PL Capital PRABHUDAS LILLADHER

Financial Services

Sector Update

September 24, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
National Stock Exchange of India	Accumulate	1,818	1,950
AAVAS Financiers	BUY	1,256	1,685
Bajaj Finance	Accumulate	982	1,125
BSE	Buy	3,184	4,025
Can Fin Homes	BUY	743	1,075
Cholamandalam Investment and Finance Company	Accumulate	1,682	1,950
Home First Finance Company India	BUY	1,158	1,385
LIC Housing Finance	HOLD	564	550
Mahindra & Mahindra Financial Services	Accumulate	340	380
Shriram Finance	BUY	990	1,250
Sundaram Finance	Accumulate	4,592	5,070
HDFC Life Insurance Company	BUY	527	765
ICICI Prudential Life Insurance Company	BUY	465	715
Max Financial Services	BUY	1,410	2,025
SBI Life Insurance Company	BUY	1,755	2,200

IRDAI Tightens Distribution Norms

Quick Pointers

- Expect commission cuts to be VNB positive over the long-term
- Near-term growth likely to be impacted due to steep cuts on IDE; credit protect growth to slow down
- SBI Life to be least affected; continue to prefer MAXF as our top pick
- Large NBFCs to be most exposed to commission cuts

The consultation paper released by IRDAI prescribes steep commission cuts and tighter EoM norms for life insurers. While these regulations are VNB positive over the long run, we expect some weakness in near-term growth as lower commissions in savings and credit life is likely to be a drag. We expect companies to push for growth in retail protection, led by individual agents where commission cuts are not as sharp. We retain a positive stance on life insurers with some clarity on new commission guidelines. SBI Life pays the lowest commission among our coverage and is best placed to ride the uncertainty. We continue to prefer MAXF as our top pick, backed by a strong proprietary channel. Large NBFCs remain most exposed, with 3-26% of FY26 PBT coming from insurance income.

Tighter caps on commissions and EoM: IRDAI has released a consultation paper on distribution guidelines proposing tighter commission and Expense of Management (EoM) caps to bring down costs. Some of the key changes are:

- **Lower EoM ceiling:** The proposal sets a target of 15% EoM for life insurers within 2 years and 12.5% within 5 years.
- **Commission to include all kinds of payments:** The definition captures all cash and non-cash payments including incentives, awards, reimbursement of expenses, brand payments to related parties or distributors. Volume/ reward-linked incentives for bank and NBFC staff on selling insurance are prohibited.
- **Three categories of distributors:** IRDAI has consolidated various types of distributors into three categories (1) Insurance Distribution Entities (IDE) (2) Insurance Distribution Persons (IDP) and (3) Market Infrastructure Institutions (MII).
- **Commission caps to be enforced:** Product-level caps have been proposed which are significantly lower than current commissions. Cuts are highest for IDEs (mainly banks/ NBFCs) and credit life products (exhibit 3 and 4)
- **Stricter enforcement of guidelines:** Cost audits are mandatory for every insurer and distribution entity with insurance revenue above INR 1 bn; entities above INR 500 mn need to publish revenue, expenses, related party payments and PAT.

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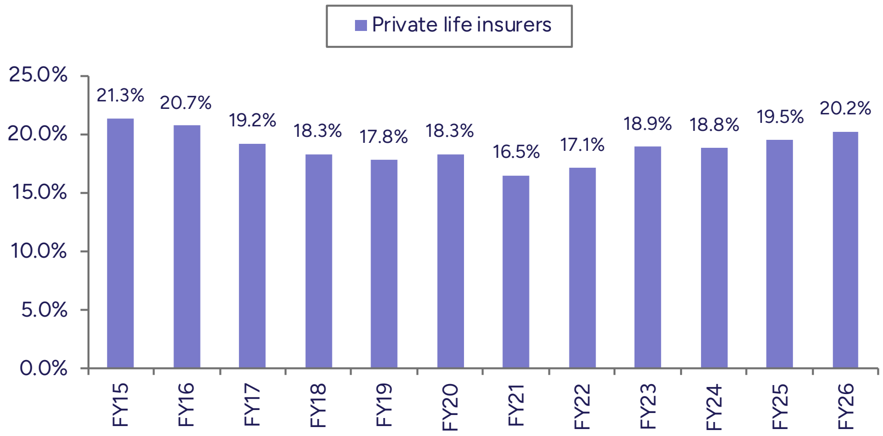
Our sensitivity analysis suggests an improvement of 60-190 bps in commission ratio with cuts ranging from 10%-30% in the banca channel for HDFC LIFE for FY25/ FY26.

