

27 July 2021

## Q1-FY22 Result Update

- HDFC Life Insurance Company Ltd reported 30.6% year-over-year (y/y) increase in gross premium to ₹ 76,559 million in Q1FY22, driven by strong growth in new business premium to ₹ 37,666 million (up 43.6% YoY) and renewal premium to ₹ 38,893 (up 20.1% YoY). Net premium income (net of reinsurance) grew 31.5% y/y to ₹ 75,401 million in the quarter.
- Commission expenses grew 26% YoY on account of the low base of last year. Consolidated profit after tax declined 40.2% YoY to ₹ 2,696 largely on the back of higher COVID-19 claims settled. The company ranked number 2 in terms of Individual WRP with market share expanding by 130 bps from 14.2% to 15.5%. Its private market share within the group and overall new business segment stood at 27.6% and 21.5% respectively.
- Company product mix continues to remain balanced with non-par policies at 32%, protection and annuity at 8% and 5%, respectively, participating products at 29%, and ULIPs at 27%. Company annuity business saw strong growth of 61% vs 1QFY21. Management continues to address the long-term opportunity in protection in a calibrated manner and remain confident about the medium to long term prospects of protection in India. Company saw a pickup in credit protect business on the back of higher disbursement, registering a growth of 204% in 1QFY22.
- The claims experience has been adverse during Q1FY22 with a steep rise in death claims 3x to 4x that of the first wave. The company paid out 70,000 death claims in Q1FY22. Gross claims were ₹ 15,980 million and net claims were ₹ 9,560 million. Retention in term tends to be lower than savings. During covid, the death claims received on term insurance have been higher and therefore the higher gap between gross and net claims. Management believes that individual claims have peaked out and they should normalize in the coming months. Higher vaccination should also lead to lower death/fatalities. The claims received are mostly from the retail segment where there has been some acceleration compared to group claims.
- The company's new business margin stands at 26.8% for the quarter, higher than 24.3% delivered in 1QFY21, and 26.1% in full year FY21, with value of new business at ₹4,080 million, a growth of 40% over last year. This has been achieved on the back of growth across channels and a balanced product portfolio.

Contd..

## Q1-FY22 Result Update

- On the APE front, Protection APE declined by 2.2% YoY (individual down 4% YoY) due to a strong base coupled with lower volume as medical testing was challenged amid restrictions on mobility. On the other hand, strong trends continued in the Non-PAR/Annuity and Credit Life segments. Thus, the share of Non-PAR/Annuity in the total APE increased to 27%/6%.
- Solvency ratio was at a healthy level of 203% vs 201% in Q4FY21 and 190% in 1QFY21, whereas 13M/61M persistency ratios came-in at 90% / 53% (vs. 91.4% / 54.6% in Q4FY21) respectively. The company stated that the positive trend is expected to continue. During quarter normalized operating return on embedded value, i.e., before factoring in the onetime mortality reserve creation stands at 16.5%, as against 15.8% in 1QFY21.
- The Assets under Management increased 30% to ₹ 1,813 billion end June 2021 over Rs 1.400 billion end June 2021. The Debt: Equity mix was 63:37, while about 98% of debt investments were in G-Secs and AAA bonds by December 2020.
- On the distribution front, Agency channels grew by 49% compared to the previous year. Company witnessing a gradual increase in branch walk-ins that aid direct channels and continue to see improving trends in online channels as well. The company has added ICICI Securities and TVS Credit as new corporate partners. Overall commentary on new business across channels is positive.
- We have incorporated latest quarterly numbers and keep our growth estimates unchanged. In the near-term, COVID-related claims and growth in protection are the key areas to be kept under close watch. We believe HDFC Life is well positioned for long term growth given its strong market position, solid product portfolio with lower ULIP mix and increasing protection business, diversified distribution network, healthy capital position and favourable traits in the domestic life insurance industry. We reiterate our **BUY** rating on the stock with a target price of ₹791 per share based on 4.7x FY23E EV per share.

## Consolidated Financial Result:

(In mn)	Q1FY22	Q1FY21	Chg
Gross Premium	76,559	58,626	30.6%
Net Premium Earned	75,401	57,337	31.5%
Income from investment	72,250	88,481	-18.3%
Other Income	463	389	19.1%
Commission Expense	3,023	2,399	26.0%
Expenses and Tax	7,675	6,290	22.0%
Claims/Benefits Paid & Change in Actuarial liability	134,265	132,993	1.0%
Other Expenses	408	19	
<b>Profit Before Tax</b>	<b>2,742</b>	<b>4,507</b>	<b>-39.1%</b>
Tax	46	1	
<b>Profit After Tax</b>	<b>2,696</b>	<b>4,505</b>	<b>-40.2%</b>
<b>Product Mix as % Total APE</b>	<b>Q1FY22</b>	<b>Q1FY21</b>	
ULIP	27%	27%	
Par	29%	30%	
Non Par	32%	33%	
Term	8%	7%	
Annuity	4%	3%	
Total	100%	100%	
<b>Value of New Business ( VNB in ₹bn)</b>	<b>4.10</b>	<b>2.90</b>	
<b>VNB Margin (VNB/APE)</b>	<b>26.2%</b>	<b>24.3%</b>	
<b>Embedded Value ( ₹bn)</b>	<b>273.30</b>	<b>225.80</b>	
<b>Persistency (13th Month/61th month)</b>	<b>90%/53%</b>	<b>87%/53%</b>	

*Annualized Premium Equivalent (APE) - The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups.*

