

HDFC Life Insurance

Refer to important disclosures at the end of this report

Year ends well; confident outlook for FY23

After navigating smartly and delivering robust performance in an uncertain and challenging year FY22, HDFCLIFE management sounded confident about the growth and margin outlook for FY23. Its FY22 results came broadly in line with our estimates with a minor positive surprise on the VNB margin front, led by a better product mix and operating leverage supporting margins in Q4. The acquisition and integration process of Exide Life is well on track and management expects standalone margins to improve in FY23 and the consolidated margins to be flat at FY22 levels. After the recent corrections, the valuation premium of HDFCLIFE versus peers has narrowed. Notwithstanding near-term market volatility and the upcoming LIC IPO, the fundamental story of consistent profitable growth remains intact. We reiterate our Buy rating on the stock with a revised target price of Rs690.

- **Robust performance amid challenging external environment:** HDFCLIFE reported 17% YoY growth in APE in FY22 to Rs97.6bn and 22% YoY growth in VNB to Rs26.8bn on a standalone basis. VNB margin for FY22 stood at 27.4% (+1.3ppts YoY) vs. 26.5% for 9MFY22. HDFCLIFE posted a 2-year CAGR of 17% in RWRP, higher than the 9% CAGR for the industry and 14% CAGR for private players. The Exide Life merger and integration process is expected to be completed in FY23. The standalone operating RoEV in FY22 was 16.6% (-2.5% impact from excess mortality on account of Covid-19). The EV for FY22 stood at Rs 300.5bn after paying out Rs7.26bn in cash to Exide Life promoters as part of the acquisition.
- **Board approves Rs3.5bn sub-debt raise to boost solvency:** Solvency margins for FY22 stood at 176% (vs. 190% at 9MFY22 and 201% at FY21). About 13% of the decline in solvency was due to the Rs7.26bn cash payout to Exide Life promoters. Around 11-12% of the solvency dip was due to excess mortality charges of Rs6.5bn pertaining to Covid-19. Adjusting for these two factors, YoY solvency remained broadly flat and the company would have generated organic capital to fund growth. The board has approved a proposal to raise up to Rs3.5bn in non-convertible debenture that will likely boost the solvency ratio by 6ppts. Management remains open to capital raise via a mix of debt and equity (only if needed) to fund any profitable growth opportunity. The targeted solvency ratio remains ~180%.
- **Management confident about FY23 growth and margin outlook:** Management sounded confident about achieving APE growth that is 2x the real GDP growth while gradually expanding standalone margins. The margin expansion will be supported by the return of growth in retail protection, operating leverage and some shift in savings products to better margin-yielding products. Regarding the impact of the HDFC-HDFC Bank merger, management sees scope for improved cross-selling and possibly some scope for cost reduction in the HDFC Bank channel once the deal closes.
- **Minor changes to estimates; revised TP of Rs690 implies FY23E P/EV of 3.8x:** To reflect FY22 developments, we have tweaked our estimates slightly and have introduced FY25 estimates. We increase our TP to Rs690 from Rs670 as we roll forward to Jun'23 TP and slightly increase VNB margins. We continue to value HDFC Life standalone on the appraisal value method and assign 2x FY23E P/EV to Exide Life. Notwithstanding near-term turbulence, HDFCLIFE warrants a premium valuation for its consistent robust performance. We reiterate our Buy rating on the stock.

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

Financial Summary

Y/E March (Rs bn)	FY21	FY22	FY23e	FY24e	FY25e
Annualised Premium Equivalent (APE)	83.7	97.6	113.0	131.0	151.8
New Business Value (NBV)	21.9	26.8	31.8	37.8	45.0
NBV Margin (% of APE)	26.1	27.4	28.1	28.9	29.7
Embedded Value	266.2	300.5	355.8	420.5	496.3
Operating RoEV (%)	18.5	16.6	19.5	19.3	19.1
EVPS (Rs)	131.7	142.2	168.4	199.1	234.9
EPS (Rs)	6.73	5.90	8.97	10.21	11.31
P/EV (x)	4.1	3.8	3.2	2.7	2.3

