

Displays resilience led by product innovation & distribution reach

FY25 guidance: APE growth at ~15-18%; absolute VNB at ~15%; reiterate BUY

We met with Ms. Vibha Padalkar – MD and CEO, Mr. Niraj Shah – CFO, and Mr. Kunal Jain – Head of IR of HDFC Life Insurance (HDFCLIFE), to discuss the company's growth outlook, the impact of regulatory changes, profitability goals, and other key focus areas. Here are the key takeaways from the discussion:

Regulatory moves likely to have a minimal impact

- The life insurance industry has recently experienced several regulatory changes that affected various aspects of operations. A few of them are mentioned below:
- **New surrender charges:** They affected VNB margins by 30bp/10bp in 3QFY25/9MFY25, and the overall impact for FY25 is expected to range around 10-30bp. To mitigate this effect, the company revised its commission structure by introducing claw-back provisions, deferring commission payouts, or reducing commissions, depending on channel suitability.
- **Open Architecture for Agency Channel:** There have been discussions advocating for the adoption of open architecture in individual agency channels. The industry has made presentations to the regulator regarding the pros and cons of the same. Given the sustained investments in the channel, HDFCLIFE expects to be a key beneficiary of the move as and when it happens.
- **Capping on the Bancassurance Channel:** There have been media (<https://tinyurl.com/3ef577vv>) speculations about the possible regulatory changes affecting the Bancassurance business. As per HDFCLIFE, there has been no discussion with or views taken by the regulator on the said topic. It believes that the regulator will prefer a consultative approach if there is any major change that is expected to come through. HDFCLIFE focuses on enhanced growth and investments in proprietary channels, and management expects no immediate impact on the Banca channel (on an NBP basis, the share of the Banca is ~35% and that of HDFC Bank is ~25%).
- **Implementation of IFRS:** HDFCLIFE expects the implementation over the next 2-3 years but remains on a best-effort basis.
- **Risk-based Solvency:** The company expects its implementation over the next 12-18 months. As and when this is implemented, it expects the release of some capital for future growth.
- **Listing of large players and 100% FDI:** Listing of more companies in the sector will enhance more disclosures and potentially soften competitive intensity as unlisted players are likely to focus on sustainable growth. It will also aid investments in the sector. While 100% FDI could potentially bring in some foreign players, it is unlikely to alter the existing landscape.

Non-Par, Protection, and Annuity products to drive the product mix over the medium term

- **ULIPs:** Given the weakness in markets, ULIP's share can decline, albeit, in a smaller proportion. The share of par products is expected to increase. For HDFCLIFE, the share of ULIPs is likely to be range bound around 30-35%.
- **Non-Par:** Non-par products showed a strong YoY growth of 55% on a 9M basis. It contributes 35% of the Individual APE mix on a 9M basis and is expected to remain in a similar range.
- **Retail protection:** The Protection segment grew faster than the company-level growth at 28% YoY but still consists of a smaller portion of APE due to lower ticket sizes. The segment's growth momentum is expected to be sustained.

HDFC Life Insurance



**Ms. Vibha Padalkar, MD
& CEO, HDFC LIFE**

Ms. Padalkar has been associated with HDFCLIFE since Aug'08. She qualified as a member of the Institute of Chartered Accountants of England and Wales in 1992 and is also a member of the ICAI. Prior to HDFC Life, she worked in various sectors, such as global business process management, global FMCG, and an international audit firm.

- **Annuities:** Annuities contribute ~5% of the Individual APE mix and are in line with the management's guidance of 5-6% of the mix. Annuity and protection put together contributed nearly 44% of the overall new business premium in 9MFY25. Given the strong growth in the NPS customer base and the increasing population at the superannuation stage, the annuities segment will continue to see robust growth. However, the competitive intensity in the segment remains on the higher side, and hence a calibrated, profitable approach will be taken.
- **Credit Protect:** The Credit Protect growth has been tepid due to slower disbursements among specific partners, particularly in the Micro Finance Institution (MFI) sector, which is expected to recover. HDFCLIFE still holds the market-leading position in this segment.
- **Group Term:** The Group term business remains highly competitive, and HDFCLIFE continues to take a calibrated approach in this segment.
- **Mutual Fund & Insurance Bundling:** The product has existed previously as well, and past attempts have not been very successful. Mutual funds cannot manufacture term insurance on their own, so bundling term products will potentially drive benefits for the protection business of insurance companies.

