

Results Update

HDFC Life Insurance Company Ltd

Bloomberg Code: HDFCLIFE IN

India Research - Stock Broking

HOLD

Protection & Non-par Savings Key Growth Drivers with Plans to Raise Capital

In FY20, HDFCSL has reported further improvement in VNB margins at 25.9% against 24.6% for FY19 on the back of the rising share of protection plans. Absolute VNB grew by ~25% YoY, which was similar to last quarter. APE at Rs. 74.1 bn (+18% YoY) and GWP of Rs. 106.1 bn (+2.8% YoY) were lower than our expectation, due to slower growth in the first year's premium at -26% YoY amid COVID19 slowdown. The share of ULIPs on an APE basis stood at ~28% against ~55% during last year, whereas the share of protection has remained stable at 12% similar to last year. 13M persistency for HDFCSL has improved to ~88% against ~87% last year, whereas 49M has improved ~54% against 51% last year. However, the same does not include the impact of Covid-19 lockdowns and hence, the numbers are least relevant. The solvency ratios fell to ~184% because of a dip in equity markets and write-off of AT1 bonds from Yes Bank. The management intends to raise Rs. 4 bn. through Tier II bonds in order to improve solvency. The sole purpose of raising solvency would be to maintain growth momentum amid volatile equity markets.

For FY20: Premium growth in March'20 witnessed a sharp decline of ~37.8% YoY against growth of ~31.8% during February 2020, mainly due to lockdowns amid Covid-19. HDFCSL reported an APE decline of ~24% YoY to Rs. 7.6 bn on a received premium basis in March'20. Retail APE at Rs. 6 bn decreased by ~27.8% YoY. Thus, the group APE business for the company has performed relatively better. Policy sales fell by ~38% YoY in March'20, while the retail APE ticket size increased by ~17.3% YoY, helped by resuming sales of par products. We also believe that private insurance players are unlikely to see any significant shift in premium growth due to the recent announcements made in the Union Budget 2020 (tax savings sale dropping off under the new tax regime), given a diversified product suite and evolving distribution ecosystem.

Valuation and Outlook

We have valued the stock based on 5x forward P/EV and 57.5x forward P/VNB with a premium of 1.05x and has arrived at a price target of Rs. 574 with potential upside of 11%. We rate the stock as **'HOLD'**. Potential downside risk is competition in the protection business to put pressure on rates (even as reinsurance rates have increased), along with reduce profitability in the segment. The key challenge for the company is in balancing volume and expense management.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
APE	53996	60516	74100	88672	106155
VNB	12527	14887	19190	22136	27076
VIF	103620	124260	135000	166000	204000
ANW	48540	58750	72000	79000	86000
RoEV (%)	22.0	20.3	18.1	19.2	18.9
EPS (Rs.)	5.5	6.3	6.4	8.5	10.1
DPS (Rs.)	1.4	1.6	3.6	4.2	2.3
Solvency Margin (%)	192.0	213.0	184.0	190.0	190.0

Source: Company, Karvy Research

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Recommendation (Rs.)

CMP (as on Jun 06, 2020)	516
Target Price	574
Previous Target Price	657
Upside (%)	11

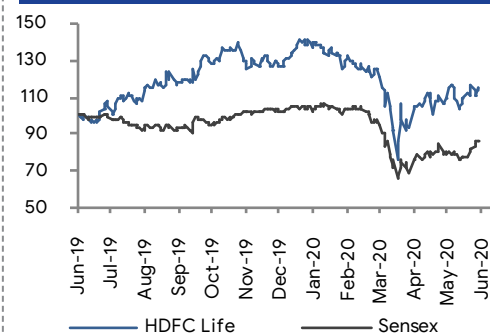
Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	1044518/13824
52-wk High/Low (Rs.)	646/339
3M Avg. daily volume (Mn)	5.0
Sensex/Nifty	34287/10142
O/S Shares(mn)	2019.0
Face Value (Rs.)	10.0

Shareholding Pattern (%)

Promoters	63.7
FII's	21.1
DII's	6.1
Others	9.1

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Exhibit 2: Financial Performance

YE Mar (Rs. Mn)	Mar'20	Dec'19	Mar'19	YoY (%)	QoQ (%)
Net Premium Earned	104645	78543	102475	2.1	33.2
APE	21114	18122	20587	(2.0)	14.0
VNB	5100	4500	5700	(10.5)	13.3
PAT	3640	2502	3117	(14.0)	25.0
EPS (Rs.)	1.5	1.2	1.8	(16.7)	25.0
Cost/TWRP (%)	15.8	17.7	15.6	20 bps	(190) bps

