

BUY**TP: Rs 933 | ▲ 23%****HDFC LIFE**

| Insurance

| 16 October 2025

VNB margins contract

- HDFCLIFE reported healthy APE growth of 9% YoY in Q2FY26, in line with industry growth
- VNB margins contracted by 22bps YoY and 8bps YoY in Q2FY26 and H1FY26, owing to disallowance of input tax credit
- We maintain BUY on HDFCLIFE with TP to Rs 933 (earlier Rs 918), implying 2.5x in its Sep'27 P/EV. HDFCLIFE remains our top pick

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Healthy APE growth: APE grew 9% YoY to Rs 41.9 bn in Q2FY26 (up 10% YoY in H1FY26) vs. 13% YoY growth in Q1FY26. The company's APE grew in line with the overall industry growth during the quarter. The overall industry witnessed APE growth of 9% YoY and private life insurers APE grew 14% YoY in Q2FY26. Individual APE rose by 9% YoY in Q2FY26 and 10% YoY in H1FY26. Group APE increased by 7% YoY in Q2FY26 and 10% YoY in H1FY26.

VNB margin contraction: VNB margin contracted by 22bps YoY and 8bps YoY in Q2FY26 and H1FY26, owing to disallowance of input tax credit (ITC). The margin for H1FY26 was at 25% pre-GST implementation and declined to 24.5% post GST, an impact of 50bps. Likewise, absolute VNB growth was also impacted, moderating to 10% vs. growth of 12% before GST. However, some of the impact was offset by increase in the share of protection in the product mix (share at 13.2% in Q2FY26 vs. 12.3% in Q2FY25). The company is in the process of implementing the measures to mitigate the GST impact and foresees a normalized VNB growth in FY27E. Additionally, the company is in discussions with various vendors, evaluating changes at the product level and operational adjustments in order to mitigate the effect of disallowance of ITC.

Maintain BUY: We expect a short-term impact from GST implementation and ITC disallowance for HDFCLIFE. VNB margin contracted by 50bps in H1FY26, with the gross annualized impact estimated at ~300bps. Management plans to offset this through multiple strategies over the next 2–3 quarters and expects margins to normalize by FY26-end, with full recovery in FY27E driven by topline growth. The company targets mid-teen APE growth and aims to outpace industry growth in FY26E. While the GST impact has been absorbed, the potential volume upside from GST reduction is yet to be factored in by the company. We believe HDFCLIFE is well positioned to navigate these headwinds. We maintain our BUY rating with a revised TP of Rs 933 (earlier Rs 918), valuing the stock at 2.5x Sep'27 P/EV, and continue to prefer it as our top pick.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCLIFE IN/Rs 761
Market cap	US\$ 18.4bn
Free float	50%
3M ADV	US\$ 23.0mn
52wk high/low	Rs 821/Rs 584
Promoter/FPI/DII	50%/25%/13%

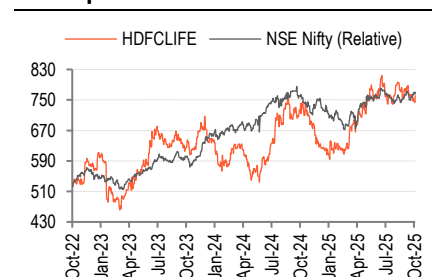
Source: NSE | Price as of 15 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NBP (Rs mn)	3,33,653	3,92,346	4,51,197
APE (Rs mn)	1,54,790	1,76,461	2,02,400
VNB (Rs mn)	39,626	42,885	50,165
Embedded Value (Rs mn)	5,54,230	6,38,932	7,37,689
VNB margin (%)	25.6	25.2	25.7
EVPS (Rs)	257.4	296.8	342.6
EPS (Rs)	8.4	9.7	11.5
Consensus EPS (Rs)	-	-	-
P/EV (x)	3.0	2.6	2.2

