HDFC Life Insurance Company Limited

Q1 FY24 Earnings Conference Call

July 21, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY24 Earnings Conference Call of HDFC Life Insurance Company Limited.

I now hand the conference over to Ms. Vibha Padalkar, MD and CEO of HDFC Life. Thank you, and over to you, ma'am.

Vibha Padalkar: Thank you, Michelle. Good evening, everyone. Thank you for participating in this conference call to discuss the financial highlights of the quarter ended June 30, 2023. Our results, which include the investor presentation, press release and regulatory disclosures, have already been made available on both our website and the stock exchanges. Accompanying me are Suresh Badami, Deputy Managing Director; Niraj Shah, ED and CFO; Eshwari Murugan, our appointed Actuary; and Kunal Jain representing Investor Relations.

I will provide an overview of our Q1 FY24 results, and we will be happy to respond to any queries thereafter. We are happy to report that the merger of HDFC Limited with HDFC Bank has been successfully completed and that we are now a subsidiary of HDFC Bank. As you may know, HDFC Limited recently has increased its stake in HDFC Life to more than 50% and as a result, HDFC Bank now holds 50.4% in HDFC Life. Our focus is on strengthening our partnership with HDFC Bank, enhancing collaboration, and maximizing customer engagement within our group.

Moving onto our operating performance for the quarter:

For ease of comparison, all previous year numbers in our disclosures are on a merged basis i.e. after including the performance of our then subsidiary, Exide Life Insurance.

We closed the quarter with a robust growth of 12% in individual WRP, which was 1.5x of private industry, despite coming off a strong March. Our Q1 FY24 market share was 16.4% and 10.6% in the private and overall sector, clocking an expansion of 60 and 90 basis points respectively.

Over the last 4 years, despite facing open architecture and intense competition from unlisted insurers, our market share has steadily increased from 12.5% in FY19 to 16.5% in FY23 in the private sector and 7.2% to 10.8% at an overall industry level.

We anticipate that growth will progressively accelerate as the year progresses, with Q2 expected to outpace Q1, and H2 showing stronger growth compared to H1, after adjusting for the one-time excess demand in the month of March.

We have also been able to grow the number of individual policies sold by 9% in Q1 FY24, in line with our stated objective of broadening our customer base. We expect our efforts to enhance our distribution capability to reflect in the growth of policy count during the course of the year. We covered more than 2 lakh lives in retail policies and 1.6 crore lives overall in Q1 FY24, a growth of 8% and 34% respectively, over Q1 FY23. Retail sum assured recorded an increase of 55% and overall sum assured 73%, and our overall market share in Q1 FY24 was 16.9%. We feel privileged to have led the way in helping bridge the protection gap in the country by being the market leader in terms of total sum assured.

Our overall product mix remains balanced. Amongst the savings products, non-par savings stood at 33%, participating products at 26%, ULIP at 25% of individual APE. Other categories which include annuity and protection were 9% and 6% respectively. This quarter witnessed product launches in the pension and ULIP categories, which have been specifically tailored to meet previously unaddressed customer requirements and paving the way for new product sub-categories.

Overall protection has grown by 35% in Q1 FY24 on a new business premium basis. Retail protection trends remain encouraging with YoY growth of 45% in Q1 FY24. While the growth is accentuated by a favourable base, we do believe that the pickup in protection is sustainable and growth is likely to be healthy for the year.

In Q1 FY24, our annuity business contributed to 19% of the new business premium with APE growth of 51%, mainly driven by increased demand for our limited pay annuity product - Systematic Retirement Plan.

Moving onto key financial and operating metrics:

On a like for like consolidated basis i.e. including our erstwhile subsidiary, Exide Life, our new business margin for the quarter was 26.2% as against 25.1% in Q1 FY23. This has enabled us to deliver value of new business of Rs. 610 crore, which is a growth of 18%. We had achieved margin neutrality in FY23 and would have continued to do so in Q1 FY24, had the demand up-fronting in March due to the sun-setting of tax benefits not happened. We are ‘capacitized’ for higher growth, with upfront investments in manpower, distribution infrastructure and technology. Having said that, with new business APE growth expected to be better in H2, we expect our full year FY24 margins to be similar to FY23 NBM by the end of the year. As indicated by us earlier, we expect VNB expansion in FY24 to be led by APE growth rather than any significant margin expansion.

Our embedded value stood at Rs. 41,843 crore as on June 30, 2023, with an operating return on embedded value of 16% for the quarter. Profit after tax for Q1 FY24 was Rs. 415 crore, representing a YoY increase of 15%. The profit emergence from our back book continues to show strong growth of 19%. We have included an additional slide in the presentation to provide some perspective on the timing of profit emergence across product categories and correlation to VIF or value of in-force at an overall company level. The board recommended a dividend of Rs 1.90 per share aggregating to a pay-out of Rs. 408 crores, subject to approval by our shareholders.

Our solvency ratio was 200% as on June 30, 2023. Renewal collection trends continue to be healthy on the back of steady persistency. Our 13th and 61st month persistency was 87% and

53% respectively versus 87% and 52% last year, despite making inroads into tier 2 and 3 towns.

Persistency has seen an improvement across product categories, cohorts and geographies over the last few years. Over the last 3 years, our persistency has improved from 89% to 92% in Tier 1 markets, from 84% to 87% in tier 2 markets and from 80% to 84% in tier 3 markets. This performance gives us the confidence to continue our journey of deepening our customer engagement beyond metro cities.

Next on channel performance:

Our bancassurance channel has grown by over 25% in Q1 FY24 based on individual APE. We are witnessing robust growth across all our large partnerships. With HDFC Bank as our promoter, we will work towards enhancing the availability and accessibility of insurance across the bank's customer base and increasing our market presence within the Bank's operations.

Our Agency channel grew by more than 1.5x company growth in terms of individual APE. We continue to increase our agent network by adding over 15,000 agents in Q1 FY24.

With respect to our acquisition, we are effectively realizing synergies both in terms of revenue generation and expense management and our efforts are on track.

