MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC ENVIRONMENT

FY2020 – Pre pandemic

The fiscal year 2020 was marked by recovering growth, supported primarily by private consumption and Government consumption. Real GDP growth for Q1FY20 was at 5.6%, Q2FY20 at 5.1% and Q3FY20 at 4.7%. IIP numbers were largely in positive territory from April 2019 till Feb 2020 prints. IIP data is released with a lag of one month. Barring August, September and October 2019 IIP was marching along at a positive clip. CPI although marched upwards from 2.99% in April 2019 towards 7.59% in Jan 2020 forward expectations of lower numbers kept an anchor. Transitory food items inflation was largely responsible for the hike as core inflation continued downward trajectory from 4.6% towards 4% and lower.

FY 2020 – Post pandemic

India imposed lockdown from March 24, 2020. Data collection for items in CPI basket was suspended from March 19, 2020 as post lockdown mobility suffered. March CPI number was released with some assessments at 5.91%, subsequently revised to 5.84%. April CPI number was not released due to data collection challenges, though in the food basket prices pressures were visible through the limited data release.

March IIP numbers though plunged to (-)16.7% far exceeding all estimates. Sharp fall was visible in manufacturing momentum led by motor vehicles, electronics, computer products, chemicals. Not a single sector registered positive manufacturing growth in March even though lockdown had been imposed only from March 24, 2020. Electricity growth contracted while mining growth registered flat. Given the above scenario, GDP growth for FY2020 will likely be revised downwards from earlier estimates of 5%.

FY2021 – Way forward and Outlook

Real GDP growth estimates for FY2021 are being estimated in negative numbers due to the lockdown. It could range from (-)2% to (-)4%. Large part of non-farm activity hubs are in the hotspots and social distancing measures will prolong industrial downtick. Labor availability could also pose a challenge. Consumption and investment demand was weak going into the pandemic hence immediate recovery could see a challenge. As consumption is slower and fuel prices on the lower side CPI inflation poses little threat in the current environment. Structural factors and current transient ones will keep inflation under check.

RBI has delivered a series of rate cuts and now reverse repo rate stands at 3.75% while repo rate at 4.40%. Liquidity in the system is ample and support of RBI is visible to financial markets. Interest rates in the current environment are likely to remain on the softer side. Although market borrowing has been increased by Rs.4.2tn for FY2021, market remains hopeful of RBI support moving forward. We expect 10 years G-sec yield to trade at around 5.75 in the near term and drift lower with rate cuts.

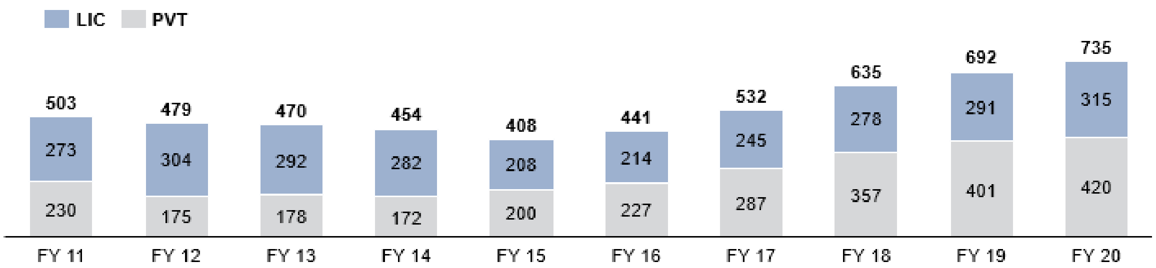
INDUSTRY OVERVIEW

- The Life Insurance Industry in India has witnessed several changes over the past two decades. These include opening to the private sector, new product regulations, increase in FDI limits, initiation of open architecture for Bancassurance and issuance of policies in electronic form. The life insurance industry has evolved considerably catering to the changing macro-economic landscape, customer needs and technological developments.

- The industry which had grown at a CAGR of 16% p.a. in Individual APE during FY'16-FY'19 registered a growth of 6% during FY'20 as Mar'20 saw a significant impact in business operations due to COVID.

- The impact of lockdown due to COVID will however be transient in nature and the insurance industry is expected to be back on the growth path in medium to long term given the industry is critical to both individua needs and the economic development of the Country.

