

## Retail Equity Research

# HDFC Life Insurance Company Limited

Life Insurance

BSE CODE: 540777

NSE CODE: HDFCLIFE

Bloomberg CODE: HDFCLIFE:IN

SENSEX: 40,146

**BUY**

12M Investment period

Rating as per Large cap

**CMP Rs. 580 TARGET Rs. 660 RETURN 14%** ↑  
 (Closing: 26-10-20)

**KEY CHANGES:**
**TARGET** ↓

**RATING** ↑

**EARNINGS** ↓

## Impressive performance; Outlook encouraging

HDFC Life Insurance Co. Ltd, a joint venture between HDFC Ltd. and Standard Life Aberdeen, provides insurance services and was listed on BSE on 17th November 2017. The issuer offers protection for life, health, properties and automobile, amongst others.

- Gross premium income rose 34.8% YoY in Q2FY21 driven by renewal premiums (+20.8% YoY) and single premium (+65.5% YoY). Company sold more than 4.4 lac policies, recorded strong growth of ~6% YoY.
- PAT rose 5.6% YoY to Rs. 326cr. Also, new business margin (NBV) improved 20bps to 25.6% in Q2FY21 supported by balanced product mix and cost control initiatives. The company's solvency ratio expanded to 203% from 192% in H1FY20.
- Company's market share for Individual weighted received premium (WRP) expanded 230 bps to 17.5% for H1FY21.
- Strong product mix and APE (Annualized Premium Equivalent) growth in individual protection segment along with improvement in premiums through digital payments should help performance. Hence, we upgrade our rating to BUY with a revised target price of Rs. 660 based on 4.5x FY22E Embedded Value per share.

### Growth momentum continues for premium

Q2FY21 gross premium rose 34.8% YoY to Rs. 10,182cr on account of strong growth under renewal premium (+20.8% YoY to Rs. 4,310cr), single premium (+65.5% YoY to Rs. 4,197cr), and first year premium (+15.3% YoY to Rs. 1,675cr). Net profit increased 5.6% YoY to Rs. 326cr, driven by balanced product mix (share of products of participating savings/non-participating savings/ULIPs/protection/annuity of 33%/30%/23%/9%/5%) and increase in premiums, partially offset by increase in actuarial liability to Rs. 9,885cr (vs Rs. 2,641cr in Q2FY20).

### VNB margin improved with persistency ratio a mixed bag

New business value rose 22.1% YoY to Rs. 547cr in Q2FY21 with company's VNB margin moved to 25.6% compared to 25.4% in Q2FY20. While operating return on EV dropped to 17.6% in H1FY21 (19.6% in H1FY20). However, 13M persistency ratio increased to 90.8%, a rise of 150bps YoY and 61M persistency ratio declined 220bps YoY to 52.4%. In Q2FY21, Individual Annualized premium equivalent (APE) increased 18.5% YoY and group APE rose 21.2% YoY. The company continued to focus on protection segment as protection based individual APE rose 28.0% YoY to Rs. 128cr in Q2FY21. However, credit protect business fell by 53% in H1FY21 with de-growth of 74% YoY in Q1FY21 and 36% YoY in Q2FY21.

### Key concall highlights

- The company's market share of individual WRP rose to 17.5% in H1FY21 from 15.2% in H1FY20.
- HDFC received 418 COVID-related claims on the individual business and 50 for group business. The COVID reserve of Rs. 41cr created in April 2020 remains sufficient and review might happen in second half of the year.
- 95% of the customers made online payments to renew their policies. This leads to a growth in bancassurance and online channels by 11% YoY and 14% YoY, respectively, in first half of the year.

### Outlook & valuation

The company's strong product mix, cost reduction initiatives, and strong APE (Annualized premium equivalent) growth potential will aid the performance in upcoming quarters. Hence, we upgrade our rating to BUY on the stock with a revised target price of Rs. 660 based on 4.5x FY22E EV per share.

