

29 October 2020

Q2-FY21 Result Update

- HDFC Life Insurance Company Ltd. reported 34.8% year-over-year (y/y) increase in gross premium to ₹101,825 million in Q2FY21, driven by strong growth in new business premium as well as renewal premium. Net premium income (net of reinsurance) grew 34.9% y/y to ₹100,567 million in the quarter.
- The quarter witnessed higher commission expenses along with increases in benefits paid and change in actuarial liabilities. Consolidated profit after tax increased 6.1% y/y to ₹3,278 million as new business strain was offset by continued profit from back book.
- 13th month persistency rate improved to 88% in the reported quarter compared to 87% in Q2FY20 while 61st month persistency rate remained stable at 53%.
- As of Sep 30, 2020, the Assets under Management (AUM) stood at ₹1,506 billion, increasing 15% y/y. The debt:equity mix stands at 67:33 with almost 97% debt investments are in G-Secs and AAA bonds as on Sep 30, 2020.
- The company's market share in terms of Individual Weighted received premium (WRP) grew by 235 bps to 17.5%. Individual WRP growth of 22% in Q2FY21 helped in offsetting the de-growth in Q1FY21. The company registered 2% growth in H1-FY21 compared to private industry de-growth of 11%.
- During H1-FY21, the company sold about 4.4 lakh policies, registering a growth of 6% y/y. New business premium registered a growth of 7% y/y to ₹84.9 billion while total annualized premium equivalent (APE) declined 4% y/y to ₹33.3 billion. Continuing with the growth momentum, protection based on individual APE jumped 38% y/y. While the credit protect business plunged 53% for H1-FY21, Q2FY21 was better sequentially, with a degrowth of 36% as compared to 74% in Q1FY21.
- Overall, margin accretive protection and annuity businesses currently comprise 17% of total APE. While growing protection business remains a key area, management remains committed to maintain on a balanced product mix.
- Value of new business declined 12% y/y to ₹8.4 billion in H1-FY21, resulting in reduced new business margin of 25.1%, down from 27.5% in H1-FY20. However, during Q2FY21, new business margins witnessed improvement on sequential as well as year-on-year basis, led by growth, favorable product mix and cost management. Embedded value (EV) increased 16% y/y to ₹233.3 billion during H1-FY21.

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- ❑ Operating expense ratio stood at 11.1% in H1-FY21 down from 14.0% in FY20. However, management noted that operating expenses is likely to trend upwards in line with growth.
- ❑ The company had made a provision of ₹410 million as at Mar 31, 2020, for likely adverse mortality experience due to COVID-19. The provision held is above the IRDAI prescribed norms. While this COVID reserve was not utilized in the previous quarters, management remains cautious and intends to continue to carry it forward. The number of COVID claims has been increasing month-on-month, however, the total number of claims remains with management's estimates. As of Sep 30, 2020, the company received 418 COVID-related claims on the individual business and 50 claims in group business.
- ❑ Solvency ratio came in at 203% as of Sep 30, 2020, increasing from 190% as of Jun 30, 2020, as the company raised sub debt of ₹6,000 million. The ratio continues to exceed the regulatory requirement of 150%.
- ❑ Management remains optimistic about growth and noted that amid the pandemic, life insurance has emerged as an important avenue for both protection as well as long term savings product. Also, management stated that the company has been experiencing growth in renewal with normalization being witnessed in premium collection rates. However, it remains cautious and would continue to monitor the same.
- ❑ The company remains focused on driving growth through its diverse channels of distribution – bancassurance, agency, direct, brokers and others. Notably, the company registered strong growth in the bancassurance (11%) and online channels (14%) during H1-FY21. 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. We believe HDFC Life is well positioned for long term growth given its strong market position, solid product portfolio with lower ULIP mix and increasing protection business, diversified distribution network, healthy capital position and favorable traits in the domestic life insurance industry. We continue to remain positive on the company with a **BUY** rating and a target price of **₹685 per share**.



Consolidated Financial Result:

(In mn)	Q2FY21	Q2FY20	Chg	H1-FY21	H1-FY20	Chg
Gross Premium	101,825	75,552	34.8%	160,451	140,910	13.9%
Net Premium Earned	100,567	74,569	34.9%	157,904	139,141	13.5%
Income from investment	64,581	12,772	405.6%	153,062	34,294	346.3%
Other Income	546	756	-27.8%	934	1,147	-18.6%
Commission Expense	4,247	3,739	13.6%	6,647	7,015	-5.3%
Expenses and Tax	11,317	11,993	-5.6%	17,607	22,759	-22.6%
Claims/Benefits Paid & Change in Acturial liability	146,536	68,690	113.3%	279,529	136,520	104.8%
Other Expenses	315	404	-22.1%	333	637	-47.7%
Profit Before Tax	3,279	3,271	0.3%	7,786	7,650	1.8%
Tax	1	181		2	303	
Profit After Tax	3,278	3,090	6.1%	7,784	7,347	5.9%

