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**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**

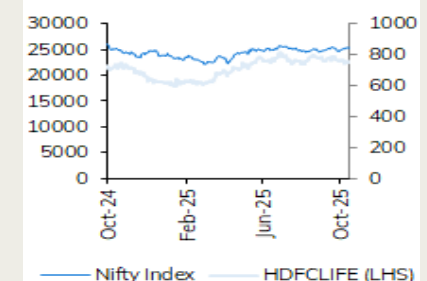
The GST-related margin headwind appears transitory, with management actions on repricing, mix optimization, and distributor negotiations already reducing the impact to ~200 bps. Strong momentum in protection, improving traction in non-par savings, and deeper penetration in Tier-2/3 markets support medium-term 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.

**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

**Research Analyst**

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Parth Chintkindi  
parth.chintkindi@icicisecurities.com

**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	Comission 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
<b>Key Metrics</b>						
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

(₹ 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 4: Balance sheet**

₹ crore

(₹ Crore)	FY24	FY25	FY26E	FY27E	FY28E
<b>Sources of Funds</b>					
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
<b>Total Liabilities</b>	<b>293729</b>	<b>339552</b>	<b>380043</b>	<b>425693</b>	<b>476604</b>
<b>Applications of Funds</b>					
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
<b>Total Assets</b>	<b>293729</b>	<b>340183</b>	<b>380043</b>	<b>425693</b>	<b>476604</b>

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/IEV	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 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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Jeetu Jawrani Email address: [headsservicequality@icicidirect.com](mailto:headsservicequality@icicidirect.com) Contact Number: 18601231122

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