HDFC Life Insurance | ADD

With a clouded margin outlook, downgrade to ADD

HDFC Life reported weak but in line margins at 24.1% for 2QFY26, as a result of the loss of ITC following GST 2.0 and weak growth of 9% for the quarter, against 12% JMFe. The gross impact on margins was mentioned at 300bps, which the company expects to recoup by 4Q through an improved product mix in favour of protection and non-par/annuity, raising Sum Assured multiples and rider attachment, and an expected pick up in credit life business. We cut our FY26e margins to 24.7%, with an estimated growth of 15% for the year. This translates to a 12% VNB growth for FY26e. As the impact is mitigated, we expect margins to improve to 25.8%/26.8% over FY27/FY28e, resulting in a 20% VNB CAGR with a 16% APE CAGR. While the impact on Mar'27 EV is limited to 1%, we value the stock at 2.4x Mar'27 EVPS (against 2.5x earlier) of INR 347 to get a revised target price of INR 830 (against INR 855 earlier). We downgrade to ADD.

- **2Q APE growth of 9% YoY below 1Q, expect 2H to be better:** Agency was the only channel which fired in 2Q with a 22% YoY growth, as a result, APE growth cooled off to 9% from 13% seen in 1Q. In terms of products, while ULIP and par segments grew strongly at 42%/105%, annuity and non-par saw YoY contraction of 53%/29%. 35%/13% growth in individual/group protection supported margins, alongside the positive impact of higher Sum Assured variants and higher rider attachment rates. With lower deposit rates, increasing SIP inflows suggesting people looking back at markets and a weak base of 2HFY25, we expect growth to pick up 18% in 2H, resulting in a growth of 15% for FY26.

- **In line margins, but weak commentary implies a cut in estimates:** In 1HFY26, the company reported a 60bps decline in margins with weak growth, 50bps impact of GST reforms and a 30bps impact of surrender norms. The company mentioned the gross impact of GST reforms at 300bps. In 2H, we expect growth to pick-up to 18%, a pick-up in credit life with the underlying credit growth and higher product level margins (excluding GST impact) for ULIPs and non-par. Hence, we expect FY26e margins of 24.7%, higher than 1H levels, still 90bps below FY25 margins. With the bleak margin outlook, we expect VNB growth of 12% for FY26e despite a 15% APE growth for the year. As the impact is mitigated, we expect margins to improve to 25.8%/26.8% over FY26/FY27e, resulting in a 20% VNB CAGR with a 16% APE CAGR.

- **Valuations and view – cut VNB by 6%/2% for FY26/FY27e, downgrade to ADD:** At CMP, the company trades at valuations of 2.5/2.2x FY26/FY27e EVPS, implying 18/16x FY26/FY27e EVOP. While we believe in the company's ability to recoup the impact over the next 2-3 quarters, the company's valuation premium in the sector implies limited upside in the near term. While we cut our VNB estimates by 6%/2%/1% for FY26/FY27/FY28e, the impact on Mar'27 EV is limited to 1%. We value the stock at 2.4x Mar'27 EVPS (against 2.5x earlier) of INR 347 to get a revised target price of INR 830 (against INR 855 earlier). We downgrade the stock to ADD.

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Recommendation and Price Target	
Current Reco.	ADD
Previous Reco.	BUY
Current Price Target (12M)	830
Upside/(Downside)	9.0%
Previous Price Target (12M)	855
Change	-2.9%

Key Data – HDFCLIFE IN	
Current Market Price	INR761
Market cap (bn)	INR1,641.1/US$18.6
Free Float	46%
Shares in issue (mn)	564.1
Diluted share (mn)	564.1
3-mon avg daily val (mn)	INR2,050.6/US$23.3
52-week range	821/584
Sensex/Nifty	82,605/25,324
INR/US$	88.1

