July 26, 2022

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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 ended June 30, 2022

We wish to inform you 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 Tuesday, July 19, 2022, to discuss the financial results of the Company for the quarter ended June 30, 2022.

The said transcript is also hosted on the Company's website at https://www.hdfclife.com/about-us/investor-relations.

This is for your information and appropriate dissemination.

Thanking you,

For HDFC Life Insurance Company Limited

NARENDRA GANGAN
Digitally signed by NARENDRA GANGAN
Date: 2022.07.26 19:53:00 +05'30'

Narendra Gangan
General Counsel, Chief Compliance Officer & Company Secretary

Encl. As above

"HDFC Life Insurance Company Limited Q1 FY2023 Earnings Conference Call"

July 19, 2022

Moderator: Ladies and gentlemen, good day and welcome to the HDFC Life Insurance Company Limited Q1 FY2023 Earnings Conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vibha Padalkar, MD & CEO, HDFC Life Insurance Company Limited. Thank you and over to you Madam!

Vibha Padalkar: Thank you Faizan. Good afternoon, everyone. Thank you for joining us for the discussion on our results for the quarter ended June 30, 2022. Our results including the investor presentation, press release, and regulatory disclosures are already available on our website as well as that of the stock exchanges. I have with me Suresh Badami, Executive Director; Niraj Shah, CFO; Srinivasan Parthasarathy, Chief Actuary; Eshwari Murugan, our Appointed Actuary and Kunal Jain, from Investor Relations. I will take you through the key highlights of our Q1 FY2023 results and would be happy to take questions post that.

Starting with the business update:

We continue to maintain a consistent growth trajectory growing by 22% in terms of total APE in Q1 FY2023. This has enabled us to maintain our market leadership as top three life insurer across individual and group businesses. Our product mix remains balanced with non-par savings at 35%, participating products at 30%, ULIPs at 25%, individual protection at 5%, and annuity at 6% based on individual APE. On a total APE basis our non-par savings segment has grown by 29%, protection by 31%, annuities by 39%, par by 23%, and unit linked by 10%. Within the non-par segment our shorter tenure product Sanchay FMP continued to grow well and now contributes almost a fourth of our non-par individual APE. The prevailing high interest rate scenario augurs well for demand across our traditional savings products. While elevated inflation has not materially impacted savings products, premium flow into retail protection has remained tepid for the quarter possibly due to postponement of expenditure on account of tight household budgets. However, we see this as a temporary phenomenon and with resolution of the ongoing global conflict and consequent easing of macroeconomic stress; we expect to see traction in the second half of this year.

We continue to steadily improve our individual protection policy conversion ratios and will adhere to a risk-based approach to underwriting. Our credit protect business has registered strong growth of 96% on the back of rise in disbursements across most of our partners. We continue to look at overall protection growth across individual and group platforms in an agnostic manner since we assess risk as well as service members covered under the group platform at an individual level. Our protection share based on APE has improved from 15.7% last year to 16.9% during Q1 FY2023.

On the retirement front our annuity business has grown by 10% on received premium basis compared to a 9% degrowth for the industry in the quarter. Growth of annuity on an APE basis was 39%. The regular premium variant of our recently launched annuity product systematic retirement plan has been well received across channels and is almost a fourth of our annuity in APE terms. We have also launched a new product systematic pension plan, which is a participating pension plan. This product adds to the existing suite of pension products being offered to customers.

Moving onto key operating and financial metrics:

Renewal premiums have grown by 19% supported by improving persistency. Our 13th and 61st month persistency for limited and regular pay policies is at 88% and 54% respectively, which is an expansion of 2 and 3 percentage points, respectively. New business margin for Q1 was 26.8% up from 26.2% in Q1 of the previous year on the back of profitable product mix and growth in protection business. The value of new business has consequently grown by 25% and is at Rs.510 Crores for the quarter. Over the past several years we have seen a distinct seasonality in quarter-on-quarter new business volumes and therefore a steady uptick in new business margins. We expect this trend to continue.

Our standalone embedded value as on June 30, 2022, was 29,709 Crores with an operating return on embedded value of 16.5% in Q1 FY2023. The drop in embedded value since March end is primarily on account of dividend payout and anticipated adverse economic variances caused by interest rate movements and fall in equities. We expect the latter to reverse as macroeconomic volatility subsides.

The profit after tax for Q1 FY2023 was Rs.365 Crores, an increase of 21% over Q1 FY2022. As highlighted in our last earnings call, we completed raising sub debt worth Rs.350 Crores during this quarter. Post the dividend payout of Rs.1.70 per share which was approved by our shareholders in the AGM our solvency stands at 178%. In order to further strengthen solvency to fuel growth we will continue to evaluate raising equity capital as needed.

Next on channel performance:

Our bancassurance channel grew by 18% in Q1 FY2023 based on individual APE. Within bancassurance while HDFC Bank continues to grow steadily, we are seeing strong growth momentum across our newer relationship such as Yes Bank, Bandhan Bank, IDFC Bank amongst others. Agency channel grew by 26% based on individual APE. We added about 9500 agents in Q1 and continue to focus on improving activation and productivity across our base of financial consultants. We are also taking multiple initiatives to augment our direct channels including geo-based lead management for increasing efficiency, AI based incentivization for promoting productivity and cloud telephony for simplified sales process. With these tech enabled initiatives coupled with capability building programs we aim to build a robust, agile, and empowered proprietary distribution.

Moving onto tech and innovation:

Post the successful implementation of the initial rollout of our in-house automated underwriting engine we continue to expand its scope across a larger range of businesses. Tools such as MediEasy enable customers to schedule real-time video medicals and get assistance for financial underwriting. Innovative solutions such as enabling cardiac risk assessment at the customer's residence for medical underwritings furthers our motive of simplifying customer journey and provide best in class service.

Now for an update on our subsidiaries:

Subsidiary #1: we are delighted to share that our pension subsidiary HDFC Pension crossed the 30000 Crores AUM mark and has almost doubled its AUM in just 15 months. As on June 30, 2022, HDFC Pension had a market share of 38% maintaining its leadership position in the private pension fund manager space in terms of NPS AUM.

Subsidiary #2: HDFC International, our overseas subsidiary has received an in-principle approval from International Financial Services Centres Authority - IFSCA to set up a global in-house centre at GIFT city. This entity will pool and optimize all processing activities of our international business. This is an important step for us towards eventually setting up an IFSC insurance office IIO at GIFT city which can cater to the overseas insurance needs of the Indian Diaspora.

Subsidiary #3: Exide Life witnessed strong growth of 34% based on individual WRP in Q1 FY2023 and continues to enjoy a healthy product mix and growth across channels. The integration of Exide Life is on track. We have received the initial NCLT approval for triggering the merger process including intimations to various regulatory authorities and related NOCs. Subsequent to receipt of the NOCs from various regulatory authorities we can expect to receive the final NCLT approval. We expect to receive the final nod from IRDAI and to be able to merge the subsidiary in the second half of FY2023.

