

Life Insurance: Faster Growth


Merrill Lynch

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Raising Insurance valuations on FY07 trends

We are raising the NBAP (new business achieved profits) estimates and valuations for most insurers under our coverage on the back of much stronger than expected FY07 growth numbers. Contrary to expectations, private sector premia (first year on APE basis) have grown at 100% yoy every month during the 4Q of FY07. We are yet to see the expected moderation in growth despite a period of volatile equity markets.

SBI, Bajaj, Reliance Life - Key gainers

The biggest gainers are SBI Life, Bajaj Allianz and Reliance Life which were also amongst the fastest growing players. We have raised our valuations for SBI by 30% to US\$3.1bn; followed by 26% for Bajaj to US\$4.5bn and 15% for R-Cap to US\$2.4bn. ICICI Pru would, however, remain the market leader with a forecast market value of close to US\$7.8bn. We have, however, factored in margin compression which is a trend we expect to see across the sector.

Raising private sector growth at 67% in FY08; 45% in FY09

We are raising our private sector growth estimates for first year premia to 67% in FY08 and 45% in FY09. This is about 10% higher than our earlier estimates. We are, however, maintaining our sector growth forecasts at 41% owing to a more likely sharper moderation in LIC's growth. Industry size likely to double to US\$73bn by FY10 (including renewal premium).

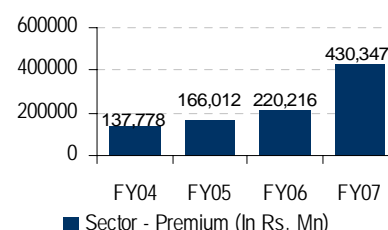
Private sector market share to be 53% by 2010

We expect the private sector market share to be 53% by 2010 v/s 37% currently. ICICI Pru is likely to remain the market leader with close to 14% share in the entire market followed by Bajaj, SBI, Reliance Life and HDFC Standard Life.

Distribution remains key

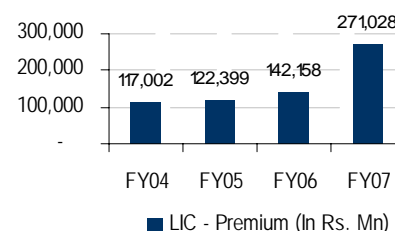
We believe the FY07 trend reinforce our view that distribution remains key in gaining market share and potentially holding up margins. In contrast, insurers may have to accept static / lower average premia size as they move into Tier II and III cities. We saw Bajaj's premia size drop by +35% but it gained market share as it expanded geography.

Chart 1: Total Premium (Rs. mn) – Sector Total



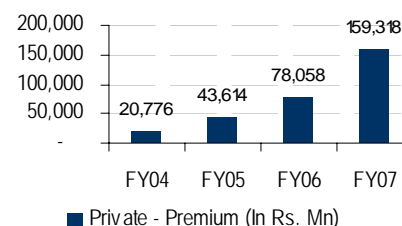
Source: Company Reports, IRDA, ML Estimates

Chart 2: Total Premium (Rs. mn) – LIC



Source: Company Reports, IRDA, ML Estimates

Chart 3: Total Premium (Rs mn)– Private Players



Source: Company Reports, IRDA, ML Estimates

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Takeaways of FY07 Insurance Nos

We give below our key takeaways from the data trends observed for FY07 insurance numbers that came out last week. The detailed trends are discussed in the report.

Upside to our estimates for pvt players; Sector largely in line

The FY07 numbers for the private players have come in much stronger than originally forecast by us, as per our in-depth insurance report titled '*Life Insurers – High growth and undervalued*' dated 2nd February 2007. We had factored in some moderation for the 4QFY07 – but private sector players in aggregate have grown at +100% yoy through the 4Q for each month. In particular, Bajaj and SBI followed by Reliance Capital led the growth as shown below.

The overall sector growth was, however, largely in line as Life Insurance Corporation (LIC's), India's largest and only government held life insurer's numbers came in much below estimates as it continued to witness a sharp shrinkage of market share during the 4QFY07 to <50% from a high of 77% it enjoyed until Nov'07. The reason for the sharp variance is not entirely known but it is more likely that the extraordinary growth in the earlier part of the year was driven by the 'scarcity effect' and introduction of a new product by LIC around middle of last year.

Table 1: Premia for FY07 V/s ML estimates

(Rs mn)	FY07	yoy	FY07 ML e	Variance
Life Sector Total	430,347	95%	451,000	-5%
LIC	271,028	91%	304,000	-11%
Private Sector Total	159,318	104%	145,000	10%
ICICI Prulife	45,415	94%	41,962	8%
HDFC Std.Life	13,255	59%	13,512	-2%
Bajaj Allianz	32,033	136%	24,952	28%
SBI Life	18,044	264%	14,868	21%
Reliance Life	7,219	776%	6,436	12%

Source: Merrill Lynch Research Estimates

This is based on the first year premia (FYP) numbers on a APE (annualized premia equivalent) basis i.e. adjusting the single premia by taking single premia at 10% of its reported value.

FY08 sector growth in line with estimates; raising private sector growth

While we are maintaining our overall sector growth estimates at 40% (for FYP-APE basis) owing to the relatively lackluster performance by LIC in recent months, we are raising the growth estimates for the private sector (all based on FYP – APE basis).

LIC's FYP premia (APE) growth is forecast to moderate to 25% yoy by FY08 v/s 91% yoy in FY07. The total premia for the sector (including renewal premium) is forecast at US\$73bn by 2010.

As shown below, we now forecast 66% growth for private sector v/s our earlier estimates of 59%. Sector growth is still forecast at 41%. Hence, we are still factoring in a moderation in growth owing to the high dependency of the growth on unit linked products which could see some volatility if equity markets begin to consolidate.

Table 2: Sector growth forecast

Rs bn	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Sector Total Premium	655	772	925	1,403	1,874	2,422	3,064
- FYP	132	156	205	394	562	740	949
- Renewal Premium	469	517	566	649	875	1,178	1,557
- Single Premium	54	99	154	360	437	504	558
APE- New Business	138	166	220	430	606	790	1,005
APE- Overall Business	606	683	787	1,079	1,481	1,968	2,562
Sector Total Premium (US\$bn)	15.6	18.4	22.0	33.4	44.6	57.7	73.0
yoy growth in total premium	26%	18%	20%	52%	34%	29%	27%
yoy growth in new business - APE	16%	21%	33%	95%	41%	31%	27%
APE New Business				875	997.5	1137.15	1296.35
LIC							
Total Premium	624	695	774	1,109	1,356	1,606	1,866
- FYP	112	114	129	239	301	361	426
- Renewal Premium	462	495	517	550	671	807	958
- Single Premium	50	86	127	320	384	438	482
APE- New Business	117	122	142	271	340	405	475
APE- Overall Business	579	617	660	821	1,010	1,212	1,432
LIC Total Premium (US\$bn)	14.9	16.5	18.4	26.4	32.3	38.2	44.4
yoy growth in total premium	14.3%	11.3%	11.4%	43.3%	22.3%	18.4%	16.2%
yoy growth in new business - APE	5%	5%	16%	91%	25%	19%	17%
Private Players							
Total Premium	31	77	152	294	518	815	1,198
- FYP	20	42	75	155	261	379	523
- Renewal Premium	7	22	49	99	205	371	599
- Single Premium	4	13	27	39	53	65	76
APE- New Business	21	44	78	159	266	385	530
APE- Overall Business	28	65	127	258	471	757	1,130
Private Total Premium (US\$bn)	0.7	1.8	3.6	7.0	12.3	19.4	28.5
yoy growth in total premium	180.1%	149.1%	95.7%	93.8%	76.5%	57.3%	46.9%
yoy growth in new business - APE	213%	110%	79%	104%	67%	45%	38%

Source: Merrill Lynch Research Estimates

Revised growth estimates of private players

Within the private sector, the lead has been taken by Bajaj, SBI and Reliance Capital in terms of growth; although ICICI Pru still remains the market leader by a wide margin. The higher growth factors in the fact that through 4QFY07 growth has been at +100% yoy despite higher volatility in equity markets during this period. Further, we are also seeing the emergence of new products such as pension etc (discussed in report) which should also help support growth. We show below our revised growth estimates for the main players covered by us.

Table 3: First Year Premia - APE Growth, YoY

Year Ending March	FY06	FY07	FY08	FY09	FY10
ICICI Prudential	60%	94%	62%	40%	35%
HDFC Standard Life	112%	59%	51%	44%	35%
Bajaj Allianz	199%	136%	61%	37%	30%
SBI Life	174%	264%	78%	54%	39%
Reliance Life	147%	776%	156%	74%	55%
Total Private Sector	79%	104%	67%	45%	38%
LIC	16%	91%	25%	19%	17%
Total Premium Income	33%	95%	41%	30%	27%

Source: Merrill Lynch Research Estimates

Distribution to drive growth; average size of policies may not rise much

While the average policy size for the sector has risen by 61% to +Rs16,000, it is primarily owing to LIC which appears to have had good traction in the earlier part of the year (FY07); but its average policy size slipped sharply during the last quarter. It is a trend which is very difficult to predict as we need to see how the coming quarters play out for LIC.

But, for the private sector, we saw a 7% drop in average policy premia, driven principally by Bajaj which saw a 37% drop in its average premia being written. We reckon this is, in part, owing to the expanding distribution as players move into Tier II and Tier III cities.

We reiterate our view that expanding distribution is likely to be critical. Hence, we think the average policy size may not increase much from current levels. Insurers are more likely to move down the income segment as they expand distribution; but it opens up a much larger share of the population which would also mean greater market share gains for the leading private players as they eat into LIC's share. (Policy size trends shown in report later).

