

HDFC Life Insurance

BSE SENSEX
40,413

S&P CNX
11,910

CMP: INR573

TP: INR600 (+5%)

Neutral



Bloomberg	HDFCLIFE IN
Equity Shares (m)	2,005
M.Cap.(INRb)/(USDb)	1155.6 / 16.3
52-Week Range (INR)	646 / 345
1, 6, 12 Rel. Per (%)	0/25/34
12M Avg Val (INR M)	2082
Free float (%)	28.8

Financials & Valuations (INR b)

Y/E MARCH	FY19	FY20E	FY21E
Net Premiums	289.2	363.7	447.8
Surplus / Deficit	13.5	12.5	18.5
Sh. PAT	12.8	14.7	17.7
New bus.gr-unwtd (%)	31.9	35.0	25.0
New bus gr - APE (%)	12.0	33.0	27.3
Premium gr - unwtd (%)	23.9	26.0	23.1
NBP margin (%)	24.6	26.1	27.1
RoE (%)	24.5	23.8	24.1
RoEV (%)	20.3	21.9	19.8
Total AUMs (INRb)	1256	1596	1977
VNB(INRb)	15.4	22.1	27.7
EV per share	91.2	110.6	132.1

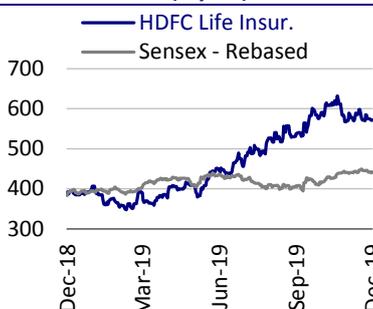
Valuations			
P/EV (x)	6.3	5.2	4.3
P/EPS (x)	90.3	83.9	69.9

Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	71.2	74.5	80.9
DII	4.4	4.9	2.3
FII	16.0	11.8	8.5
Others	8.5	8.8	8.4

FII Includes depository receipts

Stock Performance (1-year)



Business prospects healthy; technology remains a key enabler

Operating metrics robust; channel diversification to help sustain growth

We attended the HDFC Life – Tech Edge event wherein the company highlighted the progress it is making across businesses and how it is using technology to provide a seamless experience to its customers, channel partners and other stakeholders. The topics of discussion ranged around (a) simplifying customer journey – right from the on-boarding stage to servicing and claims settlement/turnaround time, (b) employing technology to deepen integration with channel partners and making sales process more efficient, (c) using data analytics to improve the sales conversion rates, better underwriting to reduce the risk of early claims, and managing sales attrition/agent inactivation and (d) collaborating with start-ups to offer improved customer proposition and dealing with problems of mortality, morbidity and longevity.

Customer centricity remains the key focus – raising service benchmarks

HDFCLIFE has been making significant efforts to build its digital edge which is enabling it to raise the servicing benchmarks and delight customers/other stakeholders. This is also helping it attract more channel partners and deliver sustainable business growth, ahead of its peers. The company has been able to (i) reduce the policy issuance time to <4 hours in 1HFY20 (2 days in FY15), (ii) lower the claim settlement period to 1.2 days (FY17: 9.3 days), (iii) increase the claim settlement ratio to 99% (FY15: 90.5%), driving a significant improvement in the customer satisfaction score to 93% (85% earlier) and (iv) significantly increase the number of channel partners to 270+ (FY15: 31).

Technology remains a key differentiator

While **journey simplification** through digital adoption has led to an 84% increase in the number of lead generation, it has simultaneously driven a 46% reduction in cost per lead. On **partner integration**, the new alliance with Paytm and Airtel has been driving healthy volumes, while the mainstay banca and the direct channels continue driving business growth. HDFCLIFE has built various capabilities in **data analytics** such as text, vision, speech artificial intelligence (AI) and machine learning, which has led to a reduction in operating cost, improved scalability and enhanced customer experience. **Service simplification** through Insta serv, Insta receipt and Insta revival has facilitated automation of various processes and frictionless customer experience.

Valuation and view

HDFCLIFE has maintained strong momentum in business growth while improving the business mix (toward non-par products), driving a sharp improvement in the VNB margin. The company continues seeing significant potential in the annuity/protection business which will help sustain growth momentum and drive profitability. While we remain positive on the company, the robust 49% stock return over the past year implies limited upside to our target price. Maintain **Neutral** with an unchanged TP of INR600.

