"HDFC Life Insurance Company Limited
Q4 FY23 Earnings Conference Call"

April 26, 2023

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

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, Darwin. Good evening, everyone. Thank you for participating in this conference call to discuss the financial highlights of the year ended March 31st, 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, CFO; Eshwari Murugan, our Appointed Actuary, and Kunal Jain, representing Investor Relations. I will provide an overview of our FY23 results, and be happy to respond to any queries following that.

As was done in the previous quarter, we will be presenting the financials including the acquired business. Therefore, it is possible that the numbers from the previous year may not be entirely comparable.

Before I proceed, I would like to take this opportunity to congratulate Niraj on his elevation to the Board of HDFC Life as Executive Director and CFO.

As you may be aware, the RBI has permitted HDFC Bank or HDFC Ltd to increase their shareholding in HDFC Life to more than 50% prior to the effective date, thus clearing any uncertainty around HDFC Bank's eventual shareholding in us. We look forward to collaborating with our parent to be, towards creating value for all stakeholders.

Moving onto our operating performance during the year:

We closed the year with a strong growth of 27% in individual WRP with a market share of 16.5% and 10.8% in the private and overall sector respectively, clocking expansion of 40 and 70 basis points respectively. We continue to grow faster than the private industry and be ranked amongst the top 3 life insurers across individual and group businesses. In terms of Individual WRP, we have outpaced the private industry over multiple timeframes including, in the past 3, 5 and 7 years, thereby consistently demonstrating growth leadership.

As you are aware, the fourth quarter saw budget announcements with respect to changes in tax regulations, effective April 1, 2023. Individual WRP growth till February was about 15% and did not have any impact of budget changes. The new business premium recorded in the month of March 2023 was buoyed on account of the additional demand, especially in the non-par and high-ticket size segment. The incremental business can be estimated for us as the difference between actual growth for the year of 27% and extrapolation of the 11M growth trajectory of around 15-16%. In the month of March, we were able to leverage the opportunity, by offering competitive solutions whilst managing profitability and adhering to a calibrated risk management approach. In this month we stood number one across agency, broCa, bancassurance as well as sales through our website, which quadrupled. As a result, we registered a growth of 56% in Q4, more than 2x growth of the industry and ranked #1 amongst private players.

Looking ahead, the medium to long term growth opportunity in our sector remains intact. The long-term guaranteed savings product proposition is unique and the returns offered are best in class, even after the recent tax changes. We believe that the opportunity has only widened with the tax changes for certain other asset classes. Moreover, protection and annuity remain areas that are exclusive to life insurers.

In light of the above, we remain confident about being able to grow our APE in FY24, after adjusting for the additional business that was generated in March and we will continue to aspire for higher than industry growth. Our focus will be on broadening our customer base and increasing number of policies sold and the lives covered. The building blocks for this are in place, aided by our diversified network of distribution partnerships and agency distribution, which was boosted by our acquisition of Exide Life. These avenues give us the ability to reach out to multiple customer segments, across tier 2 and 3 cities and deepen our reach. Further, our largest distributor and our parent to be, HDFC Bank, has embarked upon its branch expansion in Tier 2 and 3 locations which will be complementary to our strategy. We recognise that the persistency and mortality experience would be different for some of these segments, and the same is being factored in our overall actuarial assumptions. Our distribution continues to be supported by suitable product propositions for this segment.

Our overall product mix remains balanced. Amongst the savings products, non-par savings was at 45%, participating products at 27% and ULIP at 19% of individual APE. The non-par share increased to 53% in Q4, due to the higher demand and is expected to normalise in FY24. Within the non-par segment, our shorter tenure product Sanchay FMP comprised about 13% to 15%.

There has been an increase in protection share in total NBP from 24% in FY22 to 29% in FY23. Our overall protection APE grew by about 20% in FY23. This was led by our market leadership in credit life, delivering strong growth of 46%, across nearly 300+ partnerships. Retail protection trends remain encouraging with sequential growth of over 50% and YoY growth of over 40% in Q4. Our FY24 outlook for retail protection is positive on the back of the growth trends experienced over the last 3 quarters across channels.

On the retirement front, we have steadily gained market share in the annuity business. Our annuity business in FY23 grew by 18% on received premium basis compared to a 2% growth for the industry. APE growth is much higher at 59% due to a pickup in our regular premium annuity product - Systematic Retirement Plan during the year.

Moving onto key financial and operating metrics:

Our new business margin for the year was 27.6% thereby delivering value of new business of Rs. 3,674 cr. which is a growth of 37%. Margin neutrality, after considering the acquired business, was achieved well ahead of target. The full year margin factors in an investment of Rs. 50 crore that was made towards our technology transformation strategic initiative named ‘Project Inspire’, which I had spoken about in the last analyst call.

We expect to continue our VNB expansion in FY24, through faster than industry APE growth, whilst maintaining close to FY23 margins. We will increase our investments in technology and distribution, including our propriety channels to take advantage of digital opportunities as well as achieve our growth objective. We anticipate further investments of about Rs. 100 crore each in FY24 and FY25 towards Project Inspire to make us agile and future-ready, by providing a 360 degree view of our customers, seamless integration with new partners, resulting in an improved customer experience and productivity across channels.

Our embedded value stood at 39,527 Crore as on March 31st, 2023, with an operating return on embedded value of 19.7% for FY23. Profit after tax for FY23 stood at Rs. 1,360 Crore, a robust YoY increase of 13%. This is despite the increased new business strain arising from higher growth in Q4. The profit emergence continues to be aided by strong growth of 27% in back book surplus. The Board has recommended a final dividend of Rs. 1.90 per share, translating to a payout of about 30% of our PAT, in line with our dividend payout ratio since FY17.

Our Solvency ratio was 203% as on March 31, 2023. Renewal collection trends continue to be healthy on the back of steady persistency. Our 13th and 61st month persistency for limited and regular pay policies stood at 87% and 52% respectively compared to 87% and 54% last year.

Next on channel performance:

Our bancassurance channel grew by over 25% in FY23 based on individual APE. We are witnessing robust growth in all our partnerships. Our collaboration with HDFC Bank remains strong as we strive to enhance insurance accessibility to the bank's customer base.

Our agency channel witnessed strong growth, surpassing company level growth by more than 1.5 times in terms of individual APE. It has grown at a 5 year CAGR of 34%, almost doubling its share from 11% in FY18 to 20% in FY23 aided partly by a strong performance in the market place as well as by inorganic growth. Our focus remains on enhancing activation and productivity of our financial consultants, and aim to drive growth by expanding our presence in new territories and reaching out to a wider range of customers.

Our subsidiary, HDFC Pension Management Company, doubled its AUM in a year and a half to exceed Rs 45,000 Cr as of 31st March 2023. It is the largest and fastest growing pension fund manager in both Retail and Corporate NPS AUM segments. Our market share has increased from 36.9% to 41.2% over the last year with 60% growth in AUM. Our subsidiary HDFC International has received the final approval from the concerned regulatory authority, enabling us to establish a branch in GIFT City. We are excited about the new opportunities it presents for us to expand our global presence as we target to commence operations in Q1 of FY24.

Moving on to Regulations:

IRDAI is proposing several changes that would enhance insurance penetration, facilitate sustainable growth and ease the operating environment. We are enthused about the new EoM regulations, which provide greater flexibility for cost management, encourage the development of longer-term products, and improve persistency by offering higher allowances on renewals. These changes will also aid in the revival of the pension segment.

