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Market share in new business premium for Dec-14

Insurance Cos	Market Share
SBI Life	10.4%
ICICI Prudential	9.0%
HDFC Life	6.7%
Birla Sunlife	5.1%
Reliance Life	4.5%
Max Life	4.5%
Bajaj Allianz	3.8%
Kotak Mah. Old Mutual	1.8%
Met Life	1.6%
Star Union Dai-ichi	1.3%

Source: IRDA, PL Research

Insurance business valuations are only 3-10% of SOTP amongst our coverage universe

Coverage	Insurance Biz per share value, Rs	% of SOTP
HDFC	98	10%
ICICIBC	37	8%
SBI	23	7%
KMB	40	3%

Source: Company Data, PL Research

■ **Govt's reform agenda on track; FDI limit in insurance increased to 49%:** The NDA government managed to get the long awaited insurance bill passed in the parliament thus allowing for 49% FDI in insurance business. Though the increase was highly anticipated but we believe that sheer time it has taken to get this bill cleared and the revived interest in Indian capital markets makes this a significant step. We believe that all insurance companies will benefit from this as insurance is a capital intensive business and the companies will now be able to raise capital by further divesting their stake. Max India & Bajaj Finserv are the only two listed companies with direct play on insurance but other companies/banks with indirect holding in insurance will also benefit. *For details on insurance companies and the respective promoter holding please refer to Exhibit 2.*

■ **Insurance business likely to re-rate further; recent deals supports the trend:** The valuation of insurance business is likely to re-rate as investors appear willing to pay higher premium to buy into quality franchisees. Most of the recent investments in the space have happened in range of 2.1x-2.7x EV, the last deal being 1% stake sold in HDFC Life to Premji Invest for a total enterprise value of Rs209bn. This was almost 25% higher than what we have valued HDFC Life at. Likewise we note that as per media reports ICICI Bank may divest a minor stake in its life insurance subsidiary at total valuation of \$6bn. This is ~45% premium to what we are valuing the company in our SOTP estimates. However we believe that sustenance of such steep valuation needs to be backed by improvement in growth and return profile as capital otherwise will not be any constraint for most players. For details on recent deals in insurance space please refer to exhibit 1.

■ **Stock price impact:** Within our coverage universe - HDFC Life, ICICI PruLife, SBI Life & Kotak Insurance constitutes nearly 8%, 9.5%, 6.5% & 3% respectively to the total SOTP valuation of their parent entities. The passage of the bill will enable these companies to monetise a part of their investment and raise equity capital as and when growth recovers. The valuation of these insurance entities can thus be at a significant premium to our/street estimates and can provide 2.5%-4% upside to the consolidated entities. We continue to maintain our preference for ICICI Bank and HDFC Bank.

Exhibit 1: Investments in insurance business have happened in range of 2.1x-2.7x

Deal Period	Company	Buyer	Stake acquired	Value (Rs bn)	Valuation (Rs bn)	Mutiple to EV (x)
Mar-11	Reliance Life Insurance	Nippon Life	26%	30.6	115.0	2.1
Apr-12	Max New York Life Insurance	Mitsui Sumitomo	26%	27.3	105.1	2.2
Jan-13	ING Vysya Life Insurance	Exide Industries	49%	5.5	20.7	1.1
Dec-14	HDFC Life Insurance	Premji Invest	1%	1.9	208.9	2.7

