

**Mixed Performance, however positive outlook maintained for FY25**

QIFY25 Result Update | Sector: Insurance | July 16, 2024

**BUY**

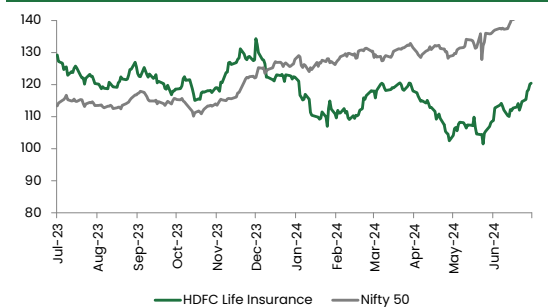
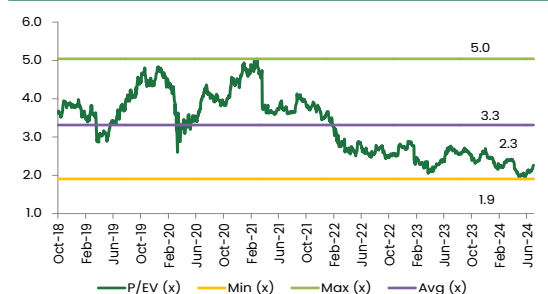
<b>CMP (Rs)</b>	<b>636</b>
<b>Target Price (Rs)</b>	<b>742</b>
<b>Potential Upside</b>	<b>16.7%</b>
<b>Sensex</b>	80,800
<b>Nifty</b>	24,635

**Key Stock data**

<b>BSE Code</b>	540777
<b>NSE Code</b>	HDFCLIFE
<b>Bloomberg</b>	HDFCLIFE:IN
<b>Shares o/s, Cr (FV 10)</b>	215.1
<b>Market Cap (Rs Cr)</b>	1,36,854
<b>3M Avg Volume</b>	59,86,892
<b>52 week H/L</b>	711/511

**Shareholding Pattern**

(%)	Sep-23	Dec-23	Mar-24
<b>Promoter</b>	50.4	50.4	50.4
<b>FII</b>	30.5	31.3	30.0
<b>DII</b>	6.9	6.6	7.9
<b>Others</b>	12.2	11.8	11.6

**1 year relative price performance**

**1 year Forward P/E (x)**

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**Single digit growth in premium income:** HDFC Life Insurance reported net premium income growth of 9.0% YoY, as the first-year premium and renewal premium reported a good growth of 27.56% YoY and 10.45% YoY, respectively while single premium grew only by 0.62% YoY. Owing to the healthy growth in first year premium Annualized Premium Equivalent (APE) during the quarter grew by 23.1% YoY to Rs 2866 cr while New Business Premium (NBP) grew only by 9.0% YoY to Rs6400 cr. Going forward, the management remains optimistic on the premium growth of the company as it expects to grow in line with the industry.

**Decline in VNB margin:** During the quarter, VNB margin continued remain under pressure seeing a decline by 105bps QoQ/115bps YoY to 25.1%. The decline in margin has been mainly due to increase in proportion of ULIP and increase in commission expenses. Net commission expenses reported a growth 122.0% YoY to Rs 1,472cr.

**ULIP products continue to see traction:** In the APE mix, the proportion of ULIP products increased by 100bps QoQ and 1100bps YoY to reach 32%. In the NBP mix, it grew by 100bps QoQ and 700bps YoY to 15%. This rise in ULIP plans is due to positive market returns and tax benefits associated with these products. Additionally, non-participating products also saw growth. In the APE mix, the non-participating proportion increased by 300bps YoY and 200bps QoQ. In the NBP mix, it grew by 300bps YoY and 200bps QoQ. Conversely, protection products, which had been performing well, saw a decline this quarter. In the APE mix, there was a 400bps YoY decline, though it grew by 100bps sequentially. In the NBP mix, protection products saw a 500bps YoY decline and remained flat sequentially. The increase in non-par products is expected to help maintain margins and keep the product mix diversified.

