October 20, 2023

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Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No C/1, Block G,
Bandra-Kurla Complex,
Bandra (East),
Mumbai - 400 051

NSE Symbol: HDFCLIFE

Listing Department
BSE Limited
Sir PJ Towers,
Dalal Street,
Fort,
Mumbai – 400 001

BSE Security Code: 540777

Dear Sir/ Madam,

Sub: Transcript of earnings conference call for the quarter and half-year ended September 30, 2023

We wish to inform that pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the earnings conference call with analysts and investors held on Friday, October 13, 2023, to discuss financial results of the Company for the quarter and half-year ended September 30, 2023.

The said transcript has been hosted on the Company's website www.hdfclife.com.

This is for your information and appropriate dissemination.

Thanking you,

For HDFC Life Insurance Company Limited

Narendra Gangan
Digitally signed by Narendra Gangan
Date: 2023.10.20 21:31:46 +05'30'

Narendra Gangan
General Counsel, Chief Compliance Officer & Company Secretary

Encl.: As above

HDFC Life Insurance Company Limited

H1 FY24 Earnings Conference Call

October 13, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the HDFC Life Insurance Company Limited Results Conference Call. I now hand the conference over to Ms. Vibha Padalkar, MD and CEO of HDFC Life Insurance Company Limited. Thank you, and over to you, ma'am.

Vibha Padalkar: Thank you Dorwin. Good afternoon, everyone. Thank you for taking part in this conference call to discuss the business performance for half year ended September 30th, 2023. Our results, which includes the investor presentation, press release, and regulatory disclosures, have already been made available on both our website and the stock exchanges. Joining me are Suresh Badami, Deputy Managing Director; Niraj Shah, ED & CFO; Eshwari Murugan, our Appointed Actuary, and Kunal Jain, from Investor Relations. I will provide an overview of our H1FY24 results, and will be happy to address any queries thereafter.

Starting with operating performance for the quarter:

Despite the recent budget changes that were perceived to be unfavourable for the sector, the life insurance industry has demonstrated remarkable resilience. Insurance companies have successfully harnessed their extensive distribution networks, tailored product offerings and favourable regulatory developments to address latent insurance needs of their customers. This has been exhibited by close to double digit growth in new business premiums and strong growth in policy count for private players. We affirm our belief in the medium to long term growth opportunity for the sector and HDFC Life's continued ability to navigate through such disruptions, only to emerge stronger.

With this as the backdrop, we recorded a healthy growth of 10% in individual WRP vs 8% for overall industry, for the half year ended September 30th, 2023. Our H1FY24 market share was 15.7% and 10.3% in the private and overall sector respectively. We continued to grow faster than the overall industry and be ranked amongst the top 3 life insurers across individual and group businesses.

We saw an uptick of 10% in the number of individual policies sold, beating industry growth. This healthy volume growth is in line with our stated objective of broadening our customer base. We have insured more than 3 crore lives across our individual and group businesses, which represents a YoY growth of 16%.

More than two thirds of the retail customers on-boarded are new to HDFC Life and almost half of these are below the age of 35 years. Growth from tier 2 and tier 3 locations has been double than that of tier 1 locations.

Growth in protection was robust at 28% on new business premium basis. Retail protection registered YoY growth of 46% in H1FY24. Sum assured recorded healthy growth, with retail and overall sum assured growing by 61% and 45% respectively. We continue to lead in terms of sum assured and our private market share based on overall sum assured stood at 18% for H1FY24. Annuity APE grew by 17% and the segment contributed to 18% of new business premium. Annuity and Protection put together contributed to about 55% of new business premium in H1FY24.

Our average ticket size has stayed intact, despite moderation seen in higher ticket size business. Policies of upto Rs 5 lakh ticket size issued have seen double digit growth, with improvements in average ticket size across various cohorts. While there is de-growth in the above Rupees5 lakh segment, we are seeing this get progressively better in some channels such as bancassurance. While the gap is wider in channels such as private wealth partners, we expect improved overall traction in this segment in the second half of the fiscal, on the back of product launches and, both the distributors and customers coming to terms with the new post- tax IRR reality. Despite the tax impact, the long-term guaranteed savings product proposition remains unique to our industry and returns offered continue to be best in class.

Overall product mix remains balanced with non-par savings at 28%, participating products at 30%, ULIP at 28%, annuity and protection at 8% and 6% respectively, based on individual APE.

We introduced 2 new products in the protection category viz. HDFC Life Sanchay Legacy and Click 2 Protect Elite. HDFC Life Sanchay Legacy is an industry-first whole life, return of premium protection plan with increasing life cover and is designed to cater to a middle-aged and beyond customer segment. Our other term product, C2P Elite, caters to a more affluent customer category.

Some of our other products launched in the participating, unit-linked and pension categories have gained good momentum across all our distribution channels. Further, we have been able to offer higher than the traditional 7-10x sum assured multiples on our unit-linked products, thereby bundling higher protection cover with our savings proposition.

Moving on to key financial and operating metrics:

New business margin for H1FY24 was 26.2%, with value of new business of Rs. 1,411 crores, implying a 10% YoY growth. The total cost ratio has increased slightly from 19.3% to 19.7%. The increase in cost ratio is expectedly due to reduced cost absorption from slower growth in specific channels and should normalise as growth rebounds to pre-tax change levels. We will however continue to upfront manpower investments in channels such as HDFC Bank and other key Banca partners to capitalise on growth opportunities.

