

# HDFC Life Insurance Company

27 April 2021

Reuters: HDFL.NS; Bloomberg: HDFCLIFE IN

## Stable performance; annuity/term growth outlook positive

HDFC Life Insurance Company (HDFC Life) reported strong growth with individual APE growing 41% YoY. Growth was better than our expectation and was led by 33% YoY growth in Par and 95% YoY growth in Non-par. Protection APE was down 45% YoY, partly because of a high base of last year and growth normalization. Note that protection had grown by ~35% YoY in 4QFY20 (up 35% YoY in FY20). In addition, there have been underwriting constraints related to medical testing and mobility challenges, which affected retail term growth in FY21. However, as the situation normalizes, we expect term to grow at higher rates given the large opportunity. Credit protect (CP) volume recovered strongly in 4QFY21, registering 26% YoY growth and is likely to fare better going forward as loan disbursements pick up. For FY21, CP volume was still down 19%. Besides term protection, the company is extremely positive about the annuity opportunity given that it aspires to grow the retail corpus by 3x by FY25. The management believes that the annuity opportunity could be even bigger than protection. In FY21, annuity grew by 46%. Overall growth (individual WRP) for FY21 stood at 17%, 200bps lower than FY20 growth, but significantly higher than industry growth of 3%. Since the start of the pandemic and throughout FY21, we have been positive on HDFC Life. Our thesis is based on the company's product strategy – lower dependence on ULIPs and higher focus on long-term insurance products. This has helped the company to keep its growth trajectory intact despite the industry facing a significant slowdown. We continue to hold this view and remain positive on the company's growth prospects. We like the company's philosophy of identifying and tapping new profit pools, which is clearly reflected in its product innovation track record. On the distribution front, the banca channel did well, growing by 46% YoY. HDFC Bank channel performed satisfactorily on the back of expansion in distribution and well-trained insurance sales personnel. The agency channel also reported strong growth of 50% YoY while the direct channel was somewhat muted due to the mobility challenges posed by the pandemic. Persistency trends fared well, improving across cohorts. Full year (FY21) margin expanded by 20bps to 26.1%. We have kept our margin assumption unchanged at 26.5% (40bps higher than FY21). For 4QFY21, VNB margin was 27.1% compared to 24.2% in 4QFY20. The margin expansion came on account of a favorable product mix and high growth, though there was a 60bps negative impact of fixed costs absorption due to lower volume in CP. EV stands at Rs266.2bn, up 29% YoY. Nearly a third of accretion to EV came on account of positive economic/investment variance. Additional covid-related mortality provisions and tightening of mortality assumptions led to a negative impact of Rs1.8bn. We expect the EV to grow at a CAGR of ~18% over FY21-23E. We have retained our BUY rating on HDFC Life with a target price of Rs822, valuing the stock at 4.5x FY23E EV.

**On reinsurance rate hikes:** On reinsurance rates hike – the company has not yet received any communication. Though, in its opinion, the current reinsurance rates are on the lower side, which might imply that there will be a hike at some point in time.

## BUY

Sector: Insurance

CMP: Rs705

Target Price: Rs822

Upside: 17%

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### Key Data

Current Shares O/S (mn)	2,020.9
Mkt Cap (Rsbn/US\$bn)	1,423.7/19.1
52 Wk H / L (Rs)	746/458
Daily Vol. (3M NSE Avg.)	3,623,492

