

Accumulate

Continues to outperform; upgrade to Accumulate

- HDFCLIFE reported a strong set of numbers with GWP increasing 35% YoY to Rs 102bn in Q2FY21. Renewal premium collection continued to be strong, up 21% YoY to Rs 43bn. APE growth was robust at 21% YoY to Rs 21.4bn driven primarily by the savings business, which grew 27% YoY to Rs. 18.9bn. We expect HDFCLIFE to continue to outpace the private players going forward.
- Growth in the savings portfolio was led by the Sanchay Par product which saw strong demand through the bancassurance and agency channel. HDFCLIFE's market share within HDFC bank stood at ~70% during the quarter. We expect the savings APE to grow ~10% in FY21. 1HFY21 growth was flat at ~2%. In the current lower interest rate environment, we expect non-par guaranteed products and the sanchay par products to be the key drivers.
- Protection APE de-grew ~10% YoY to Rs 2.5bn led by the continuous fall in the credit protect portfolio (down ~36% YoY in Q2FY21). Retail protection APE grew by ~33% YoY to Rs 1.4bn during the quarter. Sequentially, however, credit protect saw improving trends and the growth in this segment could revive by Q3FY21 as most partners are seeing disbursement levels at ~90% of FY20.
- APE growth coupled with improving business mix towards non-linked segment resulted in the VNB margin improving 130bps to 25.6%. Overall VNB grew by ~22% YoY to Rs 5.5bn. We expect VNB margin to remain flat at 25.8% for FY21.
- Following the continuous strong performance and better outlook, we revise our estimates and recommendation for HDFCLIFE to "Accumulate" from "Reduce" in Q1FY21. We value HDFCLIFE at 3.9x FY22E EV with an unchanged target price of Rs. 644.**

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Premium					
Gross written premium	101,825	75,552	34.8	58,626	73.7
New business premium	58,722	39,884	47.2	26,234	123.9
Annual premium equivalent	21,360	17,600	21.4	11,980	78.3
-Savings	18,889	14,849	27.2	10,410	81.5
-Protection	2,471	2,751	(10.2)	1,570	57.4
Expenses					
Management Expenses	15.0	19.3	(22.5)	15.5	(0.5)
Cost ratio (Cost/TWRP)	24.1	27.8	(13.6)	20.7	3.4
Commission ratio (%)	4.2	4.8	(13.8)	4.1	0.1
Operating expense ratio (%)	10.8	14.5	(25.4)	11.4	(0.6)
Profitability					
Value of new business (VNB)	5,470	4,480	22.1	2,910	88.0
VNB margin (%)	25.6	25.5	0.6	24.3	1.3

CMP	Rs 571
Target / Upside	Rs 644 / 13%
NIFTY	11,873

Scrip Details

Equity / FV	Rs mn / Rs 10		
Market Cap	Rs 1,152bn		
	USD 16bn		
52-week High/Low	Rs 648/ 340		
Avg. Volume (no)	3,337,650		
Bloom Code	HDFCLIFE IN		
Price Performance			
	1M	3M	12M
Absolute (%)	(2)	(7)	(6)
Rel to NIFTY (%)	0	(9)	(3)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	63.7	63.7	60.4
MF/Banks/FIs	4.1	6.1	5.4
FIIIs	21.1	21.1	23.6
Public / Others	10.7	8.8	10.6

Valuation (x)

	FY21E	FY22E	FY23E
P/EV	4.5	3.9	3.3
VNB Margin	25.8	27.1	28.2
ROEV (%)	18.7	18.8	19.6
NBP multiple	45.3	39.3	34.3

Estimates (Rs mn)

	FY21E	FY22E	FY23E
APE	78,461	94,136	112,963
VNB	20,208	25,513	31,877
EV	253,340	298,853	354,206
EVOP	38,602	47,597	58,617

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Exhibit 1: Revise estimates upwards

