Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

HDFC Life Insurance Company

Moving ahead with a strong footing

Insurance	Sharekhan code: HDFCLIFE	
Reco/View: Buy ↔	CMP: Rs. 565	Price Target: Rs. 740 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 19.91

Updated Apr 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

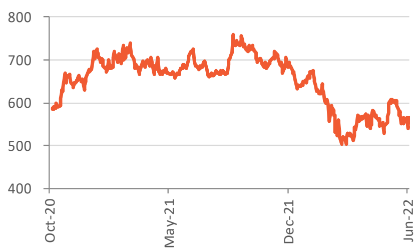
Company details

Market cap:	Rs. 1,19,510 cr
52-week high/low:	Rs. 776 / 497
NSE volume: (No of shares)	41.8 lakh
BSE code:	540777
NSE code:	HDFCLIFE
Free float: (No of shares)	102.4 cr

Shareholding (%)

Promoters	51.5
FII	26.3
DII	7.8
Others	14.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.9	2.6	-13.1	-17.6
Relative to Sensex	-2.5	13.4	-2.5	-18.7

Sharekhan Research, Bloomberg

Summary

- HDFC Life Insurance Co through Reflect, Reshape, Resurge as a theme in its annual report intends to overcome the hurdles with the resilient business model, and move ahead by adapting to new structures, systems and processes through leveraging its intrinsic strengths to grow and gain further market share.
- The company reported strong business performance across various parameters. Its total new business premium market share stood at 21% among the private players, making the company the second largest in the private and the third largest in the overall insurance space. Its new business margin increased to 27.4%, an increase of 130 bps y-o-y aided by a balanced product mix.
- It plans to focus on product innovation to stay ahead of the curve and had introduced several new products over the last year. It continues to focus on profitable growth and invest in strengthening the digital presence and tie-ups with upcoming e-commerce partners.
- HDFC Life trades at 3x/2.5x its FY2023E/FY2024E EVPS. The stock has corrected 27% from the highs of Rs. 776. We maintain Buy with an unchanged PT of Rs. 740.

HDFC Life Insurance Company (HDFC Life) reported strong business performance across various parameters. Its total new business premium market share stood at 21% among the private players, making the company second largest in the private and third largest in the overall insurance space. Its new business margin increased to 27.4%, an increase of 130 bps y-o-y aided by a balanced product mix and the value of new business grew by 22% y-o-y to Rs. 2,675 crore. The normalised operating return on embedded value (EVOP) of the company was 19.0% versus 18.5% in FY2021 due to business growth and a favourable product mix. Its credit life business too saw strong growth of 55% y-o-y in FY2022. HDFC Life's subsidiaries HDFC Pension and HDFC International Life and Re, continued to perform well despite the volatile market conditions in FY2022. HDFC Pension AUM grew by 73% y-o-y to Rs. 28,410 crore as of March 2022. Currently, the company has 300 partners with the bancassurance channel contributing 60% to the Individual APE.

- **Delivering well on growth:** HDFC Life reported robust gross premium growth of 19% y-o-y aided by health growth in individual and group businesses. Its individual new business premium grew by 16% y-o-y to Rs. 11,640 crore. The company witnessed an upswing in the savings business on a sequential basis despite the pandemic. The non-participating segment witnessed a 16% growth driven by the launch of new products and continued momentum in the annuity business while the unit-linked segment grew by 29%. Further, group new business rose by 25% y-o-y to Rs. 12,515 crore primarily led by group credit protect and annuity business. The rise in credit life business during the year is in line with an increase in credit disbursement. Its renewal premium grew by 18% y-o-y on the back of higher new business growth improvement in persistency. The 13th month persistency improved from 85% to 87%. For the month of May 2022, HDFC Life Insurance reported a premium growth of 62% y-o-y (4% m-o-m). On individual APE business, it reported a growth of 52% y-o-y in May 2022 and ~34% m-o-m. For HDFC Life, policy growth stood at 30% m-o-m and 13% y-o-y. In FY22, the company launched multiple products such as Sanchay FMP, Quick Protect and Systematic Retirement Plan.
- **Favourable product mix:** The company has witnessed healthy growth in the premium primarily driven by diverse and innovative products and a multi-channel approach. The product portfolio consists of 39 retail and 13 group products, along with 7 rider benefits covering the savings, investment, protection and retirement needs of the customers. It launched numerous products to meet the diverse customer needs such as Sanchay FMP in Non-PAR savings, a regular pay deferred Annuity plan, and a Term variant with riders covering the 3Ds of death, disease, and disability. In FY2022, the company continued to maintain a balanced and profitable product mix, with non-par savings at 33%, participating products at 30%, ULIPs at 26%, individual protection at 6% and annuity at 5%, based on individual APE. The company witnessed improvement in margins aided by a better product profile. For FY2022, its VNB margin stood at 27.4% versus 26.1% in FY2021. With this margin expansion, 130 bps was on account of a better product profile and 80 bps was due to fixed cost absorption.
- **Diversified distribution model:** HDFC Life has a diversified distribution model spanning online and offline channels with nearly 300 partners across India. The company tied up with have tied-up with new partners such as South Indian Bank and PhonePe during FY2022. In FY2022, bancassurance contributed 60% of the individual APE.

