

Insurance

India

Sector View: **Attractive** NIFTY-50: **19,310**

August 18, 2023

Margin pressure visible, growth gradually picking up

Life insurance companies reported pressure on their margins due to the shift in product mix away from high-margin non-par and lower product level margins. Growth for listed players has been gradually picking up mom and will likely accelerate hereon, even as the margin outlook remains muted. While the term increases, product strategy in the savings business remains tactical. We continue to like life insurers across the board; with undemanding growth reflected in current valuations, we find more legs to the rally.

Growth picking up for life companies

Listed life insurance companies are gradually reporting an improvement in business momentum. This follows a sluggish April, which saw fatigue after a hectic March 2023; four listed private companies reported (-)4% to 13% (considering HDFC's merged entity) APE growth during the quarter. Business momentum at large banks has been divergent—HDFC Bank likely remained robust (up ~18%), Axis Bank bit weak (up ~4%) and ICICI Bank continued to decline (down 20%); State Bank of India was weak (up 9%), but picked up in July. With ~6% growth at the top-five banks, partnerships and agency did the heavy lifting. Among other large players, Aditya Birla bounced back with 30% APE growth (with 30-40% growth across channels), Bajaj was muted (up 5%) and Tata AIA was strong (20%), mostly driven by agency and direct, as its bancassurance business was almost flat yoy.

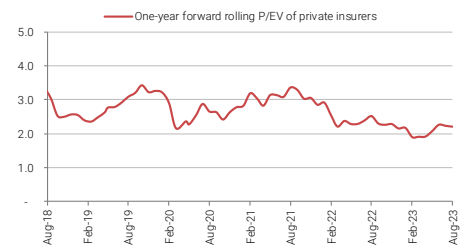
Margin pressure—tad higher than expected

Margin pressure was visible across the board. Bajaj Life, HDFC Life and SBI Life reported a yoy decline in margins, whereas ICICI Life's margins were up marginally, expansion at Max Life was mostly on a low base. Key reasons: (1) Non-par business reduced sequentially (24-39% of APE in 1QFY24 from 26-58% of APE in 4QFY23) after a heavy March, (2) select players such as Max Life and SBI Life did not reprice the product and (3) an increase in ULIPs, despite an increase in the retail term business. The change in the product mix and improved leverage led to an increase of over 6X in Aditya Birla's VNB. An increase in ULIPs and lower margin in non-par (no change in pricing) led to a 30% VNB decline for Bajaj Allianz. Listed companies are guiding for flat margins or some decline for the year (FY2024E versus FY2023) due to lower share of non-par and investments in growth or likely higher payouts.

Valuations still have room for expansion; BUY

Life insurance stocks delivered 14-33% returns in 1QFY24. Exhibit 7 shows that reverse valuations still assume low medium-term growth. With improving business momentum and long-term investments in growth, we continue to find more legs to the rally. We expect most listed companies to deliver mid-to-high teen APE growth for the year, excluding the impact of March one-offs, with near stable margins. We continue to prefer life over the non-life sector and remain positive across the private sector. Jio FS announced its foray into asset management; all eyes are on its plan for the insurance sector.

Company data and valuation summary



Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of August 18, 2023

Quick Numbers

Listed life insurers reported (-)4% to 13% APE growth
Overall bancassurance growth was muted at 6%

VNB margins compressed 58-372 bps yoy for most players

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Strong APE, flat to decline in margins for most

Exhibit 1: APE, VNB and VNB margins, March fiscal year-ends, 1QFY22-1QFY24

	Key metrics								
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
APE (Rs bn)									
HDFC Life	16	26	26	30	19	26	33	52	23
ICICI Prudential Life	12	20	19	26	15	20	18	33	15
LIC	NA	NA	NA	NA	103	150	123	191	95
Max Life	9	13	16	18	10	12	15	25	11
SBI Life	16	40	46	41	29	39	54	46	30
VNB margin (%)									
HDFC Life	26.2	26.5	26.7	29.4	26.8	28.3	26.8	29.3	26.2
ICICI Prudential Life	29.4	26.0	26.7	29.7	31.0	31.1	33.9	32.0	30.0
LIC	NA	NA	NA	NA	13.6	15.2	14.6	19.2	13.7
Max Life	19.7	29.2	24.9	31.9	21.1	31.3	39.3	30.3	22.2
SBI Life	23.7	25.2	24.9	28.6	30.3	31.5	27.8	31.3	28.8
VNB (Rs bn)									
HDFC Life	4.1	6.8	6.9	9.0	5.1	7.5	8.8	15.1	6.1
ICICI Prudential Life	3.6	5.2	5.2	7.8	4.7	6.2	6.2	10.6	4.4
LIC	NA	NA	NA	NA	14.0	22.8	18.0	36.8	13.0
Max Life	1.7	3.7	4.0	5.9	2.1	3.7	5.9	7.7	2.5
SBI Life	3.8	10.0	11.4	11.8	8.8	12.3	15.1	14.3	8.7

Notes:

(1) HDFC Life's figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

Exhibit 2: Quarterly summary, March fiscal year-end, 1QFY24

	1QFY24	1QFY23	4QFY23	(% change)		2024E	2023	YoY (%)	2025E
				1QFY23	4QFY23				
APE (Rs bn)									
HDFC Life	23	19	52	22	(55)	143	133	7	167
HDFC Life (merged)	23	21	52	13	(55)				
ICICI Prudential Life	15	15	33	(4)	(56)	87	86	0	99
LIC	95	103	191	(7)	(50)	584	567	3	584
Max Life	11	10	25	10	(56)	69	62	10	80
SBI Life	30	29	46	4	(34)	198	168	18	234
VNB (Rs bn)									
HDFC Life	6	5	15	20	(60)	40	37	8	47
HDFC Life (merged)	6	5	15	18	(60)				
ICICI Prudential Life	4	5	11	(7)	(58)	28	28	1	32
LIC	13	14	37	NM	(65)	96	92	4	99
Max Life	2	2	8	16	(68)	19	19	(1)	22
SBI Life	9	9	14	(1)	(39)	57	51	13	67
VNB margin (%)									
HDFC Life	26.2	26.8	29.3	-58 bps	(10)	27.8	27.5	1	28.0
HDFC Life (merged)	26.2	25.1	29.3	111 bps	(10)				
ICICI Prudential Life	30.0	31.0	32.0	-101 bps	(6)	32.0	32.0	0	32.0
LIC	13.7	13.6	19.2	NM	(29)	16.4	16.2	1	17.0
Max Life	22.2	21.1	30.3	108 bps	(27)	28.1	31.2	(10)	27.9
SBI Life	28.8	30.3	31.3	-154 bps	(8)	28.9	30.2	(4)	28.8
Operating ROEV (%)									
HDFC Life	15.2	15.6	24.0	-39 bps	(37)	18.7	21.6	(13)	18.4
ICICI Prudential Life	NA	NA	NA	NM	NM	16.3	17.4	(6)	16.3
LIC	NA	NA	NA	NM	NM	9.3	10.9	(15)	9.2
Max Life	14.0	13.5	27.3	50 bps	(49)	21.0	22.1	(5)	20.3
SBI Life	NA	NA	NA	NM	NM	21.1	22.9	(8)	20.7
EV (Rs bn)									
HDFC Life	418	297	395	41	6	471	395	19	557
HDFC Life (merged)	418	353	395	19	6				
ICICI Prudential Life	NA	NA	356	NM	NM	404	356	13	481
LIC	NA	NA	5,822	NM	NM	6,362	5,822	9	6,945
Max Life	169	142	163	20	4	197	163	21	235
SBI Life	NA	NA	460	NM	NM	555	461	20	665

Source: Company, Kotak Institutional Equities estimates

Strong APE growth was weak in 1QFY24

Exhibit 3: APE, March fiscal year-ends, 1QFY23-1QFY24

	APE (Rs bn)					YoY (%)					APE (Rs bn)					YoY (%)
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2019	2020	2021	2022	2023	2023
Baja Allianz Life	12	12	14	22	13	104	28	18	41	5	21	23	29	44	61	40
HDFC Life	19	26	33	52	23	22	4	26	69	22	63	74	84	98	133	37
HDFC Life (merged)	21	29	33	52	23					13					133	
ICICI Prudential Life	15	20	18	33	15	25	1	(6)	26	(4)	78	74	65	77	86	12
LIC	103	150	123	191	95	NA	NA	NA	NA	NA	NA	NA	422	504	567	12
Max Life	10	12	15	25	11	15	(7)	(5)	38	10	40	41	50	56	62	12
SBI Life	29	39	54	46	30	79	(1)	19	11	4	97	108	115	143	168	18

Notes:

(1) HDFC Life's figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

VNB growth was also muted

Exhibit 4: VNB, March fiscal year-ends, 1QFY23-1QFY24

	VNB (Rs bn)					YoY (%)					VNB (Rs bn)					YoY (%)
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2019	2020	2021	2022	2023	2023
Baja Allianz Life	1	2	2	4	1	434	40	38	35	(30)	2	4	6	10	53	
HDFC Life	5	7	9	15	6	25	10	26	69	20	15	19	22	27	37	
HDFC Life (merged)	5	8	9	15	6					18					37	
ICICI Prudential Life	5	6	6	11	4	32	21	20	36	(7)	13	16	16	22	28	
LIC	14	23	18	37	13	NA	NA	NA	NA	(7)	NA	NA	42	76	92	
Max Life	2	4	6	8	2	24	(0)	50	31	16	9	9	12	15	19	
SBI Life	9	12	15	14	9	129	24	33	21	(1)	17	20	23	37	51	

Notes:

