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HDFC Standard Life Insurance Co Ltd

SUBSCRIBE

IPO Price band ₹ 275-290

Index Details	
Sensex	33,731.2
Nifty	10,451.8
Industry	Insurance

Scrip Details	
BVPS (`)	19.1
O/s Shares (Cr)	200.9
Price Band	Rs 275- 290
FVPS (`)	10.0

Shareholding Pattern	
Shareholders	(Post) %
Promoters	81
Public	19
Total	100.0

HDFC Standard Life Insurance Co Ltd 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 (measured on total new business premium) in Fiscal 2016 and Fiscal 2017. Besides consistently being among the top three private life insurers in terms of profitability based on VNB margin, it has also consistently been among the top three private life insurers in terms of market share based on total new business premium between Fiscal 2015 and Fiscal 2017. Its total new business premium for Fiscal 2015, Fiscal 2016, Fiscal 2017 and the six months ended September 30, 2017, was ₹ 54,921.0 million, ₹ 64,872.2 million, ₹ 86,963.6 million and ₹ 44,029.0 million. Between Fiscal 2015 and Fiscal 2017, its annualized premium equivalent grew by a CAGR of 14.5%. Its 13th month individual persistency ratio was 73.3%, 78.9%, 80.9% and 82.2% for the periods ended March 31, 2015, March 31, 2016, March 31, 2017 and September 30, 2017, respectively.

The company has a healthy balance sheet with total net worth of ₹44.6 billion and a solvency ratio of 200.5% as at September 30, 2017, above the minimum 150.0% solvency ratio required under IRDAI regulations. It generated Profit After Tax of ₹ 886.9 crore and delivered a Return on Equity of 25.6%, Return on Invested Capital of 40.7% and Operating Return on Embedded Value of 21.7% during Fiscal 2017. As at September 30, 2017, the company had a total AUM of ₹ 995.3 billion and Embedded Value of ₹ 140.1 billion. It has an enviable track record of consistently delivering shareholder returns across business cycles. Its focus on creating a multi-channel distribution platform has resulted in its market share among private life insurers in India in terms of total new business premium increasing from 15.8% in Fiscal 2015 to 17.2% in Fiscal 2017.

Key Financials (Rs in Cr)

Year	Premium Earned	Surplus	PAT	EPS	P/E	ROE(%)	Solvency Ratio
2014	11976.4	429.7	725.0	3.6	80.6	NA	NA
2015	14762.4	822.0	785.5	3.9	74.4	35.2	196.1
2016	16178.7	959.5	816.7	4.1	70.7	28.9	198.4
2017	19274.8	947.6	886.9	4.4	65.9	25.6	191.6

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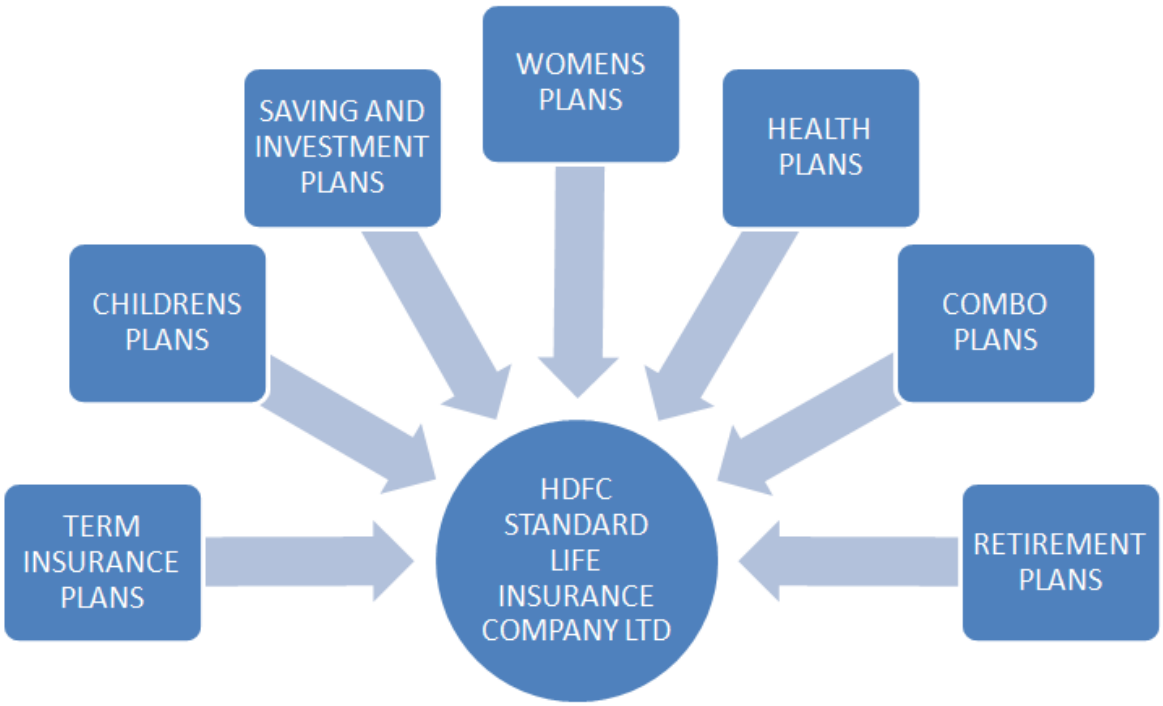
❖ Company Background