Source: Company, Emkay research

CMP	Target Price
Rs 550 as of (April 26, 2022)	Rs 690 (▲) 12 months
Rating	Upside
BUY (■)	25.45%

Change in Estimates

EPS Chg FY22E/ (%)	-/
Target Price change (%)	3%
Target Period (Months)	12
Previous Reco	BUY

Emkay vs. Consensus

EPS Estimates		
FY22E		
Emkay	-	-
Consensus	8.4	10.3
Mean Consensus TP (12M)	Rs 741	

Stock Details

Bloomberg Code	HDFCLIFE IN
Face Value (Rs)	10
Shares outstanding (mn)	2,113
52 Week H/L	776 / 497
M Cap (Rs bn/USD bn)	1,162 / 15.17
Daily Avg Volume (nos.)	5,623,740
Daily Avg Turnover (US\$ mn)	40.4

Shareholding Pattern Mar '22

Promoters	51.5%
FIIIs	26.3%
DIIIs	7.8%
Public and Others	14.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(13)	(20)	(22)
Rel. to Nifty	6	(12)	(15)	(34)

Relative price chart



Source: Bloomberg

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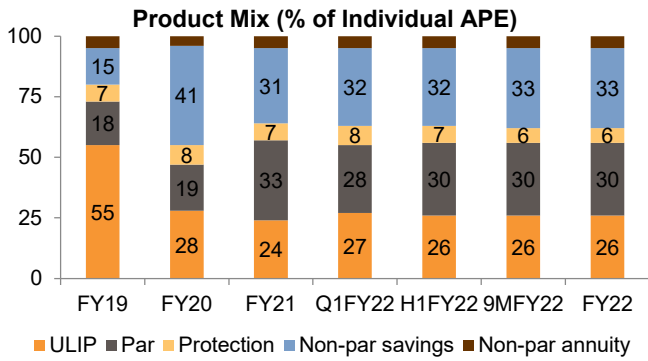
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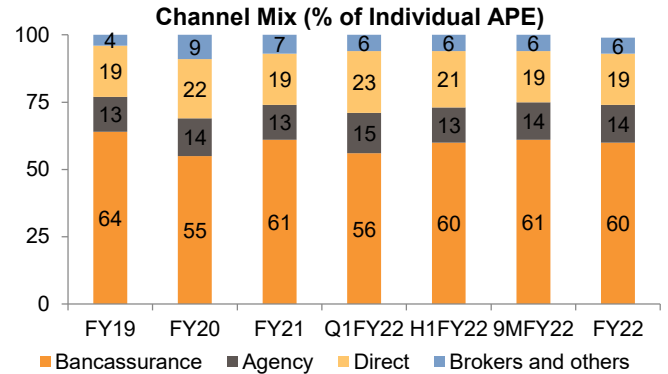
Story in Charts