(1) HDFC Life's figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

Margin compressed sharply in 1QFY24

Exhibit 5: VNB margin, March fiscal year-ends, 1QFY23-1QFY24

	VNB margin (%)					YoY (bps)					VNB margin (%)					YoY (bps)
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2019	2020	2021	2022	2023	2023
Bajaj Allianz Life	11.1	15.2	14.8	18.6	7.4	686	133	216	(82)	(372)	9.9	12.3	14.2	15.5	130	
HDFC Life	26.8	28.3	26.8	29.3	26.2	59	174	12	(8)	(58)	24.6	25.9	26.1	27.4	27.5	
HDFC Life (merged)	25.1	27.0	26.8	29.3	26.2					111					27.5	
ICICI Prudential Life	31.0	31.1	33.9	32.0	30.0	162	502	722	226	(101)	17.0	21.7	25.1	28.0	32.0	
LIC	13.6	15.2	14.6	19.2	13.7	NA	NA	NA	NA	NA	NA	NA	9.9	15.1	16.2	
Max Life	21.1	31.3	39.3	30.3	22.2	145	217	1,441	(156)	108	21.7	21.6	25.2	27.3	31.2	
SBI Life	30.3	31.5	27.8	31.3	28.8	664	631	292	269	(154)	17.8	18.7	20.3	25.9	30.2	

Notes:

(1) HDFC Life's figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

Product mix shift drives margin expansion for LIC and Max Life

Exhibit 6: VNB walk, March fiscal year-ends, 1QFY24 (%)

	HDFC Life	LIC	Max Life	SBI Life
Opening VNB margin (1QFY23)	5.2	13.6	21.1	30.4
Impact of higher volumes	0.7	—	—	—
Change in assumptions	—	2.0	—	0.7
Change in product mix	0.1	0.6	1.1	(1.2)
Economic variance	—	(2.5)	—	(1.1)
Fixed cost absorption	0.1	—	—	—
Closing VNB margin (1QFY24)	6.1	13.7	22.2	28.8

Source: Company

Post-correction life insurance valuations factor low-growth scenario

Exhibit 7: Kotak estimates versus market price implied estimates, March fiscal year-ends, June 2025E

	FV (Rs)	AV/EV (X)	EV/share (Rs)	NBM (X)	VNB/share (Rs)	Long term growth (%)	Cost of equity (%)
HDFC Life							
Kotak estimates	820	3.0	271	24.0	22.8	11.7	13.0
CMP implied	624	2.3	271	15.5	22.8	7.7	13.0
ICICI Pru Life							
Kotak estimates	675	1.9	347	14.3	22.9	9.0	14.5
CMP implied	537	1.5	347	8.3	22.9	4.1	14.5
Max Life							
Kotak estimates	1,000	1.9	514	10.2	47.8	10.0	14.5
CMP implied	869	1.7	514	7.4	47.8	4.1	15.0
SBI Life							
Kotak estimates	1,550	2.2	698	12.1	70.4	12.0	14.0
CMP implied	1,280	1.8	698	8.3	70.4	5.6	14.0

Source: Bloomberg, Kotak Institutional Equities estimates

New business strain remains elevated in 1QFY24 for HDFC Life

Exhibit 8: PAT and surplus for HDFC Life, March fiscal year-ends, 4QFY22-4QFY23, 2018-2023 (Rs bn)

	Merged					YoY (%)	YoY (%)						
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24		2018	2019	2020	2021	2022	2023	2023
PAT	3.7	3.3	3.1	3.6	4.2	14	11.1	12.8	13.0	13.6	12.1	13.6	13
Underwriting profits	2.6	2.1	1.0	0.4	2.1	(19)	8.5	9.0	10.8	7.3	4.4	5.9	34
New business strain	(7.2)	(8.0)	NA	(13.4)	(9.9)	NM	(10.6)	(16.5)	(19.1)	(25.0)	(30.5)	(38.3)	NM
Existing business surplus	9.8	10.1	NA	13.8	12.0	22	19.1	25.5	29.9	32.3	34.9	44.2	27
Shareholder's surplus	1.0	1.1	2.1	3.2	2.0	100	2.6	3.8	2.1	6.3	7.7	7.7	—

Source: Company, Kotak Institutional Equities

New business strain remains elevated in 1QFY24 for Max Life

Exhibit 9: PAT and surplus for HDFC Life, March fiscal year-ends, 4QFY22-4QFY23, 2018-2023 (Rs bn)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	2018	2019	2020	2021	2022	2023	YoY (%)
Undewriting profits	0.3	(0.0)	2.3	(0.1)	0.2	(53)	3.9	4.3	4.3	3.8	1.5	2.5	67.8
New business strain	(3.1)	(3.4)	(2.0)	(4.8)	(3.5)	NM	(3.4)	(5.9)	(7.6)	(8.6)	(9.3)	(13.2)	NM
Backbook surplus	3.4	3.3	4.3	4.7	3.7	9	7.3	10.2	11.9	12.4	10.8	15.6	45.0
Shareholders surplus	0.4	0.5	0.3	0.7	0.7	67	-	1.3	1.1	1.4	2.4	1.9	(21.6)

Source: Company, Kotak Institutional Equities

Player-wise 1Q results summary

- ▶ **HDFC Life reported better growth, but margins were weak.** HDFC Life reported 13% growth in APE (compared with pro forma merged Exide Life) in 1QFY24. Similar to the rest of the industry, momentum picked up during the quarter, with 6.3% APE growth in April, 14% in May and 21% in June, as the industry took a breather after a strong March 2023. VNB margins compressed to 26.2% for 1QFY24 (including Exide Life) from 26.8% (standalone) in 1QFY23. The company has made large investments in new business; with lower volumes in the first two months, fixed cost absorption was low, leading to a 110 bps drag on margins. Management highlighted that the product-level margin in non-par (despite a lower rate and downward repricing) was flat and product mix also remains favorable—in fact, the company reported positive effect of the shift in the business mix in its VNB bridge. Pro forma merged VNB margin in 1QFY23 was lower at 25.1%, thus reflecting a 110 bps yoy expansion (both on merged basis).
- ▶ **ICICI Prudential Life reported 7% decline in VNB owing to 4% decline in APE.** ICICI Prudential Life reported a 4% decline in APE in 1QFY24 due to (1) the drag in the ICICI Bank channel and (2) low demand for non-par policies. ICICI Bank's channel contribution to APE is now down to 13% from 20% in 1QFY23. In other channels, upfronted demand in March 2023 resulted in muted demand in the first half of the quarter. Margins declined 100 bps yoy likely due to a decline in share of non-par in the product mix. According to management, growth in other channels picked up to 8% in May 2023 and 17% in June 2023. ICICI Prudential Life is ramping up new channels and agency, which will lead to higher expenses/payout, but support business volumes.
- ▶ **Max Life reported moderate APE growth and strong margins.** Max Life reported 10% APE growth in 1QFY24. Bancassurance was weak, with a 2% yoy decline versus 8% growth reported by Bajaj Life at Axis Bank in 1QFY24, reflecting the loss of counter share at Axis Bank. Proprietary channels were up 23% yoy. An increase in competition at Yes Bank after open architecture also likely tempered the bancassurance business. Margins expanded 108 bps yoy, largely due to a yoy shift in the product mix toward non-par savings (39% of APE up from 27% in 1QFY23) and protection (19% of APE versus 18% in 1QFY23) from ULIPs. Notably, share of non-par was high at 38%, 55% and 58% over 2QFY23, 3QFY23 and 4QFY23; thus, a sequential decline in non-par versus the one-off benefits of March 2023. The company did not reprice its non-par in 1Q; this helped in 59% yoy growth in non-par. Annuities grew 4X and growth in other non-par products was also strong at ~40% yoy. With a non-par repricing and higher base, we expect a decline in the non-par business over the next few quarters, leading to margin compression.
- ▶ **LIC reported weak growth.** LIC's APE declined 7% yoy in 1QFY24 owing to 35% growth in 1QFY23. Individual APE also declined 8% yoy; notably, individual APE growth was up 14% yoy in July 2023, indicating a pick-up in volumes. VNB margin expansion was muted during the quarter at 10 bps yoy as the effect of a change in product mix (non-par, including ULIP was up 150 bps yoy to 6.4% of APE) was offset by the change in assumptions. Management highlighted that the change was largely on account of the shift in yield curve.
- ▶ **SBI Life reported weak volumes and margins.** SBI Life reported 4% growth in APE during the quarter, on a high base of 79% in 1QFY23. The company reported 79%/(-)1%/19%/11% yoy growth in 1QFY23/2QFY23/3QFY23/4QFY23. SBI Life's business remains volatile qoq and will catch up over the next three quarters. SBI Life reported a VNB margin of 28.8%, down 163 bps yoy; its non-par business declined 20% yoy in 1QFY24, on a high base. ULIPs, on the other hand, were up 17%—a low base and rally in equities likely aided. The protection business has grown at 5% yoy, lower than front-line private insurers.
- ▶ **Bajaj reported 30% decline in VNB.** Bajaj Allianz Life reported individual APE growth of 15% yoy growth in 1QFY24. Group business was weak, APE down 27% yoy, leading to muted overall APE growth of 4.7% yoy. VNB margin compressed 372 bps yoy to 7.4% in 1QFY24 likely due to (1) an increase in share of low-margin ULIPs in the product mix and (2) high IRRs in the non-par segment, despite moderation in yields in the debt market. Management highlighted that the impact of higher IRRs was 150 bps and the rest ~220 bps was due to an increase in share of ULIP. IIRs of non-par products were dropped in July 2023; the product mix should also normalize, according to management.
- ▶ **Aditya Birla reports 6X VNB growth.** Aditya Birla SL Insurance reported 6.5X growth in VNB due to the 30% growth in APE (according to IRDA data) and VNB margin of 11.8%, up from 2.5% in 1QFY23. A 1,000 bps increase in the share of the traditional business to 81%, coupled with improved operating

leverage (35-40% growth in bancassurance, 30% growth in proprietary business and 40% growth in direct), led to a sharp margin expansion.

