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Merrill Lynch

Life insurers – High growth and undervalued

Rajeev Varma >> +91 22 6632 8666
Research Analyst
DSP Merrill Lynch (India)
rajeev_varma@ml.com

Aashish Agarwal >> +91 22 6632 8652
Research Analyst
DSP Merrill Lynch (India)
aashish_agarwal@ml.com

Insurance premia growth beats expectations; up+155%yoy

We initiated coverage on India's life insurance sector last year; since then the sector growth has exceeded our expectations. For 8-month period (Apr-Nov'06), NBP-APE (new business premium on an annualized premium equivalent basis i.e. taking single premium at 10% of regular premium) has grown 157%yoy led, surprisingly by LIC (grew by 181%). 85-90% of growth for private insurers has come from unit linked policies (ULIP). Factors driving this growth are:

- Scarcity effect as investors bought policies ahead of the deadline set by the regulator to change guidelines for ULIPs and single premia.
- Buoyant equity markets, lower AMC charges by insurers and some element of subsidization of life cover (in ULIPs) made ULIPs a very attractive product (even relative to mutual funds on a long-term basis)
- Sustained rise in penetration levels and doubling of average premia size led by strong macro growth, rising income levels and greater awareness for insurance (aggressive marketing by private insurers).

FY10 Outlook; Growth to sustain at 31% CAGR through FY10

While absence of scarcity phenomena and high base effect is likely to moderate growth in coming years, we still expect sector NBP-APE to grow by 40% in FY08 (60% for private insurers) and 25-30% through FY09-10 as secular growth factors remain firmly in place. Life insurance sector by 2010 is likely to have:

- AUM (by private sector) likely to be >US$55bn v/s US$15bn currently
- Total premia (including LIC) to be >US$71bn (5.5% of GDP), NBP-APE to be US$23bn led by ULIPs (+60% of total premia)
- Private sector to have 45% market share v/s 35% in FY06

Valuations for insurers increased by +20-60%

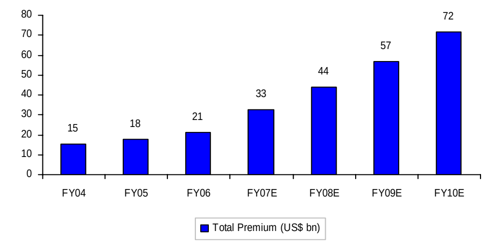
Valuations for insurers have increased by 20% at the lower end to +60% for a few insurers owing to the much higher growth and better margins achieved by them. We have used NBAP (new business achieved profit) as the key valuation metric as we believe Indian insurers, are likely to trade closer to their AV (appraised value) than EV (embedded value) owing to their high growth and early stage of the life cycle. ICICI Pru tops the valuations at US$7.2bn for FY09 (see table), followed by Bajaj at US$3.6bn, and SBI and HDFC standard life at US$2.2bn.

Table 1: Valuations

FY09 (Rs bn)	NBP-APE	NBAP Margin	NBAP	Multiple	Value (US$ bn)
ICICI Prudential	89.5	21%	18.9	16.5	7.2
HDFC Std. Life	29.5	20%	5.9	16.1	2.2
Max New York	16.8	21%	3.5	16.0	1.3
Bajaj Allianz	50.9	20%	10.3	15.0	3.6
SBI Life	34.6	19%	6.6	15.0	2.3

Source: Company Reports, IRDA, Merrill Lynch Estimates

Chart 1: Total Premium (US$bn)



Source: Company Reports, IRDA, ML Research Estimates

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Refer to important disclosures on page 40. Analyst Certification on page 39.

Overview

We initiated coverage on India's life insurance sector (total premium estimated at US$32bn for FY07) last year with a positive outlook but anticipating a sharp moderation in growth. During the year (FY07), the sector growth has exceeded all expectations and continues to be one of Asia's fastest growing markets. Moreover, we believe the sector continues to offer even stronger potential (than believed earlier) owing to:

a) Increasing penetration which is still one of the lowest in the world (2.6% of GDP) supported by India's changing demographic story

b) Buoyant macro economic outlook (GDP growth estimated higher at 8.6% in FY07 and 8.0% in FY08 v/s <8% earlier)

c) Regulatory and Infrastructural reforms; and

d) Rising awareness of insurance amongst India's rapidly expanding middle class supported by the aggressive marketing efforts of the new private insurers. This is becoming much more visible and at a more rapid pace than expected.

LIC (Life Insurance Corporation), a government owned organization, had a monopoly in this space for many decades, until eight years ago when the sector was opened for private sector insurers with a restriction on foreign holding of 26%. Entry of the private sector fuelled the growth in the sector driven by new products and aggressive marketing strategies.

Between FY02 to Nov'06 private sector insurers have garnered a 30% share of the new business premium (NBP) on annualized premium equivalent (APE) basis i.e. after weighting the 'single premium policies' at only 10% of regular premium policies). Currently there are 15 private life insurers.

Table 2: Market Shares in Life Insurance Sector

Premium Income - APE - New business	2003	2004	2005	2006	YTD
ICICI Prudential	1.9%	4.7%	8.8%	10.6%	8.8%
HDFC Standard Life	0.7%	1.0%	2.4%	3.8%	2.6%
MNYL	0.5%	0.9%	1.3%	2.0%	1.6%
Bajaj Allianz	0.4%	1.2%	2.7%	6.2%	4.8%
TATA AIG	0.4%	1.3%	1.8%	2.0%	1.4%
SBI Life	0.2%	0.8%	1.1%	2.2%	2.7%
Kotak Old Mutual	0.2%	0.8%	1.3%	1.7%	1.0%
Reliance Life	0.1%	0.2%	0.2%	0.4%	1.1%
ING Vysya	0.1%	0.5%	1.6%	1.2%	0.9%
Aviva	0.1%	0.5%	1.1%	1.8%	1.5%
Metlife	0.1%	0.2%	0.3%	0.7%	0.5%
Other Private Insurers	0.9%	3.1%	3.6%	2.9%	1.9%
Total Private Sector	5.6%	15.1%	26.3%	35.4%	28.8%
LIC	94.4%	84.9%	73.7%	64.6%	71.2%
Total Premium Income	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IRDA, Company Reports

Over FY02-06, while NBP (APE) for the private sector grew at a CAGR of 157%, for the entire sector it grew at a CAGR of only 17% as LIC, which had a market share of 95% in FY02, could grow at only around 6%p.a., until the last 8 months since when it's NBP (APE) has grown at 181%yoy (discussed in detail later).

8MFY07 growth (+155%) far ahead of estimates

In the 8MFY07 (Apr-Nov'06) the total NBP (APE) for sector has grown 157%yoy, well ahead of our expectations, and the growth has, surprisingly been led by LIC.

LIC's NBP (APE) has grown by 181%yoy driven by its new product launches and aggressive marketing efforts. Most private sector insurers have also reported +100% yoy growth in their NBP (APE) driven by strong demand for unit linked products. Almost 85-90% of this growth has come through unit linked policies (ULIPs) for private insurers. For LIC, the growth has principally come from unit linked (50% incremental) and a new policy introduced by it earlier this year (having features of a ULIP and pension policy).

The broad factors supporting the exceptionally strong insurance premia growth (driven principally by ULIP policies) during FY07 are:

1. **Scarcity effect in 1QFY07 due to changes in regulation during the year.** The regulator, IRDA (Insurance Regulatory Authority of India) had, at the beginning of the year, issued new regulations for ULIPs (that principally resulted in ULIP's having a minimum lock in period of 3 years and a minimum life cover etc) that were to come into effect from July'06.

   Hence, apprehension amongst investors that ULIPs might be withdrawn post the new regulations (aided by marketing agents who helped created this scarcity effect) resulted in exceptionally strong growth during the first three months. This trend was even more prevalent for single premium policies that were likely to be disallowed many tax benefits that they were enjoying until the new regulations came into place.

2. **Buoyant equity markets.** In addition, buoyancy in equity markets further helped support the growth of ULIPs as investors sought higher returns (from investing in equities) along with life cover. Further, most life insurers, in the past year, have significantly cut loads on their ULIPs and lowered asset management charges (AMC) on the assets under management (AUM) to 50-75% of what mutual funds charge.

   With insurance companies now offering a mutual fund product with an added insurance advantage, supported by their significantly wider distribution network and a persuasive sales force, they have been able to gain market share from mutual fund providers for investment in equities (discussed in detail later).

3. **Enhanced penetration.** Finally, and most importantly, we also continue to see the more secular growth drivers remaining firmly in place namely changing demographics leading to enhanced penetration for insurance products as awareness for insurance rises across India's middle class. This is also reflected in the sharp rise in the average premia per policy which has almost doubled in the past year to Rs25,000.

   This has been supported by an expansion of product offerings by most private life insurers and customization of product offerings by attaching various riders to basic products. Further, most insurers, in the past year, have almost doubled their distribution network by hiring more agents, entering into new bancassurance tie ups and by opening new offices.

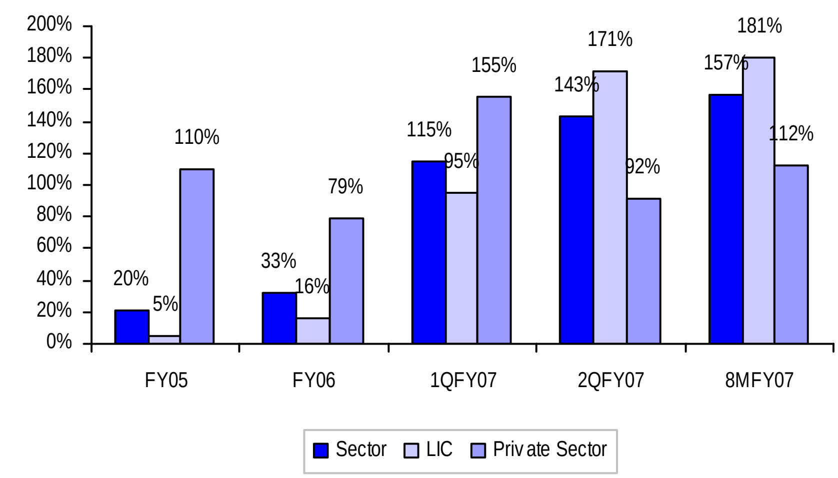
Growth surges beyond 1Q; after new regulations in force; led by LIC!

NBP (APE) grew 115%yoy in the 1QFY07 driven by 97% growth in FYP (first year regular premium) and a 4x growth in single premium policies. As expected growth for private sector insurers was much stronger at 155%yoy while LIC's NBP-APE grew 95%yoy (still significantly higher than the past four years).

The even more surprising aspect was the 143%yoy growth in the NBP-APE in 2QFY07, as it was post implementation of the new stringent ULIP guidelines. The growth in 2QFY07 was largely led by LIC which grew its NBP (APE) by 171%yoy, even as private sector growth decelerated to 92%yoy in 2Q.

This was primarily because LIC introduced new unit linked products (both in the pension segment as well as regular unit linked product segment) with lower load (reducing the commissions paid to agents) and lower asset management charges (AMC). This supported by a) buoyant equity markets that were driving the demand for unit linked products in semi urban and rural areas (biggest beneficiary was LIC owing to its wide distribution network in these areas), b) focused marketing to get new customers and also leverage the existing customer base more effectively, led the strong growth for LIC in the first 8 months of FY07.

Chart 2: Growth in New Business Premium (APE)

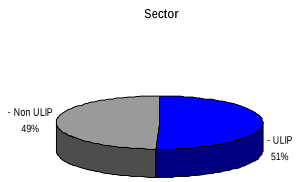


Source: Company Reports, IRDA, ML Estimates

Unit Linked products accounted for +50% of total premiums; 87% of private sector premiums

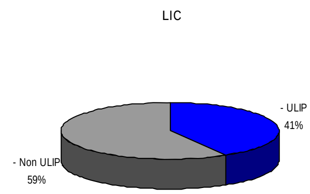
Backed by the buoyant equity markets, the demand for ULIPs continued to rise with the same having accounting for 50% (lower owing to the 'pension' policy of LIC) of total premiums in the 8MFY07. Given the private sector's strong focus on the ULIP; the share of ULIPs in their total new business premium was around 87%.

Chart 3: 8MFY07 Premium breakdown- Sector



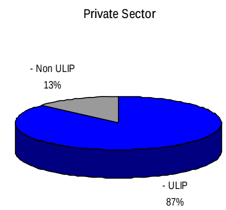
Source: Company Reports, IRDA, ML Estimates

Chart 4: 8MFY07 Premium breakdown- LIC



Source: Company Reports, IRDA, ML Estimates

Chart 5: 8MFY07 Premium breakdown- Private Players



Source: Company Reports, IRDA, ML Estimates

LIC gains market share; Reliance & SBI gain most in private

The most surprising fact in 8MFY07 was the increase in LIC's market share from 65% to 71% which was driven by its aggressive marketing efforts and focus on product innovation.

Key growth driver for LIC was its pension plan which is estimated to have accounted for +30% of its total NBP. LIC was amongst the first insurers to lower its loads on the unit linked premium and also lower its fund management charges to almost 50-75bps lower than the AMC levied by mutual funds. Its strong brand value, aggressive marketing efforts and most importantly wide penetration, further helped the company to gain market share from both the private life insurers and mutual funds.

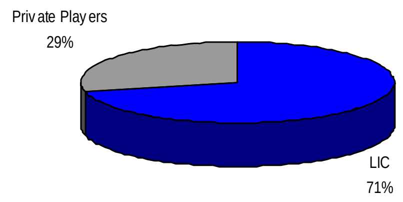
Reliance, SBI see large market share gains; HDFC loses m/s

Amongst the private insurers, Reliance and SBI Life have made the greatest strides (though coming from a low base). Reliance Life acquired AMP Sanmar in FY06 (launched its first product in July 2006) and since then, it has been one of the fastest growing private life insurance companies with its NBP (APE) in 8MFY07 having grown >800% yoy making it the 7th largest incrementally (3.7% market share amongst private insurers) led by the aggressive marketing plans adopted by Reliance.

