Insurance

THEMATIC | **June 13, 2023**

Looking beyond the din

New tax laws have put the focus back on life insurers' ability to grow the savings business. FY24 NBP growth will be adversely affected but the impact will not be uniform across life insurers. SBI Life and IPRU are better-placed given lower exposure to high-ticket policies (2-6% of APE), low base in 2QFY23 and 3QFY23, and benefit from rebound in retail protection. Further, interest rate peaking could drive demand for life insurance savings from consumers looking to lock rates. We remain positive on long-term industry growth prospects as: i) consumers require long-term guaranteed returns due to lack of social security, ii) annuity demand will increase over the next decade driven by NPS/ageing population and iii) scope to increase protection penetration. The sector is trading at a 15% discount to its pre-budget valuations despite 2-3% higher consensus FY25E EV expectations. Our pecking order: SBIL>IPRU>HDFCL. We initiate LIC and Bajaj Finserv with SELL.

Who will pay for ageing?

The demographic dividend for India is unlikely to last forever. India, similar to China, will see the demand for annuities increasing over the next decade as: i) National Pension System matures with 10% subscribers expected to retire by FY35E and ii) reliance on family for financial support post retirement reduces. We see the annuity market in India growing by ~4x by FY35E. Higher share of annuities in the product mix has a positive impact on group margins/RoEV as these products have higher margins (40-50% vs 10-20% for ULIPs/Par).

Will interest rate peaking help life insurers?

According to Ambit's Economist, repo rates have peaked. We see demand for life insurance savings benefiting as: i) consumers may try to lock in higher interest rates as seen during previous cycles in FY10, FY16/FY17 and FY20/FY2, and ii) ULIP demand could benefit from increase in stock prices. Our analysis suggests IRRs offered by life insurers are at a 3-year high and are competitive with fresh TD rates. The impact on EV from 100bps lower interest rate is only 0% to +4%.

High-teen ROE expected under IFRS 17

IFRS 17 replaced IFRS 4 from 1 Jan 23. In India, the transition could still be 2 years away. Should IFRS 17 in its current form be adopted in India, it will result in higher accounting profits and ROE. The impact on solvency due to IFRS 17 is more difficult to ascertain due to the lack of clarity on whether IFRS accounting will be followed for solvency or current practice continue till the industry transitions to risk-based capital framework.

Higher EVs, but lower valuations do not make sense

The sector is trading at a 15% discount to its pre-budget valuation of 2.2x (1-year forward P/EV) despite i) consensus FY25 EV expectations being 2-3% higher now compared to pre-Budget for most life insurers, ii) recovery in high-margin retail protection and iii) new EOM guidelines providing insurers greater scope to incentivise policy growth. Our top pick within the sector remains **SBI Life**, which is trading at 2.1x vs 2.3x pre-Budget despite least exposure to high ticket size policies and better growth opportunities than peers. We initiate on **LIC with SELL** as market share losses will continue and fixing product/channel mix will be more challenging than expected. We initiate **Bajaj Finserv with SELL** too given CMP appears to be factoring growth opportunities in BAF and insurance subsidiaries, but ignoring growth and regulatory challenges in the businesses.

Key Recommendations

HDFC life insurance	**BUY**
Target Price: ₹675	Upside: 15%
ICICI Prudential	**BUY**
Target Price: ₹600	Upside: 18%
SBI Life Insurance	**BUY**
Target Price: ₹1,525	Upside: 23%
LIC	**SELL**
Target Price: ₹590	Downside: -1%
Bajaj Finserv	**SELL**
Target Price: ₹1,130	Downside: -24%

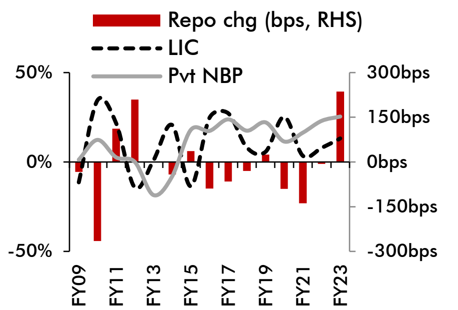
Exhibit A: HDFC Life/BALIC offer highest IRRs on annuities. Products are fairly similar across players

	HDFCL	IPRU	SBIL	BALIC	LIC
Share of APE	6%	6%	3%	7%	4%
Regular annuity	✓	✓	✓	✓	✓
Deferred annuity	✓	✓	✓	✓	✓
IRRs	●	◕	◑	●	◔

Source: Company, Ambit Capital research

Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit B: Change in repo rate has been closely linked with NBP growth



Source: Company, Ambit Capital research

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COMPANIES

Who will pay for ageing?

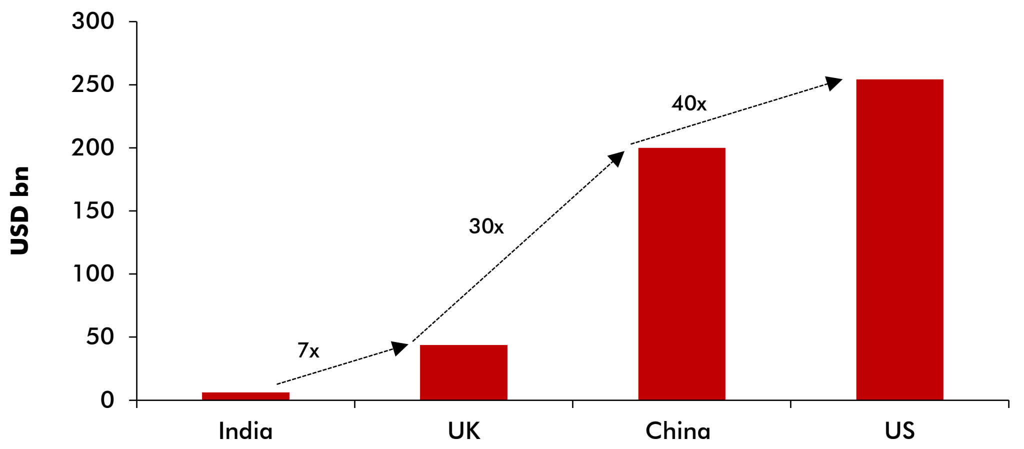
India, similar to China, will see the demand for annuities increasing over the next decade as i) National Pension System matures with 10% subscribers expected to retire by FY35E, ii) limited social security and iii) favourable regulatory changes. We see the annuity market in India growing by ~4x by FY35E, resulting in the share of annuity within APE increasing from 3-7% to above 10% for private life insurers. This will have a positive VNB impact as well given annuity products have higher margins. LIC and HDFC Life have the highest market share in annuities (in NBP terms) currently. However, private players such as BALIC have gained share in recent years at the expense of LIC given the latter has provided lower IRRs (30-50bps).

Annuities: A significant medium to long-term opportunity

In India, the annuity market is still in its infancy. FY22 annuity premiums of ₹573bn (USD6bn) was 7-40x smaller than countries such as China, UK and US. This is likely a function of:

- **Low awareness:** Retirement planning is still not very wide spread in India. Hence, people post-retirement depend on pension, rental, dividend and/or family income for sustenance.
- **Defined benefit pension plans for Central & State Government employees till CY04:** Defined pension plan for central and state government employees was replaced by National Pension Scheme (NPS) for employees joining after 1 Jan 2004. It was opened up to all citizens from CY09. The prevalence of defined pension plans prior to NPS, particularly for government employees, resulted in people not requiring annuities for retirement planning.
- **Lack of innovation:** Finally, there has been a lack of innovation in the annuity market in India. We lack variable annuity products unlike some of the developed markets.

Exhibit 1: India's annuity market is fairly small compared to UK, China and the US

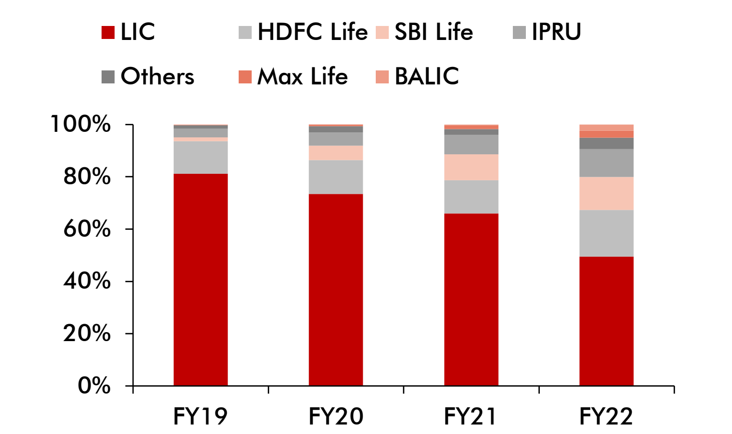


Source: Bank of England, Ambit Capital research

LIC and HDFC Life are dominant players

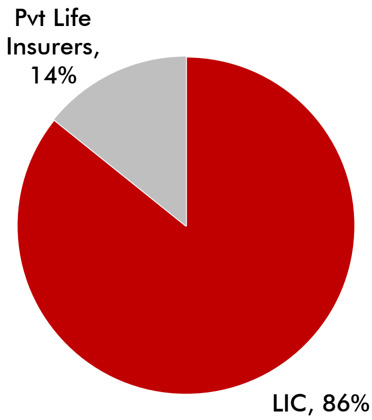
The annuity market in India is dominated by LIC, which has 50% market share within NBP followed by HDFC Life (18%) and SBI Life (13%).

Exhibit 2: LIC dominates the annuity market...



Source: Company, Ambit Capital research

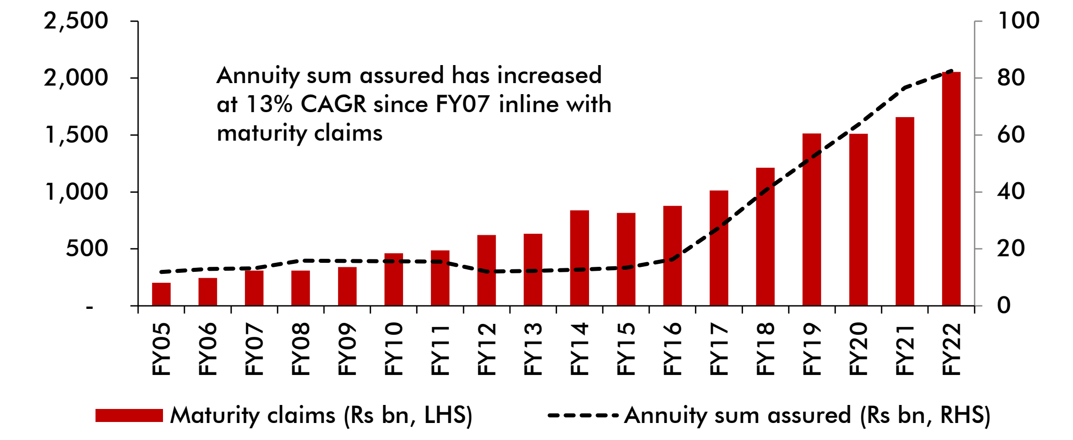
Exhibit 3: ...a result of its higher share within mature claims



Source: Company, Ambit Capital research

LIC's dominance in the annuity market is likely a function of its more mature back book (65+ years) compared to private life insurers (20+ years). This is evident from the company's 86% market share within claim maturities (does not include death or annuity claims).

Exhibit 4: LIC's annuity sum assured has grown in line with its maturity claims over the last 15 years



Source: Company, Ambit Capital research

Hence, as the back book of the private life insurers matures it would act as a feeder channel for the annuity business and/or other savings products similar to LIC.

HDFC Life's and BALIC's annuity products are offering 30-50bps higher IRRs compared to peers. Despite LIC increasing benefits in its annuity products, yields appear to be lagging behind private peers.

Exhibit 5: HDFC Life and BALIC are offering the highest IRRs on annuity products

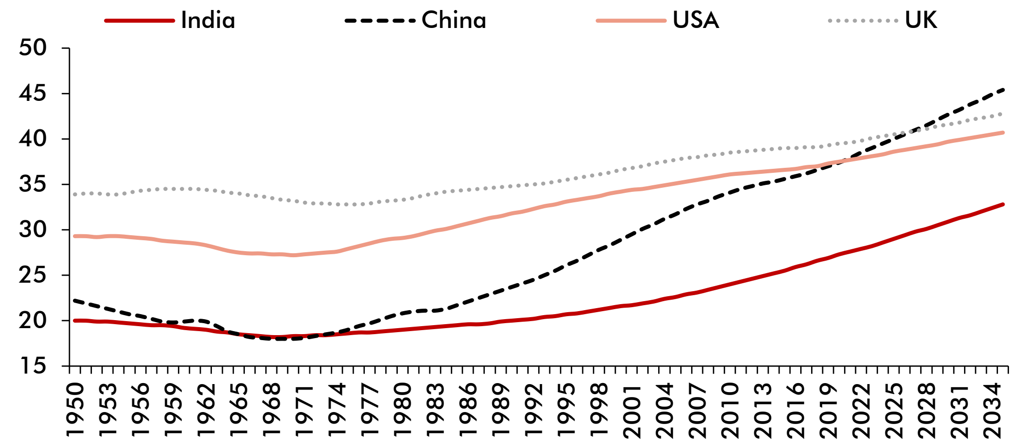
	HDFC Life	IPRU	SBI Life	BALIC	LIC	Max Life
Share of APE	6%	6%	3%	7%	4%	5%
Regular annuity	✓	✓	✓	✓	✓	✓
Deferred annuity	✓	✓	✓	✓	✓	✓
IRRs	Strong	Relatively Strong	Average	Strong	Relatively weak	Relatively Strong

Source: Company, Ambit Capital research Note: - Strong; - Relatively Strong; - Average; - Relatively weak

What will drive the expansion of the annuity market in India?

The demographic dividend for India is unlikely to last forever as fertility rate has been falling. An ageing population, with reducing family support, will increasingly need retirement solutions/products such as annuities. As per CSIS, the median age of the population has increased from 21 years in CY98 to 28 years. This is likely to increase to 32-33 years over the next decade.

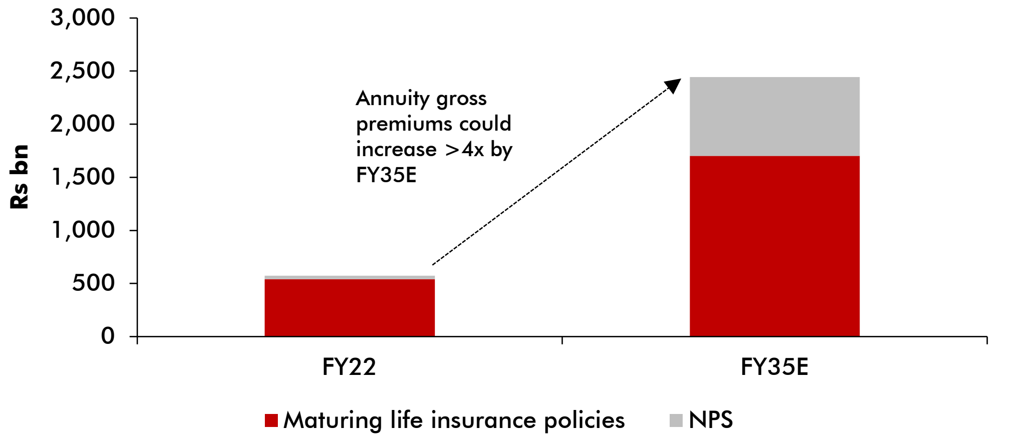
Exhibit 6: Median age of Indians will increase to 33 years from 28 years over the next decade



Source: Our World in Data, Ambit Capital research

We see Indian annuity market growing at a faster rate (+12%) compared to the overall life insurance savings market (+8%).

Exhibit 7: Annuity premiums in India will be driven by more NPS subscribers retiring and maturing of private life insurers back book



Source: Company, Ambit Capital research

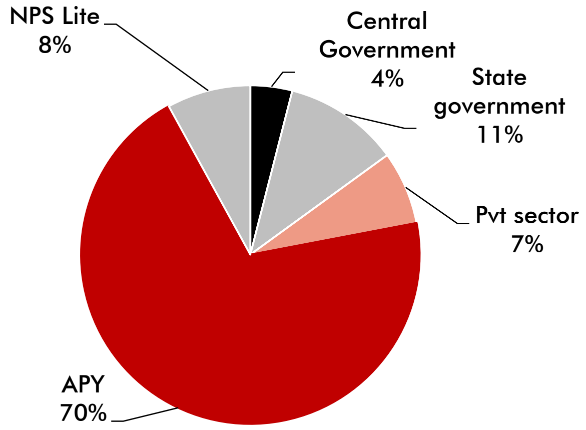
Besides ageing, the faster growth in annuity products will be a function of:

- **Withdrawal of defined benefit pension plans:** NPS replaced defined benefit pensions for government employees who joined after 1 Jan 2004.

  <u>*Market size in FY35E:*</u> NPS requires the subscriber to invest 40% of the maturity amount in annuities. Currently, NPS has 52 million subscribers. We estimate this will increase to 190 million by FY35E due to i) more private sector employees joining the scheme (growing at >30%) and ii) penetration of Atal Pension Yojna.

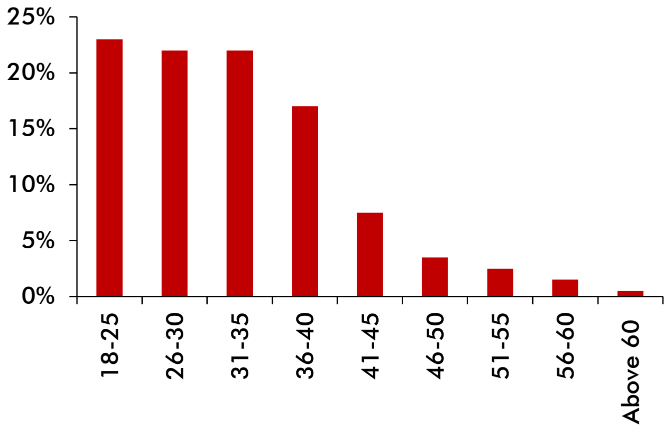
  <u>*How will the increase in market size impact annuity demand?*</u> Our estimate indicates at present the contribution from NPS to annuities is limited (~5%). However, this will increase to 30% by FY35E as 10% of the existing subscribers will be retiring by FY35E.

Exhibit 8: While Atal Pension Yojna has a higher share of subscribers, it has a lower share within AUM



Source: NPS, Ambit Capital research

Exhibit 9: NPS being a relatively new scheme, subscribers retiring has been limited but this will increase



Source: NPS, Ambit Capital research

- **Changing family structures:** According to a Mint article (25 May 2022), 52% Indians expect their children to provide financial stability when they get old. But with family size in India reducing (5.6 people in 1992-93 to 4.4 people in 2019-21) and fewer children staying with their parents, this appears less likely. The nuclear family structure reduces the ability of ageing people to depend on family for financial sustenance compared to the joint family structure.
- **Product innovation:** Introduction of new products such as variable annuities and/or index-linked annuities could also help in growing the market.

Recent regulatory change will result in greater product innovation

PFRDA has allowed NPS subscribers who earmark more than ₹1mn from the maturity amount for NPS to buy multiple annuity products from the same service providers. Currently, the key difference between annuity variants is the payment tenure, with immediate and deferred annuities being the only variants available. Allowing subscribers the opportunity to buy multiple annuities will result in product innovation. We see annuity products which offer different investment returns such as variable annuities and index annuities being introduced.

What have we learnt from other markets?

As we discussed before, annuities is a fairly well-developed market in countries such as China and the US. The growth of annuity markets in these countries has been driven by factors including: i) ageing population, ii) limited social security, iii) government incentives/support and iii) interest rates.

China benefitted from government incentives

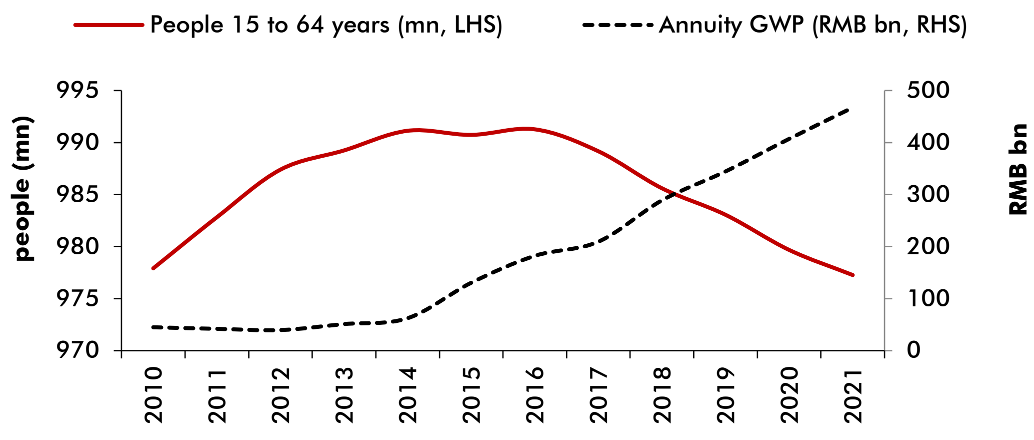
The individual annuity market in China is US$200 billion market. The annuity market has grown strongly since CY16 driven by government incentives and support.

The government incentives included:

- **Tax deductions:** Individuals purchasing annuities are eligible for tax deductions up to 1,000 yuan per month.
- **Subsidies:** Low income earners who purchase annuities are eligible for subsidies up to 240 yuan per year.
- **Improved regulation:** The government introduced regulations to standardize the sale of annuity/pension products and protect consumers from fraud and mis-selling.

While India encourages retirement savings by allowing NPS subscribers tax deductions and tax exempt payouts, the country currently has an unfavourable tax regime w.r.t annuities. Income from annuities is taxed at a nominal rate.

Exhibit 10: Annuity premiums vs Ageing: Annuity growth in China has benefitted from an ageing population and government incentives

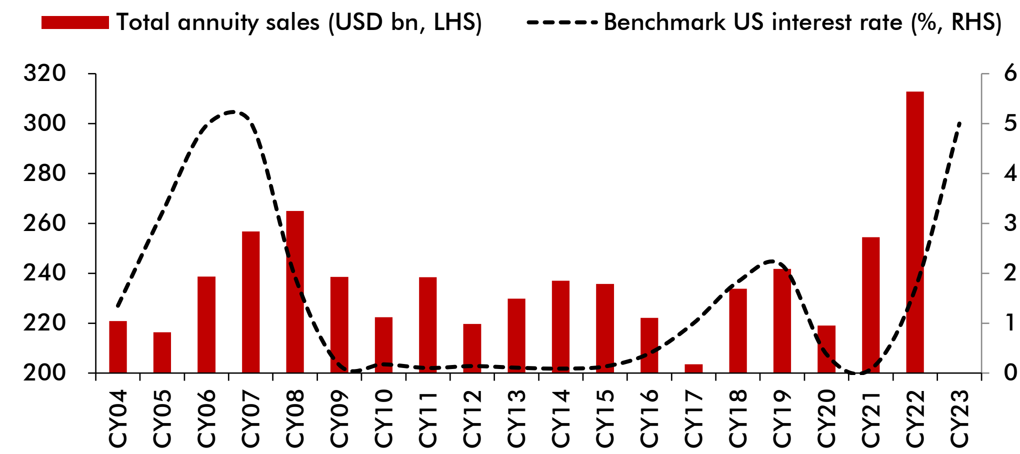


Source: Company, Our World in Data, Ambit Capital research

Annuity sales in the US appear closely tied with interest rates

Our analysis indicates annuity premiums in the US has been closely linked to rise in interest rates over the last 20 years. This is likely a function of consumers trying to lock in a high rate of interest. We could see a similar trend in India going forward as an ageing population will try to lock in higher rates to protect future incomes.

Exhibit 11: Annuity sales in the US appear closely linked to rising interest rates



Source: IIB, FRED, Ambit Capital research

Annuities are high-margin products

Besides strong growth opportunities, annuities typically have higher margins. We estimate single premium annuities and deferred premium have VNB margins of 40-50%. However, VNB margins could moderate over the medium-term for all life insurers due to higher competition and greater comparability between products due to standardization.

Exhibit 12: Single premium annuity margins: Margins are sensitive to mortality and investment assumptions

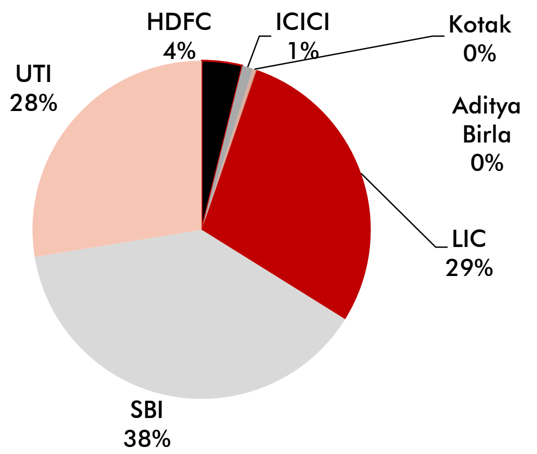
Assumptions		Results	
Number of policies	1,000	VNB (₹ '000)	198
Premium/policy (₹)	5,000	APE (₹ '000)	500
Premium paying term (yrs)	1	VNB Margin	40%
First year commissions	2.0%		
Renewal commissions	0.0%		
Operating expenses	3.0%		
Investment yield	7.4%		
Tax rate	14.5%		

Source: Company, Ambit Capital research

Who is best-placed to benefit?

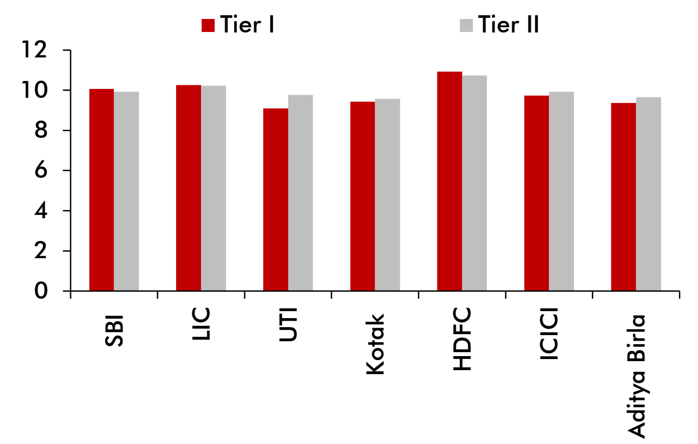
Currently, there are 14 annuity service providers empanelled with PFRDA. We see **SBI Life, LIC and HDFC Life** best-placed to benefit as the NPS scheme matures and people retire. Given these three companies control majority of the NPS AUM (UTI does not have an annuity service provider). As more non-government employees register with NPS, private life insurers such as **HDFC Life** will be well-placed to benefit due to the higher returns the company's schemes offer. However, competition for NPS AUM appears to be increasing with companies such as Max Life and Tata Pension Management also entering the market.

Exhibit 13: AUM of different pension funds (Mar'22)



Source: PFRDA, Ambit Capital research

Exhibit 14: Pension fund returns since inception (31 Mar 22)



Source: PFRDA, Ambit Capital research

Keeping long-term growth rate intact despite adverse tax changes

New tax laws have increased focus on life insurers' ability to grow their savings business. While we have reduced FY24 industry NBP growth expectation to 9-10%, we have kept our long-term expectations unchanged. One could argue removal of 80C benefit could have a significant adverse impact on industry growth. However, what we might be ignoring is: i) the lack of products with long-term guaranteed returns, ii) need for investment diversification, iii) life insurance having more favourable tax treatment than debt MFs and FDs till aggregate premiums of ₹500k, and iv) cross-sell opportunity for life insurers. Our comparison of AMCs and life insurers suggests the latter continues to play a key role in debt asset management.

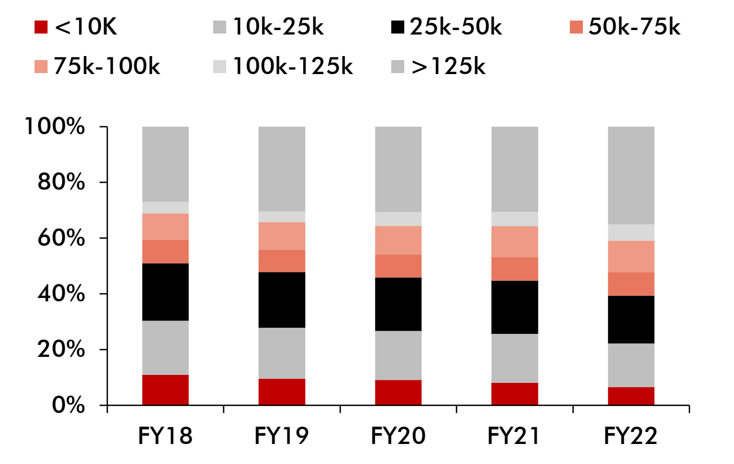
Near-term industry growth forecasts fall as we account for the tax changes

The Indian life insurance sector has undergone multiple ebbs and flows over the last two decades. Life insurance premiums increased at a CAGR of +23% between 2002 and 2010 driven by the popularity of ULIPs and buoyed equity markets. This was followed by a phase of muted growth due to frequent regulatory interventions. The growth of life insurance premiums again picked up from 2016 driven by financialisation of savings, demand for term life products following the pandemic and new product launches. In our Dec'22 thematic report, we had forecast industry growth of 11%. However, removal of tax exemption for non-linked life insurance products with aggregate premiums above ₹500k made us revisit our forecasts.

Exit of HNIs can have a 5% impact on industry NBP

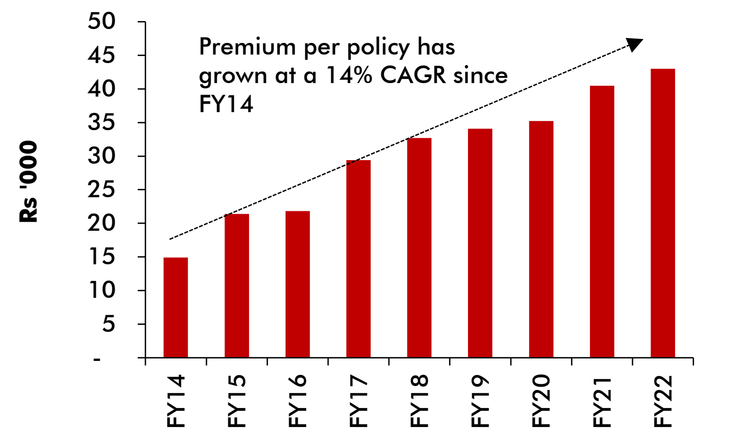
Our analysis indicates contribution from non-single individual policies with premiums above ₹125k has increased from 27% in FY18 to 35% in FY22 for the life insurance industry. We estimate the loss of high ticket size policies will have a 5% adverse impact on the industry new business premium (NBP). We forecast FY24 industry NBP growth of 9-10% adjusting for the adverse impact from the tax changes.

Exhibit 15: Non-single individual policies with premiums >₹125k has increased in the last 5 years from 27% to 35%



Source: IRDAI, Ambit Capital research

Exhibit 16: Premium per new policy has nearly tripled in the last 8 years



Source: IRDAI, Ambit Capital research

However, the impact on all life insurers will not be similar

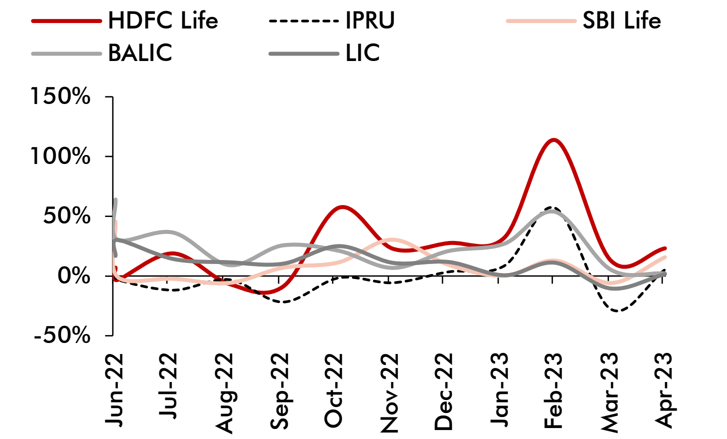
The impact of change in tax laws will not be uniform across life insurers. With **SBI Life** and **IPRU** better placed to drive growth vs other private peers as these companies had lower exposure to high-ticket policies (2-6% of APE), low base in 2QFY23 and 3QFY23 (IPRU: 2% APE decline between Jun-Dec'23; SBI Life: +9%) and benefit from the rebound in retail protection.

Exhibit 17: Impact of high ticket size policies

	High ticket size exposure	Impact during 4QFY23
SBI Life	2%	Negligible
LIC	4%	
IPRU	6%	Did not have a material impact
BALIC	8-9%	High ticket size sales increased to 24% in Feb/Mar'23
Max Life	9%	₹3bn (5% of APE) additional sales
HDFC Life	10-12%	₹10bn (7% of APE) additional sales

Source: Company, Ambit Capital research

Exhibit 18: IPRU and SBI Life will cycle less demanding APE growth in FY24 compared to HDFC Life/BALIC



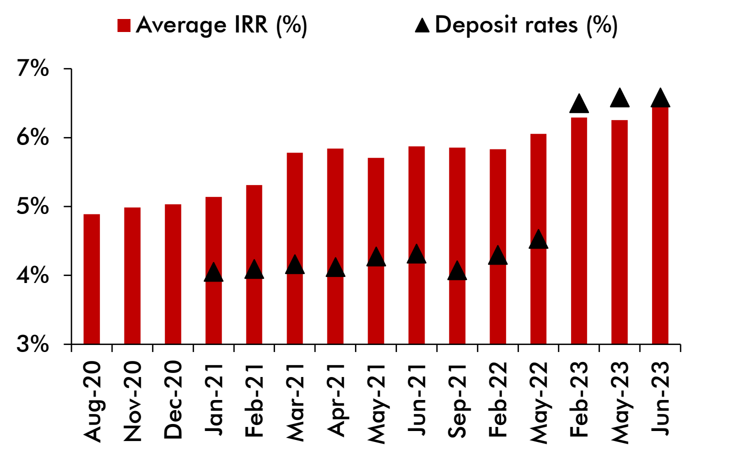
Source: IRDAI, Ambit Capital research

Will interest rates peaking help life insurers?

