



Q4FY24

HDFC Life Insurance Co. Ltd.



INSURANCE



PERMANENT LIFE
INSURANCE



MORTGAGE LIFE
INSURANCE



24/7 CUSTOMER
SERVICE



RETIREMENT
PLANNING



WEALTH SECURITY



INSURANCE
POLICY



TERM LIFE
INSURANCE



CHILD LIFE
INSURANCE



LIFE INSURANCE



LONG-TERM CARE

HDFC Life Insurance Co. Ltd.

Misses VNB margin guidance; Focus to remain on VNB growth for FY25E

CMP INR 602	Target INR 745	Potential Upside 23.8%	Market Cap (INR Mn) 12,93,040	Recommendation BUY	Sector Life Insurance
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Result Highlights:

- The Gross Written Premium (GWP) for Q4FY24 stood at INR 209,376 Mn, up 34.9% QoQ. However, GWP was 7.0% lower than our estimates due to lower-than-expected renewal premium growth.
- The Value of the New Business (VNB) declined by 18.3% YoY but grew by 44.2% QoQ to INR 12,340 Mn. VNB was 3.9% lower than our estimates.
- PAT for Q4FY24 was INR 4,197 Mn, a growth of 17.0% YoY/ 15.0% QoQ. The earnings were in line with our estimates.
- The embedded value (EV) of HCFCLIFE was INR 474.7 Bn as of March 31, 2024, an increase of 20.1% YoY and 5.3% QoQ.
- The Board has proposed a final dividend of INR 2.0 per share for FY24.
- We have cut our VNB margin estimates for FY25E/ FY26E by ~150 bps considering the guidance of the Company to maintain its VNB margins at FY24 levels and given the increasing traction in lower margin segments like ULIPS. We maintain our BUY rating on the stock with a target price of INR 745 per share, assigning a multiple of 2.5x (unchanged).**

MARKET DATA

Shares outs (Mn)	2,150
Equity Cap (INR Mn)	1,46,517
Mkt Cap (INR Mn)	12,93,040
52 Wk H/L (INR)	711/ 511
Volume Avg (3m K)	5,011
Face Value (INR)	10
Bloomberg Code	HDFCLIFE : IN

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
GWP	459,628	575,334	630,765	745,097	881,163
PAT	12,077	13,601	15,689	21,467	23,558
EPS (INR)	5.9	6.4	7.3	10.0	11.0
NBP-APE	96,644	131,001	129,629	152,406	181,823
VNB	26,800	36,740	35,010	40,388	48,728
VNB Margin (%)	27.1%	27.6%	26.3%	26.5%	26.8%
EVPS (INR)	163.4	195.8	234.9	260.6	298.2

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	73,088
NIFTY	22,147

ULIPs drive business growth for FY24; Company to focus on strengthening the distribution channel and remaining focused on product innovation:

- The growth in GWP was driven primarily by the renewal premium segment, which reported 23.3% YoY and 35.8% QoQ growth. The 61st Month persistency improved by 100 bps YoY, reflecting the positivity in renewal collections during the quarter.
- The New Business Premium (NBP) saw a de-growth of 30.5% YoY but grew by 33.7% QoQ to INR 40,146 Mn, led by sequentially strong growth in the first-year premium segment.
- Click2Achieve, the Company's first DIY non-par savings solution, has been received well across channels, leading to a healthy increase in the non-par savings proportion in the last quarter.
- Annualized Premium Equivalent (APE) reported a decline of 8.5% YoY on the back of a high base of Q4FY23 but grew by 48.1% QoQ in Q4FY24. On an FY24 basis, APE remained flat at INR 1,32,900 Mn due to lower growth in the Non-Par segment compared to FY23 due to the changes in the taxation norms.
- The Company has maintained a healthy balance in terms of product mix with ULIP policies at 35.0%, non-par savings at 30.0%, participating products at 23.0%, retail term at 5.0% and annuity at 6.0%.
- Unit-linked products continue to see strong traction driven by buoyant equity markets with a surge in popularity even in the higher than INR 0.25 Mn segment, which is taxable.
- Retail protection grew by 27.0% based on individual APE, and management expects the momentum to be sustained into FY25E.
- Despite a cautious lending environment in H2FY24 and heightened competitive intensity in specific segments, Credit Protect recorded a 13.0% rise in FY24.
- HDFCLIFE remains optimistic about the growth potential of the annuity segment in India, considering its nascent stage, and the long-term opportunity remains promising.
- The Company is strategically expanding its distribution network by hiring additional agents to open branches in tier 2/3 cities. It expects that agency growth will accelerate starting from Q1FY25E.
- HDFCLIFE anticipates a steady increase in the private life insurance industry, with an estimated APE increase of 12.0-15.0% in FY25E. The Company is poised to achieve growth at the higher ends of this range.

