

# HDFC Life Insurance

ADD

CMP Rs 705

Target Rs 772

Upside 9.6%

## Result Highlights

- ✓ **NBP** – NBP was at Rs 65.6bn was better than our estimate of Rs 62.9bn and registered a growth of 29%. The growth was a contribution of strong of 24% in single premium and healthy growth of 39% in First year premium on yoy basis. For full year basis NBP grew by 16.6% y/y.
- ✓ **APE** – APE at Rs 28.8bn was higher than our estimate of Rs25.8bn. APE growth was at 36.5% yoy and 33.6% on sequential basis. Growth was driven by strong performance across all product classes.
- ✓ **VNB & VNB Margin** – Q4FY21 VNB at Rs 7.7bn was higher than our forecasts of Rs6.9bn, while VNB margin at 27% was ahead of our estimates of 26.7%. On a yoy basis VNB margins improved by 285bps and sequentially margins improved by 54bps. For FY21 VNB margin stood at 26.1% against 25.9% in FY20.
- ✓ **Opex and commission ratios** – Commission ratios saw a marginal increase by 54bps yoy whereas opex ratio improved by 23bps. For Full year FY21, opex ratio saw a sharp fall of 129% and commission ratios declined marginally by 7bps.
- ✓ **EV** – EV stands at Rs266bn, a growth of 29% on yoy basis.
- ✓ **Dividend** – Proposed a final dividend of Rs 2.02 per share

**Our view:** HDFC Life has delivered strong performance yet again with most parameters being ahead of estimates. Going ahead, the company is focusing on term and annuity as key products for growth. Both these segments will be margin accretive. Channel diversification strategy is expected to continue. Furthermore, new bancassurance tie ups are likely to add to growth in FY22. We have raised our estimates to factor in higher unwind rates, stronger margin performance and relatively stronger premium growth expectations. Our APE and VNB estimates for FY22E and FY23E are higher by 5% and 1.2% respectively. With introduction of FY24E estimates in our discounted VNB approach to valuations our fair value has increased to Rs772 (from Rs721 earlier). FY23E P/EV of 3.8x provides a limited upside for a great franchise. Retain ADD.

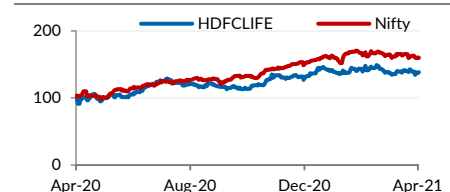
## Exhibit 1: Result Table

	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Gross premium	129,102	106,147	21.6%	96,282	34.1%
Net premium	128,696	104,644	23.0%	94,888	35.6%
NBP	65,598	50,886	28.9%	50,512	29.9%
Renewal premium	63,504	55,261	14.9%	45,770	38.7%
APE	28,810	21,100	36.5%	21,570	33.6%
Commission ratio	4.6%	4.1%	54bps	4.7%	-8bps
Opex ratio	11.7%	12.0%	-23bps	13.8%	-204bps
Surplus	4,307	1,360	216.7%	2,622	64.3%
PAT	3,191	3,117	2.4%	2,634	21.1%
VNB	7,770	5,090	52.7%	5,700	36.3%
VNB Margin	27.0%	24.1%	285bps	26.4%	54bps

## Stock data (as on April 26, 2021)

Sensex:	14,485
52 Week h/l (Rs)	746 / 451
Market cap (Rs/USD mn)	1387075 / 18489
Outstanding Shares	2,021
6m Avg t/o (Rs mn):	2,660
Div yield (%):	NA
Bloomberg code:	HDFCLIFE IN
NSE code:	HDFCLIFE

## Stock performance



	1M	3M	1Y
Absolute return	0.4%	-0.2%	40.5%

## Shareholding pattern (As of Dec'20 end)

Promoter	60.40%
FII+DII	30.72%
Others	8.56%

## Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	772	721

## Financial Summary

	FY22E	FY23E	FY24E
APE	96,691	110,081	125,258
% yoy	15.5%	13.8%	13.8%
VNB	26,107	30,823	35,699
VNB Margin	27.0%	28.0%	28.5%
Reported PAT	16,053	18,232	20,730
% yoy	18.0%	13.6%	13.7%
EV/Share (Rs)	155.6	184.4	218.5
P/EV (x)	4.5	3.8	3.2
P/VNB (x)	54.6	46.2	39.9
RoEV	17.8%	17.8%	17.6%

