

ICICI Securities Limited
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Q4FY21 result review
and reco change

Insurance

Target price: Rs841

Target price revision

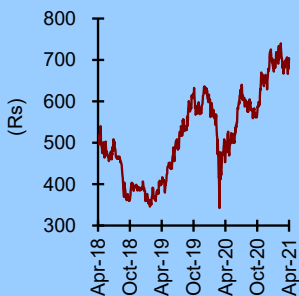
Rs841 from Rs767

Shareholding pattern

| | Sep '20 | Dec '20 | Mar '21 |
|-------------------------|---------|---------|---------|
| Promoters | 60.4 | 58.9 | 58.9 |
| Institutional investors | 30.7 | 31.9 | 31.9 |
| MFs and others | 5.3 | 5.0 | 4.3 |
| Banks / FIs | 0.1 | 1.2 | 1.1 |
| Insurance Cos. | 1.1 | 0.1 | 1.2 |
| FIs | 23.4 | 25.6 | 26.3 |
| Others | 8.9 | 9.2 | 9.2 |

Source: CMIE

Price chart



INDIA

ICICI Securities

HDFC Life Insurance Company

BUY

Upgrade from ADD

Strong FY21 validates execution capability

Rs704

HDFC Life (HDLI) has pulled off a strong FY21 with 14%/13% VNB/APE growth on FY20 APE base of >Rs70bn. This was driven by banca (29% individual APE growth in FY21) and par (107% individual APE growth in FY21). With available growth levers for volumes as well as margins, we remain optimistic on the company's ability to maintain more than 15% APE growth trajectory with improving margins. Upgrade to BUY (from Add).

- **Multiple growth levers** remain in place: 1) recovery of credit protect NBP (26% YoY growth in Q4FY21 though it declined 19% in FY21) (this was always an available lever and will remain so in FY22E notwithstanding possible disruption due to covid second wave; this is also a margin lever); 2) higher growth in agency/direct business, up 8% / 0.1% in FY21 (HDLI also forged new partnerships in FY21 with Yes Bank, SBI Capital Markets, State Bank of Mauritius, Doha Bank, Edelweiss); 3) better enablement of medical underwriting (HDLI followed a calibrated growth strategy in retail protection due to supply-side constraints and headwinds to medical testing, especially beyond tier-1 locations).
- **Banca / PAR outperformed in FY21 (whereas direct / agency / non-par outperformed in FY19 and FY20).** ULIP APE improved from Rs2.9bn in Q1FY21 to Rs3.6bn in Q2FY21, Rs4.2bn in Q3FY21 and Rs6.4bn in Q4FY21. Credit protect (NBP basis) also witnessed steady recovery from Rs2.4bn in Q1FY21 to Rs7bn in Q2FY21, Rs10bn in Q3FY21 and Rs14.8bn in Q4FY21. Total protection remained flat in Q4FY21 as retail protection decline (6.5% YoY) got offset with growth in group protection (5.9% YoY). Retail / group protection APE was Rs1.2bn / Rs0.4bn in Q1FY21, Rs1.44bn / Rs1.1bn in Q2FY21, Rs0.7bn / Rs2.4bn in Q3FY21, and Rs1.7bn / Rs1.8bn in Q4FY21. Basis individual APE, non-par savings grew 78% / (-)12% in Q4/FY21 and par savings grew 32% / 107% in Q4FY21 / FY21, while annuity was up 76% / 45% in Q4 / FY21.
- **Operating performance has improved** with better persistency in four out of five cohorts (FY21 13m / 25m / 37m / 49m persistency improved by 160bps / 400bps / 90bps / 240bps) while the FY21 cost ratio [(commission + operating expenses) / total premium (including renewals)] stood at 16.3%, which is lower than the 17.6% in FY20. Negative mortality variance on account of excess covid claims was offset by positive variance on persistency and expenses. Company has increased mortality assumptions by Rs1.8bn, already factored in our EV estimates.
- **Upgrade from Add to BUY.** We factor VNB margins of 28% / 30% with APE growth of 18% / 15% in FY22E / FY23E. We expect HDLI to accumulate Rs60bn of new business and Rs46.4bn of unwind (@ 8%) over FY22E / FY23E to reach an embedded value (EV) of Rs373bn by FY23E. We value HDLI based on 40x new business value of Rs33bn in FY23E to arrive at a target price of Rs841. At our target price, the stock will trade at 4.5x FY23E P/EV.

| Market Cap | Rs1424bn/US\$19bn | Year to Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------|---------------------|----------------------------|--------|--------|--------|--------|
| Reuters/Bloomberg | HDFL.BO/HDFCLIFE IN | Weighted APE (Rs mn) | 71.6 | 81.0 | 95.6 | 109.9 |
| Shares Outstanding (mn) | 2,020.9 | Embedded Value (Rs bn) | 207 | 266 | 314 | 373 |
| 52-week Range (Rs) | 740/469 | New business value (Rs bn) | 19.2 | 21.9 | 26.8 | 33.1 |
| Free Float (%) | 41.1 | VNB margin (%) | 25.9 | 26.1 | 28.0 | 30.1 |
| FII (%) | 26.3 | PAT (Rs mn) | 12,975 | 13,609 | 16,349 | 21,591 |
| Daily Volume (US\$'000) | 40,128 | P/EV (x) | 6.9 | 5.4 | 4.5 | 3.8 |
| Absolute Return 3m (%) | 3.5 | EVOP as % of IEV | 18.1 | 18.5 | 18.1 | 18.5 |
| Absolute Return 12m (%) | 55.4 | RoE (%) | 20.8 | 17.6 | 18.0 | 20.9 |
| Sensex Return 3m (%) | 0.2 | RoEV (%) | 12.9 | 28.9 | 18.1 | 18.5 |
| Sensex Return 12m (%) | 56.1 | Dividend per share (Rs) | - | 2.0 | 2.5 | 3.0 |

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Table 1: Q4FY21 result review