On the regulatory front we have been in regular dialogue with IRDAI and working on charting a roadmap to deepen life insurance penetration in India and welcome the initiatives taken by the regulator in this direction.

Moving on to the impending merger of a promoter HDFC Limited with HBFC Bank as you are aware an in-principle approval was received from the RBI on July 4, 2022, on the merger application. We look forward to a further strengthening of our relationship with HDFC Bank with our largest partner also becoming our promoter subject to all regulatory approvals.

To conclude, our objective remains to empower individuals to provide financial protection to their loved ones and widen insurance coverage through a mix of innovative products and diversified distribution. The detailed disclosure on our results is available in our investor presentation. Wishing everyone success as we embark on a new financial year. We are happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Hi! Good afternoon. Two questions, firstly on the margins, protection retail premium continues to appear to be struggling yet overall protection mix has improved. Even non-par has increased, all in all our ULIP has gone down and also with improving scale we could have expected a better margin expansion. But, it seems that the operating leverage is actually somehow missing and margin improvement as compared to product mix looks a bit I would say on the disappointing side. So, that is question number one and second on your EV walk, the economic variance if I look at your interest rate to EV sensitivity that is like 2% for every 100 bps and also consider some bit of equity market related sensitivity yet close to 3.5% of a negative economic variance looks a bit on the higher side so can you please also explain this? Thank you.

Vibha Padalkar: I will take the first question and maybe the second one I will pass it on to Srini. The first one you are right, however just keep in mind that our margins are mark-to-market in terms of cost. So, whatever we incur here and now, there is no straight lining of that and sequentially you should see the throughput of fixed costs coming through as you know every quarter is sequentially higher ending up. Typically Q4 is the highest, so you will see that coming through. Some of it is back to business on COVID receding and so on so a lot of activity, travel, investments that perhaps were somewhat on the backburner you will see a fair bit of that coming through. So that is why you have in the walk you will see, the expense impact having a 0.6% drag on the margins.

Srinivasan P: On the negative economic variance, there is equity fall that is contributing to about 400 crores of the total 1200 crores of negative variance and the remaining 700 odd crores is on account of rise in interest rates. So if you look at the sensitivity separately for equity and interest rates it will broadly tie-in with the overall impact that we see on the economic variance

Avinash Singh: We are looking from March to June, so if you broadly say 700 Crores that is kind of 2.5% broadly or 2.4% of your March 2022 EV. So that sort of a sensitivity more than 100 basis points or 1% movement in interest rates?

Srinivasan P: 2% positive right. So, the expected return for the year is roughly around 8%. So for the quarter, you will expect a positive 2% for one quarter as against that we actually seen equity fall. So, you have to relate it with a positive 2% as expected and the actual drop that we have seen in the equity markets.

Avinash Singh: Equity is fine. I am talking about the yield led, you are saying 700 crores, that is like almost reflecting more than 100 basis points move in yield curve. So, from March to June more than 100 basis points looks a bit unlikely move?

Srinivasan P: It is the shorter end of the curve that has risen a little bit more and as we are holding shareholder funds which has got no liabilities and there are some excess assets in the VIF or the Value of in-force. So, those are exposed more to the shorter end of the yield curve which has risen by 130 basis points during the quarter.

Avinash Singh: That makes it clear. Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong. Please go ahead.

Hitesh Gulati: Thank you for giving me the opportunity. I just wanted to check on the operating assumption change in the VNB walk that we have shown and also what is our view on unwind rates this year given that risk free rates are generally expected to be higher?

Vibha Padalkar: On the first question, we are fairly pleased that right from inception from when we started disclosing our embedded value and the walk, our operating assumptions have been positive and we continue to do that. Excluding the COVID impact that we have seen, barring that, it has been positive and we continue to show that.

Hitesh Gulati: Sorry Madam, if I can just interrupt on the VNB margin also there is some change on operating assumption. Can you talk about that also?

Vibha Padalkar: These are change in assumption versus the assumptions that we put in last year, in the month of March typically that we put in has come through, which is an annual exercise; this is really a strengthening of assumptions that we do annually.

Srinivasan P: That is right. So primarily, it is the mortality assumptions on the protection book that we strengthened in March. So, that is the impact that we captured in this slide. As far as your unwind rate is concerned, we are not very gung-ho on the equity markets for this year. So, that is reflected in our lower unwind compared to last year.

Hitesh Gulati: Should we expect this kind of a rate for the full year as well because last year's rate was about 8.6%?

Srinivasan P: Yes, we can expect the same 8.1%. We basically set the unwind rate at the start of the fiscal year and we keep it flat throughout the fiscal year, so next time change will be in the next fiscal year.

Niraj S: So any change from this will be reflected in the investment variance through the rest of the year till we reset this rate at the beginning of next year.

Moderator: Thank you. The next question is from the line of Adarsh from CLSA. Please go ahead.

Adarsh: My question is relating to protection. Within term life, both you and your peer group have seen a 30%, 40% drop. Just wanted to understand the tightening of norms have been there for about six months, so looks a little awkward and just want to understand from a little more medium-term perspective. Do you all see this some of the tightening in underwriting and norms to really affect the population set atleast over the next 2-3 years as to how much protection could have been underwritten earlier versus what you can do now?

Vibha Padalkar: I will give you a background to this. Our industry was hardly writing any term business just before the pandemic. Maybe couple of years before the pandemic, overall typically it was 1% or 2% in individual APE terms. I am leaving out credit life and then suddenly to expect that to ratchet up for the sector, we just need to put it into context. Yes, there was an uptick that we saw during the pandemic and we dont want to lose that and we have been a believer in this story. However, again it has been a continued perfect storm, there was COVID that happened, then the reinsurers like you mentioned, now there is inflation. Like I said in my opening comments, in the basket of goods in terms of disposable income, we are sensing that either there is a pullback to say this is my outlay that I can afford and then let me bear down on my sum assured or else let me defer it a little bit or I am taking a loan let me cover it through credit life at least. So, atleast I have some cover or I want to lock in at more attractive interest rates that we are seeing currently. This will anyway give me 10x to 20x cover depending on which product and so on. So, these are various things that are going on in people's minds and so relative to what we saw in last year first quarter again which was in the thick of the pandemic, it appears that, it is muted. But what we are certainly no longer seeing is that why do I need insurance, or why do I need pure protection. I do not think that question is coming up very much right now. So, that is a good progression in the minds of people, but it will take time I think. Another aspect is that if you look at IRDA or respective company's annual report and if you see each company and how they are retaining risk on their balance sheet, you will find that some of the smaller companies have shown a fairly steep rise in what they are retaining on their balance sheet. Now, we have always maintained that this has to be somewhat calibrated and we will triangulate between topline, whether it is a retail protection or anything else, topline as well as bottomline, risk management, persistency and it will grow steadily. We still expect in second half, if there is some tempering on inflation retail protection will come back.

