

**RESEARCH****INSURANCE**

Beyond Disruptions: Charting the Path Forward

**BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET**

Economic Round-up: March 2025

**SUMMARY****INSURANCE**

- APE growth to accelerate in FY26 aided by companies' focus on improving their product mix
- Having navigated surrender norms well with lower-than-expected impact, the focus now shifts to VNB margins trajectory going forward
- We maintain BUY on HDFCLIFE, SBILIFE and LIC and upgrade IPRU to BUY. HDFCLIFE remains as our top pick

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**INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET**

Sweeping blanket tariffs announced by US President Donald Trump will have a significant impact on global trade dynamics. Apart from product-wise and targeted (towards Canada, China and Mexico), tariffs, the Trump administration has now announced 10% baseline tariff on all imports with few exceptions. Country-wise tariffs have also been announced, and amongst major EMs of Asia, India has one of the lowest rate of 26%, after Philippines (17%). These measures may lead to some trade realignment, as countries with lower rate (such as India) will have an opportunity to gain market share. In the US, these import duties are expected to have a notable impact on inflation, which the Fed is already worried about.

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**BOBCAPS Research**  
research@bobcaps.in



## INSURANCE

03 April 2025

### Beyond Disruptions: Charting the Path Forward

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- **Having navigated surrender norms well with lower-than-expected impact, the focus now shifts to VNB margins trajectory going forward**
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Vijaya Rao | Niraj Jalan  
 research@bobcaps.in

**APE growth set to accelerate:** The life insurance industry witnessed very volatile growth trends throughout the year till 11MFY25. During this period, the stock prices of the life insurance players rerated owing to the impact of new surrender norms and other regulatory interventions. Now as FY26 dawns, we expect APE growth to pick up for the private insurers in our coverage in the range of 12-18% CAGR in for FY25-FY27 and VNB margins to improve going ahead in FY26 with the likely ULIP's share in new business premiums to cool off and rise in the credit life offtake driven by growth in retail loans. Further, we believe that the private life insurers could offer a compelling investment opportunity, driven by their robust brand presence, well-established distribution channels, and comprehensive product offerings.

**VNB margins to improve:** Despite the subdued equity market performance, ULIPs continued to witness strong growth resulting in contraction of VNB margins by 120-390bps YoY in 9MFY25 for private players, while LICl saw an increase of 46bps. The private sector's VNB margins ranged at 22-27% by end-9MFY25. Conversely, LICl's margin expansion can be attributed to its strategic focus on profitable product mix. We expect LICl's margin to be ~18.5% by end FY27. Furthermore, the industry effectively navigated the changes in surrender norms with a lower-than-expected impact in Q3FY25 when the guidelines were issued in Jun'24. This was accomplished through a mix of deferrals, commission reductions, and adjustments to client benefits. Consequently, the focus now shifts to banca growth and the trajectory of VNB margins going ahead, as the ULIP mix share declines and the group protection business gains traction.

**Our view:** We maintain BUY on HDFCLIFE and raise our TP to Rs 893 (from Rs 755), implying 2.5x in FY27E P/EV and continue to prefer HDFCLIFE as our top pick. We upgrade our HOLD rating on IPRU to BUY with a TP of Rs 662 (previously Rs 706), implying 1.5x its FY27E P/EV. We maintain BUY on SBILIFE with a TP of Rs 1,928 (from Rs 1,995), assigning a multiple of 2.0x to its FY27E P/EV. We maintain BUY on LIC with a TP of Rs 1,064 (earlier Rs 1,071), assigning a multiple of 0.7x to its FY27E P/EV.

#### Recommendation snapshot

Ticker	Price	Target	Rating
HDFCLIFE IN	693	893	BUY
IPRU IN	563	662	BUY
LICl IN	815	1,064	BUY
SBILIFE IN	1,542	1,928	BUY

Price & Target in Rupees | Price as of 3 Apr 2025



## MONTHLY ECONOMIC BUFFET

03 April 2025

### Economic Round-up: March 2025

**Sonal Badhan**  
Economist

Sweeping blanket tariffs announced by US President Donald Trump will have a significant impact on global trade dynamics. Apart from product-wise and targeted (towards Canada, China and Mexico), tariffs, the Trump administration has now announced 10% baseline tariff on all imports with few exceptions. Country-wise tariffs have also been announced, and amongst major EMs of Asia, India has one of the lowest rate of 26%, after Philippines (17%). These measures may lead to some trade realignment, as countries with lower rate (such as India) will have an opportunity to gain market share. In the US, these import duties are expected to have a notable impact on inflation, which the Fed is already worried about.

In their last meeting, inflation estimates for CY25 were revised higher to 2.7% from 2.5% predicted earlier. Elsewhere in Europe, manufacturing activity had just begun stabilizing in recent months, but now with 20% import duty on products of European Union, activity is again expected to come under pressure. EU and China have already stated that counter tariff measures will be announced soon on imports from the US. This escalating trade war will have a direct impact on global growth in CY25. In India, to support growth RBI is expected to cut rates by 25bps this week.

**Global Central Banks:** In Mar'25, in line with market expectations, US Fed, BoE and BoJ held rates steady, while ECB lowered rates by another 25bps. In the Mar'25 meeting, Fed officials also revised their projections for growth lower and inflation higher for both CY25 and CY26. The central bank acknowledge that a part of this could be attributed to the impact of trade war. Now with Trump administration raising tariff rates much more harshly than expected and to highest since 1910, not only US growth, but global growth will also get impacted. As a cushion to deal with the blow, major central banks are expected to cut rates in the meetings ahead. ECB is expected to cut until Jun'25 and then pause from Jul'25 to take a stock of impact of tariffs on inflation. BoE is also expected to cut rates in May'25 meeting. RBI will most likely deliver another 25bps rate cut this week.

**Key macro data releases:** CPI inflation softened significantly to 3.6% in Feb'25 compared to 4.3% in Jan'25 (BoB est.: 4.1%). Since May'23, it is for the first time that vegetable inflation went into negative territory. This was led by better arrivals of winter harvest, which has supported prices. **Core CPI** (excl. food and fuel) inched up to 4%. Overall, we believe CPI is likely to undershoot RBI's target of 4.4% in Q4 (BoB est.: 3.8%), which will open more policy space for easing by RBI. **INR** depreciated by 2.4% in FY25, after falling by 1.5% in FY24. The depreciation pressure on INR manifested largely after the US elections results.



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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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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

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