

Refer to important disclosures at the end of this report

Steady performance amid Covid-induced uncertainties

- HDFC Life (HDFCSL) reported VNB margins of 26.2% (+180bps yoy) in Q1FY22. The share of individual protection products declined ~4% yoy as the share of ULIPs rose in overall AUM. The company witnessed disruption in business activities in May'21; however, other products like annuity and credit life performed well.
- HDFCSL saw a steep rise in death claims, with peak claims in the second Covid wave at ~3-4 times of peak claims in the first wave. The company cleared ~70,000 claims in Q1, with gross/net claims amounting to Rs16bn/Rs9.6bn. The company has created an additional reserve of ~Rs7bn; however, near-term uncertainties persist.
- HDFCSL continues to focus on the diversified distribution channel to create a balanced product mix for optimum profitability. Its balanced product mix provides cushion against business cyclicalities while taking advantage of the underpenetrated protection market. Management avoids group protection plans due to the lack of profitable underwriting.
- We expect the trend in margins to remain stable with a balanced product mix and a gradual rise in the share of protection and annuity plans along with increasing penetration in deeper geographies. We roll forward our TP to Sep'22E and maintain Buy (OW in EAP) with a revised TP of Rs870 (Rs848 previously), corresponding to 4.5x P/Sep'23E EV.

What we like

- HDFCSL's market share has expanded by ~230bps qoq to ~17.8% from ~15.5%. Its private market share in the group and individual new business segments stood at ~25.9% and ~17.8%, respectively.
- 13M persistency was healthy at ~89.8% (vs. ~87% last year) and 61M stood at ~58.1% against ~54.4% last year, indicating stickiness of the existing customer base.
- The solvency ratio was healthy at ~204%, providing comfort over any near future dilution for the company.
- Growth improvement continued in credit protect and annuity businesses amid increased focus on specific lending products.

What we remain concerned about

- Though management remains confident of Rs7bn provided over and above policy liabilities, the uncertainty around future claims persists in case the third wave hits harder.
- Sluggish growth in direct channels remains a concern as HDFCSL has been actively sourcing products through banks and agents.
- Demand for protection products needs to be monitored, given receding daily Covid cases and accelerating vaccination
- Competitive intensity is rising among private insurers, which could impact the pricing power for HDFCSL, in turn impacting margins.

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

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Profit	12,953	13,601	19,821	24,110	26,898
EPS (Rs)	6.4	6.7	9.8	11.9	13.3
VNB	19,190	21,850	22,748	25,826	29,528
VNB margin %	25.9	26.1	26.0	26.5	26.5
EV	206,500	266,200	312,082	364,253	423,778
ROEV %	18.1	18.1	16.3	15.9	15.7
P/EV (x)	6.8	5.3	4.5	3.9	3.3

Source: Company, Emkay Research

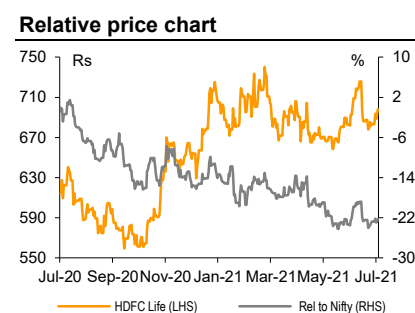
CMP	Target Price
Rs 698 as of (July 19, 2021)	Rs 870 (▲) 12 months
Rating	Upside
BUY (■)	24.6 %

Change in Estimates	
EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	2.6
Target Period (Months)	12
Previous Reco	BUY

Stock Details	
Bloomberg Code	HDFCLIFE IN
Face Value (Rs)	10
Shares outstanding (mn)	2,022
52 Week H/L	746 / 556
M Cap (Rs bn/USD bn)	1,411 / 18.93
Daily Avg Volume (nos.)	5,702,884
Daily Avg Turnover (US\$ mn)	52.1

Shareholding Pattern Mar '21	
Promoters	58.9%
FIIIs	25.7%
DIIIs	6.3%
Public and Others	9.2%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	1	1	(1)	16
Rel. to Nifty	-	(7)	(10)	(22)