Our Call

Valuation – We maintain Buy with an unchanged PT of Rs. 740: HDFC Life trades at 3x/2.5x its FY2023E/FY2024E EVPS. We believe valuations are reasonable, as it has a well-diversified product bouquet (no segment contributing to more than 30% of APE), best-in-class branding, and strong metrics. We believe the company is well placed to deliver strong and sustainable long-term APE growth. Owing to strong fundamentals (robust balance sheet and consistent profitability) and high long-term growth potential for the Indian insurance industry in general and HDFC Life, in particular, we find it to be an attractive long-term bet. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 740.

Key Risks

Slowdown in business operations may impact premium growth. Any adverse policies/guidelines may adversely impact its profitability.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
EV	26,626	32,960	38,728	46,667
NBP (new business premium)	20,107	24,155	27,416	31,693
y-o-y growth (%)	16.6	20.1	13.5	15.6
PAT	1,360	1,208	1,401	1,821
y-o-y growth (%)	5.0	(11.2)	16.0	30.0
EPS (Rs)	6.7	6.0	6.9	9.0
RoE (%)	17.6	10.0	8.7	10.6
P/EV (x)	4.3	3.5	3.0	2.5
P/BV (x)	13.3	7.4	6.9	6.4

Source: Company; Sharekhan estimates

Chairman's Corner – (Mr. Deepak S. Parekh, Chairman)

- The total amount of death claims paid by all insurers put together exceeded Rs. 60,000 crore in the first nine months of FY 2021-22 i.e. over 2x higher than the total death claims paid for corresponding nine months of FY 2020-21, amounting to Rs. ~29,500 crores.
- Also, the total number of agents currently licensed with life insurance companies exceeds 24 lakh.
- The company is in dialogue with the regulator to enable life insurance companies to sell other regulated financial products akin to banks. This will help improve customer experience, deepen financial inclusion and also increase insurance penetration.
- Despite the external headwinds, the Indian life insurance industry's New Business Premium grew by 16%. The long-term growth story remains in place. The pandemic amplified the rising awareness for life and health protection cover amongst the sections of society.
- HDFC Life had another strong year of business performance, across various metrics. The total new business market share stands at 21% in the private life insurance market, making the company the second-largest private life insurer in the country and the third-largest overall. The company's renewal premium grew by 18% and 13th month persistency increased to 92%.

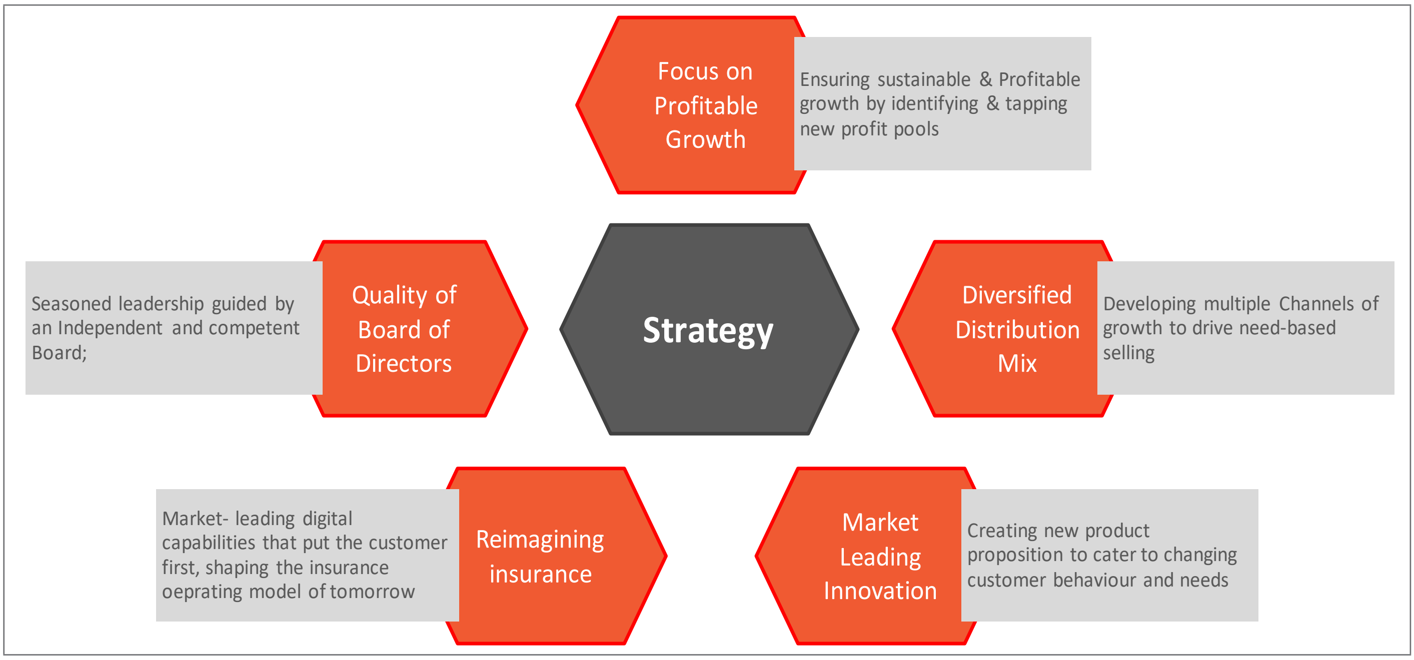
Source: Company Annual Report

MD & CEO's Corner – (Ms. Vibha Padalkar, MD & CEO)