SHARE HOLDING PATTERN (%)

Particulars	Mar-24	Dec-23	30-Sep-23
Promoters	50.4	50.4	50.4
FIIIs	30.0	31.3	30.5
DIIIs	7.9	6.6	6.9
Others	11.7	11.8	12.2
Total	100	100	100

11.5%

APE CAGR between FY23
and FY26E

9.9%

VNB CAGR between FY23
and FY26E

HDFC Life Insurance Co. Ltd.

VNB margins contraction on account of a one-time adjustment and higher ULIP share; HDFCLIFE to focus on absolute VNB growth rather than the margins in FY25E:

- The VNB margins stood at 26.3% for FY24, against 27.5% in FY23, resulting in a fall of 4.7% YoY in VNB growth to INR 35,010 Mn.
- The 120-bps reduction in FY24 can be attributed to two main factors. First, operating leverage declined 70 bps, caused by the one-time INR 10 Bn additional APE received in FY23 as a result of budget changes. Second, a 40-bps decrease was due to a higher proportion of unit-linked products, influenced by the strong performance of the equity markets.
- In Q4FY24, the decline in VNB margins was offset by the improving traction of non-par products despite an upsurge in the low-margin product mix.
- The Company expects the impact of Project Inspire to be around INR 1.0 Bn in FY25E.
- The margins for retail protection products have significantly declined in recent years, primarily due to intense competition and the adoption of aggressive pricing strategies.
- Given the attachment products, higher sum assured, and improved persistency, margins in ULIPs have strengthened.
- According to the management, APE growth will continue to be the primary driver of absolute VNB growth. The Company is willing to compromise margins to maximize VNB growth if it identifies significant opportunities for incremental growth.
- However, VNB margins are expected to sustain the FY24 levels in FY25E with recovery in the Non-linked product segments.
- Profit after tax for FY24 stood at INR 15,689 Mn, implying a YoY increase of 15.3%, fueled by an 18.0% increase in profit emergence from the back-book. The quarter's growth was 17.0% YoY/ 15.0% QoQ at INR 4,197 Mn.

Key Concall highlights:

- Sum assured witnessed robust **growth of 47.0%** aided by growth in the pure term, return of premium, and **high protection cover embedded in savings products and riders**.
- FY24 has been another landmark year for product launches **fueled by relentless innovation**.
- HDFCLIFE has opened **75 new branches in FY24** and anticipates its presence to **exceed 600 touch points in FY25E**.
- The Company's objective is to **broaden its footprint** and enhance its reach through a multifaceted approach, which includes **strategically adding branches, attracting high-performing distributors, and continually investing in technology and capability enhancements**.
- HDFC Pension Management Company achieved a milestone by crossing the **INR 750 Bn AUM** mark, showcasing a remarkable **growth of 70.0%**.
- It has maintained market leadership in the **pension category**, commanding a **market share of 43.0%**.
- HDFCLIFE is actively **advancing its expansion plan** for the GIFT City business by introducing innovative US dollar-denominated **life and health insurance products**.
- It is already making strides in **penetrating the NRI segment**. Additionally, the Company has plans to roll out further offerings to continue strengthening its presence in this space.
- In the Protection segment, margins have remained healthy, although they have declined compared to 3-4 years ago. This can be attributed to intense competition and pricing pressures in the industry.
- HDFCLIFE is currently **implementing Project Inspire**, a comprehensive technological transformation. This project aims to enhance customer, distributor, and employee experiences while increasing operational efficiency. It focuses on faster product launches, flexible partner onboarding with shorter turnaround times, digital customer acquisition journeys, intuitive zero-touch services, and a plug-and-play integration environment, among other features.
- The Company is likely to see a **gradual rise in technology expenses** over the years, which will accompany corresponding benefits to the business.
- HDFC Life's market share in the HDFC Bank channel **increased from 56.0% in FY23 to approximately 63.0% by FY24**. This expansion can be attributed to the enhanced collaboration following the HDFC and HDFC Bank merger.
- Mr. Deepak Parekh has decided to step down as Chairman and Non-Executive Director of the Company, effective from the close of business hours on April 18, 2024, to comply with regulatory requirements.
- The Board has approved the appointment of Mr. Keki Mistry as Chairman. Mr. Mistry has been associated with the Company since December 2000 and is currently a Non-Executive Director on its Board.
- HDFCLIFE is awaiting guidance from the Indian Accounting Board and other regulatory authorities regarding implementing IFRS. The implementation will be carried out in stages. The implementation timeline for IFRS is anticipated to be within the next 24-36 months.
- HDFC Life is confident that the **final surrender value regulation will not significantly impact** the Company.

