

September 3, 2021

Event Update

Key Financials

Y/e March	FY21	FY22E	FY23E	FY24E
Net Premiums (Rs m)	3,81,223	4,40,897	5,05,030	5,88,470
- Growth (%)	18.3	15.7	14.5	16.5
Total Income (Rs mn)	7,12,418	6,45,211	6,85,417	7,86,308
Surplus / Deficit (Rs m)	10,984	12,625	14,586	17,833
PAT (Rs m)	13,601	14,898	16,971	20,321
- Growth (%)	5.0	9.5	13.9	19.7
EPS (Rs)	6.7	7.4	8.4	10.1
Emb. Value (Rs bn)	266.1	315.0	372.4	441.2
NBP Margin (%) post overrun	26.1	26.6	27.0	27.3
RoE (%)	17.6	16.2	16.4	17.3
Operating RoEV (%)	18.5	18.5	18.6	18.8
RoEV (%)	28.5	19.6	19.4	19.5
Dividend yield (%)	-	0.3	0.3	0.3
Price/EV (x)	5.6	4.7	4.0	3.4
Ap. Value/EV (x)	4.1	3.9	3.7	3.5

Key Data

HDFS.BO | HDFCLIFE IN

52-W High / Low	Rs.776 / Rs.556
Sensex / Nifty	58,130 / 17,324
Market Cap	Rs.1,485.3bn / \$ 20,341.4m
Shares Outstanding	2,020.5m
3M Avg. Daily Value	Rs.4,045.8m

Shareholding Pattern (%)

Promoter's	53.84
Foreign	26.06
Domestic Institution	5.87
Public & Others	14.21
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.4	5.4	32.0
Relative	6.2	(9.9)	(20.1)

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Relatively expensive deal compared to synergies

Quick Pointers:

- Announces to acquire 100% stake in Exide Life for total consideration of Rs66.87bn with Rs7.26bn in cash and balance in equity
- Deal valued at 2.5x at current EV of Rs27.1bn for Exide Life, looks on expensive side but 35% discount to listed players (ex-HDFCLI)

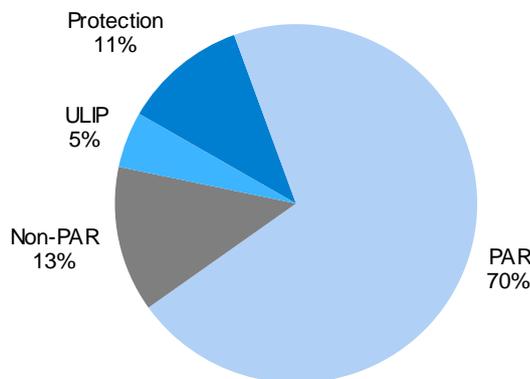
HDFC Life is making a second attempt at an inorganic deal with acquisition of Exide Life for Rs66.87bn valuing the company at 2.5x current EV. The rationale for the deal has been (i) strong agency business (adds 40% to agency top line), (ii) better protection (mix of 11% for Exide) and (iii) presence in southern tier-2 & 3 locations. In our view, Exide's acquisition has minimal compliments to HDFCLI given a smaller size, it has been losing market share and immediate margins & opex synergies are on lower side which will be have to be worked upon, compared to 2.5x multiple to current EV. Deal adds 10% to HDFCLI's EV, while stock consideration creates 4% dilution. We retain HOLD with TP of Rs725 (unchanged) based on 3.6x Sep-23 EV.