Our Embedded value was Rs 42,908 crore as on September 30th, 2023, with an operating return on embedded value of 16.4%. Profit after tax for H1FY24 was Rs. 792 crores, i.e., a YoY increase of 15%, with a robust growth of 18% in profit emergence from the back book.

Solvency as on September 30, 2023 is 194%, after factoring in the dividend pay-out of Rs 408 crore in the last quarter. Renewal collections continue to be robust with a YoY growth of 14%.

Next, on distribution:

We have registered a YoY growth of 23% across our bancassurance partners. Our counter share at HDFC Bank channel is progressing well with strong support from our parent channel. We continue to collaborate closely with HDFC Bank and invest in the channel.

Our Credit Life partners have also delivered impressive performance, with Credit Protect growing by 28% in H1FY24. We are growing well across all our bancassurance collaborations, while steadily augmenting our portfolio of partnerships.

We are also pleased to announce our partnership with Airtel Payments Bank, which has over 15 crore customers and are excited about the possibilities arising out of this alliance.

Our agency channel grew in-line with company growth. We added more than 37,000 agents in the channel in H1FY24. We have seen some moderation in business from the higher ticket size segment, but expect the channel to be able to re-coup the same in H2.

Amongst other highlights:

We are proud to feature amongst India's Best Workplaces for Millennials 2023 by Great Place to Work and to be recognized amongst 100 Best Companies for Women in India 2023 by Avtar. We also ranked amongst Asia's Best Workplaces 2023 by Great Place to Work. This is a testimony of our endeavour to create an inclusive culture, be the employer of choice and invest for the betterment of our workforce.

We are appreciative of the proactive engagement by the Department of Financial Services and IRDAI with life insurers to discuss initiatives for the benefit of overall sector as well as the customers.

Moving on to our subsidiaries:

The AUM of our pension subsidiary has crossed 58,000 crores with a market share of 43% as on 30th September 2023, which is an increase of 370 bps over September 2022. HDFC International clocked revenues of over $10 million, registering a growth of 50%. Their retail insurance business out of GIFT City commenced in August, with the maiden launch of US Dollar Global Education Plan.

In conclusion:

Our focus on improving customer penetration is trending well and we expect this momentum to continue and be aided by a pickup in the higher ticket segments. We are also confident of a strong performance in the mortality and longevity space along with market share gains in our bancassurance channel in the second half of this year. We remain upbeat on the medium- to long-term growth potential of the industry and aspire to repeat our past track record of doubling key metrics every four years.

The detailed disclosure on our results is available in our investor presentation. We are happy to open the floor for questions now.

Moderator: The first question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: Thanks for the opportunity. Couple of questions. The first one is on margins. Of course, a part of it is understood that mix in this FY so far has moved in favour of ULIP from non-par savings. But at the same time, we see increase in retail protection. Credit life is still doing well and there is a pickup in annuity. So, there is some favourable development on product mix of high-margin products as well. And, in your base, there was low margin of Exide Life. So, net-net with these favourable factors playing out, protection and annuity picking up and with expectation of benefit from Exide Life, margins are flat. Is this due to growth being lower or expenses picking up? An explanation around what's happening with the margin and what shall one expect for FY24. That's the first question.

Vibha Padalkar: Avinash, all what you said is absolutely right. There are many things going on. We talked about Exide Life starting off with low single-digit margins. We said we will nevertheless move towards subsuming that into our business and reaching margin neutrality.

Individual protection is doing exceedingly well. Credit life has always been doing well, and that continues to trend well. So that gives us that margin kicker. Our costs are reasonably under control despite some of the investments that I talked about.

Unit Linked has seen a little bit of uptick to about 28% as against the 25% range that we would like it to be in. At the same time, counter share at HDFC Bank has gone up. Considering all of these, there are pluses and minuses which even out and that's why we are margin neutral. It is slightly better than Q1 margin but more or less flat is how we see H1, and that's what we also guided towards at the start of the year. This year is a mixed year, in terms of digesting tax changes and investing in people, so that we can grow number of policies, and all of that is panning out.

We expect flattish margins, which would be a good outcome given everything that's going on including the continued degrowth in the above INR5 lakh ticket size. Next year, this would be behind us as a sector, and we should continue on the upward trajectory on margins. Anything you want to add, Niraj?

Niraj Shah: As we had spoken at the beginning of the period, large part of our VNB growth will come out of APE growth and a significant part of our APE growth we were expecting out of volumes. That's exactly happening the way we have thought about it as the year would pan out with 10% growth in volumes. And equally important is that our average ticket size has been maintained. That was one of the biggest fears going into FY24 in terms of what happens because of the higher ticket size business. Like Vibha mentioned, the greater than INR5 lakh business has come down, but it is still a fairly meaningful contributor.

Significant part of our position has been maintained because of our expansion into Tier 2 and 3 markets. And similarly, while we would like to grow at 17%-18%, on a medium-term basis, the current growth is in the 10% range. That explains the fixed cost absorption gap. Product mix, like you rightly articulated, balances out each other, and there is a mild positive sitting there in terms of higher levels of protection written, both on a stand-alone basis in individual-group and on the savings products.

Moderator: The next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: I have two questions. First is on non-par savings product. Can you help us understand how many rounds of IRR cuts have you taken? I believe that the G-Sec yield, which you map has turned around since rate cuts have happened. Any guidance, will the product offer even lesser IRRs to the customers? How do you see this product and the customer offering going ahead?