HDFC Standard Life Insurance Co Ltd was one of the first private life insurance companies to register in India and was established as a joint venture between HDFC (one of India's leading housing finance institutions) and Standard Life Aberdeen plc (one of the 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.

Further, being the market leaders, the company has been able to build a strong heterogeneous product profile as displayed in the diagram below.

Product offerings of HDFC LIFE



Source: Company, Ventura Research

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❖ Key investment highlights

- **Strong financial performance defined by consistent and profitable growth**

HDFC Life's focused execution has continued to deliver consistent and profitable growth to its stakeholders. The company has a healthy balance sheet and delivered a Return on Equity of 25.6%, Return on Invested Capital of 40.7% and Operating Return on Embedded Value of 21.7% during Fiscal 2017. As at September 30, 2017, it has a solvency ratio of 200.5%, above the minimum 150% solvency ratio required under IRDAI regulations. Between Fiscal 2015 and Fiscal 2017, the overall total premium grew by a CAGR of 14.5% to ₹194.45 billion, driven by a CAGR of 12.6%, 43.6% and 7.3% in individual new business premiums, group new business premiums and renewal premiums, respectively. It has 64.5 million lives insured across individual and group customers as at September 30, 2017. In addition, the VNB margins improved from 18.5% in Fiscal 2015 to 22.0% in Fiscal 2017 by improving cost efficiencies, increasing persistency ratios and selling a balanced product mix. The share of protection in the individual and group new business premium increased from 12.0% in Fiscal 2015 to 21.8% for Fiscal 2017. The Profit After Tax of the company increased by a CAGR of 6.3% from ₹ 785.5 crore in Fiscal 2015 to ₹886.9 crore in Fiscal 2017. The insurance profit increased by a CAGR of 9.7% between Fiscal 2015 and Fiscal 2017.

- **Growing and profitable multi-channel distribution footprint**

The company offers its individual and group customers access to the products through its diversified distribution network which comprises of four distribution channels, namely bancassurance, individual agents, direct, and brokers and others. The multi-channel distribution network provides flexibility to adapt to changes in the regulatory landscape and mitigate the risk of over-reliance on any single channel. All the distribution channels have been independently profitable for each of Fiscal 2015, Fiscal 2016, Fiscal 2017 and the six months ended September 30, 2017. Bancassurance remained the most significant distribution channel for the company, generating 50.4%, 53.5%, 50.7% and 54.1% of its total new business premiums for Fiscal 2015, Fiscal 2016, Fiscal 2017 and the six months ended September 30, 2017, respectively. The company shares longstanding, successful relationships with its bancassurance partners through corporate agency or master policyholder arrangements. Its oldest bancassurance partner relationship was established in 2002. The bancassurance partners include banks, non-banking financial companies, micro-finance institutions and small finance banks in India.

