

# ICICI PRUDENTIAL LIFE

## High margin; slow growth

India Equity Research | Banking and Financial Services

ICICI Prudential Life (I Pru Life) remained a laggard in overall market share in Q3FY20 (9.5% retail share, down 130bps YoY) vis-à-vis its top private competitors. Moreover, APE grew a paltry 3.8% YoY on account of weak capital markets-driven ULIP slowdown (segment APE fell 11% YoY) and relative aversion to interest rate guarantee products. On the positive, pure protection APE jumped a robust 36.9% YoY. Also, VNB margin of 21% in 9MFY20 improved 400bps over FY19 primarily owing to mix shift in favour of pure protection and par products. We estimate APE to post 10% CAGR over FY19-22 and conservatively assume only 100bps incremental mix-dictated margin improvement. A capital market-driven ULIP boost in the interim would mean higher APE growth and lower blended margin, on balance a higher VNB CAGR over FY19-22E (17.9% currently estimated). I Pru Life remains our top life insurance 'BUY' with target price of INR700. Key risk is persistency drop due to multi-year capital market apathy.

### Protection remains watchword, ULIPs slow

I Pru Life is an industry outlier in terms of focus on unit linked business—ULIP was 80.0% of FY19 APE. However, in Q3FY20 it fell to 67.8% of APE—a multi-year low—on account of overall slowdown and company-specific target product-customer tweaks. Pure protection business has now become a key focus area and having risen from ~2.7% of APE in FY16 to 14.1% in 9MFY20, it was a big margin boost. Despite weak revenue momentum in savings businesses, the company continues to spend heavily on advertisement & promotion of pure protection products and has launched a product targeted at customers with pre-existing medical complications.

### Outlook and valuation: Lowest risk balance sheet; maintain 'BUY'

The stock trades at 2.5x FY21E P/EV, by far the cheapest amongst the Big Three private life insurers, by dint of its recent market share loss. A ULIP-heavy top line is prone to natural and frequent capital market-linked volatility. However, we believe this is an opportunity rather than an irritant. ULIPs are pass-through on risk and top-line gyrations are, in terms of potential impact on ROEV, high frequency low amplitude noise. I Pru Life's balance sheet is also protected by its steadfast refusal to join the non-par savings bonanza in current fiscal. While opinions differ on suitability and adequacy of interest rate hedges assumed by its top private competitors, the company's balance sheet health remains assuredly agnostic to interest rate drop. **We maintain BUY/SO.**

#### Financials

(INR mn)

Year to March	Q3FY20	Q3FY19	Growth	Q2FY20	Growth	FY19	FY20E	FY21E
APE	20,370	19,630	3.8	19,000	7.2	73,171	71,308	82,140
PAT	3,018	2,964	1.8	3,018	(0.0)	11,389	9,664	12,313
Diluted EPS (INR)	2.1	2.1	1.9	2.1	0.0	7.9	6.7	8.6
VNB margin (%)	21.0	17.0	23.5	21.0	0.0	18.1	20.5	21.5
Embedded value (INR bn)						216.2	245.5	279.2
Operating RoEV (%)						20.2	15.7	16.1
P/EV (X)						3.3	2.9	2.5

#### EDELWEISS 4D RATINGS

<b>Absolute Rating</b>	<b>BUY</b>
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

#### MARKET DATA (R:ICIR.BO, B:IPRU IN)

CMP	: INR 490
Target Price	: INR 700
52-week range (INR)	: 537 / 277
Share in issue (mn)	: 1,435.8
M cap (INR bn/USD mn)	: 704/ 9,889
Avg. Daily Vol.BSE/NSE('000)	: 2,338.3

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY20	Q1FY20
Promoters *	75.0	75.0	75.0
MF's, FI's &	5.5	6.7	6.3
FII's	15.3	12.1	13.7
Others	4.2	6.2	5.0
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW BFSI Index
1 month	(1.9)	(0.4)	11.0
3 months	1.9	5.5	9.5
12 months	39.0	11.5	20.0

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January 21, 2020

**Table 1: Q3FY20 result review – Income statement**

(INR mn)	Q3FY20	Q3FY19	Growth (%)	Q2FY20	Growth (%)
Gross Premium Income	82,637	75,664	9.2	81,908	0.9
(i) First Year Premiums	18,742	16,438	14.0	17,185	9.1
(ii) Renewal Premiums	52,255	50,071	4.4	52,398	(0.3)
(ii) Single Premium	11,639	9,154	27.1	12,325	(5.6)
Reinsurance Ceded	1,326	834	59.0	1,261	5.2
Net Premium Income	81,310	74,830	8.7	80,647	0.8
Income from Investments	45,587	10,478	335.1	(1,269)	(3,692.4)
Other Income	228	195	16.8	192	18.5
Contribution from Shareholder's Account	2,342	981	138.7	2,521	(7.1)
<b>Total Income</b>	<b>129,466</b>	<b>86,483</b>	<b>49.7</b>	<b>82,091</b>	<b>57.7</b>
Benefits Paid	53,908	33,245	62.2	41,373	30.3
Change in Valuation Liability	57,869	38,663	49.7	21,583	168.1
Bonus Paid	0	0		0	
Commission Paid	4,277	3,671	16.5	3,945	8.4
Operating expenses	7,662	5,785	32.4	7,542	1.6
Provision for Bad & Doubtful Debts	1,687	1,574	7.2	2,624	(35.7)
<b>Total Expenses</b>	<b>125,402</b>	<b>82,938</b>	<b>51.2</b>	<b>77,067</b>	<b>62.7</b>
Surplus before tax	4,064	3,545	14.6	5,024	(19.1)
Tax expense	194	291	(33.3)	257	(24.4)
<b>Surplus After Tax</b>	<b>3,870</b>	<b>3,254</b>	<b>18.9</b>	<b>4,768</b>	<b>(18.8)</b>
Less: Funds for Future Appropriation	245	593	(58.7)	802	(69.5)
Transfer to Shareholders Funds	3,626	2,662	36.2	3,966	(8.6)
Income from Investments	1,862	1,390	34.0	2,059	(9.6)
Other Income	2	3	(4.0)	3	(27.3)
Total Income	5,490	4,054	35.4	6,028	(8.9)
Expenses other than those related to insurance business	117	101	15.7	86	36.4
Provision for Dimunition in Investment Value	0	0		358	(100.0)
Contribution to Policyholder's Account	2,342	981	138.7	2,521	(7.1)
Profit Before Taxes	3,031	2,972	2.0	3,063	(1.1)
Tax	12.9	7.5	72.0	44.8	(71.2)
<b>Profit After Tax</b>	<b>3,018</b>	<b>2,964</b>	<b>1.8</b>	<b>3,018</b>	<b>(0.0)</b>