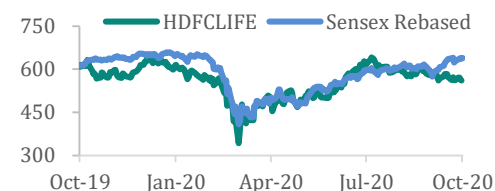
### Company Data

Market Cap (cr)	Rs. 113,956
Outstanding Shares (cr)	201.5
Free Float	40.0%
Dividend Yield	0.0%
52 week high	Rs. 648
52 week low	Rs. 339
6m average volume (lac)	7.4
Beta	0.7
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	63.7	60.4	60.4
FIIIs	21.1	23.6	23.4
MFs/Insti	6.1	7.3	7.3
Public	7.0	6.9	7.2
Others	2.1	1.8	1.6
Total	100.0	100.0	100.0
Promoters' Pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-9.4%	15.5%	-7.3%
Absolute Sensex	6.7%	27.7%	4.2%
Relative Return*	-16.0%	-12.2%	-11.4%

\*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Premium	32,224	37,144	43,303
Growth (%)	11.4	15.3	16.6
New Business (%)	25.9	25.5	26.3
Net Profit	1,295	1,420	1,574
Growth (%)	1.4	9.6	10.9
EPS (Rs.)	6.4	7.0	7.8
Growth (%)	1.4	9.6	10.9
BVPS (Rs.)	33.7	40.1	46.2
EVPS (Rs.)	102.2	122.7	146.4
RoE	18.5	17.5	16.9
RoEV	18.1	20.0	20.5
P/E	68.9	80.3	72.4
P/EV	4.3	4.6	3.9
Solvency (%)	184.0	200.0	201.1

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
<b>Premium Earned (Net)</b>	<b>10,045</b>	<b>7,454</b>	<b>34.8</b>	<b>5,722</b>	<b>75.6</b>	<b>15,767</b>	<b>13,905</b>	<b>13.4</b>
Income from investments (net)	6,319	1,135	456.7	8,749	(27.8)	15,068	3,187	372.9
Other income	51	69	(27.1)	38	32.9	89	102	(12.8)
<b>Total Income</b>	<b>16,415</b>	<b>8,658</b>	<b>89.6</b>	<b>14,509</b>	<b>13.1</b>	<b>30,924</b>	<b>17,193</b>	<b>79.9</b>
Incurred Claims	4,756	4,223	12.6	2,799	69.9	7,555	7,885	(4.2)
Other expenses	11,503	4,246	170.9	11,427	0.7	22,930	8,738	162.4
<b>Total Expenses</b>	<b>16,259</b>	<b>8,470</b>	<b>92.0</b>	<b>14,226</b>	<b>14.3</b>	<b>30,484</b>	<b>16,623</b>	<b>83.4</b>
Tax (policyholders' A/c)	18	(24)	n.m.	32	(44.0)	49	(20)	n.m.
<b>Surplus (Post tax)</b>	<b>139</b>	<b>213</b>	<b>(35.0)</b>	<b>252</b>	<b>(45.0)</b>	<b>390</b>	<b>589</b>	<b>(33.8)</b>
Transfer to shareholder a/c	218	220	(1.2)	347	(37.3)	565	571	(1.1)
Interest and other income	137	140	(2.1)	96	42.1	234	239	(2.2)
Other expenses	29	34	(14.9)	(8)	n.m.	21	46	(54.8)
<b>PBT</b>	<b>326</b>	<b>327</b>	<b>(0.2)</b>	<b>451</b>	<b>(27.7)</b>	<b>777</b>	<b>764</b>	<b>1.8</b>
Tax (shareholders' A/c)	0	18	n.m.	0	n.m.	0	30	n.m.
<b>Reported PAT</b>	<b>326</b>	<b>309</b>	<b>5.6</b>	<b>451</b>	<b>(27.7)</b>	<b>777</b>	<b>733</b>	<b>6.0</b>
<b>Adj EPS (Rs.)</b>	<b>1.6</b>	<b>1.5</b>	<b>5.2</b>	<b>2.2</b>	<b>(27.9)</b>	<b>3.8</b>	<b>3.6</b>	<b>5.9</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Premium Earned (Net)</b>	<b>36,121</b>	<b>40,744</b>	<b>37,144</b>	<b>43,303</b>	<b>2.8</b>	<b>6.3</b>
Profit before tax	1,468	1,651	1,434	1,590	(2.3)	(3.7)
Net Profit	1,453	1,634	1,420	1,574	(2.3)	(3.7)
<b>Adj. EPS (Rs.)</b>	<b>7.2</b>	<b>8.1</b>	<b>7.0</b>	<b>7.8</b>	<b>(2.4)</b>	<b>(3.8)</b>

