



3R MATRIX

| | + | = | - |
|----------------------|------------|-----------|------------|
| Right Sector (RS) | ✓ | ✗ | ✗ |
| Right Quality (RQ) | ✓ | ✗ | ✗ |
| Right Valuation (RV) | ✓ | ✗ | ✗ |
| | + Positive | = Neutral | - Negative |

What has changed in 3R MATRIX

| | Old | | New |
|----|-----|---|-----|
| RS | ✓ | ↔ | ✓ |
| RQ | ✓ | ↔ | ✓ |
| RV | ✓ | ↔ | ✓ |

ESG Disclosure Score

NEW

ESG RISK RATING
 Updated Feb 08, 2022 **19.91**

Low Risk

| NEGL | LOW | MED | HIGH | SEVERE |
|------|-------|-------|-------|--------|
| 0-10 | 10-20 | 20-30 | 30-40 | 40+ |

Source: Morningstar

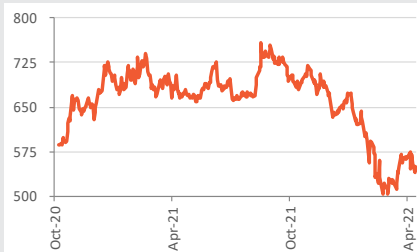
Company details

| | |
|-------------------------------|-----------------|
| Market cap: | Rs. 1,15,698 cr |
| 52-week high/low: | Rs. 776 / 497 |
| NSE volume: (No of shares) | 36.4 lakh |
| BSE code: | 540777 |
| NSE code: | HDFCLIFE |
| Free float: (No of shares) | 102.4 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 51.5 |
| FII | 26.3 |
| DII | 7.8 |
| Others | 14.4 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-----|-------|-------|-------|
| Absolute | 6.9 | -11.9 | -19.5 | -19.3 |
| Relative to Sensex | 8.2 | -11.1 | -15.3 | -35.4 |

Sharekhan Research, Bloomberg

HDFC Life Insurance Company

Growth prospects stay steady

| Insurance | Sharekhan code: HDFCLIFE | | |
|----------------|--------------------------|--------------|-----------------------|
| Reco/View: Buy | ↔ | CMP: Rs. 548 | Price Target: Rs. 740 |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- HDFC Life reported PAT of Rs. 358 crore, in line with our expectation. PAT grew by ~12% y-o-y and ~31% q-o-q. The company registered ~8% y-o-y growth in net premium income, led by strong growth in renewal premium and single premium, thereby reflecting steady trend in persistency. Renewal premiums constituted ~51% of net premium.
- Management sounded confident about growth prospects and margin outlook for FY2023 after registering strong performance in FY2022 amid a challenging environment.
- The acquisition and integration process is well on track; management expects the merger to be margin neutral in FY2023 and margin accretive from FY2024.
- HDFC Life trades at 2.9x/2.4x its FY2023E/FY2024E EVPS. We maintain Buy with a revised PT of Rs. 740.

HDFC Life Insurance Company (HDFC Life) reported strong net premium growth of 11% y-o-y and ~18% q-o-q in Q4FY2022, aided by growth renewal premium (~21% y-o-y) and single premium (up ~8% y-o-y), thereby reflecting steady trend in persistency. Renewal premiums contributed to ~51% of net premium. Individual and Group APE rose by ~5% and ~9% y-o-y, thus aiding to total new business APE growth of ~6% y-o-y. ULIP was up 16% y-o-y, while non-PAR savings grew 15% y-o-y. Protection growth was steady and its share stood at 6% in individual APE and ULIP mix stood at 26% in individual APE. During Q4FY2022, VNB grew by 15% y-o-y, with VNB margin expanding to 29.4% (up 263 bps q-o-q). For FY2022, the company reported VNB of Rs. 2,675 crore, up 22% y-o-y. Further, VNB margin stood at 27.4%, up from 26.1% in FY2021. This was primarily on account of better product profile (impact of ~130 bps) and fixed cost absorption (impact of ~80 bps).

Key positives

- Net premium income grew strongly by ~11% y-o-y, led by healthy growth in renewal and single premium.
- Healthy persistency ratio aided by growth in renewals.
- 13th and 61st month persistency improved by 200 bps and 500 bps y-o-y, respectively, to 92% and 58% in Q4FY2022.

Key negatives

- Solvency ratio fell to 176% in Q4FY2022 versus 190% in Q3FY2022 due to cash payout of Rs. 726 crore towards the acquisition of Exide Life.

Management Commentary

- Management stated that it would aim to remain margin neutral post the merger in FY2023 and expects to see margin expansion thereafter. The protection segment is likely to fuel margin expansion going forward.
- With respect to Exide Life, the company has received approvals and Exide Life now is a 100% subsidiary. The integration process is expected to be completed within the next 9-12 months.
- Solvency ratio declined to 176% in FY2022 compared to 201% in FY2021. The company plans to maintain it at 180-190% levels. To support growth and strengthen solvency, the company intends to evaluate capital raising through a mix of equity and debt.
- Management aims to grow individual protection product in double digits in FY2023.

