

CMP: ₹ 640

Target: ₹ 800 (25%)

Target Period: 12 months

BUY

January 16, 2025

## Sustained margins & growth outlook to aid valuation

About the stock: HDFC Life is among the most dominant players in the Indian life insurance industry with a strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on non-par, protection & annuity business
- Industry leading VNB margins of ~25-26%

Q3FY25 performance: HDFC Life delivered healthy growth in new business premium accretion at ~11% YoY to ₹22,396 crore for 9MFY25, driven by ULIP & non-par business. Individual Annualized Premium Equivalent (APE) growth stood at 24% YoY, gaining 70 bps in market share at 10.8%. However, higher expenses (opex up ~120 bps at 20.8%) moderated earnings growth at 15% YoY to ₹1,326 crore. Value of New Business (VNB) grew by 14% YoY to ₹2,586 crore, VNB margin contracted by ~140 bps to 25.1%. Sequential revival was witnessed in margins owing to higher growth in non-par segment, restructuring of commission structure and product repricing. AUM expanded to ₹3,30,000 crore, up 18% YoY, while embedded value increased by 18% YoY to ₹53,246 crore.

### Investment Rationale

- Linked business remains robust; focus on volume to aid performance: APE growth remained healthy at 20% YoY, led by unit linked business. As anticipated, linked business witnessed higher growth, amid buoyancy in capital market, keeping share of linked broadly stable at 37% in 9MFY25. Focus on chasing growth with balanced product mix (continued focus on protection & annuity business) aiming 18-20% growth in business. Strategy focussing on customer accretion and improvement in penetration in tier 2 & 3 markets could aid growth. While diversification in distribution channel is underway, management has indicated no official communication from the regulator.
- Margin uptick came as surprise; seems bottoming out: VNB margin witnessed an uptick at 25.1% in 9MFY25, with pressure from change in business mix (higher accretion in ULIP business) and ~30 bps impact owing to surrender regulations, being offset by repricing of products, revised distributor payout and improvement in product level margins across segments. Impact of new surrender regulations seems to be capped at ~30 bps compared to earlier estimate of ~100 bps. Thus, VNB margins seems to be bottomed out with gradual uptick expected at ~25.5-26% with APE growth. VNB growth guidance maintained at ~15% for FY25E.

### Rating and Target Price

- Business growth with balanced product mix, distribution in Tier 2 & 3 cities and steady margins is seen to aid performance. Noise regarding regulatory restriction on banca business to keep valuation volatile in near term, though diversification seems to be underway.
- Valuing the stock at 2.3x FY27E EV, we revise target at ₹ 800 and maintain Buy recommendation.

### Key Financial Summary

(₹ Crore)	FY22	FY23	FY24	3 year CAGR	FY25E	FY26E	FY27E	3 year CAGR
New business premium	24155	29085	29631	14%	36173	42296	49478	19%
APE	9664	13100	12963	17%	16171	19294	23025	21%
Total premium	45962	57533	63076	18%	74046	86344	101146	17%
PAT	1208	1360	1569		1751	2053	2378	
EV	30048	39526	47468		55816	64734	74847	
P/E (x)	111.9	101.1	87.7		78.6	67.0	57.9	
P/BV (x)	8.7	10.6	9.4		8.7	8.0	7.4	
P/IEV (x)	4.5	3.5	2.9		2.5	2.1	1.8	
RoEV (%)	19.0	19.7	17.5		17.6	12.5	12.8	

Source: Company, ICICI Direct Research



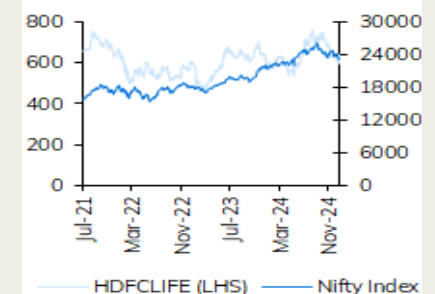
### Particulars

Particulars	Amount
Market Capitalisation	₹1,38,802 crore
EV	53246 crores
AUM	₹328684 crore
52 week H/L	761/ 511
Net worth	₹15190 crore
Face value	₹ 10

### Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24	Sep2024
Promoters	50.4	50.4	50.4	50.4	50.4
FII	30.5	31.3	30.0	26.6	25.6
DII	6.9	6.6	7.9	11.2	13.3
Public	12.2	11.8	11.6	11.8	10.8

### Price Chart



### Key risks

- Restriction on distribution mix remains a regulatory risk
- Competitive intensity impacting business growth & IRR

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## Concall highlights and outlook

### Guidance and Product mix

- Management remains confident in achieving its full-year guidance of 18-20% APE growth and ~15% VNB growth.
- Individual APE product mix includes - ULIP at 37%, Non-par savings at 35%, Participating products at 18%, Protection at 6% and Annuity at 5%.
- The number of individual policies sold increased by 15% YoY in 9MFY25, outperforming the industry growth of 9% YoY. The average ticket size grew by 8% YoY, with retail sum assured rising 22% YoY in 9MFY25.
- Annuity and Protection business put together contributed 44% to NBP in 9MFY25.
- Business growth in tier I cities was ~20% whereas tier 2 & 3 grew by 30%
- Credit Protect business declined in 9MFY25 due to slower disbursements among certain partners, especially MFIs.
- Counter share of HDFC Life remained steady at 65% in HDFC Bank for 9MFY25. HDFC Bank channel grew 20% YoY and 10% QoQ in 9MFY25.
- The company's agency count increased by 19% in 9MFY25 and branch network expansion remains underway (35 branches added this year across all tiers).

### Bancassurance and Surrender norms

- Management clarified that there have been no regulatory discussions regarding bancassurance.
- Management also emphasized that bancassurance is instrumental in improving insurance penetration, given that bank touchpoints are nearly 10 times more extensive than the collective touchpoints of all the life insurance companies.
- Currently, bancassurance channel share in individual APE remained stable at 64% in 9MFY25.
- Surrender value regulations impacted margins by 10 bps in 9MFY25 and 30 bps in Q3FY25. Moreover, the overall impact is expected to remain in the range of 10-30 bps for FY25. To offset the losses, measures such as clawback, deferment, and reduced commission were applied based on channel suitability.

### Other

- The recent data breach did not materially affect the company's financial operations. Efforts are underway to enhance system security.
- The company launched Click to Achieve Par Advantage, which provides flexibility to customise and combine plan options, policy and premium paying terms along with policy continuance benefits for single and joint life.

**Exhibit 1: Variance Analysis**

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
First Year Premium	2,968.8	2,679.2	10.8	3,253.4	-8.7	Balanced business mix with individual segment in focus
Renewal Premium	9,375.6	8,396.2	11.7	8,831.0	6.2	Steady persistency aid renewals
Single Premium	4,930.6	4,450.5	10.8	4,843.0	1.8	
Net Premium income	16,771.3	15,235.3	10.1	16,569.7	1.2	
Income from Investments	142.8	11,459.4	-98.8	11,870.8	-98.8	Rise in rates and decline in equities impacted investment income
Total revenue	16,914.1	26,694.8	-36.6	28,440.5	-40.5	
Commission	1,932.5	1,245.7	55.1	1,851.2	4.4	Increase in commission owing to removal of cap
Operating expenses	1,553.3	1,774.1	-12.4	1,681.4	-7.6	
Management Expenses	3,485.8	3,019.7	15.4	3,532.5	-1.3	Total expense ratio higher at 20.2%
Benefits paid	9,179.2	9,866.1	-7.0	10,298.6	-10.9	
Change in Actuarial Liability	4,300.5	13,683.7	-68.6	14,453.5	-70.2	
Total Expenses	13,479.6	23,549.8	-42.8	24,752.1	-45.5	
<b>Surplus/ (deficit)</b>	<b>-227.1</b>	<b>61.3</b>	<b>-470.6</b>	<b>39.6</b>	<b>-672.8</b>	<b>VNB margins for 9MFY25 at 25.1% vs 24.6% in 1HFY25</b>
Transfer to SH's A/c	98.2	129.3	-24.0	385.4	-74.5	
Investment income	271.9	281.1	-3.3	268.8	1.1	
Profit/ (loss) before tax	444.8	366.8	21.3	437.6	1.7	
PAT	414.9	365.1	13.7	433.0	-4.2	Earnings growth remained steady
<b>Key Metrics</b>						
NBP	7,899.4	7,129.7	10.8	8,096.4	-2.4	
AUM	3,28,684.0	2,79,706.6	17.5	3,24,941.9	1.2	Healthy AUM growth at 18%
IEV	53,246.0	45,173.0	17.9	52,114.0	2.2	

