

Sector Thematic

Life Insurance

ULIP vs. MF

Life insurers procure business by incurring high acquisition costs, which are expensed upfront. This depresses reported profitability, especially when the new business premium is growing. Given this accounting methodology, reported profitability of life insurers cannot be directly compared with that of asset managers. We have carried out a few adjustments to determine the true profitability of life insurers. Our analysis reveals that the profitability of life insurers (pre-tax 45-90bps operating profit to AAUM) is higher than that of AMCs (23-40bps). Additionally, the profitability of life insurers has improved over FY17-20 as costs of acquisition of new AUM have reduced. Further, we estimate that the linked savings business has delivered RoICs between 7.7-15.7% for FY20. This is significantly lower than the computed RoICs of asset managers HDFCAMC/NAM at 443.8/99.4%. We estimate linked savings business of life insurers would be valued between 9-12.7% of AUMs, contributing between 4.4-19.6% to TPs.



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Life Insurance

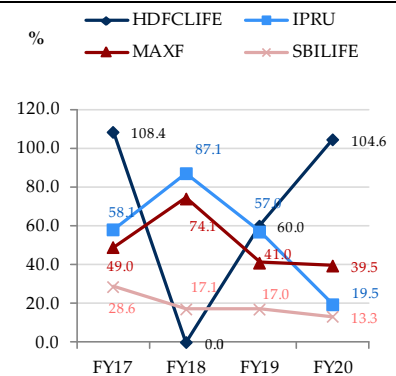
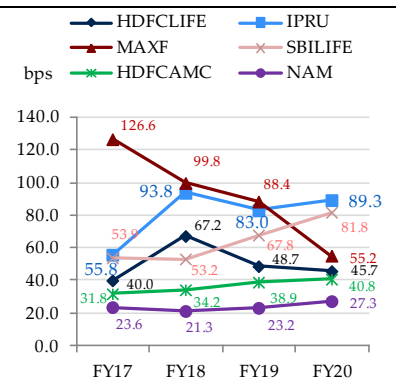
ULIP vs. MF

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- Profitability of linked savings business has improved.** Linked savings business profitability has increased over the past 3-4 years. We estimate that operating profit as bps of AAUM for IPRU and SBILIFE has increased from 57.1/53.9bps to 86.2/81.8bps over FY17-FY20. HDFCLIFE's profitability has improved by just 5bps over FY17-20 to 48.3bps, whereas MAXL's profitability is down by 62bps to 56.5bps.
- Lower expenses are driving gains.** Commission + opex expenses as a percentage of net new money raised (premiums less benefit paid) improved for IPRU, MAXF and SBILIFE from 58.1/49.0/28.6% to 19.5/39.5/13.3% over FY17-20. SBI LIFE's expense ratios have been consistently low.
- Linked savings business return ratios lower than those delivered by AMCs.** At 180% solvency, we estimate the RoAEs for the linked savings business is between 7.7-15.7%. This is because upfront acquisition costs are significantly high for life insurers, dragging down return ratios. RoAE is high for SBILIFE and IPRU at 15.7/14.9% in FY20. HDFCLIFE/MAXL delivered lower RoAE at 7.7/9.7%. Computed return ratios for asset managers is significantly higher: HDFCAMC/NAM at 443.8/99.4 for FY20.
- Comparison with AMCs.** Over FY20, HDFCAMC/NAM generated operating profits (bps of AAUM) at 40.8/27.3bps. As seen above (first para), the life insurers generated much higher operating profits. This is because life insurers on an average have a (1) higher proportion of higher-yielding assets, (2) higher yield on assets, and (3) longer-duration assets that allow for high upfront costs.
- VNB margins.** We estimate the VNB margins for ULIPs to be low, i.e. between 5-12%, whereas the linked savings business component of ULIP business could generate VNB margins of ~10.0%. This is consistent with our calculation of pre-tax operating profit yield of around 70bps (closer to higher-end) for the linked savings business.
- Valuations.** Using a two-stage Gordon dividend discount model, we believe the fair value for life insurers' linked savings business ranges between 9.0-12.7% of linked savings AUM. This implies that protection and non-linked business contribute 67-89% to total valuations. We believe linked savings business of IPRU and SBILIFE would command the highest valuation at 12.7/12.4% of AUM.

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)
Asset Managers				
HDFCAMC	515	2,417	NR	2,704*
NAM	172	275	REDUCE	280
Life Insurers				
HDFCLIFE	1,156	575	NR	620*
IPRU	604	421	REDUCE	445
MAXF	204	594	ADD	645
SBILIFE	835	835	BUY	975

*Fair value



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Companies

- **IPRU:** We like IPRU's re-engineered business model, which is focused on a more diversified product mix along with an increased protection share. We, however, remain wary of the current COVID-19 situation and believe that the outlook for FY21E remains hazy. We believe lower-than-expected growth in FY21E will delay the goal of doubling VNB by FY23E and expect an FY21E-23E VNB CAGR of 18.5%. **We maintain a REDUCE on IPRU with a target price of Rs 445 (Mar-21E EV + 23.6x Mar-22E VNB). At CMP of Rs 421, the stock is trading at FY21E/FY22E P/EV of 2.3/2.1x and P/VNB of 27.8/21.3x. Key risks lower-than-expected growth, protection share or higher mortality as a result of the pandemic.**
- **MFSL:** A strategic JV partner such as AXSB provides long-term distribution capability, ending uncertainty and market anxiety over the future of the current AXSB partnership arrangement. We expect MAXL to lower its dependence on proprietary channels, which will be VNB-accrative as investments in channels reduce. **We rate MAXL an ADD with a target price of Rs 645 (MAXL: Mar-21E EV + 21.3x FY22E VNB). At CMP of Rs 594, the stock is trading at FY21E/FY22E P/EV of 2.6/2.2x and P/VNB of 22.7/18.6x. Key risks remain higher cost overruns, supply overhang due to promoter pledges, non-completion of deal and delay in independent listing of MAXL.**
- **SBI LIFE:** We appreciate the strong distribution footprint of its parent SBI (24k+ branches), improving protection share (1QFY21: 12.6%, +137bps YoY), and lowest operating cost ratios (1QFY21: 10.1%). We expect SBI LIFE to deliver healthy FY21-23E VNB CAGR of 17.1% and RoEVs of ~13.4-15.4% over FY21-23E. **We retain our BUY rating on SBI LIFE with an unchanged target price of Rs 975 (Mar-21E EV + 28.9x Mar-22E VNB). At CMP of Rs 835, the stock is trading at FY21/22E P/EV of 2.7/2.3x and P/VNB of 28.5/22.7x. Key risks include lower growth, renewals, and protection share.**

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Financial statements of life insurers

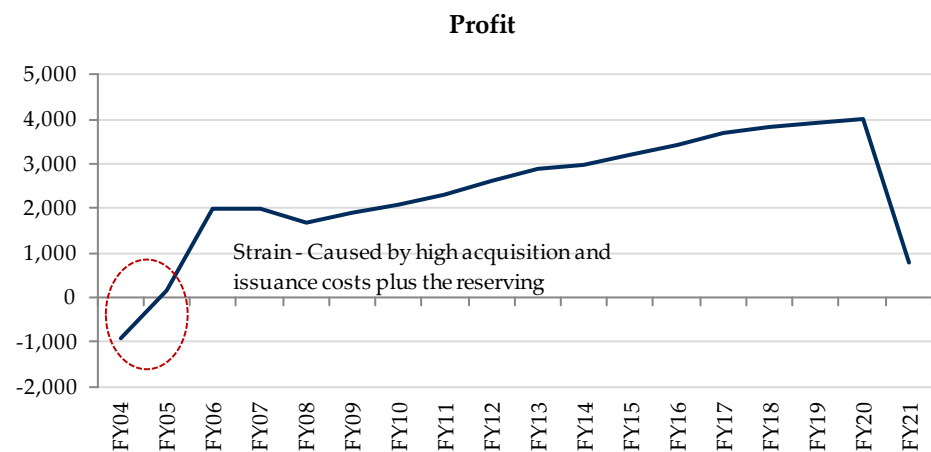
- Given that a life insurance company expenses acquisition costs upfront, the reported profits get depressed at the beginning of the policy term and show up later during the policy lifecycle.
 - Thus, accounting statements of life insurers in India do not give a correct picture of the company's true profitability.
 - Furthermore, during periods of high growth, the acquisition costs will be higher, leading to a strain on the profits (acquisition expenses and reserves), denting profitability even more.
- The following table shows how the profits of a typical insurance pool written in year one show up on the income statement.
- **Additionally, we also have a table (see next page) showing how, despite IPRU writing incrementally more new profitable business, it kept reporting accounting losses, which at times were higher than those of previous years.**

Illustration: accounting profits on a pool written in year one

Time period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
New business premium	100						
Renewal business premium	0	97	90	84	69	60	55
Investment income	3	13	24	33	39	42	46
Total Income	103	110	114	117	108	102	101
Reserves	-82	-98	-97	-94	-81	-72	-68
Other Expenses	-47	-6	-5	-4	-4	-3	-3
Claims/benefits	-1	-1	-2	-7	-9	-9	-9
Actual Surplus/(Deficit)	-27	5	10	12	14	18	21

Source: ICICI Prudential Life insurance presentation

Accounting profits on a graph



Source: ICICI Prudential Life Insurance presentation

Accounting profits as ICICI Prudential wrote incrementally more new business

Rs bn	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
New business premium(RWRP)	0.6	2.3	6.3	13.6	21.3	39.7	66.8	51.5	51.0
Total premium	1.2	4.2	9.9	23.6	42.6	79.1	135.6	153.6	165.3
Growth of new business (%)		263.0	182.0	114.0	57.0	87.0	68.0	-23.0	-1.0
Accounting profit/(loss)	-1.1	-1.5	-2.2	-2.1	-1.9	-6.5	-14.0	-7.8	2.6

