

January 22, 2019

Q3FY19 Result Update

Key Financials

Y/e March	FY18	FY19E	FY20E	FY21E
Net Premiums (Rs m)	233,710	277,989	333,918	405,509
- Growth (%)	21.3	18.9	20.1	21.4
Total Income (Rs mn)	322,341	408,717	479,234	575,157
Surplus / Deficit (Rs m)	10,946	11,635	13,728	16,850
PAT (Rs m)	11,090	11,149	12,369	14,655
- Growth (%)	24.3	0.5	10.9	18.5
EPS (Rs)	5.5	5.5	6.1	7.3
Emb. Value (Rs bn)	152.1	185.7	228.2	281.8
NBP Margin (%) post overrun	23.2	24.9	25.4	26.2
RoE (%)	25.8	21.8	20.9	21.3
Operating RoEV (%)	21.5	23.1	23.0	23.5
RoEV (%)	23.6	23.3	23.8	24.4
Dividend yield (%)	0.4	0.4	0.4	0.4
Price/EV (x)	2.5	2.1	1.7	1.4
Ap. Value/EV (x)	5.8	4.7	3.8	3.1

Key Data

HDFS.BO | HDFCLIFE IN

52-W High / Low	Rs.548 / Rs.355
Sensex / Nifty	36,445 / 10,923
Market Cap	Rs.774.32bn / \$ 108.69m
Shares Outstanding	2,017.3m
3M Avg. Daily Value	Rs.392.6m

Shareholding Pattern (%)

Promoter's	80.74
Foreign	8.23
Domestic Institution	2.66
Public & Others	8.37
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(0.2)	4.7	(18.4)
Relative	(2.1)	(21.2)	(18.4)

Pritesh Bumb

priteshbumb@plindia.com | 91-22-66322232

Prabhal Gandhi

prabhalgandhi@plindia.com | 91-22-66322258

Moderate quarter but should pick up

Quick Pointers

- Strong improvement in focus products like protection and annuity although slightly slower
- Margins came in slightly weak but VNB remained strong

HDFC Life's overall APE grew by 15.5% YoY on slower individual APE growth of 11.0% but individual product mix break-up mix showcases continued growth in protection and non-par savings mainly the annuity product which are both margin accretive and hence VNB continued to showcase strong growth of +20%. Overall VNB margins were marginally weak (150bps on Q3FY19 implied) as bank invests in new business partnerships and hence pick-up in margins are lagged and should start adding ahead, while partnerships have been towards co-operative banks incrementally, previous partnerships should start improving especially from group credit segment as attachment rates improve. We slightly adjust our APE assumptions downwards while keep other metrics largely unchanged. We retain our stance on the insurer with likely improvement in throughput from new partnerships and focus on protection & annuity will help operating metrics and hence we retain BUY with TP of Rs438 (from Rs440) based on 3.4x Sep-20 EV.

- Slower growth but mix is better:** Overall APE growth of 15.5% in 9MFY19 was slower on back slower individual mix of 9.2% YoY with slight slowdown in ULIPs and sharp slowdown in PAR segment as company continues to push protection and non-PAR saving and focus on increasing ticket size rather than volume growth. Individual Mix in non-PAR moved up 300bps from H1FY19 basis on back of lower PAR which has been enable mainly on the annuity product growing 4x YoY, while mix in ULIP & protection was steady at 59% & 7.0% respectively. Overall protection mix stood at 16.6% on APE basis and 28.1% on NBP basis.
- Banca channel looks weaker:** Banca channel has been slower and steadily has lost share from last few quarters but partly, in our view, of open architecture of banca client and as new partnership additions in last one year has be higher and hence ramp is taking some time and consequentially business growth slowed. Although, lost banca share has been taken over by direct sales channel which is much effective and productive from cost perspective and hence not of concern to us.
- Margins slightly weaker but should pick-up on lag:** Margins saw marginal decline on strain from cost at new partnerships, was seasonally weak and overall business was slight slower. Margins should pick-up as new partners added in last few quarters start to ramp up. Importantly, absolute VNB growth remained quite strong at 25% YoY as both protection & non-par was robust with increased ticket size.
- Marginal positives flowed through EV:** EV saw positive flow from interest rates decline in both network and variances, also some benefits on unwinding rate and mortality. Our EV movement largely captures this benefits while we have seen impact from slower APE growth which should pick-up in seasonally strong Q4FY19. On Persistency, all cohorts were stable with 61st month still be slow but should improve as 49th month persistency flows through ahead.

