

Healthy performance backed by fundamental strength

HDFC Life Insurance reported a steady performance led by healthy new business (led by diversified product mix) and renewal premium, steady persistency and investment income.

Gross premium growth remained healthy at 21.6% YoY to ₹ 12911 crore, led by steady traction in renewal to ₹ 6350 crore (up 14.9% YoY) and new business premium to ₹ 6560 crore (up 28.9% YoY). On an APE basis, growth in premiums increased 36.3% YoY to ₹ 2806 crore. Individual APE for FY21 was at ₹ 7120 crore, up 16% YoY. Growth in protection business remained slower with 4% YoY growth in individual premium to ₹ 480 crore while group premium declined 21% YoY to ₹ 3440 crore for FY21, primarily due to slowdown in credit disbursement. The company is seeing improving traction in business both in individual segment (term & par products) and group business (owing to revival in credit protect in Q4FY21). Partner tie-up in FY21 has started to witness business traction.

Commission ratio increased 50 bps YoY to 4.6% owing to increased business. Opex ratio (management expense) ratio remained steady YoY at 11.7%. Claims ratio increased YoY though healthy premium accretion led to surplus at ₹ 434 crore, up 219% YoY, 58% QoQ. PAT for the quarter was at ₹ 318 crore, flattish YoY, and lower than our estimate (due to higher contribution to policyholder's fund). AUM growth for the quarter was at ₹ 173839 crore, up 37% YoY owing to base effect. Persistency ratio largely remained buoyant with 13th month persistency at 90% and 61st month persistency at 53%.

New business margins continued to increase 60 bps QoQ to 27%, led by balanced product mix. Indian embedded value was at ₹ 26620 crore as of March 2021, up 18.5% YoY. Solvency ratio remained steady at 2.01x.

Valuation & Outlook

Product innovation and launches, diversified business mix and improving traction from recent tie-ups is seen keeping business momentum healthy. Focus on non-metro and non-salaried segment is expected to enhance customer base and thereby business traction. Revival in credit protect and focus on retirement products are seen aiding business growth and margins. We expect gross written premium (GWP) to grow at ~18% CAGR in FY21-23E to ₹ 53890 crore. Steady traction in individual term insurance and gradual pick up in credit protect is seen keeping VNB margin at ~25%. PAT is expected to grow at 10% CAGR over the same period to ₹ 1634 crore. HDFC Life currently trades at ~4.1x FY23E embedded value (EV), which is at a premium compared to its peers. Given the superior business franchise and continued focus on profitability, valuations are expected to remain at a premium. Considering the current business franchise and building anticipated improvement in business momentum and profitability metric, we maintain our target price of ₹ 820/share, valuing the company at ~4.7x FY23E EV. We maintain **BUY** recommendation on the stock.



Particulars

Particulars	Amount
Market Capitalisation	₹ 142426 crore
EV (Q4FY21)	₹ 26617 crore
AUM (Q4FY21)	₹ 173839 crore
VNB margin (Q4FY21)	27.0%
52 week H/L	746/ 451
Net worth	₹8428 crore
Face value	₹ 10
DII holding (%)	6.3
FII holding (%)	25.7

Key Highlights

- Gross premium growth remained healthy at 21.6%
- Outstanding Covid provision at ₹ 165 crore
- Maintain BUY recommendation with unchanged target price of ₹ 820

Risk to our call

- Resurgence in Covid cases remains risk owing to probability of higher claims
- Interest rate volatility risk due to increased non-par business