Agency channel's share to improve in the distribution mix amid focus on tier 2/3 cities

- **Agency:** With a focus on premium growth, the agency channel will remain the cornerstone of the company's distribution strategy. The channel currently contributes ~17% of the business, and management aspires to raise the contribution to 25% in the medium term. HDFCLIFE ranks second in terms of additions among the private players. About 70% of new agent additions are effected in tier 2 and tier 3 cities. The company has already invested in agent hiring and new branch openings, which will drive scale benefits and improve the channel's profitability. The agency channel grew 19% in 9MFY25, which was in line with the overall company growth. The protection business within the agency channel experienced 2x growth vs. the company's overall business.
- **Tier 2/tier 3 strategy:** For the low-tier cities, the strategy is fairly nuanced, with a focus on the higher end of the income bracket. HDFCLIFE opened ~150 branches in the last 18 months and plans to add more branches in the next year, with the majority of branches opening in tier 2 and tier 3 cities. The contribution of tier 2 and tier 3 cities in HDFCLIFE's APE rose to 65% in 9MFY25 from 58% in FY21, outpacing the company-level growth. On an NOP basis, tier 2 and tier 3 markets contributed 75% of the business in 9MFY25. The company's 13M persistency ratio from tier 2 and tier 3 cities at 84% is coming closer to the overall organization levels at 87%.
- **HDFC Bank:** APE from the bancassurance channel for HDFCLIFE grew 30% YoY in 9MFY25. The counter share has improved to 65% of HDFC Bank on a 9M basis, and other Banca partners' contributions remained steady. Management expects no impact on the counter share due to the noise around capping on the parent bank in the bancassurance channel. The overall contribution from the bancassurance channel in the new business premium stood at only 35%, of which HDFC Bank contributes ~25% and the balance from other banks. A strong pickup in ULIPs has supported growth in the channel.

Other takeaways:

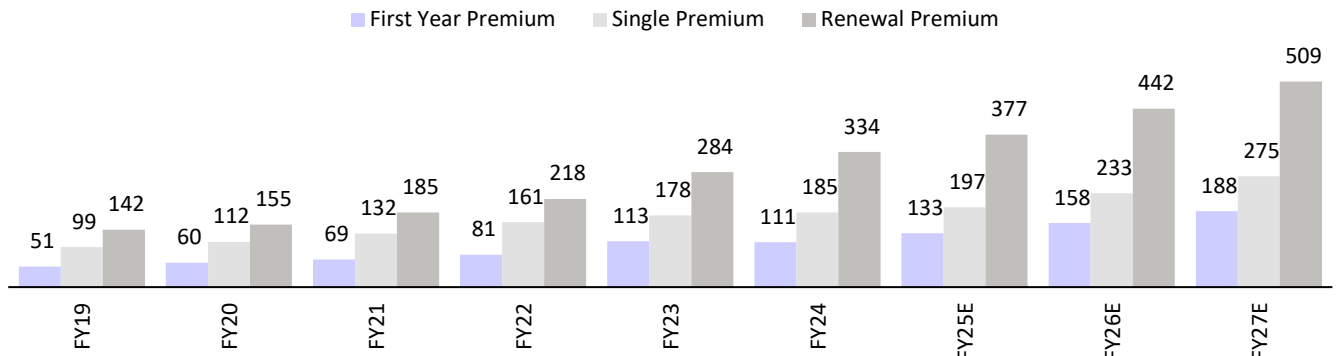
- Only ~2% of customers buy life insurance for tax purposes at HDFCLIFE; hence, tax benefits are no longer a major sales driver.
- For corporate tax, no changes are anticipated at least in the near term.
- The company's ROEV stood at 17.5%, lower than the historical rate of 20%+, primarily due to base effects. Management guides for operating ROEV to remain in the range of 16-18% in the near term.
- The company will continue to invest in branch expansion, technology, and agency additions.
- Recently raised INR 10b in the form of sub-debt, thus completing the total raise of INR 20b (previously raised INR 10b in Oct '24). The solvency is expected to increase from the current levels of 188% (9MFY25) post-sub debt.