Individual Annual Premium Equivalent (APE)
(₹ in billion)



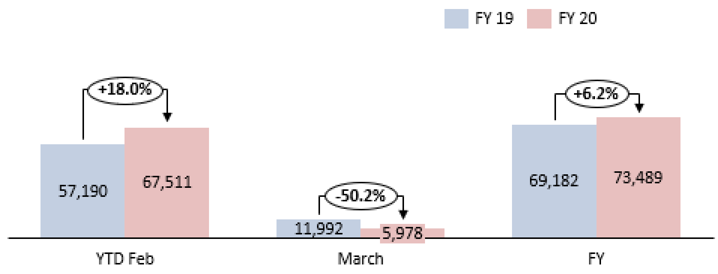
Note: Single Premium at 10%

INDUSTRY PERFORMANCE

During FY 2019-20, the life insurance industry collected total new business premium (New Business Premium – Individual FYP @ 10%, Group FYP @ 100%) of ₹ 2,30,872 crore against ₹ 1,86,172 crore in FY 2018-19, a growth of 24%.

- Individual Life which had a growth of 18% for the year till Feb'20 ended with a growth of 6% for FY'20 as the March'20 top-line was hampered due to lockdown. The private insurance players witnessed a growth of 5% and LIC registered a growth of 8% for the year.

Individual Annual Premium Equivalent (APE)
(₹ in Crores)



- ○ The Group Life segment witnessed a growth of 35% for the year, with the private insurance players growing by 19% and LIC growing by 39%.

- The market share of private insurance players in Individual Life stood at 57.0% and in Group Life stood at 19.5%.

Market Share	Individual Life		Group Life		Total	
	FY19	FY20	FY19	FY20	FY19	FY20
Private Insurance Players	58.00%	57.00%	22.06%	19.46%	35.42%	31.47%
LIC	42.00%	43.00%	77.94%	80.54%	64.58%	68.53%

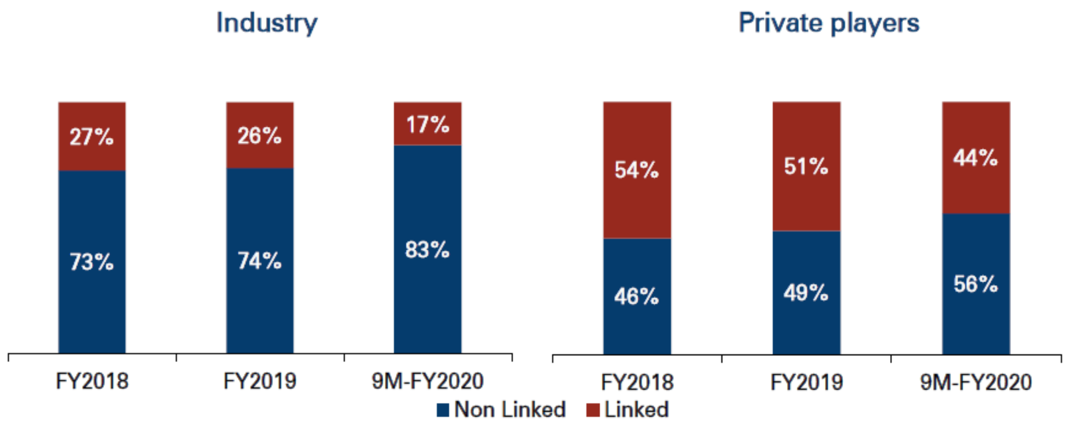
Source: Life council

PRODUCT MIX

- While the private industry focuses on a more diversified product mix, the portfolio of LIC continues to be predominantly of traditional products and hence we find the industry product portfolio skewed towards traditional products.

- The protection segment has emerged as an important category on the back of higher customer awareness, product innovation and emergence of digital mode of distribution. Awareness for protection products might increase as a result of the current situation and change in consumer attitude towards risk.

- Sales of Non-Par guaranteed products may also increase as during uncertain times, people like to have certainty around their savings.