According to Ambit's Economist, repo rates have peaked. We see demand for life insurance savings benefiting from interesting peaking as: i) consumers may try to lock in higher interest rates through non-par savings products before a decline and ii) ULIP demand could benefit from increase in stock prices. The impact on EV from higher interest rate is only 0% to +4%.

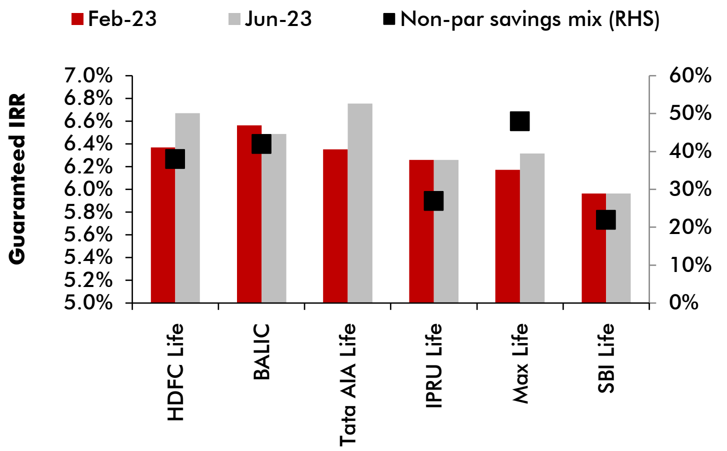
How are the yields? IRRs offered by non-participating guaranteed products are at a high relative to the last 3 years. While fresh term deposit rates offered by public and private banks have increased, on a tax adjusted basis (till ₹500k of aggregate premiums) non-participating products offer better returns. Consumers may look at locking in these high rates before a decline.

Exhibit 19: IRRs in non-par savings products have been increasing. While fresh TD rates appear attractive, on a tax adjusted basis life insurance is a better investment



Source: Company, RBI, Policybazaar, Ambit Capital research

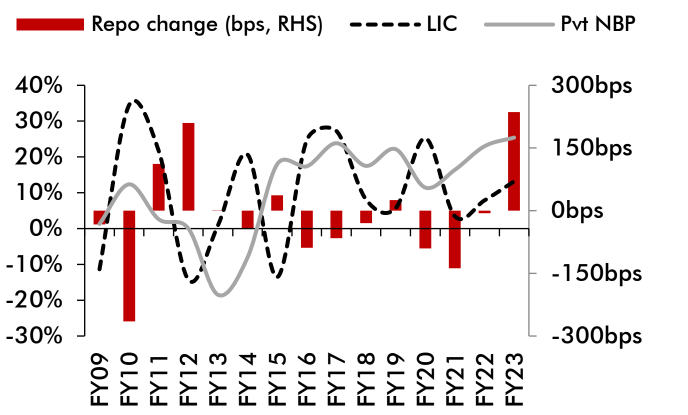
Exhibit 20: Most companies have either increased or kept the rates flat



Source: Company, Policybazaar, Ambit Capital research

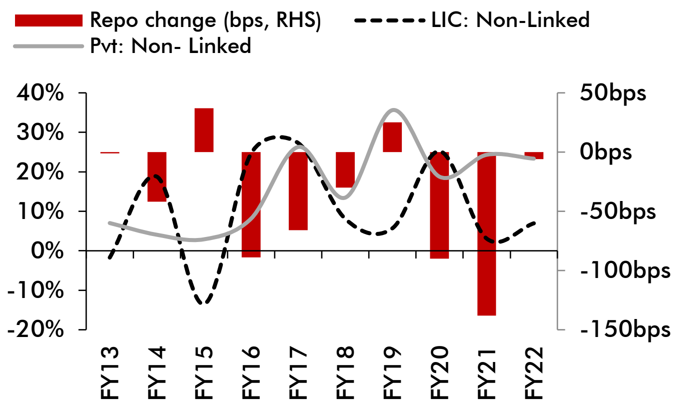
How does Repo rate correlate with NBP growth? We note new business premium (NBP) growth for the industry has been linked with repo rates over the last 15 years. Repo rate cuts in FY10, FY16/FY17 and FY20/FY21 translated into higher NBP growth for the industry (both private life insurers and LIC). We acknowledge there are factors beyond repo rate cuts which impacted NBP growth during these periods including: i) new product launches, ii) regulatory changes (Open architecture, ULIP regulations) and iii) new players entering the market. However, our discussion with agents suggest customers try to lock in rates before further cuts (fear remains the key driver of life insurance sales!).

Exhibit 21: Change in repo rate has been closely linked with NBP growth



Source: RBI, IRDAI, Ambit Capital research

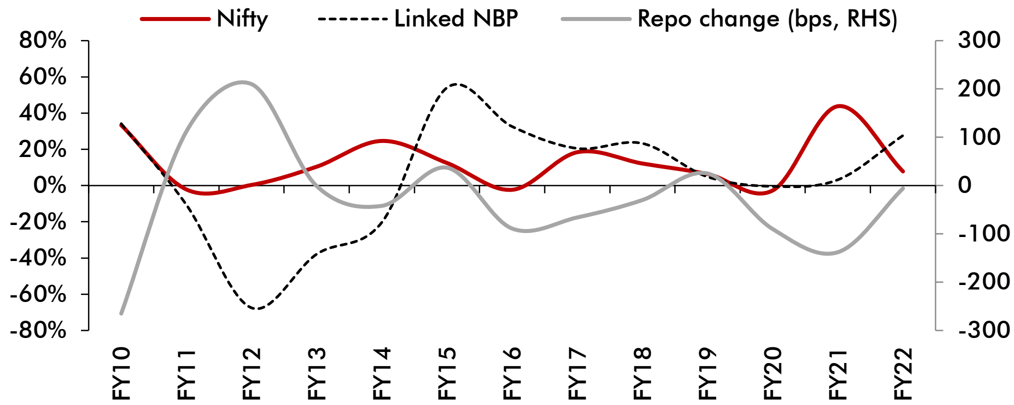
Exhibit 22: Repo rate cuts have been closely linked with non-par NBP growth, particularly in the case of LIC



Source: RBI, IRDAI, Ambit Capital research

<u>Is there any impact on ULIP demand?</u> We see ULIP demand benefiting from higher stock prices. However, based on historical data the relationship between increase in stock prices and linked NBP growth appears to be lagged.

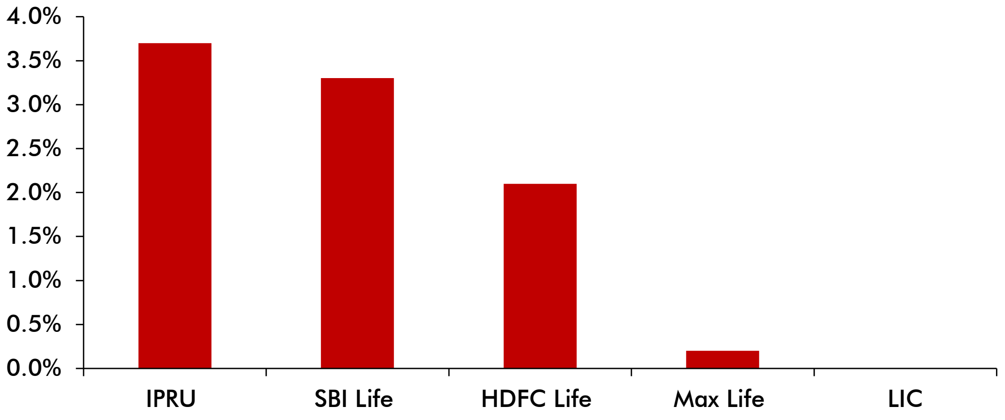
Exhibit 23: There appears to be a lagged relationship between increase in stock prices and linked NBP growth



Source: RBI,IRDAI, Ambit Capital research

Limited positive impact on EV. Interest rate cut of 100bps typically has 0-4% positive impact on the EV of life insurers.

Exhibit 24: Sensitivity of EV to interest rate cuts: IPRU has the highest impact, while LIC has the least impact

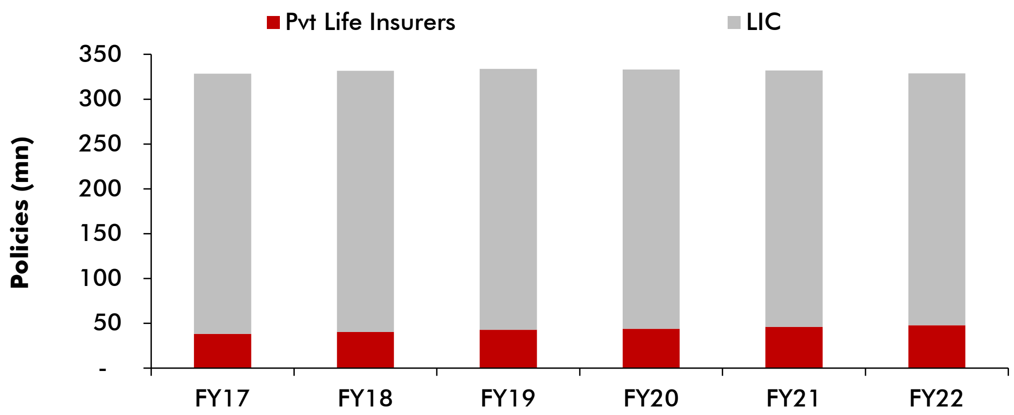


Source: Company, Ambit Capital research

Life insurance savings growth will be driven by cross-sell opportunities and product innovations

We have kept our life insurance savings premium growth estimates over the next decade unchanged at 9% as the impact of high-ticket size policies will be a short-term impact, and companies have cross-sell and product innovation opportunities. Private life insurers have the opportunity to cross-sell their products to existing life insurance customers noting: i) private life insurance insurers share within outstanding policies is only 15%, and ii) the product suite of private life insurers is fairly different from LIC, which has historically relied on participating products.

Exhibit 25: Majority of the policies in force are with LIC



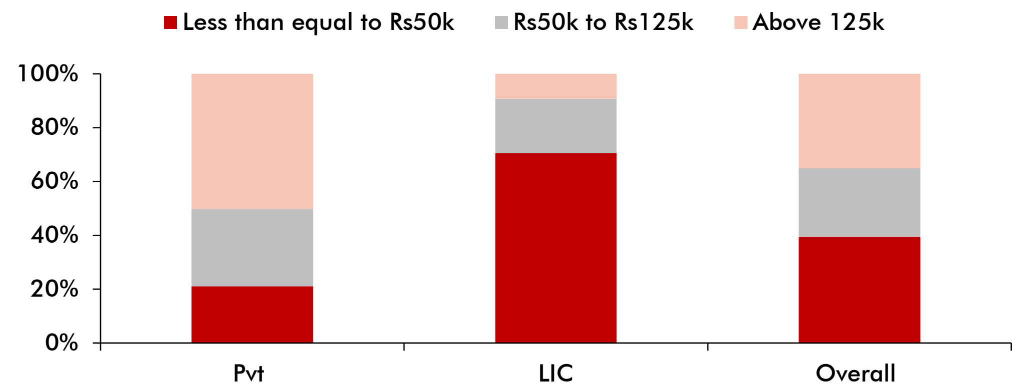
Source: IRDA, Ambit Capital research

What about the impending shift towards the new tax regime?

Exposure: We think product category most at risk from removal of 80C benefit is the smaller ticket-size savings products (participating, guaranteed and ULIPs). The share of smaller ticket size products (<₹50k premium per annum and includes retail protection) in individual regular NBP has reduced from 51% in FY18 to 39% in FY22. Excluding LIC, policies with ticket size less than ₹50k account for ~20% of the individual regular NBP.

Why we think the impact will be lower than expected? One could argue removal of 80C benefit will result in the smaller ticket size investments moving to other categories (e.g. mutual funds, FDs) or reduce savings. However, what we might be ignoring is: i) the lack of products which provide guaranteed returns over a long-term horizon, ii) people might not be comfortable investing their entire savings in volatile investments such as equities and MFs, and iii) life insurance products having more favourable tax treatment than debt MFs and FDs till aggregate premiums of ₹500k. Further, as indicated in our recent note on the Chinese Life insurance sector, it typically takes 1-2 years to recover from a regulatory change, and consumers typically switch to other life insurance products.

Exhibit 26: Contribution of lower ticket size policies is only 20% in the case of private life insurers



Source: Company, Ambit Capital research

Exhibit 27: How different product categories are taxed pre and post Budget

Product	Pre-budget	Post-budget
ULIPs	Aggregate premiums exceeding ₹250k do not get the 10 (10D) benefit.	No change
Annuities	Up to ₹300k no taxes. Post ₹300k graded tax rate from 10% to 30%.	No change
Non-participating savings	No tax on income	Aggregate premiums exceeding ₹500k do not get the 10 (10D) benefit.
Participating savings	No tax on income	
Term insurance	No tax on income	

Source: Ambit Capital research

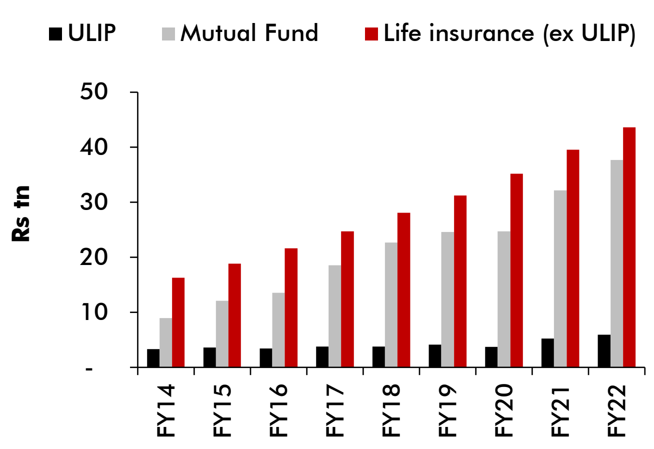
Life insurers will remain the dominant asset manager for debt

What role have life insurers played in India? In India, life insurers have predominantly played the role of asset managers as compared to risk managers. This has been a result of life insurance being tied to long-term investment products, and lack of consumer interest in pure-risk products. Hence, the emergence of AMCs, whose products provide greater payment and withdrawal flexibility, has raised a question mark on life insurers' ability to continue as a major asset manager.

Has life insurance fallen behind MFs in AUM growth? The life insurance industry had ₹50tn AUM in FY22 vs ₹38tn AUM of the mutual fund industry. Life Insurance AUM has grown at +12% CAGR over the last 5 years compared to +15% AUM CAGR in the mutual fund industry.

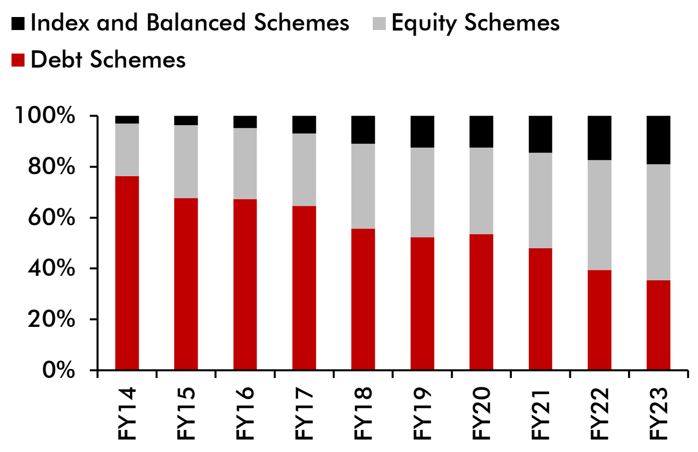
More than what meets the eye. However, should we dig deeper, we will find life insurance AUM (excluding ULIPs) has grown faster pace than debt MF schemes (+4%) over the last 5 years. This suggests life insurers continue to play a key role in debt asset management, which is likely a function of the longer investment tenures and guaranteed returns life insurance schemes offer.

Exhibit 28: AUM: Life insurers remain the predominant debt asset managers



Source: IRDA, AMFI, Ambit Capital research

Exhibit 29: Mutual fund AUM split: Equity share has increased



Source: AMFI, Ambit Capital research

Retail protection is rebounding!

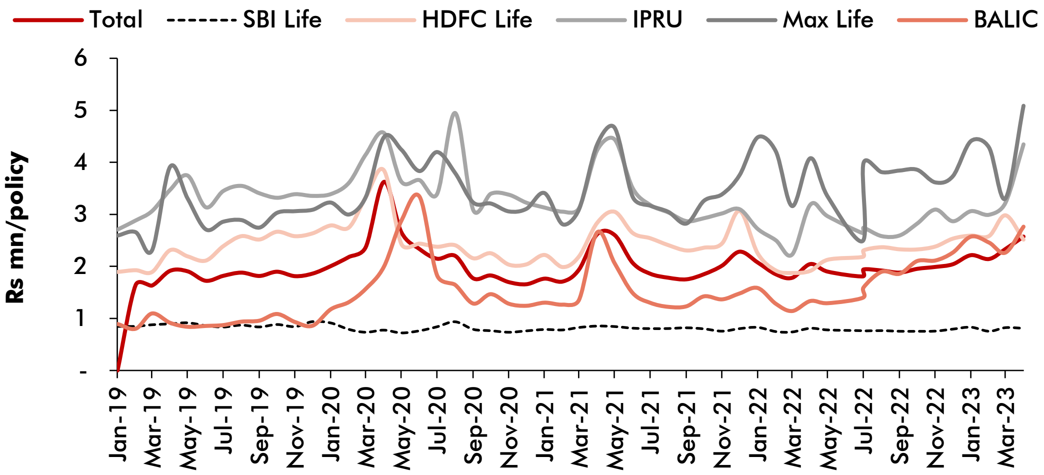
We continue to expect term insurance premiums to grow at >25% over the next decade. While term insurance growth had been a challenge, data on insurance sales in CY23, management commentaries and channel checks suggest that retail protection demand is recovering in CY23. In YTDCY23, sum assured per individual policy increased by 4-39% YoY for SBI Life/HDFC Life/IPRU compared to 4-16% decline in CY22. We believe, retail protection demand is driven by pricing stabilising, re-training of distribution partners being complete and reinsurers becoming more accommodative.

Exhibit 30: HDFC Life and IPRU witnessed a recovery in term insurance demand during 4QFY23

4Q result comments	SBI Life	HDFC Life	IPRU
Individual protection	Declined in 4Q as consumer focus shifted to non-par savings products.	4Q retail protection growth of 40%. The company indicated reinsurers are opening up, and looking at new growth opportunities.	Retail protection growth returned in 4QFY23 (+28% YoY). The company indicated changes in sales strategy appear to be delivering result. IPRU has shifted focus from affluent customers to mass affluent customers.

Source: Company, Ambit Capital research

Exhibit 31: Sum assured per individual life insurance policy increased for 4 consecutive months in CY23 after declining in CY22



Source: Company, Ambit Capital research

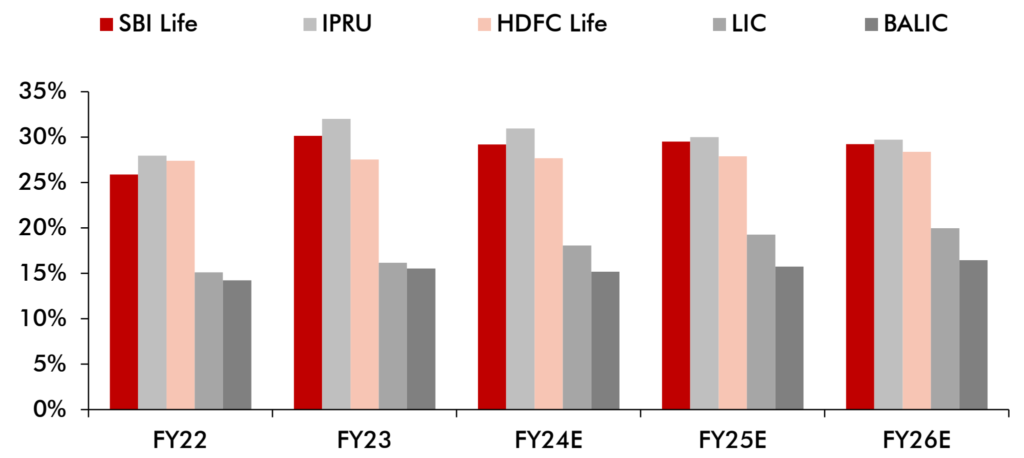
Short-term margins will be under pressure

Consistent with our expectations, life insurers indicated in their 4QFY23 results that FY24 VNB margins will be lower or flat compared to FY23 as the companies invest to drive growth. In our view, these investments are likely to be directed towards: i) increasing distribution presence, ii) competing with other debt products and iii) technology.

LIC could stand out from the rest in FY24 as the company increases focus on driving non-par sales. However, over the medium term we expect LIC's margins to peak at 21% and unlikely to match 28-30% margins of private peers due to: i) LIC's product mix continuing to have a higher skew of participating products (>50%) compared to private peers (5-20%), ii) persistency will lag private peers due to greater skew towards rural and lower income categories and iii) the company requiring to increase non-participating product benefits to become more competitive with private peers.

For **IPRU** and **HDFC Life**, we are forecasting flat to lower margins in FY24. There could be upside to our margin forecast from higher-than-expected growth in retail protection, which has higher margins than other life insurance products.

Exhibit 32: Most life insurers will see a contraction in margin in FY24. LIC can standout due to the company expanding non-par mix



Source: Company, Ambit Capital research

Below are comments on margins from key life insurers.

Exhibit 33: Private life insurers expect margins to be subdued in FY24 vs FY23

4Q result comments	SBI Life	HDFC Life	IPRU
VNB margin	Targeting 29-30% VNB Margin (FY23: 30.2%)	Targeting flat margin in FY24 vs FY23 as the company is investing in technology and distribution.	Focus on APE growth vs margin. The company is investing in distribution channels.

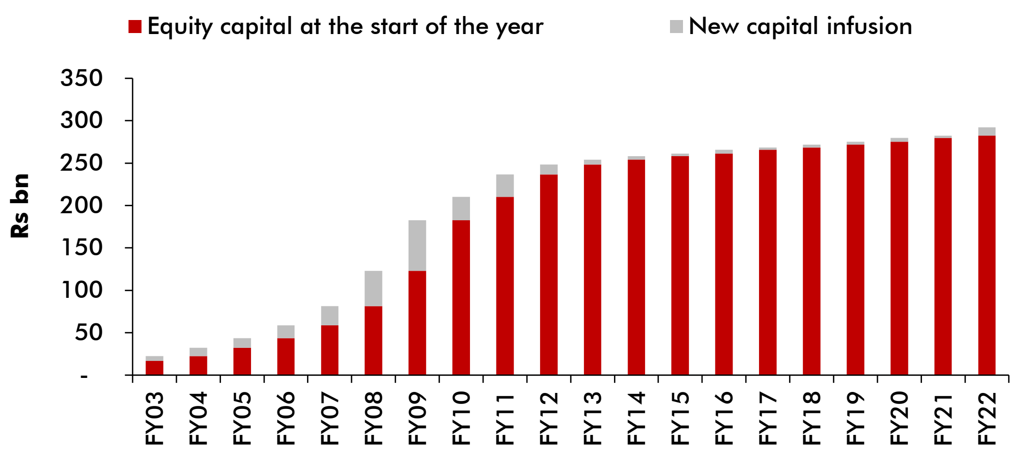
Source: Company, Ambit Capital research

Capital requirements reducing

The need for fresh capital has significantly reduced over the last decade due to:

- **Majority of the top 10 life insurers starting to generate accounting profits:** This adds to the net worth and increases available solvency margin for the company.
- **IRDAI allowing life insurers to raise sub-debt:** The regulator has allowed life insurers to raise up to 50% of their net-worth as subordinated debt. This has reduced the need for equity capital.

Exhibit 34: The need for fresh equity capital has reduced



Source: IRDAI, Ambit Capital research

ROE will expand to high teens under IFRS 17

IFRS 17 has replaced IFRS 4 from 1 Jan 23. In India, the transition could still be 2 years away. The key impact from IFRS 17 will be better matching of revenues and costs resulting in higher accounting profits and ROEs. This will reduce investors' reliance on embedded value, and make comparison across industries/geographies easier. Based on our calculations, we see the life insurance sector in India having a normalized ROE of 16-20%. The impact on solvency/capital requirements due to IFRS 17 is more difficult to ascertain due to the lack of clarity regarding whether IFRS accounting or current factor based method will be followed for solvency calculation.

IFRS 17 is coming in 2 years

Globally, IFRS 17 replaced IFRS 4 from 1 Jan 23. In India, consultations are underway with insurers to adopt Ind AS 117, which is based on IFRS 17. IRDAI has formed an expert committee to drive the implementation of Ind AS 117 comprising accountants, actuaries and insurers. Based on our discussions with industry peers, it appears Ind AS 117 could be adopted from 1 April 2025.

What are some of the benefits from transitioning to IFRS 17?

IFRS 17 has multiple benefits for the life insurers over current IFRS 4 including better comparability across geographies. This could result in greater capital inflow into emerging markets such as India, which could result in competition increasing.

Exhibit 35: IFRS 17 has multiple benefits for the life insurance sector

Benefits	Existing insurance accounting policies	IFRS 17
Comparability	Accounting of insurance contracts vary significantly across geographies. This includes use of different discount rates (MCEV vs TEV), capitalisation of costs and different revenue recognition methods.	Comparability across geographies will increase as companies will apply a consistent accounting framework for all insurance contracts. Comparability across industries will also increase as revenue and expense will exclude deposit components like the banking industry.
Better alignment between economic/ accounting profits	A key challenge in the existing accounting regime in India has been the upfront recognition of acquisition costs. This results in profits being delayed.	A key change will be the alignment of revenue and cost recognition. This will result in better alignment between economic and accounting profits.
Greater insight into product-wise profitability	Currently, most insurers do not specify whether or on what basis insurance contracts are aggregated. This means that some insurers can offset losses arising from some insurance contracts with gains arising from other insurance contracts.	IFRS 17 requires dividing insurance contracts into groups based on profitability. This provides better contract level visibility.
Understandable revenue and claims	Currently, insurers present the premiums received and maturity claims paid as revenue and expense in P&L. Further, "change in actuarial liability" combines the release from margins embedded in assumptions and change in best estimate assumptions.	IFRS 17 requires a company to report as revenue the consideration for insurance services on an earned basis. This excludes deposit components which represent policyholders' investments, not consideration for services. Similarly, expenses exclude repayment of deposits, which is accounted as settlement of a liability.

Source: Company, Ambit Capital research

How will insurance liability be valued under IFRS 17?

IFRS 17 has proposed 3 methods of insurance liability valuation depending on the type of insurance contract and tenure.

Exhibit 36: Comparing different liability valuation models in IFRS 17

Liability valuation model	Overview	Products for which it is most suitable
General Measurement Model (GMM)	This is the default liability valuation model. The measurement is based on the building blocks of discounted cash-flows, risk adjustment and contractual service margin (CSM).	Term insurance, whole life insurance
Premium Allocation Approach (PAA)	This measurement method is applied when either coverage period is one year or less, or measurement does not materially differ from GMM.	Property, health, motor, fire insurance etc.
Variable Fee Approach (VFA)	For contracts with direct participation features. These are insurance contracts that are substantially investment related.	Unit linked products and participating products

Source: IFRS, Munich Re , Ambit Capital research

The default liability valuation model, GMM, comprises the following building blocks.

- **Expected cash flows:** Estimation of future cash inflows and outflows within each contract in the group.
- **Discounting:** The adjustment of cash flows for the impact of the time value of money.
- **Risk adjustment:** Explicit estimate of the effects of uncertainty about the amount and timing of future cash flows.
- **Contractual service margin:** This quantifies the unearned profit the insurer expects to earn as it fulfills the contract. The profits are amortized over the period of the contract.

The effect of IFRS 17 on P&L and balance sheet

The key change IFRS 17 will bring w.r.t Indian life insurers is a better alignment between insurance revenues and acquisition costs. As acquisition costs will be amortized over the insurance period, unlike the current practice where it is up-fronted. The other key change under IFRS 17 will be how insurance revenues are represented. Currently, premiums are included in P&L. The introduction of IFRS 17 will result in insurance revenues being reported in place of premiums. This will provide greater details on margins embedded within the insurance contracts and changes in estimates.

Exhibit 37: Changes in P&L/balance sheet due to the transition to IFRS 17 from IFRS 4

P&L	IFRS 4	IFRS 17
Insurance revenues	Includes both insurance service charges and investment component in premium.	Investment component will be excluded from insurance revenues.
Change in valuation of liabilities	Shown as a single line in P&L, which includes release from Best Estimate Liability (BEL) and release of margins embedded in assumptions.	Best Estimate Liability (BEL) and release of margins embedded in assumptions will be shown as separate line items within insurance revenue.
Acquisition costs	Indian GAAP requires insurers to account for acquisition costs upfront.	Similar to insurance revenues, acquisition costs will also be amortised over the tenure of the insurance contract.
Balance sheet		
Insurance contract assets	Not available	This will be a new line item, which will represent the amount of revenue that an insurer has recognised but not yet received cash.
Reinsurance contract liabilities	Not available	This will be a new line item. This is currently netted with reinsurance contract liability.

Source: IFRS, Ambit Capital research

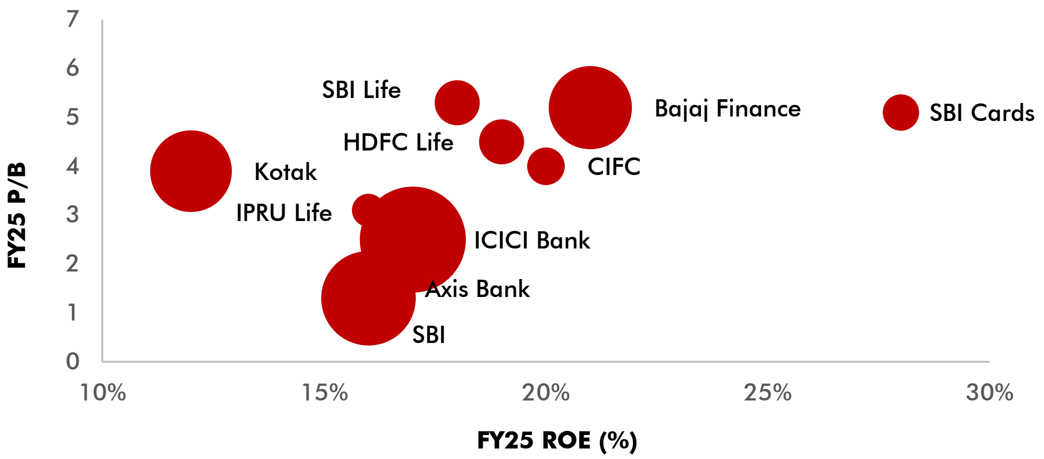
IFRS 17 vs Embedded Value: Are there similarities?

A key difference between Embedded Value accounting and IFRS 17 is that the former incorporates unearned profits. So, the expected profit is recognized in the value of the business at inception in **Embedded Value**. It is then periodically changed when assumptions change, i.e. there is no systematic release of profits in an embedded value model other than determined by the passage of time. When applying **IFRS 17**, the unearned profit, or contractual service margin, is classified as a liability reflecting the associated obligation to provide insurance coverage. This is released to the P&L over the course of the life insurance contract.

Normalised ROE of 16-20% is expected post IFRS 17

The implementation of IFRS 17 will impact all insurers. However, the impact is likely to be greater on life insurers as compared to general insurers given the latter typically has shorter tenure policies (~1 year). A key change for Indian insurers will be the ability to amortize acquisition costs (commissions, and advertising and marketing spend) over the period of the contract rather than accounting for it in the first year. This will result in ROE and valuation multiples being comparable with other financial sector stocks. Based on our analysis, we see listed Indian life insurers operating at 16-20% ROE. This is 300-400bps higher than banks and similar to large NBFCs.

Exhibit 38: How does normalised ROE of life insurers compare with banks and NBFCs?



Source: Ambit Capital research

Impact on solvency is not certain

Ideally, increase in accounting profits should result in higher available solvency margin. However, the impact on solvency due to IFRS 17 is difficult to ascertain due to the lack of clarity regarding whether IFRS accounting will be followed for solvency or current factor-based solvency will continue till the industry transitions to risk-based capital framework.

Do not ignore the costs

Compliance costs are likely to increase following the implementation of IFRS 17 due to several factors, including the increased complexity of the standard, the need for new systems and processes, and the additional disclosure requirements.

Firstly: IFRS 17 is a more complex accounting standard than its predecessor, IFRS 4 and hence will require more training.

Secondly: Insurance companies will need to implement new systems and processes to comply with the requirements of IFRS 17.

Thirdly: IFRS 17 includes additional disclosure requirements compared to IFRS 4. This increased disclosure can require additional resources and effort, which can also increase compliance costs.

Thus implementation of IFRS 17 will increase compliance costs for smaller life insurers. This could result in the industry consolidating.

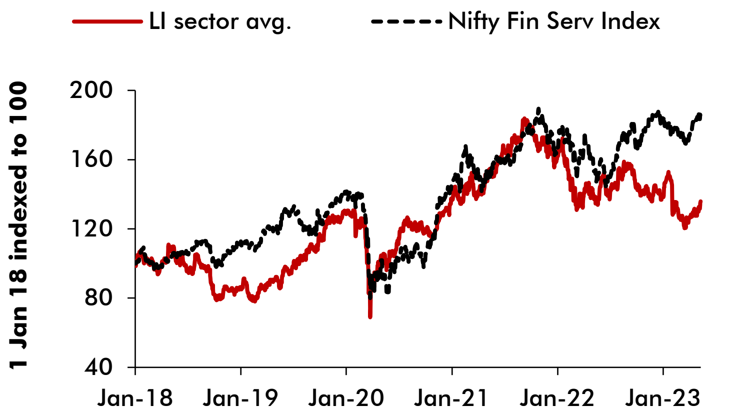
Higher EV, but lower valuations do not make sense

Life insurance valuations underwent a sharp de-rating following the unfavourable tax changes introduced in the Feb'23 Budget for non-linked savings products. The sector is currently trading at a 15% discount to its pre-budget valuation of 2.2x (1 year forward P/EV) and below its long-run average despite: i) consensus FY25 EV expectations being higher now compared to pre-Budget levels, ii) high-margin retail protection rebounding, and iii) new EOM guidelines providing insurers greater scope to incentivise policy growth. Our top picks within the sector remain SBI Life and IPRU. We initiate coverage on LIC and Bajaj Finserv with SELL.

