28 February 2025

the CornerOffice
Interaction with the CEO

# 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:**

**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.

## 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.

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- **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:

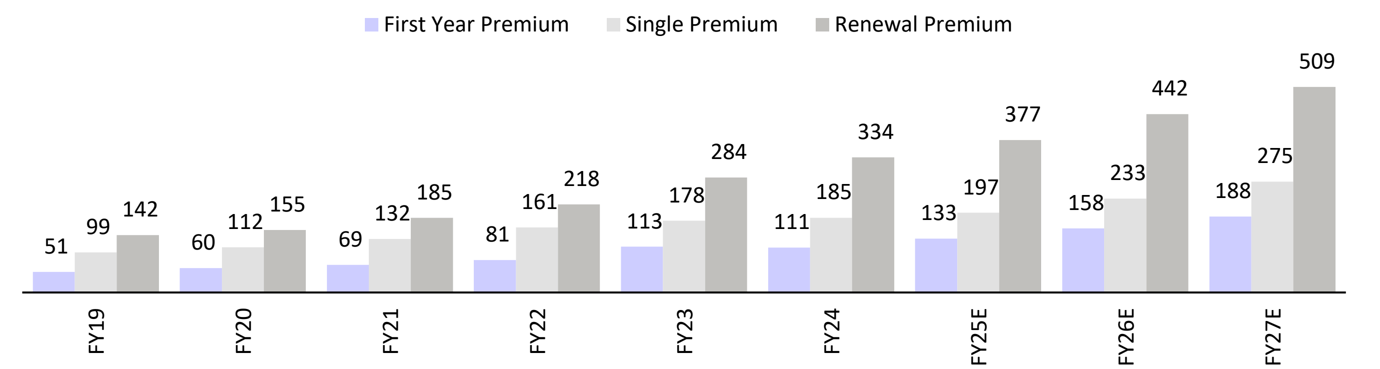
- Only ~2% of customers buy life insurance for tax purposes at HDFCLIFE; hence, tax benefits are no longer a major sales driver.
- For corporate tax, no changes are anticipated at least in the near term.
- The company's ROEV stood at 17.5%, lower than the historical rate of 20%+, primarily due to base 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).**

