

HDFCLIFE reported an impressive performance in 9MFY25, with APE 1.6% above our estimate at Rs102.9bn, and VNB margin at 25.1% above our estimate of 24.5% resulting in a 4.2% beat on VNB at Rs25.9bn. Despite implementation of the new surrender regulations, VNB margin for the Quarter at 26.1% came in better than our estimate of 24.2%, driven by better product-level margins on account of better persistency and higher attachment rate of protection products. The management changed the commission structure by introducing a claw-back provision, or deferring the commission or by reducing commission, to mitigate the impact of the new surrender regulations. The management remains confident of delivering 18-20% APE growth and VNB growth of around 15% for FY25E. To bake in the Q3 developments, we increase our APE estimates by ~1% and VNB margin estimates by 10-40bps, resulting in a ~2-3% increase in VNB over FY25-27E. Given the favorable valuations, we re-iterate BUY with unchanged Dec-25E TP of Rs775, implying FY26E P/EV of 2.6x.

HDFC Life Insurance: Financial Snapshot (Standalone)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
GWP	575,334	630,765	722,264	840,563	978,840
APE	133,360	132,910	155,695	182,148	210,781
VNB	36,740	35,010	39,135	46,021	53,532
VNB margin (%)	27.6	26.3	25.1	25.3	25.4
APE growth (%)	36.7	(0.3)	17.1	17.0	15.7
VNB growth (%)	37.3	(4.7)	11.8	17.6	16.3
Adj. EPS (Rs)	6.4	7.4	8.3	10.2	11.3
EV	395,280	474,690	553,802	640,535	739,623
EVOP	64,900	69,210	78,594	90,699	103,693
Op. RoEV (%)	21.6	17.5	16.6	16.4	16.2
EVPS (INR)	183.9	220.7	257.2	297.5	343.6
P/EV (x)	3.2	2.7	2.3	2.0	1.7
P/EVOP (x)	19.5	18.3	16.2	14.0	12.2

Source: Company, Emkay Research

Impressive margin delivery; lower impact of new surrender regulations

For 9MFY25, HDFC Life's APE at Rs102.9bn grew 20.2% YoY and came in 1.6% higher than our estimate. Driven by better product level margins and higher attachment of protection products, VNB margin for 9MFY25 stood at 25.1%, higher than our estimate of 24.5%. VNB margin for Q3FY25 came in at 26.1% (Emkay: 24.2%) despite a 30bps impact on account of implementation of new surrender regulations. Resultantly, VNB at Rs25.9bn for 9MFY25 grew 14.1% YoY vs our estimate of Rs24.8bn, whereas Q3FY25 VNB grew 8.6% YoY and came in 12.5% higher than our estimate on account of the beat on APE and VNB margin. Embedded Value for 9MFY25 stood at Rs532.5bn (+17.9% YoY), in line with our estimate. PAT at Rs13.3bn for 9MFY25 grew 14.6% YoY, but missed our estimate by 2.1% owing to lower investment income. AUM as of Dec-24 stood at Rs3,287bn (+17.5% YoY) vs our estimate of Rs3,360bn. Persistency across cohorts was broadly stable, whereas Total Expense Ratio witnessed a slight increase.

Healthy growth and margin trajectory to continue over the medium term

The implementation of new surrender regulations saw lower impact, of ~30bps, on the company's VNB margin for the quarter, given its adequate pricing and resilient persistency. Moreover, customers preferring to continue their policies in paid-up status rather than surrendering has further contributed to the healthy persistency. To mitigate the impact of the new surrender regulations, the company has completed its negotiations with almost all its partners and implemented changes in the payout structure by introducing a claw-back provision, or deferring the commission or reducing the commission, with limited changes in pricing across products. The management continues to focus on growing the Agency and direct channels of distribution, and does not expect any impact of the new surrender regulations on growth. VNB margins are expected to remain healthy amid impact of ~20-30bps owing to the new surrender regulations. Given a steady growth and margin trajectory, the management remains committed to deliver 18-20% APE growth and ~15% VNB growth for FY25E.