Table 4: Average Policy Size (Rs)

(Rs)	FY06	FY07	YoY
Sector	10,113	16,330	61%
LIC	8,118	14,631	80%
Private sector	26,236	24,498	-7%
ICICI Pru	31,462	26,809	-15%
HDFC Std Life	27,513	31,047	13%
Bajaj Allianz	33,272	20,323	-39%
Birla Sun Life	25,307	20,514	-19%
SBI Life	29,026	45,361	56%
Reliance Life	24,318	20,634	-15%
ING Vysya	22,523	20,391	-9%
OM Kotak	41,006	37,223	-9%
Tata AIG	15,661	15,713	0%

Source: Merrill Lynch Research Estimates

Penetration levels could exceed 5% of GDP by 2010; 0.5bn policies

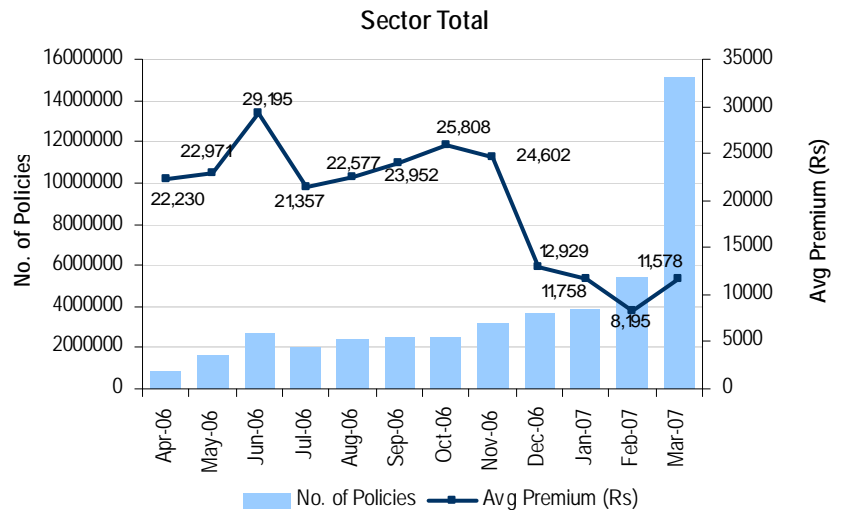
We maintain our view that it is difficult (and less relevant) to look at the number of policies sold in India as each household potentially has more than 5 policies / household (owing to tax benefits / buying a new policy every alternate year etc). However, for the record, there were 46mn policies issued during FY07, a growth of 30% yoy.

In aggregate, we estimate there may be around a total of 300mn policies in the market today. Assuming each household has about 6-7 policies, it would still imply that almost 40-45mn households (total HH are 204mn) have an insurance policy implying a penetration level of 25%.

We, however, think these numbers are more reflective of how many households have taken insurance as a tax shield and not a life cover. We reckon the number of policies issued could rise to 0.5bn by 2010.

Further, in terms of penetration, we think the level could exceed more than 5% of GDP owing to the underlying growth and the fact that there are almost +100mn policies issued in the past as a tax shelter. The implied growth in the insurance sector premia beyond FY08 is about 1.8x the nominal GDP growth estimates. It is likely to normalize to <1.5x by 2010, in our estimates.

Chart 4: Insurance sector Number of Policies & Average Premium size



Source: Company Reports, IRDA, ML Estimates

Market share- I-Pru, Bajaj, SBI, R-Cap, HDFC to be top 5 by 2010

Based on our revised growth estimates, we still see I_Pru remaining the market leader though the lead may shrink as both Bajaj and SBI closer in on the gap. R-Cap is likely to emerge as the 4th largest by 2010 with HDFC becoming the 5th player having lost market share in the past year which may take some time to rebound.

Table 5: Market share of players

Year Ending March	FY05	FY06	FY07	FY08	FY09	FY10
ICICI Prudential	33.6%	30.0%	28.5%	27.6%	26.7%	26.1%
HDFC Standard Life	9.0%	10.7%	8.3%	7.6%	7.5%	7.4%
Bajaj Allianz	10.4%	17.4%	20.1%	19.4%	18.4%	17.4%
TATA AIG	6.8%	5.6%	3.6%	3.6%	3.5%	3.5%
SBI Life	4.1%	6.3%	11.3%	12.1%	12.9%	13.1%
Reliance Life	0.8%	1.1%	4.5%	7.0%	8.4%	9.4%
Other Private Players	11.8%	10.4%	10.0%	10.6%	11.4%	12.7%
Total Private Sector	26.3%	35.4%	37.0%	43.9%	48.7%	52.7%
LIC	73.7%	64.6%	63.0%	56.1%	51.3%	47.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Merrill Lynch Research Estimates

Margins have, however, fallen

Margins appear to have further compressed based on the reduction in ICICI Pru's margins to around 20% (in their FY07 results). This is likely to be reflective of an industry wide trend driven by possibly a rise in the share of ULIP's to over 90% (lower margin products), some amount of competitive pricing and higher acquisition costs as more players get onto the life insurance bandwagon and all players continue to expand distribution. Average margins for the not-so-large players are more likely to be closer to 18% .

Revised NBAP estimates; Valuations for key players

Building in the new growth rates and the NBAP estimates, we show below the possible NBAP forecasts for the companies under our coverage (where we cover the main parent company).

Table 6: NBAP Forecast

(in Rs. mn)	Revised Estimate			Change v/s Earlier	
	FY08	FY09	yoy growth	FY08	FY09
ICICI Prudential	14,403	19,831	37.7%	5.3%	5.2%
HDFC Standard Life	3,976	5,628	41.6%	-3.9%	-3.3%
Bajaj Allianz	9,441	12,547	32.9%	22.0%	21.6%
SBI Life	5,585	8,224	47.2%	19.2%	24.7%
Reliance Life	3,615	6,201	71.5%	17.2%	15.8%

Source: Merrill Lynch Research Estimates

SBI biggest gainer; followed by Bajaj and Reliance Life

Based on our revised NBAP estimates, we show below the likely revised valuations for the insurers. SBI is the biggest gainer seeing a 30% increase in its valuations followed by Bajaj and Reliance Capital. Importantly, in calculating the per share equivalent, we have assumed an implied stake of only 60% for Bajaj as it is unlikely to get market related prices when its joint venture partner raises its stake to 49% in the insurance company, post regulatory approvals.

Table 7: Valuations for Insurers (where we cover promoter cos)

(in US\$ mn)	New Valuation		Per Share Value		Change v/s Earlier est.	
	FY08	FY09	FY08	FY09	FY08	FY09
ICICI Prudential	5,830	7,791	193	267	8%	8%
HDFC Standard Life	1,600	2,135	217	290	-2%	-1%
Bajaj Allianz	3,596	4,481	896	1,116	26%	26%
SBI Life	2,194	3,133	130	185	27%	30%
Reliance Life	1,463	2,436	251	418	13%	15%

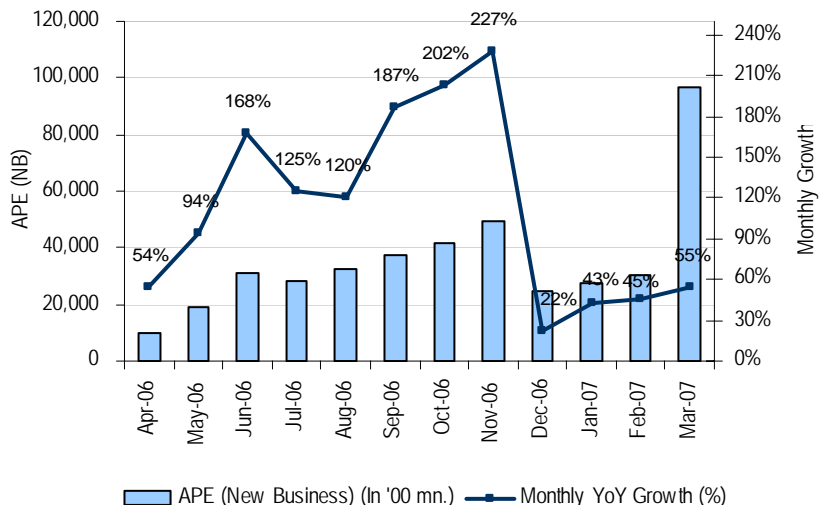
Source: Merrill Lynch Research Estimates

The impact of this on each of the promoter companies would be factored separately in each of the company analysis as the overall opinion on each company would also be impacted by the company / bank's core businesses.

In the following pages we highlight the key growth trends seen for FY07 and Mar'07, in particular. Going forward, we would be producing the trends and data section on a monthly basis to provide investors with a monthly snapshot of how the insurance sector is faring and identify any emerging / divergent trends within the sector.

Sector growth trends

Chart 5: Insurance sector monthly yoy growth

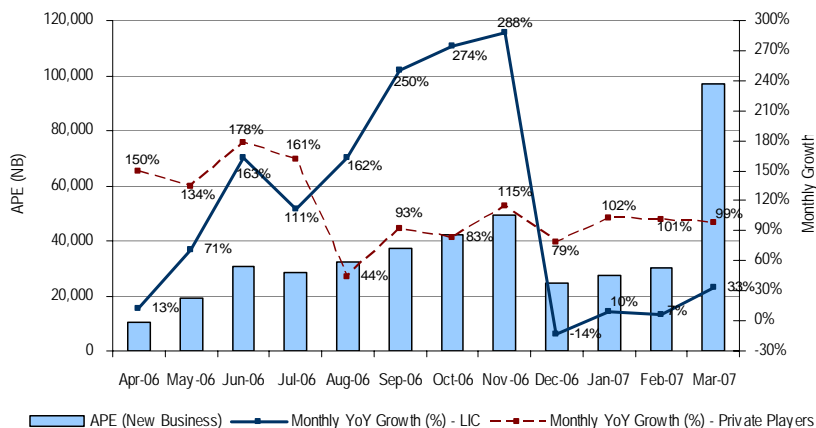


Source: Company Reports, IRDA, ML Estimates

The insurance sector has ended FY07 with total premia of almost US\$19bn (Rs754bn) up 110% yoy. On a APE basis, sector grew by 95% yoy to >US\$10bn. This was about 5% lower than our estimates owing to LIC.