Second is on the protection business. You said that Credit life grew by 28%. Is that new business growth or APE growth? Because group protection APE only grew by 7% in H1. Has the GTI business contracted as a result? Can you give some color on that? Thank you.

Niraj Shah: Non-par product repricing is a continuous ongoing activity for us ever since we launched the product more than 4 years back. To your specific question, we have repriced it twice, in this period.

Going forward, we will continue to look at the kind of yields we can get on a gross basis and then adjust our IRRs in the marketplace. Of course, we will keep in mind what is happening in the marketplace. We have seen certain players offer IRRs, which we believe are addressing different profitability and risk management objectives.

We continue to maintain a fairly balanced approach. We definitely want whatever growth we can get, but it has to be sensible in terms of profitability and the risk we write on our books. Our repricing will continue, and it will reflect what is happening in the overall interest rate environment.

As far as your question on group protection is concerned, credit life business has grown fairly meaningfully even in this period at 28%. And largely, business has shifted from regular premium to single premium in certain partners, which has resulted in the numbers that you are seeing.

On an overall basis, nothing is really different. On the individual side, protection has grown more than 45%. On the CP side, for this period, it has been 28%. It's largely just a regular premium-single premium change that has happened.

Vibha Padalkar: And to add here, it has lesser to do with GTI business, which you alluded to. Economics of the credit life business hasn’t changed. It's just that, is it a single premium policy or a regular premium policy. That's about it.

Shreya Shivani: Okay, understood. Thank you so much.

Moderator: We have the next question from the line of Suresh Ganapathy from Macquarie.

Suresh Ganapathy: Two questions. You said the counter share has gone up. HDFC Bank's counter share was up to 56% last quarter from 55%. Can you share any numbers? How much has it gone up this quarter?

Suresh Badami: We have seen a fair amount of traction, which has been happening post the merger. We have ended H1 at 62% market share. If you were to look at the 56.5%, which was there at end of Q1, we have been steadily trending upwards right through Q2. And across July, August and September, we have seen a significant uptick. In September, our counter share was greater than 70%. We have ended at 62.2% for the entire H1.

Suresh Ganapathy: That is fantastic. Can you tell us what have you done? What has happened to have such a massive pickup? And how have you gone about doing this?

Suresh Badami: In some sense, it has been a focused effort on both sides. We have invested in manpower over the last 5-6 months. There have been product innovations which have happened. There are some new products which have got launched and have picked up strongly at HDFC Bank.

Vibha spoke about Sampoorna Jeevan, Sanchay Legacy was launched. There are few other products, which have got launched and have had a fair amount of pickup. There has been a huge amount of engagement and involvement from the Bank, across teams including support from TPP team.

So, it is a factor of everything that we are building. But typically, our market share has been growing across most of our partnerships. And yes, there is better alignment and much more engagement at the strategic level with the Bank, and that support is coming in for us.

Suresh Ganapathy: But Suresh, this is not getting reflected in the overall APE numbers, right? Your H1 APE has just gone up 10%. Of course, Vibha has guided for a 15% APE growth excluding INR 1,000 crores one-off business, the ask rate for second half is very high, both on APE growth as well as margins. We'll have to deliver 20% on the INR1,000 crores adjusted business in H2. Is that really achievable? And why is HDFC Bank better traction not getting reflected in APE growth numbers?

Suresh Badami: We have to take a longer-term view. Quarter-on-quarter, things will vary. We have seen some slowdown in other channels like Agency and Broca, which had higher dependency on greater than INR 5 lakh ticket size. Our strategy is to ensure that we broad-base our growth on smaller ticket size NOPs, and we have started seeing that traction coming in. Additionally, there's some bit of base effect which is coming.

We will try to grow faster than the industry, which is really what we have been targeting every year. That has played out for us. In certain quarters, some products get launched, in other quarters, some contest ends, so quarter-on-quarter, numbers may vary. Our distribution has been growing, Vibha read out as part of the earlier note that our agency distribution has grown by more than 30,000 agents. As we build our distribution across tier 2 and tier 3 markets, as we add more partners into our fold, the smaller ticket size will come in. The opportunity is large enough for us to grow on a consistent basis.

Vibha Padalkar: To add here Suresh, further deconstructing some of the channels that have a lot more wealth customer bias understandably are slower. And we have seen degrowth in those channels, wherein the ticket sizes used to be very high. These channels have seen de-growth of about 20%. While growth in less than INR 5 lakh ticket size is about 18% at company level.

It is all coming out. Some channels have a lot more focus towards higher ticket sizes. Our broking channel is one, wealth channel is another, agency in terms of the top agents. So, it's a mix of that. However, reason why it gives us a fair bit of confidence is that when we further deconstruct our numbers, one is very robust growth, like I said, close to 18%-19% on below INR 5 lakhs business. Second, growth in tier 2 and 3 is 2x of company level growth, where we are making inroads. The channels that have a lot more distribution reach into tier 2 and 3 markets are relatively untouched by the tax changes. Tier 2 and 3 markets are contributing about 60%-70% of our overall business.

All of that mix and manthan that is happening, which we said at the beginning of the year when the tax changes happened, wherein growth will be a lot more broad-based across more and more customers, acquisition of new customers becomes important. Last point I want to make is that when I further look at our data, two-third of our customers are now new to HDFC Life. We are very happy about that because when you partner with a young life, then over the life cycle of the individual, we are able to do a fair bit of attachment at various significant life stages. Also, half of these new customers that we have acquired, are less than 35 years of age. So again, we are attracting young customers. Reason I'm quoting these numbers is that it's a little bit nuanced in terms of why the overall number is somewhat muted because of some of the other channels being affected. But at the same time, even in those channels, the growth in below INR5 lakh is touching almost 20%.