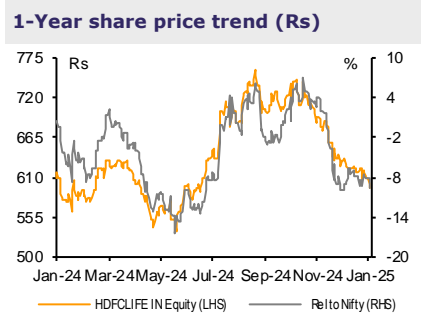
Favorable valuations; reiterate BUY with unchanged TP of Rs775

To reflect the Q3FY25 developments, we tweak our FY25-27 estimates, leading to ~1% increase in APE estimates and ~10-40bps increase in VNB margins, thus leading to ~2-3% increase in VNB estimates. While valuations remain attractive (FY26E P/EV of 2.0x), we reiterate BUY with unchanged Dec-25E TP of Rs775, implying FY26E P/EV of 2.6x. Driven by a diversified product and distribution mix, strong brand, and product innovation, we believe HDFCLIFE is well poised to deliver profitable growth after implementation of the new surrender regulations.

Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	30.4
CMP (15-Jan-25) (Rs)	594.2

Stock Data	Ticker
52-week High (Rs)	761
52-week Low (Rs)	511
Shares outstanding (mn)	2,152.8
Market-cap (Rs bn)	1,279
Market-cap (USD mn)	14,812
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	2,325.3
ADTV-3M (USD mn)	26.9
Free float (%)	-
Nifty-50	23,213
INR/USD	86.4
Shareholding, Sep-24	
Promoters (%)	50.3
FPIs/MFs (%)	25.6/13.3

Price Performance				
(%)	1M	3M	12M	
Absolute	(6.1)	(16.8)	(3.3)	
Rel. to Nifty	0.2	(10.2)	(7.9)	



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Exhibit 1: 9MFY25/Q3FY25 Financial Result Summary

(Rs bn)	9MFY25	9MFY24	YoY%	9MFY25E	Var %	Q3FY25	Q3FY24	YoY %	Q3FY25E	%Var
APE	102.9	85.6	20.2	101.3	1.6	35.7	31.9	11.8	34.1	4.7
--o/w Savings	89.5	72.8	23.1			31.1	28.0	11.1		
--o/w Protection	13.4	12.9	3.9			4.6	4.0	17.5		
Protection APE (% of total APE)	13.0	15.0	-2.0ppts			13.0	12.4	0.6ppts		13.0ppts
Value of New Business	25.9	22.7	14.1	24.8	4.2	9.3	8.6	8.6	8.3	12.5
New Business Margin (%)	25.1	26.5	-1.4ppts	24.5	0.6ppts	26.1	26.8	-0.8ppts	24.2	1.8ppts
Embedded Value	532.5	451.7	17.9	532.4	0.0					
EV Operating Profit	55.8	48.0	16.3							
Operating RoEV (%)	16.0	16.5	-0.5ppts							
PAT	13.3	11.6	14.6	13.5	-2.1	4.2	3.7	13.6	4.4	-6.4
AUM	3,287	2,797	17.5	3,360	-2.2					
Solvency ratio (%)	188	190	-2.0ppts							

Source: Company, Emkay Research

Exhibit 2: Appraisal methodology-based valuation for HDFC Life

Parameter (Rs bn)	Value
FY25E-40E APE CAGR	11.3%
FY25E-40E VNB CAGR	11.3%
Terminal growth rate	5.0%
Cost of Equity	12.5%
FY25 EV	475
Present value of future VNB	1,080
Appraisal Value - Mar-25	1,547
Share count (mn)	2,153
Appraisal value per share - Mar-25E (Rs)	719
Price target - Dec-25E (Rs)	775

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiples for HDFC Life

Target price multiple on FY26 estimates	Rs775
P/EV	2.6x
RoEV (%)	16.4
P/EVOP	18.1x
Implied FY26E VNB multiple	25.9x
Current price multiple on FY26 estimates	Rs594
P/EV	2.0x
RoEV (%)	16.4
P/EVOP	13.9x
Implied FY26E VNB multiple	17.5x