LIC's growth rate for full year at 91% was lower than estimated as growth for LIC has been very skewed during FY07; growing at 181% for first 9 months (upto Nov'07) and then dropping to 18%. It remains unexplained.

Chart 6: Insurance sector monthly yoy growth – LIC vs. Private Players



Source: Company Reports, IRDA, ML Estimates

In contrast, private sector growth has remained buoyant at 104% yoy for FY07; 10% higher than our estimates. Importantly, even during Mar'07 (when markets corrected), growth has not faltered!

Growth Patterns of pvt players

We highlight the key surprises / disappointments in terms of the growth rates achieved by the main players and how they compare with our expectations. The growth is based on the first year premia measured on a APE (annualized premia equivalent) basis i.e. a single premia policy is taken at only 10% of its value. *All growth rates are on a yoy basis (unless stated otherwise).*

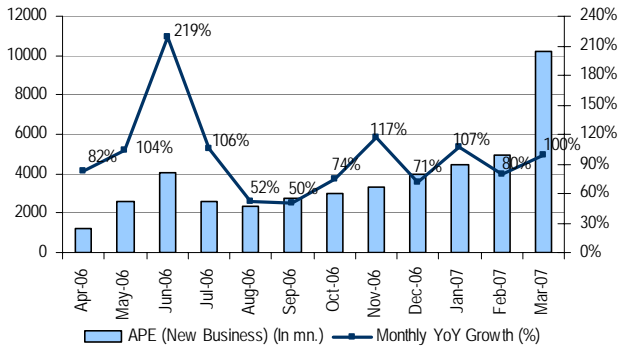
Key surprises / disappointments

- Sharp growth in Bajaj and SBI were the biggest surprises. Bajaj's premia came in almost 25% higher than our estimates led by a surge in Mar'07.
- SBI too witnessed a sharp growth in Mar'07 (premia grew by 375%) resulting in its premia coming in 21% higher than our estimates.
- HDFC was slightly disappointing as growth moderated sharply in Feb and Mar'07 to below 40% v/s sector growth of +100% in both these months.
- Amongst others, ICICI Prudential and Reliance Capital came in at 8-10% higher than expected.

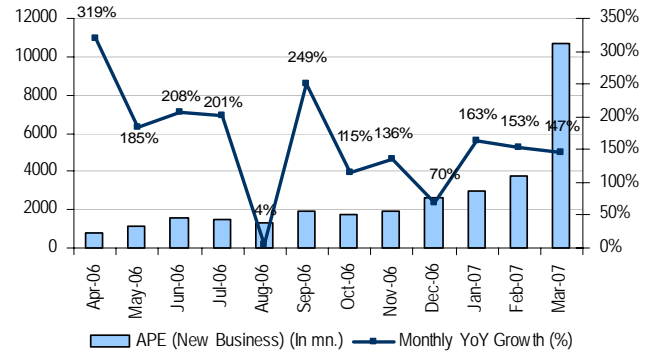
Player wise growth trends

- Bajaj Allianz surged ahead in the last month – overtaking even market leader ICICI Prudential with a 145% growth; ended FY07 with a 136% yoy growth – almost 28% higher than our estimates.
- ICICI Prudential managed a 94% growth for the full year; growing 100% in Mar'07. It is, however, coming off a high base as it is the market leader with a +28% market share.
- Reliance Life emerged as the fastest growing life insurer in India with a 776% growth rate (off a low base); came in 12% higher than our estimates.
- HDFC's growth was slightly disappointing; having grown at only 59% for the full year. While this was partly expected (only 2% below our estimates), its growth has moderated even more in Feb'07 and Mar'07 to 43% and 38% respectively. We do hope to see a rebound in FY08 as HDFC had been seeking to consolidate in the past year and had since also expanded its distribution network.
- The other big positive surprise was SBI which ended the year with a 2.6 fold (264%) rise in its premia income (APE basis).

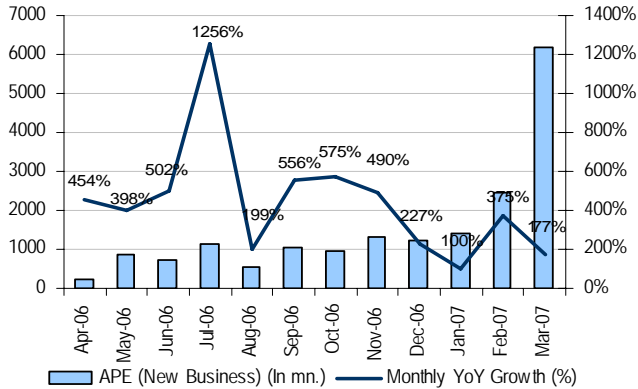
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Chart 7: Insurance premium monthly yoy growth – ICICI Prudential


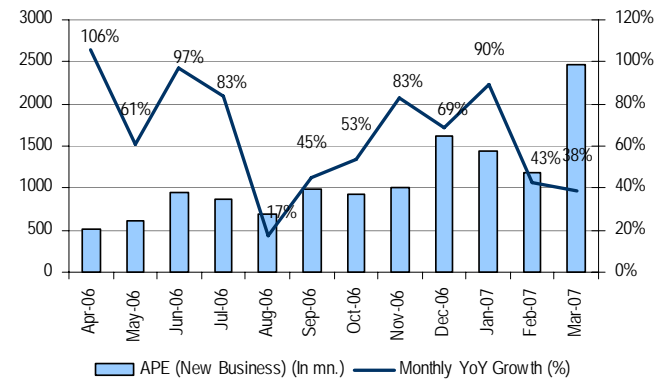
Source: Company Reports, IRDA, ML Estimates

Chart 8: Insurance premium monthly yoy growth – Bajaj Allianz


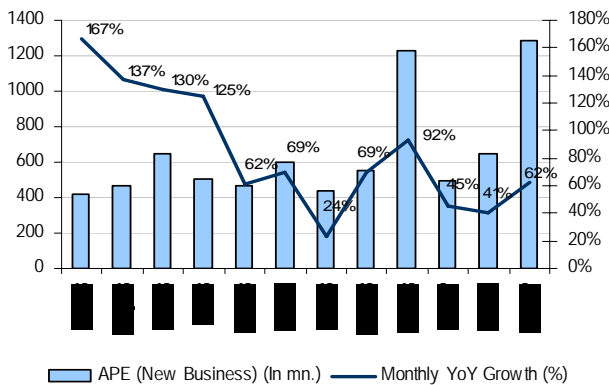
Source: Company Reports, IRDA, ML Estimates

Chart 9: Insurance premium monthly yoy growth – SBI Life


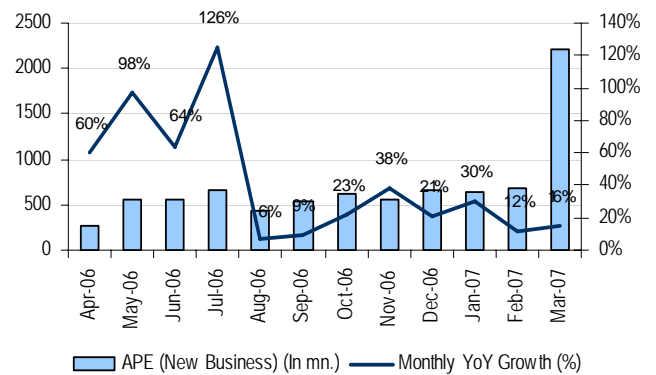
Source: Company Reports, IRDA, ML Estimates

Chart 10: Insurance premium monthly yoy growth – HDFC Standard Life


Source: Company Reports, IRDA, ML Estimates

Chart 11: Insurance premium monthly yoy growth – Max Newyork Life


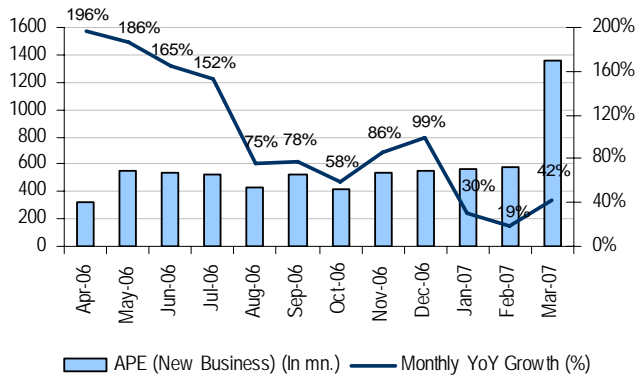
Source: Company Reports, IRDA, ML Estimates

Chart 12: Insurance premium monthly yoy growth – Birla Sunlife


Source: Company Reports, IRDA, ML Estimates

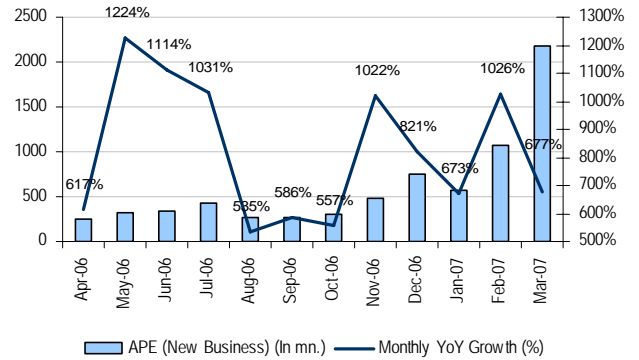
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Chart 13: Insurance premium monthly yoy growth – Aviva



