Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

HDFC Life Insurance Company Ltd

Mixed bag Q2

Insurance	Sharekhan code: HDFCLIFE
Reco/View: Buy ↔	CMP: Rs. 625
	Price Target: Rs. 750 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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 20.04

Updated Aug 08, 2023

Medium Risk

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

Source: Morningstar

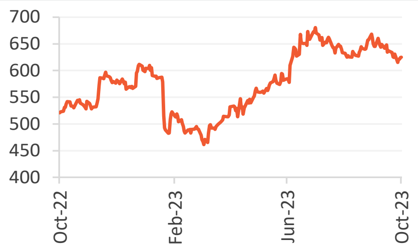
Company details

Market cap:	Rs. 1,35,271 cr
52-week high/low:	Rs. 691/458
NSE volume: (No of shares)	54.6 lakh
BSE code:	540777
NSE code:	HDFCLIFE
Free float: (No of shares)	98.9 cr

Shareholding (%)

Promoters	50.3
FII	30.9
DII	6.2
Others	12.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	-6.5	17.5	20.0
Relative to Sensex	-2.1	-8.0	7.8	4.2

Sharekhan Research, Bloomberg

Summary

- HDFC Life reported ~9% y-o-y growth in APE (~2% below estimates) resulting in VNB of Rs. 800 crore (4% y-o-y) leading to a ~3% miss on our estimates in Q2FY24.
- Share of high-ticket policies (above Rs. 5 lakh) declined to 6% of APE in H1FY24 versus 12% in FY2023. This led to lower growth despite policies having ticket size below Rs. 5 lakh is growing at a healthy pace. However, bancassurance channel APE growth was strong at 20% y-o-y due to increase in counter share at HDFC Bank. Agency channel showed muted growth.
- VNB margins stood at 26.3% vs 27.0% y-o-y and stable q-o-q. Share of non-par products fell to ~21% from ~33% y-o-y and share of ULIPs increased to ~26% from ~17% y-o-y) thus margins were lower y-o-y however strong traction in individual protection and credit life products led to stable margins q-o-q.
- Management remained confident of delivering mid-teens APE growth in FY24 on an adjusted basis and flat y-o-y VNB margin. Stock currently trades at 2.9x/ 2.4x its FY2024E/ FY2025E EVPS. We maintain a Buy on the stock with an unchanged PT of Rs. 750.

HDFC Life reported ~9% y-o-y growth in APE in H1FY24. Value of new business (VNB) grew by ~10% y-o-y for H1FY24 while VNB margins were stable at ~26.3%. Persistency ratios across cohorts remained broadly stable. The management believes that investments in distribution channels and increasing productivity gains should lead to pick up in APE growth during H2FY24. Retail protection APE doubled, reporting a 110% y-o-y growth while group protection was flat y-o-y. Non-PAR APE declined by 26% y-o-y while ULIPs reported a strong growth of 62% y-o-y. Annuity products reported 49% y-o-y growth on lower base. A favourable market environment and change in taxation of traditional policies led to strong demand for ULIPs, while new product launches led to strong growth in retail protection. On the distribution front, the bancassurance channel APE growth was strong at 20% y-o-y due to increase in counter share at HDFC Bank. The company gained counter share in the parent bank to ~62% for the quarter (with ~70% in Sep month) vs ~50% in last year. However, growth in the agency channel was muted at 2% y-o-y led by lower demand of high-ticket traditional policies.

Key positives

- Retail protection business APE doubled, grew by 110% y-o-y led by new product launches.
- Bancassurance channel APE growth was strong at 20% y-o-y due to increase in counter share at HDFC Bank. The company gained counter share in the parent bank to ~62% for the quarter (with ~70% in September) versus ~50% in last year.
- Persistency remained strong across most buckets.

Key negatives

- Operating RoEV was down by 319 bps y-o-y to 15.4% led by lower unwind rate of 7.6% and marginal decline of VNB margins on YoY basis.
- Underwriting profit fell by 38% y-o-y due to - Higher new business strain (33% of APE in Q2FY24 versus 20% in Q2FY23 and 43% in Q1FY24); existing business surplus was lower at 10.8% of opening EV vs 13.6% in Q1FY23. A rise in share of long-term traditional savings has led to lower existing business surplus, as the profits in these product flow in over a long period.
- High-ticket-size segment has dragged APE growth, keeping it muted at 9%.

Management Commentary

- The management remained confident of delivering mid-teens APE growth in FY24 on an adjusted basis and flat YoY VNB margins.
- High ticket-size policies (above Rs. 5lakh) during FY23 contribution was at 12% of APE, which reduced to 6% during H1FY24. The company expects growth of high ticket-size policies to revive in the next few quarters.
- Growth in retail protection segment is sustainable. The company has launched new products under this segment with features like - whole life cover, increasing sum assured and return of premium. The new launches are targeted at tier-II and III cities.

Our Call

We maintain a Buy on the stock with a unchanged PT of Rs. 750: HDFC Life trades at 2.9x/2.4x its FY2024E/FY2025E EVPS. The company remains focused on maintaining a balanced product mix across businesses. We expect HDFCLIFE to deliver ~18% operating RoEV over FY23-25E, with a steady improvement in market share. The company remains the leader in new product launches. The company remained confident of margins gradually improving in FY25E along with sustained pick-up in growth over coming quarters on account of the improving productivity across distribution channels (including HDFC Bank) and improving efficiencies from Exide Life would lead to flat VNB margins and mid teen APE growth in FY24E.