Slide 5 of our investor deck plots how we have fared better than the industry post every major turbulence. The first significant disruption was in FY11 post the new Unit Linked guidelines. The second was when HDFC Bank adopted open architecture in FY18. The third upheaval was the pandemic with the industry being hit both by business disruption along with a massive surge in claims as well as change in UL tax exemption limit in FY21. The latest disruption is due to the budget announcement made on 1st Feb 2023.

Between the first and second disruption, i.e. UL to open architecture, we delivered 2 times industry growth. Between the second and third disruption, i.e. open architecture to Covid, we delivered 1.5 times industry growth. In the last 3 years, we delivered 2 times industry growth despite Covid and the UL tax changes.

We have consistently doubled on all key metrics including New business premium, Renewal premium, Value of new business, Embedded value, amongst others, across multiple blocks of 4 years. Being able to deliver a predictable performance, predicated on sustainable business practices remains a hallmark of our way of conducting business.

Hence, we believe that the recent changes, whether on taxation, business models or regulations, are part of the growth pangs of the private life insurance sector that has only recently reached adulthood. The larger companies with strong corporate governance and disclosure standards are poised to fare better holistically, on growth, profitability, business quality as well as risk management.

To conclude, our focus remains to provide a wide range of insurance products that cater to the diverse needs of our customers, thereby ensuring their financial security. Furthermore, we are dedicated to leveraging technology and digital advancements to create a smooth and convenient customer journey. We are optimistic about the growth prospects of the industry and are committed to driving a significant increase in insurance penetration in line with the regulator’s vision.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Suresh Ganapathy from Macquarie Group. Please go ahead.

Suresh Ganapathy: I have got 2-3 questions. First, you said something about the contribution of high-ticket policies. Just to understand this a bit better, your full year APE growth was 37% and your Q4 APE growth was more than 70%? What is the contribution of high-ticket policies to the overall business done in Q4? Can you tell in percentage terms for greater than Rs. 5 lakh business?

Niraj Shah: For the year, it was in the region of about 12%-14% and for Q4, it was about 35%. And that's the reason why we referenced actual growth and normalized growth. You could take 27% as actual growth and 16% as normalized growth, the delta would be the impact of the budget.

Suresh Ganapathy: It's a bit confusing. Full year, you ended at 37%. So, what is the normalized growth?

Niraj Shah: 27% is full year actual growth. Till February, we were at 16% growth. The budget impact was actually in the month of March, which is the incremental business. That's what we called out.

Vibha Padalkar: February had next to no impact. Most of the impact came from about the second week of March. And there, the delta works out to about Rs. 1,000 crores.

Suresh Ganapathy: Okay. Now the other 2 questions. You had a 37% VNB growth for FY23, means there is a very strong base. So, on the backdrop of this strong base, can you deliver a strong VNB growth heading into FY24?

Vibha Padalkar: Yes, we are very confident, that we should be able to deliver growth that is in line with the APE growth while holding margins. The only caveat is the investment in tech transformation of about Rs. 250 crores which we talked about. Out of this, we have spent Rs. 50 crores this year. Rs. 100 crores would be the outlay in FY24 and FY25. We should be able to deliver similar margins except for the tech transformation.

Suresh Ganapathy: And the last 2 questions, one is on the relationship with HDFC Bank. In an earlier call, you mentioned that the contribution has down come down from 50% to 45%-47%. What is the target here? Any conversation with Sashi that you have done, which you can share? Can you increase this to 60%? Can you give us some guidance on it? And finally, on the EOM guidelines, how does this work? Depending upon players' competitive advantage either in product or distribution, can there be adverse effects? If I want to pay a banker more, I can pay more. If I want to push a particular non-PAR product, I can pay more and push it and create an adverse effect in that particular channel because it gives complete freedom and flexibility. Do you think that's the way it plays out or there'll be fair competition in the entire market?

Vibha Padalkar: On the first point, we don't track a channel as a percentage of our overall composition because different channels can grow at different rates and by targeting that bancassurance and HDFC Bank's share has to be a particular percentage point, then you have to calibrate others. So, that's not how we look at it. In terms of the counter share at HDFC Bank, as Sashi and Srini have articulated, is that as they are now our parent to be and that the market share should start inching up. Those are conversations that will fall in place because if you were to look at it, it's not just in HDFC Bank, but in all the other new partnerships. We have been making significant inroads even without them being our parent. So, it is in terms of do we have the depth, triangulation between product, pricing, brand, claim settlement, etc. And if we are making inroads in other banks, then even here as a parent, that should organically happen. And of course, we will be the best in terms of presence in branches. So, you should start seeing that trending upwards, but not tracking in terms of percentage of our business, but certainly, the percentage of the business that's being done by HDFC Bank.

On the second question about EOM, it all depends on how the regulator is looking at it. It is to move towards a principle-based approach to sell more longer-term products which very well augurs to how we've been selling. And this is an aspect wherein we pride ourselves that we have one of the biggest share of longer-term products. We also give some of this information. So, not very onerous for us and it also depends on affordability, since different companies have different levels of expense of management. 100 minus the expense of management is the maximum that you can go to. At the same time, we hope that everyone triangulates in terms of distributor, customer economics and regulators direction to bring cost down. So, it's a 3-way triangulation, which will evolve. For us, we have 300 partners, and these conversations are going on, keeping this principle-based approach in mind.

Moderator: The next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: In terms of margin guidance that you mentioned, it being flattish next year, could you comment on the key drivers between the merger synergies, expenses as well as product mix?

Vibha Padalkar: Yes, sure. I'll start off and hand it over to Niraj. The way we look at this is that VNB certainly, like I mentioned, will be driven by APE growth. There will be more margin extraction from some of the products, for example, protection. The quarter-on-quarter trend is also there in our investor presentation and that will continue to go up. I also mentioned about credit life continuing to do well. So, that will continue to give us the upside.

In terms of investments that we have made in a lot of partnerships, whether it is in AU Small Finance Bank, India Post Payment Bank, Yes Bank and so on. As you know, we have to invest ahead in terms of manpower before the revenue starts kicking in. So, we expect that also to happen. Similar is with the acquisition of Exide Life in Tier-2 and 3 locations. The costs have already been incurred and are being carried in our P&L and reflected in our margins. So, the upside should start coming in, in terms of productivity increase. Niraj, do you want to add to that?

Niraj Shah: No Vibha, you covered it.

Deepika Mundra: Any comments on potential for composite license and how do you think about the health offering in conjunction with HDFC ERGO? Or would you like to do it stand-alone?

Vibha Padalkar: If you recall, out of all the committees that were formed, HDFC Life chaired the Development and Penetration Committee. And in that report, we did ask for composite license. So, it's no surprise that, it has come through. We asked for a whole host of other things like the genesis of Bima Sugam and to have a marketplace. We talked about being allowed to distribute other financial services products, including products that are regulated by IRDAI and other regulators. We're happy that this is hopefully seeing light of day wherein the bill gets passed and we are able to do this.

