



HDFC Life Insurance Company Limited
H1 FY25 Earnings Conference Call

October 15, 2024

Moderator: Ladies and gentlemen, good day, and welcome to HDFC Life Insurance Limited Results 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. Please note that this conference is being recorded. I now hand the conference over to Ms. Vibha Padalkar, MD & CEO, HDFC Life. Thank you, and over to you, Ms. Padalkar.

Vibha Padalkar: Thank you, Andrew. Good afternoon. I would like to welcome everyone to our earnings conference call for the half year ended September 30th, 2024. Our results, which includes the investor presentation, press release and regulatory disclosures, have already been made available on both our website and the stock exchanges.

Joining me are Niraj Shah, ED & CFO; Vineet Arora, Chief Business Officer – Distribution, Data and Technology, Eshwari Murugan, our Appointed Actuary and Kunal Jain, SVP - Investor Relations and Business Planning. Moving on to key highlights of H1 FY25.

Starting with operating performance

The private sector and overall industry continued its strong momentum in Q2, growing in H1FY25 by 24% and 21% respectively on an individual weighted received premium basis. We have outperformed the private sector by growing at 28% during this period and 19% on a 2 year CAGR basis. Our market share amongst private players registered an increase of 60 bps, improving to 16.3%. We are also happy to inform you that our overall market share touched a new peak of 11% for the period ending H1 FY25.

On an individual APE basis, we have recorded a robust growth of 31% on a YoY basis and 19% on a 2-year CAGR basis, bolstered by strong performance across all metrics. We registered an increase of 22% in the number of policies sold, with a ticket size expansion of 7%. The growth in number of policies was significantly ahead of the private sector growth of 13% with strong secular growth trends across Tier 1, Tier 2 and Tier 3 geographies. The proportion of 'New to HDFC Life' customers remains promising, exceeding 70%. We achieved a strong growth in retail sum

assured which was 31% on a YoY basis and 45% on a 2 year CAGR basis. We continue to remain market leaders in overall sum assured.

Our product mix based on individual APE in H1 was as follows, ULIPs: 36%, non-par savings: 38%, participating policies: 15%, term:6%, and annuities: 5%,. ULIP has seen some intended moderation in this quarter with the proportion reducing from 38% to 35% from Q1 to Q2. We have observed strong growth in non-par savings products, with the segment achieving a 76% YoY increase aided by new product variants launched this year.

Retail protection APE in H1 and on a two-year CAGR basis saw growth of 27% and 36% respectively. We expect the healthy momentum in retail protection to sustain for the rest of the year. The credit protect segment has been soft this year on account of calibration in disbursements across some of our partners and lines of businesses. As we have stated in the past, our focus remains on building a long term, profitable business in this segment.

Our annuity business experienced slower growth on the back of aggressive and unsustainable pricing by some peers. We continue to adopt a calibrated growth strategy, focusing on enhancing our product offerings whilst maintaining pricing discipline. Annuity and protection together contributed 44% to our overall new business premium.

Moving on to key operational and financial metrics

Our H1 value of new business was Rs. 1,656 crore, reflecting a 17.4% YoY growth and new business margins of 24.6%. The margin compression is primarily attributed to product mix and deferment in repricing of certain traditional products.

As we rushed towards ensuring product compliance by October 1st , we took a considered call to defer re-pricing of certain non-par products that were going to be phased out. As we have articulated this year, equity markets are likely to stay buoyant and hence we will prioritise new business, 15-17% VNB growth with some flexibility on margin outcomes.

Our embedded value stood at Rs. 52,114 crore as on 30th September, with an operating return on embedded value of 16.0%. Profit after tax has grown by

15% year-on-year, reaching Rs. 911 crore, driven by a steady increase of 18% in profit emergence from the back book.

As on September 30, 2024, our solvency ratio stood at 181%. As we had indicated, we raised subordinated debt of Rs 1,000 crore in the last week, thereby improving our solvency to 192% post the sub-debt raise.

Renewal collections grew by 12% year-on-year. We are pleased to share that persistency for the 13th and 61st months materially improved to 88% and 60%, respectively, marking increases of 120 basis points and 730 basis points versus the previous year.

Next on to distribution:

We saw holistic growth in individual APE across channels. Our overall bancassurance channel grew by 32% with deepening relationships across partner banks. Our counter share at HDFC Bank continued to be stable at around 65%. Proprietary channel grew by 27%, with the Agency channel gaining momentum in Q2 on the back of improved productivity, thus outperforming the company's overall growth. Term business in agency grew at over 2x company growth. We continue to be the market leader in the broca channel with healthy growth across offline and online partners. The channel has seen a pick-up in the HNI segment, while strengthening its foothold in Tier 2 and Tier 3 markets.

We are delighted to announce that our subsidiary HDFC Pension crossed the Rs 1 lakh crore milestone in terms of assets under management and is one of the fastest growing pension fund management company in the industry, enjoying a market share of 43.6% in H1. The GIFT City branch of our Dubai subsidiary, now offers 6 US dollar denominated products to both NRIs and Resident Indians across life and health categories of insurance.

Moving to regulatory update

We have successfully relaunched more than 40 top products contributing to about 95% of the business as on October 1, 2024 and we plan to relaunch other products during the course of the quarter. We are thankful to the regulator in allowing us an additional time of 3 months for transitioning to

the new product regulations. We believe that the revised products are more attractive to prospective customers and strengthen the long-term life insurance proposition in India.

We are in various stages of operationalising the commercial changes with all our partners. We have adopted tailored solutions, including commission deferral, reduction or clawback depending on persistency track record and partner preferences. Whilst this transition might take some time, we expect to complete changeover across all our distributors in H2.

Coming to sustainability and governance

HDFC Life continues to be recognised for its commitment to sustainability and responsible governance. The company was ranked amongst India's top four performers in the financial services sector by BW Businessworld's India's Most Sustainable Companies, based on its publicly disclosed Business Responsibility and Sustainability Report (BRSR) for FY24.

Furthermore, HDFC Life's S&P Global ESG score saw an improvement of over 20% versus last year and we continue to be rated well amongst regional insurers, thereby demonstrating leadership in aligning its business practices with sustainable and socially responsible principles, creating long-term value for all stakeholders. Our MSCI ESG Rating has also been upgraded to 'A'. Our commitment to sustainability not only reflects our responsibility to society but also strengthens our long-term profitability, ensuring sustained value for both customers and shareholders.

