March 18, 2011

India: Insurance

Equity Research

Neglected for too long, merits a relook; initiate on MAXI, BJFS

Initiating coverage on Max India (C-Buy) and Bajaj Finserv (Neutral)

We are initiating coverage on Max India with a Buy rating (on Conviction List) and 12-m SOTP-based target price of Rs190. Key reasons: (1) big correction in valuations (>60% underperformance vs. Sensex over last 2 years) despite an improvement in operating performance; (2) turnaround in its life and health care businesses driven by cost rationalisation/higher utilization; and (3) lower capital requirement for the life business. We also initiate on Bajaj Finserv with a Neutral rating and 12-m SOTP-based target price of Rs650.

Short-term concerns remain, but long-term potential is intact

Both changes in regulations and volatile equity markets will likely impact industry volumes and margins in the near term. We expect industry margins to stabilize at around 12%-14%, while volume growth will likely range between 15% and 18% long-term, i.e. 1-1.3X nominal GDP growth. While we expect FY12 growth to remain muted at 0%-5%, we believe it is time to take a relook at the sector which is now making structural changes to its operations and will see some companies emerge as strong players.

Changing strategies for the better, but still evolving

With the regulatory overhaul, insurers are implementing different strategies. Most plan to focus on ULIPs (unit-linked investment policies (70% of sales), though the share of traditional products will likely increase. The exceptions are Max and Reliance, for whom traditional product sales constitute 60%-70% of business. Within ULIPs there is a preference for single-premium products among a few (e.g. ICICI) to reduce risk of persistency. We believe most insurance sales in India will likely continue to be savings driven (given demographics, income growth) and will continue to dominate this space.

Comparison vs. Asia: Scope for improvement for Indian companies

A comparison with Asia shows Indian companies have significant scope for improvement: (1) 13M persistency ratios in India at 53% to 80% are far below the 78% to 94% for Asian peers; (2) while expense ratios are not strictly comparable, they are high for India at 14% to 27.2% vs. 5.2% to 7.9%; (3) Indian companies make amongst the lowest overall margins (12%-14% vs. >20% for Asia), but similar on savings products. Despite this we expect Indian companies to trade at a premium given likely higher growth in India and a restructuring-driven improvement in persistency ratio and cost ratios.

COVERAGE SUMMARY

	Ticker	Rating	Price (Mar 16)	Target Price	Upside potential (%)
Bajaj Finserv	BJFS.BO	Neutral	539.70	650.0	20%
HDFC	HDFC.BO	Sell	661.70	650.0	-2%
ICICI Bank	ICBK.BO	Buy	1026.60	1245.0	21%
Kotak	KTKM.BO	Neutral	423.60	470.0	11%
Max India	MAXI.BO	Buy*	144.90	190.0	31%
SBI	SBI.BO	Sell	2642.85	2800.0	6%

*Denotes stock is on the Conviction list

MAX INDIA'S P/EV AT LOWS, <1SD BELOW AVERAGE

INSURANCE: CONTRIBUTION TO TP, VALUATION

	Insurance Value (Rs)	% of TP	Insurance Valuation Implied value/EV	Implied value/NBV
HDFC Ltd.	39	6.0%	2.11	26.7
ICICI Bank	91	7.3%	1.68	34.5
State Bank of India	111	3.9%	2.07	27.1
Kotak Mahindra	29	6.1%	1.85	30.5
Bajaj Finserv	470	72.3%	1.55	39.3
Max India	174	91.6%	1.85	30.5

Source: Company data, Goldman Sachs Research estimates.

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The prices in the body of this report are based on the market close of March 16th, 2011

Overview: Industry has been neglected for too long, merits a relook

The insurance sector has gone through a bad patch for over two years – first due to the financial crises which led to a significant correction in equity markets and therefore growth for the sector, and then the regulatory changes, which forced companies to revisit their strategies and business models. While the short-term volatility and uncertainty on volume growth and margin will likely persist for some time, the long-term potential is undoubtedly strong. We believe the market is reflecting the low growth and margin pressure in current consensus estimates and think the downside risk is limited. While investors may still need to be patient we believe it is time to revisit the sector. In this report, we compare the Indian insurance industry with the rest of Asia's, and initiate coverage on Max India (Buy, add to Conviction List) and Bajaj Finserv (Neutral), both of which derive significant value from their respective insurance businesses.

Initiating coverage on Max India (C-Buy) and Bajaj Finserv (Neutral)

In this report on the insurance sector we are initiating coverage on two stocks: Max India (Buy, on Conviction List) and Bajaj Finserv (Neutral). Bajaj Finserv is a financial conglomerate with lending, life and general insurance businesses, while Max India has interests in life insurance, health insurance and the health care business (i.e. hospitals). However, in both these companies a large part of the value is driven by their life insurance businesses.

Max India: We initiate coverage on Max India with a Buy rating and add it to the Conviction List, with an SOTP-based 12-month target price of Rs190 per share. We find compelling reasons to buy: the stock has underperformed the index by 67% over the last two years, while operating performance has been improving, a trajectory that will likely continue. Additionally, life business will require limited/no capital for growth and Max India is sitting on Rs5.8 bn of cash which can be used to fund health care and health insurance businesses. Of these three, the life insurance business contributes 85% of its revenue and accounts for 92% of its SOTP.

Bajaj Finserv: We initiate coverage with a Neutral rating and SOTP-based 12-month target price of Rs650 per share. While its insurance business remains under pressure in the near term, we expect the financial services arm to continue to show strong momentum and RoE improvement on the back of its restructuring exercise. The upside to our insurance value business could arise if FDI regulations do not change and the JV partner Allianz is required to pay the market value for the entity rather than the price based on a contracted formula. We currently assume full value for the 51% stake for Bajaj Finserv vs. potentially a 74% stake. In terms of revenue, we see the life insurance business contributing 40%, general insurance: 5% and finance: 42% of the business in FY11E.

Exhibit 1: Our Max India SOTP-based TP is Rs190…
Max India - SOTP

Subsidiaries & other investments	Max India's Share (%)	Value for Max India (Rs/per share)	Valuation methodology adopted	% of target price
Max New York Life insurance	74%	174	EV + Structural value (12% NBAP margin, 14X multiple)	92%
Max Bupa Health insurance company	74%	5	1x capital invested	3%
Max Healthcare	70%	7	DCF	4%
Implied Value of company		**190**		**100%**

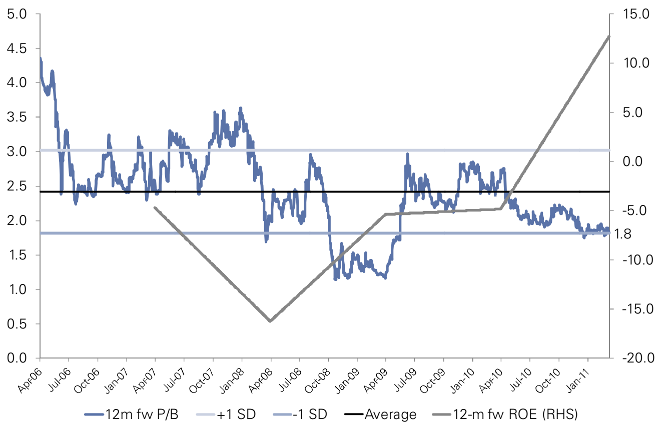
Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: …and Rs650 for Bajaj Finserv
Bajaj Finserv - SOTP

Subsidiaries & other investments	Bajaj Finserv's Share (%)	Value for Bajaj Finserv (Rs/per share)	Valuation methodology adopted	% of total target price
Bajaj Allianz Life Insurance	51%	470	Embedded value + Structural value (12% NBAP margin, 14X multiple)	72
Bajaj General Insurance	51%	35	GS CAMELOT (1x FY12E P/BV)	5
Bajaj Finance	55.4%	129	GS CAMELOT (2.25 x FY12E P/BV)	20
Wind power		17		3
Implied Value of company		**650**		**100**

Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: Max trades at valuations close to -1SD despite having an improving ROE profile…
12-m forward P/B vs. ROE



Source: Company data, Goldman Sachs Research estimates.

Exhibit 4: …but Bajaj Finserv seems to be pricing in the improvement at +1SD above historical averages
12-m forward P/B vs. ROE

Source: Company data, Goldman Sachs Research estimates.

Long-term prospects attractive, despite short-term concerns

Despite the significant regulatory changes that came into effect from 1 September 2010 (see Appendix 2), we believe the long-term prospects for the insurance industry remain attractive on the back of favourable demographics (> 51.7% of the population is aged between 20 and 60, which the United Nations projects will increase to 54.5% by 2020 – an increase of 117mn people), strong growth in GDP (c. 12%-14%) and per-capita income, and urbanization. In the short term, changes in regulations (lower commission payments, lower penalties on surrenders, and longer lock-in) will likely put pressure on volume growth, and margins for the industry. However, we believe this will be long-term positive for the industry as it is already reflected in the changing strategies of companies, which are now attempting to build stronger business models with an increased focus on higher persistency. In addition to regulatory changes, near-term volume growth will also likely be impacted by volatile equity markets, as nearly 70% of product sales are still ULIP-driven, with 70%-80% of the funds flowing into equity-linked products. We expect the insurance industry to deliver 12%-13% growth (private sector negative growth of 2%, LIC growth of 14%) in FY11E, 0%-5% in FY12E and 15%-18% over the next five years between FY13E and FY18E.

Shifting/changing/evolving strategies, for the better

With the new regulations in place, insurance companies have gone back to the drawing board to revisit existing strategies and formulate new ones. Based on our discussions with industry participants, we see three types of product strategies that companies could follow:

1. Focus on traditional savings products (i.e., savings products that are non-transparent, thus the investor does not get details on the policy as they do in ULIPs in terms of charges and investments) vs. ULIPs – given more assured returns and commissions – Max India, Reliance Life.

2. Focus on ULIPs to build their business as these remain a very transparent product and are in the interests of consumers – ICICI, HDFC, Kotak, Bajaj.

3. For those focusing on ULIPs, selling more single premium vs. regular premium products within ULIPs – ICICI, Max.

Companies have also been pushed into revisiting their preferred distribution channels, i.e. banks vs. agents given forced reduction in cost of acquisition.

We believe that strategies will likely evolve for some time as volume growth implications may push companies to revisit their strategies based on their experience. While it is difficult to identify what might be the right strategies at this point in time, we prefer companies with these characteristics:

- **Focused on ULIPs vs. traditional products.** This is for two reasons, in our view: (1) like ULIPs, traditional products could be targeted by regulators, who may reduce the higher commission payouts that currently are key in driving traditional product volumes; and (2) insurance products in India are driven more by savings needs vs. risk products, a transparent ULIP product therefore will likely continue to dominate the market space.
- That are **building solid regular premium business** with increased focus on persistency (HDFC, Bajaj).
- Companies with **banking tie-ups** to market products (ICICI, HDFC).

Margins – market likely factoring in the worst

The new regulations have led to a reduction in surrender charges on lapsed policies (one of the key factors that was driving new business margins for companies) and could thus impact reported margins. To offset margin pressure, and reduce losses, companies have been reducing costs (cost ratios down to 11% to 23% in 3QFY2011, vs. 20% to 32% in FY2008 and 16% to 31% in FY2010). This process had started even prior to the regulatory changes and the cost-cutting measures have been continued in FY2011. We believe the industry’s margins could range between 12% and 14% on a sustainable basis, assuming an increase in persistency ratio and reduction in cost (given renewed efforts on this front) vs. the 17%-20% reported historically.

Moderate growth, lower capital requirements and lower losses

Given the slowdown in volumes and sharp cost reduction measures adopted by companies, we expect insurance companies’ capital requirements to fall. Over the last 10 years, the industry has invested close to US$4.7bn. Both upfront write-offs and volume growth have till now led to higher capital requirements for insurance companies.

Of the key companies we have covered in this note, Bajaj Allianz and SBI Life have been the most efficient users of capital. Likely higher upfront charges and lower expense ratios for the companies have been key reasons for this. Max, Reliance and Birla, on the other hand, have been the least efficient users of capital.

Valuation challenges remain, but we see value emerging

It is always a challenge valuing insurance businesses given the need to make a range of assumptions in order to arrive at EV/MCEVs. This is further complicated by the new regulations in India, which will likely lead to changes in margins that carry relatively lower predictability vs. the historical numbers/margins, as business models were supported by higher lapsed policies. Under the new regulations, this will now have to be supported and driven by persistency, a difficult task given the industry trends so far. The 13th Month Persistency ratios for Indian companies range between 52% and 80% vs. 78% and 93.7% for their Asian peers.

We use the appraisal value method to arrive at our implied value estimates (Embedded value + New Business Value X Multiple). We are assuming a margin of 12% vs. the 18%-21% declared by the companies in FY10 and multiple on NBV of 14X (arrived at using a three-stage VNB discount model – Stage 1 CAGR 17% for 5 years, stage 2 CAGR 14% for 10 years, terminal year growth of 5%, discount rate of 12.5%). Note that recent data shows that the margin for 3Q has been higher for select companies like ICICI Prudential Life at 17.6%. Our implied value estimates range between 1.6X and 2.02X EV vs. 0.44X and 2.45X for listed entities in the rest of Asia.

Exhibit 5: Most companies have been restructuring and consolidating their position over the last two years on the back of financial crises and the regulatory changes of September 2010
Key metrics for private life insurers

	Branches 9MFY11	Agents 9MFY11	Market share in retail APE (%) YTDFY11	AUMs (Rs bn) 9MFY11	Comments
Bajaj Allianz	1,100	167,741	4	392	(1) Focus on small towns and cities for growth (2) Reduced focus on growth increased on product quality (3) Plans to focus on ULIPs - regular premium products (4) Dependence on agency and corporate brokers high
Birla Sun Life	600	151,000	3	157	(1) Has been losing market share over the last two years (2) High proportion of guarantee product an area of concern (3) Needs to build stronger brand/franchise. Lack of own bank a disadvantage
HDFC SL	568	198,879	6	259	(1) Historically focused on longer tenure policies/children and pension products. (2) Will maintain focus on ULIP, pension (if regulator changes guarantee structure) and regular premium (3) Increased dependence on HDFC Bank which accounts for 50% of its sales
ICICI Pru Life*	1,921	168,395	8	662	(1) Remains market leader despite slowdown in premium collection (2) Own bank a big advantage in marketing products, strong brand and distribution (3) Incremental focus will still be ULIPs with SP bias to avoid persistency risk
Kotak Life	203	39,171	2	82	(1) Focus on steady growth, not market share (2) Own bank an advantage (3) Amongst the most efficient users of capital (4) Focus will be ULIP with regular premium bias
Max New York Life*	705	54,699	4	122	(1) Historically used to focus on traditional and wholelife policies, shifted to ULIPs over the last three years and pre-regulation change (2) Post regulations once again has shifted focus to traditional products (2) Has high cost structure v/s other players, recent tie-up with Axis to market products, a positive
Reliance Life	1,248	215,952	4	174	(1) Has gained significant share in the last three years (2) Focus on multi-level product marketing could result in higher lapsations (3) Moved from ULIP, to Universal Life to traditional products post regulation changes, no clear strategy in terms of product focus
SBI Life*	494	65,532	6	369	(1) Focus on mass market, has gained significant share in downturn (2) Banassurance key in distributing products, given significant branch presence (3) Higher lapsation shows lack of focus in building long term business (4) ULIP continues to be area of focus with higher proportion of SP

*Note: SBI all data is as of FY10, ICICI Pru and Max Newyork life – branches data is as of FY10.

Source: Company data, IRDA.

How to value? Appraisal value preferred, despite pitfalls

We are initiating coverage on Max India with a Buy rating (and adding it to the Conviction List) and Bajaj Finserv with a Neutral rating, both of which have a significant degree of exposure to the insurance business. We use the appraisal value method to value their insurance businesses, which is based on the EV (Embedded Value) of FY12E + FY2012E NBV (New Business Value) X implied multiple on VNB (Value of New Business). Both these companies have a range of businesses and we use the SOTP methodology to arrive at our implied value estimates given the disparate businesses.

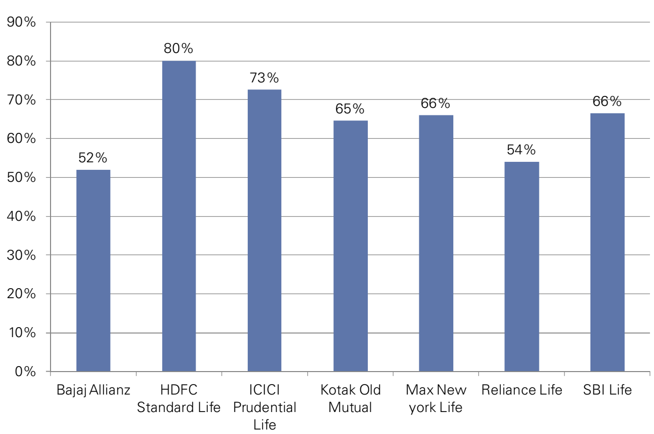
Appraisal value appropriate, given uncertainty on earnings

Appraisal value method appropriate…: We value insurance companies using the appraisal value method (EV + NBV X multiple). We believe this method is still the most appropriate method for valuing insurance companies in India, given: (1) uncertainties surrounding the P&L from new regulations. We believe companies are in the process of revisiting and re-jigging their strategies and the full impact of the changes will likely get reflected in the profit and loss over the next two years; and (2) Indian accounting is far more conservative vs. the other markets as companies are required to charge off their entire expenses upfront, reducing profit numbers in high-growth periods and distorting relative valuations of companies.

...though this too has issues: Even the appraisal value method has shortcomings: (1) not all companies disclose EVs in India, and those that do, do not provide details of non-economic assumptions used in arriving at their NBV. Margin for companies could be influenced by assumptions pertaining to persistency ratios, term of the product – i.e., the longer the term, the higher the margin will be, actual expenses vs. estimated, tax rates, and so on; and (2) regulatory changes will impact margins earned by companies, the extent of which is not yet clear. For the purposes of our valuations, therefore, we have assumed significantly lower margins at 12% vs. declared numbers of 18%-20%. We arrive at our multiples using a 3-stage VNB discount model.

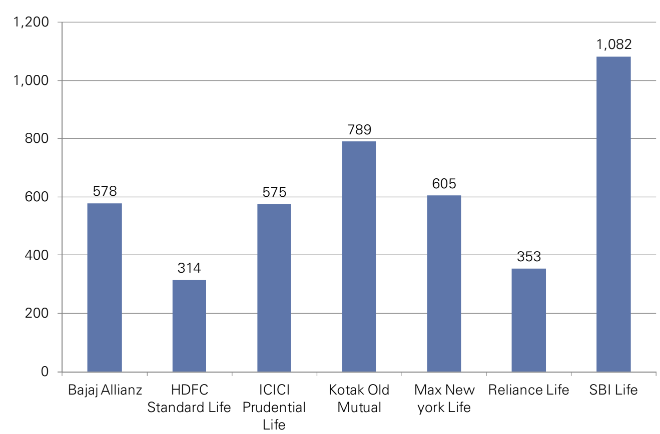
Focusing on key assumptions to get comfort on margins: We believe it is fairly difficult at this stage of the market's development, especially with the regulatory changes, to arrive at companies' bottom-line numbers with some degree of confidence. Getting comfort on margins is therefore key in arriving at implied value estimates of companies. We have therefore highlighted a few key assumptions that we think will drive margins for companies, e.g. the higher the persistency the better the margin should be (more so under the new regulations.

Exhibit 6: Persistency ratios are low in India
13th Month Persistency ratio as of 9MFY11



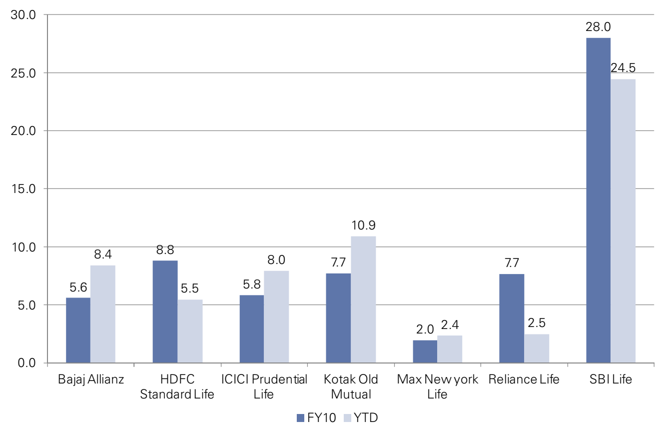
Source: Company data.

Exhibit 7: Higher productivity should typically lead to lower expenses and better margins long-term. SBI Life and Kotak have the most productive agents
Retail premium (Rs '000s) to average agent as of FY10



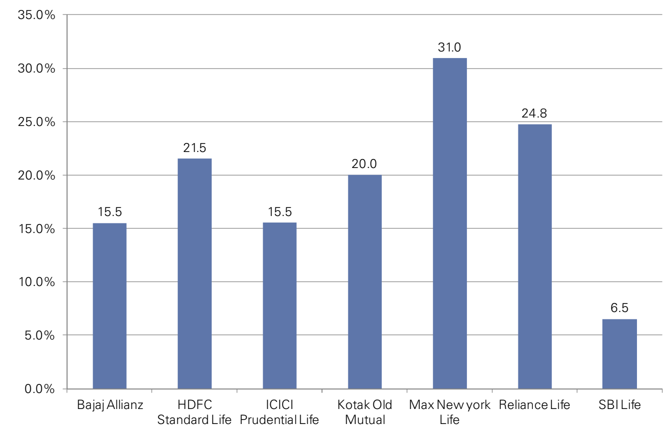
Source: Company data.

Exhibit 8: Group business is generally less profitable vs. retail. SBI life has a sizeable group business.
Group premium as a % of total premium as of FY10, ytd



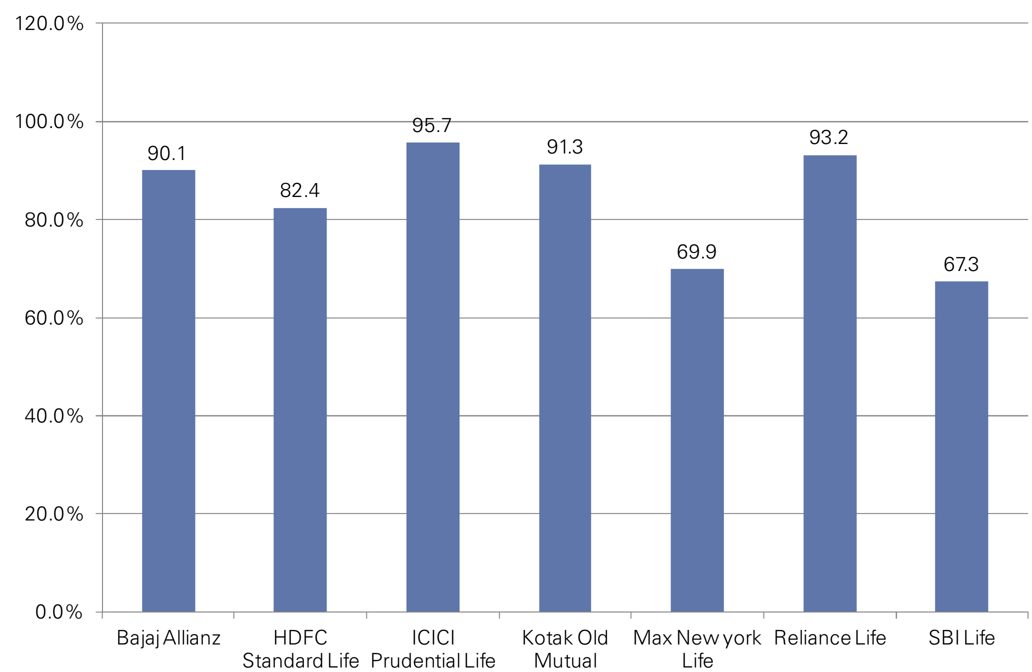
Source: Company data.

Exhibit 9: Lower sustainable expense ratios could lead to higher margins
Operating expenses as % of total premium as of FY10



Source: Company data.

Exhibit 10: Product mix relevant for margin. Margin is generally high for term policies, followed by ULIP (if persistency is high and product tenure long) and then traditional products (par guaranteed products less profitable, vs. non-guaranteed). Most companies have a high ULIP component, followed by traditional and then term.
Linked gross premium as a % of total premium as of FY10



Source: Company data.

Comparability difficult: some companies disclosing MCEV, most EV

Currently four insurance companies – ICICI Prudential Life, Max New York Life, Bajaj Allianz Life and Birla Sun Life – are declaring EV and HDFC Standard Life MCEV. While eventually all the companies will in our view move to MCEV, the EV and MCEV margin varies, with MCEV being high in India given the significant ULIP proportion of policy sales. In addition, not all companies are declaring the EV on the entire business, i.e. only on the retail business (e.g. Birla Sun Life, HDFC SL). Comparing numbers across companies therefore remains a challenge.

Exhibit 11: Key differences between EV and MCEV
Key definitions

Embedded value = EV	Market Consistent Economic Value = MCEV
EV = Embedded value = PV of profit on policies in-force + Net Asset Value	Free surplus + required capital + value of in-force business - time value of financial options and guarantees Free surplus = market value of capital allocated to the covered business but not required to support it MCEV = Market value of assets – market consistent value of liabilities – frictional cost of capital (allowance for taxes and cost on own investments)
Forecast net income and discount at risk discount rate at discretion of management	Discount liabilities at risk free rate and income from investments at the market rate
Asset arbitrage can impact the value of the shareholders's interest in the covered business. The value of business can increase when assets are moved to riskier assets	MCEV places no value on potential profits arising from taking on risk that could have been hedged in the first place i/e selecting assets does not create value. Market assumes investors will not compensate companies who take risks that can be hedged.
	Increases volatility in VNB, specially in crises situation where liquidity can distort earnings/asset values

Source: Goldman Sachs Research.

Impact of MCEV on margin

- Term insurance – increases, as discount rates are lower.
- Traditional policies – margin falls when asset risk premium is reduced.
- ULIPs – in between the above two. Low-risk products such as ULIPs without guarantees show higher economic profit compared to traditional products.

Multiple factors influencing valuations

We believe multiple factors could influence the long-term value assigned to insurance companies in India. Key amongst them:

NBV multiple will reflect growth potential: While the life insurance industry has suffered over the last two years, first due to stock market volatility and then regulatory changes, we think the long-term growth trajectory for premium income remains strong. Rising disposable income, changing demographics and a strong economy will, we believe, drive growth rates of over 15%-18% (vs. nominal GDP growth of 12%-15%) over the next 10-15 years in premium collection. We believe this will translate into higher multiples on the NBM for Indian companies compared to other Asian markets.

Margin likely to stabilize in FY2012: We estimate the industry's average new business margin will come down from historical levels of 17%-20% and stabilize at around 12%-14%, reflecting regulatory changes and a higher tax rate. We assume the tax rate for the industry will increase to 25% post implementation of the Direct Tax Code vs. the current level of 14%.

Stock market performance: Given the high proportion of ULIPs and equities as a proportion of overall sales, significant swings in markets can influence premium growth and therefore valuations of insurance companies.

Regulatory risks: Post the major changes made on the ULIPs and Universal Life (a traditional product with features similar to ULIPs), regulators may at some stage we believe make changes to traditional products. This could impact volumes and margins. Based on our discussions with industry participants, we believe the regulator may also try to regulate/issue norms on distribution channels.

Market likely to ignore ea rnings for now: In the long term, the market will likely focus on both earnings growth and EV to value insurance companies. In the near term, though, projecting earnings will be a challenge as companies struggle to implement and stabilize new strategies.

Exhibit 12: Valuations will likely carry upside risk if companies report higher margins
Indian insurance companies – valuation summary

Valuation Summary	Bajaj Allianz Life	HDFC Standard Life	ICICI Prudential Life	Kotak Life	Max Newyork Life	SBI Life
Capital invested FY11E (Rs mn)	21,398	23,233	50,302	4,099	21,560	10,000
AUM of Insurance company (Rs bn) 3QFY11	392	259	662	82	123	369
APE (Rs mn) for FY12E	31,461	29,598	43,303	9,135	17,185	37,015
(yoy growth %)	4%	0%	7%	5%	4%	10%
NBV (Rs mn) FY2012E (assuming 12% margin)	3,775	3,552	5,196	1,096	2,275	4,442
New Business Multiple (X)	14	14	14	14	14	14
Structural Value (Rs mn) (A)	52,854	49,725	72,749	15,347	31,850	62,185
EV FY2012E (Rs mn) (B)	95,689	44,971	106,453	18,083	37,444	58,271
Value of insurance business GS Estimates (Rs mn) (A+B)	**148,543**	**94,696**	**179,202**	**33,430**	**69,293**	**120,456**
US$ mn	3,301	2,104	3,982	743	1,540	2,677
Implied value to EV (X)	1.55	2.11	1.68	1.85	1.85	2.07
Implied value to NBV (X)	39.3	26.7	34.5	30.5	30.5	27.1
Implied value to Capital invested (%)	6.9	4.1	3.6	8.2	3.2	12.0
Implied value to AUM (%)	37.9	36.5	27.1	40.9	56.6	32.7
Capital invested to AUMs (%)	5.46	8.96	7.60	5.02	17.60	2.71
FY11E EV/ capital invested (X)	3.66	1.55	1.81	3.70	1.49	4.88

Source: Company data, Goldman Sachs Research estimates.

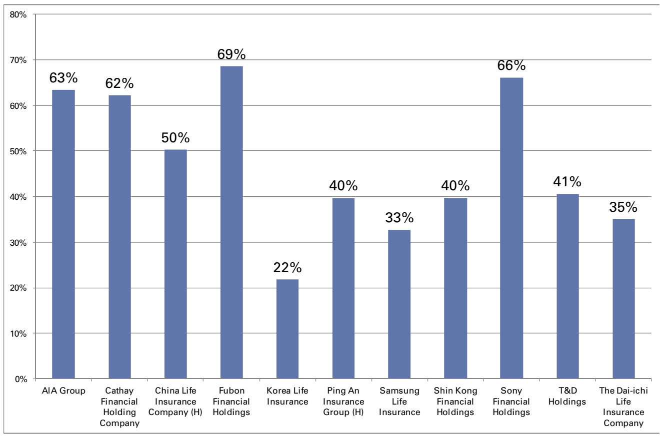
Exhibit 13: Insurance business contribution to SOTP is low for most, except Bajaj Finserv and Max India
Value of insurance business in SOTP

	Ticker	Rating	Current price (Rs)	Insurance Value (Rs)	Group TP (Rs)	% of TP
HDFC Ltd.	HDFC.BO	Sell	662	39	650.0	6.0%
ICICI Bank	ICBK.BO	Buy	1,027	91	1245.0	7.3%
State Bank of India	SBI.BO	Sell	2,643	111	2800.0	3.9%
Kotak Mahindra	KTKM.BO	Neutral	424	29	470.0	6.1%
Bajaj Finserv	BJFS.BO	Neutral	540	470	650.0	72.3%
Max India	MAXI.BO	Buy*	145	174	190.0	91.6%

*Indicates the stock is on the Conviction List.
For important disclosures, please go to http://www.gs.com/research/hedge.html.

