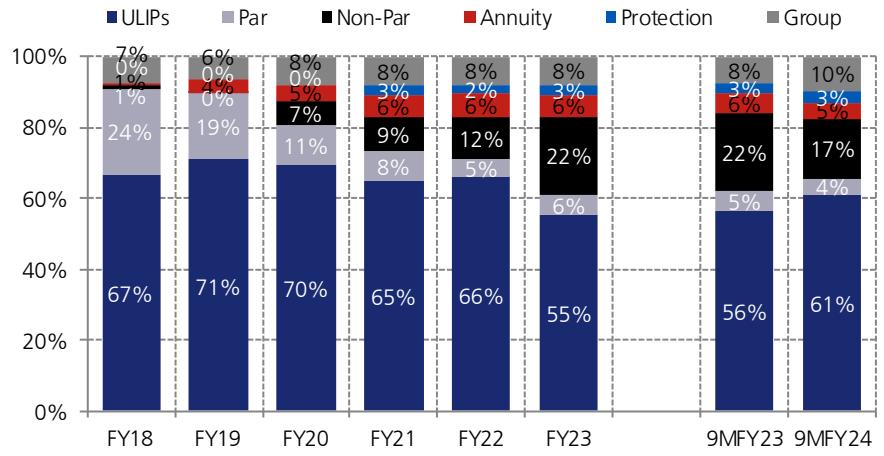
Source: Company, JM Financial

Prospects:

- **Product mix to revert to non-par business; however, pace will be slow:** SBI Life's new business predominantly comes from ULIP policies; hence, it has seen steady growth in FY24, given buoyancy in markets, when peers have struggled for growth. In FY25, if markets remain sideways, we are likely to see share of ULIPs come down.

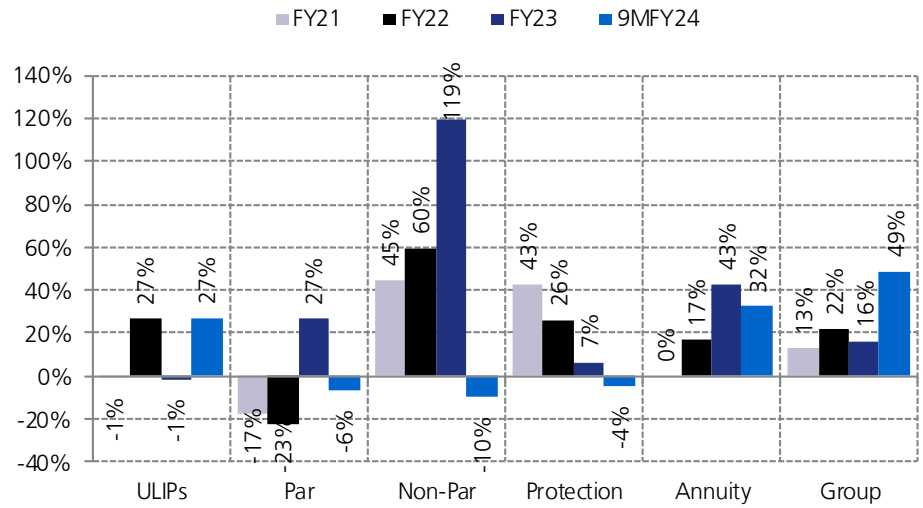
  We expect share of ULIPs to come down to 68% levels from 70%+ seen in FY24. The company has expressed an interest in growing both par and non-par business. However, with threat of higher commission payouts, we expect non-par sales to take precedence over par, to maintain company level margins.

Exhibit 93. SBI Life: Share of ULIPs has come down steadily till FY23



Source: Company, JM Financial

Exhibit 94. SBI Life: Product-wise YoY growth in total APE

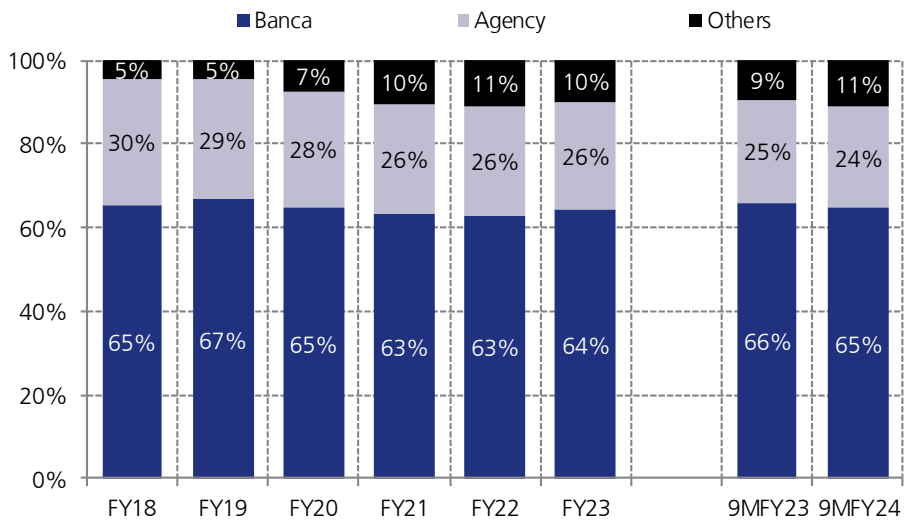


Source: Company, JM Financial

- **Channel mix to remain banca-dominated:** Banca remains the dominant channel for SBI Life, supported by agency, together accounting for around 90% of FY23 individual APE.

  We expect agency to slightly outgrow banca in FY25-FY26, as focus shifts to traditional products, from ULIP sales. Non-banca, non-agency channel is a potential growth driver for SBI Life, which has been largely absent from web aggregators and brokers. With liberalisation of commission payouts, these channels can provide a positive surprise to growth.

Exhibit 95. SBI Life: Channel mix dominated by banca and agency



Source: Company, JM Financial

- **Online and non-exclusive broking partnerships are a dark horse:** With deregulation in commission payouts, there is scope for SBI Life to grow these channels. As the industry itself has struggled to grow the proprietary online channel, we do not see SBI Life being the pioneer, as long as growth comes through its proprietary channels at low cost, case in point being its near absence from the dominant online brokers in India.

  Share of bancassurance in APE has remained steady at around 65% in over FY18 to 9MFY24. We expect this share to normalise as agency contribution increases. However, this ratio is likely to remain above 60% on the back of under-penetration and SBI's limited focus on deposits.

Exhibit 96. SBI's lower CD ratio means insurance sales need not fight deposit accretion

CD Ratio	FY18	FY19	FY20	FY21	FY22	FY23
HDFC Bank	83.5%	88.8%	86.6%	84.9%	87.8%	85.0%
ICICI Bank	91.3%	89.8%	83.7%	78.7%	80.7%	86.3%
SBI	71.5%	75.1%	71.7%	66.5%	67.5%	72.3%

Source: Company, JM Financial

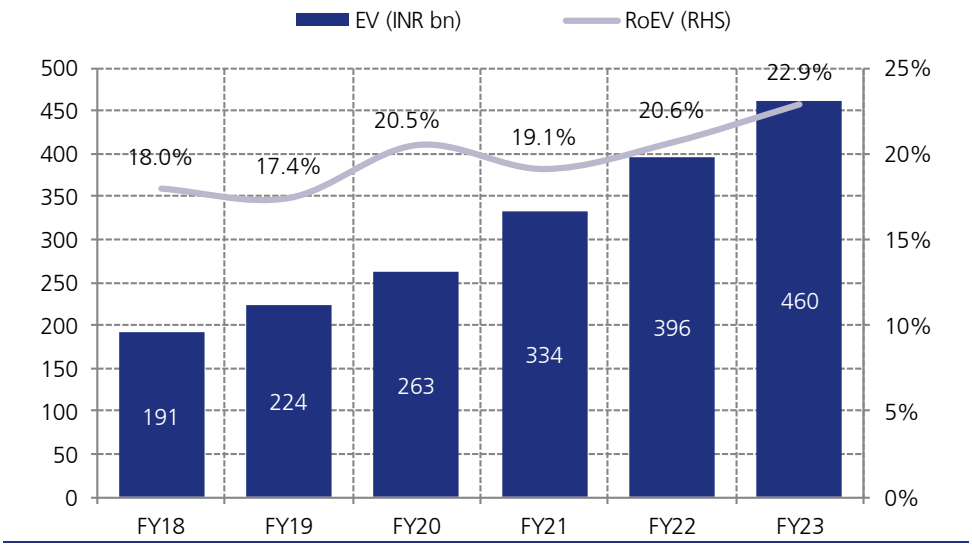
- **Business-as-usual for proprietary agency force**: As much as 24% of SBI Life's individual premiums come from its proprietary agency channel, amounting to the largest agency sales, outside LIC. SBI Life has put a focus on agency channel, and selling participatory products through this channel, to contain the skew in their product mix. This is evidenced through strong growth in agent additions.

  We expect VNB margins to be flattish despite improving product mix, on the back of commission pressures.

- **Embedded value to compound at 19%+ over FY24-FY26:** SBI Life's EV has compounded at 19.2% CAGR over FY19-FY23. It saw an economic variance of INR 24.2bn in FY23, on account of rate tightening. We expect build in positive contribution from economic variance over FY24-FY26, and do not account for any material change in operating variance.

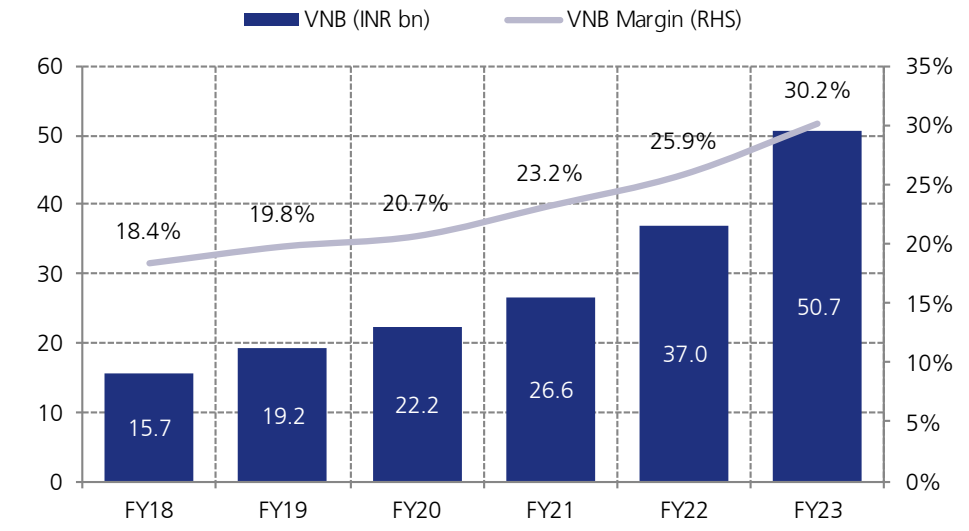
  We build in EVOP of 19.8%/19.1% over FY25/FY26 from unwind and VNB, on the back of continued topline growth above industry.

Exhibit 97. SBI Life: Steady growth in EV at 19.2% CAGR over FY18-FY23



Source: Company, JM Financial

Exhibit 98. SBI Life: Continuous improvement in VNB margins over FY18-FY23

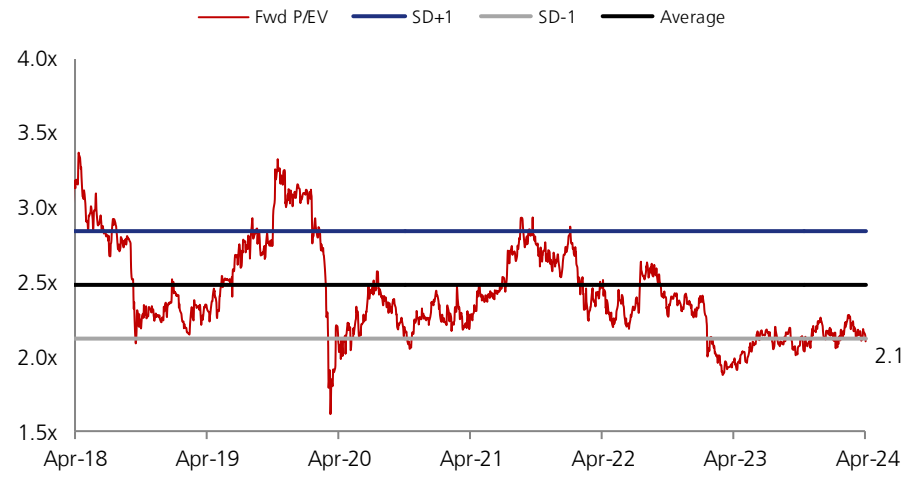


Source: Company, JM Financial

Valuation and view:

We value SBI Life at 2.2x FY26e EV of INR 824.1 bn, to get a target price of INR 1783, implying an upside of 19%. At CMP of INR 1,463, the stock trades at 2.1x/1.8x FY25e/FY26e and 11.7x/8.3x FY25e/FY26e VNB (after factoring in the EV). Our TP implies 12.4x FY26e VNB, after factoring in EV.

Exhibit 99. SBI Life: Consistent earnings rewarded, remains at discount to leader



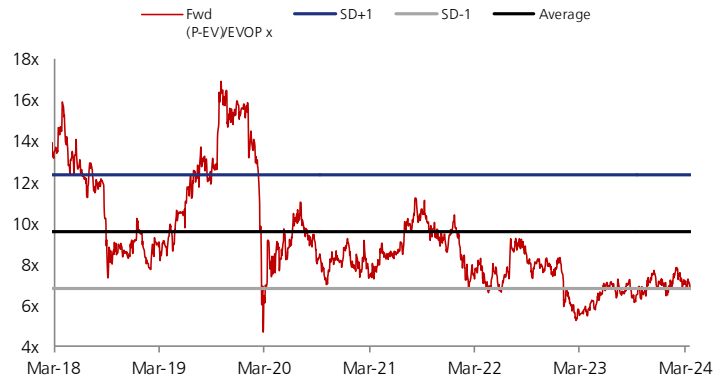
Source: Company, JM Financial

Exhibit 100. SBI Life: Forward - (P-EV)/VNBx



Source: Company, JM Financial

Exhibit 101. SBI Life: Forward – (P-EV)/EVOPx



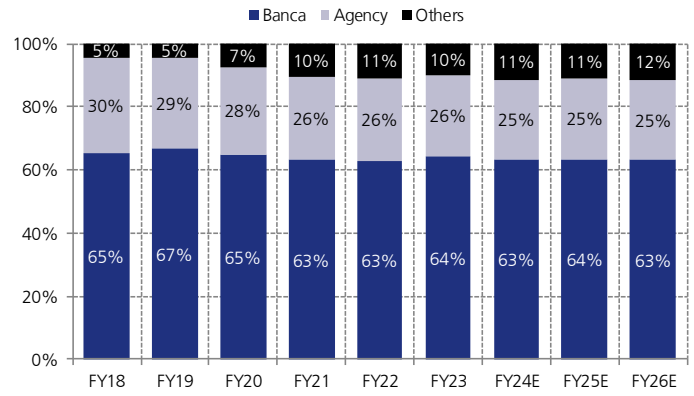
Source: Company, JM Financial

Risks:

- **Commission payouts provide an opportunity but SBI can determine fortunes:** SBI Life, being a subsidiary of India's premiere state-owned bank, has, historically, limited channel payouts to the commission limits guided by IRDAI. However, post-deregulation following the EoM guidelines, there is a threat of higher payout requests from its key channel partners, including SBI. While this has not manifested yet, we believe incremental gains in VNB margins will be limited by payouts, while balancing customer interest. At a time when SBI Life is leading the industry in VNB margins (9MFY24), there is every possibility of higher payouts to the parent.
- **Do not see threat of competition in parent banca, intensity of sales a concern:** As IRDAI has liberalised tie-ups for banks, raising the number of tie-ups to nine from three, there is a possibility of SBI Life's monopoly in the parent's banca being challenged. We do not see this threat as a major irritant due to two reasons: first, sales through SBI banca are led by the bank's tellers and not personnel placed by SBI Life, so, customers subscribe to the SBI brand, under whose umbrella SBI Life also falls; and, secondly, even though mutual fund sales through SBI have been deregulated, SBI Mutual Fund accounted for 96%+ of the MF commissions to the bank in the last 2 years.
- **Skewed product mix provides uncertainty if environment does not support:** While SBI Life innovated the Return of Premium product for protection and quickly gained market share in non-par return guarantees, its incremental sales continue to be dominated by ULIPs. This is perhaps because it caters to an aspirational segment through SBI branches. This skewed product mix risks its growth in a situation where markets are choppy. **Exhibit 93**