Insurance has underperformed the financial services sector

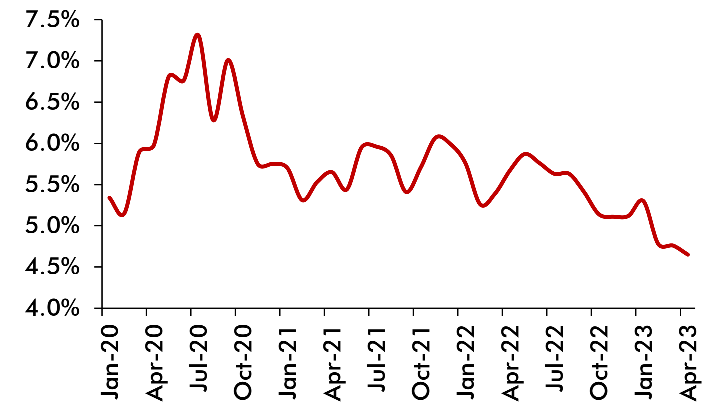
The weight of insurance sector within Nifty Financial Services Index declined from 7% during the first wave of Covid-19 to 5% in Apr'23. This is a function of: i) the adverse impact of the second wave of Covid-19 and ii) unfavourable tax changes introduced in the Feb'23 Budget for non-linked savings products.

Exhibit 39: The insurance sector has underperformed the broader financial services industry over the last 2 years



Source: Bloomberg, Ambit Capital research Note: Sector average does not include LIC because of the limited trading history.

Exhibit 40: The weight of insurance within Nifty financial services index has continued to decline post Covid highs

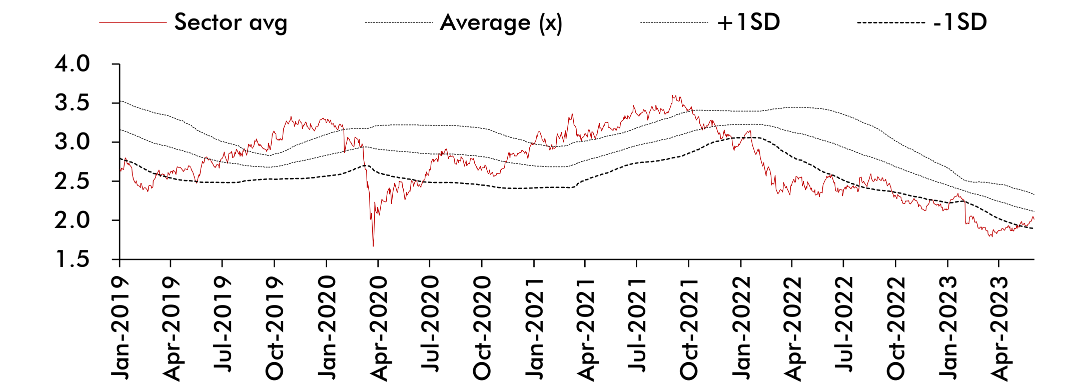


Source: Nifty, Ambit Capital research

Life insurance sector multiple will re-rate as companies demonstrate ability to grow despite tax changes

Indian life insurers underwent a sharp de-rating following the unfavourable tax changes introduced in the Feb'23 Budget for non-linked savings products. The sector is currently trading at a 12% discount to its pre-budget valuation of 2.2x (1 year forward P/EV).

Exhibit 41: Life insurance sector is trading below its long-run average



Source: Bloomberg, Visible Alpha, Ambit Capital research

Note: We have excluded LIC from the sector average because of limited trading history.

In our view, de-rating was overdone and multiples will expand from here as:

- **Life insurers demonstrate the ability to grow despite adverse tax changes:** Our analysis of the impact of adverse tax changes on ULIPs in 2021 suggests growth resumes in 12-18 months. This is consistent with our recent note which showed it took Chinese life insurers 1-2 years to recover following adverse regulatory changes.
- **Growth opportunities remain in both protection and annuities:** Adverse tax changes will not impact term insurance and annuities as these are necessities for financial protection and annuities are already taxed at marginal rate.
- **Contrary to initial expectations, life insurers will have higher FY25 embedded value as compared to before the budget:** Post 4QFY23 results, consensus FY25 embedded value expectation for listed life insurance companies increased by 2-3% compared to pre-budget levels. This has been a function of life insurers selling more high-ticket-size policies in Mar'23 than the companies were expected to lose in FY24. Hence, with embedded values in FY25 being higher than expectation, we see the sector de-rating overdone and expect valuations to expand.

Exhibit 42: Change in consensus embedded value compared to pre-budget levels

FY25 Embedded Value (₹ mn)	31-Jan-23	Current	Change
SBI Life	674,475	677,415	0.4%
HDFC Life	536,338	544,390	1.5%
IPRU	468,007	482,847	3.2%
LIC	6,671,701	6,806,939	2.0%

Source: Visible Alpha, Ambit Capital research

- **New EOM guidelines provide insurers greater scope to incentivise policy growth:** The lack of policy growth for insurers such as HDFC Life, IPRU and Max Life has been a concern for investors. The new EOM guidelines allow insurers to incentivize distributors based on productivity, customer experience (persistency, complaints, claims) and type of products sold. We see the changes in commission structure increasing focus on policy growth and protection sales.

Further, composite license could provide new growth avenues. IRDA and the Government are planning to introduce composite license in the monsoon session of the parliament. Composite license could allow life insurers to enter the retail health insurance sector, which we expect will grow at +15% over the next decade. This will provide life insurers another avenue for growth, which is not factored into the share price.

SBI Life and IPRU remain our top picks in the sector

BUYS

#1: SBI Life remains our top pick in the insurance sector. The stock is trading below its pre-Budget valuation of 2.3x (1-year forward EV) despite having the least exposure to high ticket size policies. Further, we see SBI Life delivering better growth than peers over the medium term (14.5% FY24-26E vs 10% peer average) given: i) the opportunity to further penetrate the SBI branch network as APE per SBI branch is 50-60% lower than private peers, iii) the company's expanded office network will support high-teen agency growth over FY24-FY26E and iv) SBI Life has formed significant bank partnerships beyond SBI, which could add ₹53bn in NBP (1/5th of FY23 NBP). We see SBI Life's margins being more resilient to competition as >80% of its APE will continue to be generated through channels with little or no competitors.

#2: IPRU continues to trade at an undemanding 1.6x 1-year forward EV. We see IPRU well-placed to drive APE growth over medium term driven by: i) the retail banking experience of the new CEO, which will help in identifying new partners and products, ii) IPRU adding ~60k new agents in the last 2 years and non-ICICI bank partnerships increasing by 2x over the same period and iii) retail protection demand recovering. Our reverse DCF suggests CMP is factoring in only +6% APE growth over the next decade.

#3: HDFC Life will benefit from HDFC Bank becoming its parent following the regulatory approval allowing HDFC/HDFC Bank to acquire a 50% stake in the life insurance subsidiary (currently: 47.5%). We see scope for HDFC Life's counter share within HDFC Bank increasing following the merger from 55% to 65-70%, similar to the share other life insurance subsidiaries have within their respective bank promoters (excluding SBI Life, IPRU, Kotak Life). The company is trading at 2.6x 1-year forward EV.

SELLS

#1: LIC has been losing market share to private peers. The company is addressing product and channel concentration challenges by increasing focus on non-par products and bancassurance. However, we are sceptical given: i) increasing competition from private peers in lower tier cities/rural areas, ii) a third of LIC agents are above 50 years old and may not be willing to retrain, iii) 70% of LIC's major banca partnerships are with PSU banks, where productivity improvement is more challenging, and iv) the Chairperson and MDs will superannuate within 1-3 years, which may not be enough for the strategic transformation. While the company is trading at an undemanding 0.6x FY25 EV, this is broadly in line with Asian peers which offer similar RoEV and growth opportunities.

#2: BFS' entire valuation is driven by its stake in Bajaj Finance (BAF) and insurance companies (BALIC and BAGIC), which have delivered industry leading growth. Our scenario analysis suggests BFS' CMP is more than capturing the growth opportunities within BAF and the insurance businesses nut not the challenges BAF/BALIC/BAGIC face from higher competition (BAF: banks; BALIC/BAGIC: new entrants) and regulatory changes (removal of product-wise commission caps, EOM limits). We do no factor in any value for the smaller/newer subsidiaries in the SOTP due to our concerns regarding their scalability.

Exhibit 43: Comparing life insurance peers

	APE (₹ bn)			APE growth			VNB (₹ bn)			VNB Margin			P/EV			RoEV		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
SBI Life	201	227	252	20%	13%	11%	59	66	73	29%	29%	29%	2.1	1.8	1.5	21%	20%	19%
IPRU	88	95	102	2%	10%	10%	27	29	32	31%	30%	30%	1.6	1.4	1.2	15%	15%	15%
HDFC Life	131	154	172	-2%	18%	13%	36	43	50	28%	28%	28%	2.6	2.2	1.9	18%	18%	17%
LIC	625	683	739	10%	9%	8%	113	132	147	18%	19%	20%	0.6	0.5	0.5	10%	10%	10%
BALIC	69	82	97	13%	19%	18%	11	13	16	15%	16%	17%				14%	14%	14%

Source: Ambit Capital research

Exhibit 44: Comparing general insurance peers

	GDPI growth			Loss Ratio			Combined Ratio			ROE			P/E		
	FY24E	FY25E	FY26E	FY24E	FY24E	FY25E	FY26E	FY24E	FY24E	FY25E	FY26E	FY24E	FY24E	FY25E	FY26E
ICICI Lombard	15%	13%	11%	70%	70%	70%	103%	103%	102%	18%	18%	19%	30.0	25.1	20.9
Star Health	18%	18%	17%	64%	65%	64%	94%	95%	95%	18%	16%	16%	27.8	26.8	23.0
BAGIC	11%	12%	11%	71%	70%	70%	100%	99%	99%	15%	15%	15%			

Source: Ambit Capital research

Earnings changes

- **IPRU:** We upgrade target price by 11% to ₹600 factoring in: i) higher growth in the non-ICICI Bank channel as the new CEO has significant experience in retail banking and customer needs from his ICICI Bank stint, ii) rebound in retail protection which will also allow IPRU better incentivise in other product categories, and iii) scale-up of the agency channel.
- **HDFC Life:** We upgrade target price by 7% to ₹675. This is primarily driven by higher counter share in HDFC Bank following the merger. HDFC Life plans to increase its counter share (<55% currently) by: i) gaining first access to the 4,500-6,000 branches HDFC Bank is opening and ii) rationalisation of life insurance sales representatives in HDFC Bank (HDFC Life: 40% of sales representatives despite 55% counter share).
- **SBI Life:** We have kept our target price and forecasts broadly unchanged.

Exhibit 45: Earnings changes summary: Upgrade IPRU and HDFC Life estimates, keep SBI Life broadly unchanged

IPRU	Old			New			Change		
	APE	**VNB**	**EV**	**APE**	**VNB**	**EV**	**APE**	**VNB**	**EV**
TP	540			600			11%		
FY24E	88	27	408	88	27	409	0%	0%	0%
FY25E	95	28	466	97	29	468	3%	3%	0%
FY26E	102	30	530	107	32	533	5%	4%	0%
HDFC Life	**Old**			**New**			**Change**		
	APE	**VNB**	**EV**	**APE**	**VNB**	**EV**	**APE**	**VNB**	**EV**
TP	630			675			7%		
FY24E	131	36	460	131	36	460	0%	1%	0%
FY25E	154	43	537	155	43	537	0%	1%	0%
FY26E	172	48	625	175	50	626	1%	2%	0%
SBI Life	**Old**			**New**			**Change**		
	APE	**VNB**	**EV**	**APE**	**VNB**	**EV**	**APE**	**VNB**	**EV**
TP	1,525			1,525			0%		
FY24E	201	59	554	201	59	554	0%	0%	0%
FY25E	227	67	662	227	66	661	0%	-1%	0%
FY26E	252	74	785	252	73	784	0%	0%	0%

Source: Company, Ambit Capital research

Life Insurance Corporation

SELL

INITIATING COVERAGE | LICI IN EQUITY | June 13, 2023

Making elephant dance isn't easy

LIC is a market leader with several competitive advantages. But these moats are under attack from swifter private peers. LIC has been trying to address competitive pressures by increasing focus on non-participating products and bancassurance. We are skeptical of LIC's ability to execute these transformation programs and stem market share losses given: i) 70% of LIC's major banca partnerships are with PSU banks, where productivity improvement is more challenging, ii) competition from private peers in lower tier cities/rural areas, iii) a third of LIC agents are above 50 years old and may not be willing to retrain. While our target multiple of 0.5x FY25 EV appears low, it is broadly in line with Asian peers that offer similar RoEV and growth opportunities. Risks: i) better-than-expected VNB margin, ii) market share stabilizing and iii) new banca opportunities.

Competitive position: STRONG   Changes to this position: NEGATIVE

Stemming market share losses will not be easy

LIC's NBP market share has fallen from 70% in FY13 to 63% in FY23. We see LIC's market share falling further by the end of the next decade (55%) due to: i) growing non-participating products will be challenging due to its less favourable pricing, ii) banca growth being challenging as majority of LIC's partnerships are with PSUs, iii) competition increasing in lower tier cities from private players, and iv) entry of new players.

Margins will improve, but catch-up with private peers challenging

LIC has scope for margin expansion in the medium term. But we expect LIC's margins to peak at 21% and unlikely match 28-30% margins of private peers given: i) LIC's product mix has a higher skew of lower-margin participating products (>50%) vs private peers (5-20%), ii) persistency lagging peers due to greater skew towards rural/lower income categories and iii) increase in product benefits to be more competitive. For 25-28% margins, LIC's non-par mix will have to increase to 30-40%. This is challenging given, at this product mix, LIC's non-par APE will be 1x-2x of SBI Life/HDFC Life vs 24-36% now.

What value does our DCF valuation imply?

Appraisal valuation has its limitations w.r.t LIC given: i) limited EV history, ii) between FY21 and FY22 EV increased to ₹5.4tn from ₹956bn due to bifurcation of the life fund and iii) 6x more sensitivity to equity changes vs other peers. Hence, we have used DCF to value LIC, which results in a TP of ₹590. While the discount to CMP is not significant, we are cautious given: i) channel/product diversification will take time to play out, ii) market share losses will continue, iii) lower RoEV compared to private peers.

LIC is trading at a similar multiple to Asian peers

Our target price of ₹590 implies 0.5x FY25E embedded value. This is at a significant discount to Indian private life insurers (1.5-2.5x) which appears prudent given: i) LIC offers lower RoEV (~10%) than private peers (15-20%), ii) greater skew towards lower margin participating products, iii) risks associated with the government owning 96.5% of the shares and iv) LIC's EV being more sensitive to equity market changes. LIC is trading broadly in line with other Asian life insurers (0.3-1.5x), who offer similar RoEV.

Insurance

Recommendation

Mcap (bn):	₹3,817/US$46
6M ADV (mn):	₹1193/US$14.5
CMP:	₹597
TP ( ):	₹590
NDCF	
Upside (%):	-1%

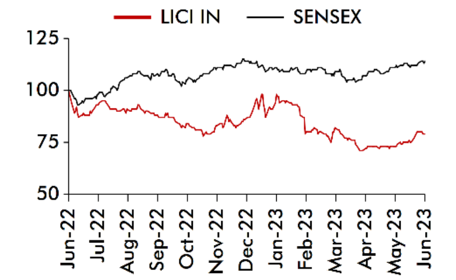
Flags

Accounting:	GREEN
Predictability:	RED
Earnings Momentum:	GREEN

Catalysts

- Market share losses accelerating due to entry of new players and existing players expanding.
- A slow increase in non-par product mix, up from 9% in FY23 to 11% in FY24

Performance



Source: ICE, Ambit Capital Research

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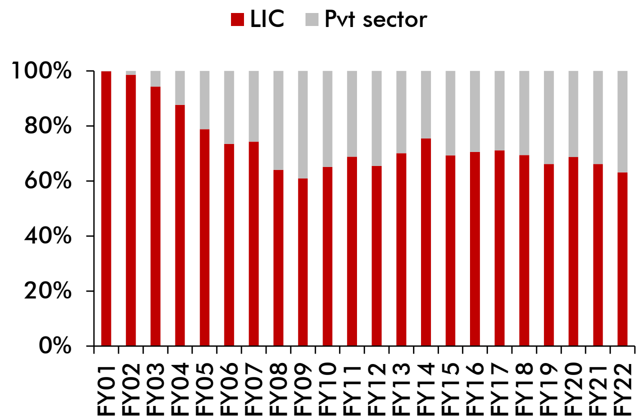
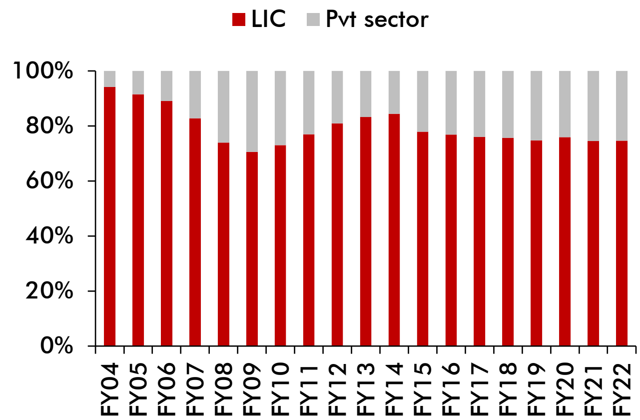
Narrative in charts

Exhibit 1: NBP: LIC's market share has reduced to ~60% with private life insurers taking share



Source: IRDAI, Ambit Capital research

Exhibit 2: Policies: LIC has a higher share in policies (75%) vs NBP due to a wider geographic and economic presence



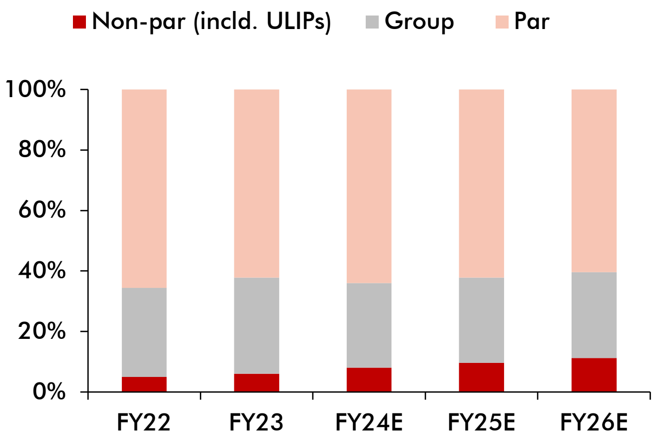
Source: IRDAI, Ambit Capital research

Exhibit 3: Key management: The team could completely change in the next 1-3 years

Name	Designation	Age	Appointment date
Mr. Siddhartha Mohanty	Chairperson	60	Apr-23
Mrs. Ipe Mini	MD	59	Aug-21
Mr. M Jagannath	MD	58	Mar-23
Mr. Tablesh Pandey	MD	58	Apr-23

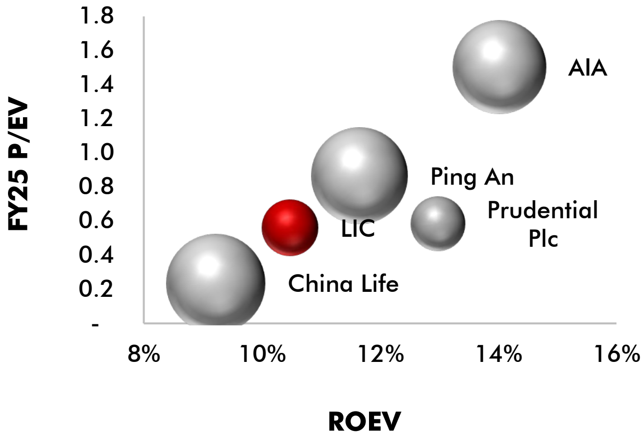
Source: Company, Ambit Capital research

Exhibit 4: LIC's product mix shifting towards non-par albeit slowly



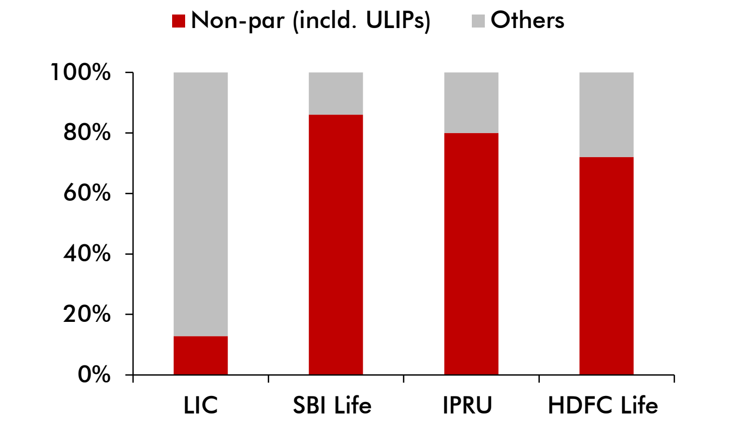
Source: Company, Ambit Capital research

Exhibit 5: LIC is trading at a forward P/EV multiple similar to Asian life insurance peers with similar RoEV



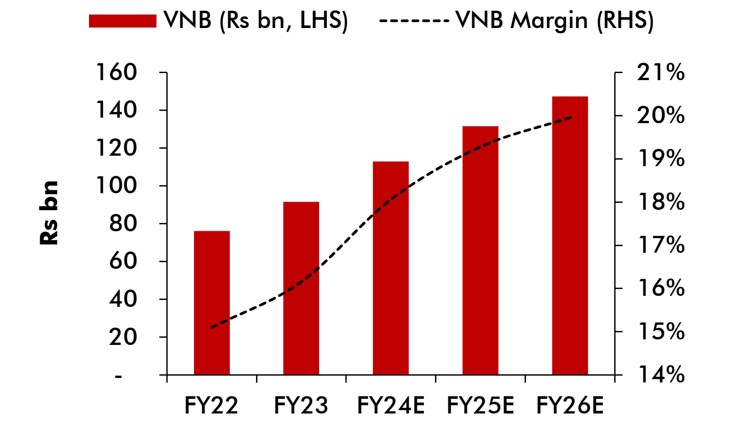
Source: Company, Visible Alpha, Ambit Capital research

Exhibit 6: LIC will continue to have a lower non-participating product share in FY26



Source: Company, Ambit Capital research

Exhibit 7: VNB margins will expand, but a catch-up with private peers unlikely



Source: Company, Ambit Capital research

Exhibit 8: What kind of product mix is required to deliver 28% VNB margin? Our analysis suggests LIC will require to generate non-par and linked APE higher than all listed private life insurers

Description	Base Case Non-par contribution increase from 9% in FY23 to 16% in FY26	Scenario 1 Non-par contribution increase from 9% in FY23 to 20% in FY26	Scenario 2 Non-par contribution increase from 9% in FY23 to 25% in FY26	Scenario 3 Non-par contribution increase from 9% in FY23 to 30% in FY26	Scenario 4 Non-par contribution increase from 9% in FY23 to 40% in FY26
Product Mix					
Par	60.4%	58.4%	56.1%	53.6%	47.1%
Non Par Savings	3.2%	5.0%	7.5%	10.0%	15.0%
ULIPs	1.2%	1.2%	2.0%	3.0%	5.0%
Annuity/Pension	4.8%	6.0%	7.0%	8.0%	9.0%
Protection	2.0%	2.0%	2.0%	2.0%	2.5%
Group	28.4%	27.4%	25.4%	23.4%	21.4%
Individual non-par mix	***15.6%***	***19.6%***	***24.8%***	***30.0%***	***40.1%***
Product margin					
Par	12.5%	12.5%	12.5%	12.5%	12.5%
Non Par Savings	60.0%	60.0%	60.0%	60.0%	60.0%
ULIPs	7.0%	7.0%	7.0%	7.0%	7.0%
Annuity/Pension	72.5%	72.5%	72.5%	72.5%	72.5%
Protection	85.0%	85.0%	85.0%	85.0%	85.0%
Group	18.0%	18.0%	18.0%	18.0%	18.0%
VNB Margin	20%	21%	23%	25%	28%
Total FY26E APE	738,453	738,453	738,453	738,453	738,453
Non-Par APE (incl. Linked)	82,707	104,860	136,614	169,844	232,613

Source: Company, Ambit Capital research

Exhibit 9: Swot Analysis – Weaknesses are outweighing LIC's strengths

Strengths	Weaknesses
▪ **Strong agency network:** More than 1.3 million agents, which is 54% of life insurance agents in India. The productivity of agents is high, 15.4 policies/year per agent vs 0.9-4.2 policies per year of its private peers. ▪ **High geographical penetration:** High opportunity beyond tier 1/2 cities as LIC has 63% of its offices in semi-urban and rural areas vs 5-35% of listed private life insurers. LIC is also the only Indian life insurer to have a presence outside India. ▪ **Strong brand name:** According to Kantar, LIC was the 7th most valuable brand in India in 2022. ▪ **Training infrastructure:** Which comprises of 17 sales training centres and 8 Zonal training centres. All LIC agent club members are required to undergo training once in a period of 4 years.	▪ **High participating products:** 91% share of participating APE in the overall individual APE in FY23, resulting in inferior margins compared to peers. ▪ **High government intervention:** In the past, LIC has been used to rescue the government disinvestment program and IDBI Bank. ▪ **Low short-term persistency ratio:** The 13th month persistency is lower for LIC (77% in FY23), when compared to the median of the top 5 players in the industry (85% in FY23), despite having a strong brand name. ▪ **Lack of channel diversification:** 96% of NBP is generated by the agency channel. The lack of channel diversification has limited LIC's ability to scale up its non-participating sales.
Opportunities	**Threats**
▪ **Margins improvement:** Diversifying the product mix more towards non-par can lead to margin improvements over time. The VNB margin improved from 9.9% in FY21 to 16.2% in FY23. ▪ **Focus on banca:** LIC has 80 banca partnerships, with maximum volume coming from IDBI Bank. In a bid to diversify distribution, it launched a non-par policy (Bima Ratna) in Q1FY23, exclusively for sale by banking channel. ▪ **Health insurance:** Composite license, which is currently under consideration, in India could allow life insurers to underwrite health insurance policies. This could be a new growth opportunity for LIC.	▪ **Increased competition:** LIC has been consistently losing market share to private players, with 63% in FY23 to 70% in FY22. More companies are likely to enter the market over the next 12-24 months which will further increase competition. ▪ **Merger with PSU multi-line insurers:** With government proposing to allow composite insurers, LIC can be merged with four public sector general insurer. Despite the potential synergy benefit, the poor financial condition of PSU multi-line insurers is a concern. ▪ **Open architecture for agents:** The implementation of composite license could result in agents being allowed to partner with more than one life insurance company. This could be a risk for LIC given it has the largest agent network.

Source: Company, Ambit Capital research

Stemming market share losses not easy

LIC has several competitive advantages including: i) a strong and wide-spread agent network, ii) sovereign guarantee for its policyholders, iii) geographic/economic reach and iv) brand awareness. Despite its competitive advantages, LIC has gradually lost market share to private players. Its market share in new business premium (NBP) is down to 63% in FY23 compared to 70% in FY13. Within individual NBP, LIC's market share is worse, with the company having only a 40% share. We see LIC's overall market share to fall to 55% by the end of the decade. While the company is trying to grow its presence within banks and non-participating categories, we expect growth to be slower than expected given: i) LIC's banca partnerships are skewed towards PSU banks, ii) Chairperson and MDs will superannuate within 1-3 years which may not be enough for the strategic transformation the company is undertaking, iii) increasing competition from private peers in lower tier cities/rural areas and iv) new EOM guidelines allowing private peers to better incentivize agents.

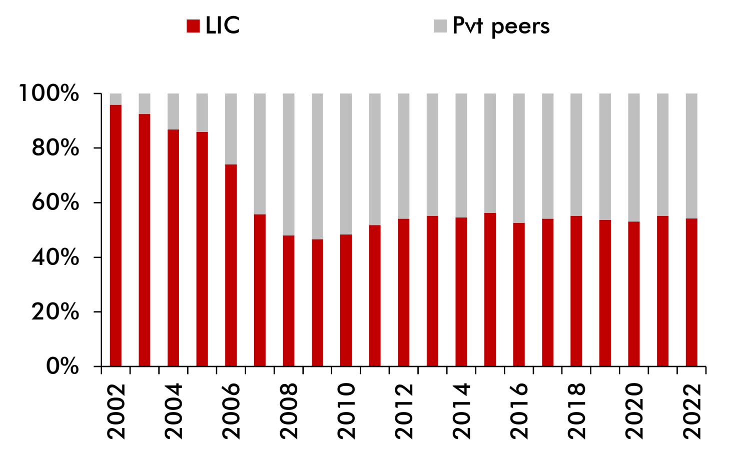
Why did LIC dominate for nearly five decades?

LIC has been the undisputed market leader in the Indian life insurance sector, with more than 60% market share (total premium). The company has benefitted from the insurance market being closed to private players till 2000. In the meanwhile, LIC built several moats around its business including:

#1: A large and highly productive agent network

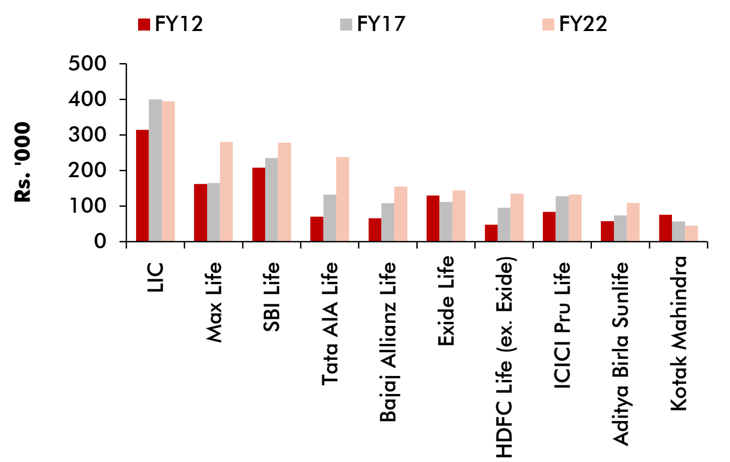
LIC has 1.3 million agents and accounts for more than 50% of the life insurance agents in India. Besides scale LIC has been able to build a highly productive agent network. Average NBP by LIC agents is 2x private sector peers.

Exhibit 10: Breakdown of agents: LIC continues to account for more than >50% of the agents



Source: IRDA, Ambit Capital research

Exhibit 11: NBP per agent: LIC is 2x more productive compared to private peers



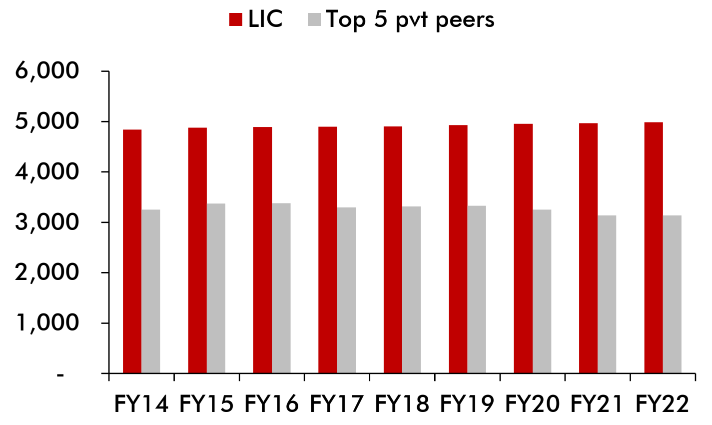
Source: IRDA, Ambit Capital research

The higher productivity is a function of:

- **LIC's strong training infrastructure:** Which comprises of 35 sales training centers and 8 Zonal training centers. All LIC agent club members are required to undergo training once every 4 years.
- **Agent clubs to drive motivation:** To motivate agents and push sales, LIC has seven different agent club memberships for agents based on their performance on new sales/renewals etc. Currently, 14% of LIC agents are a part of these clubs showing the exclusivity of these clubs. Depending on level of membership, benefits include access to reimbursement of various expenses, home loan, promotional gifts/stationery, group insurance and group mediclaim etc.
- **Focus on professionalizing the agency network:** LIC has schemes to attract new professional agents - Urban Career Agents and Rural Career Agents. They are given stipends at the start of their career to enable them to settle down in the profession.

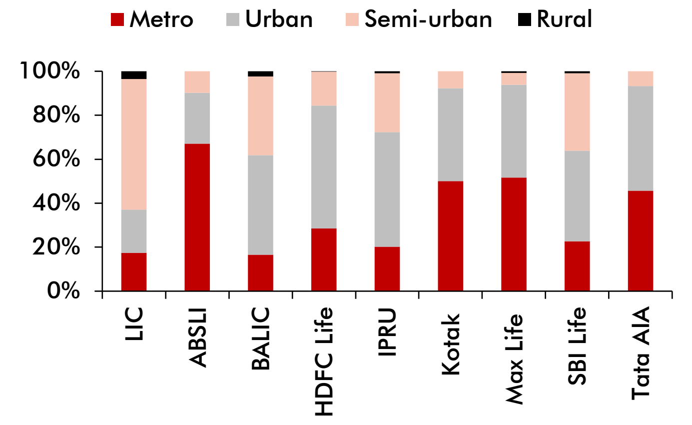
- **A strong supervisory network:** This comprises of development officers, senior business associates and life associates scheme who are responsible for recruiting, training and supporting the agents.
- **A well spread office network:** LIC has ~4k offices across, 60% more than the top 5 private life insurers combined.

