

January 15, 2025

**RESULT REPORT Q3 FY25** | Sector: Insurance (Life)

# HDFC Life Insurance

## Margin surprise served with some growth issues

### Our view – Impact from surrender rule changes well contained

**VNB margin** – Impact from surrender rule changes contained at 30 bps, while product level margins improve: The implementation of surrender value rules has negatively impacted VNB margin by 30 bps for the quarter and 10 bps for 9MFY25. The earlier guidance of 100 bps impact was a gross impact if no mitigating steps were taken. The company has shared the impact with distributors through clawbacks, deferrals and reduction of commission and the eventual impact is expected to be contained within 30 bps. For the quarter, calculated VNB margin increased 174 bps QoQ to 26.1%. However, on a like-for-like basis, VNB margin is up 60 bps on sequential basis. In 2QFY25, there was a one-time negative impact on VNB margin of 110 bps due to delay in repricing of products. The net sequential margin expansion was driven by improved product level margin across the board but especially for ULIP product. The VNB growth guidance remains at 15% plus, with management guiding for broadly stable margin in the last quarter.

**APE growth** – While APE has de-grown sequentially, management has guided for reasonable full year growth: APE growth for the quarter was -7.5% QoQ and 11.8% YoY. Management has stated that growth has been in broadly line with the private sector and is not a matter of any significant concern. Growth is broad-based from all channels and seasonality should help towards the end of the year. The company reiterated its overall APE growth guidance for the full year at 18-20%. The company's counter share on the HDFC Bank has remained steady at 65% and the HDFC Bank channel is up 20% in 9M and 10% for the quarter due to high base.

We maintain an 'ADD' rating on HDFL with a revised price target of Rs 700: We value HDFL at 2.3x FY26 P/EV for an FY25E/26E/27E RoEV profile of 17.0%/17.2%/17.1%.

*(See Comprehensive con call takeaways on page 2 for significant incremental colour.)*

### Other Highlights (See "Our View" above for elaboration and insight)

- **VNB growth:** The VNB de-growth/growth was -0.9%/8.6% QoQ/YoY, driven lower sequentially by de-growth in APE
- **Expense control:** Expense ratio de-grew/grew -53bps/96bps QoQ/YoY to 20.8%, QoQ driven lower by decrease of -238bps in Opex ratio
- **Persistency:** 37<sup>th</sup> month ratio fell -130bps QoQ at 71.8% and 61<sup>st</sup> month ratio fell -1010bps QoQ to 57.8%

### Exhibit 1: Result table

Rs mn	Q3 FY25	Q3 FY24	% yoy	Q2 FY25	% qoq
NBP	78,994	71,297	10.8%	80,964	-2.4%
Renewal premium	93,756	83,962	11.7%	88,310	6.2%
Income from investments	1,921	113,698	-98.3%	116,108	-98.3%
Surplus/(Deficit)	(1,935)	613	-415.7%	5,104	-137.9%
PAT	4,149	3,651	13.7%	4,330	-4.2%
Expense ratio	20.8%	19.8%	96bps	21.3%	-53bps
37th mo. Persistency*	71.8%	71.2%	60bps	73.1%	-130bps
Total APE	35,690	31,910	11.8%	38,580	-7.5%
Individual APE	31,220	27,930	11.8%	33,970	-8.1%
VNB	9,300	8,560	8.6%	9,380	-0.9%
VNB Margin	26.1%	26.8%	-77bps	24.3%	174bps

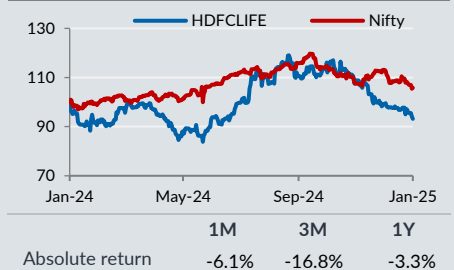
Source: Company, YES Sec-Research, \*N.B. Regular and Limited Pay