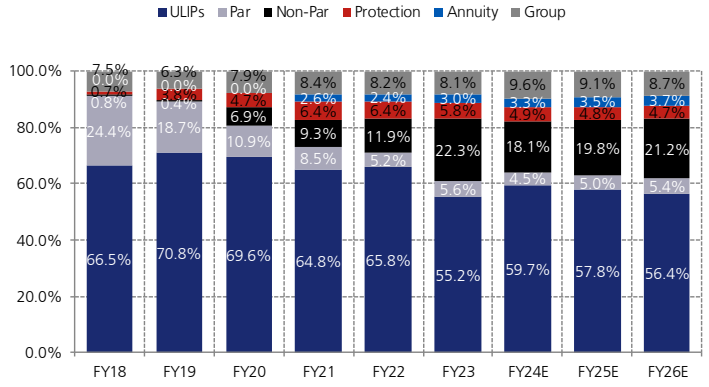
Key Projections:

Exhibit 102. Channel mix: Banca and Agency to continue dominance



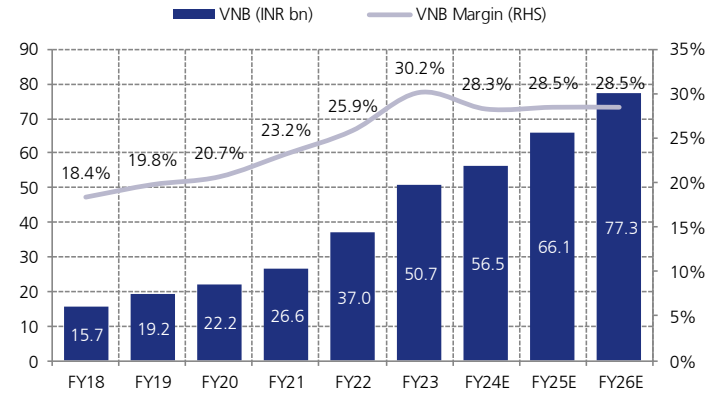
Source: Company, JM Financial

Exhibit 103. Product mix: Share of Non-par to increase gradually



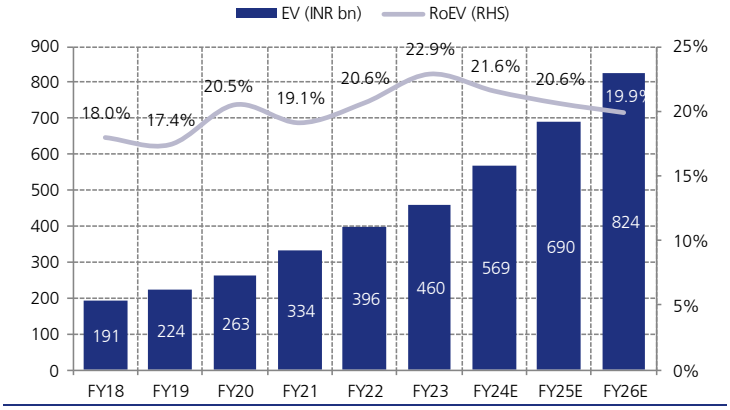
Source: Company, JM Financial

Exhibit 104. VNB margins are expected to be flattish



Source: Company, JM Financial

Exhibit 105. EV is expected to grow at 20% CAGR over FY24E-FY26E



Source: Company, JM Financial

Financial Tables (Standalone)

Policyholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Gross premiums	587,596	673,156	781,834	924,417	1,096,154
Net premiums	584,323	665,810	774,471	916,030	1,086,235
Investment income	235,680	132,601	207,659	292,278	402,525
Other Income	10,270	17,573	27,105	33,119	42,602
Total Income	**830,272**	**815,985**	**1,009,236**	**1,241,427**	**1,531,362**
Commissions	21,583	30,625	36,750	43,452	51,524
Operating expenses	29,745	34,095	39,599	44,841	50,929
Provisions & Taxes	9,090	9,797	10,292	12,468	15,139
Total expenses	**60,418**	**74,517**	**86,641**	**100,761**	**117,593**
Benefits paid	313,398	302,875	363,450	447,904	553,510
Change in valuation of life reserves	437,619	410,031	492,037	606,371	749,341
Total Benefits	**751,017**	**712,906**	**855,487**	**1,054,275**	**1,302,851**
Surplus/(Deficit) for the year	**18,838**	**28,563**	**40,003**	**53,272**	**68,316**

Source: Company, JM Financial

Shareholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Transfer from the Policyholders' Account	17,324	27,071	34,002	45,281	58,069
Investment income	9,831	7,945	13,911	12,442	13,751
Other income	54	7	-	-	-
Total income	**27,208**	**35,024**	**47,914**	**57,723**	**71,820**
Operating expenses	1,779	365	424	480	545
Contribution to the policyholders A/C	9,821	17,075	19,832	23,448	27,804
Profit before tax	**15,608**	**17,584**	**27,659**	**33,795**	**43,471**
Tax	548	379	553	676	869
Profit after tax	**15,060**	**17,206**	**27,105**	**33,119**	**42,602**

Source: Company, JM Financial

Key Ratios

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
VNB (INR mn)	37,000	50,700	56,538	66,067	77,303
VNB growth	39%	37%	12%	17%	17%
Reported VNB margin	25.9%	30.2%	28.3%	28.5%	28.5%
NBP (INR mn)	254,574	295,886	345,211	405,648	474,471
- Growth	23%	16%	17%	18%	17%
APE	143,000	168,100	199,783	231,813	271,239
- Growth	25%	18%	19%	16%	17%
Opex (ex-comm) ratio	5.06%	5.06%	5.06%	4.85%	4.65%
Commissions ratio	3.67%	4.55%	4.70%	4.70%	4.70%

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Investments	100,758	112,087	123,886	136,926	151,340
Policyholders' Investments	1,121,307	1,298,702	1,855,931	2,584,171	3,530,742
Unit linked Investments	1,426,253	1,632,555	2,097,381	2,536,157	3,051,941
Loans	3,627	3,889	4,517	5,341	6,333
Fixed assets	5,268	5,215	5,636	6,150	6,721
Net Current Assets / (Liab)	24,859	43,417	46,921	51,200	55,956
Total Assets	**2,682,072**	**3,095,866**	**4,134,272**	**5,319,945**	**6,803,032**
Borrowings	-	-	-	-	-
Fair Value Change Account	201,728	149,101	149,101	149,101	149,101
Policy Liabilities	1,179,313	1,397,949	1,837,372	2,558,329	3,495,435
Linked Liabilities	1,174,871	1,407,214	1,992,512	2,409,349	2,899,344
FFA	9,936	11,427	13,272	15,693	18,608
Total Liabilities	**2,565,849**	**2,965,691**	**3,992,257**	**5,132,472**	**6,562,487**
Share Capital	10,004	10,009	10,029	10,049	10,069
Reserves and surplus	104,181	119,237	131,986	177,424	230,476
Fair Value Change Account	2,039	929	-	-	-
Shareholder's equity	**116,223**	**130,175**	**142,015**	**187,473**	**240,545**

Source: Company, JM Financial

EV movement

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Opening IEV	**333.9**	**396.3**	**460.6**	**569.3**	**689.7**
Core EVOP	**64.3**	**84.8**	**95.0**	**112.7**	**131.8**
- Unwind	27.3	34.1	38.4	46.6	54.5
- VNB	37.0	50.7	56.5	66.1	77.3
Variances	**-1.9**	**-20.5**	**13.8**	**7.6**	**2.7**
- Operating	4.6	5.8	4.2	4.6	5.4
- Economic & others	-6.5	-26.3	9.6	3.1	-2.7
Closing IEV	**396.3**	**460.6**	**569.3**	**689.7**	**824.1**
Operating RoEV	20.6%	22.9%	21.6%	20.6%	19.9%

Source: Company, JM Financial

ICICI Prudential Life Insurance | BUY

Expect healthy growth & margins, consistency to drive re-rating

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ICICI Prudential has the most balanced channel mix amongst listed peers and has shown ability to grow strongly even through non-exclusive partnerships and banca channels, which contributed to c.37% of its channel mix in FY23. Focus on channels, along with renewed focus on agency, has helped it to resume strong growth in 2HFY24, and provide resilience to growth outcomes. It doubled VNB during FY19-FY23 through a focus on innovative products and margin expansion, as its parent banca shifted focus to core banking products. The resultant product innovation, alongside the diversity in channel mix, provides resilience to growth outcomes in the near term. Lower base and a flattish topline over FY18-FY23 should provide c.16% CAGR over FY24-FY26, a strong 3%+ ahead of industry, even if key banca channels shrink over the same period. We build in subdued margin performance in FY24 to continue into 1HFY25 as we see the impact of higher commissions adding to fixed costs, which have risen as a % of premiums, as growth slowed down. We see scope for 190bps expansion in margins over FY24-FY26 as product mix continues to move towards traditional and pure risk policies, after strong ULIP sales in FY24. Meanwhile, group term should normalise after a quantum de-escalation in Covid price hikes in FY24. We initiate with BUY with a target price of INR 736, valuing the company at 2.0x FY26e EV of INR 542bn.

- **Diversified channel mix insulates from any further shocks in growth outcomes:** ICICI Prudential pioneered bancassurance sales in India, and banca comprised 57% of its channel mix till FY17. Hence, a hit from the parent banca implied no topline growth over FY18-FY23. The banca mix has now reduced to 30% by FY23, and even its largest distribution partner, ICICI Bank, contributed under 14% of its sales. Growth has been led by direct (upsell), agency and broking relationships, which provides granularity. We expect proprietary agency to contribute one-third of sales by FY26, with another third coming from direct and broker relationships.
- **Low regulatory risk with a focus on exclusive partnerships and regulated ULIP products:** ULIPs constituted 62% of its savings mix in 9MFY23 – being a tightly regulated product and bearing no return risks, we see least impact from macro factors on its VNB outcomes. We build ULIP/traditional mix to come down to 50/50 by FY26, which will aid VNB growth, with margins inching up to 29% by FY26.
- **Consistent growth outcomes provide significant room for rerating:** The stock has de-rated below peers as its banca-led model faced pressure and its APE was flattish over FY18-FY23. As it has shown 28.6% growth in Jan-Feb'24 and we expect above- industry growth of c.16% over FY24-FY26, there is scope for the stock to rerate. The market has already rewarded the stock but we wait for consistency before according a higher multiple.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NA
Current Price Target (12M)	736
Upside/(Downside)	20.9%
Previous Price Target (12M)	NA
Change	NA

Key Data – IPRU IN	
Current Market Price	INR609
Market cap (bn)	INR876.7/$10.5
Free Float	25.1%
Shares in issue (mn)	1,440.74
Diluted share (mn)	1,440.74
3-mon avg daily val (mn)	INR1,411.8/US$16.9
52-week range	641/420
Sensex/Nifty	72,944/22,148
INR/US$	83.5

Price Performance			
%	1M	6M	12M
Absolute	7.2	14.6	37.4
Relative*	6.3	4.1	14.9

* To the BSE Sensex

Financial Summary

INR bn	FY22	FY23	FY24E	FY25E	FY26E
Total APE	77.3	86.4	87.0	99.9	114.3
Growth YoY (%)	19.7%	11.7%	0.7%	14.9%	14.4%
Individual APE	65.5	71.6	74.1	86.4	99.1
NBP	155.0	174.1	180.3	210.2	241.1
Opex + Commissions	53.5	64.5	67.9	72.9	79.4
VNB	21.6	27.7	23.5	27.4	33.0
Growth YoY (%)	33.4%	27.8%	-15.0%	16.4%	20.6%
VNB margins	28.0%	32.0%	27.0%	27.4%	28.9%
EVOP (%)	14.6%	17.3%	14.8%	14.8%	14.9%
P/EVx	2.8	2.5	2.1	1.8	1.6
Embedded value					
Opening IEV	**291.1**	**316.3**	**356.4**	**415.9**	**477.0**
Core EVOP	**42.5**	**54.7**	**52.9**	**61.7**	**71.1**
- Unwind	20.9	27.1	29.4	34.3	38.2
- VNB	21.6	27.7	23.5	27.4	33.0
Variances	**-17.3**	**-14.6**	**6.7**	**-0.6**	**-6.1**
- Operating	-10.6	0.2	4.0	4.0	3.8
- Economic & others	-6.7	-14.8	2.7	-4.7	-10.0
Closing IEV	**316.3**	**356.4**	**415.9**	**477.0**	**542.0**

Source: Company, JM Financial

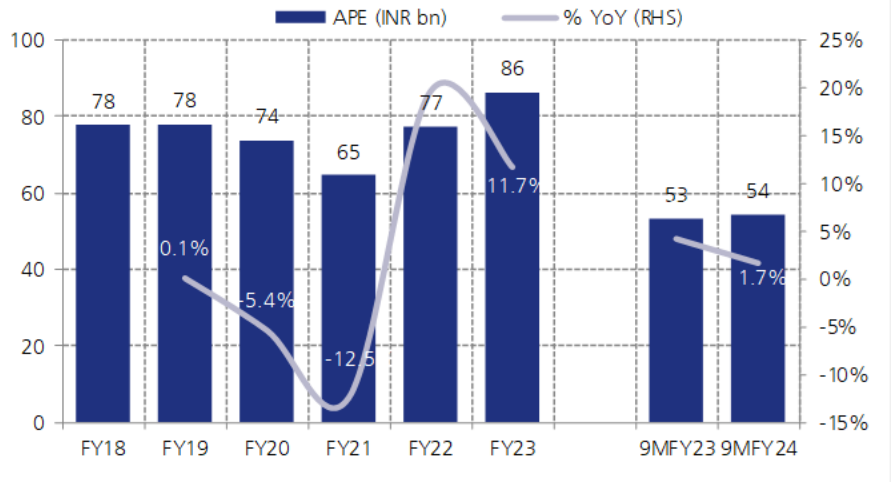
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S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Company overview:

ICICI Prudential Life is a subsidiary of ICICI Bank, one of India's leading banks, which has a 51.2% stake in the entity. Prudential Holdings holds another 22% stake in the insurer. The company can be considered the pioneer amongst bank-led life insurers in India. When the sector was opened up to private players, the company quickly established itself as the private market leader by FY12, accounting for 16% market share. Despite tight regulation of its hero ULIP products, it retained private market leadership till FY17. At this stage, it faced growth challenges, with individual APE flat (down 1.1% CAGR) from FY18 to FY23. This was led by change in leadership at ICICI Bank, as the bank focused on its core banking products and share of ICICI Bank in the insurer's total APE fell from 31.3% in FY21 to 13.8% by FY23. The company has adopted a 4P strategy – Premium growth, Protection, Productivity, Persistency, and has articulated a focus on absolute VNB growth going forward. Despite flat topline, the company managed to adapt its product mix to double its FY19 VNB by FY23. The company has achieved strong growth so far in CY24, on the back of a diversified channel, growing 28.6% YoY in Retail Weighted Premiums over Jan-Feb'24.

