

# HDFC Standard Life Insurance Company Ltd.

Nifty	10,453
Sensex	33,686

Issue Details	
Offer Price Band	₹275 – 290
Face Value	10
Shares Offered (in mn)	299.8
HDFC Ltd. Shareholders' Reservation (in mn)	29.9
HDFC Life Employee Reservation (in mn)	0.8
HDFC Ltd. Employee Reservation (in mn)	2.1
Net Issue (in mn)	266.8
Issue Size (in Bn)	82.4-86.9
Type	Offer for Sale
Listing (Stock Exchange)	NSE, BSE
Offer Open Date	7 Nov 2017
Offer Close Date	9 Nov 2017
QIB Allocation (of Net)	50.0%
NIB Allocation (of Net)	15.0%
Retail Allocation (of Net)	35.0%
Pre Issue Equity Shares (mn)	2008.9
Post Issue Equity Shares (mn)	2008.9
Bid Lot	50

Scrip Estimates	
Market Cap (₹Bn)	552.4 – 582.6
Embedded Value – September-17 (₹Bn)	140.1
BV – Sept-17 (₹Bn)	44.6
P/E.V.(x)	3.9-4.2
P/B(x)	12.4-13.1

Shareholding Pattern (%)	Pre Offer	Post Offer
<b>Promoters</b>	<b>95.96%</b>	<b>81.04%</b>
- HDFC Ltd.	61.21%	51.69%
- Standard Life Mauritius	34.75%	29.35%
<b>Public &amp; Others</b>	<b>4.04%</b>	<b>18.96%</b>

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

(₹ mn)

Financials	FY15	FY16	FY17
Net premiums earned	147,625	161,788	192,749
Growth	23%	10%	19%
PAT	7,855	8,168	8,869
PAT (%)	5.3	5.0	4.6
ROE (%)	33.4	28.9	25.6

Source: RHP & Way2Wealth Inst. Equity

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## Company Background

**HDFC Standard Life Insurance Company Ltd. (HSLIC)** was established in 2000 as a joint venture between HDFC Ltd. and Standard Life Aberdeen plc (one of world's largest investment companies), initially through its wholly owned subsidiary **The Standard Life Assurance Company** and now through its wholly owned subsidiary **Standard Life Mauritius**. HSLIC was one of the most profitable life insurers, based on Value of New Business (VNB) margin among the top five private life insurers in India in FY16 and FY17, according to CRISIL. Its total New Business Premium for FY15, FY16 and FY17 was ₹34,921mn, ₹64,872mn and ₹86,964mn. Between FY15 and FY17, its annualized premium equivalent grew by a CAGR of 14.5%.

## Objects Of The Issue

The objects of the offer are to achieve the benefit of listing the Equity Shares on the Stock Exchanges and to carry out the sale of offered shares by the Promoter Selling Shareholders.

## Investment Rationale

- **Strong financial performance defined by consistent and profitable growth** – HSLIC's flexibility and ability to adapt to changes in the Indian life insurance industry has allowed its business to grow and profitability to improve. Between FY15 and FY17, its overall total premium grew at a CAGR of ~14% to ₹194.45bn in FY17, driven by a CAGR of 12.6%, 43.6% and 7.3% in individual new business premium, group new business premiums and renewal premiums respectively. In addition, HSLIC improved its VNB margin from 18.5% in FY15 to 22% in FY17 by improving cost efficiencies, increasing persistency ratios and selling a balanced product mix. The constant increase in VNB reflects its focus on profitable growth. HSLIC has a healthy balance sheet and delivered ROE of 25.6%, RoIC of 40.7% and Operating Return on Embedded Value of 21.7% during FY17. As of September 30, 2017, it had a solvency ratio of 2 as against the minimum 1.5 required under IRDAI regulations. HSLIC is also sufficiently capitalised and has not raised any capital during the last six years (except through ESOPS), while paying dividends totalling ₹7.6bn between FY14 and FY17.
- **Growing and profitable multi-channel distribution footprint** – HSLIC offers individual and group customers access to its products through a diversified distribution network, which comprises four distribution channels, namely bancassurance, individual agents, direct, and brokers and others. Bancassurance remains the most significant distribution channel, generating ~50% of total new business premiums. HSLIC has 125 bancassurance partners, which include the likes of Bajaj Finance, RBL Bank, Saraswat Bank, IDFC Bank, PNB Housing Finance apart from HDFC and HDFC Bank. Individual agents contribute 7.5% of its total new business premium. As of September 30, 2017, HSLIC had 66,372 individual agents and each individual agent generated an average ₹119,363/- in terms of new business premium. Direct sales channel and brokers and other distribution channel generate 37.5% and 2.3% of total new business premium respectively.
- **Focus on customer centricity** – HSLIC's commitment to providing a differentiated and superior customer service experience has resulted in long term profitable growth, as reflected in consistent increase in Embedded Value from ₹88,882mn in FY15 to ₹124,705mn in FY17, at a CAGR of 18%. HSLIC's commitment to better customer service experience is reflected in the fact that 99% of customer complaints were resolved with 15 days turnaround time as prescribed by IRDAI. Also, the number of customer complaints have come down from 498 per 10,000 new policies in FY13 to 81 in FY17. The efficiency of claims settlement has improved from FY15 to FY17, with average turnaround time for claims settlement decreasing from 10 days in FY15 to 5 days in FY17. HSLIC had individual claims settlement ratio of 97.6% and group claims settlement ratio of 99.6% for FY17. Its overall claims settlement ratio of 99.1% for