**Growing banca network:** The insurance company continues to view bancassurance as its primary sales channel. During the quarter, the share of bancassurance in the overall channel mix increased by 400bps YoY, now contributing 65% of the total mix. The company regards its parent bank as its largest bancassurance partner and continues to collaborate with other banks and financial institutions to sell its products. Other channels, such as direct, agency, and brokers, remained almost flat QoQ but declined by 100bps, 300bps, and 100bps YoY, respectively. The agents channel remains a priority, with the number of agents nearly doubling over two years, growing at a 19% CAGR. This agency channel helps penetrate tier 2 and 3 cities, currently driving two-thirds of the company's total business from non-tier-1 cities. The company plans to continue onboarding new agents going forward.

**Valuation and outlook:** HDFC Life Insurance reported a 9% YoY premium growth, driven by higher individual APE growth. However, VNB margins fell below company guidance, mainly due to an increase in net commission expenses and an unfavorable product mix, with a higher proportion of ULIPs. Looking ahead, the company plans to continue diversifying its portfolio with new product launches, increasing its agent count, and collaborating with banks for product distribution. While we expect higher growth in APE business, we have reduced VNB margins due to latest regulatory changes. Based on this, we maintain a **Buy** rating on HDFC Life increasing our target price to **₹742**, valuing the company at 2.65x its FY26E embedded value per share.

**Financial Summary – consolidated**

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net premiums	56,764	62,112	72,445	82,621
Total Income	70,705	1,01,625	1,03,422	1,20,242
Commission	2,887	5,262	3,933	4,372
Surplus/(deficit) before tax	1,518	614	1,733	2,216
Surplus for the period	1,359	550	1,551	1,984
Embedded value (EV)	39,527	44,592	50,709	60,213
EV per share (Rs)	183.9	207.5	235.9	280.1
P/EV (x)	3.5	3.1	2.7	2.3

Source : RBL Research

**Concall Highlights:**

- The company's AUM grew by 22.50% YoY to ₹3,10,244 crores, while its pension subsidiary saw a 67% YoY increase in AUM.
- The company anticipates a 100bps impact on VNB margins from surrender charges, assuming no changes in the new environment. This impact is relatively lower as the company factors in minimal surrender profits in VNB margin calculations.
- Management is focused on growing retail APE at a rate higher than the industry average and aims to double VNB every four years.
- The annuity business presents an attractive long-term opportunity. However, management currently observes irrational pricing in this segment and but they will continue to maintain pricing discipline across all products.
- The company expects ULIPS share to decline going forward led by product launches.

*Net premium income increased by 5.7% YoY mainly due to renewal premium*

*Total surplus during the quarter increased by 63.9% YoY mainly due to reduction in employees remuneration and welfare expenses*

**Policyholders account - consolidated**

Particulars, Rs cr	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Net premium income	12,548	11,508	9.0	20,534	(38.9)
Income from investments (Net)	14,127	11,631	21.5	7,254	94.8
Other income	67	86	(22.5)	79	(14.9)
<b>Total</b>	<b>26,750</b>	<b>23,243</b>	<b>15.1</b>	<b>27,945</b>	<b>(4.3)</b>
Net commission	1,472	663	122.0	2,164	(32.0)
Employees remuneration and welfare expenses	698	899	(22.4)	729	(4.3)
Other operating expenses	576	731	(21.3)	1,037	(44.5)
<b>Expenses of Management</b>	<b>2,745</b>	<b>2,294</b>	<b>19.7</b>	<b>3,931</b>	<b>(30.2)</b>
Provisions and taxes	(98)	22	-	(0)	-
Benefits Paid	8,853	8,095	9.4	12,458	(28.9)
Change in actuarial liability	14,574	12,565	16.0	11,160	30.6
<b>Surplus/Deficit</b>	<b>564</b>	<b>213</b>	<b>165.1</b>	<b>276</b>	<b>104.5</b>
Bonus paid	567	478	18.7	1,886	(69.9)
<b>Total Surplus</b>	<b>1,131</b>	<b>690</b>	<b>63.9</b>	<b>2,162</b>	<b>(47.7)</b>

