

April 28, 2020

Q4FY20 Result Update

Key Financials

Y/e March	FY19	FY20E	FY21E	FY22E
Net Premiums (Rs m)	289,240	325,058	366,997	421,035
- Growth (%)	23.8	12.4	12.9	14.7
Total Income (Rs mn)	384,355	431,938	495,568	581,638
Surplus / Deficit (Rs m)	13,507	11,098	13,866	17,576
PAT (Rs m)	12,768	10,465	10,460	11,255
- Growth (%)	15.1	(18.0)	(0.0)	7.6
EPS (Rs)	6.3	5.2	5.2	5.6
Emb. Value (Rs bn)	182.9	206.6	245.0	290.7
NBP Margin (%) post overrun	24.6	25.9	26.6	27.2
RoE (%)	24.5	17.4	15.6	15.2
Operating RoEV (%)	20.1	18.1	19.0	19.3
RoEV (%)	22.5	12.7	20.0	19.9
Dividend yield (%)	0.3	0.3	0.3	0.3
Price/EV (x)	5.3	4.7	4.0	3.4
Ap. Value/EV (x)	3.6	3.5	3.3	3.2

Key Data

HDFS.BO | HDFCLIFE IN

52-W High / Low	Rs.646 / Rs.345
Sensex / Nifty	31,743 / 9,282
Market Cap	Rs.978.61bn / \$ 12,836.8m
Shares Outstanding	2,018.8m
3M Avg. Daily Value	Rs.2,496.7m

Shareholding Pattern (%)

Promoter's	66.18
Foreign	19.94
Domestic Institution	4.96
Public & Others	8.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.9	(26.8)	13.6
Relative	(2.8)	(5.6)	35.7

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Mixed performance with challenge on margins

Quick Pointers

- Decent APE growth of 18% YoY, while VNB margins come off to 25.9%
- Creates COVID reserves of Rs400mn; remains comfortable on solvency

HDFC Life's overall APE grew by 18% YoY driven by decent growth in NBP & regular premiums. Product mix on Ind. APE basis shifted to Par (traction from SPar Advantage) from NPar (slowed SP product) which also likely dragged margins lower sequentially to 25.9% in FY20 from 26.6% in 9M20 and also conservatively increasing persistency & mortality assumptions. Higher protection mix, diversified product suite & strong technology adoption enables to retain continued business growth but margins trajectory will be steady ahead. Risks on solvency are to be closely watched which is hovering at 180-190%. We retain HOLD with revised TP of Rs454 (from 579) based on 3.2x Mar-22 EV (from 4.0x Sep-22 EV).

- Mixed growth performance:** Overall APE has held up at 18% YoY although has been led by strong Par segment (likely contributed from SP advantage) growth of 24% YoY in FY20 % 126% YoY in 4Q20. Protection growth of 34% was slower than usual mostly due to lockdown with only online channel and lower ticket size contributing. Overall individual & group protection has been steady at 17% of APE, but company will have to increase focus to bring back margin traction it seems to be losing.
- Margins continue to see normalization:** VNB margins came off to 25.9% in FY20 from 26.6% in 9M20. 60bps decline in VNB Margins due to change in assumptions came partly from effective tax rate (20bps) and stricter assumptions on mortality and persistency which could arise due to the COVID crisis, which company may unwind if risks do not pan out. Margin are likely to remain steady at 25-26% on lower growth but despite higher protection.
- EV sees slowdown in growth rate:** EV grew by 13% YoY as VNB grew comparatively slow at 25% YoY to Rs19.2bn and change in economic variances of Rs10bn due to declined equity markets adversely impacted EV. Persistency has improved on 13M/61M to 90.1%/55% which is up 290/270bps YoY in FY20 but impact on VNB from conservative persistency assumptions did not reflect in EV as well.
- Key Concall Takeaways:** (i) COVID Reserve of Rs 400mn created (ii) Rs 11bn impact in NBP and renewals of which Rs 4-5bn on FYP (iii) Unwind Rates have been in line with interest rate movements (iv) Solvency ratio adversely impacted by falling equity markets by ~10% (though remain well above board approved levels of 174%) but to take opportunities in protection raising Rs6bn through NCDs (v) In light of the current scenario, new trends observed were - faster growth in online channels, Group Term and Term APE, slightly smaller ATS emerging (vi) Impairment hits of Rs 5.6bn to policyholder funds and Rs 2bn to shareholder funds on diminution in equity values due to fall in equity markets (vii) Negative change in economic variance of Rs 10bn is having significant contribution from equity segment, not debt and Rs 1.06bn Yes Bank AT-1 Bonds provided for.

