

CMP: ₹ 690

Target: ₹ 850 (23%)

Target Period: 12 months

BUY

October 23, 2021

Steady growth; outlook on growth optimistic...

About the stock: HDFC Life is among the most dominant players in the Indian life insurance industry with a strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on non-par and protection business
- Industry leading VNB margins of over 25%

Q2FY22 Results: Business traction healthy, elevated claims impact earnings.

- Gross premium grew at a healthy pace of 14% YoY to ₹ 11632 crore
- VNB margins remained healthy at 26.4%, aided by a balanced product mix
- Claims remained elevated amid pandemic; provision buffer at ₹ 204 crore
- Surplus improved from ₹ 59 crore to ₹ 178 crore QoQ

What should investors do? HDFC Life's share price has grown by ~2x over the past four years.

- We retain our BUY rating on the stock

Target Price and Valuation: We value HDFC Life at 4.4x FY23E EV with TP of ₹ 850

Key triggers for future price performance:

- Focus on credit protect & retirement product to aid business growth
- Strong distribution network remains core to maintain business momentum
- VNB margins to be industry leading at ~26%, led by balanced product mix
- Approval from IRDA, CCI for merger of Exide Life expected in Q4FY22

Alternate Stock Idea: Apart from HDFC Life, in our coverage we also like SBI Life

- SBI Life also comes with a strong parentage with strong distribution network and superior cost efficiencies
- BUY with a target price of ₹ 1,250



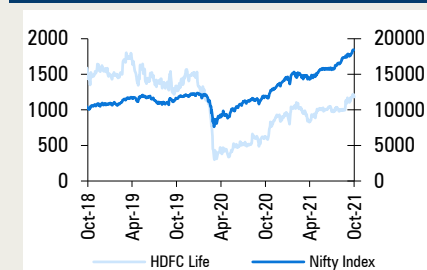
Particulars

Particulars	Amount
Market Capitalisation	₹ 139728 crore
EV (Q2FY22)	₹ 28703 crore
AUM (Q2FY22)	₹ 191212 crore
VNB margin (Q2FY22)	26.4%
52 week H/L	776/ 559
Net worth	₹8690 crore
Face value	₹ 10

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	60.4	58.9	58.9	53.8	53.8
FII	23.4	24.9	25.7	26.1	30.1
DII	7.3	7.1	6.3	5.9	6.7
Others	8.9	9.2	9.2	14.2	9.4

Price Chart



Risk to our call

- Gross premium growth stays healthy at 14% YoY; claims elevated
- Key risk:** 1) Higher growth in Ulip could lower margin, 2) Hike in premium rates to impact growth

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	4 year CAGR (FY17 - FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
New business premium	14971	17238	20107	23%	25918	31002	24%
APE	6049	7164	8183	19%	10725	13191	27%
Total premium	29186	32707	38584	19%	47454	58518	23%
PAT	1277	1371	1360	11%	1123	1915	19%
EV	18296	20655	26625	21%	31347	38890	21%
P/E (x)	109.0	101.6	102.4		124.1	76.0	
P/BV (x)	24.6	20.5	16.1		15.0	8.8	
P/IEV (x)	7.6	6.7	5.2		4.4	3.7	
RoEV (%)	20.1	18.1	18.5		18.1	17.5	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Healthy business growth; claims remain elevated

- Healthy premium growth at 14% YoY to ₹ 11632 crore, led by healthy traction in renewal at ₹ 5035 crore (up 17% YoY) and NBP at ₹ 6596 crore (up 12% YoY)
- On APE basis, premiums increased 19.4% YoY to ₹ 2551 crore. Individual APE for Q2FY22 was at ₹ 2121 crore, up ~20% YoY
- Opex ratio increased 80 bps YoY to 11.6%
- In H1FY22, HDFC Life settled around 2 lakh claims. Gross and net claims amounted to ₹ 3,640 crore (₹ 1598 crore in Q1FY22) and ₹ 2,466 crore (₹ 956 crore in Q1FY22), respectively
- Persistency ratio largely remained buoyant with 13th month persistency at 85% and 61st month persistency at 53%
- AUM growth for the quarter was at ₹ 191212 crore, up 27% YoY, owing to traction in unit linked AUM. Debt to equity mix in AUM was at 62:38
- Indian embedded value was at ₹ 28703 crore as of September 2021, up 23% YoY. Solvency ratio was healthy at 1.90x

