

**BUY**

TP: Rs 691 | ▲ 28%

**HDFC LIFE**

| Insurance

| 21 October 2022

### Merger with Exide Life completed; focus on growth

- H1 gross premium grew 13% YoY; however, Q2 gross premium missed our estimate by 7%
- VNB margin remained high at 27.6% pre-merger with Exide Life (26.2% post-merger); we expect ~28% margins over FY23-FY25
- We trim estimates marginally and revise our TP to Rs 691 (vs. Rs 701); retain BUY

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**Below-expected Q2:** At end-H1FY23, HDFC Life's gross premium grew 13% YoY to Rs 217bn pre-merger with Exide Life and stood at Rs 232bn post-merger. For Q2FY23, gross premium at Rs 133bn missed our estimate by 7% as a fall in single premiums offset renewal growth (+37% YoY). While we expect H2FY23 growth to surpass H1, we trim gross premium estimates by ~2% for FY23-FY25. Integration benefits with Exide Life and market share gains are key medium-term monitorables.

**Balanced product mix:** HDFC Life is focused on a balanced product mix with par/non-par savings forming 26%/31% of APE (merged entity), ULIP/protection at 18%/16% and annuity/group products at 7%/2% at end-H1FY23. Although the company admits to a retail protection weakness (also an industry phenomenon), the growth in its group credit life and annuity business has seen an uptick.

**VNB margins high:** VNB increased 16% YoY to Rs 12.6bn in H1 (pre-merger) with a margin of 27.6% (+120bps YoY). Although the post-merger margin is 26.2%, management believes that the merger would be margin-neutral in 12 months' time. We continue to model for a 16% CAGR in VNB over FY22-FY25 to Rs 41bn and factor in margins of ~28% over our forecast period. The opex ratio of 13.8% in Q2 has moderated vs. Q1FY23. Commission ratio remained high at 5.1%.

**Business through HDFC Bank expected to increase:** Based on individual APE, the share of the bancassurance channel increased to 61% at end-H1FY23 vs. 60% in H2FY22, whereas the direct channel dipped from 21% to 17%. Agency also saw traction with its share in individual business up from 13% last year to 15%. Management expects the proportion of business written through HDFC Bank to increase from H2FY23.

**Retain BUY:** HDFC Life is trading at 2.8x FY24E P/EV. We remain positive owing to healthy solvency margins, high persistency ratios, and its positioning as a top-3 life insurer. However, we lower our implied multiple from 3.6x to 3.5x FY24E P/EV (~1SD below the long-term mean), given the parent's impending merger (with HDFC Bank) and below-expected growth. Our TP thus moves to Rs 691 (vs. Rs 701). BUY.

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HDFCLIFE IN/Rs 542
Market cap	US\$ 13.9bn
Free float	48%
3M ADV	US\$ 27.2mm
52wk high/low	Rs 724/Rs 497
Promoter/FPI/DII	52%/26%/8%

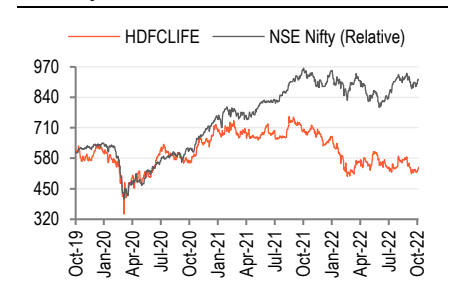
Source: NSE | Price as of 21 Oct 2022

### Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	2,41,548	2,77,250	3,22,225
APE (Rs mn)	97,580	1,12,407	1,29,356
VNB (Rs mn)	26,737	31,056	36,265
Embedded Value (Rs mn)	3,00,470	3,52,829	4,12,730
VNB margin (%)	27.4	27.6	28.0
EVPS (Rs)	146.8	166.6	194.8
EPS (Rs)	5.9	5.7	7.0
Consensus EPS (Rs)	5.9	8.3	9.9
P/EV (x)	3.7	3.3	2.8