Source: Company

**Table 2: Q3FY20 result review – Balance sheet**

(INR mn)	Q3FY20	Q3FY19	Growth (%)	Q2FY20	Growth (%)
Share capital	14,359	14,358	0.0	14,358	0.0
Reserve and surplus	59,178	51,765	14.3	57,542	2.8
Credit/[debit] fair value change account	1,590	2,030	(21.7)	832	91.1
<b>Shareholder's Funds</b>	<b>75,127</b>	<b>68,154</b>	<b>10.2</b>	<b>72,732</b>	<b>3.3</b>
Credit/[debit] fair value change account	19,255	14,282	34.8	16,972	13.5
Revaluation reserve - Investment property	648	615	5.5	648	0.0
Non unit liabilities (mathematical reserves) (A)	444,733	361,352	23.1	424,052	4.9
Provision for linked liabilities (fund reserves)(B)	1,071,997	967,631	10.8	1,039,314	3.1
Funds for discontinued policies (C)	90,011	69,259	30.0	85,507	5.3
Policyholders' funds	1,626,644	1,413,138	15.1	1,566,493	3.8
Funds for Future Appropriations	11,923	10,443	14.2	11,678	2.1
<b>Total Liabilities</b>	<b>1,713,694</b>	<b>1,491,735</b>	<b>14.9</b>	<b>1,650,903</b>	<b>3.8</b>
Shareholders'	78,562	73,499	6.9	74,103	6.0
Policyholders'	464,863	377,942	23.0	439,551	5.8
Asset held to cover linked liabilities	1,162,007	1,036,896	12.1	1,124,820	3.3
<b>Investments</b>	<b>1,705,432</b>	<b>1,488,336</b>	<b>14.6</b>	<b>1,638,474</b>	<b>4.1</b>
Loans	4,096	2,296	78.4	3,633	12.7
Fixed assets - net block	4,673	4,684	(0.2)	4,612	1.3
Deferred tax asset	-	0.40	-	-	-
Net Current Assets (C) = (A-B)	(506)	(3,583)	(85.9)	4,184	(112.1)
Debit Balance in Profit & Loss Account (Shareholders' account)	-	-	-	-	-
<b>Total Assets</b>	<b>1,713,694</b>	<b>1,491,735</b>	<b>14.9</b>	<b>1,650,903</b>	<b>3.8</b>

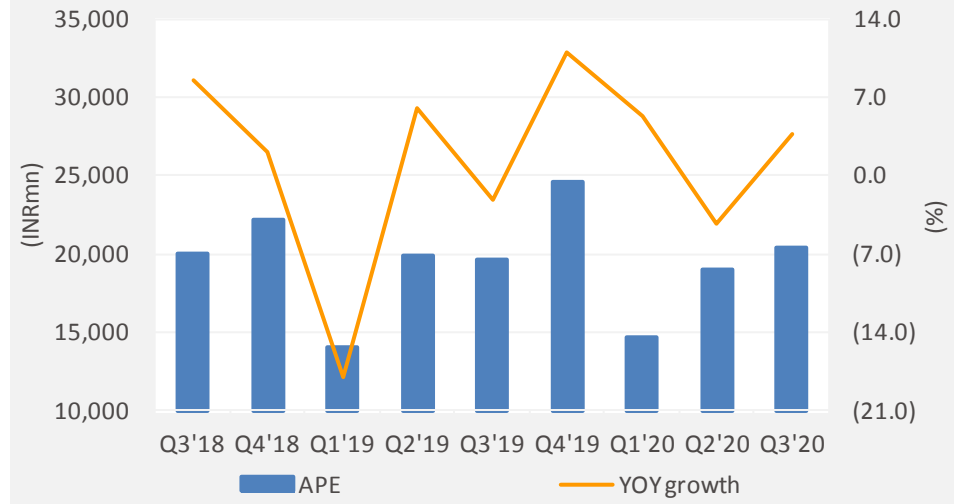
Source: Company

**Table 3: Q3FY20 result review – Key ratios**

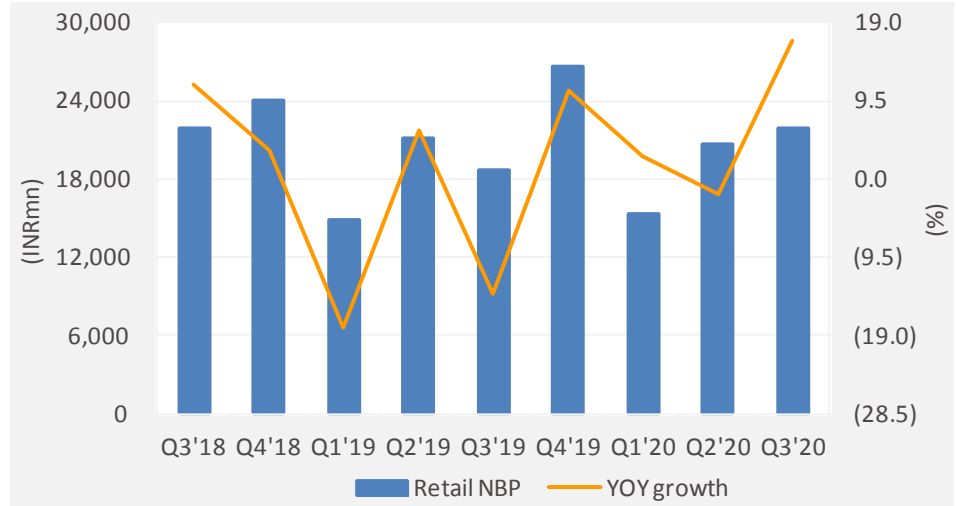
Key ratios	Q3FY20	Q3FY19	Growth (%)	Q2FY20	Growth (%)
<b>Premium breakup (YTD)</b>					
Retail New Business Premium	57,920	54,770	5.8	36,040	60.7
Retail Renewal Premium	1,42,870	1,36,090	5.0	91,260	56.6
Group Premium	27,050	16,800	61.0	17,890	51.2
<b>Retail Market share (%) (YTD)</b>					
Within Industry	9.5	10.8	-130 bps	9.9	-40 bps
Within Private Sector	16.6	18.7	-210 bps	16.9	-30 bps
<b>Product mix (%) - Based on APE mix</b>					
ULIP	67.8	78.9	-1101 bps	67.2	69 bps
Participating	12.3	8.8	351 bps	11.5	75 bps
Protection	13.1	9.9	317 bps	14.9	-179 bps
Non-par (annuity)	1.1	0.6	52 bps	1.5	-34 bps
Group	5.6	1.8	381 bps	4.9	70 bps
<b>Channel mix (%) - Based on APE mix (YTD)</b>					
Bancassurance	53.1	56.5	-339 bps	52.9	28 bps
Agency	21.0	21.5	-51 bps	20.4	57 bps
Direct	12.5	11.6	86 bps	12.9	-45 bps
Corporate agents and brokers	7.1	5.6	149 bps	7.1	2 bps
Group	6.3	4.8	155 bps	6.7	-43 bps
<b>Persistency ratios (%) - Retail exc. SP (YTD)</b>					
13th month	83.1	84.1	-100 bps	83.6	-50 bps
25th month	74.4	76.7	-230 bps	75	-60 bps
37th month	68.3	68.7	-40 bps	69.1	-80 bps
49th month	64.3	63.2	110 bps	63.7	60 bps
61st month	56.3	55.6	70 bps	57.2	-90 bps
<b>Operational parameters (%)</b>					
Commission ratio to Total premium (%)	5.5	5.5	0 bps	5.3	20 bps
Expenses (other than commission) ratio (%)	11.1	9.9	120 bps	11.3	-20 bps
Total cost ratio	16.6	15.4	120 bps	16.6	0 bps
Solvency ratio	207	224	-1700 bps	211	-400 bps
<b>APE growth</b>					
APE	20,370	19,630	3.8	19,000	7.2
Savings APE	17,700	17,680	0.1	16,170	9.5
ULIP APE	13,820	15,480	(10.7)	12,760	8.3
Participating APE	2,500	1,720	45.3	2,190	14.2
Non Participating APE	230	120	91.7	280	(17.9)
Group APE	1,150	360	219.4	940	22.3
Protection APE	2,670	1,950	36.9	2,830	(5.7)
VNB	4,260	3,200	33.1	4,000	6.5
VNB margin	21.0	17.0	23.5	21.0	0.0
Embedded value	NA	NA		2,26,800.0	

