

# HDFC Life Insurance | BUY



## VNB growth led by APE growth, as margins contract

HDFC Life reported a strong 23% YoY growth in total APE, led by 31% growth in individual APE. Growth continued to be led by bancassurance channel, up 40% YoY and accounting for 65% of individual APE, while agency saw subdued growth of +11% YoY. Meanwhile, broker channel came back with a strong 80% YoY growth on a low base. After a 5% contraction in Value of New Business (VNB) in FY24, the company reported an 18% YoY growth in VNB to INR 7.2bn in 1Q25. However, its blended VNB margins declined 115bps YoY to 25.0% - entirely led by product mix change. The savings mix came in at 43/18/39 between ULIP/par/non-par, against 30/31/39 in 1Q24 and 45/17/38 in 4Q24. Margin accretive segments of annuity and group protection saw a YoY contraction. ULIPs grew 97% YoY while retail protection grew 29% YoY. EV grew at 4.5% QoQ to INR 496.1bn. We expect the company to report a consistent 19% growth in APE, while margins remain flat in FY25, before improving into FY26, as fixed expenses get contained. We maintain BUY with an unchanged TP of INR 819, valuing the company at 2.7x FY26e EV of INR 655bn.

- Strong 23% total APE growth led by 31% individual APE growth:** The company reported strong individual APE growth of 31% YoY to INR 24.7bn, with growth coming in both savings (+38% YoY) and protection (+29% YoY). Growth continued to be led by bancassurance channel, up 40% YoY and accounting for 65% of individual APE, while agency saw subdued growth of +11%. Business from HDFC Bank grew 41% YoY, and the insurer's counter share improved to c.65% in this quarter from 57% in 1Q24. Broker channel came back with a strong 80% YoY growth, after a slow FY24. Meanwhile, group business declined YoY due to competitive pressures.
- VNB grew 18% YoY to INR 7.2bn, but margins declined 115bps YoY to 25.0%:** After a 5% contraction in VNB in FY24, the company reported 18% YoY growth in VNB to INR 7.2bn in 1Q25. However, its blended VNB margins declined 115bps YoY to 25.0% - entirely led by product mix change. The savings mix came at 43/18/39 between ULIP/par/non-par, against 30/31/39 in 1Q24 and 45/17/38 in 4Q24. However, the company highlighted that the mix has shifted away from ULIPs in June. While retail protection grew 29% YoY, value margin accretive segments of annuity and group protection contracted by 28% and 10.5% YoY, respectively.
- 100bps of impact of surrender charges on VNB margins to be seen:** The company reiterated that it faced a c.100bps impact on margins due to updated surrender charges - entirely in the first two years of the policy, as surrenders were minimal from the second year onwards. However, we believe that the trend may evolve as charges are reduced, and we may see higher surrenders. We expect FY25 VNB margins to trend at FY24 levels of 26.3%, before we see an improvement in FY26 to 27% levels.
- Positive economic variance of INR 4.0bn led to a strong 18.0% RoEV, solvency fine at 1.86:** HDFC Life reported economic variance of INR 4.0bn, mainly from gains in equity book. This aided the company's EV to grow 18% to INR 496.1bn. While the company's solvency is comfortable at 1.86 (above regulatory floor of 1.5x its required solvency), the company intends to raise subordinate debt of INR 20bn as growth capital.
- Valuation and view:** HDFC Life has ably faced multiple headwinds, coming in from taxation on higher ticket policies, bloated costs due to Exide Life acquisition and competition in parent banca. With its evolved product suite and growth led by policy count, we expect the company to deliver consistent topline growth, with steady VNB margins. The stock trades at 2.5x/2.1x FY25e/FY26e EV. We maintain BUY with an unchanged TP of INR 819, at 2.7x FY26e EV of INR 655bn.