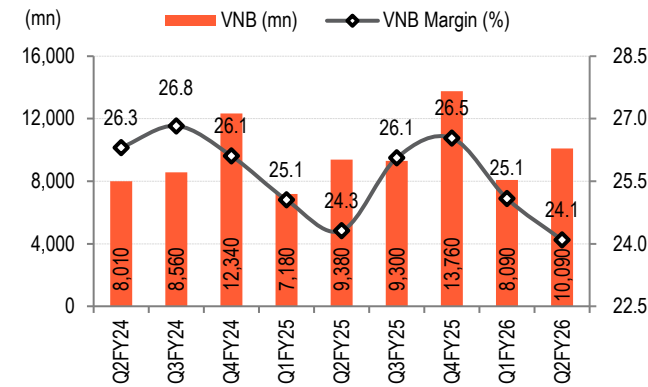
Source: Company, Bloomberg, BOBCAPS Research

Stock performance

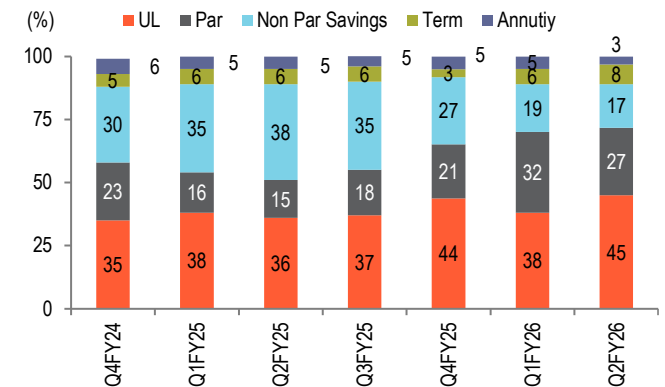


Source: NSE

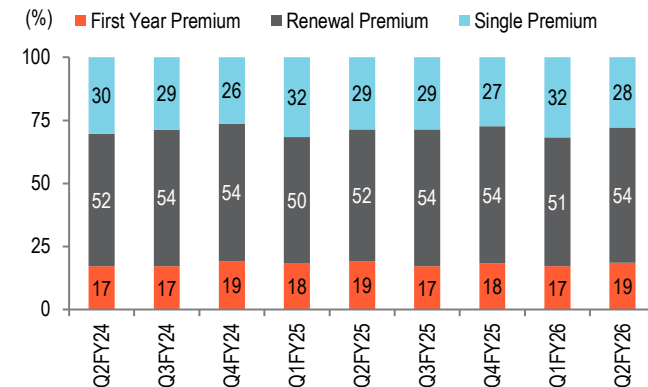


Fig 1 – VNB margin was impacted due to disallowance of ITC


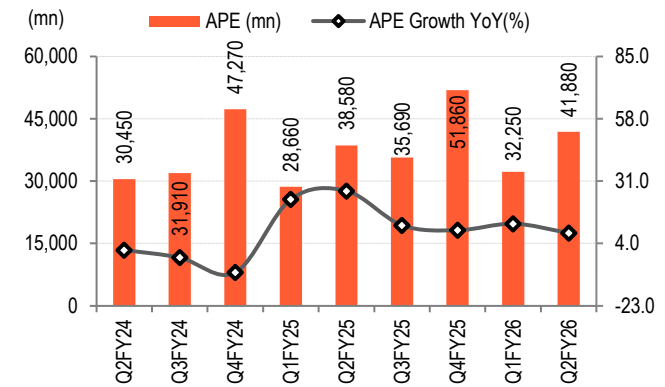
Source: Company, BOBCAPS Research

Fig 2 – ULIP demand continues to remain strong


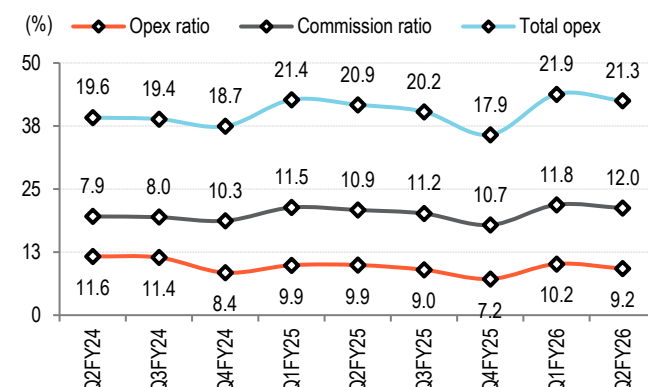
Source: Company, BOBCAPS Research

Fig 3 – Renewal premium constitutes 54% to gross premium income


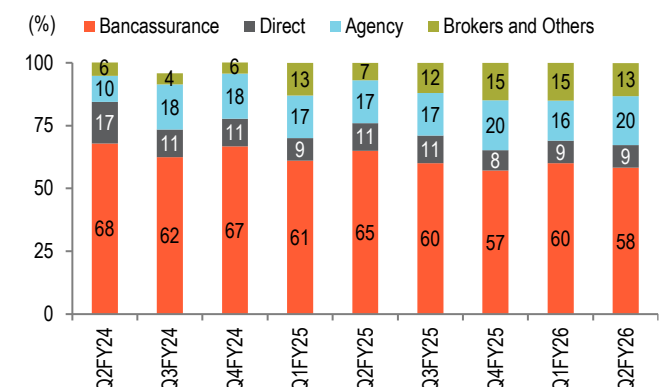
Source: Company, BOBCAPS Research

Fig 4 – APE grew by 8.6% at Rs 41,880 mn


Source: Company, BOBCAPS Research

Fig 5 – Opex ratio came in at 21.3%


Source: Company, BOBCAPS Research

Fig 6 – Agency channel grew faster than other channels in Q2FY26


Source: Company, BOBCAPS Research

Fig 7 – Policyholder's account

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	FY25	FY24	YoY (%)
Gross premium income	1,92,865	1,69,275	13.9	1,48,751	29.7	7,10,449	6,30,765	12.6
First Year Premium	35,795	32,535	10.0	25,502	40.4	1,29,761	1,11,108	16.8