Source: Internal research

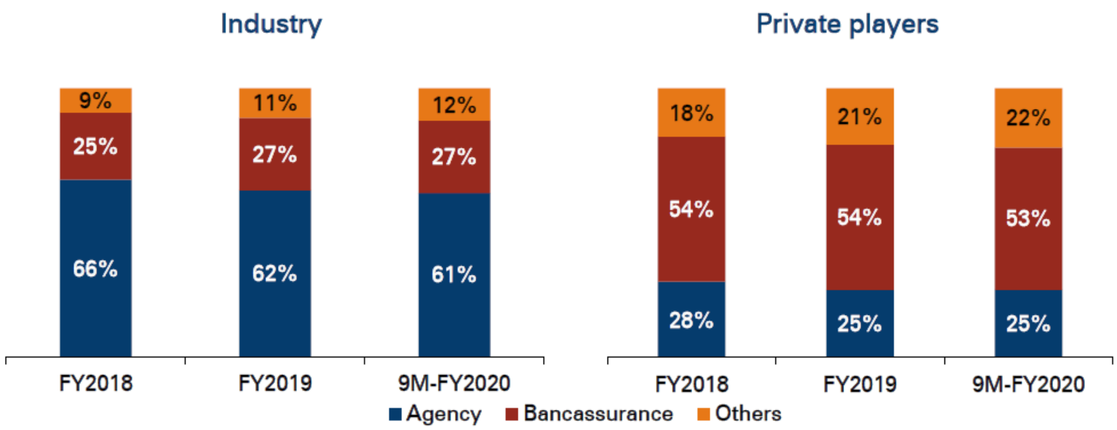
DISTRIBUTION MIX

- Private players have been strengthening their presence through the bancassurance channel in recent years. Since the channel provides access to captive customer base of the Bank and a wide distribution network, it has helped players with access to bank distribution to scale their business.

- The open architecture model is gaining traction with a few success stories and is expected to gain much greater acceptance as both private and nationalized banks explore this avenue . This will lead to healthy competition as insurance players look to develop new bancassurance tie-ups.

- The Agency channel continues to be a predominant channel for the industry, mainly driven by LIC. Private industry is focusing on developing this channel with a focus on productivity improvement and leveraging technology to enable their agents to connect and engage with their customers digitally. In the current scenario, with person-to-person meetings having become less frequent, shift to digital medium for both servicing and prospecting by agents will see greater acceptability.

- The digital channel has seen significant growth and is expected to grow at a rapid pace with the digital boom and increasing online users. In March'20 while the industry showed negative growth, few well positioned web-aggregators have reported strong growth in their sales. With Digital sales continuing to be a focal point for life insurance ccompanies, introduction of simpler, customer friendly online products largely across protection and savings segments can be expected.



QUALITY OF BUSINESS

The life insurance industry has been consciously focusing on improving quality metrics. With Life insurance companies improving customer on-boarding experience, including illustrations in policies and pre-recorded calls to explain key-risks, mis -selling has substantially reduced. Policyholders also seem to have become better-informed. This is reflected in the sharp reduction in customer complaints over the years.

Persistency ratios across all cohorts have been on an upward trajectory and there has been a visible decline in surrenders also.. Digital superiority will play out to be a key differentiator as technology has become a key enabler to deliver faster and better customer service. Quality is key for long-term value creation for all the stakeholders.

OUTLOOK FOR THE LIFE INSURANCE SECTOR

While the global pandemic, volatile nature of capital markets and an economic standstill are expected to result in revenue loss in the short to medium term, the industry will make a sharp recovery in 12-18 months as structural drivers for growth are in place.

A few factors which reiterate the healthy growth positioning and recovery for the industry in the next 3-5 years are:

- **Resilience of Insurance Industry during Pandemic**

  - Insurance companies were quick to deploy work from home models to ensure minimum disruption to customer service and other engagements. Industry players have accelerated digital selling to focus on selling products with end to end digital journeys. All players have focused on improving customer engagement and communication around the need to retain cover.

  - The insurance regulator is also making efforts to protect customer interests. Customers were given extensions for their premium payments during the time of crisis.

- The pandemic offers insurers a chance to build brand trust and employee morale and re-affirm to the policyholders, prospects and staff that the industry's core mission is to help manage risk and offer a protection against unanticipated shocks.

- **Favorable Demographics**

  - With a median age of around 29 years, India is amongst the youngest nations in the world and has a very young population as compared to some of the advanced countries like Japan, US, China and other European countries. Given the population growth, the age distribution is expected to remain skewed in favor of the younger age bracket. The share of working population within the age group of 30-59 years is increasing and this group which forms the target population for the industry will boost industry growth.

  - India remains vastly under-insured both in terms of penetration and density. In 2018, the Insurance penetration in India was 2.74% & density at USD$ 55. This signifies the absence or inadequacy of protection coverage for a large part of the population. The widespread Protection gap in India presents a significant opportunity to offer systematic savings and protection products.

  - The growth of India's urban population also continues to accelerate. Increased urbanization leads to improvement in the standard of living and better access to financial products such as life insurance.

- **Digitization**

  - The changing distribution landscape has seen players from the non-traditional ecosystem emerge as key partners. With the spread of internet and mobile technology, new channels for distribution have come to the fore.