- **Factors such as low market penetration, favourable demographics, increasing life expectancy and rising awareness among consumers regarding the need for insurance cover, are considerable tailwinds for the industry. Also, due to rising age expectancy and an increasing number of people over the age of 60 with limited social security, the company believe there is a large opportunity in the retirement space.**
- In FY 2021-22, NBM was 27.4%, an increase of 130 bps, over the previous year and the value of new business (VNB) increased by 22% to Rs. 2,675 crore. The normalised operating return on embedded value (EVOP) was 19.0% as compared to 18.5% in FY 2020-21 due to business growth and a favourable product mix. After factoring in the excess mortality reserve (EMR) that the company had set up for the pandemic, the EVOP stood at 16.6%.
- The second wave of COVID was devastating, with the large number of death claims having a material impact on the profitability of Indian life insurance companies across the board, including the company.
- **This impact was primarily in H1 FY 2021-22 and claim numbers came down starting Q3 FY 2021-22. In H1 FY 2021-22, the company had an excess claims impact of around Rs. 600 crore which increased to around Rs. 760 crore by the end of FY 2021-22. However, this number was within the excess mortality reserve of Rs. 815 crore which the company had proactively created at the beginning of the year.**
- The company continue to invest in strengthening our digital presence and tie-ups with upcoming e-commerce partners.
- It has also seen a good bounce back in the credit life business this year. In FY 2021-22, this business grew by 55% over the last year in line with the normalizing retail credit environment.
- Specifically, the merger with Exide Life is expected to strengthen the company's agency channel, especially in South India where Exide Life has a strong presence in tier 2 and 3 cities.
- The company's subsidiaries HDFC Pension and HDFC International Life and Re, continued to perform well despite the volatile market conditions over the last year. HDFC Pension has been the fastest growing Pension Fund Manager (PFM) in the country, with a 73% y-o-y increase in its Assets under Management (AUM) to reach Rs. 284.1 billion, as of March 31, 2022. The market share has also increased by around 250 basis points to reach 37% - the highest amongst all PFMs.
- Currently, the company has nearly 300 partners, ensuring a wide distribution network. In FY 2022, its largest distribution channel, bancassurance, contributed 60% of the individual APE. Apart from this, the company has also tied up with new partners such as South Indian Bank and PhonePe.
- A significant portion of the renewal premium is being collected through digital modes. For FY2022, 87% of renewals based on premiums and 96% of renewals based on a number of policies originated from digital channels.

Source: Company Annual Report

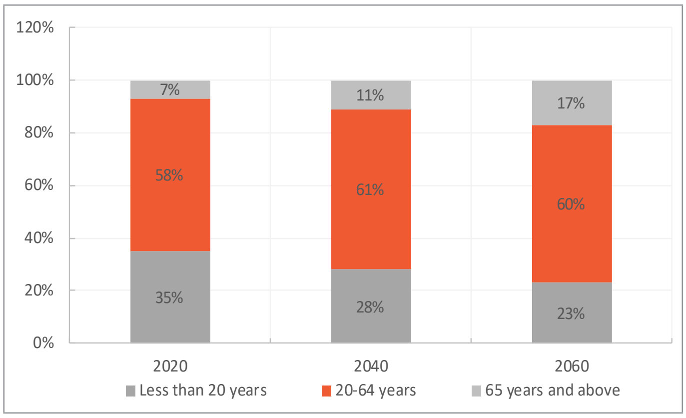
HDFC Life's Strategy



The insurance industry remains a multi-decade opportunity: The rising cost of healthcare and moreover pandemic has led to higher awareness about the need for protection and insurance coverage. Life insurance has emerged as a prominent theme to protect one's family, whilst securing long-term financial health. As compared to Asian peers, India remains vastly under-insured, both in terms of penetration and density. Presently, life insurance penetration in India as on FY2022 stands at 3.2% compared to 3.4-19.2% for Asian peers. Given the current under-penetration and expectation of improving life expectancy, the sector holds multi-decade opportunity going forward. During FY2022, the life insurance industry clocked 13% growth and collected new business premiums of Rs. 3,143 billion as against Rs. 2,783 billion in FY2022. Private insurers grew by 22% in individual businesses, while group businesses saw a growth of 23%. In the individual business, private insurers' market share stood at 63%, up by 316 bps y-o-y in FY2022. Development of multiple channels of distribution and product innovation have been the key drivers for the growth in the market share of private insurers in the individual business, which has increased from 37% in FY2012 to 63% in FY2022. For FY2022, within the private sector, the top 10 insurers accounted for 87% of the market (in terms of individual WRP). Distribution arrangements with large banks and growth in proprietary channels have been key drivers for most large insurers.

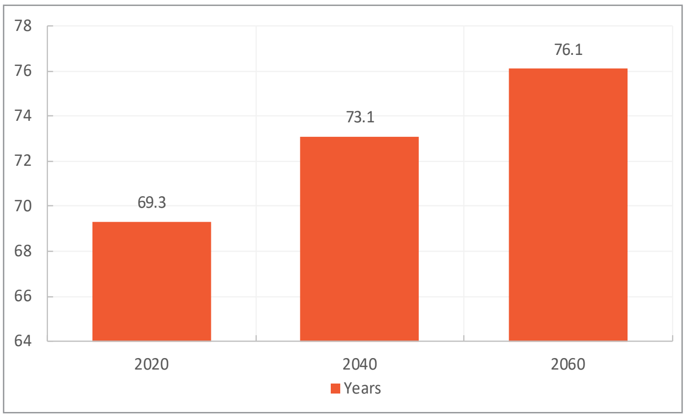
Key growth drivers

Share of population over the age of 60 is projected to increase from 7% in 2020 to nearly 20% in 2050..
(population composition in billion)



