

Retail Equity Research

HDFC Life Insurance Company Ltd

Life Insurance

BSE CODE: 540777

NSE CODE: HDFCLIFE

Bloomberg CODE: HDFCLIFE:IN

SENSEX: 77,338

BUY

12 Months Investment Period Rating as per Large Cap

CMP Rs. 596 TARGET Rs. 710 RETURN 19% ↑
(Closing: 19-06-24)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Decent results, outlook positive

HDFC Life Insurance Co Ltd (HDFC Life), a subsidiary of HDFC Bank, provides insurance services — life, health, property and automobile protection, among others.

- In Q4FY24, HDFC Life reported a net premium growth of 5.5% YoY to Rs. 20,488cr. Decline in new business premium was offset by a growth in renewal premium.
- HDFC Life reported a value of new business (VNB) of Rs. 3,501cr (-4.7% YoY). Also, the VNB margin contracted 130bps to 26.3% owing to unfavourable product mix and jump in commission expenses. AUM, however, increased 22.4% YoY to Rs. 2,92,220cr.
- The management is optimistic of achieving 15% YoY growth in retail and total annualised premium equivalent (APE) in FY25. It expects to drive long-term growth by increasing bancassurance share in the channel mix and maintaining balanced product mix. Increasing number of agents and expanding branch network auger well for its future performance. Thus, we upgrade our rating on the stock to BUY from HOLD with a revised target price of Rs. 710 based on 2.25x FY26E embedded value (EV) per share.

Adverse product mix & rise in commission expense impact margin

HDFC Life's gross premium rose 6.7% YoY to Rs. 20,935cr in Q4FY24. First-year and single premiums declined 10.2% YoY and 6.6% YoY, respectively. However, renewal premium grew 23.3% YoY to Rs. 11,406cr led by stable persistency ratio. 13th/61st persistency ratio stood at 86.2%/ 52.0%, compared to 85.3%/ 52.5% in prior year period. The APE further declined 8.4% YoY to Rs. 4,727cr. VNB fell 4.7% YoY to Rs. 3,501cr. As a result, VNB margin contracted 130bps YoY to 26.3% owing to increasing share of unit-linked insurance product (ULIP) in the product mix. Commission expenses shot up 94.5% YoY, which further impacted the margin growth. Profit after tax grew 14.8% YoY to Rs. 412cr.

Key concall highlights

- Bancassurance share in channel mix of the company increased to 65% in FY24 vs 56% in FY23. Direct/ agency/ broker shares in the mix fell to 11%/ 18%/ 6% in FY24 from 13%/ 20%/ 11% in FY23. The company added ~80,000 agents in FY24 to enhance reach.
- In FY24, HDFC Life launched a range of US dollar denominated life and health insurance plans to cater to the NRI audience.
- Annuity and protection plans comprise ~50% of new business premium. The management has highlighted pricing pressure in the segments owing to intense competition.

Valuation

ULIP's share in the product mix increased during the year. The management is focused on maintaining a balanced product mix and expects to maintain one-fourth or one-third share for each category. Further, the management expects to grow cross-selling at HDFC Bank counter (banca partner) and enhance its reach in tier 2 and 3 cities. It opened 75 new branches in FY24 and plans to expand its presence to over 600 touchpoints in FY25. The company added ~80,000 agents during the year, which is expected to aid growth. The management is optimistic of achieving 15% YoY growth in both retail and total APE in FY25. Therefore, we have upgraded our rating on the stock to BUY, with a revised target price of Rs. 710 based on 2.25x FY26E EV per share.

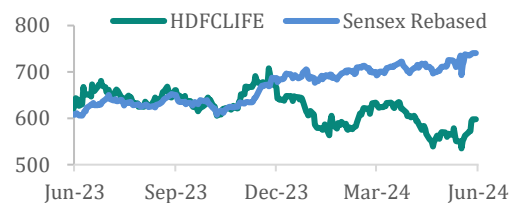
Company Data

Market Cap (cr)	Rs. 129,411
Outstanding Shares (cr)	215.1
Free Float	45.0%
Dividend Yield	0.3%
52 week high	Rs. 711
52 week low	Rs. 511
6m average volume (lacs)	54.5
Beta	0.6
Face value	Rs. 10