Source: Company

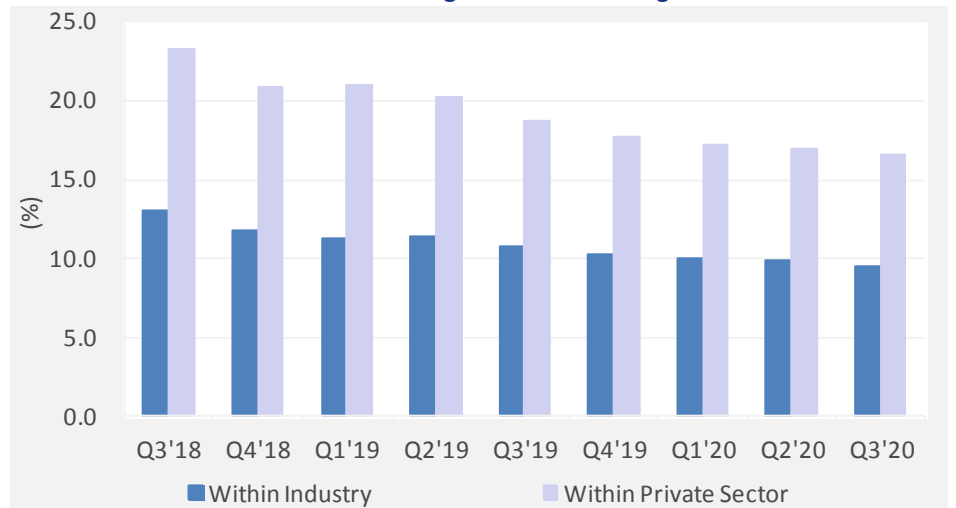
**Chart 1: APE growth has been volatile due to weak capital markets impacting ULIPs...**



