Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

HDFC Life Insurance Company Ltd

Mixed bag Q4

Insurance	Sharekhan code: HDFCLIFE
Reco/View: Buy ↔	CMP: **Rs. 606**
	Price Target: **Rs. 750** ↔

↑ 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		↔	

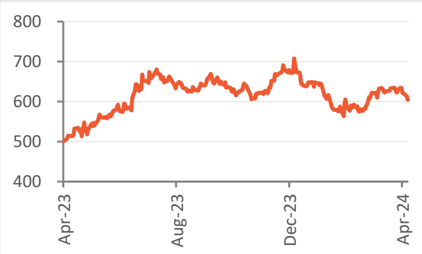
Company details

Market cap:	Rs. 1,30,283 cr
52-week high/low:	Rs. 711 / 512
NSE volume: (No of shares)	39.5 lakh
BSE code:	540777
NSE code:	HDFCLIFE
Free float: (No of shares)	96.8 cr

Shareholding (%)

Promoters	50.4
FII	30.0
DII	7.9
Others	12.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.4	-0.3	-6.0	13.9
Relative to Sensex	-4.1	-1.6	-15.0	-6.9

Sharekhan Research, Bloomberg

Summary

- HDFC Life reported a mixed set of numbers, wherein VNB margins lagged estimates while APE growth was marginally above estimates driven by higher sales from ULIP segment (+132% y-o-y in Q4).
- VNB margins fell by ~320 bps y-o-y reported at 26.1% in Q4FY24, hit by an adverse product mix and negative operating leverage due to a large one-off in the base period.
- The company is targeting APE growth at the higher end of the industry level of 12–15% in FY25 and given the competitive intensity it could settle for slightly lower margins prioritizing growth.
- Stock trades at 2.4x/ 2.1x its FY2025E/ FY2026E EVPS. We maintain a Buy on the stock with an unchanged PT of Rs. 750.

HDFC Life reported an ~8% y-o-y decline in APE growth in Q4 on reported basis while adjusted for one off in the base period, it grew by 14% y-o-y. For FY24, APE growth was flat. Value of new business (VNB) fell by ~18% y-o-y/ 5% y-o-y in Q4FY24/ FY24. VNB margins declined by 320 bps y-o-y reported at 26.1% in Q4 and 26.3% for FY24. A slowdown in agency channel and lower high-ticket business was partly offset by strong pick up in lower ticket size non-par business and the bancassurance channel. The bancassurance channel's APE growth was healthy at 20% y-o-y led by higher counter share from parent bank and other bancassurance partners. The agency channel remained laggard. ULIPs reported a strong growth of 132% y-o-y. The company reported 19% APE growth for policies below Rs 5 lakh in FY2024 and a 14% growth in number of policies. Tier II & III business is growing faster. Persistency trends were strong in most of buckets.

Key positives

- Persistency trends remained strong across most buckets.
- Bancassurance channel supported APE growth (+20% y-o-y in Q4).

Key negatives

- VNB margins were impacted by adverse product mix and negative operating leverage due to large one-off in the base period.
- Higher competition and lower high-ticket business led to sharp decline in APE for agency channel.
- Operating RoEV was down to 18.4% versus 24% y-o-y due to decline in VNB (-18% y-o-y).

Management Commentary

- Management is targeting APE growth at higher end of the industry growth expected (12–15%) in FY25 and given the competitive intensity it could settle for slightly lower margins, prioritising growth.
- The management is confident on increasing counter share in HDFC Bank channel to 70% (c.63%).
- The company highlighted that there has been increased pricing pressure in the retail protection segment from online aggregators.
- IRDA and Indian accounting boards are still to provide guidance on implementation of IFRS 17. It may take 24-26 months for the transition and has engaged external experts for the same.

Our Call

Valuation – We maintain a Buy on the stock with a unchanged PT of Rs. 750. HDFC Life trades at 2.4x/2.1x its FY2025E/ FY2026E EVPS. The company remains focused on maintaining a balanced product mix across businesses with leadership in new product launches. The management is confident of gradually catching up the growth driven by lower ticket size segments; focus on tier II/ tier III geographies; higher counter share at HDFC Bank, other banca partnerships and investments in agency channel. Despite an adverse product mix change, margins have been managed well. We believe chasing growth over margins is a near-term phenomena. We remain positive on medium to long-term prospects.

