

Higher growth and stable profitability guidance offset transitory margin miss

BFSI ▶ Result Update ▶ October 16, 2024

TARGET PRICE (Rs): 825

HDFCLIFE reported broadly in-line numbers for H1FY25, with APE 3.6% above our estimate at Rs67.2bn however, VNB Margin at 24.6% missed our estimate of 25.1% resulting in largely in-line VNB at Rs16.6bn. Margin contraction was largely due to changes in the product mix and delay in re-pricing of Non-Par products. Management revised the APE growth guidance to 18-20%, with VNB growth being in the 15-17% range for FY25E. VNB Margins will remain range-bound; however, margins should improve in H2FY25 as the pricing environment for value-accretive products is likely to improve under the new surrender regulations. To mitigate the impact of the new surrender regulations, the company has implemented a combination of deferment in commissions and introduction of a clawback provision. To bake in the Q2 developments, we have increased our APE by 2-3% while reducing VNB Margin by 60-70bps, leading to broadly unchanged VNB for FY25-27E. We reiterate BUY with an unchanged Sep-25E TP of Rs825/sh, implying FY26E P/EV of 2.7x.

HDFC Life Insurance: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
GWP	575,334	630,765	731,709	854,394	997,367
APE	133,360	132,910	160,251	186,788	216,151
VNB	36,740	35,010	39,906	47,037	54,717
VNB margin (%)	27.6	26.3	24.9	25.2	25.3
APE growth (%)	36.7	(0.3)	20.6	16.6	15.7
VNB growth (%)	37.3	(4.7)	14.0	17.9	16.3
Adj. EPS (Rs)	6.4	7.4	9.0	10.6	11.8
EV	395,280	474,690	564,238	652,573	753,499
EVOP	64,900	69,210	79,366	92,529	105,792
Op. RoEV (%)	21.6	17.5	16.7	16.4	16.2
EVPS (Rs)	183.9	220.7	262.3	303.4	350.3
P/EV (x)	3.9	3.2	2.7	2.4	2.0
P/EVOP (x)	23.5	22.0	19.2	16.5	14.4

Source: Company, Emkay Research

Stronger growth offset transitory noise-led miss in VNB margins

For H1FY25, HDFC Life reported 25.1% APE growth at Rs67.2bn vs our estimate of Rs64.9bn. VNB Margin for H1FY25 at 24.6% came in 50bps lower than our estimate of 25.1%. VNB Margin for Q2FY25 at 24.3% was lower than our estimate of 25.1%. For H1FY25, VNB at Rs16.6bn (+17.4% YoY) came 1.7% higher than our estimate of Rs16.3bn. Margin contraction (and miss) during H1FY25 was primarily due to a confluence of factors: **1.** Increase in non-par savings (+9ppts YoY) in Total APE mix was offset by increase in ULIP (+7ppts) and decrease in Protection and Annuity (-7ppts); **2.** Delay in repricing of Non-Par products amid falling bond yields in Aug-Sep due to prioritizing of product readiness for launch on 1-Oct under the new surrender regulations, caused a ~40bps margin impact on H1 (~70bps for Q2); and **3.** Amid continued investments in distributions and intense competition in certain product segments, it is likely that product-level margins witnessed some compression. PAT for H1FY25 at Rs9.1bn saw 15% YoY growth and was 2.7% better than our estimate. EV as of H1FY25 at Rs521.1bn came largely in line with our estimate of Rs516.8bn, whereas AUM at Rs3,249bn beat our estimate by 1.1%. While solvency ratio as of H1FY25 stood at 181%, the subordinated debt raise of Rs10bn is likely to result in an increase to 192%.

APE growth guidance increased to ~18-20%; VNB to grow at ~15-17%

On the back of strong 25% APE growth of H1, the management increased FY25 APE growth guidance to ~18-20%. With HDFC Bank counter-share gain now in base, the H2 growth will likely see some moderation from H1 levels, while the buoyant equity market should keep ULIP demand in high gear; the company will try to keep ULIP mix in the 30s. For VNB margins, a host of factors will help balance any negative impact of new surrender regulations: **1.** Repricing actions taken on non-par savings; **2.** Pick-up in credit life; **3.** Reducing competitive intensity in many product segments as the ability of mid-tier players gets constrained in the new surrender regulations regime; and **4.** Newly-negotiated terms of payout (clawback or part/full trail) with the distributors. All this put together, the management is confident of delivering ~15-17% VNB growth in FY25.