Exhibit 12: LIC's office network is 60% larger than that of the top 5 private players



Source: IRDA, Ambit Capital research

Exhibit 13: Semi-urban/rural areas account for 60% of LIC's offices compared to 19% for major private peers



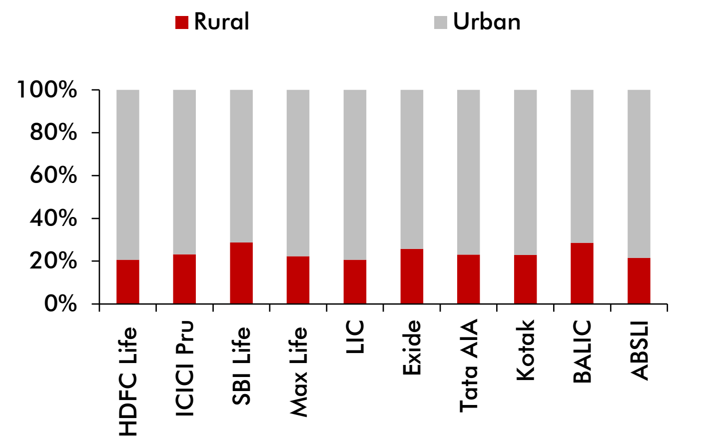
Source: Company, Ambit Capital research

#2: Building geographic and economic reach

LIC has greater access to:

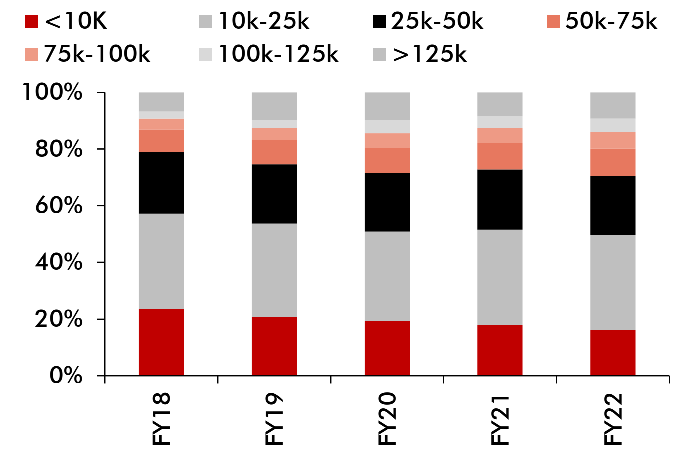
- **Rural areas/Lower tier cities:** Rural areas accounted for 21% of LIC's policies in FY22. LIC has 177 offices in rural areas, with next life insurer having only 18 offices (Reliance Nippon Life).
- **All economic segments.** 70% of LIC individual non-single policies in FY22 had a ticket size of <₹50k compared to 40% for private life insurers.

Exhibit 14: Rural areas contributed 21% of LIC's policies in FY22



Source: Company reports, Ambit Capital research

Exhibit 15: Individual non-single premiums: 70% of LIC policies had a ticket size of <₹50k vs 40% for private peers

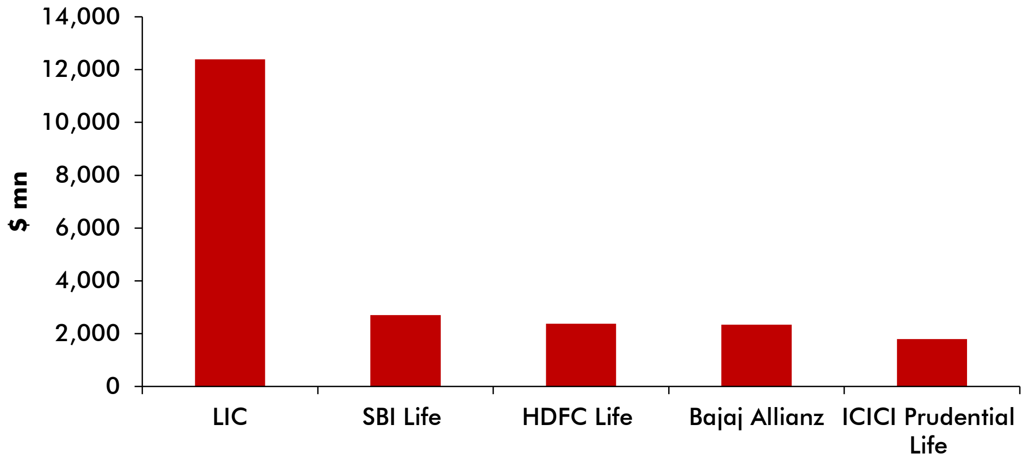


Source: Company reports, Ambit Capital research

#3: LIC's brand awareness is unparalleled

LIC is the most valuable life insurance brand in India. This has been a function of its strong brand awareness, with the company being synonymous with life insurance. According to 2022 Kantar Brand Z report, LIC has a brand value of US$12bn. This is significantly higher than its private life insurance peers (US$1-3bn).

Exhibit 16: 2022 Kantar Brand Z Survey: LIC stands apart from other life insurance peers when it comes to brand recognition

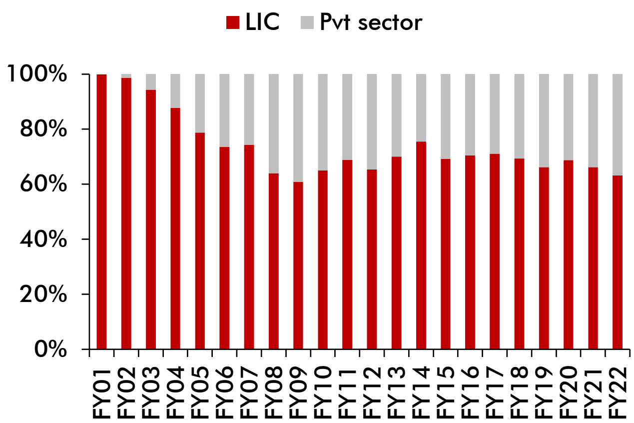


Source: Kantar, Ambit Capital research

Why has LIC lost share to private players over the last decade?

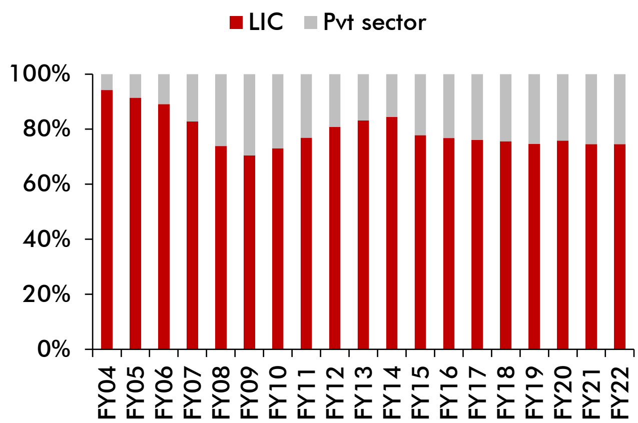
Despite LIC's competitive advantages the company has gradually lost market share to private players. Its market share in new business premium (NBP) is down to 63% in FY23 compared to 70% in FY13. Within individual NBP, LIC's market share is worse, with the company having only a 40% share.

Exhibit 17: NBP: LIC's market share has reduced to ~60% with private life insurers taking share



Source: IRDA, Ambit Capital research

Exhibit 18: Policies: LIC has a higher share in policies (75%) vs NBP due to a wider geographic and economic presence

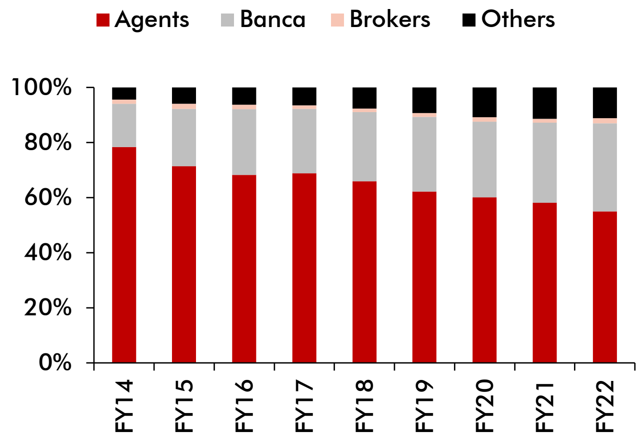


Source: Company, Ambit Capital research

While entry of private life insurers has been a key factor behind LIC's market share loss, the company has also suffered because of:

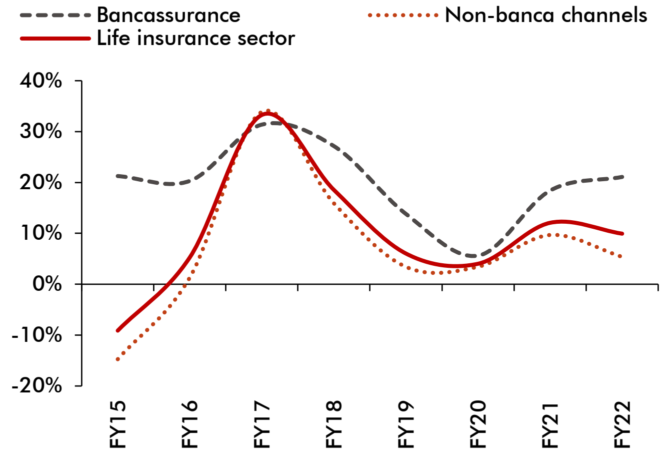
- **The lack of product diversity:** Majority of LIC's products are participating policies (90%). Non-participating products account for only 9% of LIC's individual APE compared to 70-95% for the listed private peers. This has limited LIC's ability to cross-sell products.
- **The weak bancassurance presence:** The bancassurance channel has been growing at a faster rate compared to the industry over the last 5 years. This has been driven by banks trying to grow third-party revenues. But LIC has not benefitted from the bancassurance growth due to its limited exposure to the channel (3% of LIC's individual NBP).

Exhibit 19: Industry: Banca contributed 32% of individual NBP in FY22 up from 16% in FY14



Source: IRDAI, Ambit Capital research

Exhibit 20: Industry: Banca consistently growing faster than other channels and overall industry in the last 5 years



Source: IRDAI, Ambit Capital research

Why the recent strategic shift may not be enough to stem market share losses?

We see LIC continuing to lose market share to private life insurers. LIC has increased strategic focus on i) growing non-participating products and ii) diversifying its channel mix by expanding the banca channel. But our skepticism is based on:

#1: LIC's banca partnerships being skewed towards PSU banks

LIC has 80 banca partners. By comparison, HDFC Life and IPRU have 38-39 bank/NBFC partners. Hence, in our view, the number of banca partnerships has not been the limiting factor for LIC. The larger issue for LIC has been:

- **Its major banca relationships has been skewed towards PSU banks.** 10 out of 14 major bank partnerships are with PSU banks. We estimate PSU banks account for 37% of life insurance commissions despite accounting for 66% of deposits. This suggests PSU banks have been slower in pushing life insurance products compared to peer private banks.
- **Competition within banks:** In most banks, LIC is in an open architecture competing with SBI Life and other private peers. Competition could increase in banks as IRDAI has increased corporate agency tie-ups from 3 to 9, and removed product wise commission caps.

LIC's plans to expand its banca partnerships will face challenges from:

- **Competition from emerging players.** While new bancassurance partnership opportunities may emerge, we see these opportunities to be highly competitive. We have analyzed new bancassurance partnerships, over the last 5 years, for banks with at least 500 branches. This suggests strong competition from emerging players such as BALIC for new bancassurance partnerships. One in every 4 new bancassurance partnerships has been secured by BALIC in the last 5 years.
- **Lack of significant incentive for bank partners to push LIC's products beyond commissions:** When it comes to partnership with banks, life insurers have two ways of incentivizing the former - i) commissions and ii) equity stake in the business. Banks such as SBI, ICICI Bank, HDFC and Axis Bank have a significant equity stake in their life insurance partners. In the case of LIC, banks do not have the equity upside, hence growth within banks will be dependent on pay outs LIC can provide banks.
- **IDBI stake sale:** Majority of LIC's banca premiums are generated from IDBI and Axis Bank. [Recent news articles], discuss a potential stake sale by the Government and LIC in IDBI. While timing of this deal remains uncertain, should a private bank acquire IDBI it could result in higher competition for LIC.

Exhibit 21: LIC has partnerships with 14 out of the top 31 banks in India (at least 500 branches). About 70% of these partnerships are with PSU banks

Nationalised Bank	Life Insurance Partners		
	Partner 1	Partner 2	Partner 3
Punjab National Bank	PNB Metlife	Canara HSBC	LIC
Union Bank of India	Star Union Dai Ichi	India First	LIC
Indian Bank	LIC	SBI Life	Birla Sun Life
Punjab and Sind Bank	LIC	SBI Life	Bajaj Allianz
Bank of India	Star Union Dai Ichi	LIC	
Central Bank of India	LIC	Tata AIA	
UCO Bank	LIC	SBI Life	
Bank of Maharashtra	Aviva Life	LIC	
IDBI Bank	Ageas Federal	LIC	
SBI	SBI Life		
Canara Bank	Canara HSBC		
Bank of Baroda	India First		
Indian Overseas Bank	LIC		
Private Sector Banks			
HDFC Bank	Tata AIA	Birla Sun Life	HDFC Life
Bandhan Bank	Bajaj Allianz	HDFC Life	Kotak Mahindra
Axis Bank	LIC	Max Life	Bajaj Allianz Life
Yes Bank	Max Life	HDFC Life	SBI Life
City Union Bank	LIC	Bajaj Allianz Life	Tata AIA
CSB Bank Limited	Edelweiss Tokio	HDFC Life	ICICI Prudential
South Indian Bank	SBI Life	Kotak Mahindra	HDFC Life
IDFC First Bank	HDFC Life	Bajaj Allianz	ICICI Prudential
Karnataka Bank	LIC	Bharti Axa	PNB Metlife
DBS Bank India	Birla Sun Life	Bajaj Allianz	Tata AIA
RBL Bank	HDFC Life	Bajaj Allianz	ICICI Prudential
Karur Vysya	Birla Sun Life	Bajaj Allianz	SBI Life
Tamilnad Mercantile Bank	LIC	Max Life	Bajaj Allianz Life
Indusind Bank	Tata AIA	ICICI Prudential	
Jammu & Kashmir Bank	PNB Metlife	Bajaj Allianz	
ICICI Bank	ICICI Prudential		
Kotak Mahindra Bank	Kotak Mahindra		
Federal Bank	Ageas Federal		

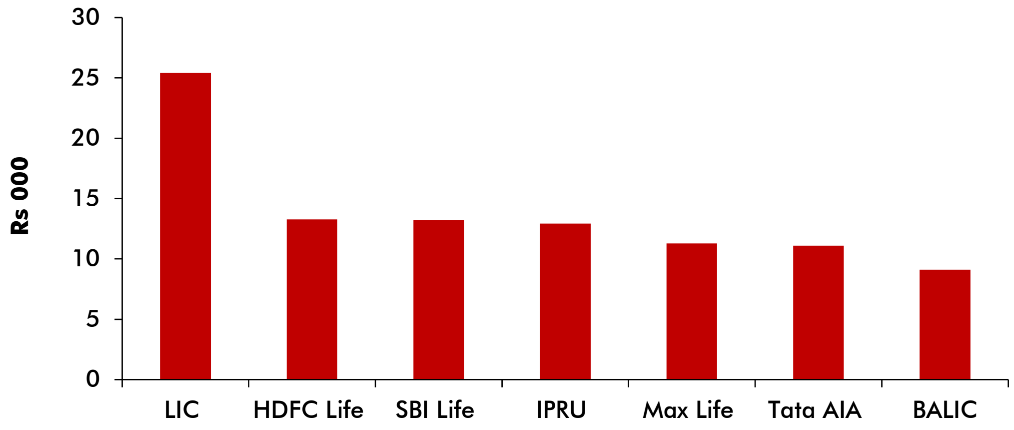
Source: IRDAI, Ambit Capital research

#2: Growing non-participating products will face several challenges

A key challenge for LIC has been the lack of product differentiation. The company is trying to rectify this by launching primarily non-participating products. The shift is unlikely to be as drastic as investors might be expecting given:

- **Private life insurers have the first mover advantage:** Private life insurers have established strong brand awareness in non-participating/linked products. This has resulted in more productive LIC agents already tying up with private life insurers by taking licenses in name of their wives/relatives.
- **LIC's pricing and yields appear unfavorable compared with private peers:** LIC's non-par products have not gained traction because of the higher pricing or lower yields. LIC's term insurance pricing is nearly 2x of private life insurers.

Exhibit 22: LIC's retail protection pricing is 2x higher than private peers



Source: Company, Ambit Capital research

#3: Frequent management changes could result in lack of strategic direction

Author Jim Collins in his books "Built to last" and "Good to Great" argues the need for a stable leadership to navigate strategic transformation. But at LIC, management changes have been frequent and will likely continue. Mr. Siddhartha Mohanty was recently appointed as the Chairman of LIC till 29 June 2024, after which he will transition into the role of CEO and Managing Director till Jun'25. Besides the Chairperson, LIC also has three managing directors, who are between 58-60 years of age. Hence, the Chairperson and MDs are likely to superannuate in the next 1-3 years. Lack of continuity in top management is a risk when the company is undertaking a significant transformation.

Exhibit 23: The management team could completely change in the next 1-3 years

Name	Designation	Age	Appointment date
Mr. Siddhartha Mohanty	Chairperson	60	Apr-23
Mrs. Ipe Mini	MD	59	Aug-21
Mr. M Jagannath	MD	58	Mar-23
Mr. Tablesh Pandey	MD	58	Apr-23

Source: Company, Ambit Capital research

#4: New EOM guidelines: Pvt players greater scope to incentivize intermediaries

The new IRDAI guidelines remove product specific commission caps. This will provide private life insurers greater flexibility to incentivize distributors. LIC not being subjected to IRDA's commission regulations (Sections 40 & 42 of The Insurance Act, 1938 did not apply to LIC) allowed it to provide stipends to new agents, and support agents with office supplies, travel benefits. The new EOM regulation will give private life insurers greater flexibility to incentivize distributors/agents. This could increase competition for LIC.

#5: Competition for market share within lower tier cities is likely to increase

For private life insurers the focus has been on metro/tier 1 cities as private banks have a strong network in these areas. But this appears to be changing with the regulator increasing focus on driving insurance penetration and recent tax changes making sales of life insurance savings to HNIs more challenging. Life insurers such as HDFC Life and SBI Life have increased focus on penetrating into lower tier cities.

- **HDFC Life:** Segregated its agency markets into "Growth" (Tier 1) and "Focus" (Tier 2/3). HDFC Life has acquired Exide Life to strengthen its presence in Focus markets.
- **SBI Life:** Has opened the largest number of offices in semi-urban centers since 2018 (109 offices) compared to its peers. This could be a precursor to the company increasing its penetration in lower tier cities and rural areas.

#6: New players entering the market

According to news articles, 20 licenses are pending with IRDA, which recently granted life insurance licenses to Credit Access Life and Acko Life. Further, we understand Jio Financial Services is also considering entering the insurance sector.

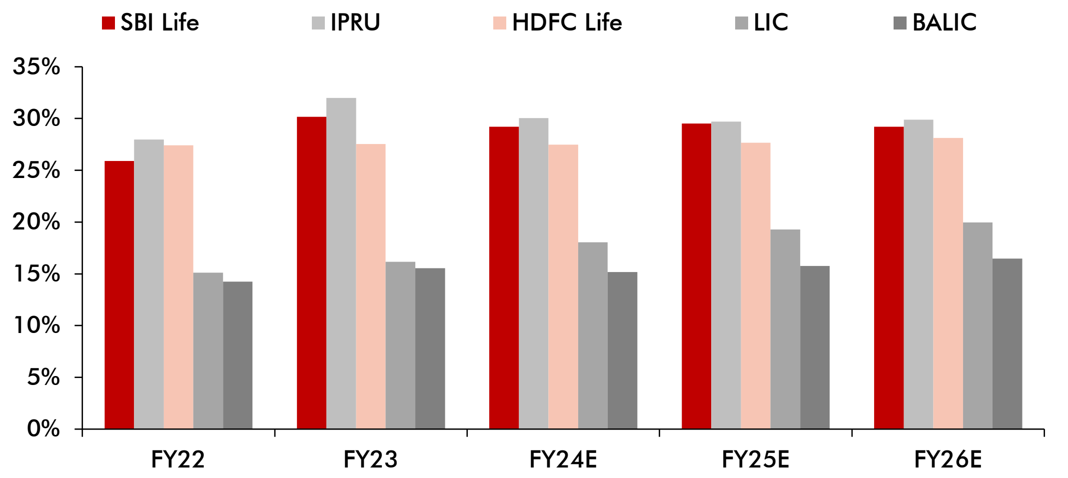
Margins will improve, but catch-up with private peers appear difficult

We acknowledge LIC has scope for margin expansion over the medium term. But we expect LIC's margins to peak at 21% and may not match 28-30% margins of private peers. Due to: i) LIC's product mix continuing to have a higher skew of participating products (>50%) compared to private peers (5-20%), ii) persistency will lag private peers due to greater skew towards rural and lower income categories and iii) the company requiring to increase non-participating product benefits to become more competitive with private peers.

LIC's margins lag behind peers

LIC had a VNB margin of 16% in FY23 vs 28-32% for private life insurers.

Exhibit 24: Comparing VNB margins across peers: LIC and BALIC lag behind private peers on margins



Source: Company, Ambit Capital research

LIC's lower margins are a function of its product mix being skewed towards lower-margin participating products and group funds.

Margins will improve from here...

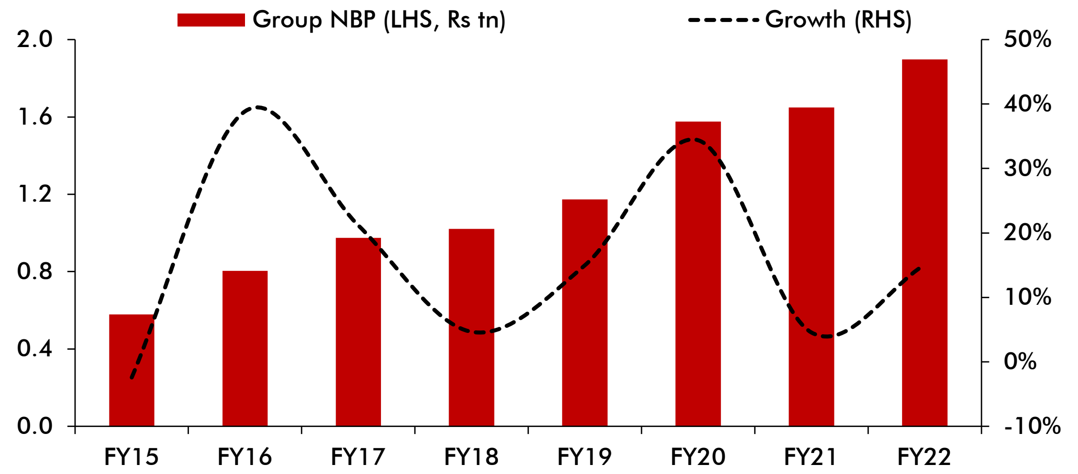
A sharp increase in 4QFY23 margin

LIC witnessed significant margin improvement in 4QFY23, with margins increasing to 19%. This was driven by: i) a change in assumptions which resulted in higher Group margins (22% vs 18% in 9MFY23), ii) improvement in persistency and iii) benefit from higher interest rates. The improvement was partially offset by increase in benefits in annuities.

Sustainability of FY23 exit margin appears unlikely

We see exit FY23 margins sustaining over FY24 as challenging noting: i) Group business historically has been lumpy, and hence product mix could shift towards lower margin individual products, ii) margins in non-participating products reducing as the company looks to be competitive with private peers and iii) 10 year G-sec yields have fallen from the high of 7.4% in Feb'23 to 7% currently. We note a 100bps decline in interest rates has a -3.8% adverse impact on VNB margins. We forecast FY24E VNB margin of 18.1%.

Exhibit 25: Industry Group NBP: Growth has been fairly volatile



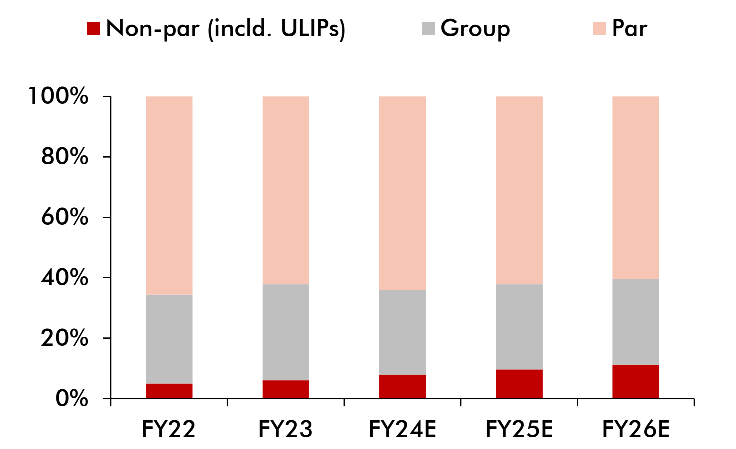
Source: Company, Ambit Capital research

Medium-term margins expected to expand by 500bps

Over the medium term, we expect LIC's VNB margins to expand to 21% driven by:

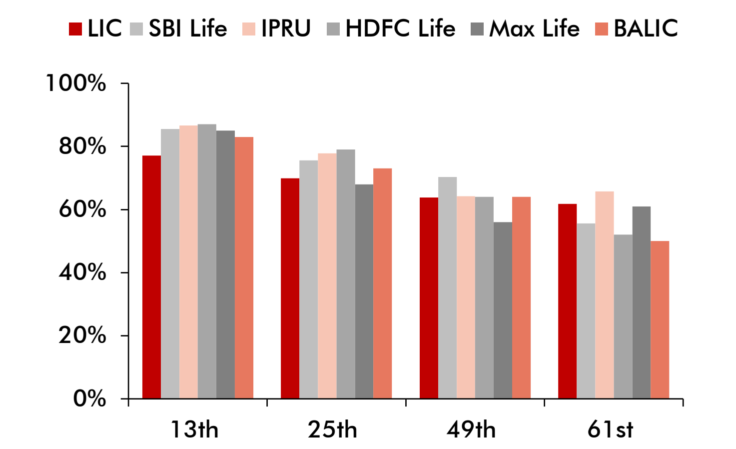
- **Increase in shareholders' profit share from the participating fund:** LIC followed a 95:5 profit sharing formula in its participating fund. The company will migrate to 90:10 formula by FY25E which will be a margin tailwind.
- **A mix shift towards non-participating products:** We expect contribution of non-participating products and ULIPs to increase from 9% currently to 24% over the next decade. This will be driven by new product launches and increase in demand for annuity products.
- **Improvement in persistency:** LIC's lags behind private peers particularly in 13th/25th/37th month persistency. The company is working on a commission structure which will incentivize agents with higher persistency. We note a 10% reduction in discontinuance rate has a +50bps margin impact.

Exhibit 26: LIC's product mix shifting towards non-par albeit slowly



Source: Company, Ambit Capital research

Exhibit 27: LIC lagging peers in-terms of 13th/25th/49th month persistency



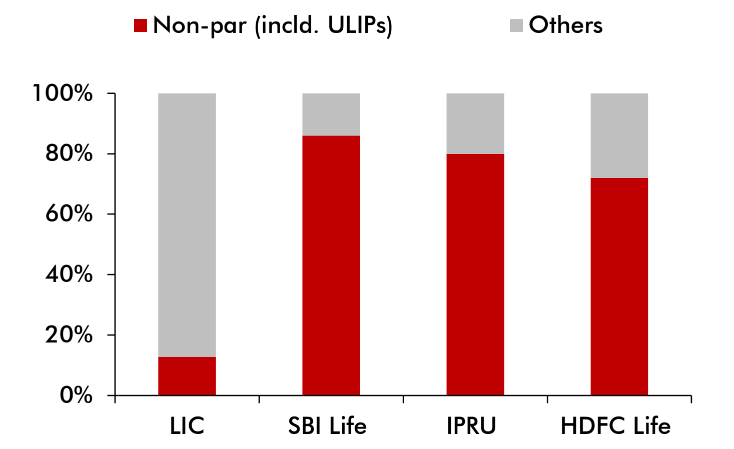
Source: Company, Ambit Capital research

...but a catch-up with private peers appear unlikely

While we expect LIC's margins to improve, we do not expect its margins to catch up with the 28-30% margins reported by private peers due to:

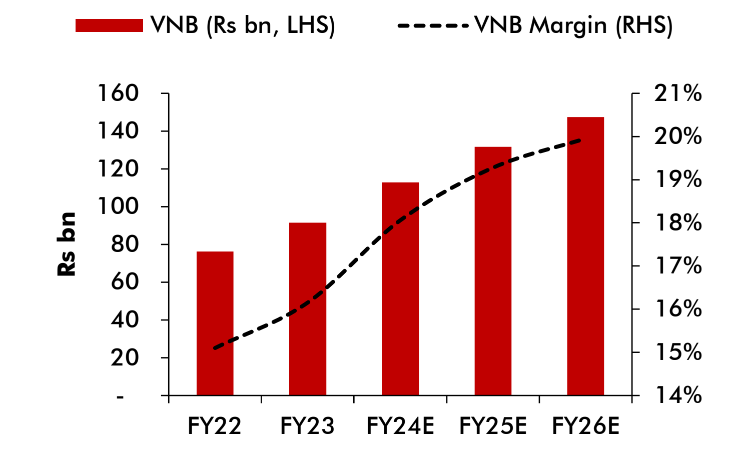
- **LIC's product mix skewed to participating products:** We expect lower-margin participating products to continue contributing >50% of its APE over next 5 years. As shift towards non-participating products is expected to be gradual.
- **Persistency will lag peers due to its greater skew towards rural and lower income categories:** LIC's persistency is likely to continue lagging behind private peers despite improvement, due to its higher exposure to rural areas and lower income households compared to private peers.
- **The company needing to invest in pricing to drive APE growth:** LIC revised its annuity IRRs twice in FY23 to remain competitive with private peers. We see a similar increase in benefits necessary in other non-participating products if LIC desires to grow its non-participating products. Hence, we see non-participating VNB gross margin of 70% declining over the medium term. This is similar to our expectation of product margins declining for private life insurers due to increased competition.

Exhibit 28: LIC will continue to have a lower non-participating product share in FY26



Source: Company, Ambit Capital research

Exhibit 29: VNB margins will expand, but a catch up with private peers unlikely



Source: Company, Ambit Capital research

Our analysis suggests LIC's non-par products (including ULIPs) will have to increase to 30-40% (within individual APE) for the company to reach a margin of 25-28% by FY26E. This appears challenging given LIC will be doing 0.8x-1.9x more non-par APE compared to SBI Life and HDFC Life at 30-40% non-par APE mix. Currently, LIC's non-par APE is 24-36% of SBI Life and HDFC Life.

Exhibit 30: What kind of product mix is required to deliver 28% VNB margin? Our analysis suggests LIC will require to generate non-par and linked APE higher than all listed private life insurers

Description	Base Case	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Non-par contribution increase from 9% in FY23 to 16% in FY26	**Non-par contribution increase from 9% in FY23 to 20% in FY26**	**Non-par contribution increase from 9% in FY23 to 25% in FY26**	**Non-par contribution increase from 9% in FY23 to 30% in FY26**	**Non-par contribution increase from 9% in FY23 to 40% in FY26**
Product Mix					
Par	60.4%	58.4%	56.1%	53.6%	47.1%
Non Par Savings	3.2%	5.0%	7.5%	10.0%	15.0%
ULIPs	1.2%	1.2%	2.0%	3.0%	5.0%
Annuity/Pension	4.8%	6.0%	7.0%	8.0%	9.0%
Protection	2.0%	2.0%	2.0%	2.0%	2.5%
Group	28.4%	27.4%	25.4%	23.4%	21.4%
Individual non-par mix	***15.6%***	***19.6%***	***24.8%***	***30.0%***	***40.1%***
Product margin					
Par	12.5%	12.5%	12.5%	12.5%	12.5%
Non Par Savings	60.0%	60.0%	60.0%	60.0%	60.0%
ULIPs	7.0%	7.0%	7.0%	7.0%	7.0%
Annuity/Pension	72.5%	72.5%	72.5%	72.5%	72.5%
Protection	85.0%	85.0%	85.0%	85.0%	85.0%
Group	18.0%	18.0%	18.0%	18.0%	18.0%
VNB Margin	20%	21%	23%	25%	28%
Total FY26E APE	738,453	738,453	738,453	738,453	738,453
Non-Par APE (incl. Linked)	82,707	104,860	136,614	169,844	232,613

Source: Company, Ambit Capital research

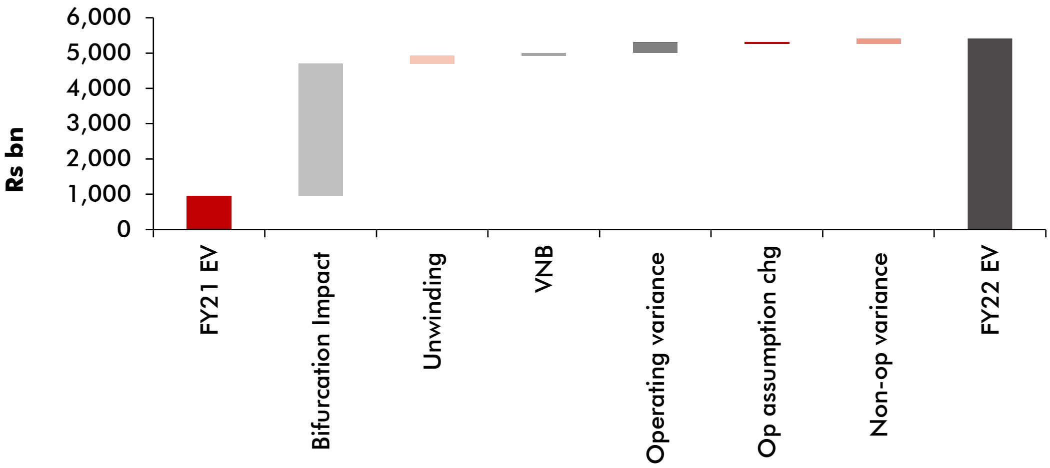
LIC is trading in line with mature Asian peers

Appraisal Valuation has its own limitations w.r.t to LIC. Hence, we have used DCF to value LIC, which results in a TP of ₹590. This implies a FY25 P/EV of 0.5x (currently trading at 0.6x). A significant discount to Indian private life insurers (1.5-2.5x), which appears prudent given: i) LIC offers lower RoEV (9-10%) compared to private peers (15-20%), ii) greater skew towards lower margin participating products, iii) tenure of MDs & Chairman will be limited to 1-3 years, which may not be enough for the strategic transformation the company is undertaking, iv) Government owns 96.5% of the shares and iv) LIC's EV is more sensitive to equity market changes. LIC is trading broadly in line with other Asian life insurers (0.3-1.5x), who offer similar RoEV (high single digit to mid-teen).