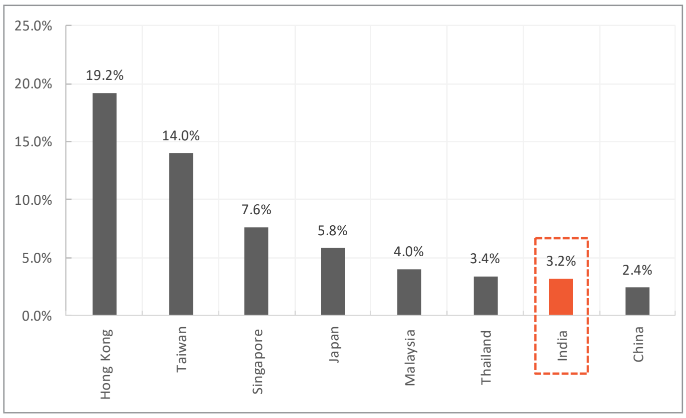
Source: Company, Sharekhan Research

Life expectancy (Years)



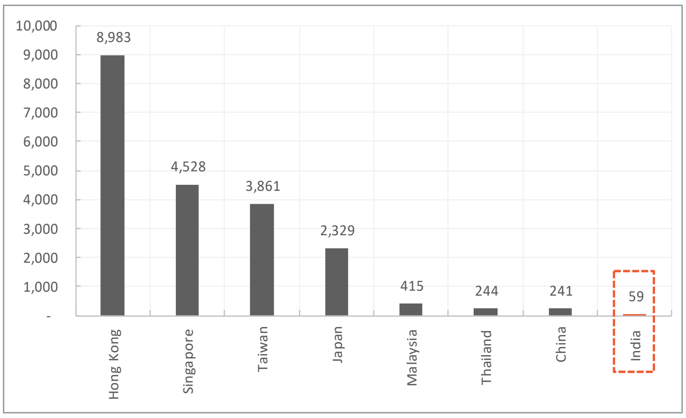
Source: Company, Sharekhan Research

Low Life Insurance Penetration (in FY21, %)



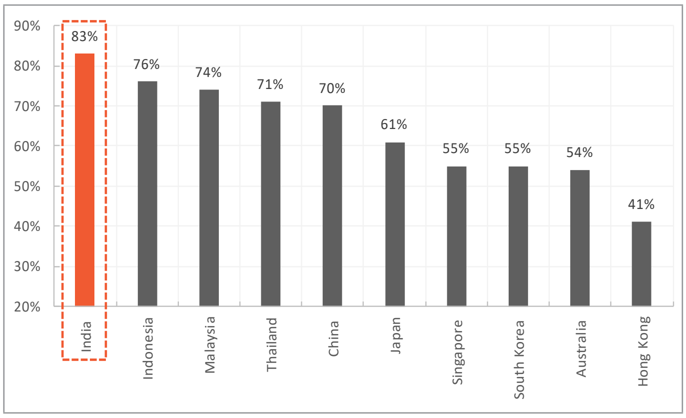
Source: Company, Sharekhan Research

Life Insurance Density (US$)(FY 2020-21)



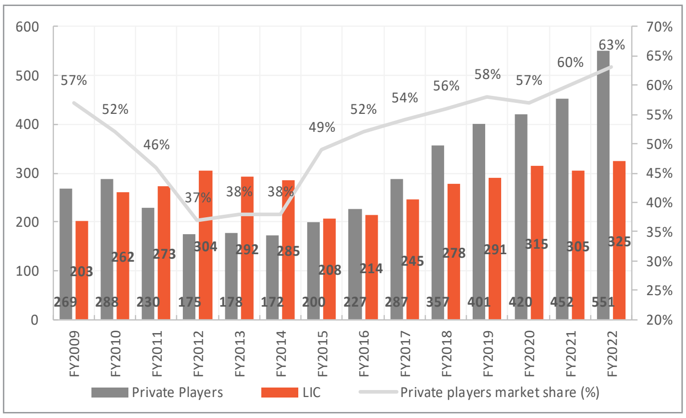
Source: Company, Sharekhan Research

Protection gap (2019)



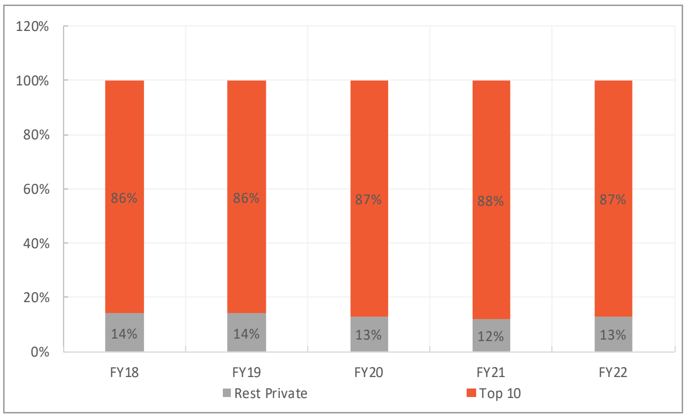
Source: Company, Sharekhan Research

Market share of the private insurers in the individual business on increase



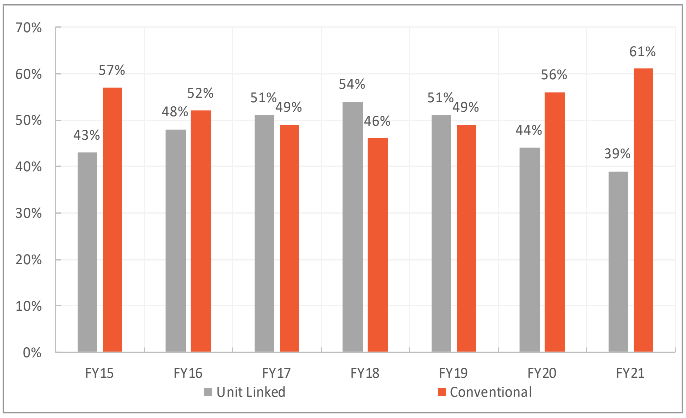
Source: Company, Sharekhan Research

Top 10 insurers accounted for 87% of the market in terms of individual WRP within private sector