We reiterate BUY with an unchanged TP of Rs825/sh

To reflect the developments during the quarter, we have increased our APE estimates by 2-3% while cutting our VNB Margin estimates by 60-70bps, leading to broadly unchanged VNB for FY25-27E. We reiterate BUY with an unchanged Sep-25E TP of Rs825/sh, implying an FY26E P/EV of 2.7x. Driven by a balanced product mix, strong brand and distribution network, and product innovation, we believe HDFCLIFE is well poised to deliver profitable growth amid implementation of new surrender regulations.

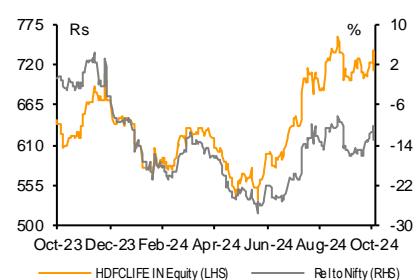
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	15.5
CMP (15-Oct-24) (Rs)	714.3

Stock Data	Ticker
52-week High (Rs)	761
52-week Low (Rs)	511
Shares outstanding (mn)	2,152.2
Market-cap (Rs bn)	1,537
Market-cap (USD mn)	18,292
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	5
ADTV-3M (Rs mn)	3,156.6
ADTV-3M (USD mn)	37.6
Free float (%)	-
Nifty-50	25,057
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	50.4
FPIs/MFs (%)	26.6/11.2

Price Performance

(%)	1M	3M	12M
Absolute	1.3	11.9	14.2
Rel. to Nifty	2.5	9.5	(10.0)

1-Year share price trend (Rs)



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Exhibit 1: H1FY25/Q2FY25 Financial Result Summary

(Rs bn)	H1FY25	H1FY24	YoY %	H1FY25E	Var %	Q2FY25	Q2FY24	YoY %	Q2FY25E	% Var
APE	67.2	53.7	25.1	64.9	3.6	38.6	30.5	26.7	36.2	6.5
--o/w Savings	58.5	44.8	30.6			33.9	25.8	31.4		
--o/w Protection	8.7	8.9	-2.1			4.7	4.7	0.9		
Protection APE (% of total APE)	13.0	16.6	-3.6ppts			12.2	15.3	-3.1ppts		12.2ppts
Value of New Business	16.6	14.1	17.4	16.3	1.7	9.4	8.0	17.1	9.1	3.0
New Business Margin (%)	24.6	26.2	-1.6ppts	25.1	-0.5ppts	24.3	26.3	-2.0ppts	25.1	-0.8ppts
Embedded Value	521.1	429.1	21.5	516.8	0.8					
EV Operating Profit	36.5	31.1	17.4							
Operating RoEV (%)	16.0	16.4	-0.4ppts							
Gross written premium	297.4	266.1	9.6			169.3	149.4			
PAT	9.1	7.9	15.0	8.9	2.7	4.3	3.8	14.9	4.1	5.7
AUM	3,249	2,649	22.7	3214	1.1					
Solvency ratio (%)	181	194	-13.0ppts							

Source: Company, Emkay Research

Exhibit 2: Appraisal methodology-based valuation for HDFC Life

Parameter (Rs bn)	Value
FY25E-40E APE CAGR	11.6%
FY25E-40E VNB CAGR	11.6%
Terminal growth rate	6.0%
Cost of Equity	12.5%
FY25E EV	475
Present value of future VNB	1,196
Appraisal Value - Mar-25E	1,664
Share count (mn)	2,151
Appraisal value per share (Rs) - Mar- 25E	773
Price target (Rs) - Sep-25E	825

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiples for HDFC Life

Target price multiple on FY26 estimates	825
P/EV	2.7x
RoEV (%)	16.4
P/EVOP	18.9x
Implied FY26E VNB multiple	27.6x
Current price multiple on FY26 estimates	714
P/EV	2.4x
RoEV (%)	16.4
P/EVOP	16.3x
Implied FY26E VNB multiple	22.6x