Price Performance

%	1M	6M	12M
Absolute	-2.1	8.0	6.6
Relative*	-2.3	0.7	5.1

** To the BSE Sensex*

Financial Summary

INR bn	FY24A	FY25A	FY26E	FY27E	FY28E
Total APE	132.9	154.8	178.0	206.3	239.0
Growth YoY (%)	-0.3%	16.5%	15.0%	15.9%	15.9%
Individual APE	115.1	136.2	156.3	181.4	210.5
NBP	296.3	352.6	409.0	474.5	545.6
Opex + Commissions	121.6	140.6	163.1	195.9	218.2
VNB	35.0	39.6	43.9	53.2	64.1
Growth YoY (%)	-4.6%	13.1%	10.9%	21.0%	20.6%
VNB margins	26.3%	25.6%	24.7%	25.8%	26.8%
Op ROEV (%)	20.9%	17.4%	16.6%	16.6%	16.8%
P/EVx	3.8x	3.2x	2.8x	2.4x	2.1x

Source: Company data, JM Financial. Note: Valuations as of 15/Oct/2025

Key concall takeaways

- **VNB margins**
  - 1HFY26 margins were flattish YoY at 24.5%
    - There was a 60bps impact of lower sales than the targeted 16-18%;
    - GST 2.0 led to an impact of 50bps on 1H margins
    - Surrender norms had an impact of 30bps on margins, as indicated by the company in FY25;
    - Despite strong growth in par and ULIPs and a decline in non-par and annuity, product mix had a 90bps positive impact on margins – led by higher Sum Assured multiples on ULIPs, higher rider attachment and strong growth in protection – retail and individual;
    - 1HFY25 had a negative impact of 40bps due to delayed repricing of non-par book prior to the surrender norms.
  - Management expects the gross impact of GST 2.0 on a full-quarter to be ~300bps, which the company will try to recoup through other discussions with intermediaries and improving product level margins and nudging product mix and channel mix towards margin-accretive segments;
  - The company expects to recoup the ~300bps impact by end of 4QFY26 by these interventions
  - In 4QFY25 and 1Q concalls, management had highlighted that the company expects FY26 margins to remain range bound as the company ploughs back profits for growth.
- **Solvency reduced to 175% from 192% in Jun'25**
  - The company retired sub-ordinate debt of INR 6.0bn – 6pps impact;
  - Dividend payout led to an impact of 4.5pps;
  - The insurer will raise subordinate debt of INR 7.5bn in 2H to shore up its solvency;
  - The company is comfortable at 180-185% solvency levels.

Exhibit 1. HDFC Life 2QFY26: Quarterly trends in key parameters

Quarterly	2Q25	1Q26	2Q26	YoY (%)	QoQ %	JMFe	Variance (%)
Total APE	**38,580**	**32,250**	**41,880**	8.6%	29.9%	**43,473**	-3.7%
Individual Savings	30,400	24,636	33,203	9.2%	34.8%		
- ULIPs	11,803	10,519	16,776	42.1%	59.5%		
- Par	4,877	8,858	9,989	104.8%	12.8%		
- Non-par	13,720	5,259	6,438	-53.1%	22.4%		
Annuity	1,708	1,384	1,215	-28.8%	-12.2%		
Individual protection	1,862	1,750	2,521	35.4%	44.1%		
Individual APE	**33,970**	**27,770**	**36,940**	**8.7%**	**33.0%**	**38,493**	**-4.0%**
Group APE	**4,610**	**4,480**	**4,940**	**7.2%**	**10.3%**	**4,980**	**-0.8%**
- Group protection	2,685	2,927	3,032	13.0%	3.6%		
- Group savings	1,925	1,553	1,908	-0.9%	22.8%		
Total Savings + Annuity	34,033	27,574	36,326	6.7%	31.7%		
Total protection	4,547	4,676	5,554	22.1%	18.8%		
EV	521,100	583,550	595,400	14.3%	2.0%	599,265	-0.6%
VNB	24.3%	25.1%	24.1%	-0.22%	-0.99%	24.2%	-0.1%
VNB margins (%)	17.4%	12.7%	9.8%				
Savings mix (%)	9,380	8,090	10,090	7.6%	25%	10,500	-3.9%
- ULIPs							
- Par	38.8%	42.7%	50.5%	11.7%	7.8%		
- Non-par	16.0%	36.0%	30.1%	14.0%	-5.9%		
Channel mix - Ind APE (YTD)	45.1%	21.3%	19.4%	-25.7%	-2.0%		
Banca	**33,970**	**27,770**	**36,940**				
Agency	20,282	16,662	21,517	6.1%	29.1%		
Others	5,922	4,443	7,205	21.7%	62.1%		