Suresh Badami: The overall demand in the market for protection, the surge has also come down a little bit for the industry, Secondly, from a risk perspective we are also looking at conversion ratios that is improving. Not to take away the story of the overall protection gap and the opportunity I think there is enough opportunity for us to be able to grow protection. But, for the next six to seven months, given that there are certain good products in the market even for the field teams and the channel to look at return on effort on some of the other products and all the factors that Vibha mentioned, you may probably see a little tepid growth. But again, this is on the back of a fair amount of demand which came in last year.

Vibha Padalkar: Last point I will add, Suresh has touched upon it, is on the Google search trends. While they have come down, whatever searches are happening, HDFC Life continues to remain right up there.

Niraj Shah: When we are looking at the current environment, interest rates are going up and it is starting to maybe pinch household budgets and disposable income, there are a couple of these things to look at. One is if you look at some of the surveys that have come off recently in terms of how people are feeling about the job prospects and pay hikes in the current environment, a lot of people are optimistic. Two-thirds of the people surveyed are optimistic about that, which basically means people are not worried about income coming through. At the same time, this is what is going to give a tailwind to the savings, but on the expenditure side anything that was seen as a discretionary expense, people do start looking at what is really coming for the same rupee that was spent earlier. So these are trends that you will see for some more time in a fairly low middle income country like India. So, that is something that we should not be too surprised with. We have always maintained that retail protection will grow over a period of time in India and this is something that we will have to be comfortable with, so that we continue to balance growth with profitability and risk management. So that is how we are thinking about it.

Adarsh: Just a follow-up here. Majority of the reasoning looks to be more like discretionary power of spending going down. Just reflect on how much do you think is it caused by the tightening like what kind of population set it cuts off at least for the near-term in terms of processes becoming onerous or the ask rate of processes going up including medicals?

Vibha Padalkar: I think people start getting used to whatever is prevalent in the industry. Yes, there are loosers and then on the other spectrum tighter guidelines, but largely people do start getting quite accustomed to the new normal. It is always difficult to exactly pinpoint, but my hunch would be that it is more to do with the inflationary aspects rather than the process per se. I think, largely companies have stabilized on their process, we have and so have others to the new normal that these documents are required because a reinsurer requires it or we have tried to triangulate who is this customer through other means and so on. So that is 50:50 or 30:70, it is difficult to know, but the new aspect certainly is inflation.

Moderator: Thank you. The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Thank you for the opportunity. If you look at the credit protect business in the current quarter of around 250-260 crores. It is back to pre-pandemic levels on a lower base but almost a doubling of the business has happened. Just wanted to understand the sustenance of this particular business in the immediate quarters Q2, Q3, Q4 because we have got to the run rate of 200 to 230 kind of number even in second quarter, third quarter, and fourth quarter of last year. Do you think that this growth will moderate going ahead once the low base effect is over?

Suresh B: From what we have seen across most of our partners and we have a fair spread across banks, NBFCs, small finance banks, who we work with in this space, the growth has really come in from the loan disbursements year-on-year growth that they have seen which range anywhere between 70% to 90%. Some of the larger players have, have grown fairly fast. Now at our end, we look at higher value penetration, we look at rider attachment, we look at a little bit of a price increase. So, that has led to a faster growth for us even above the loan disbursement which is happening for our partner. So I would assume that the loan growth would continue at a certain rate. It may not be as high as this given that last year the base effect started coming into place between Q2, Q3, Q4. But a significant growth on the partner loan disbursement and a slightly higher growth on our CP business can be expected for the rest of the year.

Sanketh Godha: Within the products, probably is it still MFI because we are the market leaders in MFI segment. So it is largely led by MFI segment or its mortgage which is driving the growth?

Suresh B: No, we are very well diversified now across almost all the verticals. If you really look at it across the partnerships that we have got, we are present across mortgage, we are present across MFI, we are present across each of the segments. So it is not just we have housing, we have LAPs, we have MFIs, we have others and each one of them has grown. While some of the other ones have grown by almost 70%-75% also, MFIs have grown slightly higher. But if you look at HDFC Bank itself the growth in terms of their overall disbursement has been 70%, some of the NBFC large partners have grown anywhere between 60% to 150% and we are present across most of the verticals.

Sanketh Godha: The second question is just wanted to understand on the part of protection itself, we have almost 15 months or more than 15 months since we launched launched the ROP plan. So just wanted to understand any tractions there whether it still continues to contribute around 16% to 18% of the total protection business. Because the absolute amount has come up whether ROP somehow has supported or you do not see the trend that ROP supporting the growth of protection business?

Vibha Padalkar: It continues to. We are present in all offerings and all parts of possibilities. ROP continues to become more and more meaningful. Today, it is about a third of our business on the retail side, just on a standalone quarter basis. It was about a fourth, it is about a third now. It could vary here and there, but we do not really drive a product, it depends on which channel, what is the preference of the customer, but it is there as an offering.

Suresh B: But if I can add, I think as a trend, as we go more into Tier-2, Tier-3, in some of these markets, the ROP product share in some of those markets will be fairly high.

Niraj Shah: Also coming back to the earlier discussion in terms of the impact of higher interest rates on both savings and spends, ROP is seen as a hybrid in terms of buying protection but yes if nothing happens then money comes back. So in some sense, it is a bit of a hybrid between protection and savings, so that does address the current sentiment as well.

Sanketh Godha: Last one from my side just some data keeping points what is our market share right now in HDFC Bank compared to what it was probably for the same quarter last year or FY2022 in total?

Vibha Padalkar: We are not really giving out numbers like that because it changes quarter-on-quarter. Suffice to say that at HFC bank, we will continue to write business that makes sense, accretive on VNB. We will look at what is our persistency because often just taking one lever will not make sense because we might say no to some business as we either do not believe philosophically in some kind of a product or the persistency, we might not be very convinced about and be okay to say no to. On term, there might be a price war in a particular quarter, so I think we will have to say typically we have been about two-thirds of their business and like I mentioned in the opening comments as the merger fructifies we are hoping to strengthen further.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Thank you for the opportunity and good afternoon everyone. The first question on solvency margins, 176 went to 178%, you did some sub debt raise during the quarter as well. So are we now full up in terms of capacity to do any more incremental sub debt. I think Vibha you made comment that you could look at equity as well. So just want to understand what is the comfort level on where solvency is? Let us assume it is at this level, how many years of growth can we do without having to raise equity if you can help us understand some of the dynamics around solvency?

Vibha Padalkar: So the straightforward answer is that today our growth is not getting impacted, in terms of retail growth, because of the solvency. Our stated objective has been around 180, we have been in the 180% to 190% range, sometimes been about 200 but anywhere between 180 to 200 or thereabouts, so slightly shy because of the Exide Life merger. Now in terms of looking at raising equity, we might look at it depending on whether there are growth opportunities or we perceive prolonged stress in the system so that we feel little bit more comfortable with strengthening our solvency, we might do that. It should not be a very large amount but back into the kind of zone that I just mentioned.

Shyam Srinivasan: Got it. So you are at the lower end so you think once you cross 182 you should be okay from a growth perspective?