  - Today a large section of people prefer to interact via digital avenues such as websites, WhatsApp, chatbots and mobile applications as compared to physical face to face interactions. Increased internet penetration along with growing customer awareness is going to further propel engagement via digital medium and help break traditional barriers of insurance sector like product awareness, limited customer touchpoints, service availability and payments.

  - Apart from digital sales, opportunities lie in revamping core processes through robotics and artificial intelligence for better and faster decision-making. Advancement in data analytics will help insurance companies to do more accurate risk assessment and pricing.

The Company is well positioned to tap into the opportunities of the life insurance industry. The management has also taken a wide range of steps to tactically handle the short and mid-term impact the business may see due to the current global pandemic. These initiatives cut across all areas like Distribution, Cost base, Digital, Products etc.

SUMMARY OF OPERATIONS

Profitable Growth strategy

- During the year, Individual new business premium (single premium at 10%) for your Company grew at 10% YTD Feb'20. The Company ended the year with a flat growth on Individual New business in spite of the impact due to the lockdown in second fortnight of the March 2020.

- Given our focus on creating value and driving profitability, the Group Business changed its product strategy as a result of which it de-grew by 13%.

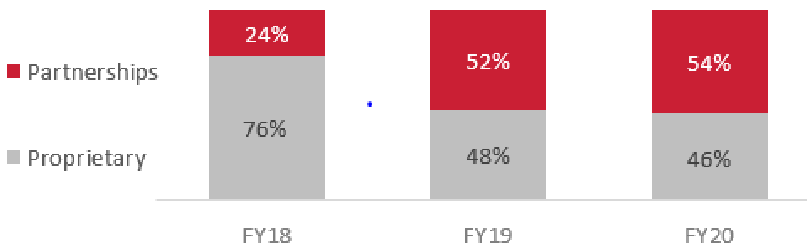
- Individual business rank is maintained at 7th position (excluding LIC).

- As on March 31, 2020, the Company continued its journey of **balanced channel strategy** with
  - Pan India presence across 2,750+ cities through 9,500+ bank branches and 395+ own branches with 87,000+ agents base.
  - 8 Key Bank partners
  - Multiple Corporate agents and Broker tie ups
  - 460+ Direct selling employees

- The Company continues to drive growth with partnerships and drive operating leverage in proprietary channels. Our proprietary channel witnessed an 8% CAGR in productivity over the last 2 years.
- The channel mix of the Company which was skewed towards Proprietary mix till FY'18 as the Company relied heavily on its Agency business, now shows a balanced mix post tie-up with HDFC Bank.

Individual FYP

Channel Mix (Individual FYP@10%)

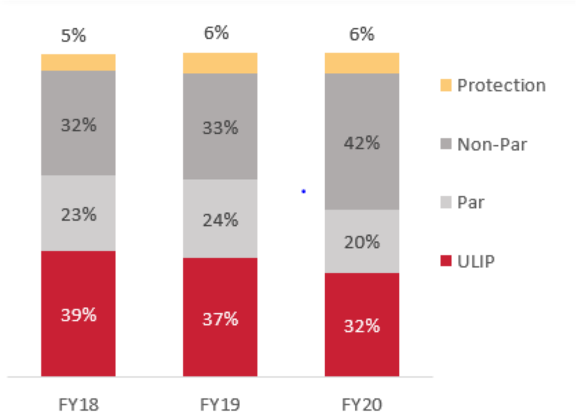


Aditya Birla Sun Life Insurance Company Limited
CIN: U99999MH2000PLC128110
Registered Office: One Indiabulls Centre, Tower 1, 16th Floor, Jupiter Mill Compound,841, S. B. Marg, Elphinstone Road, Mumbai - 400 013. | Phone No.: + 022 6723 9100
Email: care.lifeinsurance@adityabirlacapital.com | Website: www.adityabirlasunlifeinsurance.com

