

Healthy 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, protection & annuity business
- Industry leading VNB margins of over 25%

Q3FY22 Results: Business traction healthy, lower investment income impacts PAT

- Gross premium grew at a healthy pace of 27% YoY to ₹ 12255 crore
- VNB margins remained healthy at 26.5%, aided by a balanced product mix
- Continued moderation in Covid claims; provision buffer at ₹ 105 crore
- PAT at ₹ 274 crore; up 3% YoY, impacted by lower investment income

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 3.4x FY24E EV with TP of ₹ 800.

Key triggers for future price performance:

- Moderation in Covid claims & buffer to aid VNB margin at ~26% ahead
- New product launch and select growth to aid business growth
- Strong distribution network remains core to maintain business momentum
- 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 ₹ 1,400



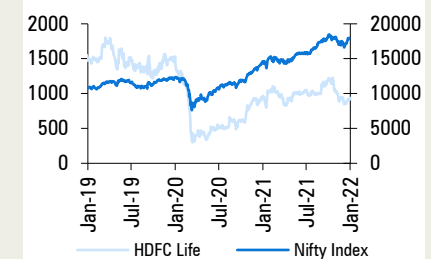
Particulars

Particulars	Amount
Market Capitalisation	₹ 135420 crore
EV (Q3FY22)	₹ 29543 crore
AUM (Q3FY22)	₹ 194738 crore
VNB margin (Q3FY22)	26.5%
52 week H/L	776/ 627
Net worth	₹9054 crore
Face value	₹ 10

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	58.9	58.9	53.8	53.8	53.8
FII	24.9	25.7	26.1	30.1	30.5
DII	7.1	6.3	5.9	6.7	6.1
Others	9.2	9.2	14.2	9.4	9.7

Price Chart



Risk to our call

- Gross premium growth stays healthy at 27% YoY
- Key risk:** 1) Higher growth in Ulip could lower margin, 2) Hike in premium rates to impact growth

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narmolia
vishal.narmolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Dixit Sankharva
dixit.sankharva@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	4 year CAGR (FY17 - FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
New business premium	14971	17238	20107	23%	25918	31002	37221	23%
APE	6049	7164	8183	19%	10725	13191	16316	26%
Total premium	29186	32707	38584	19%	47454	58518	72076	23%
PAT	1177	1371	1360	11%	1128	1846	2088	15%
EV	18296	20655	26625	21%	31345	38909	47685	21%
P/E (x)	109.9	94.4	95.1		114.8	73.2	64.7	
P/BV (x)	23.3	19.0	15.0		14.0	8.2	5.7	
P/IEV (x)	7.1	6.3	4.9		4.1	3.5	2.8	
RoEV (%)	20.1	18.1	18.5		18.1	17.5	17.4	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Healthy business growth; mixed on earnings

- Healthy premium growth at 27% YoY to ₹ 12255 crore, led by healthy traction in renewal at ₹ 5543 crore (up 21% YoY) and NBP at ₹ 6712 crore (up 33% YoY)
- On APE basis, premiums increased 20.4% YoY to ₹ 2576 crore. Individual APE for Q3FY22 was at ₹ 2150 crore, up ~18% YoY
- Commission ratio declined ~50 bps YoY and 30 bps QoQ to 4.2%. Opex ratio (management expense) ratio increased ~70 bps QoQ to 12.3%
- In 9MFY22, HDFC Life settled around 3 lakh claims. Gross and net claims amounted to ₹ 4,657 crore (₹ 3640 crore in H1FY22) and ₹ 3,406 crore (₹ 2,466 crore in H1FY22), respectively
- Persistency ratio largely remained buoyant with 13th month persistency at 85% and 61st month persistency at 51%
- AUM was at ₹ 1,94,738 crore, up 18% YoY. Debt to equity mix in AUM was at 64:36 with ~98% of debt investments in G-secs and AAA bonds
- Indian embedded value at ₹ 29,543 crore as of December 2021, up 18% YoY. Solvency ratio was healthy at 1.90x