**Chart 2: ... which also percolates into new business premium (retail)**

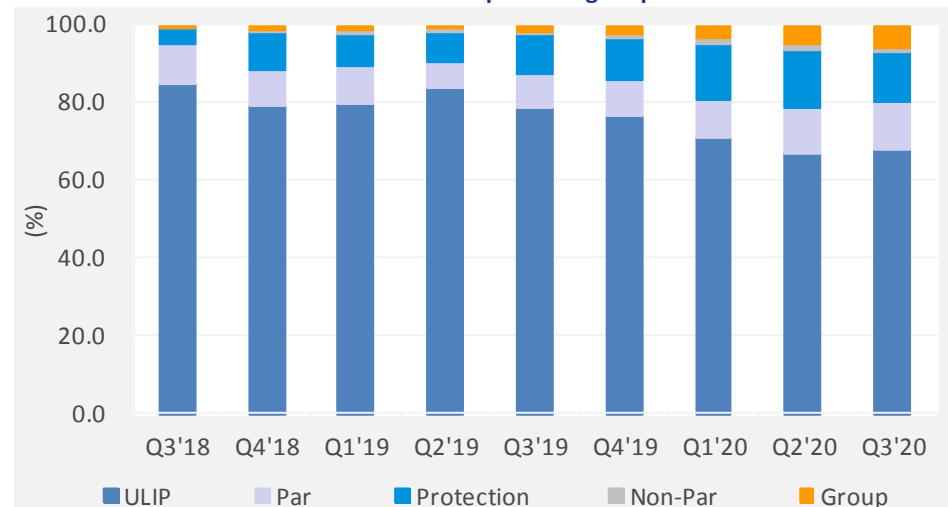


**Chart 3: Market share has been declining due to moderating ULIP sales**

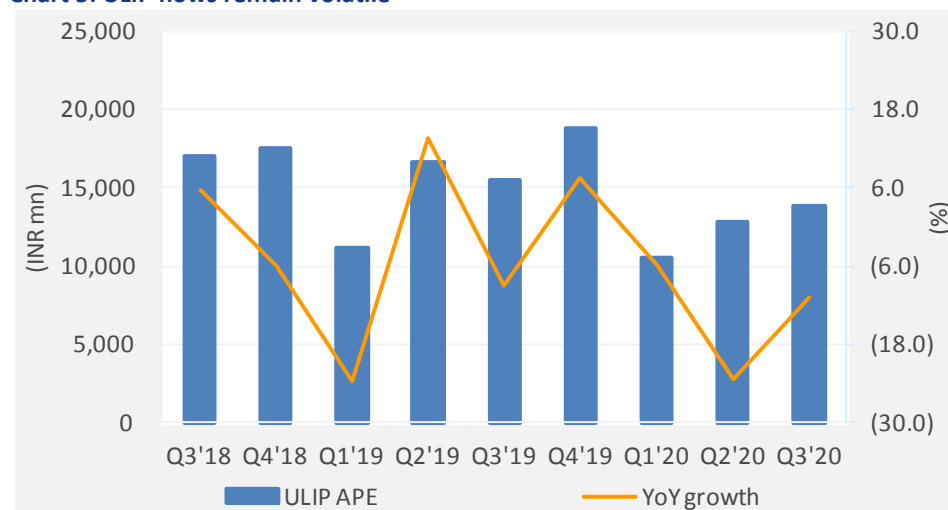


Source: Company

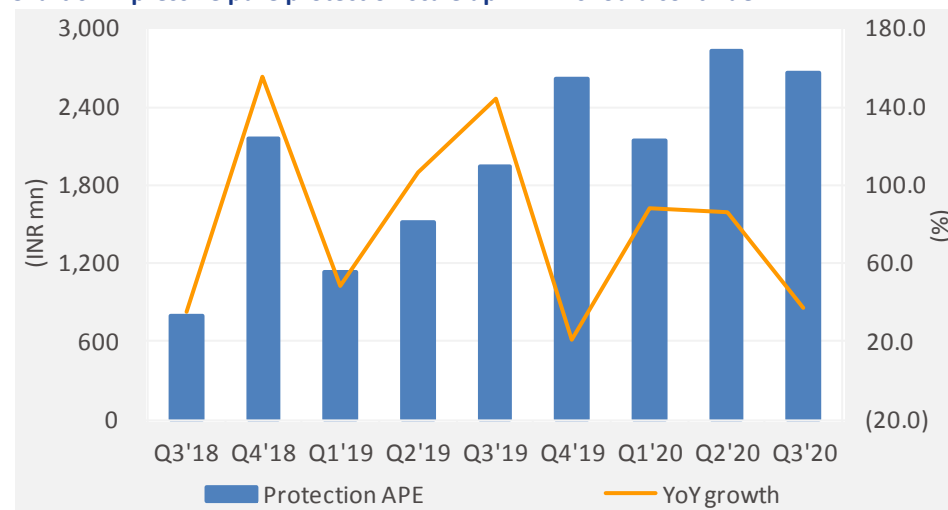
**Chart 4: APE mix shows reluctance for non-par savings exposure**



**Chart 5: ULIP flows remain volatile**

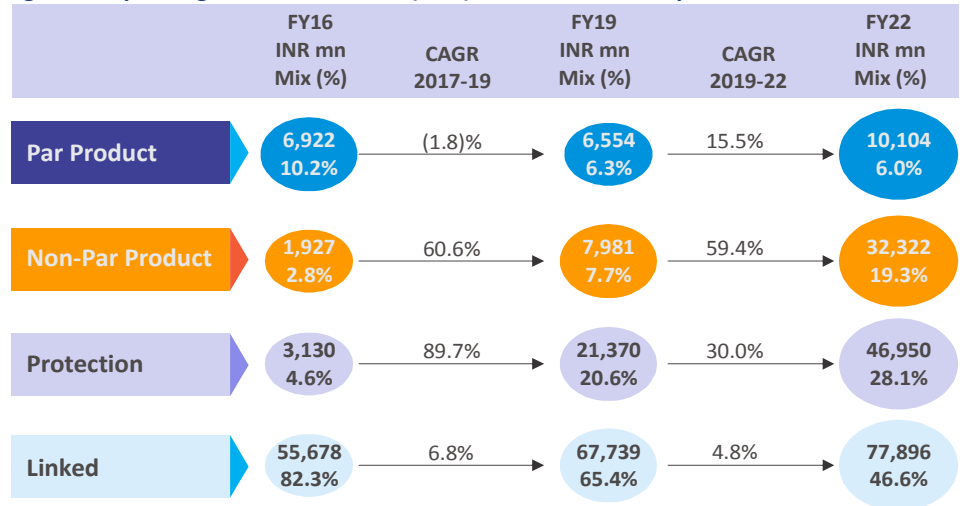


**Chart 6: Impressive pure protection scale up in mix should continue**

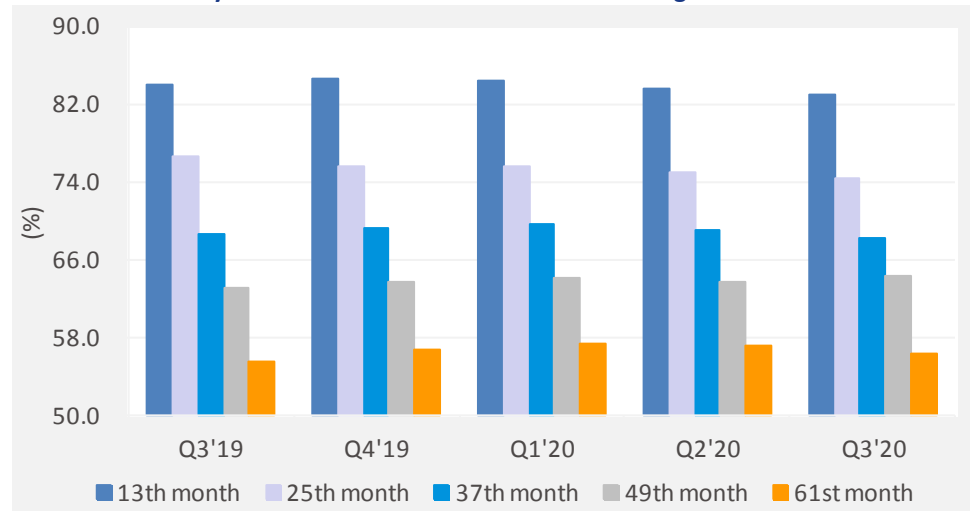


Source: Company

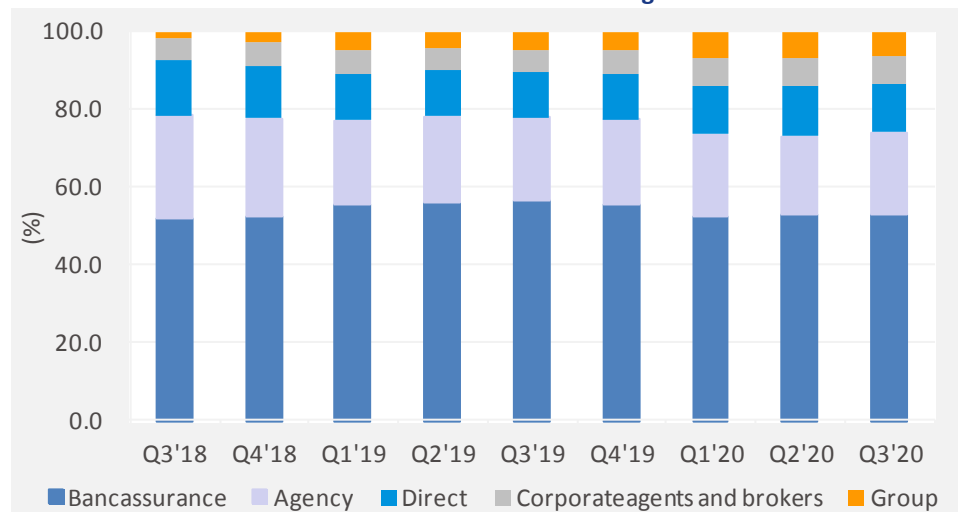
**Fig. 1: Composite growth breakdown (NBP)underscores ULIP/ protection focus**