Source: Company, JM Financial

Exhibit 2. HDFC Life: Trend in EV walk

Embedded value (INR bn)	FY24	FY25	FY26e	FY27e	FY28e
Opening IEV	**395.3**	**474.7**	**554.3**	**642.9**	**745.4**
Core EVOP	**67.4**	**78.0**	**87.9**	**103.8**	**122.7**
- Unwind	32.4	38.4	44.0	50.6	58.6
- VNB	35.0	39.6	43.9	53.2	64.1
Variances	**12.0**	**1.6**	**0.7**	**-1.3**	**-2.0**
- Operating	1.8	1.2	1.2	1.2	1.0
- Economic & dividends	10.2	0.4	-0.5	-2.5	-3.0
Closing IEV	**474.7**	**554.3**	**642.9**	**745.4**	**866.0**

Source: Company, JM Financial

Exhibit 3. HDFC Life: Key ratios in EV walk

Embedded value (INR bn)	FY24	FY25	FY26e	FY27e	FY28e
Core EVOP	**17.1%**	**16.4%**	**15.9%**	**16.1%**	**16.5%**
- Unwind	8.2%	8.1%	7.9%	7.9%	7.9%
- VNB	8.9%	8.3%	7.9%	8.3%	8.6%
Operating Variances	0.5%	0.3%	0.2%	0.2%	0.1%
Operating RoEV %	**17.5%**	**16.7%**	**16.1%**	**16.3%**	**16.6%**
Economic Variances & dividends	2.6%	0.1%	-0.1%	-0.4%	-0.4%
IEV Growth %	**20.1%**	**16.8%**	**16.0%**	**15.9%**	**16.2%**

Source: Company, JM Financial

Exhibit 4. HDFC Life: VNB margin trajectory

VNB walk	2Q25	3Q25	4Q25	1Q26	2Q26
Opening VNB margins	26.2%	26.2%	26.5%	26.3%	24.6%
- Impact of surrender norms	0.0%	0.0%	-0.1%	-0.3%	-0.3%
- Change in assumptions	-0.2%	-0.2%	-0.2%	0.0%	0.0%
- Impact of delay in re-pricing	0.0%	0.0%	0.0%	0.0%	0.4%
- New business profile	-1.3%	-1.8%	-1.4%	-0.6%	0.9%
- GST 2.0	0.0%	0.0%	0.0%	0.0%	-0.5%
- Fixed cost Absorption	0.3%	0.4%	0.3%	0.1%	-0.6%
Final VNB margins	**24.6%**	**25.1%**	**25.6%**	**25.1%**	**24.5%**

Source: Company, JM Financial

Exhibit 5. HDFC Life: Change in estimates - JMFe

HDFC Life (INR bn)	FY26 old	FY26 new	Change %	YoY growth	FY27 old	FY27 new	Change %	YoY growth	FY28 old	FY28 new	Change %	YoY growth
Total APE	178.0	178.0	0.0%	15.0%	206.3	206.3	0.0%	15.9%	239.0	239.0	0.0%	15.9%
Ind APE	156.6	156.3	-0.1%	14.8%	181.7	181.4	-0.2%	16.0%	210.9	210.5	-0.2%	16.1%
VNB	46.8	43.9	-6.2%	10.9%	54.1	53.2	-1.7%	21.0%	64.6	64.1	-0.7%	20.6%
VNB margin %	26.3%	24.7%	-1.6%	-0.9%	26.6%	25.8%	-0.8%	1.1%	27.0%	26.8%	-0.2%	1.0%
EV	645.8	642.9	-0.4%	16.0%	750.0	745.4	-0.6%	15.9%	869.8	866.0	-0.4%	16.2%

Source: Company, JM Financial

Exhibit 6. We expect growth in Individual APE at 18% in 2HFY26e

	2HFY24	2HFY25	2HFY26e	Implied 2HFY26 growth	Growth in 2HFY25	Implied 2 year CAGR
Total APE	87,550	103,871	18.6%	11%	15%	87,550
Individual Savings	69,699	81,516	17.0%	9%	13%	69,699
- ULIPs	31,713	35,415	11.7%	13%	12%	31,713
- Par	16,943	19,476	15.0%	28%	21%	16,943
- Non-par	21,043	26,625	26.5%	-6%	9%	21,043
Annuity	3,839	5,198	35.4%	13%	24%	3,839
Individual protection	4,012	4,922	22.7%	23%	23%	4,012
Individual APE	**77,550**	**91,636**	**18.2%**	**10%**	**14%**	**77,550**
Group APE	**10,000**	**12,235**	**22.4%**	**13%**	**17%**	**10,000**
- Group protection	4,960	6,391	28.8%	-10%	8%	4,960
- Group savings	5,040	5,844	16.0%	49%	31%	5,040
Total Savings + Annuity	78,578	92,558	17.8%	12%	15%	78,578
Total protection	8,972	11,313	26.1%	3%	14%	8,972