FY17 is among the best in the industry. HSLIC's continued efforts to focus on improving the quality of new business, focus on needs-based selling, strong commitment to customer service has resulted in overall improvement in persistency ratio, 13<sup>th</sup> month persistency from 73.3% in FY15 to 80.9% in FY17 and 61<sup>st</sup> month persistency ratio from 39.8% in FY15 to 56.8% in FY17.

- **Leading digital platform** – HSLIC has undertaken several initiatives and developed a mobility platform to streamline and digitise customer on-boarding and policy issuance processes, with the aim of making such processes convenient and simple. During FY17, 48% of new applications were sourced through mobile devices. HSLIC's annualized premium equivalent earned through online channels increased at a CAGR of ~28% between FY15 and FY17.
- **Strong parentage and a trusted brand** – HDFC Standard Life Insurance Company Ltd. (HSLIC) was established in 2000 as a joint venture between HDFC Ltd. and Standard Life Aberdeen plc (one of world's largest investment companies), initially through its wholly owned subsidiary The Standard Life Assurance Company and now through its wholly owned subsidiary Standard Life Mauritius. Over the years, HDFC group has emerged as a recognised financial services conglomerate. HDFC has also been declared as one of the most valuable brands in India, according to the BrandZ Top 50 Most Valuable Indian Brands list in 2016.
- **Independent and experienced leadership team** – HSLIC has an independent and experienced leadership team with capabilities and know-how across the banking, financial services and insurance sectors. As at September 30, 2017, its KMP's have an average of over 10 years of experience in the financial services sector.

#### Peer Comparison and Relative Valuation

Company	CMP /I.P. (₹)	Mcap (₹Bn)	Embedded Value (E.V.) (₹Bn) (Sept-17)	NBP CAGR (FY12-17)	Renewal Premium Growth (FY12-17)	13/37/61 Month Persistency Ratio (%) (FY17)
ICICI Prudential Life Insurance	388	556	172.1	9.1%	8.6%	85.7/66.8/56.2
HDFC Standard Life Insurance	290	583	140.1	17.8%	11.0%	80.9/63.9/56.8
SBI Life Insurance	643	643	180.8	9.2%	10.5%	81.1/67.4/67.2

Company	NBM (FY17)	AUM CAGR (FY12-17)	Death Claims Settlement Ratio (FY17)	Claim Repudiation Ratio (FY17)	Avg. ROE (FY15-17)	P/E.V. (Sep-17)	P/B (Sep-17)
ICICI Prudential Life Insurance	10.1%	11.9%	97.2%	2.4%	31.2%	3.2	8.2
HDFC Standard Life Insurance	21.6%	23.3%	99.2%	0.7%	29.4%	4.2	13.1
SBI Life Insurance	15.4%	16.0%	98.0%	1.6%	20.1%	3.6	10.4

(Source: RHP, Company Filings, Way2Wealth Inst. Equity)

#### Risk

- If actual claims experience and other parameters are different from the assumptions used in pricing the products, and setting reserves for its products, it could have an adverse impact on HSLIC's profitability.
- Termination or adverse change in bancassurance arrangements, individual agents or other distribution intermediaries, or a decline in performance standards of bancassurance partners, agents or other distribution network may have an adverse impact on the business of HSLIC.
- Changes in regulation and compliance requirements could have a material adverse impact on HSLIC's business.

**Valuation And Investment Argument**

HSLIC was one of the most profitable life insurers, based on Value of New Business Margin, among the top five private life insurers in India in FY16 and FY17, according to CRISIL. HSLIC has been consistently gaining market share in terms of total new business premium, from 15.8% in FY15 to 17.2% in FY17. With Life Insurance penetration in India at a meagre 2.6% in 2016 as against the global average of 3.5% in 2016 (comparable Asian counterparts of Thailand, Singapore and South Korea have penetration levels of 3.7%, 5.5% and 7.4% respectively), we believe HSLIC is well poised to capture the huge opportunity in the Life Insurance sector in India.