Valuation and view:

HDFCLIFE aims to sustain a well-balanced product portfolio while expanding its market presence through geographical growth and customer acquisition. Persistency rates have shown consistent improvement across segments, supporting steady renewal premium growth. The revised commission structure, following discussions, is expected to have only a 20-30bp impact on VNB margins due to surrender charge regulations. Management has indicated that margins will remain stable or slightly improve, driven by stronger growth in Q4 and no deterioration in the product mix. **Reiterate BUY with a TP of INR800 (premised on 2.5x Sep'26E EV).**

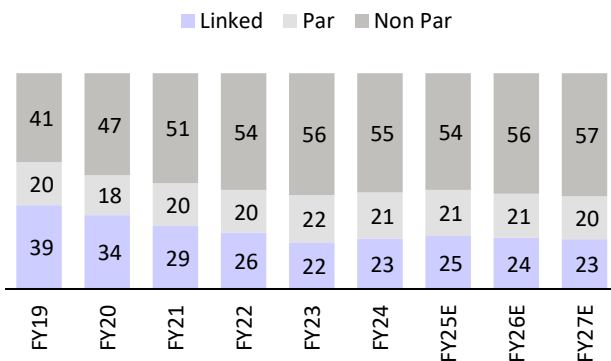
Story in charts

Exhibit 1: Renewal Book is expected to remain strong (INRb)



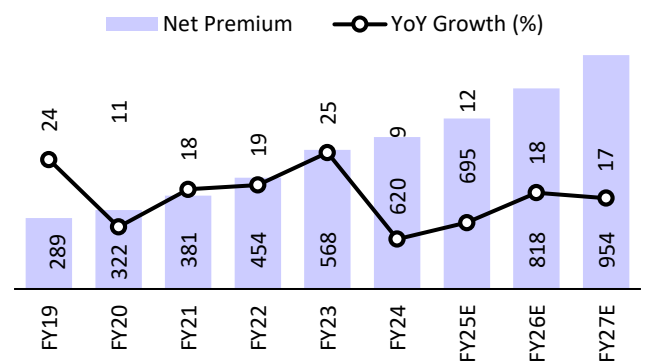
Source: MOFSL, Company

Exhibit 2: Gross premium mix (%)



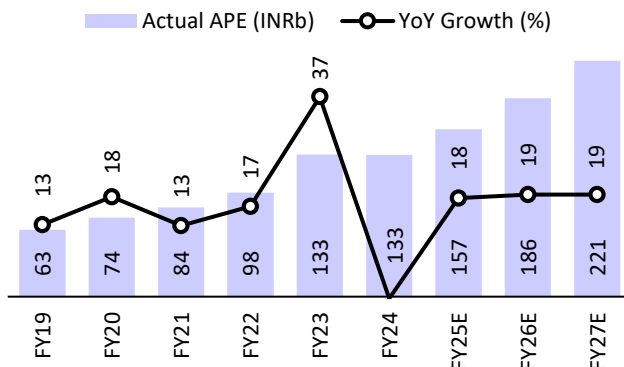
Source: MOFSL, Company

Exhibit 3: Expect steady growth in net premium



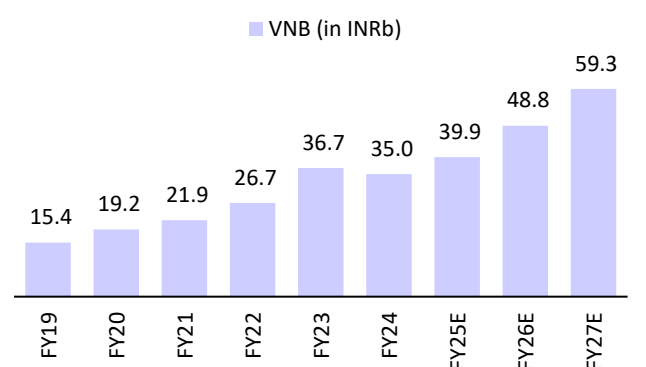
Source: MOFSL, Company

Exhibit 4: APE growth is likely to remain above 18% YoY



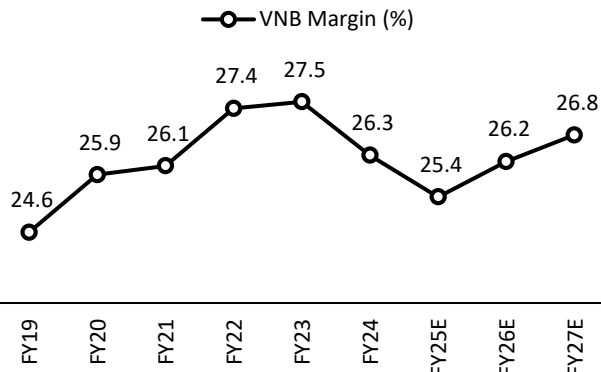
Source: MOFSL, Company

Exhibit 5: Trend in absolute VNB (INR b)