Source: Company Data, PL Research

Exhibit 2: List of private insurance players in India and current shareholding

Private Life Insurance Companies	Indian Promoter	Sharehldg	Foreign Promoter	Sharehldg
Bajaj Allianz Life Insurance Company Ltd	Bajaj Finserv	74%	Allianz, Germany	26%
Birla Sun Life Insurance Co. Ltd	Birla Group	74%	Sun Life, Canada	26%
HDFC Standard Life Insurance Co. Ltd	HDFC Limited	71.80%	Standard Life Assurance, UK	26%
ICICI Prudential Life Insurance Co. Ltd	ICICI Bank	74%	Prudential, UK	26%
Exide Life Insurance Company Ltd	Exide Limited	100%	-	0%
Max Life Insurance Co. Ltd	Max India	72%	Mitsui Sumitomo Insurance Co. Ltd	26%
PNB Metlife India Insurance Co. Ltd	PNB, J&K Bank & Vijaya Bank	30%, 5% & 12%	Metlife International, USA	26%
Kotak Mahindra Old Mutual Life Insurance Ltd	Kotak Bank	74%	Old Mutual, South Africa	26%
SBI Life Insurance Co. Ltd	SBI	74%	Cardiff, France	26%
Tata AIA Life Insurance Company Ltd	TATA Sons	74%	AIA, USA	26%
Reliance Life Insurance Company Ltd.	Reliance Capital	74%	Nippon, Japan	26%
Aviva Life Insurance Company India Ltd	Dabur Group	74%	Aviva International, UK	26%
Sahara India Life Insurance Co, Ltd	Sahara Group	100%	-	0%
Shriram Life Insurance Co, Ltd	Shriram Group	74%	Sanlam Group, South Africa	26%
Bharti AXA Life Insurance Company Ltd	Bharti Group	74%	AXA Holdings, France	26%
Future Generali India Life Insurance Company Ltd	Future Group	74%	Generali Italy	26%
IDBI Federal Life Insurance Company Ltd,	IDBI Bank & Federal Bank	48% & 26%	Ageas	26%
Canara HSBC Oriental Bank of Commerce Life Insurance Co Ltd	Canara Bank & OBC	51% & 23%	HSBC Insurance (Asia Pacific) Holdings	26%
AEGON Religare Life Insurance Company Ltd.	Religare	74%	Aegon, USA	26%
DHFL Pramerica Life Insurance Co. Ltd	DHFL	74%	Prudential International Insurance Holdings, USA	26%
Star Union Dai-ichi Life Insurance Co. Ltd	BOI & Union Bank	48% & 26%	Dai-ichi Mutual Life Insurance, Japan	26%
IndiaFirst Life Insurance Company Ltd	BOB & Andhra Bank	44% & 30%	Legal General, UK	26%
Edelweiss Tokio Life Insurance Co. Ltd	Edelweiss	74%	Tokio Marine, Japan	26%

Source: Company Data, PL Research

Impact on stocks from our coverage universe

Insurance valuations in our coverage universe comprises of 3-10% of SOTP valuation, which is not very significant. Given the recent deals which have concluded at significant premium to market expectations, the valuations of insurance business can increase further. But increase in valuations will positively impact SOTPs by 2-5% upside depending on the contribution to business and the premium investors willing to pay. Large companies remain adequately capitalized and may also not need capital as solvency ratios remain much above requirements (see exhibit 9). Increase in limit levels from 26% to 49% will help large companies unlock value and recognize large capital gains in their P&L.

Exhibit 3: ICICI Bank SOTP – Life insurance & General Insurance is 9.5% of target price

Subsidiary	Holding (%)	Multiple	Basis	FY17E
ICICI Standalone	100	2.2x	Avg of EVA & two-stage GGM	326
Subsidiaries / Others				
ICICI Bank UK	100	1x	BV	4
ICICI Bank Canada	100	1x	BV	6
Life insurance	74	14x	NBAP + EV	33
General insurance	74	12x	PAT	4
Asset management	51	5.0%	AUM	5
PD/Inv. Banking/Others				11
Total subsidiaries' value				63
% contribution of Subs. / Others				16.2
Total fair value per share				389

Source: Company Data, PL Research

Exhibit 4: HDFC SOTP – We have factored in the recent deal with Premji Invest in our valuations of insurance biz, which now forms ~8% of target price and ~17% of subsidiary value

Subsidiary	Holding (%)	FY17E Value
HDFC Bank	21.7%	420
HDFC Standard Life insurance	71.8%	98
HDFC Asset Management Company	59.8%	33
HDFC Ergo	73.8%	8
GRUH Finance	59.2%	45
HDFC venture fund	80.5%	2
Value of investments in other listed entities		18
Total value of subsidiaries		623
Fair value of consol. entity		1,360

Source: Company Data, PL Research

Exhibit 5: KMB SOTP – Insurance business constitutes only ~3% of overall entity

	Basis	Value (Rs M)	Value Per Share
Kotak Securities	20x Mar-17 EPS	63,782	81
Asset Management	6% of AUM	29,801	38
KMCC	20x Mar-17 EPS	7,112	9
International subsidiaries	2.5x Mar-17 BV	12,069	15
Others	20x Mar-17 EPS	20,453	26
Insurance	P/NBAP	31,346	40
Total		164,563	209
Total Subsidiary valuation		164,563	209
Lending business valuation		960,006	1,219
Fair value of Entity			1,428

