



Insurance

Ample headroom for growth

August 2021

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INSURANCE

13 August 2021

Ample headroom for growth

- **Low insurance coverage, positive working-class demographics and Covid-19 tailwinds to spur growth for India’s life insurers**
- **Pandemic claims look manageable as insurers have built reserves worth 1.5-3% of EV which can cushion earnings**
- **Sector view positive – initiate with BUY on IPRU, SBILIFE and HDFCLIFE, in that order**

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Insurance sector carries strong growth potential: Indians are heavily underinsured, but low insurance penetration versus global economies, positive demographics and financialisation of household savings present large opportunities for insurers. As per Swiss Re estimates, the closing of India’s mortality protection gap (i.e. protection needs minus available financial cover) could generate US\$ 78bn (~Rs 5.8tn) of additional life insurance premium every year on average between 2020 and 2030. We also expect Covid-19 to catalyse insurance uptake in India as both individual and corporate customers turn more cautious about potential catastrophic events.

Insurers well placed to manage Covid claims: India’s low insurance penetration had an upside in the form of manageable Covid claims for major life insurers. In FY21, pandemic-related death claims for HDFCLIFE, IPRU and SBILIFE stood at 6-14% of their total claims and <1% of EV. Further, these insurers have built large provisions against potential claims arising from India’s second Covid wave, totalling 1.5-3% of their FY21 EV, which should adequately cushion earnings. We believe insurers have been conservative and will comfortably meet their actual obligations. Nevertheless, the need for further reserves in the event of a third Covid wave cannot be ruled out.

Sector outlook positive: Apart from structural growth drivers, players are moving to diversify products and distribution channels besides capitalising on the agency route, which should bolster APE (annual premium equivalent) and VNB (value of new business) over the medium term. We model for a robust 12-19% CAGR in APE and 17-21% CAGR in VNB for our coverage stocks over FY21-FY24.

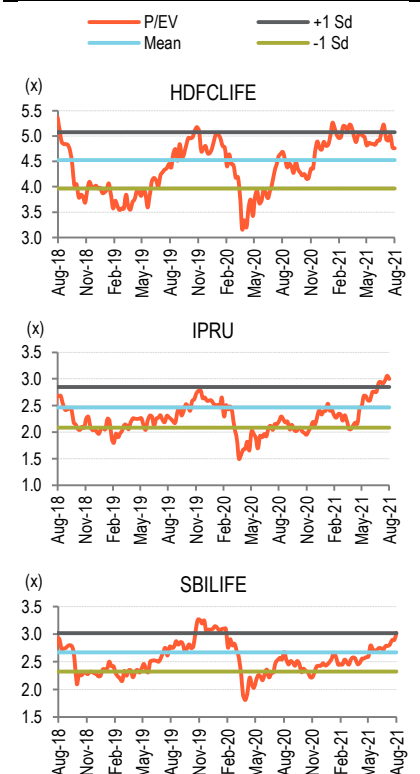
Prefer IPRU: We prefer ICICI Prudential Life (IPRU, BUY, Sep’22 TP Rs 810) as its initiatives to diversify the product and channel mix will buoy growth and aid margins. SBI Life (SBILIFE, BUY, TP Rs 1,380) has inherent strengths in distribution, leading to best-in-class cost ratios, and we believe access to its parent’s large, captive client base offers a long runway for growth. Being an industry bellwether, we believe HDFC Life (HDFCLIFE, BUY, TP Rs 800) warrants premium valuations for its best-in-class business model and ability to alter the product mix without diluting margins.

Recommendation snapshot

Ticker	Price	Target	Rating
HDFCLIFE IN	675	800	BUY
IPRU IN	670	810	BUY
SBILIFE IN	1,134	1,380	BUY

Price & Target in Rupees | Price as of 12 Aug 2021

P/EV band 1Y forward



Source: Bloomberg, Company, BOBCAPS Research

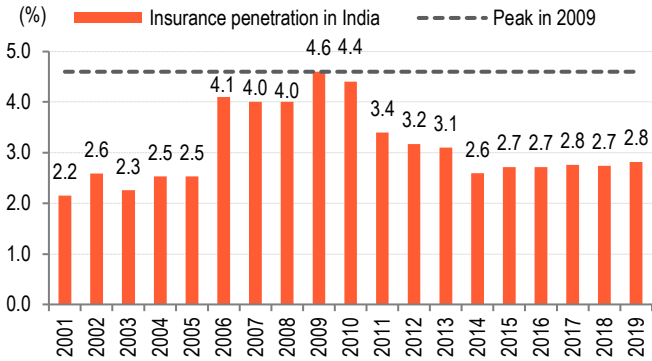


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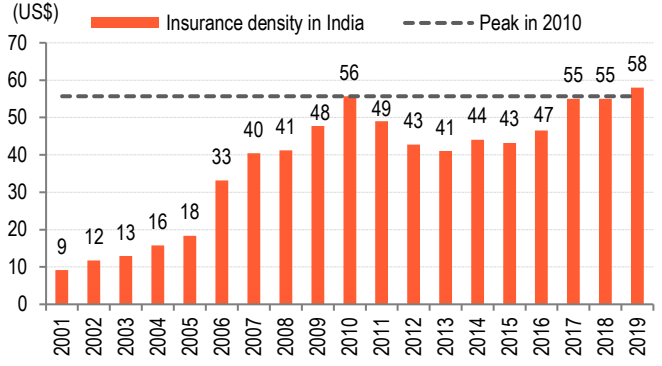
Focus charts

Fig 1 – India’s life insurance premium-to-GDP ratio remains low...



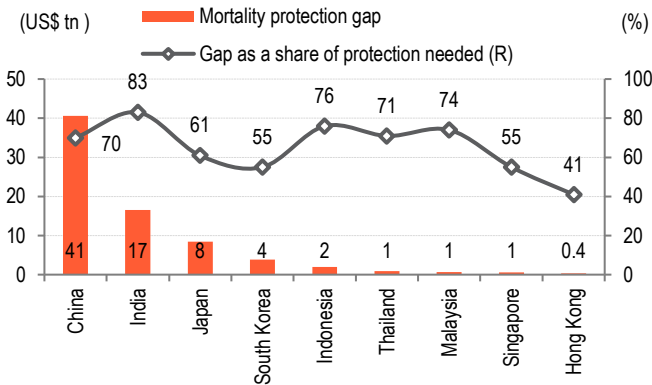
Source: IRDA, BOBCAPS Research

Fig 2 – ...and per capita life premiums are still at 2010 levels



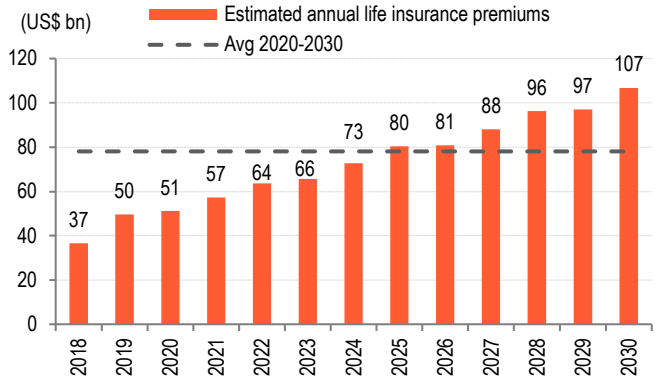
Source: IRDA, BOBCAPS Research

Fig 3 – India has the highest protection margin among top Asian economies, 2019



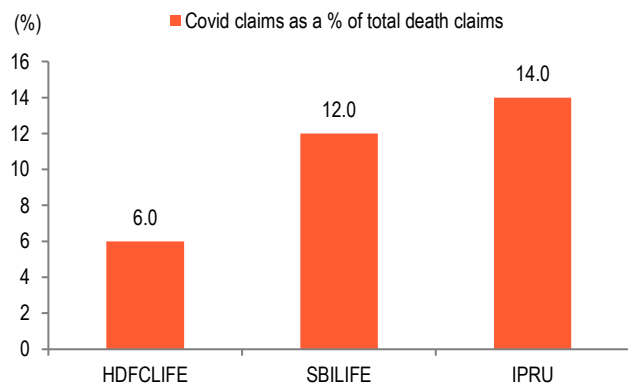
Source: Swiss Re

Fig 4 – Closing the gap could generate US\$ 78bn of additional life insurance premium on average each year



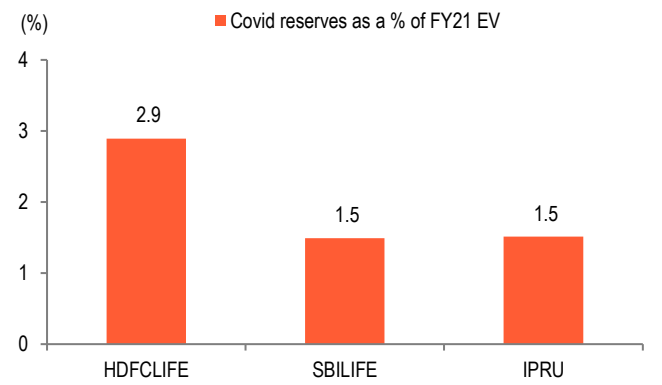
Source: Swiss Re

Fig 5 – Covid-19 claims remained manageable for insurers in FY21



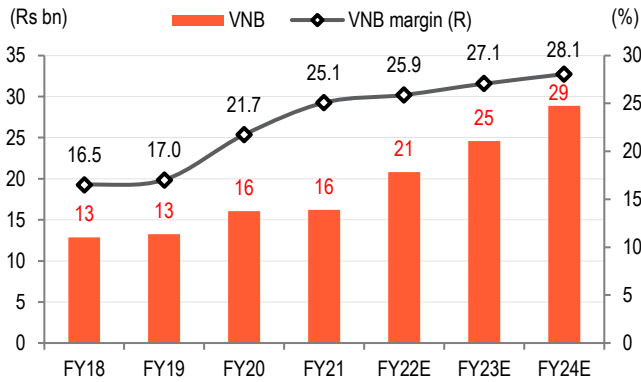
Source: Company, BOBCAPS Research

Fig 6 – Pandemic reserves built by life insurance players should cushion earnings



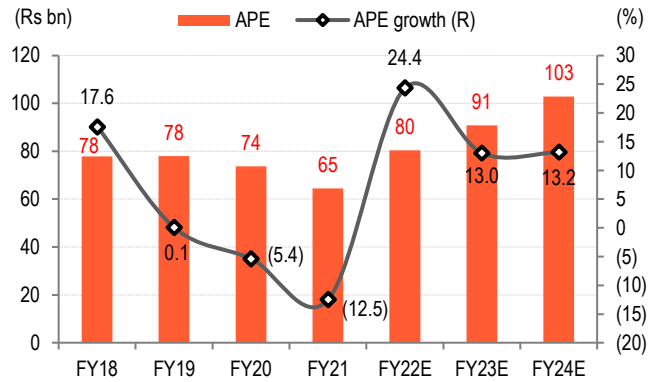
Source: Company, BOBCAPS Research

Fig 7 – IPRU: We expect 300bps expansion in VNB margin backed by a focus on protection business...