Now, if you are allowed to do this, the next step is the regulator needs to form regulations to be able to say what is it that they would like to see. But assuming that they are on-board to your last question, we're not really interested in re-distributing the pie. We want to grow the pie. And when you triangulate that, wherein 60%-70% is still out of pocket expense and the numbers are not even a percent in terms of penetration, much lower than what it is in life insurance, then I think we would be doing dis-service by just redistributing the pie. So, we don’t really want to play just in the mediclaim space, but having to juxtapose between life and mediclaim.

There are many layers. It could be in terms of riders. It could be in terms of embedding health solutions within a life product and so on. We do have a few ideas on which we are ready to press the button if we are allowed to sell it. At the very least, our ask in the earlier committee has been to allow us to distribute health products if not to manufacture. Yes, that is admittedly not the best outcome, but at least that.

So, all these options are open and worldwide health fits much closer with life and underwriting becomes easier with an understanding of the person's health condition. We'll wait and watch, but we certainly have our plan ready, depending on any of these avatars that we're allowed to do.

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

Avinash Singh: A couple of questions. First one is on your back book surplus. If I were to adjust for last year's excess mortality reserve, probably the back book surplus revision looks like 7%-8%, typically much weaker than your trajectory. If you can provide some more colour on that. That's my question one. And second question is just to repeat perhaps, in terms of FY24 outlook. On this strong bumper base, do you expect APE to grow in FY24? And on margin I'm a bit confused because you are seeing a positive trajectory for retail protection. You are going to see probably more granular growth as far as non-par policies are concerned and some synergies from HDFC Life-Exide merger as their base performance will improve going forward as well. Yet you are being guarded on margin guidance. These are my questions.

Niraj Shah: I'll start with the margin question. What Vibha did mention is that there will be a couple of things here. One is in terms of product mix, we said that there will be more longer-term business that we would expect to get over the next year. We will look at product mix beyond that. As we've said, in terms of protection for the quarter, we had a significant growth ~40%, and we expect protection to continue to grow on a normalized base as we go forward. Some of these things will help in margin accretion. That will be balanced by the investments that we have made, and we continue to make in building our distribution in terms of people on the ground as well as in terms of the technology investments that Vibha spoke about. We started that, and we'll continue with that over the next couple of years. So, the idea really is to generate VNB growth out of APE growth. We did mention that we are fairly confident about delivering growth next year on a normalized basis and our aspiration will be to continue to grow faster than the industry.

On our VNB growth, we expect it to come from APE growth next year while maintaining margins in spite of all the investments that we will make. And of course, there will be adjustments that will happen as the year progresses in terms of how the market evolves. There was an earlier question around EoM and the practices that may be followed across the industry. So, we'll have to look at all of that as well. But all in all, we have talked about directionally how we would like to approach it, and that's how we are looking at margins for next year.

As far as the question on EB surplus is concerned, even on a normalized basis, we are looking at adjusting for the COVID number, 18% to 20% EB surplus growth. So, that is something that we believe has been achieved, and it's something that we will expect to continue.

Avinash Singh: No, my question was on the back book surplus that's on Slide 10. The Rs 34.9 bn in FY22, if you normalize for excess mortality reserve for COVID, it goes up to Rs 41.4 bn. And from there, with Rs 44.2 bn in FY23, it's like some 7%-8% growth. That is a lot muted considering your past. Of course, FY21 and FY22 had some COVID impact. So, what is driving this sort of a slower trajectory of back book surplus. Is it Exide Life or is it something else?

Niraj Shah: I think what you're doing is basically taking the full COVID impact into the EB surplus, that's not really the right way to look at it because there is a new business impact as well. So, you have to actually distribute the impact on new business and also on existing business surplus. If you back that out, then you get to the number I mentioned.

Eshwari Murugan: To add to that, there will be some other impacts like we have our assumption changes or some operating variances that would flow into the IGAAP. So, just completely including the COVID impact would not be the right way to look at the underwriting profit or the existing business profit emergence.

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

Sanketh Godha: Vibha, just wanted to understand that HDFC bank, which will ultimately become a 50% owner, whether it will be a new fresh capital infusion or it will be a secondary market purchase? So, to understand, if there is fresh capital infusion, the way HDFC Limited did in the early part of this year, then what kind of capital or solvency you would be looking at? After you answer that question, I have a couple of data keeping questions.

Vibha Padalkar: Yes, sure. At this point in time, we haven't had concrete discussions with HDFC Bank. We will, over the next few days. But we don't require extra capital. As you know, we raised Rs. 2,000 crores. So, in all probability, it will be secondary.

Sanketh Godha: And if I look at the unwind rate, probably it is lower compared to what it was last year, which you guided at the start of the year, at around 8%. So, given the interest rates are a little higher, can we expect that your ROEV next year could be driven by better unwind rate?

Eshwari Murugan: Yes. Like we mentioned in the first quarter, we have computed the unwind for the year based on assets that we had and the cash flow pattern at the start of the year. For the coming year i.e. FY24, we will do the same exercise. And based on the computation, we will let you know what the unwind rate is in the first quarter. But yes, as you rightly said, as the interest rate curve has gone up, we expect the unwind rate to be higher. But it's not that it is going to be only influenced by the interest rate increase in the shorter end because at the longer end, the interest rates have been fairly similar. So, depending upon the composition of the cash flows that comprise the VIF, the unwind rate will be influenced by the average of the movement. And then we'll definitely let you know the computation in the first quarter of the year.

Sanketh Godha: And last question, 12%-13% of the entire year's business, which is high ticket entirely gets disrupted. So, assuming it entirely gets disrupted or you can't regain that business in FY24, then is your confidence of APE growth largely driven by the market share increase in HDFC Bank? Or additional business could come from some other channels? I just want to understand the thought process because 10% disruption, means 100 becomes 90 and at 90 even if business grows by 20% next year, then the growth we are looking at is 7-8%. So, in that sense what gives you confidence that APE growth could be driven even if high ticket gets disrupted next year?

Suresh Badami: Just to let you know, even until February before this spike came in March because of the budget changes, we were growing in the range of 15%-16%. And if you really look at the growth which has come in, has come across product segments and has come across different channels. Our proprietary channels, which is agency and direct have been growing. A lot of our new banca partners and partners other than HDFC Bank have also given us great support. So, whether it's Yes Bank, Bandhan or IDFC, we have been tremendously supported in terms of growth from them. And we see that trend continuing as they expand.

The third piece, of course, is the fact that there are certain opportunities, which we see in the smaller ticket par and non-par because that will be a segment which will open up and the number of policies that we'll be able to gather from there should be fairly high.

Lastly, most importantly, we do believe that now with HDFC Bank as parent, they will give us a fair amount of spike in terms of market share, and we are working towards that in close coordination with them. So, we will definitely, like how we have done in the past, target to grow faster than the industry, we're fairly confident of that. Whether we are confident of 10% to 15% growth, I think, like Vibha, mentioned earlier, there have been 4-5 instances of disruption in the market and across all those disruptions, you will find that we have somehow managed to grow in the range of anywhere between 10-15%. And we are hoping that even in this case, we'll be able to replicate that.

Niraj Shah: Just to add to that, apart from on the distribution side that Suresh spoke about. On the product front itself, this whole premise of 100 going to 90 and 90 being the starting position is something that we don't necessarily believe in. Because even after the budget changes and specifically more after the other announcements that were made around debt mutual funds, we believe that this product category still is incomparable. There is no product proposition that exists over this period of time, which gives this kind of proposition even on a post-tax basis. So, we don't really subscribe to the thought process of the starting position being lower. Of course, the bump up that has happened, we are looking at normalizing that. But the starting position in our mind, will not be less than 100 from that perspective. And we'll aspire to grow from a normalized base.