Exhibit 1: Better profitability on improvement in MTM gains in investments

(Rs m)	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	69,614	54,677	27.3	68,405	1.8
Net Premium Income	68,977	54,200	27.3	67,776	1.8
Income from Investments (Net)	23,849	42,531	(43.9)	10,902	118.7
Total (A)	93,031	96,845	(3.9)	79,004	17.8
Net Commission	2,623	2,625	(0.1)	2,637	(0.5)
Opex related to Insurance	9,243	7,769	19.0	9,458	(2.3)
Benefits Paid (Net)	29,940	31,200	(4.0)	33,625	(11.0)
Change in actuarial liability	47,995	52,673	(8.9)	29,908	60.5
Total (B)	90,814	95,047	(4.5)	77,058	17.9
Surplus / (Deficit)	2,217	1,797	23.3	1,946	13.9
Shareholders' Account					
Trf from Policyholders A/c	1,769	1,499	18.0	2,341	(24.4)
Investment Income	835	618	35.1	733	13.9
Total	2,604	2,117	23.0	3,074	(15.3)
Expenses other than related to insurance	20	7	180.6	54	(62.2)
Trf to Policyholders A/c	(68)	(49)	39.8	41	(265.4)
Profit/(Loss) before Tax	2,565	2,162	18.6	2,963	(13.4)
Provision for Taxation	109	89	22.5	93	16.2
Profit/(Loss) after Tax	2,456	2,073	18.5	2,870	(14.4)

Source: Company, PL

Exhibit 2: Slightly slower APE growth with weaker margins but VNB strong

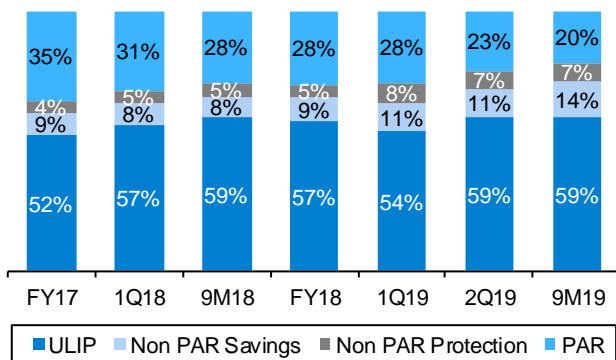
Rs billion	Q3FY19	Q3FY18	YoY Chg.	Q2FY19	QoQ Chg.	9MFY19	9MFY18	YoY Chg.
Total APE	15.4	13.8	11.9	14.5	6.4	40.5	35.1	15.5
Individual APE	12.6	11.8	7.0	12.6	0.2	33.6	30.8	9.2
% of Individual APE	82%	86%	(3.7)	87%	(5.1)	83%	86%	(3.4)
Group Premium	17.6	12.4	42.7	17.6	0.1	49.6	35.8	38.8
EV	173.97	144.7	20.2	163.8	6.2	173.97	144.7	20.2
Op RoEV (%)	-	-	-	-	-	19.7	20.4	(0.7)
VNB	3.6	3.0	21.5	3.6	0.0	9.7	7.8	25.0
NBAP Margins (%)	23.4	21.6	1.9	25.0	(1.5)	24.0	22.2	1.8

