

HDFC Life Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	19191	419	4480.19%	21127	-9.16%	71242	29261	143.47%
PBT	309	284	8.80%	267	15.73%	1353	1312	3.13%
PAT	318*	312**	1.92%	265	20.00%	1360***	1295	5.02%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	19193	430	4363.49%	21219	-9.55%	71268	29283	143.38%
PBT	310	284	9%	265	16.98%	1354	1314	3.04%
PAT	319*	312**	2%	263	21.29%	1361***	1297	4.93%

*contains tax provision of Rs 9 Cr.

***contains tax provision of Rs 27 Cr.

***contains tax provision of Rs 7 Cr.

Detailed Results:

1. There was 14% YoY growth in the value of New Business (VNB) in FY21.
2. Individual WRP (Weighted received premium) grew 40% YoY in Q4 & 17% in FY21 vs industry growth of 8%. Individual APE (Annualized Premium Equivalent) grew 16% YoY while Total APE also grew by 13% YoY in FY21.
3. The new business premium was up 17% YoY while the renewal premium grew 19% YoY in FY21. The new business Margin was at 26.1% while operating return on embedded value was at 18.5% in FY21 vs 18.1% a year ago.
4. There was also a 4% YoY growth in Individual Protection while Group Protection fell by 21% YoY in FY21.
5. Indian Embedded Value grew 29% YoY in FY21.
6. The company maintained a solvency ratio of 201%.
7. Ranked #2 in terms of Individual WRP with market share expanding by 130 bps from 14.2% to 15.5%. The overall market share for the company within the group and the new business segment rose to 27.6% & 21.5% respectively.

8. As of 31st Mar 2021, the AUM was at Rs 1.74 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: 24%, Par: 34%, Non-par savings: 31%, Protection: 7%, Annuity: 5%.
10. The operating expense to total premium ratio was maintained at 12% in FY21 vs 13.1% a year ago.
11. HDFC Pension Fund saw AUM growth of 98% YoY while market share rose to 34.4% from 31.1% last year.
12. 13M and 61M persistency was at 90% and 53% respectively.
13. The board announced a final dividend of Rs 2.02 per share for FY21.

Investor Conference Call Highlights

1. In FY21, HDFC Life settled over 2.9 lakh death claims resulting in pay-outs over Rs 3,000 Cr.
2. The share of the banca channel in individual APE increased to 61%, while that of the agency & direct channel declined 13% & 19% respectively in FY21.
3. The company saw a rise in demand for savings products as customers continued to evaluate investing in bundled solutions to secure both their financial needs as well as protection requirements.
4. Individual protection demand in FY21 remained high but the sales in this business were constrained by lack of physical medical tests, central medical database, and mobility challenges. The management remains confident of the long-term opportunity in the protection space.
5. The management reiterated its positive stance on the pension opportunity. Although there are indeed some supply-side constraints in annuities, the long-term growth opportunity in this space remains intact.
6. Medium-term growth in annuity is expected to be higher than the overall company growth.
7. The company has created an additional COVID-19 reserve of Rs 165 Cr in Q4 to bring the total up to Rs 1360 Cr in FY21.
8. The banca channel grew 29% YoY in FY21. The contribution of business from Tier 2 and 3 locations increased to over 15% of online business.
9. The management has stated that HDFC Life will continue to maintain VNB margin at current levels. The margin expansion in FY21 here was due to a better product mix and higher growth across channels.
10. The industry partnerships made in FY21 with Ujjivan, Equitas, and many others are expected to contribute to growth from FY22 onwards from tier 2 & 3 markets.
11. The management has stated that there might be a possibility of a hike in reinsurance rates in the future.
12. The HDFC bank channel has done well in FY21 with high branch conversion and increasing HDFC Life penetration in rural regions with the expansion of HDFC Bank.
13. The reason behind the growth in the HDFC bank channel is said to be the full training given to its employees and the fact that the bank branches remain open as essential services while other physical channels have to close during the lockdowns.
14. Branch sales for HDFC Life were low due to low footfall in branches as they remained open only to service the critical needs of customers.
15. There is still uncertainty regarding the phenomenon called Long COVID appearing in COVID patients post recovery and how it will affect the insurance industry.
16. The company will continue its growth plans in UL in a calibrated manner.

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 outpace industry growth in Q4 and clock NBM of 26.1%. The results show a sustained rise in Individual WRP, its market share and renewal premium remains strong outpacing the industry growth. The company has also done well to extend partnerships with various banks and SFBs in FY21 which should lead to higher penetration in tier 2 & 3 regions. It also maintains that the opportunity in annuity space which is even bigger than the protection opportunity. It remains to be seen whether the situation ahead unfolds with the rise of the 2nd wave of COVID-19 & how will the industry change from its long-term impact of COVID-19 (Long COVID). 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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