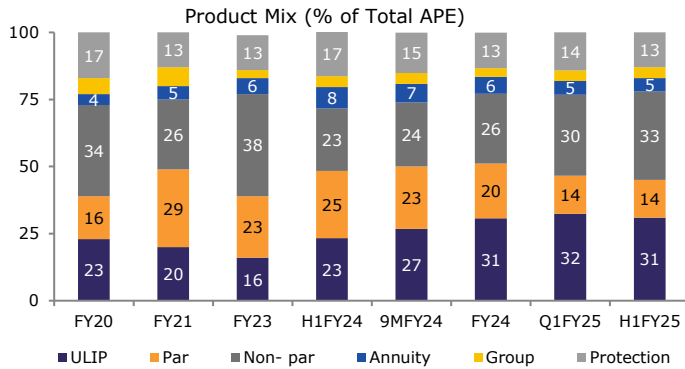
Source: Company, Emkay Research

Exhibit 4: Changes in Estimates

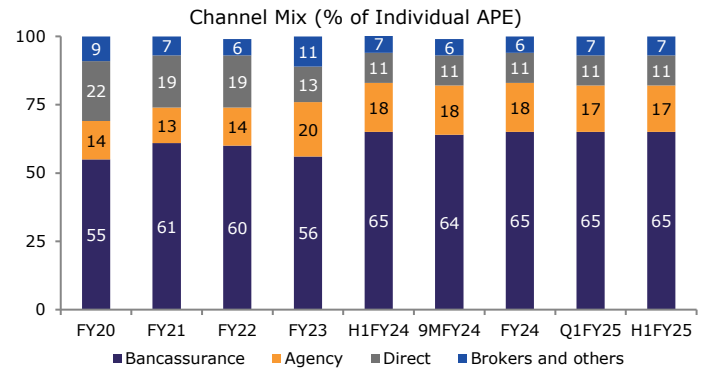
(Rs bn)	FY25E			FY26E			FY27E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
APE	156.0	160.3	2.7	181.9	186.8	2.7	210.5	216.2	2.7
VNB	39.7	39.9	0.4	47.0	47.0	0.1	54.5	54.7	0.3
VNB Margin (%)	25.5	24.9	-0.6ppts	25.8	25.2	-0.7ppts	25.9	25.3	-0.6ppts
EVOP	79.2	79.4	0.2	91.4	92.5	1.2	104.5	105.8	1.2
EV	550.6	564.2	2.5	637.9	652.6	2.3	737.5	753.5	2.2
PAT	19.2	19.3	0.3	22.6	22.8	0.6	25.3	25.5	0.7