Source: Company, PL

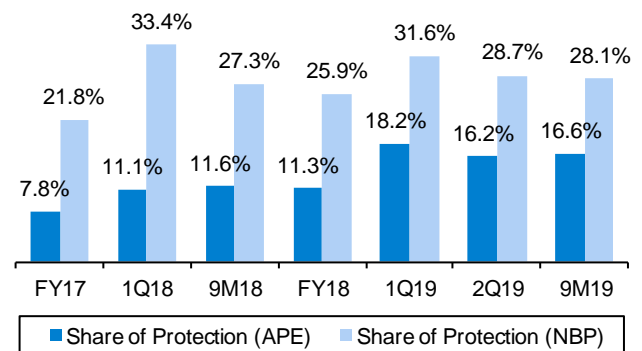
Exhibit 3: Protection mix remains steady but strong growth in PAR savings

Product Mix	Q3FY19	Q3FY18	YoY Chg.	Q2FY19	QoQ Chg.	9MFY19	9MFY18	YoY Chg.
(%)								
ULIP	59%	61%	(1.6)	63%	(3.8)	59%	59%	-
Non PAR Savings	19%	8%	11.0	11%	7.9	14%	8%	6.0
Non PAR Protection	7%	5%	2.0	6%	0.6	7%	5%	2.0
PAR	15%	26%	(11.4)	20%	(4.8)	20%	28%	(8.0)
Rs Bn								
ULIP	7.5	7.1	4.3	7.9	(5.1)	19.8	17.9	11.0
Non PAR Savings	2.4	0.9	154.0	1.4	73.0	4.7	2.4	94.2
Non PAR Protection	0.9	0.6	49.8	0.8	10.8	2.4	1.5	55.4
PAR	1.9	3.1	(39.2)	2.5	(23.5)	6.7	8.5	(20.7)

Source: Company, PL

Exhibit 4: Slowdown in PAR biz on back of non-PAR focus


Source: Company, PL

Exhibit 5: Protection mix steady


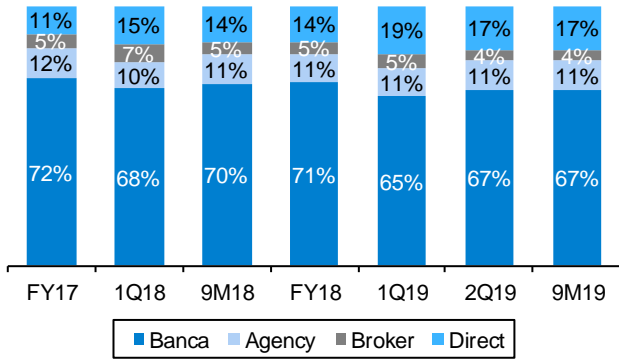
Source: Company, PL

Exhibit 6: Direct improving much faster

Sourcing Mix	Q3FY19	Q3FY18	YoY Chg.	Q2FY19	QoQ Chg.	9MFY19	9MFY18	YoY Chg.
(%)								
Corp Agents	68%	70%	(2.8)	69%	(1.8)	67%	70%	(3.0)
Agency	11%	12%	(1.3)	11%	(0.1)	11%	11%	-
Broker	4%	3%	0.7	3%	0.7	4%	5%	(1.0)
Direct	17%	14%	3.4	16%	1.2	17%	14%	3.0
Rs Bn								
Corp Agents	8.5	8.4	0.2	8.6	(1.7)	22.5	21.2	6.2
Agency	1.4	1.5	(6.3)	1.4	0.2	3.7	3.3	11.0
Broker	0.5	0.4	24.7	0.4	20.3	1.3	1.5	(11.2)
Direct	2.1	1.7	30.0	2.0	8.8	5.7	4.2	34.8

