

# HDFC Life Insurance Company Ltd



# HDFC Life Insurance Co. Ltd.

**Strong margin expansion; merger benefits still to payout**

CMP <b>INR 548</b>	Target <b>INR 706</b>	Potential Upside <b>28.9%</b>	Market Cap (INR Mn) <b>INR 11,57,082</b>	Recommendation <b>BUY</b>	Sector <b>Life Insurance</b>
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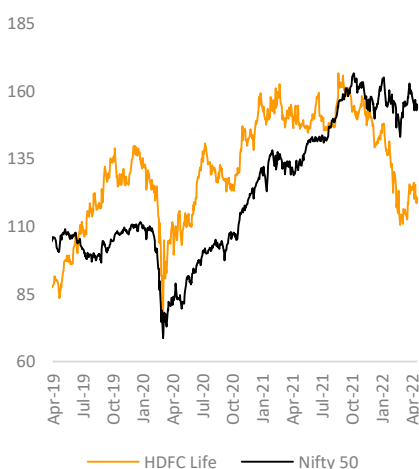
## Result Highlights Q4FY22 & FY22:

- The Gross Written Premium (GWP) for Q4FY22 stood at INR 1,42,897 Mn a strong growth of 11% YoY owing to a robust growth in the renewal premium which stood at 73,412 Mn (growth of 15.6% YoY). For the full year FY22, GWP grew 19.1% YoY at INR 4,59,628 Mn driven by both new business premium and renewal premium. The VNB for Q4FY22 stood at INR 9,000 Mn, an increase 15.1%/29.7% YoY/QoQ.
- New business margin (NBM) expanded by 237 bps YoY at 29.5% in Q4FY22. The value of new business increased to INR 26,800 Mn, registering a YoY growth of 22% in FY22. The NBM for FY22 stood at 27.5% vs 26.2% in FY21.
- The solvency as on March 31, 2022, stood at 176%, post the cash payout of INR 7,260 Mn to Exide Industries, as part-consideration for the acquisition of Exide Life.

## MARKET DATA

Shares outs (Mn)	2,025
Equity Cp (INR Mn)	1,54,011
Mkt Cap (INR Mn)	11,57,082
52 Wk H/L (INR)	776/497
Volume Avg (3m K)	5,203
Face Value (INR)	10.0
Bloomberg Code	HDFCLIFE : IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	56,819
NIFTY	17,038

## KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
GWP	3,27,069	3,85,835	4,59,628	5,43,453	6,34,072
PAT	12,951	13,601	12,077	16,635	20,470
EPS (INR/Share)	6.4	6.7	5.7	7.9	9.7
NBP-APE	71,637	81,833	96,644	1,12,751	1,31,178
VNB	19,190	21,900	26,800	31,288	37,386
VNB Margin (%)	25.9%	26.1%	27.1%	27.8%	28.5%
EVPS (INR/Share)	102.3	131.7	163.4	192.6	227.0

Source: Company, KRChoksey Research

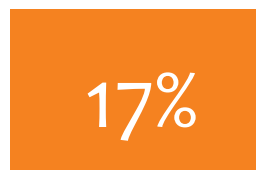
**Healthy premium growth momentum:** The GWP grew at a healthy 11.7% YoY/ 17.8% QoQ in Q4FY22, driven by strong growth in the renewal segment of 15.6% YoY. The NBP grew 7.9% YoY at INR 70,801 Mn. The Annuity business registered a healthy growth of 24% YoY growth in FY22, contributing 1/5th to the total new business premium. The overall protection grew by 24% YoY in APE and 47% in terms of New Business Premium (NBP). This was led mainly by a 55% growth in credit life new business premium in FY22, on the back of higher disbursements. The business performance remains strong, with 16% YoY growth in FY22 and a private market share of 14.8% in terms of Individual WRP. The demand is expected to be healthy across all segments in the coming years. Protection in India is a multi-decade opportunity, and the company will continue to address this opportunity by offering innovative & new products by leveraging its technological capabilities.

