

Refer to important disclosures at the end of this report

Ticking all the right boxes

CMP: Rs 571
 as of (October 19, 2020)

TP: Rs 691 (▼)
 12 months

Rating: BUY (■)

Upside: 21.1 %

- VNB margins surged 80bps qoq to 25.7% (+140bps qoq) in Q2FY21 (25.1% for H1FY21) due to a change in product mix and active role of distribution mix. Absolute VNB grew by ~22% yoy after a ~42.9% yoy fall in the last quarter amid Covid-19-related lockdowns.
- HDFC Life has utilized its distribution mix in the most effective manner. In spite of a steep rise in the share of bancassurance channel to ~60% of distribution mix (vs. ~50% in FY20), the share of ULIPs stood at ~23%, whereas savings products grew to ~66% (vs. ~60% in FY20). Demand for term plans may rise as demand for credit protect policies normalizes.
- The firm's balanced product mix provides a cushion against any business cyclicity while, at the same time, taking advantage of the underpenetrated protection market. We expect margins to improve gradually with the rising share of protection plans and increasing penetration in geographies.
- We maintain our estimates and expect VNB to grow at a 13.4% CAGR to Rs28.3bn over FY20-23E, with a ~19% CAGR (due to a low base) in EV to Rs0.35tn by FY23E. We retain Buy/OW in EAP, with a TP of Rs691, corresponding to ~4x P/FY23E EV.

What we like

- Improved market share to ~17.5% in Individual insurance among private insurers; healthy trends in renewal premium collection with 22% yoy growth in Q2
- Innovative cost control methods already underway, resulting in improvement in the opex ratio to 11.1% in Q2FY21 against ~11.5% last quarter
- 13M persistency was healthy at ~90.8% (vs. ~87% in Q1) and 49M at ~70.1% (vs. ~64.9% in Q1)
- Improved solvency ratio on a qoq basis to ~206%

What we remain concerned about

- Subdued growth in credit protect continued amid the slowdown in the lending business and a change in the strategy. However, the trend is expected to improve with momentum in credit demand returning.
- Competitive intensity among private insurers is rising, which could impact the pricing power for HDFCSL, impacting margins

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Profit	12,768	12,953	17,322	21,054	25,548
EPS (Rs)	6.3	6.4	8.6	10.4	12.7
VNB	15,400	19,190	18,953	22,602	26,810
VNB margin %	24.6	25.9	24.6	25.9	26.0
EV	1,83,080	2,06,500	2,48,106	2,91,430	3,44,102
ROEV %	20.1	18.1	17.2	17.6	18.2
P/EV (x)	6.3	5.6	4.6	4.0	3.3

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(4)/(8)
Target Price change (%)	(3.0)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	8.6	10.4
Consensus	7.0	8.2
Mean Consensus TP (12M)	Rs 628	

Stock Details

Bloomberg Code	HDFCLIFE IN	
Face Value (Rs)	10	
Shares outstanding (mn)	2,019	
52 Week H/L	648 / 339	
M Cap (Rs bn/USD bn)	1,152 / 15.70	
Daily Avg Volume (nos.)	34,48,416	
Daily Avg Turnover (US\$ mn)	28.2	

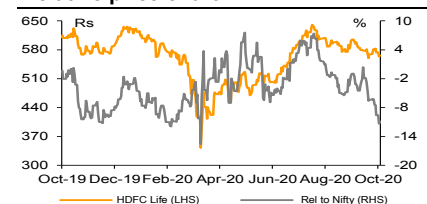
Shareholding Pattern Jun '20

Promoters	60.4%
FIIIs	23.6%
DIIIs	7.3%
Public and Others	8.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(7)	15	(6)
Rel. to Nifty	(6)	(15)	(10)	(8)

