January 24, 2021

Result Report Q3FY21 | Sector: Insurance

HDFC Life

ADD	CMP Rs688	Target Rs 721	Upside 5%

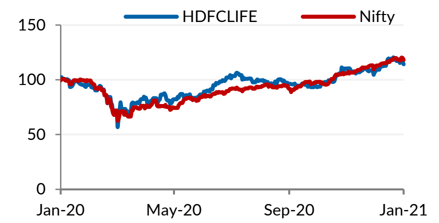
Strong Performance, beats estimates

- ✓ **NBP –** NBP was at Rs50.5bn and registered a growth of 19%, which was in line with our estimate. The growth was a contribution of sharp 22% jump in single premium and healthy growth of 15% in First year premium on yoy basis.
- ✓ **APE –** APE at Rs21.5bn was higher than our estimate of Rs20.8bn. APE growth was at 18% yoy and remained flat on sequential basis. Growth was mainly led by jump of 122% in par business.
- ✓ **APE Mix –** Share of Par business jumped 1520bps. This was offset by decline of 691bps, 348bps and 317bps decline in share of ULIPs, Non-par and Individual Protection respectively.
- ✓ **VNB & VNB Margin –** Q3FY21 VNB at Rs5.7bn was higher than our forecasts of Rs5.3bn, while VNB margin at 26.4% was ahead of our estimates of 25.2%. On a yoy basis VNB margins improved by 184bps and sequentially margins improved by 79bps.
- ✓ **Persistency improvement –** On a yoy basis, persistency improved across all time periods except 61st month. Sequentially, persistency for 25th Month,49th month and 61st month saw a decline.
- ✓ **Opex and commission ratios –** HDFC Life continued to demonstrate its cost efficiencies with cost ratios falling further. Commission ratios declined by 24bps yoy whereas opex ratio improved by 28bps.
- ✓ **EV –** Sequentially EV improved by Rs17bn (7%) to Rs250.5bn. Economic variance saw a positive movement of Rs15.7bn.
- ✓ **Profits** - PAT came at Rs2.6bn, growing by 5.3% on yoy basis and declining by 19.6% sequentially.
- ✓ **Channel Mix –** Mix of Banca channel increased by 1077bps on YoY basis and 705bps on qoq basis.
- ✓ **Change in forecasts –** 9MFY21 APE is 75% of our FY21 estimates and 74% VNB share of our forecasts.
- ✓ **Valuations** - The stock currently trades at FY23E P/EV of 4x.
- ✓ **Our view:** HDFC Life has outperformed private players in the current fiscal in terms of premium growth. However, its product mix has shifted towards lower margin products such as par. With pick up in ULIPs and concious strategy to reduce non-par business to bring a balance in product mix coupled with stricter underwriting in pure term business, VNB margin expansion will be a challenge. Stock trades at FY23E P/EV of 4x which is significantly higher than other players. While we believe that HDFC Life deserves premium valuations given its balanced product mix, strong distribution network and group's track record of delivering healthy performance in all financial segments, current valuations are fair and we retain our ADD rating with a revised 1-year price target of Rs721.

Stock data (as on Jan 22, 2021)

Nifty	14,372
52 Week h/l (Rs)	731 / 340
Market cap (Rs/USD mn)	1388861 / 19032
Outstanding Shares (mn)	2,020
6m Avg t/o (Rs mn):	2,452
Div yield (%):	N/A
Bloomberg code:	HDFCLIFE IN
NSE code:	HDFCLIFE

Stock performance



	1M	3M	1Y
Absolute return	7.2%	22.5%	12.2%

Shareholding pattern (As of Sept'20 end)

Promoter	60.40%
FII+DII	30.72%
Others	8.56%

∆ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	721	664

Financial Summary

	FY20E	FY21E	FY22E
Net premium	322,236	361,400	421,200
% yoy	11.4%	12.2%	16.5%
VNB	19,200	20,628	24,910
VNB Margin	25.9%	26.5%	27.0%
Reported PAT	12,953	15,038	18,117
% yoy	1.4%	16.1%	20.5%
EV/Share (Rs)	102.1	123.0	146.5
P/EV (x)	6.7	5.6	4.7
P/VNB (x)	72.3	67.3	55.7
RoEV (%)	18.1%	18.5%	18.5%
BVPS (Rs)	33.6	38.6	43.9

