

Company background and history..

HDFC Life Insurance Company Limited ('HDFC Life' / 'Company') is a joint venture between HDFC Ltd., India's leading housing finance institution and Standard Life Aberdeen, a global investment company. Established in 2000, HDFC Life is a leading long-term life insurance solutions provider in India, offering a range of individual and group insurance solutions that meet various customer needs such as Protection, Pension, Savings, Investment, Annuity and Health. As on June 30, 2021, the Company had 37 individual and 13 group products in its portfolio, along with 7 optional rider benefits, catering to a diverse range of customer needs. HDFC Life continues to benefit from its increased presence across the country having a wide reach with 390 branches and additional distribution touch-points through several new tie-ups and partnerships. The count of its partnerships is around 300, comprising traditional partners such as NBFCs, MFIs and SFBs, and including new-ecosystem partners. The Company has a strong base of financial consultants. The company's distribution model within each distribution channel gives them a significant footprint across customer segments. As a result its focus on customer needs and distribution efficiencies, they have managed to build economies of scale across most of their distribution channels

Good Q1FY22 performance

Overall Market Share: Ranked #1 in terms of Overall New Business Premium in private sector with market share expanding by 160 bps from 20.7 percent to 22.3 percent. The Company's share within the group and individual new business segment stood at 25.9 percent and 17.8 percent respectively

Product Portfolio: The Company continues to maintain a balanced product mix with share of participating savings, non participating savings, ULIPs, protection and annuity accounted for 29 percent, 32 percent, 27 percent, 8 percent and 5 percent of Individual APE respectively. The Company's focus on the protection segment resulted in 57 percent growth basis overall APE

Good Premium growth: The Company witnessed growth in gross premium of 30.6 percent on yoy basis to touch Rs. 7,656 crores led by strong growth in new business premium to Rs. 3,767 crores (up 43.6% YoY) and renewal premium to Rs. 3,889 crores (up 20.1% YoY). Net premium income (net of reinsurance) grew 31.5% y/y to ₹ 7,540 crores in Q1FY22.

Assets Under Management: As on June 30, 2021, the Company's AUM was Rs. 1.8 lakh Cr. (Debt:Equity mix – 63:37); over 98% of debt investments were in G-Secs and AAA bonds as on June 30, 2021

New business margins in Q1FY22 have seen an improvement on a sequential as well as YoY basis on the back of growth and balanced product mix. The NBM for Q1 FY22 stands at 26.2%, higher than 24.3% delivered in Q1 last year and 26.1% in full year FY21, with Value of New Business at Rs. 408 crore, a growth of 40% over last year. Profit after tax stands at Rs. 302 crore, 33% lower than Q1 FY21 on the back of reserving for excess mortality.

Solvency ratio: Solvency ratio stood at 203 percent in Q1FY22 as against 201 percent in Q4FY21. In Q1FY21, it stood at 190 percent.

Persistency ratio: 13M/61M persistency ratios stood 90% / 53% in Q1FY22 (vs. 91.4% / 54.6% in Q4FY21) respectively. The company stated that the positive trend is expected to continue. During quarter normalized operating return on embedded value, i.e., before factoring in the onetime mortality reserve creation stands at 16.5%, as against 15.8% in 1QFY21.

Distribution Mix: The Company's diversified distribution mix is evidenced by the wide access to its customers with nearly 300 partners and 1 lakh+ agents as on June 30, 2021. This is further supplemented by its 390 branches spread across the country

