

CMP: ₹ 761

Target: ₹ 880 (16%)

Target Period: 12 months

BUY

July 16, 2025

## Steady performance in muted quarter...

About the stock: HDFC Life is among the most dominant players in Indian life insurance industry with strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on non-par, protection & annuity business
- Industry leading VNB margins of ~25-26%

**Q1FY26 performance:** HDFC Life reported a steady Q1FY26 with consistent growth and stable margins. Individual APE grew 12.5% YoY to ₹2,777 crore, driven by healthy traction in ULIPs and rising contribution from par policies. Protection APE rose 19% YoY, underscoring focus on a balanced portfolio. HDFC Life has gained market share by 70 bps YoY to 12.1% on overall basis and 40 bps within private players to 17.5%. Pressure le by investment in distribution and surrender norms were offset by product mix, resulting in steady margins at 25.1%. AUM expanded 14.7% YoY to ₹3,55,897 crore, while embedded value climbed 17.6% to ₹58,355 crore.

### Investment Rationale

- Growth expected to recover by H2FY26:** APE growth remained slower at 12.5% YoY in Q1FY26, driven by moderation in non-par business, while unit linked continued to witness steady traction. Par segment witnessed traction with contribution rising to 32% (16% in Q1FY25), while ULIPs remained stable at 38%, and annuity/term products steady at 5%/6% each. Despite slower growth, the insurer continues to gain market share, with individual WRP rising 70 bps YoY to 12.15% and private market share up 40 bps to 17.5%. With a healthy product pipeline, deeper penetration in Tier-2/3 markets, and industry-wide repricing expected to lift non-par savings to mid-20s, management expects business growth momentum to recover in H2FY26, sustaining long-term CAGR of 16-17%.
- VNB margin to remain range bound:** HDFC Life reported a stable VNB margin of 25.1% in Q1FY26. Pressure owing to regulatory changes on surrender value norms (-30 bps) and investments in distribution (-60 bps) was offset by higher favourable product mix (+100 bps). While levers for gradual improvement in margins exists (sale of higher tenure products, rider attachment and anticipated increase in proportion of non-par), VNB investment in tech and distribution is expected to keep VNB margin range bound. Expect VNB margins at 25-26% in FY26-27E.

### Rating and Target Price

- Steady performance in muted quarter bodes well. Continued steady performance on growth as well on margins remains on track. Business growth with balanced product mix, distribution in Tier 2 & 3 cities and steady margins is seen to aid performance.
- Valuing the stock at ~2.5x FY27E EV, we revise target at ₹880 and maintain Buy recommendation.



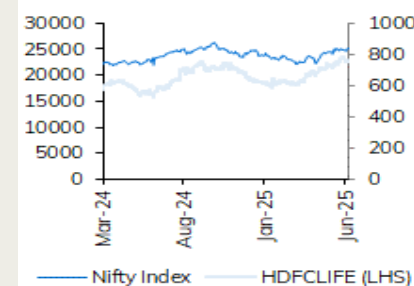
#### Particulars

Particulars	Amount
Market Capitalisation	₹1,63,509 crore
EV	₹58,355 crore
AUM	₹3,55,897 crore
52 week H/L	821/ 584
Net worth	₹17,012 crore
Face value	₹ 10

#### Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	50.4	50.4	50.3	50.3
FII	26.6	25.6	25.1	25.0
DII	11.2	13.3	13.3	14.1
Public	11.8	10.8	11.3	10.6

#### Price Chart



#### Key risks

- Volatility in persistency could impact VNB margin
- Volatility in equities could impact traction of unit linked business

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### Key Financial Summary

(₹ Crore)	FY22	FY23	FY24	FY25	3 year CAGR (FY22- FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
New business	24,155	29,085	29,631	33,395	11.4%	37,286	43,015	13.5%
APE	9,664	13,100	12,963	15,045	15.9%	17,101	19,944	15.1%
Total premium	45,962	57,533	63,076	71,075	15.6%	79,862	91,833	13.7%
PAT	1,208	1,360	1,569	1,852		2,005	2,329	
EV	30,048	39,526	47,468	55,423		64,144	74,241	
P/E (x)	133.1	120.3	104.3	88.4		81.7	70.4	
P/BV (x)	10.4	12.6	11.2	10.1		9.3	8.6	
P/IEV (x)	5.3	4.1	3.4	3.0		2.6	2.2	
RoEV (%)	19.0	19.7	17.5	16.7		16.3	16.4	