Source: Company, Emkay Research

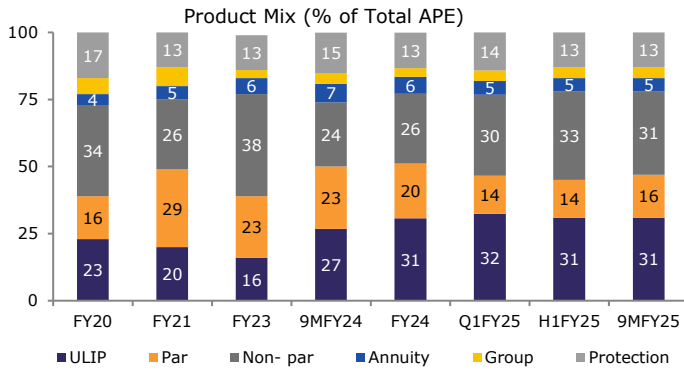
Exhibit 4: Changes in Estimates

(Rs bn)	FY25E			FY26E			FY27E		
	Old	Revised	%Change	Old	Revised	%Change	Old	Revised	%Change
APE	153.8	155.7	1.2	179.9	182.1	1.2	208.2	210.8	1.2
VNB	38.1	39.1	2.8	45.2	46.0	1.7	52.6	53.5	1.7
VNB margin (%)	24.7	25.1	0.4ppt	25.1	25.3	0.1ppt	25.3	25.4	0.1ppt
EVOP	77.5	78.6	1.4	90.6	90.7	0.1	103.4	103.7	0.3
EV	562.4	553.8	-1.5	648.9	640.5	-1.3	747.6	739.6	-1.1
PAT	19.1	17.9	-6.1	22.5	21.9	-2.7	25.1	24.4	-2.6

