

HDFC Life

Refer to important disclosures at the end of this report

Strong all round show

- VNB margins saw another quarter of a sharp surge of ~60bps qoq to 26.3% (+180bps yoy) in Q3FY21 (25.6% for 9MFY21) due to a change in the product mix and an active role of distribution mix. Absolute VNB grew ~27.1% yoy (+3.55 qoq) amid a rise in demand post Covid-19-related lockdowns.
- HDFCSL utilized its distribution mix in most effective manner. In spite of a steep rise in the share of bancassurance channels to ~63% of distribution mix from ~50% in FY20, the share of ULIPs was capped at ~23%. Savings products grew to ~65% from ~60% in FY20. The company saw a rise in term plans post normalization of demand for credit protect policies.
- HDFCSL's balanced product mix provides cushion against any business cyclicity while taking advantage of the grossly underpenetrated protection market. We expect the trend in margins to improve gradually with the rising share of protection plans and increasing penetration in deeper geographies.
- We increase our VNB margin estimate to 27.5% for FY23E (27% earlier), supported by an increase in the share of profitable product mix along with operating efficiency kicking in. We retain Buy/OW in EAP with a TP of Rs786, corresponding to ~4.3x P/FY23 EV.

What we like

- VNB margins surging to 26.3% during Q3FY21 from 25.6% in H1FY21
- Improved market share by 214bps to ~16.4% among private insurers and managed healthy trends in renewal premium collection with Q3
- 13M persistency for HDFCSL was healthy at ~89% (vs. ~88%) and 49M stood flat at ~53% qoq indicating stickiness of existing customer base
- The solvency ratio was healthy at ~202% providing comfort over any near future dilution for the company,

What we remain concerned about

- Demand for protection products needs to be eyed on considering end of pandemic and introduction of vaccination
- Relatively subdued growth in credit protect continued amid a slowdown in the lending business as well as a change in strategy. However, the trend is expected to improve with momentum in credit demand returning.
- Competitive intensity among private insurers rising, which could impact the pricing power for HDFCSL, in turn impacting margins

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(page 6\)](#)

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	19,389	22,157	30,652	39,454
VNB margin %	24.6	25.9	26.0	26.7	27.5
EV	183,080	206,500	248,865	305,390	376,286
ROEV %	20.1	18.1	19.2	21.6	22.3
P/EV (x)	7.6	6.7	5.6	4.5	3.7

Source: Company, Emkay Research

CMP	Target Price
Rs 687 as of (January 22, 2021)	Rs 786 (▲) 12 months
Rating	Upside
BUY (■)	14.3 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	3/9
Target Price change (%)	13.7
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	8.6	10.4
Consensus	7.2	8.0
Mean Consensus TP (12M)	Rs 713	

Stock Details

Bloomberg Code	HDFCLIFE IN
Face Value (Rs)	10
Shares outstanding (mn)	2,020
52 Week H/L	731 / 339
M Cap (Rs bn/USD bn)	1,389 / 19.03
Daily Avg Volume (nos.)	5,329,038
Daily Avg Turnover (US\$ mn)	46.7

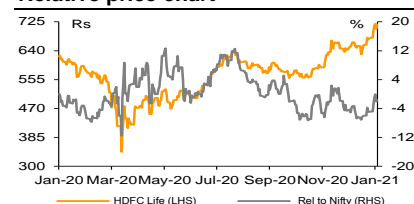
Shareholding Pattern Dec '20

Promoters	58.9%
FIIs	24.9%
DIIIs	7.1%
Public and Others	9.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	23	13	12
Rel. to Nifty	-	1	(13)	(5)

Relative price chart



Source: Bloomberg

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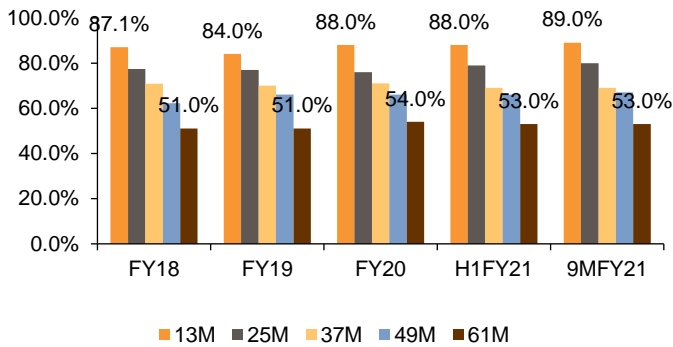
Jignesh Shial
jignesh.shial@emkayglobal.com
+91 22 6624 2468