Renewal Premium	1,03,371	88,310	17.1	76,030	36.0	3,76,796	3,34,451	12.7
Single Premium	53,700	48,430	10.9	47,219	13.7	2,03,892	1,85,205	10.1
Reinsurance	5,092	3,578	42.3	4,090	24.5	14,288	11,173	27.9
Net premium income	1,87,773	1,65,697	13.3	1,44,661	29.8	6,96,161	6,19,592	12.4
Income from investments (Net)	14,101	1,16,108	(87.9)	1,45,950	(90.3)	2,59,453	3,83,543	(32.4)
Other income	795	689	15.4	739	7.6	2,830	3,357	(15.7)
Contribution of funds from Shareholders' A/c	485	1,912	(74.7)	666	(27.2)	1,004	1,251	(19.7)
Total	2,03,153	2,84,406	(28.6)	2,92,015	(30.4)	9,59,448	10,07,743	(4.8)
Commission on								
First Year Premium	13,078	12,646	3.4	14,250	(8.2)	58,603	31,511	86.0
Renewal Premium	1,552	1,384	12.1	1,295	19.8	5,896	5,219	13.0
Single Premium	8,579	4,482	91.4	1,947	340.5	13,854	15,833	(12.5)
Others	0	0	-	0	-	0	0	-
Net Commission	23,209	18,512	25.4	17,492	32.7	78,353	52,563	49.1
Benefits Paid (Net)	93,289	1,02,986	(9.4)	86,798	7.5	3,93,459	3,96,965	(0.9)
Change in actuarial liability	69,792	1,44,535	(51.7)	1,70,165	(59.0)	4,15,156	4,84,194	(14.3)
Surplus/Deficit	(1,722)	5,104	-	834	-	10,430	7,751	34.6

