

HDFC Life Insurance | BUY

In-line quarter

In 2QFY24, HDFC Life reported APE of INR 30.5bn registering growth of +1% YoY/+31% QoQ with its market share at 9.7% (+70bps YoY). On expected lines, non-par savings growth continue to lag (-35% YoY) on account of new tax rules, though strong growth in ULIPs and par segment balanced out the negative impact of degrowth in non-par. Banca continues to remain the dominant distribution channel (contributing 65% of 1HFY24 indvl APE; up 8pps YoY); management indicated that its wallet share in HDFC Bank has inched up to 62% in 2QFY24 vs 55.5% in 1QFY24 and expect the improvement to sustain. HDFC Life reported VNB margins of 26.3% (+10bps QoQ) despite a reduction in share of high margin non-par savings and healthy growth seen in low margin ULIP segment. Management indicated that incrementally, VNB growth will be driven by APE growth rather than margin improvement. The insurer reported an EV of INR429bn as of Sep'23 with operating RoEVs improving to 16.4%. Management remains confident of maintaining the incremental growth in the range of 15-16% (on adjusted base of FY23 for high non par sale in Mar'23) going ahead. We believe HDFC Life remains well placed for valuation rerating owing to a) successful leveraging of HDFC Bank banca channel post merger, b) revival in premium growth, and c) steady NBMs, driven by strong impetus on protection. We value HDFC Life at 2.9x FY25E EV to arrive at our TP of INR 750. Maintain BUY.

- APE growth driven by ULIPs and par:** In 2QFY24, HDFC Life reported APE of INR 30.5bn registering growth of +1% YoY/+31% QoQ with its market share at 9.7% (+70bps YoY). On expected lines, non-par savings growth continue to lag (-35% YoY) on account of new tax rules, though strong growth in ULIPs and par segment balanced out the negative impact of degrowth in non-par. Even protection saw strong growth of 79% YoY driven by inch up in both retail and credit life and management expects this momentum to sustain going ahead. Management remains confident of maintaining the incremental growth in the range of 15-16% (on adjusted base of FY23 for high non par sale in Mar'23 – around INR 10-11bn higher which translates into a FY24E growth of c.7%) going ahead driven by i) fire up of HDFC Bank and other bancassurance partners which could be more effectively leveraged for higher growth – which is expected to be critical factor contributing to the growth impetus post-merger and ii) strong product bouquet which is expected to remain largely unaffected by change in regulations. We build in APE growth of 5% for FY24E (on a high base of FY23) followed by a 16% YoY growth in FY25E.
- Synergies from HDFC Bank merger to aid distribution:** Banca continues to remain the dominant distribution channel (contributing 65% of 1HFY24 indvl APE; up 8pps vs 1HFY23). As expected, HDFC Life has benefitted from the merger of HDFC Bank with HDFC Limited with its wallet share in HDFC Bank channel increase to 62% in 2QFY24 vs 55.5% in 1QFY24 (70%+ in Sep'23). Management expects this trend to continue as the bank is expected to more aggressively push HDFC Life products, which, in turn, should drive retail premium growth given HDFC Bank's large branch network and a large client base. Agency channel continues to see strong traction (18% contribution in 1HFY24) as HDFC Life has added new agency partners. On the direct channel, the proportion has



Akshay Jain

akshay.jain@jmfl.com | Tel: (91 22) 66303099

Sameer Bhise

sameer.bhise@jmfl.com | Tel: (91 22) 66303489

Apurva Deshmukh

apurva.deshmukh@jmfl.com | Tel: (91 22) 66303263

Mayank Mistry

mayank.mistry@jmfl.com | Tel: (91 22) 62241877

Shreyas Pimple

shreyas.Pimple@jmfl.com | Tel: (91 22) 66301881

Gayathri Shivaram

gayathri.shivaram@jmfl.com | Tel: (91 22) 66301889

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	750
Upside/(Downside)	20.0%
Previous Price Target (12M)	750
Change	0.0%

Key Data – HDFCLIFE IN

Current Market Price	INR625
Market cap (bn)	INR1,344.3/US\$16.1
Free Float	43%
Shares in issue (mn)	564.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,040.4/US\$24.5
52-week range	691/458
Sensex/Nifty	66,283/19,751
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-3.8	17.6	20.1
Relative*	-1.6	7.2	4.9

