

EQUITY: FINANCIALS

Well balanced quarter

Risk reward turning now favourable; upgrade to Neutral

Action: Balanced delivery across metrics; upgrade to Neutral

HDFC Life's 2Q21 performance was well balanced across most metrics: 1) market share gains, overall APE grew 21% y-y (2Q); 2) steady improvement in new business margins to 25.1% in 1H21 (24.3% in 1Q), despite lower protection margins and shift to PAR products; 3) strong traction in retail protection (up 38% y-y in 1H) with overall protection mix of ~9%; 4) improving persistency; 5) balanced product mix with growth incrementally driven by PAR and protection and 6) optimum utilization of its distribution strengths.

HDFC Life's ability to deliver well on growth, opportunistic market share gains, balanced product mix without any margins/profitability dilution is commendable. We think such delivery, especially in the current environment justifies its premium valuation assigned by the market. This valuation gap v/s peers is unlikely to narrow owing to its strong delivery across metrics. Our Neutral stance is solely due to costly valuations. With the stock underperforming 15% vs the Nifty 50 in the past three months, we expect risk-reward to turn favorable for a long-term compounding story. With strong 1H growth and a favorable base for 4QF we now increase our APE growth estimates to +5% vs -4% earlier. We expect steady VNB margins at ~25%, driving 12/3% increases in FY21/22F VNB. Our TP implies 3.95x Sep-22F EV and 36x Sep-22 VNB multiple (earlier 4x Jun-22 EV).

Result highlights: 1) 2Q/1H21 individual APE growth of 18%/2% was more broad-based with higher shift to PAR, while the ULIP mix declined further to 21%; 2) VNB margins improved to 25.1% in 1H21 vs 24.3% in 1Q21, with increasing PAR mix netted off by reducing ULIP mix and lower cost drags with pick-up in growth; 3) retail protection grew 38% y-y (individual protection mix up to 9% and credit protect has started recovering now; 4) improvement in persistency across cohorts and (5) ROEVs of ~17.6%.

Risk reward now becoming favorable; upgrade to Neutral

HDFC Life has underperformed the Nifty 50 by 15% in the past three months, making current valuations at 3.75x Sep-22 EV seem reasonable for a long-term compounding story. Hence we upgrade to Neutral and raise our TP to INR600 driven by 12/3% increases in FY21/22F VNB and roll over to Sep-22F, while our implied valuation multiples remain largely unchanged at 3.95x Sep-22 EV. We prefer frontline private banks over Life insurance companies given higher comfort on valuations. Upside risk: Faster than expected growth recovery; downside risks: worsening of the current COVID-19 situation and inability to sustain the current improvement in growth, margins and persistency.

Year-end 31 Mar	FY20		FY21F		FY22F		FY23F	
Currency (INR)	Actual	Old	New	Old	New	Old	New	
Net premium (mn)	322,236	329,504	338,696	372,510	387,809	422,533	444,301	
Reported net profit (mn)	12,953	12,444	14,425	11,815	16,566	14,622	17,307	
Normalised net profit (mn)	12,953	12,444	14,425	11,815	16,566	14,622	17,307	
FD normalised EPS	6.42	6.16	7.15	5.85	8.21	7.24	8.57	
FD norm. EPS growth (%)	1.2	-4.0	11.3	-5.1	14.8	23.8	4.5	
FD normalised P/E (x)	88.9	-	79.8	-	69.5	-	66.5	
Price/EV (x)	5.6	-	4.7	-	4.1	-	3.5	
Price/implied VNB (x)	49.2	-	46.5	-	38.1	-	30.1	
Dividend yield (%)	-	-	0.3	-	0.3	-	0.3	
ROE (%)	20.8	17.1	19.6	14.4	19.4	15.9	17.6	
ROA (%)	1.0	0.9	1.0	0.7	1.0	0.8	0.9	

Source: Company data, Nomura estimates

Rating Up from Reduce	Neutral
Target price Increased from INR 565	INR 600
Closing price 19 October 2020	INR 571
Implied upside	+5.1%
Market Cap (USD mn)	15,715.3
ADT (USD mn)	28.5

Research Analysts

India Financials

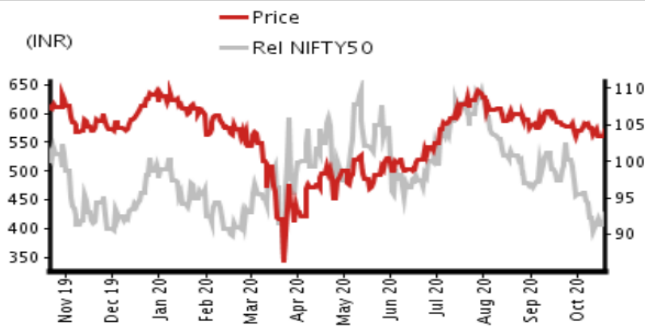
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Key Data on HDFC Standard Life Insurance