**Sharp expansion of VNB margins with improved product mix:** The margins improved to 29.5% for Q4FY22 vs 27.2% for Q4FY21, higher by 237 bps YoY due to improved high-margin products trends. VNB grew 15.1% YoY, led by strong expansion in the VNB margins. The improving growth in value of the new business has also been driven by growth in all the distribution channels. Bancassurance grew 13% YoY in FY22, while the agency, direct & online channels grew 18% YoY. HDFCLIFE continued to see an increase in the share of contribution from the annuity & protection, a key driver for margin expansion. We expect margins to be strong in the next 2-3 years, focusing more on the high margin products and Exide Life product portfolio integration.

**Persistency ratios trend will continue to improve gradually; Solvency ratio declined as an impact of acquisition process:** HDFCLIFE's 13th month & 61st month ratios stood at 92% and 58%, respectively in FY22, as against 90% & 53% in FY21. The improvement was led by strong growth in the renewal segment in FY22. The Solvency ratio as on 31st March 2022 stood at 176% against 190% as on 31st December 2021. The decline was after the cash payout of INR 7,260 Mn to Exide Industries as part-consideration for the acquisition of Exide Life. To further strengthen solvency to fuel growth, HDFCLIFE will continue evaluating raising capital through a mix of equity and debt.

## SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sept-21
Promoters	51.5	51.6	53.8
FIIs	26.3	30.5	30.1
DIIIs	7.8	8.3	6.7
Others	14.3	9.7	9.4
Total	100	100	100



APE CAGR between FY21 and FY24E



VNB CAGR between FY21 and FY24E

## ANALYST

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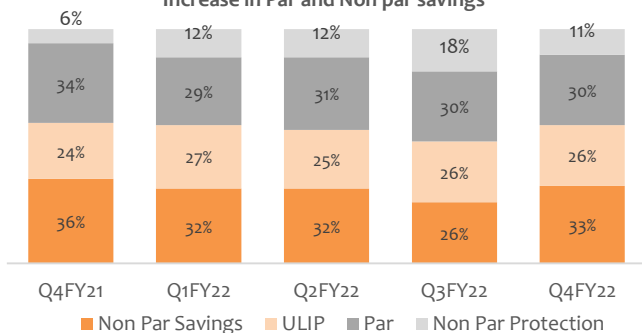
## Key Concall highlights:

- HDFCLIFE is closely tracking the geopolitical situation and its potential impact on inflation and consumption trends. The life stage products such as annuity and protection are relatively insulated from such external factors. With the severity of COVID infections having waned, the company has returned to normalized mortality experience.
- The solvency excluding the acquisition stood at 189% as on 31st March 2022. HDFCLIFE will be evaluating the options for capital raise to maintain its solvency ratio.
- HDFCLIFE is expected to move to a risk-based capital approach. This will release significant capital for the industry.
- Post the merger process completion, the VNB margins will remain neutral. The expansion story is expected after a few quarters of consolidation. The Exide Life & HDFCLIFE merger process is expected to complete by H2FY23E.
- The protection and retirement solutions are multi-decade opportunities and will continue to grow faster than other segments.
- A large part of margin expansion is coming through in the product mix shift. The company has also managed to reprice a large part of the business over the last 12 to 18 months. On the non-par side, there has been a slight expansion in the quarter from 32% to 35%.
- The company carries reserves of INR 550 Mn into FY23E as a prudent measure towards COVID.
- HDFCLIFE has launched non-par savings plan, Sanchay Fixed Maturity Plan, which now contribute more than 15% of its non-par savings mix. It has also rolled out a retiral product, Systematic Retirement Plan, which is a regular pay deferred annuity.
- On HDFC Ltd and HDFC bank merger front, HDFCLIFE will become a subsidiary of HDFC Bank. Hence, there will be a direct alignment and will have to cross-sell opportunities in a structured manner.