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- **Focus on customer centricity enabling growth across business cycles**

  The company aims to provide differentiated and superior customer service experiences to its customers across the life of an insurance policy, from product development to customer on-boarding and policy issuance to customer service and claims settlement. Its commitment to customer centricity has resulted in long-term profitable growth and has reflected in the consistent increase in its EV at a CAGR of 18.4% from ₹8888.2 crore in Fiscal 2015 to ₹12470.5 crore in Fiscal 2017. The integrated customer on-boarding process has enabled the frontlines sales team to facilitate customer convenience and includes "straight-through processing" of customer proposal forms, instant secure customer verification processes through the mobile applications and an automated underwriting engine which enables the company to obtain key underwriting information from customers during customer on-boarding, reduces the documentation requirements from customers and helps it to improve the underwriting efficiency. These initiatives have resulted in improved turnaround times for the issuance of new policies.

- **Leading digital platform for customers and distributors**

  The company has undertaken several initiatives and developed a mobility platform to streamline and digitize customer on-boarding and policy issuance processes, with the aim of making such processes convenient and simple for the customers. Mobility initiatives have been successfully implemented across the value chain, resulting in improvements to the productivity of the distribution partners. During Fiscal 2017, 48.0% of the new applications were sourced through mobile devices. Its has an advanced digital platform that is user-friendly, customer-centric and capable of guiding the customers and distribution partners from on-boarding to policy issuance within four days, which has been a key contributor to the increased digital sales over the years. Introduction of new products and increased customer traffic can be managed through the digital platform with limited additional investment. This provides the company with the requisite flexibility and headroom for exponential future growth in a rapidly evolving online space. The annualized premium equivalent earned through online channels for the company increased at a CAGR of 27.9% between Fiscal 2015 to Fiscal 2017.

- **Independent and experienced leadership team**

  The company has an independent and experienced leadership team with capabilities and know-how across the banking, financial services and insurance sectors. None of the Key Management Personnel has been seconded by or transferred from the Promoters, which contributes to the stability of the Key

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Management Personnel. As at September 30, 2017, the Key Management Personnel had an average of over ten years of experience in the financial services sector. The leadership team of the company is committed to growing the business, as demonstrated by the track record in delivering consistent results across business cycles.

❖ **Strategies for the future**

- **Reinforce agile, multi-channel distribution platform to fortify and diversify revenue mix across business cycles**

The company intends to continue expanding the partnerships and diversify sources of new business premiums. It aims to stay ahead of the curve in forming alliances with a variety of distribution partners, including banks, non-banking financial companies, micro-finance institutions and other non-financial services companies. It plans to reinforce the multi-channel distribution platform by increasing its reach across non-traditional distribution channels, while strengthening existing channels and relationships, in order to reduce dependency on any single distribution channel or partner. The company's agile distribution platform and key account managers have the ability to support the requirements of both traditional and non-traditional distribution partners. It intends to pursue increased profitability by improving the productivity and efficiency of various distribution channels through the implementation of tailored strategy for each of the channels, while maintaining quality and risk management standards.

- **Invest in digital platforms to establish leadership in the growing digital space**

The company believes that digital distribution will continue to be a key, growing trend in the Indian life insurance industry and that smart phones and mobile devices will become a more integral part of how people purchase the products in the coming years. India currently has a total wireless subscriber base of approximately 1,187 million, out of which nearly 356 million are Smartphone users. The number of smart phone users is likely to increase exponentially over the next five years owing to steep growth in 3G and 4G subscribers as well as increasing Smartphone penetration. In addition, the demonetization measures that were implemented by the Government in November 2016 have accelerated the adoption of digital platforms across the financial services sector.

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- **Continue to build economies of scale to ensure profitability and cost leadership**

  The company has a proven track record of consistently growing the total premium and VNB over the past few years. This has enabled the company to increase the efficiency and reduced sales costs though implementing strategies, including the productivity and cost savings initiatives. It aims to continue adding economic value to the shareholders by increasing total premium and VNB, while reducing the total operating cost ratio across business cycles. The company intends to undertake appropriate investments to strengthen the sources of competitive advantage and make the business resilient and adaptable by building on intangible assets which cannot be easily replicated by the competitors, such as the brand, product offerings to customers and integrated distribution processes. An expanding universe of partners will also help create a wider customer base and reduce unit costs per policyholder, which will improve the total operating cost ratio and allow it to continue to build scale across its business.