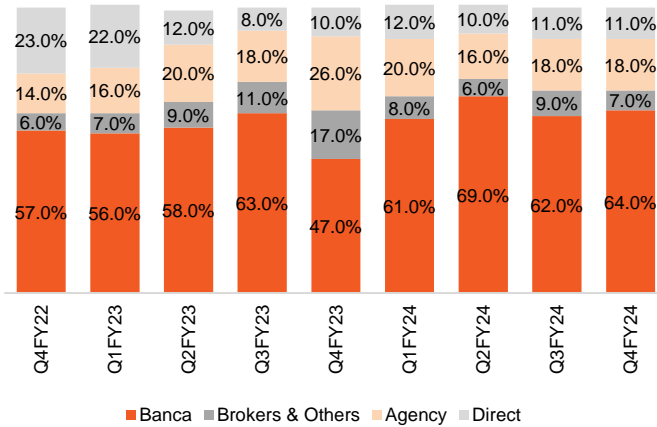
Valuation and view: In FY24, HDFCLIFE reported a lacklustre result after a stellar FY23 due to tax changes, both in terms of APE growth and VNB margin. The slowdown in the Non-Par segment resulted in a subdued growth in the APE. However, HDFCLIFE is confident it will deliver an APE growth of ~15.0% by FY25E. Thus, as a strategy to offset the loss of high-ticket business, HDFCLIFE plans to continue focusing on tier 2 and tier 3 geographies, foster its lower ticket business, and strengthen its counter share at HDFC Bank. The Tier 2 and Tier 3 markets have been seeing robust growth for HDFCLIFE, and the Company is optimistic that the higher ticket-size products would likewise experience a revival in their contribution in the upcoming quarters, creating a positive topline growth trigger. We are optimistic about the Company's future prospects, as it is poised to benefit from various factors such as merger synergies, enhanced agency channel productivity, and strengthened banca partnerships. These drivers are expected to contribute to the business growth in FY25E. We have factored in 15.3% CAGR growth in net premiums, 9.9% in VNB, 20.1% in Net Profit and 17.5% in EV over FY23-26E. Given its focus on delivering stronger growth in absolute VNB with preparedness to dilute VNB margins, we have lowered our margin expectations for FY25E and FY26E from 28.0% each to 26.5% and 26.8%, respectively.

The stock is currently trading at 2.3x/2.0x its FY25E/ FY26E EV. **We assign a 2.5x P/EV on FY26E EVPS of INR 298.2 and VNB multiple of 19.7x to HDFC Life to arrive at the weighted average Target Price at INR 745 per share (unchanged) (50:50 weights on the P/EV and appraisal value methodology), implying a 23.8% upside potential over CMP. We maintain our BUY rating on the shares of HDFC Life Insurance Company Ltd.**

HDFC Life Insurance Co. Ltd.

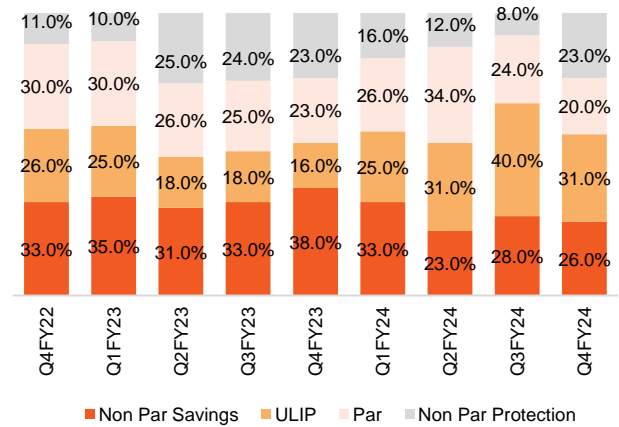
Channel mix on Individual APE basis (%):