Change in estimates	FY21E			FY22E			FY23E		
(Rs mn)	New	Old	% change	New	Old	% change	New	Old	% change
APE	78,461	61,389	27.8	94,136	75,556	24.6	112,963	95,342	18.5
Protection	11,260	9,757	15.4	16,944	13,600	24.6	21,463	18,115	18.5
Savings	67,201	51,632	30.2	77,192	61,956	24.6	91,500	77,227	18.5
Protection mix (%)	14.4	15.9	1.5	18.0	18.0	0.0	19.0	19.0	0.0
Savings mix (%)	85.6	84.1	1.5	82.0	82.0	0.0	81.0	81.0	0.0
VNB	20,208	15,635	29.2	25,513	20,435	24.9	31,877	26,351	21.0
VNB margin (%)	25.8	25.5	0.3	27.1	27.0	0.1	28.2	27.6	0.6

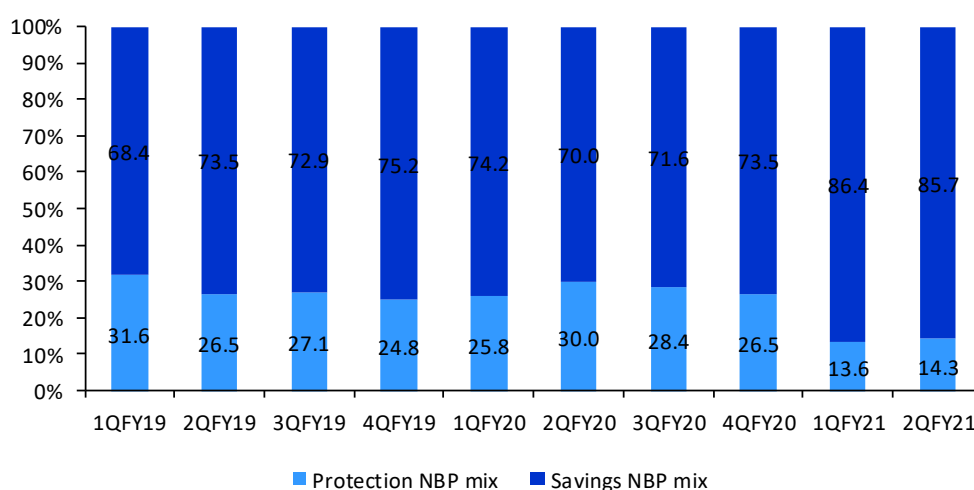
Source: DART, Company

Business mix

HDFCLIFE reiterated its strategy to maintain a balanced product mix going forward. Currently the business mix stands as 26% ULIP, 28% Par, 26% non-par guarantee, 5% annuity, 9% group savings and 12% term protection. We expect business mix to be broadly similar with par cannibalising the demand for ULIPs. Due to the lower share of ULIPs in the book, the company is relatively more immune than peers to market volatility.

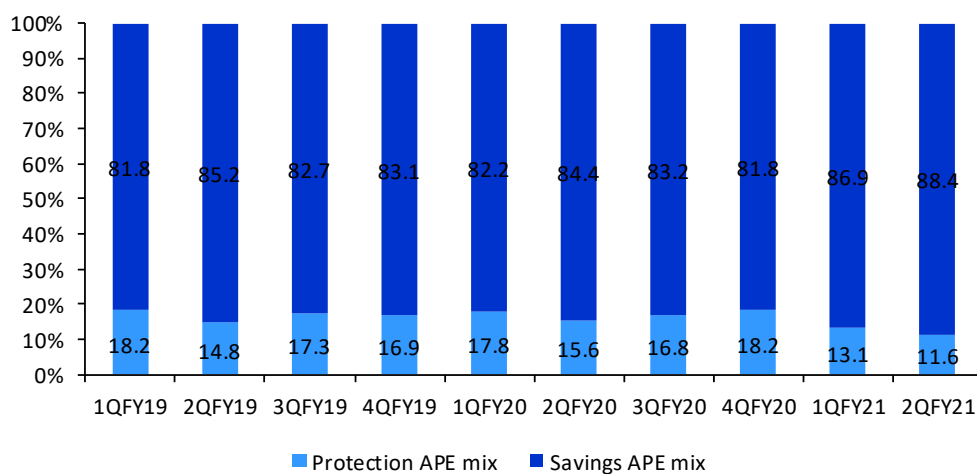
- Inflows in the ULIP portfolio pickup after a 6-9 month lag and the asset allocation in this portfolio is shifting towards debt oriented products as preferred by customers.
- Sanchay Par saw good traction as the product was sold largely through the bancassurance and agency channel. It's preference by customers is attributable towards lower interest rate environment and the lower volatility. Margin's for Sanchay par are higher than ULIPs and traditional par products due to its longer tenure and features
- Annuity, a single premium product, continues to be a focus area and has seen good growth. It is primarily being sold to the retired customer segment (age >55 years).
- On the protection side, the company has not fully passed through the reinsurance price hike to customers. This has helped HDFCLIFE garner volumes. Credit protect has seen sequential improvements and the company expects growth to revive in this segment post Q3 as bigger partners are seeing improving disbursement trends.

