

CMP: ₹ 550

Target: ₹ 670 (22%)

Target Period: 12 months

BUY

April 27, 2022

Structural growth story intact; awaits synergy benefit

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 26%

Q4FY22 Results: HDFC Life reported a decent overall performance.

- Gross premium grew at a healthy pace of 11% YoY to ₹ 14290 crore
- VNB margins were healthy at 27.4% for FY22, due to balanced product mix
- Persistency improved for 13th, 61st month to 86.8%, 54.4%, respectively
- PAT at ₹ 357.5 crore was up 12.4% YoY, aided by decline in actuarial liability

What should investors do? HDFC Life's share price has given modest return of just over 10% past two years post recent correction & provides entry opportunity.

- We retain our BUY rating on the stock

Target Price and Valuation: Insurance under penetration coupled with focus on product mix to aid healthy business growth and VNB margin. Market share trend and synergy benefit from Exide merger to be watched. We value HDFC Life at 2.8x FY24E EV with TP of ₹ 670.

Key triggers for future price performance:

- Healthy guidance on VNB margins (standalone) to aid profitability
- Focus on product mix & new launches to aid business growth
- Strong distribution network remains core to maintain business momentum
- Merger process to be completed by H1FY23, synergies to play out

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



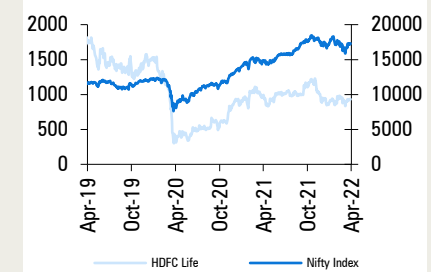
Particulars

Particulars	Amount
Market Capitalisation	₹ 116088 crore
EV	₹ 30048 crore
AUM	₹ 204170 crore
52 week H/L	776/ 497
Net worth	₹15401 crore
Face value	₹ 10
DII holding (%)	7.8
FII holding (%)	26.3

Shareholding pattern

	Mar- 21	Jun- 21	Sep- 21	Dec-21	Mar-22
Promoter	58.9	53.8	53.8	53.8	51.5
FII	25.7	26.1	30.1	30.5	26.3
DII	6.3	5.9	6.7	6.1	7.8
Others	9.2	14.2	9.4	9.7	14.4

Price Chart



Risk to our call

- Gross premium up 11% YoY led by higher base
- Key risk:** 1) Delay in integration to impact synergy, 2) Hike in premium rates to impact growth

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	3 year CAGR (FY19- FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
New business premium	14971	17238	20107	24155	17%	34277	41210	31%
APE	6049	7164	8183	9758	17%	13763	17279	33%
Total premium	29186	32707	38583	45963	16%	58467	71533	25%
PAT	1177	1371	1360	1208	1%	1873	2002	29%
EV	18296	20655	26625	30048	18%	39115	48186	27%
P/E (x)	94.2	80.9	81.6	61.4		61.8	57.8	
P/BV (x)	20.0	16.3	12.9	11.4		6.8	4.8	
P/IEV (x)	6.1	5.4	4.2	3.5		3.0	2.4	
RoEV (%)	20.1	18.1	18.5	19.3		17.9	17.9	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Healthy business growth; controlled opex aid earnings

- HDFC Life posted a good set of numbers on an overall basis as GWP was up 17.7% QoQ and 11.7% YoY to ₹14422 crore, was mainly driven by strong 21.7% QoQ growth in first year premium and 32.4% sequential uptick in renewal premium. On APE basis, the growth came in at 16.5% on full year basis.
- Based on total APE, non-par savings now form 28% of total mix while protection +annuity business contributes 19% vs. 26% and 18%, respectively, a year ago
- Commission ratio declined ~ 30 bps YoY to 4.3% but was up 10 bps QoQ. Opex ratio (management expense) ratio increased ~20 bps QoQ to 12.5%
- HDFC Life settled around 3.9 lakh claims. Gross and net claims amounted to ₹ 5804 crore and ₹ 4328 crore, respectively. PAT for the quarter was at ₹ 357.5 crore, up 12.4% YoY, higher than our estimate, helped by change in actuarial liabilities
- New business margin for FY22 came in at 27.4% as against 26.1% YoY
- AUM was at ₹ 204170 crore, up 17% YoY. Debt to equity mix in AUM was at 63:37 with ~98% of debt investments in G-secs and AAA bonds
- Persistency ratio largely remained buoyant with 13th month persistency at 86.8% and 61st month persistency at 54.4% versus 84.5% and 51.1% in the last quarter respectively
- Individual WRP growth of 16% resulting in industry market share expansion by 10 bps to 9.3%
- Indian embedded value was at ₹ 30048 crore as of March 2022, up 13% YoY. Solvency ratio was at 1.76x