Source: Company Data, PL Research

Exhibit 6: SBI SOTP – Insurance value in SBI's SOTP is only ~7%

SOTP valuation, FY16E	Multiple	Stake (%)	Method	Value Rs
Standalone	1.1	100	Avg. of P/ABV & EVA	269
Subsidiary/associates				31
St Bk of Bikaner	1.2	75%	P/ABV	5
St Bk of Hyderabad	1.1	100%	P/ABV	10
St Bk of Mysore	1.1	92%	P/ABV	5
St Bk of Patiala	1.1	100%	P/ABV	7
St Bk of Travancore	1.2	75%	P/ABV	4
Life insurance venture	12x	74%	Appraisal value; 12x new business multiple	23
Asset management		63%	4.5% of AUMs	4
Capital Market/DFHI/Others		100%		25
Total				351

Source: Company Data, PL Research

Exhibit 7: SBI Life, ICICI & HDFC are market leaders in insurance industry

Market share in new business premium for Dec-2014	
SBI Life	10.4%
ICICI Prudential	9.0%
HDFC Life	6.7%
Birla Sunlife	5.1%
Reliance Life	4.5%
Max Life	4.5%
Bajaj Allianz	3.8%
Kotak Mah. Old Mutual	1.8%
Met Life	1.6%
Star Union Dai-ichi	1.3%
ING Vysya	0.7%
IDBI Federal	0.7%
Bharti Axa Life	0.7%
Aviva	0.6%
Shriram Life	0.6%
IndiaFirst	0.6%
Future Generali	0.6%
Canara HSBC OBC	0.5%
DLF Pramerica	0.5%
Tata AIG	0.4%
Aegon Religare	0.3%
Edelweiss	0.1%
Sahara Life	0.0%
Total Private	54.9%
LIC	45.1%
Total Industry	100%

Source: Company Data, PL Research

Exhibit 8: Market share (within Private players) in new business premium

Market share (with-in private) in new business premium for Dec-2014	
SBI Life	18.8%
ICICI Prudential	16.5%
HDFC Life	12.2%
Birla Sunlife	9.4%
Reliance Life	8.1%
Max Life	8.1%
Bajaj Allianz	7.0%
Kotak Mah. Old Mutual	3.3%
Met Life	2.8%
Star Union Dai-ichi	2.3%
ING Vysya	1.3%
IDBI Federal	1.2%
Bharti Axa Life	1.2%
Aviva	1.2%
Shriram Life	1.1%
IndiaFirst	1.1%
Future Generali	1.0%
Canara HSBC OBC	0.9%
DLF Pramerica	0.9%
Tata AIG	0.7%
Aegon Religare	0.6%
Edelweiss	0.3%
Sahara Life	0.0%
Total Private	100%

Source: Company Data, PL Research

Exhibit 9: Solvency ratio for many of the large players have been healthy

Solvency Ratio	Jun-13	Sep-13	Dec-13	Mar-14
Bajaj Allianz	697%	709%	738%	734%
Sahara	692%	688%	692%	684%
Shriram Life	580%	612%	635%	641%
Dhfl Pramerica	241%	280%	461%	537%
Max Life	524%	521%	530%	485%
Idbi Federal	480%	478%	500%	472%
Reliance	433%	480%	493%	442%
Aviva	427%	427%	393%	415%
Tata AIA	359%	372%	396%	409%
ICICI Prudential	404%	395%	383%	372%
Canara Hsbc	379%	394%	377%	359%
Future Generali	412%	401%	389%	318%
Kotak Mahindra	311%	312%	316%	302%
Indiafirst	383%	322%	300%	247%
Exide Life	186%	235%	231%	239%
Star Union Dai-Ichi	323%	286%	330%	238%
Aegon Religare	160%	164%	187%	228%
PNB Metlife	210%	216%	223%	228%
SBI Life	225%	240%	247%	228%
Edelweiss Tokio	207%	216%	209%	220%
Bharti Axa	184%	192%	162%	209%
HDFC Standard	227%	219%	202%	194%
Birla Sunlife	227%	206%	210%	186%

Source: Company Data, PL Research

Highlights of the Insurance Laws (Amendment) Bill, 2015

Definitions change/inclusion

- “Insurance Regulatory and Development Authority (IRDA)” shall henceforth be “Insurance Regulatory and Development Authority of India (IRDAI)”.
- “Health Insurance Business” is defined. It means the effecting of contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, whether in-patient or out-patient, travel cover and personal accident cover.