On employees

Our success is driven by our valued employees, and we continue to invest in building a supportive and inclusive work environment that fosters innovation and collaboration. HDFC Life was recognised for its inclusivity and employee-friendly policies, being awarded the Best Companies for Women in India 2024 in the BFSI sector and Exemplar of Inclusion (Most Inclusive Companies India 2024) by Avtar & Seramount, affirming the company's commitment to diversity and inclusion in the workplace.

In closing

We remain focused on driving sustainable growth and strengthening our leadership across key segments. We will continue to invest in customer-centric innovations to ensure we meet evolving needs and remain resilient in a dynamic market. We are confident in our ability to deliver long-term value for our stakeholders, whilst adapting to the evolving market landscape with agility and resilience.

For a detailed overview of our results, please refer to our investor presentation. We are now open to any questions from the audience.

Moderator:

The first question comes from the line of Avinash Singh with Emkay Global.

Avinash Singh:

A couple of questions. First part on growth outlook. In the first half, a very strong growth, 24% APE growth. This also has a tailwind for the first 5 months, you're improving share within HDFC Bank channel. Now in the second half, that is going to be part of the base.

Also, there could be some frictional issues at least in the initial 1, 2 months with regard to the new product launch and all. So considering all this, what kind of growth outlook do you see for H2, particularly if you were to sort of compare with H1? Because in H2 also, you have some sort of slight benefit also from the favourable base, that is on growth side. In relation to that, you also made a comment regarding buoyant equity market. So is there some sort of rethink of strategy around ULIP for H2 with regards to growth?

And coming to margins, in second half, you will have impact from this new surrender regulation playing its part. At the same time, with whatever growth-related cost reduction that you will have, how do you see the margins for this H2?

I would say that there are a lot of unknown variables for us to sort of take a call on how the margin is going to be; because the growth composition across product segment and particularly the continued probable sluggishness around your credit life due to whatever is happening in the unsecured PL or micro finance segment, so that will also have bearing. So how do you see sort of a margin in the second half?

Vibha Padalkar:

Yes. Thanks, Avinash. So, I'll take it in seriatim. The first one on growth. Like I said in the past, I said 15% would be on the upper side, but we will revise it because the sector was going for a change in terms of surrender regulations and also getting settled into the new normal of an elevated an equity market. So, I think 18% to 20% revision in our outlook on a full year basis is something we feel reasonably confident about.

Coming to second question on rethinking on unit-linked, Our thought process is as follows. It is a new normal in equity markets wherein we are witnessing each dip being lesser in intensity and the bounce back being higher in intensity because of global factors. So how do we make it range bound? I have articulated it before that in the first half, we have grown comfortably higher than the industry. We grew almost 400-odd basis points higher than the private sector. So, faster growth than the industry is something that we will drive. That is number one.

And within that unit-linked will continue to remain range-bound. It is unlikely to reach the levels of 50% that is quite common in our sector, but it will be range-bound in the 30s. Second aspect is VNB growth because that's clearly the volume of cash that as an insurance company we are accreting to our embedded value and that is delivering value. So that kind of increase in VNB is our second priority. And I'm happy to share that we have delivered on what we said, which is about 17%-18% growth; 17.6% on H1 basis.. We will continue to deliver on a full year basis in that range. Maybe this could be a little bit lower or higher, but roughly in the 15% to 17% range in terms of VNB growth.

And then third point is on margins. I've said in the past and I want to reiterate that some level of flexibility on margins with the first two objectives being sharply defined will be there only because of a couple of things. One is a very significant changeover that as a sector we are going through as far as surrender regulations are concerned; and all aspects, the customer, the manufacturer as well as the distributor, everyone is being affected by it. So how that settles down, and then unit-linked and credit life segment is also something that needs to be observed, like you mentioned.

So, there are a few balls up in the air, and so margin will be an outcome. At the same time, we're not talking about unit-linked reaching 50%. We are also not talking about kitchen sinking the margins, but there will be a floor. What that floor is, we will determine, but it will be range-bound. And that's really what we have delivered in H1 of this year.

Moderator: Next question comes from the line of Suresh Ganapathy with Macquarie Capital.

Suresh Ganapathy: Yes. I have harp a little bit more on margins because when you ended FY'24, you ended with a margin of 26.4%, right? And the guidance was that the new regulations perhaps can bring it down by 100 basis points. As I look at second quarter, we are already at 24.4%, so we are already 200 basis points below what you ended FY'24 at, and even without the surrender value regulations kicking in.

Does that mean that 100 basis points will now further be below 24.4%, which means it looks like you will be 300 basis points below your earlier guidance? I understand that the growth has been strong and therefore your VNB outcomes will still be good, around 16%-17%, as you have been guiding. But clearly, on the margin side, it looks like we are likely to undershoot the target.

And the second thing is I'm very surprised to see all your competitors completely rubbishing the new surrender regulation saying that everything will be fine and we can easily manage and pass it on. Is that the view you hold? How do you look at some of the commentary from your peers?

Vibha Padalkar: So a few things on the comparison of H1 '24 versus H1 '25. See, in H1'24, our unit-linked was 28% of overall versus 36% in H1 of this year. So quite a significant tilt, like I've alluded before, on the realities of what we are seeing right now. We can choose to give easily 26-plus percent margins, but not grow. And this is something that I've been articulating over the last 6-7 months or so; this conundrum that exists.

And when I look at my new to HDFC Life customers, over 70% of my growth is from new customers, meaning first-time buyers. And some of them

are coming on the back of unit-linked. So, with my ability to cross-sell to them, the conundrum is do I say no to them or do I have a balance? And hence, I'm saying it will be range-bound, a little bit on the upper side, instead of it being slightly lower than 30%, it is in the mid-30s, and that is a conscious call that we have taken.

At the same time, I think there's a lot of focus on one metric that perhaps is an outcome. And the reason I'm calling that out is, yes, the margins are a shade lower. But if I were to look at growth in H1 of last year, I grew 9% versus H1 of this year, I grew 31%. If I were to look at the VNB, like I said, VNB is really cash, do I say no to generation of that cash and hence accretion to my embedded value just because I want to stay range-bound in margin.

