

HDFC Life Insurance Company Ltd



HDFC Life Insurance Co. Ltd.

Profitability boosted by healthy surplus; VNB margins expand

CMP INR 534	Target INR 706	Potential Upside 32.2%	Market Cap (INR Mn) INR 11,47,299	Recommendation BUY	Sector Life Insurance
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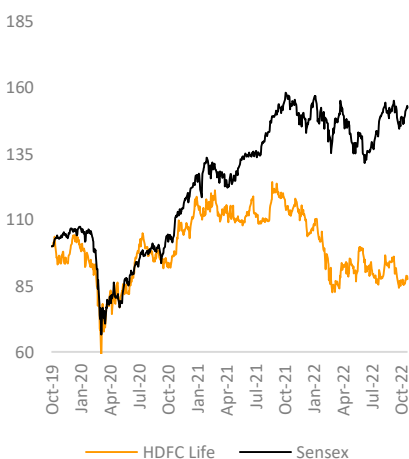
Result Highlights Q2FY23:

- The Gross written premium for Q2FY23 stood at INR 1,32,826 Mn, healthy growth of 32.2% QoQ/ 14.2% YoY led by strong growth in the renewal premium. The New Business Premium (NBP) for the quarter grew by 28.8% YoY, while renewal premium grew 35.4% QoQ (37.2% YoY).
- New business margin (NBM) expanded by 171 bps YoY (149 bps QoQ) at 28.3% in Q2FY23 on a profitable product mix and merger impact. The value of the new business increased to INR 7,480 Mn, registering a QoQ growth of 46.7% (10.3% YoY) in Q2FY23.
- PAT for Q2FY23 was at INR 3,262 Mn, a growth of 19.0% vs Q2FY22. Solvency ratio as of September 30, 2022, stood at 210%. AUM as of September 30, 2022, stood at 20,43,920 Bn, a growth of 6.9% YoY (2.1% QoQ). The embedded value of the merged entity is INR 360.16 Bn.

MARKET DATA

Shares outs (Mn)	2,149
Equity Cp (INR Mn)	1,22,800
Mkt Cap (INR Mn)	11,47,299
52 Wk H/L (INR)	724/497
Volume Avg (3m K)	4,050
Face Value (INR)	10
Bloomberg Code	HDFCLIFE : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	59,544
NIFTY	17,656

KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
GWP	3,27,069	3,85,835	4,59,628	5,42,651	6,51,907
PAT	12,951	13,601	12,077	14,144	16,882
EPS (INR)	6.4	6.7	5.7	6.6	7.9
NBP-APE	71,637	81,833	96,644	1,19,195	1,48,068
VNB	19,190	21,900	26,800	33,077	42,199
VNB Margin (%)	25.9%	26.1%	27.1%	27.8%	28.5%
EVPS (INR)	102.3	131.7	163.4	192.0	227.0

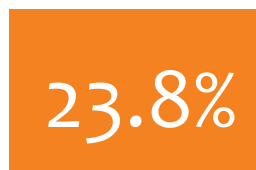
Source: Company, KRChoksey Research

Strong growth in renewal premium leads the growth in GWP: The GWP reported a robust growth of 32.2% QoQ/ 14.2% YoY at INR 1,32,826 Mn in Q2FY23, led by robust growth in the renewal premium of 35.4% QoQ/ 37.2% YoY. The NBP grew 28.8% QoQ at INR 63,760 Mn, while the NBP declined 3.3% YoY due to single premium growth fall. The GWP for H1FY23 grew by 21.0% YoY, driven by strong growth of 34.6% YoY in renewal premiums. The APE for the quarter was reported at INR 26,450 Mn, an increase of 38.9% QoQ (3.6% YoY). The merged entity's (HDFCLIFE+ Exide Life) product mix remained balanced; the non-par segment contributed 37% to the overall APE. The credit protection segment registered a growth of 66.0% YoY, led by a healthy rise in disbursements across all the partners. Based on the APE, the overall protection segment share stood at 16.0% in H1FY23. The Annuity segment grew 44.0% YoY on an APE basis. The retail protection segment is expected to pick up gradually from H2FY23. The rising interest rate scenario is expected to benefit traditional savings by improving demand traction for these products. HDFCLIFE has been receiving healthy traction on the newly launched product front. We believe it will continue to focus on developing a new product pipeline with significant contributions from Exide Life product segments.