❖ Management

- **Mr. Deepak Parekh** is a Nominee Director and the Chairman of the company. He has been on the Board since August 2000. He is also the chairman of the company's promoter i.e., HDFC. Mr. Parekh is an associate of the Institute of Chartered Accountants of England and Wales. He is on the board of several leading corporations across diverse sectors. He is the non-executive chairman of HDFC Asset Management Company Limited, HDFC ERGO General Insurance Company Limited, Siemens Limited and GlaxoSmithKline Pharmaceuticals Limited.

- **Mr. Amitabh Chaudhry**, is the Managing Director and Chief Executive Officer of the company. Mr. Chaudhry holds a bachelor's degree in engineering (electronics and electrical branch) from Birla Institute of Technology and Science, Pilani and post graduate diploma in management from Indian Institute of Management, Ahmedabad. Mr. Chaudhry has experience in banking and finance and has worked in diverse roles ranging from head of technology, investment banking, for Asia regional finance head for wholesale banking and global markets and chief finance officer of Bank of America (India).

- **Ms. Vibha Padalkar,** is an Executive Director and Chief Financial Officer of the company. Ms. Padalkar qualified as a member of the Institute of Chartered Accountants of England and Wales in 1992. She is also a member of the Institute of Chartered Accountants of India.

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❖ Swot Analysis

STRENGTH	WEAKNESS
• Strong brand (HDFC) presence in the market. • Profitable distribution channels which reach out to all the different customers for all the products • Well managed customer service team • Use of technology to improve customer experience	• Majority of the business is conducted on leased premises, inability to renew lease can affect the business • Security isn't strong enough to protect the data from cyber attacks
OPPORTUNITY	**THREAT**
• Capture new markets • To invest in new technology and innovation	• Investment portfolio is subject to the volatility in the market value of the financial instruments. • Loss reserves may not be adequate to meet future claims • Any catastrophic event could lead to heavy losses in investment portfolios and have a material adverse impact on operations • Not meeting solvency ratio requirements could bring strict regulatory actions

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❖ Issue offer and Valuation

Issue Offer

Category	Allocation	No of Shares	Issue Size (Rs in Cr) Lower Band (Rs 275)	Higher band (Rs 290)
HDFC Shareholders	-	29982781	824.5	869.5
HDFC Life Employees	-	2144520	59.0	62.2
HDFC Employees	-	805000	22.1	23.3
QIB	50%	133447758	3669.8	3870.0
NIB	15%	40034328	1100.9	1161.0
Retail	35%	93413431	2568.9	2709.0

Source: Company, Ventura Research

At the higher band price of Rs. 290 per share, the company is valued at a PE multiple of 65.9 times its FY17 earnings. Considering the likely increase in earnings and eventually the net worth, the pricing appears to be attractive. The huge opportunity and penetration in general insurance provides ample scope for HDFC Standard Life Insurance Company Ltd to grow its portfolio at a rapid pace.