(Rs mn, year ending March)

| Policyholder's account (Rs mn) | FY20 | | | | FY21 | | | | Change | |
|---------------------------------------|---------------|---------------|-----------------|-------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | YoY (%) | QoQ (%) |
| Net premium income | 64,572 | 74,569 | 78,550 | 1,04,760 | 57,337 | 1,00,454 | 94,888 | 1,28,696 | 22.8 | 35.6 |
| First year premium | 13,266 | 14,527 | 15,430 | 17,220 | 10,218 | 16,752 | 17,722 | 23,892 | 38.7 | 34.8 |
| Renewal premium | 26,098 | 35,668 | 37,656 | 55,262 | 32,391 | 43,104 | 45,770 | 63,504 | 14.9 | 38.7 |
| Single premium | 25,994 | 25,357 | 26,925 | 33,667 | 16,016 | 41,970 | 32,790 | 41,706 | 23.9 | 27.2 |
| Reinsurance ceded (786) | (984) | (1,461) | (1,389) | (1,389) | (1,288) | (1,371) | (1,394) | (406) | | |
| Income from investments | 20,514 | 11,351 | 37,326 | (1,02,299) | 87,491 | 63,188 | 1,15,942 | 60,154 | | (48.1) |
| Other income | 334 | 482 | 530 | 1,093 | 380 | 431 | 357 | 666 | (39.1) | 86.7 |
| Transfer from S/H A/C | - | 211 | 88 | 748 | - | 74 | 99 | 2,413 | | |
| Total income | 85,420 | 86,613 | 1,16,494 | 4,301 | 1,45,208 | 1,64,148 | 2,11,286 | 1,91,929 | | (9.2) |
| Commission paid | 3,222 | 3,655 | 3,520 | 4,240 | 2,381 | 4,166 | 4,414 | 5,801 | 36.8 | 31.4 |
| Operating expense | 8,820 | 10,953 | 10,600 | 12,571 | 6,691 | 11,095 | 13,141 | 15,275 | 21.5 | 16.2 |
| Total commission & Opex | 12,042 | 14,608 | 14,119 | 16,811 | 9,071 | 15,261 | 17,555 | 21,076 | 25.4 | 20.1 |
| Benefits paid | 36,634 | 42,279 | 58,112 | 53,326 | 28,050 | 47,687 | 61,964 | 88,424 | 65.8 | 42.7 |
| Change in actuarial liability | 31,197 | 26,411 | 39,965 | (73,165) | 1,04,943 | 98,849 | 1,28,278 | 76,227 | (204.2) | (40.6) |
| Total Expenses | 79,873 | 83,298 | 1,12,196 | (3,028) | 1,42,064 | 1,61,797 | 2,07,797 | 1,85,727 | (6,233.9) | (10.6) |
| Provisions | 841 | 579 | 496 | 3,759 | (571) | 32 | (445) | (901) | | |
| Service Tax on linked products | 849 | 863 | 891 | 930 | 824 | 886 | 900 | 958 | 3.0 | 6.4 |
| PBT | 3,857 | 1,874 | 2,912 | 2,641 | 2,891 | 1,433 | 3,035 | 6,145 | 132.7 | 102.5 |
| Tax | 48 | (244) | 464 | 1,222 | 316 | 177 | 413 | 1,838 | 50 | 345 |
| Surplus/(Deficit) | 3,808 | 2,118 | 2,448 | 1,419 | 2,575 | 1,256 | 2,622 | 4,307 | 203.5 | 64.3 |
| | - | - | - | - | - | - | - | - | | |
| Shareholders' Account | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | YoY (%) | QoQ (%) |
| Transfer from P/H A/C | 3,547 | 2,191 | 1,679 | 4,575 | 3,526 | 2,160 | 1,277 | 2,832 | (38.1) | 121.7 |
| Investment income | 966 | 1,425 | 1,160 | 999 | 913 | 1,416 | 1,547 | 2,774 | 177.7 | 79.3 |
| Other income | - | - | - | - | - | - | - | - | | |
| Total income | 4,513 | 3,616 | 2,839 | 5,574 | 4,439 | 3,576 | 2,824 | 5,606 | 0.6 | 98.5 |
| Other expenses | 31 | 79 | 76 | 192 | 80 | 156 | 199 | 257 | 34.1 | 29.0 |
| Amounts trf to P/H account | - | 211 | 88 | 748 | - | 74 | 99 | 2,413 | | |
| Provisions | 102 | 56 | 158 | 1,790 | (147) | 67 | (128) | (167) | | |
| PBT | 4,380 | 3,271 | 2,645 | 2,844 | 4,507 | 3,280 | 2,654 | 3,103 | 9.1 | 16.9 |
| Tax | 123 | 181 | 134 | (272) | 1 | 1 | 20 | (89) | | |
| PAT | 4,257 | 3,090 | 2,511 | 3,117 | 4,505 | 3,278 | 2,634 | 3,191 | 2.4 | 21.2 |
| Check | - | - | - | - | - | - | - | - | | |
| Ratios | Q1FY20 | 1HFY20 | 9MFY20 | 12MFY20 | Q1FY21 | H1FY21 | 9MFY21 | 12FY21 | YoY (%) | QoQ (%) |
| Commission expense- | 7.7 | 7.3 | 6.9 | 5.6 | 5.4 | 6.0 | 6.3 | 6.3 | 74.5 | 7.4 |
| Opex ratio -weighted premium | 21.0 | 20.9 | 20.2 | 16.6 | 15.1 | 16.4 | 17.7 | 16.7 | 10.8 | (98.7) |
| Reported APE Data | Q1FY20 | 1HFY20 | 9MFY20 | 12MFY20 | Q1FY21 | H1FY21 | 9MFY21 | 12FY21 | YoY (%) | QoQ (%) |
| Individual APE | 13,780 | 28,650 | 43,940 | 61,450 | 10,700 | 28,340 | 46,610 | 71,210 | 15.9 | 52.8 |
| Group APE | 3,320 | 6,080 | 9,020 | 12,557 | 1,280 | 5,000 | 8,300 | 12,510 | -0.4 | 50.7 |
| New Business APE | 17,100 | 34,730 | 52,960 | 74,007 | 11,980 | 33,340 | 54,910 | 83,720 | 13.1 | 52.5 |
| Other ratios (%) | Q1FY20 | 1HFY20 | 9MFY20 | 12MFY20 | Q1FY21 | H1FY21 | 9MFY21 | 12FY21 | YoY (bps) | QoQ (bps) |
| Solvency ratio | 193.0 | 192.0 | 195.0 | 184.0 | 190.0 | 203.0 | 202.0 | 201.0 | 1700.0 | (100.0) |
| Op. ROEV | 19.9 | 19.6 | 19.0 | 18.1 | 15.8 | 17.6 | 18.3 | 18.5 | 40.0 | 20.0 |
| ROE | 28.9 | 24.3 | 21.3 | 20.5 | 25.0 | 21.0 | 18.4 | 17.6 | (290.0) | (80.0) |
| VNB margins | 29.8 | 27.5 | 26.6 | 25.9 | 24.3 | 25.1 | 25.6 | 26.2 | 25.9 | 51.7 |
| Persistency ratios (%) | Q1FY20 | 1HFY20 | 9MFY20 | 12MFY20 | Q1FY21 | H1FY21 | 9MFY21 | 12FY21 | YoY (bps) | QoQ (bps) |
| 13th Month | 88.8 | 89.1 | 88.8 | 90.1 | 87.0 | 90.5 | 90.7 | 91.7 | 160.0 | 100.0 |
| 25th Month | 77.6 | 80.2 | 80.2 | 80.2 | 80.8 | 82.4 | 83.2 | 84.2 | 400.0 | 100.0 |
| 37th Month | 71.4 | 73.8 | 71.5 | 73.8 | 69.5 | 72.9 | 73.1 | 74.7 | 90.0 | 160.0 |
| 49th Month | 67.3 | 67.2 | 63.6 | 67.2 | 64.9 | 68.1 | 68.7 | 69.6 | 240.0 | 90.0 |
| 61st Month | 55.5 | 55.0 | 52.6 | 55.0 | 54.4 | 54.4 | 54.2 | 54.4 | (60.0) | 20.0 |
| Key Metrics (Rs bn) | Q1FY20 | 1HFY20 | 9MFY20 | 12MFY20 | Q1FY21 | H1FY21 | 9MFY21 | 12FY21 | YoY (%) | QoQ (%) |
| VNB | 5.1 | 9.6 | 14.07 | 19.2 | 2.9 | 8.4 | 14.08 | 21.90 | 14.1 | 55.5 |
| EV | 192 | 201 | 208 | 206.5 | 226 | 233 | 251 | 266 | 28.9 | 6.3 |
| AUM | 1,296 | 1,310 | 1,044 | 1,272 | 1,400 | 1,500 | 1,700 | 1,743 | 37.0 | 2.5 |
| <i>equity portion(%)</i> | 38 | 37 | 37 | 29 | 32 | 33 | 36 | 36 | 700.0 | - |