VNB growth driven by strong margin expansion: The VNB margins improved to 28.3% for Q2FY23 vs 26.6% for Q2FY22, higher by 171 bps YoY/ 149 bps. Margins for H1FY23 stood at 27.6%, up from 26.4% in H1FY22. The expansion was led by improving contributions from the Non-Par Protection segment. VNB grew 46.7% QoQ/ 10.3% YoY. The management expects HDFCLIFE to achieve margin neutrality in line with FY22 (~27.0%) by the end of FY23E. The non-par segment will continue to improve its contribution. We expect margins to reach 28.5% by FY23E from 27.1% in FY22, aided by its optimal product mix and synergies from the Exide Life merger. On the Embedded Value front, the merged entity stood at INR 360.16 Bn as of September 30, 2022, while the operating return on embedded value was 17.7%. The EV includes capital infusion & dividend of INR 16.6 bn, offset of INR 12.4 bn economic variance & Exide Life EV of INR 30.0 bn.

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	50.3	51.5	51.5
FIIIs	28.8	26.3	26.3
DIIIs	7.1	7.8	7.8
Others	13.7	14.3	14.3
Total	100	100	100



APE CAGR between FY22 and FY24E



VNB CAGR between FY22 and FY24E

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Key Concall highlights:

1. Exide Life distribution partners will have access to HDFC Life market-leading products and services and digital capabilities. This merger accelerates the scale-up of HDFC Life Agency and broker channels, and also enhances its geographical presence in Tier-2 and Tier-3 markets.
2. This amalgamation will result in value creation for its customer, shareholders, employees, and distribution partners.
3. The Indian Private Life Insurance sector has grown at a two-year CAGR of 14% during the COVID years and continues to record double-digit growth in H1FY23.
4. While growth in retail protection continued to be a challenge, companies had several other levers to deliver consistent margin expansion, and hence robust growth in value of new business while maintaining balance sheet resilience.
5. HDFCLIFE delivered a two-year CAGR of 17% in topline, 18% in value of new business, and about 150 bps expansion in new business margins between FY20 and FY22. This was possible on the back of continued product innovation diversified distribution mix, focus on technology, and calibrated risk management approach.
6. Adequate solvency levels are maintained and there was a range-bound impact on the embedded values of large insurers.
7. HDFCLIFE has grown in line with the industry and faster than listed players this quarter, which also led to market share improvement from 14.6% in Q1 to 15% in Q2 on a pre-merger basis.
8. Within the non-par segment, the company's shorter tenure product Sanchay SMP continues to grow well and contributes over a fifth of a non-par individual APE. The prevailing high-interest rate scenario continues to augur well for demand across its traditional savings product.
9. HDFCLIFE launched a new product Click 2 Protect super during the quarter. This product has been received well across channels, especially on digital platforms.
10. It continues to steadily improve its individual protection policy conversion ratios through process efficiencies and several other initiatives.
11. It continues to explore innovative ways to help deepen protection penetration. Hence, in addition to the existing products such as pure term, return of premium variant, credit life, and group term, it is also offering savings products that offer higher than typical 10x discover.
12. There has been margin expansion for both the existing business APE pre-merger and the acquired Exide Life business in H1FY23. It is close to achieving its aspiration of maintaining FY22 margin neutrality for the combined entity.
13. HDFCLIFE has added about 24,000 agents in H1FY23 and continued to focus on improving activation and productivity across its base of financial consultants, the share of agency to individual APE has increased from 15% to 18% in the merged entity. The company expects growth in this channel to be driven by the larger agent base with access to a wider suite of products.
14. Innovative solutions such as enabling cardiac risk assessment at the customers residents for medical underwriting furthers its motive of simplifying customer journey and provides best-in-class service. In an industry-first initiative, it has launched home medical for its overseas customers in over 20 countries.
15. IRDAI has taken several measures to focus on increasing insurance penetration in the country and enhancing ease of doing business.
16. Within Bank Insurance, it continues to see strong growth momentum across its newer relationship such as Yes Bank, Bandhan Bank, IDFC First Bank amongst others.

