

CMP: ₹ 590

Target: ₹ 690 (17%)

Target Period: 12 months

BUY

January 22, 2023

## Slower NBP; core strength to drive growth, valuation

**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%

**Q3FY23 Results:** Premium accretion slower; market share steady.

- Premium growth at 18.9% YoY led by renewal at 29.7% YoY
- NBP growth (merged) at 21.8% YoY in 9MFY23; Q3FY23 growth at 10%
- VNB margins steady at 26.5%, led by balanced product mix
- PAT at ₹ 1001 crore, up 17.7% YoY, not comparable due to merger

**What should investors do?** HDFC Life's share price has given single digit return in the past three years. Being a player with a strong distribution and diversified product mix in opportunistic market provides confidence though near term clarity related to merger of parent could be ruled out.

- We retain our **BUY** rating on the stock

**Target Price and Valuation:** Insurance under penetration coupled with focus on product mix to aid healthy business growth and VNB margin. Rolling over to FY25E, we upgrade our target price from ₹ 635 to ₹ 690, valuing HDFC Life at 2.6x FY25E EV.

**Key triggers for future price performance:**

- Non-par business to remain healthy while protection business to witness gradual uptick. Thus, a diversified product mix, product innovation and normalisation in the economy to aid growth momentum
- Integration benefit to flow gradually. VNB margins to remain steady with an upward bias
- Anticipated announcement of new regulations and clarity on parent merger to aid valuation

**Alternate Stock Idea:** Apart from HDFC Life, in our coverage we also like SBI Life.

- SBI Life also comes with a strong parentage with strong distribution network and superior cost efficiencies
- BUY with a target price of ₹ 1,500



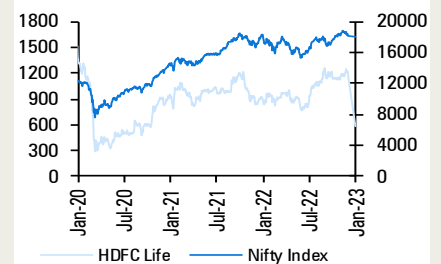
### Particulars

Particulars	Amount
Market Capitalisation	₹ 126919 crore
EV	₹ 37702 crore
AUM	₹ 233839 crore
52 week H/L	660/ 497
Net worth	₹12699 crore

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	53.8	51.5	51.5	50.3	50.3
FII	30.5	26.3	27.7	28.8	30.2
DII	6.1	7.8	6.9	6.9	6.0
Others	9.7	14.4	13.9	14.0	13.6

### Price Chart



### Risk to our call

- VNB margin (post-merger) at 26.5%, while IEV at ₹ 37702
- Key risk:** 1) Increasing interest rates to induce competition among investment avenues, 2) Parent merger related clarity awaited

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	3 year CAGR (FY19- FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
New business premium	17238	20107	24155	17%	29783	35455	42270	21%
APE	7164	8183	9664	17%	12949	15488	18580	24%
Total premium	32707	38583	45962	16%	55434	66676	80086	20%
PAT	1371	1360	1208	1%	1358	1746	2163	21%
EV	20655	26625	30048	18%	38376	46046	56047	23%
P/E (x)	86.9	87.7	103.2		91.8	71.4	57.6	
P/BV (x)	17.5	13.8	8.0		7.1	6.5	5.9	
P/IEV (x)	5.8	4.5	4.1		3.2	2.7	2.2	
RoEV (%)	18.1	18.5	19.0		17.9	17.5	17.4	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Weaker performance on premium accretion

- Exide Life merger was completed on October 14, 2022 and numbers have been restated. Hence, YoY and QoQ numbers are not comparable
- On a post-merger basis, new business premium grew at a slower pace at 9.6% YoY at ₹ 18713 crore in 9MFY23 and new business margin were at 26.5% in 9MFY23 vs. 26.2% in H1FY23. Individual WRP market share declined 30 bps YoY to 15.8%
- Total APE (post-merger) registered healthy growth of 21.8% YoY at ₹ 8174 crore for 9MFY23
- Non-par saving products now form 39% vs. 37% in H1FY23 and 33% in 9MFY22. Annuity business contributes 6% while protection business contributes 4% of premium in 9MFY23
- Opex ratio increased ~250 bps YoY from 12.2% to 14.7%, led by merger. However, on a merged basis, opex ratio has remained steady at 14.7% sequentially
- AUM was at ₹ 233839 crore, up 20.1% YoY. Debt to equity mix in AUM was at 68:32 with ~99% of debt investments in G-secs and AAA bonds. On a merged basis, AUM has increased 4% QoQ
- Persistency ratio remains steady with 13th month persistency at 87% and 61st month persistency at 52%
- Indian embedded value was at ₹ 37702 crore as of December 2022, up 27.6% YoY. On a merged basis, Indian embedded value has risen 4.7% QoQ. Solvency ratio was at 2.1x

