

HDFC life: The company recorded strong growth in Q4FY21, total premium came in at Rs. 12,910Cr, growing by 34%/21% Q-o-Q and Y-o-Y. Regular premium collections grew at 35%/39% Q-o-Q and Y-o-Y, single premiums grew as well after a fall in Q3, growing at 27%/24% Q-o-Q and Y-o-Y. NBP came in at Rs. 6,559Cr, posting strong growth of 30%/29% Q-o-Q and Y-o-Y. APE for Q4 was Rs. 2,882Cr, growing by 33%/37% Q-o-Q and Y-o-Y. VNB came in at Rs. 777Cr with VNB margin improving to 27% in Q4. share of protection in APE was 13.3% in Q4 improving 69bps Q-o-Q, however it remains well below last years number of 17.2%. E.V was Rs. 26,617Cr growing 6.3% Q-o-Q, RoEV improved as well to 18.5% from 18.3% in Q3.

For FY21, Total premium came in at Rs. 38,583Cr growing by 18% from FY20. New business premium for the year was at Rs. 20,106Cr, up by 16.6% from FY20. APE was at Rs. 8,372Cr, recording a growth of 13% for the year. VNB was Rs. 2,185Cr, VNB margin for the full year was 26.1% up from 25.9% in FY20. Margin growth was driven by increased contribution of traditional products and retail protection. We anticipate this margin to be sustained as ULIP's recover and share of protection improves. Share of protection in APE was 12.8% in FY21, down from 17.2% in FY20 as group protection has been subdued through the year. E.V was Rs. 26,617Cr, up 29% from the previous year, this is primarily due to a lower base in FY20. We expect EV growth will normalize to ~18% going ahead. AUM for FY21 was at Rs. 1,73,839Cr, up 36.6% from FY20. Strong capital market performance was the main driver. The company has a sufficient solvency ratio of 201%, it has created a reserve of Rs 165Cr for covid related mortality. Claims settlement ratio was 99.4% for FY21.

Long term strategy remains stable, Focus on Annuity business

The long term strategy of the company remains largely stable, management has reiterated their focus on improving distribution to larger geographies and maintaining a diverse channel mix. Product strategy will continue to emphasize a balanced mix, the company will develop and push new products based on consumer preferences. Management has indicated that the company will follow a cautious approach to underwriting new business, this is to prevent undue risk on their balance sheet.

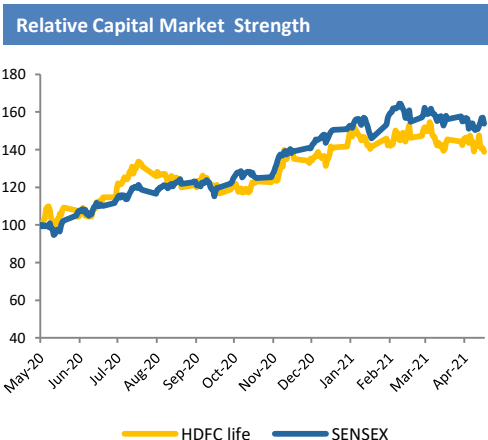
The company will focus on growing its annuity business going ahead, as they consider the retirement business to be a major driver in the future. Annuity business grew by 46% in FY21.

Outlook and valuation

HDFC life has recorded industry beating growth in FY21, the company's focus on a balanced product mix aided in sustaining its margins despite the pandemic. However, we are mindful of its high valuations, HDFC life trades at a TTM P/EV of 5x, while its peers are in the 2.5-3x range. Keeping this in mind, we value the stock at a P/EV of 4.3x based on FY23E to arrive at our target price of **Rs. 782** and assign a **"BUY"** rating.

Rating Matrix	
CMP	Rs. 672
Rating	BUY
Target price	Rs. 782
Upside	16.3%
52 week H/L	Rs. 746 / 464
Face value	Rs. 10
Mar. Cap.	Rs. 1,35,790cr
Category	Large cap
Sector	Life Insurance

Shareholding pattern				
	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	60.41%	60.40%	58.87%	58.86%
FII's	23.55%	23.44%	24.85%	25.67%
DII's	7.32%	7.31%	7.12%	6.28%
Non Inst.	8.72%	8.85%	9.16%	9.20%



Key Financials (Rs. Cr)				
Particulars	FY20	FY21	FY22E	FY23E
NBP	17,238	20,106	23,794	27,836
APE	7,410	8,372	10,017	11,643
VNB	1,919	2,185	2,604	3,027
VNB margin (%)	25.9%	26.1%	26%	26%
EV	20,650	26,617	31,351	36,886
EVOP	3,315	3,827	4,734	5,535
RoEV (%)	18.1%	18.5%	17.8%	17.7%
P/EV (x)	5.4	5.1	4.3	3.7
VNB multiple (x)	47.1	49.9	40.1	32.7
Mcap / AUM (x)	0.87	0.78	0.72	0.63

Fig 1. Quarterly performance comparison

Particulars (Rs. Cr)	Q4FY21	Q3FY21	Q-o-Q %	Q4FY20	Y-o-Y %
Total premium	12,910	9,628	34.1%	10,615	21.6%
New business premium (NBP)	6,560	5,051	29.9%	5,089	28.9%
Annualised premium equivalent (APE)	2,882	2,160	33.4%	2,110	36.6%
VNB	777	570	36.3%	512	51.8%
VNB margin %	27.0%	26.4%	57 Bps	24.3%	270 Bps
E.V	26,617	25,050	6.3%	20,650	28.9%
AUM	1,73,839	1,65,600	5.0%	1,27,200	36.7%