Exhibit 2: Protection mix declining due to fall in credit protect



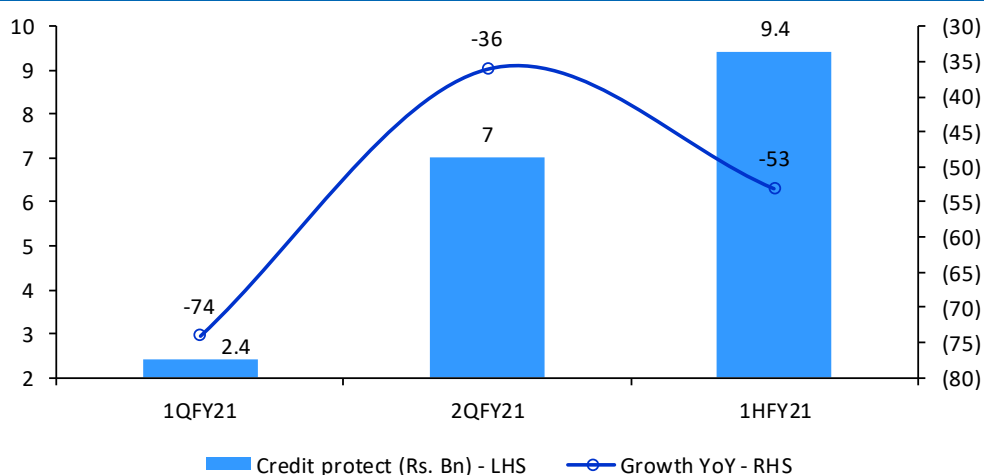
Source: DART, Company

Exhibit 3: Protection mix declining due to fall in credit protect



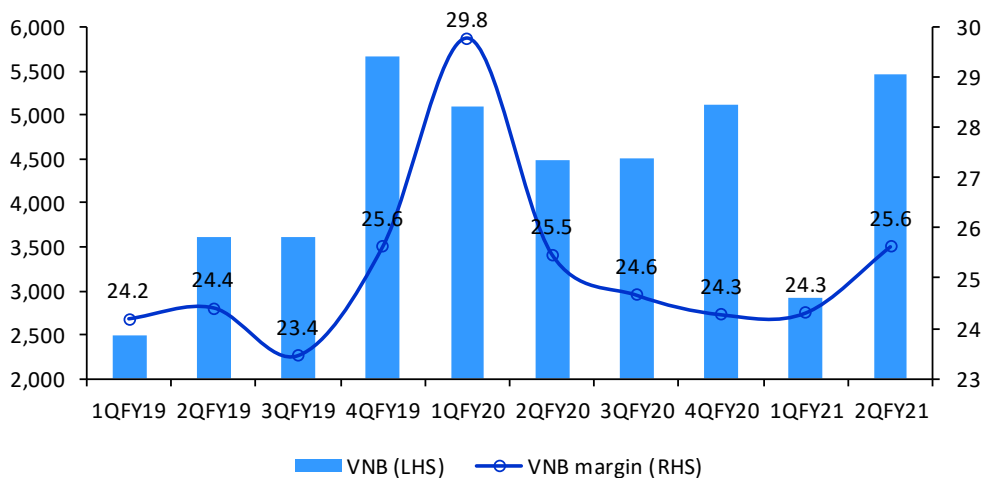
Source: DART, Company

Exhibit 4: ...but improving sequentially



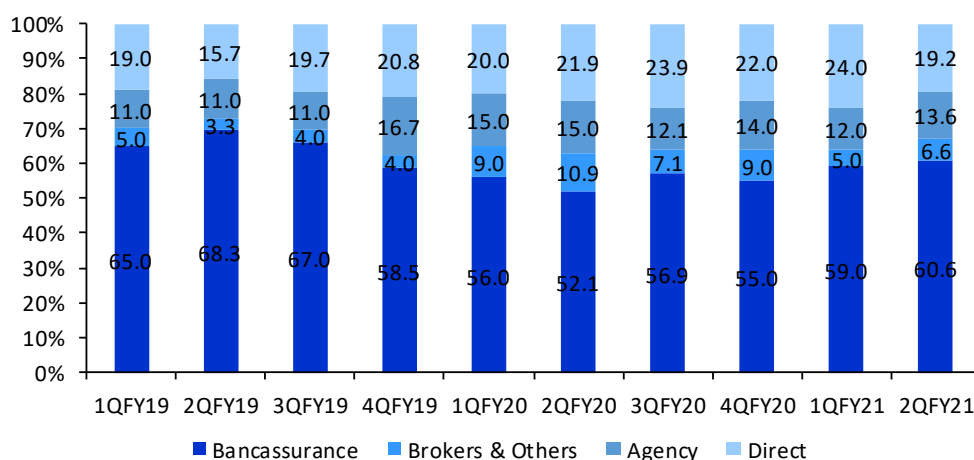
Source: DART, Company

Exhibit 5: VNB margin flat between 25-26%



Source: DART, Company

Exhibit 6: Bancassurance share increasing driven by push for savings products

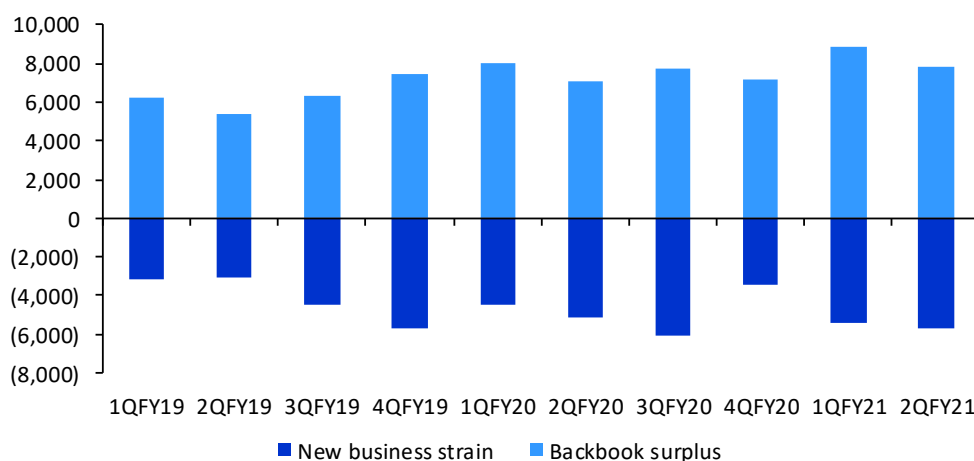


Source: DART, Company

Other highlights

- HDFCLIFE raised Rs 6bn through Tier 2 bonds during the quarter. The capital infusion contributed ~14% to the solvency margin which now stands at 203% vs 190% in the previous quarter. The capital raise provides sufficient buffer to continue to underwrite capital intensive products such as annuity and protection which the company sees as multi-decadal opportunities.
- As on the end of Q4FY20, the company had created a COVID-19 provision of Rs. 410mn. This reserve remains unutilized as the claims experience has been well within estimates. The company has received 418 Covid-19 claims thus far which are sufficiently covered under the current reserved. We expect part of this reserve to be released by the end of this year as a positive operating variance.
- The company introduced a “Phygital” platform called “Weserve” which allows sales representatives to interact virtually with potential clients. This platform has seen good traction with distributors opting to utilize it to on-board customers.
- HDFCLIFE’s backbook surplus continues to offset new business strain resulting in positive PAT. Backbook surplus grew by ~10% YoY in Q2FY21.