Source: Company, Emkay Research

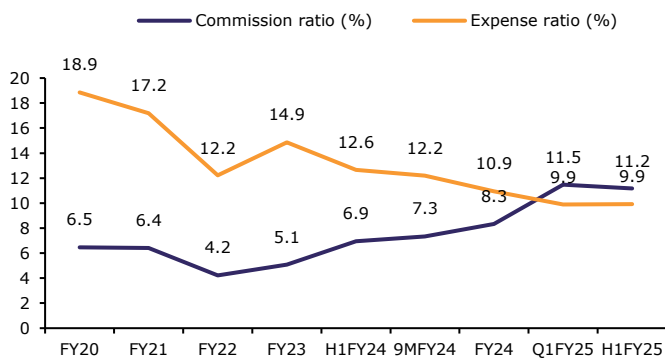
Story in Charts

Exhibit 5: Share of Non-Par rises to 33% in the APE product mix


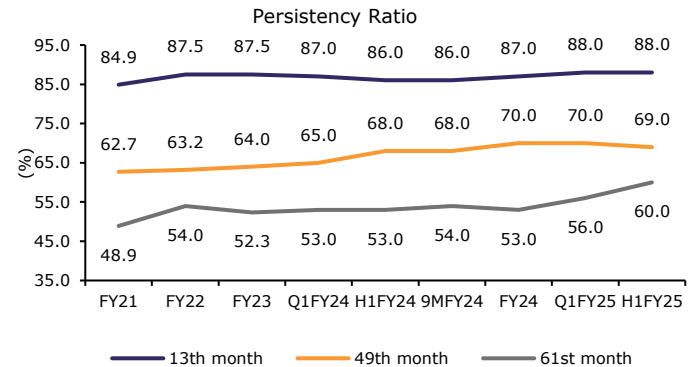
Source: Company, Emkay Research

Exhibit 6: Banca dominates the distribution mix


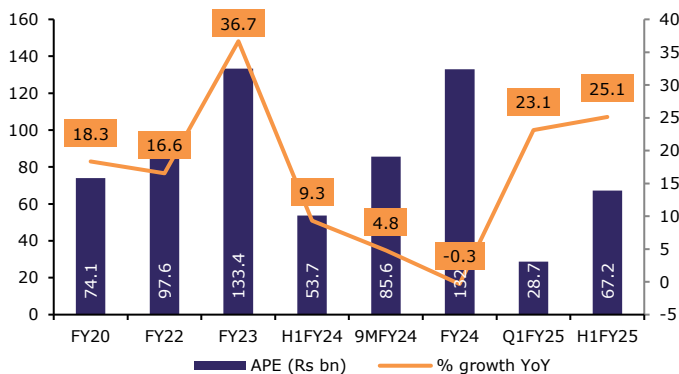
Source: Company, Emkay Research

Exhibit 7: Commission ratio sees slight improvement sequentially


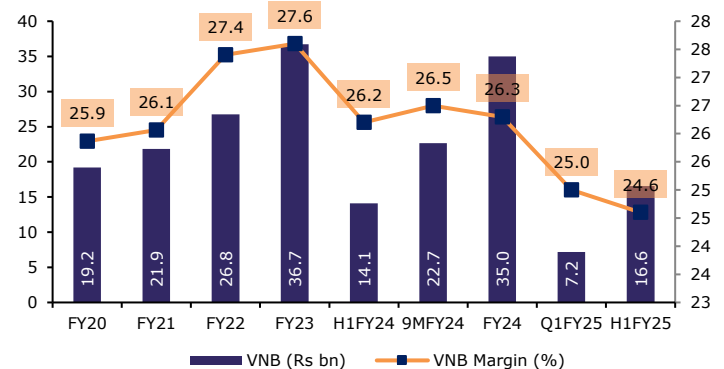
Source: Company, Emkay Research

Exhibit 8: 61M persistency sees sequential improvement


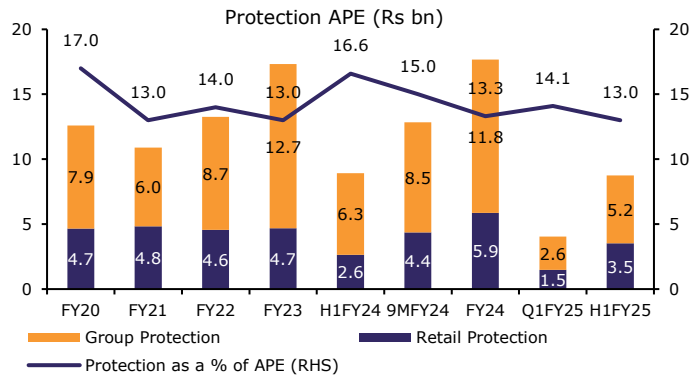
Source: Company, Emkay Research

Exhibit 9: APE grows 25.1% YoY during H1FY25


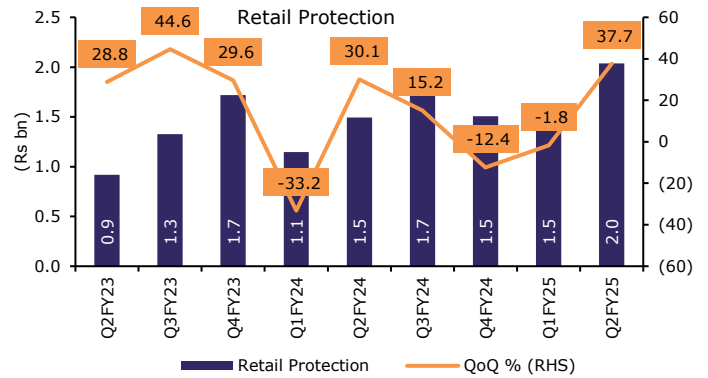
Source: Company, Emkay Research

Exhibit 10: VNB margin dips to 24.6%, owing to changes in product mix and delay in re-pricing of Non-Par products