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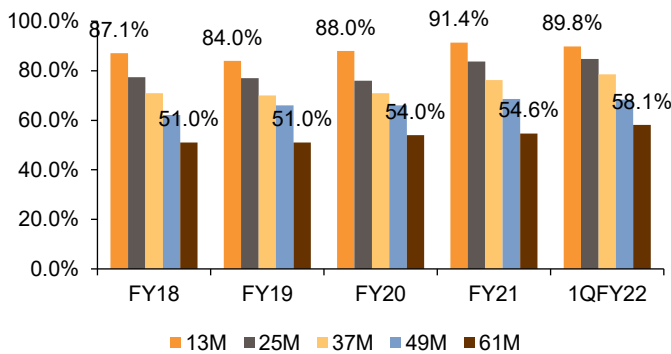
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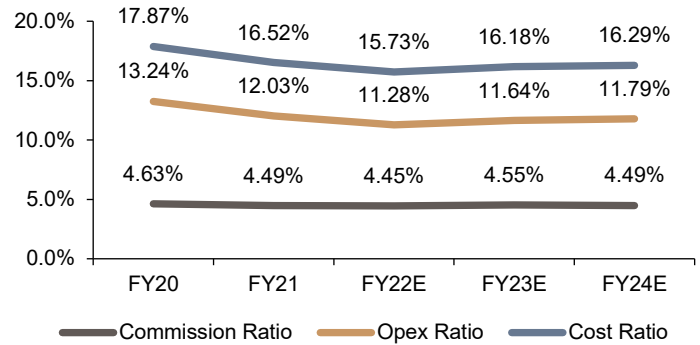
Story in Charts

Exhibit 1: 13M Persistency tapers to 89.8%



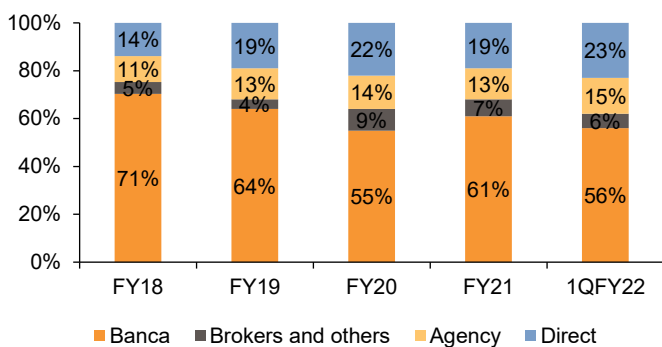
Source: Company, Emkay Research

Exhibit 2: Stable cost matrix



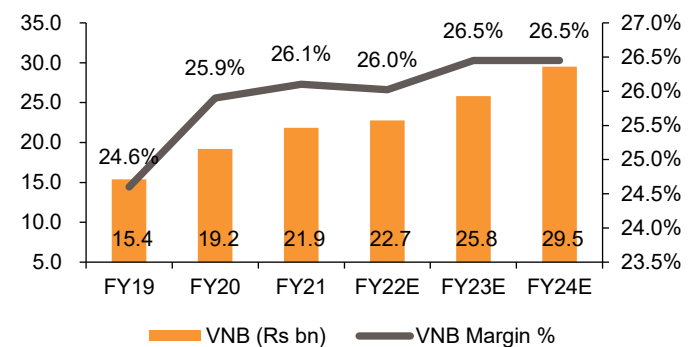
Source: Company, Emkay Research

Exhibit 3: Strong growth in Direct channel



Source: Company, Emkay Research

Exhibit 4: VNB margins witness slow increase



Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

(Rs mn)	FY22E			FY23E			FY24E		
	Old	New	% change	Old	New	% change	Old	New	% change
NBP	2,17,818	2,26,112	3.8%	2,54,071	2,62,096	3.2%	2,97,415	3,09,700	4.1%
PAT	18,885	19,821	5.0%	22,956	24,110	5.0%	25,744	26,898	4.5%
EV	3,17,878	3,12,082	-1.8%	3,76,661	3,64,253	-3.3%	4,44,944	4,23,778	-4.8%
VNB margin %	26.02%	26.0%	0.0%	26.45%	26.5%	0.0%	26.5%	26.5%	0.0%
ROE %	19.13%	20.1%	4.9%	18.51%	19.4%	5.0%	18.8%	19.6%	4.5%
ROEV %	17.55%	16.3%	-7.1%	16.92%	15.9%	-5.9%	16.8%	15.7%	-6.8%