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Financials

Particulars (Amount in Crs) Assets and Liabilities	FY13	FY14	FY15	FY16	FY17
A. Sources of Funds					
Share Capital	1994.88	1994.9	1994.88	1995.3	1994.88
Share application money received pending allotment of shares					
Reserves and Surplus	196.18	165.4	548.1	1149.4	1795.5
Credit / (Debit) Fair Value Change Account	-10.28	2.7	-2.0	-41.2	32.3
Sub-Total	**2180.78**	**2163.1**	**3826.3**	**3103.5**	**3826.3**
BORROWINGS					
POLICYHOLDERS' FUNDS:	-78.42	31.1	61.3	53.6	398.1
Credit / (Debit) Fair Value Change Account Policy Liabilities					
i) relating to Life insurance business	**10155.58**	14339.7	19279.2	24400.6	32381.9
ii) relating to Reinsurance business					0.8
Provision for Linked Liabilities	27549.0	30207.9	33474.4	38560.0	43029.0
Add: Fair value change	245.69	2527.8	8665.8	4193.8	7777.5
Provision for Linked Liabilities	27794.64	32735.7	42140.2	42753.8	50806.5
Funds for discontinued policies					
i) Discontinued on account of non-payment of premium	533.24	1454.7	2752.6	2952.8	2979.2
ii) Others	5.21	17.0	27.6	20.4	14.9
Total Provision for Linked & Discontinued Policyholders Liabilitie	**283.330.9**	**34207.4**	**44920.4**	**45727.0**	**53800.5**
Sub-Total	**38410.25**	**48578.1**	**64260.8**	**70181.3**	**86581.3**
Funds for Future Appropriations	343.68	225.9	415.5	705.5	866.8
Funds for future appropriation	304.99	87.1	48.7		
TOTAL	**41239.6**	**51054.1**	**67266.2**	**73990.2**	**91274.4**
APPLICATION OF FUNDS					
INVESTMENTS:					
Shareholders'	**855.73**	**1613.5**	**2194.7**	**2553.8**	**3231.4**
Policyholders'	11215.18	14706.2	19908.5	25862.9	34691.5
Assets held to cover Linked Liabilities	283.330.9	34207.4	44920.4	45727.0	53800.5
LOANS	78.22	47.7	125.6	93.1	47.9
FIXED ASSETS	281.81	289.5	352.5	347.4	353.5
CURRENT ASSETS:					
Cash and Bank Balances	464.09	445.0	572.5	727.4	797.4
Advances and Other Assets	689.82	965.5	1234.4	1232.9	2174.4
Sub-Total (A)	**1153.91**	1410.6	1807.0	1960.3	2971.8
CURRENT LIABILITIES	1493.29	1428.3	2009.1	2512.5	3775.5
PROVISIONS	28.65	27.4	33.2	41.6	46.7
Sub-Total (B)	**1521.94**	**1455.8**	**2042.3**	**2554.1**	**3833.2**
NET CURRENT ASSETS (C) = (A - B)	**-368.03**	**-45.2**	**-235.4**	**-593.9**	**-850.4**
Miscellaneous Expenditure (to the extent not written off or Adjusted)					
Debit Balance in Profit and Loss Account (Shareholders' Account)	843.6	235.0			
Deficit in the Revenue Account (Policyholders' Account)					
TOTAL	**41239.6**	**51054.1**	**67266.2**	**73990.2**	**91274.4**

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Particulars (Amount in Crs) Revenue Statement	FY13	FY14	FY15	FY16	FY17
Premiums earned (net)					
(a) Premium	11502.2	12062.9	14829.9	16313.0	19445.5
(b) Reinsurance ceded	-56.2	-86.5	-67.5	-134.2	-170.6
(c) Reinsurance accepted					
Sub-Total	**11446.1**	**11976.4**	**14762.5**	**16178.7**	**19274.9**
(a) Interest, Dividends & Rent - Gross	1778.5	2353.9	2860.7	3472.5	4067.6
(b) Profit on sale / redemption of investments	1595.3	1296.9	3807.4	3755.3	3894.1
(c) (Loss on sale / redemption of investments)	-654.8	-881.5	-592.1	-984.9	-390.0
(d) Transfer / Gain on revaluation / Change in Fair value*	-197.6	2283.4	6140.3	-4471.1	3583.7
(e) Amortisation of (premium)/discount on investments	21.2	20.3	33.0	18.8	-14.7
Sub-Total	**2542.7**	**5073.1**	**12249.3**	**1790.6**	**11140.6**
Other Income	25.7	24.0	32.2	59.1	41.9
Income on Unclaimed amount of Policyholders					61.6
Contribution from the Shareholders' Account	1.9	217.3	46.7	38.0	35.4
Sub-Total	**27.6**	**241.2**	**78.9**	**97.1**	**138.9**
TOTAL (A)	**14016.3**	**17290.7**	**27090.6**	**18066.5**	**30554.4**
Commission	647.3	514.1	623.5	701.9	792.0
Operating Expenses related to Insurance Business	1216.0	1280.5	1488.8	1871.8	2385.3
Provision for doubtful debts					
Bad debts written off					
Provision for tax	50.9	151.6	119.3	174.6	152.0
Provisions (other than taxation)					
(a) For diminution in the value of investments (net)		25.6	-7.2	-2.0	12.2
(b) Others - Provision for standard and non-standard assets		1.9	4.7	5.2	-6.0
Goods and Services Tax / Service tax on linked charges	128.0	134.0	153.2	185.4	216.1
TOTAL (B)	**2042.2**	**2107.7**	**2382.3**	**2936.8**	**3551.6**
Benefits Paid (Net)	3902.8	4661.9	8162.4	8176.9	9842.2
Interim Bonuses Paid	2.5	4.6	9.8	7.8	15.2
Terminal Bonuses Paid	16.2	28.3	61.6	57.3	143.0
Change in valuation of liability in respect of life policies					
(a) Gross **	3625.5	4713.4	5119.1	4863.8	8031.2
(b) Amount ceded in Reinsurance	-933.9	-529.3	-179.6	257.6	-49.9
(c) Amount accepted in Reinsurance					
(d) Unit Reserve	4290.2	4941.1	9404.5	613.7	8052.6
(e) Funds for Discontinued Policies	433.1	933.2	1308.5	193.0	20.8
TOTAL (C)	**11336.5**	**14753.2**	**23886.3**	**14170.1**	**26055.2**
SURPLUS / (DEFICIT) (D) = (A) - (B) - (C)	**637.6**	**429.8**	**822.1**	**959.6**	**947.6**
APPROPRIATIONS					
Transfer to Shareholders' Account	390.0	765.4	670.9	718.3	786.3
Transfer to Other Reserves					
Funds for future Appropriation	-30.4	-217.8	-38.4	-48.7	
Balance being Funds for Future Appropriations	**217.8**	-117.8	189.6	290.0	161.3
Transfer to Balance Sheet	601.3				
TOTAL (D)	**637.6**	429.8	822.1	959.6	947.6
The total surplus as mentioned below :					
(a) Interim Bonuses Paid	2.5	4.6	9.8	7.8	15.2
(b) Terminal Bonuses Paid	16.2	28.3	61.6	57.3	143.0
(c) Allocation of Bonus to policyholders	342.5	389.7	468.2	557.1	591.8
(d) Surplus shown in the Revenue Account	637.6	429.8	822.1	959.6	947.6
(e) Total Surplus :[(a)+(b)+(c)+(d)]	998.9	852.4	1361.6	1581.7	1697.7