Source: Company, JM Financial

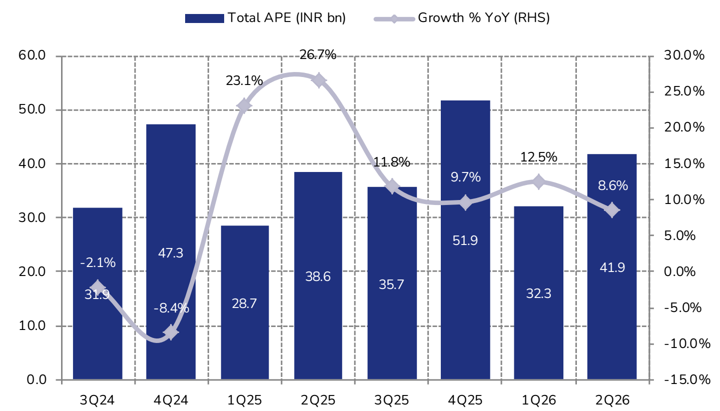
Exhibit 7. Individual APE : 2 year CAGRin 1H was at 20%

	1HFY24	1HFY25	1HFY26	Growth in 1HFY26	Growth in 1HFY25	2 year CAGR
Total APE	53,730	67,240	74,130	10%	25%	**17%**
Individual Savings	38,552	52,356	57,840	10%	36%	22%
- ULIPs	12,552	21,178	27,295	29%	69%	47%
- Non linked savings	13,448	8,824	18,847	114%	-34%	18%
Non-par	12,552	22,354	11,698	-48%	78%	-3%
Annuity	3,586	2,941	2,600	-12%	-18%	-15%
Individual protection	2,642	3,342	4,271	28%	27%	27%
Individual APE	**44,780**	**58,640**	**64,710**	**10%**	**31%**	**20%**
Group APE	**8,950**	**8,600**	**9,420**	**10%**	**-4%**	**3%**
- Group protection	6,288	5,331	5,959	12%	-15%	-3%
- Group savings	2,662	3,269	3,461	6%	23%	14%
Total Savings + Annuity	44,800	58,566	63,900	9%	31%	19%
Total protection	8,930	8,674	10,230	18%	-3%	7%

