

Mixed Q4; premium growth to drive VNB, valuation

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 ~26-27%

Q4FY23 Results: Mixed performance; uptick in premium amid tax amendment.

- Premium growth at 36.1% YoY; renewal up 26.1% YoY
- NBP growth at 46.5% YoY in Q4FY23 amid inflow related to tax amendment
- VNB margins steady at 27.6%, led by balanced product mix
- PAT at ₹ 1360 crore, up 13% YoY, not comparable due to merger

What should investors do? HDFC Life's share price has underperformed in the past three years. Focus is expected to shift towards protection and annuity business but sustainability of margins along with healthy premium growth needs to be watched. Approval regarding increase in stake by parent puts an end to overhang.

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: Factoring in steady VNB margins and growth levers, we upgrade our target price from ₹ 540 to ₹ 570, valuing the stock at 2.2x FY25E EV.

Key triggers for future price performance:

- Anticipated moderation in non-par business is expected to be offset by a pick-up in protection and annuity segment. Thus, a diversified product mix and product innovation to aid growth momentum
- Broad based distribution to aid business growth. Achieved neutrality on merged VNB margin. Integration benefit to flow gradually
- VNB margins are expected to witness a gradual improvement at 27-28%. Sustained premium growth to drive VNB trajectory ahead, which needs to be watched

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 ₹ 1,350



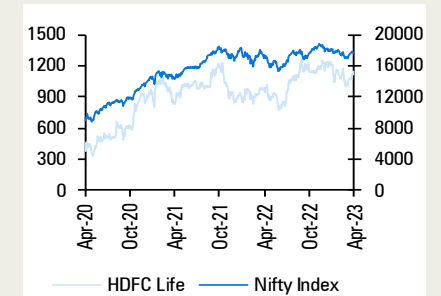
Particulars

Particulars	Amount
Market Capitalisation	₹ 111252 crore
EV	₹ 39527 crore
AUM	₹ 238782 crore
52 week H/L	620/ 457
Net worth	₹12970 crore

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	51.5	51.5	50.3	50.3	50.3
FII	26.3	27.7	28.8	30.2	28.9
DII	7.8	6.9	6.9	6.0	6.4
Others	14.4	13.9	14.0	13.6	14.4

Price Chart



Risk to our call

- VNB margin (post-merger) at 27.6%, while IEV at ₹ 39527
- Key risk:** 1) Slower premium accretion, 2) Increase in VNB margin owing to better product mix

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20- FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
New business premium	17238	20107	24155	29783	20%	33731	38103	9%
APE	7164	8183	9664	12949	22%	16296	18523	13%
Total premium	32707	38583	45962	55434	19%	66053	77315	12%
PAT	1371	1360	1208	1378		1568	1876	
EV	20655	26625	30048	39526		46327	55069	
P/E (x)	76.6	77.3	90.9	81.1		71.3	59.6	
P/BV (x)	15.4	12.2	7.1	8.6		7.6	6.8	
P/IEV (x)	5.1	3.9	3.7	2.8		2.4	2.0	
RoEV (%)	18.1	18.5	19.0	19.7		14.7	14.5	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Mixed performance. Uptick in premium growth amid tax amendment. However, lower surplus impacts earnings momentum

- The Exide Life merger was completed on October 14, 2022 and numbers have been restated. Hence, YoY and QoQ numbers are not comparable
- On a post-merger basis, new business premium grew at a slower pace at 20% YoY at ₹ 29090 crore in FY23 and new business margin was at 27.6% in FY23 vs. 26.5% in 9MFY23. Individual WRP market share was at 16.5% among private peers and 10.8% in overall industry. NBP growth was robust at 46.5% YoY amid recent tax amendments
- Total APE (post-merger) registered healthy growth of 36.6% YoY at ₹ 13336 crore for FY23
- On individual APE basis, non-par saving products now form 45% in FY23 vs. 39% in 9MFY23 (33% in FY22). Annuity business contributes 5% while protection business contributes 4% of premium in FY23. On an overall basis, proportion of protection business increased from 24% in FY22 to 29% in FY23
- Opex ratio increased ~250 bps YoY from 12.3% in FY22 to 14.8% in FY23 (14.7% in 9MFY23). On a quarterly basis, opex ratio increased YoY and QoQ at 14.9% in Q4FY23 vs. 14.5% in Q3FY23 and 12.5% in Q4FY22
- AUM was at ₹ 238782 crore, up 16.9% YoY. Debt to equity mix in AUM was at 70:30 with ~99% of debt investments in G-secs and AAA bonds. On a merged basis, AUM has increased ~2% QoQ
- Persistency ratio remains steady with 13th month persistency at 87% and 61st month persistency at 52%, respectively
- Indian embedded value was at ₹ 39527 crore as of March 2023, up ~20% YoY. On a merged basis, Indian embedded value has risen ~4.8% QoQ. Solvency ratio was at 2.03x