Source: Company data, I-Sec research

Table 2: APE and VNB projections

| Rs bn | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------|-------|-------|-------|-------|-------|
| Weighted APE | 60.5 | 71.6 | 81.0 | 95.6 | 109.9 |
| VNB | 15.4 | 19.2 | 21.9 | 28.8 | 33.1 |
| VNB margin | 24.6% | 25.9% | 26.1% | 28.0% | 30.1% |

Source: Company data, I-Sec research

Table 3: EV projections

| EV change – Rs bn | FY19 | FY20E | FY21E | FY22E | FY23E |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Opening EV | 152.2 | 183.0 | 206.5 | 266.2 | 314.3 |
| Assumption changes | - | - | - | - | - |
| New business profits | 15.4 | 19.2 | 21.9 | 26.8 | 33.1 |
| Expense overrun | | | | | |
| Expected return on inforce | 13.0 | 13.7 | 17.4 | 21.3 | 25.1 |
| - Unwind rate (%) | 8.5% | 7.5% | 8.4% | 8.0% | 8.0% |
| Operating variance / Tax changes | 2.2 | 0.3 | (1.0) | - | - |
| EVOP | 30.6 | 33.2 | 38.3 | 48.1 | 58.3 |
| Changes in economic assumptions | | | | | |
| Economic variance | 3.6 | (10.0) | 20.6 | 2.0 | 2.0 |
| Dividend Payout | (3.4) | (0.4) | 0.8 | (2.0) | (2.0) |
| Closing MCEV | 183.0 | 206.5 | 266.2 | 314.3 | 372.5 |
| - Closing VIF | 124.3 | 134.6 | 176.3 | 215.3 | 257.9 |
| - Closing net worth | 58.8 | 71.9 | 89.8 | 99.0 | 114.5 |

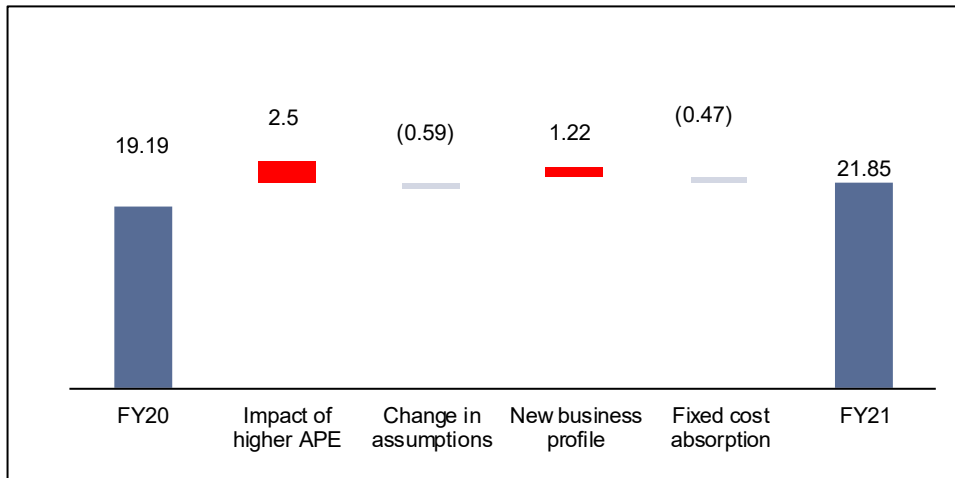
Source: Company data, I-Sec research

Table 4: Valuation

| | FY23E |
|---------------------------------------|------------|
| Embedded Value (Rs bn) | 373 |
| Value of New Business (Rs bn) | 33 |
| New Business Multiple | 40 |
| Total appraisal value | 1,697 |
| Number of shares, mn | 2,017 |
| Valuation per share | 841 |
| Implied Price / Embedded value | 4.6 |