Recommendation	: ADD
Current Price	: Rs 594
Target Price	: Rs 700
Potential Return	: +18%

### Stock data (as on January 15, 2025)

Nifty	23,213
52 Week h/l (Rs)	761 / 511
Market cap (Rs/USD mn)	1290820 / 14946
Outstanding Shares (mn)	2,152
6m Avg t/o (Rs mn):	2,908
Div yield (%):	0.3
Bloomberg code:	HDFCLIFE IN
NSE code:	HDFCLIFE

### Stock performance



### Shareholding pattern (As of Sep'24 end)

Promoter	50.3%
FII+DII	38.9%
Others	10.8%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	700	725

### Financial Summary

Rs mn	FY25E	FY26E	FY27E
APE	158,717	184,379	214,261
% yoy	19.4%	16.2%	16.2%
VNB	40,473	47,939	55,708
VNB Margin	25.5%	26.0%	26.0%
Reported PAT	17,242	19,033	21,119
% yoy	9.9%	10.4%	11.0%
EPS (Rs)	8.0	8.8	9.8
EV/Share (Rs)	256.1	298.0	347.1
RoEV	17.0%	17.2%	17.1%
P/EV (x)	2.3	2.0	1.7
P/VNB (x)	31.6	26.7	22.9

### Δ in earnings estimates

Rs bn	FY25E	FY26E	FY27E
VNB (New)	40.5	47.9	55.7
VNB (Old)	40.5	48.0	55.9
% change	-0.1%	-0.2%	-0.3%

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## COMPREHENSIVE CON-CALL HIGHLIGHTS

### VNB margin

- **VNB Margin and VNB levels**
  - VNB in 9MFY25 has grown 14% YoY to Rs 25.86bn.
  - VNB margin for 9MFY25 was 25.1% compared with 26.5% for 9MFY24.
  - The YoY decline in VNB margin is mainly due rise in share of ULIP.
- **Surrender rule changes**
  - The implementation of surrender value rules has negatively impacted VNB margin by 30 bps for the quarter and 10 bps in 9MFY25.
  - The earlier guidance of 100 bps impact was a gross impact if no mitigating steps were taken.
  - **Distributor pass-through**
    - The company has shared the pain with distributors through clawbacks, deferrals and reduction of commission.
    - The intention is to keep the impact contained within 20-30 bps and it could land anywhere between 10-30 bps.
    - The discussion with distributors has been completed for 90-95% of business and will be completed for the remaining in a few months.
  - **Repricing**
    - No product repricing has been carried out on protection or non-par savings after surrender rule changes but some peers have made some pricing changes.
    - For other players, non-par IRR has come down, annuity prices have been revised downward whereas term prices have been raised.
- **Like for like sequential expansion**
  - On a like-for-like basis, VNB margin is up 60 bps on sequential basis.
  - **Previous one-off due to lag in repricing**
    - In 2QFY25, there was a one-time negative impact on VNB margin of 110 bps due to delay in repricing of products.
    - There was no one off for VNB margin in 3QFY25.
  - **Product level margin improvement**
    - The net sequential margin expansion was driven by improved product level margin across the board but especially for ULIP product.
    - The ULIP margin has improved due to better persistency and higher attachment of protection.
- **Share of ULIP**
  - It has been observed in the past that, if the markets remain volatile, ULIP sales are impacted with a 9-12 month lag.
- **Agency channel aspects**
  - Share of term on banca is 4% whereas it is 10% on agency.
  - Share of linked business is also lower on Agency than overall company level.
- **Margin guidance**
  - Management continues to guide for VNB growth of 15% plus.
  - Since there would not any material deterioration in product mix in 4Q, margin would be stable to positive in 4Q.

