

Higher Covid claims – near term overhang

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

- Balanced product mix with focus on non-par and protection business
- Industry leading VNB margins of over 25%

Q1FY22 Results: Business traction healthy, claims rise amid pandemic.

- Gross premium grew at a healthy pace of 31% YoY to ₹ 7657 crore
- VNB margins remained healthy at 26.2% aided by balanced product mix
- Claims rise sharply with peak claims 3-4x higher than during first wave
- Surplus declined to ₹ 59 crore vs. ₹ 283 crore YoY

What should investors do? HDFC Life's share price has grown by ~2x over the past four years.

- We retain our BUY rating on the stock

Target Price and Valuation: We value HDFC Life at 4.5x FY23E EV with TP of ₹ 800

Key triggers for future price performance:

- Calibrated growth in credit protect & focus on retirement product to aid growth
- Strong distribution network remains core to maintain business momentum
- VNB margins to be industry leading above ~26%
- Higher Covid claim remains a near term overhang; reserves at ₹ 700 crore

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 ₹ 1,100



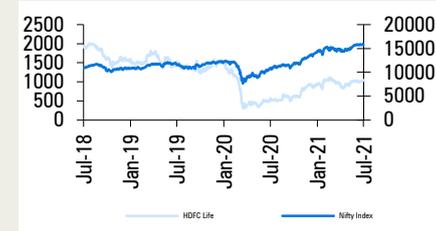
Particulars

Particulars	Amount
Market Capitalisation	₹ 137222 crore
EV (Q1FY22)	₹ 27331 crore
AUM (Q1FY22)	₹ 181272 crore
VNB margin (Q1FY22)	26.2%
52 week H/L	746/ 556
Net worth	₹8952 crore
Face value	₹ 10
DII holding (%)	5.9
FII holding (%)	26.1

Shareholding pattern

	Sep-20	Dec-20	Mar- 21	June 21
Promoter	60.4	58.9	58.9	53.8
FII	23.4	24.9	25.7	26.1
DII	7.3	7.1	6.3	5.9
Others	8.9	9.2	9.2	14.2

Price Chart



Risk to our call

- Gross premium growth stays healthy at 31% YoY; claims rise sharply
- Key risk:** Persistent impact of pandemic raises probability of higher claims

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	4 year CAGR (FY17 - FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
New business premium	14971	17238	20107	23%	24416	29300	21%
APE	6049	7164	8183	19%	10198	12238	22%
Total premium	29186	32707	38584	19%	45952	54931	19%
PAT	1277	1273	1360	11%	1543	1811	15%
EV	18296	20655	26625	21%	31053	35762	16%
P/E (x)	106.5	106.9	100.0		88.3	75.2	
P/BV (x)	24.0	20.0	15.8		14.3	12.6	
P/IEV (x)	7.4	6.6	5.1		4.4	3.8	
RoEV (%)	20.1	18.1	18.5		17.6	18.3	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Healthy business growth

- Strong gross premium growth of 31% YoY was driven by 20% YoY jump in renewal and new 44% YoY jump in new business premium
- On APE basis, premium increased 30% YoY to ₹ 1561 crore, wherein individual APE was up 22% YoY to ₹ 1306 crore. Protection business APE was up 57% YoY
- Opex ratio increased 100 bps YoY to 12.4%
- Due to a sharp rise in claims, HDFC Life paid 70,000 death claims amounting to gross paid claims at ₹ 1598 crore, which ultimately impacted surplus
- Persistency ratio remained buoyant with 13th month persistency at 90% and 61st month persistency at 53%
- AUM growth was a 30% YoY to ₹ 181272 crore, owing to base effect. Debt to equity mix in AUM was at 63:37
- Indian embedded value was at ₹ 27331 crore as of June 2021, up 21% YoY. Solvency ratio was healthy at 2.03x

Q1FY22 earnings conference call highlights

- Additional reserve was at ₹ 631 crore in Q1FY22 taking total buffer to ₹ 700 crore
- Group claims generally take longer to get registered. Hence, HDFC Life maintains a cautious view on further claims
- Deterioration seen in claims experience in case of business outside cities even before Covid
- Pick-up was seen in credit protect business in Q1FY22 relative to Q1FY21
- Covid claim – ₹ 40 crore on protection and ₹ 115 crore on saving products
- VNB not impacted by reserves of ₹ 700 crore parked in Q1FY22
- Calibrated approach to be followed in protection business, especially individual products