Exhibit 1: MTM on Investments hits profitability while back book surplus nets off new business strain

(Rs m)	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)
Policyholders' Account					
Gross Premium Income	1,06,148	1,03,265	2.8	80,011	32.7
Net Premium Income	1,04,645	1,02,475	2.1	78,543	33.2
Income from Investments (Net)	(1,02,299)	37,557	(372.4)	37,326	(374.1)
Total (A)	4,186	1,43,746	(97.1)	1,16,487	(96.4)
Net Commission	4,289	3,935	9.0	3,520	21.9
Opex related to Insurance	12,522	12,189	2.7	10,600	18.1
Benefits Paid (Net)	53,269	46,899	13.6	58,093	(8.3)
Change in actuarial liability	(73,165)	71,763	(202.0)	39,965	(283.1)
Total (B)	2,826	1,37,789	(97.9)	1,14,028	(97.5)
Surplus / (Deficit)	1,361	5,956	(77.2)	2,460	(44.7)
Shareholders' Account					
Trf from Policyholders A/c	4,517	4,759	(5.1)	1,691	167.1
Investment Income	1,046	1,846	(43.3)	1,130	(7.5)
Total	5,562	6,605	(15.8)	2,821	97.2
Expenses other than related to insurance	179	180	(0.4)	66	170.2
Trf to Policyholders A/c	748	2,981	(74.9)	88	747.0
Profit/(Loss) before Tax	2,845	3,453	(17.6)	2,636	7.9
Provision for Taxation	(272)	(187)	45.4	134	(303.7)
Profit/(Loss) after Tax	3,117	3,640	(14.4)	2,502	24.6

Source: Company, PL

Exhibit 2: APE growth rate sees a slowdown and VNB Margins maintain lower levels

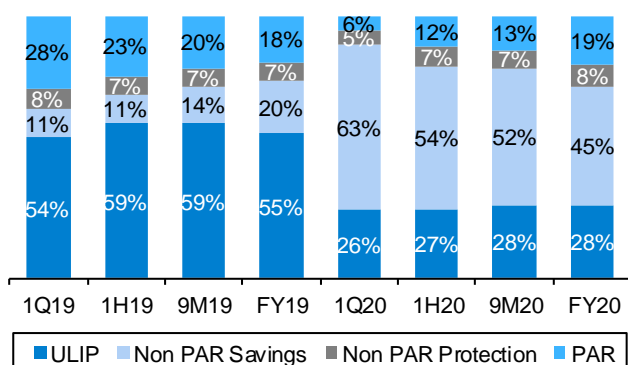
Rs billion	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Total APE	21.1	22.1	(4.7)	18.3	15.3	74.1	62.6	18.3
Individual APE	17.5	18.4	(4.7)	15.3	14.8	61.4	52.0	18.1
% of Individual APE	83%	83%	-7bps	83%	-41bps	83%	83%	-17bps
Group Premium	26.3	23.7	11.2	21.3	23.5	87.8	73.3	19.8
EV	206.5	183	12.8	208	(0.7)	206.5	183	12.8
Op RoEV (%)	18.1	20.1	-200bps	19.0	-90bps	18.1	20.1	-200bps
VNB	5.1	5.7	(9.5)	4.5	13.8	19.2	15.4	24.9
NBAP Margins (%)	24.3	26.8	(251)	24.6	-33bps	25.9	24.6	130bps