CMP	Rs. 664.05 (Face value: Rs. 10)			
Embedded value per share	Rs. 132			
Book value	Rs. 42.7 per share			
Recommendation	BUY			
Target price	Rs. 850			
Upside	27%			
52 Week High/Low	Rs. 746 /Rs. 555.95			
Market Cap	Rs. 1,35,230 crores			
Indian Embedded Value	Rs. 27, 331 crores as on Q1FY22			
BSE/NSE code	540777/HDFCLIFE			
Bloomberg code	HDFCLIFE:IN			
Promoter holding	53.84 %			
Price performance	1 month: -3.24 %, 3 months: -0.16 %, YTD: -1.84% , 1 Year: 4.56 %, 3 years: 34.10 %,			
Particulars (Rs. crores)	FY21	FY20	FY19	FY18
Gross Premium	38,584	32,707	29,186	23,564
New Business Premium	20,107	17,239	14,791	11,349
Renewal premium	18,477	15,468	14,109	12,130
VNB	2,185	1,919	1,537	1,282
VNB margin (%)	26.1	25.9	24.6	23.2
Profit after tax	1,360	1,295	1,277	1,109
Equity share cap.	2,020.9	2,018.8	2017.38	2011.74
Shareholders funds	8,640	6,807	5,656	4,749
Embedded Value	26,620	20,650	18,301	15,216
Operating return on EV	18.5	18.1	20.1	21.5
Solvency ratio (%)	201	184		
Market Cap/EV (x)	5.08	6.55	7.39	8.89
RoEV(%)	18.1	18.1	20.1	21.5

Source: Company

Investment recommendation and rationale

We like HDFC Life as it has capitalised on its demonstrable strengths – experienced people, diversified portfolio, widespread network and industry expertise – to dominate the market with sustained consistency. At CMP of Rs. 664.05, the Company is valued at P/EV of 4.92x on FY21 Embedded value per share of Rs. 135. The stock has witnessed some pressure recently as the Company's performance was affected in second wave of COVID-19. The Company will continue to enjoy premium considering its strong parentage and focus on protection business. We recommend a "BUY" due to the following factors: a) one of the most profitable life insurers based on Value of New Business margin, b) constantly improving its VNB margins and is leading the industry on this front, c) VNB margins improved from 15 percent level in FY17 to 26.1 percent in FY22 due to cost efficiencies, increasing its persistency ratios and selling a balanced product mix, d) HDFL Life share of protection in the individual and group new business premium increased from 12 percent in FY15 to 29 percent as on Q1FY22, e) healthy balance sheet and solvency ratio above 200 percent, f) consistently delivering good financial performance, We recommend "BUY" with a target price of Rs. 850 (P/EV of 4.92x at estimated FY22 Embedded value of Rs. 172.7 per share).



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Key definitions

Annualized Premium Equivalent (APE) - The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups

Embedded Value Operating Profit (EVOP) - Embedded Value Operating Profit ("EVOP") is a measure of the increase in the EV during any given period, excluding the impact on EV due to external factors like changes in economic variables and shareholder-related actions like capital injection or dividend pay-outs

First year premium - Premiums due in the first policy year of regular premiums received during the financial year. For example, for a monthly mode policy sold in March 2021, the first monthly instalment received would be reflected as First year premiums for 2020-21 and the remaining 11 instalments due in the first policy year would be reflected as first year premiums in 2021-22, when received

New business received premium - The sum of first year premium and single premium, reflecting the total premiums received from the new business written

Operating return on EV - Operating Return on EV is the ratio of EVOP (Embedded Value Operating Profit) for any given period to the EV at the beginning of that period

Persistency - The proportion of business renewed from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten

Solvency ratio - Ratio of available solvency margin to required solvency margin

Key Financial and Actuarial Metrics (Rs. in crores)

Particulars	Q1FY22	Q1FY21	YoY (%)	FY21	FY20
Individual APE	1,306	1,072	22	7,121	6,145
Total APE	1,561	1,198	30	8,372	7,407
New Business Premium (Indl+Group)	3,767	2,623	44	20,107	17,239
Renewal Premium (Indl+Group)	3,889	3,239	20	18,477	15,468
Total Premium	7,656	5,863	31	38,583	32,707
Assets Under Management	1,81,272	1,39,975	30	1,73,839	1,27,226
Networth	8,778	7,448	18	8,430	6,992
Profit after Tax	302	451	-33	1,360	1,295
Indian Embedded Value	27,331	22,580	21	26,617	20,650
Value of new business	408	291	40	2,185	1,919
Protection based on Individual APE	108	113	-4	484	466
Protection based on Total APE	246	157	57	1,070	1,270