**Chart 7: Persistency ratios have moderated due to weakening sentiment around ULIP**

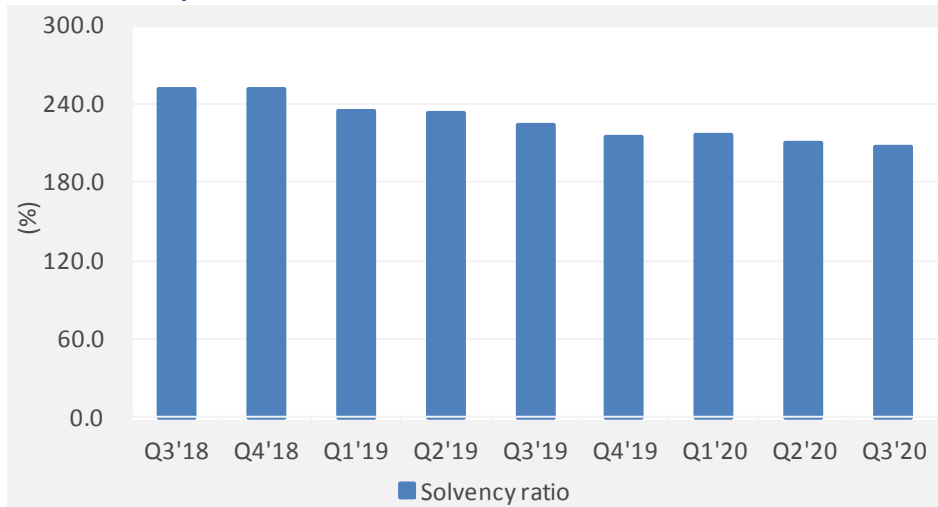


**Chart 8: Balanced distribution mix with non-banks forming 47% of overall APE**

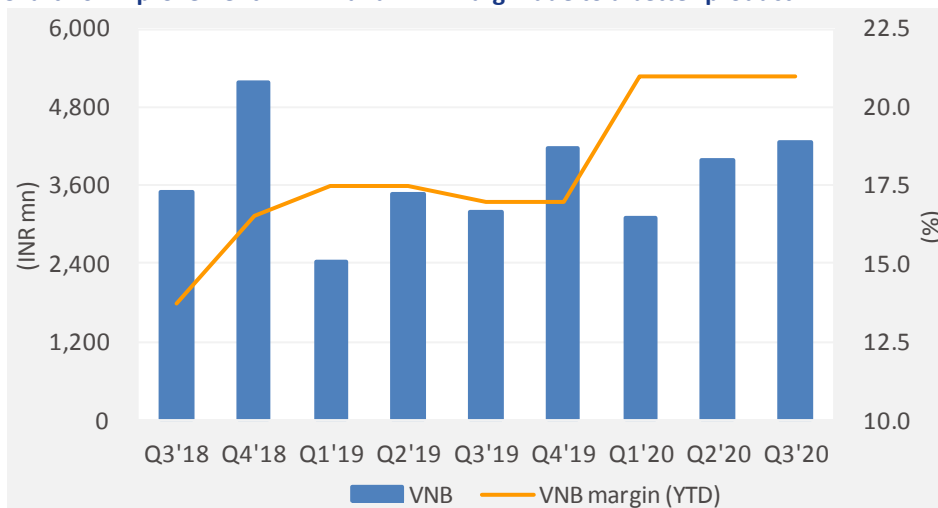


Source: Company, Edelweiss research

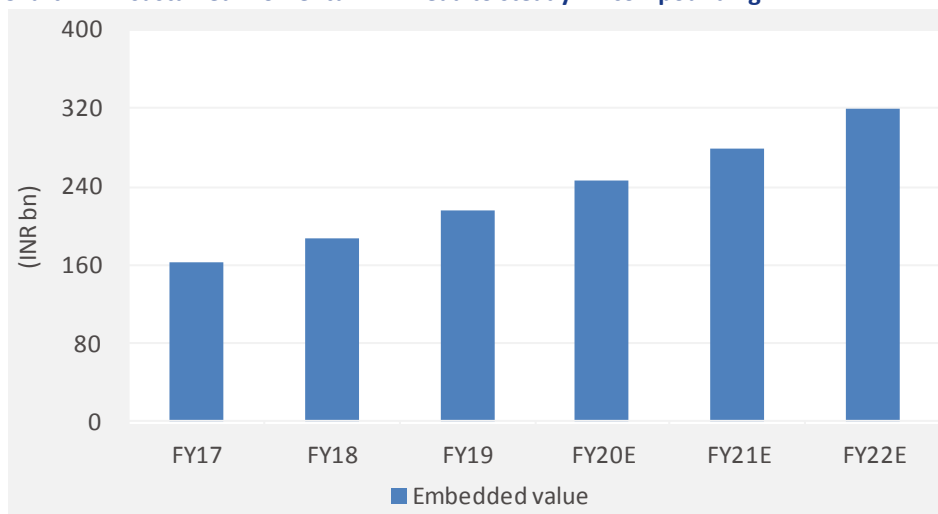
**Chart 9: Solvency ratio has remained stable around 207%**



**Chart 10: Improvement in VNB and VNB margin due to a better product mix...**



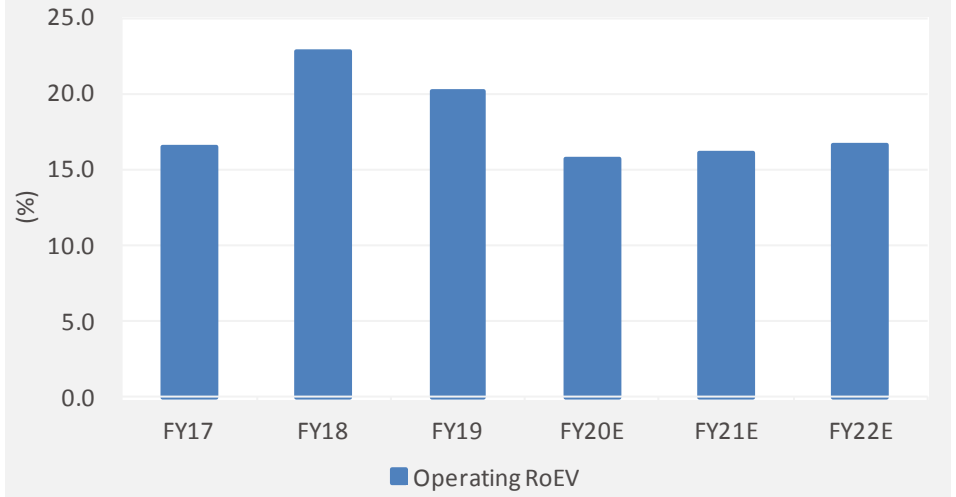
**Chart 11: ... sustained momentum will lead to steady EV compounding**



Source: Company, Edelweiss research



Chart 12: ROEV will slowly trend up; ULIP spurt could accelerate



Source: Company, Edelweiss research

## Banking and Financial Services

### Financial snapshot

(INR mn)

