



SMC Ranking
 ★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Insurance
Total Issue (Shares) - Offer for sale	299,827,818
Net Offer to the Public	299,827,818
Issue Size (Rs. Cr.)	8245-8695
Price Band (Rs.)	275-290
Offer Date	7-Nov-17
Close Date	9-Nov-17
Face Value	10
Lot Size	50 Equity Share

Issue Composition

	In shares
Total	299,827,818
QIB	133,447,759
NIB	40,034,328
HDFC life Employee Reservation	2,144,520
HDFC Employee Reservation	805,000
HDFC Shareholder reservation	29,982,781
Retail	93,413,430

About the Company

Incorporated in 2000, HDFC Standard Life Insurance Company Ltd (HDFC Life) is Mumbai based life insurance provider in India. HDFC Life offers a wide range of individual and group insurance solutions including Protection, Pension, Savings & Investment and Health, along with Children's and Women's Plan. It is a joint venture between HDFC and Standard Life Aberdeen plc. HDFC holds 61.21% in the third-largest private sector life insurance company while Standard Life Mauritius owns 34.75% equity stake. HDFC Life sells policies through a multi channel network. This includes direct sales through own branches, Insurance agents, Partner Banks and through other financial institutions. HDFC Life has over 414 branches and 15,406 full-time employees located across India. Company has over 58,147 individual agents.

Strength

Strong parentage and a trusted brand: As the company has a strong brand name, it has been selected as a Superbrand in India for three consecutive years from 2014 to 2016. The company 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.

Strong financial performance defined by consistent and profitable growth: HDFC Standard Life is the country's third-largest private sector life insurance company with 16.5 per cent share of total private sector premiums in FY17. 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. Its VNB (Value of New Business) margin improved from 18.5% in FY2015 to 22% in FY2017, as a result of better cost efficiencies, persistency ratios and selling a balanced product mix. It believes that its strong financial performance and leading position in the industry will allow the company to take advantage of growth opportunities in the under-penetrated Indian life insurance sector.

Growing and profitable multi-channel distribution footprint that provides market access across various consumer segments in India: The Company offers individual and group customers access to its products through its diversified distribution network which comprises four distribution channels, namely bancassurance, individual agents, direct, and brokers and others. Bancassurance remained the most significant distribution channel, generating 50.7% of total new business premiums, in FY2017. The individual agent network generated 7.5%, direct sales 39.8%, brokers and others distribution channel 2.1% of total new business premium in FY2017. As at September 30, 2017, the company had over 45 broker and other tie-ups, comprising 21 significant insurance brokers and 29 Insurance Marketing Firms. It believes that its distribution model within each distribution channel gives the company a significant footprint across customer segments.

Focus on customer centricity enabling growth across business cycles: The Company's focus on Customer-centricity has resulted in long-term profitable growth, as reflected in the consistent increase in EV at a CAGR of 18.4% from Rs 8888.2 crore in FY2015 to Rs 12470.5 crore in Fy2017. As many as 99% of customer complaints were resolved within 15 days, the turnaround time prescribed by the IRDA of India, in FY 2017. The company had an individual claims settlement ratio of 97.62% and a group claims settlement ratio of 99.67% for Fiscal 2017. The overall claims settlement ratio of 99.16% in FY2017 is among the best in the Indian life insurance industry. In Fiscal 2016, it had launched HDFC Life Cancer Care product, and as at September 30, 2017, approximately 245,000 lives were insured under the category.

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	95.97%	86.45%
QIB	3.97%	5.21%
NIB	0.00%	1.99%
Employee trust	0.06%	0.17%
Shareholder's reservation		1.53%
Retail	0.00%	4.65%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges and
- To carry out the sale of Offered Shares by the Selling Shareholders.

Book Running Lead Manager

- CLSA India Private Limited
- Credit suisse Securities (India) private Limited
- Edelweiss capital Limited
- Haitong Securities India Private Limited
- HDFC Bank Limited
- IDFC Bank Limited
- IIFL Holdings Limited
- Morgan Stanley India Company Pvt. Limited
- Nomura Financial Advisory and securities (India) Pvt. Limited
- UBS Securities India Private Limited

Name of the registrar Karvy Computershare Pvt Ltd

Leading digital platform that provides a superior experience for customers and distributors:

The Company has developed a leading digital platform that gives it a competitive edge across various distribution channels and customer segments. Annualised premium equivalent earned through online channels recorded a CAGR of 27.9% between FY2015 to FY2017.