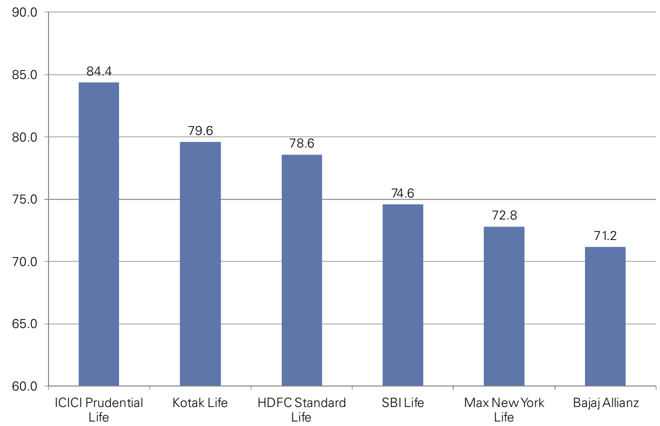
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 14: Value of in-force business is low for most Asian companies given more mature business
VIF as % of EV, Asian comparison (2011E)



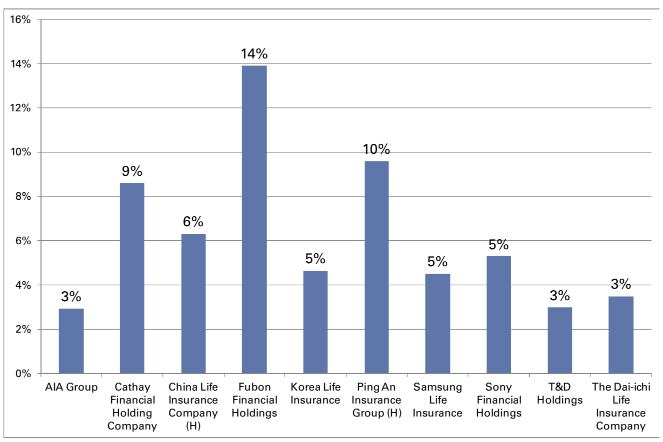
Source: Company data, Goldman Sachs Research estimates.

Exhibit 15: Indian companies started operations in 2000 and are still building this business as is reflected in the higher VIF value in EV
VIF as % of EV – FY12E



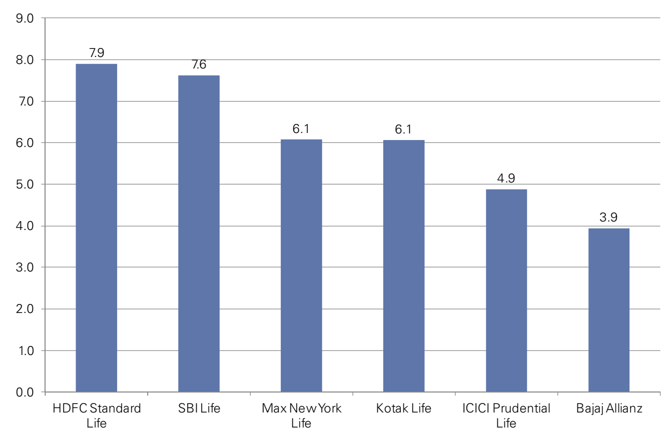
Source: Company data, Goldman Sachs Research estimates.

Exhibit 16: VNB value, however, is high in the case of Asian companies
VNB as % of EV Asian comparison (2011E)



Source: Company data, Goldman Sachs Research estimates.

Exhibit 17: India is low, likely due to the recent slowdown/moderation in growth
VNB as % of EV – FY12E



Source: Company data, Goldman Sachs Research estimates.

Exhibit 18: Indian and Chinese life insurers get higher values, reflecting growth potential
Key metrics for Asian Insurers

Asian Life Insurers	Multiple on NBV (X)	Implied value to EV (X)	Implied value to NBV (X)
China Life	19.4	2.2	35.2
Ping An	21.6	2.9	32.8
Samsung Life		1.2	27.8
Korea Life		0.9	19.0
Dai-ichi		0.5	14.0
Sony Financials		0.8	15.0
T&D		0.5	16.7
Indian Life Insurers			
Bajaj Allianz Life	14.0	1.6	39.3
HDFC Standard Life	14.0	2.1	26.7
ICICI Prudential Life	14.0	1.7	34.5
Kotak Life	14.0	1.8	30.5
Max Newyork Life	14.0	1.9	30.5
SBI Life	14.0	2.1	27.1

Source: Company data, Goldman Sachs Research estimates.

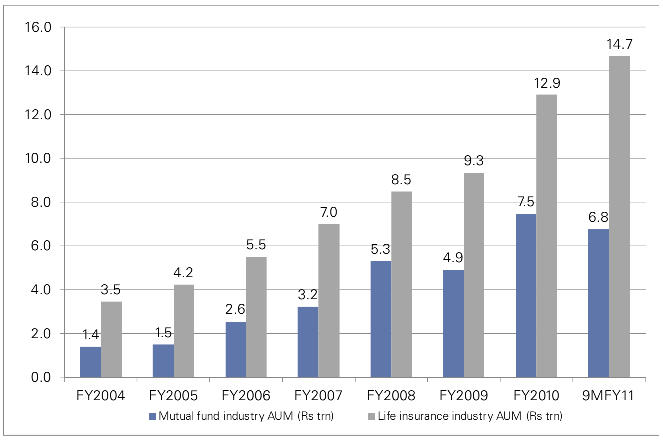
Premium income: Strong potential, despite short-term challenges

Macro analysis indicates that the potential for insurance premium income still remains high in India. At 4.6%, the life insurance premium income to GDP ratio for India is lower than for developed countries such as Korea (6.5%), Japan (7.8%), Taiwan (13.8%) and the UK (10%). Note that the penetration level in the US is lower at 3.5% as savings are garnered by mutual funds and under 401Ks. While the premium income to GDP is not right at the lower end, the per capita income is still low, plus we believe India's premium income to GDP ratios are likely inflated by the higher savings component vs. other markets. A comparison with developed markets indicates that premium growth increases significantly when income levels reach US$10,000. India is currently at US$1,176 and we see this increasing (11.5% CAGR growth last ten years). This is likely as disposable income will increase at a faster pace then the GDP, with a lower proportion of income going towards basics such as food.

This is also supported by favourable demographics, expectations of higher returns and the risk-taking capability of the younger portion of the population (32% aged between 20 and 40). Insurance in India is not just a risk product, but more of a savings product, and will benefit from this demographic dividend. Unlike the West, where mutual fund plays a bigger role in channeling the savings of retail investors, the insurance industry in India is channeling retail savings to the equity and debt markets.

Exhibit 19: Both insurance & mutual fund assets have been growing

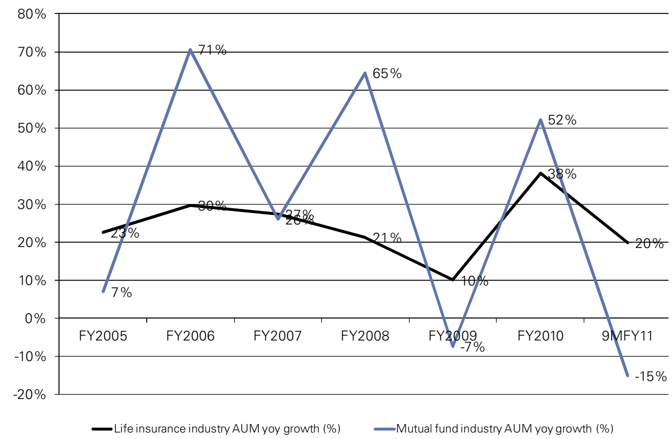
Life Insurance, Mutual Fund AUMs in Rs tn



Source: IRDA, AMFI.

Exhibit 20: The MF industry AUMs have grown 28% and insurance 23% CAGR over the last five years

Growth in AUM for Life Insurance and Mutual Fund industry



Source: IRDA, AMFI.

Exhibit 21: Our key bottom-up projections of 2009-2014 life insurance premiums' CAGR for sectors we cover, referenced against Swiss Re estimates and IMF nominal GDP growth estimates – we expect composite growth for Asia in the 13%-15% range (with China, given its size, skewing the region's growth rate upwards)

LIFE INSURANCE PREMIUMS ($US MM)	IMF nominal GDP growth CAGR ests 2009-2014	Swiss Re life prem projections 2009	2014	'09-'14 CAGR	2004-2009 life premiums CAGR	2009 Penetration rate (%)	2009 Density rate (US$)	GS Research projections on life premiums growth '09-'14 CAGR	Comments
Hong Kong	5.2%	18,704	28,495	8.8%	9.9%	9.6%	2,887	9%-11%	8% core premiums growth + potential lift from RMB denominated insurance scheme
Thailand	8.5%	6,518	10,856	10.7%	15.0%	2.4%	92	11%	In line with Swiss Re projections
Singapore	6.2%	9,112	15,418	11.1%	6.2%	5.1%	1,912	7%-9%	Relatively mature market
Malaysia	8.6%	5,972	9,355	9.4%	6.2%	2.9%	207	8%-9%	In line with Swiss Re projections
China	11.4%	103,547	210,074	15.2%	26.0%	2.3%	81	16%-18%	26% CAGR in past 5 years, some slowdown, but many provinces still in per capita incomes take-off phase, secular ageing trend from 2015 onwards
South Korea	9.1%	56,355	85,280	8.6%	3.4%	6.5%	1,181	5%-6%	Variable life, retirement penson growth of c.10%, traditional life gwth of c.3% at best
Philippines	9.1%	1,060	1,959	13.1%	15.5%	1.0%	17	14%	Still very low penetration rates; expect 204-2009 CAGR to sustain into 2014
Indonesia	14.4%	4,069	8,039	14.6%	21.0%	0.9%	22	20%-25%	1999-2008 CAGR of 26%, still only 1% penetration rate
Vietnam	11.6%	658	1,250	13.7%	6.7%	0.7%	8	14%	Using Swiss Re projections
Taiwan	8.9%	46,013	67,611	8.0%	9.4%	13.8%	2,257	6%-8%	2003-2009 CAGR of 7.6%, mature market
India	10.0%	54,266	114,994	16.2%	26.7%	4.6%	48	12%-13%	Lower projection on 15% decline in NBP in 2011 given recent changes on unit-linked products, surrenders have also been high. Expect 15%-25% CAGR subsequently, i.e. premiums to nominal GDP normalizing at c.1.5X
Australia	6.6%	36,579	58,411	9.8%	4.8%	3.4%	1,525	10%	In line with Swiss Re projections
New Zealand	5.2%	1,002	1,444	7.6%	8.1%	0.9%	249	7%-8%	In line with Swiss Re projections. But headline a bit deceptive, as recent tax changes likely to force insurers to put through a series of large premium rate increases on new business just to maintain profitablity
Asia Pacific	**10.2%**	**343,856**	**613,187**	**12.3%**	**13.5%**	**3.6%**	**113**		

Source: Swiss Re as of February 2010, IMF, Goldman Sachs Research.

Short-term growth impacted by IRDA regulation

We estimate a flat to lower growth in premium income for FY2011 as companies struggle to change their models on the back of recent regulatory changes pertaining to lower commission/charges, lower AUM fees, and surrender charges on ULIP products (key changes implemented by IRDA are provided in Appendix 2). However, this does bode well from customer's perspective and should translate into higher growth in premium collection long-term. We estimate FY2011 premium income to grow at 0%-5%, rising to 15%-20% in FY2013 to FY2015.

Exhibit 22: India is most focused on ULIP products vs. other Asian markets, which has led to lower growth in premium collection

Share of premium collection across policies

	Korea	Taiwan	Japan	HK	India
Whole life	37	56	13		
Term insurance	14	13	31		
Unit Linked Policies	23	15	-	22-26	70-95
Individual annuities	27	15	12		
Others	-	-	44	75- 78	5 - 30

Source: Insurance regulators.

Exhibit 23: Industry growth has been impacted in the recent past by regulatory changes and volatility in stock markets

Premium income collection for key companies and industry – 1HF11, YTD (Jan-2011)

		Individual Single Premium		Individual Non Single Premium		Total group		Total	
Total Premium collection		Rs mn	y-o-y (%)	Rs mn	y-o-y (%)	Rs mn	y-o-y (%)	Rs mn	y-o-y (%)
Bajaj Allianz	1HFY11	5,570	136.5	13,055	-33.7	4,732	47.6	23,357	-7.5
	YTD	6,133	140.9	14,255	-37.7	5,385	51.7	25,773	-11.0
Birla Sunlife	1HFY11	221	-33.0	11,598	-26.9	2,542	-39.9	14,360	-29.7
	YTD	247	-30.8	12,576	-27.6	2,831	-34.6	15,654	-29.0
HDFC Standard Life	1HFY11	2,910	172.8	20,123	24.4	2,669	-2.9	25,702	28.6
	YTD	3,636	218.0	22,451	20.0	3,151	12.5	29,237	29.1
ICICI Prudential	1HFY11	9,601	879.7	28,543	-7.9	8,362	31.7	46,506	21.3
	YTD	12,719	1112.5	30,226	-16.4	9,027	32.2	51,972	18.0
Kotak Life	1HFY11	311	-31.2	5,279	-8.4	1,682	73.0	7,272	1.2
	YTD	614	-13.5	5,818	-10.4	2,080	90.0	8,513	2.6
Max NY	1HFY11	1,595	5.4	12,363	7.5	885	36.8	14,844	8.7
	YTD	1,751	6.1	13,541	8.0	984	42.5	16,275	9.4
Reliance Life	1HFY11	3,735	154.5	15,119	-18.9	1,185	-26.2	20,039	-7.7
	YTD	4,194	155.0	16,297	-21.5	1,223	-32.8	21,714	-10.4
SBI Life	1HFY11	9,962	208.3	20,207	-21.7	16,811	12.9	46,980	7.0
	YTD	11,738	224.7	21,997	-25.1	19,014	22.8	52,750	8.9
Private players	**1HFY11**	**44,147**	**191.8**	**162,451**	**-10.4**	**43,205**	**15.5**	**249,803**	**6.8**
	YTD	**52,877**	**210.1**	**177,222**	**-14.2**	**48,548**	**22.3**	**278,647**	**5.8**
LIC	1HFY11	220,610	34.6	157,959	16.6	238,616	67.6	617,185	39.7
	YTD	234,170	29.9	180,784	16.1	256,399	66.2	671,353	37.0
Industry	**1HFY11**	**264,758**	**47.9**	**320,411**	**1.2**	**281,820**	**56.7**	**866,989**	**28.3**
	YTD	**287,047**	**45.5**	**358,006**	**-1.2**	**304,947**	**57.2**	**950,000**	**26.1**

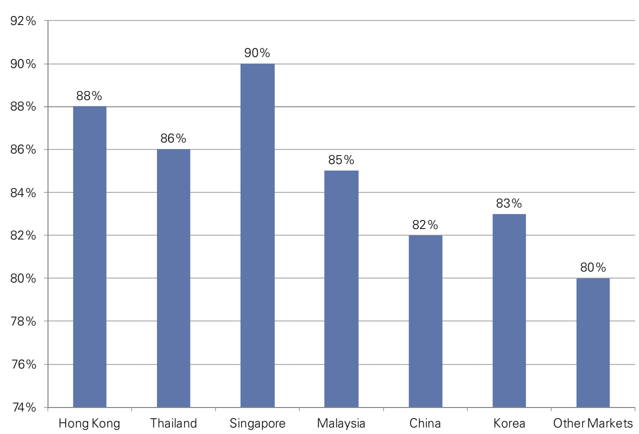
Source: IRDA.

Recent shake-up forcing companies to focus on persistency

Till now the market has largely been focused on new business income and not renewal premium for valuing insurance companies. As a matter of fact, higher lapses or surrenders helped companies report higher margin or profit or lower losses as companies charged hefty surrender charges and retained a large part of the lapsed funds. Reduction in surrender charges was thus a game-changer, from the company making money to the customer making money.

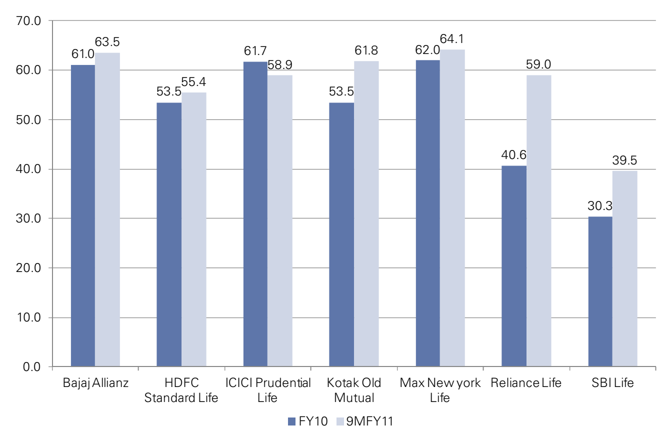
Companies will now have to focus on persistency to protect margins. For example, if persistency falls to 75% from 85%, the margin will fall to 10% from 15%.This we believe is a clear challenge given: (1) the market is not necessarily developed for long-term products, (2) sales benefit from churn and encourages early withdrawals, and (3) lower surrender charges on surrender/lapsed policies will make it easier for customer to withdraw funds given removal/reduction of disincentive, i.e. lower surrender charges. We believe companies are therefore planning to focus on single-premium products, link commissions to persistency and even changed policies to annual payment vs. quarterly to reduce lapses.

Exhibit 24: Ratio of renewal premium to total premium high for Asia-wide companies…
Renewal premium to gross premium for Asia in % (2011E)



Source: Company data.

Exhibit 25: …but low for Indian companies, reflecting short-term product sales and low persistency levels
Renewal premium to gross premium (%) as of FY10, 9MFY11



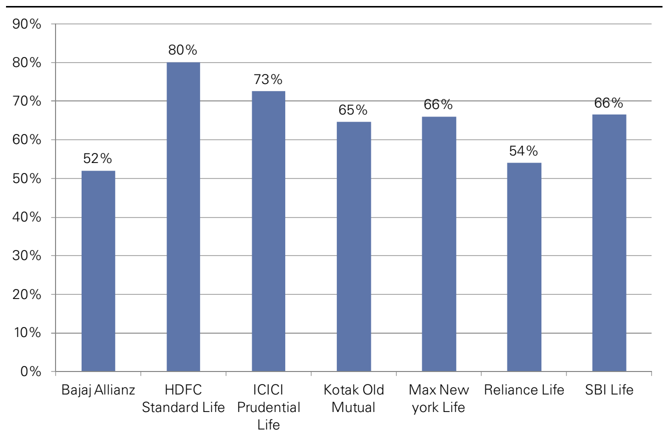
Source: Company data.

Exhibit 26: Persistency ratios are clearly high in Asia, ranging between 78% and 93.7%...
13th month persistency ratio for Asian insurers – latest data

	13-month persistency (latest available)	Lapse rate
AIA	94.1%	NA
AXA AP (HK)	86.0%	NA
Cathay	95.7%	NA
China Life	93.8%	NA
Dai-ichi (12-month)	92.8%	7.2%
Korea Life	82.3%	2.5%
Ping An	90.0%	NA
Samsung Life	82.3%	2.5%
Sony Financials (12-month)	95.2%	4.8%
T&D (12-month)	93.0%	7.0%

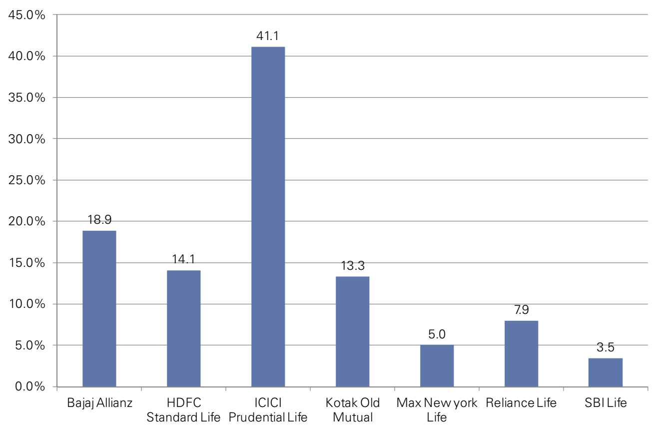
Source: Company data, Goldman Sachs Research estimates.

Exhibit 27: …compared to 54%-80% in India
13th month persistency ratio as of Dec 2010



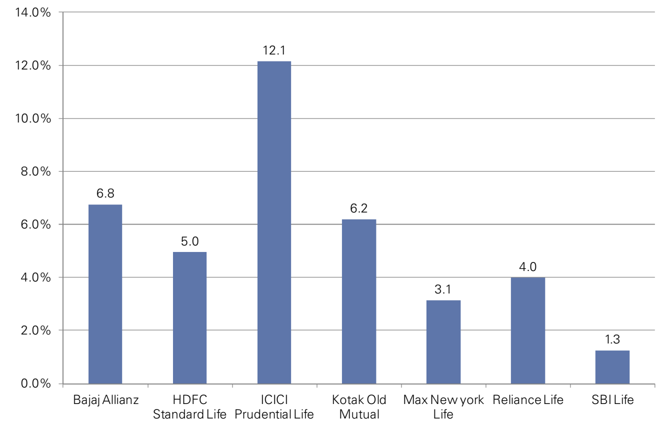
Source: Company data.

Exhibit 28: Not only do policyholders let policies lapse, but also surrender them early. Nearly 15% to 25% of the premium income is surrendered
Surrender to gross premium income in % as of FY10



Source: Company data

Exhibit 29: This is also reflected in the higher surrender AUMs
Surrender to AUMs in % as of FY10



Source: Company data.

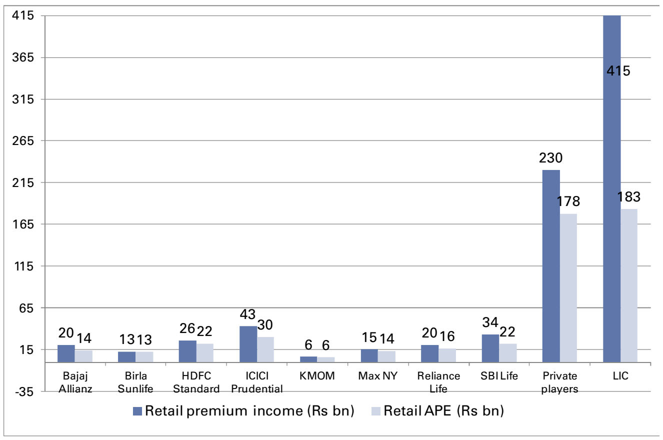
Some companies plan to sell more SP to avoid persistency issues

Premium income can be received by insurance companies in any of the following three forms:

- **Single-premium product** – the premium is received upfront.
- **Limited pay product** – the premium is received over a couple of years.
- **Regular premium product** – typically quarterly/half-yearly or annual premium received over 5-15 years (till recently products were sold for a minimum period of three years, and generally most policy sales were skewed towards the three-year product with very little coming in a longer tenure).

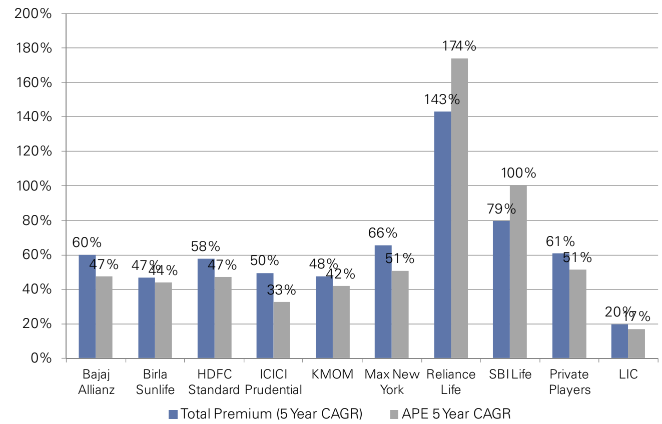
Till now most private companies were focused on regular premium products – likely given higher profitability and likely low success ratio in selling single-premium products. However, given changes in regulations and concerns relating to the higher lapse ratio, most private companies now seem to indicate a preference for single-premium products. Additionally, the commission structure too is better for the distributors on single-premium products encouraging in a shift to these products. The two companies that have managed to sell single-premium products are LIC and SBI Life.

Exhibit 30: Bajaj, ICICI, Reliance, SBI selling more SP products, leading to lower APE vs. declared premium
Retail premium income and retail APE (Rs bn) as of FY10



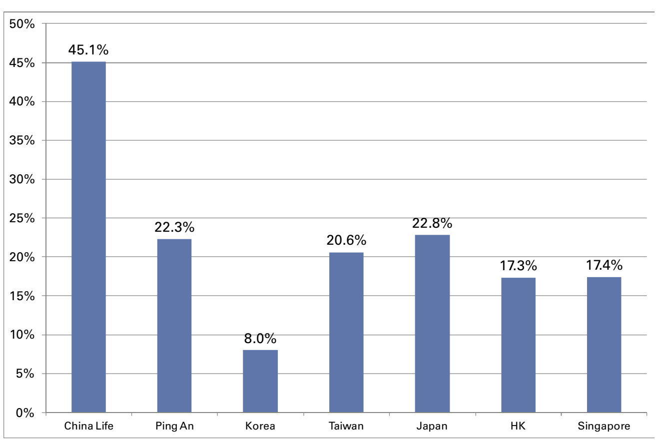
Source: IRDA.

Exhibit 31: Private sector have reported strong growth in premium income of 61%, even adjusted for single premium this was high 51%
5-year CAGR in total premium income, APE in %



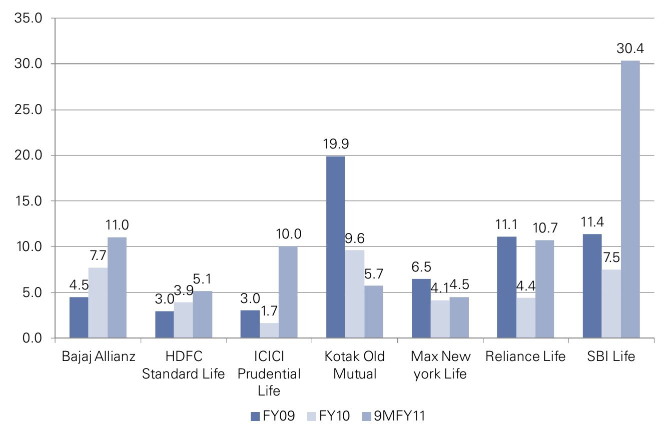
Source: IRDA, Goldman Sachs Research.

Exhibit 32: Most of Asia has high single premium income
SP to total premium income in % (2011E)



Source: Company data.

Exhibit 33: Still low for India, now likely to rise as companies try and reduce persistency risk
Single premium as % of total premium: FY09, FY10, 9MFY11

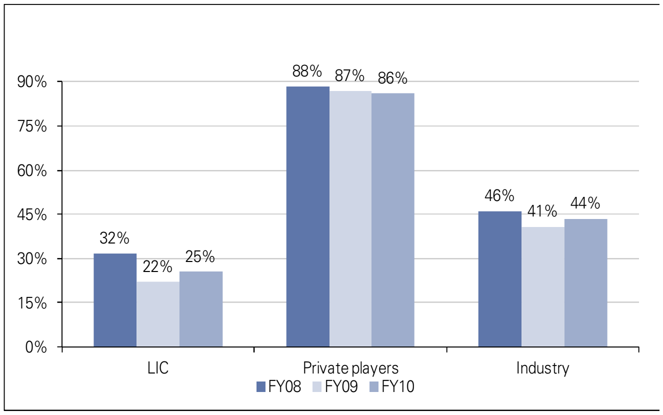


Source: IRDA.

Despite persistency issues, ULIP remains preferred choice

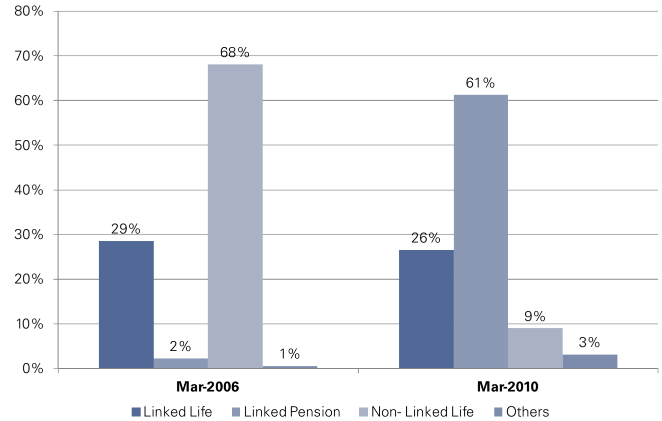
Unlike other parts of Asia, the Indian market is largely driven by ULIPs. Higher returns (given investments in equities) and transparency have been key reasons for the product finding a strong demand. Even companies have preferred this product given the relatively higher margin on ULIPs vs. traditional products. In India, companies have to share 90% of the profit earned on traditional products with policyholders (vs. 70% in China). In addition, 65% of the funds under traditional products have to be invested in government bonds, where yields/returns are low relative to equity, making this a less attractive investment. Nearly 70% of incremental sales (even post the new regulations) is driven by ULIPs, with an estimated 65%-75% of the funds flowing to equity-linked funds.

Exhibit 34: Over 85% of total premium collection for private sector and 25% for LIC is in ULIP products
ULIP as % of total premium (new + renewals) industry (%)



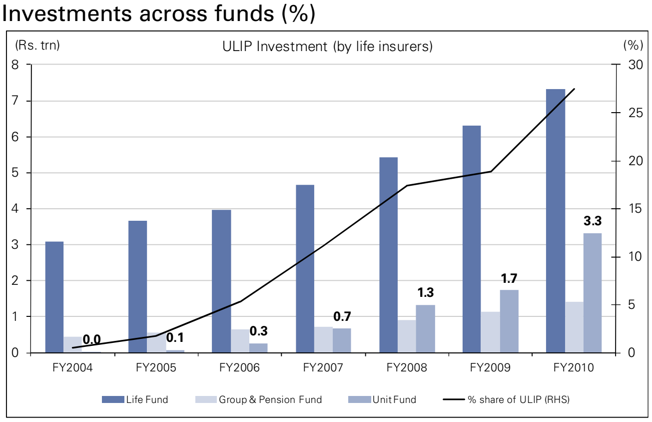
Source: IRDA.

Exhibit 35: Most of the new fund inflows is in unit-linked products
New business premium income split in % Mar-06, Mar-10



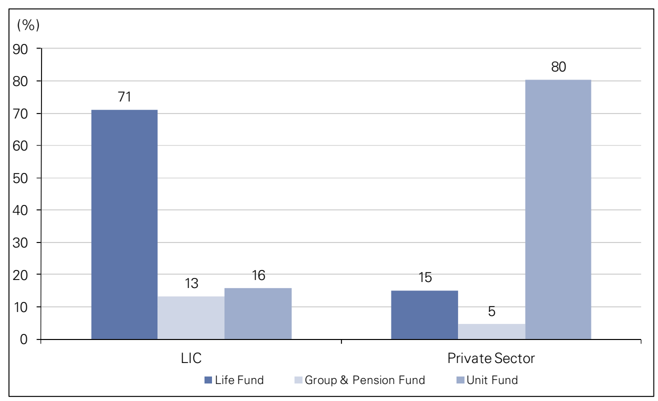
Source: Life insurance council.

