

## Company Update

# HDFC Life Insurance Company Ltd

Bloomberg Code: HDFCLIFE IN

India Research - Stock Broking

**HOLD**

## Rich Valuation; but Strongest to Deliver Growth on Balanced Product Mix

HDFC Life Insurance Company (HLI) has reported a relatively better performance than peers. The decline in individual APE was 22% YoY, lower than peers. Total APE declined by 30% YoY. Growth in individual protection APE was strong at 50% YoY and is likely to remain so, given the company's leadership position in the protection segment. Overall protection was however down 48% as credit protect declined by 74% on the back of adverse impact on lending during the quarter. The company expects credit protect to pick up from 3QFY21 onwards.

**Better insulated from growth standpoint:** Given the company's balanced product mix, we remain positive on the company's growth trajectory relative to peers. Renewals growth was strong at 24% YoY though the company remains cautious given the near term economic uncertainty. ULIP APE was down 20% YoY while non-par was down 62% YoY. Annuity was down 12% YoY. The management reckons that it is more or less operating an optimal product mix. Demand for ULIP is expected to remain soft through the year. VNB margin stood at 24.3% for the quarter, down from 29.8% in 1QFY20 and 25.9% in FY20. On YoY basis, the margin was largely impacted due to fixed cost absorption (impact of 3.9%). Going forward, increasing share of protection and annuities should help aid margin expansion. The company proposes to raise subordinate debt of Rs. 6 Bn, which should help improve the current solvency ratio by ~15%. Given the enhanced capital position and leadership in digital capabilities, the company expects to underwrite more of protection, which should be margin accretive.

## Valuation and Outlook

We have valued the stock based on 4.9x forward P/EV with a discount of 0.8x and 56.7x forward P/VNB and has arrived at a price target of Rs. 695 with potential upside of 9%. We rate the stock as '**HOLD**'. Potential downside risk is competition in the protection business to put pressure on rates (even as reinsurance rates have increased), along with reduce profitability in the segment. The key challenge for the company is to manage MTM basis AuM erosion.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
APE	53996	60516	74100	88672	106155
VNB	12527	14887	19190	22136	27076
VIF	103620	124260	135000	166000	204000
ANW	48540	58750	72000	79000	86000
RoEV (%)	22.0	20.3	18.1	19.2	18.9
EPS (Rs.)	5.5	6.3	6.4	8.5	10.1
DPS (Rs.)	1.4	1.6	3.6	4.2	2.3
Solvency Margin (%)	192.0	213.0	184.0	190.0	190.0

Source: Company, Karvy Research

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### Recommendation (Rs.)

CMP (as on Jul 29, 2020)	637
Target Price	695
Previous Target Price	574
Upside (%)	9

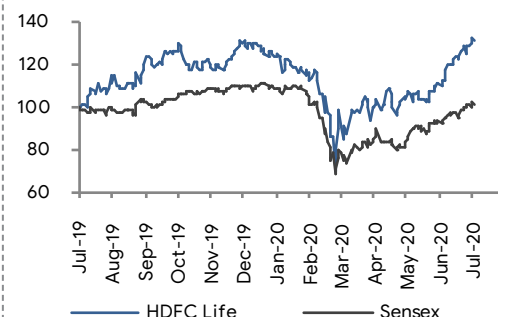
### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	1285608/17178
52-wk High/Low (Rs.)	648 / 339
3M Avg. daily volume (Mn)	5.0
Beta (x)	0.8
Sensex/Nifty	38071 / 11203
O/S Shares(mn)	2019.0
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

Promoters	60.4
FII's	23.6
DII's	7.3
Others	8.7

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Analyst Contact

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For the quarter, the VNB margin stood at 24.3% compared to 29.8% in 1QFY20. The impact of lower APE was Rs. 1.53 Bn while that of fixed cost absorption was Rs. 0.5 Bn. The EV stands at Rs. 225.8 Bn as of 1QFY21, up 9.3% QoQ. From a distribution standpoint, share of direct stands at 24%. Persistency held up across cohorts except 37m and 49m. HDFC Life posted NBP decline of 33% YoY at Rs 26,234 Mn., surplus decline of 33% YoY at Rs. 2,518 Mn and PAT growth of 6% YoY at Rs. 4,511 Mn.

**Exhibit 2: Financial Performance**

YE Mar (Rs. Mn)	Jun'20	Mar'20	Jun'19	YoY (%)	QoQ (%)
Net Premium Earned	57218	104645	64512	(11.3)	(45.3)
APE	12000	21114	17100	(29.8)	(43.2)
NBP	26234	50887	39260	(33.2)	(48.4)
PAT	4511	3117	4246	6.2	44.7
EPS (Rs.)	2.2	1.5	2.1	4.8	46.7
Cost/TWRP (%)	11.5	15.8	13.4	(190) bps	(430) bps