Anand Dama
anand.dama@emkayglobal.com
+91 22 6624 2480

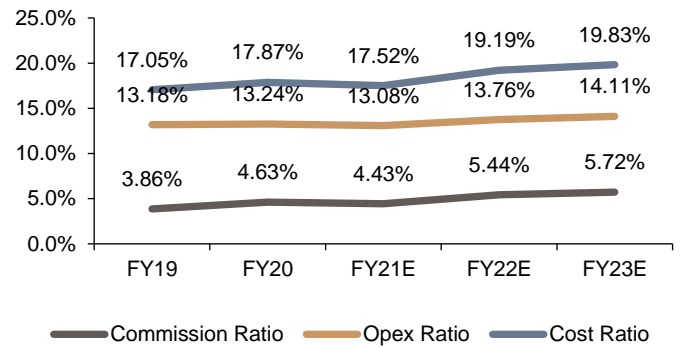
Parth Sanghvi
parth.sanghvi@emkayglobal.com
+91 22 6624 2431

Shrishti Jagati
shrishti.jagati@emkayglobal.com

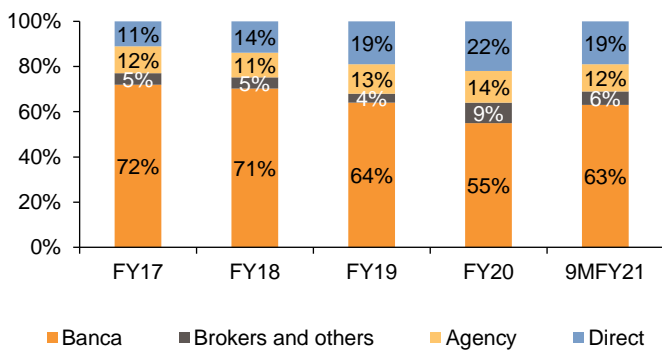
Story in charts

Exhibit 1: Persistency continues to improve


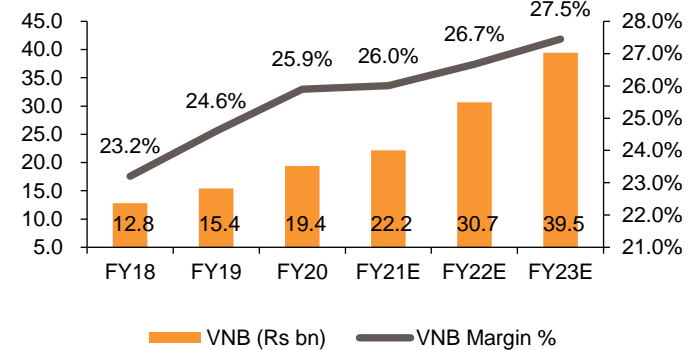
Source: Company, Emkay Research

Exhibit 2: Stable cost matrix


Source: Company, Emkay Research

Exhibit 3: Increasing trend of proprietary channel


Source: Company, Emkay Research

Exhibit 4: VNB margins to continue robust momentum


Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
NBP	234,517	222,849	-5%	201,584	272,226	35%	232,921	272,226	17%
APE	88,763	88,672	0%	87,265	106,155	22%	103,074	106,155	3%
PAT	17,481	17,990	3%	21,054	22,847	9%	22,548	22,847	1%
EV	250,958	248,865	-1%	291,430	305,390	5%	344,102	376,286	9%
VNB margin %	25.9%	26.0%	0%	25.9%	26.7%	3%	26.0%	27.5%	6%
ROE %	21.8%	22.5%	3%	21.8%	21.8%	0%	21.3%	21.3%	0%
ROEV %	19.1%	19.2%	1%	19.6%	21.6%	10%	20.2%	22.3%	11%