Vibha Padalkar: And I want to add one more point to this. While there's a lot of talk and focus on more than Rs. 5 lakhs ticket size, an important data point is that in the month of March, our below Rs. 5 lakh ticket size business grew by close to 50%. So, it is not that there is no growth there. Another data point is in that unit-linked, after this Rs. 2.5 lakh tax change happened, our composition of unit-linked for higher ticket size has actually gone up significantly. Rather one would have expected it to have gone down. So, there is a fair bit of decoupling between tax being the reason, at least for our section of customers, and it's actually translating into their buying behaviour.

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

Swarnabh Mukherjee: So, first question is on the cost structure. Given the VNB walk that you have provided, we have had a very strong scale up in FY23. Despite that, I see that VNB has a negative impact coming from fixed cost absorption, while I would have thought that because of strong growth, there would be some amount of operating leverage actually playing out in a positive manner. So, I wanted to understand how to read this and what will be the proportion of variable cost in this cost structure which is resulting in this? And also, if you could look at it from the lens of EOM ratio glide path. Where are we? Our EoM ratio is closer to 20%, the number that you report. So, how should we look at it? Are we above the limits that IRDA calculations prescribe and how the glide path will be? So, this would be my first question.

And secondly, in terms of persistency, I see that in 61st month bracket, there is a drop in persistency while in all other cohorts, you have improved the persistency. Just wanted to understand, is this related to some kind of persistency challenge in ULIP book that has played out particularly or anything else to read into that?

Niraj Shah: Yes, I'll just quickly start with the second question on persistency. 61st month that you're referring to, it's largely the impact of the merger. There were certain cohorts of the acquired business, which was historically trading at lower persistency. While there has been improvement across the business that has happened over the last few years in Exide Life, the business that was written 6 or 7 years back, did indeed have poorer persistency. That is something that is getting addressed and that was the impact that you saw. If you look at whether it's category-wise in terms of product segment or ticket size, persistency across the board has been improving over the past few years, and we expect that trend to continue as we go forward.

To your question on VNB trajectory, there has been clearly, some operating leverage that we saw in Q4 because of the volume pickup. Some of that got neutralized by the investments that we have made and continue to make on the people front as well as on the technology front that we spoke about. And this also does carry the impact of Exide Life business, which was operating at a particular scale. And while some of the synergies have been realized in this period and the cost of acquisition or the cost of writing business has come down from over 100% to 70-75%. We expect that to go down even further going forward.

Swarnabh Mukherjee: Got it. Just a follow-up on this answer. The Rs. 100 crore investment that we plan to make this year, how much headroom does it leave us to push some kind of favourable terms in terms of commission in certain products? Do we have a lot of headroom given that we would also have to have a glide path for EOM directionally, which should be lower?

Vibha Padalkar: I didn't understand the question. Are you asking whether we can afford the Rs. 100 crores within EOM? Yes, very comfortably we can because we do have a fair bit of headroom and have had for the last several years. We have been one of the few companies that have been compliant both at the company level as well as at a segment level. So, no issue at all on that front.

Moderator: The next question is from the line of Madhukar Ladha from Nuvama Wealth. Please go ahead.

Madhukar Ladha: First, I missed out a little bit in the beginning. So, when you say the growth in this quarter was 16% that was normalized and 11% was the high-ticket size tax impact, right? So, are these numbers on what basis? These numbers are for the full year or for the quarter because for the full year, the individual APE has grown about 39% year-over-year. And for the quarter, it's at about 75%, right? I didn't quite follow these numbers.

Vibha Padalkar: Madhukar, you need to take Exide Life into the base. So, the growth is 27%. What we explained at the beginning of the call is that if you were to look at where we were trending, which is YTD Feb, we were trending about 15%-16%. So, from 27%, if you back out 15%-16%, which comes to about Rs. 1,000 crores, could be attributed to what we said is the March effect.

Madhukar Ladha: No, I missed the Exide Life part in the earlier part of the call. Sorry about that. And the other thing also about this Project Inspire, what exactly are you trying to do out here?

Vibha Padalkar: So, it is a holistic transformation of everything from having a 360-degree view of the customer and looking at various capabilities. For eg. We are looking at our application architecture, the IT governance model, road map on the cloud strategy, while we've embarked upon it, suitability of our tech assets in terms of how much would be on-prem, how much would be on cloud, to look at our overall architecture. Typically, we would have the core policy admin system, every life insurer, whether in India or abroad would have that and then you have a middleware. But that does reduce our speed to market, both in terms of customer propositions, partner integration, new products and so on. Apart from having a single view i.e. 360-degree view of the customer that I mentioned, we would like to have a 360-degree view of the family as well with a lot of adjacencies that we can triangulate as well as having a data strategy at the core of it. So, it's not only tech but tech plus data. We already have a data lab in Bangalore. And how do we use data also enriched by what IIB is trying to do, Bima Sugam will hopefully happen. And triangulating that, how can we reduce the pain that a customer goes through in terms of underwriting? How can we give pre-approved sum assured? How can we have customer nudges? How can we triangulate where in exactly like you have where we start watching a movie on one device and then end up on a handheld device when you're traveling. Similarly, how can we have a customer conversation on sales or servicing on one platform and end up seamlessly on another platform and many things like that? When the time is right, we do intend to have a Tech day, and we haven't had one for some time, wherein we would like to showcase to all of you in terms of the inroads that we have made in this journey.

Madhukar Ladha: And one final question. So, you also mentioned that you saw growth of about 50% year-over-year in the less than Rs. 5 lakh category. So, are you worried or what are your thoughts on how much pre-buying has happened, so that people keep their Rs. 5 lakh limit available for FY24 and beyond. Could that sort of dampen sales a little bit in FY24?

Vibha Padalkar: I just want to put out very categorically, and Niraj mentioned this and Suresh mentioned it as well, but I just want to mention this again, I have no doubt in my mind about the prospects of life insurance, and that has nothing to do with here and now tax or no tax. Because now, there is parity, which is rightly so between similar kinds of products. With that, Niraj also alluded, even if I exclude life cover thrown in, our IRRs are better and the product proposition, that's the most important, there's no other product that gives long-term assurance of return. I think we're somewhere minimizing it and narrowing it down to an IRR conversation that an HNI will want. That cannot be further away from truth. Another part is that a lot of HNI whether fortunately or unfortunately, have very low tax rate. So, tax is often not the driver for it. And the fact that you get no ambiguity in terms of what am I going to get 20 years from now, no other product can give that. So, that doesn't change and that's what gives us the confidence that we go back to basics in terms of engaging with the customer and explaining some of the nuances. And to say that, okay, if unfortunately, something were to happen to you, your dependents will get this no matter whether a person is there or not. Suresh, would you like to add?

Suresh Badami: I think Vibha covered it, but one is not the issue in terms of whether pre-buying has happened. I think the fact that now almost everybody who is in less than Rs. 5 lakhs category in terms of the number of unique lives that we can cover can see this as a product that they can buy because it's a very strong value proposition below Rs. 5 lakhs in any case. Because that has not gone away below Rs. 5 lakhs. So, the number of customers who may want to look at this almost like an 80C even from a tax perspective, it's almost similar to that to say why don't I invest at least Rs. 5 lakhs into it, and we should be able to broad base. And this is really in line with the vision to say that with the smaller ticket size, everybody should have insurance in India. We should be now able to maybe drive multiple policies because the product proposition remains very strong.