We are proud to be recognized as one of India's top 10 best companies to work for by ‘Great Place to Work’. We are the only insurance company to receive this recognition, which is a testament to our unwavering commitment to creating a people-centric workplace.

While we remain optimistic about growth opportunities in the life insurance sector, our vision extends beyond just business growth. Following a customer centric approach, we remain steadfast in our mission to insure India and ensure financial security for families and individuals across the nation. We believe that widespread financial protection is a crucial aspect of economic growth, and we are enthusiastic about collaborating with our regulator to contribute meaningfully to this collective effort.

The detailed disclosure on our results is available in our investor presentation. We are happy to take questions now.

Moderator: The first question is from the line of Suresh Ganapathy from Macquarie Capital.

Suresh Ganapathy: Yes, Vibha 2 questions. One is on the HDFC Bank channel. The counter share was 55% in FY23. Has it changed this quarter? Have you seen better traction and any color on that?

Vibha Padalkar: Yes, Suresh. This has been targeted in the sense that some of the branches that have been somewhat of laggards, there has been a fairly deep and joint focus on those, and that has seen traction. And hence, overall, close to about, just shy of 100 basis points has been the traction that we have seen. Between 50 to 100 basis points, depending on which zone you see, in terms of overall market share. So early days, but in the positive direction.

Another interesting point, while that was not your question is our uptick in protection at HDFC Bank. And hence, we are also collaborating in terms of what are the right products to sell. So there, we have managed to make a fair bit of in-road. This is something we have always been mentioning that protection levels at HDFC Bank can be higher, and that is something that we have managed to do and will continue to do.

Suresh Ganapathy: Yes, I had one more question on VNB margins and growth. Your original guidance was 15% APE growth, excluding the INR1,000 crores one-off of last year, right? That translates into a 7% reported APE growth. Now if I were to extrapolate saying that the margins are flat, you are looking at, say, 7% VNB growth.

My point here is your margins are lower than your competitors, which is closer to 30%. What explains this and the fact that you would expect better synergies coming from Exide Life, then why is the margin projection a bit more conservative despite protection actually growing pretty fast?

Vibha Padalkar: Yes. A few points here. I'll come to the peer comparison later. First is that in the first quarter of last year, we did not have Exide Life, and we did mention at that point in time that Exide Life had low single-digit margins. From H1 onwards, we started showing consolidated margin. If you were to look at Slide 24 of our investor presentation, we have given the walk for both, with Exide Life and without Exide Life.

Second point is margin neutrality. So we feel reasonably confident that by the end of the year, there will be margin neutrality. One of the reasons or perhaps the only reason of falling slightly short of margin neutrality against stand-alone HDFC Life margins in Q1 is purely because of the tax reason.

Typically, our growth rate has been in the range of 17-18% versus current APE growth of 13%. So there is that shortfall given we are capacitized for 17-18% growth. Once we start making up for that shortfall, margins will rise; and month-on-month, we have continued to trend upwards. It's more in terms of fixed cost leverage because of the capacitization.

Suresh Ganapathy: But won't protection help you? The fact that it's growing faster?

Vibha Padalkar: It will in terms of volume, I have to sell 3 protection policies for 1 saving policy. In terms of VNB, while protection has gone up, non-par savings has gone down. So to some extent, there has been a trade-off. In terms of product mix, Unit-Linked has gone up slightly this quarter because of strong markets. Q1 FY23 Unit-Linked was 23% versus 25% this quarter, a 200 basis points increase, which will correct over a period of time. But in customer's interest, typically, when markets do well, there is a bit of uptick in Unit-Linked and Par has gone down a little bit. So there have been trade-offs between protection versus others.

If this scenario had panned out, wherein protection uptick had happened and tax changes had not happened, margin uplift would have happened very significantly. If you recall, just 2 or 3 months ago, post-tax changes, the industry expected a best-case scenario of flat growth. Against that, a 13% growth goes to show that tax being the only play has been clearly refuted. Every month, we have grown very well and each month has successively been better than the earlier months. This gives us the confidence about Quarter 2 being better than Quarter 1. And overall, H2 being better than H1. Overall, we have grown 1.5x the industry. Now coming to your question on industry. Suresh, we can get to 30% if we were to lose market share. But our market share, as you see, has actually expanded by 90 bps. There will always be a trade-off, if we want to stay relevant. We don't want to lose our ranking amongst the top 3, including LIC in the life insurance space.

If you look at Slide 6, you'll see that every year from FY19 to FY23, we have grown faster than the private and overall sector and our market share has expanded. We were 12.5% in FY19, and we've reached 16.5% in FY23. That is the philosophy of triangulating and not wanting to lose our position in terms of ranking.

That hopefully answers your question as to why can't it be 30%. I can easily be at 30%. It is this triangulation wherein we will grow brick by brick. The pause was only because of tax. This year, we will come out with similar margins to last year, and next year, we will continue to move upwards.

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

Adarsh: Vibha, Congrats. You and I-Pru have seen a good pickup in protection, so just wanted to ask how sustainable this pickup looks? What are the factors driving this now?

Vibha Padalkar: Yes. I'll hand this over to Suresh.

Suresh Badami: There are multiple elements because of which we are seeing an uptick in protection. First, we see customer demand, which we believe will be sustainable. We see this demand in HDFC Life web search, which is happening in terms of protection.

Clearly, we are seeing a customer led demand. The second piece is that we are now looking at higher activation of our frontline sales across all geographies in a very calibrated and product-centric approach. What we are trying to do is trying to see whether we can have return of premium products in the Tier 2/3 markets and whether we can have a better mix of term products in larger markets. Based on this, we have been trying to grow the overall retail protection.

On credit life, given that we are a little agnostic in terms of how our protection is growing between retail and credit life, we have managed to maintain our market share across most of our credit life partners and their disbursements have grown.

Our penetration, in terms of volume and value has grown across verticals. We are also using brand awareness in terms of protection. You must have recently seen the Rishabh Pant campaign that we have done. We do believe that with the combination of visibility, data analytics and specific customer level efforts, we will be able to push protection. This focused effort will probably remain right through the year.