SBI Life gained significant market share in July 2023

Exhibit 10: Individual APE market share, July 2022-July 2023 (%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Bajaj Allianz	4.6	4.8	4.7	5.2	4.5	4.7	4.8	5.5	5.5	6.0	5.6	5.5	5.3
Canara HSBC	1.4	1.5	1.9	1.2	1.4	1.4	1.5	2.0	1.9	0.9	1.0	1.4	1.5
HDFC Life	10.3	11.3	10.1	8.9	10.9	10.9	10.6	11.2	12.6	10.4	10.4	10.6	8.4
ICICI Prudential	6.4	6.2	7.3	5.9	5.5	5.1	6.3	7.5	7.5	5.2	5.5	6.6	6.0
Kotak	2.2	2.1	2.3	2.1	2.1	2.6	2.9	3.4	3.7	1.7	1.6	2.0	2.0
Max Life	5.1	4.8	5.4	5.1	5.5	6.1	4.6	5.9	7.6	4.8	5.1	6.3	5.3
Met Life	2.2	2.2	2.5	2.1	2.1	2.0	2.4	2.3	2.0	2.4	1.9	2.2	2.0
Reliance Life	0.9	0.8	0.9	0.9	0.9	1.0	0.9	1.0	0.8	2.4	1.0	1.1	1.0
SBI Life	14.8	15.0	15.8	16.7	17.4	22.3	16.1	11.4	8.5	15.2	14.5	14.7	16.9
Tata AIA	6.1	6.6	6.2	6.0	6.9	6.7	6.3	7.6	8.5	6.7	6.6	7.0	6.5
Private sector	62.7	64.4	66.8	62.8	66.6	71.4	64.0	67.8	68.1	63.9	64.0	66.5	63.1
Top 4 players	36.5	37.3	38.6	36.6	39.3	44.4	37.6	36.1	36.2	35.6	35.5	38.1	36.6
Private (ex-top 4)	26.2	27.1	28.3	26.2	27.4	27.1	26.4	31.7	31.8	28.3	28.5	28.4	26.6
Select tier-II players	10.7	11.4	10.9	11.3	11.4	11.4	11.0	13.1	14.0	12.8	12.1	12.5	11.8
LIC	37.3	35.6	33.2	37.2	33.4	28.6	36.0	32.2	31.9	36.1	36.0	33.5	36.9

Source: IRDA, LI Council, Kotak Institutional Equities

Mid-tier players continue to outperform listed players

Exhibit 11: 3-year CAGR of individual APE, July 2022-July 2023 (%)

	3-year CAGR (%)								4-year CAGR (%)				
	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Bajaj Allianz	32	34	35	28	27	41	31	35	31	39	31	30	32
Aditya Birla Sun Life	9	19	23	13	17	17	8	20	21	17	20	14	9
HDFC Life	8	17	18	13	21	18	13	16	28	12	7	5	4
ICICI Prudential Life	(9)	(6)	1	(10)	(9)	(8)	(5)	2	13	(9)	(4)	(3)	(5)
Kotak	10	14	9	11	8	10	16	18	15	9	10	12	9
Max Life	1	2	7	14	14	14	(1)	6	16	13	12	10	5
Reliance Life	(0)	(0)	(1)	(2)	7	2	4	1	11	5	3	8	4
SBI Life	7	11	14	17	17	19	5	15	10	15	13	12	13
Tata AIA Life	32	41	32	33	36	31	27	27	35	32	28	25	29
Others	16	14	14	18	15	14	14	15	13	15	18	11	14
Private sector	9	13	14	13	15	16	9	15	19	13	13	10	10
Top 4 players	3	7	11	9	12	13	4	10	17	8	8	6	6
Private (ex-Top 4)	19	22	20	21	20	20	18	20	21	21	21	17	18
Select tier-II players	32	38	33	31	32	35	28	30	33	35	29	27	31
LIC	3	1	8	2	(14)	4	(16)	5	7	3	5	4	6
Industry	7	8	12	9	1	12	(3)	11	14	9	10	8	9

Source: IRDA, LI Council, Kotak Institutional Equities

Mid-tier players continue to outperform listed players

Exhibit 12: 3-year CAGR of overall APE, July 2022-July 2023 (%)

	3-year CAGR (%)								4-year CAGR (%)				
	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Bajaj Allianz	33	31	28	25	22	39	27	33	26	36	29	27	30
Aditya Birla Sun Life	11	21	27	12	17	18	12	19	20	20	22	18	10
HDFC Life	9	17	18	14	19	18	14	15	27	9	8	7	5
ICICI Prudential Life	(6)	(4)	2	(7)	(6)	(6)	(2)	(2)	14	(7)	(1)	(1)	(2)
Kotak	10	13	11	13	6	9	18	17	15	8	10	12	9
Max Life	1	3	7	14	14	14	(1)	6	16	13	13	12	6
Reliance Life	(0)	(1)	(0)	(1)	7	2	4	1	10	5	3	7	5
SBI Life	9	12	12	15	17	19	6	16	10	13	15	12	16
Tata AIA Life	32	41	32	33	36	31	27	28	35	32	28	25	29
Others	16	15	14	18	15	18	14	15	12	15	18	13	15
Private sector	10	13	14	13	15	16	10	14	18	12	14	12	12
Top 4 players	4	9	10	9	12	14	5	9	17	7	9	8	8
Private (ex-Top 4)	20	22	20	20	19	21	19	20	20	20	21	18	18
Select tier-II players	33	36	30	29	29	34	27	30	31	34	29	26	30
LIC	13	8	15	5	(6)	(2)	(11)	4	6	3	3	1	4
Industry	12	11	14	10	3	9	(1)	10	13	8	9	6	8

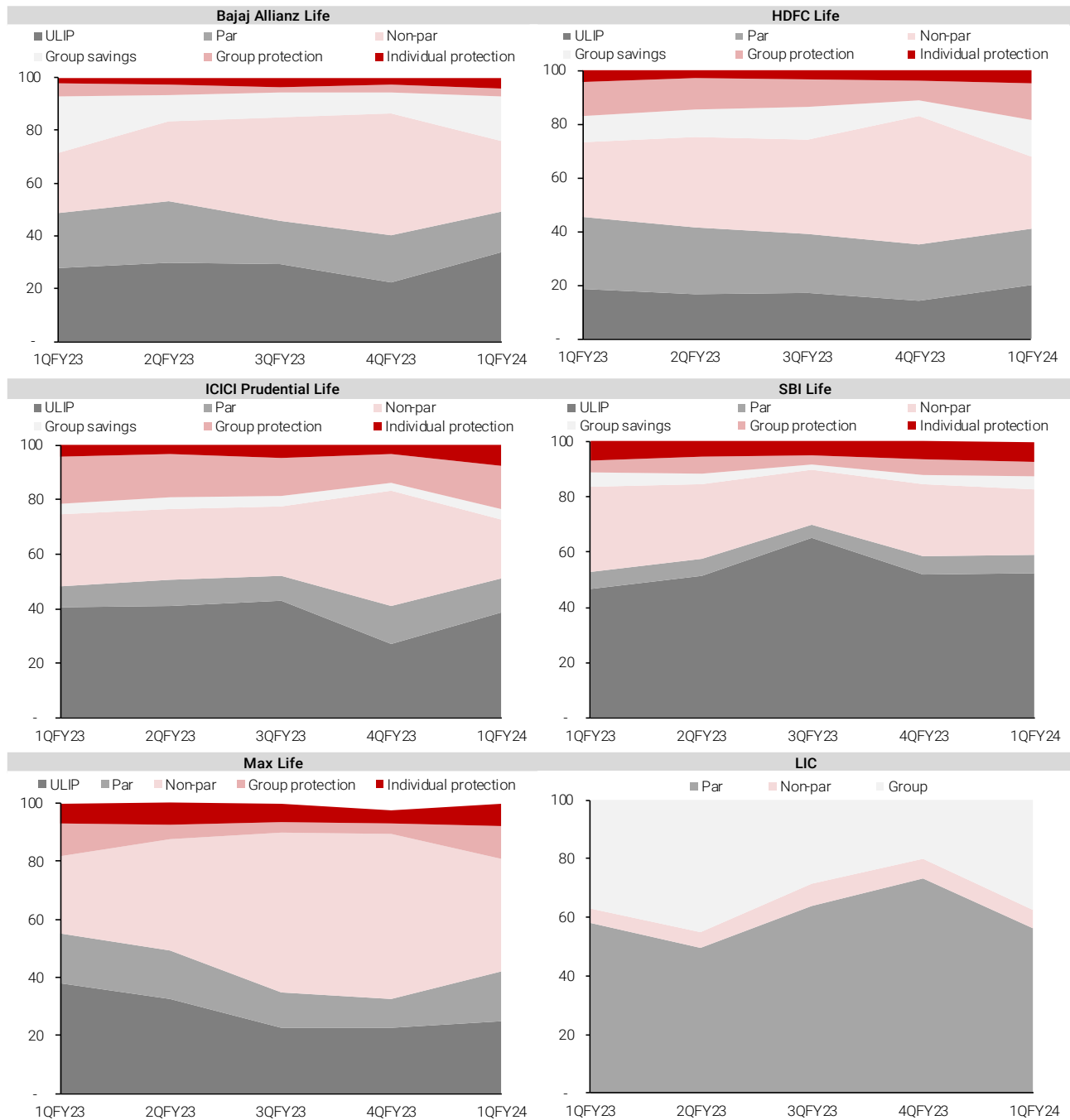
Source: IRDA, LI Council, Kotak Institutional Equities

Product mix—retail protection has picked up, non-par loses steam

- ▶ **Non-par share moderates.** The sunset period sales of high-ticket policies led to upfronting of demand in February and March 2023. This has led to weak non-par growth for most insurers. The share of non-par was 24-39% of APE for four listed private players as compared with 26-58% in 4QFY23 and 25-34% in 1QFY23. The ratio remained highest for Max Life at 39% of APE, likely due to unchanged pricing of product and slowdown in bancassurance and faster growth in other channels. SBI Life, despite no change in non-par pricing, reported a yoy decline in share of non-par due to a high 1QFY23 base when the company had launched its flagship Platina product. Aditya Birla and Bajaj reported 80% and 22% growth in non-par. The delay in repricing exerted pressure on margins for Bajaj. All private life insurers have guided for a moderation in the share of non-par, whereas LIC expects the non-par segment to grow faster on a low base.
- ▶ **ULIP demand up.** The favorable returns in the equity market over the past few months have piqued customer interest in ULIPs—share of ULIPs up to 20-39% from 14-27% in 4QFY23 for listed private players (ex-SBI). The lower persistency and payouts in this product make it unattractive for agents and manufacturers. Hence, life insurance players will likely drive this product through the high-quality banca channel.
- ▶ **Retail protection picks up across players.** HDFC Life, ICICI Prudential Life and Max Life reported 26-62% yoy growth in retail protection. FY2023 was a weak year for retail protection due to stringent underwriting norms mandated by reinsurers and price hikes. Growth should pick up in FY2024E over a low base.

