

July 15, 2024

RESULT REPORT Q1 FY25 | Sector: Insurance (Life)

HDFC Life Insurance

Management expects APE growth to drive VNB growth

Our view - Declining ULIP share to somewhat offset impact from surrender regulation

VNB margin - Some factors would serve to offset some of the damage that would be inflicted by the surrender charge regulation: Calculated VNB margin for the quarter de-grew by -105bps QoQ and -115bps YoY to 25.1%. There was a positive impact of ~30 bps due to fixed cost absorption, which was more than offset by a negative ~130 bps impact due to change in product mix. The product mix impact was mainly due to the rise in share of ULIP from 25% to 38%, the exit rate for which has declined to 35% in June. Due to the change in surrender regulations, there is going to be a 100 bps negative impact on full year FY25 margin, assuming the company does not take any mitigating action. The share of term product on the HDFC Bank channel is 3%, which is lower than overall business and has scope to rise, which could be helpful for margin (ceteris paribus).

APE growth - Management expects HDFL to do better than industry APE growth, which in turn would drive VNB growth: For the quarter, the APE was Rs 28,660 mn down by -39.4% QoQ but up 23.1% YoY. The company will target growing retail new business APE at a pace faster than the industry. The company's target is to grow absolute VNB and is willing to allow margin to fluctuate in a range in order to deliver growth. The company will target doubling VNB over 4 years on a consistent basis. The counter share on HDFC Bank was 66% by the end of 1QFY25 compared with 56.5% in 1QFY24 and is expected to go up more. The agency channel has grown at 14%, which could have been faster but the company is focused on profitable growth. The company has added 18,500 agents in 1QFY25, which is the highest in the industry.

We maintain an 'ADD' rating on HDFL with a revised price target of Rs 705: We value HDFL at 2.4x FY26 P/EV for an FY25E/26E RoEV profile of 17.1%/17.2%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Result Highlights (See "Our View" above for elaboration and insight)

- **VNB growth:** The VNB de-growth/growth was -41.8%/17.7% QoQ/YoY, aided sequentially by de-growth in APE & VNB margin
- **Expense control:** Expense ratio grew 274bps/195bps QoQ/YoY to 21.9%, QoQ driven higher by increase of 154bps in Opex ratio and 120bps in comm. ratio
- **Persistency:** 37th month ratio declined -30bps QoQ to 73.1% but 61st month ratio rose 790bps QoQ to 59.9%

Exhibit 1: Result table

Rs mn	Q1 FY25	Q1 FY24	% yoy	Q4 FY24	% qoq
NBP	64,003	58,687	9.1%	95,316	-32.9%
Renewal premium	64,106	58,041	10.5%	114,060	-43.8%
Income from investments	141,244	116,287	21.5%	72,514	94.8%
Surplus/(Deficit)	5,627	2,118	165.7%	2,728	106.3%
PAT	4,777	4,153	15.0%	4,117	16.0%
Expense ratio	21.9%	19.9%	195bps	19.1%	274bps
37th mo. Persistency*	73.1%	69.8%	330bps	73.4%	-30bps
Total APE	28,660	23,280	23.1%	47,270	-39.4%
Individual APE	24,670	18,820	31.1%	42,380	-41.8%
VNB	7,180	6,100	17.7%	12,340	-41.8%
VNB Margin	25.1%	26.2%	-115bps	26.1%	-105bps

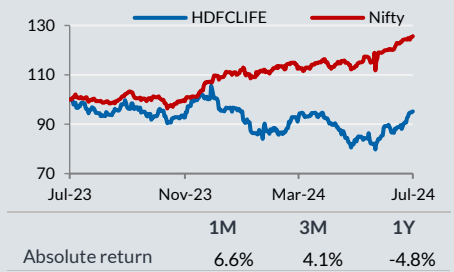
Source: Company, YES Sec-Research, *N.B. Regular and Limited Pay

Recommendation	: ADD
Current Price	: Rs 638
Target Price	: Rs 705
Potential Return	: +11%

Stock data (as on July 15, 2024)

Nifty	24,587
52 Week h/l (Rs)	711 / 511
Market cap (Rs/USD mn)	1367055 / 16355
Outstanding Shares (mn)	2,151
6m Avg t/o (Rs mn):	2,811
Div yield (%):	0.3
Bloomberg code:	HDFCLIFE IN
NSE code:	HDFCLIFE