Our Call

Valuation – We maintain Buy with a revised PT of Rs. 740. HDFC Life trades at 2.9x/2.4x its FY2023E/FY2024E EVPS. We believe valuations are reasonable, as it has a well-diversified product bouquet (no segment contributing to more than 30% of APE), best-in-class branding, and strong metrics. We believe the company is well placed to deliver strong and sustainable long-term APE growth. Owing to strong fundamentals (robust balance sheet and consistent profitability) and high long-term growth potential for the Indian insurance industry in general and HDFC Life, in particular, we find it to be an attractive long-term bet. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 740.

Key Risks

Slowdown in business operations may impact premium growth. Any adverse policies/guidelines may adversely impact its profitability.

Valuation (Consolidated)

| | Rs cr | | | |
|----------------------------|--------|--------|--------|--------|
| Particulars | FY21 | FY22 | FY23E | FY24E |
| EV | 26,626 | 32,960 | 38,728 | 46,667 |
| NBP (new business premium) | 20,107 | 24,155 | 27,416 | 31,693 |
| y-o-y growth (%) | 16.6 | 20.1 | 13.5 | 15.6 |
| PAT | 1,360 | 1,208 | 1,401 | 1,821 |
| y-o-y growth (%) | 5.0 | (11.2) | 16.0 | 30.0 |
| EPS (Rs) | 6.7 | 6.0 | 6.9 | 9.0 |
| RoE (%) | 17.6 | 10.0 | 8.7 | 10.6 |
| P/EV (x) | 4.2 | 3.4 | 2.9 | 2.4 |
| P/BV (x) | 12.8 | 7.2 | 6.7 | 6.2 |

Source: Company; Sharekhan estimates

Results

Rs cr

| Particulars | Q4FY22 | Q4FY21 | Q3FY22 | Y-o-Y % | Q-o-Q % |
|---|---------------|---------------|---------------|---------------|---------------|
| Gross premium income | | | | | |
| First Year Premium | 2,575 | 2,389 | 2,116 | 7.8 | 21.7 |
| Renewal Premium | 7,341 | 6,350 | 5,543 | 15.6 | 32.4 |
| Single Premium | 4,505 | 4,171 | 4,596 | 8.0 | (2.0) |
| NBP | 7,080 | 6,560 | 6,712 | 7.9 | 5.5 |
| Net premium income | 14,290 | 12,868 | 12,124 | 11.0 | 17.9 |
| Investment & other income | 1,460 | 6,082 | 2,028 | (76.0) | (28.0) |
| Income from investments (Net) | 1,397 | 6,015 | 1,982 | (76.8) | (29.5) |
| Other income | 63 | 67 | 47 | (5.3) | 35.0 |
| Net Commission | 621 | 598 | 507 | 3.9 | 22.3 |
| Operating Expenses | 1,809 | 1,510 | 1,502 | 19.8 | 20.4 |
| Employees remuneration and welfare expenses | 572 | 531 | 510 | 7.6 | 12.0 |
| Other operating expenses | 1,237 | 979 | 992 | 26.4 | 24.7 |
| Total management expenses | 2,430 | 2,108 | 2,010 | 15.3 | 20.9 |
| GST | 96 | 96 | 94 | 0.5 | 2.3 |
| Provision for taxes | 155 | 184 | 18 | (15.7) | 784.9 |
| Claims | 9,375 | 8,720 | 7,882 | 7.5 | 18.9 |
| Change in actuarial liability | 3,173 | 7,623 | 3,850 | (58.4) | (17.6) |
| Total cost | 15,503 | 18,757 | 14,038 | (17.4) | 10.4 |
| Surplus/deficit | 552 | 434 | 184 | 27.3 | 199.8 |
| Transferred to Shareholders A/c | 500 | 287 | 182 | 74.5 | 174.0 |
| Investment & other income | 148 | 271 | 179 | (45.6) | (17.6) |
| Total Income | 648 | 558 | 362 | 16.1 | 79.1 |
| Non-insurance expenses | 22 | 24 | 23 | (10.4) | (6.1) |
| Transfer from Policyholders' Account | 305 | 241 | 182 | 26.4 | 67.1 |
| PBT | 322 | 309 | 276 | 4.0 | 16.5 |
| Tax | -36 | -8.86 | 2 | | |
| PAT | 358 | 318 | 274 | 12.4 | 30.6 |
| | | | | | |
| Key Metrics (%) | | | | bps | bps |
| Commission ratio | 4.3 | 4.6 | 4.2 | -30 | 11 |
| Opex ratio | 12.7 | 11.7 | 12.4 | 100 | 30 |
| Managemnt expense ratio | 17.0 | 16.4 | 16.6 | 60 | 42 |
| Claims | 65.6 | 67.8 | 65.0 | -220 | 59 |
| Solvency | 176.0 | 201.0 | 190.0 | -2500 | -1400 |

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Fast revert to normalcy, long growth runway for life insurance players

Indian life insurance companies are poised for double-digit growth in terms of premium value led by higher volumes and group insurance coverage sale of fixed-income linked coverage products going ahead. A large protection gap and expanding per capita income are key long-term growth drivers for the sector. Credit protection product is still at an early stage and has the potential to grow multifold as the penetration of retail loans improves. Hence, we believe the insurance sector has a huge growth potential in India. In this backdrop, we believe strong players armed with the right mix of products, services, and distribution are likely to gain disproportionately from the opportunity.