Vibha Padalkar: Yes, anything 200, 220 something like that would ensure that we do not have to keep tapping the markets again and again. But we are still in the process of evaluating and seeing how prolonged some of the global tensions are and are they receding, some of the largely macroeconomic factors.

Niraj Shah: If you recollect before the Exide transaction like Vibha mentioned, we operated in the 180-190 band and we have been fairly comfortable that this will support organic growth for the 3-5 year period. Two things have happened since then, Exide Life transaction yes and also the environment has become a lot more volatile compared to where we were talking about this maybe a couple of years back. So that pushes up our threshold marginally from say 190 odd to maybe a little over 200, but that is about it really.

Shyam Srinivasan: Got it, that is helpful. Just back on to retail protection. I am just looking at your slide #19 to understand where the weakness in terms of this is most exemplified right. Seems to be atleast some bit in agency and some bit in online seems to be the biggest drop. So is the whole push thesis around this coming off or am I reading this kind of table or chart wrong and I would assume online people have higher incomes. So just trying to understand even from a demand perspective, what is happening across these channels on retail term?

Suresh Badami: Let me just address the online first like Vibha had mentioned earlier the Google searches really have started coming off as compared to the previous year and you are also right that in our online channel as well as overall for HDFC Life, the profile of customers is slightly higher on the affluent side. So we remained the number one brand when it comes to search, we remained there, but the numbers are coming down a bit in terms of the total online conversion which is happening. So there has been a dip which you have seen and we assume it probably holds true for the full industry because the same trending in terms of Google searches seems to be happening on keywords either on term or in terms of the specific brands which are there in the market. So there has been a little bit of a slowdown on online but we are putting in our efforts in terms of digital marketing and all of that and we expect that to pick up over a period of time. Agency like we mentioned earlier I think yes it is probably a little lower than what it was but there again there are a combination of factors what we explained in the previous question I think a little bit of inflation, a little bit of push on the ground where agents are able to sell a non-par kind of a product at much easier return on effort as well as the fact that some of the customers are waiting for this whole thing to go through before they come back and take term maybe easier processes or better pricing. But, frankly for us it is broadly in the range in terms of how we expect agency business and product mix to happen. We should be able to push the pedal in terms of agency protection as we go forward.

Shyam Srinivasan: Another data point I know you share this for every 100 applications that come through I remember in fiscal 2022, it was 60 for retail term in terms of what we were able to close. Is that number changed at all?

Suresh Badami: Yes, that has started improving for us now. So it is around 3% points improvement in terms of the conversion. It is a combination again in terms of what persona and profiles you are sourcing on the ground, what is the underwriting credit easing that we have done as well as a little bit of analytics at the back end that we are able to push some of these down so we have moved up a bit in terms of the conversion throughput.

Vibha Padalkar: Also you would have picked up during the last month, we had mentioned about how we are doing cardiac risk assessment. This is one of the things that would help and this is something we have been solving for the past 24 months atleast because getting people to go to a hospital or a nursing home to do their stress test during COVID and so on was just becoming a roadblock and details are there in our investor presentation. With this now, we are able to use the stepper to go to the individual's home to be able to assess cardiac risk and so on and this would have been a bottleneck earlier for example. So just systematically working through each one of these bottlenecks to be able to one, give ease to the customer and equally important not take on risks on a balance sheet just because somebody else is willing to do it.

Shyam Srinivasan: Fair enough thank you and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Akshen from Fidelity. Please go ahead.

Akshen: Hi! Question on the EV walk on the investment variance could you just maybe help us understand on how much of the hit was due to interest rate and how much of it was due to equity market, just if you could break that up? Thanks.

Srinivasan P: Equity is around 400 odd crores and the balance is from interest rates out of the total 1200 crores.

Akshen: Because I was just looking at the sensitivity that you had published in FY2022 which called for a roughly 2% hit on EV for a 1% move in interest rate. So interest rate movement has been slightly lower than that if I am just looking at year end or average maybe 80, 90 bps and then the sensitivity to EV seems to be a little higher than that. Please help us understand that.

Srinivasan P: The shorter end of the curve has actually gone up by 130 basis points during the quarter, it is more than 100 basis points.

Akshen: So it is more sensitive to shorter end or to if we just use a 10-year as proxy but you are saying we should look more at the shorter end of the curve?

Niraj Shah: Yes, so we need to look at the full curve because the different assets are sitting at different ends of the curve. So what we discussed a little while back as well at the shorter end, the hardening has been a lot more 130 odd basis points. At the longer end, it has been say 50 to 60 basis points increase. So basically, wherever the assets are sitting at the shorter end that is where the impact is. To give you an example shareholder assets and also the excess assets sit at the shorter end of the curve and the non-par assets for example backing the 15, 20, 25 year products or annuity products sit at the longer end. So the effect is different at different parts and wherever the assets are being held so collectively you will see that this is the impact of about 700 odd crores in debt and like Srini mentioned about 450 odd crores in equity.

Akshen: Niraj, assuming interest rates remain steady here on and market remain flat here on incrementally there would not be any negative investment variance right?

Niraj Shah: Now take a base scenario of let us say the yield curve going up parallel. If the yield curve is going up parallelly then you will be able to correlate one-to-one with the sensitivity table that you see, like you started off with 1% sensitivity that is basically a parallel shift. If there is a slope change that happens, which has happened in the past few quarters, this is the result of that. A parallel shift upwards or downwards will have the linear impact that you see in the sensitivity table.

Akshen: Got it. Now my question was that assuming June 30, 2022, rates, yield curve and market levels hold, incremental investment variance would not be there right?

Niraj Shah: On account of interest rate it would not, but equity would have other aspects of it and then that is your question right. On your interest rate, nothing changes.

Akshen: Yes.

Srinivasan P: We are basically expecting around eight-point whatever percentage the unwind is what we are expecting to earn on the assets. So if you are saying there is no further shock we assume that it will earn 8%. The assets will earn around 8%, so if there is no variance against that expected then you will not see any further investment variance.

Akshen: Okay that is it for now I will come back in the queue for another question. Thanks.

Moderator: Thank you. The next question is from the line of Surya Kumar from Birla Sun Life Insurance. Please go ahead. As there is no response from the current participant, we will move on to the next question from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Just one question from my end. Recently, the regulators came out with risk-based capital adequacy norms and the idea of the regulator is to increase penetration. So they have set growth targets, how does this change the dynamics for the industry and for us if you could comment on that?

Vibha Padalkar: We are still awaiting in terms of some clarity on RBC and we are hopeful that they take into account some of the asks of the industry. Eight committees have been formed and at least in couple of committees this has been an ask. Yes, they have rolled out targets to insurers and we appreciate that the regulator is equally focused on developing as much as it is on regulating, so that is welcome. But having said that, I think I am sure all the life insurers would, whether the regulator is directing them to focus on topline or not, they would anyway want to solve for low penetrations and so on, so more of that will continue.

Prakash Kapadia: But this would not in a sense lead to margin erosion or profitability being compromised in lieu of higher growth or it is too early to?