HDFC Life - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	2.9	3.3	3.6
Social	33.0	26.0	24.4
Governance	83.6	83.6	83.6
<b>Overall ESG Score</b>	<b>39.9</b>	<b>37.7</b>	<b>37.2</b>

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

### Q3FY23 earnings conference call highlights

- Credit life growth remained healthy at 52% led by partnerships. Retail protection witnessed a marginal pick up. Individual protection grew 13% in Q3FY23. Online search for protection products was back to pre-Covid levels; premium growth should start picking up pace gradually
- Growth in group protect remains healthy due to growth in disbursement of partners, deepening of relationship through new verticals and engaging in new partnership
- Guaranteed products comprise 14-15% of total AUM
- With merger of Exide Life, aims for VNB neutrality continued to remain in focus with target to achieve the same in FY24
- Entered into a tie up with AU Small Finance Bank in Q3FY23
- HDFC Pension Management Company's AUM growth remained strong with AUM doubling in less than 17 months to reach ₹ 40,000 crore

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (Insurance)

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	(₹ bn)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
SBI Life Insurance	1295	1500	Buy	1296	14.6	15.1	16.3	18.4	88.9	86.0	79.3	70.6	3.9	3.3	2.9	2.5	15.2	8.5	10.8	11.4
HDFC Life	590	690	Buy	1269	6.7	5.7	6.4	8.3	87.7	103.2	91.8	71.4	4.5	4.1	3.2	2.7	17.6	18.0	18.1	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
First Year Premium	2,724.9	2,475.0	2,116.0	28.8	2,423.1	12.5	New business traction seems muted
Renewal Premium	7,187.0	7,276.1	5,543.0	29.7	6,906.6	4.1	Steady persistency led to healthy renewal
Single Premium	4,663.2	5,547.0	4,595.8	1.5	3,952.8	18.0	
Net Premium income	14,379.4	15,146.0	12,124.4	18.6	13,110.9	9.7	
Income from Investments	5,313.9	2,693.2	2,097.9	153.3	9,862.6	-46.1	
Total revenue	19,693.3	17,839.2	14,222.2	38.5	22,973.5	-14.3	
Commission	692.8	711.9	507.4	36.6	690.7	0.3	
Operating expenses	2,120.4	1,969.0	1,502.4	41.1	1,839.4	15.3	Sequentially opex ratio steady at 14.7%
Management Expenses	2,813.2	2,680.8	2,009.8	40.0	2,530.0	11.2	
Benefits paid	8,662.3	10,905.1	8,081.3	7.2	11,730.8	-26.2	
Change in Actuarial Liability	7,920.1	3,921.3	3,850.0	105.7	8,350.7	-5.2	
Total Expenses	16,582.4	14,826.4	11,931.3	39.0	20,081.5	-17.4	
<b>Surplus/ (deficit)</b>	<b>330.0</b>	<b>289.9</b>	<b>184.2</b>	<b>79.1</b>	<b>238.5</b>	<b>38.4</b>	<b>Better investment led to better surplus; premium growth muted</b>
Transfer to SH's A/c	416.1	230.0	182.5	128.0	218.2	90.7	
Investment income	243.7	155.9	179.1	36.0	159.9	52.4	
Profit/ (loss) before tax	314.2	340.9	275.9	13.9	327.3	-4.0	
PAT	315.2	336.9	273.7	15.2	326.2	-3.4	Higher appropriation boosted earnings

Key Metrics							
NBP	7,388.0	8,022.0	6,711.7	10.1	6,376.0	15.9	
AUM	2,33,839	1,42,673	1,94,776	20.1	2,24,901	4.0	
IEV	37,702		29,543	27.6	33,015	14.2	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Premiums earned - Net	54,164	54,661	0.9	65,697	65,528	-0.3	78,721
Transfer to Shareholders' account	1,271	1,215	-4.4	1,400	1,253	-10.5	1,454
PAT	1,563	1,358	-13.1	1,879	1,746	-7.1	2,163
EV/Share	178	182	2.1	219	218	-0.4	265

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
NBP growth	23.3	19.0	19.2	25.5	19.0
AUM growth	14.3	15.0	15.3	14.2	15.0
EV Growth	27.7	20.0	21.7	25.3	23.0
Comission ratio	4.9	4.8	4.8	4.1	4.6
VNB Margin	26.8	27.0	27.5	26.0	26.0
Opearing RoEV	18.2	18.2	18.2	18.2	18.2