Vibha Padalkar: And last point I want to mention here, Adarsh, is that if you just look at Slide 16 in our product mix, if you look at the bancassurance you will see that term has gone up from 4% to 5%. On 50% of our business, you're looking at an uptick. It was 3% and then it was 4% in Quarter 1 of last year and then 5%. That kind of meaningful growth that you're beginning to see is what I had alluded to in an earlier question.

I want to stress that this is without doing anything adventurous on the underwriting guidelines or even on pricing. This is on a calibrated but focused basis. Of course, some of this is also, whatever we went through during COVID and then repricing in terms of price increases. One has to socialize that all of these changes had happened and people had deferred decisions to buy protection.

This is a combination of all of that coming through. On savings, what we did as a sector forced us to also focus on protection, which we alluded to in April earnings call.

Suresh Badami: I think it's not just the product features but also activation. There's a lot of effort spent on our efficiencies, how do we look at the overall end-to-end throughput, the speed of being able to convert the policies which logged-in, and we are seeing significant upward movement on that front also.

Adarsh: Got it. The broker channel has seen a doubling of the share of term. Does that include online players?

Suresh Badami: That is right. Some of the players like PolicyBazaar are now moved from a web aggregator to a broking code. So they are reflected under the Broker channel.

Adarsh: Got it. And my second question is, if you go back to the last call, what you have been saying is that because of the merger of the parent, the share you will end the year or you aspire to end the year at is 70% wallet share. This is a very big move from where we were last year. So obviously, you started moving in that direction this quarter, small changes in Q1, as you mentioned. What's the big change that will happen on ground for you? And do you see that playing out to up to 70%? Or it will be a little more gradual?

Suresh Badami: I'll add on to what Vibha mentioned in the first answer to Suresh. We have seen a slight increase of 0.5% to 1% in terms of our market share increase at HDFC Bank. But to your point, I think it will be gradual because it is going to be calibrated both at the Bank level as well as at our level.

We have identified multiple levers on how do we increase our market share. Whether it is at certain branches or in certain geographies where we believe we need to put in more effort. Whether it is for certain products that we need to focus on jointly or whether it is in terms of manpower that we need to deploy at a certain number of branches.

And there are these 6-7 levers where there is a high level engagement between the bank, third-party team and our team on what is it that we want to do. Clearly, we don't want to dilute any underwriting standards or change too much in terms of pricing.

It will be moving up in a calibrated manner. But given the messaging, which has come from the senior management of the Bank coupled with the ground level effort that our team has been putting in, we can see the traction has started to show across multiple geographies.

Adarsh: Got it. Thanks for the clarification. Just wanted to check, Vibha that 70% still remains an aspiration by the year-end or on-ground implementation can be a little more spaced out?

Vibha Padalkar: Yes. The 70% is not a number that we are articulating. It's up to the Bank and how they see it. It's not even been a month since the final consummation of the merger. The Bank will be in a new avatar of a conglomerate as against just the Bank. As that organically starts seeping in, the leadership at the Bank have said how we can upsell many things to the customer.

It is a strategy that will be led by the Bank as the parent. What Suresh alluded to are all the things that we are doing so that no stone is left unturned to meet them halfway and say that, we've earned our spur. We have done xyz things, and we have been efficient on conversion, on how we're handling complaints and so on.

And then it's up to the Bank to see how they execute what they have already started articulating, in terms of various bouquet of products that they can upsell to the customer. But yes, it will be brick by brick, Adarsh, in terms of how we collaborate. But it is being done every day. On a daily basis, these conversations are happening at various levels.

Moderator: The next question is from the line of Anuj Singla from Bank of America.

Anuj Singla: So Vibha, following up on protection only. Can you give some color on how the strategy of growth in Tier 2/3 cities have progressed on the policy split side, if you can give some color how the policy split that has been shaping up since we started this focus?

And secondly, can you also talk about how the mix of protection is changing in Tier 2/3. Like you mentioned in your remarks, more ROP probably and maybe lower ticket size. So, should we expect the VNB margins of protection growth in these cities being lower versus the back-book?

Vibha Padalkar: Yes, sure. I will just step back and explain why we were hesitant. Earlier, we were a little hesitant because of a couple of things, lesser of salaried individuals, non-standard income proofs and how we process that from an underwriting perspective. Also, reinsurers were hesitant against the COVID backdrop. Now some of those things we have managed to iron out with reinsurers wherein we've gone in a detailed manner to say from a strategy perspective, we want to get into Tier 2 and 3.

Now how do we make ourselves comfortable with non-standard income proof. We started off by piggybacking and learning from a lot of NBFCs that do this. Yes, they don't know medical underwriting, but at least do financial underwriting. While doing that, we started to take less than INR 50 lakh cover on our books.

And then having conversations with reinsurers to say this book is something that they can look at and whether they want to do a quota share on that book because we had already started writing that business and showing skin in the game rather than just being a pass-through.

Then we look at the return of premium because just in terms of pitch for that segment, we realized that it's probably being seen even more so as an expense and okay, I get protection, but I'll get my money back. And like we've always said, we don't want to sit in judgment in terms of what should the customer be doing and thinking; just the way all of us on this call are able to think how our priorities are different.

So we said fine, we'll do that as long as we are able to explain that these are all the different protection products that they have as a choice as against only return of premium.

We had some preconceptions that the ticket sizes will be quite small. And we were actually surprised at the ticket sizes of Tier 1 versus Tier 2. If Tier 1 is a little bit over INR 1 lakh, say, about Rs. 1.3 lakh then Tier 2 was about Rs. 85,000 and not Rs. 50,000 or Rs. 40,000. We were also surprised that when we started going deeper, the Tier 3 ticket sizes were in the range of Rs. 70,000 to Rs. 75,000. So, we were able to get more and more comfortable with that. Now the only thing left is persistency.