SBI was the other big gainer which raised its market share to almost 9.5% YTD v/s 6% in 2006. SBI's NBP-APE has seen a 5-fold rise as SBI began to aggressively leverage its massive branch distribution to tap into its 100mn customer base. Bancassurance accounts for 35-40% of SBI's policies sold.

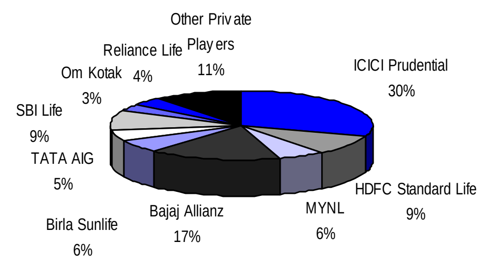
Amongst the larger insurers, Bajaj Allianz was gained most share (17% amongst private players). ICICI –Prudential maintains its leadership position with a market share of 30%. In contrast, HDFC Standard Life has lost market share as it has been seeking to consolidate its strategy and also expand the distribution network more aggressively.

Chart 6: Market share of LIC & Private Players (Dec'06)



Source: Company Reports, IRDA, ML Estimates

Chart 7: Market Share Amongst Private Players (Dec'06)



Source: Company Reports, IRDA, ML Estimates

Why are ULIPs selling like hot cakes; Is it sustainable?

Over the past two years over 50% of life insurance premia have come from ULIPs (+85% for private insurers); and 40-50% of total premium income is from single premium policies (25-30% for private insurers). The key factors, as discussed earlier, driving ULIPs, in particular are:

a) Buoyant equity markets

We believe buoyant equity markets have played a key role in attracting fresh investment into equities. Both insurance companies and mutual funds have attracted investors by highlighting the super normal return made by them in the FY02-06 (a period when the benchmark Sensex grew five fold).

b) Insurance cos actually offering better returns v/s MFs, long term!

However the most important and possibly the biggest surprise is that most life insurance companies are, ***under normal investment return assumptions***, actually offering better returns than most mutual funds over the long term primarily on account of lower annual maintenance charges (AMC). Insurance companies are able to charge lower AMC due to their significantly higher volumes, which again, is a function of their wide distribution network and incentive based selling method.

This does not capture the differential in returns likely under the same investment conditions arising from the fund manager's ability and skill set which is also likely to be critical but difficult for us to build into the equation.

c) Insurance cover at subsidized costs; ULIP score over MFs

Further, as discussed below, insurance companies, in our opinion, are effectively subsidizing the insurance cover costs. Hence, it can be argued that insurance companies are able to offer a product similar to that of a mutual fund, with an added insurance cover, at a subsidized cost. **Hence, ULIP is cheaper than buying a separate term policy and a mutual fund, but over longer term.**

IRR Comparison between Mutual Funds v/s ULIPs

In the table below we have compared the IRR for the policyholder / mutual fund investor on the insurance products and mutual funds assuming that return on investments in each scenario is similar **(without giving any benefits to the fund manager's abilities which we recognize is critical but difficult to capture in our analysis).**

Lower AMC results in higher IRR for ULIP v/s MF for long term investment; but MF's give better returns in the short term (5-6 years)

We show below actual policies that are prevalent in the market v/s actual mutual fund returns being offered. The mutual funds tend to give higher returns for a policyholder if the policy term is less at 5-6 years, primarily due to a higher load initially (15-25% for 1st year and 5-7% for 2nd year and 2-3% for the rest of the period) v/s 2-2.5% entry load for mutual funds.

Over a longer duration the higher loads charged by insurance companies gets offset by a lower AMC fees (100-125bps lower p.a.) on a much higher corpus. In addition, the returns offered by insurance companies also factor in the life cover provided by an insurance company. The actual mortality cost of life cover is only about 25bps.

Thus most insurance policies (barring a few where AMC fees exceed 2% of AUM) taken out for a 14-15 year term actually give higher returns and also provide a life cover. In essence, for a long term policy, the policyholder is getting better returns v/s a mutual fund and is getting a life cover! This is primarily owing to the lower fund management charges that become meaningful over a longer period.

Single premium policies actually give better returns v/s MFs

The most surprising aspect is that single premium policies actually give better returns v/s mutual funds even with a shorter duration. This is primarily because while the loads on single premium policies (about 200bps) are similar to the entry load charged by the mutual fund, the AMC fees are again lower in the case of insurance companies when compared to a mutual fund.

Hence, in effect, the single premium is most closely approximated to a mutual fund with lower fund management charges resulting in higher returns for policyholders with life cover. However the life cover is much lower compared to a regular premium policy (the sum assured is generally 1.2x-5x of the single premium v/s 15-20x of the first year premium for a regular premium policy).

Table 3: Comparison of IRR in case of MF v/s ULIP

Regular Premium	Annual Contribution	Sum Assured	Equity / Debt Proportion	Returns -15 year	Returns -6 years	Total load as a % of FYP
Plan A	100,000	750,000	75 /25	7.61%	5.58%	165%
Plan B	100,000	750,000	75-100 / 0-25	6.90%	5.27%	210%
Mutual Fund (SIP)	100,000	NA	60-80 / 20-40	7.54%	7.14%	177%
Plan D	100,000	750,000	80 / 20	7.40%	5.65%	178%
Plan E	100,000	750,000	100 / 0	8.21%	4.79%	130%
Single Premium						
Plan I	1,500,000	1,875,000	75 /25	8.06%	7.64%	25%
Plan II	1,500,000	1,875,000	75-100 / 0-25	7.51%	7.50%	32%
Mutual Fund	1,500,000	NA	60-80 / 20-40	7.64%	7.39%	30%
Plan III	1,500,000	1,875,000	80 / 20	7.89%	7.66%	27%

Source: Company Reports, IRDA, ML Estimates

In table 3 we have compared the returns for various insurance policy v/s a mutual fund; for different tenor of investments. In table 4 we have shown the detailed calculations for Plan E and the mutual fund (details for other plans are given in the appendix).

As shown in the table, the effective IRR for insurance companies over a 15 year policy exceed mutual fund returns (assuming a *systematic investment plan* of a mutual fund which approximates a life insurance policy); but are lower for a 6 year policy. In contrast, as discussed, single premium policies provide higher returns compared to mutual funds.

Table 4: Detailed Comparison

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8 -14	Year 15
Plan E	SA	750,000							
Premium Paid	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less									
Load	(60,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Mortality Charges (SA= AP x Term/2)	(1,305)	(1,033)	(870)	(692)	(498)	(285)	(52)		
Operating Expenses	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)
Amount invested	38,455	139,727	250,498	371,660	504,187	649,144	807,698	980,922	2,733,323
Return on Investment @ 10%	3,884	14,112	25,300	37,538	50,923	65,564	81,578	99,073	276,066
Savings of Insurance Cost									
Inv. At the end of the year	42,339	153,839	275,799	409,198	555,109	714,707	889,276	1,079,995	3,009,388
Asset Management Fees @0.8%	(339)	(1,231)	(2,206)	(3,274)	(4,441)	(5,718)	(7,114)	(8,640)	(24,075)
NAV	42,000	152,609	273,592	405,924	550,668	708,990	882,162	1,071,355	2,985,313
IRR	8.21%								
Mutual fund 60-80% equity / 20-40% debt									
Annual Installment	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less									
Load	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)
Amount invested	97,750	203,125	316,718	439,172	571,178	713,480	866,881	1,032,248	2,613,166
Return on Investment @ 10%	9,775	20,312	31,672	43,917	57,118	71,348	86,688	103,225	261,317
Inv. At the end of the year	107,525	223,437	348,390	483,089	628,295	784,827	953,569	1,135,472	2,874,483
Asset Management Fees assumed @2%	(2,151)	(4,469)	(6,968)	(9,662)	(12,566)	(15,697)	(19,071)	(22,709)	(57,490)
NAV	105,375	218,968	341,422	473,428	615,730	769,131	934,498	1,112,763	2,816,993
IRR	7.54%								

Source: Merrill Lynch Research

In the short run MF are more profitable due to high loads

However for an investor who is looking for a 5-6 year investment horizon, he would get a higher IRR on a mutual fund v/s a Unit linked product due to a very high entry load on most ULIP (for agent commissions and high initial operating costs).

In the last column in table 2 we have highlighted IRR for investment horizon of 6 years which are on an average 125-175bps higher than that of ULIP. The return between a MF v/s ULIP in case of single payment option is however not significantly different due to a similar load structure.

Insurance returns impact by load timing, AMC charges etc.

The important aspect to note is the net IRR provided by an insurance company varies widely for each policy and across insurers owing to the timing of the load. For instance some insurers tend to take a much higher load in the first year; even though the total load they charge is much less compared to peers. This in effect results in a much lower IRR if the policy is taken out for a short duration (see Plan E in the table above) but high returns if held for 15 years. AMC charges are the key variable that impact returns offered by different insurers to policyholders.

Actual profitability could however vary substantially longer term

We however believe that the actual IRR on the unit linked products could ultimately be lower than mutual funds if:

a) **AMC fees hiked**: Most insurance companies have a clause allowing them to hike AMC by 100-150bps, which if exercised will eat up the entire surplus return

b) **Difference in skill set is very high**. The return on investment for insurance companies could vary substantially and could even potentially be lower than mutual funds if we factor in the difference in the expertise and skill set levels (of managing funds). Lower fund management charges would limit the ability of insurance companies to higher good fund managers thereby impacting the returns.

c) **Lock in period for ULIPs.** Further unit linked insurance products have a relative disadvantage: they are now subject to a minimum lock-in period of 3 years (post new IRDA guidelines) and hence the ability of the investors to cash out in case of a correction in equity markets is limited.

Marketing provide insurance companies an edge

Overall we believe that insurance companies out score mutual funds due to their marketing ability. Insurance products unlike mutual funds are marketed by agents, who are offered incentives that are as high as 15-20% of first year premium and hence involve more persuasive selling unlike mutual funds which are mostly sold through banking channels.

While we think the exceptionally strong +100% growth is unlikely to be sustained, we remain bullish on the inflow of savings into equities (due to very low penetration rates) on a medium term basis and still expect overall inflows into both equities and ULIPs within the insurance sector.

Long-term prospects remain very positive

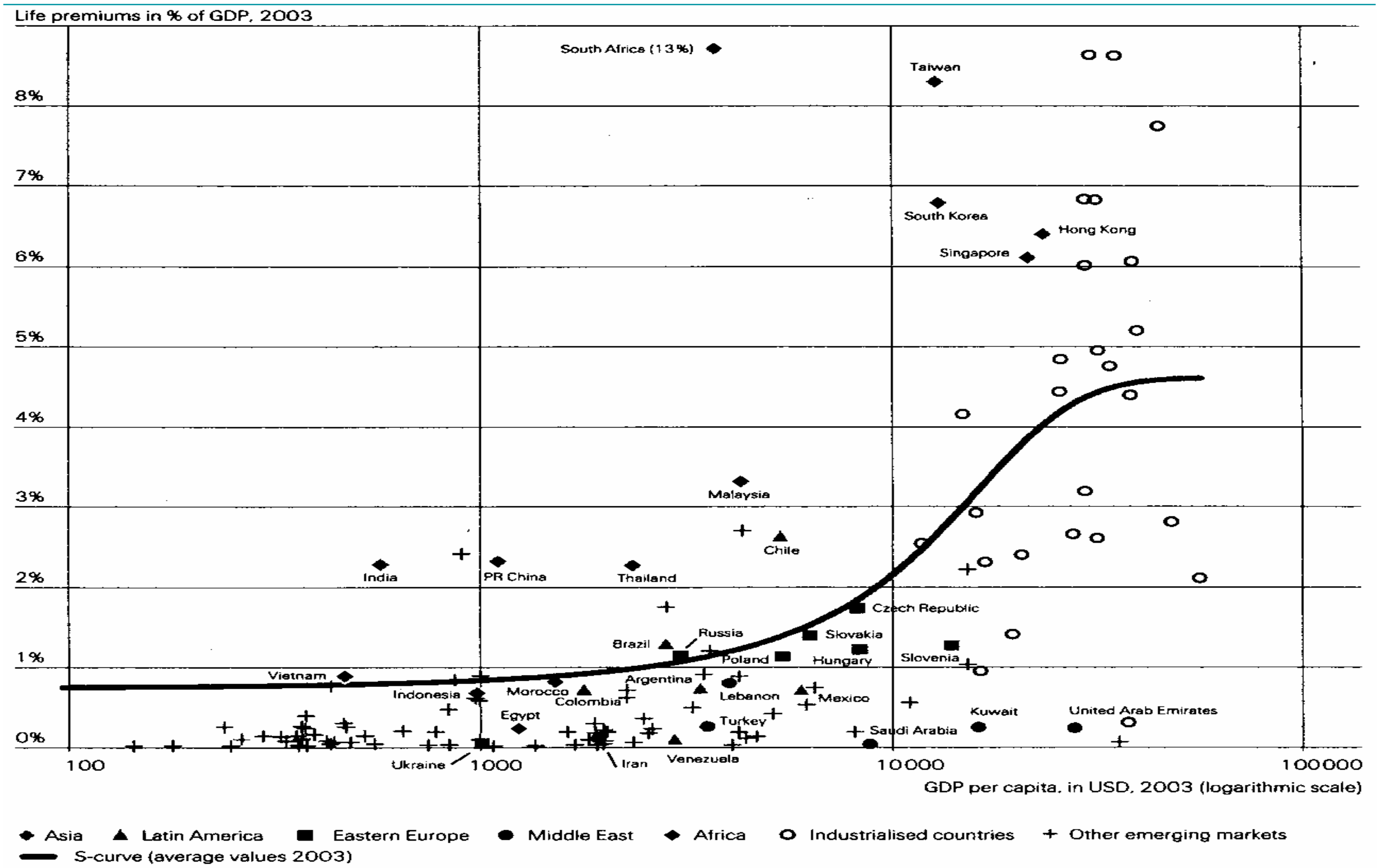
While we expect premium growth to decelerate in FY08 (largely owing to a high base effect), we continue to be bullish on the medium- and long-term prospects of the life insurance industry in India for a variety of reasons detailed below.