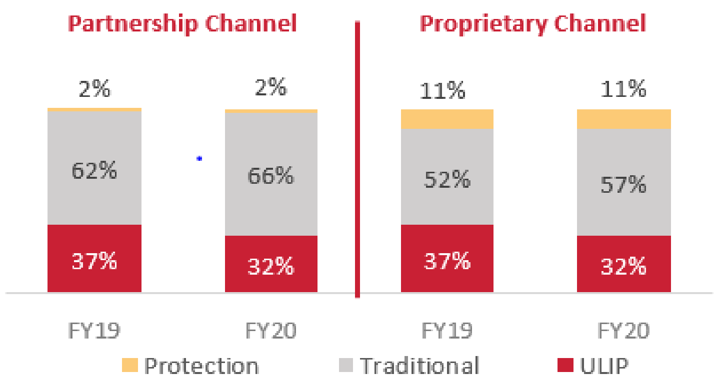
Focus on value accretive product mix

- The Company continues to have a diversified product portfolio. Diversified product strategy helps in safeguarding against Capital Market Volatility, Regulatory changes & change in customer behavior. During the year the Company has reduced ULIP share and maintained protection mix. Expected maturity benefits of the guaranteed portfolio are entirely hedged.
- ULIP Mix in both Proprietary & Partnership channels is at 32% and has seen a reduction in FY'20.
- Proprietary channel continues to maintain a healthy protection mix of 11%.

Product Mix



Channel wise Product Mix



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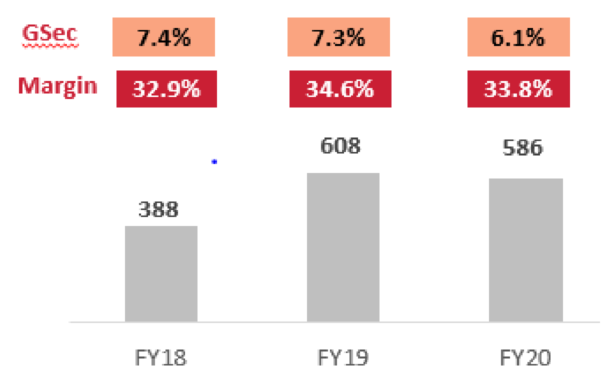
Email: care.lifeinsurance@adityabirlacapital.com | Website: www.adityabirlasunlifeinsurance.com

Value Creation

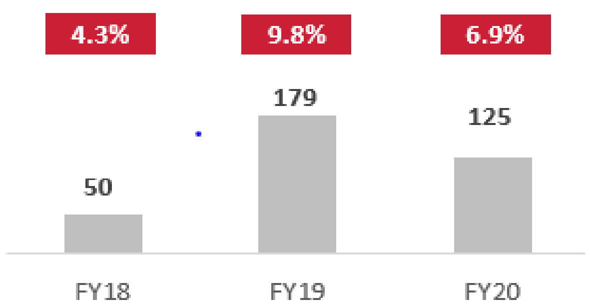
- In FY 2019-20, the Company achieved a gross margin of 33.8% (FY 2018-19: 34.6%). While gross Margins are highly sensitive to interest rates, the Company has been able to largely maintain the gross margin despite failing interest rates through improved product mix.
- In FY 2019-20, Company was able to achieve a **Net VNB of 6.9%** with an absolute **Net VNB of ₹ 125 Cr.**
- NET VNB was impacted as the Company had a significant impact of business loss in the month of Mar'20 due to lockdown. In a steady state scenario, the Company was on track to deliver a Net VNB of **11%+.**
- Embedded Value increased to ₹ 5,187 crore in FY 2019-20 from ₹ 4,900 crore in FY 2018-19. The Company reported a healthy Operating Return on Embedded Value of **13.2%**

(Gross VNB – Present Value of future profit of a policy for the entire term of the policy as on the date of the sale. Net VNB – Gross VNB net of expense gap)