### Price Performance (%)

	1 M	6 M	1 Yr
HDFC Life	4.9	21.7	55.4
Nifty Index	(0.2)	23.1	58.2

Source: Bloomberg

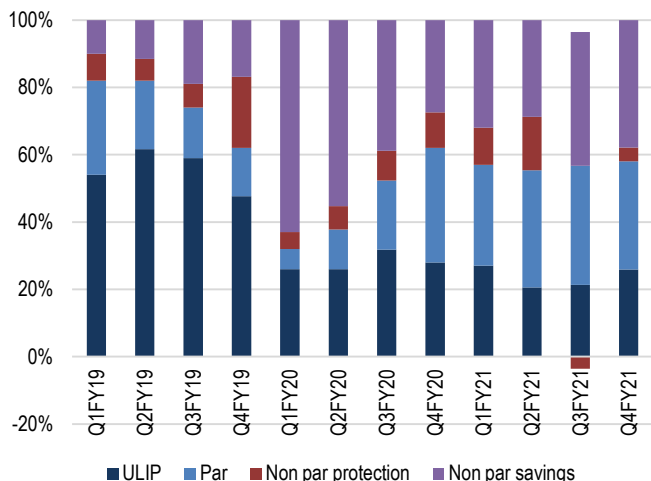
Financials (Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
NBP	65,598	50,887	50,512	28.9	29.9
<b>Net premium</b>	<b>1,28,680</b>	<b>1,04,645</b>	<b>94,870</b>	<b>23.0</b>	<b>35.6</b>
Investment & other income	63,233	(1,00,449)	1,16,398	(163.0)	(45.7)
<b>Total income</b>	<b>1,91,913</b>	<b>4,196</b>	<b>2,11,268</b>	<b>4474.1</b>	<b>(9.2)</b>
Net commission	5,975	4,515	4,482	32.4	33.3
Opex	15,101	12,306	13,073	22.7	15.5
<b>Total mgmt expenses</b>	<b>21,076</b>	<b>16,821</b>	<b>17,555</b>	<b>25.3</b>	<b>20.1</b>
GST	958	930	900	2.9	6.4
Provision for taxes	1,838	1,222	413	50.5	344.6
Claims	87,204	46,251	61,825	88.5	41.0
Change in actuarial liability	76,227	(73,165)	1,28,278	(204.2)	(40.6)
<b>Total cost</b>	<b>1,87,573</b>	<b>2,836</b>	<b>2,08,526</b>	<b>6515.0</b>	<b>(10.0)</b>
Surplus/(deficit)	4,340	1,360	2,742	219.1	58.3
T/f to s/hs' account	2,866	4,517	1,398	(36.5)	105.1
Investment & other income	2,713	1,046	1,427	159.4	90.1
<b>Total income</b>	<b>5,579</b>	<b>5,562</b>	<b>2,825</b>	<b>0.3</b>	<b>97.5</b>
Non-insurance expenses	241	179	184	34.1	30.7
T/f from p/hs' account	2,866	4,517	1,398	(36.5)	105.1
PBT	3,091	2,845	2,670	8.6	15.8
Taxes	(89)	(272)	20	(67.5)	(540.8)
<b>PAT</b>	<b>3,179</b>	<b>3,117</b>	<b>2,650</b>	<b>2.0</b>	<b>20.0</b>
<b>AUM</b>	<b>17,38,394</b>	<b>12,72,262</b>	<b>16,56,200</b>	<b>36.6</b>	<b>5.0</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Earnings call and other highlights:**

