

## BUY

<b>CMP (Rs)</b>	<b>638</b>
<b>Target Price (Rs)</b>	<b>757</b>
<b>Potential Upside</b>	<b>18.7%</b>
<b>Sensex</b>	72,568
<b>Nifty</b>	21,895

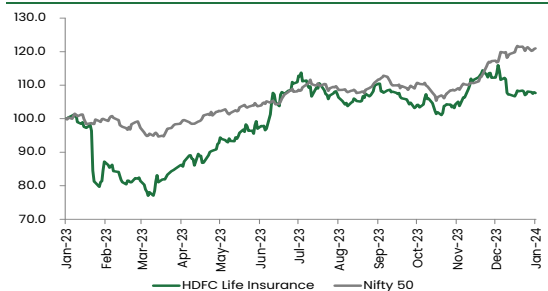
### Key Stock data

<b>BSE Code</b>	540777
<b>NSE Code</b>	HDFCLIFE
<b>Bloomberg</b>	HDFCLIFE:IN
<b>Shares o/s, Cr (FV 10)</b>	215.0
<b>Market Cap (Rs Cr)</b>	137,126
<b>3M Avg Volume</b>	3,005,105
<b>52 week H/L</b>	711/458

### Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
<b>Promotor</b>	50.3	50.3	50.4
<b>FII</b>	29.9	30.9	30.5
<b>DII</b>	6.6	6.2	6.9
<b>Public</b>	13.2	12.6	12.2
<b>Others</b>	0.1	0.0	0.0

### 1 year relative price performance



### 1 year forward P/EV (x)



### Research Analyst

**Akshay Tiwari**

akshay.tiwari@religare.com

## Moderation in premium growth, however, margin sustained

Q3FY24 Result Update | Sector: Insurance | January 15, 2024

**Subdued top-line growth:** HDFC Life Insurance net premium growth remained subdued with a growth of 3.2% QoQ/6% YoY to Rs 15,273 Cr as the company saw muted growth in high ticket size policies. First year premium and Single premium saw decline in YoY growth due to high base effect by 2%/5%. Consequentially, APE/NBP declined by 12%/3.5% YoY during the quarter. Commission expenses increased by 5% QoQ/80% YoY to Rs 1,247 Cr leading to decline in policyholders account by 6% QoQ/3.4% YoY to Rs 830.1 Cr.

**Improvement in margins:** Despite moderation in premium income, the private insurer maintained its margins by enabling cost optimization measures and balance product mix. VNB margin improved by 52bps QoQ/269bps YoY to 26.8%. VNB margin improved despite increase in commission costs and the company intends to maintain its margin going forward and design products which shall aid the margins.

**ULIP products continues to gain traction:** The company continues to see growth in the ULIP products due to favourable returns and tax advantage. ULIPs formed 27% of APE mix increasing by 300bps QoQ/900bps YoY in the overall mix. On NBP basis, ULIP products stood at 12% of the overall products mix increasing by 100bps QoQ/300bps YoY. The company aims to keep the product mix balanced in the long term and continues to take steps to increase the sale of non-par products in the overall mix.

**Partnership with bank aiding growth:** Bancassurance channel continues to be the leading contributor of the premium income. It contributed 64% of the overall premium in APE mix increasing by 500bps YoY. The company has made strategic partnership with Karnataka Bank, Karur Vyasa Bank and other banks for sale of insurance products. In line with the partnerships, the company will add 75 new branches for sale of insurance products going forward.

**Guidance going forward:** The management remains confident of maintaining its guidance of 15% YoY premium growth and expect Q4FY24 growth to be in double digits. The company aims to launch products which was well suited for small ticket policies and aid margins as well. Its aims to continue to focus on sale of non-par products and increase sale of protection plan high than the industry.

**Conclusion:** We remain positive on HDFC Life Insurance company has the company has been one of the market leaders in the private life insurance business. Despite being a subdued quarter, the company remains confident of its growth in coming quarters. We maintain our **Buy** rating on HDFC Life Insurance and expect APE/VNB/NBP growth of 17%/14%/15% CAGR over FY23-26E. However, we revise our target price downwards to **Rs 757** valuing the company at 2.8x of its FY26E embedded value per share.

### Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net premiums	56,764	67,827	78,584	89,174
Total Income	70,705	89,767	105,306	121,477
Commission	2,887	3,205	3,933	4,372
Surplus/(deficit) before tax	1,518	1,080	1,617	1,658
Surplus/(Deficit) for the period	1,359	967	1,448	1,484
Embedded value (EV)	39,527	44,956	51,598	61,838
EV per share (Rs)	183.9	209.2	240.1	287.7
P/EV (x)	3.5	3.1	2.7	2.2

Source : RBL Research

**Con-call highlights:** 1) The company is seeing growth in tier 2/3 cities at 14% YoY. 2) Retail protection plans grew by 36% YoY on APE basis while credit protection grew by 21% YoY. 3) Below Rs 5 Lakhs ticket size is growing at 17% YoY. 4) Average ticket size is stable despite weakening high ticket size. 5) The insurance company has a market share of 19% based on sum assured. 6) The company maintain its guidance of 15% premium growth and expects to grow at 11-12% in Q4FY24. 7) With regards to increase in surrender value, the company is still engaging with the regulator over the impact on the long-term products and is waiting for clarity. 8) Group annuity and savings products witnessed slowdown due to one offs last year, base effect of last year and slowdown in corporate business.

Net premium income increased by 3.2% QoQ/6% YoY in Q3FY24

Net commission grew by 4.9% QoQ/79.8% YoY due to increase in single premium

Benefits paid was up by 5.8% QoQ/13.8% YoY

Policyholders surplus/(deficit) declined by 6% QoQ/3.4% YoY mainly due to increase in commission expenses

Investment income increased by 18.6% QoQ/15.3% YoY

Profit after tax declined by 2.8% QoQ, however, it increased by 16.3% YoY

**Policyholders account - consolidated**

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
Net premium income	15,273.3	14,402.2	6.0	14,797.2	3.2
Income from investments (Net)	11,372.0	4,929.8	130.7	8,106.5	40.3
Other income	70.5	72.5	(2.7)	100.8	(30.1)
<b>Total</b>	<b>26,735.1</b>	<b>19,718.2</b>	<b>35.6</b>	<b>23,017.8</b>	<b>16.1</b>
Net commission	1,247.0	693.5	79.8	1,188.5	4.9
Employees remuneration and welfare expenses	792.9	799.4	(0.8)	831.0	(4.6)
Other operating expenses	986.6	1,324.0	(25.5)	913.7	8.0
<b>Expenses of Management</b>	<b>3,026.4</b>	<b>2,816.8</b>	<b>7.4</b>	<b>2,933.1</b>	<b>3.2</b>
Provisions and taxes	(2.4)	(131.3)	-	(611.5)	-
Benefits Paid	9,894.7	8,691.8	13.8	9,356.7	5.8
Change in actuarial liability	13,686.1	7,912.3	73.0	11,032.8	24.0
<b>Surplus/Deficit</b>	<b>63.8</b>	<b>329.7</b>	<b>(80.6)</b>	<b>230.4</b>	<b>(72.3)</b>
Bonus paid	766.7	530.0	44.7	652.5	17.5
<b>Total Surplus</b>	<b>830.1</b>	<b>859.7</b>	<b>(3.4)</b>	<b>882.8</b>	<b>(6.0)</b>

Source : RBL Research

**Shareholders account - consolidated**

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
<b>Transfer from Policyholders' Account</b>	<b>131.4</b>	<b>415.8</b>	<b>(68.4)</b>	<b>136.6</b>	<b>(3.8)</b>
Investment Income	282.2	244.8	15.3	237.9	18.6
Other income	11.9	7.8	51.7	20.9	(43.1)
<b>Expenses other than insurance business</b>	<b>39.8</b>	<b>39.3</b>	<b>1.2</b>	<b>36.4</b>	<b>9.5</b>
Transfer of funds to policyholders account	19.3	313.7	(93.9)	13.2	45.7
<b>Profit before tax</b>	<b>369.4</b>	<b>315.3</b>	<b>17.2</b>	<b>332.2</b>	<b>11.2</b>
Provisions for tax	1.9	(0.6)	NM	(46.0)	NM
<b>Profit after tax</b>	<b>367.5</b>	<b>315.9</b>	<b>16.3</b>	<b>378.2</b>	<b>(2.8)</b>