Key takeaways from session with top management

Session with Ms Vibha Padalkar (MD & CEO) and Mr Parvez Mulla (COO)

- HDFCLIFE's key focus remains on innovation to build a value proposition and enhance customer satisfaction throughout the customer journey.
- Over time, the ideology of life insurance companies has changed from being a product factory to becoming customer centric, and thus innovation is the key to create a moat in the business. Moat in the insurance company revolves around (a) what the company sells and (b) how they sell it.
- Five pillars of customer centricity include: (i) journey simplification (ii) partner integration, (iii) data labs, (iv) service simplification and (v) platform and ecosystem.
- As the legacy systems of IBM and TCS did not provide the much-needed partner integration, HDFCLIFE has tied up with various start-up players. Approximately 40 people have joined from various startups.
- Also, the company has ~160 BOTs to resolve simple & complex queries.
- HDFCLIFE has partnered with various ecosystem partners like Paytm and Airtel, through which it provides life insurance policies. For example, HDFCLIFE underwrites ~29K policies per day in partnership with Airtel.
- Further due to artificial intelligence and machine learning, the company has started offering pre-approved sum assured to its customers as it has all the relevant data about customers pre-hand.

Session 1: Journey Simplification

Mr Thomson Thomas (Executive VP – Business Systems & Technology)

Mr Vishal Subharwal (Executive VP – E Commerce & Digital Marketing)

- HDFC Life has been able to improve the turnaround time significantly through the use of digitalization. In the pre-digital era, it used to take 10 days with ~40 underwriting procedures to issue a policy. This has now considerably reduced to 2 days with 10-15 steps.
- Around 99% of new customers are on-boarded digitally. Also, 3m customers have been verified through Insta-verify app which was built in 2014.
- The digital journey for the customers has to start when the customer is in the discovery stage. Further, customers are also nudged through Facebook, Google, etc.
- Also, the company gathers a lot of information through the web aggregator's website which is then used to nudge the customer through various means.
- HDFCLIFE has moved to progressive web application – which is a website with a similar experience of an app.
- Due to digital adoption, the company has experienced ~46% reduction in cost per lead and ~84% increase in the number of leads.

Session 2: Partner Integration

Mr Narendra Ganpule (Senior VP – Digital)

- HDFCLIFE has a strong and diversified network of 270+ traditional partners (banca plus other partners) with approximately two thirds of the business originating from them.

- It has recently tied up with e-commerce players, which gives the company access to a large base of affluent customers.
- Through **HDFC Bank channel**, ~82% of the policies are issued via straight through processing while one policy is sold every 60 second through this channel. Earlier the average form filling time was ~10 mins per policy.
- **Paytm smart insure:** Through this channel, policies are sold to new customers which do not have high income. Average ticket size sold through these channel is INR0.1m/INR 0.3m/INR 0.5m. Policy gets issued with just three clicks. HDFCLIFE sells ~5K policies per day through this channel and till date the number of policies sold is 1.1m.
- **Partnership with Airtel:** HDFC Life has partnered with Airtel to provide pre-bundled policies to pre-paid customers at the time of recharge. With 95% of the Airtel customers having pre-paid connections, this provides a huge opportunity for the company. The entire process journey is a click-less process.

Session 3: Data Labs

Mr Francis Rodrigues (Data Labs, Business Insights & Innovation)

- HDFCLIFE has harnessed its customer data by enhancing its computing power and analytical abilities and will continue to do so.
- The company is working on three main aspects: Cloud storage/computing, Big Data and Artificial Intelligence (AI).
- This will enable a reduction in opex cost, better scalability and customer experience which in turn will help in reducing TAT.
- The company has developed virtual assists and other app for sales team and call centers to handle customer queries in an effective manner. They handle 960+ queries, 1lakh+ intents with an accuracy of ~99%.
- The company has built the following capabilities:
- **Text AI:** Various tools like ELLE (300+ queries, 4.75lacs customer), NEO (twitter BOT – 250+ queries), SPOK (Email BOT – 28% of the mails are managed, ~90k requests) and Sentyzer (understands customer experience and sentiment with ~95% accuracy) are used to handle common queries.
- **Vision AI:** Tool like Agetymer (to create an emotional trigger which predicts future face), FaceSense (for customer verification at the time of payouts; ~92% accuracy) and Bodmeter (to determine the customer BMI from selfie) helps in adding further value and assist in the overall process.
- **Speech AI:** Tools like Truecue; Voice BOT sVar have improved the efficiency of the revival process. It provides an interactive conversation BOT with an accuracy of ~98%.
- **Machine Learning:** These tools are used across functions including new business, on-boarding, and customer retention and employee management. Machine learning has resulted in a 42% increase in appointment rates and reduced the risk of early claims (helped in avoiding potential claims of INR2.1b). It accurately predicts ~70% of the customers who will pay premium within time while also identifying the risk of attrition. It has an identified segment with ~17% incremental chance of attrition.
- **Cognitive bots:** Used for automating the manual processes across different functions to improve operational excellence. The company has over 150 bots across 26 functions.

