

CMP: ₹ 735

Target: ₹ 860 (17%)

Target Period: 12 months

January 17, 2026

BUY

Margins recovery underway, normalisation seen in FY27E...

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%

Q3FY26 performance: HDFC Life delivered a mixed Q3FY26 performance, with moderation seen in premium growth, though GST-led improvement in protection demand, supported margins. Net premium income grew 8.8% YoY (-2.8% QoQ) to ₹18,242 crore. Product mix remained skewed towards ULIP (ULIP 43%, Par 27%, Non-par 19%, Term 7%, Annuity 4%). VNB for 9MFY26 rose 7% YoY to ₹2,773 crore, with VNB margin slightly down by 10 bps QoQ at 24.4% amid GST-related headwinds. PAT grew 7% YoY to ₹1,414 crore for 9MFY26, embedded value increased ~16% to ₹61,565 crore, and operating RoEV stood at 15.6%, while solvency strengthened to 180%.

Investment Rationale

- **Protection-Led recovery to sustain growth and margin trajectory:** Growth is expected to be driven primarily by retail protection, which grew ~70% YoY in Q3FY26 and ~42% YoY in 9MFY26, supported by GST-led affordability, higher rider attachment and rising sum-assured multiples. Non-par savings, which improved to ~19% of product mix in 9MFY26 (from ~17% in H1), is expected to gain further traction on the back of a favourable yield curve and calibrated pricing, while ULIPs (43% mix) and par products (27% mix) continue to provide stability. With over 70% of customers being first-time buyers and Tier-2/3 markets contributing a majority of new business, management expects these engines to support early-teens growth in FY27E, while maintaining balanced mix and business quality.
- **Drag in VNB margins to gradual improve amid mix optimisation:** Management reiterated its focus on protecting and gradually improving VNB margins, supported by improving product mix, better underwriting economics, and selective participation in higher-quality savings business. The annualised GST impact has already reduced from ~300 bps to ~200 bps in Q3, with further neutralisation targeted over the next few quarters, allowing margins to stabilise and trend toward pre-GST levels by FY27E.

Rating and Target Price

The GST-related margin headwind appears transitory, with management actions on repricing, mix optimization, and distributor negotiations already reducing the impact to ~200 bps. Strong momentum in protection, improving traction in non-par savings, and deeper penetration in Tier-2/3 markets support medium-term growth visibility. With margins expected to normalize by FY27E and RoEV sustained at ~15–16%, we maintain our target at ₹860, valuing the stock at ~2.2x FY28E EV. Maintain Buy rating on the stock.



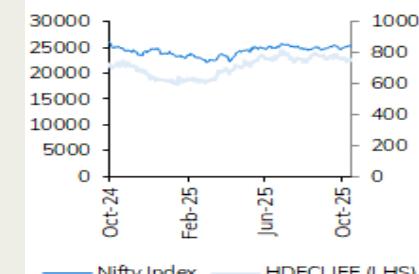
Sar utha ke jiyo!

Particulars

| Particulars | Amount |
|-----------------------|-----------------|
| Market Capitalisation | ₹1,58,021 crore |
| EV | ₹61,565 crore |
| AUM | ₹3,77,652 crore |
| 52 week H/L | 821 / 595 |
| Net worth | ₹17,601 crore |
| Face value | ₹ 10 |

Shareholding pattern

| | Jun-25 | Sep-25 | Dec-25 |
|-----------|--------|--------|--------|
| Promoters | 50.3 | 50.3 | 50.3 |
| FII | 25.0 | 25.0 | 25.0 |
| DII | 14.1 | 14.1 | 14.1 |
| Public | 10.6 | 10.6 | 10.6 |

Price Chart**Key risks**

- Higher than expected impact of GST cut on margins
- Slower growth amid higher competitive intensity