Source: Company

Key Financial ratios

Particulars	Q1FY22	Q1FY21	FY21	FY20
New Business Margins	26.2%	24.3%	26.1%	25.9%
Pre-EMR Operating Return on EV	16.5%	15.8%	18.5%	18.1%
Post-EMR Operating Return on EV	14.4%	15.8%	18.5%	18.1%
Operating Expenses/Total Premium	12.5%	11.5%	12.0%	13.1%
Solvency Ratio	203%	190%	201%	184%
13M/61M Persistency	90%/53%	87%/53%	90%/53%	88%/54%
Product mix by Indl APE (UL/Non par savings/Annuity/Non par protection/Par)	27/32/5/8/29	27/28/5/11/30	24/31/5/7/34	28/41/4/8/19
Distribution mix by Indl APE (Corp Agents/Agency/Broker/Direct)	56/15/6/23	59/12/5/24	61/13/7/19	55/14/9/22

Source: Company

Notes: Networth comprises Share capital, Share premium and Accumulated profits

EMR: Excess Mortality Reserve

Persistency ratios are calculated basis original premium for individual business

Q1FY22 result and concall highlights

Excess mortality reserve of Rs. 700 crore created at the Balance Sheet date, for potential adverse mortality. This reserve is over and above the policy level liabilities calculated based on the applicable IRDAI regulations and based on our current expectation of extra claims to be received in the future, both of which are certified by the appointed actuary. The Company's approach would be to review the adequacy of this reserve at periodic intervals based on emerging experience. The strength of its balance sheet and back book surplus has enabled us to absorb the shock of heightened claims, whilst continuing to deliver growth.

The Management said peak claims during the second Covid wave were about 3-4 times of peak claim volumes in the first wave. The claims are still elevated compared to pre-Covid levels but are declining from as high as ~300 claims a day in Q1FY22 to now ~200 claims a day as the spread of the pandemic tapers.

Commenting on the Q1 FY22 performance, Ms. Vibha Padalkar, MD & CEO said "Against the backdrop of disruption in business on account of localised lockdowns, and surge in cases during the second wave, we recorded 22% growth and market share of 17.8% in private sector in terms of Individual WRP. We clocked 40% growth in terms of value of new business and we achieved a New Business Margin of 26.2% in Q1. Our product mix continues to remain balanced and our annuity business witnessed strong growth of 61% in this quarter. In comparison to Q1 of last fiscal, the Company clocked higher renewal collections, with 13th month persistency improving from 87% to 90%.

In the quarter gone by, the Company witnessed a steep rise in death claims, with peak claims in wave 2 at around 3-4 times of the peak claim volumes in the first wave. We paid over 70,000 claims in Q1. The gross and net claims provided for amounted to Rs. 1,598 crore and Rs. 956 crore respectively. Based on our current claims experience, we have set up an additional reserve of Rs. 700 crore to service the claims intimations expected to be received. Our endeavour is to promptly settle every bonafide claim. Our Profit after Tax stands at Rs. 302 crore (33% lower than Q1 FY21), on the back of higher claims reserving towards heightened claims intimation expected in Q2 and Q3. The strength of our balance sheet and back book surplus has enabled us to absorb the shock of heightened claims, whilst continuing to deliver growth. With signs of the second wave receding, over the past month, we have seen a gradual pick-up in economic activity, across parts of the country. We see greater customer engagement and an increased interest in life insurance policies."