## Δ in earnings estimates

Rs bn	FY22e	FY23e
VNB (New)	26.1	30.8
VNB (Old)	24.9	30.4
% change	4.8%	1.3%

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## Exhibit 2: Other Business Parameters

	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
<b>APE Mix</b>					
UL	6,370	4,900	30.0%	4,202	51.6%
Par	7,898	5,959	32.5%	6,961	13.5%
Non par	8,092	4,716	71.6%	5,481	47.6%
Protection	2,952	2,539	16.3%	1,626	81.6%
Total individual	24,600	17,500	40.6%	18,270	34.6%
Group	4,210	3,600	16.9%	3,300	27.6%
<b>Total APE</b>	<b>28,810</b>	<b>21,100</b>	<b>36.5%</b>	<b>21,570</b>	<b>33.6%</b>
<b>APE Mix</b>					
UL	22.1%	23.2%	-111bps	19.5%	263bps
Par	27.4%	28.2%	-83bps	32.3%	-486bps
Non par	28.1%	22.4%	574bps	25.4%	268bps
Protection	10.2%	12.0%	-179bps	7.5%	271bps
Total individual	85.4%	82.9%	245bps	84.7%	69bps
Group	14.6%	17.1%	-245bps	15.3%	-69bps
<b>Total APE</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0bps</b>	<b>100.0%</b>	<b>0bps</b>
<b>Distribution mix (Ind)</b>					
Banca	14,074	9,625	46.2%	12,360	13.9%
Agency	3,664	2,450	49.6%	1,909	91.9%
Others	6,862	5,425	26.5%	4,001	71.5%
<b>Distribution mix</b>					
Banca	57.2%	55.0%	221bps	67.7%	-1044bps
Agency	14.9%	14.0%	89bps	10.4%	445bps
Others	27.9%	31.0%	-311bps	21.9%	600bps
<b>Persistency</b>					
13 month	91.4%	88.4%	300bps	92.9%	-150bps
61 month	54.5%	54.6%	-10bps	51.8%	270bps
Income from investments	60,154	(102,299)	-158.8%	115,942	-48.1%

- ✓ **Persistency improvement** – On a yoy basis, persistency improved across all time periods except 61<sup>st</sup> month. Sequentially, persistency improved across all time periods except 13<sup>th</sup> month.
- ✓ **Channel Mix** – Mix of Banca channel and agency increased by 221bps and 89bps respectively on YoY basis, Sequentially, share of banca saw a sharp decline of 1044bps due to higher base in Q3FY21.
- ✓ **APE Mix** – Share of Non-Par business jumped 574bps. This was offset by decline of 111bps, 83bps and 179bps decline in share of ULIPs, Par and Individual Protection respectively.
- ✓ **Profits** - PAT came at Rs3.1bn, growing by 2.4% on yoy basis and robust growth of 21.1% sequentially.

## CON-CALL HIGHLIGHTS

**Overall outlook:** Expect growth through annuity and term products, VNB Margin to improve led by par and protection business, Job concerns are lower during the second wave and customers sitting on the side lines will convert into buyers, H1 will be marginally better in terms of protection, Savings will definitely do better

### Products

- ✓ Protection: 50% growth in 3Q was unusual, opportunity is significant but growth will be calibrated, underwriting is getting complex with entry into different age groups, geographical areas, income groups, in the medium term growth will be faster than the company level, ROP product launched in Q4 on back of customer demand, sub one-fourth of business is ROP but can increase going ahead
- ✓ Reinsurance in protection – As of now no explicit communication to increase prices, India rates are lower, not inconceivable for rate hike in future
- ✓ Balanced product mix strategy to continue, Not averse to sell ULIPs but profitability of the channel is the key, term and annuity will remain focus strategy