Q4FY22 earnings conference call highlights

- Annual profit reduced YoY for FY22 due to higher mortality reserves creation. Continue to hold ₹ 55 crore additional reserves
- Cash payout of ~₹ 730 crore, impacted solvency by ~13 bps to 176%
- Merger approval expected by H2FY23E
- Expect VNB margins to trend upwards on standalone basis
- On a merged basis with Exide Life, margins to be similar to FY22
- May raise capital (equity + debt) as and when needed. Will maintain solvency around 180%
- Higher mortality assumption led to negative operating variance
- HDFC Ltd engaged primarily in credit protect business. Focus on cross selling to home loan customers post-merger

Peer comparison

Exhibit 1: ICICI Direct coverage universe (Insurance)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating	₹ Bn	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
SBI Life Insurance	1093	1400	Buy	1094	5.5	17.5	23.5	206.8	65.4	48.7	2.9	2.5	2.1	0.4	0.6	0.7	5.3	15.6	18.3		
HDFC Life	550	670	Buy	1160	6.7	9.0	8.9	84.7	63.7	64.1	4.3	3.7	3.1	0.7	0.8	0.7	18.0	18.1	18.2		

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
First Year Premium	2,574.9	2,568.0	2,389.2	7.8	2,116.0	21.7	Higher business activity aids FYP
Renewal Premium	7,341.2	7,690.9	6,350.4	15.6	5,543.0	32.4	
Single Premium	4,505.2	4,687.0	4,170.6	8.0	4,595.8	-2.0	
Net Premium income	14,290	14,797	12,868	11.0	12,124	17.9	Healthy renewals push growth
Income from Investments	1,765.3	5,663.9	6,323.3	-72.1	2,097.9	-15.9	Lower income due to hardening of yields
Total revenue	16,054.9	20,461.2	19,191.3	-16.3	14,222.2	12.9	
Commission	620.7	665.9	597.5	3.9	507.4	22.3	Sequentially higher commissions due to higher business
Operating expenses	1,809.0	1,775.7	1,510.1	19.8	1,502.4	20.4	
Management Expenses	2,429.7	2,441.5	2,107.6	15.3	2,009.8	20.9	
Benefits paid	9,643.5	9,618.2	8,837.6	9.1	8,081.3	19.3	
Change in Actuarial Liability	3,173.4	8,005.0	7,622.7	-58.4	3,850.0	-17.6	Reduced liability due to better interest rates
Total Expenses	12,816.9	17,623.2	16,460.3	-22.1	11,931.3	7.4	
Surplus/ (deficit)	707.2	354.4	617.8	14.5	201.7	250.6	
Transfer to SH's A/c	500.0	200.0	286.6	74.5	182.5	174.0	
Investment income	147.5	202.9	271.3	-45.6	179.1	-17.6	
Profit/ (loss) before tax	321.6	342.9	309.1	4.0	275.9	16.5	
PAT	357.5	338.9	317.9	12.4	273.7	30.6	Driven by change in actuarial liability
Key Metrics							
NBP	7,080.1	7,255.0	6,559.8	7.9	6,711.7	29.9	Higher mix in protection and non-par business ahelps
AUM	2,04,170	1,79,503	1,73,839	17.4	1,94,776	5.0	
IEV	30,048	31,345	26,620	12.9	29,543	6.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	63,695	57,230	-10.2	79,273	70,035	-11.7
Transfer to Shareholders' account	1,278	1,226	-4.1	1,384	1,369	-1.1
PAT	1,846	1,873	1.5	2,088	2,002	-4.1
EV/Share	185	186	0.3	226	229	1.1