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	50.4%
FII+DII	38.0%
Others	11.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	705	675

Financial Summary

Rs mn	FY24	FY25E	FY26E
APE	132,910	158,310	184,080
% yoy	-0.3%	19.1%	16.3%
VNB	35,010	41,161	48,321
VNB Margin	26.3%	26.0%	26.3%
Reported PAT	15,689	17,242	19,033
% yoy	15.3%	9.9%	10.4%
EPS (Rs)	7.3	8.0	8.8
EV/Share (Rs)	220.7	256.4	298.6
RoEV	17.5%	17.1%	17.2%
P/EV (x)	2.9	2.5	2.1
P/VNB (x)	39.1	33.3	28.4

Δ in earnings estimates

Rs bn	FY24	FY25E	FY26E
VNB (New)	NA	41.2	48.3
VNB (Old)	NA	41.0	48.1
% change	NA	0.5%	0.5%

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COMPREHENSIVE CON-CALL HIGHLIGHTS

VNB and VNB margin

- **VNB Margin and VNB**
 - VNB margin for 1QFY25 was 25% compared with 26.2% for 1QFY24.
 - VNB has grown 17.7% YoY to Rs 7.18bn for 1QFY25.
- **Reasons for margin decline**
 - The key reason for margin decline was change in product mix and continued investment in infrastructure, manpower and technology.
 - **Margin walk**
 - VNB margin has declined ~120 bps YoY to 25.0%.
 - There was a positive impact of ~30 bps due to fixed cost absorption, which was more than offset by a negative ~130 bps impact due to change in product mix.
 - The product mix impact was mainly due to the rise in share of ULIP from 25% to 38%, the exit rate for which has declined to 35% in June.
- **Margin guidance**
 - The company's target is to grow absolute level VNB and is willing to allow margin to fluctuate in a range in order to deliver growth.
- **VNB growth guidance**
 - The company will target doubling VNB over 4 years on a consistent basis.
- **More on VNB margin**
 - **Media article on pricing**
 - The claims made with regard to term pricing for HDFC Life were not appropriate (the article claimed a price hike of 10%).
 - There was a 5% change in pricing for a product which contributes less than 1% to overall business.
 - **Surrender regulations**
 - Due to the change in surrender regulations, the 100 bps negative impact on VNB margin is going to be on full year FY25 margin and not on the VNB margin seen in 1QFY25.
 - The impact is assuming the company does not take any mitigating action.
 - The impact on margin is in year 1 and the assumption for year 1 is conservative as the company's experience is better than the assumption.
 - When comparing pro-rate policies with fully paid policies, the margin will depend on variables such as tenure and structure of product and no major impact on margin is seen in this regard.
 - **Share of term on HDFC Bank channel**
 - The share of term product on the HDFC Bank channel is 3%, which is lower than overall business and has scope to rise, which could be helpful for margin (ceteris paribus).

Product growth and mix

- **Overall APE (revenue) growth**
 - APE growth in 1QFY25 was 23% YoY
- **Overall APE growth guidance**
 - The company will target growing retail new business APE at a pace faster than the industry.

(Con call takeaways continue on the next page)

- **Product mix – on Individual APE**
 - Linked – 38%
 - Non par savings – 35%
 - Par – 16%
 - Protection – 6%
 - Annuities – 5%
- **Linked**
 - The company expects that the share of ULIP to moderate further in coming months due to product launches across categories.
- **Non-par savings**
 - The new Click2achive product was accepted well by customers where the latest variant garnered Rs 1bn of NBP in 16 days.
- **Protection**
 - Protection individual APE grew 28% YoY, despite a calibrated pricing and risk management framework
 - Credit protect remained flat due to slower disbursement in certain lines of business and increased competitive intensity across select partners
 - Together, annuity and protection contributed 47% to overall NBP.
 - **Group term life**
 - Pricing in the GTI market is quite competitive and the company does not wish to change pricing to increase its current market share.