Vibha Padalkar: And the last point I want to make is that in the overall objective of going back to basics, HDFC Life has always been a middle class, upper middle class and affordable segment focused insurer. Somewhere market was pulling us into the high net-worth segment. So, it is, in a way, playing to our strength to come back to the core of what we are comfortable with, wherein the levels of underwriting, especially on mortality are not compromised. This is because it's not difficult to say, I won't ask any questions, I'll ask very few questions, I will keep this on my books. You just have to triangulate with a lot of public information that is available for a lot of insurers that have kept more and retained, more and more on the books. Now for some of these, there's no reason to believe why that retention at high ticket sizes is okay, and it's going to pan out the way it is going to pan out. So, my limited point is that we are now playing to the strengths of HDFC Life, and that's what gives us also the comfort and the confidence that the growth will be unaffected.

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

Nidhesh Jain: 2 questions. So, first, on protection, the growth that we have seen in this quarter, is it any channel specific? Or are we seeing broad-based growth? If you can comment on the growth, how we have seen on our agency side, specifically on the protection. Secondly, if you could share the mix of APE, which is coming from more than Rs. 5 lakh category because I remember that when the budget announcement came at that point of time, we have said that such policies contribute around 10% to 12% of our business. And I believe in Q4 that share of business would have gone up quite significantly from those policies. So, what is the share for the full year from Rs. 5 lakhs plus policies in our APE?

Vibha Padalkar: So, the growth, if you were to look at, almost all channels have done fairly well. But one noteworthy aspect that is showing very good traction is our bancassurance channel and on the back of some of the product launches that we've had. And another noteworthy aspect is that other than the top 10 cities, we are beginning to see traction in the protection space. We're delighted by the kind of a traction that we are seeing. Of course, somewhat early days because we're talking about a quarter, but that is quite noticeable. If you were to look at HDFC Bank itself, the branch activation on protection, and this is there on Slide 15, that has increased by 50% year-on-year. That focus will only increase, and we had multiple conversations with HDFC Bank to say that this is an opportunity, it's a question of focus and there are solutions such as the return of premium to give lighter touch underwriting. All of that has come through and worked well. To summarize all channels have done well, but noteworthy is what we see in bancassurance.

Sorry, your second question?

Nidhesh Jain: What is the share of high ticket/more than Rs. 5 lakh policies for full year? We remember that the last time when you shared the data, that number was around 10% to 12%. Given that we have seen very sharp growth in Q4, that number would have been quite high. So, what is the number for the full year?

Vibha Padalkar: Yes, until February, it was 10-12% and for the month of March, Niraj has given this number.

Niraj Shah: About 1/3 for the month of March.

Nidhesh Jain: And when we're talking about normalized base, should we remove the entire number from FY23 APE? Or should we just remove Rs. 1,000 crores of delta that we have seen in March’23?

Niraj Shah: Yes, Nidhesh. That's what we should do because honestly, a lot of it is conjecture in terms of what will happen to greater than Rs 5 lakh category, less than Rs 5 lakh category. And we’ll all have different point of view on that. But, if we look at the data as to what was the growth YTD February, which was normalized growth and what has happened in March. If you back that out and take 15%-16% as the normalized growth for the year, that's what we would have actually achieved had it not been for the budget and that's what we are working with. And then various segments within that will anyway evolve as the business progresses going forward.

Nidhesh Jain: Sure. So we are guiding that on a Rs. 12,300 crores of APE, we expect positive growth next year?

Niraj Shah: Yes, absolutely.

Nischint Chawathe: If I look at the increase in existing business surplus, is a part of it contributed because of the merger as well?

Niraj Shah: No, Nishchint. If you just look at the stand-alone business, which we now don't track, there isn't any significant accretion to the PAT or EB surplus coming from the acquired business because of the cost at which that business is getting done. At the time of acquisition, the cost was over 100%, though now we've brought it down significantly below that. So, there isn't any significant EB surplus generation from that business yet.

Nischint Chawathe: And any specific drivers that you could call out for this EB growth?

Vibha Padalkar: Our product mix has been changing quite significantly over the years, and it is taking longer for profits to emerge. If you recall, we started on this non-par and some of the new par products about 4-5 years ago, and that has increased in its intensity. So, it has taken about 4 to 5 years for those profits to emerge as against a unit-linked product or even some par category products, where profits will emerge sooner, over a 2-3 years kind of a time horizon. You want to add anything, Eshwari?

Eshwari Murugan: Just to add to that, unlike the earlier product mix where we wrote more of unit-linked products, profits would be coming mostly in the first 5 years and not much later on. The contracts that we're writing now are longer term in nature and we will continue to get the profits over a period of 25-30 years. This means that after say 5-10 years, the backbook surplus emergence or the growth will be much higher. However, as we are in the transition period of the last 5 years business getting replaced, the emergence or the growth looks lower.

Nischint Chawathe: And just 1 more question about the business that you're looking at from the new branches of HDFC Bank. You somewhere mentioned that the persistency outcomes and the mortality outcomes would be different. Does it mean that margins in those branches would be a little lower?

Vibha Padalkar: We don't really see it that way. It's an overall portfolio approach, and it will be subsumed within the company-level margin.

Niraj Shah: So, Nischint, just to add to what Vibha mentioned, the good thing is that we've been tracking our persistency across geographies, customer segments and there has been an improvement across the board. And that's the reason why we're very confident about getting into Tier-2, Tier-3 with very good experience now compared to what we would have done probably seen 3 to 5 years back. So, what we are saying that, can we expect Tier-1 kind of persistency in a Tier-3 market? Maybe not. However, we believe that our Tier-3 persistency will keep improving from where it is today. So, all of this would be priced into our products, and we will ensure that this is factored into our assumption setting as well.

Moderator: The next question is from the line of Akshen Thakkar from Fidelity.

Akshen Thakkar: Most of my questions have been answered. Just going back to the point on growth. On the statement of 27% and 15% growth, that's largely towards retail APE, right? The group business shouldn't get impacted by that?

Vibha Padalkar: That's right. Yes.

Akshen Thakkar: All right. So broadly, just assume Rs. 1,000 crores of excess APE and then think about growth. The way you're thinking about it is on a normalized base, you see industry-leading growth after removing the Rs. 1,000 crores.

Vibha Padalkar: That's right. Yes.

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

Supratim Datta: So, 2 questions here. One, on the annuity side, it looks like the growth in the fourth quarter slowed. So, is there any particular reason for that? And number 2 would be, do you see a scope for this Rs. 5 lakh threshold that is there now, also being taken away going forward? Based on that, what kind of product innovations are you looking at?

Vibha Padalkar: Yes. So, on the annuity front, we held our market share and continue to be robust even in Quarter 4. Overall, it was an industry thing in terms of what are the government employees doing and is there some deferment or are there lesser funds that are flowing into annuity. Sometimes the release is not done by the public sector undertaking and a myriad of issues like that. You want to add anything, Suresh?