Share of non-par declined in 1QFY24 across players

Exhibit 13: Product mix, March fiscal year-ends, 4QFY22-4QFY23 (%)



Notes:

- (a) HDFC Life's APE for 3QFY23, 4QFY23 and 1QFY24 is on merged basis and not comparable with previous periods.
- (b) LIC's non-par includes protection and ULIP.
- (c) ICICI Prudential Life's par/non-par APE is estimated based on L-4 public disclosures and may not be accurately comparable with other segments.
- (d) Max Life does not share data on group savings separately.

Source: Company, Kotak Institutional Equities

Retail protection growth strong for most players

Exhibit 14: Protection APE, March fiscal year-ends, 1QFY23-1QFY24, 2021-2023 (Rs bn)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	2021	2022	2023	YoY (%)
HDFC Life										
Retail protection	0.8	0.7	1.1	1.8	1.1	45.9	4.9	4.6	4.4	(3.7)
Group protection	2.4	3.1	3.3	3.9	3.1	28.4	5.8	8.7	12.7	46.9
ICICI Prudential Life										
Retail protection	0.7	0.7	0.8	1.1	1.1	61.8	5.7	3.9	3.3	(17.3)
Group protection	2.6	3.1	2.6	3.5	2.3	(10.7)	4.7	9.2	11.8	28.2
Max Life										
Retail protection	0.7	0.9	1.0	1.2	0.9	26.1	4.5	4.2	3.7	(10.4)
Group protection	1.1	0.6	0.5	0.9	1.2	10.3	2.5	3.6	3.1	(13.9)
SBI Life										
Retail protection	2.0	2.2	2.6	3.0	2.1	5.0	7.3	9.2	9.8	6.5
Group protection	1.2	2.3	2.0	2.5	1.6	33.3	4.7	6.2	8.0	29.0

Notes:

(a) HDFC Life's figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

Non-par growth has moderated in 1QFY24

Exhibit 15: Product-wise growth, March fiscal year-ends, 1QFY22-1QFY24 (%)

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
APE growth yoy (%)									
HDFC Life	30	19	20	6	22	4	26	69	22
Savings	26	18	20	6	20	2	26	74	20
ULIP	19	44	30	17	13	(12)	2	9	22
Par	16	7	(2)	(7)	24	(3)	10	41	5
Non-par	44	22	36	6	27	23	45	161	16
Protection	58	32	23	6	31	18	25	42	33
Individual	(4)	(5)	12	(21)	(28)	(39)	(7)	62	46
Group	223	71	29	23	77	53	40	34	28
ICICI Prudential Life	48	35	16	4	25	1	(6)	26	(4)
Savings	56	38	15	(1)	25	(5)	(9)	32	(6)
ULIP	49	44	21	(1)	15	(18)	(24)	(24)	(8)
Others	187	85	66	15	28	21	(1)	111	7
Annuity	168	61	50	(20)	69	69	33	102	(7)
Protection	26	21	19	33	22	36	11	(1)	4
Max Life	32	13	28	(4)	15	(7)	(5)	35	10
Savings	43	15	31	(9)	17	(4)	(5)	44	9
ULIP	40	17	62	(23)	18	(0)	(52)	(10)	(27)
Par	2	60	60	(12)	15	(23)	(45)	(31)	10
Non-par savings	99	(2)	(13)	18	15	5	118	153	59
Protection	1	1	3	45	9	(24)	(7)	(20)	16
Individual	(5)	(34)	(6)	20	(19)	11	2	(24)	26
Group	8	61	21	106	41	(49)	(19)	(13)	10
SBI Life	28	47	30	4	78	(1)	19	11	4
Savings	27	51	31	1	83	(3)	20	10	3
ULIP	67	67	28	(6)	33	(26)	15	(9)	17
Par	9	(13)	(33)	(31)	42	14	20	36	18
Others	(31)	28	87	64	289	91	35	65	(18)
Non-par	(22)	104	86	30	394	116	64	119	(20)
Protection	38	21	27	30	45	10	10	15	16
Individual	86	21	14	24	54	(4)	4	(3)	5
Group	-	20	55	50	33	28	18	39	33
Bajaj Life	49	53	68	36	81	31	21	48	14
ULIP	57	61	72	11	77	21	(7)	3	27
Par	290	126	101	41	49	4	(26)	2	(22)
Non-par	(19)	4	37	70	128	78	124	132	28
Protection	(39)	(8)	26	(32)	(22)	31	62	122	91
Non-par savings	(10)	6	38	87	181	83	132	133	22

Notes:

(1) HDFC Life's figures for 3QFY23 and 4QFY23 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

Banca growth moderates on high base; investments drive agency growth

Our rough estimates suggest that banca channel growth (up 6% yoy) was muted in 1QFY24, albeit on a high base (up 42% yoy in 1QFY23) across 5 key banks. ICICI Bank continues to report a decline in volumes; Axis Bank also reported muted 4% growth in 1QFY24. Axis Bank’s channel has been volatile in the past year (20% in 1QFY23, (-)2% in 2QFY23, (-)1% in 3QFY23 and 24% in 4QFY23). HDFC Bank reported strong 18% yoy growth, whereas SBI was up only 9% on an inflated base (up 98% yoy in 1QFY23).

Agency channel growth was 2X the overall APE growth for most life insurers in 1QFY24. The significant investments in the agency sales force over the past year have yielded results. With many insurers facing pressure on their bancassurance channels, agency has gained importance lately.

Overall, agency base expanded 9-10% qoq for SBI Life, Max Life and HDFC Life, whereas it has been stable for ICICI Prudential Life and LIC in 1QFY24.

Bancassurance business was 6% in 1QFY24

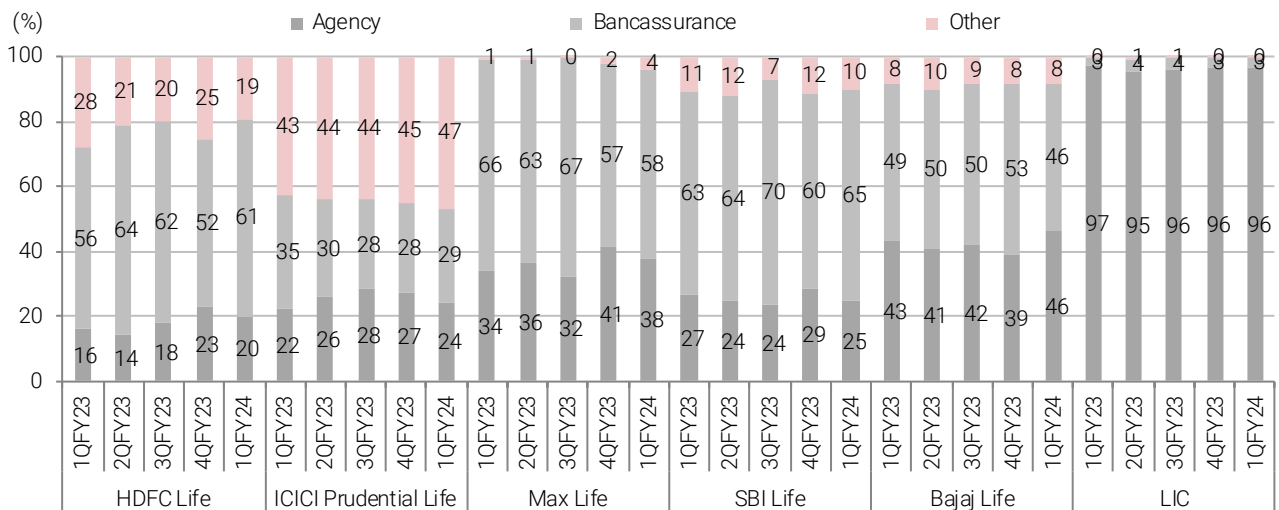
Exhibit 16: Bancassurance premiums across banks, March fiscal year-ends, 1QFY23-1QFY24 (% yoy)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Axis Bank	20	(2)	(1)	24	4
HDFC Bank	28	6	21	51	19
ICICI Bank	12	(24)	(34)	(8)	(20)
State Bank of India	98	(2)	25	7	9
Kotak Mahindra Bank	20	5	(6)	11	(27)
Five key banks	42	(2)	12	22	6

Source: Company, Kotak Institutional Equities estimates

ICICI Prudential Life and Max Life’s banca share continues to decline

Exhibit 17: Channel mix, March fiscal year-ends, 1QFY23-1QFY24 (%)



Notes:

(a) HDFC Life’s figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

Agency and direct channel growth has picked up across players

Exhibit 18: Channel-wise growth yoy, March fiscal year-ends, 1QFY22-1QFY24 (%)