- Minimal synergies in near term:** Exide's acquisition provides access to southern geography, better agency business (60% share for Exide – 38% of HDFCLI) and better protection mix (11% mix). Also, Exide has a better solvency ratio than HDFCLI and a large co-operative banca partnership. COVID claims are also larger covered in EV with minimal impact of 3-5% according to management. Although, lower persistency of <75% v/s 85% of HDFCLI, lower margins and lower scale (60% higher cost than HDFCLI) does not compliment in a very large way for HDFCLI.
- Growing agency business organically would have been better option:** HDFCLI has grown its agency business by 20% in last four years (40% in Q1FY22) while has been consolidation for Exide life by 5%. Although, Exide's acquisition adds 40% to agency business, +30% to agency work force and profitable VNB, we believe, HDFCLI would have done better by organically growing the agency business given the approvals & synergies will take 12-15 months to play out or should have had a bargain on valuations.
- Will be step down subsidiary and eventually merge:** Deal should conclude in six months and become a 100% subsidiary of HDFCLI and post that company will apply for merger with itself which should further take six to nine months. Exide Industries (parent of Exide Life) will hold 4% stake post HDFLI issuing 87.0mn shares on preferential basis at Rs685/share.
- Near term limited upside; structurally strong business:** HDFLI remains focused on building a diversified channel & balanced product business with strong opportunities in annuities, retirement & protection segments. Also, it has strongly added Banca partners and build up the agency business in last four years which should enable gradual long term margins towards 30% and maintain a strong Operating ROEV of 15-17% over next few years. HDFCLI trades at expensive valuation of 4.0x Mar-23 and 3.6x Sep-23 EV and hence we retain HOLD rating on the stock.

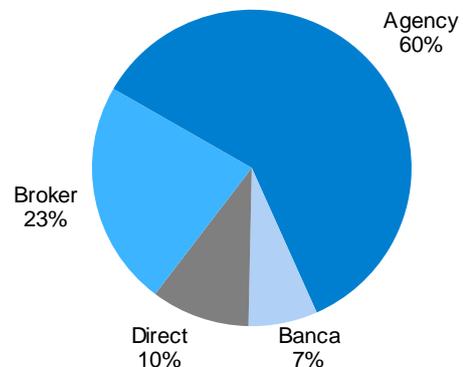
Exhibit 1: Agency business remain key rationale for merger

Rs in million	HDFC Life	Exide Life	Combined	% of HDFC Life
Total Premium	385,830	33,250	419,080	9%
Renewal Premium	184,770	25,440	210,210	14%
Individual WRP	69,980	5,910	75,890	8%
Market Share	15.5%	1.3%	16.8%	
Agency New Business	937	358	1,295	38%
No. of Agents	107,895	36,710	144,605	34%
EV as on June 30, 2021	273,310	27,110	300,420	10%
AUM as on June 30, 2021	1,812,720	187,800	2,000,520	10%

Source: Company, PL

Exhibit 2: Exide biz remains PAR heavy but better protection


Source: Company, PL

Exhibit 3: Exide has strong Agency business


Source: Company, PL

Exhibit 4: Key Metrics and EV movement

Rs bn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
APE	42	55	63	74	84	97	113	136
YoY growth (%)	15.8	32.1	13.1	18.3	13.0	15.6	16.2	20.8
NBV	9	13	15	19	22	26	30	37
YoY growth (%)	12.4	39.0	19.9	24.9	13.8	17.8	18.1	22.0
EV Movement								
Opening IEV	102	125	152	183	207	266	315	372
New Business Value	9	13	15	19	22	26	30	37
EVOP	22	27	31	33	38	49	59	70
Dividend pay-out	2	2	3	(0)	-	4	4	4
Closing EV	125	152	183	207	266	315	372	441
Adjusted Net worth	41	49	59	72	90	101	113	129
Value in force (VIF)	83	104	124	135	176	214	259	312
Ratios (%)								
NBAP margins	22.0	23.2	24.6	25.9	26.1	26.6	27.0	27.3
RoEV	24.2	23.6	22.5	12.6	28.5	19.6	19.4	19.5
Operating RoEV	21.7	21.5	20.1	18.1	18.5	18.5	18.6	18.8

