

BUY**TP: Rs 900 | ▲ 25%****HDFC LIFE**

| Insurance

| 18 April 2025

Resilient growth ahead on balanced product mix

- **HDFCLIFE reported below expectations APE growth of 9.7% YoY in Q4FY25 (up 17% YoY in FY25)**
- **While margin grew 40bps YoY, APE to grow 17-19%; VNB margin of 26-27% in FY26-FY28, aided by better product mix and growth momentum**
- **We maintain BUY on HDFCLIFE with TP to Rs 900 (from Rs 893), implying 2.6x in FY27E P/EV. HDFCLIFE remains our top pick**

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Divergent growth in APE and VNB margins: HDFC Life reported its performance below estimates, with APE at Rs 51.9bn, up 9.7% YoY in Q4FY25 vs estimates of Rs 53.4bn. VNB grew 11.5% YoY to Rs 13.8bn vs estimates of Rs 14.0bn. However, margins improved by 40bps YoY in Q4FY25, despite higher share of ULIPs in the product mix. VNB margin stood at 26.5% in Q4FY25 vs estimate of 26.2% vs 26.06% in Q3FY25 vs 26.1% in Q4FY25. This was primarily on account of higher attachment of riders and protection to ULIPs, which makes the product margin-accretive. Management maintained APE growth guidance above the industry growth and that margins will be range-bound in the medium term. APE and VNB growth likely to remain moderate in 1HFY26 with pickup thereon in the 2HFY26, following a similar trend as of FY25.

Moderate APE growth: HDFCLIFE reported APE growth of 9.7% YoY in Q4FY25, impacted by slower individual APE growth (up 9.3% YoY); group APE rose 13.1% YoY in Q4FY25. For FY25, total APE rose 16.6% YoY, led by individual APE growth (up 18% YoY). Group APE grew 4.4% YoY on a lower base of FY24.

Surrender regulations: Impact of new surrender regulations was to the extent of ~30bps on VNB margins, which was managed through the pass-on to distributors. Management had earlier called out a 100bps impact from the change in surrender value regulations.

ULIP share continues to rise: Despite market volatility, ULIPs continue to gain share in the product mix, which stood at 40%, on total APE basis vs 31% in Q3FY25. Management aims to bring it down in the 35-36% range, going ahead.

Maintain BUY: We believe HDFCLIFE is well placed to achieve its APE growth outlook of 17-19% and VNB margin of 26-27% in FY26-FY28; aided by better product mix and strong growth momentum. Incremental focus on agency channel growth, along with increasing penetration in Tier-2 and 3 cities bode well. We maintain BUY on HDFCLIFE with TP to Rs 900 (from Rs 893), implying 2.6x in FY27E P/EV and continue to prefer HDFCLIFE as our top pick.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCLIFE IN/Rs 720
Market cap	US\$ 18.0bn
Free float	50%
3M ADV	US\$ 21.7mn
52wk high/low	Rs 761/Rs 511
Promoter/FPI/DII	50%/25%/13%

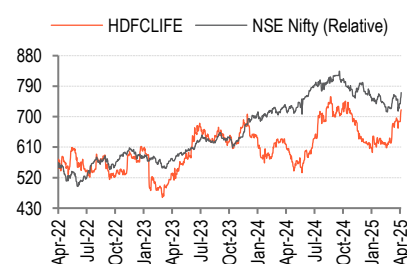
Source: NSE | Price as of 17 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NBP (Rs mn)	3,33,653	3,92,346	4,62,968
APE (Rs mn)	1,54,790	1,83,426	2,18,277
VNB (Rs mn)	39,626	46,346	56,415
Embedded Value (Rs mn)	5,54,255	6,42,920	7,48,826
VNB margin (%)	25.6	26.2	26.8
EVPS (Rs)	257.4	298.6	347.8
EPS (Rs)	8.4	10.8	14.1
Consensus EPS (Rs)	-	-	-
P/EV (x)	2.8	2.4	2.1