I have no doubt in my mind that as and when there's a little bit more calibration in equity markets, unit-linked like we have seen, will go down in terms of popularity. That will happen and that's when given our balanced product mix and our ability to switch amongst all our sales force fairly will seamlessly happen, wherein slightly higher-margin products will start gaining centre stage.

So, this we see as a market phenomenon, that's not likely to stay forever. And we have to react and adapt to the markets and we very sharply focus that as long as I'm making money out of the business that I'm selling, I think it is good business.

Suresh Ganapathy: So, Vibha, you're saying that just for the time being, let us dismantle the VNB guidance, all what matters is the VNB growth. Whatever could be the components of that, the VNB growth will be at healthy 15%+ or 16%-17% as you're guiding. That doesn't matter what the composition is, right?

Vibha Padalkar: Yes. Except with a caveat that there will be a floor. So, we're not saying it could be 500-600 basis points lower, we're saying it will be range-bound. On a full year basis, last year, we ended 26.3%. Leaving surrender charges aside, we are talking about some range-bound margin being the outcome. But in the pecking order, I'll go for growth and new customer acquisition, and second is VNB. Margins will be an outcome as long as it is range-bound.

Because otherwise, like I said, I could easily lose my ranking and that's been seen before, wherein you lose your overall ranking in the industry, but you give very high levels of margin. We think that also is not a good outcome. I have to acquire more customers and look at how I upsell to those customers down the line, right? So that's our considered strategy from now as long as markets remain elevated. So that's point number one.

To your second question, Suresh, on no impact, we have said that there will be a 100 basis points impact at the company level. At the same time, we will try and reduce that impact by renegotiating with 300-plus partners and all our 2 lakh-plus agents, and we are right now in that process. As you will certainly understand that we are in multi-tie in all relationships, right? So, it's not a bilateral conversation, but it's a multi-prong conversation. We talk to a partner, partner talk to other insurers, and then there is a loop back into us and into them. And so, all of that is going on right now.

By and large, partners understand where the regulator is coming from and it will take about a quarter for the economics to settle down. Some combination of deferment of commission, clawback of commission and lowered commission to some extent is what we're having conversations about. There will be some impact, but I don't see it as being a material impact once all of these discussions are through.

Suresh Ganapathy: So just one last clarification. You said there's some deferment of pricing you did, partially which also affected the margin. Why would you do deferment of pricing for non-par? It is all old products, right? In old products, the pricing remains the same, right?

Vibha Padalkar: The thing is that, as of 1st of October, if I'm not compliant with the new regulation on surrenders and some of the other nuances, I'm not allowed to sell those new policies. There's only so much of IT bandwidth and our processing capability with the same set of people and overnight, I have to change more than 40-plus products to make them compliant.

We could have changed the IRRs on an existing old product because interest rates have changed, but we chose not to do it because then I would have had to sacrifice a new product in lieu of the old product. So we just took a call

that that had an impact for a few weeks, and that translated to 70-odd basis points impact.

But it was very important for all our key products to be revised and that we are able to start with a bang on 1st of October. This was the trade-off we had to make so all of our channels and subchannels have the main bread and butter products that they and their partners are used to selling and customers are used to buying.

Suresh Ganapathy: Okay. So, you are just saying that it's a bandwidth issue. I mean, a bandwidth was dedicated towards the newer products instead of trying to focus on repricing the existing products. So that's the simple thing,

Vibha Padalkar: Yes. Absolutely. I had to focus on new business and not spook our distribution channels, to say that I don't have the key product that they sell. And my different subchannels have preferences on a certain variant, on a certain term and so on. Every time there is a significant change, even considering the Unit Linked changes that happened back in time, there's something or the other to trade-off, given the volume of changes that one needs to do at a company of our scale.

Suresh Ganapathy: Sorry, my last question, I have to squeeze in on IFRS. What did the MCA circular say? It said perhaps all non-bank promoted insurance companies have to comply with IFRS and you guys for the time being get an exemption and therefore, we will have to wait for the IRDA circular. Is my interpretation right? What is the impact and how you're looking at it?

Niraj Shah: Yes. So a couple of things. One is initially MCA came out with a definitive time line, one was for non-bank-held insurance companies and other one was for the rest. They specified a date for the non-bank-held companies, which they later deferred to IRDA. So IRDA will basically decide the date of implementation for all insurance companies, whether they are bank-owned or non bank-owned. So that was one change that happened after the initial MCA circular.

As things stand today, we have received the communication from IRDA and we believe some peers have also received communication, which talks about

IRDA's intent to roll it out from April 2027. So , there is a phase-wise implementation plan, which we understand will be followed where all the large listed as well as unlisted insurance companies will go into Phase 1. And we basically have this window of about 24 to 30 months to get this done. And that's where it is as far as this is concerned.

But of course, IRDA has also said that this is, in some sense, an endeavor, so we will obviously be prepared to be ready well ahead of time. But we will await a very clear direction from IRDA in terms of the final implementation guidelines.

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

Madhukar Ladha: Vibha, you mentioned in your comments that you deferred pricing on few of the non-par products. I wanted to get a sense of what was the impact on this quarter's margins or the first half's margins because of that? And the 100 basis points that you're talking about would be versus the margin of last year, right? So that was question number one.

Also, if I look at your distribution mix, it seems that the bancassurance channel, the growth is there, but it's a little softer. So just wanted to get a sense of what has played out. So, on a year-over-year basis, growth was a little softer in the bancassurance channel side. So, yes, those would be my 2 questions.

Vibha Padalkar: Yes. I'll take the second question, and Niraj can answer on the margin walk. Our growth has actually been very healthy at about 20%* in bancassurance channel. So soft is because of the base effect. If you remember, last September was a bumper year for us, wherein we touched a counter share of 70% at HDFC Bank, and that is really what is causing it. So, it is more a base effect than intrinsically there being a slowdown.

**rectified to 26% growth in bancassurance channel in Q2 in the following comment by MD & CEO*

Madhukar Ladha: And so, if I may just ask again, what's our counter share now and then?