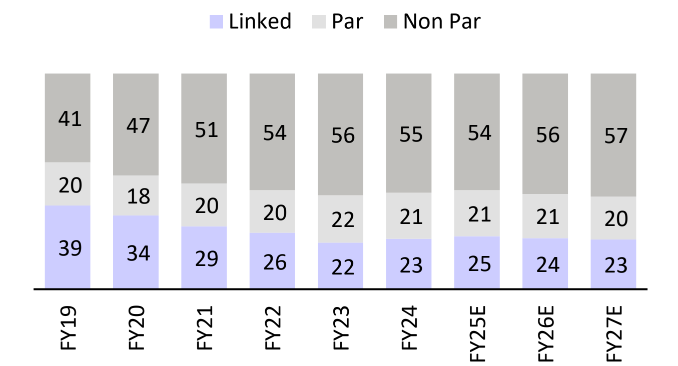
# Story in charts

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



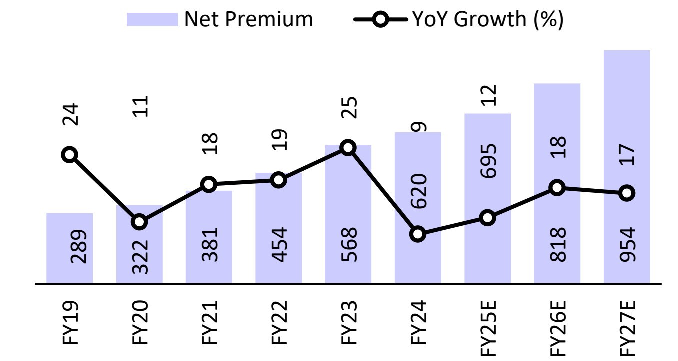

Source: MOFSL, Company

### Exhibit 2: Gross premium mix (%)



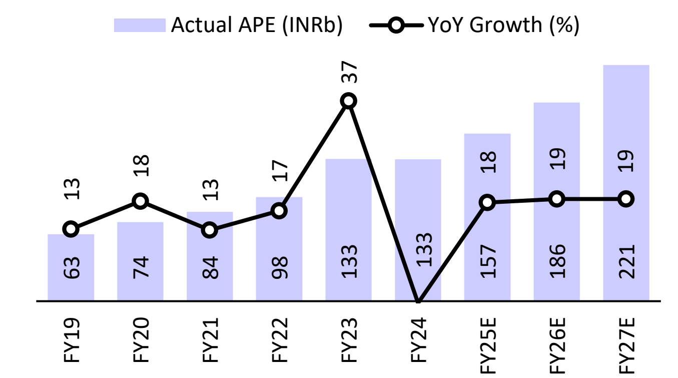

Source: MOFSL, Company

### Exhibit 3: Expect steady growth in net premium



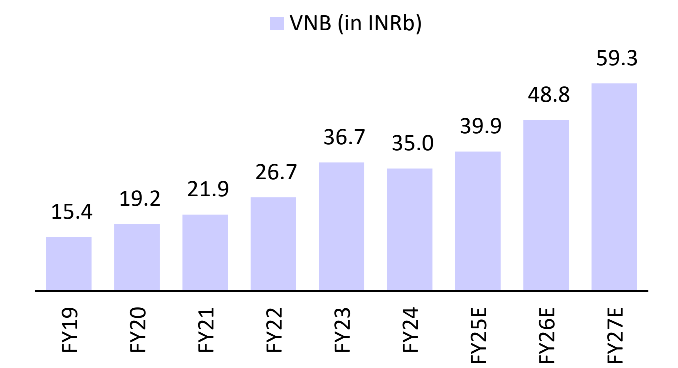

Source: MOFSL, Company

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



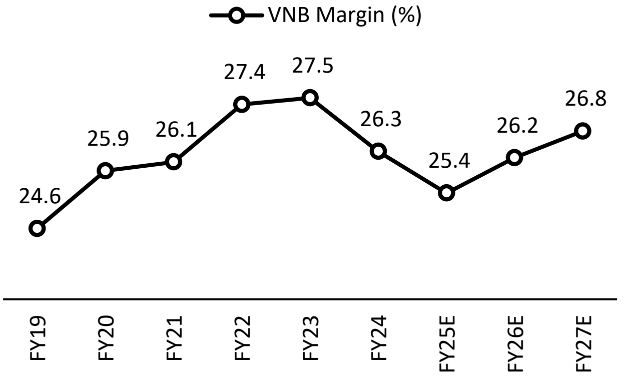

Source: MOFSL, Company

### Exhibit 5: Trend in absolute VNB (INR b)



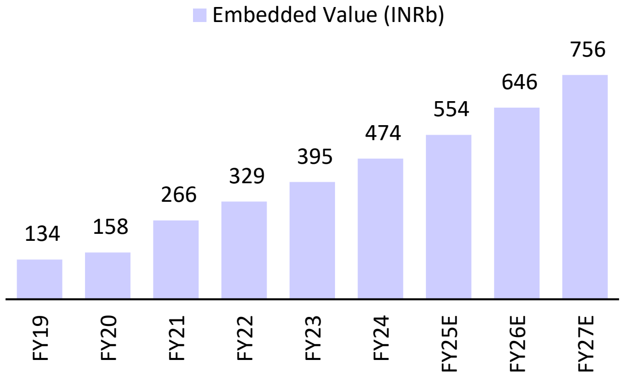