Valuation and view

HDFCLIFE reported a decent set of numbers for Q2FY23 with maintaining its market share and leadership amongst its peers in Q2FY23. The VNB margins during Q2FY23 stood at 28.3%, an expansion led by a well-balanced product mix and an improving share of the non-par protection segment. The company has been seeing healthy traction for its newly launched products and will focus on the innovative product pipeline according to the customers' needs. The Annuity and Non-Par segments will continue to have significant business volumes, aiding the margin expectation going ahead. With an increasing focus on the distribution mix, HDFCLIFE is seeing improvement in the agency share mix in the last two quarters. The company has also partnered with new Banca partners who have started to witness a robust growth trajectory in H1FY23. We see the Exide life merger synergies to help the company to grow its agency mix further and improve its growth momentum in this segment. We expect the margins to be around 28.5% by the end of FY24E, led by healthy traction in new products and improving contributions from the Non-Par and Annuity segment. We have factored in 19.1% CAGR growth in net premiums, 25.5% in VNB, and 18.0% in EV over FY22-24E. The overall NBP market share has declined to 19.8% for the merged entity (19.1% on a pre-merged basis) in H1FY23 from 22.3% in H1FY22. The individual WRP market share for the period stood at 16.1% for the merged entity (14.8% for a pre-merged entity). Hence, we continue to remain watchful of the trend of the market share post the merger as well with increasing competitive intensity from the peers. The stock is currently trading at 2.4x its FY24E EV. **We assign a 3.25x P/EV on FY24E EVPS of INR 227.0, a VNB multiple of 23x to HDFC Life, and arrive at the weighted average Target Price at INR 706 per share (unchanged) (50:50 weights on the P/EV and appraisal value methodology), implying a 32.2% upside potential over CMP. We have maintained our 'BUY' rating on HDFC Life Insurance Co. Ltd.**

ANALYST

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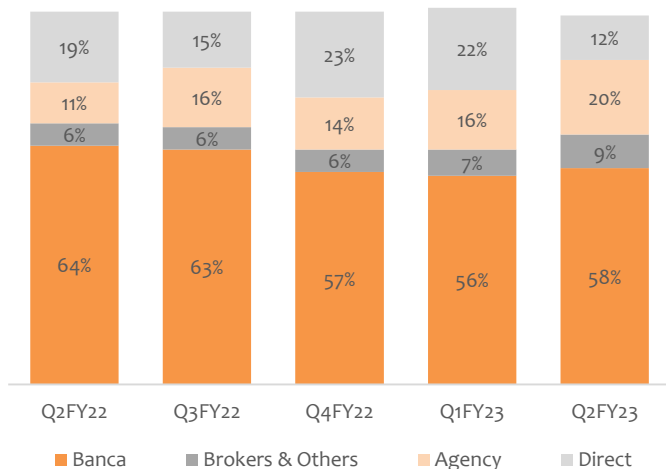
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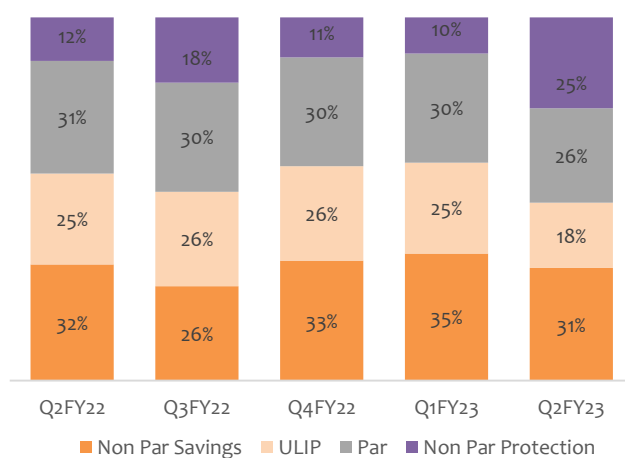
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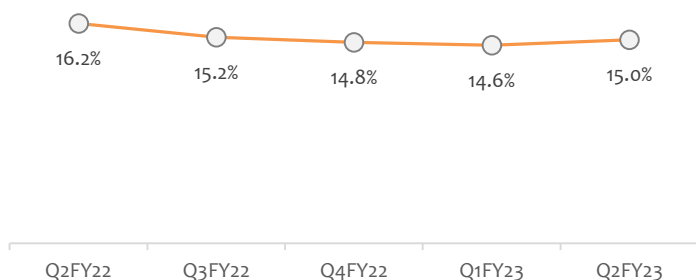
Channel mix on Individual APE basis (%):
Agency mix improving on QoQ basis