Limitations and sensitivities of LIC's embedded value

We understand appraisal valuation method has its limitations when it comes to LIC given the company has only shared its EV reports for FY21 and FY22. By comparison, more than 5 years of history is available for private peers. Moreover, between FY21 and FY22, EV has increased to ₹5.4tn from ₹956bn in FY21due to bifurcation of the life fund into participating/non-participating funds from Sep'21. This resulted in shareholders' share of the surplus in the non-participating fund increasing to 100% from 5% previously.

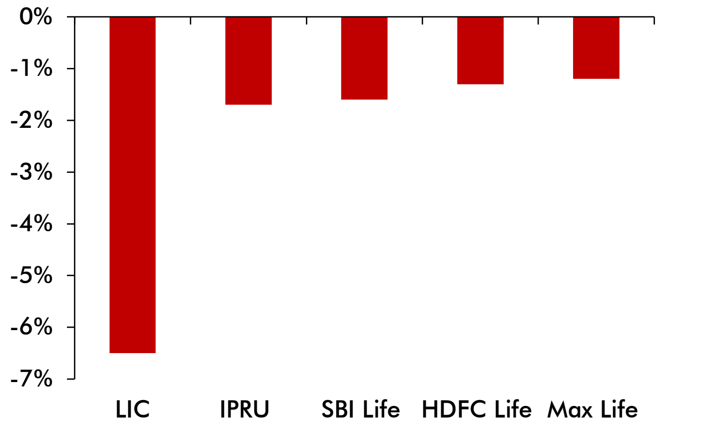
Exhibit 31: Embedded Value: Bifurcation of the fund has been a key driver of EV change



Source: Company, Ambit Capital research

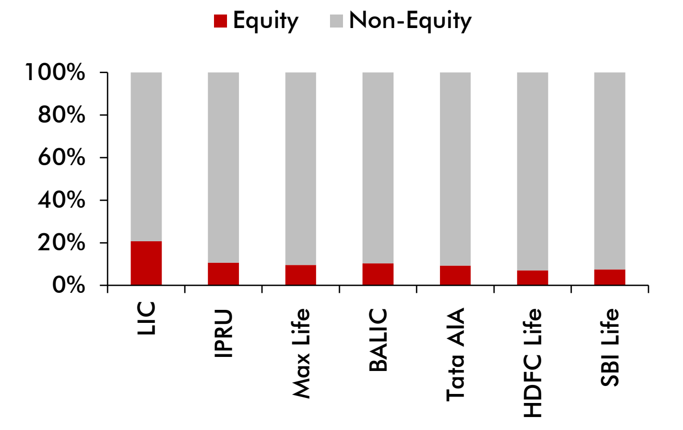
Further, LIC's EV is nearly 6x more sensitivity to changes in the equity market compared to its other listed peers. This is a function of the company having a higher share of equities within its policyholders' investments (21%). The second-largest peer IPRU has 11% of its policyholders' investments in equities.

Exhibit 32: Impact of 10% decline in equity values on EV: The impact is significantly higher for LIC…



Source: Company reports, Ambit Capital research

Exhibit 33: …..given the company has a higher exposure to equities within its Policyholders' Investments



Source: Company reports, Ambit Capital research

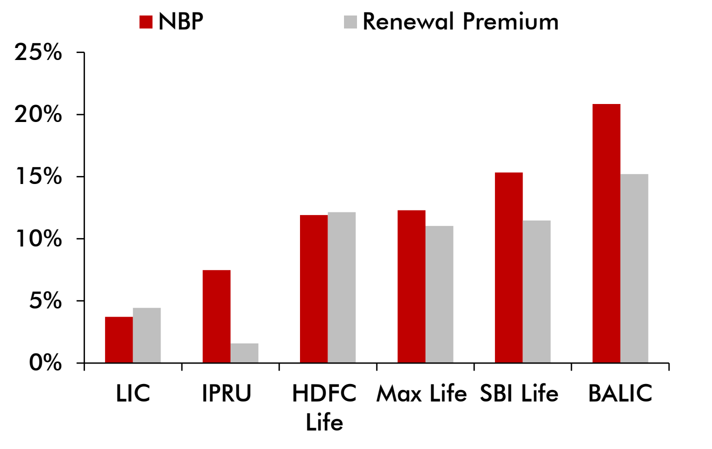
Can we use DCF as an alternative?

As a result of the recent changes, overall comfort around EV and its underlying drivers is lower than private peers. We expect conviction on LIC's EV to increase over time with greater clarity around the underlying drivers.

In our view, DCF could also be used to value LIC. Noting:

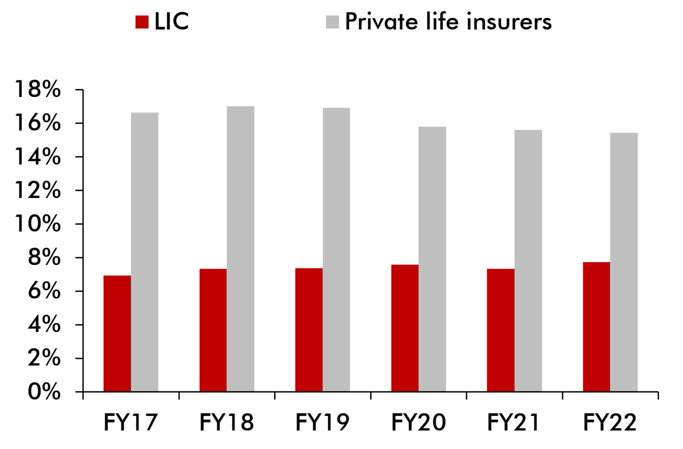
- **A seasoned back-book:** Unlike private sector peers, LIC has a more seasoned back-book given its operating history of >65 years, compared to ~20 year history for peers. This should result in profits/reserves unwinding from the back-book, more than offsetting new business strain from the new book.

Exhibit 34: LIC's 3-year NBP CAGR has been broadly similar to its renewal premium CAGR



Source: Company, Ambit Capital research

Exhibit 35: LIC's new policies constitute only 7% of its in-force policies. For private peers it is 2x



Source: Company, Ambit Capital research

- **Low new business growth suggests the drag on profitability should be low:** LIC's NBP CAGR of 4% over the last 3 years was significantly lower compared to low to mid-teens for most private peers (ex IPRU). Hence, the drag on profitability from acquisition costs (commissions and opex associated with acquiring new customers) should be limited, and offset by the back-book, noting renewal premiums are also growing at a similar rate.
- **New business coming from products with lower capital requirements:** While non-participating product mix will increase, we expect participating and group products remaining key constituents of new business. This will limit incremental capital requirements as participating and group products have lower solvency requirements compared to non-participating products.

DCF implies a target price of ₹590

Our DCF valuation results in a target price of ₹590. This implies a valuation of 12x FY25E EPS. We have not considered any provision release from doubtful debts and diminution of assets in our DCF. Below, we discuss some of the key assumptions in our DCF valuation. We have assumed a terminal growth rate of +4% similar to our assumption for HDFC Life/IPRU/SBI Life. We have used a WACC of +16.5% which assumes a risk free rate of 7.5% and Beta of 1.25x. We have added the value of the subsidiaries/associates to the standalone entity to arrive at the DCF value.

While the discount to the current share price is not significant, we do not see this as an attractive entry point given:

- The channel and product mix diversification strategy will take time to play out.
- The potential disruption should the Government decide to integrate the general PSU insurers with LIC.
- Private life insurers are increasingly looking at expanding beyond metro/Tier 1 cities which will increase competition for LIC. Hence, market share losses will remain elevated.
- Market share losses are likely to continue.

Frequent management changes could result in lack of strategic direction.

Exhibit 36: We expect LIC's EPS (ex provisions) CAGR to be +15% between FY24-26E driven by premium CAGR of +8% and improvement in EOM

Assumptions	FY22	FY23	FY24E	FY25E	FY26E	Comment
NBP growth	7.9%	16.6%	9.5%	9.9%	8.3%	Agency channel expected to grow at +8% driven by agent addition (+2%) and higher productive (+6%) Banca channel expected to grow by 18-20% driven by branch activation, banca specific products and greater deployment of people.
Renewal growth	4.7%	5.9%	6.2%	7.1%	7.9%	Conservation ratio of 92%
Policyholder's investment yield	7.9%	7.5%	7.2%	7.1%	7.2%	Expecting lower yields in FY24 compared to FY23 as 10 year G-sec yields have fallen from 7.5% in late Feb'23 to 7% in May'23.
Commission as a % of GWP	5.4%	5.4%	5.3%	5.3%	5.3%	Expect commission rates to remain fairly stable as 96% of its business is generated by the agency channel. Renegotiation of rates with agents could be challenging considering competition from private peers.
Opex as a % of GWP	9.1%	10.2%	8.4%	8.4%	8.4%	Employee costs will fall in FY24 as higher costs due to wage revision is unlikely to recur. In FY25-FY26 we expect employee costs to increase by 8% slower than premium growth. Advertising costs are expected to increase as LIC promotes its non-participating plans.
Benefits as a % of liabilities	9.5%	8.3%	8.6%	8.8%	8.9%	Increase driven by increase in maturity claims
Shareholder's investment yield	2.6%	3.9%	5.0%	5.0%	5.0%	
Forecasts (₹ bn)						
Premiums	4,280	4,747	5,120	5,552	6,001	
Investment income	2,929	3,064	3,056	3,199	3,437	
Total income	**7,211**	**7,889**	**8,175**	**8,752**	**9,437**	
Commissions	232	255	269	293	317	
Opex	389	482	431	465	502	
Benefits paid	3,534	3,393	3,795	4,148	4,522	
Changes in actuarial liabilities	2,973	3,436	3,226	3,366	3,591	
Total costs	**7,075**	**7,451**	**7,762**	**8,317**	**8,980**	
PAT	40	364	261	312	347	
EPS	6.34	57.55	41.26	49.29	54.91	

Source: Company, Ambit Capital research

How does this compare with Appraisal Valuation?

To arrive at a similar valuation for LIC through appraisal valuation we will have to use a 60% discount to LIC's EV. Our appraisal value of LIC comprises of two parts:

- **Embedded value:** We have applied a ~60% discount to LIC's EV as we have not considered the ₹4bn of MTM gains on its balance sheet. The high MTM gains makes LIC's EV highly sensitive to decline in the equity market (7% vs 1-2% for private peers).
- **Structural value:** We calculate LIC's structural value at 9x FY25 VNB multiple, a discount to the 13-21x multiple we use to value SBI Life/IPRU/HDFC Life. This is a function of LIC's lower APE growth and VNB margin expectations compared to peers.

Exhibit 37: A snapshot of inputs and outputs for our Appraisal Valuation

Inputs	
Discount rate	16.5%
APE high growth (FY24E to FY33E)	6.2%
APE moderate growth (FY34E to FY43E)	4.1%
VNB high growth (FY24E to FY33E)	7.5%
VNB moderate growth (FY34E to FY43E)	3.6%
Terminal growth	4.0%
Outputs	
Embedded Value in FY24E (INR billion) --- A	6,385
Discount to EV	60%
Adjusted EV	2,554
FY25E VNB (INR billion)	132
Implied VNB multiple (x)	9.0x
Structural value (INR billion) ---- B	1,184
Appraisal value (A+B)	7,570
No. of shares (in billion)	6,324
Target Price (INR)	**590**
CMP as on 8 Jun 23	597
Downside	-1%
Implied P/EV (FY24E)	0.5x
Valuation break-down	
Embedded value	84%
Value of future business (20 years)	13%
Terminal value	3%

Source: Ambit Capital research

Exhibit 38: Appraisal Value is highly sensitive to VNB multiple and discount to EV

FY25 VNB	**132**		
VNB Multiple	8	10	12
Structural Value	1,053	1,316	1,579
FY24 EV	**6,385**		
Discount			
20%	5,108	5,108	5,108
40%	3,831	3,831	3,831
60%	2,554	2,554	2,554
Appraisal Value			
20%	6,161	6,424	6,687
40%	4,884	5,147	5,410
60%	3,607	3,870	4,133
AV/share			
20%	974	1,016	1,057
40%	772	814	856
60%	570	612	654

Source: Ambit Capital research

We expect 3-year APE CAGR of +9% over FY24-FY26E driven by increased focus on non-participating products and banca partnerships. But LIC's APE growth will lag behind private players, particularly in FY25/FY26 due to some of the reasons discussed before. In terms of margins, improved product mix and persistency will result in higher margins (20% by FY26E). But this is lower than our forecast of 28-29% for SBI Life/IPRU/HDFC Life.

Exhibit 39: We expect APE growth of +9% over FY24-FY26 and VNB margin to increase to 20% by FY26

Assumptions	FY22	FY23	FY24E	FY25E	FY26E	Comment
APE growth	10.5%	12.5%	10.3%	9.2%	8.2%	Growth driven by expansion within the banca channel and agent productivity improving.
Product Mix						
Par	65.6%	62.2%	64.0%	62.2%	60.4%	
Non Par Savings	0.5%	1.0%	2.0%	2.6%	3.2%	
ULIPs	0.6%	0.7%	1.0%	1.1%	1.2%	Expect proportion of non-participating products within the mix increasing driven by new product launches and re-training of agents. But this will be still lower than private peers.
Annuity/Pension	3.5%	4.0%	4.0%	4.4%	4.8%	
Protection	0.4%	0.4%	1.0%	1.5%	2.0%	
Group	29.4%	31.8%	28.0%	28.2%	28.4%	
VNB Margin	15.1%	16.2%	18.1%	19.3%	20.0%	Margin expansion driven by favourable mix shift and improving persistency.
Forecasts (₹ bn)						
APE	504	567	625	683	739	
VNB	76	92	113	132	147	
RoEV	n.a.	10.9%	9.9%	10.1%	10.1%	

Source: Company, Ambit Capital research

LIC is trading in line with mature Asian life insurers with similar RoEV

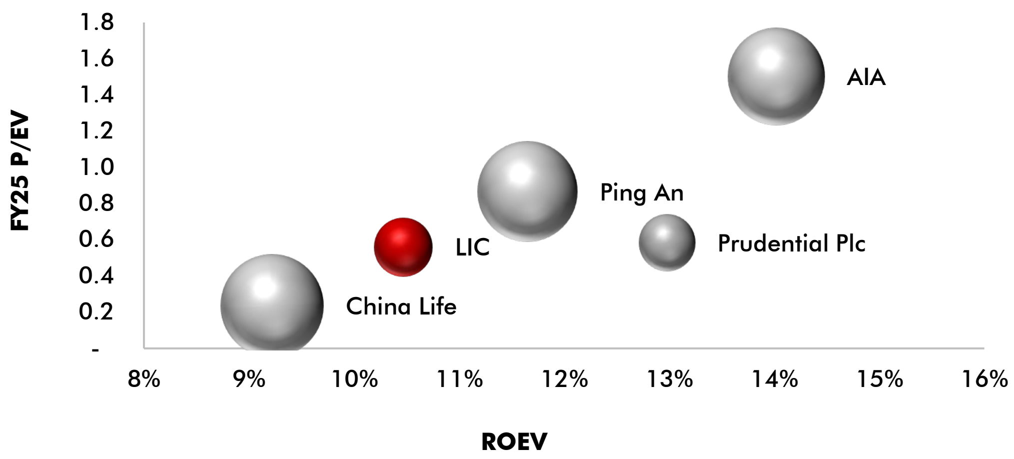
LIC's target multiple of 0.5x is a significant discount to Indian private sector peers (1.5-2.5x). But we see LIC's discount to private life insurance peers as prudent given:

- LIC's RoEV of 9-10% over the next 3 years is significantly lower than private peers offering a RoEV of 15-20%.
- LIC's product mix is skewed towards lower-margin products. While this will change as the company has been launching more non-participating products, we expect LIC to have a lower proportion of non-participating products compared to private peers.

- The agency channel contributes 96% of LIC's NBP. The lack of other distribution channels may impact LIC's ability to accelerate NBP growth. The company has been trying to expand its other distribution channels. But as discussed earlier, diversification of channels is likely to be a slow process.
- Government owns 96.5% of LIC. Hence, the Government will continue to play a key role in management of company and investment decisions.
- LIC's embedded value is more sensitive to changes in equity values than its private peers. Similarly, VNB margins are highly sensitive to interest rate movements.

LIC is trading broadly in line with other Asian life insurers (0.2-0.9x), which offer similar RoEV (high single digit to mid-teen). Asian life insurers trading at the higher end of the valuation spectrum, AIA and Ping An, offer higher APE growth (FY23-FY25: +18%-24%) and RoEV.

Exhibit 40: LIC is trading at a forward P/EV multiple similar to Asian life insurance peers. Peers with better growth opportunities and higher RoEV command a higher premium.



Source: Visible Alpha, Ambit Capital research

Note: Size of the bubble denotes the USD market cap of the company.

Catalysts & Risks

Risks

- **New growth opportunities:** One of the proposed changes in the Insurance Amendment Bill includes composite license. Health insurance has been a product category dominated by agents as customers require higher servicing compared to other general insurance categories. Hence, LIC's strong agency network positions it well to target the indemnity health insurance opportunity should it be available for life insurers. Currently, LIC is the 12^{th} largest health insurer in India despite only selling fixed benefit plans.
- **Better than expected long-term margins:** We expect LIC's VNB margin to peak out at 21%. This is lower than our expectation for private peers of 28-30%. Hence, LIC delivering higher margins will result in upside to our forecasts.
- **Market share stabilizing:** We expect LIC to continue to lose market share to private peers. But with the launch of new non-participating products and focus on growing share within banks LIC could be able to stabilize its market share. This will be viewed positively by the market and result in a potential re-rating.

Catalysts

- **Market share losses accelerating:** We expect LIC's market share to continue declining in FY24. This will adversely impact consensus growth expectations.
- **Slow increase in non-participating product mix:** LIC is targeting a non-participating product mix of 25% in the medium-term. But we expect a slow improvement. Our non-participating product mix to increases from 9% in FY23 to 11% in FY24.

Exhibit 41: Explanation of our flags on the cover page

Segment	Flag	Comments
Accounting	**GREEN**	We do not find anything unusual in the company's accounting policies and believe reported numbers are true reflection of performance.
Predictability	**RED**	Earnings predictability has been weak due to changes in model assumptions and bifurcation of funds.
Earnings momentum	**GREEN**	Visible Alpha Consensus has upgraded FY24 VNB estimates in the last 3 months.

Source: Company, Ambit Capital research

Board & Management

Exhibit 42: LIC Board – 9 out of the 14 directors are non-executive

Name	Position	Independent?	Has been a director since?	Experience
Mr. Siddhartha Mohanty	Chairperson	No	Mar-23	More than 39 years of experience. Previously, he was the COO and CEO of LIC Housing Finance Ltd.
Mr. Suchindra Misra	Nominee Director	No	Jul-22	Presently, he is serving as an additional secretary in the Department of Financial Services, Ministry of Finance, Government of India
Mr. M. Jagannath	Managing Director	No	Mar-23	He has worked as senior divisional manager for various division. He has also served as CEO and MD of LIC (Lanka).
Mrs. Ipe Mini	Managing Director	No	Aug-21	Joined LIC in 1986. Prior to becoming the MD, she was also the CEO of LIC Housing Finance Ltd.
Mr. Tablesh Pandey	Managing Director	No	Apr-23	Association of more than 34 years with LIC of India. He was also the Chief Risk Officer of LIC
Dr. Ranjan Sharma	Non-Executive Director	Yes	Oct-21	Assistant Professor at Shri Lal Bahadur Shastri College, and has been associated with the institute for more than 32 years.
Mr. Vinod Kumar Verma	Non-Executive Director	Yes	Oct-21	He is experienced in the electronics business
Prof. Anil Kumar	Non-Executive Director	Yes	Jan-22	More than 38 years of experience in the field of academics. He is also the CEO of University of Delhi Foundation and a Professor at DSE.
Mrs. Anjuly Chib Duggal	Non-Executive Director	Yes	Jan-22	IAS Officer. Recently retired as the Secretary of the Department of Financial Services, Ministry of Finance, and Government of India. Previously, she has also served on the boards of RBI and SBI.
Mr. Gurumoorthy Mahalingam	Non-Executive Director	Yes	Jan-22	More than 40 years of experience spanning across the financial sector regulators, RBI and SEBI.
Mr. Raj Kamal	Non-Executive Director	Yes	Jan-22	25 years of track record across multiple prestigious institutions - McKinsey & Company, PayU and OYO
Mr. V. S. Parthasarathy	Non-Executive Director	Yes	Jan-22	More than 36 years of work experience. Previously, he was the President, Group CFO and Group CIO of the Mahindra Group.
Mr. M. P. Vijay Kumar	Non-Executive Director	Yes	Jan-22	More than 30 years of experience. Currently, he is the Executive Director and Group CFO of Sify Technologies.
Mr. Sanjeev Nautiyal	Non-Executive Director	Yes	Jan-22	Long association of 36 years with SBI. He was also the MD & CEO of SBI Life Insurance Co. Ltd.

Source: Company, Ambit Capital research

Exhibit 43: Management Team (excluding MDs) comprises primarily of LIC veterans

Name	Position	Experience
Mr. P. Kumaresen	ED (Audit) & Chief Internal Auditor	He has held various positions in LIC, such as Director & CEO LIC Care Homes Ltd.
Mr. P R Paikray	ED (Investment RMR) & Chief Risk Officer	He has held various positions in LIC's central and regional offices.
Mr. Ratnakar Patnaik	ED (Investment Operations) & Chief Investment Officer	He was Senior Divisional Manager and Regional Manager in the Eastern zone.
Mr. R Sudhakar	ED (Marketing/PD) & Chief Marketing Officer	He has held various positions in LIC. He was also the CEO of LIC (Nepal) Ltd.
Mr Sunil Agrawal	Chief Finance Officer	He was associated with Reliance Nippon Life Insurance for 12 years. He has also been associated with ICICI Prudential Life Insurance for 5 years.
Mr Krishna Kumar S	ED and Chief Compliance Officer	He has held various positions in LIC and is currently the chief compliance officer of LIC
Mr. Dinesh Pant	ED and Appointed Actuary	Previously, he was the product actuary of LIC. He was also the general manager of Kenindia Assurance Company Ltd., Kenya
Mr. Pawan Agrawal	Company Secretary & Compliance Officer	Previously, he was the Chief General Manager and Secretary of IDBI Bank Ltd.

Source: Company, Ambit Capital research

Financials - Standalone

Policyholders' Account

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
First year premiums	366,493	390,899	432,132	480,299	525,991
Renewal premiums	2,290,928	2,426,175	2,577,569	2,759,838	2,977,623
Single premiums	1,622,828	1,929,607	2,109,819	2,312,136	2,496,944
Gross Written Premiums (GWP)	4,280,250	4,746,681	5,119,519	5,552,272	6,000,558
Net Premiums Earned	4,274,192	4,740,046	5,109,280	5,541,167	5,988,557
Investment Income	2,928,945	3,063,901	3,055,672	3,199,414	3,436,794
Total Income	**7,211,026**	**7,888,528**	**8,175,191**	**8,751,686**	**9,437,352**
Commission Expenses	231,715	255,451	269,003	292,743	317,483
Operating expenses	388,891	481,810	430,604	464,904	501,568
Benefits paid (Net)	3,534,376	3,393,126	3,794,743	4,147,676	4,521,730
Change in valuation of policy liabilities	2,972,740	3,435,773	3,226,137	3,366,454	3,590,621
Total Expenses	**7,075,138**	**7,451,428**	**7,762,355**	**8,316,763**	**8,979,711**
Surplus/(deficit) after tax	**57,101**	**384,671**	**352,975**	**371,860**	**391,283**
Transfer to Shareholders' account	38,754	360,186	247,082	278,895	293,462

Source: Ambit Capital research, Company

Shareholders' Account

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Amounts transferred from Policyholders' account	38,754	360,186	247,082	278,895	293,462
Income from investments	1,667	11,478	14,682	33,816	54,922
Total Income	**40,421**	**371,694**	**261,764**	**312,711**	**348,384**
Total Expenses	**99**	**7,126**	**4**	**4**	**5**
Profit before Tax	40,322	364,567	261,760	312,706	348,380
PAT	**40,086**	**363,974**	**260,975**	**311,768**	**347,335**

Source: Ambit Capital research, Company

Balance Sheet

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share capital	63,250	63,250	63,250	63,250	63,250
Reserve and surplus	40,430	394,920	671,708	1,000,870	1,367,337
Net worth	**104,091**	**456,694**	**733,481**	**1,062,643**	**1,429,111**
Policyholders' funds	**41,342,470**	**44,258,653**	**47,484,790**	**50,851,244**	**54,441,865**
Funds For Future Appropriations	18,344	39,187	145,079	238,044	335,865
Total Liabilities	**42,305,898**	**45,505,122**	**50,560,589**	**54,522,271**	**58,756,495**
Applications of Funds					
Shareholders' investments	64,121	293,635	676,315	1,098,442	1,562,730
Policyholders' investments	38,956,935	41,891,778	45,097,218	48,442,074	52,009,661
Total Investments	39,021,056	42,185,413	45,773,533	49,540,516	53,572,391
Asset held to cover linked liabilities	239,386	263,095	284,062	305,659	328,694
Total Assets	**42,305,898**	**45,505,122**	**50,560,589**	**54,522,271**	**58,756,495**

Source: Ambit Capital research, Company

Key Metrics and Valuations

Key Metrics	FY22	FY23	FY24E	FY25E	FY26E
NBP (in INR million)	1,989,322	2,320,506	2,541,950	2,792,434	3,022,935
APE (in INR million)	503,900	566,820	625,269	682,623	738,531
NBP growth	7.9%	16.6%	9.5%	9.9%	8.3%
APE growth	10.5%	12.5%	10.3%	9.2%	8.2%
EOM	620,605	737,260	699,608	757,647	819,051
EOM as a percentage of GWP	14.5%	15.5%	13.7%	13.6%	13.6%
VNB (in INR million)	76,190	91,560	112,923	131,592	147,366
VNB growth	82.8%	20.2%	23.3%	16.5%	12.0%
VNB margin	15.1%	16.2%	18.1%	19.3%	20.0%
Embedded value (in INR million)	5,414,930	5,822,440	6,385,346	7,010,372	7,699,435
RoEV (%)	58.3%	10.9%	9.9%	10.1%	10.1%
Valuation					
P/EV	0.7	0.7	0.6	0.5	0.5
P/B	37	8	5	4	3

Source: Ambit Capital research, Company

Bajaj Finserv

SELL

INITIATING COVERAGE	BJFIN IN EQUITY	June 13, 2023

Insurance opportunities priced in

Bajaj Finserv (BFS) sells/operates multiple products/platforms through its seven subsidiaries. But BFS' entire valuation is driven by its stake in Bajaj Finance (BAF) and insurance companies (BALIC and BAGIC), which have delivered industry leading growth. Our scenario analysis suggests the market is overvaluing the insurance businesses by ~20% and not factoring in challenges BALIC/BAGIC face from higher competition and regulatory changes like removal of product-wise commission caps and EOM limits. We do not factor in any value for the smaller/newer subsidiaries in our SOTP due to concerns with their scalability. Risks to our SELL thesis include: i) BALIC gaining share in Axis Bank, ii) incremental growth at BAF from high yielding loans and iii) better-than-expected combined ratio for BAGIC.

Competitive position: STRONG — Changes to this position: STABLE

At BALIC, will growth slowdown turn the attention to RoEV?

BALIC is the 4th largest life insurer and the only player within the top 5 which does not have a bank promoter. Its strong APE growth (>40% in FY22/FY23) has camouflaged its lower than peer average margins (18% vs high 20s) and RoEV (14% vs 15-20%). With growth slowing over FY24-26E (3-year CAGR: +17%) vs FY20-23 (+39%), we see focus increasing on BALIC's margins/RoEV. This will continue to lag behind private peers due to its higher acquisition cost (EOM/GWP: 26% vs 10-20% peers) and aggressive pricing.

At BAGIC, competition will continue to play spoilsport

BAGIC is the 3rd largest general insurer in India (gross premiums). Unlike some unlisted peers, BAGIC has focused on profitable growth. But this has resulted in BAGIC growing slower than the industry in the last 3 years (6% vs 11% industry). We see BAGIC's premium growth remaining below pre-Covid levels (15-20%) over FY24-26 (11-12%) due to: i) competition remaining intense within motor insurance, ii) regulatory changes resulting in fire insurance pricing falling by 10-15%, iii) Group Health becoming more competitive as insurers focus on acquiring commercial businesses to reduce EOM below the 30% regulatory limit.

Can success of the product businesses translate into platforms?

BFS has been investing to create platforms to deliver its financial products. Bajaj Markets and Bajaj Health are two platforms BFS has created to distribute lending products, insurance and health services. In our view, replicating the success in financial products in platforms will be challenging. This is a function of: i) well-entrenched competition (e.g. Practo and Paytm), ii) lower barriers to entry, and iii) features being easy to replicate. Hence, we have not built in any value for these new businesses in our valuation.

Insurance opportunities priced into the SOTP

We value BFS using SOTP, which implies a target price of Rs1,130 (FY25 P/E of 20x). Within the SOTP, we value BALIC at 1.8x FY25 EV. This is lower than our fair multiple for HDFC Life (2.8x) and SBI Life (2.3x) and in line with IPRU (1.8x). The lower implied valuation for BALIC vs SBI Life and HDFC Life is a function of the latter's significantly better RoEV and higher margins. We value BAGIC at 21x FY25 P/E above ICICI Lombard (20x) due to better underwriting performance. We value BAF at 4x FY25E book value, lower than the 5x it is currently trading at, as we expect growth to slow down to 20% over FY25-42 vs >20% previously.