Vibha Padalkar: I think it is too early because I would hope that it is more in terms of cajoling life insurers to continue with their attempts at insurance penetration rather than mandating. Even today, there are companies that perhaps the persistency is a lot lower than the listed players, there is next to no disclosure on their margins, there is next to no disclosure on their operating variance on embedded value or embedded value itself. So all of that is there, so in the absence of apart from the listed players disclosing these numbers, it is very difficult to say what are companies operating at today and where and post the drive on top line where have they ended everything is fairly difficult. So we will have to wait and see. I think directionally, it is welcome but personally I would hope that it is calibrated because especially life insurance is a very long tail product and risk management and quality of business, right selling, customer mis-sale complaints, claims, settlement ratios, all of those aspects are equally important and that happens post sale. I am sure regulator is very cognizant of all of those aspects so I would like to see the holistic ask from us as a sector.

Prakash Kapadia: Sure thank you.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Hi! Thanks for the opportunity. One question around the competitive intensity how do you see it in the non-par savings business and with the recent increase in product IRRs how do you see the margins trending in this line of business?

Vibha Padalkar: I will answer the end of your question on margin. Given our upward trajectory, continued smooth upward curve on margin quarter-on-quarter and year-on-year, doubling in four years in terms of VNB all of that, that will continue to happen no change in that. Yes, there will be some quarter here and there. What we do find, is more in case of mid-tier apart from the listed players a lot of competitive intensity, but again there is very little disclosure, next to none, on any of their metrics. So that is expected I guess and if we extend the horizon a little bit, things do tend to normalize and that too will happen. There is a trade-off in the minds of the customer between a market leader for example a Sanchay Plus has been our innovation as Sanchay Par Advantage has been our innovation. So there is lot of premium that customers are willing to pay for that. Yes, we have to stay in the zone but if you were to look at annuity, we have grown by about 10%, when market has degrown by 9%. This is on NBP terms and there too there is competitive intensity, I think that is par for course.

Nitin Aggarwal: One clarification regarding the shareholding of HDFC Limited I just want to know like how easy or difficult it is to do a fresh issue to HDFC limited and will there be any regulatory hindrances in that?

Vibha Padalkar: See they are our promoter. It is every promoter's obligation and for them to extend support to the life insurers so they have always expressed that. I do not see there to be any issues per se because the capital that we might want to raise and might feel comfortable about like I talked earlier depending on market volatility is not going to be huge. It is going to like I said put us in the zone of maybe 200% to 220% or somewhere along that line so none of that should take it above the currently permitted regulatory norms.

Nitin Aggarwal: No I am asking this question not from your perspective but from HDFC Limited's angle?

Vibha Padalkar: Yes, from their angle only, they are permitted to hold up to 50% today. Had the Exide Life transaction not happened, they would have been there.

Niraj Shah: So they are currently at 47.8%.

Nitin Aggarwal: No the question was like if they now want to increase, then is it easy to like to do a fresh issue and get this done?

Vibha Padalkar: From what angle, from a funding angle or a regulatory angle?

Nitin Aggarwal: Regulatory angle.

Vibha Padalkar: So that is what I am saying. What is the extent of regulatory requirement, that they should not exceed 50%. What Niraj just mentioned, the kind of capital we might want to look at will not take it above 50%. There is no regulatory issue here per se, apart from yes we are in the midst of a merger and yes all regulatory people will be kept in the loop. But it is when you look at underlying that your subsidiary would be more comfortable against a volatile situation on having a little bit more of capital, current extent regulatory norms will not get violated.

Niraj Shah: And it will be the normal course of business.

Nitin Aggarwal: Right sure thanks so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Hi! Good afternoon and thanks for the opportunity. Just one followup on the previous question. So the current regulations says that maybe if you were to imply HDFC's shareholding as HDFC Bank's shareholding in the life insurance company, then they are at 47 and the regulator basically says that either you will be at 30 or you will be at 50. So there have been some instances where there has been some confusion around this so just to reconfirm what we are saying is going from 47.5 to 50 that does not require any kind of regulatory approval in the current scheme of things?

Vibha Padalkar: No, I want to make it clear here that extent regulatory guideline this is when HDFC Ergo bought Apollo Munich that is when HDFC was asked to bring down the stake to 50%. We would have stayed there had it not been for the Exide Life merger; so that still holds and this capital we are looking for is within what already holds.

Atul Mehra: Is there any timeline to those fundraise?

Vibha Padalkar: No, we have not said that there is going to be a fund raise. All we are saying is that, we will evaluate all options in front of us and also whether we need to have more but given the extended volatility it is something that we might feel comfortable about but it is an evolving situation as you know on the macroeconomic front.

Atul Mehra: I was just saying that there was another parallel in the industry around ICICI Lombard where they went to an M&A and it is not perhaps too clear now what is happening there where ICICI Bank shareholding has to get down to say 30% or they will be allowed to get it back to 50%. So from our perspective will we see that as a parallel at all or not at all?

Vibha Padalkar: So you are selectively picking an example. What about at least five examples wherein there is 100% or 60% or 55% and so on, so all the senior companies and I think this is a point that has been mentioned by HDFC Bank leadership, HDFC Limited leadership to say we would welcome parity. This is not a new application. This is an existing application. We were the first ones to get a life insurance license and there are enough examples wherein there is more than 50%. The example that you gave, in that particular scenario, the other insurance entity under the bank, they were not asked to bring that down. So I am sure this is well known reason and it has been said this by our current promoters and new promoters. So really very little that I can add here given that the regulators are looking at it.

Niraj Shah: Another fact here really is that if you look at the HDFC's shareholding in HDFC Life it was 50% before the Exide Life transaction. Exide Life transaction is not undertaken by HDFC Limited or HDFC Bank. It was an HDFC Life transaction which resulted in HDFC Limited's holding falling from 50 to 47.8. So that is the difference between this and the Lombard transaction.

Vibha Padalkar: Final point is I think HDFC Bank leadership have also clarified that in their minds whether it is 50% or 30%, it is going to be theirs and it is a material investment and they will be the promoter subject to regulatory approvals.

Moderator: Thank you. The next question is from the line of Rohit Jain from Carnelian Capital. Please go ahead.

Rohit Jain: Thank you. I had two questions. One is on the EV, I heard Srini say impact of 700 crores on the shareholder and the excess of VIF assets. I would guess the change of long-term interest rates and the size of our book would not that be much higher impact on the debt portfolio. That is point one, and point two if my interest rates rise, ideally I am able to invest at a higher rate whilst my savings rate or offered rate is similar would not my VNB margin increase? Thank you.

