



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
Updated Mar 08, 2023 **20.01**

Medium Risk

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

Source: Morningstar

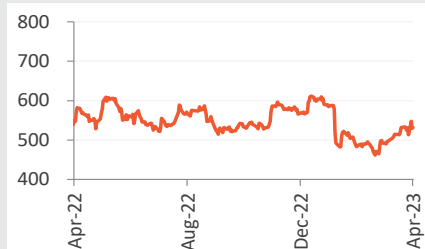
Company details

| | |
|-------------------------------|-----------------|
| Market cap: | Rs. 1,14,230 cr |
| 52-week high/low: | Rs. 621 / 458 |
| NSE volume: (No of shares) | 41.3 lakh |
| BSE code: | 540777 |
| NSE code: | HDFCLIFE |
| Free float: (No of shares) | 98.9 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 50.3 |
| FII | 29.9 |
| DII | 6.6 |
| Others | 13.2 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-----|------|------|------|
| Absolute | 7.9 | -9.2 | -0.4 | -3.5 |
| Relative to Sensex | 3.1 | -8.1 | -1.2 | -8.9 |

Sharekhan Research, Bloomberg

HDFC Life Insurance

Strong Q4 on expected lines, outlook healthy

| | | | |
|-----------------------|---------------------------------|---------------------|--------------------------------|
| Insurance | Sharekhan code: HDFCLIFE | | |
| Reco/View: Buy | ↔ | CMP: Rs. 531 | Price Target: Rs. 720 ↔ |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- HDFC Life reported a robust 69% y-o-y growth in VNB. VNB margin remained stable at 29.3% in Q4FY2023 (versus 29.4% y-o-y). APE grew by 69% y-o-y. VNB margins for FY23 were flat at 27.5% versus standalone in FY22 in line with guidance.
- Strong growth was led by higher business volumes from sale of higher ticket value non-linked products in the last two months of the quarter, ahead of the change in the Union Budgetary provision. APE growth was 23%, excluding the one-off and adjusting for the merger.
- Non-PAR business growth was at 188% y-o-y in 4QFY23 and 90% in FY23, adjusting for the one-off higher ticket size policies, growth was 72% y-o-y in 4QFY23 and 53% in FY23. Retail protection grew by 62% y-o-y in Q4FY23 and was flat in FY23.
- The company is investing to grow lower-ticket policies to offset a slowdown in higher ticket non par business. Stock currently trades at 2.4x/ 2.1x its FY2024E/ FY2025E EVPS. We maintain a Buy on the stock with an unchanged PT of Rs. 720.

HDFC Life Insurance (HDFCLIFE) reported a 37% growth in APE for FY2023. New business premiums grew by 20% in FY23. Value of new business (VNB) grew by ~37% y-o-y in FY2023, while VNB margins (on a merged basis) reported at 27.5% in FY23 versus 27.4% (on standalone basis) in FY22. Embedded value (EV) increased by 20% y-o-y in FY2023. Persistency ratios for the 13th and 61st month were down by 150 bps and 190 bps y-o-y, respectively. The management highlighted that the decline was primarily due to a merger. Given the geographies, Exide Life operates in (mostly tier II and III markets) the persistency tends to be lower than the primarily tier I business run by HDFC Life. On the distribution front, the share of bancassurance declined to 56% in FY23 versus 60% in FY22 while agency channel constituted 20% in FY23 versus 14% in FY22. This increase was at the cost of direct channel, as it continues to face headwinds in the form of heightened competition and its share moderated to 13% in FY23 from 19% in FY22.

Key positives

- Retail Protection business has started to show signs of a pick-up which is a key value driver.
- Strong growth in existing business surplus to Rs 44 billion from Rs 35 billion in FY23.

Key negatives

- Cost ratios have inched up driven by investments in distribution channels. Cost/APE ratio at 27.3% versus 24.0% in FY22.

Management Commentary

- The company guided that VNB growth is expected to be in line with APE growth, leading to stable VNB margin in FY24.
- Protection and annuity would be key growth drivers going forward and share from HDFCB channel will likely stabilise and improve from here on.