In different cohorts, whether it is protection or whether it is in savings, persistency is going to be different. And we are no longer afraid of it because demand is away from the top 10 cities. Over a period of time, we will disclose persistency in these cohorts and we certainly track it internally. What is the persistency in Tier I, like I shared just now. As long as within that cohort, the persistency is the same or slightly better, then the mix impact is something we should not be afraid of. And it was a bit of a revelation moment for us after Exide Life.

Because what happened with Exide Life, and we told you this, that the persistency of Exide Life business was inferior to HDFC Life business. However, the persistency of Exide Life business stand-alone has started improving by about 400 basis points on almost every cohort just because of some simple things like getting standing instructions, making callings and calling well in advance.

We realized that we are okay with that as long as in those cohorts, the persistency is what it is. And this improvement is something that we will continue to see. And over the last 3 years, like

I've mentioned in my opening remarks also, that the improvement is something we have seen across these cohorts.

It's a combination of underwriting risk that we see as well as the product pitch to the customer. Thanks to EoM guidelines and many other things, the distributors are also aligned to it. We are getting over what will persistency be, what will mortality experience be and so on.

As long as we're pricing it right, even the mortality experience, while it is likely to be inferior to perhaps the salaried metro kind of a profile, is an opportunity that can be mined in a sensible manner.

Anuj Singla: Got it, Vibha. And the second question is on EoM regulations. How do you see the commission levels? Is there some commission pressure? And how is the competitive landscape on the distribution side changing because of this?

Vibha Padalkar: The reason the regulator has given us this flexibility is to say that you guys have been around for a while, please behave responsibly. And we would want to respect that ethos and not say that just because you can do much higher levels, it will be done irresponsibly.

What we might do is that some activities, which were paid for separately to the distributor, now we pay it as a fully loaded commission and tell the distributor or the partner that you guys can run those activities for us as customer outreach. Hence, I don't see any impact on the customer or the organization.

Moderator: The next question is from the line of Mr. Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: Two questions from my side. We can see that in individual APE, the share of bancassurance has gone up significantly, in fact, the overall growth in bancassurance is pretty high. So how should we read this? You mentioned that your counter share in HDFC Bank has just about inched up. Is it the case that HDFC Bank has kind of grown at a very strong rate this quarter? Or is it the contribution of other banks?

Suresh Badami: Nischint, Suresh, here. 3-4 points on this. One, of course, HDFC Bank has seen a fairly good growth this quarter as compared to last year. At an overall level, while our market share has inched up, they have shown fairly good growth. Second, we have obviously been supported by a lot of other large partners, whether it's YES Bank, IDFC Bank or Bandhan bank. Multiple such large partners, including many of the SFBs where we have a very strong presence, who have also helped us grow. It's not that our proprietary has not grown. Our agency business continues to do well and has also grown fairly well.

There has been a dip in the Broker segment, which has led to an increased contribution because Broker has had a little bit higher share of the high ticket size par and non-par business, which has slowed down. Both our agency as well as our overall Banca has shown significant growth. And once Broker channel comes back over this year, we will find all channels firing again.

Nischint Chawathe: The second question is really on group savings and annuity and that proportion increased significantly this quarter. What kind of an impact it could probably have on the margins for you? Similarly, if you could comment on the segmental margins in the non-par business, given the fact that some of these products have to be repriced?

Vibha Padalkar: On group savings, it is not hugely margin accretive. The reason we are in this business is more in terms of relationships and being in the market. By group savings, presumably you mean all the funds that we manage, group funds.

Nischint Chawathe: That is right.

Vibha Padalkar: It is accretive but not hugely accretive. I would say that it gives more as a bulk than anything else. And it tends to be lumpy. You are in discussions for a long time with a particular corporate or PSU and then it comes through or they have shifted from one insurer to the other. So, it tends to be seasonal. It is good, but I would not read too much into it from a margin perspective.

Suresh Badami: And if I can add, similar to the way we have been managing a balanced product mix on the retail side, I think even last year, if you had seen, we had calibrated our approach on the group savings. And group credit life has grown significantly for us, which continues to grow. We have been shifting within group savings to the Unit Linked kind of products, which are better in terms of profitability. You may find that a little moderated, but it will be much more profitable than the regular traditional group savings products that we have.

Nischint Chawathe: Got it. And on the segmental margins in the non-par?

Niraj Shah: Margins are fairly similar compared to what we've had in the past, adjusting for this gap in the growth that we spoke about earlier on the call. Our full year aspiration is to grow higher than what we have in Quarter 1. So adjusted for that, margins have been fairly similar given that nothing much has changed in terms of average ticket price.

At very high-ticket sizes, of course, volume has been impacted to some extent as expected, but it's been more than made up by the growth in the other ticket sizes where at an overall level, the average ticket size has been maintained for the segment. As a consequence of that, margins are more or less where they were earlier. There are competitive pressures as you can expect in all categories, including this one.

But, we've been maintaining our pricing discipline by and large, over the period since we launched this product category, and there could be maybe a lag of a month in terms of getting back to the pricing levels that you would like, but we've been fairly disciplined about that to be able to achieve this.

Moderator: The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities.

Rishi Jhunjhunwala: So just wanted to understand, you've put in a slide this time, slide 12, which talks about emergence of existing business surplus. How do we read that? And on that, you're talking about shift in product profile to longer-term savings. But if we look at EB surplus as a percentage of VIF that is inching down, what would be the reason for that?

Niraj Shah: The reason is that longer-term products release Indian GAAP profits over a longer period of time. That's all there is to it. If you see that slide that you're referring to on the left-hand side, by category of products, you will see the emergence is happening over a different period. If you take Unit Linked, for example, a large part of the surplus is getting generated in the first 5 years of the product being sold.

And if you look at traditional products, you'll find that just about 20% to 25% is happening in the first 5 years, and a lot of it is back ended. That's just the nature of the product and the situation that arises because of the accounting treatment that we have at this point in time.