Suresh Badami: No, I think frankly, the idea was also to maximize on the opportunity in the non-par segment. The March numbers were almost like a full year number of what normally happens across some of the others. So, the volume, the channel, everything was devoted to this. And we ensured that we didn't slow down on annuity. We continue to maintain our market share as such. Also, like Vibha mentioned, some of the group annuity numbers depends on a lot of other factors on the ground in terms of how many people are coming in. Having said that, the channels on the field were quite swamped with the kind of budget related business, which flowed into us, thanks to the brand as well as the product.

In fact, our annuity business in FY23 grew by almost 18% on received premium basis compared to a 2% growth for the industry. So, you can see that the focus on annuity, like we've been saying, continues to be there.

Supratim Datta: And on the second question?

Vibha Padalkar: Sorry, can you just repeat that question?

Supratim Datta: So, what I was saying is that now you have been given a Rs. 5 lakh threshold, but a similar threshold has not been given to debt mutual funds or fixed deposits. So, should the government take that away, what would be your strategy? Have you started strategizing for a similar event or not?

Vibha Padalkar: Yes, absolutely. And it goes back to what I mentioned that we have no doubt in our mind that the whole concept of reinvestment risk is very well understood. See, if this had happened just when we had launched Sanchay Plus and nobody else in the industry was selling Sanchay plus, then people would not have appreciated what reinvestment risk does and long-term assurance of returns. Now that almost every player amongst our peer set is selling some avatar of this product, a category has been born over the last 2-3 years, and there's a pull for this product, and it is well understood versus the nuances of fixed deposit or a debt mutual fund.

So, we believe that it will go back to the basics of asset allocation. If a person has, say, Rs. 50 lakhs, maybe there could be Rs. 30 lakhs allocated into a Sanchay Plus kind of a product. The rest 20 lakhs or 10 lakhs each could be allocated into other forms of savings which will give him more liquidity. That could happen, but it's not going to go down to 0. And that's what gives us the confidence. The Rs. 5 lakh going away will be somewhat of an unfortunate outcome because of the fact that people do need to save longer term. It is something that they don't dip into, at the shortest or the first emergency or first discretionary spending. That is very important. But yes, we do believe that it goes back to the fundamentals of what this product has to offer, and that's not going to change.

Last point here is that the math very clearly shows that the post-tax IRR is more attractive versus any other product that is there. And also, today, people buy annuity. Just now we talked about annuity, and you raised a valid point that we are market leaders by a mile. Annuity is taxed, and that is something that is factored in by people. So, it doesn't deter people from buying annuity. And these are not only people who are buying annuity because that's the feature, but also people buy annuity in the open market. So, longevity risk is very well understood, and that's only going to increase as our population shifts more and more towards age of 50 and above.

Moderator: The next question is from the line of Parag Thakkar from Anvil Wealth. Please go ahead.

Parag Thakkar: So, first of all, congratulations to the entire team and HDFC Group that you got through the relaxation due to which HDFC Bank would be able to increase stake. And definitely, with skin in the game, I can also understand that now the entire machinery of HDFC Bank, will be more willing to sell HDFC Life products. Another trend, is that in order to mobilize more and more deposits, including HDFC Bank, which is taking the lead from the front because of merger with HDFC Limited, many other banks are also opening branches in Tier-2, Tier-3, Tier-4 cities. So, I would ask whether HDFC Life is focused on developing products for this Tier-2, Tier-3, Tier-4 cities where HDFC Bank is now going to open branches, or any other banks are also going to open branches to attract those customers where the ticket sizes might be small and the insurance penetration might be negligible.

Niraj Shah: Absolutely. So, thanks for the question. We just discussed in terms of our progression to Tier-2, Tier-3 in terms of quality of business. That gives us the confidence that as we broad base our customer base in these branches that you're talking about across not just HDFC Bank but other new partnerships that we have like AU Small Finance Bank and some of the other larger banks which are also increasing presence in Tier-2, Tier-3, and also, our variable agency business, which is primarily in Tier-2, Tier-3 markets. We are very confident of being able to not just distribute and get growth out of that, but get growth with quality and maintaining our profitability.

In terms of product constructs, yes, definitely, what we have to address is in terms of recognizing that the kind of documentation that's probably available in Tier-1, Tier-2 may not be available in Tier-3. We are looking at a lot of solutions around that as well. A lot of information is now available across third-party databases, which we are able to leverage. In lower ticket size typically the kind of underwriting, from a medical perspective, that's required is a lot limited.

We are already in arrangements and discussions with our reinsurers to be able to participate in this kind of an opportunity and the reinsurers are fairly enthusiastic about it. So, all of this put together gives us a lot of confidence in our ability to not just create products and reach out to these customers, but do that business at scale and on a sustainable basis.

Parag Thakkar: Yes. So, if we put all this together, that the banks are opening branches in Tier-2, Tier-3 towns where insurance penetration is not there. Looking at this, if you just leave aside FY24, where you have a disadvantage of a very high base of FY23 because of the budget thing. What is the overall expectation of growth over the next 3 to 4 years, considering the under penetration of insurance and considering the fact that now banks are opening branches everywhere in order to mobilize deposits?

Suresh Badami: You're absolutely right. Our whole strategy of ensuring that we reach to every segment in every part of the country, is something we have been working on for the past several years. And of course, we have the advantage of HDFC Bank, which now has increased their branch network to 7,800. They added some 638 branches even during the last quarter, and 1,479 for the full year. But if you really look at it, whether it's Bandhan in the East, whether it's CSB, SIB, Ujjivan, Equitas, whether it's Capital Small Finance Bank, Utkarsh, whether it's AU Small Finance Bank, a lot of them have very strong regional presence, and we've been actually getting extremely good support, like I mentioned earlier, from all of them.

So, clearly, if we have to work with them, we will find our growth and our product strategy also syncing with what they are doing. Of course, now we have the added advantage of acquiring Exide Life. If you remember, the entire proposition of looking at the acquisition of Exide Life was to look at the South market, which was a little weak for us as well as the Tier-2, Tier-3 markets. There's a lot of learning, which has come in terms of their product and the way that they go about their business, whether it's in terms of the venue marketing, or in terms of the agency model that they have, which we plan to now scale that up and take it across.

Thirdly, more importantly, I think being pioneers in technology, we've had a fairly strong presence in a lot of ecosystem partners. Now with multiple things happening in terms of the India stack, in terms of 5G, in terms of mobile penetration, in terms of how we've been working in the past, we do believe that there is again an opportunity in terms of increasing the NOPs as well as our penetration into the Tier-2, Tier-3 markets. Clearly, this year, we will focus in terms of how do we expand in some of these markets. And of course, the regulator is also looking at some of the other initiatives like Bima Vistaar and Bima Vahak. These are great initiatives to be able to take markets beyond even the Tier-2, Tier-3.

Parag Thakkar: HDFC Bank is increasing stake and HDFC Life does not need capital. So, mostly, it will happen through a secondary route, right? And generally Standard Life has been selling stakes in the past. So, what is the stance over there?

Vibha Padalkar: So, you're right. In all probability, it will be secondary because we don't need capital. And you're also right that Aberdeen has been a seller. And there's a last bit that is there of 1.66% more because it is part of the promoter group. So, these are all conversations to be had between HDFC Bank and who they want to buy the stake from. And I guess that should materialize in the next month or so.

