GEOJIT

RETAIL EQUITY RESEARCH

ICICI Pru Life Insurance (ICICI Life)

Life Insurance

BSE CODE: 540133 **NSE CODE: ICICIPRULI**
Bloomberg CODE: IPRU:IN **SENSEX: 34,503**

BUY

Rating as per Large Cap **12 month investment period**

CMP Rs. 407 **TARGET** Rs. 450 **RETURN 11%**

12th January, 2018

Best play on life insurance sector…

ICICI Life was among India's first private sector life insurance companies and offers its customers vast and diversified products in life insurance, health insurance and pension products & services.

- ICICI Life has strengthened its position in a highly competitive industry and remained the market leader among private life insurers with an overall market share of 12.0% and private market share of 22.3% in FY17.
- We believe that Indian life insurance industry is at the cusp of enormous growth driven by strong surge in volumes on the back of shifting preference of individuals to financial savings from physical savings.
- ICICI Life is well-positioned to capture the strong growth of Indian life insurance sector given its superior operational metrics and distribution tie-ups coupled with fast growing protection premiums.
- Thus, we believe that ICICI Life will deliver healthy return ratios with RoE at 22% and ROEV at 15% in FY19E. Hence, we initiate coverage on ICICI Life and assign BUY rating with a TP of Rs450 (3.5x FY19E EV).

Strong brand and parentage

ICICI Life is a joint venture between ICICI Bank, India's second largest private sector bank in terms of assets, and Prudential Corporation Holdings (British multinational life insurance and financial services company). The ICICI brand and the bank's wide distribution network, particularly among salaried and affluent individuals, gives ICICI Life a big competitive advantage in terms of acquiring new customers.

Well placed on distribution

ICICI Life has a more balanced premium sourcing mix with agency channel accounting for ~23% while bancassurance accounts for the rest ~57%. The company offers its customers an extensive multi-channel sales network to access its products and services across India which includes the branches of bank partners, individual agents, corporate agents, employees, offices and website. The company had a network of 521 offices with 10,663 employees and 121,016 advisors across India as of FY16. ICICI Life's agency channel is the second largest in the private sector, after SBI Life. Overall, the strong distribution capability has thus enabled the company to maintain healthy momentum in new business growth despite facing the brunt of major regulatory changes in the past.

Key operational matrices on consistent uptrend

ICICI Life has shown positive traction in most of its operational parameters: 1) Value of new business grew by 61.7% YoY in FY17, 2) Persistency, a key parameter for gauging stickiness of the business, continues to rise and stood at 85.7% (13th Month) for FY17 vs. 79.0% in FY16, and is one of the best in industry, 3) High solvency ratio of 2.8x as of FY17, compared with the regulatory requirement of a minimum of 1.5x and 4) Cost and productivity ratios have also improved significantly in the past three years and are now one of the best among peers.

Outlook and Valuation

ICICI Life remains outperformer in private life insurance space despite challenging business environment. The untapped opportunity and penetration in life insurance provides ample scope for the company to grow its portfolio at a rapid pace. As a result, ICICI Life will continue to deliver strong return ratios with RoE at 22% and return on embedded value (ROEV) at 15% in FY19E. Hence, we initiate coverage (IC) on ICICI Life and assigned BUY rating with a target price (TP) of Rs450/- where we value the company at 3.5x FY19E embedded value (EV). EV is a common valuation measure in the insurance industry which measures potential future profits from existing business.

Company Data	
Market Cap (cr)	Rs. 58,424
Outstanding Shares (cr)	143.5
Free Float	19%
Dividend Yield (%)	1.2
52 week high	Rs. 508
52 week low	Rs. 330
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs. 10

Shareholding (%)	Q4 FY17	Q1 FY18	Q2 FY18
Promoters	80.7	80.7	80.7
FII's	6.0	6.3	5.8
MFs/Insti	3.3	3.4	3.5
Public	10.0	9.6	10.0
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.9%	-16.8%	20.6%
Absolute Sensex	8.4%	8.7%	27.1%
Relative Return*	-7.5%	-25.5%	6.6%

*over or under performance to benchmark index

Y.E Mar (Rs cr)	FY17A	FY18E	FY19E
Net Premium	**22,155**	**26,586**	**31,904**
Growth (%)	*16.6*	*20.0*	*20.0*
New Business (%)	10.1	11.2	12.3
Net Profit	1,682	1,748	1,843
Growth (%)	*1.9*	*3.9*	*5.4*
EPS (Rs)	11.7	12.2	12.8
Growth (%)	*1.7*	*3.9*	*5.4*
BV (Rs)	45	51	60
EV (Rs)	113	121	129
RoE	28.7	23.7	22.0
RoEV	16.5	15.7	15.0
P/E	34.7	33.4	31.7
P/EV	3.6	3.4	3.2
Solvency (%)	281	270	260