From an economic perspective, it's clearly more value accretive. It's just that the cash generation or release to the Indian GAAP profits happens over different points in time. That's the reason why we've highlighted this across the 3 main product categories: traditional savings, protection, which includes both individual and group, which lies somewhere in the middle, and then you have Unit Linked products. And on the right-hand side, what you have is at what percentage of the VIF, the business surplus can emerge over a period of time.

That is in the 19-20% zone as the product profile has been changing over the last 3 to 4 years. What used to emerge earlier in FY18 and prior to that, Unit Linked used to be about 45-50% of the mix that has now become 25% of the mix. While the margin expansion has happened over the same period, the generation of surplus is happening over a longer period of time.

To give comfort of delivery of this is operating variances, which have been positive right through this period. That does give us that comfort that while the surplus is emerging over a longer period of time, it is more value-adding in economic terms and operating variances being positive tells us that this is definitely coming.

Rishi Jhunjhunwala: Understood. And secondly, last time, you had called out spends that you're doing on your new technology initiatives. So just wanted to understand where are we on that for this year and how much it could be next year? And what is the impact of that on margins, if at all material?

Vibha Padalkar: Yes. So, we are continuing on track with our tech transformation, which is Project Inspire. We have completed our diagnostics in terms of where we are as well as where do we want to be. Which are the projects that we want to focus on and change immediately. Now we are in the process of identifying some of the specialist partners who can start work on changing some of those. It could be without giving away too much in terms of CRM or it could be in terms of how we integrate, how we have seamless onboarding and so on.

We are in that phase right now. We did say that it is a INR 250 crores outlay in total, of which INR 50 crores was spent last year. This year, we are on track to spend INR 100 crores and next year INR 100 crores. Now this could be a little bit of here or there depending on whether we include more upfront or do we phase it out a little bit more to next year. But largely, it's on track.

Rishi Jhunjhunwala: Got it. All the best.

Vibha Padalkar: Yes, I'm not sure whether you want to me to repeat in terms of what are the benefits or that is reasonably clear?

Rishi Jhunjhunwala: No, that's clear.

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

Sanketh Godha: The first question is on data keeping. The unwind rate seems to be at 8 percentage, which is very similar to last year. Just wanted to understand, it seems to be conservative, you want to maintain that level? Or how should we read this number given the equity markets are doing well? And second INR 810 crores, can you split the number into equity and debt as to where did that come from? That's my first question. And second question I have is on the Bank but I will ask that after you answer this.

Eshwari Murugan: On the unwind rate, we look at the assets that we are holding. And based on the expected return, the unwind rate is computed. If you look at the unwind rate of last year, it was based on the expected yield on the debt assets, which were again split into short term and longer term, and the short-term yields are lower, whereas the long-term returns were very high.

As against that this year, the yield curve has flattened. The yield has changed across the tenures. But, the increase is not similar across different tenures. The weighted average increase is quite small. If you look at all the tenures of the bond that we were holding, we hold a lot of bonds in the longer end. While the shorter end has increased, on a weighted average basis, it's a very small number.

That's why you see that there's a small increase and maybe the perception is that it is conservative, it is not, it’s a very mathematical calculation based on the assets and the expected returns. And on equity, yes, last year, we were expecting a flattish investment return and the upside we expect this year has been incorporated but that's getting offset to some extent from the Exide back book.

The Exide back book does not have a lot of equity given that they have mostly Par business with low equity exposure. That's why that offsetting impact is reflected in the unwind rate of 8.2%.

On the investment variance of INR 810 crores, that is broadly split between the impact of equity and debt. In both, we have witnessed a positive impact. In equity, markets have rallied and given around 10% return in this quarter compared to an expectation of 2-2.5%. That's where positive upside of around Rs. 500 crores comes from.

On debt, the short end has steepened a little compared to March'23, and that has resulted in increase in the value of debt for the shareholder funds and VIF assets. That impact is around Rs. 250 crores to Rs. 270 crores, and the balance is some impact on the steady spreads narrowing.

Sanketh Godha: Perfect. Second question Vibha is for you. We understand that HDFC Bank will increase market share of HDFC Life as time progresses, but if you can give a little clear thought process as to how it will happen? Whether you will penetrate more into customers, what is our current penetration, whether it is an NOP strategy or a ticket-size strategy, whether you will add more people, which products you are targeting?

You have touched up on some points, but if you can explain in more clarity on how the 55% to 70% journey or closer to that number will evolve in say, next 2 to 3 years?

Vibha Padalkar: Even in other relationships, wherein there is no parent subsidiary relationship, there are counter shares that go up and down. And it's not just driven because of the customer, but it's often driven within the Bank. There isn't one way, there are many ways.

For example, they could rightfully maybe place lesser people at the branch because I am of the school of thought that, learning from some of the other geographies, perhaps at Bancassurance, unbridled number of insurance people being deployed at branches is not optimal from any Bank's point of view. One way is to curtail, if today it is not curtailed and it is for the Bank to curtail.

Then like in home loans, for example, and that's how HDFC has been doing that if there are leads, then you don't really need 3 people descending on a customer at a branch. It could be that the lead is passed on to the customer or there is a virtual fulfilment with the aid of the RM.

That is one way of doing things, which is against what it is today, say at HDFC Bank, wherein they aren't really focused on how many people do they want at each of the branches. Today my people market share or people share, at HDFC Bank is 40%. However, my APE market share is in the mid-50s. So that itself in terms of curtailment could give an uplift.

Another way to do this is, if you recall, at HDFC Bank, even before multi-tie, it was HDFC Life that had trained all of HDFC Bank people into becoming specified personnel. Then it was handed over under the construct of open architecture. Insurers that came in under open architecture benefited from the investment in terms of training and collaboration and getting them licensed and training on insurance that HDFC Life had done.

So, it could be that for some time, a new branch does not have all companies at that branch. There are various such ways, but obviously, these are inter se discussions between parent and subsidiaries and not really something that I want to go into for reasons I'm sure you'll understand. Suresh, you want to add anything to this?

Suresh Badami: I think fee revenue for the Bank is also important. And I think the branch team understands at fair depth in terms of the branch level penetration, the customer penetration. I think they are actively looking at how, like Vibha mentioned, how do they increase the number of branches, which are activated.

