

27 July 2020

Q1-FY21 Result Update

- ❑ HDFC Life Insurance Company Ltd. reported 10.3% year-over-year (y/y) decline in gross premium to ₹58,626 million in Q1FY21, mainly due to de-growth in new business premium. However, renewal premium witnessed decent growth of 24.1% y/y. Net premium income (net of reinsurance) decreased 11.2% y/y ₹57,337 million in the quarter. The company sold about 1,90,000 policies in the quarter, registering a degrowth of 4%.
- ❑ The quarter witnessed lower commission expenses along with reduced benefits and change in actuarial liabilities. Profit after tax increased 5.8 % y/y to ₹4,505 million as new business strain was offset by continued profit from back book.
- ❑ 13th month persistency rate improved to 87% in the reported quarter compared to 85% in Q1FY20 while 61st month persistency rate remained stable at 53%.
- ❑ As of Jun 30, 2020, the Assets under Management (AUM) stood at ₹1,400 billion, increasing 8% y/y. The debt:equity mix stands at 68:32 with almost 97% debt investments are in G-Secs and AAA bonds as on Jun 30, 2020.
- ❑ During Q1FY21, the new business premium registered degrowth of 33% y/y to ₹26.2 billion while total annualized premium equivalent (APE) declined 30% y/y to ₹11.9 billion. Savings business which includes unit linked, par and non-par segments, declined 26.2% y/y while protection APE plunged 48% y/y. However, protection based on individual APE jumped 50% y/y. The credit protect business degrew by 74% due to a adverse lending rate environment and management expects improvement in the business by Q3FY21.
- ❑ Overall, margin accretive protection and annuity businesses currently comprise 16% of Individual APE. While growing protection business remains a key area, management is committed to maintain on a balanced product mix.
- ❑ Value of new business shrunk 43% y/y to ₹2.9 billion in the quarter, resulting in reduced new business margin of 24.3%, down from 29.8% in Q1FY20. However, Embedded value (EV) increased 17% y/y to ₹225.8 billion. EV included positive economic variance of ₹11.5 billion.
- ❑ In terms of expenses, management stated that significant proportion of the company's cost is variable or semi-variable in nature. This, along with cost control measures and deferral of discretionary expenditure, has helped in lowering cost ratio to 11.5% in Q1FY21 from 13.4% in Q1FY20.

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Q1-FY21 Result Update

- ❑ Solvency ratio came in at 190% as of Jun 30, 2020, down from 193% as of Jun 30, 2019, but up from 184% as of Mar 31, 2020. The ratio continues to exceed the regulatory requirement of 150%. The sequential improvement in solvency was mainly due to increase in profitability and favorable market conditions. Owing to expectations of continued volatility in equity markets as well as rise in demand of protection products, the company is set to raise ₹6 billion which would provide 15% additional cushion.
- ❑ Amid the COVID-19 crisis, Individual weighted received premium (WRP) de-grew by 19% during Q1 FY21 on a high base of 63% growth in the previous year quarter. Management noted that business has gained momentum on month-on-month basis and is seeing higher traction, particularly in the individual protection business. In terms of ULIP products, management expects demand to remain soft throughout the year. With gradual normalization, management expects life insurance to emerge as an important avenue for both protection as well as long term savings, and consequently is likely to attract higher inflows from Indian households.
- ❑ Also, management stated that the company has been witnessing improving renewal premium collection trends with 24% growth in Q1FY21. However, it remains cautious about the sustainability of these trends given the uncertain environment.
- ❑ The company remains focused on driving growth through its diverse channels of distribution – bancassurance, agency, direct, brokers and others. Notably, the company's digital assets have seen strong adoption across all its distribution channels during the quarter. Further, the company intends to tap new geographies and customer segments, enhance product offering and bolster technology to improve overall operational efficiency and customer service.
- ❑ We have incorporated latest quarterly numbers and have revised our estimates for the company. While near term growth might get impacted given the current uncertain environment stemming from COVID-19, we believe HDFC Life is well positioned for medium to long term growth given its solid product portfolio with lower ULIP mix and increasing protection business, diversified distribution network, healthy capital position and gradual broader recovery in the life insurance industry. We continue to remain positive on the company with **HOLD** rating and a target price of **₹685 per share**.

