

HDFC Life Q3FY21

Financial Results & Highlights

Brief Company Introduction

HDFC Life (HDFC Life Insurance Company Ltd.) is a long-term life insurance provider with its headquarters in Mumbai, offering individual and group insurance.

It is a joint venture between Housing Development Finance Corporation Ltd (HDFC), one of India's leading housing finance institution and Standard Life Aberdeen PLC, leading well known provider of financial savings & investments services in the United Kingdom.

HDFC Life has about 414 branches and presence in 980+ cities and towns in India.

Standalone Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	21127	11649	81.36%	16415	28.71%	52051	28843	80.46%
PBT	267	264	1.14%	326	-18.10%	1044	1027	1.66%
PAT	265	250	6.00%	326	-18.71%	1042	984	5.89%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	21129	11649	81.38%	16426	28.63%	52075	28853	80.48%
PBT	265	264	0%	328	-19.21%	1044	1030	1.36%
PAT	263	251	5%	328	-19.82%	1042	986	5.68%

Detailed Results:

1. There was flat growth in the value of New Business (VNB) in 9M.
2. Individual WRP (Weighted received premium) fell 19% in Q3 and 8% in 9M vs industry fall of 6% in 9M. Individual APE (Annualized Premium Equivalent) grew 6% YoY while Total APE also grew by 4% YoY in 9M.
3. The new business premium was up 11% YoY while the renewal premium grew 22% YoY in 9M. The new business Margin was at 25.16% while operating return on embedded value was at 18.3% in 9MFY21 vs 19% a year ago.
4. There was also a 18% YoY growth in Individual Protection APE while Group Protection APE fell by 38% YoY.
5. Indian Embedded Value grew 20% YoY in 9M.
6. The company maintained a solvency ratio of 202%.
7. Ranked #2 in terms of Individual WRP with market share expanding by 214 bps from 14.3% to 16.4%. The overall market share for the company within the group and the new business segment rose to 27% & 22% respectively.
8. As of 31st Dec 2020, the AUM was at Rs 1.65 Lac Cr and had a 64:36 debt to equity mix. 98% of debt investments were in G-Sec and AAA-rated bonds.
9. The product mix was at: UL: 23%, Par: 35%, Non-par savings: 30%, Protection: 7%, Annuity: 5%.

10. The operating expense to total premium ratio was maintained at 12.1% in 9MFY21 vs 13.7% a year ago.
11. HDFC Pension Fund saw AUM growth of 81% YoY while market share rose to 34% from 30% last year.
12. 13M and 61M persistency was at 89% and 53% respectively.

Investor Conference Call Highlights

1. In terms of individual WRP, the company grew by 8% for 9MFY21 vs an 8% decline in the industry. Average ticket size and no. of policies sold continued to rise.
2. As of Dec, HDFC Life has gotten 1,271 individual and 542 group COVID related claims which the management states are well within its projections.
3. HDFC Life has launched a new term plan, “Click 2 Protect life” with innovative features. It is actively engaged with new banca channel partners to get new business and tap new gen customers through the online channel.
4. This new product should help HDFC life expand on margins going forward.
5. ULIP was up 13% in Q3. Credit protect has seen a strong pickup QoQ, generating business worth Rs 10 bn in Q3 vs Rs 7 bn in Q2 and Rs 2.4 bn in Q1.
6. The new product Click2Protect Life provides flexibility to auto balance death and critical illness cover or receive income payouts from age 60. The management believes that this product launch underlines the company’s innovation edge.
7. The management remains positive on the annuity opportunity given that HDFC Life aspires to grow the retiral corpus by 3x by FY25. It also believes that the annuity opportunity is bigger than the protection opportunity for HDFC Life.
8. Renewal growth was strong at 22% YoY with 87% via the digital mode.
9. Growth in the banca channel has been strong, including that for HDFC Bank, where the company has been able to retain its market share.
10. The management remains confident in managing the product mix in times of rate hardening, stating that it follows a dynamic rate pricing governance.
11. Individual and group annuities have seen 42% growth with annuity contributing over 5% to individual APE.
12. The company is seeing signs of demand for individual protection reverting to normal levels after the initial surge due to the pandemic. The long-term opportunity for protection remains strong.
13. The management states that tax savings are no longer the primary reason to buy insurance and thus the core demand for insurance products is expected to remain sustained.
14. The management reiterated its sales approach as being customer-centric rather than being product or distribution channel-centric. It stated that it usually works with its distributors in terms of what their customers want and what the partner strategy is to cater to the customers’ demand.
15. The management expects the quality of the protection book to improve going forward given the price actions taken after the rate hike.
16. Average ticket sizes for plain term plan were between Rs 20,000-30,000 while ROPs were between Rs 35,000-40,000.

Analyst's View:

HDFC Life is one of the front runners in the life insurance industry in India. The company has gone from strength to strength and maintained a good balance of new business and existing business while consistently growing over the years. The company has done well to adapt to the new normal and remained conservative in current uncertain times. The results show a sustained rise in Individual WRP, its market share and renewal premium remains strong despite the industry decline. The company has also done well to maintain its focus on operational segments and on introducing the new digital product Click2Protect. It also sees a big opportunity in annuity space which is even bigger than the protection opportunity. It remains to be seen whether the situation ahead unfolds within the company's expectations or how long will it take for the industry to normalize. Nonetheless, given the company's market positioning, its dynamic product portfolio, and its emphasis on the development of non-traditional channels and innovative products, HDFC Life remains a pivotal insurance stock in the country.

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