There is a huge amount of focus, which is coming in from the Bank who have specified persons, who are present at each of these branches. We can obviously support in terms of training, in terms of certification. We can look at how do we ensure that they are trained and then they are activated.

At a unit level, there is a fair amount of focus in terms of how do we get more and more participation. Clearly, the bank has a huge focus on deposits. It has a huge focus on many of the other bank products. But, the ability of our team as well as some of the other insurers to ensure that insurance as a product penetrates deeper, is fairly certain and HDFC Bank has been delivering year-on-year. There has been no doubt if you look at the kind of growth that the Bank has been able to perform.

At our end, we focus on what can we do to improve our product proposition, how do we improve our operational efficiencies, how we can come out with products which are better than competition, how do we get people to get better lead conversion ratios on the leads that are passed on to us. I think there is a fair amount of focus there, and that will automatically come in.

Sanketh Godha: Got it. And last one from my side. It's a known fact that our cost associated with HDFC Bank is relatively on the higher side. Now given the relationship changes between parent and child, then do we expect that the cost what we pay to HDFC Bank will still remain at those levels? Or it will broadly grow in line with the APE growth, that the channel will give us?

Vibha Padalkar: We look at this as fully loaded cost. What the Bank has been able to give us is a very different category of customer. I think it is not quite right to say one particular distributor's costs are more. It is what margin does one make out of it. What is the persistency. Expense is one aspect, but mortality experience at the same expense is different. So, all of those assumptions will impact what the margin is.

If I understand your question correctly, whether the Bank will take into consideration that we are now a subsidiary and leave something on the table? I think these kinds of conversations are more for the Bank. But when the Bank says parent and child, I think it subsumes many such big and small things, which will come out of these discussions, which are happening at a very regular basis. But I think it will happen because for them also to switch hats from being a Bank to a conglomerate is not even a month old.

Sanketh Godha: Got it. Okay. A final one, have the Bank people have started sitting on the board? I just wanted to understand when the board constitution will change so that we have people from bank sitting in the Board.

Vibha Padalkar: Renu Karnad, who has been the HDFC Limited nominee, today was her last day at this AGM. Her tenure is not getting renewed for now. Some of these changes are not very far off in terms of somebody from the Bank's end coming on to our Board.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital.

Supratim Datta: Starting off with the first question, could you give me the proportion of policies in quarter 1 that was above 5 lakhs? And how has that changed compared to last year? The second question that I had was that it seems like you're able to get about 100 million in synergies from the Exide acquisition.

Could you talk about what more synergies could you extract from that business? How much more synergies are left to be coming from that business? And lastly, the third question that I had was, could you talk about the strategy of separating the growth in the focused markets in the agency channel? And what kind of productivity improvement and growth.

Vibha Padalkar: I'll start off with the first one. Above 5 lakhs is about high single digits. I'll pass on to Niraj for the Exide Life and then maybe Suresh can take the growth and the agency split.

Niraj Shah: On the Exide Life synergies, we started off very simply in terms of what is it that we can do to protect the revenues and what is it that we can do in terms of rationalizing costs. From a cost perspective, any infrastructure, which was a duplication, was addressed first up in terms of branch infrastructure. In terms of all corporate expenses, all of them are something which gets done as one unit now.

These are some of the things that came in, which helped us get to margin neutrality ahead of plan. When we were talking about the transaction in the early days, we had said that we want to get to margin neutrality on a pre-merger basis, which we did.

And since then, as the integration completely has got done now, the focus has been on using technology to get the Exide Life distribution to be able to use HDFC Life digital assets as well as in terms of access to products, which is something that has already started showing up in terms of the channel growth as well as in terms of the changing ticket sizes.

A lot of these things have started to happen. And now, the entire business is completely aligned into our overall agency business. And the Tier 2, Tier 3 story that we're talking about is something that is only getting enhanced by this entire combination. We did speak about the Tier 1, Tier 2, Tier 3 distribution and how things have progressed in the past few months.

This is something that is definitely adding to that. Persistency is improving. Ticket sizes are getting bigger. The quality of business that is coming through from these markets is definitely better than what it used to be 3 to 5 years back. That gives us more confidence to actually get this model into other geographies compared to where it was when it started off. That's how things are progressing on the merger front.

Suresh Badami: I'll start off where Niraj left on the agency business partner and the Exide integration. The good thing is that not only is the technology integrated, but also the entire business model has integrated with our agency business partner model. We have unified both the teams in the sense that we are completely on course in terms of how do we now build that business.

Exide had a very large presence in South India in the Tier 2 and 3 markets. They had a well-set model. We have learned, we have expanded and now we probably want to be able to take that model to many of the other geographies.

That will clearly help us grow along with the tied agency business that we have been doing right across. Even on our agency model, you may have to step back a few years. I think we were number 8 on the agency model. And over the years, you have seen the steady growth in our agency model from a number 8 position to number 2/3 on an annualized basis. A lot of that has come in terms of the focus that we have brought on the quality of business, the quality of new FC addition that we have got, the activation of our financial consultants as well as reaching out into different markets.

Two/three new initiatives that we have taken, which would be beyond what we have done on agency in the past - one is clearly that we have now relooked at our entire agency business on the tied side on a focus and growth market. The growth market clearly focusing on Tier 2/Tier 3 cities. We will be adding around 75 new branches, plus we will be looking at a hub and spoke in terms of how do we go into further geographies, which can help us expand into these markets.

Second, there has been a significant transition on agency model from a frontline productivity-linked model to agency activation and digitization model. There are huge amounts of data analytics and other initiatives that we have taken. There are hyper personalization projects running. There are micro market segments running. A fair amount of effort has been put in to identify which cohort of agents in which markets will be successful and how do we enable them, which will help us grow.

We know at a pin code level, how many financial consultants are there, how many customers we are sourcing. What are the geographies where we are lower on insurance density and how do we grow that? How do we improve the quality of financial consultants who are getting on boarded with us?