Source: ICICI Prudential Life Insurance financials

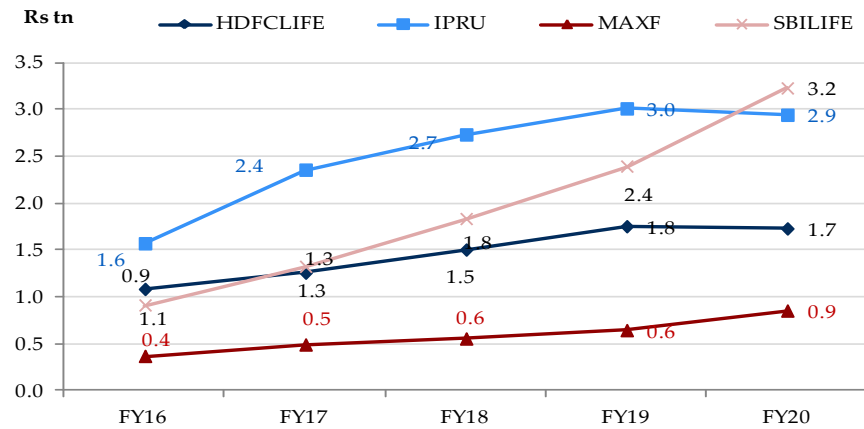
ULIP financial statements not directly comparable to those of AMCs

- Life insurers' route fund flows into and out of ULIP schemes through their own income statements. Asset managers, on the other hand, account only for the income generated on the funds in their income statements.
- Additionally, directly comparing financials of asset managers with life insurers is also not possible because of mortality premium, which is charged and profitable for life insurers while not for asset managers.
- Beginning 22 Oct 2018, AMCs also do not pay distributor commission on mutual fund assets from their books. Payment of upfront commission from AMC books is allowed only on small-ticket SIPs. This also makes the comparison of financial statements difficult.

Adjusting the Financials of the Linked Business

- **Mortality premium:** We assume mortality premium of ~Rs 3/1000 of sum assured. The same has been reduced from the gross premium received after adjustment for premium ceded.
- **Commission on mortality premium:** We have assumed ~15% of mortality premium to be the commission paid for mortality. We have assumed 40% of calculated commission on mortality premium to be on the first-year premiums, and assume the balance on the renewal business. This amount is reduced from commission payments of the ULIP business to estimate the commission payment just for the savings business.
- **Commission on the first year and single premium:** This amount is disclosed separately by the companies and is diverted towards acquiring the business. We have amortised the first year commissions and single premium commissions (including rewards) over seven years (average life over which the AUM stays with the insurer).
- **Renewal commissions:** These are expensed over the year when accrued.
- **Operating expenses:** We have assumed ~5% of operating expenses to be towards mortality and are reducing the same from the calculation of profits for the savings business. Additionally, we assume 75% of operating expenses to be towards acquisition. Operating expenses towards acquisition are amortised over seven years, in line with the first-year commission.
- **Benefits paid:** We assume that about 20% of mortality premium is paid out as benefits. We reduce this amount to arrive at the net benefit paid.
- **Expenses of management not related to insurance business:** Insurance accounting also allows for expenses of management which are reduced from shareholders accounts. Using broad business mix trends, we allocate these towards the linked business and reduce the same to calculate true profitability
- **Other income:** We add ~8% of average capital required (on 180% solvency) as other income.
- **Tax rate:** We use an effective tax rate of 13%.

Linked business Sum assured



Source: IRDAI, HSIE Research

P/L summary for life insurance companies' linked business

Rs (in bn)	HDFCLIFE				IPRU				MAXF				SBILIFE			
	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
P/L summary of Linked business																
Linked premium	90.7	102.5	113.1	111.7	165.6	203.1	226.4	232.7	26.8	35.5	45.8	50.4	100.3	141.0	189.2	235.1
Less: adj. for mortality premium	-3.3	-4.0	-4.7	-5.0	-5.1	-6.8	-7.8	-8.1	-1.2	-1.4	-1.7	-2.1	-3.3	-4.6	-6.3	-8.2
Premium (ex. mortality premium)	87.4	98.5	108.3	106.7	160.5	196.2	218.6	224.6	25.6	34.1	44.2	48.2	97.0	136.4	182.9	226.9
Investment income	86.3	53.9	53.0	-81.6	130.7	88.3	73.2	-159.8	23.5	14.8	20.7	-12.5	55.3	39.7	59.9	-31.8
Income from unclaimed funds	0.6	0.4	0.5	0.4	0.4	0.5	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.2
Other income	0.2	0.4	0.5	0.4	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0
Total income (A)	174.5	153.2	162.3	26.0	291.6	285.0	292.5	65.2	49.1	48.9	64.9	35.7	152.8	176.5	243.2	195.3
Commission on renewal premium	0.3	0.4	0.4	0.6	1.4	1.7	2.1	2.2	0.3	0.2	0.2	0.3	0.8	1.6	2.4	3.3
Less: adj. for comm. on mortality prem.	-0.3	-0.4	-0.4	-0.5	-0.5	-0.7	-0.8	-0.8	-0.1	-0.1	-0.2	-0.2	-0.3	-0.4	-0.6	-0.8
Adj. commission expenses	0.0	0.0	0.0	0.1	0.8	1.1	1.3	1.4	0.2	0.1	0.1	0.1	0.5	1.2	1.8	2.5
Amortized (acqn + comm) costs	7.2	7.4	8.5	8.7	11.8	11.9	12.9	13.4	2.0	1.8	2.2	2.6	5.9	6.3	7.3	8.6
Fixed operating costs	2.3	3.0	4.0	2.6	3.8	3.0	3.3	2.5	0.6	0.8	1.0	1.2	2.3	2.3	2.9	3.1
Other costs (GST and provisions)	1.9	2.5	3.0	3.9	4.2	5.7	6.4	6.5	0.8	1.1	1.5	2.4	2.2	3.4	4.4	6.0
Total costs (B)	11.5	12.9	15.5	15.3	20.7	21.6	23.8	23.8	3.6	3.8	4.7	6.3	10.9	13.1	16.5	20.2
Benefits paid	80.2	103.8	82.9	100.3	140.3	159.8	127.5	173.1	20.7	29.4	32.6	35.3	54.1	56.0	79.9	75.5
Less: adj. for mortality benefits paid	-0.7	-0.8	-1.0	-1.0	-1.2	-1.5	-1.7	-1.8	-0.3	-0.3	-0.4	-0.4	-0.7	-0.9	-1.3	-1.7
Adj. benefits paid	79.5	102.9	82.0	99.3	139.1	158.3	125.8	171.3	20.4	29.1	32.3	34.9	53.4	55.0	78.6	73.9
Change in valuation of liabilities	81.2	33.6	61.8	-91.4	126.8	96.0	133.8	-139.6	22.7	14.3	26.1	-6.7	86.0	105.5	143.6	94.8
Allocated expenses of management	0.2	0.0	0.1	0.1	0.3	0.4	0.3	0.3	0.5	0.0	0.1	0.1	0.2	0.3	0.2	0.4
Total payments and transfers (C)	160.9	136.6	143.9	7.9	266.3	254.6	259.9	32.0	43.6	43.4	58.5	28.3	139.6	160.8	222.4	169.1
Operating profit (A-B-C)	2.0	3.8	3.0	2.7	4.6	8.8	8.8	9.4	1.9	1.7	1.7	1.1	2.2	2.7	4.2	6.1
Other income (on solvency capital)	0.5	0.6	0.6	0.6	0.8	0.9	1.0	1.0	0.1	0.2	0.2	0.2	0.4	0.5	0.6	0.7
PBT	2.5	4.4	3.6	3.3	5.4	9.7	9.8	10.4	2.1	1.8	1.9	1.3	2.6	3.2	4.9	6.8
Tax	0.3	0.6	0.5	0.4	0.7	1.3	1.3	1.4	0.3	0.2	0.2	0.2	0.3	0.4	0.6	0.9
APAT	2.2	3.8	3.1	2.9	4.7	8.5	8.5	9.1	1.8	1.6	1.6	1.1	2.3	2.8	4.2	5.9

Source: Respective companies, HSIE Research

AUM composition

(Rs bn/%)	HDFCLIFE				IPRU				MAXF				SBI LIFE			
	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Linked assets (period end)	549	586	642	556	891	988	1,122	982	161	176	202	192	453	554	695	789
Linked asset as % of total AUM	62.1	57.1	53.3	45.8	73.3	71.3	70.5	65.0	36.4	33.7	32.1	28.0	47.3	48.5	49.9	49.7
Closing AUM mix (%)																
Equity	51.2	52.2	53.1	45.7	57.4	59.0	55.7	48.1	46.4	43.1	44.4	37.1	39.0	35.0	36.0	31.0
Debt	48.8	47.8	46.9	54.3	42.6	41.0	44.3	51.9	53.6	56.9	55.6	62.9	61.0	65.0	64.0	69.0

Note: FY20 Linked AUM of MAXF and SBILIFE have been taken from the respective company's IP. Source: Respective companies, HSIE Research

Profitability of linked savings business has improved

- Savings business profitability has increased over the past 3-4 years. Profitability for IPRU and SBI LIFE has increased from 57.1/53.9bps to 86.2/81.8bps of AAUM from FY17-FY20.
- Profitability looks higher for FY20 as AUM took a massive hit from the equity meltdown in Mar 2020.
- HDFC LIFE's profitability has improved by just 5bps over FY17-20, whereas MAXL's profitability was down by 62.2bps during the same period.