Source: Company, Bloomberg, BOBCAPS Research

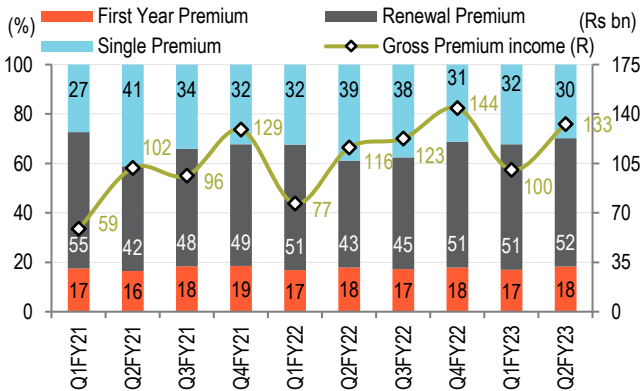
### Stock performance



Source: NSE

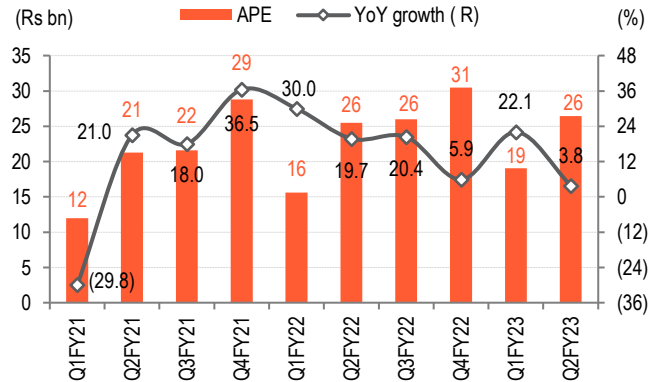


**Fig 1 – Share of single premium reduces while renewals increase in Q2FY23 gross premium**



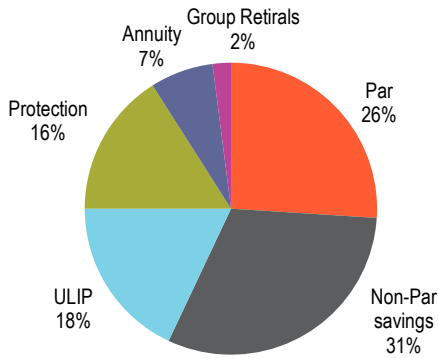
Source: Company, BOBCAPS Research

**Fig 2 – APE growth muted**



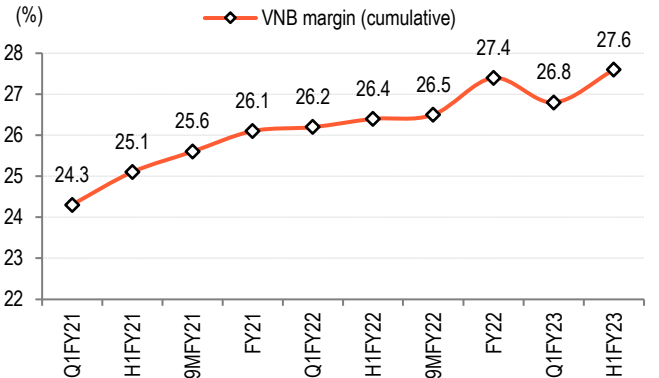
Source: Company, BOBCAPS Research

**Fig 3 – Product mix post-merger (based on APE) – Non-par savings at 31%, H1FY23**



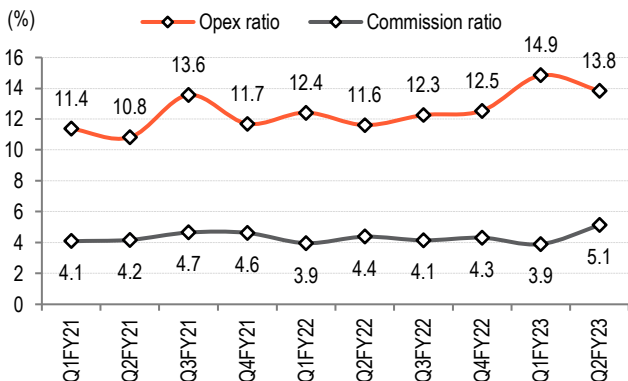
Source: Company, BOBCAPS Research

**Fig 4 – VNB margin remains high**



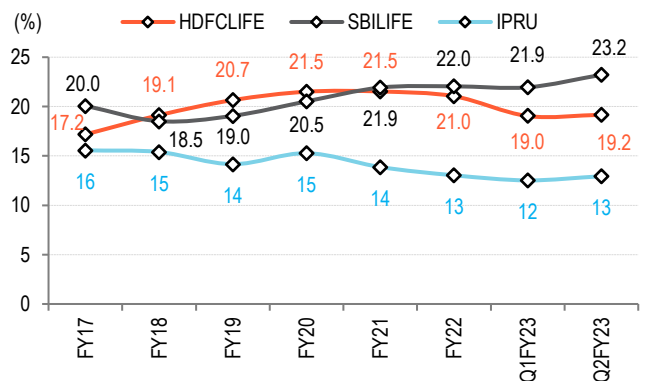
Source: Company, BOBCAPS Research | Note: The above data is pre-merger