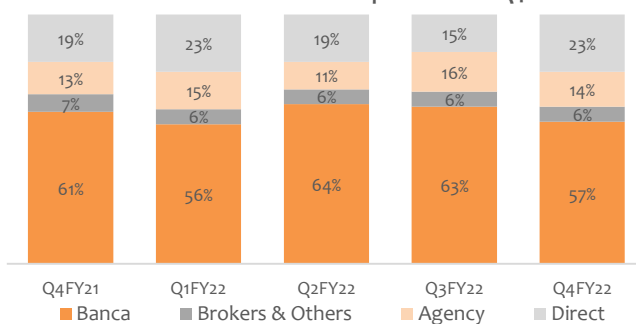
## Valuation and view

HDFCLIFE has delivered another quarter of healthy business performance. The VNB margins during Q4FY22 stood strong with improvement in the product mix and balanced growth in channels. The Embedded Value (EV) of the company increased due to the inclusion of Exide Life EV of INR 29.1 bn. The Exide Life merger is expected to aid in VNB margin expansion and strengthen the proprietary distribution channel for the company. HDFCLIFE is focused on improving its distribution mix and emphasizing improving the agency and proprietary mix. We expect the merger with EXIDE Life to act as a positive trigger for HDFCLIFE in terms of product mix, distribution mix and geographical expansion. We have factored 18% CAGR growth in premiums, 20% in VNB, and 20% in EV over FY21-24E. The overall NBP market share has declined to 21.0% in FY22 from 21.5% while for Individual WRP it has come down to 14.8% in FY22 from 15.5% in FY21 owing to the increased competition. Hence, we remain cautious & watchful on the losing market share. Since our last update, the shares of HDFC Life Insurance Co. Ltd have been corrected by ~13%. Currently the stock is trading at 2.4x FY24E EV. **We assign a 3.25x P/EV on FY24E EVPS of INR 227.0 and a VNB multiple of 26x to HDFC Life and revising the weighted average Target Price at INR 706 per share (previously INR 790 per share) (50:50 weights on the P/EV and appraisal value methodology), implying a 28.9% upside potential over CMP. We have maintained our 'BUY' rating on HDFC Life Insurance Co. Ltd.**

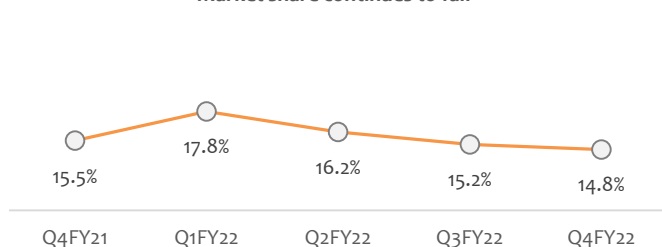
Product mix on Individual APE basis (%):  
Increase in Par and Non par savings



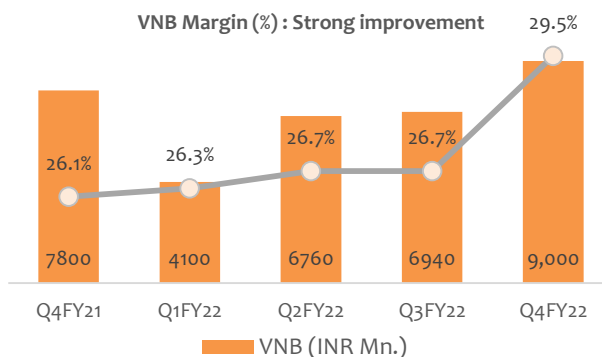
Channel mix on Individual APE basis (%):  
Direct channel saw improvement in Q4FY22



Individual WRP market share(%):  
Market share continues to fall



VNB Margin (%): Strong improvement



Source: Company, KRChoksey Research

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# HDFC Life Insurance Co. Ltd.