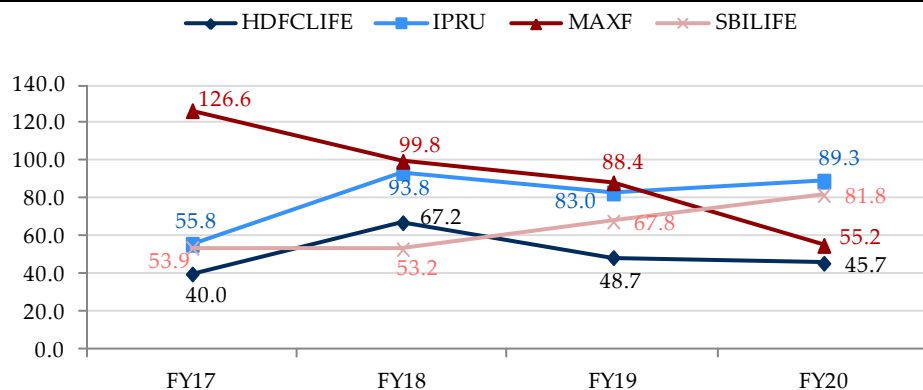
Profitability of linked savings business

(bps/%)	HDFCLIFE				IPRU				MAXF				SBI LIFE			
	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
OP as bps of AAUM	40.0	67.2	48.7	45.7	55.8	93.8	83.0	89.3	126.6	99.8	88.4	55.2	53.9	53.2	67.8	81.8
APAT as bps of AAUM	43.3	67.0	50.9	48.3	57.1	90.1	80.7	86.2	118.7	95.3	85.4	56.5	55.4	54.8	67.5	79.7
RoAE (%)	8.0	12.4	8.8	7.7	10.7	17.4	15.5	15.7	26.3	20.8	16.8	9.7	10.4	10.2	12.8	14.9
Average AUM	510	567	614	599	827	939	1,055	1,052	151	169	189	197	413	504	625	742
Avg. capital employed	27.5	30.8	35.7	37.6	43.9	48.7	55.1	57.9	6.8	7.7	9.6	11.4	24.5	29.6	36.5	43.0

Note: Capital employed includes unamortised upfront costs.

Source: Respective companies, HSIE Research

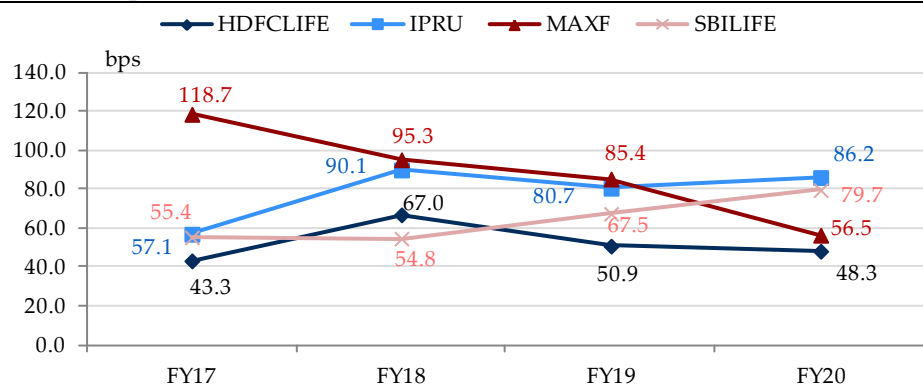
Operating profit as bps of AAUM



Source: Respective companies, HSIE Research

Profitability of IPRU and SBI LIFE's linked business improved substantially, while remained muted for HDFC LIFE and MAXF.

APAT as bps of AAUM



Source: Respective companies, HSIE Research

Expenses:

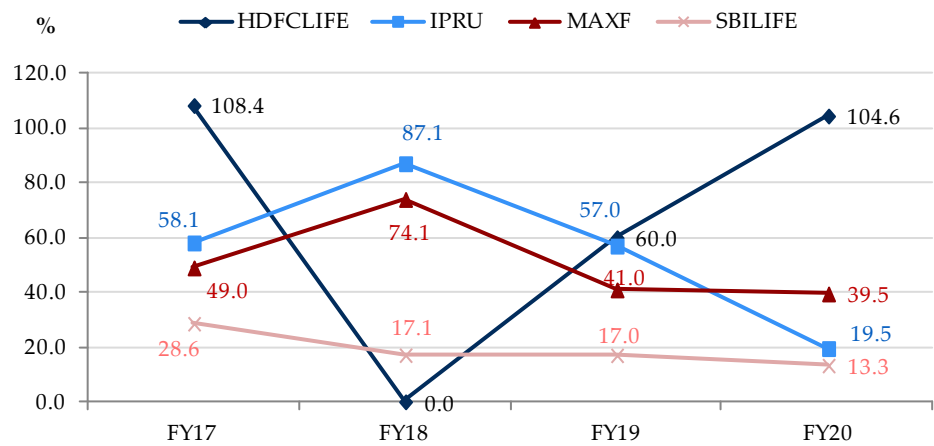
- Commission plus opex expenses as a percentage of net new money raised (premiums less benefit paid) improved for IPRU, MAXF and SBI from 58.1/49.0/28.6% to 19.5/39.5/13.3% over FY17-20. This number has remained significantly high for HDFC LIFE at 104.6% in FY20. Lower expenses have contributed to higher profitability.
- SBI LIFE’s expense ratios are consistently the lowest when compared to the others.

Cost efficiency of linked business

(%)	HDFCLIFE				IPRU				MAXF				SBILIFE			
	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Commission + opex expenses as % of -																
-Net new money raised (Premiums less benefits paid)	108.4	NM	60.0	104.6	58.1	87.1	57.0	19.5	49.0	74.1	41.0	39.5	28.6	17.1	17.0	13.3
-Net new money raised (Premiums + investment income - net benefits paid)	11.7	29.1	21.8	NM	62.8	14.1	18.7	11.2	10.1	21.6	15.9	236.7	13.0	11.6	11.0	16.6

Source: Respective companies, HSIE Research

Comm + Opex expenses as % Net New Money Raised



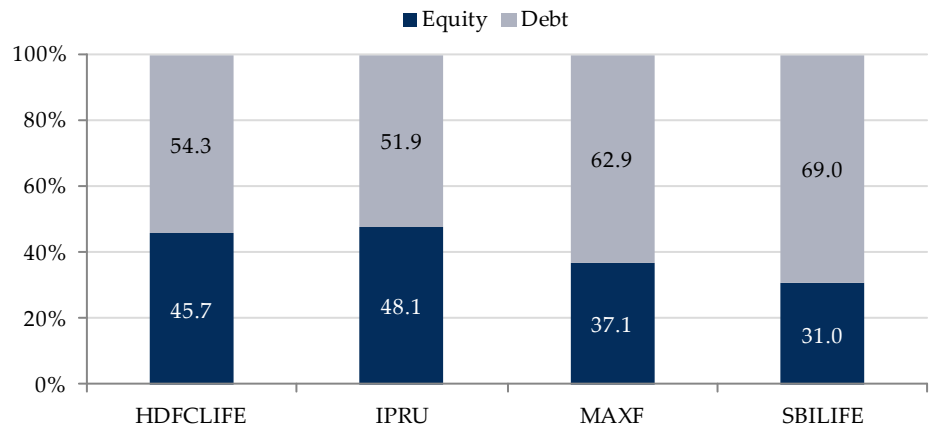
Expenses as a percentage of Net New Money Raised declined for IPRU, MAXF and SBI LIFE, whereas increased substantially for HDFC LIFE.

Source: Respective companies, HSIE Research

AuM Mix:

- Equity component in the AUM mix is highest for IPRU at 48.1% whereas debt component is the highest for SBI LIFE. Despite having a high debt component in the mix, SBI LIFE’s profitability is higher than all companies except IPRU because of lower expense ratios.

Linked AUM mix



IPRU’s equity heavy linked AUM composition holding up profitability of its linked business.

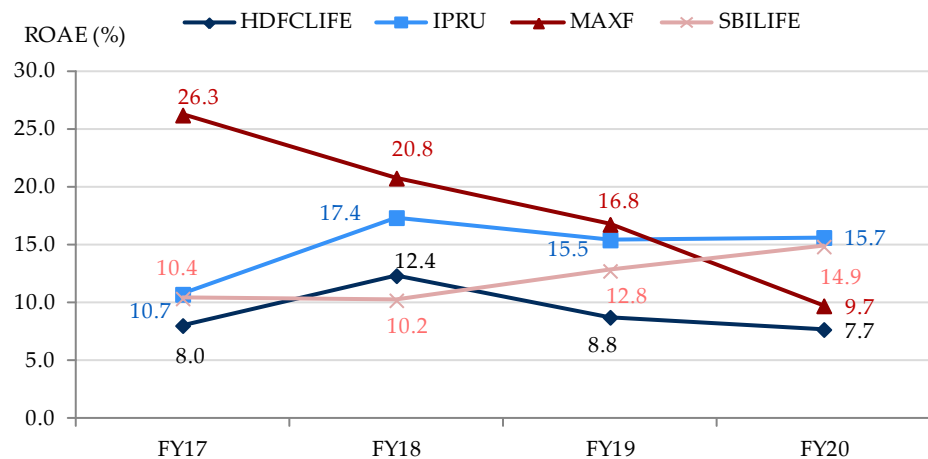
Note: Closing AUM on FY20 basis.
Source: Respective companies, HSIE Research

Computed RoAE

- Average capital employed used for calculation includes capital for solvency at 180% plus the unamortised upfront costs.
- Computed FY20 RoAE of the savings portion of the ULIP business is high and between 7.7-15.7% for FY20.
- Computed RoAE is highest for IPRU and SBILIFE at 15.7% and 14.9% respectively vs. HDFCLIFE/MAXL at 7.7/9.7%.
- RoAE has improved for SBI LIFE from ~10-11% in FY16/17 to ~15% in FY20.
- RoAE has deteriorated ~1,651bps for MAXL over the last 4 years.

FY20 RoAE highest for IPRU

RoAE for IPRU/SBI LIFE improved substantially from 10.7/10.4% to 15.7/14.9% over FY17-FY20



Source: Respective companies, HSIE Research

Business growth vs. profitability

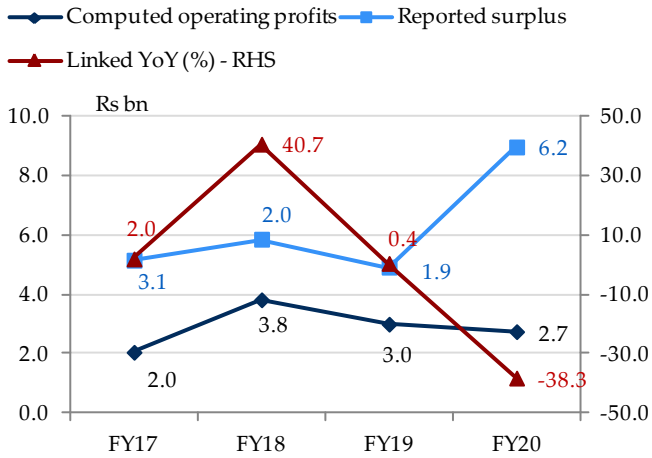
- A comparison of ULIP policy holder's account surplus with computed operating profit and new business written (linked APE) shows that reported ULIP policy holder's account surplus improves as growth of linked APE reduces, while computed accounting profit is more stable (see table Computed operating profits vs. ULIP policy holder's account surplus).
- Reported surplus decreases/increases as the company writes more/less business. Reported surplus to adj. operating profits has decreased for MAXF from 1.7x to 0.7x as the company wrote large linked business over FY17-19, whereas increased for IPRU, HDFC LIFE and SBI LIFE as the growth trajectory for linked APE declined over FY18-20. See charts below.