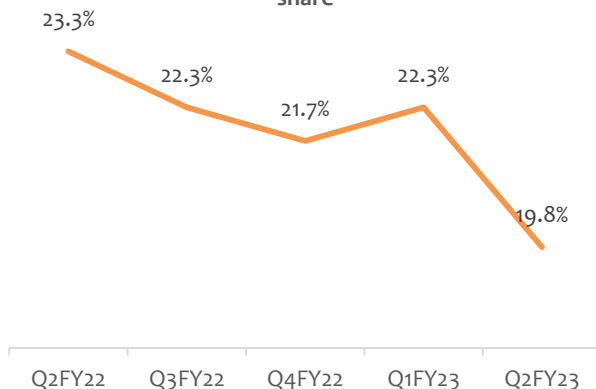
Product mix on Individual APE basis (%):
Non Par segment sees strong improvement



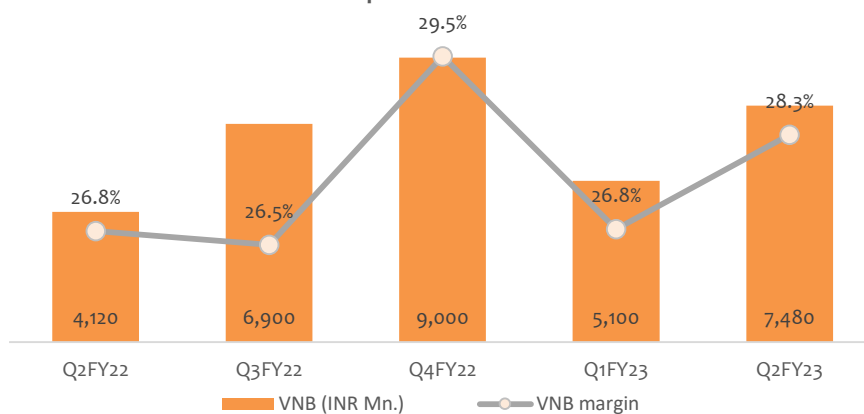
Individual WRP market share(%):
Market share improved QoQ



Market share based on Overall New Business Premium: Q2FY23 includes post-merger market share



VNB Margin (%): Post-merger improvement as well as increasing protection mix



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Gross premiums	3,27,069	3,85,835	4,59,628	5,42,651	6,51,907
Reinsurance ceded	4,833	4,612	5,664	5,427	6,519
Net premiums	3,22,236	3,81,223	4,53,965	5,37,225	6,45,388
Net income from investments	-29,622	3,31,537	1,99,978	2,00,999	2,17,355
Total income	2,92,614	7,12,760	6,53,943	7,38,224	8,62,744
Commission expenses	14,914	17,104	19,403	25,840	31,210
Operating expenses	42,669	45,860	56,125	62,611	79,409
Service tax on linked charges	3,532	2,024	1,520	2,149	2,913
Operating profit	2,31,499	6,47,773	5,76,894	6,47,624	7,49,211
Benefits paid (net)	1,81,730	2,25,748	3,18,638	3,36,444	3,91,144
Change in reserves	24,408	4,08,296	2,46,815	2,91,500	3,35,000
Interim Bonuses Paid	8,484	0	0	0	0
Surplus / (Deficit) Before tax	16,877	13,728	11,442	19,680	23,066
Provision For Tax & Others	7,165	2,744	1,845	9,010	9,755
Surplus / (Deficit) After tax	9,712	10,984	9,597	10,671	13,312

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
First year premiums	60,443	68,584	80,544	1,00,680	1,25,850
Single premiums	1,11,942	1,32,482	1,61,005	1,85,155	2,22,186
New business premium (NBP)	1,72,385	2,01,066	2,41,548	2,85,835	3,48,036
NBP growth (%)	15.1%	16.6%	20.1%	18.3%	21.8%
Renewal premiums	1,54,684	1,84,769	2,18,080	2,56,816	3,03,872
Renewal premiums growth (%)	8.8%	19.4%	18.0%	17.8%	18.3%
Total premiums	3,27,069	3,85,835	4,59,628	5,42,651	6,51,907
Total premium growth (%)	12.1%	18.0%	19.1%	18.1%	20.1%
NBP - APE	71,637	81,833	96,644	1,19,195	1,48,068
NBP - APE growth (%)	18.4%	14.2%	18.1%	23.3%	24.2%

