FIRST LIGHT

20 July 2022

RESEARCH

HDFC Life | Target: Rs 701 | +31% | BUY

Sustainable growth, high visibility - BUY

SUMMARY

HDFC Life

- Q1 gross premium increased 23% YoY with NBP up 27% and renewal premium up 19%
- APE grew 22% YoY to Rs 19bn led by protection (+30%) and savings (+21%) products; VNB margin expanded 60bps YoY to 26.8%
- We assume coverage with BUY and a TP of Rs 701 (3.6x FY24E P/EV) given high growth and margins as well as a strong market position

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Daily macro indicators

Indicator	15-Jul	18-Jul	Chg (%)
US 10Y yield (%)	2.92	2.99	7bps
India 10Y yield (%)	7.44	7.44	0bps
USD/INR	79.88	79.98	(0.1)
Brent Crude (US$/bbl)	101.2	106.3	5.1
Dow	31,288	31,073	(0.7)
Hang Seng	20,298	20,846	2.7
Sensex	53,761	54,521	1.4
India FII (US$ mn)	**14-Jul**	**15-Jul**	**Chg ($ mn)**
FII-D	(111.4)	(1.5)	109.9
FII-E	45.5	(204.6)	(250.1)

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 701 | ⮝ 31%

HDFC LIFE | Insurance | 19 July 2022

Sustainable growth, high visibility – BUY

- **Q1 gross premium increased 23% YoY with NBP up 27% and renewal premium up 19%**
- **APE grew 22% YoY to Rs 19bn led by protection (+30%) and savings (+21%) products; VNB margin expanded 60bps YoY to 26.8%**
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Balanced product mix; protection share rises: HDFC Life is focused on a balanced product mix with par/non-par savings forming 24%/28% of APE, ULIP/protection at 20%/17% and annuity/group products at 7%/4% at end-Q1FY23. The company is targeting growth in the protection and non-par businesses and is less ULIP-heavy. This is evident from a decline in ULIP share in NBP from 21% in FY19 to 9% in Q1FY23.

Strong APE growth: APE grew 22% YoY to Rs 19bn in Q1 wherein protection APE, which constituted 17% of the total, grew 30%. Although challenges persist in individual protection products, group plans did fairly well. Savings products grew 21% YoY to Rs 15.8bn. Management expects continued momentum in the non-par savings and annuity business segments. Gross premium grew 23% YoY to Rs 94bn with NBP/renewal premium up 27%/19%. We factor in a 16% CAGR in APE to Rs 151bn by FY25.

VNB margins high: VNB increased 24% YoY to Rs 5.1bn in Q1 with a margin of 26.8%, up 60bps YoY. Expenses were high as costs absent during Covid returned and the company had MTM losses. However, this is historically a lukewarm quarter for the company and an annual margin increase is positive. We model for a 16% CAGR in VNB over FY22-FY25 to Rs 42bn and factor in margins of ~28% over our forecast period.

Channel mix largely stable: Based on individual distribution, the share of the bancassurance channel remained stable at 56% on an annual basis but saw a sequential decline. The direct channel dipped from 23% in the year-ago quarter to 22% but improved sequentially. Agency also saw traction with its share in individual business up from 15% last year to 16%.

BUY, TP Rs 701: The stock is trading at 2.7x FY24E P/EV. Given stronger growth, healthy solvency margins and high persistency, along with its positioning as a top-3 player, we value the company at 3.6x FY24E P/EV – ~1SD below the long-term mean. This translates to a TP of Rs 701, offering 31% upside potential – BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	HDFCLIFE IN/Rs 536
Market cap	US$ 14.2bn
Free float	48%
3M ADV	US$ 24.3mn
52wk high/low	Rs 776/Rs 497
Promoter/FPI/DII	52%/26%/8%

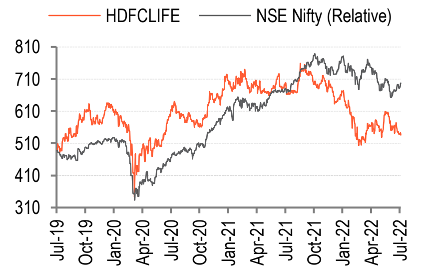
Source: NSE | Price as of 19 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	2,41,548	2,82,071	3,27,829
APE (Rs mn)	97,580	1,14,362	1,31,606
VNB (Rs mn)	26,737	31,596	36,896
Embedded Value (Rs mn)	3,00,470	3,53,383	4,13,983
VNB margin (%)	27.4	27.6	28.0
EVPS (Rs)	146.8	172.6	202.2
EPS (Rs)	5.9	6.8	8.1
Consensus EPS (Rs)	5.9	8.3	9.9
P/EV (x)	3.7	3.1	2.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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