Product Mix as % Total APE	H1-FY21	H1-FY20
ULIP	20%	21%
Par	28%	8%
Non Par	26%	44%
Group Savings	9%	6%
Term	12%	17%
Annuity	5%	4%
Total	100%	100%
Total APE (₹bn)	33.3	34.7
Value of New Business (VNB in ₹bn)	8.40	9.60
VNB Margin (VNB/APE)	25.1%	27.5%
Embedded Value (₹bn)	233.30	201.20
Persistency (13th Month/61th month)	88%/53%	86%/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	376,963	438,378
Net Premium Earned	289,306	322,450	372,279	433,624
Income from investment	94,418	(28,646)	176,096	148,083
Other Income	5,240	3,909	3,950	4,201
Commission Expense	11,177	14,912	17,189	20,165
Expenses and Tax	46,145	51,166	59,760	68,268
Claims/Benefits Paid & Change in Acturial liability	314,972	214,758	456,502	475,202
Other Expenses	3,759	3,738	4,088	4,795
Profit Before Tax	12,910	13,139	14,786	17,478
Tax	131	165	185	219
Profit After Tax	12,779	12,974	14,600	17,259

Margins	FY-19	FY-20	FY-21E	FY-22E
Gross Premium Growth %	23.9%	12.1%	15.3%	16.3%
PAT Growth %	15.4%	1.5%	12.5%	18.2%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Liabilities				
Equity Share Capital	20,174	20,188	20,195	20,195
Reserves & Surplus	36,282	49,798	64,406	81,664
Fair Value Change Account	(30)	(1,920)	382	382
Total Shareholder's Funds	56,426	68,066	84,982	102,241
Borrowings	-	-	6,000	6,000
Fair Value Change Account	11,121	496	11,194	11,194
Policy Liabilities	536,618	653,126	764,065	894,152
Policy Holders Funds	644,804	550,651	667,538	734,336
Short-term Liabilities	51,188	49,899	77,605	80,784
Total	1,300,158	1,322,239	1,611,385	1,828,707
Assets				
Net Fixed Assets	3,339	3,307	3,707	4,107
Investments - Shareholders	50,360	58,850	81,569	95,029
Investments - Policyholders	571,245	671,886	811,362	942,876
Assets Held to cover Linked Liabilities	633,774	541,821	657,227	722,271
Current Asset	41,441	46,374	57,520	64,425
Total	1,300,158	1,322,239	1,611,385	1,828,707

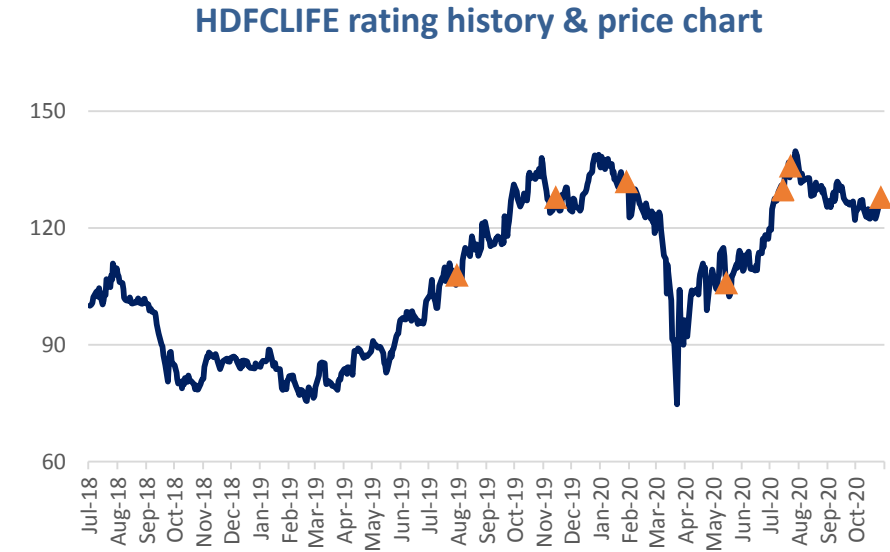
(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	6.3	6.4	7.2	8.5
P/E (x)	92.6	91.2	81.1	68.6
P/B (x)	21.0	17.4	13.9	11.6

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:



Source: Bloomberg, Anand Rath Research

NOTE: Prices are as on Oct 29, 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
29-Oct-2020	BUY	685	586

Source: Bloomberg, Anand Rath Research



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