

# HDFC Life Insurance Company Ltd.



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HDFC Life to acquire Exide Life

## Event highlights

- HDFC Life to acquire 100% stake in Exide Life Insurance from Exide Industries via issuance of 8,70,22,222 shares at an issue price of INR 685 per share and a cash payout of INR 726 Cr, aggregating to INR 6,687 Cr.
- Issuance of 8,70,22,222 equity shares of face value of INR 10/- each of the Company, on a preferential allotment basis at a price of INR 685/- per equity share (including a premium of INR 675/- per equity share) to Exide Industries Limited as part consideration for acquisition of 100% of the shareholding of Exide Life Insurance Company Limited ("Proposed Issue").
- The process for merger of Exide Life into HDFC Life will be initiated on completion of the acquisition.
- The entire process, including the acquisition and subsequent merger, is subject to obtaining the relevant regulatory and other approvals.
- Exide Life's total premium in FY21 stood at INR 3,325 Cr with an AUM of INR 18,780 Cr as of 30<sup>th</sup> June 2021. The Embedded value of the Company is INR 2,711 Cr as of 30<sup>th</sup> June 2021.
- The acquisition is expected to be completed before June 30, 2022.

## Transaction Rationale for HDFC Life

- HDFC Life has been looking for an acquisition with a decent distribution mix, a strong agency channel, a presence in Tier 2-3 towns, a strong book and a healthy business .
- The transaction will help to accelerate its proprietary channel growth. It will add ~40% to the topline of HDFC Life Agency. As of 30<sup>th</sup> June 2021, the agent base for HDFC Life is ~36,700. This merger will also improve the APE by ~38% on its base of FY21.
- The proposed transaction will not only boost its agency business growth but will also strengthen other distribution channels such as Broker, Direct, and Co-operative Banks.
- The acquired company will benefit from HDFC Life's scale, market-leading digital and product innovation capabilities, and prudent risk management strategy, which will help to optimise costs and achieve higher margins over time.
- Exide Life's good-quality business, mostly traditional and protection products, will add about 10% to HDFC Life's existing embedded value.
- Exide life complements HDFC life's geographical footprint. The company anticipates that Exide Life's strong presence in South India, particularly in Tier 2 and Tier 3 towns, will enable access to a wider market.
- Customers of HDFC Life will benefit from a more comprehensive product portfolio, a broader distribution network, and more service touch points.
- Synergies are expected to boost shareholder value, with the potential to improve new business margins through operating leverage and product mix optimization.
- It would help the company achieve its goal of providing financial protection to a wider customer base by increasing insurance penetration.

## Conference call highlights:

- HDFC Life has been growing agency force at about 40% recently and at a 20% CAGR, which will be sustained for HDFC Life from an organic perspective, but the Exide Life acquisition will be equivalent to 2-3 years' worth of agency force augmentation.
- The synergies will be realized over a period of 18-24 months post the transaction.
- The acquisition will improve the new business margins as there will be a change in the product mix as well as improvement in the operating leverage for HDFC Life. The Company has a scope to improve its persistency.
- HDFC Life plans to start selling its products via Exide Life distribution.
- Exide Life will contribute approximately 10% to the HDFC Life's business.
- The Exide Life product mix includes 11% protection, ~70% par, 13% Non-Par and 5% ULIPs.
- Exide Life's cost to revenue is about 20% compared to 12-13% for HDFC Life. Thus, it is expected that Exide Life's ratio will normalize closer to that of HDFC Life's in near future.
- The cash transaction is because Exide Life wants to be tax- Neutral as it will have a large tax outgo due to this transaction.
- This transaction will bring about 15% incremental growth in the southern market for HDFC Life post the transaction.
- Exide Life will own 4.1% stake in merged entity while stake of HDFC Ltd will go down to 47.9% from 49% in HDFC Life.
- Exide Life retains lesser risks on its books in protection and re-insure business than HDFC Life.
- Exide Life has a market share of 1.3% in the overall industry which is steady for last few years.
- The transaction will take roughly 6 months to get the relevant regulatory approvals. As a result, HDFC Life has estimated that it will take 12-15 months to align the operations and the high expense ratio with HDFC Life.

## Valuation and outlook:

This transaction is beneficial to HDFC Life in terms of ramping up its distribution mix and product mix in order to achieve a healthier margin expansion. We believe the Company's premium valuation relative to peers will be sustained due to the Company's significant growth opportunity and strong prospects. **Currently, the shares of HDFC Life is trading at a P/EV of 4.7x/4.0x on FY22E/23E. We are working on the acquisition synergies and building them into our estimates till then we continue to assign a 4.35x P/EV on FY23E EVPS of INR 181.4 and VNB multiple of 42x and maintain the weighted average Target Price of INR 790 per share for HDFC Life (50:50 weights on the P-EV and appraisal value methodology); implying an upside potential of 7.6% over CMP. Accordingly, we maintain the rating on the shares of HDFC Life Insurance to an "ACCUMULATE".**

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## Rating Legend (Expected over a 12-month period)

Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

### ANALYST CERTIFICATION:

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