Q3FY22 earnings conference call highlights

- Protection prices have gone up 15-25% for HDFC Life. Such price hikes have made margin neutral (i.e. VNB margin remains protected)
- HDFC Life has launched new product - Sanchay FMP in the deferred annuity segment. The product has already seen strong traction, selling ₹ 300 crore in the first 75 days. Margin in this product remains in line with existing non par products
- Protection was up 34% YoY; growth has been healthy despite no undercutting on pricing. Individual protection was up 24% in Q3FY22 and 2% in 9MFY22. Quantum of individual protection is about ₹ 1200 crore
- On Exide Life acquisition, the value unlock is expected over 18-24 months
- HDFC Life was holding a Covid claims reserve of ₹ 204 crore in Q2FY22, of which ~₹ 150 crore was utilised and mortality reserves are now at ₹ 105 crore, post addition of ₹ 55 crore towards possible claims arising out of third wave of Covid-19
- The management remains optimistic on future business growth. Credit protect and annuity are expected to witness healthy momentum ahead
- Demand in individual term insurance is expected to remain buoyant given under-penetration, increasing product awareness and expectation of a hike in premium rates

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	1214	1400	Buy	1,238	28.5	13.4	14.2	42.6	90.9	85.3	6.4	5.5	4.6	42.5	16.0	15.2
HDFC Life	642	800	Buy	1354	3.6	3.9	4.1	176.6	163.0	156.5	18.3	14.5	12.5	32.8	32.7	28.5

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

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
First Year Premium	2,116.0	2,029.0	1,772.2	19.4	2,078.0	1.8	Traction continues in annuity & protection business
Renewal Premium	5,543.0	5,587.3	4,577.0	21.1	5,034.5	10.1	Healthy persistency aided renewal growth
Single Premium	4,595.8	4,088.0	3,279.0	40.2	4,518.4	1.7	
Net Premium income	12,124	11,588	9,487	27.8	11,444	5.9	Healthy growth led by new business premium
Income from Investment	2,097.9	7,863.3	11,639.8	-82.0	9,032.9	-76.8	
Total revenue	14,222.2	19,451.4	21,126.8	-32.7	20,476.9	-30.5	
Commission	507.4	521.5	448.2	13.2	509.9	-0.5	
Operating expenses	1,502.4	1,355.8	1,307.3	14.9	1,349.9	11.3	
Management Expenses	2,009.8	1,877.3	1,755.5	14.5	1,859.8	8.1	
Benefits paid	8,081.3	7,879.9	6,182.5	30.7	8,337.6	-3.1	Covid claim moderate; reserve for Covid at ₹ 105 crore
Change in Actuarial Liability	3,850.0	9,371.2	12,827.8	-70.0	10,049.9	-61.7	
Total Expenses	11,931.3	17,251.1	19,010.3	-37.2	18,387.4	-35.1	
Surplus/ (deficit)	201.7	283.1	315.5	-36.1	177.8	13.4	Healthy premium partially offset by higher expenses
Transfer to SH's A/c	182.5	140.0	139.8	30.6	201.9	-9.6	
Investment income	179.1	215.8	142.7	25.5	203.4	-12.0	
Profit/ (loss) before tax	275.9	295.8	267.0	3.3	276.0	0.0	
PAT	273.7	291.8	265.0	3.3	274.2	-0.2	

Key Metrics

NBP	6,711.7	6,117.0	5,051.2	32.9	6,596.4	29.9	
AUM	194,776	173,487	165,623	17.6	191,212	5.0	AUM growth back to normal trajectory
IEV	29,543		25,054	17.9	28,703	6.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
(₹ Crore)							
Premiums earned - Net	46,465	46,465	0.0	57,273	57,273	0.0	70,543
Total	62,624	67,410	7.6	76,048	77,515	1.9	92,134
Transfer to Shareholders' account	728	771	5.9	1,491	1,278	-14.3	1,384
PAT	1,123	1,128	0.4	2,053	1,846	-10.1	2,088
EV/Share	155	155	0.0	184	185	0.2	226

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E
NBP growth	16.6	28.9	19.6	20.1	28.9	19.6
AUM growth	36.6	19.9	15.8	15.9	19.9	15.8
EV Growth	28.9	17.7	24.1	22.6	17.7	23.9
Comission ratio	4.4	4.3	4.3	4.3	4.3	4.3
VNB Margin	26.1	26.4	26.0	26.0	26.4	26.0
Conservation ratio	85.9	85.0	90.0	90.0	85.0	90.0
Operaring RoEV	18.5	18.1	17.5	17.4	18.1	17.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account