Source: Company, Emkay Research

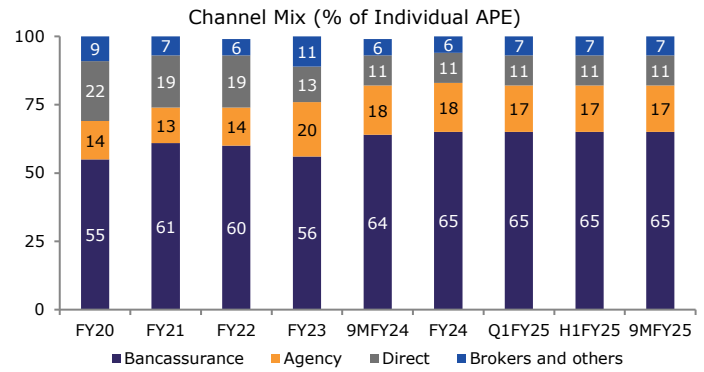
Story in Charts

Exhibit 5: Share of ULIP remains steady at 31%



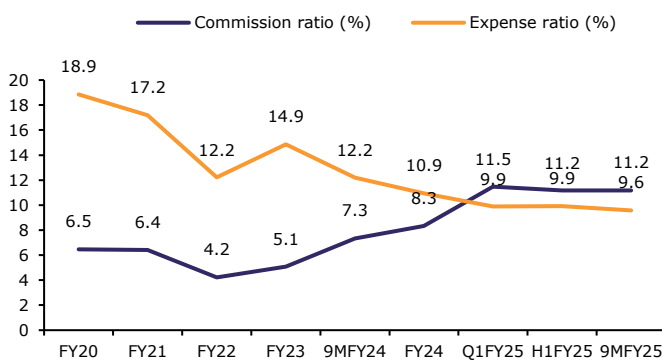
Source: Company, Emkay Research

Exhibit 6: Banca dominates the distribution mix



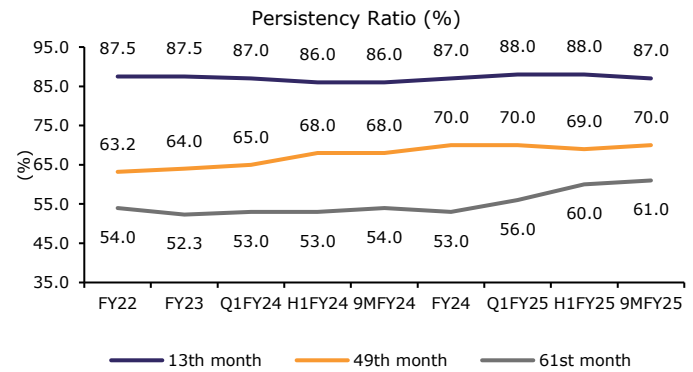
Source: Company, Emkay Research

Exhibit 7: Expense ratio sees slight improvement sequentially



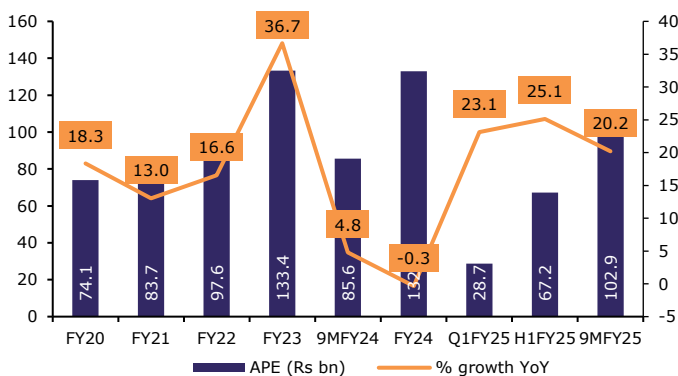
Source: Company, Emkay Research

Exhibit 8: 61M persistency sees sequential improvement



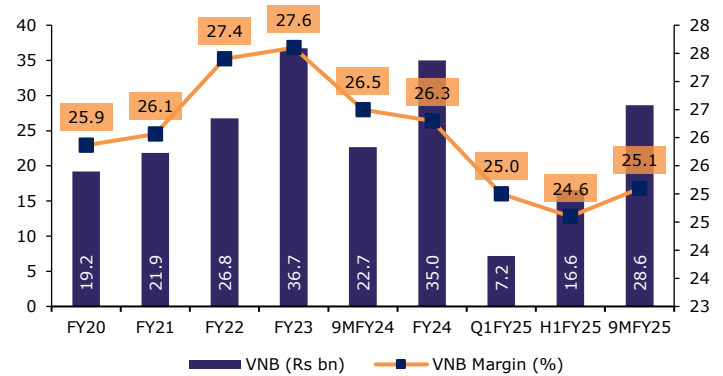
Source: Company, Emkay Research

Exhibit 9: APE grows 20.2% YoY during 9MFY25



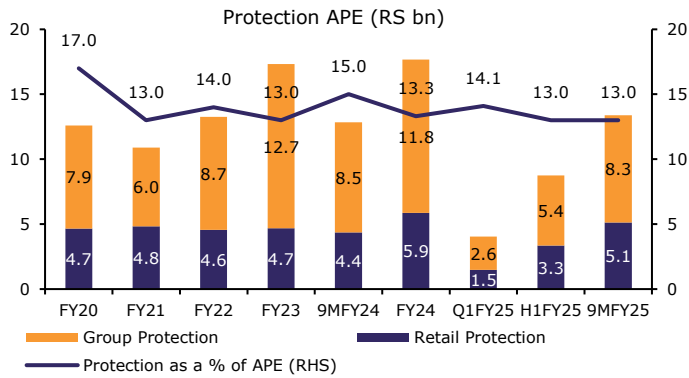
Source: Company, Emkay Research

Exhibit 10: Enhancement in product level margins and attachment of protection plans drive improvement in VNB margin to 25.1%