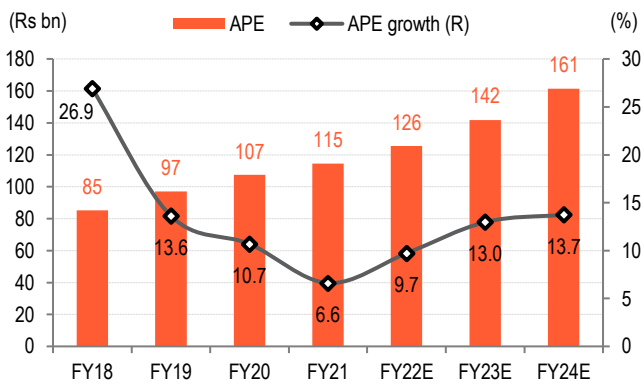
Source: Company, BOBCAPS Research

Fig 8 – ...and 24% growth rebound in APE in FY22E after a decline over FY18-FY21 due to slowdown in ULIPs



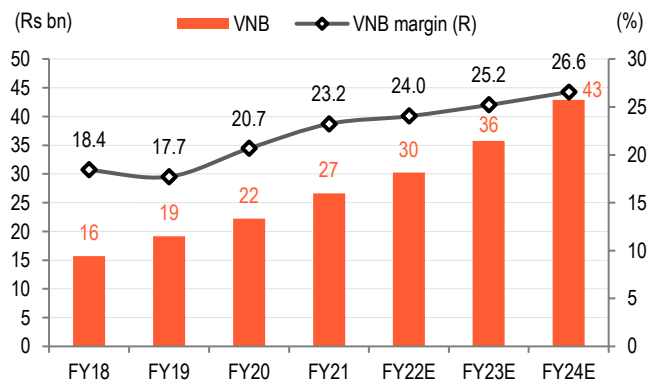
Source: Company, BOBCAPS Research

Fig 9 – SBILIFE: Expect 12% CAGR in APE over FY21-FY24E...



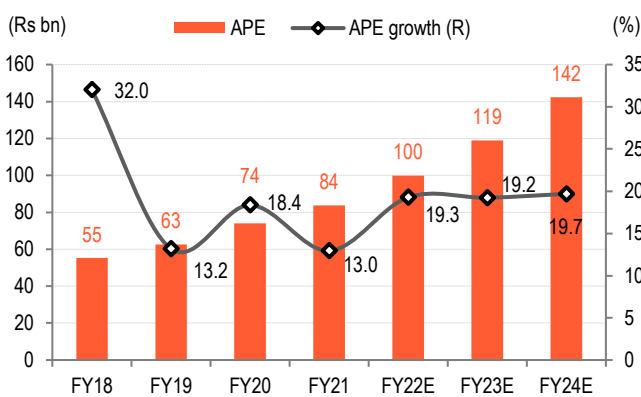
Source: Company, BOBCAPS Research

Fig 10 – ...and VNB margin to rise steadily to ~27% by FY24E



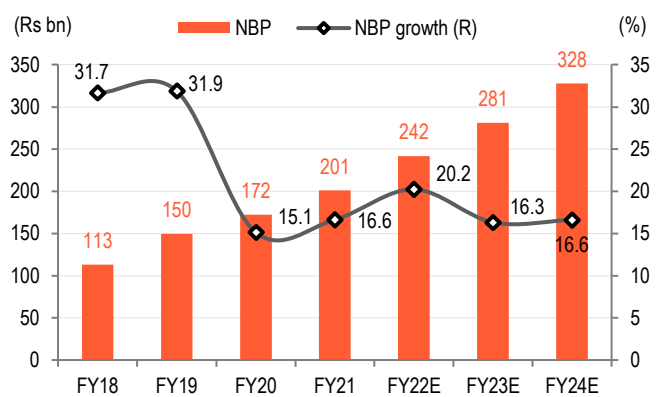
Source: Company, BOBCAPS Research

Fig 11 – HDFCLIFE: Expect 19% CAGR in APE over FY21-FY24E...



Source: Company, BOBCAPS Research

Fig 12 – ...with 18% CAGR projected in new business premiums



Source: Company, BOBCAPS Research

Fig 13 – Valuation snapshot

Particulars	HDFCLIFE	IPRU	SBILIFE
Sep'23E Embedded Value (Rs bn)	387	375	514
Total Appraisal Value (Rs bn)	1,616	1,165	1,378
Value Per Share (Rs)	800	810	1,380
Sep'23E P/EV (x)	4.0	2.9	2.5

Source: Bloomberg, BOBCAPS Research

Insurance industry still in early phase of upcycle

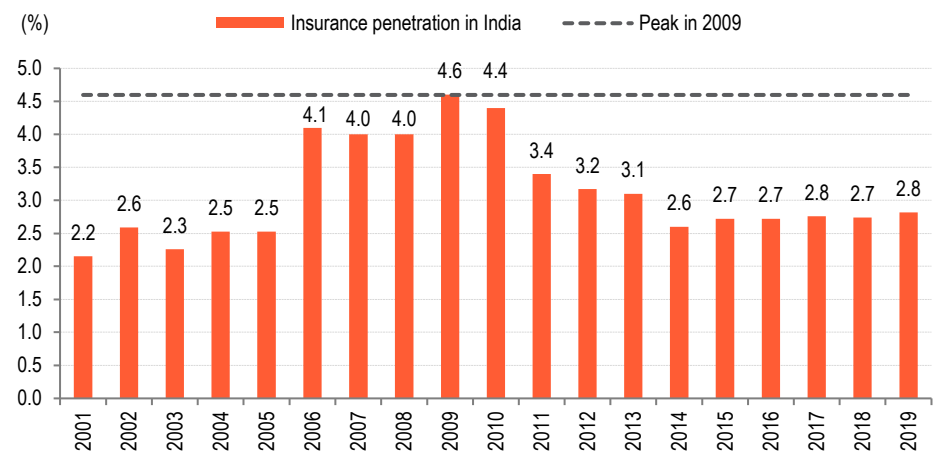
Indians are severely underinsured with the country's aggregate life insurance premium forming less than 3% of world market share and its per capita premium of US\$ 58 well below the global average of US\$ 379 (2019). Swiss Re estimates that closing the protection gap in India could generate US\$ 78bn of additional premium every year on average this decade. Favourable demographics and a rising preference for 'financial asset' savings will further catalyse growth, in our view. We expect HDFCLIFE, IPRU and SBILIFE to be the biggest beneficiaries due to their diversified product mix and multiple sourcing channels.

Low penetration and density suggest ample room for growth

Life insurance premiums in India totalled Rs 5.7tn (US\$ 80bn) in FY20, implying a world market share of just 2.7%. India ranks low on key indicators such as insurance penetration (percentage of premium to GDP) and density (ratio of premium to population, or per capita premium). As per IRDA data, India's premium-to-GDP ratio stood at 2.8% in 2019, lower than the peak of 4.6% in 2009 and below the global average of 3.4%.

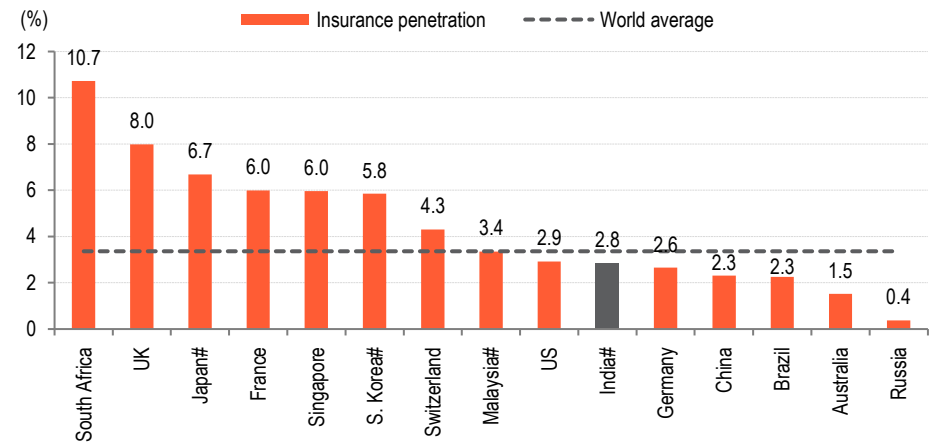
Life insurance penetration in India is similar to that in the US and China, although the latter are more mature markets. We believe this demonstrates the fact that Indians view life insurance more as an investment product to generate returns, rather than a protection product.

Fig 14 – India's life insurance premium-to-GDP ratio remains low



Source: IRDA, BOBCAPS Research

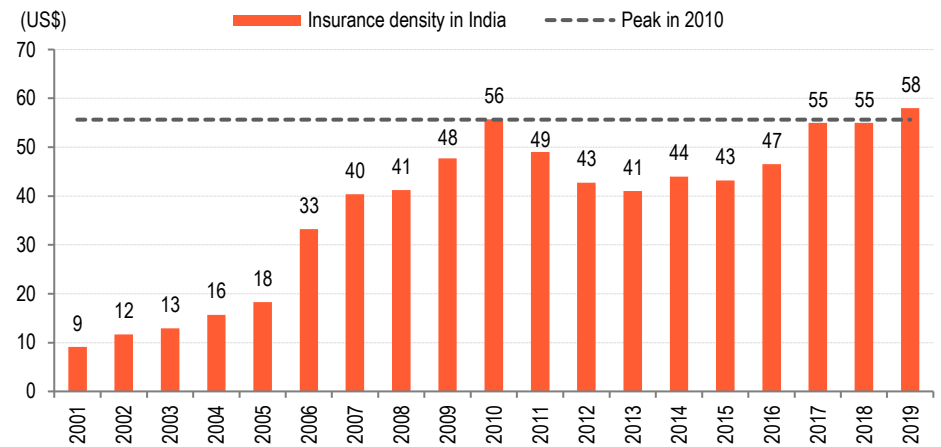
Fig 15 – Penetration of life insurance in global economies, 2019



Source: Swiss Re, Sigma (various issues), BOBCAPS Research | # Data relates to financial year FY19

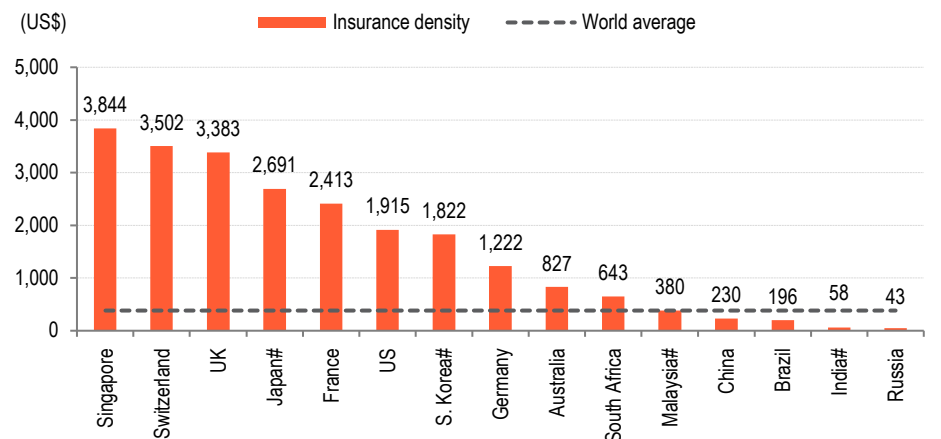
In terms of life insurance density, India has recently shown improvement but still hovers near the per capita premium levels seen a decade ago. Moreover, at US\$ 58, India ranks well below the global average of US\$ 379 for insurance density in 2019.