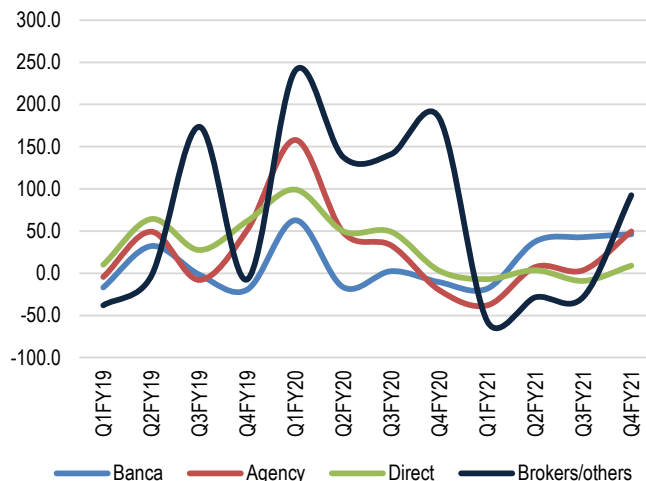
- The company has continued to maintain a calibrated product mix strategy. Individual and group annuity has seen strong growth of 46% YoY. Individual annuity contributes 5% to individual APE.
- Individual protection has also grown but the heightened customer demand that we saw earlier has now normalized. Towards the end of 4QFY21, term plan inquiry levels increased. A key reason that affected retail term sales in FY21 was lack of physical medical tests, central medical database and mobility challenges. However, given the long-term opportunity in the protection space, the company remains fairly positive on growth. On the credit protect side, growth recovered quite substantially in 4QFY21 on the back of recovery in disbursements.
- The company reiterated its positive stance on the pension opportunity. Though there are some supply side constraints in annuities, the long-term growth opportunity is immensely large. Medium term growth in annuity is expected to be higher than the overall company growth. Term and annuity are expected to be the key focus areas for the company.
- Negative change in operation assumptions is on account of mortality (due to creation of covid reserves and tightening of assumptions). Taking into account the latest mortality trends, the company created a covid reserve of Rs1.65bn in FY21.
- The company currently aspires to maintain the VNB margin. In FY21, VNB margin expansion (up 20bps in FY21) came on account of a better product mix and higher growth across channels. The 60bps negative impact on VNB margin related to fixed cost absorption was on account of lower credit protect volume during the year.
- Growth witnessed resurgence in the proprietary channel in the latter part of FY21. Partnerships established toward the end of FY21 are expected to contribute fully towards growth in FY22. The company also witnessed contribution from tier-2/3 cities increase quite substantially.
- **On reinsurance rates hike** – the company has not yet received any communication. However in its opinion, the current reinsurance rates are on the lower side, which might imply that there will be a hike at some point in time.
- The company stated that the HDFC Bank channel has done satisfactorily in terms of expanding distribution and training insurance sales personnel. In-branch conversion rate has been high too. With the bank expanding into rural areas, the company is likely to benefit from deeper penetration in these areas.
- The direct channel saw muted growth primarily because of low business from own branch but is expected to pick up pace going ahead. Focus in the direct channel was more towards annuity.

**Exhibit 1: Product mix (individual APE basis) (%)**



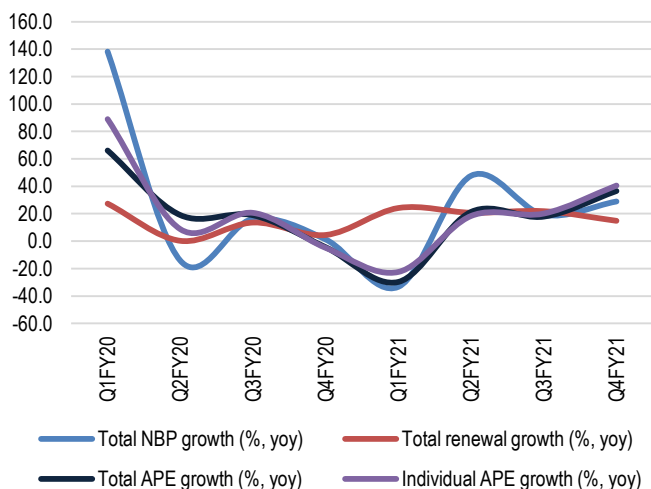
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Channel wise revenue growth (individual APE) (% YoY)**



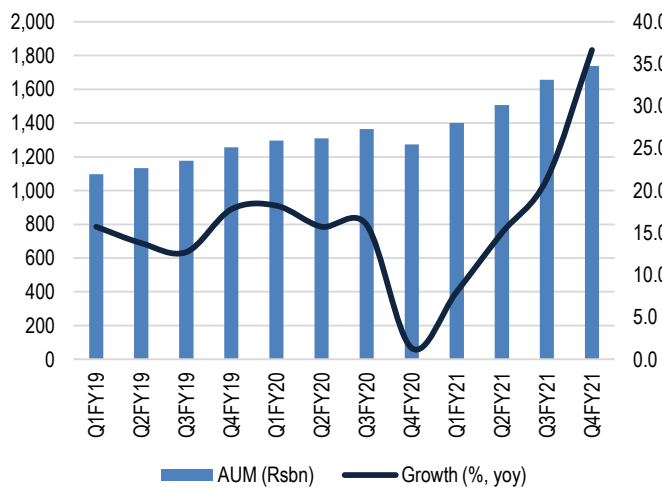
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Premium growth (% YoY)**