Strategy

Reinforce its agile, multi-channel distribution platform to fortify and diversify its revenue mix across business cycles: The company intends to continue expanding the number of its partnerships and diversifying its sources of new business premiums. It also intends to pursue increased profitability by improving the productivity and efficiency of its various distribution channels through the implementation of tailored strategy for each of the channels, while maintaining its quality and risk management standards. The company believes that non-traditional distribution partnerships has the potential to contribute to its business going forward, given the significantly under-penetrated life insurance market across cities in India, and that its innovative product sales strategies within non-traditional distribution channels will continue to be a key competitive advantage for the company .

Drive innovation in product sales to enhance customer value proposition and to capture niche segments: The Company aims to offer needs-based and customer-centric products which address the core needs of its customers across each stage of their lives. Its track record has provided the company with significant experience and know-how to develop and provide insurance products across various customer segments, economic conditions and market scenarios. The company intends to adopt the initiatives as part of its product development pipeline under the heads such as Protection, Health and Retirement.

Invest in digital platforms to establish leadership in the growing digital space: The company believed that maintaining its superior digital infrastructure will continue to be a key contributor to the growth of its business. Since Fiscal 2016, it has adopted a “mobile first” approach to the creation and design of all website and applications. The company intends to continue building on its strong brand recall in the online space and driving traffic to its website www.hdfclife.com by expanding its use of digital marketing tools, such as Facebook, YouTube, LinkedIn™, Twitter and other social media websites.

Continue to build economies of scale to ensure profitability and cost leadership: The Company has a proven track record of consistently growing its total premium and VNB over the past few years. The company intends to undertake appropriate investments to strengthen its sources of competitive advantage and make its business resilient and adaptable by building on intangible assets which cannot be easily replicated by its competitors, such as its brand, product offerings to customers and integrated distribution processes .

Risk factors

Results are dependent on the strength of its brand and reputation: The results of the company are, to a certain extent, dependent on the strength of its brand and reputation, as well as the brand and reputation of other HDFC group entities. If the company fails to maintain its brand name and its reputation, or there is reputational harm to other HDFC group entities or the insurance industry as a whole, its business, financial condition and results of operations could be materially and adversely impacted.

Failure of or inadequacies in its information technology systems: The business of the company depends heavily on the ability of its information technology systems to timely process a large number of transactions across different distribution channels and numerous product lines. A failure of its information technology or communications systems could damage its reputation and have a material adverse effect on its business, financial condition and results of operations.

Operate in a regulated industry: The Company operates in a highly regulated industry. Any change in IRDAI policy, including in relation to investment or provisioning or rural and social sector obligations or norms, may affect its business.

Rely on third-party service providers in several areas integral to its operations: The Company relies on third parties in several areas of its operations on a regular basis. If any of these third parties

were to terminate their contractual relationships with the company and the company fails to secure an adequate alternative, its business and results of operations could be materially disrupted.

Peer comparison

Co_Name	Net Sales (TTM)	PAT (TTM)	EPS	P/E	P/BV	BV	FV	CMP	MCAP
SBI Life	30277.51	954.64	9.24	69.57	11.58	55.52	10.00	642.80	64280.00
ICICI Prudential	37900.05	1681.66	10.93	35.47	9.09	42.64	10.00	387.80	55667.41
HDFC Life	61108.84	1773.84	5.52	52.57	11.61	24.98	10.00	290.00	58260.22

*HDFC Life financial figures annualised FY18

*Peers financial are annualised FY17

Valuation

Considering the valuation at upper price band of Rs.290 , EPS and P/E of FY2018 are Rs. 5.52 and 52.57 multiple respectively and at a lower price band of Rs. 275, P/E multiple is 49.85; at upper price band of Rs.290 , book value and P/B of FY2018 are Rs.24.98 and 11.61 multiple respectively and at a lower price band of Rs. 275, P/B multiple is 11.01. No change in pre and post issue EPS, but Book Value has changed due to inclusion of H2FY18 PAT even though the company is not making fresh issue of capital.