**Fig 5 – Opex ratio tapers down; commission ratio high**



Source: Company, BOBCAPS Research

**Fig 6 – Market share volatile but expected to bounce back**

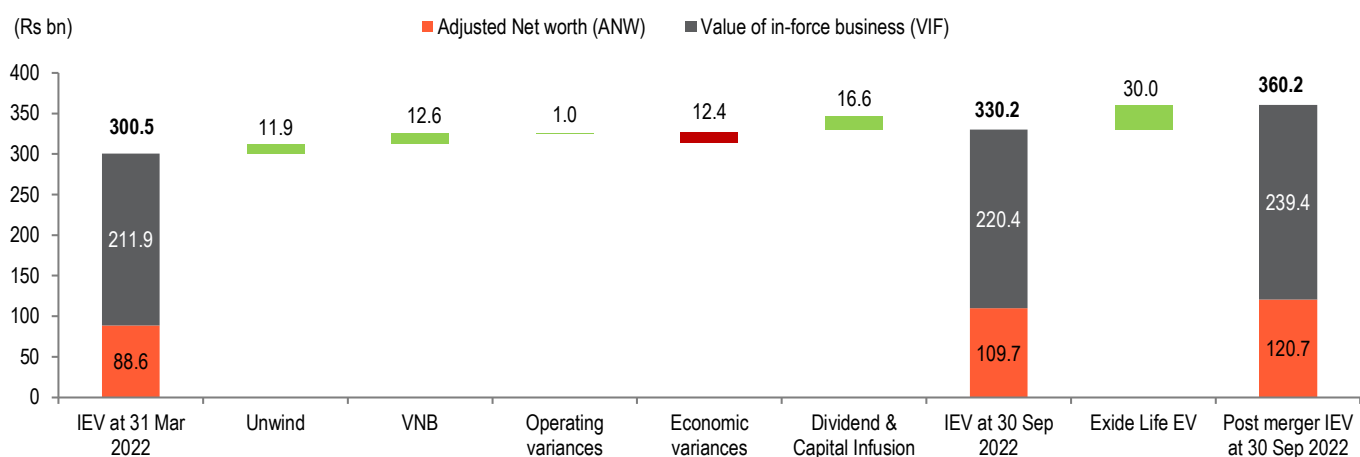


Source: Company, BOBCAPS Research

**Fig 7 – Bancassurance and agency gaining traction but direct channel faltering**

Distribution mix (%)	Q1FY21	H1FY21	9MFY21	FY21	Q1FY22	H1FY22	9MFY22	FY22	Q1FY23	H1FY23
<b>Individual APE</b>										
Bancassurance	59.0	60.0	63.0	61.0	56.0	60.0	61.0	60.0	56.0	61.0
Brokers and Others	5.0	6.0	6.0	7.0	6.0	6.0	6.0	6.0	7.0	7.0
Agency	12.0	13.0	12.0	13.0	15.0	13.0	14.0	14.0	16.0	15.0
Direct	24.0	21.0	19.0	19.0	23.0	21.0	19.0	19.0	22.0	17.0

Source: Company, BOBCAPS Research | Note: The above data is pre-merger

**Fig 8 – Embedded value – Operating variances positive but economic variances negative**

Source: Company, BOBCAPS Research | Note: IEV – Indian Embedded Value

**Fig 9 – Policyholders' account**

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	FY22	FY21	YoY (%)
Gross premium income	1,32,826	1,16,309	14.2	4,59,628	3,85,835	19.1
First Year Premium	24,231	20,780	16.6	80,544	68,584	17.4
Renewal Premium	69,066	50,345	37.2	2,18,080	1,84,769	18.0
Single Premium	39,528	45,184	(12.5)	1,61,005	1,32,482	21.5
Reinsurance	1,717	1,869	(8.2)	5,664	4,612	22.8
Net premium income	1,31,109	1,14,440	14.6	4,53,965	3,81,223	19.1
Income from investments (Net)	97,826	88,734	10.2	1,92,159	3,26,776	(41.2)
Other income	650	450	44.4	1,765	1,551	13.8
Contribution of funds from Shareholders' A/c	149	1,145	(87.0)	5,694	2,868	98.5
<b>Total</b>	<b>2,29,735</b>	<b>2,04,769</b>	<b>12.2</b>	<b>6,53,584</b>	<b>7,12,418</b>	<b>(8.3)</b>
<b>Commission on</b>						
First Year Premium	4,088	3,655	11.8	13,681	12,661	8.1
Renewal Premium	1,939	851	127.9	3,301	2,771	19.1
Single Premium	685	483	41.7	2,062	1,330	55.0
Rewards	109	109	(0.1)	359	342	5.0
<b>Net Commission</b>	<b>6,822</b>	<b>5,099</b>	<b>33.8</b>	<b>19,403</b>	<b>17,104</b>	<b>13.4</b>
Expenses of Management	25,215	18,598	35.6	53,591	43,974	21.9
Provision for taxes	1,164	1,066	9.2	5,541	6,311	(12.2)
Benefits Paid (Net)	1,17,308	83,376	40.7	3,18,637	2,25,748	41.1
Change in actuarial liability	83,507	1,00,499	(16.9)	2,46,815	4,08,296	(39.5)
Surplus/Deficit	2,470	1,639	50.7	9,597	10,984	(12.6)