Gross VNB



Net VNB

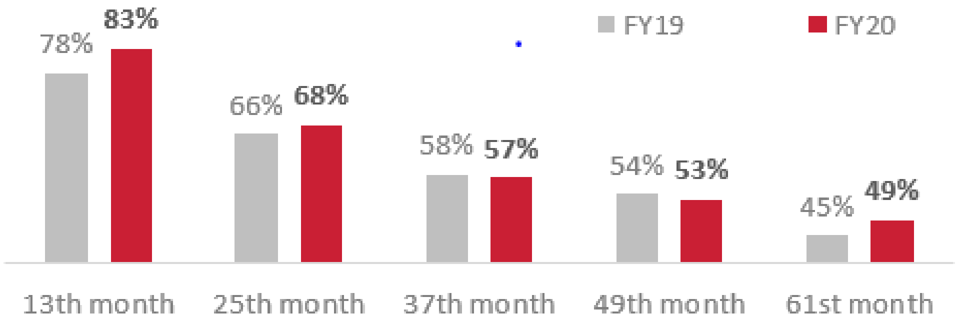


Focus on Quality Metrics

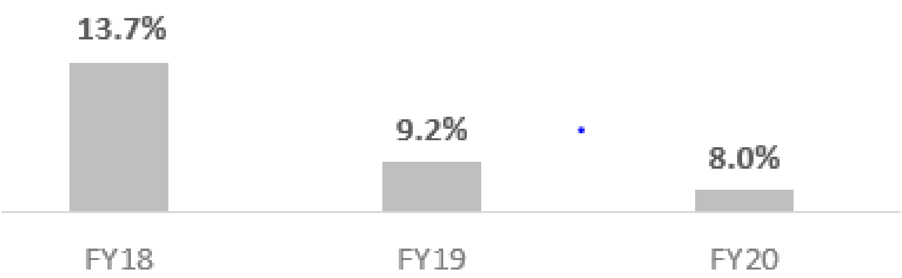
During the year under review, the Company showed progress across all quality parameters as below:

- 13th Month Persistency grew to 83% (FY19 - 78%) and 25th Month to 68% (FY19 - 66%). Longer Term persistency ratios also saw improvement. (61st Month Persistency at 49% vs 45% in FY'19)
- Individual renewal premium grew by 21%
- The Individual claim settlement ratio was at 97.54% in FY 2019-20 as against 97.15% in FY'19 . Group settlement ratio for FY 2019-20 was at 99.86%
- Surrender ratio has seen a significant reduction over two years and currently stands at 8%.
- Number of complaints have reduced by more than 50% over 2 years.

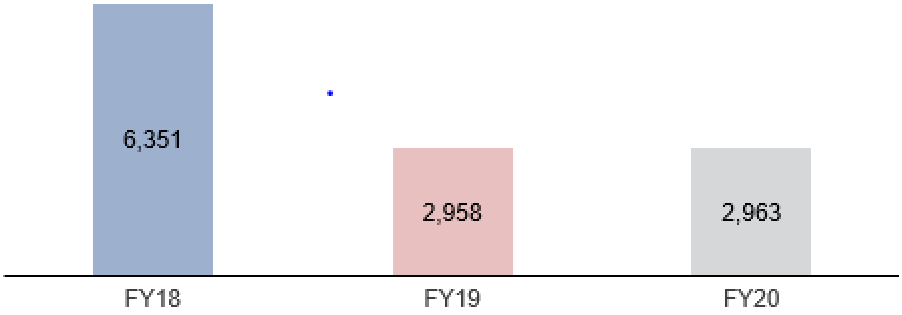
Persistency:



Surrender Ratio



Complaints Count

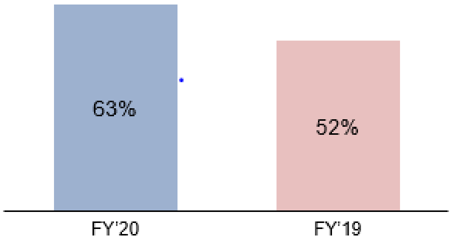


Digitally enabled customer experience

The Company has laid key focus on driving digital acquisition and servicing and ensuring digital enablement of distributors. During the year under review, the Company saw improvement in digital adoption metrics as below:s

- 50% + transactions took place through ABSLI Portal
- M-App (Digital selling platform) adoption at 90% vs 80% LY.
- IVR Self Service usage at 65% vs 46% in FY'19
- 30,000+ transaction on WhatsApp + Chatbot every month. 1.79 lacs interactions took place on WhatsApp between 15th – 31st March'20,
- 12%+ servicing handled through chatbot and WhatsApp. Chatbot had an accuracy rate of 90%

Self Service Ratio:



LIFE INSURANCE

Aditya Birla Sun Life Insurance Company Limited

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

KEY SUMMARY OF FINANCIAL INDICATORS

Following is the summary of the Company's financial performance for FY 2019-20

Particulars (INR Cr)	Current Year	Previous Year	Change(%)
	FY20	FY19	
Income			
Gross premium income	8,010	7,511	7%
Reinsurance (net)	-252	-226	12%
Total premium income (net)	**7,758**	**7,285**	**6%**
Income from investments			
Policyholders (see note below)	398	3,108	-87%
Shareholders	183	214	-14%
Investment Income	**581**	**3,322**	**-82%**
Other Income	**43**	**43**	**0%**
Total Income(Including Shareholders Income)	**8,382**	**10,650**	**-21%**
Less:			
Commission	482	449	7%
Expenses (Including Depreciation & Service tax)	1,402	1,321	6%
Benefits paid (net)	5,550	5,252	6%
Provisions for actuarial liability (net)	780	3,478	-78%
Other Provisions	30	0	100%
Profit before Tax	**138**	**150**	**-8%**
Provision for Tax	34	24	100%
Profit After Tax for the Current Year	**104**	**126**	**-17%**