Computed operating profits vs. ULIP policy holder's account surplus

(Rs bn)	HDFCLIFE				IPRU				MAXF				SBILIFE			
	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Linked APE	20	28	28	18	55.6	63.6	60.0	49.0	8.7	13.7	16.9	16.2	47.2	56.4	67.9	74.0
YoY(%)	2.0	40.7	0.4	-38.3	30.4	14.5	-5.7	-18.3	49.4	58.1	23.5	-4.3	77.5	19.5	20.5	9.0
Reported surplus	3.1	2.0	1.9	6.2	5.5	8.4	8.3	14.1	3.2	1.1	1.1	1.0	0.6	1.8	3.0	6.0
Computed operating profit	2.0	3.8	3.0	2.7	4.6	8.8	8.8	9.4	1.9	1.7	1.7	1.1	2.2	2.7	4.2	6.1
Reported surplus / computed operating profits (x)	1.5	0.5	0.6	2.3	1.2	1.0	0.9	1.5	1.7	0.7	0.7	0.9	0.3	0.7	0.7	1.0

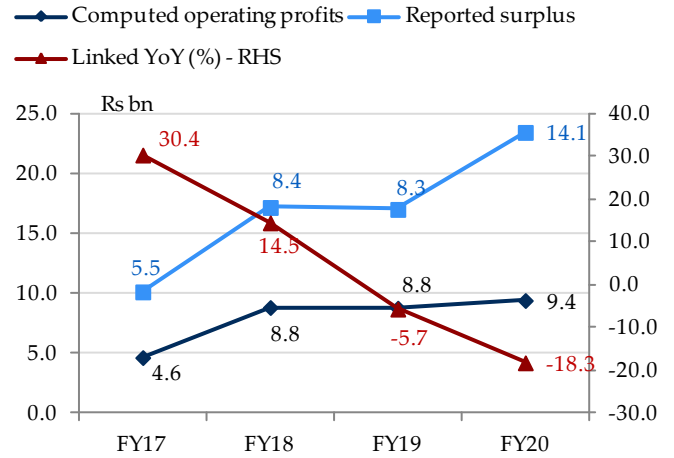
Source: Respective companies, HSIE Research

HDFC LIFE's linked business growth vs. computed operating profits and reported surplus



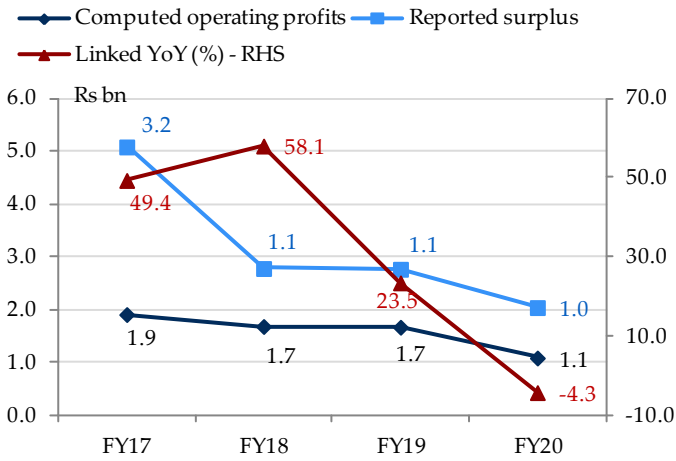
Source: Company, HSIE Research

IPRU's operating profits vs. reported surplus



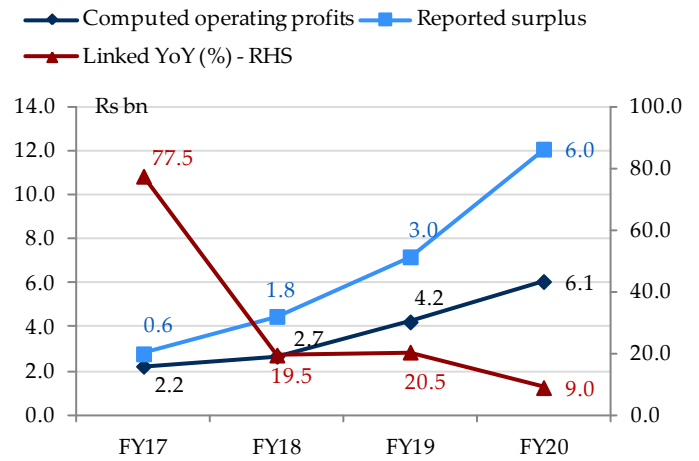
Source: Company, HSIE Research

MAXF's operating profits vs. reported surplus



Source: Company, HSIE Research

SBI LIFE's operating profits vs. reported surplus



Source: Company, HSIE Research

Realigning ULIP savings business income statement to match that of AMCs

- Beginning 22 Oct 2018, AMCs only account for fund management charges as their incomes. Distributor commissions and all other fund administrative expenses are paid directly out of scheme.
- We have reorganised ULIP savings business P&L to conform to that of the asset managers at the revenue and EBIT level.
- **Fund management fees:** We have calculated fund management fees by adjusting total income (see table P/L summary for Life insurance companies' linked business on Pg. 6) with adj. commission expenses on renewal premium and amortised costs for the acquisition of the business, adj. benefits paid, and change in valuation liabilities.
- **Expenses** have been calculated by taking fixed operating costs for running the business, including adj. management expenses.

ULIP savings business profitability is higher than that of asset managers

- Profitability (pre-tax operating profits as bps of AUM) of the two listed AMCs is lower compared to that of the linked savings business. HDFCAMC/NAM reported an operating profit of 40.8/27.3bps of AAUM vs. life insurers' computed profitability of 45.7-89.3bps.
- This is partly because the listed AMCs have a higher composition of liquid, ETF assets which are low yielding. Liquid + ETF AUM for HDFCAMC/NAM is at 28.9/28.4% as on Mar-20.
- APAT as bps of AAUM is significantly higher for life insurance companies compared to AMC's.
- This is because life insurers on an average have (1) a higher proportion of higher-yielding equity and debt assets, (2) yield on assets is higher for life insurers, and (3) assets that stay with them for a longer duration, allowing for high upfront costs.
- The average duration for equity schemes is approximated at ~2.5 years, while the average duration of a ULIP will be ~6-8 years.
- AMCs generate superior adj. ROIC's compared to that life insurance companies. This is possible for AMCs, mainly as business dynamics are capital-light, whereas life insurance companies have to maintain additional capital as per the regulatory requirement to maintain solvency. This pulls down return ratios of life insurers.

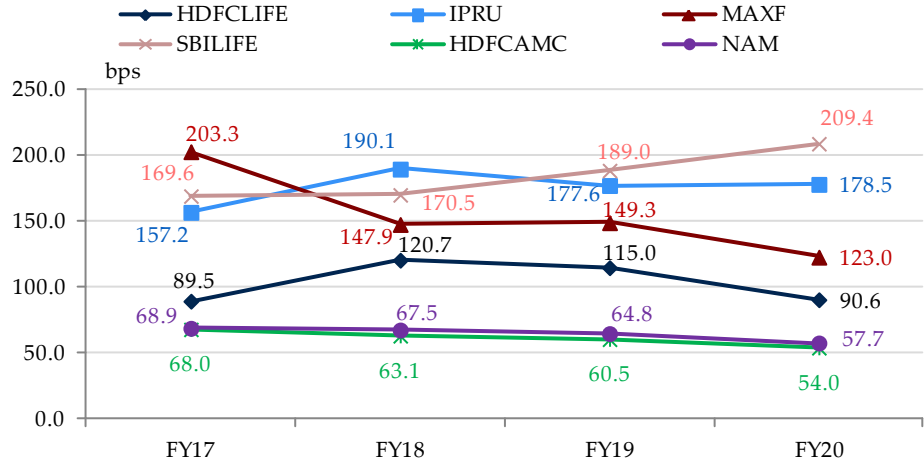
Life insurers P/L summary in AMC format

(Rs bn)	HDFC LIFE				IPRU				MAXF				SBI LIFE			
	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Fund management fees (Net)	4.2	6.5	6.6	5.0	12.5	17.2	18.0	18.0	3.0	2.4	2.7	2.2	7.0	8.6	11.8	15.5
Total costs	2.5	3.0	4.1	2.7	8.4	9.0	10.0	9.4	1.2	0.8	1.2	1.3	4.8	5.9	7.6	9.5
EBIT	1.7	3.4	2.6	2.3	4.1	8.1	8.0	8.6	1.8	1.5	1.5	0.9	2.2	2.7	4.2	6.1
Revenue (bps of AAUM)	83.3	114.2	107.8	82.8	150.8	182.8	170.3	170.8	195.7	139.6	140.7	112.8	169.6	170.5	189.0	209.4
EBIT (bps of AAUM)	33.8	60.7	41.6	37.9	49.4	86.5	75.6	81.6	119.0	91.5	79.8	45.0	53.9	53.2	67.8	81.8

Source: Respective companies, HSIE Research

Revenue yields for linked business have improved for life insurers (except for MAXF), whereas continued to compress for AMCs.