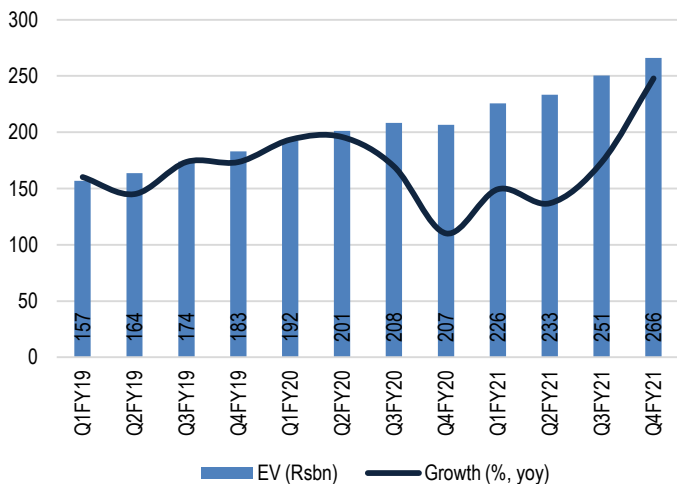
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: AUM, AUM growth (% YoY)**



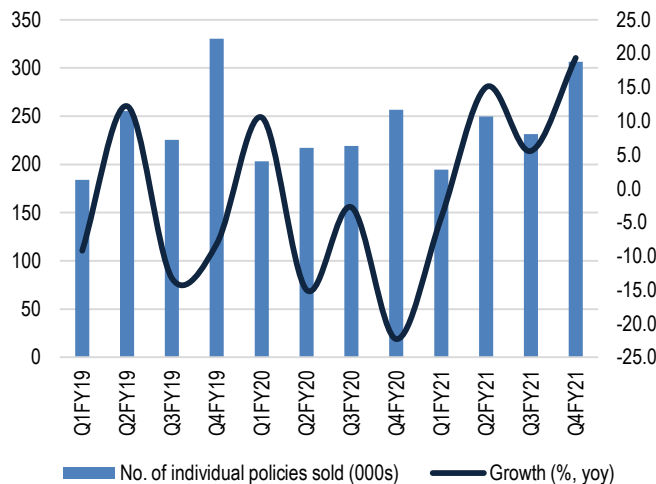
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: EV growth (% YoY)**

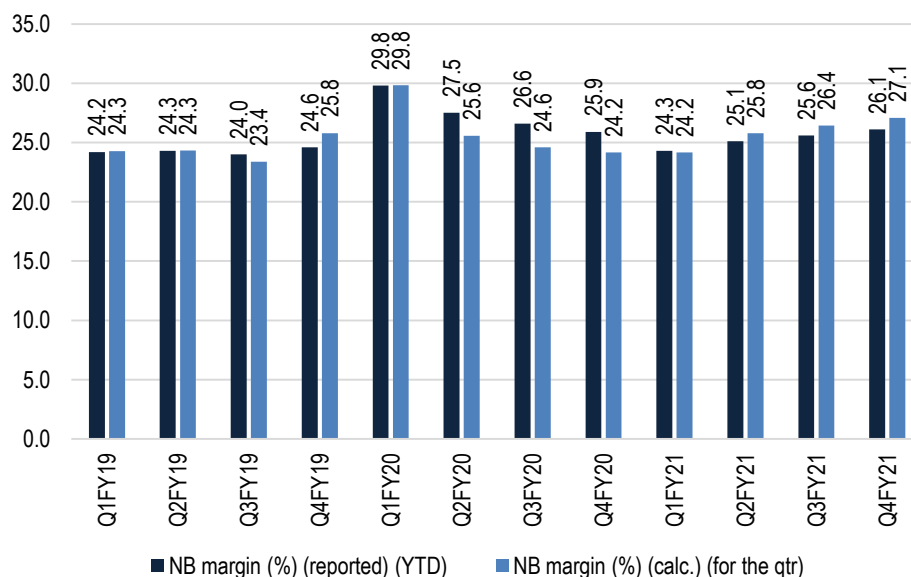


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: No. of individual policies sold (000s)**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: VNB margin (%)**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Persistency across channels (YTD)**