Channel growth and mix

- **Bancassurance**
 - The banca channel grew by around 40% YoY in individual APE in Q1.
 - **HDFC Bank**
 - The counter share on HDFC Bank was 66% by the end of 1QFY25 compared with 56.5% in 1QFY24.
 - The counter share is expected to go up more.
- **Agency**
 - The agency channel has grown at 14%, which could have been faster but the company is focused on profitable growth.
 - The agency channel grew by 17% CAGR over 2 years on individual APE terms.
 - The company has added 18,500 agents in 1QFY25, which is the highest in the industry.
 - The company added 60 new branches, taking the total to around 600 branches.
 - **New Partnerships**
 - The company has recently partnered with Upstox, Fino Payments Bank, Peerless Financial services etc.

Solvency ratio

- The solvency ratio amounted to 186%.
- **Sub-debt headroom**
 - As per regulation, the company has headroom to raise Rs 20bn in sub-debt.
 - If this amount is fully raised, it would augment Solvency Ratio by 20-22% points.
- **Target ratio**
 - The company is comfortable operating with a Solvency Ratio of 180% plus.

(Con call takeaways continue on the next page)

- Risk-based solvency regime
 - Over the next 12-18 months, the company expects the risk-based solvency regime to be implemented, which will allow more business to be written with the same amount of capital.

Embedded value

- Embedded value
 - EV has risen 19% YoY to Rs 496.11bn.
- Return on embedded value
 - The operating RoEV amounted to 15.5%.
- Unwind
 - The rate of unwind is 8.1%, which is 10 bps lower YoY.
- Economic variance
 - The economic variance is mainly due to equity.

Persistency

- The 13th and 61st month persistency amounted to 87% and 60%, respectively.

HDFC Pension

- AUM has crossed Rs 880bn, up 67% YoY.
- The market share is 43% (presumably among private sector players).

Exhibit 2: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	64,003	66,083	(3.1)
Total APE	28,660	28,008	2.3
VNB	7,180	7,285	(1.4)

Source: Company, YES Sec – Research

Exhibit 3: Other Business Parameters

	Q1 FY25	Q1 FY24	% yoy	Q4 FY24	% qoq
APE by Product (Rs mn)					
ULIP	9,375	4,753	97.3%	17,652	-46.9%
Par	3,947	4,943	-20.1%	6,581	-40.0%
Non par saving	8,635	6,273	37.6%	14,719	-41.3%
Non par protection	1,480	1,141	29.8%	1,493	-0.9%
Annuity	1,234	1,711	-27.9%	1,936	-36.3%
Total Individual APE	24,670	18,820	31.1%	42,380	-41.8%
Group	3,990	4,460	-10.5%	4,890	-18.4%
Total APE	28,660	23,280	23.1%	47,270	-39.4%

Product Mix (% in APE)					
ULIP	32.7%	20.4%	1230bps	37.3%	-463bps
Par	13.8%	21.2%	-746bps	13.9%	-15bps
Non par saving	30.1%	26.9%	318bps	31.1%	-101bps
Non par protection	5.2%	4.9%	27bps	3.2%	201bps
Annuity	4.3%	7.3%	-305bps	4.1%	21bps
Total individual	86.1%	80.8%	524bps	89.7%	-358bps
Group	13.9%	19.2%	-524bps	10.3%	358bps

APE by Channel (Individual APE, Rs mn)					
Bancassurance	16,036	11,367	41.1%	27,804	-42.3%
Brokers & others	1,727	1,491	15.8%	2,499	-30.9%
Agency	4,194	3,727	12.5%	7,496	-44.1%
Direct	2,714	2,236	21.4%	4,581	-40.8%

Channel mix (% in APE)					
Bancassurance	65%	60%	460bps	66%	-61bps
Brokers & others	7%	8%	-92bps	6%	110bps
Agency	17%	20%	-280bps	18%	-69bps
Direct	11%	12%	-88bps	11%	19bps

Persistency*					
13 month	87.3%	83.3%	400bps	86.2%	110bps
61 month	59.9%	52.7%	720bps	52.0%	790bps

Expense ratio					
Commission ratio	11.8%	5.8%	599bps	10.6%	120bps
Opex ratio	10.1%	14.2%	-404bps	8.6%	154bps

Solvency					
Solvency ratio	186.0%	200.0%	-1400bps	187.0%	-100bps

Source: Company, YES Sec – Research, *N.B. Regular and Limited Pay, Both YoY and QoQ numbers are comparable