Exhibit 1: Focus remains on maintaining a balanced product mix



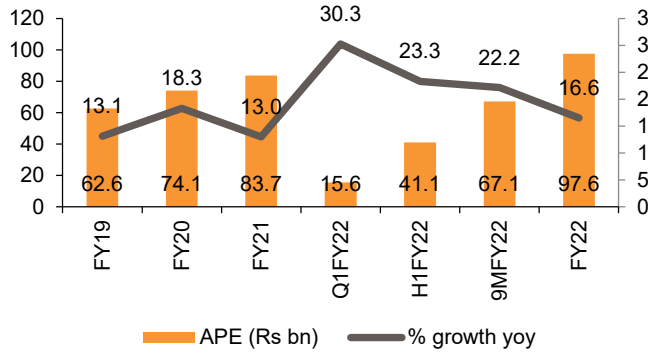
Source: Company, Emkay Research

Exhibit 2: Banca stabilizes at 60% of the distribution mix



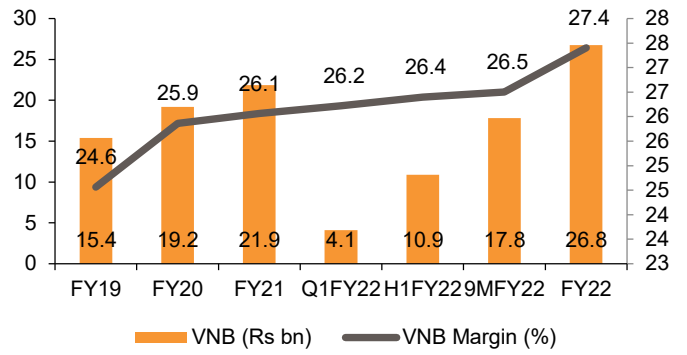
Source: Company, Emkay Research

Exhibit 3: APE up 16.6% YoY at Rs97.6bn



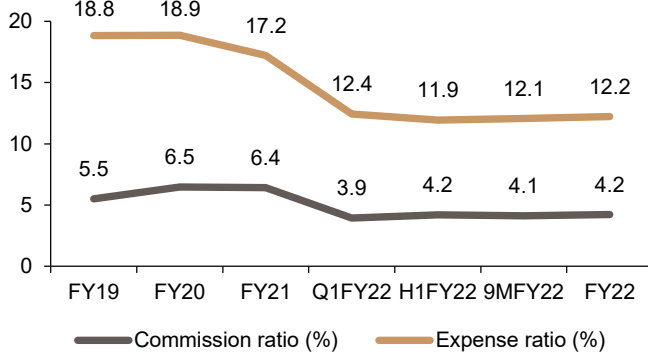
Source: Company, Emkay Research

Exhibit 4: Margins continue to register higher growth



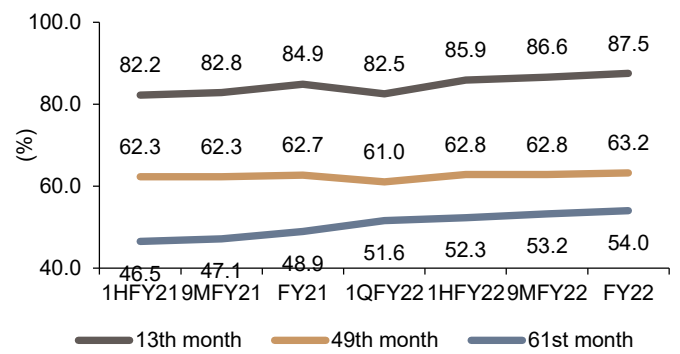
Source: Company, Emkay Research

Exhibit 5: Cost ratios increase on account of rising operating costs



Source: Company, Emkay Research

Exhibit 6: 13M and 61M Persistency continues to improve



Source: Company, Emkay Research. Note: Persistency excluding single premium

Exhibit 7: Quarterly financials

in Rs bn except %	FY22	FY21	%yoy	Q4FY22	Q4FY21	%yoy	FY21	FY20	%yoy
Annualised Premium Equivalent (APE)	97.6	83.7	16.6	30.5	28.8	5.8	83.7	74.1	13.0
--o/w Savings	84.3	73.0	15.5	26.5	25.0	5.8	73.0	61.4	19.0
--o/w Protection	13.3	10.7	23.8	4.0	3.8	6.1	10.7	12.7	-15.7
Protection APE (% of total APE)	13.6	12.8	0.8ppts	13.2	13.2	0.0ppts	12.8	17.1	-4.4ppts
Value of New Business	26.8	21.9	22.4	9.0	7.8	15.2	21.9	19.2	13.9
New Business Margin (%)	27.4	26.1	1.3ppts	29.4	27.0	2.4ppts	26.1	25.9	0.2ppts
Embedded Value	300.5	266.2	12.9	300.5	266.2	12.9	266.2	206.5	28.9
EV Operating Profit	44.1	38.3	15.0	N.A.	N.A.	N.M.	38.3	33.1	15.7
Operating RoEV (%)	16.6	18.5	-1.9ppts	N.A.	N.A.	N.M.	18.5	18.1	0.4ppts
Total New Business Premium (NBP)	241.5	201.1	20.1	70.8	65.6	7.9	201.1	172.4	16.6
Renewal premium	218.1	184.8	18.0	73.4	63.5	15.6	184.8	154.7	19.4
Gross written premium	459.6	385.8	19.1	144	129	11.7	385.8	327.1	18.0
PAT	12.1	13.6	-11.2	12.1	13.6	-11.2	13.6	13.0	5.0
AUM	2,042	1,738	17.4	2,041.7	1,738.4	17.4	1,738	1,272	36.6
SH Equity	154.9	86.4	79.3	154.9	86.4	79.3	86.4	67.9	27.1
13th month persistency (%)	92.0	90.0	2ppts				90.0	88.0	2ppts
49th month persistency (%)	69.0	67.0	2ppts				67.0	66.0	1ppts
61st month persistency (%)	58.0	53.0	5ppts				53.0	54.0	-1ppts
Solvency ratio (%)	176	201	-25ppts	176.0	201.0	-25ppts	201	184	17ppts