Source: Company, BOBCAPS Research

**Fig 10 – Shareholders' account**

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	FY22	FY21	YoY (%)
Transfer from Policyholders' Account	2,182	2,019	8.0	10,093	9,909	1.9
Investment Income	1,599	2,034	(21.4)	7,894	6,476	21.9
Expenses other than those related to insurance business	370	235	57.4	825	354	132.7
Transfer of funds to Policyholders' Account	149	1,145	(87.0)	5,694	2,868	98.5
Provisions for diminution in value of investments <sup>6</sup>	(12)	(86)	(86.2)	333	373	(10.7)
Profit before tax	3,273	2,760	18.6	11,801	13,535	(12.8)
Provisions for tax	11	18	(40.2)	276	66	316.8
Profit after tax and before Extraordinary items	3,262	2,742	19.0	12,077	13,601	(11.2)

Source: Company, BOBCAPS Research

**Fig 11 – Balance sheet**

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	FY22	FY21	YoY (%)
<b>Shareholders' funds:</b>						
Share Capital	21,491	20,231	6.2	21,126	20,209	4.5
Share application money received pending allotment of shares	1	40	(98.5)	33	20	68.3
Reserves and Surplus	1,01,329	66,624	52.1	1,32,852	64,074	107.3
Credit / (Debit) Fair Value Change Account	648	2,272	(71.5)	848	2,074	(59.1)
<b>Sub-Total</b>	<b>1,23,469</b>	<b>89,167</b>	<b>38.5</b>	<b>1,54,859</b>	<b>86,377</b>	<b>79.3</b>
Borrowings	9,500	6,000	58.3	6,000	6,000	-
<b>Policyholders Funds</b>						
Credit / (Debit) Fair Value Change Account	19,875	30,019	(33.8)	21,697	25,550	(15.1)
Policy Liabilities	12,77,425	9,47,883	34.8	10,43,425	8,55,230	22.0
Provision for Linked Liabilities	5,88,413	5,49,166	7.1	5,64,484	5,43,054	3.9
Add: Fair value change	1,85,171	2,40,599	(23.0)	2,00,706	1,66,581	20.5
Funds for discontinued policies						
(i) Discontinued on account of non-payment of premium	41,628	41,525	0.2	40,854	37,762	8.2
(ii) Others	164	233	(29.6)	172	198	(13.1)
Funds for Future Appropriations	13,335	8,868	50.4	9,409	9,906	(5.0)
<b>TOTAL</b>	<b>22,58,979</b>	<b>19,13,460</b>	<b>18.1</b>	<b>20,41,605</b>	<b>17,30,658</b>	<b>18.0</b>
<b>Application Of Funds</b>						
<b>Investments:</b>						
Shareholders'	1,24,753	86,312	44.5	1,52,379	85,421	78.4
Policyholders'	13,08,885	9,94,280	31.6	10,83,110	9,05,378	19.6
Asset held to cover Linked Liabilities	8,15,376	8,31,523	(1.9)	8,06,215	7,47,595	7.8
Loans	14,433	5,393	167.6	6,428	4,240	51.6
Fixed Assets	3,648	3,335	9.4	3,427	3,401	0.8
<b>Net Current Assets</b>	<b>(8,116)</b>	<b>(7,383)</b>	<b>9.9</b>	<b>(9,955)</b>	<b>(15,378)</b>	<b>(35.3)</b>
<b>Total</b>	<b>22,58,979</b>	<b>19,13,460</b>	<b>18.1</b>	<b>20,41,605</b>	<b>17,30,658</b>	<b>18.0</b>

Source: Company, BOBCAPS Research

**Fig 12 – Key ratios and growth metrics**

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	FY22	FY21	YoY (%)
NBP	63,760	65,964	(3.3)	2,41,548	2,01,066	20.1
APE	26,460	25,500	3.8	97,580	83,700	16.6
VNB	7,490	6,790	10.3	26,737	21,846	22.4
Opex ratio (%)	13.8	11.6	224bps	12.2	11.9	33bps
Commission ratio (%)	5.1	4.4	75bps	4.2	4.4	(21bps)
Expense ratio (%)	19.0	16.0	299bps	16.4	16.3	11bps
VNB margin (%)	NA	NA	NA	27.4	26.1	130bps
Solvency ratio (%)	NA	NA	NA	176.0	201.1	(2,513bps)
<b>Persistency ratio (Regular Premium / Limited Premium Payment under Individual category)</b>						
13th month (%)	NA	NA	NA	87.0	85.0	200bps
61st month (%)	NA	NA	NA	54.0	49.0	500bps