Suresh Ganapathy: You are still confident of maintaining 15% full year guidance excluding INR1,000 crores?

Vibha Padalkar: Yes. Just to clarify, I have said mid-teens. So yes, mid-teens, reasonably confident.

Suresh Ganapathy: Okay. All the best Vibha.

Moderator: The next question is from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited.

Prakash Kapadia: You were talking about HDFC Bank, and how we have gained more traction. Continuing that discussion, in tier 2, 3 cities and beyond, the bank has a fairly large rural presence. Even now they are opening up branches at a good pace. So, will that be the driver of volume growth in FY24 and beyond? And what products are these customers looking at, if you could give us some sense? That's the first question.

The second question is on the GST notice which we received last quarter, it was of INR 942 crores. We've paid some amount, INR 250 crores in dispute. Any updates on that?

Suresh Badami: This is Suresh here. Let me answer the first question. Yes, you are right. I think HDFC Bank is doing a tremendous job, in terms of expansion and branch growth. The branch expansion in SURU has grown more than 1,100 in the last 18 months, so clearly, they're driving.

Just to state, our approach to tier 2 and tier 3 as a distribution strategy has been playing out for many years. Along with HDFC Bank, we have been growing our agency presence. We took over Exide, which has a significant presence in tier 2, tier 3 and southern markets.

Many banca partnerships, which we have tied up over the last 1 year, whether it is AU Small Finance Bank or other partners like Ujjivan, Utkarsh and Bandhan, have significant presence in tier 2 and tier 3 markets. We may not have build as much on our direct, but there is a lot of demand, which is coming through our partnerships and our agency network in these markets.

We have seen tier 2 and tier 3 markets grow much faster for us, almost double of what we have seen at company level. Of course, tier 1 has had an impact this year because the greater than INR 5 lakh ticket size normally concentrates in tier 1. However, the product range remains similar, it is the ticket size which changes.

There are certain features which are more favourable in tier 2 and tier 3 markets, and we will continue to innovate on that. APE growth in tier 2 and tier 3 has been almost 17% for us in H1. So, you will realize that it's a stated strategy to expand and get into these markets. We don't see any reason why this segment will not grow for us going forward. Of course, the opportunity in tier 1 continues to remain, and we will capitalize on that.

Niraj Shah: Just to add a couple of bits on that, we found the customer segment being more amenable to buying protection differently from the way they buy in tier 1. That's something that has really done well at scale in HDFC Bank in tier 2 and tier 3 towns, in terms of buying protection behaviour being different. Additionally, we have seen that there is more willingness to take slightly longer-term policies in these markets, which again is a very good indicator of being able to keep the business longer on our books and get more profitable business out of that category which is fairly encouraging.

To your point on GST, no further update. We have seen the show-cause notice, as we mentioned in our exchange disclosures. We are in the process of responding to that, and we will do that in due course.

Moderator: We have the next question from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: Thanks for taking my question. The growth in bancassurance seems to be coming up nicely with around 20% and it looks like this is slightly ULIP heavy. But in other channels, probably ULIP is not picking up as much. So, when we are looking at higher growth in other channels in H2, do we envisage ULIP to pick up? Or will it still be non-par heavy? In that sense, how do you see the product mix for the year evolving?

Suresh Badami: Let me start and Niraj can add on. We have mentioned in earlier sessions that we have always tried to maintain a balanced product mix. One of the approaches has been to ensure that each channel remains profitable. In some sense, looking at the opportunity, we have tried to ensure that our mix remains in the 25% range for ULIP and the rest between par and non-par at 30%.

We have always managed ULIP contribution which comes from other channels because typically, ULIP needs to have high persistency, for it to be profitable. So, in agency, we have ensured that ULIP is managed well with some of our vintage financial consultant partners, who give us very high persistency on ULIP products.

You'll find that our agency is one of the few channels, which is near 90% persistency at an overall level. That is because we have tried to maintain certain ULIP to select set of partners with a focus on par and non-par. There is always an expected volatility in equity markets given what's been happening, we will look at the Unit Linked (UL) opportunity and growth, if markets continue the way it is.

In tier 2 and tier 3 markets, there's a little bit of UL demand. We have seen what's happened on the MF and SIP space. So, we don't want to lose out on that opportunity. But we will be calibrated in terms of how much UL we allow through some of the other channels. But at an overall level, we will maintain the mix across all our channels.

Niraj Shah: To add to what Suresh mentioned. A lot of times, product mix is also a function of new product launches. In this period, we have had two product launches on the protection side which reflects the momentum in individual protection growth.

We have also had a launch on the UL side with a slightly different protection proposition attached to it. That has also done very well in the bank channel and some of the other channels as well. In H2, we expect to launch products in the other categories, which will then reflect in the product mix.

Like Suresh mentioned, by and large, we would like to stay within $1/4^{th}$ to $1/3^{rd}$ for each of the categories, while continuing to grow protection and annuities. It will also be dependent on the product launches that we have in the market. Of course, how people respond to the economic environment in terms of volatility in equity markets, can then change things on the UL front.

Similarly, when there’s more concern about the geopolitical environment or of equity markets that can drive buying behaviour towards more traditional and conservative products. That's something that we see, from time to time.