Source: MOFSL, Company

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



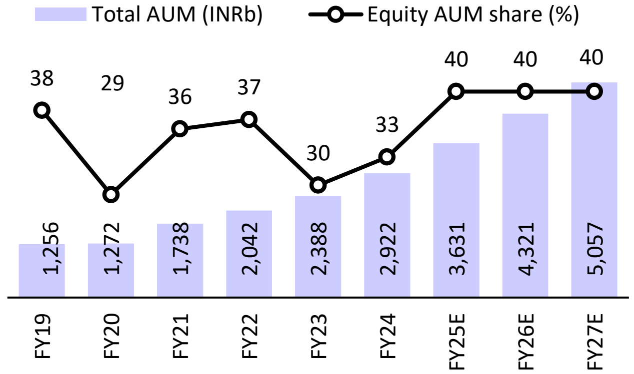

Source: MOFSL, Company

### Exhibit 7: Trend in Embedded value (INRb)



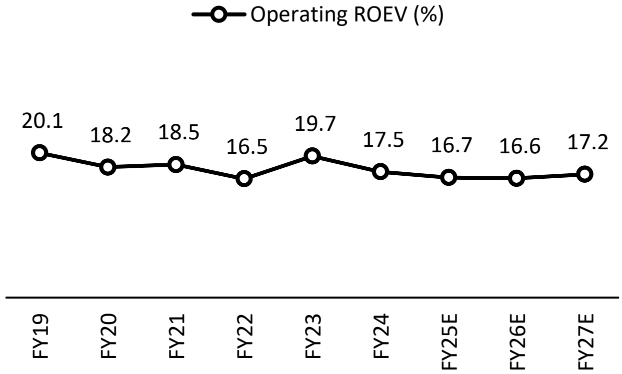

Source: MOFSL, Company

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



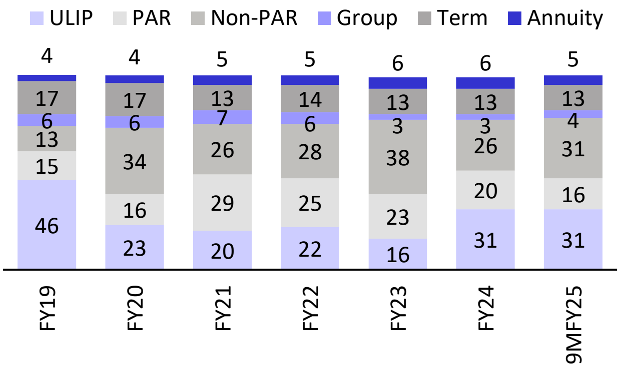

Source: MOFSL, Company

### Exhibit 9: Operating ROEV likely to remain above 16%



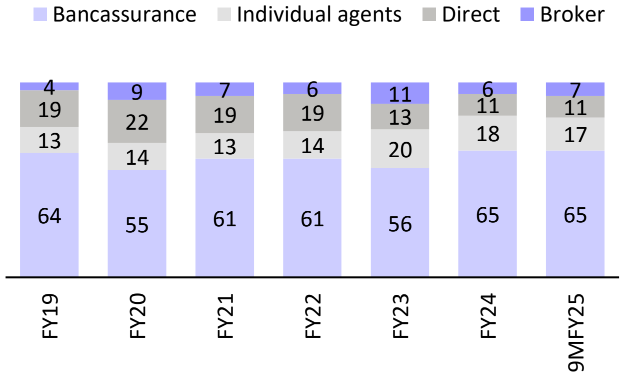

Source: MOFSL, Company