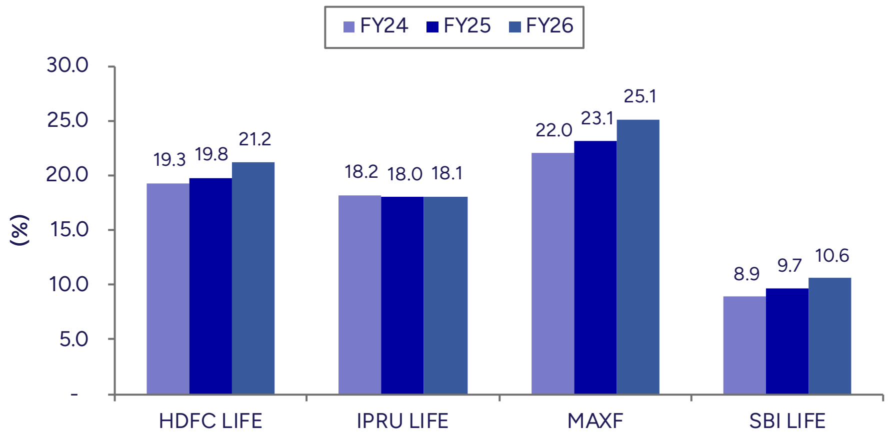
Large NBFCs earn ~3-26% of PBT from insurance commission (exhibit 8). CIFC, HDBFS and LTFH are likely to see a higher impact on profitability. Apart from tighter commissions on credit life products, compulsory bundling of insurance with loans is also prohibited, reducing the opportunity for cross-sell.

Exhibit 1: Private insurers' total expense ratio back to decade-ago levels



Source: Company, PL

Exhibit 2: Total expense ratio of covered companies have increased over the last 3 years



Source: Company, PL

Exhibit 3: **Maximum commission limits as % of premium**

Insurance Type	Premium Payment Term (PPT)	Distribution Entities		Agents	
		First Year	Renewal	First Year	Renewal
Individual Non Linked (Par or Non-Par) and Linked*^	Below 5 years@	5%	2%	6.25%	5%
	5 years	10%	2%	12.5%	5%
	6 - 8 years	14%	3%	17.5%	5%
	9 years	18%	3%	22.5%	5%
	10 years & above	20%	3%	25%	5%
Individual Savings	Single	1%	NA	2%	NA
Individual Pure Term	Single	7.5%	NA	10%	NA
Individual Pure Term	Multi-year	25%	7.5%	30%	10%
Group Pure Term	Single	1.5% subject to a maximum of INR2mn		2% subject to a maximum of INR3mn	
Group Pure Term	Multi-year	5%	5%	7.5%	7.5%
Pension/deferred annuity/ Immediate Annuity	Single	0.5%	NA	0.75%	NA
Pension/deferred annuity	Multi-year	5%	5%	6.5%	5%
Group Fund Based (both voluntary and employer sponsored)	NA	0.5% of the contribution during the year (max INR 1mn)		0.5% of the contribution during the year (max INR 1.5mn)	

Source: Company, PL

**From the beginning of the 6th policy year, once every three years the renewal commission shall be increased by 0.5% of the premium for policies which are renewed after 6th year and shall be paid at each renewal beginning from 6th policy year*

^Policy term cannot be less than 10 years or the PPT, whichever is higher

@ For PPT less than 5 years only non-par non-linked products are permitted.