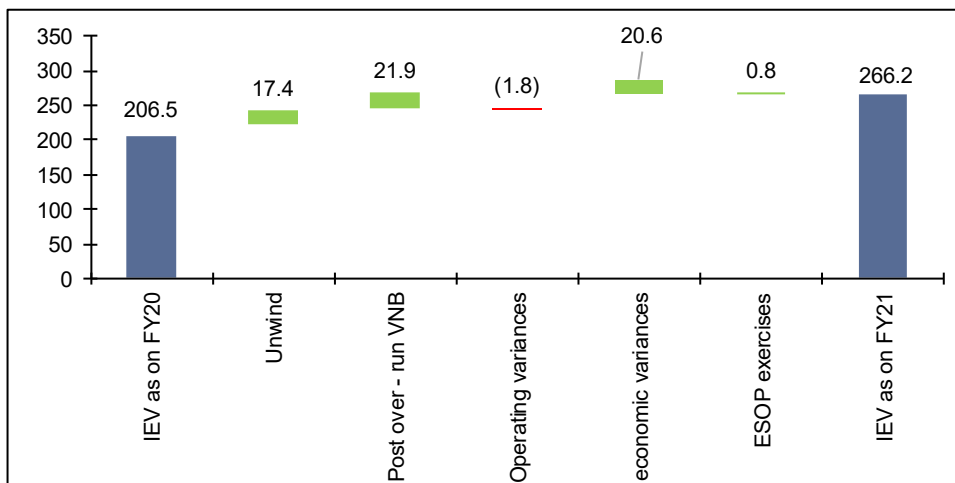
Source: Company data, I-Sec research

Chart 1: FY21 VNB grew 14% YoY led by higher APE



Source: Company data, I-Sec research

Chart 2: IEV movement analysis



Source: Company data, I-Sec research
IEV - Indian Embedded Value

Table 5: Total APE (absolute)*(Rs bn)*

| Total APE (Absolute) | Q1 | Q2 | Q3 | 9M | Q4 | | Q1 | Q2 | Q3 | 9M | Q4 | | Q4 | |
|-------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | FY20 | FY20 | FY20 | FY20 | FY20 | | FY20 | FY21 | FY21 | FY21 | FY21 | | FY21 | |
| UL | 3.6 | 3.7 | 4.9 | 12.2 | 4.8 | 17.0 | 2.9 | 3.8 | 4.3 | 11.0 | 5.8 | 16.7 | 19% | -2% |
| Par | 0.9 | 1.9 | 3.0 | 5.8 | 6.0 | 11.8 | 3.2 | 6.1 | 6.6 | 15.9 | 8.4 | 24.3 | 39% | 105% |
| Non par savings | 7.9 | 7.8 | 5.0 | 20.7 | 4.5 | 25.2 | 3.0 | 5.7 | 5.1 | 13.7 | 8.0 | 21.8 | 78% | -13% |
| Group savings | 1.0 | 1.1 | 1.1 | 3.2 | 1.3 | 4.4 | 0.7 | 2.3 | 1.4 | 4.4 | 1.5 | 5.9 | 16% | 32% |
| Term | 3.1 | 2.8 | 3.1 | 9.0 | 3.6 | 12.6 | 1.6 | 2.4 | 3.1 | 7.1 | 3.7 | 10.9 | 5% | -13% |
| Individual | - | - | - | 3.2 | - | - | - | - | 1.0 | 3.3 | 1.7 | 5.0 | | |
| Group | - | - | - | 5.8 | - | - | - | - | 2.2 | 3.8 | 2.0 | 5.9 | | |
| Annuity | 0.7 | 0.7 | 0.2 | 1.6 | 1.4 | 3.0 | 0.6 | 1.1 | 1.1 | 2.7 | 1.4 | 4.2 | 5% | 41% |

Source: Company, I-Sec research

Table 6: Total APE (mix)

| | Q1 | Q2 | Q3 | 9M | Q4 | | Q1 | Q2 | Q3 | 9M | Q4 | | Q4 | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | FY20 | FY20 | FY20 | FY20 | FY20 | | FY20 | FY21 | FY21 | FY21 | FY21 | | FY21 | |
| UL | 21.0% | 21.0% | 26.8% | 23.0% | 23.0% | 23.0% | 24.0% | 17.8% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% |
| Par | 5.0% | 10.9% | 16.7% | 11.0% | 28.6% | 16.0% | 27.0% | 28.6% | 30.5% | 29.0% | 29.0% | 29.0% | 29.0% | 29.0% |
| Non par savings | 46.0% | 44.0% | 27.6% | 39.0% | 21.4% | 34.0% | 25.0% | 26.6% | 23.5% | 25.0% | 27.9% | 27.9% | 26.0% | 26.0% |
| Group savings | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 10.7% | 6.5% | 8.0% | 5.1% | 7.0% | 7.0% | 7.0% |
| Term | 18.0% | 16.0% | 17.0% | 17.0% | 17.0% | 17.0% | 13.0% | 11.4% | 14.5% | 13.0% | 13.0% | 13.0% | 13.0% | 13.0% |
| Individual | | | | | | | | | 4.5% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| Group | | | | | | | | | 10.1% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% |
| Annuity | 4.0% | 4.0% | 1.1% | 3.0% | 6.5% | 4.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |

Source: Company, I-Sec research

Table 7: Individual APE

| <i>(Rs bn)</i> | Q1 | Q2 | Q3 | 9M | Q4 | | Q1 | Q2 | Q3 | 9M | Q4 | | Q4 | |
|-----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | FY20 | FY20 | FY20 | FY20 | FY20 | | FY20 | FY21 | FY21 | FY21 | FY21 | | FY21 | |
| UL | 3.6 | 3.9 | 4.9 | 12.3 | 4.9 | 17.2 | 2.9 | 3.6 | 4.2 | 10.7 | 6.4 | 17.1 | 30% | -1% |
| Par | 0.8 | 1.8 | 3.1 | 5.7 | 6.0 | 11.7 | 3.2 | 6.1 | 7.0 | 16.3 | 7.9 | 24.2 | 32% | 107% |
| Non par savings | 8.0 | 7.5 | 5.2 | 20.7 | 4.5 | 25.2 | 3.0 | 5.5 | 5.5 | 14.0 | 8.1 | 22.1 | 78% | -12% |
| Term | 0.7 | 1.0 | 1.4 | 3.1 | 1.8 | 4.9 | 1.2 | 1.4 | 0.7 | 3.3 | 1.7 | 5.0 | -6% | 1% |
| Annuity | 0.7 | 0.5 | 0.6 | 1.8 | 0.7 | 2.5 | 0.5 | 0.9 | 0.9 | 2.3 | 1.2 | 3.6 | 76% | 45% |

Source: Company, I-Sec research

Table 8: Individual APE – Mix trend

| | Q1 | Q2 | Q3 | 9M | Q4 | | Q1 | Q2 | Q3 | 9M | Q4 | | Q4 | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | FY20 | FY20 | FY20 | FY20 | FY20 | | FY20 | FY21 | FY21 | FY21 | FY21 | | FY21 | |
| UL | 26.0% | 26.0% | 31.7% | 28.0% | 28.0% | 28.0% | 27.0% | 20.6% | 23.0% | 23.0% | 25.9% | 24.0% | 24.0% | 24.0% |
| Par | 6.0% | 11.8% | 20.5% | 13.0% | 34.1% | 19.0% | 30.0% | 34.8% | 38.1% | 35.0% | 32.1% | 34.0% | 34.0% | 34.0% |
| Non par savings | 58.0% | 50.3% | 33.9% | 47.0% | 25.9% | 41.0% | 28.0% | 31.2% | 30.0% | 30.0% | 32.9% | 31.0% | 31.0% | 31.0% |
| Term | 5.0% | 6.9% | 8.9% | 7.0% | 10.5% | 8.0% | 11.0% | 7.8% | 3.9% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% |
| Annuity | 5.0% | 3.1% | 4.0% | 4.0% | 4.0% | 4.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |

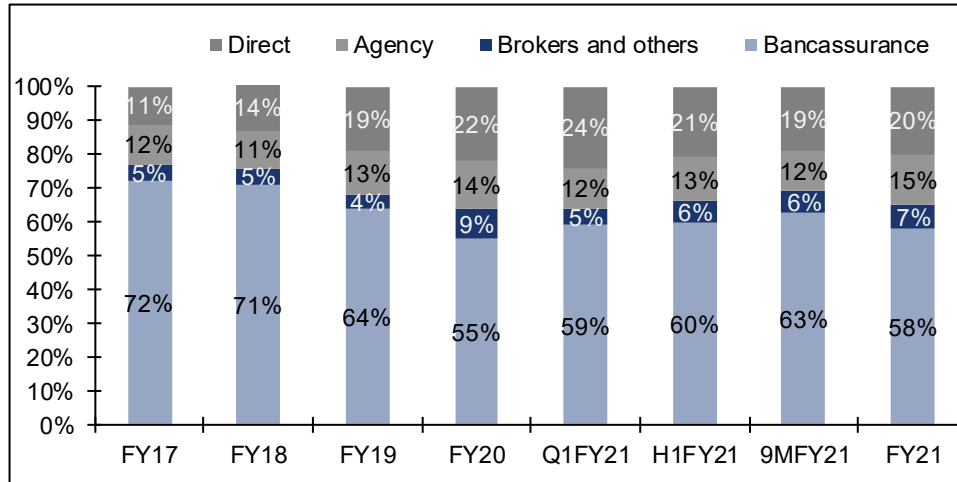
Source: Company, I-Sec research

Table 9: Protection APE trend

| <i>(Rs bn)</i> | Q1 | Q2 | Q3 | 9M | Q4 | | Q1 | Q2 | Q3 | 9M | Q4 | | Q4 | |
|------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | FY20 | FY20 | FY20 | FY20 | FY20 | | FY20 | FY21 | FY21 | FY21 | FY21 | | FY21 | |
| Total Protection | 2.2 | 3.7 | 3.1 | 9.0 | 3.6 | 12.6 | 1.6 | 2.4 | 3.1 | 7.1 | 3.6 | 10.7 | 0% | -15% |
| Individual | 0.7 | 1.0 | 1.4 | 3.1 | 1.8 | 4.9 | 1.2 | 1.4 | 0.7 | 3.3 | 1.7 | 4.98 | -6% | 1% |
| Group | 1.5 | 2.7 | 1.7 | 5.9 | 1.7 | 7.7 | 0.4 | 1.1 | 2.4 | 3.9 | 1.8 | 5.72 | 6% | -25% |