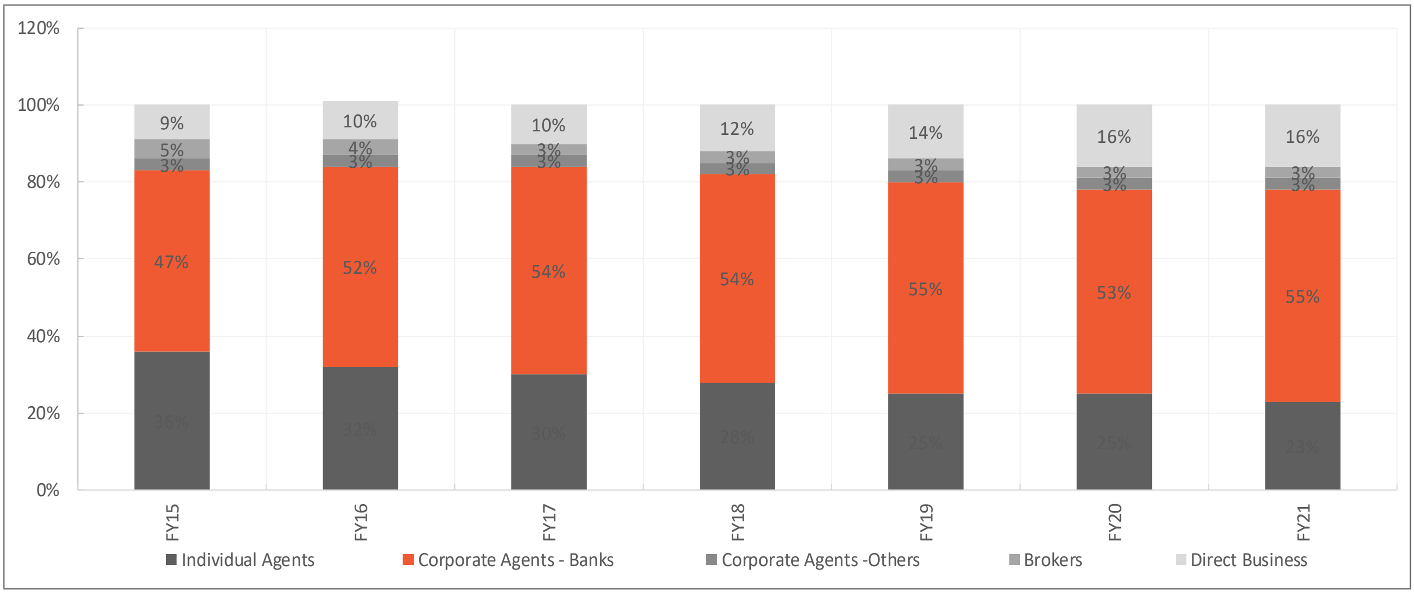
Source: Company, Sharekhan Research

Product mix across private insurers



Source: Company; Sharekhan Research; note: based on overall WRP (Individual and Group)

Distribution Mix across Private Insurers

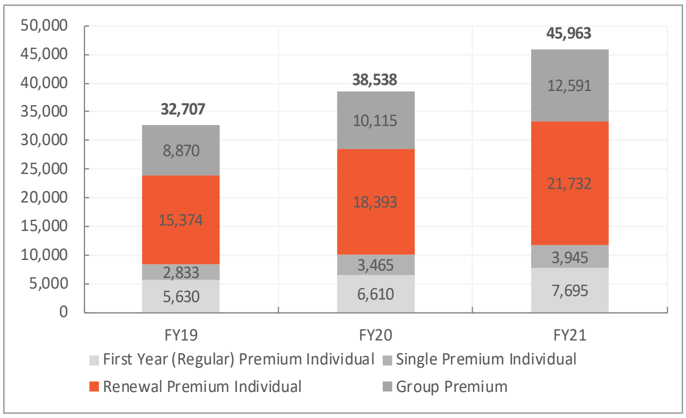


Source: Company; Sharekhan Research Note: Based on Individual New business premia for all private players

HDFC Life Insurance - Business performance

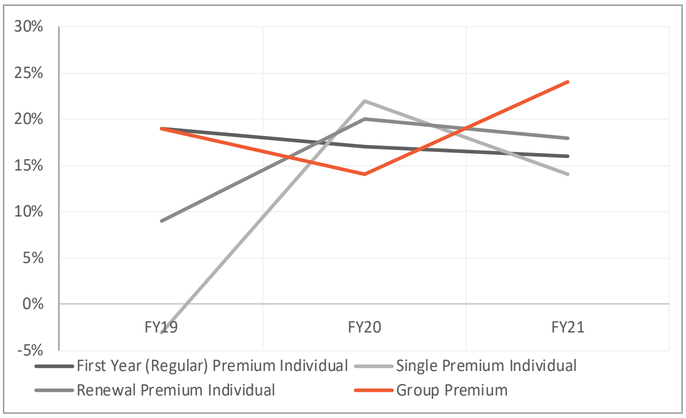
The company's gross premium income witnessed the growth of 19% y-o-y in FY2022, aided by growth in both individual and group businesses. Its operating expenses rose by 22% y-o-y on account of growth in business volumes expense normalization. PAT was Rs. 1,208 crore versus Rs. 1,360 crore in FY21, a decline of 11% y-o-y.

