

CMP: ₹ 595

Target: ₹ 700 (18%)

Target Period: 12 months

BUY

April 19, 2024

## Growth to remain in focus...

About the stock: HDFC Life is among the most dominant players in the Indian life insurance industry with a strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on non-par, protection & annuity business.
- Industry leading VNB margins of ~26-27%

Q4FY24 performance: HDFC Life reported mixed performance in Q4FY24. Growth in APE (Annualised Premium Equivalent) remained muted at 1%, the same was expected owing to high inflow in previous Q4 amid amendments in taxation. Continued focus on persistency provides comfort on healthy traction in renewal premium growth at 18% YoY. Unit linked business aided growth with product mix skewed towards low margin business. While premium growth was anticipated to remain muted in FY24, VNB margin at 26.3%, a decline of 130 bps YoY, which was led by drag of fixed cost and faster growth in low yield unit linked business.

### Investment Rationale

- Linked business remains robust; distribution strategy to aid business growth: While APE growth came at 1% YoY, owing to higher inflows last year. Adjusting for same, growth continue to remain in double digit with market share in private market. Linked business witnessed higher growth, while protection & annuity business continued to remain healthy. Focus on chasing growth with balanced product mix (continued focus on protection & annuity business) aiming 12-15% growth in business. Strategy focussing on customer accretion through improvement in penetration in tier 2 & 3 markets (with only 10% difference in ticket size in protection business) could aid growth. While ramping of agency channel is underway, traction in business should take a while to be evident.
- VNB margin to remain volatile with business mix skewed towards linked product: VNB margin remained lower at 26.3% owing to impact from operating leverage and higher growth in low yield linked business. Going ahead, operating leverage should kick in with continued traction in business, however, skewed business mix could keep NVB margin volatile in near term. Expect VNB margin to remain in a range of 26-27% ahead.

### Rating and Target Price

- Strategy to focus on customer acquisition and improve penetration in tier 2 & 3 markets is seen to aid business growth. VNB margin could remain a bit volatile given faster growth anticipated in linked business. With regulatory headwinds behind and continued focus on protection & annuity business, RoEV is expected to remain steady at 17-18%.
- Valuing the stock at 2.2x FY26E EV, we assign a target of ₹ 700 and recommend a Buy.



Sar utha ke jiyo!

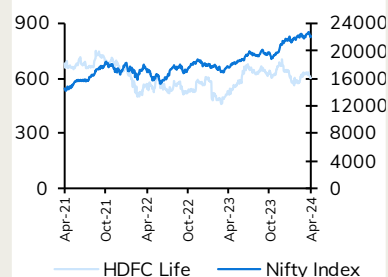
### Particulars

| Particulars           | Amount           |
|-----------------------|------------------|
| Market Capitalisation | ₹ 1,28,325 crore |
| EV                    | ₹ 47468 crore    |
| AUM                   | ₹ 292220 crore   |
| 52 week H/L           | 711/ 511         |
| Net worth             | ₹ 14666 crore    |
| Face value            | 10               |
| DII holding (%)       | 7.93             |
| FII holding (%)       | 30.03            |

### Shareholding pattern

|           | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|-----------|--------|--------|--------|--------|--------|
| Promoters | 50.3   | 50.3   | 50.4   | 50.4   | 50.4   |
| FII       | 29.9   | 30.9   | 30.5   | 31.3   | 30.0   |
| DII       | 6.4    | 6.2    | 6.9    | 6.6    | 7.9    |
| Public    | 13.4   | 12.6   | 12.2   | 11.8   | 11.6   |

