

HDFC Life Insurance Company Ltd



HDFC Life Insurance Co. Ltd.

Soft performance led by lower loan origination and volume

CMP INR 571	Target INR 704	Potential Upside 23.4%	Market Cap (INR Cr) INR 115,311	Recommendation BUY	Sector Life Insurance
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Result Highlights:

- Total Gross Written Premium (GWP) grew 34.8% YoY/73.7% QoQ on the back of strong new business and healthy renewals.
- HDFC Life market share (on New Business Premium (NBP) basis) grew 235 bps to 18% from 15% in H1FY21. Its market share among private players is 27.4%.
- In Q2FY21, channel mix on NBP basis is 60% for bancassurance channel, 13% for agency channel, 6% for brokers and 21% for direct. All channel except direct gained by 100 bps at the cost of direct.
- Solvency ratio rose to 203% on account of Sub debt of INR 600 Cr and improved equity markets.
- Net worth improved by 23%YoY to INR 7,790 Cr. Embedded Value increased to INR 23,330 Cr, higher by 16% YoY.

MARKET DATA

Shares outs (Mn)	202
Equity Cp (INR Mn)	7,820
Mkt Cap (INR Mn)	115,311
52 Wk H/L (INR)	647/340
Volume Avg (3m K)	3,000
Face Value (INR)	10.0
Bloomberg Code	HDFCLIFE : IN

KEY FINANCIALS

Particulars (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
GWP	23,564	29,186	32,707	37,206	41,246
PAT	1,109	1,277	1,295	1,136	1,061
EPS (INR/Share)	5.51	6.33	6.42	5.63	5.25
NBP-APE	5,400	6,049	7,164	8,039	9,184
VNB	1,282	1,537	1,919	2,090	2,415
VNB Margin (%)	23%	25%	26%	26%	26%
EVPS (INR/Share)	75.6	90.7	102.3	130.9	151.3

Source: Company, KRChoksey Research

Premium growth returns strongly:

The GWP grew at a robust ~35% YoY/74% QoQ driven by an improvement in individual premium. The opening of the economy ensured improved business momentum. The NBP grew 23% YoY/77% QoQ against a degrowth of 25% YoY /43% QoQ in the last quarter. The insurer gained significant market share at ~23.3% from 20.7% last quarter. Its 13th, 25th, and 49th month persistency rose by ~100-200 bps QoQ and the others remained stable. The renewal premium also rose 21% YoY/33% QoQ. The share of all other channels of distribution rose by ~100-200 bps at the cost of direct as businesses opened. Solvency ratio rose to 203% on account of Sub debt of INR 600 Cr and improved valuations in the equity markets.

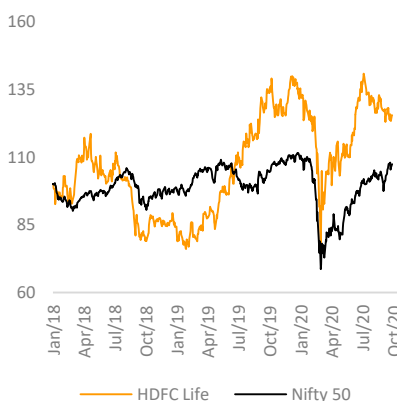
VNB improves by 80 bps on shift in product mix:

The margins improved to 25.1% vs 24.3% last quarter, higher by 80 bps QoQ. This is backed by 22% growth in Value of New Business (VNB) in Q2FY21 to INR 548 Cr. The growth in H1FY21 is 40% YoY, higher optically on account of weak business in Q1FY21 despite a high base. The sequential improvement is on account of the shift in product mix towards Par, savings product, and individual protection. The share of Par grew by ~200-300 bps in the product mix even as credit protection has lagged.