Revenue yields of life insurers' linked business vs. asset managers'

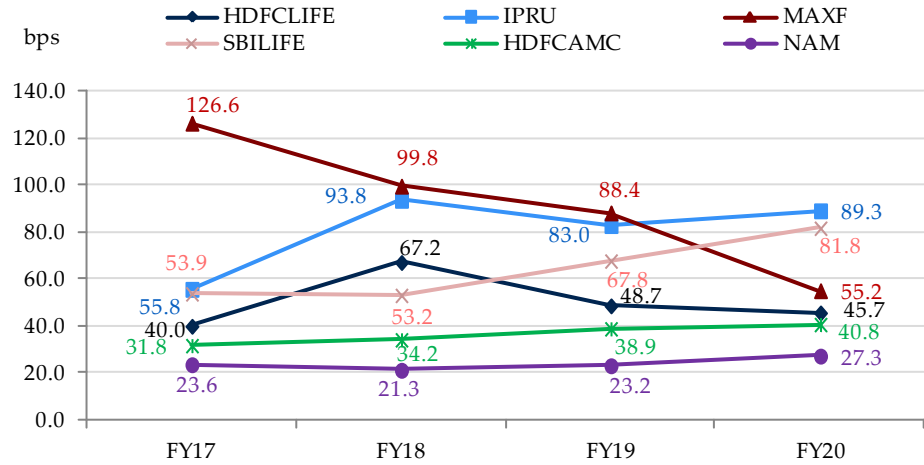


Note: Yields are calculated as bps of AAUM.

Source: Respective companies, HSIE Research

Operating yields for linked business of life insurers are substantially higher than asset managers'.

Operating profit yields of life insurers' linked business vs. asset managers'



Note: Yields are calculated as bps of AAUM.

Source: Respective companies, HSIE Research

AMC's income statement comparison

(Rs mn)	ABSLAMC			HDFCAMC				IPRUAMC			NAM			
	FY17	FY18	FY19	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY17	FY18	FY19	FY20
Income from operations	9,685	12,161	13,052	14,800	17,598	19,152	20,033	13,009	18,186	19,346	13,074	15,918	14,786	12,030
Employee benefits expenses	1,977	2,187	2,615	1,576	1,749	2,063	2,147	1,753	2,134	2,471	1,957	2,572	2,935	3,024
Operating expenses	4,719	5,481	4,685	6,186	6,183	4,630	2,163	4,292	7,203	6,903	6,451	8,250	6,461	2,921
EBITDA	2,989	4,493	5,753	7,039	9,665	12,460	15,722	6,964	8,850	9,973	4,665	5,096	5,390	6,085
Depreciation	78	98	130	120	114	129	504	105	139	182	179	85	101	333
Finance costs*	0	0	0	0	0	0	90	0	0	0	0	0	0	57
Operating profits	2,911	4,394	5,622	6,919	9,550	12,331	15,129	6,858	8,712	9,790	4,486	5,011	5,290	5,753
Other income	460	449	858	1,079	1,075	1,816	1,402	489	780	697	1,326	1,569	1,713	-98
PBT	3,371	4,843	6,480	7,998	10,625	14,147	16,531	7,347	9,491	10,487	5,812	6,579	7,002	5,655
Tax	1,139	1,623	1,991	2,496	3,409	4,481	3,898	2,542	3,236	3,657	1,786	1,984	2,132	1,441
APAT	2,232	3,220	4,489	5,502	7,216	9,666	12,633	4,805	6,256	6,831	4,011	4,585	4,871	4,214
Capital invested (Rs bn)#	4.0	4.8	2.0	3.4	3.6	2.5	2.1	2.3	3.1	1.6	6.1	4.9	5.1	3.9

*Finance cost represents operating lease expensed under IND AS 116.

#In addition to the capital invested in the business we have allocated ~Rs 1.5bn of investments as core operating capital for the business.

Source: Respective companies, HSIE Research

Profitability across AMCs

Profit as bps of AAAUM	ABSLAMC			HDFCAMC				IPRUAMC			NAM			
	FY17	FY18	FY19	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY17	FY18	FY19	FY20
Income from operations	55.8	52.9	52.5	68.0	63.1	60.5	54.0	58.9	63.9	61.9	68.9	67.5	64.8	57.7
Staff cost	11.4	9.5	10.5	7.2	6.3	6.5	5.8	7.9	7.5	7.9	10.3	10.9	12.9	14.5
Admin & other opex	7.1	6.4	6.1	9.2	9.0	6.8	5.1	6.5	6.2	9.7	13.5	14.5	12.7	8.1
Brokerage / Incentives / Fees / Mutual Fund Expenses	20.0	17.4	12.8	19.3	13.2	7.8	0.7	12.9	19.1	12.3	20.5	20.5	15.6	5.9
Total operating expenses	38.5	33.3	29.4	35.7	28.4	21.1	11.6	27.4	32.8	30.0	44.3	45.9	41.2	28.5
EBITDA	17.2	19.5	23.2	32.3	34.7	39.3	42.4	31.5	31.1	31.9	24.6	21.6	23.6	29.2
Operating profits (PBT-OI)	16.8	19.1	22.6	31.8	34.2	38.9	40.8	27.1	27.6	28.6	23.6	21.3	23.2	27.3
NOPLAT (Post tax PBT-OI)	11.1	12.7	15.7	21.9	23.3	26.6	31.2	20.3	20.2	20.4	16.4	14.8	16.1	20.3
PBT	19.4	21.1	26.1	36.7	38.1	44.7	44.6	33.3	33.3	33.6	30.6	27.9	30.7	26.8
APAT	12.9	14.0	18.1	25.3	25.9	30.5	34.1	21.8	22.0	21.9	21.2	19.4	21.3	19.9
Profitability (%)														
Actual ROAE	25.9	32.0	38.4	30.0	34.1	37.7	48.9	70.1	80.4	68.3	21.9	21.6	19.7	16.3
Adj. ROIC*	38.8	58.0	92.1	112.2	158.6	218.9	443.8	175.3	186.6	245.8	30.5	36.6	41.1	99.4

*Adj ROIC= Computed PAT/(Core capital employed + investments as sponsors)*100

Computed PAT excludes actual other income but includes 8%(assumed investment yield) on investments as sponsors less tax.

Investments as sponsors have been taken at Rs 1.5bn across all AMCs.

Source: Respective companies, HSIE Research

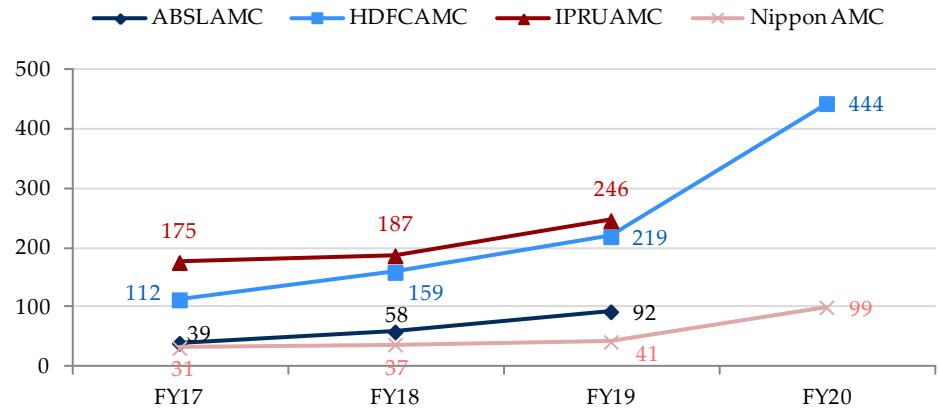
AUM composition across AMCs

(Rs tn)/%	ABSLAMC			HDFCAMC				IPRUAMC			NAM			
	FY17	FY18	FY19	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY17	FY18	FY19	FY20
Total MF AUM (Rs tn)	1.74	2.30	2.48	2.30	2.92	3.44	3.19	2.21	2.85	3.12	1.90	2.36	2.28	2.09
AUM split (%)														
Equity	24.4	32.1	35.8	43.4	51.3	48.1	38.3	35.0	43.0	46.4	28.1	32.6	39.5	42.7
Debt	54.5	48.5	38.7	42.0	35.4	29.0	32.8	45.2	39.3	30.9	49.5	44.1	34.9	28.9
Liquid	20.8	19.2	25.2	14.3	13.1	21.6	27.2	19.3	16.4	20.1	19.1	17.9	17.3	15.1
ETFs	0.3	0.2	0.2	0.3	0.2	1.3	1.7	0.5	1.4	2.5	3.4	5.4	8.3	13.2
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Respective companies, HSIE Research

HDFCAMC reported the highest adj. ROIC

NAM's ROIC is lower compared to peers since NAM is yet to tap its operating leverage.



Note: IPRU AMC and ABSL AMC data are available till FY19.

Source: HSIE Research

ULIP VNB margins

- According to our calculation, the VNB margins for ULIPs is much lower at ~11.8%. This is in line with most companies' commentary, which peg ULIP margins to be between 5-13%.
- Excluding mortality charges, ULIP VNB will dip to ~10.0%.
- Assuming the assets generate an operating profit of ~70bps of AAUM, i.e. post-tax yield of ~60bps of AAUM, VNB margin works out to ~10.9%. Margin thus calculated is on the higher side as we are assuming a uniform yield whereas the actual yield is a little lower during the initial years and then moves higher. Thus actual VNB margins will be lower than what we compute using uniform yields.
- Computed operating profit yields for the various companies are between 45.7-89.3bps of AAUM, thereby corroborating with the above calculation.