Source: Company, BOBCAPS Research

## Earnings call highlights – Q2FY23

### Merger update

- At end-H1FY23, HDFC Life's gross premium stood at Rs 217bn pre-merger with Exide Life and Rs 232bn post-merger, embedded value at Rs 330bn and Rs 360bn, VNB at Rs 12.6bn and Rs 12.9bn, and AUM at Rs 2.04tn and Rs 2.24tn respectively.
- New business margin (NBM) has expanded for both HDFC Life (pre-merger) and the acquired business in H1FY23.
- On a consolidated basis, HDFC Life is looking at 15-17% growth in H2FY23 and expects to be margin-neutral by the middle of next year.

### Market share

- HDFC Life had 14.8% market share pre-merger (16.1% post-merger) in individual WRP (weighted received premium), which is lower when compared to H1FY22 as mid-tier competitors have grown quite significantly. Moreover, the company is taking a more calibrated risk on the balance sheet whereas mid-tier players are not mandated to make actuarial disclosures. Per management, the company will focus on increasing its market share.

### Business growth

- Protection business remained weak although the Q2FY23 performance was better than Q1. One of the reasons was higher or increased premiums as reinsurers hiked prices, which were passed on to customers. The company is also steering clear of business with overly high balance sheet risk.
- The group term life business has not picked up as HDFC Life is calibrating growth in terms of risk as well as pricing. However, the credit life business is seeing good traction in profitability as well as growth. In the annuity group segment, the industry has declined whereas the company has bucked the trend
- In a higher interest rate climate, the company has the opportunity to increase rates and it has done so – both on the annuity front as well as non-par savings, while managing spreads.
- Management believes segmental non-participating plans will have a profitable outcome as compared to unit-linked unwinding of profits under Indian GAAP that will take a bit longer.

### **HDFC Bank (promoter and distributor)**

- HDFC Bank is the largest distributor of the company's insurance products and will become a promoter (post-merger with HDFC Ltd). Thus, HDFC Life expects greater alignment with the bank. HDFC Bank contributed 46-48% of the business in Q2, 200bps lower as compared to the same period last year.
- In H2FY23, management expects an increase in business underwriting through HDFC Bank and consequently a rise in the bank's share in the distribution mix.

### **Hedging**

- HDFC Life will continue to focus on forward rate agreements (FRA) for risk management and remains diversified across more than 10 counterparties. Moreover, FRA is not the only tool the company uses for hedging. With difficulties at a couple of European banks making the headlines, the company clarified that it does not hold more than 10-12% exposure to each of the two banks.
- Moreover, from an instrument perspective, FRAs have daily margin settlements. Thus, there is no credit risk in using them.

### **Embedded value**

- The embedded value (EV) had a negative economic variance of Rs 12.4bn in Q2. The operating variance which was positive at Rs 1bn mainly came from (i) persistency and (ii) normalised expenses post-Covid. Mortality is almost neutral.
- The calculated unwind rate was at ~8.1%.
- Exide Life is ~10% of the combined entity's embedded value, and the company expects alignment in both businesses over the next couple of quarters.

### **Others**

- HDFC Life added ~24,000 agents in H1FY23.
- The company launched a new product 'Click 2 Protect Super' during the quarter which was well received.

## Earnings call highlights – Q1FY23

### VNB margin

- HDFC Life's retail protection business continues to struggle though the overall protection segment is doing well along with the non-par segment. However, margins were impacted by MTM costs and other operational costs which are returning post-Covid. Expenses were a 0.6% drag on Q1FY23 margins.
- In a positive, VNB margin expanded 60bps YoY in Q1FY23. Typically, the company does 15% of the entire year's business in the first quarter and expenses are front-ended for areas such as manpower and technology.

### VNB walk

- The operating assumption change is positive (excluding Covid impact). HDFC Life has also raised its mortality assumption this year.

### Embedded value (EV)

- HDFC Life sets an unwind rate for its investment assets at the start of the year and keeps this rate unchanged for the entire fiscal year. Any change is reflected in the investment variance through the rest of the year. The company expects to earn an ~8% unwind rate on assets.
- The company saw an economic variance of Rs 11.7bn in Q1FY23 due to a loss of ~Rs 4bn in volatile equity markets and ~Rs 7bn from higher interest rates (due to a 130bps rise in the short end of the yield curve).

### Return on embedded value (ROEV)

- ROEV was ~16.5% in Q1FY23, after normalising the impact of Covid. The interest rate environment will determine whether this metric reaches the earlier band of 17-18%.

### Solvency margin

- The company intends to beef up the solvency margin from the current 178% and is evaluating options, including raising of equity. The aim is to reach a comfort zone of 200-220%.