Valuations

We believe the life insurance sector in India is in a sweet spot, where strong structural potential is now overlapping with buoyant equity markets, rising share of financial savings and higher disposable income. Being a market leader with traditional focus and expertise, we expect ICICI Life to be a key beneficiary of strong growth in the industry over the medium term. Further, we believe the company can deliver strong top line growth driven by market share gains in a fast-paced industry. Also, the company's operational strategies and focus on digital sales are expected to aid business growth going ahead. Besides, ICICI Life has delivered strong return ratios with average FY15-17 RoE at 31% and return on embedded value (ROEV) at 16%. We expect return ratios to remain strong on healthy new business margins, quality underwriting, and strong cost control. Hence, we initiate coverage (IC) on ICICI Life and assign BUY rating with a target price (TP) of Rs450/- where we value the company at 3.5x FY19E embedded value (EV). The higher valuation is justified considering ICICI Life's superior operational metrics and distribution tie-ups (allowing it to gain market share and improve profitability in still nascent Indian insurance market), fast growing protection premiums, low balance sheet risk and more than adequate capital.

Peer Comparison

ICICI Life maintained market leadership position on RWRP basis since FY02 among all private sector life insurers in India. ICICI Life's premium increased at a CAGR of 13.4% over the last five years as compared to 9.5% for HDFC Life and 19.1% for SBI Life. ICICI Life has taken multiple steps to improve persistency and has one of the best persistency rate of 85.7% as of FY17 in the 13th month bucket as compared to 81.1% of SBI Life and 80.9% of HDFC Life. In terms of capitalization, ICICI Life continued to enjoy the highest solvency ratio of 281% as compared to SBI Life's 204% and HDFC Life's 192% as of FY17. Further, ICICI Life had the highest dividend pay-out ratio of 39.5% in FY17 as compared to HDFC Life (29.6%) and SBI Life (18.9%). ICICI Life also has the largest agency network after LIC comprising over 120,000 individual agents.

Peer comparison

Company	M Cap*	EV (FY17)	P/EV		
	Rs Cr	Rs Cr	FY17	FY18E	FY19E
ICICI Life	58,424	16,184	3.6	3.4	3.2
HDFC Life	89,419	12,390	7.2	6.0	5.1
SBI Life	70,215	16,538	4.3	3.6	2.9

Company	RoE (%)			RoEV (%)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E
ICICI Life	28.7	23.7	22.0	16.5	14.0	14.8
HDFC Life	25.5	22.7	22.2	21.1	19.9	19.0
SBI Life	18.6	19.3	19.7	23.0	20.4	20.4