- Vibha Padalkar:** Sorry, just to clarify, we grew by 26% in Q2FY25, which I think is a fairly healthy growth. And if I didn't have the base impact, then it would have been even healthier. And the counter share hovers around 65%-66%, so about 2/3rd of the business and it is settled down there.
- Niraj Shah:** On the margin front there are a couple of things that we had said. One is, of course, the unit-linked mix, which is higher compared to last year. Similarly, annuity which is lower compared to last year. And also, there is residual impact which came through from the lag in repricing by a few weeks. So that, from a quantification perspective, up to 30-40 basis points is something that we would attribute to delayed repricing. But a significant part of impact would be still attributed to the change in product mix, for which we have articulated the reasons as well.
- Vibha Padalkar:** Just to add, when you look at unit linked mix compared to last year, it was 30% in Q2 of last year versus 34% in Q2 of this year. So, some of the impact is due to higher unit linked and some is due to deferment in repricing of non-par.
- Madhukar Ladha:** And if I were to just ask what was the impact of not repricing the non-par in this quarter, just to get a sense of normalized margins before we go into increased surrender value regime?
- Niraj Shah:** Yes, that's what I mentioned, 30-40 basis points is what you can basically look at.
- Madhukar Ladha:** Just for the non-par, right?
- Niraj Shah:** Yes, this is for the non-par because repricing is for non-par only, basically, the non-par savings and annuity products.
- Moderator:** The next question comes from the line of Manas Agrawal with Sanford C. Bernstein.
- Manas Agrawal:** A couple of questions. Correct me where I'm missing the delta. Your QoQ product mix has improved, but your margin has gone down. Your repricing impact is 30-40 basis points on the non-par piece, so not able to tie that in, that's the first question. Second question is, is there any impact on the funnel

for your annuity business due to changes in the government employee pension plans? That's it.

Niraj Shah: Yes. So, the 30-40 basis points, as I was talking about is on H1 basis, from our reporting perspective. All the repricing line happened in the second quarter. So, the impact in the second quarter was higher. So, if you see the slide that we carry in our investor presentation, we called it out for the period, which is half year. But for the quarter, the impact of repricing would be higher, it will be closer to maybe 100 basis points.

Manas Agrawal: Understood. On the second one?

Vibha Padalkar: On the annuity business, we will have to see as to what the government articulates in a lot of nuances. So, we will have to wait and watch to see any impact on annuity on that.

Manas Agrawal: Understood. I wanted a clarification. I know there's not a lot of clarity on what the modalities will be, but annuitization is not compulsory in the revised pension scheme? Is that correct?

Niraj Shah: No, that is not clear yet. We await clarifications on the UPS or the Unified Pension Scheme. What has basically been articulated so far is the intent to give some sort of guaranteed pensions for the government employees. How that is going to get funded to some extent has been discussed. But what happens once the funding is done, is something that is yet to emerge in terms of how the management will happen. And what happens on vesting from an annuity perspective also yet to be clarified. So, we will have to wait and watch on that front.

Moderator: The next question comes from the line of Gaurav Jain with ICICI Prudential Mutual Fund.

Gaurav Jain: A couple of questions from my side. If you can put in some more light on what is this calibration in credit life that we are taking, which has led to some degrowth in the group protection business? And what would be the guidance for the same going into H2?

Second is, is the repricing required for surrender regulations with HDFC Bank done? And third is, if I take the lower end of the guidance also, which is like 18% APE growth in FY25 and 15% VNB growth in FY25, the ask rate on margin from H2 will it be a high 26.4%, Vibha?

So, while I understand margin is a derived number and one should not put a lot of focus to it and focus more on absolute VNB. But is there something that can give you some confidence as to these repricing, etcetera, will help you deliver better margin in H2? Or how should that be looked at?

Vibha Padalkar: I'll take your point on repricing. As far as the customer is concerned at HDFC Bank, there is no repricing or any customer for that matter. We are not looking at repricing as a result of the surrender charges. So, in the normal course of any interest rate movements like we reprice, that's something that will be an ongoing exercise as far as HDFC Bank is concerned. Also commercial in terms of HDFC Bank, those conversations have happened.

Obviously, I don't want to share partner level conversations, but yes, they have been long had. And they are in line with what is the expectation of the regulator as well. So, that's going to be a non-event. As far as margins are concerned, again, we are not tethering ourselves to a margin like I explained, while there will be a floor.

But at the same time, we're not back solving for a margin because like I explained, that is fairly counterproductive. But whether it's 100-150 basis points lower than where we ended last year in lieu of growth and most importantly, VNB growth, that's what we are trying to solve for. We would love for all three to be growing in one direction, but market reality is only because of unit-linked are saying something else, and then we need to stay relevant while we go through this cycle as well. So that's how we see it.

Vineet Arora: I'll take the question on CP. Our CP numbers are largely based on the moderation, which is happening in the entire unsecured and the MFI sector. And because CP is an attachment product, and as the disbursement in that sector has softened, our CP numbers are not showing the growth that was planned for earlier. I think that's the difference which is showing in the CP numbers.

Apart from that, there is some bit of competitive pressure getting built up because the volumes have gone down. So, we might choose to reduce our exposure to certain partners where the competitive pricing is not making sense. So, we will have a threshold for ourselves and beyond that, we might want to just lie low for some partners for some time.

Vibha Padalkar:

And just to add, sensible pricing in credit life is important. We are the market leaders in this space, and we have been in this space at least for the last 10-12 years. And this irrational pricing time and again is not new. What also gives us the confidence is the deep relationships that we enjoy with our partners. And while there could be some pricing aggression, time and again, we have found that we have gone back into that partnership.

And without naming certain partners, with a very marquee south-based lender; we went through this cycle of taking a back seat when the pricing was extremely aggressive, when we tried to triangulate the claims experience they were seeing, we took a back seat. And now we are full throttle when repricing was on the table again, we got invited again and we won the mandate. So, I think this is a phase that we are in right now, and that's something that is part and parcel of this cycle.

Niraj Shah:

And just a couple of things I'll add, unlike the retail business, which is about 30 to 40 years in terms of term as and the experience kind of pans out over a period of time and there are different levels of disclosure in the industry, as you're aware. So, mortality variance for some may not necessarily be disclosed.

But as far as the CP business is concerned, most of the business lines have a tenure of anywhere between 12 to 36 to 48 months, a large part of the business is in that range. And also, a large part of that business is retained on the books of the insurance companies. So, there is very limited reinsurance support on that as well. So, with that, the aggression is something that gets found out very quickly relative to the retail business. So that's something that we have seen over multiple cycles in our experience.

Gaurav Jain: That was helpful. Just 1 last question. We also saw degrowth in annuity, which would have led to some margin compression, is there also competitive intensity or challenge or how is that shaping up?