	Q1FY20	1HFY20	9MFY20	FY20	Q1FY21	1HFY21	9MFY21	FY21
<b>Agency</b>								
13m	91	91	91	91	90	91	91	91
25m	83	82	83	83	84	85	85	86
39m	72	75	76	78	77	77	77	79
49m	74	74	73	69	67	72	73	75
65m	50	55	61	68	69	69	68	64
<b>Banca</b>								
13m	83	84	85	85	84	85	85	86
25m	75	74	74	74	74	75	76	77
39m	69	69	69	69	67	67	67	68
49m	65	64	64	64	63	64	65	65
65m	52	51	50	48	47	47	47	48
<b>Direct and broker</b>								
13m	89	91	92	92	93	93	93	94
25m	82	81	81	83	84	87	89	89
39m	80	81	80	79	78	77	77	80
49m	78	78	77	77	77	78	78	77
65m	70	71	72	72	71	69	69	69
<b>Overall</b>								
13m	85	86	87	88	87	88	89	90
25m	76	75	75	76	77	79	80	81
39m	70	71	71	71	69	69	69	71
49m	67	67	66	66	65	66	67	67
65m	53	53	53	54	53	53	53	53

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: EV walk**

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Opening EV	183.0	192.3	201.3	208.4	206.5	225.8	233.3	250.5
+ unwinding	3.2	3.7	3.8	3.0	4.2	4.2	4.5	4.5
+ VNB	5.1	4.5	4.5	5.1	2.9	5.5	5.7	7.8
+ Change in operating assumptions	0.0	0.0	0.0	-1.2	0.0	0.0	0.0	-1.8
+ Operating variances	0.2	0.4	0.1	0.8	0.6	0.1	0.1	0.0
+ Economic variance	0.8	0.3	-1.4	-9.7	11.5	-2.3	6.5	4.9
+ Dividend/capital injections	0.0	0.0	0.3	0.1	0.1	0.1	0.3	0.3
Closing EV	192.3	201.3	208.4	206.5	225.8	233.3	250.5	266.2

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 10: Key Metrics

Key metrics	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Commission ratio (%)	4.6	4.3	4.7	33bps	-8bps
Opex ratio (%)	11.7	11.8	13.8	-2bps	-204bps
Mgmt expense ratio (%)	16.4	16.1	18.5	30bps	-213bps
Claims ratio (%)	67.8	44.2	65.2	2357bps	260bps
Solvency ratio (%)	201.0	184.0	202.0	1700bps	-100bps
<b>Yield on s/hs' funds</b>					
with unrealized gains (%)	1.1	(3.7)	5.8	480bps	-470bps
without unrealized gains (%)	3.3	0.1	1.8	320bps	150bps
<b>Persistence (%)</b>					
13th month	91.4	88.4	92.9	300bps	-150bps
37th month	76.3	71.8	72.1	450bps	420bps
61st month	54.6	54.6	51.8	0bps	280bps
Conservation ratio (%)	87.6	78.0	86.2	958bps	140bps

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 11: EV Table

(Rsmn)	FY21	FY20	9MFY21	YoY (%)	QoQ (%)
VNB	21,900	19,190	14,080	14.1	-
VNB margin (%)	26.1	25.9	25.6	20bps	-
EV	2,66,260	2,06,500	2,50,540	28.9	6.3

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 12: Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
NBP	1,49,715	1,72,385	2,01,066	2,33,923	2,69,011
PAT	12,768	12,953	13,601	16,052	19,019
P/E (x)	111.4	109.9	104.8	88.6	74.8
P/B (x)	25.1	20.4	16.9	14.7	12.7
P/EV (x)	7.8	6.9	5.4	4.5	3.9
RoE (%)	24.6	20.5	17.6	17.7	18.2
RoEV (%)	20.1	18.1	18.5	19.0	18.6

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 13: Actual performance versus our estimates