Fig 16 – India’s per capita life premiums remain at 2010 levels



Source: IRDA, BOBCAPS Research

Fig 17 – Density of life insurance in global economies, 2019

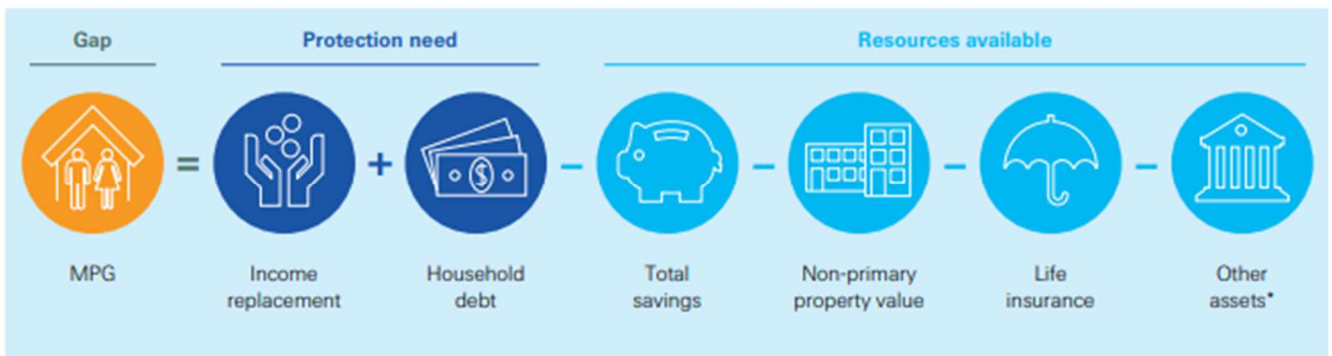


Source: Swiss Re, BOBCAPS Research | # Data relates to financial year FY19

Large protection gap indicates India is severely underinsured

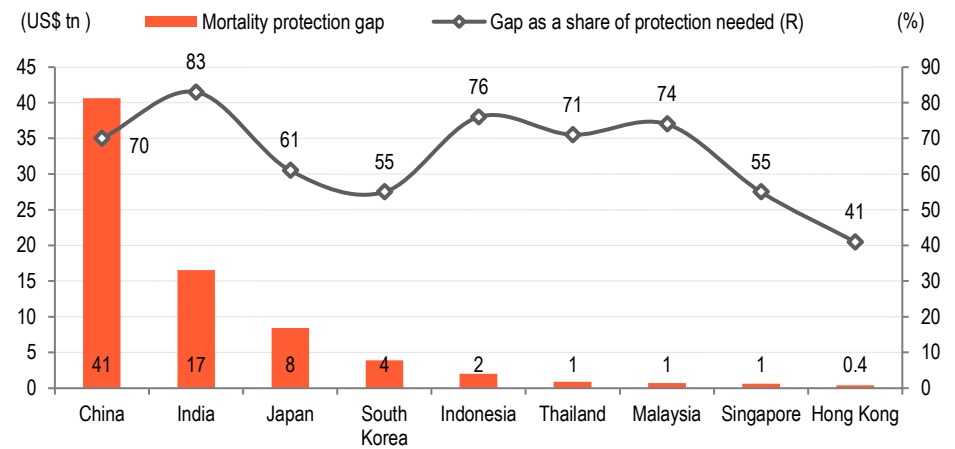
The mortality protection gap is the difference between the protection needs of a household and the financial resources available to sustain a family’s future living standards in case of an adverse event. According to Swiss Re, India’s mortality protection gap is one of the largest amongst Asian economies at US\$ 16.6tn in 2019 while its protection margin (i.e. the mortality protection gap as a share of protection needed) is the highest at 83%.

Fig 18 – Mortality protection gap equals protection needs minus available protection



Source: Swiss Re | *Includes compensation from employers, MPG – Mortality protection gap

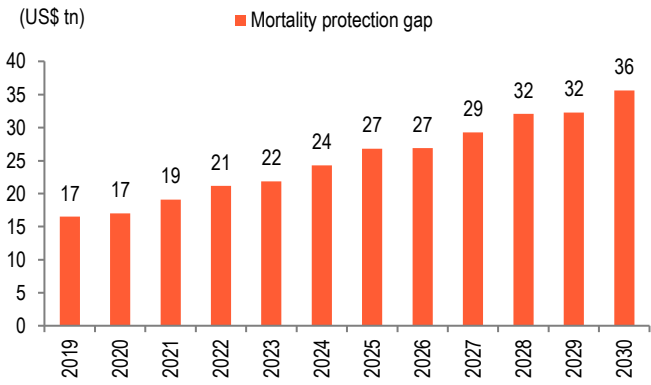
Fig 19 – India has the highest protection margin among top Asian economies, 2019



Source: Swiss Re

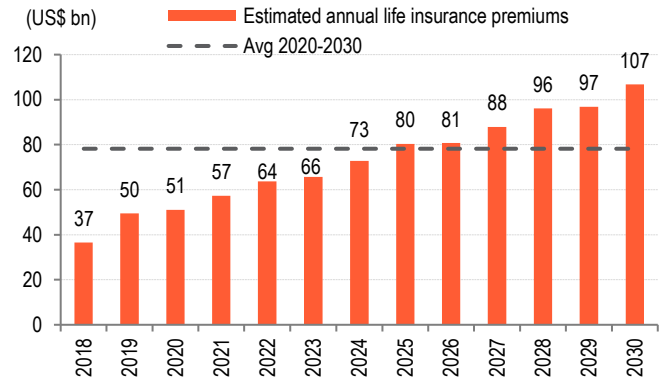
These metrics clearly indicate that Indians are gravely underinsured, which in turn represents a significant untapped opportunity for life insurance players. If left unchecked, Swiss Re estimates that the protection gap could double by 2030, whereas closing this gap could generate an average of US\$ 78bn (~Rs 5.8tn) in additional aggregate life insurance premiums every year between 2020 and 2030.

Fig 20 – Protection gap can double by 2030 if left unchecked



Source: Swiss Re

Fig 21 – Closing the gap could generate US\$ 78bn of additional life insurance premium on average each year



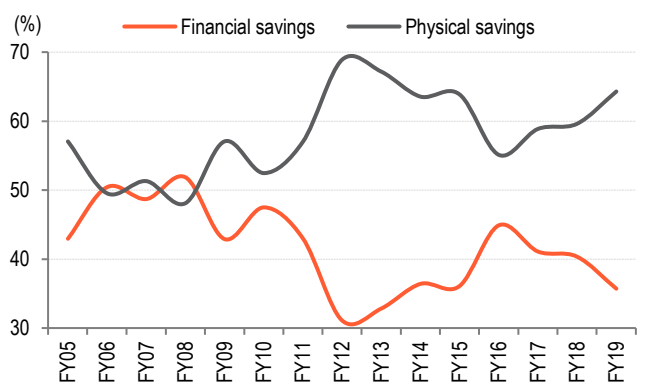
Source: Swiss Re

Financial savings and favourable demographics to aid growth

Indian households’ share of financial savings relative to physical savings declined after the GFC in FY08 but has risen as compared to FY13, reflecting that the trend of savings financialisation or increased funds held in the form of financial assets is intact. Despite a recent fall in overall household savings as a percentage of GDP, we note that the ratio of financial savings to GDP has been largely steady.

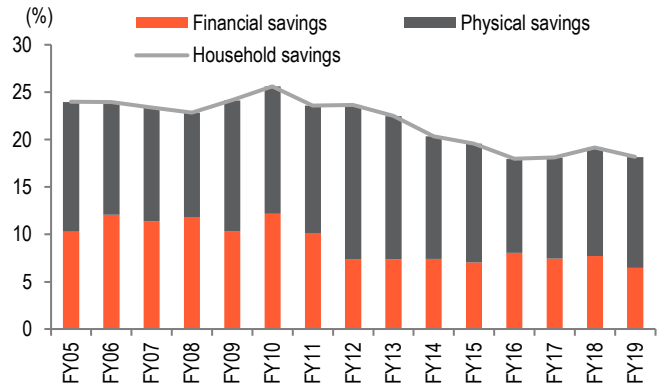
Insurance is typically the second preferred mode of savings in India after cash and deposits. Although its share has dropped to 13% of gross financial savings in FY19, we believe the shift in household preferences to financial assets from physical assets will aid insurance industry growth.

Fig 22 – Financial savings have risen post FY13



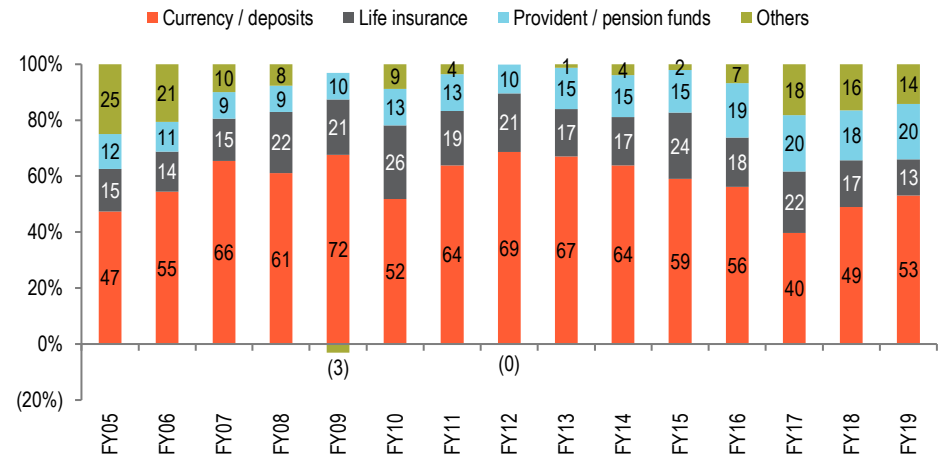
Source: RBI, BOBCAPS Research

Fig 23 – Financial and physical savings as a share of GDP



Source: RBI, BOBCAPS Research

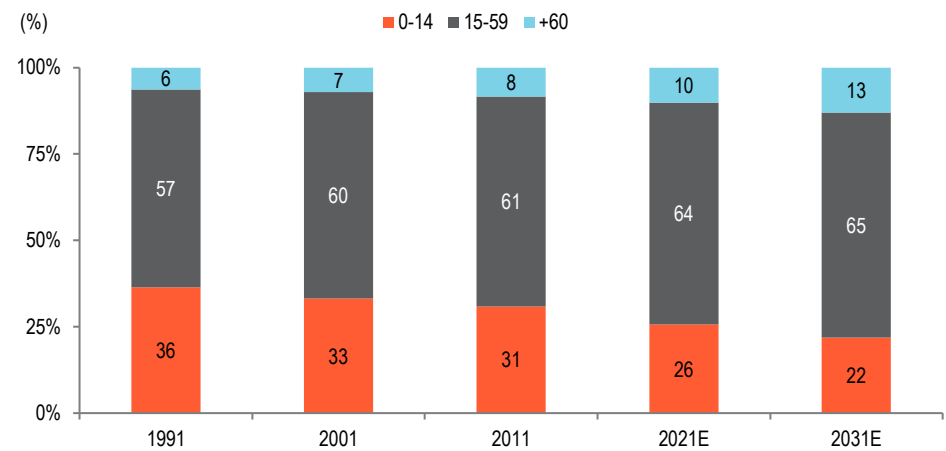
Fig 24 – Life insurance formed 13% of household savings in FY19



Source: RBI, BOBCAPS Research

India's favourable demographics could also catalyse growth for the insurance industry. Apart from being the second most populous country after China, a large share of the population (64%) is in the working age group of 15-59 years. A vast working population together with rapid urbanisation, rising affluence and a wide protection gap makes India a structurally attractive market for life insurance.

Fig 25 – 64% of India's population is working age and needs insurance



Source: Census of India, BOBCAPS Research

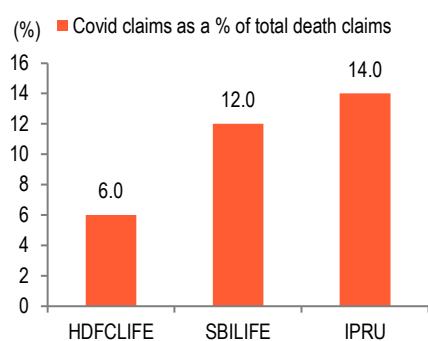
Insurers well placed to meet Covid-19 claims

In FY21, pandemic-related death claims for the top 3 private Indian life insurers – HDFCLIFE, IPRU and SBILIFE – stood at 6-14% of their total claims and <1% of EV. These insurers had built large provisions during the year and continued to augment their buffers in Q1FY22 ahead of potential obligations arising from India's second wave. Covid reserves for our coverage companies currently total 1.5-3% of their FY21 EV, which should be adequate to cushion earnings. We believe virus-related provisions have peaked in Q1, though the additional burden from a third wave cannot be ruled out.

