

IPO UPDATE

HDFC Standard Life Insurance Company Limited

Insurance Industry:

Globally, the insurance industry can be broadly divided into two:

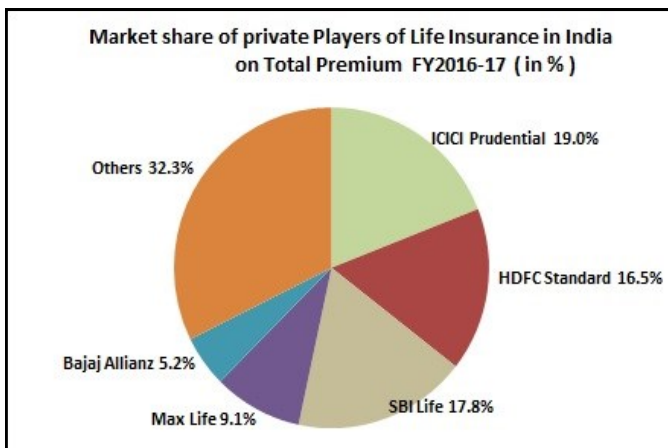
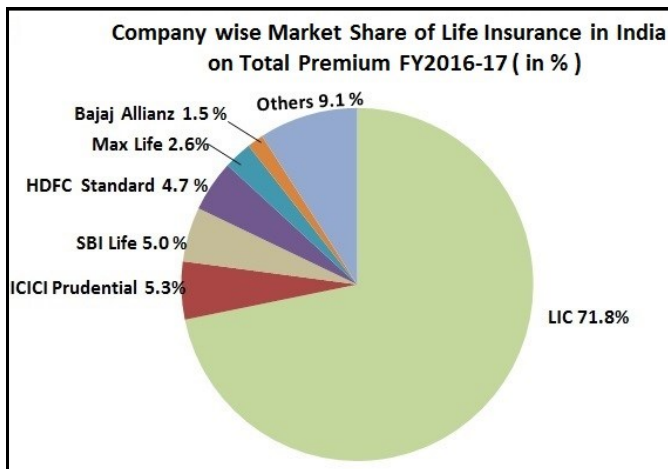
- A. Life Insurance
- B. General Insurance

While life insurance relates to risk cover for life or disability/accidents of an individual or a group of individuals; General Insurance or non-life insurance covers risk to other insurable assets such as property, vehicles, health etc.

The life insurance sector can be classified on the basis of products and customer segments. On the basis of products, they are divided into linked and non-linked products. Non-linked products are traditional products, with protection and savings built in, or pure protection products. As the name suggests, linked products offer returns that are linked to the performance of debt and equity markets. Linked products started gaining traction from 2004. Non-linked saving products can be further divided into participating insurance products and non-participating insurance products. Participatory products have their returns linked to the performance of the insurance company. As of 2016-17, non-linked products were the most popular, accounting for 87% of total premium collected.

During the period from 1956-2000, the Indian life insurance industry consisted of only one player namely Life Insurance Corporation of India (LIC). However, post privatization in 2000, there were 10 private players that entered into the life insurance industry.

Life insurance in India is a Rs4.2tn industry on total premium basis. The assets under management (AUM) of the industry increased at 19% CAGR during 2000-01 to 2016-17 to ~Rs30tn.



Source : Red herring Prospectus

| SNAPSHOT | |
|----------------------------|------------------------------------|
| Issue Opens | Tuesday, November 07, 2017 |
| Issue Closes | Thursday, November 09, 2017 |
| Price Band | Rs275 to Rs290 |
| Bid Lot | 50 shares and multiples thereafter |
| Face Value | Rs10 |
| Listing | BSE & NSE |
| Type of Issue | Offer for Sale (OFS) |
| Offer Size | OFS- Rs86,950mn |
| Implied Market Cap | Rs5,82,602mn |
| PE (based on FY17 earning) | 65.69 |

Note : Offer size, Implied Market Cap are based on higher Price Band

| Details of Selling Shareholder & No of Shares | |
|---|---------------------|
| Housing Development Finance Corporation (HDFC) | 19,12,46,050 |
| Standard Life (Mauritius Holdings) 2006 Limited | 10,85,81,768 |
| Total | 29,98,27,818 |

Note : No of share under OFS represents 14.92 % of the total outstanding shares of the company.

| Issue allocation | |
|------------------|----------------|
| Reservations | % of Net Issue |
| QIB | 50% |
| NIP | 15% |
| Retail | 35% |
| Total | 100% |

| Object of the offer | |
|---|--|
| <ul style="list-style-type: none"> • To achieve the benefits of listing the Equity Shares on the Stock Exchanges. • To enhance visibility, brand image and provide liquidity to the shareholders. | |

| Last 3 year Summarized Financials (Rs in mn) | | | |
|--|----------|----------|----------|
| Particulars | FY15 | FY16 | FY17 |
| Revenue | 2,70,906 | 1,80,664 | 3,05,544 |
| PAT | 7,856 | 8,168 | 8,869 |
| PAT % | 2.9 | 4.5 | 2.9 |

| Last 3 year Summarized Cash flow | | | |
|----------------------------------|----------|----------|----------|
| Rs(mn) | FY15 | FY16 | FY17 |
| Cash flow from Operation | 44,595 | 56,875 | 62,303 |
| Cash flow from Investing | (35,145) | (39,591) | (51,752) |
| Cash flow from financing | (1,676) | (2,124) | (2,356) |