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

Dipanjan Ghosh: Just 2 or 3 data keeping questions. If you can provide your rider attachment rates. Second, some colour on the credit life growth maybe across your channel partners, maybe segregate it across some of the channel partners out there on the MFI side. And lastly, on the annuity margins, we have seen the market leader take multiple rate hikes. So, how are the margins shaping up across that particular business segment without taking into consideration the mix change within annuities?

Vibha Padalkar: Yes. On rider, we are growing. Not really giving out specifics of that, but the focus continues to be there at every product that we can attach and at every channel level. Yes, there are pushes and pulls, but that has grown fairly well, both in terms of individual and group riders. Your second question was in terms of MFI.

Dipanjan Ghosh: Sorry. On the credit life business across channels.

Vibha Padalkar: Yes, credit life. We are very happy in terms of how well distributed it has been over the years. And the reason why we are happy is that there are many possible business disruptions. One kind of a sector goes up or down or one kind of a line of business is unattractive, mortgage is unattractive for something, or it is attractive for something else, etc. So, it's about 1/3rd, 1/3rd, 1/3rd. So, MFIs is about 1/3rd and HDFC group is about less than 1/3rd and balance is whole host of marquee banks and NBFCs. And similarly, we are very well spread across the lines of businesses as well.

Dipanjan Ghosh: And maybe the last part on the annuity margins and how that is shaping up for the industry?

Vibha Padalkar: Very robust. And I was a bit surprised, I thought we were the market leaders on annuities in the private sector.

Dipanjan Ghosh: I was referring to the PSU player out there.

Niraj Shah: So, the annuity market has been developing quite well. And what we are really seeing is a fairly calibrated approach from all the players who are participating in this. It is primarily the 3 or 4 large players who are writing this business. If you were to track in terms of how the market is behaving, you'll find fairly frequent repricing that is happening in the marketplace as a consequence of any changes in the interest rate environment. That's something that we expect to continue to see, given that this is a long-term risk management product, and we will be in a position to manage our spreads and maintain higher than company level profitability in the annuity business as we go forward because of the market conduct that we have seen over the past many years since this product category has expanded.

Across the whole business, there are multiple sources from which this business really comes. As Vibha mentioned before, in terms of discretionary savings as a segment has been growing in the annuity business. As the NPS business becomes larger, it is also contributing fairly well to this category of business. And we did discuss in terms of some of the regulatory changes that have happened more recently in terms of EoM. We do expect that the pension category as a product will also get revived very shortly. When that happens, that will also become a feeder to the annuity business as it was till a few years back.

Moderator: We have the next question from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: So, Vibha, the first question is how easy do you think it will be to redesign the KRA and change the overall strategy, focusing on granularity so as to limit the impact of budgetary changes? And also, if you can provide as to how April has trended so far to suggest the impact of new tax laws?

Vibha Padalkar: So, on the first one, it's going back. If you look at 3 to 4 years previously, we were doing exactly this, wherein we were selling to more and more customers. We were selling a lot more to middle class, upper middle-class kind of customers as well as solving for how do we broad-base growth. So, it’s going back to that. It plays to our strength, again, because of the DNA. So, I think it's a question of maybe a quarter or so, if at all. This was coming. And really, one point I want to make is that even if the budget had not come, this is exactly what we would have done. And this is something that my management team is very aware of that our focus has been to go back to basics about number of policies because broad basing and getting more customers was equally important. And so, this is not really a budget led recalibration of KRA sheets, and that gives me a fair bit of confidence.

As regards April, this is a forward-looking statement, and that's something that we will give you an indication when we report our June numbers.

Nitin Aggarwal: And one more question as to how do you see the HDFC Bank counter share now moving over coming years?

Suresh Badami: Obviously, once they become the parent, they will see the overall strategy more closely. We expect a huge amount of support in terms of how HDFC Life is being looked at. It's not that we don't have that support right now. But I think the way we are looking at it is in any of the business that we do, we have always looked at the right balance between the quality of the business as well as the risk that we take. And given the relationship that we have at all levels across the bank and their comfort with HDFC Life brand, we do see the counter share moving up. In various forums, we've had the senior management of both the entities saying that we will inch it back up to the 70% mark. And I don't see any reason why we shouldn't be heading there.

Obviously, it is open architecture and HDFC Bank has very clearly stated that they would want to remain in the open architecture model. So, we will have to be competitive, whether it's in terms of product or whether it's in terms of servicing. So, those actions clearly are planned for us, but you will see a sequential quarter-on-quarter growth in terms of our market share, and we are working very closely with the team there to see how we can take this up.

Moderator: We have the next participant in queue, Ms. Pallavi Deshpande from Sameeksha Capital with the next question. Please go ahead.

Pallavi Deshpande: I wanted to know what would be the share of ROP in the product mix? And any expected hardening on the reinsurance front?

Niraj Shah: So, ROP overall would be about 20-odd percent of the business. It has gradually expanded over the last couple of years. We started in single digits a couple of years back and now it has caught on as we go deeper into Tier-2, Tier-3 markets. Also, the Exide Life business was catering to this segment. So, we are around 20-odd percent at this point in time.

On the reinsurance front, it's been a fair bit of conversations that we've had with them in terms of how they are looking at the marketplace now. Two of the reinsurers are fairly active now. I did mention some time back that they are fairly excited about now getting back to the growth mode. From a pandemic perspective, there was a bit of defensiveness of course, at that point in time, but all of that is now gone. Clearly, it is in terms of ensuring that we are back to growth in this segment. There is a lot of excitement around the protection growth coming back, and there is a fair bit of enthusiasm among the reinsurers on that front as well in terms of taking on new risks, new segments as well as deepening the current business.

Also, the good bit here is that some of the practices have been put in place, which will safeguard the interests of the customer as well as the insurers and the reinsurers and we expect that to continue. Pricing will continue to reflect the changing risk environment. So, as you go deeper into Tier-2, Tier-3 markets, the mortality experience is likely to be different and that will get priced in as appropriate.

Pallavi Deshpande: Lastly, on the banca channel, which you mentioned HDFC Bank, which products would you focus on?

Vibha Padalkar: We are having a balanced product mix at HDFC Bank, and that will continue. Really, it's all the products that we have. The only nuance there, which I alluded to one of the earlier callers is that we are also having a SURU focused strategy, which is semi-urban and rural areas and looking at non-top 10 cities. And there, we have seen a fair bit of traction for us in both protection as well as some of the easier underwritten products. So, that will continue.

Suresh Badami: So, if I can also add, I think really, the way we are looking at our product mix also is in terms of the overall opportunity on the product penetration at every branch level. So, we understand at a specified person level or FLS level, what is the opportunity in terms of being able to be par active, non-par active, term active. So, while Vibha mentioned that we always drive a balanced product mix, our objective would be to make sure that we totally penetrate in terms of the customer base on whether it's the annuity opportunity, whether it's in terms of the par opportunity less than Rs. 5 lakhs as well as the term. And in certain markets, we will sell ROP. But somehow across all the channels and the segments, we should be able to get to the right product mix with the right quality.

Moderator: The next question is from the line of Viraj Shah from Axis Capital. Please go ahead.

Viraj Shah: So, the first thing that I wanted to understand is that with the merger going through, the kind of branch addition that is expected to be done in the next 2 years would be about 1,200 to 1,500. I wanted to understand where could this take the bancassurance contribution to in the overall distribution pie? And what kind of impact could it have on the distribution expenses itself? Could they significantly come down with the addition of the branches and the bancassurance network going up?