What is the mix change between housewives, students as well as financial distributors? How do we reduce the death rate or what you call the attrition rate of new agents, how do we activate earlier agents? How do we increase the number of MDRT agents? There are multiple such things, which I think our team is working on, I don't want to expand. But clearly, we do believe that the proprietary engine is running well, and we should be able to show our growth as we have shown in the last 4-5 years.

Supratim Datta: Just on the first one, could you let me know what the percentage of high-ticket size policies was last year as well? This year it's high single digit.

Niraj Shah: That was indicated after the budget announcement. It was about 12% of the total APE, which has now come down in last 2 months.

Supratim Datta: Okay. I just thought that quarterly it would be different.

Niraj Shah: Not really. It's fairly similar. It's now a few percentage points lower, which was completely expected.

Vibha Padalkar: I mean, in fact, March would have been higher because of what happened. But otherwise, it was fairly similar across the years.

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

Avinash: Yes. Thanks a lot for adding slide 12 that helps in connecting your EB to IGAAP profitability. Going back to margins, particularly with the details given on Slide 24. If I see on year-on-year basis, the product profile has changed to be more profitable. If I look at annuity as well as protection, it has increased, yet margin gain from new business is very limited.

Has product profitability has changed over the years? And related to this, you are still hopeful of being flattish versus FY23 margin. Right now, the growth is 12% to 13% in APE. If I look over the year, are you expecting, even with that high base of March, that full year growth will be above this number? The product profile if at all will be a bit adverse on a full year basis because the non-par savings will go down and right now, of course, the protection Y-o-Y increase is much higher than it will be on a full year basis.

My question is that, has product margin profiles changed? And on a year-on-year basis, with that reported FY23 APE, you're expecting APE growth higher than the 12-13%?

Niraj Shah: Let us just go through the slide that you're talking about. The reason why we've given these 2 walks or waterfall is to explain what has happened on a pre and a post-merger basis. If you were to look at on a combined basis, 25.1% was the starting point and 26.2% is where we are now. And if you see the bars in terms of fixed cost absorption, that's largely indicating what is happening in terms of synergy realization that was to the earlier question.

And a large part of the expansion is in terms of the growth that has happened and also from a product mix perspective, things have been in some sense on a balance. Unit Linked has increased. Non-par has come down by maybe 1 percentage point. Term has increased. Annuity hasn't gone up. So, they have, in some sense, balanced out each other as far as the absolute VNB is concerned. But in terms of margin profile, that has added about half of this delta between 25.1% and 26.2%. The change in business profile has added to about 50 basis points, which is fairly significant to your point.

If you look at the starting point, on a stand-alone basis, 26.8% to 26.2%, that's largely on account of the gap in growth that we spoke about earlier on the call. Our aspiration is to be 15-16% on a normalized basis. To that, while we've grown faster than the sector, we're still at 12% this quarter. That's largely the gap, which you will see on the fixed cost absorption side in terms of VNB as well as in terms of new business margin.

To your second question. Yes, our aspiration is to grow faster than what we have in Q1. We do expect to be able to generate that kind of growth progressively as the quarters progress. And that's something that we had mentioned in April as well, and we hold on to that.

Of course, we continue to watch what's happening on the ground, but the signs are encouraging in terms of our ability to broad base the business in Tier 2/3 markets without any meaningful impact on average ticket size. The 12% APE growth has been delivered largely on account of volume expansion, 9% policy growth and 3% average ticket size expansion. That's how we are thinking about things as we go forward.

Avinash: Okay. With that reported base of March, are you still expecting the full year growth to cross this 12% number? In March, there was a bump-up of 5-7% on a full year basis. Are you expecting the cost absorption to be better? That means that on a reported basis for the full year, growth will cross the 12%?

Niraj Shah: No, I think that will be not be the right way to look at it because if you recollect on a 9M as well as 11M basis, we were growing at 15-16% last year. And because of March, our overall growth was significantly higher. So, once we back that out, we are talking about 15-16% growth. But adjusting for that, it will probably be single digits.

Vibha Padalkar: Yes, we articulated about Rs. 1,000 crores to Rs. 1,100 crores of incremental business is what we had explained on the April call. So, what Niraj is saying is that if you back that out, then it will be somewhat muted.

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

Prakash Kapadia: Thank you. My questions have been answered.

Vibha Padalkar: Thank you.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Firstly, on the non-par savings guaranteed return products. What has been the experience? While the share has definitely gone down, has the experience been better or worse than expected from what you would have thought when the tax changes were announced? And to extend that question, so when you say that the margins will improve in the second half, how much of the recovery in margins would you attribute to improvement in non-par business?

Vibha Padalkar: Even in April, I did allude that we believe that once the new tax regulations are socialized and digested, people will come around and see where else can they invest wherein they get long-term guaranteed returns. And there's really no other option that gives them a better deal than non-par products, and it's a one-stop shop of guaranteed income, which has caught the imagination of a lot of people and at the same time, also having a life cover. We have already seen the pickup.

I think what was expected as the best-case scenario was flattish growth. And against that, we have grown 13% on overall APE basis and 12% in terms of retail APE. That gives us the confidence that what we thought logically how things should pan out, is how it is panning out. Some of it was upfronting in March. And so if you were to discount the slightly slower start in Q1, I think the numbers are very much on track to getting back to normalized growth of 17-18%, which is doubling every 4 years. And that's what we have been demonstrating over the last 8 years.

That's what gives us the confidence that this conversations around above 5 lakh and below 5 lakh will start becoming less relevant. What we said earlier was 12% was the high ticket contribution before the tax changes, which has gone down to single digits. It hasn't gone down to 1-2%, and that gives us a lot of confidence. I think what a lot of people were expecting that nobody in their right mind will invest in a product like this and that just has not panned out.

We believe that this will pick up and will continue to be more relevant, like I mentioned. While that happens, we are seeing that in the 2 to 4 lakh category, growth has been between 30-40% in Q1 for us in the non-par segment. So, a lot of people are allocating their funds as we reach out to more customers. Focus on more customers rather than higher ticket sizes is again something we explained in April. And that is how it is panning out. Do you want to add anything, Niraj?