(Con call takeaways continue on the next page)

## Overall growth

- **Growth aspects**
  - Management has stated that growth has been in line with the private sector and is not a matter of any significant concern.
  - Growth is broad based from all channels and seasonality should help towards the end of the year.
  - The company reiterated its overall APE growth guidance for the full year at 18-20%.
- **Growth outcomes**
  - The 9MFY25, individual WRP has grown by 22% YoY for the company as against 19% for the private sector industry.
  - The company's 9MFY25 private market share was 15.3% and overall market share was 10.8%.
  - Individual APE growth in 9MFY25 was 24% YoY.
  - Total APE growth in 9MFY25 was 20% YoY.
  - Over 70% of the customers acquired in 9MFY25 are new to the company.

## Channel growth and mix

- **Bancassurance**
  - The banca channel grew by around 24% YoY in individual APE in 9M.
  - **HDFC Bank**
    - The company's counter share on the HDFC Bank has remained steady at 65%.
    - HDFC Bank channel is up 20% in 9M and 10% for the quarter due to high base.
    - **Capping of primary bank**
      - Management stated that, so far, they have only heard news reports in the media and nothing from the regulator on this.
      - The company works on minimizing mis-selling and the incidence of the same is actually lower than some other channels.
      - The company is focused on growing the share of agency and direct channels as well as tying up with other banks (reducing dependence on HDFC Bank).
      - The share of bancassurance is 35% on received premium basis of which HDFC Bank is one-fourth, including credit life.
      - Management noted that the share of bancassurance had risen due to agency channel being impacted by the tax advantage being taken away for large-ticket products (which were primarily sold by agency).
- **Direct channel**
  - 35 branches have been added this year.
- **Agency**
  - Protection business under agency channel grew by 2x of the company's overall protection growth of 28%.

## Embedded value

- **Embedded value**
  - EV has risen 18% YoY to Rs 532.46bn.
- **Return on embedded value**
  - The operating RoEV amounted to 16%.
- **Economic variance**
  - Over 9MFY25, the economic variance has emerged mainly due to fall in interest rates.

(Con call takeaways continue on the next page)

- Over this period, equity markets are up 8%, which is in line and hence, there is no impact due to this.
- **Unwind of discount**
  - The rate of unwind has remained steady at 8.1% as at the beginning of the year.

## New business strain

- New business strain has risen 13%, which is broadly in line with new business and not unusual.
- Surplus is lower due to non-par having grown faster than overall growth and there is net strain in non-par savings.

## Product growth and mix

- **Product mix – on Individual APE for 9MFY25**
  - Linked – 37%
  - Non par savings – 35%
  - Par – 18%
  - Protection – 6%
  - Annuities – 5%
- **Non-par savings**
  - The Non-par savings have grown by 55% YoY in 9MFY25.
- **Protection**
  - Retail protection APE for 9MFY25 grew by 28% YoY.
  - Credit protect growth was slower due to slower disbursements amongst specific partners and MFI segment. Other lines of credit life are broadly stable.
- **Par business**
  - The company has launched new product ‘Click to Achieve Par advantage’

## Solvency

- The solvency ratio amounted to 188% as of December 2024.

## Persistency

- The 13th month persistency amounted to 87%, up by 110bps YoY.
- The 61st month persistency amounted to 61%, up by 780bps YoY.
- The improvement in 61st month persistency was aided by non-par guaranteed products introduced 5 years ago.

## HDFC Pension

- AUM was at Rs 10.62bn.
- The market share is 43.2% (presumably among private sector players).

## Exhibit 2: Quarterly Actuals Vs Estimates

Q3FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	78,994	81,702	(3.3)
Total APE	35,690	34,515	3.4
VNB	9,300	8,322	11.8

Source: Company, YES Sec – Research

## Exhibit 3: Other Business Parameters

	Q3 FY25	Q3 FY24	% yoy	Q2 FY25	% qoq
<b>APE by Product (Rs mn)</b>					
ULIP	11,809	10,498	12.5%	11,736	0.6%
Par	7,219	6,723	7.4%	4,849	48.9%
Non par saving	8,856	7,619	16.2%	13,649	-35.1%
Non par protection	1,820	1,633	11.5%	2,038	-10.7%
Annuity	1,517	1,457	4.1%	1,699	-10.7%
<b>Total Individual APE</b>	<b>31,220</b>	<b>27,930</b>	<b>11.8%</b>	<b>33,970</b>	<b>-8.1%</b>
Group	4,470	3,980	12.3%	4,610	-3.0%
<b>Total APE</b>	<b>35,690</b>	<b>31,910</b>	<b>11.8%</b>	<b>38,580</b>	<b>-7.5%</b>

