FIRST LIGHT

19 April 2024

RESEARCH

HDFC LIFE | TARGET: Rs 775 | +28% | BUY

Subdued quarter

BANKING | Q4FY24 PREVIEW

Margin under pressure; lower provision to support PAT

Daily macro indicators

Indicator	16-Apr	17-Apr	Chg (%)
US 10Y yield (%)	4.67	4.59	(8bps)
India 10Y yield (%)	7.18	7.19	1bps
USD/INR	83.45	83.54	(0.1)
Brent Crude (US$/bbl)	90.0	87.3	(3.0)
Dow	37,799	37,753	(0.1)
Hang Seng	16,249	16,252	0.0
Sensex	73,400	72,944	(0.6)
India FII (US$ mn)	**12-Apr**	**15-Apr**	**Chg ($ mn)**
FII-D	(211.8)	1.9	213.7
FII-E	(952.1)	(387.5)	564.6

Source: Bank of Baroda Economics Research

SUMMARY

HDFC LIFE

- HDFC Life's APE growth muted in FY24 despite traction in Tier-2/-3 cities; cut our estimates by 8% each for FY25/FY26
- ULIP share continues to increase in the APE mix; VNB margins declined 130bps YoY to 26.3% in FY24
- TP revised to Rs 775 (from Rs 850) as we value the company at a lower 2.6x FY26E P/EV (vs 2.8x); maintain BUY

Click here **for the full report.**

BANKING: Q4FY24 PREVIEW

- Credit growth remains healthy, driven by retail segment
- Higher deposit mobilisation and repricing will likely put pressure on margins, but is also helping alleviate RBI's concerns on C/D ratio
- Asset quality concerns continue to ebb; HDFCB, KMB, IIB, SBIN and RBK are our top picks

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BUY
TP: Rs 775 | ⮝ 28%

HDFC LIFE | Insurance | 18 April 2024

Subdued quarter

- **HDFC Life's APE growth muted in FY24 despite traction in Tier-2/-3 cities; cut our estimates by 8% each for FY25/FY26**
- **ULIP share continues to increase in the APE mix; VNB margins declined 130bps YoY to 26.3% in FY24**
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APE growth muted: HDFC Life's individual and overall APE remained flat YoY as at end-FY24. However, this was due to a higher base and excluding the one-time business of Rs 10bn in Mar'23, growth would have been higher. Further, the individual APE market share slipped to 15.4% at end-FY24 YTD from 16% in FY23, though the company retained its #2 rank among private peers. We lower our APE estimates by 8% each for FY25 and FY26 and now factor in 15% CAGR over FY24E-FY26E to Rs 176bn.

VNB margin declines: HDFC Life generated VNB of Rs 35bn (-5% YoY) with margin falling 130bps to 26.3% at end-FY24. Higher ULIP share and one-time fixed cost of Rs 10bn are the major reasons for the margin decline. We cut VNB margins by 50bps to 26.5% for FY25 and retained 27% for FY26. We lower our VNB by 10%/8% for FY25/FY26 and now expect a 17% CAGR over FY24-FY26 to Rs 48bn.

ULIP business gains traction: Owing to buoyant equity markets, share of ULIPs in individual APE rose to 35% in FY24 (19% in FY23). Non-par APE fell to 30% from 45%, but maintained around this number over the last 3 quarters (cumulative). The share of protection rose to 5% in FY24 from 4% in FY23 though par share fell to 23% from 27%.

Some green shoots: On the positive, (i) Tier-2/-3 cities recorded growth of 13% against overall growth of 1% in FY24 (ii) ~63% market share in the HDFC Bank channel at end-FY24 compared to 56% in FY23, non-HDFC Bank partnership also witnessed traction (iii) added 80,000 agents and 75 branches in FY24 with 85-90% in Tier-2/-3 cities and (iv) no material impact of final surrender value regulations.

Maintain BUY: HDFC Life is trading at 2.0x FY26E P/EV. Baking in Q4, we value the stock at a lower 2.6x FY26E P/EV (from 2.8x) – a 30% discount to the long-term mean – while lowering our FY24-FY26 APE estimates by 8% each for FY25/FY26 and embedded value (EV) estimates by ~1% each. This yields a lower TP of Rs 775 (from Rs 850). We maintain BUY given robust demand in Tier-2/-3 markets, rising market share in the HDFC Bank channel and new distribution partnerships.