*Source: Geojit Research; *As on January 11, 2018*

Investment Rationale

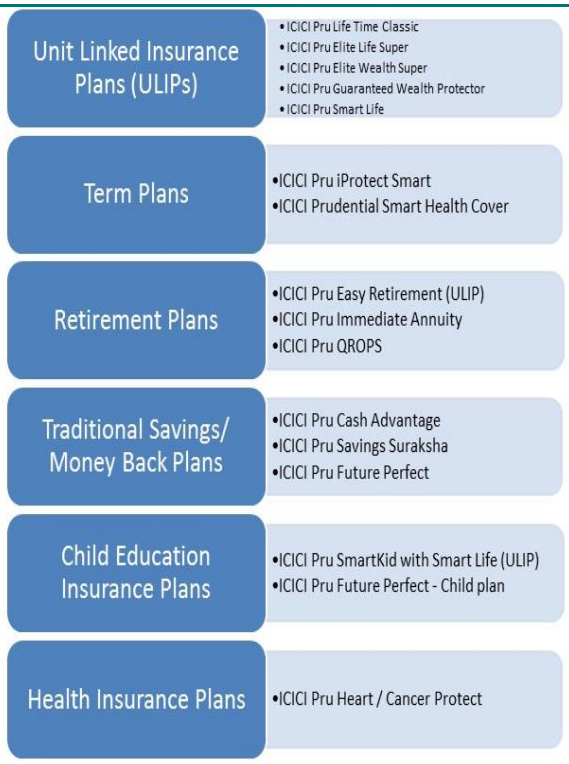
Sustained market leadership position

ICICI Prudential Life Insurance (ICICI Life) is the market leader in private life insurance space since FY02 aided by its strong brand, distribution capabilities and product portfolio. The company has an overall market share of 12.0% and private market share of 22.3% in terms of retail weighted received premium (RWRP) in FY17. It has the highest assets under management (AUM) amongst the private insurers at Rs1,306bn (Rs601bn of equity AUMs) at the end of H1FY18. ICICI Life has also maintained its dominant position in the industry on the basis of new business premium earned by delivering steady business growth partly backed by its focus on ULIP products. It holds a market share of 11.3% in new business premium in terms of annual premium equivalent (APE) terms as of H1FY18 (23.5% amongst private players). We expect the company to strengthen its market leadership position further and deliver new business premium at a CAGR of ~20% over FY17-19E thereby gaining further market share.

Diversified product mix

ICICI Life offers a vast product basket to customers which includes unit linked as well as non-linked insurance products. In terms of customer segments, it caters to individual as well as group customers.

Product Portfolio



Source: Company, Geojit Research

ICICI Life is focused more on ULIPs as compared to all other large peers. ULIPs comprised 84% of its FY17 APE as compared to 25-50% for its peers. This is the growth engine for ICICI Life.

Trend in product mix on APE basis

Product Mix	FY15	FY16	FY17
Savings	**98.4**	**97.3**	**96.1**
- ULIP	*83.1*	*80.8*	*84.1*
- Participating	*13.2*	*14.1*	*9.6*
- Non-participating	*0.6*	*0.4*	*1.1*
- Group	*1.5*	*2.0*	*1.3*
Protection	**1.6**	**2.7**	**3.9**

Source: Company, Geojit Research

The company has positioned itself more towards the individual segment as compared to group. Its strong brand pull and vast reach gives it a clear competitive edge over peers. The group business market consists of credit life (protection) and pension funds.

Diversified multi-channel distribution network gives a competitive edge

It is hardly a secret that distribution is the king in the life insurance business as it is a category driven by push factors. In this aspect, the company has a leg up on most of its competition. ICICI Life offers its customers access to its products and services through an extensive multi-channel sales network across India including branches of its bank partners, individual agents, corporate agents, employees, offices and website.

Trend in premium sourcing mix on APE basis

	% of total retail APE		
Distribution Channels	**FY15**	**FY16**	**FY17**
Bancassurance	*58.4*	*57.4*	*57.0*
Agency	*24.4*	*23.8*	*23.3*
Direct	*8.8*	*9.9*	*12.0*
Corp. Agency & Brokers	*7.0*	*7.0*	*6.1*
Group	*1.4*	*1.9*	*1.6*

Source: Company, Geojit Research

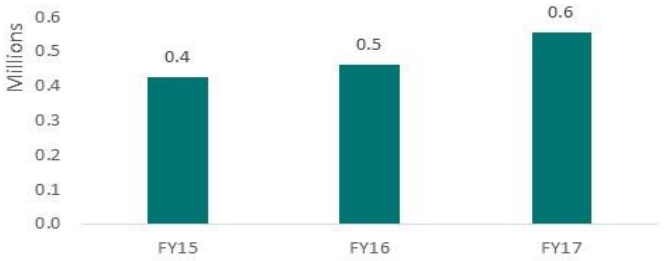
ICICI Life has a strong bancassurance channel because of its parent, ICICI Bank. Besides, it has another two banca partners, Standard Chartered Bank (SCB) in India and Capital Small Finance Bank (CSFB). It enabled the company to maintain healthy momentum in new business growth, mainly in ULIPs despite being faced with major regulatory actions in the past. In FY17, bancassurance contributed 56.9% of its retail APE. A

large customer base and an expanding footprint of these banks would throw up significant growth opportunities for ICICI Life over the long term.

Technology aids in profitable growth

ICICI is always known for investing in innovative technology much ahead of time. In line with this philosophy, ICICI Life is at the forefront of leveraging technology in the Indian life insurance sector. The company focuses on digitisation and transformation of sales, customer on-boarding and internal processes. The company has created a device-agnostic technology platform that provides its customers, employees and distributors with a seamless experience – from sales to claims settlement. As a result, 92.3% of the company's new business applications were initiated on its digital platform in FY16. This has helped in immensely improving employee productivity which is measured in terms of RWRP per employee per annum. It has increased to Rs5.5mn in FY17 from Rs2.8mn in FY14 (25.2% CAGR).