Exhibit 4: **Commission limits for insurance packaged with loan or credit by lending institution**

	First year	Renewal
Individual Pure Term: single premium	2%	NA
Individual Pure Term: multi-year premium	2.5%	1%
Group Pure Term: single premium	2%	NA
Group Pure Term: multi-year premium	2.5%	1%

Source: Company, PL

Exhibit 5: **SBI Life pays lower commissions across channels**

	FY24	FY25	FY26
HDFC LIFE			
Individual agents	28.2%	23.4%	22.9%
Corporate agents - Banks	28.3%	38.8%	39.0%
Corporate agents - Others	27.9%	38.0%	42.0%
Brokers	31.8%	46.0%	44.8%
Overall	17.6%	23.3%	25.1%
IPRU LIFE			
Individual agents	26.3%	24.2%	25.7%
Corporate agents - Banks	30.6%	32.3%	30.9%
Corporate agents - Others	46.4%	44.8%	40.6%
Brokers	35.2%	37.3%	35.2%
Overall	19.9%	20.2%	20.9%

	FY24	FY25	FY26
MAXF			
Individual agents	29.1%	29.3%	31.1%
Corporate agents - Others	22.3%	38.3%	45.0%
Brokers	34.5%	38.6%	55.8%
Overall	21.8%	25.8%	28.2%
SBI LIFE			
Individual agents	16.6%	19.5%	21.7%
Corporate agents - Banks	10.0%	11.2%	11.8%
Corporate agents - Others	23.0%	36.7%	37.5%
Brokers	5.5%	9.5%	2.3%
Overall	8.5%	10.5%	10.6%

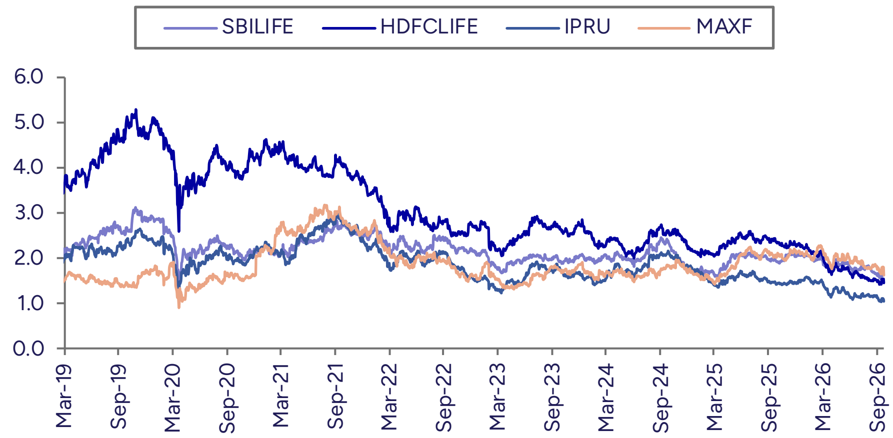
Source: Company, PL

Exhibit 6: Commission ratio to improve by 60-190bps for FY25/26 based on sensitivity analysis of HDFC LIFE

(INR mn)	Base case		Banca commissions reduce by 10%		Banca commissions reduce by 20%		Banca commissions reduce by 30%	
	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
Gross premium	7,10,449	7,93,871	7,10,449	7,93,871	7,10,449	7,93,871	7,10,449	7,93,871
Banca commissions	45,257	49,536	40,731	44,583	36,205	39,629	31,680	34,675
Other channel partners	33,096	41,733	33,096	41,733	33,096	41,733	33,096	41,733
Gross commissions paid	78,353	91,269	73,827	86,316	69,302	81,362	64,776	76,408
Commission ratio	11.0%	11.5%	10.4%	10.9%	9.8%	10.2%	9.1%	9.6%
Improvement in ratio			***0.6%***	***0.6%***	***1.3%***	***1.2%***	***1.9%***	***1.9%***

Source: Company, PL

Exhibit 7: Insurance companies under coverage are trading at one year forward P/EV range of 1.0-1.6x



Source: Company, PL

Exhibit 8: Large NBFCs earn ~3-26% of FY26 PBT from insurance commission

Companies	FY24	FY25	FY26
BAF	4.1%	5.3%	7.5%
CIFC	14.7%	16.9%	16.3%
SHFL	2.9%	2.8%	2.6%
HDBFS	6.3%	9.5%	13.4%
LTFH	15.8%	24.8%	25.8%
PIRAMALF	NM	30.3%	14.8%