Our Call

Valuation – We maintain a Buy on the stock with an unchanged PT of Rs. 720: HDFCLIFE currently trades at 2.4x/2.1x its FY2024E/ FY2025E EVPS. Company reported healthy 19.7% operating RoEV in FY2023. This was driven by 37% APE growth, stable margins (following integration with Exide Life) and marginal operating variances, mostly in persistency. The company remains focused on maintaining a balanced product mix across businesses, with an emphasis on product innovation and superior customer service. We expect HDFCLIFE to deliver over a 19-20% operating RoEV over FY23-25E, with a steady improvement in market share. The company remains the leader in new product launches.

Key Risks

Slower growth in protection products and overall slow APE growth. Any adverse regulatory policies/guidelines may affect its profitability.

Valuation (Consolidated)

| Particulars | FY22 | FY23 | FY24E | FY25E |
|----------------|--------|--------|--------|--------|
| APE | 9,758 | 13,336 | 14,300 | 16,500 |
| VNB | 2,675 | 3,674 | 3,950 | 4,690 |
| VNB Margin (%) | 27.4 | 27.5 | 27.6 | 28.4 |
| EV | 32,958 | 39,527 | 46,800 | 55,300 |
| PAT | 1,208 | 1,368 | 1,700 | 1,850 |
| EPS (Rs) | 5.7 | 6.4 | 7.9 | 8.6 |
| ROE (%) | 23.8 | 19.9 | 18.4 | 18.0 |
| P/EV (x) | 3.4 | 2.9 | 2.4 | 2.1 |
| P/VNB (x) | 41.9 | 31.1 | 29.0 | 24.4 |

Source: Company; Sharekhan estimates

Key result highlights

- ◆ **Balanced product mix:** The company expects its product mix to remain fairly balanced. Product innovation has been a key differentiator and has played a critical role in driving business growth. Annuities grew 17% y-o-y in FY23. There was a fairly frequent re-pricing in the market amid volatile interest rates. ULIP growth was muted at 2% for FY2023. Volatility in markets and high surrender/lapse ratios have made this segment unattractive. While retail protection segment grew 62% y-o-y in 4QFY23 and flat in FY23. Group protection reported strong growth of 34% in 4QFY23 and 53% for FY23. Non-PAR business growth was at 188% y-o-y in 4QFY23 and 90% in FY23, adjusting for the one-off higher ticket size policies, growth was 72% y-o-y in 4QFY23 and 53% in FY23.
- ◆ **Trends in persistency:** Persistency ratios for the 13th and 61st month were down by 150 bps and 190 bps y-o-y, respectively. Management highlighted that the decline was primarily due to a merger. Given the geographies, Exide Life operates in (mostly tier II and III) the persistency tends to be lower than the primarily tier I business run by HDFC Life.
- ◆ **Distribution mix:** Agency & Broker channels posted strong growth at 190% and 311% y-o-y growth, respectively, in 4QFY23. Though HDFC life continues to invest in the agency channel, productivity improvements are yet to kick in. Bancassurance channel also reported strong growth of 57%, but the product mix remains more balanced as opposed to the agency and broker channels, which are heavily skewed toward traditional policies. Although we do not expect any change in the counter share of HDFC Life at HDFC Bank channel, the merger of HDFC and HDFC Bank may lead to better alignment of incentives and higher counter share of HDFC Life
- ◆ **Other:** Aberdeen Investments (co-promoter) has 1.6% stake left and the sale should materialize over the next 1-2 months.

Results (Consolidated)

| Particulars | Rs cr | | | | |
|-------------------------|--------|--------|--------|-----------|-----------|
| | Q4FY23 | Q4FY22 | Q3FY23 | y-o-y (%) | q-o-q (%) |
| New Business Premium | 10,372 | 7,422 | 7,388 | 39.7 | 40.4 |
| Net Premium | 19,469 | 15,625 | 14,402 | 24.6 | 35.2 |
| Income from investments | 1,192 | 1,689 | 4,930 | (29.4) | (75.8) |
| Other income | 268 | 79 | 73 | 239.8 | 269.4 |
| Total Income | 21,471 | 17,682 | 19,718 | 21.4 | 8.9 |
| Net Commission | 1,114 | 686 | 693 | 62.2 | 60.6 |
| Operating Expenses | 4,037 | 2,729 | 2,123 | 47.9 | 90.1 |
| Benefits paid | 11,226 | 10,305 | 8,692 | 8.9 | 29.2 |
| Surplus/(Deficit) | 574 | 668 | 330 | (14.1) | 74.2 |
| PBT | 273 | 473 | 315 | (42.2) | (13.3) |
| PAT | 362 | 506 | 316 | (28.5) | 14.6 |