#1 : Penetration levels very low; set to expand rapidly

Despite strong growth over the past three to four years, the Indian life insurance industry continues to be significantly under penetrated compared to its regional peers.

For instance, premium as a % of GDP in India is still at <3% compared to 5%-15% in most other markets including many Asian markets, barring China (which is also expected to witness strong growth in life insurance). Even across Asia, based on the penetration levels provided by Swiss Re, the penetration levels in India are amongst the lowest at around 2.5%% (for life insurance), in sync with China at 2.5%. But the growth rates based on the macro outlook, changing demographics is expected to be much faster.

Chart 8: Gross Premium Income



Source: Swiss Re, ML Research Estimates

#2 : India's changing demographics

Apart from the strong macro growth, we believe India's changing demographics are likely to trigger a rapid rise in the insurance spend. The insurance spend is likely to be supported by both a) the sharp rise in income levels over the next 4 years and b) the age profile with almost 7mn individuals entering the 20-30 age group each year over the next few years. With enhanced awareness, we expect younger people to begin taking out insurance policies (although of lower amount). The table below shows the income distribution of India's households.

Table 5: Changing Demographics

Classification (No of H/holds in '000)	Income Class (Rs in '000)	1995-96	2001-02	CAGR 1995-2002	2005-06	CAGR 2002-06	2009-10	CAGR 2006-10
Deprived	< 90	131,176	135,378	0.50%	132,250	-0.60%	114,394	-3.6%
Aspirers	90-200	28,901	41,262	6.10%	53,276	6.60%	75,304	9.0%
Seekers	200-500	3,881	9,034	15.10%	13,813	11.20%	22,268	12.7%
Strivers	500-1000	651	1,712	17.50%	3,212	17.00%	6,173	17.7%
Near Rich	1000-2000	189	546	19.30%	1,122	19.70%	2,373	20.6%
Clear Rich	2000-5000	63	201	21.30%	454	22.60%	1,037	22.9%
Sheer Rich	5000-10000	11	40	24.00%	103	26.70%	255	25.4%
Super Rich	> 10000	5	20	26.00%	53	27.60%	141	27.7%
Total		164,877	188,193	2.2%	204,283	2.1%	221,945	2.1%

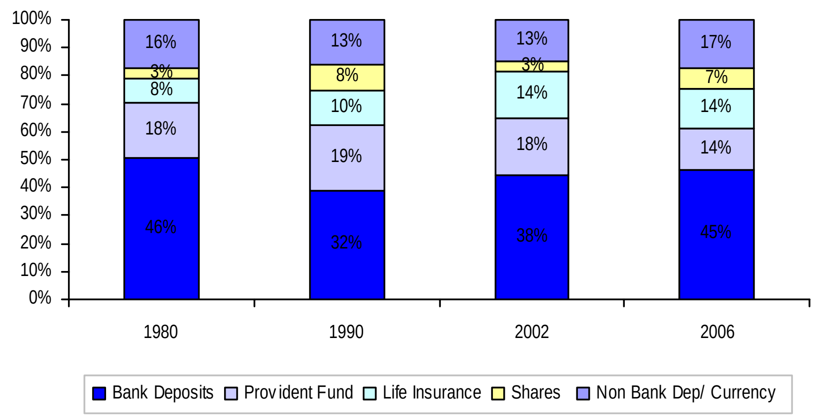
Source: Company Reports, IRDA, ML Estimates

As shown, in 2005-06 there were an estimated 100mn households that were eligible (in terms of ability to pay) for life insurance policies. This number is expected to rise to +140mn households by 2010 i.e. almost 40mn households are being added into the category of "aspirers" and above who are earning more than an average of Rs150,000/yr (~US$4,000/yr) without adjusting income levels for any inflation during this period.

#3 : Buoyant economic outlook to drive insurance spend

We believe a buoyant economic outlook is also likely to enhance insurance spend as life insurance is a key element in total household savings in India. The share of life insurance of total savings has been steadily rising over the past two decades (from 8% in FY80 to 14% in FY02; estimated at >18% in FY07E).

Chart 9: Breakdown of Financial Savings



Source: Company Reports, IRDA, ML Estimates

With India having a total population of over 1 billion people, even a marginal increase in penetration levels can translate into a strong growth opportunity for insurance companies.

Going forward we believe the key factors driving the strong demand for life insurance will be mainly the rising saving levels, supported by a buoyant macro economic outlook, leading to increasing demand for insurance products.

#4 : Introduction of new products including pension

Going forward we expect two key changes to emerge in the product mix

a) Share of ULIP for sector is estimated to decline from 85% incrementally to around 60% by FY09 especially if the equity markets consolidate over the next 3-6 months.

b) On an outstanding basis, the share of ULIP's would, however, still increase closer to 60-70% (as incremental share higher than current o/s share of 50%). Further, based on our discussion with insurers, it does appear that the ULIP product may continue to be a preferred choice of customers owing to the high level of transparency it offers v/s the traditional endowment product and greater investor awareness. Hence, while there could be a shift towards balanced or debt funds, ULIP, as a product may continue to be preferred over the more traditional products such as endowment etc.

c) We expect the share of pension, annuity and health insurance policies to increase rapidly (small base effect) as private insurers continue to launch new products and their aggressive marketing efforts also increase the overall awareness of such products.

Profitability may improve with change in product mix

We believe overall profitability of the insurance companies may actually improve over the next 3 years as they launch more pension and health care related policies that offer higher margins. The profitability details for each of the policies and the description of the policies is given in the Appendix.

#5 : Strong marketing and distribution expansion

The private insurers have, over the past 5 years, managed to gradually change the perception of insurance from being only a tax shelter product (usually taken out in March to save tax) to a product designed to provide life cover and investment returns comparable to bank deposits or even higher returns for those take the equity risk through ULIPs.

This has been possible owing to i) some very aggressive advertisement campaigns by private insurers helping create greater awareness about the need for life cover amongst India's rising middle class; and ii) expanded distribution network which in India is critical given the wide geography requiring presence in +500 cities and towns to enable wider penetration.

Distribution channels set to double; more rapid than expected

Private sector insurers have set up a vast distribution network, including over 500,000 agents (LIC has over a million agents), most of whom are more qualified than most of LIC's agents. A qualified work force and an extensive distribution network has further helped private insurance companies to increase awareness about life insurance.

We expect the trend to continue with most of the private insurance companies likely to further expand their distribution network and increase their marketing efforts over the next three to four years, especially as new companies like Reliance Life and Bharti AXA, launch aggressive promotions.

Based on our discussion with most of the insurers we believe the entire distribution network of private insurers could potentially double over the next 2-3 years (by 2010) – both in terms of branches and agency force. We believe, the share of the agency channels may actually increase relative to the bancassurance channels. Currently, almost 40% of all polices sold (by number) are through the bancassurance channels. Agency accounts for 50-55% with the rest being through direct sales force and insurance brokers.

#6 : Tax breaks are an added incentive

The government has been offering various tax benefits to encourage individuals to buy life insurance. Currently Insurance premiums are eligible for deduction from taxable income up to Rs0.1mn (the maximum limit is an overall limit including various other investment options like PF, PPF etc without any sectoral caps) while death claims and maturity proceeds are fully exempt from tax.

Tax Incentives had been a key growth driver for life insurance business over the past two decades. However the trend has changed in the past few years, with growth being driven by enhanced awareness and also emergence of new products such as ULIPs. While tax incentives are likely to still continue to drive the growth of the insurance business, we believe, it will cease to be the primary growth driver as at the margin the growth is likely to be driven by the increasing need for insurance and enhanced penetration levels owing to changing demographics.

Raising insurance sector growth estimates

Despite the industry having grown at such a rapid pace, we expect growth rates to remain robust through FY07-10 owing to low penetration levels, changing demographics, buoyant macro outlook and high savings rates (discussed above). This is likely to be aided by insurance reforms including pension fund reforms, aggressive marketing by the new private insurers and new product launches.

Based on the 8MFY07 performance, we are raising our growth estimates for the life insurance industry NBP (APE) to 105% in FY07 and 39% in FY08. This compares with total growth expectations of 50-60% earlier.

We now expect India's total life insurance premium, including renewal premiums, (**Non** APE) to grow from Rs926bn in FY06 (US$21bn) to Rs3,117bn in FY10 (US$72bn) growing at CAGR of 35%. NBP (APE) is now estimated to grow at a CAGR of 47% for FY06-10, i.e. from Rs220bn in FY06 to Rs1,022bn by FY10.

Table 6: Sector Premium Trends & Forecast

Rs bn	FY04	FY05	FY06	FY07E	FY08E	FY09E	FY10E	FY06-10 CAGR
Total Premium	655	772	926	1,423	1,910	2,469	3,117	35%
- FYP	132	156	205	415	585	759	966	18%
- Renewal Premium	469	517	567	648	890	1,209	1,599	17%
- Single Premium	54	99	154	360	436	500	552	14%
APE- New Business	138	166	220	451	628	809	1,022	47%
APE- Overall Business	606	683	787	1,099	1,518	2,018	2,620	35%
Total Premium (US$bn)	15.1	17.8	21.3	32.7	43.9	56.7	71.7	
yoy growth in total premium	22%	18%	20%	54%	34%	29%	26%	
yoy growth in new business - APE	16%	21%	33%	105%	39%	29%	26%	

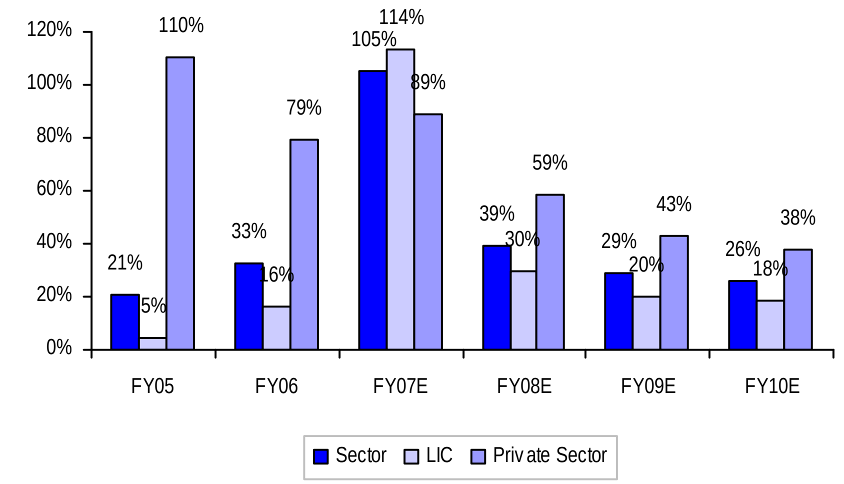
Source: Company Reports, IRDA, ML Estimates

The average growth in first year premiums for the private sector insurer is expected to remain at around 55-60% over FY06-10, with market share of private insurers (NBP APE) estimated to increase to 45% by FY10.

ICICI Prudential will, in our view, remain the largest private insurance company with an estimated market share of around 26% (amongst private insurers) followed by Bajaj Allianz (15%), SBI Life (10%) and HDFC Standard Life (9%). NBP (APE) for private sector insurers is estimated to grow from Rs78bn (US$1.7bn) in FY06 to Rs461bn in FY10 (US$10.6bn).

More importantly we have also raised our total premium forecast for the sector leader, LIC (government owned), on the back of LIC's strong growth in 8MFY07, and now expect it to grow its NBP-APE at a CAGR of 41% to Rs561bn by FY10.

Chart 10: APE Growth (Premium excl renewal) - LIC V/s Private



Source: Company Reports, IRDA, ML Estimates

Growth likely to moderate in 4Q; sustain at +100% for FY07

Our forecast, however, factors in moderation of growth in the remaining four months of the year especially as LIC's growth of +180% decelerates due to a) the high base effect of last year; and b) absence of 'scarcity effect'. In addition, consolidation in equity markets would have some impact on overall buoyancy in the ULIP products which have been the mainstay of the recent growth.

Overall, we forecast a 105% growth for the sector during FY07 with the private sector growing at 89% and LIC growing at 114% for NBP-APE). This implies growth of around 50% during the remaining part of the year.

Growth to moderate to 40% in FY08, sustaining at 20-25% beyond FY10

For FY08, we expect growth of the NBP-APE to moderate to 40% largely due to a high base effect and factoring in some consolidation in equity markets. We, however, expect sector growth to remain fairly buoyant at +29% in FY09 and to sustain at +20-25% beyond FY10.

We, however, still expect growth (for the private sector) to be fairly robust at 60% in FY08 and at ~40% in FY09-10 and likely to stabilize at +30% beyond FY10 driven by the long-term factors driving insurance spend (discussed earlier). Growth for private sector insurers should be higher owing to their lower base and more aggressive marketing strategy.

Downside risks appear less as ULIP gains wider acceptance

We however believe a sharper than estimated deceleration is unlikely as the ULIP product (as detailed below) has gained more relevance owing to relatively better returns offered by insurance companies v/s mutual funds. Also a unit linked product would, over a longer tenure, offer a higher return v/s regular endowment product (coming from the basic assumption that equities give higher returns v/s debt).