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Exhibit 1: Result Table

	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq	Q3 FY21E
Gross premium	96,282	80,011	20.3%	101,825	-5.4%	
Net premium	94,888	78,543	20.8%	100,567	-5.6%	
NBP	50,512	42,355	19.3%	58,722	-14.0%	50,701
Renewal premium	45,770	37,656	21.5%	43,104	6.2%	
APE	21,570	18,300	17.9%	21,340	1.1%	20,889
Ind APE	18,270	15,200	20.2%	17,640	3.6%	
Commission ratio	4.7%	4.5%	24bps	4.2%	50bps	
Opex ratio	13.8%	13.5%	28bps	11.0%	283bps	
Surplus/(Deficit)	2,622	2,460	6.6%	1,369	91.6%	
APAT	2,634	2,502	5.3%	3,278	-19.6%	
VNB	5,700	4,500	26.7%	5,470	4.2%	5,274
VNB Margin	26.4%	24.6%	184bps	25.6%	79bps	25.2%
APE Mix						
UL	4,202	4,830	-13.0%	3,629	15.8%	
Par	6,961	3,124	122.8%	6,142	13.3%	
Non par	5,481	5,287	3.7%	5,506	-0.5%	
Protection	1,626	1,959	-17.0%	2,256	-27.9%	
Total individual	18,270	15,200	20.2%	17,640	3.6%	
Group	3,300	3,100	6.5%	3,700	-10.8%	
Total APE	21,570	18,300	17.9%	21,340	1.1%	
APE Mix						
UL	19.5%	26.4%	-691bps	17.0%	247bps	
Par	32.3%	17.1%	1520bps	28.8%	349bps	
Non par	25.4%	28.9%	-348bps	25.8%	-39bps	
Protection	7.5%	10.7%	-317bps	10.6%	-303bps	
Total individual	84.7%	83.1%	164bps	82.7%	204bps	
Group	15.3%	16.9%	-164bps	17.3%	-204bps	
Total APE	100.0%	100.0%	0bps	100.0%	0bps	
Distribution mix (Individual)						
Banca	12,360	8,647	42.9%	10,691	15.6%	
Agency	1,909	1,841	3.7%	2,400	-20.5%	
Others	4,001	4,712	-15.1%	4,549	-12.0%	
Distribution mix						
Banca	67.7%	56.9%	1077bps	60.6%	705bps	
Agency	10.4%	12.1%	-166bps	13.6%	-316bps	
Others	21.9%	31.0%	-910bps	25.8%	-389bps	
Persistency						
13 month	92.9%	88.8%	410bps	90.8%	210bps	
61 month	51.8%	52.6%	-80bps	52.4%	-60bps	
Income from investments	115,942	37,326	210.6%	63,188	83.5%	

CONCALL TAKEWAYS

Products

- ✓ Growth in premium led by increase in ticket size and no. of policies sold.
- ✓ Dynamic product re-pricing compared to products available in the market.
- ✓ Protection
  - Sign of demand reverting to normal levels in individual protection business. In terms of google searches, protection has gone down from the peak (Peaked in Q1FY21). Customers have however started realizing the need for Term insurance which normally come at a lag of 9months post pandemic. December and Jan has again seen surge in searches.
  - Collective underwriting approach of the industry will guide the reinsurance pricing.
  - Underwriting practice has been strengthen in the industry, improving the quality of protection book going forward.
  - Market preference is more inclined towards ROP rather than Pure term.
  - Growing 100-220bps in protection in mid-long term will be more sustainable compared to 500-600bps growth.
  - Higher Covid claim intimation in Q3FY21, however well within the estimates.
  - Credit protection in Q3FY21 stood at 94% of last year levels.
  - Not difficult to show surge in protection business in short term, however will impact the mortality experience in the long run. Adoption of calibrated approach in selling Protection product in the short term.
- ✓ Savings have started recovering, therefore impacting the sum assured towards lower levels. Post pandemic, people have started allocating higher part of income to savings product.
- ✓ Decrease in share of Non-Par has been a result for the desire to maintain a balance product.
- ✓ To launch the new standardized product from Feb 1 2021. Expect the underwriting to get more strengthen as the pricing of the product may be lower.
- ✓ ULIP is a very thinly priced and therefore profitable for policyholder. Over the period of time people will come to buy these products digitally.
- ✓ Annuity is a bigger opportunity than protection and aspirational on growing the annuity business by 3x by FY25. It's even a stickier business.
- ✓ Standardization of product is a good move by the regulator as it helps customers to understand the product. Standard Term protect may not impact the existing term business as the target market will be different. Industry should not get very aggressive on this product at the initial stage, once the experience is gained one can take the appropriate action.
- ✓ Current annuity products are already very standardized in nature. Going forward, one may expect further standardized products by the regulator.