Session 4: Service Simplification

Mr Jitendra Agrawal (Executive VP – Business & Service Excellence)

Ms Rajarajeshwari Govindu (Executive VP – Operation & Customer Service)

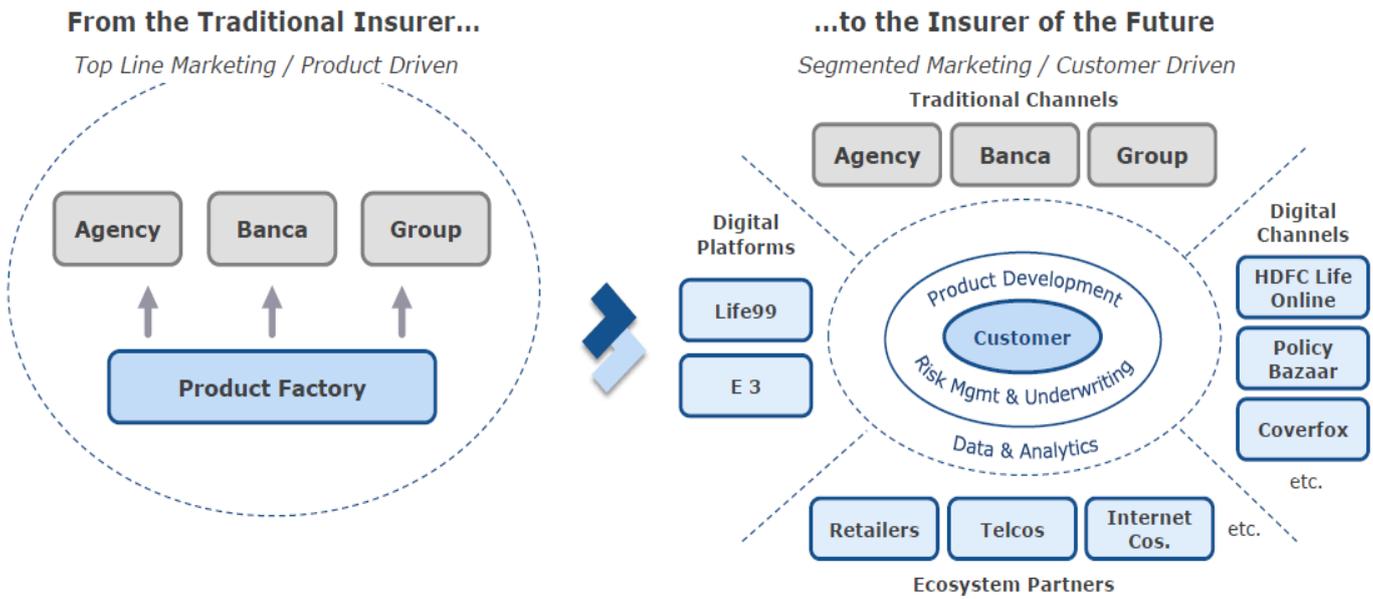
- Given the customer centric focus, HDFCLIFE aims to offer simplified service to its customers by using the above-mentioned solutions and capabilities. These services centers focus on providing:
- **Instant experience:** The company aims to provide instant experience through:
 - Customer app – offers policy servicing at finger tips which has enabled ~10k policies being renewed per month, offers fund switch and premium redirection (~2k+ policies).
 - Instaserv – used by branches for customer transaction, resulting in a reduction in TAT to less than 6 minutes, increased customer satisfaction to ~93%.
 - Instareceipt – enables instant issuance of renewal premium payment receipts (takes ~30 seconds for entry, 98% TAT reduction with 100% accuracy).
 - Instarevival – enables processing of lapsed cases to improve persistency (~55k transaction in 120 days, ~55 seconds for case processing).
- **24x7 experience** through Elle, Neo, Spok, Ety and other bots.
- **Ease by process automation:** Deployed over 150 bots across 26 functions with 41% amongst complex processes. ~138m transactions are processed annually with a focus on customer/partner centric processes to convert them to automation and remove non-value adding processes (75% reduction), enabling 80% efficiency in TAT.
- **Frictionless experience** – providing a streamline process by offering key initiatives such as life easy – an analytical driven investigation enabling 100% payout within day 1 of claim initiation, life certificate – a tool that enables senior citizen to provide their survival status through video for faster processing of annuity customers (customer time reduced to 120 seconds, 100% automated journey), Customer 360 – to anticipate customer needs and offer better service and Quick register – a paperless registration process with TAT of less than 2mins.