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
NBP growth	16.0	20.2	20.4	21.0
AUM growth	13.7	9.6	33.0	33.0
EV Growth	24.6	23.2	34.7	29.8
Comission ratio	4.5	4.5	4.5	4.6
VNB Margin	26.0	26.0	26.0	26.0
Opearing RoEV	18.2	18.2	16.5	15.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Premiums earned - Net	32223.6	38122.3	45396.5	57229.5	70035.1
Interest, Dividends & Rent	6845.3	32677.6	19215.9	19262.1	22151.4
Others income (incl. MTM)	-9807.5	442.0	746.0	1491.5	1715.2
Total Revenue	29,261	71,242	65,358	77,983	93,902
Commission	1491.18	1676.22	1940.3	2614.9	3234.8
Operating expenses	4266.9	4586.0	5612.5	8007.1	9948.1
Benefits paid (Net)	19021.5	22574.8	31863.8	32586.7	37807.5
Change in valuation of policy liabilities	2440.8	40829.6	24681.5	32379.2	37526.0
Provision for tax	149.0	274.4	184.5	978.4	2175.8
Surplus/(deficit) after tax	971.4	1098.4	959.7	1532.7	1711.8
Transfer to Shareholders' account	1,191	991	1,009	1,226	1,369

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Amounts transferred from Policyholders' account	1191.4	990.9	1009.3	1226.2	1369.5
Income from investments	437.8	647.6	789.4	1340.1	1529.9
Total	1,648	1,638	1,799	2,566	2,899
Total expenses	99.1	285.0	618.6	635.0	835.0
Profit before Tax	1387.4	1353.5	1180.1	1931.3	2064.4
Provision for tax	16.5	-6.6	-27.6	57.9	61.9
PAT	1,371	1,360	1,208	1,873	2,002

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

Sources of Funds					
Share capital	2019	2021	2113	2108	2108
Reserve and surplus	4968	6407	13285	14666	21938
Credit/[debit] fair value change account	-192	207	85	235	252
Networth	6800	8638	15483	17008	24299
Policyholders' funds	119502	162818	187134	244250	308955
Funds for Future Appropriations	883	991	941	1420	1762
Total Liabilities	127185	173066	197724	262678	335015
Applications of Funds					
Shareholders' investments	5855	8542	15238	15337	20399
Policyholders' investments	67189	90538	108311	109394	110488
Asset held to cover linked liabilities	54182	74760	80622	107467	123587
Loans	299	424	643	957	1490
Fixed assets - net block	330	340	343	354	361
Net current assets	-670	-1538	-995	29169	78691
Total Assets	127185	173066	197724	262678	335015








Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares (Crore)	201.9	202.1	202.1	210.8	210.8
Diluted EPS (₹)	6.8	6.7	9.0	8.9	9.5
BV (₹)	33.7	42.7	48.1	80.7	115.3
EV per share	102.3	131.7	155.4	185.6	228.6
P/E	80.9	81.6	61.4	61.8	57.8
P/BV	16.3	12.9	11.4	6.8	4.8
P/IEV	5.4	4.2	3.5	3.0	2.4
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	4.6	4.3	4.4	4.5	4.5
Management expenses as a % of Gross Premium	17.6	16.2	17.7	18.2	18.4
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	FY22	FY23E	FY24E
NBP	17238	20107	29545	34277	41210
Growth (%)	15	17	47	16	20
Linked	11192	11242	12838	12817 	15066
Growth (%)	-1	0	14	0	18
Non Linked	21514	27341	39509	45651 	56467
Growth (%)	20	27	45	16	24
APE	7164	8183	11854	13763 	17279
Growth (%)	18	14	45	16	26
VNB	1919	2190	3202	3661 	4596
Growth (%)	25	14	46	14	26
EV	20655	26625	31404	39115 	48186
Growth (%)	13	29	18	25	23
AUM	127226	173839	204170	232198 	254474
Growth (%)	1	37	17	14	10
PH Funds	67189	90538	108311	109394 	110488
Growth (%)	18	35	20	1	1
SH Funds	5855	8542	15238	15337	20399

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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**

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA, Sameer Sawant, MBA Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.