Source : RBL Research

ULIP products continue to see growth in APE product mix increasing by 300bps QoQ/900bps YoY

ULIP/Protection plans proportionally increased by 100bps QoQ/300bps YoY in NBP mix

Bancassurance channel continue to be the main contributor of premium in APE mix

Annualized premium equivalent/New business premium declined on a YoY basis by 12%/3.5%

VNB margin improved by 52bps QoQ/269bps YoY to 26.8%

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
<b>Product mix - APE (%)</b>					
Participating	24.0	25.0	-100bps	25.0	-100bps
Non Participating	24.0	33.0	-900bps	24.0	0bps
<b>ULIP</b>	<b>27.0</b>	<b>18.0</b>	<b>900bps</b>	<b>24.0</b>	<b>300bps</b>
Protection	15.0	15.0	0bps	17.0	-200bps
Annuity	7.0	8.0	-100bps	8.0	-100bps
Group	4.0	2.0	200bps	4.0	0bps
<b>Product mix - NBP (%)</b>					
Participating	10.0	11.0	-100bps	10.0	0bps
Non Participating	11.0	16.0	-500bps	11.0	0bps
<b>ULIP</b>	<b>12.0</b>	<b>9.0</b>	<b>300bps</b>	<b>11.0</b>	<b>100bps</b>
Protection	34.0	30.0	400bps	35.0	-100bps
Annuity	18.0	24.0	-600bps	18.0	0bps
Group	15.0	11.0	400bps	15.0	0bps
<b>Channel mix - APE (%)</b>					
<b>Bancassurance</b>	<b>64.0</b>	<b>59.0</b>	<b>500bps</b>	<b>65.0</b>	<b>-100bps</b>
Direct	11.0	15.0	-400bps	11.0	0bps
Agency	18.0	18.0	0bps	18.0	0bps
Brokers	6.0	9.0	-300bps	7.0	-100bps

Source : RBL Research

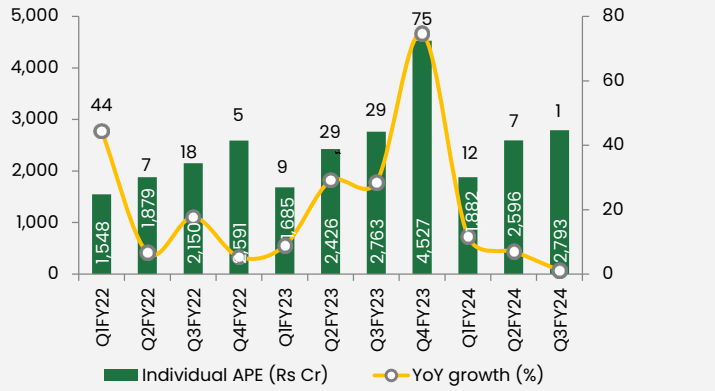
### Business parameters

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Individual APE	2,793	2,763	1.1	2,596	7.6
<b>Total APE</b>	<b>3,191</b>	<b>3,625</b>	<b>(12.0)</b>	<b>3,045</b>	<b>4.8</b>
New Business Premium	7,130	7,388	(3.5)	7,101	0.4
Renewal Premium	8,396	7,187	16.8	7,839	7.1
<b>Assets Under Management</b>	<b>279,707</b>	<b>233,839</b>	<b>19.6</b>	<b>264,870</b>	<b>5.6</b>
Indian Embedded Value	45,173	37,702	19.8	42,908	5.3
<b>Value of new business</b>	<b>856</b>	<b>875</b>	<b>(2.2)</b>	<b>801</b>	<b>6.9</b>
VNB Margin (%)	26.8	24.1	269bps	26.3	52bps