At the price band of ₹275-290 the issue is priced at ~3.9-4.2x its Sep-17 Embedded Value of ₹69.7 per share. We believe the premium valuations compared to ICICI Prudential Life Insurance and SBI Life Insurance are justified due to comparatively higher NBP growth, best in class New Business Margin (NBM) of 22%, consistently high return ratios over the years, higher renewal premium growth over five years (FY12-FY17), lower mis-selling, better death-claims settlement ratio and lowest claims repudiation ratio. **We advise investors with a long-term investment horizon to SUBSCRIBE to the issue.**

**Financials**

	(₹mn)		
<b>Policyholders' Account</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
Premium Income	148,299	163,130	194,455
Reinsurance ceded (Net)	(675)	(1,342)	(1,706)
<b>Premiums earned (net)</b>	<b>147,625</b>	<b>161,788</b>	<b>192,749</b>
Income from Investments	122,493	17,906	111,406
Other Income	789	971	1,389
<b>Total Income (A)</b>	<b>270,906</b>	<b>180,665</b>	<b>305,544</b>
YoY (%)	56.7%	-33.3%	69.1%
Commission	6,235	7,019	7,920
Op. Expenses related to insurance business	14,888	18,718	23,853
Provision for Tax	1,193	1,746	1,520
Provision (Other than Taxation)	(25)	32	63
Service Tax on charges	1,532	1,854	2,161
<b>Total (B)</b>	<b>23,823</b>	<b>29,369</b>	<b>35,517</b>
Benefits paid (Net)	81,624	81,769	98,422
Interim and Terminal Bonuses paid	714	651	1,582
Change in valuation of liability in respect of life policies	156,525	59,281	160,548
<b>Total (C)</b>	<b>238,863</b>	<b>141,701</b>	<b>260,552</b>
<b>Surplus (A-B-C)</b>	<b>8,220</b>	<b>9,595</b>	<b>9,475</b>
Surplus (%)	5.6%	5.9%	4.9%
YoY (%)	91.3%	16.7%	(1.3%)
<b>APPROPRIATIONS</b>			
Transfer to Shareholders Account	6,709	7,183	7,863
Provision for lapsed policies unlikely to be revived	(384)	(487)	-
Balance being funds for future appropriations	1,896	2,900	1,613
<b>Shareholders' Account</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
Amount transferred from Policyholders' Account	6,709	7,183	7,863
Income from Investments	2,033	1,712	2,303
Other Income	-	106	1
<b>Total Income (A)</b>	<b>8,742</b>	<b>9,000</b>	<b>10,167</b>
YoY (%)	(0.8%)	3.0%	13.0%
Op. Expenses other than those directly related to insurance business	230	254	768
Contribution to Policyholders' Account	467	380	354
Provision (Other than Taxation)	(1)	33	(44)
<b>Total (B)</b>	<b>696</b>	<b>667</b>	<b>1,078</b>
<b>Profit/(Loss) before Tax (A-B)</b>	<b>8,046</b>	<b>8,334</b>	<b>9,089</b>
Provision for Tax	191	166	220
<b>Profit/(Loss) after Tax (A-B)</b>	<b>7,855</b>	<b>8,168</b>	<b>8,869</b>
YoY (%)	8.3%	4.0%	8.6%

(₹ mn)

Balance Sheet	FY15	FY16	FY17
<b>Shareholder's Funds</b>			
Equity capital	19,949	19,949	19,949
Reserves	5,484	11,494	17,955
Credit/(Debit) Fair Value Change Account	(20)	(412)	323
<b>Sub-total- (Shareholders Funds)---(A)</b>	<b>25,413</b>	<b>31,035</b>	<b>38,263</b>
<b>Policyholder's Funds</b>			
Credit Fair Value Change Account	613	536	3,981
Policy Liabilities	192,792	244,006	323,827
Provision for Linked Liabilities (i)	334,744	385,600	430,290
Fair Value Change(ii)	86,658	41,938	77,775
Funds for Discontinued Policies (iii)	27,802	29,732	29,940
<b>Total Provision for Linked &amp; Discontinued Policyholders' Liabilities (i+ii+iii)</b>	<b>449,204</b>	<b>457,270</b>	<b>538,005</b>
<b>Sub-total- (Policyholders Funds)---(C)</b>	<b>642,608</b>	<b>701,813</b>	<b>8,65,813</b>
Funds for Future Appropriation---(D)	4,642	7,055	8,668
<b>Total Liabilities (A+B+C+D)</b>	<b>672,662</b>	<b>739,902</b>	<b>912,744</b>
<b>Assets</b>			
Investments- Shareholders	21,947	25,538	32,314
Investments- Policyholders	199,085	258,629	346,915
Assets held to cover Linked Liabilities	449,204	457,270	538,005
Loans	1,256	931	479
Fixed Assets	3,525	3,474	3,535
<b>Non-current Assets</b>	<b>675,017</b>	<b>745,842</b>	<b>921,248</b>
<b>Current Assets</b>			
Cash and Bank Balances	5,725	7,274	7,974
Advances and other assets	12,344	12,329	21,744
<b>Current assets</b>	<b>18,069</b>	<b>19,603</b>	<b>29,718</b>
Current liabilities and Provisions	20,423	25,541	38,222
<b>Net current assets</b>	<b>(2,354)</b>	<b>(5,939)</b>	<b>(8,504)</b>
<b>Total Assets</b>	<b>672,662</b>	<b>739,902</b>	<b>912,744</b>

**Team**

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### Disclosure of Interest Statement in HDFC Standard Life Insurance Company Ltd. as on November 6, 2017

Name of the Security	HDFC Standard Life Insurance Company Ltd.
Name of the analyst	Chintan Gupta
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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