Source : RBL Research

### Shareholders account – consolidated

Particulars, Rs cr	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Transfer from Policyholders' Account	268	233	15.1	306	(12.5)
Investment Income	258	233	10.9	254	1.8
Other income	15	10	58.4	17	(9.0)
Expenses other than insurance business	35	46	(24.3)	47	(26.4)
Transfer of funds to policyholders account	8	18	(57.5)	79	(90.4)
<b>Profit before tax</b>	<b>499</b>	<b>418</b>	<b>19.4</b>	<b>450</b>	<b>10.9</b>
Provisions for tax	20	1	-	38	-
<b>Profit after tax</b>	<b>479</b>	<b>417</b>	<b>14.9</b>	<b>412</b>	<b>16.4</b>

Source : RBL Research

AT increased by 14.9% YoY due to increase in investment income

Particulars	Q1FY25	Q1FY24	Y-o-Y (bps)	Q4FY24	Q-o-Q (bps)
<b>Product mix - APE (%)</b>					
Participating	14.0	21.0	-700bps	20.0	-600bps
Non Participating	30.0	27.0	300bps	26.0	400bps
<b>ULIP</b>	<b>32.0</b>	<b>21.0</b>	<b>1100bps</b>	<b>31.0</b>	<b>100bps</b>
Protection	14.0	18.0	-400bps	13.0	100bps
Annuity	5.0	9.0	-400bps	6.0	-100bps
Group	4.0	4.0	0bps	3.0	100bps
<b>Product mix - NBP (%)</b>					
<b>Participating</b>	<b>6.0</b>	<b>8.0</b>	<b>-200bps</b>	<b>9.0</b>	<b>-300bps</b>
Non Participating	14.0	11.0	300bps	12.0	200bps
ULIP	16.0	9.0	700bps	15.0	100bps
Protection	32.0	37.0	-500bps	32.0	0bps
Annuity	15.0	19.0	-400bps	16.0	-100bps
Group	17.0	16.0	100bps	16.0	100bps
<b>Channel mix - APE (%)</b>					
<b>Bancassurance</b>	<b>65.0</b>	<b>61.0</b>	<b>400bps</b>	<b>65.0</b>	<b>0bps</b>
Direct	11.0	12.0	-100bps	11.0	0bps
Agency	17.0	20.0	-300bps	18.0	-100bps
Brokers	7.0	8.0	-100bps	6.0	100bps

Source : RBL Research

ULIP plans portion in APE mix increased by 100bps QoQ/1100bps YoY to 32%

### Business parameters

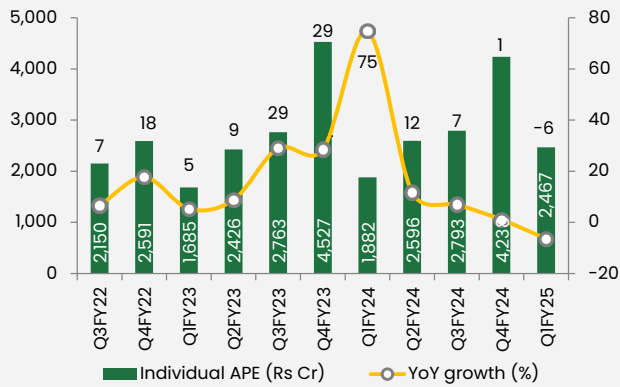
Particulars, Rs cr	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Individual APE	2,467	1,882	31.1	4,238	(41.8)
<b>Total APE</b>	<b>2,866</b>	<b>2,328</b>	<b>23.1</b>	<b>4,727</b>	<b>(39.4)</b>
New Business Premium	6,400	5,869	9.0	9,531	(32.9)
Renewal Premium	6,411	5,804	10.5	11,406	(43.8)
<b>Assets Under Management</b>	<b>3,10,244</b>	<b>2,53,301</b>	<b>22.48</b>	<b>2,92,220</b>	<b>6.2</b>
Indian Embedded Value	49,611	41,843	18.6	47,468	4.5
<b>Value of new business</b>	<b>718</b>	<b>610</b>	<b>17.7</b>	<b>1,234</b>	<b>(41.8)</b>
VNB Margin (%)	25.1	26.2	-115bps	26.1	-105bps