Hence, even in the event of a consolidation in equity markets, we may continue to see investment in ULIP products though investors may increasingly opt for balance / debt oriented schemes within the ULIP structure (v/s equity schemes).

Growth beyond FY09 we expect to be principally supported by rising penetration levels and expanded distribution and marketing efforts of private insurers. We estimate that growth will be sustained at around 30% even in FY10 before moderating to 25% beyond that.

Insurance sector in 2010…

We highlight below the possible takeaways of the rapid growth expected in the life insurance sector by 2010 i.e. about 3 years from now.

Premiums to rise 3.5x to US$72bn

Total life insurance sector premiums are estimated to rise to US$72bn (from US$21bn in FY06) and account for 5.5% of GDP v/s 2.6% currently. These include renewal premia assuming persistency rates at 75-80% for the majority of the large insurers, in sync, with the trends of the past 5 years. New premiums are estimated to be US$23bn.

Insurance distribution could be a key fee driver for banks

Insurance distribution could potentially emerge as a strong revenue generator for banks as banks leverage their customer bases and technology platforms more effectively in the coming years. We estimate fees arising from distribution of insurance could potentially be >10% of their total fees (which are also expected to grow at around 20% pa).

No. of polices could be >1bn; but each household has >4-5 policies

There is no data on the actual no. of policies outstanding. However, the total no. of policies written in the past 4 years itself was >115mn (with LIC selling almost 107mn of these). Even assuming the no. of polices had jumped exponentially in the past few years (after India's demographic changes became much more evident), we reckon the total no. of policies is likely to be >500mn.

However, this overstates the number of lives covered in India as, in our view, each household would have about 4-5 policies (with many higher income households having almost +6 policies / household). The other reason being the incentive structure that requires agents to sell a "minimum" no. of policies each year for them to be rewarded resulting in aggressive marketing (by agents) to divide the sum assured through a number of policies to enable them to meet their target.

Hence, in aggregate, we estimate the total number of household covered by a life policy are still much lower at around 70-80mn; majority of which would have very low covers (taking out a policy for a tax break). Hence, the numbers per se (in terms of policies sold) are somewhat misleading in India. Hence, the no. of policies sold could potentially cross 1bn by 2010.

This has been a prevalent industry practice. But it has begun to diminish as insurers are becoming more focused on the aggregate premia, especially private insurers. For instance, the average premia for a policy for private insurers is +Rs24,000 while for LIC it has been only +8,500 until last year. This year, however, the average premia for LIC too has jumped to +Rs20,000 with sector average premia jumping to almost Rs25,000 from Rs10,000 last year.

AUM for private sector to cross US$55bn by 2010 v/s US$6bn in 2006

The total assets under management (AUM) for private sector players is estimated to increase to US$55bn by 2010 (from US$6bn in FY06); LIC would have a further US$200-250bn AUM. In our estimate almost US$20-25bn is being added to the AUM every year (including LIC), which is more than the inflows in domestic mutual fund industry in FY06. The total corpus of money managed by insurance companies by FY10, especially in equities, could, in our view, surpass assets managed by mutual funds.

Private sector to continue to gain market share; 45% share by 2010

Despite the recent contrary trend, we expect private insurers to gain market share and expect their share in NBP-APE to increase to 45% by FY10 v/s 35% in FY06 as they sustain growth of 89% yoy in FY08 followed by 60% growth in FY09 and 40-45% annual growth thereafter.

Post the strong growth in FY07, we expect growth rates for larger insurers like ICICI Prudential and Bajaj Allianz to be +50% in FY08 and +40% in FY09, thereafter moderating to around 30-35%p.a. primarily owing to high base effect and partly due to new insurers scaling up.

HDFC Standard Life is expected to grow at a relatively faster pace from FY08, primarily due to its lower base and its aggressive expansion of distribution network. Other private sector insurers (including Reliance Life and Kotak Mahindra) would have the strongest growth trajectory (+150% yoy through FY07-10) as they continue to gain market share by launching new products and expanding their distribution network.

Table 7: Growth Rates (for NBP-APE)

Year Ending March	2004	2005	2006	YTD	2007E	2008E	2009E	2010E
ICICI Prudential	185%	129%	58%	97%	81%	55%	38%	33%
HDFC Standard Life	78%	175%	116%	64%	59%	51%	44%	35%
MNYL	115%	72%	106%	88%	80%	50%	40%	35%
Bajaj Allianz	209%	185%	199%	136%	84%	53%	34%	34%
TATA AIG	251%	67%	47%	27%	NA	NA	NA	NA
SBI Life	417%	61%	174%	505%	200%	62%	44%	35%
Om Kotak	302%	101%	76%	138%	NA	NA	NA	NA
Reliance Life	250%	51%	155%	801%	NA	NA	NA	NA
Other Private Players	397%	216%	55%	150%	197%	173%	154%	147%
Total Private Sector	213%	110%	79%	112%	89%	59%	43%	38%
LIC	5%	5%	16%	181%	114%	30%	20%	18%
Total Premium Income	16%	21%	33%	157%	105%	39%	29%	26%

Source: Company Reports, IRDA, ML Research Estimates

ICICI Prudential would, in our view, continue to maintain its leadership position (26% market share amongst private insurers) in FY10, followed by Bajaj Allianz (15%). In our view the insurers that are likely to gain significant market share over next four years will be SBI Life and Reliance Life.

Table 8: Market Share (on NBP-APE)

Year Ending March	8MFY07	2007	2008	2009	2010
ICICI Prudential	30.4%	28.5%	27.7%	26.7%	25.8%
HDFC Standard Life	9.1%	9.2%	8.7%	8.8%	8.6%
MNYL	5.7%	5.4%	5.1%	5.0%	4.9%
Bajaj Allianz	16.6%	16.9%	16.3%	15.2%	14.7%
TATA AIG	5.0%	NA	NA	NA	NA
SBI Life	9.4%	10.1%	10.3%	10.3%	10.1%
Kotak Old Mutual	3.4%	NA	NA	NA	NA
Reliance Life	3.7%	NA	NA	NA	NA
Other Private Players	12.7%	29.9%	31.1%	34.0%	35.9%
Total Private Sector	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company Reports, IRDA, ML Estimates

Key Challenges

While the growth trajectory for the sector over the medium term appears to be robust, we believe insurance companies are also likely to face some challenges in managing the growth.

The key issues that life insurance companies are likely to face over the next two to five years are

a) Moderation in growth in unit linked business growth (both single premium and regular premium) which has contributed +55% of total NBP YTD

b) Managing the distribution network, especially agent attrition rates; and

c) Managing cost as most insurance companies have already priced higher economies of scale in their load structure and a slow down in growth would impact profitability. Rising wage inflation and high attrition rate has resulted sharp rise in wage costs as insurers are paying up almost 50% higher than what they had originally budgeted

Further private sector insurance companies are facing infrastructure issues relating to technology, banking and other support services, which are hindering the growth from tier II and tier II cities.

We believe the key to address these challenges would be

a) aggressive focus on new product launches especially in significantly under penetrated segments like pension and health insurance;

b) focusing on leveraging the alternative distribution channels like bancassurance as despite the large branch network of Indian banks, bancassurance still accounts for around 10-15% of all policies sold;

c) Managing the employee turnover by focusing on hiring policies and other HR issues; and

d) Regulatory reforms and improvement in banking services in tier II cities.

Valuations

Traditional valuations tool (based on embedded value) is the best measure of valuing life insurance companies over their life cycle, in our view. However, we believe, these measures cannot be applied to Indian insurers at this stage as most of them are at an early stage of their life cycle and even more importantly are still exhibiting exceptionally strong growth rates.

Embedded Value – Still Early For India

We believe embedded value (EV) and appraised value (AV) are probably the best traditional measures of valuing life insurers. EV is in essence a life insurer's adjusted net worth i.e. aggregate shareholder assets + Value of In Force Business adjusted for capital/solvency requirements. Value of in force business is DCF value of the existing policies under normalized actuarial assumptions (for Mortality, investment returns and operating expenses)

Globally Insurance companies are valued on a multiple to their Embedded Value (EV); the multiple factoring in two key factors

a) Growth trajectory (i.e. the expected profits on new business): applicable for matured companies where the terminal growth would be <20% of the total value.

b) Market estimates of the insurance company's variance over normal actual assumptions on underwriting ability, investment management capability and ability to control costs. Hence for a similar EV an insurance company that is expected to generate higher investment returns or have a better mortality experience would trade at a higher multiple than the other one.

The Indian experience so far, we think, is not able to capture the full impact of these variables as all the private insurers are at an early stage of the life cycle – and even more importantly exhibiting very strong growth rates (as seen in FY07). For the majority of the private insurers, EV is likely to be very small owing to the very small value of the in force business as they have been in existence for just about 6-7 years.

AV may provide a better reflection of Indian insurer valuations

Appraised Value (AV) is EV plus a sum for the growth potential of the company, expected from the new business being generated by the insurer. This sum is calculated by forecasting the value of one year's new business (using the same assumptions as used for EV plus a new business growth rate) and then applying a capitalization factor (a multiple), which acts as a terminal discount rate, to place a value on new business to infinity.

A dominant portion of the total actuarial value for a private life insurance company in India would come from the 'new business component' or the AV.

Hence, the valuation of these companies would largely be a function of their AV and they could potentially trade at close to or even at a premium to their AV depending upon the likelihood of them being able to achieve the projected growth rates and the underlying acturial values.

New Business Achieved Profit Methodology

We have valued the Indian life insurance companies on the basis of a multiple to their New Business Achieved Profit (NBAP). NBAP is the present value of the profits arising from the new business written during the year. This is the same measure adopted by us last year when we initiated coverage of the sector.

Given that most of the value of Indian life insurance companies comes from their growth potential (and not from their business in force) this measure, in our view, has more relevance in the Indian context. This would, in our view, approximate the AV. Further in the absence of adequate disclosures of any acturial data or EV by any of the life insurers in India, NBAP remains the only valuation tool that can be applied to Indian life insurance companies.

NBAP = NBAP Margin * NBP

The NBAP for a year is basically calculated by multiplying the NBP (APE) by the estimated NBAP margin which in turn is derived based on the product portfolio as NBAP margins for each product would be different based on assumptions made by the life insurers about future cashflows.

NBAP Margins function of product mix

To arrive at NBAP margins for each of the different policies we have done a DCF for each type of policy forecasting a) the loading, b) expected savings on mortality, c) gains due to economies of scale, also factoring in the AMC for the products.

The NBAP margins across the different policies are given below. As shown NBAP margins for ULIP's are lower at around 20% v/s traditional policies owing to the absence of any investments that can be retained by the insurer (upto 10% can be retained in a traditional policy like endowment) and lower load charges.

Calculations showing the detailed IRR (approximation of the NBAP margin) for each policy has been detailed in the appendix.

Table 9: Product wise profitability for an insurance company

Product	NBAP Margin
Single Premium - ULIP	2.5-3.0%
Regular Premium - Unit Linked	19.0-20.0%
Traditional Endowment	30.0-35.0%
Term Assurance	30.0-35.0%

Source: Company Reports, IRDA, ML Estimates

NBAP estimates raised by 15-20% v/s earlier estimates

The strong FY07 premium growth and the higher than expected NBAP margins achieved by some leading insurers such as ICICI Prudential (based on their FY06 results) has resulted in us re-assessing our entire NBAP estimates.

We have accordingly raised our NBAP estimates by 20-25% for most insurers factoring in better margins for products like ULIPs and also capturing much stronger growth trajectory than before for first year premiums (after adjusting for single premiums at 10% of regular premiums).

Valuations for insurers higher by 20-30%

Under this method the value of the insurance firm is arrived at by assigning a multiple to a particular year's NBAP to arrive at the economic value of all new business to be generated by the insurance company. Hence the multiple is based on estimated growth trajectory of new business (is similar to P/E ratio for other industries).

We show below the NBAP estimates (along with the NBAP margins and premiums) for each of the life insurers covered in our report.

Table 10: Valuation Methodology

FY09	NBP-APE (Rs mn)	NBAP Margin	NBAP (Rs mn)	Multiple	Value (Rs bn)	Value (US$ bn)
ICICI Prudential	89,496	21%	18,851	16.5	311	7.2
HDFC Standard Life	29,528	20%	5,937	16.1	96	2.2
Max New York Life	16,759	21%	3,523	16.0	56	1.3
Bajaj Allianz	50,877	20%	10,322	15.0	155	3.6
SBI Life	34,648	19%	6,594	15.0	99	2.3

Source: Company Report, ML Research Estimates

Indian companies may trade at 18x FY08E; 16x FY09E NBAP

We believe Indian insurance companies can be valued up to 16-20x one year forward NBAP given their strong growth trajectory. While Indian insurance companies don't disclose their embedded value, in our estimates these valuations will imply P/EV of 3.0-4.0x FY08, and <1.0x their AV.

In the table below we have calculated the value of the insurance business for each company for FY06-09. The same is based on an estimated growth multiple to the NBAP margin for the particular year. (The detailed valuation matrix and contribution per share to the parent company is discussed in detail later).

Table 11: Comparative Valuations

Value of the firm (US$mn)	FY07E	FY08E	FY09E	FY10E
ICICI Prudential	3,744	5,407	7,234	9,304
HDFC Standard Life	1,150	1,657	2,197	2,724
Max New York Life	712	985	1,296	1,638
Bajaj Allianz	2,035	2,847	3,559	4,322
SBI Life	1,162	1,724	2,274	2,854

Source: Company Report, ML Research Estimates

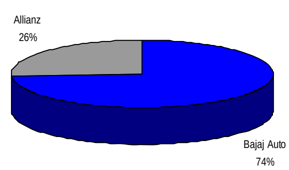
Bajaj Allianz

Background

Bajaj Allianz, one of the fastest growing private sector insurance company in the sector, is a 74:26 JV between Bajaj Auto and Allianz group.