(Rsmn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Q4FY21E	Devi. (%)
NBP	65,598	50,887	50,512	28.9	29.9	59,500	10.2
PAT	3,179	3,117	2,650	2.0	20.0	3,487	(8.8)

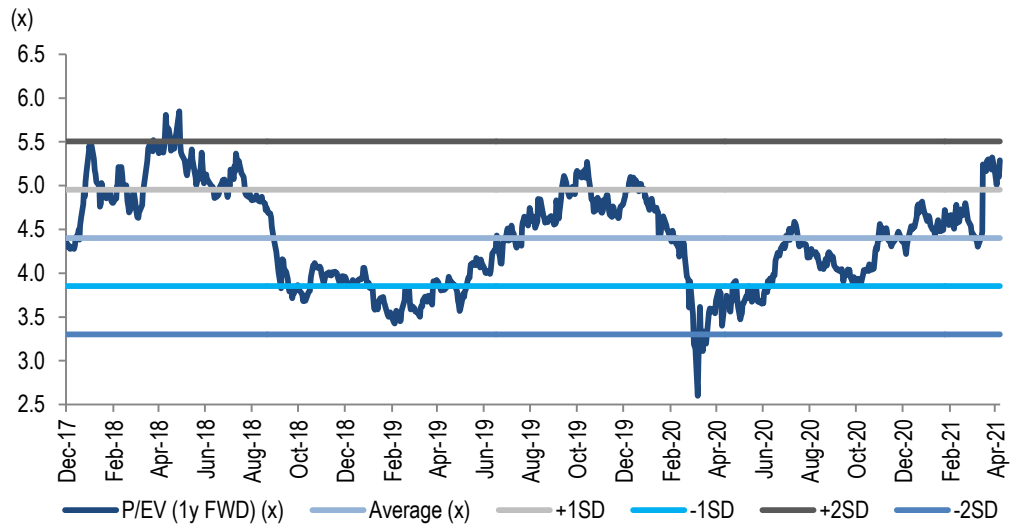
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 14: Revision in Estimates

	Revised estimate		Earlier estimate		% Revision	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NBP-APE	95,612	1,09,953	90,037	1,03,542	6.2	6.2
VNB	25,337	29,138	23,860	27,439	6.2	6.2
VNB margin (%)	26.5	26.5	26.5	26.5	0 bps	0 bps
EV	3,14,073	3,69,170	3,11,005	3,66,449	1.0	0.7

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 15: One-year forward P/EV**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 16: Revenue account

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
FYP (first year premium)	50,581	60,443	68,584	80,244	92,280
SP (single premium)	99,133	1,11,942	1,32,482	1,53,679	1,76,731
<b>NBP (new business premium)</b>	<b>1,49,715</b>	<b>1,72,385</b>	<b>2,01,066</b>	<b>2,33,923</b>	<b>2,69,011</b>
RP (renewal premium)	1,42,146	1,54,684	1,84,769	2,10,283	2,44,042
<b>Gross premium</b>	<b>2,91,860</b>	<b>3,27,069</b>	<b>3,85,835</b>	<b>4,44,206</b>	<b>5,13,054</b>
(-) Reinsurance ceded	2,620	4,833	4,612	6,663	7,696
<b>Net premiums</b>	<b>2,89,240</b>	<b>3,22,236</b>	<b>3,81,223</b>	<b>4,37,543</b>	<b>5,05,358</b>
Income from investments & other income	95,115	-29,622	3,31,195	1,26,861	1,41,578
<b>Total income</b>	<b>3,84,355</b>	<b>2,92,614</b>	<b>7,12,418</b>	<b>5,64,404</b>	<b>6,46,936</b>
- Commission expenses	11,177	14,912	17,104	19,545	22,574
- Operating expenses	38,136	42,669	45,860	54,193	61,566
- Provision for doubtful debts and taxes	4,304	9,207	1,682	5,886	6,644
<b>Operating surplus</b>	<b>3,30,739</b>	<b>2,31,895</b>	<b>6,47,772</b>	<b>4,84,780</b>	<b>5,56,151</b>
- Benefits paid (net)	1,34,146	1,81,730	2,23,730	2,65,635	2,92,441
- Interim & terminal bonuses paid	5,743	8,484	2,018	10,000	10,000
- Change in reserves	1,75,075	24,408	4,08,296	1,94,717	2,36,726
<b>Pre-tax surplus / (deficit)</b>	<b>15,775</b>	<b>11,204</b>	<b>13,728</b>	<b>14,427</b>	<b>16,985</b>
Provisions for tax	2,268	1,490	2,744	2,164	2,548
<b>Post-tax surplus / (deficit)</b>	<b>13,507</b>	<b>9,714</b>	<b>10,984</b>	<b>12,263</b>	<b>14,437</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 17: P&L account