Source: Company, Karvy Research

Financials

Exhibit 3: Revenue Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
First Year Premiums	47385	50603	0	0	0
Renewal Premiums	122148	142122	0	0	0
Single Premiums	66112	99122	0	0	0
Gross Written Premium(GWP)	235644	291847	0	0	0
Reinsurance Accepted/(Ceded)	(1934)	(2620)	0	0	0
Total Premium Earned	233710	289227	322236	344134	387554
Income from Investments	73531	90275	(33109)	33109	36420
Interest, Dividends, and Rent	34454	56791	0	0	0
Profit/(Loss) from Sale Redemption of investments	37080	23349	0	0	0
Transfer gain on revaluation of change in fair value	2558	10389	0	0	0
Amortization charge	(561)	(255)	0	0	0
Other Income	2685	4840	2440	1831	2106
Expense	313723	376377	272204	360894	409342
Commission	10749	11209	14912	14645	16668
Operating Expenses	34553	42440	42669	45857	51416
Benefits Paid	128949	134146	190215	178354	194812
Bonus Paid	2165	5743	0	0	0
Allocation of bonus to policyholders	7084	7764	0	0	0
Change in valuation of policy liabilities	130223	175075	24408	122038	146446
Surplus/(Deficit) before Taxes	3286	15729	20411	14272	12623
Provision for Taxation	(1755)	(2268)	1490	12356	14449
Surplus/(Deficit) after Taxes	1531	13461	18921	1916	(1825)
Appropriations					
Transfer to Shareholder's Account	10022	12069	11914	12510	15012
Funds for Future Appropriations	(8492)	1392	0	0	0

Source: Company, Karvy Research

Exhibit 4: Income Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Policyholders to Shareholder Funds	10022	12069	11914	12510	15012
Income from Investments	2803	4084	4378	5582	6674
Other Income	130	211	186	100	100
Total (A)	12955	16364	16478	18192	21785
Expenses	121	375	334	368	404
Contribution to Policyholders A/C	1566	3090	1048	0	0
Profit Before Tax	11267	12899	13117	17824	21381
Taxes	(177)	(130)	165	774	927
Profit After Tax	11090	12769	12953	17050	20454
Net Dividend Paid	(2732)	(3288)	0	0	0
No. of equity shares for diluted EPS (Rs. Bn)	2016.4	2017.4	2017.4	2017.4	2017.4
Diluted EPS (Rs.)	5.5	6.3	8.4	10.6	8.4
Profit/(Loss) carried to Balance Sheet	23937	32741	45545	61821	45545

Source: Company, Karvy Research

Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Share Capital	20126	20178	20174	20174	20174
Reserve and surplus	27064	36410	45521	58006	73290
Net Worth	47190	56587	65695	78180	93464
Policyholders' Fund:					
Fair Value Change Account	6220	11116	0	0	0
Policy liabilities(A+B+C)	995047	1170091	1355613	1480154	1621369
Non-unit liabilities(Mathematical Reserves)(A)	423193	536248	0	0	0
Provision for Linked Liabilities(Fund Reserves)(B)	545982	605252	0	0	0
Funds for Discontinued Policies(C)	25872	28591	0	0	0
Funds for future appropriations	9592	10984	11984	17952	23324
Current Liabilities	46027	50594	0	0	0
Provisions	437	585	0	0	0
Total Liabilities	1058351	1248747	1433261	1576257	1738127
Investments:					
Shareholders' Fund	40703	50498	58630	69778	83425
Policyholders' Fund	453471	571160	729993	826111	936272
Investments related to Policyholders' Fund, Shareholders' Fund and Assets held to cover linked liabilities	571854	633774	660517	700062	742236
Loans & Advances	187	796	796	796	796
Net Block	3414	3333	3333	3333	3333
Current Assets:					
Cash & Cash Equivalents	11085	12402	(20008)	(23823)	(27935)
Other Current Assets	24100	27964	0	0	0
Total Assets	1058351	1248747	1433261	1576257	1738127

Source: Company, Karvy Research

Exhibit 6: Key Ratios

YE Mar (%)	FY18	FY19	FY20	FY21E	FY22E
Solvency Ratio (%)	192.0	213.0	184.0	190.1	190.1
Conservation Ratio (%)	81.6	80.7	80.3	80.0	80.0
EVOP	26537	30640	33200	39689	49270
Grievance Ratio (%)	0.8	0.6	0.8	0.7	0.7
VNB Margin (%)	23.2	24.6	25.9	27.2	28.9
Claim Settlement Ratio(%)	92.6	101.6	99.0	99.0	99.0
Operating ROEV (%)	22.0	20.3	18.1	19.2	18.9

Source: Company, Karvy Research


Exhibit 7: Valuation Parameters

YE Mar (%)	FY18	FY19	FY20	FY21E	FY22E
P/VNB (x)	73.1	51.4	47.7	41.3	33.8
P/AUM (x)	6.2	5.6	3.3	4.4	-
P/EVOP (x)	34.5	34.8	25.1	26.9	21.7
P/EV (x)	6.0	5.8	4.4	3.5	2.8

Source: Company, Karvy Research

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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