Source: Company, Emkay Research

Exhibit 8: Appraisal value method valuation of HDFC Life

Parameter (Rs bn)	Value
FY23e-38e APE CAGR	11.0%
FY23e-38e VNB CAGR	11.3%
Terminal growth rate	5.5%
Cost of Equity	12.0%
FY23 EV	356
Present value of future VNB	991
Exide Life Fair value	64
Appraisal Value - Mar-23	1,425
Share count (mn)	2,113
Appraisal value per share (Rs.) - Mar- 23	674
Price target (Rs.) - Jun-23	690

Source: Emkay Research

Exhibit 9: Implied valuation multiples

Target price multiple on FY23 estimates	690
P/EV	3.8x
RoEV (%)	19.5
P/EVOP	22.6x
Implied FY24e VNB multiple	27.4x
Current price multiple on FY23 estimates	550
P/EV	3.1x
RoEV (%)	19.5
P/EVOP	18.5x
Implied FY24e VNB multiple	21.3x

Source: Emkay Research. Note: Implied VNB multiple is the derived number that is the ratio of premium of appraisal value/market cap over closing EV of previous year to VNB

Exhibit 10: Changes in Estimates

Rs mn	Old			Revised			% Change		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
APE	1,15,553	1,33,943	N.A.	1,13,030	1,30,960	1,51,774	-2.2	-2.2	N.M.
VNB	31,565	37,534	N.A.	31,796	37,811	45,018	0.7	0.7	N.M.
VNB Margin (%)	27.3	28	N.A.	28.1	28.9	29.7	0.8ppts	0.8ppts	N.M.
EVOP	57,362	66,852	N.A.	58,614	68,583	80,270	2.2	2.6	N.M.
EV	3,63,844	4,26,792	N.A.	3,55,850	4,20,534	4,96,320	-2.2	-1.5	N.M.
PAT	18,858	21,613	N.A.	18,978	21,595	23,939	0.6	-0.1	N.M.

Source: Company, Emkay Research

Con-call highlights

- The company recorded 16% growth in individual WRP, resulting in market share expansion to 9.3%.
- Management said new business premium, value of new business and protection APE have at least doubled.
- Management expects demand to be robust and is optimistic about growth of the life insurance industry overall with the return of a normalized mortality experience.
- The company has covered 54mn lives and recorded 36% growth compared to FY21.
- In the last five years, the VNB margin has seen a 24% CAGR and has almost tripled, with the embedded value having doubled in the last four years. Management expects the margin to run up to 30%, assuming no changes in regulation. The profit after tax for the year declined due to higher mortality reserves created on account of the pandemic.
- The solvency margin for FY 22 stood at 176%, which was lower due to lower profits and cash payouts related to the Excide Life acquisition. The solvency margin without the impact of the cash payout stood at 189%. With the issue of Rs3.5bn non-convertible debentures, management expects the solvency ratio to increase by 6ppts. Overall, management expects the solvency ratio to hover around 180% with a risk-based capital approach. For any capital requirements, management would adopt a mix of debt and equity.
- Management said that the company added about 40,000 agents last year, the second highest among private players. It has also focused on building a woman financial consultant model.
- With regards to the merger of HDFC Ltd and HDFC Bank Ltd, management said that there would be direct alignment with a lot of cross-selling opportunities in a very structured manner wherein the consumer can get a one-stop solution for all financial services. Management intends to leverage the power of the Group to service customers.
- On the upcoming LIC IPO, management said that the public offering of the largest financial company was a much needed action with better disclosures and transparency. Management expects short-term turbulence in the stock price due to the LIC IPO. In the long term, HDFCLIFE focuses on enlarging the pie rather than cannibalizing others.
- With respect to margins, management said that growth of the sector optically looks in vain but over a period of two years, the company recorded a 17% CAGR vs. 9% for the industry. With GDP at 7-8%, management expects growth to be 2x of GDP.