Source: Company, PL

Exhibit 9: Valuation Summary - Insurance

Company	CMP (INR)	TP (INR)	MCap (INR bn)	Rating	% Chng.	P/EV (x)				APE (INR bn)				VNB (INR bn)			
						FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
HDFC Life	527	765	1,145	Buy	45%	2.1	1.8	1.6	1.4	150.1	161.0	180.7	205.3	38.4	39.0	44.3	50.9
IPRU Life	465	715	674	Buy	54%	1.4	1.3	1.1	1.0	104.1	106.4	117.1	131.4	23.7	26.3	29.3	32.8
Max FS	1,410	2,025	487	Buy	44%	2.4	2.1	1.8	1.5	87.7	105.0	122.0	142.2	21.1	26.5	30.5	35.7
SBI Life	1,755	2,200	1,761	Buy	25%	2.5	2.2	1.8	1.6	214.1	242.6	275.5	312.1	59.5	66.7	74.9	85.5

Company	CMP (INR)	TP (INR)	MCap (INR bn)	Rating	% Chng.	VNB Margin (%)				Embedded Value (INR bn)				RoEV (%)			
						FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
HDFC Life	527	765	1,145	Buy	45%	25.6	24.2	24.5	24.8	554.3	621.4	719.7	835.3	16.7	15.0	15.3	15.4
IPRU Life	465	715	674	Buy	54%	22.8	24.7	25.0	25.0	479.5	529.9	591.6	668.8	13.1	11.9	12.7	13.4
Max FS	1,410	2,025	487	Buy	44%	24.0	25.2	25.0	25.1	204.1	233.9	275.4	324.0	19.1	18.7	18.9	18.6
SBI Life	1,755	2,200	1,761	Buy	25%	27.8	27.5	27.2	27.4	702.5	808.0	954.7	1,125.3	20.2	19.7	18.0	17.7

Source: Company, PL

Exhibit 10: Valuation Summary - NBFCs

Company	CMP (INR)	TP (INR)	MCap (INR bn)	Rating	% Chng.	P/ABV (x)				RoE (%)				RoA (%)			
						FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
Chola Investment and Finance	1,682	1,950	1,437	Arc	16%	7.5	5.9	4.4	3.6	19.7	19.3	20.3	20.8	2.4	2.3	2.5	2.6
Mahindra & Mahindra Financial	340	380	473	Acc	10%	2.3	2.0	1.8	1.5	12.4	12.5	13.4	13.2	1.9	2.0	2.2	2.1
Shriram Finance	990	1,250	2,330	Buy	26%	3.8	3.2	1.9	1.9	15.5	16.4	13.5	11.7	3.1	3.3	3.3	3.2
Sundaram Finance	4,592	5,070	510	Acc	10%	4.9	4.3	3.6	3.0	15.0	15.4	16.2	16.1	2.8	2.9	3.0	3.1
Aavas Financiers	1,256	1,685	100	Buy	34%	2.3	2.0	1.8	1.6	14.1	13.9	14.1	13.7	3.3	3.3	3.3	3.1
Can Fin Homes	743	1,075	99	Buy	45%	2.0	1.7	1.4	1.2	18.2	19.7	17.4	17.0	2.2	2.6	2.4	2.4
Home First Finance	1,158	1,385	121	Buy	20%	4.4	2.9	2.5	2.2	16.5	15.7	14.7	14.9	3.5	3.9	4.1	3.9
LIC Housing Finance	564	550	310	Hold	-3%	1.0	0.8	0.7	0.7	16.0	14.4	12.9	11.7	1.8	1.8	1.7	1.6
Bajaj Finance	982	1,125	6,114	Acc	15%	6.2	5.3	4.4	3.6	19.0	17.9	20.7	21.4	4.0	3.7	4.2	4.4

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	National Stock Exchange of India	Accumulate	1950	1785
2	AAVAS Financiers	BUY	1685	1278
3	Bajaj Finance	Accumulate	1125	1054
4	BSE	Buy	4025	3241
5	Can Fin Homes	BUY	1075	857
6	Cholamandalam Investment and Finance Company	Accumulate	1950	1753
7	HDFC Life Insurance Company	BUY	765	569
8	Home First Finance Company India	BUY	1385	1181
9	ICICI Prudential Life Insurance Company	BUY	715	525
10	LIC Housing Finance	HOLD	550	523
11	Mahindra & Mahindra Financial Services	Accumulate	380	350
12	Max Financial Services	BUY	2025	1512
13	SBI Life Insurance Company	BUY	2200	1859
14	Shriram Finance	BUY	1250	1005
15	Sundaram Finance	Accumulate	5070	4829

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BUY	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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