Vibha Padalkar: Yes. There is no other reason. It's purely competitive intensity wherein, logically, if you're giving out a rate that you're more than what you're earning on a G-Sec underlying asset, clearly, that is not a sustainable proposition. And time and again we have seen and I've talked about this in the past in the context of right pricing on retail protection.

When you withdraw this kind of stimulus, your frontline sales will struggle to sell. So, we believe that we rather price it right. We're talking about longevity risk., Some of this perhaps will start straightening out due to the change in surrender charges. Some of the aggression on pricing perhaps was, if I may say so, funded by surrender charges on non-par and with that, reducing quite significantly, we expect to see some sense prevailing on the pricing of term, annuities and credit life.

Moderator: Thank you. Next question comes from the line of Shreya Shivani with CLSA.

Shreya Shivani: Ma'am, I just wanted to understand how the negotiations with the distributors usually pan out? So, for example, you guys have launched a majority of your 40 new products from 1st October onwards. So, all of your distribution partners have agreed to certain terms and conditions? And they can come back and renegotiate with you after what time period? How does this usually pan out? That's my first question.

And my second question, again, on the new products that have been launched. How much cut have we taken? I know that we did not reprice our non-par product in the second quarter. So how much repricing or how much cut in IRRs did we do when we launched the surrender value version of these products? Those are my two questions. Thank you.

Vibha Padalkar: Yes, hi. Shivani, on the first part, see, there are conversations with partners and not just for us, but even our peers, is fairly fluid at this point in time. Conceptually, there is an understanding at least with key partners and some

combination of deferment, clawback and/or reduction. That's where we are today.

It's not to say that we haven't done anything with certain partners, that's not the case at all. At the same time, like I mentioned earlier, that we are in a multi-tie situation in each one of our partnerships. And so, it will be dynamic. There will be, to some extent, multipronged conversations that the partners will be having.

And perhaps also having some conversations with regulators to understand what is happening and so on. So, this will take a quarter in my view to settle down. In terms of your question that when can they come back? See, again, this is dynamic. It is not signed and sealed, but I think we'll have to see whether a very good outcome, like some of our partners are talking about to say that wherever we will do a commission clawback, they are saying that they will strengthen their persistency in such a way that the amount that we claw back will significantly reduce, which is a good focus to have. Some of these good practices might also come through. We'll have to wait and watch, and that's really a good alignment between the customer, the distributor and the manufacturer.

If that were to happen and persistency goes up, then I think there is a win-win. And if that happens, then we can share more economics with partners as well and vice versa. So, give us some time. I think a quarter or so will be required for it to settle down.

Second answer is, we haven't repriced anything due to these regulations. In the normal course of repricing because of interest rate movements, that keeps happening.

Shreya Shivani:

Okay. So there has been no repricing since whenever the last was done, nothing in 1Q, nothing in 2Q in spite of the new surrender value regulations getting launched?

Niraj Shah:

No. So, in fact, we were talking in other direction in the last few minutes there. In fact, there was some repricing that was required to be done, but we had delayed it because of compliance with the product regulations. So, there's

no intention to have downwards repricing on account of the change in regulations.

Moderator: Thank you. Next question comes from the line of Sanketh Godha with Avendus Spark.

Sanketh Godha: Thank you for the opportunity. The way I understood is that you did not reprice products based on surrender charges and you are not changing as of now any commission structure. So, if I add back the 30-40 bps what you made in 1H margin. You are at 25%, so because of no commission clawback to a large extent and no repricing, there is a 100-basis point impact in the margin until you renegotiate the commission structure assuming product mix remains the same. That's the right understanding, right?

Vibha Padalkar: Yes. So, we had said that 100 basis points impact if we did nothing. But obviously, we're not going to be doing nothing.

Sanketh Godha: But you said you will take 1 quarter to renegotiate and redo everything. So, for a quarter, you will operate at 100 basis points lower margin compared to where you usually would like to operate?

Vibha Padalkar: No. That's not the outcome.

Vineet Arora: This is Vineet here. Like Vibha also mentioned, we have already done commercial negotiations with most of our partners, some of them are still underway. Some stability will arise because it's an open architecture and multi-tie arrangement, so some stability will come through with time. But let me say that majority of our business, effective 1st October is on revised commercials.

Sanketh Godha: Okay. Got it. And the second question is - in the first quarter results, you said that we intend to raise 20 billion or INR 2,000 crores of sub-debt. We stopped at INR10 billion. And so just wanted to understand what is the rate at which this was raised and where have we parked it? So is there a likely negative impact on the margins because of the INR1,000 crores sub-debt going ahead?

And lastly, in ULIP, you said that your intention is slowing down the business or putting a cap on contribution. So that higher sum assured strategy still might be a lever available to grow if the ULIP demand is still there? Or do you think that story has already maxed out and therefore it is better to control the contribution of ULIP overall on the business?

Vibha Padalkar: On your first point, yes, we raised INR 1,000 crores, the rate is 8.05%. And the solvency that we have got to now is 192%. As regards to UL, I think you're referring to higher sum assured in UL. For certain segments of population that is still an attractive proposition. The UL product itself is also currently the flavour of the season. So, it's a combination of two propositions in one.

And so whatever the customer wants, as long as it delivers value for us in terms of VNB, we are happy to sell that. And so, we also have that in our arsenal.

Niraj Shah: Sanketh, to your pointed question, it's not maxed out. There is still some potential, and we are going to be exploring that in the second half of the year and going forward as well, not just in terms of higher sum assured, but also rider attachment. So, there is a significant scope in improving that as we go forward.

Sanketh Godha: Got it. And Niraj, this 8.05% negative carry on the VNB margin, would be how much?

Niraj Shah: Not material. In fact, given that this money will be entirely invested, we'll try and limit negative carry to maybe 30-40 basis points. So not a very significant impact on the VNB. On INR 1,000 crores, it's not a meaningful number, as you can appreciate.

Moderator: Thank you. Next question comes from the line of Prakhar Sharma with Jefferies.

Prakhar Sharma: Hi, thank you. So actually, sorry to keep delving on the margin thing, but given so many factors involved, I just wanted to ask you that this quarter, as you mentioned in the last 15-20 odd days, you were selling as per the new product norms and there was a 600 basis point impact on margin. Would it be

like in the next quarter, if the whole three months actually goes in any sort of a fix, do you think the impact on margins in the third quarter will be basically a multiplier effect of the 100 bps given that the period gets longer? Or how should we expect it to pan out?