Over FY02-06, APE income (including renewal premium) for the company has grown at a CAGR of +300% (which is one the highest across companies); with its NBP-APE during 8MFY07 also having grown 135%yoy; making it the 2nd largest private life insurance company with a market share of 17% during 8MFY07.

Chart 11: Shareholding Pattern



Source: Company Reports

Business Profile

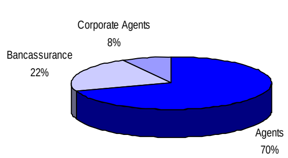
Over past one and a half year Bajaj Allianz has witnessed one of the strongest growth in new business premium largely driven by ULIPs. Over 55% of its new business premium income in FY06 was from single premium policies (v/s sector average of 43%), bulk them being ULIPs. Since then, the share of single premium income has declined to <40% in 8MFY07; ULIP however continue to account for +80% of total premium income.

Higher proportion of single premium policies and a relatively higher % of low margin ULIPs have resulted in a relatively lower NBAP margin for Bajaj Allianz (estimated at 19-20% v/s 20-21% for ICICI and MNYL).

Distribution Network

Bajaj Allianz has over the past 18 months significantly scaled up its distribution network and currently has the largest distribution network (amongst private insurance companies) with presence in over 700 locations and over 150,000 agents. It also has around 150 corporate agents and has also tied up with some leading banks like standard Chartered for bancassurance. However 70% of its total sales still comes from its agent network while bancassurance accounts for 22% of its premium collection. Its total AUM have grown from Rs16bn in FY04 to over Rs55bn as on Dec-06.

Chart 12: Premium Mix Across Distribution Channels



Source: Company Reports

Growth Prospects

We believe the current growth rate for Bajaj Allianz is unsustainable as almost 50% of its growth is being driven by single premium policies, especially ULIPs, making it vulnerable to a correction in the equity markets.

We expect the NBP-APE growth rate for Bajaj Allianz to decelerate to 84% for FY07 (v/s +135% for 8MFY07); moderating further to 53% in FY08 and then stabilizing around 35% for FY09-10. Bajaj's total premium income (APE including renewal premium) is estimated to grow at a CAGR of 66%, in line with the sector.

Valuations

We value Bajaj Allianz's life insurance business at US$3.6bn (FY09E) assuming an overall multiple of 15x on its FY09 estimated NBAP. We have assumed a relatively lower multiple owing to a) higher proportion of non repeat business in form of single premium policies and b) relatively lower persistency rate (73% v/s 80% for most other private life insurance companies)

Further, we believe the any increase in the stake by Allianz (when they are allowed to raise stake to 49%) may be at less than market value. Hence, we have arrived at a value of Rs918/share for FY09 assuming a 60% share of Bajaj Auto (v/s the 74% it actually holds currently).

Table 12: Valuation Table

Valuation Table (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E	FY10E
FYP	4,086	12,060	22,914	35,517	47,948	64,729
Single Premium	4,514	15,095	20,378	25,473	29,294	32,223
Renewal Premium	1,420	4,168	11,846	25,375	44,451	67,451
Total Premium	10,020	31,323	55,139	86,365	121,692	164,403
YoY Growth	354%	213%	76%	57%	41%	35%
NBAP margin (%)	21%	21%	21%	20%	20%	20%
NBAP (Rs mn)	973	2,850	5,207	7,740	10,322	13,428
Multiple (x)	19	18	17	16	15	14
Value of the Company (Rs mn)	18,487	51,294	88,516	123,843	154,828	187,989
Value of the Company (US$ mn)	425	1,179	2,035	2,847	3,559	4,322
Value of Bajaj Auto's stake in the venture (US$ mn)	314	873	1,506	2,107	2,634	3,198
Value per Share of Bajaj Auto (Rs)	110	304	525	734	918	1,115

Source: Company Reports, IRDA, ML Estimates

Financials

Table 13: Detailed Financials

Year to March (Rs mn)	2005	2006	2007E	2008E	2009E	2010E
FYP	4,086	12,060	22,914	35,517	47,948	64,729
Renewal Premiums	1,420	4,168	11,846	25,375	44,451	67,451
Single Premiums	4,514	15,095	20,378	25,473	29,294	32,223
Total Premiums	10,020	31,323	55,139	86,365	121,692	164,403
New Business	8,600	27,155	43,292	60,990	77,241	96,952
APE - New Business	4,537	13,570	24,952	38,064	50,877	67,951
APE - total Business	5,957	17,738	36,798	63,439	95,328	135,402
Growth Rate (yoy)						
FYP	160%	195%	90%	55%	35%	35%
Renewal Premiums	244%	194%	184%	114%	75%	52%
Single Premiums	1923%	234%	35%	25%	15%	10%
Total Premiums	354%	213%	76%	57%	41%	35%
New Business	379%	216%	59%	41%	27%	26%
APE - total Business	197%	198%	107%	72%	50%	42%
Persistency Rate	*71.5%*	*75.7%*	*73%*	*73%*	*73%*	*73%*
Assets Under Management (Rs bn)	18.3	31.0	58.8	98.6	150.7	215.6
yoy growth	*10%*	*69%*	*90%*	*68%*	*53%*	*43%*
NBAP Calculation						
NBAP Margin (FYP)	20.5%	20.5%	20.5%	20.0%	20.0%	19.5%
NBAP Margin (Single Premium)	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
NBAP Margin (Total)	21.4%	21.0%	20.9%	20.3%	20.3%	19.8%
Total NBAP	973	2,850	5,207	7,740	10,322	13,428
Multiple (16-20x) of NBAP	19	18	17	16.0	15	14
Multiple (16-20x) = 18x NBAP	18,487	51,294	88,516	123,843	154,828	187,989
In US$ mn	425	1,179	2,035	2,847	3,559	4,322
Equiv. in per Bajaj Auto's share (Rs)- 74% stake	110	304	525	734	918	1,115

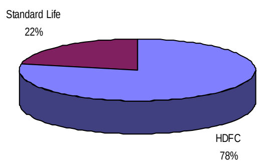
Source: Company Reports, IRDA, ML Estimates

HDFC Standard Life

Background

HDFC Standard life is a joint venture between HDFC Ltd (the mortgage company) and Standard Life of UK. It is the 4th largest private life insurance company with a market share of around 9% (based on NBP-APE for 8MFY07).

Chart 13: Shareholding Pattern



Source: Company Reports

Business Profile

HDFC Standard Life doesn't aggressively focus on single premium ULIP policies with single premium policies accounting for only 20% of its NBP-APE (v/s 48% for the sector). While initially HDFC Standard life was primarily focused on term insurance and traditional endowment products; incrementally share of ULIP has gone up to +75%, like for most other private sector companies.

Distribution Network

HDFC Standard Life has a vast distribution network with 100 branches and over 45,000 agents. It also has a strong network of corporate agents and few bancassurance tie ups. Unlike most of its peers, bacassurance is one of the key sales channels for HDFC and accounts for 40% of total sales (bulk of the sale comes from HDFC Bank in which it holds a 22% stake). HDFC Std Life has also been aggressively expanding its direct sales force (currently around 600 employees) and is also seeking to expand its distribution very rapidly.

Growth Prospects

We believe HDFC Standard Life will remain one of the larger insurers in the market due to its strong brand value, dominant retail franchise of its parent HDFC and HDFC Bank, its leading bancassurance partner.

We expect HDFC Standard Life's total premium income (APE including renewal premium) to grow at 64% CAGR over next five years to an estimated Rs101bn in 2010 (Rs13.8bn in FY06). Despite a relatively lower growth in NBP-APE (estimated at 47% CAGR), overall growth for HDFC is estimated to be strong owing to a high persistency rate (around 90% which is the highest in the sector) which would also result in better profitability.

HDFC's NBAP margins are estimated at around 20%, lower than sector, owing to lower load structure on its unit linked policy. Its AMC of 0.8% is at the lower end in the insurance and mutual fund industry. While it translates to a superior return for the policyholder, it also results in a relatively lower margin for HDFC.

Valuation

We value HDFC Standard Life's Life insurance business at US$1.7bn in FY08E, on basis of a 17x multiple to its estimated NBAP of US$97mn (Rs4.2bn) for FY08E. Accordingly we arrive at a value of US$1.3bn for HDFC's 78% stake in the company, which translates into Rs225/share of HDFC. We forecast it to rise to Rs298/share by FY09 equivalent to a value of US$2.2bn (as also detailed in our HDFC report dated January 25, 2007).

We believe the value of the life insurance business could rise further, in case growth rates continue to sustain at over 50% over the next few years. An improvement in NBAP margins (owing to change in product mix) without the growth slowing down could also positively impact margins.

Table 14: Valuations

Valuation Table	FY05	FY06	FY07E	FY08E	FY09E	FY10E
FYP	3,821	8,255	13,208	20,076	29,109	39,298
Single Premium	1,041	2,172	3,040	3,801	4,181	4,390
Renewal Premium	2,005	5,273	12,175	22,844	38,628	60,963
Total Premium	6,866	15,699	28,423	46,720	71,918	104,651
Growth	131%	129%	81%	64%	54%	46%
NBAP margin	26%	23%	21%	20%	20%	19%
NBAP	1,035	1,964	2,779	4,137	5,818	7,714
Multiple	20	19	18	17	16	15
Value of the Company (Rs mn)	20,700	37,311	50,021	70,330	93,093	115,708
Value of the Company (US$ mn)	476	858	1,191	1,636	2,165	2,691
Value of HDFC's stake in the venture (US$ mn)	595	1,072	1,489	2,044	2,706	3,364
Value per Share of HDFC (Rs)	66	119	152	225	298	370

Source: Merrill Lynch Research Estimates

Financials

Table 15: Basic Financials

Year to March (Rs mn)	2005	2006	2007E	2008E	2009E	2010E
FYP	3,821	8,255	13,208	20,076	29,109	39,298
Renewal Premiums	2,005	5,273	12,175	22,844	38,628	60,963
Single Premiums	1,041	2,172	3,040	3,801	4,181	4,390
Total Premiums	6,866	15,699	28,423	46,720	71,918	104,651
New Business	4,862	10,427	16,248	23,876	33,290	43,688
APE - New Business	3,925	8,472	13,512	20,456	29,528	39,737
APE - total Business	5,930	13,745	25,686	43,300	68,155	100,700
Growth Rate (yoy)						
FYP	182%	116%	60%	52%	45%	35%
Renewal Premiums	127%	163%	131%	88%	69%	58%
Single Premiums	41%	109%	40%	25%	10%	5%
Total Premiums	131%	129%	81%	64%	54%	46%
New Business	132%	114%	56%	47%	39%	31%
APE - New Business	175%	116%	59%	51%	44%	35%
APE - Total Business	157%	132%	87%	69%	57%	48%
Persistency Rate	*89.6%*	*90.5%*	*90%*	*90%*	*90%*	*90%*
Assets Under Management (Rs bn)	9.0	22.4	47.4	89.6	156.2	255.5
yoy growth	*117%*	*149%*	*112%*	*89%*	*74%*	*64%*
NBAP Calculation						
NBAP Margin (FYP)	26%	23%	20%	20%	20%	19%
NBAP Margin (Single Premium)	4%	3%	3%	3%	3%	3%
NBAP Margin (Total)	26%	23%	21%	20%	20%	19%
Total NBAP	1,035	1,964	2,779	4,137	5,818	7,714
Multiple (16-20x) of NBAP	20	19	18	17.0	16	15
Multiple (16-20x) = 18x NBAP	20,700	37,311	50,021	70,330	93,093	115,708
In US$ mn	476	858	1,191	1,636	2,165	2,691
Equiv. in per HDFC Shr (Rs)- 78% stake	65.8	118.6	152.0	225.1	297.9	370.3

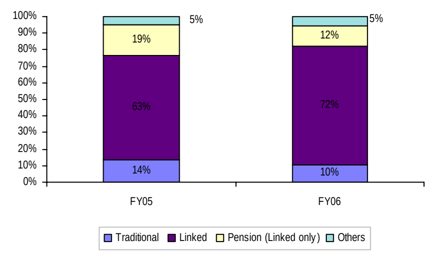
Source: Company Reports, IRDA, ML Estimates

ICICI Prudential

Background

ICICI Prudential, a JV between ICICI Bank (74% holding) and Prudential Insurance (UK)-26% shareholding, is the largest private insurance company in India with market share of +30% for 1HFY07 (based on NBP-APE).

Chart 14: Premium Mix

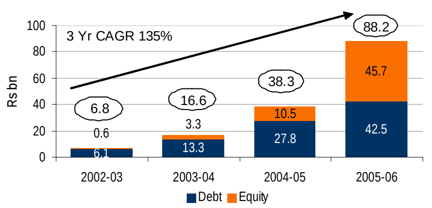


Source: Company Reports, ML Research Estimates

Business profile

Like most private insurers ICICI Prudential's product portfolio is dominated by ULIPs. In line with the industry trend, the share of ULIP's in total premium income for ICICI has increased to 80-85% in 1HFY07 from <60% in FY04. ICICI is also the largest player in pension space which contributed 12% of its total premium income in FY06. IPru has sold over 2mn policies and has a total AUM of over Rs130bn (as on Dec-06). IPru also has the highest level of disclosures amongst all the private life insurers and is the first private life insurance company to declare NBAP margins (around 24% in FY06).

Chart 15: Growth in Assets under Management



Source: Company Reports, ML Research Estimates

Distribution network

ICICI Prudential also has one of the largest distribution network amongst private sector insurance companies, with a presence in +130 locations through +180 branches and a fleet of around 75,000 agents. ICICI prudential also has no of corporate agents and bancassurance tie ups and around 35-40% of ICICI Pru's premium income is generated through non-agent network.