Key Risks

Slower APE growth, lower VNB margins and any adverse regulatory policies/guidelines may affect its profitability.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
APE	9,758	13,336	13,291	15,500	17,500
VNB	2,675	3,674	3,501	4,080	4,650
VNB Margin (%)	27.4	27.5	26.3	26.3	26.6
EV	32,958	39,527	47,468	54,900	63,500
PAT	1,208	1,368	1,574	1,900	2,200
EPS (Rs.)	5.7	6.4	7.3	8.8	10.2
ROEV (%)	23.8	19.9	20.9	17.0	17.0
P/EV (x)	3.9	3.3	2.7	2.4	2.1
P/VNB (x)	47.9	35.5	37.2	32.0	28.1

Source: Company; Sharekhan estimates

Key result highlights

- **Product mix:** In the quarter, ULIP segment fared well due to buoyant equity markets. ULIPs grew by 132% y-o-y in Q4FY24, 86% y-o y in FY2024. Banca channel pushed higher sale of ULIPs. Non-par volumes are weak, down 43% y-o-y in Q4FY24. However, the company reported 19% APE growth for policies below Rs 5 lakh in FY2024 and 14% growth in number of policies. Annuities reported a 13% y-o-y decline in Q4FY24. Retail protection APE declined 24% y-o-y in Q4FY24 (higher base) and group protection was down 22% y-o-y. Management cited increased pricing pressure in the retail protection segment. Also credit protection segment's growth moderated as credit disbursals by banks were down and in addition, competitive intensity in the business has increased. Management is targeting APE growth at higher end of the industry growth expected (12–15%) in FY25 and given the competitive intensity it could settle for slightly lower margins prioritising growth.

- **Distribution mix:** The bancassurance channel APE growth was healthy at 20% y-o-y led by higher counter share from parent bank and other banca partners. The agency channel remained a laggard. The management highlighted that higher counter share at parent bank along with partnerships with other banking partner will drive the bancassurance channel's growth. Despite significant investments, agency channel growth remained muted. Management expects gradual pick up in agency channel.

- **Trends in persistency:** Persistency trends were strong across most buckets up 10-570 bps y-o-y.

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	Q3FY24	Y-o-Y (%)	Q-o-Q (%)
New Business Premium	9,535	10,372	7,131	(8.1)	33.7
Net Premium	20,534	19,469	15,273	5.5	34.4
Income from investments	7,254	1,192	11,372	508.8	(36.2)
Other income	79	268	71	(70.6)	11.5
Net Commission	2,164	1,114	1,247	94.3	73.5
Operating Expenses	1,767	2,924	1,779	(39.6)	(0.7)
Benefits paid	12,458	11,226	9,895	11.0	25.9
Surplus/(Deficit)	276	574	63	(51.9)	336.1
PBT	450	273	369	64.6	21.8
PAT	412	362	368	13.7	12.0

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Large opportunity but competition and 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 that 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/ competition, which can impact profitability.

■ Company Outlook – Taking measured steps

HDFC Life is well-placed with a superior product mix and strong distribution channel. A higher share from HDFC Bank, ramping up lower ticket non-par business, higher share from protection segment and investments in overall product portfolio/ distribution channel will likely help sustain market share gains over the medium term. We believe near term growth looks moderate, but we stay 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/2.1x its FY2025E/ FY2026E EVPS. The company remains focused on maintaining a balanced product mix across businesses with leadership in new product launches. The management is confident of gradually catching up the growth driven by lower ticket size segments; focus on tier II/tier III geographies; higher counter share at HDFC Bank, other banca partnerships and investments in agency channel. Despite an adverse product mix change, margins have been managed well. We believe chasing growth over margins is a near-term phenomena. We remain positive on medium to long-term prospects.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/VNB (x)		P/EV (x)		RoEV (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
HDFC Life Insurance Company	606	1,30,283	32.0	28.1	2.4	2.1	17.0	17.0
ICICI Prudential Life Insurance	601	86,538	33.4	28.2	1.9	1.6	15.2	15.5

Source: Company, Sharekhan estimates

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 APE growth, lower VNB margins and 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	HDFC Bank Ltd	50.37
2	EXIDE INDUSTRIES LTD	4.05
3	Republic of Singapore	2.82
4	FMR LLC	2.73
5	Capital Group Cos Inc/The	2.09
6	Vanguard Group Inc/The	1.87
7	JPMorgan Chase & Co	1.70
8	CAMAS INV PTE LTD	1.70
9	BlackRock Inc	1.62
10	SBI Funds Management Ltd	1.54

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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