Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

HDFC Life Insurance Company Ltd

Weak Q3

Insurance	Sharekhan code: HDFCLIFE
Reco/View: Buy ↔	CMP: Rs. 615 / Price Target: Rs. 750 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- HDFC Life reported ~2% y-o-y decline in APE (~7% below estimates) resulting in VNB declining by ~2% y-o-y (missing our estimates by ~10%). However, VNB margins stood at 26.8% stable y-o-y.
- Lower APE was led by lower Non-PAR (-32%), Group protection (-31%), Annuity (-9%) and PAR (-2%) sales. While ULIP (+88%) and Individual Protection (+54%) witnessed strong growth.
- Muted growth seen on Banca (~3% yoy) and Agency (~3%) channel while Direct and Broker channel declined by 6% y-o-y & 57% y-o-y respectively.
- Stock currently trades at 2.4x/ 2.0x its FY2025E/ FY2026E EVPS. We maintain a Buy on the stock with an unchanged PT of Rs. 750.

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

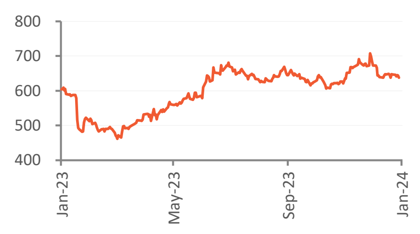
Company details

Market cap:	Rs. 1,32,169 cr
52-week high/low:	Rs. 711 / 458
NSE volume: (No of shares)	30.1 lakh
BSE code:	540777
NSE code:	HDFCLIFE
Free float: (No of shares)	96.8 cr

Shareholding (%)

Promoters	50.4
FII	30.5
DII	6.9
Others	12.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.6	-1.6	-8.2	1.7
Relative to Sensex	-11.2	-12.2	-19.2	-20.0

Sharekhan Research, Bloomberg

HDFC Life reported ~5% y-o-y growth in APE in 9MFY24. Value of new business (VNB) grew by ~5% y-o-y for 9MFY24 while VNB margins were stable at ~26.5%. Slowdown in banca channel/ agency channel and lower growth in high-ticket business post the change in regulations is resulting in lower APE growth. Management highlighted growth in lower-ticket business is likely to offset slowdown in high tickets to achieve its targeted growth going forward. Individual protection APE grew by 54% y-o-y growth while group protection declined by 31% y-o-y. Non-PAR APE/ Annuity also declined by 32% y-o-y/9% y-o-y. ULIPs reported a strong growth of 88% y-o-y. On the distribution front, the bancassurance channel APE growth was muted at 3% y-o-y led by lower volumes from parent bank however counter share remained stable. Agency channel was also muted at 3% y-o-y led by lower demand of high-ticket traditional policies. Persistency trends were strong in most of buckets.

Key positives

- Retail protection growth remained strong (+54% y-o-y).
- Persistency trends remained strong across most buckets.

Key negatives

- Slowdown in banca channel/agency channel and lower growth in high-ticket business post the change in regulations has resulted in lower APE growth.
- Operating RoEV was down to 15.8% vs 17% y-o-y due to decline in VNB.

Management Commentary

- Management highlighted that high-ticket business (above Rs0.5 mn) was significantly lower (its share has gone down to 6% of APE in 9MFY24 vs 12% in 9MFY23) while lower-ticket business was up 5% y-o-y.
- Growth in lower-ticket business is likely to offset slowdown in high tickets going forward. Also, recently the new non-par product launch has seen good offtake and demand in higher tickets is expected to pick up.
- Management highlighted that VNB margins were stable despite decline in non-par sales and increase in ULIP sales as margins across products improved led by better pricing and increased share of protection.

Our Call

Valuation – We maintain a Buy on the stock with a unchanged PT of Rs. 750. HDFC Life trades at 2.4x/2.0x its FY2025E/ FY2026E EVPS. The company remains focused on maintaining a balanced product mix across businesses with leadership in new product launches. Management is confident of gradually catching up the growth driven by strong growth in lower ticket segments; focus on tier II/ tier III geographies; higher counter share at HDFC Bank and other banca channel and investments in agency channel. We believe near term growth looks challenging, but we remain positive on medium to long term prospects. Key monitorable remains – Final regulation on Surrender value is still awaited that may impact margin/ growth.