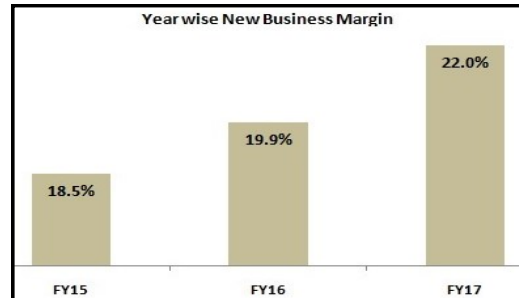
IPO UPDATE

HDFC Standard Life Insurance Company Limited

About the company :

HDFC Standard Life Insurance Company Limited was established in 2000 as a joint venture between HDFC (one of India's leading housing finance institutions) and Standard Life Aberdeen Plc (one of world's largest investment companies), initially through its wholly owned subsidiary "The Standard Life Assurance Company" and now through its wholly owned subsidiary, Standard Life Mauritius. HDFC holds 61.21% whereas Standard Life Mauritius holds 34.75% shares of the company.

The company was one of the most profitable life insurers, based on Value of New Business (VNB) margin, among the top five private life insurers in India (measured on total new business premium) in FY16 and FY17, according to CRISIL. Besides it has consistently been among the top three private life insurers in terms of profitability based on VNB margin.



Few important parameters are tabulated below which would give little insight on the business activity of the company:

| Particulars (Rsmn) | FY15 | FY16 | FY17 | As at and for Six month ended Sep 30, 2017 | CAGR from FY15 to FY17 |
|--|----------|----------|----------|--|------------------------|
| Total Premium | 1,48,299 | 1,63,129 | 1,94,455 | 91,403 | 14.5% |
| AUM | 6,70,467 | 7,42,473 | 9,17,423 | 9,95,340 | 17.0% |
| EV | 88,882 | 1,02,325 | 1,24,705 | 1,40,114 | 18.4% |
| VNB Margin | 18.5% | 19.9% | 22.0% | 22.4% | - |
| 13th month persistency | 73.3% | 78.9% | 80.9% | 82.2% | - |
| No of Lives insured (Individual & group) | 5.7 | 15.4 | 20.9 | 11.7 | 91.5% |

Source : Red herring Prospectus

Distribution Network :

- 66,372 individual agents, which comprise 6.8% of the all private agents in the Indian life insurance industry
- 125 major bancassurance partners through corporate agency or master policyholder arrangements, comprising 21 banks, 80 non-banking financial companies, nine small finance banks and 15 micro-finance institutions. The top 15 bancassurance had over 11,200 branches across India as at September 30, 2017.
- Over 1,200 frontline sales staff across the direct sales channels, including group sales and online and digital sub-channels and web aggregators.
- Over 45 brokers and other tie-ups, comprising 21 significant insurance brokers and 29 Insurance Marketing Firms.

| Contribution of Distribution Channel to the total new business premium | | | |
|--|------|------|------|
| Rs(mn) | FY15 | FY16 | FY17 |
| Bancassurance | 50% | 54% | 51% |
| Individual Agents | 10% | 8% | 8% |
| Direct | 37% | 36% | 39% |
| Brokers and Others | 3% | 2% | 2% |
| Total | 100% | 100% | 100% |

Source : Red herring Prospectus

IPO UPDATE

HDFC Standard Life Insurance Company Limited

Peer Comparison :

| Particulars | Units | HDFC Standard Life | ICICI Prudential Life | SBI Life | Max Life | Bajaj Allianz |
|---------------------------|--------|--------------------|-----------------------|----------|----------|---------------|
| Total Premium | (Rsbn) | 194.6 | 223.5 | 210.2 | 107.8 | 61.8 |
| Cost | | | | | | |
| Commission | % | 4.1 | 3.4 | 3.7 | 8.7 | 2.4 |
| Operating expenses | % | 12.6 | 10.7 | 8.0 | 15.7 | 18.0 |
| Profitability | | | | | | |
| RoE (Average FY15-17) | % | 29.4 | 31.2 | 20.1 | 23.6 | 12.2 |
| ROIC | % | 38.4 | 34.3 | 87.9 | 25.2 | 71.4 |
| RONW | % | 25.6 | 28.7 | 18.6 | - | - |
| New Business Margin (NBM) | % | 21.6 | 10.1 | 15.4 | 18.8 | -4.3 |
| Product Mix | | | | | | |
| Linked | % | 35.2 | 79.1 | 50.5 | 24.4 | 41.7 |
| Non Linked | % | 64.8 | 20.9 | 49.5 | 75.6 | 58.3 |
| | | | | | | |
| No of Products | Number | 30 | 19 | 29 | 18 | 23 |
| AUM (FY17) | (Rsbn) | 917 | 1229 | 977 | 444 | 493 |
| 5 Year CAGR | % | 23.3 | 11.9 | 16.0 | 20.8 | 4.6 |
| Claim Settlement Ratio | % | 99.2 | 97.2 | 98.0 | 98.3 | 99.2 |