Insurance

Recommendation

Mcap (bn):	Rs2,336/US$28
6M ADV (mn):	Rs2,653/US$32
CMP:	Rs1,477
TP ( ):	Rs1,130
Upside (%):	-24%

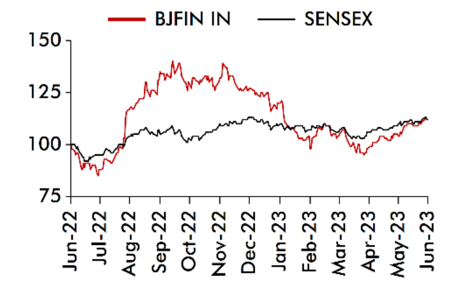
Flags

Accounting:	GREEN
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalysts

- **BALIC:** Margin contraction of 30bps in FY24E due to mix shift and higher incentivizes to customers.
- **BAGIC:** Competition in fire/group health adversely impacting GWP growth (FY24: 11% vs 12% FY23)

Performance



Source: ICE, Ambit Capital Research

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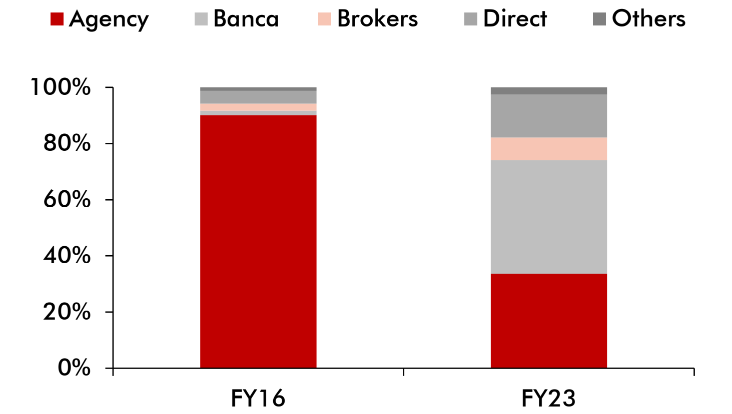
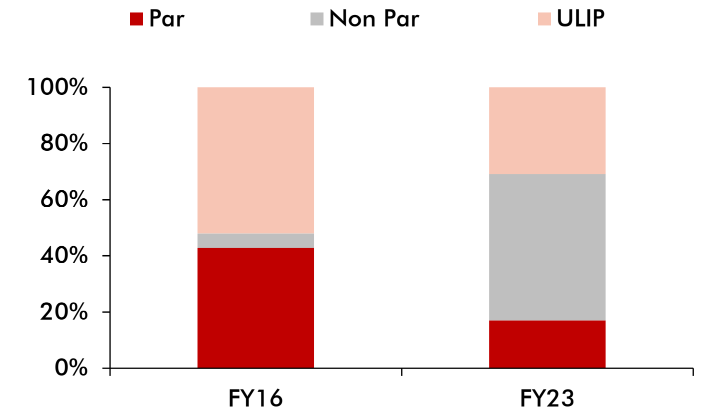
Narrative in charts

Exhibit 1: Since FY17, BALIC has undergone a significant transformation, with focus on diversifying channel and…



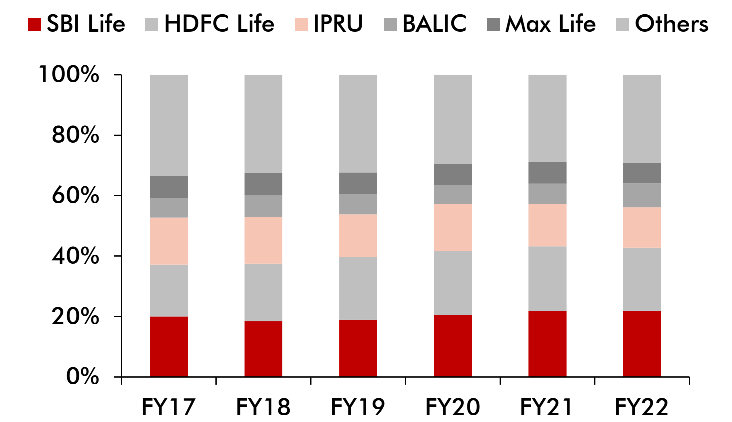
Source: Company, Ambit Capital research

Exhibit 2: …product mix. This has resulted in share of higher-margin non-par products/annuities increasing



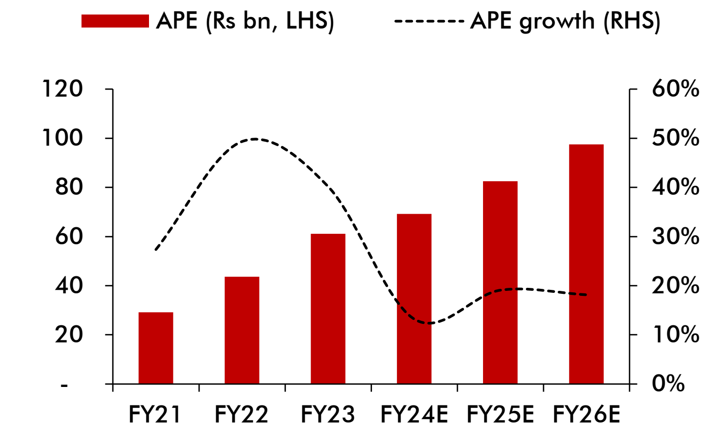
Source: Company, Ambit Capital research

Exhibit 3: BALIC's transformation has helped it emerge as the fourth largest life insurer in the country



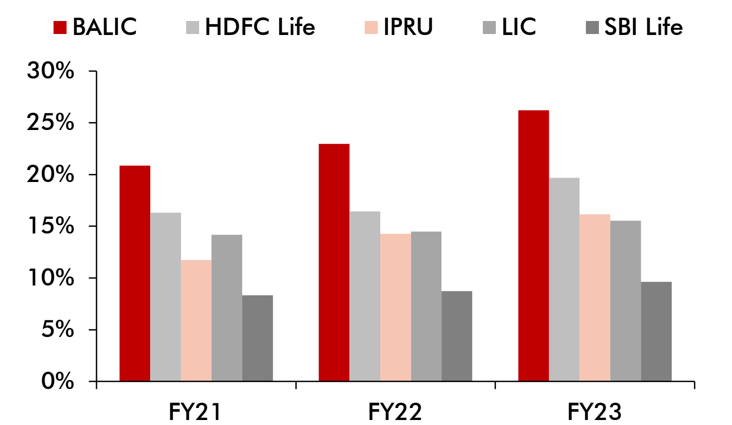
Source: IRDAI, Ambit Capital research

Exhibit 4: But we see APE growth slowing over FY24-26E (+17%) vs FY20-23 (+39%) due to market share opportunities over in Axis Bank and tax changes



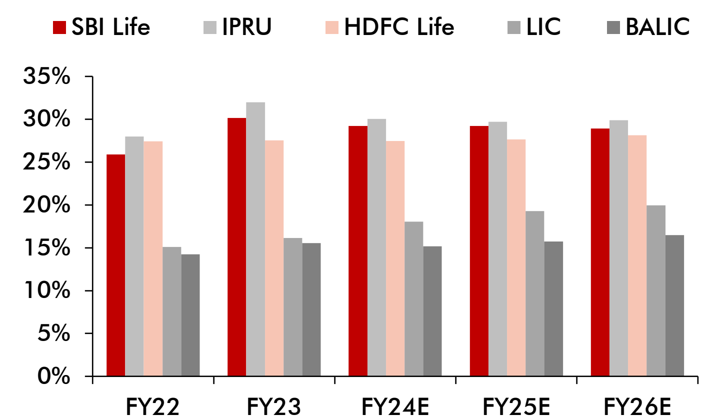
Source: Company, Ambit Capital research

Exhibit 5: BALIC's higher acquisition cost which is a function of the company not having a bank promoter…



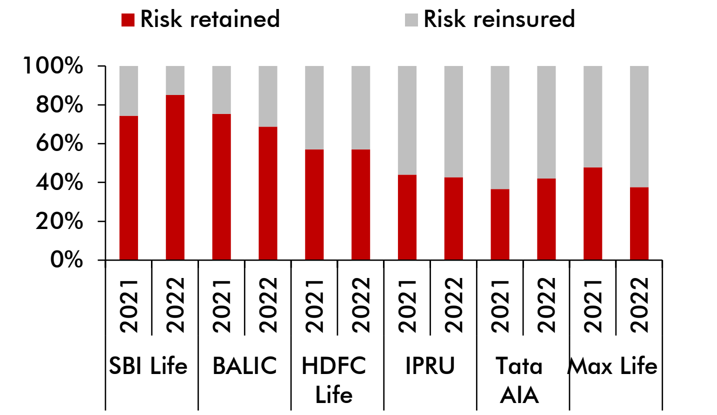
Source: Company, Ambit Capital research

Exhibit 6: …will result in VNB margins lagging behind private peers



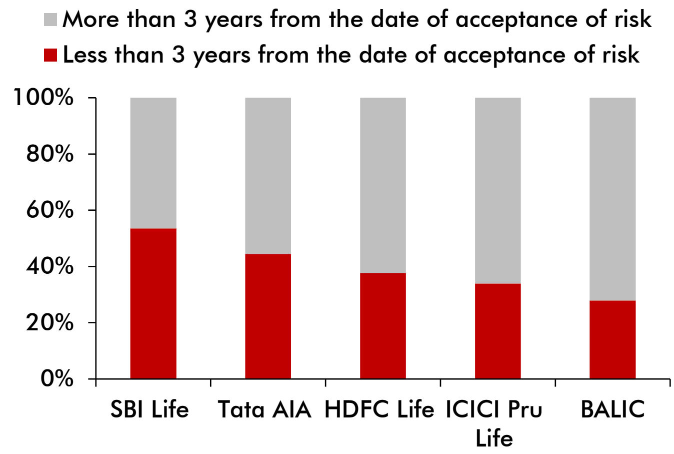
Source: Company, Ambit Capital research

Exhibit 7: BALIC is able to retain more risk due to its elevated solvency position



Source: Company, Ambit Capital research

Exhibit 8: BALIC had the lowest proportion of death claims within 3 years of the risk being accepted



Source: Company, Ambit Capital research

Exhibit 9: Bajaj Finserv's CMP is more than factoring in the growth opportunity in the insurance businesses

Rs bn	Formula	Scenarios		
BAF stake valued at		**Ambit's Target Price**	**@10% discount to BAF's CMP**	**At CMP**
BAF market cap	a	4,309	4,309	4,309
Share of Bajaj Finserv	b	52%	52%	52%
Premium/(Discount)	c	-29%	-10%	0%
Value of BAF stake	d=a*b*(1-c)	1,613	2,036	2,262
Other non-insurance businesses	e	52	52	52
Bajaj Finserv market cap @ CMP	f	2,370	2,370	2,370
Holding company discount		20%	20%	20%
Implied value of insurance businesses	g=f-e-d	1,163	755	529
Value of insurance businesses based on our estimates	h	581	581	581
Premium/(Discount) to implied value	i=h/g-1	-50%	-23%	10%

Source: Ambit Capital research

Exhibit 10: Comparing different health tech platforms in India: Offerings

Health service providers	Membership Plans	Video consultation	Medicines	Lab tests	Financing
Practo	✓	✓	✓	✓	×
Lybrate	×	✓	✓	✓	×
1mg	✓	✓	✓	✓	×
Credihealth	×	✓	✓	✓	✓
Pharmeasy	✓	✓	✓	✓	×
Bajaj Health	✓	✓	×	✓	✓

Source: Company websites, Ambit Capital research

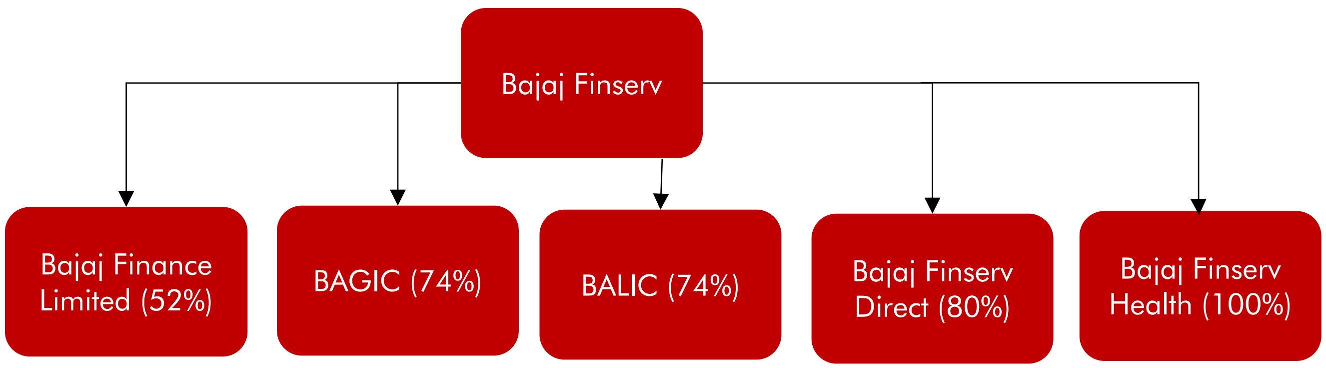
Exhibit 11: SWOT: BFS' subsidiaries have multiple strengths. But at current valuation these appear to be factored in

Strengths	Weaknesses
▪ **Multi-channel distribution strength:** BAF has presence across ~3,685 locations, with an active distribution network of over 143k. BALIC also has one of the largest agency in private life insurance space, backed by 125k+ agents. The direct distribution capabilities of BFS' subsidiaries is ahead of peers. ▪ **Lower disputed claims:** BAGIC has the lowest number of disputed claims amongst private multi-line insurers. ▪ **Strong underwriting capabilities:** BAGIC has one of the lowest combined ratios in Motor OD despite elevated competition. This has been a function of its ability to select/underwrite more profitable lines of business. Within life insurance, the company has lower death claims within 3 years of the risk being accepted despite a more attractive pricing.	▪ **Lack of experience in certain segments:** Due to inexperience and non-sustainable business strategies, BAF was forced to shut down some of its segments, like construction equipment (CE) financing, rural MSME financing, warehouse receipt financing, etc. ▪ **High cost of customer acquisition:** BALIC has a higher cost of customer acquisition compared to other private peers due to its lack of a bank promoter. This results in lower margins and RoEV compared to peers. ▪ **Lack of major distribution channels besides direct and brokers:** BAGIC's 73% of the gross premiums is contributed by brokers and direct channel, with limited contribution from agency and bancassurance.
Opportunities	**Threats**
▪ **Innovation in existing products:** BAF has been successful in introducing new features in existing products to gain market share from competitors, with one such innovation being no pre-payment charges in Loan against property (LAP). Also, continuous innovation in BALIC and BAGIC product offerings to maintain competitive edge. ▪ **Diversifying the channel mix:** Addition of new bank partners represents a growth opportunity for both BALIC and BAGIC. BALIC has grown its NBP from the banca channel by 8x in the last 3 years. ▪ **Focus on health insurance segment:** BAGIC is setting up an SBU to focus on health insurance. It has one of the lowest premiums for retail health policies, both for high and low sum assured. Thus, the retail health insurance could grow, thereby increasing margins. ▪ **Scale up of newer businesses:** BFS has invested in several new businesses. The company's asset management business has been recently launched. Scale up of this business could represent another source of value creation for BFS.	▪ **Growing liabilities at a competitive cost would be a challenge:** Scaling up liabilities at a reasonable cost would be a challenge for BAF due to regulatory constraints and no access to low-cost CASA deposits. Cost of funds is likely to be ~250 bps higher vs large banks, making BAF uncompetitive. ▪ **Increased competition:** IRDAI is currently considering 20 new insurance applications. Also, they are planning to reduce capital requirements for insurers from the current Rs1bn. This could result in increased competition for BAGIC. BAF is also facing increased competition from banks and other NBFCs in commercial/personal loans segment, due to higher yields. ▪ **Full-stack insurtech gaining traction:** With millennials increasingly shopping online, the emergence of full stack insurtech players is a threat for traditional insurers, such as ICICI Lombard. ▪ **Embedded insurance replacing traditional products:** Increasingly, service providers are tying up with insurtechs (e.g. Ola and Acko) to provide embedded insurance. This could adversely impact the demand for traditional insurance products.

Source: Company, Ambit Capital research

Below we have shown Bajaj Finserv's shareholding in key subsidiaries.

Exhibit 12: Bajaj Finserv shareholding in subsidiary companies



Source: Company, Ambit Capital research

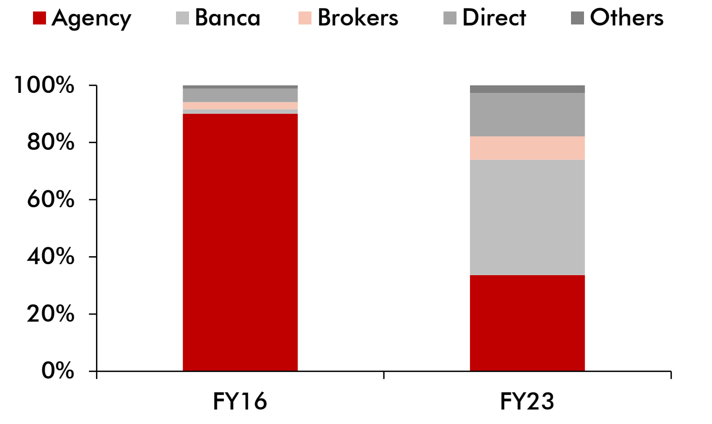
BALIC: Focus will increase on RoEV as growth slows

BALIC has been the key driver of BFS' insurance premiums since FY23 (56% contribution to insurance GWP). The company's APE has grown at a 3-year CAGR of +39% between FY20-FY23 driven by market share gains within Axis Bank, expansion of the agency channel and strong growth in direct distribution. This has resulted in BALIC becoming the only non-bank promoted life insurer within the top 5 private life insurers (NBP) in India. While the transformation story for BALIC is praiseworthy, we see APE growth slowing over the next 3 years (+17%) as market share within Axis Bank has reached its peak, adverse impact from recent tax changes and slower loan growth impacting credit protection sales. This is likely to result in focus increasing on BALIC's lower than peer average margins (18% vs high 20s) and RoEV (14% vs 15-20%), which we expect to lag behind peers due to its higher cost of acquisition and attractive pricing.

BALIC has gained market share despite not having a promoter bank

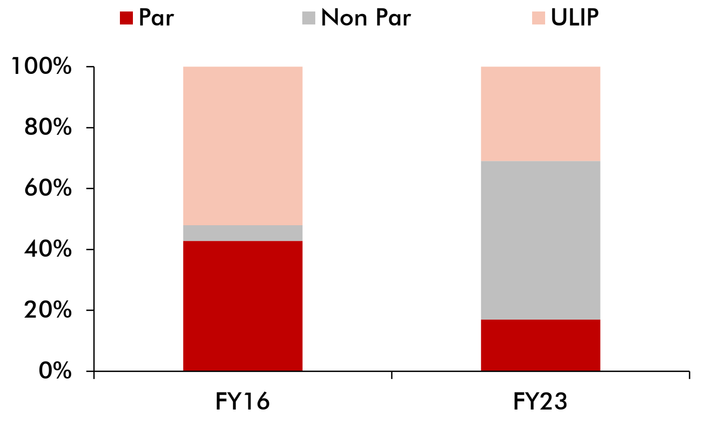
Since FY17, BALIC has undertaken a significant business transformation with focus on diversifying product and channel mix, reducing cost overruns and improving customer servicing.

Exhibit 13: Dependency on agency has reduced with BALIC adding bank partners and growing the direct channel



Source: Company, Ambit Capital research

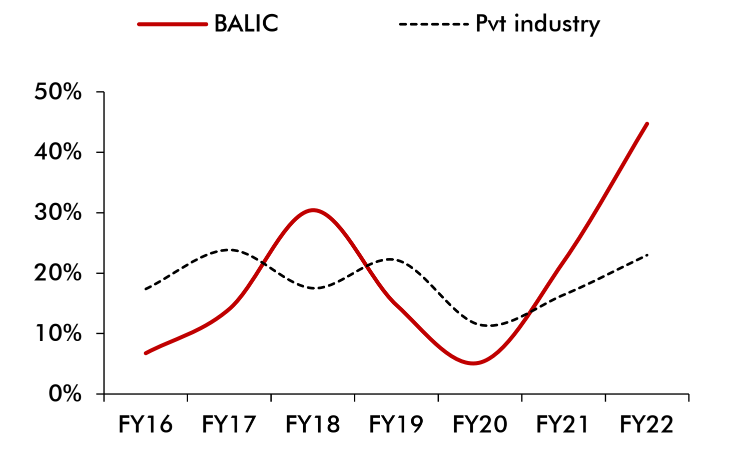
Exhibit 14: The product mix is now more balanced as compared to FY16



Source: Company, Ambit Capital research

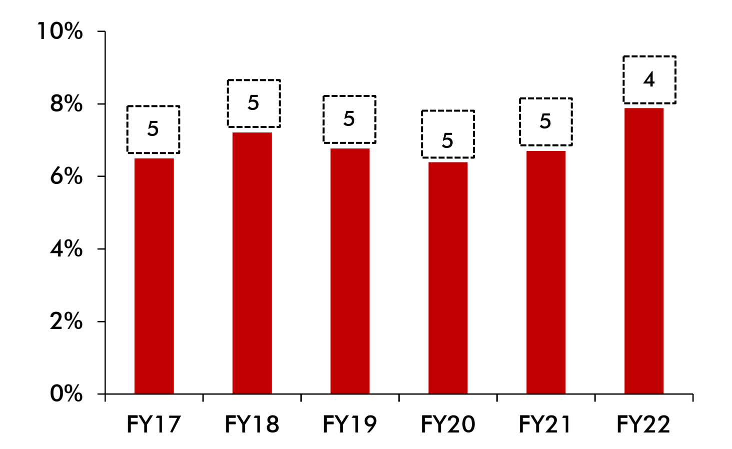
This has allowed BALIC to gain market share despite not having a bank as a promoter. Today, BALIC is the only life insurance companies amongst the top 5 (private life insurers) in India (in terms of NBP), which does not have a bank promoter.

Exhibit 15: BALIC has been growing significantly faster than the private sector over FY21/FY22…



Source: Company, Ambit Capital research

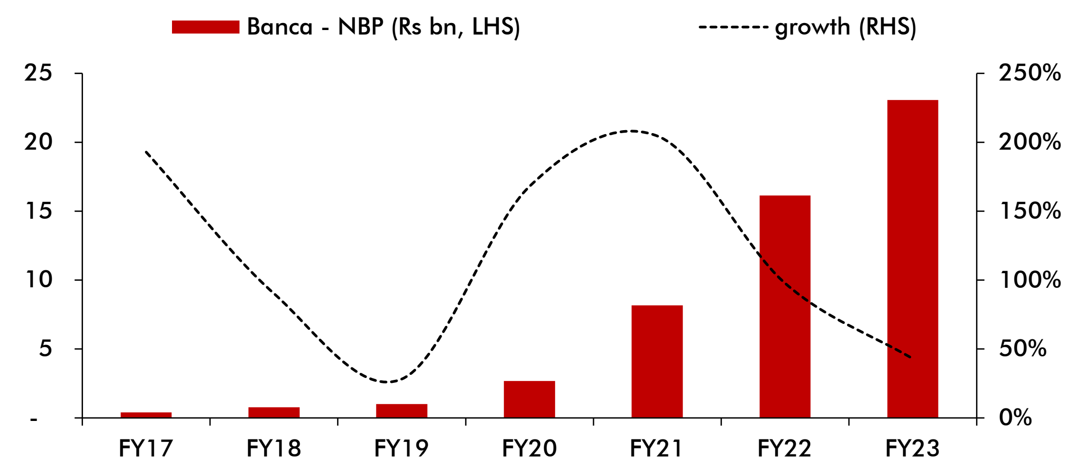
Exhibit 16: …which has resulted in BALIC's NBP market share improving from 5th to 4th



Source: IRDAI, Ambit Capital research

But the lack of a bank promoter has not prevented BALIC from leveraging the growth opportunity within banks. The company has utilised open architecture which was introduced in FY16 (Sep'15) to partner with banks. BALIC's >40% APE growth in FY22/FY23 has been a function of the company gaining counter share within Axis Bank, which is one of its key partners.

Exhibit 17: Individual NBP via banca channel grew 8x for BALIC in the last 3 years



Source: Company, Ambit Capital research

However growth is expected to moderate from here

In 4QFY23, BALIC benefitted from the higher demand for high ticket size non-participating policies ahead of tax incentives ending from 1 April 2023. Adjusting for this incremental demand the APE growth for BALIC in FY23 was +35%. Although better than the normalized run-rate of other private peers, this was a slowdown vs FY22 (+49%).

Exhibit 18: Adjusting BALIC's APE growth for the fire sale in Feb/Mar'23, APE growth in 4QFY23 was 30% and 35% in FY23

Rs mn	
4QFY23 APE	19,920
--- % growth	48%
Jan'23 APE	4,344
--- % of high ticket size policies	8-9%
Feb-Mar'23 APE	15,576
--- % of high ticket size policies	24%
4QFY23 APE excluding the pull forward of demand in Feb/Mar	17,506
--- % growth	30%
FY23 APE growth (adjusting for the sales surge in Feb/Mar)	35%

Source: Company, Ambit Capital research

We see growth slowing between FY24E-FY26E to mid-teens due to:

- **Market share within Axis Bank stabilizing at 25%:** A key driver behind the elevated APE growth over FY22/FY23 was the market share gains BALIC achieved in Axis Bank. From here, we see scope for market share gains to be limited as i) BALIC's share within Axis Bank has reached 25%, and ii) competition is increasing with Axis Bank backed Max Life deploying more sales representatives.
- **Tax changes have pulled forward APE growth:** The Government removing 10 10D benefits for non-linked life insurance policies above Rs500k resulted in demand being pulled forward from FY24 into FY23. We estimate this incremental demand accounted for 4-5% of BALIC's FY23 APE.
- **Slowdown in loan growth will impact credit life:** Private consumption growth in the last two quarters have been tepid, and increase in home loan rates and property prices have impacted affordability, according to Ambit's NBFC analyst. We see this adversely impacting the demand for credit life policies as these are closely linked with home/personal loans. Ambit's BFSI Team expects loan growth to moderate from 15% to 13-14%.

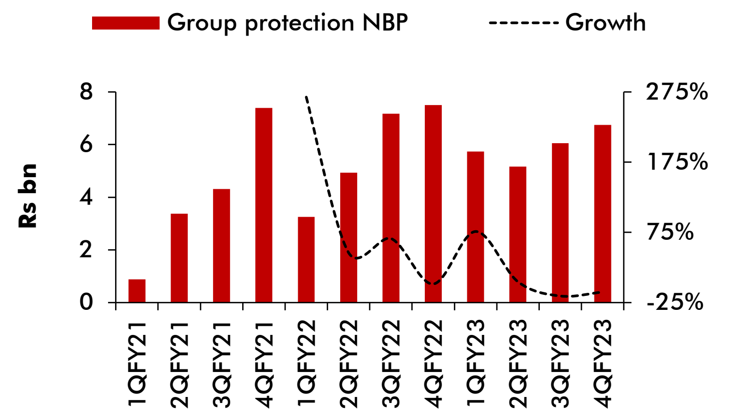
Exhibit 19: We expect loan growth to moderate for most banks in FY24/FY25

Loan growth	FY20	FY21	FY22	FY23	FY24E	FY25E	Comments
ICICI Bank	10%	14%	17%	19%	17%	16%	Lower growth in FY24/FY25 in line with sector trends
Axis Bank	15%	8%	15%	19%	16%	16%	Lower growth in FY24/FY25 in line with sector trends
Kotak Mahindra Bank	7%	2%	21%	18%	18%	18%	With entry into new segments, KMB can maintain its loan growth
Federal Bank	11%	8%	10%	21%	17%	17%	Lower growth in FY24/FY25 in line with sector trends
SBI*	6%	5%	12%	16%	14%	14%	Lower growth in FY24/FY25 in line with sector trends

Source: Company, Ambit Capital research, Note: Ambit estimates for SBI for FY23

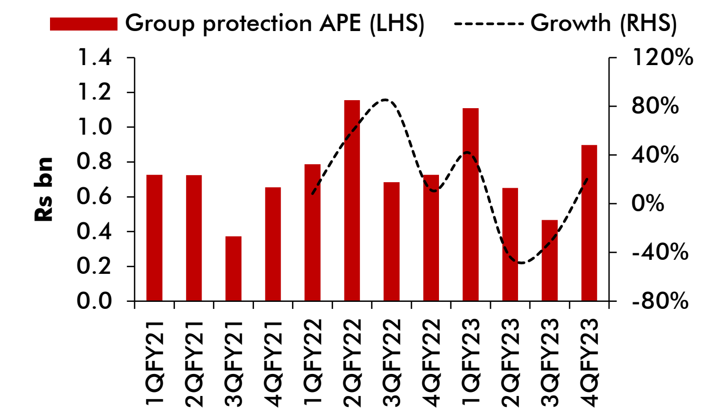
BALIC's Group protection NBP has declined by 13% over 2HFY23. This is in contrast to the 33% NBP growth in 1H23. While the company attributed this to slower loan disbursals at partner banks, we note Max Life, BALIC's key competitor in Axis Bank, returned to growth (+24%) in the Group protection category in 4QFY23.

Exhibit 20: BALIC's Group Protection NBP continued to decline in 4QFY23…



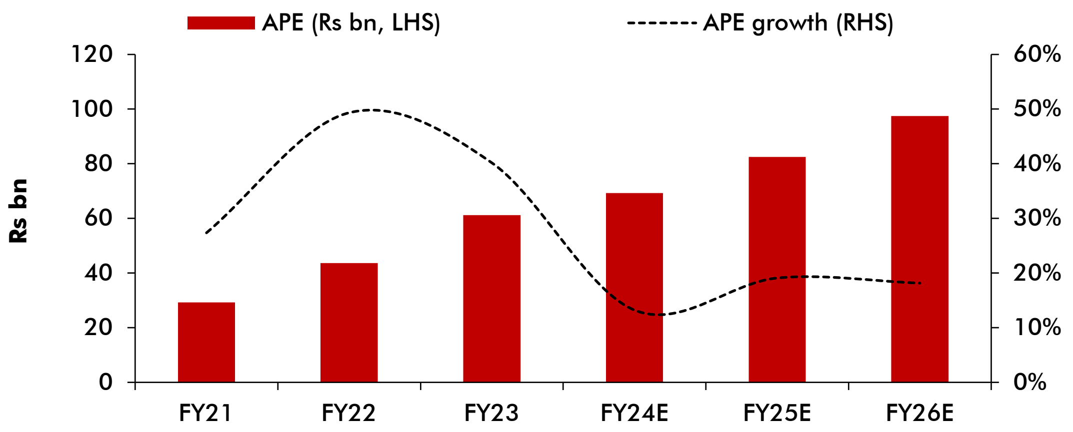
Source: Company, Ambit Capital research

Exhibit 21: …despite Max Life delivering +24% Group Protection APE growth during the same period



Source: Company, Ambit Capital research

Exhibit 22: We forecast BALIC's APE growth to moderate to 17% (3-year CAGR) between FY23-FY26E

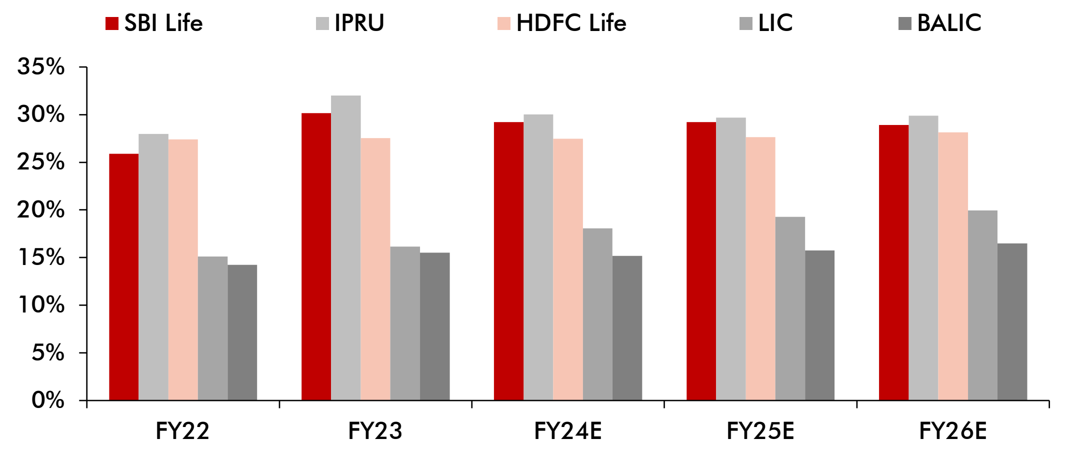


Source: Company, Ambit Capital research

Margins unlikely to reach similar levels as banca promoted peers

BALIC's mid-teen VNB margins are significantly lower than the high twenties VNB margins reported by bank promoted life insurers.

Exhibit 23: BALIC's VNB margins have lagged behind peers

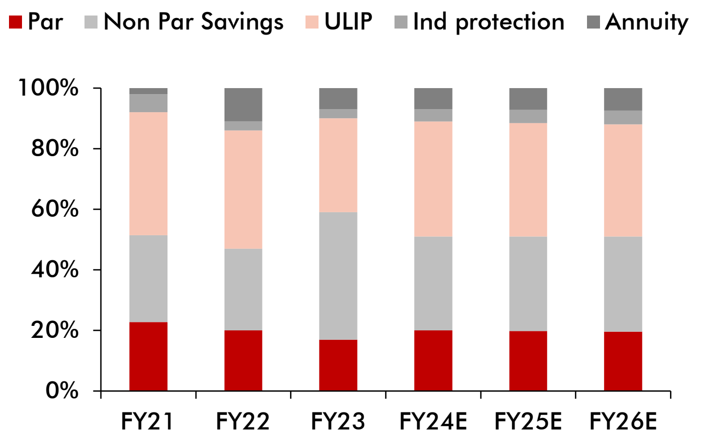


Source: Company, Ambit Capital research

We expect BALIC's VNB margins to improve to 17.2% by FY27E compared to 15.5% in FY23. This will be driven by:

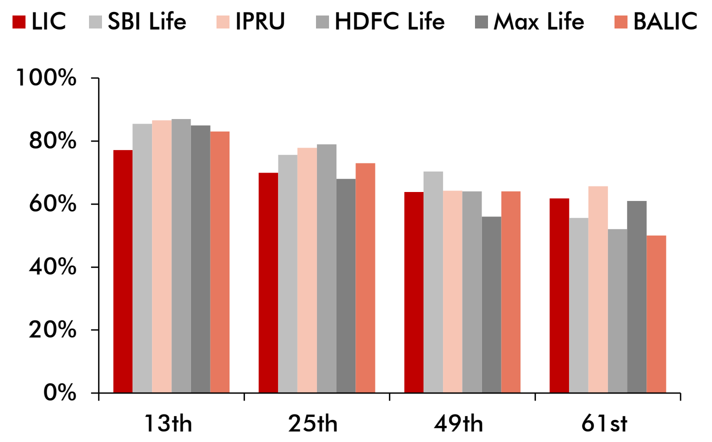
- **Growth in protection products:** Individual protection products accounted for only 3% of BALIC's product mix in FY23. We see the share of individual protection within the product mix nearly doubling over the next 5 years. This will be a function of product innovation and penetration within lower tier cities. The company has recently launched a term insurance product targeting diabetic and pre-diabetic people.
- **Improvement in persistency:** BALIC's persistency lags peers for 13th and 61st month. The company has been working towards improving persistency across periods by introducing direct debit mandates, digital payment options and higher distribution ownership. Persistency improved by 2% each for 49th and 61st month in FY23.

Exhibit 24: FY23 product mix was skewed towards non-par savings due to tax changes. This will normalise in FY24. Protection & annuity will grow over the medium term



Source: Company, Ambit Capital research

Exhibit 25: BALIC lags behind peers in-terms of persistency. The company has been improving persistency through auto-debit mandates/higher distribution ownership

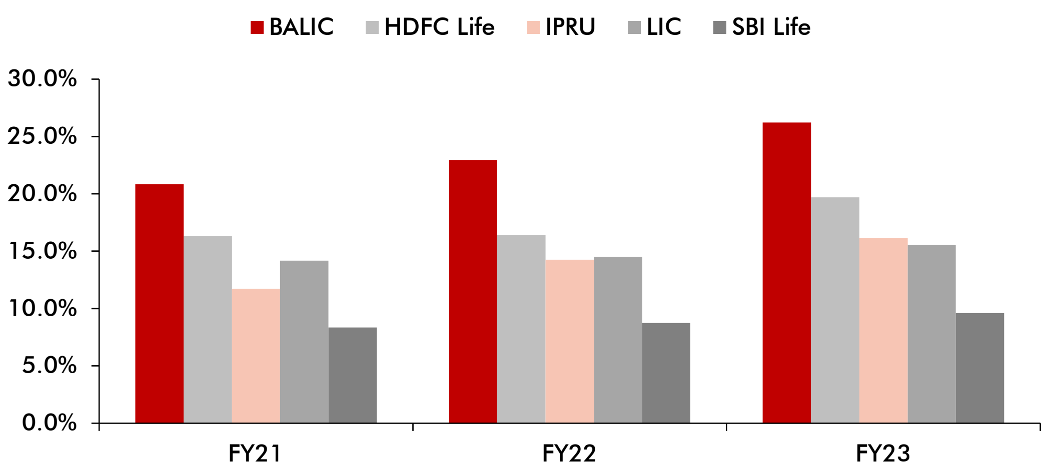


Source: Company, Ambit Capital research

But margins are unlikely to reach high 20s, similar to bank promoted life insurers due to:

- **The company having higher customer acquisition costs.** In FY23, BALIC's EOM to GWP ratio of 26% was the highest amongst listed peers (10-20%). This is likely a function of the company having to incentivize more to get entry into banks compared to bank promoted life insurers. With IRDAI increasing the number of life insurance tie-ups for banks from 3 to 9, we see competition for counter share within major banks remaining elevated.