Source: Company, PL

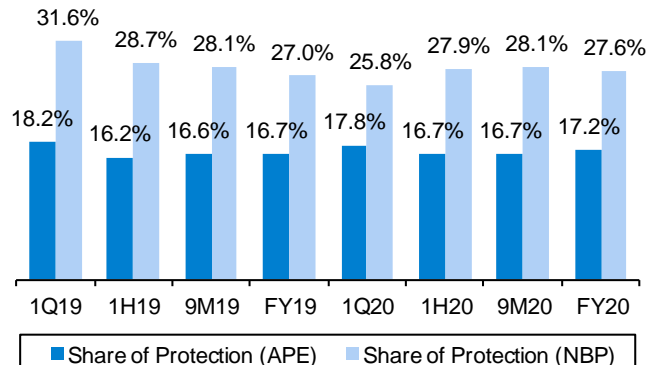
Exhibit 3: PAR segment surges while ULIP decline continues on volatile equity markets

Product Mix	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
(%)								
ULIP	28%	48%	-1968bps	31%	-317bps	28%	55%	-2700bps
Non PAR Savings	27%	31%	-354bps	40%	-1254bps	45%	20%	2500bps
Non PAR Protection	11%	7%	351bps	9%	179bps	8%	7%	100bps
PAR	34%	14%	1971bps	20%	1391bps	19%	18%	100bps
Rs Bn								
ULIP	4.9	8.8	(44.1)	4.8	1.2	17.2	28.6	(39.9)
Non PAR Savings	4.8	5.7	(15.6)	6.2	(22.7)	27.6	10.4	165.7
Non PAR Protection	1.8	1.3	43.0	1.4	35.8	4.9	3.6	34.9
PAR	6.0	2.6	126.2	3.1	90.5	11.7	9.4	24.6

Source: Company, PL

Exhibit 4: NPar continues to dominate the mix, while Par share rises


Source: Company, PL

Exhibit 5: Protection mix remains more or less stable in overall portfolio


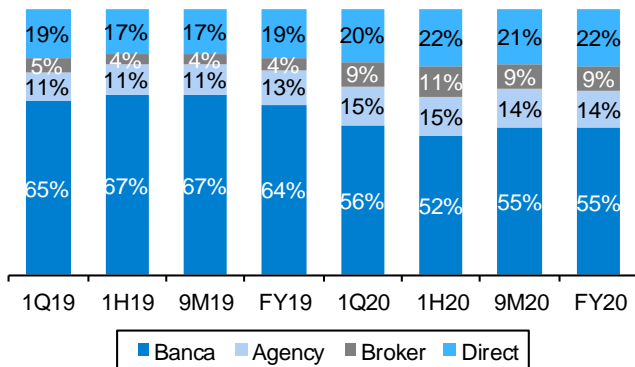
Source: Company, PL

Exhibit 6: Robust growth in Broker channel with the Direct channel also doing well

Indv. Sourcing Mix	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
(%)								
Corp Agents	54%	57%	-380bps	59%	-491bps	55%	64%	-900bps
Agency	14%	16%	-270bps	12%	118bps	14%	13%	100bps
Broker	9%	4%	485bps	7%	145bps	9%	4%	500bps
Direct	24%	22%	165bps	22%	229bps	22%	19%	300bps
Rs Bn								
Corp Agents	9.6	10.7	(10.4)	8.7	11.0	33.8	33.3	1.5
Agency	2.5	3.1	(20.0)	1.8	32.5	8.6	6.8	27.2
Broker	1.6	0.7	114.3	1.1	45.0	5.5	2.1	165.7
Direct	4.3	4.2	3.0	3.2	33.9	13.5	9.9	36.7

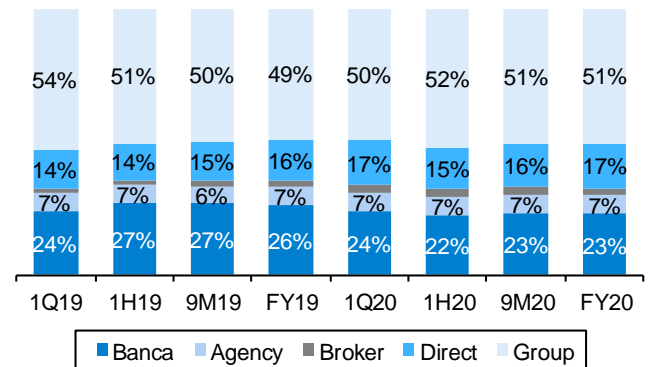
Source: Company, PL

Exhibit 7: On Indi. Basis, Banca share cannibalized by Broker & Direct channels (YoY) while remains steady (QoQ)