Source: Company, Emkay Research

Exhibit 6: Movement in EV

Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Opening Embedded value (EV)	124,705	152,200	183,080	206,500	248,865	305,390
Expected return on existing business (A+B+C)	14,000	15,240	14,000	17,488	23,154	28,722
Expected return on existing business (unwind) (A)	10,400	13,030	13,700	15,488	21,154	26,722
Operating assumption changes (B)	1,600	-	-	-	-	-
VNB added during the period	12,800	15,400	19,200	22,157	30,652	39,454
Operating experience variance (C)	2,000	2,210	300	2,000	2,000	2,000
IEV operating earnings (EVOP)	26,800	30,640	33,200	39,645	53,805	68,176
Economic assumption changes and investment variance	2,600	3,610	(10,000)	2,500	2,500	2,500
IEV total earnings	29,400	34,250	23,200	42,145	56,305	70,676
Capital contributions / / (dividends paid out)	(2,000)	(3,370)	220	220	220	220
Closing IEV	152,105	183,080	206,500	248,865	305,390	376,286
Expected return as % of opening (PAT/opening EV)	8.9%	8.4%	7.1%	8.4%	8.5%	8.4%
VIF transfer as % of opening (unwinding/opening EV)	8.3%	8.6%	7.5%	7.5%	8.5%	8.8%
ROEV %	21.5%	20.1%	18.1%	19.2%	21.6%	22.3%
Operating ROEV %	18.6%	18.7%	18.0%	18.2%	20.8%	21.7%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net earned premium	289,240	322,236	353,542	431,569	536,914
Income from investments	90,275	(33,109)	315,962	157,981	165,880
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	384,366	292,614	671,871	592,272	705,924
Commissions	11,315	14,912	15,679	23,466	30,720
Operating expenses	38,018	42,679	46,258	59,371	75,740
Provisions	4,304	9,207	9,500	10,376	12,024
Total expenses	53,637	66,797	71,437	93,214	118,484
Benefits paid (net)	139,889	190,215	207,009	235,284	235,284
Change in liabilities (net)	175,075	24,408	186,308	211,756	211,756
Total	314,964	214,622	393,318	447,040	447,040
Surplus	15,765	11,194	207,117	52,019	52,019
Tax	2,258	1,480	2,067	2,153	2,153
Net surplus	13,507	9,714	205,050	49,866	49,866
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
Provisions	97	1,978	0	0	0
Contribution to policyholders account	3,090	1,047	0	0	0
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	114,737
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	107,078	133,005
Policyholders funds	1,181,243	1,195,025	1,377,656	1,593,587	1,593,587
Funds for future appropriations	11,030	8,830	11,041	12,208	12,208
Total liabilities	1,248,829	1,271,854	1,474,341	1,712,874	1,712,874
Application of funds					
Shareholders investments	50,498	58,555	73,749	92,206	114,532
Policyholders investments	571,245	671,886	819,032	1,000,071	1,000,071
Assets to cover linked liabilities	633,774	541,821	577,801	613,190	613,190
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)	(2,534)	1,115	1,115
Total assets	1,248,829	1,271,854	1,474,341	1,712,874	1,712,874

Key Ratio (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Conservation ratio %	83.8	80.3	79.9	82.1	86.1
Commissions ratio %	3.9	4.6	4.4	5.4	5.7
Opex ratio %	13.1	13.2	13.1	13.8	14.1
ROA %	1.1	1.0	1.3	1.3	1.3
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)	183,080	206,500	248,865	305,390	376,286
Value of new business (Rs mn)	15,400	19,389	22,157	30,652	39,454
EVOP (Rs mn)	30,640	33,200	39,645	53,805	68,176
ROEV %	20.1	18.1	19.2	21.6	22.3
VNB margin %	24.6	25.9	26.0	26.7	27.5

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	108.6	107.1	80.1	65.9	54.3
P/B	24.5	20.3	16.1	12.9	10.4
P/EV	7.6	6.7	5.6	4.5	3.7
P/VNB	90.0	71.6	62.6	45.3	35.2
Dividend yield (%)	0.5	0.5	0.5	0.2	0.2