### EV & VNB

- ✓ VNB Margin improvement: Shift towards group protection in Q4 as financial institutions business started coming back, grew by 26% in Q4, Individual protection margin in Q4 was better than earned in 9m, Par and protection margins will contribute to improvement, focus on channel profitability
- ✓ Assumption change Rs1.8bn of which Rs1.24bn was provision for COVID Reserve, further impact was owing to strengthening of overall mortality assumption, positive assumption because of persistency and expenses being better.
- ✓ Lower growth in credit protection impacted VNB as cost absorption was a challenge, Q4 growth of 26% yoy but full year was down 20%+

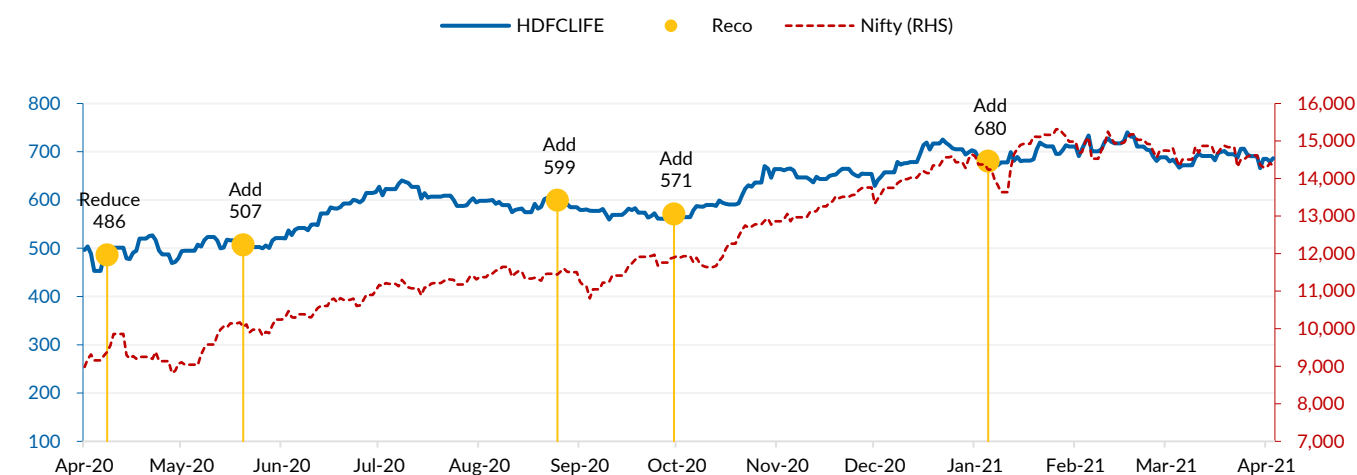
### Distribution:

- ✓ Banca partners reaching out to tier 2 towns, Ujjivan, Equitas, Utkarsh, Bandhan have strong presence in these towns, also looking to strengthen the agency presence in these towns, HDFC Bank has done very well because – distribution expansion was done by them, IDFC has grown as well, 2 year CAGR 15%, Looking for growth from new banca partners
- ✓ Direct business muted performance was in line with expectations. Branch sales model was weak as customer walk ins were much lower and sales force in the field was also asked to be cautious. H2 was decent growth. Restricted ULIP sales. Web aggregator started with protection but now diversification with customers buying other products as well, Aggregator is 4-5% 35-40% is protection, tier 2-3 contribute more than 50%, In Q1 online channel was the only one to grow, trends in google searches started normalizing, Online looks flat but its lot more profitable due to change in product mix. (Higher share of Non-Par business, Par will take some more time for to become more digital as its still needs additional understanding for the customer
- ✓ Agency: Few most profitable in the industry, among the highest persistency in the market, term share is higher than peers, potential to grow term business is huge, 2 year CAGR 19%
- ✓ Few of the branches had to be shutdown, some slow down in the past few days

## Financials

- ✓ COVID Reserve: FY20 hit P&L Rs410mn, BS Hit Rs410mn, FY21 P&L Hit Rs1,200mn BS Hit Rs1,650mn, As against expectations of Rs23.5bn claim outgo actual payout was Rs24.12bn
- ✓ Solvency: 190% + even after dividend payment, maxed out in terms of debt raising
- ✓ COVID death claims Rs1.45bn on net basis, Rs2.31bn on gross basis, overall total 2,324 cases
- ✓ Unwind rate: FY20 markets were falling and hence were extra cautious about economic impact, recalibrated the assumption higher

## Recommendation Tracker



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