Provision buffers ramped up

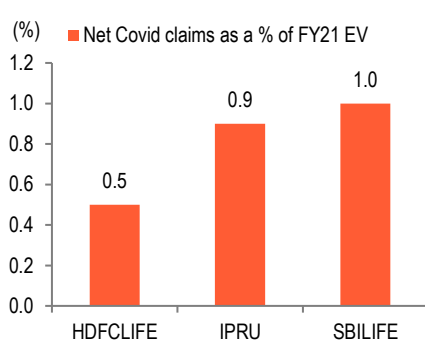
- HDFC Life:** Drawing on its experience during the pandemic, HDFCLIFE has created an excess mortality reserve of Rs 7bn in Q1FY22, which is spread across individual and group businesses. Its total mortality reserve stands at Rs 7.7bn, which the company believes is adequate to cover fatalities up to 30 Jun 2021. Peak claims had touched 300 per day but are gradually tapering off. In case of a third Covid wave, the company may have to set aside further reserves, but this is tough to predict.
- ICICI Pru Life:** In Q1FY22, IPRU's average claim amount increased to 137% of FY21 levels. Consequently, its Covid-19 claims net of reinsurance stood at Rs 5bn for Q1, which is ~2.5x FY21 claims of Rs 1.98bn. IPRU holds reserves of Rs 4.98bn towards potential Covid claims, which includes provisions for claims that have been incurred but not reported, as well as new cases over 9MFY22. Management believes that unless pandemic-related claims exceed Rs 10bn in FY22, i.e. 5x the net claim amount in FY21, there will be no further negative impact on profitability.
- SBI Life:** Coronavirus death claims for SBILIFE increased by 1.28x in Q1FY22 (over FY21) and the company settled claims of Rs 5.7bn net of reinsurance. Furthermore, it set aside ~Rs 2.6bn of additional Covid reserves in Q1, taking its total buffer to Rs 4.4bn against potential future claims.

Fig 26 – Covid-19 claims remained manageable for insurers in FY21



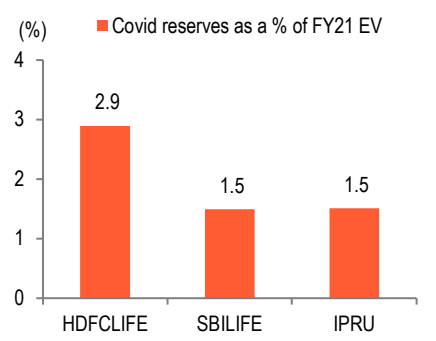
Source: Company, BOBCAPS Research

Fig 27 – Net Covid claims stood at ~1% of FY21 EV



Source: Company, BOBCAPS Research

Fig 28 – Covid reserves built by life insurance players to cushion earnings



Source: Company, BOBCAPS Research

IPRU our top pick

- IPRU:** IPRU's medium-term growth trajectory looks robust backed by its recent initiatives to realign the product mix and diversify distribution channels. We expect a CAGR of 21% in VNB and 15% in EVOP over FY21-FY24 while ROEV is estimated to hold at 14-15%. Our Sep'22 TP of Rs 810 values the stock at 2.9x one-year forward P/EV, which is a ~15% premium to the four-year mean. IPRU is our top pick in the sector – initiate with BUY.
- SBILIFE:** SBILIFE has consistently delivered industry-leading APE, VNB and EV over FY18-FY21, which also highlights its inherent strengths on the cost and distribution front. Its VNB margin (effective tax basis) is now comparable to peers aided by effective cost management. Operating ROEV of 19-20% over the past two years is best in class. We expect the company to deliver a 12%/17% APE/VNB CAGR over FY21-FY24. Our Sep'22 TP of Rs 1,380 is based on 2.5x one-year forward P/EV – largely in line with the stock's three-year mean. Initiate with BUY.
- HDFCLIFE:** HDFCLIFE trades at 3.7x FY23E P/EV, significantly higher than peers. In our view, the industry bellwether warrants premium valuations given its best-in-class business model marked by strong distribution, product innovation and an ability to switch between products without compromising on margins. We initiate coverage with BUY and a Sep'22 TP of Rs 800, valuing the company at 4x Sep'23E EV – a ~40% premium to peers IPRU and SBILIFE., for a Sep'22 TP of Rs 800. Initiate with BUY.

Fig 29 – Valuation snapshot

Particulars	HDFCLIFE	IPRU	SBILIFE
Sep'23E Embedded Value (Rs bn)	387	375	514
Total Appraisal Value (Rs bn)	1,616	1,165	1,378
Value Per Share (Rs)	800	810	1,380
Sep'23E P/EV (x)	4.0	2.9	2.5

Source: Bloomberg, BOBCAPS Research

Glossary

-
- **APE (Annualised Premium Equivalent):** The sum of annualised first-year regular premiums and 10% weighted single premiums and single premium top-ups.
-
- **Backbook surplus:** Surplus accumulated from historical business written.
-
- **Conservation ratio:** Ratio of current year renewal premium to previous year's renewal premium and first-year premium.
-
- **EVOP (Embedded Value Operating Profit):** Measure of increase in EV during any given period, excluding the impact on EV due to external factors (change in economic variables) and shareholder-related actions (capital injection, dividend payouts).
-
- **First-year premiums:** Regular premiums received during the year for all modes of payments chosen by the customer which are still in the first year. For example, for a monthly mode policy sold in Mar'21, the first instalment would fall into first-year premiums for 2020-21 and the remaining 11 instalments in the first year would be first-year premiums in 2021-22.
-
- **New business received premium:** The sum of first-year premium and single premium.
-
- **New business strain:** Strain on the business created due to revenues received in the first policy year not being able to cover for expenses incurred.
-
- **Operating expense:** Includes all expenses incurred for the purpose of sourcing new business and policy servicing (known as maintenance costs), including shareholders' expenses. It does not include commission.
-
- **Operating expense ratio:** Ratio of operating expense (including shareholders' expenses) to total premium.
-
- **Proprietary channels:** Proprietary channels include agency and direct.
-
- **Protection share:** Share of protection includes annuity and health.
-
- **Persistency:** The proportion of business retained from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten.
-
- **Renewal premiums:** Regular recurring premiums received after the first year.
-
- **Solvency ratio:** Ratio of available solvency margin to required solvency margins.
-
- **Total premiums:** Total received premiums during the year including first-year, single and renewal premiums for individual and group business.
-
- **WRP (Weighted Received Premium):** The sum of first-year premium and 10% weighted single premiums and single premium top-ups.
-



Companies

BUY

TP: Rs 800 | ▲ 19%

HDFC LIFE

| Insurance

| 13 August 2021

Industry bellwether merits valuation premium – initiate with BUY

- **Best-in-class margin profile with FY21 VNB margin at 26%, reflecting higher share of lucrative protection and non-par savings products**
- **Expect further margin tailwinds from traction in annuity and protection plans; broadening of distribution channels to also aid growth**
- **Initiate with BUY and a TP of Rs 800, set at 4x Sep'23E EV – ~40% premium to peers IPRU and SBILIFE**

Balanced product mix underpins strong margins: HDFCLIFE posted a 26% VNB margin in FY21 vs. 24% on average for peers, making it one of the most profitable life insurers in India. We believe the company's strong margins stem from a diverse product mix, innovative offerings, and a rising revenue share of protection, non-par savings and annuity products which enjoy much higher margins than ULIPs and par offerings. Ongoing efforts to scale-up the annuity business, leading to more protection products in the mix, can fuel further structural margin gains over the next few years.

Diversification of distribution channels to aid growth: Bancassurance is the most important channel for HDFCLIFE, contributing over 60% of retail APE in FY21. Parent HDFC Bank is its key partner with two-thirds of the bank's life insurance business sourced in favour of HDFCLIFE, leaving the latter vulnerable to concentration risk. The insurer is mitigating this vulnerability by expanding its bancassurance partnerships, ramping up agency channels and expanding online sales. We believe these initiatives would not only lower dependence on select distribution channels but also support APE growth at a 19% CAGR over FY21-FY24.

Expect robust 21% CAGR in VNB over FY21-FY24: HDFCLIFE has posted 17% YoY growth in new business premium in FY21 despite pandemic headwinds. We expect the strong traction to continue as distribution reach expands, aiding an estimated FY21-FY24 CAGR of 18% in new business premium. Rising revenue coupled with an improving product mix should drive 120bps improvement in VNB margin to 27.4% by FY24, leading to a 21% CAGR in VNB. We expect ROEV to remain healthy at 18-19% over the next three years.

Initiate with BUY: HDFCLIFE trades at 3.7x FY23E P/EV, significantly higher than peers. In our view, the industry bellwether warrants premium valuations given its best-in-class business model marked by strong distribution, product innovation and an ability to switch between products without compromising on margins. We initiate coverage with BUY and a Sep'22 TP of Rs 800, valuing the company at 4x Sep'23E EV – a ~40% premium to peers IPRU and SBILIFE, for a Sep'22 TP of Rs 800.

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Ticker/Price	HDFCLIFE IN/Rs 675
Market cap	US\$ 18.4bn
Free float	46%
3M ADV	US\$ 31.5mn
52wk high/low	Rs 746/Rs 556
Promoter/FPI/DII	54%/26%/20%

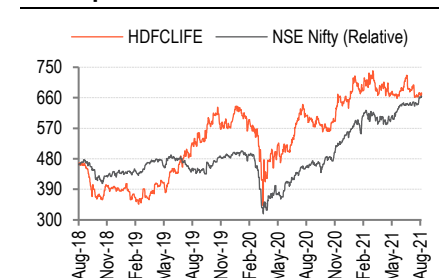
Source: NSE | Price as of 12 Aug 2021

Key financials

Y/E 31 Mar (Rs mn)	FY21A	FY22E	FY23E
NBP (Rs mn)	201,066	241,750	281,182
APE (Rs mn)	83,700	99,829	119,019
VNB (Rs mn)	21,900	26,877	32,298
Embedded Value (Rs mn)	266,200	314,496	372,282
VNB margin (%)	26.2	26.9	27.1
EVPS	131.8	155.8	184.4
EPS	6.7	8.7	11.1
Consensus EPS	6.7	8.5	10.5
P/EV (x)	5.1	4.3	3.7

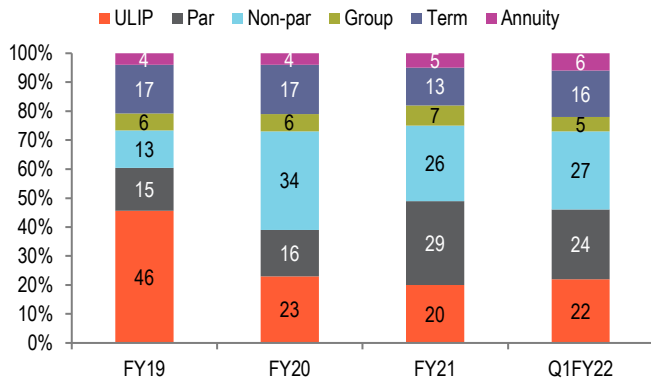
Source: Company, Bloomberg, BOBCAPS Research

Stock performance



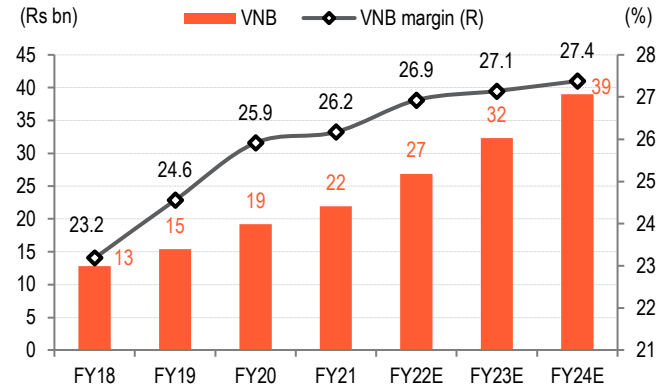
Source: NSE

Fig 1 – HDFCLIFE has maintained a balanced product mix



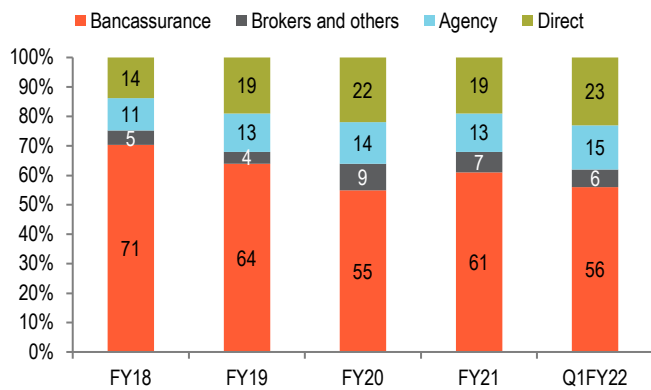
Source: Company, BOBCAPS Research

Fig 2 – Rising protection product share can lead to further expansion in VNB margin