Source: Company, KRChoksey Research

Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Transfer from Technical account	11,912	9,909	10,093	9,721	12,362
Income from investments & other income	4,564	6,476	7,894	7,973	8,371
Total income	16,476	16,385	17,987	17,693	20,733
Total expenses	3,360	2,850	6,186	3,261	3,507
PBT	13,115	13,535	11,801	14,433	17,226
Provision for tax	165	-66	-276	289	345
PAT	12,951	13,601	12,077	14,144	16,882

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Share capital	20,188	20,209	21,126	21,491	21,491
Share application money	56	20	33	0	0
Reserves and surplus	49,675	64,074	1,32,852	1,43,996	1,57,877
Fair value change account - net	-1,920	2,074	848	848	848
Shareholders' fund	67,999	86,377	1,54,859	1,66,335	1,80,216
Liabilities (Policyholder's Funds)	1,710	1,710	1,710	1,710	1,710
Fair value change account - net	496	25,550	21,697	24,934	28,654
Policy liabilities	6,52,708	8,55,230	10,43,425	11,99,109	13,78,023
Provision for linked liabilities	5,43,768	5,43,054	5,64,484	6,48,707	7,45,498
Credit/[debit] fair value change account	-35,326	1,66,581	2,00,706	2,30,653	2,65,067
Discontinued due to non-payment of premium	33,379	37,960	41,026	47,147	54,181
Sub-Total	11,95,025	16,28,375	18,71,337	21,50,550	24,71,423
Funds for future Appropriations	8,830	9,906	9,409	10,359	11,309
Total Sources of Funds	12,71,855	17,24,658	20,35,605	23,27,244	26,62,949
Application of Funds					
Investments					
- Shareholders'	58,555	85,421	1,52,379	1,98,093	2,57,521
- Policyholders'	6,71,886	9,05,378	10,83,110	12,21,748	13,78,131
Asset held to cover linked liabilities	5,41,821	7,47,595	8,06,215	9,09,411	10,25,816
Loans	2,991	4,241	6,428	6,428	6,428
Fixed assets - net block	3,301	3,402	3,427	3,627	3,827
Net current assets	-6,699	-21,378	-9,954	-12,063	-8,775
Total Applications of Funds	12,71,855	17,24,658	20,41,605	23,27,244	26,62,949

Source: Company, KRChoksey Research

EV Calculation (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Opening EV	1,83,000	2,06,500	2,66,200	3,29,600	3,87,654
Unwind	13,670	17,400	23,000	28,478	32,951
VNB (or NBAP)	19,190	21,900	26,800	33,077	42,199
Operating variance	1,500	1,800	-5,700	1,500	1,500
EV Operating Profit (EVOP)	33,160	38,300	44,100	63,054	76,650
Non-operating variance	-10,030	20,600	-500	-3,000	-3,000
EV Profit	23,130	58,900	43,600	60,054	73,650
Net capital injection	380	800	27,100	-2,000	-2,500
Closing EV	2,06,500	2,66,200	3,29,600	3,87,654	4,58,805

Source: Company, KRChoksey Research

Key Financials (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Total premium	3,27,069	3,85,835	4,59,628	5,42,651	6,51,907
Net premium earned	3,22,236	3,81,223	4,53,965	5,37,225	6,45,388
NBP-APE	71,637	81,833	96,644	1,19,195	1,48,068
Combined Ratio	19.0%	17.0%	17.0%	16.9%	17.6%
Surplus/(Deficit)	16,877	13,728	11,442	19,680	23,066
VNB margin (%)	25.9%	26.1%	27.1%	27.8%	28.5%
PAT	12,951	13,601	12,077	14,144	16,882
EPS (Rs.)	6.4	6.7	5.7	6.6	7.9
EVPS (Rs.)	102.3	131.7	163.4	192.0	227.0
RoEV (%)	18.1%	18.5%	16.6%	19.1%	19.8%
RoE (%)	19.0%	15.7%	7.8%	8.5%	9.4%

Source: Company, KRChoksey Research

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HDFC Life Insurance				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-22	534	706	BUY	Buy	More than 15%
20-Jul-22	525	706	BUY	Accumulate	5% – 15%
24-Apr-22	548	706	BUY	Hold	0 – 5%
24-Jan-22	628	790	BUY	Reduce	-5% – 0
25-Oct-21	684	790	BUY	Sell	Less than – 5%
31-Aug-21	713	790	ACCUMULATE		

ANALYST CERTIFICATION:

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