Source: Company, BOBCAPS Research

Fig 8 – Shareholder's account

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	FY25	FY24	YoY (%)
Transfer from Policyholders' Account	2,152	3,854	(44.2)	3,663	(41.3)	9,968	7,991	24.7
Investment Income	3,609	2,688	34.3	3,202	12.7	11,251	10,022	12.3
Other income	0	1	-	0	-	1	131	(98.9)
Expenses other than those related to insurance business	638	254	150.6	616	3.6	1,429	1,209	18.2
Transfer of funds to Policyholders' Account	485	1,912	(74.7)	666	(27.2)	1,004	1,251	(19.7)
Provisions for diminution in value of investments	(15)	0	-	(22)	-	126	45	181.4
Profit before tax	4,654	4,376	6.4	5,607	(17.0)	18,661	15,638	19.3
Provisions for tax	183	46	299.6	142	28.7	640	(50)	
Profit after tax and before Extraordinary items	4,472	4,330	3.3	5,465	(18.2)	18,021	15,689	14.9

Source: Company, BOBCAPS Research

Earnings call highlights

Business Highlights

- HDFCLIFE reported robust gross premium income growth of 13.9% YoY in Q2FY26, primarily driven by strong performance in renewal segment, which increased by 17.1%. First year premium and single premium income grew 10% and 11% respectively.
- Over 70% of new customers acquired in H1FY26 were first-time buyers, driven by higher average ticket sizes and continued interest in ULIP and participating products.
- Retail sum assured grew at 22% YoY in H1FY26 and at a 26% CAGR over two years
- The share of new business from Tier 2 and Tier 3 cities remained strong, contributing 66-70% of APE, the company expects this to sustain going forward.

VNB Margin

- VNB margin stood at 24.5% in Q2FY26, impacted by the withdrawal of input tax credit under the revised GST regime and surrender regulation changes from the previous year. The increase in protection business (which grew by 27%) and improvement in inherent product margins helped partly offset the GST-related impact.
- The new business margin, before accounting for the impact of GST, stood at 25%, resulting in a 12% YoY growth in VNB. However, after factoring in the GST impact, the margin declined slightly to 24.5%, leading to a VNB growth of 9.8% YoY in Q2FY26.

Impact of GST rate cuts

- Early signs of demand revival were observed post-GST rate cuts, with notable traction in September.
- ULIPs are most affected by GST rate cuts, while other segments face relatively minor effects.
- The withdrawal of ITC has caused short term margin pressure, but the management expects to neutralize the impact going forward.
- The management reiterated confidence that the positive demand effects of the GST rate cut will outweigh short term margin pressures in coming quarters.
- The company has maintained its earlier guidance and has not made any revisions in response to the new GST regime.

Product Mix

- Annuity business maintained its growth trajectory, with a 16% YoY increase on a NBP basis.
- ULIPs continued to witness strong inflows driven by a combination of positive equity market sentiment and a steady customer appetite for market linked returns.

- The management indicated a pickup in demand for non-par savings products, supported by a steepening yield curve and growing customer preference for long-term guaranteed solutions.

Channel Mix

- The agency channel outperformed the overall company growth, contributing positively to margin improvement due to a more favorable product mix.
- Counter-share with HDFC Bank remained stable, while partnerships with other banks showed healthy expansion in Q2FY26
- Growth in the bank channel (ex HDFC Bank) was lower in Q1FY26 but rebounded to previous levels in Q2FY26. This trend is expected to continue in the coming quarters.

Others

- HDFC Life plans to raise up to Rs 7.5 bn through subordinated debt in one or more tranches during H2FY26.
- The company plans to launch a variable annuity product by Q4FY26.
- HDFC Pension Fund Management, a subsidiary of HDFC Life, delivered strong performance with 37% year-on-year growth in AUM, maintaining its leadership position with a market share exceeding 43%.