Session 5: Platforms & Ecosystems

Mr Soumitra Narain (Senior VP – Products & Ecosystem - Solutions)

- The company is focusing on using the entire ecosystem to capture the customer base of its partners to generate new segments of revenue.
- They have tied up with many non-traditional ecosystem partners like Airtel, Paytm and Uber.
- The company provides a platform Life99 which a one-stop retirement planning platform where customers can consolidate all their savings/retirement provisions etc.
- More than 35 corporates and 10k users have registered on this platform within six months of launch.

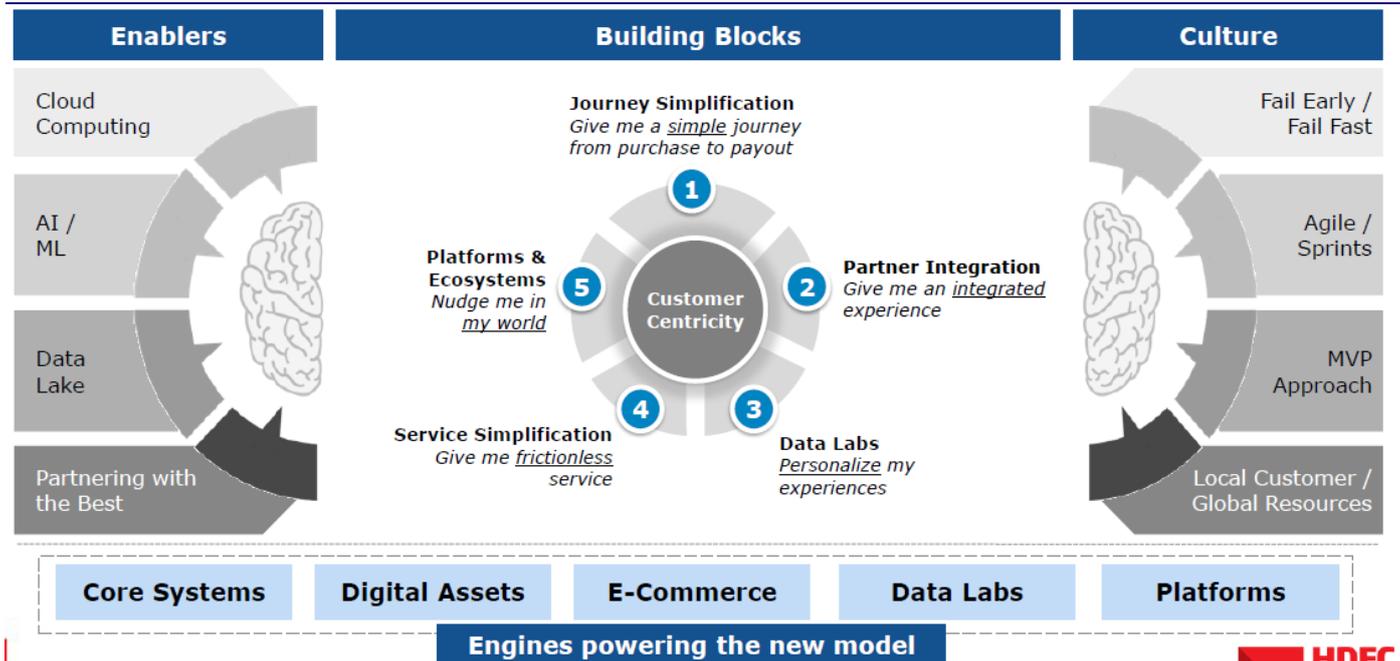
Exhibit 1: HDFC Life is moving its model from product centric to customer centric