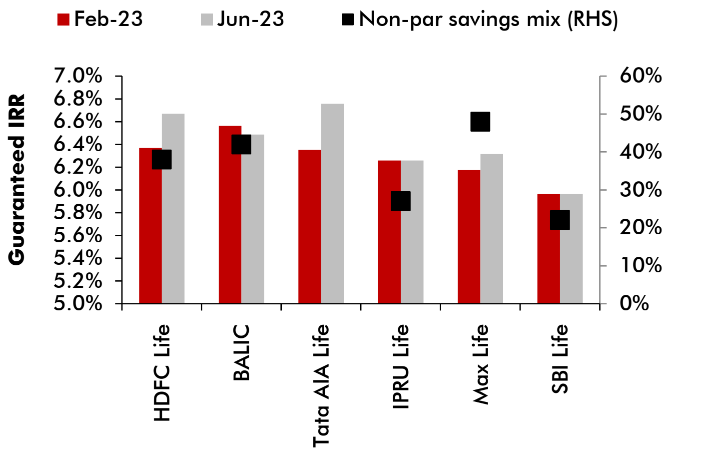
Exhibit 26: EOM to GWP: BALIC has the highest EOM to GWP ratio amongst peers. This, in our view, is a function of the company having to spend more to get entry into banks unlike bank promoted life insurers



Source: Company, Ambit Capital research

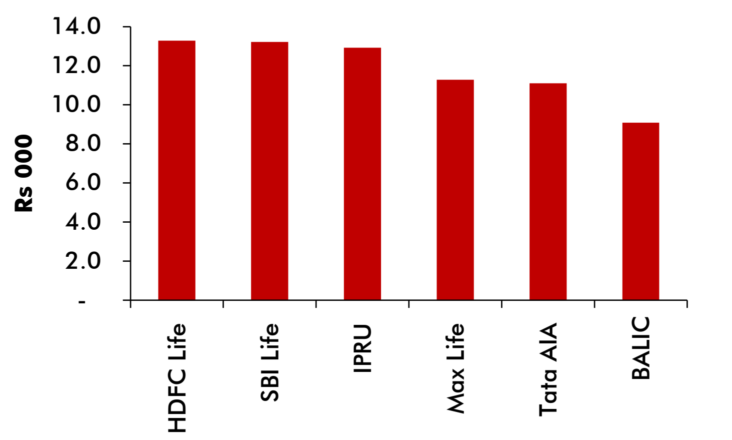
- **Attractive pricing:** A key factor behind BALIC being able to capture market share within banks despite well-entrenched competitors has been its attractive pricing and servicing. As shown in Exhibits 27 and 28, BALIC is offering higher IRRs on its guaranteed products and lower pricing for its term insurance product. But the attractive pricing comes at the cost of margins. We do not see BALIC's pricing strategy changing significantly going forward due to the competition with banks.

Exhibit 27: BALIC is offering higher IRRs on its guaranteed products



Source: Policybaazar, Ambit Capital research

Exhibit 28: BALIC's term insurance pricing for a Rs10mn cover is also cheaper than peers

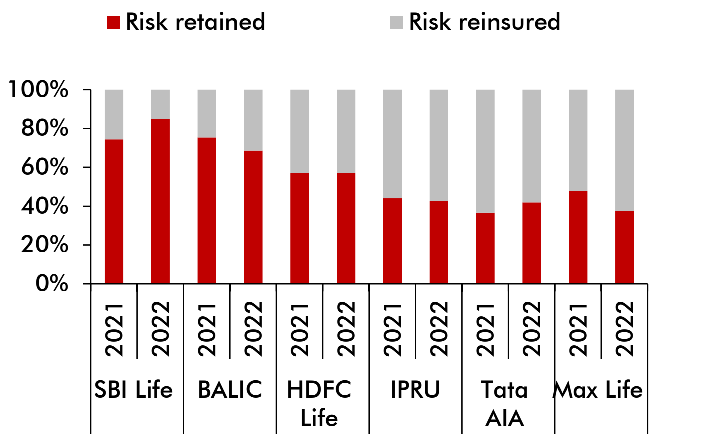


Source: Policybaazar, Ambit Capital research

Note: Assumed Rs 10 mn cover for 29 year old male (Non-smoker, College graduate, earning above Rs 150k per annum)

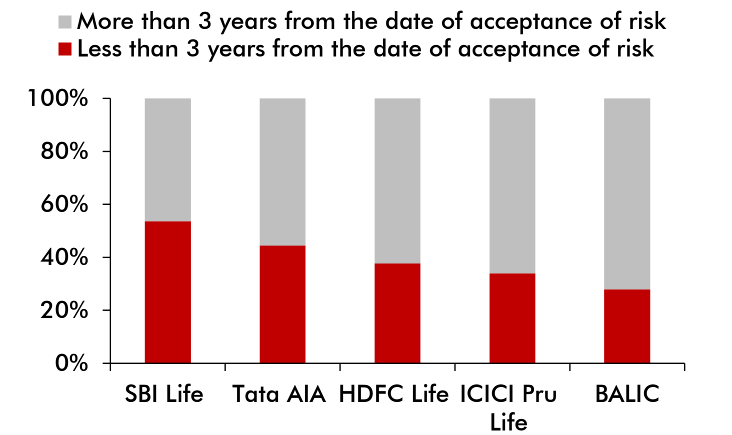
Another factor which has allowed BALIC to offer more attractive pricing for its term insurance products is the lower requirement for reinsurance given the company has >500% solvency. We note BALIC retained 69% of the risk in FY22, which is only second to SBI Life. But the attractive pricing and lower reinsurance has not resulted in lower underwriting standards. BALIC's individual death claims within 3 years of the risk being accepted is lowest amongst peers.

Exhibit 29: BALIC is able to retain more risk due to its elevated solvency position



Source: Company, Ambit Capital research

Exhibit 30: BALIC had the lowest proportion of death claims within 3 years of the risk being accepted

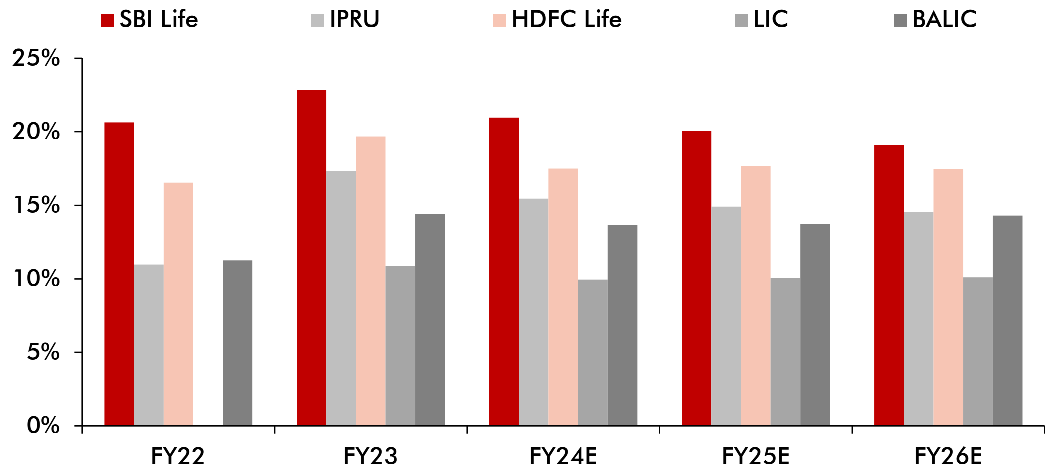


Source: Company, Ambit Capital research

BALIC has lower RoEV compared to peers

We forecast 14% RoEV for BALIC over the next 3 years. This is lower than private peers (15-20%) due to its lower margins. As BALIC's APE growth slows from the highs seen during FY22 and FY23 (~45%) we see the focus shifting to its lower RoEV.

Exhibit 31: BALIC will deliver 14% RoEV over the medium term, lower compared to private peers, which is a function of its lower margins



Source: Company, Ambit Capital research

Factoring in +17% APE growth and 100bps margin expansion over next 3 years

Below we have given a snapshot of the assumptions we are building into our forecasts for BALIC.

Exhibit 32: BALIC – FY24: APE growth slowdown driven by market share gains in Axis slowing and adverse impact from tax changes. Medium-term: We see RoEV remaining lower than other private listed peers due to lower margins

Assumptions	FY22	FY23	FY24E	FY25E	FY26E	Comment
APE growth	49.3%	40.2%	13.2%	19.1%	18.2%	We expect growth to slow from the highs seen during FY22-23 due to Max becoming more competitive in Axis Bank, adverse impact of tax changes on high ticket size policies.
Individual Product Mix (@ Ind APE)						
Par	20.0%	17.0%	20.0%	19.8%	19.6%	
Non Par Savings	27.0%	42.0%	31.0%	31.2%	31.4%	Non-par savings increased significantly in FY23 due to the pre-buying ahead of the tax changes from 1 Apr 23. We expect this to normalise in FY24 in favour of other lower margin savings products (ULIPs and Participating).
ULIP	39.0%	31.0%	38.0%	37.5%	37.0%	
Individual protection	3.0%	3.0%	4.0%	4.3%	4.6%	
Annuity	11.0%	7.0%	7.0%	7.2%	7.4%	Medium-term we see the share of protection products increasing.
Group (@ total APE)	15.5%	14.8%	15.0%	15.1%	14.7%	
VNB Margin	14.2%	15.5%	15.2%	15.7%	16.5%	Margin expansion driven by mix shift towards protection products, and improvement in persistency.
Forecasts (Rs bn)						
APE	44	61	69	82	97	
VNB	6	10	11	13	16	
RoEV	11.3%	14.4%	13.7%	13.7%	14.3%	

Source: Company, Ambit Capital research

We value BALIC at 1.8x FY25 EV

We value BALIC using Appraisal Valuation similar to other covered life insurance companies. We have added NPV of value of new business between FY25E and FY44E to the FY24E embedded value to arrive at firm value of Rs417bn. We have used a discount rate of 15% higher than other private life insurance peers (11-13%). This implies a valuation of 1.8x FY25E embedded value, lower than the multiple at which HDFC Life (2.6x) and SBI Life (1.9x) and above IPRU (1.7x). The lower implied valuation for BALIC compared to SBI Life and HDFC Life is a function of the latter having significantly better RoEV and higher margins. We see this discount sustaining as BALIC's margins are unlikely to reach similar levels as SBI Life and HDFC Life.

Exhibit 33: Summary of inputs/outputs for our Appraisal Valuation

COE	**15%**
APE high growth (FY24E to FY34E)	12%
APE moderate growth (FY34E to FY44E)	5%
VNB high growth (FY24E to FY34E)	15%
VNB moderate growth (FY34E to FY43E)	5%
Terminal growth	4%
Embedded Value in FY23E (Rs bn) --- A	209
FY24E VNB (Rs bn)	13
Implied VNB multiple (x)	16.0
Structural value (Rs bn) ---- B	208
Appraisal value (A+B)	417
Implied P/EV (FY25E)	1.8
Valuation break-down	
Embedded value	50%
Value of future business (20 years)	43%
Terminal value	7%

Source: Ambit Capital research

Exhibit 34: BALIC vs Peers: BALIC has better APE growth prospects compared to peers. But lower margins result in RoEV lagging behind peers

	APE (Rs bn)			**APE growth**			**VNB (Rs bn)**			**VNB Margin**			**P/EV**			**RoEV**		
	FY24E	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**
SBI Life	201	227	252	20%	13%	11%	59	66	73	29%	29%	29%	2.1	1.8	1.5	21%	20%	19%
IPRU	88	95	102	2%	10%	10%	27	29	32	31%	30%	30%	1.6	1.4	1.2	15%	15%	15%
HDFC Life	131	154	172	-2%	18%	13%	36	43	50	28%	28%	28%	2.6	2.2	1.9	18%	18%	17%
LIC	625	683	739	10%	9%	8%	113	132	147	18%	19%	20%	0.6	0.5	0.5	10%	10%	10%
BALIC	**69**	**82**	**97**	**13%**	**19%**	**18%**	**11**	**13**	**16**	**15%**	**16%**	**17%**				**14%**	**14%**	**14%**

Source: Ambit Capital research

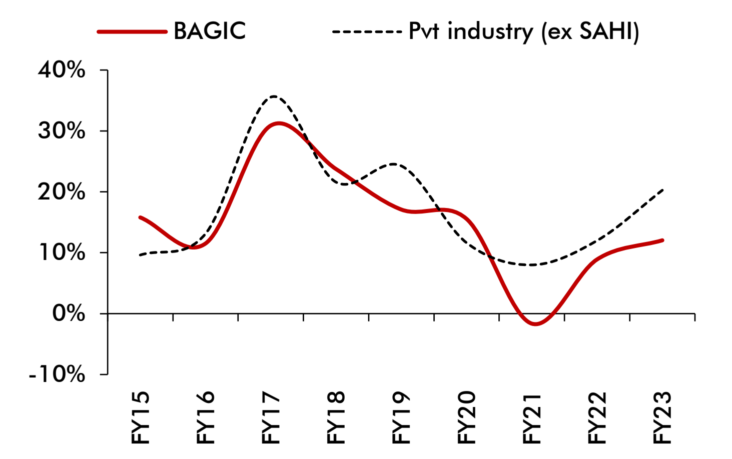
BAGIC: Competition will remain a key headwind

BAGIC has been focusing on profitable growth. This has resulted in the company being one of the few general insurers in India with underwriting profits. But focus on profitability has led to BAGIC growing slower than the industry, particularly in recent years when competition has increased. We see growth remaining below pre-Covid levels (15-20%) due to: i) pricing pressure in fire insurance (14% of GDPI); ii) competition remaining elevated within motor insurance (35%), iii) favorable condition in Group Health Insurance (12%) ceasing as insurers focus on acquiring more commercial businesses to reduce EOM below the 30% regulatory limit.

At BAGIC, focus has been on profitability

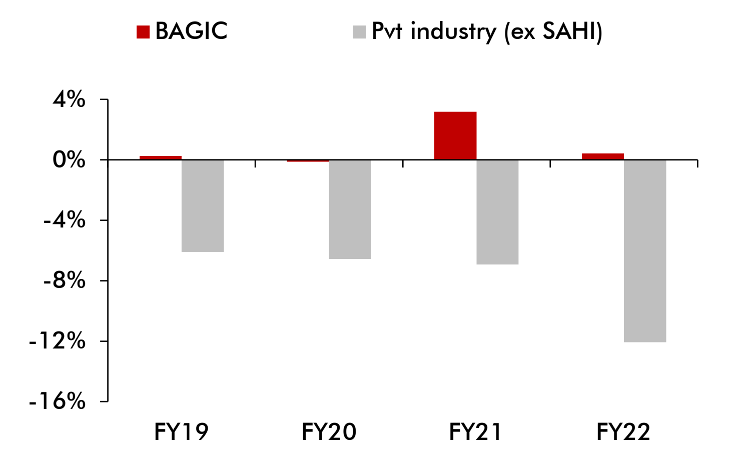
BAGIC is the 3rd largest general insurer in India with 6% market share (gross premiums). Unlike some of the unlisted peers, BAGIC has focused on profitable growth, resulting in the company being one of the only few general insurers in India with underwriting profits. But focus on profitability has led to BAGIC growing slower than the industry particularly in recent years when competition increased.

Exhibit 35: BAGIC's premium growth has lagged behind the industry



Source: Company, IRDAI, Ambit Capital research

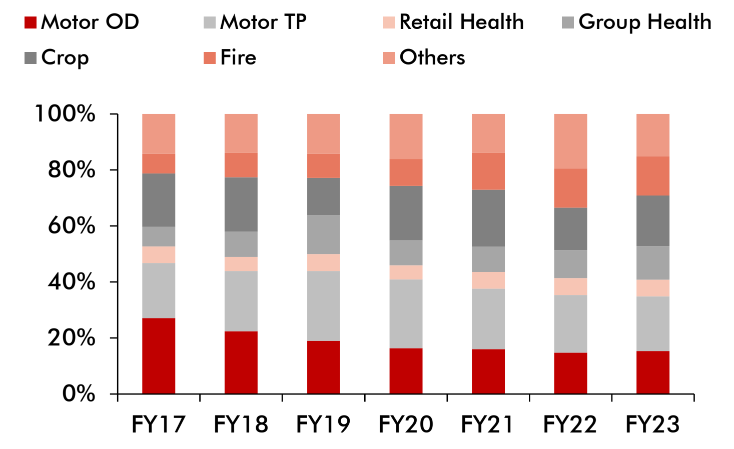
Exhibit 36: Underwriting profits/(losses) as % of NEP: BAGIC broke even while the industry continues to struggle



Source: Company, Ambit Capital research

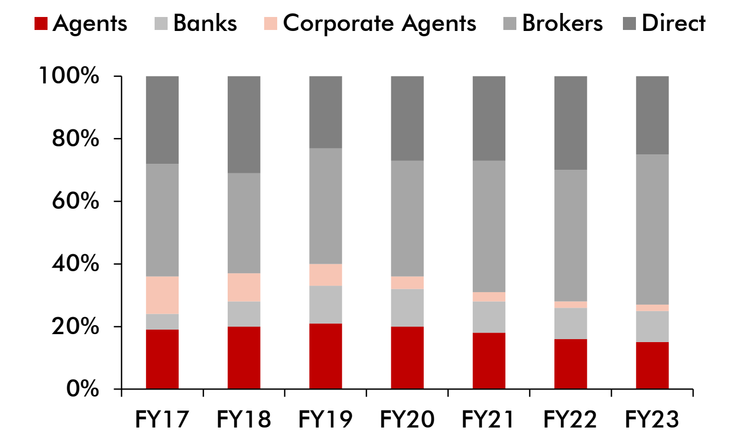
Motor insurance and health insurance account for >50% of BAGIC's gross premiums. Increased competition within motor insurance has resulted in the company looking at growing only within profitable segments. In Health, the company is investing to grow the retail health insurance business. BAGIC has a diversified distribution mix. Similar to BALIC, BAGIC also has a strong direct distribution channel which accounts for 25-30% of its gross premiums vs 10-20% for peers.

Exhibit 37: Motor and Health together account for >50% of BAGIC's GDPI



Source: Company, Ambit Capital research

Exhibit 38: BAGIC's dependence on brokers has increased, with the channel accounting for 48% of GDPI (36% in FY17)



Source: Company, Ambit Capital research

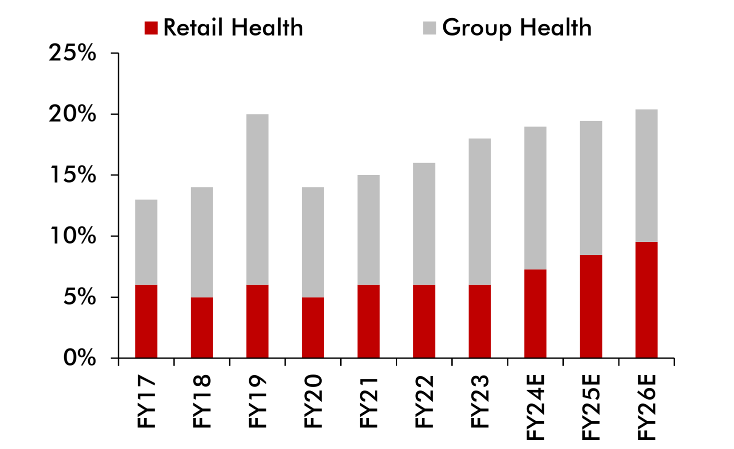
Can group health growth sustain?

BAGIC's 30-40% growth in Group Health Insurance (GHI) during 2Q/4Q FY23 was driven by better pricing, and corporates increasing sum assured per employee. The product also had better profitability, with BAGIC indicating GHI had a combined ratio of <100% vs >100% typically seen in the industry. This is in contrast to BAGIC de-growing the category during FY20/FY21 due to higher losses.

We are sceptical about the sustainability of the growth in GHI, and forecast the category to decline in FY24E by -10% for BAGIC, noting:

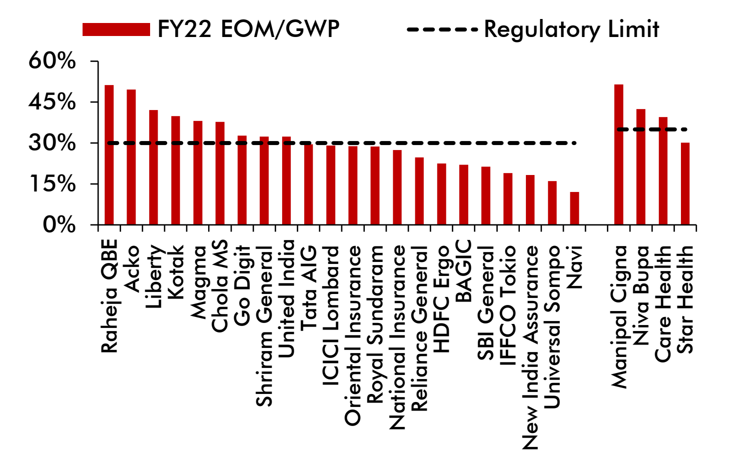
- **Profitability will come under pressure as pricing normalises:** GHI as a category benefitted during FY23 from higher prices and lower claims as policies were priced keeping in mind the Covid waves in the previous years. We expect GHI pricing to normalise in FY24 as Covid cases have reduced. This will result in lower premium growth and higher losses.
- **Competition will increase from players looking at reducing EOM/GWP ratio:** Nine out of the 22 general insurers had EOM/GWP above the regulatory limit of 30%. These companies have 3 years to reach the 30% level, and hence will look at growing product categories with lower EOM such as GHI.

Exhibit 39: Group health insurance contributed 12% of FY23 GDPI compared to 9% in FY21



Source: Company, Ambit Capital research

Exhibit 40: General insurers with EOM/GWP over the regulatory limit of 30% could look at growing group health

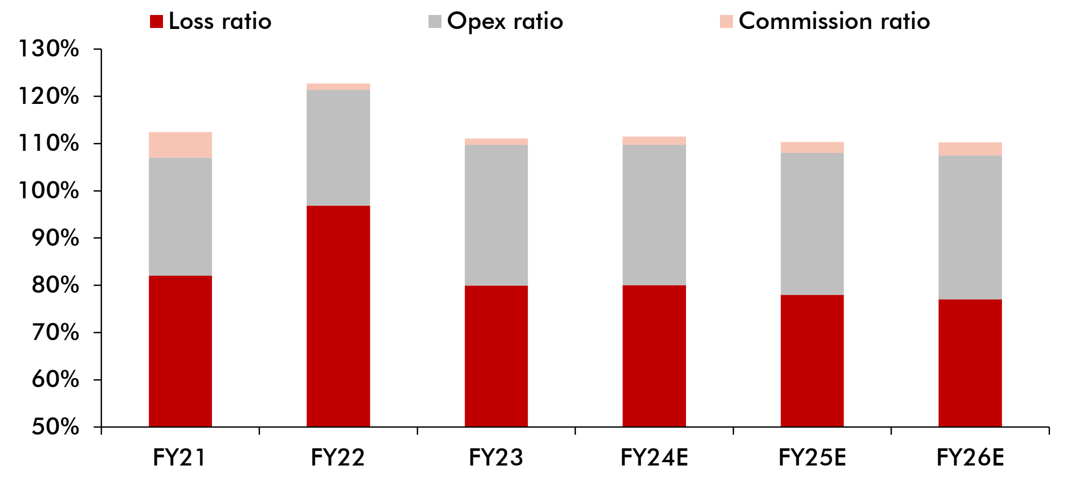


Source: Company, Ambit Capital research

Retail health will grow faster from here

BAGIC is setting up a SBU (Strategic Business Unit) to focus on health insurance. Retail health's share has remained within 5-6% of BAGIC's GDPI in the last 5 years. The company appears to be focusing on growing in Tier 2/lower tier cities similar to Star Health. We forecast retail health to contribute 9% of BAGIC's GDPI by FY26E. But combined ratio is likely to remain flat despite retail health insurance having a lower loss ratio compared to GHI given in the short-term opex and commissions will need to increase to support this business.

Exhibit 41: Breakdown of health insurance combined ratio: Higher commission and opex will offset lower losses

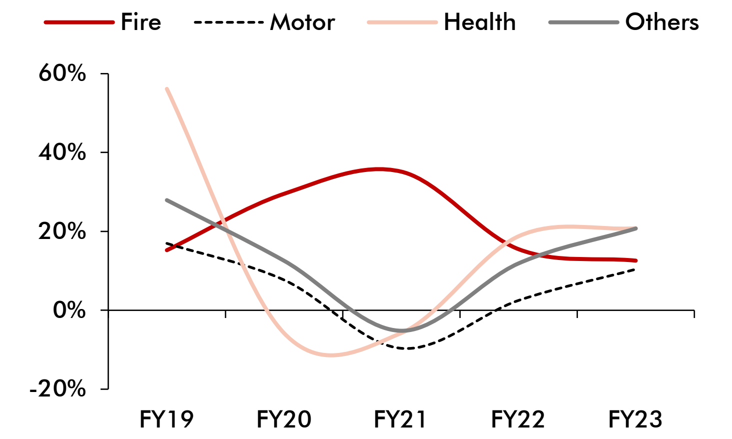


Source: Company, Ambit Capital research

Headwinds increase in fire/property insurance

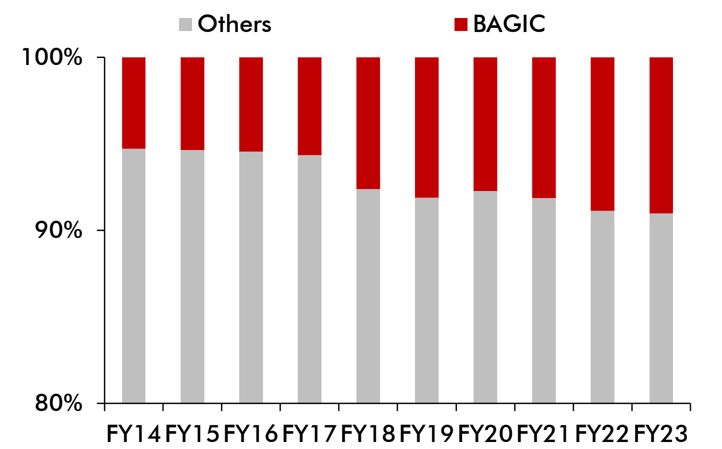
The fire insurance market has posted CAGR of +18% between FY17 and FY22. This was driven by premiums increasing on the back of GIC Re mandating burn costs published by IIB as the minimum rate for covering risks. BAGIC's fire insurance premiums increased by +21% between FY17-FY23 making it the company's fastest growing category.

Exhibit 42: Fire has been a key premium growth driver for BAGIC since FY20



Source: Company, Ambit Capital research Note: Others does not include Crop

Exhibit 43: BAGIC market share in fire insurance has grown by 130bps since FY20



Source: IRDAI, GIC, Ambit Capital research

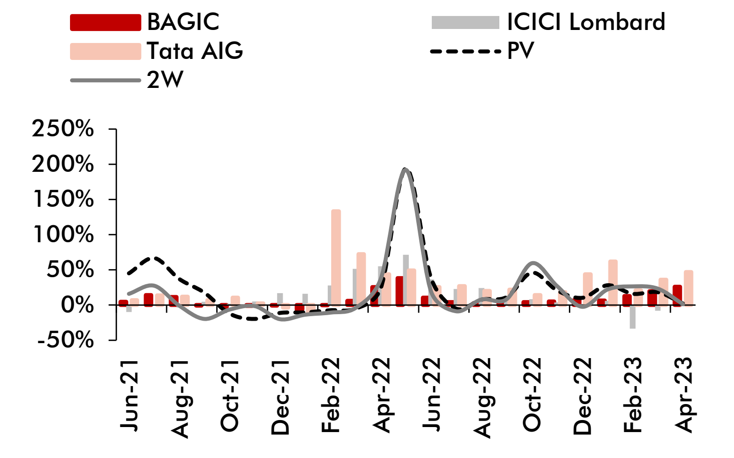
We see three headwinds from here:

- **Pricing pressure due to regulatory changes:** In 2022, IRDAI indicated to non-life insurers and reinsurers to not embed IIB's average burning costs as the minimum rate within reinsurance treaty agreements from FY24. This is similar to 2007, when tariffs were removed, and hence will adversely impact pricing.
- **Hardening of reinsurance rates:** An ET Now article on 27th February 2023, indicated companies expect reinsurance rates to increase by 15% on average in FY24, with rates going up the highest in property insurance (30% to 40%). This is consistent with the feedback from GIC, which indicated reinsurance rates have hardened significantly in international markets. This will result in lower reinsurance received, adversely impacting the combined ratio.
- **Competition:** We see competition for institutional/commercial businesses increasing as general insurers have to keep EOM/GWP at/below the 30% limit without sacrificing growth opportunities in retail businesses.

Motor insurance combined ratio will improve

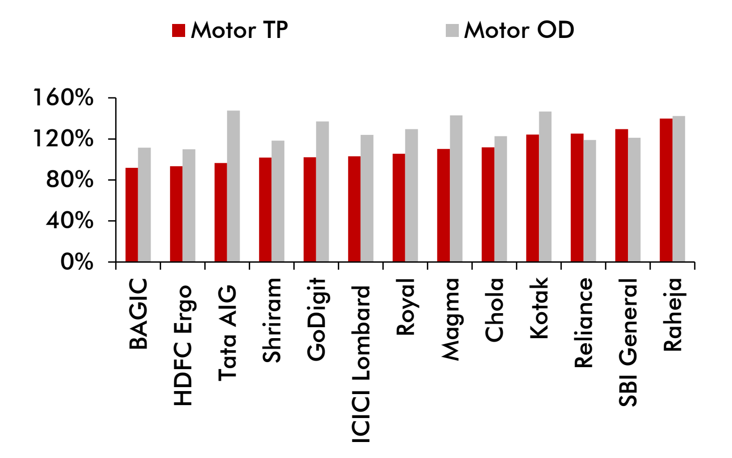
BAGIC's motor insurance premiums have grown at a slower rate compared to the market in 27 out of the last 36 months. This is a function of BAGIC's focus on profitability which has translated into the company having the lowest motor TP/OD combined ratio. We see BAGIC's motor insurance growth being slower than industry as competition is likely to remain elevated due to: i) entry of new players, noting 20 licenses are pending with the regulator, and ii) key competitors such as Tata AIG remaining aggressive.

Exhibit 44: BAGIC's motor insurance growth has been slower than the industry and PV/2W growth for majority of CY22



Source: Company, Ambit Capital research

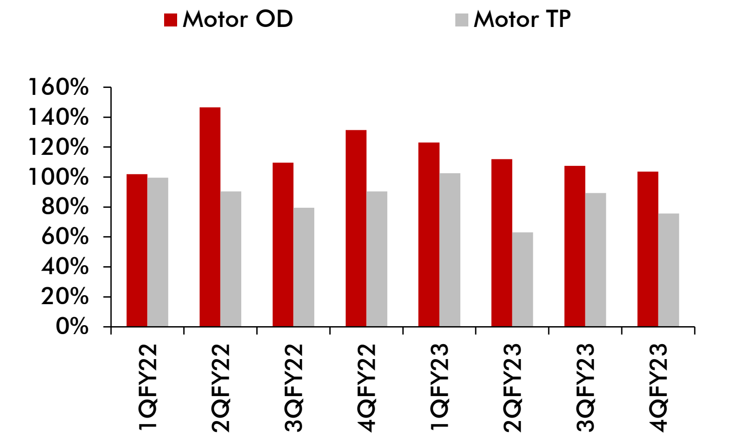
Exhibit 45: BAGIC's slower motor insurance growth is a result of its profitability focus, which is highlighted by its lower combined ratio in Motor TP/OD



Source: Company, Ambit Capital research

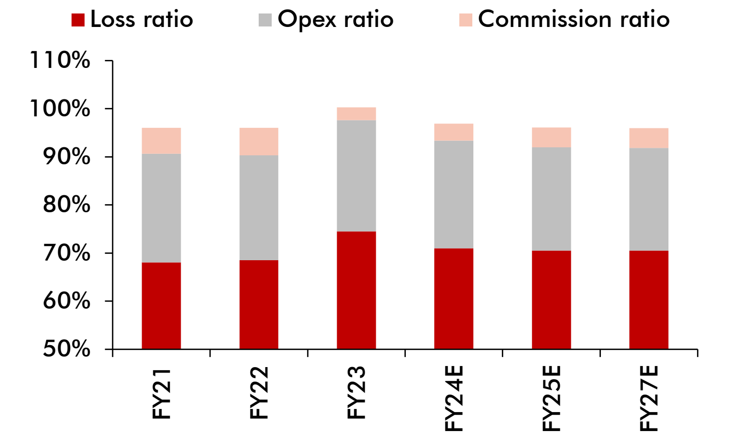
BAGIC changed its motor insurance strategy in FY23, increasing focus on 2W and reducing focus on CVs, which had turned highly competitive. This resulted in motor insurance combined ratio moderating over 2Q-4Q FY23, with exit combined ratio of 88% (vs 111% in 1QFY23). We forecast BAGIC's motor insurance combined ratio to improve to 97% by FY24E vs 100% in FY23 driven by the strategic shift.

Exhibit 46: Motor insurance combined ratio has improved over the recent quarters



Source: Company, Ambit Capital research

Exhibit 47: Motor insurance combined ratio to decline in FY24E as BAGIC focuses only on profitable segments



Source: Company, Ambit Capital research

Growth will remain a challenge

We see growth remaining a challenge for BAGIC (FY24: 8% vs 12% in FY23) due to: i) competition remaining intense within motor insurance, ii) regulatory changes resulting in fire insurance pricing falling by 10-15%, iii) Group Health becoming more competitive as insurers focus on acquiring more commercial businesses to reduce EOM below the 30% regulatory limit.