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	50.4	50.4	50.4
FII's	30.5	31.3	30.0
MFs/Insti	6.9	6.6	7.9
Public	7.1	6.7	6.7
Others	5.1	5.1	5.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-5.1%	-10.5%	-1.3%
Absolute Sensex	6.3%	8.4%	22.0%
Relative Return*	-11.3%	-18.9%	-23.3%

*Over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Net Premium	61,959	74,682	87,957
Growth (%)	9.2	20.5	17.8
Total Income	100,774	104,053	121,750
Growth (%)	42.5	3.3	17.0
New Business (%)	26.3	25.5	25.0
Net Profit	1,569	2,170	2,399
Growth (%)	15.3	38.3	10.5
EPS (Rs.)	7.3	10.1	11.1
Growth (%)	14.4	38.3	10.5
BVPS (Rs.)	68.1	67.9	75.1
EVPS (Rs.)	220.6	262.7	312.2
RoE	11.0	15.3	15.3
RoEV	17.5	20.0	20.0
P/E	86.8	59.7	54.0
P/EV	2.9	2.3	1.9
Solvency (%)	187.0	198.0	198.0

Quarterly Financials (Standalone)

Profit & Loss Account

Rs. Cr	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Premium Earned (Net)	20,488	19,427	5.5	15,235	34.5	61,959	56,764	9.2
Income from investments	7,251	1,190	509.6	11,370	(36.2)	38,354	12,598	204.5
Other income	153	810	(81.1)	90	70.8	461	1,344	(65.7)
Total Income	27,893	21,426	30.2	26,695	4.5	100,774	70,705	42.5
Incurring Claims	12,421	11,205	10.8	9,866	25.9	39,696	38,872	2.1
Other expenses	15,200	9,398	61.7	16,770	(9.4)	60,895	30,315	100.9
Total Expenses	27,620	20,603	34.1	26,636	3.7	100,592	69,187	45.4
Tax (policyholders' A/c)	(0)	251	n.m.	(2)	n.m.	(592)	159	(472.3)
Surplus (Post tax)	273	572	(52.3)	61	345.2	775	1,359	(43.0)
Transfer to shareholder account	303	584	(48.1)	129	134.2	799	1,469	(45.6)
Interest and other income	256	259	(1.4)	281	(9.0)	1,015	783	(29.6)
Other expenses	109	573	(81.0)	44	149.9	250	979	(74.4)
PBT	450	270	66.7	367	22.6	1,564	1,272	22.9
Tax (shareholders' A/c)	38	-89	n.m.	2	n.m.	(5)	(88)	(94.3)
Reported PAT	412	359	14.8	365	12.8	1,569	1,360	15.3
Adj. EPS (Rs.)	1.9	1.7	13.7	1.7	12.4	7.3	6.4	14.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Premium Earned (Net)	81,261	-	74,682	87,957	(8.1)	-
Profit before tax	1,874	-	2,195	2,426	17.1	-
Net Profit	1,853	-	2,170	2,399	17.1	-
EPS (Rs)	8.6	-	10.1	11.1	17.0	-

Policyholders' Profit & Loss Account

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net Premium	45,396	56,764	61,959	74,682	87,957
% change	19.1	25.0	9.2	20.5	17.8
Income from Inv.	19,216	12,598	38,354	28,766	33,081
Transfer of funds from shareholder's account	569	879	125	164	193
Other income	177	464	336	441	519
Total Income	65,358	70,705	100,774	104,053	121,750
Commission	1,940	2,887	5,256	5,203	6,087
Operating Expenses	5,612	8,437	6,901	8,324	9,740
Other Expenses	116	405	318	320	374
Operating Profit	57,689	58,976	88,299	90,206	105,548
% change	(10.9)	2.2	49.7	2.2	17.0
Benefits Paid (Net)	31,864	38,872	39,696	46,199	54,057
Change in Reserves	24,682	18,586	48,419	42,454	49,674
Tax	185	159	(592)	163	191
Tax Rate (%)	16.1	10.5	-324.2	10.5	10.5
Surplus/Deficit	960	1,359	775	1,390	1,627
% change	(12.6)	41.6	(43.0)	79.4	17.0