Share Capital	**1,901**	**1,901**	**0%**
Reserves & Surplus	**299**	**271**	**10%**
Less: Debit Balance in Profit and Loss Account	**0**	**72**	**-100%**
Net Worth	**2,200**	**2,100**	**5%**

(Note: fall in income is largely due to MTM movement in ULIP policyholders and there is corresponding decrease in Reserve)

Investment Income

The Company's AUM grew by 1.7% in FY 2019-20 to ₹ 41,126 crore. The Debt/Equity Mix of the AUM has moved towards debt on account of increasing proportion of Participating and Non-Participating Traditional Products.

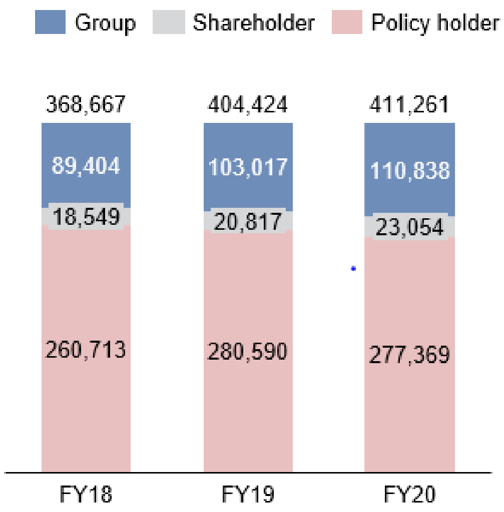
The Company continued its superior investment performance for its policyholders. For unit-linked funds, the Company has delivered superior fund performance consistently beating its internal benchmarks. 96.2% of the funds outperformed their respective internal benchmarks over the long-term (over 3 years.)

Fund Performance

Fund Performance as on 31st March 2020						
Period/Fund	**Income Advantage**	**Benchmark**	**Enhancer**	**Benchmark**	**Maximiser**	**Benchmark**
Last 6 months	5.22%	4.67%	-5.42%	-4.76%	-23.86%	-23.03%
Last 1 year	12.29%	10.13%	-2.48%	-1.99%	-24.41%	-24.66%
Last 3 year (CAGR)	8.41%	6.67%	3.68%	3.50%	-2.30%	-3.33%
Last 5 year (CAGR)	8.42%	7.21%	5.39%	4.86%	0.58%	-0.54%
Since Inception	9.94%	7.54%	10.16%	8.47%	6.61%	4.67%

Debt market continue to be in bull run. Ten year GSec benchmark has appreciated by more than 100 bps in a year's time. Equity market is subdued and one year indices returns are in negative territory. Due to on going pandemic, our focus is on safety and soundness of the portfolio.

AUM (₹ in Mn)



FINANCIAL RATIOS

The key financial ratios for the business have been provided in the below table:

Particulars	FY20	FY19
Opex to Premium - Including Commission - Excluding Commission	 21.6% 15.9%	 21.3% 15.7%
Commission to Premium (Individual) - FYC to FYP - RC to RP - Total	 17.2% 3.1% 7.4%	 16.9% 3.0% 7.9%
Investment Return-Annualized Yield (%) - Non linked Fund Non PAR - Non linked Fund PAR - Policy Holders Linked Fund	 7.4% 5.2% -3.1%	 8.7% 7.8% 9.1%

SHARE CAPITAL, DIVIDEND AND SOLVENCY POSITION

The Company has a net worth of ₹ 2,200 crore (including share premium and capital redemption reserves). Given the robust financial performance, there has been no capital infusion for the last four years. The net-worth of the Company increased by 6% to ₹ 2,220 crore in FY 2019-20 from ₹ 2,100 crore in FY 2018-19.

Your Company has not declared any dividend for FY 2019-20 as it reinvests the cashflow in the Company for funding growth initiatives.

Solvency refers to the minimum surplus that an Insurance Company needs to keep aside in the form of additional capital to meet any unprecedented increase in claims and to meet any adverse losses. As solvency needs to be maintained over very long periods for which policies are written, it is necessary to ensure that the assets exceed liabilities and are invested in risk-free assets.

Our solvency margin in FY 2019-20 is at 1.78 which was above the regulatory requirement of 1.5. It also ensures that the Company's stakeholders and customers can have confidence in the Company's long-term financial strength.