Exhibit 36: This is reflected in the total investments in ULIP funds, which now account for 27.5% of total investments
Investments across funds (%)



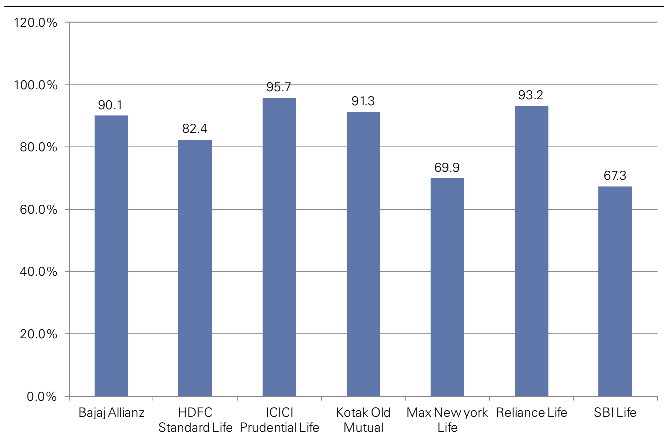
Source: IRDA.

Exhibit 37: Investment in ULIPs are clearly more in the case of private companies vs. LIC, given LIC has a larger back-book of traditional products (FY2010)
Fund-wise investments of life insurance funds



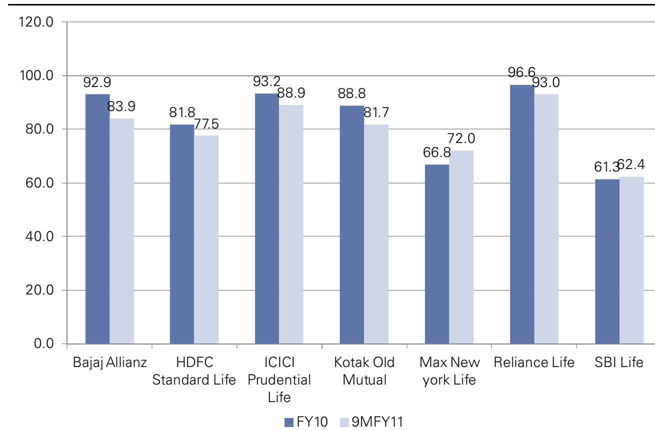
Source: IRDA.

Exhibit 38: ULIP products dominate premium collection for companies
Linked gross premium to total premium in % as of FY10



Source: Company data.

Exhibit 39: Over 60% of AUM in linked policies
Linked AUM to total AUM in % as of FY10, 9MFY11

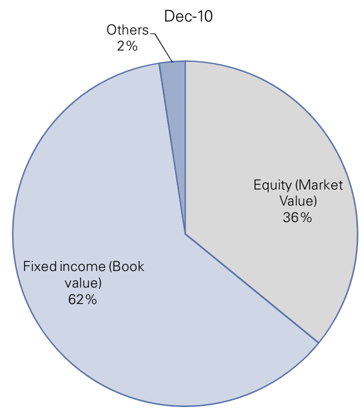


Source: Company data.

Equity market influences premium growth more than interest rates

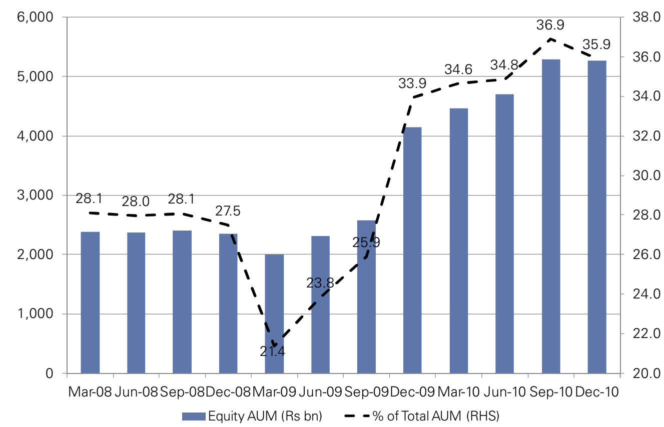
While insurance income should be less volatile, the premium income mix in India has made this an extremely cyclical business which is impacted both by economic growth and equity markets as a large part of funds in India are invested in equity funds. Given a lower proportion of debt, interest rates changes will have a less direct impact on insurance products.

Exhibit 40: Significant investment in equity portfolio
Splits of AUM in to Equity, FI and others as of Dec 2010



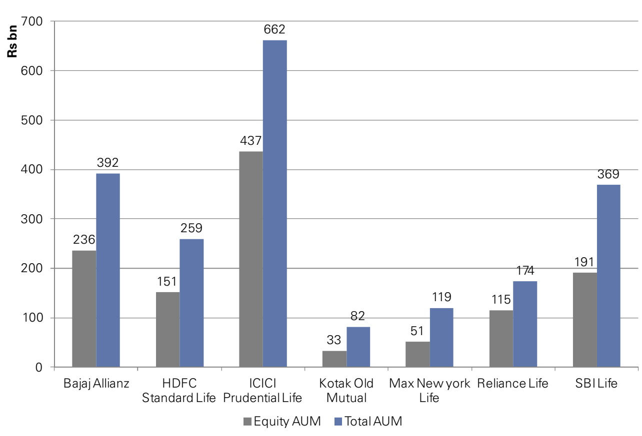
Source: IRDA.

Exhibit 41: Equity AUMs
Equity AUMs of life insurers (Rs bn), % of total AUMs



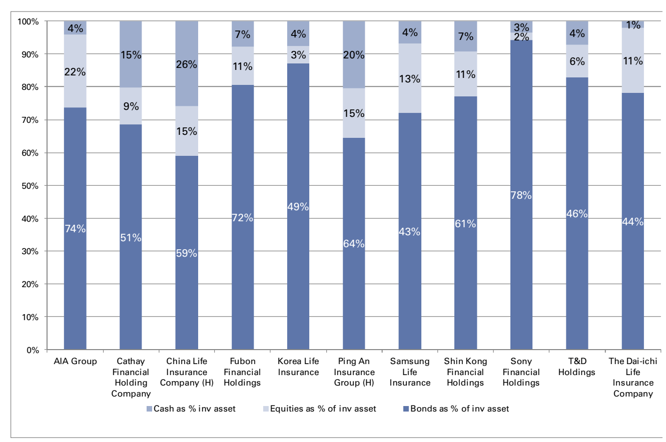
Source: Life Insurance Council.

Exhibit 42: 50% to 60% of AUMs are invested by private companies in equity
Equity AUM, Total AUMs (Rs bn) as of 9MFY11



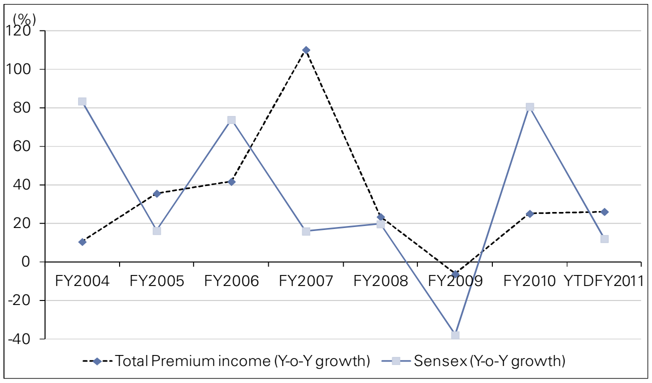
Source: Company data.

Exhibit 43: Investments in equity is far lower in Asia vs. in India
Allocation of funds of key insurance companies in Asia (%)



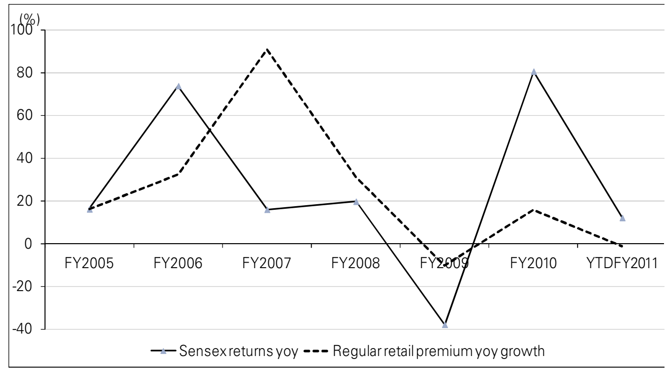
Source: Life Insurance Council.

Exhibit 44: Thus the stock market influences growth in premiums. There is a 41% correlation between Sensex returns and 1-yr forward total new premium growth
Yoy change in Sensex and total premium growth in %



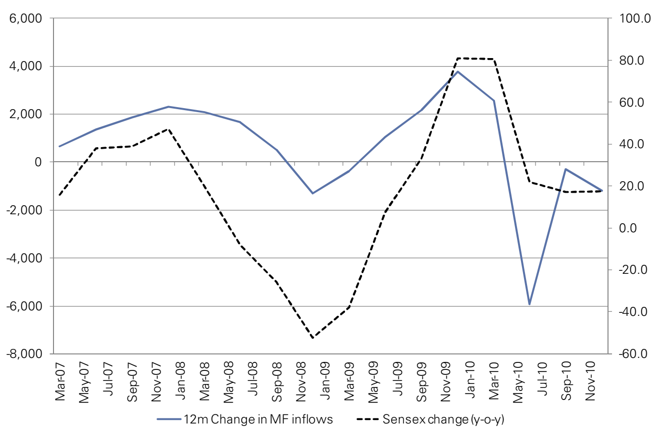
Source: IRDA, Factset.

Exhibit 45: 15% correlation between Sensex returns and 1-yr forward new retail regular premium growth
Yoy change in Sensex, new retail premium income growth in %



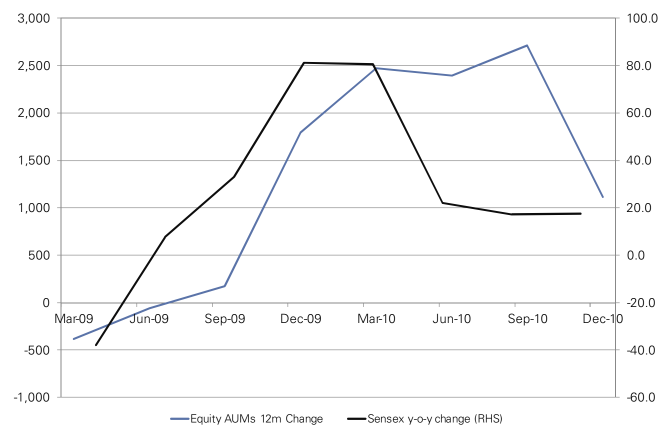
Source: IRDA, Factset.

Exhibit 46: Mutual fund inflows are clearly impacted by changes in the equity market (%)…
Sensex chg yoy, 12m change in MF inflows (Rs bn)



Source: Bloomberg, AMFI.

Exhibit 47: …which is also reflected in insurance companies' AUMs
Sensex chg yoy, 12m chg in Insurance equity AUMs (Rs bn)

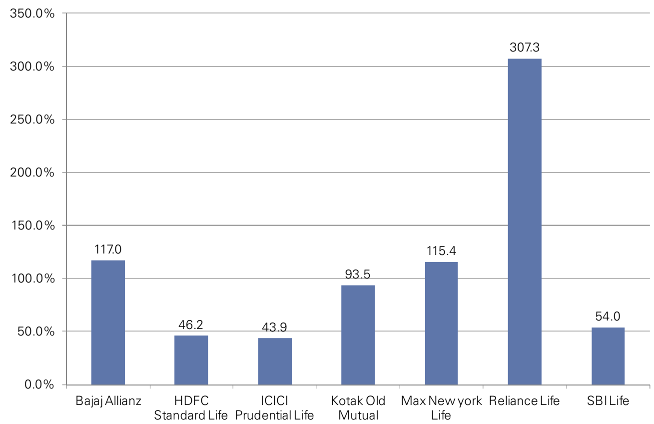


Source: Bloomberg, Life Insurance Council.

Most private companies have failed in group business, not profitable either

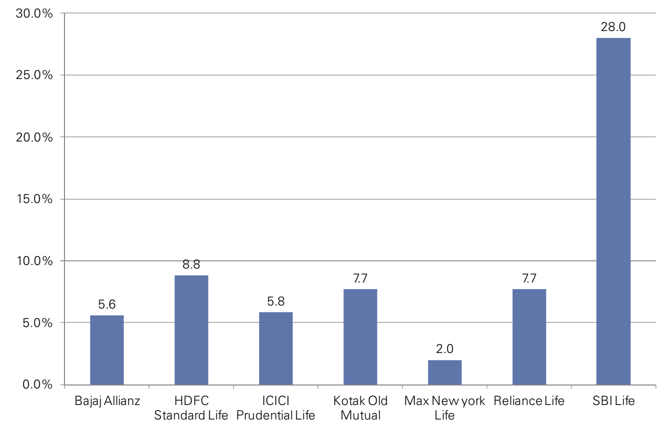
The group/corporate/institutional business in India is dominated by LIC, with 84% market share. Private players in India have found it difficult to make a dent into this business; the only company that has managed to report some traction amongst private names is SBI Life (6% share), likely due to its strong corporate relationship. Though the potential for premium penetration in the group is still significant, the group business is not profitable vs. retail given the significant competition.

Exhibit 48: Growth in group premium income – last four years
CAGR in group premium income over FY06 to FY10



Source: Company data.

Exhibit 49: Group premium is low for most private companies except SBI
Group premium income as % of total premium, as of FY10

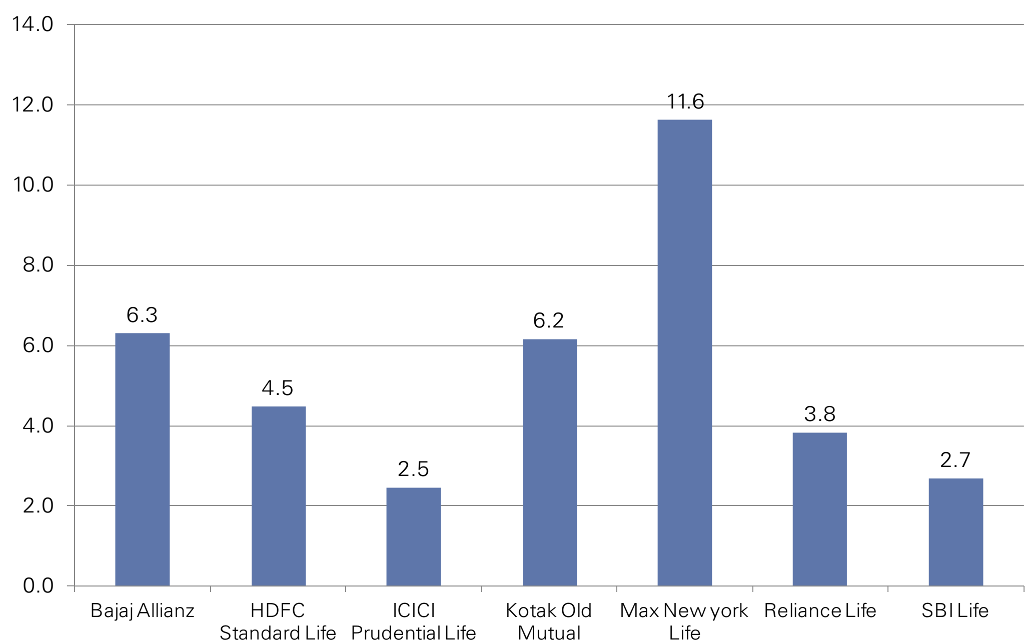


Source: Company data.

Savings vs. risk: risk more profitable, regulations now require higher cover

There are two main categories of products sold in insurance. Risk-based products, which are very profitable, and savings products, which are relatively less profitable. Under savings products the two broad categories are: unit-linked/investment-linked and participating policies. In India, most insurance companies have low risk attached to the savings products. Under the new regulations, however, the IRDA has increased the minimum risk cover to 10X premium income from 5X earlier. Tax breaks will even be available on products with minimum cover of 20X.

Exhibit 50: Max NYL has the maximum term component vs. ICICI/SBI which has the least. In the case of ICICI this likely reflects the pension business, and in the case of SBI Life, the group business
Individual business sum assured over AUMs (X) as of FY10



Source: Company data, IRDA.

Fluctuating market share and ranking

Over the last ten years, LIC has lost market share to private players (down to 43% in FY09) as the latter started expanding the market. However, post the financial crises and recent regulations, LIC regained some of its lost share given government ownership with a strong franchise and reach (52.8% ytd). Despite the loss of market share over the last three years, ICICI Prudential Life Insurance has retained its number one position (8.1% share) amongst private companies. It now has a 200 bps gap over SBI Life (6% market share), which over the last two years, has gained significant share. The market share of other players has moved around significantly.

We think the key reason for the changing market share and ranking of participants has been the inconsistent strategies and investments made by promoters in the business. Given the advantage of strong brand, franchise, distribution strength and strategy, we expect ICICI Prudential Life and SBI to remain the top two players. A large part of the loss in market share and ranking at Bajaj Allianz Life we believe was driven by a strategy of cleaning the portfolio and focusing on quality of product sales. Other strong players in the market are HDFC SL and Max New York Life, while Kotak Life remains a niche, profitable company.

Exhibit 51: Only two companies have gained market share in FY2011 – HDFC and Max – and this reflects some change in strategy or product that has been driving growth. Will this be sustained?
Market share in retail APE in %

Market share in retail APE	Bajaj Allianz	Reliance Life	SBI Life	HDFC Standard Life	ICICI Prudential	Birla Sunlife	Kotak life	Max NY	LIC
FY2003	0.5	0.0	0.5	1.2	3.4	1.2	0.3	0.7	91.4
FY2004	1.2	0.2	0.4	1.0	4.8	2.0	0.7	1.0	86.4
FY2005	2.9	0.2	0.7	2.3	8.7	3.3	1.2	1.4	74.7
FY2006	6.4	0.4	1.5	3.7	10.1	2.7	1.7	2.1	65.8
FY2007	7.8	1.7	3.1	3.1	9.9	1.7	1.3	1.9	64.5
FY2008	10.7	3.6	5.0	4.2	12.7	3.3	1.8	2.5	49.5
FY2009	8.0	6.3	6.1	4.9	10.9	5.2	2.5	3.4	43.0
FY2010	5.9	5.8	7.3	4.6	9.3	4.1	1.7	2.9	47.3
YTD FY2011	3.8	4.3	6.0	5.9	8.1	3.3	1.5	3.5	52.8

Source: IRDA.

Exhibit 52: ICICI Prudential Life remains the undisputed leader, though SBI has been challenging this over the last two years
Ranking based on retail market share

Ranking based on retail APE market share	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	YTD FY2011
ICICI Prudential	1	1	1	1	1	1	1	1	1
SBI Life	6	10	10	9	3	3	4	2	2
HDFC Standard Life	2	4	4	3	4	4	6	5	3
Reliance Life	11	11	11	11	7	5	3	4	4
Bajaj Allianz	5	3	3	2	2	2	2	3	5
Max NY	4	5	7	5	5	7	7	7	6
Birla Sunlife	3	2	2	4	6	6	5	6	7
Kotak-Old Mutual Life	8	7	8	8	10	9	8	9	9

Source: IRDA.

Distribution models: Advantage banks

Insurance companies distribute products through their own agency force, banks, direct sales and brokers (the internet/mobile phones etc have had a limited impact to date). On average, 50% of products sold by private insurance companies in India are through the agency channel and 25% through the banking channel. Till 2008, we saw insurance companies expand their network aggressively. However, over the last two years we have seen a sharp reduction in the size of agency forces and number of branches and employees at these companies. Volume pressure post crises and regulatory changes in the recent past are two key reasons for the shift in strategy from being in every nook and corner to focusing on key markets.

Exhibit 53: Life insurers have cut down on their agent workforces, closed branches and cut their employee headcount
Agents, branches and employees summary of key life insurers

	Agents				Branches				Employees			
	FY2005	FY2008	FY2010	9MFY11	FY2005	FY2008	FY2010	9MFY11	FY05	FY2008	FY2010	9MFY11
Bajaj Allianz	45,000	240,000	167,741	168,000	153	1,007	1,151	1,100	NA	20,764	20,000	16,200
Birla Sunlife	9,000	115,000	168,124	151,000	53	538	652	600	2,100	7,883	NA	11,000
HDFC Std	23,678	144,724	198,879	148,713	90	569	568	514	NA	15,411	14,397	12,094
ICICI Pru	56,600	291,000	241,830	168,395	109	1,958	1,921	NA	3,298	16,317	20,000	14,500
Kotak Mahindra	6,500	35,000	35,897	39,171	43	151	215	203	NA	5,000	6,400	4,300
Max NewYork	9,017	36,896	72,828	54,699	64	194	705	NA	1,772	7,648	10,454	8,698
Reliance Life	7,665	200,000	195,565	215,952	80	745	1,247	1,248	NA	14,781	16,656	NA
SBI Life	5,000	40,643	65,532	NA	31	200	494	NA	NA	3,738	5,910	NA

Source: Company data, IRDA.

Bancassurance turning out to be an advantage

Indian banks have been selling both traditional and ULIP products through their branches(most banks sell ULIPs, though there are few exceptions like Axis Bank for which 90% of sales are traditional products). Given that India follows a closed architecture, i.e. Indian banks can sell only one insurance company product, the banks have been charging higher rates of commission for distribution vs. the agency channel. In addition, banks may discontinue their tie-ups beyond the contract period, which is typically for three years. There have been expectations that the regulator may allow banks to distribute three insurance companies' products vs. one now. Manufacturers with their own bank stand to have a clear advantage, i.e. a low cost of distribution. With most part-time agents falling by the way-side/exiting the industry (given low commissions on the back of new regulations), dependence on the banking sector will increase.

Issues/challenges in this model are: mis-selling, low profitability for manufacturers – as bankers claim the high commissions, product development (as products are made more for bankers rather than for investors/insurers), single-premium or short-term products sold with less focus on persistency.

Exhibit 54: Agents still dominate the distribution of products, though the share of banks might increase with falling commissions and a less attractive proposition for agents
Distribution mix of life insurance products for the industry

FY10	Individual Agents	Banks	Other Corp. Agents	Brokers	Direct Selling
Private	50.7%	24.9%	10.3%	3.4%	10.7%
LIC	97.8%	1.6%	0.5%	0.1%	0.0%
Total	79.6%	10.6%	4.3%	1.4%	4.1%

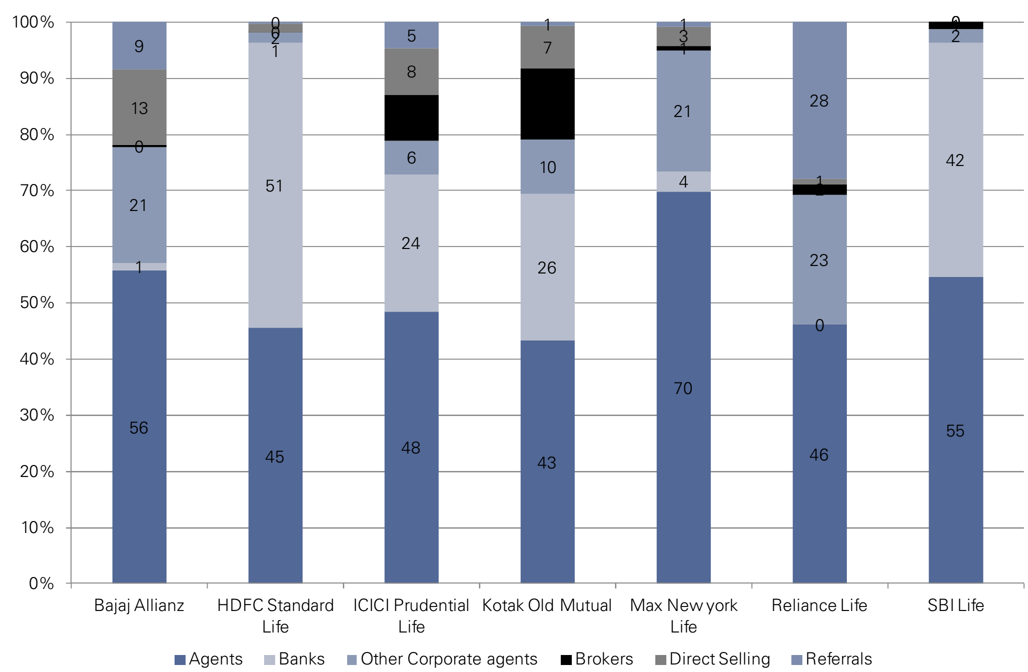
Source: IRDA.

Exhibit 55: Indian companies' distribution mix is similar to that of Asian peers; banks account for 17%-30% of product distribution for key companies
Channel distribution mix for key Asian peers

	Distribution channel		
	Agency	**Banks**	**Others**
AIA HK	60%	5%	35%
AIA China	76%	12%	12%
AIA Korea (APE)	76%	12%	12%
AIA Singapore (APE)	85%	10%	5%
Cathay Financial Holding Company	37%	63%	0%
China Life Insurance Company	NA	NA	NA
Fubon Financial Holdings	11%	79%	10%
Great Eastern Life (Gross premiums) (5)	52%	48%	NA
Korea Life Insurance (FYP)	61%	24%	14%
Ping An Insurance Group	74%	21%	5%
Prudential Singapore (APE)	9%	45%	47%
Samsung Life Insurance (FYP)	66%	18%	16%
Shin Kong Financial Holdings	42%	55%	3%
Sony Financial Holdings	100%	na	NA
T&D Holdings	39%	61%	NA
The Dai-ichi Life Insurance Company	84%	16%	NA

Source: Companies, Goldman Sachs Research estimates.

Exhibit 56: Agents mostly dominate distribution of products; the exception is HDFC SL
Distribution mix for private companies (%)

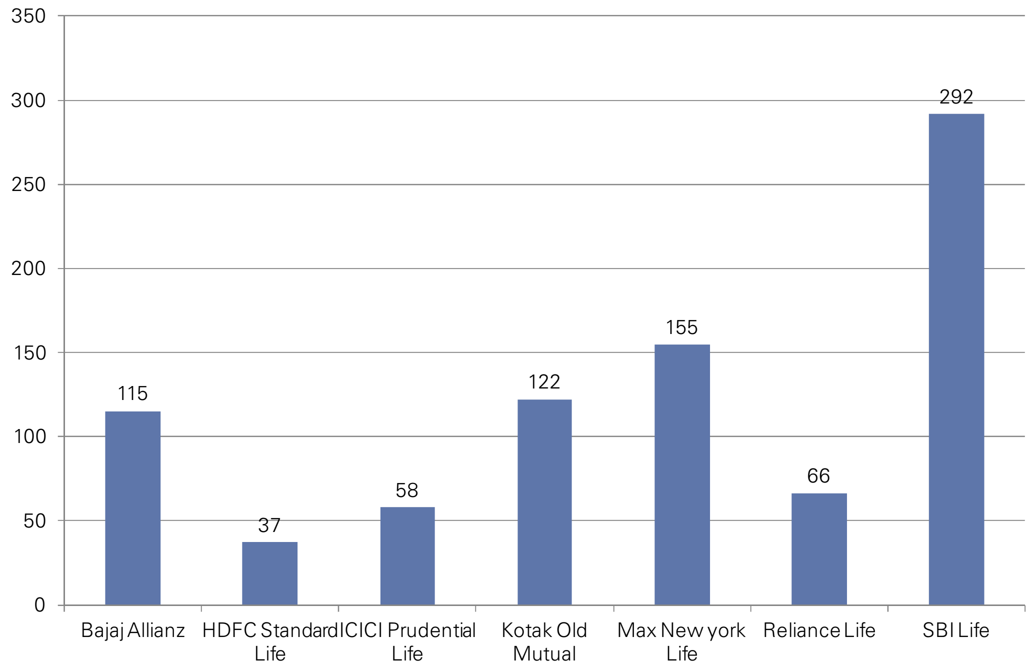


Source: Company data.

Retaining agents is a challenge, may move out/leave industry

Most companies have 20%-30% of their agents contributing 80% of their business. With commission levels falling, companies are now struggling to retain agents given lower overall income for the agents. With the commissions on ULIPs falling to half (6% now vs. 12% to 30% earlier) an agent has to double sales or shift his or her focus to traditional products from ULIP. A number of agents will perhaps move out or switch to part-time from full-time given the decline in income, a trend that may not be desirable for the industry.

Exhibit 57: SBI Life seems to have the most productive agent force
Agent commission (Rs 000) per agent assuming only 20% of agent force is active as of FY10



Source: Company data, Goldman Sachs Research estimates.

Exhibit 58: SBI Life topping the table
Number of MDRT members, Ranking in 2010

Rank	Company Name	Country	2010 Members
1	SBI Life Insurance	India	2,904
2	New York Life	USA	1,995
3	Samsung Life Insurance	Korea	1,862
4	LIC Of India	India	1,218
5	Northwestern Mutual	USA	1,215
28	HDFC Standard Life	India	200
30	Max New York Life	India	191
32	TATA AIG Life	India	187
47	ICICI Prudential Life	India	117

Source: MDRT.

Reserving and expenses, comparison across countries difficult

Accounts/profits across Asia are not comparable, given different expensing and reserving policies followed by companies. For example:

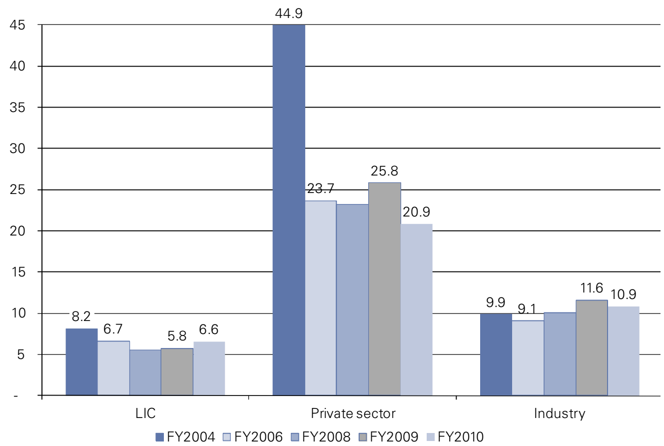
- Expenses are written-off upfront in India, Japan, Taiwan, and China, whereas in Korea this is deferred evenly over seven years. This issue will be resolved as India moves to implement IFRS in April 2012.
- Besides regulations, expense ratios across countries and companies will also be influenced by the maturity of the business, and the growth trajectory. For example, in a country like India the expense to total income ratio is higher than peers in other markets given a higher growth trajectory and the cost of building the business. Within companies as well, this ratio varies significantly depending on the scale of their operations and strategy adopted. Additionally, companies in India had built bloated cost structures given higher surrender/lapsing charges that were used to offset these costs.

Exhibit 59: India follows a more conservative accounting policy
Expensing, reserving, accounting policies followed by Asian countries

	Expensing policy	No of years	Accounting	Reserving	Distribution of profit to policyholder par products
China	Expensed in first year, but will be compensated in the form of releasing reserves	NA	New China GAAP from 2010	Best estimates	For participating products: regulated, minimum required to be distributed is 70%
Korea	Amortized	7	IFRS phase I starting Mar-2011 / IFRS phase II expected to start Mar-2012	Best estimates, according to guidelines provided by regulator	Regulated, minimum required to be distributed is 90%on some old products (not sold now)
Taiwan	Expensed in first year	NA	Currently more similar to GAAP concept, but possibly to apply IFRS 4 phase 1 from 2011, IFRS 4 phase 2 from 2013	Indicated by regulator	NA
Japan	Expensed in first year	NA	IFRS from April 2015-2016	Indicated by regulator	Depends on product specification.
HK	Deferred/Amortised (HK uses HKFRS. IFRS allows both. So insurers can also expense them upfront by choice)	Duration of the policy	HKFRS	Prudent prospective method (When prospective is not available; retrospective method can be used)	NA
Singapore	Deferred/Amortised (Singapore uses FRS under Singapore context. IFRS allows both. So insurers can also expense them upfront by choice)	Duration of the policy	FRS (with appropriate changes to suit the Singapore context)	Best estimates	Fair and equitable principle
India	Expensed in first year		Indian Accounting IFRS from April 2012	Best estimates	Regulated, minimum required to be distributed is 90%

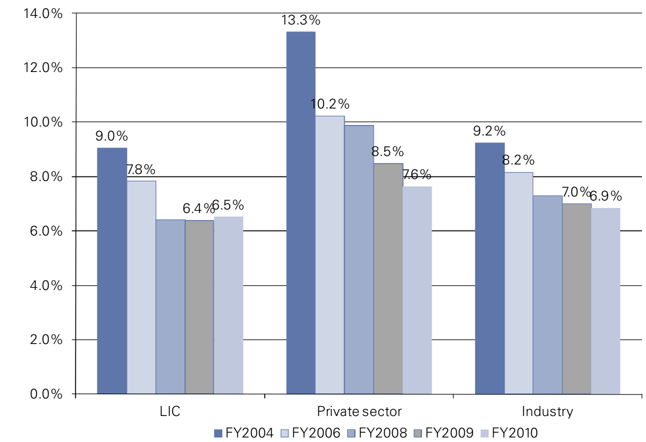
Source: Goldman Sachs Research estimates.