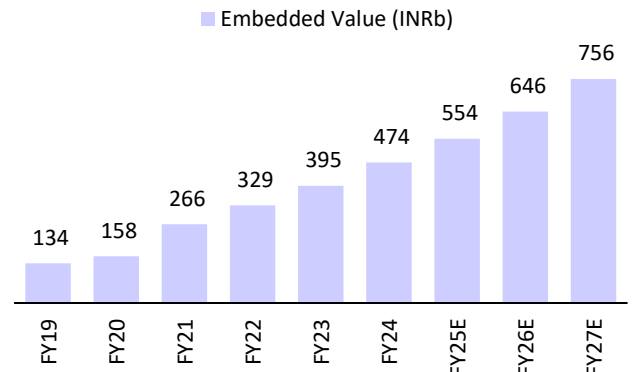
Source: MOFSL, Company

Exhibit 6: VNB margin is expected to pick up post-FY25



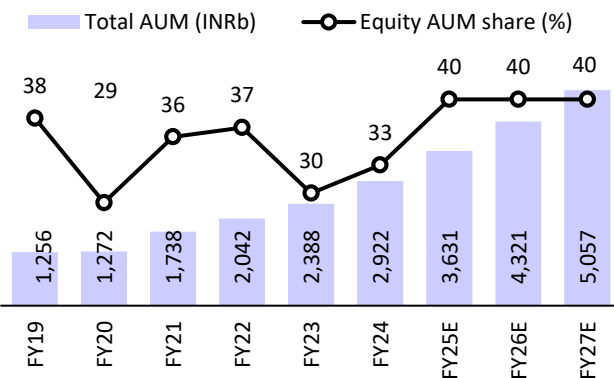
Source: MOFSL, Company

Exhibit 7: Trend in Embedded value (INRb)