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
GWP	23.9	20.9	9.8	22.3	24.5
New business premium (NBP)	31.9	26.0	8.7	26.8	20.4
Annualized premium equivalent (APE)	12.0	22.8	18.9	34.9	25.1
Retail APE	5.4	21.7	43.1	35.8	24.2
Commissions	5.3	20.6	5.1	49.7	30.9
Operating expenses	20.3	20.4	8.4	28.3	27.6
Net income	15.1	23.9	33.7	21.5	21.3

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net earned premium	78,543	104,645	57,218	100,567	94,888
Total income	117,529	4,484	146,054	165,587	212,644
Total expenses	114,893	1,640	141,542	162,242	210,012
Net income	2,502	3,117	4,511	3,296	2,686
EPS (Rs)	1.24	1.55	2.24	1.64	1.34

Source: Capitaline

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	66.2	63.7	60.4	60.4	58.9
FIIIs	19.9	21.1	23.6	23.4	24.9
DIIIs	5.0	6.1	7.3	7.3	7.1
Public and Others	8.9	9.2	8.7	8.9	9.2

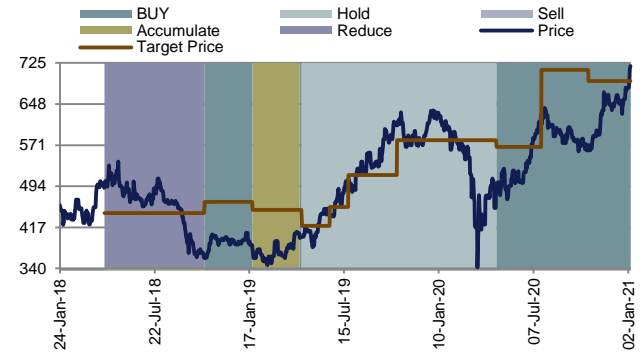
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Dec-20	653	691	12m	Buy	Jignesh Shial
19-Oct-20	571	691	12m	Buy	Jignesh Shial
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



Analyst: Jignesh Shial

Contact Details

jignesh.shial@emkayglobal.com
+91 22 6624 2468

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	1.50	1.50	0%	0	100.00
HDFC Life	0.68	0.69	1%	1	45.84
ICICI Pru Life	0.24	0.23	-7%	-2	15.03
Max Financial	0.15	0.16	4%	1	10.55
SBI Life	0.42	0.43	1%	1	28.57
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
	01-Apr-19	23-Jan-20	23-Jul-20	22-Oct-20	22-Dec-20	21-Jan-21
EAP - BFSI-Insurance	100.0	147.6	140.6	128.8	145.2	155.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	148.2	141.3	129.4	146.1	156.0

*Performance measurement base date 1st April 2019

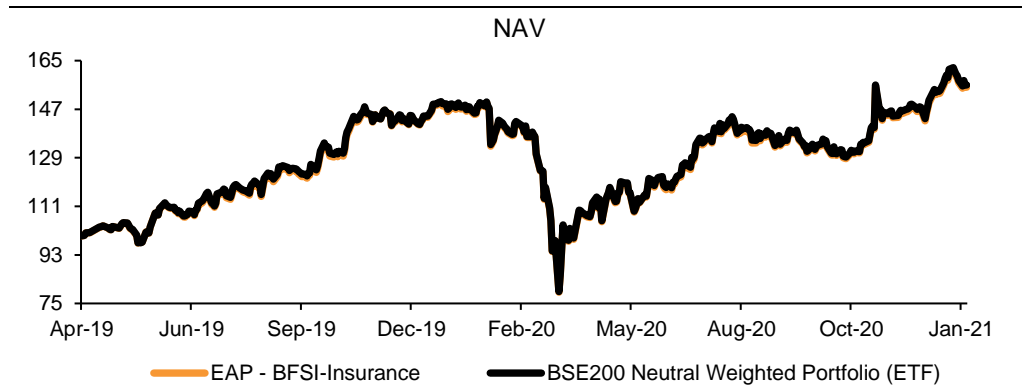
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	6.8%	20.5%	10.3%	5.1%
BSE200 Neutral Weighted Portfolio (ETF)	6.8%	20.6%	10.4%	5.3%

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: 23 Jan 2021 02:57:49 (SGT)

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com