Source : Red herring Prospectus

Financials

| POLICY HOLDERS ACCOUNT | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Consolidated Rs (mn) | FY13 | FY14 | FY15 | FY16 | FY17 |
| Premium Earned | 1,14,461 | 1,19,764 | 1,47,625 | 1,61,788 | 1,92,749 |
| Interest, Dividend, Rent | 17,785 | 23,539 | 28,607 | 34,725 | 40,676 |
| Profit on Sale Investment | 9,406 | 4,154 | 32,154 | 27,703 | 35,041 |
| Gain on Revaluation/ Change in Fair Value | (1976) | 22,834 | 61,403 | (44,711) | 35,837 |
| Other | 488 | 2,615 | 1,119 | 1,158 | 1,242 |
| Total | 1,40,163 | 1,72,907 | 2,70,906 | 1,80,664 | 3,05,544 |
| Expenses | | | | | |
| Benefit Paid | 39,028 | 46,619 | 81,624 | 81,769 | 98,422 |
| Operating Expenses | 12,160 | 12,805 | 14,888 | 18,718 | 23,853 |
| Commission | 6,473 | 5,141 | 6,234 | 7,019 | 7,920 |
| Change in Valuation of Policy Liabilities | 74,149 | 1,00,584 | 1,56,525 | 59,281 | 1,60,548 |
| Other Expenses | 1,468 | 1,944 | 2,220 | 2,535 | 3,805 |
| Provision for tax | 509 | 1,516 | 1,193 | 1,746 | 1,520 |
| Total | 1,33,787 | 1,68,609 | 2,62,685 | 1,71,068 | 2,96,068 |
| | | | | | |
| Surplus / (Deficit) | 6,376 | 4,298 | 8,221 | 9,596 | 9,476 |
| Transfer to Shareholders Account | 3,900 | 7,654 | 6,709 | 7,183 | 7,863 |

IPO UPDATE

HDFC Standard Life Insurance Company Limited

| SHAREHOLDERS ACCOUNT | | | | | |
|---|--------------|--------------|--------------|--------------|---------------|
| Consolidated (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 |
| Amount Transfer from Policy Holders Account | 3,900 | 7,654 | 6,709 | 7,183 | 7,863 |
| Income From Investment | 711 | 1161 | 2033 | 1712 | 2303 |
| Others | - | - | - | 106 | - |
| Total | 4,611 | 8,815 | 8,742 | 9,001 | 10,167 |
| Expenses | | | | | |
| Expenses Other than Insurance | 78 | 157 | 230 | 254 | 768 |
| Contribution to Policy Holders Fund | 19 | 2173 | 467 | 380 | 354 |
| Other Expenses | - | 59 | (1) | 33 | (44) |
| Total | 97 | 2,389 | 696 | 667 | 1,078 |
| Profit Before Tax | 4,515 | 6,425 | 8,046 | 8,334 | 9,089 |
| Tax | 42 | (828) | 191 | 166 | 220 |
| Net Profit after tax | 4,472 | 7,253 | 7,856 | 8,168 | 8,869 |

Source : Red herring Prospectus

Outlook and Recommendations:

The strong brand of HDFC is one of the key factors that is attracting the investors to invest into the IPO. The company is one of the top three private life insurers. During FY15-17, the total premium saw a CAGR of 14.5%, while the company improved its Value of New business (VNB) margins from 18.5% in FY15 to 22% in FY17 by bettering cost efficiencies, increasing persistency ratios and selling a balanced product mix. However, in terms of the valuations at the time of the IPO, it seems to be overpriced when compared to the peers like ICICI Prudential and SBI Life. One can subscribe to the IPO to capture the long-term growth and profitability of the existing business. Post listing this would definitely be a Sipping candidate.

DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). PSBPL along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Retail), commodity broking, depository participant, and financial products like mutual funds.

PSBPL is SEBI registered under SEBI (Research Analysts) Regulations, 2014 (SEBI Registration no- INH000000859). PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

PSBPL or its associates may have financial interest in the subject company.

Research Analyst or his/her relative's financial interest in the subject company. (YES/NO)-YES

PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.

PSBPL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (YES/NO)- NO

PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.

The research Analyst has served as officer, director or employee of the subject company : (YES/NO)-NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.