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Premiums earned - Net	61959.2	73049.8	85187.2	99796.5
Interest, Dividends & Rent	15811.5	16072.9	18358.0	20973.3
Others income (incl. MTM)	460.8	3385.5	3792.7	4250.9
Total Revenue	78,231	92,508	1,07,338	1,25,021
Commission	5256.3	6766.7	7905.9	9277.1
Operating expenses	6901.1	8136.0	9284.2	10849.9
Benefits paid (Net)	39696.5	45723.7	52354.4	61354.7
Change in valuation of policy liabilities	48419.4	27530.7	30851.1	34325.5
Provision for tax	-592.4	111.5	9.7	25.0
Surplus/(deficit) after tax	-21767.6	1360.0	2374.4	2627.4
Transfer to Shareholders' account	799	1,271	1,704	1,965
<b>(₹ Crore)</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Amounts transferred from Policyholders	799.1	1270.8	1704.1	1965.4
Income from investments	1002.2	1174.0	1134.4	1188.5
Total	1,814	2,445	2,839	3,154
Total expenses	250.5	745.0	845.0	845.0
Profit before Tax	1563.8	1699.8	1993.5	2308.9
Provision for tax	-5.0	-51.0	-59.8	-69.3
PAT	1,569	1,751	2,053	2,378

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>				
Share capital	2151	2151	2151	2151
Reserve and surplus	12050	13255	14581	16039
Credit/(debit) fair value change account	451	466	483	502
Networth	14652	15872	17215	18692
Policyholders' funds	276916	329319	389574	462945
Funds for Future Appropriations	2161	2251	2921	3583
<b>Total Liabilities</b>	<b>293729</b>	<b>347442</b>	<b>409710</b>	<b>485220</b>
<b>Applications of Funds</b>				
Shareholders' investments	14882	16370	18007	19808
Policyholders' investments	181797	203612	228046	255411
Asset held to cover linked liabilities	95542	105096	115605	127166
Loans	1897	2430	2963	3496
Fixed assets - net block	416	424	433	441
<b>Total Assets</b>	<b>293729</b>	<b>347442</b>	<b>409710</b>	<b>485220</b>

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Valuation</b>				
Diluted EPS (₹)	7.3	8.1	9.5	11.1
BV (₹)	68.1	73.8	80.0	86.9
EV per share	220.7	259.5	301.0	348.0
P/E	87.7	78.6	67.0	57.9
P/BV	9.4	8.7	8.0	7.4
P/IEV	2.9	2.5	2.1	1.8
<b>Efficiency Ratios (%)</b>				
Commission expenses as a % of Gross Premium	8.3	8.1	8.0	7.9
Management expenses as a % of Gross Premium	19.3	20.1	19.9	19.9
<b>Return Ratios and capital (%)</b>				
Return on Net worth	18.2	18.2	18.2	18.2
Operating RoEV	17.5	17.5	17.8	17.8
<b>Key Ratios (%)</b>				
VNB Margin	26.3	25.5	25.8	25.8

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
NBP	29631	36173	42296	49478
Growth (%)	2	22	17	17
Linked	14733	18350	22448	27259
Growth (%)	19	25	22	21
Non Linked	48344	55695	63896	73887
Growth (%)	7	15	15	16
APE	12963	16171	19294	23025
Growth (%)	-3	25	19	19
VNB	3501	4377	5302	6327
Growth (%)	-5	25	21	19
EV	47468	55816	64734	74847
Growth (%)	20	18	16	16
AUM	292220	325078	361658	402385
Growth (%)	22	11	11	11
PH Funds	181797	203612	228046	255411
Growth (%)	24	12	12	12
SH Funds	14882	16370	18007	19808

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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