Growth Prospects

We believe ICICI Prudential will maintain its leadership position in the private sector space driven by

a) strong focus on product innovation;

b) aggressive marketing strategy (in line with its parent's business model); and

c) effectively cross selling across its parent customer base.

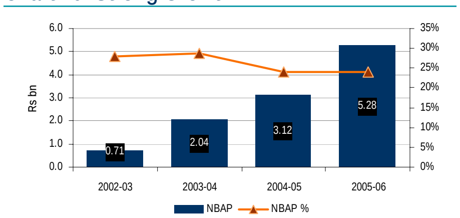
We expect ICICI Prudential's premium income (APE including renewal premium) to grow at +60% CAGR over next four years to an estimated Rs268bn in 2010 (Rs40bn in FY06). We also expect the proportion of pension and healthcare products to rise, however ULIP is likely to continue to dominate the portfolio mix.

Valuation

We value ICICI Prudential's Life insurance business at US$5.4bn in FY08E, on the basis of a 17x multiple to its estimated NBAP of US$314mn (Rs13.7bn) for FY08. Accordingly we arrive at a value of US$4bn for ICICI Bank's 74% stake in the company, which translates into Rs183/share of ICICI Bank. For FY09, we expect the value of insurance venture to be around US$7.2bn equivalent to Rs254/share of ICICI Bank.

An improvement in NBAP margins (owing to change in product mix) without the growth slowing down could positively impact valuations.

Chart 16: Strong Growth in NBAP



Source: Company Reports, ML Research Estimates

Table 16: Valuations

Valuation Table	FY05	FY06	FY07E	FY08E	FY09E	FY010E
FYP	14,543	22,935	41,282	63,987	88,303	117,443
Single Premium	1,300	3,090	6,799	9,179	11,932	13,125
Renewal Premium	7,795	16,585	31,616	58,319	97,845	148,918
Total Premium	23,638	42,610	79,697	131,485	198,080	279,486
Growth	139%	80%	87%	65%	51%	41%
NBAP margin	21%	23%	22%	21%	21%	21%
NBAP	3,135	5,283	9,049	13,676	18,851	25,004
Multiple	20	19	18	17	17	16
Value of the Company (Rs mn)	62,703	100,385	162,883	232,492	311,048	400,067
Value of the Company (US$ mn)	1,441	2,256	3,788	5,407	7,234	9,304
Value of ICICI's stake in the venture (US$ mn)	1,067	1,669	2,803	4,001	5,353	6,885
Value per Share of ICICI Bank (Rs)	52	84	128	183	254	332

Source: Company Reports, ML Research Estimates

Financials

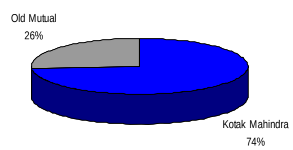
Table 17: Financials

Year to March (Rs mn)	2005	2006	2007E	2008E	2009E	2010E
FYP	14,543	22,935	41,282	63,987	88,303	117,443
Renewal Premiums	7,795	16,585	31,616	58,319	97,845	148,918
Single Premiums	1,300	3,090	6,799	9,179	11,932	13,125
Total Premiums	23,638	42,610	79,697	131,485	198,080	279,486
New Business	15,843	26,025	48,081	73,166	100,235	130,568
APE - New Business	14,673	23,244	41,962	64,905	89,496	118,755
APE - total Business	22,468	39,829	73,578	123,224	187,341	267,673
Growth Rate (yoy)						
FYP	131%	58%	80%	55%	38%	33%
Renewal Premiums	227%	113%	91%	84%	68%	52%
Single Premiums	7%	138%	120%	35%	30%	10%
Total Premiums	139%	80%	87%	65%	51%	41%
New Business	111%	64%	85%	52%	37%	30%
APE - total Business	155%	77%	85%	67%	52%	43%
Persistency Rate	*90%*	*74%*	*80%*	*80%*	*80%*	*80%*
Assets Under Management (Rs bn)	38.3	88.2	171.2	303.9	509.5	808.8
yoy growth	*130%*	*130%*	*94%*	*78%*	*68%*	*59%*
NBAP Calculation						
NBAP Margin (FYP)	21%	23%	22%	21%	21%	21%
NBAP Margin (Single Premium)	4%	3%	3%	3%	3%	3%
NBAP Margin (Total)	21.4%	22.7%	21.6%	21.1%	21.1%	21.1%
Total NBAP	3,135	5,283	9,049	13,676	18,851	25,004
% Increase	*53%*	*69%*	*71%*	*51%*	*38%*	*33%*
Multiple (16-20x) of NBAP	20	19	18	17	16.5	16
Multiple (16-20x) = 18x NBAP	62,703	100,385	162,883	232,492	311,048	400,067
In US$ mn	1,441	2,256	3,788	5,407	7,234	9,304
Equiv. in per Ibank Shr (Rs)- 74% stake	52	84	128	183	254	332

Source: Company Reports, ML Research Estimates

Kotak Mahindra Old Mutual Life Insurance (KMOML)

Chart 17: Shareholding Pattern (Dec-06)



Source: Company Reports

Background

KMOML is a 74:26 JV between Kotak Mahindra Bank and Old Mutual plc. Since inception, KMOML has steadily gained market share and for the 8M ending Nov-06 has grown its NBP-APE by 140% yoy taking its market share (based on NBP-APE) to around 4% (amongst private insurers).

Business Profile

Like most other private insurers KMOML has been rapidly expanding its distribution network and currently has a network of around 65 branches and a fleet of over 15,000 agents. Like most private insurers bulk of the business comes from unit linked products. KMOML also has been effectively leveraging the client base of its associate companies (the bank and the retail broking entity) to cross sell life insurance products to the existing client base, giving it an edge over the smaller players.

Financials

Table 18: Detailed Financials

Year to March (Rs mn)	2003	2004	2005	2006
FYP	248	1,014	1,896	3,618
Renewal Premiums	51	252	922	2,113
Single Premiums	104	241	1,852	357
Total Premiums	403	1,507	4,669	6,088
New Business	352	1,255	3,748	3,975
APE - New Business	258	1,038	2,081	3,654
APE - total Business	309	1,290	3,003	5,767
Growth Rate (yoy)				
FYP	342%	309%	87%	91%
Renewal Premiums		393%	266%	129%
Single Premiums	429%	132%	667%	-81%
Total Premiums	432%	274%	210%	30%
New Business	365%	256%	199%	6%
APE - New Business	345%	302%	101%	76%
Persistency Rate		84.3%	72.8%	75%
Assets Under Management (Rs bn)	0.4	1.6	5.7	11.0
yoy growth			*258%*	*93%*
NBAP Calculation				
NBAP Margin (FYP)	22%	23.0%	22.0%	21.0%
NBAP Margin (Single Premium)	5%	5.0%	4.0%	3.0%
NBAP Margin (Total)	23.1%	23.6%	23.6%	21.1%
Total NBAP	60	245	491	771
% Increase	*389%*	*311%*	*100%*	*57%*

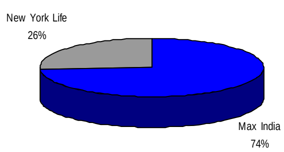
Source: Company Reports, IRDA,

Max New York Life

Background

MNYL is a JV between Max India and New York Life of USA. Max India which holds a 74% stake in the JV is a multi business corporate operating in the space of Life insurance, healthcare, clinical research and specialty plastics products for the packaging industry. NYL is one of the oldest mutual life insurance company in the US with over $200bn in assets under management.

Chart 18: Shareholding Pattern



Source: Company Reports

While MNYL is amongst the top 3-4 insurers in term of number of policies sold, in terms of total premia its pecking order is lower at around 5-6th with a market share of about +5.7% (8MFY07) amongst private sector insurers (on basis of NBP- APE). It has a customer base of 1mn with total assets under management of Rs15bn.

Business Profile

MNYL has been focused on longer tenor, non ULIP products; in 8MFY07 ULIP products have accounted for <70% of total NBP for MNYL v/s a sector average of +85%. Also the persistency rate for MNYL, at 83%, is at the higher end of the sector. Further the average tenor for a life insurance policy for Max is 23-25 years v/s a sector average of 15-20years, resulting in higher profitability.

MNYL also has a more productive work force as the average premium per agent for MNYL is around US$415 v/s sector average of US$170-US$200 (ICICI is around US$275). Higher productivity is, in our view, due to MNYL strong focus on recruitment process (MNYL trains its agents for 400hrs v/s mandatory requirement of 100hrs).

Distribution Network

MNYL has a pan India presence with a network of 120 offices, and stronger presence in northern region. MNYL has a strong focus on sales through the agency network (it also has fleet of over 21,000 agents), which accounts for around 70% of its total premium income. Of the balance around 20-22% is from corporate agents and 7-8% is from bancassurance channels.

Growth Prospects

We expect MNYL to maintain its market share at around 5% amongst private insurance insurers; however a stronger focus on non ULIP products would result in a higher margin. We estimate MNYL's NBAP margin to be around 21%, at the higher end of the private sector players' with its total premium income (APE including renewal premium) estimated to grow at a CAGR of 61% over FY06-10 to Rs51bn (US$1.2bn) in FY10.

Valuations

We value MNYLs life insurance business at US$1.3bn in FY09, forecasting a multiple of 16x on its FY09E NBAP. While Max India holds a 74% stake in the JV, unlike many other private life insurance companies, the transfer for stake from Max India to New York Life is unlikely to happen at the market value.

Hence we have assumed economical value of the stake at 60%, translating to US$775mn or Rs940/ share for Max India.

Table 19: Valuations

Year to March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E	FY10E
FYP	2,143	4,415	7,947	11,921	16,689	22,530
Single Premium	193	299	508	635	698	768
Renewal Premium	1,798	3,168	6,066	11,211	18,505	28,155
Total Premium	4,134	7,881	14,521	23,766	35,892	51,453
YoY Growth	92%	91%	84%	64%	51%	43%
NBAP margin (%)	25%	23%	22%	21%	21%	21%
NBAP (Rs mn)	542	1,023	1,722	2,520	3,523	4,751
Multiple (x)	20	19	18	17	16	15
Value of the Company (Rs mn)	10,831	19,436	30,989	42,838	56,363	71,270
Value of the Company (US$ mn)	249	447	712	985	1,296	1,638
Value of Max India's stake in the venture (US$ mn)	184	331	527	729	959	1,212
Value per Share of Max India (Rs)	181	324	516	714	939	1,188

Source: Company Reports, IRDA, ML Estimates

Financials

Table 20: Detailed Financials

Year to March (Rs mn)	2005	2006	2007E	2008E	2009E	2010E
FYP	2,143	4,415	7,947	11,921	16,689	22,530
Renewal Premiums	1,798	3,168	6,066	11,211	18,505	28,155
Single Premiums	193	299	508	635	698	768
Total Premiums	4,134	7,881	14,521	23,766	35,892	51,453
New Business	2,336	4,714	8,455	12,555	17,387	23,298
APE - New Business	2,162	4,445	7,998	11,984	16,759	22,607
APE - total Business	3,960	7,613	14,064	23,195	35,264	50,762
Growth Rate (yoy)						
FYP	73%	106%	80%	50%	40%	35%
Renewal Premiums	131%	76%	92%	85%	65%	52%
Single Premiums	48%	54%	70%	25%	10%	10%
Total Premiums	92%	91%	84%	64%	51%	43%
New Business	70%	102%	79%	48%	38%	34%
APE - total Business	95%	92%	85%	65%	52%	44%
Persistency Rate	*88.9%*	*80.4%*	*80%*	*80%*	*80%*	*80%*
Assets Under Management (Rs bn)	4.8	8.8	20.5	40.4	71.4	117.1
yoy growth	*97%*	*82%*	*133%*	*97%*	*77%*	*64%*
NBAP Calculation						
NBAP Margin (FYP)	25.0%	23.0%	21.5%	21.0%	21.0%	21.0%
NBAP Margin (Single Premium)	3.0%	2.5%	2.6%	2.6%	2.6%	2.6%
NBAP Margin (Total)	25.0%	23.0%	21.5%	21.0%	21.0%	21.0%
Total NBAP	542	1,023	1,722	2,520	3,523	4,751
Multiple (16-20x) of NBAP	20	19	18	17	16	15
Multiple (16-20x) = 18x NBAP	10,831	19,436	30,989	42,838	56,363	71,270
In US$ mn	249	447	712	985	1,296	1,638
Equiv. in per Max India's (Rs)- 60% stake	180.5	323.9	516.5	714.0	939.4	1,187.8

Source: Company Reports, IRDA, ML Estimates

Reliance Life

Background

Reliance Capital, in FY06, acquired AMP Sanmar Life insurance company, and renamed it as Reliance Life Insurance. Reliance Life is now a 100% 'economically' held company of Reliance Capital (technically Reliance Capital holds 16% stake in the company while the balance 84% is held through other 100% owned subsidiaries).

Reliance Life, post its acquisition by Reliance Capital, launched its first product in July 2006 and since then, has been one of the fastest growing private life insurance companies with its NBP (APE) in 8MFY07 having grown >800% yoy to Rs2.6bn making it the 7th largest private life insurance company in India with a market share of 3.7% and total AUM of over Rs5bn.

Business Profile

Reliance Life's growth too has been driven by ULIPs that have accounted for 80-85% of the total NBP-APE in the first 8MFY07. The strong growth has been driven by a) a relatively lower base, b) rising demand for unit linked products and c) aggressive expansion of distribution network by Reliance Life given renewed management focus on the life insurance business. Reliance Life covers an estimated 30mn lives with sum assured of Rs136bn across 229,000 policies.

Distribution Network

Reliance Life has a relatively small distribution network, however it has been expanding its network at an aggressive pace. It currently has a fleet of around 46,000 agents and around 4,000 employees.