...The operating model moved from product centric to being customer centric

Source: MOFSL, Company

Exhibit 2: Creating multiple engines to serve the new operating model



Source: MOFSL, Company

Exhibit 3: Bouquet of products and micro services to solve customer needs

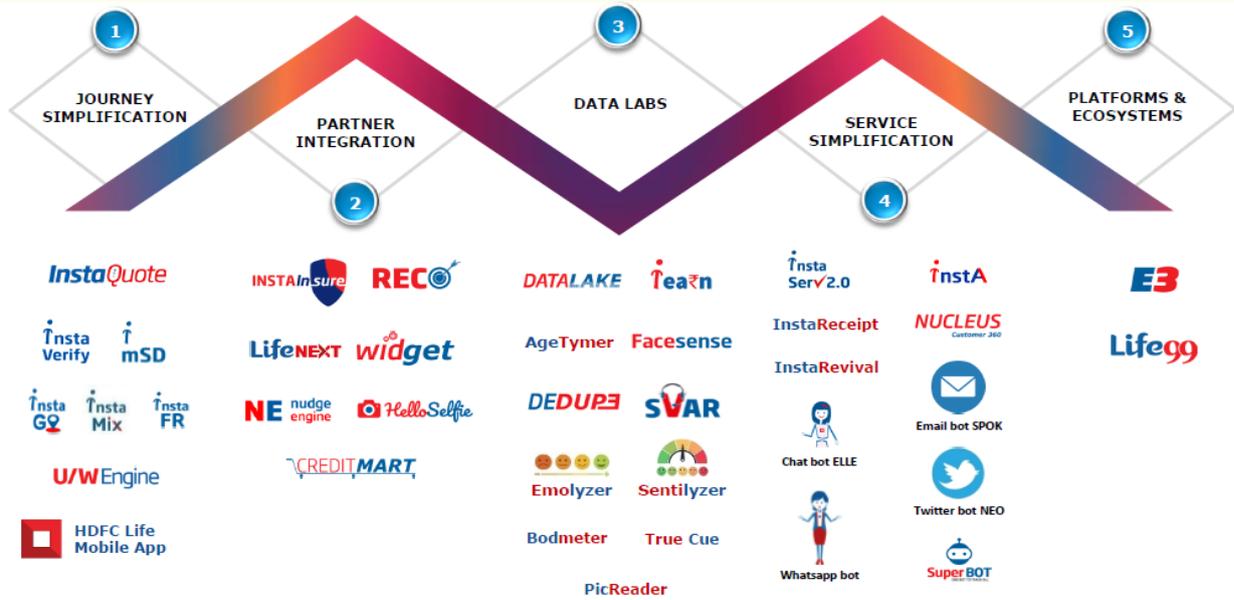


Exhibit 4: Evolution of HDFCLIFE over the period of time

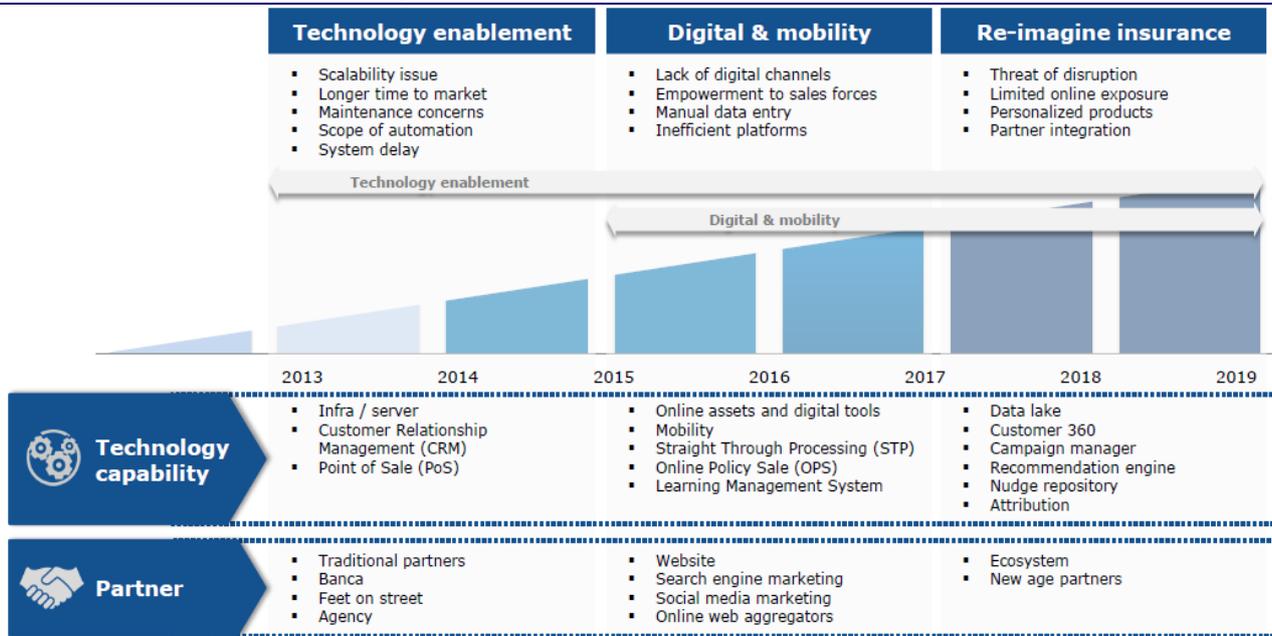


Exhibit 5: Change in TAT over time



Source: MOFSL, Company

Financials and valuations: HDFC life insurance

Technical account (INRm)	FY17	FY18	FY19	FY20E	FY21E
Gross Premiums	194,455	235,644	291,860	367,860	452,739
Reinsurance Ceded	(1,706)	(1,934)	(2,620)	(4,169)	(4,931)
Net Premiums	192,749	233,710	289,240	363,691	447,808
Income from Investments	111,406	85,946	90,275	162,025	214,805
Other Income	1,389	2,703	4,840	4,704	5,497
Total income	305,544	322,359	384,355	530,420	668,110
Commission	7,920	10,749	11,177	16,277	19,910
Operating expenses	23,853	31,593	38,136	43,395	51,094
Total commission and opex	31,773	42,342	49,313	59,672	71,004
Benefits Paid (Net)	100,004	131,114	139,889	173,802	216,497
Chg in reserves	160,548	133,223	175,075	276,099	352,539
Total expenses	292,324	306,679	364,276	509,573	640,040
Profit before tax	9,476	15,670	19,173	20,826	28,044
Tax (incl Service Tax & GST)	3,394	4,725	5,666	8,324	9,579
Surplus / Deficit	6,083	10,946	13,507	12,502	18,464

Shareholder's a/c (INRm)	FY17	FY18	FY19	FY20E	FY21E