VNB and Margins

- ✓ Improving margin is a result of growth and favorable product mix.
- ✓ Product mix, nuances of products, cost and persistency will be guiding the margin improvement.

Persistency

- ✓ Non-Par product has persistency above 90%.
- ✓ ULIP persistency has witnessed stress but had strengthen the persistency at the start of year, not posing any adverse impact on EV. Positive operating variance on persistency.

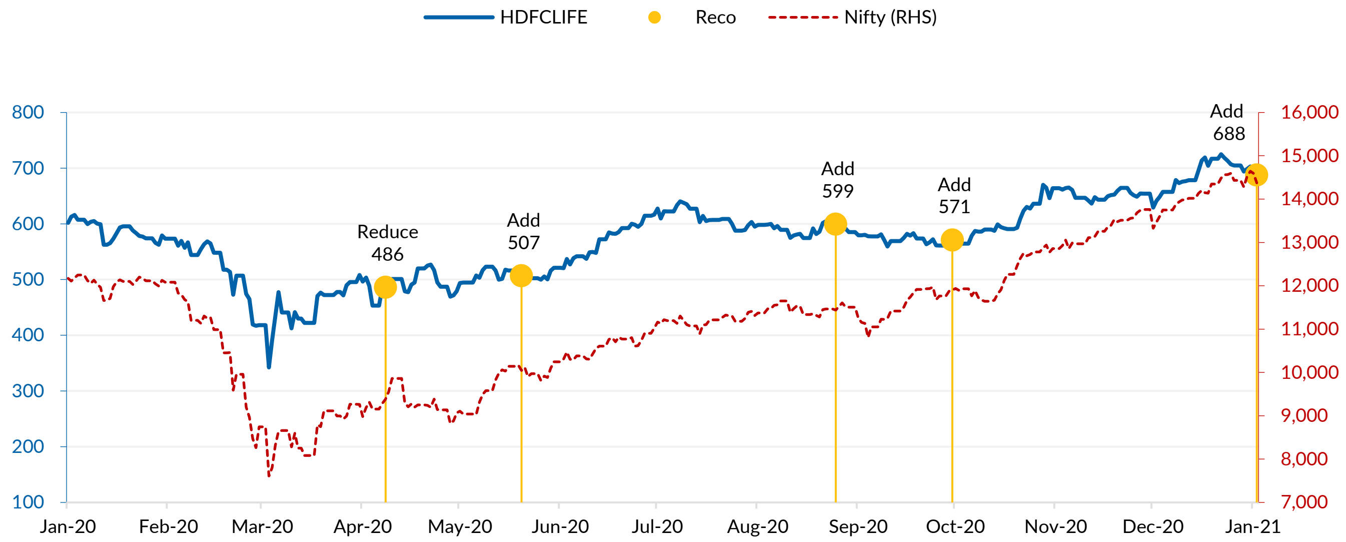
Distribution channel

- ✓ Agency has started showing traction with focus on profitable product mix.
- ✓ Banca has grown very well in 9MFY21 compared to muted growth in Agency, however shall the end the year in green for Agency. The growth looks disproportionally for different channel but that's due to base effect.
- ✓ Continue to monitor each channel based on persistency, quality of business and product mix.
- ✓ Market share in Protection at HDFC bank has gone up compared to last year. With the kind of products offered, the same is expected to continue inch upwards.

Others

- ✓ Tax no-longer a major reason to buy insurance policy. Changes in any labor law or PF changes shall not have any material impact.
- ✓ Positive mortality experience
- ✓ Sensitivity to interest is at comfortable level, key will be to have proper balance in asset and liability.

Recommendation Tracker



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