COVID-19 AND PREPAREDNESS

The pandemic and resultant lockdowns has slowed all economies around the world, including India. While it is difficult to predict how things will pan out over the next few months, it does seem like there could be a long term impact on some sectors like travel & tourism, while other sectors could bounce back faster. Customer behavior could change and we will have to wait to see what this could mean. Volatility in markets is expected to continue for some time with interest rates to remain low at least till end of FY21. We expect equity markets to recover over the next few months which had taken a sharp shock in March 2020. **Demands for financial products may accordingly shift towards more guaranteed products and Protection.**

We expect sharp cut in operating expenses by companies and are already seeing deferment of capital investments by both manufacturing and financial services sector to conserve more cash during this time. Work From Home has already become a new normal and teams are very comfortable to operate from their houses enabled by technology. The same is true for sales force who are more engaged through digital assets like lead management and prospecting etc. The adoption of these technologies may rise with a remote operating model. As Government restrictions ease, organizations may face many complex issues. None more critical than those involving their people. Companies need to bring the right people back to work on location at the right time and in the right way so that they are not only safe but also motivated and resilient. It will take effort and time to get normalcy back to work. Companies need to create models for both remote and physical work. Focus of regulators will be to protect customer interest and ensure to keep monitoring solvency/ALM/Cash Position of the business.

In fact, the regulator has now

- started monitoring solvency of insurance companies each month which is required to be submitted by Appointed Actuary to IRDAI directly
- protect customer interest by extending grace period to pay premium in this time of crisis

The impact of COVID 19 on the Company financials and other parameters has been detailed in financial disclosures section. Depending on how things open in the country in next few months, situation may start improving from Q3FY21 onwards.

In such times, the Management has identified focus areas like –

- how to acquire new customers and leverage on existing customer base
- drive digital acquisition and servicing
- manage cost better to protect margins
- digital enablement of distributors
- protect and grow in-force book
- new product propositions etc. especially protection

In this uncertain time, cash flow will remain utmost important. Year 2021 onwards, we expect some fundamental changes that may take place, and which will require us also to suitably modify our business model. The prospecting, leads, on-boarding and closure processes will have to evolve and become more digital & paperless. With change in customer mindsets, a lot of sales leads can be made warmed now over virtual meetings, and this should also improve productivity of sales force over the period. **New ecosystems will be important to have access to large pool of customers.** It is expected that customers may prefer more digital options for both, onboarding and servicing as we move ahead. Companies will have to invest in making a very strong back-end capabilities. Investment in capabilities around up-sell to improve products per customers will also become a key focus area. **There could be higher demand for protection products given the impact of COVID-19.**

OUTLOOK FOR THE COMPANY

The outlook for the growth of the Company continues to be stable even though there might be a short-term pressure on topline as a result of the pandemic. The management has identified and put in place a well thought through action plan to navigate through the challenges posed by the current global pandemic. The Government is expected to continue its efforts to uplift the economy on a periodic basis and as the macro-economic environment stabilizes the Company would continue to focus on to strengthen its competitive and financial position.

These key areas of focus include:

- Growing Sales and improving market share by

  a. Making Proprietary channel more value Accretive.
  b. Continuing to scale partnerships by improving mindshare in existing bank counters and leveraging new opportunities under Open Architecture.
  c. Building sizeable Direct channel.

- Digital enablement

  a. Acquiring customers digitally and leveraging on existing base.
  b. Using Digital tools and mediums for servicing.
  c. Best in class services to all advisors and channel partners.

- Targeting Top Quartile Net Margins

  a. Strengthening Product portfolio.
  b. Managing cost & conserving in-force book

By order of the Board of Directors
For Aditya Birla Sun Life Insurance Company Limited

	Sd/-	**Sd/-**
	Ajay Srinivasan	**Kamlesh Rao**
	Director	**Managing Director & CEO**
Mumbai, May 15, 2020	**(DIN No. 00121181)**	**(DIN No. 07665616)**

Disclaimer:
Certain statements in this "Management Discussion and Analysis" may not be based on historical information or facts and may be "forward looking statements" within the meaning of applicable securities laws and regulations, including, but not limited to, those relating to general business plans and strategy of the Company, its future outlook and growth prospects, future developments in its businesses, its competitive and regulatory environment and management's current views and assumptions which may not remain constant due to risks and uncertainties. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian economic conditions, changes in Government regulations, tax regimes, competitor's actions, economic developments within India and such other factors such as within with the Company operates. The Company assumes no responsibility to publicly amend, modify or revise any statement, on the basis of any subsequent development, information or events, or otherwise.