Analyst: Raj Bardhan Kumar Singh Vol:- IPO/2017/11/04/1.0 04th November 2017

HDFC STANDARD LIFE INSURANCE COMPANY LIMITED

Incorporated in 2000, HDFC Life was the first private life insurance company to register in India and were established as a joint venture between HDFC (one of India's leading housing finance institutions) and Standard Life Aberdeen plc (one of the world's largest investment companies), initially through its wholly owned subsidiary The Standard Life Assurance Company and now through its wholly owned subsidiary, Standard Life Mauritius.

Their focus on creating a multi-channel distribution platform has resulted in the market share among private life insurers in India in terms of total new business premium increasing from 15.8% in Fiscal 2015 to 17.2% in Fiscal 2017, according to CRISIL. They believe that they offer an attractive value proposition for the distribution partners, as demonstrated by the longstanding, successful relationships with the bancassurance partners through corporate agency or master policyholder arrangements. Oldest bancassurance partner relationship was established in 2002. Their bancassurance partners include banks, non-banking financial companies, micro-finance institutions and small finance banks in India. The number of major bancassurance partners grew from 31 as at March 31, 2015 to 120 as at June 30, 2017. Their top 15 bancassurance partners (in terms of total new business premium sourced for the period 195 ended June 30, 2017) had over 11,200 branches across India as at June 30, 2017. They had 58,147 individual agents as at June 30, 2017, which comprise 6.1% of the all private agents in the Indian life insurance industry. They have a panIndia presence, comprising 414 branches and spokes across India as at June 30, 2017, supported by a dedicated workforce of 15,406 full-time employees.

They were the most profitable life insurer, based on Value of New Business (VNB) margin, among the top five private life insurers in India (measured on total new business premium) in Fiscal 2016 and Fiscal 2017, according to CRISIL. Besides consistently being among the top three private life insurers in terms of profitability based on VNB margin, they have also consistently been among the top three private life insurers in terms of market share based on total new business premium between Fiscal 2015 and Fiscal 2017, according to CRISIL. Total new business premium for Fiscal 2015, Fiscal 2016, Fiscal 2017 and the three months ended June 30, 2017, was Rs.54,921.0 million, Rs.64,872.2 million, Rs.86,963.6 million and Rs.16,652.0 million. Between Fiscal 2015 and Fiscal 2017, their annualised premium equivalent grew by a CAGR of 14.5%.

They have a broad, diversified product portfolio covering five principal segments across the individual and group categories, namely participating, non-participating protection term, non-participating protection health, other nonparticipating and unit-linked insurance products. As at June 30, 2017, Their product portfolio comprised 31 individual and ten group products, as well as eight optional rider benefits. Their wide product suite caters to specific needs of customers during each stage of their lives. It also provides the flexibility to operate successfully across business cycles, work with diverse sets of distribution partners and serve a range of consumers from mass market to high net worth individuals. It also provides with the flexibility to adapt to changes in the regulatory landscape and mitigate concentration risk in respect of particular categories or types of products. They have a proven track record in identifying and tapping niche

customer segments (such as with our HDFC Life Cancer Care product) through the innovative product solutions that have continued to draw strong customer demand.
In Fiscal 2012, They established teh wholly-owned subsidiary, HDFC Pension, to operate their pension fund business under the National Pension System. As at March 31, 2017, HDFC Pension had approximately Rs.11,629.8 million of AUM from customers enrolled under the National Pension System. HDFC Pension is the second largest private pension fund management company in India in terms of assets under management and subscribers in Fiscal 2017, according to CRISIL.

Price Band	**Rs. 275-290 per Equity Share**
Issues Open	**Tuesday, Nov 07, 2017**
Issue Close	**Thursday, Nov 09, 2017**
Issue Type	**100% Book Built Issue IPO**
Bid Lot	**50 Equity share and multiple thereafter**
Maximum Bid amount for Retail	**Rs, 2 Lacs**
Face Value	**Rs. 10 per Equity Share**
Total Issue size	**299,827,818 Equity Shares of Rs. 10 aggregating up to Rs. 8695.01 Cr.**
Offer for Sale	**299,827,818 Equity Shares (191,246,050 Equity Shares by HDFC Limited and 108,581,768 Equity Shares by Standard Life (Mauritius Holdings) 2006 Limited)**
Net Offer to the public	**Up to 266,895,517 Equity Shares**
Employee Reservation Portion	**Up to 805,000 Equity Shares (HDFC Employees)**
	Up to 2,144,520 Equity Shares (HDFC Employees)
Shareholder Reservation Portion	**Up to 29,982,785 Equity Shares**
QIB*	**50% of the Net offer**
Anchor Investor Portion	**Up to 60% of the QIB Portion**
Retail Portion	**Not less than 35% of the Net Offer**
Non-Institutional Category	**15% of the Net offer**
Mutual Fund Portion	**Up to 5% of QIB Portion (Other than Anchor Investor Portion)**
Mode of Payment	**ASBA Mandatory (No cheque will be accepted)**
Global coordinators & Book Running Lead Managers	**Morgan Stanley India Company Private Limited, HDFC Bank Limited, Credit Suisse Securities (India) Private Limited, CLSA india Private Limited, Nomura Financial Advisory and Securities (India) Private Limited**
Book Running Lead Managers	**Edelweiss Financial Services Limited, Haitong Securities India Private limited, IDFC Bank Limited, IIFL Holding Limited, UBS Securities India Private Limited**
Listing At	**NSE, BSE**
Registrar	**Karvy Computershare Private Limited**

