

Q3 FY25E Life Insurance Earnings Preview



Life Insurance

Margins bottomed out; Expect sequential improvement in Q3FY25E

COVERAGE STOCKS

Coverage	CMP	Target (INR)	Upside	Recom.
HDFC Life Insurance Company Ltd	606	845	39.5%	BUY
ICICI Prudential Life Insurance Company Ltd	662	750	13.3%	HOLD
SBI Life Insurance Company Ltd	1,435	1,901	32.5%	BUY

MARKET DATA

	Close	1M (%)	YTD (%)
Nifty	23,616	-4.3%	-0.1%
Sensex	77,965	-4.6%	0.0%
Nifty Fin. Services	23,341	-5.6%	-1.3%
USD / INR	85.8	1.4%	-0.2%

Note: TP and recommendation have been retained from previous update reports; we will review it post detailed Q3FY25E results analysis and conference call of the said companies.

Source: Bloomberg, NSE; Data as of January 06, 2025

SECTOR OVERVIEW

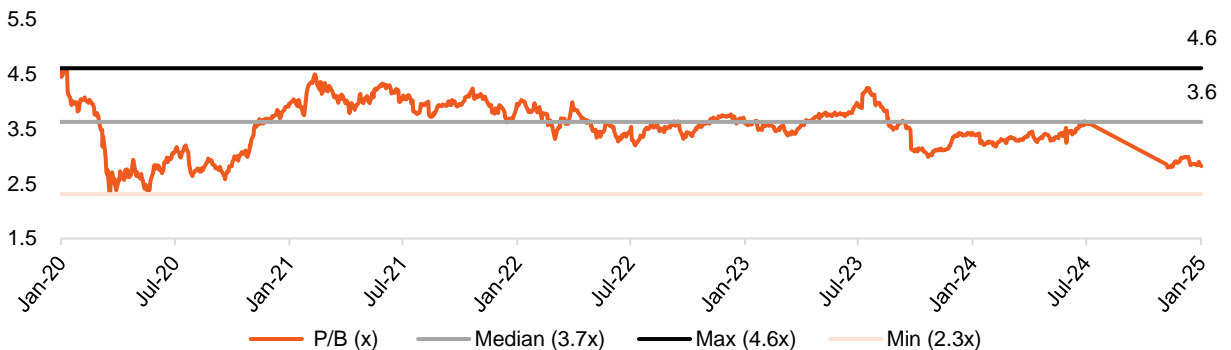
- In Q3FY25E, the business growth is expected to remain steady, with life insurers under our coverage universe likely to report an 18.4% YoY increase in APE, aided by strong demand for ULIPs and improved traction in the protection segment despite regulatory changes regarding surrender value. In Q3FY25E, we expect the gross premium for life insurers under our coverage to grow by 15.5% YoY.
- Expanding distribution networks and digital channels in smaller towns and rural areas are tapping into previously underpenetrated markets, contributing significantly to premium growth.
- Introducing customized and hybrid products catering to varied customer needs, such as unit-linked plans, savings products, and term plans, is attracting a broader customer base.
- Growth in group insurance policies, particularly from corporates focusing on employee benefits, is expected to boost overall premium collections, especially for HDFCLIFE significantly.
- The bancassurance channel will continue to remain a healthy contributor to premium growth during the quarter for HDFCLIFE and SBILIFE, complemented by cross-selling efforts through NBFCs and digital partners. However, the industry will continue to see improving performance from their agent network, aiding in improving penetration, especially in underserved areas, aiming to provide greater access to insurance products across diverse demographics.
- The non-par segment is expected to see a gradual improvement in its contribution, complemented by continued momentum in the Annuity and Protection segments, fueled by an expanding product portfolio and widening geographical reach.
- For our coverage, VNB growth is expected at 14.9% YoY, driven by product mix optimization, and non-par repricing. VNB margins will see minor improvement with stability in the product mix despite higher expenses and regulatory changes.
- Persistency ratios are expected to improve by ~50-75 bps YoY across the companies we cover, with consistency in maintaining retention rates. Solvency ratios will continue to remain robust across the sector.

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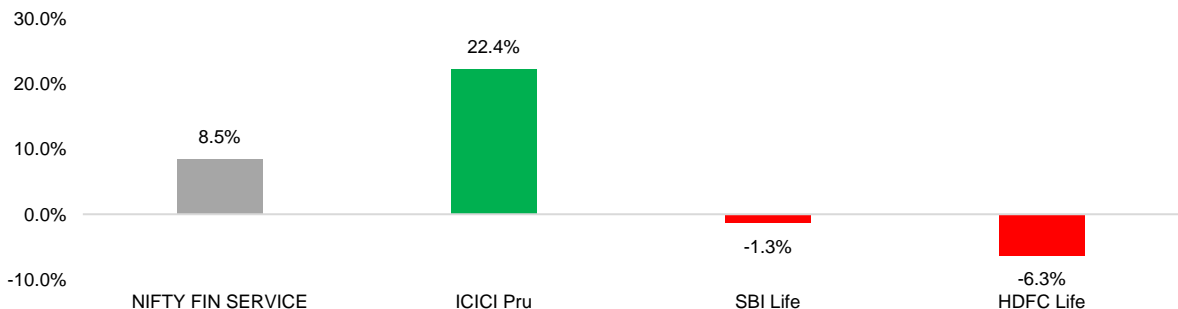
Valuation:

- The Indian life insurance sector is poised for steady growth in FY26E, supported by rising premium collections, proactive regulatory measures, an increased push towards protection products, enhanced distribution capabilities, product innovation, and improving macroeconomic indicators.
- Continued investments in digital platforms for sales and service delivery are enhancing operational efficiencies and customer experience. Increased focus on Tier-2 and Tier-3 markets, aided by digital channels and partnerships, is unlocking growth potential in underpenetrated regions.
- The growing middle class, increasing awareness of insurance, and regulatory tailwinds provide a long-term growth runway for the sector.
- Insurers are effectively navigating new surrender value regulations and recalibrating distribution strategies, mitigating potential adverse impacts.
- Key parameters to monitor this quarter include: 1) the business outlook for FY26E, 2) anticipated performance in high-margin segments, 3) VNB margin projections for FY26E, and 4) any adjustments in pricing strategies.
- For FY26E, the average P/EV of the listed companies under our coverage is 1.9x, which is still lower than the industry's historical average of 2.8x.
- **We remain positive on HDFC Life due to its strong brand recognition, diversified product portfolio, and enhanced business strategies. Similarly, SBI Life stands out for its robust long-term growth prospects and healthy balance sheet strength.**

Nifty Financial Services P/B and 5 Yr Average



Coverage stock returns 1 Yr (%)



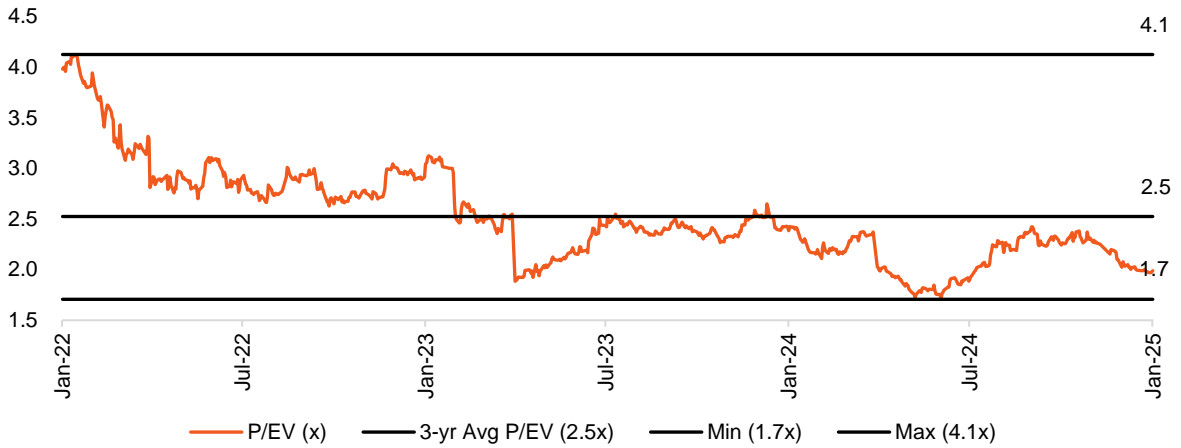
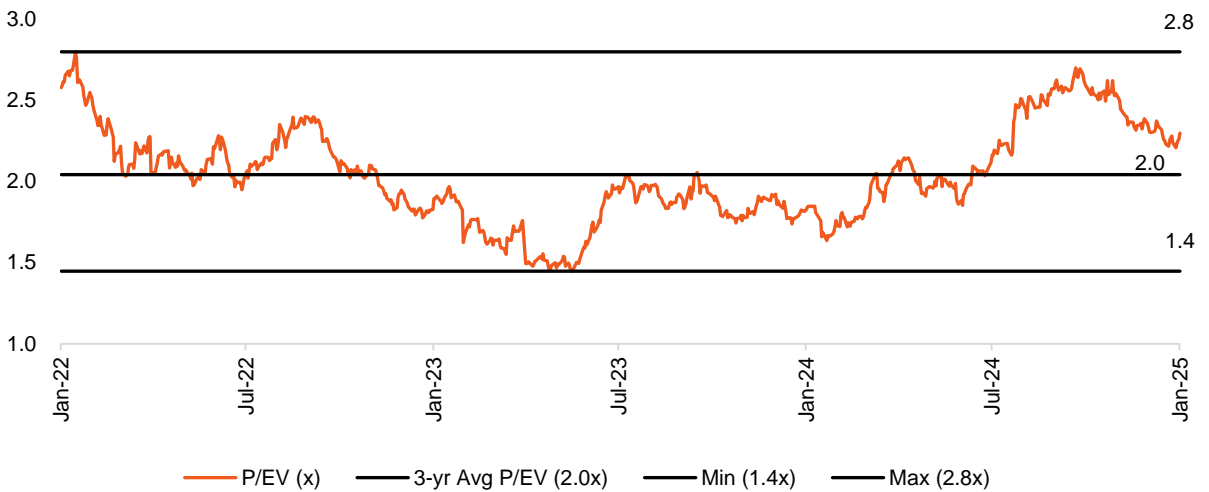
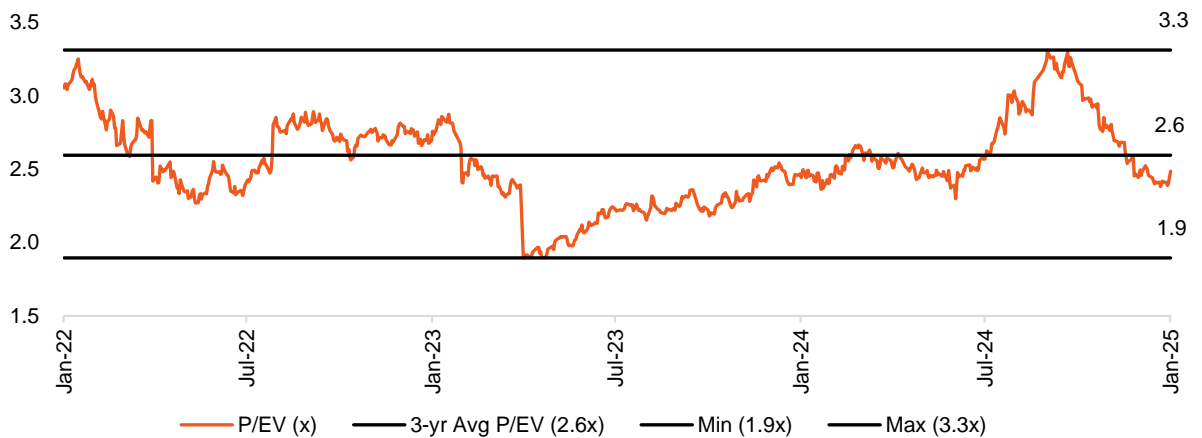
Source: NSE