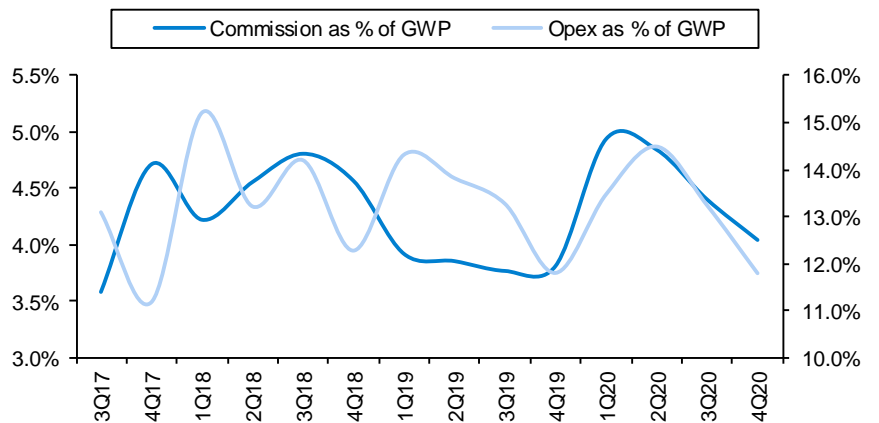
Source: Company, PL

Exhibit 8: Sourcing mix remains steady across channels (Total basis)