Company Strategies:

- Reinforce our agile, multi-channel distribution platform to fortify and diversify our revenue mix across business cycles
- Drive innovation in product sales to enhance customer value proposition and to capture niche segments
- Invest in digital platforms to establish leadership in the growing digital space
- Continue to build economies of scale to ensure profitability and cost leadership

Company Strength:

- Strong parentage and a trusted brand that enhances our appeal to consumers
- Strong financial performance defined by consistent and profitable growth
- Growing and profitable multi-channel distribution footprint that provides market access across various consumer segments in India
- Focus on customer centricity enabling growth across business cycles
- Leading digital platform that provides a superior experience for customers and distributors
- Independent and experienced leadership team

Company Promoters:

The Promoters of the Company are

- Housing Development Finance Corporation Limited (“HDFC”),
- Standard Life (Mauritius Holdings) 2006 Limited (“Standard Life Mauritius”) and
- Standard Life Aberdeen plc (“Standard Life Aberdeen”).

Objects of the Issue:

The objects of the Offer are

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges and

Risk Factors Relating to Business:

Internal Risk Factor

- Changes in regulation and compliance requirements could limit their ability to introduce new products, increase the operating expenses and reduce the operating flexibility.
- Misconduct by the agents, employees, distribution partners or other third parties is difficult to detect and deter and could harm their brand and their reputation, or lead to regulatory sanctions or litigation against us.
- The Company and certain of their Subsidiaries Directors, Promoters and Group Companies are involved in certain legal proceedings which, if determined against them, may adversely affect their business and financial condition.
- Results are dependent on the strength of the brand and reputation, as well as the brand and reputation of other HDFC group entities.

- Variation in the persistency experience from their estimates, as well as concentrated surrenders, may materially and adversely affect their cash flows, results of operations and financial condition.
- If actual claims experience and other parameters are different from the assumptions used in pricing the products and setting reserves for the products, could have a material adverse effect on the business, results of operations and financial condition.
- They depend on Their leadership and key management and their actuarial, information technology, investment management, finance, frontline sales staff, underwriting and other personnel, and their business would suffer if we lose their services and are unable to adequately replace them.
- Adverse market fluctuations and economic conditions would have a material adverse effect on the business, financial condition, results of operations and prospects.
- Interest rate fluctuations may materially and adversely affect on profitability
- Embedded Value and VNB information is based on several assumptions and may not be comparable to similar information reported by peers.
- Risk management policies and procedures and internal controls, as well as the risk management tools available to them, may not be adequate or effective.
- Regulatory and statutory actions against them or their distributors could have a material adverse effect on the business, financial condition, results of operations and prospects and cause the reputational harm.
- Failure to secure new distribution relationships, as well as any termination or disruption of existing distribution relationships, may have a material adverse effect on the competitiveness and result in a material impact on financial condition and results of operations.
- Their operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters, terrorist attacks, unauthorised tampering or security breaches of the information technology systems.
- Failures of or inadequacies in the information technology systems could have a material adverse effect on the business, financial position, results of operations and prospects.
- Higher expenses than expected could have a material adverse effect on the business, financial position and results of operations.
- They are subject to the credit risk of their investment counterparties, including the issuers or borrowers whose securities or loans they hold.
- Concentration of the investment portfolio in any particular asset class, market or industry may increase their risk of suffering investment losses.
- They are obliged to collect certain information in relation to the customers and counterparties and depend on the accuracy and completeness of information provided by or on behalf of such persons.
- They have entered into certain related party transactions in the past and may continue to do so in the future
- They rely on third-party service providers in several areas integral to the operations and hence do not have full control over the services provided to them or their customers.
- They may be unable to obtain external reinsurance on a timely basis at reasonable costs and could be exposed to concentration risk with individual reinsurers.
- Investment portfolio is subject to liquidity risk, which could lead to fluctuations in its value

External Risk Factor

- Political, economic and social developments in India could adversely affect on business.
- The Indian economy continues to sustain high levels of inflation.
- It may not be possible for you to enforce a judgment obtained outside India, including in the United States, against the Company or any of Directors and executive officers that are resident in India, except by way of a suit in India on such judgment.