<b>Product Mix (% in APE)</b>					
ULIP	33.1%	32.9%	19bps	30.4%	267bps
Par	20.2%	21.1%	-84bps	12.6%	766bps
Non par saving	24.8%	23.9%	94bps	35.4%	-1056bps
Non par protection	5.1%	5.1%	-2bps	5.3%	-18bps
Annuity	4.2%	4.6%	-32bps	4.4%	-15bps
<b>Total individual</b>	<b>87.5%</b>	<b>87.5%</b>	<b>-5bps</b>	<b>88.1%</b>	<b>-58bps</b>
Group	12.5%	12.5%	5bps	11.9%	58bps

<b>APE by Channel (Individual APE, Rs mn)</b>					
Bancassurance	20,293	18,186	11.6%	22,081	-8.1%
Brokers & others	2,185	1,303	67.7%	2,378	-8.1%
Agency	5,307	5,239	1.3%	5,775	-8.1%
Direct	3,434	3,202	7.3%	3,737	-8.1%

<b>Channel mix (% in APE)</b>					
Bancassurance	65%	65%	-11bps	65%	0bps
Brokers & others	7%	5%	233bps	7%	0bps
Agency	17%	19%	-176bps	17%	0bps
Direct	11%	11%	-46bps	11%	0bps

<b>Persistence*</b>					
13 month	81.9%	83.4%	-150bps	82.5%	-60bps
61 month	57.8%	51.1%	670bps	67.9%	-1010bps

<b>Expense ratio</b>					
Commission ratio	11.5%	8.2%	335bps	11.2%	35bps
Opex ratio	9.3%	11.6%	-238bps	10.1%	-89bps

<b>Solvency</b>					
Solvency ratio	188.0%	190.0%	-200bps	181.0%	700bps

Source: Company, YES Sec – Research, \*N.B. Regular and Limited Pay, Both YoY and QoQ numbers are comparable

## ANNUAL FINANCIALS

### Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net premium	567,640	619,592	714,562	820,251	944,248
Income from investments	125,975	383,543	460,684	542,133	631,163
Other income	4,644	3,357	3,692	4,061	4,468
Contri from shareholders A/C	8,795	1,251	1,376	1,514	1,665
<b>Total income</b>	<b>707,055</b>	<b>1,007,743</b>	<b>1,180,314</b>	<b>1,367,959</b>	<b>1,581,544</b>
Commission	28,869	52,563	60,620	69,586	80,105
Employee expenses	30,490	32,420	36,311	40,668	45,548
Other opex	53,884	36,590	67,831	77,863	89,634
Benefits paid	388,723	396,965	468,489	551,454	645,254
Change in valuation of liability	185,862	484,194	521,233	598,061	685,992
Others	4,047	3,183	4,730	5,430	6,250
Provision for Tax	1,591	-5,924	3,233	3,756	4,350
<b>Surplus/(Deficit)</b>	<b>13,589</b>	<b>7,751</b>	<b>17,868</b>	<b>21,141</b>	<b>24,411</b>
Transfer to shareholders A/C	14,689	7,991	9,180	10,558	12,156