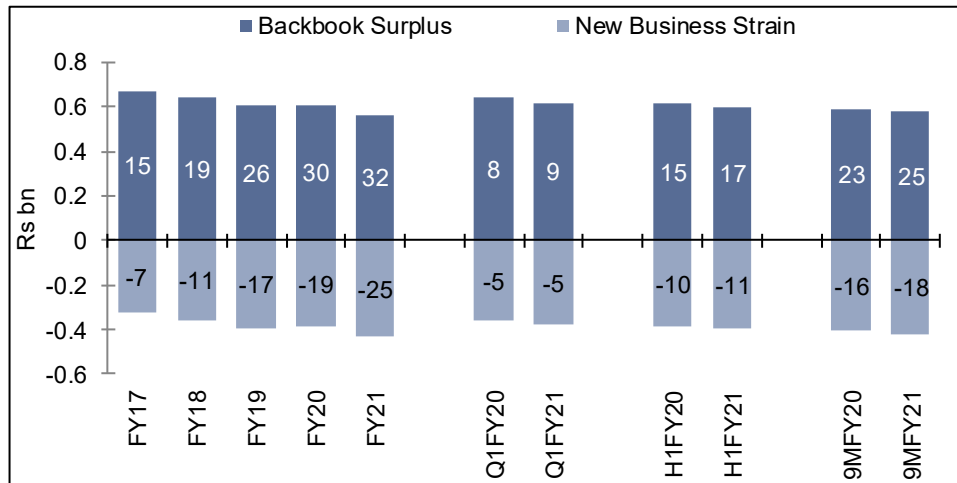
Source: Company, I-Sec research

Chart 3: Share of direct channel (basis individual APE) stood at 20%



Source: Company data, I-Sec research

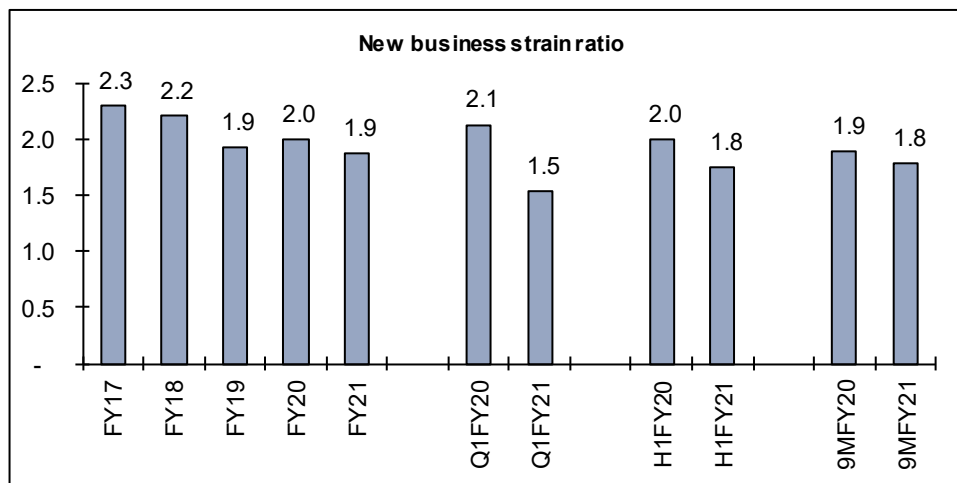
Chart 4: Focus remains on profitable growth



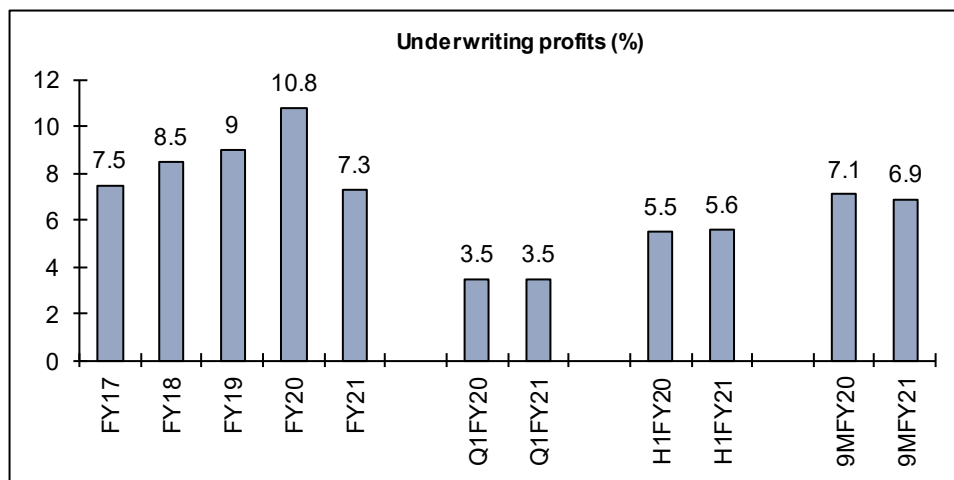
Source: Company data, I-Sec research

Efficacy of new business strain:
Based on quarterly calculations $(VNB + \text{New business strain}) / \text{New business strain}$ had increased from 2 in FY20 to 1.9 in FY21. This will move in line with margin

Chart 5: Efficacy of new business strain



Source: Company data, I-Sec research

Chart 6: Underwriting profits are comparable YoY

Source: Company data, I-Sec research

Table 10: Milliman review of ALM framework of HDLI's non-par business (split between two portfolios of non-par savings and annuity portfolio) points to limited impact of decrease in interest rates on shareholder value

| Description | Stress scenarios tested | Net asset liability position |
|---|---|------------------------------|
| Interest rate scenarios | Parallel shifts/ shape changes in yield curve within +/- 150 bps of March 31st 2020 G-Sec yield curve | Changes by < 4.5% |
| Interest rate + Demographic scenarios | Interest rate variation + changes in future persistency/ mortality experience | Changes by < 7% |
| 100% persistency and low interest rates | 100% persistency with interest rates falling to 4% p.a. for next 5 years, 2% p.a. for years 6 -10 and 0% thereafter | Still remains positive |

Source: Company data, I-Sec research

Table 11: EV and VNB sensitivity

| Scenario | Overall (FY21) | | Non par (FY21) | |
|-------------------|----------------|------------|----------------|------------|
| | EV | VNB Margin | EV | VNB Margin |
| Interest Rate +1% | (2.2%) | (1.5%) | (2.3%) | (2.9%) |
| Interest Rate -1% | 1.6% | 0.9% | 1.2% | 1.8% |