Exhibit 48: BAGIC - FY24 will see growth slowing but profitability improving. PAT will be led by higher investment yields. Medium-term: Challenges in motor insurance will remain, but investments in retail health will drive growth

Assumptions	FY22	FY23	FY24E	FY25E	FY26E	Comments
GDPI growth	8.9%	12.0%	11.3%	11.8%	11.1%	**FY24:** Increased competition in Fire, Property and Group businesses adversely impacting growth. **FY25-26:** Growth driven by investments in retail health distribution.
Loss ratio	73.0%	72.9%	70.8%	70.4%	70.1%	Fall in loss ratio due to higher share of retail health insurance business and the company focusing only on underwritten profitable motor insurance businesses.
Commission expense ratio	-1.2%	-4.4%	-2.3%	-1.7%	-1.5%	High reinsurance has resulted in commission expense being offset by commission received from the reinsurer. We expect commissions received from the reinsurer to reduce as share of health insurance increases, and reinsurance rates are likely to harden further.
Operating expense ratio	27.9%	32.0%	31.0%	30.4%	30.4%	Operating expense improvement driven by scale up of the retail health business and the company reducing investment in business lines with lower profitability.
Investment yield	7.6%	7.7%	7.8%	7.8%	7.5%	We have assumed a stable investment yield as 70% of its investments are invested in Central Government and State Government securities.
Forecasts (Rs bn)						
Combined ratio	99.6%	100.5%	99.5%	99.1%	99.0%	
Underwriting profit	0.3	(1.2)	(1.4)	(1.4)	(1.0)	
Investment income	17.7	19.7	22.8	26.1	29.2	
Operating profit/loss	14.4	13.6	15.8	18.5	21.1	
Profit after tax	13.4	13.5	15.5	17.9	20.4	

Source: Company, Ambit Capital research

We value BAGIC at 21x FY25E P/E

We value BAGIC using DCF. We have added NPV of profits till FY44E with the terminal value to arrive at our firm value of Rs367bn. We apply a discount rate of 13.5% similar to ICICI Lombard. This implies a valuation of 21x FY25E P/E. This is higher than the 20x fair multiple we estimate for ICICI Lombard, a function of the company's higher underwriting profitability.

Exhibit 49: Summary of our inputs/outputs for our DCF valuation

Valuation summary	
WACC	13%
GDPI high growth (FY24E to FY34E)	9%
GDPI moderate growth (FY34E to FY44E)	7%
Average Combined ratio (FY24E to FY34E)	98%
Terminal growth	7%
20 Years NPV (Rs bn)	256
Terminal value (Rs bn)	113
Enterprise value (Rs bn)	369
Implied P/E (FY25E)	20.6x

Source: Ambit Capital research

Exhibit 50: BAGIC vs Peers: We see BAGIC prioritising profitable growth. This will result in potentially slower growth compared to peers but better combined ratios

	GDPI growth			Loss Ratio			Combined Ratio			ROE			P/E		
	FY24E	FY25E	FY26E	FY24E	FY24E	FY25E	FY26E	FY24E	FY24E	FY25E	FY26E	FY24E	FY24E	FY25E	FY26E
ICICI Lombard	15%	13%	11%	70%	70%	70%	103%	103%	102%	18%	18%	19%	30.0	25.1	20.9
Star Health	18%	18%	17%	64%	65%	64%	94%	95%	95%	18%	16%	16%	27.8	26.8	23.0
BAGIC	11%	12%	11%	71%	70%	70%	100%	99%	99%	15%	15%	15%			

Source: Ambit Capital research

Can success of product businesses translate into platform businesses?

BFS has been highly successful with its product businesses – BAF, BALIC and BAGIC. The company is now trying to create platforms to deliver these products including Bajaj Markets and Bajaj Health. In our view, replicating the success in products in platforms will be challenging given: i) well-entrenched competition (Practo - health services and Paytm/Phone Pe - financial services), ii) lower barriers to entry compared to lending and insurance businesses, and iii) lack of differentiation, with features being easy to replicate. Hence, we see BFS' ability to unlock value from these new businesses as limited.

BFS has been investing towards creating digital platforms

Besides the three financial service firms, BFS has also invested ~Rs11bn in its four smaller subsidiaries – Bajaj Direct, Bajaj Health, Bajaj Asset Management and Bajaj Ventures. These subsidiaries together generated losses of Rs2.8bn in FY23 (BFS share) as these businesses are currently in the "build-up" phase. Hence, scale-up of these businesses combined with profitability could represent an upside to BFS valuation.

But **we have not built in any value** for these relatively new businesses in our SOTP. Our analysis of the business models of these subsidiaries suggests there could be challenges in scaling up.

The differentiation Bajaj Health is trying to create may not be sustainable

Background: Bajaj Health is BFS' health tech venture (100% owned). The subsidiary has created a digital platform, which provides consumers access to health practitioners, insurance, lab tests and financing all in one place.

Market: According to Forbes, the digital health service market in India is currently valued at $500bn and is likely to double over the next 2 years. This will primarily be driven by the lack of access to healthcare services in Tier 3/4 cities, with majority of the health infrastructure being concentrated in upper tier cities.

Key competitor: The market has become increasingly crowded with multiple players entering as entry barriers are low. Practo has emerged as the market leader with ~300 million unique users, presence across 200 cities in India and 76k hospitals in its network. In comparison, Bajaj Health has 8 million registered users and access to 1.8k hospitals.

Comparison vs peers: Our comparison suggests product offerings are fairly similar across popular health tech platforms in India. Bajaj Health has tried to differentiate its offering by providing integrated solutions (OPD benefits + insurance) and healthcare financing options. But these features are unlikely to provide Bajaj Health long-term differentiation. We note Practo has already launched Practo Plus Infinity which provides health insurance (in collaboration with Aditya Birla Health), doctor consultations and discounts on medicines. Further, Practo also plans to enter into healthcare financing, targeting tier 2/3 cities.

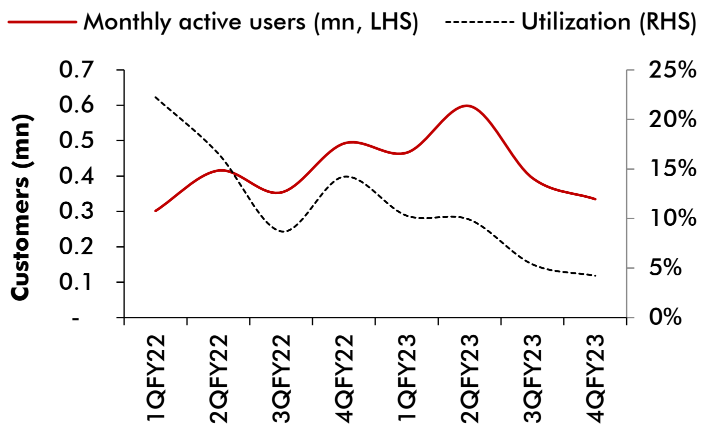
Exhibit 51: Comparing different health tech platforms in India

Health service providers	Membership Plans	Video consultation	Medicines	Lab tests	Financing
Practo	✓	✓	✓	✓	×
Lybrate	×	✓	✓	✓	×
1mg	✓	✓	✓	✓	×
Credihealth	×	✓	✓	✓	✓
Pharmeasy	✓	✓	✓	✓	×
Bajaj Health	✓	✓	×	✓	✓

Source: Company websites, Ambit Capital research

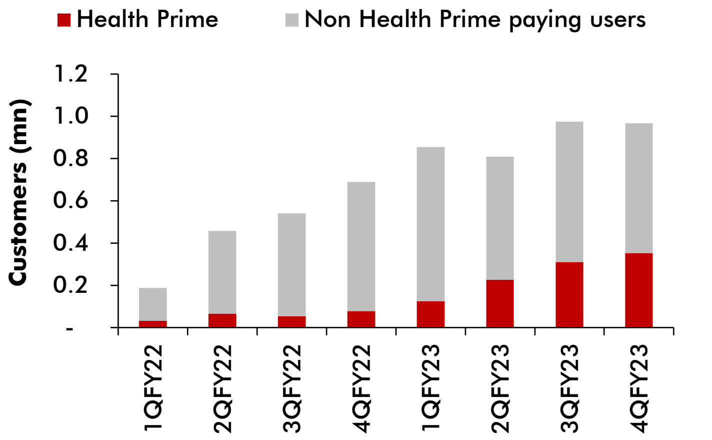
Operational performance: We note Bajaj Health's operational metrics deteriorated over 3Q/4Q FY23 due to the company pulling back on paid traffic. The company's monthly active users fell from 0.6mn in 2QFY23 to 0.3mn in 4QFY23. The increase in paid users from 0.7mn in 4QFY22 to 1mn in 4QFY23 was primarily driven by the launch of the Health Prime Rider in 4QFY22. The number of non-Health Prime paid users has remained broadly flat between FY22 and FY23.

Exhibit 52: MAU of Bajaj Health platform as a proportion of registered users has reduced in the recent quarters



Source: Company, Ambit Capital research

Exhibit 53: While Health Prime users have increased, non-prime users have fallen



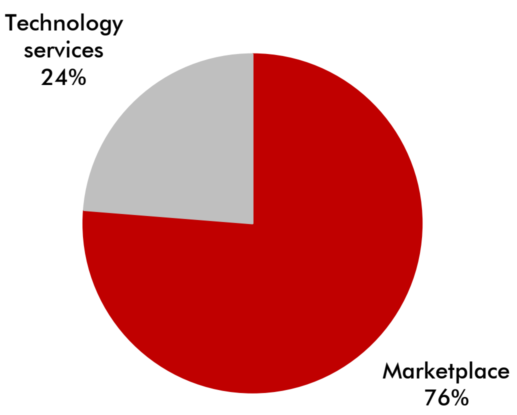
Source: Company, Ambit Capital research

Why have three, when one can do the job?

Background: Bajaj Finserv Direct (BFDL) operates the Bajaj Markets business, which comprises of:

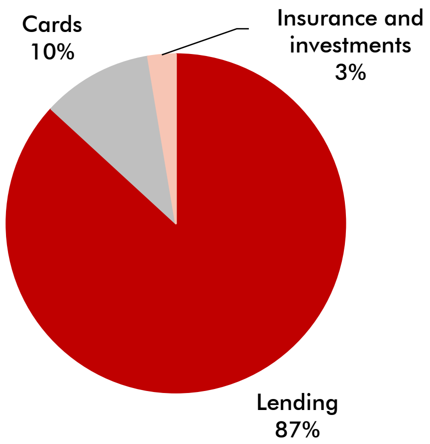
- An open architecture marketplace for loans, cards, insurance, investments and payments, and
- Technology services provider (clients: UGRO Capital, Bajaj Finance, Bajaj Asset Management, Vridhi Home Finance and Ambit Finvest).

Exhibit 54: BFDL's FY23 revenue: Marketplace contributes majority of the revenue



Source: Company, Ambit Capital research

Exhibit 55: Lending contributes majority of the marketplace revenue



Source: Company, Ambit Capital research

Operational performance: Losses for this business have narrowed in recent quarters. This resulted in BFS not requiring to infuse further capital in 4QFY23.

Our concerns:

- **Necessity:** The Bajaj Finserv app also provides similar services as Bajaj Markets. Further, management commentary over the last two years suggest that BAF is trying to build a new digital ecosystem, with its app at the center of the strategy. The digital app will allow purchase of consumer durables, other services and financial products, etc. The app will also have UPI payment capabilities and a prepaid wallet integrated into it. The similarity between the different financial apps Bajaj Finserv and its subsidiaries are operating makes us question the need for so many "me-too" apps.

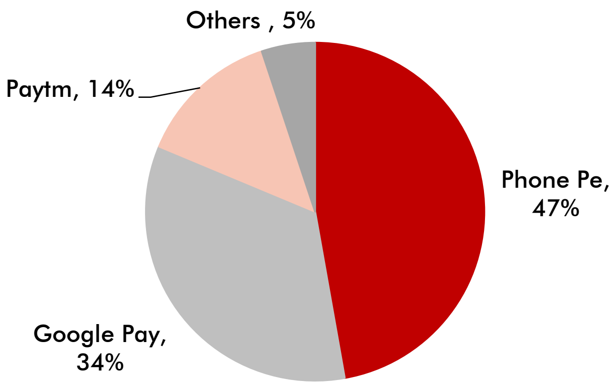
Exhibit 56: Comparison of Bajaj Finserv and Bajaj Markets apps

Services	Bajaj Finserv	Bajaj Markets
Payment	✓	✓
Borrowing	✓	✓
Insurance	✓	✓
Investments	✓	✓
Wallet	✓	×
Cards	✓	✓

Source: Company, Ambit Capital research

- **Scalability:** Creating a financial services super app has its advantages including cross sell of financial products. But the success of these apps is dependent on the traffic which can be attracted to these platforms. This could be a challenge for Bajaj Markets noting Paytm and Phone Pe are already well-entrenched in India. We note Paytm had 90 million transacting customers in 4QFY23 compared to Bajaj Markets' 0.2 million.

Exhibit 57: Market share of UPI apps in India: Top 3 players account for 95% of the market



Source: NPCI, Ambit Capital research

Valuation factoring in growth opportunity in insurance businesses

Our SOTP-based target price of Rs1,130 for BFS factors in: i) its stake in BAF being valued in line with Ambit BFSI Team's target price of Rs5,127 (28% discount), ii) insurance businesses being valued at Rs581 bn and iii) a holding company discount of 20%. Our scenario analysis suggests, BFS' CMP is more than capturing growth opportunities in the insurance businesses. Hence, risks from competition, regulations and execution in new businesses represent downside to the CMP.

Product businesses drive the entire firm value

Bajaj Finserv (BFS) is a holding company with subsidiaries engaged in retail financing, insurance, financial services and health services. The company has also received SEBI approval for setting up a mutual fund business.

We segment BFS' businesses into two parts:

- **Products:** These businesses provide financial products to consumers. This includes BFS' lending, insurance and AMC business.
- **Platforms:** These businesses provide a platform to distribute BFS' products and provide additional services to customers. This includes Bajaj Finserv Direct and Bajaj Finserv Health.

Our SOTP-based target price of Rs1,130, implies a FY25 P/E of 20x. This is driven by the value created in the product businesses.

- **BAF.** Ambit's BFSI Team in a recent initiation report valued Bajaj Finance at Rs5,127 (per share), a 28% discount to CMP, due to current growth run-rate (>30%) not being sustainable as a result of the structural constraints. We assume this to be the fair value of Bajaj Finance in our SOTP.
- **BALIC.** Valued at Rs417bn using appraisal value method (as shown in Exhibit 33).
- **BAGIC.** Valued at Rs369bn using DCF method (as shown in Exhibit 49).
- **Other subsidiaries.** We have assumed no value for the loss making and new subsidiaries.
- **Holding company discount.** We have assumed a 20% holding company discount.

Exhibit 58: Breaking down BFS' SOTP valuation

Rs bn except per share	Value of the business	Valuation Methodology	Share of BFS	Value of BFS share in business	Per share value for BFS shareholders (total number of shares at 1604 mn)
Bajaj Finance	3,102	This implies 4x FY25 book value based on excess return valuation	52%	1,628	1,015
BAGIC	369	This implies 21x FY25 P/E based on DCF	74%	273	170
BALIC	417	This implies 1.8x FY25 EV based on Appraisal Valuation.	74%	309	192
Book value of standalone investments	52		100%	52	33
Total				**2,262**	**1,410**
Holding company Discount		As implied by the CMP. Factors in risks around capital allocation.			20%
Target Price					**1,130**
Current Price					1,477
Downside					-24%

Source: Company, Ambit Capital research

Why is holding company discount necessary?

What is the holding company discount for Indian conglomerates? Most Indian holding companies have valuation discount of >50% and they have largely remained the same over the last decade. Inability to distribute cash (funding own operations) or poor capital allocation has also led to high discount. Despite recent change in dividend taxation, removing the cascading effect, holding company discounts in India remain high.

What is the holding company discount for BFS? If we take market valuations of Bajaj Finance and value BALIC and BAGIC at average peer multiples, the current market price of BFS is building a holding company discount of ~20%. This is in line with holding company discount we are building in our SOTP.

Why is there a Holding Company discount? Finding a right Holding company discount can be notoriously difficult, but a few issues can explain the factors behind this discount including: i) high promoter shareholding, ii) poor capital allocation, and iii) investor likeability toward some businesses. In the case of BFS, we think capital allocation to platform businesses is a factor behind the holding company discount.

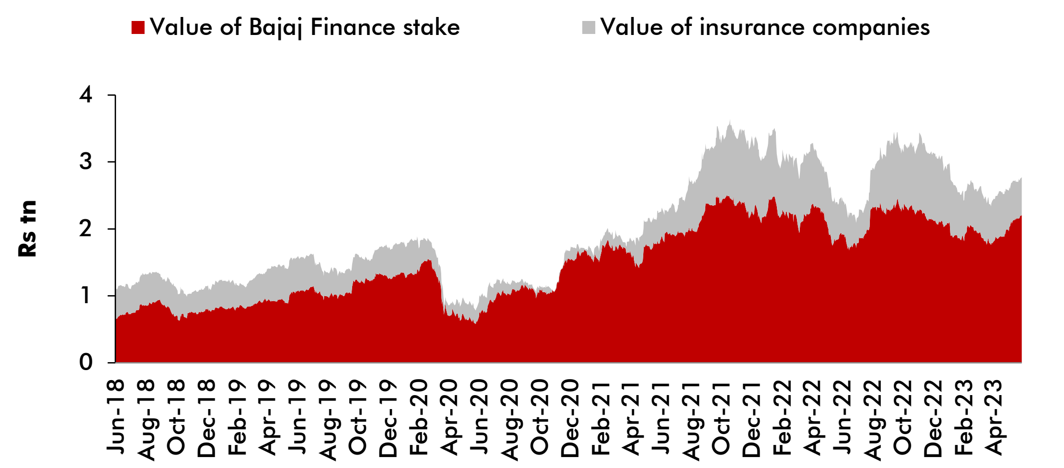
Exhibit 59: How we arrived at holding company discount

Rs bn except per share	Value of the business	Valuation Methodology	Share of BFS	Value of BFS share in business	Per share value for BFS shareholders (Number of shares at 1604 mn)
Bajaj Finance	4,309	At CMP	52%	2,262	1,410
BAGIC	461	At 26x FY25 PAT in line with ICICI Lombard	74%	341	213
BALIC	425	At 1.8x FY25 EV in line with peer average	74%	314	196
Total				2,917	1,818
Current Market Cap				2,370	1,477
Implied Holding Company discount					**23%**

Source: Company, Ambit Capital research

Assuming a holding company discount of 20%, the insurance businesses contribute ~30% of BFS' overall value. The remaining is contributed by BAF (valued at CMP), as other subsidiaries are new and lack scale.

Exhibit 60: Value of the insurance companies contribute ~30% of BFS' overall value



Source: Bloomberg, Ambit Capital research

Growth opportunities in insurance business factored in

We have considered three scenarios for the BAF stake embedded in BFS' market cap to gauge the value market is attributing to the insurance businesses: i) valued at Ambit's target price (28% discount), ii) valued at a 10% discount to CMP and iii) at CMP. The insurance businesses appear overvalued by ~20%. This suggests growth opportunities in the insurance businesses are being factored into BFS' share price.

Exhibit 61: Bajaj Finserv's CMP is more than factoring in the growth opportunity in the insurance businesses

Rs bn	Formula	Scenarios		
BAF stake valued at		**Ambit's Target Price**	**@10% discount to BAF's CMP**	**CMP**
BAF market cap	a	4,309	4,309	4,309
Share of Bajaj Finserv	b	52%	52%	52%
Premium/(Discount)	c	-29%	-10%	0%
Value of BAF stake	d=a*b*(1-c)	1,613	2,036	2,262
Other non-insurance businesses	e	52	52	52
Bajaj Finserv market cap @ CMP	f	2,370	2,370	2,370
Holding company discount		20%	20%	20%
Implied value of insurance businesses	g=f-e-d	1,163	755	529
Value of insurance businesses based on our estimates	h	581	581	581
Premium/(Discount) to implied value	i=h/g-1	-50%	-23%	10%

Source: Ambit Capital research

Catalysts & risks

Upside Risks

- **Incremental growth coming from high yielding loans:** Ambit's BFSI Team estimates BAF's NIM contraction is based on incremental growth coming from low yielding mortgages and higher competition from banks. But incremental growth coming from high yielding loans can result in BAF maintaining its NIM.
- **BALIC continuing to take share within Axis Bank:** We see BALIC's growth moderating from +40% levels in FY22/FY23 noting market share within Axis Bank has reached 25%. But there could be upside to our growth forecasts should BALIC continue to gain share within Axis Bank at the expense of Max Life and LIC.
- **Better-than-expected VNB margins:** We see BALIC's medium-term VNB margins (18%) being lower than other private peers (high 20s) due to higher acquisition costs and more favourable pricing/returns which is required to drive APE growth. The IRDAI has introduced new EOM guidelines which has removed commission caps on products. Should this result in repricing of commissions particularly in the agency channel then there could be upside to margins.
- **Better-than-expected combined ratio:** The Company is targeting a combined ratio of 97/98% by FY25E (vs ICICI Lombard's target of 102%). We estimate a combined ratio of 99% in FY25 due to competition and losses increasing in Group Health with pricing normalizing to pre Covid levels. Should the company achieve its combined ratio target without sacrificing growth then there will be upside to our forecasts.

Catalysts

- **Contraction in NIM at BAF:** Ambit's BFSI Team expects ~90bps NIM contraction over FY23-25 driven by: i) rising cost of funds, and ii) limited pick-up in yields given incremental growth from low yielding mortgages and higher competitive intensity in retail/MSME from banks.
- **APE growth slowing down at BALIC:** We forecast an APE growth of 13% in FY24E. But we note APE growth in Apr'23 was only +5%. Hence, weaker than expected APE growth continuing over the next two quarters could adversely impact our forecasts.
- **VNB margins declining due to the higher need:** We expect FY24 VNB margin to be 30bps lower than FY23 due to mix shift from Non-par products to lower margin savings products such as Par and ULIPs, and the need to incentivize customers following the change in tax exemptions.
- **Competition within motor insurance increasing:** Motor insurance's contribution to BAGIC's GDPI fell from 47% in FY17 to 35% in FY23. Since it is a relatively simpler category through which businesses can increase brand awareness and develop an investment book, the risk of entry by new competitors is significant. We note currently 20 new insurance licenses are pending with IRDAI.

Exhibit 62: Explanation of our flags on the cover page

Segment	Flag	Comments
Accounting	GREEN	We do not find anything unusual in the company's accounting policies and believe reported numbers are true reflection of performance.
Predictability	GREEN	BFS' businesses have shown fairly consistent performance in terms of growth, margins and returns.
Earnings momentum	GREEN	Consensus has upgraded FY24/FY25 estimates in the last 6 months.

Source: Bloomberg, Ambit Capital research

Board & Management

Exhibit 63: Bajaj Finserv Board – 5 out of the 9 directors are non-executive

Name	Position	Independent?	Has been a director since?	Experience
Sanjiv Bajaj	Chairman & MD	No	Apr-07	MD & Chairman of Bajaj Finserv. More than 29 years of experience. He was the president of Confederation of Indian Industry (CII) for FY23
Madhur Bajaj	Non-Executive Director	No	May-07	More than 29 years of experience. He is also a director and non-executive vice chairman of Bajaj Auto Ltd.
Rajiv Bajaj	Non-Executive Director	No	Apr-07	More than 30 years of experience. He is also the MD of Bajaj Auto since 2005.
Manish Kejriwal	Non-Executive Director	No	Jan-19	More than 30 years of experience. He is also the Founder and Managing Partner of Kedaara Capital. He was also a Partner at McKinsey & Co.
D J Balaji Rao	Non-Executive Director	Yes	Jan-08	More than 30 years of experience. Previously, he was also the MD and CEO of Infrastructure Development Finance Co. Ltd. (IDFC)
Dr. Naushad Forbes	Non-Executive Director	Yes	Sep-17	More than 35 years of experience. Previously, he was the Lecturer and Consulting Professor at Stanford University.
Anami N Roy	Non-Executive Director	Yes	Jan-19	More than 38 years of experience. IPS officer. He retired as the Director General of Police (DGP) in 2010.
Pramit Jhaveri	Non-Executive Director	Yes	May-22	More than 32 years of banking experience. He was also the CEO of Citi India
Radhika Haribhakti	Non-Executive Director	Yes	May-22	More than 30 years of experience in commercial and investment banking. She has been associated with firms like BoFA, JP Morgan and DSP Merrill Lynch

Source: Company, Ambit Capital research

Exhibit 64: A fairly stable management with most people having been with company for more than 5 years

Name	Position	Has been with the company since?	Experience
Ranjit Gupta	President (Insurance)	n/a	More than 35 years of experience. Previously, he was the General Manager at Bajaj Auto Ltd.
V Rajagopalan	President (Legal & Taxation)	Jan-09	More than 15 years of experience. Previously, he was also the Treasurer (Financial services) at Larsen & Toubro Ltd.
Anish Amin	President (Group Risk, Assurance, M & A and HR)	Feb-19	More than 31 years of experience. Previously, he was the senior partner at Dalal & Shah (a member of PwC International Network).
Purav Jhaveri	President (Investment)	Jul-20	More than 29 years of experience. Before joining Bajaj Finserv, he was the MD of Investment Strategy and Portfolio Manager with Franklin Templeton Investments, USA.
Ajay Sathe	Group Head - Customer Experience & CSR	Jan-07	More than 28 years of experience. Previously, he was the Manager - Finance at Bajaj Auto Ltd.
Rajeev Jain	Managing Director, Bajaj Finance Ltd.	Sep-07	More than 28 years of experience in diverse companies. He was also the Deputy CEO at AIG and Business Head - Personal and Business lending at American Express
Tapan Singhel	MD & CEO, BAGIC	Sep-07	More than 30 years of experience. He was the founding member of BAGIC. He was worked as a direct officer with the New India Assurance Company
Tarun Chugh	MD & CEO, BALIC	Apr-17	More than 23 years of experience in the financial services space (13+ in life insurance sector). He was also the MD and CEO at PNB Metlife India Life Insurance Company
Devang Mody	CEO, Bajaj Finserv Health Ltd. & Group Head Strategy, Bajaj Finserv Ltd.	Jan-19	More than 26 years of experience. Previously, he was also the CEO at Reliance Commercial Finance and President - Consumer Business at Bajaj Finance Ltd.
Ganesh Mohan	CEO, Bajaj Finserv Asset Management Ltd.	n/a	More than 25 years of experience. He was a Partner with Boston Consulting Group (BCG) before joining Bajaj Finserv
Ashish Panchal	CEO, Bajaj Finserv Direct Ltd.	Mar-11	More than 25 years of experience in strategic roles across various business verticals. Previously, he has held leadership positions at Citibank and Barclays.
S Sreenivasan	CFO	Sep-11	More than 36 years of experience spanning across various verticals. He is also the chairman of Bajaj Financial Securities Ltd and a Director on the board of BALIC and BAGIC

Source: Company, Ambit Capital research

Financials – Consolidated

Exhibit 65: Profit and Loss Statement

Rs bn	FY22	FY23	FY24E	FY25E	FY26E
Total insurance revenue	371	409	484	564	671
Investment and others	10	17	20	23	26
Retail financing	316	414	520	625	750
Windmill	0	0	0	0	0
Total	**697**	**840**	**1,024**	**1,212**	**1,447**
Less: Inter-segment revenue	13	19	23	28	33
Total	**684**	**821**	**1,000**	**1,185**	**1,413**
Segment PAT					
Life insurance	2	3	3	3	2
General insurance	10	10	11	13	15
Windfarm	0	0	0	0	0
Retail finance	37	60	70	81	100
Total	**49**	**73**	**85**	**97**	**117**
Investment and others	(4)	(6)	(5)	(5)	(4)
Profit before MTM gain	46	67	79	92	113
MTM gain	0	(3)	1	1	1
PAT	**46**	**64**	**80**	**93**	**114**

Source: Company, Ambit Capital research

Exhibit 66: BALIC - Summary Financials

Rs bn	FY22	FY23	FY24E	FY25E	FY26E
APE	44	61	69	82	97
VNB	6	10	11	13	16
EV	172	186	209	236	267
VNB Margin	14.2%	15.5%	15.2%	15.7%	16.5%
RoEV	11.3%	14.4%	13.7%	13.7%	14.3%

Source: Company, Ambit Capital research

Exhibit 67: BAGIC – Summary Financials

Rs bn	FY22	FY23	FY24E	FY25E	FY26E
GDPI	137	153	171	191	212
Investment income	18	20	23	26	29
Loss ratio	73.0%	72.9%	70.8%	70.4%	70.1%
Combined ratio	99.6%	100.5%	99.5%	99.1%	99.0%
PAT	13.39	13.48	15.49	17.88	20.43
ROE	17.3%	14.7%	15.0%	15.1%	15.0%

Source: Company, Ambit Capital research

Exhibit 68: Balance sheet

Rs bn	FY22	FY23	FY24E	FY25E	FY26E
Cash and Bank balances	44	54	65	77	93
Policyholder's investments	907	955	1,163	1,417	1,723
Loans	1,919	2,427	2,966	3,554	4,194
Fixed assets	24	29	29	29	29
Other assets	444	590	649	713	785
Total assets	**3,337**	**4,055**	**4,872**	**5,791**	**6,824**
Shareholders' equity	663	776	856	949	1,063
Borrowings	1,567	2,078	2,539	3,043	3,590
Insurance contract liabilities	856	941	1,163	1,417	1,723
Other liabilities	251	260	313	382	447
Total liabilities	**3,337**	**4,055**	**4,872**	**5,791**	**6,824**

Source: Company, Ambit Capital research

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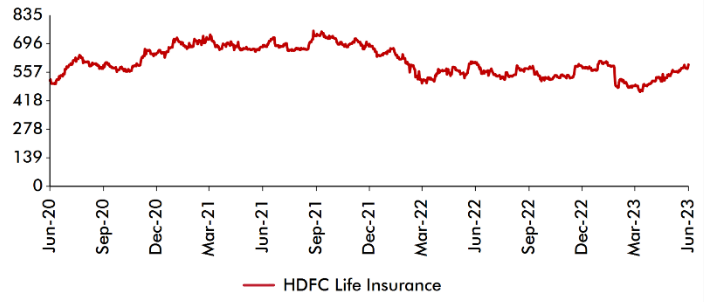
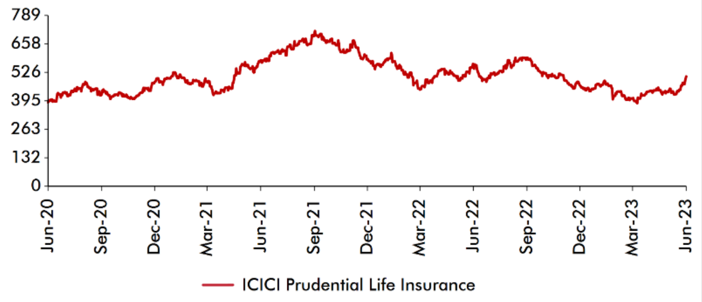
HDFC Life Insurance (HDFCLIFE IN, BUY)



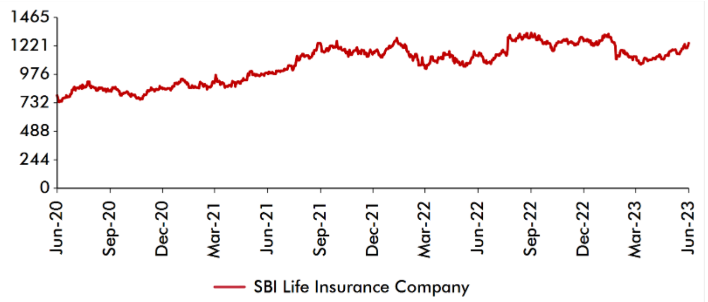
Source: ICE, Ambit Capital research

ICICI Prudential Life Insurance (IPRU IN, BUY)



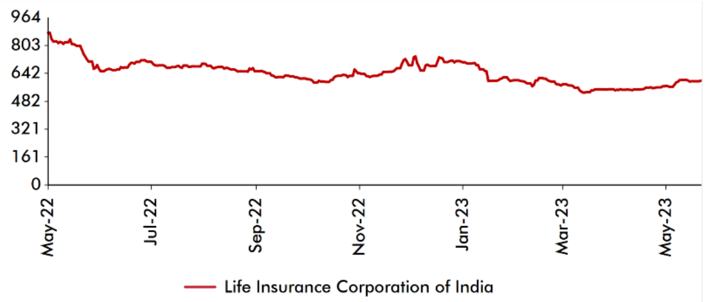
Source: ICE, Ambit Capital research

SBI Life Insurance Company (SBILIFE IN, BUY)



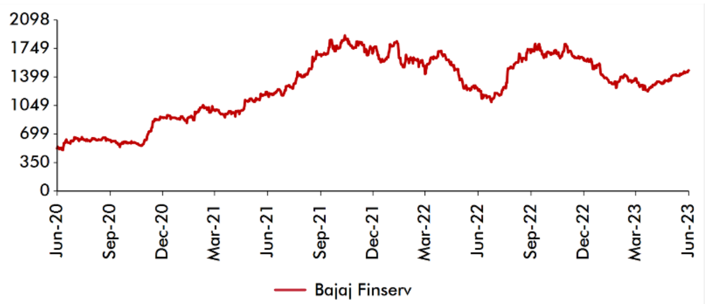
Source: ICE, Ambit Capital research

Life Insurance Corporation of India (LICI IN, SELL)



Source: ICE, Ambit Capital research

Bajaj Finserv (BJFIN IN, SELL)



Source: ICE, Ambit Capital research

Explanation of Investment Rating - Our target prices are with a 12-month perspective. Returns stated are our internal benchmark

Investment Rating	**Expected return (over 12-month)**
BUY	We expect this stock to deliver more than 10% returns over the next12 month
SELL	We expect this stock to deliver less than or equal to 10 % returns over the next 12 months
UNDER REVIEW	We have coverage on the stock but we have suspended our estimates, TP and recommendation for the time being NOT
NOT RATED	We do not have any forward-looking estimates, valuation, or recommendation for the stock.
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYs
NEGATIVE	We have a negative view on the sector and most of stocks under our coverage in the sector are SELLs
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation

Note: At certain times the Rating may not be in sync with the description above as the stock prices can be volatile and analysts can take time to react to development.

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