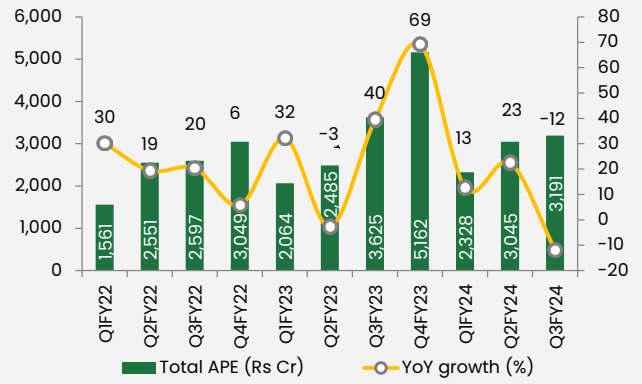
Source : RBL Research

Story in charts

Individual APE growth remained moderate at 1% YoY

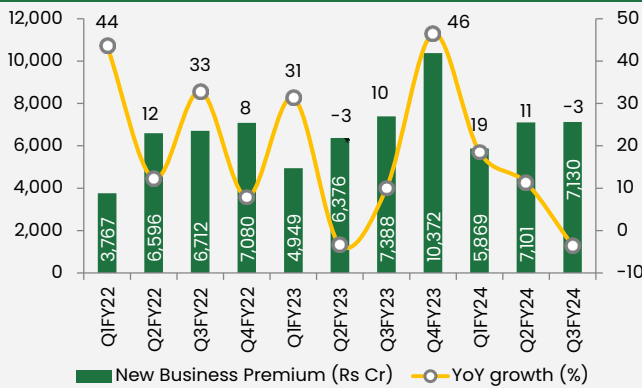


Total APE declined by 12% YoY as individual APE was flat

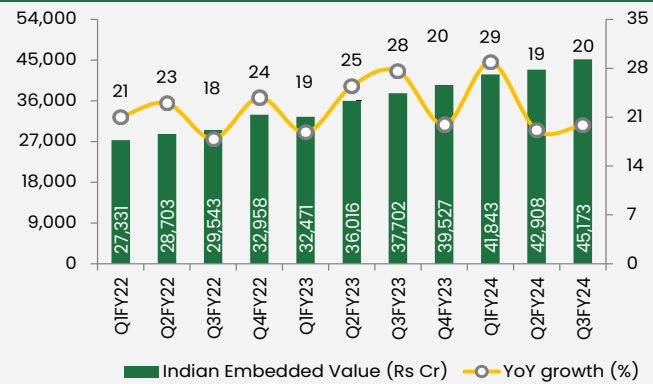


Source : RBL Research

New business premium declined by 3% YoY

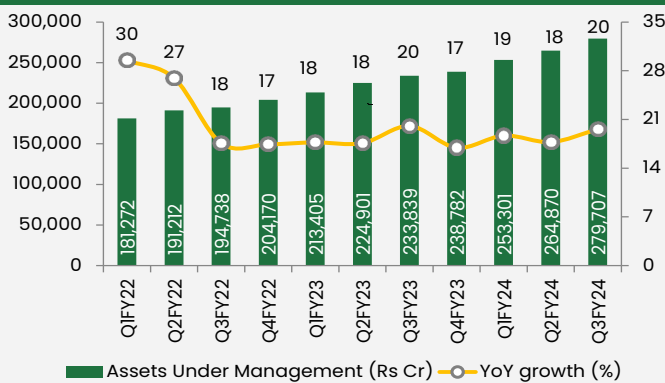


Embedded value increased by 20% YoY

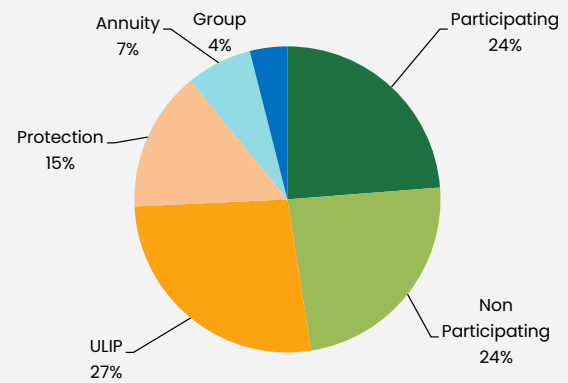


Source : RBL Research

AuM growth was strong at 20% YoY in Q3FY24

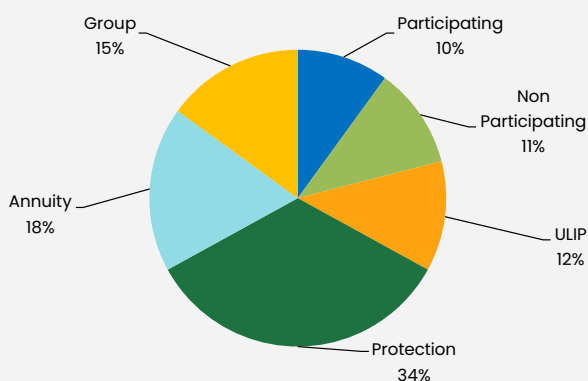


Product mix on APE basis

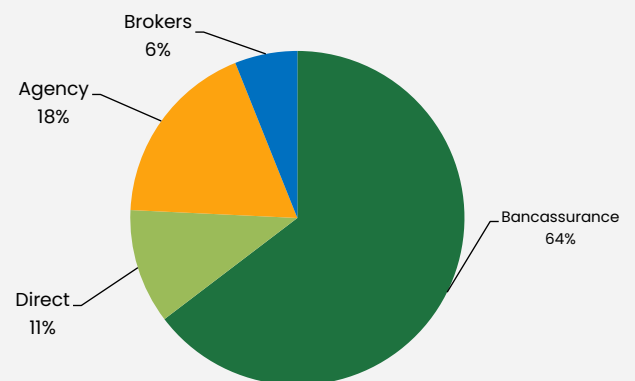


Source : RBL Research

Product mix on NBP basis



Higher share of bancassurance channel in distribution mix



Source : RBL Research

### Technical account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
<b>Net premiums</b>	<b>56,764</b>	<b>67,827</b>	<b>78,584</b>	<b>89,174</b>
Investment income	13,941	20,019	24,928	30,470
Contribution from the Shareholders' A/c	879	901	680	694
Other Income	1,344	1,020	1,115	1,139
<b>Total Income</b>	<b>70,705</b>	<b>89,767</b>	<b>105,306</b>	<b>121,477</b>
Commissions	2,828	3,205	3,933	4,372
Operating expenses	8,437	10,467	12,801	14,483
Service tax on linked charges	464	578	676	711
<b>Total expenses</b>	<b>11,729</b>	<b>14,251</b>	<b>17,410</b>	<b>19,566</b>
Benefits paid	38,872	47,424	52,710	58,589
Change in valuation of life reserves	18,586	27,011	33,569	41,664
<b>Surplus/(deficit) before tax</b>	<b>1,518</b>	<b>1,080</b>	<b>1,617</b>	<b>1,658</b>
Provision For Tax & Others	159	113	170	174
Surplus/(Deficit) for the period	1,359	967	1,448	1,484

Source : RBL Research