Source: Company data, I-Sec research

Table 12: Sensitivity analysis

| | Change in VNB Margin | % Change in EV |
|---------------------------|----------------------|----------------|
| Reference rate | Increase by 1% | -1.5% |
| | Decrease by 1% | 0.9% |
| Equity Market movement | Decrease by 10% | -0.1% |
| | Increase by 10% | -0.3% |
| Persistency (Lapse rates) | Decrease by 10% | 0.3% |
| | Increase by 10% | -0.5% |
| Maintenance expenses | Decrease by 10% | 0.5% |
| | Increase by 10% | -3.1% |
| Acquisition Expenses | Decrease by 10% | 3.1% |
| | Increase by 5% | -1.0% |
| Mortality / Morbidity | Decrease by 5% | 1.0% |
| | Increased to 25% | -4.8% |
| Tax rate | | -8.3% |

Source: Company data, I-Sec research

Financial summary

Table 13: Technical A/C
(Rs mn, year ending March)

| | FY19 | FY20 | FY21P | FY22E | FY23E |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Gross Premiums | 2,91,860 | 3,27,069 | 3,85,835 | 4,76,185 | 5,76,823 |
| Reinsurance Ceded | (2,620) | (4,619) | (4,347) | (5,840) | (5,840) |
| Net Premiums | 2,89,240 | 3,22,450 | 3,81,488 | 4,70,345 | 5,70,983 |
| Income from Investments | 90,275 | (33,109) | 3,26,776 | 1,45,064 | 1,74,184 |
| Other Income | 4,840 | 3,487 | 4,420 | 4,455 | 4,802 |
| Total income | 3,84,355 | 2,92,828 | 7,12,683 | 6,19,864 | 7,49,969 |
| Commission | 11,177 | 14,912 | 17,104 | 22,402 | 27,152 |
| Operating expenses | 38,136 | 42,669 | 45,860 | 60,827 | 73,665 |
| Total commission and opex | 49,313 | 57,581 | 62,964 | 83,229 | 1,00,817 |
| Benefits Paid incl. bonus | 1,39,889 | 1,90,350 | 2,26,126 | 2,25,395 | 2,72,876 |
| Chg. in reserves | 1,75,075 | 24,408 | 4,08,296 | 2,85,295 | 3,45,801 |
| Total expenses | 3,64,276 | 2,72,339 | 6,97,386 | 5,93,919 | 7,19,494 |
| Prov. for doubtful debts | 905 | 5,674 | (1,885) | 1,300 | 1,300 |
| Profit before tax | 19,174 | 14,815 | 17,183 | 24,645 | 29,175 |
| Tax (incl. Service Tax & GST) | 5,666 | 5,023 | 6,311 | 10,149 | 11,493 |
| Surplus / Deficit | 13,508 | 9,792 | 10,872 | 14,497 | 17,682 |

Source: Company data, I-Sec research

Table 14: Shareholders' A/C
(Rs mn, year ending March)

| | FY19 | FY20 | FY21P | FY22E | FY23E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Transfer from P/H A/C | 12,069 | 11,992 | 9,796 | 12,425 | 15,106 |
| Income From Investments | 4,084 | 4,535 | 6,840 | 6,750 | 9,721 |
| Total Income | 16,364 | 16,726 | 16,668 | 19,207 | 24,858 |
| Other expenses | 278 | 561 | 912 | 1,049 | 1,206 |
| Contribution to technical a/c | 3,090 | 1,048 | 2,586 | 1,849 | 1,992 |
| Total Expenses | 3,465 | 3,587 | 3,125 | 2,524 | 2,826 |
| PBT | 12,899 | 13,139 | 13,543 | 16,682 | 22,032 |
| Prov for Tax | 131 | 165 | (66) | 334 | 441 |
| PAT | 12,768 | 12,975 | 13,609 | 16,349 | 21,591 |

Source: Company data, I-Sec research

Table 15: Balance sheet
(Rs mn, year ending March)

| | FY19 | FY20 | FY21P | FY22E | FY23E |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Share Capital | 20,178 | 20,244 | 20,229 | 20,229 | 20,229 |
| Reserves And Surplus | 36,278 | 49,742 | 64,094 | 75,386 | 90,908 |
| Shareholders' Fund | 56,426 | 68,066 | 86,398 | 95,565 | 1,11,087 |
| Policy Liabilities | 5,36,619 | 6,53,126 | 8,55,763 | 10,98,778 | 13,82,296 |
| Prov. for Linked Liab. | 6,05,213 | 5,08,442 | 7,09,635 | 6,22,823 | 6,85,105 |
| Funds For Future App. | 39,592 | 42,209 | 47,866 | 43,887 | 46,264 |
| Current liabilities & prov. | 51,188 | 49,899 | 65,201 | 78,241 | 93,889 |
| Total | 13,00,158 | 13,22,239 | 17,96,412 | 19,53,293 | 23,32,642 |
| Shareholders' inv. | 50,360 | 58,850 | 85,236 | 94,775 | 96,672 |
| Policyholders' inv. | 5,71,245 | 6,71,886 | 9,05,378 | 11,33,072 | 14,30,994 |
| Assets to cover linked liab. | 6,33,774 | 5,41,821 | 7,47,595 | 6,55,603 | 7,21,163 |
| Loans | 796 | 2,991 | 4,241 | 5,089 | 6,106 |
| Fixed Assets | 3,339 | 3,307 | 3,415 | 4,098 | 4,918 |
| Current assets | 40,645 | 43,384 | 50,547 | 60,657 | 72,788 |
| Total | 13,00,158 | 13,22,239 | 17,96,412 | 19,53,293 | 23,32,642 |