Opening of the economy improves momentum across channels and persistency:

The share of various distribution channels rose by ~100-200 bps at the cost of direct. The distribution mix between Banca/broker/agency/direct is 60%/6%/13%/21% vs 59%/5%/12%/24% last quarter. The early months persistency and 49th month persistency across channels rose by ~100-200 bps, another positive. The overall persistency was 88%/79%/69%/66%/53% vs 87%/77%/69%/65%/53% for 13th/25th /37th/49th/61st month respectively. This augurs very well for the company and is likely to aid in continued improvement in business momentum.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	40,544
NIFTY	11,896

SHARE HOLDING PATTERN (%)

Particulars	Sep20	Jun-20	Mar-20
Promoters	60.4	60.4	63.7
FIIIs	23.4	23.6	21.1
DIIIs	5.3	5.4	4.5
Others	10.9	10.6	10.7
Total	100	100	100

13.2%

APE CAGR between FY20 and FY22E

12.2%

VNB CAGR between FY20 and FY22E

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Key Concall highlights:

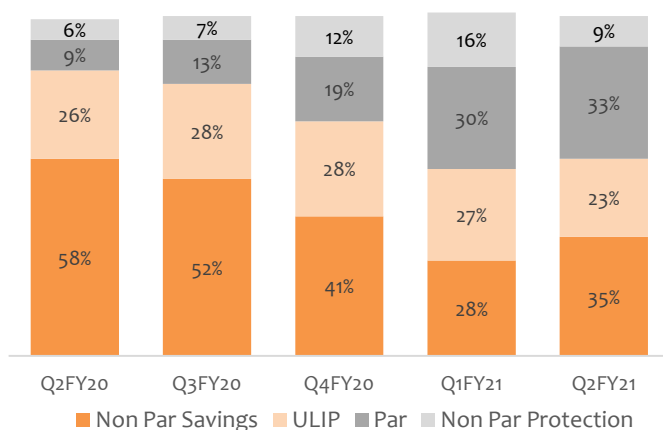
(i) Opening in economy, improved activity, improvement in household income has improved activity for insurance and individual business esp. protection. (ii) The Covid claims are within estimates and Non Covid claims are lower. It has received 418 Covid claim and 50 non Covid claims. The provision of INR 41 Cr is sufficient for risk to mortality as other claims are lower. (iii) INR 600 Cr in sub-debt has augmented solvency by 14%. The bank raised this to be ready for growth. (iv) It has launched Video based sale enabling product in T-II and T-III cities. It has extended the hybrid model. (v) Maintain cautious outlook given the second wave in Europe. (vi) There is likely to be fresh demand for insurance. (vii) New guidelines to reduce aversion to serve the low-ticket protection segment. (viii) Economic variance has been changed on account of volatility in the yield curve. (ix) Reinsurance price passthrough risk is behind. (x) It has 65-70% Market share in HDFC Bank. (xi) The strain is higher on account of mix but back book surplus (grew 10%) and unwind is helpful.

Valuation and view

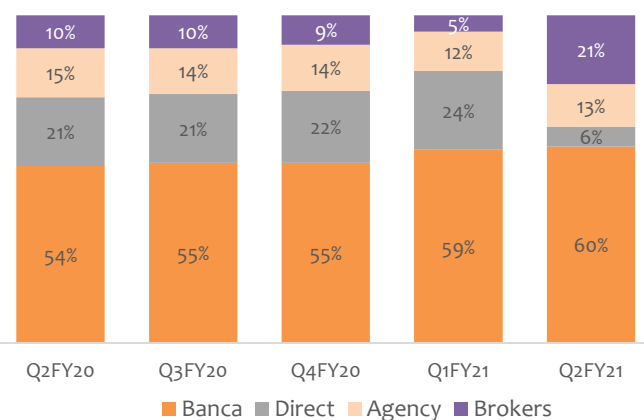
HDFC Life has delivered a robust business performance despite the weak market conditions. Its strength in distribution and product mix augurs very well for its business momentum and we expect it to continue to gain market share and improve margins. The flexibility across products gives it ability to grow without material hurdles. Its 65% market share in HDFC bank is a differentiator especially considering this is one of the banks that has recovered from the pandemic the fastest. While the claim payout is likely to be higher, offsetting it with improved persistency, favourable margin product growth, safety of GoI investments amidst falling interest rates augurs well for CAGR 12.2% in VNB and 21.6% in EV over FY20-22E.