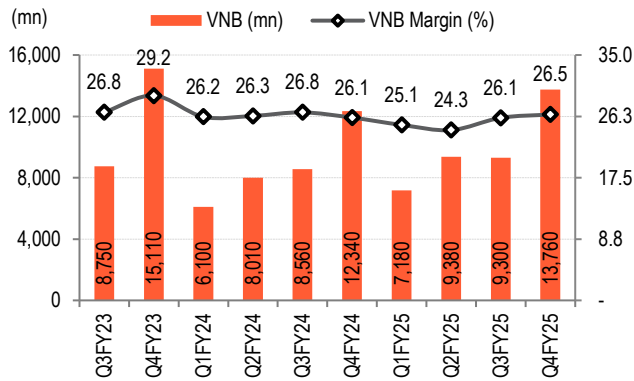
Source: Company, Bloomberg, BOBCAPS Research

Stock performance

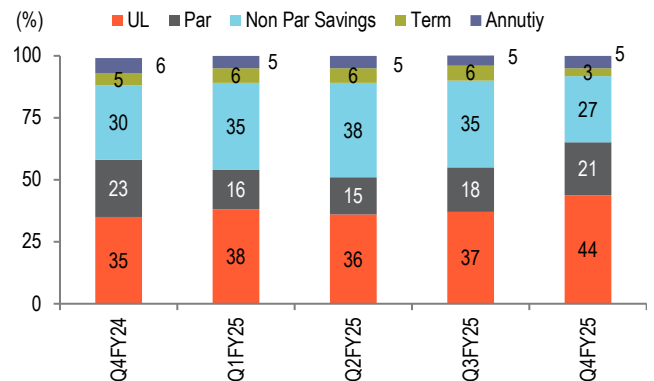


Source: NSE

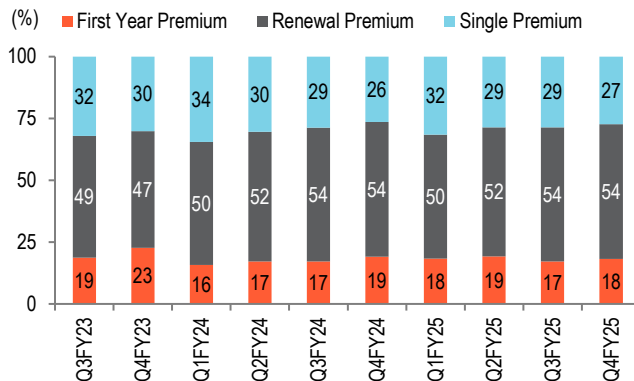


Fig 1 – Margin expansion led by higher protection attachment in ULIPs


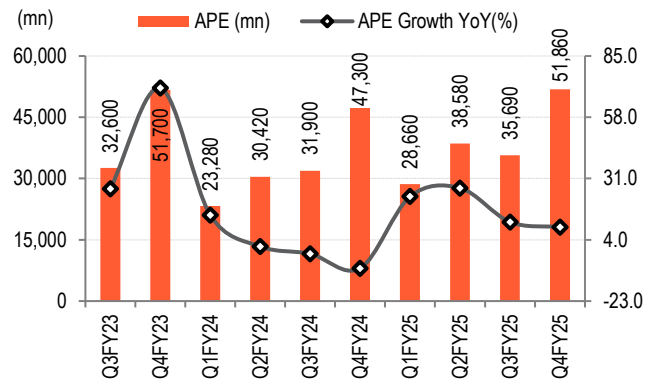
Source: Company, BOBCAPS Research

Fig 2 – ULIPs share continues to gain momentum despite market volatility


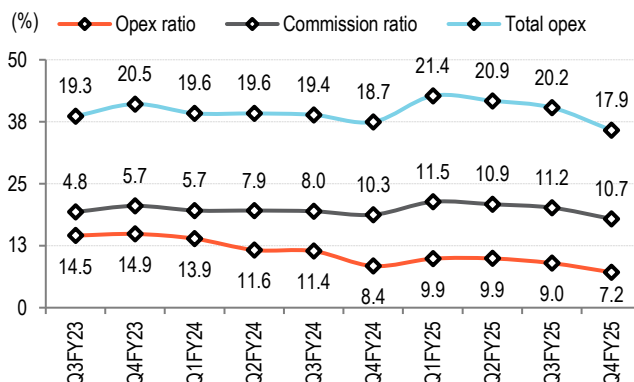
Source: Company, BOBCAPS Research

Fig 3 – Stable gross premium mix


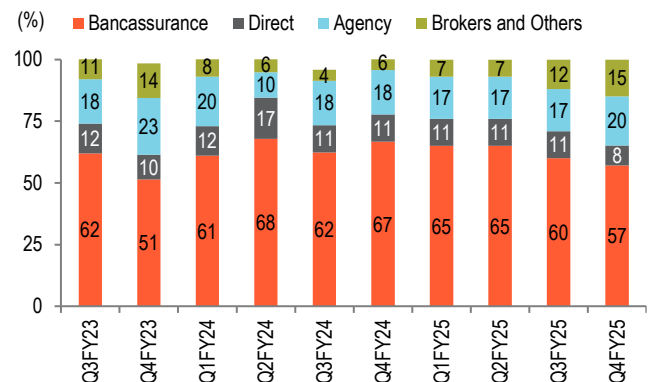
Source: Company, BOBCAPS Research

Fig 4 – Strong APE growth led by increased policies written and rise in average ticket size


Source: Company, BOBCAPS Research

Fig 5 – Opex ratio moderating over the past few quarters


Source: Company, BOBCAPS Research

Fig 6 – Bancassurance share continues to slow down


Source: Company, BOBCAPS Research

Fig 7 – Policyholder's account

Rs mn	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY25	FY24	YoY (%)
Gross premium income	2,40,316	2,09,376	14.8	1,72,750	39.1	7,10,449	6,30,765	12.6
First Year Premium	43,960	40,146	9.5	29,688	48.1	1,29,761	1,11,108	16.8