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



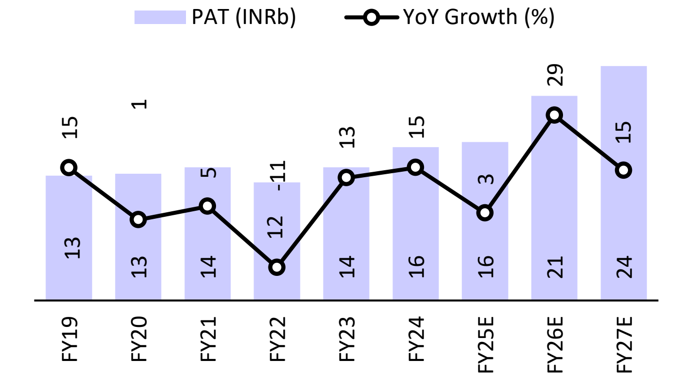

Source: MOFSL, Company

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



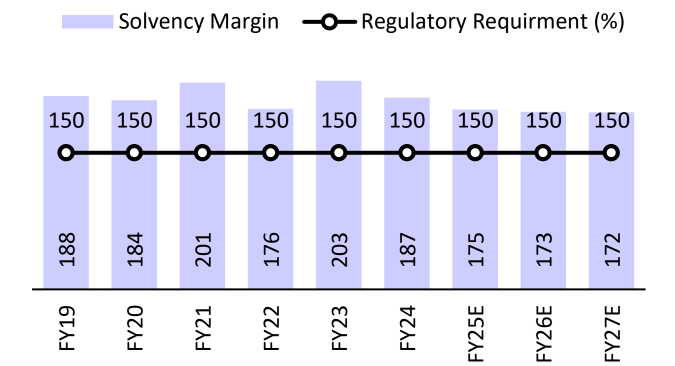

Source: MOFSL, Company

**Exhibit 12: Trend in PAT (INRb)**



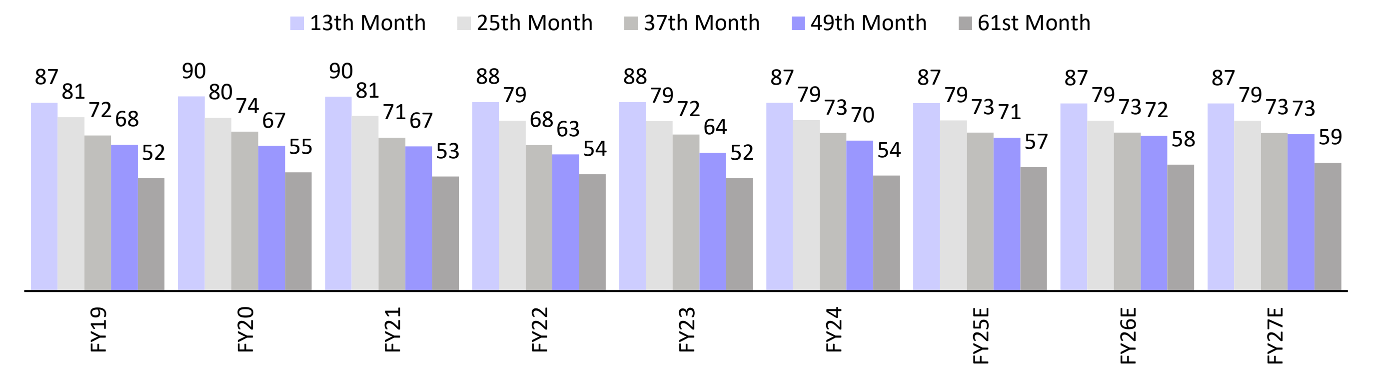

Source: MOFSL, Company

**Exhibit 13: Solvency ratio maintained well above the limits**



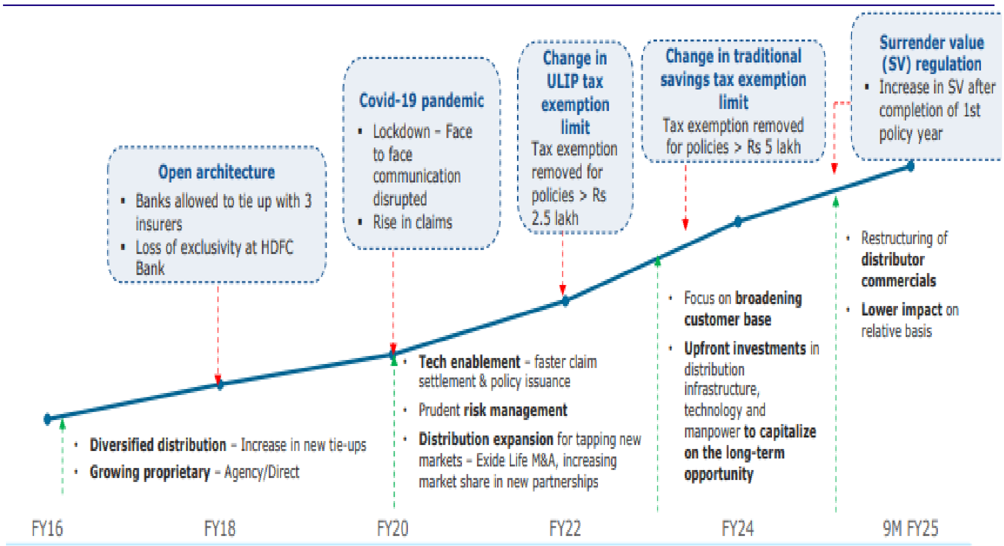

Source: MOFSL, Company

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



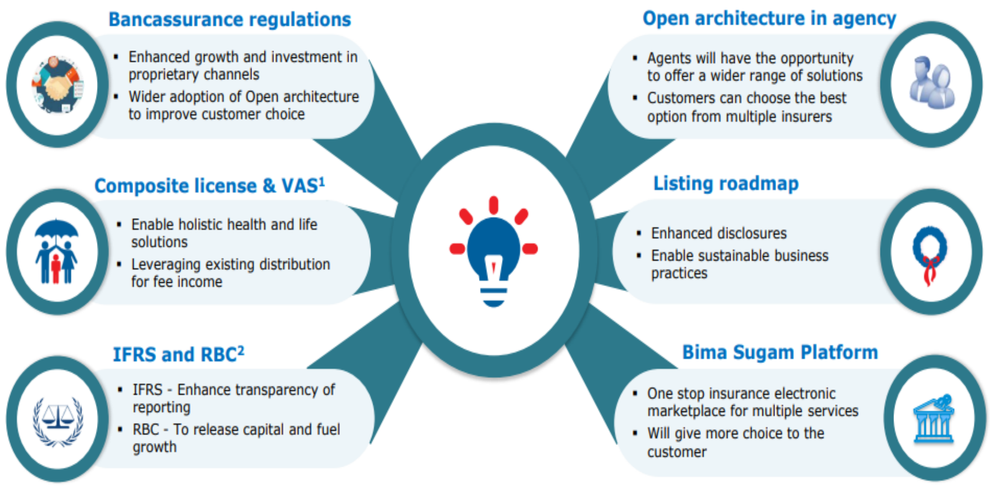

Source: MOFSL, Company