Nischint Chawathe: In the first quarter, it appeared that there was some fatigue in selling non-par post a very strong March. Do you see that having a tail in the second quarter and business again eating up towards the end of the year? Or is it something that is not a concern anymore?

Vibha Padalkar: It's not really a concern, but couple of things here, Nischint. One is that, it has to be priced right. There's always a temptation to give very aggressive pricing. Right pricing is something that we really want to follow. So, we keep away from some of that situation that does happen in multi-tier situation.

Second is that versus where fixed deposit rates are. More than fatigue, I think it's a little bit of kicking the can down in terms of taking a decision on non-par policy. It is because you say, let me park my money in a six-month FD or one year FD and then take a call down the line. Some of that could be happening. Of course, it is due to change, as and when rates start falling, transmission happens. So, it's a matter of a cycle rather than anything fundamentally that is different. And point three is that, there is awareness that there is reinvestment risk in any product other than a long-term non-par product and that has been very well socialized amongst customers at large. The proposition as such, nothing at all has changed on it, but some of these more macro forces, plus and minus are at play.

Moderator: The next question is from the line of Swarnabh Mukherjee from B&K Securities.

Swarnabh Mukherjee: Good afternoon and thank you for the opportunity. A couple of questions. First on growth, for slower growth in H1, you alluded that in several channels would have five lakh-plus products in their base last year, which is impacting. So just wanted to understand that as we move in H2, what would be the situation in those channels again for the second half of last year? Would smaller ticket size growth be sufficient to cover up for that and meet the ask rate? The strong growth in banca that we have seen at 19%, if you could break it down into what is the growth at the HDFC Bank channel vis-a-vis other banca partners? What is driving the growth?

So that is one. And secondly, if you could highlight in terms of the EV walk that you have given. If I strip out second quarter from the numbers that you have given for H1, the economic variance numbers appear to be negative. What is driving that given the market conditions and how the yield curve has moved over the last three months, if you can give some color?

Vibha Padalkar: Yes. We are reasonably confident that we will continue on this trajectory. What’s happening is the ticket sizes have been maintained. So, what we had feared was that overall ticket sizes would start falling and that has not happened. That is one. Second is, like I mentioned to an earlier caller that we are acquiring more and more customers. The number of policies we are writing is growing. With both of this together, we should continue with mid-teens’ growth.

Swarnabh Mukherjee: Just a follow-up on that. The fact that, we have started to see strong growth in tier 2 and tier 3 markets. Moving into FY25, do you think that such a growth rate would be sustainable given that we again will have a reasonable base of that and other competitors would also be focusing on that market, given similar scenarios we were facing in the tier 1 market. Is that number sustainable as per your view?

Vibha Padalkar: Yes. Absolutely, I think so. And the reason is that, we ourselves were not very present. If you were to look back three years ago, this was a white space for us and the sector by and large, we have only focused on top 10 cities and so on.

As Niraj alluded to it earlier, wherein it is not just that we have feet on street now, it's a whole proposition on what products would work in tier 2 and tier 3, what measures we would have in place for underwriting, what kind of document is required and so on, because increasingly, the percentage of non-salaried customers in tier 2 is going to be meaningfully high. How do we get past the underwriting hurdles, what are the reinsurance arrangements that we suture up because, for reinsurers, these would be lower ticket, higher volume, lighter touch underwriting or a different underwriting conundrum. It is many things like that.

And of course, people training, having products that are simpler in terms of give and get, having local regional languages in terms of outreach, the advertising and the tonality has to appeal in tier 2 and tier 3. So, it is a whole package, and that has taken us a couple of years ever since we started looking at Exide Life.

That was a turning point. And then tax changes happened, so we just accelerated on that. But I'll give you another example. We do have a fairly high hurdle rate on persistency, which to some extent, was limiting our foray into tier 2 and tier 3 because inherent persistency is generally lower than top 10 cities. But for us to be comfortable with that as long as the pricing is right. Of course, down the line, we will showcase you how in various buckets we see persistency panning out. Mix could impact at a headline level. But within those cohorts, you will still see an improvement in persistency. Persistency will be different, mortality experience will be different and how do we price all of that and how do we get increasingly comfortable with that?

I think that's the journey. This is just the tip of the iceberg, and I'm reasonably comfortable and confident that, the journey will continue. We will, of course, piggyback on all our partners. Suresh mentioned this, HDFC Bank of course, but also many other partners that we have, that have been operating in these segments. And we also learn from them. We learn from a lot of our partners that extend credit to tier 2 and tier 3 customers because they also have to do at least financial underwriting. That's the hack they are donning to help us with the financial underwriting piece. We are looking at younger lives, lesser sum assured, so that we are able to take initial steps into that. As regards to your question on embedded value, Eshwari, you want to take that?

Eshwari Murugan: If I understood the question correctly, you want to understand the movement in investment variance that we showed last quarter and this quarter. I will explain the investment variance that was in June at around INR 810 crores, broadly split between impact of equity of INR 500 crores and interest rates of INR 300 crores.

In Q1, equity markets had gone up by almost 10%, which was higher than the expected return of around 2.5% and that resulted in a positive variance of INR 500 crores. Interest rates at the shorter end had fallen by around 20 bps. And since the value of our shareholder and VIF assets increases as interest rates go down, we had a positive variance of around INR 300 crores.