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
ROEV (%)	23.8	19.9	18.4	18.0
P/EV (x)	4.0	3.4	2.9	2.4
P/VNB (x)	49.1	36.4	33.9	28.6

Source: Company; Sharekhan estimates

Key result highlights

Balanced product mix: The company expects its product mix to remain fairly balanced. During the quarter, the company launched products in the protection category - HDFC Life Sanchay Legacy and Click 2 Protect Elite products. HDFC Life Sanchay Legacy is an industry-first whole life, return of premium protection plan with increasing life cover and is designed to cater to a middle-aged and beyond customer segment. The Click 2 Protect Elite is a term life product, which caters to a more affluent customer category. Other product launches in ULIP and Par segments gained traction across channels. Retail protection APE doubled, reported a 110% y-o-y growth while group protection was flat y-o-y. Non-PAR APE declined by 26% y-o-y while ULIP reported strong growth of 62% y-o-y. Annuity products reported 49% y-o-y growth on lower base. A favourable market environment and change in taxation of traditional policies led to strong demand for ULIPs while product launches led to strong growth in retail protection. The company saw an uptick of 10% in the number of individual policies sold, which was higher than the industry and in line with the company's policy of broadening the customer base. Growth in Tier 2/3 market was double that of Tier 1 market. The strategy remains to broad base growth through smaller ticket-size policies. As more partners are added, management expects good growth in small ticket-sized policies.

Trends in persistency: Persistency trends were strong across most buckets up 200-500 bps y-o-y

Distribution mix: Bancassurance channel APE growth was strong at 20% y-o-y due to increase in counter share at HDFC Bank. The company gained counter share in the parent bank to ~62% for the quarter (with ~70% in September) vs ~50% in last year. However, growth in the agency channel was muted at 2% y-o-y led by lower demand of high-ticket traditional policies. With increasing footprint in tier II and III cities, management expects to make up in the non-banking channels in H2FY24. During the quarter, the company partnered with Airtel Payments Bank and added more than 37,000 agents during H1FY24.

Results (Consolidated) Rs cr

Particulars	Q2FY24	Q2FY23	Q1FY24	y-o-y (%)	q-o-q (%)
New Business Premium	7,102	6,376	5,869	11.4	21.0
Net Premium	14,797	13,138	11,508	12.6	28.6
Income from investments	8,107	9,784	11,631	(17.1)	(30.3)
Other income	101	65	86	54.7	16.7
Net Commission	1,188	683	663	74.0	79.3
Operating Expenses	1,745	1,842	1,621	(5.3)	7.7
Benefits paid	9,357	11,757	8,095	(20.4)	15.6
Surplus/(Deficit)	230	248	213	(7.3)	8.2
PBT	332	331	418	0.5	(20.5)
PAT	378	329	417	14.9	(9.2)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Large opportunity but regulatory risk higher

Insurance penetration is still low as compared to international benchmarks. Factors such as a large protection gap and expanding per capita income are key long-term growth drivers for the sector. India has a high protection gap; and credit protection products are still at an early stage and has the potential to grow multi-fold as penetration of retail loans improves in the country. Hence, we believe the insurance sector has a huge growth potential in India. Against this backdrop, we believe strong players with the right mix of products, services, and distribution are likely to gain disproportionately from the opportunity. However, there is a high risk of regulatory changes, which can impact profitability.

■ Company outlook - Superior product mix & strong distribution channel to drive sustainable business growth

HDFC Life is well placed with a 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. A higher share from HDFC Bank, investments in lower ticket non-par business, higher share from protection segment 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 long runway for growth despite higher competition and regulatory risk.

■ Valuation - We maintain a Buy on the stock with a unchanged PT of Rs. 750

HDFC Life trades at 2.9x/2.4x its FY2024E/ FY2025E EVPS. The company remains focused on maintaining a balanced product mix across businesses. We expect HDFCLIFE to deliver ~18% operating RoEV over FY23-25E, with a steady improvement in market share. The company remains the leader in new product launches. The company remained confident of margins gradually improving in FY25E along with sustained pick-up in growth over coming quarters on account of the improving productivity across distribution channels (including HDFC Bank) and improving efficiencies from Exide Life would lead to flat VNB margins and mid teen APE growth in FY24E.

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	622	1,34,200	33.9	28.6	2.9	2.4	18.4	18.0
ICICI Prudential Life Insurance	531	76,487	27.0	24.8	1.9	1.6	16.2	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 but regulatory risk persists. HDFC Life is well placed with superior product mix and strong distribution channel. 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).

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	CAPITAL GROUP COS INC	4.18
2	EXIDE INDUSTRIES LTD	4.05
3	JPMORGAN CHASE & CO	3.32
4	FMR LLC	2.78
5	REPUBLIC OF SINGAPORE	2.71
6	SBI Funds Management Ltd	2.35
7	VANGUARD GROUP INC	1.87
8	CAMAS INV PTE LTD	1.70
9	BLACK ROCK INC	1.44
10	T ROWE PRICE GROUP	1.27

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

Sharekhan

by BNP PARIBAS

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