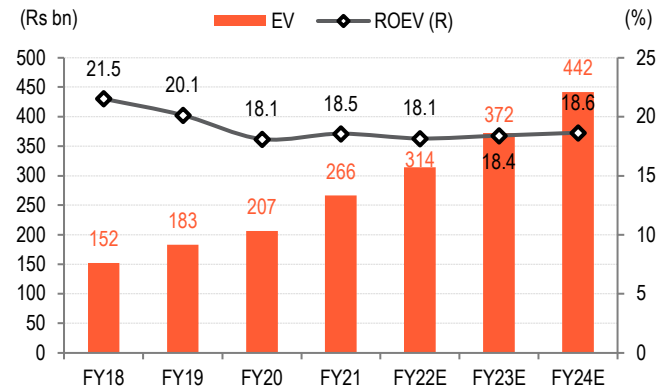
Source: Company, BOBCAPS Research

Fig 3 – Bancassurance the most important channel but other distribution modes gradually gaining pace



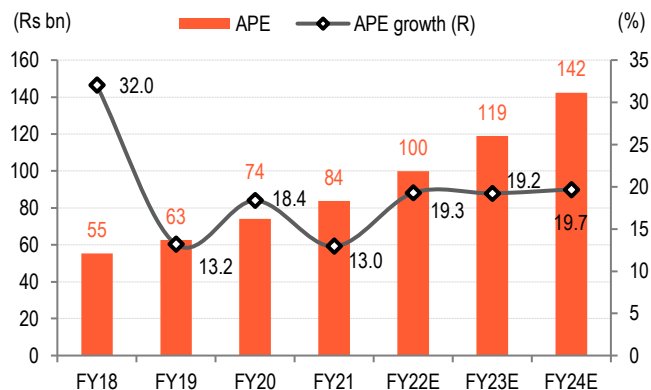
Source: Company, BOBCAPS Research

Fig 4 – We expect ROEV to remain healthy over FY22-FY24E



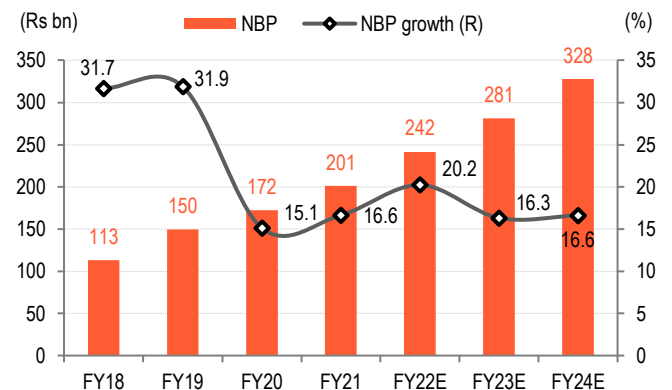
Source: Company, BOBCAPS Research

Fig 5 – APE projected to clock 19% CAGR over FY21-FY24E...



Source: Company, BOBCAPS Research

Fig 6 – ...with 18% CAGR expected in new business premiums



Source: Company, BOBCAPS Research

Valuation methodology

HDFCLIFE trades at 3.7x FY23E P/EV, significantly higher than peers. In our view, the industry bellwether warrants premium valuations given its best-in-class business model marked by strong distribution, product innovation and an ability to switch between products without compromising on margins. We initiate coverage with BUY and a Sep'22 TP of Rs 800, valuing the company at 4x Sep'23E EV – a ~40% premium to peers IPRU and SBILIFE.

Fig 7 – Valuation summary

Particulars	Amount
Sep'23E Embedded Value (Rs bn)	387
Total Appraisal Value (Rs bn)	1,616
Value Per Share (Rs)	800
Sep'23E P/EV (x)	4.0

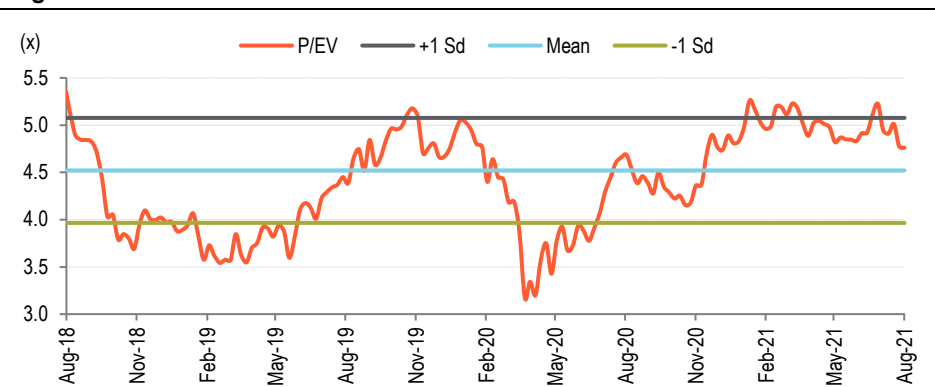
Source: Bloomberg, BOBCAPS Research

Fig 8 – Peer comparison

Company	Price	MCap (Rs bn)	Rating	Target price (Rs)	P/EV (x)			P/VNB (x)			VNB margin (%)			ROEV (%)			Target P/EV (x)
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
HDFC Life	675	1,353	BUY	800	4.3	3.6	3.1	50.3	41.9	34.7	26.9	27.1	27.4	18.1	18.4	18.6	4.0
ICICI Pru Life	670	935	BUY	810	2.9	2.6	2.3	44.9	38.0	32.4	25.9	27.1	28.1	14.1	14.3	14.6	2.9
SBI Life	1,134	1,140	BUY	1,380	2.7	2.3	2.0	37.7	31.9	26.6	24.0	25.2	26.6	19.7	17.3	17.9	2.5

Source: Bloomberg, BOBCAPS Research

Fig 9 – P/EV band 1Y forward



Source: Bloomberg, Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- a fall in appetite for investment in capital markets, which can affect demand for ULIPs that form the bulk of HDFCLIFE's new premiums,
- change in the bancassurance relationship with parent HDFC Bank – its key distribution channel currently, and
- prolonged lockdown restrictions due to Covid-19, which could impact insurance premiums and inflate claims paid out, driving downside risk to our margin estimates.

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Gross premium income	327,069	385,835	452,081	522,232	606,720
First year premium	60,443	68,584	81,585	98,051	118,298
Renewal premium	154,684	184,769	210,331	241,049	278,810
Single premium	111,942	132,482	160,165	183,132	209,612
Net written premium	318,704	377,656	442,729	511,672	594,688
Income from investments	(33,109)	326,776	195,954	221,005	251,142
Other Income	3,487	4,420	4,601	4,802	5,025
Total income	289,082	708,851	643,284	737,479	850,855
Commissions	14,638	16,762	20,057	23,995	28,786
Operating expenses	42,943	46,202	53,086	62,302	73,311
Benefits and bonuses paid	190,215	225,748	226,635	249,093	283,421
Change in liabilities (net)	24,408	408,296	326,690	380,131	437,232
Others	5,674	(1,885)	(750)	(765)	(780)
Total expenses	277,878	695,122	625,718	714,756	821,970
Surplus before tax	11,204	13,728	17,566	22,723	28,885
Provision for tax	1,490	2,744	3,083	3,717	4,451
Surplus after tax	9,714	10,985	14,483	19,006	24,434
Trf to shareholders' a/c	11,914	9,909	13,225	17,579	22,805
Balance being FFA	(2,200)	1,075	1,258	1,427	1,629

Income Statement (Non-technical)

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Trf from policyholders' a/c	11,914	9,909	13,225	17,579	22,805
Income from investments	(33,109)	326,776	195,954	221,005	251,142
Contr. to policyholders' fund	1,047	2,586	2,586	2,586	2,586
Others	5,674	(1,885)	(750)	(765)	(780)
PBT	13,117	13,535	17,437	22,268	27,968
Provision for taxation	165	(66)	(85)	(109)	(137)
PAT	12,953	13,601	17,522	22,376	28,105
Dividend+Interim div.+DDT	0	0	0	0	0

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity	67,999	86,377	103,692	125,882	153,818
Policyholders' funds	653,204	880,780	1,119,170	1,397,030	1,723,096
Provision for linked liab.	508,442	709,635	828,013	923,105	1,028,033
Others	5,674	(1,885)	(750)	(765)	(780)
Total liabilities	1,321,624	1,795,680	2,166,785	2,569,593	3,036,853
Shareholders' funds	58,555	85,421	100,290	122,480	150,417
Policyholders' funds	653,204	880,780	1,119,170	1,397,030	1,723,096
Assets to cover linked liab.	541,821	747,595	828,013	923,105	1,028,033
Others	5,674	(1,885)	(750)	(765)	(780)
Total assets	1,321,624	1,795,680	2,166,785	2,569,593	3,036,853

Key Metrics

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
AUM (Rs mn)	1,272,000	1,738,000	2,079,560	2,481,881	2,947,050
NBP (Rs mn)	172,385	201,066	241,750	281,182	327,910
APE (Rs mn)	74,100	83,700	99,829	119,019	142,437
VNB (Rs mn)	19,200	21,900	26,877	32,298	38,993
VNB margin (%)	25.9	26.2	26.9	27.1	27.4
Embedded value (Rs mn)	206,500	266,200	314,496	372,282	441,628
ROEV (%)	18.1	18.5	18.1	18.4	18.6
ROE (%)	20.8	17.6	18.4	19.5	20.1
Opex ratio (%)	20.8	17.6	18.4	19.5	20.1
Cost ratio (%)	13.1	12.0	11.7	11.9	12.1
Solvency ratio (%)	17.6	16.3	16.2	16.5	16.8
EPS (Rs)	6.4	6.7	8.7	11.1	13.9
BVPS (Rs)	33.7	42.8	51.4	62.3	76.2
EVPS (Rs)	102.3	131.8	155.8	184.4	218.7

Source: Company, BOBCAPS Research

BUY

TP: Rs 810 | ▲ 21%

ICICI PRUDENTIAL LIFE | Insurance

13 August 2021

Favourable risk-reward – initiate with BUY

- Recent initiatives to diversify product and channel mix will not only buoy growth but also support margins
- Expect 17% CAGR in APE premium, 300bps expansion in VNB margin and stable operating ROEV of 14-15% over FY21-FY24
- Initiate with BUY and a TP of Rs 810, set at 2.9x Sep'23E P/EV – ~15% premium to the 4Y mean

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APE set to increase: IPRU's APE has declined since FY19 owing to a slowdown in ULIPs (65-70% of APE over FY18-FY20), delayed scale-up in the fast-growing non-par savings segment and a dip in sales through the parent's bancassurance channel. To mitigate the pressure on overall volumes, the company recently tied up with new bancassurance partners. We expect a 17% APE CAGR over FY21-FY24 underpinned by growth in the non-ICICI Bank bancassurance channel, higher agency volumes and revival in ULIPs.

Momentum in non-ICICI Bank channels to gather pace: ICICI Bank's share in IPRU's APE mix declined from 47% in FY18 to 31% in FY21 fuelled by the parent's strategy of reducing focus on select product categories. At the same time, the share of non-parent bancassurance channels increased to 11% in FY21 from 5% in FY18 as IPRU added new partners such as IndusInd Bank, RBL Bank, AU Small Finance Bank and IDFC First Bank during the year. APE through the non-parent channel nearly doubled in Q4FY21 and we expect the strong momentum to continue in FY22 aided by a low base.