## KEY FINANCIALS

### Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Mn.)	FY20	FY21	FY22	FY23E	FY24E
Gross premiums	3,27,069	3,85,835	4,59,628	5,43,453	6,34,072
Reinsurance ceded	4,833	4,612	5,664	5,435	6,341
<b>Net premiums</b>	<b>3,22,236</b>	<b>3,81,223</b>	<b>4,53,965</b>	<b>5,38,018</b>	<b>6,27,731</b>
Net income from investments	-29,622	3,31,537	1,99,978	2,00,455	2,05,003
<b>Total income</b>	<b>2,92,614</b>	<b>7,12,760</b>	<b>6,53,943</b>	<b>7,38,473</b>	<b>8,32,734</b>
Commission expenses	14,914	17,104	19,403	24,470	30,245
Operating expenses	42,669	45,860	56,125	62,671	77,908
Servive tax on linked charges	3,532	2,024	1,520	2,154	2,789
<b>Operating profit</b>	<b>2,31,499</b>	<b>6,47,773</b>	<b>5,76,894</b>	<b>6,49,178</b>	<b>7,21,792</b>
Benefits paid (net)	1,81,730	2,25,748	3,18,638	3,36,941	3,67,762
Change in reserves	24,408	4,08,296	2,46,815	2,90,000	3,27,500
Interim Bonuses Paid	8,484	0	0	0	0
<b>Surplus / (Deficit) Before tax</b>	<b>16,877</b>	<b>13,728</b>	<b>11,442</b>	<b>22,237</b>	<b>26,530</b>
Provision For Tax & Others	7,165	2,744	1,845	9,572	10,517
<b>Surplus / (Deficit) After tax</b>	<b>9,712</b>	<b>10,984</b>	<b>9,597</b>	<b>12,665</b>	<b>16,013</b>

Source: Company, KRChoksey Research

### Exhibit 2: Premium Schedule

Particulars (INR Mn.)	FY20	FY21	FY22	FY23E	FY24E
First year premiums	60,443	68,584	80,544	93,431	1,08,380
Single premiums	1,11,942	1,32,482	1,61,005	1,93,205	2,27,982
<b>New business premium (NBP)</b>	<b>1,72,385</b>	<b>2,01,066</b>	<b>2,41,548</b>	<b>2,86,636</b>	<b>3,36,362</b>
NBP growth (%)	151.4%	166.4%	201.3%	186.7%	173.5%
<b>Renewal premiums</b>	<b>1,54,684</b>	<b>1,84,769</b>	<b>2,18,080</b>	<b>2,56,816</b>	<b>2,97,710</b>
Renewal premiums growth (%)	8.8%	19.4%	18.0%	17.8%	15.9%
<b>Total premiums</b>	<b>3,27,069</b>	<b>3,85,835</b>	<b>4,59,628</b>	<b>5,43,453</b>	<b>6,34,072</b>
Total premium growth (%)	12.1%	18.0%	19.1%	18.2%	16.7%
<b>NBP - APE</b>	<b>71,637</b>	<b>81,833</b>	<b>96,644</b>	<b>1,12,751</b>	<b>1,31,178</b>
NBP - APE growth (%)	18.4%	14.2%	18.1%	16.7%	16.3%

Source: Company, KRChoksey Research

### Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (INR Mn.)	FY20	FY21	FY22	FY23E	FY24E
Transfer from Technical account	11,912	9,909	10,093	11,715	15,063
Income from investments & other income	4,564	6,476	7,894	8,683	9,551
<b>Total income</b>	<b>16,476</b>	<b>16,385</b>	<b>17,987</b>	<b>20,398</b>	<b>24,615</b>
Total expenses	3,360	2,850	6,186	3,424	3,727
<b>PBT</b>	<b>13,115</b>	<b>13,535</b>	<b>11,801</b>	<b>16,974</b>	<b>20,887</b>
Provision for tax	165	-66	-276	339	418
<b>PAT</b>	<b>12,951</b>	<b>13,601</b>	<b>12,077</b>	<b>16,635</b>	<b>20,470</b>