Exhibit 106. New business has been flat over FY18-FY22, with pre-buying kicker in FY23



Source: Company, JM Financial

Management team:

Exhibit 107. ICICI Prudential Life: Management team has wide experience in Indian BFSI

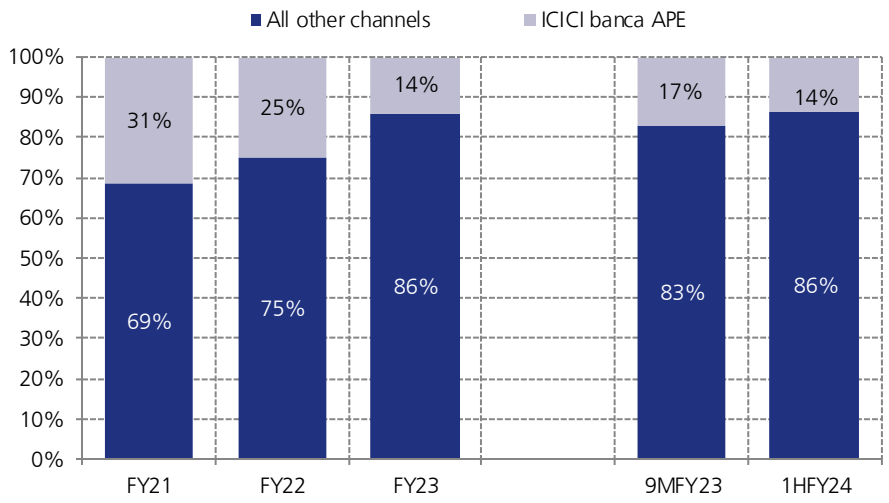
Name	Designation	Profile
Mr Anup Bagchi	Managing Director & Chief Executive Officer	Mr Anup has been the Managing Director and Chief Executive Officer of the company since June 2023. He was the Executive Director and Chief Operating Officer of the Company effective May 1, 2023, and prior to this he was a non-executive Director of the Company since October 2018. Mr Anup is a graduate from IIT, Kanpur and holds a Post Graduate Diploma in Management from IIM, Bangalore.
Mr Dhiren Salian	Chief Financial Officer	Mr Dhiren has been the Chief Financial Officer of the company since May 2023. Prior to this, he served as the Executive Vice President of Finance BIU, CIRO & Deputy CFO. His current areas of responsibility include Finance, Investor Relations, Business Intelligence Unit and Taxation. He has been with ICICI Prudential Life Insurance for over 20 years. He holds a B-Tech degree from IIT Kharagpur and Post Graduate Diploma in Management from IIM Lucknow.
Mr Souvik Jash	Appointed Actuary	Amit joined ICICI Prudential Life Insurance in 2002 and was responsible for setting up the Bancassurance channel. In 2008, he moved to ICICI Bank Mr Amit joined back ICICI Prudential Life Insurance in October 2018 as the Chief Distribution Officer. He is currently responsible for Sales & Distribution, Product Management, Marketing and e-Commerce. He holds a master's degree in Statistics from Indian Statistical Institute.
Mr Amit Palta	Chief Distribution Officer	Mr Amit has been associated with ICICI group since 2002 and was appointed as Chief Distribution Officer in 2018. He holds post graduate diploma in management from FORE School of Management, Delhi.
Mr Deepak Kinger	Chief Risk & Compliance Officer	Mr Deepak Kinger occupies the position of Chief Risk & Compliance Officer at ICICI Prudential Life Insurance Co. Ltd. He received an undergraduate degree from the University of Mumbai.
Mr Manish Kumar	Chief Investments Officer	Mr Manish Kumar is the Chief Investment Officer at ICICI Prudential Life Insurance Co. Ltd. He oversees the company's investment portfolio, drawing from over 30 years of experience in equity research, trading, and fund management. Prior to joining ICICI Prudential, he worked at a leading Indian asset management company. Mr Manish is an engineer from IIT Kanpur and holds an MBA from IIM Kolkata.
Mr Judhajit Das	Chief Human Resources	Mr Judhajit joined ICICI Prudential Life Insurance in November, 2000. He has been leading the HR team at ICICI Prudential Life since August, 2005. He is currently responsible for Human Resources, Operations & Customer Service, Admin & Infrastructure, IT Infrastructure, CSR & Sustainability (ESG). Judhajit graduated in Economics from Jadavpur University, Kolkata and is an alumnus of XLRI, Jamshedpur.

Source: Company, JM Financial

Recent dynamics:

- **Impact of taxation of higher ticket sized policies in base, impact hereon limited:** When non-mortality returns on traditional policies with annual premium above INR 500,000 were taxed in Budget FY23, ICICI Prudential Life, with its affluent client base, reported that 6% of its business was impacted. In 9MFY24, the company has seen the above INR 500,000 segment grow YoY; despite the challenge, however, the mix in non-linked business has moved in favour of lower-margin participatory products, from c.33% in FY23 to c.50% in 9M24, basis management commentary. This has, in addition to elevated costs in pursuit of non-proprietary channels, resulted in a compromise on margins, which fell to 26.7% in 9MFY24 from high of 32.0% in FY23.
- **Composite licence for insurance provides a good opportunity:** Pre-FY16, when life insurers were allowed to sell health-indemnity plans, ICICI Prudential was one of two insurers with sizeable active business. Similarly, when composite insurance licences were discussed, the company was quick to come out with its iShield product, in partnership with ICICI Lombard, its sister company. While the products did not gain scale pre-FY17, given the growth in retail health business over last 6 years, we expect ICICI Prudential to be quick in scaling combo products, if composite licences come through.
- **ICICI Bank's shift away from insurance sales a reality, looking at other channels:** The current leadership at ICICI Bank is focused on its core banking products. Therefore, change in ICICI Bank's priority at its end has resulted in decline in share of the APE mix over the last few years. The company and channel checks mention that only ULIP, annuity and protection products are sold through the ICICI banca channel. This resulted in contraction in the ICICI banca channel for ICICI Prudential, with sales down 38% in FY23 to a run-rate of INR 1bn per month, representing 14% of the company's total APE.

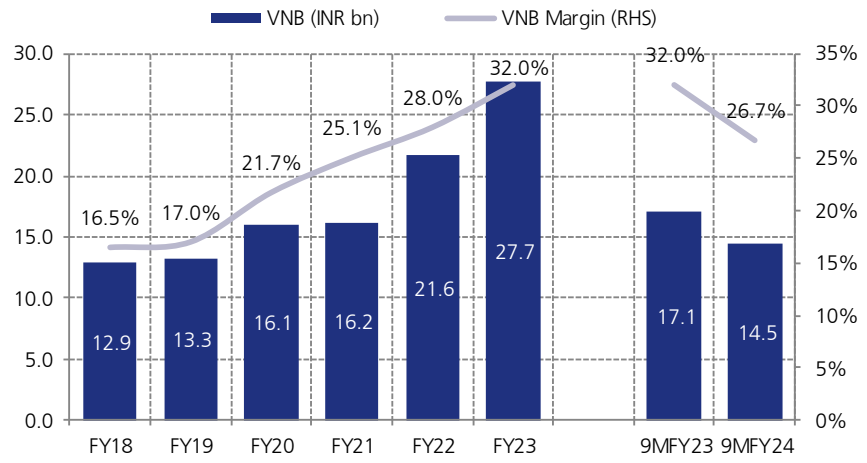
Exhibit 108. ICICI Prudential Life: ICICI banca share bottomed out in channel mix



Source: Company, JM Financial

- **Doubling VNB over FY19-FY23 was a strong achievement given constraints:** While new business stagnated for the company, the company was able to double its FY19 VNB by FY23 thanks to a shift in product mix. Share of ULIPs in its product mix came down from 80% in FY19 to 36% by FY23, while the share of non-linked savings rose from 9% to 37%. With a similar share of linked and non-linked products in savings mix, the company has now become resilient to changing customer needs. For instance, the company could capitalise on demand for ULIPs and protection in 9MFY24.

Exhibit 109. ICICI Prudential Life: Margins almost doubled from 17% to 32% over FY19-FY23



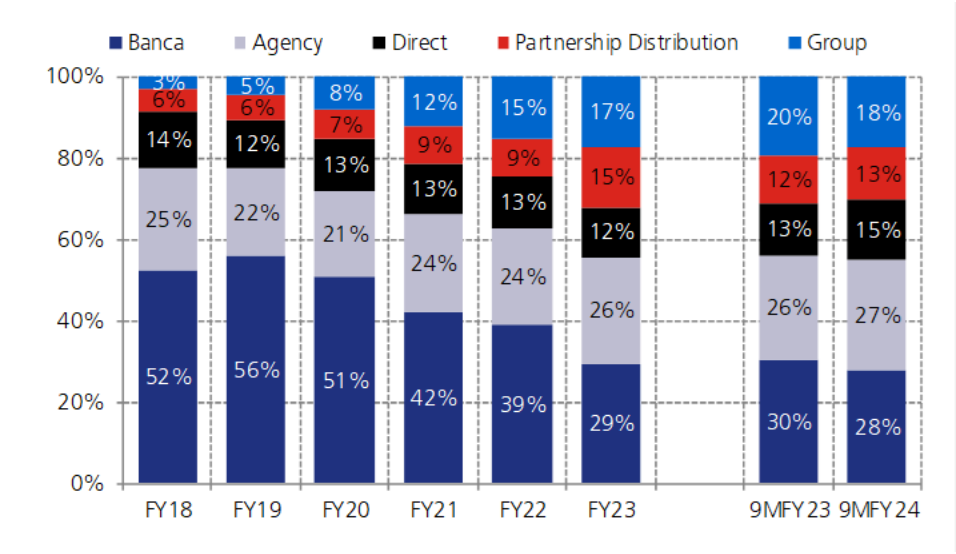
Source: Company, JM Financial

- **Products in place to weather impact of potential regulation of surrender charges:** While IRDAI has refrained from acting on surrender charges in its principles-based regulations; we can expect some moderation in charges. The visible solution is a change in commission structure, with lower initial payouts to intermediaries.
  - In 9MFY24, more than 60% of the company's savings sales comprised ULIPs and under 20% came from non-par products, which will be most impacted by any cap on surrender charges. As such, ICICI Prudential has lower susceptibility to these regulations.
  - ICICI Prudential was the first insurer to offer a new product variant of GPP Flexi, with an updated payout structure to adapt to these guidelines, even when the regulations were in the draft stage. ICICI Pru Guaranteed Pension Plan Flexi with Benefit Enhancer is industry's first annuity plan that provides customers with an option to receive a 100% refund of premiums paid at any time starting from the day of purchase. For distributors, while the base level commissions between both the variants of GPP Flexi are similar, in the Benefit Enhancer variant, the commissions paid have been back-ended and more level-based for the initial years.
  - While a diversified channel mix is likely to usher in balanced growth, there is every possibility that if insurance commissions are lowered structurally, non-exclusive partnership channel of the company could see a growth slowdown as intermediaries focus on other financial products.

Differentiators:

- **Focus on absolute VNB growth to drive the company:** ICICI Prudential, as a pioneer amongst life insurers, has comfort over its underwriting. Despite flattish topline, the company managed to grow its VNB through product differentiation and mix shift towards higher-margin products. Post Covid, when reinsurance prices tightened, it updated its risk retention policy to retain INR 10mn on its book. This has helped to improve its margins significantly on protection and, in FY23, 39.3% of its VNB came from protection. While this increases risk on book, it also provides a longer growth runaway since pure risk product by life insurers do not compete with other products, unlike a savings plan, which competes with bank term deposits and mutual funds.
- **Balanced channel mix to bring in consistency in growth, even at cost of margins:** With ICICI Bank reducing its focus on insurance sales, ICICI Prudential now enjoys the most balanced channel mix amongst listed insurers. This makes the insurer resilient to any adverse changes in intermediation behavior and costs, and we see lower variability in growth. In 9MFY24, the company saw decent 10%-12% YoY growth each in non-ICICI banca, agency and direct channels.

Exhibit 110. ICICI Prudential Life: Evenly balanced channel mix



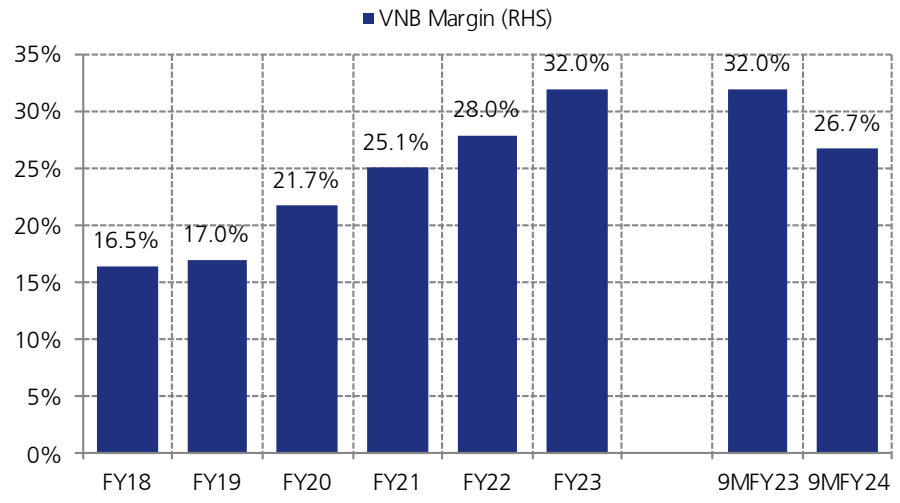
Source: Company, JM Financial

- **Do not see a threat to ICICI banca exclusivity:** ICICI Prudential continues to enjoy exclusivity in ICICI Bank channel. The channel contributed just 14% of ICICI Prudential's business in FY23. Further, the bank has stringent product guidelines in place so customer interest is not sacrificed – the bank sells ULIPs, annuity and protection while sale of traditional policies is not encouraged. In such a scenario, we do not expect the bank to open up its channel to other life insurers.

Prospects:

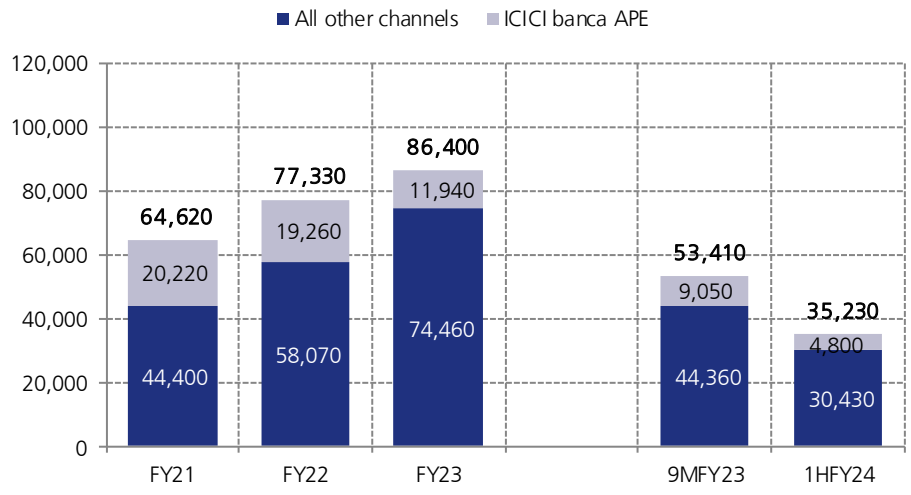
- **Channel mix to be steady, with some deceleration in banca:** As the channel mix has diversified, we see IPRU growing in line with the industry in FY25. While ICICI Bank has almost stabilised, we can see some further contraction as ULIP sales slowdown in choppy stock markets. However, growth should resume from diversified channels, especially as it has shown intent to buy growth through lower VNB margins, evidenced in 9MFY24, with VNB margin falling 5.3% over FY23.
  - We expect ICICI Bank to contribute around, but slightly below, a run-rate of INR 1bn in monthly APE going forward. While we believe the channel has bottomed out, we believe FY24 sales were led by a behavioural shift towards ULIPs when markets have given strong returns, as bank counters continue to offer the products.
  - In agency channel, the insurer has scaled up frontline managers and provided agents with institutional support complemented by data analytics and digital capabilities. We expect growth over FY24-FY26 to be led by proprietary agency and partnership channels, growing at 20%+ in FY24, before normalising to 18-20% levels by FY25.
  - In direct business, investments in website and analytics can drive upsell; we build strong 20-25% growth in the channel over FY24-FY26.