ANNUAL FINANCIALS

Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net premium	453,965	567,640	619,592	713,655	819,298
Income from investments	192,159	125,975	383,543	460,601	541,902
Other income	1,765	4,644	3,357	3,692	4,061
Contri from shareholders A/C	5,694	8,795	1,251	1,376	1,514
Total income	653,584	707,055	1,007,743	1,179,324	1,366,775
Commission	19,403	28,869	52,563	60,543	69,505
Employee expenses	20,290	30,490	32,420	36,311	40,668
Other opex	35,835	53,884	36,590	67,745	77,773
Benefits paid	318,638	388,723	396,965	468,391	551,184
Change in valuation of liability	246,815	185,862	484,194	520,575	597,387
Others	1,162	4,047	3,183	4,724	5,423
Provision for Tax	1,845	1,591	-5,924	3,230	3,753
Surplus/(Deficit)	9,597	13,589	7,751	17,805	21,082
Transfer to shareholders A/C	10,093	14,689	7,991	9,180	10,558

Source: Company, YES Sec – Research

Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Transfer from Policyholders' account	10,093	14,689	7,991	9,180	10,558
Income from Investments	7,894	7,197	10,022	10,976	11,682
Total A	17,987	21,887	18,013	20,156	22,240
Expenses (apart from insurance)	825	1,246	1,209	1,330	1,463
Contribution to Policyholders' Acc	5,694	8,795	1,251	1,376	1,514
Others	-333	-247	45	0	0
Total B	6,186	9,794	2,505	2,706	2,977
Profit/(Loss) before tax	11,801	12,724	15,638	17,594	19,421
Provision for Taxation	-276	-877	-50	352	388
Profit/(Loss) after tax	12,077	13,601	15,689	17,242	19,033

Source: Company, YES Sec – Research

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Shareholders' Funds:					
Share Capital	21,126	21,494	21,509	21,509	21,509
Reserve and surplus	133,733	108,374	125,008	137,905	152,593
Policyholders' Funds					
Policy Liabilities	1,065,122	1,452,455	1,813,745	2,192,696	2,635,995
Provision for Linked Liabilities	765,190	753,836	921,145	967,218	1,018,820
Discontinued policies	40,854	38,040	34,137	34,137	34,137
Funds for future appropriation	9,409	12,354	12,115	20,740	31,264
Sources of Funds	2,041,605	2,396,192	2,937,293	3,383,840	3,903,952
Investments - Shareholders	152,379	131,319	148,819	157,999	168,557
Investments Policyholders	1,889,325	2,256,500	2,773,382	3,267,053	3,839,592
Fixed Assets + Loans	9,856	19,655	23,131	23,131	23,131
Net Current Assets	-9,955	-11,283	-8,038	-64,343	-127,328
Misc. Expenditure	-	-	-	-	-
Application of funds	2,041,605	2,396,192	2,937,293	3,383,840	3,903,952

Source: Company, YES Sec – Research

Exhibit 7: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Opening EV	266,170	329,580	395,260	474,670	551,595
Unwind of Discount	22,960	26,240	32,360	37,974	44,128
Value of New Business	26,750	36,740	35,010	41,161	48,321
Operating Assumption Changes	(5,650)	1,900	1,860	2,136	2,482
Economic Variance	(520)	(15,940)	13,530	0	0
Dividend & ESOP	(9,230)	16,740	(3,350)	(4,345)	(4,345)
Closing EV	300,480	395,260	474,670	551,595	642,181

Source: Company, YES Sec – Research

Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Annual Premium Equivalent	NA	158,310	184,080	NA	154,532	179,735	NA	2.4	2.4
Value of new business	NA	41,161	48,321	NA	40,951	48,079	NA	0.5	0.5