Srinivasan P: So this is on the back book, VNB will increase for the new policies that will be written at a higher interest rate, you are right. Also, bear in mind that we hedge, as and when we write any new policies, we immediately hedge the book as well. So what we are actually exposed to, when interest rates rise, is to the extent of the shareholders assets where there is no corresponding liability and also the excess assets on the non-par book as well. So those are the ones that are sensitive to the interest rates going up and like we explained earlier the shorter end of the curve where these shareholder assets and excess assets are in the VIF. So those are the ones who get exposed to the short end of the curve. The yields have gone up by 130 basis points during the quarter. So that is why you see this 700 crores on the interest rate sensitivity. On the new business, like you rightly pointed out, on the new policies as and when we write it, we will be able to write it at a higher interest rate and all things being equal we will be able to get a higher margin as well.

Rohit Jain: Sure thank you. But our margins in Q1 have not increased materially right?

Srinivasan P: Corresponding to the same quarter of last year it has gone up. Also, you understand that there is a little bit of seasonality to our business. So it has gone up by 60 basis points compared to the first quarter of last year.

Niraj Shah: Yes, typically in Q1 you see about give or take 15% of the year's business coming in Q1. Expenses typically get front-ended in terms of things like manpower, technology, etc., and you see that effect unwinding through the rest of the year.

Srinivasan P: Also our actual expenses are reflected in our VNB margins. We do not normalize it throughout the year, so it is as and when it gets incurred, it will reflect in the margin for the quarter.

Rohit Jain: Understand thank you.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Hi! Thank you for the opportunity. I am just looking at margins on a year-on-year basis which is essentially 1Q to 1Q and trying to understand if there were any changes at the product level margin. I do understand that I think there were some higher expenses because of travel and new investments, etc., kicking in, but at a product level have you seen any pressure on margins given the fact that probably the cost of hedges would have gone up or maybe even on the protection side you would have seen the insurance rates going up?

Niraj Shah: If you look at the Q-on-Q product mix, you will find that the changes are fairly small. You will find that unit linked has come down marginally, par is at a similar level, term has gone down Q1 to Q1. We have discussed that on the non-par side, it has gone up but the profile of the non-par products have changed, we have discussed, we have Sanchay FMP which is a significant part of this business, annuities have gone up. So there are a fair number of compensating effects in terms of what is happening in the product mix itself. Product level margins may not have moved too much There could be instances in a period where the spreads may have gone up to some extent, on some of the products like annuities and maybe non-par, but that again depends on what the rate is at a particular point in time, how are we reacting to competition within the quarter. So a lot of these effects are kind of canceling out each other and the key really is 60 bps in expansion and basically the smallest quarter of the year and the expenses are not necessarily in that sense to that extent. So expenses are more front-ended compared to what you will see in terms of revenue pan out over the rest of the year. So it is all of these effects which are creating this net effect of 60 bps expansion.

Vibha Padalkar: So on the expenses, for example, HDFC Bank added about 700 branches in Q4 of last year. Some of our other partners, the newer partners, I mentioned quite a few names in my opening remarks, so there is a lag in terms of us having manpower, feet on street versus beginning to see business and that is also a bit of a COVID impact. We had reigned in quite a bit of these sorts of investments and now it is full throttle. Also some of the activities that we have in order to kick start sales that is also front-ended and you will see this evening out as a percentage as we go through the year. But like Srini said we mark-to-market every quarter, we do not straight-line our NBMs

Nischint Chawathe: That is right thanks. The second one is on the term business I understand that at this point of time probably the return on effort for the team was to sell some other products or system, etc., but do you really see that changing in the second half of the year or should we kind of remain in negative for the entire year in term?

Suresh Badami: Look I think it is a combination of multiple things that we will need to do, one is of course like we said that the overall customer sentiment has to improve, two in terms of the overall awareness and what kind of ease of journey we will be able to provide to the customer. There is a little bit of effort on our side in terms of ensuring that all channels all frontline is activated in terms of being able to convince customers in terms of term being available for them, a little bit of innovation is also possible in terms of the product and the features that we can do, but frankly there are a few positives also, customers are now more willing to go for medicals. So some of those trends we have started seeing. So as we go into Q3, Q4 a little bit of push in terms of how do we activate all the channels, the product proposition and the journies becoming easier will lead to, we believe, an increase in term business. So we have still budgeted higher numbers in term, but we will have to wait and watch as to how the overall industry grows over Q3 and Q4. But these are trends that we see across the industry. We can easily do it by changing pricing but really that is not what the end objective is.

Nischint Chawathe: Perfect I think that is very insightful, thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Thanks for the opportunity. Two questions, first is with this inflationary expectation going up and interest rates going up how do we see the growth for non-par savings business for us through the year. That is the first question and secondly how do we think about the sustainable operating RoEV for business. I think it has declined from 18% to 16.5%. Is 16%, 17% the new normal or we expect to go back to 18%, 19% in future?

Vibha Padalkar: I will answer the first one and then hand it over to Niraj. The first one we continue to see very robust demand for non-par and that will continue. We are even versus bank fixed deposits, even on the shorter end, with Sanchay FMP, we are at least 100 to 130 basis points more attractive. This is at the highest marginal tax bracket, and even at lower tax brackets, we come out meaningfully more attractive than just parking it in fixed deposits, I think that is well understood. Apart from that the longer tenure non-par also, the category has been born. Now, we have launched this about four years ago and people understand reinvestment risk and no longer confuse a debt mutual fund or parking it into fixed deposits with long tenure Sanchay Plus and so on, because locking in and getting assured returns until you are alive all of that is now well understood. So no issues on that front we also repriced fairly swiftly, so taking advantage of what we are able to earn we look at it on a dynamic manner. So really no major concerns on that front.

Niraj Shah: If you de-construct the RoEV, you will look at the two key aspects of unwind and the NBC accretion. So in terms of unwind we already discussed, we are expecting our assets to earn a little over 8% in this year. Anything over and above that will get or rather different from that will get reflected in the investment variance and NBC accretion has started on a strong footing in Q1. We expect that to continue with gradual steady margin expansion as we have delivered in the past couple of years. So last year if you look at the RoEV it was about 16.5%. This is after normalizing the impact of COVID, prior to that it has been in the 17%, 18% range. So that band of 17%- 18% is something that we believe is possible to achieve and of course this will depend on the interest rate environment over the years as we go forward. Given our philosophy, we expect operating variances to be in a fairly small territory, in the neutral to positive territory. So these two blocks of unwind and VNB accretion is what would dictate this number. So we would expect this to gradually inch upwards as the year progresses.

Vibha Padalkar: Also I hope you are not comparing the first quarter RoEV with the full year RoEV because there is a fairly large uptick in terms of seasonality. Just in terms of the numbers because it is important that we compare quarter-with-quarter, Q1 with every Q1 of the previous year and it has been in the range of about between 14% and 16% somewhere in that zone over the last three years Q1 to Q1.

Nidhesh: Just lastly on the reported profitability how should we think about that given that last year in Q1 there was a major disruption because of COVID and COVID claims would have hit our P&L despite that Y-o-Y growth impact is not that significant so any light on that?

Vibha Padalkar: So if you de-construct it further and we do give what is the shareholder versus policy holder. Last year, because of the markets being good there was a profit booking that we did in the Shareholders' account, but when you look at what the policyholder back book generation has been, that has been extremely robust. So about a 50% growth which you will agree is a fairly decent growth.