Source : RBL Research

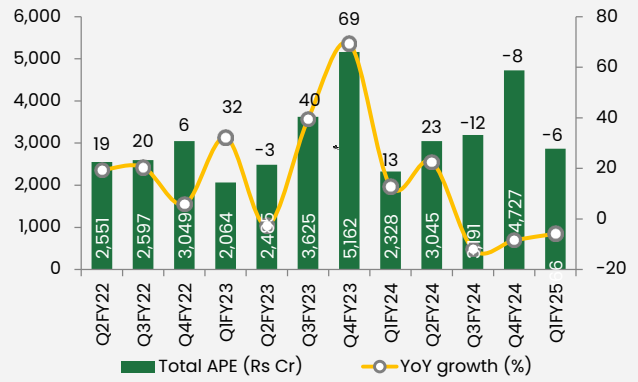
APE/NBP/VNB reported a growth of 23.1%/9%/17.7% YoY

Story in charts

Individual APE grew by 31% YoY

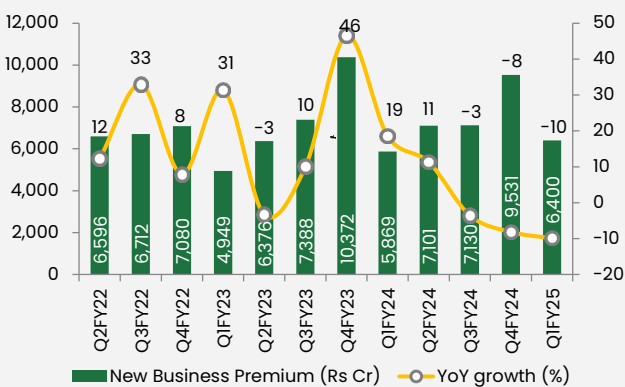


Total APE grew by 23%

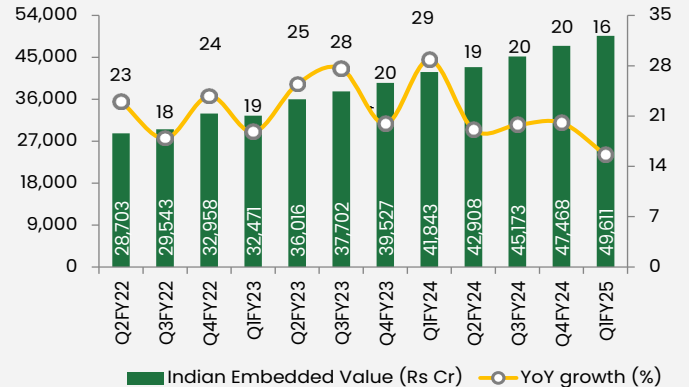


Source : RBL Research

New business premium grew by 18% YoY

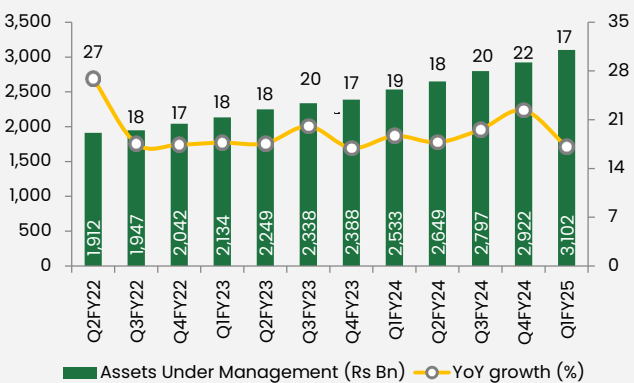


Embedded value reported healthy growth of 19% YoY

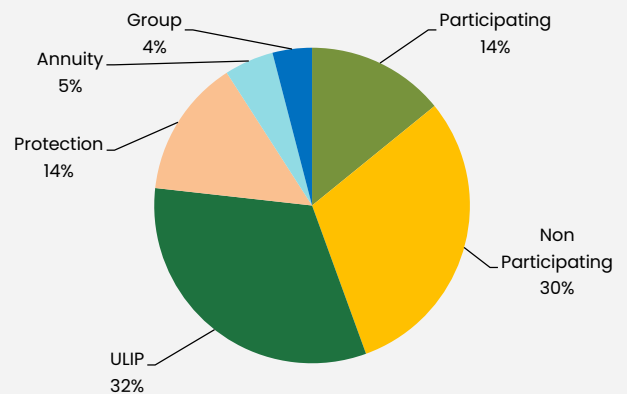


Source : RBL Research

AUM Reported a healthy growth of 17% YoY

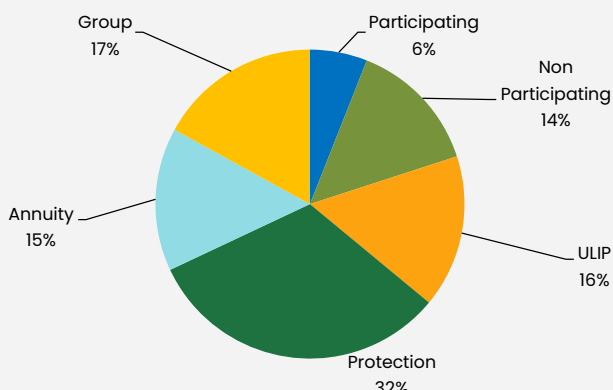


ULIP product has the highest share in the APE mix

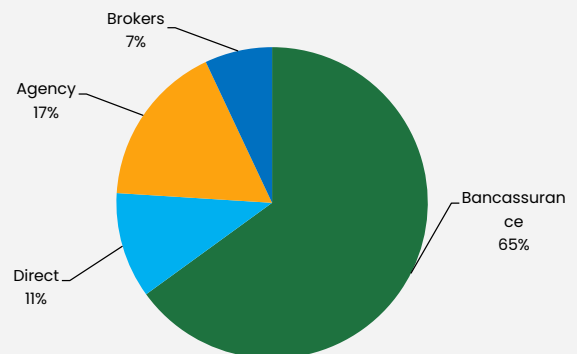


Source : RBL Research

Protection plans having highest share in NBP mix



Bancassurance channel being major channel for selling policies



Source : RBL Research

## Technical account – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
<b>Net premiums</b>	<b>56,764</b>	<b>62,112</b>	<b>72,445</b>	<b>82,621</b>
Investment income	13,941	38,363	29,765	36,382
Contribution from the Shareholders' A/c	879	129	98	100
Other Income	1,344	1,020	1,115	1,139