In Q2, equity markets performed slightly better than expected at around 3%, which resulted in INR 50 crores increase in positive variance. But interest rate cycle has actually reversed. The fall that was there in Q1 reversed out in Q2. So, this almost nullified the interest rate impact that we got, which is why on a six month basis, majority of the investment variance of INR 650 crores is coming from equity.

Swarnabh Mukherjee: Understood. And ma'am, the question on the banca growth

Vibha Padalkar: I'll give a very quick answer. Both HDFC Bank and other banks are very similar in terms of growth.

Moderator: We have the next question from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: What is the share of return of premium products? And is there a change where the share of return of premium products is increasing? And secondly, on VNB margins for the second half, do you think that you will be able to attain the margins, which will allow you to have a flattish VNB margin as compared to FY23?

Vibha Padalkar: On the second question, yes. While it's always a challenge just given the kind of changes that have happened, we should be able to end at a flattish margin. We are there at the end of H1 and in H2 as well as on a full year basis, very similar kind of margins with mid-teens growth and hence, mid-teens VNB growth. Niraj, you want to give the number on the other one.

Niraj Shah: Yes. So, on ROP, it's been steadily going up over the past few quarters as our presence in tier 2 and tier 3 markets has been expanding. Currently, the number stands close to around 30%. It had been close to 20% in the previous period. So, it has moved in that direction.

Vibha Padalkar: And that also explains my earlier commentary on tier 2 and tier 3 because the products that we sell also have to be simple over-the-counter relevant products for that category.

Prayesh Jain: And that is also the reason why possibly the overall protection margin could be weaker than what we had earlier?

Niraj Shah: No, not really. As we mentioned in the past, the return on premium margins are not very different from pure term margins. It's really how the products are priced, as of course there are market participants choosing to price their products differently in the market. But as far as we are concerned, there isn't any significant difference. In fact, return of premium is not margin dilutive at all on protection.

Moderator: The next question is from the line of Madhukar Ladha from Nuvama Wealth Management.

Madhukar Ladha: Banca channel continues to do very well. And one of the main reasons that you mentioned is, for the other channels a little bit weaker performance. If you look at individual APE growth numbers, I think agency direct, brokers and other channels, all three have declined on a year-over-year basis. And INR5 lakh-plus ticket size business in these channels seems to be the major component is what I get. Are there any other big factors that are playing out there? And then you gave that number of INR 1,000 crores, if I remember correctly, this was only the March impact of more than INR 5 lakh ticket size, or maybe Feb and March. But for the full year what would be the contribution of more than INR 5 lakh ticket size, to get a sense of what we need to overcome in second half?

Suresh Badami: Let me just quickly answer. Firstly, agency is not degrowing. On an H1 basis, we are growing at almost 10%.

Madhukar Ladha: No, I meant on a Q2 basis

Suresh Badami: Q2 basis, it is flat 3% growth. But like we mentioned earlier, I think agency and broking have been affected a bit from the greater than INR 5 lakh business. Broking, we had a significant presence in the wealth segment, our partnerships at many of the well-focused corporate agencies, and most of them had worked with us on almost exclusive or high market share basis, but we don't really have a problem because somewhere the distribution will attune itself to the less than INR 5 lakh ticket size. And agency, in some ways, takes a little more time. It is more retail, it is more distribution oriented. It will take some time to grow in more than INR 5 lakh. And it has been growing fairly well in the less than INR 5 lakh business.

Of course, the product mix is also moving to some pension products and some other products where ticket sizes are high. So, we don't really see a challenge in being able to grow agency. One of the reasons is that we are focusing heavily in terms of building our new base of financial consultant, more than 30,000 agents got added, which is significantly high. We are looking at activation. And we do believe that those may not probably be able to catch up in some specific verticals like wealth, which are greater than INR5 lakh focus. But the distribution should be able to scale up.

In the greater than INR5 lakh, as mentioned earlier, while there was a hiccup in what was pre-budget and post budget, the proposition is fairly strong. Customers are also coming to terms to say, if you compare what's available on debt mutual fund side, what's happened on fixed deposit rates, the product still remains fairly competitive. There is no reason why over a period of time, if you were to look at it afresh and have money in terms of asset allocation, a certain amount of money will continue to flow into these products, while we'll get the higher ticket size from some of the pension annuity products.

Our focus is to make sure NOP grows, tier 2 and tier 3 grows, less than INR5 lakh grows, but there's no reason why greater than INR5 lakh should also not pick up towards the end of the year.

Niraj Shah: Just to add to that and link it back to a couple of things on the call. One is in terms of our H2 strategy on margins that all links back up to how the topline will shape up. If we see more growth than what we are anticipating at this point in time, our first objective will be to ensure that our VNB growth is in line with what we want and margin is going to be subservient to that. We clearly are in a position to be able to maintain margins for the rest of the year, but if the growth projections are ahead of where we think at this point in time, we will strive to maintain VNB growth, and we can review our proposition on how we're looking at VNB margins.

Suresh Badami: I'll just add. As a product strategy approach, all the products that we are designing will help us scale up, whether it is in tier 2 and tier 3, whether it's on the par or non-par side. We may believe that non-par is a product which is more price sensitive, yes, from an IRR perspective. From a customer proposition standpoint, we need to look at what kind of IRRs, what kind of surrender values. The way our products are defined, it's best-in-class for the end customer. These considerations gives us the confidence to say that, even with this product proposition, we are best in class.

Madhukar Ladha: Understood. Can you clarify the INR 1,000 crores number? Was that only for Feb, March? And what would that number be for the entire year, last year?