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
New business premium	14971	17238	20107	24249	28401	19%
APE	6049	7164	8183	10031	11662	19%
Total premium	29186	32707	38584	45785	53890	18%
PAT	1277	1295	1360	1588	1634	10%
EV	18296	20655	26625	30930	35390	15%
P/E (x)	111.4	109.9	104.6	89.7	87.2	
P/BV (x)	25.1	20.9	16.5	14.9	13.3	
P/IEV (x)	7.8	6.9	5.3	4.6	4.0	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
First Year Premium	2,389.2	2,224.0	1,722.0	38.7	1,772.2	34.8	
Renewal Premium	6,350.4	6,233.4	5,526.2	14.9	4,577.0	38.7	Stable persistency aids renewal premium growth
Single Premium	4,170.6	4,266.9	3,366.7	23.9	3,279.0	27.2	
Net Premium income	12,868	12,471	10,464	23.0	9,487	35.6	
Income from Investments	6,323.3	4,001.6	-10,045.8	NA	11,639.8	-45.7	
Total revenue	19,191.3	16,472.3	418.6	4,484.2	21,126.8	-9.2	
Commission	597.5	561.2	428.9	39.3	448.2	33.3	Revival in business traction led to increase in comission
Operating expenses	1,510.1	1,496.5	1,252.2	20.6	1,307.3	15.5	
Management Expenses	2,107.6	2,057.7	1,681.1	25.4	1,755.5	20.1	
Benefits paid	8,837.6	5,611.8	5,326.9	65.9	6,182.5	42.9	₹ 165 crore provided for covid reserve
Change in Actuarial Liability	7,622.7	8,243.3	-7,316.5	-204.2	12,827.8	-40.6	
Total Expenses	16,460.3	13,855.1	-1,989.6	-927.3	19,010.3	-13.4	
Surplus/ (deficit)	617.8	369.5	258.2	139.2	315.5	95.8	Higher premium accretion and investment income offset increase in claims
Transfer to SH's A/c	286.6	325.0	451.7	-36.5	139.8	105.1	
Investment income	271.3	164.2	104.6	159.4	142.7	90.1	
Profit/ (loss) before tax	309.1	393.6	284.5	8.7	267.0	15.8	
PAT	317.9	391.6	311.7	2.0	265.0	20.0	Higher allocation to policyholder led to lower than expected earnings

Key Metrics							
NBP	6,559.8	6,490.9	5,088.7	28.9	5,051.2	29.9	
AUM	1,73,839	1,69,625	1,27,226	36.6	1,65,623	5.0	Premium accretion and base effect led to YoY jump in AUM

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	38,089	44,849	17.7	43,136	52,738	22.3
Total	48,917	56,221	14.9	56,469	66,486	17.7
Transfer to Shareholders' account	1,304	1,316	0.9	1,352	1,309	-3.2
PAT	1,577	1,588	0.7	1,676	1,634	-2.5
EV/Share	142	153	8.0	166	175	5.7

Source: Company, ICICI Direct Research

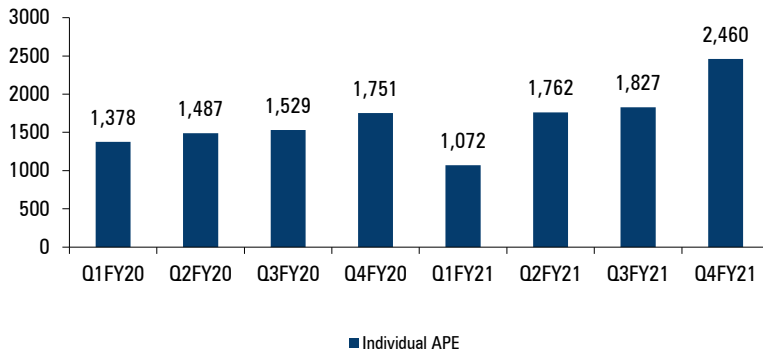
Exhibit 3: Assumption

	Current				Earlier	
	FY20	FY21	FY22E	FY23E	FY22E	FY23E
NBP growth	15.1	16.6	20.6	17.1	10.5	12.6
AUM growth	1.3	36.6	-1.0	12.8	11.6	12.8
EV Growth	12.9	28.9	16.2	14.4	16.4	17.0
Comission ratio	4.6	4.4	4.3	4.3	4.3	4.3
VNB Margin	25.9	26.1	25.8	25.6	25.2	25.9
Conservation ratio	80.3	85.9	85.0	85.0	81.5	84.2