Exhibit 11: Key Financials

Y/E March (Rs mn)	2019	2020	2021	2022	2023e	2024e	2025e
Policyholders' account							
Gross written premium	2,91,860	3,27,069	3,85,835	4,59,600	5,39,362	6,32,253	7,40,658
Net earned premium	2,89,240	3,22,236	3,81,223	4,53,900	5,32,673	6,24,411	7,31,472
Total revenue	3,84,355	2,92,614	7,12,418	6,53,584	7,37,039	8,58,496	10,01,833
Commission expense	11,177	14,638	17,104	19,403	22,770	26,692	31,268
Operating expenses	38,136	42,669	45,860	56,125	63,202	74,087	86,789
Surplus/Deficit	13,507	9,714	10,984	9,597	15,310	16,326	17,848
Shareholders' account							
Transfer from policyholders' account	12,069	11,914	9,909	10,093	16,102	17,172	18,772
Profit after tax	12,768	12,953	13,601	12,077	18,978	21,595	23,939
Balance Sheet							
Sources of Funds							
Shareholders' Funds	56,556	67,999	86,377	1,54,859	1,69,059	1,85,256	2,03,210
Policyholders' Funds: Insurance reserves and provisions	11,81,243	11,95,025	16,28,375	18,71,337	21,53,126	24,87,107	28,82,303
Total	12,48,829	12,71,855	17,30,658	20,41,605	23,30,802	26,80,134	30,92,360
Application of Funds							
Shareholders' Investments	50,498	58,555	85,421	1,52,379	1,66,352	1,82,289	1,99,955
Policyholders' Investments	5,71,245	6,71,886	9,05,378	10,83,110	12,46,206	14,39,511	16,68,246
Assets Held to Cover Linked Liabilities	6,33,774	5,41,821	7,47,595	8,06,215	9,27,617	10,71,503	12,41,763
Total	12,48,829	12,71,855	17,30,658	20,41,605	23,30,802	26,80,134	30,92,360
Embedded Value Account							
Embedded Value	1,83,010	2,06,500	2,66,170	3,00,480	3,55,850	4,20,534	4,96,320
--o/w Adjusted Net Worth	58,750	71,930	89,840	88,550	1,02,750	1,18,947	1,36,900
--o/w Value-in-Force	1,24,260	1,34,570	1,76,300	2,11,920	2,53,100	3,01,588	3,59,419
Annualised Premium Equivalent (APE)	62,600	74,070	83,720	97,580	1,13,030	1,30,960	1,51,774
New Business value	15,370	19,190	21,850	26,750	31,796	37,811	45,018
New Business Margin (%)	24.55	25.91	26.10	27.4	28.1	28.9	29.7
EV Operating Profit	30,644	33,150	38,250	44,060	58,614	68,583	80,270
Operating RoEV (%)	20.14	18.11	18.52	16.6	19.5	19.3	19.1
Per share data, in Rs							
EPS	6.32	6.41	6.73	5.90	8.97	10.21	11.31
DPS	1.6	0.0	1.7	0.0	2.2	2.6	2.8
EVPS	90.7	102.3	131.7	142.2	168.4	199.1	234.9
BVPS	28.03	33.68	42.74	73.3	80.0	87.7	96.2
EV Op. Profit per share	15.2	16.4	18.9	21.5	27.7	32.4	37.9
Key Ratio							
Return on Equity (%)	24.54	20.80	17.62	10.0	11.7	12.2	12.3
Commission expense/TWRP (%)	5.5	6.5	6.4	6.2	6.2	6.3	6.4
Operating expenses/TWRP (%)	18.8	18.9	17.2	17.8	17.3	17.5	17.7
Total expense (% of TWRP)	24.3	25.3	23.6	24.0	23.5	23.8	24.1
Total expense (% of Avg AUM)	4.25	4.53	4.18	4.00	3.92	4.00	0.00
Conservation ratio (%)	83.8	80.3	85.9	84.9	84.9	84.9	84.9