Transfer from technical a/c	7,863	10,022	12,069	12,662	16,600
Income From Investments	2,269	2,803	4,084	4,310	5,752
Total Income	10,132	12,955	16,364	17,183	22,563
Other expenses	680	125	278	311	343
Contribution to technical a/c	354	1,567	3,090	1,159	3,379
Total Expenses	991	1,697	3,465	1,587	3,839
PBT	9,141	11,267	12,899	15,596	18,724
Prov for Tax	220	177	131	858	1,030
PAT	8,921	11,090	12,768	14,738	17,695
Growth	9%	24%	15%	15%	20%

Premium (INRm) & growth (%)	FY17	FY18	FY19	FY20E	FY21E
New business prem - unwtd	86,210	113,496	149,715	202,115	252,643
New business prem - WRP	41,534	53,996	60,494	80,443	102,377
Renewal premium	108,245	122,148	142,146	165,745	200,096
Total premium - unwtd	194,455	235,644	291,860	367,860	452,739
New bus. growth - unwtd	32.9%	31.7%	31.9%	35.0%	25.0%
New business growth - APE	14.9%	30.0%	12.0%	33.0%	27.3%
Renewal premium growth	10.2%	12.8%	16.4%	16.6%	20.7%
Total prem growth – unwtd	19.2%	21.2%	23.9%	26.0%	23.1%

Premium mix (%)	FY17	FY18	FY19	FY20E	FY21E
New business - unwtd					
- Individual mix	48.7%	52.4%	51.1%	62.0%	62.0%
- Group mix	51.3%	47.6%	48.9%	38.0%	38.0%
New business mix - WRP					
- Participating	30.0%	24.8%	14.4%	23.8%	28.1%
- Non-participating	21.5%	22.7%	38.5%	40.0%	40.5%
- ULIPs	48.5%	52.5%	47.1%	36.2%	31.4%
Total premium mix - unwtd					
- Participating	25.9%	24.9%	20.0%	23.5%	24.4%
- Non-participating	27.4%	31.5%	41.2%	39.8%	38.0%
- ULIPs	46.7%	43.6%	38.8%	36.7%	37.6%