Relative price chart



Source: Bloomberg

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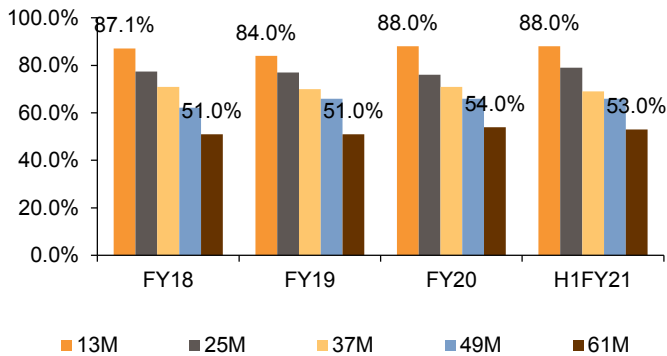
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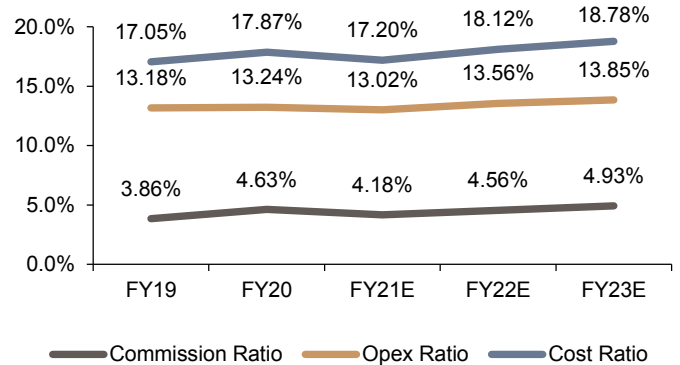
Story in charts

Exhibit 1: Persistency continues to be robust



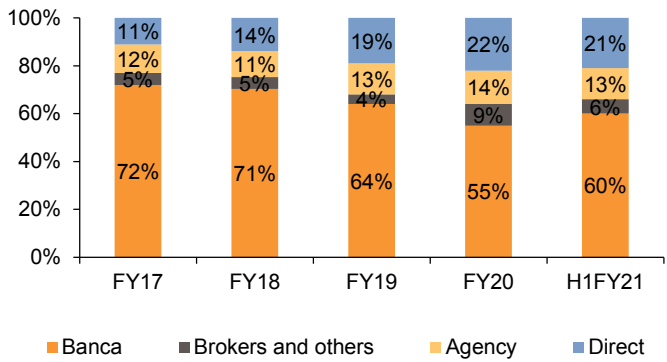
Source: Company, Emkay Research

Exhibit 2: Strong cost controls to boost bottom line



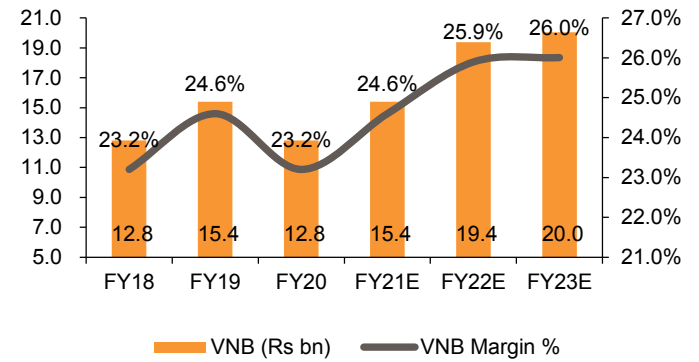
Source: Company, Emkay Research

Exhibit 3: Share of banca channel increases due to lockdown



Source: Company, Emkay Research

Exhibit 4: VNB margins to increase on improving product mix



Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

Rs mn	FY21E			FY22E			FY23E
	Old	New	% change	Old	New	% change	Introduced
NBP	2,22,849	1,79,308	-19.5%	2,72,226	2,01,584	-25.9%	2,32,921
APE	88,672	77,043	-13.1%	1,06,155	87,265	-17.8%	1,03,074
EV	2,49,323	2,48,106	-0.5%	3,24,705	2,91,430	-10.2%	3,44,102
PAT	17,990	17,322	-3.7%	22,847	21,054	-7.8%	25,548
VNB margin %	26.2	24.6	-1.6%	27.8	25.9	-1.9%	26.0
RoE (%)	22.5	22.5	0.0%	21.8	21.8	0.0%	21.3
ROEV %	17.8	17.2	-0.6%	18.7	17.6	-1.1%	18.2