Renewal Premium	1,30,623	1,14,060	14.5	93,756	39.3	3,76,796	3,34,451	12.7
Single Premium	65,733	55,170	19.1	49,306	33.3	2,03,892	1,85,205	10.1
Reinsurance	2,660	4,494	(40.8)	5,037	(47.2)	14,288	11,173	27.9
Net premium income	2,37,656	2,04,881	16.0	1,67,713	41.7	6,96,161	6,19,592	12.4
Income from investments (Net)	180	72,514	(99.8)	1,921	(90.6)	2,59,453	3,83,543	(32.4)
Other income	768	784	(2.0)	706	8.7	2,830	3,357	(15.7)
Contribution of funds from Shareholders' A/c	227	747	(69.6)	(1,199)	(118.9)	1,004	1,251	(19.7)
Total	2,38,831	2,78,926	(14.4)	1,69,141	41.2	9,59,448	10,07,743	(4.8)
Commission on								
First Year Premium	21,560	13,485	59.9	16,000	34.7	58,603	31,511	86.0
Renewal Premium	1,996	1,896	5.3	1,446	38.0	5,896	5,219	13.0
Single Premium	2,258	6,240	(63.8)	1,878	20.2	13,854	15,833	(12.5)
Others	0	0		0	-	0	0	
Net Commission	25,814	21,621	19.4	19,325	33.6	78,353	52,563	49.1
Benefits Paid (Net)	1,10,404	1,24,205	(11.1)	91,792	20.3	3,93,459	3,96,965	(0.9)
Change in actuarial liability	81,959	1,11,560	(26.5)	43,005	90.6	4,15,156	4,84,194	(14.3)
Surplus/Deficit	1,633	2,728	(40.1)	(1,935)	(184.4)	10,430	7,751	34.6