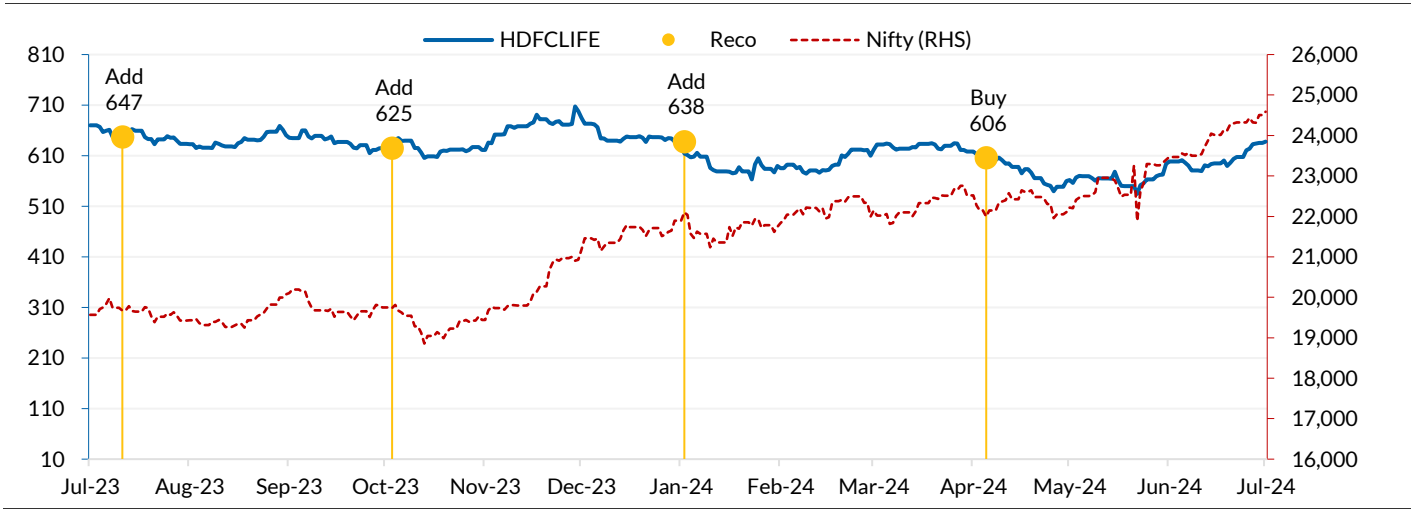
Source: Company, YES Sec – Research

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth (%) - P&L					
New business premium	20.1%	20.4%	1.9%	19.1%	16.3%
Renewal premium	18.0%	30.4%	17.6%	12.0%	13.8%
Net premium	19.1%	25.0%	9.2%	15.2%	14.8%
PAT	-11.2%	12.6%	15.3%	9.9%	10.4%
VNB	22.4%	37.3%	-4.7%	17.6%	17.4%
Growth (%) - Balance Sheet					
Total AUM	17.4%	17.0%	22.4%	17.2%	17.0%
Total Assets	18.0%	17.4%	22.6%	15.2%	15.4%
Embedded value	12.9%	31.5%	20.1%	16.2%	16.4%
Profitability ratios (%)					
VNB Margins	27.4%	27.5%	26.3%	26.0%	26.3%
Commission ratio	4.3%	5.1%	8.5%	8.5%	8.5%
Opex ratio	12.4%	14.9%	11.1%	14.6%	14.5%
Expense ratio	16.6%	19.9%	19.6%	23.1%	22.9%
Conservation Ratio	86.1%	95.3%	84.1%	84.1%	84.1%
Return ratios (%)					
ROE	7.8%	10.5%	10.7%	10.8%	10.9%
RoEV	16.6%	19.7%	17.5%	17.1%	17.2%
RoA	0.6%	0.6%	0.6%	0.5%	0.5%
Investment Return (%)					
Invest. Yield - Sh.	6.6%	5.5%	7.2%	7.2%	7.3%
Invest. Yield - Ph.	10.8%	6.1%	15.3%	15.3%	15.3%
Solvency					
Solvency Ratio	176%	203%	187%	195%	195%
Underwriting					
Claims ratio	70.2%	68.5%	64.1%	65.6%	67.3%
Claims / AUM	15.6%	16.3%	13.6%	13.7%	13.8%
Per share data (Rs)					
EPS	5.7	6.3	7.3	8.0	8.8
VNBPS	12.66	17.09	16.28	19.14	22.47
BVPS	73.3	60.4	68.1	74.1	80.9
EVPS	142.2	183.9	220.7	256.4	298.6
Valuation (x)					
P/E	111.5	100.7	87.4	79.5	72.0
P/VNB	50.3	37.3	39.1	33.3	28.4
P/BV	8.7	10.5	9.4	8.6	7.9
P/EV	4.5	3.5	2.9	2.5	2.1

Source: Company, YES Sec – Research

Recommendation Tracker



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AMFI ARN Code - 94338.

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DISCLOSURE OF INTEREST

Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

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