Consolidated Financial Result:

(In ₹ mn)	Q1FY21	Q1FY20	Chg
Gross Premium	58,626	65,358	-10.3%
Net Premium Earned	57,337	64,572	-11.2%
Income from investment	88,481	21,522	311.1%
Other Income	389	392	-0.7%
Commission Expense	2,399	3,276	-26.8%
Expenses and Tax	6,290	10,766	-41.6%
Claims/Benefits Paid & Change in Actuarial liability	132,993	67,831	96.1%
Other Expenses	19	233	-92.1%
Profit Before Tax	4,507	4,380	2.9%
Tax	1	123	
Profit After Tax	4,505	4,257	5.8%
Product Mix as % Total APE	Q1FY21	Q1FY20	
ULIP	24%	21%	
Par	27%	5%	
Non Par	25%	46%	
Group Savings	6%	6%	
Term	13%	18%	
Annuity	5%	4%	
Total	100%	100%	
Total APE (₹bn)	12.0	17.1	
Value of New Business (VNB in ₹bn)	2.91	5.09	
VNB Margin (VNB/APE)	24.3%	29.8%	
Embedded Value (₹bn)	225.80	192.30	
Persistency (13th Month/61th month)	87%/53%	85%/53%	

Annualized Premium Equivalent (APE) - The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups.

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Gross Premium	291,860	327,069	361,494	417,637
Net Premium Earned	289,306	322,450	356,810	412,883
Income from investment	94,418	(28,646)	99,354	116,615
Other Income	5,240	3,909	4,313	5,089
Commission Expense	11,177	14,912	16,484	19,044
Expenses and Tax	46,145	51,166	58,429	67,389
Claims/Benefits Paid & Change in Actuarial liability	314,972	214,758	367,965	427,660
Other Expenses	3,759	3,738	3,564	3,973
Profit Before Tax	12,910	13,139	14,036	16,520
Tax	131	165	176	207
Profit After Tax	12,779	12,974	13,860	16,313

Margins	FY-19	FY-20	FY-21E	FY-22E
Gross Premium Growth %	23.9%	12.1%	10.5%	15.5%
PAT Growth %	15.4%	1.5%	6.8%	17.7%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Liabilities				
Equity Share Capital	20,174	20,188	20,188	20,188
Reserves & Surplus	36,282	49,798	63,602	79,915
Fair Value Change Account	(30)	(1,920)	(1,920)	(1,920)
Total Shareholder's Funds	56,426	68,066	81,870	98,183
Fair Value Change Account	11,121	496	496	496
Long-Term Liabilities	536,618	653,126	759,455	889,513
Policy Holders Funds	644,804	550,651	605,606	669,153
Short-term Liabilities	51,188	49,899	62,554	72,702
Total	1,300,158	1,322,239	1,509,982	1,730,047
Assets				
Net Fixed Assets	3,339	3,307	3,707	4,107
Investments - Shareholders	50,360	58,850	69,238	80,930
Investments - Policyholders	571,245	671,886	787,564	921,208
Assets Held to cover Linked Liabilities	633,774	541,821	595,342	657,275
Current Asset	41,441	46,374	54,131	66,528
Total	1,300,158	1,322,239	1,509,982	1,730,047

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	6.3	6.4	6.9	8.1
P/E (x)	100.1	98.6	92.3	78.4
P/B (x)	22.7	18.8	15.6	13.0

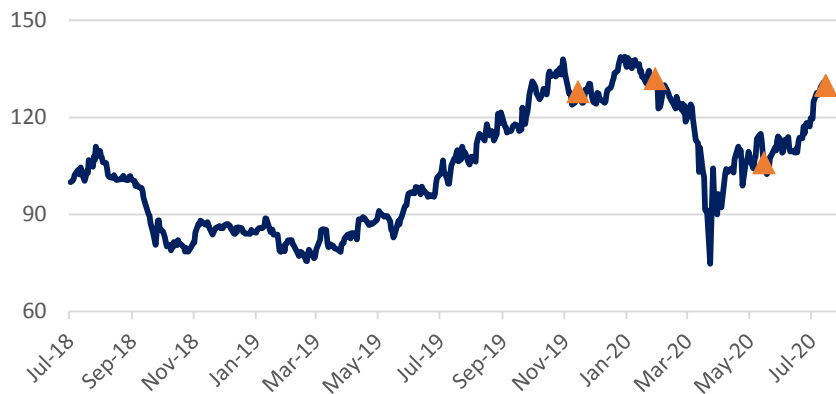
Key Risks:

- ❑ Profitability might get impacted owing to increasing competition.
- ❑ General slowdown in economy.
- ❑ Any unfavorable policies on insurance pricing and sales commission for customer protection might weigh on profitability.



Rating and Target Price history:

HDFCLIFE rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on Jul 27, 2020 close.

HDFCLIFE rating details

Date	Rating	Target Price (₹)	Share Price (₹)
31-July-2019	BUY	574	494
15-Nov-2019	BUY	710	578
30-Jan-2020	BUY	710	600
22-May-2020	BUY	605	495
27-Jul-2020	HOLD	685	633

Source: Bloomberg, Anand Rathi Research

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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