Vibha Padalkar: First of all, in quarter two, the 100 basis points was not an impact. The 100 basis points is future impact due to surrender charges. The 70 basis points impact was due to the re-pricing. Now how are we looking at the margins going forward? Again, just to repeat, what we're looking at is overall growth so that full year growth ends in the range of 18% to 20%.

VNB growth range of 15% to 17% and then the resultant will be the margin. At the same time, they will be fairly range-bound. But whether it will be 50 basis points, 100 basis points here and there, that will be an outcome.

Niraj Shah: So, on a base case, H2 margins are likely to be slightly higher than H1 margins given everything else being equal, but it really depends in terms of how some of these things evolve. We've already discussed in terms of the surrender value implementation as well as the product mix. But on an H2 basis, that's what we can expect. We'll wait and see where that finally lands, and we'll obviously try and solve for the VNB growth number.

Vibha Padalkar: And also, just to add over there, we have put out an impact of surrender charges of 100 basis points. And we do believe that some of the pricing aggression that we saw in some of the value-accretive segments like annuity and protection, Some of that we think should taper off a little bit and thereby hopefully putting us on an equitable footing to be able to compete and get market share in those segments. So, we are reasonably optimistic on that.

Prakhar Sharma: Understood. So just to reconfirm from the IRDA gave an extension of about three months. So, the way it will apply is that, the manufacturer, - HDFC Life, will have to be compliant on 1st October or is it three months later? And second, when you have the partner arrangement, can they continue to remain fluid or there is a sunset clause to make those adjustments also?

Niraj Shah: So Prakhar, just to be clear, all products that are allowed to be sold after October 1 have to be compliant. There is no dispensation on that. The three-

month period is to launch products which are not yet compliant as on October 1. Three more months have been given by the regulator to make your other products, which were not compliant by October 1, compliant, if you want to sell them or you may choose to withdraw them.

Vibha Padalkar: So, they need to be compliant with system and clauses. But if it's not compliant, you won't be allowed to sell it after 1st of October. You won't be required to withdraw it, but you will not be allowed to sell it. That's what we've got three months for.

Moderator: Thank you. Next question comes from the line of Mr. Nischint Chawathe with Kotak Institutional Equities.

Nischint Chawathe: Hi. Thanks for taking my question. You reported a fairly strong growth in non-par, in fact, much higher than ULIP. It's a little counterintuitive in the current regime. And I remember you mentioned that you're not going to engage in flash sales towards the end of the quarter. So, I was just curious what happened? Is there a specific variant or something that was especially pushed in this quarter or is it something that the delay in re-pricing actually helped in selling these products?

Vibha Padalkar: Yes. So, we had talked about the Click 2 Achieve, which is a blockbuster product that amassed INR 100 crores in 16 days. So, this is the same product that we had referred to in last quarter.

Niraj Shah: And Nischint, there's been no change in our product mix through the quarter. It has been in that zone anywhere between 37%-38% on non-par; in fact, close to 40% non-par in quarter two. But right through the quarter, it's not been any higher in September.

Nischint Chawathe: Sure. And just again, going back to the sharing burden of surrender penalty guidelines. Somewhere the smaller agents would probably be at some kind of a risk because they may not have cash flows when commissions go down to support their earnings. There is some risk of people at a margin kind of exiting the industry.

So, what is it that you are thinking to kind of support the smaller agents and kind of ensure that the industry continues to grow because there's always this

kind of a debate, right? When you cut down commissions, some of the weaker agents tend to be weeded out of the market?

Vineet Arora:

Yes. So, I think the way we have launched our structure is quite similar to what we have seen in the market being launched by other players. It's also tiered in a fashion that the agents who are with us for a longer period are able to get a higher upfront and the adjustment happened in the subsequent years.

Also, the agents who have better persistency are the ones who will benefit more. So clearly, there is a move towards getting more quality business. As far as smaller agents are concerned or new agents are concerned, yes, we start with a smaller upfront. But as they improve on the quality and as they improve on their book with us, they start to move to the higher slabs.

So, it's a matter of building the book and staying with us and then they start to move in for the higher slabs. So how this impacts the entire distribution and acquisition of agents? I think still insurance is a very favourable piece. Even after this kind of adjustment on the upfront, we would still stand out in the market as compared to other financial instruments.

And we don't believe it should have a substantial impact, but we'll observe it over the next few months.

Nischint Chawathe:

And would you sort of envisage or think that we kind of move to a near-full trail model on commissions?

Niraj Shah:

So, we have all kind of structures available. There are certain agents who prefer certain models, and there are certain agents who prefer slightly more upfront depending on their disposition and where they come from. And I think as the agents become stronger and build more and more book for themselves, they also then like to move to a trail model so that they can even out their commission and maybe earn slightly higher overall.

But agents who are new, do prefer higher upfront.

Moderator:

Next question comes from the line of Dipanjan Ghosh with Citi.

Dipanjan Ghosh: Just a few questions. First, the agency growth has been quite robust over the last few quarters, especially this quarter. And we have been adding agents also at a very sharp speed. I just want to understand in terms of the agency growth, if you can kind of split it or give some colour on the quality of growth between the new agents versus the existing agents or any sort of numbers on the acquisition ratios, if they have changed?

And lastly, whether you're adding more agents in the Tier 2 markets or the growth from the agency making more in Tier 2 markets? Because your term growth in the agency channel has also been quite strong. Some colour on the overall agency cohorts. And the second question is more of an extension from the previous participant's question, which is on the non-par segment. Just wanted to get some color on the ticket size breakup and growth across different ticket sizes in your non-par category, what is driving that?

And just one data-keeping question on the HDFC Bank channel, what is your growth for the second quarter? If you can kind of spell that out?

Vineet Arora: Sure. First, I will address the entire agent piece. So, our agent growth and the business mix is actually quite robust and spread geographically. We would have got nearly 70% of our business coming from Tier 2 and Tier 3. And the expansion of agent and branches that we undertook about, about 1.5 years back is also starting to now give us results.

And we are continuing with our expansion on agency and we're adding more branches as well. You have seen the number of agents that we are adding. So obviously, this entire focus is what is helping us go deeper in the market and get better quality business from these agents. Your other question was on HDFC Bank. 21% was the HDFC Bank quarter 2 growth.