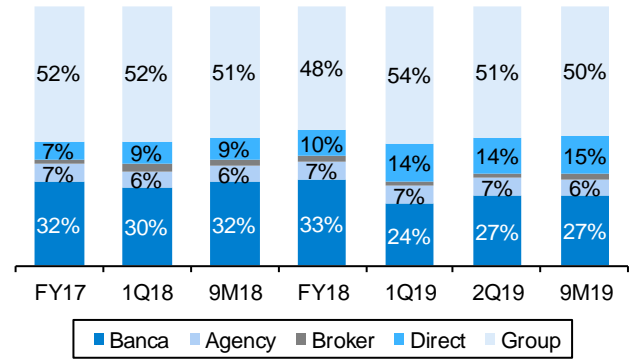
Source: Company, PL

Exhibit 7: Individual sourcing: Banca dominates but slower this quarter



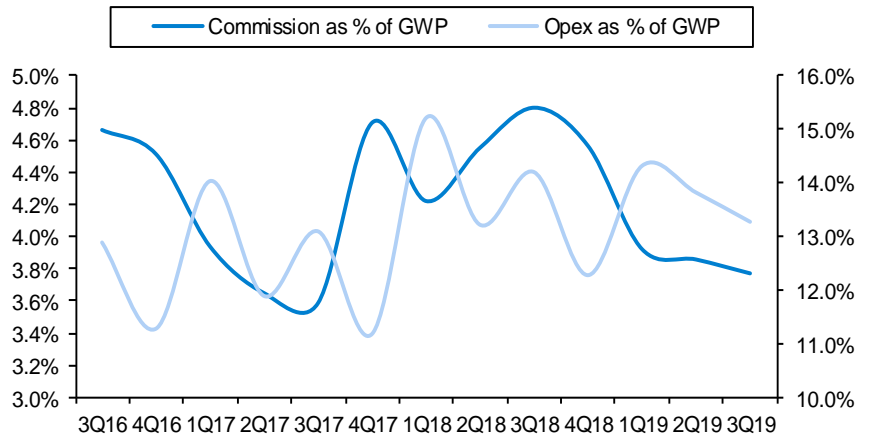
Source: Company, PL

Exhibit 8: Total sourcing: Higher thrust on direct rest sourcing steady



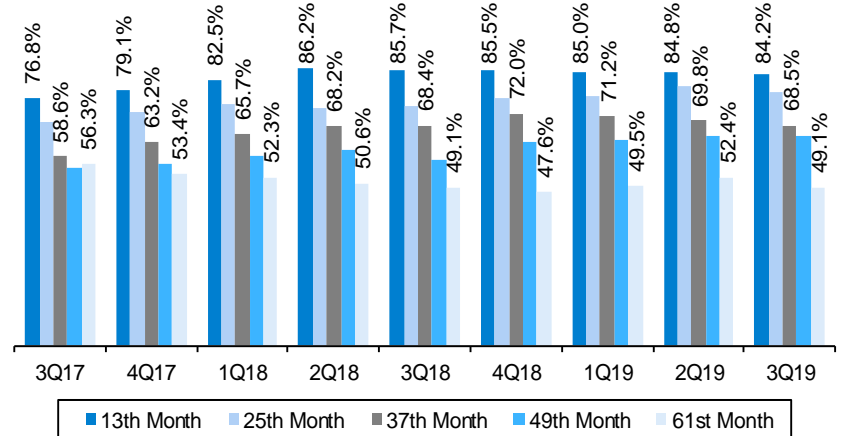
Source: Company, PL

Exhibit 9: Commissions come down with steady opex

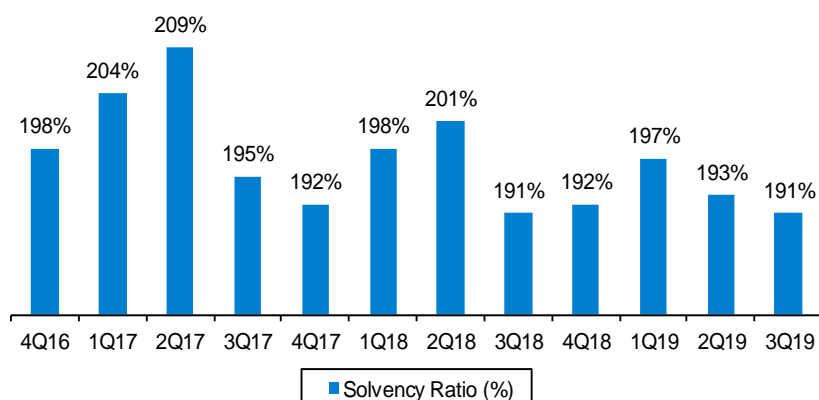


Source: Company, PL

Exhibit 10: Mild dip in persistency across buckets



Source: Company, PL

Exhibit 11: Solvency Ratio maintained


Source: Company, PL

Exhibit 12: Key Metrics and EV movement

Rs bn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
APE	25.2	31.8	36.2	40.9	54.0	67.0	84.0	105.9
YoY growth (%)	(22.2)	26.2	13.5	13.0	32.2	24.0	25.4	26.1
NBV	6.6	7.4	8.2	9.2	12.8	16.7	21.4	27.7
YoY growth (%)	10.0	12.1	10.9	12.4	38.9	30.1	28.1	29.7
EV Movement								
Opening IEV	58.7	69.9	88.0	102.3	124.7	152.1	185.7	228.2
New Business Value	6.6	7.4	8.2	9.2	12.8	16.7	21.4	27.7
EVOP	11.1	15.2	16.1	22.2	26.8	35.2	42.7	53.6
Dividend payout	1.2	1.7	2.2	2.6	3.3	3.6	3.9	4.1
Closing EV	69.9	88.0	102.3	124.7	152.1	185.7	228.2	281.8
Adjusted Net worth	20.1	27.9	32.9	41.4	48.5	56.0	64.5	1.0
Value in force (VIF)	49.8	60.1	69.4	83.2	103.6	129.7	163.7	280.7
Ratios (%)								
NBAP margins	15.2	18.5	19.9	22.0	23.2	24.9	25.4	26.2
RoEV	21.1	28.3	18.8	24.2	23.6	23.3	23.8	24.4
Operating RoEV	18.9	21.8	18.3	21.7	21.5	23.1	23.0	23.5

Source: Company, PL

Exhibit 13: We revise our TP slightly to Rs438 (from 440) based on 3.4x Sep-20 EV

PT calculation and upside	
Op RoEV	23.2%
CoE	12.9%
Terminal Growth	5.0%
