

Retail Equity Research

HDFC Life Insurance Company Ltd.

HOLD

Life Insurance

BSE CODE: 540777

NSE CODE: HDFCLIFE

Bloomberg CODE: HDFCLIFE:IN

SENSEX: 36,958

12M Investment period

Rating as per Large cap

CMP Rs 519 TARGET Rs 560 RETURN 8% ↑
(Closing: 13-08-19)

KEY CHANGES:

TARGET ↔

RATING ↔

EARNINGS ↔

Strong Q1FY20 results but valuation expensive

HDFC Life Insurance Co. Ltd, a joint venture between HDFC Ltd. and Standard Life Aberdeen, provides insurance services and was listed on BSE on 17th November 2017. The issuer offers protection for life, health, properties and automobile, amongst others.

- In Q1FY20, gross premium income rose 29.2% YoY driven by 46.6% YoY growth in new business premium.
- Value of New business (VNB), which is the profitability of new business underwritten in the period, more than doubled YoY to Rs. 509cr with VNB margin (VNB as a % of amount of new business) growing to 29.8%.
- PAT rose 11.7% YoY to Rs. 425cr, while embedded value (sum of current net worth and PV of future profits) grew 22.6% YoY to Rs. 19,230cr.
- Although the company reported strong growth in both premium and new business. We believe current valuations are already demanding and rate the stock a HOLD with a target price of Rs. 560 based on 4.3x FY21E EV.

Solid growth in gross premium driven by first year premium

In Q1FY20, the company reported strong growth of 29.2% YoY in gross premium income, which reached Rs 6,536cr. Growth was driven by first year premium income (63.3% YoY; contributed 20.3%) followed by single premium (39.4% YoY; contributed 39.8%), partly offset by decline in growth in renewal premium (9.7% YoY; contributed 39.9%). Amongst private insurers, the company's market share in total new business increased by 280bps to 25.1%. Asset under management continued to grow at a healthy pace of 18% YoY and stood at Rs 129,581cr in Q1FY20.

Margins up significantly YoY

In Q1FY20, new business margin improved 560bps to 29.8%, with value of new business more than doubling to Rs. 509cr (vs. Rs. 249cr in Q1FY19). Operating expenses as a percentage of total premium declined 90bps to 13.5%. Profit after tax rose 11.7% YoY to Rs 425cr. In addition, solvency ratio increased to 1.93x (vs 1.88x in the previous quarter), while 13M/61M persistency ratio, which indicates the stickiness of premiums, improved further to 88%/54% (vs. 87%/50% in Q1FY19). Indian embedded value grew strongly by 22.6% YoY to Rs 19,230cr driven by new business. Operating return on EV rose 150bps to 19.9%.

Key concall highlights

- The company covered 1.3cr lives (+26.0% YoY) and new business sum assured was Rs 1.8 lakh crore (46.0% YoY) in Q1FY20
- The contribution of proprietary channels increased to 24% of new business premiums in Q1FY20, driven mainly by agency channel which grew 121% YoY (contribution to individual annual premium equivalent increased to 15% in Q1FY20 from 11% in Q1FY19)
- Tied up with Bharti Airtel to leverage its wide distribution network and launched a prepaid bundle with an inbuilt life term plan from HDFC Life

Outlook & valuation

We believe HDFCLIFE's premium valuation compared to peers is justified. However, given that current valuations are already demanding, we deem there is limited upside potential (6%) in the next 12 months. Hence, we rate the stock a HOLD with a target price of Rs. 560 based on 4.3x FY21E Embedded value per share.

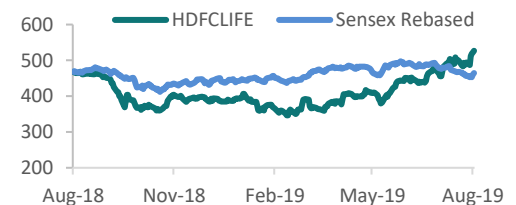
Company Data

Market Cap (cr)	Rs. 104,727
Outstanding Shares (cr)	201.1
Free Float	24.0%
Dividend Yield	0.4%
52 week high	Rs. 545
52 week low	Rs. 345
6m average volume (cr)	0.2
Beta	0.6
Face value	Rs. 10

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	80.7	76.1	74.5
FII's	8.2	10.5	11.8
MFs/Insti	2.7	3.4	4.9
Public	6.4	7.0	6.6
Others	2.0	2.9	2.3
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	28.6%	44.3%	13.0%
Absolute Sensex	0.1%	2.8%	-1.2%
Relative Return*	28.6%	41.5%	14.2%

*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Premium	28,924	35,127	42,232
Growth (%)	23.8	21.4	20.2
New Business (%)	24.6	26.4	27.5
Net Profit	1,277	1,446	1,767
Growth (%)	15.1	13.3	22.1
EPS (Rs.)	6.3	7.2	8.7
Growth (%)	14.7	13.3	22.1
BV (Rs.)	28.0	33.6	40.3
EV (Rs)	90.6	108.0	130.2
RoE	22.6	21.3	21.7
RoEV	20.1	21.0	22.0
P/E	58.7	73.6	60.2
P/EV	4.1	4.9	4.0
Solvency (%)	188.0	190.8	191.7