Source: Company, Emkay Research

Exhibit 6: Movement in EV

Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Opening Embedded value (EV)	1,24,705	1,52,200	1,83,080	2,06,500	2,48,106	2,91,430
Expected return on existing business (A+B+C)	14,000	15,240	14,000	16,520	21,089	26,229
Expected return on existing business (unwind) (A)	10,400	13,030	13,700	16,520	21,089	26,229
Operating assumption changes (B)	1,600	-	-	-	-	-
VNB added during the period	12,800	15,400	19,200	18,953	22,602	26,810
Operating experience variance (C)	2,000	2,210	300	-	-	-
IEV operating earnings (EVOP)	26,800	30,640	33,200	35,473	43,691	53,038
Economic assumption changes and investment variance	2,600	3,610	(10,000)	10,000	3,500	3,500
IEV total earnings	29,400	34,250	23,200	45,473	47,191	56,538
Capital contributions/ / (dividends paid out)	(2,000)	(3,370)	220	(3,867)	(3,867)	(3,867)
Closing IEV	1,52,105	1,83,080	2,06,500	2,48,106	2,91,430	3,44,102
Expected return as % of opening (PAT/opening EV)	8.9%	8.4%	7.1%	8.4%	8.5%	8.8%
VIF transfer as % of opening (unwinding/opening EV)	8.3%	8.6%	7.5%	8.0%	8.5%	9.0%
ROEV %	21.5%	20.1%	18.1%	17.2%	17.6%	18.2%
Operating ROEV %	18.6%	18.7%	18.0%	17.2%	17.6%	18.2%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net earned premium	2,89,240	3,22,236	3,45,640	3,88,710	4,51,578
Income from investments	90,275	(33,109)	66,217	74,164	81,580
Contribution from the shareholders fund	3,090	1,047	0	0	0
Miscellaneous income	1,761	2,440	2,367	2,722	3,130
Total income	3,84,366	2,92,614	4,14,225	4,65,595	5,36,288
Commissions	11,315	14,912	14,457	17,727	22,264
Operating expenses	38,018	42,679	45,001	52,722	62,556
Provisions	4,304	9,207	9,479	10,096	11,353
Total expenses	53,637	66,797	68,937	80,544	96,172
Benefits paid (net)	1,39,889	1,90,215	1,62,274	1,89,772	2,19,784
Change in liabilities (net)	1,75,075	24,408	1,58,650	1,66,582	1,91,569
Total	3,14,964	2,14,622	3,20,924	3,56,354	4,11,353
Surplus	15,765	11,194	24,363	28,696	28,762
Tax	2,258	1,480	2,875	2,992	3,226
Net surplus	13,507	9,714	21,488	25,705	25,537
Transfer to shareholders account	12,069	11,914	12,510	15,011	18,014

Shareholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Transfer from policyholders account	12,069	11,914	12,510	15,011	18,014
Income from investments	4,084	4,378	5,900	7,376	9,163
Other income	211	186	100	100	100
Total income	16,364	16,478	18,510	22,488	27,276
Expenses	278	334	368	404	445
Profit before tax	12,899	13,117	18,142	22,083	26,831
Tax	131	165	820	1,030	1,284
Net profit	12,768	12,953	17,322	21,054	25,548