Q2FY22 earnings conference call highlights

- Annuity business registered healthy growth of 47% while protection APE including group recorded 41% YoY in H1FY22. HDFC Pension crossed the milestone of 20,000 crore AUM and registered 97% growth YoY
- The management remains optimistic on future business growth. Credit protect and annuity are expected to witness healthy momentum ahead
- Number of Covid claims were total 11,114, with individual at ~7300 and group at ~3800. In H1FY22, total claims were ₹ 2466 crore, of which individual was ₹ 976 crore & group was ₹ 1490 crore. Covid claims were at ₹ 462 crore. Additional reserve was at ₹ 204 crore
- Expect approval from IRDA, CCI for merger of Exide Life in Q4FY22
- Launched new non par product – Sanchay Fixed Maturity plan. Margin in this product remains in line with existing non par products
- Given probability of increase in re-insurance premium on individual term insurance, HDFC Life is set to protect margins through pass through of rise in premium including other levers
- Demand in individual term insurance is expected to remain buoyant given under-penetration, increasing product awareness and expectation of a hike in premium rates
- Reinsurance hikes will be further concluded in the next two to three quarters
- Given rise in equities and correlation with demand for unit linked products, HDFC Life will strive to maintain its product mix to safeguard margins
- Less than 25% of term insurance is sourced from web aggregator

Peer comparison

Exhibit 1: ICICI Direct coverage universe (Insurance)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/EV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SBI Life Insurance	1166	1250	Buy	1,166	14.2	14.6	13.5	81.9	80.1	86.4	3.8	3.3	2.9	15.2	15.2	12.5
HDFC Life	690	850	Buy	1397	6.7	5.6	9.1	102.4	124.1	76.0	5.2	4.4	3.7	17.6	18.0	17.5

Source: Company, ICICI Direct Research

HDFC Life gets its premium valuations from its superior profitability, strong parentage and consistent improvement in profitability over the years.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
First Year Premium	2,078.0	1,998.0	1,675.2	24.0	1,285.6	61.6	
Renewal Premium	5,034.5	5,267.3	4,310.4	16.8	3,889.3	29.4	Healthy persistency aided renewal growth
Single Premium	4,518.4	4,626.0	4,197.0	7.7	2,481.1	82.1	
Net Premium income	11,444	11,773	10,045	13.9	7,538	51.8	Strong growth led by new business premium
Income from	9,032.9	6,116.7	6,369.3	41.8	7,065.8	27.8	
Total revenue	20,476.9	17,889.9	16,414.8	24.7	14,604.3	40.2	
Commission	509.9	529.8	424.7	20.0	302.3	68.7	
Operating expenses	1,349.9	1,353.9	1,101.4	22.6	951.2	41.9	
Management	1,859.8	1,883.7	1,526.1	21.9	1,253.5	48.4	
Benefits paid	8,337.6	7,652.6	4,755.8	75.3	5,801.4	43.7	Claims payment higher than what was expected because of lag effect in claims paid
Change in Actuarial Liability	10,049.9	7,986.6	9,884.9	1.7	7,608.2	32.1	
Total Expenses	18,387.4	15,639.2	14,640.7	25.6	13,409.6	37.1	
Surplus/ (deficit)	177.8	327.0	156.2	13.9	57.4	209.8	Healthy premium but increased expenses resulting in slower growth
Transfer to SH's A/c	201.9	215.0	217.7	-7.2	124.9	61.7	
Investment income	203.4	201.8	137.1	48.4	259.3	-21.6	
Profit/ (loss) before tax	276.0	356.8	326.2	-15.4	306.7	-10.0	
PAT	274.2	352.8	326.1	-15.9	302.4	-9.3	

Key Metrics

NBP	6,596.4	6,624.0	5,872.2	12.3	3,766.6	29.9	Fulled by 57% YoY APE growth in protection
AUM	1,91,212	1,71,740	1,50,622	26.9	1,81,272	5.0	AUM growth back to normal trajectory
IEV	28,703		23,332	23.0	27,331	6.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	45,011	46,465	3.2	57,024	57,273	0.4
Total	59,121	62,624	5.9	74,207	76,048	2.5
Transfer to Shareholders' account	1,204	728	-39.5	1,481	1,491	0.7
PAT	1,585	1,123	-29.1	1,904	1,915	0.5
EV/Share	154	155	1.0	183	184	0.8