And the second question was, there have been various reports about some GST and income tax notices being sent to the company. Is there any ask in terms of what could be the amount? What are the charges? And what could be an impact of this on the company?

Suresh Badami: Yes. So, let me answer the first thing about the branch expansion and what will be the bancassurance contribution. Really, we don't look at that, that way. I think Vibha answered in one of the earlier questions that, we don't target by contribution. Yes, obviously, bancassurance will go up because the branches are expanding, and it's not just at HDFC Bank. I think all our partners - there are like 300 partners, 28 partners on the scheduled bank side, where we'll be expanding, and we can see that growing. But similarly, there are other investment in terms of growing the agency business or where we have a broking partner or where we have large other direct relationships, I think that will also continue to grow. So, the way we look at it, each of our channels, in some sense, are regular business lines, and each of them is headed by a channel CEO, who is looking at end-to-end growth, profitability and quality of business. So, yes, we do believe the bancassurance growth will be there and we will gain share in HDFC Bank and when they expand, maybe the HDFC Bank contribution will go up. But really, the idea would be to ensure that we have a diversified distribution mix as well as grow each of the other channels. And obviously, the cost structures will depend on whether we can get the scale and can get the volumes. I think we have demonstrated that in the past also in terms of brand expansion and we have amongst the best-in-class productivity across most of our banca partners.

And on the GST, I'll just hand it over to Niraj.

Niraj Shah: So, on the GST front, as you are aware, this is an industry-wide issue, and there has been a request for information to be provided around the deductions that have been availed off on the input tax credit. We've been cooperating with the authorities and giving them all the requisite information. We await to hear from them in terms of a formal show cause notice. Future course of action will obviously be determined based on what we hear from them. As of now, we are not in the receipt of any such communication from the authorities.

Moderator: The next question is from the line of Neeraj Toshniwal from UBS India. Please go ahead.

Neeraj Toshniwal: So, first question is on the product line margin. If I look at the product mix, it has moved significantly towards higher margin products. But in terms of margin outcome not much improvement seen. So any gaps here or we would see it is largely because of the investments we are doing? Or there has been some weakness because of the higher pool coming in because of high competition in the last 15 days? How to think about it?

Vibha Padalkar: If you're talking about the waterfall of margin, is that what you're referring to?

Neeraj Toshniwal: Yes, that is one question. You can see the result that new business profile has gone down significantly from what was there in nine months. But yes, I wanted to understand any change or drop in any product level margins we have seen?

Vibha Padalkar: No. So, actually, that's a very good point because there is intense competition that you see. Even if you saw that even in the month of March in terms of giving very aggressive rate on non-par, we stayed away from doing that, and that just means preservation of product level margins. You will find the same thing, especially on aggregator platforms. We are rarely the cheapest because then the pricing becomes extremely thin. So, even if one or two lives are worse off than what you have factored in assumptions, then it becomes a problem. So, we have a very calibrated approach and there's been no drop in product level margins. So, I mean when you compare, say March versus before March or Q4 versus Q4 before, there's nothing that is changed at a product level.

Neeraj Toshniwal: Got it. So, what kind of margin you expect over the next 2-3 years. Obviously next year, you said that it will be somewhat flattish. But, over the next 2-3 years, where do we aspire to kind of reach in terms of margin profiling?

Vibha Padalkar: Over a period of time, as the synergies between HDFC Bank and us as its subsidiary starts coming through, then you would see some level of margin expansion. Also, there are some optionalities that we talked about that are there in the Insurance Bill, whether it is in terms of being allowed to do some part of health, health riders or whether it is in terms of being able to distribute other financial products. So, there are a lot of optionalities that are out there. There is also GIFT city, because you're talking about next 2 to 3 years. Apart from our base, which should not change, we will be able to layer it and be first mover in many things that we already are. So, that will start showing some margin uptake once this year, which has a couple of moving parts settles down. Then we should get back on to the upward movement on margin.

Neeraj Toshniwal: So, why I'm asking this particularly because at one point, we were the leaders in margins compared to peers. Now, I think everybody has passed that. I just wanted to know what are the different levers, because we have the best products and still margin-wise, we are probably not the best. So, wanted to know when we are getting back to that?

Vibha Padalkar: Yes. So, a couple of points here. When you say that we're not the best in margins, I think one thing is that we need to look at, are we holding market share. So, if you look at HDFC Life, we are holding market share as well as growing market share and holding our positioning. So, we are amongst the top 3 life insurers in any which way that you look, in terms of new business and renewal premium and that continues. So, if you were to give up one or two positions, then the margins can be much higher. So, that triangulation between top line, margins, VNB growth, EVOP will be there for us. So, all of that is a holistic score card. That is point number 1.

Number 2 is that, if you look at the consistency of margins because if you take one particular cut, then one can say that, in this period, you've not grown in terms of margin. But if you look at the 4-year period which is what we put out in our investor presentation charts, that if you look at any 4-year period, we have doubled in all parameters. So, you would agree that, that is not an easy ask and we will continue to do that. Even way forward, over the next 4 years, we will continue to double. So, whether it is embedded value, assets under management, value of new business and so on. So, that kind of a trajectory, we have time and again showed over many cohorts of 4 years and not just one cohort of 4 years, and we'll continue to do that. So, margins will go up over time in a nutshell.

Sorry, last point I want to make on margins is that there is very little in terms of headwinds because, there are companies wherein the banks have not adopted open architecture. So, it's more in terms of, is that the right approach? And do customers really need a choice because, down the line, if customers don't have a choice in this world, then in all probability, the younger ones at least are going to wander into other ecosystems. Whether, it is into an aggregator platform, whether it is into some other kind of digital platform and perhaps at least explore and eventually buy. So, information asymmetry cannot contain as a way of life. And so those headwinds do exist, which is not the case in HDFC Life.

Neeraj Toshniwal: So, that was like my second question in terms of HDFC Bank, will you get support in terms of market benchmark rates also because now then they become parent instead of second cousin. Also, what will be the timeline for the 70% wallet share, I think we are at 57-58%, how much time line have we kind of baked in to reach that target 70% mark?

Suresh Badami: I think, once the entire merger is through, and I'm sure the Bank will be busy with the merger. But yes, already once you become a subsidiary, and we have those discussions, we will want to inch it up quarter-on-quarter. Now how fast, frankly, we'll be able to get to the 70% mark is in terms of the broad direction which comes in from the Bank as well as probably the hard work that we need to put in from HDFC Life. But we do see this happening. It is difficult to put a timeline to it, but yes, as early as possible, given the efforts on both sides.

Neeraj Toshniwal: So, first part was on the cost side. Will we get support on the commissions i.e. market benchmark rate, or we will continue what we are paying currently?

Vibha Padalkar: Look, right now, we're just focused on how we work more closely with HDFC Bank and other conversations will follow because the merger announcement or the 50% stake has just come in. The ink has still not dried. And I'm sure over the next few months, we will have those kinds of conversations.

Moderator: I would now like to hand the conference over to Ms. Vibha Padalkar for closing comments. Over to you, ma'am.

Vibha Padalkar: Thank you all for joining us on the call today. Please feel free to reach out to our IR team if you require further information or have any follow-up queries. We look forward to speaking with you again. Thank you, and good night.