* To the BSE Sensex

Financial Summary

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
APE	83,720	97,600	133,360	140,028	162,432
APE (YoY) (%)	13%	17%	37%	5%	16%
NBV	21,850	26,760	36,740	37,808	44,669
NBV Margins (%)	26.1%	27.4%	27.5%	27.0%	27.5%
PAT	13,601	13,269	13,683	20,530	22,292
PAT (YoY) (%)	5%	-2%	3%	50%	9%
EV	266,217	300,487	395,260	468,417	555,854
Operating RoEV (%)	18.5%	16.6%	19.7%	18.1%	18.1%
P/EV (x)	5.0	4.5	3.4	2.9	2.4

Source: Company data, JM Financial. Note: Valuations as of 13/Oct/2023

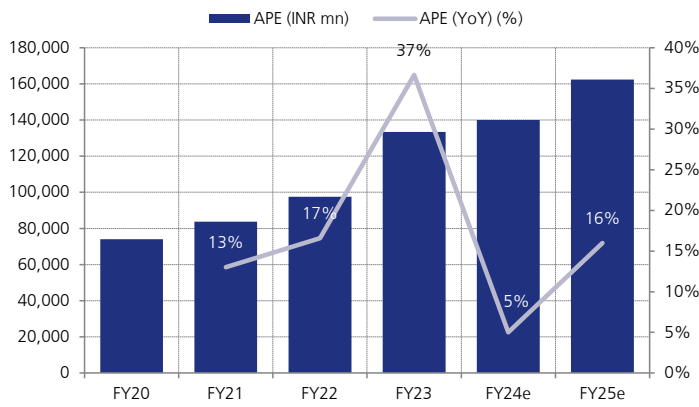
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seen a moderation to 11% in 1HFY24 (vs 17% in 1HFY23) on account of reclassification of business from PB Fintech channel as broker from direct channel earlier. Though, contribution from broker channel remains subdued at 7% in 1HFY24 (vs 8% in 1HFY23).

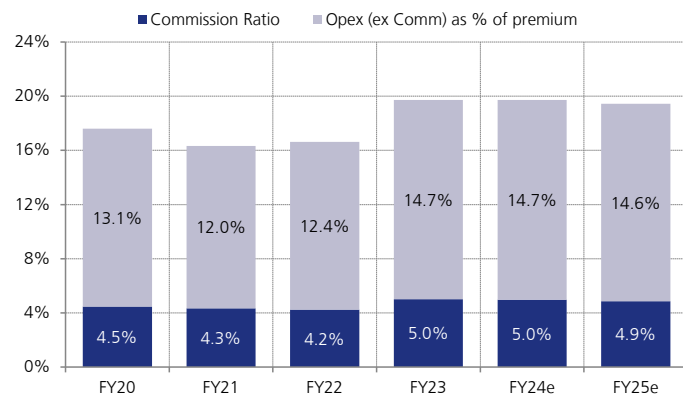
- **Balanced product mix:** Non-par savings continued its moderating trend in 2QFY24 and was down 35% YoY, though flat QoQ. Proportion of non-par savings has now dropped to 24% (vs 38% in 2Q23 and 33% in 1Q24). However, overall APE growth was still healthy as ULIPs and par savings segments picked up pace. Even protection saw strong growth of 79% YoY driven by inch up in both retail and credit life and management expects this momentum to sustain going ahead. Share of ULIP and par has increased to 30% (+5pps QoQ) and 33% (+7pps QoQ) resp., while share of non-par savings was down to 24% (-9pps QoQ). Protection and annuity contribution was at 6% and 7% resp. HDFC Life has always prioritised profitability over growth and focused on maintaining a balance between traditional and linked products. We expect the company to maintain a balanced product mix with higher focus on increasing the proportion of protection in the mix, which would help it attain profitable growth across business cycles.
- **VNB growth to be driven by APE:** The insurer generated NBV of INR8.0bn in 2QFY24 (+31% QoQ) aided by healthy APE growth and stable margins (26.3% vs 25.8% YoY). However, incremental VNB margins are expected to be range bound (management guidance of flat VNB margins vs FY23) driven by a) reduction in share of high margin non-par savings and b) healthy growth seen in low margin ULIP segment and c) unlike last year no benefit of rising rate environment; though strong growth in protection and annuity should provide support. Management indicated that incrementally, VNB growth will be driven by APE growth rather than margin improvement. We expect HDFC Life's NBMs to remain range bound near current levels going ahead. The insurer reported an EV of INR429bn as of Sep'23 with operating RoEVs improving to 16.4%.
- **Maintain positive view:** We believe HDFC Life remains well placed owing to a) successful leveraging of HDFC Bank banca channel post merger, b) revival in premium growth, and c) steady NBMs, driven by strong impetus on protection. We value HDFC Life at 2.9x FY25E EV to arrive at our TP of INR 750. Maintain BUY.