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
HDFC Life	21.8	20.4	17.7	2.0	19.7	4.9	29.6	79.4	21.6
Individual agents	52.3	4.1	75.6	(1.0)	26.4	28.5	46.0	189.7	52.0
Bancassurance	15.6	24.1	8.9	6.5	18.5	9.0	25.3	57.1	32.4
Direct	16.8	24.1	17.0	5.3	13.4	(27.6)	(4.2)	(7.0)	(33.7)
Brokers and others	46.2	9.3	17.7	(29.0)	38.3	23.3	121.6	311.3	38.9
ICICI Prudential Life	48.1	35.0	15.7	4.0	24.7	1.1	(5.5)	26.5	(3.9)
Individual agents	35.1	44.9	19.1	(1.8)	24.4	8.1	3.9	57.0	4.7
Bancassurance	44.7	22.9	9.1	(7.3)	12.0	(24.5)	(34.2)	(8.1)	(19.9)
Direct	58.6	43.3	15.3	5.5	3.1	(2.4)	2.8	18.6	28.5
Partnership distributor	43.8	36.5	28.0	6.1	65.6	37.2	29.9	136.6	7.1
Others	72.6	50.5	24.3	54.8	49.9	42.1	31.3	0.7	(9.1)
Max Life	32.4	12.9	27.9	(4.1)	15.3	(6.8)	(5.4)	34.8	10.3
Proprietary	4.8	12.2	26.3	13.6	31.5	16.9	12.9	85.7	23.1
Banks	48.9	14.3	27.5	(10.1)	8.0	(16.9)	(12.1)	9.8	(2.3)
Others	65.0	(49.9)	(551.2)	(13.3)	100.0	43.4	(43.0)	436.6	666.7
SBI Life	28.3	47.0	30.5	3.8	77.9	(1.3)	18.8	10.9	4.1
Bancassurance	30.4	47.1	26.4	5.8	96.6	(1.6)	25.5	7.1	8.4
Agency	39.1	73.8	20.9	(6.6)	62.8	(9.4)	23.1	14.9	(2.9)
Others	5.2	2.7	100.0	26.5	34.0	23.7	(28.8)	23.3	(3.5)
Bajaj Life	49.3	52.9	68.5	36.2	81.4	31.0	21.5	47.9	14.9
Agency	53.0	56.1	44.0	11.9	61.8	17.3	27.8	65.1	22.9
Institutional	42.4	51.3	101.6	63.6	106.8	47.2	17.9	38.8	7.8
Others	66.0	46.4	42.0	13.1	64.6	22.4	14.3	38.0	14.9

Notes:

(1) HDFC Life's figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

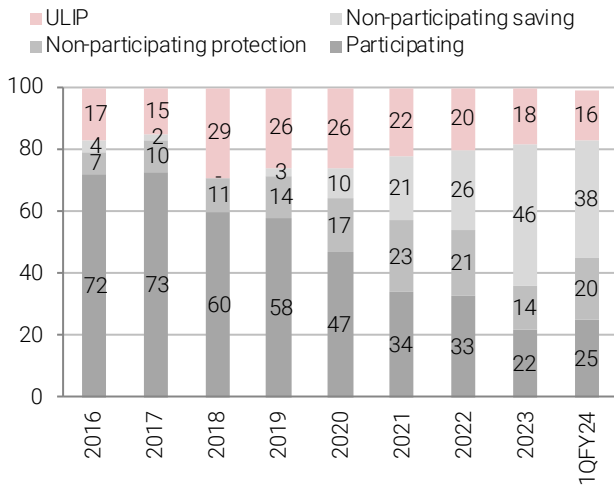
Source: Company, Kotak Institutional Equities

Agency focuses on non-par, banks agile for shifting to ULIPs

Exhibits 19 and 20 show that Max Life's banking partners have a more balanced product mix, with higher focus on ULIPs (45%+ of APE during FY2018-22). Although banks shifted to non-par in FY2023, the shift to ULIPs is also visible in 1QFY24; thus, the banking channel has been more agile. On the other hand, the proprietary channel focused on the par and non-par businesses, with ULIPs below ~25% since FY2020; the share of ULIPs remained low at 16% in 1QFY24 as well. Similarly, SBI's banking partners have a higher share of ULIPs versus agency (Exhibits 21 and 22). Lower commissions and persistency is the likely reason for the lower ULIP push in agency and proprietary. The current environment: Strong capital markets and repricing down of non-par policies (Max Life effected lower IRRs in July; SBI Life is yet to revise) will likely encourage ULIPs over non-par. Ironically, Max Life, at the current juncture, proposes to accelerate business in other (ex- Axis Bank) channels that are more conducive for non-par over ULIPs.

Share of non-par has inched up in both agency...

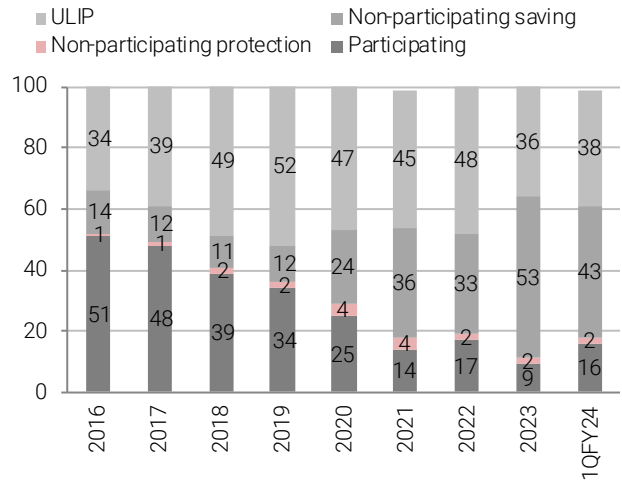
Exhibit 19: Product mix for proprietary channel of Max Life, March fiscal year-ends, 2016-2023, 1QFY24 (%)



Source: Company, Kotak Institutional Equities

...and banca channels in past year

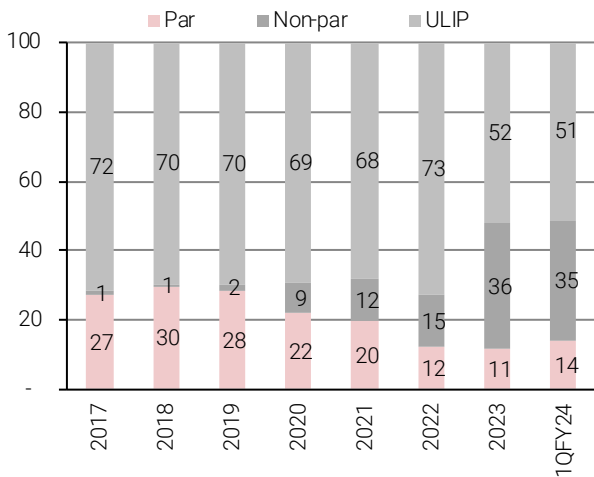
Exhibit 20: Product mix for bancassurance channel of Max Life, March fiscal year-ends, 2016-2023, 1QFY24 (%)



Source: Company, Kotak Institutional Equities

SBI Life has high share of ULIPs in agency channel...

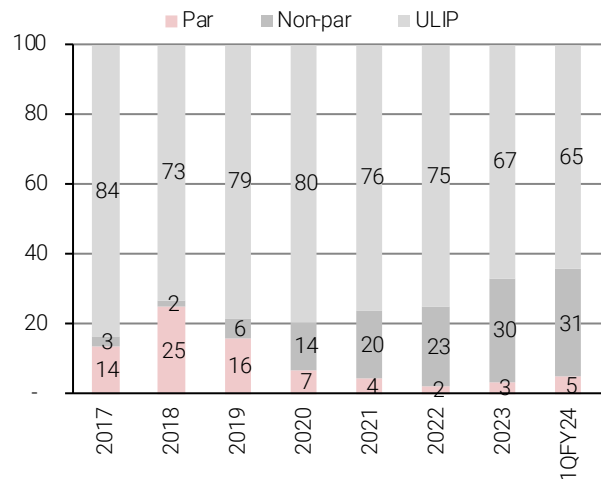
Exhibit 21: Product mix for agency channel of SBI life, March fiscal year-ends, 2016-2023, 1QFY24 (%)



Source: Company, Kotak Institutional Equities

...similar to banca channel

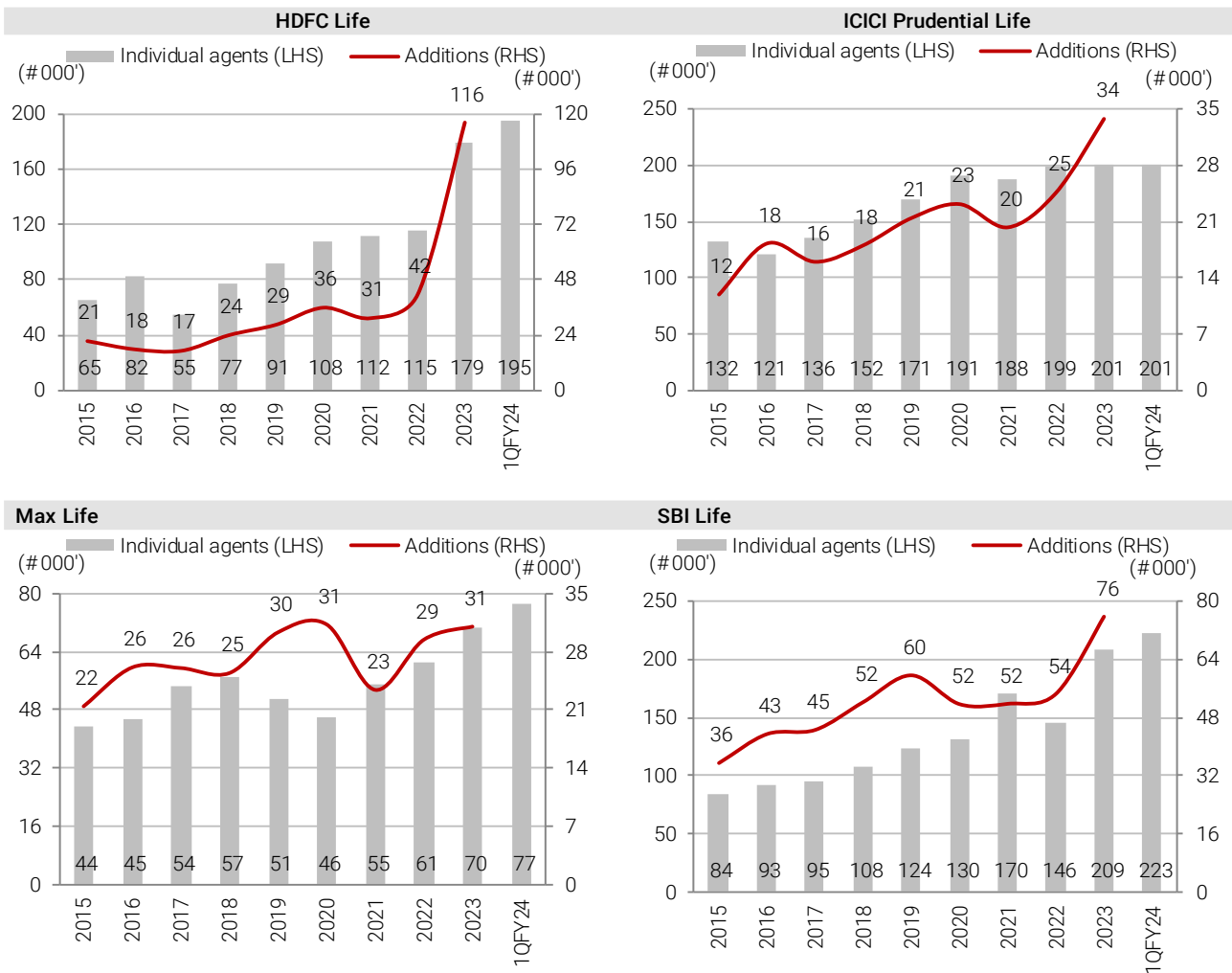
Exhibit 22: Product mix for bancassurance channel of SBI life, March fiscal year-ends, 2016-2023, 1QFY24 (%)



Source: Company, Kotak Institutional Equities

Most private players are growing agency channel

Exhibit 23: Individual agents, March fiscal year-ends, 2015-2023, 1QFY24



Notes:

(a) HDFC Life's figures for 2023 are on merged basis and not comparable with previous periods.