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
T/f from technical a/c	12,069	11,914	9,909	11,037	12,994
Investment and other income	4,295	4,564	6,476	7,346	8,448
<b>Total income</b>	<b>16,364</b>	<b>16,478</b>	<b>16,385</b>	<b>18,383</b>	<b>21,442</b>
<b>Total expenses</b>	<b>3,465</b>	<b>3,360</b>	<b>2,850</b>	<b>1,834</b>	<b>1,834</b>
PBT	12,899	13,117	13,535	16,549	19,607
Provision for tax	131	165	-66	496	588
<b>PAT</b>	<b>12,768</b>	<b>12,953</b>	<b>13,601</b>	<b>16,052</b>	<b>19,019</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 18: Balance Sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>					
<b>Shareholders' fund</b>	<b>56,557</b>	<b>67,999</b>	<b>86,377</b>	<b>98,778</b>	<b>1,14,479</b>
Policy liabilities	11,81,243	11,95,025	16,34,375	18,20,568	20,59,775
Funds for future appropriations	11,030	8,830	9,906	11,132	12,576
<b>Total</b>	<b>12,48,829</b>	<b>12,71,855</b>	<b>17,30,658</b>	<b>19,30,478</b>	<b>21,86,830</b>
<b>Application of Funds</b>					
Shareholders' investments	50,498	58,555	85,421	98,234	1,12,969
Policyholders' investments	5,71,245	6,71,886	9,05,378	10,20,287	11,47,823
Asset held to cover linked liabilities	6,33,774	5,41,821	7,47,595	8,22,778	9,25,625
Net other and current assets	-6,688	-407	-7,736	-10,822	412
<b>Total</b>	<b>12,48,829</b>	<b>12,71,855</b>	<b>17,30,658</b>	<b>19,30,478</b>	<b>21,86,830</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 19: Embedded value table

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Opening EV</b>	<b>1,52,160</b>	<b>1,82,960</b>	<b>2,06,560</b>	<b>2,66,260</b>	<b>3,14,073</b>
Unwind	13,000	13,700	17,400	22,366	26,382
VNB (or NBAP)	15,400	19,200	21,900	25,337	29,138
Operating variance	2,200	1,500	800	3,000	3,000
<b>EV Operating Profit (EVOP)</b>	<b>30,600</b>	<b>33,200</b>	<b>38,300</b>	<b>50,703</b>	<b>58,520</b>
Non-operating variance	3,600	-10,000	20,600	0	0
<b>EV Profit</b>	<b>34,200</b>	<b>23,200</b>	<b>58,900</b>	<b>50,703</b>	<b>58,520</b>
Net capital injection	-3,400	0	800	-2,889	-3,423
<b>Closing EV</b>	<b>1,82,960</b>	<b>2,06,560</b>	<b>2,66,260</b>	<b>3,14,073</b>	<b>3,69,170</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 20: Key ratios