Relative Performance Chart



Source: Thomson Reuters, Nomura

Performance

(%)	1M	3M	12M		
Absolute (INR)	-2.5	-7.2	-6.2	M cap (USDmn)	15,715.3
Absolute (USD)	-2.2	-5.1	-9.1	Free float (%)	48.1
Rel to NIFTY50	-4.7	-15.1	-7.1	3-mth ADT (USDmn)	28.5

Profit and loss (INRmn)

Year-end 31 Mar	FY19	FY20	FY21F	FY22F	FY23F
Gross premiums	291,860	327,069	344,012	393,657	450,733
Government charges	0	0	0	0	0
Reinsurance ceded	-2,620	-4,833	-5,316	-5,848	-6,433
Net written premium	289,240	322,236	338,696	387,809	444,301
Chg in unearned prem					
Net earned premium	289,240	322,236	338,696	387,809	444,301
Claim/benefit payments	-134,146	-181,730	-164,954	-188,705	-216,598
Change in reserves	-175,074	-24,408	-158,248	-184,476	-215,280
Commission & DAC exps	-49,313	-57,581	-64,468	-71,535	-79,905
Other expenses	-13,752	-16,981	-9,114	-9,797	-10,487
Underwriting surplus	-83,045	41,536	-58,088	-66,705	-77,970
Recurrent inv income	0	0	0	0	0
Realised/unreal'd gains	95,115	-29,622	71,362	81,713	93,277
Investment income	95,115	-29,622	71,362	81,713	93,277
Other income					
Employee share expense					
Operating profit	12,070	11,914	13,273	15,008	15,307
Amortisation					
Other non-op income	829	1,203	1,646	2,226	2,858
Associates and JCEs					
Pre-tax profit	12,899	13,117	14,919	17,233	18,165
Income tax	-131	-165	-494	-668	-857
Net profit after tax	12,768	12,953	14,425	16,566	17,307
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	12,768	12,953	14,425	16,566	17,307
Extraordinary items					
Reported NPAT	12,768	12,953	14,425	16,566	17,307
Dividends	-2,412	0	-2,395	-2,750	-2,873
Tfr to retained earnings	10,356	12,953	12,031	13,816	14,434

Balance sheet ratios (%)

	FY19	FY20	FY21F	FY22F	FY23F
Life solvency margin	125.3	122.7	150.9	156.4	153.6
Non-life solvency margin					
Net premiums/equity	511.4	473.9	428.5	422.7	423.2
Tech. reserves/total premiums	404.7	367.9	400.4	397.1	394.9

Growth (%)

	FY19	FY20	FY21F	FY22F	FY23F
Life premiums	23.9	12.1	5.2	14.4	14.5
Non life premiums	-	-	-	-	-
Net profit	15.1	1.4	11.4	14.8	4.5
Normalised EPS	14.4	1.2	11.3	14.8	4.5
Normalised FDEPS	14.4	1.2	11.3	14.8	4.5

Source: Company data, Nomura estimates

Balance sheet (INRmn)

As at 31 Mar	FY19	FY20	FY21F	FY22F	FY23F
Cash and deposits					
Bonds	784,050	883,048	1,004,198	1,150,137	1,323,575
Equities	420,968	330,658	368,512	408,032	451,088
Unit trusts	0	0	0	0	0
Loans and mortgages	0	0	0	0	0
Foreign investments	0	0	0	0	0
Real estate	0	0	0	0	0
Other investments	50,498	58,555	69,101	81,247	93,917
Total investments	1,255,517	1,272,261	1,441,812	1,639,416	1,868,581
Deferred acquisition costs	0	0	0	0	0
Unearned prem	0	0	0	0	0
Debtors and prepayments	0	0	0	0	0
Fixed assets	3,333	3,301	3,565	3,851	4,159
Goodwill	0	0	0	0	0
Separate account assets	0	0	0	0	0
Other assets	41,158	46,061	66,174	72,320	78,918
Total assets	1,300,008	1,321,623	1,511,551	1,715,587	1,951,657
Insurance reserves	1,181,151	1,203,359	1,377,260	1,563,132	1,779,923
Catastrophe reserves	0	0	0	0	0
Insurance protection fund	0	0	0	0	0
Deposit and inv contracts	0	0	0	0	0
Separate a/c liabs	50,594	49,019	53,921	59,313	65,244
Prov for unearned prem	585	750	825	908	998
Prov for o/s claims	0	0	0	0	0
Interest bearing liabilities	0	0	0	0	0
Other liabilities	11,121	496	496	496	496
Total liabilities	1,243,452	1,253,624	1,432,502	1,623,849	1,846,662
Minority interest	0	0	0	0	0
Common stock	23,842	24,169	24,169	24,169	24,169
Preferred stock	0	0	0	0	0
Retained earnings	32,714	43,830	54,880	67,569	80,826
Proposed dividends	0	0	0	0	0
Other equity	0	0	0	0	0
Shareholders' equity	56,556	67,999	79,049	91,738	104,995
Total liabilities and equity	1,300,008	1,321,623	1,511,551	1,715,587	1,951,657