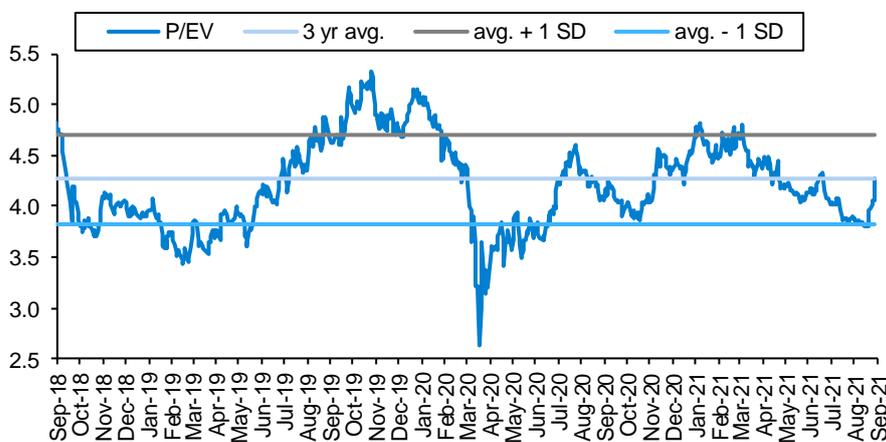
Source: Company, PL

Exhibit 5: We retain our TP of Rs725 based on 3.6x Sep-23 EV

PT calculation and upside	
Op RoEV	18.7%
CoE	13.6%
Terminal Growth	5.0%
Embedded value (Rs bn)	407
Price / Embedded value	3.6
Appraisal Value	1,462
Number of shares, mn	2,017
Valuation per share	725
CMP	734
Upside (%)	-1.3%

Source: Company, PL

Exhibit 6: HDFCLI One-year forward P/EV Chart



Source: PL, Company



Technical account (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Gross Premiums	3,85,835	4,46,817	5,11,691	5,96,032
Reinsurance Ceded	4,612	5,920	6,661	7,562
Net Premiums	3,81,223	4,40,897	5,05,030	5,88,470
Income from Investments	3,26,776	1,99,183	1,74,426	1,90,910
Other Income	4,420	5,131	5,960	6,928
Total income	7,12,418	6,45,211	6,85,417	7,86,308
Commission	(17,104)	(20,640)	(22,794)	(26,395)
Operating expenses	(45,860)	(45,167)	(52,171)	(59,784)
Prov for doubtful debts	1,885	2,073	2,279	2,505
Operating Profit	6,51,340	5,81,477	6,12,731	7,02,634
Prov for Tax	(6,311)	(8,672)	(9,543)	(10,534)
Benefits Paid (Net)	(2,25,748)	(2,26,372)	(2,63,670)	(3,01,145)
Chg in reserves	(4,08,296)	(3,33,808)	(3,24,932)	(3,73,122)
Surplus / Deficit	10,984	12,625	14,586	17,833

Shareholder's a/c (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Transfer from technical a/c	9,909	11,302	13,088	16,076
Income From Investments	6,476	7,262	8,185	9,309
Total Income	16,385	18,564	21,274	25,385
Other expenses	(637)	(733)	(843)	(969)
Contribution to technical a/c	(2,586)	(3,002)	(3,487)	(4,053)
Total Expenses	(2,850)	(3,362)	(3,957)	(4,649)
PBT	13,535	15,202	17,317	20,736
Prov for Tax	66	(304)	(346)	(415)
PAT	13,601	14,898	16,971	20,321

Premium (Rsm) & growth (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
New business prem - unwdt	2,01,066	2,39,068	2,74,928	3,24,415
New business prem - APE	81,832	96,795	1,12,522	1,35,950
Renewal premium	1,84,769	2,07,749	2,36,763	2,71,617
Total premium - unwdt	3,85,835	4,46,817	5,11,691	5,96,032
New bus. growth - unwdt	16.6%	18.9%	15.0%	18.0%
New business growth - APE	14.2%	18.3%	16.2%	20.8%
Renewal premium growth	19.4%	12.4%	14.0%	14.7%
Total prem growth - unwdt	18.0%	15.8%	14.5%	16.5%