Source: Company, ICICI Direct Research

## Concall highlights and outlook

### Guidance and Product mix

- Management reiterated that H1FY26 growth may be moderate due to a high base in H1FY25 (APE growth of 30%+ in 1HFY25). Growth momentum expected to rebound in H2FY26.
- Individual APE grew 12.5% YoY, implying a robust 2-year CAGR of 21%.
- Overall market share rose 70 bps YoY to 12.1%; private sector share up 40 bps to 17.5%.
- Growth in number of policies (NOP) was subdued due to deliberate slowdown in lower-ticket segment amid repricing and selection recalibration. Management expects pickup in NOP growth from Q2 onward as revised models scale up.
- Customer acquisition strength intact: >70% of new customers in Q1 were first-time buyers.
- HDFC Bank counter-share steady; focus on improving product mix (more par and protection) and increasing digital integrations.

### Product mix & Profitability

- Product mix to normalize in FY26:
- Non-par savings expected to rise back to mid-20s as pricing stabilizes and yield curve steepens.
- Par product mix may moderate slightly but will remain ~25%+.
- ULIPs likely to remain range-bound (~35–38%) given favourable equity sentiment, with embedded margin improvement via higher sum assured and rider attachment.
- Focus remains on maintaining a diversified and resilient product portfolio, with each savings product category contributing 25–33%.
- Product mix in Q1FY26: ULIP 38%, Par 32%, Non-par savings 19%, Term 6%, Annuity 5%.
- Recently launched protection products (Elite Plus, Super, Ultimate) are gaining traction and expected to scale across Tier 2/3 markets.
- Improved product-level profitability (e.g., higher riders in ULIPs, refined par products) helped sustain margins.
- Protection remains most profitable, followed by annuity, non-par, par, and ULIPs.

### Margins

- Management expects VNB margins to remain range-bound (~25-26%) in FY26, with a focus on maintaining quality growth over short-term margin expansion.
- Margin impact from surrender norms (-30 bps) and channel expansion (-60 bps) was offset by improved product mix (+100 bps) and margin gains are being reinvested into distribution and technology (Project Inspire) to build long-term scale and efficiency.

### Distribution channel & Other

- Agency channel expected to deliver accelerated growth in H2FY26, supported by:
  - Ongoing transformation program
  - Enhanced tech adoption
  - Productivity-linked interventions
- Non-bank alliances expected to sustain momentum, with differentiated product mix (higher term and non-par), better persistency, and margin-aligned commercials.
- Agency transformation program underway; 23,000 new agents added in Q1.

**Exhibit 1: Variance Analysis**

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
First Year Premium	2,550.2	2,357.9	8.2	4,396.0	-42.0	Balanced business mix with individual segment in focus
Renewal Premium	7,603.0	6,410.6	18.6	13,062.3	-41.8	Healthy persistency aid renewals
Single Premium	4,721.9	4,042.4	16.8	6,573.3	-28.2	
Net Premium income	14,466.1	12,509.6	15.6	23,765.6	-39.1	
Income from Investments	14,735.4	14,197.5	3.8	117.5	12,441.9	Gains from ULIP segment aids income from investment
Total revenue	29,201.5	26,707.2	9.3	23,883.1	22.3	
Commission	1,749.2	1,470.3	19.0	2,581.4	-32.2	Comission ratio increased by 102 bps QoQ at 11.8%
Operating expenses	1,509.9	1,267.2	19.1	1,719.9	-12.2	Expense ratio stood higher at 21.9%
Management Expenses	3,259.1	2,737.5	19.1	4,301.3	-24.2	
Benefits paid	8,679.8	8,827.8	-1.7	11,040.4	-21.4	
Change in Actuarial Liability	17,016.5	14,565.7	16.8	8,195.9	107.6	
Total Expenses	25,696.3	23,393.5	9.8	19,236.3	33.6	
Surplus/ (deficit)	83.4	563.3	-85.2	163.3	-48.9	VNB margin steady at 25.1% despite increase in proportion of par business
Transfer to SH's A/c	366.3	266.5	37.5	246.7	48.5	
Investment income	320.3	257.2	24.5	327.4	-2.2	
Profit/ (loss) before tax	560.7	497.5	12.7	486.2	15.3	
PAT	546.5	477.7	14.4	476.5	14.7	Investment income aided earnings
<b>Key Metrics</b>						
NBP	7,272.1	6,400.3	13.6	10,969.2	-33.7	
AUM	3,55,897.1	3,10,244.0	14.7	3,36,281.5	5.8	Healthy AUM growth at 15%
IEV	58,355.0	49,611.0	17.6	55,423.0	5.3	