### Protection products

- Protection products typically formed 1-2% of individual APE a few years ago and a further uptick was seen during Covid. However, with the rise in premiums and stricter underwriting standards, this segment has softened. Higher premiums coupled with inflationary pressure is causing customers to either lower the sum assured or postpone their purchase entirely. While the next 6-7 months could be weak, management sees a large opportunity over the longer term due to the wide protection gap. The company believes in a calibrated approach with respect to managing balance sheet risks arising out of the business.



- The credit protect business is expected to be high based on partner loan disbursement. The company has a large presence across mortgage and MFIs, and is not overly dependent on any medium.
- ROP (return of premium) is an important product and contributes one-third to one-fourth of the retail protection business. However, it is ultimately dependent on the needs of the customer and the company doesn't push any particular product.
- The group term insurance business has seen an uptick as pricing is more reasonable now.

### **Non-par business**

- HDFC Life had earlier introduced innovative 'Sanchay Plus' and 'Sanchay Par Advantage' plans in the non-par segment. The annuity business has grown by ~10% when the market has declined by 9% (NBP terms).
- Sanchay FMP (fixed maturity plan) is at least 100-130bps more attractive than fixed deposits at the highest marginal tax bracket.

### **New products**

- HDFC Life has been selling its 'Victor Protect Optima' product for some time now, whereas HDFC Ergo has just launched a new health indemnity product called 'Optima Secure' – this will form a new combination product for the company.

### **Distribution channel**

- Agents are able to sell non-par products fairly easily.
- The company has observed a dip in Google searches but is making efforts in terms of digital marketing and expects enquiries to pick up over a period of time.

### **Number of Policies (NOP)**

- Growth in NOPs has declined over the past three years in the term business. Excluding term, NOP growth has been high. Some of the products launched on the non-par and par side have higher average ticket size. Moreover, the company has exited certain cohorts with low ticket size because of the quality of business, either in terms of low persistency or high mortality claims.

### **Change in promoter**

- Due to the Exide Life acquisition, HDFC's stake in HDFC Life has come down to 47.8%. Post the HDFC-HDFC Bank merger, the bank would be the company's new promoter. While there are concerns that the regulator may cap promoter holding at 30%, it will still be a material investment for the bank. Management also highlighted that HDFC Bank has expressed a desire to remain the promoter, subject to regulatory approval.

## Valuation methodology

HDFC Life is trading at compelling valuations of 2.8x FY24E P/EV. We remain positive owing to healthy solvency margins, high persistency ratios, and its positioning as a top-3 life insurer. However, given that the company has missed our estimates in Q2FY23, we trim gross premium forecasts by ~2% across FY23-FY25. We also lower our implied multiple from 3.6x to 3.5x FY24E P/EV (~1SD below the long-term mean), considering the parent's (HDFC Ltd) impending merger with HDFC Bank and below-expected growth. Consequently, our TP moves to Rs 691 (vs. Rs 701), offering 28% upside. We have incorporated the Exide Life deal into this valuation at 1.25x FY24E EV.

The company is focused on maintaining a balanced product mix and has a healthy VNB margin (27.6% in H1FY23, 26.2% post-merger). Sales are supported by an extensive distribution network comprising ~0.15mn agents and 450 branches. Although Exide is a relatively small player, the expected merger integration benefits, market share gains and margin expansion will be key positives to watch going forward. Retain BUY.

**Fig 13 – Revised estimates**

(Rs bn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Gross Premium	525	612	709	533	621	720	(1.5)	(1.5)	(1.6)
Net Premium	517	603	699	525	612	710	(1.5)	(1.5)	(1.6)
VNB	31	36	41	32	37	42	(1.7)	(1.7)	(1.7)
APE	112	129	148	114	132	151	(1.7)	(1.7)	(1.7)
Embedded Value (EV)	353	413	483	353	414	485	(0.2)	(0.3)	(0.4)