ULIP margin calculation assumptions

	Equity	Debt
Assets allocation	60%	40%
FM charges	1.50%	1.00%
Solvency		
Abs 1		0.85
First factor		1.80%
Abs 2		0.5
Second factor		0.20%
Addnl. weight		150%

Source: HSIE Research

Mortality charges	
Charge per Rs. 1000 sum assured	3
Profit margin	18%
Other assumptions	
Sum assured	240,000
Prem./policy	24,000
Allocation charges	5.0%
Investment yield	7.0%
Tax rate	14.0%

Income items

Year	Allocation Charges	AUM Charges		Other misc. charges			Mortality Charges	Total positive cash flows
		Equity	Debt	Equity	Debt	Surrender charges		
0	1,200	198	91	58	38	0	130	1,715
1	1,020	346	159	51	34	300	110	2,021
2	887	463	213	47	31	166	96	1,904
3	790	565	259	44	29	81	85	1,854
4	711	652	300	41	28	0	77	1,809
5	640	724	333	39	26	0	69	1,831
6	576	781	359	37	25	0	62	1,840
7	0	818	376	39	26	0	62	1,321
8	0	857	394	41	27	0	62	1,381
9	0	898	413	43	29	0	62	1,444

Source: HSIE Research

Expense items

Year	Commission expenses	Operating expenses	Profit before tax	Tax expenses	Post-tax interest charge on capital deployed	Total negative cash flows	Overall cash flows	PV of cash flows	PV of premiums
0	2,400	114	-799	0	51	2,565	-850	-794	22,430
1	1,020	199	802	0	70	1,289	732	639	17,818
2	887	266	750	105	85	1,343	560	457	14,488
3	790	324	740	104	98	1,316	538	410	12,050
4	711	375	723	101	110	1,296	513	365	10,136
5	640	416	775	109	119	1,283	548	365	8,526
6	576	449	815	114	126	1,265	575	358	7,171
7	0	470	851	119	132	721	600	349	0
8	0	492	889	124	138	754	627	341	0
9	0	516	929	130	144	789	655	333	0

Source: HSIE Research

Valuation

- Life insurance companies trade at 30-60% of FY22E AUM vs. listed asset managers such as HDFCAMC/NAM trading at 10.7/6.1% of FY22E AUM.
- On FY20 AUM, life insurers are trading at 32.0-192.5% of AUM.
- As seen earlier, insurers generate higher yields on AUM while return ratios for linked savings business are lower. We estimate that HDFCAMC/NAM have generated an FY20 adj. RoIC of 443.8/99.4% vs. that of life insurers range between 7.7-15.7% (see pg. 7 and 13 earlier).
- We have used a two-stage dividend discount valuation method to value the linked savings business. We have used simplistic assumptions of uniform growth for all companies of ~12% in stage 1 (over 10 years) except SBI LIFE at 16%, building in strong CAGR in linked AUM witnessed over FY17-20 at 14.8%.
- We have used respective companies' computed RoAEs in stage 1; however, for HDFC LIFE and SBI LIFE, we have used a higher RoAE of 15/18% respectively as we believe RoAEs for the two companies will improve, going forward.
- For the terminal stage, we have used RoE of 15% and terminal growth of 5%.
- Indicative value of the linked savings business is in the range of 9.0-12.7% of FY20 AUM. This compares with 18.1/10.7% for HDFCAMC/NAM respectively.
- Our analysis also indicates that the implied valuation of the non-linked and protection business is between 67-89%.

Valuing the linked savings business

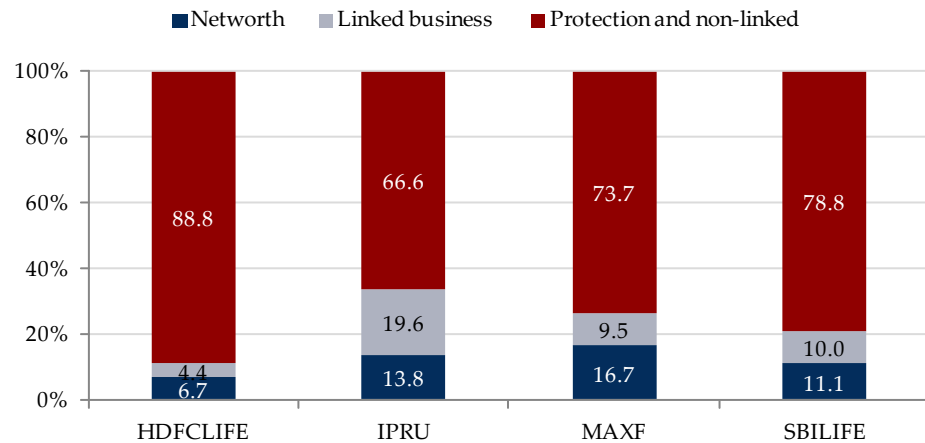
(Rs bn)	HDFCLIFE	IPRU	MAXF	SBILIFE
Target price/Fair value (Rs)	620*	445	645	975
M. Cap at TP	1,137	639	222	975
M. Cap break-up (at TP)				
Net worth (FY21E)	77	88	37	109
Linked business (computed)	50	125	21	98
Protection and non-linked (implied valuation)	1,010	425	164	768
Total	1,137	639	222	975
Share (%)				
Net worth	6.7	13.8	16.7	11.1
Linked business	4.4	19.6	9.5	10.0
Protection and non-linked businesses	88.8	66.6	73.7	78.8
Total	100	100	100	100
M.cap (at TP) / Linked AUM (%)				
	9.0	12.7	11.0	12.4
Linked AUM (FY20)	556	982	192	789
Break-up (%)				
Equity	45.7	48.1	37.1	31.0
Debt	54.3	51.9	62.9	69.0
Computed RoAE (FY20, %)				
	7.7	15.7	9.7	14.9

*Fair value

Source: Respective companies, HSIE Research

Market cap. split across life insurers'

Share of linked business in target market cap. is highest for IPRU, while it is the lowest for HDFCLIFE.



Source: Respective companies, HSIE Research

AMC valuation comparison

	Unit	HDFCAMC				RNAMC			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Profitability /(bps of AAUM)									
Revenue	bps	54.0	47.6	45.6	44.6	57.7	52.2	47.8	46.8
PBT (ex OL)	bps	40.8	35.4	35.0	35.5	29.2	25.2	24.4	24.7
PBT (ex OL) (net of tax)	bps	31.2	26.9	26.6	27.0	27.3	22.9	22.7	23.3
PAT	bps	34.1	33.5	32.3	33.0	19.9	25.1	23.2	23.3
Valuation at TP									
P/AUM	%	18.1	14.2	12.0	10.5	10.7	7.7	6.1	5.3
Return Ratios (%)									
RoE	%	35.6	28.4	29.3	29.9	16.1	18.5	19.9	21.1
Computed RoIC	%	443.8	304.9	341.8	380.3	99.4	37.0	58.5	74.8
AUM mix									
Equity	%	44.1	39.5	40.8	41.8	42.7	39.4	39.0	39.4
Debt	%	28.5	28.8	25.4	25.0	28.9	28.3	28.0	28.0
Liquid	%	25.8	29.7	31.4	30.8	15.1	18.7	19.6	18.9
ETFs	%	1.6	2.0	2.3	2.4	13.2	13.6	13.5	13.6

Source: Respective companies, HSIE Research

Life Insurance Comps

	Unit	IPRU				MAXF				SBILIFE				HDFCLIFE			
Rating		REDUCE				ADD				BUY				Not Rated			
Current market price	Rs	421				594				835				575			
Market Capitalisation	Rs bn	604				204				835				1,156			
Target price	Rs	445				645				975				620*			
Upside/(Downside)	%	5.7				8.6				16.8				7.9			
Profitability																	
		FY20	FY21E	FY22E	FY23E	FY20P	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
VNB Margin	%	21.7	22.4	23.6	24.0	21.6	21.3	21.9	22.7	20.7	21.0	21.6	22.0	25.9	25.7	26.4	27.1
Total RoEV	%	8.4	12.7	14.4	14.4	16.7	14.2	17.3	17.3	16.8	13.4	15.1	15.4	12.7	16.1	17.3	17.4
Operating RoEV	%	15.2	12.7	14.4	14.4	20.3	14.2	17.3	17.3	20.0	13.4	15.1	15.4	18.2	16.1	17.3	17.4
Non-operating RoEV	%	-6.8	0.0	0.0	0.0	-3.5	0.0	0.0	0.0	-3.2	0.0	0.0	0.0	-5.5	0.0	0.0	0.0
RoE	%	15.5	17.5	16.8	16.9	19.5	19.6	20.0	19.2	17.4	20.1	21.6	22.8	23.5	28.0	31.0	32.3
Valuation at CMP																	
		FY20	FY21E	FY22E	FY23E	FY20P	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
P/EV	x	2.6	2.3	2.1	1.8	2.2	2.6	2.2	1.9	3.0	2.7	2.3	2.1	5.6	4.9	4.2	3.7
P/EVOP	x	18.4	20.6	16.2	14.3	13.7	20.6	14.8	12.9	17.6	22.6	17.6	15.2	34.8	34.7	28.3	24.4
Implied P/VNB	x	24.2	27.8	21.3	16.5	18.5	22.7	18.6	14.1	26.9	28.5	22.7	17.8	50.7	52.6	43.0	35.1
Implied P/VIF	x	4.0	3.7	3.4	3.0	4.1	3.8	3.4	3.0	4.8	4.3	3.8	3.4	8.6	7.6	6.6	5.8
P/B	x	8.0	6.8	6.0	5.4	9.5	7.9	7.1	6.4	9.4	7.7	6.4	5.4	16.5	13.8	11.3	9.1
P/E	x	54.2	42.2	38.1	33.5	52.0	45.9	40.6	36.7	58.7	42.0	32.3	25.6	77.8	53.7	40.1	31.2
P/AUM	x	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.4	0.4	0.3	1.9	0.8	0.6	0.5
Valuation at TP																	
		FY20	FY21E	FY22E	FY23E	FY20P	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
P/EV	x	2.8	2.5	2.2	1.9	2.4	2.8	2.4	2.1	3.5	3.1	2.7	2.4	6.0	5.3	4.6	3.9
P/EVOP	x	19.4	21.8	17.2	15.1	14.9	22.4	16.1	14.0	20.6	26.4	20.6	17.7	37.6	37.4	30.6	26.3
Implied P/VNB	x	26.3	30.4	23.5	18.3	21.2	25.6	21.2	16.3	33.3	35.7	28.9	23.0	55.4	57.7	47.2	38.8
Implied P/VIF	x	4.2	3.9	3.6	3.2	4.5	4.2	3.7	3.3	5.6	5.0	4.5	4.0	9.3	8.2	7.2	6.3
P/B	x	8.5	7.2	6.3	5.7	10.3	8.6	7.7	6.9	11.0	9.0	7.5	6.3	17.8	14.9	12.2	9.9
P/E	x	57.3	44.6	40.3	35.4	56.5	49.8	44.1	39.9	68.6	49.1	37.8	29.9	83.9	58.0	43.2	33.7
P/AUM	x	0.6	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.6	0.5	0.4	0.4	2.1	0.8	0.7	0.6