Source: Company, ICICI Direct Research

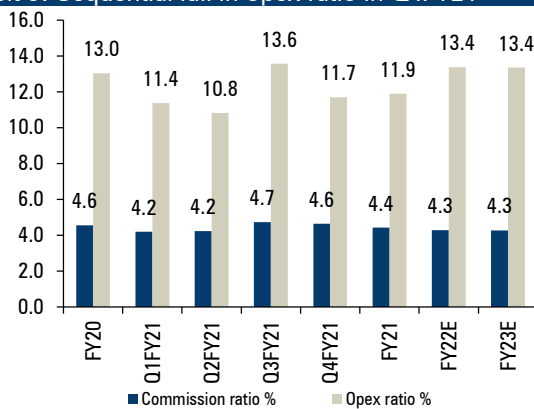
Story in Charts

Exhibit 4: Healthy uptick in individual premiums - APE basis



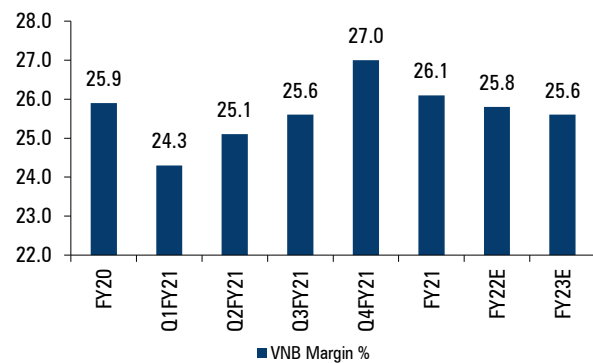
Source: Company, ICICI Direct Research

Exhibit 5: Sequential fall in opex ratio in Q4FY21



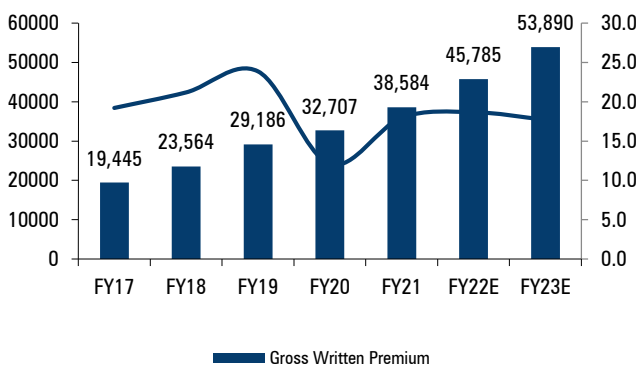
Source: Company, ICICI Direct Research

Exhibit 6: Improvement in persistency aids VNB margins



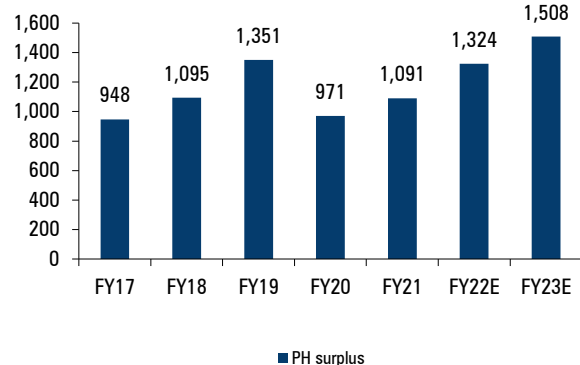
Source: Company, ICICI Direct Research

Exhibit 7: GWP growth trajectory



Source: Company, ICICI Direct Research

Exhibit 8: Increasing PH surplus



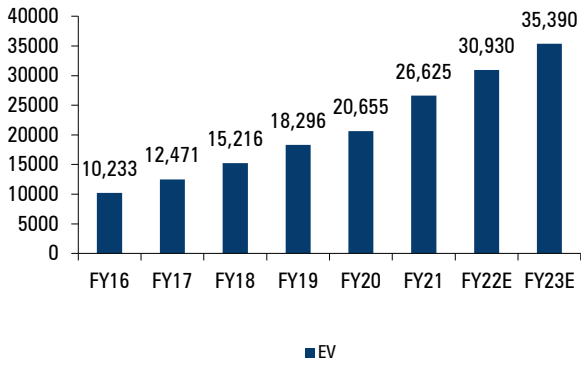
Source: Company, ICICI Direct Research

Exhibit 9: Persistency ratios trend

Persistency ratio %	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
13th Month	88.8	88.4	87	90.8	92.9	91.4
37th Month	71.5	71.8	69.5	71.8	72.1	76.3
61th Month	52.6	54.6	54.4	52.4	51.8	54.6

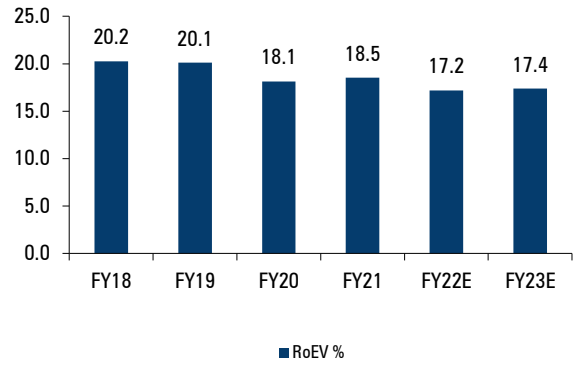
Source: Company, ICICI Direct Research

Exhibit 10: NBP traction to propel EV growth



Source: Company, ICICI Direct Research

Exhibit 11: Healthy return on EV%



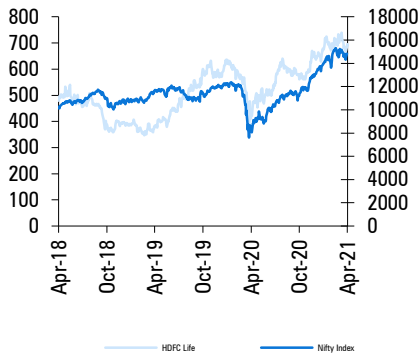
Source: Company, ICICI Direct Research

Exhibit 12: Shareholding Pattern

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	63.7	60.4	60.4	58.9	58.9