Embedded value (Rs bn)	255.0
Price / Embedded value	3.5
Appraisal Value	878
Number of shares, mn	2,012
Valuation per share	438
CMP	383.85
Upside (%)	14.0%

Source: Company, PL

Appendix

Exhibit 14: Policyholders' Account (Technical Account)

Policyholders' Account	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net earned premium	112,648	119,764	147,625	161,788	192,749	233,710	277,989	333,918	405,509
Investment income	25,424	50,733	122,495	17,906	111,406	85,946	127,746	141,916	165,768
Other income	276	2,412	789	971	1,389	2,685	2,981	3,399	3,879
Total Revenue	138,348	172,910	270,908	180,665	305,544	322,341	408,717	479,234	575,157
Commission expense	6,394	5,141	6,235	7,018	7,920	10,749	10,551	11,849	14,193
Operating expense	13,438	12,807	14,890	18,718	23,853	31,593	32,566	37,328	45,338
Benefit Cost	111,517	147,532	238,864	141,700	260,551	264,337	346,835	408,316	489,628
Total expense	131,865	168,611	262,688	171,068	296,067	311,394	397,081	465,506	558,308
Surplus / Deficit	6,483	4,299	8,220	9,597	9,477	10,946	11,635	13,728	16,850

Source: Company, PL

Exhibit 15: Shareholders' Account (Revenue Account)

Shareholders' Account	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	
Transfer from policholders' account		3,937	7,654	6,709	7,182	7,863	10,022	9,552	11,884	14,606
Investment income		712	1,141	2,009	1,688	2,269	2,803	3,901	3,115	3,099
Expenses		92	2,370	672	626	991	1,687	1,848	2,109	2,408
Profit before tax		4,557	6,425	8,046	8,350	9,141	11,267	11,736	13,020	15,426
Tax expenses		42	(828)	191	166	220	177	587	651	771
Profit after tax		4,515	7,253	7,855	8,184	8,921	11,090	11,149	12,369	14,655