Mix shift to support high VNB margins: IPRU's current product bouquet is effectively diversified into ULIPs (48%), non-linked policies (31%), protection plans (16%) and group savings (5%). The company's share of non-linked business (par and non-par) has increased to 31% of APE in FY21 from 17% in FY20, enabling expansion in VNB margin to 25.1% from 21.7% over this period. We build in 26-28% VNB margins over FY22-FY24 given the favourable change in product mix coupled with expected improvement in operating leverage.

Initiate with BUY: IPRU's medium-term growth trajectory looks robust backed by its recent initiatives to realign the product mix and diversify distribution channels. We expect a CAGR of 21% in VNB and 15% in EVOP over FY21-FY24 while ROEV is estimated to hold at 14-15%. Our Sep'22 TP of Rs 810 values the stock at 2.9x one-year forward P/EV, which is a ~15% premium to the four-year mean – BUY.

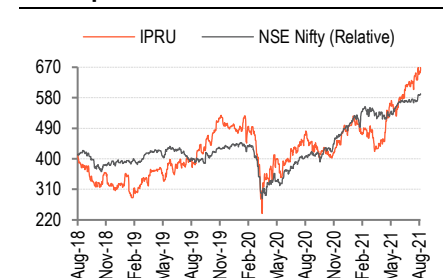
Ticker/Price	IPRU IN/Rs 670
Market cap	US\$ 9.0bn
Free float	27%
3M ADV	US\$ 15.1mn
52wk high/low	Rs 685/Rs 398
Promoter/FPI/DII	73%/17%/9%

Source: NSE | Price as of 12 Aug 2021

Key financials

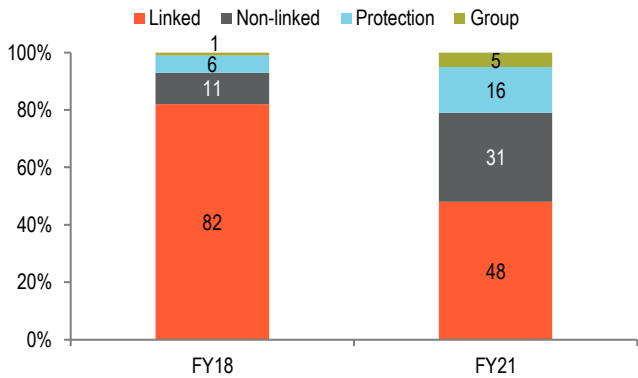
Y/E 31 Mar (Rs mn)	FY21A	FY22E	FY23E
NBP (Rs mn)	132,261	161,534	185,322
APE (Rs mn)	64,620	80,363	90,823
VNB (Rs mn)	16,210	20,806	24,590
Embedded Value (Rs mn)	291,060	328,463	370,445
VNB margin (%)	2508.5	2588.9	2707.5
EVPS	202.7	228.8	258.0
EPS	6.7	7.9	10.6
Consensus EPS	6.7	7.9	10.6
P/EV (x)	3.3	2.9	2.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

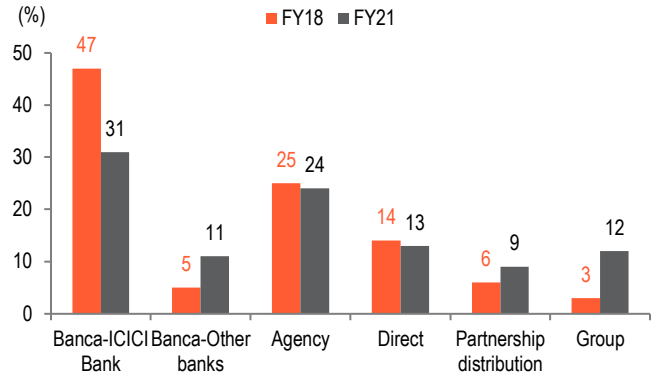
Source: NSE

Fig 1 – IPRU has derisked APE by diversifying its product mix



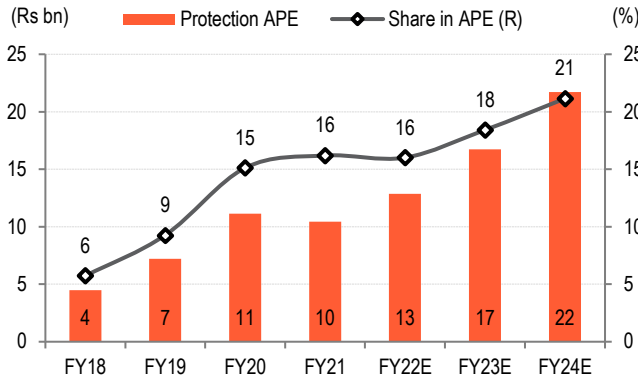
Source: Company, BOBCAPS Research

Fig 2 – Bancassurance has the largest share in APE but share of other distribution channels is gradually rising



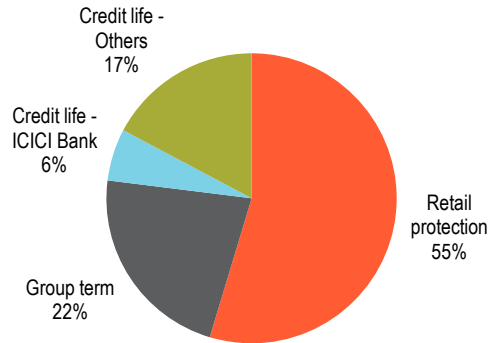
Source: Company, BOBCAPS Research

Fig 3 – Protection plan APE should continue to gain share as focus on ULIPs reduces



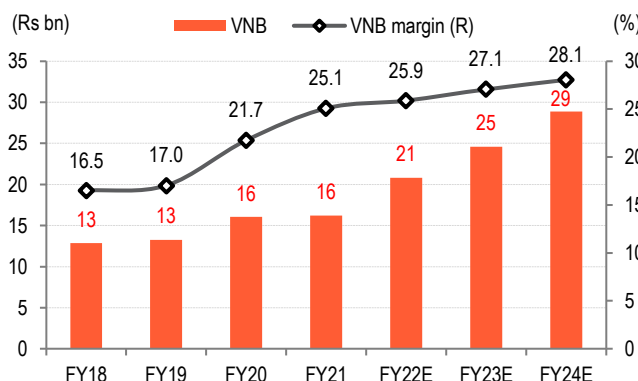
Source: Company, BOBCAPS Research

Fig 4 – Retail currently dominates protection business with ~55% share in APE



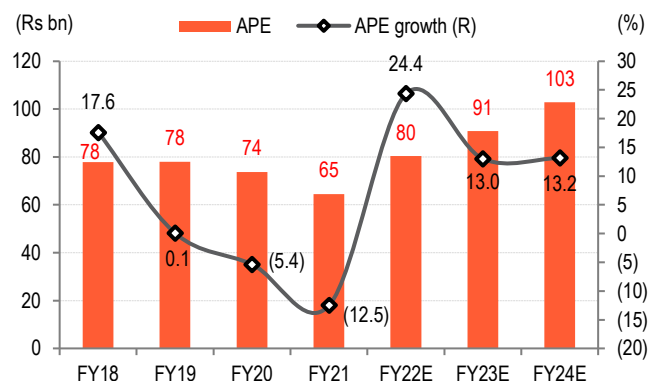
Source: Company, BOBCAPS Research

Fig 5 – We expect ~300bps expansion in VNB margin backed by focus on protection business



Source: Company, BOBCAPS Research

Fig 6 – Slowdown in ULIPs led to decline in APE over FY18-FY21; expect ~24% growth rebound in FY22E



Source: Company, BOBCAPS Research

Valuation methodology

In our view, IPRU's recent initiatives toward product mix and channel diversification will drive strong growth off a low base and support high VNB margins. FY21 was a weak year in terms of premiums and VNB, but we expect a sharp rebound with a 17% CAGR in new business premiums over FY21-FY24 led by the protection segment. We initiate coverage with BUY and a Sep'22 TP of Rs 810, based on 2.9x Sep'23E P/EV – ~15% premium to the stock's four-year mean.

Fig 7 – Valuation summary

Particulars	
Sep'23E Embedded Value (Rs bn)	375
Total Appraisal Value (Rs bn)	1,165
Value Per Share (Rs)	810
Sep'23E P/EV (x)	2.9

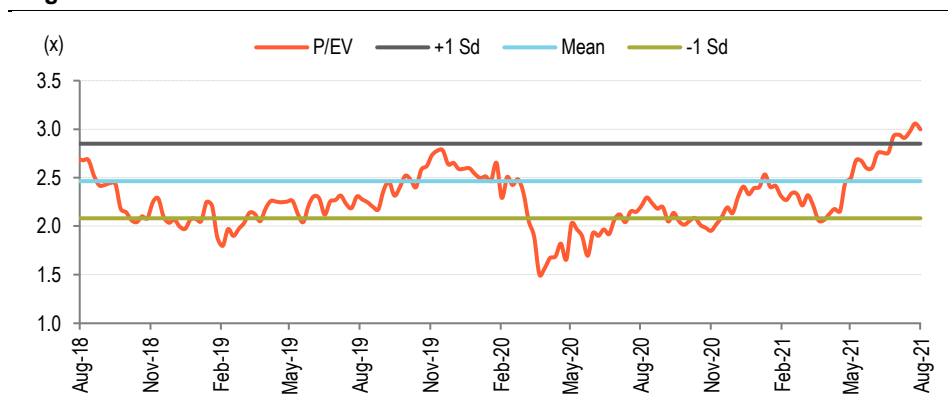
Source: Bloomberg, BOBCAPS Research

Fig 8 – Peer comparison

Company	Price	MCap (Rs bn)	Rating	Target price (Rs)	P/EV (x)			P/VNB (x)			VNB margin (%)			ROEV (%)			Target P/EV (x)
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
HDFC Life	675	1,353	BUY	800	4.3	3.6	3.1	50.3	41.9	34.7	26.9	27.1	27.4	18.1	18.4	18.6	4.0
ICICI Pru Life	670	935	BUY	810	2.9	2.6	2.3	44.9	38.0	32.4	25.9	27.1	28.1	14.1	14.3	14.6	2.9
SBI Life	1,134	1,140	BUY	1,380	2.7	2.3	2.0	37.7	31.9	26.6	24.0	25.2	26.6	19.7	17.3	17.9	2.5

Source: Bloomberg, BOBCAPS Research

Fig 9 – P/EV band 1Y forward



Source: Bloomberg, Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- a fall in appetite for investment in capital markets, which can affect demand for ULIPs that form the bulk of IPRU's new premiums,
- change in the bancassurance relationship with parent ICICI Bank – its key distribution channel currently, and
- prolonged lockdown restrictions due to Covid-19, which could impact insurance premiums and inflate claims paid out, driving downside risk to our margin estimates.