The company has stated that they expect to grow their NBP-APE at 80-90%yoy for next four years led by new products and expansion of distribution network.

Table 21: Detailed Financials

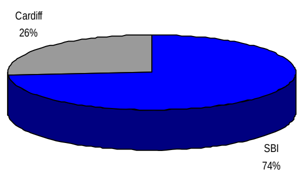
Year to March (Rs mn)	2004	2005	2006
FYP	216	270	732
Renewal Premiums	39	216	410
Single Premiums	56	642	1,202
Total Premiums	311	1,127	2,344
APE - New Business	221	334	853
APE - total Business	260	549	1,262
Growth Rate (yoy)			
FYP	241%	25%	172%
Renewal Premiums	2453%	460%	90%
Single Premiums	#DIV/0!	1037%	87%
Total Premiums	380%	263%	108%
New Business	331%	235%	112%
APE - total Business	302%	112%	130%
Persistency Rate	*59.5%*	*84.8%*	*84.4%*
NBAP Calculation			
NBAP Margin (FYP)	20.0%	20.0%	20.0%
NBAP Margin (Single Premium)	5.0%	4.0%	3.0%
NBAP Margin (Total)	20.8%	23.8%	21.4%
Total NBAP	46	80	183
% Increase	*231%*	*73%*	*129%*

Source: Company Reports, IRDA

SBI Life Insurance

SBI Life Insurance is a JV between State Bank of India (74% shareholding) and Cardiff of France (26% shareholding) and has been the fastest growing private insurance company in the sector. Its market share has expanded from 3% in FY02 to >9% in 8MFY07, making it the 3rd largest private life insurance company.

Chart 19: Shareholding Pattern



Source: Company Reports

Business Profile

SBI Life had maintained a relatively low profile amongst private life insurers; but surprised the industry with the shrap growth in the past year as it became more focused and aggressive. It is the first private life insurer to have reported accounting profit (in FY06); however given the strong growth in current year, we expect it to report accounting losses in FY07 and even in FY08.

While initially the growth for SBI Life was led by single premium policies; the company has since then has delivered strong growth (565%yoy in 8MFY07) in regular premium business, driven by an aggressive expansion of distribution network and more importantly by effectively leveraging the vast distribution network of its parent State Bank of India group which has a network of +9000 branches in India.

Distribution Network

SBI Life has a relatively smaller distribution network, as most of its premium tend to be bulky in nature. As stated earlier the average premium for a ULIP is almost twice to that of a traditional endowment policy. Like most other players bulk of its sales come from agency network, but the recent growth has been led by the company effectively leveraging the distribution network of its parent, SBI, India's largest bank with a network of over 9,000 branches all over India.

Growth Prospects

We expect SBI's APE premium (including renewal premium) to grow at 96% CAGR over FY06-10 (amongst the highest in sector) to Rs104bn by FY10. This factors in a sharp deceleration with total NBP-APE growth in FY07 estimated to be 200%yoy (v/s 505% in 8MFY07), further moderating to 62%yoy in FY08, thereafter stabilizing at 35-45% yoy growth.

A buoyant equity market could however positively surprise our growth estimates. ULIP would, in our view, continue to dominate the portfolio (in line with the company's strategy) contributing +75% of total products.

Given the higher proportion of single premium and Unit linked policies, SBI's margin are estimated to be at the lower end of the sector at 19% by FY10.

Valuations

We value SBI Life Insurance at US$2.2bn (FY09E) based on a 15x multiple to its estimated NBAP of Rs6.6bn in FY09. We have assumed a lower multiple than some of its peers owing to the higher proportion of non repeat business (i.e. single premium policies) and a relatively lower NBAP margin.

Accordingly we arrive at a US$1.7bn valuation for SBI's 74% stake in SBI Life which translates into Rs140/share of SBI by FY09.

Table 22: Valuation Table

Year to March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E	FY10E
FYP	1,472	4,581	14,201	23,148	33,564	45,312
Single Premium	3,358	3,704	6,668	8,668	10,835	13,002
Renewal Premium	1,017	2,116	5,692	16,909	34,049	57,471
Total Premium	5,847	10,401	26,561	48,726	78,448	115,785
YoY Growth	159%	78%	155%	83%	61%	48%
NBAP margin (%)	23%	22%	20%	20%	19%	19%
NBAP (Rs mn)	417	1,073	2,974	4,687	6,594	8,869
Multiple (x)	19	18	17	16	15	14
Value of the Company (Rs mn)	7,926	19,317	50,551	74,995	98,909	124,170
Value of the Company (US$ mn)	182	444	1,162	1,724	2,274	2,854
Value of SBI's stake in the venture (US$ mn)	135	329	860	1,276	1,683	2,112
Value per Share of SBI (Rs)	11	27	71	105	139	175

Source: Company Reports, IRDA, ML Estimates

.

Financials

Table 23: Detailed Financials

Year to March (Rs mn)	2005	2006	2007E	2008E	2009E	2010E
FYP	1,472	4,581	14,201	23,148	33,564	45,312
Renewal Premiums	1,017	2,116	5,692	16,909	34,049	57,471
Single Premiums	3,358	3,704	6,668	8,668	10,835	13,002
Total Premiums	5,847	10,401	26,561	48,726	78,448	115,785
New Business	4,829	8,285	20,869	31,816	44,400	58,314
APE - New Business	1,808	4,951	14,868	24,015	34,648	46,612
APE - total Business	2,825	7,067	20,560	40,924	68,696	104,083
Growth Rate (yoy)						
FYP	45%	211%	210%	63%	45%	35%
Renewal Premiums	447%	108%	169%	197%	101%	69%
Single Premiums	219%	10%	80%	30%	25%	20%
Total Premiums	159%	78%	155%	83%	61%	48%
New Business	133%	72%	152%	52%	40%	31%
APE - New Business	61%	174%	200%	62%	44%	35%
APE - total Business	116%	150%	191%	99%	68%	52%
NBAP Calculation						
NBAP Margin (FYP)	21.5%	21.0%	20.0%	19.5%	19.0%	19.0%
NBAP Margin (Single Premium)	*3.0%*	*3.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
NBAP Margin (Total)	23.1%	21.7%	20.0%	19.5%	19.0%	19.0%
Total NBAP	417	1,073	2,974	4,687	6,594	8,869
Multiple (16-20x) of NBAP	19	18	17	16.0	15	14
Multiple (16-20x) = 18x NBAP	7,926	19,317	50,551	74,995	98,909	124,170
In US$ mn	182	444	1,162	1,724	2,274	2,854
Equiv. in per SBI's share (Rs)- 74% stake	11.1	27.2	71.1	105.4	139.1	174.6

Source: Company Reports, IRDA, ML Estimates

Appendix

Industry Background

History

Indian Life Insurance industry has gone through two transformations; the industry was nationalized in 1956 when Life Insurance Corporation of India (LIC) was formed. LIC enjoyed a monopoly for almost 44 years through 2000.

In 2000 the industry was opened up for private sector insurers, as per the RN Malhotra Committee set up in 1994 which recommended opening up of the insurance sector. Post the opening up of insurance sector, 15 new licenses have been issued.

The industry has also begun to see some consolidation whereby the Reliance group bought over AMP Sanmar and Exide increased its stake in ING Vysya Life Insurance.

Regulations

Life Insurance Industry is a federal subject and is governed by the Insurance Act of 1938. The regulatory body, IRDA, governs the day to day operation of the insurance players and also issues the rules and regulations for conducting the insurance business.

Key regulations are:

1. Cap on FII holding: presently at 26%, however a bill proposing to increase it to 49% is pending in the Parliament
2. Minimum capital requirement of Rs1bn for life insurers and Rs2bn for re-insurers
3. Investment norms: Insurance companies are required to invest at least 50% of their total AUM in G-Sec (except ULIP funds), while another 15% is required to be invested in infrastructure sector and the balance 35% can be invested in other securities (detailed norms given in Appendix)
4. Life insurance players are required to issue minimum no of policies in rural areas and in social sector
5. Recent guidelines on ULIP policies lay down the following restrictions on the insurance companies
    a. Minimum term of ULIPs needs to be 3 years
    b. Minimum sum assured at 125% of First year premium
    c. No Loans are allowed on ULIPs

Investment Provisions

The investment norms are specified as per the nature of the insurance policies, hence while a ULIP policy could have upto 15% investment in unapproved securities, no unapproved investments can be made from funds of pension policies (equity investments are allowed subject to the same being approved). In the table below we have detailed out the investment norms for each line of business

Table 24: Investment Norms

Life Insurance Business	
Government Securities	not less than 25%
Other Approved Government Securities (including G-Sec)	not less than 50%
Infrastructure and Social Sector	not less than 15%
Others	not exceeding 35%
- of which unapproved investments	*not exceeding 15%*
Pension and General Annuity Business	
Government Securities	not less than 20%
Other Approved Government Securities (including G-Secs above)	not less than 40%
Other Approved Securities	not more than 60%
Unit Linked Life Insurance Business	
Approved Investments	not less than 75%
Unapproved Investments	not more than 25%

Source: IRDA

Types of Insurance Policies

Insurance Policies can be broadly classified in various ways like

a) Single Premium v/s Regular Premium

b) Unit linked v/s Traditional

c) Pure Risk Policies (Term) v/s Savings + Risk

d) Participating v/s Non Participating

Term Insurance

Term insurance is the simplest form of insurance policy which covers only the risk of the insured. The policy has no maturity value and the insurance company is liable to pay any amount only in the event of death of the insured.

This policy is not very popular in India, owing to a)Indian mindset of 'getting something back' at the end of the term b) Lack of awareness as LIC never marketed such kind of policy c) Agent don't push it aggressively as commission are low on such policies

However this kind of policies are more profitable for insurance companies as the NBAP margins for such policies are around 43%. The upside for an insurance company for such policies comes from a) mortality savings and b) higher return on investments as the entire AUM belongs to the insurance company.

Endowment

Endowment policies were the most popular form of insurance in India before Unit Linked products. These policies combine the risk element with the savings elements making it a more attractive proposition to market. Agents also aggressively market such policies as the commission rates of such policies are the highest and it requires less effort to sale compared to term insurance.

Profitability on these policies is also high with NBAP margins ranging from 30%-35%, depending on the nature of the policy (participating v/s non participating) and the actual returns on the AUM.

In case of an endowment policy insurance companies deduct charges from the premium amount (the deduction is largely adhoc and is based after factoring in a level of expected mortality and economies of scale) and the balance is invested. In case of participating policies 90% of the return made on the invested is given to the policyholder while in case of non-participating policies the insurance company declares bonuses depending on the actual return (typically range from 50-90%).

The revenue stream for insurance company in endowment policy comes from

- Mortality gains: i.e. if the actual mortality is better than what's priced in
- Economies of scale: if better than estimated result in cost savings
- Surplus return on investments

Unit Linked policies

ULIP are called as non-traditional policy, as its been introduced only after the private players entered the market. However it has seen a sharp growth in demand and is accounting 80-90% of the incremental market share.

While initially the ULIP's generated significantly high NBAP margins for insurance companies, the margins have since then come down owing to rising competition and increasing awareness. ULIP NBAP margins now, in our estimates, range around 20%.

Unlike endowment policies, insurance companies have to upfront mention the load charges that will be deducted from the premium income towards risk premium, operating expenses and agent's commission. Also any return on investment on ULIP would accrue fully to the insured. Thus the revenue stream for the insurance company in such policies comes from a) 1-2% asset management fees b) savings from mortality gains (very limited as typically sum insured is very low) and c) economies of scale (again very limited as large economies of scale is already priced in by most of the insurance companies).

Single Premium Policies

Single Premium policies have also gained significant traction in the past 12-18 months, however, largely in the ULIP space. Single premium policies are least profitable from NBAP margin point of view (as all the income is received upfront) and NBAP margins range from 3-4%.

Single premium policies could be endowment or ULIP, however require only one premium to be paid upfront.

Health Insurance

Health insurance is basically insuring the insured against potential health hazards. Unlike medical insurance policies that reimburse the insured for the medical expenses, health insurance policies pay the insured amount as soon as the insured is diagnosed with any such illness. Thus an insured can insure for multiple factors like estimated medical expenses and also loss of profit due to illness. Given the inadequate history the profitability of this product is not yet fully known in the Indian context.

Pension

Pension policies form a miniscule portion of the total premium income, largely due the fact that pension sector in India is not fully opened up. Pension policies involve a series of annual payments by the insured over the term of his employment, which is invested by the insurance company and which cumulatively (including the return) is returned to the insured on his retirement either by way of bullet payment or by annuity.