Premium earned by type (Rs. crore)



Source: Company, Sharekhan Research

Premium earned by type (growth y-o-y %)



Source: Company, Sharekhan Research

Premium income by segment Rs cr

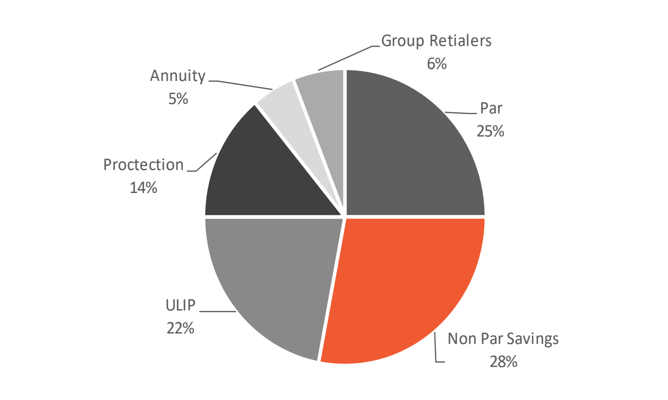
Particulars	FY2021				FY2022				Growth (%)
	Par	Non-Par	Linked	Total	Par	Non-Par	Linked	Total	
New Business Premium (NBP)	2,362	15,034	2,711	20,107	2,435	18,242	3,478	24,155	20%
Individual	2,362	5,882	1,832	10,076	2,435	6,846	2,359	11,640	16%
Group	-	9,152	879	10,031	-	11,396	1,119	12,515	25%
Growth y-o-y (%)	107%	13%	-2%	17%	3%	21%	28%	20%	
Renewal Premium	5,294	4,651	8,531	18,476	6,618	6,640	8,550	21,808	18%
Gross Written Premium	7,656	19,685	11,242	38,583	9,053	24,882	12,028	45,963	19%
Less: Reinsurance ceded	-5	-436	-20	-461	-5	-548	-14	-567	23%
Net Premium	7,651	19,249	11,222	38,122	9,048	24,334	12,014	45,396	19%

Source: Company; Sharekhan Research

Wide product portfolio

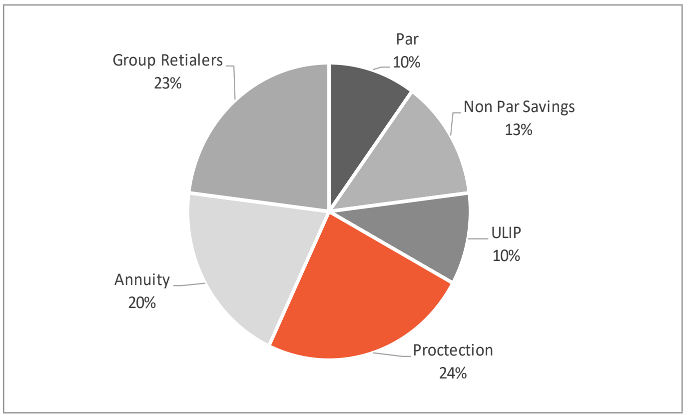
Savings	Encourages systemised saving to build a significant corpus for your short & long term needs; Products - HDFC Life Fixed Maturity Plan, HDFC Life Sanchay Par Advantage, HDFC Life Sanchay Plus etc
Retirement	Provides financial security post retirement to help you live with dignity and pride; Products - HDFC Life Systematic Retirement Plan, HDFC Life Pension Guaranteed Plan, HDFC Life New Immediate Annuity Plan
Protection	Secures life through customised term plans that provide benefits as per altering lifestyle & life stage needs; Products - HDFC Life Click 2 Protect Life, HDFC Life QuickProtect
Children's Plan	Enables a brighter future for your child by helping you to start saving at the right age; Products - HDFC Life YoungStar Udaan, HDFC Life Click 2 Invest etc
Combo Plan	Offers life cover and medical benefit in one plan; Products - HDFC Life Sanchay Maximizer
Health	Offers financial protection during medical contingencies; Products - Cardiac care, Cancer care

Balanced Product Mix (%) on total annualised premium equivalent (APE) basis



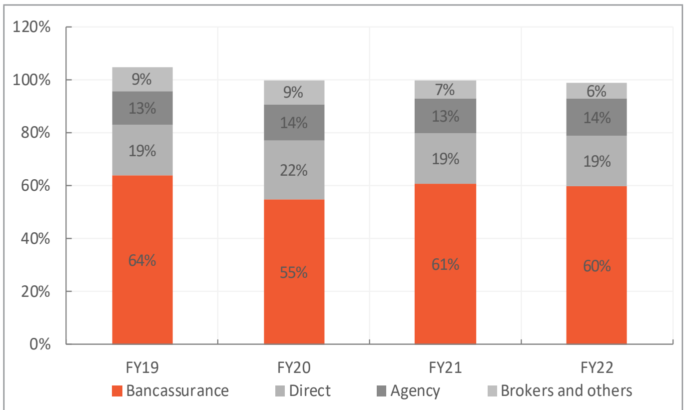
Source: Company, Sharekhan Research

Product Mix (%) on total new business premium (NBP)