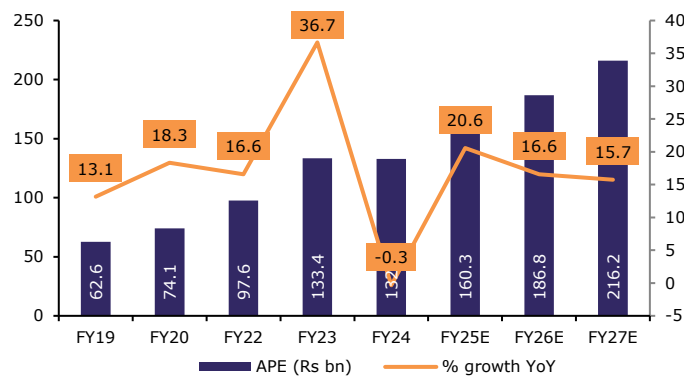
Source: Company, Emkay Research

Exhibit 11: Share of Protection segment slips to 13% of Total APE

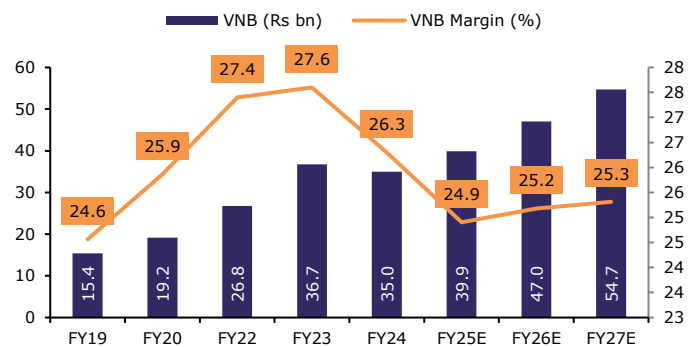
Source: Company, Emkay Research

Exhibit 12: Retail protection grows 38% QoQ during Q2FY25

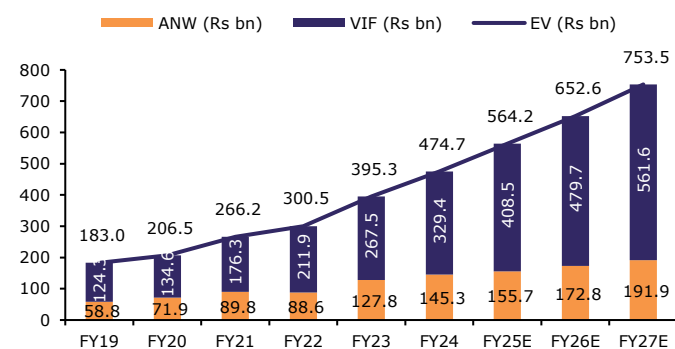
Source: Company, Emkay Research

Exhibit 13: We expect APE to grow 20.6% YoY in FY25E

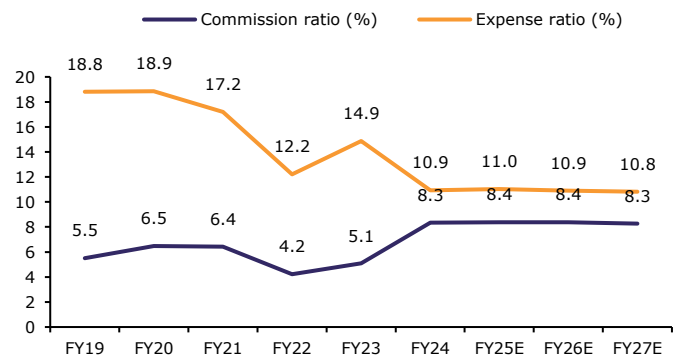
Source: Company, Emkay Research

Exhibit 14: HDFC Life's VNB margin expected to increase gradually over FY25-27E

Source: Company, Emkay Research

Exhibit 15: HDFC Life's EV is expected to grow to Rs754bn by FY27E

Source: Company, Emkay Research

Exhibit 16: HDFC Life's expense ratio likely to remain largely stable

Source: Company, Emkay Research

Earnings Conference Call Highlights

- ULIP segment saw some intended moderation during the quarter. However, new product launches in the Non-Par category resulted in high growth in the segment.
- Changes in the product mix and deferment in re-pricing of certain Non-Par products resulted in pressure on margins during H1FY25.
- The company successfully re-launched its top 40 products under the new product regulations which comprise of 95% of the overall products.
- To mitigate the impact of the new surrender regulations, the company has adopted tailored solutions including claw back of commissions and deferment of commissions.
- Management mentioned that the share of ULIPs will remain range-bound at the 30% levels. Further, continued buoyancy in the equity markets has resulted in strong customer demand for ULIPs. Additionally, the management has seen strong customer acquisition on account of strong traction in ULIP products and remains focused on cross selling other products to these newly-acquired customers.
- Management revised the APE growth guidance upwards to 18-20%, while the VNB is expected to grow in the 15-17% range. Management mentioned that VNB Margins will be an outcome and the company will balance its product mix to protect the margins.
- Management mentioned that under the new surrender regulations, profitability of several players in the industry will be under pressure, therefore, the pricing environment in Protection and Annuity products is expected to improve. With improved pricing in the value accretive products, the management expects H2FY25 VNB Margins to be better than H1FY25 VNB Margins.
- The management chose not to change the IRRs for old products as they were focusing on making the products compliant with the new product regulations. Hence, there was a temporary bandwidth constraint. Consequently, the delay in re-pricing of Non-Par and Annuity products led to a ~30-40bps impact on H1FY25 VNB Margins and ~70bps impact on Q2FY25 VNB Margins.