Source: Company, Emkay Research

Exhibit 6: Movement in EV

Rs mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Opening Embedded value (EV)	1,24,705	1,52,200	1,83,080	2,06,500	2,66,200	3,12,082	3,64,253
Expected return on existing business (A+B+C)	14,000	15,240	14,000	15,600	20,634	23,846	27,498
Expected return on existing business (unwind) (A)	10,400	13,030	13,700	17,400	18,634	21,846	25,498
Operating assumption changes (B)	1,600	-	-	(1,800)	-	-	-
VNB added during the period	12,800	15,400	19,200	21,850	22,748	25,826	29,528
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	37,450	43,382	49,671	57,025
Economic assumption changes and investment variance	2,600	3,610	(10,000)	20,600	5,000	5,000	5,000
IEV total earnings	29,400	34,250	23,200	58,050	48,382	54,671	62,025
Capital contributions/ / (dividends paid out)	(2,000)	(3,370)	220	800	(2,500)	(2,500)	(2,500)
Closing IEV	1,52,105	1,83,080	2,06,500	2,66,200	3,12,082	3,64,253	4,23,778
Expected return as % of opening (PAT/opening EV)	8.9%	8.4%	7.1%	6.6%	7.4%	7.7%	7.4%
VIF transfer as % of opening (unwinding/opening EV)	8.3%	8.6%	7.5%	7.5%	7.0%	7.0%	7.0%
ROEV %	21.5%	20.1%	18.1%	18.1%	16.3%	15.9%	15.7%
Operating ROEV %	18.6%	18.7%	18.0%	19.0%	15.5%	15.3%	15.1%

Source: Company, Emkay Research

Con-Call highlights

- The company witnessed business disruptions in the second wave of Covid-19 due to localized lockdowns. It managed to record 22% growth and market share of 17.8% in terms of Individual WRP. The company aims to be localized and segmented in its approach going forward.
- The company continues to view a long-term opportunity in the Protection business in a calibrated manner, with strong medium- to long-term prospects of this business in India. It expects ~15-20% growth in the business, given a calibrated approach and strong underwriting in place.
- Management said peak claims during the second Covid wave were about 3-4 times of peak claim volumes in the first wave. The claims are still elevated compared to pre-Covid levels but are declining from as high as ~300 claims a day in Q1FY22 to now ~200 claims a day as the spread of the pandemic tapers.
- The company received a higher number of term insurance claims during the pandemic. The concentration of claims remained high in states like Maharashtra and Gujarat, in line with the concentration of Covid cases geographically. Covid claims amounted to Rs400mn in Protection and Rs1150mn in the Savings business.
- The company has set up an additional reserve of Rs7bn to service the claims intimations, based on current expectation of extra claims to be received in future.
- Management indicated that even before the Covid-19 pandemic, the company witnessed deterioration in claims experience, for which they have made continuous efforts in enabling risk-based underwriting and put additional checks.
- Management indicated that their stance to stay away from Group term insurance continues as it has become a commoditized product, which requires fine pricing apart from effective mortality experience.
- On the distribution channel, the company has higher focus on the Proprietary channel. It holds strong partnerships on Banca - HDFC, SBI Caps, Yes Bank. Management indicated agency run-rate to be high in terms of penetration, and the company has been able to grow better than banks.
- The Bancassurance channel witnesses 2/3rd conversions, which is reflective of higher demand in the market. Term Insurance policy demand is normalizing QoQ.
- On margin protection, management believes that it is supported by factors such as being an innovator to get first movers' advantage, using analytics for seamless onboarding and offering pre-approved sum insured, overall brand promise, and the shift among customers to choose products based on returns rather than just pricing.
- No change in VNB assumptions in Q1FY22.