Key takeaway from concall

HDFC Life Insurance is looking to stay from group term insurance business. This is on account of rising commoditisation of the product. Vibha Padalkar, MD & CEO, HDFC Life told in Q1FY22 concall that the company has been cautious on the group protection business. "We were doing risk-based underwriting rather than one-size-fits-all model. We stay away from group term insurance unless we understand the counterparty very well and are comfortable with the risk," she added. In Q1FY22, group protection business was Rs 740 crore compared to Rs 940 crore in FY20. FY21 saw the group protection business of Rs 250 crore, however this period was an aberration due to COVID-19 lockdown. Explaining further, Padalkar said that group term has become a fairly commoditised product. "We haven't been successful in making money there. It is because even one additional death can throw your pricing out of gear. So we have stayed away from that," Padalkar added. As a whole, Padalkar said that while growing protection isn't difficult, making reasonable returns in protection is fairly difficult. Hence, she suggested that a calibrated approach in this segment is the focus.

On the distribution channel, the company has higher focus on the Proprietary channel. It holds strong partnerships on Banca - HDFC, SBI Caps, Yes Bank. Management indicated agency run-rate to be high in terms of penetration, and the company has been able to grow better than banks.

Impact of the COVID-19 pandemic on the business

With signs of the second wave receding, the Company has seen a gradual pick-up in economic activity across parts of the country, starting June. The Company is expecting a continuing revival, with easing of lockdown restrictions, an extensive vaccination drive and are hopeful that the severity of future incidences would be lower than what we have seen so far.

While the economic restrictions in the second wave were fewer and more localised as compared to the first wave, the health impact was a lot more devastating, across the country. Against this backdrop, the Company recorded a 22 percent growth and a market share of 17.8 percent in terms of Individual WRP in Q1 FY22. Given that the trends have varied by region and the possibility of future waves cannot be ruled out, the Company will continue to be more segmented and localised in its approach, taking one quarter at a time.

In the quarter gone by, the Company witnessed a steep rise in death claims with peak claims in wave 2 at around 3-4 times of the peak claim volumes in first wave. The Company paid over 70,000 claims in Q1. The gross and net claims provided for amounted to Rs. 1,598 crores and Rs. 956 crores respectively. It appears that claims on individual business have peaked in June and expect them to normalise in the coming months with more people getting vaccinated and a fall in absolute number of infections.

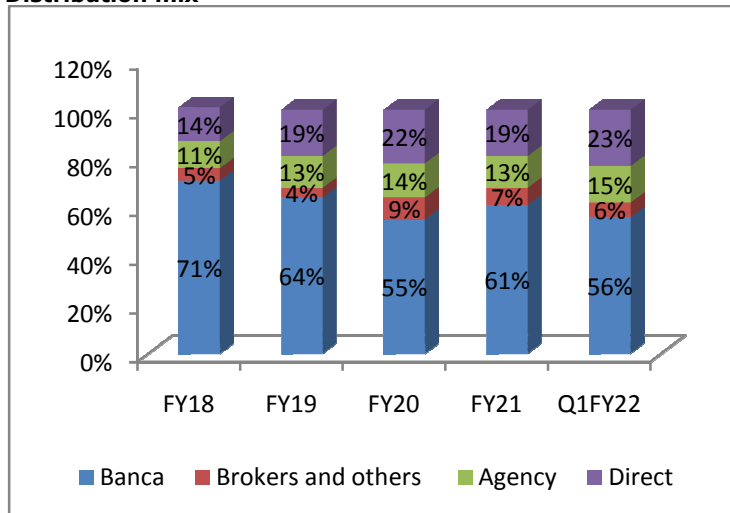
The Company's existing suite of digital assets, is available across channels, partners and employees. This has enabled it to continue providing a seamless experience to its customers, both for servicing existing policies and buying new policies.