Valuation Methodology

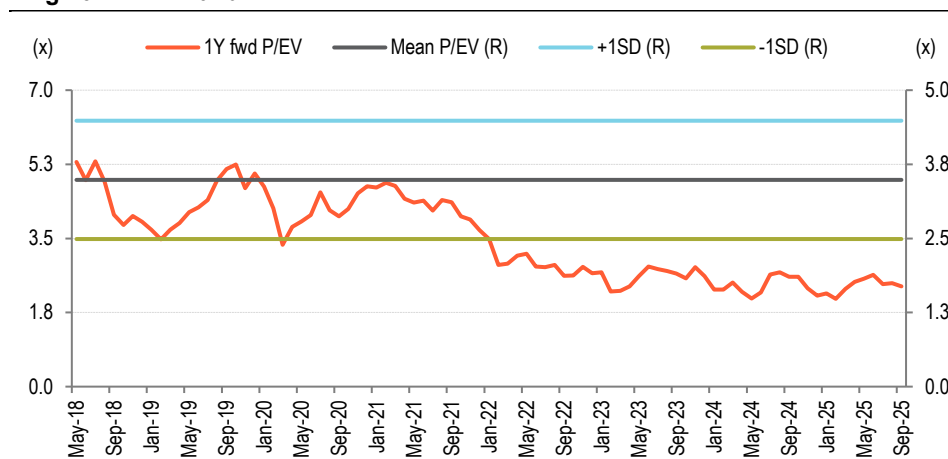
We expect a short-term impact from GST implementation and ITC disallowance for HDFCLIFE. VNB margin contracted by 50bps in H1FY26, with the gross annualized impact estimated at ~300bps. Management plans to offset this through multiple strategies over the next 2–3 quarters and expects margins to normalize by FY26-end, with full recovery in FY27E driven by topline growth. The company targets mid-teen APE growth and aims to outpace industry growth in FY26E. While the GST impact has been absorbed, the potential volume upside from GST reduction is yet to be factored in by the company. We believe HDFCLIFE is well positioned to navigate these headwinds. We maintain our BUY rating with a revised TP of Rs 933 (earlier Rs 918), valuing the stock at 2.5x Sep'27 P/EV, and continue to prefer it as our top pick

Fig 9 – Actual vs Estimates

(Rs mn)	Q2FY26A	Q2FY26E	Actual vs. Estimates (%)
Gross Premium	1,92,865	1,88,363	2.4
APE	41,880	43,108	(2.8)
VNB	10,090	10,701	(5.7)
VNB Margin	24.1	24.8	(73bps)

Source: Company, BOBCAPS Research

Fig 10 – P/EV Band



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Change in regulatory framework:** Any unfavourable change in regulations can affect business growth.
- **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.
- **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.

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)	FY24A	FY25A	FY26E	FY27E	FY28E
Gross premium income	6,30,765	7,10,449	8,34,778	9,59,994	11,10,713
First year premium	1,11,108	1,29,761	1,50,260	1,72,799	1,99,928
Renewal premium	3,34,451	3,76,796	4,42,432	5,08,797	5,88,678
Single premium	1,85,205	2,03,892	2,42,086	2,78,398	3,22,107
Net written premium	6,19,592	6,96,161	8,11,120	9,32,788	10,81,438
Income from investments	3,83,543	2,59,453	3,26,752	3,91,972	4,51,473
Other Income	4,608	3,834	4,006	4,185	4,373
Total income	10,07,743	9,59,448	11,41,877	13,28,945	15,37,284
Commissions	52,563	78,353	91,673	1,06,341	1,21,228
Operating expenses	69,011	62,218	65,951	75,184	86,086
Benefits and bonuses paid	3,96,965	3,93,459	4,60,347	5,39,527	6,31,247
Change in liabilities (net)	4,84,194	4,15,156	5,02,338	5,83,215	6,70,697
Others	0	0	0	0	0
Total expenses	10,02,732	9,49,186	11,20,309	13,04,266	15,09,257
Surplus before tax	5,011	10,263	21,568	24,679	28,026
Provision for tax	(5,924)	(5,882)	1,956	2,171	2,461
Surplus after tax	7,751	10,430	13,553	15,601	17,658
Trf to shareholders' a/c	7,991	9,968	12,333	15,289	17,304
Balance being FFA	(240)	462	0	0	0

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Trf from policyholders' a/c	7,991	9,968	12,333	15,289	17,304
Income from investments	10,022	11,251	12,283	13,570	14,974
Contr. to policyholders' fund	1,251	1,004	1,034	1,065	1,097
Others	(1,123)	(1,554)	(1,768)	(2,048)	(2,375)
PBT	15,638	18,661	21,814	25,746	28,807
Provision for taxation	(50)	640	873	1,030	1,152
PAT	15,689	18,021	20,941	24,716	27,654
Dividend+Interim div.+DDT	4,304	4,521	4,521	4,521	4,521