Year to March	Q3FY20	Q3FY19	Growth (%)	Q2FY20	Growth (%)	YTD20	FY20E	FY21E
<b>Income statement</b>								
<b>Premium Income - Net</b>	<b>81,310</b>	<b>74,830</b>	<b>8.7</b>	<b>80,647</b>	<b>0.8</b>	<b>224,038</b>	<b>323,946</b>	<b>338,811</b>
Investment Income	45,587	10,478	335.1	(1,269)	(3,692.4)	64,234	125,931	136,989
Other Income	2,569	1,176	118.5	2,713	(5.3)	7,606	884	972
<b>Total Income</b>	<b>129,466</b>	<b>86,483</b>	<b>49.7</b>	<b>82,091</b>	<b>57.7</b>	<b>295,878</b>	<b>450,761</b>	<b>476,772</b>
Comission Expense	4,277	3,671	16.5	3,945	-	10,870	19,599	22,457
Benefits Paid	53,908	33,245	62.2	41,373	30.3	131,727	227,838	251,165
Change in Valuation Liability	57,869	38,663	49.7	21,583	168.1	111,765	153,672	147,975
Operating Expenses	7,662	5,785	32.4	7,542	1.6	21,662	29,406	31,038
Other Provisions including tax	1,687	1,574	7.2	2,624	(35.7)	6,253	8,445	8,914
<b>Surplus from revenue account</b>	<b>4,064</b>	<b>3,545</b>	<b>14.6</b>	<b>5,024</b>	<b>(19.1)</b>	<b>13,601</b>	<b>11,800</b>	<b>15,223</b>
Surplus Transferred to Shareholders a/c	3,626	2,662	36.2	3,966	(8.6)	11,280	10,620	13,700
Income from Investments - SH	1,862	1,390	34.0	2,059	(9.6)	5,361	5,774	5,400
-Transfer to PH Account	2,342	981	138.7	2,521	(7.1)	7,022	4,745	4,270
PBT	3,031	2,972		3,063		8,961	11,237	14,317
<b>PAT</b>	<b>3,018</b>	<b>2,964</b>	<b>1.8</b>	<b>3,018</b>	<b>(0.0)</b>	<b>8,883</b>	<b>9,664</b>	<b>12,313</b>
<b>Balance Sheet (INR mn)</b>								
Shareholders Funds	75,127	68,154	10.2	72,732	3.3	75,127	73,936	80,339
Policyholders Funds	1,626,644	1,413,138	15.1	1,566,493	3.8	1,626,644	1,677,998	1,827,496
Shareholders investments	78,562	73,499	6.9	74,103	6.0	78,562	88,724	96,407
Policyholders unlinked investments	464,863	377,942	23.0	439,551	5.8	464,863	502,143	591,785
Asset held to cover linked liabilities	1,162,007	1,036,896	12.1	1,124,820	3.3	1,162,007	1,135,968	1,194,823
Diluted EPS (INR)							6.7	8.6
EV per share (INR)							171.0	194.4
Diluted P/E (x)							72.9	57.2
Price to EV (x)							2.9	2.5

## Q3FY20 Earning call takeaways

### Growth

- Launched two new significant products during the quarter:
  - 'ICICI Precious' in the protection segment—first term plan offered to customers with existing health conditions who face difficulty in obtaining protection cover.
  - 'Lakshya', a participating product with either a wealth plan or a lifelong income plan to select from
- **Value of new business**
  - The '4P' formula continues to guide the company towards the objective of doubling VNB over three-four years.
  - VNB grew 25% primarily due to growth in protection business.
  - VNB margin expanded largely due to more optimum product mix.
  - Management does not foresee any pressure on margin due to weak persistency ratios. The company expects the ratios to move up in ensuing quarters.
- **Protection**
  - Protection APE jumped 66% YoY and now accounts for 14% of overall APE.
  - This growth was led by retail and credit; retail continues to have a dominant share.
  - YoY VNB margin expansion was largely due to higher share of protection in the overall business mix.
  - Higher limited/single pay products sold this year compared to previous year; in terms of absolute VNB, the contribution is much the same.
  - Expect share of protection to rise further.
- ULIP performance was soft due to weakness in environment and volatility in equity markets. This was partially offset by higher growth in other lines of business like protection, annuity and par businesses.
  - This is a little time consuming as typically ULIP ticket size is higher than other savings products.
  - ULIP moderation is not due to reduction in ticket size.
  - One/ two notches below high/affluent customer category prefer traditional products than ULIP.
- Annuity has clocked growth of more than 100%.

### Distribution

- Added 18,500 agents in the current FY; focused on adding agents at a similar pace in the near future.
- Also planning to further use technology to make agency productive.
- Distribution partnership with PayTM in the current quarter. Now the entire purchase process can be done in a few seconds.
- Continues to work on adding new distribution partners.

- Within the bank, focus on improving protection has continued—high single digit.
- Started selling non-par products in the agency channel.
- Well diversified with non-bank channels contributing 47% to APE.
- Focus on maintaining a balanced distribution mix.

### Product mix

- Focus on making the product mix more balanced compared to two years ago, when the company was predominantly a ULIP-focused business.
- Group business APE has been primarily driven by protection business.
- Share of protection should continue to increase in the overall business mix.
- Share of annuity business is on the rise as well.
- No specific targets with respect to share of products within the savings business.

### Operational metrics

- Persistency ratio has deteriorated slightly primarily due to linked business:
  - Persistency ratio for other lines of business is doing well.
  - The weakness is primarily due to few specific cohorts and management is making efforts to ensure that this improves in subsequent quarters by engaging with customers and distributors. These cohorts have been identified using large-scale analytics.
  - Current persistency ratios are still better than the assumptions used in calculation of EV and VNB.
- Cost ratio has increased due to a higher share of protection in business mix. Cost ratios in this segment are usually higher compared to others as customer acquisition is more expensive.
  - Productivity in protection business has room to improve as renewal premium is still not large enough for the business.
  - Cost ratio in savings business has declined and reached optimal level.
- 99.4% of eligible claims have been settled in under one day.
- Solvency ratio has been stable despite increase in share of protection business as dividend payout in the current year is much lower compared to the past few years.

## Company Description

I Pru Life is consistently rated as one of the top players in India's life insurance sector on the basis of APE as well as NBP. It was set up in FY01 as a joint venture between ICICI Bank and Prudential Corporation Holdings. It offers long-term savings (linked, participating and non-participating) and protection products (individual life, credit cover and group life) to meet different life stage requirements of customers. The company was also the first insurance player in India to be listed on NSE and BSE in FY17.

The company reported AUM of INR1,640bn at Q1FY20 end and a solvency ratio of 217%, well above the regulatory threshold of 150%. It has a market share of 10.0% of the industry and 17.2% of the private sector on a retail weighted received premium (RWRP) basis for Q1FY20.