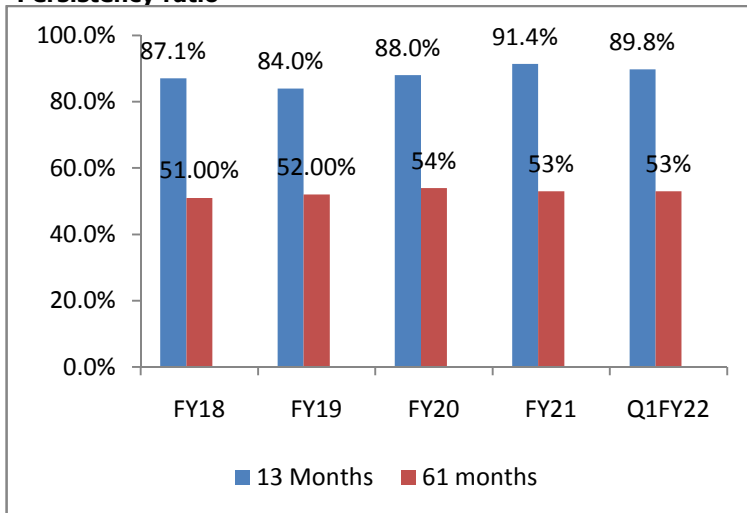
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Story in charts..

