

BUY

TP: Rs 755 | ▲ 27%

HDFC LIFE

| Insurance

| 16 January 2025

A steady show, positive surprise on margins

- **HDFCLIFE reported stronger-than-expected APE growth of 20%/12% YoY in 9MFY25/Q3FY25**
- **Sequential improvement in the VNB margins, aided by significant improvement in the persistency and high level of protection in ULIP**
- **We assume coverage of HDFCLIFE with BUY and TP of Rs 755, implying 2.4x FY26 P/EV. HDFCLIFE is our top pick**

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Strong APE growth: HDFCLIFE reported APE growth of 20% in 9MFY25 at Rs 102.9bn. APE grew 12% YoY in Q3FY25 vs. private sector growth of 17% YoY. The company reiterated its APE growth outlook of 18-20% in FY25 and is well on track to achieve this growth run rate and expects it to pick up in the later part of the year as the fourth quarter is seasonally a strong quarter.

Moderate VNB margins: For 9MFY25, the VNB margin was at 25.1%, contracting by 140bps. It declined by 63bps YoY in 3QFY25 to 26.2%. This is owing to the changes in the product mix and 10bps impact of implementation of surrender value regulations for 9M (30bps impact sequentially). VNB grew 14% YoY in 9MFY25 and 8% YoY to Rs 9.3bn in Q3FY25. VNB margin was at 24.3% in Q2FY25 primarily on account of the lag in repricing of Non-par products. Management reiterated VNB growth of more than 15% in FY25 aided by strong 4Q and stable product mix. In Q2FY25, management revised its VNB margins to the range of 15-17% for FY25E.

Surrender regulations: With respect to new surrender regulations, to mitigate the impact the company implemented a host of measures which includes the deferment of commission payouts, claw back and reduction of commissions and indicated that the impact of these regulations on the margins would be minimal going ahead.

Expense ratio continues to decline: The expense ratio came in at 20.2%, vs. 20.9% in Q2FY25 and 19.4% in Q3FY24, an improvement of 69bps QoQ.

Maintain BUY: We believe HDFCLIFE is well placed to achieve its APE growth outlook of 18-20% and VNB growth of 15-17% in FY25, aided by better product mix and strong growth momentum. Its incremental focus on the agency channel growth, along with increasing penetration in Tier-2 and -3 cities bodes well. We resume coverage on HDFCLIFE with BUY and TP of Rs 755 (from Rs 775), implying 2.4x FY26E P/EV. We introduce FY27 estimates, and continue to prefer HDFCLIFE as our top pick.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ◀ ▶ |

| | |
|------------------|--------------------|
| Ticker/Price | HDFCLIFE IN/Rs 594 |
| Market cap | US\$ 14.7bn |
| Free float | 50% |
| 3M ADV | US\$ 26.4mn |
| 52wk high/low | Rs 761/Rs 511 |
| Promoter/FPI/DII | 50%/25%/13% |

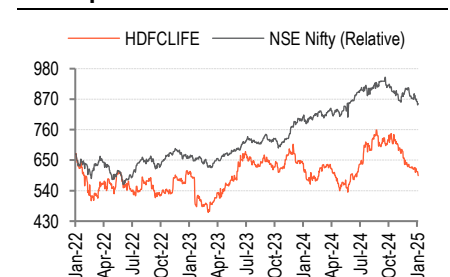
Source: NSE | Price as of 15 Jan 2025

Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|------------------------|----------|----------|----------|
| NBP (Rs mn) | 2,96,314 | 3,58,818 | 4,25,234 |
| APE (Rs mn) | 1,32,910 | 1,64,568 | 1,95,597 |
| VNB (Rs mn) | 34,955 | 42,130 | 51,246 |
| Embedded Value (Rs mn) | 4,74,655 | 5,54,175 | 6,48,527 |
| VNB margin (%) | 26.3 | 25.6 | 26.2 |
| EVPS (Rs) | 220.6 | 257.5 | 301.3 |
| EPS (Rs) | 7.3 | 8.4 | 10.0 |
| Consensus EPS (Rs) | 8.0 | 8.0 | 10.0 |
| P/EV (x) | 2.7 | 2.3 | 2.0 |