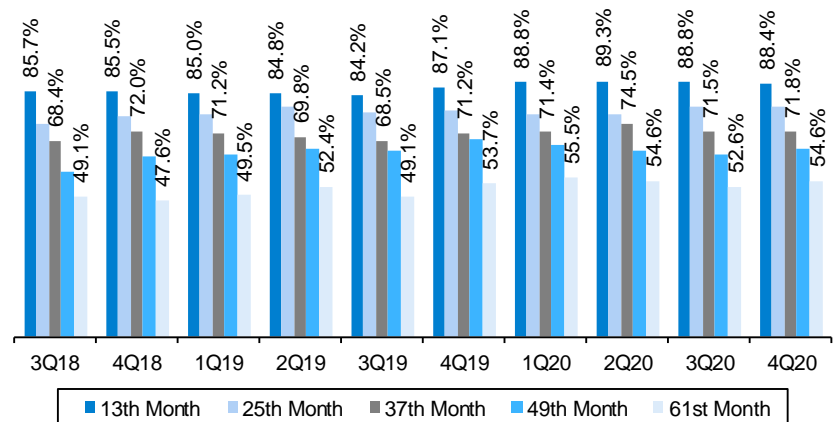
Source: Company, PL

Exhibit 9: Cost ratios remain tightly controlled

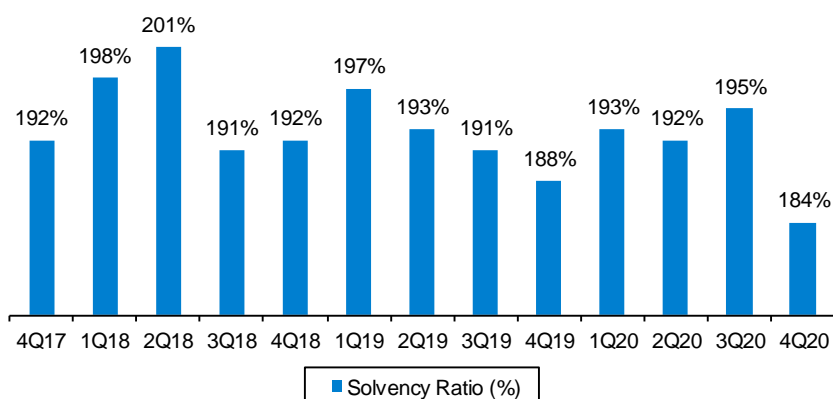


Source: Company, PL

Exhibit 10: Improvements in Persistency ratios continue



Source: Company, PL

Exhibit 11: Solvency Ratio declines on falling equity markets


Source: Company, PL

Exhibit 12: Key Metrics and EV movement – RoEV to improve ahead

Rs bn	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
APE	32	36	42	55	63	74	82	96
YoY growth (%)	26.2	13.5	15.8	32.1	13.1	18.4	10.4	16.8
NBV	7	8	9	13	15	19	22	26
YoY growth (%)	12.1	10.9	12.4	38.9	20.2	24.7	13.4	19.3
EV Movement								
Opening IEV	70	88	102	125	152	183	207	245
New Business Value	7	8	9	13	15	19	22	26
EVOP	15	16	22	27	31	33	39	47
Dividend pay-out	2	2	2	3	3	-	4	4
Closing EV	88	102	125	152	183	207	245	291
Adjusted Net worth	28	33	41	49	58	72	79	86
Value in force (VIF)	60	69	83	104	125	135	166	204
Ratios (%)								
NBAP margins	18.5	19.9	22.0	23.2	24.6	25.9	26.6	27.2
RoEV	28.3	18.8	24.2	23.6	22.5	12.7	20.0	19.9
Operating RoEV	21.8	18.3	21.7	21.5	20.1	18.1	19.0	19.3

Source: Company, PL

Exhibit 13: Change in Estimates – We tweak our APE growth, margin expectations and EV gets impacted from capital market fall

(Rs bn)	Old		Revised		% Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
APE	83.7	102.2	81.8	95.6	(2.3)	(6.5)
VNB	22.8	28.9	21.8	26.0	(4.4)	(10.1)
VNB Margin (%)	27.2	28.3	26.6	27.2	(0.6)	(1.1)
EV	255.4	304.7	245.0	290.7	(4.1)	(4.6)
Price target (Rs)	579		454		(21.6)	
Recommendation	HOLD		HOLD			

Source: PL

**Exhibit 14: We revise our TP to Rs454 (from Rs579) based on 3.2x Mar-22 EV**

PT calculation and upside	
Op RoEV	19.3%
CoE	14.3%
Terminal Growth	5.0%
Embedded value (Rs bn)	290
Price / Embedded value	3.2
Appraisal Value	915
Number of shares, mn	2,017
Valuation per share	454
CMP	485
<i>Upside (%)</i>	-6.0%

Source: Company, PL



Technical account (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross Premiums	291,860	328,814	371,211	425,822
Reinsurance Ceded	2,620	3,756	4,214	4,788
Net Premiums	289,240	325,058	366,997	421,035
Income from Investments	90,275	101,365	122,283	153,427
Other Income	4,840	5,514	6,288	7,176
Total income	384,355	431,938	495,568	581,638
Commission	(11,177)	(12,338)	(13,736)	(15,627)
Operating expenses	(38,136)	(39,736)	(43,929)	(49,789)
Prov for doubtful debts	(906)	(1,503)	(1,424)	(1,372)
Operating Profit	334,137	378,362	436,478	514,850
Prov for Tax	(5,666)	(6,858)	(7,525)	(8,331)
Benefits Paid (Net)	(139,889)	(168,837)	(163,656)	(185,996)
Chg in reserves	(175,075)	(191,569)	(251,432)	(302,947)
Surplus / Deficit	13,507	11,098	13,866	17,576

Shareholder's a/c (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Transfer from technical a/c	12,069	10,718	13,021	16,244
Income From Investments	4,084	4,024	2,257	493
Total Income	16,364	14,953	15,489	16,948
Other expenses	(278)	(320)	(368)	(423)
Contribution to technical a/c	(3,090)	(3,520)	(4,014)	(4,581)
Total Expenses	(3,465)	(3,937)	(4,479)	(5,101)
PBT	12,899	11,016	11,011	11,847
Prov for Tax	(131)	(551)	(551)	(592)
PAT	12,768	10,465	10,460	11,255

Premium (Rs m) & growth (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
New business prem - unwtd	149,715	173,669	196,246	225,683
New business prem - APE	60,494	72,142	81,821	95,557
Renewal premium	142,146	155,145	174,965	200,139
Total premium - unwtd	291,860	328,814	371,211	425,822
New bus. growth - unwtd	31.9%	16.0%	13.0%	15.0%
New business growth - APE	12.0%	19.3%	13.4%	16.8%
Renewal premium growth	16.4%	9.1%	12.8%	14.4%
Total prem growth - unwtd	23.9%	12.7%	12.9%	14.7%