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Particulars (Amount in Crs) Profit and Loss Statement	FY13	FY14	FY15	FY16	FY17
Amounts transferred from the Policyholders' Account (Technical Account)	**390.0**	765.4	670.9	718.3	786.3
Income from Investments					
(a) Interest, Dividends & Rent - Gross	48.5	99.8	150.8	166.2	186.8
(b) Profit on sale / redemption of investments	23.0	15.7	54.7	13.7	62.1
(c) (Loss) on sale / redemption of investments					
(d) Amortisation of (premium) /discount on investments	-0.3	0.8	0.8	-0.2	-3.2
Sub-Total	71.1	116.1	203.3	171.2	230.3
Other Income	0.0	0.0	0.0	10.6	0.1
TOTAL (A)	**461.2**	**881.5**	**874.2**	**900.0**	**1016.7**
Expenses other than those directly related to the insurance business	7.8	15.7	23.0	25.4	76.8
Bad debts written off					
Provisions (Other than taxation)					
(a) For diminution in the value of investments (net)		5.9	-0.1	3.3	-4.4
(b) Provision for doubtful debts					
(c) Others - Provision for standard and non-standard assets			-0.1	0.0	
Contribution to the Policyholders' Fund	1.9	217.3	46.7	38.0	25.4
TOTAL (B)	**9.7**	**238.9**	**69.6**	**66.7**	**107.8**
Profit / (Loss) before tax	451.5	642.5	804.6	833.4	908.9
Provision for Taxation	4.2	-82.8	19.1	16.6	22.0
Profit / (Loss) after tax	447.2	725.3	785.5	816.8	886.9
APPROPRIATIONS					
(a) Balance at the beginning of the year	-1290.8	-843.6	-235.0	383.0	983.7
(b) Interim dividends paid during the year		-99.7	-139.6	-179.5	-219.7
(c) Proposed final dividend					
(d) Dividend distribution tax		-17.0	-27.9	-36.6	-44.7
Profit / (Loss) carried forward to the Balance Sheet	**-843.6**	**235.0**	**383.0**	**983.7**	**1606.1**
Earnings Per Share - Basic (`)	2.2	3.6	3.9	4.1	4.4
Earnings Per Share - Diluted (`)	2.2	3.6	4.0	4.1	4.4
Nominal Value of Share (`)	10.0	10.0	10.0	10.0	10.0

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