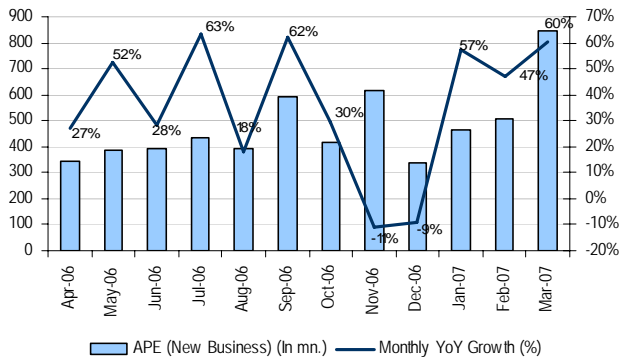
Source: Company Reports, IRDA, ML Estimates

Chart 14: Insurance premium monthly yoy growth – Reliance Life



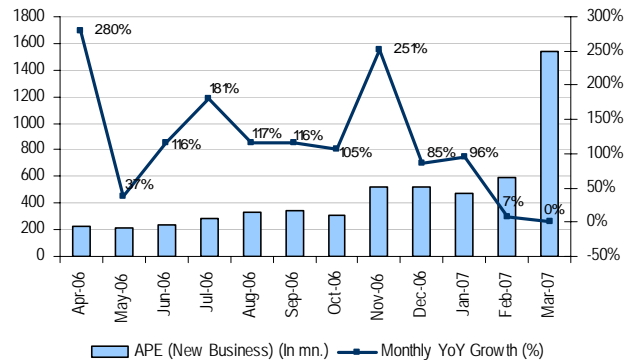
Source: Company Reports, IRDA, ML Estimates

Chart 15: Insurance premium monthly yoy growth – Tata AIG



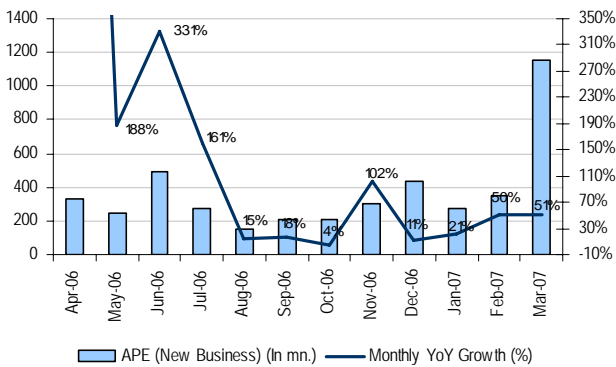
Source: Company Reports, IRDA, ML Estimates

Chart 16: Insurance premium monthly yoy growth – Om Kotak



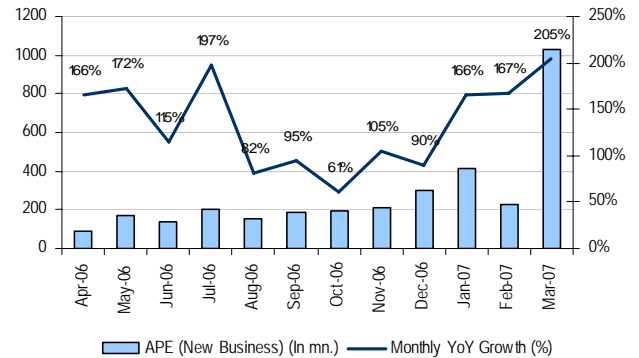
Source: Company Reports, IRDA, ML Estimates

Chart 17: Insurance premium monthly yoy growth – ING Vysya



Source: Company Reports, IRDA, ML Estimates

Chart 18: Insurance premium monthly yoy growth – MetLife



Source: Company Reports, IRDA, ML Estimates

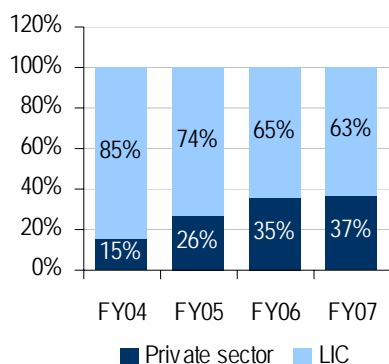
Market Share Distribution

In this section we look at the market share distribution within the life insurance industry. The most surprising aspect has been the resurgence of Life Insurance Corp. (LIC), India's largest and only public sector life insurance company.

LIC shows wild swings in market share

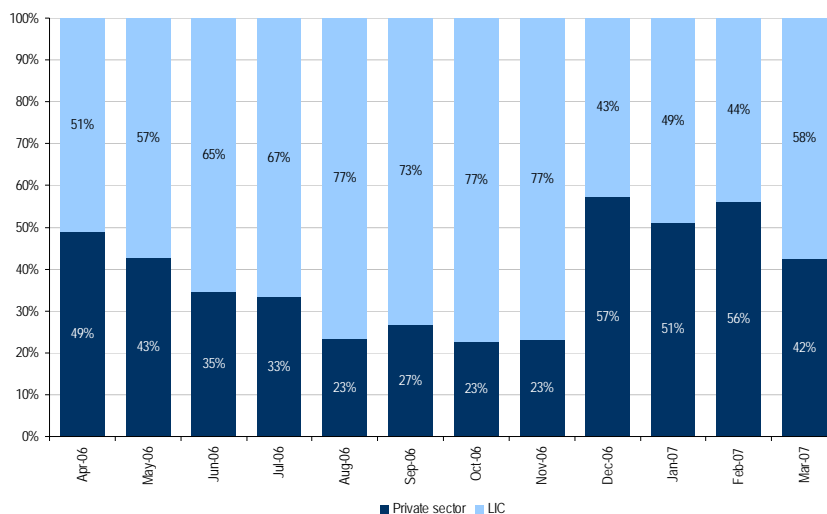
LIC's market share has seen a wild swing rising from just over 50% in April'06 to a high of +75% through Aug-Nov'07 before crashing to <50% in the remaining part of the year. In aggregate, for the full year, LIC's overall market share has dipped marginally to 63% from 64.6% in FY06.

Chart 19: Market share through FY04-07



Source: Merrill Lynch Research Estimates

Chart 20: Monthly Market share of LIC v/s Private players in FY07



Source: Merrill Lynch Research Estimates; IRDA

The exact reasons for this swing or rather for the unexpectedly high share notched up during the middle of the year is still inexplicable. It could be partly owing to the "scarcity" effect wherein LIC had capitalized on policy holders scrambling to buy policies in apprehension of the new IRDA guidelines which were to limit single premia use. Further, LIC had also introduced a new product (having many unit linked features) and which was very competitively priced.

Bajaj, Rel Cap and SBI gain in private space

Within the private players, the biggest gains came from Bajaj, Reliance Capital and SBI as detailed below.

ICICI Pru maintains pvt leadership; But Bajaj closes the gap

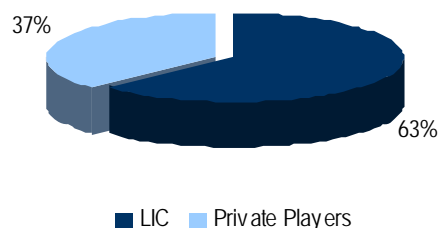
Within the private sector ICICI Prudential continues to maintain its market leadership; although Bajaj has made some strong in-roads in recent months. For instance, in Mar'07 Bajaj actually topped the market share charts with a 26% market share, moving ahead of ICICI Prudential (24.8% market share).

Reliance Capital, SBI (emerges 3rd largest) other key gainers; HDFC slips

Reliance Capital and SBI were the other key gainers during FY07 with R-Cap having grown the fastest taking its market share to 4.5% in FY07 v/s 1.1% at the beginning of the year. SBI was the big positive surprise, raising its market share to 11.3% making it the 3rd largest player after ICICI –Pru and Bajaj.

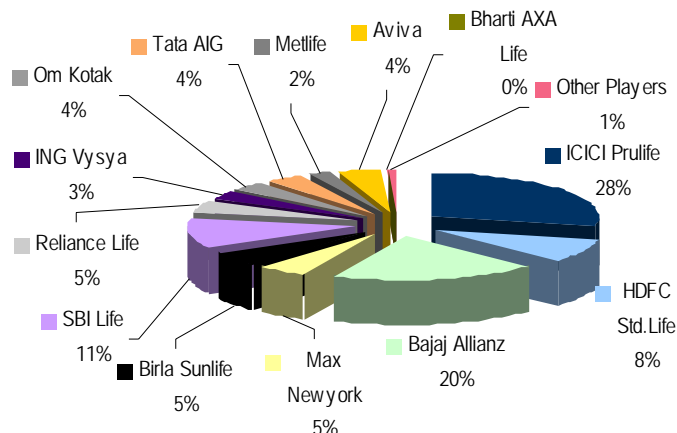
In contrast, HDFC slipped to the 4th place having lost some ground in the last few months, in particular as it seeks to consolidate its distribution strategy.

Chart 21: Market Share (FY07)



Source: Company Reports, IRDA, ML Estimates

Chart 22: Market Share Amongst Private Players (FY07)



Source: Company Reports, IRDA, ML Estimates

Distribution remains key for market share gains

We believe distribution continues to be the key driver in helping players gain market share. As detailed in our earlier in-depth insurance report, scalability is critical in India given the vast geography and the fact that we are seeing much greater traction in Tier II and Tier III towns.