Source: Company, Sharekhan Research

Focus on diversified channel mix (%)



Source: Company, Sharekhan Research

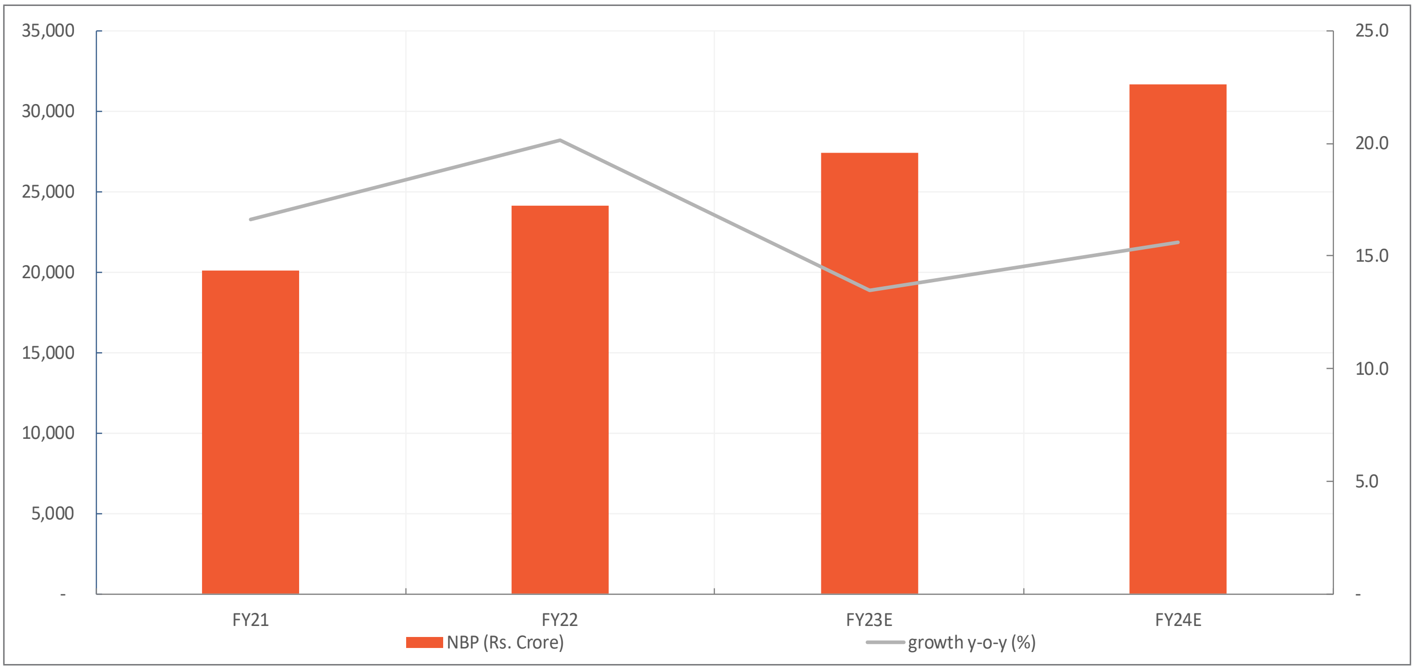
Product mix across key channels (%)

Segment	FY19	FY20	FY21	FY22
UL	55%	28%	24%	26%
Par	18%	19%	34%	30%
Non par savings	15%	41%	31%	33%
Term	7%	8%	7%	6%
Annuity	5%	4%	5%	5%

