5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

HDFC LIFE

WHAT WE LIKE

LONG TERM LEVERS FOR INSURANCE SECTOR IN INDIA

1.**Demographic Profile**: **Working age population (20-64) to stay @ >60%** of total population till 2055.
2.**Low Insurance penetration**: Only **2.5%** of people who can afford insurance are buying a policy every year. India has a **protection gap of 83%** which is the largest in South and South East Asia.
3.**Digitalization**: Increased transparency and more purchasing options than ever before.
4.**Financial Inclusion**: **Increased insurance awareness and financial inclusion** from social security schemes, small finance banks and others.
5.**Impact of COVID-19:** COVID-19 has brought back the focus on protection with innovations like **group protection schemes rolled out** for employers to offer to their employees **which is good for both the industry and the labour force of the country.**

HUGE SCOPE FOR PRIVATE PLAYERS TO CAPTURE GOVT MARKET SHARE

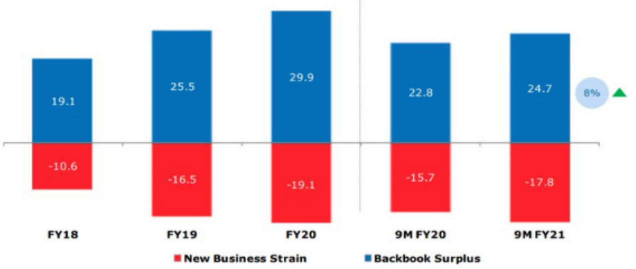
Premiums Market Share in New Business (FY20)		
Rank	Insurer	Market Share
1	LIC	52.78%
2	HDFC Life	14.25%
3	SBI Life	9.15%
4	ICICI Prudential Life	6.35%
5	Others	17.48%

Source: IBEF

GOOD GROWTH RUNWAY FOR RETIREMENT SOLUTIONS

India's pension market is vastly underpenetrated with **pension assets at only 4.8% of GDP** vs 60% for Japan and even 120% for USA. The demand for such solutions is also set to rise as **60+ population is expected to double by 2030.** This represents a good opportunity for **HDFC Pension which already has 34% market share** as of Dec '20 & is the fastest growing PFM (Pension Fund Manager) in India (81% YoY growth in AUM in Q3FY21..

LONG ENDURING FLOAT DUE TO REGULAR PREMIUMS & STRONG UNDERWRITING



WHAT WE DON'T LIKE

UNDERWRITING WORRIES

HDFC life continues to face stiff competition from LIC and other private players. So the risk of underwriting loss is always looming. And we need to keep a watch on their underwriting discipline

FINANCIAL RISKS FOR LIFE INSURERS

Life insurers face financial risks from different angles such as:
1. Market Risk
2. Liquidity Risk
3. Credit Risk
4. Asset Liability Mismatch

MISSELLING & COMPLIANCE/REGULATORY RISKS

Due to insurance being a push product where there are commissions involved for the policies sold, **there is rampant misselling in life-insurance market.** Hence, any activities of non-adherence to regulatory, judiciary and legislative mandates and guidelines may lead to fines and penalties **which not only strains the balance sheet but also damages the brand directly.**

TECHNOLOGICAL DISRUPTION

Any business has a good threat from technological disruption. Insurance is not immune. **In fact with the presence of so many platforms and aggregators, the industry is slowly going towards the path of commoditization.** This will lead to erosion in margins and will make differentiation a tall ask for any player in the industry..

STRETCHED VALUATIONS

The best measure to value insurance companies is Market Cap/Embedded Value (EV). As of 31st Dec 2020, HDFC Life is trading at **an MCap of around 5.47 times current EV.** Mature life insurance companies in mature markets trade between **0.5 to 2.5** times EV.
Hence, the current valuation looks optically high. However, if we make an **estimate of the EV at 5 years from now** assuming 20% yearly growth based on past data, **the current MCap/Future EV turns out to around 2.2 times.**
And we, at Smart Sync Services, feel that this number is achievable by the company.
But at current levels **if growth disappoints, valuations will suffer a lot.**

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