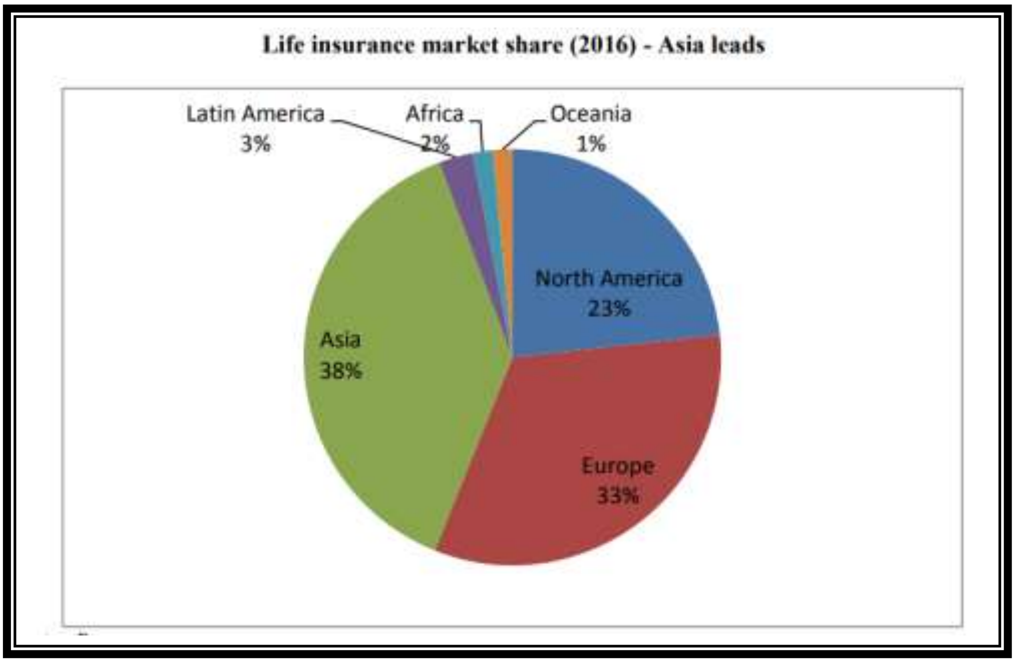
- Significant differences exist between Indian GAAP and other accounting principles, such as U.S. GAAP and IFRS, which may be material to investors' assessments of the financial condition.
- Changes in the accounting standards used in the reporting of the financial statements due to new pronouncements such as Ind-AS, interpretations, migration to new standards or even due to their own decision to change accounting policies may significantly affect our financial statements for the future years, and may materially and adversely affect on financial condition.
- Any anticipated measures undertaken by the Government of India or any regulatory authority such as the recent demonetisation measures may adversely affect on business, financial condition and results of operations.
- Public companies in India, including their Company, are required to compute income tax under the ICDS. The transition to ICDS in India is very recent and they may be negatively affected by such transition
- Business and activities are regulated by the Competition Act, 2002.