I Pru Life has the highest exposure to ULIPs among leading life insurers with 80% of total APE for FY19. The residual consists of protection (9.3%), participating (8.6%), annuity (0.9%) and others. On the distribution front, while bancassurance contributes more than half of total APE (55.8%), balance comes from agency (21.7%), direct (12.0%) and others (corporate agents, brokers and group business).

Strategy of the company is to create value for stakeholders, namely, customers, employees and shareholders. It also aims to grow the absolute Value of New Business (VNB) through 4P levers—premium growth, protection focus, persistency improvement and productivity enhancement.

## Investment Theme

ICICI Prudential Life (I Pru Life) is the third-largest Indian private life insurer with APE market share of 17.7% (FY19). Given distribution strength, derived primarily from bancassurance (~56% of total annual business) and augmented by a fairly large agency force, we see a clear runway to marketshare gain, especially if capital market sentiments remain supportive. VNB margin of 21% in H1FY20 has improved 1,160bps in the past three years on account of operational improvements (persistency) as well as product mix shift in favour of pure protection. We expect APE to post 10% CAGR over FY19-22E and 390bps improvement in margin over the same period.

## Key risks

- Protracted weakness in capital markets affecting ULIP persistency: Limited renewal obviously hurt a largely fixed cost-quasi asset management business—through a rundown in asset size and consequent cost-driven profitability pressures
- Regulatory changes that can have a profound impact
- Technology-based disruption attempts, which may break the stranglehold of existing players, if new licenses are granted

## Financial Statements

## Key assumptions

Year to March	FY19	FY20E	FY21E	FY22E
GDP(Y-o-Y%)	6.8	5.0	5.8	6.5
G-sec yield (%)	7.0	6.8	6.5	6.4
Repo rate (exit rate)	6.3	5.2	4.5	5.0
NBP growth traditional regular	(0.2)	55.0	28.4	29.7
NBP growth linked regular	(6.0)	(16.0)	10.0	15.0
NBP growth single premium (%)	82.5	50.5	22.8	22.9
Investment yield on AUM (%)	7.3	7.9	7.9	7.9
Benefits paid as a % of Opening	10.8	14.9	14.9	14.9
Operating exp. as a % of Premiums	13.4	15.0	15.5	15.7
Tax rate (%)	1.9	14.0	14.0	14.0

## Income statement

(INR mn)

Year to March	FY19	FY20E	FY21E	FY22E
Net Premiums Earned	305,783	323,946	338,811	371,103
Income from Investments	102,144	125,931	136,989	149,507
Others	6,075	884	972	1,069
<b>Total Income</b>	<b>414,003</b>	<b>450,761</b>	<b>476,772</b>	<b>521,680</b>
Commission expense	15,513	19,599	22,457	25,296
Operating Expenses	26,053	29,406	31,038	34,070
Other exp. & provisions (inc. tax)	7,482	8,445	8,914	9,785
Benefits Paid	141,885	226,920	249,971	272,167
Bonus Paid	706	918	1,194	1,552
Change in Valuation Liability	210,030	153,672	147,975	163,669
<b>Total Expenses</b>	<b>401,670</b>	<b>438,961</b>	<b>461,550</b>	<b>506,538</b>
<b>Surplus from Revenue account</b>	<b>12,333</b>	<b>11,800</b>	<b>15,223</b>	<b>15,141</b>
Funds for Future appropriation	1,562	1,180	1,522	1,514
<b>Transfer to shareholders account</b>	<b>10,770</b>	<b>10,620</b>	<b>13,700</b>	<b>13,627</b>
Other items and contribution	842	617	617	1,382
<b>PBT</b>	<b>11,612</b>	<b>11,237</b>	<b>14,317</b>	<b>15,009</b>
Tax	223	1,573	2,004	2,101
<b>PAT</b>	<b>11,389</b>	<b>9,664</b>	<b>12,313</b>	<b>12,908</b>

## Important ratios

Year to March	FY19	FY20E	FY21E	FY22E
APE growth (%)	-6.1	-2.5	15.2	19.4
First Year Regular Premium growth	-5.1	-5.1	14.6	19.1
Single Premium growth (%)	82.5	50.5	22.8	22.9
Operating exp. as a % of Premiums	13.4	15.0	15.5	15.7
-Commision as a % of Premiums	5.0	6.0	6.5	6.7
-Other op. exp. as a % of Premiums	8.4	9.0	9.0	9.0
VNB growth (%)	3.3	10.1	20.8	22.2
Tax rate (%)	1.9	14.0	14.0	14.0
PAT growth (%)	(29.7)	(15.2)	27.4	4.8

Balance Sheet (INR mn)				
As on 31st March	FY19	FY20E	FY21E	FY22E
<b>Shareholders Funds</b>	<b>70,423</b>	<b>73,936</b>	<b>80,339</b>	<b>87,051</b>
Share Capital	14,358	14,358	14,358	14,358
Reserves & Surplus	54,353	59,379	65,781	72,493
Fair Value Change A/C	1,712	200	200	200
Others	0	0	0	0
<b>Policyholders Liabilities</b>	<b>1,512,803</b>	<b>1,666,474</b>	<b>1,814,449</b>	<b>1,978,118</b>
Traditional	403,351	487,517	574,548	676,706
Linked	1,036,999	1,102,882	1,160,022	1,217,540
Funds for discon. policy	72,452	76,075	79,879	83,873
Funds for Future	10,992	11,524	13,046	14,560
<b>Total Liabilities</b>	<b>1,594,218</b>	<b>1,751,935</b>	<b>1,907,835</b>	<b>2,079,730</b>
<b>Investments</b>	<b>1,590,031</b>	<b>1,726,835</b>	<b>1,883,014</b>	<b>2,055,534</b>
Shareholders	79,861	88,724	96,407	104,461
Policyholders-Non Linked	400,712	502,143	591,785	697,007
Linked Liabilities	1,109,458	1,135,968	1,194,823	1,254,066
Other Assets	4,187	25,100	24,820	24,196
Debit balance of P/L	0	0	0	0
<b>Total Assets</b>	<b>1,594,218</b>	<b>1,751,935</b>	<b>1,907,835</b>	<b>2,079,730</b>

#### Valuation metrics

Year to March	FY19	FY20E	FY21E	FY22E
Diluted PE (x)	61.8	72.9	57.2	54.5
Price/BV (x)	10.0	9.5	8.8	8.1
Price/EV (x)	3.3	2.9	2.5	2.2
Dividend yield (%)	1.0	0.6	0.7	0.7