The huge success of SBI, Reliance Capital and Bajaj has, in our view, been a function of these players either expanding their distribution very aggressively (like Reliance Capital) or just leveraging their already expanded distribution in the case of SBI and also Bajaj which has expanded its reach to the smaller towns and appears to be also leveraging off the relationships it has in these smaller cities through its two wheeler dealers etc.

Table 8: Market Share Trends

Market share	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
ICICI Prulife	24.8%	32.0%	37.7%	27.4%	30.9%	27.8%	31.1%	29.1%	27.9%	31.3%	29.0%	24.8%
HDFC Std. Life	10.3%	7.5%	8.9%	9.1%	9.1%	9.8%	9.7%	8.8%	11.3%	10.2%	7.0%	6.0%
Bajaj Allianz	15.4%	14.2%	15.1%	16.0%	17.2%	19.0%	17.9%	17.3%	18.7%	20.8%	22.2%	26.0%
Max New York	8.5%	5.6%	6.1%	5.4%	6.1%	6.0%	4.6%	4.9%	8.6%	3.5%	3.8%	3.1%
Birla Sunlife	5.3%	6.8%	5.2%	7.0%	5.9%	5.3%	6.5%	4.9%	4.6%	4.5%	4.0%	5.4%
SBI Life	4.5%	10.4%	6.8%	11.9%	7.2%	10.5%	10.0%	11.4%	8.5%	10.1%	14.4%	15.0%
Reliance Life	4.8%	3.9%	3.1%	4.5%	3.5%	2.7%	3.1%	4.3%	5.2%	4.1%	6.4%	5.3%
ING Vysya	6.6%	3.1%	4.6%	2.9%	2.0%	2.0%	2.2%	2.7%	3.1%	2.0%	2.0%	2.8%
Om Kotak	4.6%	2.6%	2.3%	3.0%	4.4%	3.4%	3.3%	4.6%	3.6%	3.4%	3.5%	3.7%
Tata AIG	6.9%	4.7%	3.7%	4.6%	5.2%	5.9%	4.4%	5.4%	2.4%	3.3%	3.0%	2.1%
Metlife	1.8%	2.1%	1.3%	2.2%	2.0%	1.8%	2.0%	1.9%	2.1%	2.9%	1.4%	2.5%
Aviva	6.3%	6.7%	5.1%	5.6%	5.6%	5.2%	4.4%	4.7%	3.9%	4.0%	3.4%	3.3%
Bharti AXA Life	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Other Players	0.2%	0.4%	0.2%	0.5%	0.7%	0.5%	0.9%	1.2%	1.1%	0.4%	0.5%	1.1%
Private sector	49.1%	42.7%	34.5%	33.3%	23.4%	26.7%	22.8%	23.0%	57.4%	51.2%	56.3%	42.5%
LIC	50.9%	57.3%	65.5%	66.7%	76.6%	73.3%	77.2%	77.0%	42.6%	48.8%	43.7%	57.5%

Source: Merrill Lynch Research Estimates

Other Key Trends

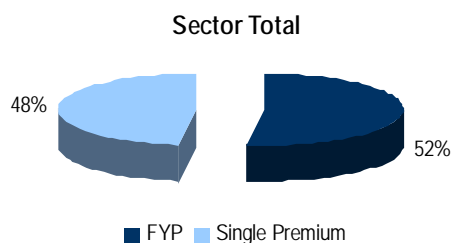
We highlight the other emerging trends in the life insurance segment in terms of policies issued and also the type and quality of policies being issued.

Regular premia policies gain over single premia; positive for margins

One of the most encouraging signs has been the emergence of regular premium policies v/s single premia policies that had dominated the life insurance segment last year. In particular, amongst private players, the share of regular premia policies is estimated at about 80%. This should positively impact the overall margins and valuations of life insurers as they are more likely to get a more recurrent stream of revenues.

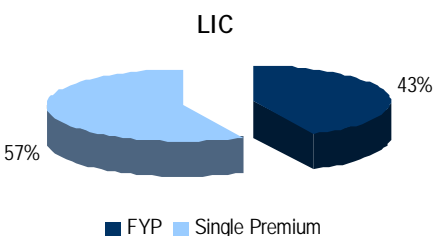
LIC, in contrast, continues to have majority (57%) of its policies in single premia (partly explaining the big jump seen in its growth rates) skewing the sector average down to 48%.

Chart 23: FY07 FYP vs. Single Premium – Sector Total



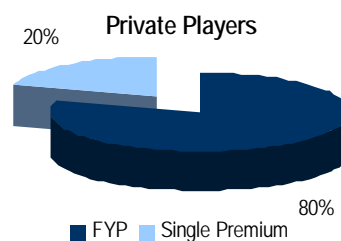
Source: Company Reports, IRDA, ML Estimates

Chart 24: FY07 FYP vs. Single Premium – LIC



Source: Company Reports, IRDA, ML Estimates

Chart 25: FY07 FYP vs. Single Premium – Private Players

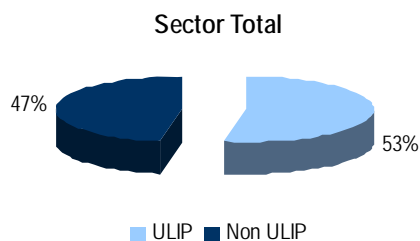


Source: Company Reports, IRDA, ML Estimates

ULIP's still dominate with equity remaining preferred mode

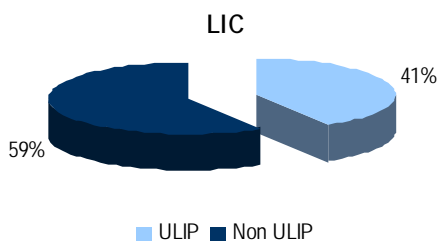
Unit linked policies (ULIP's) that have dominated the Indian life insurance segment continue to account for +90% of all policies sold by the private sector. Importantly, most new product innovations (around child policies) are also variants of the ULIP resulting in ULIP's share being much higher. Alos, owing to their lower loading they have become more popular with investors. LIC still manages to have at least 30% of non-ULIP – but down from a 50% 2 years ago.

Chart 26: 11MFY07 Premium breakdown- Sector



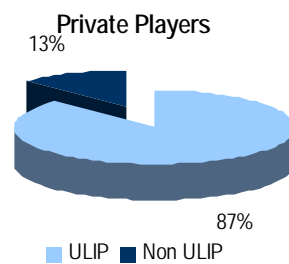
Source: Company Reports, IRDA, ML Estimates

Chart 27: 11MFY07 Premium breakdown- LIC



Source: Company Reports, IRDA, ML Estimates

Chart 28: 11MFY07 Premium breakdown- Private Players

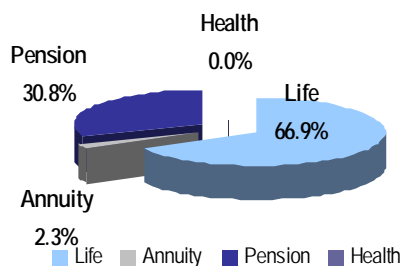


Source: Company Reports, IRDA, ML Estimates

Pension products gaining some traction

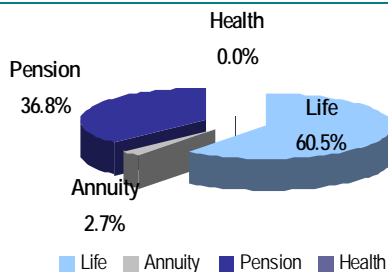
A very encouraging trend has been the slight increase in share by pension products which now account for about 31% of the total policies issued v/s 24% last year. However, pure life cover policies in form of ULIP's remain the mainstay of the life insurance segment accounting for 67%. Further, the pension segment is largely dominated by LIC. Most private players are still largely focused on ULIP's where the average policy size is much higher (though it has lower margins). However, even amongst the private sector, the share of pension products has doubled to 12% from 6% last year.

Chart 29: 11MFY07 Segment wise Segregation- Sector



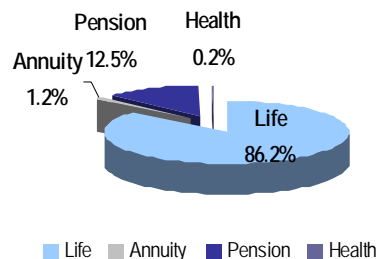
Source: Company Reports, IRDA, ML Estimates

Chart 30: 11MFY07 Segment wise Segregation - LIC



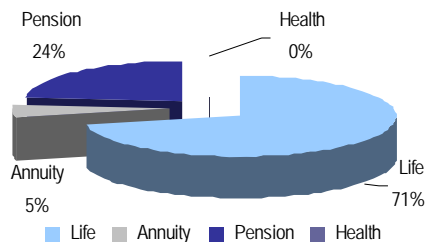
Source: Company Reports, IRDA, ML Estimates

Chart 31: 11MFY07 Segment wise Segregation - Private Players



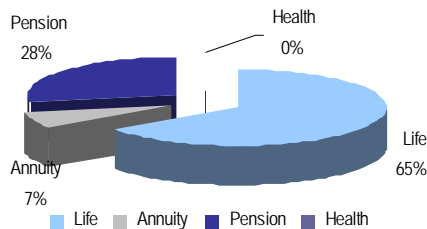
Source: Company Reports, IRDA, ML Estimates

Chart 32: 11MFY06 Segment wise Segregation- Sector



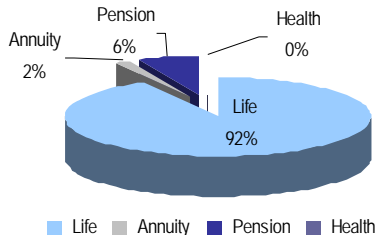
Source: Company Reports, IRDA, ML Estimates