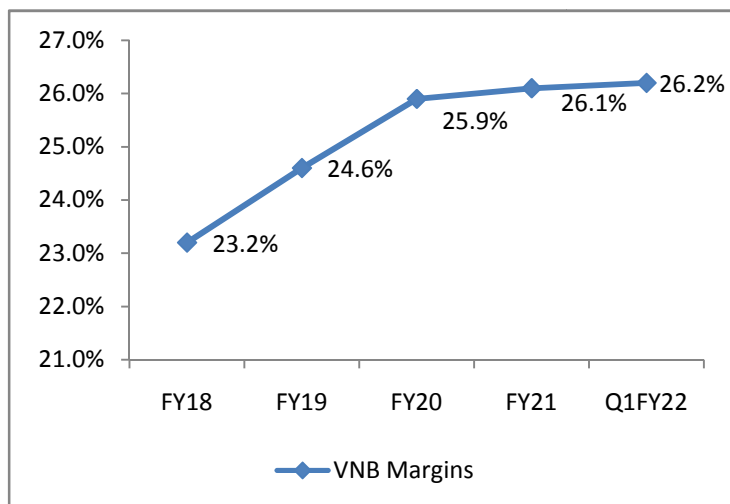
Distribution mix



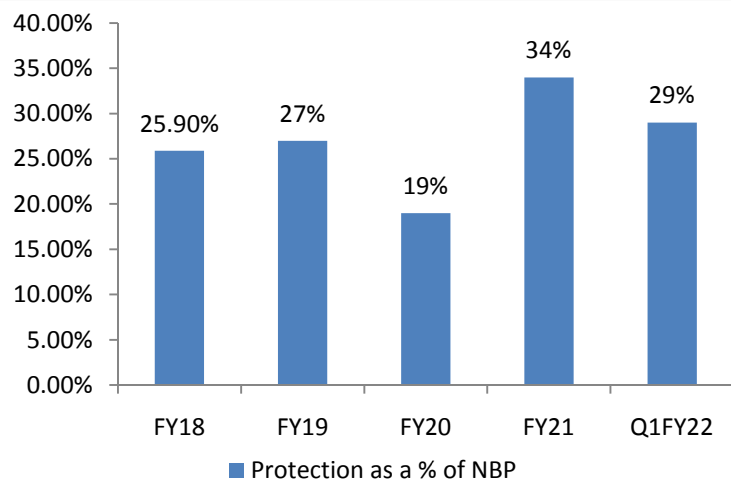
Persistency ratio



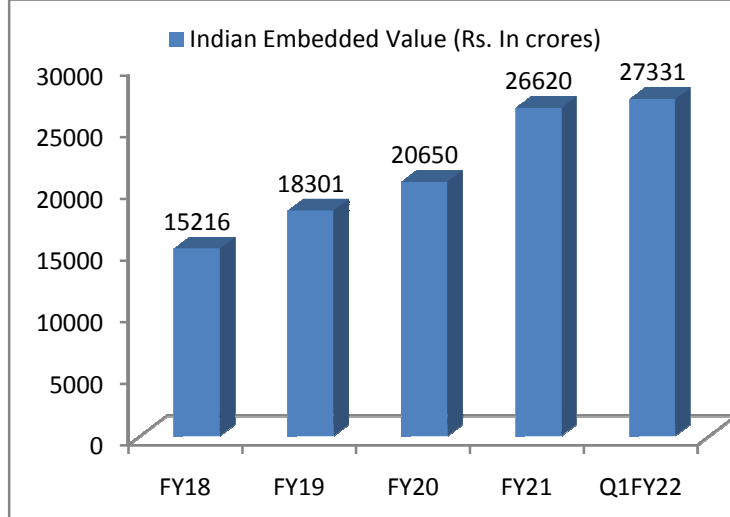
VNB Margins



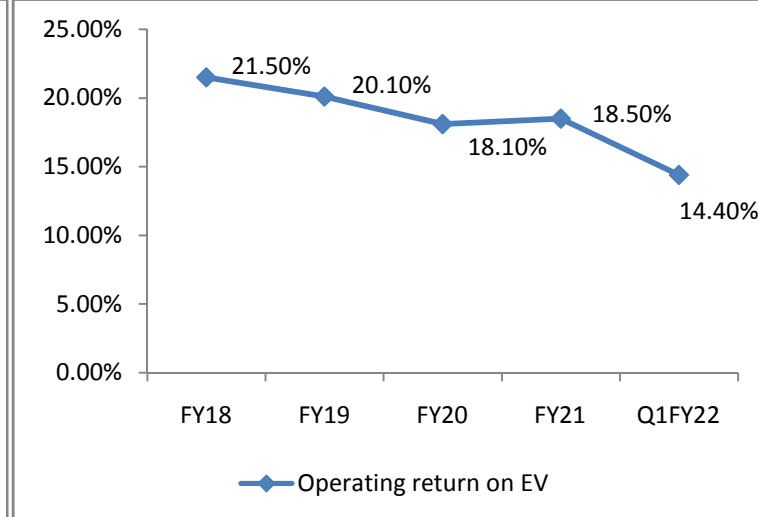
Protection as a percentage of New Business Premium (NBP)



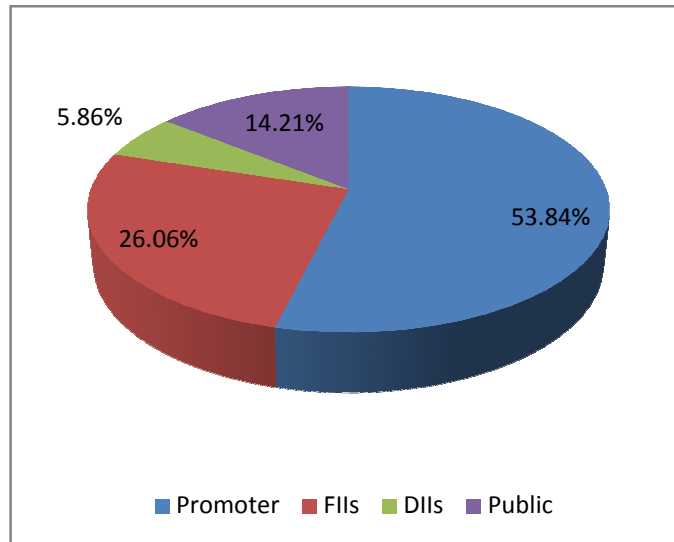
Indian Embedded Value (Rs. in crores)



Operating return on EV



Shareholding of the Company



One year price movement



Source: Trading view

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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

Not rated/Neutral - No recommendation but only outlook given

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net,

CIN: L74140MH1986PLC041941

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Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062