Q4FY23 earnings conference call highlights

- The management is confident of growing APE in FY24E and continues to aspire to higher than industry growth. Focus will be on broadening the customer base, increasing the number of policies sold and lives covered aided by a diversified network
- Total 12-14% of total business for FY23 was from large ticket policies. Also, 35% of total business for Q4FY23 was from large ticket policies, driven by tax amendment. Expect momentum to remain healthy by focusing on lower ticket size business
- Increased investment (₹ 100 crore in FY24E and FY25E each year) in technology and distribution (Project Inspire – spend at ~₹ 50 crore in FY23E) to achieve growth objective
- PAT growth aided by 27% growth in bad book surplus
- The management was enthused about new EOM regulation, which provides flexibility on the cost management structure
- Confident of strong VNB growth in line with APE growth with steady margins (except for tech transformation). Margins will be driven by protection, investment made in partnerships (AUSFB, Indian Post Bank, Yes Bank etc), acquisition of Exide Life. Hence, upside should start coming in with increase in productivity
- Product mix – There will be more long term products in FY24E. Protection is expected to grow at a normalised run rate. Unwind rate to be higher for FY24E. Share of ROP business at 20% of protection business
- HDFC Bank as a parent will give more headroom to increase market share
- Cannot expect tier 1 cities persistency in tier 3 cities but persistency in tier 3 cities will keep improving
- On annuity, maintained market share with strong growth in Q4 (18% vs. 2% in industry). On rider focus, continues to be present at every product at every channel level

HDFC Life - ESG Disclosure Score*

Score	ESG Disclosure Score		
	FY20	FY21	FY22
Environmental	2.9	3.3	3.6
Social	33.0	26.0	24.4
Governance	83.6	83.6	83.6
Overall ESG Score	39.9	37.7	37.2

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure

Peer comparison

Exhibit 1: ICICI Direct coverage universe (Insurance)

Sector / Company	CMP		M Cap	Rating	EPS (₹)				P/E (x)				P/EV (x)			RoE (%)				
	(₹)	TP(₹)			(₹ bn)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E
SBI Life Insurance	1135	1350	Buy	1136	15.1	17.2	18.6	21.3	75.4	66.0	61.1	53.4	2.9	2.5	2.2	1.9	8.5	10.8	16.2	15.9
HDFC Life	517	570	Hold	111	5.7	6.4	7.3	8.7	90.4	80.6	70.9	59.2	3.6	2.8	2.4	2.0	18.0	18.1	18.2	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q4FY23	QoQ (%)	Comments
First Year Premium	4,467.3	3,090.0	2,574.9	73.5	2,724.9	63.9	Premium accretion one-off led by tax amendment & merger
Renewal Premium	9,254.2	9,122.8	7,341.2	26.1	7,187.0	28.8	Improved persistency led to healthy renewal
Single Premium	5,904.7	5,168.0	4,505.2	31.1	4,663.2	26.6	
Net Premium income	19,426.6	17,207.9	14,289.7	35.9	14,379.4	35.1	
Income from Investments	1,999.8	4,041.2	1,765.3	13.3	5,313.9	-62.4	
Total revenue	21,426.4	21,249.1	16,054.9	33.5	19,693.3	8.8	
Commission	1,111.4	808.8	620.7	79.0	692.8	60.4	Commission ratio increased 140 bps YoY to 5.7%
Operating expenses	2,920.0	2,323.1	1,809.0	61.4	2,120.4	37.7	Opex ratio up 240 bps YoY to 14.9%
Management Expenses	4,031.4	3,131.8	2,429.7	65.9	2,813.2	43.3	
Benefits paid	11,205.1	12,045.5	9,643.5	16.2	8,662.3	29.4	
Change in Actuarial Liability	5,270.9	5,276.1	3,173.4	66.1	7,920.1	-33.4	
Total Expenses	16,476.0	17,321.6	12,816.9	28.5	16,582.4	-0.6	
Surplus/ (deficit)	571.8	753.7	707.2	-19.1	330.0	73.3	Lower investment impact surplus
Transfer to SH's A/c	583.9	250.0	500.0	16.8	416.1	40.3	
Investment income	259.2	226.3	147.5	75.7	243.7	6.4	
Profit/ (loss) before tax	269.8	381.3	321.6	-16.1	314.2	-14.2	
PAT	358.7	377.3	357.5	0.3	315.2	13.8	Higher appropriation supported earnings
Key Metrics							
NBP	10,372.0	8,258.0	7,080.1	46.5	7,388.0	40.4	
AUM	2,38,782	1,31,267	2,04,170	17.0	2,33,839	2.1	
IEV	39,527		30,048	31.5	37,702	4.8	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	62,406	64,960	4.1	73,999	76,049	2.8
Transfer to Shareholders' account	1,188	1,563	31.5	1,384	1,824	31.8
PAT	1,683	1,568	-6.8	2,095	1,876	-10.5
EV/Share	212	216	1.9	251	256	2.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
NBP growth	16.0	13.0	9.2	16.1
AUM growth	23.6	13.9	15.0	15.3
EV Growth	17.2	18.9	16.5	18.7
Comission ratio	5.1	5.1	4.8	4.9
VNB Margin	26.5	27.5	26.5	27.5
Opearating RoEV	18.2	18.2	18.2	18.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Premiums earned - Net	45396.2	56763.4	64960.4	76049.4
Interest, Dividends & Rent	9459.3	7960.4	9343.9	10976.2
Others income (incl. MTM)	9756.7	4621.1	9179.1	12338.3
Total Revenue	64,612	69,345	83,483	99,364
Commission	1940.3	2886.9	3337.0	3923.2
Operating expenses	5612.3	8440.0	8708.2	10239.8
Benefits paid (Net)	31863.6	38872.3	39728.4	44213.1
Change in valuation of policy liabilities	24681.5	18586.2	32040.8	37456.2
Provision for tax	184.4	159.1	1465.0	1876.4
Surplus/(deficit) after tax	215.4	1545.0	1710.9	1970.7
Transfer to Shareholders' account	1,009	1,469	1,563	1,824