Source: Company, PL

Exhibit 16: Balance Sheet

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Sources of Fund									
Shareholders' Fund	22,042	22,131	25,919	31,586	38,387	47,492	55,009	63,504	74,043
Borrowings	-	-	-	-	-	-	-	-	-
Policyholders' Funds: Insurance reserves and provisions	382,315	485,781	642,608	701,812	865,806	1,001,265	1,218,966	1,480,851	1,794,776
Others	6,486	3,130	4,641	7,055	8,668	9,592	14,388	21,582	32,373
Total	410,843	511,041	673,168	740,454	912,860	1,058,348	1,288,363	1,565,937	1,901,191
Application of Funds									
Shareholders' inv	8,338	16,156	21,962	26,402	32,456	40,703	37,320	35,967	36,943
Policyholders' inv	107,273	147,062	199,085	258,629	346,915	453,471	610,155	801,905	1,037,112
Assets to cover linked liab.	283,331	342,074	449,203	457,270	538,005	571,854	651,913	743,181	847,227
Net Current Assets	(392)	(459)	(2,358)	(6,741)	(8,523)	(11,279)	(15,195)	(19,949)	(25,695)
Other Assets	12,293	6,209	5,276	4,894	4,007	3,601	4,170	4,832	5,604
Total	410,843	511,042	673,168	740,454	912,860	1,058,351	1,288,363	1,565,937	1,901,191

Source: Company, PL

**Exhibit 17: Embedded Value**

Embedded Value	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Embedded Value	58,660	69,860	87,960	102,300	124,661	152,129	185,715	228,239	281,758
Annualised Premium Equivalent (APE)	32,454	25,240	31,843	36,156	40,852	53,996	66,978	83,993	105,877
New Business Value	6,000	6,600	7,400	8,208	9,225	12,816	16,678	21,370	27,721
New Business Margin (%)	12.7	15.2	18.5	19.9	22.0	23.2	24.9	25.4	26.2
EV Operating Profit	9,600	11,100	15,200	16,125	22,217	26,834	35,218	42,699	53,634
Operating RoEV (%)	19.9	18.9	21.8	18.3	21.7	21.5	23.1	23.0	23.5

Source: Company, PL

Exhibit 18: Key Ratios

Key Ratio	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Commission expense/GWP (%)	5.6	4.3	4.2	4.3	4.1	4.6	3.8	3.5	3.5
Operating expense/GWP (%)	11.9	10.6	10.0	11.5	12.3	13.4	11.6	11.1	11.1
Total expense/GWP (%)	18.0	14.9	14.2	15.8	16.3	18.0	15.4	14.6	14.5

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	681	637
2	Bank of Baroda	BUY	161	123
3	Bank of India	Reduce	89	106
4	Federal Bank	BUY	102	89
5	HDFC Bank	BUY	2,371	2,130
6	HDFC Standard Life Insurance Company	BUY	440	393
7	ICICI Bank	BUY	415	368
8	ICICI Prudential Life Insurance Company	BUY	507	320
9	IDFC Bank	Accumulate	55	46
10	IndusInd Bank	BUY	1,765	1,602
11	Jammu & Kashmir Bank	BUY	76	37
12	Kotak Mahindra Bank	Hold	1,291	1,268
13	Max Financial Services	BUY	629	436
14	Punjab National Bank	Hold	79	81
15	SBI Life Insurance Company	BUY	779	620
16	South Indian Bank	BUY	22	16
17	State Bank of India	BUY	355	296
18	Union Bank of India	Reduce	79	91
19	YES Bank	Accumulate	231	187

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

We/I, Ms. Pritesh Bumb- MBA, M.com, Mr. Prabal Gandhi- BTech, CFA Level II Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Ms. Pritesh Bumb- MBA, M.com, Mr. Prabal Gandhi- BTech, CFA Level II Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>