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY20	FY21	FY22E	FY23E	FY22E	FY23E
NBP growth	15.1	16.6	28.9	19.6	21.4	27.5
AUM growth	1.3	36.6	19.9	15.8	4.7	27.4
EV Growth	12.9	28.9	17.7	24.1	16.6	24.3
Comission ratio	4.6	4.4	4.3	4.3	4.3	4.3
VNB Margin	25.9	26.1	26.4	26.0	26.4	26.0
Conservation ratio	80.3	85.9	85.0	90.0	85.0	90.0
Opearating RoEV	18.1	18.5	18.1	17.5	17.5	17.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Premiums earned - Net	28924.0	32223.6	38122.3	46464.6	57273.4
Interest, Dividends & Rent	9027.5	6845.3	32677.6	15423.3	17850.9
Others income (incl. MTM)	484.0	-9807.5	442.0	736.5	923.9
Total Revenue	38,436	29,261	71,242	62,624	76,048
Commission	1117.7	1491.18	1710.40	2026.4	2535.1
Operating expenses	3813.6	4266.9	4587.4	6227.6	8004.4
Benefits paid (Net)	13988.9	19021.5	22574.8	27822.5	31138.8
Change in valuation of policy liabilities	17507.5	2440.8	40829.6	25095.1	30537.0
Provision for tax	226.8	149.0	274.4	199.0	1381.1
Surplus/(deficit) after tax	1350.7	971.4	1098.4	767.7	1864.2
Transfer to Shareholders' account	1,207	1,191	991	728	1,491

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Amounts transferred from Policyholders' account	1206.9	1191.4	990.9	728.4	1491.4
Income from investments	408.4	437.8	647.6	759.8	867.4
Total	1,636	1,648	1,638	1,488	2,359
Total expenses	62.6	99.1	285.0	346.5	260.4
Profit before Tax	1289.9	1387.4	1353.5	1158.2	1973.7
Provision for tax	13.1	16.5	-6.6	34.7	59.2
PAT	1,277	1,371	1,360	1,123	1,915

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share capital	2017	2019	2021	2021	2108
Reserve and surplus	3641	4968	6407	7045	14256
Credit/[debit] fair value change account	-3	-192	207	216	226
Networth	5656	6800	8638	9282	16591
Policyholders' funds	118124	119502	162818	181586	230700
Funds for Future Appropriations	1103	883	991	1030	1403
Total Liabilities	124883	127185	173066	191899	248693
Applications of Funds					
Shareholders' investments	5050	5855	8542	8695	11565
Policyholders' investments	57124	67189	90538	106221	122154
Asset held to cover linked liabilities	63377	54182	74760	93449	107467
Loans	80	299	424	424	957
Fixed assets - net block	333	330	340	347	354
Net current assets	-1082	-670	-1538	-17238	6196
Total Assets	124883	127185	173066	191899	248693

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares (Crore)	201.7	201.9	201.9	202.1	210.8
Diluted EPS (₹)	6.3	6.8	6.7	5.6	9.1
BV (₹)	28.0	33.7	42.8	45.9	78.7
EV per share	90.7	102.3	131.9	155.1	184.5
P/E	109.0	101.6	102.4	124.1	76.0
P/BV	24.6	20.5	16.1	15.0	8.8
P/IEV	7.6	6.7	5.2	4.4	3.7
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	3.8	4.6	4.4	4.3	4.3
Management expenses as a % of Gross Premium	16.9	17.6	16.3	17.4	18.0
Return Ratios and capital (%)					
Return on Net worth	24.5	22.0	17.6	18.0	17.5
Operating RoEV	20.1	18.1	18.5	18.4	18.2
Key Ratios (%)					
VNB Margin	24.6	25.9	26.1	26.4	26.0

Source: Company, ICICI Direct Research

Exhibit 9: Key parameters

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
NBP	14,971	17,238	20,107	25,918	31,002
Growth (%)	32	15	17	29	20
Linked	11,322	11,192	11,055	12,733	15,079
Growth (%)	10	-1	-1	15	18
Non Linked	17,864	21,514	24,281	34,721	43,439
Growth (%)	34	20	13	43	25
APE	6,049	7,164	8,183	10,725	13,191
Growth (%)	12	18	14	31	23
VNB	1,540	1,919	2,190	2,897	3,509
Growth (%)	20	25	14	32	21
EV	18,296	20,655	26,625	31,347	38,890
Growth (%)	20	13	29	18	24
AUM	125,552	127,226	173,839	208,366	241,186
Growth (%)	18	1	37	20	16
PH Funds	57,124	67,189	90,538	106,221	122,154
Growth (%)	26	18	35	17	15
SH Funds	5,050	5,855	8,542	8,695	11,565

Source: Company, ICICI Direct Research

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