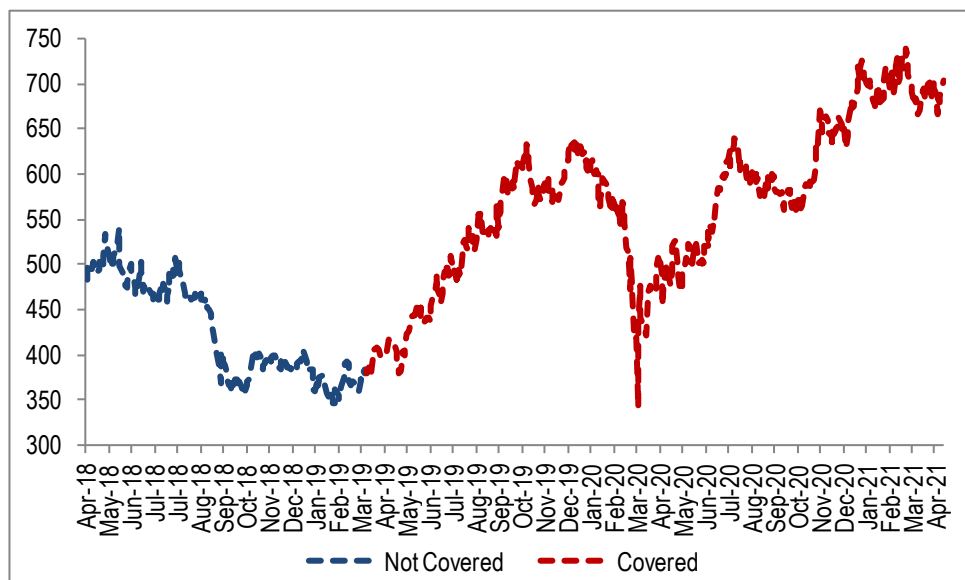
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
<b>Growth (%)</b>					
New business premium	31.9	15.1	16.6	16.3	15.0
Renewal premium	16.4	8.8	19.4	13.8	16.1
Net premium	23.8	11.4	18.3	14.8	15.5
PAT	15.1	1.4	5.0	18.0	18.5
Total AUM	17.8	1.3	36.6	11.7	12.6
Total Assets	18.0	1.8	36.1	11.5	13.3
<b>Expense analysis (%)</b>					
Commission ratio	3.8	4.6	4.4	4.4	4.4
Opex ratio	13.1	13.0	11.9	12.2	12.0
Claims ratio	46.0	55.6	58.0	59.8	57.0
P/hs'opex / Avg P/hs' AUM	3.4	3.5	3.2	3.1	3.1
<b>Profitability analysis (%)</b>					
RoA	1.1	1.0	0.9	0.9	0.9
RoE	24.6	20.5	17.6	17.7	18.2
RoEV	20.1	18.1	18.5	19.0	18.6
VNB margin	24.6	25.9	26.1	26.5	26.5
S/hs' AUM yield	9.4	8.4	9.0	8.0	8.0
P/hs' AUM yield	8.1	-2.7	22.8	7.0	7.0
<b>Balance sheet analysis</b>					
P/hs' funds / P/hs' AUM (x)	1.0	1.0	1.0	1.0	1.0
NWP / Net worth (x)	5.1	4.6	4.5	4.5	4.5
<b>Per share data (Rs)</b>					
EPS	6.3	6.4	6.7	8.0	9.4
BVPS	28.0	34.6	41.7	47.9	55.6
EVPS	90.7	102.3	131.8	155.7	183.0
<b>Valuation data (x)</b>					
P/E	111.4	109.9	104.8	88.6	74.8
P/BV	25.1	20.4	16.9	14.7	12.7
P/EV	7.8	6.9	5.4	4.5	3.9

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 April 2019	Buy	385	450
30 April 2019	Buy	399	459
8 July 2019	Accumulate	474	510
24 July 2019	Accumulate	508	526
7 October 2019	Accumulate	584	571
23 October 2019	Accumulate	607	585
8 January 2020	Accumulate	629	608
24 January 2020	Accumulate	616	607
27 March 2020	Buy	440	619
9 April 2020	Buy	476	619
28 April 2020	Buy	486	610
9 July 2020	Buy	581	684
22 July 2020	Accumulate	627	684
23 September 2020	Buy	579	738
7 October 2020	Buy	583	748
20 October 2020	Buy	570	707
26 November 2020	Accumulate	665	737
08 January 2021	Accumulate	704	810
24 January 2021	Buy	687	817
21 February 2021	Buy	711	817
27 April 2021	Buy	705	822

## Rating track graph





## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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