Exhibit 60: While it is unlikely that the cost ratios for private life insurance companies in India will fall to LIC's levels, it does appear that there is still significant scope for insurers to reduce their costs
Operating expense ratio in %



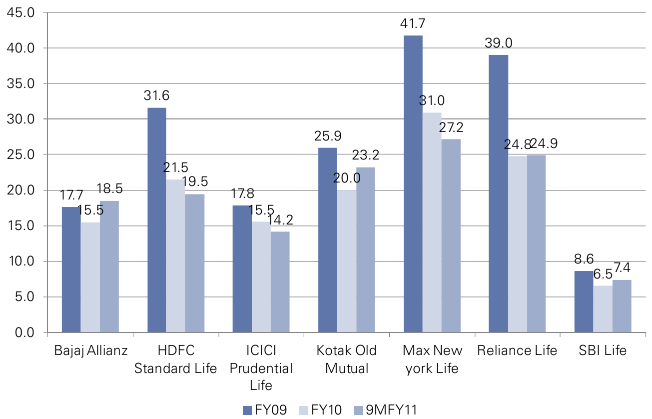
Source: IRDA.

Exhibit 61: With new regulations and increasing share of renewal premium, commission levels will likely fall as well
Commission expense ratio in %



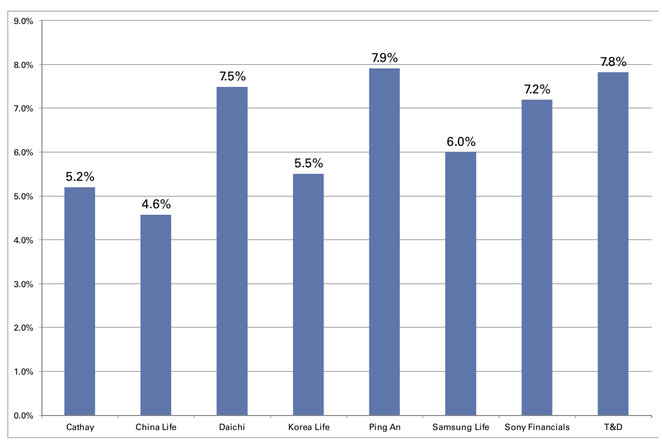
Source: IRDA.

Exhibit 62: Expense ratios falling for some, but still high when compared with international companies
Operating expenses to total premium: FY09, FY10, 9MFY11



Source: Company data.

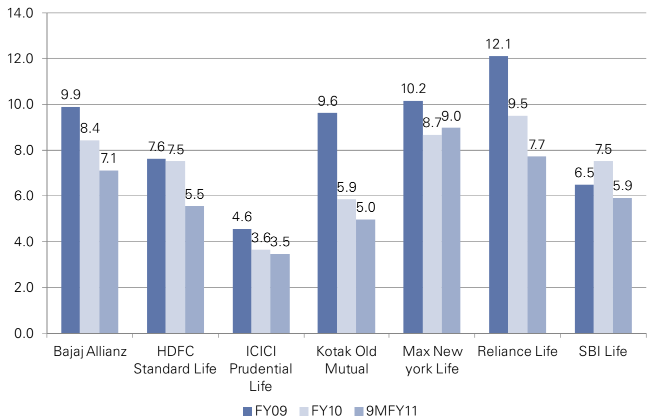
Exhibit 63: Asian companies have fairly low cost of operation reflecting maturity cycle and/or amortization of cost for some
Operating expense to total premium income (%) (2011E)



Source: Company data.

Exhibit 64: With a higher share of renewal, the commission ratio has been falling

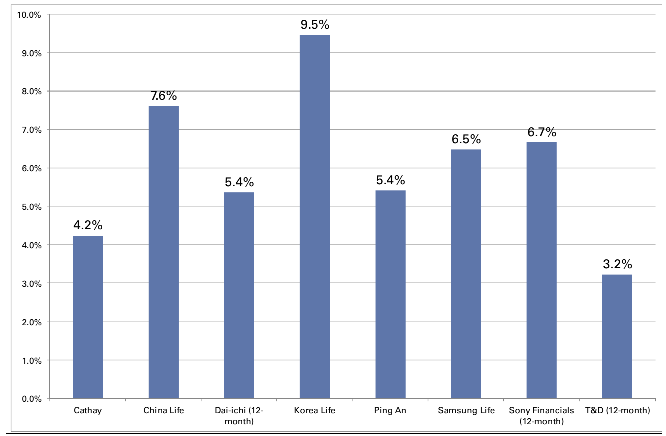
Commission to total premium (%): FY09, FY10, 9MFY11



Source: Company data

Exhibit 65: Currently ratios are comparable with Asian peers

Commission to total premium income (%) (2011E)



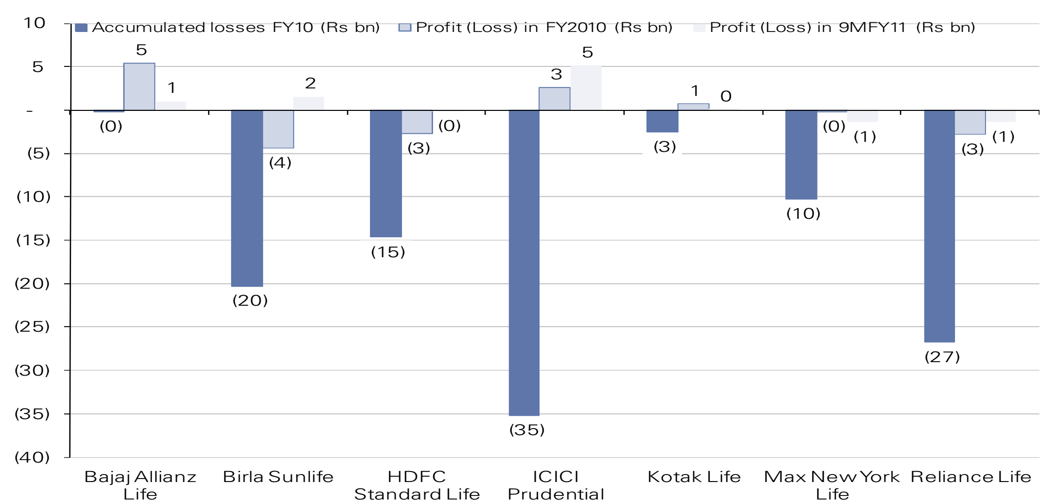
Source: Company data

Earnings and RoE likely to emerge despite lower margins

Insurance companies have been reporting huge losses since inception. This reflects factors such as: faulty business models – high cost structures, aggressive network expansion, low productivity levels; strong growth in volumes; and upfront write-off costs. Most companies, therefore, are still sitting on huge accumulated losses. We believe this is now likely to change, as companies have effected significant cost-cutting measures and have seen moderation in volume growth – most of which have been forced by market changes (regulations and volatile equity markets). In the near term, the surrender charges booked by companies on old policies will also support income. After that, profit will have to be driven by reducing the cost of operations, as surrender charges fall to a minimal level as per new regulations and may provide a real test of the models now being built by the various companies.

Exhibit 66: Companies now likely to make profit/lower losses as they moderate growth, focus on cost cuts

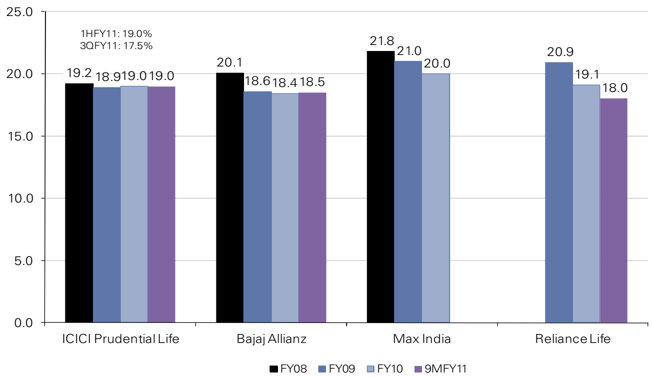
Accumulated losses as of FY10 YE, Profit (loss) for FY10, 9MFY11



Note: 9M profit numbers are not comparable as some companies take surplus in policyholders account through the quarters (e.g ICICI Prudential Life), while others take this at end of the year (e.g MNYL).

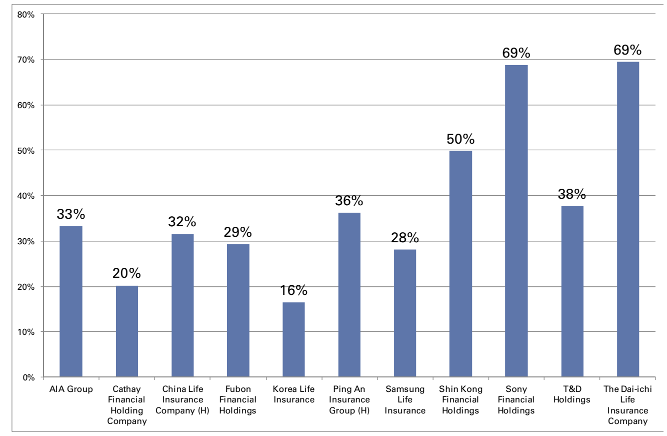
Source: Company data.

Exhibit 67: Margin of Indian companies has been falling
NBAP margin (%)



Source: Company data.

Exhibit 68: Asian companies earn higher margin overall vs. Indian insurers
APE margin (%) for 2011E



Source: Goldman Sachs Research estimates.

Exhibit 69: Blended margin for India is likely low vs. Asian peers given the high proportion of savings and ULIP component, where it appears India may be comparable on margin vs. the region
Estimated margins across product categories

	Japan		China	Korea		Taiwan	India
	EV Margin	APE Margin	APE Margin	EV Margin	APE Margin	EV Margin	APE Margin
Death	14~17%	55~68%	50-60%	14~17%	55~68%	Term life: 5-15%; Whole life: 60-80%	30-35%
Health Insurance	12~15%	50~60%	50-60%	12~15%	50~60%	80-120%	30-35%
Annuities	3~4%	14~16%		3~4%	14~16%	3-5%	10-12%
Others & Savings	1~4%	4~16%	20-30% *	1~4%	4~16%	Regular premium:40-60%; Flexible premium: 5-8%	10-12%

Source: Goldman Sachs Research estimates.

Exhibit 70: Declared margins not comparable across companies, needs some adjustment
NBAP margin declared and estimated for comparison (%)

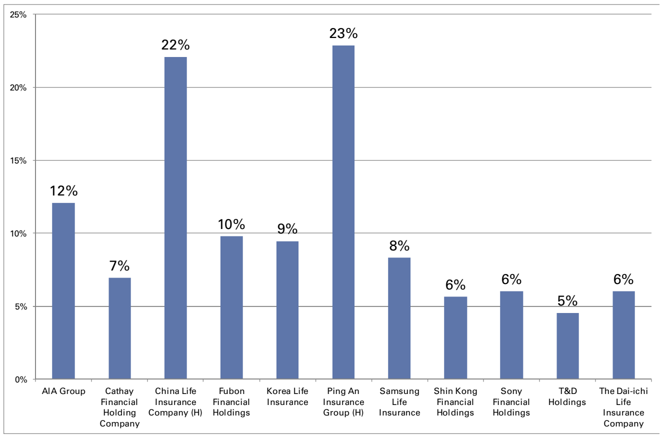
	Reported NBAP margins (FY10)	Comment	Blended NBAP margin (individual business) calculated from EV#
HDFC SL^	25.8%	Individual business, indicated at 22% on blended basis	20.7%
ICICI Prudential Life	19.0%	Blended	19.5%
Reliance Life insurance	19.1%	Individual business	19.4%
Birla Sunlife insurance*	20.3%	Individual business	20.0%

* As of FY2009

APE (denominator) is calculated using premium as reported to IRDA. APE = Regular individual premium + 1/10th of single premium + 1/10th of group (single + regular) premium

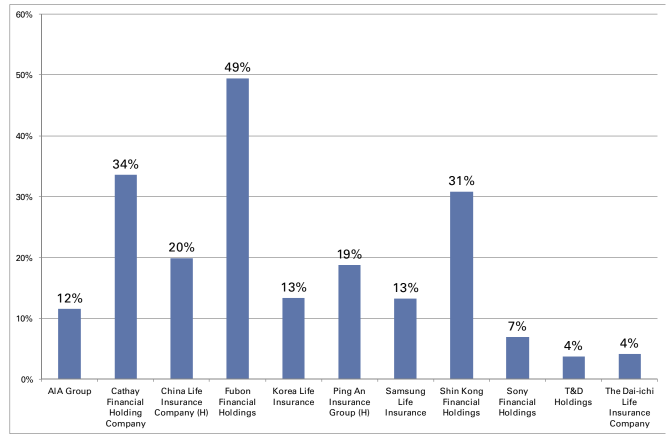
Source: Company data, Goldman Sachs Research estimates.

Exhibit 71: RoE low for most Asian firms, likely due to build-out phase
2011E ROE in %



Source: Company data.

Exhibit 72: However, RoEVs are much better
2011E RoEV in %



Source: Company data.

Solvency ratios not an issue for Indian companies

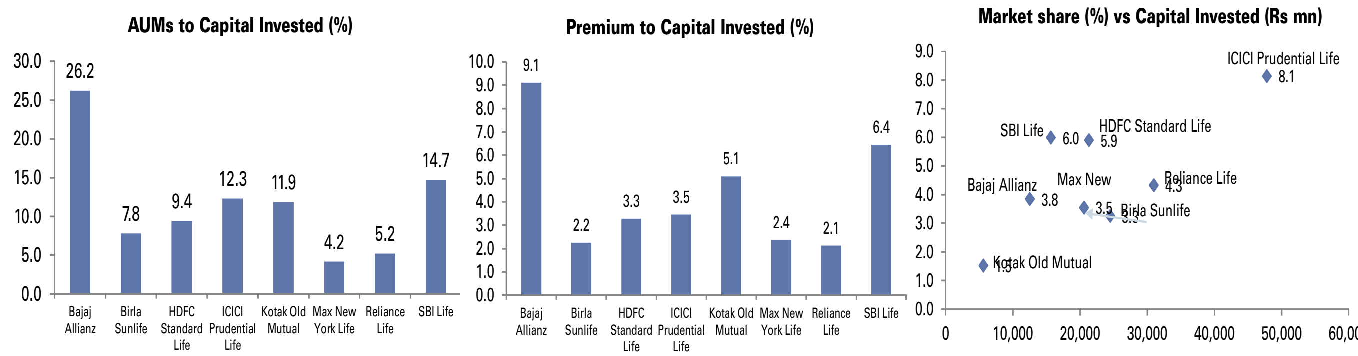
Private sector insurance companies have invested over Rs200bn in capital in the insurance space since 2000. We believe the amount of capital investments will now reduce as companies have moderated growth, and see lower losses on cost-cutting. Based on the IRDA data, all insurers are well capitalized. Analysis of the capital invested vs. AUMs, total premium income generated and market share shows that SBI Life, Kotak and Bajaj have been most efficient users of capital – likely due, we think, to lower expense ratios (SBI Life) and in some cases (Bajaj and Kotak) higher upfront charges on products to recover higher costs.

Exhibit 73: Capital requirement has reduced with slower growth, cost cutting
Invested capital for key players over the years

Rs mn	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	YTD FY11
Bajaj Allianz Life	1,487	1,984	2,481	2,674	4,998	7,005	12,107	12,107	12,107	12,538
% increase in capital		33.4	25.1	7.8	86.9	40.2	72.8	0.0	0.0	3.6
Birla Sunlife	1,491	1,800	2,900	3,501	4,600	6,715	12,745	19,995	24,495	24,496
% increase in capital		20.7	61.1	20.7	31.4	46.0	89.8	56.9	22.5	0.0
HDFC Life	1,662	2,159	2,547	3,194	6,332	8,360	12,706	18,510	20,233	21,322
% increase in capital		29.9	18.0	25.4	98.2	32.0	52.0	45.7	9.3	5.4
ICICI Life	1,900	4,239	6,750	9,250	12,083	21,027	37,754	47,802	47,802	47,802
% increase in capital		123.1	59.2	37.0	30.6	74.0	79.6	26.6	0.0	0.0
Max New York Life	2,496	2,549	3,461	4,731	5,632	7,439	10,492	17,820	20,560	20,594
% increase in capital		2.1	35.8	36.7	19.0	32.1	41.0	69.8	15.4	0.2
Reliance Life			1,600	2,170	3,300	6,640	15,120	27,414	29,724	30,972
% increase in capital				35.6	52.1	101.2	127.7	81.3	8.4	4.2
SBI Life	1,250	1,250	1,757	3,516	4,320	4,906	10,068	10,000	12,652	15,670
% increase in capital		0.0	40.6	100.1	22.9	13.6	105.2	-0.7	26.5	23.8

Source: Company data.

Exhibit 74: Bajaj Allianz and SBI Life have been the most efficient users of capital; Reliance, Birla, Max the least
AUMs to capital invested (%), premium to capital invested (%) and ytd FY11 retail APE market share vs. capital invested



Source: Company data.

Exhibit 75: Most companies are well capitalized
Solvency ratio for life insurers

Insurer	FY2007	FY2008	FY2009	FY2010	9MFY11
BAJAJ ALLIANZ	2.45	2.34	2.62	2.70	3.40
BIRLA SUN	1.80	2.37	2.44	2.11	2.50
HDFC STANDARD	2.05	2.38	2.58	1.80	1.80
ICICI PRUDENTIAL	1.53	1.74	2.31	2.90	3.20
MAX NEW YORK	2.08	2.25	3.04	3.21	3.06
KMOM	1.64	2.41	2.69	2.80	2.61
RELIANCE LIFE	1.62	1.65	2.50	1.86	1.60
SBI LIFE	1.78	3.30	2.92	2.20	2.20

Source: IRDA, Company data.

Exhibit 76: Ratios comparable with Asian peers
Solvency ratios for Asian life insurers

2011E	Solvency ratio (%)
AIA Group	312%
China Life Insurance Company (H)	221%
Korea Life Insurance	233%
Ping An Insurance Group (H)	180%
Samsung Life Insurance	330%
Sony Financial Holdings	2972%
T&D Holdings	1207%
The Dai-ichi Life Insurance Company	995%

Source: Goldman Sachs Research estimates, company data.

General insurance: Structurally a low-profitability business

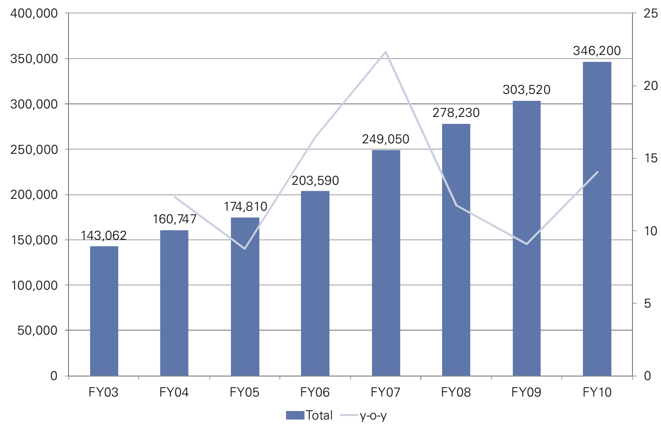
Low level of penetration: In India, the non-life insurance business is less penetrated vs. life, with a premium income to GDP ratio at 0.6% vs. the international range of 2.9% to 4.5% (see Exhibit 134 in Appendix 1). The non-life insurance business/premium income is driven largely by motor and health insurance, both of which account for 64.6% of the policy premium income. We expect the motor insurance business to grow in line with the auto market at around 10% to 15%, while we estimate the health insurance business could grow at faster pace of 15% to 20% given lower penetration levels.

Few private players and four PSU companies dominate: Bajaj Allianz, ICICI Lombard and Reliance General Insurance dominate this space amongst private companies with 21% share, with the largest piece of the pie still with the public sector entities which enjoy 61% market share.

Low profitability on high competition, PSU dynamics: As is the case with life, the retail business is the more profitable business, with significant competition in the group. Even within retail, non-life products are priced competitively given the strong presence of PSU entities, which have resorted to mis-pricing. They managed to do so due to high investment income driven from past investments made at low valuations. Within the private insurers, Bajaj Allianz General Insurance is the best run and most profitable company, generating RoEs of 15% vs. 8% for ICICI Lombard.

Exhibit 77: Non-life premium income has grown at 13.6% CAGR since FY05, this despite the removal of tariffs in 2007 and 2008, which led to significant reduction in rates

Total premium income for industry (Rs mn), yoy growth



Source: IRDA.

Exhibit 78: PSU have lost share but still dominate on pricing strategy

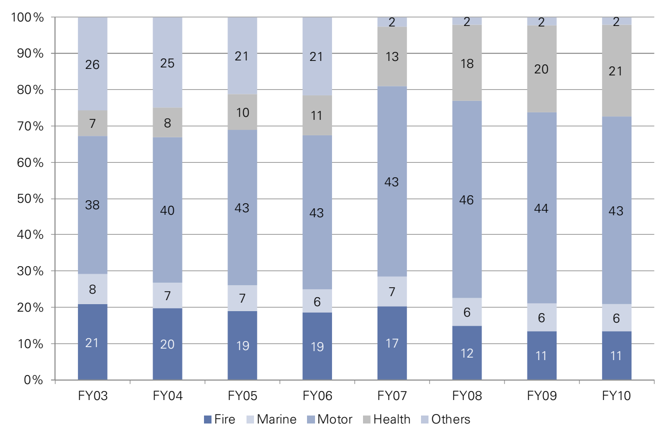
Market share of key players FY06-10 in %

Market share	FY06	FY07	FY08	FY09	FY10	YTD
Public Total	**74.9**	**66.7**	**61.8**	**60.8**	**61.0**	**58.3**
New India	26.6	22.9	21.4	20.5	19.8	16.9
United India	14.8	13.5	13.0	13.6	14.6	14.7
Oriental	16.9	15.5	13.5	13.0	13.6	12.6
National	16.6	14.8	14.0	13.7	13.0	14.0
Private Total	**25.1**	**33.3**	**38.2**	**39.2**	**39.0**	**41.7**
ICICI Lombard	7.4	11.5	11.5	10.8	9.2	10.2
Bajaj Allianz	6.0	6.9	8.3	8.3	6.9	6.9
Reliance General	0.8	3.5	6.8	6.1	5.5	4.0
IFFCO-Tokio	4.2	4.4	3.9	4.4	4.1	4.4
HDFC ERGO General	0.9	0.7	0.8	1.1	2.6	3.1

Source: IRDA.

Exhibit 79: Share of motor insurance the largest segment has remained stable, while health has doubled over the last few years

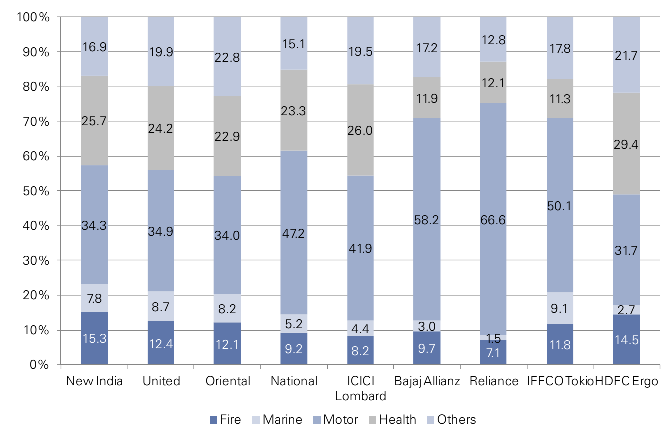
Premium split for industry FY03-FY10



Source: IRDA.

Exhibit 80: Private companies prefer motor insurance over other businesses, HDFC is more tilted towards health

Premium split for key players as of FY10



Source: IRDA.

Exhibit 81: Combined ratio remain high for PSUs

Combined ratio for key general insurers in %

Combined ratio	FY09	FY10	9MFY11
New India	108%	109%	117%
United	102%	101%	105%
Oriental	113%	108%	108%
National	118%	116%	97%
ICICI Lombard	116%	113%	109%
Bajaj Allianz	105%	104%	100%
Reliance	114%	116%	122%

Note: Combined ratios across insurers are strictly not comparable given differing definitions.

Source: Company data.

Exhibit 82: Capital infusion even by private insurers has been limited over the last two years

Outstanding capital in key general insurers

Rs mn	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
New India	1,000	1,000	1,500	2,000	2,000	2,000	2,000	2,000
y-o-y growth		0	50	33	0	0	0	0
United	1,000	1,000	1,000	1,000	1,500	1,500	1,500	1,500
y-o-y growth		0	0	0	50	0	0	0
Oriental	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
y-o-y growth		0	0	0	0	0	0	0
National	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
y-o-y growth		0	0	0	0	0	0	0
ICICI Lombard	1,102	2,202	2,202	2,452	3,359	3,775	4,033	4,038
y-o-y growth		100	0	11	37	12	7	0
Bajaj Allianz	1,100	1,100	1,100	1,101	1,101	1,102	1,102	1,102
y-o-y growth		0	0	0	0	0	0	0
Reliance	1,020	1,020	1,020	1,020	1,031	1,072	1,131	1,152
y-o-y growth		0	0	0	1	4	6	2
IFFCO Tokio	1,000	1,000	1,000	2,200	2,200	2,200	2,470	2,470
y-o-y growth		0	0	120	0	0	12	0
HDFC Ergo	1,010	1,200	1,200	1,250	1,250	1,500	2,000	4,150
y-o-y growth		19	0	4	0	20	33	108

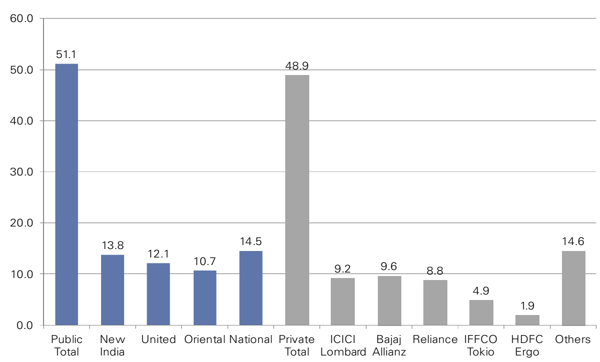
Source: Company data, IRDA.

Motor insurance

The motor insurance market is well penetrated, with most vehicles being insured. This business accounts for 43% of total premium income for the insurance industry and we see it growing at 12%-15% per annum. The private sector has made good inroads in this business, with 40% market share. The motor insurance combined ratio ranges between c. 90% and 110%, the key reason for losses being third party pool losses (losses on which are pooled together and then divided between the general insurance companies in proportion to their market share in overall premium income – there is unlimited risk and no time limit on third party product). The industry renewal ratio is around 60%.

Exhibit 83: The private sector has around 50% share in motor insurance business vs. 40% overall in non-life space

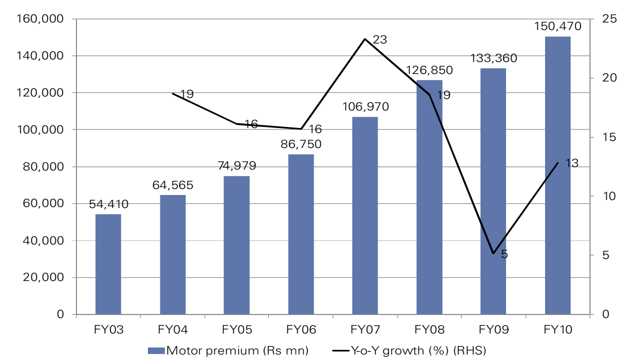
Market share in motor insurance business (%)



Source: IRDA.

Exhibit 84: Industry premium income has grown by 15% CAGR over the last five years, this post the 30%-40% decline in tariffs

Motor premium (Rs mn) and yoy growth in %

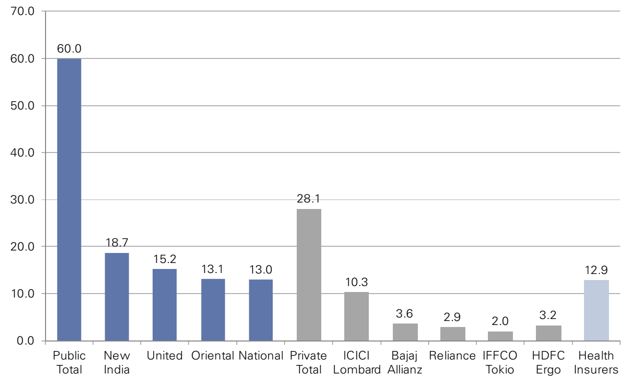


Source: IRDA.

Health insurance

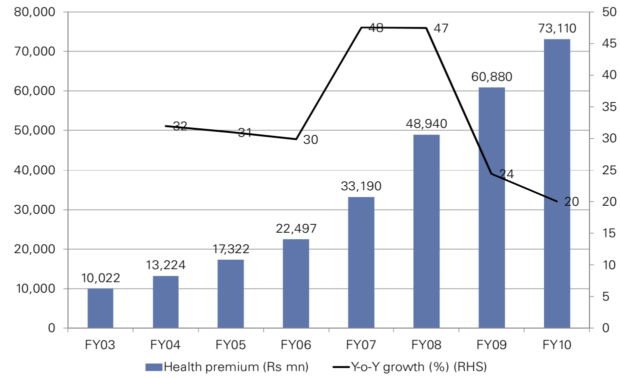
The health insurance industry is significantly under-penetrated, with insurance premium to health spend at around 2%-3%. In addition, medical inflation is estimated by our pharmaceutical analyst to be running at 6%-10% per annum, both of which are strong reasons for the industry's growth to remain strong, in our view. Companies in the private space have been focusing on this sector as well, with a few heath insurance companies now in operation. The model is still evolving, with some companies like Bajaj Allianz preferring an in-house service model to a TPA to improve service quality, customer response time and reduce claim costs. The key risk in this sector has been the overstatement of claims, in particular hospitals/doctors carrying out and charging for unnecessary tests on the back of insurance policies.

Exhibit 85: PSUs dominate the health insurance market…
Market share in health insurance business (%) as of FY10



Source: IRDA.

Exhibit 86: ...and growth rates have moderated, though long term trajectory should remain strong given low penetration levels
Health premiums (Rs mn) and yoy growth in %



Source: IRDA.