Source: LI Council, Kotak Institutional Equities

Persistence on upward trend

Most players reported improvement in persistency across most buckets in 1QFY24. This increase likely reflects (1) the change in the product mix of back book (protection and non-par savings tend to have higher persistency) and (2) strong focus on renewals and collections (further amplified by the push through digital engagement and renewal channels).

Persistency trends improved for private players

Exhibit 24: Persistency, March fiscal year-ends, 1QFY22-1QFY24 (%)

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (bps)
HDFC Life										
13th month	83	85	90	90	86	85	84	85	87	-450 bps
25th month	73	80	85	85	76	76	76	78	79	-670 bps
37th month	65	64	79	79	70	74	68	72	73	-700 bps
49th month	61	60	68	68	64	61	63	64	65	-490 bps
61st month	52	53	58	58	52	50	49	53	53	-560 bps
ICICI Prudential Life										
13th month	85	85	87	87	86	86	86	87	86	0 bps
25th month	74	75	78	78	78	77	77	78	78	20 bps
37th month	66	66	70	70	68	69	70	71	72	130 bps
49th month	63	63	66	66	63	65	66	64	65	-170 bps
61st month	58	57	60	60	56	61	64	66	67	580 bps
Max Life										
13th month	85	84	84	85	84	84	83	84	84	-100 bps
25th month	69	67	68	68	68	67	68	68	69	0 bps
37th month	61	60	60	61	61	61	61	61	61	0 bps
49th month	57	56	56	56	56	56	57	57	57	100 bps
61st month	54	50	50	50	50	50	51	51	51	100 bps
SBI Life										
13th month	86	85	85	85	86	85	85	86	85	102 bps
25th month	75	76	77	77	79	78	76	76	76	-119 bps
37th month	72	72	73	73	72	73	73	75	75	144 bps
49th month	66	67	67	67	70	70	70	70	70	322 bps
61st month	48	47	61	61	50	53	54	56	57	-528 bps
Bajaj Life										
13th month	82	82	78	78	83	83	83	83	83	480 bps
25th month	71	72	68	68	75	75	73	73	73	540 bps
37th month	63	64	60	60	66	66	66	67	67	730 bps
49th month	56	59	55	55	62	63	63	64	63	900 bps
61st month	43	45	41	41	49	50	49	50	50	900 bps
LIC										
13th month	72	69	69	69	76	71	71	70	75	92 bps
25th month	67	63	69	68	68	63	63	64	71	-439 bps
37th month	63	59	61	60	64	61	65	65	64	535 bps
49th month	60	57	58	57	61	57	58	57	62	-50 bps
61st month	56	54	57	56	59	56	56	56	59	37 bps

Notes:

(1) HDFC Life's figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

Cost ratios are elevated for private players

Investment in agency and direct channels led to elevated cost ratios for private players in 1QFY24. Although LIC has historically relied on its extensive agency force, newer private players banked on their bancassurance partners. However, as more banks adopt an open architecture and shift their focus to deposit gathering, the growth in bancassurance has been volatile in the past year. This led to an increase in investment in agency channel by private players inching up the cost ratios to 14-29% in 1QFY24 from 15-27% in 1QFY23. Given that agency was the dominant channel for LIC historically, diversification to other channels and higher volumes drove an improvement in LIC’s cost ratios.

Cost ratios are elevated for private players

Exhibit 25: Cost ratios, March fiscal year-ends, 1QFY23-1QFY24, 2018-2023 (%)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	2018	2019	2020	2021	2022	2023	YoY (%)
Cost/APE (%)													
HDFC Life	27.1	25.9	27.1	28.2	28.5	136 bps	24.0	24.3	25.4	23.6	24.0	27.3	327 bps
ICICI Prudential Life	23.7	19.9	19.4	22.8	27.7	398 bps	13.5	14.9	15.8	14.7	18.5	21.4	290 bps
LIC	23.3	33.5	18.6	23.0	19.7	-356 bps	NA	22.5	27.8	26.3	22.0	24.5	248 bps
SBI Life	14.8	12.0	10.8	11.4	14.1	-63 bps	12.5	12.1	11.8	10.2	10.8	11.9	110 bps
Cost/average AUM (%)													
HDFC Life	3.5	5.0	9.6	6.8	3.7	24 bps	4.3	4.2	4.6	4.2	4.0	4.8	80 bps
ICICI Prudential Life	2.1	2.5	2.3	3.7	2.3	23 bps	2.6	2.8	2.8	2.3	2.4	2.6	27 bps
LIC	14.0	23.0	12.6	19.4	11.2	-279 bps	NA	NA	17.7	22.5	19.2	22.6	344 bps
SBI Life	1.9	2.3	2.6	2.7	1.8	-7 bps	2.7	2.7	2.7	2.2	2.1	2.3	15 bps

Notes:

(1) HDFC Life’s figures for 3QFY23, 4QFY23 and 1QFY24 are on merged basis and not comparable with previous periods.

Source: Company, Kotak Institutional Equities

All insurers under coverage have comfortable solvency ratio

Exhibit 26: Solvency ratio, March fiscal year-ends, 2012-2023, 1QFY24 (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	1QFY24
HDFC Life	188	217	194	196	198	192	192	188	184	201	176	203	200
ICICI Prudential Life	371	396	372	337	320	281	252	215	194	217	205	209	203
LIC	NA	NA	NA	NA	NA	NA	NA	160	155	176	185	187	189
Max Life	534	521	485	425	343	309	275	242	207	196	201	190	188
SBI Life	534	215	228	216	212	204	206	213	195	215	205	215	215

Source: Company, Kotak Institutional Equities

RoEV of 16-20%

Exhibit 24 shows that life insurance companies reported operating RoEV of 17%-23%. VNB remains the largest contribution to EVOP at 50-62%; unwinding contributed 38-49% of EVOP. We expect operating variance to be moderately positive over the medium term, driven largely by an improvement in persistency. The unwinding rate will largely be stable in the range of 7.5-8.8% for all players. VNB margins will likely be under pressure for Max Life and ICICI Prudential Life, which reported significant margin expansion in FY2023, driven by an increase in share of non-par. LIC and SBI Life, which have a sub-optimal product mix, should continue to expand margins over the medium term.

We expect RoEV of 16-20% for private insurers

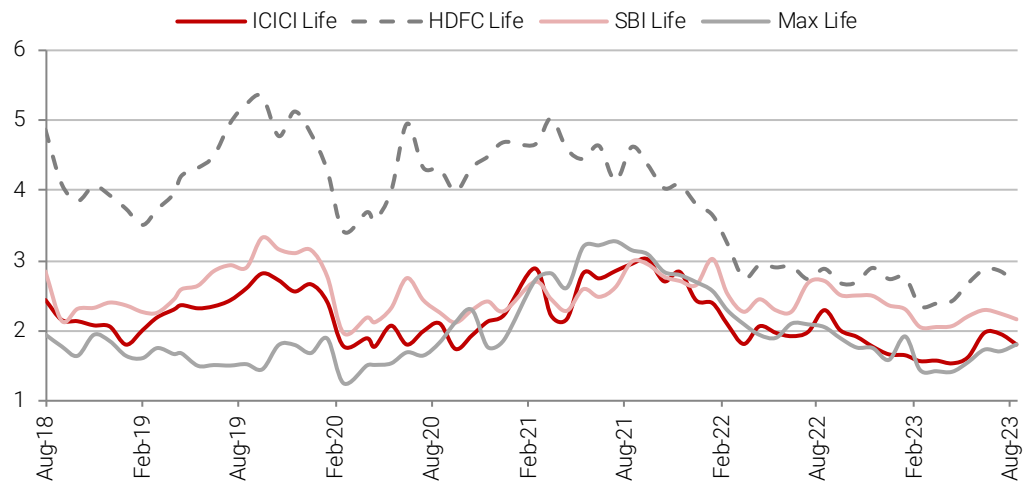
Exhibit 27: EV walk for life insurers, March fiscal year-ends, 2022-2025E