Exhibit 111. ICICI Prudential Life: VNB margins declined in 9MFY24 vs. FY23



Source: Company, JM Financial

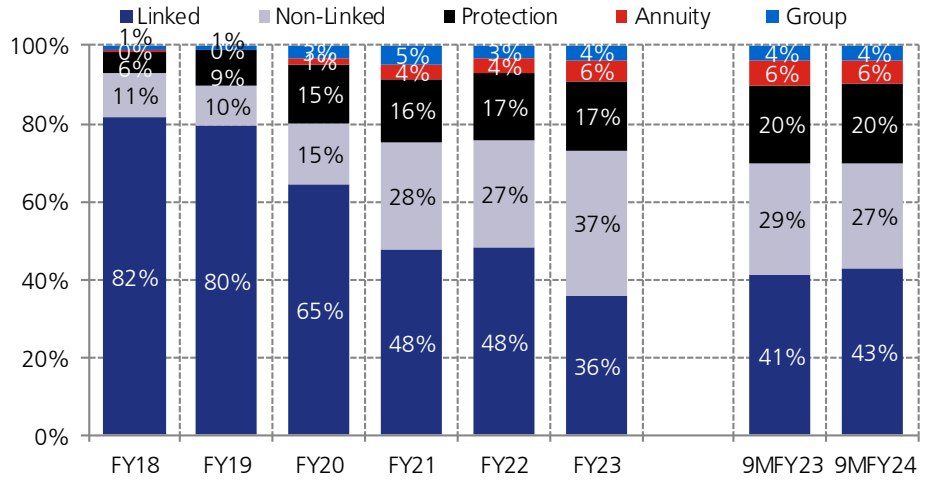
Exhibit 112. ICICI Prudential Life: Absolute APE decline in FY23 from ICICI banca channel



Source: Company, JM Financial

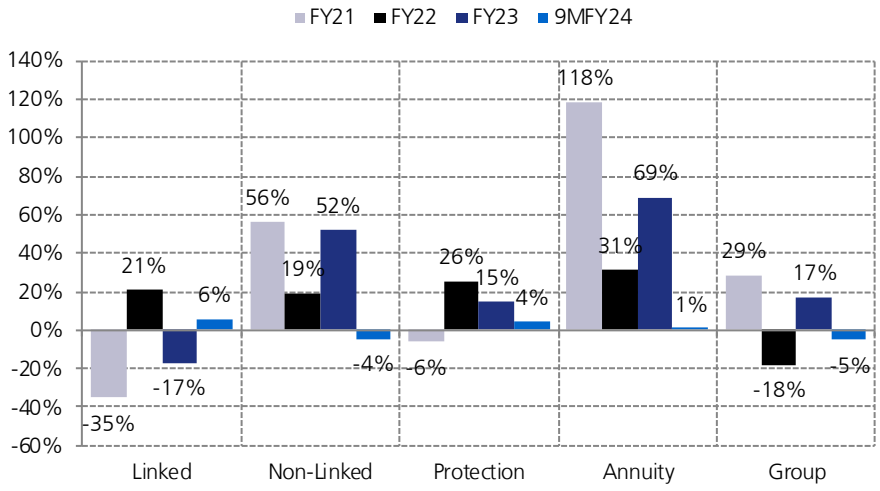
- **Product mix skew to remain but moderate in favour of non-linked business:** IPRU led the market in ULIP sales before product regulation. Subsequently, it has grown other products through a diversified channel mix. However, our estimates suggest the parent banca still has 70-80% mix of ULIPs in individual products, in APE terms. If market returns slow down over FY25-FY26, we can see ULIP sales come under pressure. While this lower topline growth, absolute VNB growth is likely to be in mid-teens, with improved margin profile.

Exhibit 113. ICICI Prudential Life: Dependence on ULIPs has reduced over time



Source: Company, JM Financial

Exhibit 114. ICICI Prudential Life: Product-wise APE growth YoY

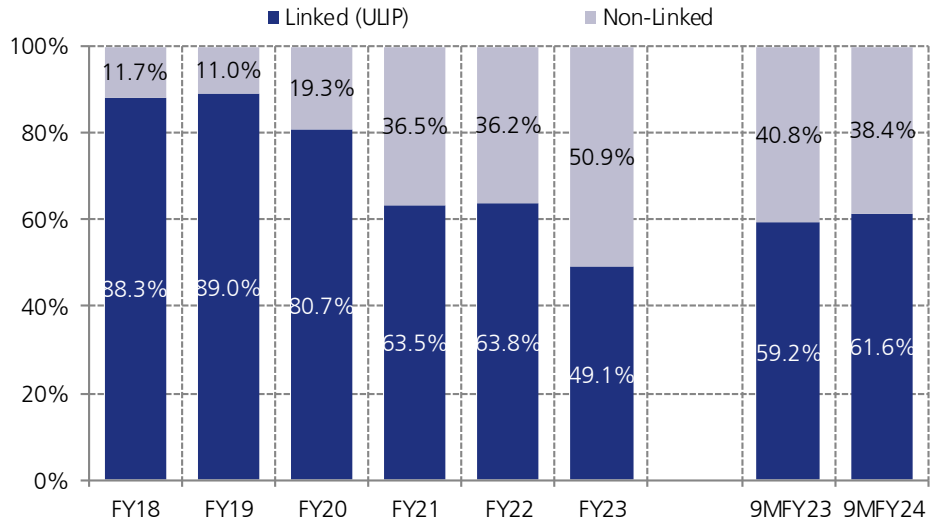


Source: Company, JM Financial

- **Savings mix to move towards traditional products:** As growth comes from non-exclusive channels, we expect a focus on higher margin (and higher payout) non-linked savings products. Within non-linked savings, the share of participatory products has risen to c.50% in 9MFY24 from c.33% in FY23. We believe this is largely led by pre-buying, and should reverse gradually as the company pushes return guarantees aggressively.

  We expect the company to inch towards a 50:50 share of linked/non-linked business by FY26, as it aggressively grows through higher cost channels. This should aid in VNB margin expansion of around 190bps over FY24-FY26, but, to c.29%, below 32% levels seen in FY23.

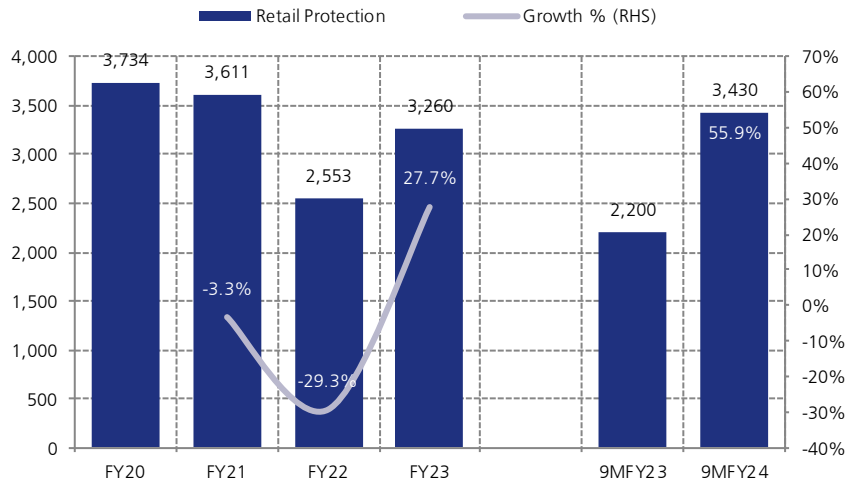
Exhibit 115. ICICI Prudential Life: Traditional non-linked APE increasing within savings mix



Source: Company, JM Financial

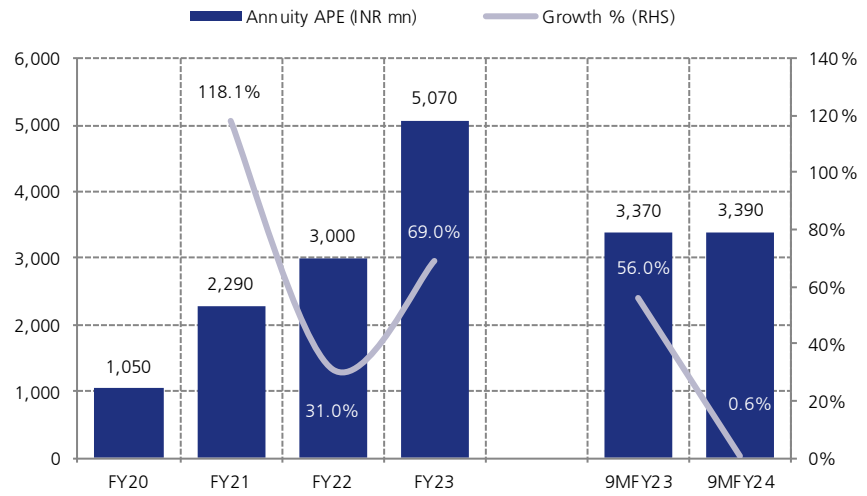
– **Retail protection & annuity to grow absolute VNB:** Retail protection and annuity have seen divergent trends in 9MFY24, with retail protection growing 56% YoY while annuity has largely been flat in the same period. Going forward, we expect both products to converge to high-teen growth in the medium term. The company has inherent advantages in both products, with higher retention in protection allowing better pricing, while in NPS, ICICI Prudential remains a preferred pick with best 5-year-returns (as on 8th Mar'24). These are multi-decade opportunities, on which the company can capitalise.

Exhibit 116. ICICI Prudential Life: Retail protection grew 56% over 9MFY23-9MFY24



Source: Company, JM Financial

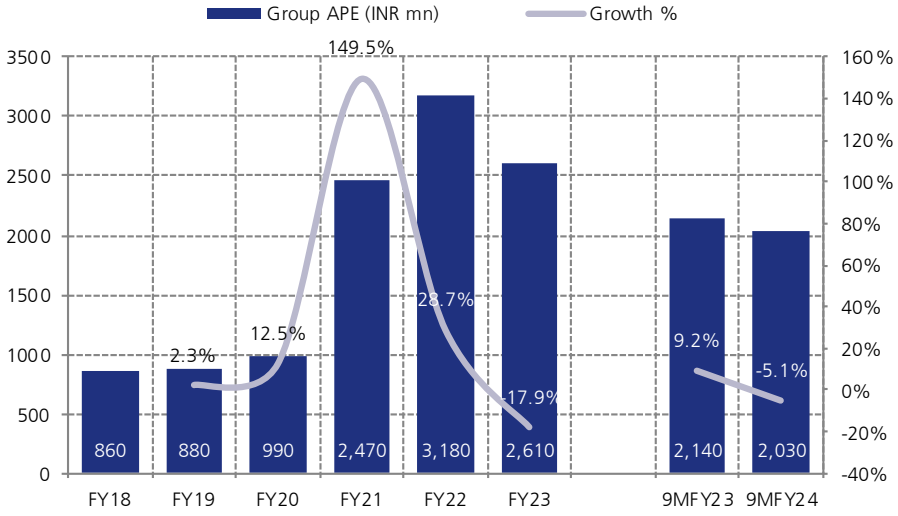
Exhibit 117. ICICI Prudential Life: Annuity growth, while sinusoidal, has been strong



Source: Company, JM Financial

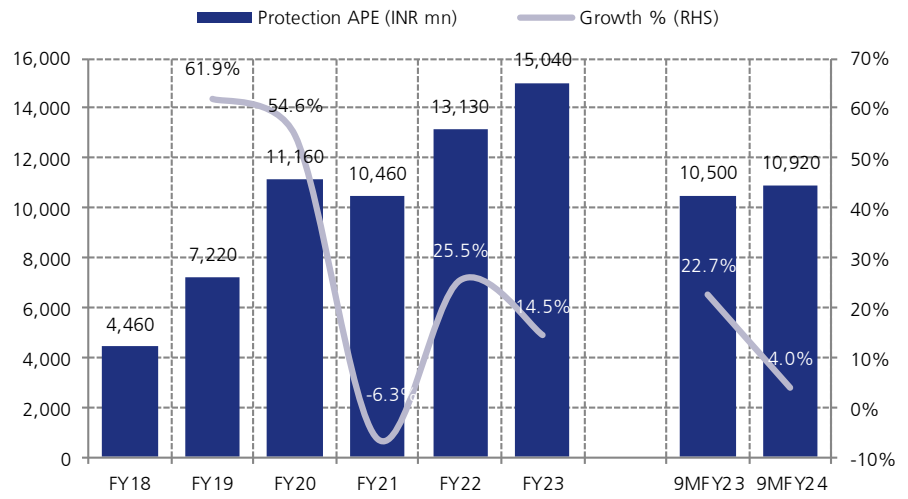
– **Group business:** The company showed strong growth in group business in FY23; however, the same has slowed down over 9MFY24, mainly on account of pricing pressures as erstwhile Covid loading on group premiums was removed. The company maintains it was a tactical call, led by the pricing environment. While the business, by nature, will remain lumpy, we do not see the recent contraction as inability or reluctance to grow the book. The company has been a large player in group term, and we expect the growth to resume once pricing provides a favourable risk-reward.

Exhibit 118. ICICI Prudential Life: Growth in group APE slowed down in FY23 and 9MFY24



Source: Company, JM Financial

Exhibit 119. ICICI Prudential Life: Total protection growth was muted due to group term

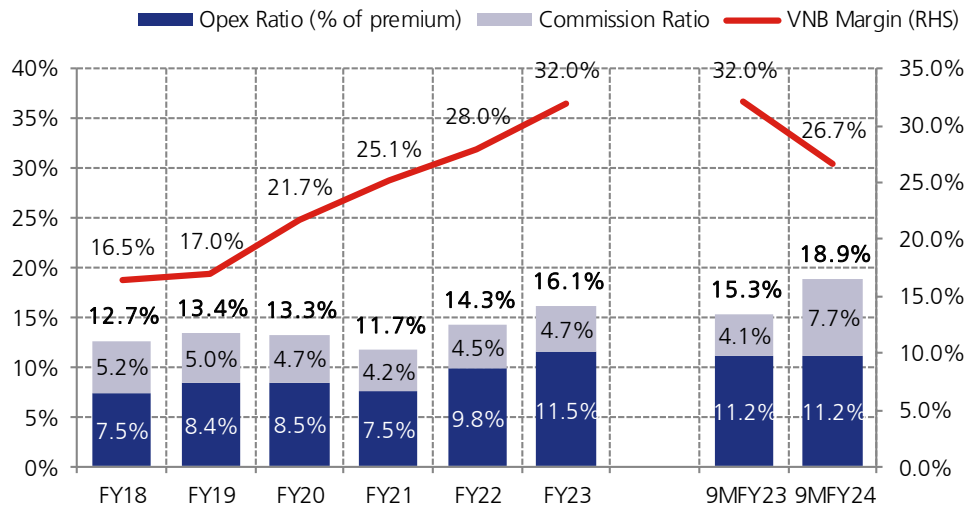


Source: Company, JM Financial

- **VNB margins to inch up by FY26, EV to compound at 15% over FY24-FY26:** Elevated costs, leading to lower VNB margins in FY24, have come in due to elevated fixed costs, through sales and marketing efforts, coinciding with higher commissions following deregulation in FY24. This came in, unfortunately, at a time when market conditions generated demand for low-margin ULIPs. Hence, IPRU saw its VNB margins collapse from 32.0% in FY23 to 26.7% in 9MFY24. We expect margins to remain under pressure in 1HFY25 leading to limited upside in FY25 margins, before we expect a likely margin kick in FY26.

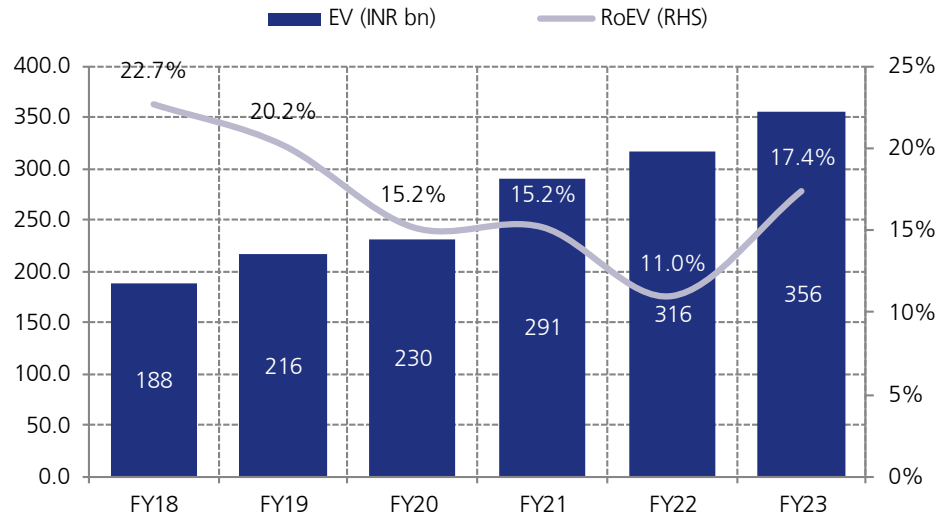
  We expect core EVOP (VNB and unwind) to grow at c.15% over FY24-FY26, slightly below topline growth.