Niraj Shah: INR 1,000 crores number was the post-budget business that we had alluded to, which we said was a onetime business.

Vibha Padalkar: Which is largely March, because Feb hardly had moved.

Niraj Shah: And the overall number for the year on a total APE basis was about 12%. That is not just the INR 1,000 crores in March, but through the year. And that's also what I just mentioned that 12% equivalent is close to 6% now. So, all the conversations that we just had is that, it is not that the product category has died above INR 5 lakh, it is still very much there. Of course, it will take time to crawl back up to levels that we have seen in the past.

Madhukar Ladha: Got it. Thank you and all the best.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: Thank you for the opportunity. Vibha, the simple question I have is that given our HDFC Bank market share has gone up to 70%, and if I do a back calculation assuming 55% market share, what you had last year, I see banca as a channel..

Vibha Padalkar: Sanketh, just to intervene, the share has not gone to 70%, it is 62%.

Sanketh Godha: Yes, sorry, I mean to say exit is at 70%. It is 62.5% for H1. So, if I do a simple math, what I conclude is that HDFC Bank as a channel for all insurance companies put together, the growth has been less than 10%. It's rough math, but HDFC Bank's challenge to mobilize more deposits, is having some kind of an impact on their ability to grow third-party products, including insurance?

Vibha Padalkar: HDFC Bank and the team at the 7,000 plus branches are used to selling all kinds of offerings to their customers based on the bottoms-up need. Customers also are increasingly aware, at least in tier 1 and 2 towns of the concept of reinvestment risk. It's not that it is a switch and someone having disposable income is agnostic. Even if the RM were to pitch an FD, the customers are reasonably aware of reinvestment risks. They might split their disposable income in some ratio between fixed deposits for liquidity and for guarantee over many years, decades, in fact, to buy a non-par product or a protection product.

So that's why you are seeing that overall growth being there, not only for us but for the bank as a whole and we expect that to continue. Would it be in the range of 20% plus? I don't know. But certainly, in terms of double digits, that trend should continue.

Sanketh Godha: Got it. And second, from a margin point of view, if ULIP remains, because demand of the product is also there. If ULIP remains at the current level around 25% to 30% of the total APE, which is higher compared to last year, then the strategy of attaching higher sum assured in ULIPs can improve margins of ULIP by how much percentage? I also want to understand, high sum assured as a percentage of ULIP you have sold, it contributes how much to the total APE mix? That's point number one. And second, on non-par business, given the yield curve is very much flat, is the product itself seeing margin pressure compared to what you have experienced last year, because IRRs are demanding and supply side market is not favourable, so is non-par at product level seeing any margin pressure?

Niraj Shah: On Unit Linked products, yes, a significant amount of business is now getting done at higher sum assured, which is meaningfully more profitable than what we have on a minimum sum assured multiple that we traditionally have on Unit Linked. But of course, it is still lower than company average. Can we maintain our margins while the Unit Linked mix continues in the 25%-30% zone? We can, because we already have. In the first half, we managed to do that. Large part of the pressure on margins is on account of 2 things, as we discussed. One is that we are capacitized for high-teens growth, which we have delivered in the past periods and the current growth is in the 10% zone. So that is the biggest delta in terms of the margin trajectory.

Second bit, to some extent, is product mix. But as you have seen on an overall basis, product mix has balanced out changes, whether it's higher protection, higher annuities or otherwise. So, at a portfolio level, we don't expect to see any challenge in maintaining our margins with the Unit Linked mix being where it is right now. On non-par, like we mentioned in the past, our pricing is not really dependent on which way the interest rates are. It is more in terms of our pricing discipline, in terms of what we are able to generate. So, if you're talking about on the FRA side, again, it's a pass-through from our perspective. When we were making a spread, that was being passed on as yields and some of it was being retained. While it is a cost now, that's also getting factored into our returns to the customer.

Sanketh Godha: Okay. The reason I'm asking is that because macro is in favor of other products, so to hold up the growth in non-par whether we will see a margin pressure in non-par at product level because of spread compression?

Niraj Shah: No, Sanketh. Honestly, I think different people have taken different calls on how to run non-par business. Even when the environment was different, people were offering 40 basis points higher IRR than we were, even today, they are doing the same. So, it's really a call that management takes in terms of how to price the product. As far as we're concerned, we try and stay away from that.

Vibha Padalkar: Also, some more nuances on the pricing of the product, one has to look at customer centricity in terms of what surrender values one gives. And devil is in detail, one can give much higher IRRs if the surrender value even after 10 years is abysmally low. We want to attempt to continue triangulating between various objectives and to also be fair to the customer.

And you will see us repricing wherever we have to reprice. At the same time, not exiting the game, so to speak, we will continue to be in there. There's usually a lag but others' repricing follows. I think that will continue. It is not new. It is not only for non-par. It also very much applies to protection and some of the other segments. We are used to that.

Moderator: We have the next question from the line of Dipanjan Ghosh from Citi.

Dipanjan Ghosh: Two questions. One, when you say your high-ticket non-par mix is around 10%-12% for the first 10 months, can you give some color on whether it is more front-loaded or back-ended? Some colour on what would be the mix, be in the first six months versus the last four months? Second, on your non-HDFC Bank, banca channels and your broker channels, is there any payout changes or unit economic changes across credit classes that you're seeing?