■ Company outlook – Superior product mix, healthy metrics make HDFC Life attractive

HDFC Life is well placed with healthy capitalisation and favourable business mix. With a high proportion of protection and savings-related products, we believe HDFC Life is better placed in the present environment. We expect the government to continue to provide favourable policy steps for the insurance industry (including life and non-life products) going forward as well (hike FDI limit in insurance already done), which will be a long-term positive. Being the largest player, HDFC Life is likely to benefit from favourable tailwinds. The company's sustained persistency ratio indicates client service and quality of products offered, which are critical for long-term sustainability. The company is a strong and attractive business franchise and the Indian insurance space is an attractive sector for the long term.

■ Valuation – We maintain Buy with a revised PT of Rs. 740

HDFC Life trades at 2.9x/2.4x its FY2023E/FY2024E EVPS. We believe valuations are reasonable, as it has a well-diversified product bouquet (no segment contributing to more than 30% of APE), best-in-class branding, and strong metrics. We believe the company is well placed to deliver strong and sustainable long-term APE growth. Owing to strong fundamentals (robust balance sheet and consistent profitability) and high long-term growth potential for the Indian insurance industry in general and HDFC Life, in particular, we find it to be an attractive long-term bet. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 740.

Peer valuation

| Particulars | CMP (Rs / Share) | MCAP (Rs Cr) | P/EV (x) | | P/B (x) | | RoE (%) | |
|----------------|------------------|--------------|----------|-------|---------|-------|---------|-------|
| | | | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E |
| HDFC Life | 548 | 1,15,698 | 2.9 | 2.4 | 14.1 | 12.4 | 17.4 | 17.5 |
| ICICI Pru Life | 520 | 74,690 | 2.0 | 1.7 | 7.0 | 6.4 | 12.8 | 13.4 |

Source: Company, Sharekhan estimates

About company

Established in 2000, HDFC Life is a leading long-term life insurance solutions provider. The company offers a range of individual and group insurance solutions that meet various customer needs such as protection, pension, savings, investment, and health. HDFC Life continues to benefit from its increased presence across the country. The company has a wide reach with 400+ branches and additional distribution touch points through several new tie-ups and partnerships, including own sister concern bank. The company also has 250+ partnerships, comprising traditional partners such as NBFCs, MFIs, and SFBs, and includes more than 40 new ecosystem partners. The company has a strong base of financial consultants.

Investment theme

HDFC Life stands out among its peers with its strong parentage, robust brand recall, along with advantages that come with an industry leader sister concern bank, which has an attractive retail business and gives deep client penetration and arguably the best means to channelise growth for the insurance business. We believe HDFC Life's sustained product leadership will help it maintain superior VNB margins and operating RoEV, relative to peers, which provide support to its valuations. We believe the insurance market has significant growth opportunities and HDFC Life is well placed to capture them. By virtue of its bancassurance partnerships, digital strength, and industry-leader status, HDFC Life should be able to deliver steady VNB and EVOP CAGR over the long term (aided by high margins in the protection business and improving persistency) in a normalised state of business, which will support valuations.

Key Risks

Slowdown in business operations may impact premium growth. Any adverse policies/guidelines may adversely impact its profitability.

Additional Data

Key management personnel

| | |
|------------------------------|---|
| Ms. Vibha Padalkar | Managing Director and Chief Executive Officer |
| Mr. Niraj Shah | Chief Financial Officer |
| Mr. Parvez Mulla | Chief Operating Officer |
| Mr. Srinivasan Parthasarathy | Chief Actuary |
| Mr. Prasun Gajri | Chief Investment Officer |

Source: Company Website

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|--------------------------------|-------------|
| 1 | Capital Group Cos Inc./The | 6.9 |
| 2 | JPMorgan Chase & Co. | 4.2 |
| 3 | Exide Industries Ltd | 4.1 |
| 4 | Standard Life Maur HLD | 3.7 |
| 5 | Europacific Growth fund | 2.0 |
| 6 | Vanguard Group Inc/The | 1.5 |
| 7 | BlackRock Inc | 1.4 |
| 8 | FIL Ltd. | 1.4 |
| 9 | SBI Funds Management Pvt. Ltd. | 1.4 |
| 10 | Republic of Singapore | 1.2 |

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

| Right Sector | |
|-----------------|--|
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet |
| Right Valuation | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Sharekhan Research

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