Source: Company, BOBCAPS Research

Fig 8 – Shareholder's account

Rs mn	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY25	FY24	YoY (%)
Transfer from Policyholders' Account	2,467	3,027	(19)	982	151	9,968	7,991	25
Investment Income	3,274	2,526	30	2,718	20	11,251	10,022	12
Other income	0	31	-	0	(25)	1	131	(99)
Expenses other than those related to insurance business	532	334	59	445	20	1,429	1,209	18
Transfer of funds to Policyholders' Account	227	747	(70)	(1,199)	(119)	1,004	1,251	(20)
Provisions for diminution in value of investments	119	6	1,988	7	-	126	45	181
Profit before tax	4,862	4,497	8	4,448	9	18,661	15,638	19
Provisions for tax	97	381	(75)	299	(68)	640	(50)	(1,374)
Profit after tax and before extraordinary items	4,765	4,117	16	4,149	15	18,021	15,689	15

Source: Company, BOBCAPS Research

Earnings call highlights

Business highlights

- HDFCLIFE reported a robust 18% YoY in Individual APE in FY25, driven by a 9% rise in the number of policies written and a 9% rise in average ticket size.
- Gross Premium increased 14.8% YoY to Rs 240 bn, primarily driven by single premium growth (up 19.1% YoY) and single premium growth (14.5% YoY) in Q4FY25. Contribution of each component to overall gross premium remained largely consistent with earlier periods. For FY25, gross premium rose 13% YoY.
- New Business Premium (NBP) and renewal premium rose 15.1% YoY and 14.5% YoY respectively in Q4FY25. NBP and renewal premium rose 13%; each to Rs 333.7 bn and Rs. 376.8 bn respectively in FY25.
- Improvement in VNB margins was supported by positive impact of +40 bps aided by lag in product repricing, higher riders, and protection attachment to ULIPs, increased sales of long-term products, and improved persistency levels. There was also a 30bps negative impact due to revised surrender value regulations.
- EV grew by 17% and stood at Rs. 554.23 bn, with 16.7% ROEV.
- HDFC Bank continues to play a significant role in distribution, contributing approximately 65% to overall APE and 40% to individual NBP basis.
- Credit protect growth remained subdued, largely impacted by weak disbursement trends, particularly in microfinance (MFI) segment and lower offtake in loans. However, management expects the growth to pick up going ahead, owing to improvement in the loans offtake.
- Persistency saw meaningful improvement, with the 61st-month persistency ratio increasing by 1,000 basis points to 63% vs. 53% in FY24. This was primarily driven by the positive impact of long-term savings products introduced around FY20 and its impact coming through subsequent quarters.
- Solvency improved by 20%, supported by the issuance of Rs. 20,000 mn in subordinated debt across two tranches during the year.

Product mix

- Product mix for FY25 stood at ULIPs 39%, non-par savings at 32%, par at 19%, term at 5% and annuities at 5%.
- ULIP demand remained resilient despite market volatility in Q4FY25, while participating products experienced strong momentum, aided by the launch of Click 2 Achieve PAR.
- Management anticipates continued growth in participating products, fueled by market volatility, while ULIP growth may moderate in FY26. Non-par product share is expected to remain in the early 30% range, supported by a more favourable interest rate environment. Traditional products likely to perform well in FY26, driven by lower interest rates and increased market uncertainty.

EV Walk

- EV walk reflected positive operating variances, primarily due to positive impact from persistency and expenses. Mortality-related variance remained negligible. Also, there is some small non-material impact of the assumption changes in EV walk.

Others

- Approximately 75% of the new customers onboarded in FY25 were new customers.
- HDFCLIFE launched Sanchay Aajeevan Guaranteed Advantage (SAGA) in the pension space - a product offering dual guarantees, joint life coverage, liquidity options, tax benefits, and a simplified issuance process.