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity	1,46,517	1,61,256	1,77,670	1,97,864	2,20,998
Policyholders' funds	27,34,890	31,53,161	37,28,737	44,20,792	52,53,512
FFA	12,115	12,576	13,583	14,669	15,843
Others	43,771	68,348	73,536	79,417	86,083
Total liabilities	29,37,293	33,95,342	39,93,525	47,12,742	55,76,435
Shareholders' funds	1,48,819	1,83,863	2,12,362	2,39,969	2,59,167
Policyholders' funds	18,17,966	21,62,671	27,03,338	32,98,073	38,91,726
Assets to cover linked liab.	9,55,416	10,16,282	11,68,724	13,44,032	15,32,197
Others	0	0	0	0	0
Total assets	29,37,293	33,95,342	39,93,525	47,12,742	55,76,435

Key Metrics

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
AUM (Rs mn)	29,22,201	33,62,815	40,84,424	48,82,074	56,83,089
NBP (Rs mn)	2,96,314	3,33,653	3,92,346	4,51,197	5,22,035
APE (Rs mn)	1,32,910	1,54,790	1,76,461	2,02,400	2,33,165
VNB (Rs mn)	34,955	39,626	42,885	50,165	58,464
VNB margin (%)	26.3	25.6	25.2	25.7	26.0
Embedded value (Rs mn)	4,74,680	5,54,230	6,38,932	7,37,689	8,52,647
ROEV (%)	17.5	16.7	16.1	16.2	16.2
ROE (%)	11.4	11.7	12.4	13.2	13.2
Opex ratio (%)	10.9	8.8	8.0	7.9	7.8
Cost ratio (%)	19.3	19.8	19.0	19.1	18.8
Solvency ratio (%)	-	-	-	-	-
EPS (Rs)	7.3	8.4	9.7	11.5	12.8
BVPS (Rs)	68.5	75.0	82.5	91.9	102.6
EVPS (Rs)	220.6	257.4	296.8	342.6	396.0

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

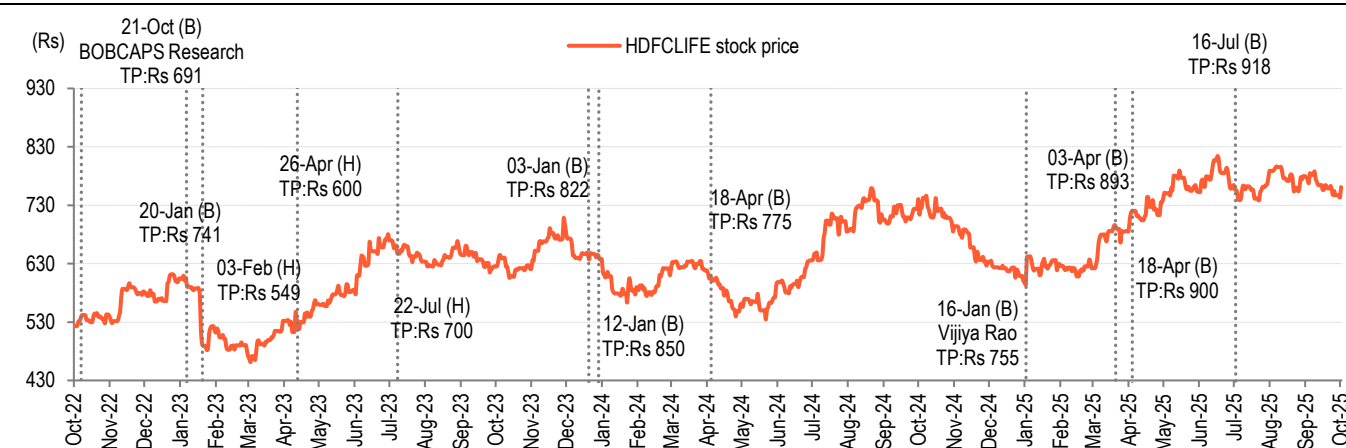
HOLD – Expected return from -6% to +15%

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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