Inv portfolio mix (%)

	FY19	FY20	FY21F	FY22F	FY23F
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Bonds	62.4	69.4	69.6	70.2	70.8
Equities	33.5	26.0	25.6	24.9	24.1
Unit trusts	0.0	0.0	0.0	0.0	0.0
Loans and mortgages	0.0	0.0	0.0	0.0	0.0
Foreign investments	0.0	0.0	0.0	0.0	0.0
Real estate	0.0	0.0	0.0	0.0	0.0
Other investments	4.0	4.6	4.8	5.0	5.0

Per share

	FY19	FY20	FY21F	FY22F	FY23F
Reported EPS (INR)	6.35	6.42	7.15	8.21	8.57
Norm EPS (INR)	6.35	6.42	7.15	8.21	8.57
FD norm EPS (INR)	6.35	6.42	7.15	8.21	8.57
DPS (INR)	1.44	0.00	1.43	1.64	1.71
BVPS (INR)	28.03	33.68	39.16	45.44	52.01

Life/LT EVPS (INR)

	FY19	FY20	FY21F	FY22F	FY23F
Life/LT VNBPS (INR)	7.64	9.51	9.65	11.30	13.59
Non-life bus. PS (INR)	0.00	0.00	0.00	0.00	0.00

Valuations and ratios

	FY19	FY20	FY21F	FY22F	FY23F
Reported P/E (x)	89.9	88.9	79.8	69.5	66.5
Normalised P/E (x)	89.9	88.9	79.8	69.5	66.5
FD normalised P/E (x)	89.9	88.9	79.8	69.5	66.5
Dividend yield (%)	0.3	-	0.3	0.3	0.3
Price/book (x)	20.3	16.9	14.6	12.6	11.0
Investment return (%)	8.19	-2.34	5.26	5.30	5.32
Recurrent inv return (%)	0.00	0.00	0.00	0.00	0.00
Non-recurrent return (%)	100.0	-	100.0	100.0	100.0
Price/EV (x)	6.3	5.6	4.7	4.1	3.5
Price/implied VNB (x)	62.8	49.2	46.5	38.1	30.1
Loss ratio (%)					
Combined ratio (%)					
Effective tax rate (%)	1.0	1.3	3.3	3.9	4.7
Dividend payout (%)	18.9	0.0	16.6	16.6	16.6
ROE (%)	24.5	20.8	19.6	19.4	17.6
ROA (%)	1.06	0.99	1.02	1.03	0.94
ROR (%)	3.6	3.8	4.1	3.8	3.4

Source: Company data, Nomura estimates

Key 1HFY21 result highlights:

- **HDFC Life delivered strong results** with a 22% individual APE growth in 2Q helping it post 2% y-y growth in 1HFY21 (on a strong 35% y-y base) and neutralize the sharp APE decline in 1Q21. As a result, HDFC gained 235bp market share ypy to 17.5% now as industry contracted 11% over the same period. Growth pick-up was broad-based across products and channels and aided improvement in VNB margins to 25.1% for 1H21 up from 24.3% in 1QFY21. Opex ratios declined to 11.1% in 1HFY21 (3% drop y-y) and persistency saw meaningful improvement across most cohorts.
- **Demand narrative improving:** Management maintained its cautious stance and did not indicate any growth target given the high uncertainty levels; with HDFC Life already delivering 2% Individual APE growth in 1H21, we now price 5%/ 15% growth in FY21/22F (earlier -4%/ 20%) into our estimates. Qualitatively, management indicated that it is seeing good demand for non-linked savings as customers look to deploy their discretionary funds in offerings with lower volatility and steady returns.
- **Product wise traction – balanced product suite:** 1) **Retail protection** grew 38% y-y (mix up from 6% to 9% y-y) aided by good demand for protection, price increase and increase in limited pay variant sales; 2) **Credit Protect** growth decline of 74% y-y in 1Q21 saw some recovery in 2Q21 (-53% in 1HFY21) as partner banks' disbursements improved, management expects further normalization as most banks are likely to return to pre-pandemic levels over the next two quarters; 3) **PAR** (33% mix vs 9% y-y) growth momentum was the strongest and grew 2.6x in 1H21 y-y aided by customers willing to assign funds to better return products with lower volatility (shift from ULIPs); 4) **Within non-PAR savings**, annuity products witnessed strong 24% y-y growth in 1H21, while non-PAR savings also saw decent volumes though declined 44% y-y due to high base impact; and 5) **ULIP flows** remained weak and saw -13% y/y despite markets recovering significantly since March, and management expects flows to improve only with a 9-12 month lag.
- **VNB margin movement:** 1HFY21 margin improved sequentially to 25.1% (implying 2Q21 margin of 25.6% vs 24.3% in 1Q21), aided by pick-up in growth and improved product mix. VNB margin dropped to 25.1% vs 27.5% in 1HFY20 as a result of change in assumptions (-60bp impact), new business profile (-20bp impact) and lower fixed cost absorption due to lower growth (-170bp impact).
- **EV Walk:** HDFC Life delivered 17.6% RoEV in 1HFY21 with an exit EV of INR233.3bn (up from INR206.5bn as of Mar-20) with unwind and VNB amounting to INR8.4bn each and INR0.7bn of operating variances. Operating variance experience continues positive and is in line with management's assumptions. Economic variances of INR9.2bn (capital market driven) were lower than INR11.5bn disclosed in 1Q21 due to the upward shift in the yield curve since June-20.
- **Other key highlights:** 1) **COVID-19 claims:** HDFC Life carries a INR410mn provision for COVID-19 claims, and to date has received ~410 individual claims and 50 group life claims; management indicated that non-COVID-19 claims have declined thus providing a partial hedge against COVID-19 claims; 2) **persistency trends were strong** across most cohorts; 3) **the opex ratio also saw a 3% decline** from 14% to 11% y-y, and will likely increase as normalcy resumes; and 4) **underwriting profits** increased 2% y-y to INR5.6bn driven by a 10% increase in back book surplus to INR16.7bn, while new business strain remained high at INR11.1bn as a result of the product mix and sourcing mix.