- Management is not looking to reprice the products on account of surrender charges.
- Credit Protection growth has been slow due to moderation in disbursements among the credit partners. Further, there is some competitive pressure building up and the management will slow down with some partnerships where the pricing is unsustainable. Also, there is very limited reinsurance support in the credit protect business, and hence, the management is not willing to participate in price aggressions.
- Management has also observed increased competitive intensity in the annuity business, which has resulted in a slow growth in the segment. With the reduction in surrender charges for insurers, the management believes some pricing sanity should be seen in the annuity and term protection segments.
- Agents associated with the company for a longer period and having better persistency are paid higher upfront commission. Hence, the focus is on gaining better quality business.
- Nearly 70% of business in agency has been coming from Tier2/3 cities. Focus on agent addition is helping the company penetrate into deeper areas.
- Management has seen fair growth across geographies in Tier 1/2/3 markets. The company has not seen any meaningful difference in customer demand for ULIP products.
- Management has observed downward repricing in the Non-Par and Annuity segment products across industry players.
- Growth is reasonably uniform across ticket sizes in the Non-par segment. Even high ticket sized policies have gained traction.

HDFC Life Insurance: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross premium	575,334	630,765	731,709	854,394	997,367
Net premium	567,640	619,592	718,748	839,260	979,701
Investment income	125,975	383,543	368,654	321,636	364,203
Other income	13,439	4,608	1,751	1,652	1,552
Total revenue	707,055	1,007,743	1,089,153	1,162,548	1,345,456
Commission expense	28,869	52,563	60,206	70,301	81,016
Operating expense	84,374	69,011	79,336	91,572	105,994
Benefits paid (net)	388,723	396,965	489,764	567,896	640,585
Change in reserves	185,862	484,194	441,766	410,993	493,303
Total expenses	693,466	999,991	1,077,696	1,148,496	1,329,929
Surplus/Deficit	13,589	7,751	11,457	14,052	15,527
Trf from policyholders' acct	14,689	7,991	11,812	14,486	16,007
Shareholders' results	(1,965)	7,647	8,261	9,238	10,519
PBT	12,724	15,638	20,072	23,724	26,526
Tax expense	(877)	(50)	803	949	1,061
Reported PAT	13,601	15,689	19,269	22,775	25,465
PAT growth (%)	12.6	15.3	22.8	18.2	11.8
Adjusted PAT	13,601	15,689	19,269	22,775	25,465
Diluted EPS (Rs)	6.4	7.3	9.0	10.7	11.9
Diluted EPS growth (%)	8.0	15.3	22.8	18.2	11.8
DPS (Rs)	1.7	5.4	2.3	2.7	3.0
Dividend payout (%)	27.2	74.0	25.0	25.0	25.0
Effective tax rate (%)	(7)	0	4	4	4
Shares outstanding (mn)	2,149	2,151	2,151	2,151	2,151