Max India (MAXI.BO, Buy (Conv. List)): Maximising the turnaround

Source of opportunity

We are initiating coverage on Max India, a conglomerate with business interests in life insurance, healthcare and health insurance, with a Buy rating (adding it to the Conviction List) and 12-month target price of Rs190, indicating potential upside of 30%. We see three potential drivers of stock outperformance: (1) significant correction in valuations (>60% relative underperformance to Sensex), while operating performance has been improving; (2) life and health care businesses turning around, will make a profit on cost cuts, higher utilizations; and (3) capital requirement for life tapering, though this will remain high for healthcare and health insurance – but the extent will be lower than in the past. Additionally, the company is sitting on cash of Rs5.8bn which will be more than sufficient to meet these capital requirements.

Catalyst

We expect the company to deliver profit from here on in the: (1) life insurance business of Rs1.9bn in FY11E and Rs4.4bn in FY12E vs. losses reported in earlier years; and (2) health care business to report EBIT of Rs217mn in FY12 vs. a loss of Rs177mn in FY10 on higher occupancy in their hospitals and cost rationalisation.

Valuation

Our SOTP-based 12-month target price of Rs190 is arrived at using: (1) for the insurance business, the appraisal value method (assumes EV + structural value, NBV margin of 12% and multiple of 14X); (2) DCF for the health care business; and (3) health insurance at book value.

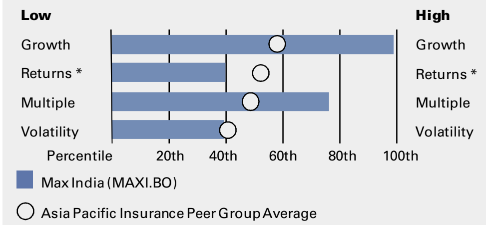
Key risks

Incremental focus on traditional products, which could be the next product to be targeted by the regulator; lower persistency than expected thereby impacting margins; and capital markets dependency as it drives volume growth.

INVESTMENT LIST MEMBERSHIP
Asia Pacific Buy list
Asia Pacific Conviction Buy list

Coverage View: Neutral

Investment Profile

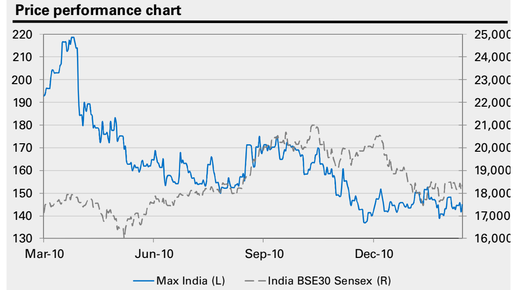


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	144.90
12 month price target (Rs)	190.00
Market cap (Rs mn / US$ mn)	33,671.1 / 746.3
Foreign ownership (%)	30.3

	3/10	3/11E	3/12E	3/13E
EPS (Rs) New	**(3.29)**	**(3.13)**	**8.21**	**10.41**
EPS revision (%)	NM	NM	NM	NM
P/B (X)	1.7	1.8	1.9	1.6
P/E (X)	NM	NM	17.6	13.9
P/EVPS (X)	NM	NM	NM	NM
Dividend yield (%)	0.0	0.0	0.0	0.0
EVPS growth (%)	--	--	--	--
ROEV (%)	NM	NM	NM	NM
ROA (%)	(0.7)	(0.5)	1.3	1.3
ROE (%)	NM	NM	13.5	14.8

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	1.5	(10.6)	(24.9)
Rel. to India BSE30 Sensex	9.8	(5.5)	(29.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/16/2011 close.

Max India: Summary financials

Profit model (Rs mn)	3/10	3/11E	3/12E	3/13E
Net premiums earned (NEP)	**48,008.6**	**56,412.3**	**63,487.8**	**73,135.7**
Risk: Benefits and claims	(4.2)	(37.6)	(366.8)	(1,128.6)
Increase in life reserves	--	--	--	--
Net commissions expensed	(4,212.1)	(5,199.2)	(5,157.8)	(6,395.0)
SGA	--	--	--	--
Underwriting profit	**(385.6)**	**(1,237.5)**	**(1,795.9)**	**(920.2)**
Investment income	19,914.7	13,296.4	12,846.9	15,956.1
Other income	(19,934.7)	(11,674.8)	(8,554.1)	(9,271.9)
Pretax profit	**(405.6)**	**384.1**	**2,496.9**	**5,764.0**
Tax and minority interest	351.1	1,110.4	318.1	3,001.2
Net profit	**(756.7)**	**(726.3)**	**2,178.8**	**2,762.8**

Factors driving earnings growth (%)	3/10	3/11E	3/12E	3/13E
Net premiums earned growth	25.7	17.5	12.5	15.2
Investment income growth	1,012.2	(33.2)	(3.4)	24.2
Investment asset growth	94.0	21.0	24.3	22.8
Pretax growth	88.6	194.7	550.0	130.8
Net profit growth	66.4	4.0	400.0	26.8

Operating ratio for group (%)	3/10	3/11E	3/12E	3/13E
Risk + inv benefits/NEP	0.0	(0.1)	(0.6)	(1.5)
SG&A + net commission exp./NEP	(8.8)	(9.2)	(8.1)	(8.7)
Underwriting profit/NEP	(0.8)	(2.2)	(2.8)	(1.3)
Investment yield (ex cash yield)	24.0	11.0	8.7	8.7
Pretax margin	(0.8)	0.7	3.9	7.9
Tax rate	(8.4)	103.2	2.0	4.0

Operating ratios p&c (%)	3/10	3/11E	3/12E	3/13E
Net reserves/claims paid	--	--	--	--
Net reserves/earned premiums	--	--	--	--
Expense ratio	--	1,324.1	261.4	85.3
Loss ratio	58.3	40.0	45.0	30.0
Combined ratio	--	1,415.8	320.3	124.5

Operating ratios life (%)	3/10	3/11E	3/12E	3/13E
Expense ratio	6.2	7.2	6.5	6.9
Pretax margins	(0.8)	0.7	3.9	7.9
Fixed assets/total assets	7.3	3.7	3.8	3.1

Balance sheet (Rs mn)	3/10	3/11E	3/12E	3/13E
Total investment assets	**109,384.3**	**132,320.9**	**164,516.2**	**201,978.3**
Premiums receivable	0.0	0.0	0.0	0.0
Deferred policy acquistion costs	0.0	0.0	0.0	0.0
Fixed assets	9,651.2	5,658.0	7,100.2	7,152.1
Separate account	0.0	0.0	0.0	0.0
Others	13,647.5	13,308.7	17,357.1	18,787.4
Total assets	**132,683.0**	**151,287.6**	**188,973.5**	**227,917.8**
Unearned premium reserves	0.0	0.0	0.0	0.0
Policyholders' reserves	92,333.8	126,747.6	160,419.6	198,223.6
Separate account	--	--	--	--
Other liabilities	--	--	--	--
Total liabilities	**111,014.4**	**130,345.3**	**165,786.4**	**201,967.8**
Total equity	**19,168.6**	**18,442.3**	**20,687.1**	**23,450.0**

DuPont analysis (% of avg assets)	3/10	3/11E	3/12E	3/13E
ROAE	(5.2)	(4.7)	13.5	14.8
x Leverage (X)	13.7	10.8	9.5	9.0
ROAA	(0.7)	(0.5)	1.3	1.3
Net earned premiums	45.4	39.7	37.3	35.1
Policyholder risk + inv benefit	0.0	0.0	(0.2)	(0.5)
Increase in life reserves	(40.0)	(24.2)	(19.8)	(18.1)
Amortization of DAC	(4.0)	(3.6)	(3.0)	(2.9)
SGA	NM	NM	NM	NM
Underwriting profit	(0.4)	(0.9)	(1.1)	(0.4)
Investment income	18.8	9.4	7.6	7.7
Other income	(18.8)	(8.2)	(5.0)	(4.4)
Pretax profit	(0.4)	0.3	1.5	2.8
Tax	0.3	0.8	0.2	1.4
Net profit	(0.7)	(0.5)	1.3	1.3

Valuation	3/10	3/11E	3/12E	3/13E
P/E basic (X)	NM	NM	17.6	13.9
P/B (X)	1.7	1.8	1.9	1.6
P/EV (X)	NM	NM	NM	NM
EPS, basic (Rs)	(3.29)	(3.13)	8.21	10.41
BVPS (Rs)	83.30	79.36	77.95	88.37
EVPS (Rs)	--	--	--	--
DPS (Rs)	0.00	0.00	0.00	0.00
Dividend yield (%)	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 87: Key subsidiary financials

Rs mn

Max Newyork Life Insurance

P&L Model	FY08	FY09	FY10	FY11E	FY12E	FY13E
Gross premium	**27,146**	**38,573**	**48,605**	**57,289**	**63,884**	**70,843**
Growth (y-o-y) (%)	81.0	42.1	26.0	17.9	11.5	10.9
First Year	13,261	15,937	16,475	17,928	18,693	21,901
Renewal	11,168	20,143	30,115	36,934	42,544	45,973
Single premium	2,718	2,492	2,016	2,427	2,646	2,970
Reinsurance	-221	-382	-597	-971	-1,211	-1,470
Investment/Other income	2,245	-2,174	19,901	13,245	12,780	15,743
Total Income	**29,170**	**36,017**	**67,910**	**69,563**	**75,453**	**85,117**
Growth (y-o-y) (%)		23.5	88.6	2.4	8.5	12.8
Commissions	3,845	3,916	4,212	5,151	5,044	6,052
Operating expenses	8,805	16,090	15,044	14,371	15,665	17,185
Benefits paid	1,360	2,208	5,892	13,447	16,165	19,890
Chg in valuation of liabs	16,603	17,580	41,857	32,979	32,234	33,775
Surplus/(deficit)	**443**	**-154**	**1,487**	**3,615**	**6,345**	**8,214**
Growth (y-o-y) (%)		-134.7	-1,066.2	143.1	75.5	29.5
Profit before tax	**-1,569**	**-3,930**	**-209**	**2,264**	**5,108**	**5,096**
Profit after tax	**-1,569**	**-3,930**	**-209**	**1,943**	**4,385**	**3,822**
Key Ratios (%)	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Linked % of Total premium	63.8	69.4	69.9	60.0	52.0	44.4
Conservation Ratio	83.4	82.5	83.5	79.3	77.5	75.1
Commission Ratio	14.2	10.2	8.7	9.0	7.9	8.5
Operating expense ratio	32.4	41.7	31.0	25.1	24.5	24.3
B&S Model	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
AUM	**33,023**	**50,385**	**92,908**	**126,811**	**160,290**	**195,724**
Growth (y-o-y) (%)		52.6	84.4	36.5	26.4	22.1
Linked	18,833	30,731	67,132	92,408	113,833	133,479
Non Linked	14,189	19,654	25,776	34,402	46,457	62,245
Networth	4,394	7,959	10,323	12,267	17,784	21,606

Max Speciality Films - Standalone

P&L Model	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	**2,843**	**3,538**	**3,303**	**3,918**	**5,705**	**7,487**
Growth (y-o-y) (%)		24.4	-6.6	18.6	45.6	31.3
Income on Investments	692	472	206	361	360	350
Other income	219	190	121	448	300	315
Total Income	**3,804**	**4,197**	**3,619**	**4,786**	**6,508**	**8,295**
Growth (y-o-y) (%)		10.3	-13.8	32.2	36.0	27.5
Operating expenses	**2,891**	**3,584**	**3,321**	**4,212**	**5,686**	**7,065**
Growth (y-o-y) (%)		24.0	-7.3	26.8	35.0	24.2
Raw material costs	1,912	2,334	2,143	2,684	3,908	5,017
Other costs	383	425	422	443	564	688
Staff, Admin costs	597	825	756	1085	1214	1361
Interest expenses	146	162	146	654	521	462
Depreciation	114	121	126	139	179	217
Profit Before Tax	**653**	**104**	**26**	**-219**	**121**	**551**
Growth (y-o-y) (%)		-84.1	-75.2	-947.4	-155.4	354.9
Profit after tax	**619**	**218**	**-6**	**-313**	**79**	**358**
Growth (y-o-y) (%)		-64.7	-102.7	5,222.3	-125.2	354.9

Max BUPA Health Insurance

P&L Model	FY10	FY11E	FY12E	FY13E
Net Premium	**1**	**209**	**1,254**	**5,016**
Growth (y-o-y) (%)		18,121.4	500.0	300.0
Profit on sale	0	15	20	20
Other income	0	10	10	10
Interest icnome	0	17	55	181
Total Income	**1**	**251**	**1,339**	**5,227**
Growth (y-o-y) (%)		21,705.1	432.8	290.2
Chg in unexpired risk reserve	1	115	439	1,254
Claims Incurred	0	38	367	1,129
Net Commissions	0	14	75	301
Operating expenses	386	1,245	2,130	3,210
Operating profit	**-386**	**-1,158**	**-1,657**	**-577**
Growth (y-o-y) (%)		200.3	43.1	-65.2
Profit before tax	**-366**	**-1,176**	**-1,704**	**-605**
Growth (y-o-y) (%)	480.7	221.2	44.9	-64.5
Profit after tax	**-366**	**-1,176**	**-1,704**	**-605**
Growth (y-o-y) (%)	475.7	221.2	44.9	-64.5
Key Ratios (%)	**FY10**	**FY11E**	**FY12E**	**FY13E**
Loss Ratio	58.3	40.0	45.0	30.0
Commission Ratio	NM	6.5	6.0	6.0
Operating expense ratio	NM	595.9	169.9	64.0
Combined Ratio	NM	1378.6	315.6	123.3
ROE	-46.0	-88.9	-121.1	-23.3

Max Healthcare

P&L Model	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**2,214**	**2,672**	**3,358**	**4,084**	**4,823**	**5,538**
Growth (y-o-y) (%)		20.7	25.7	21.6	18.1	14.8
Revenue from centres	1,644	2,020	2,528	3,034	3,489	3,838
Sales of Drugs	408	474	689	896	1,164	1,513
Other HC Services	163	178	140	155	170	187
Operating expenses	**2,060**	**2,489**	**3,399**	**3,921**	**4,437**	**4,929**
Stores and spares	754	901	1,242	1,429	1,640	1,828
Personnel Expense	429	534	836	980	1,061	1,163
Other expenses	877	1,054	1,320	1,511	1,736	1,938
EBITDA	**154**	**183**	**-41**	**163**	**386**	**609**
Growth (y-o-y) (%)		18.4	-122.7	-493.9	136.2	57.9
Depreciation	136	130	136	143	169	194
EBIT	**18**	**53**	**-177**	**20**	**217**	**415**
Growth (y-o-y) (%)		194.1	-435.6	-111.5	962.9	91.4
Financial expenses	270	238	316	362	512	650
Profit before tax	**35**	**319**	**-33**	**141**	**212**	**298**
Growth (y-o-y) (%)		820.2	-110.4	-526.0	50.1	40.6
Profit after tax	**-39**	**476**	**-33**	**127**	**187**	**254**
Growth (y-o-y) (%)		-1,317.7	-107.0	-482.9	46.7	35.8
Key Ratios (%)	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
EBITDA margin	7.0	6.8	-1.2	4.0	8.0	11.0
EBIT margin	0.8	2.0	-5.3	0.5	4.5	7.5

Source: Company data, Goldman Sachs Research estimates.

Max India: A proxy for the Indian insurance sector

We are initiating coverage on Max India, a conglomerate with business interests in life insurance, healthcare and health insurance, with a Buy rating (adding it to the Conviction List) and target price of Rs190, indicating potential upside of 30%. The company has been underperforming the market over the last two years first on back of global financial crises which led to huge decline in stock markets and then on concerns of new regulatory changes and their impact on volumes and margins for the company. We see three key reasons the stock may outperform: (1) significant correction in valuations, while operating performance has been improving; (2) life and health care businesses turning around, will make a profit on cost cuts, higher utilizations; and (3) capital requirement for life tapering, though this will remain high for healthcare and health insurance – but to a lesser extent than in the past. Additionally, the company is sitting of cash of Rs5.8bn which will be more than sufficient to meet these capital requirements. We use appraisal value method to value the life insurance business and DCF for the health care business. We have assumed 12% NBAP margins and flat APE growth in FY12E.

Key risks: (1) change in regulations, specifically on traditional products (which have been untouched by regulators so far); (2) long-term we believe the ULIP market will prevail, given that India is a savings markets, as traditional products provide lower net returns vs. ULIPs given restriction on investment in equities. Max may do well in the near term but may have to consider changing its product mix to at least 50:50 from 70% traditional and 30% ULIPs currently.

Consolidated profits and RoE to rise

We expect Max India's consolidated profit to rise to Rs2.18 bn in FY12E from a loss of Rs757mn in FY10. We expect the life insurance and healthcare businesses to turn around and add to its profits and RoE. Additionally, Max India currently has sufficient cash to meet the funding requirements of both the healthcare and the health insurance businesses. The company is sitting on a treasury corpus of Rs5.8bn, whereas our estimated requirement for health insurance and health care is Rs5.9bn over the next three years. The company's consolidated borrowings are Rs.4.5bn which includes Rs3.8bn in Max Healthcare and Rs0.6bn in speciality films.

Exhibit 88: Our target price indicates 31% potential upside from current levels
Sum-of-the-parts valuation

Subsidiaries & other investments	Max India's Share (%)	Value for Max India (Rs/per share)	Valuation methodology adopted	% of target price
Max New York Life insurance	74%	174	EV + Structural value (12% NBAP margin, 14X multiple)	92%
Max Bupa Health insurance company	74%	5	1x capital invested	3%
Max Healthcare	70%	7	DCF	4%
Implied Value of company		**190**		**100%**

Source: Goldman Sachs Research estimates.

Exhibit 89: Life insurance dominates the revenue pie at 60%, followed by promoter packaging business at 5.5%
Consolidated revenue mix (FY07-12E) - % of total

Income Mix	FY07	FY08	FY09	FY10	FY11E	FY12E
Life Insurance	74.5	74.6	78.1	62.1	70.1	72.0
Investment Income	7.2	9.0	6.8	26.8	17.6	15.1
Max Speciality films	9.2	8.9	8.2	5.4	6.1	6.6
Healthcare	7.1	6.0	5.4	4.0	4.0	4.2
Others	2.0	1.5	1.6	1.6	2.3	2.1

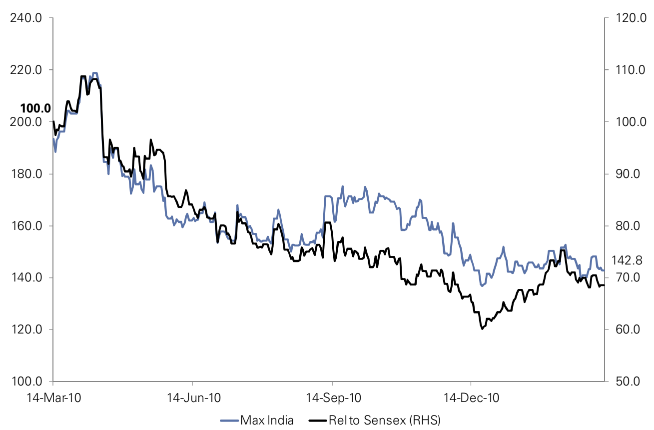
Source: Company data, Goldman Sachs Research estimates.

Exhibit 90: Most of the capital infusion has been in the life business, requirements for which should fall
Capital infusion across subsidiaries FY07-FY10

	FY07	FY08	FY09	FY10	Capital infused over FY07-FY10 (Rs mn)	Capital infused over FY07-FY10 ($ mn)	% of total
Max New York Life Ins	1,295	2,220	5,550	1,471	10,536	234	86.3
Max Bupa Health Insur	-	-	-	1,117	1,117	25	9.2
Neeman Medical	333	-	-	-	333	7	2.7
Max Healthcare	216	-	-	-	216	5	1.8
Total	**1,844**	**2,220**	**5,550**	**2,588**	**12,202**	**271**	**100**

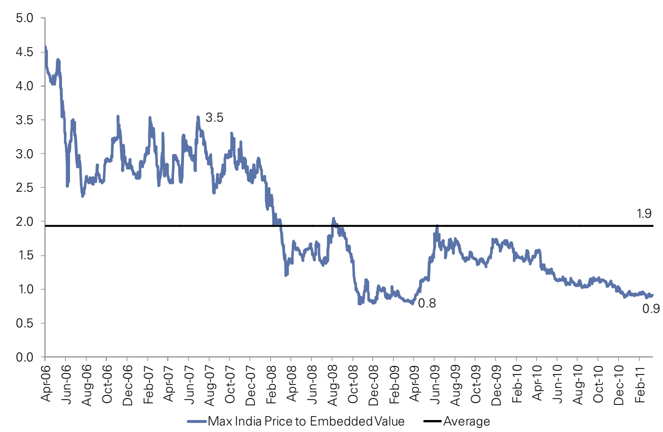
Source: Company data.

Exhibit 91: MNYL has corrected 20% since IRDA issued stringent regulations on unit-linked products in May 2010
Max India's stock price performance vs. Sensex



Source: Datastream.

Exhibit 92: Max India has traded at 0.8X–3.5X embedded value and is currently 1SD below average valuations
Price to embedded value (X), average



Source: Company data, Goldman Sachs Research estimates.

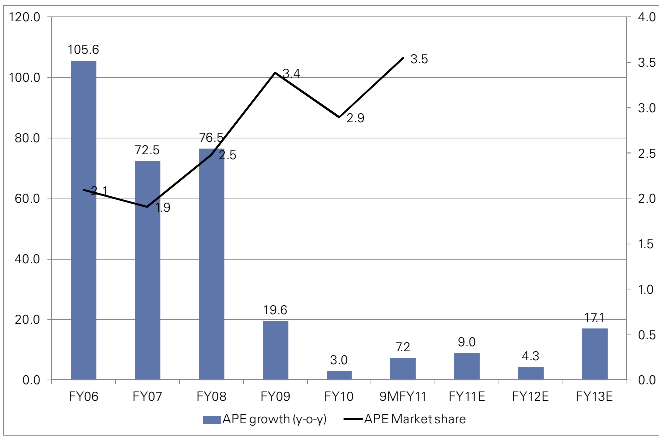
Max New York Life: Re-aligning its strategy

Max New York Life (MNYL) contributed 60% of Max India's FY10 consolidated revenues. Like other Indian life insurers, to protect volume growth and margins, the company has changed its strategy: (1) it is now increasing its proportion of traditional products to two-thirds of premiums vs. unit-linked products dominating premium share at 70% in FY10; and (2) reducing costs and improving productivity. We use the appraisal value method (assuming 12% NBAP margins and 14X NBAP multiple) to value this business. The insurance business adds accounts for around 90% of the overall SOTP of Max India.

Traditional product bias from here on

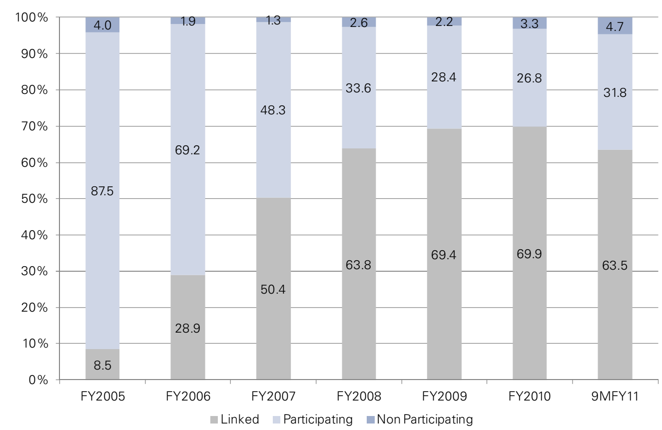
As of FY10, unit-linked products contributed about 70% of MNYL's premium and 72% of policyholder AUM. However, around 85% of new business in 3QFY11 was contributed by traditional products. Going forward, the company intends to focus on traditional policies, with this accounting for two-thirds of the overall business. The traditional products market in India is predominantly a with profits (participating – companies in India are required to share 90% of the profit on policies with the policyholder) market, which used to be less profitable than ULIP products as 90% of the surplus is distributed to policyholders. The persistency ratio in this product is high at >80% and surrender ratio low, as seen in Max's historical numbers. The key competitor for MNYL in traditional products is LIC, which has a strong foothold in Tier-II and III cities. We are expecting MNYL to deliver 9% growth in new premium income in FY11E, 4.3% in FY12E and 17.1% in FY13E.

Exhibit 93: Over FY08-10, MNYL's growth was 11% (vs. 88% over FY05-07), subdued by weak capital markets. 9MFY11 grew by 7.2% yoy on regulatory changes.
MNYL's premium growth and market share



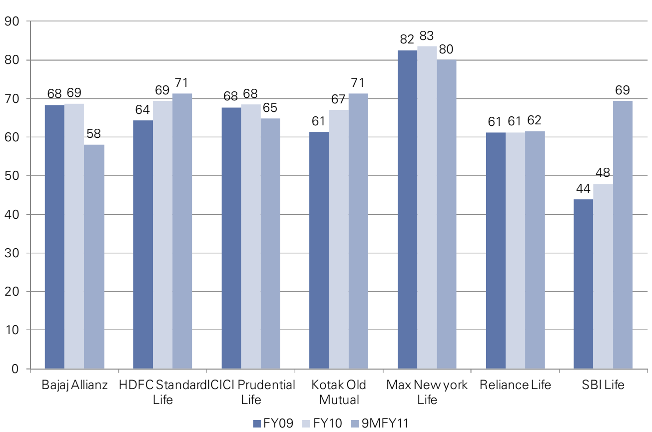
Source: Company data.

Exhibit 94: Share of unit-linked has fallen from 70% in FY10 to 63.5% as of 9MFY11 – a trend likely to continue
Gross premium split as linked, par and non-par, in %



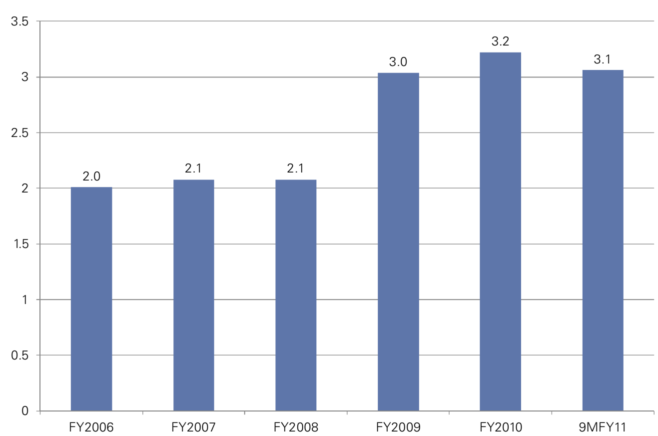
Source: Company data.

Exhibit 95: MNYL's conservation ratio has been higher than peers, possibly on longer-tenure policies
Conservation ratio vs. peers



Source: Company data.

Exhibit 96: MNYL unlikely to require capital over FY11E-13E, given slower growth and turnaround in profits
Solvency ratio – FY06-9MFY11

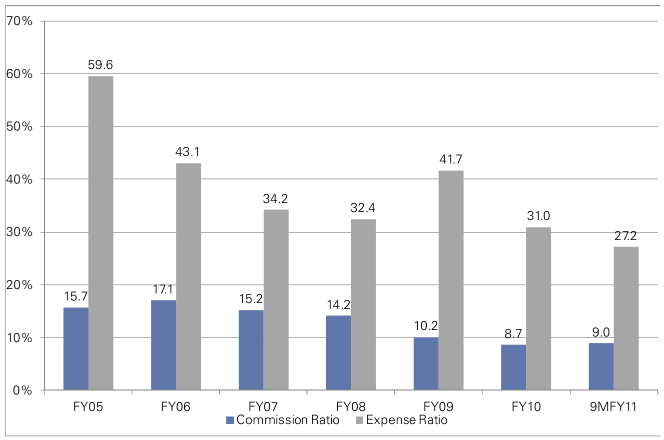


Source: Company data.

Focus on reducing costs

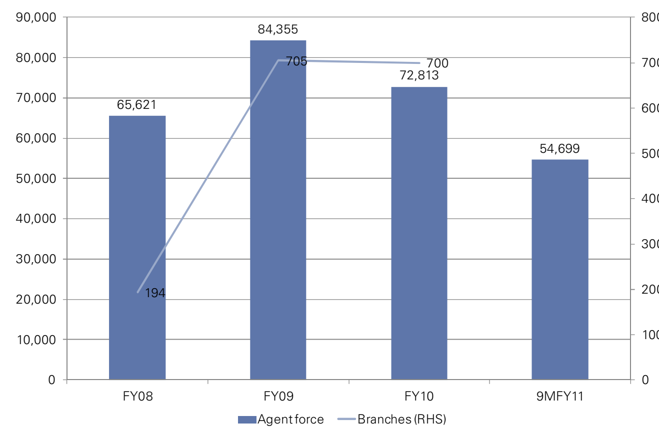
MNYL has focused on reducing costs in the context of industry headwinds. As of 9MFY11, MNYL's cost ratio was down 380bp to 27.2% in 9MFY11, a function of multiple initiatives. The company trimmed its agency force by 16.8% since March 2010 to 54,699 with unproductive agents being weeded out, and reduced employee headcount by 25% to 8,698. The company has indicated cost ratios will trend down to 18% by FY12E with plans to further bring it down to 14% eventually. Given the competitive environment we have not factored this in our estimates and instead project a cost ratio of 24.5% for FY12E, preferring to be reactive to better execution given the sensitivities/risks involved.

Exhibit 97: Cost ratios have declined 380bp in 9MFY11 on multiple initiatives, driven by the tough operating environment
Opex ratio and commission ratio



Source: Company data.

Exhibit 98: Agency force trimmed by 16% from its peak as unproductive agents weeded out
Movement in branches and agents

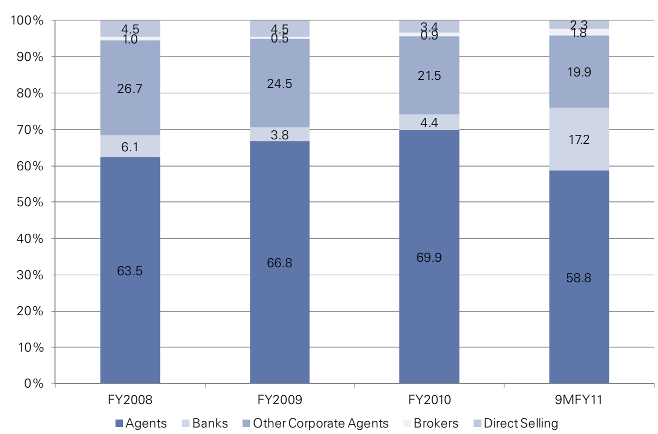


Source: Company data.