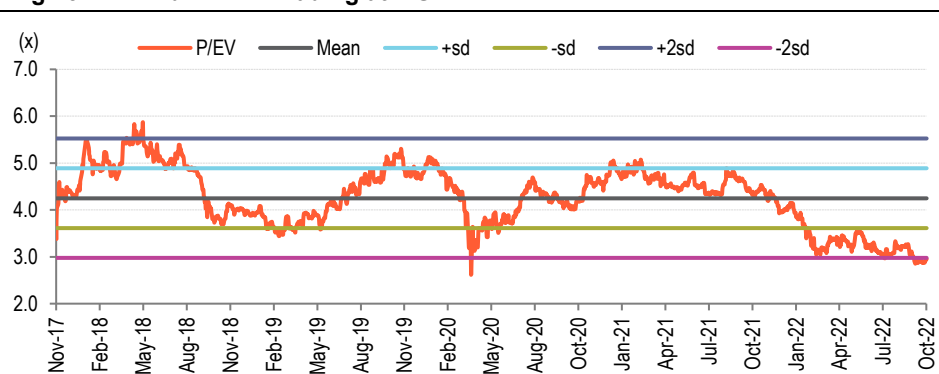
Source: BOBCAPS Research

**Fig 14 – Valuation summary**

Particulars	
Embedded Value (FY24E) (Rs bn)	413
PV of Future business (Rs bn)	1,008
<b>Total value (Rs bn)</b>	<b>1,421</b>
Exide EV (FY24E) - 1.25x (Rs bn)	44
<b>Total (including Exide) Rs bn</b>	<b>1,465</b>
Current P/EV (FY24E) (x)	2.8
Implied P/EV (FY24E) (x)	3.5
<b>Implied Target Price (Rs)</b>	<b>691</b>
<b>Current Price (Rs)</b>	<b>542</b>
<b>Upside (%)</b>	<b>27.6</b>

Source: Company, BOBCAPS Research

**Fig 15 – 1Y fwd P/EV – Trading at -2SD**



Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- **Change in regulatory framework:** Any unfavourable change in regulations can impact business growth. For example, currently ULIP proceeds are taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in income tax rate of insurance companies can adversely impact profitability.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper the growth of ULIPs. Although insurance companies are opting for a balanced product mix, many of them have sizeable business coming from ULIPs.
- **Increasing interest rates:** The guaranteed return businesses can be affected by an increase in interest rates as other financial instruments (e.g. deposits) become more attractive. HDFC Life had ~28% share of non-par in the total APE mix as of FY22.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company's investment portfolios. The shareholders' equity and earnings and policyholders' funds may be affected by fair value re-valuation of bonds held in investment portfolios.
- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered in case of job loss, monetary requirements, etc., which lowers the persistency ratios.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Life	HDFCLIFE IN	13.9	542	691	BUY
ICICI Prudential Life	IPRU IN	8.9	510	645	BUY
SBI Life	SBILIFE IN	15.1	1,246	1,523	BUY

Source: BOBCAPS Research, NSE | Price as of 21 Oct 2022

## Glossary

Glossary			
<b>APE</b>	Average Premium Equivalent	<b>NBP</b>	New Business Premium
<b>EV</b>	Embedded Value	<b>ULIP</b>	Unit Linked Insurance Plan
<b>IRDA</b>	Insurance Regulatory and Development Authority	<b>VNB</b>	Value of New Business

## Financials

### Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Gross premium income</b>	<b>3,85,835</b>	<b>4,59,628</b>	<b>5,25,107</b>	<b>6,11,864</b>	<b>7,08,928</b>
First year premium	68,584	80,544	92,893	1,06,548	1,21,544
Renewal premium	1,84,769	2,18,080	2,47,858	2,89,638	3,36,758
Single premium	1,32,482	1,61,005	1,84,356	2,15,678	2,50,626
<b>Net written premium</b>	<b>3,81,223</b>	<b>4,53,965</b>	<b>5,17,395</b>	<b>6,02,896</b>	<b>6,98,551</b>
Income from investments	3,26,776	1,92,159	1,59,846	2,36,349	2,73,281
Other Income	4,420	7,460	7,921	8,317	8,733
<b>Total income</b>	<b>7,12,418</b>	<b>6,53,584</b>	<b>6,85,161</b>	<b>8,47,562</b>	<b>9,80,565</b>
Commissions	17,104	19,403	23,849	27,370	31,331
Operating expenses	43,974	53,591	59,031	68,155	78,260
Benefits and bonuses paid	2,25,748	3,18,637	3,18,437	4,02,963	4,63,733
Change in liabilities (net)	4,08,296	2,46,815	2,66,834	3,26,131	3,80,813
Others	0	0	0	0	0
<b>Total expenses</b>	<b>6,95,122</b>	<b>6,38,446</b>	<b>6,68,152</b>	<b>8,24,619</b>	<b>9,54,138</b>
<b>Surplus before tax</b>	<b>17,296</b>	<b>15,137</b>	<b>17,009</b>	<b>22,943</b>	<b>26,427</b>
Provision for tax	6,311	5,541	6,621	8,727	10,121
<b>Surplus after tax</b>	<b>10,984</b>	<b>9,597</b>	<b>10,388</b>	<b>14,216</b>	<b>16,306</b>
Trf to shareholders' a/c	9,910	10,093	9,331	12,708	14,596
Balance being FFA	1,075	(497)	1,057	1,509	1,710

### Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Trf from policyholders' a/c	9,909	10,093	9,331	12,708	14,596
Income from investments	6,476	7,894	10,057	9,966	11,598
Contr. to policyholders' fund	2,868	5,694	5,979	6,278	6,592
Others	19	(492)	(1,028)	(1,191)	(1,374)
<b>PBT</b>	<b>13,535</b>	<b>11,801</b>	<b>12,381</b>	<b>15,205</b>	<b>18,228</b>
Provision for taxation	(66)	(276)	310	380	456
<b>PAT</b>	<b>13,601</b>	<b>12,077</b>	<b>12,072</b>	<b>14,824</b>	<b>17,772</b>
Dividend+Interim div.+DDT	4,085	4,135	4,237	6,355	6,355

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity	86,377	1,54,859	1,61,813	1,70,282	1,81,699
Policyholders' funds	15,90,416	18,30,312	20,97,146	24,23,277	28,04,090
FFA	9,906	9,409	10,820	12,443	13,937
Others	1,09,119	1,09,313	1,23,747	1,42,799	1,67,023
<b>Total liabilities</b>	<b>17,95,817</b>	<b>21,03,892</b>	<b>23,93,526</b>	<b>27,48,802</b>	<b>31,66,748</b>
Shareholders' funds	85,421	1,52,379	1,82,855	2,15,769	2,48,134
Policyholders' funds	9,05,378	10,83,110	13,13,398	15,91,510	19,27,469
Assets to cover linked liab.	7,47,595	8,06,215	8,46,526	8,88,853	9,33,295
Others	57,423	62,188	50,747	52,670	57,850
<b>Total assets</b>	<b>17,95,817</b>	<b>21,03,892</b>	<b>23,93,526</b>	<b>27,48,802</b>	<b>31,66,748</b>

### Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
AUM (Rs mn)	17,38,390	20,41,704	23,34,127	26,80,410	30,91,492
NBP (Rs mn)	2,01,066	2,41,548	2,77,250	3,22,225	3,72,170
APE (Rs mn)	83,700	97,580	1,12,407	1,29,356	1,48,026
VNB (Rs mn)	21,846	26,737	31,056	36,265	41,376
VNB margin (%)	26.1	27.4	27.6	28.0	28.0
Embedded value (Rs mn)	2,66,200	3,00,470	3,52,829	4,12,730	4,82,833
ROEV (%)	18.5	16.6	18.8	18.8	18.5
ROE (%)	17.6	10.0	7.6	8.9	10.1
Opex ratio (%)	11.9	12.2	11.8	11.7	11.6
Cost ratio (%)	16.3	16.4	16.3	16.1	16.0
Solvency ratio (%)	201.1	175.7	195.8	200.2	201.9
EPS (Rs)	6.7	5.9	5.7	7.0	8.4
BVPS (Rs)	42.7	75.7	76.4	80.4	85.8
EVPS (Rs)	131.6	146.8	166.6	194.8	227.9

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

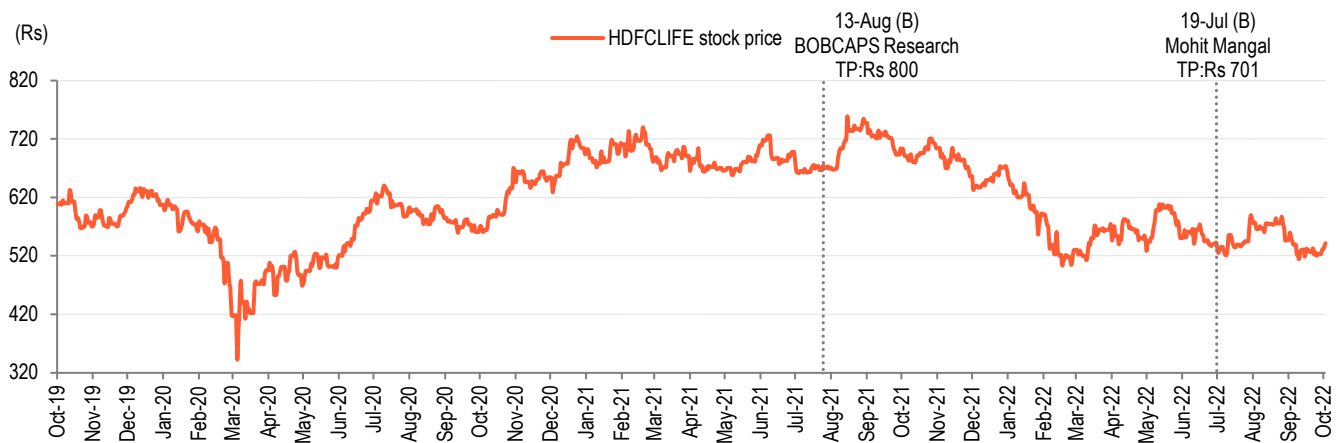
**HOLD** – Expected return from -6% to +15%

**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.

### Ratings and Target Price (3-year history): HDFC LIFE (HDFCLIFE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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