### Shareholders account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
<b>Transfer from policyholder's a/c</b>	<b>1,469</b>	<b>1,027</b>	<b>1,696</b>	<b>1,837</b>
Investment income	720	1,324	1,455	1,693
Other income	63	68	79	81
<b>Total income</b>	<b>2,252</b>	<b>2,419</b>	<b>3,230</b>	<b>3,611</b>
Total expenses	979	996	1,122	1,280
<b>Profit before tax</b>	<b>1,272</b>	<b>1,423</b>	<b>2,109</b>	<b>2,331</b>
Tax	(88)	57	84	93
<b>Profit after tax</b>	<b>1,360</b>	<b>1,366</b>	<b>2,024</b>	<b>2,237</b>

Source : RBL Research

### Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share capital	2,153	2,153	2,153	2,153
Reserves and surplus	10,821	10,603	12,789	15,203
Fair value change account	20	19	23	26
<b>Shareholder's equity</b>	<b>12,993</b>	<b>12,775</b>	<b>14,964</b>	<b>17,382</b>
Borrowings	950	950	950	950
Fair value change account	1,976	2,174	2,431	2,796
Policy liabilities	143,345	157,736	176,396	202,873
Linked liabilities	79,201	80,374	100,802	105,426
Funds for future appropriations	1,235	4,410	12,636	19,914
<b>Total liabilities</b>	<b>226,708</b>	<b>245,644</b>	<b>293,216</b>	<b>331,959</b>
<b>Total liabilities and shareholders equity</b>	<b>239,701</b>	<b>258,419</b>	<b>308,180</b>	<b>349,341</b>
<b>Shareholders investments</b>	<b>13,193</b>	<b>11,383</b>	<b>12,388</b>	<b>13,817</b>
Policyholders investments	146,449	165,577	193,110	228,072
<b>Unit linked investments</b>	<b>79,201</b>	<b>80,374</b>	<b>100,802</b>	<b>105,426</b>
Loans	1,585	1,368	1,489	1,660
Fixed assets	382	358	313	355
<b>Net current assets/(liabilities)</b>	<b>(1,110)</b>	<b>(640)</b>	<b>79</b>	<b>11</b>
<b>Total assets</b>	<b>239,701</b>	<b>258,419</b>	<b>308,180</b>	<b>349,341</b>