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Gross premium income	334,307	357,328	387,533	422,905	466,849
First year premium	65,078	51,872	64,837	72,969	82,244
Renewal premium	209,432	225,068	225,999	237,582	253,832
Single premium	59,797	80,389	96,697	112,353	130,772
Net written premium	322,256	343,187	371,885	405,343	446,924
Income from investments	(125,169)	474,376	189,309	206,996	226,389
Other Income	15,774	16,682	17,577	18,538	19,576
Total income	212,861	834,244	578,771	630,877	692,889
Commissions	15,214	14,300	16,866	19,056	21,613
Operating expenses	29,115	27,585	28,063	32,157	37,080
Benefits and bonuses paid	193,766	226,409	249,683	276,100	300,529
Change in liabilities (net)	(50,569)	543,241	259,244	274,065	301,981
Others	2,151	237	219	219	219
Total expenses	189,677	811,772	554,074	601,597	661,422
Surplus before tax	23,184	22,472	24,697	29,280	31,467
Provision for tax	1,314	1,418	1,527	1,455	1,670
Surplus after tax	21,869	21,054	23,170	27,825	29,797
Trf to shareholders' a/c	19,887	19,849	21,873	26,589	28,378
Balance being FFA	1,983	1,205	1,297	1,236	1,419

Income Statement (Non-technical)

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Trf from policyholders' a/c	19,887	19,849	21,873	26,589	28,378
Income from investments	(125,169)	474,376	189,309	206,996	226,389
Contr. to policyholders' fund	14,970	15,748	16,511	17,312	18,153
Others	2,151	237	219	219	219
PBT	10,687	10,814	12,810	17,085	18,390
Provision for taxation	0	1,213	1,436	1,916	2,062
PAT	10,687	9,602	11,374	15,170	16,328
Dividend+Interim div.+DDT	1,385	2,872	3,402	4,537	4,884

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity	72,186	91,189	99,776	111,086	123,275
Policyholders' funds	471,686	632,777	773,525	932,813	1,115,001
Provision for linked liab.	880,368	1,277,704	1,413,183	1,547,291	1,688,614
Others	2,151	237	219	219	219
Total liabilities	1,560,353	2,172,281	2,464,080	2,775,567	3,118,460
Shareholders' funds	74,209	100,902	101,402	101,902	102,402
Policyholders' funds	471,686	632,777	773,525	932,813	1,115,001
Assets to cover linked liab.	970,850	1,385,491	1,503,827	1,618,450	1,738,080
Others	2,151	237	219	219	219
Total assets	1,560,353	2,172,281	2,464,080	2,775,567	3,118,460

Key Metrics

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
AUM (Rs mn)	1,529,680	2,142,180	2,401,524	2,675,682	2,977,738
NBP (Rs mn)	124,875	132,261	161,534	185,322	213,016
APE (Rs mn)	73,810	64,620	80,363	90,823	102,814
VNB (Rs mn)	16,050	16,210	20,806	24,590	28,851
VNB margin (%)	2174.5	2508.5	2588.9	2707.5	2806.1
Embedded value (Rs mn)	230,300	291,060	328,463	370,445	419,079
ROEV (%)	704.2	2763.1	1413.1	1430.7	1464.5
ROE (%)	15.0	11.8	11.9	14.4	13.9
Opex ratio (%)	870.9	772.0	724.1	760.4	794.3
Cost ratio (%)	1326.0	1172.2	1159.3	1211.0	1257.2
Solvency ratio (%)	19410.0	21680.0	21030.9	20935.8	20804.6
EPS (Rs)	7.4	6.7	7.9	10.6	11.4
BVPS (Rs)	50.3	63.5	69.5	77.4	85.9
EVPS (Rs)	160.4	202.7	228.8	258.0	291.9

Source: Company, BOBCAPS Research

BUY

TP: Rs 1,380 | ▲ 22%

SBI LIFE

| Insurance

| 13 August 2021

Long, profitable runway for growth – initiate with BUY

- Access to a large client base through parent bank SBIN and expansion of agency business offer long runway for growth
- Profitability to be bolstered by low operating and customer acquisition costs
- Initiate with BUY and a TP of Rs 1,380, set at 2.5x Sep'23E EV – largely in line with the 3Y mean

Access to large, untapped client base: Among currently listed life insurers, SBILIFE has access to the largest captive ecosystem by far, comprising parent State Bank of India's (SBIN) ~0.5bn clients. Interestingly, SBILIFE has only scratched the surface by capitalising on a minor share of these clients, implying tremendous potential for growth. Growth over the past few years has been aided by sustained investment in agency business expansion, traction in non-par savings and protection business (on a low base), and a focus on increasing credit life attachment rates.

Low cost of acquisition bolsters profitability: SBILIFE has one of the best expense ratios among our insurance coverage, averaging at 10% over FY18-FY21 vs. 15% for peers. Low commission structures from its parent enable the company to enhance margins. Moreover, a large share of sourcing from the low-cost bancassurance channel for individual new business along with strong agent productivity supports lower opex. Consequently, SBILIFE has managed to reduce its cost ratio by 160bps YoY to 8.3% in FY21.

Expect 17% CAGR in VNB over FY21-FY24: The company has ramped up its VNB margin over the past few years, bringing it almost on par with peers. Despite an unchanged share of linked products (low-margin) in the sales mix, the VNB margin has expanded from 18% in FY18 to 23% in FY21 largely due to improvement in cost ratios. We build in a 17% CAGR in VNB accompanied by ~330bps margin expansion over FY21-FY24.

Initiate with BUY: SBILIFE has consistently delivered industry-leading APE, VNB and EV over FY18-FY21, which also highlights its inherent strengths on the cost and distribution front. Its VNB margin (effective tax basis) is now comparable to peers aided by effective cost management. Operating ROEV of 19-20% over the past two years is also best in class. We expect the company to deliver a 12%/17% APE/VNB CAGR over FY21-FY24. Our Sep'22 TP of Rs 1,380 is based on 2.5x one-year forward P/EV – largely in line with the stock's three-year mean. Initiate coverage with BUY.

Vikesh Mehta

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Ticker/Price	SBILIFE IN/Rs 1,134
Market cap	US\$ 15.3bn
Free float	44%
3M ADV	US\$ 22.2mn
52wk high/low	Rs 1,176/Rs 755
Promoter/FPI/DII	56%/27%/17%

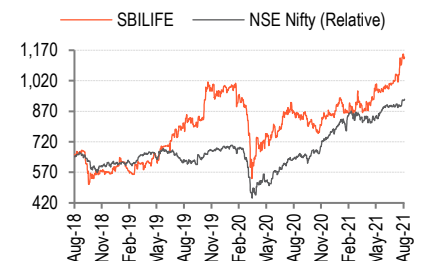
Source: NSE | Price as of 12 Aug 2021

Key financials

Y/E 31 Mar (Rs mn)	FY21P	FY22E	FY23E
NBP (Rs mn)	190,741	209,847	242,526
APE (Rs mn)	114,500	125,643	141,956
VNB (Rs mn)	26,600	30,203	35,787
Embedded Value (Rs mn)	333,900	426,835	497,755
VNB margin (%)	23.2	24.0	25.2
EVPS	333.9	426.8	497.8
EPS	14.6	16.7	17.5
Consensus EPS	14.6	19.0	22.7
P/EV (x)	3.4	2.7	2.3

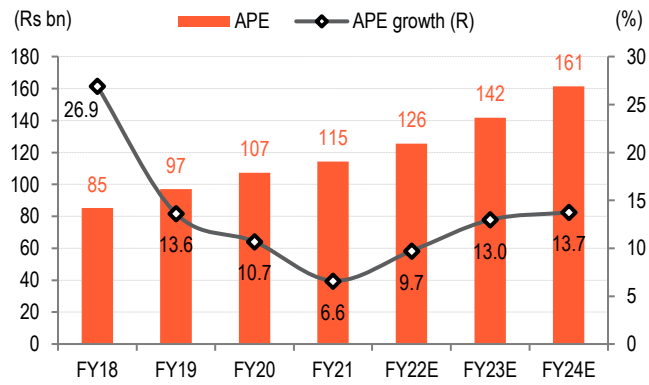
Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



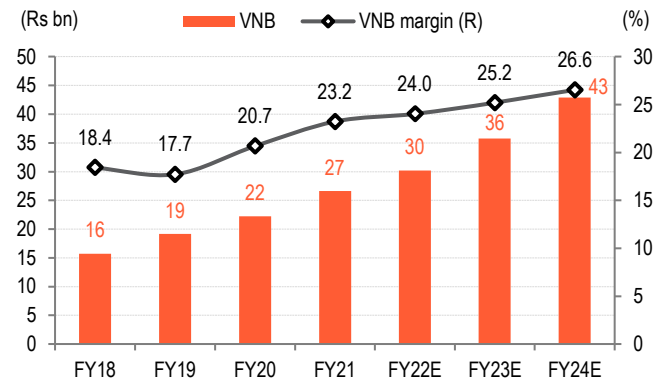
Source: NSE

Fig 1 – Expect 12% CAGR in APE over FY21-FY24E



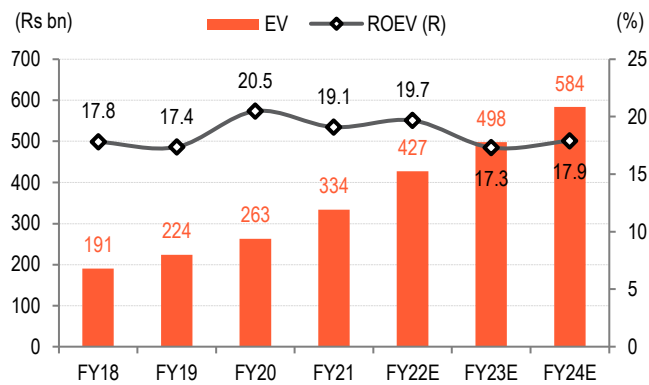
Source: Company, BOBCAPS Research

Fig 2 – VNB margin to rise steadily to ~27% by FY24E



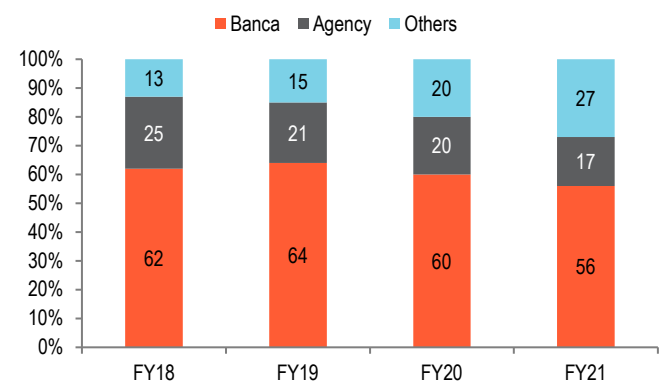
Source: Company, BOBCAPS Research

Fig 3 – ROEV set to remain robust over FY21-FY24E



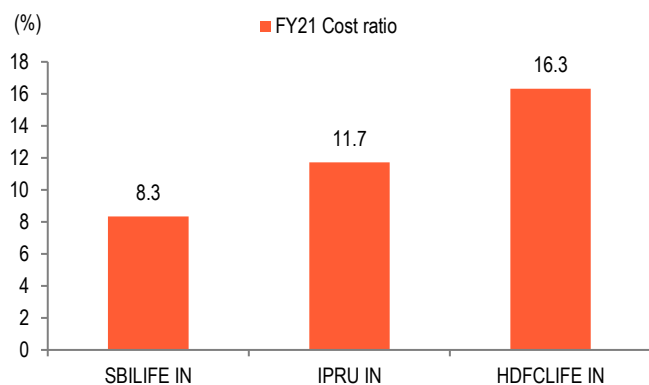
Source: Company, BOBCAPS Research

Fig 4 – Bancassurance a strongpoint, contributing 56% of new business premiums



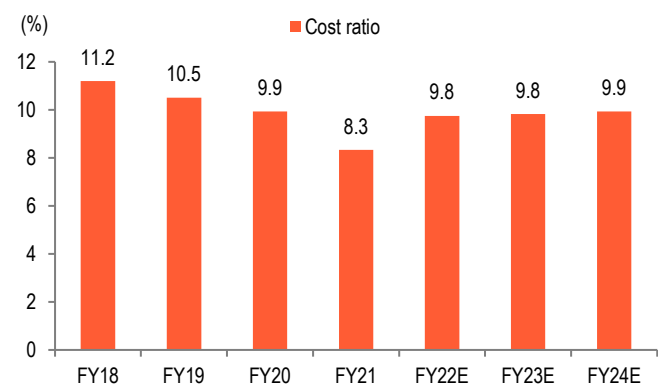
Source: Company, BOBCAPS Research

Fig 5 – Cost ratio amongst the lowest in the industry



Source: Company, BOBCAPS Research

Fig 6 – Expect tight control over cost ratios to continue



Source: Company, BOBCAPS Research

Valuation methodology

SBILIFE has consistently delivered industry-leading APE, VNB and EV over FY18-FY21, which also highlights its inherent strengths on the cost and distribution front. Its VNB margin (effective tax basis) is now comparable to peers aided by effective cost management. Operating ROEV of 19-20% over the past two years is also best in class. We expect the company to deliver a 12%/17% APE/VNB CAGR over FY21-FY24. Our Sep'22 TP of Rs 1,380 is based on 2.5x one-year forward P/EV – largely in line with the stock's three-year mean. Initiate coverage with BUY.