Source: Company, Bloomberg, BOBCAPS Research

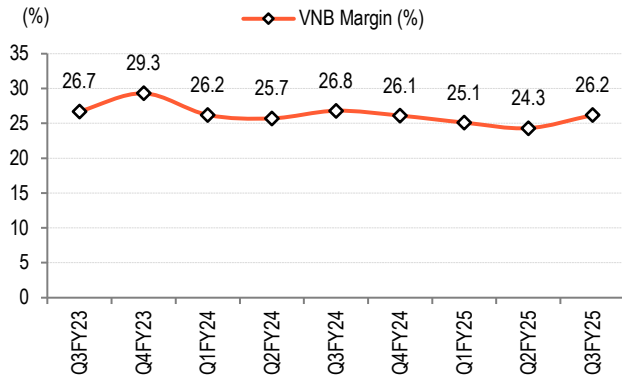
Stock performance



Source: NSE

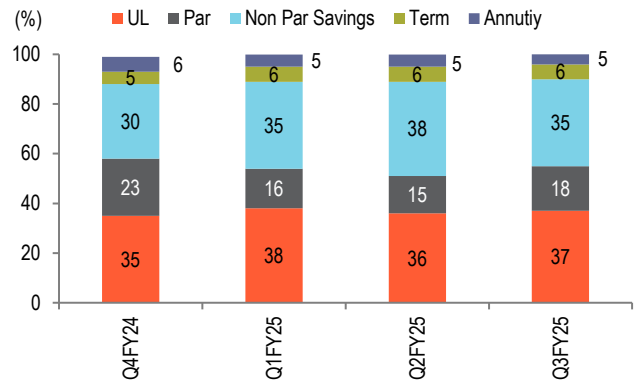


Fig 1 – Robust margin expansion on a lower base



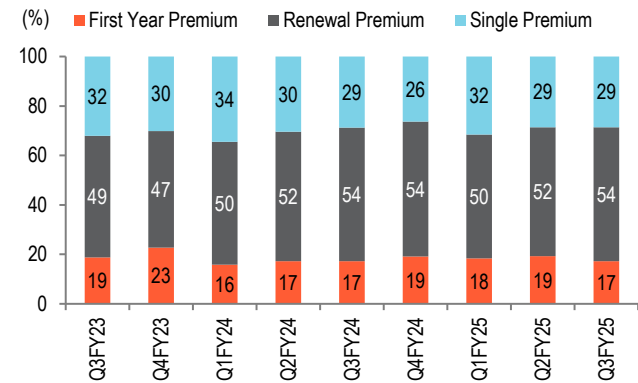
Source: Company, BOBCAPS Research

Fig 2 – Unit-linked products continue to gain momentum



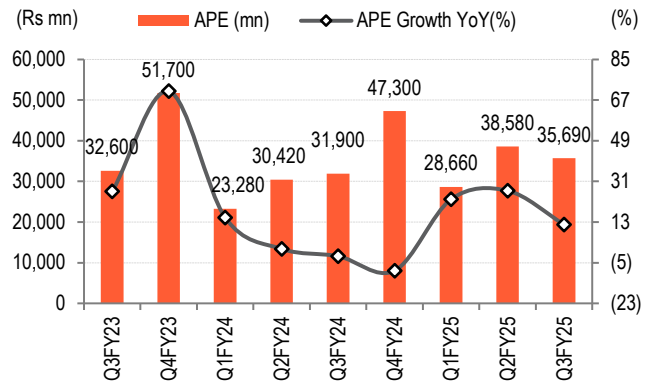
Source: Company, BOBCAPS Research

Fig 3 – Gross premium mix



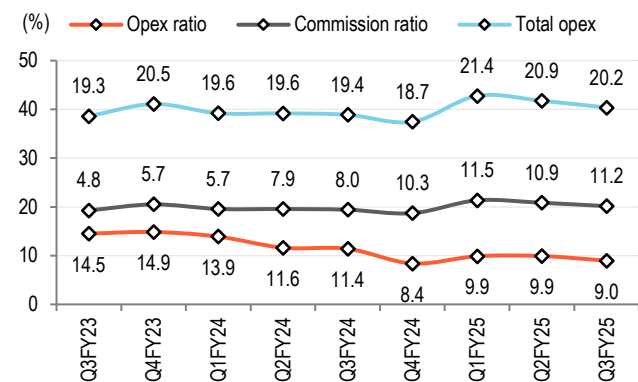
Source: Company, BOBCAPS Research

Fig 4 – Robust APE growth YoY



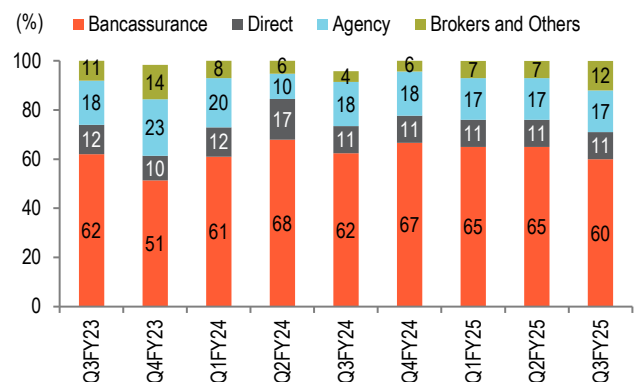
Source: Company, BOBCAPS Research

Fig 5 – Opex ratio moderating in the past two quarters



Source: Company, BOBCAPS Research

Fig 6 – Stable channel mix



Source: Company, BOBCAPS Research

Fig 7 – Policyholder's account

| Rs mn | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) | FY24 | FY23 | YoY (%) |
|--|-----------------|-----------------|----------------|-----------------|----------------|------------------|-----------------|---------------|
| Gross premium income | 1,72,750 | 1,55,259 | 11.3 | 1,69,275 | 2.1 | 6,30,765 | 5,75,334 | 9.6 |
| First Year Premium | 29,688 | 26,792 | 10.8 | 32,535 | (8.8) | 1,11,108 | 1,13,239 | (1.9) |
| Renewal Premium | 93,756 | 83,962 | 11.7 | 88,310 | 6.2 | 3,34,451 | 2,84,483 | 17.6 |
| Single Premium | 49,306 | 44,505 | 10.8 | 48,430 | 1.8 | 1,85,205 | 1,77,612 | 4.3 |
| Reinsurance | 5,037 | 2,905 | 73.4 | 3,578 | 40.8 | 11,173 | 7,694 | 45.2 |