Financials and valuations: HDFC life insurance

Balance sheet (INRm)	FY17	FY18	FY19	FY20E	FY21E
Sources of Fund					
Share Capital	19,985	20,126	20,178	20,178	20,178
Reserves And Surplus	18,278	27,064	36,409	46,897	59,492
Shareholders' Fund	38,263	47,492	56,556	67,045	79,639
Policy Liabilities	323,827	423,193	536,723	708,050	908,484
Prov. for Linked Liab.	508,065	545,982	605,213	760,529	912,635
Funds For Future App.	8,668	35,464	39,488	47,065	56,276
Current liabilities & prov.	37,753	46,464	51,179	66,533	86,492
Total	951,061	1,104,815	1,300,280	1,649,222	2,043,526
Application of Funds					
Shareholders' inv	32,314	40,703	50,498	93,166	98,557
Policyholders' inv	346,915	453,471	571,245	741,936	965,743
Assets to cover linked liab.	538,005	571,854	633,774	760,529	912,635
Loans	479	187	1,062	1,317	1,633
Fixed Assets	3,535	3,414	3,339	3,840	4,416
Current assets	29,677	11,085	40,362	48,435	60,544
Total	951,061	1,104,815	1,300,280	1,649,222	2,043,526
Operating ratios (%)	FY17	FY18	FY19	FY20E	FY21E
Investment yield	12.6%	8.4%	7.5%	10.8%	11.4%
Commissions / GWP	4.1%	4.6%	3.8%	4.4%	4.4%
- first year premiums	17.7%	18.4%	15.5%	19.8%	18.8%
- renewal premiums	1.3%	1.3%	1.5%	1.4%	1.5%
- single premiums	0.1%	0.8%	1.2%	0.5%	0.5%
Operating expenses / GWP	12.3%	13.4%	13.1%	11.8%	11.3%
Total expense ratio	16.3%	18.0%	16.9%	16.2%	15.7%
Claims / NWP	51.1%	55.2%	46.4%	45.9%	46.4%
Solvency ratio	192%	192%	188%	180%	174%
Persistency ratios (%)	FY17	FY18	FY19	FY20E	FY21E
13th Month	81.0%	87.1%	87.2%	87.4%	87.8%
25th Month	73.0%	77.4%	80.5%	77.7%	78.2%
37th Month	64.0%	70.9%	72.0%	71.2%	71.7%
49th Month	58.0%	62.2%	67.7%	62.5%	63.0%
61st Month	57.0%	51.0%	52.3%	51.3%	51.8%
Profitability ratios (%)	FY17	FY18	FY19	FY20E	FY21E
NBP margin (%)	22.0%	23.2%	24.6%	26.1%	27.1%
RoE (%)	25.5%	25.8%	24.5%	23.8%	24.1%
RoIC (%)	41.0%	50.1%	56.8%	65.1%	78.2%
EVOP as % of IEV	21.8%	21.5%	20.1%	22.0%	22.6%
RoEV (%)	21.9%	22.0%	20.3%	21.3%	19.4%
Valuation datapoints	FY17	FY18	FY19	FY20E	FY21E
Total AUMs (INRb)	917	1,066	1,256	1,596	1,977
- of which equity AUMs (%)	41%	39%	38%	39%	40%
Dividend %	11%	14%	16%	18%	21%
Dividend payout ratio (%)	30%	30%	31%	29%	29%
EPS, INR	4.5	5.5	6.3	7.3	8.8
Value of new business (INRb)	9.1	12.8	15.4	21.0	27.7
Embedded Value (INRb)	124.7	152.1	182.9	221.8	264.9
EV per share (INR)	62.2	75.8	91.2	110.6	132.1
VIF as % of EV	67%	68%	68%	69%	70%
P/VIF (%)	13.8	11.1	9.2	7.5	6.2
P/AUM (%)	125%	108%	91%	72%	58%
P/EV (x)	9.2	7.6	6.3	5.2	4.3
P/EPS (x)	128.1	103.5	90.3	78.4	65.3

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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