Industry

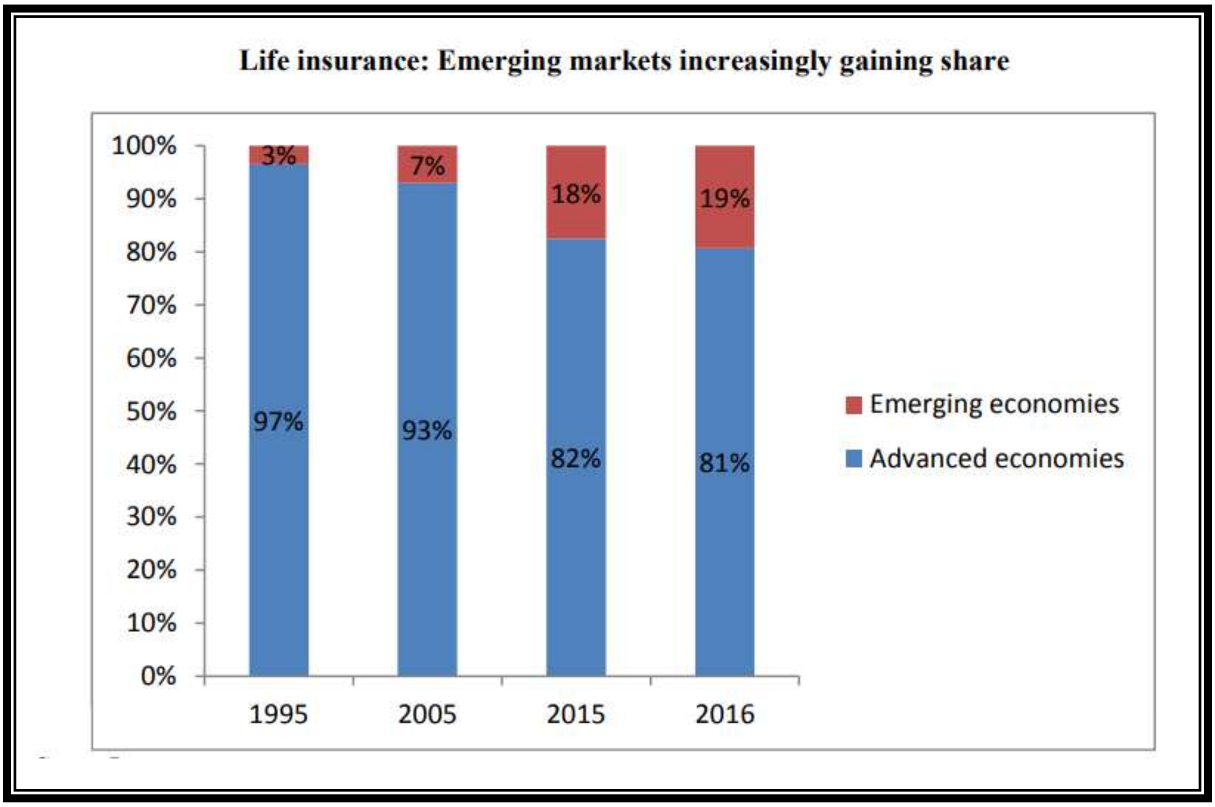
Global Life Insurance Industry

The growth in total premium of the global insurance industry has been subdued since the 2008 global financial crisis, compared with the total premium CAGR of 4%, in dollar, nominal terms between 2003 and 2007. In advanced economies, total premium growth has stagnated since then. In 2016, total premium for advanced economies grew 0.7%, compared with 2.5% in 2015.

India's share is just ~2.4% in the global life insurance market, indicating the vast potential for growth in India's life insurance industry. In India, the recovery over the last few years was propelled by both linked and non-linked products, growing 12% and 14% y-o-y, respectively.

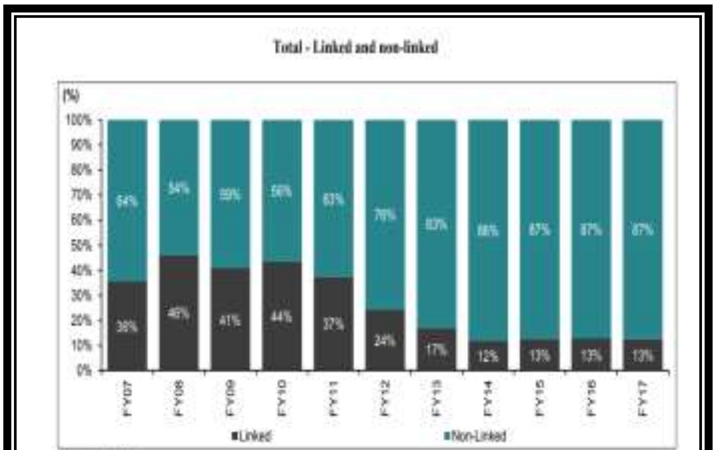


In the global insurance industry, around 55% of premium comes from life insurance and the rest from the non-life segment; in emerging markets, around 54% of premium comes from life insurance. By contrast, the share of life insurance is over 78% for India. Despite this, indicators, such as insurance penetration (premium as a percentage of GDP), insurance density (premium per capita) and protection gap (sum assured to GDP) indicate that the Indian market is still significantly underinsured



Classification of insurance policies in India
Life insurance policies can be broadly divided into two types: whole life and term life. In a whole-life policy, premium is paid until the death of the policy holder. In a term-life insurance, the policy remains in force only for a fixed time period.
Insurance policies also can be divided in three ways, namely:

- **Linked and non-linked** :: In linked policies, a part of the premium is allocated to different types of funds, such as debt, equity, money-market, hybrid instruments. The holders bear the risk of the investment, but also has the flexibility to invest as per their risk appetite and financial commitments. The investment strategy can also be changed.
  Non-linked policies are conventional plans that are invested in low-risk instruments and offer guaranteed maturity proceeds and bonus. The funds are invested as per the insurance company's strategy and discretion.