### Financial Summary

INR bn	FY22	FY23	FY24	FY25E	FY26E
Total APE	97.6	133.4	132.9	158.6	188.3
Growth YoY (%)	16.6%	36.7%	-0.3%	19.3%	18.7%
Individual APE	81.7	114.0	115.1	137.3	163.7
NBP	241.55	290.85	296.3	345.6	408.9
Opex + Commissions	75.5	113.2	121.6	142.5	162.6
VNB	26.8	36.7	35.0	41.6	51.6
Growth YoY (%)	22.4%	37.3%	-4.7%	19.0%	23.8%
VNB margins	27.4%	27.5%	26.3%	26.3%	27.4%
ROEV (%)	16.6%	19.7%	17.5%	17.2%	17.4%
P/EVx	3.9	3.3	2.9	2.5	2.1

Source: Company, JM Financial

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	819
Upside/(Downside)	28.4%
Previous Price Target (12M)	819
Change	0.0%

### Key Data – HDFCLIFE IN

Current Market Price	INR638
Market cap (bn)	INR1,372.4/\$16.4
Free Float	42.5%
Shares in issue (mn)	2,150.98
Diluted share (mn)	2,150.98
3-mon avg daily val (mn)	INR3,585.4/US\$42.9
52-week range	711/511
Sensex/Nifty	80,665/24,587
INR/US\$	83.6

### Price Performance

%	1M	6M	12M
Absolute	6.6	4.4	-4.8
Relative*	-1.9	-6.0	-17.9

\* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Quarterly trends in key parameters**

	1Q24	4Q24	1Q25	YoY %	QoQ %
<b>Total APE (Quarterly)</b>	<b>23,280</b>	<b>47,270</b>	<b>28,660</b>	23.1%	-39%
Individual Savings	15,962	38,572	21,956	37.6%	-43%
- ULIPs	4,751	17,511	9,375	97.3%	-46%
- Par	4,941	6,465	3,947	-20.1%	-39%
- Non-par	6,271	14,596	8,635	37.7%	-41%
Annuity	1,710	1,907	1,234	-27.9%	-35%
Individual protection	1,148	1,901	1,480	28.9%	-22%
<b>Individual APE</b>	<b>18,820</b>	<b>42,380</b>	<b>24,670</b>	31.1%	-42%
Group APE	4,460	4,890	3,990	-10.5%	-18%
- Group protection	3,122	2,896	2,647	-15.2%	-9%
- Group savings	1,338	1,994	1,343	0.4%	-33%
Total Savings + Annuity	17,672	46,522	23,190	31.2%	-50%
Total protection	4,270	4,797	4,127	-3.3%	-14%
<b>EV</b>	<b>418,430</b>	<b>478,000</b>	<b>496,100</b>	18.6%	4%
<b>VNB margin (Quarterly)</b>	<b>26.2%</b>	<b>26.1%</b>	<b>25.1%</b>	-1.2%	-1.1%
VNB growth, % (YoY)	17.8%	-4.7%	17.7%		
<b>VNB (quarterly)</b>	<b>6,100</b>	<b>12,340</b>	<b>7,180</b>	17.7%	-42%
<b>Channel mix - Ind APE (YTD)</b>	<b>18,820</b>	<b>115,090</b>	<b>24,670</b>		
Banca	11,480	74,809	16,036	39.7%	-79%
Agency	3,764	20,716	4,194	11.4%	-80%
Others	3,576	19,565	4,441	24.2%	-77%
<b>Savings mix, % (Quarterly)</b>					
- ULIPs	29.8%	45.4%	42.7%	12.9%	-2.7%
- Par	31.0%	16.8%	18.0%	-13.0%	1.2%
- Non-par	39.3%	37.8%	39.3%	0.0%	1.5%