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Key Financial Summary

| (₹ Crore) | FY23 | FY24 | FY25 | 3 year CAGR (FY22- FY25) | FY26E | FY27E | FY28E | 3 year CAGR (FY25-28E) |
|---------------|--------|--------|--------|--------------------------|--------|--------|---------|------------------------|
| New business | 29,085 | 29,631 | 33,395 | 11.4% | 37,541 | 43,305 | 49,987 | 14.4% |
| APE | 13,100 | 12,963 | 15,045 | 15.9% | 17,215 | 20,073 | 23,429 | 15.9% |
| Total premium | 57,533 | 63,076 | 71,075 | 15.6% | 80,117 | 92,209 | 106,422 | 14.4% |
| PAT | 1,360 | 1,569 | 1,852 | | 2,131 | 2,418 | 2,559 | |
| EV | 39,526 | 47,468 | 55,423 | | 63,924 | 73,888 | 85,580 | |
| P/E (x) | 115.5 | 100.2 | 85.0 | | 73.9 | 65.1 | 61.5 | |
| P/BV (x) | 12.1 | 10.7 | 9.7 | | 9.0 | 8.3 | 7.6 | |
| P/IEV (x) | 4.0 | 3.3 | 2.8 | | 2.5 | 2.1 | 1.8 | |
| RoEV (%) | 19.7 | 17.5 | 16.7 | | 16.0 | 16.3 | 16.5 | |

Source: Company, ICICI Direct Research

Concall highlights and outlook

Guidance and Product mix

- Growth was broad-based across geographies, with >70% first-time buyers and strong traction in retail protection (+70% YoY in Q3; +42% in 9MFY26), aided by higher rider attachment and increased sum-assured multiples.
- Long term strategy to double VNB margin in 3-4 years remains intact aided by disciplined pricing, normalization of margins and alteration in business mix.
- Individual APE grew 11% YoY in 9MFY26, translating into a healthy 2-year CAGR of ~17%, with growth coming from non-par segment.
- Overall market share (individual WRP basis) expanded ~20 bps YoY to 10.9% for 9MFY26, indicating steady outperformance versus the industry.
- Q4FY26 is expected to build momentum, while FY27 growth will be supported by:
 - Sustained protection demand,
 - Improving non-par traction,
 - Stable ULIP and par performance,
 - Normalization of GST impact.

Product mix & Profitability

- Product mix for 9MFY26 remained diversified: ULIP 43%, Par 27%, Non-par savings 19%, Term 7%, Annuity 4%.
- Protection momentum was supported by:
 - GST exemption improving affordability,
 - Launch of Click 2 Protect Supreme,
 - Higher rider attachment and increased sum-assured multiples,
 - Rising share of first-time buyers (>80% within protection).
- Protection mix improved meaningfully, with protection share rising from ~7% in H1 to ~9% in Q3; including riders, protection contribution reached ~11% of retail APE.
- ULIPs continued to see strong traction, aided by favorable equity markets and increased adoption of high sum-assured ULIPs, which are margin accretive.
- Par products witnessed steady demand, reflecting preference for stability amid macro uncertainty.
- Non-par savings remained slower, though showed sequential improvement in Q3, with management expecting further pickup in Q4 supported by a favorable yield curve and new product launches.
- Credit protect rebounded strongly, aided by recovery in the MFI segment and steady growth in non-MFI portfolios. Traction in credit life and retail protection is expected to remain faster compared to overall business.
- Competitive intensity continues to remain elevated, thus management being selective in onboarding business to ensure growth and profitability balance.
- Decline in 13 month persistency resulted in negative operating variance in 9MFY26.

Margins

- VNB margin stood at 24.4% for 9MFY26, despite the GST-related loss of input tax credit and a one-time labour code impact of ~₹98 crore.
- Management indicated that the annualized GST impact of ~300 bps has already been reduced to <200 bps, with further mitigation expected over the next 2-3 quarters.
- Margin resilience was supported by:
 - Improved product mix toward protection and annuity,
 - Higher rider attachment,
 - Strong traction in high sum-assured ULIPs,
 - Ongoing repricing and distributor commission recalibration.

- PAT grew 7% YoY to ₹1,414 crore in 9MFY26; excluding the one-time labour code impact, underlying PAT growth would have been ~15%.

Distribution channel & Other

- Restructuring of distribution commission is largely completed and benefit of the same is expected to accrue in Q4FY26
- Branch network expanded to 700+ branches, marking the culmination of a multi-year expansion phase; focus is now on productivity, activation and profitability.
- Bancaassurance, contribute 59% of individual APE in 9MFY26, remains the primary distribution channel. The Direct and Agency channel accounted for 9% and 18% respectively.
- Company added ~80000 new agents in 9MFY26 on gross basis.

Solvency

- Solvency ratio strengthened to ~180%, supported by ₹749 crore of subordinated debt raised in Q3FY26.
- Embedded Value rose ~16% YoY to ₹61,565 crore, despite GST and labour code adjustments.