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth outlook

The life insurance business in India is poised for double-digit growth in terms of premium value, led by higher protection volumes and annuity products going ahead. A large protection gap and expanding per capita income are key long-term growth drivers. Credit protection products are also 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 a huge growth potential in India. In this backdrop, we believe strong players armed with the right mix of products, services, and distribution are likely to gain disproportionately from the opportunity.

■ Company outlook - Superior product mix & sector tailwinds to drive sustainable business growth

HDFC Life is well placed with superior product mix and strong distribution channel. With high proportion of protection and savings-related products, we believe HDFC Life is better placed in the present environment. Being the largest player, HDFC Life is likely to benefit from favourable tailwinds. A higher share from HDFC Bank, investments in lower ticket non-par business and investments in overall product portfolio will likely sustain market share gains over the medium term. The company is a strong business franchise and there is a runway for growth led by strong tailwinds despite higher competition.

■ Valuation - We maintain a Buy on the stock with an unchanged PT of Rs. 720.

HDFCLIFE currently trades at 2.4x/2.1x its FY2024E/ FY2025E EVPS. Company reported healthy 19.7% operating RoEV in FY2023. This was driven by 37% APE growth, stable margins (following integration with Exide Life) and marginal operating variances, mostly in persistency. The company remains focused on maintaining a balanced product mix across businesses, with an emphasis on product innovation and superior customer service. We expect HDFCLIFE to deliver over a 19-20% operating RoEV over FY23-25E, with a steady improvement in market share. The company remains the leader in new product launches.

Peer Comparison

| Companies | CMP (Rs/Share) | MCAP (Rs Cr) | P/VNB (x) | | P/EV (x) | | RoEV (%) | |
|---------------------------------|-------------------|-----------------|-----------|-------|----------|-------|----------|-------|
| | | | FY24E | FY25E | FY24E | FY25E | FY24E | FY25E |
| HDFC Life Insurance Company | 531 | 1,14,230 | 29.0 | 24.4 | 2.4 | 2.1 | 18.4 | 18.0 |
| ICICI Prudential Life Insurance | 425 | 61,176 | 21.6 | 19.9 | 1.5 | 1.3 | 16.3 | 16.1 |

Source: Company; Sharekhan Research

About company

Established in 2000, HDFC Life is a leading 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 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 channelize growth for the insurance business.

Investment theme

We believe the insurance business has significant growth opportunities and HDFC Life is well placed to capture them. By virtue of its bancassurance partnerships, products, digital strength, and industry-leader status, HDFC Life should be able to deliver steady VNB and EV CAGR over the long term (aided by high margins in the protection business and improvement in persistency trends) which will support valuations.

Key Risks

Slower growth in protection products and overall slow APE growth. Any adverse regulatory policies/guidelines may affect its profitability.

Additional Data

Key management personnel

| | |
|--------------------|-----------|
| Ms. Vibha Padalkar | MD & CEO |
| Mr. Suresh Badami | Deputy MD |
| Mr. Niraj Shah | ED & CFO |

Source: Company

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|--------------------------------------|-------------|
| 1 | HOUSING DEVELOPMENT FINANCE CORP LTD | 48.65 |
| 2 | JPMORGAN CHASE & CO | 4.33 |
| 3 | CAPITAL GROUP COS INC | 4.19 |
| 4 | EXIDE INDUSTRIES LTD | 4.05 |
| 5 | FMR LLC | 2.11 |
| 6 | REPUBLIC OF SINGAPORE | 2.09 |
| 7 | VANGUARD GROUP INC | 1.79 |
| 8 | ABRDN 2006 LIMITED (MAUR) | 1.66 |
| 9 | SBI Funds Management Ltd | 1.49 |
| 10 | Black Rock Inc | 1.41 |

Source: Bloomberg

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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 deteriorating 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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