FII	21.1	23.6	23.4	24.9	25.7
Others	9.2	8.8	8.9	9.2	9.2

Source: Company, ICICI Direct Research

Exhibit 13: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Policyholders Account

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Premiums earned - Net	28924.0	32223.6	38122.3	44848.6	52737.8
Interest, Dividends & Rent	9027.5	6845.3	32677.6	10720.5	12977.4
Others income (incl. MTM)	484.0	-9807.5	442.0	651.9	770.3
Total Revenue	38,436	29,261	71,242	56,221	66,486
Commission	1117.7	1491.18	1710.40	1960.3	2302.5
Operating expenses	3813.6	4266.9	4587.4	6123.0	7200.7
Change in valuation of policy liabilities	17507.5	2440.8	40829.6	23192.4	28276.2
Provision for tax	226.8	149.0	274.4	233.6	307.6
Surplus/(deficit) after tax	1350.7	971.4	1098.4	1324.0	1508.1
Transfer to Shareholders' account	1,207	1,191	991	1,316	1,309

Source: Company, ICICI Direct Research

Exhibit 15: Shareholders Account

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Amounts transferred from Policyholders' account	1206.9	1191.4	990.9	1315.6	1308.9
Income from investments	408.4	437.8	647.6	651.8	711.1
Total	1,636	1,648	1,638	1,967	2,020
Total expenses	62.6	99.1	285.0	346.5	336.0
Profit before Tax	1289.9	1311.7	1353.5	1637.5	1685.0
Provision for tax	13.1	16.5	-6.6	49.1	50.6
PAT	1,277	1,295	1,360	1,588	1,634