Exhibit 120. ICICI Prudential Life: Opex elevated sharply in FY24



Source: Company, JM Financial

Exhibit 121. ICICI Prudential Life: EV grew at a CAGR of 13.7% over FY18-FY23



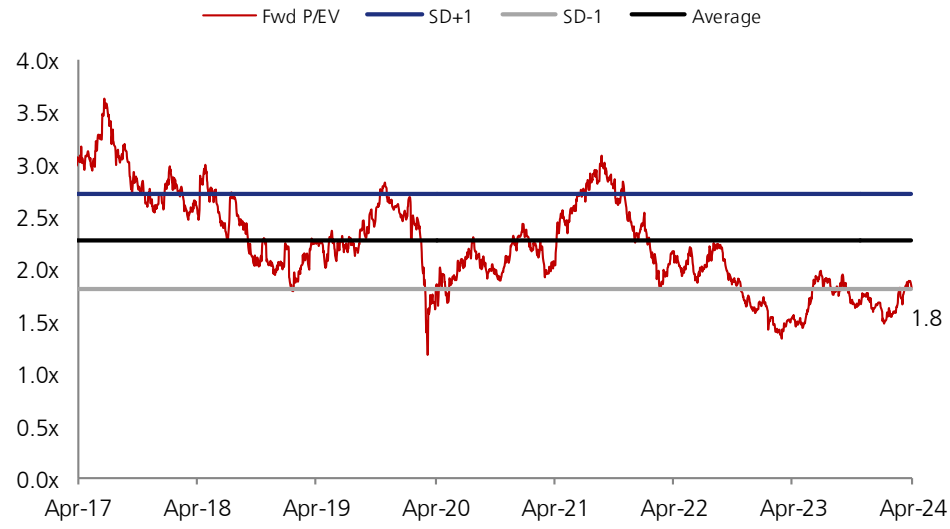
Source: Company, JM Financial

Valuation and view:

The stock has de-rated from 3.1x on one-year forward EV as on Mar'18 to 1.7x on Mar'24, largely explained by negligible premium growth. During this period, the company was able to double its absolute VNB, and with a diversified channel mix, we do not see another episode of flat topline in a growing Indian insurance market.

We see risks from liberalisation of intermediation and product regulations to be contained.

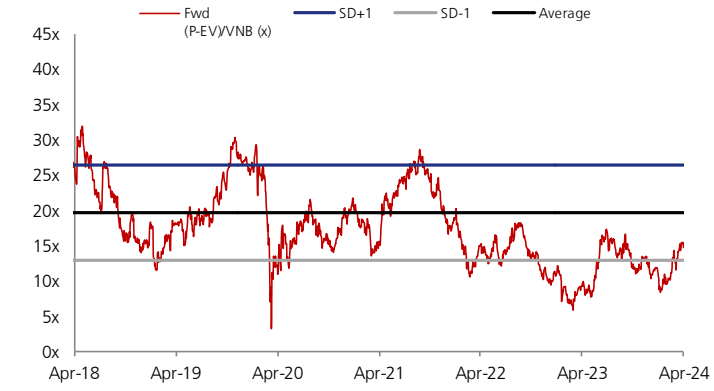
Exhibit 122. ICICI Prudential Life: Stock has reacted positively to growth, at cost of margins



Source: Company, JM Financial

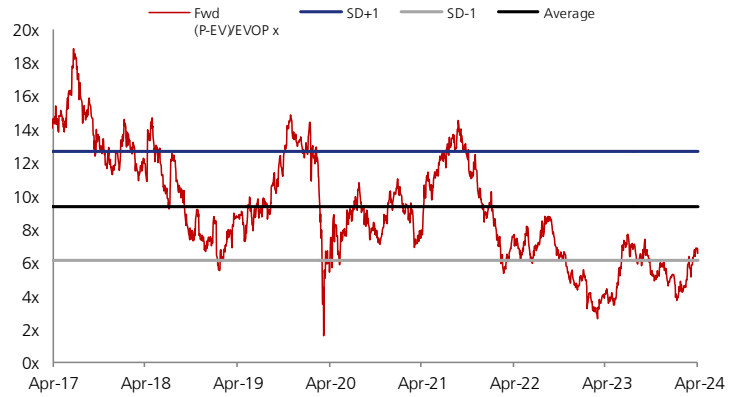
We value the company at 2.0x FY26e EV of INR 542.0bn, to get a target price of INR 736, implying an upside of 21%. At CMP of INR 609, the stock trades at 1.8x/1.6x FY25e/FY26e and 14.6x/10.1x FY25e/FY26e VNB EV (after factoring in the EV). Our TP implies 15.7x FY26e VNB, after factoring in EV.

Exhibit 123. ICICI Pru Life: Forward (P-EV)/VNBx



Source: Company, JM Financial

Exhibit 124. ICICI Pru Life: Forward (P-EV)/EVOPx



Source: Company, JM Financial

Risks:

- Further pressure on banca sales is visible:
  - **Lower ULIP sales through ICICI banca can impact even the low base:** While life insurers have shown the ability to customise products per requirements, a situation in which a major channel sells only one savings product puts the channel at risk of cyclicality. While ICICI Bank accounts for only 13% of IPRU's channel mix in 9MFY24, we see this share come down in case ULIP sales for industry, as a whole, slows down.
  - **Acquisition of Reliance Capital by Hinduja group to hurt another key banca:** IndusInd Bank is an important banca partner for ICICI Prudential; we estimate that c.3% of the company's new business comes from the channel. With Hinduja group's acquisition of Reliance Capital, we can expect significant loss of counter share for ICICI Prudential in the channel. However, the same can be compensated through other channels, on which it has focused over FY23-FY24.
- **Pressure on margins in competitive channels to persist:** 9MFY24 growth for IPRU came through channels in which it faces competition, unlike an SBI Life, which sees growth come from exclusive channels of banca and agency. This will cause the company to remain competitive in product pricing, thus, negatively affecting its VNB margins.
- **Catastrophe risks:** Over time, IPRU has, with experience, started writing protection at scale. Hence, the ratio of sum assured to EV was the highest for IPRU amongst the listed players. The company also retains the highest mortality risk on its book, at a threshold of INR 10mn. While the higher share of pure risk products and risk retention aids VNB margins, it exposes the company to a tail-risk, like Covid.

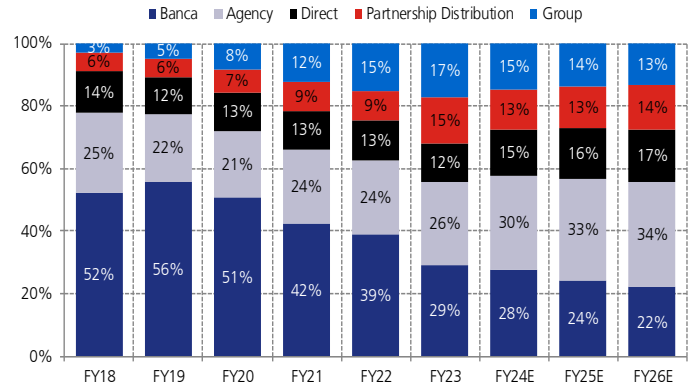
Exhibit 125. ICICI Prudential has the highest mortality risk on its books

Sum assured to EV	Sum assured (INR bn)	FY23 EV (INR bn)	Ratio
HDFC Life	15,905	395	40.2
SBI Life	9,395	461	20.4
ICICI Prudential Life	14,541	356	40.8
LICI	114,074	5,822	19.6

Source: Industry, JM Financial

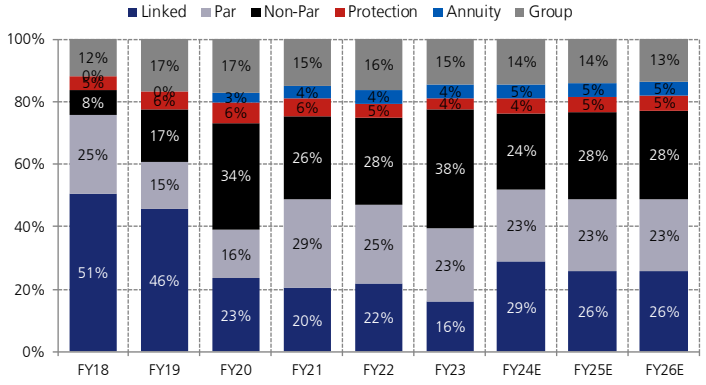
Key Projections:

Exhibit 126. Channel mix to remain balanced



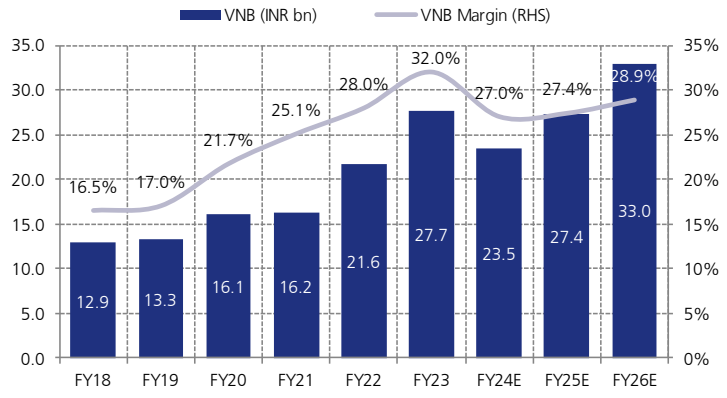
Source: Company, JM Financial

Exhibit 127. Product mix: Dependence on ULIPs to reduce gradually



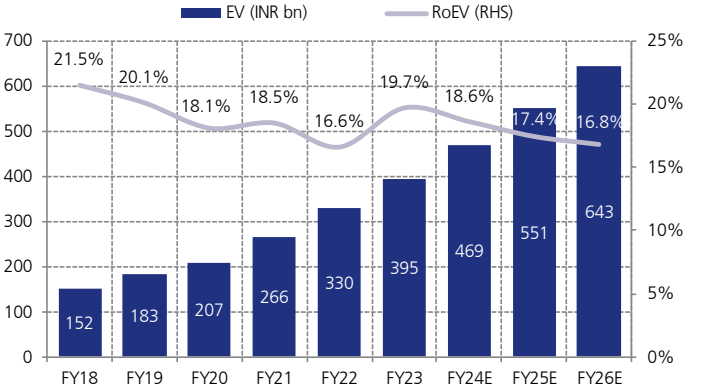
Source: Company, JM Financial

Exhibit 128. VNB margins to pick-up from FY25 gradually



Source: Company, JM Financial

Exhibit 129. EV is expected to grow at 14% CAGR over FY24E-FY26E



Source: Company, JM Financial

Financial Tables (Standalone)

Policyholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Gross premiums	374,580	399,328	415,305	461,036	517,684
Net premiums	363,212	385,567	401,511	445,325	499,104
Investment income	249,695	99,646	135,903	181,614	235,354
Other Income	22,737	19,540	13,740	21,663	30,472
Total Income	**635,644**	**504,753**	**551,153**	**648,603**	**764,930**
Commissions	16,729	18,639	19,757	21,933	24,628
Operating expenses	36,730	45,832	48,124	51,017	54,735
Provisions & Taxes	7,148	7,153	10,385	11,913	13,764
Total expenses	**60,606**	**71,624**	**78,266**	**84,862**	**93,126**
Benefits paid	293,588	310,042	328,644	381,265	447,175
Change in valuation of life reserves	257,837	98,170	104,060	120,721	141,590
Total Benefits	**551,426**	**408,211**	**432,704**	**501,986**	**588,765**
Surplus/(Deficit) for the year	**23,612**	**24,918**	**26,444**	**40,092**	**52,566**

Source: Company, JM Financial

Shareholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Transfer from the Policyholders' Account	21,602	20,162	22,477	34,078	44,681
Investment income	10,114	8,761	12,308	10,979	12,077
Other income	22	13	0	0	0
Total income	**31,738**	**28,936**	**34,786**	**45,057**	**56,758**
Operating expenses	2,222	1,942	2,020	2,141	2,297
Contribution to the policyholders A/C	21,611	18,024	18,745	20,810	23,367
Profit before tax	**7,906**	**8,969**	**14,020**	**22,105**	**31,094**
Tax	364	862	280	442	622
Profit after tax	**7,541**	**8,107**	**13,740**	**21,663**	**30,472**

Source: Company, JM Financial

Key Ratios

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
VNB (INR mn)	21,630	27,650	23,502	27,361	32,992
VNB growth	33%	28%	-15%	16%	21%
Reported VNB margin	28.0%	32.0%	27.0%	27.4%	28.9%
NBP (INR mn)	155,023	174,125	180,291	210,167	241,115
- Growth	17%	12%	4%	17%	15%
APE	86,400	87,000	99,922	114,267	128,850
- Growth	12%	1%	15%	14%	13%
Opex (ex-comm) ratio	11.48%	11.59%	11.07%	10.57%	10.10%
Commissions ratio	4.47%	4.67%	4.76%	4.76%	4.76%

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Investments	98,535	98,514	108,366	119,202	131,122
Policyholders' Investments	773,880	943,110	1,290,841	1,694,508	2,174,208
Unit linked Investments	1,508,663	1,440,581	1,818,553	2,161,043	2,542,221
Loans	9,401	13,141	13,667	15,172	17,036
Fixed assets	4,872	5,955	6,075	6,409	6,803
Net Current Assets / (Liab)	-3,449	291	296	313	332
Total Assets	**2,391,903**	**2,501,591**	**3,237,797**	**3,996,648**	**4,871,722**
Borrowings	12,000	12,000	12,000	12,000	12,000
Fair Value Change Account	28,954	28,327	28,327	28,327	28,327
Policy Liabilities	840,070	991,331	1,277,932	1,677,563	2,152,466
Linked Liabilities	1,405,414	1,352,323	1,727,625	2,052,991	2,415,110
FFA	13,833	16,693	17,361	19,272	21,640
Total Liabilities	**2,300,272**	**2,400,674**	**3,063,245**	**3,790,154**	**4,629,543**
Share Capital	14,373	14,386	14,414	14,443	14,472
Reserves and surplus	75,915	83,731	160,138	192,051	227,707
Fair Value Change Account	1,342	2,801	0	0	0
Shareholder's equity	**91,631**	**100,918**	**174,552**	**206,494**	**242,179**

Source: Company, JM Financial

EV movement

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Opening IEV	**291.1**	**316.3**	**356.4**	**415.9**	**477.0**
Core EVOP	**42.5**	**54.7**	**52.9**	**61.7**	**71.1**
- Unwind	20.9	27.1	29.4	34.3	38.2
- VNB	21.6	27.7	23.5	27.4	33.0
Variances	**-17.3**	**-14.6**	**6.7**	**-0.6**	**-6.1**
- Operating	-10.6	0.2	4.0	4.0	3.8
- Economic & others	-6.7	-14.8	2.7	-4.7	-10.0
Closing IEV	**316.3**	**356.4**	**415.9**	**477.0**	**542.0**
Operating RoEV	11.0%	17.4%	16.0%	15.8%	15.7%

Source: Company, JM Financial

HDFC Life Insurance | BUY

Balanced products, strong banca & agency to deliver consistency

HDFC Life is our top pick in the life insurance space. Amongst listed peers, we expect HDFC Life to be the growth leader over FY24-FY26, backed by growing margins. We expect its parent banca to drive growth over FY24-FY26, due to channel growth from recent branch expansion and increased counter share for the insurer with closer collaboration. It enjoys the most balanced product mix amongst listed insurers. Its product mix has now evolved with higher sum assured variants on its ULIP plans, longer tenor of participatory products and industry leadership in non-participatory products. Prudent risk management, calibrated pricing strategy and balanced product mix help the company cater to customer needs without compromising on margins. Costs of the Exide Life acquisition are largely behind it, and we expect margins to rise consistently over FY24-FY26. The company has ably faced multiple challenges recently; for instance, it had highest exposure to higher traditional premium policies. Following pre-buying in Mar'23, the company saw 50% contraction in INR 0.5mn+ ticket size policies over 9MFY24. Similarly, the company was vulnerable to a cap on surrender charges proposed by the regulator, due to the highest traditional products exposure amongst private peers. However, the regulator has not enacted on it in its principles-based product regulations. Moving forward, we expect the company to report 20% CAGR in VNB, led by consistent topline growth of 17%/18% over FY24-FY26, and margin expansion by 110 bps. Further, we expect this trend to continue with the resilience built in through innovative products and strength in key banca and agency channels. Given the resilience brought about by channel and product mix, we expect the company to retain its valuation premium over listed peers, and expand it as cost pressures abate. We initiate with BUY with a target price of INR 819, valuing the company at 2.7x FY26e EV of INR 643.2bn.