Niraj Shah: Yes. To your point on what gives us the confidence of margins expanding to last year levels by the end of the year. It's that the intrinsic product margins haven't really changed too much. The gap is in the growth that we aspire for, which is 15-17% number versus the 12% in Quarter 1. That is largely the differential in margin, which is something that we expect to even out as the year progresses.

Prayesh Jain: Great. And on protection profitability - when you are getting into the lower tier towns, Tier 2/3, would you say that it would be on a relatively lower side as compared to what you would be doing in the metros and Tier 1?

Vibha Padalkar: No. It is priced for all the risks that I mentioned to an earlier question, whether it is for slightly worse mortality or persistency levels. All of that has been priced.

Moderator: The next question is from the line of Prudvi Raj Saya, an Individual Investor.

Prudvi Raj Saya: I wanted to ask about the annuity new business. We know that NPS is a significant contributor for this business, at least going forward. Can you give some color and quantify in terms of what is the contribution of NPS? And how do you expect that to pan out in terms of long term or medium term?

Niraj Shah: It is a fairly meaningful portion now. It used to be in early single digits. Now more than 20% of our business comes from that source apart from what happens on the individual pension products that vest, people allocating their discretionary savings as well as people retiring from corporates. It has become a fairly meaningful segment.

Prudvi Raj Saya: Okay. And you expect that to grow aggressively going forward? Is that right to assume?

Vibha Padalkar: If you were to triangulate NPS, our subsidiary, the pension company is the largest in the private space and is growing very fast. It recently crossed Rs 50,000 crores in AUM. Now it's about Rs 52,000 to 53,000 crores of AUM. That traction will mean more people will come up to the stage wherein annuities have to be bought. It will be a natural culmination of our wholly owned subsidiary, being the feeder into annuities.

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

Madhukar Ladha: Most of my questions have been answered. Just one thing on the non-par savings bit. Obviously, the rate curve has flattened right now and other competing products also offer more attractive rates compared to the last few years. Are we seeing any constraints in availability of FRAs, demand for the product and the rates that we can offer? Obviously, these things have to be changed with respect to the environment in which we are operating in.

Niraj Shah: Thanks Madhukar. Demand, like we discussed, nothing much has really changed. It will get reoriented in terms of how it is positioned or propositioned to the customer. That is something that is ongoing.

As far as the underlying is concerned in terms of rates, we will keep ensuring that we can give the best based on what is available in the marketplace. While the yield curve is flat, our proposition is at the longer end. We do not compete with instruments which offer similar rates at the shorter end, as you know. So as such, nothing much really changes there, either on the demand side or the rates we are able to offer. As far as the ability to manage risk is concerned, again, on that front, no real issue in terms of FRAs being available as more banks are coming into the fold to be able to offer that instrument apart from our own internal hedging capacity, which we continue to have.

Spreads on that can keep changing from time to time depending on the shape of the curve, but that is just something that we would price in depending on the commercials that we get from the counterparties.

Madhukar Ladha: So, would you put a number, that you would be able to maintain x percentage of your sales mix in non-par savings irrespective of market conditions? Would you be comfortable in saying something like that?

Niraj Shah: If you track what happened since March'19, when we launched the product. In the first quarter, it was about 60% after which we said that we will try and get into the 30-35% zone, which we did as the rest of the year progressed. Since then, we've had multiple cycles, as you can appreciate in terms of credit growth, being a lot more than deposit growth. We've had situations where the yield curve shape has changed, the slope has changed.

But the product mix if you see over the last 3 years has been in the 30-35% range. Closer to the budget, it touched 40% for that period. But again, it's back to the 33-34% range. Across these 16-17 quarters through which we've had this product, we are reasonably comfortable to say that we don't see this dramatically changing.

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

Dipanjan Ghosh: Two questions from my side. First, if you can quantify your share of HDFC Bank in overall APE for the quarter? And second, if you can give some color on the annuity business, on the individual annuity business. Has there been any repricing of products in this particular category or the mix between products has changed? You mentioned limited pay has been witnessing traction, but if you can give broader color on that?

Niraj Shah: The share is in the 45-50% range, and it's broadly in that same zone given what Suresh mentioned earlier on the call. While the bank has grown well, our other banking partners have also grown well. Proprietary distribution has also grown quite well. The share is fairly similar to what it was last year in that band of 45-50%.

Dipanjan Ghosh: Sure. And on the annuities?

Niraj Shah: Sorry, what was the question on annuities?

Dipanjan Ghosh: The question is, has there been any repricing of any product within the annuity segment and the broad mix of the sub-product classes within that, which witnessed traction during the quarter.

Niraj Shah: Annuity repricing is a very regular BAU affair and it happens every other month depending on which way the interest rates are moving. That is something that happens from time to time. Within that, the two subcategories that we have are immediate annuities, deferred annuity on single premium side and now the limited period annuities. Limited pay annuity is a relatively recent launch that has continued to do well and is becoming a very meaningful part of the business.

Deferred annuities and limited annuity on the single premium side are still the bulk of the business. Our average deferment period remains in the 3-4 years zone and average age at which the product is sold is around 60. Nothing much has dramatically changed there, except that the new product that has got launched is something that is now becoming a fairly meaningful contributor.

Dipanjan Ghosh: Small data keeping question. If you can give the operating variance breakup for the quarter?

Niraj Shah: Yes. Again, everything positive. Mortality, small positive. Persistency is significantly positive and expense variance is also on the positive side.

Moderator: This would be the end of the Q&A session. I would now like to hand the conference over to Ms. Vibha Padalkar, MD and CEO of HDFC Life for closing comments. Over to you, ma'am.

Vibha Padalkar: Thank you, everyone, for joining us on the call today. Feel free to reach out to our IR team if you require further information or if you have any follow-on queries. We look forward to speaking with you again. Take care and have a good weekend.