Source: Company, YES Sec – Research

### Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Transfer from Policyholders' account	14,689	7,991	9,180	10,558	12,156
Income from Investments	7,197	10,022	10,976	11,682	12,495
<b>Total A</b>	<b>21,887</b>	<b>18,013</b>	<b>20,156</b>	<b>22,240</b>	<b>24,651</b>
Expenses (apart from insurance)	1,246	1,209	1,330	1,463	1,609
Contribution to Policyholders' Acc	8,795	1,251	1,376	1,514	1,665
Others	-247	45	0	0	0
Total B	9,794	2,505	2,706	2,977	3,274
Profit/(Loss) before tax	12,724	15,638	17,594	19,421	21,550
Provision for Taxation	-877	-50	352	388	431
<b>Profit/(Loss) after tax</b>	<b>13,601</b>	<b>15,689</b>	<b>17,242</b>	<b>19,033</b>	<b>21,119</b>

Source: Company, YES Sec – Research

## Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' Funds:					
Share Capital	21,494	21,509	21,509	21,509	21,509
Reserve and surplus	108,374	125,008	137,905	152,593	169,367
Policyholders' Funds					
Policy Liabilities	1,452,455	1,813,745	2,178,627	2,604,994	3,103,276
Provision for Linked Liabilities	753,836	921,145	995,716	1,078,664	1,170,940
Discontinued policies	38,040	34,137	34,137	34,137	34,137
Funds for future appropriation	12,354	12,115	20,802	31,386	43,641
<b>Sources of Funds</b>	<b>2,396,192</b>	<b>2,937,293</b>	<b>3,398,330</b>	<b>3,932,917</b>	<b>4,552,505</b>
Investments - Shareholders	131,319	148,819	157,999	168,557	180,713
Investments Policyholders	2,256,500	2,773,382	3,232,847	3,765,148	4,382,075
Fixed Assets + Loans	19,655	23,131	23,131	23,131	23,131
Net Current Assets	-11,283	-8,038	-15,647	-23,918	-33,414
Misc. Expenditure	-	-	-	-	-
<b>Application of funds</b>	<b>2,396,192</b>	<b>2,937,293</b>	<b>3,398,330</b>	<b>3,932,917</b>	<b>4,552,505</b>

Source: Company, YES Sec – Research

## Exhibit 7: Embedded Value Walk

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Opening EV	329,580	395,260	474,670	550,908	641,053
Unwind of Discount	26,240	32,360	37,974	44,073	51,284
Value of New Business	36,740	35,010	40,473	47,939	55,708
Operating Assumption Changes	1,900	1,860	2,136	2,479	2,885
Economic Variance	(15,940)	13,530	0	0	0
Dividend & ESOP	16,740	(3,350)	(4,345)	(4,345)	(4,345)
<b>Closing EV</b>	<b>395,260</b>	<b>474,670</b>	<b>550,908</b>	<b>641,053</b>	<b>746,585</b>

Source: Company, YES Sec – Research

## Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Annual Premium Equivalent	158,717	184,379	214,261	162,089	188,425	219,116	(2.1)	(2.1)	(2.2)
Value of new business	40,473	47,939	55,708	40,522	48,048	55,875	(0.1)	(0.2)	(0.3)

