Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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

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 20.01

Updated Mar 08, 2023

Medium Risk

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

Source: Morningstar

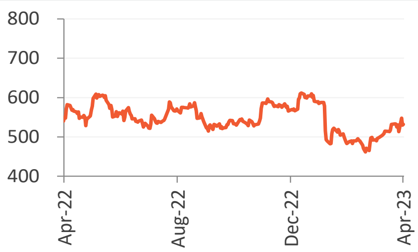
Company details

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

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) Rs cr

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 Q4FY23 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 Q4FY23. 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) Rs cr

Particulars	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 disproportionally 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

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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