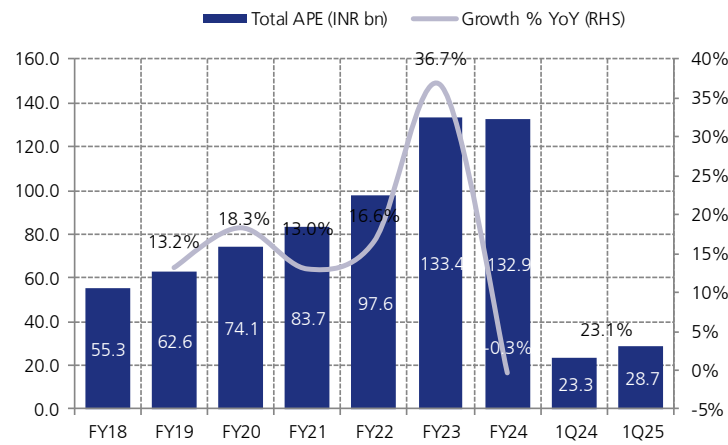
Source: Company, JM Financial

**Exhibit 2. HDFC Life: Trend in EV walk**

Embedded value (INR bn)	FY22	FY23	FY24	1Q24	1Q25
<b>Opening IEV</b>	<b>266.1</b>	<b>329.6</b>	<b>395.2</b>	<b>395.2</b>	<b>474.6</b>
<b>Core EVOP</b>	<b>49.8</b>	<b>62.9</b>	<b>67.4</b>	<b>14.0</b>	<b>16.5</b>
- Unwind	23.0	26.2	32.4	7.9	9.3
- VNB	26.8	36.7	35.0	6.1	7.2
<b>Variances</b>	<b>13.6</b>	<b>2.7</b>	<b>12.0</b>	<b>9.0</b>	<b>4.9</b>
- Operating	0.8	1.9	1.8	1.0	0.9
- Economic & dividends	12.8	0.8	10.2	8.0	4.0
<b>Closing IEV</b>	<b>329.5</b>	<b>395.2</b>	<b>474.6</b>	<b>418.4</b>	<b>496.1</b>