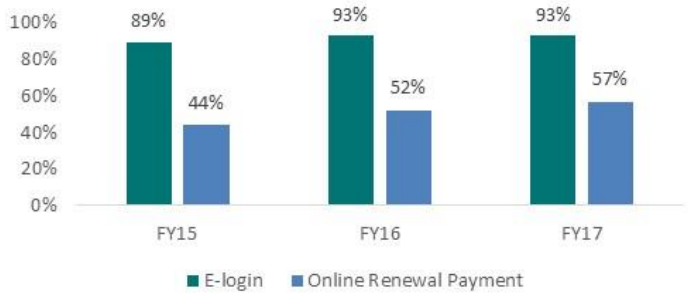
Trend in employee productivity



Source: Company, Geojit Research

The company expects online sales to play an increasingly larger role in the sale of simpler products like pure term insurance. ICICI Life intends to focus on five main initiatives to drive its digital agenda – a) increasing digital marketing and sales; b) utilising big data and machine learning techniques; c) building a modular information technology platform; d) digitising sales and service processes; and e) partnering with organisations across the eco-system.

Trend in e-login and online renewal payment

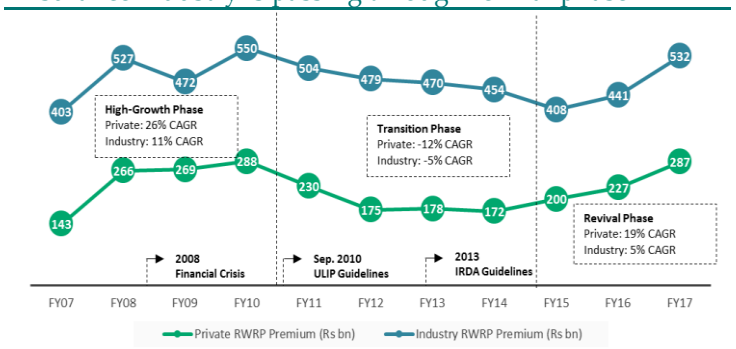


Source: Company, Geojit Research

Outlook on Indian life insurance sector remains bright

The Indian life insurance sector has come a long way since 2000 when the sector was liberalized and opened for private and foreign participation. Post this event, we can split the industry growth cycle in two distinct phases. The first was the growth phase (till FY08) led by aggressive selling of ULIP (Unit Linked Insurance Plan) products, followed by decline phase (till FY15) due to a collapse in equity markets from FY09 and regulatory changes in insurance products i.e. ULIP in FY11 and traditional products in FY13. Although these changes impacted the insurers' profitability on account of lower premiums and higher expenses, it benefitted the customers which led to launching of better and beneficial products.

Insurance industry is passing through revival phase



Source: Company, Geojit Research

However, the insurance industry in India has staged a smart recovery over the last three years. The industry has now aligned itself with the revised regulations, with improved product portfolio, strong cost controls and multiple productivity improvement initiatives. Reforms to boost tax compliance, promote digital transactions and curb black money have further catalysed the industry's growth. Having successfully navigated through the turbulence, we believe the sector has emerged stronger and insurers are now underwriting better quality business, which will boost profitability in the medium term. During H1FY18, private players have reported strong 22% growth in new business APE (14% growth in un-weighted premiums) and we expect the industry to grow at 17% CAGR over the next three years. This will be led by rising share of financial savings, benign rate environment, favourable demographics, and increasing customer awareness. Healthy GDP growth and stable regulatory regime will act as further enablers for the industry's growth.

An under-penetrated life insurance market provides significant growth opportunity

Insurance penetration (premiums as % of GDP) is used as the barometer to gauge the development of insurance in a particular market and as the below chart suggests life insurance penetration in India is still much below the world average. This points to strong growth potential in the Indian insurance industry.

Life insurance penetration (premiums as % of GDP) of select countries in 2016

Source: Company, Geojit Research

The current life insurance penetration of 2.8% reflects a significant improvement from 1.6% in FY01 but lower than the peak penetration of 4.1% achieve in FY11, driven by aggressive selling of unit linked products. The decline in penetration was partly due to regulatory changes made by IRDAI which rendered products, especially ULIP which were being aggressively sold, unfeasible for the insurers to sell. However, over the years, insurers have redesigned their products and have become compliant as per the IRDAI Regulations. We expect penetration level to increase in the next few years with large private insurers growing their businesses as they have tailored the products to the customer needs.