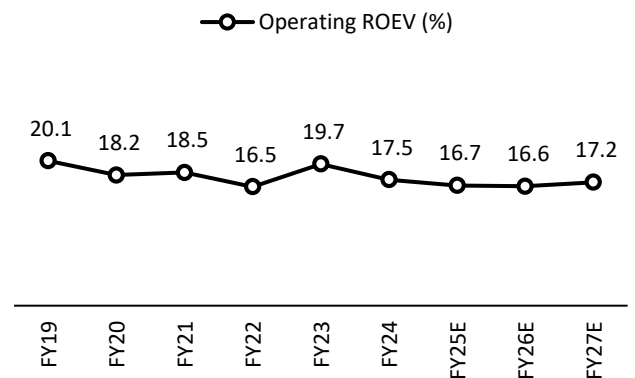
Source: MOFSL, Company

Exhibit 8: Share of Equity in overall AUM to remain stable



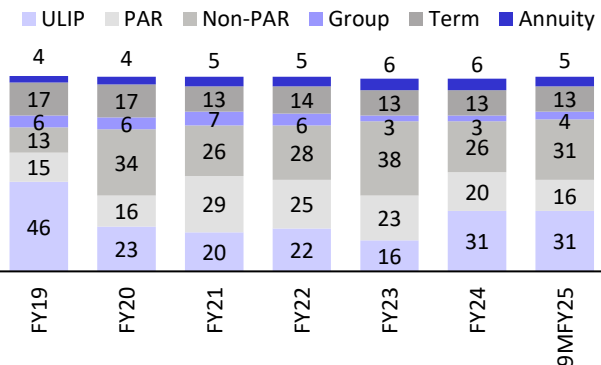
Source: MOFSL, Company

Exhibit 9: Operating ROEV likely to remain above 16%



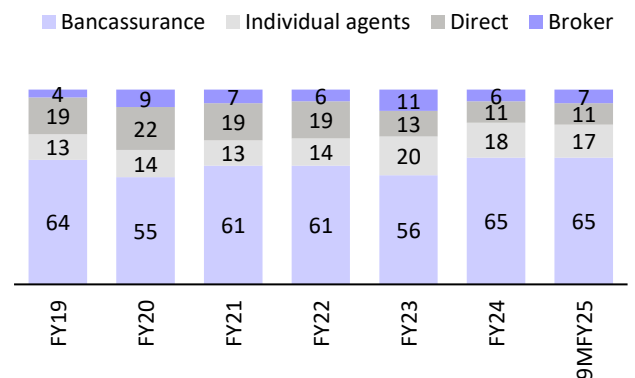
Source: MOFSL, Company

Exhibit 10: ULIP and Non-Par products dominate the mix (%)



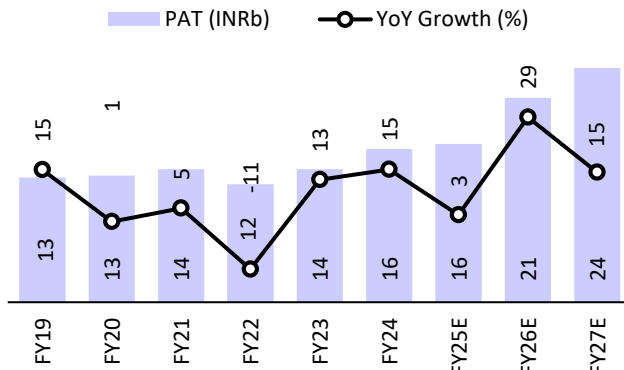
Source: MOFSL, Company

Exhibit 11: Banca channel dominates the Individual APE (%)



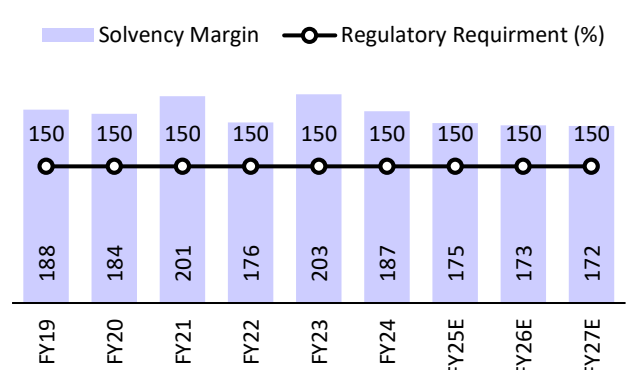
Source: MOFSL, Company

Exhibit 12: Trend in PAT (INRb)