**Exhibit 15: Steady performance across business cycles**



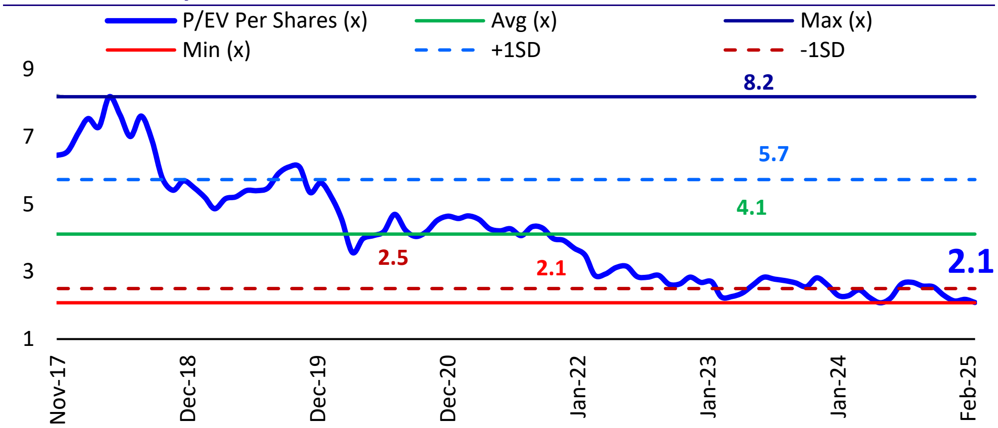

Source: MOFSL, Company

**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 - unwtd | 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 - unwtd | 4,59,628 | 5,75,334 | 6,30,765 | 7,07,639 | 8,32,686 | 9,71,539 |
| New bus. growth - unwtd | 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 - unwtd | 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 |

| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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