| Net premium income | 1,67,713 | 1,52,353 | 10.1 | 1,65,697 | 1.2 | 6,19,592 | 5,67,640 | 9.2 |
| Income from investments (Net) | 1,921 | 1,13,698 | (98.3) | 1,16,108 | (98.3) | 3,83,543 | 1,25,975 | 204.5 |
| Other income | 706 | 704 | 0.4 | 689 | 2.6 | 3,357 | 4,642 | (27.7) |
| Contribution of funds from Shareholders' A/c | (1,199) | 193 | (722.0) | 1,912 | (162.7) | 1,251 | 8,797 | (85.8) |
| Total | 1,69,141 | 2,66,948 | (36.6) | 2,84,406 | (40.5) | 10,07,743 | 7,07,054 | 42.5 |
| Commission on | | | | | | | | |
| First Year Premium | 16,000 | 6,684 | 139.4 | 12,646 | 26.5 | 31,511 | 20,514 | 53.6 |
| Renewal Premium | 1,446 | 1,275 | 13.4 | 1,384 | 4.5 | 5,219 | 5,222 | (0.1) |
| Single Premium | 1,878 | 4,435 | (57.6) | 4,482 | (58.1) | 15,833 | 2,767 | 472.3 |
| Others | 0 | 63 | (100.0) | 0 | - | 0 | 366 | (100.0) |
| Net Commission | 19,325 | 12,457 | 55.1 | 18,512 | 4.4 | 52,563 | 28,868 | 82.1 |
| Expenses of Management | 17,291 | 18,405 | (6.1) | 17,976 | (3.8) | 72,195 | 84,693 | (14.8) |
| Operating Profit | 1,32,525 | 2,36,087 | (43.9) | 2,47,918 | (46.5) | 8,82,985 | 5,93,493 | 48.8 |
| Provision for taxes | (336) | (24) | 1295.9 | (4,707) | (92.9) | (5,924) | 5,319 | (211.4) |
| Benefits Paid (Net) | 91,792 | 98,661 | (7.0) | 1,02,986 | (10.9) | 3,96,965 | 3,88,723 | 2.1 |
| Change in actuarial liability | 43,005 | 1,36,837 | (68.6) | 1,44,535 | (70.2) | 4,84,194 | 1,85,862 | 160.5 |
| Surplus/Deficit | (1,935) | 613 | (415.7) | 5,104 | (137.9) | 7,751 | 13,589 | (43.0) |