### Price Chart



### Key risks

- Regulatory risk remains an overhang
- Higher than expected margin pressure

### Research Analyst

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## Key Financial Summary

| (₹ Crore)            | FY21  | FY22  | FY23  | FY24  | 3 year CAGR (FY21-FY24) | FY25E | FY26E | 2 year CAGR (FY24-26E) |
|----------------------|-------|-------|-------|-------|-------------------------|-------|-------|------------------------|
| New business premium | 20107 | 24155 | 29085 | 29382 | 13%                     | 33167 | 37444 | 13%                    |
| APE                  | 8183  | 9664  | 13100 | 16044 | 25%                     | 18179 | 20601 | 13%                    |
| Total premium        | 38583 | 45962 | 57533 | 64382 | 19%                     | 73312 | 85037 | 15%                    |
| PAT                  | 1360  | 1208  | 1360  | -1295 |                         | 1784  | 2035  |                        |
| EV                   | 26625 | 30048 | 39526 | 47468 |                         | 55404 | 64736 |                        |
| P/E (x)              | 88.4  | 104.1 | 94.0  | -98.8 |                         | 71.7  | 62.9  |                        |
| P/BV (x)             | 13.9  | 8.1   | 9.8   | 8.8   |                         | 8.1   | 7.5   |                        |
| P/IEV (x)            | 4.5   | 4.2   | 3.2   | 2.7   |                         | 2.3   | 2.0   |                        |
| RoEV (%)             | 18.5  | 19.0  | 19.7  | 17.5  |                         | 16.8  | 13.3  |                        |

Source: Company, ICICI Direct Research

## Concall highlights and outlook

- Business growth: While APE growth came at 1% YoY, owing to higher inflows last year. Adjusting for the same, growth continue to remain in double digit with market share in private market.
- Target higher than industry business growth at 12-15% for FY25E, while VNB growth anticipated to in-line. RoEV to remain healthy at 17-18%.
- Distribution: Growth in tier 2 and 3 markets continue to remain strong with growth at 14% YoY. Protection continues to remain in focus with 36% YoY growth in individual APE and 21% YoY growth in credit protect.
- Embarking focus on enhancing geographical penetration, HDFC Life has added 80,00 agents in FY25, of which 85% are from Tier 2 & 3 cities
- Share of HDFC Bank (post-merger) has increased from 56% in FY23 to 63% in FY24, while agency channel has grown at ~14%.
- Margins: VNB margins declined 110 bps YoY, owing to erosion of 70 bps due to operating leverage gap and 40 bps due to higher linked business in previous year.
- While margins would be dependent on product mix, business growth is expected to remain priority ahead. VNB growth should be in-line with traction in APE.
- Insurer has distribution capabilities to grow business at 15-18%, however, lower growth at 1% has impacted operating variance
- Banca channel growth at 17% YoY. Expanding product launch to cater to NRI segment (through GIFT city) with focus on education and travel.
- Focus continued to remain in focus to improve customer service and enhance turnaround time.
- Accounting: Implementation of IFRS should be in a phased manner in next 24-36 months, however, details are awaited from regulator. No significant change expected on implementation of IFRS
- Deepak S Parekh has decided to step as the Chairman and Non-Executive Director with effect from 18 April 2024. Mr Keki M Mistry has been appointed as Chairman of the Board with immediate effect subject to approval of Insurance Regulatory and Development Authority.