## Policyholders' Profit & Loss Account

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net Premium</b>	<b>23,371</b>	<b>28,924</b>	<b>32,224</b>	<b>37,144</b>	<b>43,303</b>
% change	21.3	23.8	11.4	15.3	16.6
Investment Inc.	8,595	9,027	-3,311	19,865	9,933
Transfer from shareholder account	157	309	105	120	140
Other income	112	175	244	280	327
<b>Total Income</b>	<b>32,234</b>	<b>38,436</b>	<b>29,261</b>	<b>57,410</b>	<b>53,703</b>
Commission	1,075	1,118	1,491	1,607	1,504
Operating Expenses	3,159	3,814	4,267	4,708	4,511
Other Expenses	296	430	921	1,221	1,142
<b>Operating Profit</b>	<b>27,704</b>	<b>33,074</b>	<b>22,583</b>	<b>49,873</b>	<b>46,546</b>
% change	2.0	19.4	-31.7	120.8	-6.7
Benefits Paid (Net)	13,111	13,989	19,021	21,277	27,313
Change in Reserves	13,322	17,507	2,441	27,384	17,722
Tax	176	227	149	135	168
<i>Tax Rate (%)</i>	13.8	14.4	13.3	11.1	11.1
<b>Surplus/Deficit</b>	<b>1,095</b>	<b>1,351</b>	<b>971</b>	<b>1,077</b>	<b>1,343</b>
% change	15.5	23.4	(28.1)	10.9	24.6

## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Source of Funds</b>					
Share Capital	2,012	2,017	2,019	2,019	2,019
Reserves & Surplus	2,706	3,641	4,968	6,077	7,304
Fair Value Change	31	-3	-186	9	9
<b>Shareholders' Fund</b>	<b>4,749</b>	<b>5,656</b>	<b>6,800</b>	<b>8,104</b>	<b>9,332</b>
Policy Liabilities	42,319	53,635	65,271	75,061	86,321
Others	57,807	64,490	54,232	64,585	76,095
<b>Policyholder's Fund</b>	<b>1,00,127</b>	<b>1,18,124</b>	<b>1,19,502</b>	<b>1,39,647</b>	<b>1,62,415</b>
Funds for Future appropriations	959	1,103	883	775	883
<b>Total</b>	<b>1,05,835</b>	<b>1,24,883</b>	<b>1,27,185</b>	<b>1,48,527</b>	<b>1,72,630</b>
<b>Application of Funds</b>					
Shareholders'	4,070	5,050	5,855	7,265	9,013
Policyholders'	45,347	57,124	67,189	77,267	88,857
Assets held to cover linked liabilities	57,185	63,377	54,182	63,733	74,074
Loans	19	80	299	449	673
Fixed assets	341	333	330	333	337
Net Current assets	-1,128	-1,082	-670	-520	-323
<b>Total</b>	<b>1,05,835</b>	<b>1,24,883</b>	<b>1,27,185</b>	<b>1,48,527</b>	<b>1,72,630</b>
<b>BVPS (Rs.)</b>	<b>23.6</b>	<b>28.0</b>	<b>33.7</b>	<b>40.1</b>	<b>46.2</b>
% change	23.2	18.7	20.2	19.2	15.1