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	21,494	21,509	21,509	21,509	21,509
Reserves & surplus	108,343	125,008	135,455	152,536	171,635
Net worth	129,868	146,517	156,964	174,046	193,144
Borrowings	9,500	9,500	9,500	9,500	9,500
Policy liabilities	1,432,696	1,753,488	2,063,999	2,430,998	2,879,242
Prov for linked liab.	595,034	921,145	1,026,843	1,147,567	1,288,938
FFA	12,354	12,115	11,761	11,326	10,846
Current liabilities & prov	79,795	86,665	214,294	244,618	280,905
Total liabilities & equity	2,396,192	2,937,293	3,389,152	3,816,791	4,328,713
Shareholders' investment	131,319	148,819	159,430	176,779	196,178
Policyholders' investment	1,464,485	1,817,966	2,107,987	2,377,805	2,701,661
Assets to cover linked liab.	792,015	955,416	1,218,618	1,374,599	1,561,818
Current assets	69,775	79,739	92,006	103,615	117,512
Total assets	2,396,192	2,937,293	3,389,152	3,816,791	4,328,713
BV/share (INR)	60.4	68.1	73.0	80.9	89.8
EV/share (INR)	183.9	220.7	262.3	303.4	350.3
EVOP/share (INR)	30.4	32.4	37.2	43.3	49.5
Embedded value	395,280	474,690	564,238	652,573	753,499
ANW	127,800	145,300	155,747	172,828	191,927
VIF	267,480	329,390	408,491	479,745	561,572
VIF share in EV (%)	67.7	69.4	72.4	73.5	74.5
Total AUM	2,387,819	2,922,201	3,486,035	3,929,183	4,459,657
Investment yield (%)	6.0	14.8	11.9	9.0	9.0
Yield on PH funds (%)	9.9	23.4	18.8	14.3	14.3
Yield on SH funds (%)	5.1	7.2	7.2	7.2	7.2

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
APE	133,360	132,910	160,251	186,788	216,151
VNB	36,740	35,010	39,906	47,037	54,717
VNB margin (%)	27.6	26.3	24.9	25.2	25.3
APE growth (%)	36.7	(0.3)	20.6	16.6	15.7
VNB growth (%)	37.3	(4.7)	14.0	17.9	16.3
Operating ratios (%)					
NB commission/APE	16.8	35.6	NA	NA	NA
Commissions/TWRP	6.9	11.3	11.3	11.4	11.3
Total exp ratio/TWRP	27.3	26.2	26.1	26.2	26.2
Conservation ratio	95.3	84.1	85.0	85.0	85.0
Solvency ratio	203.0	187.0	NA	NA	NA
RoE	9.6	11.4	12.7	13.8	13.9
Historical metrics					
APE mix (%)	FY23	FY24	FY25E	FY26E	FY27E
A. Retail protection	3.5	4.4	NA	NA	NA
B. Group protection	9.5	8.9	NA	NA	NA
C. Savings - individual	0.0	0.0	NA	NA	NA
Par	23.0	20.3	NA	NA	NA
Non-Par	44.0	32.4	NA	NA	NA
ULIP	16.0	30.8	NA	NA	NA
D. Group Savings	3.0	3.2	NA	NA	NA
Persistency ratios (%)					
13th Month	87.5	87.0	NA	NA	NA
49th Month	64.0	70.0	NA	NA	NA

Source: Company, Emkay Research

Valuation & key ratios					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	112.1	97.2	79.1	67.0	59.9
P/B (x)	11.8	10.5	9.8	8.8	8.0
P/EV (x)	3.9	3.2	2.7	2.4	2.0
P/EVOP (x)	23.5	22.0	19.2	16.5	14.4
Implied P/VNB (x)	31.0	30.3	24.4	18.8	14.3
Dividend yield (%)	0.2	0.8	0.3	0.4	0.4
EV account and RoEV					
Opening EV	300,480	395,280	474,690	564,238	652,573
Premium unwind	26,200	32,400	37,960	43,992	49,574
VNB	36,740	35,010	39,906	47,037	54,717
Operating variance	1,960	1,800	1,500	1,500	1,501
EVOP	64,900	69,210	79,366	92,529	105,792
Investment variance	(15,900)	13,500	15,000	1,500	1,500
Capital movement	16,700	(3,300)	(4,817)	(5,694)	(6,366)
Other changes	0	0	0	1	2
Closing EV	395,280	474,690	564,238	652,573	753,499
Change in EV	94,800	79,410	89,548	88,335	100,926
RoEV (%)	21.6	17.5	16.7	16.4	16.2
Operating RoEV (%)	21.6	17.5	16.7	16.4	16.2
EVOP growth (%)	47.3	6.6	14.7	16.6	14.3
EV growth (%)	31.5	20.1	18.9	15.7	15.5
Core operating RoEV (%)	31.5	20.1	18.9	15.7	15.5
Unwind rate (%)	8.7	8.2	8.0	7.8	7.6
VNB-to-opening EV (%)	12.2	8.9	8.4	8.3	8.4