Source: Company, JM Financial

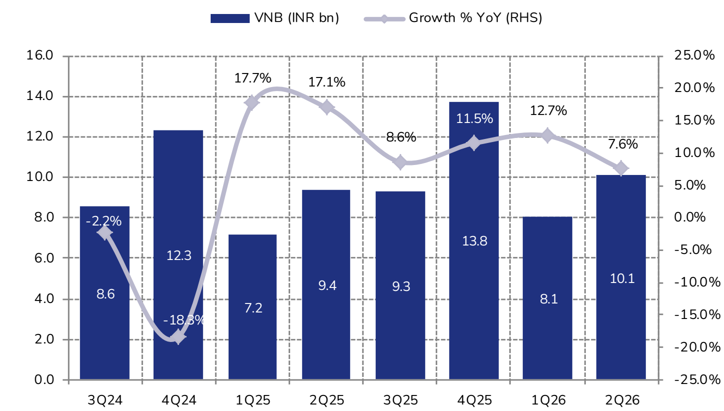
Quarterly Charts

Exhibit 8. Total APE: 8.6% YoY growth in total APE for 2QFY26



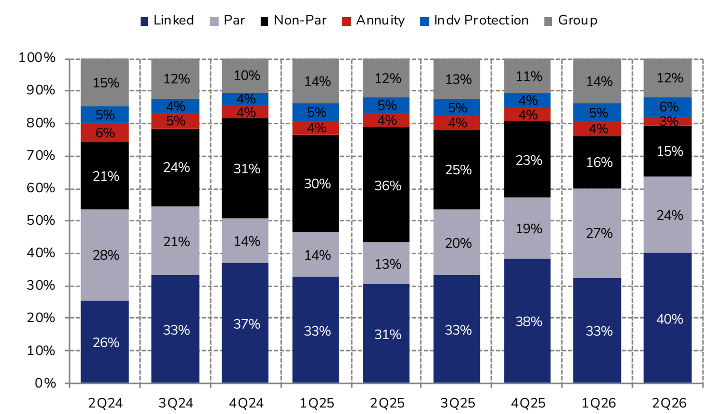
Source: Company, JM Financial

Exhibit 9. VNB growth fell to 7.6% YoY for 2QFY26



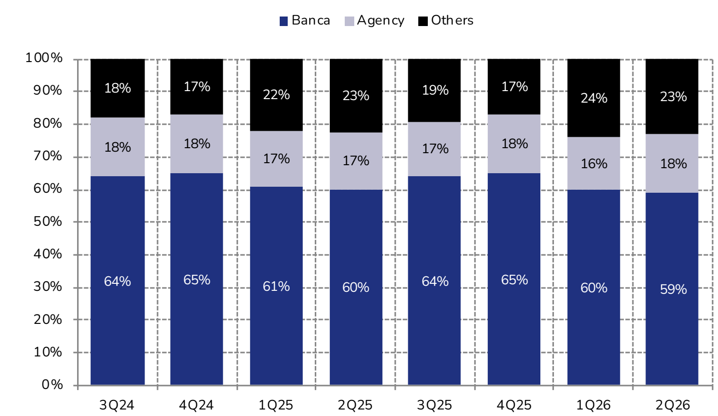
Source: Company, JM Financial

Exhibit 10. ULIP share increased in 2QFY26



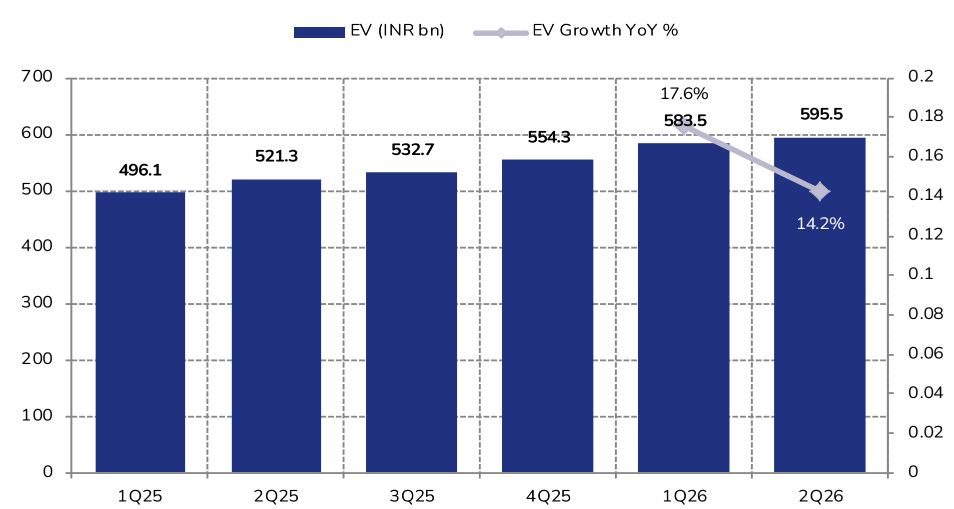
Source: Company, JM Financial

Exhibit 11. Pressure on Banca; share declined to 59% in 2QFY26



Source: Company, JM Financial

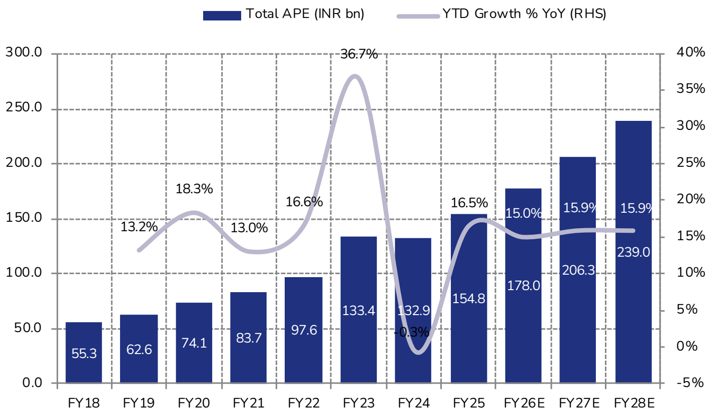
Exhibit 12. Operating RoEV declined to 14% in 2QFY26