Exhibit 1. HDFC Life: APE growth trends



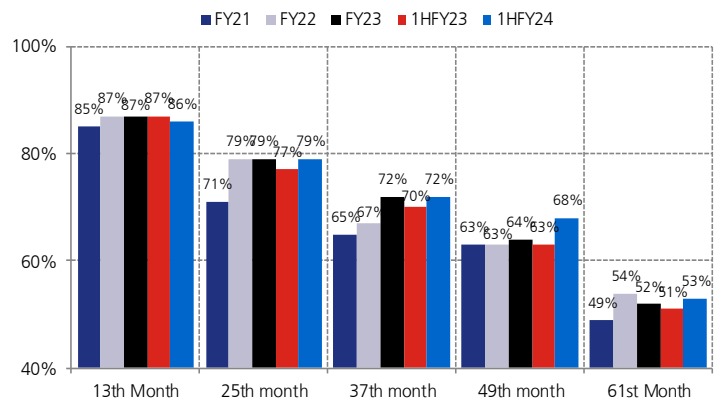
Source: Company, JM Financial, APE in INR mn

Exhibit 2. HDFC Life: Operating cost mix



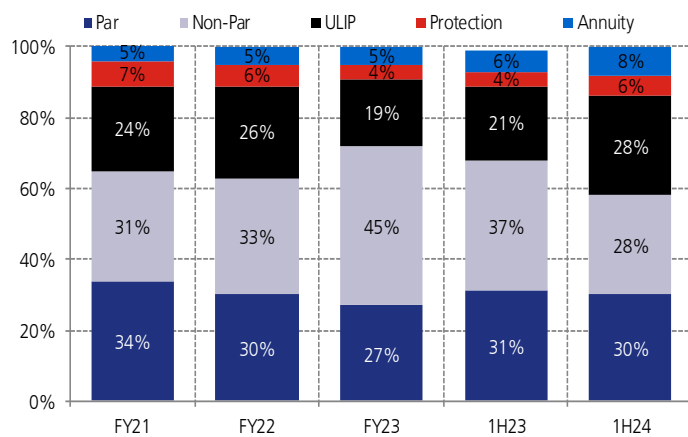
Source: Company, JM Financial

Exhibit 3. HDFC Life: Trend in persistency ratio



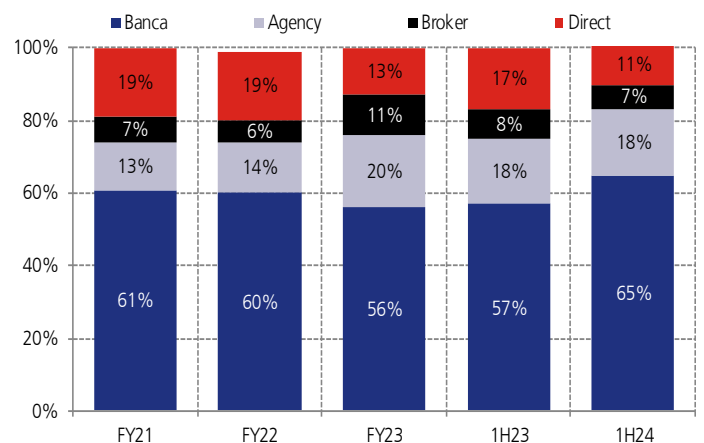
Source: Company, JM Financial

Exhibit 4. HDFC Life: Individual APE – product mix



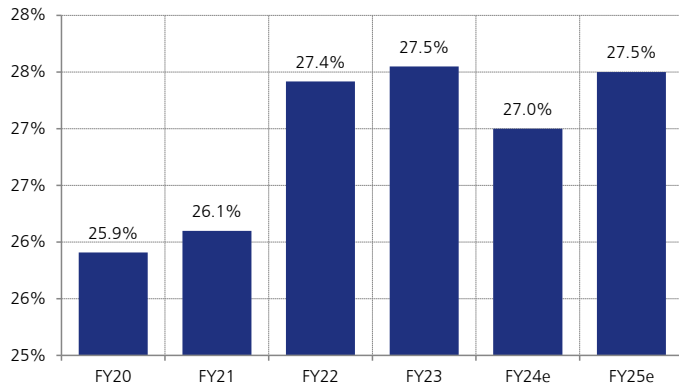
Source: Company, JM Financial

Exhibit 5. HDFC Life: Individual APE distribution mix



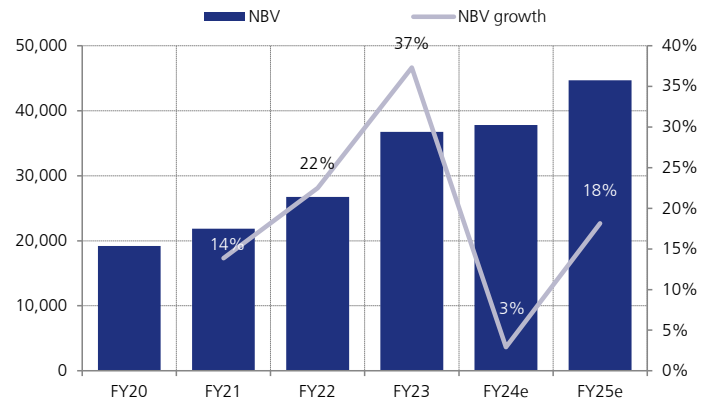
Source: Company, JM Financial

Exhibit 6. HDFC Life: NBV margins



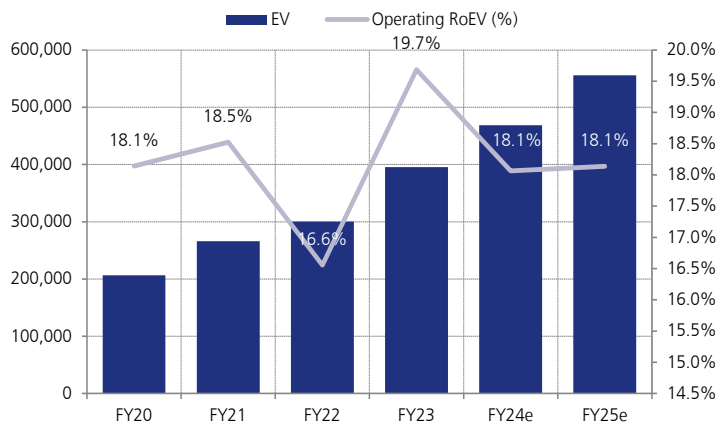
Source: Company, JM Financial

Exhibit 7. HDFC Life: NBV growth



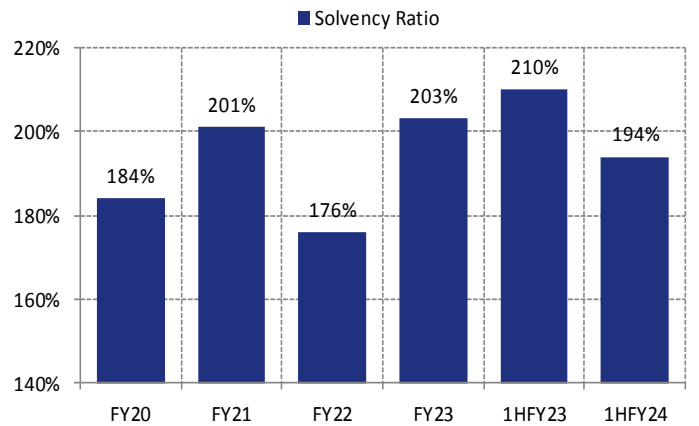
Source: Company, JM Financial, NBV in INR mn

Exhibit 8. HDFC Life: EV and operating RoEV trend



Source: Company, JM Financial, EV in INR mn

Exhibit 9. HDFC Life: Solvency



Source: Company, JM Financial

Financial Tables (Standalone)

Technical Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Gross premiums	385,835	472,900	575,334	659,285	792,991