Historical development of life insurance penetration in India

Source: Company, Geojit Research

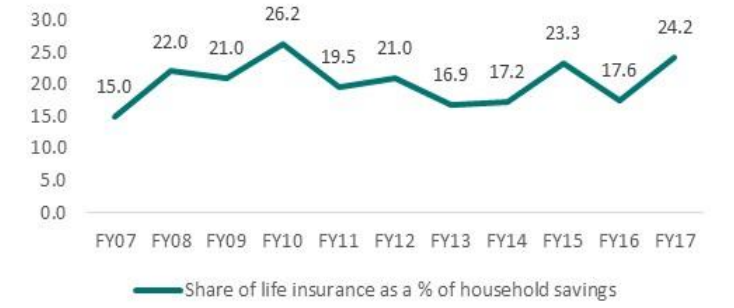
Demographic strength

Currently, India has one of the youngest populations in the world with a median age of 28 years. It is estimated that 90% of India's population will remain below 60 years of age by 2020. Increase in proportion of individuals in the age bracket of 25-49, which is the target population for the industry, is expected to boost industry growth. Rapid urbanization coupled with high share of working population with rising affluence is expected to provide impetus to growth in the Indian life insurance sector.

Life Insurance – capturing higher share in financial savings

The share of financial savings has begun to increase on the back of lower inflation, government impetus towards increasing formalization of the economy and subdued returns from physical assets. In FY17, led by demonetisation, incremental flow of financial savings in life insurance segments surged by 65.6%. Therefore, share of life insurance in total household financial savings (gross) increased from 17.6% in FY16 to 24.2% in FY17. Within financial savings, we expect the share of insurance to increase further, as a benign rate environment keep savers away from fixed deposits and increases the attractiveness of life insurance products for savings/protection. Moreover, with expectations of recovery in GDP growth and continued buoyancy in capital markets, we expect that ULIPs will continue to do well and dominate the bouquet of insurance products.

Increasing share of life insurance in household financial savings



Source: Company, Geojit Research

Financial savings to see an up-tick ahead

Source: Company, Geojit Research

Financial Analysis

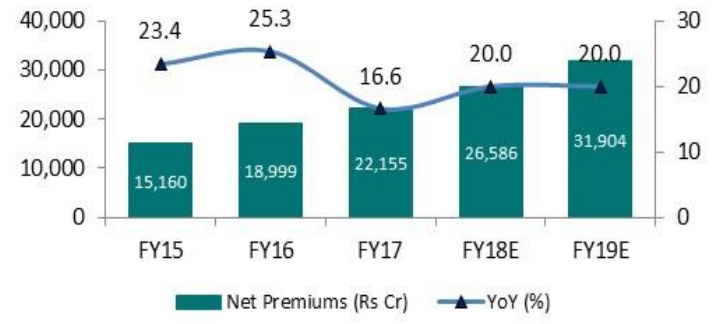
Premiums to grow at a healthy CAGR of 20% over FY17-19E

ICICI Life has delivered steady business growth of 22% CAGR over FY13-17 backed by high focus on selling unit-linked insurance products (ULIPs comprised 84% of its premiums as of FY17) to relatively high-income segments. This will continue to help the company to drive growth amid improving equity and debt market conditions. Apart from improving macro conditions and a stabilizing regulatory environment, the growth will be driven by ICICI Life's strong distribution franchise (including its relationship with ICICI Bank) and its focus on ULIPs in the relatively less penetrated higher income segment. Moreover, ULIPs have a strong customer proposition and compete well with mutual funds as they offer better returns over the medium term. Hence, we expect the company to deliver healthy CAGR of 20% over FY17-19E.

Improving trend in market share of ICICI Life

Source: Company, Geojit Research

Net premiums to grow at 20% CAGR over FY17-19E

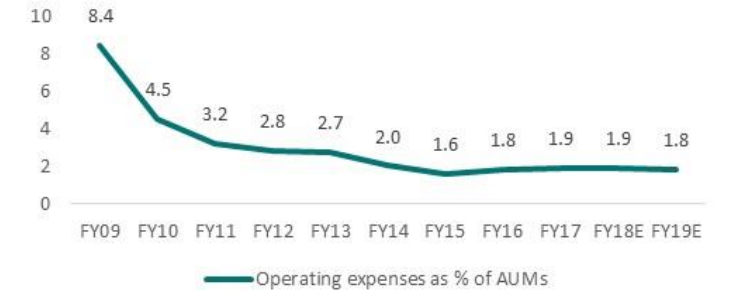


Source: Company, Geojit Research

Market leading cost ratio

ICICI Life is clearly the leader in cost management with the lowest total expense ratio amongst all the major private insurers after SBI Life. ICICI Life with its efficient operations has reduced its operating expenses as % of AUM from 3.2% in FY11 to 1.9% in FY17. Improvement in cost ratios was driven by strong premium growth coupled with enhanced use of technology. Further, given the high share of low-cost Bancassurance in the distribution channels, we expect the company to retain its cost-leadership amongst the private life insurers.