Source: Company; Sharekhan Research

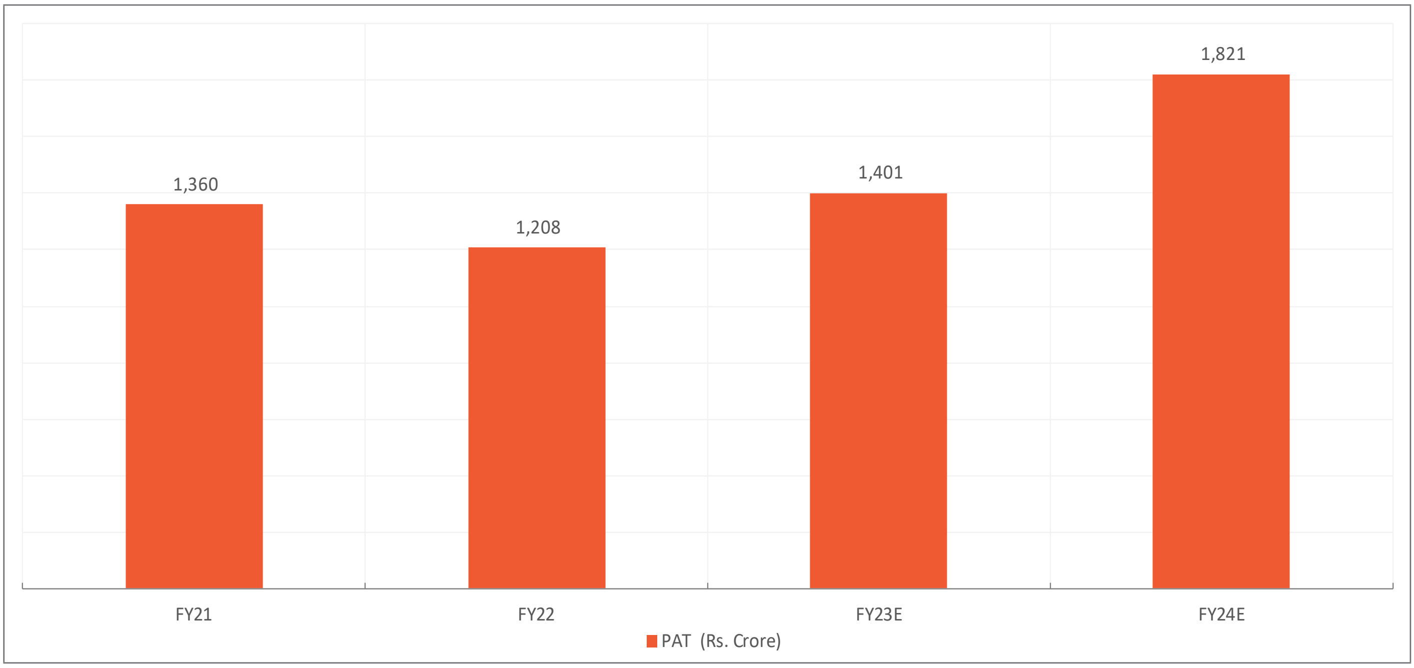
Financials in charts

New business premium trend



Source: Company; Sharekhan Research

PAT trend



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Fast revert to normalcy, long growth runway for life insurance players

Indian life insurance companies are poised for double-digit growth in terms of premium value led by higher volumes and group insurance coverage sale of fixed-income linked coverage products going ahead. A large protection gap and expanding per capita income are key long-term growth drivers for the sector. Credit protection product is still at an early stage and has the potential to grow multifold as the penetration of retail loans improves. Hence, we believe the insurance sector has huge growth potential in India. Against this backdrop, we believe strong players armed with the right mix of products, services, and distribution are likely to gain disproportionally from the opportunity.

■ Company outlook – Superior product mix, and healthy metrics make HDFC Life attractive

HDFC Life is well placed with healthy capitalisation and a favourable business mix. With a high proportion of protection and savings-related products, we believe HDFC Life is better placed in the present environment. We expect the government to continue to provide favourable policy steps for the insurance industry (including life and non-life products) going forward as well (hiking FDI limit in insurance already done), which will be a long-term positive. Being the largest player, HDFC Life is likely to benefit from favourable tailwinds. The company's sustained persistency ratio indicates client service and quality of products offered, which are critical for long-term sustainability. The company is a strong and attractive business franchise and the Indian insurance space is an attractive sector for the long term.

■ Valuation – We maintain Buy with a revised PT of Rs. 740

HDFC Life trades at 3x/2.5x its FY2023E/FY2024E EVPS. We believe valuations are reasonable, as it has a well-diversified product bouquet (no segment contributing to more than 30% of APE), best-in-class branding, and strong metrics. We believe the company is well placed to deliver strong and sustainable long-term APE growth. Owing to strong fundamentals (robust balance sheet and consistent profitability) and high long-term growth potential for the Indian insurance industry in general and HDFC Life, in particular, we find it to be an attractive long-term bet. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 740.

Peer Valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/EV (x)		P/B (x)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HDFC Life	565	1,19,510	3.0	2.5	6.9	6.4	8.7	10.6
ICICI Pru Life	500	71,845	1.9	1.7	6.7	6.1	12.8	13.4

Source: Company, Sharekhan estimates

About company

Established in 2000, HDFC Life is a leading long-term life insurance solutions provider. The company offers a range of individual and group insurance solutions that meet various customer needs such as protection, pension, savings, investment, and health. HDFC Life continues to benefit from its increased presence across the country. The company has a wide reach with 400+ branches and additional distribution touch points through several new tie-ups and partnerships, including its own sister concern bank. The company also has 250+ partnerships, comprising traditional partners such as NBFCs, MFIs, and SFBs, and includes more than 40 new ecosystem partners. The company has a strong base of financial consultants.

Investment theme

HDFC Life stands out among its peers with its strong parentage, robust brand recall, along with advantages that come with an industry leader sister concern bank, which has an attractive retail business and gives deep client penetration and arguably the best means to channelise growth for the insurance business. We believe HDFC Life's sustained product leadership will help it maintain superior VNB margins and operating RoEV, relative to peers, which provide support to its valuations. We believe the insurance market has significant growth opportunities and HDFC Life is well placed to capture them. By virtue of its bancassurance partnerships, digital strength, and industry-leader status, H DFC Life should be able to deliver steady VNB and EVOP CAGR over the long term (aided by high margins in the protection business and improving persistency) in a normalised state of business, which will support valuations.

Key Risks

Slowdown in business operations may impact premium growth. Any adverse policies/guidelines may adversely impact its profitability.

Additional Data

Key management personnel

Ms. Vibha Padalkar	Managing Director andChief Executive Officer
Mr. Niraj Shah	Chief Financial Officer
Mr. Parvez Mulla	Chief Operating Officer
Mr. Srinivasan Parthasarathy	Chief Actuary
Mr. Prasun Gajri	Chief Investment Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc./The	6.9
2	JPMorgan Chase & Co.	4.2
3	Exide Industries Ltd	4.1
4	Standard Life Maur HLD	3.7
5	Europacific Growth fund	2.0
6	Vanguard Group Inc/The	1.5
7	BlackRock Inc	1.4
8	FIL Ltd.	1.4
9	SBI Funds Management Pvt. Ltd.	1.4
10	Republic of Singapore	1.2

Source: Bloomberg; Note: as on October 27, 2022

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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