Balance Sheet

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Sources of funds					
Share capital	20,174	20,188	20,188	20,188	20,188
Reserve and surplus	36,409	49,675	67,376	88,810	1,14,737
Fair value change account credit/(debit)	(30)	(1,920)	(1,920)	(1,920)	(1,920)
Net worth (including fair value change)	56,556	67,999	85,645	1,07,078	1,33,005
Policyholders funds	11,81,243	11,95,025	14,03,300	16,20,198	18,73,393
Funds for future appropriations	11,030	8,830	13,841	16,305	17,308
Total liabilities	12,48,829	12,71,854	15,02,785	17,43,580	20,23,707
Application of funds					
Shareholders investments	50,498	58,555	73,749	92,206	1,14,532
Policyholders investments	5,71,245	6,71,886	8,29,933	9,99,569	11,99,939
Assets to cover linked liabilities	6,33,774	5,41,821	5,92,544	6,40,303	6,93,624
Loans	796	2,991	2,991	2,991	2,991
Fixed assets	3,333	3,301	3,301	3,301	3,301
Net current assets (A-B)	(10,816)	(6,699)	266	5,211	9,320
Total assets	12,48,829	12,71,854	15,02,785	17,43,580	20,23,707

Key Ratio (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Conservation ratio %	83.8	80.3	79.9	81.5	84.4
Commissions ratio %	3.9	4.6	4.2	4.6	4.9
Opex ratio %	13.1	13.2	13.0	13.6	13.9
ROA %	1.1	1.0	1.2	1.3	1.4
ROE %	24.5	20.8	22.5	21.8	21.3
Dividend payout ratio %	51.2	50.5	37.0	15.2	12.6

EV Data	FY19	FY20	FY21E	FY22E	FY23E
Embedded value (Rs mn)	1,83,080	2,06,500	2,48,106	2,91,430	3,44,102
Value of new business (Rs mn)	15,400	19,190	18,953	22,602	26,810
EVOP (Rs mn)	30,640	33,200	35,473	43,691	53,038
ROEV %	20.1	18.1	17.2	17.6	18.2
VNB margin %	24.6	25.9	24.6	25.9	26.0

Source: Company, Emkay Research

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	6.3	6.4	8.6	10.4	12.7
DPS	3.2	3.2	3.2	1.6	1.6
BVPS	28.1	33.8	42.6	53.2	66.1

Valuation (x)	FY19	FY20	FY21E	FY22E	FY23E
P/E	90.1	88.9	66.5	54.7	45.1
P/B	20.3	16.9	13.4	10.7	8.6
P/EV	6.3	5.6	4.6	4.0	3.3
P/VNB	74.7	60.0	60.8	51.0	43.0
Dividend yield (%)	0.6	0.6	0.6	0.3	0.3

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
GWP	23.9	20.9	7.4	12.6	16.2
New business premium (NBP)	31.9	26.0	4.0	12.4	15.5
Annualized premium equivalent (APE)	12.0	22.8	7.5	13.3	18.1
Retail APE	5.4	21.7	26.8	9.7	15.1
Commissions	5.3	20.6	(3.0)	22.6	25.5
Operating expenses	20.3	20.4	5.4	17.2	18.7
Net income	15.1	23.9	33.7	21.5	21.3

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net earned premium	74,537	78,543	1,04,645	57,218	1,00,454
Total income	87,770	1,17,529	4,484	1,46,054	1,65,445
Total expenses	84,505	1,14,893	1,640	1,41,542	1,62,101
Net income	3,087	2,502	3,117	4,511	3,261
EPS (Rs)	1.53	1.24	1.55	2.24	1.62

Source: Capitaline

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	74.5	71.2	66.2	63.7	60.4
FIIIs	11.8	15.9	19.9	21.1	23.6
DIIIs	4.9	4.4	5.0	6.1	7.3
Public and Others	8.9	8.5	8.9	9.2	8.7