Banca mix improvement led by the increase in the HDFC Bank counter share



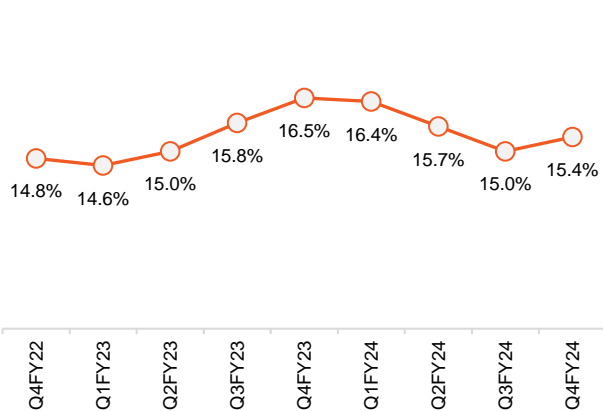
Product mix on Individual APE basis (%):

Non-Par Protection share saw a sequential improvement



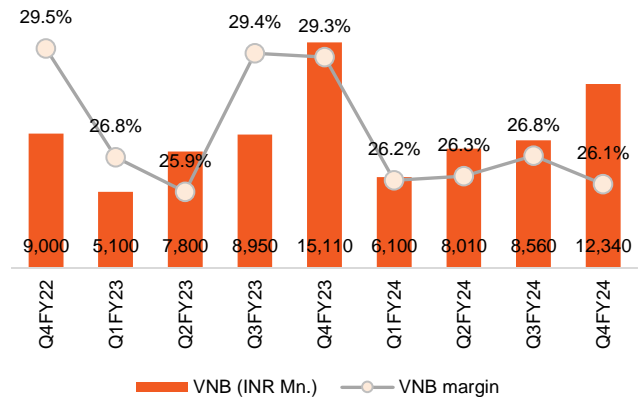
Individual WRP market share(%):

QoQ gradual improvement



VNB Margin (%) :

Declines QoQ with increase in share of low-margin product segments



VNB trajectory from FY23 to FY24



Source: Company, DevenChoksey Research

HDFC Life Insurance Co. Ltd.

KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Gross premiums	459,628	575,334	630,765	745,097	881,163
Reinsurance ceded	5,664	7,694	11,173	9,686	11,896
Net premiums	453,965	567,640	619,592	735,411	869,268
Net income from investments	199,978	139,414	388,151	291,425	337,955
Total income	653,943	707,055	1,007,743	1,026,836	1,207,222
Commission expenses	19,403	28,281	52,563	50,395	60,090
Operating expenses	56,125	84,374	69,011	89,272	104,570
Service tax on linked charges	1,520	4,635	3,183	5,116	6,005
Operating profit	576,894	589,765	882,986	882,053	1,036,558
Benefits paid (net)	318,638	388,723	396,965	450,784	541,915
Change in reserves	246,815	185,862	484,194	415,000	477,500
Interim Bonuses Paid	0	0	0	0	0
Surplus / (Deficit) Before tax	11,442	15,180	1,827	16,269	17,143
Provision For Tax & Others	1,845	1,591	-5,924	1,952	2,057
Surplus / (Deficit) After tax	9,597	13,589	7,751	14,317	15,086

Source: Company, DevenChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
First year premiums	80,544	113,239	111,108	131,108	157,329
Single premiums	161,005	177,612	185,205	212,986	244,934
New business premium (NBP)	241,548	290,852	296,314	344,094	402,263
NBP growth (%)	20.1%	20.4%	1.9%	16.1%	16.9%
Renewal premiums	218,080	284,483	334,451	401,003	478,900
Renewal premiums growth (%)	18.0%	30.4%	17.6%	19.9%	19.4%
Total premiums	459,628	575,334	630,765	745,097	881,163
Total premium growth (%)	19.1%	25.2%	9.6%	18.1%	18.3%
NBP - APE	96,644	131,001	129,629	152,406	181,823
NBP - APE growth (%)	18.1%	35.5%	-1.0%	17.6%	19.3%

Source: Company, DevenChoksey Research

Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Transfer from Technical account	10,093	14,689	7,991	17,817	19,586
Income from investments & other income	7,894	7,829	10,152	9,000	10,000
Total income	17,987	22,518	18,143	26,817	29,586
Total expenses	6,186	9,794	2,505	5,023	5,670
PBT	11,801	12,724	15,638	21,794	23,916
Provision for tax	-276	-877	-50	327	359
PAT	12,077	13,601	15,689	21,467	23,558

Source: Company, DevenChoksey Research

HDFC Life Insurance Co. Ltd.

Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Sources of funds					
Share capital	21,126	21,494	21,509	21,509	21,509
Share application money	33	32	0	0	0
Reserves and surplus	132,852	108,146	120,503	138,970	159,527
Fair value change account - net	848	197	4,505	4,505	4,505
Shareholders' fund	154,859	129,868	146,517	164,984	185,542
Fair value change account - net	21,697	19,759	60,257	74,344	91,723
Policy liabilities	1,043,425	1,442,196	1,762,988	2,172,902	2,678,643
Provision for linked liabilities	564,484	595,034	636,170	784,888	968,372
Credit/[debit] fair value change account	200,706	158,802	284,975	351,594	433,787
Discontinued due to non-payment of premium	41,026	38,179	34,271	42,278	52,156
Sub-Total	1,871,337	2,253,969	2,778,661	3,426,006	4,224,681
Funds for future Appropriations	9,409	12,354	12,115	8,615	4,115
Total Sources of Funds	2,035,605	2,396,192	2,937,293	3,599,605	4,414,337
Application of Funds					
Investments					
- Shareholders'	152,379	131,319	148,819	171,142	196,813
- Policyholders'	1,083,110	1,464,485	1,817,966	2,272,457	2,829,209
Asset held to cover linked liabilities	806,215	792,015	955,416	1,141,722	1,373,492
Loans	6,428	15,853	18,972	19,352	19,739
Fixed assets - net block	3,427	3,802	4,158	4,358	4,558
Net current assets	-15,954	-11,283	-8,038	-9,426	-9,474
Total Applications of Funds	2,035,605	2,396,192	2,937,293	3,599,605	4,414,337

Source: Company, DevenChoksey Research

EV Calculation (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Opening EV	266,200	329,600	395,300	474,710	550,574
Unwind	23,000	26,200	32,400	37,977	44,046
VNB (or NBAP)	26,800	36,740	35,010	40,388	48,728
Operating variance	-5,700	400	1,500	500	500
EV Operating Profit (EVOP)	44,100	63,340	68,910	78,864	93,274
Non-operating variance	-500	-15,900	13,500	-5,000	-5,000
EV Profit	43,600	47,440	82,410	73,864	88,274
Net capital injection	27,100	16,700	-3,300	2,000	2,000
Closing EV	329,600	395,240	474,710	550,574	640,849

Source: Company, DevenChoksey Research

Key Financials (INR Mn)	FY22	FY23	FY24	FY25E	FY25E
Total premium	459,628	575,334	630,765	745,097	881,163
Net premium earned	453,965	567,640	619,592	735,411	869,268
NBP-APE	96,644	131,001	129,629	152,406	181,823
Combined Ratio	17.0%	20.7%	20.1%	19.7%	19.6%
Surplus/(Deficit)	11,442	15,180	1,827	16,269	17,143
VNB margin (%)	27.1%	27.6%	26.3%	26.5%	26.8%
PAT	12,077	13,601	15,689	21,467	23,558
EPS (Rs.)	5.9	6.4	7.3	10.0	11.0
EVPS (Rs.)	163.4	195.8	234.9	260.6	298.2
RoEV (%)	16.6%	19.2%	17.4%	16.6%	16.9%
RoE (%)	7.8%	10.5%	10.7%	13.0%	12.7%

Source: Company, DevenChoksey Research

HDFC Life Insurance Co. Ltd.

HDFC Life Insurance Co. Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
22-Apr-24	602	745	BUY	Buy	More than 15%
15-Jan-24	614	745	BUY	Accumulate	5% – 15%
16-Oct-23	630	720	ACCUMULATE	Hold	0 – 5%
24-Jul-23	653	720	ACCUMULATE	Reduce	-5% – 0
27-Apr-23	520	650	BUY	Sell	Less than – 5%
23-Jan-23	589	735	BUY		

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