Net premiums	381,223	468,010	568,788	651,783	783,968
Investment income	326,776	195,118	126,044	189,531	184,699
Other Income	4,420	7,468	13,445	13,445	13,445
Total Income	712,418	670,595	708,277	854,760	982,113
Commissions	-16,762	-20,078	-28,906	-32,801	-38,529
Operating expenses	-50,628	-61,551	-90,133	-104,888	-124,619
Total expenses	-67,390	-81,628	-119,039	-137,689	-163,148
Benefits paid	-225,748	-326,163	-401,556	-437,512	-484,499
Change in valuation of life reserves	-408,296	-252,370	-185,902	-253,908	-312,185
Total Benefits	-634,044	-578,533	-587,458	-691,420	-796,683
Surplus/(Deficit) for the year	10,984	10,434	1,780	25,651	22,282

Source: Company, JM Financial

Shareholder's Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Transfer from the Policyholders' Account	9,909	11,057	14,722	20,664	18,833
Investment income	6,476	8,131	7,239	12,407	16,763
Other income	0	190	928	0	0
Total income	16,385	19,378	22,889	33,071	35,595
Operating expenses	-264	-806	-1,272	-1,746	-2,008
Contribution to the policyholders A/C	-2,586	-5,544	-8,795	-8,795	-8,795
Profit before tax	13,535	13,028	12,822	22,530	24,792
Tax	66	242	861	-2,000	-2,500
Profit after tax	13,601	13,269	13,683	20,530	22,292