Key Financials (Standalone)**Income Statement**

Policyholders Account-Y/E (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net earned premium	322,236	381,223	429,266	492,443	573,096
Income from investments	(33,109)	326,776	98,033	102,934	108,081
Contribution from the shareholders fund	1,047	2,586	0	0	0
Miscellaneous income	2,440	1,834	1,784	2,051	2,359
Total income	292,614	712,418	529,082	597,429	683,536
Commissions	14,912	17,104	19,107	22,386	25,743
Operating expenses	42,679	45,870	48,404	57,299	67,594
Provisions	9,207	1,682	1,386	1,179	875
Total expenses	66,797	64,656	68,896	80,863	94,211
Benefits paid (net)	190,215	225,748	345,264	355,683	371,716
Change in liabilities (net)	24,408	408,296	293,475	302,331	315,959
Total	214,622	634,044	638,739	658,014	687,674
Surplus	11,194	13,718	(178,553)	(141,449)	(98,350)
Tax	1,480	2,734	(1,941)	(1,295)	1,446
Net surplus	9,714	10,984	(176,612)	(140,154)	(99,796)
Transfer to shareholders account	11,914	9,909	11,891	14,269	17,123

Shareholders Account-Y/E (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Transfer from policyholders account	11,914	9,909	11,891	14,269	17,123
Income from investments	4,378	6,476	9,883	12,189	12,189
Other income	186	0	100	100	100
Total income	16,478	16,385	21,874	26,558	29,412
Expenses	334	637	701	771	848
Provisions	1,978	(373)	0	0	0
Contribution to policyholders account	1,047	2,586	0	0	0
Profit before tax	13,117	13,535	21,173	25,787	28,564
Tax	165	(66)	1,351	1,677	1,666
Net profit	12,953	13,601	19,821	24,110	26,898

Balance Sheet

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
Sources of funds					
Share capital	20,188	20,209	20,209	20,209	20,209
Reserve and surplus	49,675	64,074	88,810	114,737	114,737
Fair value change account credit/(debit)	(1,920)	2,074	2,074	2,074	2,074
Net worth (including fair value change)	67,999	86,377	111,093	137,020	137,020
Policyholders funds	1,195,025	1,628,375	1,693,414	1,782,942	1,934,288
Funds for future appropriations	8,830	9,906	16,767	24,789	48,613
Total liabilities	1,271,854	1,730,658	1,827,275	1,950,751	2,125,921
Application of funds					
Shareholders investments	58,555	85,421	109,864	135,504	135,504
Policyholders investments	671,886	905,378	1,024,261	1,161,654	1,346,150
Assets to cover linked liabilities	541,821	747,595	719,301	696,987	689,386
Loans	2,991	4,240	4,240	4,240	4,240
Fixed assets	3,301	3,401	3,401	3,401	3,401
Net current assets (A-B)	(6,699)	(15,378)	(33,793)	(51,035)	(52,761)
Miscellaneous expenditure	0	0	0	0	0
Debit balance in p&l	0	0	0	0	0
Total assets	1,271,854	1,730,658	1,827,275	1,950,751	2,125,921

Key Ratio (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
Conservation ratio %	80.3	85.9	82.3	84.4	85.7
Commissions ratio %	4.6	4.5	4.5	4.5	4.5
Opex ratio %	13.2	12.0	11.3	11.6	11.8
ROA %	1.0	0.9	1.1	1.3	1.3
ROE %	20.8	17.6	20.1	19.4	19.6
Dividend payout ratio %	31.5	30.0	16.3	13.4	12.0

EV Data	FY20	FY21	FY22E	FY23E	FY24E
Embedded value (Rs mn)	206,500	266,200	312,082	364,253	423,778
Value of new business (Rs mn)	19,190	21,850	22,748	25,826	29,528
EVOP (Rs mn)	33,200	37,450	43,382	49,671	57,025
ROEV %	18.1	18.1	16.3	15.9	15.7
VNB margin %	25.9	26.1	26.0	26.5	26.5

Source: Company, Emkay Research

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	6.4	6.7	9.8	11.9	13.3
DPS	2.0	2.0	1.6	1.6	1.6
BVPS	33.8	42.9	55.2	68.1	68.1

Valuation (x)	FY20	FY21	FY22E	FY23E	FY24E
P/E	108.5	103.4	71.0	58.4	52.3
P/B	20.6	16.2	12.6	10.2	10.2
P/EV	6.8	5.3	4.5	3.9	3.3
P/VNB	73.2	64.4	61.9	54.5	47.6
Dividend yield (%)	0.3	0.3	0.2	0.2	0.2