<b>Total Income</b>	<b>70,705</b>	<b>1,01,625</b>	<b>1,03,422</b>	<b>1,20,242</b>
Commissions	2,828	5,262	3,933	4,372
Operating expenses	8,437	6,922	9,801	11,983
Service tax on linked charges	464	578	676	711
<b>Total expenses</b>	<b>11,729</b>	<b>12,762</b>	<b>14,410</b>	<b>17,066</b>
Benefits paid	38,872	39,805	53,710	53,589
Change in valuation of life reserves	18,586	48,444	33,569	47,371
<b>Surplus/(deficit) before tax</b>	<b>1,518</b>	<b>614</b>	<b>1,733</b>	<b>2,216</b>
Provision For Tax & Others	159	64	182	232
<b>Surplus/(Deficit) for the period</b>	<b>1,359</b>	<b>550</b>	<b>1,551</b>	<b>1,984</b>

Source : RBL Research

## Shareholders account – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
<b>Transfer from policyholder's a/c</b>	<b>1,469</b>	<b>561</b>	<b>1,812</b>	<b>2,395</b>
Investment income	720	1,324	1,455	1,693
Other income	63	68	79	81
<b>Total income</b>	<b>2,252</b>	<b>1,953</b>	<b>3,346</b>	<b>4,168</b>
Total expenses	979	996	1,122	1,280
<b>Profit before tax</b>	<b>1,272</b>	<b>957</b>	<b>2,224</b>	<b>2,889</b>
Tax	(88)	38	89	116
<b>Profit after tax</b>	<b>1,360</b>	<b>919</b>	<b>2,135</b>	<b>2,773</b>