- **Twin focus on banca and agency for consistent growth:** HDFC Life has expanded and is working aggressively on its agency channel to focus on growth in policy count. Being long gestation, it should bring in 20% growth from FY27 onwards. Meanwhile, banca, led by HDFC Bank, should deliver 20%+ growth over FY24-FY26, as it has already delivered 15%+ (almost 2x company-level growth) in 9MFY24.
- **Most evolved product mix provides resilience:** HDFC Life's carefully planned product offering allows it to retain margins with changing customer preferences. It offers higher sum assured on ULIP products, sells par policies of 30+ years' average tenor and sells shorter-term return guarantees to contain risk build-up.
- **Growth and margin headwinds largely in base:** We expect HDFC Life to report flattish VNB YoY in FY24. This weakness in growth was led by pre-buying in higher premium policies, and hit on margins due to the Exide Life acquisition. We expect both challenges to be addressed by 2HFY24 and consistent outcomes thereon, driving profitability and re-rating.

Financial Summary

INR bn	FY22	FY23	FY24E	FY25E	FY26E
Total APE	97.6	133.4	135.9	159.4	188.7
Growth YoY (%)	16.6%	36.7%	1.9%	17.3%	18.3%
Individual APE	81.7	114.0	116.3	137.3	163.4
NBP	241.55	290.85	294.56	345.58	408.99
Opex + Commissions	75.5	113.2	126.1	142.5	162.6
VNB	26.8	36.7	36.9	44.0	53.2
Growth YoY (%)	22.4%	37.3%	0.4%	19.3%	20.9%
VNB margins	27.4%	27.5%	27.1%	27.6%	28.2%
Core EVOP (%)	18.7%	19.1%	17.6%	17.5%	17.7%
P/EVx	3.9	3.3	2.8	2.4	2.0
Embedded value					
Opening IEV	**266.1**	**329.6**	**395.2**	**468.9**	**550.7**
Core EVOP	**49.8**	**62.9**	**69.5**	**82.2**	**97.6**
- Unwind	23.0	26.2	32.6	38.2	44.3
- VNB	26.8	36.7	36.9	44.0	53.2
Variances	**13.6**	**2.7**	**5.4**	**0.5**	**-2.7**
- Operating	0.8	1.9	1.3	0.9	0.7
- Economic & others	12.8	0.8	4.1	-0.5	-3.4
Closing IEV	**329.5**	**395.2**	**470.1**	**551.6**	**645.5**

Source: Company, JM Financial

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Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NA
Current Price Target (12M)	819
Upside/(Downside)	35.4%
Previous Price Target (12M)	NA
Change	NA

Key Data – HDFCLIFE IN	
Current Market Price	INR605
Market cap (bn)	INR1,300.5/$15.6
Free Float	42.6%
Shares in issue (mn)	2,150.94
Diluted share (mn)	2,150.94
3-mon avg daily val (mn)	INR3,069.6/US$36.8
52-week range	711/511
Sensex/Nifty	72,944/22,148
INR/US$	83.5

Price Performance			
%	1M	6M	12M
Absolute	-4.4	-4.0	13.7
Relative*	-5.3	-14.5	-8.8

* To the BSE Sensex

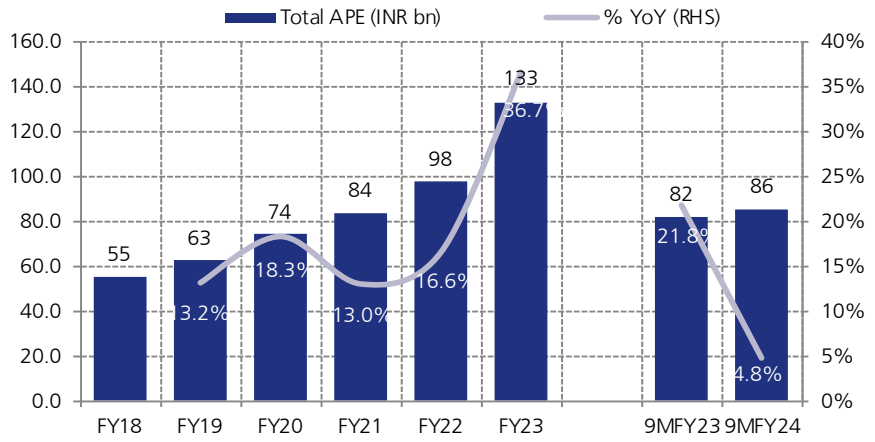
JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Company Overview

HDFC Life Insurance is a subsidiary of India's leading private sector bank, HDFC Bank, which has a 50.4% stake in the entity. Amongst listed insurers, it has the most balanced product mix, which makes it resilient to customer demands. Further, it has a reputation of product innovation – it pioneered non-participating savings category with its product called "Sanchay Plus" in FY19. It was able to gain a foothold in health policies pre-FY16 and came out with a combi product in anticipation of composite licenses for insurers. Moreover, the company has delivered consistent, predictable and sustainable performance even across multiple disruptive business cycles. Due to above reasons, it has traded at a premium to listed insurers in medium term.

Exhibit 130. APE grew at a CAGR of 19% over FY18-FY23



Source: Company, JM Financial

Exhibit 131. HDFC Life: Strength of management team has commanded industry leading valuations

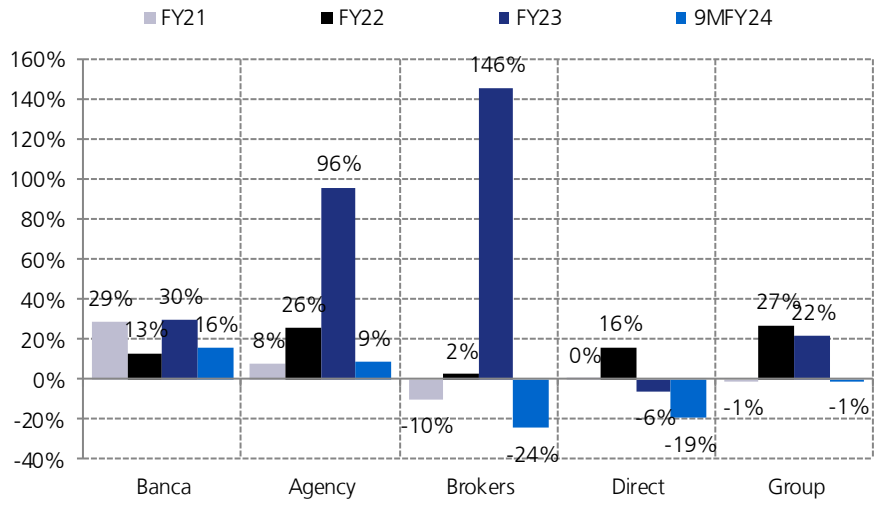
Name	Designation	Profile
Ms. Vibha Padalkar	Managing Director & Chief Executive Officer	Ms. Vibha joined the Company in 2008 and prior to assuming charge as the MD & CEO in 2018, Vibha was the ED & CFO and instrumental in the successful listing of HDFC Life in 2017. Vibha qualified as a member of the Institute of Chartered Accountants of England and Wales in 1992 and is also a member of the Institute of Chartered Accountants of India. She is also a member of the Executive Committee (EC) of the Life Insurance Council. In FY23, she also spearheaded the first M&A in the Indian life insurance industry.
Mr. Suresh Badami	Deputy Managing Director	Mr. Suresh has been associated with HDFC Life since October 2013. Prior to joining HDFC Life, he was associated with Dunlop India Limited, ICI India Limited, Cogensis Networks Private Limited, Max Ateev Limited and ICICI Bank Limited. Suresh has 29 years of experience in sales & business across varied industries, including 20+ years in banking & financial services. He holds a Bachelor's degree in Science from Bangalore University and a Post Graduate Diploma in Management from Xavier Institute of Management, Bhubaneswar.
Mr. Niraj Shah	Executive Director & Chief Financial Officer	Mr. Niraj has been associated with HDFC Life since February 2019 and oversees Finance, Product development and Process excellence. He has over two decades of experience in financial services. He holds a Post Graduate Diploma in Management from the Indian Institute of Management, Bangalore and is a member of the Institute of Chartered Accountants of India.
Ms. Eshwari Murugan	Appointed Actuary	Ms. Eshwari has been associated with HDFC Life since November 2006 and has been our Appointed Actuary since July 2021. With over three decades of experience in the Life Insurance Industry, she has worked in both public and private sectors. Prior to joining HDFC Life, she was associated with Life Insurance Corporation of India.
Mr. Narendra Gangan	General Counsel, Chief Compliance Officer & Company Secretary	Mr. Narendra is associated with HDFC Life since July, 2017 and heads Legal, Compliance and Secretarial functions. He carries more than 29 years of experience in the financial services industry. Prior to joining HDFC Life he was associated with IDFC Ltd as Senior Director – Compliance. He is a qualified Company Secretary and Law Graduate with a Master's Degree in Financial Management from NMIMS.
Mr. Prasun Gajri	Chief Investment Officer	Mr. Prasun has been associated with HDFC Life since April 2009 and heads Investment. He holds a Bachelor's degree in Engineering from Punjab Engineering College, Chandigarh and a Post Graduate Diploma in Management from the Indian Institute of Management, Ahmedabad. He is also a Chartered Financial Analyst from CFA Institute, USA.
Mr. Vineet Arora	Chief Operating Officer	Mr. Vineet has been associated with the HDFC Life since November 2022. He brings over 26 years of rich & diverse experience across industries. He holds a Post Graduate Degree in Finance & Marketing from Xavier Institute of Management, Bhubaneswar and a Bachelor's Degree in Mechanical Engineering from Delhi college of Engineering.
Mr. Rangarajan B N	Chief Risk Officer	Mr. Rangarajan has been associated with HDFC Life since October 2022. He has over 29 years of experience in actuarial role alongwith oversight of the Risk Management, Legal, Compliance, Secretarial and Product functions. He is a Fellow Member of the Institute of Actuaries of India and Institute and Faculty of Actuaries, UK. He also holds a Master's degree in Statistics from the University of Mysore.
Mr. Vibhash Naik	Chief Human Resources Officer	Mr. Vibhash is the Chief Human Resource officer and leads the Human Resources, Learning and Development and the Administration function. He has been associated with HDFC life since July 2011 and carries more than 25 years of experience across the Banking, Financial Services and Insurance industries.

Source: Company, JM Financial

Recent dynamics:

- **Impact of taxation of higher ticket sized policies in base, expect growth to pick up:** When maturity proceeds from traditional policies with annual premium above INR 5 lakh were taxed in Budget FY23, HDFC Life, with 12% of over INR 5 lakh premium policy mix, was one of the most impacted players in the listed space. In the subsequent pre-buying opportunity in March 2023, the company was able to book INR 10bn in additional revenue. Taxation and pre-buying impacted its sales through 9MFY24, with fall in proportion of >5 lakh business from 12% last year to 6% this year. Channels most impacted were agency and brokers, which showcased slower growth in current financial year.

Exhibit 132. HDFC Life: YoY growth across channels



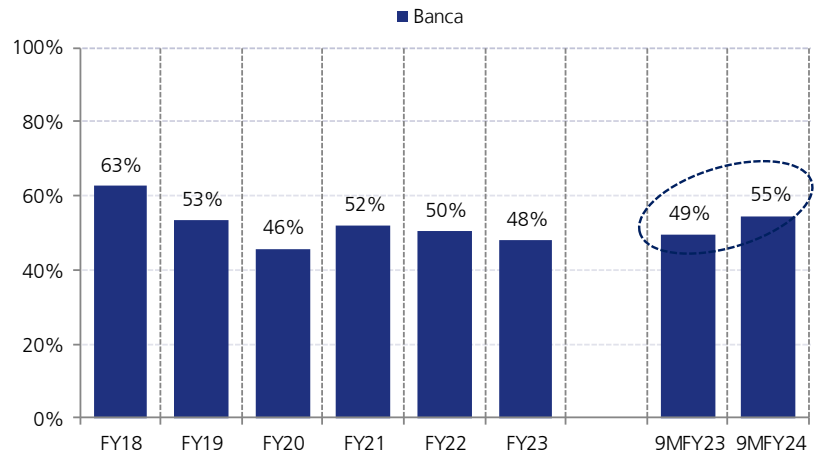
Source: Company, JM Financial

- **Composite licence for insurance provides a blue sky growth opportunity:** Pre-FY16, when life insurers were allowed to sell health-indemnity plans, HDFC Life was one of two insurers with sizeable active business. Similarly, when composite insurance licences were discussed, HDFC life was amongst the first to come out with a combi plan its "Click2Protect Health" product, in partnership with HDFC Ergo. While the product has not gained massive scale, we expect HDFC Life to be the first off the blocks in scaling combi products, if composite licences come through.

- **Margin impact of acquisition of Exide Life Insurance in base, growth to kick in:** HDFC Life acquired 100% business of Exide Life Insurance, w.e.f. 1st Jan'22, for a consideration of INR 66.9bn, including INR 7.3 bn in cash and remaining through a fresh equity issue.

  – Following the issue, erstwhile HDFC Limited's stake in the insurer came down below 50%. Following HDFC Limited's merger scheme with HDFC Bank, RBI regulations required the bank to bring down its stake below 30% in the insurer or raise it above 50%, bringing in a liquidity overhang if the parent was to sell 18% stake in the insurer. Approval for the parent to regain its majority stake came in Apr'23, paving the way for enhanced co-operation with the bank, also its largest distribution partner.

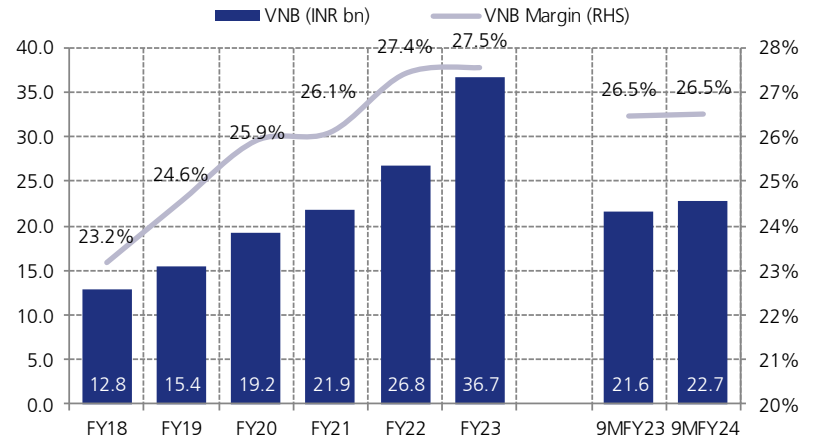
Exhibit 133. HDFC Life: Contribution of Banca channel in total APE



Source: Company, JM Financial

– Due to small scale coupled with higher proportion of tier 1 and beyond business mix, Exide Life Insurance had a VNB margin of sub-10%. Thus, the resultant merger, combined with spike in costs, led to margin dilution for the merged entity. . However, with cost and revenue synergies kicking in, the combined entity was able to achieve margin neutrality by 9MFY23.

