

BID

Key Data	
Floor Price (Rs)	357.5
Face Value(Rs)	10/-
Issue Size(Rs)	3557cr
Total offered shares	9,95,00,000
NSE Code	HDFCLIFE
BSE Code	540777
52 Week High (Rs)	547
52 Week Low (Rs)	345
Retail	
Issue Opens	March 13, 2019
Issue Closes	March 13, 2019
Retail offered shares	99,50,000
Source: BSE India	

HDFC Life Insurance Company Limited

Company Background:

Incorporated in 2000, HDFC Life Insurance Company Limited (formerly HDFC Standard Life Insurance Company Limited) is a joint venture between HDFC Ltd, India's leading housing finance institution and Standard Life Aberdeen, a global investment company. The company maintained its leadership position in terms of total new business premium received with a market share of 21.0% in the private sector life insurers. It is among the top three private life insurer players.

As on Dec 2018, the company manages an AUM of more than Rs. 1,17,701 Cr and a debt-to-equity mix of 62:38. More than 96% of its debt investments are AAA rated and government bonds.

HDFC Life is a leading long-term life insurance solutions provider in India offering a range of individual and group insurance solutions that meet various customer needs such as protection, pension, savings, investment, and health. As on December 31, 2018, HDFC Life had 36 individual and 11 group products in its portfolio, along with 8 optional rider benefits, catering to a diverse range of customer needs.

HDFC Life continues to benefit from its increased pan-India presence with a wide reach of 413 branches and additional distribution touch-points through several new tie-ups and partnerships comprising 209 bancassurance partners including NBFCs, MFIs, SFBs, etc and 37 partnerships within the non-traditional ecosystems. The company has a strong base of financial consultants..

Issue Objectives:

In order to meet the minimum public shareholding norms as per the SEBI guidelines, the promoter of the company i.e. Standard Life (Mauritius Holdings) 2006, proposes to sell up to 7,00,00,000 equity shares representing 3.47% of the total paid up equity share capital with a green shoe option to additionally sell 2,95,00,000 equity shares (oversubscription options) representing 1.46% of the total paid up equity shares capital of the company of face value of Rs 10/- each. The floor price has been set at Rs. 357.5/- per share.

Allocation Methodology:

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on March 12, 2019 for institutional bidders. Retails investors for whom 10% shares have been reserved will get to bid on March 13, 2019.

Rationales:

Highly under-penetrated nature of industry

The domestic life insurance market of India is highly under penetrated compared with the global average. India's life insurance penetration stood at ~2.8% with life insurance density standing at \$55 as on 2017. This shows that India has the highest protection gap in the region, since the growth in savings and life insurance coverage has lagged behind economic and wage growth. With this, the protection gap has increased more than 4x in the past 15 years with significantly low insurance penetration and density. The average penetration for the life insurance industry globally is 3.5% as of 2017, which is 70 bps more than the Indian life insurance industry. We believe the Indian insurance market offers large growth potential, propelled by gradual recovery in GDP growth, rise in urbanization, low inflation level, improvement in the financial savings rate, initiatives undertaken by the government to ensure adequate social security, and favorable demographics with growing awareness and importance of insurance.

Analyst

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Strong parentage and superior brand equity

HDFC and Standard Life Aberdeen are well known brands in their respective business areas. Over the years, the HDFC group has emerged as a recognised financial services conglomerate with a presence in banking, life & general insurance, asset management, and venture capital spaces. On the other side, Standard Life Aberdeen is headquartered in Scotland and is listed on the London Stock Exchange. The Standard Life Aberdeen group was formed by the merger of Standard Life plc and Aberdeen Asset Management PLC on August 14, 2017. We believe strong brand recall would aid in higher business growth.

Expanding market through product innovation & diversified distribution mix

HDFC Life is committed to provide a differentiated and superior customer service experience to its customers across the life of an insurance policy, from product development to customer on-boarding and policy issuance to customer service and claims settlement. The company has a proven track record in proactively identifying and tapping niche customer segments through competitive, innovative product solutions for segments such as cancer, pension, and health insurance. Further, the company's multi-channel distribution network provides HDFC Life with the flexibility to adapt to changes in the regulatory landscape while mitigating the risk of over reliance on any single channel. Moreover, HDFC Life has developed a leading digital platform that favorably positions the company to capitalize on the increasing digital economy in India.

Strong financial performance led by consistent and profitable growth

Over the years, HDFC Life has a successful track record of delivering consistent growth in total premium and Value of New Business (VNB). The company aims to continue adding economic value to its shareholders by increasing the total premium and VNB, while reducing total operating cost ratio across business cycles. In the last three years (FY16-FY18), the company's total premium business grew at a CAGR of 20% to Rs. 235.6bn while its PAT grew at a CAGR of 16% to Rs. 11.1bn. Further, as on 9MFY19, the company's total premium business and profit grew by 29% and 20% respectively on a YoY basis. The company's 13th month and 61st month persistency ratio stands at 86% and 50% respectively. Moreover, HDFC Life has a strong balance sheet with a total net worth of Rs. 56.9bn and a solvency ratio of 191% as on Dec 2018. As on Dec 2018, the company's embedded value (EV) stands at Rs. 174bn with operating return on EV at 19.7%.

Recommendations:

At the floor price of Rs 357.5/-, the stock trades at 4.14x its 9MFY19 Embedded Value of Rs. 174bn. We believe HDFC Life is one of the best proxy plays on the rising penetration of life insurance market in India. Further, strong distribution reach, superior product mix, and well-established brand equity help the company capitalize on future growth. **Hence, we recommend to BID for the OFS on a long-term basis.**

Asit C. Mehta

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