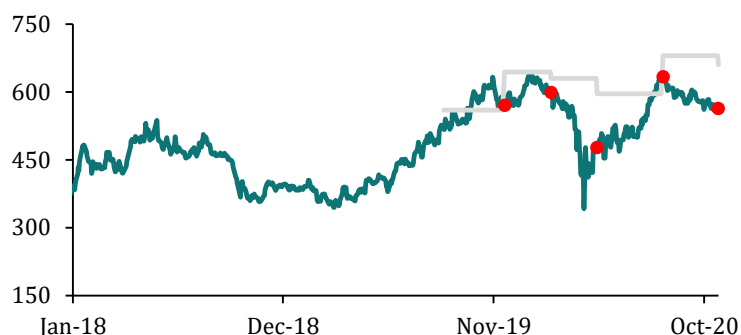
## Shareholders' Profit & Loss Account

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Transfer from Technical A/c	1,002	1,207	1,191	1,185	1,235
Investment Inc.	293	429	456	478	540
<b>Total Income</b>	<b>1,295</b>	<b>1,636</b>	<b>1,648</b>	<b>1,663</b>	<b>1,775</b>
% change	27.9	26.3	0.7	0.9	6.8
Other Expenses	12	38	231	109	45
Contribution to Technical A/c	157	309	105	120	140
<b>Total Expenses</b>	<b>169</b>	<b>346</b>	<b>336</b>	<b>229</b>	<b>185</b>
<b>PBT</b>	<b>1,127</b>	<b>1,290</b>	<b>1,312</b>	<b>1,434</b>	<b>1,590</b>
% change	23.3	14.5	1.7	9.3	10.9
Tax	18	13	16	14	16
<i>Tax Rate (%)</i>	1.6	1.0	1.3	1.0	1.0
<b>Reported PAT</b>	<b>1,109</b>	<b>1,277</b>	<b>1,295</b>	<b>1,420</b>	<b>1,574</b>
Adj*					
<b>Adj. PAT</b>	<b>1,109</b>	<b>1,277</b>	<b>1,295</b>	<b>1,420</b>	<b>1,574</b>
% change	24.3	15.1	1.4	9.6	10.9
No. of shares (cr)	201	202	202	202	202
<b>Adj. EPS (Rs.)</b>	<b>5.5</b>	<b>6.3</b>	<b>6.4</b>	<b>7.0</b>	<b>7.8</b>
% change	23.8	14.7	1.4	9.6	10.9
DPS (Rs.)	1.4	1.6	0.0	1.4	1.6

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Per Share (Rs.)</b>					
EPS	5.5	6.3	6.4	7.0	7.8
DPS	1.4	1.6	0.0	1.4	1.6
EVPS	75.6	90.6	102.2	122.7	146.4
<b>Earnings (%)</b>					
RoE	23.5	22.6	18.5	17.5	16.9
RoEV	21.5	20.1	18.1	20.0	20.5
<b>Valuation (x)</b>					
P/E (x)	81.9	58.7	68.9	80.3	72.4
P/EV (x)	6.0	4.1	4.3	4.6	3.9
Div. Yield (%)	0.3	0.4	0.0	0.2	0.3
<b>Expenses (% of premium)</b>					
Commission	4.6	3.9	4.6	4.3	3.5
Operating Expenses	13.5	13.2	13.2	12.7	10.4
Total Expenses	19.4	18.5	20.7	20.3	16.5
<b>Margin (%)</b>					
New Business	23.2	24.6	25.9	25.5	26.3
<b>Solvency (%)</b>					
Solvency	192.0	188.0	184.0	200.0	201.1

## Recommendation Summary



Dates	Rating	Target
12-Aug-19	HOLD	560
18-Nov-19	BUY	644
31-Jan-20	HOLD	630
13-Apr-20	BUY	596
27-Jul-20	HOLD	680
27-Oct-20	BUY	660

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

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