



HDFC Standard Life Insurance Company Limited

About the company

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 Rs 54,921mn, Rs 64,872mn and Rs 86,964mn. Between FY15 and FY17, its annualized premium equivalent grew by a CAGR of 14.5%.

Issue Details

Issue Opens	7 Nov 17
Issue Closes	9 Nov 17
Issue Size (Rs Cr.)	Rs 8,245cr –Rs 8,695cr
Face Value	10
No. of Shares Offered	29.98 Crore
Price Band(Rs)	275-290
Market Lot	50 shares and in multiple thereafter
Listing	NSE,BSE

Financial Highlights

Y/E March (Rs in Cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Premium Income	11,446	11,976	14,762	16,179	19,275
PAT	447	725	786	817	887
AUM	-	-	67,047	74,247	91,742
Embedded value	-	-	8,888	10,233	12,471
PE	130	80	74	71	66
P/BV	27	27	23	19	15
P/EV			6.6	5.7	4.7
ROE	21	34	31	26	23

Investment Rationale

- 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 Rs 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 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 Rs 7.6bn between FY14 and FY17.
- 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 Rs 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.

- 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 Rs 88,882mn in FY15 to Rs 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 has 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 5days 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, 13th month persistency from 73.3% in FY15 to 80.9% in FY17 and 61st month persistency ratio from 39.8% in FY15 to 56.8% in FY17.
- 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.

Peer Comparison

Company	Total Premium(Rs bn)	Embedded value(Rs bn)	AUM(Rs bn)	ROE(%)	ROI Capital(%)
ICICI Prudential	223.5	161.8	1229	31.2	34.3
HDFC Standard Life	194.6	123.9	917	29.4	38.4
SBI Life	210.2	165.4	977	20.1	87.9
Max Life	107.8	67.4	444	23.6	25.2
Bajaj Allianz	61.8	112.6	493	12.2	71.4

Risks

- 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.

Outlook

At the upper band of Rs 290 the issue is valued at 4.2x of 2QFY2018 embedded value (EV) of Rs 14,011cr, bit higher than close listed player SBI Life and ICICI Pru which is trading at 3.6x and 3.3x of 2QFY2018 EV respectively. However slight premium is justifiable, considering, consistent growth across premium categories, improving dividend payout over last 4 years, strong parentage, trusted brand name, highest VNB margin (22% for FY2017) and well balanced business mix. Based on the above positive factors one can subscribe to the issue on long term basis.

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