Source: Company, BOBCAPS Research

Fig 8 – Shareholder's account

| Rs mn | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) | FY24 | FY23 | YoY (%) |
|---|--------------|--------------|-------------|--------------|-------------|---------------|---------------|-------------|
| Transfer from Policyholders' Account | 982 | 1,293 | (24) | 3,854 | (75) | 7,991 | 14,689 | (46) |
| Investment Income | 2,718 | 2,811 | (3) | 2,688 | 1 | 10,022 | 7,197 | 39 |
| Other income | 0 | 0 | - | 1 | (20) | 131 | 632 | (79) |
| Expenses other than those related to insurance business | 445 | 273 | 63 | 254 | 75 | 1,209 | 1,246 | (3) |
| Transfer of funds to Policyholders' Account | (1,199) | 193 | (722) | 1,912 | (163) | 1,251 | 8,797 | (86) |
| Provisions for diminution in value of investments | 7 | (31) | (122) | 0 | - | 45 | (247) | (118) |
| Profit before tax | 4,448 | 3,668 | 21 | 4,376 | 2 | 15,638 | 12,722 | 23 |
| Provisions for tax | 299 | 18 | 1,588 | 46 | 554 | (50) | (877) | (94) |
| Profit after tax and before Extraordinary items | 4,149 | 3,651 | 14 | 4,330 | (4) | 15,689 | 13,599 | 15 |

Source: Company, BOBCAPS Research

Earnings call highlights

Business highlights

- HDFCLIFE's total APE grew 12% YoY in Q3FY25 with individual APE growth of 12% YoY to Rs 31.2bn. For 9MFY25, the individual WRP rose 22% outpacing the private sector at 19%. The market share expanded by 70bps to 10.8% in the industry.
- HDFCLIFE's NBP increased 11% YoY to Rs 79bn in Q3FY25. Renewal premium grew 12% YoY to Rs 93.8bn.
- With respect to the distribution channel, the counter share of HDFCB remained stable at 66% in 9MFY25 and there was no slowdown in a particular distribution channel.

Product mix

- The product mix stood at ULIPs 37%, non-par savings at 35%, par at 18%, term at 6% and annuities at 5%.
- With buoyant equity markets, the share of ULIPs can tend to go higher with higher demand for these products, and the company plans to keep it range bound in the 30s.
- For the company, retail protection continues to do well with growth clocking 28% YoY. Whereas credit growth was slower, primarily impacted by low disbursements.
- Together annuity and protection contributed 44% to the overall new business premium in 9MFY25.
- The company introduced Click to Achieve Power Advantage, a par product, during the quarter.

VNB margin

- The company's VNB margin was 26.2% in Q3FY25 vs. 24.3% in Q2FY25. This was primarily on account of changes in the product mix and delay in the repricing of non-par products.

Capping the banca channel mix

- The company clarified that it did not hear anything from the Reserve Bank of India on mis selling via bank channels and attributed such reports to the media. It is of the opinion that the mis selling through the banks channel is lower for the overall sector. Further, the company plans to focus on the agency channel which includes agency and direct.

Valuation methodology

We believe HDFCLIFE is well placed to achieve its APE growth outlook of 18-20% and VNB growth of 15-17% in FY25, aided by better product mix and strong growth momentum. Its incremental focus on the agency channel growth, along with increasing penetration in Tier-2 and -3 cities bodes well. We resume coverage on HDFCLIFE with BUY and TP of Rs 755 (from Rs 775), implying 2.4x FY26E P/EV. We introduce FY27 estimates, and continue to prefer HDFCLIFE as our top pick.

Key risks

Key downside risks to our estimates are:

- **Change in regulatory framework:** Any unfavourable change in regulations can affect business growth. For example, ULIP proceeds are currently taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in income tax rate for insurance companies could adversely impact profitability, in our view.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper growth of ULIPs. Although insurance companies are opting for balanced product mixes, many of them have sizeable business coming from ULIPs.
- **Increasing interest rates:** Guaranteed-return businesses could be affected by an increase in interest rates as other financial instruments (e.g. deposits) become more attractive.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company's investment portfolios. The shareholders' equity and earnings and policyholders' funds may also be affected by fair value revaluation of bonds held in investment portfolios.
- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered in case of job loss and monetary requirements, among other factors, which lowers the persistency ratios.