Vibha Padalkar: And just to add here this is despite a very significant traction that we saw in September of last year.

Niraj Shah: Yes. Last year, August, September was a high base.

Dipanjan Ghosh: And the question on non-par across ticket sizes, if you can give some color on that?

Niraj Shah: All our savings products are fairly tight in that 100,000-110,000 kind of a range. In fact, non-par and unit-linked are very close to each other about 115,000-120,000 also in certain pockets and participating is maybe in the 90,000 range. So overall, ticket size is about 100,000 on the savings products.

Dipanjan Ghosh: But the growth will be similar across these cohorts when I look at 2Q or 1H?

Niraj Shah: Within non-par, you mean?

Dipanjan Ghosh: What you mentioned is the average or the median ticket size, but if I look at the higher end of the spectrum versus the lower ticket size segment should the growth be similar, let's say, in more than INR4 lakhs-INR5 lakhs segment?

Niraj Shah: Yes. So, on a low base which got impacted after the budget, the growth is fairly robust across all ticket sizes within non-par, even at higher ticket sizes. So, the growth that you see in the non-par mix which is upwards of about 70% plus is reasonably uniform across ticket size.

Moderator: Next question comes from the line of Rishi Jhunjhunwala with IIFL Institutional Equities.

Rishi Jhunjhunwala: Thank you for the opportunity. Just one question, you mentioned about not changing much on the repricing of the products post the surrender value changes from 1st October. Given that we are 15 days into the quarter, just wanted to understand how your competition has reacted during the same period in terms of repricing of products? And in case there has been lower repricing done, do you see that as an opportunity to gain market share in multi-insurer distribution channels?

Vibha Padalkar: While Niraj will answer specifics on any repricing, this is the point I made earlier too, that you can see some of this aggression on pricing in these cases where you're hardly retaining any spread or having very aggressive pricing, maybe 40% cheaper on term or even annuity rates. We do believe that for some of it, the source was perhaps surrender charges.

So, with calibration in surrender charges, some of that aggression is bound to go down. Everything possibly might not be passed on to the partners and it

will have to be shared between the three different constituents in this. So yes, I do believe that some of this over the next quarter will hopefully move to more calibrated pricing.

Niraj Shah: We had some instances of repricing across non-par savings products as well as annuity products downward. And to be fair, it could be a combination of responding to the surrender guidelines as well as interest rate changes. So, I think hard for us to say, but we have observed definitely downward repricing on some of these segments.

Moderator: Next question comes from the line of Aditi Joshi with JP Morgan.

Aditi Joshi: The first one is on the participating product, the category growth has been particularly weak and when I talk to some of your peers, they have been saying that they would like to grow this particular category. So, I just wanted to understand like what are you thinking about this particular product going forward?

And the second one is, can you just help explain the growth differential between the Tier 2, Tier 3 and the Tier 1? And just particularly in the context of Tier 2 and Tier 3, I just wanted to understand that even in terms of the ULIP product is it again like a popular product in Tier 2, Tier 3 because somewhat the Tier 2-Tier 3 are less risk averse? So, I just wanted to understand that if the ULIP continues to be popular in those cities as well.

Vibha Padalkar: On par, we have been known as a par company forever. And so, we are fairly enthused about par products, especially to certain customer profiles, in certain geographies, in certain channels and so on. It's just that right now what we are going through is a fairly polarized buying behavior and preferences.

One is like we have talked a lot on this call on the popularity of unit-linked in line with equity markets and the other is in terms of guaranteed products. Par lies somewhere in between and actually can give a fairly good upside because the equity component backing up our product is significantly more than a non-par product for us, where it's nearly zero.

So, we do believe that over a period of time this should bounce back and hopefully with certain product launches we will be able to revitalize that segment, hopefully in H2, we will see a little bit of traction.

Niraj Shah:

Yes. So, the growth has been fairly even across Tier 1, 2 and 3 for us in this period close to 30%-31% across Tier 1 as well as Tier 2 & Tier 3. It's just that the base on which this growth has come is different. As you can appreciate last year Tier 1, we had a fairly challenging period post the budget. So, the base on that was favorable and there was a 30% plus growth in Tier 1 markets.

Tier 2 and 3 grew fairly well last year as well, if you recollect, both in terms of volume as well as ticket size. That growth journey continues in this period as we continue to expand our distribution and product portfolio. So even on a higher base, Tier 2, Tier 3 growth has been fairly robust, very close to company average in this period. And in terms of unit-linked products, I think contrary to what we may think given the aspiration to get the upside and participation in the equity markets, it's been fairly uniform across tiers.

We don't see very meaningful difference in demand for unit-linked products across different tiers. We, of course, exercise caution in terms of our engagement with customers depending on their profile, but the demand is fairly secular, whichever geography you look at, given the external environment.

And just to add one more aspect to what Vibha mentioned on par, very linked to this whole environment where right now moderation is something which people are kind of giving a pass right now. It's either the upside from equity or the long-term guarantee of non-par which is attracting customers at this point in time. So as the environment normalizes we would expect par to come back fairly strongly as well.

Moderator:

Next question comes from the line of Roshan Chutkey with ICICI Prudential Mutual Funds.

Roshan Chutkey:

Firstly, I want to congratulate you for laying out this 17%-18% sort of guidance for VNB growth, very commendable that is. But I want to

understand here, how sustainable is this 17%-18% growth say in the face of falling market conditions, when ULIP probably not do very well for us, so is that sustainable?

Question two is essentially I want to understand where this 100 bps impact on margins came from for this quarter which was 30 bps to 40 bps for the 1H that you referred to? That was not clear to me. These are my two questions.

Vibha Padalkar: Yes, we should be able to deliver, we have said 15% to 17% VNB growth the year after, not really knowing what the environment is going to be, the macro environment, but over the past several years that's through business cycles, that's the kind of growth we have managed to deliver. And given our balanced product mix and product innovation, hopefully credit life also comes back like I explained previously. So, I think that we have many levers for us to continue with this growth trajectory as far as VNB is concerned, without remaining tethered to a particular NBM.

Niraj Shah: So, to just reiterate our conversations on the margin movement. Firstly, from last year to this year, largely it is product mix, higher unit-linked, lower annuity and some aspect of repricing. If you were to just look at for the quarter versus last year, it's primarily repricing lag because all the repricing lag happened towards the end of this quarter and that's broadly where it is. So, it's for the period, it's a combination of higher unit-linked, lower annuity and some repricing. For the quarter, it is pretty much lag in repricing.