Chart 33: 11MFY06 Segment wise Segregation - LIC



Source: Company Reports, IRDA, ML Estimates

Chart 34: 11MFY06 Segment wise Segregation - Private Players

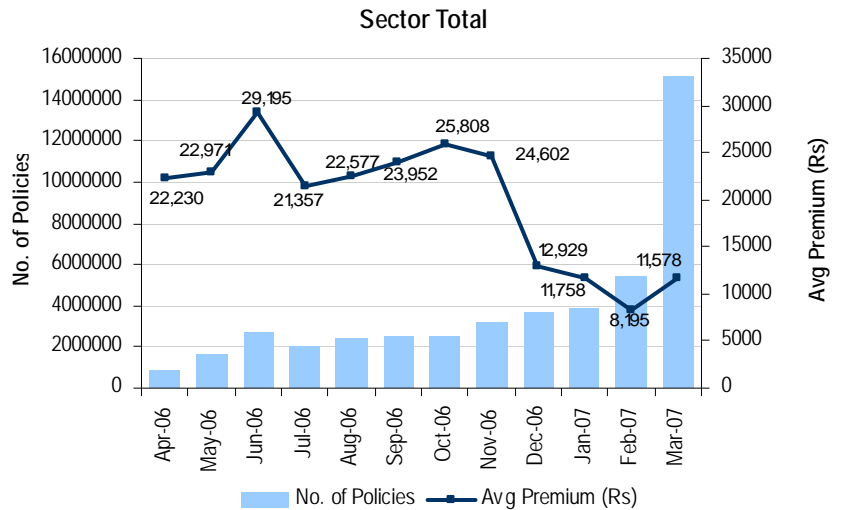


Source: Company Reports, IRDA, ML Estimates

Number of Policies and Average Premium size

We highlight the other emerging trends in the life insurance segment in terms of number of policies issued and the average premium size.

Chart 35: Insurance sector Number of Policies & Average Premium size



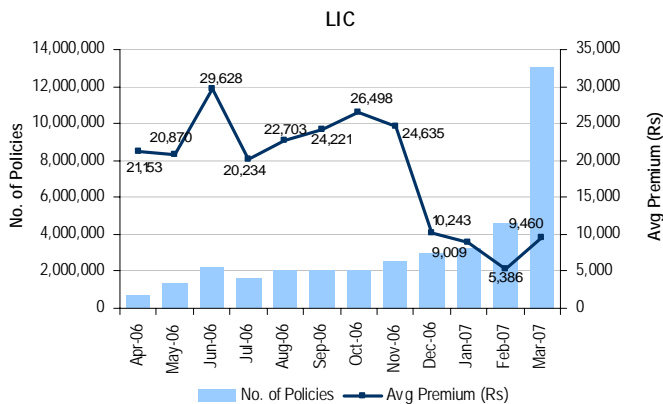
Source: Company Reports, IRDA, ML Estimates

The number of policies/ schemes issued in FY07 for the entire insurance sector has grown at a rate of 30% yoy to reach about 46 million policies with FYP policies growing at 20% yoy and single premium policies growing at 147% yoy. The average premium size grew by 61.5% yoy to Rs. 16330 for FY07.

The 147% rise in single premium policies is mainly driven by LIC, for which it grew at 166%. In the private sector on the other had single premium policies actually had a different trend, with single premium policies growing at 48% and FYP growing at 110% yoy.

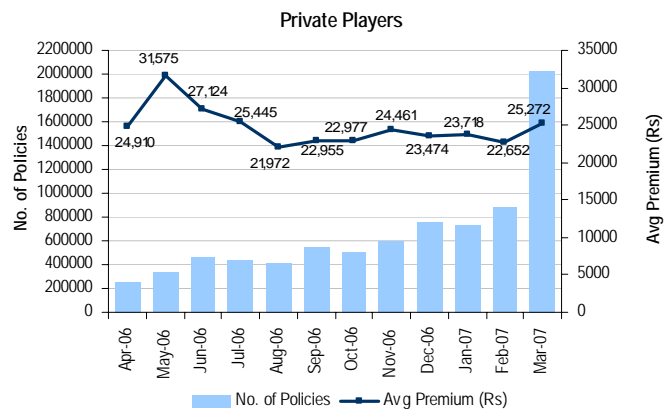
The average premium size grew by about 80% yoy for LIC, whereas the private sector saw a negative growth of -6.6% yoy for average premium size.

Chart 36: Insurance sector Number of Policies & Average Premium size – LIC



Source: Company Reports, IRDA, ML Estimates

Chart 37: Insurance sector Number of Policies & Average Premium size – Private Players



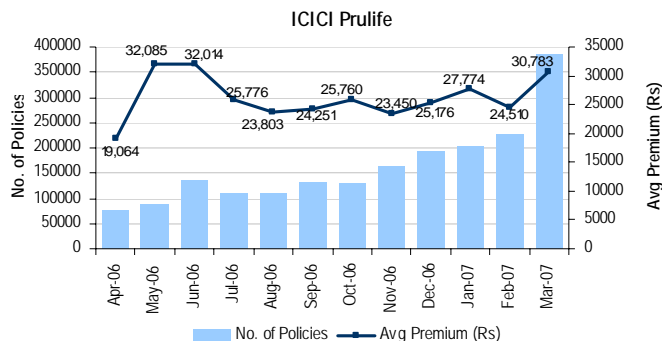
Source: Company Reports, IRDA, ML Estimates

Trend among Private Players

We highlight the key observations of the growth rates achieved by the private players with respect to the number of policies issued and the average premia size. The following charts show the monthly number of policies and the premium level for FY07.

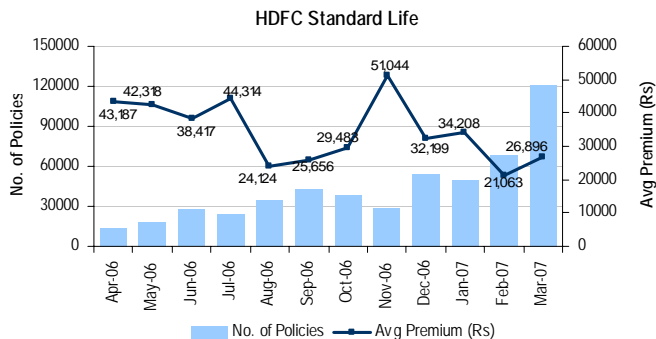
- ICICI prudential saw a net negative growth in average premium size of -15% with premium for FYP growing at -19.6% and for single premium policies having a growth of +80%. The number of policies issued for ICICI Prulife grew by 134% with growth rate of 140% and 34% for FYP and single premium policies respectively. The reduction is reflective of I-Pru getting into smaller towns.
- Bajaj Allianz saw a significant drop in average policy size of -39%, with FYP having -11% and single premium having -35% growths. The 187% yoy growth in the number of FYP issued was able to compensate for the lower average premium leading to a 136% yoy growth in APE. This again reflects market share gains as companies extend penetration.
- HDFC had a moderate growth in both average premium size (growing at 40% yoy) and the number of policies issued (13% yoy) for FY07. the trend has been very volatile; though downward trending.
- SBI life had very positive results with premium size growing at 56% yoy (107% growth for FYP and -45% for single premium) and number of policies issued growing at 98% yoy (81% for FYP and 319% for single premium).

Chart 38: Insurance sector Number of Policies & Average Premium size – ICICI Prulife



Source: Company Reports, IRDA, ML Estimates

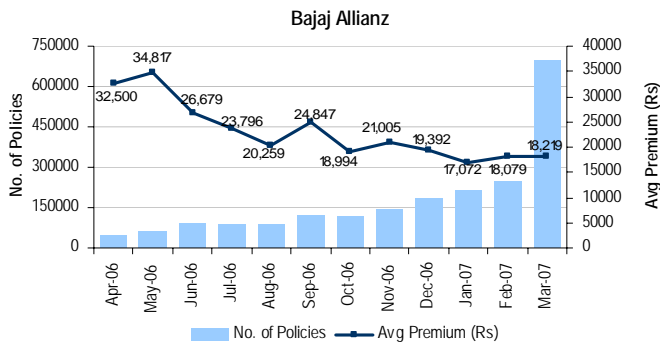
Chart 39: Insurance sector Number of Policies & Average Premium size – HDFC Standard Life



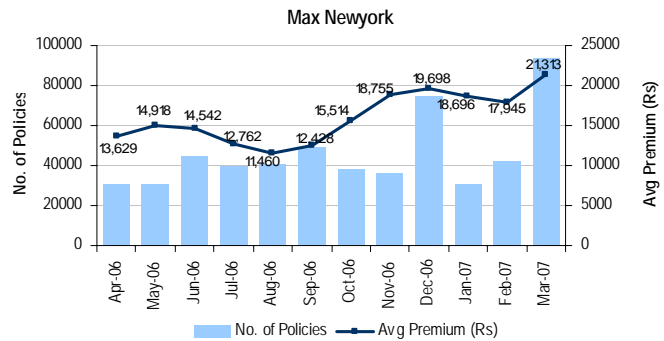
Source: Company Reports, IRDA, ML Estimates

16 May 2007

Chart 40: Insurance sector Number of Policies & Average Premium size – Bajaj Allianz **Chart 41: Insurance sector Number of Policies & Average Premium size – Max Newyork**