(₹ Crore)	FY20	FY21	FY22E	FY23E	FY24E
Premiums earned - Net	32223.6	38122.3	46464.6	57273.4	70543.2
Interest, Dividends & Rent	6845.3	32677.6	20208.5	19318.1	20528.6
Others income (incl. MTM)	-9807.5	442.0	736.5	923.9	1062.5
Total Revenue	29,261	71,242	67,410	77,515	92,134
Commission	1491.18	1710.40	2026.4	2535.1	3133.1
Operating expenses	4266.9	4587.4	6227.6	8004.4	9879.0
Benefits paid (Net)	19021.5	22574.8	30283.3	33012.0	38486.1
Change in valuation of policy liabilities	2440.8	40829.6	27575.5	31022.2	36251.4
Provision for tax	149.0	274.4	80.2	756.6	1931.7
Surplus/(deficit) after tax	971.4	1098.4	730.5	1597.6	1729.5
Transfer to Shareholders' account	1,191	991	771	1,278	1,384

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account

(₹ Crore)	FY20	FY21	FY22E	FY23E	FY24E
Amounts transferred from Policyholders' account	1191.4	990.9	771.5	1278.1	1383.6
Income from investments	437.8	647.6	911.7	1010.5	1153.6
Total	1,648	1,638	1,683	2,289	2,537
Total expenses	99.1	285.0	520.0	385.0	385.0
Profit before Tax	1387.4	1353.5	1163.2	1903.6	2152.2
Provision for tax	16.5	-6.6	34.9	57.1	64.6
PAT	1,371	1,360	1,128	1,846	2,088

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

(₹ Crore)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share capital	2019	2021	2021	2108	2108
Reserve and surplus	4968	6407	7048	14212	21544
Credit/(debit) fair value change account	-192	207	216	226	240
Networth	6800	8638	9286	16546	23891
Policyholders' funds	119502	162818	184067	233868	293328
Funds for Future Appropriations	883	991	950	1269	1615
Total Liabilities	127185	173066	194302	251683	318835
Applications of Funds					
Shareholders' investments	5855	8542	8695	11565	15381
Policyholders' investments	67189	90538	106221	122154	140477
Asset held to cover linked liabilities	54182	74760	93449	107467	123587
Loans	299	424	424	957	1490
Fixed assets - net block	330	340	347	354	361
Net current assets	-670	-1538	-14835	9187	37539
Total Assets	127185	173066	194302	251683	318835

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Valuation					
No. of Equity Shares (Crore)	201.9	201.9	202.1	210.8	210.8
Diluted EPS (₹)	6.8	6.7	5.6	8.8	9.9
BV (₹)	33.7	42.8	45.9	78.5	113.3
EV per share	102.3	131.9	155.1	184.6	226.2
P/E	94.4	95.1	114.8	73.2	64.7
P/BV	19.0	15.0	14.0	8.2	5.7
P/EV	6.3	4.9	4.1	3.5	2.8
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.6	4.4	4.3	4.3	4.3
Management expenses as a % of Gross Premium	17.6	16.3	17.4	18.0	18.1
Return Ratios and capital (%)					
Return on Net worth	22.2	17.6	18.0	18.1	18.2
Operating RoEV	18.1	18.5	18.4	18.2	18.2
Key Ratios (%)					
VNB Margin	25.9	26.1	26.4	26.0	26.0

Source: Company, ICICI Direct Research

Exhibit 9: Key parameters

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
NBP	17238	20107	25918	31002	37221
Growth (%)	15	17	29	20	20
Linked	11192	11055	12733	15079	18276
Growth (%)	-1	-1	15	18	21
Non Linked	21514	24281	34721	43439	53800
Growth (%)	20	13	43	25	24
APE	7164	8183	10725	13191	16316
Growth (%)	18	14	31	23	24
VNB	1919	2190	2897	3509	4340
Growth (%)	25	14	32	21	24
EV	20655	26625	31345	38909	47685
Growth (%)	13	29	18	24	23
AUM	127226	173839	208366	241186	279445
Growth (%)	1	37	20	16	16
PH Funds	67189	90538	106221	122154	140477
Growth (%)	18	35	17	15	15
SH Funds	5855	8542	8695	11565	15381

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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