Exhibit 134. HDFC Life: VNB margin profile has grown consistently since listing



Source: Company, JM Financial

- **Potential impact of surrender charges regulation though high, should be contained:** While IRDAI has refrained from acting on surrender charges in its principles-based regulations, we can expect some moderation in charges. The visible solution is a change in commission structure, with lower initial payouts to intermediaries. We estimated the VNB margins coming from surrender for participatory and non-par products. Our estimates suggest that surrenders in the first 7 years yield margins of 26% - 35% for non-par products, considering a discount rate of 8%, in line with reported unwind. This is substantial given HDFC Life reported 27.5% VNB margins in FY23.

  – HDFC Life reported New Business Strain of INR 38.3bn for FY23, which was 28.7% of its total APE for the year. ICICI Prudential Life has offered a new product, GPP (Guaranteed Pension Plan) Flexi, with an updated payout structure to adapt to these guidelines, even when the guidelines are in draft stage. We believe the entire industry, including HDFC Life, can also move to a similar structure.

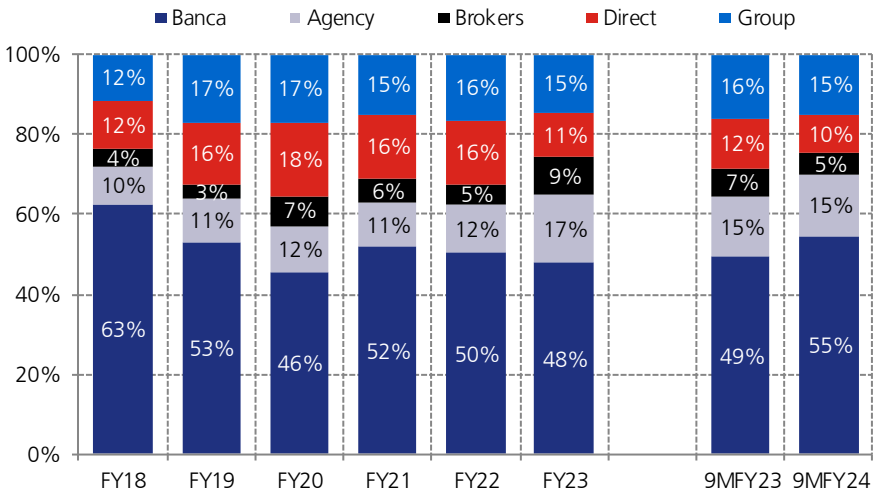
  – Given the unique ability of life insurers to provide longer term (20-40 years) return guarantees, the product proposition remains intact. However, to remain competitive with fixed deposits and debt funds, insurers, including HDFC Life, may have to compromise on margins, offer commissions or lower customer IRRs – most likely, a combination of all three.

- In Sep'18, SEBI had banned upfront commissions paid to mutual fund distributors. There was an immediate impact with FY21 gross inflows similar to FY19 levels; however, gross equity inflows rose at 31% CAGR over FY21-FY24 as the product proposition became evident, aided by strong equity markets. We expect a similar slowdown before the insurance markets normalise.
- IRDAI's recent insurance product regulations (March 2024) prioritize policyholders who complete their terms by not increasing surrender benefits as initially proposed. But, we expect some moderation in surrender charges going forward.

Differentiators:

- **Headwinds taken head on:** In the last couple of years, HDFC Life had to pass through multiple tumultuous cycles including change in ULIP regulations, open architecture in parent bank channel, Covid-19 pandemic, change in ULIP and subsequently traditional savings plan tax exemption limit. However the company has weathered these changes and maintained its position amongst top 3 private life insurers.
- **Gains in parent banca to drive growth:** Following opening of HDFC Bank channel to Tata AIA and ABSLI in FY18, HDFC Life ended FY23 at c.57% counter-share. After RBI cleared HDFC Bank to regain majority stake in the insurer (which it had lost post Exide Life acquisition) and HDFC Bank became the direct parent of HDFC Life, the insurer has gained counter share in its parent through closer collaboration. The management has suggested a counter share of c.62% in 9MFY24 and indicated it will grow to 70% in the medium term. This comes at a time when the parent itself has added branches and is planning to sell liability products from erstwhile HDFC offices. Hence, we build in strong 20% growth in the banca channel over FY24-FY26.

Exhibit 135. HDFC Life: Channel mix based on total APE



Source: Company, JM Financial

- **Gains in Tier 2 and Tier 3 areas to come with channel focus:** Over FY17-FY22, HDFC Life managed to grow new business at a CAGR of 15.2% majorly by ticket size increase while policy count grew at under 1% CAGR. Following acquisition of Exide Life, expansion of parent HDFC Bank in SURU (Sub-urban and Rural) areas and taxation of higher ticket size policies, HDFC Life has increased focus on volume growth, visible through c.19% YoY growth in number of policies in 9MFY24, against individual APE growth of 5.8%.

Prospects:

Uptick in growth with growing margins

We expect HDFC Life to report flattish new business APE for FY24 on back of substantial loss in its higher ticket size business share. Going forward, we build in highest growth in coverage universe, led by gains in parent banca and resilience brought in by balanced product mix. VNB margins expansion should be back-ended to FY26 as operational gains are slow-moving.

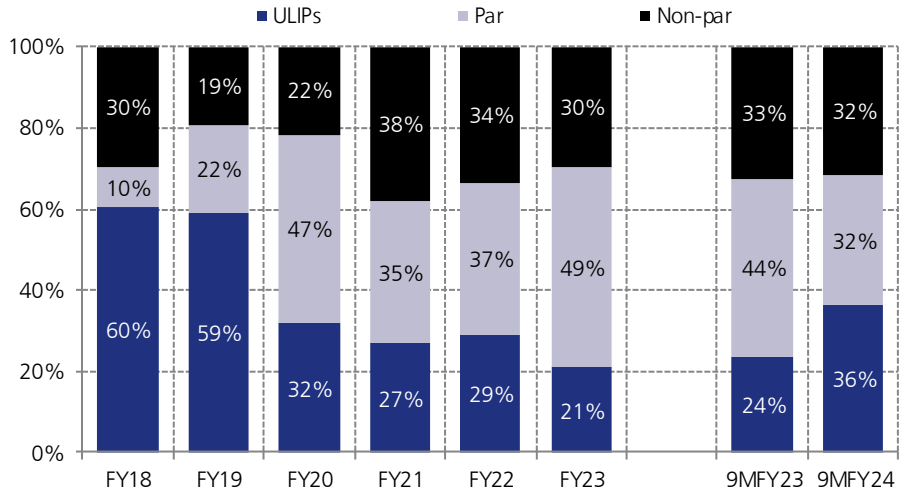
- **Product mix to tilt back to non-par:** HDFC Life takes pride in its ability to bring out innovative products. For instance, it started large-scale selling of non-par return guarantees in the Indian ecosystem, with its Sanchay product. It is selling combo-products to cater to life and health needs, and looks well placed to capitalise on composite insurance licence, as and when it comes.
  - **Retail protection growth to normalise:** After slowdown in protection growth following Covid (through tougher medical underwriting and lower reinsurance supply), HDFC Life has returned to growth, with 35.3% YTD growth in retail protection over 9MFY24.

    While 30%+ growth was on a low base of FY23, we build in consistent 20% - 19% YoY growth in retail protection over FY25/FY26, led by customer demand and sales of both pure term and Return of Premium variants.
  - **Savings mix to return to non-par, however, lower relevance for growth outcomes:** Non-par products shrank in 9MFY24 following strong pre-buying in Mar'23. At the same time, buoyant equity markets and promotion of higher sum assured on its ULIP products, which enhanced margins and enabled wide distribution, growing 57.3% YoY in 9MFY24. As a result, product mix amongst ULIP:Par:Non-par moved from 21:30:49 for the period FY23 to 36:32:32 for the period 9MFY24.

    We build a savings mix of 38%/31%/32% ULIPs/par/non-par in FY24, and expect this to normalise towards higher non-par share over FY25-FY26. We believe growth in ULIPs in FY24 was led by launch of new variants in the higher sum assured category, with buoyant equity markets driving customers to the product.

    HDFC Life, by selling shorter term non-par products to affluent segments, par products with longer tenor and ULIPs with 30-40x life cover has insulated itself from large fluctuations in VNB margins from product mix shift, and we believe the company can now grow through customer demand in any of the three savings categories.

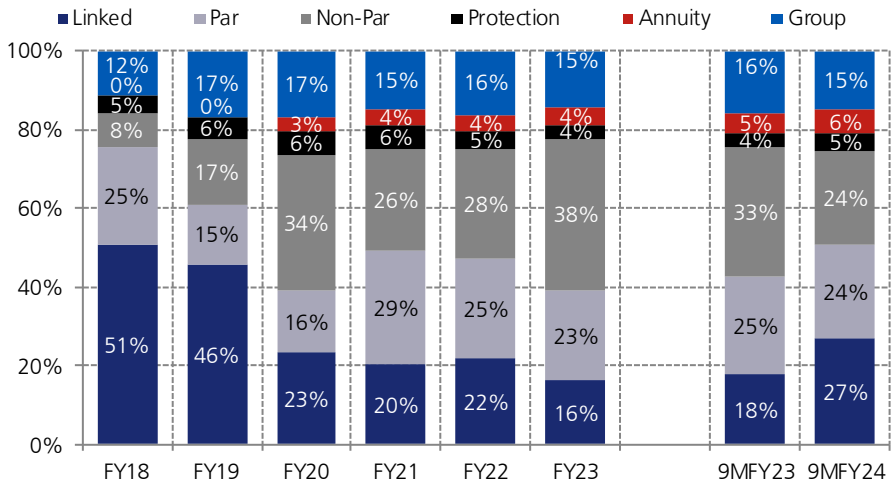
Exhibit 136. HDFC Life: Increasing share of ULIPs in individual savings mix



Source: Company, JM Financial

– **Annuity remains a 20% compounding story:** It remains a steady growing product for HDFC Life, +15% YoY over 9MFY24. We expect this growth to be steady over the medium term, before accelerating from 2030s.

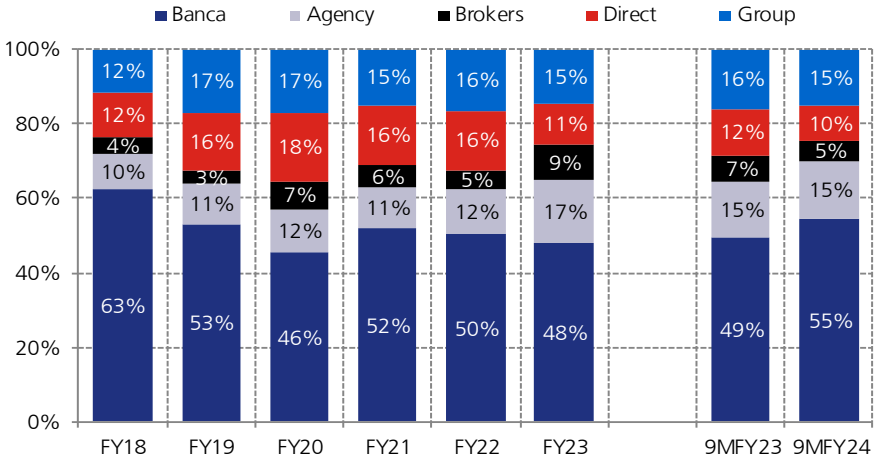
Exhibit 137. HDFC Life: Evenly balanced product mix



Source: Company, JM Financial

- **Channel mix to move towards stronger partnerships:** With acquisition of Exide Life and through its own, the company has added ~80,000 agents in FY23, growing by 68.8% YoY. It is now spending aggressively on training and technology to leverage and cultivate this agency force. Meanwhile, in banca sales, since it became a direct subsidiary of HDFC Bank in FY24, efforts are on to cultivate the relationship, integrate itself deeper into the HDFC Bank ecosystem, and ultimately gain counter-share in the channel, which itself is growing strongly.
  - As the company has already started gaining counter share in parent banca, we see it building on the synergies over FY24-FY26, and see banca gain 2% in distribution mix over the timeframe through 20%/22% YoY growth in FY25/FY26.
  - We understand that agency channel has a longer gestation period, and the training and integration of agents added directly and vintage Exide Life agents should take another year. We are building in rising growth of 18%/19% over FY25/FY26. With banca growing strongly over FY24-FY26, we expect agency to lead growth over FY27-FY28.
  - While the company has a strong direct business, we see it focus on proprietary agency and banca over medium term, with non-exclusive broker relationships taking a backseat. With higher share of banca, led by parent, and exclusive agency in channel mix, we can see HDFC Life report consistency in growth and margin outcomes.

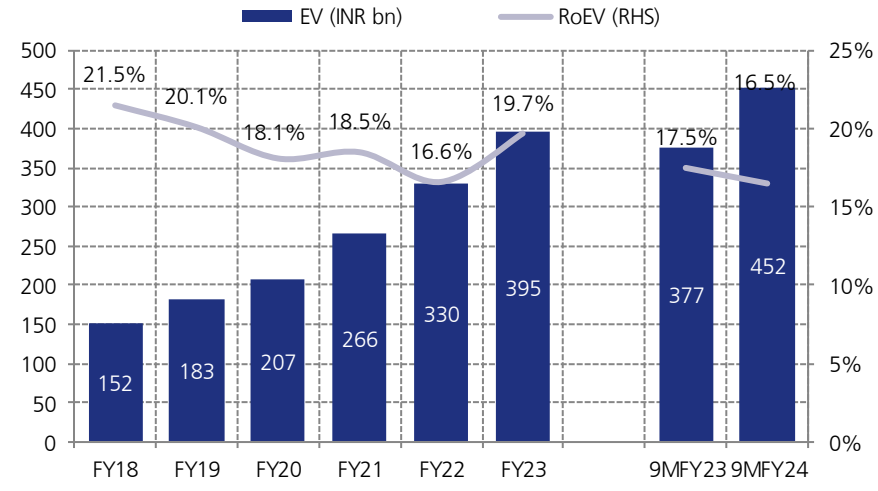
Exhibit 138. HDFC Life: With parent support, banca gaining in channel mix



Source: Company, JM Financial

- **Embedded value to compound at 19% over FY24-FY26:** Due to a higher base of non-par products in its book, the company has higher sensitivity to interest rate movements. HDFC Life reported economic variance of INR 15.9bn in FY23, which was partially offset by INR 8.1bn of positive variance in 1HFY24. As yields come off, we build in lower positive economic variance in FY25.
  - HDFC Life reported economic variance of INR 15.9bn in FY23, which was 4.8% of opening EV for the year. In beginning of FY23, HDFC Life had reported a sensitivity of -2.0% to a 100 bps rise in reference rate.
  - We attribute this to a large rise in yields in the lower duration of the yield curve, tabulated below. Subsequently, in 1HFY24, the insurer reported a positive variance of INR 8.1bn. As the business has grown strongly, contribution of variance to RoEV has been positive over a long term horizon. However, as the embedded value builds up, there will be a need for greater disclosure of the variances and its movement.
  - With positive economic variance, we expect a 20% YoY growth in EV in FY24, we see 17.5%/18% core returns on its EV over FY25/FY26, through VNB and unwind.