Fig. 1: VNB decline moderates to 13% y-y as growth gathers some momentum in 2Q21 (up 18% y-y in 2Q21 and 2% y-y in 1HFY21 – Individual APE basis)

INRbn	1Q20	1Q21	y/y	2Q20	2Q21	y/y	1H20	1H21	y/y	FY19	FY20	y/y
VNB	5.09	2.91	-43%	4.51	5.47	21%	9.60	8.38	-13%	15.37	19.19	25%
VNB margin	29.8%	24.3%	-5.5%	25.6%	25.6%	0.0%	27.5%	25.1%	-2.4%	24.6%	25.9%	1.3%
Operating RoEV							19.6%	17.6%		20.1%	18.1%	-2.0%
EV	192	226	17.4%	201	233	15.9%	201	233	16%	183	207	13%
AUM	1,296	1,400	8.0%	1,310	1,506	15.0%	1,310	1,506	15%	1,256	1,272	1%
Cost ratios												
Operating Expenses / Total Premium	13.5%	11.5%	-2.0%				14.1%	11.1%	-3.0%	13.2%	13.1%	-0.1%
Total Commissions / Total Premium	4.9%	4.1%	-0.8%				4.9%	4.1%	-0.8%	3.8%	4.6%	0.8%

Source: Company data, Nomura research

Fig. 2: Reported P&L

INRmn	2Q20	1Q21	2Q21	y/y	1HFY20	1HFY21	y/y	9M19	9M20	y/y	FY19	FY20	y/y
Reported PAT	3,087	4,511	3,261	6%	7,333	7,772	6%	9,128	9,836	8%	12,768	12,953	1%
Under writing profit	2,000	3,500	2,100	5%	5,500	5,600	2%	7,200	7,100	-1%	9,000	10,900	21%
Back book surplus	7,100	8,800	7,900	11%	15,100	16,700	11%	18,000	22,800	27%	25,500	29,900	17%
New business strain	- 5,100	- 5,400	- 5,700	12%	-9,600	-11,100	16%	-10,800	-15,700	45%	-16,500	-19,100	16%
Shareholders surplus	1,100	1,000	1,200	9%	1,800	2,200	22%	1,900	2,700	42%	3,800	2,100	-45%
INRmn	2Q20	1Q21	2Q21	y/y	1HFY20	1HFY21	y/y	9M19	9M20	y/y	FY19	FY20	y/y
Net premium income	74,537	57,218	1,00,454	34.8%	1,39,048	1,57,673	13.4%	1,86,765	2,17,591	16.5%	2,89,240	3,22,236	11.4%
Income from investments	11,351	87,491	63,188	456.7%	31,865	1,50,679	372.9%	52,718	69,191	31.2%	90,275	33,109	-136.7%
Other income	696	380	505	-27.4%	1,018	885	-13.1%	1,018	1,646	61.8%	2,060	3,487	69.3%
Total	86,584	1,45,089	1,64,148	89.6%	1,71,931	3,09,237	79.9%	2,40,501	2,88,428	19.9%	3,81,575	2,92,614	-23.3%
Net commission	3,655	2,399	4,247	16.2%	6,878	6,647	-3.4%	7,241	10,397	43.6%	11,177	14,912	33.4%
Opex	10,955	6,672	11,014	0.5%	19,763	17,686	-10.5%	25,947	30,372	17.1%	38,136	42,669	11.9%
Benefits paid	42,235	27,989	47,558	12.6%	78,852	75,547	-4.2%	92,990	1,36,946	47.3%	1,39,889	1,90,215	36.0%
Change in actuarial liability	26,411	1,04,943	98,849	274.3%	57,607	2,03,792	253.8%	1,03,312	97,572	-5.6%	1,75,075	24,408	-86.1%
Total Expenses	84,454	1,42,572	1,62,763	92.7%	1,66,037	3,05,335	83.9%	2,33,059	2,80,074	20.2%	3,70,848	2,82,900	-23.7%
Surplus/Deficit	2,130	2,518	1,385	-35.0%	5,894	3,903	-33.8%	7,443	8,354	12.2%	10,727	9,714	-9.4%
Transferred to Shareholders A/C	2,203	3,469	2,177	-1.2%	5,706	5,645	-1.1%	7,310	7,397	1.2%	12,069	11,914	-1.3%
FFO	- 73	- 951	- 792	978.5%	188	- 1,743		241	957	296.4%	- 1,342	- 2,200	
Shareholders account													
Transfer from Policyholder's account	2,203	3,469	2,177	-1.2%	5,706	5,645	-1%	7,310	7,397	1%	12,069	11,914	-1%