Peer comparison

Exhibit 1: ICICI Direct coverage universe (Insurance)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/EV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SBI Life Insurance	1016	1100	Buy	1,016	14.6	20.2	23.5	69.8	50.4	43.2	3.3	2.9	2.5	2.8	18.2	18.6
HDFC Life	674	800	Buy	1342	6.7	7.9	8.1	100.0	85.8	83.3	5.1	4.4	3.8	17.6	17.4	16.1

Source: Company, ICICI Direct Research

HDFC Life gets its premium valuations from its superior profitability, strong parentage and consistent improvement in profitability over the years.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
First Year Premium	1,285.6	1,121.7	1,021.8	25.8	2,389.2	-46.2	
Renewal Premium	3,889.3	3,664.4	3,239.1	20.1	6,350.4	-38.8	Healthy persistency aided renewal growth
Single Premium	2,481.1	2,127.1	1,601.6	54.9	4,170.6	-40.5	
Net Premium income	7,538	6,845	5,722	31.7	12,868	-41.4	Strong growth led by new business premium
Income from	7,065.8	5,832.1	8,787.1	-19.6	6,323.3	11.7	
Total revenue	14,604.3	12,676.7	14,508.9	0.7	19,191.3	-23.9	
Commission	302.3	308.0	239.9	26.0	597.5	-49.4	
Operating expenses	951.2	787.1	667.2	42.6	1,510.1	-37.0	
Management	1,253.5	1,095.1	907.1	38.2	2,107.6	-40.5	
Benefits paid	5,801.4	3,422.3	2,798.9	107.3	8,837.6	-34.4	Sharp rise in claims YoY due to second wave
Change in Actuarial Liability	7,608.2	7,665.1	10,494.3	-27.5	7,622.7	-0.2	
Total Expenses	13,409.6	11,087.3	13,293.1	0.9	16,460.3	-18.5	
Surplus/ (deficit)	57.4	354.2	283.3	-79.7	617.8	-90.7	Increase in claims payout impacted surplus
Transfer to SH's A/c	124.9	300.0	346.9	-64.0	286.6	-56.4	
Investment income	259.3	192.2	96.5	168.9	271.3	-4.4	
Profit/ (loss) before tax	306.7	472.2	451.2	-32.0	309.1	-0.8	
PAT	302.4	470.2	451.1	-33.0	317.9	-4.9	
Key Metrics							
NBP	3,766.6	3,248.8	2,623.4	43.6	6,559.8	29.9	Fulled by 57% YoY APE growth in protection
AUM	181,272	179,672	139,980	29.5	173,839	5.0	Lower base effect boosted growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Premiums earned - Net	44,849	45,011	0.4	52,738	53,749	1.9
Total	56,221	59,121	5.2	66,486	70,044	5.4
Transfer to Shareholders' account	1,316	1,204	-8.5	1,309	1,419	8.4
PAT	1,588	1,543	-2.8	1,634	1,811	10.8
EV/Share	153	154	0.4	175	177	1.1

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	FY20	Current			Earlier	
		FY21	FY22E	FY23E	FY22E	FY23E
NBP growth	15.1	16.6	21.4	20.0	20.6	17.1
AUM growth	1.3	36.6	4.7	15.3	-1.0	12.8
EV Growth	12.9	28.9	16.6	15.2	16.2	14.4
Comission ratio	4.6	4.4	4.3	4.3	4.3	4.3
VNB Margin	25.9	26.1	26.4	26.8	25.8	25.6
Conservation ratio	80.3	85.9	85.0	85.0	85.0	85.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policyholders Account