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share capital	2017	2019	2021	2021	2021
Reserve and surplus	3641	4968	6407	7342	8485
Credit/[debit] fair value change account	-3	-192	207	215	224
Networth	5656	6800	8638	9579	10730
Policyholders' funds	118124	119502	162818	177508	206359
Funds for Future Appropriations	1103	883	991	999	1198
Total Liabilities	124883	127185	173066	188086	218287
Applications of Funds					
Shareholders' investments	5050	5855	8542	7407	8889
Policyholders' investments	57124	67189	90538	93584	107685
Asset held to cover linked liabilities	63377	54182	74760	71114	77514
Loans	80	299	424	60	60
Fixed assets - net block	333	330	340	347	354
Net current assets	-1082	-670	-1538	15574	23785
Total Assets	124883	127185	173066	188086	218287

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares (Crore)	201.7	201.9	201.9	202.1	202.1
Diluted EPS (₹)	6.3	6.4	6.7	7.9	8.1
BV (₹)	28.0	33.7	42.8	47.4	53.1
EV per share	90.7	102.3	131.9	153.0	175.1
P/E	111.4	109.9	104.6	89.7	87.2
P/BV	25.1	20.9	16.5	14.9	13.3
P/IEV	7.8	6.9	5.3	4.6	4.0
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	3.8	4.6	4.4	4.3	4.3
Management expenses incl commission as a % of Gross Premium	16.9	17.6	16.3	17.7	17.6
Return Ratios and capital (%)					
Return on Net worth	24.5	20.8	17.6	18.0	18.1
Operating RoEV	20.1	18.1	18.5	18.4	18.5
Key Ratios (%)					
VNB Margin	24.6	25.9	26.1	25.8	25.6
NBP APE (proportion %)					
Participating	14.4%	15.9%	14.6%	16.7%	17.3%
Non participating	38.5%	59.5%	53.5%	59.5%	59.2%
Unit Linked	47.1%	24.5%	21.7%	23.8%	23.5%

Source: Company, ICICI Direct Research

Exhibit 18: Key parameters

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
NBP	14,971	17,238	20,107	24,249	28,401
Growth (%)	31.9	15.1	16.6	20.6	17.1
Linked	11,322	11,192	11,055	12,593	13,713
Growth (%)	10.3	-1.1	-1.2	13.9	8.9
Non Linked	17,864	21,514	24,281	33,192	40,177
Growth (%)	34.4	20.4	12.9	36.7	21.0
APE	6,049	7,164	8,183	10,031	11,662
Growth (%)	12.0	18.4	14.2	22.6	16.3
VNB	1,540	1,919	2,190	2,648	3,054
Growth (%)	20.1	24.6	14.1	20.9	15.4
EV	18,296	20,655	26,625	30,930	35,390
Growth (%)	20.2	12.9	28.9	16.2	14.4
AUM	1,25,552	1,27,226	1,73,839	1,72,105	1,94,088
Growth (%)	17.8	1.3	36.6	-1.0	12.8
PH Funds	57,124	67,189	90,538	93,584	1,07,685
Growth (%)	26.0	17.6	34.8	3.4	15.1
SH Funds	5,050	5,855	8,542	7,407	8,889

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Insurance)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/EV (x)			RoAUM (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SBI Life Insurance	930	1000	Buy	929	15.8	19.5	23.4	59.0	47.7	39.7	3.1	2.7	2.4	0.8	0.9	0.9	15.2	14.6	14.3
HDFC Life	705	820	Buy	1424	6.7	7.9	8.1	104.6	89.7	87.2	5.3	4.6	4.0	0.9	0.9	0.8	17.6	17.4	16.1

Source: Company, ICICI Direct Research

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Sell: <-15%



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