Fig 7 – Valuation summary

Particulars	
Sep'23E Embedded Value (Rs bn)	514
Total Appraisal Value (Rs bn)	1,378
Value Per Share (Rs)	1,380
Sep'23E P/EV (x)	2.5

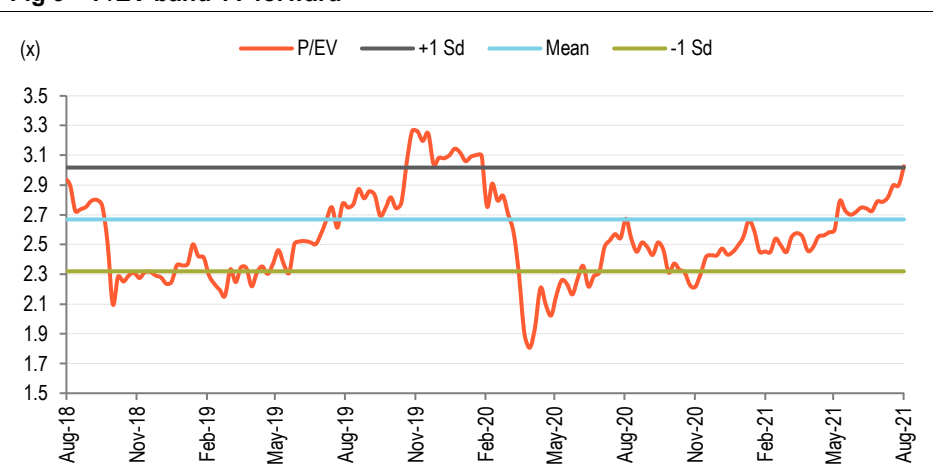
Source: Bloomberg, BOBCAPS Research

Fig 8 – Peer comparison

Company	Price	MCap (Rs bn)	Rating	Target price (Rs)	P/EV (x)			P/VNB (x)			VNB margin (%)			ROEV (%)			Target P/EV (x)
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
HDFC Life	675	1,353	BUY	800	4.3	3.6	3.1	50.3	41.9	34.7	26.9	27.1	27.4	18.1	18.4	18.6	4.0
ICICI Pru Life	670	935	BUY	810	2.9	2.6	2.3	44.9	38.0	32.4	25.9	27.1	28.1	14.1	14.3	14.6	2.9
SBI Life	1,134	1,140	BUY	1,380	2.7	2.3	2.0	37.7	31.9	26.6	24.0	25.2	26.6	19.7	17.3	17.9	2.5

Source: Bloomberg, BOBCAPS Research

Fig 9 – P/EV band 1Y forward



Key risks

Key downside risks to our estimates are:

- unusually large expansion in the non-par book, and
- an inability to tap SBIN's customer base in a meaningful manner.

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Gross premium income	406,347	502,542	549,804	627,053	712,279
First year premium	98,288	103,381	109,639	123,271	139,581
Renewal premium	240,422	296,299	339,958	384,527	430,657
Single premium	67,637	102,861	100,208	119,255	142,041
Net written premium	397,708	491,248	537,377	612,582	695,535
Income from investments	29,968	314,560	156,916	186,141	218,776
Other Income	5,220	8,606	5,057	5,757	6,298
Total income	432,897	814,414	699,349	804,480	920,610
Commissions	15,662	17,425	19,989	23,066	26,750
Operating expenses	24,718	24,485	33,651	38,561	44,073
Benefits and bonuses paid	162,509	215,827	273,455	304,493	341,829
Change in liabilities (net)	206,049	539,342	347,602	412,207	479,079
Others	1,244	(1,714)	691	612	581
Total expenses	410,182	795,365	675,387	778,938	892,311
Surplus before tax	22,714	19,050	23,962	25,542	28,299
Provision for tax	3,767	976	4,060	4,558	5,189
Surplus after tax	18,947	18,074	19,902	20,984	23,111
Trf to shareholders' a/c	14,627	16,788	15,273	15,831	17,497
Balance being FFA	4,320	1,287	4,629	5,153	5,614

Income Statement (Non-technical)

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Trf from policyholders' a/c	14,627	16,788	15,273	15,831	17,497
Income from investments	29,968	314,560	156,916	186,141	218,776
Contr. to policyholders' fund	4,763	8,248	4,572	5,258	5,784
Others	1,244	(1,714)	691	612	581
PBT	14,135	15,425	17,695	18,590	20,907
Provision for taxation	(86)	866	994	1,044	1,174
PAT	14,222	14,559	16,702	17,546	19,733
Dividend+Interim div.+DDT	0	2,500	2,868	3,013	3,389

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Equity	87,431	104,004	117,838	132,371	148,716
Policyholders' funds	745,358	951,343	1,087,369	1,259,947	1,472,199
Provision for linked liab.	734,402	1,092,036	1,296,826	1,530,283	1,792,730
Others	1,244	(1,714)	691	612	581
Total liabilities	1,655,802	2,268,304	2,668,006	3,139,437	3,686,935
Shareholders' funds	68,280	86,047	95,910	107,706	122,644
Policyholders' funds	745,358	951,343	1,087,369	1,259,947	1,472,199
Assets to cover linked liab.	785,653	1,162,150	1,375,450	1,617,085	1,886,217
Others	1,244	(1,714)	691	612	581
Total assets	1,655,802	2,268,304	2,668,006	3,139,437	3,686,935

Key Metrics

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
AUM (Rs mn)	1,603,630	2,208,700	2,566,780	2,991,467	3,486,231
NBP (Rs mn)	165,925	190,741	209,847	242,526	281,622
APE (Rs mn)	107,400	114,500	125,643	141,956	161,475
VNB (Rs mn)	22,200	26,600	30,203	35,787	42,889
VNB margin (%)	20.7	23.2	24.0	25.2	26.6
Embedded value (Rs mn)	262,900	333,900	426,835	497,755	583,565
ROEV (%)	20.5	19.1	19.7	17.3	17.9
ROE (%)	17.4	15.2	15.1	14.0	14.0
Opex ratio (%)	6.1	4.9	6.1	6.1	6.2
Cost ratio (%)	9.9	8.3	9.8	9.8	9.9
Solvency ratio (%)	195.0	215.0	207.1	197.7	189.1
EPS (Rs)	14.2	14.6	16.7	17.5	19.7
BVPS (Rs)	87.4	104.0	117.8	132.4	148.7
EVPS (Rs)	262.9	333.9	426.8	497.8	583.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

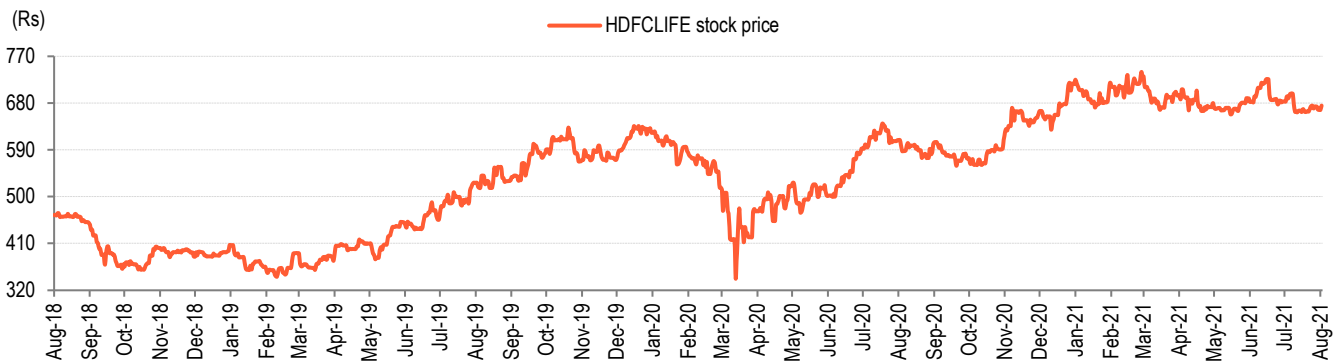
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

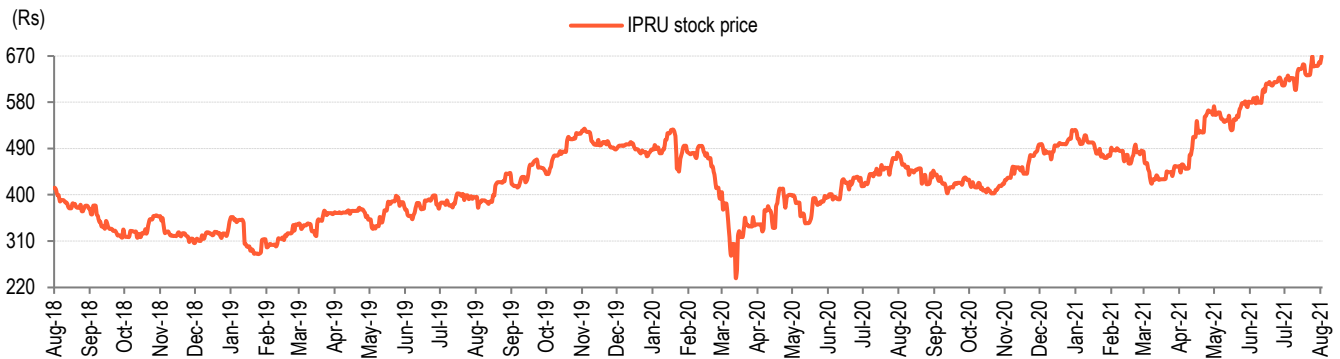
Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HDFC LIFE (HDFCLIFE IN)



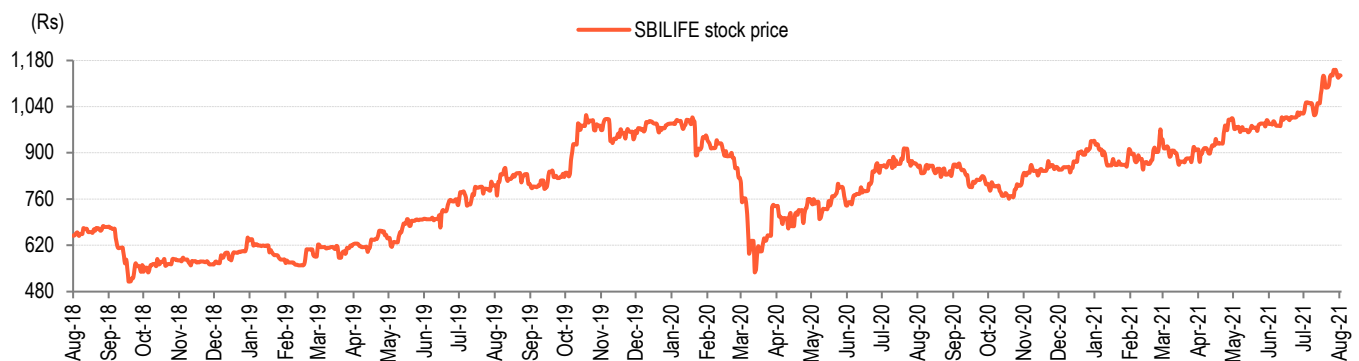
B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Ratings and Target Price (3-year history): ICICI PRUDENTIAL LIFE (IPRU IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Ratings and Target Price (3-year history): SBI LIFE (SBILIFE IN)



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