Exhibit 7: Backbook surplus offsetting new business strain



Source: DART, Company

Valuation summary

We upgrade our recommendation on HDFCLIFE to 'Accumulate' rating and a 1-year price target of Rs644 implying a P/EV multiple of 3.9x on the FY22E EV per share. Our valuation is based on the DCF methodology using a cost of equity 12.3%, higher than peers owing to its guaranteed book and we assume a steady state protection mix of 19%.

Exhibit 8: Valuations driven by VNB growth

Particulars (Rs. Mn)	FY22E	% of AV
Structural value	1,002,226	77.0
-PV of terminal value	376,457	28.9
-PV of other cash flows	625,769	48.1
Embedded Value	298,853	23.0
Appraisal Value	1,301,078	100.0

Source: DART, Company

Exhibit 9: Embedded value movement

Embedded Value	FY20	FY21E	FY22E	FY23E
Opening EV	183,000	206,500	250,442	290,318
Unwind	13,700	16,457	18,491	21,552
VNB	19,190	15,635	20,435	26,351
Operating variances	300	1,300	2,113	3,055
EV Operating Profit	33,190	33,392	41,039	50,958
Economic variances	(10,000)	11,500	0	0
Capital injections/outflow	400	(950)	(1,163)	(1,439)
Closing EV	206,500	250,442	290,318	339,837

Source: DART, Company

Key assumptions

Exhibit 10: APE growth to normalize to ~20% from FY22

Particulars (Rs. Mn)	FY2019	FY2020	FY2021E	FY2022E	FY2023E
APE	62,600	74,070	78,461	94,136	112,963
Growth %		18.3	5.9	20.0	20.0
Protection	10,454	12,700	11,260	16,944	21,463
Growth %		21.5	(11.3)	50.5	26.7
Savings	52,146	61,370	67,201	77,192	91,500
Growth %		17.7	9.5	14.9	18.5
ULIP	28,600	17,206	15,046	17,368	20,588
Growth %		(39.8)	(12.6)	15.4	18.5
Par	9,360	11,676	21,291	20,842	24,705
Growth %		24.7	82.4	(2.1)	18.5
Non-Par	10,400	27,653	23,564	31,263	37,058
Growth %		165.9	(14.8)	32.7	18.5
Group savings	3,786	4,836	7,300	7,719	9,150
Growth %		27.7	51.0	5.7	18.5

Source: DART, Company

Exhibit 11: Business mix to be largely constant between savings and protection

Mix (%)	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Protection	16.7	17.1	14.4	18.0	19.0
ULIP	45.7	23.2	19.2	18.5	18.2
Par	15.0	15.8	27.1	22.1	21.9
Non-Par	16.6	37.3	30.0	33.2	32.8
Group savings	6.0	6.5	9.3	8.2	8.1

Source: DART, Company

Exhibit 12: VNB margin to remain flattish, absolute VNB to grow in mid-20s

Profitability	FY2019	FY2020	FY2021E	FY2022E	FY2023E
VNB	15,370	19,190	20,208	25,513	31,877
VNB growth (%)		24.9	5.3	26.3	24.9
VNB margin (%)	24.6	25.9	25.8	27.1	28.2

Source: DART, Company

Profit and Loss Account

Particulars	FY20A	FY21E	FY22E	FY23E
Premium earned	327,069	385,239	468,973	558,280
Premium on reinsurance	(4,833)	(4,852)	(5,024)	(6,187)
Net premium earned	322,236	380,387	463,949	552,092
Investment income	(36,383)	213,174	142,458	172,812
Other income	2,616	2,072	2,929	3,565
Total income	288,469	595,633	609,336	728,469
Commission paid	14,687	15,429	18,473	22,535
Expenses	46,751	50,609	65,292	76,979
Tax on policyholders fund	1,490	887	809	599
Claims/benefits paid	190,215	190,190	248,590	310,436
Change in actuarial liability	22,208	324,241	260,455	300,762
Total Outgo	275,351	581,356	593,620	711,311
Profit before tax	13,117	14,277	15,716	17,159
Tax charge	165	327	786	858
Profit after tax	12,953	13,950	14,931	16,301