Income from investments	1,400	965	1,371	-2.1%	2,388	2,335	-2%	2,356	3,518	49%	4,084	4,378	7%
Other income								93	0	-100%	211	186	
Opex	-335	79	-185	-44.7%	458	107	-77%	-313	-643	106%	-3,465	-3,360	-3%
PBT	3,268	4,512	3,362	2.9%	7,637	7,874	3%	9,446	10,273	9%	12,899	13,117	2%
PAT	3,087	4,511	3,261	5.6%	7,333	7,772	6%	9,128	9,836	8%	12,768	12,953	1%
Solvency ratio	1.92	1.90	2.03	5.7%				1.91	1.95	2%	1.88	1.84	-2%
Calculated Expense ratio	19.6%	15.9%	15.2%	-4.4%				17.8%	18.7%	1.0%	17.0%	17.9%	0.8%
Commission ratio	4.90%	4.19%	4.23%	-0.7%				3.88%	4.78%	0.9%	3.86%	4.63%	0.8%
Expense ratio ex-commission	14.7%	11.7%	11.0%	-3.7%				13.9%	14.0%	0.1%	13.2%	13.2%	0.1%

Source: Company data, Nomura research

Fig. 3: Persistency trends improved across most cohorts

Persistency	1Q20	1Q21	y/y	2Q20	2Q21	y/y	1H20	1H21	y/y	FY19	FY20	y/y
-13th month	88.8%	87.0%	-1.8%	89.3%	90.8%	1.5%	89.1%	90.5%	1.4%	87.2%	90.1%	2.9%
-25th month	77.6%	80.8%	3.2%	77.7%	83.4%	5.7%	79.5%	82.4%	2.9%	80.5%	80.2%	-0.3%
-37th month	71.4%	69.5%	-1.9%	74.5%	71.8%	-2.7%	72.9%	72.9%	0.0%	72.0%	73.8%	1.8%
-49th month	67.3%	64.9%	-2.4%	65.2%	70.1%	4.9%	68.2%	68.1%	-0.1%	67.7%	67.2%	-0.5%
-61th month	55.5%	54.4%	-1.1%	54.6%	52.4%	-2.2%	54.2%	54.4%	0.2%	52.3%	55.0%	2.7%

Source: Company data, Nomura research

Fig. 4: Total APE decline moderates to 4% y-y in 1H21 (from 30% y-y decline in 1Q21) supported by good growth in PAR, annuity and protection

	1Q20	1Q21	y/y	2Q20	2Q21	y/y	1H20	1H21	y/y	FY19	FY20	y/y
Total APE (INRmn)	17,100	11,980	-30%	17,630	21,360	21%	34,730	33,340	-4%	62,600	74,070	18%
Individual APE (INR mn)	13,780	10,720	-22%	14,870	17,620	18%	28,650	28,340	-1%	52,000	61,450	18%
Group APE (INR mn)	3,320	1,260	-62%	2,760	3,740	36%	6,080	5,000	-18%	10,600	12,620	19%
Share of protection business (Basis APE)	17.8%	13.1%	-4.7%	15.6%	11.6%	-4.1%	16.7%	12.1%	-4.6%	16.7%	17.2%	0.5%
Share of protection business (Basis NBP)							28.0%	14.1%	-13.9%	27.0%	27.6%	0.6%
Individual protection mix (pure protection)	5.5%	10.5%	5.0%	5.6%	5.5%	-0.1%	6.1%	8.1%	2.0%	7.0%	7.6%	0.6%
Group protection mix (% of Total APE)	12.3%	2.6%	-9.7%	10.0%	6.1%	-3.9%	10.6%	4.0%	-6.6%	9.7%	9.6%	-0.1%
Overall Protection APE (individual + group)	3,044	1,569	-48%	2,756	2,471	-10%	5,800	4,040	-30%	10,454	12,740	22%
Overall savings APE	14,056	10,411	-26%	14,874	18,889	27%	28,930	29,300	1%	52,146	61,330	18%
Individual protection APE (pure protection)	758	1,126	49%	990	1,170	18%	1,748	2,296	31%	3,640	4,670	28%
Individual savings APE	13,022	9,594	-26%	13,880	16,450	19%	26,902	26,044	-3%	48,360	56,780	17%
Group protection APE	2,286	444	-81%	1,766	1,301	-26%	4,052	1,744	-57%	6,814	8,070	18%
Group savings APE	1,034	816	-21%	994	2,439	146%	2,028	3,256	61%	3,786	4,550	20%