Source: Company, YES Sec – Research

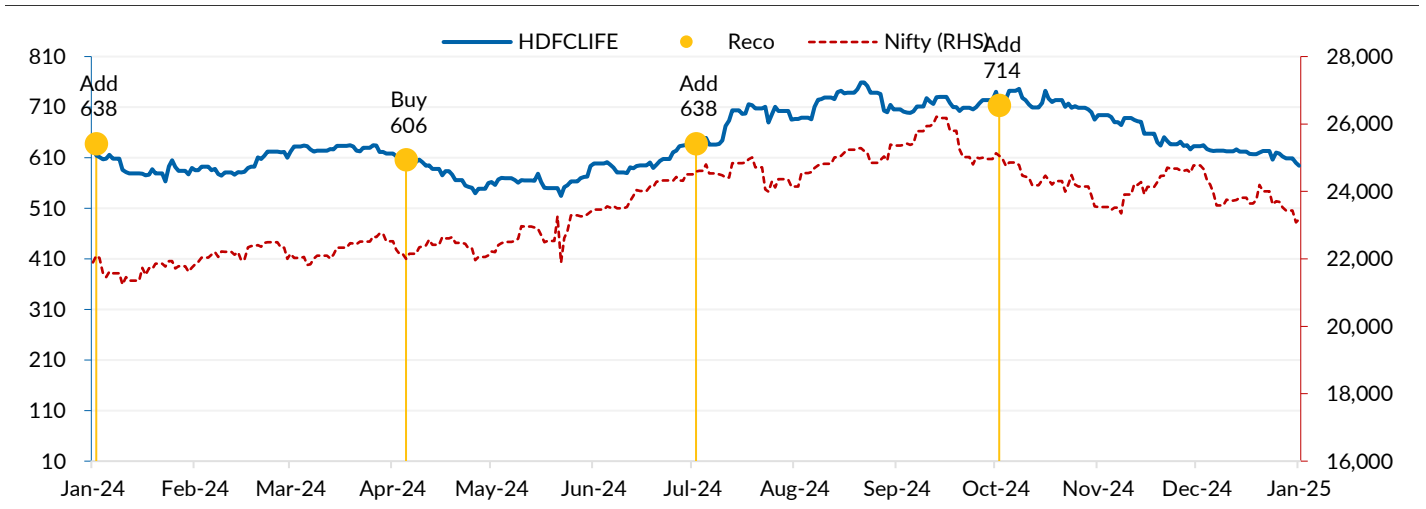
## Exhibit 9: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth (%) - P&amp;L</b>					
New business premium	20.4%	1.9%	19.4%	16.2%	16.2%
Renewal premium	30.4%	17.6%	12.0%	13.9%	14.5%
Net premium	25.0%	9.2%	15.3%	14.8%	15.1%
PAT	12.6%	15.3%	9.9%	10.4%	11.0%
VNB	37.3%	-4.7%	15.6%	18.4%	16.2%
<b>Growth (%) - Balance Sheet</b>					
Total AUM	17.0%	22.4%	16.0%	16.0%	16.0%
Total Assets	17.4%	22.6%	15.7%	15.7%	15.8%
Embedded value	31.5%	20.1%	16.1%	16.4%	16.5%
<b>Profitability ratios (%)</b>					
VNB Margins	27.5%	26.3%	25.5%	26.0%	26.0%
Commission ratio	5.1%	8.5%	8.5%	8.5%	8.5%
Opex ratio	14.9%	11.1%	14.6%	14.5%	14.3%
Expense ratio	19.9%	19.6%	23.1%	22.9%	22.8%
Conservation Ratio	95.3%	84.1%	84.1%	84.1%	84.1%
<b>Return ratios (%)</b>					
ROE	10.5%	10.7%	10.8%	10.9%	11.1%
RoEV	19.7%	17.5%	17.0%	17.2%	17.1%
RoA	0.6%	0.6%	0.5%	0.5%	0.5%
<b>Investment Return (%)</b>					
Invest. Yield - Sh.	5.5%	7.2%	7.2%	7.3%	7.3%
Invest. Yield - Ph.	6.1%	15.3%	15.3%	15.5%	15.5%
<b>Solvency</b>					
Solvency Ratio	203%	187%	195%	195%	195%
<b>Underwriting</b>					
Claims ratio	68.5%	64.1%	65.6%	67.2%	68.3%
Claims / AUM	16.3%	13.6%	13.8%	14.0%	14.1%
<b>Per share data (Rs)</b>					
EPS	6.3	7.3	8.0	8.8	9.8
VNBPS	17.09	16.28	18.82	22.29	25.90
BVPS	60.4	68.1	74.1	80.9	88.7
EVPS	183.9	220.7	256.1	298.0	347.1
<b>Valuation (x)</b>					
P/E	93.9	81.5	74.1	67.2	60.5
P/VNB	34.8	36.5	31.6	26.7	22.9
P/BV	9.8	8.7	8.0	7.3	6.7
P/EV	3.2	2.7	2.3	2.0	1.7

Source: Company, YES Sec – Research



## Recommendation Tracker



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