Premium mix (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
New business - unwtd				
- Individual mix	51.1	52.0	52.0	53.0
- Group mix	48.9	48.0	48.0	47.0
New business mix - APE				
- Participating	14.4	19.3	19.2	18.9
- Non-participating	38.5	45.0	42.2	41.4
- ULIPs	47.1	35.7	38.6	39.8
Total premium mix - unwtd				
- Participating	20.0	20.3	19.8	19.3
- Non-participating	41.2	43.4	43.1	42.7
- ULIPs	38.8	36.3	37.1	38.0

Source: Company Data, PL Research

Balance sheet (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sources of Fund				
Share Capital	20,174	20,174	20,174	20,174
Reserves And Surplus	36,413	43,351	50,163	57,770
Shareholders' Fund	56,556	63,495	70,307	77,914
Policy Liabilities	547,468	669,322	841,963	1,051,036
Prov. for Linked Liab.	633,774	703,489	782,280	876,154
Funds For Future App.	11,030	14,891	20,102	27,138
Current liabilities & prov.	51,179	57,320	63,052	69,358
Total	1,300,008	1,508,517	1,777,705	2,101,599
Application of Funds				
Shareholders' inv	50,498	29,985	14,271	(4,691)
Policyholders' inv	571,245	725,216	925,344	1,167,619
Assets to cover linked liab.	633,774	703,489	782,280	876,154
Loans	796	955	1,146	1,375
Fixed Assets	3,333	3,666	4,033	4,436
Current assets	40,362	45,206	50,631	56,706
Total	1,300,008	1,508,517	1,777,705	2,101,599

Operating ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
Investment yield (%)	7.4	7.1	7.2	7.5
Commissions / GWP	3.8	3.8	3.7	3.7
- first year premiums	15.5	14.6	14.2	13.8
- renewal premiums	1.5	1.5	1.5	1.5
- single premiums	1.2	1.0	1.0	1.0
Operating expenses / GWP	13.1	12.1	11.8	11.7
Total expense ratio	16.9	15.8	15.5	15.4
Claims / NWP	46.4	49.4	41.6	41.1
Solvency margin	1.9	241.6	232.3	222.9

Persistency ratios (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
13th Month	87.2	87.2	87.3	87.3
25th Month	80.5	80.6	80.6	80.6
37th Month	72.0	73.9	73.9	73.9
49th Month	67.7	68.1	68.9	68.9
61st Month	52.3	55.4	55.5	55.6

Profitability ratios (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
NBP margin (%) post overrun	24.6	25.9	26.6	27.2
RoE (%)	24.5	17.4	15.6	15.2
RoIC (%)	56.3	44.9	44.9	48.3

Valuation ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
Total AUMs (Rs bn)	1,256	1,459	1,722	2,039
- of which equity AUMs (%)	38.0	41.0	41.0	41.0
EVOP as % of MCEV	20.1	18.1	19.0	19.3
RoEV (%)	22.5	12.7	20.0	19.9
Dividend %	0.3	0.3	0.3	0.3
Dividend payout ratio (%)	31.0	33.7	34.9	32.4
EPS, Rs	6.3	5.2	5.2	5.6
Embedded Value (Rs bn)	182.9	206.6	245.0	290.7
Appraisal value/EV (x)	3.6	3.5	3.3	3.2
Appraisal value/NBV (x)	42.3	37.7	37.4	35.3

Source: Company Data, PL Research

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	BUY	609	419
2	Bandhan Bank	Subscribe	-	-
3	Bank of Baroda	BUY	83	50
4	Federal Bank	BUY	73	41
5	HDFC	BUY	1,406	1,278
6	HDFC Bank	BUY	1,105	910
7	HDFC Life Insurance Company	Hold	579	616
8	ICICI Bank	BUY	509	331
9	ICICI Prudential Life Insurance Company	Accumulate	385	385
10	IDFC First Bank	Accumulate	25	22
11	IndusInd Bank	BUY	785	410
12	Kotak Mahindra Bank	Accumulate	1,405	1,251
13	Max Financial Services	BUY	610	484
14	Punjab National Bank	BUY	40	31
15	SBI Life Insurance Company	BUY	1,127	982
16	South Indian Bank	BUY	11	6
17	State Bank of India	BUY	317	184

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



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