Source: Company data, I-Sec research

Table 16: Premium details*(Rs mn, year ending March)*

| | FY19 | FY20 | FY21P | FY22E | FY23E |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| New business premium | 1,49,715 | 1,72,385 | 2,00,828 | 2,40,994 | 2,89,192 |
| Total weighted APE | 60,494 | 71,637 | 81,021 | 1,00,058 | 1,20,069 |
| Renewal premium | 1,42,146 | 1,54,684 | 1,93,614 | 2,35,191 | 2,87,631 |
| Total premium | 2,91,860 | 3,27,069 | 3,94,442 | 4,76,185 | 5,76,823 |
| NBP growth (%) | 31.9 | 15.1 | 16.5 | 20.0 | 20.0 |
| APE growth (%) | 12.0 | 18.4 | 13.1 | 23.5 | 20.0 |
| Renewal premium growth (%) | 16.4 | 8.8 | 25.2 | 21.5 | 22.3 |
| Total premium growth (%) | 23.9 | 12.1 | 20.6 | 20.7 | 21.1 |
| Premium split | FY19 | FY20 | FY21P | FY22E | FY23E |
| Weighted APE | 60,494 | 71,637 | 81,021 | 1,00,058 | 1,20,069 |
| Participating | 8,681 | 11,416 | 25,603 | 40,089 | 48,107 |
| Non-participating | 23,315 | 42,637 | 28,196 | 33,836 | 40,603 |
| ULIP | 28,498 | 17,583 | 27,222 | 26,133 | 31,360 |
| NBP | 1,49,715 | 1,72,385 | 2,00,828 | 2,40,994 | 2,89,192 |
| Participating | 8,683 | 11,421 | 50,207 | 72,298 | 86,758 |
| Non-participating | 1,04,121 | 1,33,175 | 1,00,414 | 1,20,497 | 1,44,596 |
| ULIP | 36,910 | 27,788 | 50,207 | 48,199 | 57,838 |
| Renewal Premium | 1,42,146 | 1,54,684 | 1,93,614 | 2,35,191 | 2,87,631 |
| Participating | 49,646 | 48,998 | 73,573 | 89,373 | 1,09,300 |
| Non-participating | 16,193 | 21,549 | 23,234 | 28,223 | 34,516 |
| ULIP | 76,306 | 84,137 | 96,807 | 1,17,596 | 1,43,815 |
| NBP | 1,49,714 | 1,72,920 | 2,00,828 | 2,40,994 | 2,89,192 |
| Individual | 76,449 | 89,919 | 1,06,439 | 1,30,137 | 1,56,164 |
| Group | 73,265 | 83,002 | 94,389 | 1,10,857 | 1,33,028 |

Source: Company data, I-Sec research

Table 17: Total premium channel mix

| (%) | FY16 | FY17 | FY18 | FY19 | FY20 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Individual agents | 7.6 | 7.6 | 7.0 | 7.2 | 7.3 |
| Corporate agents-Banks plus others | 40.3 | 32.4 | 40.2 | 40.4 | 38.5 |
| Direct business | 49.8 | 57.3 | 50.1 | 49.5 | 50.5 |
| Others | 2.4 | 2.8 | 2.7 | 2.9 | 4.3 |

Source: Company data, I-Sec research

Table 18: Key ratios*(Year ending March)*

| | FY19 | FY20 | FY21P | FY22E | FY23E |
|---------------------------------|-------|-------|-------|-------|-------|
| Operating ratios (%) | | | | | |
| Investment yield (%) | 8.1 | (2.3) | 22.2 | 8.4 | 8.9 |
| Commissions/GWP | 3.8 | 4.6 | 4.4 | 4.7 | 4.7 |
| Operating expenses/GWP | 13.1 | 13.0 | 11.9 | 12.8 | 12.8 |
| Total expense/GWP | 16.9 | 17.6 | 16.3 | 17.5 | 17.5 |
| Benefits Paid/Total Liability | 11.7 | 15.6 | 14.4 | 12.7 | 12.9 |
| Solvency margin (%) | 188.0 | 184.0 | | | |
| Total AUMs (Rs bn) | 1,256 | 1,273 | 1,738 | 1,883 | 2,249 |
| - Equity (%) | 38% | 29% | 40% | 40% | 40% |
| Profitability ratios (%) | | | | | |
| VNB margin (%) | 24.6 | 25.9 | 26.1 | 28.0 | 30.1 |
| RoE (%) | 24.6 | 20.8 | 17.6 | 18.0 | 20.9 |
| Core EVOP(unwind +VNB) | 18.6 | 18.0 | 19.0 | 18.1 | 18.5 |
| EVOP as % of IEV | 20.1 | 18.1 | 18.5 | 18.1 | 18.5 |
| RoEV (%) | 20.2 | 12.9 | 28.9 | 18.1 | 18.5 |
| Valuation ratios | | | | | |
| Dividend per share (Rs) | 1.6 | - | 2.0 | 2.5 | 3.0 |
| Dividend payout ratio (%) | 25.8 | - | 29.6 | 30.8 | 28.0 |
| EPS (Rs) | 6.3 | 6.4 | 6.7 | 8.1 | 10.7 |
| Value of New Business (Rs bn) | 15.4 | 19.2 | 21.9 | 26.8 | 33.1 |
| Embedded Value (Rs bn) | 183.0 | 206.5 | 266.2 | 314.3 | 372.5 |
| VIF (Rs bn) | 124.3 | 134.6 | 176.3 | 215.3 | 257.9 |
| ANW (Rs bn) | 58.8 | 71.9 | 89.8 | 99.0 | 114.5 |
| VIF as % of EV | 67.9 | 65.2 | 66.2 | 68.5 | 69.2 |
| EV per share (Rs) | 90.7 | 102.4 | 132.0 | 155.8 | 184.7 |
| P/EV (x) | 7.8 | 6.9 | 5.4 | 4.5 | 3.8 |
| P/EPS (x) | 111.9 | 110.1 | 105.0 | 87.4 | 66.2 |

Source: Company data, I-Sec research

Table 19: Persistency ratios

| (%) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
|------------|-------|-------|-------|-------|-------|-------|
| 13th Month | 78.9% | 80.9% | 87.1% | 87.2% | 90.1% | 91.7% |
| 25th Month | 67.5% | 73.3% | 77.4% | 80.5% | 80.2% | 84.2% |
| 37th Month | 60.1% | 63.9% | 70.9% | 72.0% | 73.8% | 74.7% |
| 49th Month | 63.4% | 58.3% | 62.2% | 67.7% | 67.2% | 69.6% |
| 61st Month | 50.0% | 56.8% | 51.0% | 52.3% | 55.0% | 54.4% |

Source: Company data, I-Sec research

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