Source: Company, JM Financial

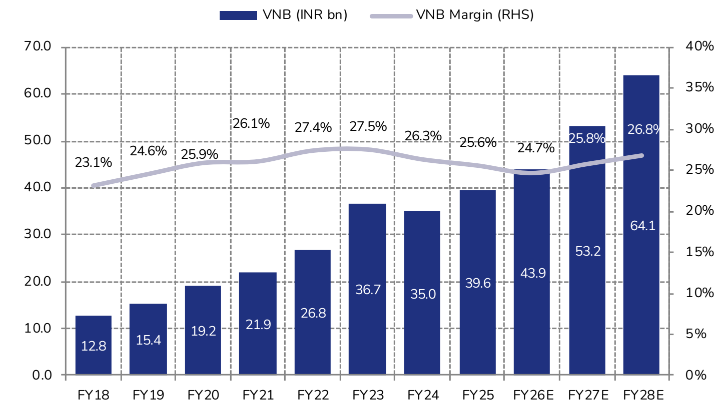
Annual Charts

Exhibit 13. Total APE: 15% YoY growth in total APE for FY26E



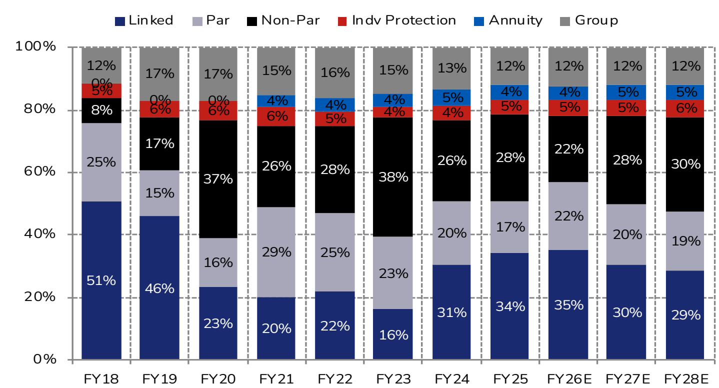
Source: Company, JM Financial

Exhibit 14. VNB margins tapered to 25.6% for FY25



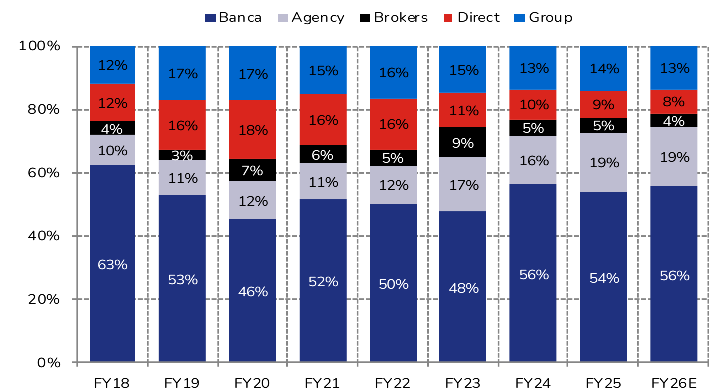
Source: Company, JM Financial

Exhibit 15. Linked and Non-Par share increased



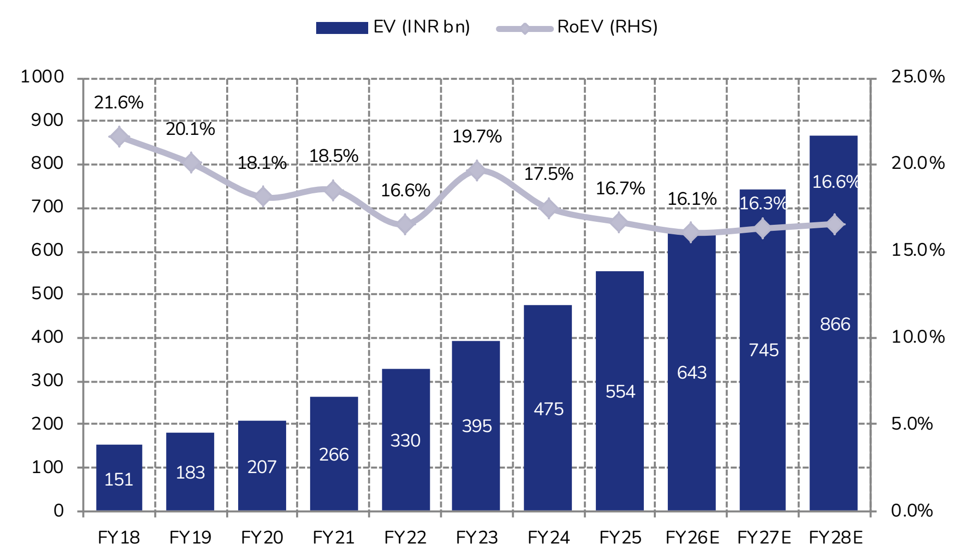
Source: Company, JM Financial

Exhibit 16. A diversified distribution



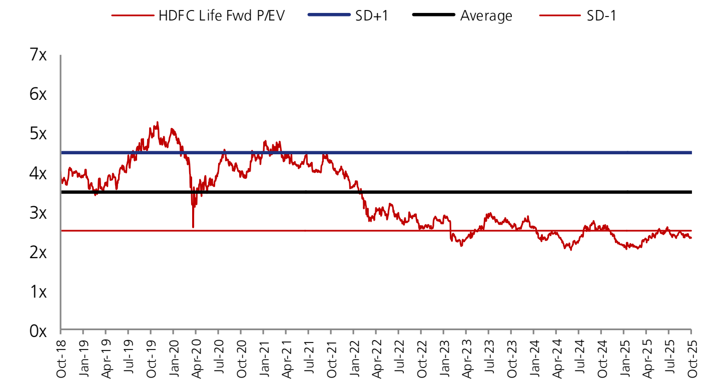
Source: Company, JM Financial

Exhibit 17. Operating RoEV at 16.1% for FY26



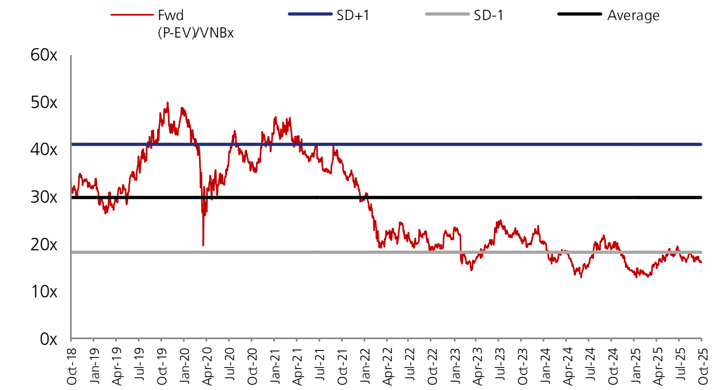
Source: Company, JM Financial

Exhibit 18. Stock has de-rated below 1SD from historical P/EV mean



Source: JM Financial, Bloomberg

Exhibit 19. Stock trades 1 SD below its historical P/EVOP mean



Source: JM Financial, Bloomberg

Financial Tables (Standalone)

Technical Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Gross premiums	630,765	710,449	812,482	927,657	1,065,118
Net premiums	619,592	696,161	796,142	909,001	1,043,697
Investment income	383,543	259,453	285,473	314,020	342,567
Other Income	4,608	3,834	4,218	4,639	5,103
Total Income	**1,007,743**	**959,448**	**1,085,832**	**1,227,660**	**1,391,368**
Commissions	52,563	78,353	91,556	113,625	125,244
Operating expenses	69,011	62,218	71,550	82,283	92,980
Provisions & Taxes	-2,741	-167	-10	-12	-13
Total expenses	**118,833**	**140,404**	**163,097**	**195,897**	**218,210**
Benefits paid	396,965	393,459	442,642	493,546	572,513
Change in valuation of life reserves	484,194	415,156	467,880	523,792	583,504
Total Benefits	**881,158**	**808,615**	**910,522**	**1,017,337**	**1,156,017**
Surplus/(Deficit) for the year	**7,751**	**10,430**	**12,213**	**14,426**	**17,140**