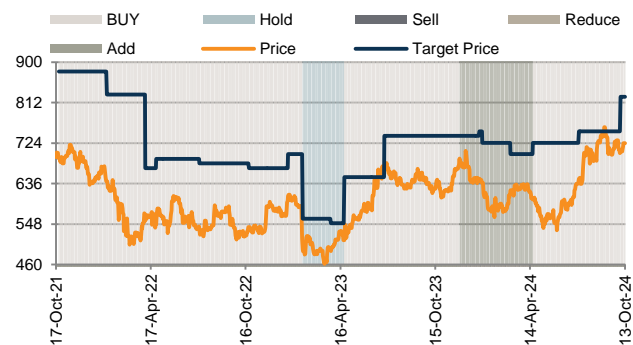
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
13-Oct-24	724	825	Buy	Avinash Singh
04-Oct-24	709	825	Buy	Avinash Singh
09-Sep-24	736	750	Buy	Avinash Singh
15-Aug-24	686	750	Buy	Avinash Singh
16-Jul-24	647	750	Buy	Avinash Singh
04-Jul-24	604	725	Buy	Avinash Singh
10-Jun-24	569	725	Buy	Avinash Singh
05-Jun-24	552	725	Buy	Avinash Singh
01-Jun-24	550	725	Buy	Avinash Singh
10-May-24	549	725	Buy	Avinash Singh
19-Apr-24	602	725	Buy	Avinash Singh
03-Apr-24	624	700	Add	Avinash Singh
26-Mar-24	627	700	Add	Avinash Singh
09-Mar-24	622	700	Add	Avinash Singh
07-Mar-24	622	700	Add	Avinash Singh
13-Jan-24	638	725	Add	Avinash Singh
09-Jan-24	641	750	Add	Avinash Singh
07-Jan-24	647	750	Add	Avinash Singh
28-Dec-23	648	740	Add	Avinash Singh
18-Dec-23	672	740	Add	Avinash Singh
07-Dec-23	678	740	Add	Avinash Singh
30-Nov-23	691	740	Add	Avinash Singh
30-Nov-23	691	740	Buy	Avinash Singh
07-Nov-23	622	740	Buy	Avinash Singh
14-Oct-23	625	740	Buy	Avinash Singh
09-Oct-23	615	740	Buy	Avinash Singh
04-Oct-23	626	740	Buy	Avinash Singh
08-Sep-23	657	740	Buy	Avinash Singh
21-Aug-23	625	740	Buy	Avinash Singh
09-Aug-23	646	740	Buy	Avinash Singh
22-Jul-23	647	740	Buy	Avinash Singh
09-Jul-23	658	740	Buy	Avinash Singh
10-Jun-23	582	650	Buy	Avinash Singh
01-Jun-23	582	650	Buy	Avinash Singh
16-May-23	560	650	Buy	Avinash Singh
27-Apr-23	518	650	Buy	Avinash Singh
23-Apr-23	513	650	Buy	Avinash Singh
21-Apr-23	513	550	Hold	Avinash Singh
03-Apr-23	504	550	Hold	Avinash Singh
28-Mar-23	490	550	Hold	Avinash Singh
09-Mar-23	491	560	Hold	Avinash Singh
07-Feb-23	483	560	Hold	Avinash Singh
06-Feb-23	482	560	Hold	Avinash Singh
02-Feb-23	493	560	Hold	Avinash Singh
20-Jan-23	591	700	Buy	Avinash Singh
10-Jan-23	600	700	Buy	Avinash Singh
05-Jan-23	609	700	Buy	Avinash Singh
03-Jan-23	596	670	Buy	Avinash Singh
08-Dec-22	578	670	Buy	Avinash Singh
08-Nov-22	536	670	Buy	Avinash Singh
22-Oct-22	542	670	Buy	Avinash Singh
10-Oct-22	533	680	Buy	Avinash Singh
29-Sep-22	528	680	Buy	Avinash Singh
07-Sep-22	577	680	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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