Source: Company data, Nomura research

Fig. 5: Product and Distribution mix trends: PAR drives volumes, momentum improves across channels in 2Q

Individual Product Mix (%)	1Q20	1Q21	y/y	2Q20	2Q21	y/y	1H20	1H21	y/y	FY19	FY20	y/y
ULIP	26%	27%	0.5%	26%	21%	-5.1%	26%	23%	-3.0%	55.0%	28.4%	-26.6%
Non Par Savings	63%	33%	-30.3%	53%	37%	-16.2%	58%	36%	-22.5%	20.0%	45.0%	25.0%
of which Annuity	5%	5%	-0.1%	3%	4%	1.1%	4%	5%	1.0%	5.0%	4.0%	-1.0%
of which non annuity non PAR savings	58%	28%	-30.2%	50%	33%	-17.2%	54%	31%	-23.5%	15.0%	41.0%	26.0%
Non Par Protection	5%	11%	6.0%	7%	7%	-0.1%	6%	9%	2.4%	7.0%	7.6%	0.6%
Par	6%	30%	23.8%	12%	35%	23.2%	9%	33%	24.0%	18.0%	19.0%	1.0%
Individual product mix												
ULIP	3,583	2,841	-20.7%	3,866	3,677	-4.9%	7,449	6,518	-12.5%	28,600	17,452	-39%
Non Par Savings	8,681	3,505	-59.6%	7,936	6,555	-17.4%	16,617	10,061	-39.5%	10,400	27,653	166%
of which Annuity	700	700	0.0%	446	717	60.8%	1,146	1,417	23.6%	2,600	2,458	-5%
of which non annuity non PAR savings	7,981	2,805	-64.9%	7,490	5,838	-22.0%	15,471	8,644	-44.1%	7,800	25,195	223%
Non Par Protection	689	1,179	71.1%	1,059	1,230	16.2%	1,748	2,409	37.8%	3,640	4,670	28%
Par	827	3,195	286.4%	1,752	6,158	251.5%	2,579	9,352	262.7%	9,360	11,676	25%
Individual Business Distribution Mix (%)												
Corporate Agents	56%	59%	3.0%	52%	61%	8.5%	54%	60%	6.0%	64%	55%	-9.0%
Agency	15%	12%	-3.0%	15%	14%	-1.4%	15%	13%	-2.0%	13%	14%	1.0%
Broker	9%	5%	-4.0%	11%	7%	-4.3%	10%	6%	-4.0%	4%	9%	5.0%
Direct	20%	24%	4.0%	22%	19%	-2.8%	21%	21%	0.0%	19%	22%	3.0%
Individual Business Distribution Mix (INRmn)												
Corporate Agents	7,717	6,325	-18.0%	7,754	10,679	37.7%	15,471	17,004	9.9%	33,280	33,798	2%
Agency	2,067	1,286	-37.8%	2,231	2,398	7.5%	4,298	3,684	-14.3%	6,760	8,603	27%
Broker	1,240	536	-56.8%	1,625	1,164	-28.3%	2,865	1,700	-40.6%	2,080	5,531	166%
Direct	2,756	2,573	-6.6%	3,261	3,379	3.6%	6,017	5,951	-1.1%	9,880	13,519	37%
Total Business Distribution Mix (%)												
Corporate Agents	24%	27%	3.2%	21%	24%	2.8%	23%	23%	0.0%	26%	23%	-3.0%
Agency	7%	7%	0.0%	7%	6%	-0.4%	7%	6%	-1.0%	7%	7%	0.0%
Broker	3%	2%	-1.0%	3%	2%	-0.6%	3%	2%	-1.0%	2%	3%	1.0%
Direct	17%	23%	6.3%	15%	18%	3.0%	16%	18%	2.0%	16%	17%	1.0%
Group	50%	41%	-8.5%	51%	66%	15.6%	51%	51%	0.0%	49%	51%	2.0%
Total Business Distribution Mix (INRmn)												
Corporate Agents	4,070	3,235	-20.5%	3,918	4,434	13.2%	7,988	7,668	-4.0%	16,276	17,036	5%
Agency	1,197	839	-29.9%	1,234	1,162	-5.9%	2,431	2,000	-17.7%	4,382	5,185	18%
Broker	513	240	-53.3%	529	427	-19.2%	1,042	667	-36.0%	1,252	2,222	77%
Direct	2,856	2,755	-3.5%	2,701	3,246	20.2%	5,557	6,001	8.0%	10,016	12,592	26%
Group	8,465	4,912	-42.0%	9,248	12,092	30.8%	17,712	17,003	-4.0%	30,674	37,776	23%