Comparative Returns (Policyholders)

Table 25: Policy holder returns under different policies

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8 -14	Year 15
Plan A	Sum Assured	750,000							
Premium Paid (Rs'000)	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less									
Load	(25,500)	(5,000)	(5,000)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)
Mortality Charges (SA= 20x regular premium)	(1,095)	(978)	(818)	(644)	(451)	(242)	(15)		
Operating Expenses	(720)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)
Amount invested	72,685	172,536	280,885	400,955	531,243	672,620	826,029	992,263	2,616,702
Return on Investment @ 10%	7,269	17,254	28,088	40,095	53,124	67,262	82,603	99,226	261,670
Savings of Insurance Cost									
Inv. At the end of the year	79,954	189,790	308,973	441,050	584,368	739,882	908,632	1,091,489	2,878,373
Asset Management Fees @1.5%	(1,199)	(2,847)	(4,635)	(6,616)	(8,766)	(11,098)	(13,629)	(16,372)	(43,176)
NAV	78,754	186,943	304,339	434,434	575,602	728,784	895,003	1,075,117	2,835,197
IRR	7.61%								
Plan B	SA	750,000							
Premium Paid	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less									
Load	(18,000)	(7,500)	(4,000)	-	(4,000)	(4,000)	(4,000)	-	-
Mortality Charges (SA= AP x Term/2)	(1,095)	(965)	(808)	(634)	(440)	(237)	(18)		
Operating Expenses	-	-	-	-	-	-	-	-	-
Amount invested	80,905	178,528	287,154	408,128	534,401	670,378	816,805	978,270	2,478,842
Return on Investment @ 10%	8,091	17,853	28,715	40,813	53,440	67,038	81,681	97,827	247,884
Savings of Insurance Cost									
Inv. At the end of the year	88,996	196,381	315,869	448,941	587,841	737,415	898,486	1,076,097	2,726,726
Asset Management Fees @2.25%	(2,002)	(4,419)	(7,107)	(10,101)	(13,226)	(16,592)	(20,216)	(24,212)	(61,351)
NAV	86,993	191,962	308,762	438,840	574,614	720,823	878,270	1,051,884	2,665,375
IRR	6.90%								
Plan D	SA	750,000							
Premium Paid	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less									
Load	(16,000)	(5,000)	(5,000)	(4,000)	(4,000)	(2,000)	(2,000)	(2,000)	(2,000)
Mortality Charges	(1,305)	(1,148)	(957)	(750)	(524)	(280)	(11)		
Operating Expenses	(600)	(630)	(662)	(695)	(729)	(766)	(804)	(844)	(1,188)
Amount invested	82,095	181,946	290,020	407,995	535,687	675,898	827,662	991,651	2,575,156
Return on Investment @ 10%	8,210	18,195	29,002	40,799	53,569	67,590	82,766	99,165	257,516
Inv. At the end of the year	90,305	200,141	319,022	448,794	589,256	743,488	910,428	1,090,816	2,832,672
Asset Management Fees @1.75%	(1,580)	(3,502)	(5,583)	(7,854)	(10,312)	(13,011)	(15,932)	(19,089)	(49,572)
NAV	88,724	196,638	313,439	440,940	578,944	730,477	894,495	1,071,727	2,783,100
IRR	7.40%								
Plan E	SA	750,000							
Premium Paid	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less									
Load	(60,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Mortality Charges (SA= AP x Term/2)	(1,305)	(1,033)	(870)	(692)	(498)	(285)	(52)		
Operating Expenses	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)
Amount invested	38,455	139,727	250,498	371,660	504,187	649,144	807,698	980,922	2,733,323
Return on Investment @ 10%	3,884	14,112	25,300	37,538	50,923	65,564	81,578	99,073	276,066
Savings of Insurance Cost									
Inv. At the end of the year	42,339	153,839	275,799	409,198	555,109	714,707	889,276	1,079,995	3,009,388
Asset Management Fees @0.8%	(339)	(1,231)	(2,206)	(3,274)	(4,441)	(5,718)	(7,114)	(8,640)	(24,075)

Table 25: Policy holder returns under different policies

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8 -14	Year 15
NAV	42,000	152,609	273,592	405,924	550,668	708,990	882,162	1,071,355	2,985,313
IRR	8.21%								
	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Mutual fund 60-80% equity / 20-40% debt									
Annual Installment	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less									
Load	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)
Amount invested	97,750	203,125	316,718	439,172	571,178	713,480	866,881	1,032,248	2,613,166
Return on Investment @ 10%	9,775	20,312	31,672	43,917	57,118	71,348	86,688	103,225	261,317
Inv. At the end of the year	107,525	223,437	348,390	483,089	628,295	784,827	953,569	1,135,472	2,874,483
Asset Management Fees assumed @2%	(2,151)	(4,469)	(6,968)	(9,662)	(12,566)	(15,697)	(19,071)	(22,709)	(57,490)
NAV	105,375	218,968	341,422	473,428	615,730	769,131	934,498	1,112,763	2,816,993
IRR	7.54%								
Plan I									
Premium Paid	2,000,000								
Less									
Load	(75,000)	-	-	-	-	-	-	-	-
Annual Savings in Risk Premium (SA= Single premium)	70,000								
Operating Expenses	(720)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)
Amount invested	1,994,280	2,160,562	2,340,729	2,535,940	2,747,451	2,976,623	3,224,931	3,493,973	6,123,060
Return on Investment @ 10%	199,428	216,056	234,073	253,594	274,745	297,662	322,493	349,397	612,306
Inv. At the end of the year	2,193,708	2,376,619	2,574,802	2,789,534	3,022,196	3,274,286	3,547,425	3,843,371	6,735,366
Asset Management Fees	(32,906)	(35,649)	(38,622)	(41,843)	(45,333)	(49,114)	(53,211)	(57,651)	(101,030)
NAV	2,160,802	2,340,969	2,536,180	2,747,691	2,976,863	3,225,171	3,494,213	3,785,720	6,634,335
Annualised Return	8.3%								
Plan II	SA	2,500,000							
Premium Paid	2,000,000								
Less									
Load	-	-	-	-	-	-	-	-	-
Annual Savings in Risk Premium (SA= AP x Term/2)	(730)	(440)	(199)						
Operating Expenses	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)
Amount invested	1,999,030	2,148,777	2,310,034	2,483,624	2,670,277	2,870,975	3,086,776	3,318,816	5,512,937
Return on Investment @ 10%	199,903	214,878	231,003	248,362	267,028	287,097	308,678	331,882	551,294
Inv. At the end of the year	2,198,933	2,363,655	2,541,037	2,731,986	2,937,304	3,158,072	3,395,453	3,650,697	6,064,231
Asset Management Fees @2.25%	(49,476)	(53,182)	(57,173)	(61,470)	(66,089)	(71,057)	(76,398)	(82,141)	(136,445)
NAV	2,149,457	2,310,473	2,483,864	2,670,517	2,871,215	3,087,016	3,319,056	3,568,557	5,927,786
IRR	7.51%								
Plan III	SA	2,500,000							
Premium Paid	2,000,000								
Less									
Load	(40,000)	-	-	-	-	-	-	-	-
Annual Savings in Risk Premium (SA= AP x Term/2)	(870)	(505)	(252)						
Operating Expenses	(600)	(630)	(662)	(695)	(729)	(766)	(804)	(844)	(1,188)
Amount invested	1,958,530	2,115,547	2,285,463	2,469,320	2,667,988	2,882,662	3,114,633	3,365,296	5,786,537
Return on Investment @ 10%	195,853	211,555	228,546	246,932	266,799	288,266	311,463	336,530	578,654
Inv. At the end of the year	2,154,383	2,327,101	2,514,009	2,716,252	2,934,787	3,170,928	3,426,097	3,701,825	6,365,191
Asset Management Fees @1.75%	(37,702)	(40,724)	(43,995)	(47,534)	(51,359)	(55,491)	(59,957)	(64,782)	(111,391)
NAV	2,116,681	2,286,377	2,470,014	2,668,717	2,883,428	3,115,437	3,366,140	3,637,043	6,253,800
IRR	7.90%								
HDFC Std Life ULIP - Sing Prm 100% equity	SA	2,500,000							
Premium Paid	2,000,000								
Less									
Load	(40,000)	-	-	-	-	-	-	-	-
Annual Savings in Risk Premium (SA= AP x Term/2)	(870)	(505)	(252)						
Operating Expenses	(600)	(630)	(662)	(695)	(729)	(766)	(804)	(844)	(1,188)
Amount invested	1,958,530	2,115,547	2,285,463	2,469,320	2,667,988	2,882,662	3,114,633	3,365,296	5,786,537
Return on Investment @ 10%	195,853	211,555	228,546	246,932	266,799	288,266	311,463	336,530	578,654

Table 25: Policy holder returns under different policies

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8 -14	Year 15
Inv. At the end of the year	2,154,383	2,327,101	2,514,009	2,716,252	2,934,787	3,170,928	3,426,097	3,701,825	6,365,191
Asset Management Fees @1.75%	(37,702)	(40,724)	(43,995)	(47,534)	(51,359)	(55,491)	(59,957)	(64,782)	(111,391)
NAV	2,116,681	2,286,377	2,470,014	2,668,717	2,883,428	3,115,437	3,366,140	3,637,043	6,253,800
IRR	7.90%								
MF - Balance Fund 60-80% equity / 20-40% debt									
Annual Installment	2,000,000								
Less									
Load	(45,000)	-	-	-	-	-	-	-	-
Amount invested	1,955,000	2,107,490	2,271,874	2,449,080	2,640,109	2,846,037	3,068,028	3,307,334	5,595,120
Return on Investment @ 10%	195,500	210,749	227,187	244,908	264,011	284,604	306,803	330,733	559,512
Inv. At the end of the year	2,150,500	2,318,239	2,499,062	2,693,988	2,904,120	3,130,641	3,374,831	3,638,068	6,154,632
Asset Management Fees assumed @2%	(43,010)	(46,365)	(49,981)	(53,880)	(58,082)	(62,613)	(67,497)	(72,761)	(123,093)
NAV	2,107,490	2,271,874	2,449,080	2,640,109	2,846,037	3,068,028	3,307,334	3,565,306	6,031,539
Annualised Return	7.6%								

Source: Company Reports, IRDA, ML Estimates

Product Wise Profitability (for Insurance Companies)

Table 26: Profitability of Single Premium Unit Linked Policies

Single Premium ULIP	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Premium Income	100									
Less										
Agent Commission	(3)	-	-	-	-	-	-	-	-	-
Risk Premium	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating Expenses	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Asset Management Fees	(3)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Amount invested	89	91	94	96	99	102	106	109	113	118
Return on Investment @ 12%	11	11	11	12	12	12	13	13	14	14
Inv. At the end of the year	100	102	105	108	111	114	118	122	127	132
Income for the insurance company										
Mortality Savings (assumed at 15%)	0	0	0	0	0	0	0	0	0	0
Actual Operating Expenses	(4)	(4)	(3)	(3)	(1)	(1)	(1)	(1)	(1)	(1)
Asser Management Fees	3	2	3	3	3	3	3	3	3	3
Total	(2)	(1)	0	0	1	2	2	3	3	3
PV of the Income for insurance company	(2)	(1)	0	0	1	1	1	1	1	1
Cumulative PV	3									
NBAP	2.7%									

Source: ML Research Estimates

Table 27: Profitability of Regular Premium Unit Linked Policies

ULIP - Regular Premium	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Premium Income	100	100	100	100	100	100	100	100	100	100
Less										
Agent Commission	(20)	(7)	(5)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Risk Premium	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating Expenses	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Asset Management Fees	(3)	(5)	(7)	(10)	(14)	(17)	(21)	(26)	(30)	(36)
Amount invested	76	173	280	400	530	672	828	997	1,182	1,385
Return on Investment @ 12%	9	21	34	48	64	81	99	120	142	166
Inv. At the end of the year	86	194	314	448	594	753	927	1,117	1,324	1,551
Income for the insurance company										
Mortality Savings (assumed at 15%)	0	0	0	0	0	0	0	0	0	0
Actual Operating Expenses	(6)	(9)	(11)	(10)	(10)	(9)	(9)	(10)	(12)	(14)
AUM	3	5	7	10	14	17	21	26	30	36
Total	(4)	(4)	(4)	0	4	9	13	16	18	22
PV of the Income for insurance company	(3)	(3)	(2)	0	2	4	5	5	6	6
Cumulative PV	19									
NBAP	19.4%									

Source: ML Research Estimates

Table 28: Profitability of Traditional Policies: Participating Endowment Policy

Traditional- Participating Endowment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Premium Income	100	100	100	100	100	100	100	100	100	100
Load (including Agent Commission)	55	30	25	25	25	25	25	25	25	25
Amount Invested	45	70	75	75	75	75	75	75	75	75
Total Return on Investment (assumed @7%)	3	8	14	20	27	34	42	50	59	68
AUM	48	126	216	311	413	522	639	764	897	1,041
Policy holders fund	48	125	213	306	406	511	624	744	872	1,008
Less										
Load recd by the insurance company	55	30	25	25	25	25	25	25	25	25
Add: Actual Return on Investment	3	8	14	20	27	34	42	50	59	68
Less: Actual Expenses										
Return given to policy holder (90% of total return)	(3)	(7)	(13)	(18)	(24)	(31)	(38)	(45)	(53)	(61)
Agent Commission	(35)	(8)	(8)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Risk Premium	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(6)
Operating Expenses	(15)	(12)	(12)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Net Income	1	7	2	7	8	8	9	9	10	11
PV of the Income	1	5	2	4	4	4	4	3	3	3
Cumulative PV	33									
NBAP	33.3%									

Source: ML Research Estimates

Table 29: Profitability of Term Insurance Policy for the Insurance Company

Term Insurance	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Premium Income	100	100	100	100	100	100	100	100	100	100
Less: Cash Exp	(45)	(43)	(39)	(36)	(33)	(30)	(27)	(25)	(23)	(21)
AUM	55	112	173	237	304	374	447	522	599	677
Income to the Insurance Company										
Premium Income	100	100	100	100	100	100	100	100	100	100
Return on Inv. (assumed @7%)	4	8	12	17	21	26	31	37	42	47
Less										
Agent Commission	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Risk Premium	(65)	(68)	(72)	(75)	(79)	(83)	(87)	(91)	(96)	(101)
Operating Expenses	(40)	(38)	(34)	(31)	(28)	(25)	(22)	(20)	(18)	(16)
Income to the Insurance Company	(6)	(3)	1	6	10	13	17	20	23	25
PV of the Income	(5)	(3)	1	3	5	6	7	7	7	7
Cumulative PV	35									
NBAP	35%									

Source: Company Reports, IRDA, ML Estimates

Analyst Certification

I, Rajeev Varma, hereby certify that the views expressed in this research report about securities and issuers accurately reflect the research model applied in such analysis. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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