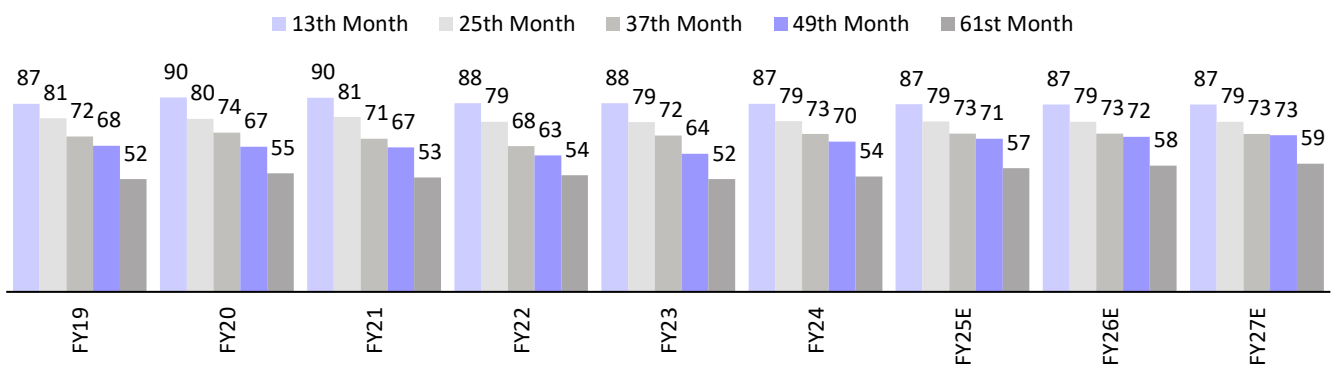
Source: MOFSL, Company

Exhibit 13: Solvency ratio maintained well above the limits



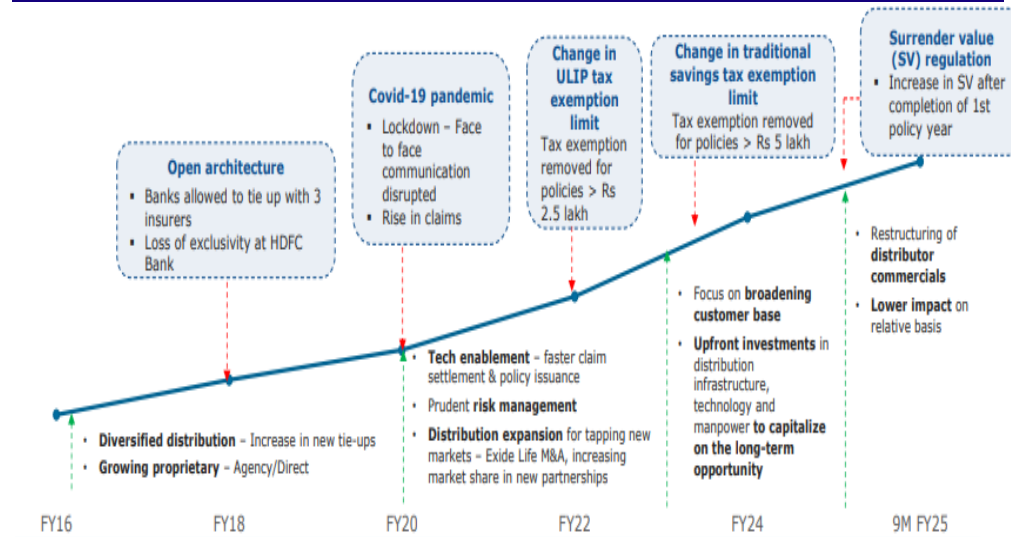
Source: MOFSL, Company

Exhibit 14: Trend in persistency ratios across cohorts (%)