Roshan Chutkey: What do you mean by repricing of the products? I mean, did we kind of miss out on repricing based on interest rate movements?

Niraj Shah: Not missed out. We basically took a call that we had these 3 months since the notification of the new regulation came in, we had this period to make most of our products available on October 1. That required us to make a lot of changes across all products. And one of the changes that would have got done was on repricing. For us, the priority was to ensure that 90% of products were available for business on October 1. That's what we did prioritize.

There would have been maybe some repricing that we would have ideally liked to do maybe towards end of August, that got done towards end of

September. So that is something that caused this kind of gap as far as repricing of non-participating and annuity products is concerned.

Roshan Chutkey: So that was to the extent of 100 bps because of this one month delay?

Niraj Shah: Yes, you could say that, a few weeks. In fact, just maybe 3 to 4 weeks of delay, yes.

Roshan Chutkey: And how much is the impact on VNB margin this quarter because of credit life products?

Niraj Shah: So just to complete the earlier point, non-par is about 38%-40% of the mix. That's the reason why the impact is fairly meaningful. Annuity is also a fairly meaningful part of the business at close to 5% odd, so where close to 50% of the business, there was some elements or some products in which the repricing had a lag. That's the reason why the impact is what it is.

Credit life, is a profitable segment. Vineet did speak about some segments in which there was a slowdown and the competitive intensity because of which we would have probably stepped back a bit. Yes, that would have added to some extent to this issue, but primarily driven by repricing.

Moderator: Next question comes from the line of Prithvish Uppal with Elara Securities.

Prithvish Uppal: Just wanted to understand where you see the business mix moving in the second half given that we have some pricing competition intensity in annuity and Credit Protect and we want to be a little more calibrated around the ULIP segment. So, which products do you see driving the growth for us in the second half?

And particularly around non-par as well, given the uncertainties that are there with distribution, what is the outlook for how you see this particular segment performing as well? And basis this, if you look at your full year guidance, the margin for the second half works out be between a 26%-27% kind of range. So what products do you think would essentially drive that?

Vibha Padalkar: Yes. So, on non-par that you mentioned, I just thought I'll pick that up. In the first half of the year, we've grown upwards of 70% plus. The growth has been

good in non-par. To your question on what sort of a mix that you'll see? It will be fairly similar. Unit-linked is a shade above 35% and non-par savings is just shy of 40%. Term and annuity together are about 11%, 12%.

We would like to see an uptick like we discussed with the previous caller on par. Par going up to about 1/5th of our business would be a good outcome in H2, and that's the endeavour. Hopefully, we'll also have some interesting offerings in H2 on par to be able to revise interest and some other interventions also.

We've reasonably been fairly steady, except for unit-linked uptick that you see in H1, that we think those elevated levels, while range-bound will continue to be there. So that's as far as the retail product mix is concerned, Credit life should get slightly better than where we were in H1. But we will have to see to what extent, like I mentioned, recalibration in terms of sensible pricing on credit life as well as annuities come through, now that there is pressure on the system due to the new surrender charge regime.

We believe there will be some level of restraint in terms of the aggression. And that's where I think we should benefit to some extent in both what you mentioned, credit life and in annuity.

Prithvish Uppal:

And just continuing on one of the questions from an earlier caller, which is as peers and competition looks at revising the IRRs downwards, because the spreads compared to what we were offering was significantly higher for some of the smaller and mid-sized companies. So as these spreads narrow and given with interest rate movement, repricing should come through. How are you looking at the segment from a competition perspective and in terms of how favorable you see the scenario can play out for HDFC Life?

Niraj Shah:

So we started to see some calibration in terms of IRRs from some of the players on a few products, we believe we will see more of it as the quarter and the rest of the year pans out. And we do believe that the gap should start closing between now and the end of the year. But we'll have to wait and see. I think there'll be different approaches that companies may choose to follow. We've been fairly consistent in terms of what we would like to do and the business that we've garnered in various product categories are with our

pricing and underwriting approach. So, I would believe if there is more convergence in that within the sector, it should benefit us.

Moderator: The last question comes from the line of Supratim Datta with Ambit Capital.

Supratim Datta: A lot of my questions have already been answered. But I just wanted to get some sense on the margins. Just wanted to understand how does return profile across the products differ? We have a sense of how the margins across different products look like, how does the returns differ? How do you plan to balance margin versus returns across the product mix? And could this change once we move to IFRS? Those are my 2 questions.

Niraj Shah: Sorry, Supratim, just to be clear, your question is in terms of margin versus return on capital?

Supratim Datta: Yes. Within the different products, we know that ULIP is lower margin. But how would the ROE profile or return on capital profile across the products differ? And how does that play a role in your product selection or the balancing? And how would that change once you move to IFRS?

Niraj Shah: So for us, I'll answer in short, not very different for per unit of capital in terms of value, it's not very different because when you look at a category like unit-linked where the required capital might be low, but the gap between the customer charges and the cost of acquisition at the point of sale is fairly high.

Even if we were to, let's say, move from VNB per unit of capital to return per unit of capital, we would probably make the same decisions from a business perspective. So that's the way we would like to think. As far as Ind AS or IFRS is concerned, the big change there will be in terms of the matching principle being followed more consistently between revenue recognition and expenses over the course of the policy.

So that should give a better view of the accounting results as we go forward, but we'll have to wait and see once the regulation finally comes in or rather gets implemented.

Supratim Datta: Okay. And would that change the capital requirement across products?

Niraj Shah: So that's more to do with risk-based capital, which IRDA may come up with over the next maybe 18 to 24 months. At that point in time, the capital requirement, which today is based on a certain framework that could change as we go forward. Directionally, we believe it will allow most players to write more business with the same amount of capital, but we will wait for some of these things to get completely clear in terms of how the regulator plans to implement this as we go forward.

Moderator: We have reached the end of question-and-answer session. I would now like to hand the conference over to Vibha Padalkar for closing comments.

Vibha Padalkar: Thank you everyone for joining today's call. Please feel to reach out to our IR team in case of any follow-on queries. Have a great evening and wish you all a very happy Diwali. Good evening.

Moderator: On behalf of HDFC Life Insurance, that concludes this conference.