Embedded Value				
Year to March	FY19	FY20E	FY21E	FY22E
Opening EV	187,880	216,240	245,522	279,166
Discount unwind	15,840	18,380	20,869	23,729
NBV	13,280	14,618	17,660	21,575
Operating variance	8,870	900	1,000	1,000
Other variance	20	22	24	27
EV bef capital changes	225,890	250,161	285,076	325,496
Net capital injection	(8,430)	(4,639)	(5,910)	(6,196)
Economic Assumption Change	-1,220	-	-	-
Closing EV	216,240	245,522	279,166	319,301
RoEV (%)	19.6	15.7	16.1	16.6
Operating RoEV	20.2	15.7	16.1	16.6

#### Valuation drivers

Year to March	FY19	FY20E	FY21E	FY22E
VNB Margins (%)	18.1	20.5	21.5	22.0
EV growth (%)	15.1	13.5	13.7	14.4
Op RoEV (%)	20.2	15.7	16.1	16.6
Payout Ratio (%)	61.8	40.0	40.0	40.0

#### Peer comparison valuation

Company	Rating	CMP (INR)	TP (INR)	Mkt Cap (INR bn)	P/EV		P/E		Operating RoEV		RoE	
					FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
ICICI Prudential	BUY	490	700	704.2	2.9	2.5	72.9	57.2	15.7	16.1	13.4	16.0
HDFC Life	HOLD	603	590	1,216.2	5.6	4.8	95.6	75.8	19.1	18.9	21.2	23.1
SBI Life	BUY	973	1,220	972.8	3.7	3.2	104.3	73.2	17.2	17.7	11.8	15.2
Max Financial	HOLD	526	450	141.8	1.9	1.7	41.0	45.0	19.2	19.2	23.4	20.0
Median					3.3	2.9	84.3	65.2	18.1	18.3	17.3	18.0
Mean					3.5	3.1	78.5	62.8	17.8	18.0	17.5	18.6

## Additional Data

## Directors Data

Name of the director	Designation	Name of the director	Designation
Mr. M. S. Ramachandran	Non-Executive Chairman	Mr. N. S. Kannan	Managing Director & CEO
Mr. Puneet Nanda	Deputy Managing Director	Mr. Anup Bagchi	Non-Independent Director
Mr. Sandeep Batra	Non-Independent Director	Mr. Raghunath Hariharan	Non-Independent Director
Mr. Radhakrishna Nair	Independent Director	Mr. Dilip Karnik	Independent Director
Ms. Vibha Paul Rishi	Independent Director	Mr. Dileep Choksi	Independent Director

Auditors - BSR & Co. LLP  
Walker Chandiok & Co LLP

*\*As per company information*

## Holding - Top 10

	% Holding		% Holding
SBI Funds Management	3.11	Apex Trust	2.50
Temasek (through Compassvale Investments)	2.00	Franklin Resources	0.77
Vanguard Group	0.76	Baillie Gifford & Co	0.68
Aditya Birla Sun Life Asset Management	0.54	Nomura Holdings	0.49
Morgan Stanley	0.36	Credit Agricole Group	0.35

*\*as per latest available data*

## Bulk Deals

Date	Acquired/Seller	B/S	Qty traded	Price
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*\*in last one year*

## Insider Trades

Date	Acquired/Seller	B/S	Qty traded
8-Aug-18	Mr. Sandeep Batra	Sell	25,000
8-Jan-19	Amit Palta	Sell	18,000
8-Jan-19	Anita Sudhir Pai	Sell	83,900
14-Jan-19	Sujit Ganguli	Sell	15,000
28-May-19	Bhawani Singh Pathania	Sell	71,875
31-Jul-19	Puneet Nanda	Sell	30,000
6-Aug-19	Jitendra Arora	Sell	18,250
3-Sep-19	Puneet Nanda	Sell	20,000
4-Sep-19	Puneet Nanda	Sell	30,000
11-Sep-19	Judhajit Das	Sell	20,000

*\* These are the last ten trades*



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	HOLD	SP	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SO	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	REDUCE	SU	M	DCB Bank	HOLD	SP	M
HDFC	BUY	SO	L	Federal Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	HDFC Bank	BUY	SO	L
Indiabulls Housing Finance	HOLD	SU	M	IDFC FIRST BANK	BUY	SP	L
Kotak Mahindra Bank	BUY	SP	M	IndusInd Bank	BUY	SO	L
LIC Housing Finance	BUY	SO	M	L&T Finance Holdings	HOLD	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Magma Fincorp	BUY	SP	M
Max Financial Services	BUY	SO	L	Manappuram Finance	HOLD	SU	H
Muthoot Finance	BUY	SO	M	Multi Commodity Exchange of India	HOLD	SP	M
Punjab National Bank	REDUCE	SU	M	REC	HOLD	SP	M
Repcro Home Finance	BUY	SP	M	Shriram City Union Finance	BUY	SP	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	HOLD	SU	M
Yes Bank	BUY	SP	M				

## ABSOLUTE RATING

### Ratings

### Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

### Ratings

### Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

### Ratings

### Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

### Ratings

### Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Aditya Narain

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## Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

### Recent Research

Date	Company	Title	Price (INR)	Recos
20-Jan-20	<b>Kotak Mahindra Bank</b>	Growth disappoints; quality intact; <i>Result Update</i>	1,618	Buy
20-Jan-20	<b>Federal Bank</b>	Signs of predictability on horizon; <i>Result Update</i>	94	Buy
20-Jan-20	<b>L&amp;T Finance Holdings</b>	Steady quarter; systemic concerns in operating segment; <i>Result Update</i>	118	Hold

### Distribution of Ratings / Market Cap

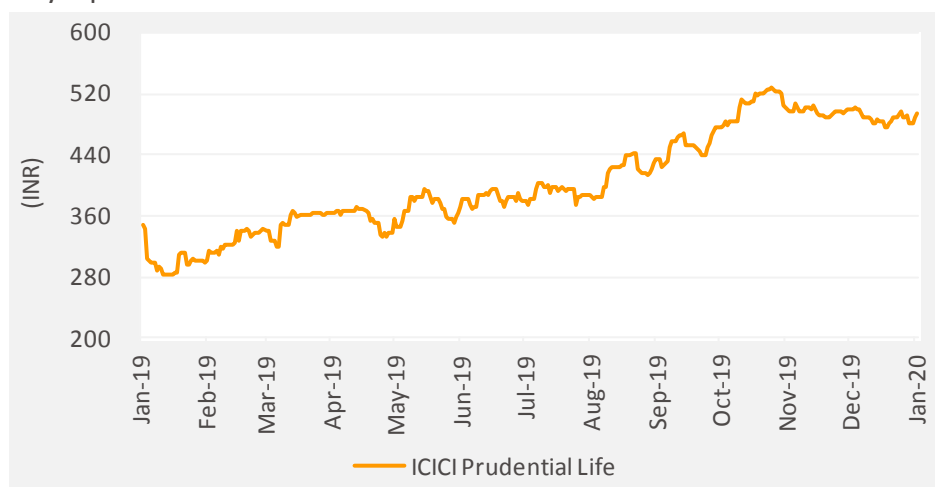
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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