Axis Bank tie-up: required dimension to distribution franchise

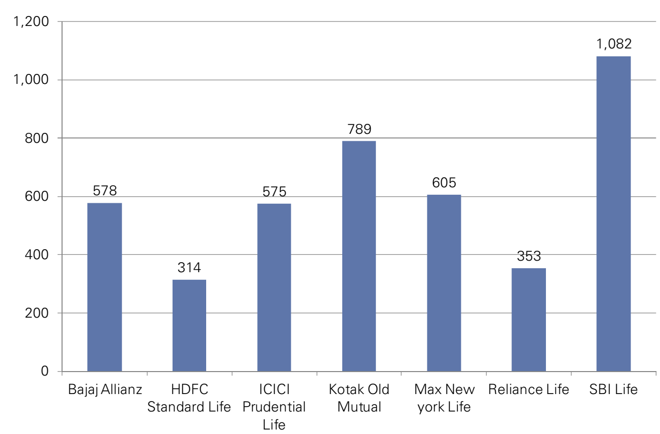
In May 2010, MNYL entered into a 10-year agreement with Axis Bank (India's third largest private sector bank with 1,100+ branches) to distribute its insurance products. This arrangement helps MNYL expand its reach, while also reducing dependence on the agency channel which until March 2010 contributed 70% of new business premiums. As at 9MFY11, the contribution of banking channel had quadrupled over FY10 levels to 17%, or around Rs2.4bn (3QFY11: Rs1.2bn). Incrementally, Axis Bank is sourcing 25% of new business premiums for MNYL, of which 90% is traditional business. The strength of the distribution agreement is fortified by a 4% stake bought by Axis Bank in MNYL around the same time, thereby better aligning each party's interests.

Exhibit 99: Agency force continues to contribute c. 59% of MNYL's new business premiums as of 9MFY11
% split of premium acquisition, channel-wise



Source: Company data.

Exhibit 100: Productivity of MNYL agents is among the Top 3 as of FY10
Retail premium (000s) to average agent as of FY10



Source: Company data.

Valuations – insurance to contribute 90% of Max's value

We think MNYL is the closest listed proxy to India's structural insurance story. We believe most of the negatives have been priced in, with the market expecting lower margins and volumes. The industry – once in the limelight – has lost its charm for investors and we believe it is time for a relook, with Max providing the maximum leverage to this business. While volume growth may still lag, we believe that companies will start showing profits, which along with falling cost ratios and improving persistency could provide the inflexion point for this industry.

We use the appraisal value method (Embedded value + Structural value, margin of 12% and 14X multiple) to arrive at our implied value estimate for this business. Our margin estimate is below the company's guidance of 13% to 14%, which management indicated could improve further if persistency ratios improve. Max also indicated it had assumed a prudent approach to persistency (70% on 13-month persistency for traditional business and 75% for ULIP business vs 67%-68% currently) and a sensitivity of 8% to 10% improvement in persistency would translate into NBAP margin of 18%-19%. We have valued Max India's stake in MNYL at Rs174/share (92% of target price).

Exhibit 101: We have valued MNYL at Rs69bn (US$1.5bn), with Max India's 74% stake at Rs174/share, after applying a 10% holding company discount
MNYL's appraisal valuation

Max India					
Rs mn unless otherwise stated	**FY2008**	**FY2009**	**FY2010**	**FY2011E**	**FY2012E**
Y/e Embedded Value (A + E)	13,160	22,840	27,230	32,037	37,444
Structural value					31,850
NBV (Rs mn)					**2,275**
NBM (X)					14
Implied Value (EV + structural value)					69,293
Implied value to EV (X)					**1.9**
EV to Implied value (%)					**54.04**
Value per share of Max India (parent) post a 10% holding company discount					**174**

Calculation of EV (Rs mn)	FY2008	FY2009	FY2010	FY2011E	FY2012E
Embedded Value					
Opening EV	6,700	13,160	22,840	27,230	32,037
NW	2,060	3,620	7,670	10,323	12,267
VIF	4,640	9,540	15,170	16,907	19,771
Unwinding of Discount	1,020	1,900	2,610	2,627	3,131
%		14.44	11.43	11.50	11.50
New business premium income (APE)	**13,080**	**15,952**	**16,676**	**18,171**	**18,958**
yoy growth (%)	70	22	5	9.0	4.3
Value of New Business	2,670	3,120	2,670	2,181	2,275
% of Premium income	20.41	19.56	16.01	12.00	12.00
Other adjustments	(230)	(2,840)	(2,800)	(2,800)	(2,800)
Operating Variance	220	90	1,220		
Maintenance Expenses Over runs	(350)	(3,920)	(3,770)		
Other adjustments	(100)	550	310		
Market value movement		440	(560)		
New Capital Infusion	3,000	7,500	1,910	0	0
Closing EV	**13,160**	**22,840**	**27,230**	**32,037**	**37,444**
YoY change (%)	100	42	16	15	14

Source: Company data, Goldman Sachs Research estimates.

Exhibit 102: Our sensitivity analysis shows that our implied value estimates for the company would increase by 12% at a higher margin of around 15%
Sensitivity of MNYL's valuations to change in NBAP margins and NBAP multiple

Structural value (Rs bn) = NBV * multiple

	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	19.0	20.9	22.7	24.6	26.5	28.4
12	22.7	25.0	27.3	29.6	31.8	34.1
14	26.5	29.2	31.8	34.5	37.2	39.8
16	30.3	33.4	36.4	39.4	42.5	45.5
18	34.1	37.5	40.9	44.4	47.8	51.2

Appraisal value (Rs bn) = Structural value + Embedded value

	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	56.4	58.3	60.2	62.1	64.0	65.9
12	60.2	62.5	64.7	67.0	69.3	71.6
14	64.0	66.6	69.3	71.9	74.6	77.3
16	67.8	70.8	73.8	76.9	79.9	82.9
18	71.6	75.0	78.4	81.8	85.2	88.6

Appraisal value (US$ bn) = Structural value + Embedded value

	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	1.2	1.3	1.3	1.3	1.4	1.4
12	1.3	1.4	1.4	1.5	1.5	1.6
14	1.4	1.4	1.5	1.6	1.6	1.7
16	1.5	1.5	1.6	1.7	1.7	1.8
18	1.6	1.6	1.7	1.8	1.9	1.9

Contribution to sum-of-parts assuming full value for 74% (Rs per share)

	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	142	146	151	156	161	165
12	151	157	162	168	174	180
14	161	167	174	181	187	194
16	170	178	185	193	201	208
18	180	188	197	205	214	222

Note: US$/INR assumed at Rs46

Source: Goldman Sachs Research estimates.

Max BUPA Health insurance: At a nascent stage

Max BUPA Health insurance (MBHI) is a joint venture with the UK's BUPA to provide health insurance in India's under-penetrated market. The JV partners have infused Rs2.7bn of capital so far and estimate peak commitment of Rs7bn. Max India owns a 74% stake in the company and Bupa 26%. Currently, the company is establishing the distribution infrastructure (in-house vs. reliance on third parties), streamlining processes and systems, and tying up with hospitals (targeting 500 big ones).

The health insurance business has not proved to be profitable for other life insurers/non-life insurers in India due to high claims, including fraudulent cases. However, the company believes there are likely synergistic benefits given the Group's presence in the healthcare business (it owns four hospitals). While it is still early days, the company estimates it will break even in four to five years. We estimate the company will report losses of Rs1.2bn in FY12 and Rs1.7bn in FY13.

Given the nascent stage of this business, we have valued it at 1X capital invested, or Rs5/share (3% of target price).

Max Healthcare: A defensive business in the hospitals space

Max Healthcare (MHC) is a leading provider of healthcare services operating eight centres in Delhi and the National Capital Region (NCR) region. MHC will be increasing its footprint in North India with the launch of super speciality hospitals in Dehradun and 2 PPP projects in Punjab (Mohali and Bathinda) with capacities of 300 beds each. MHC has a registered patient base of 1.1mn patients, with almost 250,000 patient footfalls every month.

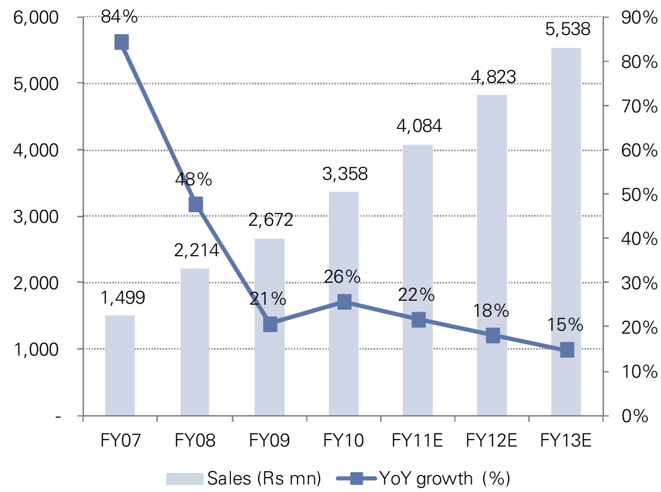
We expect a steady 16% revenue CAGR over FY11E-FY13E on the back of:

- Expansion in footprint and the proposed doubling of its bed capacity to 2000 beds by FY12E, which management guides is on track for completion.
- As more of their hospitals enter the mature phase, the revenue share from drugs should increase from 21% as of FY10 to 27% in FY13E.

MHC has achieved a cash breakeven this quarter and it has been led by a sequential growth and improvement in its EBITDA margins (100bps improvement in the period ending 9MFY11). As their occupancy rates improve, coupled with higher revenue per bed (Current average occupancy at their hospitals is at c. 68.2% with average length of stay at being 3.5 days), we expect MHC to break even on EBIT/net income in FY11 and generate Rs415mn in EBIT by FY13E.

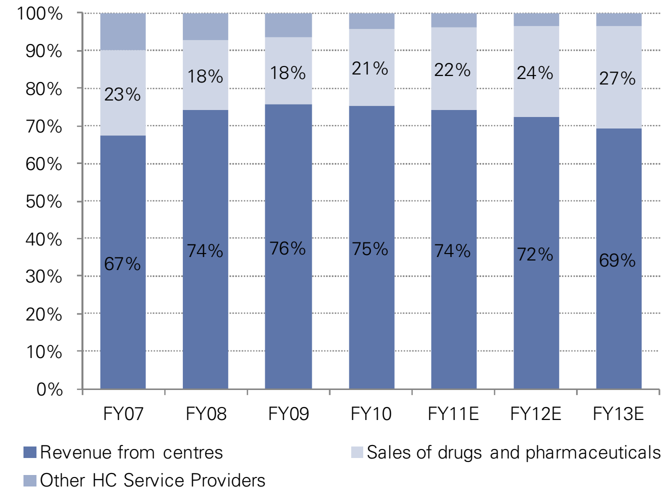
We value Max Healthcare on a DCF valuation methodology as it continues to invest in growth, and arrive at a value of Rs8/share.

Exhibit 103: We expect a steady 16% revenue CAGR over FY11E-FY13E
Sales in Rs mn, yoy growth in %



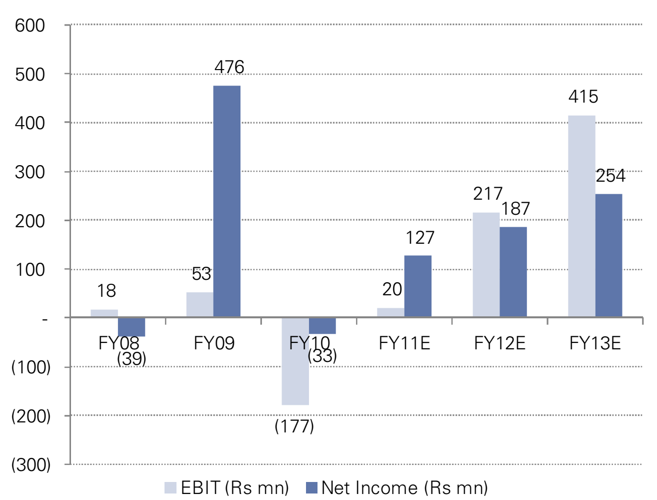
Source: Company data, Goldman Sachs Research estimates.

Exhibit 104: Revenue share from drugs to increase as hospitals enter mature phase
Revenue split in % (FY07-FY13E)



Source: Company data, Goldman Sachs Research estimates.

Exhibit 105: With higher occupancy rates, Max to break even on EBIT/net income
EBIT, net income progression (FY08-FY13E)



Source: Company data, Goldman Sachs Research estimates.

Exhibit 106: DCF valuation yields a value of Rs8 per share
Max Healthcare valuation summary

WACC calculation		DCF summary results	
Equity component		**Firm value (Rs mn)**	**5,682**
Equity market premium	6%	Net debt (Rs mn)	3,322
Risk free rate	7%	Minority interest (Rs mn)	-
Beta	1.0	Pension liabilities (Rs mn)	-
Cost of equity	13%	**Implied value (Rs mn)**	**2,360**
		Shares outstanding (current)	290
Debt component		Equity value (EV)/share (Rs)	8
Cost of debt	10%		
Tax rate	30%		
After-tax cost of debt	7%	**DCF value/BO share (Rs)**	**8**
Long-run debt-to-capital ratio	50%		
WACC	**10%**		
Terminal growth rate	4%		

Source: Company data, Goldman Sachs Research estimates.

Bajaj Finserv (BJFS.BO, Neutral): Not much steam left

Investment view

We are initiating coverage on Bajaj Finserv with a Neutral rating and SOTP-based target price of Rs650. While we find that its finance and life insurance businesses are turning around, we believe its valuations post its recent rally adequately reflect the gains. Bajaj Finserv is a diversified financial conglomerate with interests in life and non-life insurance, and financial services including lending for two-wheelers, SMEs, distribution of mutual funds and insurance products. On an incremental basis management is planning to enter the asset management business and infrastructure lending.

Core drivers of growth

For the life insurance business, we believe volume growth will likely start picking up gradually in FY12 after three years of restructuring and industry-driven decline. We believe most of the restructuring in terms of cleaning up the portfolio and streamlining of channels is now reflected and expect a 4% growth in new premiums in FY12 and 13.8% in FY13. We expect the other key driver will be the financial services subsidiary of the company, which should continue to deliver healthy loan growth of 47% in FY12E, 27% in FY13E, and post a hefty 82% in FY11E off a low base. We estimate BJFN will deliver 29% growth in net profit over two years FY12 and FY13, and this will lead to further improvement in RoE from 8% in FY10 to 22.3% in FY11E and 22.6% by FY13E on the back of improving leverage and falling NPL provisions.

Risks to the investment case

Downside risks: rising cost of borrowing could impact margins, given BJFN is a wholesale borrower; impact of new regulations. Upside risk: faster-than-expected volume growth in their life insurance business.

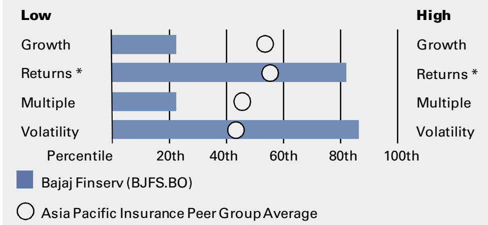
Valuation

Our SOTP-based 12-month target price for the company is Rs650 per share, indicating 21% upside potential. While the company has absolute upside potential, we initiate with Neutral rating as we have higher upside elsewhere within our banking coverage. Further we expect earnings from the life subsidiary to remain fairly volatile given higher surrender on old policies, lower lapse profit post new regulations and limited flexibility to reduce cost ratios till sales pick up. We use the appraisal value method to value its life business and GS-Camelot based target price to book values for the financial services and general insurance businesses.

INVESTMENT LIST MEMBERSHIP
Neutral

Coverage View: Neutral

Investment Profile

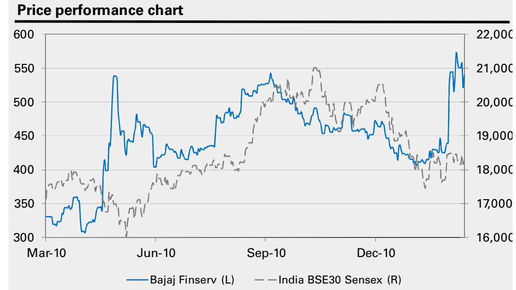


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	539.70
12 month price target (Rs)	650.00
Market cap (Rs mn / US$ mn)	78,083.8 / 1,730.8
Foreign ownership (%)	8.3

	3/10	3/11E	3/12E	3/13E
EPS (Rs) New	**38.64**	**82.82**	**66.72**	**67.43**
EPS revision (%)	NM	NM	NM	NM
P/B (X)	2.5	1.8	1.5	1.3
P/E (X)	14.0	6.5	8.1	8.0
P/EVPS (X)	NM	NM	NM	NM
Dividend yield (%)	0.2	0.4	0.4	0.5
EVPS growth (%)	--	--	--	--
ROEV (%)	NM	NM	NM	NM
ROA (%)	1.8	2.5	1.6	1.3
ROE (%)	23.7	37.4	22.7	18.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	17.3	5.1	63.1
Rel. to India BSE30 Sensex	26.9	11.1	52.4

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/16/2011 close.

Bajaj Finserv: Summary financials

Profit model (Rs mn)	3/10	3/11E	3/12E	3/13E
Net premiums earned (NEP)	**132,755.7**	**119,442.5**	**116,198.2**	**123,038.8**
Risk: Benefits and claims	(14,518.8)	(13,911.1)	(15,551.3)	(17,834.9)
Increase in life reserves	--	--	--	--
Net commissions expensed	(9,944.0)	(7,333.0)	(6,694.6)	(7,436.4)
SGA	--	--	--	--
Underwriting profit	**(486.1)**	**(477.5)**	**(130.0)**	**(60.2)**
Investment income	101,621.4	55,041.9	40,535.8	46,657.5
Other income	(92,833.1)	(37,816.6)	(24,949.2)	(29,211.5)
Pretax profit	**8,302.2**	**16,747.8**	**15,456.6**	**17,385.8**
Tax and minority interest	2,711.6	4,765.2	5,803.8	7,629.5
Net profit	**5,590.6**	**11,982.6**	**9,652.8**	**9,756.3**

Factors driving earnings growth (%)	3/10	3/11E	3/12E	3/13E
Net premiums earned growth	6.3	(10.0)	(2.7)	5.9
Investment income growth	450.6	(45.8)	(26.4)	15.1
Investment asset growth	80.8	21.6	15.9	17.2
Pretax growth	437.6	101.7	(7.7)	12.5
Net profit growth	683.0	114.3	(19.4)	1.1

Operating ratio for group (%)	3/10	3/11E	3/12E	3/13E
Risk + inv benefits/NEP	(10.9)	(11.6)	(13.4)	(14.5)
SG&A + net commission exp./NEP	(7.5)	(6.1)	(5.8)	(6.0)
Underwriting profit/NEP	(0.4)	(0.4)	(0.1)	0.0
Investment yield (ex cash yield)	35.0	13.3	8.3	8.2
Pretax margin	6.3	14.0	13.3	14.1
Tax rate	11.9	21.0	25.1	30.5

Operating ratios p&c (%)	3/10	3/11E	3/12E	3/13E
Net reserves/claims paid	--	--	--	--
Net reserves/earned premiums	--	--	--	--
Expense ratio	29.3	32.3	32.0	31.6
Loss ratio	73.6	69.9	68.2	68.0
Combined ratio	104.5	104.4	102.4	102.0

Operating ratios life (%)	3/10	3/11E	3/12E	3/13E
Expense ratio	4.8	4.5	4.7	4.9
Pretax margins	6.3	14.0	13.3	14.1
Fixed assets/total assets	1.1	0.8	0.6	0.6

Balance sheet (Rs mn)	3/10	3/11E	3/12E	3/13E
Total investment assets	**373,547.3**	**454,390.4**	**526,827.0**	**617,237.7**
Premiums receivable	0.0	0.0	0.0	0.0
Deferred policy acquistion costs	0.0	0.0	0.0	0.0
Fixed assets	4,191.9	4,222.5	4,266.3	4,544.0
Separate account	0.0	0.0	0.0	0.0
Others	16,816.6	92,296.3	127,987.8	166,698.1
Total assets	**394,555.8**	**550,909.3**	**659,081.1**	**788,479.8**
Unearned premium reserves	0.0	0.0	0.0	0.0
Policyholders' reserves	318,342.5	382,933.2	444,847.0	523,702.6
Separate account	--	--	--	--
Other liabilities	--	--	--	--
Total liabilities	**363,127.5**	**507,896.0**	**606,820.3**	**726,920.9**
Total equity	**31,428.3**	**43,013.3**	**52,260.8**	**61,558.9**

DuPont analysis (% of avg assets)	3/10	3/11E	3/12E	3/13E
ROAE	23.7	37.4	22.7	18.9
x Leverage (X)	7.6	6.8	7.0	7.1
ROAA	1.8	2.5	1.6	1.3
Net earned premiums	42.8	25.3	19.2	17.0
Policyholder risk + inv benefit	(4.7)	(2.9)	(2.6)	(2.5)
Increase in life reserves	(49.9)	(13.7)	(10.2)	(10.9)
Amortization of DAC	(3.1)	(1.5)	(1.0)	(0.9)
SGA	NM	NM	NM	NM
Underwriting profit	(0.2)	(0.1)	0.0	0.0
Investment income	32.8	11.6	6.7	6.4
Other income	(30.0)	(8.0)	(4.1)	(4.0)
Pretax profit	2.7	3.5	2.6	2.4
Tax	0.9	1.0	1.0	1.1
Net profit	1.8	2.5	1.6	1.3

Valuation	3/10	3/11E	3/12E	3/13E
P/E basic (X)	14.0	6.5	8.1	8.0
P/B (X)	2.5	1.8	1.5	1.3
P/EV (X)	NM	NM	NM	NM
EPS, basic (Rs)	38.64	82.82	66.72	67.43
BVPS (Rs)	217.23	297.30	361.22	425.48
EVPS (Rs)	--	--	--	--
DPS (Rs)	1.00	2.38	2.40	2.71
Dividend yield (%)	0.2	0.4	0.4	0.5
Dividend payout (%)	2.6	2.9	3.6	4.0

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 107: Key subsidiary financials

Rs mn

Bajaj Finance

P&L Model	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net interest income	**1,708**	**3,871**	**6,076**	**9,503**	**12,851**	**16,228**
Growth (y-o-y) (%)	44.4	126.6	57.0	56.4	35.2	26.3
Non interest income	1,616	434	1,008	859	1,017	1,151
Total Income	**3,324**	**4,305**	**7,084**	**10,362**	**13,868**	**17,379**
Growth (y-o-y) (%)	17.2	29.5	64.6	46.3	33.8	25.3
Operating expenses	**1,932**	**2,204**	**3,196**	**4,505**	**5,899**	**7,649**
Growth (y-o-y) (%)	46.8	14.1	45.0	40.9	30.9	29.7
Staff expenses	500	729	994	1,403	1,857	2,421
Other expense	1,432	1,476	2,202	3,102	4,041	5,228
Pre provision Op. Prof	**1,392**	**2,100**	**3,888**	**5,858**	**7,969**	**9,730**
Provisions, Writeoffs	1,092	1,636	2,606	2,215	2,924	3,514
Profit before tax	**300**	**510**	**1,343**	**3,743**	**5,096**	**6,265**
Growth (y-o-y) (%)	-57.9	70.2	163.1	178.7	36.1	22.9
Profit after tax	**206**	**339**	**894**	**2,471**	**3,363**	**4,135**
Growth (y-o-y) (%)	-56.8	64.8	163.6	176.4	36.1	22.9
Key Ratios (%)	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Average Yield on assets	9.2	16.1	20.6	20.6	20.5	20.1
Cost of Funds	10.4	10.0	8.3	8.0	9.3	9.8
Spreads	-1.1	6.0	12.3	12.6	11.2	10.4
NIM	**4.6**	**11.3**	**15.6**	**14.9**	**13.3**	**12.2**
Cost/Income	56.7	49.4	43.7	41.8	41.1	42.7
Op. exp to Avg Assets	5.1	6.3	8.0	6.8	5.8	5.6
Gross NPL	8.7	16.6	7.6	6.0	5.5	5.5
Net NPL	6.4	11.9	3.6	2.3	1.6	1.2
Tier 1 CAR	40.7	38.4	26.0	19.9	17.9	16.7
ROA	**0.6**	**1.0**	**2.3**	**3.8**	**3.4**	**3.1**
Leverage (X)	3.6	3.2	3.5	5.1	6.5	7.3
ROE	**2.0**	**3.2**	**8.0**	**19.6**	**22.3**	**22.6**
B&S Model	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Disbursements	**30,363**	**24,509**	**45,851**	**96,473**	**125,690**	**159,876**
Growth (y-o-y) (%)	15.4	-19.3	87.1	110.4	30.3	27.2
Advances	**28,346**	**23,704**	**40,258**	**73,089**	**107,125**	**143,886**
Growth (y-o-y) (%)	4.9	-16.4	69.8	81.6	46.6	34.3
Advances Mix						
2 & 3 wheelers	66	46	34	26	23	22
Consumer & PC	16	13	11	13	11	9
Personal & SME	6	21	25	21	19	18
Securitized retail asset	12	9	1	0	0	0
Mortgage & other secu	0	11	29	32	34	35
Construction equipmen	0	0	0	8	13	15

Bajaj Finserv Standalone

P&L Model	FY08	FY09	FY10	FY11E	FY12E	FY13E
Income from operatio	**1,040**	**1,120**	**1,271**	**1,096**	**1,207**	**1,222**
Growth (y-o-y) (%)		7.8	13.5	-13.8	10.1	1.3
Windfarm business	348	416	431	437	583	583
Interest income	574	552	549	527	540	554
Profit on sale of invest	77	127	257	100	50	50
Other income	41	25	34	32	34	36
Operating expenses	**414**	**504**	**705**	**516**	**517**	**301**
Growth (y-o-y) (%)		21.7	39.9	-26.8	0.2	-41.8
Staff/Other expenses	116	175	344	245	244	246
Energy generation	1	31	142	50	53	55
Depreciation	297	298	220	220	221	0
Profit after tax	**439**	**414**	**340**	**372**	**440**	**583**
Growth (y-o-y) (%)		-5.9	-17.8	9.5	18.3	32.5

Bajaj Allianz General Insurance

P&L Model	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net Premium	**17,526**	**20,066**	**19,717**	**22,247**	**25,844**	**29,452**
Growth (y-o-y) (%)	68.6	14.5	-1.7	12.8	16.2	14.0
Motor	11,694	13,158	13,190	15,366	18,132	20,852
Fire	1,335	1,265	1,190	1,190	1,285	1,350
Health & Accident	2,361	3,427	3,016	3,166	3,641	4,188
Other	2,136	2,215	2,321	2,524	2,785	3,063
Investment, Other income	1,523	1,929	2,090	2,311	2,310	2,491
Total Income	**19,048**	**21,995**	**21,806**	**24,559**	**28,154**	**31,943**
Growth (y-o-y) (%)	70.6	15.5	-0.9	12.6	14.6	13.5
Chg in unexpired risk res	3,371	1,153	875	2,357	3,027	3,213
Claims Incurred	9,457	13,599	13,866	13,911	15,551	17,835
Net Commissions	-188	238	318	428	519	621
Operating expenses	5,195	5,988	5,485	6,394	7,270	8,262
Operating profit	**1,236**	**964**	**1,227**	**1,469**	**1,786**	**2,012**
Growth (y-o-y) (%)	32.9	-22.0	27.3	19.7	21.6	12.6
Profit before tax	**1,679**	**1,498**	**1,798**	**2,064**	**2,458**	**2,770**
Growth (y-o-y) (%)	43.4	-10.8	20.0	14.8	19.1	12.7
Profit after tax	**1,056**	**952**	**1,208**	**1,341**	**1,597**	**1,800**
Growth (y-o-y) (%)	40.1	-9.9	26.9	11.0	19.1	12.7
Key Ratios (%)	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Loss Ratio	66.8	71.9	73.6	69.9	68.2	68.0
Commission Ratio	-1.3	1.3	1.7	2.1	2.3	2.4
Operating expense ratio	36.7	31.7	29.1	32.1	31.9	31.5
Combined Ratio	102.2	104.8	104.4	104.2	102.3	101.8
ROE	21.4	15.3	16.5	15.6	15.9	15.3

Bajaj Allianz Life Insurance

P&L Model	FY08	FY09	FY10	FY11E	FY12E	FY13E
Gross premium	**97,253**	**106,245**	**114,197**	**99,914**	**93,784**	**97,260**
Growth (y-o-y) (%)	81.9	9.2	7.5	-12.5	-6.1	3.7
First Year	59,198	40,124	35,714	29,193	30,375	34,572
Renewal	30,508	61,331	69,686	60,397	52,552	50,309
Single premium	7,547	4,790	8,797	10,325	10,857	12,380
Reinsurance	133	235	283	362	404	461
Investment/Other income	7,120	-31,018	99,584	53,154	38,339	44,238
Total Income	**104,240**	**74,993**	**213,497**	**152,706**	**131,720**	**141,038**
Growth (y-o-y) (%)	84.5	-28.1	184.7	-28.5	-13.7	7.1
Commissions	14,969	10,516	9,626	6,905	6,176	6,816
Operating expenses	20,043	18,758	17,716	15,864	16,257	17,984
Benefits paid	8,514	7,565	26,302	54,667	48,872	46,892
Chg in valuation of liabs	61,589	38,481	155,799	63,454	51,581	59,834
Surplus/(deficit)	**1,983**	**1,155**	**4,096**	**11,816**	**8,834**	**9,512**
Growth (y-o-y) (%)	43.7	-41.8	254.6	188.5	-25.2	7.7
Profit before tax	**-2,139**	**-707**	**5,570**	**10,824**	**7,174**	**7,390**
Profit after tax	**-2,139**	**-707**	**5,423**	**9,291**	**6,158**	**5,543**
Key Ratios (%)	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Linked % of Total premium	95.7	94.0	90.1	78.9	70.4	64.6
Conservation Ratio	73.4	68.4	68.7	57.3	58.7	60.7
Commission Ratio	15.4	9.9	8.4	6.9	6.6	7.0
Operating expense ratio	20.6	17.7	15.5	15.9	17.3	18.5
B&S Model	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
AUM	**124,229**	**163,870**	**318,768**	**385,199**	**445,572**	**521,296**
Growth (y-o-y) (%)	111.4	31.9	94.5	20.8	15.7	17.0
Linked	114,315	149,485	296,154	348,193	380,431	415,228
Non Linked	9,914	14,385	22,615	37,006	65,141	106,067
Networth	7,208	6,501	11,924	21,398	27,555	33,098

Source: Company data, Goldman Sachs Research estimates.

Bajaj Finserv: Diversified financial services exposure

We are initiating coverage on Bajaj Finserv with a Neutral rating and SOTP-based 12-month target price of Rs650. While we find that its finance and life insurance businesses are turning around, we believe valuations post the recent rally adequately reflect the gains. Bajaj Finserv is a diversified financial conglomerate with interests in life and non-life insurance and financial services, including lending for two-wheelers, SMEs, distribution of mutual funds and insurance products. On an incremental basis, management is planning to enter the asset management business and infrastructure lending.

Based on our current estimates, the life insurance business accounts for 70% of the target price. Note that as per the existing agreement between Bajaj and Allianz, Bajaj's economic interest in Bajaj Allianz Life insurance is 26% and in Bajaj Allianz General Insurance it is 51%, though legally it is a 74% owner in both these entities. In case of a change in the regulations allowing higher FDI, Bajaj will sell its stake to Allianz at a predetermined formula (16% return on investment). This agreement is valid till July 2016, after which Bajaj will get full market value on any sale. However, the Reserve Bank of India in its circular on "Foreign Direct Investments/Transfer of shares by way of sale" dated 4 May 2010 indicated that any such transaction would have to be at market-determined rate. We have assumed a 51% economic value in our estimates for Bajaj as we do not expect the FDI regulations to change beyond a 49% stake. We also believe that there could be issues in the implementation of RBI regulations as this could get challenged.