The franchise, product and distribution culminates into high quality growth prospects, commanding higher valuation premium. We assign a 4.6x P/EV on FY22E EVPS of INR 151.3 and a higher VNB multiple of 48x on FY22E to arrive at a weighted average TP of INR 704 per share for HDFC Life (50:50 weights on the P-EV and appraisal value methodology); indicating an upside of 23.4% over CMP. Accordingly, we reiterate “BUY” rating on the shares of HDFC Life.

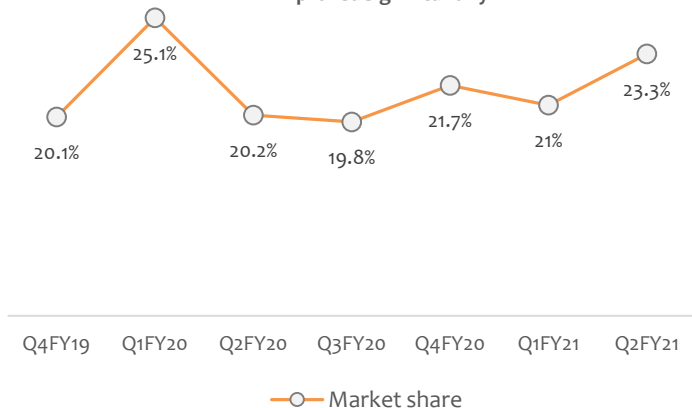
Product mix on Individual APE basis (%):
Increase in Par and Non par savings



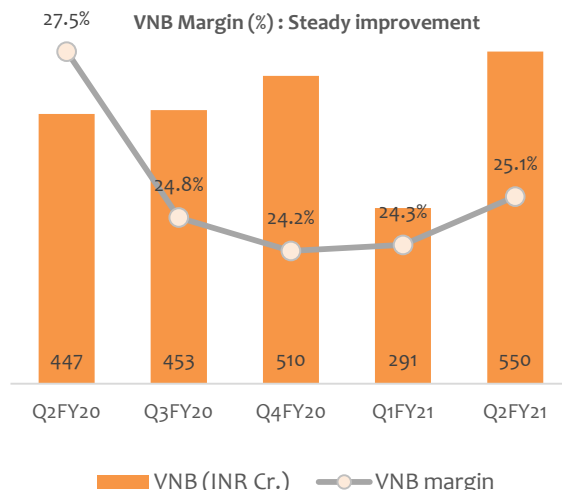
Channel mix on Individual APE basis (%):
Improving channel momentum



NBP Market Share (%):
Improved significantly



VNB Margin (%): Steady improvement



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
Gross premiums	23,564	29,186	32,707	37,206	41,246
Reinsurance ceded	193	262	483	744	362
Net premiums	23,371	28,924	32,224	36,461	40,884
Net income from investments	8,863	9,511	-2,962	8,700	8,002
Total income	32,234	38,436	29,261	45,162	48,886
Commission expenses	1,075	1,132	1,491	1,693	1,785
Operating expenses	3,159	3,801	4,267	4,334	4,541
Servive tax on linked charges	297	340	353	348	386
Operating profit	27,703	33,163	23,150	38,788	42,175
Benefits paid (net)	12,895	13,415	18,173	20,536	21,562
Change in reserves	13,322	17,507	2,441	15,000	15,000
Interim Bonuses Paid	217	574	848	900	900
Surplus / (Deficit) Before tax	1,269	1,667	1,688	2,352	4,712
Provision For Tax & Others	175	317	716	929	1,260
Surplus / (Deficit) After tax	1,095	1,349	971	1,423	3,453

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
First year premiums	4,738	5,058	6,044	6,830	7,855
Single premiums	6,611	9,913	11,194	12,090	13,299
New business premium (NBP)	11,350	14,971	17,238	18,920	21,153
NBP growth (%)	30.5%	31.9%	15.1%	9.8%	11.8%
Renewal premiums	12,215	14,215	15,468	18,286	20,093
Renewal premiums growth (%)	13.6%	16.4%	8.8%	18.2%	9.9%
Total premiums	23,564	29,186	32,707	37,206	41,246
Total premium growth (%)	21.2%	23.9%	12.1%	13.8%	10.9%
NBP - APE	5,400	6,049	7,164	8,039	9,184
NBP - APE growth (%)	32.2%	12.0%	18.4%	12.2%	14.2%