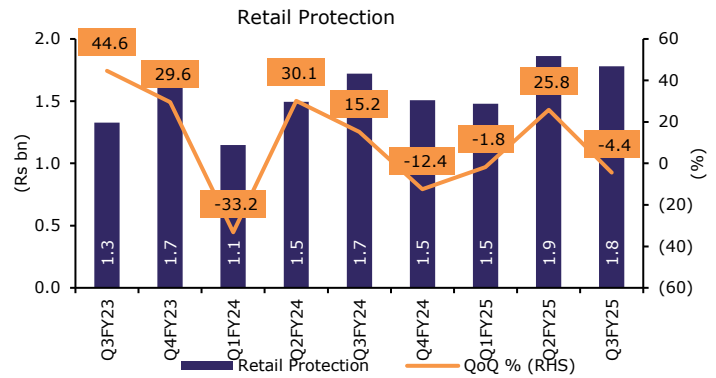
Source: Company, Emkay Research

Exhibit 11: Share of Protection segment remains steady at 13%



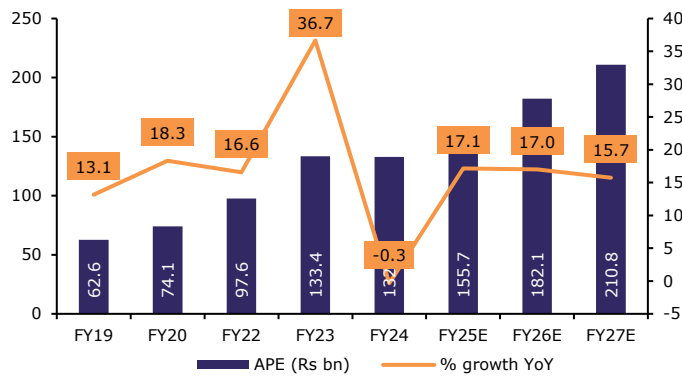
Source: Company, Emkay Research

Exhibit 12: Retail protection declines QoQ during Q3FY25



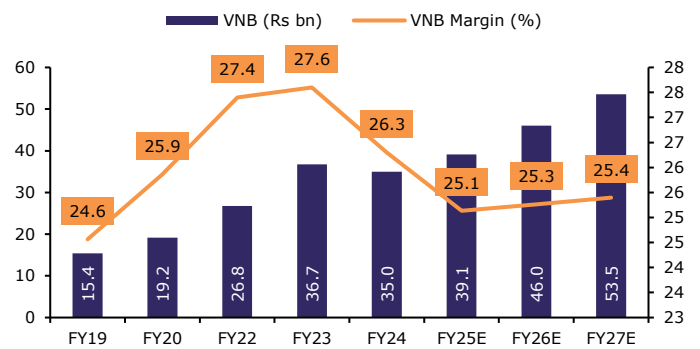
Source: Company, Emkay Research

Exhibit 13: We expect APE to grow 17.1% YoY in FY25E



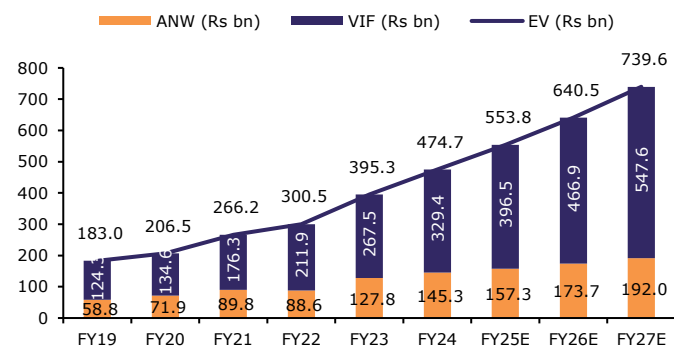
Source: Company, Emkay Research

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



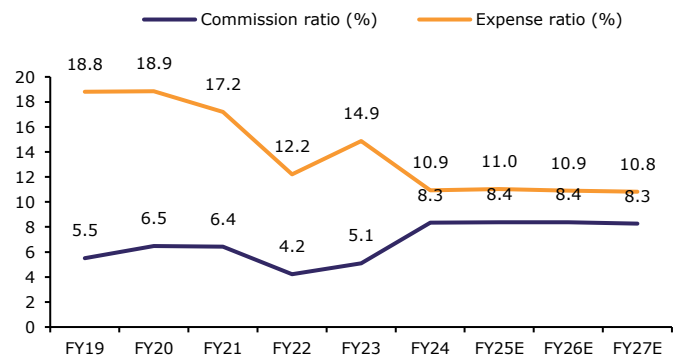
Source: Company, Emkay Research

Exhibit 15: HDFC Life's EV is expected to grow to Rs740bn 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