### Exhibit 1: Variance Analysis

|                               | Q4FY24       | Q4FY23       | YoY (%)      | Q3FY24      | QoQ (%)      | Comments   |
|-------------------------------|--------------|--------------|--------------|-------------|--------------|--|
| First Year Premium            | 4,014.6      | 4,467.3      | -10.1        | 2,679.2     | 49.8         | Higher inflow in Q4FY23 impacted new business premium growth |
| Renewal Premium               | 11,406.0     | 9,254.2      | 23.3         | 8,396.2     | 35.8         | Steady persistency led to healthy renewal                    |
| Single Premium                | 5,517.0      | 5,904.7      | -6.6         | 4,450.5     | 24.0         |  |
| Net Premium income            | 20,488.1     | 19,426.6     | 5.5          | 15,235.3    | 34.5         |  |
| Income from Investments       | 7,404.5      | 1,999.8      | 270.3        | 11,459.4    | -35.4        |  |
| Total revenue                 | 27,892.6     | 21,426.4     | 30.2         | 26,694.8    | 4.5          |  |
| Commission                    | 2,162.1      | 1,111.4      | 94.5         | 1,245.7     | 73.6         |  |
| Operating expenses            | 1,760.5      | 2,920.0      | -39.7        | 1,774.1     | -0.8         | Total expense ratio lower at 19%                             |
| Management Expenses           | 3,922.5      | 4,031.4      | -2.7         | 3,019.7     | 29.9         |  |
| Benefits paid                 | 12,420.5     | 11,205.1     | 10.8         | 9,866.1     | 25.9         |  |
| Change in Actuarial Liability | 11,156.0     | 5,270.9      | 111.7        | 13,683.7    | -18.5        |  |
| Total Expenses                | 23,576.5     | 16,476.0     | 43.1         | 23,549.8    | 0.1          |  |
| <b>Surplus/ (deficit)</b>     | <b>272.8</b> | <b>571.8</b> | <b>-52.3</b> | <b>61.3</b> | <b>345.2</b> | <b>Slower business traction kept surplus lower</b>           |
| Transfer to SH's A/c          | 302.7        | 583.9        | -48.1        | 129.3       | 134.2        |  |
| Investment income             | 255.7        | 259.2        | -1.4         | 281.1       | -9.0         |  |
| Profit/ (loss) before tax     | 449.7        | 269.8        | 66.7         | 366.8       | 22.6         |  |
| PAT                           | 411.7        | 358.7        | 14.8         | 365.1       | 12.8         |  |
| <b>Key Metrics</b>            |              |              |              |             |              |  |
| NBP                           | 9,531.6      | 10,372.0     | -8.1         | 7,129.7     | 33.7         |  |
| AUM                           | 2,92,220     | 2,38,782     | 22.4         | 2,79,707    | 4.5          |  |
| IEV                           | 47,468       | 39,527       | 20.1         | 45,173      | 5.1          |  |

## Financial Summary

| Exhibit 2: Policyholders Account          |         |         |          |         |          |
|---|---------|---------|----------|---------|----------|
| ₹ crore                                   |         |         |          |         |          |
| (₹ Crore)                                 | FY22    | FY23    | FY24     | FY25E   | FY26E    |
| Premiums earned - Net                     | 45396.2 | 56764.0 | 61959.2  | 72031.8 | 83533.6  |
| Interest, Dividends & Rent                | 9459.3  | 12844.7 | 38354.3  | 14773.9 | 16870.5  |
| Others income (incl. MTM)                 | 9756.7  | 1096.8  | 460.8    | 3230.5  | 3619.4   |
| Total Revenue                             | 64,612  | 70,705  | 1,00,774 | 90,036  | 1,04,023 |
| Commission                                | 1940.3  | 2886.9  | 5256.3   | 5947.1  | 6899.7   |
| Operating expenses                        | 5612.3  | 8440.0  | 6901.1   | 8110.5  | 9408.6   |
| Benefits paid (Net)                       | 31863.6 | 38872.3 | 39696.5  | 45105.9 | 51019.5  |
| Change in valuation of policy liabilities | 24681.5 | 18586.2 | 48419.4  | 26385.1 | 30484.0  |
| Provision for tax                         | 184.4   | 159.1   | -592.4   | 67.4    | 27.0     |
| Surplus/(deficit) after tax               | 250.2   | 1358.9  | 775.1    | 1670.0  | 1969.3   |
| Transfer to Shareholders' account         | 1,009   | 1,469   | 799      | 1,618   | 1,947    |