Source: Company, JM Financial

Shareholder’s Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Transfer from the Policyholders' Account	7,991	9,968	12,213	14,426	17,140
Investment income	10,022	11,251	12,650	14,093	15,945
Other income	131	1	2	2	2
Total income	**18,143**	**21,220**	**24,865**	**28,521**	**33,087**
Operating expenses	1,254	1,555	1,732	1,891	2,076
Contribution to the policyholders A/C	1,251	1,004	1,148	1,311	1,505
Profit before tax	**15,638**	**18,661**	**21,985**	**25,319**	**29,506**
Tax	-50	639.60	659.54	253.19	295.06
Profit after tax	**15,689**	**18,021**	**21,325**	**25,066**	**29,211**

Source: Company, JM Financial

Balance Sheet (INR mn)

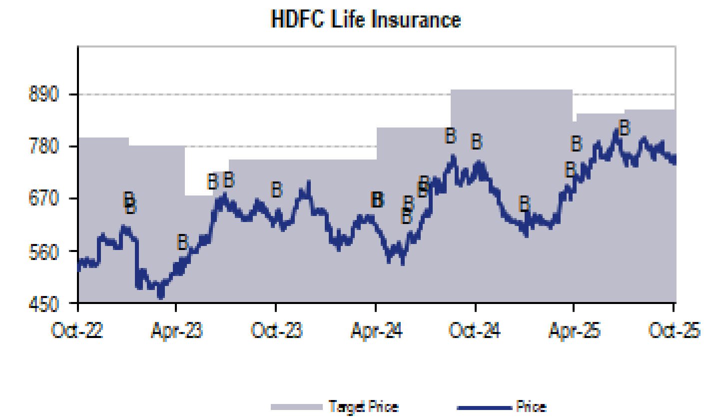
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders’ Investments	148,819	183,863	211,443	243,159	279,633
Policyholders’ Investments	1,817,966	2,162,671	2,595,205	3,114,246	3,737,095
Unit linked Investments	955,416	1,016,282	1,212,424	1,434,297	1,696,774
Loans	18,972	23,783	26,399	29,303	32,526
Fixed assets	4,158	6,011	6,552	7,141	7,784
Net Current Assets / (Liab)	-8,038	2,733	-5,142	-25,443	-48,759
Total Assets	**2,937,293**	**3,395,342**	**4,046,880**	**4,802,704**	**5,705,053**
Borrowings	9,500	29,500	39,500	39,500	39,500
Fair Value Change Account	60,257	67,950	67,950	67,950	67,950
Policy Liabilities	1,753,488	2,107,778	2,529,333	3,035,200	3,642,240
Linked Liabilities	955,416	1,016,282	1,212,424	1,434,297	1,696,774
FFA	12,115	12,576	15,092	18,110	21,732
Total Liabilities	**2,790,776**	**3,234,086**	**3,864,299**	**4,595,057**	**5,468,196**
Share Capital	21,509	21,530	21,530	21,530	21,530
Reserves and surplus	120,503	135,266	156,591	181,657	210,867
Fair Value Change Account	4,505	4,460	4,460	4,460	4,460
Shareholder's equity	**146,517**	**161,256**	**182,581**	**207,647**	**236,857**

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
24-Jan-22	Buy	800	
16-Jan-23	Buy	780	-2.5
20-Jan-23	Buy	780	0.0
27-Apr-23	Buy	675	-13.5
20-Jun-23	Buy	725	7.4
21-Jul-23	Buy	750	3.4
15-Oct-23	Buy	750	0.0
17-Apr-24	Buy	819	9.2
18-Apr-24	Buy	819	0.0
22-Apr-24	Buy	819	0.0
10-Jun-24	Buy	819	0.0
13-Jun-24	Buy	819	0.0
9-Jul-24	Buy	819	0.0
15-Jul-24	Buy	819	0.0
29-Aug-24	Buy	900	9.9
16-Oct-24	Buy	900	0.0
15-Jan-25	Buy	900	0.0
7-Apr-25	Buy	830	-7.8
20-Apr-25	Buy	850	2.4
15-Jul-25	Buy	855	0.6

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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New Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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