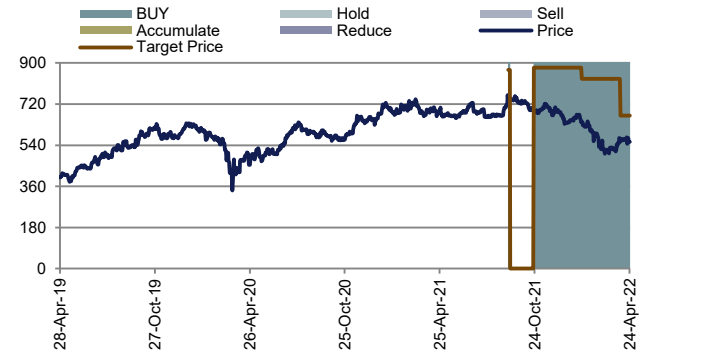
Source: Company, Emkay Research

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-Apr-22	547	670	12m	Buy	Avinash Singh
06-Apr-22	556	670	12m	Buy	Avinash Singh
08-Feb-22	600	830	12m	Buy	Avinash Singh
22-Jan-22	641	830	12m	Buy	Avinash Singh
18-Jan-22	669	880	12m	Buy	Avinash Singh
07-Dec-21	694	880	12m	Buy	Avinash Singh
09-Nov-21	706	880	12m	Buy	Avinash Singh
22-Oct-21	691	880	12m	Buy	Avinash Singh
07-Sep-21	734	-	12m	UR	Avinash Singh
03-Sep-21	734	870	12m	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Insurance



Analyst: Avinash Singh

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Sector

Insurance and Non-lending Financials

Analyst bio

Avinash Singh holds a PGDM and CFA. He has over 13 years of experience, including 10 years of research experience on the sell side. His team currently covers four insurance and one asset management stocks.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Insurance	1.36	1.36	0%	0	100.00	
HDFC Life Insurance	0.52	0.55	6%	3	40.67	0
ICICI Pru Life	0.20	0.07	-64%	-13	5.24	0
Max Financial	0.16	0.19	18%	3	13.63	0
SBI Life	0.48	0.55	15%	7	40.47	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	26-Apr-21	25-Oct-21	25-Jan-22	25-Mar-22	25-Apr-22
EAP - BFSI-Insurance	100.0	164.6	177.3	172.8	148.5	150.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	165.2	178.2	172.8	148.0	151.2

*Performance measurement base date 1st April 2019

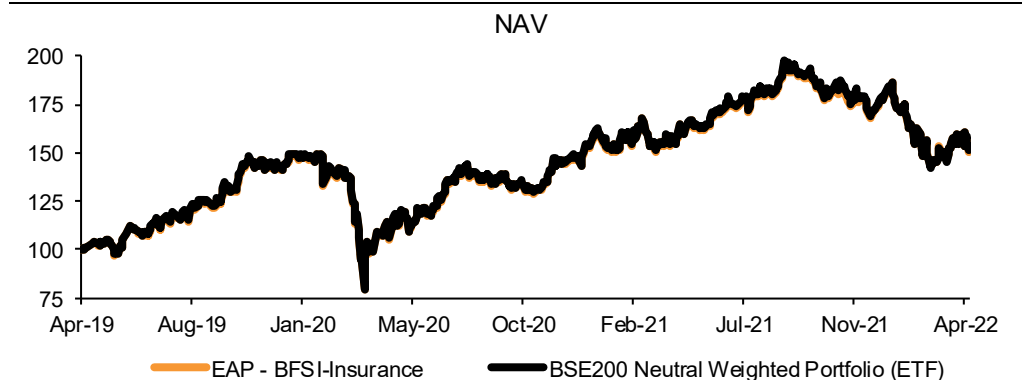
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Insurance	1.5%	-12.8%	-15.0%	-8.4%
BSE200 Neutral Weighted Portfolio (ETF)	2.1%	-12.5%	-15.2%	-8.5%

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%

Completed Date: 27 Apr 2022 11:13:06 (SGT)

Dissemination Date: 27 Apr 2022 11:14:06 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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