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 2: Profit and loss statement**

₹ crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
Premiums earned - Net	61959.2	69616.1	78841.8	90655.1
Interest, Dividends & Rent	15811.5	18473.3	19050.1	21773.2
Others income (incl. MTM)	460.8	370.5	3732.7	4185.1
Total Revenue	78,231	88,494	1,01,625	1,16,613
Commission	5256.3	7835.3	7986.2	9183.3
Operating expenses	6901.1	6221.8	6709.0	7471.9
Benefits paid (Net)	39696.5	39345.9	43029.7	49536.4
Change in valuation of policy liab	48419.4	41515.6	39345.8	43722.8
Provision for tax	-592.4	-588.2	-264.1	-284.8
Surplus/(deficit) after tax	775.1	1043.0	1211.5	1378.6
Transfer to Shareholders' account	799	967	1,115	1,268

(₹ Crore)	FY24	FY25	FY26E	FY27E
Amounts transferred from Policyholders'	799.1	966.8	1114.6	1268.3
Income from investments	1002.2	1125.1	1319.3	1502.3
Total	1,814	2,092	2,434	2,771
Total expenses	250.5	225.8	345.0	345.0
Profit before Tax	1563.8	1866.1	2088.9	2425.6
Provision for tax	-5.0	64.0	83.6	97.0
PAT	1,569	1,802	2,005	2,329

Source: Company, ICICI Direct Research

**Exhibit 3: Key ratios**

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
Diluted EPS (₹)	7.3	8.6	9.3	10.8
BV (₹)	68.1	75.1	81.5	88.5
EV per share	220.7	257.4	297.9	344.8
P/E	104.3	88.4	81.7	70.4
P/BV	11.2	10.1	9.3	8.6
P/IEV	3.4	3.0	2.6	2.2
Efficiency Ratios (%)				
Commission expenses as a %	8.3	11.0	10.0	10.0
Management expenses as a %	19.3	19.8	18.4	0.0
Return Ratios and capital (%)				
Operating RoEV	17.5	16.7	16.3	16.4
Key Ratios (%)				
VNB Margin	26.3	25.6	25.7	25.9

Source: Company, ICICI Direct Research

**Exhibit 4: Balance sheet**

₹ crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
<b>Sources of Funds</b>				
Share capital	2151	2153	2153	2153
Reserve and surplus	12050	13576	14934	16427
Credit/[debit] fair value change	451	446	463	482
Networth	14652	16175	17550	19063
Policyholders' funds	276916	319201	359499	404317
Funds for Future Appropriations	2161	4176	4273	4383
<b>Total Liabilities</b>	<b>293729</b>	<b>339552</b>	<b>381322</b>	<b>427762</b>
<b>Applications of Funds</b>				
Shareholders' investments	14882	16554	18210	20030
Policyholders' investments	181797	218830	240713	269599
Asset held to cover linked liab	95542	101628	111791	122970
Loans	1897	2378	2911	3444
Fixed assets - net block	416	601	613	625
Net current assets	-804	191	7083	11093
<b>Total Assets</b>	<b>293729</b>	<b>340183</b>	<b>381322</b>	<b>427762</b>

Source: Company, ICICI Direct Research

**Exhibit 5: Growth ratios**

(Year-end March)	FY24	FY25	FY26E	FY27E
NBP	29,631	33,395	37,286	43,015
Growth (%)	1.9	12.7	11.6	15.4
Linked	14,733	19,771	23,465	27,653
Growth (%)	18.8	34.2	18.7	17.8
Non Linked	48,344	51,304	56,397	64,180
Growth (%)	7.1	6.1	9.9	13.8
APE	12962.9	15045.1	17100.5	19943.6
Growth (%)	-2.8	16.1	13.7	16.6
VNB	3,501.0	3,962.0	4,521.6	5,314.4
Growth (%)	-4.7	13.2	14.1	17.5
EV	47,468	55,423	64,144	74,241
Growth (%)	20.1	16.8	15.7	15.7
AUM	292,220	337,013	370,714	412,600
Growth (%)	22.4	15.3	10.0	11.3
PH Funds	181,797	218,830	240,713	269,599
Growth (%)	24	20	10	12
SH Funds	14,882	16,554	18,210	20,030

Source: Company, ICICI Direct Research

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