	HDFC Life				ICICI Prudential Life				LIC				Max Life				SBI Life			
	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E
EV walk (Rs bn)																				
Opening EV	330	395	471	557	316	356	414	481	5,415	5,822	6,362	6,945	142	163	197	235	396	461	555	665
EVOP	65	74	87	102	55	58	68	77	589	539	584	637	31	34	40	46	91	97	115	136
Unwinding	26	32	38	45	27	29	33	38	416	437	477	521	12	14	17	21	34	38	45	55
VNB (post-overrun)	37	40	47	55	28	28	32	37	92	96	99	109	19	19	22	25	51	57	67	80
Assumption/methodology changes	-	-	-	-	(2)	-	-	-	21	7	7	7	-	-	-	-	-	-	-	-
Operating variance	2	2	2	2	2	2	3	1	61	-	-	-	(1)	1	1	1	3	2	2	2
Non-operating variances	1	2	(1)	(2)	(15)	(0)	(1)	(1)					(10)	-	(2)	(2)	(26)	(3)	(4)	(4)
Investment variance	(16)	5	3	3	(14)	3	3	3	(172)	-	-	-	(10)	2	1	1	-	-	-	-
Economic assumption changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24)	1	1	1
Dividend payouts/ESOPs	17	(3)	(4)	(5)	(0)	(3)	(4)	(4)	(9)	-	-	-	-	(2)	(2)	(2)	(2)	(4)	(5)	(5)
Closing EV	395	471	557	657	356	404	481	556	5,822	6,362	6,945	7,583	163	197	235	280	461	555	665	798
Key metrics																				
Unwinding rate (%)	8.0	8.2	8.1	8.1	8.6	8.0	8.0	8.0	7.7	7.5	7.5	7.5	8.8	8.8	8.8	8.8	8.2	8.2	8.2	8.2
Operating ROEV (%)	22	19	18	18	17	16	16	16	11	9	9	9	22	21	20	20	23	21	21	20
ROEV (%)	31.5	19.2	18.2	18.0	12.7	16.2	16.1	15.7	7.5	9.3	9.2	9.2	14.7	21.0	19.6	19.1	16.2	20.4	20.0	19.8
APE (Rs bn)	133	143	167	196	86	87	99	115	567	584	584	619	62	69	80	92	168	198	234	276
APE growth (%)	36.7	7.3	17.0	17.0	11.7	0.5	14.2	16.0	12.5	3.0	-	6.0	11.8	9.7	16.0	16.0	17.6	18.0	18.0	18.0
VNB margin (%)	27.5	27.8	28.0	28.3	32.0	31.7	32.0	32.2	16.2	16.4	17.0	17.7	31.2	28.1	27.9	27.3	30.2	28.9	28.8	28.8
Contributors to EVOP (%)																				
Unwinding	40	44	44	44	49	49	49	50	71	81	82	82	40	42	43	45	38	39	40	40
VNB	57	54	54	54	50	47	47	48	16	18	17	17	62	57	55	54	56	59	59	58
Assumption/methodology changes	1-	-	-	-	(3)	-	-	-	3	1	1	1	-	-	-	-	-	-	-	-
Operating variance	2	2	2	2	3	4	4	1	10	-	-	-	(2)	1	1	1	4	2	2	1
Persistency variance	2	1	1	1	3	2	2	-	-	-	-	-	-	-	-	-	3	2	2	1
Mortality variance	-	-	-	-	-	1	1	1	-	-	-	-	-	-	-	-	1	-	-	-
Expense variance	-	1	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other variance	-	-	-	-	-	1	-	-	4	-	-	-	-	-	-	-	-	-	-	-

Source: Company, Kotak Institutional Equities estimates

Most life insurers are trading at lower than historical valuations

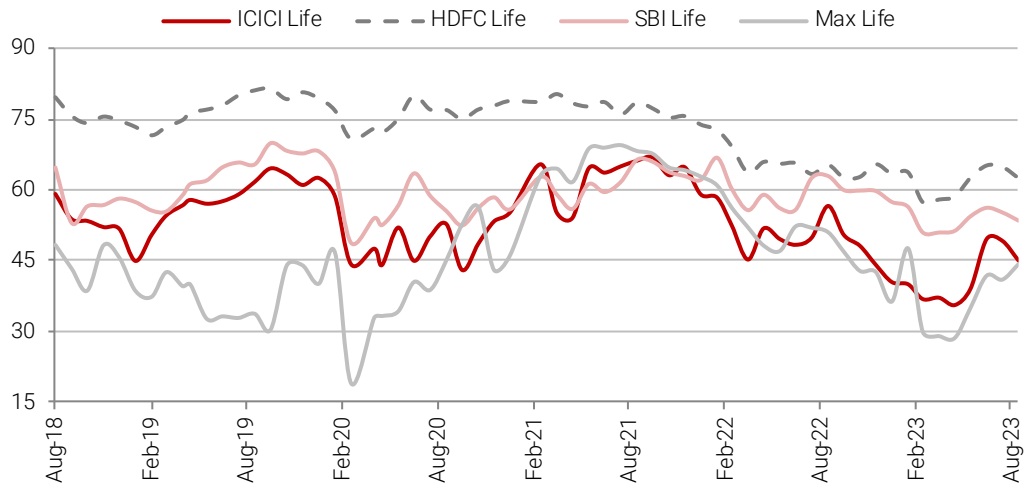
Exhibit 28: One-year forward rolling P/EV, March fiscal year-end, August 2018-August 2023 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Contribution of SV to AV has declined from peaks

Exhibit 29: Contribution of SV to AV, March fiscal year-end, August 2018-August 2023 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 30: Valuation summary, March fiscal year-ends, 2023-2026E

	FV (Rs)	Price (Rs)	Market cap. (Rs bn)	Price/EV (X)				Price/VNB (X)				EVOP CAGR (2023-26E) (%)	Price/EVOP (X)				Operating RoEV (%)			
				2023	2024E	2025E	2026E	2023	2024E	2025E	2026E		2023	2024E	2025E	2026E	2023	2024E	2025E	2026E
HDFC Life	820	628	1,351	3.4	2.9	2.4	2.1	37	34	29	24	16	21	18	16	13	21.6	18.7	18.4	18.4
ICICI Prudential Life	675	543	782	2.2	1.9	1.6	1.4	28	28	25	21	12	14	13	12	10	17.4	16.3	16.3	15.9
LIC	1,000	660	4,172	0.7	0.7	0.6	0.6	46	44	42	38	3	7	8	7	7	10.9	9.3	9.2	9.2
LIC core		430	2,722	1.0	0.8	0.7	0.7	30	28	27	25	3	5	5	5	4	NA	NA	NA	NA
Max FS	1,060	858	296	2.5	2.1	1.7	1.5	21	21	19	16	14	13	12	10	9	22.1	21.0	20.3	19.7
SBI Life	1,550	1,284	1,286	2.8	2.3	1.9	1.6	25	22	19	16	15	14	13	11	9	22.9	21.1	20.7	20.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Non-life: Motor weak; health picks up

Growth momentum sustains. Growth in the non-life industry has been strong at 17% in 1QFY24 (18% FY2023). Growth in the retail businesses was strong, with 18% growth in the health segment and 21% growth in the motor segment. Though ICICI Lombard continues to be selective in the motor business, smaller players continue to gain share. Expansion to other OEMs supported growth for Bajaj Allianz General. In the retail health business, the gap between Star Health and multi-line players has narrowed, with both reporting 18-19% yoy growth.

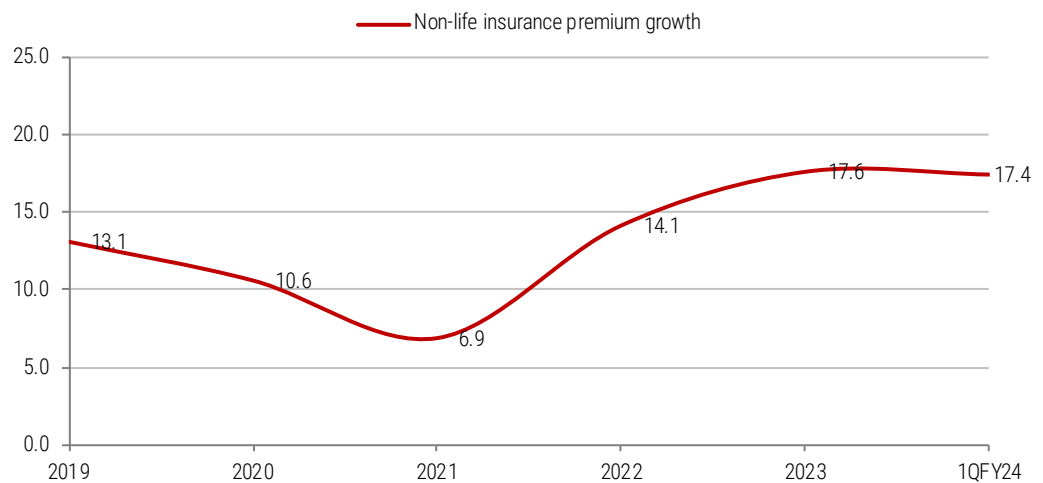
Bajaj’s motor business reports strong growth and improvement in profitability. Bajaj General Insurance reported 27% yoy growth in ex-crop gross premium. Motor and commercial lines posted strong growth of 27% and 23%, respectively, whereas retail health growth was weak at 2% yoy in 1QFY23. The high base of claims ratio in 1QFY23 in the motor business led to an improvement of about 900-1,100 bps. Bajaj has handled the competitive pressure in the motor OD segment better than peers. Retail health claims ratio was up 730 bps yoy to 84% (higher than SAHI players). With the EOM regulations replacing expense caps at the LOB level, with company-wide limits, there has been increased competition in the crop business.

ICICI Lombard’s growth has picked up. ICICI Lombard reported 11% growth in the motor business in 1QFY24, with 15% in motor OD and 7% in motor TP compared with 2% growth in the OD business in FY2023 and 5% growth in TP in 9MFY23. Stable business in OD over the past few months, a low base and the company’s cherry-picking exercise supported growth. ICICI Lombard reported 23% growth in retail health in 1QFY24 compared with the overall industry’s 12%. Its investments in scaling up this business are paying off, but it is still early, as this is 4% of its 1Q premium, with a 3% market share. ICICI Lombard highlighted that pricing in commercial lines declined 5-7%, after the removal of IIB’s prescribed tariff.

Star Health’s 1QFY23 earnings were on-track. Star Health reported 20% yoy growth in GWP in 1QFY24, retail health growth was 19% yoy and group health was up 28% yoy. New business growth was 15%, broadly in line with our full-year estimate of 16% for FY2024E. The combined ratio improved 44 bps yoy to 97.8% in 1QFY24, driven by a moderation in the claims ratio and commissions. Operating expenses were up 27% yoy (higher than GWP growth of 20%), with a moderating effect on the combined ratio and profitability. Growth was strong in the bancassurance and broker channels at 35% and 29%, respectively, in 1QFY24. Three new banca partnerships were activated this quarter: AU SFB, Bank of Maharashtra and Godrej Housing Finance.