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Source of Funds					
Share Capital	2,113	2,149	2,151	2,151	2,151
Reserves & Surplus	13,285	10,815	12,050	12,007	13,570
Fair Value Change	88	23	451	451	451
Shareholders' Fund	15,486	12,987	14,652	14,608	16,172
Policy Liabilities	104,343	143,270	175,349	196,391	219,957
Others	83,391	82,127	102,517	116,975	134,830
Policyholders' Fund	187,734	225,397	277,866	313,365	354,787
Funds for Future appropriations	941	1,235	1,211	1,142	1,142
Total	204,161	239,619	293,729	329,116	372,101
Application of Funds					
Shareholders'	15,238	13,132	14,882	18,463	22,906
Policyholders'	108,311	146,449	181,797	196,340	212,048
Assets held to cover linked liabilities	80,622	79,201	95,542	112,782	135,592
Loans	643	1,585	1,897	2,087	2,296
Fixed assets	343	380	416	420	424
Net Current assets	(995)	(1,128)	(804)	(977)	(1,164)
Total	204,161	239,619	293,729	329,116	372,101
BVPS (Rs)	75.7	60.8	68.1	67.9	75.1
% change	76.9	(19.6)	11.9	(0.3)	10.7

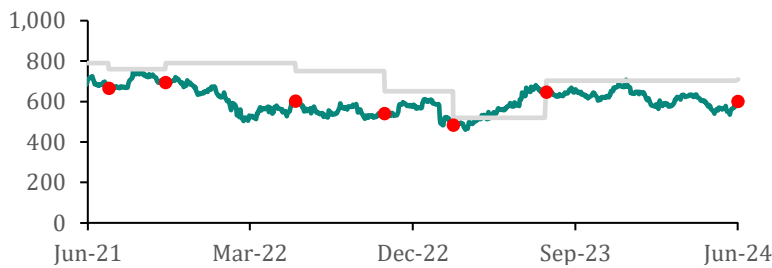
Shareholders' Profit & Loss Account

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Transfer from Technical A/c	1,009	1,469	799	1,460	1,708
Investment Inc.	789	783	1,015	1,037	1,064
Total Income	1,799	2,252	1,814	2,496	2,772
% change	9.8	25.2	(19.4)	37.6	11.0
Other Expenses	49	100	125	137	152
Contri to Technical A/c	569	879	125	164	193
Total Expenses	619	979	250	301	346
PBT	1,180	1,272	1,564	2,195	2,426
% change	(12.8)	7.8	22.9	40.4	10.5
Tax	(28)	(88)	(5)	25	27
Tax Rate (%)	(2.3)	(6.9)	(0.3)	1.1	1.1
Reported PAT	1,208	1,360	1,569	2,170	2,399
Adj*					
Adj PAT	1,208	1,360	1,569	2,170	2,399
% change	-11.2	12.6	15.3	38.3	10.5
No. of shares (cr)	211	214	215	215	215
Adj EPS (Rs)	5.7	6.4	7.3	10.1	11.1
% change	(12.4)	8.0	14.4	38.3	10.5
DPS (Rs)	1.7	1.9	2.0	3.0	3.3

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Per Share (Rs.)					
EPS	5.9	6.4	7.3	10.1	11.2
DPS	1.7	1.9	2.0	3.0	3.3
EVPS	146.8	185.1	220.6	262.7	312.2
Earnings (%)					
RoE	7.8	10.5	11.0	15.3	15.3
RoEV	3.0	3.7	7.5	3.0	3.0
Valuation (x)					
P/E (x)	91.2	78.4	86.8	59.7	54.0
P/EV (x)	3.7	2.7	2.9	2.3	1.9
Div. Yield (%)	0.3	0.4	0.3	0.5	0.6
Exps. (% of premium)					
Commission	3	1	5	0	9
Operating Expenses	12.4	14.9	11.1	11.1	11.1
Total Expenses	16.9	20.7	20.1	18.5	18.4
Margin (%)					
New Business	27.4	27.6	26.3	25.5	25.0
Solvency (%)					
Solvency	176.0	203.0	187.0	198.0	198.0

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
24-Aug-20	BUY	245
28-Jan-21	BUY	790
23-Jul-21	BUY	760
27-Oct-21	BUY	790
3-Jun-22	BUY	750
31-Oct-22	BUY	650
24-Feb-23	HOLD	520
31-Jul-23	HOLD	703
19-Jun-24	BUY	710

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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