Source: Company, KRChoksey Research

Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
Transfer from Technical account	1,002	1,207	1,191	1,423	1,528
Income from investments & other income	293	429	456	20	20
Total income	1,295	1,636	1,648	1,443	1,548
Total expenses	169	346	336	289	466
PBT	1,127	1,290	1,312	1,154	1,082
Provision for tax	18	13	16	17	22
PAT	1,109	1,277	1,295	1,136	1,061

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

Particulars (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
Sources of funds					
Share capital	2,012	2,017	2,019	2,019	2,019
Share application money	1	0	6	0	0
Reserves and surplus	2,706	3,641	4,968	6,004	6,764
Fair value change account - net	30	-3	-192	-3	-3
Shareholders' fund	4,749	5,656	6,800	8,020	8,780
Liabilities (Policyholder's Funds)	308	171	171	171	171
Fair value change account - net	622	1,112	50	52	54
Policy liabilities	42,319	53,635	65,271	56,431	58,688
Provision for linked liabilities	46,565	51,449	54,377	54,131	56,297
Credit/[debit] fair value change account	8,033	9,072	-3,533	9,545	9,927
Discontinued due to non-payment of premium	2,587	2,856	3,338	3,471	3,610
Sub-Total	1,00,127	1,18,124	1,19,503	1,24,283	1,31,740
Funds for future Appropriations	959	1,103	883	883	883
Total Sources of Funds	1,05,835	1,24,883	1,27,185	1,33,185	1,41,403
Application of Funds					
Investments					
- Shareholders'	4,070	5,050	5,855	7,905	10,672
- Policyholders'	45,347	57,124	67,189	77,267	88,857
Asset held to cover linked liabilities	57,185	63,377	54,182	62,309	71,656
Loans	19	80	299	48	48
Fixed assets - net block	341	333	330	425	425
Net current assets	-1,128	-1,082	-670	-14,769	-30,254
Total Applications of Funds	1,05,835	1,24,883	1,27,185	1,33,185	1,41,403

Source: Company, KRChoksey Research

EV Calculation (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
Opening EV	12,471	15,216	18,300	20,650	26,363
Unwind	1,044	1,300	1,367	1,543	1,845
VNB (or NBAP)	1,282	1,537	1,919	2,090	2,415
Operating variance	357	419	148	180	200
EV Operating Profit (EVOP)	2,683	3,256	3,314	3,813	4,461
Non-operating variance	259	259	-1,003	2,000	-200
EV Profit	2,942	3,515	2,311	5,813	4,261
Net capital injection	-196	-396	38	-100	-100
Closing EV	15,217	18,300	20,650	26,363	30,524

Source: Company, KRChoksey Research

Key Financials (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
Total premium	23,564	29,186	32,707	37,206	41,246
Net premium earned	23,371	28,924	32,224	36,461	40,884
NBP-APE	5,400	6,049	7,164	8,039	9,184
Combined Ratio	19.4%	18.2%	19.0%	17.5%	16.4%
Surplus/(Deficit)	1,269	1,667	1,688	2,352	4,712
VNB margin (%)	23.2%	24.6%	25.9%	26.0%	26.3%
PAT	1,109	1,277	1,295	1,136	1,061
EPS (Rs.)	5.51	6.33	6.42	5.63	5.25
EVPS (Rs.)	75.64	90.71	102.29	130.90	151.30
RoEV (%)	21.5%	21.4%	18.1%	18.5%	16.9%
RoE (%)	23.4%	22.6%	19.0%	14.2%	12.1%

Source: Company, KRChoksey Research

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HDFC Life Insurance			
Date	CMP (INR)	TP (INR)	Recommendation
21-Oct-20	571	704	BUY
24-Sep-20	580	704	BUY
28-Apr-20	486	600	BUY
08-Apr-20	477	604	BUY
24-Jan-20	608	730	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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