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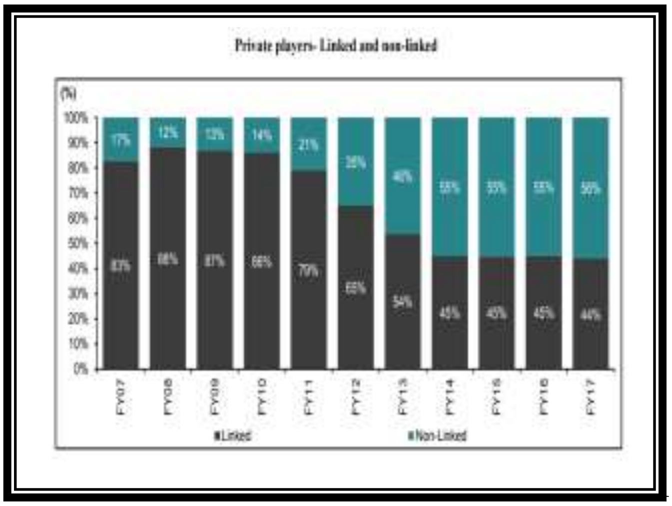
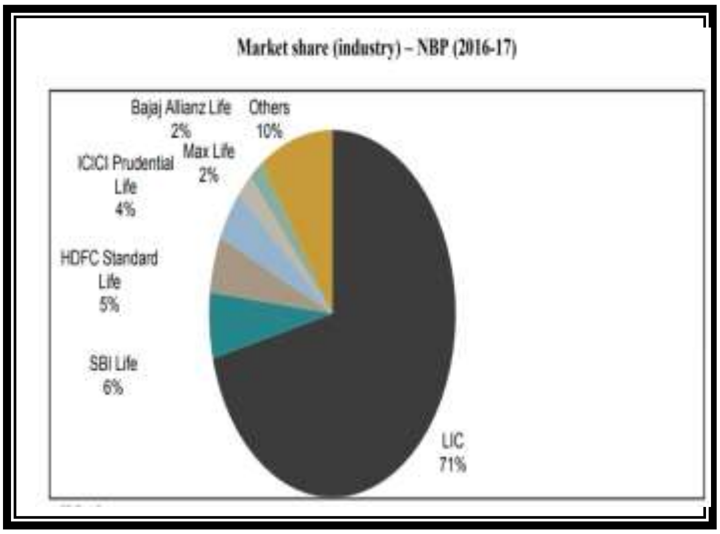


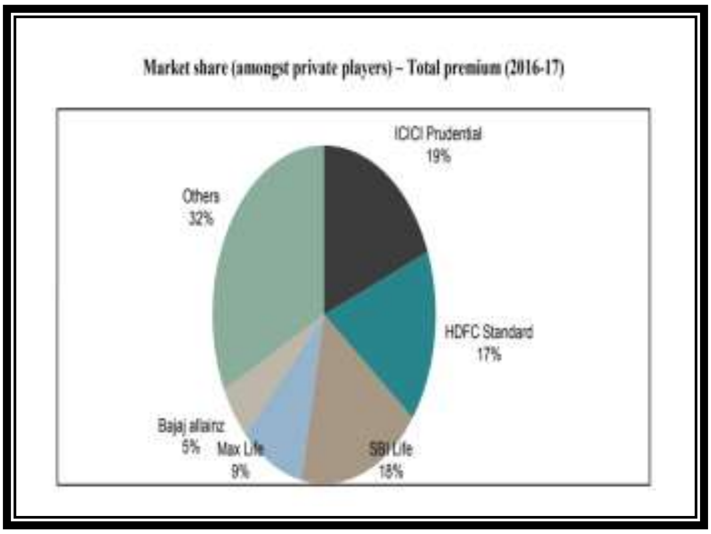
- **Participatory and non-participatory**:: Participating policies are those that provide not only the sum assured, but also allow the policyholder to participate in the company's profit. Sum assured is the amount that the customer receives on completion of the policy term or upon the insured's death, whichever is earlier. Premiums paid by the customers of participating polices are pooled to form a participating fund, which is invested by the insurance company. Based on the fund's returns, the company pays out a proportionate share of the profit to the policyholders. However, this profit is not guaranteed by the insurance company. Hence, participating policies are those that have both the guaranteed (sum assured) and nonguaranteed benefits.
  Non-participating policies pay the policy holder the guaranteed benefit (except in unit-linked policies) when the policy term completes, i.e., the maturity benefit or the death benefit, in case of the death of the life insured. The customer does not participate in the profits of the company and is, therefore, not paid out bonuses or a share in profit.

- **Pure protection and savings (investment)/protection::** In pure protection policies, the sum assured, and any other benefits, are paid out only on death of the policyholder occurs during the policy term. If the policyholder survives, there is no pay-out. Hence, their premiums are far cheaper compared with savings/protection policies. In savings/protection policies, the policyholder gets the sum assured plus other benefits in both eventualities: death or survival. Consequently, the premiums in such policies are far higher. Accordingly, unit-linked insurance policies (ULIPs), which also include some endowment plans, are a type of linked products, whereas others are non-linked ones. Term insurance, health and annuity plans are pure protection products, whereas all others are savings (investment)-cum-protection products.

- **ULIPs** ULIPs offer protection along with investments. A part of the monthly/yearly premium pay-out goes towards the insurance cover, whereas the rest is invested by the life insurance company in various types of funds that invest in debt and equity instruments. In that sense, ULIPs are more or less similar to mutual funds except that they offer the additional benefit of insurance.