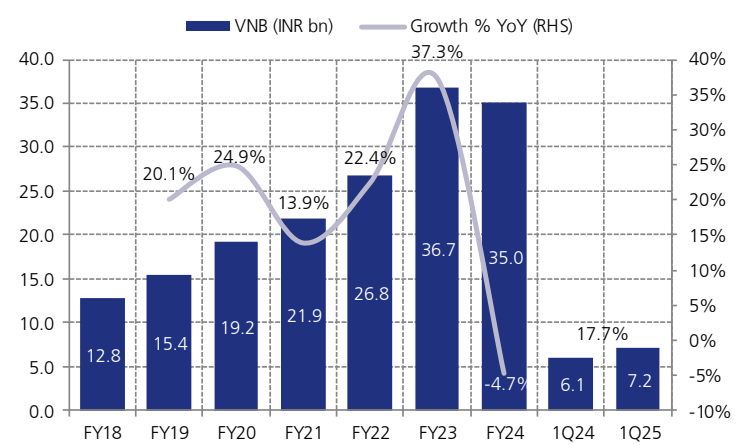
Source: Company, JM Financial

**Exhibit 3. APE: 23.1% YoY growth in total APE during 1Q25**



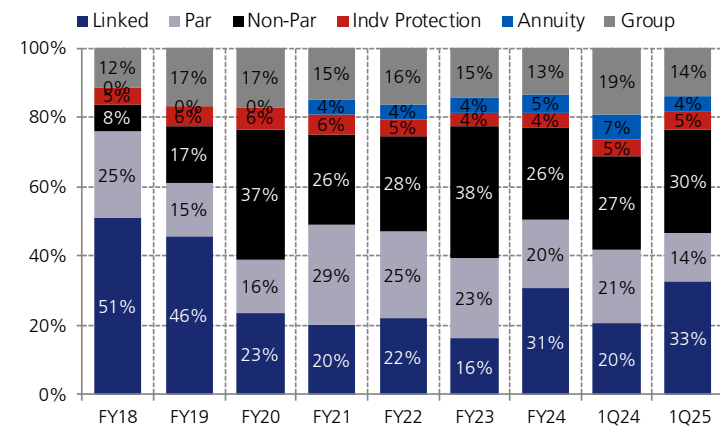
Source: Company, JM Financial

**Exhibit 4. VNB grew 17.7% YoY in 1Q25**



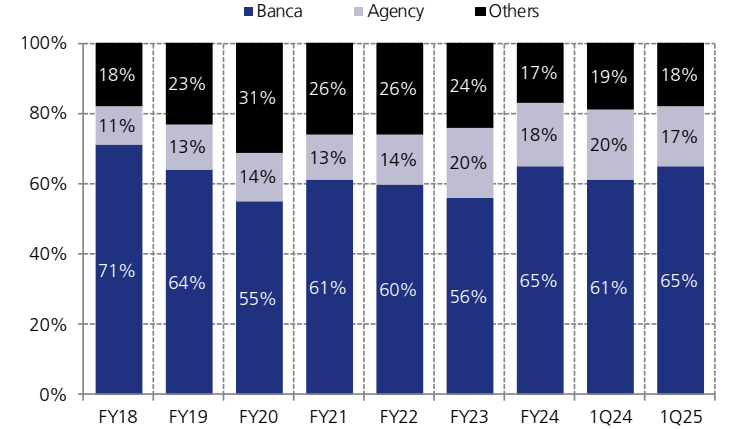
Source: Company, JM Financial

**Exhibit 5. ULIP share has inched up, causing concerns on margins**



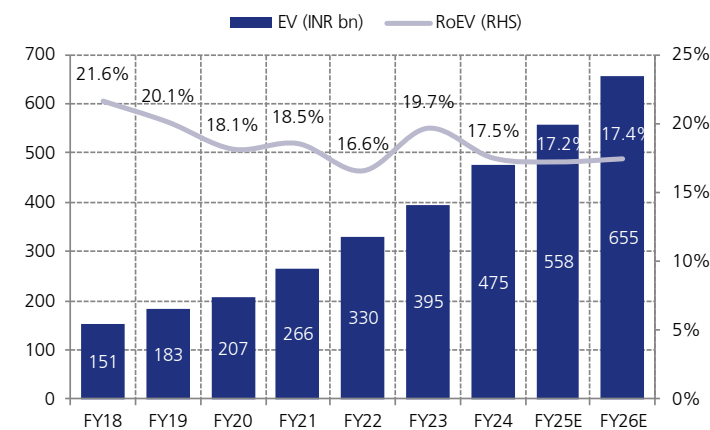
Source: Company, JM Financial

**Exhibit 6. Share of Banca channel sustained owing to HDFC Bank**



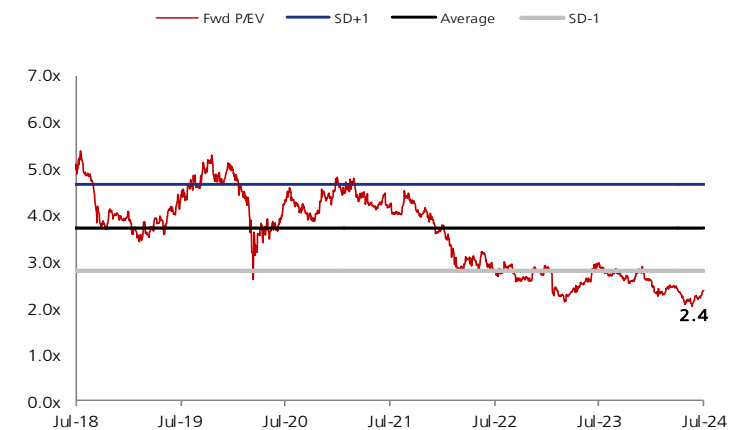
Source: Company, JM Financial

**Exhibit 7. EV has consistently compounded at 17% or higher**



Source: Company, JM Financial

**Exhibit 8. Stock has derated with macros, growth to drive re-rating**



Source: Company, JM Financial

## Financial Tables (Standalone)

Technical Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Gross premiums	459,628	575,334	630,765	748,096	880,706	
Net premiums	453,965	567,640	619,592	737,907	868,516	
Investment income	192,159	125,975	383,543	302,076	404,760	
Other Income	7,460	13,439	4,608	18,708	32,412	
<b> Total Income </b>	<b> 653,584 </b>	<b> 707,054 </b>	<b> 1,007,743 </b>	<b> 1,058,692 </b>	<b> 1,305,688 </b>	
Commissions	19,403	28,868	52,563	37,537	44,191	
Operating expenses	56,125	84,374	69,011	105,011	118,375	
Provisions & Taxes	3,007	5,638	-2,741	13,248	16,033	
<b> Total expenses </b>	<b> 78,534 </b>	<b> 118,881 </b>	<b> 118,833 </b>	<b> 155,796 </b>	<b> 178,599 </b>	
Benefits paid	318,637	388,723	396,965	586,218	719,444	
Change in valuation of life reserves	246,815	185,862	484,194	280,291	343,991	
<b> Total Benefits </b>	<b> 565,453 </b>	<b> 574,585 </b>	<b> 881,158 </b>	<b> 866,509 </b>	<b> 1,063,435 </b>	
<b> Surplus/(Deficit) for the year </b>	<b> 9,597 </b>	<b> 13,589 </b>	<b> 7,751 </b>	<b> 17,678 </b>	<b> 31,242 </b>	