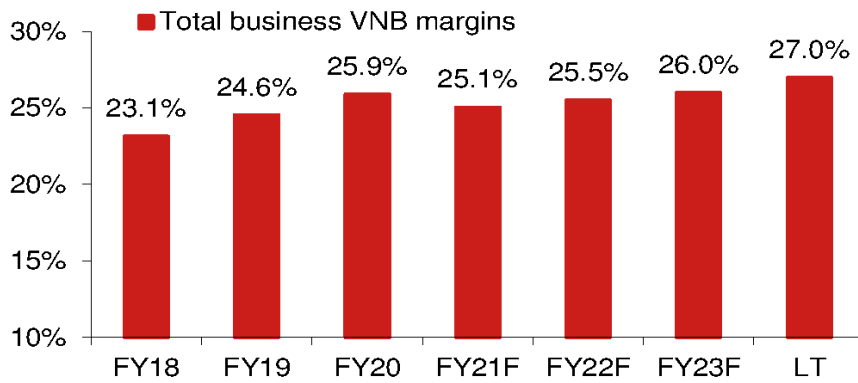
Source: Company data, Nomura research

Fig. 6: We value HDFC Life at INR600/share (implies 3.95x Sept-22F EV) with long-term VNB margin of 27%

INRmn	FY19	FY20	FY21F	FY22F	FY23F	FY 21-25F	FY 25-35F	Terminal
APE	62,600	74,070	77,758	89,422	1,05,518	5,37,084	27,90,654	
Growth	13.2%	18.3%	5.0%	15.0%	18.0%	13.9%	12.0%	
NBP Margin pre-over-run								
NBV (Pre over-run)								
NBP Margin post-over-run	24.6%	25.9%	25.1%	25.5%	26.0%	26.1%	27.0%	27.0%
NBV (post over-run)	15,370	19,184	19,483	22,803	27,435	1,41,105	2,72,767	19,05,049
EV (INRbn)	183.0	206.5	245.3	282.9	327.1			
						Sep-22F		
Yearly NBV						25		
Discounted value of NBV						891		
Dividends (not in EV)						7		
Appraisal value (INRbn)						1,203		
Our PT						600		
EV multiple (x)						3.95		
New business multiple						36		
Assumptions								
Risk free rate	6.00%							
Beta	1.1							
Equity Return	11.3%							
Terminal growth	5.00%							
Outcome:								
Growth between FY21-25F								13.9%
Growth between FY26-35F								12.0%
NBP margins - Terminal								27.0%

Source: Company data, Nomura estimates

Fig. 7: VNB margin: we factor in long-term VNB margin of 27%



Source: Company data, Nomura estimates

Fig. 8: We expect Core RoEVs of 16.5-17.0% over FY21-23F and estimate an EV of INR327bn by FY23F

HDFC Life (INRbn)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	1H20	1H21
Opening EV	88.0	102.3	124.7	152.2	183.0	206.5	245.3	282.9	183.0	206.5
Methodology and assumption change	2.5	1.2	1.6	0.0	-1.2	0.0	1.0	1.0		
New business profit	7.1	9.2	12.8	15.4	19.2	19.5	22.8	27.4	9.6	8.4
NBP pre cost over run	8.5	-	-	-	-	-	-	-		
Acquisition overrun	-1.4	-	-	-	-	-	-	-		
Expected return on inforce	6.2	9.6	10.4	13.0	13.7	14.5	15.3	17.7	6.9	8.4
Operating variances	1.5	2.1	2.0	2.2	1.5	0.0	1.0	1.0	0.6	0.7
Tax changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Investment variances & economic assumptions	-2.0	2.5	2.6	3.6	-10.0	8.0	1.0	1.0	1.2	9.3
Dividend Payout	-2.2	-2.4	-2.0	-3.4	0.0	-3.4	-3.5	-4.0		
Capital Injection					0.4					
Closing EV	101.1	124.7	152.1	183.0	206.5	245.3	282.9	327.1	201.3	233.3
Core ROEV	19.6%	21.7%	21.5%	20.1%	18.1%	16.4%	16.4%	16.7%	18.7%	17.6%
VNB margin	19.8%	22.0%	23.2%	24.6%	25.9%	25.1%	25.5%	26.0%	27.5%	25.1%