Moderate premium growth of 17% for non-life industry

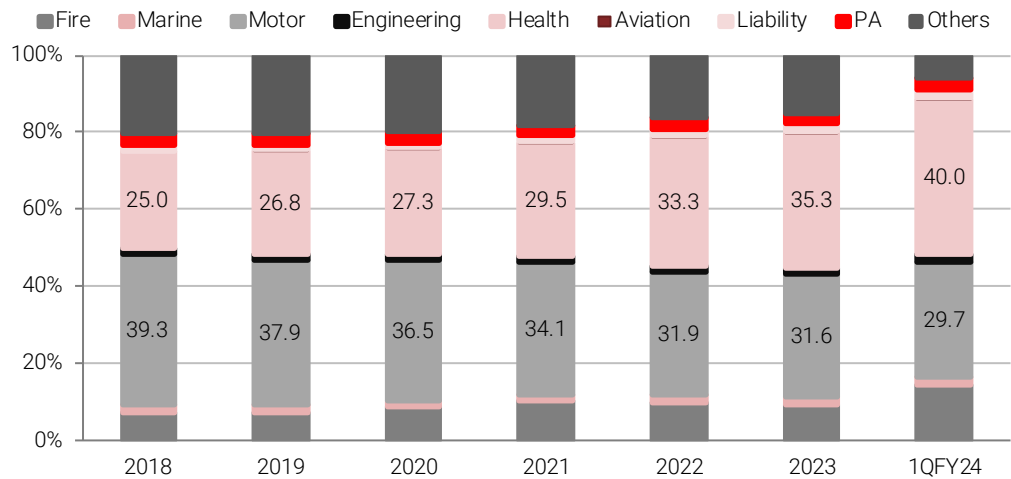
Exhibit 31: Non-life insurance premium growth, March fiscal year-ends, 2019-2022, 1QFY23-3QFY23 (%)



Source: IRDA, GI Council, Kotak Institutional Equities

Health continues to gain share over motor

Exhibit 32: Product mix for industry, March fiscal year-ends, 2019-2023, 1QFY24 (%)



Source: IRDA, GI Council, Kotak Institutional Equities

Health and motor sustain growth momentum

Exhibit 33: Growth in premiums (ex-crop), March fiscal year-ends, 2019-2023, 1QFY23-1QFY24 (%)

	2019	2020	2021	2022	2023	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Overall insurance industry	13	11	7	14	18	22	14	17	18	17
Multi-line private	23	16	6	15	20	31	18	19	14	21
Bajaj Allianz General	26	7	(3)	16	8	24	(10)	12	13	22
ICICI Lombard	21	13	5	6	16	25	18	17	7	19
Others	23	19	7	18	23	35	25	20	16	22
Multi-line PSU	2	3	4	8	12	10	7	11	22	10
Standalone health	39	30	32	33	26	29	25	26	25	26
Star Health	30	27	36	23	13	13	11	15	14	20
Others	54	35	25	48	41	47	44	38	38	33
Retail health industry	16	12	28	17	15	11	17	17	16	18
Multi-line private	9	2	22	14	18	12	18	21	20	18
Bajaj Allianz General	15	14	16	4	6	(10)	8	10	16	12
ICICI Lombard	(10)	(38)	25	17	17	8	16	24	19	23
Others	15	11	23	15	20	17	20	22	21	18
Multi-line PSU	8	5	15	2	(0)	(6)	0	1	3	7
Standalone health	30	27	42	28	22	21	25	24	20	23
Star Health	29	25	40	23	18	20	22	19	15	19
Others	34	29	47	39	30	23	32	33	31	30
Motor	9	7	(2)	4	15	27	13	13	13	21
Multi-line private	21	14	2	9	18	36	17	15	13	21
Bajaj Allianz General	17	8	(10)	3	10	23	4	5	13	26
ICICI Lombard	20	9	1	(1)	4	27	4	5	(11)	5
Others	21	17	4	13	23	41	21	19	18	23
Multi-line PSU	(5)	(3)	(9)	(6)	9	10	3	8	14	22

Source: Company, Kotak Institutional Equities

Claims have inched up across segments

Bajaj Allianz reported an increase in claims across the motor, health and commercial lines. ICICI Lombard reported better claims ratio in the motor business, likely due to selective underwriting; other segments witnessed an inflation in claims. Despite price increases being implemented by most players, the claims ratio in the retail health portfolio has been inching up sequentially.

Bajaj Allianz and ICICI Lombard continue to report >100% combined ratio

Exhibit 34: Combined ratio breakup across players, March fiscal year-ends, 2018-2023, 1QFY23-1QFY24 (%)

	2018	2019	2020	2021	2022	2023	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Bajaj Allianz General											
Net incurred claims ratio	66.7	68.6	70.7	68.5	73.0	72.9	80.1	75.5	72.1	66.4	74.3
Net commission ratio	4.7	4.8	1.1	0.7	(1.2)	NA	NA	NA	NA	NA	NA
Operating expense ratio	21.4	23.2	28.9	27.8	27.8	NA	NA	NA	NA	NA	NA
Combined ratio	92.8	96.7	100.8	96.9	99.6	100.5	104.6	99.8	100.3	97.3	100.7
ICICI Lombard											
Net incurred claims ratio	76.9	75.3	72.9	68.6	75.1	72.4	72.1	72.8	70.3	74.2	74.1
Net commission ratio	(3.6)	2.3	3.8	5.6	4.7	3.0	2.2	3.5	4.2	2.3	12.5
Operating expense ratio	26.9	20.9	23.8	25.6	29.1	29.1	29.9	28.8	29.9	27.7	17.2
Combined ratio	100.2	98.5	100.4	99.8	108.8	104.5	104.1	105.1	105.0	104.2	103.8
Star Health											
Net incurred claims ratio	61.8	64.2	65.8	87.0	87.1	65.0	66.3	68.2	63.7	62.0	65.4
Net commission ratio	4.3	6.4	6.5	8.2	13.8	13.7	13.7	13.0	13.7	14.1	13.1
Operating expense ratio	27.0	23.7	20.9	19.6	17.0	16.7	18.2	16.6	17.4	15.3	19.3
Combined ratio	93.0	94.3	93.2	114.8	117.9	95.3	98.2	97.9	94.8	91.4	97.8

Source: Company, Kotak Institutional Equities

Motor and health claims have inched up in 1QFY24

Exhibit 35: Segmental claims, March fiscal year-ends, 2019-2023, 1QFY23-1QFY24 (%)

	Bajaj Allianz General										ICICI Lombard									
	2019	2020	2021	2022	2023	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2019	2020	2021	2022	2023	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Fire	74.4	68.0	54.5	57.1	35.2	71.8	17.7	26.2	36.1	67.1	83.2	64.0	63.7	53.1	49.3	57.7	40.4	49.8	50.3	85.2
Marine	94.0	67.3	66.0	64.0	65.1	88.4	92.1	54.7	37.6	50.8	84.0	65.3	83.3	77.6	72.4	67.0	71.9	86.1	65.1	76.7
Motor OD	60.0	67.7	54.0	65.1	70.5	82.2	68.8	67.6	63.6	71.2	59.2	68.9	62.2	68.1	72.6	73.6	74.3	73.0	69.4	67.0
Motor TP	64.5	64.5	78.1	71.2	77.2	88.6	81.6	76.6	61.4	79.7	90.8	84.4	69.7	74.0	72.2	73.9	66.6	61.9	86.5	72.4
Engineering	43.5	52.8	36.1	49.7	39.9	121.4	(9.5)	55.1	21.0	72.2	37.1	40.7	57.7	69.3	55.1	62.2	84.2	64.6	11.6	98.6
Health	89.5	85.6	81.7	96.1	77.9	76.7	80.1	74.8	80.3	83.9	73.5	69.9	78.0	91.7	77.3	73.7	81.8	78.2	75.5	78.7
Overall	68.6	70.7	68.5	73.0	72.9	80.1	75.5	72.1	66.4	74.3	75.3	72.9	68.6	75.1	72.4	72.1	72.8	70.3	74.2	74.1

Source: Company, Kotak Institutional Equities

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

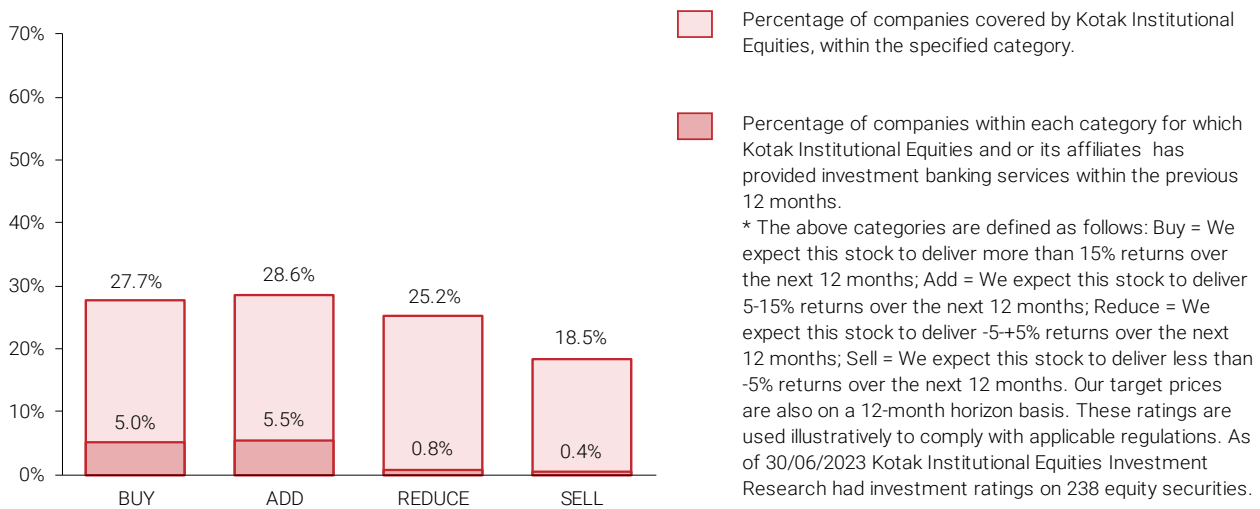
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

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