Valuation methodology

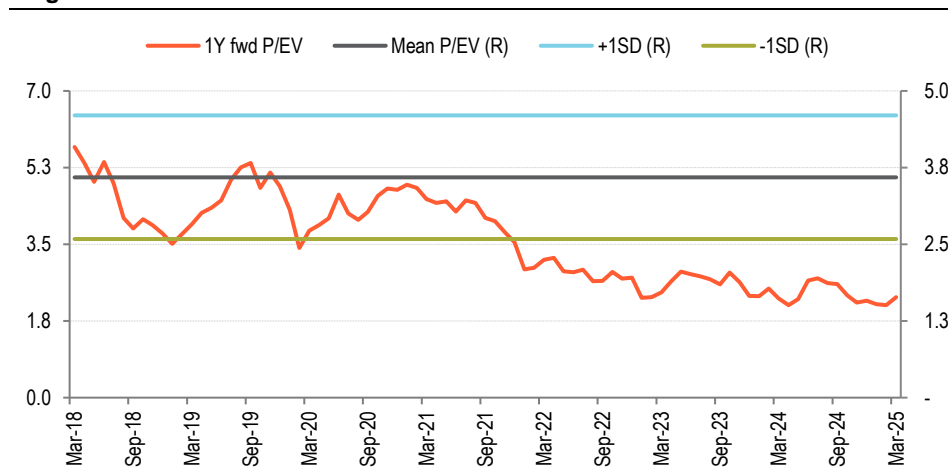
We believe HDFCLIFE is well placed to achieve its APE growth outlook of 17-19% and VNB margin of 26-27% in FY26-FY28, aided by better product mix and strong growth momentum. Incremental focus on the agency channel growth, along with increasing penetration in Tier-2 and 3 cities bode well. We maintain BUY with TP of Rs 900 (from Rs 893), implying 2.6x in FY27E P/EV and continue to prefer HDFCLIFE as our top pick.

Fig 9 – Actual vs Estimates

Rs mn	Q4FY25A	Q4FY25E	Actual vs. Estimates (%)
Gross Premium	2,40,316	2,65,969	(9.6)
APE	51,860	55,233	(6.1)
VNB	13,760	14,788	(7.0)
VNB Margin	26.5	26.8	(0.3bps)

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. For example, ULIP proceeds are currently taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in income tax rate for insurance companies could adversely impact profitability, in our view.
- **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.
- **Increasing interest rates:** Guaranteed-return businesses could be affected by an increase in interest rates as other financial instruments (e.g. deposits) become more attractive.
- **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.

- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered in case of job loss and monetary requirements, among other factors, which lowers the persistency ratios.

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	9,85,038	11,62,344
First year premium	1,11,108	1,29,761	1,50,260	1,77,307	2,09,222
Renewal premium	3,34,451	3,76,796	4,42,432	5,22,070	6,16,043
Single premium	1,85,205	2,03,892	2,42,086	2,85,661	3,37,080
Net written premium	6,19,592	6,96,161	8,21,470	9,69,335	11,46,440
Income from investments	3,83,543	2,59,453	3,42,346	4,16,885	4,91,521
Other Income	4,608	3,834	3,939	4,047	4,158
Total income	10,07,743	9,59,448	11,67,755	13,90,268	16,42,119
Commissions	52,563	78,353	90,106	1,05,424	1,23,346
Operating expenses	72,195	67,933	76,085	85,215	95,441
Benefits and bonuses paid	3,96,965	3,93,459	5,19,366	6,89,199	9,04,229
Change in liabilities (net)	4,84,194	4,15,156	4,64,974	4,89,153	4,91,599
Others	0	0	0	0	0
Total expenses	10,05,916	9,54,901	11,50,531	13,68,991	16,14,615
Surplus before tax	1,827	4,548	17,224	21,276	27,504
Provision for tax	(5,924)	(5,882)	2,003	2,283	2,649
Surplus after tax	7,751	10,430	15,221	18,993	24,855
Trf to shareholders' a/c	7,991	9,968	26,320	30,968	46,871
Balance being FFA	(240)	462	(11,100)	(11,975)	(22,016)