Trend in operating expenses



Source: Company, Geojit Research

Improving persistency ratios across buckets

Persistency in life insurance policies measures the number of policies (or premium amount) retained by an insurer across different time periods. ICICI Life has considerably improved its persistency ratios across buckets since FY15. The 13th month persistency ratio has gone up from 79.0% in FY15 to 85.7% in FY17 while the 61th month persistency has gone up from 14.5% to 56.2% during the same period which has also led to better profitability and higher embedded value (EV) growth. Higher persistency ratio would imply longer duration of premium payment by policyholders and hence more value accruing to the shareholders from higher customer retention rate. Notably, persistency in policies sold through the bancassurance channel has been better than through other channels. This, together with ICICI Life's continued focus on improving the sales process across channels, introductory calls, and the digitization of premium payments will continue to help the insurer to improve persistency benchmarks further.

Trend in persistency ratios

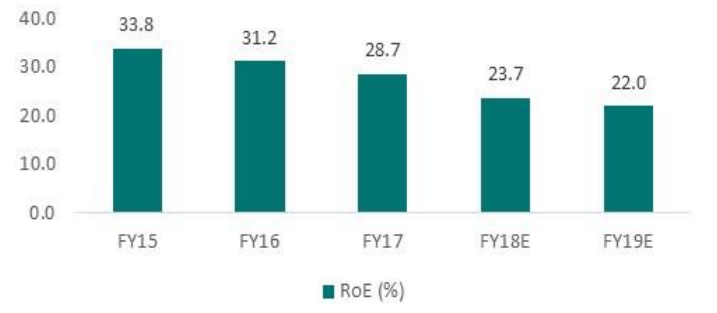
	% persistency		
Month	**FY15**	**FY16**	**FY17**
13th Month	*79.0*	*82.4*	*85.7*
25th Month	*65.9*	*71.2*	*73.9*
37th Month	*64.3*	*61.6*	*66.8*
49th Month	*54.4*	*62.2*	*59.3*
61th Month	*14.5*	*46.0*	*56.2*

Source: Company, Geojit Research

Delivery of superior returns to continue

Robust risk management, resilient balance sheet and focus on cost efficiency & persistency has enable ICICI Life to establish a track record of delivering superior returns to shareholders. The company has wiped out the accumulated losses and has been profitable since 2015 and is currently delivering healthy return ratios with RoE/RoIC of 29%/35%. Going forward, we expect return ratios to remain healthy with RoE at 22% and return on embedded value (ROEV) at 15% in FY19E backed by consistent decline in cost over-runs.

Trend in RoE



Source: Company, Geojit Research

Multiple levers for margin expansion

ICICI Life has increased its new business margin to 10.1% (post-overrun) in FY17 from 5.7% in FY15. Margins are lower than the peers as high surrender rate from the erstwhile ULIP policies have adversely impacted persistency and profitability of the company and also widened the gap between actual and pre-overrun new business margins. However, given the significant improvement in persistency rate at the shorter end of the curve we expect ICICI Life's persistency to improve at the longer end over the next few years. This would help narrow cost-overruns and improve margins. Besides, we reckon improvement in margins driven by rising persistency, change in product mix and cost efficiencies.

Trend in new business margin (%)

Source: Company, Geojit Research

We thus estimate ICICI Life's new business margins to improve to 11.2%/12.3% over FY18/19E. This will be driven by increasing shift to higher margin protection business to 6.0% of APE in FY19E from 3.9% in FY17. Currently the margins on participating products are typically in the range of 12-14%, ULIPs at 10%-14% while non-participating products have highest margins at >30% (>50% on protection products).

Well capitalized for growth opportunities

ICICI Life is well-capitalised and has a solvency ratio of 281% as on FY17 as against minimum requirement of 150%. Notably, the company has not required any equity capital infusion since FY09. In our view, it is unlikely to require additional capital in the medium term even if premium growth were to accelerate. This is because of its focus on ULIP, which is relatively a capital-light product. Besides, ICICI Life has been making high dividend pay-outs and we expect this trend to continue with gradual improvement in return ratios over next few years backed by controlled cost-ratios and steady uptick in new business margins. The company has paid cumulative dividends of Rs 38.9 per share (exclusive of dividend distribution tax) since FY12.