Exhibit 108: We see 21% upside potential for Bajaj Finserv relatively lower than other stocks in our coverage, and initiate with a Neutral
SOTP-based target price (Rs)

Subsidiaries & other investments	Bajaj Finserv's Share (%)	Value for Bajaj Finserv (Rs/per share)	Valuation methodology adopted	% of total target price
Bajaj Allianz Life Insurance	51%	470	Embedded value + Structural value (12% NBAP margin, 14X multiple)	72
Bajaj General Insurance	51%	35	GS CAMELOT (1x FY12E P/BV)	5
Bajaj Finance	55.4%	129	GS CAMELOT (2.25 x FY12E P/BV)	20
Wind power		17		3
Implied Value of company		**650**		**100**

Source: Goldman Sachs Research estimates.

Exhibit 109: Contribution from life insurance business to total income has been high
Break-up of consolidated revenues (FY08-FY10)

Income Mix (%)	FY08	FY09	FY10
Life Insurance	0.9	1.1	53.2
Interest and other income	1.2	7.6	4.9
Wind farm business	9.7	10.8	4.4
Inv income, Capital gains	53.6	55.5	25.1
General Insurance	34.6	25.0	12.5

Source: Company data.

Exhibit 110: Likely to change as the finance company has now become a subsidiary and will contribute >50% of income to the consolidated entity
Break-up of consolidated revenues (FY11E-FY13E)

Income Mix (%)	FY11E	FY12E	FY13E
Life Insurance	39.9	22.0	18.7
Interest and other income	42.4	62.8	68.0
Wind farm business	1.6	1.7	1.4
Inv income, Capital gains	10.6	8.3	7.1
General Insurance	5.4	5.2	4.8

Source: Goldman Sachs Research estimates.

Exhibit 111: Bajaj Finserv has outperformed the market by 30% over the last 3 months, initially on the back of RBI regulations and then on speculation (denied by management) that Berkshire Hathaway may take stake in the company

Price chart, relative performance vs. Sensex

Source: Datastream.

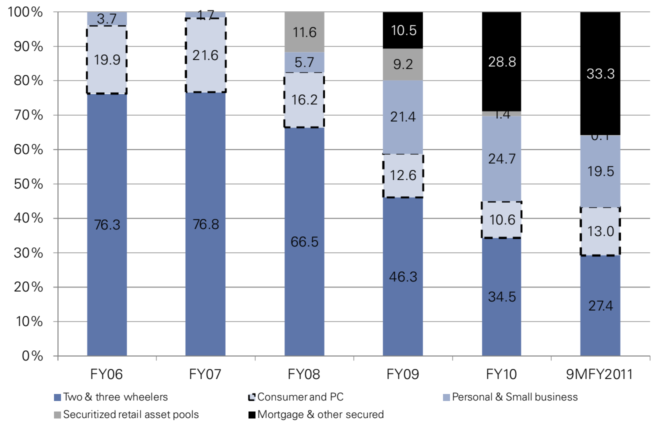
Bajaj Finserv Lending: Turning over a new leaf

Bajaj Finserv Lending (BJFN - till now called Bajaj Auto Finance) was started 24 years ago as a captive unit of Bajaj Auto (a promoter-owned two-wheeler manufacturer with 20% market share). In August 2007, the promoters brought on board a new CEO who has focused on improving profitability by re-positioning (re-aligning and diversifying products and customer segments) and reducing risks (strengthening processes and systems). The company now provides loans against property, secured SME financing, consumer loans and two-wheeler loans. These years of restructuring efforts are now being reflected in lower NPL accretion, and improving margins and profitability.

Post restructuring, we project BJFN will continue to deliver healthy loan growth of 47% in FY12E, 34% in FY13E, and a hefty 82% in FY11E off a low base and after significant restructuring. While the credit market and segment Bajaj Finserv caters to remains under-penetrated, the company believes it best to moderate growth under the current economic environment, a sensible strategy in our view. We estimate BJFN will deliver 29% growth in net profit over FY12 and FY13, and this will lead to a further improvement in RoE from 8% in FY10 to 19.6% in FY11E and 22.6% by FY13E on the back of improving leverage and falling NPL provisions. We estimate BJFN will contribute 25% of Bajaj Finserv’s consolidated earnings (post increase in ownership from 44% to 50%).

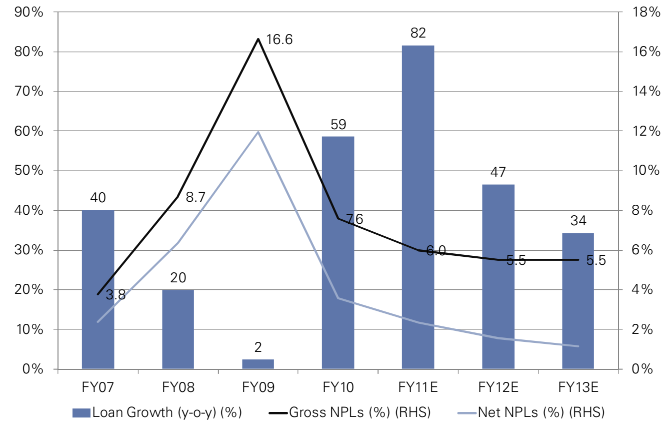
We have valued BJFN at Rs129/share of Bajaj Finserv based on the GS CAMELOT model, implying 2.25X FY12E P/B and 11X FY12E P/E. This implies a implied value of Rs1,023 for Bajaj Finserv Lending (which is also listed) vs. the current market value of Rs647per share. During its trading history, Bajaj Finance is trading at 1.5xFY12E P/BV and 7.8 FY12E P/E. However, similar companies (M&M Finance and Shriram) trade at 2.5X to2.7X P/E and 10.3 to 11.5X P/B on FY12 consensus estimates. With BJFN’s RoE improving, we believe this subsidiary of Bajaj Finserv should be rerated. Key risks: (1) rising cost of borrowing could impact margins, given BJFN is a wholesale borrower; (2) foray into infrastructure sector lending where BJFN has no experience, is non-retail in nature and requires large balance sheet size and restricts ability to leverage up significantly (as seen in the case of IDFC).

Exhibit 112: A more diversified loan book, with share of 2-wheeler financing at 27% in 9MFY11 vs. 76% in FY06
Loan book break-up (FY06-9MFY11) – % of total



Source: Company data.

Exhibit 113: Loan growth to moderate but still remain healthy, while asset quality continues to improve
Loan growth, gross and net NPLs (%) – FY07-FY13E



Source: Company data, Goldman Sachs Research estimates.

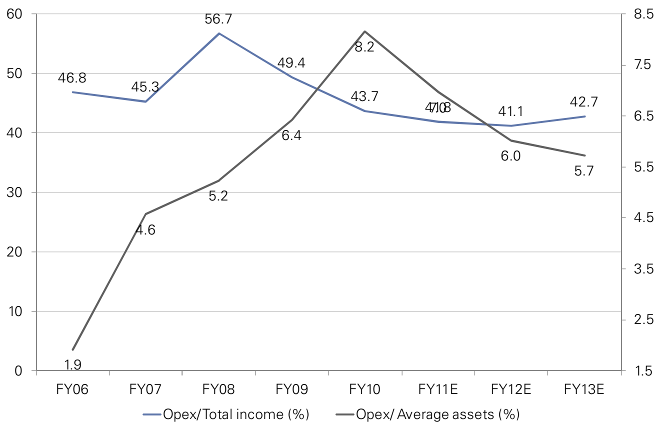
Two-pronged restructuring yielding results

Since FY08, Bajaj Finserv Lending (BJFN.BO) has undergone a restructuring exercise with the key focus areas being: (1) rationalization of current operations, while continuing to invest in technology, people and systems; and (2) identification of customer and product segments. Alongside, BJFN intends to focus on cross-selling opportunities to enhance its profitability.

(1) Rationalized operations, while investing to strengthen its systems:

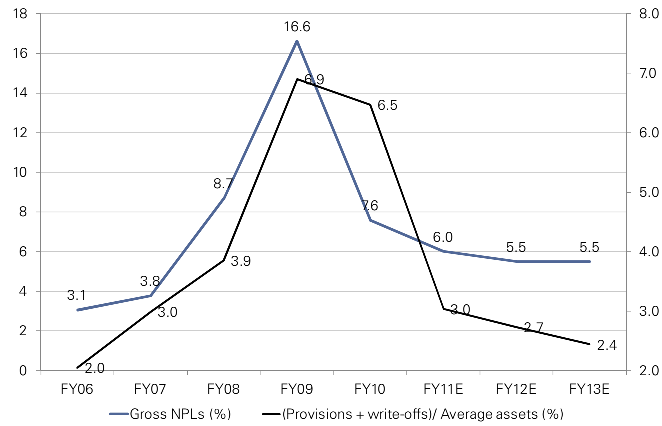
- In FY07, BJFN was lending from 400 locations, which has been consolidated to 63. Also, dealers have been rationalized from about 12,000 in FY08 to 1,500 as of FY10.
- However, BJFN has continued to invest in augmenting its personnel (several hired from private sector and foreign banks) and strengthening its systems and processes. The company has invested in technology and building its brand presence over the period. Consequently, cost ratios have continued to trend up at 8% of average assets in FY10 vs. 5.1% in FY08. ESOPs have also been issued with 2% outstanding of total equity vs. total approved limit of 5%.
- **Efforts to improve asset quality:** Over FY07-09, BJFN's gross NPLs increased by a 100% CAGR to 16.6% of outstanding loans in FY09. NPLs were particularly high in the two-wheeler and the computer financing businesses. During the period, BJFN entered into a contract with Bajaj Auto that any credit loss in excess of 3% on the two-wheeler book would be funded by them. Effective April 2010, there is no such arrangement in force. The company has exited the computer financing business, and a one-off provisioning cost of Rs210mn taken in FY2010. Subsequently, asset quality for BJFN has been improving with gross NPLs down by 24% yoy in FY10 and net NPLs have continued to decline, down from 3.6% in FY10 to 1.1% in Q3FY11.

Exhibit 114: With most of its investments completed, cost ratios should fall
Opex/total income and opex/average assets – FY06-FY13E



Source: Company data, Goldman Sachs Research estimates.

Exhibit 115: Credit costs peaked for BJFN in FY09, as the 2W and the computer finance loans were cleaned up
Provisions + write-offs/average loans – FY06- FY13E



Source: Company data, Goldman Sachs Research estimates.

(2) Identified customer and product segments strategy:

BJFN has decided to de-risk by moving up the customer value chain, focusing on mass affluent and affluent customers in all segments (except two-wheeler financing). It has also diversified its product mix and is now providing:

a) **Two-wheeler loans** – continue to constitute 22% of BJFN's disbursements in 9MFY11. Of Bajaj Auto's two-wheeler sales 30% is financed, with 80%+ being funded by BJFN.

b) **Consumer durable loans** – high-value items/premium segment at 0% interest rate, higher subvention from manufacturers at 8% vs. 5% earlier.

c) **SME loans** – companies with annualized turnover of Rs150mn-500mn, with insurance being mandatory stapled to the loan, enabling BJFN to earn 2% fees.

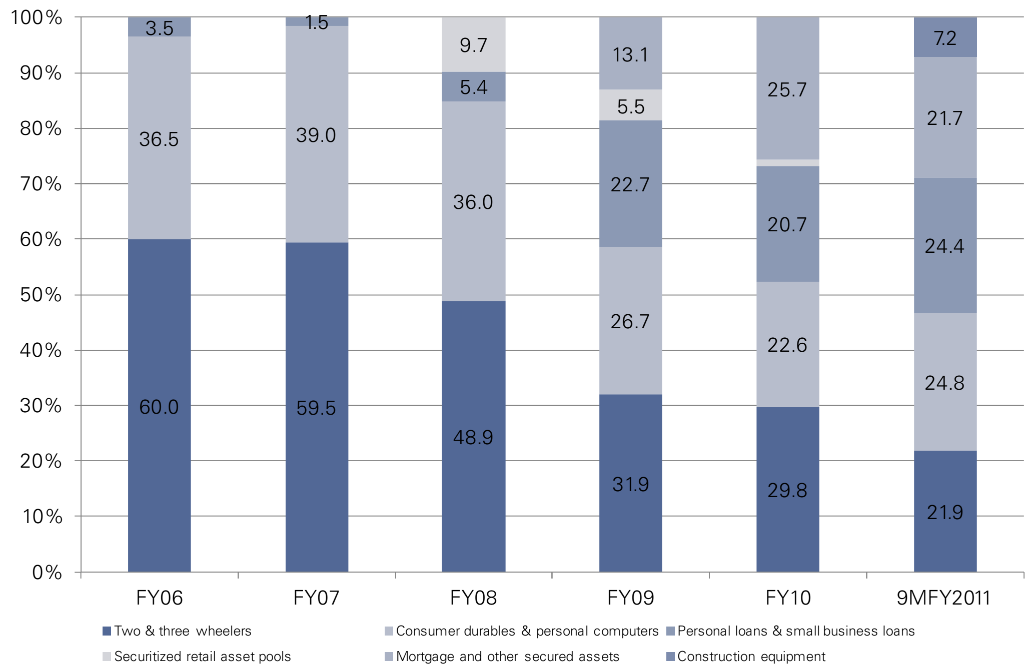
d) **Loans against securities** (LAS) – minimum loan size of Rs5mn.

d) **Mortgages** – self-employed only.

e) **Infrastructure finance**: focus on corporate loan not project loans.

In addition to giving direct loans, the company has also tied up with Central Bank of India to part-source loans (SME and loans against property) for a sourcing and administrative fee. While the NPLs will be shared in proportion to the loan share, the responsibility for the collection of loans will continue to rest with BJFN.

Exhibit 116: Two-wheelers, consumer durables and personal/SME loans are the dominant category of disbursements
Disbursement mix (FY06-9MFY11) – % of total



Source: Company data.

Key catalysts/challenges/risks

In our view, profitability for BJFN is likely to improve from current low levels from diversified product mix, decline in credit costs and increase in leverage. We estimate RoEs will increase to 22.6% by FY13E from 8% in FY10, while delivering a PAT CAGR of 29% over FY11E-13E. However, BJFN faces the following challenges/risks, in our view:

1) **Wholesale funded:** BJFN is a wholesale funded company, which implies higher interest rate risk and volatility. In the current tight liquidity environment, spreads/NIMs will be under pressure as short-term rates have risen by 350-550bp over the last year. We have factored in margin compression of 260bps between FY11 and FY13 in our estimates.

2) **No unique proposition:** BJFN is vying for business in a highly competitive segment, which implies pressure on sustainable profitability. The risk is somewhat mitigated by the company's diverse product mix, which also helps shield against cyclicality and customer segmentation.

3) **Untested new process and systems:** BJFN has invested in processes and systems over the last two years, which are yet to be tested through a business cycle while the company is growing its loan book at a rapid pace.

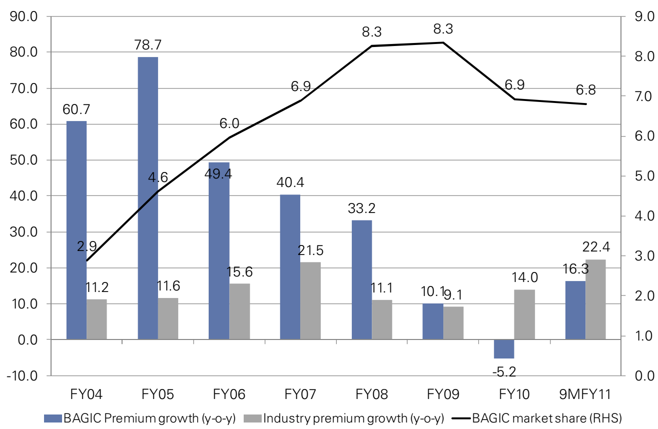
4) **Potential capital requirement:** Given a high rate of growth in the offing, on our estimates the company may require capital by FY12E to sustain current growth levels.

Bajaj General Insurance: More profitable than peers

Bajaj Allianz General insurance company (BAGIC) has established a more profitable presence in an industry assailed by challenges from intense pricing competition, post removal of tariff protection. Low operating expenses, a focus on retail, and restraint on growth vs. market share are the key reasons for the relatively better performance, in our view. We have valued BAGIC at Rs35/share of Bajaj Finserv, based on 1.04X FY12E P/B. Key risk is that competition in the sector will likely lead to structurally low profitability in this business.

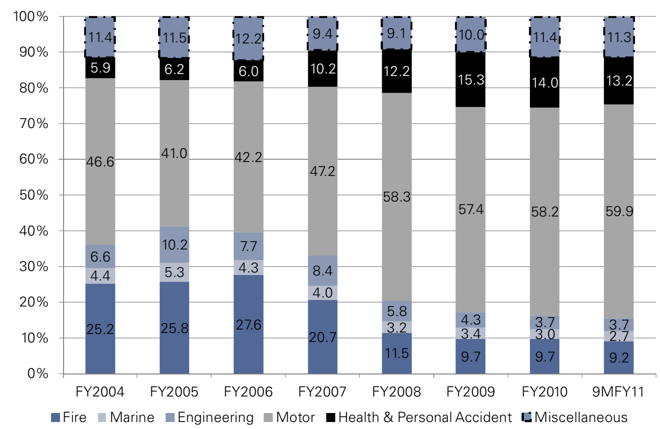
BAGIC has chosen to calibrate the pace of growth vs. its competitors to maintain profitability. Over FY06-FY10, BAGIC has grown premiums at 32% vs. 48% for private companies and 12% for the industry. BAGIC's market share has remained largely stable at 6%-7% over the period. Motor insurance dominates BAGIC's business with a 67% share of total premiums, followed by health which is at 15%. Given the loss-making group business, Bajaj has maintained its focus on retail business which contributed 65% of total premium income as of 9MFY11.

Exhibit 117: BAGIC has chosen a more calibrated pace of growth vs. industry, to augment profitability
BAGIC's premium income growth and market share (%)



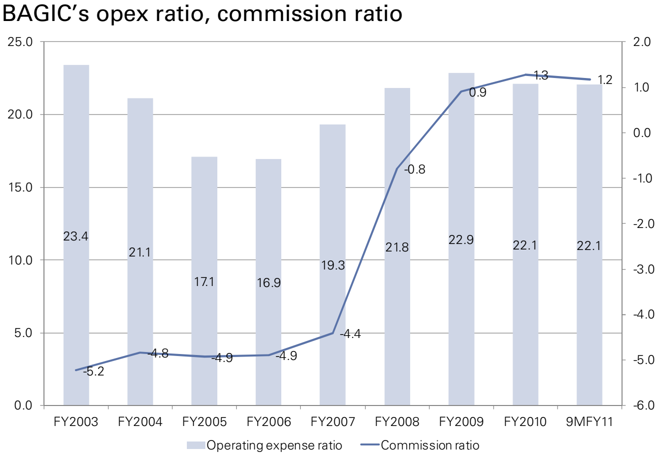
Source: IRDA.

Exhibit 118: Motor continues to dominate premium mix
BAGIC's premium mix – product segments as a % of total



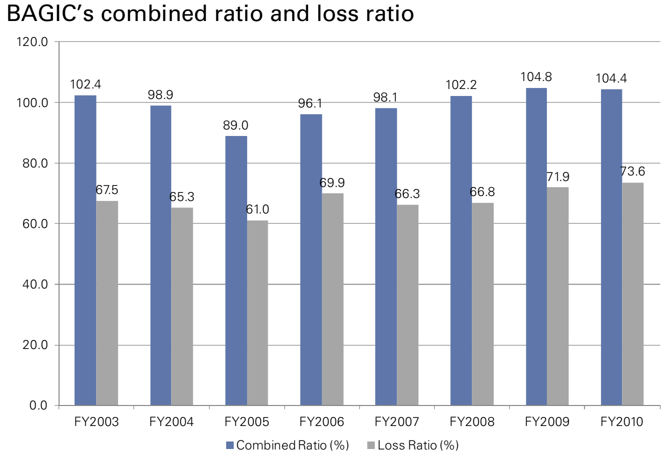
Source: Company data.

Exhibit 119: Cost ratios have remained stable, while commissions have moved up over FY09-9MFY11
BAGIC's opex ratio, commission ratio



Source: Company data.

Exhibit 120: Combined ratios remain north of 100% for BAGIC
BAGIC's combined ratio and loss ratio



Source: Company data.

Exhibit 121: We think BAGIC is better placed vs. peers
Comparison of BAGIC's performance with peers – FY09, FY10 and 9MFY11

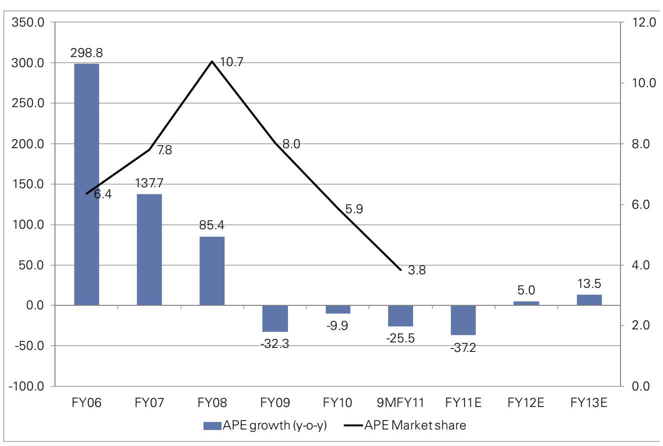
Key Metrics	Bajaj Finserv			ICICI Lombard			Reliance General		
	FY09	FY10	9MFY11	FY09	FY10	9MFY11	FY09	FY10	9MFY11
PAT (Rs mn)	952	1,208	1,004	236	1,439	2,104	-502	-905	-909
Networth (Rs mn)	6,501	11,924	12,538	15,283	17,924	19,163	5,620	7,823	8,441
ROE (%)	14.6	13.1	10.9	1.5	8.7	15.1	-8.9	-13.5	-14.9
Combined Ratio (%)	104.8	104.4	100.3	115.9	113.0	109.16	113.7	115.9	121.9

Source: Company data.

Bajaj Allianz Life Insurance: Focus on quality rather than quantity

Change in strategy led to lower volumes, market share: Over the last three years, Bajaj Allianz Life (BAL) Insurance has made significant changes to its business strategy. In the initial phase of its growth, the company was aggressive in marketing its single-premium products (55% of premiums in FY06), charging customers higher allocation costs, paying high commissions and selling products through channels that were not focused on quality. This strategy led to a sharp growth in premium income between FY2004 and FY2008 and gain in market share to 10.7% from 1.2%, and BAL become number two private player after ICICI Prudential Life. After a change in CEO in 2007, BAL has taken a significant turn from focusing on market share to building quality and a stronger business model. This has led to a 17% decline in premium income (between FY2008 and FY2010) and further 11% ytd drop, resulting in market share loss to 3.8% ytd 2011 vs. 10.7% at the peak in FY2008. We believe the company is unlikely to regain the number two position but will likely remain amongst the top five players given its franchise and focus on quality, which will likely play a key part in building long-term business models.

Exhibit 122: We estimate premium income to inch up in FY12 and then gradually start growing at healthier pace as most of the impact of restructuring and regulation changes will be behind us
APE premium growth vs. market share, (%) – FY05- 9MFY11



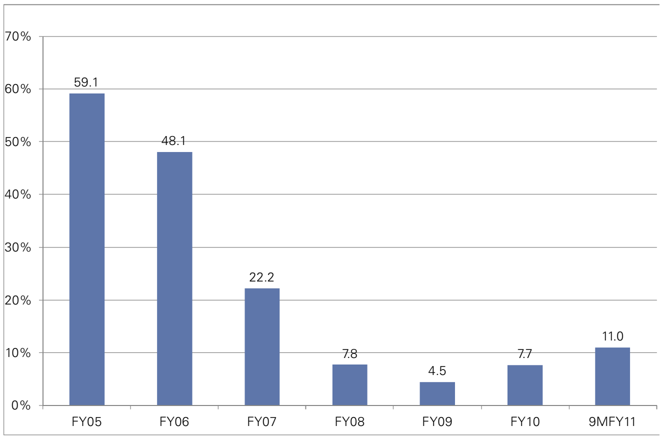
Source: IRDA, Company data, Goldman Sachs Research estimates.

Exhibit 123: We believe the company is unlikely to regain number two position but will likely remain amongst the top five players given its franchise
BAL's market share (%) and ranking among private insurers – FY05- 9MFY11

Market share in retail APE	Bajaj Allianz	Reliance Life	SBI Life	HDFC Standard Life	ICICI Prudential	Birla Sunlife	Kotak life	Max NY
FY2003	0.5	0.0	0.5	1.2	3.4	1.2	0.3	0.7
FY2004	1.2	0.2	0.4	1.0	4.8	2.0	0.7	1.0
FY2005	2.9	0.2	0.7	2.3	8.7	3.3	1.2	1.4
FY2006	6.4	0.4	1.5	3.7	10.1	2.7	1.7	2.1
FY2007	7.8	1.7	3.1	3.1	9.9	1.7	1.3	1.9
FY2008	10.7	3.6	5.0	4.2	12.7	3.3	1.8	2.5
FY2009	8.0	6.3	6.1	4.9	10.9	5.2	2.5	3.4
FY2010	5.9	5.8	7.3	4.6	9.3	4.1	1.7	2.9
YTD FY2011	3.8	4.3	6.0	5.9	8.1	3.3	1.5	3.5
Ranking	5	4	2	3	1	6		7

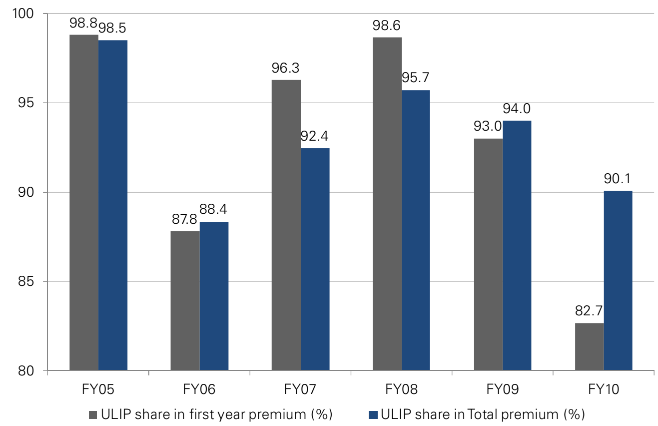
Source: IRDA.

Exhibit 124: In the early phase of its growth the company focused on single-premium products, its share of which has come down from c.60% in FY05 to 11%
% share of single-premium products over FY05-9MFY11



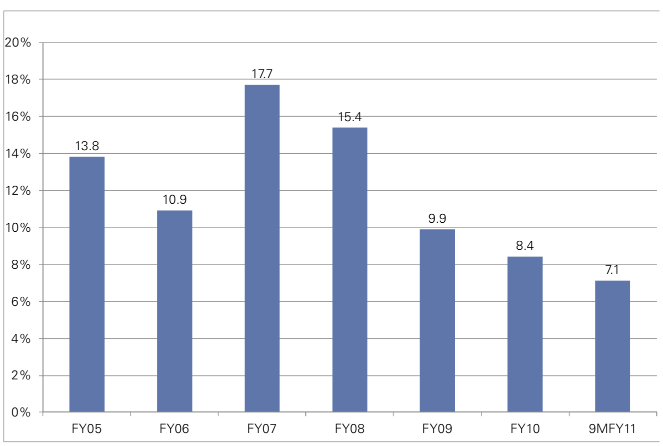
Source: Company data.

Exhibit 125: Unit-linked products have dominated BAL's premium mix – a trend indicated to continue
% share of unit-linked in first year premium and gross premium over FY05-9MFY11



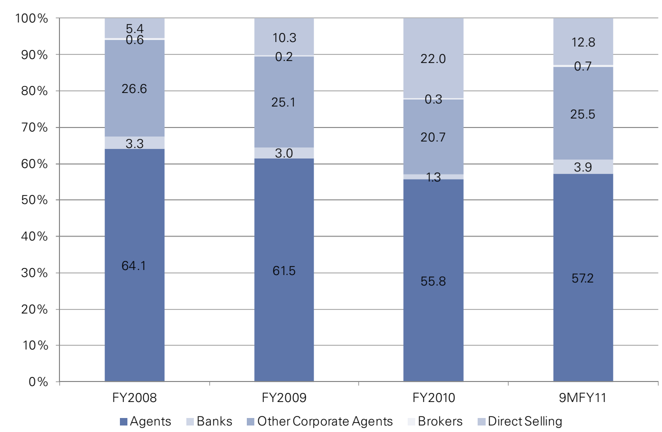
Source: Company data.

Exhibit 126: Commission ratios have declined for BAL, as new premium income slowed. Incrementally too this should remain low given new regulations restricting ability to pay higher commission
Commission ratio (%) – FY05-9MFY11



Source: Company data.

Exhibit 127: BAL does not have its own bank, putting it at some disadvantage vs. peers. Agents contribute 57% of new premiums
% of premium mix – channel-wise, FY08-9MFY11

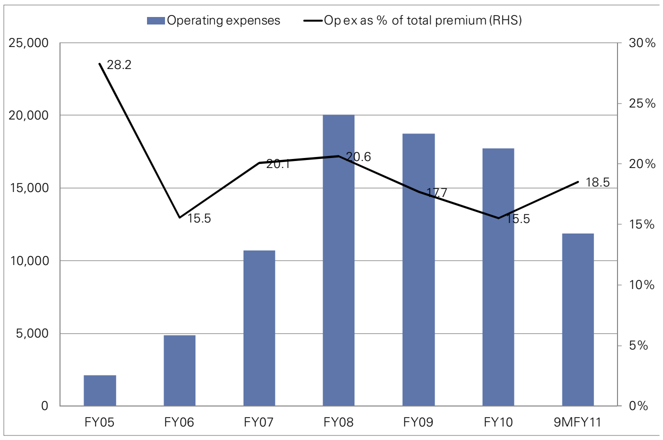


Source: Company data.

Premium growth rather than cost reductions to drive profit from here on in

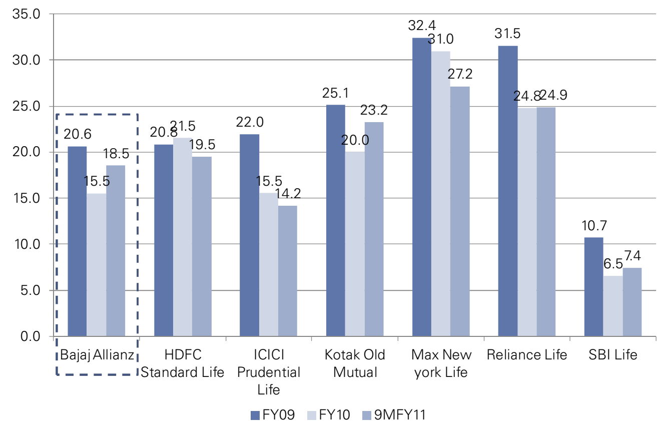
BAL started the process of containing costs ahead of the industry in FY09, with operating expenses down about 6% p.a. over FY09 and FY10. Consequently, cost ratios declined from 20.6% in FY08 to 15.5% in FY10. Thus, while other insurers are likely to see a sharp decline in cost ratios over FY10 levels, BAL is likely to see ratios rise, before trending down due to increasing scale. We have assumed a cost ratio of 18.5% by FY13E.

Exhibit 128: BAL started trimming costs ahead of peers
Operating expenses (Rs mn) and opex as a % of total premiums – FY05-9MFY11



Source: Company data.