Exhibit 1: Variance Analysis

| | Q3FY26 | Q3FY25 | YoY (%) | Q2FY26 | QoQ (%) | Comments |
|-------------------------------|----------|----------|---------|----------|---------|--|
| First Year Premium | 3,324.5 | 2,968.8 | 12.0 | 3,579.5 | -7.1 | Robust traction protection and steady ULIP momentum aided premium trajectory |
| Renewal Premium | 10,474.5 | 9,375.6 | 11.7 | 10,337.1 | 1.3 | Volatility seen in persistency, though renewal remain healthy |
| Single Premium | 5,004.4 | 4,930.6 | 1.5 | 5,370.0 | -6.8 | |
| Net Premium income | 18,242.4 | 16,771.3 | 8.8 | 18,777.3 | -2.8 | |
| Income from Investments | 10,795.6 | 142.8 | 7,459.4 | 1,538.0 | 601.9 | |
| Total revenue | 29,038.0 | 16,914.1 | 71.7 | 20,315.3 | 42.9 | |
| Commission | 2,271.7 | 1,932.5 | 17.6 | 2,320.9 | -2.1 | Commission ratio increased by ~100 bps YoY at 12.5% |
| Operating expenses | 2,261.0 | 1,553.3 | 45.6 | 1,780.0 | 27.0 | |
| Management Expenses | 4,532.7 | 3,485.8 | 30.0 | 4,100.8 | 10.5 | Expense ratio increased on YoY and QoQ basis at 24.5% |
| Benefits paid | 9,163.8 | 9,179.2 | -0.2 | 9,328.9 | -1.8 | |
| Change in Actuarial Liability | 15,337.5 | 4,300.5 | 256.6 | 6,979.2 | 119.8 | |
| Total Expenses | 24,501.3 | 13,479.6 | 81.8 | 16,308.1 | 50.2 | |
| Surplus/ (deficit) | -12.3 | -193.5 | -93.7 | -172.2 | -92.9 | VNB steady margin at 24%; impact of GST cut to improve in H2FY26 |
| Transfer to SH's A/c | 140.9 | 98.2 | 43.4 | 215.2 | -34.5 | |
| Investment income | 418.8 | 271.9 | 54.0 | 360.9 | 16.0 | |
| Profit/ (loss) before tax | 442.8 | 444.8 | -0.5 | 465.4 | -4.9 | |
| PAT | 420.7 | 414.9 | 1.4 | 447.2 | -5.9 | GST related and one-time labour code expense impacted earnings |
| Key Metrics | | | | | | |
| NBP | 8,328.9 | 7,899.4 | 5.4 | 8,949.4 | -6.9 | |
| AUM | 377,652 | 328,684 | 14.9 | 359,999 | 4.9 | Healthy AUM growth at 15% |
| IEV | 61,565.0 | 53,246.0 | 15.6 | 59,540.0 | 3.4 | GST & labour code impacted EV |

Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 2: Profit and loss statement | | | | |
|--|---------|---------|---------|----------|
| (₹ Crore) | FY25 | FY26E | FY27E | FY28E |
| Premiums earned - Net | 69616.1 | 79009.7 | 90929.2 | 104937.3 |
| Interest, Dividends & Rent | 18473.3 | 19050.1 | 21773.2 | 24891.3 |
| Others income (incl. MTM) | 370.5 | 3732.7 | 4185.1 | 4694.6 |
| Total Revenue | 88,494 | 101,792 | 116,887 | 134,523 |
| Commission | 7835.3 | 9142.8 | 9864.4 | 11382.2 |
| Operating expenses | 6221.8 | 6833.5 | 7667.8 | 8841.8 |
| Benefits paid (Net) | 39345.9 | 43133.1 | 49701.6 | 57275.7 |
| Change in valuation of policy liab | 41515.6 | 38140.0 | 42929.9 | 47870.2 |
| Provision for tax | -588.2 | -270.6 | -287.6 | -310.7 |
| Surplus/(deficit) after tax | 1043.0 | 1202.3 | 1398.5 | 1476.8 |
| Transfer to Shareholders' account | 967 | 1,178 | 1,287 | 1,359 |
| (₹ Crore) | FY25 | FY26E | FY27E | FY28E |
| Amounts transferred from Policyholders | 966.8 | 1178.3 | 1286.6 | 1358.6 |
| Income from investments | 1125.1 | 1386.3 | 1577.4 | 1652.5 |
| Total | 2,092 | 2,565 | 2,864 | 3,011 |
| Total expenses | 225.8 | 345.0 | 345.0 | 345.0 |
| Profit before Tax | 1866.1 | 2219.6 | 2519.0 | 2666.1 |
| Provision for tax | 64.0 | 88.8 | 100.8 | 106.6 |
| PAT | 1,802 | 2,131 | 2,418 | 2,559 |