Trend in solvency ratio

Source: Company, Geojit Research

Trend in dividend payout ratio

Source: Company, Geojit Research

ICICI Pru Life Insurance: Business overview

ICICI Pru Life Insurance (ICICI Life) is a joint venture between ICICI Bank Ltd and Prudential Corporation Holdings Ltd, a part of Prudential Group. ICICI Life commenced its operations in FY01 and was among India's first private sector life insurance companies. The company offers its customers vast and diversified products in life insurance, health insurance and pension products & services to cater to the specific needs of customers in different life stages, enabling them to meet their long-term savings and protection needs. It offers its customers access to its products and services through an extensive multi-channel sales network across India, including through the branches of bank partners, individual agents, corporate agents, its employees, offices and website.

ICICI Life remains the market leader among private life insurers in terms of retail weighted received premium (RWRP) with an overall market share of 12.0% and private market share of 22.3% in FY17. Notably, the company has consistently been the market leader among private sector life insurance companies in India on a RWRP basis since FY02. ICICI Life is the first insurance company in India to be listed on the NSE and BSE.

ICICI Life has a wholly owned subsidiary, ICICI Prudential Pension Funds Management Company Limited, which is registered as a fund manager with the Pensions Fund Regulatory and Development Authority of India (PFRDA).

Key risks:

- **Product concentration risk:** Over 85% of RWRP was in ULIPs as of FY17. This makes the company prone to cyclicality of the stock markets, as retail investors generally purchase ULIPs during stock market booms and vice-versa. This could impact new business premiums as well as margins. Additionally, the company has a low share of non-participating business, which is a high-margin segment.

- **Regulatory risk:** Regulatory changes can be a key risk to the insurance industry and regulator has been tough in last few years to safeguard policyholder interest especially on mis-selling, commission pay-outs and expense capping.

- **Termination of bancassurance agreement:** Banks which have entered into bancassurance agreements with the company are ICICI Bank, Standard Chartered Bank and Capital Small Finance Bank Limited. These are the main distribution channels for company's insurance products. Currently, both ICICI Bank and Standard Chartered Bank exclusively distribute company's insurance products in India. Thus, any termination of, disruption to, or any other adverse change in relationship with the banks could significantly reduce product sales and growth opportunities.

- **Interest rate risk:** Given the company's substantial portion of investments is held in debt securities, the interest rate fluctuations can affect investment income.

Consolidated Financials

Shareholders' Profit & Loss Account

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Transfer from Technical A/c	1,139	1,208	1,132	1,261	1,287
Investment Inc.	533	600	665	636	715
Total Income	**1,672**	**1,807**	**1,825**	**1,897**	**2,002**
% change	*0.6*	*8.1*	*1.0*	*4.0*	*5.5*
Other Expenses	45	36	38	42	46
Contribution to Technical A/c	41	0	2	0	0
Total Expenses	**87**	**36**	**40**	**42**	**46**
PBT	**1,585**	**1,772**	**1,785**	**1,855**	**1,956**
% change	*3.7*	*11.8*	*0.8*	*3.9*	*5.4*
Tax	(49)	121	103	107	113
Tax Rate (%)	*(3.1)*	*6.8*	*5.8*	*5.8*	*5.8*
Reported PAT	**1,634**	**1,650**	**1,682**	**1,748**	**1,843**
Adj*	-	-	-	-	-
Adj PAT	**1,634**	**1,650**	**1,682**	**1,748**	**1,843**
% change	*4.3*	*1.0*	*1.9*	*3.9*	*5.4*
No. of shares (cr)	143	143	144	144	144
Adj EPS (Rs)	**11.4**	**11.5**	**11.7**	**12.2**	**12.8**
% change	*4.1*	*0.9*	*1.7*	*3.9*	*5.4*
DPS (Rs)	7.0	10.1	4.7	7.3	5.1

Policyholders' Profit & Loss Account

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Net Premium	**15,160**	**18,999**	**22,155**	**26,586**	**31,904**
% change	*23.4*	*25.3*	*16.6*	*20.0*	*20.0*
Income from Inv.	18,724	1,208	14,977	14,296	15,902
Total Income	**33,944**	**20,228**	**37,193**	**40,929**	**47,853**
Commission	553	620	759	916	1,099
Operating Expenses	1,652	1,888	2,357	2,789	3,347
Other Expenses	325	364	434	533	640
Operating Profit	**31,426**	**17,355**	**33,648**	**36,694**	**42,770**
% change	*65.0*	*(44.8)*	*93.9*	*9.1*	*16.6*
Benefits Paid (Net)	12,257	12,427	14,998	17,694	21,233
Change in Reserves	17,956	3,515	17,498	17,650	20,150
Tax	50	70	79	89	100
Tax Rate (%)	*4.2*	*5.0*	*6.8*	*6.6*	*7.2*
Surplus/Deficit	**1,162**	**1,342**	**1,074**	**1,261**	**1,287**
% change	*(7.8)*	*15.5*	*(20.0)*	*17.4*	*2.1*