Industry overview

India's life insurance penetration stood at ~2.7% in 2016, compared with ~4.4% in 2009-10. Although overall premiums increased from 2010 to 2016, there was a decline in life insurance penetration between 2010 to 2016 due to GDP growing at a faster pace compared to growth in premiums. Current low penetration (2.72% in 2016) and density (USD 46.5 in 2016) of Indian insurance market offers large growth potential. Going forward, the new business premium of life insurers is expected to grow at 11-13% CAGR to Rs 3,000-3,100 billion over the next five years. This growth is expected to be propelled by high historical nominal GDP growth, moderate-to-low inflation, improvement in the financial savings rate, initiatives undertaken by the government to ensure adequate social security, favourable demographics, growing awareness of insurance and regulatory changes, such as the increase in the foreign direct investment limit from 26% to 49% in 2015, which will bolster the financial position of existing players and open up the market for new players.

Outlook

HDFC Life is one of the most profitable private life insurers, enjoying a healthy VNB margin of 22% in FY17 along with a growing market share. With the outlook of insurance sector being bright, HDFC Standard Life is well-positioned to enjoy years of strong growth and enhanced profitability. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	November 7, 2017
Bid/Offer Closing Date	November 9, 2017
Finalisation of Basis of Allotment with the Designated Stock Exchange	November 14, 2017
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	November 15, 2017
Credit of Equity Shares to depository accounts of Allottees	November 16, 2017

Annexure

Consolidated Financials

Statement of revenue account

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Premium Earned	9050.96	19274.86	16178.77
Income from investment	5278.28	11140.64	1790.57
	14329.24	30415.5	17969.34
Other Income	85.74	138.92	97.11
Total	14414.98	30554.42	18066.45
Less : Expenses	1833.98	3551.62	2936.8
	12581	27002.8	15129.65
Benefits Paid (Net)	5485.62	9842.18	8176.9
Interim Bonuses Paid	7.68	15.24	7.79
terminal bonuses paid	87.06	142.98	57.26
change in valuation of liability in respect of life policies	6482.51	16054.76	5928.11
	518.13	947.64	959.59
Less : funds transferred for future appropriation account	62.33	161.3	241.34
Balance transferred to profit and loss account	455.8	786.34	718.25

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Amounts transferred from Policyholders' account (Technical account)	455.80	786.34	718.25
Income from investment	123.07	230.30	171.21
Total expenditure	21.30	107.79	66.65
Operating Profit	557.57	908.85	822.81
Other Income	13.34	0.08	10.57
PBDIT	570.91	908.93	833.38
Tax	16.77	22.01	16.59
PAT	554.14	886.92	816.79

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 31-Mar-16
Policy holders fund			
Total provision for linked liabilities and discontinued policyholders liabilities	93235.55	86581.33	70181.27
Funds for future appropriation			
	93235.55	86581.33	70181.27
Lapsed policies	929.11	866.78	705.48
	0.00	0.00	0.00
	929.11	866.78	705.48
	94164.66	87448.11	70886.75
Investments			
shareholders	3702.72	3231.41	2553.78
policyholders	39686.22	34691.53	25862.88
Investments	43388.94	37922.94	28416.66
Assets held to cover linked liabilities	56130.89	53800.49	45727.02
Loans	16.23	47.86	93.07
Fixed Assets	344.04	353.49	347.36
deferred tax assets	0.00	0.00	0.00
Total of others	56491.16	54201.84	46167.45
Current Assets			
Cash and Bank Balance	279.99	797.38	727.39
advances and other assets	2066.94	2174.44	1232.88
Total Current Assets	2346.93	2971.82	1960.27
Current liabilities			
Other current liabilities	3557.59	3775.47	2512.54
provisions	41.14	46.71	41.60
Total current liabilities	3598.73	3822.18	2554.14
Net Current Assets	-1251.80	-850.36	-593.87
Total	98628.30	91274.42	73990.24
NET Worth	4463.64	3826.31	3103.49
Net worth represented by:			
Share capital	2005.55	1998.48	1995.29
Share application money	1.03	0.00	0.00
reserve and surplus	2408.01	1795.52	1149.44
Credit/Debit fair Value change account	49.05	32.31	-41.24
Net Worth	4463.64	3826.31	3103.49

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor , Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No. - 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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