Source : RBL Research

**IEV movement – consolidated**

Particulars, Rs bn	FY23	FY24E	FY25E	FY26E
<b>Opening IEV</b>	<b>32,958</b>	<b>39,527</b>	<b>44,956</b>	<b>51,598</b>
Unwind	2,620	3,543	4,388	5,036
Change in operating assumptions	40	48	55	63
<b>VNB</b>	<b>3,674</b>	<b>3,866</b>	<b>4,570</b>	<b>5,403</b>
Operating variances	150	150	150	150
Dividend and capital injection	1,670	(270)	(352)	(412)
<b>Closing IEV</b>	<b>39,527</b>	<b>44,956</b>	<b>51,598</b>	<b>61,838</b>

Source : RBL Research

**Business Parameters – consolidated**

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
<b>AuM</b>	<b>238,782</b>	<b>309,027</b>	<b>341,475</b>	<b>386,255</b>
Indian Embedded Value	39,527	44,956	51,598	61,838
<b>APE</b>	<b>13,336</b>	<b>15,719</b>	<b>18,601</b>	<b>21,523</b>
<b>VNB</b>	<b>3,674</b>	<b>3,866</b>	<b>4,570</b>	<b>5,403</b>
<b>NBP</b>	<b>29,085</b>	<b>33,874</b>	<b>38,908</b>	<b>43,886</b>
<b>VNB margin (%)</b>	<b>27.5</b>	<b>24.6</b>	<b>24.6</b>	<b>25.1</b>
<b>EV per share (Rs)</b>	<b>183.9</b>	<b>209.2</b>	<b>240.1</b>	<b>287.7</b>
VNB per share (Rs)	17.1	18.0	21.3	25.1
BVPS (Rs)	60.5	59.4	69.6	80.9
EPS (Rs)	6.3	6.4	9.4	10.4

Source : RBL Research

**Valuation (x) – consolidated**

Particulars	FY23	FY24E	FY25E	FY26E
P/EV (x)	3.5	3.1	2.7	2.2
P/VNB (x)	37.9	36.0	30.4	25.8
P/B (x)	10.7	10.9	9.3	8.0
P/EV (x)	3.5	3.1	2.7	2.2

Source : RBL Research

## Research Team

Name	Email ID
Siddarth Bhamre	<a href="mailto:siddarth.bhamre@religare.com">siddarth.bhamre@religare.com</a>
Ajit Mishra	<a href="mailto:ajit.mishra@religare.com">ajit.mishra@religare.com</a>
Manoj Vayalar	<a href="mailto:manoj.vayalar@religare.com">manoj.vayalar@religare.com</a>
Nirvi Ashar	<a href="mailto:nirvi.ashar@religare.com">nirvi.ashar@religare.com</a>
Gaurav Arora	<a href="mailto:gaurav.arora3@religare.com">gaurav.arora3@religare.com</a>
Akshay Tiwari	<a href="mailto:akshay.tiwari@religare.com">akshay.tiwari@religare.com</a>
Abhijeet Banerjee	<a href="mailto:abhijeet.banerjee@religare.com">abhijeet.banerjee@religare.com</a>
Gaurav Sharma	<a href="mailto:gauravsharma2@religare.com">gauravsharma2@religare.com</a>
Rohan Shah	<a href="mailto:rohan.shah@religare.com">rohan.shah@religare.com</a>
Riddhika Mirajkar	<a href="mailto:riddhika.mirajkar@religare.com">riddhika.mirajkar@religare.com</a>
Ashwani Harit	<a href="mailto:ashwani.harit@religare.com">ashwani.harit@religare.com</a>
James Kunnel	<a href="mailto:james.kunnel@religare.com">james.kunnel@religare.com</a>

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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