Glossary

| Glossary of Abbreviations | | | |
|---------------------------|--|-------------|----------------------------------|
| APE | Annual Premium Equivalent | NBP | New Business Premium |
| EOM | Expenses of Management | ROEV | Return on Embedded Value |
| EV | Embedded Value | ROP | Return of Premium |
| EVOP | Embedded Value Operating Profit | RWRP | Retail Weighted Received Premium |
| HNI | High Net Worth Individuals | ULIP | Unit Linked Insurance Plan |
| IRDAI | Insurance Regulatory and Development Authority | VNB | Value of New Business |

Financials

Revenue Account (Technical)

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|-----------------------------|-----------------|------------------|------------------|------------------|------------------|
| Gross premium income | 5,75,334 | 6,30,765 | 7,50,019 | 8,90,286 | 10,28,329 |
| First year premium | 1,13,239 | 1,11,108 | 1,38,471 | 1,64,716 | 1,84,541 |
| Renewal premium | 2,84,483 | 3,34,451 | 3,91,201 | 4,65,052 | 5,41,600 |
| Single premium | 1,77,612 | 1,85,205 | 2,20,347 | 2,60,518 | 3,02,188 |
| Net written premium | 5,67,640 | 6,19,592 | 7,32,144 | 8,56,696 | 10,02,232 |
| Income from investments | 1,25,975 | 3,83,543 | 3,87,638 | 4,52,589 | 5,01,423 |
| Other Income | 13,439 | 4,608 | 5,188 | 5,812 | 6,516 |
| Total income | 7,07,054 | 10,07,743 | 11,24,970 | 13,15,096 | 15,10,171 |
| Commissions | 28,868 | 52,563 | 60,976 | 70,705 | 81,389 |
| Operating expenses | 84,693 | 72,195 | 75,941 | 92,869 | 1,07,203 |
| Benefits and bonuses paid | 3,88,723 | 3,96,965 | 4,27,152 | 5,04,231 | 5,82,129 |
| Change in liabilities (net) | 1,85,862 | 4,84,194 | 5,48,697 | 6,29,434 | 7,20,790 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Total expenses | 6,88,146 | 10,05,916 | 11,12,766 | 12,97,239 | 14,91,511 |
| Surplus before tax | 18,908 | 1,827 | 12,204 | 17,858 | 18,660 |
| Provision for tax | 5,319 | (5,924) | 1,526 | 1,979 | 2,272 |
| Surplus after tax | 13,589 | 7,751 | 10,678 | 15,879 | 16,388 |
| Trf to shareholders' a/c | 14,689 | 7,991 | 10,153 | 12,741 | 14,492 |
| Balance being FFA | (1,101) | (240) | 525 | 3,138 | 1,896 |

Income Statement (Non-technical)

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Trf from policyholders' a/c | 14,689 | 7,991 | 10,153 | 12,741 | 14,492 |
| Income from investments | 7,197 | 10,022 | 10,834 | 12,095 | 13,909 |
| Contr. to policyholders' fund | 8,797 | 1,251 | 1,388 | 1,534 | 1,689 |
| Others | (368) | (1,123) | (1,268) | (1,431) | (1,613) |
| PBT | 12,722 | 15,638 | 18,331 | 21,871 | 25,098 |
| Provision for taxation | (877) | (50) | 330 | 394 | 452 |
| PAT | 13,599 | 15,689 | 18,001 | 21,477 | 24,647 |
| Dividend+Interim div.+DDT | 4,056 | 4,304 | 2,582 | 3,228 | 3,228 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Equity | 1,29,868 | 1,46,517 | 1,57,430 | 1,75,679 | 1,97,098 |
| Policyholders' funds | 22,06,290 | 27,34,890 | 32,54,447 | 38,83,881 | 46,04,671 |
| FFA | 12,354 | 12,115 | 13,084 | 14,131 | 15,261 |
| Others | 1,28,737 | 1,31,548 | 1,44,096 | 1,57,936 | 1,73,202 |
| Total liabilities | 24,77,249 | 30,25,070 | 35,69,057 | 42,31,627 | 49,90,232 |
| Shareholders' funds | 1,31,319 | 1,48,819 | 1,60,724 | 1,84,833 | 2,12,558 |
| Policyholders' funds | 14,64,485 | 18,17,966 | 22,05,745 | 26,71,910 | 31,97,607 |
| Assets to cover linked liab. | 7,92,015 | 9,55,416 | 10,77,710 | 12,28,589 | 14,00,591 |
| Others | 89,430 | 1,02,870 | 1,24,878 | 1,46,295 | 1,79,475 |
| Total assets | 24,77,249 | 30,25,071 | 35,69,057 | 42,31,627 | 49,90,232 |