Nidhesh: Sure, thank you that is it from my side.

Moderator: Thank you. The next question is from the line of the Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Hi! Good evening. Just few questions from my side. First is you have highlighted that on the new banca channels have demonstrated strong growth if you can just quantify something on that what is the mix or what has been the Y-o-Y growth. Second is if you can qualitatively mention your counter share or how it varies between HDFC Bank branches with vintage of less than five years and vintage more than five years more qualitatively. And third I think one point we have discussed on the non-par side we have seen IRR of the Sanchay Plus product increasing significantly during the quarter so does that reflect competitive intensity? Do we still hold up the spread for the margins that we are doing in the business, again, if you can give some color on that?

Vibha Padalkar: I will answer the last one on the spreads, margins have not been impacted any significantly so yes more or less the spreads have been stable. It is not just a spread business, there is expenses in there as well, how we underwrite, so all of that goes in. So into that melting pot we have been able to hold our margins on non-par.

Suresh Badami: Your first question was on term growth across the channels or also on overall growth across the channels?

Dipanjan Ghosh: Overall growth across the non-HDFC Bank channels and also what is the mix today on the overall of this non-HDFC Bank channels in your overall mix?

Suresh Badami: We have seen fair growth firstly on our proprietary channels which was in line with our overall strategy. We have been investing both on our agency as well as direct. I think also plus to note that Exide on the other hand, while we run as a subsidiary, on the agency has also grown in the first quarter. So you will find our strategy in terms of being able to grow agency and direct. In broking, we continue to maintain our market share and the growth there has also been much higher than what we are seeing at an overall level. The other banca relationships, which is other than HDFC Bank, in most of our other partnerships whether it is Yes Bank, Bandhan, IDFC, we have seen significant growth almost 90% to 100% growth which has come at an overall other banca relationships. So if you were to leave aside HDFC Bank which has also grown at a fairly decent rate in Q1 given that they have always had a large base and there we have a different pressure on multi tie. But we have seen growth across proprietary which is agency, direct. The only cause of concern, which like I had mentioned earlier right now is online business where there is a little bit of pricing war which is happening as well as a lower sentiment on the direct. So those are the two channels, which we probably need to focus on but other banca, broker and proprietary on agency and direct have been growing reasonably fast.

Dipanjan Ghosh: Counter share at HDFC Bank based on branch vintage?

Suresh Badami: HDFC Bank obviously now has a huge number of branches and they have been growing 700 branches. We do track branches based on city categories as well as they have A, B, C, D to I categorization which is happening. Their presence in terms of the large branches in the metro Tier-1 and Tier-2 is obviously very large. The productivity of these branches is huge because, one they have a very large customer base in most of these A and B category branches. So there of course, we have more or less similar market share across each of these type of branches. Probably the presence for HDFC Life in some of the upcountry markets is higher, but now more or less that has evened out after 3-4 years of multi-tie. So obviously the productivity of the larger branches as well as the growth has been fairly similar across. I think some of the Tier-2 and Tier-3 branches have been growing faster, but it is not huge deviation in terms of how, I do not have the exact specific in terms of how the greater than five year and less than five-year vintage branches are. But I would assume that the growth would be on similar lines.

Dipanjan Ghosh: Sure just one data keeping question can you quantify the other banca channels what is their proportion in your overall individual business today?

Suresh Badami: So approximately 15% to 20% is the kind of number but they are growing very, very rapidly.

Dipanjan Ghosh: Sure. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jayant from Credit Suisse. Please go ahead.

Jayant: Thank you for the opportunity. Just one question. This change in assumptions of mortality strengthening, is this across the protection book or specific to any segments like CP or individual?

Srinivasan P: It is both.

Jayant: After this change are we provided for FY2023 or this will be an evolving situation?

Srinivasan P: We do not provide anything. Just like I said we set the assumptions at the start of the year so that goes through. So next revision, if at all, depending on experience would be in the next February or March of next year 2023.

Jayant: Great. Thank you Sir.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Thanks. Most of the questions have been answered just one quick thing. You mentioned about decline in the term protection business on the online channel. Is that trend similar between your own online website versus web aggregators because it seems like the largest aggregator is still doing reasonably well?

Suresh Badami: They are along similar lines. I think look for us we needed to ensure that there is clarity on our pricing between our own sourcing as well as what we have on the largest aggregator. There is a little bit of a price differential which you can see on the web aggregator level which is one of the reasons we have like Vibha had mentioned earlier any kind of pricing which we have on any particular platform is what we would like to maintain across all our partners and all our channels. So the trending is similar and we also tried to ensure that we have the right product mix even with the large aggregators or whoever we are playing with.

Rishi Jhunjhunwala: Understood and just you mentioned in your PPT about new product Click 2 Protect Optima being launched in FY2023 just wanted to understand here the health cover is something that again it is a benefit one or is it something that you are doing with your general insurance sister concern?

Srinivasan P: We have been doing this Click 2 Protect Optima for some time. It is ERGO which has launched a new health indemnity product called Optima Secure. So they had Optima Restore earlier and now they got Optima Secure. So this combi product is to reflect their new product.

Rishi Jhunjhunwala: Understood. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Thanks. Sir just one relating to the GTI business if you could just comment around sort of prospects there and profitability around that business? Thanks.

Srinivasan P: GTI is now coming to some sort of normalcy now more recently. We believe that the pricing is more reasonable now, so therefore, we have also seen some uptick in our business and we believe that at these prices it will make some money for us.

Niraj Shah: It will be fairly relatively tactical kind of a business because it is bid out every year right, so it really depends on how the pricing kind of works for the risks that we take and that is how we look at this business.

Dhaval Gada: Got it thanks.

Moderator: Thank you. The next question is from the line of Prateek from Nippon India Mutual Fund. Please go ahead.

Prateek: If I were to look at individual protection and compare it to 1Q FY2020 the absolute amount is the same but there is a pricing element sitting over here plus this quarter you had ROP which was not there in 1Q FY2020. So adjusted for that, on volume terms, the de-growth seems substantial to the extent of 30% to 40%. Is this only consumer discretionary the reason for it or is there something more to this?

Srinivasan P: There is also tightening of the underwriting norms right so when you look at FY2020 we are talking about a couple of years ago and in the last two years you have seen there is a lot of stringency in the underwriting norms so that is also sort of contributing to the drop.

Prateek: I think somebody was asking also there is a cut off right with higher pricing the size of opportunity has reduced right, is that a fair understanding for protection?

Vibha Padalkar: It is either that or people are saying that I will reduce the sum assured so either they reduce the premium or they reduce the sum assured these are the two levers or they will postpone.

Prateek: When I look at your number of individual policy sold on a three-year basis the CAGR is just 1%, the lives insured is -6% whereas our total individual APE has grown by 15% can you help me reconcile this in the sense that is there an element of volume de-growth happening and only average ticket size increasing I am asking on a global basis?