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Exhibit 1: Quarterly result expectation for companies under coverage

Q3FY25E				
(INR in Mn)	Outperform	Base	Underperform	View
HDFCLIFE				
Gross Written Premium (GWP)	186,877	181,434	175,991	<ul style="list-style-type: none">• We expect a 16.9% YoY (+7.2% QoQ) growth in GWP. The growth will be driven by ~18.0% YoY growth in renewal premiums.• We see the new business premium segment grow by 12.2% YoY, led by a 28.0% growth in the First-year premium segment. Thus, the premium growth is expected to reflect an APE growth of 22.5% YoY/ 1.5% QoQ in the base case scenario, with a possibility of a +/- 3% deviation.• In the base scenario, VNB margins are expected to be around 24.8%, an improvement of 51 bps QoQ led by a high-yielding product mix.• We expect margins to remain stable at 24.0% in the underperforming scenario.
Annualized Premium Equivalent (APE)	40,273	39,100	37,927	
Value of New Business (VNB)	10,068	9,697	9,103	
VNB Margins	25.0%	24.8%	24.0%	
AUM (INR in Bn)	3,515	3,412	3,310	
IPRU				
Gross Written Premium (GWP)	127,232	121,174	115,115	<ul style="list-style-type: none">• In the base case, we expect GWP for IPRU to grow by 17.8% YoY (+8.4% QoQ), led by 29.1% YoY growth in New Business Premiums. The group business will continue to see strong momentum.• In the base case scenario, APE is likely to grow by 33.4% YoY (+1.6% QoQ), with a possibility of a +/-5.0% deviation. The growth will be led by a 45.0% YoY growth in the First-Year premium segment.• IPRU is expected to see margins at 23.5%, an improvement of 10 bps QoQ with a slight improvement in the product mix
Annualized Premium Equivalent (APE)	26,713	25,441	24,169	
Value of New Business (VNB)	6,411	5,979	5,317	
VNB Margins	24.0%	23.5%	22.0%	
AUM (INR in Bn)	3,367	3,301	3,235	
SBILIFE				
Gross Written Premium (GWP)	267,525	254,786	242,047	<ul style="list-style-type: none">• In the base case, we expect GWP to grow by 13.4% YoY (+24.8% QoQ), driven by 20.0% growth in renewal premiums.• We anticipate APE to grow by 11.7% YoY/ 27.0% QoQ, led by 15.3% growth in the new business premium segment.• We expect VNB margins to see a contraction of 41 bps YoY but an improvement of 10 bps QoQ at 27.0% in a base-case scenario.• In an underperforming scenario, we expect VNB margins to be around 27.5%, while an expansion of 60 bps QoQ in an outperformance scenario.
Annualized Premium Equivalent (APE)	71,876	68,453	65,031	
Value of New Business (VNB)	19,766	18,482	17,233	
VNB Margins	27.5%	27.0%	26.5%	
AUM (INR in Bn)	4,612	4,521	4,431	

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HDFCLIFE P/EV 3 Year Chart

IPRU 3-Yr P/EV Chart

SBILIFE 3-Yr P/EV Chart


Source: NSE, Bloomberg

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Life Insurance

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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