- The significant change (YoY) in 9MFY25 VNB margin was on account of the change in product mix. On a quarterly basis, the impact of Surrender Regulations stood at 30bps. Inherent product margins were better, especially in ULIPs, driven by better persistency and higher attachment of protection products, thus driving improvement in VNB margins.
- Credit Protect growth has been tepid on account of slow growth in disbursements across lending partners.
- Counter share at HDFC Bank stood at ~65%, and the company remains focused on building a high quality Agency channel.
- Actions taken to mitigate the impact of the New Surrender Regulations include introduction of a claw-back provision on commissions, deferred commission payouts, and reduction in commission. Negotiations with most partners are complete.
- HDFC Bank's counter share is steady and the management does not see it getting impacted, given concerns around the banca channel.
- For 9MFY25, the negative economic variance is largely driven by interest rates decreasing. As of H1FY25, gains in equity markets caused a positive impact; however, as of 9MFY25, market returns are in line with internal expectations and hence completely offset the positive impact.
- Surrender guidelines did not cause any slowdown in growth; all channels have contributed equally to growth. The slow growth across players was largely due to the base impact.
- Over the past decade, with a lag of 9-12 months, ULIP product growth is in co-relation with the movement in equity markets and, hence, the management expects growth in ULIPs to continue for a few months amid volatile market conditions. However, the management remains focused on maintaining a diversified product mix.
- The management believes Banca plays a crucial role in the distribution of life insurance companies. Life insurance penetration has seen a downward trend. The Banca channel has the highest touch points, which will increase penetration, especially in Tier 2 & beyond areas.
- Agency channel growth is 19%, in line with the overall growth of the company. Last year, growth was slow on account of the impact of high-ticket-size non-par policies. Attaching of more protection to ULIP has also been working well for the channel. HDFC Life has added over 35 branches during the year, resulting in higher contribution from Tier2/3 cities.
- Given the disciplined pricing approach, the company did not have to additionally change the pricing to mitigate the impact of the new surrender regulations. The burden owing to change in the payout structure will be in the 20-30bps range for the full year going forward.
- If there is an improvement in persistency, given the change in distributor payouts, there could be an upside in VNB margins.
- The management has seen some downward revision in pricing across some peers. Non-Par IRRs have come down; Term pricing has increased.
- The management remains committed to deliver 18-20% APE growth and ~15% VNB growth. It does not expect a significant change in the product mix and, hence, VNB margins should stay rangebound at current levels.
- The management does not see much impact from Open Architecture in the Agency channel, as proposed in the Insurance Amendment Bill.

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	722,264	840,563	978,840
Net premium	567,640	619,592	709,471	825,674	961,502
Investment income	125,975	383,543	286,428	309,822	351,209
Other income	13,439	4,608	1,751	1,652	1,552
Total revenue	707,055	1,007,743	997,650	1,137,148	1,314,262
Commission expense	28,869	52,563	59,429	69,163	79,512
Operating expense	84,374	69,011	78,312	90,090	104,026
Benefits paid (net)	388,723	396,965	489,764	552,131	623,711
Change in reserves	185,862	484,194	352,630	404,717	483,367
Total expenses	693,466	999,991	986,673	1,123,710	1,299,476
Surplus/Deficit	13,589	7,751	10,977	13,438	14,787
Trf from policyholders' acct	14,689	7,991	11,317	13,853	15,244
Shareholders' results	(1,965)	7,647	7,358	8,924	10,193
PBT	12,724	15,638	18,675	22,778	25,437
Extraordinary items	0	0	0	0	0
Tax expense	(877)	(50)	747	911	1,017
Reported PAT	13,601	15,689	17,928	21,867	24,420
PAT growth (%)	12.6	15.3	14.3	22.0	11.7
Adjusted PAT	13,601	15,689	17,928	21,867	24,420
Diluted EPS (Rs)	6.4	7.3	8.4	10.2	11.4
Diluted EPS growth (%)	8.0	15.3	14.2	22.0	11.7
DPS (Rs)	1.7	5.4	2.1	2.6	2.9
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	2,153	2,153	2,153

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
APE	133,360	132,910	155,695	182,148	210,781
VNB	36,740	35,010	39,135	46,021	53,532
VNB margin (%)	27.6	26.3	25.1	25.3	25.4
APE growth (%)	36.7	(0.3)	17.1	17.0	15.7
VNB growth (%)	37.3	(4.7)	11.8	17.6	16.3
Operating ratios (%)					
NB commission/APE	16.8	35.6	NA	NA	NA
Commissions/TWRP	6.9	11.3	11.2	11.3	11.3
Total exp ratio/TWRP	27.3	26.2	26.0	26.1	26.1
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	11.8	13.1	13.3
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