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 5: Policyholders Account

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Premiums earned - Net	45396.2	54661.1	65528.2	78720.9
Interest, Dividends & Rent	9459.3	11409.0	13139.3	15110.2
Others income (incl. MTM)	9756.7	10492.0	12130.3	13949.9
<b>Total Revenue</b>	<b>64,612</b>	<b>76,562</b>	<b>90,798</b>	<b>1,07,781</b>
Commission	1940.3	2697.1	3197.2	3875.4
Operating expenses	5612.3	7095.6	8759.8	10607.8
Benefits paid (Net)	31863.6	35584.8	40499.0	46679.3
Change in valuation of policy liabilities	24681.5	27183.7	31958.2	37344.3
Provision for tax	184.4	1152.3	1447.3	1844.0
Surplus/(deficit) after tax	215.4	1519.2	1727.3	2024.6
Transfer to Shareholders' account	1,009	1,215	1,253	1,454

Source: Company, ICICI Direct Research

### Exhibit 6: Shareholders Account

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Amounts transferred from Policyholders' account	1009.2	1215.4	1253.0	1453.9
Income from investments	789.4	1024.5	1491.6	1720.8
<b>Total</b>	<b>1,799</b>	<b>2,240</b>	<b>2,745</b>	<b>3,175</b>
Total expenses	618.5	840.0	945.0	945.0
Profit before Tax	1180.0	1399.9	1799.5	2229.7
Provision for tax	-27.5	42.0	54.0	66.9
<b>PAT</b>	<b>1,208</b>	<b>1,358</b>	<b>1,746</b>	<b>2,163</b>

Source: Company, ICICI Direct Research

### Exhibit 7: Balance Sheet

(₹ Crore)	FY22	FY23E	FY24E	FY25E
<b>Sources of Funds</b>				
Share capital	2113	2112	2112	2112
Reserve and surplus	13285	15278	16958	18824
Credit/[debit] fair value change account	85	103	126	158
Networth	15486	17492	19197	21093
<b>Policyholders' funds</b>	<b>187116</b>	<b>236488</b>	<b>297909</b>	<b>380087</b>
Funds for Future Appropriations	941	1245	1719	2290
<b>Total Liabilities</b>	<b>204163</b>	<b>255225</b>	<b>318825</b>	<b>403470</b>
<b>Applications of Funds</b>				
Shareholders' investments	15238	20266	26954	35849
Policyholders' investments	108311	120225	134652	150810
Asset held to cover linked liabilities	80622	92795	106715	122722
Loans	643	1176	1709	2242
<b>Fixed assets - net block</b>	<b>343</b>	<b>350</b>	<b>357</b>	<b>364</b>
Net current assets	-993	20413	48438	91483
<b>Total Assets</b>	<b>204163</b>	<b>255225</b>	<b>318825</b>	<b>403470</b>

Source: Company, ICICI Direct Research

**Exhibit 8: Key Ratios**

(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Valuation</b>				
No. of Equity Shares (Crore)	211.2	211.2	211.2	211.2
Diluted EPS (₹)	5.7	6.4	8.3	10.2
BV (₹)	73.3	82.8	90.9	99.9
EV per share	142.3	181.7	218.0	265.4
P/E	103.2	91.8	71.4	57.6
P/BV	8.0	7.1	6.5	5.9
P/IEV	4.1	3.2	2.7	2.2
<b>Efficiency Ratios (%)</b>				
Commission expenses as a % of Gross Premium	4.1	4.9	4.8	4.8
Management expenses as a % of Gross Premium	16.4	17.7	17.9	18.1
<b>Return Ratios and capital (%)</b>				
Return on Net worth	18.0	18.1	18.2	18.2
Operating RoEV	18.4	18.2	18.2	18.2
<b>Key Ratios (%)</b>				
VNB Margin	27.4	26.8	27.0	27.5

Source: Company, ICICI Direct Research

**Exhibit 9: Key parameters**

(Year-end March)	FY22	FY23E	FY24E	FY25E
NBP	24155	29783	35455	42270
Growth (%)	20	23	19	19
Linked	12028	13316	15590	18228
Growth (%)	7	11	17	17
Non Linked	33935	42118	51086	61858
Growth (%)	24	24	21	21
APE	9664	12949	15488	18580
Growth (%)	18	34	20	20
VNB	2675	3504	4222	5159
Growth (%)	22	31	20	22
EV	30048	38376	46046	56047
Growth (%)	13	28	20	22
AUM	204170	233287	268321	309381
Growth (%)	17	14	15	15
PH Funds	108311	120225	134652	150810
Growth (%)	20	11	12	12
SH Funds	15238	20266	26954	35849

Source: Company, ICICI Direct Research

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