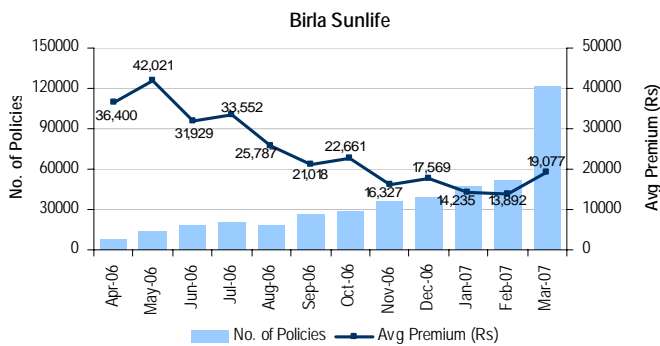


Source: Company Reports, IRDA, ML Estimates

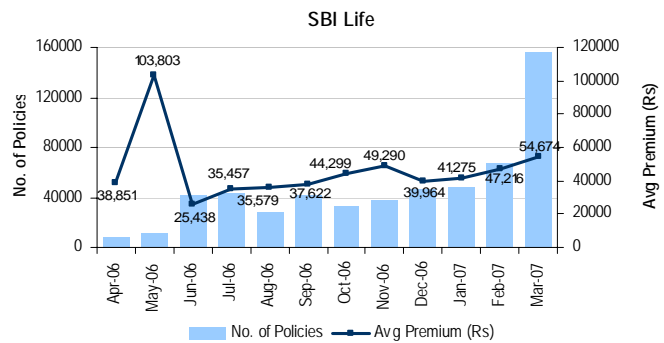


Source: Company Reports, IRDA, ML Estimates

Chart 42: Insurance sector Number of Policies & Average Premium size – Birla Sunlife **Chart 43: Insurance sector Number of Policies & Average Premium size – SBI Life**

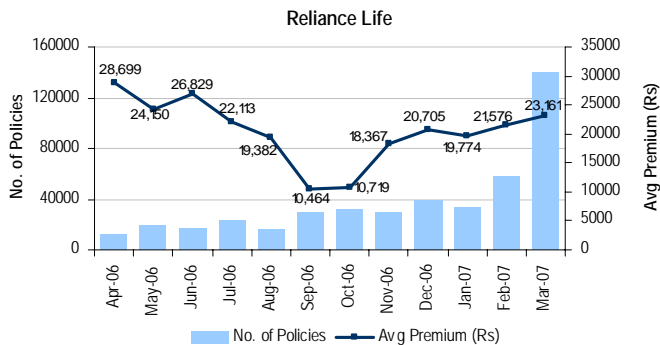


Source: Company Reports, IRDA, ML Estimates

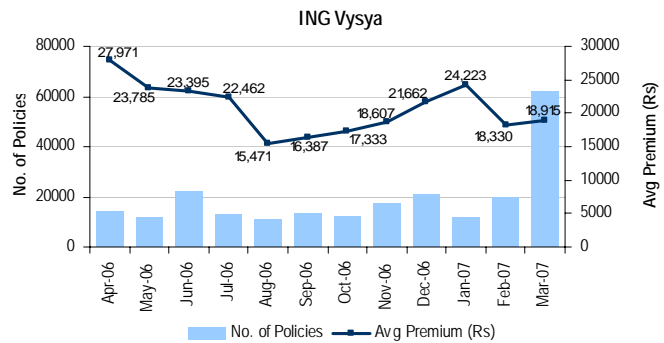


Source: Company Reports, IRDA, ML Estimates

Chart 44: Insurance sector Number of Policies & Average Premium size – Reliance Life **Chart 45: Insurance sector Number of Policies & Average Premium size – ING Vysya**



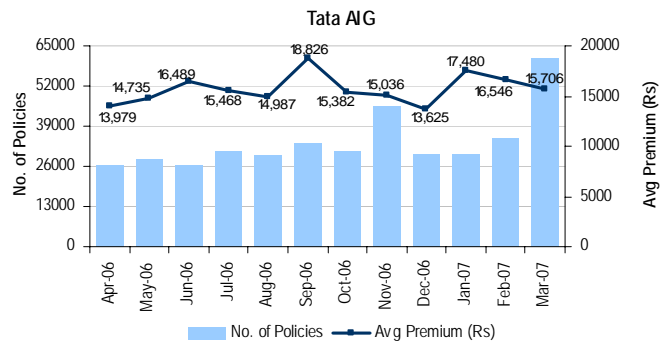
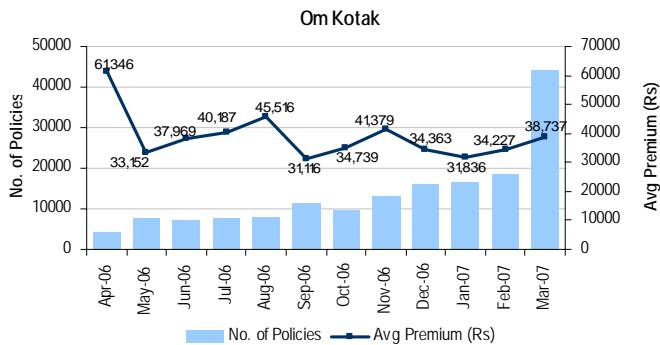
Source: Company Reports, IRDA, ML Estimates



Source: Company Reports, IRDA, ML Estimates

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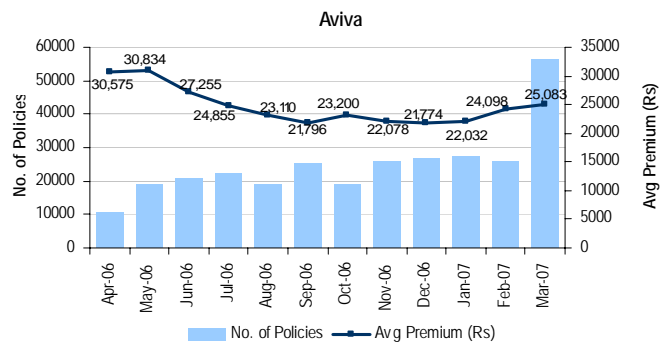
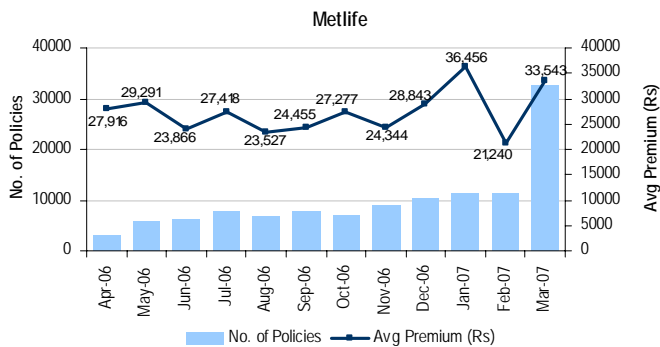
Chart 46: Insurance sector Number of Policies & Average Premium size – Om Kotak **Chart 47: Insurance sector Number of Policies & Average Premium size – Tata AIG**



Source: Company Reports, IRDA, ML Estimates

Source: Company Reports, IRDA, ML Estimates

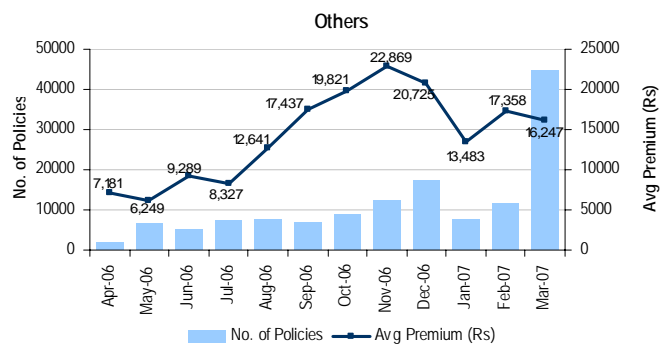
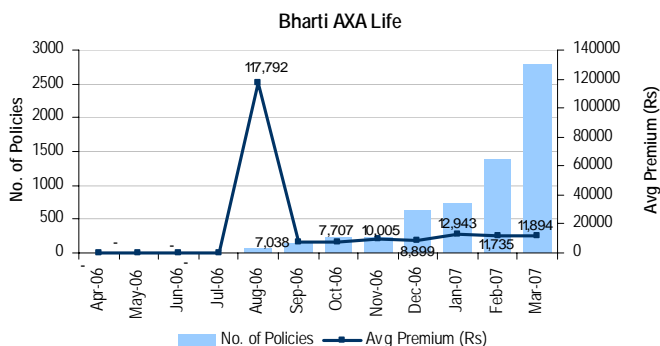
Chart 48: Insurance sector Number of Policies & Average Premium size – Metlife **Chart 49: Insurance sector Number of Policies & Average Premium size – Aviva**



Source: Company Reports, IRDA, ML Estimates

Source: Company Reports, IRDA, ML Estimates

Chart 50: Insurance sector Number of Policies & Average Premium size – Bharati AXA Life **Chart 51: Insurance sector Number of Policies & Average Premium size – Others**