HDFC life Con-call highlights:

- The company continues to maintain a balanced product mix, traditional products have seen growth in FY21.
- HDFC life grew by 17% in FY21 based on IWRP, while the industry grew by 3%. IWRP market share is 15.5% in FY21.
- Individual protection saw substantial growth, group protection has not fully recovered yet.
- Second wave will cause supply side disruptions, however the industry is better prepared now as compared to last year
- The company will practice discipline in underwriting so as to not increase the risk on their balance sheet
- The company has not had any indication of a further reinsurance rate hike at this moment.
- The company has created a reserve of Rs. 165Cr for covid related mortality claims. Overall solvency ratio is at 201%
- Annuity is regarded as a major opportunity going forward for all insurers, the company will increase its focus on this segment. Annuity segment for HDFC life grew by 46% in FY21
- HDFC pension AUM has grown 98% Y-o-Y to Rs. 163.8Bn, market share increased to 34.4% from 31.1%.
- The company will continue to focus on its diversified distribution mix, new partnerships are expected to aid in expanding geographical coverage.

Fig 2. Quarterly performance snapshot

Particulars (Rs. Cr)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
First year premium	1,453	1,543	1,722	1,022	1,675	1,772	2,389
Single premium	2,536	2,692	3,367	1,602	4,197	3,279	4,171
Renewal premium	3,567	3,766	5,526	3,239	4,310	4,577	6,350
Total premium received	7,555	8,001	10,615	5,863	10,183	9,628	12,910
Savings APE	1,468	1,524	1,747	1,043	1,872	1,888	2,499
Protection APE	294	306	363	157	258	272	383
Total APE	1,762	1,830	2,110	1,200	2,130	2,160	2882
VNB	448	450	512	291	547	570	777
VNB margin %	25.4%	24.6%	24.3%	24.3%	25.7%	26.4%	27%
EV	20,120	20,840	20,650	22,580	23,330	25,050	26,617
RoEV %	19.6%	19.0%	18.1%	15.8%	17.6%	18.3%	18.5%
AUM (Rs.Bn)	1,310	1,365	1,272	1,400	1,506	1,656	1,738
Cost ratios (%)							
Op expense ratio	14.1%	13.8%	13.1%	11.5%	11.1%	12.1%	11.7%
Commission ratio	4.9%	4.7%	4.6%	4.1%	4.1%	4.3%	4.6%
Cost/TWRP	19.0%	18.5%	17.7%	15.6%	15.2%	16.4%	16.3%
Persistency (%)							
13th month	86	87	88	87	88	89	90
25th month	75	75	76	77	79	80	81
37th month	71	71	71	69	69	69	71
49th month	67	66	66	65	66	67	67
61st month	53	53	54	53	53	53	53
Channel Mix (%)							
Bancassurance	54%	55%	55%	59%	60%	63%	58%
Agency	15%	14%	15%	12%	13%	12%	15%
Direct	21%	21%	22%	24%	21%	19%	20%
Corporate Agents	10%	9%	9%	5%	6%	6%	7%

Premium collection saw progress as growth was seen across all channels. Single premium collections returned to growth after a decline in Q3

VNB margins grew to 27% on the back of strong performance in traditional products

Operating expenses stay lower as compared to last year as technology integration drives efficiency. Commission expenses rise as economic movement returned in Q4

Persistency across all time periods remained consistent or showed slight improvement.

Agency and corporate partnerships saw gains in Q4. While, banca and direct channels continued their performance.

Fig 3. Financial performance

Policyholders A/c	FY19	FY20	FY21	FY22E	FY23E
First year premium	5,058	6,044	6,858	8,162	9,467
Single premium	9,913	11,194	13,248	15,633	18,369
Renewal premium	14,215	15,468	18,477	21,535	25,094
Total premium	29,186	32,707	38,584	45,329	52,930
Reinsurance ceded	-255	-462	-435	-680	-741
Income from investments	9,027	-3,311	32,678	19,316	20,214
Other income	484	349	442	363	423
Total income	38,442	29,283	71,268	64,328	72,826
Commission expense	1,118	1,491	1,710	1,949	2,170
Operating expense	3,814	4,267	4,586	5,712	6,352
Provisions	91	567	-189	0	0
Operating profit	33,420	22,957	65,161	56,667	64,304
Tax expense (incl GST)	567	502	631	680	965
Benefits (net) & bonuses paid	13,990	19,035	22,613	24,750	28,053
Changes in reserves	17,507	2,441	40,830	30,105	33,864
Surplus / Deficit	1,357	979	1,087	1,132	1,423
Transfer to shareholders A/c	1,213	1,199	980	1,041	1,281
Balance for future appropriations	144	-220	108	91	142

Shareholders A/c	FY19	FY20	FY21	FY22E	FY23E
Transfer from policyholders A/c	1,213	1,199	980	1,041	1,281
Income from investments	414	446	656	709	765
Other income	40	41	48	31	38
Total income	1,667	1,687	1,684	1,781	2,084
Total expenses	376	373	330	64	75
PBT	1,291	1,314	1,354	1,717	2,009
Tax expenses	13	16	-7	26	48
PAT	1,278	1,297	1,361	1,691	1,961
EPS	6.32	6.42	6.73	8.37	9.71

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

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