Source : RBL Research

## Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Share capital	2,153	2,151	2,151	2,151
Reserves and surplus	10,821	12,065	14,190	16,952
Fair value change account	20	451	518	605
<b>Shareholder's equity</b>	<b>12,993</b>	<b>14,666</b>	<b>16,859</b>	<b>19,708</b>
Borrowings	950	950	950	950
Fair value change account	1,976	6,026	5,585	6,456
Policy liabilities	1,43,345	1,75,444	1,62,616	1,87,966
Linked liabilities	79,201	95,547	1,29,277	1,34,776
Funds for future appropriations	1,235	1,211	21,183	28,447
<b>Total liabilities</b>	<b>2,26,708</b>	<b>2,79,178</b>	<b>3,19,611</b>	<b>3,58,595</b>
<b>Total liabilities and shareholders equity</b>	<b>2,39,701</b>	<b>2,93,845</b>	<b>3,36,469</b>	<b>3,78,303</b>
<b>Shareholders investments</b>	<b>13,193</b>	<b>14,685</b>	<b>12,388</b>	<b>13,817</b>
Policyholders investments	1,46,449	1,82,053	1,93,110	2,28,072
<b>Unit linked investments</b>	<b>79,201</b>	<b>95,547</b>	<b>1,29,277</b>	<b>1,34,776</b>
Loans	1,585	1,897	1,600	1,785
Fixed assets	382	420	376	417
<b>Net current assets/(liabilities)</b>	<b>(1,110)</b>	<b>(757)</b>	<b>(281)</b>	<b>(564)</b>
<b>Total assets</b>	<b>2,39,701</b>	<b>2,93,845</b>	<b>3,36,469</b>	<b>3,78,303</b>

Source : RBL Research

## IEV movement - consolidated

Particulars, Rs bn	FY23	FY24	FY25E	FY26E
<b>Opening IEV</b>	<b>32,958</b>	<b>39,527</b>	<b>44,592</b>	<b>50,709</b>
Unwind	2,620	3,543	4,355	4,953
Change in operating assumptions	40	48	54	62
<b>VNB</b>	<b>3,674</b>	<b>3,501</b>	<b>4,061</b>	<b>4,752</b>
Operating variances	150	150	150	150
Dividend and capital injection	1,670	(270)	(352)	(412)
<b>Closing IEV</b>	<b>39,527</b>	<b>44,592</b>	<b>50,709</b>	<b>60,213</b>

Source : RBL Research

## Business Parameters - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
<b>AuM</b>	<b>2,38,782</b>	<b>2,92,220</b>	<b>3,22,903</b>	<b>3,65,247</b>
Indian Embedded Value	39,527	44,592	50,709	60,213
<b>APE</b>	<b>13,336</b>	<b>13,291</b>	<b>15,423</b>	<b>17,940</b>
<b>VNB</b>	<b>3,674</b>	<b>3,501</b>	<b>4,061</b>	<b>4,752</b>
<b>NBP</b>	<b>29,085</b>	<b>29,631</b>	<b>34,175</b>	<b>38,943</b>
<b>VNB margin (%)</b>	<b>27.5</b>	<b>26.3</b>	<b>26.3</b>	<b>26.5</b>
<b>EV per share (Rs)</b>	<b>183.9</b>	<b>207.5</b>	<b>235.9</b>	<b>280.1</b>
VNB per share (Rs)	17.1	16.3	18.9	22.1
BVPS (Rs)	60.5	68.2	78.4	91.7
EPS (Rs)	6.3	4.3	9.9	12.9

Source : RBL Research

## Key ratios - consolidated

Particulars	FY23	FY24	FY25E	FY26E
P/EV (x)	3.5	3.1	2.7	2.3
P/VNB (x)	37.4	39.3	33.9	29.0
P/B (x)	10.6	9.4	8.2	7.0

Source : RBL Research

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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