Source: Company Reports, IRDA, ML Estimates

Source: Company Reports, IRDA, ML Estimates

Monthly Premia Database

Table 9: Monthly Premia

(Rs mn)	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	FY06	FY07
Sector Total	19,964	38,725	78,680	43,594	54,692	60,986	66,262	77,825	48,056	46,016	44,574	174,687	358,983	754,060
- FYP	9,086	17,046	25,529	26,736	29,959	34,923	39,226	46,340	22,434	25,597	28,617	88,885	204,798	394,378
- Single premium	10,878	21,678	53,150	16,858	24,733	26,063	27,036	31,486	25,622	20,419	15,957	85,803	154,185	359,682
- APE (New Business)	10,174	19,214	30,844	28,422	32,433	37,529	41,930	49,353	24,831	27,576	30,107	96,983	220,216	430,347
														10,246
LIC	13,552	28,278	66,045	32,399	45,537	48,539	54,710	63,134	30,343	28,669	24,527	123,612	256,452	559,347
- FYP	4,245	9,094	15,097	17,466	22,544	25,165	29,894	35,189	8,374	11,781	11,879	48,265	129,458	238,993
- Single premium	9,307	19,184	50,949	14,934	22,994	23,374	24,816	27,944	21,969	16,888	12,648	75,347	126,994	320,354
- APE (New Business)	5,176	11,012	20,192	18,959	24,843	27,503	32,376	37,984	10,571	13,470	13,144	55,800	142,158	271,028
Private Sector Total	6,412	10,447	12,634	11,195	9,155	12,447	11,552	14,691	17,713	17,346	20,047	51,075	102,531	194,713
- FYP	4,841	7,953	10,433	9,270	7,416	9,758	9,332	11,150	14,060	13,816	16,738	40,619	75,339	155,385
- Single premium	1,571	2,494	2,202	1,924	1,739	2,689	2,220	3,541	3,653	3,530	3,309	10,455	27,192	39,328
- APE (New Business)	4,998	8,202	10,653	9,463	7,590	10,027	9,554	11,369	14,260	14,106	16,963	41,183	78,058	159,318
ICICI Prulife	1,471	2,912	4,314	2,880	2,655	3,220	3,357	3,818	4,871	5,647	5,544	11,858	26,372	52,546
- FYP	1,214	2,590	3,980	2,556	2,315	2,737	2,927	3,255	3,879	4,286	4,858	10,025	23,089	44,623
- Single premium	257	321	334	324	340	483	429	563	992	1,361	685	1,833	3,283	7,923
- APE (New Business)	1,239	2,623	4,014	2,589	2,349	2,785	2,970	3,312	3,978	4,422	4,927	10,208	23,417	45,415
HDFC Std.Life	610	800	1,078	1,063	829	1,095	1,121	1,499	1,755	1,687	1,445	3,261	10,299	16,242
- FYP	507	598	932	840	678	965	904	950	1,600	1,407	1,157	2,387	8,117	12,923
- Single premium	103	202	146	224	151	130	217	548	155	280	288	875	2,182	3,319
- APE (New Business)	517	618	947	862	693	978	926	1,005	1,615	1,435	1,185	2,474	8,335	13,255
Bajaj Allianz	1,460	2,295	2,481	2,103	1,724	3,005	2,140	3,066	3,564	3,654	4,481	12,727	27,155	42,699
- FYP	693	1,039	1,511	1,454	1,262	1,779	1,663	1,839	2,566	2,859	3,683	10,499	12,063	30,848
- Single premium	767	1,256	970	649	461	1,226	477	1,227	998	795	797	2,228	15,092	11,852
- APE (New Business)	770	1,165	1,608	1,519	1,309	1,902	1,711	1,962	2,666	2,938	3,763	10,722	13,572	32,033
Max Newyork	424	463	647	509	465	611	602	674	1,473	573	758	2,005	4,433	9,203
- FYP	424	462	646	508	464	595	418	544	1,202	487	631	1,207	4,413	7,587
- Single premium	0	0	1	0	1	15	184	131	271	86	127	798	20	1,616
- APE (New Business)	424	462	646	508	464	597	436	557	1,229	495	643	1,286	4,415	7,749
Birla Sunlife	288	587	583	705	467	565	651	581	697	676	716	2,314	6,781	8,827
- FYP	263	554	545	661	442	532	621	549	658	626	667	2,206	6,406	8,323
- Single premium	24	33	38	44	25	33	30	32	39	50	49	108	375	504
- APE (New Business)	266	557	549	665	444	535	624	552	662	631	672	2,217	6,443	8,373
SBI Life	349	1,166	1,052	1,511	1,012	1,559	1,494	1,893	1,872	1,991	3,222	8,541	8,285	25,661
- FYP	213	823	686	1,083	496	1,001	892	1,234	1,145	1,358	2,348	5,919	4,581	17,198
- Single premium	135	343	365	428	516	559	602	659	727	633	874	2,622	3,704	8,463
- APE (New Business)	227	857	723	1,126	548	1,057	952	1,300	1,217	1,421	2,435	6,181	4,951	18,044
Reliance Life	369	479	476	522	307	305	346	540	812	651	1,238	3,259	1,932	9,304
- FYP	227	302	316	414	259	272	293	485	741	563	1,061	2,054	701	6,987
- Single premium	142	177	161	108	48	33	52	54	71	89	178	1,205	1,231	2,317
- APE (New Business)	242	320	332	425	263	276	299	491	748	571	1,078	2,175	824	7,219
ING Vysya	390	280	522	284	174	221	215	321	452	282	358	1,176	2,841	4,674
- FYP	323	247	490	270	150	204	204	302	436	275	345	1,154	2,574	4,401
- Single premium	67	33	33	15	24	17	11	18	15	7	13	22	267	274
- APE (New Business)	329	251	493	271	153	205	206	304	438	276	346	1,156	2,601	4,428
Om Kotak	251	249	284	314	373	364	337	548	559	532	626	1,713	3,975	6,149
- FYP	226	208	236	277	332	337	311	518	515	471	584	1,515	3,618	5,530
- Single premium	25	41	48	37	41	28	26	30	44	61	41	198	357	619
- APE (New Business)	228	212	241	281	336	339	314	521	519	477	588	1,535	3,654	5,592

Table 9: Monthly Premia

(Rs mn)	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	FY06	FY07
Tata AIG	371	423	438	481	445	633	474	686	409	524	581	958	4,635	6,423
- FYP	339	381	390	427	387	584	412	608	331	459	501	834	4,317	5,654
- Single premium	32	42	48	53	59	49	62	78	78	64	80	124	318	770
- APE (New Business)	343	385	394	433	392	589	418	616	339	466	509	847	4,348	5,731
Metlife	90	176	145	208	157	191	196	220	305	418	242	1,093	1,427	3,441
- FYP	88	170	141	204	153	185	190	214	298	410	229	1,021	1,362	3,303
- Single premium	2	5	5	4	4	6	6	6	8	9	13	72	65	138
- APE (New Business)	88	171	141	204	153	185	191	215	299	411	231	1,028	1,368	3,316
Aviva	326	577	570	553	441	554	444	566	580	598	622	1,412	4,075	7,240
- FYP	315	547	536	528	422	523	421	531	546	559	580	1,348	3,951	6,858
- Single premium	11	30	33	25	18	32	23	35	33	38	41	63	124	382
- APE (New Business)	316	550	539	531	424	526	423	535	550	563	585	1,355	3,964	6,896

Source: Merrill Lynch Research Estimates

		ML rating	Price 14 May 07	New Valuation		Per Share Value		Change v/s Earlier est.	
	Promoter			FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
ICICI Prudential	ICICI Bank (ICIJF / IBN)	Rstr	870.1	Rstr	Rstr	Rstr	Rstr	Rstr	Rstr
HDFC Standard Life	HDFC Ltd (HGDFF)	C-1-7	1,680.0	1,600	2,135	217	290	-2%	-1%
Bajaj Allianz	Bajaj Auto (BJJAF/ BJAUF)	C-3-7	2,668.1	3,596	4,481	896	1,116	26%	26%
SBI Life	SBI (SBINF/SBKFF)	C-1-7	1,205.8	2,194	3,133	130	185	27%	30%
Reliance Life	Reliance Capital (RLCCF)	C-1-7	813.1	1,463	2,436	251	418	13%	15%

Price Objective Basis & Risk

HDFC

Given HDFCs: a) Consistent loan growth with minimal margin pressure, helping reinforce HDFC's ability to deliver earnings growth at 21% CAGR through FY09E. b) Amongst the highest ROE of +31% across banks and in the region. c) Strong asset quality that has actually improved and is likely to be very well managed, we contend that HDFC could continue to trade at 3.5-4.0x adj.book, one year from now (FY09) implying a fair range of Rs1,074-1,230. Adding value of subsidiaries (Rs739/share in FY09E), we get a price range of Rs1,810-1970, underpinning our PO of Rs1,900. Sharp rise in rates impacting demand is a risk to PO.

SBI

We believe it can, arguably, trade at least at 1.2-1.3x FY09E (assuming no rerating) given a) Improved visibility on SBI's ability to deliver 25% earning growth in FY08E as it is amongst the few banks that is well positioned to capitalize on loan growth opportunities, owing to its excess SLR. B)ROE estimated to rise to +18% by FY09 as earnings rebound through FY08-09. Hence, we think SBI could arguably trade up to Rs1373-1473 (including Rs140/share for life insurance venture for FY09), underpinning our new PO of Rs1,400. Sharp rise in NPL's or interest rates are risks to our PO.

Reliance Capital

Our PO on Reliance Capital (R-Cap) of Rs1,025 on the back of a 55% rise in asset management valuation, doubling of general insurance valuation, and assigning a 1.2x multiple to its adj. BV (+100% on higher earnings and revised investment est.). Life insurance valuation raised by 11%; Reliance Money by 18%. General insurance valued at 0.75x net premia (v/s 0.5x earlier) owing to lower claims and stronger earnings growth. For asset management, equity assets valued at 6.5% of AUM and debt at 2% given recent deals. Life insurance valued at 16.5x NBAP, forecast to rise 4.5x through FY09. Volatility on equity markets and execution are risks.

Analyst Certification

I, Rajeev Varma, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. 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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16 May 2007

Important Disclosures

Investment Rating Distribution: Autos Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	39	41.94%	Buy	8	25.00%
Neutral	40	43.01%	Neutral	3	8.82%
Sell	14	15.05%	Sell	1	7.69%

Investment Rating Distribution: Banks Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	119	44.57%	Buy	49	52.13%
Neutral	122	45.69%	Neutral	57	54.81%
Sell	26	9.74%	Sell	14	58.33%

Investment Rating Distribution: Financial Services Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	92	38.02%	Buy	45	52.33%
Neutral	141	58.26%	Neutral	63	47.01%
Sell	9	3.72%	Sell	2	22.22%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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