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	FY26E
APE	9,758	13,336	13,700	16,000	17,500
VNB	2,675	3,674	3,770	4,410	4,900
VNB Margin (%)	27.4	27.5	27.5	27.6	28.0
EV	32,958	39,527	48,000	56,000	65,000
PAT	1,208	1,368	1,600	1,900	2,200
EPS (Rs.)	5.7	6.4	7.4	8.8	10.2
ROEV (%)	23.8	19.9	19.5	17.5	18.0
P/EV (x)	3.9	3.3	2.8	2.4	2.0
P/VNB (x)	48.6	36.0	35.1	30.1	27.1

Source: Company; Sharekhan estimates

Stock Update

Result Update

Key result highlights

- **Product mix:** During the quarter, the company launched the Click to Achieve product (non-par) in the latter part of Q3FY24, offering a lot of flexibility to customers. The product garnered Rs. 100 crore in revenue within four weeks of its launch. Individual protection APE grew by 54% y-o-y growth while group protection declined by 31% y-o-y. Non-PAR APE/ Annuity also declined by 32% y-o-y/9% y-o-y. ULIPs reported a strong growth of 88% y-o-y. Slowdown in banca channel/agency channel and lower growth in high-ticket business post the change in regulations is resulting in lower APE growth. Management highlighted growth in lower-ticket business is likely to offset slowdown in high tickets going forward. While management has been guiding for stable product mix, Q3FY24 witnessed sharp skew in favor of ULIPs at the cost of non-par savings. Favorable market environment and change in taxation of traditional policies led to strong demand for ULIPs. Strong growth in retail protection supported margins.
- **Trends in persistency:** Persistency trends were strong across most buckets up 50-570 bps y-o-y.
- **Distribution mix:** The bancassurance channel APE growth was muted at 3% y-o-y led by lower volumes from parent bank however counter share remained stable. Agency channel was also muted at 3% y-o-y led by lower demand of high-ticket traditional policies. Direct and Broker channel declined by 6% y-o-y & 57% y-o-y respectively. Management highlighted that branch expansion by HDFC Bank into lower tier cities and partnerships with smaller banks will drive banca channel growth. Despite significant investments, agency channel growth remained muted. The weakness in high ticket non-par has also affected this channel.

Results (Consolidated) Rs cr

Particulars	Q3FY24	Q3FY23	Q2FY24	y-o-y (%)	q-o-q (%)
New Business Premium	7,131	7,388	7,102	(3.5)	0.4
Net Premium	15,273	14,402	14,797	6.0	3.2
Income from investments	11,372	4,930	8,107	130.7	40.3
Other income	71	73	101	(2.7)	(30.1)
Net Commission	1,247	693	1,188	79.8	4.9
Operating Expenses	1,779	2,123	1,745	(16.2)	2.0
Benefits paid	9,895	8,692	9,357	13.8	5.8
Surplus/(Deficit)	63	330	230	(80.8)	(72.5)
PBT	369	315	332	17.2	11.2
PAT	368	316	378	16.3	(2.8)

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. We believe near term growth looks challenging, but we remain positive on medium to long term prospects.

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

HDFC Life trades at 2.4x/2.0x its FY2025E/ FY2026E EVPS. The company remains focused on maintaining a balanced product mix across businesses with leadership in new product launches. Management is confident of gradually catching up the growth driven by strong growth in lower ticket segments; focus on tier II/tier III geographies; higher counter share at HDFC Bank and other banca channel and investments in agency channel. We believe near term growth looks challenging, but we remain positive on medium to long term prospects. Key monitorable remains – Final regulation on Surrender value is still awaited that may impact margin/ growth.

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	615	1,32,169	35.1	30.1	2.8	2.4	19.5	17.5
ICICI Prudential Life Insurance	523	75,272	29.7	25.3	1.8	1.6	15.5	16.0

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HOUSING DEVELOPMENT FINANCE CORP LTD	50.33
2	CAPITAL GROUP COS INC	4.18
3	EXIDE INDUSTRIES LTD	4.05
4	JPMORGAN CHASE & CO	4.01
5	REPUBLIC OF SINGAPORE	2.71
6	FMR LLC	2.54
7	SBI Funds Management Ltd	2.17
8	CAMAS INV PTE LTD	1.70
9	VANGUARD GROUP INC	1.57
10	Black Rock Inc	1.44

Source: Bloomberg, Oct 2023

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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