Source: Company, ICICI Direct Research

| Exhibit 4: Balance Sheet                 |               |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
| ₹ crore                                  |               |               |               |               |               |
| (₹ Crore)                                | FY22          | FY23          | FY24E         | FY25E         | FY26E         |
| Sources of Funds                         |               |               |               |               |               |
| Share capital                            | 2113          | 2149          | 2151          | 2151          | 2151          |
| Reserve and surplus                      | 13285         | 10815         | 12329         | 13561         | 14918         |
| Credit/(debit) fair value change account | 85            | 20            | 45            | 60            | 77            |
| Networth                                 | 15486         | 12987         | 14525         | 15773         | 17145         |
| <b>Policyholders' funds</b>              | <b>187134</b> | <b>224447</b> | <b>281286</b> | <b>337510</b> | <b>402782</b> |
| Funds for Future Appropriations          | 1541          | 2185          | 2006          | 2058          | 2080          |
| <b>Total Liabilities</b>                 | <b>204160</b> | <b>239619</b> | <b>297816</b> | <b>355340</b> | <b>422008</b> |
| Applications of Funds                    |               |               |               |               |               |
| Shareholders' investments                | 15238         | 13132         | 14445         | 15890         | 17479         |
| Policyholders' investments               | 108311        | 146449        | 181797        | 203612        | 228046        |
| Asset held to cover linked liabilities   | 80622         | 79201         | 91082         | 100190        | 110209        |
| Loans                                    | 643           | 1585          | 2118          | 2651          | 3184          |
| <b>Fixed assets - net block</b>          | <b>343</b>    | <b>380</b>    | <b>388</b>    | <b>396</b>    | <b>404</b>    |
| Net current assets                       | -995          | -1128         | 7986          | 32602         | 62687         |
| <b>Total Assets</b>                      | <b>204161</b> | <b>239619</b> | <b>297816</b> | <b>355340</b> | <b>422008</b> |

Source: Company, ICICI Direct Research

| Exhibit 3: Shareholders Account                 |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| ₹ crore   |        |        |        |        |        |
| (₹ Crore)                                       | FY22   | FY23   | FY24   | FY25E  | FY26E  |
| Amounts transferred from Policyholders' account | 1009.2 | 1468.9 | 799.1  | 1617.7 | 1947.0 |
| Income from investments                         | 789.4  | 782.9  | 1002.2 | 1084.5 | 1048.7 |
| Total   | 1,799  | 2,252  | 1,801  | 2,702  | 2,996  |
| Total expenses                                  | 618.5  | 979.4  | 237.4  | 970.0  | 1020.0 |
| Profit before Tax                               | 1180.0 | 1272.4 | 1563.8 | 1732.1 | 1975.7 |
| Provision for tax                               | -27.5  | -87.7  | -5.0   | -52.0  | -59.3  |
| PAT   | 1,208  | 1,360  | 1,569  | 1,784  | 2,035  |

Source: Company, ICICI Direct Research

| Exhibit 5: Key ratios                       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| (Year-end March)                            | FY22  | FY23  | FY24E | FY25E | FY26E |
| Valuation                                   |       |       |       |       |       |
| No. of Equity Shares (Crore)                | 211.2 | 214.9 | 215.1 | 215.1 | 215.1 |
| Diluted EPS (₹)                             | 5.7   | 6.3   | -6.0  | 8.3   | 9.5   |
| BV (₹)                                      | 73.3  | 60.4  | 67.5  | 73.3  | 79.7  |
| EV per share                                | 142.3 | 183.9 | 220.7 | 257.6 | 301.0 |
| P/E   | 104.1 | 94.0  | -98.8 | 71.7  | 62.9  |
| P/BV  | 8.1   | 9.8   | 8.8   | 8.1   | 7.5   |
| P/IEV                                       | 4.2   | 3.2   | 2.7   | 2.3   | 2.0   |
| Efficiency Ratios (%)                       |       |       |       |       |       |
| Commission expenses as a % of Gross Premium | 4.1   | 5.0   | 5.1   | 8.1   | 8.1   |
| Management expenses as a % of Gross Premium | 16.4  | 19.7  | 18.5  | 19.2  | 19.2  |
| Return Ratios and capital (%)               |       |       |       |       |       |
| Return on Net worth                         | 18.0  | 18.1  | 18.2  | 18.2  | 18.2  |
| Operating RoEV                              | 18.4  | 18.2  | 17.5  | 17.5  | 17.8  |
| Key Ratios (%)                              |       |       |       |       |       |
| VNB Margin                                  | 27.4  | 27.6  | 26.3  | 26.4  | 26.8  |

Source: Company, ICICI Direct Research

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Sell: <-15%



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