Exhibit 129: BAL's opex ratio is reasonable vs. other scale insurers (excluding SBI Life)
BAL's opex ratio vs. peers (%) - FY09-9MFY11

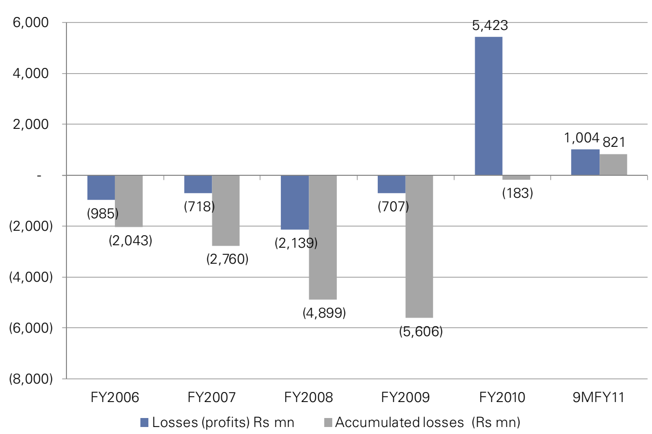


Source: Company data.

Lower cost ratios reflected in profit numbers in FY10

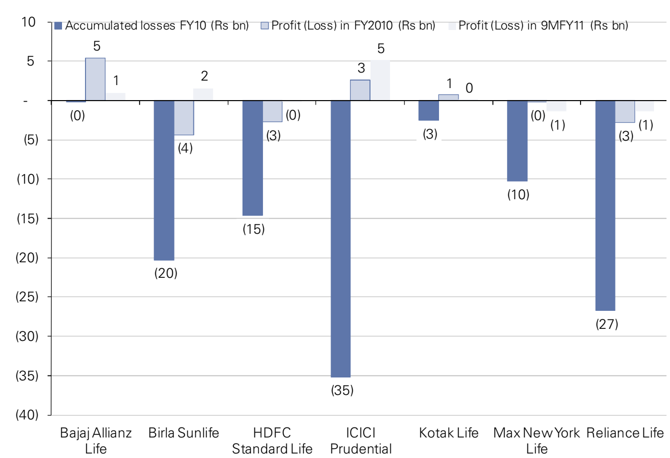
Lower volume growth and more emphasis on cost controls are being reflected in the company reporting profit of Rs5.57 bn in FY2010. Before IRDA's recent regulations, companies were allowed to take lapsation profits on policies unlikely to be revived after two years into the shareholder P&L. Lapsation profits contributed 20% of FY10 reported profit (Rs1.1bn). We believe profit from this point on will have to be driven by higher premium income, better persistency and control on costs as new regulations and a higher tax rate (post implementation of DTC) start impacting the company's profit.

Exhibit 130: BAL reported a profit of Rs5.4bn in FY10, which nearly wiped out accumulated losses
Losses and accumulated losses (Rs bn) - FY05-9MFY11



Source: Company data.

Exhibit 131: BAL is among the few life insurers reporting accounting profits
Comparison of BAL's losses (Rs bn) and accumulated losses (Rs bn) vs. peers – FY06-9MFYY11



Source: Company data.

Reported NBAP margin stable: Despite the changes in regulations, Bajaj Allianz Life has reported stable margins at 18.5% for 9MFY2011, vs. 18.4% for FY2010. Margin numbers across companies are difficult to estimate as there can be huge swings in numbers from persistency assumptions. For the purposes of our valuations, we assume margins for the sector fall to around 12% and would feel comfortable giving the benefit of higher margins only once we see an improvement in persistency ratio and/or cost reduction. Our sensitivity analysis shows that our implied value estimates for the company would change by 9% at higher margin of around 15%.

Valuations: The headwinds at the industry level are likely to leave strategies dynamic for all insurers, including BAL, in our view. We believe the market is pricing in worst-case scenario in margins, and better execution on containing costs and improving productivity/persistency could act as positive catalysts for price performance. Using the appraisal value method (Embedded value + Structural value) and assuming NBAP margins of 12% and NBAP multiple of 14X, we have valued Bajaj Finserv's stake in BAL at Rs470/share (70% of the target price). We estimate BAL's EV at Rs95.7bn vs. capital invested of Rs21.4bn.

Exhibit 132: We have valued BAL at Rs149bn (US$3.3bn), with Bajaj Finserv's 51% economic stake at Rs470/share, after applying a 10% holding company discount
BAL's appraisal valuation

Bajaj Allianz Life insurance	FY2008	FY2009	FY2010	FY2011E	FY2012E
Total shareholders fund (A)	7,208	6,501	11,924	21,398	27,555
Opening balance of VIF business **(B)**	11,913	25,521	36,112	46,977	56,828
New business premium income (APE)	59,953	40,603	36,593	30,225	31,461
yoy growth (%)	85	(32)	(10)	(17)	4
NBAP margin	20.1%	17.8%	16.6%	12%	12%
New Business value (NBV) **(C)**	12,029	7,210	6,080	3,627	3,775
Y/e EV (A + E)	32,729	42,613	58,900	78,226	95,689
Structural value	216,522	122,570	97,280	54,405	52,854
NBV (Rs mn)	12,029	7,210	6,080	3,627	3,775
NBM (X)	**18**	**17**	**16**	15	14
Implied value (EV + structural value)	**249,251**	**165,183**	**156,180**	**132,631**	**148,543**
Implied value to EV (X)	7.62	3.88	2.65	1.70	1.55
EV to Implied value (%)	**13**	**26**	**38**	**59**	**64**
Value per share for Bajaj Finserv (Rs/Share)					
Assuming 26% economic interest					**240**
Assuming 51% economic interest					**470**
Assuming 74% economic interest					**684**

Source: Company data, Goldman Sachs Research estimates.

Exhibit 133: Our sensitivity analysis shows that our implied value estimates for the company would increase by 9% at higher margin of around 15%
Sensitivity of BAL's valuations to change in NBAP margins and NBAP multiple

Structural value (Rs bn) = NBV * multiple

	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	31.5	34.6	37.8	40.9	44.0	47.2
12	37.8	41.5	45.3	49.1	52.9	56.6
14	44.0	48.4	52.9	57.3	61.7	66.1
16	50.3	55.4	60.4	65.4	70.5	75.5
18	56.6	62.3	68.0	73.6	79.3	84.9

Appraisal value (Rs bn) = Structural value + Embedded value

	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	127.1	130.3	133.4	136.6	139.7	142.9
12	133.4	137.2	141.0	144.8	148.5	152.3
14	139.7	144.1	148.5	152.9	157.4	161.8
16	146.0	151.1	156.1	161.1	166.2	171.2
18	152.3	158.0	163.6	169.3	175.0	180.6

Appraisal value (US$ bn) = Structural value + Embedded value

	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	2.8	2.8	2.9	3.0	3.0	3.1
12	2.9	3.0	3.1	3.1	3.2	3.3
14	3.0	3.1	3.2	3.3	3.4	3.5
16	3.2	3.3	3.4	3.5	3.6	3.7
18	3.3	3.4	3.6	3.7	3.8	3.9

Contribution to sum-of-parts assuming full value for 51% (Rs per share)

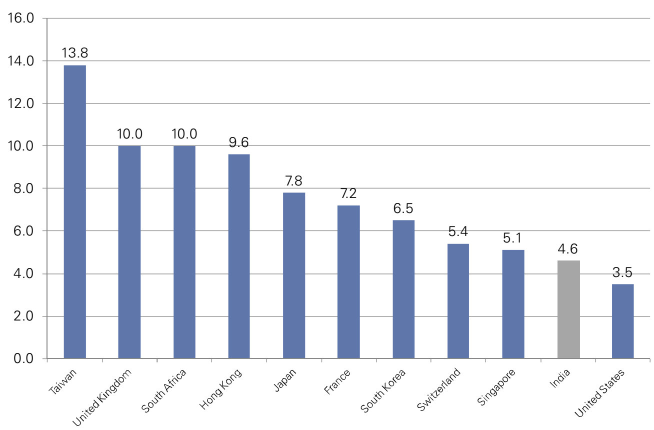
	Margin (%)					
Multiple (X)	10	11	12	13	14	15
10	403	413	423	433	443	453
12	423	435	447	459	471	483
14	443	457	470	485	499	513
16	463	479	495	511	527	543
18	483	501	519	537	555	573

Source: Goldman Sachs Research estimates.

Appendix 1: Long-term growth intact

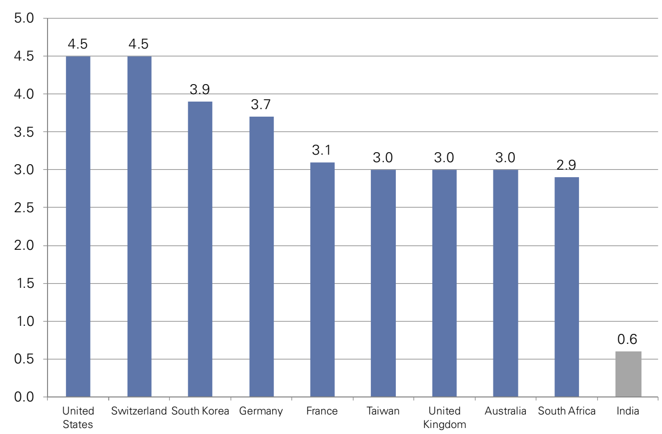
Macro analysis indicates that the potential for insurance premium income still remains high in India. The life insurance premium income to GDP at 4.6% is lower than developed countries such as Korea (6.5%), Japan (7.8%), Taiwan (13.8%), UK (10%). Note that the penetration level in US is lower at 3.5% as savings are garnered by mutual fund and under 401K. While the premium income to GDP is not on the lower end, the per capita income is still low, plus we believe India's premium income to GDP ratios are likely inflated by the higher savings component vs. other markets. A comparison with developed market indicates that premium growth increases significantly when income levels reach US$10,000. India is currently at US$1,176 and we see this increasing (11% CAGR growth last ten years). This likely as the disposable income will increase at a faster pace then the GDP with lower proportion of income going towards basics such as food.

Exhibit 134: Life insurance premium income to GDP low in India despite focus on savings
Life Insurance Premium to GDP in %



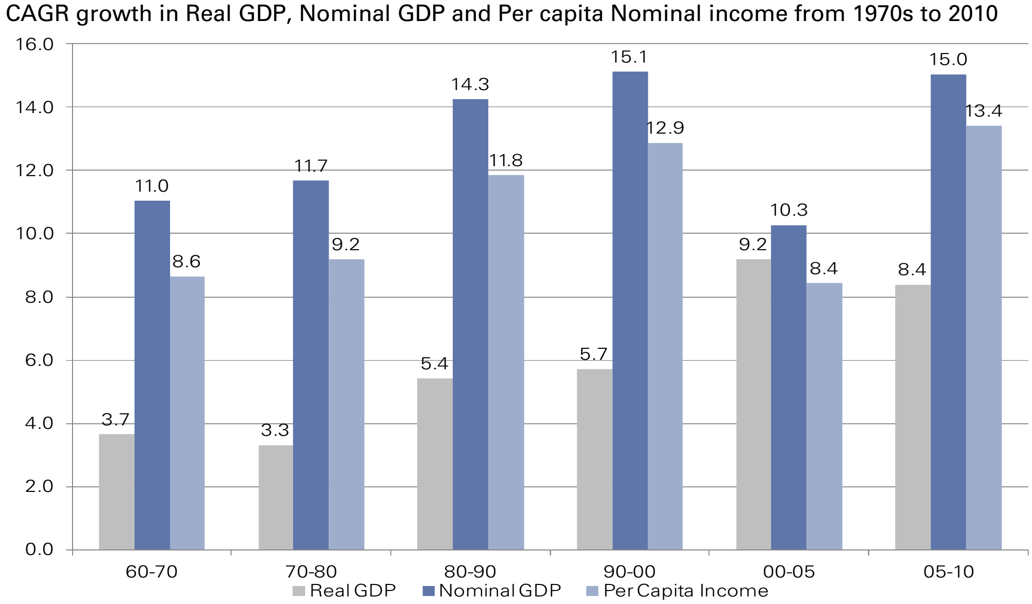
Source: Swiss Re, IRDA.

Exhibit 135: Non-life is even lower
Non Life Insurance Premium to GDP in %



Source: Swiss Re, IRDA.

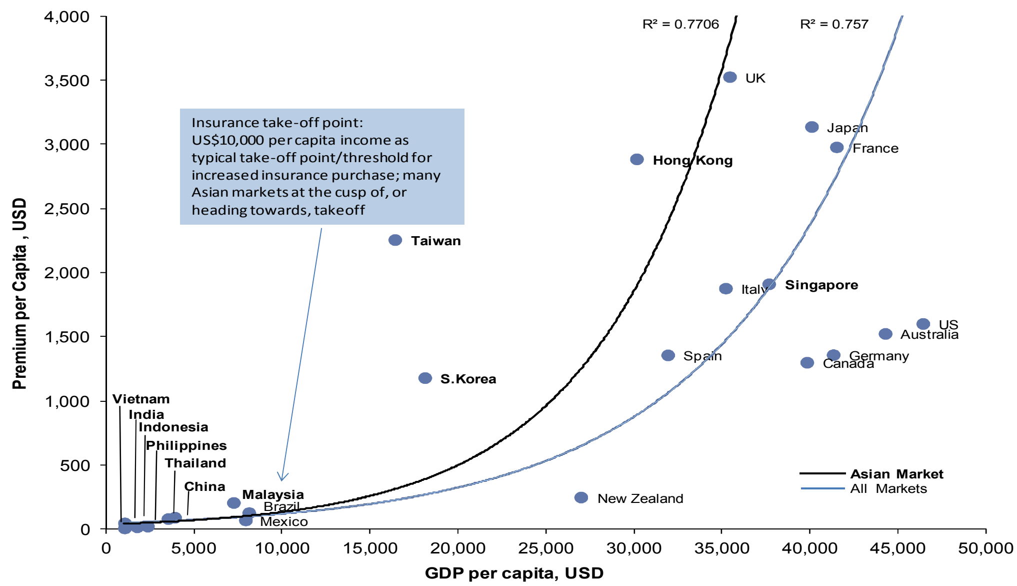
Exhibit 136: India will likely continue to see the strong growth in GDP and per capita income, driving demand for insurance products
CAGR growth in Real GDP, Nominal GDP and Per capita Nominal income from 1970s to 2010



Source: CEIC.

Exhibit 137: Many Asian markets at or approaching threshold per capita income for typical insurance demand take-off point

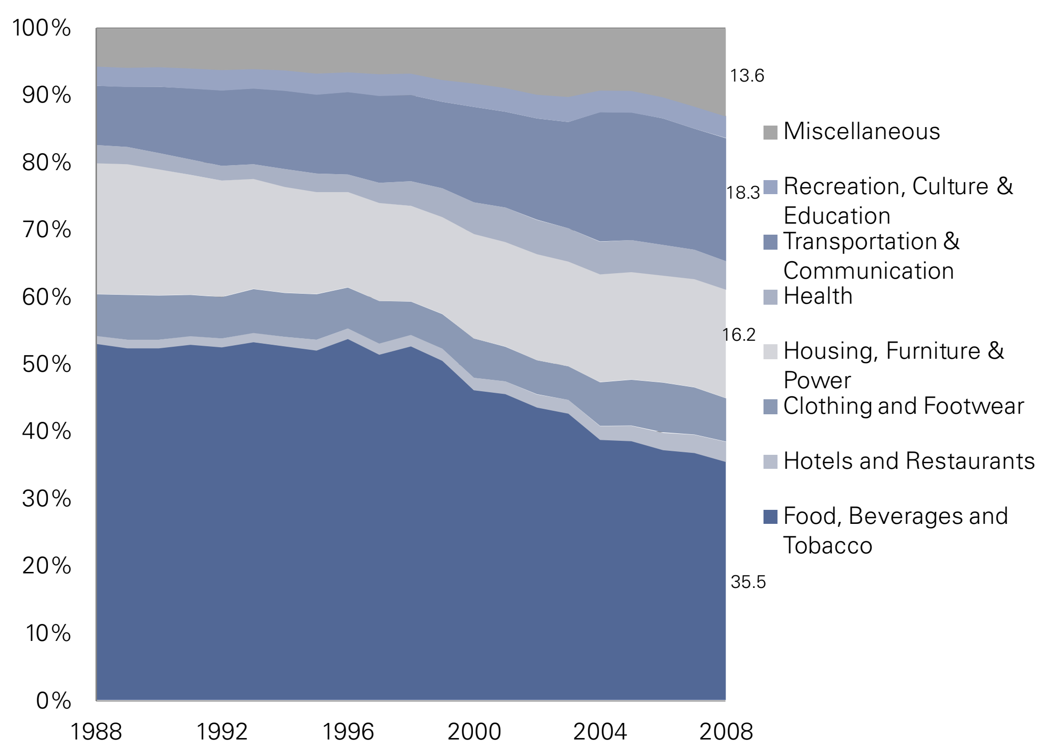
Density rates (premium per capita) and GDP per capital for various Asian and global markets, in US$



Source: Swiss Re, Goldman Sachs Research.

Exhibit 138: Indian consumer has been spending lower on food implying an incrementally lager share of wallet for other services

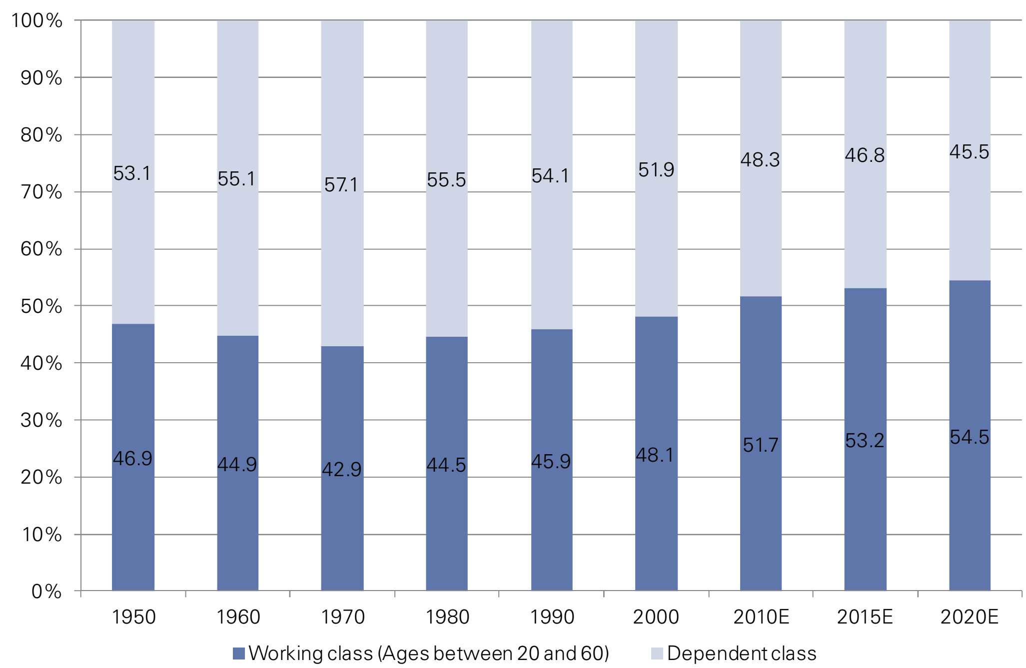
India private consumption breakdown split by categories in %



Source: CEIC, GS Global ECS Research.

Demographics in favour too: This is also supported by favourable demographic, expectations of higher returns and risk taking capability of the younger population. Insurance in India is not just a risk product, but more of a savings product, and will benefit from this demographic dividend. Unlike the west, where mutual fund perhaps plays a bigger role in channeling the savings of retail investors, insurance industry in India is channeling retail savings to the equity and debt market.

Exhibit 139: Over the years India has transitioned from a dependent class society to a working class one with another 117mn expected to be added from FY10 to FY20
Split of society into working class and dependent class in %



Source: United Nations.

Competitive scenario: MF and deposits key competing products

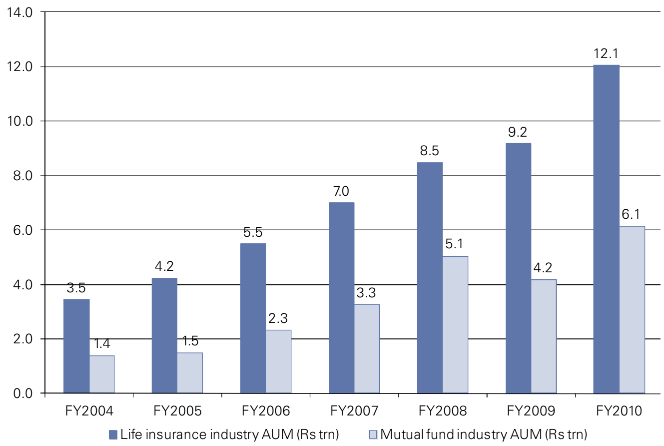
The insurance business in India competes with bank deposits and mutual fund products, with the pension industry still in infancy and not a significant competitor.

Bank deposits account for 64.5% of the HH savings with the proportion having gone down over the last several years. The key beneficiary of this has been the insurance industry which has seen its share in HH saving increase to 22.2% from close to 10% in 1970's. The demographic profile, increasing awareness, higher returns all favour a shift of deposits to competing products.

The mutual fund industry manages US$6bn in AUMs of which around 20-30% is retail money. In comparison insurance is largely retail business (68% of premium collected). The restriction on charging commission from customers has significantly hurt the industry's ability to incentivize distributors and grow. Same is the case with the pension fund industry which has managed to garner only Rs36bn so far due to lack of ability to pay distributors. We believe regulators will at some stage have to provide some relief to this segment of the market, which will likely increase competition for insurance companies.

Exhibit 140: Both insurance and mutual fund assets have been growing, with insurance assets double the size of MF

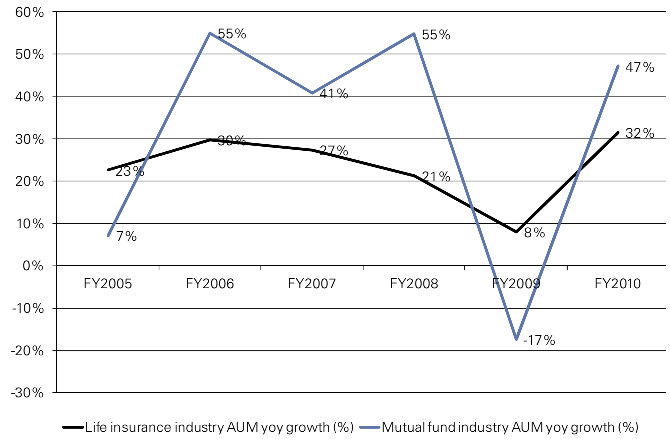
AUM trends in Life Insurance and Mutual Funds in Rs tn.



Source: IRDA, AMFI.

Exhibit 141: The MF industry AUMs have grown 28% and insurance 23% CAGR over the last five years

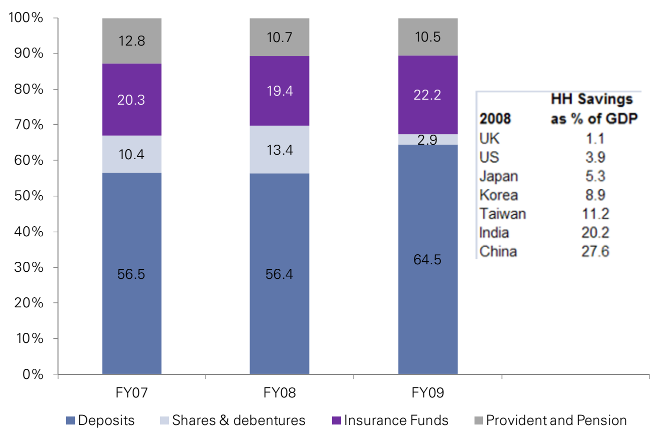
AUM growth in Life Insurance, Mutual funds in %



Source: IRDA, AMFI.

Exhibit 142: Deposits dominate housing savings, insurance follows

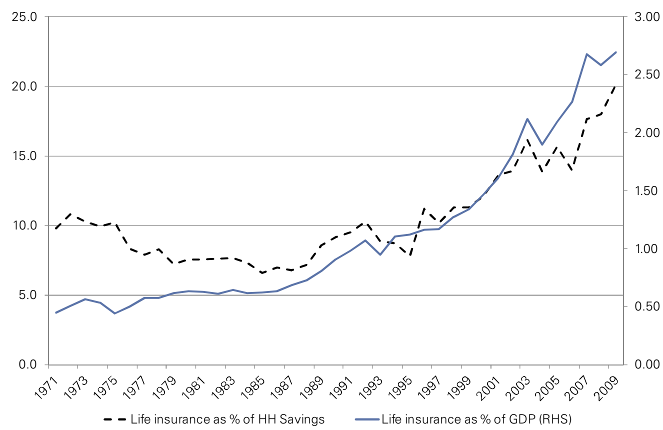
HH savings investment break-up



Source: Company data.

Exhibit 143: Share of insurance in HH savings rising

Insurance as % of GDP, as % of HH Savings 1970-2009



Source: RBI, CEIC.

Exhibit 144: In general Asia has less funds invested in pension, insurance products vs. rest of the world

Household Investment break

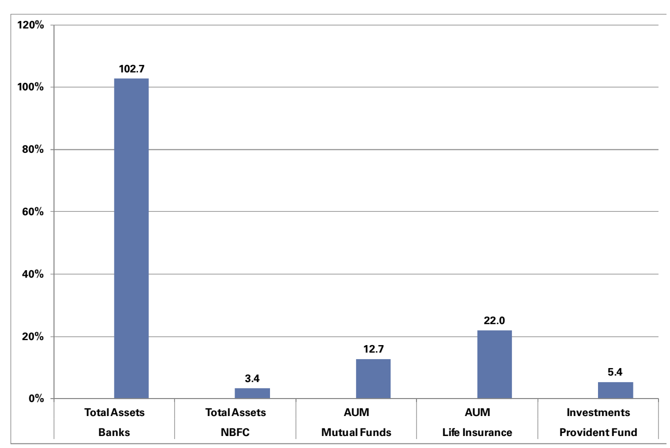
Retirement Savings	% of GDP	% of Pension Assets
Asia Pacific	13%	2%
Rest of World	87%	98%

Note: FY 2009; Asia Pacific retirement savings here comprise China, HK, India, Korea, Singapore, Taiwan.

Source: CEIC, GS Global ECS Research estimates.

Exhibit 145: Indian savings is predominantly in bank deposits

Financial assets as % of GDP in FY10



Source: RBI, CEIC.

Appendix 2: Regulatory changes

Exhibit 146: Comparative and likely impact of new ULIP guidelines

ULIP guidelines	Earlier	Revised	Comment
Lock-in Period	3 years	5 years	Move is in line to make ULIPs long term financial instruments, it may deter retail policy holders to block funds and impact sales of new policies
Premium structure	Discretionary	Uniform	Would likely limit insurers classifying single premium products as regular premium products
Limited pay products	No stipulation	Minimum term of atleast 5 years	Would curtail sale of short term products in-effect single premium products as regular premium products.
Distribution of charges	No guideline	Evenly distributed during the lock-in term of 5 years	Inability to front load charges, coupled with lower surrender charges would dent margins for insurers
Risk cover on ULIP products other than pension and annuity products	Minimum mortality cover of 5x annual premium	Mandarory to provide health **or** mortality cover (increased to 10x annualized premium) (Refer Exhibit 4-5 for details)	Whilst this enhances the insurance nature of ULIP products and is beneficial long-term, it would potentially impact business volumes given the popularity of ULIPs was hinged primarily on investment component
Guaranteed return on Pension products	No guaranteed return	A minimum guaranteed return of 4.5% per annum	This would protect the long-term interests of policyholders, resulting in insurers pursing more prudent investment strategies, i.e. reducing inflows into equity markets
Tiered-Cap on Charges		Difference in yield (Gross less Net) is capped from the 5th year onwards (Refer Exhibit 3 for details).	This further reduces the flexibility for insurers to recoup loss in margins on account of lower charges
Partial withdrawal from ULIP pension/ annuity products	No stipulation	1) No partial withdrawal allowed Accumulated fund value would convert into an annuity on maturity Maximum one third of accumulated value can withdrawn on vesting/ expiry of lock-in	1) This would protect the long-term interests of policyholders, resulting in insurers pursing more prudent investment strategies 2) Makes pension products less attractive for insurers
Cap on surrender charges	No stipulation	Charges only to be sufficient to recoup expenses incurred towards procurement and administration of the policy in line with prescribed limits	Surrender charges prescribed are significantly lower than current charge structures of companies

Source: IRDA, Goldman Sachs Research.

Exhibit 147: Surrender charges to be curtailed to recover acquisition and administrative costs
Revised surrender charge ceiling by IRDA vs. current charge structure of key insurers

Surrender charges	Prescribed norm for policies having annualized premium of upto Rs25000	Prescribed norm for policies having annualized premium >Rs25000	ICICI Prudential Life Insurance	Max New York Life Insurance	Reliance Life Insurance	SBI Life Insurance	HDFC Standard Life Insurance	Kotak Mahindra Old Mutual Life insurance	Birla Sunlife Insurance	Bajaj Allianz Life Insurance
Year 1	*Lower of 20% of APE/ FV *Maximum of Rs3000	*Lower of 6% of APE/ FV *Maximum of Rs6000	70%	NIL-40%	100%	15%-20%	100%	20%-100%	40%-100%	50%
Year 2	*Lower of 15% of APE/ FV *Maximum of Rs2000	*Lower of 4% of APE/ FV *Maximum of Rs5000	70%	15%-40%	100%	10%-12%	50%	15%-80%	20%-50%	50%
Year 3	*Lower of 10% of APE/ FV *Maximum of Rs1500	*Lower of 3% of APE/ FV *Maximum of Rs4000	10%	10%-30%	100%	7.5%-9%	30%-50%	10%-70%	13%-25%	50%
Year 4	*Lower of 5% of APE/ FV *Maximum of Rs1000	*Lower of 2% of APE/ FV *Maximum of Rs2000	5%	5%-20%	20%	2%-5%	15%	4%-10%	5%-17.5%	20-40%
Year 5 onwards	NIL	NIL	NIL	NIL-10%	NIL -10%	NIL- 5%	NIL	NIL-5%	NIL-13%	NIL-26%

Source: IRDA, Company data.

Exhibit 148: Flexibility to recoup margins on account of lower surrender charges hampered by ceiling on reduction in gross yields of policies surrendered/ lapsed in different years
Maximum ceiling on reduction in Gross yield for policies surrendered/ lapsed between years 5 onwards

Annualized Premiums Paid in (years)	Maximum reduction in yield (Difference between Gross and Net Yield (% pa))
5	4.00%
6	3.75%
7	3.50%
8	3.30%
9	3.15%
10	3.00%
11 and 12	2.75%
13 and 14	2.50%
15 and thereafter	2.25%

Source: IRDA.

Exhibit 149: All unit-linked products (other than pension and annuity products) to have a mandatory mortality cover or a health cover

Sum assured	Entry age < 45 years	Entry age > 45 years
Single premium	125% of premium	110% of premium
Regular premium	10 times Annualized premiums or (0.5 * (70 - age) * Annualised premium) whichever is higher with a floor at 105% of total premiums paid	7 times Annualized premiums or (0.25 * (70 - age) * Annualised premium) whichever is higher with a floor at 105% of total premiums paid
Health cover	**Entry age < 45 years**	**Entry age > 45 years**
Regular premium	5 times annualized premiums or Rs. 100,000 p.a whichever is higher with a floor at 105% of total premiums paid	5 times annualized premiums or Rs. 75,000 p.a whichever is higher with a floor at 105% of total premiums paid

Source: IRDA.

Reg AC

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