Source: Company, ICICI Direct Research

| Exhibit 3: Key ratios | | | | |
|---|-------|-------|-------|-------|
| (Year-end March) | FY25 | FY26E | FY27E | FY28E |
| <u>Valuation</u> | | | | |
| Diluted EPS (₹) | 8.6 | 9.9 | 11.2 | 11.9 |
| BV (₹) | 75.1 | 81.5 | 88.5 | 96.3 |
| EV per share | 257.4 | 296.9 | 343.2 | 397.5 |
| P/E | 85.0 | 73.9 | 65.1 | 61.5 |
| P/BV | 9.7 | 9.0 | 8.3 | 7.6 |
| P/EV | 2.8 | 2.5 | 2.1 | 1.8 |
| <u>Efficiency Ratios (%)</u> | | | | |
| Commission expenses as a % of Gross Premium | 11.0 | 11.4 | 10.7 | 10.7 |
| Management expenses as a % of Gross Premium | 19.8 | 19.9 | 19.0 | 19.0 |
| <u>Return Ratios and capital (%)</u> | | | | |
| Operating RoEV | 16.7 | 16.0 | 16.3 | 16.5 |
| <u>Key Ratios (%)</u> | | | | |
| VNB Margin | 25.6 | 24.5 | 25.3 | 25.8 |

Source: Company, ICICI Direct Research

| Exhibit 4: Balance sheet | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| (₹ Crore) | FY24 | FY25 | FY26E | FY27E | FY28E |
| Sources of Funds | | | | | |
| Share capital | 2151 | 2153 | 2153 | 2153 | 2153 |
| Reserve and surplus | 12050 | 13576 | 14934 | 16427 | 18070 |
| Credit/[debit] fair value change | 451 | 446 | 463 | 482 | 504 |
| Networth | 14652 | 16175 | 17550 | 19063 | 20727 |
| Policyholders' funds | 276916 | 319201 | 358293 | 402318 | 451448 |
| Funds for Future Appropriations | 2161 | 4176 | 4200 | 4312 | 4430 |
| Total Liabilities | 293729 | 339552 | 380043 | 425693 | 476604 |
| Applications of Funds | | | | | |
| Shareholders' investments | 14882 | 16554 | 18210 | 20030 | 22034 |
| Policyholders' investments | 181797 | 218830 | 240713 | 269599 | 301951 |
| Asset held to cover linked liab | 95542 | 101628 | 111791 | 122970 | 135267 |
| Loans | 1897 | 2378 | 2911 | 3444 | 3977 |
| Fixed assets - net block | 416 | 601 | 613 | 625 | 638 |
| Net current assets | -804 | 191 | 5805 | 9023 | 12737 |
| Total Assets | 293729 | 340183 | 380043 | 425693 | 476604 |

Source: Company, ICICI Direct Research

| Exhibit 5: Growth ratios | | | | |
|--------------------------|---------|---------|---------|---------|
| (Year-end March) | FY25 | FY26E | FY27E | FY28E |
| NBP | 33,395 | 37,541 | 43,305 | 49,987 |
| Growth (%) | 12.7 | 12.4 | 15.4 | 15.4 |
| Linked | 19,771 | 23,564 | 27,849 | 32,429 |
| Growth (%) | 34.2 | 19.2 | 18.2 | 16.4 |
| Non Linked | 51,304 | 56,553 | 64,360 | 73,994 |
| Growth (%) | 6.1 | 10.2 | 13.8 | 15.0 |
| APE | 15045.1 | 17215.5 | 20072.8 | 23428.8 |
| Growth (%) | 16.1 | 14.4 | 16.6 | 16.7 |
| VNB | 3,962.0 | 4,339.4 | 5,224.9 | 6,219.0 |
| Growth (%) | 13.2 | 9.5 | 20.4 | 19.0 |
| EV | 55,423 | 63,924 | 73,888 | 85,580 |
| Growth (%) | 16.8 | 15.3 | 15.6 | 15.8 |
| AUM | 337,013 | 370,714 | 412,600 | 459,252 |
| Growth (%) | 15.3 | 10.0 | 11.3 | 11.3 |
| PH Funds | 218,830 | 240,713 | 269,599 | 301,951 |
| Growth (%) | 20 | 10 | 12 | 12 |
| SH Funds | 16,554 | 18,210 | 20,030 | 22,034 |

Source: Company, ICICI Direct Research

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