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NBV	21,850	26,760	36,740	37,808	44,669
NBV growth	14%	22%	37%	3%	18%
Reported NBV margin	26.1%	27.4%	27.5%	27.0%	27.5%
New business premium	201,066	244,971	290,852	306,526	355,571
- Growth	17%	22%	19%	5%	16%
APE	83,720	97,600	133,360	140,028	162,432
- Growth	13%	17%	37%	5%	16%
Opex (ex-comm) ratio	4.3%	4.2%	5.0%	5.0%	4.9%
Commissions ratio	12.0%	12.4%	14.7%	14.7%	14.6%

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shareholders' Investments	85,421	152,379	124,345	123,989	101,462
Policyholders' Investments	905,378	1,083,110	1,543,349	2,123,163	2,886,489
Unit linked Investments	747,595	806,215	865,313	920,656	982,216
Loans	4,241	6,428	6,750	7,087	7,442
Fixed assets	3,402	3,427	3,599	3,779	3,968
Net Current Assets / (Liab)	10,356	10,866	11,409	11,979	12,578
Debit Balance in P&L	0	0	0	0	0
Total Assets	1,795,817	2,103,892	2,598,304	3,236,370	4,042,158
Borrowings	6,000	6,000	6,000	6,000	6,000
Fair Value Change Account	25,550	21,697	0	0	0
Policy Liabilities	855,230	1,043,425	1,486,801	2,045,371	2,780,730
Linked Liabilities	747,595	806,215	865,313	920,656	982,216
FFA	9,906	9,409	14,956	21,948	30,702
Total Liabilities	1,709,440	1,949,033	2,438,471	3,062,646	3,871,752
Share Capital	20,209	21,126	21,126	21,126	21,126
Reserves and surplus	64,093	132,885	137,859	151,750	148,432
Fair Value Change Account	2,074	848	848	848	848
Shareholder's equity	86,377	154,859	159,833	173,724	170,406

Source: Company, JM Financial

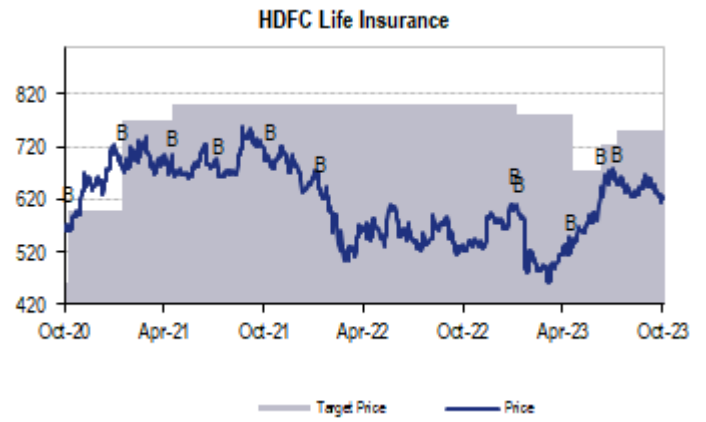
EV movement					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Opening EV	206,487	266,217	329,580	395,260	468,417
NBV	21,850	26,760	36,740	37,808	44,669
Discount unwind	17,400	22,960	26,240	31,621	37,473
Operating variance	-1,000	-5,650	1,900	1,976	2,811
Non-operating variance / assumption change	21,400	-500	-15,940	3,953	4,684
EV before capital changes	266,137	309,787	378,520	470,617	558,054
Shareholders dividends	0	-2,000	0	-2,200	-2,200
Capital injection	80	-7,300	16,740	0	0
Closing EV	266,217	300,487	395,260	468,417	555,854
Operating RoEV	18.5%	16.6%	19.7%	18.1%	18.1%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
28-Apr-20	Buy	460	
20-Oct-20	Buy	600	30.4
24-Jan-21	Buy	770	28.3
27-Apr-21	Buy	800	3.9
20-Jul-21	Buy	800	0.0
24-Oct-21	Buy	800	0.0
24-Jan-22	Buy	800	0.0
16-Jan-23	Buy	780	-2.5
20-Jan-23	Buy	780	0.0
27-Apr-23	Buy	675	-13.5
20-Jun-23	Buy	725	7.4
21-Jul-23	Buy	750	3.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.comCompliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.comGrievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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