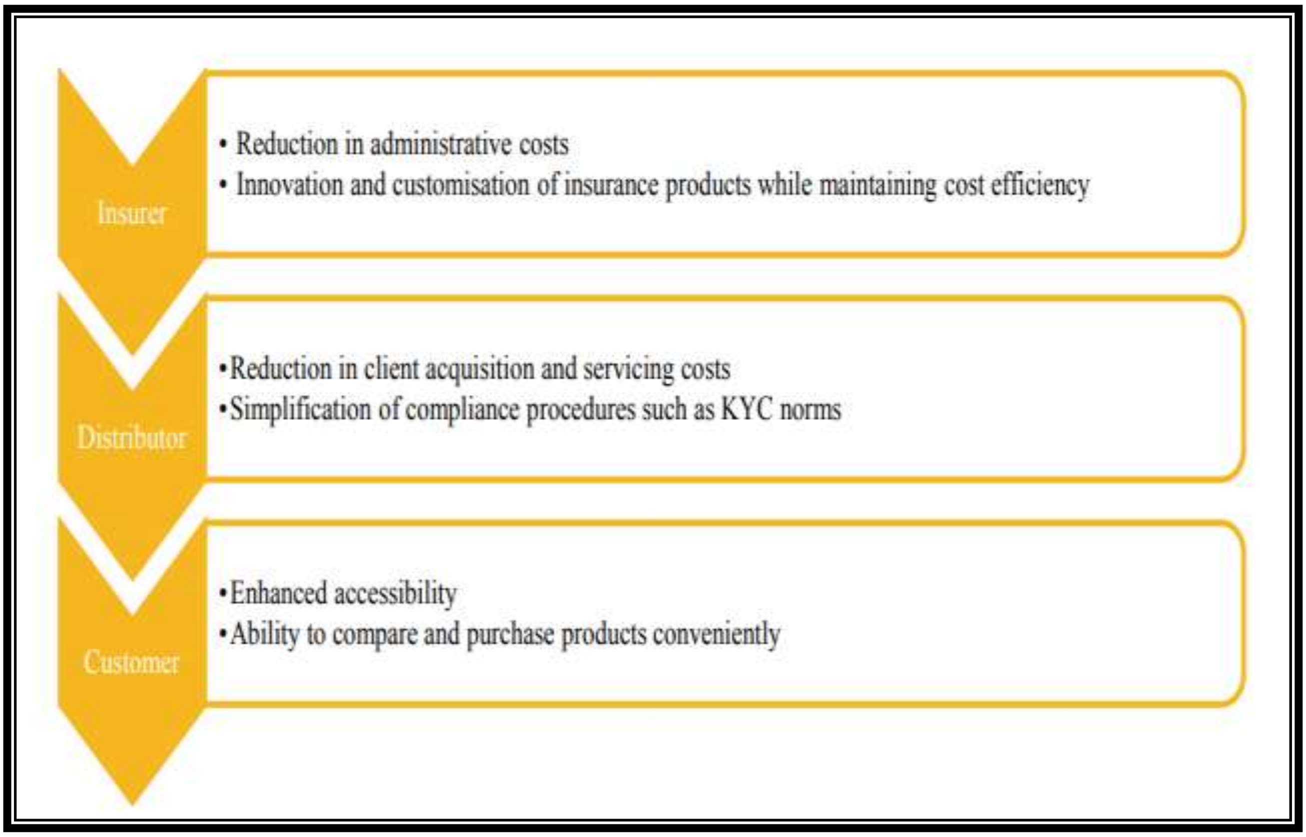
The top five players accounted for more than 60% of the total premium collected by the private sector in 2016-17. Their dominance has increased in the last few years due to the relative strength of their brands and wider distribution network. The top private players are mainly driven by bancassurance channel, as they have promoter banks which have established branches across the country, leading to extensive geographic reach.





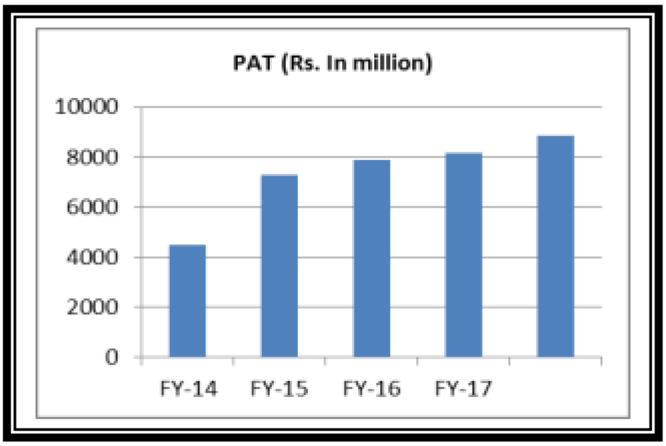
Digitization to benefit all stakeholders