Premium mix (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
New business - unwdt				
- Individual mix	49.9	51.0	51.0	52.0
- Group mix	50.1	49.0	49.0	48.0
New business mix - APE				
- Participating	28.8	32.1	31.8	28.6
- Non-participating	49.9	45.5	42.7	39.9
- ULIPs	21.3	22.4	25.6	31.5
Total premium mix - unwdt				
- Participating	19.8	21.8	21.8	21.1
- Non-participating	51.0	45.6	44.8	43.5
- ULIPs	29.1	32.6	33.5	35.4

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sources of Fund				
Share Capital	20,209	20,209	20,209	20,209
Reserves And Surplus	64,093	74,913	87,443	1,03,322
Shareholders' Fund	86,377	97,197	1,09,726	1,25,606
Policy Liabilities	8,80,780	11,69,732	14,15,419	17,01,372
Prov. for Linked Liab.	7,47,595	7,92,451	8,71,696	9,58,865
Funds For Future App.	9,906	11,095	12,759	14,673
Current liabilities & prov.	65,021	68,272	71,686	75,270
Total	17,95,679	21,38,747	24,81,286	28,75,786
Application of Funds				
Shareholders' inv	85,421	96,121	1,08,512	1,24,216
Policy holders' inv	9,05,378	12,16,521	14,78,254	17,83,330
Assets to cover linked liab.	7,47,595	7,92,451	8,71,696	9,58,865
Loans	4,240	5,089	6,106	7,328
Fixed Assets	3,401	3,572	3,750	3,938
Current assets	49,643	55,104	60,614	66,676
Total	17,95,679	21,38,747	24,81,286	28,75,786

Operating ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
Investment yield (%)	19.7	9.9	7.4	7.0
Commissions / GWP	4.4	4.6	4.5	4.4
- first year premiums	19.0	19.7	18.5	17.6
- renewal premiums	1.5	1.5	1.5	1.5
- single premiums	1.0	1.0	1.0	1.0
Operating expenses / GWP	11.9	10.1	10.2	10.0
Total expense ratio	16.3	14.7	14.7	14.5
Claims / NWP	57.1	49.5	50.5	49.6
Solvency margin	154.9	227.5	225.4	226.2

Persistency ratios (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
13th Month	91.2	91.7	91.8	91.9
25th Month	82.5	83.4	83.8	83.9
37th Month	73.6	75.0	75.5	75.8
49th Month	67.9	67.9	68.4	68.6
61st Month	55.0	55.1	55.1	55.2

Profitability ratios (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
NBP margin (%) post overrun	26.1	26.6	27.0	27.3
RoE (%)	17.6	16.2	16.4	17.3
RoIC (%)	55.7	59.6	67.9	81.3

Valuation ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
Total AUMs (Rs bn)	1,738	2,105	2,458	2,866
- of which equity AUMs (%)	36.0	41.0	41.0	41.0
EVOP as % of MCEV	18.5	18.5	18.6	18.8
RoEV (%)	28.5	19.6	19.4	19.5
Dividend %	-	0.3	0.3	0.3
Dividend pay out ratio (%)	-	27.4	26.2	21.9
EPS, Rs	6.7	7.4	8.4	10.1
Embedded Value (Rs bn)	266.1	315.0	372.4	441.2
Appraisal value/EV (x)	4.1	3.9	3.7	3.5
Appraisal value/NBV (x)	50.0	47.7	45.3	41.7

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	860	756
2	Bank of Baroda	BUY	105	81
3	Federal Bank	Accumulate	97	85
4	HDFC Bank	BUY	1,870	1,522
5	HDFC Life Insurance Company	Hold	725	679
6	ICICI Bank	BUY	815	677
7	ICICI Prudential Life Insurance Company	Accumulate	670	605
8	IDFC First Bank	Reduce	45	52
9	IndusInd Bank	BUY	1,280	976
10	Kotak Mahindra Bank	Accumulate	1,960	1,741
11	Max Financial Services	Accumulate	1,120	1,051
12	Punjab National Bank	BUY	50	40
13	SBI Life Insurance Company	BUY	1,250	1,077
14	South Indian Bank	Hold	11	11
15	State Bank of India	BUY	530	457

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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