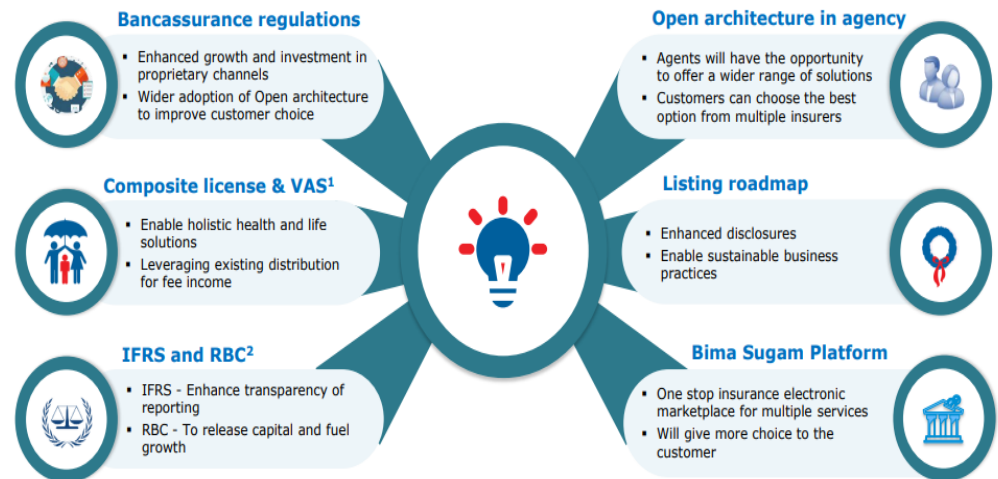
Source: MOFSL, Company

Exhibit 15: Steady performance across business cycles



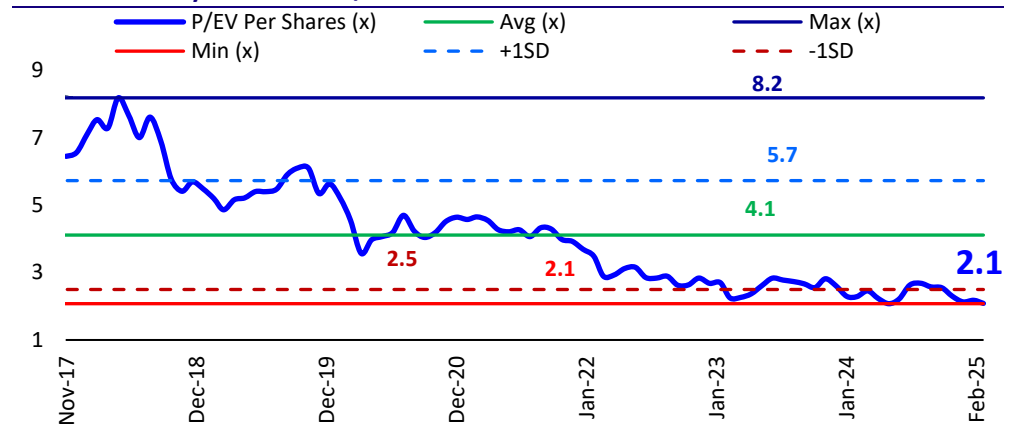
Source: MOFSL, Company

Exhibit 16: Likely developments in the insurance industry



Source: MOFSL, Company

Exhibit 17: One-year forward P/EV



Source: MOFSL, Company

Financials and valuations

Technical account (INRm)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Gross Premiums	4,59,628	5,75,334	6,30,765	7,07,639	8,32,686	9,71,539
Reinsurance Ceded	(5,664)	(7,694)	(11,173)	(12,534)	(14,749)	(17,209)
Net Premiums	4,53,964	5,67,640	6,19,592	6,95,105	8,17,937	9,54,331
Income from Investments	1,92,160	1,25,975	3,83,543	3,08,298	3,83,937	3,96,619
Other Income	7,460	13,439	4,608	11,198	12,318	13,550
Total income (A)	6,53,584	7,07,054	10,07,743	10,14,601	12,14,192	13,64,500
Commission	19403	28869	52563	76627	90792	107452
Operating expenses	56,125	84,374	69,010	63,490	71,108	79,641
Total commission and opex	75,528	1,13,242	1,21,574	1,40,117	1,61,900	1,87,093
Benefits Paid (Net)	3,18,637	3,88,723	3,96,965	3,87,853	4,46,334	5,14,380
Chg in reserves	2,46,815	1,85,862	4,84,194	4,66,964	5,80,887	6,34,562
Prov. for doubtful debts	1,162	4,047	3,183	3,502	3,852	4,237
Total expenses (B)	6,42,142	6,91,875	10,05,915	9,98,435	11,92,972	13,40,272
(A) - (B)	11,442	15,180	1,828	16,166	21,220	24,228
Provn for tax	1,845	1,591	-5,924	2,425	3,183	3,634
Surplus / Deficit	9,597	13,589	7,752	13,741	18,037	20,594

Shareholder's a/c (INRm)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Transfer from technical a/c	10,093	14,689	7,991	13,741	18,037	20,594
Income From Investments	7,894	7,197	10,022	11,199	12,510	13,964
Total Income	17,987	22,519	18,144	25,083	30,706	34,732
Other expenses	825	1,246	1,209	1,330	1,463	1,609
Contribution to technical a/c	5,694	8,795	1,251	7,506	8,257	9,083
Total Expenses	6,186	9,794	2,505	8,886	9,774	10,752
PBT	11,801	12,724	15,639	16,198	20,932	23,980
Prov for Tax	275	877	50	-	-	-
PAT	12,077	13,601	15,689	16,198	20,932	23,980
Growth	-11%	13%	15%	3%	29%	15%

Premium (INRm) & growth (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
New business prem - unwttd	2,41,548	2,90,851	2,96,314	3,30,527	3,91,112	4,62,821
New business prem - WRP	96,644	1,31,000	1,29,629	1,53,081	1,81,726	2,15,745
Renewal premium	2,18,080	2,84,483	3,34,451	3,77,112	4,41,574	5,08,719
Total premium - unwttd	4,59,628	5,75,334	6,30,765	7,07,639	8,32,686	9,71,539
New bus. growth - unwttd	20.1%	20.4%	1.9%	11.5%	18.3%	18.3%
New business growth - APE	18.1%	35.5%	-1.0%	18.1%	18.7%	18.7%
Renewal premium growth	18.0%	30.4%	17.6%	12.8%	17.1%	15.2%
Total prem growth - unwttd	19.1%	25.2%	9.6%	12.2%	17.7%	16.7%