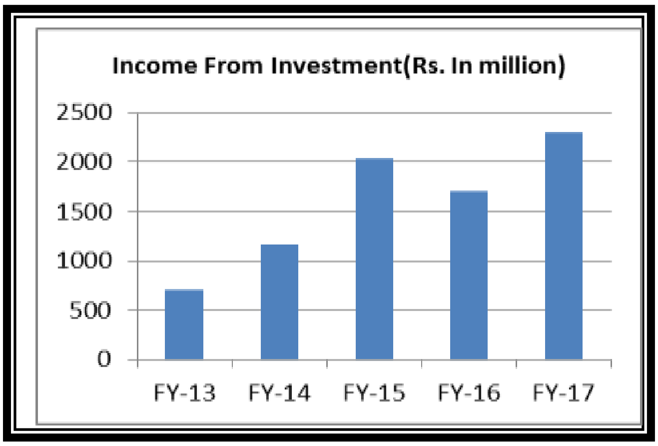
With customers becoming more tech savvy, the launch of initiatives like mobile banking and trading, and tabletbased investments have helped further financial inclusion, including in the insurance field. Whether technological platforms are created in-house or via third party platforms, overall efficiency and decline in costs can be attained through the adoption of better technological processes.



Being a push product, insurance needs more effective on-the-ground distribution channels and personalised interaction. This has major implications for the insurance industry. In fact, digitisation will change the way the industry deals with customers, generates sales and handles day-to-day operations.

Graphical Representation of Performance





Management:

Name of board members	Designation
Mr. Deepak Parekh	Nominee Director And Chairman
Sir Gerald Grimstone	Nominee Director
Mr. Keki Mistry	Nominee Director
Mr. Norman Keith Skeoch	Nominee Director
Ms. Renu Karnad	Nominee Director
Dr. Jamshed J Irani	Independent Director
Mr. AKT Chari	Independent Director
Mr. Vegulaparanan Kasi Viswanathan	Independent Director
Mr. Prasad Chandran	Independent Director
Mr. Sumit Bode	Independent Director
Mr. Ranjan Mathai	Independent Director
Mr. Ketan Dala	Independent Director
Mr. Amitabh Chaudhry	Managing Director and Chief Executive Officer
Ms. Vibha Padalkar	Executive Director and chief Financial Officer

Restated consolidate statement of Assets and Liabilities (Rs. In million)

Particulars	Annexure	As at					
		June 30, 2017	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013
SOURCES OF FUNDS							
SHAREHOLDERS' FUNDS:							
Share Capital	X	19,988.5	19,984.8	19,952.9	19,948.8	19,948.8	19,948.8
Reserves and Surplus	XII	21,142.9	17,955.2	11,494.4	5,484.1	1,654.4	1,961.8
Credit / (Debit) Fair Value Change Account		348.6	323.1	(412.4)	(20.1)	27.3	(102.8)
Sub-Total		41,480.0	38,263.1	31,034.9	25,412.8	21,630.5	21,807.8
BORROWINGS	XIII	-	-	-	-	-	-
POLICYHOLDERS' FUNDS:							
Credit / (Debit) Fair Value Change Account		4,763.6	3,981.4	536.1	612.6	310.5	(784.2)
Policy Liabilities							
i) relating to Life insurance business		340,367.1	323,819.3	244,006.4	192,792.0	143,396.7	101,555.8
ii) relating to Reinsurance business		19.0	7.7	-	-	-	-
Provision for Linked Liabilities		432,079.8	430,289.7	385,599.8	334,744.1	302,079.0	275,489.5
Add: Fair value change		84,366.2	77,774.9	41,938.4	86,657.5	25,278.1	2,456.9
Provision for Linked Liabilities		516,446.0	508,064.6	427,538.2	421,401.6	327,357.1	277,946.4
Funds for discontinued policies							
i) Discontinued on account of non-payment of premium		32,605.6	29,791.6	29,528.4	27,526.7	14,546.7	5,332.4
ii) Others		160.6	148.7	203.6	276.2	170.0	52.1
Total Provision for Linked & Discontinued Policyholders Liabilities		549,212.2	538,004.9	457,270.2	449,203.5	342,073.8	283,330.9
Sub-Total		894,361.9	865,813.3	701,812.7	642,608.1	485,781.0	384,102.5
Funds for Future Appropriations		9,133.4	8,667.8	7,054.8	4,154.6	2,258.6	3,436.8
Funds for future appropriation - Provision for lapsed policies unlikely to be revived		-	-	-	486.8	870.9	3,048.9
TOTAL		944,975.3	912,744.2	739,902.4	672,662.3	510,541.0	412,396.0
APPLICATION OF FUNDS							
INVESTMENTS:							
Shareholders'	XIV	33,451.3	32,314.1	25,537.8	21,947.2	16,135.0	8,557.3
Policyholders'	XV	364,647.9	346,915.3	258,628.8	199,084.9	147,062.4	112,151.8
Assets held to cover Linked Liabilities	XVI	549,212.2	538,004.9	457,270.2	449,203.5	342,073.8	283,330.9
LOANS	XVII	474.4	478.6	930.7	1,256.4	476.8	782.2
FIXED ASSETS	XVIII	3,486.5	3,534.9	3,473.6	3,524.7	2,895.1	2,818.1
CURRENT ASSETS:							
Cash and Bank Balances	XIX	3,148.8	7,973.8	7,273.9	5,726.0	4,450.4	4,640.9
Advances and Other Assets	XX	21,924.1	21,744.4	12,328.8	12,343.5	9,655.2	6,898.2
Sub-Total (A)		25,072.9	29,718.2	19,602.7	18,068.5	14,105.6	11,539.1
CURRENT LIABILITIES	XXI	30,946.0	37,754.7	25,125.4	20,090.9	14,283.3	14,932.9
PROVISIONS	XXII	423.9	467.1	416.0	332.0	274.2	286.5
Sub-Total (B)		31,369.9	38,221.8	25,541.4	20,422.9	14,557.5	15,219.4
NET CURRENT ASSETS (C) = (A - B)		(6,297.0)	(8,503.6)	(5,938.7)	(2,354.4)	(451.9)	(3,680.3)
Miscellaneous Expenditure (to the extent not written off or Adjusted)	XXIII	-	-	-	-	-	-
Debit Balance in Profit and Loss Account (Shareholders' Account)		-	-	-	-	2,349.8	8,436.0
Deficit in the Revenue Account (Policyholders' Account)		-	-	-	-	-	-
TOTAL		944,975.3	912,744.2	739,902.4	672,662.3	510,541.0	412,396.0