Key Metrics

| Y/E 31 Mar | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------|-----------|-----------|-----------|-----------|-----------|
| AUM (Rs mn) | 23,87,819 | 29,22,201 | 34,44,179 | 40,85,331 | 48,10,757 |
| NBP (Rs mn) | 2,90,851 | 2,96,314 | 3,58,818 | 4,25,234 | 4,86,729 |
| APE (Rs mn) | 1,33,400 | 1,32,910 | 1,64,568 | 1,95,597 | 2,20,196 |
| VNB (Rs mn) | 36,818 | 34,955 | 42,130 | 51,246 | 57,251 |
| VNB margin (%) | 27.6 | 26.3 | 25.6 | 26.2 | 26.0 |
| Embedded value (Rs mn) | 3,94,988 | 4,74,655 | 5,54,175 | 6,48,527 | 7,56,432 |
| ROEV (%) | 19.6 | 17.5 | 17.3 | 17.6 | 17.1 |
| ROE (%) | 9.6 | 11.4 | 11.8 | 12.9 | 13.2 |
| Opex ratio (%) | 14.7 | 10.9 | 9.7 | 10.2 | 10.0 |
| Cost ratio (%) | 19.7 | 19.3 | 17.9 | 18.3 | 18.0 |
| Solvency ratio (%) | 203.2 | 181.2 | 190.4 | 187.8 | 0.0 |
| EPS (Rs) | 6.4 | 7.3 | 8.4 | 10.0 | 11.5 |
| BVPS (Rs) | 60.8 | 68.1 | 73.2 | 81.6 | 91.6 |
| EVPS (Rs) | 185.0 | 220.6 | 257.5 | 301.3 | 351.5 |

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

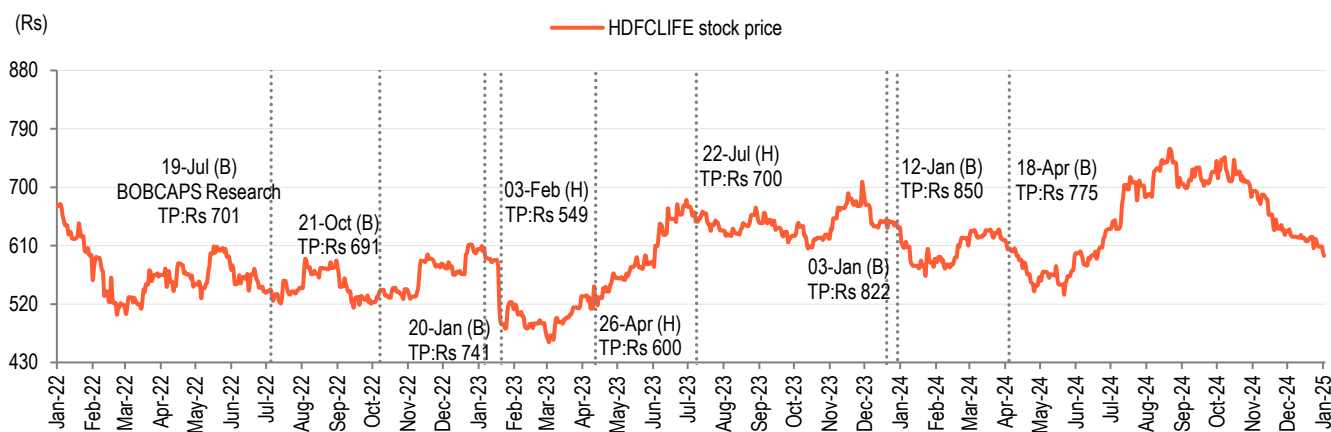
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HDFC LIFE (HDFCLIFE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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