Vibha Padalkar: No major commercial changes, very much business as usual. On non-par, while I don't have the numbers, but it is reasonably flat. From memory, if I can recall, there was no heavy back-ending or front-loading. It was reasonably flat except in the month of March.

Niraj Shah: And just to clarify, this 12% number that we quoted was for all business above INR 5 lakh, not just non-par. So that's what we had called out immediately after the budget when we have done a call. And of course, numbers were different in March.

Moderator: We have the next question from the line of Abhishek Agarwal from Naredi Investment

Abhishek Agarwal: I had only one question. You said in last con-call your focus is on strengthening our partnership with HDFC Bank, enhancing collaboration and maximizing customer engagement within our group. So, has there been any improvement or is it the same as before?

Suresh Badami: There's a lot more synergy in terms of our strategy as well as for HDFC Bank. We are working closer in terms of how we expand the market, get incremental business, both for the Bank and for us. We have seen improvement in our market share, and we hope we will be able to sustain this. A lot of this is based on certain new products that we had launched. There was a certain amount of synergy that came in this particular quarter. Given the open architecture, our ability to invest in people, look at new innovative products, look at more support, we will see a lot more.

Abhishek Agarwal: Can you give a ballpark number, how much improvement in the overall relation with HDFC Bank after becoming subsidiary?

Suresh Badami: We have grown to 62%, as our market share, is what we have declared. We have to look at it on a long term basis because from quarter-to-quarter, depending on either a contest launch or depending on new product launch or depending on something that we are doing differently on the ground, these things can keep going up and down. But yes, we have started seeing this going up at 62%. We have seen almost a 4-5% increase in our market share than prior to merger.

Moderator: The next question is from the line of Bhuvnesh Garg from Investec Capital.

Bhuvnesh Garg: Just on the APE growth. So if I understand the APE growth by ticket size, so you said that 18% growth in lower ticket size Y-o-Y and 20% decline in high ticket size. Is that correct, sir?

Vibha Padalkar: Less than INR 5 lakhs was about 18% to 20% growth and more than INR 5 lakhs, we had a de-growth.

Bhuvnesh Garg: Considering 12% of your APE comes from high ticket size and if you had 18% growth in low ticket size and 20% decline in high ticket size, basically blended growth should have been 13%, 14% Y-o-Y in H1, but we had 9% growth in H1. So, I just want to understand what's the disconnect here.

Suresh Badami: I think 18% growth was on NOP. Sorry, it was value wise.

Niraj Shah: So the 12% number that we had spoken about was last year. That was our total APE percentage over INR5 lakh in that period. Right now, like I mentioned, that contributes to about 6% of our business. And that's where on a lower base, degrowth is what we're seeing at greater than INR5 lakh. On more than 90% plus of our business, which is less than up to INR5 lakh, has seen an 18% growth. And the ticket size on that is something which has expanded, which has neutralized the overall impact on ticket size. We are flat on ticket size and basically the APE growth is similar to volume or NOP growth.

Vibha Padalkar: And also, the 12% was average over the year. So, one quarter if you look at or a certain part, it will vary by 200 basis points here and there, but it is more in terms of average over the year.

Moderator: The next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: My question was more on your direct channel, where you have been pretty strong. And these channels would not have much of above INR 5 lakh contribution, but that channel has slowed down in the first half. Is there some change of strategy in your direct channel? Are you focusing more on HDFC Bank? What has happened to the direct channel? Because your online, offline both have been very strong in the past.

Suresh Badami: It has been. One is that given technology and a lot of it, there are lower branch walk-ins. A lot of our business used to come in from the direct business. And online business also is picking up.

The other piece is, some of our larger partners like Policybazaar, which were quoted under direct, are now reflects under the broking channel. That's the way we have kind of classified it. And one thing we need to realize is that in a lot of our partners and channels, online is actually becoming more horizontal because more and more people are adapting to tech, websites and online.

Direct-to-customer is there but the interface to the customer is moving more directly. It's mapping change in Policybazaar and there has been a little bit of a slowdown in direct. But going forward, we do expect both the online business as well as the branch business to expand. We are expanding a certain set of branches. We are probably going to add another 75 branches. We will see expansion even in the direct channel as we go forward.

Avinash Singh: But Policybazaar technically turned into broker much before, it was already a broker last year. And if you have chosen to change Policybazaar from direct to broker this year, then the broking channel adjusted for this has even declined much sharply. Is my understanding correct?

Suresh Badami: No, I think the channel got remapped in Q3. So over a period of time, it has shifted into the broker channel.

Avinash Singh: So you are saying that in H1 last year, Policybazaar was not part of broker. This year, it's part of broker and yet broker channel has declined?

Suresh Badami: Yes. Because we had significant partner presence in broking channel. Over last few years, we have built significant presence in the wealth channel. All the large partners like IIFL, ASK, there are many such wealth partners with us who had done significant business on the greater than INR 5 lakh. There has been a fair amount of degrowth, which has happened there. So that is something that we will counter in terms of retail NOP growth even through broking channels, and that should come back. But yes, it's had an impact for us on the broking channel.

Avinash Singh: Okay, clear. Thank you.

Moderator: We will take that as a last question. I would now like to hand the conference over to Ms. Vibha Padalkar for closing comments. Over to you, ma'am.

Vibha Padalkar: Thank you, everyone, for participating in today's call. On behalf of HDFC Life, I wish you all happy festivities. Please feel free to reach out to our IR team in case of any further queries. We look forward to connecting with you again. Good evening.