Per Share data	Unit	IPRU				MAXF				SBILIFE				HDFCLIFE			
		FY20	FY21E	FY22E	FY23E	FY20P	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
EV	Rs	160	180	204	230	270	232	266	305	276	313	357	404	102	117	135	156
EVOP	Rs	23	20	26	29	49	29	40	46	47	37	47	55	16	17	20	24
VNB	Rs	11	9	11	13	24	17	19	23	22	20	23	27	10	9	11	12
VIF	Rs	106	114	125	138	184	155	175	198	175	193	217	244	67	76	86	99
Book Value	Rs	52	62	70	79	62	75	84	93	89	109	131	155	35	41	51	63
Earnings	Rs	8	10	11	13	11	13	15	16	14	20	26	33	7	11	14	18
AUM	Rs	728	1,237	1,423	1,618	1,854	1,733	1,990	2,278	1,588	1,869	2,185	2,542	298	749	887	1,048
ANW	Rs	55	66	79	92	90	107	127	150	110	129	149	168	36	41	49	58

Source: Company financials and disclosures, HSIE Research

Key parameters	Unit	IPRU				MAXF				SBILIFE				HDFCLIFE			
		FY20	FY21E	FY22E	FY23E	FY20P	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
APE	Rs bn	73.8	60.0	68.6	78.6	41.5	39.8	43.6	50.4	107.4	93.3	106.2	122.2	71.6	70.2	81.1	92.8
VNB	Rs bn	16.1	13.4	16.2	18.9	9.0	8.5	9.6	11.4	22.2	19.6	22.9	26.9	19.2	18.0	21.4	25.1
Total EVOP	Rs bn	18.1	29.3	37.2	42.2	18.1	14.2	19.7	22.6	47.4	36.9	47.3	54.9	23.2	33.3	40.8	47.5
Operating EVOP	Rs bn	32.9	29.3	37.2	42.2	18.1	14.2	19.7	22.6	47.4	36.9	47.3	54.9	33.2	33.3	40.8	47.5
Non- operating EVOP	Rs bn	(14.8)	0.0	0.0	0.0	(3.2)	0.0	0.0	0.0	(7.6)	0.0	0.0	0.0	(10.0)	0.0	0.0	0.0
EV	Rs bn	230	259	293	330	100	114	131	150	276	313	357	404	207	236	273	316
Net worth	Rs bn	75	88	101	113	31	37	41	46	89	109	131	155	70	84	102	127
Net Profit	Rs bn	11.1	14.3	15.9	18.0	5.6	6.4	7.2	7.9	14.2	19.9	25.8	32.6	14.9	21.5	28.9	37.0
AUM	Rs bn	1,045	1,775	2,042	2,323	685	851	978	1,119	1,588	1,869	2,186	2,542	601	1,511	1,790	2,115
Growth YOY		FY20	FY21E	FY22E	FY23E	FY20P	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
APE	%	(5.4)	(18.7)	14.4	14.5	5.0	(4.2)	9.7	15.6	10.8	(13.1)	13.8	15.1	18.4	(2.0)	15.6	14.3
VNB	%	20.9	(16.3)	20.5	16.5	4.8	(5.6)	12.8	19.8	15.6	(11.7)	17.1	17.2	24.7	(6.1)	18.7	17.4
Total EVOP	%	(50.7)	61.7	26.9	13.5	8.0	(21.9)	39.0	15.1	33.5	(22.1)	28.2	16.1	(32.2)	43.6	22.4	16.3
Operating EVOP	%	(13.4)	(10.8)	26.9	13.5	8.0	(21.9)	39.0	15.1	33.5	(22.1)	28.2	16.1	8.5	0.4	22.4	16.3
Non- operating EVOP	%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EV	%	6.5	12.4	13.2	12.6	11.2	14.2	14.6	14.8	16.8	13.4	13.9	13.1	12.9	14.3	15.6	15.7
Net worth	%	9.7	17.4	13.8	12.1	11.0	20.7	11.3	11.3	19.1	22.4	20.2	18.7	24.0	19.5	22.3	23.6
Net Profit	%	(2.9)	28.5	10.8	13.7	1.2	13.4	13.0	10.6	7.2	39.7	29.9	26.1	16.7	44.7	34.1	28.2
AUM	%	(34.9)	69.9	15.0	13.7	9.0	24.4	14.8	14.5	14.0	17.7	16.9	16.3	(52.2)	151.6	18.4	18.2

*Fair Value

Business mix-product wise	Unit	IPRU				MAXF				SBILIFE				HDFCLIFE			
		FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21
APE mix																	
Individual	Rs bn	75.8	74.4	67.9	7.0	32.2	39.2	41.2	6.6	77.9	90.8	99.0	10.2	48.9	52.0	61.4	10.7
Group	Rs bn	2.1	3.7	5.9	1.2	0.3	0.3	0.3	0.0	7.5	6.1	8.5	2.5	6.3	10.6	12.7	1.3
APE (Rs bn)	Rs bn	77.9	78.0	73.8	8.2	32.5	39.5	41.5	6.6	85.4	96.9	107.5	12.7	55.2	62.6	74.1	12.0
YoY Growth	%	18	0	(5)	(44)	22	22	5	(4)	29	13	11	(32)	35	13	18	(30)
CAGR 3 years	%		15	4	NA		22	15	NA		26	18	NM		20	22	NM
CAGR 5 years	%		19	10	NA		31	28	NA		25	25	NM		20	18	NM
Total APE		97.3	95.3	92.0	85.1	96.0	96.0	95.0	89.0	92.5	93.7	92.1	80.3	88.4	83.1	82.9	89.6
PAR	%	10.9	8.6	12.7	24.4	43.0	39.5	30.5	22.0	24.4	18.7	10.9	8.7	24.8	15.0	15.7	26.6
Non-PAR	%	0.5	0.9	4.2		8.0	9.0	18.0	18.0	0.8	0.4	6.9	18.1	8.0	16.6	37.3	29.3
ULIP	%	81.9	79.6	64.7	43.6	41.0	41.5	38.5	35.0	66.5	70.8	69.6	48.0	51.3	45.7	23.2	23.9
Protection	%	4.0	6.2	10.4	17.0	4.0	6.0	8.0	14.0	0.7	3.8	4.7	5.5	4.4	5.8	6.6	9.8
Group	%	2.7	4.7	8.0	14.9	4.0	4.0	5.0	11.0	7.5	6.3	7.9	19.7	11.6	16.9	17.1	10.4
Savings	%	1.0	1.6	3.3	6.0	NA	NA	NA	NA	2.8	3.3	3.7	12.6	4.7	6.0	6.6	7.2
Protection	%	1.7	3.1	4.7	9.0	4.0	4.0	5.0	11.0	4.7	3.0	4.2	7.1	6.9	10.9	10.6	3.2
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Channel mix (Overall)		IPRU				MAXF				SBILIFE				HDFCLIFE			
		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
		Total APE				Individual APE				New Business Premium				Individual APE			
Bancassurance	%	52.3	56	51	40	72.0	69.6	68.0	62.0	62.0	64.0	60.0	41.0	70.5	64.0	55.0	59.0
Agency	%	25.4	22	21	25	27.0	29.8	31.0	37.0	25.0	21.0	20.0	14.0	11.0	13.0	14.0	12.0
Direct	%	13.5	12	13	12	-	-	-	-	-	-	-	-	13.5	19.0	22.0	24.0
Brokers and others	%	8.8	11	15	24	1.0	1.0	1.0	1.0	13.0	15.0	20.0	45.0	5.0	4.0	9.0	5.0
Total	%	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Banca channel partners		ICICIB and SCB				(AXIS, YES, LVB)				SBI, P&SB, SIB, SYB, ALB				HDFCB, RBL, IDFCB, BFL			
AUM		FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21
AUM	Rs bn	1,395	1,604	1,530	1,700	522	628	685	732	1,163	1,410	1,604	1,754	1,066	1,256	1,272	1,400
Equity	%	47.0	48.0	40.0	43.0	22.0	22.0	17.0	20.8	23.0	23.0	21.0	24.0	39.0	38.0	29.0	32.0
Debt	%	53.0	52.0	60.0	57.0	78.0	78.0	83.0	79.2	77.0	77.0	79.0	76.0	61.0	62.0	71.0	68.0
Linked	%	71.3	70.5	65.0	71.3	33.0	32.0	28.0	28.8	48.5	49.9	49.7	50.0	57.1	53.3	45.8	NA
Non-linked	%	28.7	29.5	35	28.7	67.0	68.0	72.0	71.2	51.5	50.1	50.3	50.0	42.9	46.7	54.2	NA
Solvency ratio		FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21
Solvency	%	252	215	194	205	275	242	207	212	206	213	195	239	192	188	184	190
Market Share		FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21
Individual NBP Private Market Share	%	20.8	17.3	15.7	12.0	9.9	10.1	10.2	11.3	20.8	20.5	22.4	17.6	14.7	16.2	17.0	20.7
Individual APE Private Market Share	%	20.9	17.6	15.8	11.3	9.0	9.6	9.7	10.7	21.8	22.3	23.2	18.0	13.3	12.5	14.2	18.5
VNB Margin		FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21
Margin	%	16.5	17.0	21.7	24.4	20.2	21.7	21.6	17.1	18.4	19.8	20.7	20.1	23.2	24.6	25.9	25.7
Persistency		FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21	FY18	FY19	FY20	1Q FY21
13th month	%	87.8	87.4	85.3	84.1	80.0	83.0	83.0	82.0	83.0	85.1	84.3	81.6	87.0	87.2	90.1	90.4
25th month	%	78.8	78.0	77.4	76.3	72.0	71.0	71.0	68.0	75.2	76.7	77.2	76.0	77.0	80.4	80.2	80.5
37th month	%	68.9	71.3	69.0	67.8	62.0	64.0	63.0	61.0	70.0	71.4	70.1	68.9	71.0	72.0	73.8	74.1
49th month	%	63.6	65.2	66.4	66.2	57.0	58.0	59.0	57.0	63.9	66.4	64.6	63.8	62.0	67.7	67.2	67.5
61st month	%	54.8	57.6	57.4	58.2	53.0	53.0	52.0	52.0	58.4	57.2	59.4	63.1	51.0	52.3	55.0	55.3