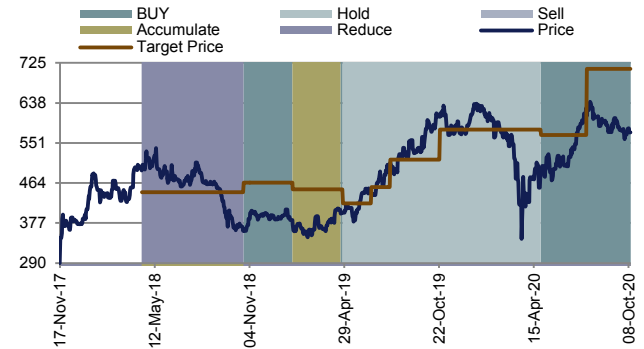
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Sep-20	586	712	12m	Buy	Jignesh Shial
09-Aug-20	607	712	12m	Buy	Jignesh Shial
22-Jul-20	610	712	12m	Buy	Jignesh Shial
01-Jul-20	550	568	12m	Buy	Jignesh Shial
11-May-20	525	568	12m	Buy	Jignesh Shial
28-Apr-20	486	568	12m	Buy	Jignesh Shial
07-Feb-20	596	580	12m	Hold	Neeraj Toshniwal
24-Jan-20	607	580	12m	Hold	Neeraj Toshniwal
11-Dec-19	573	580	12m	Hold	Neeraj Toshniwal
09-Dec-19	573	580	12m	Hold	Neeraj Toshniwal
08-Nov-19	568	580	12m	Hold	Neeraj Toshniwal
23-Oct-19	608	580	12m	Hold	Neeraj Toshniwal
11-Oct-19	591	515	12m	Hold	Neeraj Toshniwal
03-Oct-19	593	515	12m	Hold	Neeraj Toshniwal
18-Sep-19	539	515	12m	Hold	Neeraj Toshniwal
11-Sep-19	538	515	12m	Hold	Neeraj Toshniwal
13-Aug-19	519	515	12m	Hold	Neeraj Toshniwal
23-Jul-19	509	515	12m	Hold	Neeraj Toshniwal
18-Jun-19	442	455	12m	Hold	Neeraj Toshniwal
13-May-19	403	420	12m	Hold	Neeraj Toshniwal
26-Apr-19	400	420	12m	Hold	Neeraj Toshniwal
22-Apr-19	397	450	12m	Buy	Neeraj Toshniwal
13-Mar-19	366	450	12m	Accumulate	Neeraj Toshniwal
23-Jan-19	373	450	12m	Accumulate	Neeraj Toshniwal
24-Oct-18	365	465	12m	Buy	Neeraj Toshniwal
18-Apr-18	493	444	12m	Reduce	Neeraj Toshniwal

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Insurance	1.57	1.57	0%	0	100.00
HDFC Life	0.68	0.69	2%	1	44.36
ICICI Pru Life	0.25	0.22	-10%	-2	14.35
Max Financial	0.16	0.16	1%	0	10.06
SBI Life	0.48	0.49	1%	1	31.23
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

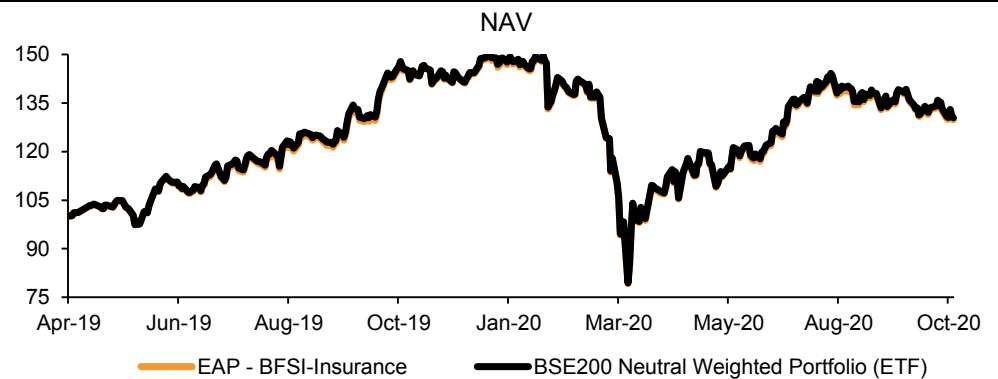
Sector portfolio NAV

	Base					Latest
	1-Apr-19	17-Jan-20	17-Apr-20	17-Jul-20	16-Sep-20	16-Oct-20
EAP - BFSI-Insurance	100.0	146.4	111.9	139.4	138.7	129.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	147.0	112.3	140.0	139.3	130.5

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 20 Oct 2020 16:49:00 (SGT)

Dissemination Date: 20 Oct 2020 16:50:00 (SGT)

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