Source: Company data, Nomura estimates

Fig. 9: Peer valuation comps: We prefer front-line private banks

INRbn	Max Financials	ICICI Pru Life	SBI Life	HDFC Life
EV				
Mar-21F EV	116.5	261.5	315.0	245.3
Mar-22F EV	133.5	296.3	359.3	282.9
Mar-23F EV	152.5	337.0	407.3	327.1
Core ROEV				
Mar-21F	17.8%	11.6%	13.5%	16.4%
Mar-22F	17.2%	13.8%	14.1%	16.4%
Mar-23F	17.3%	14.7%	13.9%	16.7%
VNB margins				
FY21F	21.2%	21.7%	19.0%	25.1%
FY22F	21.4%	22.7%	19.2%	25.5%
FY23F	21.7%	23.2%	19.0%	26.0%
Value of new business				
Mar-21F EV	9.5	13.7	18.8	19.5
Mar-22F EV	11.1	17.0	21.2	22.8
Mar-23F EV	12.9	20.2	23.8	27.4
VNB growth (FY20-23F CAGR)	12.7%	7.9%	5.7%	12.7%
Current Price (INR)				
	587	423	798	571
Shares (mn)	269	1,435	1,000	1,999
Implied value (INRbn)	257	608	798	1,140
Current EV multiples				
Multiple on Mar-21F EV	2.20	2.32	2.53	4.65
Multiple on Mar-22F EV	1.92	2.05	2.22	4.03
Multiple on Mar-23F EV	1.68	1.80	1.96	3.49
VNB Multiple				
FY21F	14.8	25.3	25.7	45.9
FY22F	11.1	18.3	20.7	37.6
FY23F	8.1	13.4	16.5	29.6
TP (INR)				
	660	425	900	600
Rating	Buy	Neutral	Neutral	Neutral
Upside/ (Downside)	12.5%	0.4%	12.7%	5.2%

Note: Priced as at close of markets on 19 October 2020

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

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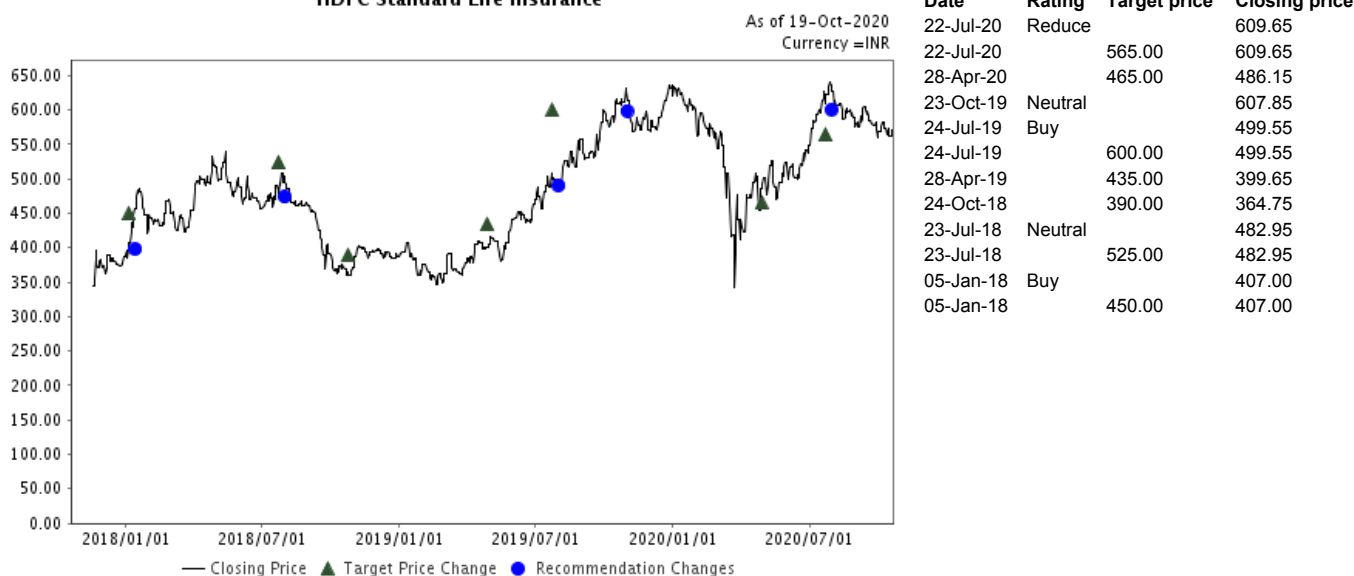
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
HDFC Standard Life Insurance	HDFCLIFE IN	INR 571	19-Oct-2020	Neutral	N/A	

HDFC Standard Life Insurance (HDFCLIFE IN)

INR 571 (19-Oct-2020) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)

HDFC Standard Life Insurance



Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of INR600 is based on 3.95x Sep22F EV and 36x VNB Sep22F. The benchmark index for this stock is Nifty 50.

Risks that may impede the achievement of the target price Upside risk: Faster than expected growth recovery; Downside risk: Worsening of the current COVID-19 situation and inability to sustain the current improvement in growth and persistency.

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