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Amounts transferred from Policyholders' account	1009.2	1468.9	1562.5	1824.3
Income from investments	789.4	782.9	1099.1	1254.7
Total	1,799	2,252	2,662	3,079
Total expenses	618.5	979.4	1045.0	1145.0
Profit before Tax	1180.0	1272.4	1616.6	1934.0
Provision for tax	-27.5	-87.7	48.5	58.0
PAT	1,208	1,360	1,568	1,876

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

(₹ Crore)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Share capital	2113	2149	2149	2149
Reserve and surplus	13285	10815	12335	14062
Credit/[debit] fair value change account	85	20	126	158
Networth	15486	12984	14610	16369
Policyholders' funds	187116	224433	297304	379110
Funds for Future Appropriations	941	1235	1398	1545
Total Liabilities	204163	239619	313313	397023
Applications of Funds				
Shareholders' investments	15238	13132	26954	35849
Policyholders' investments	108311	146449	161582	177741
Asset held to cover linked liabilities	80622	79201	106715	122722
Loans	643	1585	1709	2242
Fixed assets - net block	343	380	357	364
Net current assets	-993	-1128	15996	58106
Total Assets	204163	239619	313313	397023

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares (Crore)	211.2	214.9	214.9	214.9
Diluted EPS (₹)	5.7	6.4	7.3	8.7
BV (₹)	73.3	60.8	68.0	76.2
EV per share	142.3	183.9	215.5	256.2
P/E	90.9	81.1	71.3	59.6
P/BV	7.1	8.6	7.6	6.8
P/IEV	3.7	2.8	2.4	2.0
Efficiency Ratios (%)				
Commission expenses as a % of Gross Premium	4.1	4.9	5.1	5.1
Management expenses as a % of Gross Premium	16.4	17.7	18.2	18.3
Return Ratios and capital (%)				
Return on Net worth	18.0	18.1	18.2	18.2
Operating RoEV	18.4	18.2	18.2	18.2
Key Ratios (%)				
VNB Margin	27.4	27.6	26.5	27.5

Source: Company, ICICI Direct Research

Exhibit 9: Key parameters

(Year-end March)	FY22	FY23	FY24E	FY25E
NBP	24155	29085	33731	38103
Growth (%)	20	20	16	13
Linked	12028	13316	16331	19030
Growth (%)	7	11	23	17
Non Linked	33935	42118	49722	58285
Growth (%)	24	24	18	17
APE	9664	13336	16296	18523
Growth (%)	18	38	22	14
VNB	2675	3674	4447	5246
Growth (%)	22	37	21	18
EV	30048	39527	46327	55069
Growth (%)	13	32	17	19
AUM	204170	238782	295251	336311
Growth (%)	17	17	24	14
PH Funds	108311	146893	161582	177741
Growth (%)	20	36	10	10
SH Funds	15238	13132	26954	35849

Source: Company, ICICI Direct Research

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