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
GWP	20.9	9.8	12.7	14.7	14.7
New business premium (NBP)	26.0	8.7	12.5	15.9	15.9
Annualized premium equivalent (APE)	22.8	18.9	6.8	11.7	11.7
Retail APE	21.7	43.1	47.5	8.3	8.3
Commissions	20.6	5.1	11.7	17.2	17.2
Operating expenses	20.4	8.4	5.5	18.4	18.4
Net income	23.9	33.7	45.7	21.6	21.6

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net earned premium	57,218	100,454	94,870	128,680	75,385
Total income	146,054	165,445	212,597	192,232	147,831
Total expenses	141,542	162,182	209,927	189,139	144,764
Net income	4,511	3,261	2,650	3,182	3,024
EPS (Rs)	2.24	1.62	1.32	1.58	1.50

Source: Capitaline

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	63.7	60.4	60.4	58.9	58.9
FIIIs	21.1	23.6	23.4	24.9	25.7
DIIIs	6.1	7.3	7.3	7.1	6.3
Public and Others	9.2	8.7	8.9	9.2	9.2

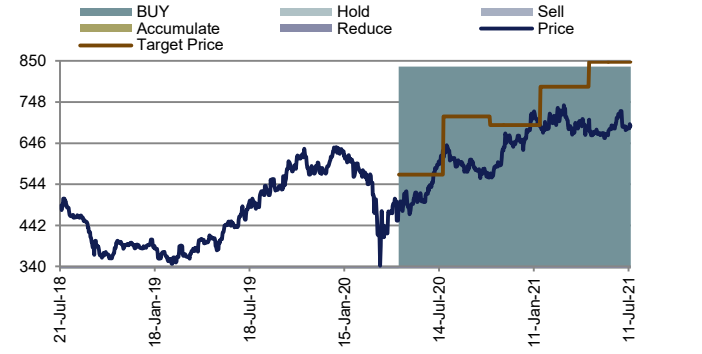
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
26-Apr-21	704	848	12m	Buy	Jignesh Shial
20-Apr-21	685	786	12m	Buy	Jignesh Shial
09-Mar-21	740	786	12m	Buy	Jignesh Shial
09-Feb-21	705	786	12m	Buy	Jignesh Shial
23-Jan-21	687	786	12m	Buy	Jignesh Shial
09-Jan-21	717	691	12m	Buy	Jignesh Shial
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 13 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	1.58	1.58	0%	0	100.00
HDFC Life	0.60	0.60	0%	0	38.22
ICICI Pru Life	0.27	0.27	0%	0	16.79
Max Financial	0.26	0.26	0%	0	16.59
SBI Life	0.45	0.45	0%	0	28.41
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-Jul-20	15-Jan-21	16-Apr-21	16-Jun-21	16-Jul-21
EAP - BFSI-Insurance	100.0	139.4	156.8	157.4	171.0	178.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	140.0	157.7	157.8	172.0	179.0

*Performance measurement base date 1st April 2019

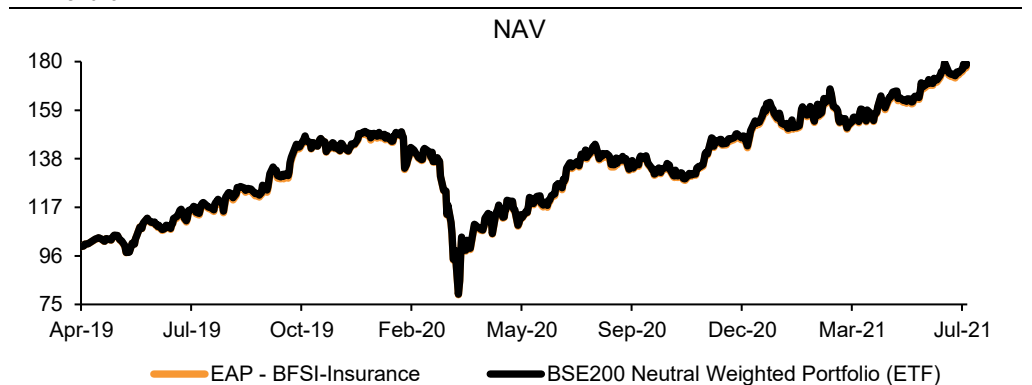
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	4.1%	13.1%	13.5%	27.7%
BSE200 Neutral Weighted Portfolio (ETF)	4.1%	13.4%	13.5%	27.8%

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%

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