Balance Sheet

Particulars	FY20A	FY21E	FY22E	FY23E
Share capital	20,244	20,195	20,195	20,195
Reserve and surplus	49,675	65,023	82,462	102,690
Credit/[debit] fair value change account	(1,920)	0	0	0
Shareholders' funds	67,999	85,218	102,657	122,884
Borrowings	0	0	0	0
Credit/(debit) fair value change account	496	11,194	11,194	11,194
Revaluation reserve - Investment property	0	0	0	0
Total insurance reserves	1,194,529	1,521,651	1,786,273	2,094,267
Funds for future appropriations	8,830	5,949	1,783	(5,450)
Total	1,271,855	1,624,012	1,901,906	2,222,896
Application of funds				
Assets under management	1,272,262	1,625,647	1,908,776	2,235,760
Shareholders'	58,555	67,338	77,439	89,301
Policyholders'	671,886	772,669	888,569	977,426
Asset held to cover linked liabilities	541,821	785,640	942,768	1,169,033
Other assets	(407)	(1,635)	(6,870)	(12,864)
TOTAL	1,271,855	1,624,012	1,901,906	2,222,896

E – Estimates

Embedded Value

Particulars	FY20A	FY21E	FY22E	FY23E
Opening EV	183,000	206,500	253,340	298,853
Unwind	13,700	16,741	19,929	23,582
VNB	19,190	20,208	25,513	31,877
Operating variances	300	1,653	2,154	3,158
EV Operating Profit	33,190	38,602	47,597	58,617
Economic variances	(10,000)	9,200	0	0
Capital injections/outflow	400	(962)	(2,084)	(3,263)
Closing EV	206,500	253,340	298,853	354,206

Key ratios

Particulars	FY20A	FY21E	FY22E	FY23E
APE growth	18.3	5.9	20.0	20.0
Savings APE growth	17.7	9.5	14.9	18.5
Protection APE growth	21.5	(11.3)	50.5	26.7
Business mix (APE basis)				
ULIP	23.2	19.2	18.5	18.2
Par	15.8	27.1	22.1	21.9
Non-par	37.3	30.0	33.2	32.8
Protection	17.1	14.4	18.0	19.0
Commission ratio	4.5	4.0	3.9	4.0
First year commission	18.0	17.7	17.0	17.5
Renewal premium commission	1.6	1.5	1.5	1.5
Single premium commission	1.3	0.9	1.1	1.1
Operating expense ratio	13.1	12.0	12.7	12.6
Management expense ratio	17.6	16.0	16.7	16.7
Cost to TWRP	25.6	23.4	24.7	24.8
VNB	19,190	20,208	25,513	31,877
VNB growth	24.9	5.3	26.3	24.9
VNB margin	25.9	25.8	27.1	28.2
RoEV	18.1	18.7	18.8	19.6

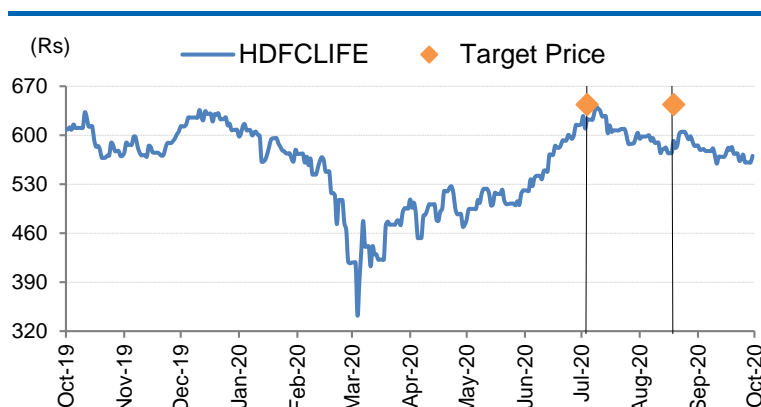
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Reduce	644	623
Sep-20	Reduce	644	592

*Price as on recommendation date

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