Source: Company, Karvy Research

## Financials

### Exhibit 3: Revenue Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
First Year Premiums	47385	50603	0	0	0
Renewal Premiums	122148	142122	0	0	0
Single Premiums	66112	99122	0	0	0
Gross Written Premium(GWP)	235644	291847	0	0	0
Reinsurance Accepted/(Ceded)	(1934)	(2620)	0	0	0
Total Premium Earned	233710	289227	322236	344134	387554
Income from Investments	73531	90275	(33109)	33109	36420
Interest, Dividends, and Rent	34454	56791	0	0	0
Profit/(Loss) from Sale Redemption of investments	37080	23349	0	0	0
Transfer gain on revaluation of change in fair value	2558	10389	0	0	0
Amortization charge	(561)	(255)	0	0	0
Other Income	2685	4840	2440	1831	2106
Expense	313723	376377	272204	360894	409342
Commission	10749	11209	14912	14645	16668
Operating Expenses	34553	42440	42669	45857	51416
Benefits Paid	128949	134146	190215	178354	194812
Bonus Paid	2165	5743	0	0	0
Allocation of bonus to policyholders	7084	7764	0	0	0
Change in valuation of policy liabilities	130223	175075	24408	122038	146446
Surplus/(Deficit) before Taxes	3286	15729	20411	14272	12623
Provision for Taxation	(1755)	(2268)	1490	12356	14449
Surplus/(Deficit) after Taxes	1531	13461	18921	1916	(1825)
<b>Appropriations</b>					
Transfer to Shareholder's Account	10022	12069	11914	12510	15012
Funds for Future Appropriations	(8492)	1392	0	0	0

Source: Company, Karvy Research

**Exhibit 4: Income Statement**

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Policyholders to Shareholder Funds	10022	12069	11914	12510	15012
Income from Investments	2803	4084	4378	5582	6674
Other Income	130	211	186	100	100
Total (A)	12955	16364	16478	18192	21785
Expenses	121	375	334	368	404
Contribution to Policyholders A/C	1566	3090	1048	0	0
Profit Before Tax	11267	12899	13117	17824	21381
Taxes	(177)	(130)	165	774	927
Profit After Tax	11090	12769	12953	17050	20454
Net Dividend Paid	(2732)	(3288)	0	0	0
No. of equity shares for diluted EPS (Rs. Bn)	2016.4	2017.4	2017.4	2017.4	2017.4
Diluted EPS (Rs.)	5.5	6.3	8.4	10.6	8.4
Profit/(Loss) carried to Balance Sheet	23937	32741	45545	61821	45545

Source: Company, Karvy Research

**Exhibit 5: Balance Sheet**

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Share Capital	20126	20178	20174	20174	20174
Reserve and surplus	27064	36410	45521	58006	73290
<b>Net Worth</b>	<b>47190</b>	<b>56587</b>	<b>65695</b>	<b>78180</b>	<b>93464</b>
<b>Policyholders' Fund:</b>					
Fair Value Change Account	6220	11116	0	0	0
Policy liabilities(A+B+C)	995047	1170091	1355613	1480154	1621369
Non-unit liabilities(Mathematical Reserves)(A)	423193	536248	0	0	0
Provision for Linked Liabilities(Fund Reserves)(B)	545982	605252	0	0	0
Funds for Discontinued Policies(C)	25872	28591	0	0	0
Funds for future appropriations	9592	10984	11984	17952	23324
Current Liabilities	46027	50594	0	0	0
Provisions	437	585	0	0	0
<b>Total Liabilities</b>	<b>1058351</b>	<b>1248747</b>	<b>1433261</b>	<b>1576257</b>	<b>1738127</b>
<b>Investments:</b>					
Shareholders' Fund	40703	50498	58630	69778	83425
Policyholders' Fund	453471	571160	729993	826111	936272
Investments related to Policyholders' Fund, Shareholders' Fund and Assets held to cover linked liabilities	571854	633774	660517	700062	742236
Loans & Advances	187	796	796	796	796
Net Block	3414	3333	3333	3333	3333
<b>Current Assets:</b>					
Cash & Cash Equivalents	11085	12402	(20008)	(23823)	(27935)
Other Current Assets	24100	27964	0	0	0
<b>Total Assets</b>	<b>1058351</b>	<b>1248747</b>	<b>1433261</b>	<b>1576257</b>	<b>1738127</b>

Source: Company, Karvy Research

**Exhibit 6: Key Ratios**

YE Mar (%)	FY18	FY19	FY20	FY21E	FY22E
Solvency Ratio (%)	192.0	213.0	184.0	190.1	190.1
Conservation Ratio (%)	81.6	80.7	80.3	80.0	80.0
EVOP	26537	30640	33200	39689	49270
Grievance Ratio (%)	0.8	0.6	0.8	0.7	0.7
VNB Margin (%)	23.2	24.6	25.9	27.2	28.9
Claim Settlement Ratio(%)	92.6	101.6	99.0	99.0	99.0
Operating ROEV (%)	22.0	20.3	18.1	19.2	18.9

Source: Company, Karvy Research

**Exhibit 7: Valuation Parameters**

YE Mar (%)	FY18	FY19	FY20	FY21E	FY22E
P/VNB (x)	73.1	51.4	47.7	58.1	47.5
P/AUM (x)	6.2	5.6	3.3	5.3	4.6
P/EVOP (x)	34.5	34.8	25.1	32.4	26.1
P/EV (x)	6.0	5.8	4.4	4.9	4.0

Source: Company, Karvy Research

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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