Source: Company, KRChoksey Research

# HDFC Life Insurance Co. Ltd.

## Exhibit 4: Balance Sheet

Particulars (INR Mn.)	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of funds</b>					
Share capital	20,188	20,209	21,126	21,126	21,126
Share application money	56	20	33	0	0
Reserves and surplus	49,675	64,074	1,32,852	1,46,486	1,63,956
Fair value change account - net	-1,920	2,074	848	848	848
<b>Shareholders' fund</b>	<b>67,999</b>	<b>86,377</b>	<b>1,54,859</b>	<b>1,68,461</b>	<b>1,85,930</b>
Liabilities (Policyholder's Funds)	1,710	1,710	1,710	1,710	1,710
Fair value change account - net	496	25,550	21,697	24,934	28,654
Policy liabilities	6,52,708	8,55,230	10,43,425	11,99,109	13,78,023
Provision for linked liabilities	5,43,768	5,43,054	5,64,484	6,48,707	7,45,498
Credit/[debit] fair value change account	-35,326	1,66,581	2,00,706	2,30,653	2,65,067
Discontinued due to non-payment of premium	33,379	37,960	41,026	47,147	54,181
<b>Sub-Total</b>	<b>11,95,025</b>	<b>16,28,375</b>	<b>18,71,337</b>	<b>21,50,550</b>	<b>24,71,423</b>
Funds for future Appropriations	8,830	9,906	9,409	10,359	11,309
<b>Total Sources of Funds</b>	<b>12,71,855</b>	<b>17,24,658</b>	<b>20,35,605</b>	<b>23,29,370</b>	<b>26,68,663</b>
<b>Application of Funds</b>					
Investments					
- Shareholders'	58,555	85,421	1,52,379	1,98,093	2,57,521
- Policyholders'	6,71,886	9,05,378	10,83,110	12,50,992	14,73,668
Asset held to cover linked liabilities	5,41,821	7,47,595	8,06,215	9,31,179	10,96,929
Loans	2,991	4,241	6,428	6,428	6,428
Fixed assets - net block	3,301	3,402	3,427	3,627	3,827
Net current assets	-6,699	-21,378	-9,954	-60,949	-1,69,710
<b>Total Applications of Funds</b>	<b>12,71,855</b>	<b>17,24,658</b>	<b>20,41,605</b>	<b>23,29,370</b>	<b>26,68,663</b>

Source: Company, KRChoksey Research

EV Calculation (INR Mn.)	FY20	FY21	FY22	FY23E	FY24E
Opening EV	1,83,000	2,06,500	2,66,200	3,29,600	3,88,866
Unwind	13,670	17,400	23,000	28,478	33,054
<b>VNB (or NBAP)</b>	<b>19,190</b>	<b>21,900</b>	<b>26,800</b>	<b>31,288</b>	<b>37,386</b>
Operating variance	1,500	1,800	-5,700	2,000	2,000
<b>EV Operating Profit (EVOP)</b>	<b>33,160</b>	<b>38,300</b>	<b>44,100</b>	<b>61,766</b>	<b>72,439</b>
Non-operating variance	-10,030	20,600	-500	-3,000	-3,000
<b>EV Profit</b>	<b>23,130</b>	<b>58,900</b>	<b>43,600</b>	<b>58,766</b>	<b>69,439</b>
Net capital injection	380	800	27,100	500	500
<b>Closing EV</b>	<b>2,06,500</b>	<b>2,66,200</b>	<b>3,29,600</b>	<b>3,88,866</b>	<b>4,58,806</b>

Source: Company, KRChoksey Research

Key Financials (INR Mn.)	FY20	FY21	FY22	FY23E	FY24E
<b>Total premium</b>	<b>3,27,069</b>	<b>3,85,835</b>	<b>4,59,628</b>	<b>5,43,453</b>	<b>6,34,072</b>
Net premium earned	3,22,236	3,81,223	4,53,965	5,38,018	6,27,731
NBP-APE	71,637	81,833	96,644	1,12,751	1,31,178
Combined Ratio	19.0%	17.0%	17.0%	16.6%	17.7%
Surplus/(Deficit)	16,877	13,728	11,442	22,237	26,530
VNB margin (%)	25.9%	26.1%	27.1%	27.8%	28.5%
PAT	12,951	13,601	12,077	16,635	20,470
EPS (Rs.)	6.4	6.7	5.7	7.9	9.7
EVPS (Rs.)	102.3	131.7	163.4	192.6	227.0
RoEV (%)	18.1%	18.5%	16.6%	18.7%	18.6%
RoE (%)	19.0%	15.7%	7.8%	9.9%	11.0%

Source: Company, KRChoksey Research



# HDFC Life Insurance Co. Ltd.

HDFC Life Insurance				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
28-Apr-22	548	706	BUY	Buy	More than 15%
24-Jan-22	628	790	BUY	Accumulate	5% – 15%
25-Oct-21	684	790	BUY	Hold	0 – 5%
31-Aug-21	713	790	ACCUMULATE	Reduce	-5% – 0
20-July-21	666	790	BUY	Sell	Less than – 5%
28-Apr-21	673	790	BUY		

### ANALYST CERTIFICATION:

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