Key changes

Target	Rating
▼	◄►

Ticker/Price	HDFCLIFE IN/Rs 606
Market cap	US$ 15.7bn
Free float	48%
3M ADV	US$ 35.2mn
52wk high/low	Rs 711/Rs 511
Promoter/FPI/DII	52%/26%/8%

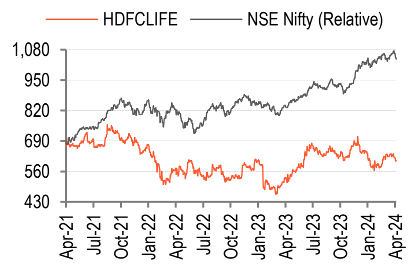
Source: NSE | Price as of 18 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
NBP (Rs mn)	2,96,314	3,40,964	3,95,518
APE (Rs mn)	1,32,910	1,51,745	1,76,024
VNB (Rs mn)	34,955	40,212	47,526
Embedded Value (Rs mn)	4,74,655	5,50,536	6,39,801
VNB margin (%)	26.3	26.5	27.0
EVPS (Rs)	220.6	255.8	297.3
EPS (Rs)	7.3	7.9	9.8
Consensus EPS (Rs)	8.0	8.0	10.0
P/EV (x)	2.7	2.4	2.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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BANKING | Q4FY24 Preview | 18 April 2024

Margin under pressure; lower provision to support PAT

- **Credit growth remains healthy, driven by retail segment**
- **Higher deposit mobilisation and repricing will likely put pressure on margins, but is also helping alleviate RBI's concerns on C/D ratio**
- **Asset quality concerns continue to ebb; HDFCB, KMB, IIB, SBIN and RBK are our top picks**

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Continued strong growth momentum in credit; deposit rate repricing led to recovery in deposit mobilisation: According to RBI data, system credit grew 20.2% YoY (0.7% QoQ) for the fortnight ended Mar'24. Growth was fuelled by retail and SME/MSME segments, while wholesale lending stayed muted apart from some offtake backed by capex. Retail continued to outpace wholesale driven by personal loan, while NBFC lending supported overall credit growth. Given the ongoing system dynamics and liquidity situation, we expect system credit growth of 14-15% for FY25 vs. 16.3% in FY24 excluding the HDFC merger and 20.2% including the same.

Deposit mobilisation continues to recover: The industry witnessed further acceleration in deposits on the continued rise of deposit rates, which we believe will last another 1-2 quarters, while deposit growth recovered to 13.5% YoY in Q4 (including merger impact of HDFC vs. 13.3% in Q3). Term deposits (TD) spurred growth, where banks kept increasing rates leading to a continued subdued CASA.

Margins under strain from rising deposit costs: The continued rise of TD rates and tight liquidity condition likely keep cost of funds elevated and put pressure on margin. However, banks' core focus on high-yield retail loans could alleviate some of the stress. We expect a further 4-5bps QoQ decline in aggregate margin for our coverage, similar to Q3, and expect margin to remain stable at the current level.

Slippages to remain in check: We expect no major stress addition, which may improve asset quality and lead to GNPA/NNPA and PCR remaining almost stable. Credit costs may stabilise sequentially in the absence of a one-off provision toward AIF during Q3FY24 and aid the bottomline of the banks. Further, we don't see any major challenges towards restructured/SMA books which are expected to improve.

Top picks: In our view, NII growth would remain stable on higher CoF while opex remains elevated as banks strive for higher deposit mobilisation. Sequential lower provisions are likely to support PAT. We retain HDFCB (BUY, TP Rs 1,896), KMB (BUY, TP Rs 2,100), IIB (BUY, TP Rs 1,952), SBIN (BUY, TP Rs 842) and RBK (BUY, TP Rs 309) as our preferred picks in the sector.

Recommendation snapshot

Ticker	Price	Target	Rating
AXSB IN	1,024	1,252	BUY
BANDHAN IN	173	270	BUY
DCBB IN	120	172	BUY
FB IN	152	189	BUY
HDFCB IN	1,495	1,896	BUY
ICICIBC IN	1,055	1,189	BUY
IDFCBK IN	83	96	BUY
IIB IN	1,474	1,952	BUY
KMB IN	1,787	2,100	BUY
RBK IN	246	309	BUY
SBIN IN	745	842	BUY

Price & Target in Rupees | Price as of 18 Apr 2024

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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