Source: Company financials and disclosures, HSIE Research

AMC Comps

	Unit	HDFCAMC				RNAMC			
Rating		Not Rated				REDUCE			
Current market price	Rs	2,417				275			
Market Capitalisation	Rs bn	515				172			
Target price/FV	Rs	2,704*				280			
Upside/(Downside)	%	11.9				1.5			
Profitability /(bps of AAUM)		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Revenue	bps	54.0	47.6	45.6	44.6	57.7	52.2	47.8	46.8
PBT (ex OI)	bps	40.8	35.4	35.0	35.5	29.2	25.2	24.4	24.7
PBT (ex OI) (net of tax)	bps	31.2	26.9	26.6	27.0	27.3	22.9	22.7	23.3
PAT	bps	34.1	33.5	32.3	33.0	19.9	25.1	23.2	23.3
Valuation at CMP		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
EV/NOPLAT	x	41.1	48.2	39.2	32.6	35.2	43.8	34.7	28.6
P/E	x	40.8	42.4	36.0	30.2	41.5	35.1	30.4	26.2
P/B	x	12.8	11.4	9.8	8.4	6.6	6.4	5.8	5.2
P/AUM	%	16.1	12.7	10.7	9.4	10.5	7.6	6.1	5.2
Valuation at TP		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
EV/NOPLAT	x	46.4	54.4	44.4	37.0	35.8	44.6	35.3	29.1
P/E	x	45.6	47.4	40.2	33.8	42.1	35.6	30.9	26.5
P/B	x	14.3	12.7	11.0	9.4	6.7	6.5	5.9	5.3
P/AUM	%	18.1	14.2	12.0	10.5	10.7	7.7	6.1	5.3
Return Ratios (%)		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
RoE	%	35.6	28.4	29.3	29.9	16.1	18.5	19.9	21.1
Computed RoIC	%	443.8	304.9	341.8	380.3	99.4	37.0	58.5	74.8
RoCE	%	34.7	27.3	28.2	28.9	16.1	18.5	19.9	21.1
AUM mix		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Equity	%	44.1	39.5	40.8	41.8	42.7	39.4	39.0	39.4
Debt	%	28.5	28.8	25.4	25.0	28.9	28.3	28.0	28.0
Liquid	%	25.8	29.7	31.4	30.8	15.1	18.7	19.6	18.9
ETFs	%	1.6	2.0	2.3	2.4	13.2	13.6	13.5	13.6
Key parameters		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
MF AUM	Rs bn	3,533	4,487	5,341	6,138	1,635	2,281	2,848	3,289
Equity AUM	Rs bn	1,636	1,430	1,811	2,157	901	891	772	954
Revenue	Rs bn	20.0	17.2	20.3	23.0	14.8	12.0	10.2	11.7
PBT (ex OI)	Rs bn	15.1	12.8	15.5	18.3	5.3	5.7	4.5	5.5
NOPLAT	Rs bn	11.6	9.8	11.8	13.9	3.7	4.2	3.4	4.2
PAT	Rs bn	12.6	12.2	14.3	17.0	4.9	4.2	4.9	5.7
Growth YOY		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Total AUM	%	17.2	(2.3)	22.4	16.3	(8.6)	(6.2)	24.9	15.5
Equity AUM	%	4.5	(12.6)	26.6	19.1	(1.1)	(13.4)	23.6	16.7
Revenue	%	4.6	(13.9)	17.5	13.5	(18.6)	(15.0)	14.3	13.1
PBT (ex OI)	%	22.7	(15.3)	21.3	17.9	8.8	(21.3)	23.5	18.4
NOPLAT	%	37.2	(15.5)	21.0	17.9	15.0	(20.2)	23.9	18.7
PAT	%	30.7	(3.7)	17.8	18.9	(14.5)	18.2	15.3	16.4

Investor category wise AUM	Unit	HDFCAMC				RNAMC			
		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Retail	Rs bn	546	735	844	608	527	736	903	450
HNIs	Rs bn	788	1,103	1,247	1,330	365	393	364	465
Institutions (Banks/FIs/FIIs/FPIs/Corporates)	Rs bn	1,065	1,154	1,370	1,446	1,245	1,280	1,019	940
Total AUM	Rs bn	2,399	2,993	3,461	3,384	2,137	2,409	2,286	1,855
Investor Share (%)		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Retail	%	22.8	24.6	24.4	18.0	21.3	24.6	39.5	24.3
HNIs	%	32.8	36.9	36.0	39.3	19.8	17.1	15.9	25.1
Institutions (Banks/FIs/FIIs/FPIs/Corporates)	%	44.4	38.6	39.6	42.7	58.9	58.3	40.3	50.7
Total		100	100	100	100	100	100	100	100
Market Share		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Total AUM	%	12.9	13.2	14.1	13.7	11.5	10.6	9.3	7.5
Equity AUM	%	15.8	16.2	15.6	14.5	9.7	9.2	8.9	7.4
Debt AUM	%	13.0	13.0	13.6	13.2	12.9	12.2	10.5	7.0
Liquid AUM	%	9.8	9.4	14.9	17.0	9.6	9.6	6.9	5.5
ETF AUM	%	1.6	1.0	0.6	0.9	27.1	16.7	16.3	15.9
Retail AUM	%	14.2	13.7	13.1	13.1	13.8	13.7	14.0	9.7
HNI AUM	%	16.7	17.4	17.5	16.1	7.8	6.2	5.1	5.6
Institutions AUM	%	10.6	10.5	12.4	12.3	12.4	11.6	9.2	8.0

*FV for HDFCAMC

Source: Company financials and disclosures, HSIE Research

Life Insurance : Sector Thematic

Thematic reports by HSIE

Sector Thematic
Cement

WHRS – A key cog in the flywheel

WHRS – A key cog in the flywheel

In this theme, we analyse the Indian cement industry's environmental friendliness and financial performance. WHRS is a key cog in the flywheel of the Indian cement industry. WHRS – A key cog in the flywheel



Cement: WHRS – A key cog in the flywheel

Sector Thematic
Autos

Where are we on the “S” curve?

The auto industry in India is expected to witness multiple disruptions, from regulatory changes to market volatility. Where are we on the “S” curve? In the current scenario, where India is expected to witness multiple disruptions...



Autos: Where are we on “S” curve?

Sector Thematic
FMCG

Defensive businesses but not valuations

FMCG stocks witnessed growth in FY21, but with nominal GDP moderation, sector posted 5% revenue growth in FY21 vs. 12% CAGR over the last 10 years. Defensive businesses but not valuations



FMCG: Defensive businesses but not valuations

Sector Thematic
Autos : Two wheelers

A changed landscape

The two-wheeler landscape has changed primarily due to the global pandemic. A changed landscape



Autos: A changed landscape

Sector Thematic
Banks

Double whammy for some

Recent events (YEs and COVID-19) are likely to have multiple order and impact on the banking sector. Double whammy for some




Banks: Double whammy for some

India Equity Strategy

ATMA NIRBHAR BHARAT

India Equity Strategy: Atma Nirbhar Bharat



India Equity Strategy: Atma Nirbhar Bharat

Sector Thematic
Indian IT

Demand recovery in sight

Indian IT will stage a recovery from the near-term economic shock and is currently in the construction phase with demand recovery in sight. Demand recovery in sight




Indian IT: Demand recovery in sight

Sector Thematic
Life Insurance

Recovery may swift with protection driving margins

Google trends indicate a steep rise in interest for term and health insurance to near all-time high levels. Recovery may swift with protection driving margins



Life Insurance: Recovery may swift with protection driving margins

Sector Thematic
Retail

Whom flywheel is broken?

The COVID-19 pandemic has been in the high threat zone and is likely to be a long-term phenomenon. Whom flywheel is broken?



Retail: Whom flywheel is broken?

Sector Thematic
Appliances

Looking beyond near-term disruption

In the current unprecedented time, when COVID-19 has impacted all economic activities, looking beyond near-term disruption



Appliances: Looking beyond near-term disruption

Sector Thematic
Pharma

Chronic therapy: A portfolio prescription

Chronic therapeutics business is the most sustainable and profitable part of Indian Pharma ecosystem. Chronic therapy: A portfolio prescription



Pharma: Chronic therapy – A portfolio prescription

Sector Thematic
Indian Gas Sector

Looking beyond the pandemic

A sharp increase in demand gas supply from non-growth over FY17-FY20 to 12% CAGR over FY21-FY26, and low volatility in FY21. Looking beyond the pandemic



Indian Gas: Looking beyond the pandemic

India Equity Strategy

Quarterly flipbook

Q1 – margins save the day!

Q1-21 was indeed an exceptional quarter, given the impact of COVID-induced lockdowns, which tested the resilience and equity of business models. Quarterly flipbook



India Equity Strategy: Quarterly flipbook

Sector Thematic
Real Estate

Ripe for consumption

COVID-19 has been a black swan event, which has hit the real estate sector hard, both globally and locally. Ripe for consumption



Real Estate: Ripe for consumption

Sector Thematic
Indian IT

Indian IT: expanding centre of gravity

“Cash flow is a fact, profit is an opinion.” We evaluate the sector's balance sheet strength to deconstruct value by testing consistency of growth and capital allocation. Indian IT: expanding centre of gravity

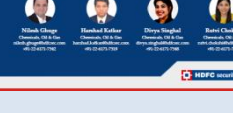


Indian IT: expanding centre of gravity

Sector Thematic
Indian Chemical Sector

Evolution to revolution!

The positive signs in our specialty chemicals portfolio are: (i) diversification of product lines, (ii) enhanced capital expenditure in high-growth development opportunities and balanced portfolio (growth in FY21 and FY22 CAGR of 8.5% vs FY17-FY20), (iii) investments in Research & Development (R&D), which would allow them to develop new products and expand their market share. Evolution to revolution!



Indian Chemical: Evolution to revolution!

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

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