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Premiums earned - Net	28924.0	32223.6	38122.3	45010.5	53748.9
Interest, Dividends & Rent	9027.5	6845.3	32677.6	13449.4	15501.5
Others income (incl. MTM)	484.0	-9807.5	442.0	660.6	793.3
Total Revenue	38,436	29,261	71,242	59,121	70,044
Commission	1117.7	1491.18	1710.40	1967.0	2343.2
Operating expenses	3813.6	4266.9	4587.4	6018.2	7177.8
Benefits paid (Net)	13988.9	19021.5	22574.8	23915.4	27410.2
Change in valuation of policy liabilities	17507.5	2440.8	40829.6	24937.4	30562.4
Provision for tax	226.8	149.0	274.4	476.9	437.4
Surplus/(deficit) after tax	1350.7	971.4	1098.4	1327.3	1571.0
Transfer to Shareholders' account	1,207	1,191	991	1,204	1,419

Source: Company, ICICI Direct Research

Exhibit 6: Shareholders Account

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Amounts transferred from Policyholders' account	1206.9	1191.4	990.9	1203.9	1419.3
Income from investments	408.4	437.8	647.6	717.4	782.6
Total	1,636	1,648	1,638	1,921	2,202
Total expenses	62.6	99.1	285.0	346.5	358.2
Profit before Tax	1289.9	1289.5	1353.5	1591.2	1866.9
Provision for tax	13.1	16.5	-6.6	47.7	56.0
PAT	1,277	1,273	1,360	1,543	1,811

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share capital	2017	2019	2021	2021	2021
Reserve and surplus	3641	4968	6407	7314	8580
Credit/[debit] fair value change account	-3	-192	207	216	226
Networth	5656	6800	8638	9551	10826
Policyholders' funds	118124	119502	162818	179253	210390
Funds for Future Appropriations	1103	883	991	1114	1266
Total Liabilities	124883	127185	173066	189918	222482
Applications of Funds					
Shareholders' investments	5050	5855	8542	8695	10434
Policyholders' investments	57124	67189	90538	93717	107904
Asset held to cover linked liabilities	63377	54182	74760	79648	91595
Loans	80	299	424	424	424
Fixed assets - net block	333	330	340	347	354
Net current assets	-1082	-670	-1538	7087	11771
Total Assets	124883	127185	173066	189918	222482

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares (Crore)	201.7	201.9	201.9	202.1	202.1
Diluted EPS (₹)	6.3	6.3	6.7	7.6	9.0
BV (₹)	28.0	33.7	42.8	47.3	53.6
EV per share	90.7	102.3	131.9	153.7	177.0
P/E	106.5	106.9	100.0	88.3	75.2
P/BV	24.0	20.0	15.8	14.3	12.6
P/IEV	7.4	6.6	5.1	4.4	3.8
Efficiency Ratios (%)					
Commission expenses as a % of Gross Premium	3.8	4.6	4.4	4.3	4.3
Management expenses incl commission as a % of	16.9	17.6	16.3	17.4	17.3
Return Ratios and capital (%)					
Return on Net worth	24.5	20.4	17.6	18.0	18.5
Operating RoEV	20.1	18.1	18.5	18.4	18.6
Key Ratios (%)					
VNB Margin	24.6	25.9	26.1	26.4	26.8
NBP APE (proportion %)					
Participating	14.4%	15.9%	14.6%	16.5%	16.5%
Non participating	38.5%	59.5%	53.5%	60.1%	60.1%
Unit Linked	47.1%	24.5%	21.7%	23.4%	23.4%

Source: Company, ICICI Direct Research

Exhibit 9: Key parameters

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
NBP	14,971	17,238	20,107	24,416	29,300
Growth (%)	32	15	17	21	20
Linked	11,322	11,192	11,055	12,593	13,896
Growth (%)	10	-1	-1	14	10
Non Linked	17,864	21,514	24,281	33,360	41,035
Growth (%)	34	20	13	37	23
APE	6,049	7,164	8,183	10,198	12,238
Growth (%)	12	18	14	25	20
VNB	1,540	1,919	2,190	2,754	3,355
Growth (%)	20	25	14	26	22
EV	18,296	20,655	26,625	31,053	35,762
Growth (%)	20	13	29	17	15
AUM	1,25,552	1,27,226	1,73,839	1,82,060	2,09,933
Growth (%)	18	1	37	5	15
PH Funds	57,124	67,189	90,538	93,717	1,07,904
Growth (%)	26	18	35	4	15
SH Funds	5,050	5,855	8,542	8,695	10,434

Source: Company, ICICI Direct Research

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