Source: Company, Anand Rathi Research

## Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Gross Premium	327,069	385,835	443,790	512,466
Net Premium Earned	322,236	381,223	439,109	507,715
Income from investment	(28,646)	333,338	209,898	215,879
Other Income	3,909	4,904	5,745	5,951
Commission Expense	14,912	17,104	19,527	22,036
Expenses and Tax	51,166	51,361	61,988	71,952
Claims/Benefits Paid & Change in Actuarial liability	214,622	634,044	554,737	614,960
Other Expenses	3,738	3,301	4,299	4,786
<b>Profit Before Tax</b>	<b>13,061</b>	<b>13,656</b>	<b>14,201</b>	<b>15,811</b>
Tax	165	(66)	178	198
<b>Profit After Tax</b>	<b>12,897</b>	<b>13,721</b>	<b>14,023</b>	<b>15,613</b>
<b>Margins</b>	<b>FY-20</b>	<b>FY-21</b>	<b>FY-22E</b>	<b>FY-23E</b>
Gross Premium Growth	12.1%	18.0%	15.0%	15.5%
Net Premium Growth	11.4%	18.3%	15.2%	15.6%
Net Margin	3.9%	3.6%	3.2%	3.0%
PAT Growth	0.9%	6.4%	2.2%	11.35%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
<b>Liabilities</b>				
Equity Share Capital	20,188	20,209	20,209	20,209
Reserves & Surplus	49,798	64,114	78,137	93,750
Fair Value Change Account	(1,920)	2,074	2,074	2,074
<b>Total Shareholder's Funds</b>	<b>68,066</b>	<b>86,398</b>	<b>100,421</b>	<b>116,033</b>
Borrowings	-	6,000	6,000	6,000
Fair Value Change Account	496	25,550	25,550	25,550
Policy Liabilities	653,126	855,763	1,009,451	1,192,229
Policy Holders Funds	550,651	757,501	837,756	920,344
Short-term Liabilities	49,899	65,201	66,568	73,795
<b>Total</b>	<b>1,322,239</b>	<b>1,796,413</b>	<b>2,045,747</b>	<b>2,333,952</b>
<b>Assets</b>				
Net Fixed Assets	3,307	3,415	3,504	3,507
Investments - Shareholders	58,850	85,236	94,759	105,488
Investments - Policyholders	671,886	905,378	1,016,326	1,139,318
Assets Held to cover Linked Liabilities	541,821	747,595	826,551	907,785
Current Asset	46,374	54,788	104,607	177,854
<b>Total</b>	<b>1,322,239</b>	<b>1,796,413</b>	<b>2,045,747</b>	<b>2,333,952</b>
<b>(In ₹ mn)</b>	<b>FY-20</b>	<b>FY-21</b>	<b>FY-22E</b>	<b>FY-23E</b>
EPS (₹)	6.4	6.8	6.9	7.7
P/E (x)	103.8	97.6	95.5	85.8
P/B (x)	19.7	15.5	13.3	11.5

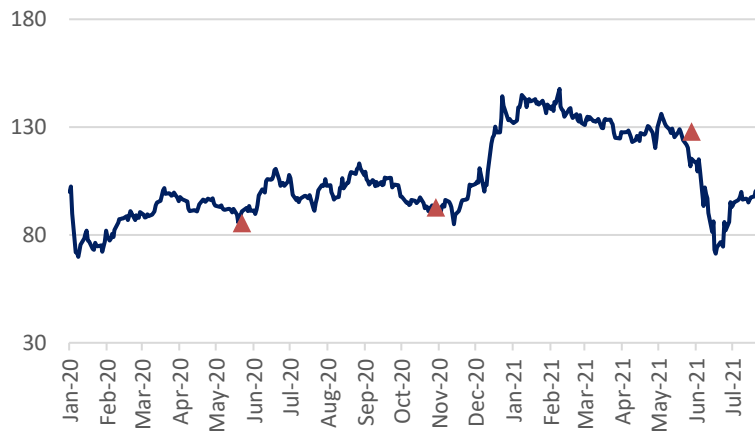
## Key Risks:

- ❑ Persistent impact of pandemic raises probability of higher claims
- ❑ General slowdown in economy
- ❑ Any unfavorable policies on insurance pricing and sales commission for customer protection might weigh on profitability.



## Rating and Target Price history:

### HDFCLIFE rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on July 26, 2021 close.

### HDFCLIFE rating details

Date	Rating	Target Price (₹)	Share Price (₹)
30-Jan-2020	BUY	710	600
22-May-2020	BUY	605	495
27-Jul-2020	HOLD	685	633
29-Oct-2020	BUY	685	586
29-May-2021	BUY	791	672
26-July-2021	BUY	791	663

Source: Bloomberg, Anand Rathi Research

## Disclaimer:

### Analyst Certification

- ❑ The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

### Ratings Methodology

- ❑ Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion ) and Mid/Small Caps (<₹300 Billion ) or SEBI definition vide its circular SEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

## Disclaimer:

### Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues.

**General Disclaimer:** - This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Continued...



## Disclaimer:

Contd...

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i. e. [www.rathi.com](http://www.rathi.com)

**Disclaimers in respect of jurisdiction:** This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

**Copyright:** - This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Contd...

## Disclaimer:

Contd.

## Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Sr. No.	Statement	Answers to the Best of the knowledge and belief of the ARSSBL/ its Associates/ Research Analyst who is preparing this report
1	ARSSBL/its Associates/ Research Analyst/ his Relative have any financial interest in the subject company? Nature of Interest (if applicable), is given against the company's name?.	NO
2	ARSSBL/its Associates/ Research Analyst/ his Relative 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
3	ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report or at the time of public appearance?.	NO
4	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months.	NO
5	ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months.	NO
6	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.	NO
7	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months.	NO
8	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report.	NO
9	ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	NO
10	ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	NO