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Premium Earned (Net)	6,451	5,001	<i>29.0</i>	10,247	<i>(37.0)</i>
Transfer from Technical A/c	350	320	9.5	476	(26.4)
Investment Inc.	99	77	28.8	97	1.4
Total Income	449	397	<i>13.2</i>	573	<i>(21.7)</i>
Other Expenses	12	3	342.3	17	(28.6)
Contribution to Technical A/c	0	14		298	
Total Expenses	12	16	<i>(25.0)</i>	315	<i>(96.1)</i>
PBT	437	392	<i>11.5</i>	345	<i>26.5</i>
Tax	12	12	5.3	(19)	
Reported PAT	425	380	<i>11.7</i>	364	<i>16.7</i>
EPS (Rs.)	2.1	1.9	<i>11.7</i>	1.8	<i>16.7</i>



Shareholders' Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Transfer from Technical A/c	786	1,002	1,207	1,364	1,594
Investment Inc.	227	293	429	574	766
Total Income	1,013	1,295	1,636	1,938	2,360
% change	12.9	27.9	26.3	18.4	21.8
Other Expenses	64	12	38	97	118
Contribution to Technical A/c	35	157	309	371	445
Total Expenses	99	169	346	468	563
PBT	914	1,127	1,290	1,470	1,797
% change	9.5	23.3	14.5	14.0	22.3
Tax	22	18	13	24	31
<i>Tax Rate (%)</i>	2.4	1.6	1.0	1.6	1.7
Reported PAT	892	1,109	1,277	1,446	1,767
Adj*					
Adj PAT	892	1,109	1,277	1,446	1,767
% change	9.0	24.3	15.1	13.3	22.1
No. of shares (cr)	200	201	202	202	202
Adj EPS (Rs)	4.5	5.5	6.3	7.2	8.7
% change	8.8	23.8	14.7	13.3	22.1
DPS (Rs)	1.1	1.4	1.6	1.6	1.9

Policyholders' Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net Premium	19,275	23,371	28,924	35,127	42,232
% change	19.1	21.3	23.8	21.4	20.2
Income from Inv.	11,186	8,595	9,027	9,482	9,960
Transfer of funds from shareholders' account	35	157	309	371	445
Other income	58	112	175	210	252
Total Income	30,554	32,234	38,436	45,190	52,889
Commission	792	1,075	1,118	1,314	1,538
Operating Expenses	2,385	3,159	3,814	4,484	5,248
Other Expenses	222	296	430	506	592
Operating Profit	27,155	27,704	33,074	38,886	45,511
% change	77.4	2.0	19.4	17.6	17.0
Benefits Paid (Net)	10,000	13,111	13,989	15,862	18,564
Change in Reserves	16,055	13,322	17,507	21,239	24,858
Tax	152	176	227	259	305
<i>Tax Rate (%)</i>	13.8	13.8	14.4	14.5	14.6
Surplus/Deficit	948	1,095	1,351	1,526	1,784
% change	(1.2)	15.5	23.4	13.0	16.9

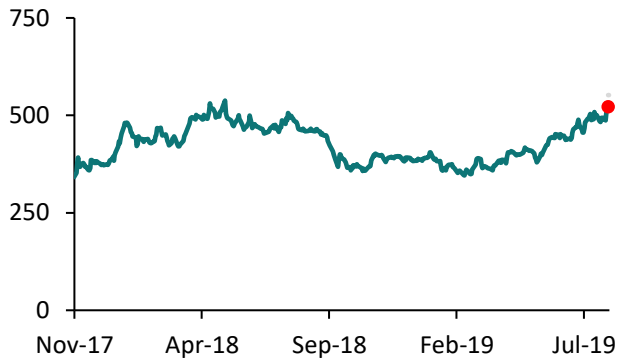
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Source of Funds					
Share Capital	1,998	2,012	2,017	2,017	2,017
Reserves & Surplus	1,808	2,706	3,641	4,760	6,114
Fair Value Change	32	31	(3)	3	3
Shareholders' Fund	3,839	4,749	5,656	6,780	8,134
Policy Liabilities	32,382	42,319	53,635	54,707	55,802
Others	54,199	57,807	64,490	71,374	79,003
Policyholder's Fund	86,581	100,127	118,124	1,26,082	1,34,804
Funds for Future appropriations	867	959	1,103	1,266	1,455
Total	91,286	105,835	124,883	1,34,127	1,44,394
Application of Funds					
Shareholders'	3,246	4,070	5,050	6,265	7,772
Policyholders'	34,692	45,347	57,124	62,837	69,121
Assets held to cover linked liabilities	53,800	57,185	63,377	65,577	67,884
Loans	48	19	80	119	179
Fixed assets	353	341	333	337	340
Net Current assets	(852)	(1,128)	(1,082)	(1,008)	(902)
Total	91,286	105,835	124,883	1,34,127	1,44,394

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Per Share (Rs)					
EPS	4.5	5.5	6.4	7.2	8.8
DPS	1.1	1.4	1.6	1.6	1.9
EV	62.2	75.6	90.6	108.0	130.2
Earnings (%)					
RoE	23.4	23.5	22.6	21.3	21.7
RoEV	21.7	21.5	20.1	21.0	22.0
Valuation (x)					
P/E (x)		81.9	58.7	73.6	60.2
P/EV (x)		6.0	4.1	4.9	4.0
Div. Yield (%)		0.3	0.4	0.3	0.4
Expenses (% of premium)					
Commission	4.1	4.6	3.9	3.7	3.6
Operating Expenses	12.4	13.5	13.2	12.8	12.4
Total Expenses	17.6	19.4	18.5	17.9	17.5
Margin (%)					
New Business	22.0	23.2	24.6	26.4	27.5
Solvency (%)					
Solvency	192.0	192.0	188.0	190.8	191.7

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
13-Aug-19	HOLD	560

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

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

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Neutral- The analyst has no investment opinion on the stock under review

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