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Trf from policyholders' a/c	7,991	9,968	15,221	18,993	24,855
Income from investments	10,022	11,251	11,832	15,854	19,396
Contr. to policyholders' fund	1,251	1,004	1,024	1,045	1,066
Others	(1,123)	(1,554)	(1,814)	(2,118)	(2,477)
PBT	15,638	18,661	24,214	31,684	40,708
Provision for taxation	(50)	640	969	1,267	1,628
PAT	15,689	18,021	23,245	30,417	39,080
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	1,79,973	2,05,869	2,40,427
Policyholders' funds	27,34,890	31,53,161	38,12,297	46,25,454	56,29,452
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	40,79,389	49,25,409	59,71,805
Shareholders' funds	1,48,819	1,83,863	2,46,377	3,30,145	4,45,696
Policyholders' funds	18,17,966	21,62,671	26,38,458	32,32,111	39,59,336
Assets to cover linked liab.	9,55,416	10,16,282	11,38,235	12,74,824	14,40,551
Others	15,092	32,526	56,319	88,330	1,26,223
Total assets	29,37,293	33,95,342	40,79,389	49,25,409	59,71,805

Key Metrics

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
AUM (Rs mn)	29,22,201	33,62,815	40,23,070	48,37,080	58,45,582
NBP (Rs mn)	2,96,314	3,33,653	3,92,346	4,62,968	5,46,302
APE (Rs mn)	1,32,910	1,54,790	1,83,426	2,18,277	2,55,384
VNB (Rs mn)	34,955	39,626	46,346	56,415	66,991
VNB margin (%)	26.3	25.6	26.2	26.8	27.2
Embedded value (Rs mn)	4,74,655	5,54,255	6,42,920	7,48,826	8,73,877
ROEV (%)	17.5	16.7	16.8	17.2	17.3
ROE (%)	11.4	11.7	13.6	15.8	17.5
Opex ratio (%)	10.9	8.8	8.3	7.9	7.5
Cost ratio (%)	19.3	19.8	19.1	18.5	18.1
Solvency ratio (%)	-	-	-	-	-
EPS (Rs)	7.3	8.4	10.8	14.1	18.2
BVPS (Rs)	68.1	74.9	83.6	95.6	111.7
EVPS (Rs)	220.6	257.4	298.6	347.8	405.9

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

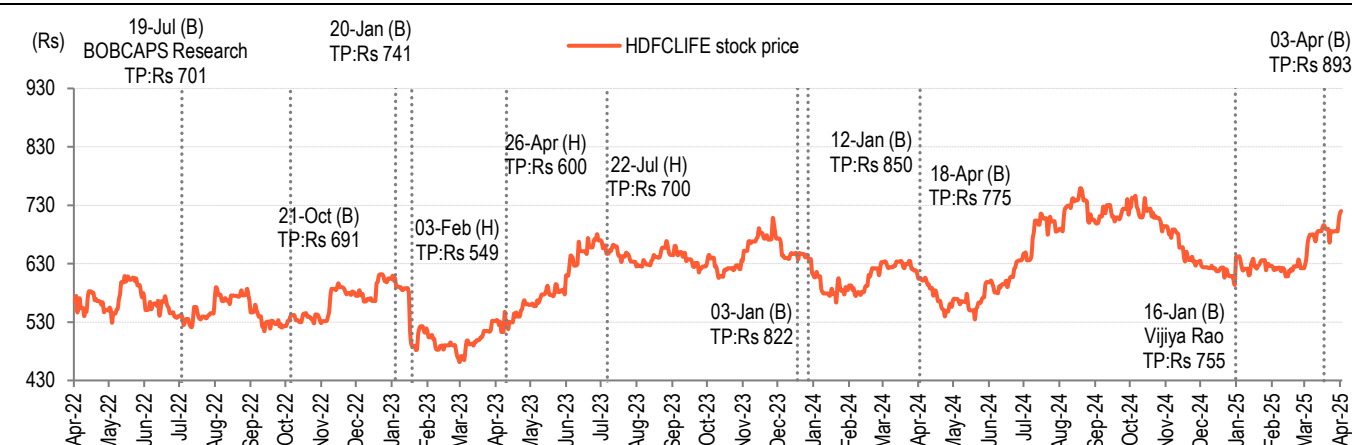
HOLD – Expected return from -6% to +15%

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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