Capital/Ownership

- Indian insurance company means any insurer in which the aggregate holdings of equity shares by foreign investors, including portfolio investors, **do not exceed forty-nine percent**, of the paid up equity capital of such Indian Insurance company, **which is Indian owned and controlled**, in such manner as may be prescribed.
- ‘Insurer’ includes a foreign company engaged in re-insurance business through a branch established in India. ‘Foreign company’ will be established outside India and includes Lloyd’s established under Lloyd’s Act, 1871 (UK) or any of its members.
- State owned General insurance companies can raise equity capital from Public provided Govt’s stake does not fall below 51% at any time.
- Insurance Companies permitted to raise forms of capital (beside equity) through newer instruments on the pattern of banks.
- Requirement of deposits by insurers for registration removed.
- Minimum paid-up capital for Health Insurance business is enhanced to Rs1bn from Rs0.5 bn.

Grievance redressal

- Securities Appellate Tribunal (SAT) has been set up as the Insurance ombudsman scheme has not been able to address complaints of consumers and insurers can appeal against decisions by IRDA. SAT will have powers equivalent to civil court.

Powers/Benefits to Insurers

- Insurers can now represent to Securities Appellate Tribunal (SAT) against the order of IRDAI.

- An Insurance Policy can be assigned wholly or in part. An Insurer can decline to act up on an assignment if it considers the same as not bonafide or not in the interest of the policy holder or in public interest or is for the purpose of trading of insurance policy. Policy holder can prefer a claim to the Authority against such decision.
- No Policy of Life Insurance shall be called in question on any ground whatsoever after the expiry of three years from the date of the policy. (Negative for policy holders as claims of refund of mis-selling/suppression of facts will not be refunded after 3 years).
- Obligatory underwriting of third party risks of motor vehicles provided for.
- Insurer to charge fee, as specified by IRDAI Regulations, for furnishing written acknowledgement of the notice of Assignment/Nomination.

Benefits to Policy-holders

- Parents or spouse or children nominated under a policy of life insurance are now beneficially entitled to the amount payable by the Insurer. If policy holder dies after maturity of the policy where the proceeds are not paid because of death, his nominee is entitled for the benefit.
- Flexibility in premium payments in instalments extended to general insurance products apart from health insurance products.
- Every Insurer shall endeavour to issue in electronic form policies above a threshold level of sum assured and premium, specified by the Regulations.

Regulations for Insurers – Powers to IRDAI

- Agents Commission capped and to be specified by regulations issued by IRDAI.
- Expenses of Management of Insurers capped and to be specified by regulations issued by IRDAI.
- No Agency licenses to be issued by IRDAI. Agents to be appointed by Insurers as per Regulations issued by IRDAI.
- Taking out and renewal of Insurance policies through Multi level Marketing (MLM) Schemes are forbidden.
- Penalty for acting as Insurance Agent in contravention of the Act provisions is Rs 10000/- and penalty for Insurer for appointing Insurance Agent in contravention of the Act provisions is Rs10 mn.
- Fine up to Rs250 mn and imprisonment up to 10 years for carrying on insurance business without obtaining certificate of registration as per Section 3 of Insurance Act.
- Penal provisions of Section 102 made stiffer. Penalty for failure to comply with Rural and Social Sector Obligations up to Rs250 mn.

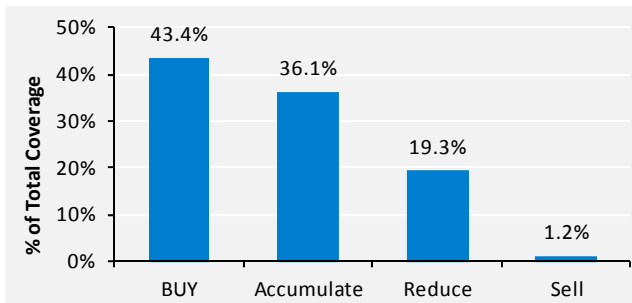


- Guaranteed Surrender Value under life insurance policies to be specified by regulations by IRDAI.
- Opening and Closure of Offices by Insurers both inside and outside India as specified by the Regulations issued by IRDAI in this regard.

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