Restated consolidated statement of Profit & Loss (Rs. In million)

Annexure - III : Restated Consolidated Statement of Profit and Loss Account (Shareholders' Account/Non-Technical Account)

(₹ 'in Millions)

Particulars	Annexure	For the quarter ended	For the year ended				
		June 30, 2017	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013
Amounts transferred from the Policyholders' Account (Technical Account)		2,546.3	7,863.4	7,182.5	6,708.6	7,654.0	3,900.1
Income from Investments							
(a) Interest, Dividends & Rent - Gross		523.0	1,867.5	1,662.2	1,508.0	997.9	484.8
(b) Profit on sale / redemption of investments		188.2	620.6	137.1	546.6	156.5	229.8
(c) (Loss) on sale / redemption of investments		(11.1)	(153.1)	(85.2)	(29.4)	(2.1)	-
(d) Amortisation of (premium) /discount on investments		(15.9)	(32.0)	(2.0)	7.8	8.4	(3.2)
Sub-Total		**684.2**	**2,303.0**	**1,712.1**	**2,033.0**	**1,160.7**	**711.4**
Other Income		131.5	0.8	105.7	0.1	-	-
TOTAL (A)		**3,362.0**	**10,167.2**	**9,000.3**	**8,741.7**	**8,814.7**	**4,611.5**
Expenses other than those directly related to the insurance business	VIII	78.4	767.5	253.8	230.0	157.4	77.8
Bad debts written off		-	-	-	-	-	-
Provisions (Other than taxation)							
(a) For diminution in the value of investments (net)		(1.7)	(43.5)	32.6	(0.5)	58.6	-
(b) Provision for doubtful debts		-	-	-	-	-	-
(c) Others - Provision for standard and non-standard assets		-	-	0.1	(0.5)	-	-
Contribution to the Policyholders' Fund		24.1	353.9	380.0	466.9	2,173.3	19.0
TOTAL (B)		**100.8**	**1,077.9**	**666.5**	**695.9**	**2,389.3**	**96.8**
Profit / (Loss) before tax		3,261.2	9,089.3	8,333.8	8,045.8	6,425.4	4,514.7
Provision for Taxation		102.9	220.1	165.9	190.7	(827.7)	42.4
Profit / (Loss) after tax		**3,158.3**	**8,869.2**	**8,167.9**	**7,855.1**	**7,253.1**	**4,472.3**
APPROPRIATIONS							
(a) Balance at the beginning of the year		16,061.1	9,836.7	3,829.7	(2,349.8)	(8,436.0)	(12,908.3)
(b) Interim dividends paid during the year		-	(2,197.4)	(1,795.4)	(1,396.4)	(997.4)	-
(c) Proposed final dividend		-	-	-	-	-	-
(d) Dividend distribution tax		-	(447.4)	(365.5)	(279.2)	(169.5)	-
Profit / (Loss) carried forward to the Balance Sheet		**19,219.4**	**16,061.1**	**9,836.7**	**3,829.7**	**(2,349.8)**	**(8,436.0)**
Earnings Per Share - Basic (₹) Refer Note 25 of Annexure XXIV (B)		1.58	4.44	4.09	3.94	3.64	2.24
Earnings Per Share - Diluted (₹) Refer Note 25 of Annexure XXIV (B)		1.57	4.42	4.09	3.93	3.64	2.24
Nominal Value of Share (₹)		10.0	10.0	10.0	10.0	10.0	10.0

The above statement should be read with the Significant Accounting Policies and Notes to the Restated Consolidared Financial Information appearing in Annexure XXIV and other schedules and disclosures appearing in Annexures V - XXXIV