Balance sheet (INRm)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Fund						
Share Capital	21,159	21,526	21,509	21,509	21,509	21,509
Reserves And Surplus	1,32,852	1,08,146	1,20,503	1,41,005	1,67,531	1,97,107
Shareholders' Fund	1,54,859	1,29,868	1,46,517	1,67,019	1,93,546	2,23,121
Policy Liabilities	10,43,425	14,32,696	17,53,488	21,21,630	25,74,072	31,01,533
Prov. for Linked Liab.	7,65,190	7,53,836	9,21,145	12,23,090	14,10,477	15,63,906
Funds For Future App.	50,435	50,533	46,386	51,024	56,127	61,739
Current liabilities & prov.	62,287	83,030	87,777	96,555	1,06,211	1,16,832
Total	21,03,892	24,79,222	30,25,071	36,37,809	43,18,922	50,45,621
Application of Funds						
Shareholders' inv	1,52,379	1,31,319	1,48,819	1,71,142	1,96,813	2,26,335
Policyholders' inv	10,83,110	14,64,485	18,17,966	22,79,124	27,94,538	33,35,116
Assets to cover linked liab.	8,06,215	7,92,015	9,55,416	10,74,595	12,03,546	13,47,972
Loans	6,428	15,853	18,972	20,869	22,956	25,252
Fixed Assets	3,427	3,802	4,158	4,366	4,585	4,814
Current assets	52,333	71,748	79,739	87,713	96,484	1,06,133
Total	21,03,892	24,79,222	30,25,071	36,37,809	43,18,922	50,45,621

Financials and valuations

Operating ratios (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Investment yield	10.8%	6.1%	15.2%	10.1%	10.4%	9.1%
Commissions / GWP	422.1%	501.8%	833.3%	1082.9%	1090.3%	1106.0%
- first year premiums	17.0%	17.9%	28.4%	39.0%	39.0%	39.0%
- renewal premiums	1.5%	1.8%	1.6%	1.6%	1.6%	1.6%
- single premiums	1.3%	1.6%	8.5%	9.5%	9.5%	9.5%
Operating expenses / GWP	12.2%	14.7%	10.9%	9.0%	8.5%	8.2%
Total expense ratio	16.3%	16.4%	19.7%	19.3%	19.8%	19.4%
Claims / NWP	70.2%	68.5%	64.1%	55.8%	54.6%	53.9%
Solvency ratio	176%	203%	187%	175%	173%	172%

Persistency ratios (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
13th Month	87.5%	87.5%	87.1%	86.9%	86.9%	86.9%
25th Month	78.8%	78.7%	79.2%	79.0%	78.9%	78.8%
37th Month	67.5%	72.4%	73.2%	73.4%	73.3%	73.2%
49th Month	63.2%	64.0%	69.7%	71.0%	71.9%	72.6%
61st Month	54.0%	52.3%	53.5%	57.3%	58.5%	59.4%

Profitability ratios (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
VNB margin (%)	27.4%	27.5%	26.3%	25.4%	26.2%	26.8%
RoE (%)	10.0%	9.6%	11.4%	10.3%	11.6%	11.5%
RoIC (%)	21.6%	14.1%	14.7%	15.2%	19.6%	22.5%
Operating ROEV	16.5%	19.7%	17.5%	16.7%	16.6%	17.2%
ROEV (%)	12.9%	31.5%	20.1%	16.8%	16.5%	17.1%

Valuation data points	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total AUM (INRb)	2,042	2,388	2,922	3,631	4,321	5,057
DPS	1.70	1.90	2.00	2.00	2.00	2.00
Dividend payout ratio (%)	33.82	26.41	26.03	26.56	26.72	23.32
EPS, INR	5.6	6.3	7.3	7.5	9.7	11.1
Value of new business (INRb)	26.7	36.7	35.0	39.9	48.8	59.3
Embedded Value (INRb)	329.4	395.1	474.5	554.5	645.9	756.2
EV per share (INR)	153.1	183.7	220.6	257.8	300.3	351.6
VIF as % of EV	64%	68%	69%	72%	73%	75%
P/VIF (%)	0.6	0.5	0.4	0.3	0.3	0.2
P/AUM (%)	64%	55%	45%	36%	30%	26%
P/EV (x)	4.0	3.3	2.8	2.4	2.0	1.7
P/EPS (x)	108.3	96.1	83.4	80.7	62.5	54.5

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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