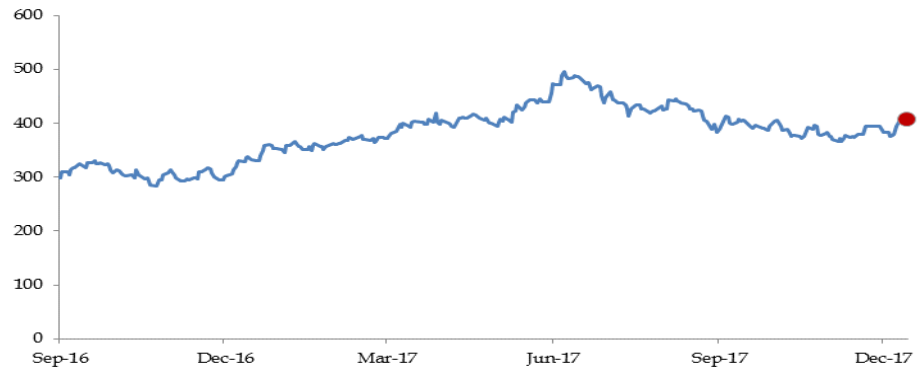
Balance Sheet

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Source of Funds					
Share Capital	1,432	1,432	1,435	1,435	1,435
Reserves & Surplus	3,433	3,642	4,700	5,662	6,847
Fair Value Change	403	251	273	273	273
Shareholders' Fund	**5,268**	**5,325**	**6,408**	**7,371**	**8,555**
Policy Liabilities	92,034	95,550	113,047	123,130	139,475
Others	1,232	1,029	1,847	1,847	1,847
Policyholders' Fund	**93,266**	**96,578**	**114,894**	**124,977**	**141,322**
Funds for Future Appropriations	527	662	604	651	1,275
Total	**99,061**	**102,565**	**121,906**	**132,999**	**151,152**
Application of Funds					
Investments	**93,635**	**96,811**	**114,946**	**125,315**	**141,950**
Shareholders'	5,857	6,216	6,640	7,497	8,385
Policyholders'	18,858	21,516	27,067	31,396	35,528
Assets held to cover linked liabilities	74,778	75,296	87,878	93,919	106,422
Loans	20	44	81	89	98
Fixed Assets	215	220	214	214	214
Net Current Assets	(666)	(726)	26	(116)	506
Total	**99,061**	**102,565**	**121,906**	**132,999**	**151,152**

Ratios

Y.E March	FY15A	FY16A	FY17A	FY18E	FY19E
Per Share (Rs)					
EPS	11.4	11.5	11.7	12.2	12.8
DPS	7.0	10.1	4.7	7.3	5.1
EV	96.5	97.3	112.8	120.7	128.6
Earnings (%)					
RoE	33.8	31.2	28.7	23.7	22.0
RoEV	15.4	15.4	16.5	15.7	15.0
Valuation (x)					
P/E	35.7	35.3	34.7	33.4	31.7
P/EV	4.2	4.2	3.6	3.4	3.2
Div. Yield	1.7	2.5	1.2	1.8	1.3
Expenses (% of premium)					
Commission	3.6	3.2	3.4	3.4	3.4
Operating Expenses	10.8	9.9	10.5	10.5	10.5
Total Expenses	14.4	13.1	13.9	13.9	13.9
Margin (%)					
New Business	5.7	8.0	10.1	11.2	12.3
Solvency (%)					
Solvency	337	320	281	270	260

Recommendation Summary (last 3 years)



Dates	Rating	Target
12-Jan-2018	BUY	450

Source: Bloomberg, Geojit Research

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	**Upside is 10% or more.**	**Buy**	-	**Upside is 15% or more.**
Hold	-	**Upside or downside is less than 10%.**	**Accumulate***	-	**Upside between 10% - 15%.**
Reduce	-	**Downside is 10% or more.**	**Hold**	-	**Absolute returns between 0% - 10%.**
			Reduce/Sell	-	**Absolute returns less than 0%.**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.
* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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KAUSHAL KANUBHAI PATEL Digitally signed by KAUSHAL KANUBHAI PATEL Date: 2018.01.11 17:59:09 +05'30'