Source: Company, JM Financial

Shareholder's Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Transfer from the Policyholders' Account	10,093	14,689	7,991	19,446	34,366	
Investment income	7,894	7,197	10,022	12,365	13,666	
Other income	-	632	130.50	-	-	
<b> Total income </b>	<b> 17,987 </b>	<b> 22,518 </b>	<b> 18,143 </b>	<b> 31,810 </b>	<b> 48,033 </b>	
Operating expenses	-14	263	1,254	327	369	
Contribution to the policyholders A/C	6,200	9,532	1,251	12,394	14,591	
<b> Profit before tax </b>	<b> 11,801 </b>	<b> 12,724 </b>	<b> 15,638 </b>	<b> 19,090 </b>	<b> 33,073 </b>	
Tax	-275	-877	-50	382	661	
<b> Profit after tax </b>	<b> 12,077 </b>	<b> 13,601 </b>	<b> 15,689 </b>	<b> 18,708 </b>	<b> 32,412 </b>	

Source: Company, JM Financial

Key Ratios		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
NBV	26,750	36,740	35,010	41,639	51,567	
NBV growth	22.4%	37.3%	-4.7%	19.0%	23.8%	
Reported NBV margin	27.4%	27.5%	26.3%	26.3%	27.4%	
New business premium	241,548	289,119	296,314	345,584	408,988	
- Growth	20%	20%	2%	17%	18%	
APE	97,580	133,360	132,910	158,569	188,271	
- Growth	17%	37%	0%	19%	19%	
Opex (ex-comm) ratio	12.21%	14.67%	10.94%	14.04%	13.44%	
Commissions ratio	4.22%	5.02%	8.33%	5.02%	5.02%	

Source: Company, JM Financial

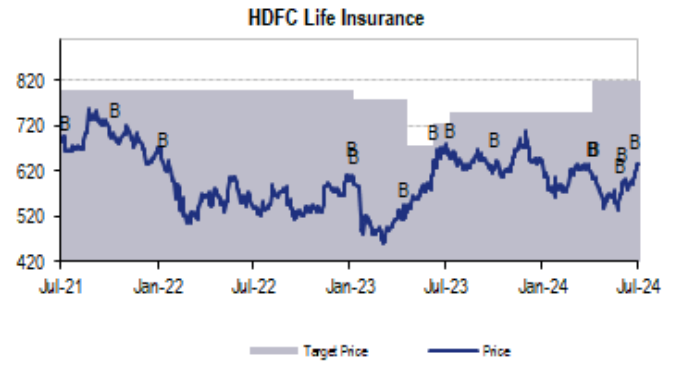
Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Investments	152,379	131,319	148,819	160,420	177,307	
Policyholders' Investments	1,083,110	1,464,485	1,817,966	2,888,233	3,811,006	
Unit linked Investments	806,215	792,015	955,416	1,264,175	1,565,143	
Loans	6,428	15,853	18,972	20,613	24,268	
Fixed assets	3,427	3,802	4,158	4,355	4,741	
Net Current Assets / (Liab)	-9,955	-11,283	-8,038	-12,923	-14,068	
<b> Total Assets </b>	<b> 2,041,605 </b>	<b> 2,396,191 </b>	<b> 2,937,293 </b>	<b> 4,324,874 </b>	<b> 5,568,396 </b>	
Borrowings	6,000	9,500	9,500	9,500	9,500	
Fair Value Change Account	21,697	19,759	60,257	19,759	19,759	
Policy Liabilities	1,084,451	1,470,875	1,753,488	2,859,351	3,772,896	
Linked Liabilities	765,190	753,836	955,416	1,200,966	1,486,886	
FFA	9,409	12,354	12,115	16,064	18,912	
<b> Total Liabilities </b>	<b> 1,886,746 </b>	<b> 2,266,323 </b>	<b> 2,790,776 </b>	<b> 4,105,640 </b>	<b> 5,307,952 </b>	
Share Capital	21,126	21,494	21,509	21,580	21,623	
Reserves and surplus	132,885	108,177	120,503	197,654	238,820	
Fair Value Change Account	848	197	4,505	0	0	
<b> Shareholder's equity </b>	<b> 154,859 </b>	<b> 129,868 </b>	<b> 146,517 </b>	<b> 219,234 </b>	<b> 260,444 </b>	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
28-Apr-20	Buy	460	
20-Oct-20	Buy	600	30.4
24-Jan-21	Buy	770	28.3
27-Apr-21	Buy	800	3.9
20-Jul-21	Buy	800	0.0
24-Oct-21	Buy	800	0.0
24-Jan-22	Buy	800	0.0
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

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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.
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\* REITs refers to Real Estate Investment Trusts.

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