Exhibit 139. HDFC Life: RoEV consistently above 18%, except year of acquisition

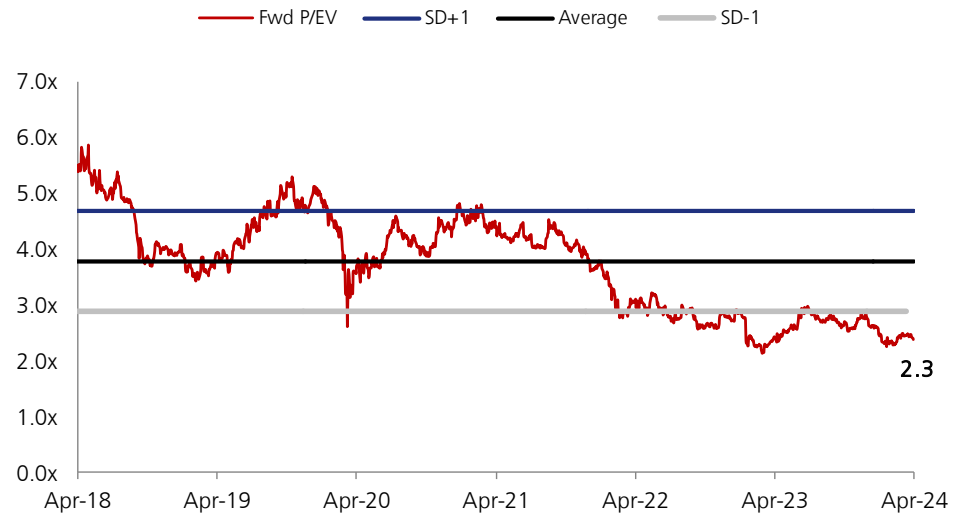


Source: Company, JM Financial

Valuation and view:

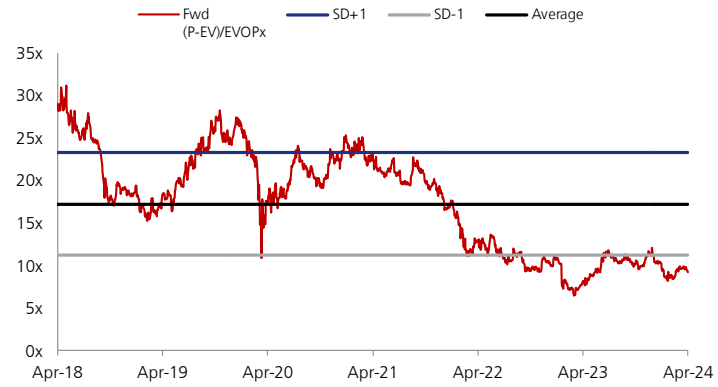
The stock has de-rated from 5.0x on one-year forward EV as of Mar'18 to 2.5x as of Mar'24. We can see the de-rating coincided with competition coming in on its parent banca, even though margins expanded from 22.0% in FY17 to 27.4% in FY22. As it gains counter share in the HDFC banca, we can see the stock rerate. Over 9MFY24, despite catering to an affluent segment, HDFC Life's banca channel grew 15.7% YoY, 3x company level growth of 4.8% - we attribute much of the growth to have come from HDFC banca.

Exhibit 140. HDFC Life: Premium in valuations has narrowed with sticky margins



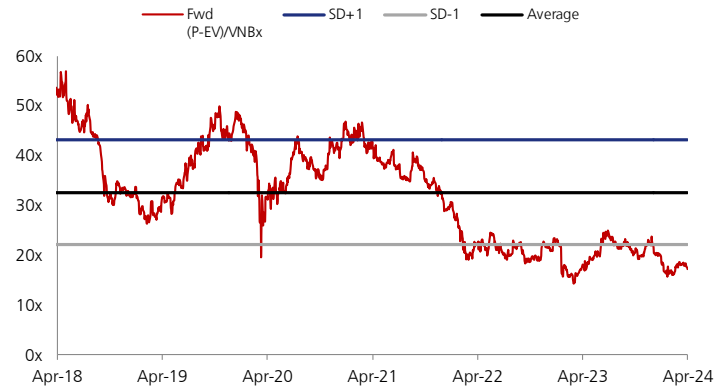
Source: Company, JM Financial

Exhibit 141. HDFC Life: Forward (P-EV)/EVOPx



Source: Company, JM Financial

Exhibit 142. HDFC Life: Forward (P-EV)/VNBx



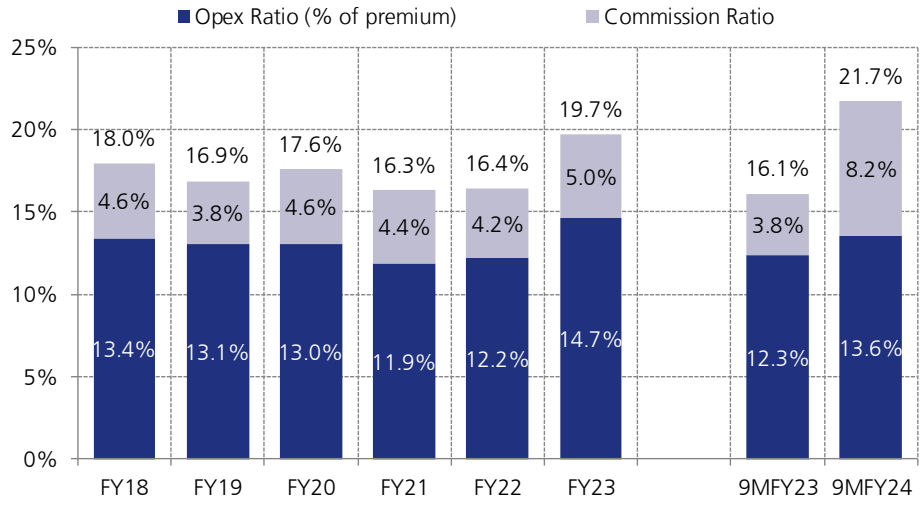
Source: Company, JM Financial

We value the company at 2.7x FY26e EV of INR 643.2bn, to get a target price of INR 819. At CMP of INR 605, the stock trades at 2.4x/2.0x FY25e/FY26e and 17.0x/12.3x FY25e/FY26e VNB (after factoring in the EV). Our TP implies 20.9x FY26e VNB, after factoring in EV.

Risks:

- **Elevated costs to go into FY25:** After consolidation of Exide Life, it was able to break even on VNB margins in 9QFY23, ahead of guidance. However, its efforts to consolidate agency of Exide Life with its own, and build growth through outreach in tier 2/3 geographies has resulted in upfront investments. It is working on Project Inspire which is a 3 year plan to develop a seamless digital interface across channels, with impact of INR 500 million in FY23. Further investments in towards Project Inspire to make them agile and future-ready, by providing a 360 degree view of our customers, seamless integration with new partners, resulting in an improved customer experience and productivity across channels, can hit margins.

Exhibit 143. HDFC Life: Opex has elevated post acquisition

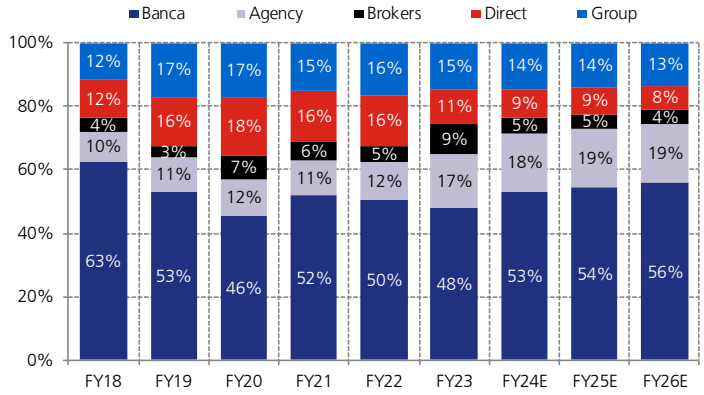


Source: Company, JM Financial

- **Surrender charges can impact rosy medium term growth outlook:** Non-par return-guarantee product is the most susceptible to any regulatory action on surrender charges. While IRDAI has refrained from acting on it in its principles-based regulations, we can expect some moderation in surrender charges. As this will be an industry change, we should see a change in commission structure across the board, with products like GPP Flexi, launched by ICICI Prudential. However, to remain competitive with fixed deposits and debt funds, insurers, including HDFC Life, may have to compromise on margins. Hence, to retain product proposition, companies will need to reduce margins while lower initial commission payouts may reduce growth. That being said, given the unique ability of life insurers to provide longer term (20-40 years) return guarantees, the product proposition will be intact.
- **Deposit scramble at HDFC bank counters looks behind:** Following merger with erstwhile HDFC Limited, HDFC Bank has seen elevation in loan-deposit ratio (LDR) to 110.5%, there was fear that in order to grow deposits, sale of third-party products (TPP) will be compromised. However, we have seen HDFC Bank report normalisation of CD ratio to c.105% in its 4QFY24, which should provide comfort. Further, in FY22 (year unaffected by any mergers for the insurer and the parent bank), total banca (individual) NBP for HDFC Life was just 2.9% of the bank's estimated deposit accretion. However, if intensity of TPP sales is low, we can expect slower growth in the channel, which is the key driver for the company's growth over FY24-FY26.

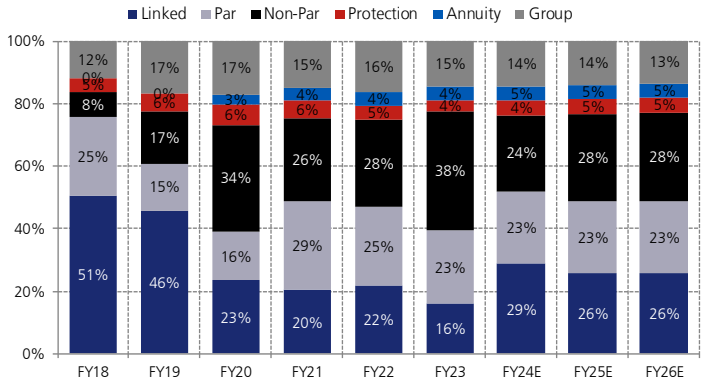
Key Projections:

Exhibit 144. Channel mix: Share of banca is expected to increase



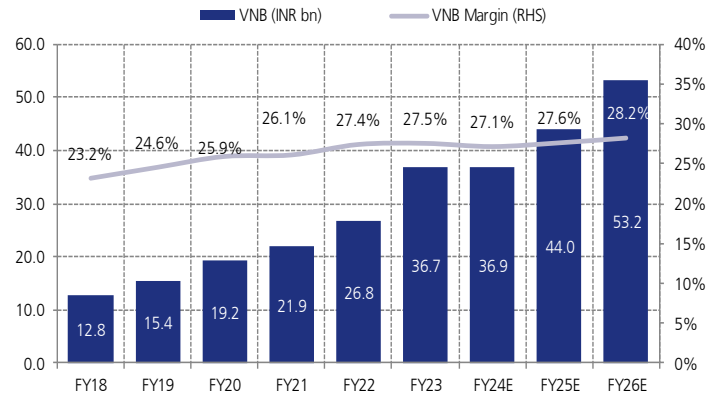
Source: Company, JM Financial

Exhibit 145. Product mix: Evenly balanced product mix to continue



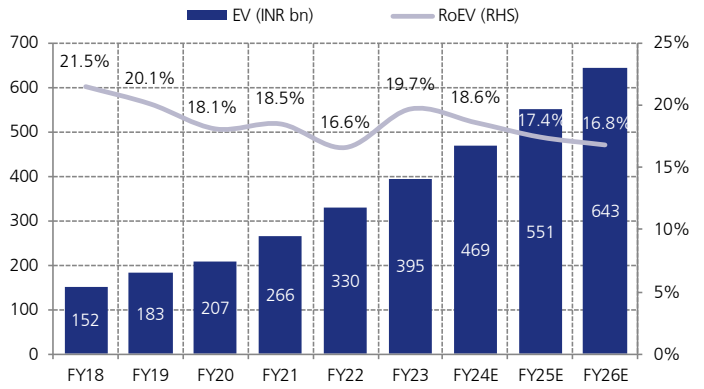
Source: Company, JM Financial

Exhibit 146. VNB margins to inch-up gradually



Source: Company, JM Financial

Exhibit 147. EV is expected to grow 17% CAGR over FY23-FY26E



Source: Company, JM Financial

Financial Tables (Standalone)

Policyholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Gross premiums	459,628	575,334	640,759	748,096	880,706
Net premiums	453,965	567,640	632,267	737,907	868,516
Investment income	192,159	125,975	216,055	302,076	404,760
Other Income	7,460	13,439	18,248	18,708	32,412
Total Income	**653,584**	**707,054**	**866,571**	**1,058,692**	**1,305,688**
Commissions	19,403	28,868	32,151	37,537	44,191
Operating expenses	56,125	84,374	93,968	105,011	118,375
Provisions & Taxes	3,007	5,638	10,973	13,248	16,033
Total expenses	**78,534**	**118,881**	**137,093**	**155,796**	**178,599**
Benefits paid	318,637	388,723	471,799	586,218	719,444
Change in valuation of life reserves	246,815	185,862	225,583	280,291	343,991
Total Benefits	**565,453**	**574,585**	**697,383**	**866,509**	**1,063,435**
Surplus/(Deficit) for the year	**9,597**	**13,589**	**13,847**	**17,678**	**31,242**

Source: Company, JM Financial

Shareholder's Account (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Transfer from the Policyholders' Account	10,093	14,689	15,231	19,446	34,366
Investment income	7,894	7,197	14,297	12,365	13,666
Other income	-	632	-	-	-
Total income	**17,987**	**22,518**	**29,529**	**31,810**	**48,033**
Operating expenses	-14	263	293	327	369
Contribution to the policyholders A/C	6,200	9,532	10,616	12,394	14,591
Profit before tax	**11,801**	**12,724**	**18,621**	**19,090**	**33,073**
Tax	-275	-877	372	382	661
Profit after tax	**12,077**	**13,601**	**18,248**	**18,708**	**32,412**

Source: Company, JM Financial

Key Ratios

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
VNB (INR mn)	26,750	36,740	36,887	44,022	53,241
VNB growth	22%	37%	0%	19%	21%
Reported VNB margin	27.4%	27.5%	27.1%	27.6%	28.2%
NBP (INR mn)	241,548	289,119	294,561	345,584	408,988
- Growth	20%	20%	2%	17%	18%
APE	97,580	133,360	135,870	159,406	188,652
- Growth	17%	37%	2%	17%	18%
Opex (ex-comm) ratio	14.67%	14.67%	14.04%	13.44%	12.87%
Commissions ratio	4.22%	5.02%	5.02%	5.02%	5.02%

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Investments	152,379	131,319	145,142	160,420	177,307
Policyholders' Investments	1,083,110	1,464,485	2,111,477	2,888,233	3,811,006
Unit linked Investments	806,215	792,015	1,021,743	1,264,175	1,565,143
Loans	6,428	15,853	17,656	20,613	24,268
Fixed assets	3,427	3,802	4,019	4,355	4,741
Net Current Assets / (Liab)	-9,955	-11,283	-11,924	-12,923	-14,068
Total Assets	**2,041,605**	**2,396,191**	**3,288,112**	**4,324,874**	**5,568,396**
Borrowings	6,000	9,500	9,500	9,500	9,500
Fair Value Change Account	21,697	19,759	19,759	19,759	19,759
Policy Liabilities	1,084,451	1,470,875	2,090,362	2,859,351	3,772,896
Linked Liabilities	765,190	753,836	970,655	1,200,966	1,486,886
FFA	9,409	12,354	13,759	16,064	18,912
Total Liabilities	**1,886,746**	**2,266,323**	**3,104,036**	**4,105,640**	**5,307,952**
Share Capital	21,126	21,494	21,537	21,580	21,623
Reserves and surplus	132,885	108,177	162,539	197,654	238,820
Fair Value Change Account	848	197	0	0	0
Shareholder's equity	**154,859**	**129,868**	**184,076**	**219,234**	**260,444**

Source: Company, JM Financial

EV movement

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Opening IEV	**266.1**	**329.6**	**395.2**	**468.9**	**550.7**
Core EVOP	**49.8**	**62.9**	**69.5**	**82.2**	**97.6**
- Unwind	23.0	26.2	32.6	38.2	44.3
- VNB	26.8	36.7	36.9	44.0	53.2
Variances	**13.6**	**2.7**	**5.4**	**0.5**	**-2.7**
- Operating	0.8	1.9	1.3	0.9	0.7
- Economic & others	12.8	0.8	4.1	-0.5	-3.4
Closing IEV	**329.5**	**395.2**	**470.1**	**551.6**	**645.5**
Operating RoEV	16.6%	19.70%	17.9%	17.7%	17.8%

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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