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	21,494	21,509	21,528	21,528	21,528
Reserves & surplus	108,343	125,008	136,949	153,349	171,663
Net worth	129,868	146,517	158,477	174,877	193,191
Borrowings	9,500	9,500	19,500	19,500	19,500
Policy liabilities	1,432,696	1,753,488	2,056,391	2,424,644	2,871,358
Prov for linked liab.	595,034	921,145	1,025,173	1,146,173	1,287,207
FFA	12,354	12,115	11,775	11,360	10,903
Current liabilities & prov	79,795	86,665	176,091	202,764	234,440
Total liabilities & equity	2,396,192	2,937,293	3,311,543	3,732,245	4,233,469
Shareholders' investment	131,319	148,819	170,966	188,658	208,416
Policyholders' investment	1,464,485	1,817,966	2,049,468	2,315,167	2,632,499
Assets to cover linked liab.	792,015	955,416	1,152,476	1,301,886	1,480,332
Current assets	69,775	79,739	89,899	101,320	114,927
Total assets	2,396,192	2,937,293	3,311,543	3,732,245	4,233,469
BV/share (INR)	60.4	68.1	73.6	81.2	89.7
EV/share (INR)	183.9	220.7	257.2	297.5	343.6
EVOP/share (INR)	30.4	32.4	36.8	42.4	48.5
Embedded value	395,280	474,690	553,802	640,535	739,623
ANW	127,800	145,300	157,259	173,659	191,974
VIF	267,480	329,390	396,543	466,875	547,649
VIF share in EV (%)	67.7	69.4	71.6	72.9	74.0
Total AUM	2,387,819	2,922,201	3,372,911	3,805,712	4,321,247
Investment yield (%)	6.0	14.8	9.4	9.0	9.0
Yield on PH funds (%)	9.9	23.4	14.8	14.2	14.2
Yield on SH funds (%)	5.1	7.2	6.5	7.0	7.0

Source: Company, Emkay Research

Valuation & key ratios					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	93.3	80.9	70.8	58.1	52.0
P/B (x)	9.8	8.7	8.1	7.3	6.6
P/EV (x)	3.2	2.7	2.3	2.0	1.7
P/EVOP (x)	19.5	18.3	16.2	14.0	12.2
Implied P/VNB (x)	24.0	22.9	18.5	13.9	10.1
Dividend yield (%)	0.3	0.9	0.4	0.4	0.5
EV account and RoEV					
Opening EV	300,480	395,280	474,690	553,802	640,535
Premium unwind	26,200	32,400	37,960	43,178	48,660
VNB	36,740	35,010	39,135	46,021	53,532
Operating variance	1,960	1,800	1,500	1,500	1,501
EVOP	64,900	69,210	78,594	90,699	103,693
Investment variance	(15,900)	13,500	5,000	1,500	1,500
Capital movement	16,700	(3,300)	(4,482)	(5,467)	(6,105)
Other changes	0	0	0	0	0
Closing EV	395,280	474,690	553,802	640,535	739,623
Change in EV	94,800	79,410	79,112	86,732	99,088
RoEV (%)	21.6	17.5	16.6	16.4	16.2
Operating RoEV (%)	21.6	17.5	16.6	16.4	16.2
EVOP growth (%)	47.3	6.6	13.6	15.4	14.3
EV growth (%)	31.5	20.1	16.7	15.7	15.5
Core operating RoEV (%)	31.5	20.1	16.7	15.7	15.5
Unwind rate (%)	8.7	8.2	8.0	7.8	7.6
VNB-to-opening EV (%)	12.2	8.9	8.2	8.3	8.4

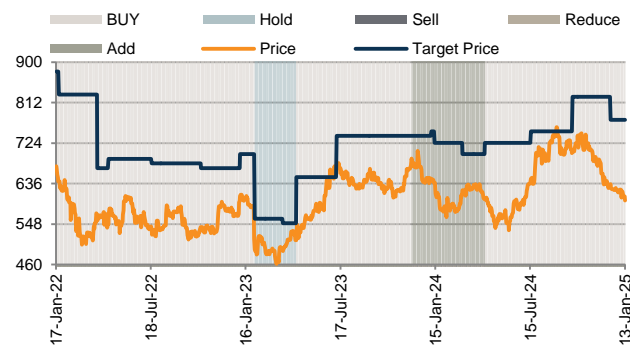
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
12-Jan-25	609	775	Buy	Avinash Singh
16-Dec-24	635	775	Buy	Avinash Singh
16-Oct-24	727	825	Buy	Avinash Singh
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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