Suresh Badami: Given some of the products that we have launched on the non-par and par side, the average ticket size of some of these products has been significantly higher and it has also been, like I mentioned earlier, an ease of sale for some of these products given the high demand which has been there for these products. The NOPs on the term have actually de-grown that is right. Like Vibha mentioned, there were a few reasons in terms of the customer postponing or not taking it up based on the pricing and we are also tightening our underwriting norms. So if you were to look at it without term, our growth on NOPs has been there, but overall the industry has been struggling with NOP growth which is really where the challenges for the industry in terms of the number of lives which we need to cover. But we have grown, if we exclude certain cohort, we have grown at three years CAGR of almost 10% in terms of NOP. I just mentioned that there were certain cohorts on the low-ticket size that we have exited because we found the quality of the business either in terms of persistency or in terms of claims or mortality being higher.

Prateek: Srini can you give some rough idea of number of unique customers which you would have and the growth of them let us say over FY2020 versus FY2022?

Vibha Padalkar: We might feed that in subsequently do not have it handy.

Prateek: Surely thanks. Looking forward to that. Thank you.

Moderator: Thank you. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Quickly one thing on retail protection is that again in terms of the volume fall entirely led by the subdued demand and if you can quantify that how much subdued demand is contributing and how much of it is because of your acceptance rate from proposal stage had gone down that is all and second if you are already able to launch this combination product HDFC ERGO, if at all regulatory allow you to distribute a health product what does it change really?

Vibha Padalkar: I will take the second question and then Suresh can answer the first one. We have been at the forefront of nudging the regulator to allow us to sell and this is something that we have been selling in the past until about 2015. What this will do is, it will depend on what form or shape we are allowed to, the ideal would be right from manufacturing to distribution we can do both. Otherwise it will just be distribution which is what we have given and what we were allowed to recommend so distribution is an ask that is there in the report that has been submitted. So first is that it will depend on the form or shape. If we are allowed to manufacture, great, what this will do is not just offer mediclaim products that is fine but it will allow us a lot of product innovation which today that is the missing piece and while we can collaborate with and we do collaborate with companies like HDFC ERGO. It is at best a force fit and it is somewhat clunky from the customer's point of view. So this will allow us to give a feature and build in a feature into our existing product offerings wherein it becomes very customer centric as a one stop shop for everything from mortality to wellness to morbidity everything in between and for us to ratchet it up and down to be able to add riders similar to what we see in some of the other geographies and I talked about wellness as well. So it will allow us to do that but we will have to see what we are allowed to do and then do the best that we can under that new regulatory regime.

Suresh Badami: So I will add first to Vibha's second point. I think the overall value proposition and the improvement in productivity that we can see at a customer touch point or engagement especially when we have a combination product like that I think can significantly add value both in terms of the customer coverage that they will get as well as the total sales that we can generate or the additional sales that we can generate at every engagement. On your first question frankly, Niraj had mentioned this in one of the earlier questions if you really look at our product mix, it has more or less remained stable across par, non-par, UL, and term. So there is a slight dip in term business, the par has more or less remained the same. We mentioned this earlier I think, we do tend to balance our product mix based on what the overall market scenario is like and we have been managing to do that across each of the channels. So while on the term side, we do see a little bit of a customer sentiment slow down in terms of searches, we see that happening like we had mentioned and there is may be the impact of inflation or a delay in postponing there has been a little bit of a tightening at our end because we are looking at all product lines across all channels to help us deliver on both the risk side as well as the quality of business. So if you have noticed our persistency continues to remain top in class, our product mix remains the same and if for a certain quarter we see a little bit of term slowing down we have tried to make sure that the overall sum assured or the protection that we grow has aided from the credit protect business. So both protection and annuity combined put together are going up. Our credit protect business is leading to the overall protection in terms of both number of lives as well as the sum assured that we are covering and depending on how we find the overall market evolving, we will be able to change the product mix as we go forward.

Avinash Singh: Any sort of quantification in terms of the acceptance risk from proposal origination to your issuing a policy is there some matrix, how much sort of income expected from your side rather earlier if you were kind of issuing 8/10 proposal hypothetically?

Suresh Badami: I think there is a fair amount of effort in terms of understanding which persona, which profile, which markets we want to source and where we would want to push the channels to source. So while our throughput has increased like I mentioned earlier almost 3% to 4% points our throughput has increased what we have tried to do also is to ensure that we are getting the right profile in today's underwriting norms like we have mentioned earlier there were certain cohorts where we saw the risks higher or the persistency lower, we have tried to go back and say that we probably do not want to source those profiles. So there has been improvement in terms of our throughput. We are looking at that but it is very closely balanced with the risk that we want to take on these kinds of profiles.

Moderator: Thank you. The next question is from the line of Madhukar Ladha from Elara Capital. Please go ahead.

Madhukar Ladha: Thank you for taking my question. You mentioned that the shorter end of the yield curve has risen more than the longer end of the yield curve which implies the yield curve is flattening a little bit. So the question is if this trend continues and if we go back to a yield curve which was probably prevailing two or three years back which was very much more flatter than what we are right now, how would you see that to impact the supply of FRAs and then would it be that easy to sort of construct the non-par products that the market seems to be doing now, your comments on this would be helpful?

Niraj Shah: We do not expect the shape of the curve to change the supply of FRAs. More and more banks are coming into this. The banks are increasing their capacity and more banks, domestic and foreign, are coming into this so we do not expect the supply of FRAs to get impacted by the slope of the curve. What can change is in terms of the economics, in terms of what happens to the spread, that gets dictated by the difference between the spot and the OIS yields and that is something that can change from time-to-time but ultimately from our perspective, it is about managing the spread. We were doing non-par using our internal capacity before FRAs were allowed. When FRAs were allowed then we started using that. Even today when we look at our entire risk management approach it is not disproportionately dependent on FRAs. So what we are doing today if you look at our FRA numbers for the last couple of years you will find a Rs.10,000 crores odd number in FY2021, we got it down to Rs.8,000 Crores in FY2022, in spite of business having going up. So as such dependence on FRA, it is a good instrument, we use it for risk management but we are not overly dependent on it. So the economics of it we will try and manage by managing our spreads. So if we are getting a positive spread on that, some of it can be reflected in the rates given to the customer, some of it can get reflected in terms of the spread that we get. So that is how we look at it Madhukar.

Madhukar Ladha: Just a followup on this, from the bank's perspective obviously a more flatter interest rate curve would mean lower spreads for them. Do you not think that would then disincentivize them from writing more FRAs?

Niraj Shah: Again you can of course talk to the counter parties but actually if you look at the way this business works is really, the bank is using the balance sheet to earn this spread themselves. Now unless that balance sheet is being used to write some other business at higher levels it is very, very different and also you see the economics of global banks the kind of returns that they may have in their own global balance sheets what you get in India is still very attractive no matter how flat the curve gets just because of the level of the interest rates itself.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand over the conference over to Ms. Vibha Padalkar for closing comments.

Vibha Padalkar: We would like to thank all of you for participating in today's results call. Good evening.